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THIRD TIME LUCKY?: THE HINDU EDITORIAL ON THE ECONOMY AND THE THIRD COVID-19 WAVE

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Industry & Services Sector incl. MSMEs and PSUs

India’s post-COVID economic recovery remains delicately poised at the turn of the new year — the third successive year under the shadow of the pandemic. With the Union Budget for 2022-23 less than four weeks away, the latest set of numbers capturing different aspects of the economy present a mixed picture with persistent pressure points. COVID-19 restrictions are already denting India’s services exporters’ order books, even as merchandise exports have hit a record high in December. Worryingly though, imports grew even faster last month than exports, keeping the merchandise trade deficit at an elevated $22 billion, just a tad less than the record $22.9 billion in November. The eight core sectors had a disappointing November, but GST collections from that month were reasonably healthy at around 1.3-lakh crore, albeit a three-month low. GST compensation cess revenues touched a record high in November, but customs duty collections dipped to a five-month low. The Purchasing Managers’ Indices (PMI) for manufacturing and services were robust for December, but have moderated from previous months even as input cost pressures remain a headache for businesses along with the prospect of the latest virus wave upending normalcy again. For the first time in four months, firms surveyed for the PMI by IHS Markit reported ‘broad-based’ job losses in manufacturing and services in December. Global headwinds are shifting after the surge of COVID cases and disruptions, even as inflationary forces have central bankers bracing for interest rate hikes from the U.S. Federal Reserve this year.

It will be equally challenging for North Block mandarins to conjure up an appropriate mix of relief and support measures for businesses and jobs — preferably going beyond the credit guarantees that appear to have lost traction in sanctions and disbursals in recent months. This needs to be accompanied by a fresh ramp up in health-care spending, including on COVID inoculations and booster shots, as well as maintaining the bullish stance on public capital expenditure with a demonstrably greater purpose in getting actual projects off the ground. The prospect of more disruptions looms large, even though their extent and impact on GDP may be uncertain at this point. Preparing for the worst may be a good idea, even if it is accepted that manufacturing suffered less in the second wave than during the initial lockdowns in 2020, and may likely be even better prepared to cope with the ongoing third wave. Yet, there is a risk that damage to contact-intensive services sectors that have had another topsy-turvy year with lakhs of jobs at stake, and have barely struggled back from the first two waves, could be permanently debilitating this time around, if mobility restrictions spiral in tandem with cases. More effective interventions, with a stable and clear articulation of policy direction, could have a calming effect in 2022.