



Editorials/Opinions Analyses For UPSC 24 August 2021

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1. The Indian economy is struggling to recover
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[The Indian economy is struggling to recover](#)

Context:

The International Monetary Fund (IMF)'s latest update of the World Economic Outlook report, though projected a global economic expansion of around 6%, had warned of a widening variance in the global recovery process in the aftermath of the pandemic.

Relevance:

GS-III: Indian Economy (Growth and Development of Indian Economy,

Dimensions of the Article:

1. Grim Projection for Asian Economies
2. Highlights of the 'Economic and Social Survey of Asia and the Pacific 2021: Towards post-Covid-19 resilient economies'
3. What is a K-shaped recovery?



4. Concerns for India

5. Way Forwards

Grim Projection for Asian Economies

- While the forecast for advanced economies has been revised upwards, prospects for emerging and developing economies, particularly those in Asia are projected to experience slower recoveries.
- The primary reason for this divergence seems to be the difference in vaccine access and the pace of vaccination coverage and the ability of the countries to provide for additional fiscal support.
- There has been a huge difference in the pace of vaccine roll-out between the advanced and the emerging and low-income countries. According to the IMF estimates, overall, over 40% of the population in advanced economies have been fully vaccinated as compared with just 11% in emerging market economies.
- The advanced economies have been able to use their vastly superior fiscal situation to implement significantly bigger stimulus packages. This has helped prop up consumer demand and hence support domestic industry and growth.
- The IMF has warned that “countries lagging in vaccination, such as India and Indonesia, would suffer the most among G20 economies” in the event of the emergence of a super-contagious virus variant.
- India with only around 7% of the total population fully vaccinated, lags behind the estimated global average of about 14%.

Highlights of the ‘Economic and Social Survey of Asia and the Pacific 2021: Towards post-Covid-19 resilient economies’

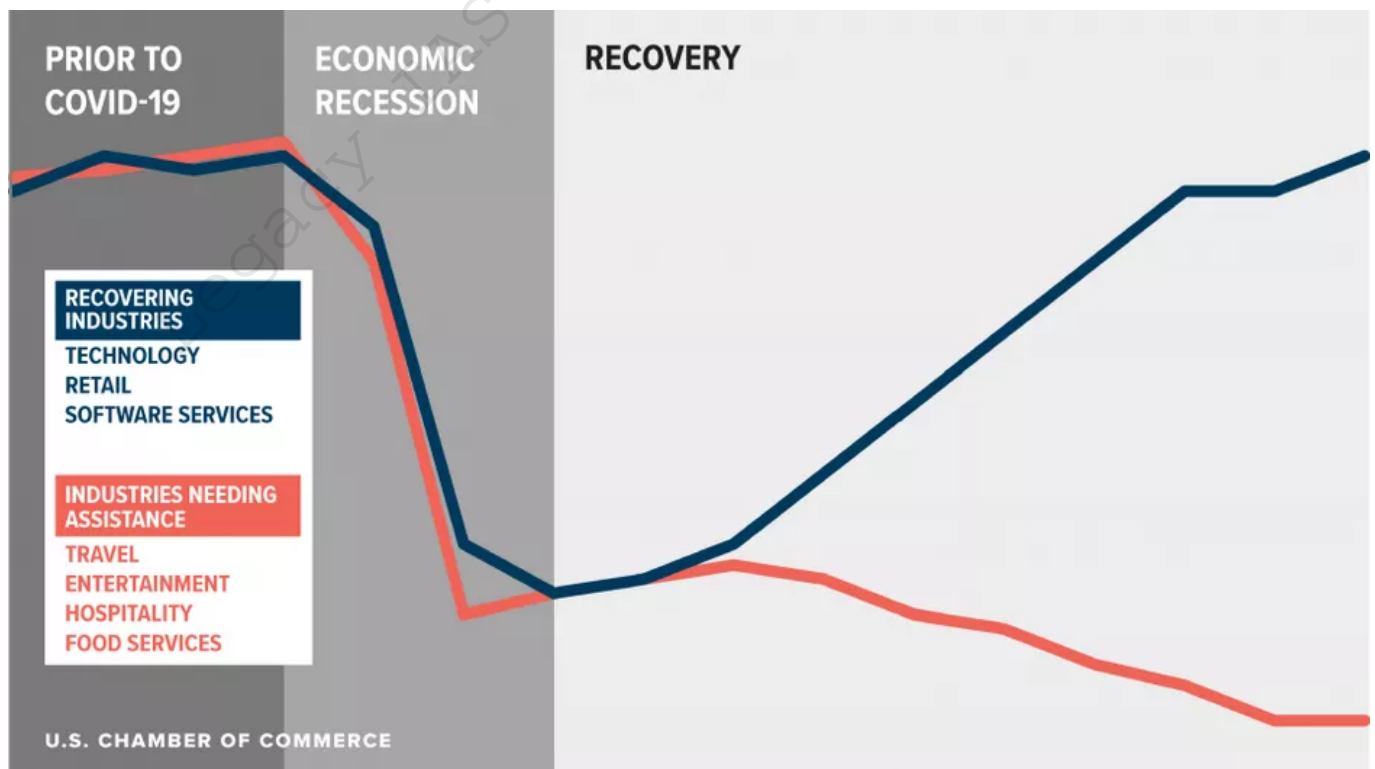
- India is estimated to record an economic growth of 7% in 2021-22, over a contraction of 7.7% witnessed in the previous fiscal on account of the pandemic’s impact on normal business activity.
- Unfortunately, India’s 2021 economic output is expected to remain below the 2019 level, as India entered the pandemic with already subdued GDP (Gross Domestic Product) growth and investment.
- Maintaining low borrowing costs and Keeping non-performing loans in check are the two major challenges for India on its path to faster economic recovery.
- China’s swift and effective response to Covid-19 enabled it to become the only major economy worldwide to achieve a positive annual economic growth rate in 2020.
- On an average, developing Asia-Pacific economies are expected to grow 5.9% in 2021 and 5% in 2022.
- The prospect of a K-shaped recovery, characterized by uneven post-pandemic recovery



across countries and widened inequality gaps within countries, is highlighted as a primary policy challenge.

What is a K-shaped recovery?

- A K-shaped recovery happens when different sections of an economy recover at starkly different rates.
- A K-shaped recovery leads to changes in the structure of the economy or the broader society as economic outcomes and relations are fundamentally changed before and after the recession.
- This type of recovery is called K-shaped because the path of different parts of the economy when charted together may diverge, resembling the two arms of the Roman letter “K.”



Concerns for India

1. The Indian economy has exhibited one of the poorest performances among the emerging market economies. After the first COVID-19 wave, the Indian economy



contracted by over 7% during 2020-21.

2. The economic recovery has been slow in India and this is partly attributable to the second wave of the pandemic. The recovery process has been also skewed and India has been experiencing what is commonly referred to as a K-shaped economic recovery process. This does not augur well for the long term sustainable economic growth prospects of India.
3. Retail inflation had crossed 6% and continues to remain high leading to price pressures on the economic recovery process. It has also raised fears of stagflation in the Indian economy. The high inflation will only further exacerbate the difficulties being faced by the poor.
4. Given the slowdown in revenue inflow to the government, the government too had cut back public spending. The large role that public expenditure plays in India's economy does not bode well for the growth prospects of the Indian economy.
5. Unlike other economies, India's actual fiscal stimulus has been very limited as compared to its GDP. Also, most of the measures are in the form of easy credit facilities to affected sectors of the economy. It does not adequately address the depressed consumer demand in the economy, which is so very important for an economic recovery.
6. Consumer spending has also been extremely sluggish and shows no signs of picking up. This has dampened business confidence and the entrepreneurs are wary of making new investments.
7. The predictions of the onset of a third wave of COVID-19, new mutant variants and the reports of breakthrough infections even in fully vaccinated individuals have added to the uncertainty surrounding the pandemic.
8. There has been a very poor spread of vaccination in the country. It is unlikely that the Central government will be able to achieve its target of vaccinating all adults by the end of the year.

Way Forwards

- For a more robust and inclusive recovery, the report calls for a more synchronised Covid-19 vaccination programme across countries. There is a need to leverage regional cooperation.
- It recommends that fiscal and monetary support should be sustained, as premature tightening could increase long-term scars.
- Continuity in policy support is a must and recovery policy packages should focus on building resilience and investing in the 2030 Agenda for Sustainable Development.
- To deal with various economic and non-economic shocks, a more integrated risk management approach to planning and policymaking is needed.

-Source: The Hindu