Concerns on growth rate

What is the issue?

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- Many estimates expectthat from second quarter 2017-18 Indian economic growth will rebound.
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- But there are practical concerns in deriving the actual growth rate.
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What are the practical difficulties in growth rate?

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- It is unclear that how estimates of the performance of the informal and non-corporate sectors counted.
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- In the initial estimates, the only parts of the non-corporate sector that are covered reasonably well.
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- It include Agriculture, construction and retail trade, as for the rest, their estimates are based on extrapolation of corporate data.
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- For some manufacturing sectors, the data becomes available after 18 months.
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- For other sectors, we have to wait for the NSS surveys of the non-corporate sector.
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- The initial estimates will always be subject to revision with a lag.
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- That is, the growth number can be revised upwards or downwards, the “truth” estimates will be known much later.
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What are the reasons for the unclear growth rates?

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- If the non-corporate and informal sectors are doing worse than the corporate sector, then any extrapolation with corporate data will yield inflated growth estimates.
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- The double whammy of demonetisation and the goods and services tax (GST) wreaked havoc on the informal sector and micro, small and medium enterprises (MSMEs).
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- The corporate sector was not impacted as badly, its health is, therefore, not a good indicator of what is happening elsewhere.
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- Estimates of growth for the informal/non-corporate sector based on extrapolation will not capture the ground position.
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What needs to be done?

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- Announcing a 3% interest subvention on all investments made in the MSME sector would triggers more investment.
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- Reducing the minimum alternate tax (MAT) in special economic zones (SEZs) to 0-25% of that in the domestic tariff area will spur infrastructure investments by SEZ developers.
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- It will also result in new investment by SEZ units (actual producers and exporters) and provide a boost to exports.
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- Immediate increase of expenditure on rural infrastructure will have a multiplier effect on employment generation.
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- Interest rate needs to be reduced to induce boost in all avenues of the economy.
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Source: Business Standard

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