IAS PARLIAMENT
Information is Empowering
A Shankar IAS Academy Initiative

The challenge of achieving 9.5% growth rate

Why in news?

The National Statistical Office (NSO) released the Q2 GVA and GDP numbers for FY 2021-22, indicating the pace of economic recovery in India after the two COVID-19 waves.

What the findings of NSO tell us?

- **Contraction -** The contraction was highest in the first quarter of 2020-21, gradually easing off in the subsequent quarters.
- **Resultant Base Effect -** Base Effect was strongest in the first quarter of 2021-22 with real GDP and GVA growth rates of 20.1% and 18.8%, respectively.
- The base effect weakened in the second quarter with GDP and GVA growth rates at 8.4% and 8.5%, respectively.
- The base effect is expected to weaken further in the third and fourth quarters of 2021-22.
- **Real GVA for the first half of 2021-22 –** It has remained below the level in the first half of 2019-20 by (-)3.7%.
- **Real GDP for the first half of 2021-22**- This difference is even larger for GDP which is (-) 4.4% below the corresponding level in 2019-20.
- So a strong growth momentum would be needed to ensure that at the end of this fiscal year GVA and GDP in real terms exceed their corresponding pre-COVID-19 levels of 2019-20.

Which sectors contributed for the present economic recovery?

- In H1 of 2021-22, on the output side, only four of the eight GVA sectors have exceeded their corresponding levels in 2019-20.
- These are
    - Agriculture
    - Electricity, Gas and others.
    - Mining and Quarrying
    - Public administration, Defence and other services. (Q1 5.8% & Q2 17.4%)
- The upsurge in the growth of public administration, defence sector in the second quarter of 2021-22 is due to the Central government’s emphasis on capital expenditure which started gathering momentum in recent months.
- The Central government capital expenditure grew by 38.3% during the first half of 2021-22.
- This supplemented by recovery of private investment expenditure, resulted in gross fixed capital formation (GFCF)
- **Gross Fixed Capital Formation (GFCF)** - GFCF shows a positive growth of 1.5% in the second quarter of 2021-22 over its corresponding level in 2019-20.

- Even then GFCF in H1 of 2021-22 has remained below its corresponding level in 2019-20
- **Private Final Consumption Expenditure (PFCE) –** H1 2021-22 remains below its corresponding level in 2019-20
- This indicates that investment as well as consumption demand have to pick up strongly in the Q3 and Q4 to ensure that the economy emerges on the positive side by the end of 2021-22 as compared to its pre-COVID-19 level.
- For this employment and income growth, especially in MSME, Trade, Hotel has to pick up.
- This may happen in the second half of 2021-22 provided economic activities are not beset again by COVID-19's new strain, Omicron.
- If we achieve the growth rate 9.5% in 2021-22, we can be confident that 2022-23 will see a growth rate of 6% to 7%.

What measures are required?

- A strong fiscal support in the form of government capital expenditure is required.
- This is currently being facilitated by the buoyant Centre's gross tax revenues having a growth rate of 64.2% in H1 of 2021-22.
- The nominal GDP growth at 23.9% and the implicit price deflator-based inflation at 9.0% in H_1FY22 is the key reason for the buoyant tax revenues.
- The Centre's incentivisation of state capital expenditure through additional borrowing limits would also help in this regard.
- According to available information, 11 States in the first quarter and seven States in the second quarter qualified for the release of the additional tranche under this window.

What will be the implications?

- With increase in government capital expenditure with some shortfall in non-tax and non-debt capital receipts. the fiscal deficit target may come under pressure.
- Increase in expenditure is due to food and fertilizer subsidies, MGNREGA and extension of the Pradhan Mantri Garib Kalyan Anna Yojana
- In spite of these pressures, it would be advisable for the Centre to continue infrastructure spending.

What are some High frequency indicators?

PMI manufacturing	Shows positive growth for last 10 months
Gross GST collections	Exceeds the benchmark of Rs. 1 lakh crore for the 5 consecutive month
Core IIP growth	Shows a growth of 7.5% in Oct 2021
Merchandise exports growth	October 2021 – 43% November 2021 - 26.5%
Centre's gross tax revenues (GTR).	In H1 of 2019-20 1.5% growth rate (-)3.4% for the year as a whole

- In the face of such weak revenues, the Central government could not mount a meaningful fiscal stimulus in 2019-20 even as real GDP growth fell to 4.0%.
- In contrast, the government is in a significantly stronger position in 2021-22 since the growth in GTR in the first half is 64.2% and the full year growth is expected to be quite robust.
- Thus, the key to attaining a 9.5% real GDP annual growth in 2021-22 lies in the government's

ongoing emphasis on infrastructure spending as reflected in government’s capital expenditure.

Reference

1. https://www.thehindu.com/todays-paper/tp-opinion/the-challenge-of-achieving-95-growth-rate/article37982193.ece