India’s economy is nearing stall

What is the issue?

India’s deepening slowdown has now left the economy on the verge of stalling.

What are some major facts?

- The latest GDP estimates show year-on-year growth in the April-June period slid to 5%, the slowest pace in more than six years.
- The private consumption spending slumped to an 18-quarter low, with the expansion decelerating sharply to 3.1%, from 7.2% in the preceding quarter and 7.3% a year earlier.
- Gross fixed capital formation (GFCF), a proxy for investment activity, grew only a 4% which is less than 13.3% growth it posted a year ago.

What did the RBI’s annual report reveal?

- Indicators of GFCF had shown either moderation or contraction in the fiscal first quarter.
- It pointed specifically to gross value added (GVA) by the construction industry, which government data revealed had eased to a 5.7% pace, from 9.6% in the year-earlier period.
- With demand for manufactured products ranging from cars and consumer durables to biscuits having sharply diminished, manufacturing GVA growth plunged to an eight-quarter low of 0.6%.
- In fact, save mining, electricity and other utility services and public administration and defence, all the five other contributors to overall GVA weakened from a year earlier.
- RBI observed in its July 2019 survey that the consumer confidence has worsened appreciably with 63.8% of respondents expecting discretionary spending to stay at the same level or shrink one year ahead.
- The comparable reading in June 2018 was 37.3%.

What are, and could be the actions of the government?

- The government is cognizant of the gravity of the situation which is evident from its recent slew of policy pronouncements.
- It tweaks the investment norms to draw more Foreign Direct Investment (FDI), moves to relieve the debilitating sales slump in the auto sector and a

sweeping consolidation of public banks.

- Any beneficial impact from these measures will take time to feed into the economy.
- Time is a luxury that the faltering economy can ill afford, especially given the global headwinds.
- With the farm sector still stuck in a low-income trap and this year's monsoon rains leaving some parts flooded and others deficit, rural demand is unlikely to return any time soon.
- The RBI's four interest rate reductions since the start of 2019, failed to incentivise credit-fuelled consumer spending and business investment to any significant degree.
- With limited fiscal headroom to try and prime the pump with increased expenditure, big, bold structural reforms may be the only way out.
- The government must lose no time in consulting with the widest possible spectrum, including the Opposition, and then implement the agreed-on reforms prescriptions to reinvigorate demand and investment.

Source: The Hindu

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