Post-Covid economic recovery progressing well; high oil prices pose risks: Economist

Representative image. Credit: iStock Photo

India's economic recovery from Covid-19 is progressing well, with better than expected growth rates, and the trajectory will continue but persistently high oil prices can play spoilsport, eminent economist Ashima Goyal said on Sunday.

Goyal, who is also a member of the Monetary Policy Committee (MPC) of the RBI, further said inflation, which has largely remained within the central bank's tolerance band, was also showing signs of moderating as supply conditions eased because there was no over-stimulus unlike in many western countries.

"India's economic recovery from Covid-19 is progressing well, with better than generally expected growth rates. Higher growth is not just due to a base effect, because Indian growth in 2021 exceeds that of many countries, which had a worse fall in growth in 2020," she told PTI in an interview.

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According to Goyal, it points to India's continuation of reforms as well as good macroeconomic policies.

She pointed out that India's steep fall in growth during the first lockdown received a lot of adverse publicity but IMF's January growth figures for 2020 and 2021 show many countries to be worse off.

Asked what will be the impact of the Ukraine crisis on the Indian economy, the eminent economist said: "The recovery will continue but persistently high oil prices could cause some moderation in growth."

Asia's third-largest economy is projected to grow 8.9 per cent in the fiscal year ending March 31, slower than the previously anticipated 9.2 per cent, according to recent government data.

Noting that the Budget was based on conservative assumptions this time, tax revenues are buoyant and the divestment process is set rolling, she said, "So the impact may not be major."

According to Goyal, the investment and growth slowdown from which the economy suffered over the last decade was because policy was unable to smooth external shocks.

"At present monetary and fiscal policy has some space to smooth the oil shock in a coordinated manner," she said, adding that it should be used to sustain the domestic investment cycle and the resulting job growth.

Goyal suggested that avoiding over-reaction and excess volatility in rates and responses is important.

Replying to a question on high oil prices, she said crisis-related spikes in oil prices have often been sharp and short in the past.

"The fisc has space...Taxes were raised when oil prices fell and can be reduced now. If higher oil prices sustain, some burden sharing can be devised," Goyal suggested.

She emphasised that the priority should be given to measures to greening the economy in the long-run to reduce dependence on imported oil.

Asked whether the surge in edible and crude oil prices due to the Ukraine crisis could force the RBI to raise its inflation forecast, she said the central bank's inflation projection is based on the assumption that average oil price for the year will be USD 80.

"Therefore if oil prices persist above this for some months and there is domestic pass through, the inflation forecast would rise," Goyal said.

According to her, international oil prices affect the wholesale price index (WPI) but it is domestic oil prices that impact headline consumer price index (CPI), the RBI's inflation target.

"And there is policy space to moderate domestic oil prices. Therefore we have to watch developments," she said.

The retail inflation rate breached the 6 per cent upper tolerance limit of the RBI for the first time in seven months in January, while the wholesale-price index stayed in double-digits for the 10th month in a row.

The Reserve Bank of India (RBI) on February 10 had lowered the inflation outlook to 4.5 per cent for the next fiscal, from 5.3 per cent in the current year.

On weakening of Indian rupee, Goyal pointed out that the RBI's time tested policy is to intervene if there is excess volatility in forex markets.