Understanding 8.2% GDP Growth

Why in news?

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The GDP estimates show that the economy grew at the rate of 8.2 % in the first quarter of 2018 (April-June).

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What is the anomaly in it?

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- Despite the impressive growth, a feel-good sentiment has been largely missing.
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- There is also confusion on how to interpret the growth while the economy faces various serious issues like \n
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  1. the depreciating rupee,
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  2. rising bank bad loans, or NPAs,
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  3. a trade deficit that has shot up to a five-year high,
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  4. and retail fuel prices that are inching up every day.
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What is the reason for the anomaly?

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- **Base effect -** A part of the reason for this is the low base, which has

produced a statistical effect, making growth appear faster.
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- **Sectoral differences -** Some parts of the economy grew faster, while a few others did not.
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- Agricultural GDP growth quickened as two successive years of good rains improved farm produce.
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- Manufacturing and construction industries, that were dealt a severe shock by demonetisation, recovered.
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- Services growth slowed. The sector includes trade, hotels and transport, and the financial, real estate and professional services as well as public administration and defence services.
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- Services sector largely represents the economic sentiment of the urban and semi-urban Indians.
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- Hence the poor performance of services probably explains the sense of disconnect with the growth estimate being expressed in some quarters.
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- **Consumption -** Private consumption expenditure growth has quickened, relative to the preceding quarter, as well as compared to the same quarter last year.
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So what drives the current GDP growth?

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- The current GDP growth is largely driven by consumption.
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- There are further suggestions that a consumption boom is in the making.
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- This is possibly driven by the government salary and pension hikes including at the State level.
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- Consumer industries are also reporting robust rural sales growth.
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What is the need for caution?

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- **Unsustainablity** - The high growth in the years preceding the 2008 global financial crisis was driven by savings and investments.
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- The global economic downturn disrupted this trend and hence investments slowed down.
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- There were expectations that this would revive, but the economy is still not out of the investments slowdown.
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- So the GDP growth continues to be powered by consumption, and not investments.
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- This is a cause for concern as the consumption-led growth is sustainable only up to a point.
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- **Quarterly estimates** - The estimates for the upcoming quarters will not enjoy the benefit of the low-base effect.
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- Moreover, the first quarter estimates are early indicators, which may not necessarily be representative of the remaining months.
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What are the challenges ahead?

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- Sustaining the 8%-plus growth rate beyond the first quarter requires a far more pro-active policy push.
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- The rising international crude prices and the risk of inter-country trade wars are some of the global challenges.
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- All these are likely to keep the current account deficit, and therefore the rupee, under stress.
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- A depreciating rupee could further inflate retail fuel prices.
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- The central and state governments can cut the taxes on them but this would

increase the fiscal deficit.
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- RBI can hike interest rates to arrest the rupee’s depreciation.
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- But that will further increase the cost of borrowing, including the government’s debt.
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- Reforms to promote growth with appropriate contributions from all the sectors of the economy are essential.
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Source: The Hindu

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