# Risks remain :The spurt in economic growth is news, but the Centre must watch the fiscal deficit

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**Highlights**

The Indian economy grew at an impressive rate of 8.2% in the April-June quarter this year, its fastest pace in nine quarters, according to official GDP data released.

**Growth**

- The first quarter growth spurt was propped by strong performance in the manufacturing sector, which grew at 13.5%, after shrinking 1.8% in the first quarter last year, thanks to de-stocking by firms in the lead-up to the implementation of the Goods and Services Tax.
- The construction and agriculture sectors that grew just 1.8% and 3%, respectively, in Q1 in 2017-18, clocked growth rates of 8.7% and 5.3% in Q1 of 2018-19.
- While high frequency data points like auto sales and industrial output are in sync with these numbers, it must be remembered that this 8%-plus growth print can be attributed to the resolution of several GST transition problems, budgetary support to the rural economy and, in no small measure, the effect of a lower base last year.
- The economy had grown just 5.6% in Q1 of 2017-18, owing to the lingering effects of demonetisation and the impending implementation of GST from July 1, 2017.
- Government spending made a significant contribution to overall economic growth, witnessing a sizeable increase of about 10% compared to last year, helping boost gross fixed capital formation.
- The latest data marks a steady upward march in the economy over the past four quarters.
- The 8.2% figure couldn't have come at a better time for the Modi government.

**Quality Of Growth**

- But some of Finance Minister Arun Jaitley's points to discredit the quality of growth under the UPA — for instance, that it compromised on the fiscal and current account deficits and led to spiralling inflation — are emerging as key risks for the economy again.
- Just over 86% of the budgeted fiscal deficit target for the current financial year has been reached within the first quarter; GST collections, after a slew of rate cuts to spur consumption, have dipped to about Rs.94,000 crore in August.
- The falling rupee, oil price trends and the expanding current account deficit are equally worrying, as is the Reserve Bank of India's expectation of a rise in inflation in the latter half of this year.

- Also, growth in the services sector has decelerated from last year's levels.
- The 'normalcy' of this monsoon is marred by wide regional variations.
- In such a scenario, the RBI, which has already raised interest rates twice in the last three months, is unlikely to adopt an easy money policy that is congenial to growth.
- India remains the world's fastest growing large economy.
- But it needs to grow even faster to spur job creation. The focus must be on sorting out vital economic indicators that are far from perfect.
- Sustaining an 8%-plus growth rate needs more pro-active policy-making and a continuous pursuit of well-crafted reforms.

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