Source : www.thehindu.com Date : 2024-01-10

GOOD GROWTH, LOW DEMAND: THE HINDU EDITORIAL ON THE NSO PROJECTION

Relevant for: Indian Economy | Topic: Issues relating to Mobilization of resources incl. Savings, Borrowings & External Resources

January 10, 2024 12:30 am | Updated 12:30 am IST

The first advance estimates of national income for the current fiscal year present a picture of an economy on steroids — of government spending. While the NSO has made bold to project real GDP growth marginally quickening to a 7.3% pace, from 2022-23's 7.2%, scrutiny of sectoral output figures that together form the gross value added, and the demand data reflected in expenditure numbers posit an economy still searching for durable drivers of consumption-led growth. While overall GVA growth is seen slowing to 6.9%, from the preceding fiscal's 7%, the agriculture, livestock, forestry and fishing sector — the bedrock of the rural economy, one of the largest providers of work and the second-largest generator of economic value outside the services economy — will see output expanding by 1.8%, the slowest in eight years and less than half of 2022-23's 4% pace. And even this pace of growth may be optimistic given the estimated shortfall in kharif output and lag in rabi sowing, particularly in paddy and pulses. Equally, the second-largest component of the services economy, the omnibus trade, hotels, transport, communication and broadcasting sector — also a large provider of jobs — is estimated to witness more than a halving in the pace of growth — to 6.3%, from 14% last fiscal. Here too, the estimates reflect the trend evident in the NSO's November 30 release of second-quarter GDP estimates, and underscore the underlying loss of momentum in the post-pandemic rebound in services.

On the demand side, private final consumption expenditure — the largest component of GDP with a share that till two decades ago exceeded 60% — is projected to log its slowest non-pandemic year expansion in more than 20 years. At 4.4%, private consumption spending growth is estimated to have been at its lowest ebb since the pandemic and accompanying lockdowns caused spending to contract by more than 5% in 2020-21, and just over half of 2022-23's 7.5% pace. With the rural economy struggling under the impact of the monsoon vagaries and the resultant weakness in farm output, demand for producers of a range of goods from soaps and detergents to packaged foods and two-wheelers is yet to regain any kind of vigour in the hinterland. Gross fixed capital formation, which includes government capital spending, remains the main bright spot and driver of momentum. The NSO pegs GFCF growing 10.3% to reach a record 34.9% share of GDP this fiscal. With the general election just ahead, policymakers face an unenviable choice — keep the spending spigot fully open to prop up growth at the risk of fiscal slippage, or tighten the purse strings and risk further loss of momentum.

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