Assessment on Latest Growth Revival

What is the issue?

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- The latest economic data from the Central Statistics Office revealed a 7.2% growth in India's GDP in the last quarter.
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- Click here to know more.
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- The numbers call for an assessment of the real picture of economic revival.
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What are the positives?

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- The growth is an acceleration from the 6.5% posted in the previous quarter.
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- The relative development is indeed a cause for optimism.
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- Importantly, the gross fixed capital formation, a key measure of investment demand, has shown a healthy improvement.
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- Sectoral gross value added (GVA) figures also reflect a broad-based pickup in activity.
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What are the concerns?

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- **Slowdown** - The only three slowdowns in the last quarter are:
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i. mining
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ii. utility services (including electricity, gas, and water supply)
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iii. trade, hotels, transport and communication services
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- The contraction in mining is of particular concern.
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- **Base effect** - The October-December quarter in 2016 was the period of implementation of the demonetisation drive.
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- So the latest third-quarter data largely bears the base effect of this period.
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- This indicates that the growth trends are to be understood more in comparative terms.
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- **Full financial year** - The sectoral GVA data at a quarterly level appeared to give promise of a more enduring recovery.
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- However, the same GVA data for full-year projections show decelerating momentum in 5 of the 8 core sectors.
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- Of particular concern is the farm sector, where growth is set to slow to 3% from 6.3% in the previous fiscal.
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- Also, in manufacturing, the pace is expected to come to 5.1% from 7.9% in the revised estimate for 2016-17.
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- The latest subdued Index of Industrial Production numbers further add to the concerns.
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- The CSO's second advance estimates of national income for the full financial year are also a lot more worrying.
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What do all these imply?

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- The private final consumption expenditure, a crucial driver of economic

momentum, is yet to gain traction over the full financial year.
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- Clearly, it is increased government spending that has driven the recent economic expansion.
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- Moreover, the space for more capital pumping is also restricted.
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- This is because the fiscal deficit at the end of January has already exceeded 113% of the revised estimate for the full year.
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- Any more government spending has the risk of affecting price stability. It possesses the risks of leading to inflation.
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- Added to these are the concerns of bad loans in the banking sector and the recent wake of bank frauds.
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- Also, the exporters are still to make the most of the revival in global trade demand.
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- Given all these, the economy has still not got to a healthy status and thus calls for concerted action.
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Source: The Hindu

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