How to revive growth: Monetary policy is on track and it's time for fiscal policy to take the baton

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Estimates of GDP growth in the first quarter of 2021-22 are 20.1%, as expected, demonstrating economic resilience. Even after the second wave of Covid-19, GVA growth in the manufacturing industry recovered at 49.6% and GVA growth in the construction industry at 68.3%. Contact-intensive segments such as trade, hotels and transportation are showing resilience with growth of 34.3%. Official reactions say the economy is recording a V-shaped recovery and is ready for double-digit growth this year against the backdrop of structural reforms, increased capital investment and rapid vaccination. I'm euphoric about the claim.

However, closer examination shows that excessive optimism is clearly misguided, with remarkable growth recorded in the first quarter of 2020-21 based on a catastrophic contraction of 24.4%. It has been. As some observers have pointed out, GDP in the first quarter of this year was 9.2% lower than in the first quarter of 2019-20 and 16% lower than in the fourth quarter of 2020-21. I am. .. Compared to the previous quarter, the construction sector shrank by nearly 15%, the manufacturing sector shrank by 4.2%, and trade, hotels and transportation shrank by more than 35%. Thus, the second wave not only robbed GDP of 16.9% from the previous quarter, but also led to a significant reduction in employment-intensive sectors such as the construction and contact-intensive sectors. There is a lot left to do to revitalize the engine of growth.

Of the four growth engines, exports are the only ones that appear to have not stagnated in the quarter. Commodity exports recorded 67% growth between April and August of this year, up 23% compared to the same period last year. This is to a large extent thanks to the global recovery. To maintain the tempo, it is necessary to secure a realistic exchange rate, activate trade agreements with Europe, and activate market access with the United States. A comprehensive review of trade policy is needed to revitalize exports as an effective growth engine.

All other growth engines are stuttering. Consumer spending was up 19% from the corresponding quarter last year, but down 17.4% from the previous quarter and down 11.9% from the first quarter of 2019-20 estimates. Similarly, total fixed capital formation for the quarter is 55.3% higher than last year's corresponding quarterly estimate, but 23.6% lower than the previous quarter's estimate. Of concern is government spending fell 7.6% from the previous quarter.

Not surprisingly, GVA growth in government was down to 5.8% year-on-year, 19.3% lower than in the fourth quarter of 2020-21. The government is very cautious, which is the fact that government spending fell 4.8% in the first quarter compared to the corresponding quarter last year and 7.6% compared to the fourth quarter of 2020. Seen by. -twenty one. This is because from April to July, federal revenue spending was 7% less than in the same period, and revenue spending during the first four months of the fiscal year was less than 30% (the lowest in recent years). I also understand. ..

An analysis of federal financial data for the first four months of the year, released by the Directorate General of Accounting (CGA), shows that:

1. Despite the pandemic restrictions, we saw significant revenue growth over the first four months. The government was able to raise 37.4% of budget revenue and 34.2% of budget tax revenue in four months. This is the highest in recent years, with an estimated increase in income of 194% and 74% year-on-year. The first four months of 2019-20.

2. The government was cautious about both spending and borrowing. Total spending in the first four months is less than 29% of the budget estimate, compared to 34-35% in the previous year. Government borrowing was about 21% of the 2021-22 budget estimate, compared to 77.8% in 2019-20 and 103% in 2020-21.

3. The budget deficit for the first four months of the current fiscal year is 21.3%, the lowest in recent memory. It was 103% of the budget in 2020-21 and 77.8% in 2019-20.

The analysis clearly shows that aggressive public spending by the government may have significantly improved growth performance in the first quarter. Especially at the central level, strong revenue growth has enabled capital spending to move forward with increased spending and increased borrowing, which may have helped to revive both public consumption and investment demand. So far, much of the official support for growth has come from monetary policy on low interest rates, liquidity and credit availability, which in the general environment have limited impact. There is a possibility. The impact of fiscal policy to revive both consumption and investment demand is immediate and effective. That is the only way the economy can accelerate growth.

This experience provides good guidance on what the government should do. To accelerate your growth, you need to race on two legs. Monetary policy is on track, and it's time for fiscal policy to take the baton. Growth may slow in the coming quarters due to lower base effects, but achieving pre-pandemic GDP levels and accelerating growth thereafter is unlikely to bring back consumer spending and private investment soon. Relies on aggressive government spending. It's time to accelerate public consumption and investment spending to maintain recovery and accelerate growth. All you need now is a race with both feet!

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