Slowing Growth Rate

Why in news?

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The GDP growth rate of India has been continuously slowing down. GDP grew at 5.7%, the slowest pace in last 3 years.

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Why this slowdown?

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- Some of the key reforms that have been implemented by the government have left their shadows on GDP.
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- **Demonetisation –** Effects of demonetization continues to linger especially on industry and consumption.
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- Corporate results were not satisfactory and if one includes the unorganized sector comprising SMEs, the picture darkens further.
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- **RERA -** The introduction of Real Estate Regulatory Act (RERA), though a very good move, has impacted the real estate sector to an extent as it has come in the way of new projects.
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- **GST –** While it is necessary for fostering efficiency in the economy, it has disrupted the economy for the time being.
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Will the performance be better in the coming months?

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- Probably yes, as all the disruptions mentioned above are expected to be temporary, which will get corrected along the way.
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- **Consumption spending** is also expected to increase with the festival cum harvest season nearing.
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- However, rural spending is a point of concern as the latest data on area sown for rice, coarse grains, oilseeds and pulses is lower than last year which could lead to moderation in growth in production.
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- **Investment** in infra projects is expected to pick up, albeit gradually.
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- It is also expected that the government will spend on capital projects.
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What are the challenges?

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- **Fiscal Targets -** The limit of around Rs 3.3 lakh crore budgeted for the year cannot be exceeded unless the government is willing to cross the fiscal deficit target.
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- Therefore, growth may be expected to pick up and reach a 7% mark in the coming months but anything beyond that is unlikely.
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- **Capital formation** – This remains a concern for the economy, with the ‘Gross Capital Formation Rate’ moving down to 27.5% from 29.2%, which means that companies are not investing.
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- Reviving consumption & addressing NPAs are both needed to ensure new investments happen.
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- **Employment Generation -** Also, job creation needs to be accelerated.
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Source: Business Standard

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