GS-III: A lodestar to steer the economy.

News

There is an anxiety all over about the economic slowdown in the country. While the government is still in denial mode, data flowing uninterrupted indicates that the sector is starting to face a seriously challenging situation.

Data:

- Private consumption has contracted and is at an 18-quarter low of 3.1%
- Rural consumption is in a deep southward dive and is double the rate of the urban slowdown
- Credit off-take by micro and small industries remains stagnant
- Net exports have shown little or no growth
- GDP growth is at a six-year low with the first quarter of FY20 registering just 5%
- Unemployment is at a 45-year-high

Recession:

- The technical term for the same is growth recession.
- A recession is defined in economics as three consecutive quarters of contraction in GDP. But since India is a large developing economy, contraction is a rarity.
- The last instance of negative growth for India was in 1979

Consumption:

- The growth of the Indian economy had been predominated by consumption inclusive of both Private Final Consumption Expenditure (PFCE) as well as the Government Final Consumption Expenditure (GFCE).
- The recent sharp fall in PFCE in the June quarter to 3.1 per cent compared to 7.2 per cent in the March quarter has significantly contributed to the recent slowdown.

Measures taken and their impacts:

- Recently announced bank mergers further disturb a major chunk of the banking system in the coming year.
- Recently announced package for the automobile sector or making banks pass on interest rate cuts to businesses have little impact.
- The announcement of a transfer of Rs 1.76 lakh crore from the RBI to the government will allow the government to maintain the fiscal deficit target at 3.3%. But, this will not provide the needed stimulus. (fiscal deficit today is 9%)
- Government revised GST for the automobile sector, opened up FDI in contract manufacturing sector and even announced the recapitalization of the banking sector.

Way forward:

Focus on optimum utilization of funds granted by RBI and direct them to boost investment in the economy both infrastructural and research investment.
Structural shifts over the long run can be achieved through tapping into the health and education sectors that long for quality improvements.