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THE DYNAMICS OF INDIAN ECONOMIC SLOWDOWN: AN OVERVIEW

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Abstract: *Indian economy is a large mixed developing economy which underwent a radical change since 1991. After the demonetisation of Indian currency, the Indian economy is passing through a phase of economic slowdown. Even the recent report of the RBI also confirmed that the Indian economy has indeed hit a rough patch. The GDP growth rate of the economy has slipped to 5% in the first quarter of FY 20, the lower in over six years. Hence in this context this paper makes a review on the Indian economic slowdown in terms of GDP contribution by the key sectors. And also, high lights the major causes and the factors of economic slowdown. The study makes use of theoretical concepts, statistical data and reports. From the review it has identified that the Supply side shocks are major cause behind the slowdown. Besides, the other important contributors to this problem include Demonetisation, Stressed Banking Sector, GST implementation and problems in Agricultural sector. The study also suggests the possible remedial steps can be undertaken by the government to tackle the problem of economic slowdown.*

Key Words: *Economic Slowdown, Gross Domestic Product, Growth Rate.*

1. INTRODUCTION:

The Indian Economy is a mixed developing economy. The contemporary history of Indian economy depicts the story of high growth trajectory among the emerging economies. It is the sixth largest economy of the world, as per nominal GDP and the third largest by purchasing power parity (PPP). Also, India ranks 141st in per capita GDP (nominal) and 123rd in per capita GDP (PPP) in 2016. The Indian economy underwent a radical change in 1991. It relieved of its past policies of inward orientation and opened up its economy to trade and foreign investment. Post the economic liberalisation in 1991, India achieved 6-7% average GDP growth annually. In financial year 2015 and 2017 India's economy became the worlds fastest growing major economy overtaking China.

But now the Indian economy is passing through a phase of economic slowdown, with the GDP growth registering one of the lowest rates of 5-8 % in the last quarter of financial year 2019. The GDP growth rate for the first quarter of financial year 2020 is feared to be lower than 5-8%. While there is consensus exist that the economy is slowing down, the debate is going on whether the slowdown is structural slowdown or cyclical slowdown. Hence in this context this paper overviews the recent Indian economic slowdown and the causes and the factors behind it.

2. OBJECTIVES:

- To understand the concept of economic slowdown.
- To identify the major causes and key factors of Indian economic slowdown.
- To review the remedies to tackle the problem of economic slowdown in India.

3. METHODODLOGY:

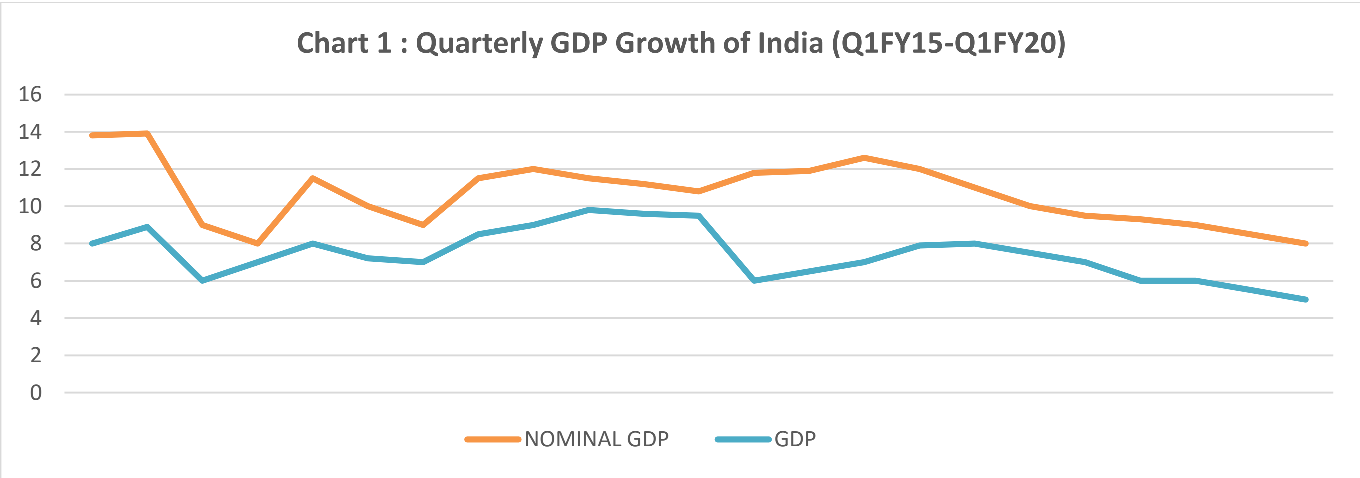
It is a descriptive study based on theoretical concepts, data and statistical reports. The study makes use of secondary data to collect information to satisfy the research objectives. The data required for the study is secondary in nature, which are collected from various available websites, journals, books and research publications. Relevant statistical tools and techniques such as tables, percentages, line graphs, diagrams were used for analysing and interpreting the collected data. The paper aims to pinpoint the recent Indian economic slowdown in terms of GDP growth in various key sectors in India. And also, the major causes and the key factors behind the slowdown and the scientific way to solve this slowdown.

4. THEORITICAL BACKGROUND:

Economic slowdown is a situation in which GDP growth slows but does not decline. An Economic recession signifies a drop in the growth rate of the GDP. Generally, a slowdown precedes recession, but does not necessarily lead to recession. The Gross Domestic Product (GDP) is the total value of all the goods and services produced or created by country in a year. When GDP falls, it is said that the economy of the country is in recession. Low consumer spending is caused by an economic recession. On the other hand, a slowdown means that the pace of the GDP growth has decreased. It means the production and earning of the economy are not growing at the same pace as in the last year.

The GDP growth of Indian economy has touched the six-year low in the first quarter of April-June 2020. Economic indicators reflect that the GDP growth of India has gone down to almost five per cent in the first quarter of financial year 2019-20. It touched 5-8% growth in Jan – March, although nominal terms India's GDP grow by 7.99% which is also lowest since Dec 2002. Most sectors that contribute to the growth of Indian economies such as Automobile, Real Estate, FMCG, Construction, Manufacturing, Marketing, Agriculture, are slowing down behind in achieving the desired growth rate, and employment in these sectors are not only declining but are also being slashed. The official data released by the National Statistics Office (NSO) states that weaker consumer demand and slowing private investment are the two key factors behind the Indian Economic Slowdown. 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%.

The recession is affecting all four contributors to economic growth, including domestic consumption, international consumption, private investment and government spending. Domestic consumption dropped to 6.66 percent in the first quarter of the fiscal year, down from 8.41 percent in the same stretch last fiscal year; exports as share of the GDP was down to 19% from 20%; and fixed capital formation decreased from about 31% of the GDP to 29.8%, significantly a slowdown in the industry as well. These all things clearly reveal that the Indian economy is passing through a sluggish economic growth since 2016 post demonetisation as compared to earlier years, although efforts are being made to improve the Indian economy growth to achieve the rate which may not be considered as very low.



Source : Ministry of Statistics and Programme Implementation (MSOPI)

Chart 1 shows the data relating to growth rate of Nominal GDP and Real GDP, It shows that both Nominal GDP and Real GDP grew at the lowest ever since 2014. The various of the government also confirmed that the GDP growth rate in the first quarter of the FY 2019-20 falls below 6%. GDP at constant (2011-12) prices is projected at 35,99 lakh crore INR in the second quarter of 2019-20, showing an increase of 4.55 percent over the same period of the previous year. It is the slowest rise in the 2011-12 sequence since the fourth quarter of FY13 and the second lowest. GDP growth was 7.00% in the previous quarter and 5.01% in the previous quarter. Growth has declined since FY18's Q4 (8.13%).

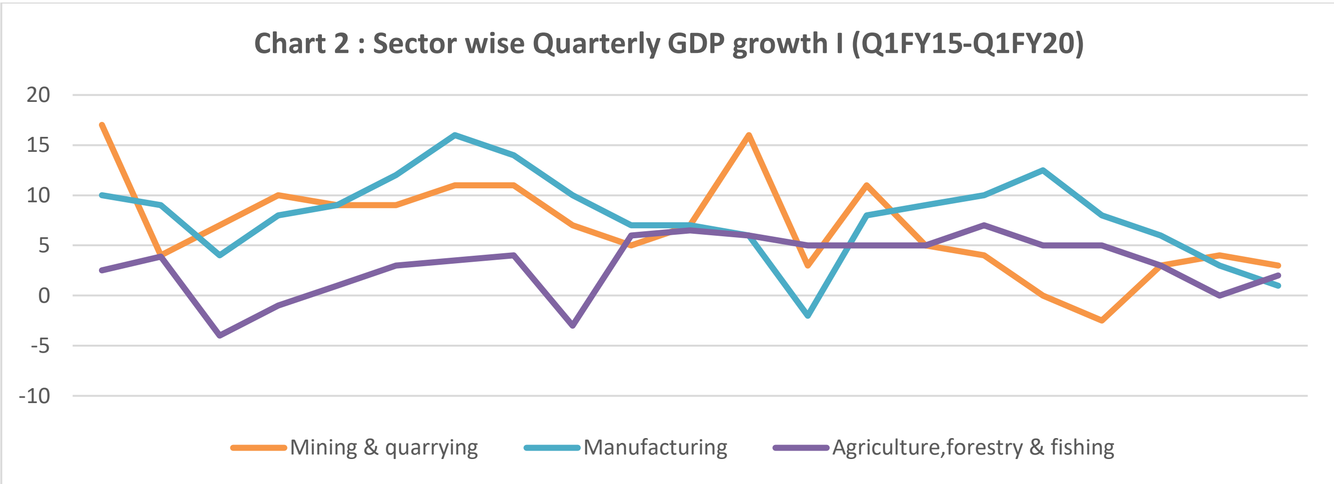
Table 1 : Sector wise Quarterly GDP growth

Sectors	Growth (2019-2020) at 2011-12 prices		Growth (2019-20) at current prices	
	Q1	Q2	Q1	Q2
Agriculture	2.04	2.08	7.09	7.36
Agriculture, forestry & fishing	2.04	2.08	7.09	7.36
Industry	5.75	3.33	8.58	4.25
Mining & quarrying	8.62	3.61	8.66	2.33

Manufacturing	5.92	5.79	6.43	6.49
Electricity. gas. water supply & other utility services	2.74	0.52	4.76	0.45
Construction	0.58	-1.05	2.02	-1.10
Services sector	2.68	0.13	5.49	-4.43
Trade, hotels, transport, communication and service related to broadcasting	8.50	11.61	14.03	17.17
Financial, real estate & professional services	6.88	6.81	9.68	9.07
Public administration, defence and other services	7.07	4.81	10.69	6.06

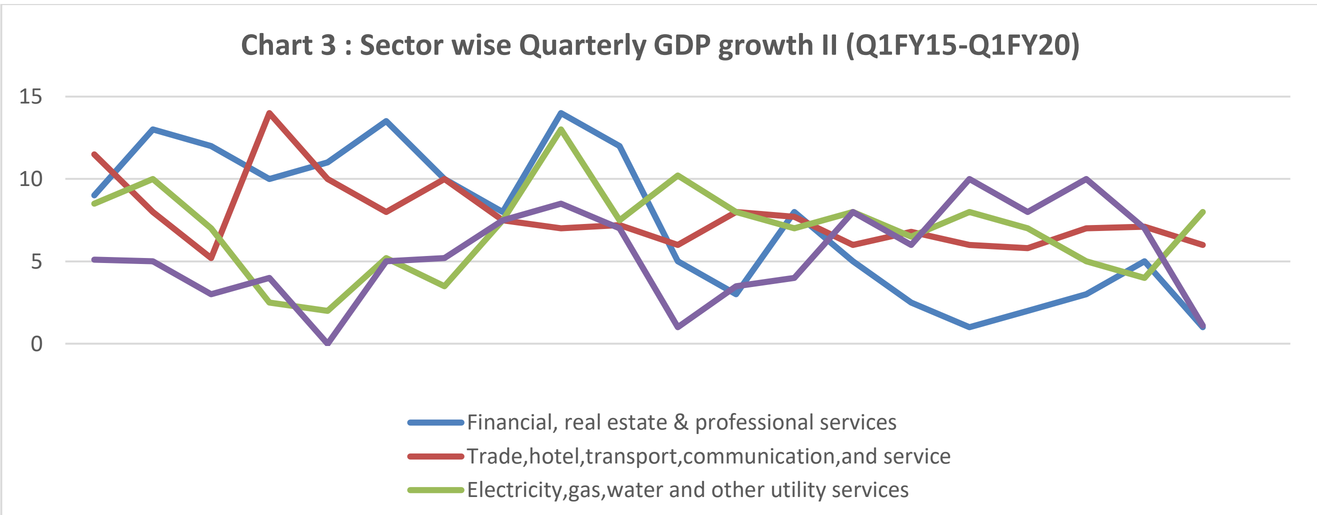
Source : Ministry of Statistics and Programme Implementation (MSOPI)

Table 1 reveals that different sectors that contribute towards GDP marked a slowest growth over the first and second quarter of the FY 2019-20. Construction and service sector witnessed negative trend in the Q2FY20. Other important sectors such as industry, mining and quarrying, electricity, gas, water and other utility services, real estate and public administration marked slow growth over the Q2FY20.



Source : Ministry of Statistics and Programme Implementation (MSOPI)

Chart 2 shows that the manufacturing sector witnessed the highest downturn from 12.1 percent growth in April-June 2018 to 0.6 percent growth in April-June 2019. This is the lowest growth in the last 6 years (barring q1 FY2018 when it shrank before GST implementation).



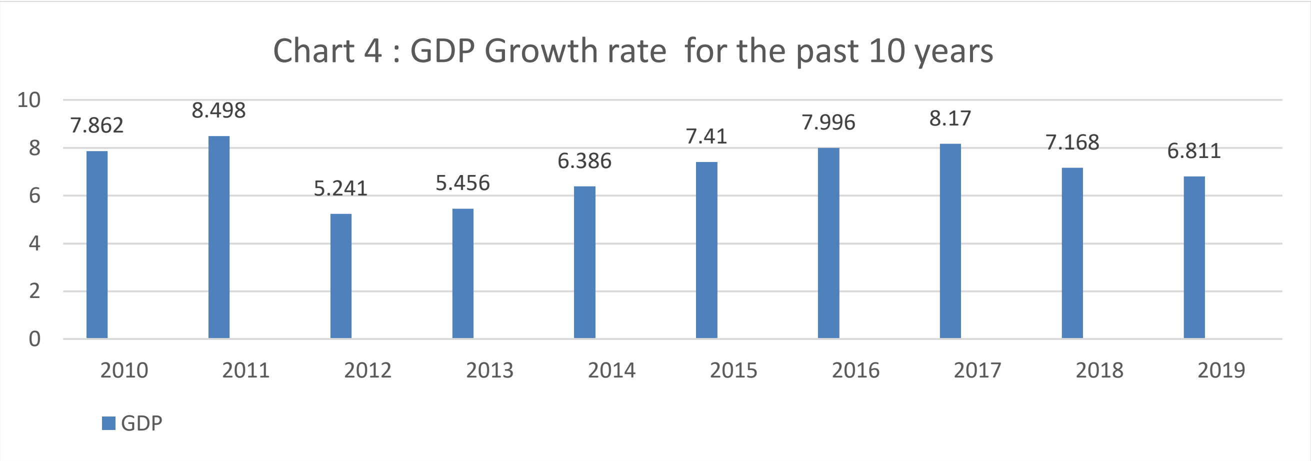
Source : Ministry of Statistics and Programme Implementation (MSOPI)

Chart 3 shows that mining and quarrying as well as agriculture have risen to less than 5% for the fourth quarter. Within the 5% to 10% band, the rest of the sectors had growth rates. In Q1FY20, apart from manufacturing, the construction sector, an employment-intensive sector, slowed down to a low of seven-quarters (5.7%).

Table 2: GDP growth rate for past 10 years

Year	GDP Growth rate
2010	7.862
2011	8.498
2012	5.241
2013	5.456
2014	6.386
2015	7.41
2016	7.996
2017	8.17
2018	7.168
2019	5.811*

Source : Ministry of Statistics and Programme Implementation (MSOPI)



Source : Ministry of Statistics and Programme Implementation (MSOPI)

The data related to GDP growth rate in India for the past 10 years was depicted in Table 2. It clearly reveals that Indian economy now passing through a serious economic down marked with less than 6% GDP growth in the two-consecutive quarter.

4.1 CAUSES AND REMEDIES OF ECONOMIC SLOWDOWN:

The economic experts' states that the Supply side shocks are major cause behind the slowdown. Besides, the other important contributors to this problem include Demonetisation, Stressed Banking Sector, GST implementation and problems in Agricultural sector. Some analysts see it as a temporary or technical problem and claim that its consequences will soon fade away, whereas others see it as a more serious crisis triggered by a supply-side shock on the economy. However, the crisis is seen as deep structural issue rather than merely a short -run one. Now the government gas to play a key role and understand the economic realities and avoid adventurism in policy making and implementation. Fall in consumption and private investments are the main concerns of Indian economy. The major causes are discussed below:

- **Demonetisation**

Demonetisation of Indian currency has many consequences that could have adverse impacts on the Indian economy and its people And also, the snowballing impact slowdown in the Indian economy had been caused by a hit on farmer income level due to demonetisation. A contribution to GDP is down from 6.2% to 22.4%. GST and other tax reforms of the government after demonetisation also progressively drew away dispensable cash from locals hands.

- **Fall in Consumer Demand**

A sharp decline in consumer demand is one of the main concerns about the current economic slowdown As the rural economy slowed, manufacturing of tractors and manufacturing of fertilizers felt the dramatic slowdown in consumption

- **Real Estate Slowdown**

A slowdown in the real estate and construction sector have had the worst impact in Indian economy. The Growth in the real estate sector has fallen from 9.6% in the last year to 5.7%. The fiscal deficit has been reduced from 6.2% of GDP in 2015 to 3.3% in 2019-20.

- **Lower investment**

Investment are essential to more business activities, leading to more employment, higher earnings and higher spending assessment. Investment levels have decreased in the last two years as for foreign institutional investors (FIIs) marked an exit from the Indian stock market. In 2018-19, FIIs withdrawn around 15,000 crores from the Indian market.

- **Lesser Employment**

A drop in the number of employment and wage levels has fastened market demand's decline and recession.

5. FINDINGS AND SUGGESTIONS:

From the analysis of Indian economic slowdown make clear that the Indian economy is passing through a serios economic slowdown problem. Reduction in the consumer demand, real estate slowdown, reduction in the employment opportunities, reduction in fixed investment are the major reason behind this slowdown. The question arises is that how to tackle the problem of economic slowdown in India

According to Man Mohan Singh, the former Prime Minister, the government have to boost consumer demand, rationalise GST rate and further to focus on fixing labour-intensive sectors, accelerate demand growth, review agriculture and fixing lack of credit. The major suggestions from this analysis are :

- The government has already spent much of its budget expenditure, it needs to spend more to spur investment and demand in the economy.
- The economist advocates that a steep rate in the bench mark lending rates is needed to allow for monetary policy expansion.
- RBI need to cut interest rates for banks, thereby making borrowing cheaper for the industry and spurring investments. They also opinion that there should be an environment of certainty that no disruptive moves would rock the economy in the near terms.
- To create more demand the government needs to spend more in rural areas, construction sector and unorganised sector.

6. CONCLUSION:

From the study it was found that the Indian economy is heading towards a recession and a massive economic slowdown as the first and second quarter of FY 20 GDP falls to a low of 6 years, and the main reason for this is listed as a decline in consumer demand. The slowdown in the Indian economy is partly cyclical and partly structural. The slowdown may be mainly due to banking stress, NBFC crisis, demonetisation and shortfall in GST and revenue from personal income tax. Also, India's economic slowdown is due to declining private consumption growth, slow growth in fixed investment, and muted exports. This has led to a slowdown among the major sectors of the economy such as industry, mining and quarrying, electricity, gas, water and other utility services, real estate. The ultimate solution seems to be to boost government spending, make the country more tax-friendly, speedily resolving the ills in the non-bank financial sector, and create an environment that is friendly to entrepreneurs and investors.

ABBREVIATIONS

CMIE - Centre for Monitoring Indian Economy
FMCG – Fast Moving Consumer Goods
FY – Financial Year
GDP – Gross Domestic Goods
GST – Goods and Service Tax
MSOPI - Ministry of Statistics and Programme Implementation
NBFC – Non-Banking Financial Corporations
NSO - National Statistics Office
PPP – Purchasing Power Parity
RBI – Reserve Bank of India

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