



## Economic Crisis in India

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In 2017, India's economic size stood at \$2.65 trillion, followed by the UK at \$2.64 trillion and France at \$2.59 trillion. However, this status was short lived as the UK's economy grew to \$2.82 trillion and the French economy expanded to \$2.78 trillion in 2018, against India's \$2.73 trillion. India is undergoing an economic slowdown. Its GDP grew at 5%, 4.5%, 4.7% and 3.4% in the 4 quarters of FY19-20, while in the first quarter of FY21 slowdown was more serious where GDP shrunk by 23.9% and in the second quarter GDP contracted by 7.5% mainly due to the lockdown imposed all over India because of the COVID-19 Pandemic.

### What is an Economic Slowdown?

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). The rate of economic growth or decline is calculated by determining the percentage change in GDP from one period to another.

#### Types of Economic Slowdown:

- 1) Cyclical Slowdown
- 2) Structural Slowdown

#### What is a Cyclical slowdown?

A cyclical slowdown is a period of lean economic activity that occurs at regular intervals. Such slowdowns last over the short-to-medium term and are based on the changes in the business cycle.

#### What is a structural slowdown?

A structural slowdown, on the other hand, is a more deep-rooted phenomenon that occurs due to a one-off shift from an existing paradigm. The changes, which last over a long-term, are driven by disruptive technologies, changing demographics, and/or change in consumer behavior.

#### What is a Technical Recession?

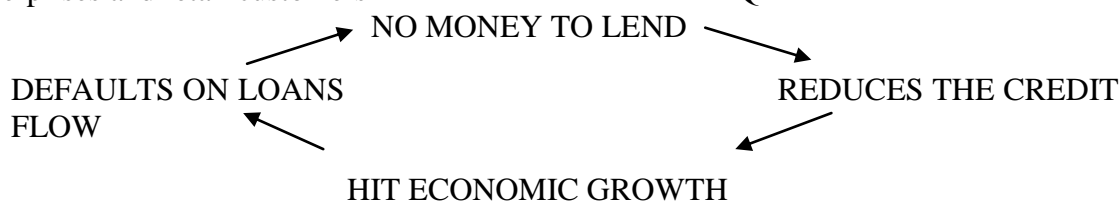
There is no perfect definition of recession. National Bureau of Economic Research in the US states that 'during a recession, a significant decline in economic activity spreads across the economy and can last from a few months to more than a year. Currently, India is in technical recession since the economic growth is negative in last two quarters. Though, there is a sharp growth in many sectors, few sectors still remained contracted during the second quarter of fiscal year 2020-21.

## Signs of Slowdown

In India, the signs of slowdown appeared due slump in the 8.3 lakh crores automotive industry. The automotive industry, which employs around 32 million people (directly and indirectly) is facing a problem of falling quarterly sales numbers and closure of nearly 300 dealerships across India. Since, this industry accounts for 22-25% of India's manufacturing GDP, the slowdown destabilized the country's already-tottering economy.

## Causes of Slowdown

1. Demonetization: The informal sector which constitutes nearly 85% of the Indian Economy hampered severely due to lack of liquidity.
2. Lack of proper implementation of GST: Due to complicated procedures of GST registration, the monthly revenue rarely touched the expected 1Lakh crore per month during the 2019.
3. NBFC crisis: NBFC's are Financial institutions. They borrow money from banks or sell commercial paper to mutual funds to raise money and provide loans to small and medium enterprises and retail customers. The NBFC's were under LIQUIDITY CRUNCH.



4. Global Economic Slowdown: Organization of Economic Cooperation and Development (OECD) reduced its forecast for global growth to a decade low. Global Economy slowed from 3.6 % in 2018 to 2.9% in 2019, it is the weakest growth since 2008-09. The reasons might be A) Trade uncertainty due to USA and China trade war B) Instability in Oil Prices C) Brexit D) Geopolitical Tension in Western Asia. While its Impact on India are: a) Investments are decreasing b) Employment is decreasing c) Capital flows are decreasing d) GDP growth has slowed down
5. Distress in Agriculture: Agriculture employs more than 50% population. Though, the only sector that has grown is Agriculture, Forestry and Fishing at 3.4 per cent during the first quarter of fiscal year 2020-21, the agricultural growth was sluggish in 2019 i.e. 2.1%. Skewed and unprecedented monsoon is the foremost reason for the sluggish growth. One more important reason is that since 2016, rural income is not increasing. Agricultural wages were 10 years lowest in the year 2019.
6. Unemployment: As per CMIE, India's unemployment rate stood at 7.8% and the labor participation rate at 39.3% resulting in a sharp fall in employment rate at 36.24%.
7. Middle Income Trap and Trust and Confidence of people of India: India's economy runs on the consumption of the citizens. Consumption contributes nearly 57% to the India's GDP. So, as the consumption expenditure decreases, it affects the economy severely. Due to the gloomy outlook about the economy, people are not investing due to the lack of trust and confidence.

## Conclusion

India is in technical recession. Thus, fiscal stimulus is needed to revive the economy. The temporary Repo rate cuts are not sufficient to increase the consumption; government expenditure must increase to stabilize the economy.

## Government's Stimulus Package:

The Indian government has announced a stimulus package of 20 lakh crore which is nearly 10% of our GDP. The government is providing packages to all the sectors to revive the

economy. Additionally, government is announcing Atmanirbhar Package for India. It Includes:

- 1) 1.7 lakh crore for Pradhan Mantri Garib Kalyan Yojana
- 2) 6.5 lakh crore for Reserve Bank's liquidity measures
- 3) 3 lakh crore collateral free loans for Businesses and MSME units
- 4) 18000 crores additional outlay for Pradhan Mantri Awas Yojana
- 5) 1.46 lakh crore boost for Atmanirbhar Manufacturing Production-linked incentives for 10 champion sectors.
- 6) 1.10 lakh crore for Infrastructure Debt Financing
- 7) 65000 crores for subsidized fertilizer for Agriculture sector
- 8) 20000 crores for Pradhan Mantri Matsya Sampada Yojana
- 9) 1 lakh crore for Agricultural Infrastructure Fund
- 10) 10000 crores for formalization of Micro food Entreprizes

#### Quarterly Estimates of Gross Value Added:

INDUSTRY	Quarterly Figures	
	April-June 2020-21	July –Sept 2020-21
Agriculture, Forestry & Fishing	3.4%	3.4%
Manufacturing	-39.3%	0.6%
Construction	-50.3%	-8.6%
Trade, Hotels & Transport	-47.0%	-15.6%
Public administration, Defense & Other services	-10.3%	-12.2%
Gross Value Added	-22.8%	-7.0%
Gross Domestic Product	-23.9%	-7.5%

Source: NSO