

How fast will economy recover? It depends on businesses reopening, vaccination, Covid-19 third wave-Business Journal

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As the sentiments towards economic revival turns positive with considerable policy support from RBI and the central government, the pace of economic recovery is dependent on the speed at which all businesses will open up followed by the vaccination drive and prevention of the third wave of Coronavirus. According to a report by Brickwork Ratings, the contributions from fiscal and monetary policies to accelerate economic growth are very limited. While the Reserve Bank of India has provided considerable policy support as well as stimulus to the economy during the first wave, the report highlighted that the amount of accommodation required to deal with the second wave has not been very significant.

“There is not much the RBI can do in the prevailing situation flush with liquidity and the lurking fear of a surge in inflation; the burden of pushing the pedal will have to shift to fiscal policy,” the report noted. Even if the fiscal policies are considered, “the government does not have much leeway.” As of now, the Finance Minister Nirmala Sitharaman has provided a stimulus package amounting to Rs 6.29 trillion, which according to the report is mostly a way for credit guarantee. While there are loan guarantees for affected sectors like health, tourism and other financially stressed businesses, the measures like increase in fertiliser subsidy, additional allocation for public health for possible third wave as well as extension of food security remains little and cumulatively, is less than 1 per cent of the GDP.

Considering these factors, Brickwork has projected the growth for the first quarter of this fiscal to be around 14 per cent whereas the monetary policy committee had projected 18.5 per cent growth in Q1FY22. The projections made by the monetary policy committee are unlikely to happen, the report read. With the third wave of Covid-19 infection, uncertainty lies as the recovery is likely to be arrested again in such a scenario. “However, with the progress recorded in vaccination and the creation of much better health infrastructure to deal with the two waves of the pandemic, the severity of the crisis could be less, and the recovery process may not be impacted as severely as it did in the first two waves.”

Given the current relaxations in moment restrictions, people have been going out again when they should be more cautious. Should cases increase further, the recovery will again be hindered. “We live in challenging times, and the next few months need to be closely monitored,” the report said.