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Short Communication

Confronting the Economic Slowdown in India

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ABSTRACT

India is one among the very few economies which has an enormous potential for growth. However, in the past two years there has been a dwindling in the growth rates. With a potential to grow yet having a slowdown when India is enjoying the demographic dividend stages of its population growth is very alarming as a prolonged slowdown will result in job losses aggravating the scenario further. The growth rates of Gross Domestic Product and the sectoral growth rates of Gross Value Addition done to our economy by various sectors are seen to circle down exactly in which period and which sectors dwindling caused this sluggishness in our economy where, the consumption demand has declined provoking the investments to come down. The current slowdown is experienced right from the onset of 2018-2019 fiscal year, the sluggishness is due to the slowing of Agriculture, allied activities and the manufacturing sector. With the government throwing a flurry of reforms to revive the economy in the recent days, possible policy suggestions which may further be done to revive the sectors which have reported a decrease in sales and to boost other sectors which have shown signs of underperforming given the resources they are vested with, are put forth. Given the complex economic structure of India which has several informal sectors which are hard to be addressed, the implementation of these reforms can help India come out of this current slowdown and embark on the growth path it was on in the yesteryears.

Keywords: *demographic dividend, Gross Value Addition, informal sectors.*

1. INTRODUCTION

Indian Economy is one of the fastest growing economies in the world, and it has the potential to become one of the Economic superpower in the world given its vested bulk natural resources and labor force. With the Government aiming at a 5 trillion economy by 2024 to 2025, the present growth rate of 5% in GDP is never going to help us attain it. Economists and investors say that India is undergoing an Economic Slowdown which has resulted in this drop in growth rate of our GDP and other sectors to be in distress. An economic slowdown is a period of lean economic activities in the economy. By the end of the calendar year 2018 and beginning of 2019 automobile industry began to report a decrease in sales and a huge slowdown was looming with nearly 20 lakhs people on the verge of being thrown out of their jobs in that sector. Even before this the Gross Value Addition (GVA) done to our economy by agriculture, forestry, farming all began to fall while the construction industry which is the employer of bulk labor force in our country began to stagnate.

2. Research Statement

The GDP growth rate for the first quarter of 2019-2020 financial year is only 5%, considering the criticism on the growth rate calculations by various economists suggesting that the actual growth rate will be only 3%, it is an alarming situation. With Goldman Sachs ranking the current slowdown as the longest slowdown experienced globally even greater than the financial crises attributing the slowdown from January 2018 and the Chiefs of various broking houses predicting a global recession by the end of 2020 or early 2021 it is time to address this issue with seriousness to make sure our economy recovers and escapes a global crisis if it happens.

3. METHODOLOGY

This article uses secondary data collected from RBI reports, Economic survey 2017-2018, 2018-2019, National Statistics Office (NSO), various articles from The Hindu and The Times of India to analyze the present condition of our economy. Charts and Tables are used as tools of analysis.

4. Passiveness in Indian Economy

All the issues pertaining to the slowdown in our economy is reflected by the 5% growth rate in the first quarter of the fiscal year 2019-2020. So to understand this low growth rate it is necessary to know the growth rate of our Gross Domestic Product in the previous years, so as to know when it started to decline and whether we went wrong in our policy making or is it just the impact of a global slowdown being felt in our economy. In-spite of several leading organizations like the International Monetary Fund predicting India to be one of the few economies which will have a progressive growth rate of Gross Domestic Product in 2019, we did not achieve it. From the Annual Economic survey data, it is clearly seen that the growth rate of Gross Domestic Product of India has been falling since the advent of 2017-2018 fiscal year. (Table 1)

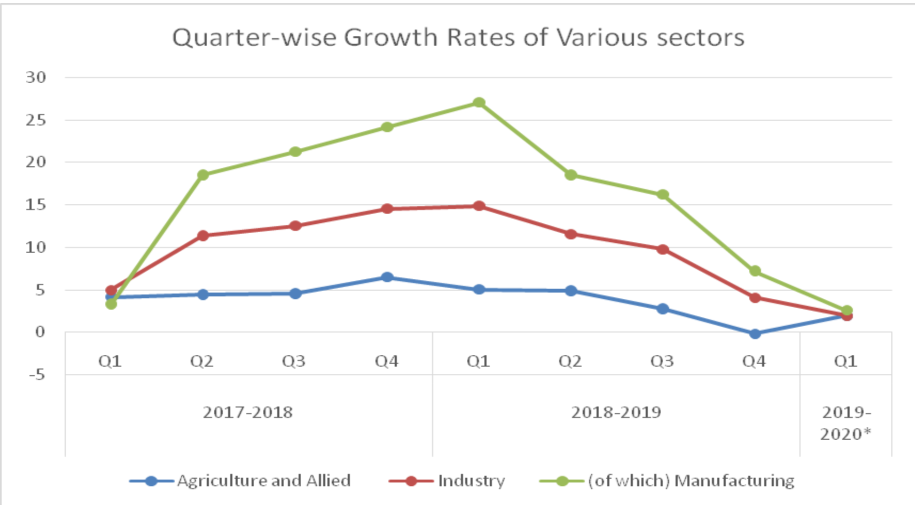
Table 1

	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020*
GDP growth rate at Constant Market Prices (%)	8.0	8.2	7.2	6.8	5.0

*1st Quarter Growth rate of GDP for 2019-2020

*Source: Economic Survey Volume II 2018-2019, *- National Statistics Office*

So we need to analyze the exact quarter in which our growth rate started to dwindle in order to find whether any policy change triggered the slowdown process. (Figure 1)



*Source: Economic Survey Volume II 2018-2019, *- National Statistics Office*

Figure 1: Quarter-wise Growth in Gross Value Added of Agriculture and allied activities, Industry and manufacturing (a part of Industrial growth)(%)

Comparing the growth rates of various sectors from the above table it is evident that agriculture and allied activities have been in distress since the first quarter of 2018 - 2019. Industrial sector which experienced near zero growth rate at quarter 1 of 2017-2018 showed signs of recovery but by the end of 2018-2019 the growth rates began to drop and currently the manufacturing experiences a 0.6% growth rate in the first quarter of 2019-2020. What differentiates the 2017-2018 near zero growth rate in industrial sector and the current growth rate is blatantly the absence of domestic demand and confidence among investors to invest.

5. Distress calls of Agriculture and Manufacturing sector

Several economists like Dr. Manmohan Singh feel that this downturn in growth rates is due to the absence of long term visions, productive investments and mismanagements and consider the Government fully responsible for it. It is high time that the Government boldly takes risks in infusing more investments into Manufacturing and other sectors which are at distress though it will result in an increased fiscal deficit and consolidate later on. For example: During the 2007-2008 financial crisis, the United States fiscal deficit rose threefold but still they handled it efficiently and stabilized later on. The slowdown in Agriculture and Allied sector has trickled down to the industrial sector thereby offsetting the consumption demand in our economy as there are low investments and long term visions for the Agricultural sector which was also affected by floods, failure of monsoons and other natural calamities. The decrease in private Final Consumption Expenditure growth rate from 10.6 % in 2018-2019 final quarter to 3.1% in the first quarter of 2019-2020 is a steep decline and the RBI's Consumer Confidence Survey (decreased from 97.3 to 95.7) affirms that it might take longer to restore it as the people have projected a decline in future spending.

With the initiatives of 'Make in India' promising to make India to be a Manufacturing Hub Globally and a promise of 100 million jobs, it is clear that India's potential to grow is immense but is derailed by some factors like jobless growth, absence of Research and Development Expenditure. This jobless growth is something which eats into the household savings of our country which will be a huge asset if in case a financial crisis looms.

6. Policy Suggestions

- The government should take risks by venturing into the market through investments that will be productive and beneficial to our economy in the long term, especially it should invest in Agricultural sector and develop the manufacturing sector by investing and developing several Manufacturing industries.
- Policy changes which accommodate and favor the informal sector is required as they are the major source of Consumption demand and the Government should take initiatives to address the informal sector as it is hard to ask the informal sector to represent them.
- Investments in Government infrastructure with planned location of industries and residential zones is needed so as to avoid conflicts which will boost the Real Estate and Construction sector.
- The investments made by the Government should be monitored through a board which comprises not only of academically proficient persons but also of persons of High Ethical values irrespective of political party or background.
- Underperforming of Public Sector units is a major issue to be addressed not by administrative outsourcing process rather improving the efficiency of the existing Public Sector units by regulating them and increasing in them as Privatization in majority of the sectors is not advisable at this point with so much room for growth it would pave way for exploitation and inequality in the long run.

7. CONCLUSION

Indian economy is an economy which still has enormous potential for growth. With India enjoying the Demographic Dividend stages of Population growth from 2018 which is about to last till 2055 it is essential to have growth that is productive by means of employment so as to harness its benefits and developing our country into a superpower in the world. But the current scenario portrays a different picture of our economy which is never good for a developing country like India. So it is time the Government addresses the issues of all the sectors in distress especially the informal sector, for our economy to recover, the Consumption demand to be replenished and to come up with policies which have long term benefits for our economy.

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