Caution ahead

Posted at: 11/01/2019

Election-season temptations for populist spending pose a challenge to the economy

- The first advance estimate of gross domestic product (GDP) growth for 2018-19 released by the Central Statistics Office paints a mixed picture of the economy.
- The GDP growth rate for the full year is projected to be at 7.2%, which is significantly higher than the growth rate of 6.7% achieved last year.
- Many sectors of the economy are projected to do better than they did last year in the aftermath of the twin shocks of demonetisation and the rollout of the Goods and Services Tax.
- Interestingly, the CSO's growth estimate for 2018-19 appears conservative and is lower than the estimates made by institutions such as the Reserve Bank of India and the World Bank.
- A worrying trend in the economic data is the recent sequential deceleration in growth over consecutive quarters.
- This sequential slowdown is expected to get reflected in the sectoral level data as well with sectors like manufacturing expected to slow down sharply in the second half of the year compared to the first half.
- On the brighter side, investment spending, which has ailed the economy for long, is expected to pick up finally.
- One of the significant near-term risks to the economy is the general election that is expected to be held in May.
- Regime uncertainty associated with the election may put a halt to the nascent pick-up witnessed in investments as corporations might decide to hold back on big ticket investments until things clear up.
- A major risk in the medium to long term is the absence of meaningful structural reforms that are necessary to increase economic productivity combined with populist policies that eventually damage the economy.
- Another perennial risk is the over-dependence on imported oil, which makes growth heavily dependent on external events often beyond the control of the government.

- With the fiscal deficit exceeding the Budget estimate by 15% in just the first eight months of the fiscal year, the government cannot crank up spending without severely affecting its finances, along with investor confidence in the economy.

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