



The Upward Push

Posted at: 09/08/2018

Highlights

Macroeconomic Scenario

- India's growth rate at around 7 per cent annual makes it a high growth economy.
- But the inflation rate is just below 5 per cent and is expected to stay there.
- This then means the interest rate has to be kept at around 7 per cent.
- The RBI refuses to take chances and at that rate the inflow of funds is maintained with occasional hiccups because nowhere are such returns available.
- With the late monsoon, sowings are down and the yield effect will be two per cent.
- The MSP increase was moderately good as compared to last year apart from cane, where the fall was hidden by changing the accounting recovery rate: A maneuver which didn't impress anyone.

Issues

- The terms of trade are again moving against agriculture, a trend which M S Swaminathan had in his Farmers Commission used to recommend a more inclusive cost formula.
- An economic commentator advising the government has chastised others and the larger business community for using current prices — gross investment series show a fall from 31.3 per cent of GDP to 28.5 per cent calling it a fake analysis.
- The investment share in GDP in real terms (2011/2012 prices) was 34.3 per cent in FY 2012, 32.6 per cent in FY 2014 and after reaching a low of 30.3 per cent in FY 2016 is now back at 31.4 per cent
- The real issue is whether India can raise investment levels back to around 34 per cent of GDP, which the Niti Aayog has been wanting.
- The delayed monsoon and the spike in food prices necessitated that the interest rate is kept high.
- While the GDP from the manufacturing sector has been showing a reasonable rate of growth, the index of industrial production is again stuttering.
- Public investment shares have fallen more and the decline in private investments has been relatively less.
- India seems to be at a stage where an increase in infrastructure spending by raising fixed capital formation in the public sector will push the economy to a higher growth path.

India needs to reinforce faith in the competitiveness of labour intensive Indian exports and skills that underline them. But the more important issue is nudging the macro economy upwards.

Source: [The Indian express](#)