GUEST VIEW

# Our economy is caught between a rock and a hard place


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The expression 'VUCA' never seemed more appropriate: the geopolitical situation in Europe is 'volatile', even more 'uncertainty' has piled on to already-thorny global economic challenges, post-pandemic economic management was always going to be 'complex', and now a cloud of 'ambiguity' hovers over India's economic-growth aspirations.

Will this lead to any significant departures from the policy framework outlined in the Union budget just a little over a month ago? Based on the finance minister's speech and budget documents, it would seem that the government will stay on the policy course it laid out in its budget for 2021-22 and subsequent policy announcements, and then continued in the budget for 2022-23.

*The Economic Survey* of 2021-22 eloquently described the Centre's approach as being part of a 'Barbell Strategy', otherwise known as an 'Agile' approach. The government started off with a worse-case (but not worst-case) scenario caused by the covid pandemic with generous social safety nets, and then calibrated its response as the overall situation evolved and got better.

Will the same strategy be adequate now? It depends, especially on the impact of the current crisis in Europe on the Indian economy. Several experts have suggested that it will be bad and especially severe on some sectors and markets. The world, at this point, is still watching and waiting; previously anticipated policy actions could be delayed. What else could we expect?

The starting point for assessing the scope for 'agile' policy shifts the government may make will have to be the 2022-23 budget, which comes into force from 1 April 2022. Initiatives announced in the last several months, beginning from the middle of 2021, like the Production Linked Incentive (PLI) scheme and Emergency Line of Credit Guarantee Scheme (ELCGS) for micro, small and medium enterprises, are likely to continue. The PLI package for manufacturing and ELCGS initiatives were introduced as measures to overcome the adverse effects of the pandemic and revive the economy. That rationale remains relevant.

From the tone of today's discourse, the government probably believes that policy stability will produce better outcomes, besides being conducive to a rise in private capital investment. Its large public investment programme, in infrastructure mainly, will underscore private investment and lead to job-generating economic growth. Social security programmes haven't been increased much; changes depend on which sectors are badly impacted. Revenue expenditure is being kept under tight control, but is unlikely to be cut or raised.

**The agility of India's policy adaptation to the Ukraine crisis will shape how well the country fares**

The larger question is whether the impact of the crisis in Europe will raise India's fiscal deficit even higher. Even with a pre-enlarged deficit, this seems an acceptable price to pay in the short- to medium-term (it may stay above 6% of gross domestic product over the next three years, perhaps). The direction of India's 'glide path' to 4.5% of GDP by 2025-26 will have to be balanced with maintaining the momentum of an economic rebound.

A quick review of the sectors that can potentially be affected by the Ukraine crisis also provides some insights into the scope for policy action. Those reliant on commodities—such as metals—are likely to face cost pressures, as high prices in global markets percolate into India. Energy prices—chiefly oil and coal—will also remain high.

Another sector is India's pharmaceutical industry, which exports products worth nearly $200 million to Ukraine and $600 million to Russia, though the effects are unclear. Ever since the pandemic, countries have been stockpiling essential medicines.

India's budget allocation for healthcare has been retained at the same high level as in the previous year, with an increase planned for finishing the country's vaccination drive to eliminate the risk of covid deaths (perhaps completely).

The National Health Accounts published by our health ministry show that medicines account for 31% of total health expenditure in India, and the pandemic pushed aside any discussion about non-communicable diseases (NCDs) that account for 60 of every 100 deaths in India. A return to the essential level of health spending—whether public or private—that is consistent with desirable levels of people's health would now depend on sustained economic growth. They reinforce each other. That is, as it should be, the goal of public policy.

What's left on the economic horizon is the long shadow that hangs over the Indian economy's prospects: inflation. It pervades both domestic and international markets, and it's likely that India will import even more inflation along with oil and other commodities that have seen their international prices soar.

The Ukraine crisis and other global events threaten to upset the economic applecart in most industrialized countries, including the US. The US Federal Reserve's stated intent to hike its policy interest rates may be slightly delayed but will not be denied. That will reverberate through global financial markets and make its way to India too.

Years ago, a book titled *Does the Elephant Dance?* by David M. Malone, a former United Nations undersecretary general, had analysed Indian foreign policy. The book was quite popular. So was the metaphor of an elephant, which has frequently been used for the Indian economy. How lightly it steps and the agility it demonstrates will be watched closely during the Ukraine crisis.

*These are the author's personal views.*

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