

Green Shoots of Economic Revival Visible As India Records Five-Quarter High Growth of 7.2%



After lagging behind for quite some time, Indian economy is back as one of the fastest growing major economies in the world. The third quarter data show that the Indian economy is well on the recovery track, after the twin jolts from demonetisation and the transitional hiccups of the new goods and services tax (GST). At 7.2%, gross domestic product (GDP) at constant prices clocked its best rate of expansion in five quarters—and a full 1.5 percentage points higher than the bottom hit during the first quarter of the current fiscal year. GDP growth has been rising for three consecutive quarters now. Read on to know more.

Economy is the method by which we prepare today to afford the improvements of tomorrow. This saying by 30th American President Calvin Coolidge is being

successfully lived by India. Our Economy, which is tenth-largest in the world by nominal GDP and the third-largest by purchasing power parity, remains irrefutably robust even in present times of irregular global growth.

(Contributed by Editorial Board Secretariat of ICAI. Comments can be sent at eboard@icai.in.)

Economy

Recently, the green shoots of Indian economic revival are growing thick and fast in the horizon of optimism. Showing signs of recovery and sustained turnaround, the Indian economy recorded a sectorally broad-based five-quarter high growth of 7.2 per cent in the October-December period as against 6.5 per cent in the previous quarter on good showing by key sectors like agriculture, construction and manufacturing, according to the second advanced estimates of the Central Statistics Office (CSO). With this, India is back as one of the fastest expanding major economies in the world surpassing China. China's GDP grew by 6.8% in the October-December quarter. The growth is expected to pick up more in the upcoming quarter driven by the government's commitment to implement structural reforms, and aided by higher growth in the industrial and services sectors as well as spending by the Centre. According to Economic Advisory Council, *"The GDP trends are consistent with the robust growth of the manufacturing, Purchasing Manager's Index (PMI), Index of Industrial Production (IIP) and consumer demand."*

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The recent Economic Survey had projected that a series of major reforms undertaken over the past year will allow real GDP growth to rise to 7.5% in FY19, thereby reinstating India as the world's fastest growing major economy. The International Monetary Fund also projects India's GDP to grow at 7.4% in FY19 and 7.8% in FY20.

the December quarter marks its return as the fastest growing major economy in the world. He says strong fixed capital growth also indicates that investment is picking up very well and agriculture and services have performed quite well. Manufacturing growth at 8.1 per cent and construction growth at 6.8 per cent, up from 2.8 per cent, and services growth of 7.7 per cent, from 7.1 per cent, confirm robust turnaround in economy.

Separately, the finance ministry said in a statement that robust growth in manufacturing and significant acceleration in construction in the third quarter of 2017-18 mark a turnaround in the country's economic growth momentum. Significantly, heralding an improvement in the investment climate, real gross fixed capital formation is estimated to grow at a robust 7.6 per cent for 2017-18, accelerating from 6.9 per cent in second quarter to 12 per cent in third quarter 2017-18, the Finance Ministry said. The overall economy is expected to grow at 6.6 per cent in the current fiscal ending March 31.

Experts point to the growth in gross fixed capital formation (GFCF) as a sign that investment, which has been a laggard, may be resurgent, although the slowing of private consumption was a concern. The recent numbers indicate that the economy has shaken off the effects of demonetisation and come to grips with the goods and services tax (GST). Sectors including cement, electricity, coal, refinery products and steel, indicate a strong start to the last quarter of FY18. The combined index of the eight core industries rose 6.7% in January 2018 compared with 4.2% in December 2017, according to data released separately by the government.

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However, the gross value addition (GVA), which is net of taxes, is not as good as GDP, underscoring the fact much more needs to be done in terms of sustainable growth.

As such, presently being one of the brightest spots in global economy with restored faith of foreign investors, a sustained upward growth trajectory is no longer a distant dream.

With opportunities come challenges. As such, the road ahead for Indian economy is also riddled with challenges and realisation of a series of healthy projections will depend on actual implementation and translation of reforms into higher growth. What has to be understood is that consolidating fiscal deficit is what establishes the credibility of any government. Deducting the subsidies is not a bad option to go on the consolidation track. Expenditures on subsidies should instead be directed towards productive investments such as education, infrastructure, health and other areas which could enhance growth. Further, domestic and foreign investments are not an option but an economic imperative for the government.

Inflation is rearing its head again, and the sharp recovery in the nominal growth numbers show that price pressures are building up in the Indian economy. The trade deficit has been growing rapidly, and the capital inflows needed to fund it could get disrupted in case US monetary policy gets tightened more than expected.

The macro-economic problem faced by India in the last 25 years has been that in spite of higher growth, poverty, mal-nourishment, unemployment etc. have persisted because of inequitable distribution of income. Over the years, India has witnessed a continuous fall in the share of agriculture in its GDP over more than a decade and this trend needs to be stopped sooner than later.

There is a great need for ensuring fiscal discipline in the economy. Further, the whole question of subsidy has to be revisited not in terms of its quantum but in terms of its beneficiaries. The genuineness of beneficiaries is more important than its quantum. To sustain such a growth rate for the longer term, the country will need to address issues like employability for the youth and boosting the rural economy.



The main challenges of our economy are to achieve 'inclusive growth' and eliminate 'economic inequalities'. The right combination is between a free economy and social policy that addresses the needs of society and creates equal opportunity. Today, as many as 37% of people in India live below the poverty line. According to World Bank estimate, 41.6% of India falls below the international poverty line of US\$ 1.25 a day.

The Union Budget 2018 has rightly focused on the challenges of the economy in the spirit of government's motto 'Sab ka saath, sab ka vikas'. Focusing more on rural economy, agricultural, healthcare, MSMEs and infrastructure and employment generation, this budget blends fiscal prudence with the requirements and needs to the economy.

We in India need reforms that can actually raise our sustainable long-term growth rate and ease the myriad rules and regulations that make doing business in India difficult. Here it is welcome that India has recently jumped 30 points to reach 100th position in Ease of Doing Business ranking.

In a major reform, India needs to move towards full capital account convertibility to become a leading global economy as the fuller convertibility would facilitate rapid growth through higher investment and improved efficiency in the financial sector through greater competition.

Quite clearly while the bigger picture is highly positive, there are several areas that need attention. The instant dream is to take the country into a double-digit growth trajectory. This dream is quite realisable, provided India unleashes its full potential and dares to challenge the challenges which have been restricting Indian growth engine from going full throttle. Here, the accountancy profession, which has strong presence in every quarter of economy, can play a crucial role in helping in Indian economy turnaround steadily. ■