"A STUDY ON DECELERATION OF THE INDIAN ECONOMY"

Mrs. Raisa George
Asst.Professor, St. George's College Aruvithura

Abstract:

The Indian economy will grow at 9.7% in 2021, which will be faster than all of the world's major economies according to a London-based data and analytics firm Global Data, however, it will be 11.5% in 2021as per the statistics of IMF. Indus valley civilization, which flourished between 2800 BC and 1800 BC, had an advanced and flourishing economic system. The Global Financial Crisis, India's long-term growth has slowed as the two engines propelling rapid growth-investment and exports-sputtered. Today, the other engine-consumption-has also stalled. As a result, growth has plummeted precipitously over the past few quarters. Key words: Deceleration, Indian Economy, GDP, Middle-income traps.

Introduction

India is one of the world's fastest-growing major economies. The Indian economy will grow at 9.7% in 2021, which will be faster than all of the world's major economies according to a London-based data and analytics firm Global Data, however, it will be 11.5% in 2021as per the statistics of IMF. Indus valley civilization, which flourished between 2800 BC and 1800 BC, had an advanced and flourishing economic system. The Indus valley people practiced agriculture, domesticated animals, made tools and weapons from copper, bronze and tin and even traded with some Middle East countries.

The recent growth fell to its lowest case investment has weakened unemployment has risen. So, what is causing the slowdown, how can it be reversed? Since the turn of the century, India's economy has grown at a rapid rate helping transform the country between 2006 and 2020 rising incomes lifted 271 million people out of poverty. Meaning the proportion of Indians still living in poverty has fallen dramatically from around 55 per cent to 28 per cent access to electricity as also approved in 2007 just seventy per cent of the population had access to power by 2021 that grew to nearly 93 per cent more recently the Indian government constructed around a hundred and ten million toilets a huge step towards better sanitation designed to prevent the practice of open defecation. It's a signature program of Prime Minister Narendra Modi known as Swachh Bharat. In India, all this development has been supported by a booming economy. But as of late that expansion has begun to run out of steam in the third quarter of 2020. India's economic output grew by four and a half per cent making it the first time the country's growth dip below 5% since 2013 the context four and a half per cent growth is still much higher than that of developed economies like the US but with 12 million Indians entering the workforce every year economists. The country needs annual growth rates to stay above 9% to ensure there are enough jobs.

SCOPE OF THE STUDY:

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. This study examines the influence of the world economic crisis in Indian Economy.

OBJECTIVES OF THE STUDY:

1. To study the current state of the Indian economy.
2. To find the impact of the slow down on the growth of the country.
3. To evaluate the reforms that will help the Indian economy grow.

COLLECTION OF DATA:

The secondary data are collected from various books, journals, newspapers, periodicals, websites, etc.

METHODOLOGY:

With a view to assume the objective of the present study the secondary source of information has been used.The history, growth and performance of the Indian economy have been examined based on secondary data like periodical textbooks, journals reports and different websites containing information of India economy. The work is heavily banked on the secondary source of information. Simple statistical tools like Graphs and charts were used in this study.

INDIAN ECONOMY:

India has emerged as the fastest-growing major economy in the world and is expected to be one of the top three economic powers of the world over the next 10-15 years, backed by its strong democracy and partnerships. India's nominal GDP growth rate is estimated at 15.4 per cent in 2021-22. It was contracted by 8% in 2020-21. During Q2 of 2020-21, GDP (at constant 2011-12 prices), GDP stood at Rs. 33.16 lakh crore (US$ 474.46 billion) showing a growth rate of 4.3 per cent over the corresponding quarter of the previous year.

SECTORS OF INDIAN ECONOMY:

1. Primary Sector: When the economic activity depends mainly on the exploitation of natural resources then that activity comes under the primary sector. Agriculture and agriculture-related activities are the primary sectors of the economy.

2. Secondary Sector: When the main activity involves manufacturing then it is the secondary sector. All industrial production where physical goods are produced come under the secondary sector.

3. Tertiary Sector: When the activity involves providing intangible goods like services then this is part of the tertiary sector. Financial services, management consultancy, telephony and IT are examples of the service sector.

OTHER CLASSIFICATIONS OF ECONOMY:

In the Indian economy introduction, the sectors of the economy based on other basis are also required to get a clear picture of the strengths of Indian Economy.

1. Organized Sector: The sector which carries out all activity through a system and follows the law of the land is called an organized sector. Moreover, labour rights are given due respect and wages are as per the norms of the country and those of the industry. Labour working organized sectors get the benefit of the social security net as framed by the Government. Certain benefits like provident fund, leave entitlement, medical benefits and insurance are provided to workers in the organized sector. These security provisions are necessary to provide a source of sustenance in case of disability or death of the main breadwinner of the family without which the dependents will face a bleak future.

2. Unorganized Sector: The sectors which evade most of the laws and don't follow the system come under the unorganized sector. Small shopkeepers, some small-scale manufacturing units keep all their attention on profit-making and ignore their worker's basic rights. Workers don't get adequate salary and other benefits like leave; health benefits and insurance are beyond the imagination of people working in unorganized sectors.

3. Public Sector: Companies which are run and financed by the Government comprises the public sector. After independence, India was a very poor country. India needed a huge amount of money to set up manufacturing plants for basic items like iron and steel, aluminum, fertilizers and cement. Additional infrastructure like roads, railways, ports and airports also require a huge investment. In those days Indian entrepreneurs were not cash-rich so the government had to start creating big public sector enterprises like SAIL (Steel Authority of India Limited), ONGC (Oil & Natural Gas Commission).

4. Private Sector: Companies which are run and financed by private people comprise the private sector. Companies like Hero Honda, Tata are from the private sector.

MARKET SIZE:

India's nominal GDP growth rate is estimated at 12 per cent in 2020-21. The estimate for 2018-19 was 11.5 per cent. During Q2 of 2020-21, GDP (at constant 2011-12 prices), GDP stood at Rs 33.16 lakh crore (US$ 474.46 billion) showing a growth rate of 4.3 per cent over the corresponding quarter of the previous year.

` India has retained its position as the third-largest startup base in the world with over 8,900-9,300 startups, with about 1,300 new start-ups being founded in 2020, according to a report by NASSCOM. India also witnessed the addition of 7 unicorns in 2020 till August, taking the total tally up to 24.

India's labour force is expected to touch 160-170 million by 2020, based on the rate of population growth, increased labour force participation, and higher education enrolment, among other factors, according to a study by ASSOCHAM and Thought Arbitrage Research Institute.

India's foreign exchange reserves were US$ 448.59 billion in the week up to November 22, 2020, according to data from the RBI.

RECENT DEVELOPMENTS:

With the improvement in the economic scenario, there have been various investments in various sectors of the economy. The M&A activity in India increased 53.3 per cent to US$

77.6 billion in 2020 while private equity (PE) deals reached US$ 24.4 billion. Some of the important recent developments in the Indian economy are as follows:

- Exports from India increased by 1.60 per cent year-on-year to US$ 386.96 billion in April-November 2020.

- Nikkei India Manufacturing Purchasing Managers' Index (PMI) stood at 52.7 in December 2020, showing expansion in the sector.
- Mergers and Acquisitions (M&A) activity in the country has reached US$ 48 billion during Jan-Sept 2020.
- The gross tax revenue stood at Rs 11.74 lakh crore (US$ 168 billion) out of which Income tax collection contributed Rs 2.67 lakh crore (US$ 38.34 billion) between April-November 2020.
- Companies in India have raised around US$ 114.1 billion through 768 Initial Public Offers (IPO) first nine months of 2020.
- India's Foreign Direct Investment (FDI) equity inflows reached US$ 436.47 billion between April 2000 and June 2020, with maximum contribution from services, computer software and hardware, telecommunications, construction, trading and automobiles.
- India's cumulative growth of Index of Industrial Production (IIP) with base 2011-12 for the period April-September 2020 stands at 1.3 per cent, with September 2020 stands at 123.3.
- Consumer Price Index (CPI) – Combined inflation 3.3 per cent in April-September 2020.
- In 2020-21, the highest number of 11.6 lakh net jobs was created during the month of November, while the least number of 4.73 lakh jobs was created in May, as per the EPFO data.
- India improved its ranking in the World Bank's Doing Business Report by 14 spots over last year and is ranked 63rd among 190 countries in the 2020 edition of the report.
- India is expected to have 100,000 startups by 2025, which will create employment for 3.25 million people and US$ 500 billion in value, as per Mr T V Mohan Das Pai, Chairman, Manipal Global Education.
- The World Bank has stated that private investments in India are expected to grow by 12.1 per cent in FY 2020-21 to overtake private consumption growth of 10.1 per cent, and thereby drive the growth in India's gross domestic product (GDP) in FY 2020-21.
- India is expected to retain its position as the world's leading recipient of remittances in 2020, with total remittances touching US$ 150 billion, according to the World Bank's Migration and Development Brief.

GOVERNMENT INITIATIVES:

Union Finance Minister Nirmala Sitharaman on 25 February 2021 said this year's Budget has negated the notion that welfare state is a socialist prerogative, and added that it has given a directional change to the Indian economy, wherein the government trusts wealth creators and citizens.

She lauded the reform of faceless assessment for direct and indirect taxes, saying that tax terrorism will be a thing of the past, but also warned that "technology terrorism" will now gain ground.

"This is a budget for the new decade. This budget clearly says- private sector we trust you and you are welcome to participate in the development of the country. It's a budget in which we are recognising what a government can do or how far it can do...So it's a budget that gives directional change to the Indian economy,"

"We inherited a system from the USSR, where glories of socialism were spoken about...That only socialism can take care of the welfare of the entire population. They say the welfare state is a socialist prerogative," she said. The total expenditure in 2020-21 is targeted at Rs 1,44,265 crore. This is 14.8% higher than the revised estimates of 2020-21. This expenditure is proposed to be met through receipts (other than borrowings) of Rs 1,14,970 crore and borrowings of Rs 29,242 crore.

Numerous foreign companies are setting up their facilities in India on account of various government initiatives like Make in India and Digital India. Mr. Narendra Modi, Prime Minister of India, has launched the Make in India initiative intending to boost the manufacturing sector of Indian economy, to increase the purchasing power of an average Indian consumer, which would further boost demand, and hence spur development, in addition to benefiting investors. The Government of India, under the Make in India initiative, is trying to give a boost to the contribution made by the manufacturing sector and aims to take it up to 25 per cent of the GDP from the current 17 per cent. Besides, the Government has also come up with the Digital India initiative, which focuses on three core components: the creation of digital infrastructure, delivering services digitally and to increase digital literacy. Some of the recent initiatives and developments undertaken by the government are listed below:

- India is expected to attract investment of around US$ 100 billion in developing the oil and gas infrastructure over the next five years.
- With the help of the new agriculture export policy, the Agri exports from India is likely to reach the export target of US$ 60 billion by the year 2022.

- In India, Atal Innovation Mission (AIM), a flagship initiative of NITI Aayog, launched the Atal Community Innovation Centre (ACIC) program in NITI Aayog which aims at spurring community Innovation in underserved and unserved areas of the country.
- National Institute for Transforming India (NITI) Aayog released a strategic document titled 'Strategy for New India @75' to help India become a US$ 4 trillion economy by FY23.
- The Government of India is going to increase public health spending to 2.5 percent of GDP by 2025.
- For the implementation of Agriculture Export Policy, the government has approved an outlay Rs. 206.8 crore (US$ 29.59 million) for 2020, aimed at doubling farmers income by 2022.
- Government is planning to launch Bharat Craft portal, an e-commerce marketing platform to market and sell the products.
- Under the Pradhan Mantri Awas Yojana (Urban), the government has sanctioned more than 96.50 Lakh houses under PMAY(U) and approved 606 proposals for the construction of 3,31,075 houses with an overall investment of Rs 15,125 crore (US$ 2.16 billion).
- The Cabinet Committee on Economic Affairs has approved to increase the authorized capital of Food Corporation of India (FCI) from existing Rs 3,500 crore (US$ 500.79 million) to Rs 10,000 crore (US$ 1.43 billion).
- India has registered a 26.9 per cent reduction in Maternal Mortality Ratio (MMR) since 2013: Sample Registration System Bulletin-2020.
- Around 26.02 million households have been electrified as on 31st March 2020 under the Pradhan Mantri Sahaj Bijli Har Ghar Yojana (SAUBHAGYA).
- Prime Minister's Employment Generation Programme (PMEGP) will be continued with an outlay of Rs 5,500 crore (US$ 755.36 million) for three years from 2018-19 to 2020-21, according to the Cabinet Committee on Economic Affairs (CCEA).
- As per the Union Budget 2020-21, public sector banks (PSBs) will be provided with a capital infusion of Rs 70,000 crores (US$ 10.02 billion), allowing NBFCs to raise foreign debt.
- The mid-term review of India's Foreign Trade Policy (FTP) 2020-21 has been released by the Ministry of Commerce & Industry, Government of India, un-

der which annual incentives for labour-intensive MSME sectors have been increased by 2 per cent.

- Under the scheme Pradhan Mantri Gram Sadak Yojana (PMGSY-III), the government plans to spend Rs 50,250 crores (US$ 7.19 billion) to build roads to boost rural connectivity.

FUTURE OF THE ECONOMY:

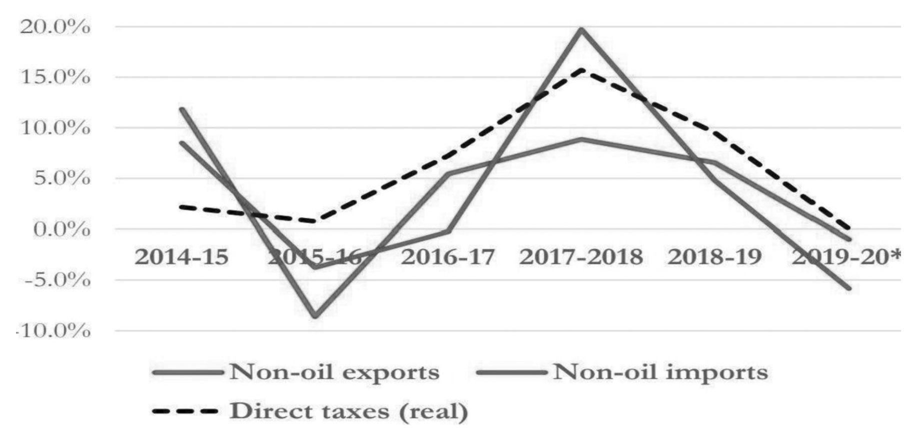
India's gross domestic product (GDP) is expected to reach US$ 5 trillion by FY25 and achieve upper-middle income status on the back of digitization, globalization, favourable demographics, and reforms.

India is also focusing on renewable sources to generate energy. It is planning to achieve 40 per cent of its energy from non-fossil sources by 2030 which is currently 30 per cent and has plans to increase its renewable energy capacity from to 175 GW by 2022.

India is expected to be the third-largest consumer economy as its consumption may triple to US$ 4 trillion by 2025, owing to shift in consumer behaviour and expenditure pattern, according to a Boston Consulting Group (BCG) report; and is estimated to surpass US to become the second-largest economy in terms of purchasing power parity (PPP) by the year 2040, according to a report by Pricewaterhouse Coopers.

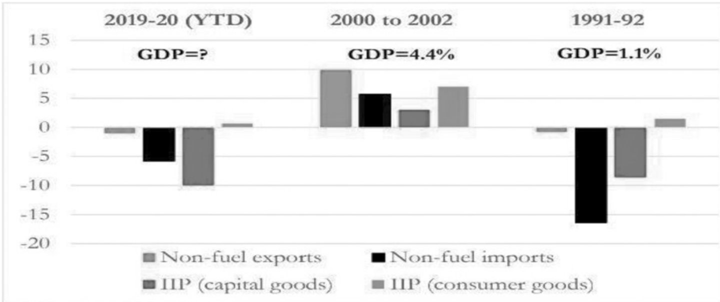
Figure 1.1. Trade and Taxes

(Growth in percent; trade-in current $; taxes in real Rupees)



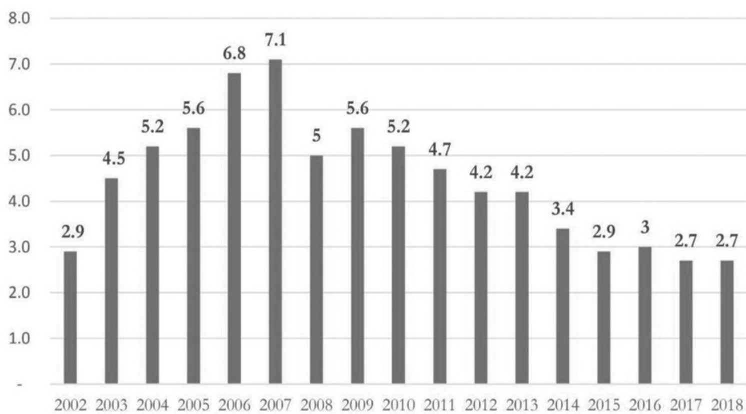
Source: *RBI for exports, ministry of Commerce for imports, and Ministry of finance for taxes.*

Figure 1.2. Present and Slowdowns



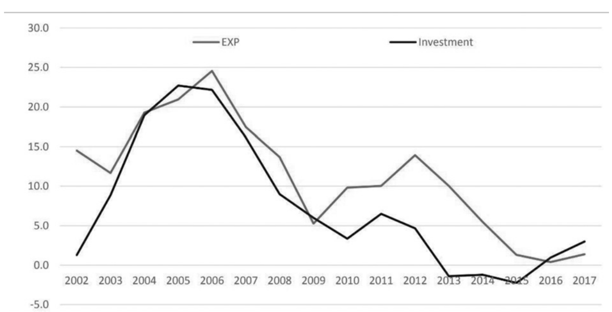
Source: *WDI and MOSPI*

Figure 1.3. Corporate Profits (share of GDP; %)



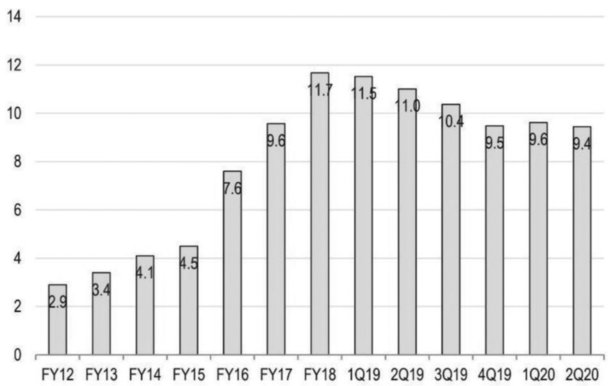
Source: *CMIE PROWESS*

Figure 1.4. Growth of Real Exports and Investment (%)



Source: *WDI*

Figure 1.5. Gross Non-Performing Asets (in per cent of bank assets)



Source: *Credit Suisse*

Findings, Suggestions and Conclusions

Since the Global Financial Crisis, India's long-term growth has slowed as the two engines propelling rapid growth—investment and exports—sputtered. Today, the other engine—consumption—has also stalled. As a result, growth has plummeted precipitously over the past few quarters.

Indeed, the economy seems locked in a downward spiral. Best capturing this stark reality is the astonishingly high interest-growth differential. The corporate cost of borrowing now exceeds the GDP growth rate by more than 4 percentage points, meaning that interest on the debt is accumulating far faster than the revenues that companies are generating. Already, this has caused a resurgence in the amount of stressed debt, a second wave of the Balance Sheet Crisis. If this process is left unchecked, the economy will continue to spiral downward, as stress reduces growth, which then intensifies the stress.

Action must be taken to stabilize the economy and get it back on the path of rapid growth. But in the current circumstances, the standard macroeconomic tools are not very useful. There are actions that the government cannot do (further significant fiscal stimulus); must not do (reducing personal income tax rates or raising GST rates); can do with only limited effectiveness (easing monetary policy). What, then, is to be done?

First, can anything be done quickly? A major first action-- almost a precondition for righting the economy—could be a Data Big Bang; both instill confidence and produce a reliable basis for policy making. This must comprise the publication of unreleased reports together with a strategy for improving official statistics in at least three areas: the real sector (GDP, consumption and employment), fiscal accounts, and stressed assets in the banking system.

Next, we propose several strategies to halt the current vicious economic spiral, the most critical one being to address the Four Balance Sheet challenge – the stress in banks and NBFCs on the financial side, and infrastructure companies and real estate on the corporate side.
Policies need to act on the 5Rs:

- Conducting a new Asset Quality Review to cover banks and NBFCs (Recognition)
- Making changes to the IBC to ensure that participants have incentives to solve the problem (Resolution)
- Create two executive-led public sector asset restructuring companies ("bad banks"), one each for the real estate and power sectors (Resolution)
- Strengthening oversight, especially of NBFCs (Regulation)
- Linking recapitalization to resolution (Recapitalization)
- Shrinking public sector banking (Reform)

There is, of course, a reason why these policies have not been implemented before. They are politically difficult and other, easier alternatives have seemed more attractive. But the government currently has a tremendous amount of political capital. And by now all the alternatives have been tried and found wanting. So, finally, after a long and difficult decade, the government has both the opportunity and the clear need to resolve the Four Balance Sheet (FBS) problem.

But we must be clear. Realism demands recognition that resolving the FBS problem, as well as the difficulties in agriculture, will inevitably take time. A slow-bleed over many years led to the current predicament. The way out will also be laborious. India's weak state capacity and the entrenched stigmatized capitalism have stymied private initiative and honest public officials for a very long time. There are no quick solutions.

A corollary is that sustained effort will be needed. Complacency remains an abiding danger. The economy was buoyed by a series of cyclical factors in the 2010s; another fortuitous factor may well arrive in 2020, at which point there could be euphoria, lulling us back into policy inertia. Such a reaction would be dangerous, for the FBS challenge is deep and intractable, defying easy or quick corrections.

Any signs of an incipient upturn must therefore not be interpreted as harbingers of durable improvement. They must be seen for what they are: sirens that must be resisted.

Another reason to be realistic and even moderate India's medium-term growth expectations are the external environment. The Economic Survey of 2018 spoke of headwinds facing "late convergers" such as India, countries that have not even attained proper upper-middle-income status. These headwinds include the declining trading opportunities that sustained the East Asian and Chinese growth miracles, labor-saving technologies, and climate change.

But being realistic is not an invitation to succumb to pessimism. It is important to realize that India has agency. Even "middle-income traps" can be sprung. After all, some of the problems have been domestic and self-inflicted. If we got into India's Great Slowdown in part because of what we did in the past, surely, we can also emerge out of it by what we do next.

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