



drishti

Resurge in Covid Cases and Economic Recovery

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This Article is based upon “A Looming Economic Crisis” which was published in the Hindustan Times on 15 April, 2021. It talks about how the drastic increase in the number of Covid-19 cases is acting as a barrier in India’s slowly recovering economy, once again.

The last fiscal year, FY 2020-21 was no less than a roller coaster ride for India’s economy, witnessing nationwide partial and complete lockdowns, curfews and increase in unemployment with no projections of the economy returning to the 2019-20 levels of GDP even in FY 2021-22.

However, with the easing of lockdown restrictions, these projections were revised favourably in late 2020.

Just when there was growing optimism over India’s economic rebound, when the **IMF upgraded India’s GDP forecast for FY 21-22 to 12.5%**, the second **Covid-19** wave has come as a rude shock to businesses and consumers alike.

India’s daily new cases have been hitting higher peaks every day, with the country contributing almost 20% to the global tally of fresh daily cases. The situation is worse than last year’s peak situation where the only sigh of relief is India now has access to vaccines.

India’s Economic Recovery

Factors Facilitating the Growth:The gross tax collections are estimated to have touched ₹20.16 lakh crore (₹20.16 Trillion), up ₹1.2 lakh crore from the revised estimates detailed in the Union Budget a few months ago.

- The Centre’s indirect tax collections have touched ₹10.71 lakh crore in 2020-21, even higher than the collections in 2019-20.
- Indicators like the Purchasing Managers’ Index (PMI), tractor & two-wheeler sales, Goods and Services Tax collection, E-way bills, and rail freight traffic showed sustained growth in 2021.
- The exports figures have also seen a huge jump standing at 31 billion dollar

Impacts of Resurging Covid Cases and Consequent Lockdowns

- **Highest Week-on-Week Decline as per NIBRI:** The **Nomura India Business Resumption Index (NIBRI)**, is a weekly tracker of the pace of normalisation of economic activity.
 - The index reached 99 points in February, 2021 but slipped down to 90.5 in the month of April, registering its biggest week-on-week fall.
 - The reason for this downfall is mainly the second wave of Covid-19.
- **City-wise Impact:** States like Maharashtra, Madhya Pradesh, Punjab, and Chhattisgarh, which are witnessing the highest surge in COVID-19 cases, account for over 30% of India's GDP.

Even partial lockdowns and curbs in these states will impact economic activity majorly and if the lockdowns are extended further due to uncontrolled infections, the damage will be even more extensive.
- **Contraction in Industrial Output:** The Index of Industrial Production (IIP) has witnessed the sharpest contraction in the month of February 2021 (since August 2020), at the rate of 3.6%.
 - The recent spike in Covid-19 cases has raised concerns over the economic recovery, especially with the imposition of harsher restrictions on activities now being a possibility.
 - The restrictions currently being imposed such as night curfews and weekend lockdowns are economically less painful. However, if the situation worsens, harsher measures cannot be ruled out.
- **Manufacturing and Other Sectors:** While manufacturing may not be directly hit due to partial lockdowns, the impact on the contact services sectors like hospitality, travel, and tourism will have a multiplier effect, as these sectors have strong backward linkages with other sectors of the economy.

Way Forward

- **Significant Role of Vaccines:** The only effective way to safeguard the economy from another massive disruption is to relax both demand and supply for vaccines.
 - More than 10 crore shots have been administered so far, however, it accounts for only 8% of the country's population that has received at least one shot, the US and the UK, in contrast, have vaccinated close to 50% of their total population.
 - Vaccination is a key element in controlling the second wave of Covid-19, but a shortage of vaccines could slow the progress of vaccine rollout.

Therefore, the government shall now increase the reach of the vaccines and make the eligibility criteria for vaccination more expansive.

- **Reducing the Tax Levies:** The RBI, which has been stridently seeking a reduction in the tax levies, foresees inflation averaging 5.2% in the April-June quarter.
The price pressures are unlikely to ease significantly in the near term, unless the Centre and the States bite the bullet by agreeing to forego some near-term revenue from petroproducts and reduce fuel taxes.
- **Role of Policy Makers:** More efforts and better policies are needed on the part of Policymakers, to nurse back demand and this must be done without letting quickening inflation undermine purchasing power and overall economic stability.
Moreover, policymakers should not lose sight of the fact that India is better equipped to fight the virus compared to last year.
At this juncture, the primary objective of governments, both at the Centre and states, should be to ramp up the vaccination drive.
- **Expenditures as Proposed in the Union Budget:** The support from the rebound in global growth and implementation of the Union Budget's proposed capital expenditures will reinforce India's economic revival.
Moreover, the agricultural growth and rural demand have been quite robust until now, which is also expected to support growth.

Conclusion

- If the choice between flattening the Covid-19 curve and economic hardship was difficult last year, it will be even more difficult this year, as businesses and workers are still nursing the wounds of the first lockdown.
The second wave has coincided with the beginning of the new fiscal year which means that even the conservative revenue targets in the Budget could be jeopardised.
- In all these difficult circumstances, the only silver lining that India has is the availability of the Vaccines and its ongoing Vaccination Drive. It must be taken advantage to the fullest.

Drishti Mains Question:

“Flattening the Covid-19 curve or dealing with the economic hardships. Choosing sides between these two is not exactly a wise decision to make, maintaining a balance is the need of the hour”. Discuss.