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POST-PANDEMIC MACROECONOMIC RECOVERY IN INDIA

Structural Reforms and Economic Momentum

- India prioritized structural reforms to mitigate post-pandemic economic shocks and ensure recovery.
- While policy measures have facilitated a robust recovery, growth remains cyclical.
- Government spending, a key driver of economic activity, has slowed, with capital expenditure targets falling short at both central and state levels.

Fiscal Consolidation and Debt Management

- India's combined fiscal deficit exceeds 7% of GDP, among the highest globally.
- Achieving a sustainable debt-to-GDP ratio is essential to reduce borrowing costs and free up fiscal space.

Investment Efficiency and Private Sector Participation

Public Investment and Spending Quality

- Reduced public investment has slowed economic momentum despite maintained revenue expenditure.
- Efficient utilization of capital expenditure is crucial for stimulating growth and job creation.

Boosting Private Sector Growth

- Despite corporate tax cuts, private investment remains below potential, peaking in 2007-08.
- Incentives such as tax credits and job creation schemes can stimulate private sector participation and fixed capital formation.

Harnessing Domestic and Foreign Savings

Structural Barriers to Investment

- While domestic savings and foreign inflows are available, low investment demand hampers growth.



- Policymakers must address structural barriers to enhance the deployment of savings for productive purposes.

Corporate Savings Utilization

- Rising private corporate savings need to be directed towards high-impact investments.

Consumption Patterns and Income Distribution

Recovery and Growth in Consumption

- Consumption growth rebounded by 8-9% in 2023, benefiting even lower-income groups.
- Concerns about a K-shaped recovery are mitigated by broader consumption recovery trends.

Income Distribution and Tax Reforms

- Income disparities persist, with a limited middle class in higher-income brackets.
- Targeted tax reforms, such as reducing lower-slab taxes, can boost disposable income and consumption.

Agricultural Reforms and Food Price Management

Shifting Consumption Patterns

- Growing demand for diversified and processed foods highlights the need for agricultural diversification.
- Organized supply chains can reduce price volatility, particularly in perishable commodities like vegetables.

State-Level Marketing Reforms

- Reforms enabling private markets and direct sales at the farm gate must be scaled for nationwide impact.
- Promoting diversification and easing regulatory bottlenecks can enhance farmer incomes and productivity.

Monetary Policy and Interest Rate Dynamics

Managing Inflation and Stimulating Demand

- Moderated cost-push inflation allows for lower real interest rates, spurring demand for homes and durable goods.
- Young consumers can benefit from reduced borrowing costs, boosting economic activity.



Conservative Fiscal Approach

- Policymakers must balance conservative macroeconomic policies with growth-oriented initiatives to mitigate global uncertainties.

Supply Chain and Labor Market Challenges

Disruptions in Global Supply Chains

- Pandemic-induced delays in raw material delivery and production caused cost increases and limited product availability.
- Businesses adapted by finding alternative suppliers, but recovery remains gradual.

Labor Market Issues

- High unemployment rates and a skills mismatch hinder recovery.
- Health concerns continue to deter workers from rejoining the workforce, exacerbating the labor shortage.

Conclusion

- Addressing post-pandemic challenges requires targeted reforms, efficient resource allocation, and robust policy measures.
- A focus on improving production conditions, incentivizing private investment, and ensuring equitable growth can strengthen India's economic trajectory.
- Coordinated efforts across government, businesses, and communities are vital to achieving sustainable and inclusive recovery.

Source: <https://indianexpress.com/article/opinion/columns/why-the-budget-must-prioritise-incentives-not-just-resources-9784912/>

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