Seven percent annual growth and the realities in India

Why in news?

The performance of the Indian economy is not fully normalised yet and would be consistent with a growth of 6.5% to 7%.

What is the background?

- The National Statistical Office's real GDP growth estimate of 13.5% for the first quarter of 2022-23 is 2.7% points lower than the Reserve Bank of India's earlier assessment of 16.2%.
- Assuming that the central bank's estimates of the remaining three quarters of the fiscal year at 6.2% in 2Q, 4.1% in 3Q, and 4% in 4Q are realised, the annual GDP growth using the NSO's 1Q estimate works out to be 6.7%.
- Compared to the pre-COVID-19 GDP level of Rs. 35.5 lakh crore in 1Q of 2019-20, real GDP at Rs. 36.9 lakh crore shows an increase of only 3.8%.
- This indicates that the performance of the Indian economy is not fully normalised yet which would be consistent with a growth of 6.5% to 7%.
- In order at least to reach an annual growth of 7%, GDP may have to grow at about 5% in 3Q and 4Q of 2022-23.

What is the composition of growth?

- Out of the eight Gross Value Added (GVA) sectors, the first quarter growth performance is higher than the average of 12.7% in
    - Public administration, defence and other services (26.3%)
    - Trade, hotels, transport et al. (25.7%)
    - Construction (16.8%)
    - Electricity, gas, water supply et al. (14.7%).
- **Agricultural growth** has remained robust, showing a growth of 4.5% in 1Q of 2022-23, which is the **highest growth over nine consecutive quarters**.
- Growth in **manufacturing**, at 4.8%, however, is much **below the overall average**.
- On the demand side, all major segments showed magnitudes in 1Q of 2022-23 that were higher than their corresponding levels in 1Q of 2019-20.
- The ratio of gross fixed capital formation to GDP at current prices is 29.2% in 1Q of 2022-23 which is 1% point higher than the investment rate of 28.2% in the corresponding quarter of the previous year.
- The contribution of net exports to real GDP growth is negative at minus 6.2% points in 1Q of 2022-23 since **import growth continues to exceed export growth** by a tangible margin.
- Such an adverse contribution of net exports to real GDP growth is an all-time high for the 2011-12 base series.

Will there be feasibility in the growth?

- The Indian economy may still show a 7% plus growth in 2022-23 provided it performs better in the subsequent quarters, particularly in the last two.
- It would be important to further increase the investment rate and to reduce the magnitude of negative contribution of net exports.
- Available high frequency indicators for the first four to five months of 2022-23 indicate continuing growth momentum.
- Headline manufacturing Purchasing Manager's Index (PMI) was at an eight-month high of 56.4 in July 2022.
- It remained high at 56.2 in August 2022. PMI services were at 55.5 in July 2022, indicating 12 consecutive months of expansion.
- Outstanding bank credit by scheduled commercial banks (SCBs) grew by 15.3% in the fortnight ending August 12, 2022.
- Gross Goods and Services Tax collections have remained high at Rs. 1.49 lakh crore and Rs. 1.43 lakh crore in July and August 2022.
- This may be due to the higher inflation levels of both Wholesale Price Index (WPI) and Consumer Price Index (CPI).
- GVA growth has been led by public administration, defence, and other services, with a growth of 26.3%.
- This has been driven by the **central government's frontloading of capital expenditure**.
- The **Centre's capital expenditure grew** by 62.5% during the first four months of 2022-23.
- This momentum needs to be maintained, which can be facilitated by a buoyant growth in the Centre's gross tax revenues.
- The large gap between the GDP and the GVA indicates a **high implicit price deflator (IPD)** based inflation.
- This in turn is because of the ongoing WPI and CPI inflation trends where the former continues to exceed the latter.

What is the way forward?

- With buoyant tax revenue growth, fiscal policy may strongly support GDP growth without making any significant sacrifice on the budgeted fiscal deficit target.
- The key to growth lies in raising the investment rate.
- The capacity utilisation in industry helps to attract private investment if demand for goods continues to increase.
- India's growth path in the next few years must depend on domestic investment picking up.
- Sector-wise growth in investment must be the focus of policymakers in removing bottlenecks and creating a favourable climate.

Reference

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