

THE ECONOMY is facing a slowdown and is evident with growth slipping to a five-year low of 5.8 per cent in the January to March quarter of 2019. India has faced such episodes of economic slowdown three times in the past decade. One in 2008 when economic growth fell for three consecutive quarters from June of the year, the second lasted for five straight quarters after March 2011 and the third is the current one where growth has slowed for four successive quarters and is expected to dip to 5.6 per cent during the latest quarter.

A key driver of India's growth since

tax collection estimates are already over-optimistic, make an uptick in government investment seem unlikely. India's primary source of economic growth, thus, lies ineffective.

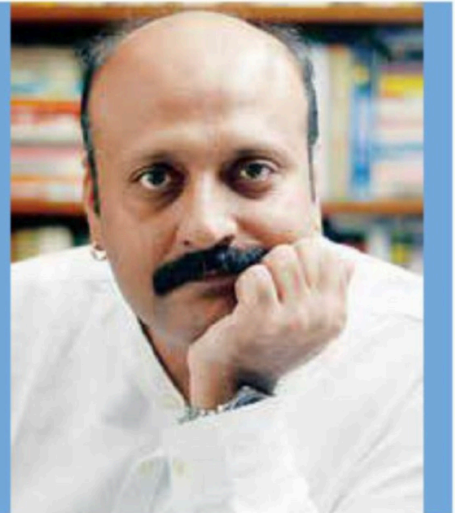
India is also experiencing a changing behaviour pattern in its workforce. Indian households are witnessing a fall in savings as credit demand is on the rise. Over the last seven years, financial liabilities as a percentage of GDP has risen from 3.3 per cent to 4.3 per cent while net financial savings have dipped from 7.2 per cent to 6.6 per cent. Meanwhile, bank deposit growth, which was over 20 per cent two decades ago has fallen to 12 per cent. Clearly, the credit culture is on

tural reforms."

Investment in the economy is subdued due to a lack of consumer demand throughout the country including rural India. The growth in rural incomes, which includes, but is not limited to farm incomes, should become a focal point of the country's economic policy. The idea should be to improve agricultural productivity and create alternative occupational paths in non-farm activities.

The latter can be achieved through the success of labour-intensive manufacturing, which would enable the shift of people from farms to factories. Therefore, India needs reforms that facilitate the growth of the manufacturing sector.

Fixing The Economic Slowdown



the liberalisation of the economy in 1991 has been its investments. Recently, the investment in the economy has been unambiguously slowing, and as per CMIE data, new investment proposals have touched Rs 9.5 lakh crore, which is the lowest since 2004-05. On the other hand, the government is spending less, as evidenced by a 30 per cent drop in capital expenditure for the June 2019 quarter. While low consumer demand and a liquidity crunch on account of the crisis in the non-banking financial (NBFC) sector is constraining private investment, fiscal constraints limit the ability of the government to revive investment. The reduction of the fiscal deficit target by the government to 3.3 per cent in a year when

the rise and is impacting the level of savings. Despite growth in insurance, mutual fund investment and pension, the gross financial savings in the economy have remained constant at 10 per cent. This is as well leaving less money for investments.

All of these trends point to the need for structural changes that cannot be substituted with minor policy tinkering. The Finance Minister has responded with measures that look at bank recapitalisation and withdrawal of the higher tax surcharge on FPIs and domestic investors. While these moves are welcome they need to be accompanied with stronger struc-

While labour law reform is already underway, the act of reducing multiple laws into four codes should not be an end in itself. What needs to be changed is the content that has impeded Indian manufacturers from growing big until now, as they feared application of these laws. Further, structural shifts over the long run can be achieved by tapping into the health and education sectors that long for quality improvements.

Only such long-lasting structural changes can improve the growth potential of the Indian economy and stall the possibility of another slowdown in the coming years. **BW**

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