The Gloomy State of the Economy

Why is the issue?

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- The GDP growth is slowing & inflation is high.
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- Although, short-term disturbances will get rectified soon, a full bounce back looks far off.
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What do the latest numbers say?

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- The Index of Industrial Production has slumped to 1.2% in July as against a 4.5% during the same month last year.
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- IIP for June this year was even worse at -0.2%
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- Retail price inflation, as measured by the Consumer Price Index, rose to a five-month high of 3.36% in August.
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- These numbers follow the slowdown reported earlier this month in the GDP growth during the first quarter of 2017-18.
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- Growth in the latest quarter hit a three-year low.
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What has caused the slowdown?

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- The implementation of the GST has caused significant uncertainty among businesses.
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- This has led to a drop in business activity across the value chain, which is being reflected in the industrial output numbers.
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- Also, the economy has been contracting for the last five consecutive quarters, starting well before the implementation of GST or the demonetisation.
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- Many have attributed this to the drought in private investment which has lasted for years now.
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- The current slowdown is thus very likely the result of both short-term disturbances caused by GST as well as other factors.
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What is the likely policy response?

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- The slump in economic growth has increased pressure on the RBI to provide a boost to the economy by cutting interest rates.
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- The underlying belief is that printing money can grow the economy.
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- The rise in retail inflation in August, however, probably rules out any form of aggressive monetary stimulus by the RBI in its next policy meeting due to be held in October.
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- Some part of the lost growth may be recovered over the next few quarters as the economy adapts to GST and other related short-term disturbances.
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- A sustained recovery that puts India on the high-growth trajectory for years, however, may be possible only after the government implements structural reforms in the labour and land market.
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Source: The Hindu

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