Addressing the lower economic Growth

What is the issue?

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An immediate stimulus is needed to regain the momentum to get India back to 8% growth.

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What are the issues with economic growth?

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- The real growth of GDP, i.e. after removing the impact of inflation, was only 5.7%, much lower than expected.
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- For the past six consecutive quarters, the growth rate has gone down steadily, from 9.2% in March 2016, to 5.7% in June 2017.
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- The growth rate will be below 7% this fiscal year. Which is potential loss of 1% (Rs. 1.5 lakh crore of national income) growth than expected.
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- The manufacturing growth at 1.2% is the lowest in the past five years.
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- There was a suspension of manufacturing activity and consequent de-stocking of inventory prior to the rollout of the Goods and Services Tax (GST).
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- The banks are facing distress,the credit to industry is actually be shrinking.
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What is the reason for this steep decline of growth?

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- **GDP Calculation -**In India spending or consumption driven GDP calculation is given importance rather than growth driven.
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- As a result, capital formation (the basis of future growth) is steadily declining for several years.
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- **Strengthening rupee**- The significant challenge to the domestic industry is for past 6 months the rupee is 7% stronger compared to the American dollar,
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- It is stronger than its Asian peer currencies too, including China, the Philippines, Indonesia and Thailand.
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- This directly hurts India’s export prospects and increases flow of cheaper imports.
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- **Demonetisation-** It certainly includes the negative impact on the informal and rural economy.
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- There is a deflationary impact of low agricultural prices, and job losses around rural areas.
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- **Banking -** The corporate sector and banks have been affected by the twin balance sheet squeeze.
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- The corporates are over-leveraged, and banks have mounting bad loans.
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- **Infrastructure -** Due to lack of effective access to electricity, improvement in infrastructure private investment are not picking up.
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How it can be addressed?

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- Investment in future capacity creates GDP growth of the future, It needs to be led by the private sector.
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- Initiatives such as Housing for All, Smart Cities and Digital India give room for huge opportunities for private entrepreneurs.
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- Elimination of gold imports will help addressing the trade deficit, promotion of Sovereign gold bonds will help this.
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- The rupee needs to be weakened or else it will hurt domestic manufacturing even more.
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- Jobless growth needs to be addressed, production based GDP must be promoted.
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Source: The Hindu

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