



K-Shaped Economic Recovery

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Why in News

Recently, the latest readings of the **Nomura India Normalization Index (NINI)** suggested the impact of **Covid-19** on Indian Economy and the **K-Shaped Recovery** through which the Indian Economy is recovering.

Nomura Services India Private Limited (Nomura Holdings Inc) is a consumer services company.

Key Points

- **Effect of Covid-19 on Households:**
 - Households **at the top of the pyramid are likely to have seen their incomes largely protected, and savings rates forced up** during the lockdown, increasing 'fuel in the tank' to drive future consumption.
 - Households **at the bottom are likely to have witnessed permanent hits to jobs and incomes.**
- **Effect of the Current Monetary Policy:**
 - A long lasting period of **ultra-accommodative monetary policy** has led to a fall in real lending rates and spreads for corporates and households that should eventually come as lagged relief to the interest-sensitive sectors.
 - An **economic spread** is a measure of a company's ability to make money on its capital investments.
- **Impact of Vaccination:**

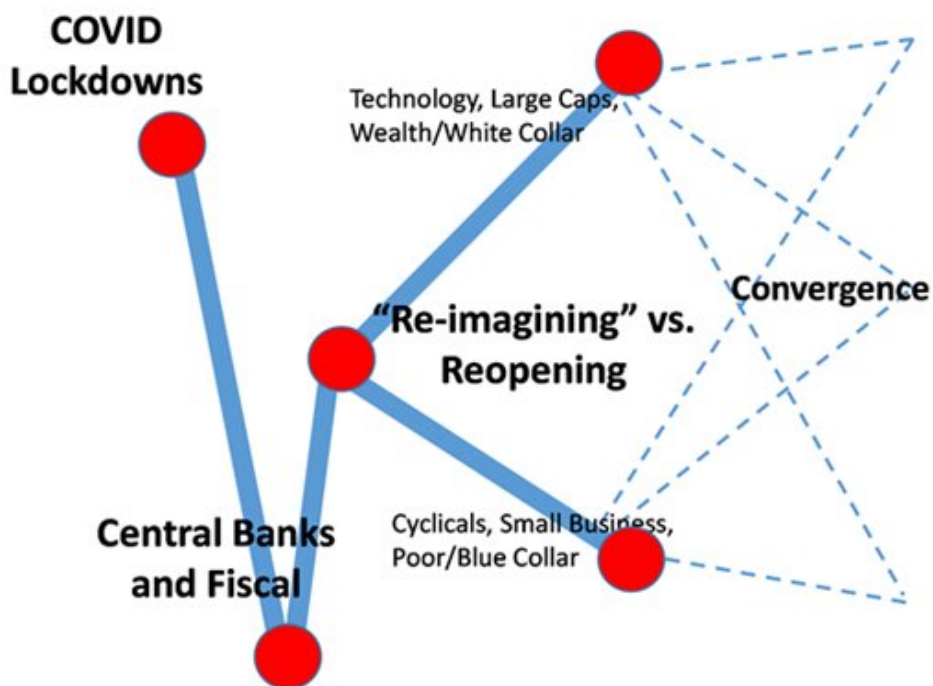
Lagging sectors such as travel, tourism and hospitality will finally emerge out of the effect of **Covid-19**.

- **Economic Recovery after Covid-19:**
 - As the **fiscal deficit** in FY 2020-21 has widened to roughly 7% of GDP, which is double the pre-pandemic target of 3.5 % of GDP. The government may, therefore, feel encouraged to **rely on higher fuel taxes, disinvestment, and sin taxes to bolster coffers.**
 - India is going through a **K-shaped recovery**, wherein corporates and households with stronger balance sheets have recovered more robustly, while smaller firms and poorer households probably remain **trapped in a vicious cycle of poverty and indebtedness** instigated by the **pandemic.**

Economic Recovery

- **About:**
 - It is the **business cycle stage** following a **recession** that is characterized by a sustained period of improving business activity.
 - Normally, during an economic recovery, **GDP** grows, incomes rise, and unemployment falls and as the economy rebounds.
- **Types:**

Economic recovery can take many forms, which is depicted using alphabetic notations. For example, a **Z-shaped recovery, V-shaped recovery, U-shaped recovery, elongated U-shaped recovery, W-shaped recovery, L-shaped recovery** and **K-shaped recovery.**
- **K-Shaped Recovery:**
 - A K-shaped recovery occurs when, following a recession, **different parts of the economy recover at different rates, times, or magnitudes.** This is in contrast to an even, uniform recovery across sectors, industries, or groups of people.
 - A K-shaped recovery **leads to changes in the structure of the economy** or the broader society as economic outcomes and relations are fundamentally changed before and after the recession.
 - This type of recovery is called K-shaped because the path of **different parts of the economy when charted together may diverge, resembling the two arms of the Roman letter "K."**



Implications of a K-Shaped Recovery after Covid:

- Households at the bottom have experienced a permanent loss of income in the forms of jobs and wage cuts, this will be a **recurring drag on demand, if the labour market does not heal faster.**
- To the extent that Covid has triggered an effective income transfer from the poor to the rich, this **will be demand-impeding because the poor have a higher marginal propensity to consume (i.e. they tend to spend-instead of saving) a much higher proportion of their income.**
- If Covid-19 reduces competition or increases the inequality of incomes and opportunities, **it could impinge on trend growth in developing economies by hurting productivity and tightening political economy constraints.**

Way Forward

Given the **K-shaped recovery** and the new “**pandemic poor**”, the budgets for spending heads such as **subsidies, employment generation, rural development and other social sector programmes** are likely to remain large. The **vaccination costs** add to the bill. The government will also have to sharpen its focus on **capital spending** to contain damage to potential growth.

Source: IE