

## GDP Surprise

### Why in news?

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CSO has released the data for the third quarter of 2016-17 (Oct-Dec) and concluded that the GDP in Q3 grew by 7% and the growth rate for the whole year would be 7.1%.

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### Did demonetisation impact economic growth?

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- The CSO data did not answer that question.

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- The argument that demonetisation did not and will not have a negative impact on the economy is very hollow and immature.

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- Even the former CSO chief statistician, after reviewing the data, has concluded that the data (of 3<sup>rd</sup> quarter) is deficient and the growth rate for the whole year is likely to be revised downward to 6.5%.

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- After the **changeover to the new methodology**, the CSO publishes estimates of Gross Value Addition (GVA) and GDP.

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- GVA growth rates during three years is given below:

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|            | 2014-15 | 2015-16 | 2016-17    |
|------------|---------|---------|------------|
| Q1         | 7.26    | 7.75    | 6.89*      |
| Q2         | 7.91    | 8.44    | 6.69*      |
| Q3         | 6.29    | 6.95    | 6.61       |
| Q4         | 6.19    | 7.42    | ?          |
| Whole year | 6.94    | 7.83    | 6.67 (est) |

*\*after downward revision*

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- **Demonetisation affected every sector of the economy except three.**\n\n

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- it **did not affect government expenditure.** And the govt actually increased its spending after November 8, 2016;

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- it **did not affect the monsoon.** Since it was bountiful, it boosted agricultural production; and

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- it **did not affect the revenues of utilities.** Actually demonetised notes were allowed to be used for paying utility bills.

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- Therefore, if we look at the GVA growth rates after excluding government, agriculture and utilities, it will show the real picture of the economy. And it looks like this:

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|    | 2015-16 | 2016-17 |
|----|---------|---------|
| Q1 | 9.26    | 7.35    |
| Q2 | 9.82    | 6.47    |
| Q3 | 9.98    | 5.73    |
| Q4 | 8.76    | ?       |

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### What conclusion can be made from above?

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- From the above data, it is clear that economic growth in the non-government, non-agricultural economy slowed down since Q4 of 2015-16.

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- Demonetisation that happened in the middle of Q3 actually **accelerated the decline of economic growth.**

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### Why the situation is still bleak?

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- While the GVA/GDP data may have given a surprise, other **indicators point to an economy that is not investing more**, not producing more and not creating more jobs.

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- Compare the GVA growth numbers in Q3 of 2015-16 and Q3 of 2016-17. In the Mining, Manufacturing, Construction, etc., the GVA growth number has declined sharply in 2016-17.

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- In Q3 of 2016-17, the Index of Industrial Production (IIP) recorded a meagre growth of 0.2%.

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- Bank credit growth to industry was negative at 4.3%.

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- By September 2016, net fixed assets of all firms had declined by 9.36%.

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- When data for the informal sector is also captured, the GVA growth number will be moderated and will be lower.

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**Source: The Indian Express**

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