


Economics Project



INDIA'S
ECONOMIC SLOWDOWN

The illustration depicts a large red line graph trending downwards, symbolizing economic decline. Several stylized human figures are shown in various states of distress: one person is slumped over the graph, another is holding their head in pain with lightning bolts, a woman is covering her face in despair, and others are crouching or struggling. The background features faint, larger-scale downward arrows, reinforcing the theme of a slowdown.



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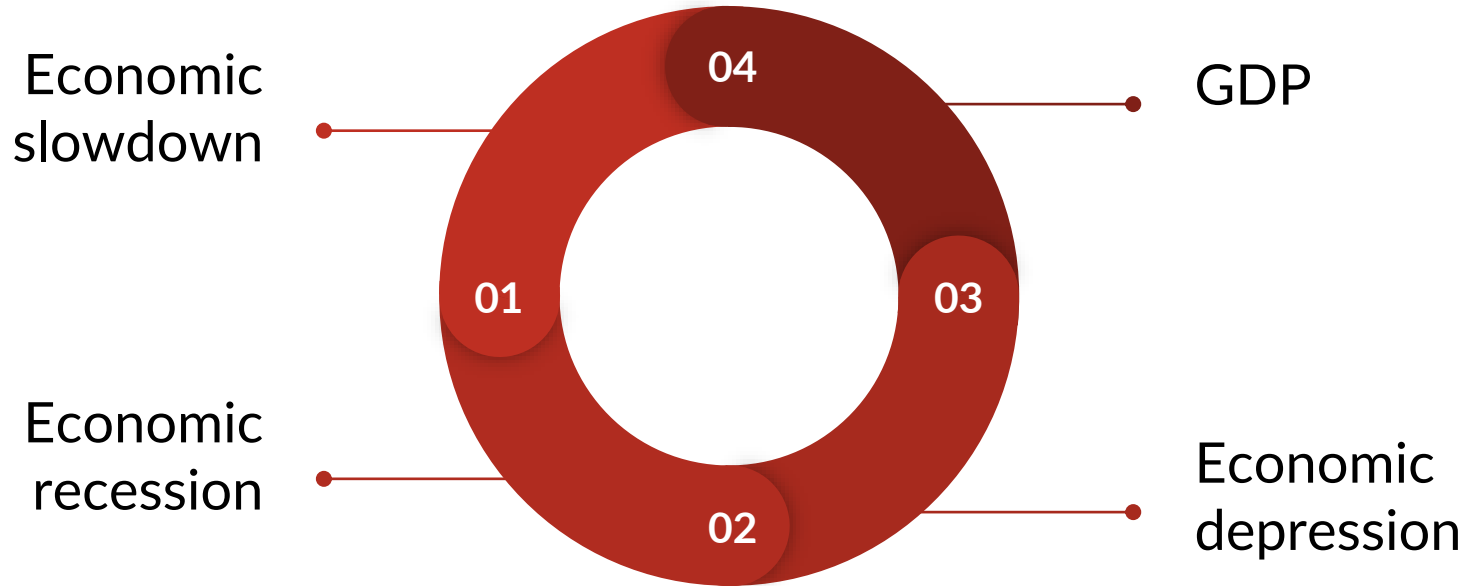
**Possible
Solutions**

01

Introduction & Symptoms



Introduction

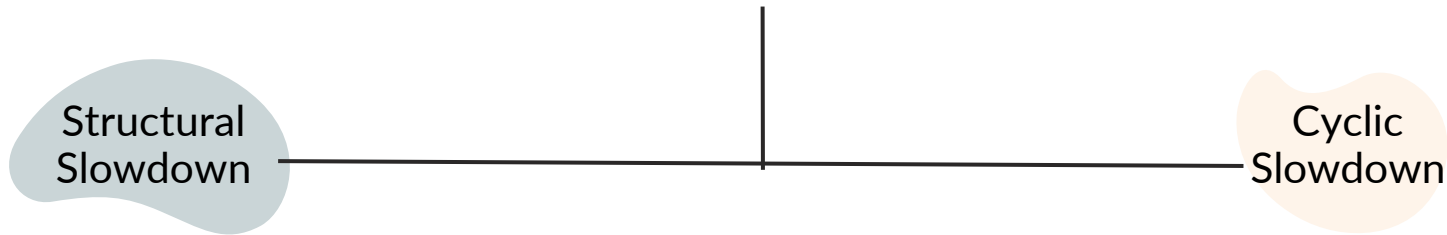


Detailed Explanation

Economic Slowdown

A period of weak economic growth that occurs at a regular intervals called economic slowdown

Types of Economic Slowdown



Detailed Explanation

Economic Recession

- If country's GDP growth is negative till 2 consecutive quarter (6 month period) then it is considered as economic recession
- For example: In 2020 India's GDP was negative

Economic Depression

- An economic depression is a period of sustained long term downturn in economic sector
- It is more severe as compared to economic recession
- For Example: 1930's great depression

GDP (Gross Domestic Product)

- It is a monetary measure of the market value of all the final goods & service produced in specific time period

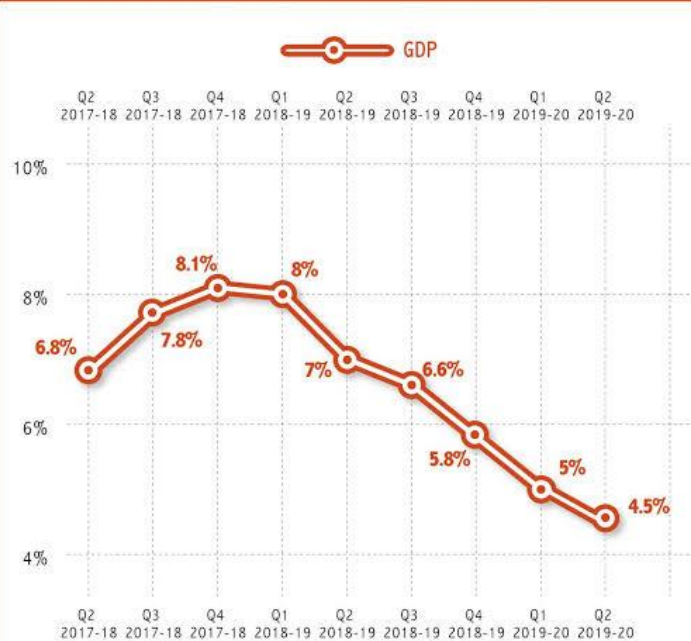
Symptoms



- GDP growth
- Consumer Goods Production
- Electricity Generation
- Collapse in Exports
- Direct Tax Revenue

GDP Growth

GDP HAS DIPPED SHARPLY SINCE FOURTH QUARTER OF 2017-18



Source: Ministry Of Statistics and Programme Implementation

ThePrint

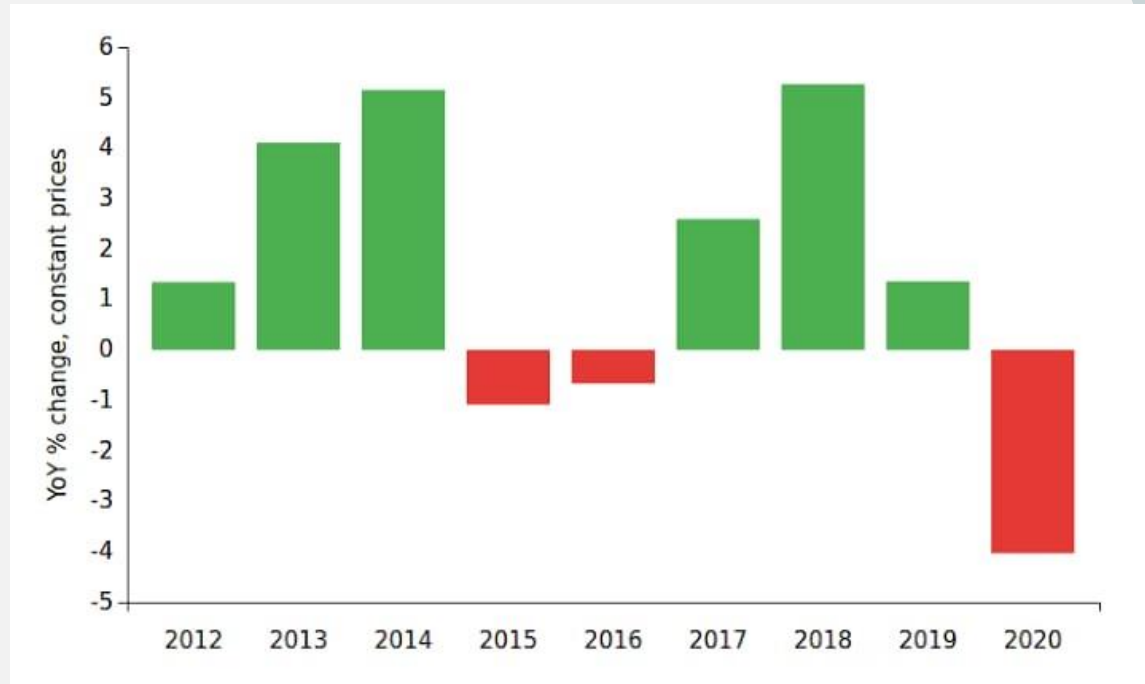
- In 2017-2018 downfall started
- In 2019-2020 GDP growth 4.5%
- Raises questions to finance ministry, ministry of commerce & industry

Consumer Goods Production

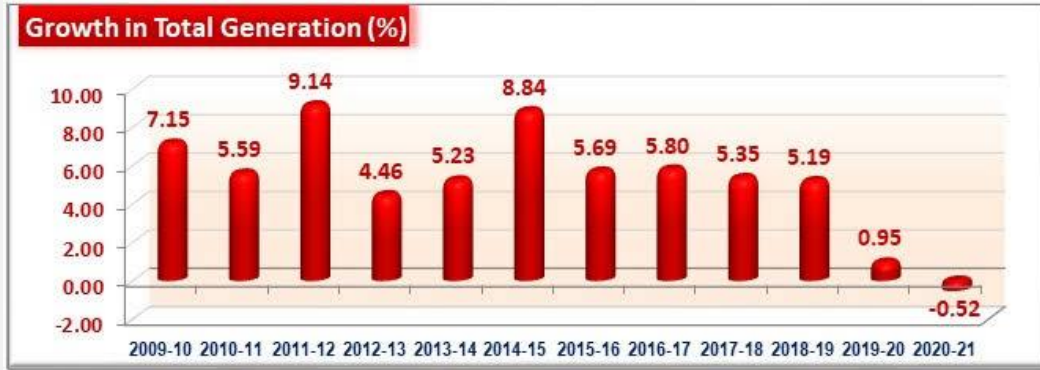
- In 2019 growth rate 1%
- In 2020 growth rate -4%
- Not facing any macro economic crisis
- inflation down, reserves are healthy, no external debt problem

Real economic sector is suffering

- GDP down
- Export is less
- Unemployment is high
- Revenue for public welfare



Electricity Generation



- Lowest in 30 years
- Basic need is suffering
- Fall is seen after 2016-2017
- Came down to -0.5 in 2020-21

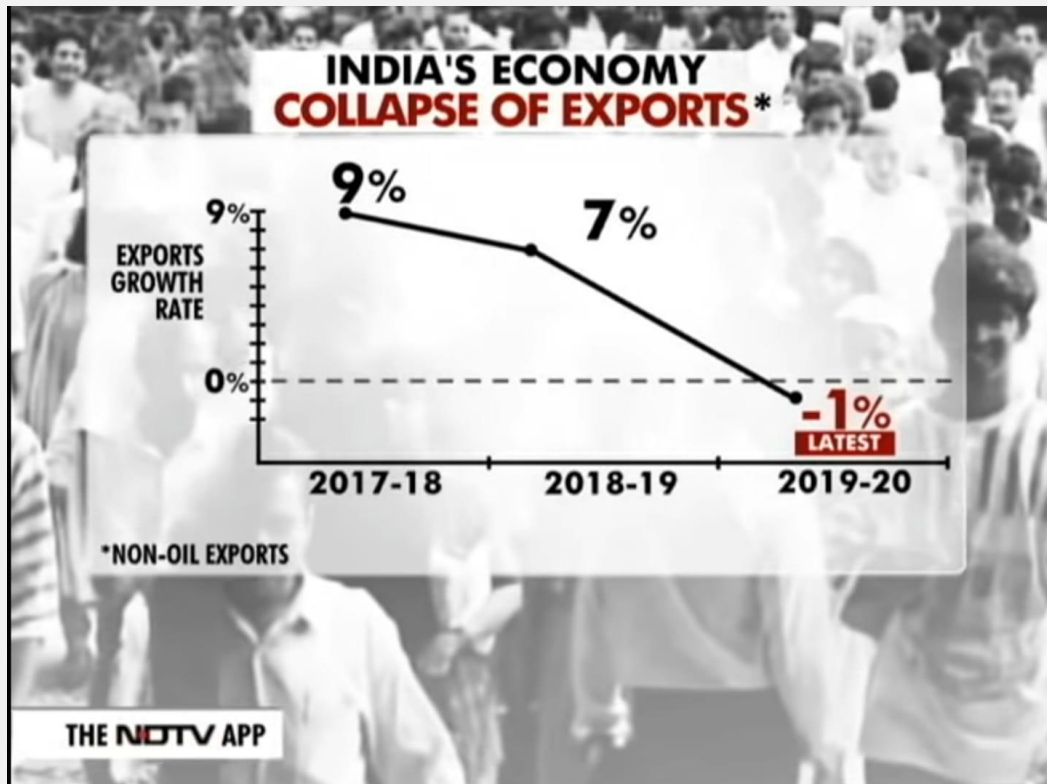
Collapse in Exports

Collapse of Exports:

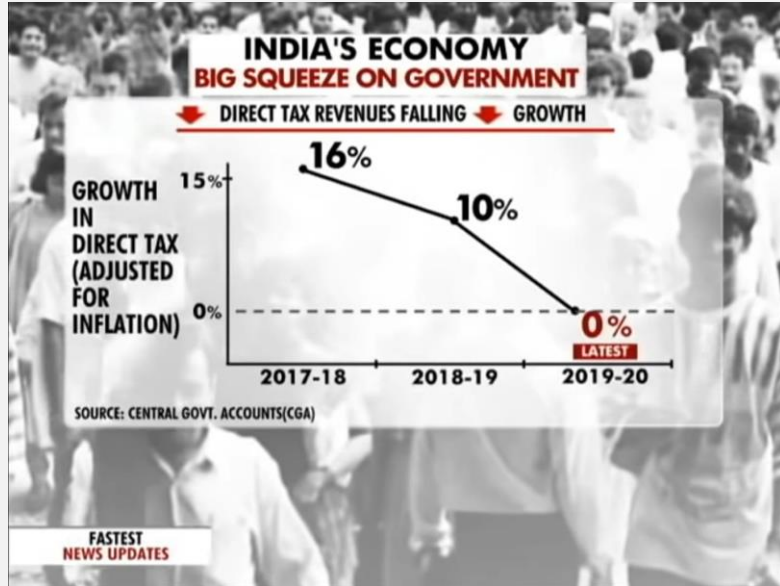
- 9% in 2017-2018
- -1 in 2019-2020
- Partially depends on global trade

Also depends on domestic factors:

- Ease of doing business
- Exchange rate
- Competitiveness of manufacturing
- Service exports, goods exports



Direct Tax Revenue



- DTR falling down (GST not included)
- Growing with rate of 16%
- Heavy downfall (got down to 0%)

Direct tax = personal tax + corporate tax

- GST also down
- Rumour - DTR is down because of gst
- Reality - DTR is down because of economy
- We can't blame gst for that because gst is also reflection of economy



02

Cyclic & Structuralist Slowdown

Cyclic Slowdown

- It is a period of lean economic activity that occurs at regular intervals.
- It lasts for a short to medium term .
- Attributing the slowdown to a slump is Aggregate demand, explained by problems in agriculture , demonetization , GST , Momentary rightness , & political uncertainty .

- Possible Solution:

Fiscal & Monetary measures:

- Cut corporate tax
- Increase expenditure

Structural Slowdown

- It is more deep - rooted phenomenon
- It is driven by disruptive technologies ,
changing demographics .
- It lasts for long term
- Structuralist argument , the problem with the this explanation , is
precisely that it focus on the long standing structure of the indian
economy , on features such as labour laws which haven't really
changed in recent decades .
- Possible Solution:
 - Reforms in structural polices .
Example - 1991 (LPG REFORMS)

03

Four Balanced Sheet Crisis



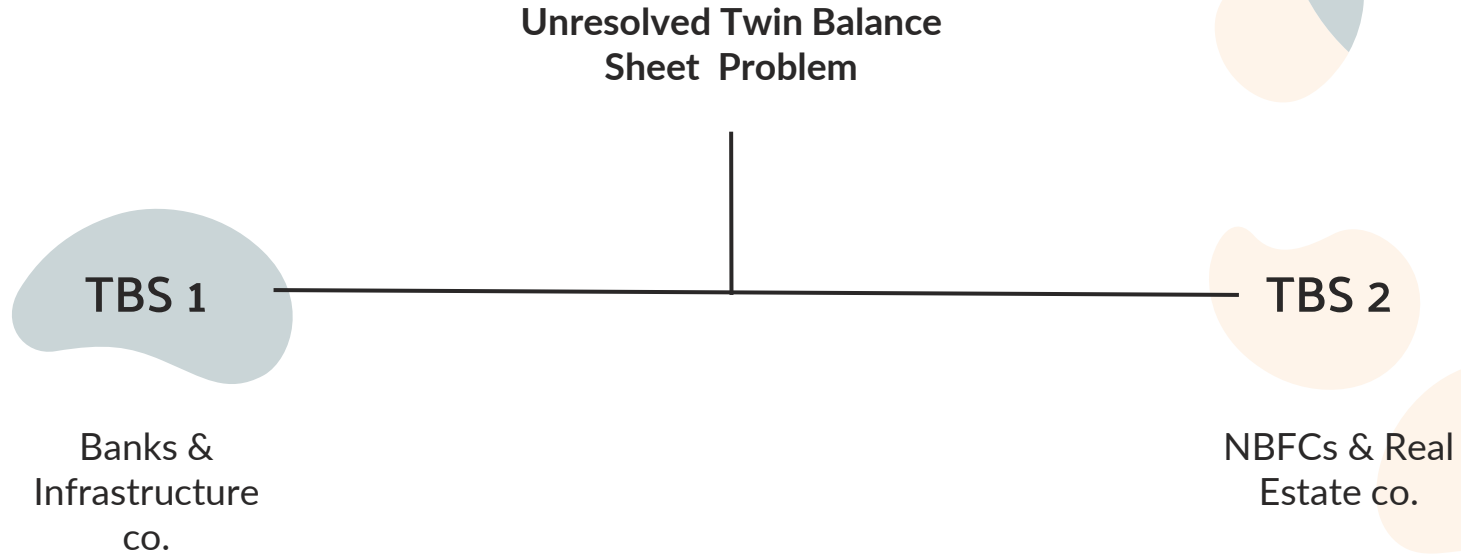
WHAT IS BALANCE SHEET ?



Balance sheet is a financial statement of a company or a bank which summaries its Assets , Liabilities and Shareholder equity .

Assets = Liabilities + shareholder equity

Root Cause



TBS-1

Twin Balance Sheet Problem

- Indian Banks
- Infrastructure Companies

● STAGE 1

- Mid - 2000s : all growing @9-10%
- Indian banks started lending loans predominantly to the infrastructure co. Hence heavy investment esp. in infra projects like roads , highways etc.
- Investment - GDP % increase from 11% in 2003 to 38 % in 2007

● STAGE 2

- GLOBAL FINANCIAL CRISIS (2008) causing decrease in international demand , growth rate , revenues , project stall
- Land and environment clearances delay project which increase financial cost further .
- RBI increased interest rates to manage inflation that cause much more trouble to companies to pay back their loan or principal amount and difficult to get new loans .

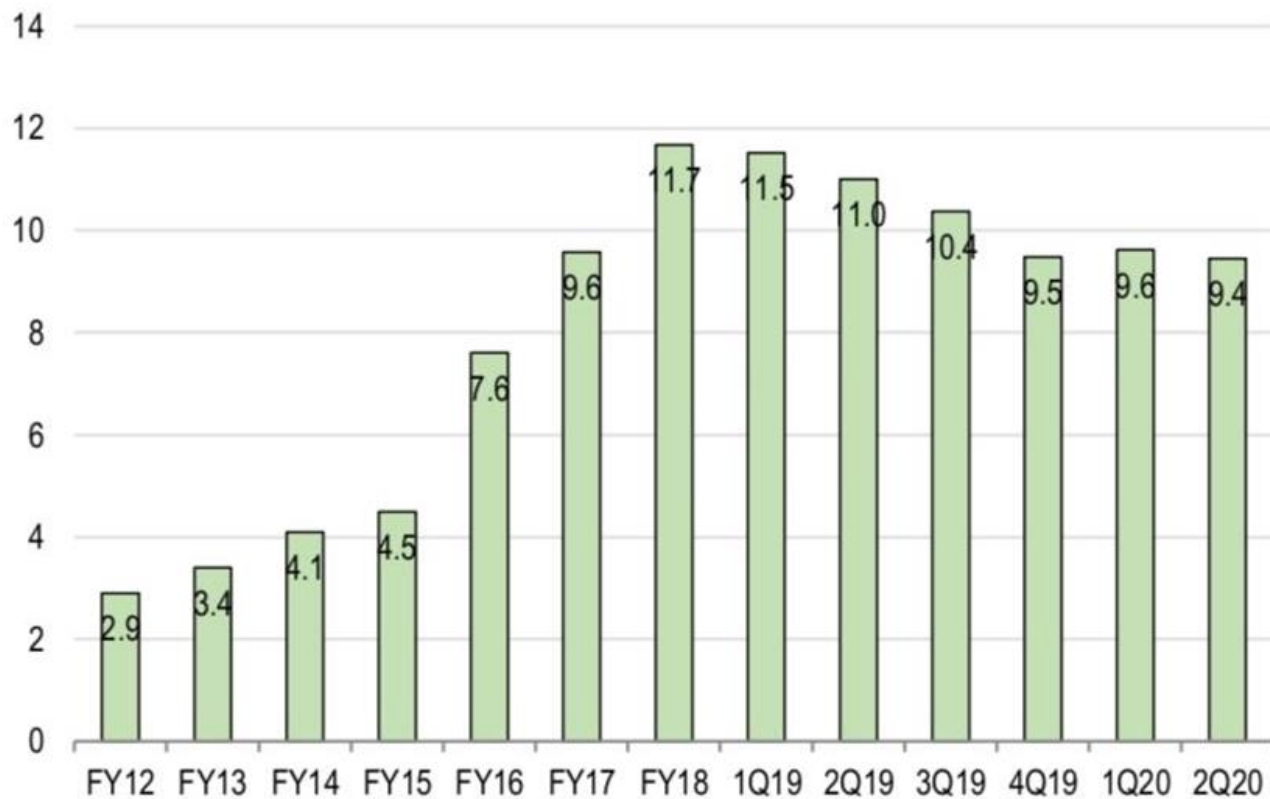
TBS-1

Twin Balance Sheet Problem

- **STAGE 3**
 - OVERLEVERAGED COMPANIES - 40% of debt accumulation is owed by IC1 companies (interest coverage ratio less than 1)
 - IC1 = co. not generating enough revenue to even repay loan interest
 - Bad loan encumbered banks - As companies fail to pay back interest or principal amount that turned into Non performing asset of banking system which was as high as 9% . (12% in public sector banks)



Figure 10. Gross Non-Performing Assets (in percent of bank assets)



Source: Credit Suisse

TBS-2

Twin Balance Sheet Problem

- NBFCs
- Real estate co.

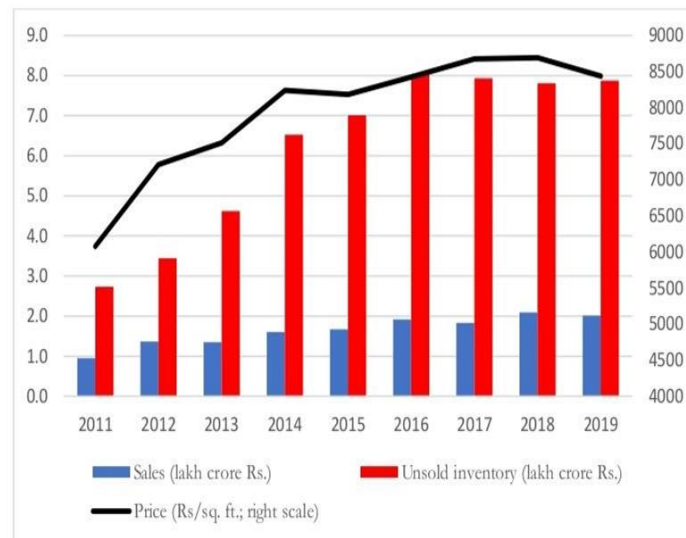
● What is NBFCs ?

- Non - Banking Financial Companies are financial institutions that do not possess a banking license from the RBI but still provide a bank like financial services like loans , credit facility , retirement planning , etc.

● THE CRISIS

- Came into light after demonetization
- NBFCs and some housing co. are facing liquidity crunch .
- The major trigger to highlight this issue was sudden IL&FS collapse which shows that co. carries 90,000 crore worth of debt .
- The market discovered that NBFC lending has been channeled to one particular sector , real estate .
- But Demand tapered , debt servicing by builders became difficult and both of their balance sheet accumulating stress resulting in four balance sheet crisis

Figure 16. Unsold Inventory, Sales (in lakh crores) and Prices (Rs/sq. ft) in Top 8 Cities



Source: Liases Fortas.

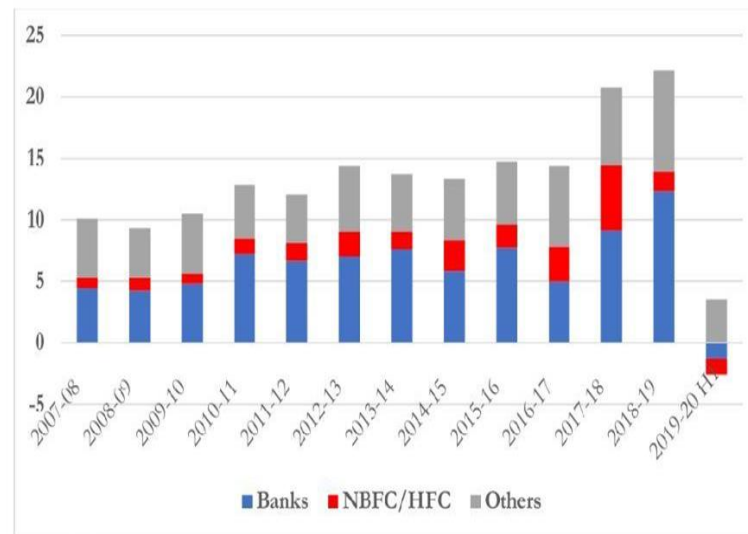
TBS-2

Twin Balance Sheet Problem

● THE IL&FS COLLAPSE

- The problem was IL&FS had been borrowing very short - term money but invest it for very long time
- In the wake of demonetization in 2016 , lack of cash eroded liquidity , thereby delaying loan recoveries.
- When the cash flow from many projects did not complete it cause severe mismatch in its borrowing and lending tenors .
- Resulted in inevitable default and the fallout spill onto other NBFCs and mutual funds.

Figure 19. Flow of Commercial Credit (Lakh crore rupees)



Source: RBI

04

Covid-19 Impact



Covid-19 Impact

Notably India had also been witnessing a pre pandemic slowdown , and according to the world bank it magnified pre - existing risk to India's economic outlook .



Largest GDP contraction

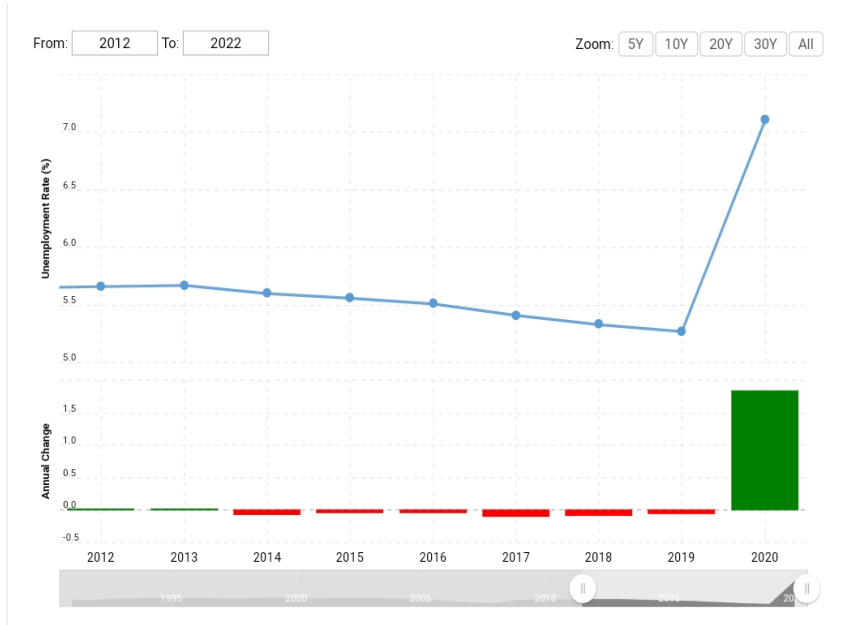
- India's GDP shrank 7.3 % in 2020 - 21 .
- This was the worst performance of the
- Indian economy in any year since Independence .
- On Sept 2020 , GDP figures for Q1 (April to june) FY21 , showed a contraction of 24 % .
- (\$140 billion) stimulus to overcome the contraction .

India's GDP growth rate since FY16

FY GDP growth%

FY16	8
FY17	8.3 (+0.3%)
FY18	6.6 (-1.4%)
FY19	6.1 (-0.5%)
FY20	4.2 (-1.9% est.)
FY21	-5 (-9.2% est.)

Rise in unemployment



- Unemployment rate will be around 12 %
- At the end of may 2021
- Expected Loss of job 1 crore
- Urban 15 % and rural 11.2 % on 3rd june 2021

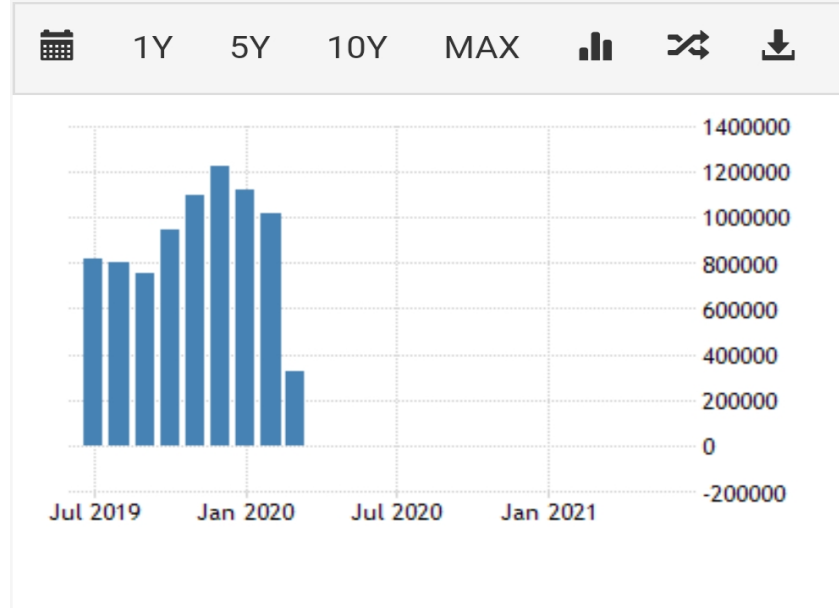
Export & Import

- In export in april 2020 fell by -36 .65%
- Import in april 2020 fell by - 47 . 35 % as compared to to april 2016 .

		August 2021 (USD Billion)	August 2020 (USD Billion)	August 2019 (USD Billion)	Growth vis-à-vis August 2020 (%)	Growth vis-à-vis August 2019 (%)
Merchandise	Exports	33.28	22.83	25.99	45.76	28.03
	Imports	47.09	31.03	39.85	51.72	18.15
	Trade Balance	-13.81	-8.20	-13.86	-68.30	0.37
Services*	Exports	18.92	16.13	17.55	17.33	7.83
	Imports	11.48	9.25	10.64	24.11	7.94
	Net of Services	7.44	6.88	6.91	8.21	7.66
Overall Trade (Merchandise+ Services)*	Exports	52.20	38.96	43.54	33.99	19.89
	Imports	58.57	40.29	50.49	45.38	16.00
	Trade Balance	-6.37	-1.33	-6.95	-379.58	8.36

Collapse of hospitality industries

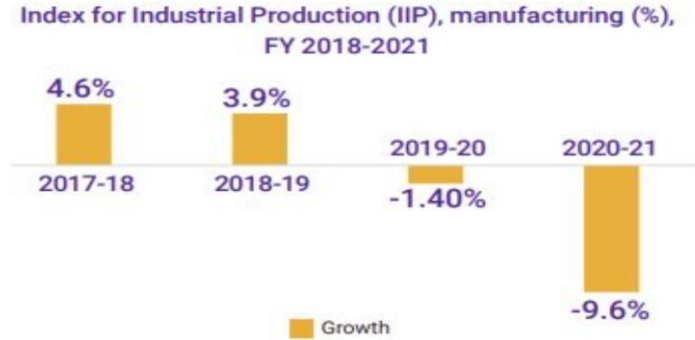
India Tourist Arrivals



- Contract at an alarming rate of 65 % in Fy 2021
- For Hotel , the occupancy level hit 18 % .
- NRAI (National restaurant association of India) 40 % restaurant in the country Closedown since 2020 .

MANUFACTURING SECTOR

- The IIP (The index of industrial Production) also fell to negative growth of 9.6 .
- The complete lockdown and partial lockdown had both demand side and supply - side impact on the manufacturing sectors .
- As per the IHS market india manufacturing purchasing manager index (PMI) in may 2021 , PMI slumped to 50.8 from 57. 5 reported feb .

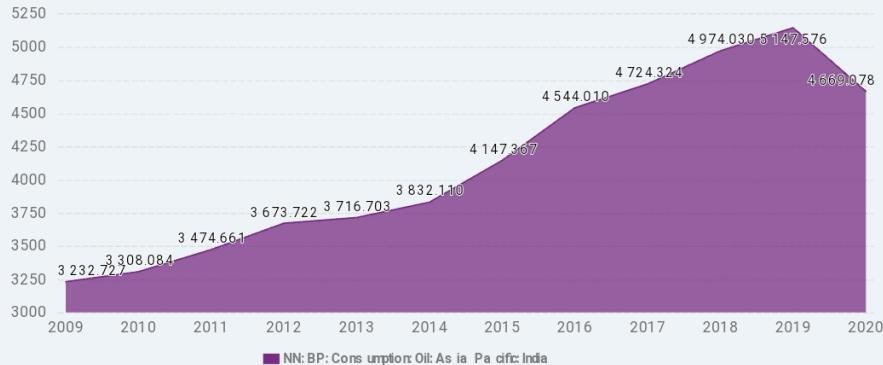


The key issues impacting the manufacturing sector are listed in the image below:



PLUNGE IN FUEL CONSUMPTION & RISE IN LPG SALES

View India's Oil Consumption from 1965 to 2020 in the chart:



SOURCE: WWW.CEICDATA.COM | BP PLC

- FY 2020 - 21 with 9 % decline in total fuel consumption , same last year .
- India total fuel consumption stood at 194.63 million tons (mt) during the year under review , down from 214 .3 mt a year a ago .
- Petrol consumption stood 6.75 % lower from 30 million ton in 2019 - 20 to 28 mt in 2020 - 2021
- Lpg gas consumption stood at 27.59 mt 5% higher than last year .

DECREASE IN GOVT INCOME

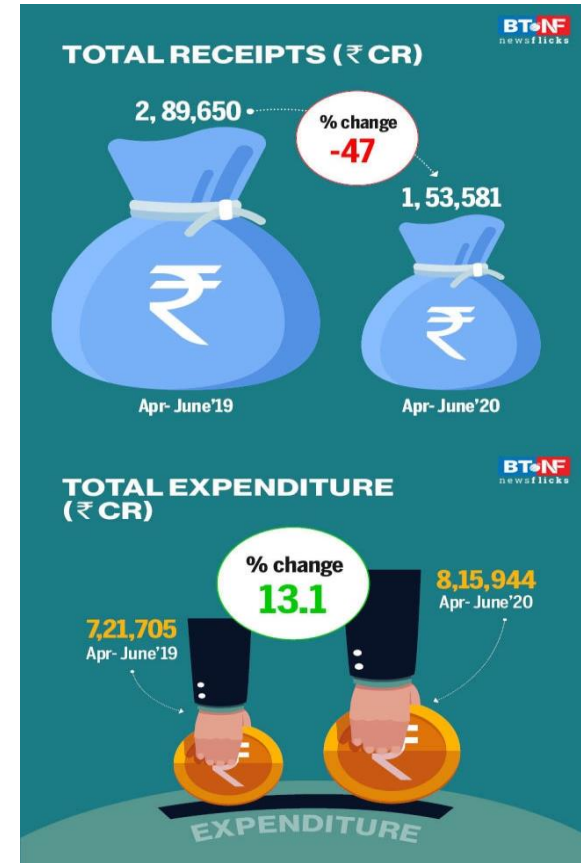
- Sharp decline in govt income and an increase in expenditure had led to significant widening of fiscal deficit .

TOTAL RECEIPT:

- Central govt revenue declined 47 % in Q1FY21
- 2020 govt earned ₹ 1, 53 , 581 cr against
- 2019 ₹ 2, 89 , 650 cr in , april - june

TOTAL EXPENDITURE:

- Total expenditure has seen a 13 % spike in Q1FY led by an increase in capital .
- Increase 40 % in govt capital Expenditure in Q1 FY 21 vs Q1FY 20



DECREASE IN GOVT INCOME

FISCAL DEFICIT:

- Fiscal deficit in Q1 FY 21 , at 6.62 lakh cr
- Increase 53 % from that in Q1FY20 .
- Percentage of budget its 83 % in Q1 FY 21 VS 61 % same last year .

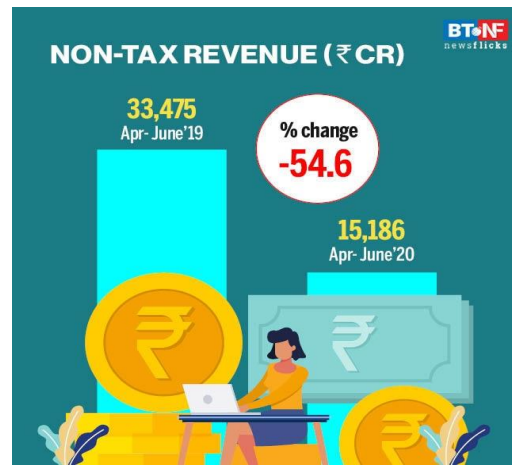


TAX REVENUE:

- 33 % in govt tax revenue Compared to last year

Non - TAX REVENUE:

- Non tax revenue reduced 54 % as compared to the last year .
- The centre collection only ₹ 15,186 cr
- Last year ₹ 33 , 475 cr against previous year





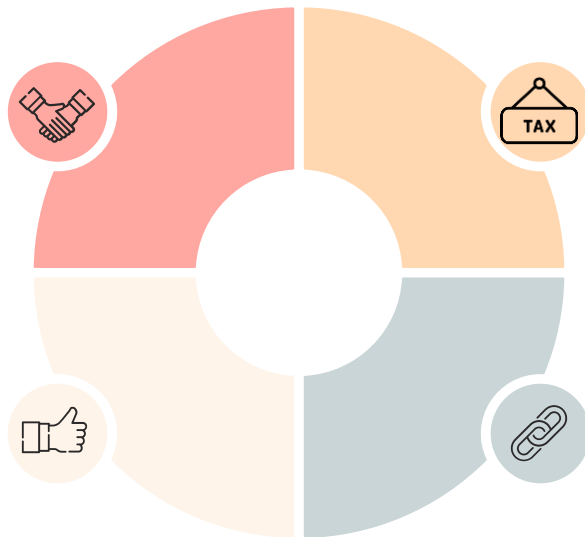
05

Steps Taken
by the Govt.

Overview

Introduction of the
Insolvency and
Bankruptcy Code,
2016

Packages to
Revive Economy



Taxation Reforms

Steps taken by the
Reserve Bank of
India (RBI)

Insolvency & Bankruptcy Code

2016

- **Main Aim:**


- The Insolvency and Bankruptcy Code, 2016 (the "Code") was introduced in December, 2016. The Code aimed to complete the insolvency resolution process in a time bound and efficient manner
- An important aspect of the Code is the way in which it deals with the issue of NPAs.
- Improved handling of conflicts between creditors and the debtor.

- **How It Worked:**

- The creditors may apply to the relevant authority under Code for the appointment of a resolution professional, who will take over the management of a defaulting debtor. The Code provides for an Insolvency Resolution Plan, and procedure for application thereof, as an alternative to liquidation of the debtor concern. The Resolution Plan is to be approved by a creditor committee with a 75% majority.
- The time period for completion of the Corporate Insolvency Resolution Process is specified under the Code as 180 days, which can be extended by the relevant Adjudicating Authority by a maximum of 90 day.

**ORDINANCE TO AMEND
INSOLVENCY AND BANKRUPTCY CODE, 2016**

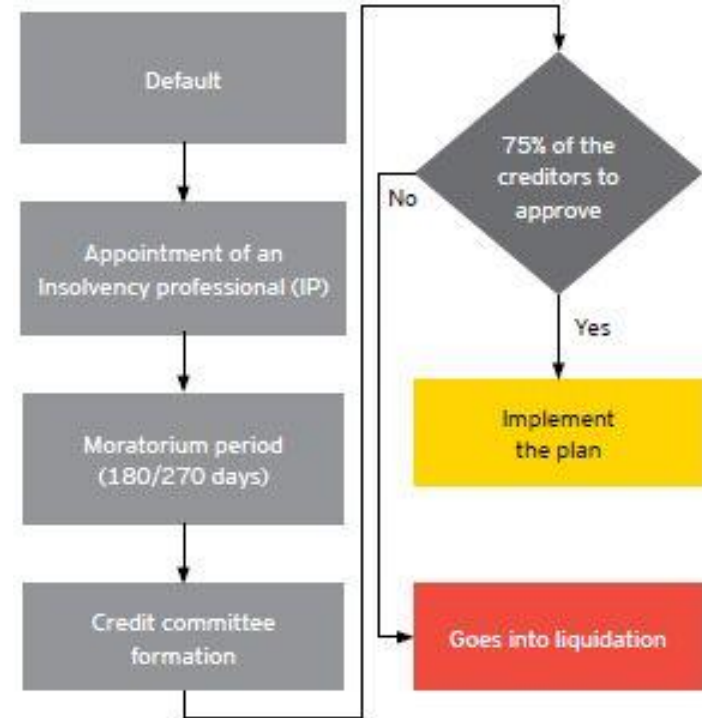
DECISIONS	BENEFITS
• Special Dispensation to MSMEs in the Insolvency Process	➔ Faster Turnaround and Ease of Doing Business
• Treating Home Owners as Financial Creditors	➔ Easier to Recover Investments
• Change in Voting Structure	➔ Promoting Resolution over Liquidation
• Change in Eligibility for Bidding	➔ Improved Recovery from Non Performing Assets (NPAs)



Insolvency & Bankruptcy Code

2016

- **Process:**
 - **Application on default** – Any financial or operational creditor(s) can apply for insolvency on default of debt or interest payment.
 - **Appointment of IP** – IP to be appointed by the regulator and approved by the creditor committee.
 - **Moratorium period** – Adjudication authority will declare a moratorium period during which no action can be taken against the company or the assets.
 - **Credit committee** – Each creditor shall vote in accordance, if 75% of creditors approve the resolution plan needs to be implemented.



Taxation Reforms

- When & Why

- The Taxation Laws (Amendment) Act, 2019 (the "Amendment Act") amending the Income Tax Act, 1961 and the Finance Act, 2019 (the 'Finance Act') came into force on September 20, 2019. The Amendment Act has introduced certain measures for the benefit of companies.

- Benefits To companies

- Domestic companies will have the option to pay tax at a rate of 25.17%, as opposed to the 30% rate prior to the Amendment Act.
- Domestic companies incorporated on or after 1st October, 2019 making a fresh investment in manufacturing have an option to pay income-tax at the rate of 15%.
- Companies which continue to avail exemptions or concessions under the Act shall continue to pay tax at the pre-amended rate of 30%.

- Reforms

- Provision has been put in place in order to boost the 'Make in India' initiative, and to attract fresh investment in manufacturing.
- The Amendment Act has also reduced the rate of Minimum Alternate Tax to 15% from the pre-amended rate of 18.5%.

Packages to Revive Economy

- **Aatmanirbhar Bharat Abhiyan**

- Prime Minister Narendra Modi announced on May 12, 2020, the Aatmanirbhar Bharat Abhiyan which combined relief, policy reforms and fiscal and monetary measures to help businesses and individuals to cope with the situation created by Covid-19 pandemic.
- It aimed at creating livelihoods for jobless migrant workers who moved back from cities to their villages during the lockdown and to make the country and its citizens independent and self-reliant in all senses.

- **Schemes launched by the Government**

- The National Rural Employment Guarantee Scheme and supply of subsidized food grains have acted as useful buffers keeping unemployment down and ensuring social stability. Thirty-six million people sought work in May 2020.
- The Government announced a special economic and comprehensive package under Atma Nirbhar Bharat including measures taken by RBI amounting to about Rs. 27.1 lakh crore to combat the impact of the COVID-19 pandemic and to revive economic growth
- The implementation of these packages are reviewed and monitored regularly.

Atmanirbhar Bharat!!! - The road ahead.....



ECONOMY

Quantum jumps, not incremental changes.

INFRASTRUCTURE

One that represents modern India.

SYSTEM

Technology driven.

DEMOGRAPHY

Vibrant demography of the largest democracy.

DEMAND

Full utilization of power of demand & supply

ATMANIRBHAR BHARAT ABHIYAN

Package of Rs. 20 Lakh crores (about 10% of GDP)

Focus on Land, Labour, Liquidity & Laws.

To cater to labourers, middle class, cottage industries, MSMEs etc....

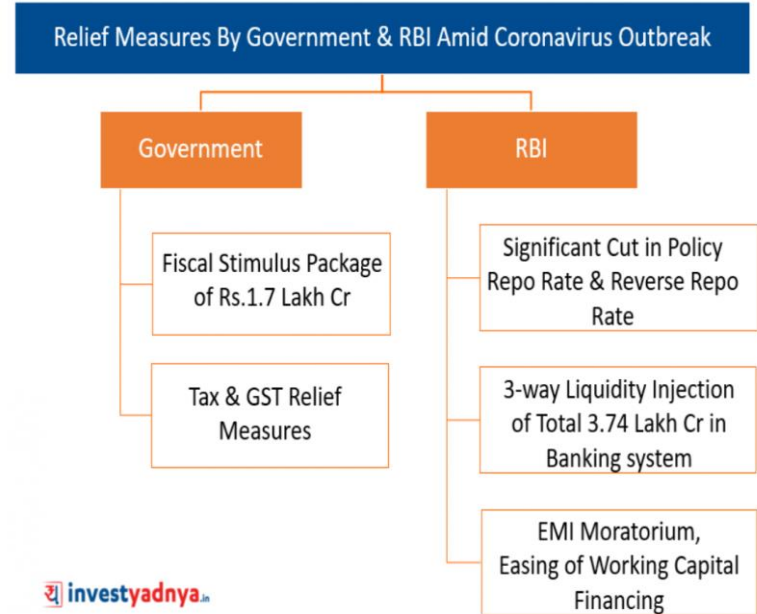
Packages to Revive Economy

- Some of the salient achievements include:
 - As on 3rd February, 2021, a total of 323.19 crore person-days have been generated in the current FY 2020-21 under MGNREGS.
 - Under Pradhan Mantri Garib Kalyan Rojgar Abhiyan, 50.78 crore person-days of employment was generated incurring an expenditure of Rs. 39,293 crore.
 - Centre had enhanced the borrowing limit for the States from 3% to 5% of GSDP for FY 2020-21.
 - Rs. 3 lakh crore Collateral-free Automatic Loans for Businesses, including MSMEs.



Steps taken by the Reserve Bank of India (RBI)

- During the COVID-19 Pandemic
 - All commercial banks, co-operative banks, all-India Financial Institutions, and NBFCs (including housing finance companies) are permitted to grant a moratorium of three months on payment of all instalments falling due between 01.03.2020 and 31.05.2020.
 - In respect of working capital facilities sanctioned in the form of cash credit/overdraft ("CC/OD"), lending institutions are permitted to defer the recovery of interest applied in respect of all such facilities during the period from 01.03.2020 upto 31.05.2020.
 - A number of liquidity measures were announced by RBI which were over and above the Rs 3.74 lakh liquidity boost announced in March 2020.



06

Possible Solutions



Solutions

What should be done

- Fix India's data problem
- Fix Financial system
- Fix Agriculture

● India's Data Problem:

● GDP data problem:

- The Modi government, which took power in May 2014, announced a change in the way of calculating GDP in January 2015. To measure India's economic activity better and comparable to the world, it changed the base year of national accounts to 2011-12 from 2004-05, in addition to the routine annual revision.

● Budget deficit problem:

- To keep up with the pressure of making headline fiscal deficit numbers look good, the government has increasingly resorted to off-budget financing for revenue as well as capital spending. The Govt. Is putting more and more stuff in off budget like Food subsidies and Infrastructure spending from national Highway authority.

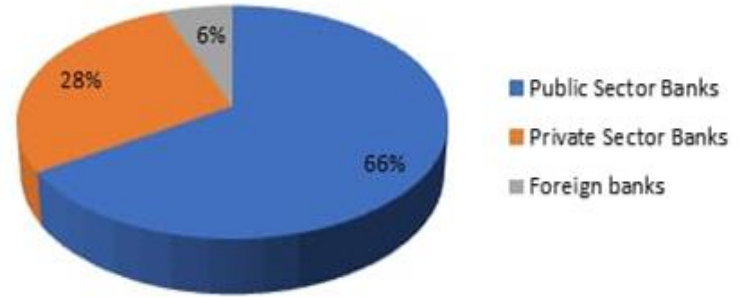
Solutions

- **India's Data Problem:**
 - GDP,Budget,Bad loans to show true picture.
 - Because it affects policies of the government.
 - This also gives transparency in the data to the investors and this will lead to increase in investment .

Solutions

- Fix Financial system:
 - Independent assessment of Bad loans
 - Strengthening bankruptcy process
 - Create a 'Bad Bank' for power and real estate
 - Increase supervision of NBFCs.
 - Shrink Public Sector Banking
 - Provide funding only to those Bank WHO Reform

Total Banking Assests (%)



Solutions

- Fix Agriculture:
 - Direct cash to farmers, stop subsidies to fertilizer & power companies
 - Create one all-india market for Agriculture products
 - Stop flip-flops in agriculture trade policy
 - Incentives for water conservation
 - Allow new gmo crop



**THANK
YOU**

