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THE 8.2% MESSAGE

A recovery seems underway. But private investment is yet to pick up, and all engines of growth are still to fire

THE NARENDRA MODI government has got a leg up on the fiscal front with the GDP growing at 8.2 per cent in the April to June quarter of FY 19 compared to 5.6 per cent in the first quarter of the previous year. The spurt in growth in the past quarter, after eight quarters, marked by a rise in manufacturing and construction, may be because it comes off a low base last year. Yet, clearly, there seems to be a recovery underway. The economy now seems to have slowly shrugged off the impact of two disruptive moves — the withdrawal of high value notes or demonetisation in November 2016 and the introduction of the Goods and Services Tax in July 2017 which is reflected in the growth of 13.5 per cent in the manufacturing sector and higher private consumption spending at 8.6 per cent in the April-June quarter.

One of the growth drivers has been public spending. But there are worry lines. For one, maintaining this growth over the next few quarters on a higher base will be difficult, especially with the farm sector clocking a single digit growth of 7 per cent in nominal terms for the fifth successive quarter. Besides, household inflation expectations measured by the RBI in its survey have risen significantly in the last two rounds, which the central bank reckons could influence actual outcomes in the next few months. Add to that rising oil prices and a weak rupee, and it could mean that borrowing costs could go up further and cloud the growth outlook. India's top banks have already revised their lending rates and many economists and forecasters are factoring in another rate hike this fiscal. That would be a dampener for private investment, which is key to a full revival of the economy and for maintaining the growth momentum over this fiscal and beyond and more importantly for creating more jobs. Higher interest rates announced by the top lenders will also put a brake on private consumption spending.

The government may be able to draw comfort in the upcoming quarters from an improvement in capacity utilisation by firms, spending on infrastructure, specially roads, and the fact that the clean-up of bank balance-sheets could slowly start to show results later this fiscal. With private investment yet to pick up and all the engines of growth yet to fire, poll-bound governments may be tempted to splurge. But there is limited leeway. The government must be mindful of the downside.