Post Pandemic Challenges for India’s Economic retrieval

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Abstract

India’s Gross Domestic Product (GDP) growth has dropped to 4.5% in the July-September quarter of 2019-20, a free fall from the government’s ambitious call for a double-digit growth not so long ago. Propelling India into a $5 trillion economy by 2024-2025 also seems difficult now as the fall out of GST and debacle of demonetization is showing off and there is a big crunch of liquidity in money market too.

The fall has been sudden although not entirely unexpected. In the first quarter of 2016-17, India registered a spectacular GDP growth of 9.4%. It’s struggling at a 26-quarter low, now India has to come up with the appropriate strategic plans and consistency in their future plans related to growth of the Indian economy.

Can the Indian Government turn it in to a fast growing economy from here to make the $5 trillion economy dream come true? What are the odds and what are the chances of the economy to gain that speed now? What are the problems and what are the prospects?

Key words: GST, Tax Cuts, Interest rates, Indian Economy and Demonetization

Introduction

Before dwelling on speed up or slowdown of economy we must understand the difference between development and growth, these two important aspects of economy. Growth relates to the increase in national income of any nation but as far as development is concerned it is the actual picture of any nation's overall development in all aspects like Literacy, Longevity and per capita income.

Economic Development is a broader concept than economic growth. It is an expansion in a nation's genuine degree of national yield that can be brought by an increment in the number of resources and upgrades in innovation or in another way an increment in the estimation of products and ventures delivered by each segment of the economy. Economic development is considered as a normative concept that applies with regards to individuals feeling of morality (good and bad, right and wrong). The most effective technique for estimating this improvement is the Human Development Index, which considers the literacy, per capita income and life expectancy, which influences productivity and enhance the economic growth. It additionally prompts the formation of more open doors in the divisions of training, human services, business, and the protection of the earth. It suggests an expansion in the per capita pay of each citizen.

Economic growth can be estimated by an expansion in a nation's Gross domestic product (total national output).Economic growth does not consider the size of the casual economy (Black economy). Development improves individual living standards from low expectations into appropriate employment with reasonable shelter. Economic growth does not consider the exhaustion of common resources that may prompt contamination, congestion, and malady. Development is more concerned, about supportability or sustainability that means addressing the requirements of the present without trading off future needs. Economic growth is important but not adequate state for the financial turn of all economic events. Henceforth, if any nation needs the genuine advancement of its citizens' standard of living, it must keep up a harmony between both economic growth and development.

To the extent the instance of India is a concern, the Independence brought dreams to every individual as well as for the country in terms of monetary, social, and political freedom. In the last seventy-two years, since independence these beliefs have experienced a major change as India looks to join the $05 trillion club. Considering what formed the economic policy and the change to millennial India; for that, we need to see the historical backdrop of the economy since 15 August 1947.

Literature Review:

Subrahmanya M.H. Bala (2007) mentioned in the research study named "Development strategies for Indian SMEs: promoting linkages with global transnational corporations", SMEs could get exploit due to the rapid growth of transnational corporations (TNCs) and emerging of globalization opportunities. He discussed about the growth of the SSI's segment of the SME sector in India has slowed with the number of enterprises, the level of people employed, and production, whereas SSI export performance has been impressive in the globalization period.

M. Suresh Babu and S.N. Rajesh Raj (2011), explain in their research "Trends in regional industrial growth in India", in the wake of the competition among Indian states to increase the speed of industrialization. In this study, they found that the focus was in a few states only related to organize manufacturing activity and there seems to be a slight spread of activities in the unorganized segment.

The early movers continue to control surrounding considerable share of the national industrial investments and production, even in an era of market reforms the trend continues.

Gupta S and Aggarwal. A (2014) states in their research "Financial Innovations and Technologies: Indian Economy 2020" suggests financial innovation has led to a positive effect on the Indian economy through venture capital, microfinance, and other various financial technologies like NEFT, mobile banking, online share trading, e-banking, etc. They have suggested promoting innovations in the financial sector for the growth and development that leads the country to a path of becoming a superpower until 2020.

Kaushal L.A. and Pathak, N. (2015), describes in the "The causal relationship among economic growth, financial development and trade openness in Indian Economy" is the objective to study the trade openness, financial development and economic growth in India for the post-liberalization period ranging from 1991-2013. They used Vector auto-regression and the Granger Causality test as an econometric methodology for empirical findings, which highlighted the philosophy of growth-led trade.

Jain Anjali, (2016) highlighted the need of the hour to understand the importance of implementation of GST in India. She speaks in favour of GST, it should be executed and positively welcomed in the Indian economy that would be a significant step in the reform of indirect taxation in India. Amalgamating several central and state taxes into a single tax would ease in flowing or double taxation, and simplifying a common national market.

Mishra Deepika, (2017) in her study titled "Demonetization: its Socio-Economic impact" highlighted the various aspects related to demonetization. The paper discusses the impact of demonetization on corruption, terrorism, and society in general with short term and long termeffects. She concluded with the fact that in the short run withdrawal of these currency notes will affect the extent working of the public. However, in the long run, it will add some positive impacts to the economy.

Parameswaran. N, (2017) in her article "Demonetization impact on cashless payment and effect on the stock market" stated the effect of demonetization on the overall economy. She highlighted the advancement of IT has enabled innovation of electronic payment where goods and services are purchased without the use of physical cash. The impact on the share market is high due to insufficient flow of money whereas one of the positive effects of demonetization, which does not lower transaction costs but helps earn some income for the economy.

Singh. M.K, (2017) indicated in his paper the impact of GST in India. He also emphasized on to replace all different taxes with a single comprehensive tax, bringing it all under a single umbrella. The purpose of this paper is to throw light and understand GST on the process of goods and services especially to eliminate the tax on tax.

Aggarwal. S.C.andGoldar. B, (2019) in their paper "Structure and growth of employment: evidence from India KLEMS data" studied the structure and trend in employment in the Indian economy between 1980-1981 and 2015-2016. The rate of employment growth, especially in the recent period of 2003-2015, has been slow (1%) with the low employment elasticity (0.1) other than this India's GDP growth rate has been quite impressive since the reforms of 1991. According to this paper, they mentioned that India is now facing a low labour force participation rate and a large share of informal employment in the economy.

Selvanyagam. K. and Rehman V, (2019) expresses in Materialism, television, and social media and analysis the reformation of the post-colonial Indian market, by extending the work history of marketing in India into the post-colonial era. This research reveals the Indian market is increasing materialistic consumption patterns among consumers by brands through the adoption of Western marketing practices. Social media technology helps impose individualistic values in Indian consumers, contrary to the cultural values of the country. Therefore, this research suggests the need for careful marketing practices to be adopted for the Indian market.

Sengupta, P.P., Sinha. M. and Dutta. U.P. (2019) wrote in Economic and environmental performances in manufacturing industries – A comparative study. This paper investigates the changing relationships between economic and environmental performances in manufacturing industries on a comparative basis in India and China. The economic performance is measured by the production and export and the manufacturing sector plays a vital role in terms of GDP and export both in India and China due to the existence of their emerging markets. The study conducted for Indian and Chinese economies based on the data collected from 1970 to 2016 from the World Bank. The findings show a unidirectional causal linkage between manufacturing production and CO2 emissions is high in China as compared in India. Manufacturing export is also found as a significant factor in the high level of CO2 emissions in China.

Singh. S. and Wagner. R. (2019) indicates in their research paper, how Indian home-grown businesses overcome the MNCs. The study highlights the realistic offering best suited to their needs and the power of home companies over MNCs in terms of better market understanding. Across the divergent business contexts, the companies' strategies have four features in common: customer targeting and developing; localization of business models, particularly services; relating the products to the Indian society: and ethnocentrism and pride.

Theerthaana. P and Manzoor. A.K. Sheik (2019), this study focuses to examine the relevance of abnormal return and volatility of bit coins and the most significant economic event of demonetization in India in the year 2016. This study is different as compared to other studies due to even study methodology with the aspect of analyzing the effects of 2016 demonetization on bitcoin prices. What is the impact on crypto-currencies due to demonetization and provides insights to economists and experts in the field of crypto-currencies, whereas it gives an opportunity for the bitcoin investors to invest in crypto-currencies?

Das. D.K, Aggarwal. S.C., Erumban. A.A. and Das. P.C. (2020), stressed in "What is new about India's economic growth? An industry-level productivity perspective". The authors documented the industry contributions to aggregate growth through the evaluation of the relative significance of total factor productivity growth via input accumulation in accounting for output growth. The growth observed in different sectors of the economy – agriculture, manufacturing, construction, and market, as well as nonmarket services. In this way, it showed the new aspects of India's march to higher growth regimes in the post-1990s era.

Madhavan. M, Dhandapani. T and Tamizharasan. M (2020) discussed in "Growth of FDI inflows in the service sector in the Indian economy" there is a high inflow of FDI in the service sector in India. This study examines the growth and share of FDI inflows in the service sector to the total FDI inflows and the relationship between FDI inflows in the service sector into GDP at service sectors and GDP in the Indian economy. Equipment manufacturing, green service should be encouraged by the Indian government. Socio-economic development, inclusive growth, national income, and economic activity is increasing with the help of FDI inflow in the Indian economy.

Giang, H.M., and Nurudeen, I. (2020), suggests in this empirical study, the relationship among GDP, import and export by examining the validity of the export-led growth hypothesis in India. The data analyzed for this study is from 1996 to 2019, which finds the evidence of long-run causality between export and GDP, although not in the short run. The study suggested up by lending support for the validity of the export-led growth hypothesis to the Indian economy.

Conceptual Framework:

This paper examines the basic premise that whether India has the potential to grow in a $ 05 trillion economic dream or it will succumb to the slowdown of the world economy in general and Indian economic slowdown in particular. What are the intrinsic strengths of the Indian economy as such and how this slowdown is impacting them?

First, we analysed the growth and development concepts in the beginning. Then the growth trajectory of the Indian economy through five-year plans and from the "Hindu Rate of growth" to Export-led growth (ELG) model and finally in the era of near double-digit growth is examined.

After achieving so much and near double-digit growth, if the Indian govt is far sighted a $05 trillion economy dream, is very much possible. The question is will India overcome this slowdown or the economy will succumb to its problems?

The data of the economy, especially of the Money Supply (M3) after demonetization and tax collection after the GST regime are two very important factors to examine and comment on. Nevertheless, the data on unemployment, inflation and growth is also very important for this analysis. The whole concept is to examine the strengths of the economy and policies of government to overcome this menace of slow down to achieve the $05 trillion dream.

Research Methodology:

This study constructed on secondary data and information. Information from different books, journals, newspapers, and relevant websites has been reviewed to make the study effective. The study attempts to examine the impact of India's economic slowdown on her dream of a $05 trillion economy. Is it at crossroads or it can overcome?

Limitations of the study:

The study is mainly based on secondary data, review of papers and other significant studies in this crucial time of lockdown. The researchers could not get proper time and response to conduct a proper interview of people affected by this slowdown due to Covid-19 crisis.

The study is not able to provide any proper answer about the nature of this slowdown in India as it is a very debatable one, still, in the opinion of researchers this is a cyclical and not a structural slowdown and hence India can over-come this slowdown.

India's Growth Path since independence

India's independence in 1947 was in itself a turning point in its economic history. The abject poverty and sharp social differences had cast doubts on India's survival as a nation due to de-industrialization by Britain. India was the poorest country in the World in terms of per capita income at the beginning of the 20th century. The then Prime Minister Jawaharlal Nehru's development model envisaged a dominant role of the state as an all-pervasive entrepreneur. Country's first Union budget was tabled in Parliament on 26 November 1947.India set up the Planning Commission in 1950 on the lines of the USSR, to oversee the entire range of planning, including resource allocation, implementation, and appraisal of five-year plans.

India's initial five-year plan, propelled in 1951, concentrated on agriculture and irrigation to help increase yield as India was losing valuable foreign reserves on imports of food grains. In light of the Harrod-Domar model, the arrangement was a triumph, with the economy developing at an annualized 3.6%, beating the objective of 2.1%.

The Second five-year Plan and the Industrial Policy of 1956 (in light of the economic constitution of India) prepared for the advancement of the public sector and introduced the License Raj. To establish the socialistic pattern of the society was the objective of this resolution. It additionally arranged enterprises into three groups. Industries of essential and vital significance were in the public sector. The second group included ventures that should have been gradually state-possessed. The third, including generally buyer businesses, was left for the private area.

The mission of rapid industrialization had caused a huge reallocation of funds from the agriculture sector. The agriculture cost was almost split to 14% in the subsequent arrangements. Food deficiencies intensified, and inflation spiked. Imports of food grains were reduced foreign exchange reserves.

India's emphasis on food security emerged from the way that during the 1960s, India was facing nearly mass starvation. Food help imports from the US, on which the nation was dependent, were starting to hit India's international policy autonomy. That was when genetic scientist Dr. M.S. Swaminathan, alongside Norman Borlaug and different researchers, stepped in with high yield assortment seeds of wheat, setting off what came to be known as the Green Revolution.

Hindu rate of growth

The term 'Hindu rate of growth' was coined by Professor Raj Krishna, an Indian economist, in 1978 to characterize the slow growth of India and to explain it against the backdrop of socialistic economic policies. The Hindu rate of growth is a term referring to the low annual growth rate of the economy of India before the liberalizations of 1991, which stagnated around 3.5% from the 1950s to 1980s, while per capita income growth averaged 1.3%.

A[1] new orthodoxy holds that there is nothing unusual about economic growth after 1991 since comparable growth rates were witnessed during the 1980s prior to the 1991 reforms. However, the incipient or first phase of liberalization began in 1974-75 and not in 1980, as a response to a crisis of enormous proportions in the economy. Treating 1980 as the year that marked the end of the 'Hindu rate of growth' is an artefact of the unwarranted homogenization of the entire history of economic growth prior to that year, and is misleading as to claims about economic liberalization.

The 1985-86 financial plan brought down direct taxes for organizations and raised exemption limits for income tax.

During India's 1991 economic crisis, the nation, for the first time needed to sell 20 tons of gold to investment bank UBS on 30 May that year to make sure about a $240 million loan. It promised gold three additional occasions after that sale deal, delivering 46.8 million tons of the yellow metal to make sure about $400 million in loans from Bank of Britain and Bank of Japan. This gold was repurchased by

[1] **Economic and political weekly 1980 Baldev Raj Nair**

December that year. The Narasimha Rao government with Manmohan Singh as finance minister took over on 21 June 1991 and propelled a heap of economic reforms, including dismantling of the license Raj.

The rupee was devalued just below 57% on 6 June 1966 to support exports. The move was activated by the 1965 Indo-Pak war, after which the US pulled back aiding to India. On 1 July 1991, the Reserve Bank of India brought down the value of currency by 9%, and afterward by 11%within two days. This was the point at which the economy was confronting worst crisis. Devaluation was not, at that point a genuine alternative for government and policymakers as exchange rates are controlled by markets.

In 2004, Manmohan Singh, the then Prime minister of India, propelled the Mahatma Gandhi National Rural Employment Guarantee Schemein February 2006 in 200 most backward regions of India , which was later extended to all backward districts of India. The scheme planned to upgrade job security by giving 100 days of ensured wage work in a financial year to each rural family whose grown-up individuals volunteer to accomplish untalented manual work. At this time the country was experiencing a period of high development and extension of the economy as loans rates mellowed.

In liberalised India, we had great investments in the stock market and the received interest became a means to have good return. The ascent of the Indian economy is best reflected in BSE's Sensex, the 30-share benchmark index. The 30 segment companies represent to all segments of the economy. From 1,955.29 focuses in 1991, the year India introduced economic reforms,
the Sensex touched a high of 40,312.07 points on 4 June 2019 with desires of expensive reforms from a government with a massive majority driving the confidence. Ten years of economic liberalization unchained Indians, and the first decade of the 21st century mirrored that clearly.

Present Scenario

The dream about India to become a $05 trillion economy and a global economic powerhouse by 2024-25 is "challenging" but "realizable" said the Indian Finance Minister[2] delivering a lecture in front of the august audience in the USA. Further stated, that "In 2014, when the National Democratic Alliance (NDA) was voted to power by the World's largest democracy, India was a $1.7 trillion economy. In 2019, India has become a $2.7 trillion economy, having added one trillion US dollars in the last five years. Our vision to become a 5 trillion-dollar economy by 2024-25 is challenging, but it is realizable.” These are the words of the Finance Minister of India which show her confidence and also the future plan as envisaged by the leader of Indian economy and polity at top most level.

Present growth rate and path

In present times we are facing a constant slowing down of economy and depleting growth rate. The slowdown is very prominent in the Indian economy but what is its type is a debatable issue.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.Generally, Interim fiscal

[2]Nirmala sitharaman’slecture 'Indian Economy: Challenges and Prospects' at prestigious Columbia University's School of International and Public Affairs

and monetary measures, temporary recapitalization of credit markets, and need-based regulatory changes are required to revive the economy.

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 the long-term, are driven by disruptive technologies, changing demographics, and/or change in consumer behaviour.

In India we are facing a cyclical slowdown which is evident in slowing consumption demand, the decline in manufacturing, inability of the Insolvency and Bankruptcy Code (IBC) to resolve cases in a time-bound manner, and rising global trade tension and its adverse impact on exports.

The annual percentage growth rate of GDP at market prices is based on constant local currency. (Aggregates are based on constant 2010 U.S. dollars). GDP is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or depletion and degradation of natural resources. The data (See Table-1) shows that for last three consecutive years the growth rate of Indian GDP is declining and from 2018-19 to 2019-20 it is the steepest 1.98%, which is a reason to worry. This is a clear case against the dream of a $05 trillion economy by year 2024-2025. What India should do to come out of this slowdown and what is expected?

Analysis of the Problem and Prospects

Problems

Th*ere are mainly these five factors that worsened the economic slowdown*

- **Demonetization:**
- **Implementation of GST**
- **Consumer demand slump**
- **Employment slowdown**
- **Real estate slowdown**

Demonetization: The overnight note-ban

On 08th November 2016 PM Modi had said that ₹500 and ₹1,000 banknotes, amounting to 85% of the currency in circulation by value, were no longer valid from midnight. The main aim of demonetization was to curb black money (*See Table-02Demonetisation and its impact on Black Money*) from the Indian economy. It had a long-lasting effect on the Indian currency market, Tax buoyancy, Money Supply, and also the growth in the cash segment.

Since demonetisation, direct tax buoyancy[3] has more than doubled from 0.6 times in FY16 to 1.3 times in FY17 and 1.7 times in FY18.

The direct tax buoyancy from FY08 to FY14 hovered around 0.5 and 1.1 times, while in FY15 and FY16 it fell to 0.8 times and 0.6 times. Ever since the note ban, the direct tax buoyancy has more than doubled from 0.6 times in FY16 to 1.3 times in FY17 and 1.7 times in FY18.

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[3]Tax buoyancy is a measure of the responsiveness of tax receipts to economic growth and reflects an increase or decrease in government income.

Government's promise to bring back black money may not have been fulfilled, but its policies have definitely made an impact. Measures like Income Disclosure Scheme (IDS) and Pradhan Mantri Garib KalyanYojna (PMGKY) instilled fear in the minds of unscrupulous businessmen, which resulted in the declaration of Rs 70,250 crore undeclared income. This income was taxed at upwards of 45 per cent, raising the government's revenue. (*See Table-02Demonetisation and its impact on Black Money*)
The government managed to widen its tax base also causing an uptrend in the tax revenue estimates for the year 2017. While indirect tax collection reached Rs 7.35 lakh crore till November 30, 2017, the Income Tax Department detected undisclosed income worth Rs 13,376 crore.

Goods and Services Tax: One country one market

Goods and Service Tax (GST) is an indirect tax levied on the supply of goods and services which has replaced many Indirect Taxes in India. The Goods and Service Tax Act was passed in the Parliament on 29th March 2017. The Act came into effect on 1st July 2017. GST is **one indirect tax** for the **entire country**. Despite a lot of teething troubles and the increased compliance burden on companies, particularly traders and small and medium enterprises, the new system has removed tax barriers across states and created a single common market, ensuring a free flow of goods without trucks being halted at borders for payment of interstate levies.

Consumer demand slump: Slowdown in consumption, savings, and investment

Let us see this demand slump in all these sectors one by one:

Consumption: Experts say that "Private consumption, which contributes nearly 55-60 percent, to India's GDP has been slowing down. While the reduced income growth of households has reduced urban consumption, drought/near-drought conditions in three of the past five years coupled with the collapse of food prices have taken a heavy toll on rural consumption.[4]",“The increase in change in stock (in current prices) from Rs 34,485 crore in Q1FY17 to Rs 47,805 in Q1FY20 also indicates inventory build-up and hence it reflects consumption slowdown.” [5]

Savings: Savings by household sector (which are used to extend loans for investment) have gone down from 35 percent (FY12) to 17.2 percent (FY18). Households, including MSMEs, are making 23.6 percent of the total savings in the GDP."Since households are the only net savers in the economy, their savings are major contributors towards investment. These savings have now reached a level that isn't adequate to fund the government borrowings. This will keep interest rates elevated.”[6]

Investment: Gross Fixed Capital Formation (GFCF), a metric to gauge investment in the economy, too has declined from 34.3 percent in 2011 to 28.8 percent in 2018, government data show. Similarly, in the private sector, it has declined from 26.9 percent in 2011 to 21.4 percent in 2018.

Employment slowdown

The unemployment rate in India rose to 7.8 percent in February 2020, the highest since last October, from 7.2 percent in the previous month. In rural areas, the rate increased to 7.4 percent from 6.0 percent

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[4]**Analysts at India Ratings and Research, Indian arm for Fitch Group.**
[5]**Soumya Kanti Ghosh, the chief economist at State Bank of India, wrote in his weekly note, Ecowrap.**
[6]**Sunil Kumar Sinha, principal economist, India-Ra.**

in January, while in urban areas, it fell to 8.7 percent from 9.7 percent. The highest jobless rates were recorded in Tripura (28.4 percent), Haryana (25.8 percent) and Jammu & Kashmir (22.2 percent), while the lowest were recorded in Puducherry (1.8 percent), Tamil Nadu (2.1 percent) and Goa (2.8 percent). (*See Table-04 Data on Unemployment in India*)

The real GDP growth has gone down from a peak of 8.2% in 2016-17 to 6.8% in 2018-19, (with the fourth quarter of 2018-19 dipping to 5.8%). With declining cash flow into the market, a gigantic employment shortfall has been the consequence. Significant employment-driving sectors including automobile, real estate and financial services—Non-Banking Finance Companies (NBFCs) in particular—and manufacturing are now showing signs of its adverse impact.

Real Estate Slowdown: Less construction activity

The real estate sector in India was in crises already as all the efforts of government to provide affordable housing to Indians went in vain due to increasing prices of construction material and stringent municipal laws and tax systems. At that very time the demonetisation of currency is done in India and it hit the real estate sector really bad. We all know that the business of real estate is based on mainly cash and black money in India. The demonetisation banned the cash transactions completely and also banned the illegal transaction of unaccounted money that is black money for all practical purposes. This was a big blow for the already troubled business in real estate sector and the premium business of real estate in cities like Mumbai, Delhi and other metros came to a big halt. Then came the RER Act 2016 which made the business rules very stringent and in the favour of consumers of real estate. Due to all these reasons the real estate sector is having very less construction activity now a days.

Prospects

The monetary policy of the Central Bank of the country and the Fiscal Policy of the government are two very important tools to tackle the menace of economic activity in any economy.

Monetary policy of RBI

The Reserve Bank of India Governor, Shaktikanta Das, said there is a need for coordinated action by various economies confronted with slowdowns.He further added, "Globally, there should be coordination action to boost growth. European Union is experiencing stable growth for the last two quarters. We find that there is space for fiscal action in many European countries. In the US economy, there are marginal signs of a pick-up and today, we (RBI) are ahead of the curve."

The Reserve Bank of India (RBI) is doing its bit to prop up a slowing economy. The gross domestic product (GDP) growth, which plunged to a low of 6.8 percent in 2018-19, was expected to grow at 6.9 percent in 2019-20 though in actual it plunged to 05%. (*See Table-01 GDP growth rate of India*) The growth could plunge even lower as the threat of a global slowdown in advanced economies has gained currency amid trade and currency wars between the world's two largest economies US and China. The RBI in its monetary policy has come out with a mini package to boost the economy:

Lower cost of capital

The RBI cut the Repo Rate by 35 basis points to 5.40 percent in March 2019. (*See Diagram-07 Repo and Reverse Repo rates*) A lower fund infusion from the repo window, which mainly bridges the short-term fund mismatches of the banks, helps them in lowering the overall cost of funds. In addition, the sovereign bond issue, if it comes, will also help in better transmission as the government borrowing is likely to reduce in the domestic market, leaving more funds for the private sector.

Assuring market of more liquidity

The main aim of the government should be that the purchasing power remains in the hands of people and the business goes as usual. The RBI has been providing more liquidity in the market sp. The liquidity is already in surplus mode. The supply of M3 is all *time high of 170217.93 INR Billion in April of 2020*. There is also a drawdown of excess cash reserve ratio balances by banks. (*See Diagram-3 Data on money supply M3*)

More funds to NBFCs

The RBI is making all efforts to increase the fund flow to Non-Banking Financial Companies (NBFCs), which are struggling to raise resources from the market. The central bank has now decided to raise the bank's exposure limit to a single NBFC from 15 percent to 20 percent of its core equity capital. This measure will release more funds from banks to NBFCs.

Boost to consumer credit

Personal loans, which are always unsecured, attract a higher risk weight of 125 percent. The RBI has decided to reduce the risk weight from 125 percent to 100 percent for personal loans. This will boost consumption as personal loans are mostly used for consumption purposes.

More flow to agriculture, affordable housing, and MSMEs

The RBI has now allowed banks to on-lend through NBFCs for the priority sector. The RBI has now allowed banks' lending to NBFCs for on-lending to agriculture up to Rs 10 lakh, MSMEs up to Rs 20 lakh, and housing up to Rs 20 lakh per borrower (up from Rs 10 lakh). These measures will provide much-needed funds to NBFCs.

Fiscal Policy of Government of India

The incumbent government started supply side reforms, which are essentially a part of fiscal regime, like Asset Quality Review (AQR) and the provisioning for non-performing assets (NPAs), inflation targeting, Insolvency and Bankruptcy Code (IBC), demonetisation, and the launch of Goods and Service Tax (GST). We may even include the Supreme Court judgements given in 2012 and 2014 on the allotment of 2G spectrum and coal. All these have acted as shocks to the economy in the short run. Though we cannot undo the adverse effects of supply-side reforms, we can improve the situation inso far as lending is concerned. With greater lending, the demand can go up. There is scope for using banking policy along with an an improvement in interest rate policy. In any case, it is better to use these policies rather than the fiscal policy because the banking policy and interest rate policy get to the roots of the problem; fiscal policy does not. In fact, fiscal policy is more of a temporary relief and not a permanent solution. The latter is more of a palliative than a cure. All this is not to say that the public authorities should not do anything but that can be done by prioritising some expenditure over others instead of increasing the aggregate government spending.

Though some analysts say under the current macro environment, monetary policy seems to be less effective than fiscal policy as 'improper transmission mechanism' fails to pass on benefits to the real economy, but in our view it is the interest rate of banks which will improve the condition due to more liquidity in system with low interest rates and more investment in real terms. Further cuts PLR, increase in fiscal spending, deviation from fiscal deficit target of 3.5% of GDP, and the boost in consumption sentiment are some of the suggestions by analysts to arrest the downtrend.

Conclusion

We may conclude that this state of affairs is not that bad as it is seen but the government has to take some right steps to mitigate the crisis, which government has taken and in the process of taking more steps, the government tried to avert the crisis at first instance.

First, it withdrew the super-rich surcharge levied on foreign portfolio investors and then rolled out a series of measures, including corporate tax cut and the proposal to set up Rs 25,000 crore fund to revive the real estate sector. (*See Diagram-07 Repo and Reverse repo rates*)

The RBI, for its part, has already lowered its benchmark interest rate (repo rate) five times during the previous year, taking the cumulative cuts to 135 basis points, from 6.5% in January to 5.15% in October, even as the Consumer Price Index (CPI)-based inflation shot up from a paltry 1.97 to a mildly worrisome 4.62 but after this the Consumer price inflation in India eased to 6.58% in February 2020 from 7.59% in the prior month. (Slightly below market expectations of 6.8%) (*See Diagram-05 Data on retail price inflation*) How much more will the Central Bank yield, as its stated priority has always been to curb inflation first?

For the government, the headroom to spend money has shrunk after it slashed the corporate tax, taking a hit of about Rs 1.45 lakh crore. The monthly collection of GST stuck below the Rs 01 lakh crore mark since May 2019, has been a concern for the government which imbalanced the devolution of money to states. The option left is public financing only and the government must not shy to that as Lord Keynes rightly said that "In long time we all will die." So to save the economy, if government adheres to increasing fiscal deficit also, the researchers are in favour of the same.

As far as the slowdown in employment is concerned, the fact is that all jobs are not disappearing or reducing or on hold, these are true to only a few specific sectors. Hence, right now, the focus should be to ensure that in every sector employer create and deliver the right messaging to their employees to combat this slowdown. For this government needs to encourage some public sector units through budgetary support with the danger of increasing fiscal deficit and also some private sector units by giving them rebates and tax cuts.

The Covid-19 crisis which started in December 2019 from China and now it engulfed every country in the World including India, has reduced the chances of foreign investment and also the investment from government side as the government is focusing more on the relief measures and helping states to fight Covid-19 crises. To fight with Covid-19, PM Modi announced a package of Rs 20 lakh crores on 12 May 2020, which is a great step to boost the economy and labour force of India. This step will certainly give purchasing power in the hands of urban and rural poor and also boost to local industries. With this step India will not only fight with Covid-19 but will also advance a step towards the dream of $05 trillion economy.

We can see that even China's economy grew only 6% in last quarter of 2019, its weakest pace in over 27 years since 1991, the country's GDP growth surpassed the double-digit mark for 10 years and was 10% and above between 2003 and 2007. If this is the case with the fastest growing economy in the World then for the Indian government, the low Q2 GDP 2020 growth numbers (4.5%) should be a clear sign that it is time to go full throttle to put the economy on an upward trajectory. It is possible by increasing governmental spending and providing more employment opportunities to people to give them purchasing power in their hands. Thus, this is the only way out, if India is firm on its dream to achieve a $05 trillion economy status.

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Annexure-1

Table-01 GDP Growth rate of India (year wise)

Sr no.	**Year**	**GDP growth rate % (Actual)**	**% Increase/decrease from Previous year**
01	2019-20	5.0	1.98 decline
02	2018-19	6.98	0.19 decline
03	2017-18	7.17	01 decline
04	2016-17	8.17	0.17 increase
05	2015-16	8.00	0.59 increase

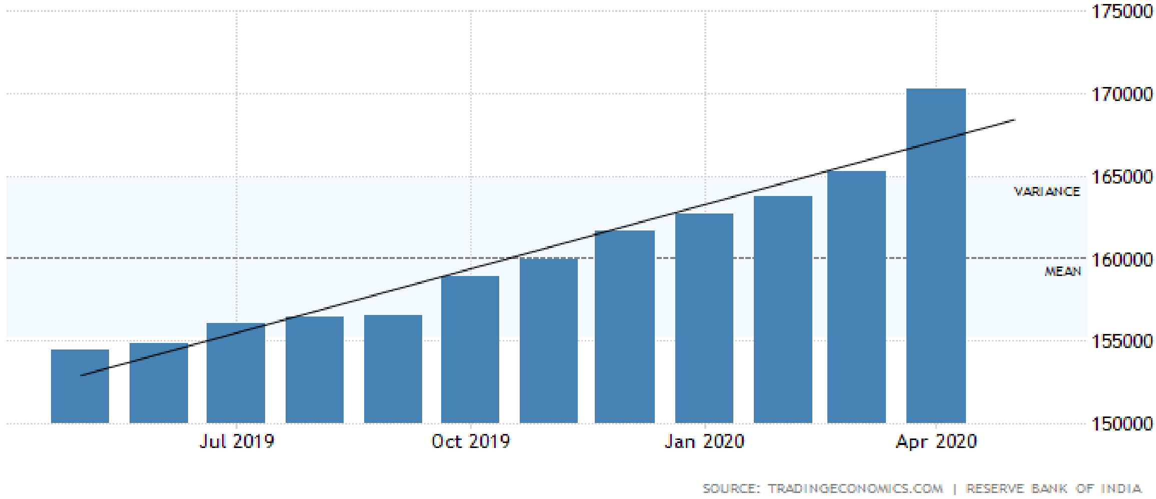
Source: Business standard magazine

Table-02Demonetisation and its impact on Black Money

Black Money Report card	
Initiatives	**Achievements**
Income Declaration Scheme	**₹ 65,250 cr.**
Income tax search and survey operations	**₹ 35,460 cr.**
Pradhan Mantri Garib Kalyan Yojana	**₹ 5,000 cr.**
Benami Transactions (Prohibition)Act	**₹4,300 cr.**
Black Money and Imposition of tax Act	**₹ 4,100 cr.**
TOTAL	**₹ 1,14,110 cr.**
Reduction in Swiss bank deposits since 2014	**₹ 12,139 cr.**
Increase in number of taxpayers since 2014	**80%**
Surge in gross tax revenue since 2014	**51.3%**

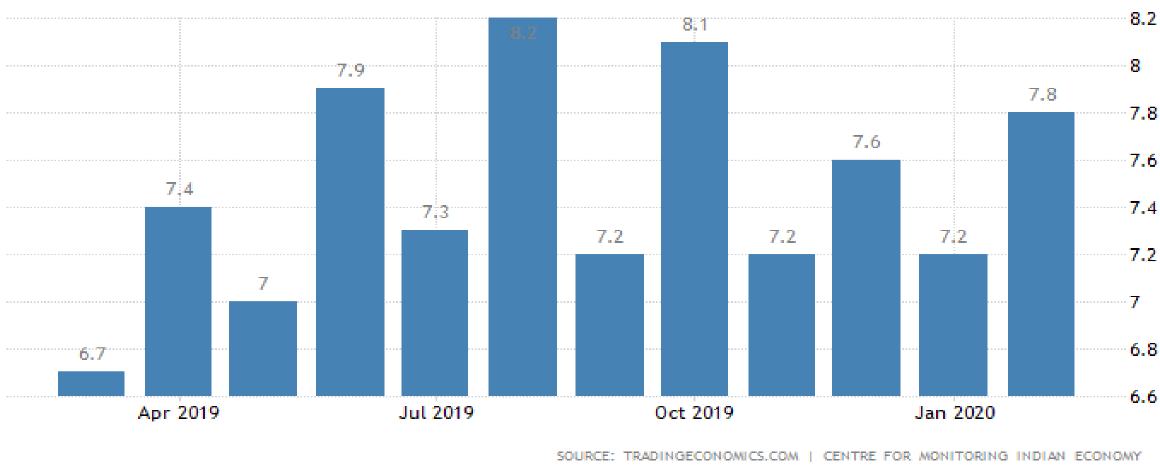
In total, Rs 69,350 core was recovered under **Income Declaration Scheme** and Black Money and Imposition of Tax Act, and another Rs 5,000 crore under PMGKY.

Table-03 Data on Money Supply(M3)



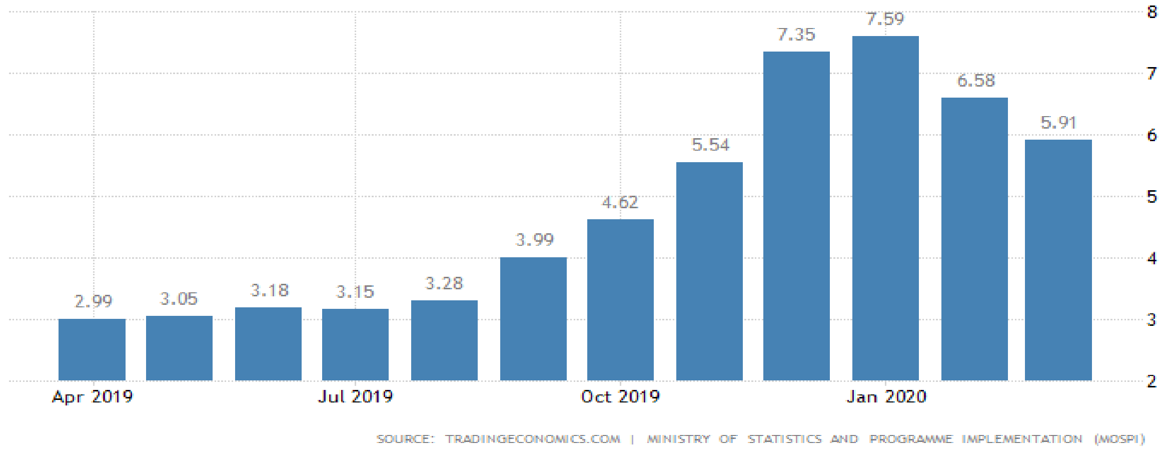
Money Supply M3 in India averaged 29352.91 INR Billion from 1972 until 2020, reaching an all-time high of 170217.93 INR Billion in April of 2020 and a record low of 123.52 INR Billion in January of 1972.

Diagram-04 Data on Unemployment in India



The data on unemployment in India is very fluctuating as it is clearly seen from the diagram above.

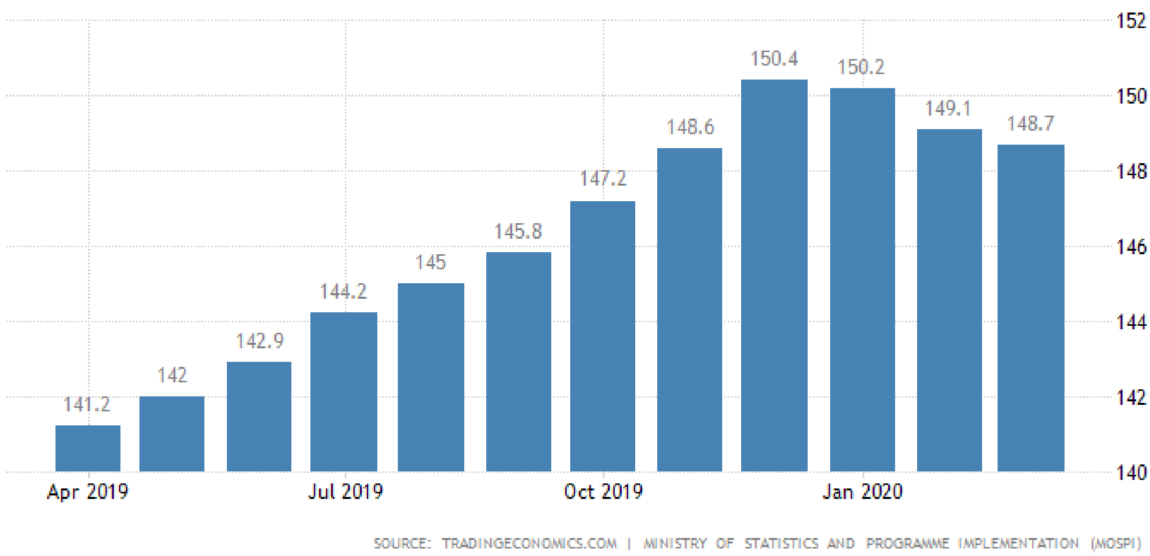
Diagram-05 Data on Retail Price Inflation



India's retail price inflation fell to a four-month low of 5.91 percent year-on-year in March 2020 from 6.58 percent in the previous month, and slightly below market expectations of 5.93 percent.

Food & beverages prices rose at a softer pace (7.82 percent vs 9.50 percent in February), particularly due to vegetables (18.63 percent vs 31.6 percent), fruits (3.56 percent vs 4.0 percent) and pulses & products (15.85 percent vs 16.6 percent). Meanwhile, price increases accelerated for cereals & products (5.30 percent vs 5.2 percent) and milk & products (6.47 percent vs 6.1 percent).

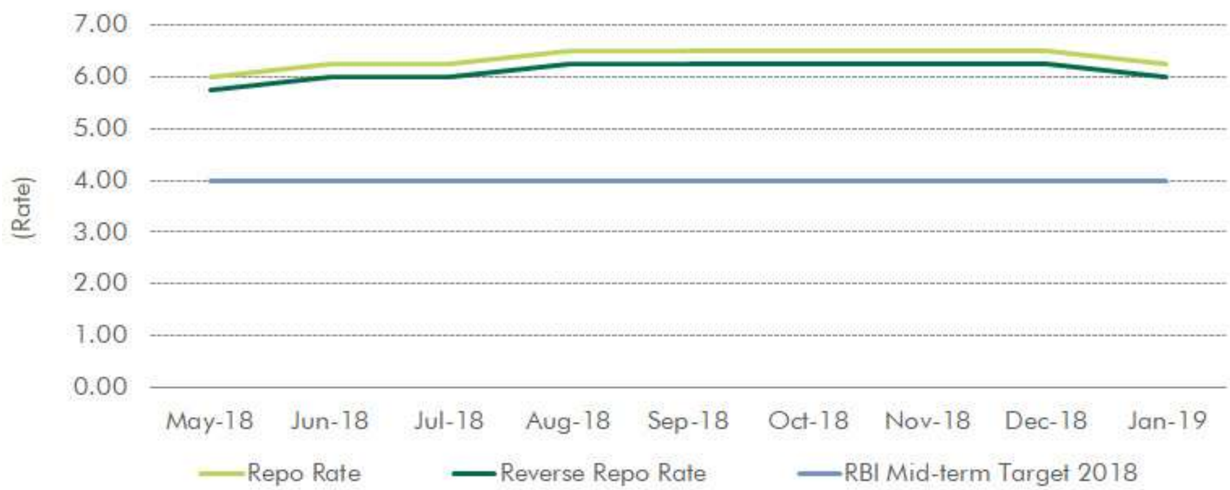
Table-06 Consumer Price Index in India



Consumer Price Index CPI in India decreased to 148.70 points in March from 149.10 points in February of 2020.

(Consumer price inflation in India eased to 6.58% in February of 2020 from 7.59% in the prior month, and slightly below market expectations of 6.8%. The inflation rate fell for the first time in 7 months, as food & beverages prices slowed (9.5% vs 11.8% in January), particularly cereals (5.2% vs 5.3%), vegetables (31.6% vs 50.2%), fruits (4.0% vs 5.8%) and pulses (16.6% vs 16.7%); while milk cost rose faster (6.1% vs 5.6%)).

Diagram-07 Repo and Reverse Repo rates in India



Source: Database of Indian Economy, Reserve Bank of India (DBIE - RBI), January 2019

Repo rate is the rate at which RBI lends money to banks. Reverse Repo is the rate at which RBI borrows money from banks. Repo Rate is higher than the Reverse Repo rate. Repo Rate is used to control inflation and deficiency of funds. Reverse repo is used to manage cash-flow.

We can see that since May 2018 the central bank is trying to achieve its midterm target but the Repo and Reverse repo rates are moving between 5.8% to 6.6%.The decrease in repo rates is to aim at bringing in growth and improving economic development in the country hence we can see In the last quarter the rates are reduced by basic 50 points.