Economic Rebound

Why in news?

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Central statistics office (CSO) data reveals GDP grew 6.3 per cent in the July-September quarter.

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What does GDP estimates imply?

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- The 6.3% is higher than the 5.7 per cent GDP growth in the April-June quarter, but lower than the 7.5 per cent growth in the second quarter of last fiscal.
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- Gross value added (GVA), which is summation of agriculture, industry and services, also grew to a three-quarter high of 6.1 per cent compared to 5.6 per cent in the previous two quarters.
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- The Q2 growth numbers place the government in a better position with respect to spending to spur economic activity.
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What are the reasons behind the economic rebound?

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- GDP data shows that the impact of demonetisation and GST has worn off.
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- It marks a reversal and is driven by manufacturing, and investment growth, supported by strong growth of refinery products and steel output.
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- Manufacturing activity pushes up GDP growth, investments grow by 4.7% in Q2.
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- Global rating agencies has upgraded India’s sovereign credit rating for the first time in 14 years on account of progress in economic and institutional reforms boosting growth potential.
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What are the areas of concern?

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- Q2 GDP growth may have been underestimated due to lack of adequate data on GST collections and sales tax.
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- While investment grew 4.6 per cent in Q2 compared to 1.6 per cent its share in GDP fell to 27.5 per cent from 29.9 per cent in Q1.
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- While manufacturing grew 7 per cent in the second quarter against 1.2 per cent in the first, services sector growth showed a significant decline to 7.1 per cent from 8.7 in the previous quarter.
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- None of the segments grew in double digits though trade, hotel, transport, etc. services rose 9.9 per cent, albeit lower than 11.1 per cent in the previous quarter.
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- Agricultural growth fell to 1.7 per cent in Q2 from 2.3 per cent in the previous quarter because of a sharp decline in the production of foodgrains during the kharif season.
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- Small and medium enterprises and exporters, however, continue to face return-filing issues and working capital constraints due to a slow release of refunds.
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- The Economic Survey had forecast GDP growth for the fiscal year in the range of 6.75-7.5 per cent, but its second volume later said that 7.5 per cent might be difficult to achieve.

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Source: Business Line, Business Standard

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