

Green shoots of economic recovery

The IMF's WEO Report for October 2021 projected the Indian economy to grow by 9.5% in 2021

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The Covid-19 pandemic caused massive disruptions across the global economy, many of which are still being felt as countries move in and out of slowdowns and restricted movements. In 2021, a rebound is being seen as demand is recovering and vaccinations are helping restore confidence. India, too, is well on the path to growth following a GDP contraction in 2020-21.

In the last few months, the economy has displayed encouraging data points, indicating a sharp and sustained recovery. With the festive season setting in and the opening up of the economy resulting in enhanced mobility, the green shoots of a strong recovery are already visible. The vaccination process which crossed 1 billion shots in October was a big morale booster and, in most parts of the country, normal activities have returned.

CII's business outlook surveys have been very positive and show strong resilience among Indian businesses. Expectations for sales and new orders remain strong, despite the global increase in input costs and price pressures. In a CII poll last month, about 80% of CEOs believed that India would have over 8% growth for the year. Two in five CEOs estimated that revenues would increase by over 20% as compared to fiscal 2020.

The International Monetary Fund's World Economic Outlook (WEO) Report for October 2021 has projected the Indian economy to grow by 9.5% in 2021 and 8.5% in 2022. WEO's output projections for India for 2021 and 2022 are the highest in the world for large economies, including developing economies. The Reserve Bank of India (RBI) also retained its growth forecast of real GDP growth for the economy at 9.5% for 2021-22, which is set to stand at 17.2% for the first quarter of 2022-23 due to higher demand, improved investor sentiments and higher capacity utilization.

Lead indicators have stepped emphatically into positive territory. E-way bills in October went up by as much as 39% in October 2021 as compared to the same month in 2019, revealing the robust movement of goods. This is also reflected in rising GST collections, up tick in freight and traffic activity with air cargo traffic 15% higher than last year, and record growth in UPI transactions which came in at Rs 7.7 trillion in October 2021 as compared to Rs. 3.9 trillion in October 2020. Bank credit growth is also rising, indicating enhanced use of capital. All these point towards an all-around healthy momentum in economic activity.

The industrial production index is growing at 12% compared to the previous year and core sector output is also maintaining this pace in the latest data for August. The index level has crossed its pre-pandemic level, which is encouraging. The services PMI is at a ten-year high, showing good services activity as well.

The remarkable performance of India's external sector is a critical part of India's revival story. One very positive sign is the strong growth in exports and investments. Goods exports are seeing about 58% growth in the first half of April-September of this year at almost \$200 billion. Agri exports are doing well. Imports are similarly expanding, going up by 85% in September alone.

With this strong showing, the Government has

set a target of \$400 billion in goods exports this year which seems achievable. Similarly, the data for FDI reflects continued interest in India from overseas investors, having reached \$26 billion in April-August this year. The sustained growth in FDI displays the confidence shown by international investors in India's short-term and long-term growth prospects. With many investors planning to make new and additional investments, India's FDI inflow is likely to stay robust in the future.

At the sectoral level, India's agricultural sector continues to support economic recovery, with the recently concluded monsoon bringing a lot of bright prospects for the farm community. The country witnessed a healthy Rabi sowing season, with increased acreage along with adequate rainfall, improved reservoir levels and higher availability of fertilizers.

India's agricultural exports are also surging, recording a 22% growth in the April-August period. Other indicators including higher tractor sales, increased sales of fertilizers, and up tick in sales of two-wheelers, among others, in October reflect buoyant rural demand and augur well for the Indian economy as a whole.

The manufacturing sector displays strong green shoots as well in sectors such as capital goods, consumer durables, infrastructure and intermediate goods, where growth has been at a phenomenal level of over 40% for the first five months of the year. These trends indicate a revival in the industrial sector in terms of investments along with recovery in intra-industry sectoral demand.

Importantly, we are seeing a surge in investments coming into startups. So far this year, more than 30 tech enterprises have entered the unicorn league with a total of 73 achieving that feat.

The rebound in economic activity is supported by various initiatives undertaken by the Government to address the pandemic fallout. Support to weaker sections of society and credit access to small enterprises have contributed to economic activity.

Further, measures such as the Production Linked Incentive (PLI) scheme for boosting domestic manufacturing and exports across various sectors of the economy have attracted notable investments.

The Government has also stressed infrastructure construction through programmes such as the national infrastructure pipeline, PM Gati Shakti for integrated planning and coordinated implementation of infrastructure connectivity projects, and the National Monetization Pipeline for enabling private sector participation in the Government-owned infrastructure facilities. Other reforms and initiatives undertaken by the Government over the recent past including reforms in the banking sector and taxation, among others will continue to play a crucial role in the economic recovery process.

There will always be some downside risks to watch out for, such as pandemic related uncertainties and global developments including a rise in commodity prices, supply chain disruptions and a recent surge in inflation. We also need to keep tabs on exit from the stimulus packages planned by various central banks in key economies. The lessons learned from the global financial crisis have stood the world in good stead and better monetary coordination can be expected going forward.

From the Indian economy perspective, a high degree of resilience has been demonstrated and GDP remains on the growth track. The accommodative stance of the RBI and continued financial support to businesses as well as vulnerable households will help work towards maintaining the growth momentum. Given the recent positive economic indicators, green shoots are clearly discernible, and investors are optimistic about India's medium-term growth prospects.

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