Hints of Global Economic Recovery and India

Belying the worst fears of the global slowdown slipping into recession, of late, there has been an optimistic hint of global economic recovery. The S&P, which is the US market index has gained 20% from October lows. Overall, the January's stock market has been sending good signals for 2012. The Dow Jones average has moved up in an orderly fashion, with none of the wild three digit daily swings that were almost the norm in 2011. This is because emerging economic news has been encouraging, particularly with US unemployment claims falling and the market for foreclosed homes ticking along nicely. Forecasters now say that American growth will stay positive throughout the year. That means that we will not be in a recession. Simultaneously in Europe, the unprecedented activism of the European Central Bank appears to have injected the much-needed stability in banks with Libor — the European interest rate benchmark, steadily headed south. As per the reports, Japan is likely to pull out of a recession in 2012 as post-earthquake reconstruction efforts gather momentum and the fiscal stimulus announced in 2011 begins to pay off. The consensus estimate for growth in Japan is a respectable 2% for 2012. Meanwhile, the "hard-landing" scenario for China remains and will remain a myth. Growth might decelerate further from the 9% that it expected to clock in 2011 but it is unlikely to drop below 8% to 8.5% in 2012. Encouraged by these vital hints, many in the West are hoping the 2012 to be the year of the economic turn-around.

In line with resurgence of optimism in the West, there have been good signals and good news for the Indian economy too. Foreign Direct Investment (FDI) into India went up by an impressive 56% to $2.53 billion in November 2011, signaling improvement in investor sentiment. The cumulative flows of $22.83 billion for the April-November period have crossed $19.43 billion and analysts feel that if the trend continues, the FDI in the current financial year would well cross $30 billion, a development which will have a positive effect on rupee in the foreign exchange market. Meanwhile, belying concerns over slowdown, indirect tax collections increased 16.1% to ₹2,85,787 crore during April to December 2011 mainly driven by an uptick in service tax mop-up.

If the promise made by US President Barack Obama about an American bounce-back led by a revival in manufacturing and green technology comes true, it would be a blessing for the global economy in general and for goods and services exporters like China and India in particular.

As such, it is time for Indian policy and decision makers to prepare the country to rise to the occasion and get ready for post-recovery challenges. One major risk for India in case of a major global recovery is that with banks overflowing with cash, a recovery will inevitably translate into global inflation stimulated by a spurt in prices of commodities, including oil. This inflation around the world will have ripple effect on prices back home and could check rate of overall growth. Many economic experts rightly believe that instead of repressing fuel prices, the Government must allow that rise to pass through. If we go by economic sense at this juncture, any major step to insulate Indian consumers from higher energy prices will widen the fiscal deficit and hurt growth. On the other hand, if the global causes reignite the currently receding food inflation, the Government should be ready with long-term solutions by promoting and stimulating smart cultivation, storage and transport logistics now, than look for short-term 'fix-its' later.

On a larger front, the Government must look to revive the economy without raising a fiscal deficit. And towards that end, it is high time that a raft of investor-friendly policies are unveiled to nudge the entrepreneurs to invest more. Driving investments has to be top priority with focus on measures for sectors such as infrastructure and others that benefit agriculture and employment generation. The World Economic Situation and Prospects (WESP) 2012 report, recently released by the United Nations, has also recommended "a more forceful international coordination of stimulus measures across countries and a refocus of policies to stimulate more direct job creation and investments, which would also require stepped-up financial sector regulatory reforms." On the global scale, it is imperative that countries work not only towards financial inclusion and progressive tax policies but also to strengthen and democratise international tax cooperation and policy making.

We in India need reforms that can actually raise our sustainable long-term growth rate. These have to come in areas like better targeting of subsidies, making projects in infrastructure viable so that they attract capital, raising the productivity of agriculture, improving healthcare and skill-creating education, bringing the parallel economy under the tax net, implementing fundamental reforms in taxation like GST and the Direct Tax Code and finally easing the myriad rules and regulations that make doing business in India difficult besides eradicating corruption.

The global good signals are, as of now, only the hints of global economic recovery, which need to be encouraged and capitalised on. India, whose growth rate as predicted by the Finance Minister Pranab Mukherjee, would be around a respectable 7.2% this fiscal, can considerably help the process of global economic recovery by stimulating the growth back home. And for that, it is time for the Government to get cracking.

-Editorial Board
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