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The "V-shaped" recovery conundrum

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This article deals with macro-economic recovery and the fiscal burden under the COVID-19 pandemic. This year's economic survey and budget is presented amid the pandemic scenario with a positive note of V shaped recovery. The previous growth numbers make it evident that the Indian economy's growth was already in a down swing even before the outbreak of covid-19. The growth in the gross domestic product (GDP) fell to a 11-year low of 4.2 per cent in 2019-2020. The economy grew by 3.1 percent in January-March quarter of 2019-2020, against 5.7 percent at the same time a year ago, the slowest growth in at least eight years. Industry, which accounts for 30% of GDP, shrank by 0.58% in Q4 of 2019-20. Unemployment reached a 45-year high. A major driver of growth in any economy is investment by the private corporate sector. In the pre-Covid 19 period, nominal values of private sector investment have been declining. The total outstanding investment projects between 2015-16 and 2019-20 declined by 2.4%, whereas new projects announced fell by 4%, as per data from the CMIE (Centre for Monitoring Indian Economy). Consumption expenditure has also been falling, for the first time in several decades." (Dev MS and Sengupta R, 2020)

V-shaped recovery

The Indian economy is now expecting a V-shaped recovery, that is, a much quicker growth. The Economic Survey has projected a GDP growth rate of 11% and 6.8% in 2021-22 and 2022-23. These projections and also those made by the IMF anticipate that the Indian economy will become one of the fastest-growing major economies in the coming years. But some economists feel that the growth happening currently is a K shaped one rather than a V, as one part of the economy is growing faster than others. As studies of NIPFP notes that a 10% growth on the back of a -7.7% contraction means a 2% growth over 2019-20.

Through the Economic Survey and Union Budget, they are celebrating the V-shaped recovery, here a major matter of concern is how realistic is this V-shaped recovery and what is the approach adopted through the budget to realize it? The fall in GDP growth rate is much steeper than estimated, due to the non-capturing of informal sectors. So, the recovery is conditional upon many macroeconomic factors.

Due to the covid-19 outbreak and the lockdown that followed, both demand and supply side simultaneously affected. But the union budget gives more emphasis on the supply side rather than promoting programmes like MGNREGA, which helps to boost the aggregate demand by reaching the grassroots level of the society, the allocation has decreased almost 65% compared to 2020-21. In the Budget they consider privatization as a panacea, but it is not a sustainable solution. In the budget, it has accounted for 1.75-lakh crore in capital receipts from disinvestment by privatizing two more public sector banks and a general insurer in 2021-22 and the commitments to enable the LIC's IPO. The FDI in insurance has increased from 49% to 74%. When there is a lack of aggregate demand in the economy it will disincentivize the private players to invest in the economy.

There is a visible paradox in the Union Budget. On one side, India concentrates on Atma Nirbhar Bharat, stressing on the domestic production, self-reliance and import substitution. On the other hand it is promoting Disinvestment, large scale privatization, which almost always involves substantial FDI. This will surely lead to a large rise in foreign presence in the domestic economy. Now, we have to see how the government resolves a rise in FDI with Atma Nirbhar Bharath?

Even when the debates over privatization and disinvestment are points of contention, the fulfilment of budgeted target of disinvestment is another question to be answered as there has been a drastic decrease i.e. from 45% to 15% in achieving the budgeted estimate in the Covid Scenario.

Coming to the expenditure part, we find that the budgeted expenditure for the current year increased by 14% compared to the previous year's budgeted estimate. However, when we take into account the revised estimate of the previous year, the current budget has not even marked a one per cent growth. Is it sufficient to bypass the reduction in aggregate demand of the economy?

Now, moving to one of the most important concerns of the present time, i.e. health expenditure. Economic survey envisioned a massive boost of health spending, which it reasoned would serve as a direct means of raising overall economic output by reducing the economic burden of illness. But even when the Finance Minister claims that there is a 137% increase in the budgetary outlay on 'health and well-being', keeping aside the expenditure for Covid Vaccination (35,000 Crore), the remaining health outlay is Rs. 74,604 crore, nearly 10 per cent lower than the revised estimate of Rs. 82,445 crore earmarked in the current fiscal year. Total health outlay constitutes a negligible share of GDP and a lion's share of this mere amount is allocated for the vaccination drive. Whatever remains goes to the capital formation and there is a time lag for the conversion of the investment into real variables such as employment and output. So how does it contribute to the acceleration of the uphill portion of V-shaped recovery?

Now, if we see, for vaccinating the whole Indian population, it costs nearly 80,000 crores. The Central government is contributing about 35,000 crores which is merely around 44% of the total expenditure that will be incurred for the vaccination drive. Clearly, the remaining burden will be shifted to the State governments. In the fiscal federal set up, it's always the States who bear the expenditure burden while its revenue mobilizing capacity is constrained.

Let me conclude by making my last point. One of the main objectives of the budget is to shape the macro-economic environment of the country in terms of its proposed impacts on macro-economy due to decisions on raising resources and spending.

But the challenge is that the ultimate burden of the proposed projects, especially health expenditure, is on the shoulders of the States. At this juncture of constrained fiscal autonomy of States, how this matter will be handled in the Indian Federal Scenario is a major concern.