GDP Growth

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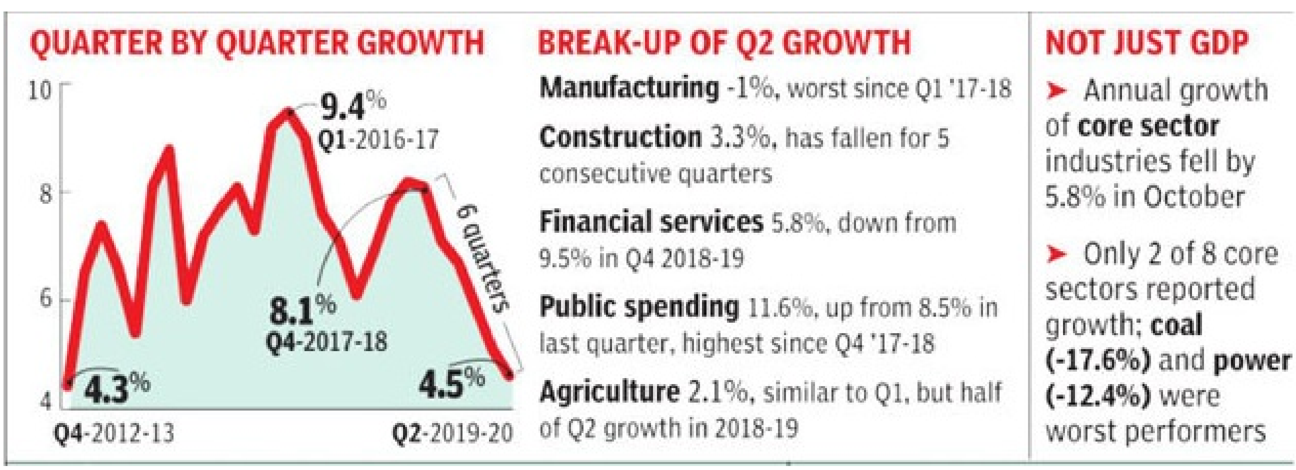
Why in News

As per the data released by the National Statistical Office, **India's Gross Domestic Product (GDP)** growth slipped to a 26-quarter low of **4.5%** in the second quarter (Q2 i.e. July-September) of the financial year 2019-20.

- The growth is the **lowest in six years and three months** with the previous low recorded at 4.3% during the January - March 2013.
- In terms of quarterly growth, **India has lost the tag of the fastest growing economy to China** which posted a growth of 6% in the September quarter.
- **Reasons for fall in growth include** contraction in manufacturing, weak investment, and lower consumption demand.
- The **global economy is also facing a slowdown** and this has hurt demand for India's exports, which have slumped in recent months.



Key Points

(in % / July-September)

As quarterly growth drops...

	2019-20	2018-19
Agriculture	2.1	4.9
Industry	0.5	6.7
Services	6.8	7.3
GDP	**4.5**	**7.0**

... will annual projections be realised?

Agency	% growth rate
Fitch	5.5
Moody's	5.8
OECD	5.9
World Bank	6.0
RBI	6.1
IMF	6.1
S&P	6.3

- Growth in **Gross Value Added (GVA) dipped** to 4.3% in Q2 of 2019-20 from 6.9% in Q2 of 2018-2019.
- **Manufacturing Sector Growth contracted** 1% as against 6.9% growth last year during the same quarter.
- **Agriculture, forestry and fishing sector** recorded a growth rate of 2.1% as against 4.9% last year.
- The **'Financial, Real Estate & Professional Services'** category saw growth slow to 5.8% in Q2 of 2019-20, compared with 7% in Q2 of the previous year.
- **Private final consumption expenditure,** the closest proxy in the data to a measure of **consumption demand,** grew 5.06% in Q2 of 2019-20 as against the growth of 9.79% in Q2 of the previous year.
- **Gross fixed capital formation,** which is a measure of the **level of investment** in the country by both the government and the private sector, grew only 1.02% in Q2 of 2019-20 as against the growth of 11.8% in Q2 of last year.

Recent Signs of Economic Slowdown

- The **collapse of IL&FS** in September 2018.
- The **financial sector is on the brink** as indicated by huge number of **Non-Performing Assets (NPAs).**

- Though the **Reserve Bank of India has cut the key policy rates (like Repo rate),** the banks have not transferred the same to the final consumers. Thus, the two critical needs of the industry i.e. **cost of credit and availability of credit,** have not been met fully.
    - The cumulative cut of 135 basis points by the RBI over the last nine months has translated into a meager 29 basis points (just over a fifth), with banks still retaining a huge spread.
    - Cost of credit continues to remain high for most companies and the worst affected are small and medium enterprises.

Way Forward

- The government should give a high priority to implementing measures to bolster manufacturing output and kick-start an upturn in the investment cycle.
- Accelerated spending by the government is another way out but this action would be opposite to the government's **fiscal deficit target of 3.3% of GDP.**

Note

- **Gross Value Added (GVA)** provides for value of the amount of goods and services that have been produced in a country, minus the cost of all inputs and raw materials that are directly attributable to that production. It is used to measure the output or contribution of a particular sector.
- **Gross Domestic Product (GDP)** is the single standard indicator used across the globe to indicate the health of a nation's economy. It is the sum of private consumption, gross investment in the economy, government investment, government spending and net foreign trade (difference between exports and imports).

Source: TH