

SLOWDOWN CONFIRMED: ON DEEPENING ECONOMIC CRISIS

Relevant for: Indian Economy | Topic: Issues Related to Poverty, Inclusion, Employment & Sustainable Development

There is now no denying that the second Modi government takes office amid a clear economic slowdown. The first macro data set released under the new Finance Minister, Nirmala Sitharaman's watch, on Friday, showed an under-performing economy with GDP growth falling to 5.8% in the fourth quarter of 2018-19 and pulling down the overall growth for the fiscal to a five-year low of 6.8%. Growth in gross value added (GVA), which is GDP minus taxes and subsidies, fell to 6.6% in 2018-19, pointing to a serious slowdown. If further confirmation were needed, the growth in core sector output — a set of eight major industrial sectors — fell to 2.6% in April, compared to 4.7% in the same month last year. And finally, unemployment data, controversially suppressed by the Union government so far, showed that joblessness was at a 45-year high of 6.1% in 2017-18. These numbers highlight the challenges ahead for Ms. Sitharaman as she sits down to draft the Budget for 2019-20, to be presented on July 5. The economy is beset by a consumption slowdown as reflected in the falling sales of everything from automobiles to consumer durables, even fast-moving consumer goods. Private investment is not taking off, while government spending, which kept the economy afloat during the last NDA government, was cut back in the last quarter of 2018-19 to meet the fiscal deficit target of 3.4%.

The good news is that inflation is undershooting the target and oil prices are on the retreat again. But the rural economy remains in distress, as seen by the 2.9% growth in agriculture last fiscal; the sector needs a good monsoon this year to bounce back. Overall economic growth in the first quarter of this fiscal is likely to remain subdued, and any improvement is unlikely until the late second quarter or the early third. There are not too many options before the new Finance Minister. In the near term, she has to boost consumption, which means putting more money in the hands of people. That, in turn, means cutting taxes, which is not easy given the commitment to rein in the fiscal deficit. In the medium term, Ms. Sitharaman has to take measures to boost private investment even as she opens up public spending again. These call for major reforms, starting with land acquisition and labour, corporate taxes by reducing exemptions and dropping rates, and nursing banks back to health. On the table will be options such as further recapitalisation of the ailing banks, and consolidation. The question, though, is where the money will come from. With tax revenues likely to be subdued owing to the slowdown, the Centre will have to look at alternative sources such as disinvestment. There may be little choice but to go big on privatisation. A rate cut by the Reserve Bank of India, widely expected this week, would certainly help boost sentiment. But it is the Budget that will really set the tone for the economy.

Please enter a valid email address.

As Prime Minister Modi returns to power, he must swear by the Indian civilisational ethos

Join our online subscriber community

Experience an advertisement-free site with article recommendations tailored for you

Already a user? [Sign In](#)

To know more about Ad free news reading experience and subscription [Click Here](#)

or Please whitelist our website on your Adblocker

END

Downloaded from **crackIAS.com**

© Zuccess App by crackIAS.com

crackIAS.com