

Why the economy going down



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Raktim Baruah 10 October 2019 41815 views

In the process of lifting the country's economic state to a new high, i.e. making it a five-trillion-dollar economy in the next five years, the Narendra Modi government is now struggling to overcome many challenges occurred in the economic front itself. The current economic downturn, created by the on-going global trade war and dwindling of the domestic demand, compelled the government to roll back some proposals made in the 2019-20 general budget presented in Parliament on July 5 this year by FM Nirmala Sitharaman. Some economists, apart from the government financial and economic policy makers, had termed and hailed the budget as historic as it had increased rate of the corporate tax significantly. These economists had argued that the increasing of rate of corporate tax would help the government to achieve its targeted fiscal deficit goal for the current fiscal year. But contrary to the expectation of the government, the economy started perform badly immediately after the budget presentation.

Some industry players, especially from the country's manufacturing sector, started ringing bell of the economic slowdown as their selling dwindled or came to a standstill. The auto-industry sector has faced the burnt more severely in the last couple of months. As such, the manufacturing sector had vehemently raised demand for GST rate cut, which created pressure upon the government. Besides, massive job losses in the auto and auto component manufacturing industries and concern expressed by various sections across the country also created tremendous pressure upon the government. As such, the government recently announced some measures to tackle the downturn.

As a part of such measures, the FM, a few days ago, announced reducing of rate of the corporate tax to 22.5% from earlier 30% in order to increase domestic demand and boost investment. Moreover, the rates of GST in some select passenger motor vehicles and restaurant bills have also been reduced. Announcing these steps the FM hoped these would increase investment and would help the industries to create more employment. It is needless to mention here that more employment generation and more investment denote increase of demand of different kind of goods and services.

According to some economists, lack of or poor demand of goods and services has created the current economic slowdown. However, the government is yet to ascertain the root cause of the slowdown. Despite that the government keeps announcing different measures to tackle the problem and check further deterioration of the prevailing situation. Similarly, the government is yet to announce steps for increasing income of rural people and farmers despite the fact that rural consumption is very essential for the country to keep and boost its economic growth. Some recent reports reveals that the rate of rural consumption has dipped alarmingly in the last couple of months because of pro-longed farm-crisis. As per a Nielson report rate of the overall rural consumption in the country decreased to 10.2 % in May this year.

The government's recent stimulus to the industry sector has helped hike of the domestic stock markets. It has continued to check fall of the Sensex and Nifty despite volatility in the stock markets almost across the world. However, some economists have opined that hiking of share index due to government's stimulus may not remain for long time. Nevertheless, the government's step and intervention for revival of the economy has been appreciated by a large number of economists ignoring some facts like the burgeoning NPA burden of the country's banking sector.

Symptoms of an economic slowdown became explicit a few months ago when a leak report of the National Sample Survey Office(NSSO) had revealed that the country's unemployment rate touched 45 years high. As such, demand for goods and services has been decreasing gradually across the country which along with some other factors has created the current economic crisis. The other factors, which could be taken as causes of the slowdown include widening of Current Account Deficit (CAD) and persistent falling of value of the rupee against the dollar. As per latest report the CAD increased by 20% in March this year from April last year. Current Account, one of the two parts of the balance of account, is the total amount of a country's earning from its trade in a given time or period. The CAD of a country occurs when its import exceeds export. The latest industry data carries sign of alarming rise of the CAD of the country. As such, the government has, of late, asserted some tax relief to the exporters to boost export from the country. But what the government has yet to do is take step to increase demand in rural areas. Rather, it has reduced fund under some social security schemes like MGNREGA, PMGSY etc.

It has been seen that the economists, who supported and praised the Modi government's economic policies during the last five years, failed to forecast an impending economic crisis in the country. Eminent economist Surjit Singh Bhalla, a staunch supporter of Prime Minister Modi's economic policies, has now appreciated the recent corporate tax rate cut, terming it as a historic step and the world's biggest tax rate cut ever. But he also appreciated the general budget of the 2019-20 fiscal year, which hiked the corporate tax. On the other hand, those economists, who are/were critical of this government policies, warned of an economic crisis a few years back. As for instance, former PM Dr. Manmohan Singh, while criticising demonetisation immediately after its announcement in November, 2016, expressed apprehension that the country would lose 2 percent GDP. Dr. Singh's forecast turned reality as the GDP of the Q1 of the current fiscal year came down to 5 percent. Similarly, former RBI governor Raghuram Rajan could also predict an economic crisis in the country and warned accordingly. But the government ignored views of these world-famous economists in formulating economic policies.

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