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A Study on the Causes and Consequences for the Present Slowdown in the Indian Economy

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ABSTRACT

Economic slowdown generally occurs when there is a widespread drop in spending. This may be triggered by various events, such as a financial crisis, an external trade shock, an adverse supply shock or the bursting of an economic bubble. In the United States, it is defined as "a significant decline in economic activity spread across the market, lasting more than a few months, normally visible in real GDP, real income, employment, industrial production, and wholesale-retail sales". In the United Kingdom, it is defined as a negative economic growth for two consecutive quarters. The economic slowdown in India means hardship for Indians. It has reported on dropping incomes as well as tight-fisted spending, even on essentials such as food. However, it is not only Indians who are suffering in the Indian government too. Taxation is a core part of the capabilities of any government; this is a troubling sign for India. This is doubly worrying for a poor country such as India, where state spending is key to lifting people out of poverty. A leading dampener is the US-China trade war, which has intensified over time and has contracted world trade and, in turn, Indian exports. Also, high rates of GST, liquidity crisis in NBFCs, and shift in the behavioral pattern of the workforce due to the entry of young people has discouraged savings. Governments usually respond to slowdown by adopting expansionary macroeconomic policies, such as increasing money supply or increasing government spending and decreasing taxation. This article examines the causes and consequences of the present economic slowdown in the Indian Economy.

Keywords: Economic Crisis, slowdown, Indian Economy, GDP

I. INTRODUCTION

An economic slowdown occurs when the rate of economic growth slows in an economy. Countries usually measure economic growth in terms of gross domestic product (GDP), which is the total value of goods and services produced in an economy during a specific period of time. The current slowdown in India is the third slowdown since 1996 and will be the longest in the past 23 years if the next quarter's GDP is worse than 4.5%.

The 2019 slowdown of Indian economy has been triggered by a mix of both internal as well as external factors such as synchronized global slowdown, demonetization, poor implementation of GST, plummeting domestic automobile sales, flattening of core sector growth and declining investment in construction and infrastructure. The slowdown has pushed Prime Minister Narendra Modi's dream of making India a $5 trillion economy by at least four years. In early November 2019, Finance Minister Nirmala Sitaraman said: "It is too presumptive of me to say it economic slowdown has bottomed out," fueling speculation that India's economy is yet to see the worst of the ongoing downturn. This article examines the causes and consequences of the present economic slowdown in the Indian Economy

Statement of the problem

India has a long-standing problem of not collecting enough taxes given the size of its gross domestic product. Not only is it much lower than developed countries with comparable GDP sizes, it is below even comparable developing countries. India's tax-to-GDP ratio lags behind even Nepal.

Need for the study

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 stabilize 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% .

II. REVIEW OF LITERATURE

According to IMF which projected global growth at 3% in 2019 and 3.4% in 2020, downward revisions of 0.2% points and 0.1% points, respectively. Earlier in September 2019, the OECD revised down the global growth forecast by 0.3% points and 0.4% points to 2.9% in 2019 and 3% in 2020, respectively. Most of these agencies cite weakening demand and ongoing trade conflicts between the US and other major economies as the reason for the sharp downward revisions.

India has experienced a continued slowdown since the previous growth peak of 8.2% in FY17. Growth fell to 7.2% in FY18, 6.8% in FY19 and is slated to fall to 6.1% in FY20, as per the RBI's October 2019 monetary policy review.

The World Bank (South Asia Economic Focus) forecasted India's GDP growth at 6% in 2019 (FY20) and 6.9% in 2020 (FY21). Although both monetary and fiscal policies have been used aggressively to reverse this economic slowdown, so far, an upturn has not become visible.

Study report from Institute of Industrial Production, bank credit and exports indicate a continued slowdown in 2QFY20. IIP contracted by (-) 1.1% in August 2019 from4.6% in July 2019.

III. OBJECTIVES OF THE STUDY

- To find out the satisfaction level of the customer for online purchase.
- To know the specific reasons for which customers purchase online shopping.
- To find out the consumers' satisfaction level for services provided by the online
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- To study the reasons for economic slowdown in India
- To identify the causes and Consequences for the Present Slowdown in the Indian Economy
- To find out the consumers' satisfaction level for services provided by the online
- To suggest suitable measures to tackle for the present economic slowdown in the Indian economy

IV. RESEARCH METHODOLOGY

Secondary data sources are used for in this study. It includes books, thesis, periodicals, articles, journals, annual report and web sources pertinent to the study.

Reasons and causes for present slowdown in the Indian economy

The Effect of Demonetization

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 where in cash has dried up leading to a slowdown in the economy.

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. 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.

Previous Longest

Indian economy saw successive lower GDP growth figures of 10.33% (Q4FY11), 8.32% (Q1FY12), 6.68% (Q2FY12), 6.18% (Q3FY12), 5.63% (Q4FY12) and 4.87% (Q1FY13). The rupee had depreciated from an average of 45.7 per US dollar in 2010 to 46.7 in 2011. The depreciation of the Indian currency was particularly sharp in 2012 as it fell to 53.4 per US dollar. India's GDP growth had started off from a high of 10.3% and fallen to 4.8%. However, in Q2FY13 Indian economy recovered and posted a strong GDP growth of 7.49%.

Slowest Ever

The other major slowdown period in Indian economy dates back to the global financial crisis of 2007- 08. The slowdown had lasted for five quarters from Q4FY08 to Q4FY09. India's GDP grew at 8.83%, 8.08%, 6.74%, 1.53% and 0.24% during the period.

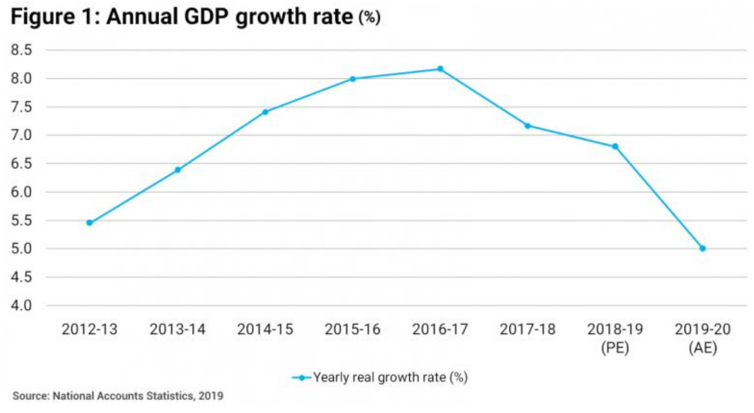

Figure 1 plots the real annual growth rate, which shows GDP growth rising steadily from 5.5% in 2012-13 to 8.2% in 2016-17, declining after that to 5% in the current year (2019-20), as per the official Advanced Estimates. If these estimates are correct, the economy has slowed down only after 2016-17, probably on account of the shocks of the demonetization and shoddily implemented GST.

The following steps are taken by the present government to tackle the economic slowdown:

- Give auto sector incentives to invest and shift to electric vehicles
- Incentives to auto sector employees to upskill on electric vehicles
- Change GST collection to quarterly for companies below Rs 1 crore
- Reduce the GST slab rates
- Adopt the Direct Tax Code, cut income tax for the bottom slab
- Improve credit flow to both consumer and industry
- Reduce real interest rates by 135 basis points as cost of capital has to come down

- Change the credit culture in public sector banks
- Stimulus should drive investment, upskilling for displaced employees
- Factor market reforms, including bringing the cost of land down.

V. CONCLUSION

Every nation is faced with crisis it's unto us to prove we are a mighty adversary. The slowdown has made things worse. Direct tax growth (which includes personal income tax as well as corporate income tax), grew by only 5.2% in the first half of 2019-20, against a projected growth rate of 18.6% as set out in the previous budget. The IMF particularly spoke of the "slow growth in rural incomes, domestic demand (as reflected in a sharp drop in sales of automobiles) and credit from non-banking financial companies (NBFCs)" as plausible causes. Economic growth is driven oftentimes by consumer spending and business investment. Tax cuts and rebates are used to return money to consumers and boost spending. Infrastructure spending is designed to create construction jobs and increase productivity by enabling businesses to operate more efficiently. A weaker rupee rather than high import duties will provide protection to domestic manufacturers and improve India's export competitiveness. Liquidity situation in the shadow banking space must also improve. A key supply-side measure that can help in the short-term is a genuine attempt to reduce the compliance burden for SMEs.

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