Causes for the Present Slowdown in the Indian Economy

Much has been written and said about the ongoing economic slowdown in the Indian Economy. What was being indirectly said about several economic indicators flashing warning signals for the last year or so, what has triggered the present criticism is the GDP (Gross Domestic Product) figures for the last quarter which came in at 5.7% and suddenly brought the issue into a full public glare.

Indeed, given the fact that India was touted as the Fastest Growing Developing Country for the last two years, the slowdown has also caught many of those making such claims by surprise.

Collapse in Private Consumption and Investment Freeze Leading to Double Whammy

So, what are the reasons for the present slowdown in the Indian Economy? To start with, private consumption has taken a beating due to Demonetization as consumers suddenly prefer to hoard cash or keep it in the bank instead of spending on consumer goods.

Moreover, demand has also collapsed in the rural areas as the entire rural economy runs on cash and Demonetization led to the loss of jobs as well as incomes thereby squeezing the rural consumer who now prefers to wait and watch as well as postpone consumption except that of essential goods and services.

Next, Demonetization has also led to small and medium businesses or the so-called SMEs to withhold investment since they too operate on a cash basis and the cash crunch has left them high and dry.

The Effect of Demonetization

Indeed, Demonetization can be said to have contributed too much of the slowdown as the Double Whammy of demand collapsing, and supply bottlenecks mean that there is a broad slowdown across the entire value chain of the demand and supply dynamics.

Thus, what we have is a situation wherein cash has dried up leading to a slowdown in the economy.

One must also take note of the fact that it is not only private consumption and small enterprises causing the slowdown.

Indeed, the Big Corporates are as much to blame since they are drowning in debt that they accumulated during the Boom Years of the first decade of the 21st century.

It is also a fact that this has contributed to a freeze on investment by industrial houses and corporates who are now paying down the debt or postponing debt repayments to ensure that their present cash flow is sufficient to remain in business.

Too Much Debt

Added to this is the fact that most Public Sector Banks are saddled with high NPAs or Non Performing Assets that have resulted in them tightening lending and instead, seeking deposits and otherwise repairing their balance sheets by making provisions for Bad Loans.

Indeed, absent recapitalization of such banks by the government, one might very well see a vicious cycle wherein bad debts and demand collapse lead to no lending and no fresh investment in addition to any consumption.

The cycle has to be broken somewhere, and this is where the Government and the RBI or the Reserve Bank of India have to take concerted action.

Rollout of GST

Fourth, the fact that the rollout of the GST or the Goods and Services Tax on a nationwide basis has led to the slowdown cannot be denied.

Indeed, GST has hampered the small businesses more than Demonetization by forcing them to withhold inventory until they migrate to the GSTN or the GST Network and become compliant with the numerous rules and regulations that are part of this tax.

It can be said that the implementation of GST is also flawed thereby exacerbating some of the factors that have contributed to the slowdown.

Global Slowdown

It is not these factors alone, and the most important factor is that there is also a global economic slowdown that is happening and given the fact that India is a net commodity exporter, there has been a slump in the volumes of exports.

Apart from that, the global slowdown has also been accompanied by a retreat of globalization which has resulted in FDI or Foreign Direct Investment being only in the areas of speculative finance and distressed assets purchases rather than into investments that help the Real Economy.

Thus, it can be said that ongoing global headwinds also have contributed to the slowdown in the Indian Economy.

Retreat of Globalization

Hence, what the slowdown means for professionals and fresh graduates is that they would be finding it harder to land jobs as well as see their salaries rise year on year basis. In addition, the policies of the Trump Administration have contributed to a decline in the number of students and professionals going to the United States and added to this, Brexit uncertainties have compounded the situation.

It looks as though that the combined effect of all these factors means that the Indian Economy is likely to remain in the doldrums for some time to come.

Ride out the Storm

Lastly, the slowdown is also part of a longer-term structural shift wherein the Economy is shifting gears from the high investment era to a low investment era as well as a transition from being cash-driven economy to a digitally enabled economy.

Indeed, this can be seen most in the Real Estate Sector that has come to a grind in recent months and hence, has also contributed to the slowdown. All in all, all the factors have caused a Perfect Storm for the Indian Economy, and there has to be a time lag before one can reasonably and realistically expect a turnaround.

To conclude, the best option now for all stakeholders would be to Ride out the Storm.

Indian Economic Slowdown: A long term problem, how to come out of it?

With an aim to acquire USD five trillion economy status, India has to consistently achieve a minimum of 9%+ growth rate for next five years. On the other hand economic indicators reflect that the GDP growth of India has gone down to almost five percent in the first quarter of financial year 2019-20. Many sectors that contribute to the Indian Economy's growth path, like Automobile, Real estate, FMCG, Manufacturing, Agriculture are lagging behind in achieving desired growth rate and jobs in these sectors are not only going down but are also trimmed.

To become a USD five trillion economy in 2025, India must achieve USD 3.3 trillion economy status by 2021; USD 3.6 trillion economy status by 2022; USD 4.1 trillion economy status by 2023; USD 4.5 trillion status by 2024 and USD 5 trillion economy status in 2025. However, the current trends and prospects do not favour this dream.

Recent Slow Down of Indian Economy: Impact is Prominent

The GDP growth of Indian Economy has touched the six year low in the first financial quarter of April-June 2020. It touched 5.8% growth in January-March, although in nominal terms India's GDP grew by 7.99% which is also lowest since December 2002. Key sectors bearing the brunt of Indian Economy slow down are Agriculture, Automobile, Real Estate, FMCG among others.

The $100 billion automobile industry that employs 370 lakh people and contributes 12% to the national GDP, is suffering from huge slow down. Around 3 lakhs jobs are lost, Sales have gone down and the automobile industry appears to be going in reverse gear.

The official data released by the National Statistics Office (NSO) confirm that. Weaker consumer demand and slowing private investments are the two key factors behind the Indian Economy Slow Down.

Eight core sectors have registered negative growth of just 2.1% in July, compared to 7.3% in the corresponding month last year. According to the Centre for Monitoring Indian Economy (CMIE), the overall unemployment in India has now touched 8.2%, with a high urban figure of 9.4%.

FPIs have pulled out a net amount of Rs 5,920 crore even after the government announced a rollback of enhanced surcharge on FPIs. All the sectors need huge investments and remedial measures to increase the demand to improve and take India out of the state of economic slow down.

Indian Economy, no doubt is passing through a sluggish economic growth since 2016 post demonetization as compared to earlier years, although efforts are being made to improve the Indian Economy's growth to achieve the rate which may not be considered as very slow.

Government however, is of the opinion that India's economy has a better growth rate amidst global economic slowdown, if we go by the global economic growth standards. **Indian Economy Slow Down: The facts and background**

India's Economic growth has slowed for 5 consecutive quarters beginning from late 2015-16 onwards. Now growth is slower than it was in the quarter in which The Modi Government assumed office. It could be serious blow for a government that had promised to turn around the economy through decisive governance.

India's GDP growth has gone down from a high of 9.2% in third Quarter of the year 2016 to 5.7% in current 4^{th}quarter of 2017. The economic growth rate is probably the slowest in last many years. However, Indian Economy as per global standard is not in recessionary stage. The UK and the European Union consider an economy in recession only when real GDP growth actually turns negative over two consecutive quarters and by this criterion, with a positive growth rate of 5.7%, Indian economy is far off from being in a recession.

All four contributors to economic growth – domestic consumption, foreign consumption or exports, private investment and government spending – are hit by the slowdown. In the first quarter of this fiscal year, domestic consumption fell to 6.66% as against 8.41% in the same period last fiscal; exports as a share of the Gross Domestic Product was down to 19% from 20%; and fixed capital formation decreased from about 31% of the GDP to 29.8%, signalling a slowdown in the industry as well.

Causes of Economic slow down

The cause of the problem as shared by some of the experts consists of supply-side shocks. Besides, three important contributors to this problem include Demonetisation & stressed banking sector, GST Implementation and problems in Agriculture sector.

The public goods are provided by government and the government needs tax revenues to supply them, and these depend upon national income. Then there is employment. A demand for labour exists only when there is a demand for goods. So growth is necessary if employment is to be assured.

There is not only a pool of unemployed persons in India to absorb but the country also needs to provide employment to youth continuously entering the labour force. The slowing of the economy is a source of concern as an economy that has been slowing for five quarters is unlikely to turn around quickly. Besides, it may not be able to revive on its own.

No demand - No Investment: Vicious Circle operates
Since it is capital formation, or investment, that drives growth in the economy, investment is an immediate source of demand as firms that invest buy goods and services to do so. It also expands the economy's capacity to produce.

The two sources of investment are private and public. The Private investment source is depressed as of now due to the factors cited above and is difficult to revive unless some external force is applied for example – tax sops, incentives for investment, creating demand for certain products through public funded projects among others.

When there is no demand, supply has to be stopped due to piling up of stocks and production units go idle, leading to cut in labour force. It further reduces the income leading to less demand and further reduction in supply and stopping of production.

Since, investment involves committing funds for a long period under uncertainty, the stepping-up of public investment when private firms are unwilling to invest more is required. Increased public investment increases demand and quicken growth and also encourages private investors, as the market for their goods expands.

Reforms: Are they leading to slowdown?
Structural reforms are being taken by almost all the governments or they have been claiming to be doing for more or less a quarter of a century now. Since 2014, in particular, "the ease of doing business" has received great attention from this government. But, the economy today is still less regulated than it was in 1991. Labour market reforms have not been taken up yet in Parliament. Share of manufacturing may rise if the labour market is liberalised.

Another fact is how the economy came close to achieving 10% growth in the late 1980s and during 2003-08 when the policy regime was no more liberal than it is now. It is also difficult to relate slowing domestic growth to sluggish world trade as data show 2016-17 to be a year of a major turnaround in exports. On the other hand, capital formation as a share of output has declined almost steadily for six years now. In 2014-15 it rose slightly.

Is it temporary phenomenon?
A few of the experts see it as a temporary or technical issue and think that its effects would soon fade out while others view this as a more serious crisis created by a barrage of supply-side shocks to the economy.

However, the crisis is seen as a deep structural issue rather than merely a short-run one. Now the government has to play a key role and understand the economic realities and avoid adventurism in policymaking and implementation.

Corporate sector & Industry criticize the Government
Although, a concrete plan to address the problem is being developed in consultation with Prime Minister Narendra Modi. However, a section of the industry and many economists have criticised the government for not being prudent enough to read the distress signs and for treating the slowdown as temporary and transient.

The economy grew by a mere 5.7% in the quarter ended June 2017. In the first quarter of this financial year, growth fell to 5.7% as against 7.9% in the same period last fiscal year.

How can India come out of slow down?
Leading economists and market researchers suggest following remedies to bring the Indian Economy on high growth track

More Government Expenditure
Government needs to spend more now to overcome the situation. Although the government has already spent much of its budgeted expenditure, it needs to spend more to spur investment and demand in the economy. An immediate boost without worrying much for consequences is needed by way of spending.

Let Indian Rupee be weaker
Even a weaker Indian rupee should not be a problem. Stronger rupee is hurting both the exports and the business. Imports are surging and they are eating into the domestic market share. India needs growth now, so there is no need for ratings as of now.

Lower Lending rates
The recently announced monetary policy of RBI has not given any relief to boost Indian economy. The economists now advocate a steep rate cut in the benchmark lending rates to allow for monetary policy expansion. The Reserve Bank needs to cut interest rates for banks, thereby making borrowing cheaper for the industry and spurring investment.

Certainty in Business required
More certainty in the business environment is required. Businesses should be without shocks like demonetisation. In fact, after demonetisation shock, there is an environment of uncertainty in the economy. This stops the Private sector short of announcing the new projects. There should be an environment of certainty that no such disruptive moves would rock the economy in the near term.

No need for excuses: Acknowledge and spend in rural areas
The government needs to spend more on rural areas. Increasing rural people’s incomes can drive up the consumption demand, which in turn will boost the industry. To create more demand the Government needs to spend more in rural areas, construction sector and the unorganised sector

World Bank hopeful: Slow down to wane soon

The recent slowdown in India's economic growth is temporary and is an "aberration" mainly due to the temporary disruptions in preparation for the GST. It will get corrected in the coming months. The World Bank President Jim Yong Kim said that the Goods and Services Tax (GST) is going to have a hugely positive impact on the Indian economy. According to him, "We think that the recent slowdown is an aberration which will correct in the coming months, and the GDP growth will stabilise during the year. We've been watching carefully, as Prime Minister Modi has really worked on improving the business environment, and so, we think all of those efforts will pay off as well."

Accordingly, if the due corrective steps are taken, Indian Economy could come back on rails with a high growth achievement of 9-10% ..