

## Is India's GDP growth falling?

### What happened?

As per the estimates released by the Central Statistics Office on August 31, India's economy, as measured by the gross domestic product (GDP), grew by 5.7% in the first quarter of 2017-18, compared with 7.9% in the same quarter a year ago. This is the slowest pace of GDP growth recorded since the NDA came to power in May 2014. India grew by a strong 9.1% in the quarter from January 2016 to March 2016. The growth recorded in the subsequent quarters was 7.9%, 7.5%, 7% and 6.1%. So this is the fifth quarter in a row that the growth has slipped, with the pace of decline picking up momentum in the last two quarters. The gross value-added (GVA) in the economy grew at 5.6% between April and June, the same pace as the previous quarter, but sharply lower than the 7.6% growth in the first quarter of the last year.

### Is this surprising?

Most economists didn't expect a sharp uptick from the tepid 6.1% mark recorded in the January-March quarter this year, yet few anticipated a decline to 5.7%. The government has sought to divorce the growth trend from the impact of its decision to demonetise Rs. 500 and Rs. 1,000 currency notes last November, but economists believe the lingering effects continue to jolt sentiment. Growth, the government has argued, had begun to slow even before the move to suck out 86% of the currency notes in circulation. With the currency levels reverting close to the pre-demonetisation 'normal,' the bigger disruptive force affecting the latest GDP growth numbers was the introduction of the Goods and Service Tax (GST) from July 1. Businesses nationwide whittled down production in the April-June quarter and focussed on off-loading the existing stock, thanks to the uncertainty about how the new indirect tax regime will treat earlier tax credits on inputs.

This also impacted GVA numbers, as a lot of the inventory that was off-loaded had already been accounted for in the value of production in the earlier periods. Moreover, while firms saw a healthy growth in sales, their margins were dented by a spurt in commodity prices spiking input costs. Lastly, wholesale price inflation turned negative at this time last year, so growth numbers appeared higher as a result of their statistical impact, which is no longer the case, the government has argued.

### Which sectors are hit?

The manufacturing sector, as a sub-set of industry, led the growth tumble, expanding by just 1.2% in the quarter, compared with 5.3% in the previous quarter and 10.7% a year ago. This was the worst quarter for Indian manufacturing in five years. Overall industrial output also collapsed to 1.6% growth from 7.4% a year ago and 3.1% in the previous quarter.

The construction sector that has been the bulwark of job creation grew by just 2% (in GVA terms) as it grapples with the headwinds of a new regulatory regime (RERA), the GST and leveraged balance sheets of developers. Mining GVA shrank by 0.7%, compared with a 0.9% dip last year.

The services sector offered some semblance of stability, growing at 8.7% compared with 9% in the same quarter last year, but a deeper look suggests this was driven by a rise in trade-related GVA to 11.1% (from 8.9%). This is proof of sorts that the destocking in manufacturing was reflected in higher volumes (often discount-driven) in the trade segment. Agriculture GVA dipped from 2.5% in the first quarter of last year to 2.3%, though crop output increased healthily. Low prices for crops apart, it appears that other agriculture-related activities, such as animal husbandry, have dragged down the sector's overall growth.

## What lies in store?

The Statistics Office hopes that growth will rebound in the current quarter, “subject to how efficiently companies adapt themselves to the GST.” The new NITI Aayog Vice-Chairman Rajiv Kumar said growth would return to 7%-7.5% between July and September. Analysts are reworking their growth hopes for the full year — rating agency Crisil has curbed it from 7.4% to 7%. Finance Minister Arun Jaitley has admitted that the latest growth print poses a challenge for the economy and the government needs to work harder in the coming quarters to spruce up growth. Watch out for policy actions to spur investment and job creation.

VIKAS DHOOT

END

Downloaded from [crackIAS.com](http://crackIAS.com)

© **Zuccess App** by [crackIAS.com](http://crackIAS.com)

CrackIAS.com