

Small, medium issue: Economic recovery gaining steam. But low-income groups' demand & MSMEs are concerns

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High-frequency economic data suggests the Indian economy has crossed an important milestone. It weathered the intense second Covid wave better than expected, largely because governments avoided harsh lockdowns. The appropriate benchmark, however, is pre-pandemic performance and not year-on-year comparisons. By that measure, India is likely to exceed the pre-pandemic output by the end of the financial year. RBI's October Bulletin indicated that its economic activity index pointed to a GDP growth of 9.6% in the July-September quarter. By September-October, Google mobility levels had crossed pre-pandemic levels and CMIE's employment data corroborated normalcy's return.

The total employment estimate in September was 406.2 million, almost at the level of the pre-Covid estimate of 408.9 million in 2019-20. Notably, salaried jobs rose sharply in September to touch 84.1 million, once again almost at the pre-Covid level of 86.7 million. Advance tax collection in April-September 2021 was Rs 2.53 lakh crore, 14.6% higher than the pre-Covid collection in 2019-20. The downside however is that growth impulses still seem to be fragile.

MGNREGA demand, a proxy to gauge the availability of informal jobs, suggests that this segment is still not out of the woods. Demand in the April-September 2021 period was higher than the pre-Covid 2019. Data on the FMCG demand showed that it shrunk by 0.5% in volume terms in the July-September 2021 quarter, influenced partly by weakness in unbranded segments. So, one cautionary note is that recovery may not be durable in the absence of adequate purchasing power in a vast section of the workforce.

In this context, bank credit shows an interesting trend. On October 8, outstanding credit was Rs 110.13 lakh crore, higher by 6.5% year-on-year but still trailing growth in deposits. A granular look at credit showed that during the second quarter of the current financial year, outstanding personal loans overtook industrial credit for the first time. Personal loans now make up about 27% of the total credit, propelled mainly by home loans. This changing credit pattern does raise questions on the state of MSMEs – big industry isn't starved of funds. MSMEs number 60 million units and contribute about 45% of manufacturing output. Given that Govt expects MSMEs to contribute half of its targeted \$5 trillion GDP, there's a case for more targeted support to ensure that the current growth momentum doesn't run out of steam.