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ECONOMIC SLOWDOWN AND ITS IMPACT ON ECONOMY: A QUALITATIVE STUDY WITH REFERENCE TO INDIAN ECONOMY

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ABSTRACT

Manufacturing sector has been the backbone of all developed and developing nations. In developing countries like India the performance of manufacturing sector over the past few years has been dismal. The objective of this paper was to examine the impact of economic slowdown on economy growth and development. The study reveals causes of economic slowdown and advocates policies, recommendations to improve the performance of manufacturing sector and economy. The study is based on primary and secondary sources i.e. observation, referring existing research studies, Annual Reports of Reserve Bank of India, articles and news paper coverage's. This study would be useful to the policy makers' government as well as other stake holders to strengthen the economy.

Key words: Economic Slowdown, Demonetization, Goods and Services Tax.

INTRODUCTION:

Indian economy has been the fastest growing economy. The gross domestic product growths in the last five years have been supple at an average of 7.5 percent during 2014-15 and 2018-19. However, growth moderated to 6.8 percent in 2018-19 from 7.2 percent in 2017-18, marking it its second consecutive year of slowdown. Today our service sector contributes to 54.13 % while manufacturing sector contributes to 18.32% followed by agriculture which is at 14.39%.

The ongoing slump in the economy has impacted India in a way where the gross domestic product of the country has decreased as low as 4.5 percent in the third quarter of 2020. Many factors are further contributing to the slowdown in the economy like credit crunch in the financial markets, subdued exports due to unhealthy world trading pattern, declined consumer consumption, unemployment creating a grave situation in the country.

Though manufacturing forms an integral part of the industrial sector, its sectoral growth has ranged around 7 percent and its share in gross domestic product has stagnated to around 16 percent. Comparing poorly with peers such as Indonesia (20%), Malaysia (22%), Thailand (27%) and China (29%), the performance of India's manufacturing sector over the past few years has been drab.

The growth of consumer goods production has virtually ground to a halt; production of investment goods is falling. Exports, imports, and government revenue indicators are close negative territory *(Sandefur and Duggan, 2019)*. Monetary tightness *(BalaKrishnan, 2019);* or policy and political uncertainty *(Singh 2019: Basu 2019;* Indian Great Slowdown (*Arvind Subramanian and Josh Felman, 2019)* addressed economic slowdown in India.

OBJECTIVES OF THE STUDY:

1. To provide a conceptual overview of the economic slowdown with reference to Indian Economy.
2. To understand the underlying reasons for the present slowdown in Indian Economy. .
3. To investigate the issues and consequences of economic slowdown.

METHODOLOGY OF THE STUDY:

The present study namely "economic slowdown and its impact on economy - A qualitative study with reference to Indian economy" based on secondary data; the data required for the study has been collected from journals, magazines, previous research works, News Papers and various websites.

ANALYSIS AND DISCUSSION:

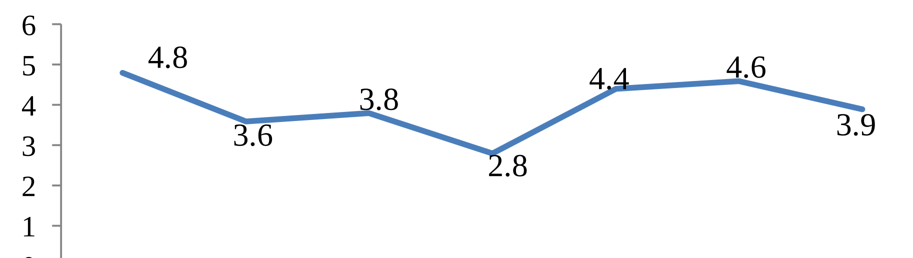
The gross domestic growth of Indian economy has touched the six year low in the first quarter of financial year April-June 2020. Many sectors that contribute to the Indian economy's growth path, like Automobile, Manufacturing, FMCG, Agriculture, Real estate are lagging behind in achieving desired growth rate and jobs in these sectors are not only going down but are also trimmed. The official data released by the National Statistics Office (NSO) confirm that. Weaker consumer demand and slowing private investments are the two key factors behind the Indian economy slowdown.

Indian's economic growth has slowed for five consecutive quarters beginning from 2015-16 onwards. The cause of the problem as shared by some of the experts consists of supply side shocks. Besides, main contributors to the slowdown include Demonetization and Stressed Banking Sector, GST implementation, agricultural distress and global slowdown.

To eradicate black money and encourage digital transactions, in November 2016 the Government of India demonetized the large valued currency notes of Rs. 1000 and Rs.500, accounting for 86.4% of the total value of the currency in circulation. It was indeed a macroeconomic shock, devastating the unorganized sector employing up to 90% of the workforce and contributing nearly half of the domestic output. Indeed it adversely affected the unorganized sectors and public in general. The purchase power of individual has fallen, resulting in supply shock. The manufactures were forced to reduce their production and downsize their employees. Even the government could not enjoy the authority of the decision taken with drastic fall in the GDP post demonetization.

The Goods and Services Tax to replace various indirect taxes has been in the making for quite a while. GST was introduced in 2017; a second shock in less than a year, even though well accepted in principle by the stakeholders, planning and implementation is a big question mark. Even after continuous reforms, it could not gain the confidence of some of the state governments and industry in general. The state governments are strongly opposing the revenue distribution among Central and State from the GST. Besides this, it is adversely affecting small and informal enterprises, thus leading to a serve shortfall in tax collection; it has also affected government finances.

Figure 1: Annual growth rates of Manufacturing Sector from 2012-13 to 2018-19



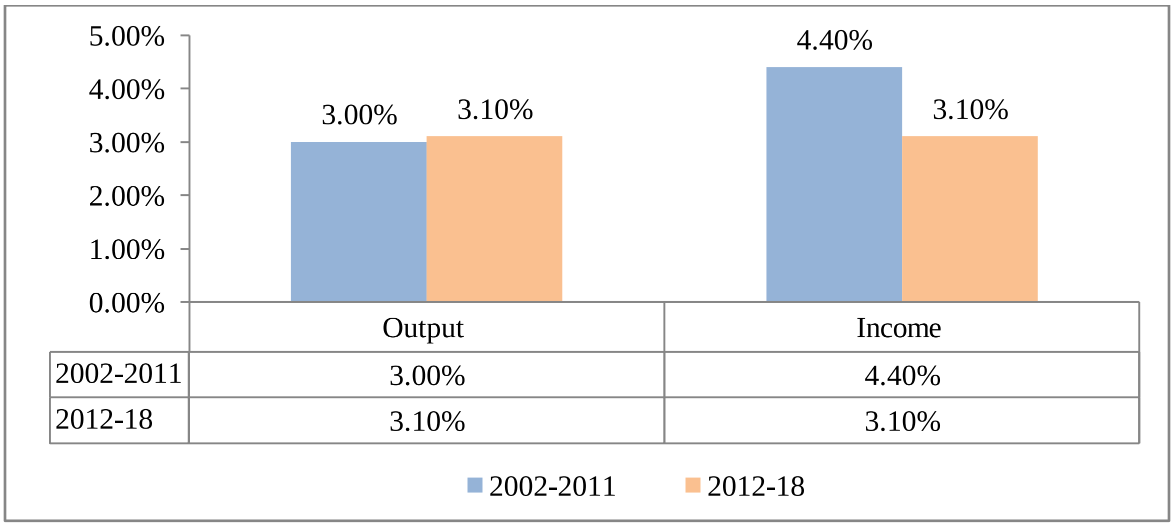
	2012-13	2313-14	2014-15	2015-16	2016-17	2017-18	2018-19
Growth Rate	4.8	3.6	3.8	2.8	4.4	4.6	3.9

Source: Ministry of Statistics and Programme Implementation, Government of India Annual Report 2019-20

Manufacturing sector in India witnessed volatility of growth rate during 2012-13 to 2018-19. In 2012 growth rate was at 4.8, it fell to 3.6 in 2013-14 and showed slight increase in 2014-15 with 3.8. A sudden fall is seen in 2016-17 with 2.8 grew and almost doubled in 2016-17 with 4.4. Trivial improvement was made in 2017-18 with 4.6 but decreased to 3.9 in 2018-19.

Added to this most public sector banks are saddled with high Non Performing Assets that have resulted in them tightening lending and instead, seeking deposits and otherwise repairing the balance sheets by making provisions for bad loans. Indeed, absent recapitalization of such banks by the government, one might very well see a vicious cycle where in bad debts and demand collapse leads to no lending and no fresh investment in addition any consumption.

Figure 2: Real Agricultural Output and Income (Annual Average Growth in %)



Source: WDI. Income is measured as nominal agricultural value-added deflated by the consumer price index for agricultural labour.

Indian economy is predominantly dependent on agriculture and reflects Indian culture particularly of villages. But, for last two decades and so, it could not provide the profitability to agriculturist, more than ever to the small and marginal farmers. In 2002-2011 the agriculture output was 3.0% which rose to 3.1% in 2012-18, where income decreased from 4.4 % to 3.1% during the same period. Even after increase in farm output, there is a decline in the income. It created lot of unpredictability and distress among farmers leading to mismatch between agricultural growth and welfare.

It is not these factors alone, and the most important factor is that there is 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 volume of exports. Apart from that, the Real Estate Sector that has come to a grind in recent months and hence has also contributed to the economic slowdown.

The $100 billion automobile industry that employs 370 lakh people and contributes 12 percent to the national Gross Domestic Product, is suffering from huge slowdown. Around 3 lakhs jobs are lost, sales have gone down and the automobile industry appears to be going in reverse gear. Eight core sectors have registered negative growth of just 2.1% in July, compared to 7.3% in the corresponding month last year. 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%.

Foreign Portfolio Investments pulled out a net amount of Rs.5, 920 crore even after government announced a rollback of enhanced surcharge on Foreign Portfolio Investments. All the sectors need huge investment and remedial measures to increase the demand to improve and take India out of the state of economic slowdown.

The Indian economy could not reap the benefits of Demonization; indeed it adversely affected the unorganized sectors and public in general. The purchase power of individual has fallen, resulting in supply shock. The manufactures were forced to reduce their production and downsize their employees. Even the government could not enjoy the authority of the decision taken with drastic fall in the GDP post demonetization. One more major reform brought by the Government of India, Goods and Service Tax (GST) was also unfavorable to a great extent particularly for the Micro Small and Medium enterprises (MSMEs).

CONCLUSION:

The present Government made promises to refurbish the economy through decisive governance, create employment, encourage indigenous manufactures, prioritize agriculture sector confined to papers and policy documents only. In real time, the economy is facing slowdown affecting all sections of the economy. This problem can be rightly addressed by taking corrective measures such as, more budget allocation to stimulate investment and demand, create more certainty in business environments, and expend more money on rural areas, the backbone of India.

On a positive note, the recent slowdown in India's economic growth due to the aforesaid reforms is temporary. In the Long run, with structural reforms, Indian economy can regain and enjoy the benefits of Goods and Services Tax. Goods and Services Tax will create a positive impact in the long run on Indian economy, said Jim Yong Kim, President, World Bank.

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