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# The mirage of Indian economic recovery

D Narayana

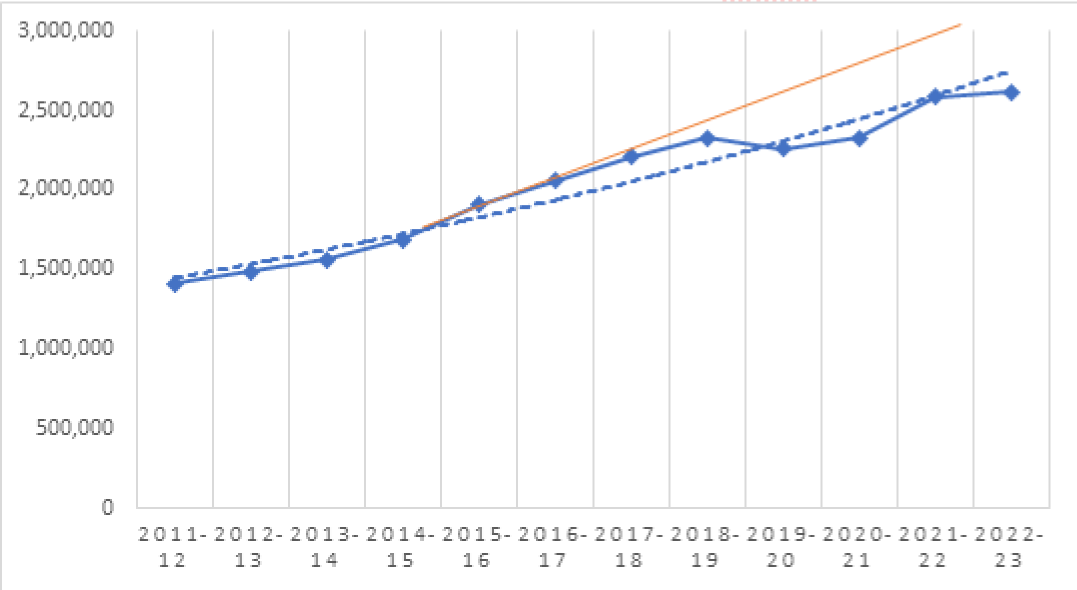
Former Director of Gulati Institute of Finance and Taxation, Thiruvananthapuram

Recent growth projections of the global economy suggest weaker outlook for 2023 and 2024 despite the easing of food and energy inflation. Private investment remains subdued even when newer opportunities have opened up in the renewable energy and digitilisation spheres. In this uncertain global environment, India, official sources assert, "has experienced macroeconomic and financial stability with a steady pick up in the momentum of growth" (RBI, 2023: pp.1-2). They congratulate themselves taking credit for it in the sound macroeconomic policy and resilience of the economy. See the recent speech of the Chief Economic Adviser: "Both the ministry of finance and the RBI are on the same page with the growth forecast for the current fiscal which is 6.5% with risks evenly balanced. The domestic economic growth momentum is strong enough to overcome external risk factors". Continuing on the same theme he said, "We also benefit from lower oil prices and overall domestic macroeconomic stability" (The Hindu, 11 June 2023). A critical look at the claim of growth momentum is in order as the GDP growth numbers for the year 2022-23 are just out.

We adopt a simple method to assess the claims of growth recovery. It is worth recalling that in a number of economic sectors growth had begun decelerating since 2016-17; it was not a phenomenon that occurred during the COVID 19 year. If recovery is taking place, then the growth rate over the period 2011-12 to 2022-23 should be equal to or higher than the growth rate achieved during 2011-12 to 2016-17. This can be illustrated by comparing the value added in constant prices of Indian manufacturing sector with electricity, gas and water supply or construction sectors. If growth had not decelerated since 2016-17, then the path of the manufacturing sector would have been as shown by the red line in Figure 1. The deceleration in growth, the COVID 19 effect and the low growth post COVID 19 has pulled the trend line below the red line suggesting that the sector has a long way to go for recovery. Taking the slopes of the lines, that are the growth rates, it may be seen that the compound annual growth rate was 8.02 per cent during 2011-12 to 2016-17 and it has fallen to 6.02 per cent during

2011-12 to 2022-23 owing to the deceleration despite the so-called recovery from COVID 19 (Table 1). It has to remain above 8 per cent for a few years to surpass the growth of the first half of 2010s. These are confirmed by the growth numbers shown in Table 1.

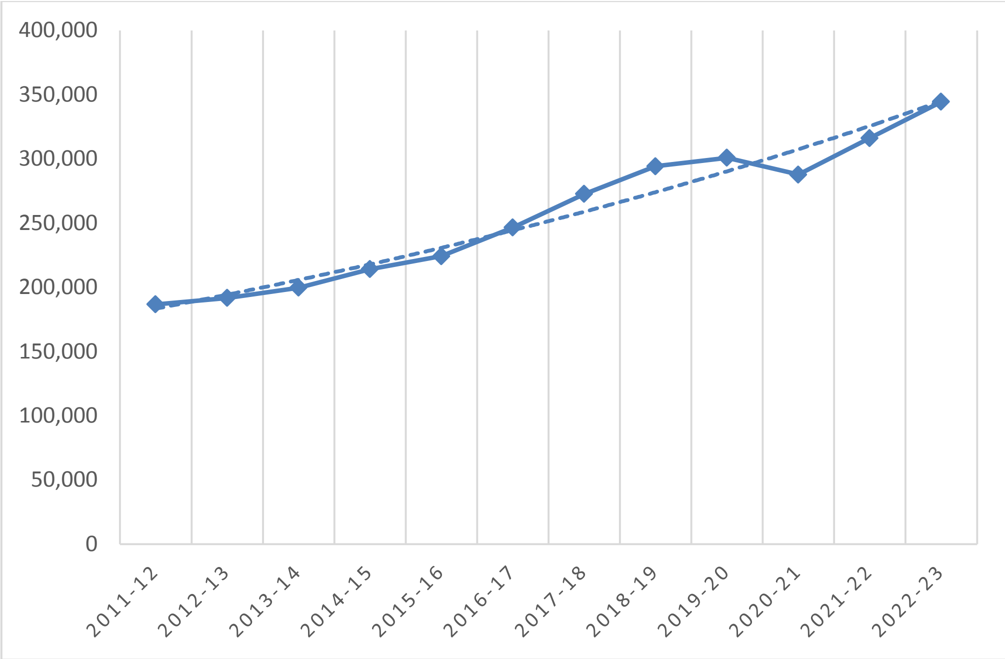
**Figure 1.** Manufacturing Value Added (Rs crore)




*Source: MOSPI, Second Advance Estimates of National Income and Expenditure Components of GDP, 2022-23 (at 2011-12 prices); Provisional Estimates, 2022-23.*

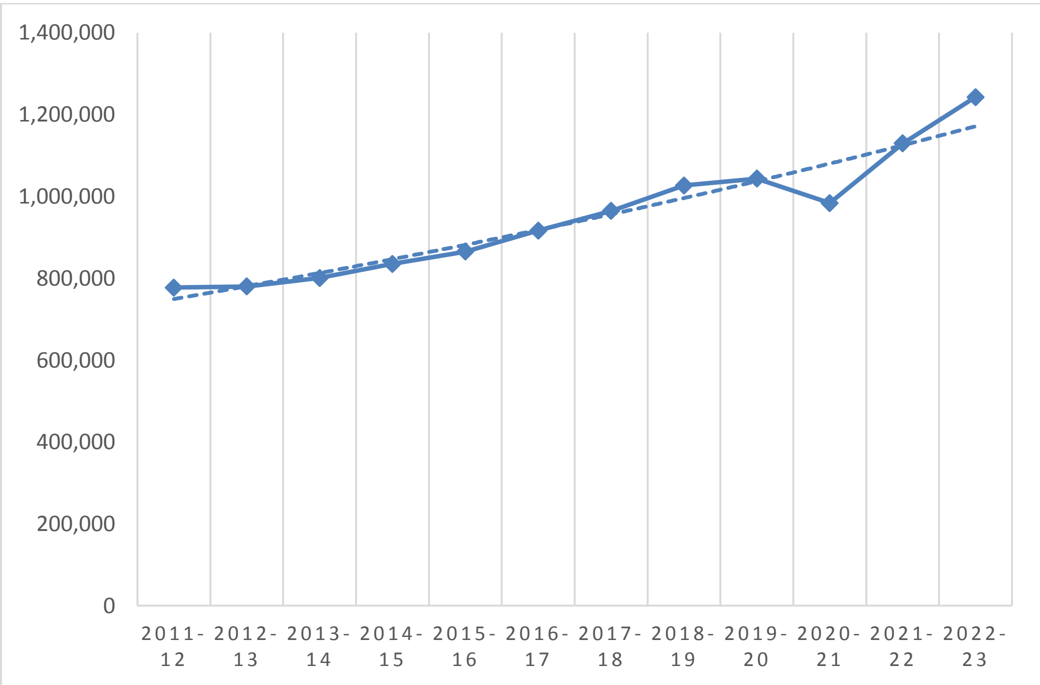
Let us contrast the growth paths of electricity, gas, water supply and other utilities, and construction (Figures 2 and 3) with that of manufacturing (Figure 1). The fall in growth during COVID 19 (2020-21) in these two sectors were higher than that in manufacturing. Despite the higher negative effect of COVID, in both these sectors the long term growth rates have surpassed the growth till 2016-17. It may be said that the utility and construction sectors have fully recovered but not manufacturing. The growth rates shown in Table 1 further confirm it. In electricity, gas and utilities the long term growth at 5.91 per cent is higher than that till 2016-17 at 5.67 per cent and in construction, the long term growth is 4.14 per cent and that till 2016-17 only 3.42 per cent.

**Figure 2.** Electricity, Gas, Water Supply and Other Utilities Value Added (Rs crore)




*Source: Same as Figure 1.*

**Figure 3.** Construction (Rs crore)




*Source: Same as Figure 1.*

**Figure 4**. Mining and Quarrying (Rs crore)

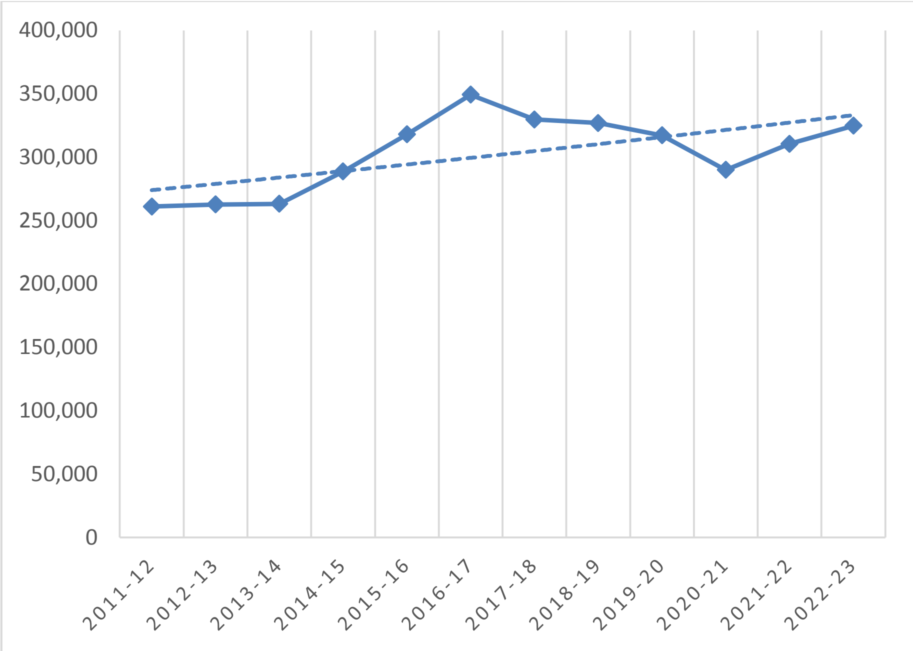
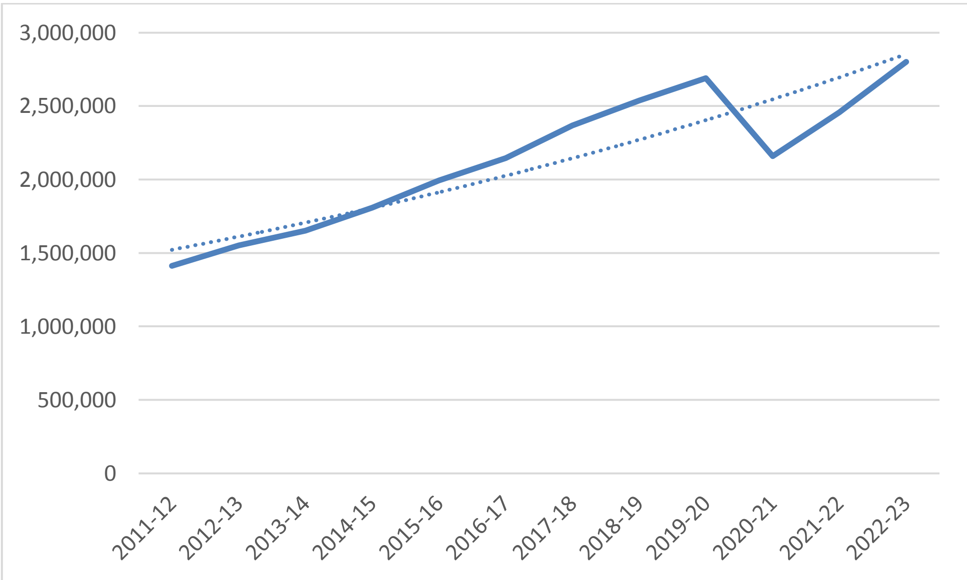



**Figure 5.** Trade, Hotels and Transport etc




It may be seen from Figures 4 to 7 that except for the two sectors of electricity, gas and utilities, and construction growth recovery has not been witnessed. The worst performer is mining and quarrying where growth deceleration has been deep since 2016-17, the COVID 19 pushing the levels of value added to that of 2014-15. In 2022-23, the level achieved in 2015-16 has just been crossed. The long-term growth at 1.79 per cent is way below that till 2016-17 at 6.25 per cent. All other major sectors too show similar gaps in growth rates

(Table 1). Surprisingly, public administration and defence too has not fully recovered, the gap in growth rates being 0.5 percentage point. In the two major sectors, namely trade, hotels, transport and communication, and financial, real estate and professional services accounting for more than 40 per cent of the total value added, the long term growth rates are still around 3 percentage points lower than the high growth till 2016-17. It is the poor recovery of the major sectors that has resulted in the long term growth rate of Gross Value Added at 5.55 per cent being 1.42 percentage points lower than the growth rate of the first five years of the last decade.

**Figure 6.** Financial Services, Real Estate and Professional Services (Rs crore)

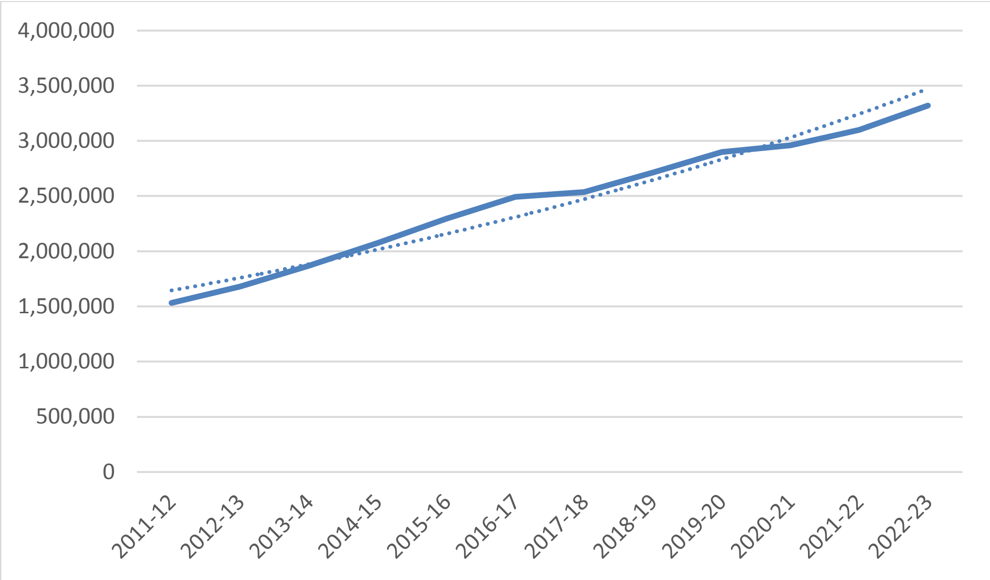



**Figure 7.** Public Administration, Defence and Other Services (Rs crore)

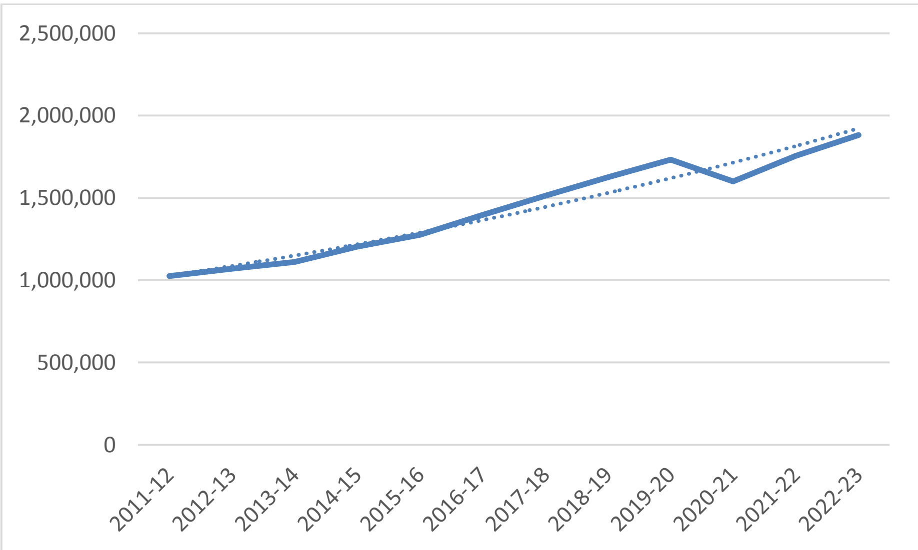


**Table 1.** Compound Annual Growth Rates of the Industrial Sectors in India

| Industry | Compound Annual Growth Rates (%) | |
|---|---|---|
| | 2011-12 to 2016-17 | 2011-12 to 2022-23 |
| Agriculture, Forestry and Fishing | 2.51 | 3.06 |
| Mining and Quarrying | 6.25 | 1.79 |
| Manufacturing | 8.02 | 6.02 |
| Electricity, Gas, Water Supply and Other Utility Services | 5.67 | 5.91 |
| Construction | 3.42 | 4.14 |
| Trade, Hotels, Transport, Communication and Services Related to Broadcasting | 9.28 | 6.72 |
| Financial, Real Estate and Professional Services | 10.45 | 7.03 |
| Public Administration, Defence and Other Services | 6.34 | 5.87 |
| GVA at Basic Prices | 6.97 | 5.55 |
| *Source: Same as Figure 1* | | |

It is too early to say that Indian economic growth has picked up momentum. The three major sectors of the economy, namely manufacturing, trade, hotels, transport and communications and financial, real estate and professional services accounting for over 60 percent of the economy are yet to see the vitality of the mid years of the last decade. Some pondering over the question of deceleration of the economy in the pre-COVID period would do us some good.

## References

Reserve Bank of India, *Annual Report 2022-23,* Reserve Bank of India, Mumbai.

## Acknowledgement

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