

With acceleration in economic activity, GDP seen touching 7.4% in FY19

OUR BUREAU

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Incoming data related to monsoon, agricultural production and industry show favourable conditions for an acceleration of activity in the Indian economy, the Reserve Bank of India said in its latest annual report.

Keeping in view the evolving economic conditions, the real GDP growth for 2018-19 is expected to increase to 7.4 per cent from 6.7 per cent in the previous year with risks evenly balanced, it added.

"The initial lull in the progress of the south-west monsoon got reversed, including in the spatial dispersion and, in response, cropping gaps are closing. Overall, agricultural production is likely to remain strong for the third

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consecutive year. "Meanwhile, growth impulses in industry are strengthening, propelled by a sustained pick-up in manufacturing and mining activity, especially coal," the RBI said.

Sales growth

The central bank observed that corporates are reporting robust sales growth and improvement in profitability as pricing power returns. Services sector activity is also set

to gather pace as high-frequency indicators suggest.

Revenue-earning freight traffic of railways has picked up, driven by stepped-up movement in coal, fertiliser and cement. The uptrend in construction is expected to continue, going forward, given the government's push for infrastructure - affordable housing, roads and ports - and the robust expansion in the production of cement.

The report elaborated that underlying this reinvigoration in economic activity is the steady expansion in aggregate demand, fuelled by consumption (both urban and rural), investment and exports.

"Over the rest of 2018-19, the acceleration of growth that commenced in 2017-18:H2 is expected to be consolidated



Agricultural production in the country is likely to remain strong for the third consecutive year

and built upon," it said.

The report said that although real GDP growth in 2017-18 was somewhat slower than in the preceding year,

the turnaround in capital formation and construction activity, together with record agricultural production, considerably brightens the near-

term outlook. "The combination of (i) a steady easing of inflation for the fifth year in succession to undershoot the target in 2017-18, (ii) a modest

current account deficit of 1.9 per cent of GDP, and (iii) public finances having sturdily weathered the implementation of a major structural reform - the Goods and Services Tax (GST), reinforces the prospects for 2018-19," the RBI said.

On the downside, the firming profile of international commodity prices - especially crude oil, spillovers from tightening global financial conditions, geo-political tensions, trade wars stirring up across borders, financial turbulence and the overhang of impairment in domestic banking and corporate balance sheets - emerge as the key downside risks.

The central bank feels that the stage is set for the intensification of structural reforms that will unlock new growth

energies and place the Indian economy on a sustainable trajectory of higher growth.

Resolute progress in repairing and resolving the acute stress in the banking system, and in shoring up corporate debt will re-intermediate financial flows for productive purposes, which are essential for sustaining an acceleration in growth with macroeconomic and financial stability.

"Over the medium term, the pace and quality of growth will be anchored by progress on the unfinished agenda of structural reforms in, *inter alia*, resolution of banking and corporate financial stress; taxation; agriculture; liberalisation of the economy's external interface, especially with FDI; and galvanising the business environment."