Taking Forward the Economic Revival

What is the issue?

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- The second quarter GDP data by the Central Statistics Office (CSO) comes as a sigh of relief for a sluggish economy. (Click here to know more)
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- It is essential to sustain this momentum in the coming quarters with focus on consumption, private investment, agriculture and exports.
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What is the significance?

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- A declining growth trend in the last four consecutive quarters had finally been reversed.
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- Industry and business people perceive it as the first instance of a sustained upward trajectory of growth.
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- An increase in the growth rate, to 6.3% from the 5.7% in the previous quarter, hints at the receding negative effect of demonetisation and GST.
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- The services component of trade, hotels, transport and communications also grew smartly compared to the previous year.
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- The data highlights an accelerated industrial growth, and a considerably faster manufacturing growth.
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- The CSO says that GST collections data are provisional, and could be an underestimate.
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- To that extent an upward revision of the GDP data is possible in the future.
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What is the need for caution?

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- **Private investment** - Industrial revival is an absolute must for sustained growth in employment and output.
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- But it is important that this is accompanied by an increase in private sector investment.
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- However, private investment is not optimistic as evident from the declining portion of fixed capital formation in GDP growth.
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- The improvements in the Ease of Doing Business ranking would be meaningful only when there is a substantial pick-up in private sector investment.
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- **Consumption** - Nearly two-thirds of India's GDP is consumption spending, and remains the key to sustaining the growth momentum.
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- However, mounting inflation rates and weak job creation are keeping the purchasing power under pressure.
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- **Fiscal Deficit** - At this stage of the fiscal year, the deficit is running at 96.1% of the annual target.
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- The higher deficit would have been acceptable had it been on account of higher capital spending.
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- But at present, it is increasingly due to revenue expenditure component which is growing at twice the rate as budgeted.
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- Revenue expenditure like salaries, pensions, etc is notably not productive spending as on items like infrastructure.
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- This unfavourable fiscal condition could also probably be the main reason for the stock markets crashing.
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- Notably this is despite the data on economic revival, and international rating agency upgrade for India.
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Where to focus now?

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- The weaker components of economy, fiscal indicators and market should become policy focus area now.
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- To revive the private sector investment, it is essential to focus on:
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i. bettering the capacity utilisation
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ii. leveraging of balance sheets
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iii. insolvency resolution mechanisms
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iv. boosting exports as against the large influx of imports, especially manufactured goods
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- Investments should be backed by favourable consumption demand which has slipped down in the last two quarters.
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- Giving a fillip to the sluggish agriculture sector which is a significant contributor to rural incomes and consumption demand is vital.
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- It is also essential to drive growth in the manufacturing sector to further boost a slowing exports sector and create more job opportunities.
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- The course corrections in GST regime are essential for this, particularly in the context of hurdles faced by the small and medium enterprises.
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- The government has to overcome the challenge of rising oil prices and other such global scenarios offering less fiscal room to pump prime growth.
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Quick Facts

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CSO

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- The Central Statistics Office (CSO) is a governmental agency under the Ministry of Statistics and Programme Implementation.
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- It is responsible for the co-ordination of statistical activities in India, and evolving and maintaining statistical standards.
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- It compiles data on National Income, Index of Industrial Production, Economic Census, Human development Statistics, Consumer Price Index (CPI), etc.
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Source: The Hindu

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