GS-3

3. How does the incremental capital output ratio capital formation influence the growth rate of Indian Economy? Explain

Study made on '3' distinct phase post 2011-12, ~~shows~~ Shows till 2016-17. The growth rate was 7.2% and between 2016-17 to 2020-21, it was 5.7%.

Study on potential of Growth rate.

Hendrich prescot and Auto Regressive Integrated. moving average studies, estimates the potential of growth was less than 6%. and it will remain there between 2021-26.

Analysis of components of growth, shows

1. ~~Manufacturing~~ Industrial sector including utility, manufacturing. shows decline.
2. Services sector performed better, as it is non-traded, mostly insulated from volatility.

~~Input~~ Incremental Capital output Ratio (ICOR)

It is the ratio of capital ~~are~~ required and output (growth). It is the surrogate measure of growth of economy. Studies shows that 1st phase. ICOR was 4.51 and in 2nd phase it was 5.52.

Influence on Growth of economy

1. It was suggested when the Gross fixed capital is maintained at 30-32%, the growth can be ~~may~~ increased to 6-6.2%.

2. For this to happen, there is a need to

a. formalisation of economy. Informal sectors are difficult to access investment.

b. shift to service sector. since it is largely insulated from volatality.

3. Structural shift - In Manufacturing, the value addition has declined from 25% to 16% ~~in~~ ~~20~~ This is largely due to high resource intensity and hardly any focus on investment in technology

way forward

Economy must focus on Investment, efficiency of resource usage and demand generation through increased consumer confidence. Thus Incremental ~~Input~~ capital output ratio acts a guide to growth path