

Q1 GDP: Economic recovery to need both fiscal, monetary policy support, say experts

PTI | Updated on: Tuesday, August 31, 2021, 10:26 PM IST

Economic recovery will continue to need both fiscal and monetary policy support, and while the global recovery may help exports, the government will have to act swiftly in correcting the protectionist stance and fast-tracking trade agreements, experts said on Tuesday.

Data released by the National Statistical Office (NSO) showed that the Indian economy grew by a record 20.1 per cent in the April-June quarter, helped by a very weak base of last year and a sharp rebound in the manufacturing and services sectors in spite of a devastating second wave of COVID-19 cases.

Brickwork Ratings Chief Economic Advisor M Govinda Rao said the first quarter GDP growth is quite close to the growth estimate put out by the RBI.

"On the expenditure side, the performance of private consumption and investment continue to be on a slow track, and this also points to the need for heavy lifting needed by the government to fast track the recovery process.

"The fast paced global recovery may help the exports to grow but the government will have to act swiftly in correcting the protectionist stance, fast tracking trade agreements and keeping the exchange rate at a realistic level," Rao added.

Going ahead, the revival of the economy will continue at a faster pace in the coming quarters, he said. Even if there is a third wave, the disruptions are not likely to be large due to the progress in vaccination and the resilience of the economy gained after experiencing the first two waves of the pandemic.

"The overall growth for FY22 estimated at 9.5 per cent by the RBI is likely to hold and in fact, even may exceed. However, the revival of the private investment cycle is quite some time away and is not likely to happen before 2022-23," Rao added.

India Ratings and Research said services, which is the largest component of the economy, is still struggling. Despite the base effect, unlike industry, services grew only 11.4 per cent in the June quarter.

"As things stand now, Ind-Ra believes economic recovery will continue to need both fiscal and monetary policy support in the near term to ensure that recovery does not falter on the way to full recovery," it said.

EY India Chief Policy Advisor D K Srivastava said the positive news from the output side came from agricultural and electricity, gas, water supply sectors which did relatively well as compared to even their first quarter 2019-20 levels.

On the demand side, a positive outcome is noticeable in exports.

Fiscal data released by the Controller General of Accounts (CGA) shows the Centre's gross tax revenues have shown a sharp growth of 83.1 per cent during April-July of 2021-22 over the corresponding period of 2020-21 and a growth of 29.1 per cent over 2019-20.

"This gives an indication of a significant policy room for the government to uplift its demand and its contribution to output in the remaining part of the current fiscal year so as to ensure that the overall growth performance for the full year of 2021-22 does not fall below the growth expectation of 9.5 per cent, both by the RBI and the IMF.

"A prerequisite for this is to ensure that COVID's third or subsequent waves are not allowed to significantly impact either the health sector or the overall growth performance. Given the fiscal room, the government may do well by accelerating further its emphasis on infrastructure expansion including expansion of health infrastructure," Srivastava added.

ICRA's Chief Economist Aditi Nayar said the low base of last year's stringent nationwide lockdown concealed the impact of the second wave of COVID-19.

"However, the sharp YoY expansion in Q1 FY2022 is analytically misleading, with a sequential slowdown of 16.9 per cent over Q4 FY2021 and a shortfall of 9.2 per cent relative to the pre-Covid level of Q1 FY2020," Nayar added.

With Q1 FY2022 GDP growth printing slightly lower than the MPC's own forecasts, ICRA continues to expect status quo until strengthening domestic demand becomes the key driver of inflationary pressures. Policy normalisation will commence in February 2022, with a change in the stance of monetary policy to neutral from accommodative, Nayar said.

TIW PE Managing Partner and Chief Investment Officer Mohit Ralhan said in spite of the alarming second wave of COVID-19, the Indian economy has demonstrated remarkable resilience with growth of 20.1 per cent in the June quarter.

"The 49.6 per cent growth in manufacturing was especially encouraging and indicates the structural strengthening of the Indian economy. India has also significantly ramped up its vaccination drive and it is set to accelerate further.

"Our institutions have done quite well in countering the impact of the pandemic on its economy and it is right on track to achieve its goal of becoming a \$5 trillion economy," Ralhan added.