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Is India Heading towards a Tornado?

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Abstract

India as a country has been on a growth track, however, in recent past, is been buffeted with challenges pertaining to slowdown in the economy. Speculations are around of economy heading towards recession. On the contrary it is been stated that it is a temporary bearish trend in connection to the global economic scenario and India will bounce back substantiated with effective Government policy's and reforms. A battle of differed thoughts and predictions are been witnessed by eminent economists and intellects pertaining to the issue. In this context the current paper makes an attempt in consolidating the various dimensions been percolated and further the data analysis has been carried out by examining the predominant economic drivers of the nation. Analyses are in tune with understanding the trend of economic indicators being; Gross National Product (GDP), Employment Rate, Inflation Rate, Foreign Direct Investment, Exports, Percapita Income and the likes. Regression analysis has been carried out considering the existing secondary data been available as to draw inferences on future trend.

Key Words: *Recession, Economy Slowdown, Economic Indicators, Regression Analysis.*

1. Introduction

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Indian economy in current scenario has slumped to six year low to five percent and the vision to attain five trillion dollar Gross Domestic Product (GDP) by 2024 seems to be faded. However, the current slowdown is not in India alone as the global economy is also facing a down trend. Indian GDP trend from 1950 till date looks appreciating as there has been a up shift as depicted in the below chart number one(Affairs, 2019).

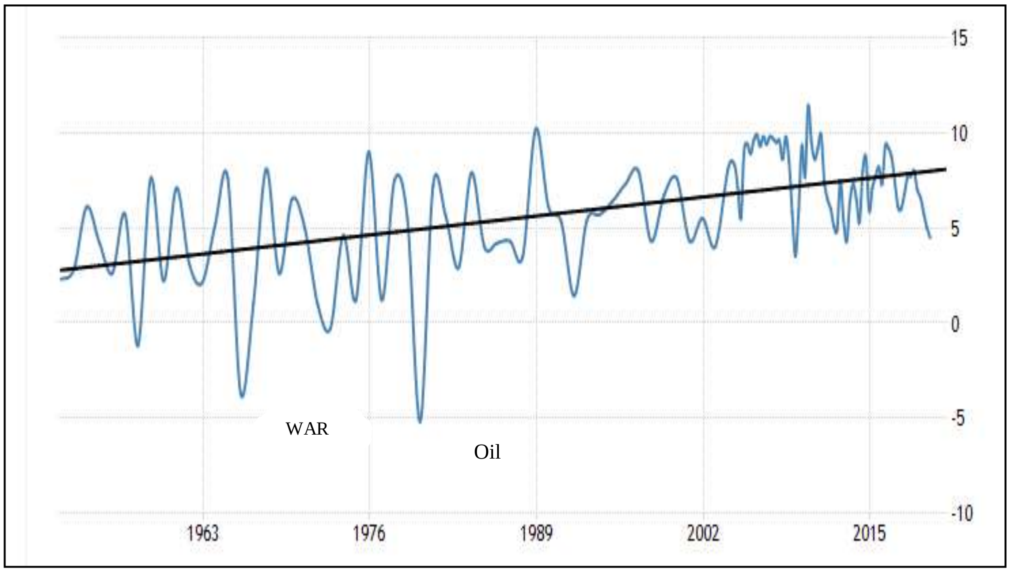

Chart 1: GDP Growth Rate since 1950 till date
Source: tradingeconomics.com

In the year 1965 India faced war against Pakistan and there was negative growth in the economy and similarly in the year 1979 due to global oil crisis the economy had to face negative growth. Apart from these two major situations India is able to maintain positive GDP growth throughout. However, if the trend is been observed from 2010 it can clearly be seen that there is a down trend. The down trend has been a result of hampered automobile sector which is growing with mere 0.6 percent, year on year resulting in 350,000 job cuts in the year 2019. The industryprovides employment to 3.5 Crore people constituting to half of manufacturing sector.The growth of the sector in coming period is further projected to decline. In India currently there are about 5 lakh passenger vehicles

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and 30 lakh two wheelers been unsold due to sluggish demand. The reports by Thomson Reuters state that it is the worst downturn ever for Indian Auto industry(Settlements, 2019).

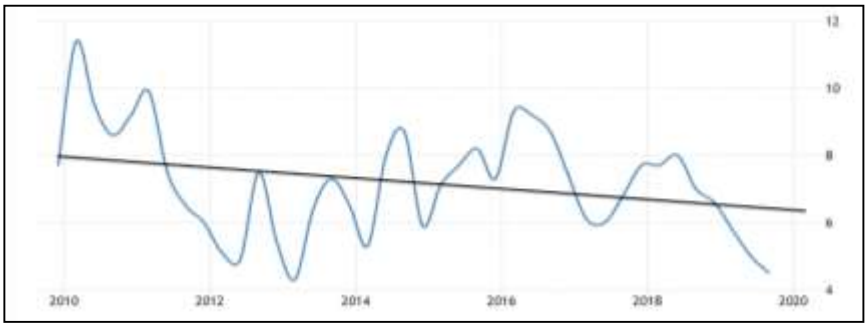

Chart 2: GDP Growth Rate since 2010 till prediction of 2020
Source: tradingeconomics.com

Some of the key highlights from International and National reports

- World Bank ~ Indian economy slides to 7th spot from 5th position after United Kingdom and France(W. T. Organization, 2019).
- International Monetary Fund (IMF) ~ Cuts growth projection of India and stated that the nation will continue to slowdown and Indian exports has deteriorated by 1.1 percent. Petroleum products are at negative 14.6 percent and Textiles and Yarn are at negative 6.1 percent(FUND, 2019).
- National Bureau of Economic Research (NBER) ~ Agriculture sectors growth majorly depends on south-west monsoon rains and economy may get worse if failed. The sector is growing by mere two percent(Finance, 2019).
- India Brand Equity Foundation (IBEF)~ 5000 High Net worth Individuals (HNI’s) migrated from India in 2018 constituting to 2 percent of total numbers of HNI’s(Foundation, 2019).
- Reserve Bank of India (RBI) ~ Indian Inflation rate is 4.62 percent being above the target been set of 4 percent. However the average inflation between year 2012 to

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2019is 5.8 percent. The inflation rate was at its peak in the month of November, 2013.Consumer price index is all time high at 147.20 index point(Report of the Central Board of Directors, India, 2019).

- A C Nielsen report ~ Fast Moving Consumer Sector (FMCG) in rural India growth has fallen to 7 percent from 16 percent. Construction Industry is growing by mere 2 percent and corporate investments have fell by 60 percent(Company, 2019).
- International Labor Organization (ILO) ~ Unemployment rate in India isat its highest in 45 years being 10.42 percent(I. L. Organization, 2018).

2. Research Methodology

The study is empirical in nature wherein the secondary data pertaining to: Agriculture / Forestry and Fishing industry, Mining and Quarrying, Manufacturing, Electricity / Gas / Water Supply and Other Utility, Construction, Trade / Hotels / Transport / Communication and Services Related to Broadcasting, Financial / Real Estate and Professional Services, Public Administration / Defence and other Services, and Total Gross Value Added at Basic Price. Similarly data pertaining to fiscal deficit and government expenditure is also been collated from trade economies. The time duration of data is from year 2011 to 2019, and analysis of least square method is been carried out using Microsoft excel. Going ahead auto regressiveanalysis is carried out using SPSS (Statistical Package for the Social Sciences) version 23 and Multiple regression model is been assessed through AMOS version 23. Secondary data for the study is been compiled through various reports been published by institutions like International monetary fund (IMF), Indian brand equity foundation (IBEF), International labour organization (ILO), National Bureau of Economic Research (NBER), Reserve Bank of India (RBI), A C Nielsen, Trading economies, and the likes.

3. Analysis for the Study

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In the first instance descriptive analysis is been carried out, wherein the data of Fiscal deficit and Government expenditure is been plotted on a line chart. It is observed that Indian government is stretching on government expenditures towards development of nation.

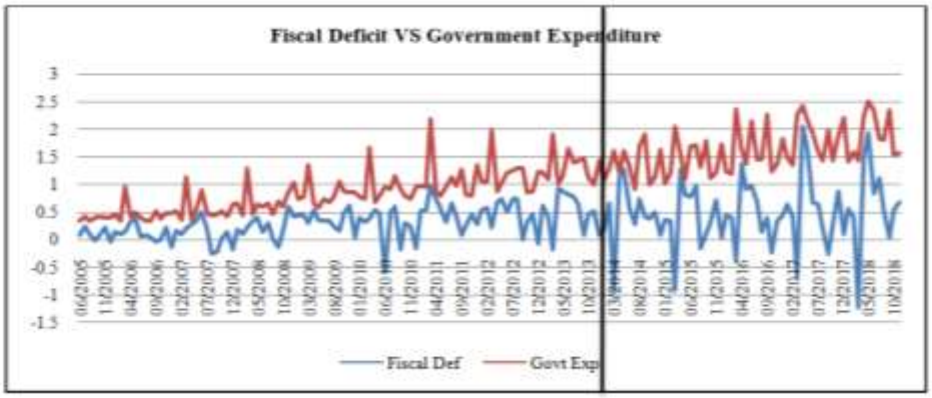

Chart 3: Fiscal Deficit and Government Expenditure
Source: Authors own compilation

The chart reflects that post year 2013 the fiscal deficit is very volatile till date in comparison to government expenditure. Hence it is identified that such a trend gives scope to compute correlation analysis wherein Fiscal deficit and Government expenditure can be compared for two different time frames.

Correlation	2005-2013	2014-2018
Fiscal Deficit / Government Expenditure	0.39	0.17

Table 1: Correlation Analysis between Fiscal Deficit and Government Expenditure
Source: Authors own compilation

There is significant and positive relationship between fiscal deficit and Government expenditure in both the time frames. However the relationship value for year 2014 to 2018 is 0.17 in comparison to 0.39 between year 2005 to 2013. In this context it can be assessed that there has been an attempt to reduce the fiscal deficit by the Government post year 2013.

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Sectors	Agric ulture	Minin g	Man ufact uring	Elect ricity	Cons tructi on	Hotels and Com munic ation	Fina ncial Serv ices	GDP
Agriculture	1.00							
Mining	0.51	1.00						
Manufacturing	0.36	0.80	1.00					
Electricity	0.37	0.71	0.96	1.00				
Construction	0.51	0.75	0.92	0.95	1.00			
Hotels and Communication	0.46	0.85	0.99	0.94	0.93	1.00		
Financial Services	-0.03	0.47	0.84	0.89	0.76	0.77	1.00	
GDP	**0.43**	**0.71**	**0.90**	**0.85**	**0.78**	**0.88**	**0.76**	**1.00**

Table 2: Correlation Analysis for Economic Indicators of GDP
Source: Authors own compilation

It is evident that the economic indicators have significant and positive relationship on Gross domestic product (GDP). As per the correlation analysis manufacturing sector has the highest relationship being 0.90 on GDP, followed by Hotels / Communication, and Electricity industry being 0.88 and 0.85. Construction, Financial services, and Mining have relationship values of 0.78, 0.76, and 0.71. However, Agriculture sector has low relationship of 0.43 on Gross domestic product (GDP).

As there is significant and positive correlation amidst economic indicators and GDP, further multiple regression can be assessed in order to examine the factor loadings of individual economic indicators in presence of all other economic indicators on Gross domestic product (GDP).

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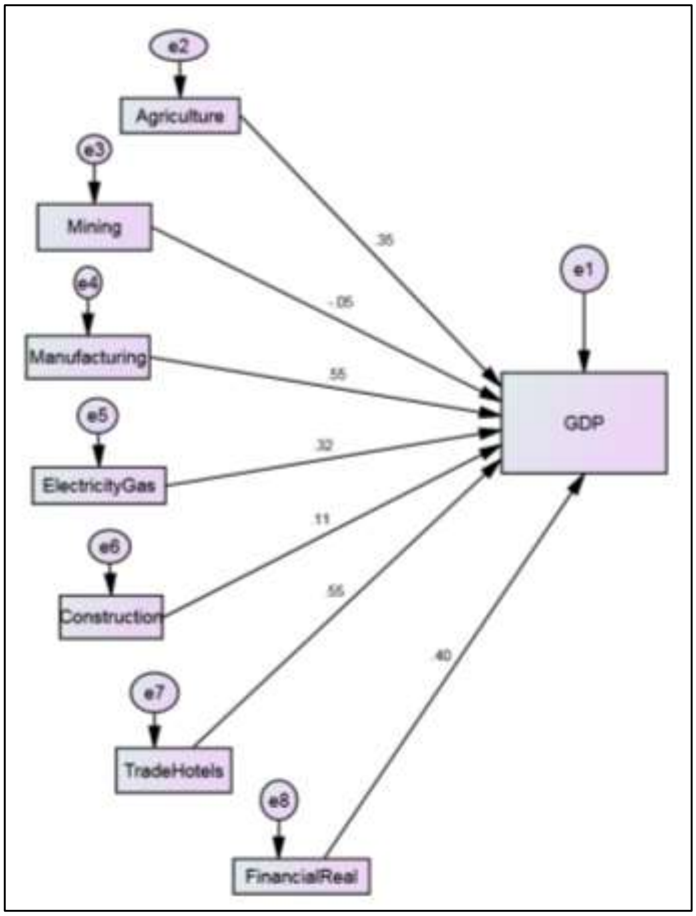

Figure 1: Multivariate Analysis – Economic Indicators on GDP
Source: Authors own compilation

The analysis projects that in presence of other indicators the factor loading of mining industry is negative 0.5 and the influence of construction industry is 0.11. The influence of Agriculture sector is enhanced with factor loading of 0.35 and Manufacturing sector is the most influential indicator on GDP followed by trade/hotels/communication industry being 0.55 factor loading.

As the manufacturing sector has predominant influence on GDP over other sectors it is evident that the economy slowdown is buffeted by the sector. However it is also evident

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that the manufacturing sector globally is also facing a down trend due to subdued automobile sector as per International Monetary Fund report.

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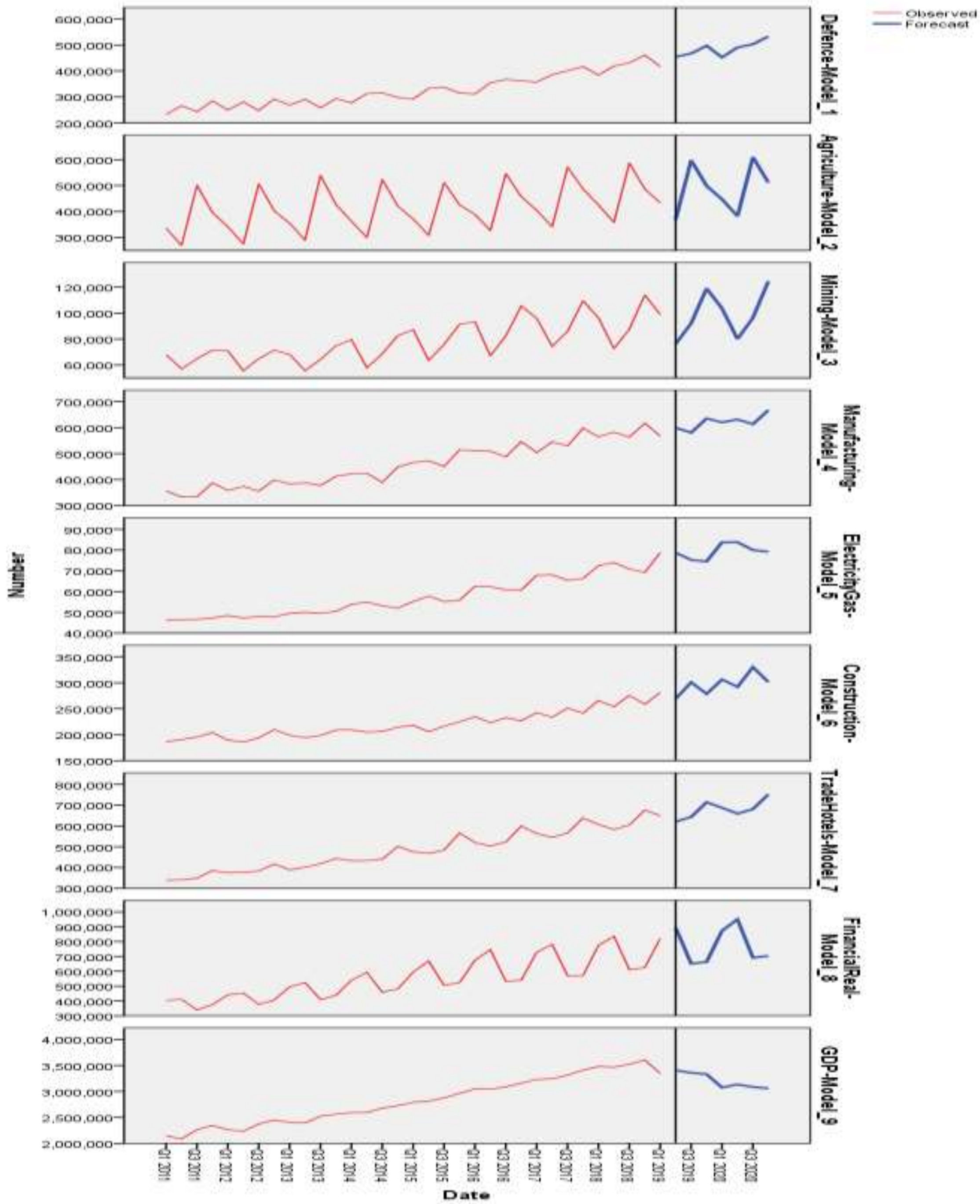

Figure 2: Auto Regressive Analysis of Economic Indicators and GDP
Source: Authors own compilation

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The auto regressive analysis computed for economic indicators and GDP using available secondary data to predict future trend till 2020, depicts further down trend for Indian GDP.

Some of the other reasons been specified for Indian economy slowdown and attempts been made by the Government to mitigate the impact

- **Trade war between United States of America and China** - United States of America increased the tariff rate for all the products imported from China from 10 percent to 25 percent. The president of the country "Donald Trump", specified that the move was inclined towards reducing the trade deficit of the country. United States of America is the World's largest economy by nominal GDP and China is largest in terms of Purchasing Power Parity (PPP). The trade war had spill-over on American agriculture sector and slowdown in other country growths(Development, 2019).
  However, Countries like Vietnam, Singapore, South Korea and the likes leveraged on the situation as they are making up to the required gap. In connection to this the corporate tax in India have been restructured, wherein the taxes have been reduced from 30 percent to 20 percent for existing business and reduced from 25 percent to 15 percent for new business.
- **Impact of Demonetization and Goods and Services Tax (GST)** - Demonetization was imposed on 08th November, 2016 wherein, Rs 500 and Rs 1000 notes were banned with intent to reduce circulation of non taxed currencies. Goods and Services Tax (GST) came into its implementation on July 1st, 2017 wherein five slabs have been introduced being; 5 percent, 12 percent, 18 percent and 28 percent. Differed school of thought prevails that these are two most predominant reasons for economy slowdown. However the government reported a 10.05 percent year-on-year increment

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in the Goods and Services Tax (GST) revenue collected in its report on April 2019(Finance, 2019).

- **Surge in Non Performing Assets (NPA) of Indian Public Sector Banks** –

Year	Growth in Loan amount
2003 – 2004	4.4 percent
2004 - 2005	8.5 percent
2005- 2008	10.5 percent

Table 3: Growth in Indian Bank loans between years 2003 to 2017
Source: World Economic Situation and Prospects as of mid-2019

The bank loans grew between year 2003 to 2017, wherein it is stated that this was the outcome of various projects been sanctioned by the Government to the private sectors. The projects have been sanctioned for the development of infrastructure and it is stated that the private sectors proposals are been approved without any firm verification. As a result the percentage of approval to private sectors towards infrastructure surged to 52 percent in the year 2007 from 32 percent in 2006.

2005 – 2006		**2006 – 2007**	
Government	Private	Government	Private
68%	32%	48%	52%

Table 4: Percent of investments in Indian Infrastructure
Source: World Economic Situation and Prospects as of mid-2019

Weak Projects were been proposed at overestimated budgets. In general it is specified that the firms need to raise funds at the tune of 20 percent equity and 80 percent debt, however the private firms showcased the projects at higher value and raised excess capital from banks converting the capital structure to 100 percent debt from Public sector

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banks. Eventually the non-performing assets (NPA) for the banks constituted to Rs 6.50 Lakh Crore.

In connection to this the Government took a stance of integrating the non performing or troubled banks with better performing banks resulting in merger of 27 banks to 12, wherein some are specified below;

- Punjab National Bank = PNB, Oriental Bank and United Bank
- Canara Bank = Canara Bank and Syndicate Bank
- Union Bank = Union Bank of India, Andhra Bank and Corporation Bank
- Indus Bank = Indian Bank and Allahabad Bank

- **Wrong signals by Government** – The Government in the budget announced reduction of GST rates on Electric vehicles to 5 percent from 12 percent. Jimeet Modi, Founder & CEO, SAMCO Securities &Stock Note stated that it is too early for such a move as infrastructure for electric vehicles in India is still in its inception and the current vehicles are not suitable for Indian roads.He further added that it has sent wrong signals of confusion to Indian consumers and as a result they have totally taken a back step towards fuel vehicles.

Growth stories in-spite of the slowdown

- Indian Information Technology Industry (IT) continues to grow as a leading sourcing destination of the world. The industry holds 55 percent of United States of America's (USA's) IT market share. Indian IT Sector is growing by 12 percent and expected to grow by 14 percent by year-end 2019. Employment in IT sector has grown by 38 percent(Foundation, 2019).

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- National Restaurant Association of India (NRAI) report specified that the Indian food service industry is growing by compounded annual growth rate (CAGR) of 9 percent making it a Rs 4.23 trillion industry.The industry is also providing employment to around 73 Lakh people(Foundation, 2019).

- Tourism and Hospitality industry in 2018 grew by 6.7 percent contributing to 9.2 percent of GDP. In the year 2019 the sector is growing by 8.8 percent. The industry is currently providing employment to 42 Lakh people(Foundation, 2019).

- Telecom industry is growing by 17.44 percent and the coming period looks even the more promising as there has been a paradigm shift amidst users from voice market to data market. There are more than 119 crore subscribers in India and 500 million more internet users are expected to join in next five years. The industry is expected to add 3 lakh jobs in the year 2020(Foundation, 2019).

- The consumer electronics and appliances is Rs 76,400 crore industrygrowing at 13.4 percent as of 2019. The industry is estimated to reach Rs 1.48 Crore by 2025. The contribution is mere however employees 2.5 lakh people and is in demand for employment(Foundation, 2019).

Key Insights from the study

- Time for innovations – "Innovations", be it; OYO for hotel booking, Saathi for biodegradable sanitary napkins, RupeeCoin for blockchain solution, OLA for cab services, Chakr Innovation for bringing down air pollution levels, Swiggy or Zomato for food delivery, Chai Point for beverage service, and the likes is the need of the hour. In connection to this India has to emerge as the most favoured nation in terms of starting new business or startups. It is the start-ups which can pump in employment

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and will also find solutions to overcome conventional mind sets of deteriorating sectors.

- Shift in employment to other sectors – It is indeed difficult to change jobs and seek employment in growing sectors, however to withstand the clutches of slowdown people need to do so. Layman needs to be provided with strong information pertaining to employment opportunities in-order to avoid negative replications.

- Time to suppress pollution - Undoubtedly various sectors are de growing, however if seen in an optimistic dimension, it is one such situation wherein reforms can be formulated to elevate non-polluting sectors over polluting. It cannot be overseen that India is the second largest polluted country soaked with plastic, hazardous air, and polluted rivers.

- Balance is key - Happiness index of Indians has dropped by 6 per cent i.e. from 83% in 2018 to 77% in 2019. It is ironical that India is on 102nd position of 112 countries when assessed on global health index falling behind countries like; Pakistan, Nepal, and Bangladesh. GDP is one predominant indicator, however has true essence when substantiated with happiness index, hunger index, health index and the likes.

4. Conclusion

Indian economy is struck with storm however, is indeed miles away from getting into clutches of tornado. Due to our pride habit of savings we are able to sustain from the worst impacted economic crises ever. The slowdown is unpleasant however the country has huge potential of withstanding the same substantiated with quality reforms. Sectors are been worst hit due to issues like the poor business decisions or shift in consumer needs. Growing industries, investors, and people are to be fuelled by Government with

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confidence held high in terms of quality messages and reforms. These will further liberate in spending, expansions, or investments. Eventually India in long run needs to create its footprints in reduced pollution by focusing on health, happiness, and hunger index.

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