# Understanding India's Economic Slow Down - Challenges for reaching $ 5 Trillion Economy by 2024 - 2025

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*Abstract* - **The world has experienced the biggest shock since World War II, with two severe pandemics, the journey to economic growth for every nation around the globe has become rough with two core pillars of an economy (Growth & Health) are at risk and requires a firm control over brake and accelerator which determines the development path both globally and domestically.**
**In India, though the prominent sectors and their collective growth and contribution to Gross Domestic Product have exhibited dynamic patterns in the past. After 2009 more specifically from 2011 to 2019 GDP growth contraction followed by Covid – 19 pandemic made the situation worst resulting in a slump like situation. Now India needs to grow at a faster rate to make up for the loss of output, employment, increase in exports are some of the pertinent challenges that need to address to stimulate the economy. For tackling these issues India has to come forward with massive scale economies huge public investment to combat and to boost up the demand for consumer and investment goods to have a robust macroeconomic policy from all directions to meet aspirational USD 5 Trillion economies. The scope of this paper tries to make a holistic effort to identify the factors needed to promote and increase the GDP by 2024.**

*Index Terms* – **Growth Rate, Gross Domestic Product, Exports, Unemployment rate, Infrastructure.**

## INTRODUCTION

India's development journey over the years has been marked by significant milestones and reforms that enabled it to achieve substantial progress in many areas including a rise in income levels, growth, literacy, life expectancy and a wide variety of other economic indicators.
The growth of any economy is dependent on the performance of the three main sectors which can contribute towards overall Gross Domestic Product (GDP) National Income are Agriculture, Industry and Service sector.
This paper examines the pre-pandemic slowdown, and subsequent contraction, in the Indian economy followed by the health pandemic which further made the economic indicators slow down and accentuate the reach $ 5 trillion a prolonged ambition. Utilising an analysis of broad macroeconomic and sectoral fundamentals, this paper suggests that a notable lack of consumption and investment demand had already persisted before the pandemic, COVID-19 worsened those trends. Henceforth, India's economic revival will be crucially dependent on demand generation by direct government fiscal and monetary intervention.

## OBJECTIVES OF THE STUDY

- To analyse the performance of the Indian economy during 2014 – 2019 and further 2021.
- To Identify the reasons for the slow growth of the Indian economy.
- To evaluate the prospects to reach the $ 5 Trillion economies.

## METHODOLOGY

For review analysis the study used secondary data from various published articles, a Working group of USD 5 trillion, reports from the Economic Survey of India -2019 and 2020. To strengthen the study of CMIE reports for various years, Ministry of Statistics and Program Implementation, Government of India, Reserve Bank of India -Handbook of Statistics, World Bank and IMF reports and Expert's opinion published in leading newspapers, published articles in journals.

## REVIEW OF LITERATURE

Swapnil Soni and M. H. Bala Subrahmanya (2020) opines that to achieve the USD five trillion targets to reach 2024 requires the collective growth of the key sectors of the economy especially during covid 19 has created a setback to reach the said target. Pandemic has adversely impacted the growth of contributing sectors to increase GDP. The study recommended the role of policymakers to focus on all the three sectors equally without resorting to a focus on any particular sector. Along with the individual growth of a sector, its dynamics with other sectors can contribute to achieving a USD five trillion economy by 2027 – 28.
The working group Report (2020) considering the past growth trends in various sectors and the strengths of the Indian economy "Youth Bulge" by 2020 expresses to achieve USD Five trillion as it considered the contribution of agriculture 17%, industry 17% and a major share by servicing sector 50%, policy drive by the government can make the economy to reach USD Five trillion, but the study has not considered the later effects of pandemic and the subsequent fall in their respective shares.
Jayashree Sengupta (2020) expressed his Views on the Five Trillion Economy target by 2024, which is difficult to achieve with capitalist rich powerful class already created widening inequalities, agricultural stress. High unemployment, environmental degradation, problems in the financial system, with big cities having huge slum clusters, development indicators like health, education and other infrastructural facilities requires stimulus for which the country should grow at 12% to reach the target of five trillion economies by 2024 which is not nearby.
Manjushree Paruchuru, Sudha Mavuri and Jyothsna(2020) have done research in the area of challenges to achieve economic growth in all the core sectors of the economy and expressed the declining trend even before the pandemic and the situation has further declined due to health pandemic, thereby recommended the role of government in bringing labour reforms, innovative reforms and particularly by attracting more investment in manufacturing sector can make the economy to reach its target.

GROWTH STATUS OF INDIA DURING 2009 – 2014 IN NUMBERS

**Need for using GDP as a performance Indicator:** Of all the factors and empirical data from most of the earlier studies reveal that given an insight into the shape of a national economy, there aren't many indicators more than GDP. GDP is the total market value of all final goods and services that have been produced within a country in a given time, usually a year. Real GDP figures serve as a more reliable tool in understanding the direction of a country's economy, as they are adjusted for inflation and reflect real prices and the purchasing power of any country's currency.

INDIA AFTER LIBERALISATION BEFORE PANDEMIC

The status of any economy depends on the progress that it achieves over some time. India after independence exhibited a relatively positive growth rate though in small magnitude striving hard to promote developmental activities from time to time, though the challenges are increasing as the economy is progressing. After growing at an average rate of 6.3% in the past three decades (1981–2011), India's gross domestic product (GDP) growth fell from 8.49% in 2010 to 5.24% in 2011 and further to 5.45% in 2012. As experts express the recent fall in GDP growth below the long-run average is the beginning of a permanent decline in the potential growth of output.
According to Experts Opinion, all major economic indicators which act as engines of growth like consumption, Investment have moved progressively for more than three decades, but from 2011 onwards there have been major fluctuations in GDP growth rate except for a few years, but by 2019 growth rate was minimal and pandemic adversely impacted the entire economy resulting in to further decline in growth rate. The GDP figures in 2019 with a trillion of $2.871 and in 2020 with a trillion of 2.66 to reach to five trillion is possible if the economy is growing more than 9% per annum. The present given stimulus packages, boosting up health infrastructural facilities, other infrastructural facilities, requires a huge investment to establish a new normal.
This is analysed on the basis of given GDP growth rate.

GDP GROWTH (ANNUAL %) – INDIA

| year | GDP % | Year | GDP% |
|---|---|---|---|
| 1995 | 7.57 | 2008 | 3.08 |
| 1996 | 7.55 | 2009 | 7.86 |
| 1997 | 4.05 | 2010 | 8.49 |
| 1998 | 6.18 | 2011 | 5.24 |
| 1999 | 8.84 | 2012 | 5.45 |
| 2000 | 3.84 | 2013 | 6.38 |
| 2001 | 4.82 | 2014 | 7.41 |
| 2002 | 3.80 | 2015 | 7.99 |
| 2003 | 7.86 | 2016 | 8.25 |
| 2004 | 7.92 | 2017 | 6.79 |
| 2005 | 7.92 | 2018 | 6.53 |
| 2006 | 8.06 | 2019 | 4.04 |
| 2007 | 7.66 | 2020 | -725 |

Source: World Bank Report

Before the covid 19 there were tendencies to slow down as indicated in the rate of growth.

The following major factors attributed to the slow growth.

a. Structural( Land, labour, inequalities)

b. Cyclical ( Slump in Agg. Demand)

c. Govt policy Demonetization and GST

The other subsidiary factors equally identified are

- Growth of Gross Domestic Product
- Growth in Employment Creation
- A rise in the rate of Unemployment
- Un favorable Foreign Exchange rate.
- A rise in Food Inflation

The pattern of the progress of GDP during 2014-15 to 2018-19 and Provisional estimates of International Institutes/Rating agency during 2019-20 is presented below.

| *The pattern of GDP Progress from 2014 to 2021* | | | Provisional estimates of International Institutes /Rating agency during 2018-19 |
|---|---|---|---|
| Year | Rate of progress of GDP % | Institutes | Rate of Progress (%) |
| 2014-15 | *7.4* | *IMF* | *7.3* |
| 2015-16 | *8.2* | *World Bank* | *7.5* |
| 2016-17 | *7.1* | *FITCH Rating* | *6.6.* |
| 2017-18 | *7.2* | *CRISIL* | *7.3* |
| 2018-19 | *6.8* | *UNO* | *7.4* |
| 2019-20 | *5.4* | *ADB* | *7.2* |
| 2019-20 | *4.2* | *CMIE* | - |
| 2020-21 | *-7.25* | - | - |
| 2021 -22 | *4.04* | - | - |

Source: Economic Survey -2018-19 & International Institutes official websites

Real GDP Growth

| Component | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 |
|---|---|---|---|---|---|
| Total Consumption Expenditure | 7.8 | 7.1 | 7.4 | 5.9 | -7.1 |
| Private | 8.1 | 6.2 | 7.6 | 5.5 | -9.0 |
| Government | 6.1 | 11.9 | 6.3 | 7.9 | 2.9 |
| II. Gross Capital Formation | 3.7 | 10.8 | 9.7 | 2.3 | -12.9 |
| Fixed Investment | 8.5 | 7.8 | 9.9 | 5.4 | -12.4 |
| Change in Stocks | -48.8 | 68.3 | 27.2 | -39.7 | -3.5 |
| Valuables | -18.6 | 40.2 | -9.7 | -14.2 | -38.0 |
| I. Net Exports | | | | | |
| Exports | 5.0 | 4.6 | 12.3 | -3.3 | -8.1 |
| Imports | 4.4 | 17.4 | 8.6 | -0.8 | -17.6 |
| IV. GDP | 8.3 | 6.8 | 6.5 | 4.0 | -8. |
| Source: RBI annual reports | | | | | |

To make the analysis more significant the study used real GDP published in RBI annual reports. A cyclical slowdown had already preceded the pandemic, causing real gross domestic product (GDP) growth to register a sequential deceleration since 2017-18 which slumped into contraction under the onslaught of COVID-19. Later due to the gradual lifting of restrictions and opening of the economy the pace of contraction moderated and by the third-quarter of 2021 GDP started showing improvements.

The respective shares of three core sectors of the economy are Agriculture, Industry and Service sectors. Except for the agriculture sector i.e., the gross value added in agriculture and allied activities registered a growth of 3.0 per cent in 2020 – 2021. The other two sectors manufacturing and service sector performance were declined.

As per the available sources, the GVA growth in industry contracted sharply on a y-o-y basis by 7.4 per cent in 2020-21. This is the fifth year of sequential deceleration, including two successive years of contraction in the industrial sector.

Various empirical studies show that the contraction was severe in the case of consumer durables and capital goods, as consumers shunned discretionary expenditure while firms curbed investment. Cumulatively, it declined by 8.6 per cent in 2020-21. At the sub-sectoral level, however, electricity, gas, water supply and other utility services recorded a growth of 1.8 per cent in GVA.

The decline in industrial activity was witnessed across countries. India witnessed the severest downturn, and it was also one of the first to revive from contraction

in September 2020, along with South Korea and Brazil, though growth remained volatile.

Similarly, the services sector in 2020-21 is unprecedented in independent India's history. Even during the Global Financial Crisis, the services sector remained resilient. The most severely affected sectors are Construction, Tourism, Transport, Restaurants and Hotel, real estate wherever informal workers are large in Numbers. According to latest reports this sector started showing recovery, with firms scaling up activity at the fastest pace and started creating more jobs.

**Though Stimulation packagers were initiated it was inadequate to meet the growing challenges.**

**Aiming at 5 trillion Economy:** India's potential to achieve a USD 5 trillion GDP by 2024-25 is Government's efforts towards accelerating growth and development are ongoing, and there is a sense of dynamism and optimism in the country.

A $5 trillion economy is possible towards the end of the decade. Any faster progress would require much higher growth which is possible only through a long-term investment cycle. The impact due to pandemic had shifted the economy away from the pre-Covid trend but growth prospects could be better if some of the reforms and measures are undertaken to gain momentum.

The recovery of the Indian economy in FY 2022 depends on how steadily household incomes recover to rebuild the activities in various sectors, especially the informal sector (most affected sector during Covid 19). Due to the degrowth, we cannot have a 5 trillion economy by 2024 – 25.

## CONSUMPTION AND INVESTMENT ARE THE MAIN DRIVERS OF GROWTH IN INDIA

Every crisis also presents an opportunity. Given the prevalence of high unemployment rate followed by fall in consumption, rise in inequality in the Indian economy, it had been advocated by the popular Macro Economist John Maynard Keynes who emphasized the superiority of fiscal policy measures over monetary policy and highlighted the role of direct government intervention in regulating macroeconomic variables. During the worldwide depression, he has advocated the role of government in normalizing the economies by correcting supply and demand imbalance. In a simple Keynesian model, the fiscal expansion will have a multiplier effect on the income level through boosting of aggregate demand. This requires massive scale investment to strengthen infrastructural facilities, physical and digital connectivity so as to act as a catalyst for private sector to invest. Implementation of a fiscal stimulus across sectors will not only lift the economy out of the crisis but also address some of the existing distortions in income and wealth distribution.

To real way to reach the target fiscal expansion through which Budget elaborates under the pillar of physical and financial capital, and infrastructure. A strong infrastructure push driven by the public sector increases the investment rate in the economy as reflected in the union budget 2022. The multiplier then comes into play raising income and consumption levels. Higher consumption, in turn, induces private investment through the investment accelerator. The induced private investment further amplifies the income and consumption levels as the multiplier once again comes into play.

The outcome is the 'Real Way' increases the growth of real GDP, creates large scale employment opportunities and keeps inflation low and stable (temporary mild inflation) to raise the standard of living. It also accommodates an appreciated currency by increasing export competitiveness through productivity gains.

The domestic market holds the key to India's growth in the next few years with enhanced local manufacturing gradually substituting for goods and services supplied from abroad. In this regard, the Productivity Linked Incentive Scheme will herald a new chapter of "Make in India" to boost domestic production. As domestic manufacturing moves up the global technology frontiers, productivity gains will ensure that output is competitive enough to penetrate world markets.

## CONCLUSIONS

The study concludes that the overall outcome to reach the target to achieve USD five trillion is possible, but given the present growth rate of GDP, the impact of covid 19 and subsequent recession accompanied by the slow growth of GDP, rising unemployment, falling

consumption trends India requires more time to reach the five trillion economies.

Correct macroeconomic steps and policy packages may ameliorate the situation. What is needed is a comprehensive multi-pronged policy measure and a stimulus that pumps more money into the economy in the form of transfers, production aid, and investment support. First, we need to increase the rate of growth to the pre-pandemic level.

Fiscal, monetary and financial market measures targeted at the most vulnerable sectors, the households and businesses, both at domestic and international levels is the need of the hour.

Ensuring the safety of health may be the priority to gain the confidence of the common man which will encourage them to participate in economic activities.

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