

Watering the green shoots

• [C. Rangarajan](#)



More than ever, non-economic factors will play a key role in determining whether the investment sentiment is sustained or not. Policymakers need to be conscious of this, and keep away from divisive and disruptive issues

We are now in the middle of the fiscal 2016-17. The main monsoon is also over. This is an appropriate time to take a look at the economy and assess where we are headed. Two important questions that spring up are: are there green shoots which show a decisive revival of the economy, and have we laid the foundation for a faster rate of growth of the economy in the medium term?

In analysing the trends in the economy, we continue to be plagued by conflicting sets of data. National income data are available only for the first quarter (April-June). These data show that GDP grew by 7.1 per cent and that value added in manufacturing grew by 9.1 per cent. However, according to the Index of Industrial Production (IIP) during this quarter, manufacturing fell by 0.6 per cent. The Central Statistics Office (CSO) now uses IIP data for measuring only a small segment of manufacturing. It uses the corporate data for estimating 75 per cent of the manufacturing sector. While one cannot fault the CSO for the new methodology, it has to carefully cross check the data it relies upon. Analysts need some amount of reassurance from the CSO. All the same, an attempt can be made to find out whether the current year will be better than the last year by looking at the performance of different segments.

Agricultural production



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Looking at the problem from the supply side, the one segment that will do better is agriculture. This is based purely on the better performance of the monsoon. In the short run, rainfall is an important factor influencing agricultural production. The rainfall during the monsoon over the country as a whole was 97 per cent of the long period average (LPA). This is somewhat lower than what was originally predicted. But this is distinctly better than last year when the rainfall was only 86 per cent of LPA. The Southwest Monsoon rainfall in the current year is 100 mm higher than last year, which is approximately 13 per cent higher than last year. Based on a study of the impact of rainfall on agricultural production, this should lead to an increase in value added in agricultural and allied activities by 2.7 per cent.

Demand side perspective

From the demand side, there are four elements that we need to examine: private consumption expenditure, government expenditure particularly on investment, private investment particularly corporate investment, and external demand. As far as private consumption expenditure is concerned, a major factor contributing to a push is the implementation of the recommendations of the Seventh Pay Commission. Government's salary and pension expenditures are expected to rise by 20 per cent. As those recommendations were made effective only from August 2016, the impact on the production of consumption goods will be seen only in the second half. There is evidence of some sectors like two-wheelers growing fast. The impact of the good monsoon on rural demand may also show up in the second half.

Total Central government expenditures in the first half were 52.0 per cent of the budgeted expenditures for the year. This is only a shade higher than previous year. Capital expenditures have shown a rise of 4.6 per cent over the previous year. Increase in capital expenditures is welcome as they lead to greater investment. In September 2016, capital expenditures grew by 20 per cent on year-on-year basis. However, this was mainly due to the increase in loans disbursed. It is to be noted that the bulk of the public investment comes from public sector enterprises. As of now, there is no information how much additional investment has been made by PSUs. Roads and railways seem to be doing well.

The third important segment is corporate investment. In the last several years corporate investment has been roughly one-third of the total Gross Fixed Capital Formation. Therefore it is critical to watch its behaviour. The Reserve Bank of India has been making a forecast of



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