

# OUR HERITAGE JOURNAL

certify to all that

Mr. Nijil Jacobi

has been awarded Certificate of Publication for research paper titled

*Slowing Indian Economy: An Overview of Current Scenario*

Published in Vol-68-Issue-30-February-2020 of OUR HERITAGE JOURNAL with ISSN: 0474-9030

UGC Care Approved International Indexed and Referred Journal

Impact Factor 6.6

*S.S. Sharma*

---

Editor, OUR HERITAGE JOURNAL

## **Slowing Indian Economy: An Overview of Current Scenario**

**Mr. Nijil Jacobi**

Assistant Professor (on contract)

Department of Economics

Sacred Heart College, Chalakudy, Thrissur, Kerala

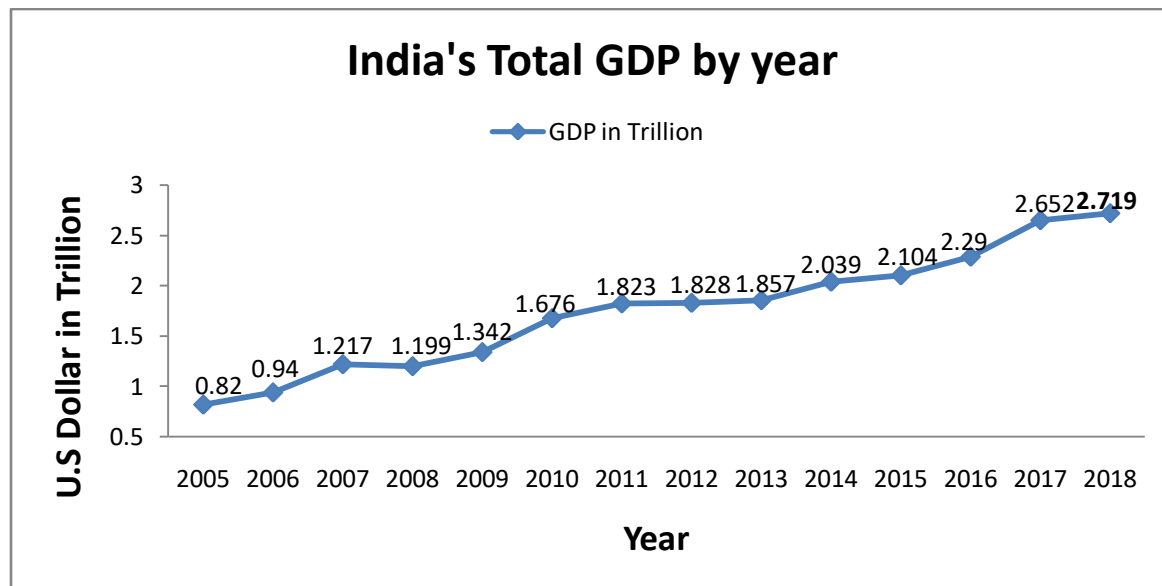
### **Abstract**

The economy of India is characterised as a developing market economy and it is one of the world's fastest-growing economies. It is the world's fifth-largest economy in terms of Nominal GDP and the third-largest in terms of Purchasing Power Parity (PPP). Historically, India was the largest economy in the world for most of the two millennia from the 1<sup>st</sup> until the 19<sup>th</sup> century. It had been touted as an economic and geopolitical counterweight to China. But recently its growth fell to its slowest pace in six years. Investment has weakened, and unemployment has risen. So what is causing the slowdown, and how can it be reversed? This paper tries to offer an overview of current Indian economy and the reasons of recent slowdown.

**Keywords:** Growth, Income, Shadow banking, Unemployment

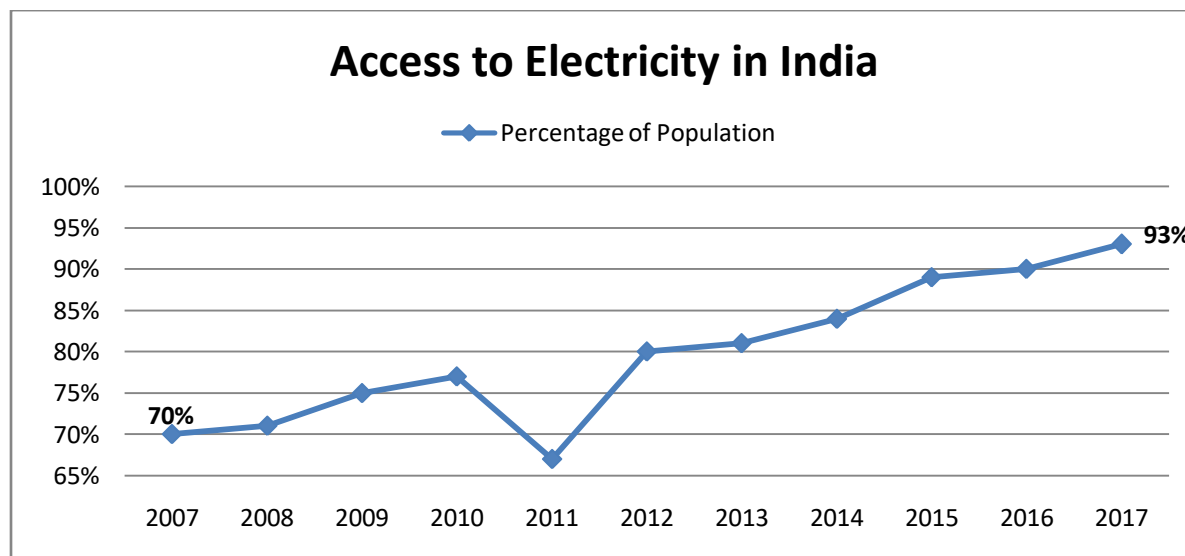
### **Introduction**

According to the IMF, on a per capita income basis, India ranked 142<sup>nd</sup> by GDP (nominal) and 119<sup>th</sup> by GDP (PPP) per capita in 2018. Since the start of the 21<sup>st</sup> century, annual average GDP growth has been 6% to 7% and from 2014 to 2018, India was the world's fastest-growing major economy, surpassing China. Since the turn of the century, India's economy has grown at a rapid rate, helping transform the country.



Source: World Bank, 2019

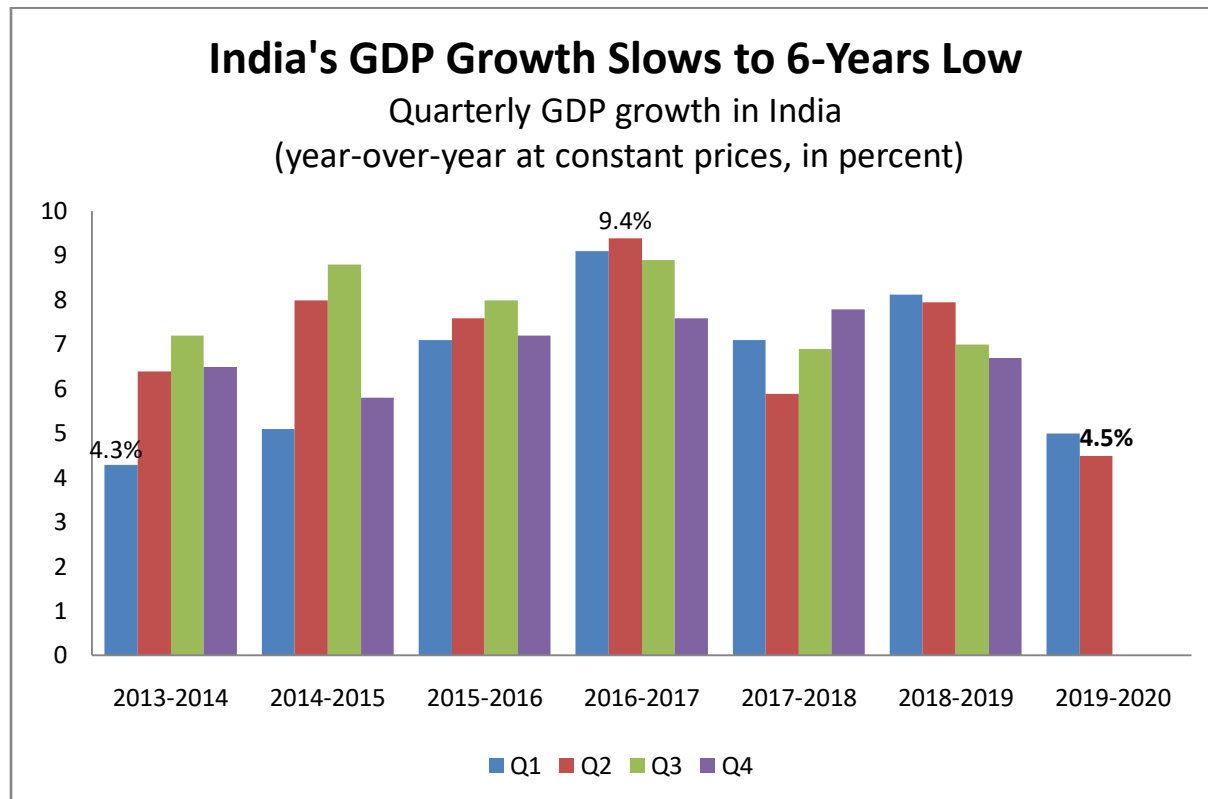
Between 2006 and 2016, rising incomes lifted 271 million people out of poverty, meaning the proportion of the Indians still living in poverty has fallen dramatically, from around 55% to 28%. Access to electricity has also improved. In 2007 just 70% of the population had access to power. By 2017, that grew to nearly 93%.



Source: World Bank, 2019

More recently, the Indian Government constructed around 110 million toilets – a huge step towards better sanitation designed to prevent the practice of open defecation. It is a signature programme of Prime Minister Narendra Modi, known as Swachh Bharat, or Clean India. All this

development has been supported by a booming economy, but as of late, that expansion has begun to run out of steam.



*Source: Government of India Ministry of Statistics and Programme Implementation (MOSPI)/TradingEconomics.com*

In the third quarter of 2019, India's economic output grew by 4.5% - making it the first time the country's growth dipped below 5% since 2013. For context, 4.5% growth is still much higher than that of developed economies like the U.S. But with 12 million Indians entering the workforce every year, economists say the country needs annual growth rates to stay above 9% to ensure there are enough jobs.

### What is causing this recent slowdown?

The India Government argues turbulence in international financial markets is at fault. Political uncertainty and U.S – China trade tensions mean confidence level among investors and consumers everywhere have sunk. The United Nations has even warned that a global recession in 2020 is now a “clear and present danger”. But back to India – many economists say the country's growth problems are actually self-inflicted.

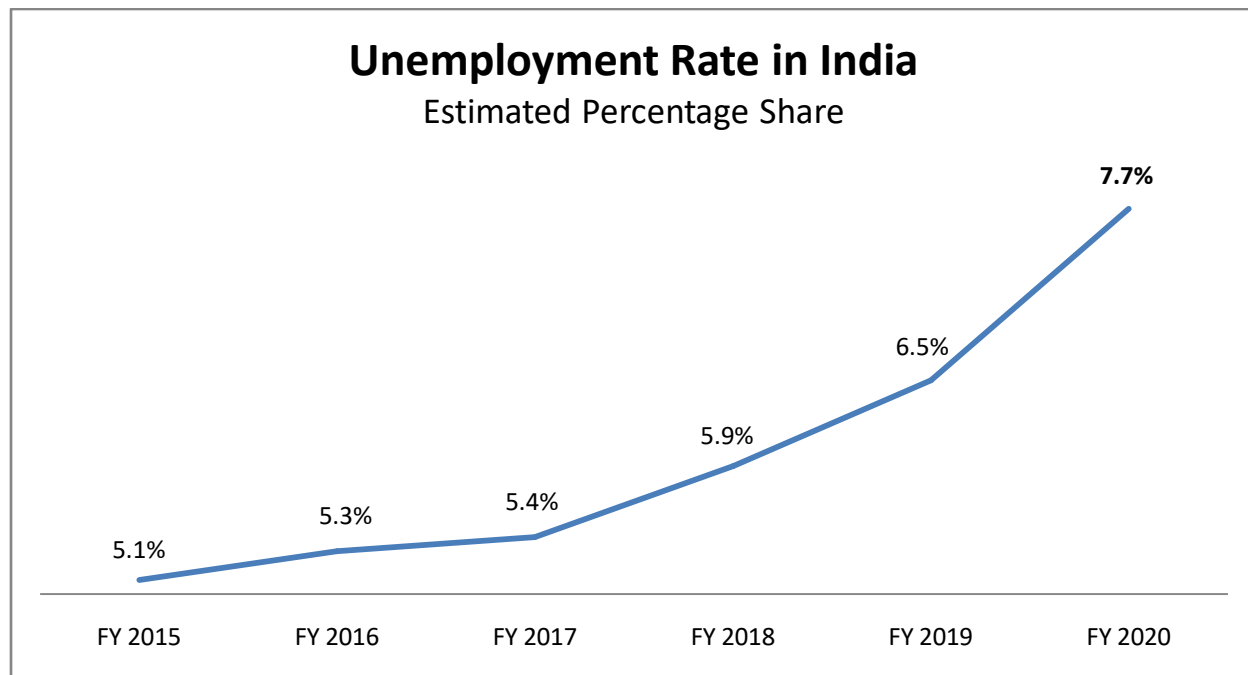
One obvious culprit is the shadow banking sector. During the 2000s, India saw an investment boom. It was fueled by state banks dishing out a load of loans for big infrastructure projects. But

some of the companies taking advantage of these loans couldn't keep up with the repayments. That meant the state banks weren't getting paid back and therefore struggled to give out new loans. To keep business moving, shadow banks stepped in. These financial institutions, which operate like ordinary commercial banks but don't follow traditional banking rules, eventually made up an estimated third of all new loans nationwide. The loans played a pivotal role for the millions of small businesses and consumers who would otherwise have no access to credit. But in 2018, shadow banking giant infrastructure leasing and financial services defaulted on its debt repayment.

The collapse of shadow banking sent shock waves through the economy and shook up more traditional banks that had supported the sector. This had a ripple effect. It became harder for people to buy expensive items like cars. That hurt India's automotive industry, which is one of the country's biggest. It employs about 35 million people and makes up about 7% of India's GDP. Last summer, the industry suffered its worst sales performance in nearly 19 years, and reports suggest tens of thousands of workers have been laid off. The agriculture and construction sectors have also been hurting, with small and medium businesses being hit the hardest.

## **High unemployment rate: A threat to national security**

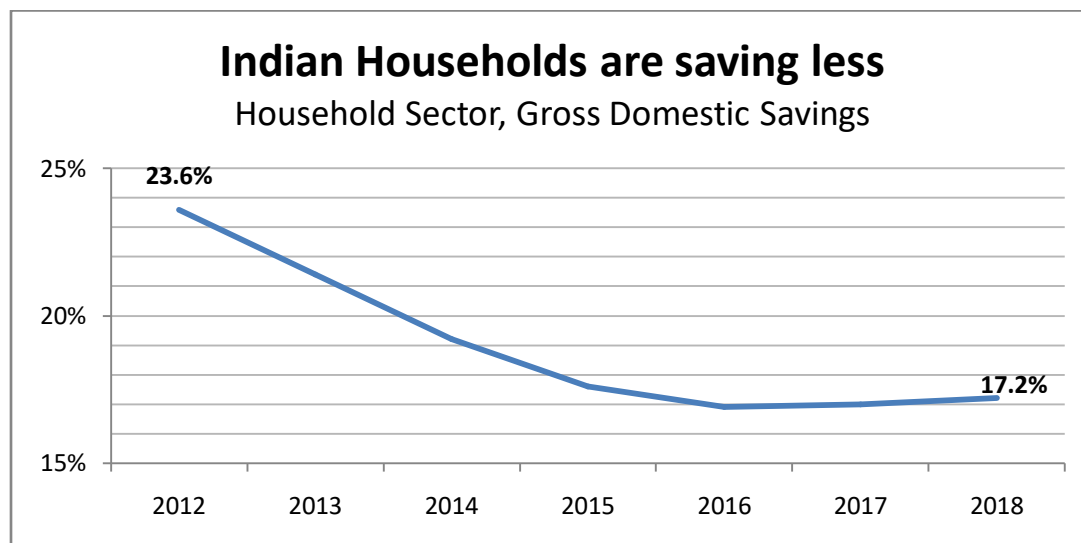
The country's unemployment rate has been on an overall upward trend since July 2017, rising several percentage points to 7.7%. Higher unemployment means consumers are buying less, leading to the unfortunate cycle of slower manufacturing, production, investment and job creation. A survey from the Reserve Bank of India (RBI) found consumer confidence has fallen to its lowest level in five years. But Indian's still have a positive outlook for the future, with most consumers expecting to feel more optimistic in a year.



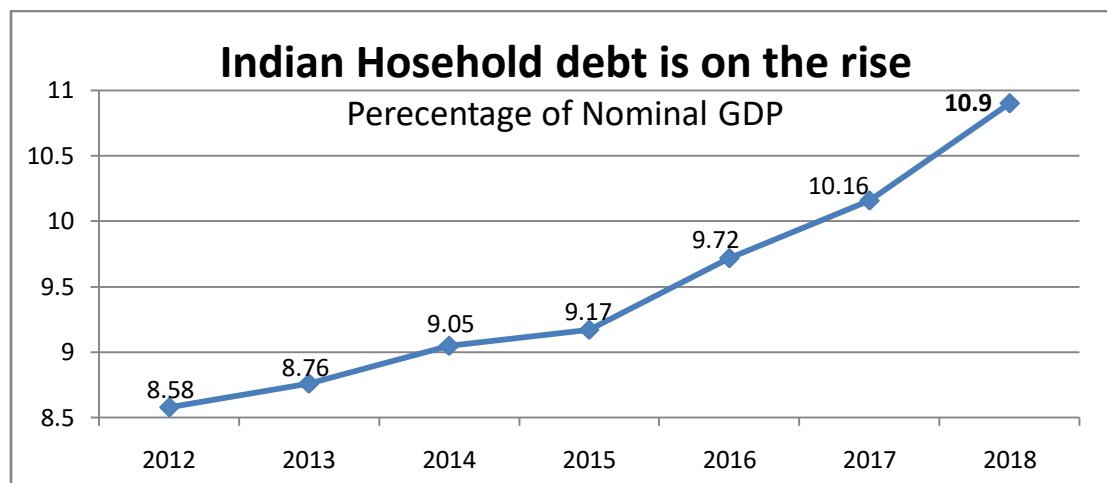
*Source: Centre for Monitoring Indian Economy, 2019*

### The perils of mounting debt burdens and hurdles

If things do not improve, debt could become another issue. Expecting better days ahead many households have contributed to spending, by taking out loans dipping into savings. Household savings as a proportion of GDP has fallen from 23.6% to 17.2%. Meanwhile, household debt has surged to 10.9% during the same period.



*Source: Reserve Bank of India, 2019*



*Source: CEIC, 2019*

Critics say the government in New Delhi has failed to spot these risks and hasn't done enough to get the economy moving again. The RBI's former governor Raghuram Rajan recently blamed the lack of significant reforms and a slowdown in investment since the global financial crisis. Even the country's Chief Economic Advisor recently admitted reforms are needed to make India friendlier to investors. India has cut its corporate tax rate, but labour and land laws are still extremely strict. He also says the country needs to become pro-market, rather than just pro-business, to avoid costly government ballots of falling sectors. But not all reforms have been good to the economy.

In 2016 the Government of India tried to clamp down on corruption, counterfeits and tax evasion by banning high-value banknotes. In one night, the cash ban made 86% of all hard currency invalid. Three years later, many analysts say the policy disrupted the economy and failed to achieve many of its original goals. In 2017, a new sales tax placed small businesses under pressure and some of them were forced to close. In mid-2019, India's government introduced a controversial new tax on foreign investors. Consequently, India's stock market suffered its worst July performance in 17 years. Just one month later the measure was scrapped.

### **India need to put out the fire before it spreads to the kitchen**

The Government has now refocused its efforts on international trade and investment, and recent changes to the corporate tax rate could indeed help attract businesses and investors to India. But if the country wants to be part of the world's largest supply chains, it will need low and consistent tariff levels to encourage outsiders to invest for the long term. The country's shifting export policy has harmed several of its largest industries, particularly clothing. India's share of the global apparel market has increased only slightly in the past 20 years. And though the Indian workforce is vast, both Bangladesh and Vietnam now export more. On top of that, the country's import tariffs on average are much higher than the world's biggest economies. They are also

among the highest of the world's emerging economies. Even U.S President Donald Trump has called for the country to bring down its duties.

## **Conclusion**

Has India's growth actually slowed as much as we think? The former chief economic advisor to India Dr. Arvind Subramanian caused a fair bit of controversy in June 2019, when he claimed the country's official stats probably overstated GDP growth by 2.5% from 2011-2012 to 2016-2017. According to his study the bottom line is that India never recovered from the global financial crisis. The government denies all these findings. But none of this has hurt Prime Minister Modi at the polls – he won by a landslide in the most recent election. Economists and Business experts are waiting to see how will he keep his promise and double the size of the economy by 2025? Many economists insist a well-explained economic vision would help. As would more long term investment, better-skilled workers and improvements to infrastructure would boost the economy to survive. It may not matter who or what is to blame for India's recent economic challenges, but bottom line – India's economic growth needs to bounce back, and fast.

## **Reference**

1. India's total GDP by year, The World Bank Data 2019, <https://data.worldbank.org>
2. India Ranks 130 on 2018 Human Development Index, UNDP 2018, [www.in.undp.org](http://www.in.undp.org)
3. MOSPI/TradingEconomics.com
4. Unemployment rate in India, 2019, <https://cmie.com>
5. Handbook of statistics on Indian economy, 2019, <https://www.rbi.org.in>
6. India household debt percentage of GDP, <https://www.ceicdata.com>