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Some bright spots

There are still a number of risks to durable economic recovery

There have been some points of good news for the Indian economy in recent days, suggesting that the impact of the second wave of the pandemic on economic output and activity has not been as great as was initially feared. One important such data point is the figure for the advanced collection of personal income tax and corporation tax in the first quarter of the current fiscal year. Compared to the equivalent quarter of the previous year — the one in which the initial nationwide lockdown had really begun to bite — advance tax collection grew almost 150 per cent, according to the data from the Central Board of Direct Taxes. While goods and services tax collection in May, at ₹1.02 trillion, was lower than in previous months, the data on e-way bills so far in June suggests that this too may pick up. Many economists assume that the tax figures support the contention that, in spite of the second wave, year-on-year growth in the first quarter was in fact in double digits, albeit off a very low base indeed.

The Reserve Bank of India (RBI), in its July bulletin, has highlighted some other reasons for "cautious optimism" returning to the Indian economy. The central bank's assessment is that the hit caused by the smaller, staggered, and regional lockdowns during the second wave was mostly to demand, and not to supply. The bulletin insists that "several aspects of aggregate supply conditions" including agriculture are holding up. So far, the monsoon has also been 31 per cent above normal, which suggests that these good conditions might continue. The RBI also indicates that it believes industrial production and exports have "surged". This comes after the RBI had in fact lowered its estimate of full-year GDP growth from 10.5 per cent to 9.5 per cent following the second wave.

There are still a number of risks to durable economic recovery in India. Vaccination levels and speed do not justify confidence that India will avoid another devastating wave of the pandemic. There is also the question of inflation. The month of May revealed that consumer price inflation stood at 6.3 per cent, considerably higher than expected. Wholesale price inflation is setting recent records, and core inflation is also at a significantly higher level. The RBI's insistence that the hit on the second wave is to aggregate demand thus takes on a somewhat more worrying context, given that an already inflationary environment may overheat as and when demand roars back. Energy inflation in particular, at 11.6 per cent, year-on-year, shows that external factors will also have a role to play. While the RBI's Monetary Policy Committee had projected 5.1 per cent inflation for the current fiscal year, this estimate may have to be reconsidered and does not seem to entirely gel with the macro-economic picture provided by the RBI bulletin.

Thus, it might be premature to give in to optimism. The pandemic is far from over, and multiple threats remain to growth and price stability. The best policy response remains to remove the threat of a third wave through enhancing the distribution of vaccines, and further strengthening the health care system to minimise the pandemic's disruptive effect. India has a long way to go in terms of full economic recovery.