Syllabus subtopic: Indian Economy and issues relating to planning, mobilization of resources, growth, development and employment.

Prelims and Mains focus: about the recent economic slowdown in the Indian economy and the measures to be taken to overcome it in the upcoming budget

News: India’s economy is expected to grow 5% in the current fiscal, the statistics ministry said on Tuesday, signalling what would be the slowest pace of annual growth since the current 2012-13 data series was introduced.

- Yet, the estimate, which is in line with the central bank’s latest projection made in December, raises hopes that the second half of the fiscal may turn out to be better than the first.

- The economy expanded at 6.8% in FY19. The latest projection indicates that the economy is expected to grow at 5.25% in the second half, after expanding 5% in April-June and 4.5% in July-September, its slowest pace in 25 quarters. Economists said any recovery that this suggests may be weak.

Background

- Asia’s third-largest economy has been witnessing a sharp deceleration in growth, which slid from 8.2% in FY17 to 6.8% in FY19.
- In recent months, the government has taken several steps to try and arrest the slowdown, including a cut in corporate tax rates, while the central bank has offered a monetary stimulus.
- The upcoming Union budget is widely expected to announce more measures to counter the slowdown.

Context: The advance estimate, based on data available so far, comes as the Narendra Modi administration prepares to present the Union budget for FY21 in a matter of weeks. The latest figure may prompt the government to explore more steps to bolster growth.

- Equally, the suggestion that the economic slowdown could be bottoming out will reassure the government that the steps taken so far to boost
consumption and private investment are beginning to bear fruit.

- The figures clearly show that government consumption is driving the economy and private sector contribution to growth is low. To keep the momentum, the government will have to maintain its spending.

What does the data show?

- Official data showed a **2.8% growth in farm output in FY20**, nearly the same level seen in the year before, although it is an improvement from the June and September quarters.

- The **employment-intensive manufacturing sector** will see a **paltry 2% expansion in FY20** against a growth of 6.9% in the year before, but here again, the full-year output expansion contrasts sharply with the 1% contraction seen in the September quarter and the negligible 0.6% growth in the June quarter.

- **Construction**, another employment-intensive sector, too is projected to record a slower growth this fiscal—3.2% against 8.7% a year ago.

Conclusion

- The 5% GDP growth confirms the continuing slowdown in momentum, but what is even more significant in the first advance estimate is the fall in nominal GDP growth to 7.5% in FY20 as compared to the previous peak of 13.8% in FY13, down 6.3 percentage points.

- This fall translates into a fall in tax revenues and an increase in the fiscal deficit, which are both detrimental to growth.

- The fiscal deficit as a share of nominal GDP will look magnified when the denominator shrinks. The budget for FY20 presented in July by finance
minister Nirmala Sitharaman had assumed a 12% nominal GDP growth in FY20 from a year ago.

- Economists said various indicators had suggested a modest improvement in economic growth in the second half of the fiscal, and that any reduction in public spending now could pose a risk.