Surprise GDP surge driven by more than one factor, says CEA

8.4% growth largely due to base effect of subsidies: Nageswaran

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India's 8 per cent-plus growth last quarter was driven by more than just one-off factors, the government's top economic adviser said, after economists pointed out that the data masked slowing underlying momentum.

The surprise 8.4 per cent surge in gross domestic product was largely due to base effects related to subsidies, which boosted the net indirect tax category, Chief Economic Adviser V Anantha Nageswaran said in an interview on Thursday.

Even so, growth of about 8 per cent in the previous two quarters, and high frequency indicators are "pointing to the fact that it is not because of this one-off boost coming from indirect taxes" alone, he said. "There is underlying and intrinsic momentum in the economy."

The distortion in the gross domestic product data was highlighted by many economists, who said it concealed a slowdown in activity. They pointed to gross value added, which excludes net indirect taxes, as a better measure of underlying momentum, showing a slowdown to 6.5 per cent in the quarter. India's "optimal" GDP growth rate is 7 per cent, but the "desirable" rate is 8 per cent, Nageswaran said. Achieving that growth would require a number of economic reforms, some of which are "low-hanging fruit," he said, such as implementing labor and land policies. That could "sustainably take us closer to 8 per cent," he said.

Nageswaran said the government's official growth forecast of 7.6 per cent for the current financial year ending in March was probably too conservative. The forecast implies GDP would expand 5.9 per cent in the current quarter, which is "unrealistic," he said. Growth "will be higher than that," he added.

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V ANANTHA NAGESWARAN
Chief economic advisor