2. GDP slump will hit $5-Trillion Economy Target

Prelims Level: Growth, Development, National

Mains Level: GS-III Indian Economy and Issues Relating to Planning, Mobilization of Resources, Growth, Development and Employment.

Why in News?

- NITI Aayog has warned the Government that GDP slump will hit $5-trillion economy target.

What did NITI Aayog said?

- The nominal GDP growth — a measure of growth without accounting for inflation — has to be at least 12.4% on an average if that target has to be reached but the current rate was a mere 8% in the first quarter of the current financial year.
- Experts estimate that growth will dip in Q2 compared to Q1 in both real and nominal terms.
- For example, while GDP growth in real terms in Q1 stood at 5%, state-run lender State Bank of India recently estimated that this could dip to 4.2% in Q2, with a corresponding dip in nominal growth as well.
- "Domestic investment and consumption" are the only dependable drivers for sustainable re-acceleration of the economy.
- However a deceleration in investment is visible, primarily in the household sector, due almost entirely to real estate.
- Gross fixed capital formation in the sub-sector of 'dwellings, other buildings and structures' fell from 12.8% of GDP in 2011-12 to 6.9% in 2017-18.
- The slowdown in the domestic market is also because of limited availability of capital with the banks which are tied down due to high non-performing assets in heavy industry and infrastructure.
- In the power sector, there is a high cross-subsidization in favour of residential tariff leading to very high industrial tariffs.
- The electric power transmission and distribution (T&D) losses in India stand at 19%, higher than that of Bangladesh and Vietnam.

What are the Implications?

- The presentation flagged the urgent need to focus on export of high-value technology and manufacturing goods instead of primary goods currently exported.

- Citing an example, the NITI Aayog chief said 98% of phones exported by India are in the low-value category, to the Middle East and Africa.
- There has been a sharp decline in exports in the textiles from 2017 onwards, according to the presentation.
- Several financial experts have blamed the decline on the November 2016 decision to demonetize high value currency that drained vital liquidity out of the cash-dependent textile market.