It's not 'K': CEA says urban recovery faster than rural

Data for the third quarter of FY23 may be revised upwards: Nageswaran

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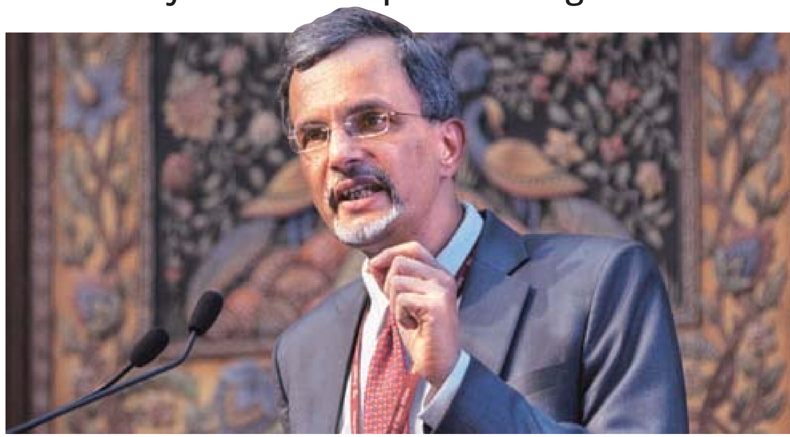

Chief Economic Advisor (CEA) V Anantha Nageswaran on Thursday said describing India's recovery as 'K-shaped' was wrong as both rural and urban economies were recovering, albeit at different paces.

Speaking to reporters at the Finance Ministry, Nageswaran said the gross domestic product (GDP) growth print for the recent October-December quarter (Q3FY23) will likely be revised upwards.

"The notion of using the letter 'K' to denote urban and rural is somewhat wrong because it is almost as if one is growing and one is contracting. I would say one segment's slope is more positive, and the other one slope is less positive but it is positive," Nageswaran said.

A K-shaped recovery is when different segments of the economy experience different rates of recovery after a recession. Many economists have described India's post-pandemic recovery as K-shaped, contending that while the urban consumption has come back, rural demand hasn't as much.

"We have a recovery where urban recovery is proceeding at a faster pace than rural recovery. You can't say that rural recovery is not happening and urban recovery is happening. The speed is different," Nageswaran said, adding that rural-focused high frequency indicators like two-wheeler and tractor sales were also showing healthy growth.

India's economy grew at a weaker than expected 4.4 per cent in Q3 amid wide revisions to earlier GDP figures, as manufacturing output contracted for the second consecutive quarter and consumer demand slowed. A survey of 41 professional forecasters by the Reserve Bank of India (RBI) earlier this month pegged median GDP growth at 4.6 per cent for Q3. However, the RBI projected December-quarter GDP growth at 4.4 per cent.

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> **V Anantha Nageswaran**
> Chief Economic Advisor

According to the second Advance Estimates data, released by the NSO on Tuesday, nominal GDP for FY23 is estimated at ₹272 trillion, assuming 15.9 per cent growth, a tad lower than the first advance estimates of ₹273 trillion.

On Wednesday, Nageswaran said the Q3 figures came across as tepid only due to revisions made in earlier years, and had to be analysed in that context.

"Given the high frequency data that we have been seeing, and their pace of recovery, it is likely that data for the current year's third quarter will undergo upward revision," Nageswaran told reporters on Thursday, and added that the latest data was based on incomplete print, especially since quarterly data in India is not seasonally adjusted. He said the same would be true if any previous year's data were to be revised downwards, and the comparison would have an exaggerated upside.

Nageswaran said to get to 7 per cent GDP growth in FY23, Q4 will have to register 5.1 per cent real GDP growth. "Even if we get 4.4 per cent in Q4, the same as Q3, the growth for FY23 will be 6.8 per cent, which is well within the statistical margin of error," he said. The CEA said there was still pent-up demand in the system, as in the past three years, India had been growing below potential.