GDP Numbers – Is India steadily loosing Momentum?

What is the issue?

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- India’s economy is slowing down for the past 5 quarters.
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- Investments-led growth can reverse the situation but the policy response has been sluggish
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How is the slowdown explained?

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- GDP growth has lost momentum since March 2016.
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- The slowdown is being explained away either as a transitory phenomenon or as beyond the government’s control.
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- Deficient rains, sluggish world economy, or lately due to demonetisation and the GST have all been cited as reasons at different times.
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- While the reasons change, the economic trend remains the same.
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How have the various drivers of the economy fared?

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- In the boom years, four engines powered the economy - Exports, Government investments, Private consumption & Private investments.
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- While government investments and private consumption were going strong even 2 years ago, the other two went out of steam early and remain so even now.

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- The slowdown has now spread to all aspects of the economy.
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- There was a noted slowdown in the quarter ending June 2017 in all four growth engines.
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What could be the explanations?

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- As incomes improve, private spending and tax collections pick up.
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- Hence government investments and private consumption depend on how well the economy is doing as a whole.
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- **Exports -** The global economic downturn that followed the 2008 financial crisis dealt a body blow to exports.
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- Recovery in the global economy has lifted exports of most Asian countries, but Indian exports are stagnating.
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- This has partly been due to an over-valued rupee.
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- **Investments -** India’s economic future can improve significantly with investments-led growth.
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- The decline in private investments over the past 5 years is so sharp that it has offset the increases in government investments.
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- The steps taken for improving the ease of doing business and the foreign investments regime have proved insufficient.
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Why are investments not coming up?

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- Companies don’t seem convinced that new investments will be profitable.
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- Many variables like costs, availability of finance, land, labour, technology, logistics, and taxation affect investment decisions.

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- As the government is politically sensitive in decision making, it is unable to progress on land and labour reforms.
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- Also, credit creation has almost ceased due to the NPA problem.
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- Additionally, in an environment of constant shocks like demonetisation and unanticipated policy changes, investment decisions tend to get postponed.
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How has the government responded?

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- While the government is notably swift with decision-making there seems to be a disconnect between policy tools and objectives.
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- Part of the problem seems to be that the government is inert even to the advice of its own economists.
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- Even the analyses documented in the Economic Survey has had minimal influence on policy
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- Demonetisation has proved a drag on an already slowing economy.
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- Whiles its effect on the informal sector is beginning to be undserstood, an untimely GST may aggravate its woes.
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- While the speedy decision making is important, it needs to be recognized that quality advice needs to be heeded to.
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Source: The Hindu

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