Slowing Growth Rate - II

Click here for Part I

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What is the issue?

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- The latest report on first-quarter GDP growth to be 5.7% as against the expected 6.5% to 7% comes as a shock.
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- While demonetisation and GST are highlighted to be the prime reasons, a closer look at the economy brings out various other significant factors behind the slow down.
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What factors have failed to promote growth?

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- De-stocking of goods prior to GST, and the impact of demonetisation are factors which directly impacted the growth rate.
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- However, there are other **factors which failed on their purposes against the expectation of promoting growth**. These include -
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- The remonetisation process after the demonetisation drive should have brought the economy back into growth tract.
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- It should have also opened up avenues for expressing the consumer demand which was cramped during the demonetisation phase.
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- Government had also made unrestricted spending which is supposed to have boosted the economy.

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- Also, it has been a year of good monsoon and favourable commodity prices.
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- But all these failed to produce favourable results, further calling for serious attention to the causes behind slowing growth rate.
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What are the other reasons?

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- The **twin balance sheet problem** with mounting debt of corporates and the resultant impact on banks' conditions.
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- This has fell sharply on both **investment and lending** especially with the declining profitability of the power and communications sectors.
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- Reduction in **farm revenues** because of falling non-cereal foodgrain prices and resultant compressed demand.
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- Also, **fiscal tightening by the states** to keep budget deficits on track added to the problem.
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- A holistic view reveals that there is a more serious **demand and hence investment crisis** which is crippling the economy at present.
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Are conditions favourable for reviving growth?

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- The rebound of present economic situation is doubtful, given various factors and conditions.
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- The **gross fixed capital formation** is weak, further reducing the possibility of any investment revival.
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- Given that government has already spent heavily, any further **investment** would only retard India’s fiscal consolidation efforts.
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- Also, various indicators on the **manufacturing sector** do not seem favourable for promoting economic growth.

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- RBI's industrial outlook survey brings out the **unfavourable demand conditions** across parameters and especially on capacity utilisation, profit margins and employment.
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- Also, deteriorating consumer sentiment are not promising for a demand rebound.
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What lies before the government?

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- Government could think of relaxing its stand on fiscal consolidation and make increased **capital spending** to revive the economic situation.
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- Government should tap the optimistic potential of the buoyant **services sector** and utilise the opportunities it holds for economy and job creation.
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- Also, it should focus on the potential **small and medium enterprises** and correct the negative effects of GST on them.
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- Above all, it is high time that government addresses the slow growth of **bank credit** and the debt overhang problem.
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- Only this will ensure a better **investment climate** and boost manufacturing.
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- Focus should shift from short-term effect of structural reforms such as GST and demonetisation and turn to the **larger investment and demand crisis.**
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Source: Business Standard, BusinessLine

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