A STUDY ON THE EFFECTS OF ECONOMIC SLOWDOWN IN INDIA

Venus Ghelot
Research Scholar, Department of Management, Jai Narain Vyas University, Jodhpur (Raj)

Abstract

The paper discusses the economic slowdown of India. Furthermore, the present research paper discusses the various causes of the Economic Slowdown and their effects on different sectors. The whole paper covers the last few years' slowdown in our country. Not even a single sector is being untouched by this slowdown. Demonetization and GST are considered the main causes of it, because after demonetization the whole country faced a tremendous economic slowdown. Our government may not accept that there has been an economic slowdown, but the reality remains and the need is to take effective measures.

Keywords: *Economic slowdown, GDP, GST, Demonetization and India.*

Meaning: To understand the whole concept of the economic slowdown in our country, one needs to understand the meaning of economic slowdown. In general, 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.

In other words, the meaning of economic slowdown is a situation in which GDP growth slows but does not decline. It is a period of slow economic growth, especially one that follows a period of robust growth. Unlike recession, economic growth during a slowdown is not necessarily negative. For example, a country whose GDP has experienced 3 percent, 3.3 percent and 3.5 percent growth for three consecutive quarters, but then sees growth of 3.51 percent and 3.52 percent is not in recession but experiencing slowdown.

Measuring Changes in GDP: The rate of economic growth or decline is calculated by determining the percentage change in GDP from one period to another. i.e. the value of a country's GDP in the second quarter of this year may have increased 2% from the value of the first-quarter GDP. On the other hand, if GDP rose only 1.5% between the second quarter and the third quarter, we can say that the economy is slowing down because it is not growing as fast as it should or was growing earlier.

The Indian economy recorded the highest growth rates of the world at 8.2 percent in FY 16-17 & 7.2 percent in FY 17-18. Then in FY 18-19, it was recorded at 6.8 percent. After being celebrated as the fastest growing economy in the world for two years, the news of the economic slowdown surprised many and was not welcomed by the majority. With the growth rate falling to 4.5 percent in the second quarter of FY20, the lowest since 2012, none could deny the economic slowdown that the Indian economy was facing.

Major causes of economic slowdown in India: Not a single factor is responsible for the slowdown in our country but there are so many other factors that are responsible for it. Among all the factors, Demonetization is the most important one. The following factors are discussed below:-

i. **The Effect of Demonetization:** Demonetization is considered one of the major causes of the Indian economic slowdown. There is a broad slowdown across the entire value chain of the demand and supply. Thus, what we have is a situation wherein cash has dried up leading to a slowdown in the economy. The main reason for the present situation is a lack of planning and poor implementation of Demonetization.

ii. **Collapse in Private Consumption and Investment Freeze Leading to Double Whammy:** 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.

iii. **Rollout of GST:** GST (Good and Service Tax) is another big reason for the slowdown in India. It hampered the small businesses by forcing them to withhold inventory until they migrate to the GSTN or the GST Network and become compliant with numerous rules and regulations that are part of this tax.

iv. **Global Slowdown:** Another important factor is that there is also a global economic slowdown going on simultaneously and given the fact that India is a net commodity exporter, there has been a slump in the volumes of exports. 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.

v. **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 on an annual 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.

vi. **Tight Monetary & Fiscal Policies:** The monetary policy has been focused on inflation control which has ensured hard interest rates since 2016-17. The fiscal deficit of both the State and Center government has been high.

vii. **Farmer's Empty Pockets:** The continued surpassing of Non-food inflation of food-inflation in the last two years has led to income transfers from rural to urban areas. Farm income might increase from the government's income transfer scheme. The increase in prices of food would boost the terms of trade which could make things better in the second half of the fiscal year. 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 sometime to come. As a response to the crisis, the government took a financial aid of Rs. 1.76 lac crore from RBI but it was never made known to the public how the funds will be utilized to restructure the economy.

Effects of Economic Slowdown in Various Sectors:- Current economic slowdown has affected our country very badly. No sector is left untouched by the adverse impacts of the slowdown, right from a small sector to a big automobile company, almost everyone is facing the adverse effects of the slowdown. GDP growth decelerated to 5 percent and 4.5 percent in the April-June and July-September quarters since 2013, it reflected upon the sharp slowdowns in household consumption and investment onset, and the rise in government spending. High-frequency data suggest that activity continued to be weak for the rest of 2019, as per the World Bank.

The automobile sector is in a crisis with a drastic decline in production. Four-wheelers and two-wheelers in terms of sales have witnessed tremendous loss as compared to the previous year. Sales of medium and heavy commercial vehicles including buses fell by 63 percent in August whereas the total vehicle sales dropped by 50 percent. Car sales in April-June 2019 fell by 23.3 percent in comparison to the same period in 2018. The two-wheeler sale contracted by 11.7 percent. The sale of tractors that were high in demand across the agriculture industry fell by 14.1 percent, the highest fall in nearly four years. The slowdown in the automobile sector negatively affects everyone right from tyre manufacturers & suppliers to steel traders, etc. Reflection can be seen in how many auto dealerships are shutting down and shrinking. The vehicle loan growth has also decreased to 5.1 percent slowest in the five years. The leading auto manufacturers in the market announced that there is a continuous weak demand in their products.

Same slowdown is seen in the agricultural sector which provides employment to the majority of the population. This sector has also been drastically affected. Farmers have suffered a lot in the last few years. Thousands of farmers have committed suicide due to the economic loss. The growth in the agricultural sector which was 5 percent last year is now growing at a rate of 2 percent. This is a very serious issue for our country because India is an agriculture based country. Half of our population is engaged in farming.

Bank Retail loans are also affected by it. During the second quarter of 2019, the retail loans of banks grew by 16.6 percent in comparison to the same period in 2018. In 2018, the growth was 17.9 percent. There has been a marginal fall in growth. Housing loans form more than half of the retail loans and they have witnessed the growth of 18.9 percent during the quarter against 15.8 percent in 2018.

Construction sector is one of the largest employers in the country. Slower growth means less employment opportunities which, in turn, translate into lower income. Corroboration is also there. Per capita income is projected to grow at 6.8 percent in 2019-20, which is the lowest since the new GDP series was launched taking 2011-12 as the base year. In March 2019, India’s top 30 cities had 1.28 million unsold housing units showing an increase of 7 percent from March 2018, when the number was 1.2 million. That means, builders built the house but buyers are not investing money in real estate. The real estate sector (construction sector) has forward and backward linkages with other industries. So, when the real estate sector does well, cement, paint, steel, etc., do well too.

Even businessmen are not untouched from the economic slowdown. NBFCs are suffering from liquidity crunch, there has been a major rise in the volume of the Non Performing Assets. The service sector is also not left unaffected. All over every single person facing economic trouble because of the economic slowdown in our country.

General Recommendation to Improve the Economic Condition:

1. **Monetary policy:** "Given the sharper-than-expected slowdown and negative output gap (growth below potential), there is room to cut the policy rate further, especially if the economic slowdown continues."

2. **Fiscal policy:** "We see limited room for stimulus and stress the need for medium-term fiscal consolidation, given the high level of general government debt and the high-interest bill. Further steps could be taken to support growth including, in the short term, by focusing on the composition of expenditures and rationalizing GST and, over the medium-term, by focusing on domestic revenue mobilization, decreasing expenditures on subsidies, and enhancing fiscal transparency and thus reducing uncertainty."

3. **Financial sector:** "A comprehensive set of measures is needed to restore the health of the sector and enhance its ability to provide credit to the economy. These include steps to resolve balance sheet issues, including in the commercial banks, the corporate sector, and the NBFCs including housing finance companies. More information on smaller NBFCs is needed to better understand the impact of reduced credit on private demand, especially micro, small and medium-sized enterprises and in rural areas".

4. **Structural reforms:** "Measures to enhance the efficiency of credit allocation and governance reforms in the banking sector are urgently needed to strengthen confidence. Labour, land and product-market reforms aimed at enhancing competition and governance, along with measures to improve human capital (education and health), should be critical elements of India's structural-reforms strategy."

Conclusion:

The economic slowdown is a direct effect of GST, demonetization and several other factors. So we cannot say that it is only because of GST or demonetization. Every single factor is responsible for the economic slowdown in our country. The base of economic slowdown is the fact that the overall economic activity in the country has decreased. Even if it comes back on track according to the predictions in the fourth quarter of FY20, will these fallacies of the GST not affect the economic classes in a long period. The ill-timed implementation, mismanagement and witless planning has caused rise in inflation rate, rise in unemployment rate and fall in growth rate.

REFERENCES:

- Aakriti. S. (2019) Economic slowdown as an effect of GST.
- Ankit. K. (2019) Why is there an economic slowdown in India? Understanding the main reasons.
- Girish Garg, (2014) "Basic Concepts and features of Good and Service Tax in India".
- Niharika. S. (2019) IMF's recommendations to India to stave off "significant economic slowdown".
- Vaishali. D. (2019) Why is the Indian Economy facing Slowdown in 2019?
- Vasantha Gopal (2011) "GST in India: A Big Leap in the Indirect Taxation System", International Journal Trade, Economics and Finance, Vol.2, No.2, April 2011.
- Sobhana K. Nair Chief Economic Advisor admits to economic slowdown, THE HINDU, 09 November.