

India's economy: Surprise on upside

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Introduction:

India's economy grew at a robust 7.6 per cent in the second quarter (July-September) of the year, surpassing the most optimistic expectations.

What was the expectation with Indian economy?

1. Most economists had pegged growth at between 6.5-7 per cent.
2. In fact, even the Reserve Bank of India had projected the economy to grow at 6.5 per cent in its October monetary policy committee meeting.

How sectors of Indian economy grew?

1. The agricultural sector has fared poorly. Growth has slipped from 3.5 per cent in the first quarter to 1.2 per cent in the second quarter.
2. That the outlook for the sector isn't promising for the second half of the year as well will have implications for rural demand.
3. Two, the industrial sector (including construction) has fared much better. It grew at 13.2 per cent in the second quarter, up from 5.5 per cent in the first quarter, buoyed by a favourable base effect, and healthy growth in manufacturing.
4. The manufacturing sector grew by 13.9 per cent, up from 4.7 per cent.
5. As per a report by economists at Bank of Baroda, even as sales growth was subdued, corporate profitability increased in the second quarter, in part due to lower commodity prices.
6. Construction has also fared well, growing by 13.3 per cent. Alongside, data released on Thursday showed that the index of eight core infrastructure sectors (including steel, cement and electricity, among others) grew on average at 10.5 per cent during July-October, up from 6.1 per cent during April-June.
7. Three, the services sector has slowed down.
8. It grew by 5.8 per cent in the second quarter, down from 10.3 per cent in the first quarter, dragged down by sluggish performance of trade, hotels, transport and communication and the financial, real estate and professional services sectors.
9. Private consumption has slowed down sharply from 6 per cent to 3.1 per cent, indicating continued weakness in segments of the population.
10. On the other hand, investment activity continued to be healthy, growing by 11 per cent in the second quarter.
11. Government spending also remains robust.
12. In fact, as per India Ratings and Research, the combined capex of the central government and 26 state governments grew by 26.7 per cent in the second quarter.

The growth prospectus in second half:

1. The overall economic momentum in the country is, however, expected to slow down in the second half of the year, in part, due to the possibility of a subpar performance in agriculture, tighter financial conditions, and the likelihood of government spending slowing towards the end of the year as the general elections approach.
2. Even the RBI's earlier projections had pointed towards economic momentum slowing down in the third and fourth quarters.

Conclusion:

India's GDP upswing shows a silver cloud with dark lining. The momentum of growth will slow down in second half. India must watch the agriculture sector, which is slowing down whole GDP growth rate in second half.



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