# INDIA 2013: BLIP, SLOWDOWN, CLIFF- OR TURNAROUND?

Asia-Europe Economic Forum

Bruegel, Brussels

January 21-22 2013

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# INDIA: THE PROBLEM

- Growth slowdown a global phenomenon: Asia, BRICS; OECD.
- Will review recent Indian developments to assess:
  - Economic speed limits to growth
  - Political appetite for reform
  - Possible growth drivers for next phase
- Main issue: despite quarterly growth at a ten-year low, India has high inflation, large current account deficit and sliding rupee.
- None of these was a problem when the economy was growing at 9%.
- What has changed? What does it imply for the future, and for policy?
- Underlying premise is that domestic factors more important than external.

# INDIA: THE CONTEXT

- The Congress party, under party leader Sonia Gandhi and her technocratic Prime Minister Manmohan Singh, have led fractious coalitions (2004-09:UPA-I; currently UPA-II) since 2004.
- Well-funded NGOs, aggressive media, activist Supreme Court and assertive government auditor have put coalition on the defensive by raising credible allegations of large-scale corruption in diverse fields of public activity: telecom spectrum; mining concessions; urban real estate.
- Result has been paralysis in government decision-making and stalemate in Parliament. Increasing emphasis on populist schemes to burnish the ‘pro-poor’ credentials of the ruling party and of its coalition partners.

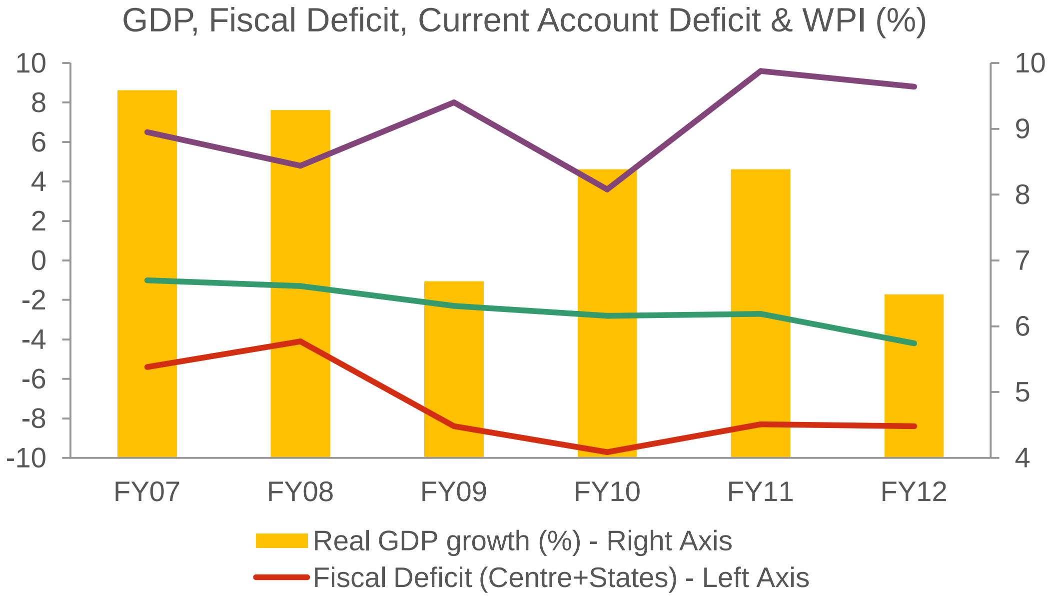
# INDIA: THE CONTEXT

- Both ‘national’ parties (the main opposition party, the Bharatiya Janata Party, or BJP) and the Congress party face leadership transitions before Parliamentary elections due in mid-2014.
- Continuing problems at the sector level: sluggish manufacturing, a poor monsoon, continuing problems in infrastructure, notably energy and power.
- Human development, social protection and anti-poverty policies a major arena for policy action, political discourse.
- Not all is bleak: disarray in Delhi is offset by the emergence of forceful, energetic and effective leaders in the states, including some of the poorest ones. A great deal of decentralized innovation and experimentation is taking place in service delivery, social policies, administration.

# INDIA – KEY DEVELOPMENTS

## Key macroeconomic indicators

| Year- end 31 March | FY07 | FY08 | FY09 | FY10 | FY11 | FY12 |
|---|---|---|---|---|---|---|
| **Real GDP growth (%)** | 9.6 | 9.3 | 6.7 | 8.4 | 8.4 | 6.5 |
| **Fiscal Deficit (Centre+States)** | -5.4 | -4.1 | -8.4 | -9.7 | -8.3 | -8.4 |
| **Current Account Deficit** | -1 | -1.3 | -2.3 | -2.8 | -2.7 | -4.2 |
| **WPI (Average)** | 6.5 | 4.8 | 8 | 3.6 | 9.6 | 8.8 |
| **INR/USD (Average)** | 45.2 | 40.2 | 46 | 47.4 | 45.6 | 48.1 |
| **Nominal GDP (US$ bn)** | 950 | 1241 | 1224 | 1362 | 1684 | 1841 |
| **Per Capita GDP (US$)** | 847 | 1090 | 1061 | 1163 | 1416 | 1526 |




*Source: CSO, Budget Documents, RBI, Citi Research*

Note:

- Fiscal blowout before 2009 election
- Current account deficit, wholesale price index negatively correlated with GDP growth!
- Progressive deterioration in external accounts

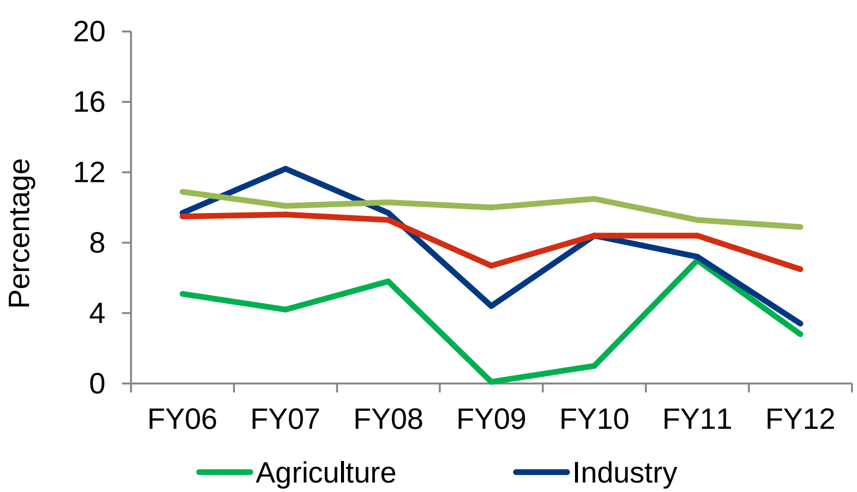
# GDP: SUPPLY AND DEMAND

## GDP and its components (Y-o-Y,%)

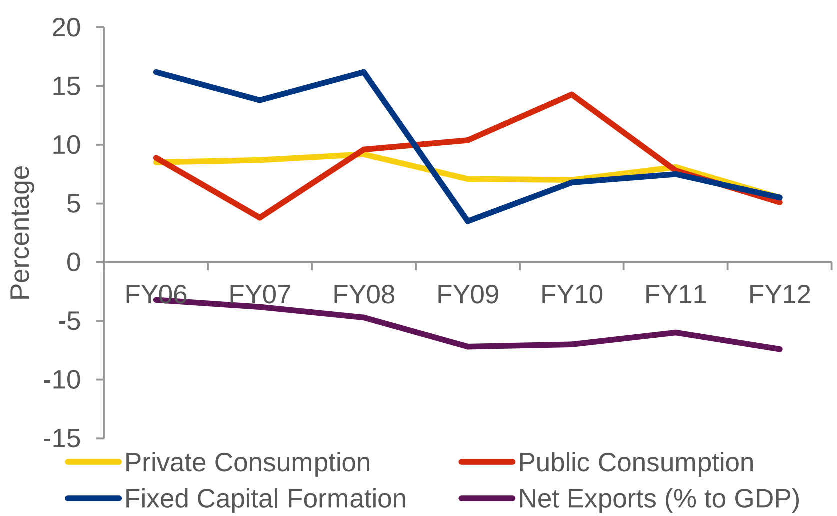
| Year- end 31 March | FY06 | FY07 | FY08 | FY09 | FY10 | FY11 | FY12 |
|---|---|---|---|---|---|---|---|
| **Agriculture** | 5.1 | 4.2 | 5.8 | 0.1 | 1.0 | 7.0 | 2.8 |
| **Industry** | 9.7 | 12.2 | 9.7 | 4.4 | 8.4 | 7.2 | 3.4 |
| **Services** | 10.9 | 10.1 | 10.3 | 10.0 | 10.5 | 9.3 | 8.9 |
| | | | | | | | |
| **Consumption** | 8.6 | 7.9 | 9.3 | 7.6 | 8.1 | 8.1 | 5.4 |
| *% to GDP* | *69.9* | *69.0* | *68.7* | *71.1* | *71.0* | *70.1* | *69.1* |
| **Private Consumption** | 8.5 | 8.7 | 9.2 | 7.1 | 7.0 | 8.1 | 5.5 |
| **Public Consumption** | 8.9 | 3.8 | 9.6 | 10.4 | 14.3 | 7.8 | 5.1 |
| **Gross Capital Formation** | 16.2 | 13.4 | 18.1 | -5.2 | 15.6 | 11.1 | 5.3 |
| *% to GDP* | *34.9* | *36.2* | *39.0* | *35.6* | *38.0* | *38.5* | *37.9* |
| **Fixed Capital Formation** | 16.2 | 13.8 | 16.2 | 3.5 | 6.8 | 7.5 | 5.5 |
| *% to GDP* | *30.5* | *31.8* | *33.7* | *33.5* | *33.1* | *32.5* | *32.0* |
| Net Exports (% to GDP) | -3.2 | -3.8 | -4.7 | -7.2 | -7.0 | -6.0 | -7.4 |
| **Real GDP** | 9.5 | 9.6 | 9.3 | 6.7 | 8.4 | [illegible] | 6.5 |

- Services now 59% of GDP (at factor cost)
- Inability to maintain momentum in industry a major weakness
- Gross and Fixed capital formation at East Asian levels.
- Deterioration in net exports striking over period. Real exchange rate?

### GDP: Sector growth

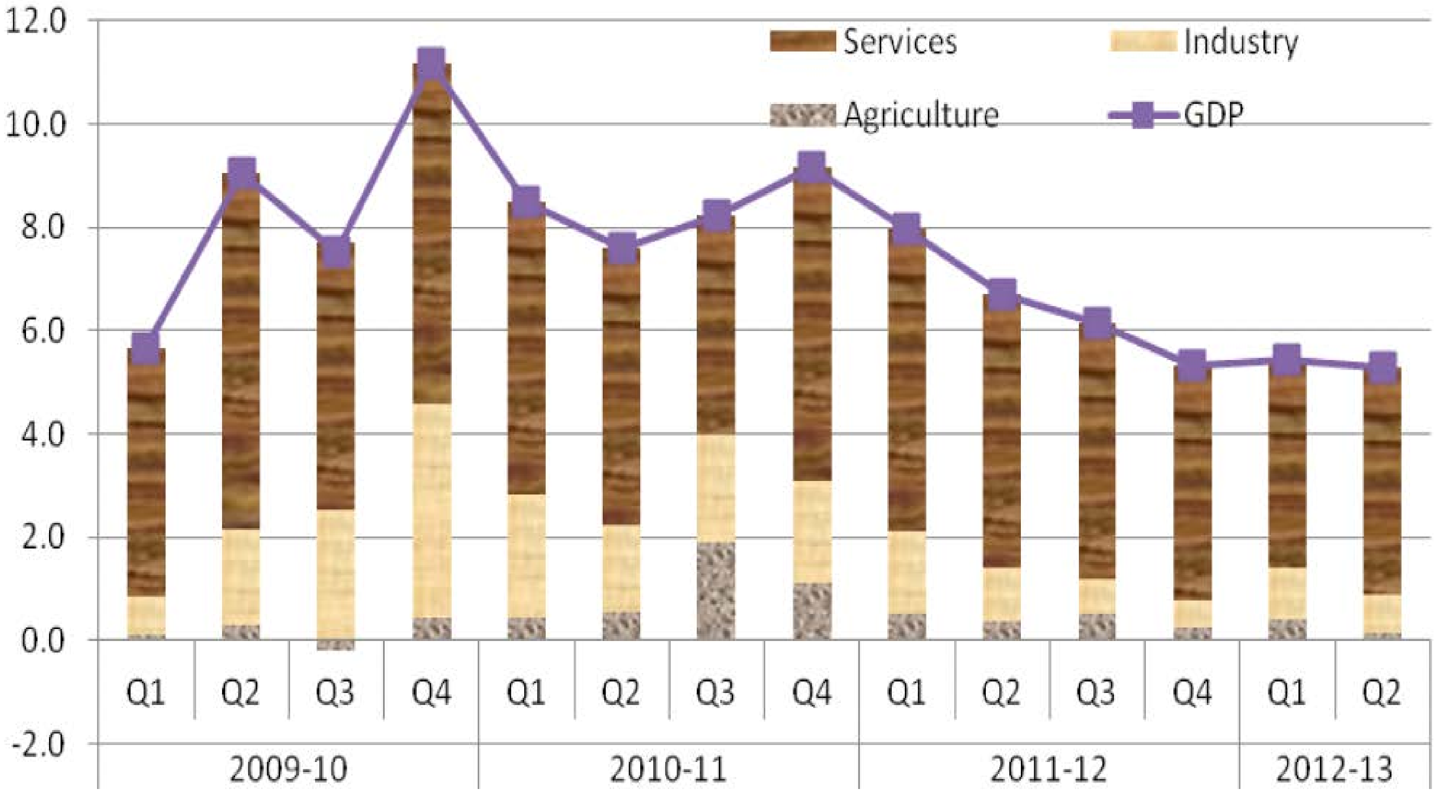



### GDP: Final demand



# INDIA – REAL GDP GROWTH BY SECTOR

**Point contribution to real GDP growth (at factor cost)**

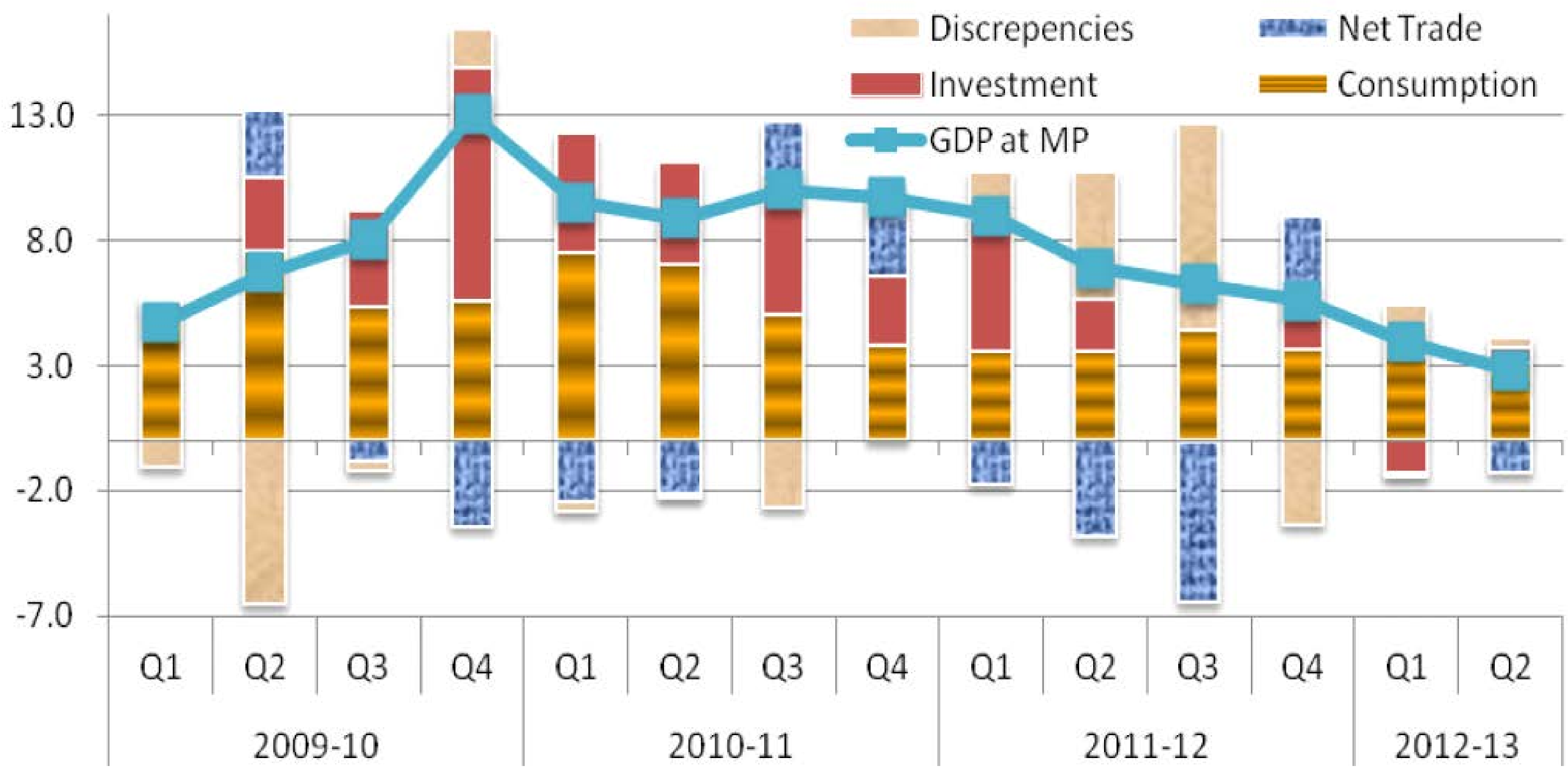



- **Slowdown largely in manufacturing. Affected both by slowing investment, exports, but also monetary tightening, electricity shortages. Agriculture affected by weak monsoon, affects rural demand.**

*Source: Ministry of Finance*

# GDP: AGGREGATE DEMAND

**Point contribution to growth of real GDP at market prices**




- **Double whammy in 2011-12 from widening trade deficit (negative net exports) and investment slowdown**

*Source: Ministry of Finance*

# INDIA – MACROECONOMIC SNAPSHOT

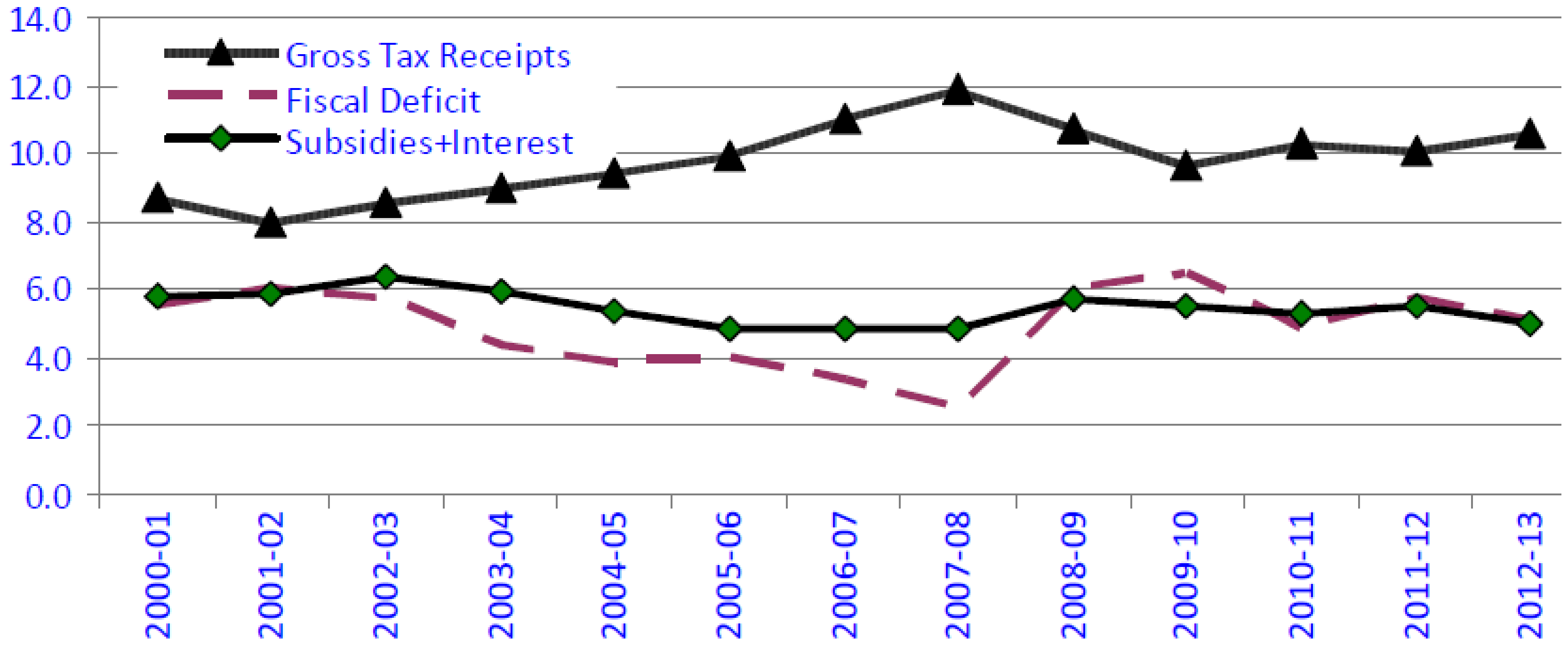
## Central Government Finances (Rs bn., %)

| | FY07 | FY08 | FY09 | FY10 | FY11 | FY12 |
|---|---|---|---|---|---|---|
| **Total Revenue** | **4408** | **5858** | **5470** | **6060** | **8237** | **7967** |
| *%YoY* | *22.7* | *32.9* | *-6.6* | *10.8* | *35.9* | *-3.3* |
| **Total Expenditure** | **5834** | **7127** | **8840** | **10245** | **11973** | **13187** |
| *% YoY* | *15.4* | *22.2* | *24.0* | *15.9* | *16.9* | *10.1* |
| Deficit Trends | | | | | | |
| **Fiscal Balance** | **-1426** | **-1270** | **-3370** | **-4185** | **-3736** | **-5220** |
| *% to GDP* | *-3.3* | *-2.5* | *-6.0* | *-6.5* | *-4.9* | *-5.9* |
| **Revenue Balance** | **-802** | **-526** | **-2535** | **-3390** | **-2523** | **-3950** |
| *% to GDP* | *-1.9* | *-1.1* | *-4.5* | *-5.2* | *-3.3* | *-4.4* |
| **Primary Deficit** | **77** | **441** | **-1448** | **-2054** | **-1396** | **-2464** |
| *% to GDP* | *0.2* | *0.9* | *-2.6* | *-3.2* | *-1.8* | *-2.8* |
| Memo items (% to GDP) | | | | | | |
| *Centre* | -3.3 | -2.5 | -6.0 | -6.5 | -4.9 | -5.9 |
| *State* | -1.8 | -1.5 | -2.4 | -3.3 | -2.5 | -2.5 |
| **Combined** | **-5.4** | **-4.1** | **-8.4** | **-9.6** | **-8.3** | **-8.0** |
| *Off Balance Sheet Items* | -0.9 | -0.6 | -1.7 | -0.2 | 1.0 | - |
| **Total Deficit** | **-6.3** | **-4.7** | **-10.1** | **-9.8** | **-7.3** | **-8.0** |
| **Combined Liabilities** | **79.3** | **76.1** | **76.1** | **75.0** | **71.3** | **70.0** |

*Source: CSO, Budget Documents, RBI, Citi Research*

# INDIA – MAJOR FISCAL COMPONENTS

**Gross Tax Receipts, Fiscal Deficit and Expenditure on Interest & Subsidies as per cent to GDP**




- **Central Government only. Deficit accounted for entirely by transfers (interest and subsidies).**

*Source: Ministry of Finance*

# INDIA – MACROECONOMIC SNAPSHOT

## Fiscal Roadmap (per cent to GDP)

| | 2012-13 | | | 2013-14 | 2014-15 |
|---|---|---|---|---|---|
| | Budget | No Reform | Reform | Projections | |
| **Gross Tax Revenue** | **10.6** | **10.1** | **10.3** | **10.6** | **11.1** |
| Net-Centre's Tax Revenue | 7.6 | 7.2 | 7.4 | 7.6 | 7.9 |
| Non-Tax Revenue | 1.6 | 1.6 | 1.6 | 1.4 | 1.3 |
| **Total-Revenue Receipts** | **9.2** | **8.9** | **9.0** | **9.0** | **9.2** |
| Non-debt Capital Receipts | 0.4 | 0.2 | 0.4 | 0.3 | 0.3 |
| **TOTAL- RECEIPTS** | **9.6** | **9.1** | **9.4** | **9.3** | **9.5** |
| **Non-Plan Expenditure** | **9.5** | **10.2** | **9.8** | **9.1** | **8.5** |
| *On Revenue Account* | 8.5 | 9.3 | 8.9 | 8.2 | 7.6 |
| *of which* Subsidies | 1.9 | 2.6 | 2.2 | 1.7 | 1.5 |
| *On Capital Account* | 1.0 | 0.9 | 0.9 | 0.9 | 0.9 |
| **Plan Expenditure** | **5.1** | **5.0** | **4.8** | **4.9** | **4.9** |
| *On Revenue Account* | *4.1* | *4.0* | *3.8* | *3.6* | *3.6* |
| *On Capital Account* | *1.0* | *1.0* | *1.0* | *1.3* | *1.3* |
| **TOTAL EXPENDITURE** | **14.7** | **15.2** | **14.6** | **13.9** | **13.4** |
| *On Revenue Account* | *12.7* | *13.3* | *12.7* | *11.7* | *11.2* |
| *Grants in aid for CapEx* | *1.6* | *1.6* | *1.6* | *1.9* | *2.0* |
| *On Capital Account* | *2.0* | *1.9* | *1.9* | *2.2* | *2.2* |
| **Deficits** | | | | | |
| Revenue Deficit | 3.4 | 4.4 | 3.7 | 2.8 | 2.0 |
| Effective Revenue Deficit | 1.8 | 2.8 | 2.1 | 0.9 | 0.0 |
| Fiscal Deficit | 5.1 | 6.1 | 5.2 | 4.6 | 3.9 |
| Primary Deficit | 1.9 | 2.9 | 2.0 | 1.4 | 0.9 |
| Debt | 45.5 | 46.7 | 46.1 | 44.9 | 42.9 |

*Source: Ministry of Finance*

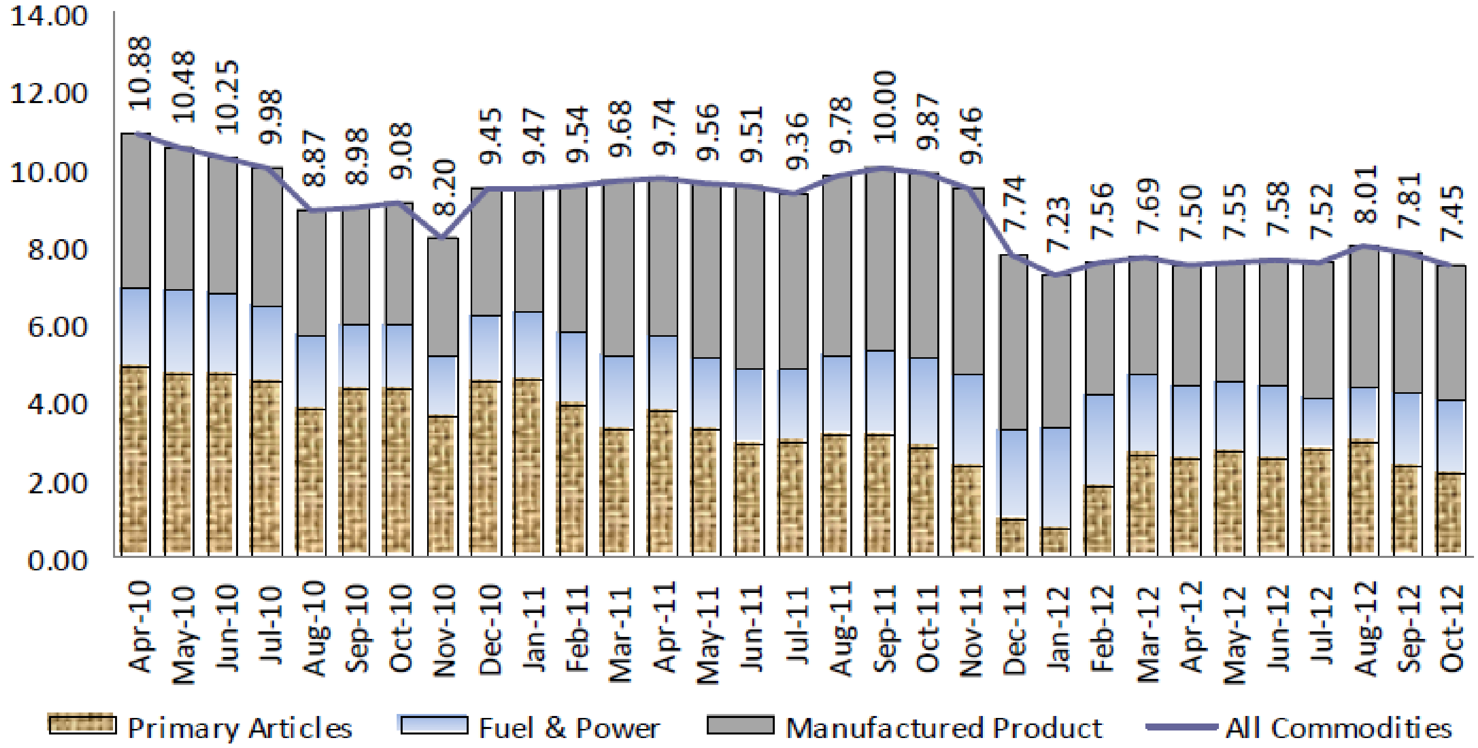
## Fiscal Roadmap for the Twelfth Plan

| Year | Fiscal Deficit to GDP (percentage) |
|---|---|
| 2012-13 | **5.3** |
| 2013-14 | **4.8** |
| 2014-15 | **4.2** |
| 2015-16 | **3.6** |
| 2016-17 | **3.0** |

- Notes

# INDIA – COMPONENTS OF WHOLESALE PRICES

**Weighted point contribution of major group to headline WPI inflation**

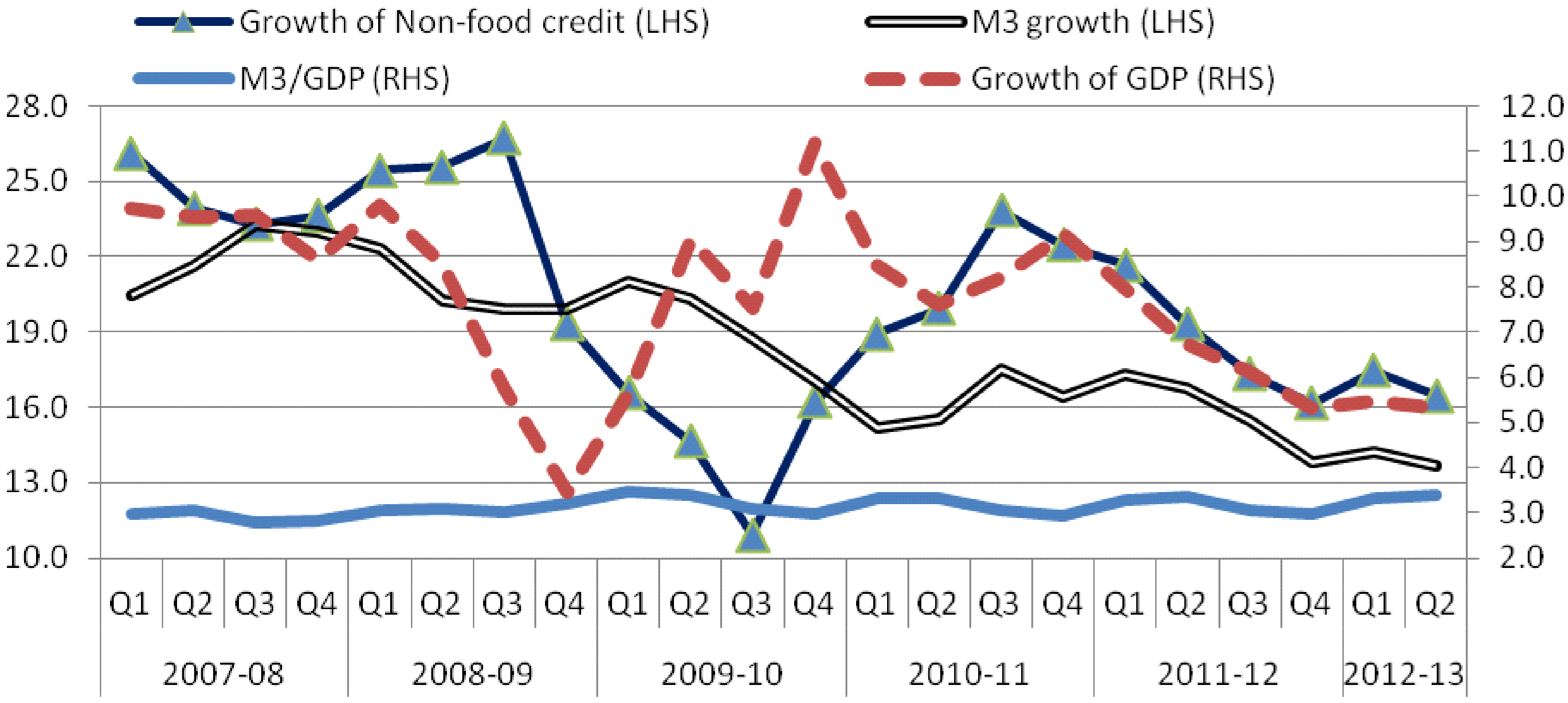



- Agriculture inflation fed through to manufactures despite tight money

*Source: Ministry of Finance*

# INDIA – MACROECONOMIC SNAPSHOT

## Growth of Non-food credit, M3, GDP and M3/GDP




- Notes

*Source: Ministry of Finance*

# INDIA – BALANCE OF PAYMENTS

## Trends in Current Account Deficit (US$ bn.)

| | FY06 | FY07 | FY08 | FY09 | FY10 | FY11 | FY12 |
|---|---|---|---|---|---|---|---|
| **Merchandise exports** | **105.2** | **128.9** | **166.2** | **189.0** | **182.4** | **250.5** | **309.8** |
| *%YoY* | *23.4* | *22.6* | *28.9* | *13.7* | *-3.5* | *37.3* | *23.7* |
| **Merchandise imports** | **157.1** | **190.7** | **257.6** | **308.5** | **300.6** | **381.1** | **499.5** |
| *%YoY* | *32.1* | *21.4* | *35.1* | *19.8* | *-2.6* | *26.7* | *31.1* |
| **a. Trade balance (RBI)** | **-51.9** | **-61.8** | **-91.5** | **-119.5** | **-118.2** | **-130.6** | **-189.8** |
| *% of GDP* | *-6.2* | *-6.5* | *-7.4* | *-9.8* | *-8.7* | *-7.8* | *-10.2* |
| | | | | | | | |
| **b. Invisibles** | **42.0** | **52.2** | **75.7** | **91.6** | **80.0** | **84.6** | **111.6** |
| Non-factor services | 23.2 | 29.5 | 38.9 | 53.9 | 35.8 | 48.8 | 64.1 |
| Of which: Software Services | 22.7 | 29.0 | 36.9 | 43.5 | 48.2 | 53.3 | 61.0 |
| Investment income | -5.9 | -7.3 | -5.1 | -7.1 | -8.0 | -17.3 | -16.0 |
| Remittances | 24.5 | 29.8 | 41.7 | 44.6 | 52.1 | 53.1 | 63.5 |
| Official transfers | 0.2 | 0.3 | 0.2 | 0.2 | 0.3 | 0.0 | 0.0 |
| **Current a/c balance (a+b)** | **-9.9** | **-9.6** | **-15.7** | **-27.9** | **-38.2** | **-45.9** | **-78.2** |
| *% of GDP* | *-1.2* | *-1.0* | *-1.3* | *-2.3* | *-2.8* | *-2.7* | *-4.2* |

*Source: CSO, Budget Documents, RBI, Citi Research*

# INDIA-GROWTH AND COMPOSITION OF EXPORTS

## Composition of exports by major markets

| | | Percentage Share | | | | Growth Rate | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2009-10 | 2010-11 | 2011-12 | 2012-13 |
| | | April-March | | | April-Sep | April-March | | | April-Sep |
| **I** | **Primary Products** | | | | | | | | |
| | World | 14.9 | 13.2 | 15.2 | 16.4 | 3.8 | 23.9 | 39.8 | 24.4 |
| | USA | 6.8 | 8.0 | 14.6 | 23.8 | -13.5 | 52.8 | 149.4 | 147.1 |
| | EU | 8.6 | 8.2 | 9.7 | 10.0 | -5.7 | 22.2 | 33.8 | -3.4 |
| | China | 65.7 | 51.5 | 55.7 | 41.0 | 26.9 | 4.7 | 24.8 | -23.6 |
| | Others | 13.1 | 11.7 | 13.1 | 14.7 | -1.7 | 31.7 | 35.7 | 24.2 |
| **II** | **Manufactured Goods** | | | | | | | | |
| | World | 67.2 | 69.0 | 66.1 | 65.1 | -5.9 | 44.2 | 16.1 | -12.1 |
| | USA | 89.1 | 87.4 | 82.3 | 71.4 | -8.7 | 27.0 | 27.9 | -1.9 |
| | EU | 73.2 | 72.1 | 74.9 | 75.6 | -15.4 | 25.8 | 18.6 | -14.7 |
| | China | 32.2 | 42.3 | 39.5 | 55.8 | 29.5 | 75.4 | 7.8 | 0.0 |
| | Others | 65.1 | 67.8 | 63.3 | 61.8 | -2.5 | 53.4 | 13.6 | -14.2 |
| **III** | **Petroleum, Crude & Products** | | | | | | | | |
| | World | 16.1 | 16.8 | 18.7 | 17.8 | 4.6 | 46.8 | 34.9 | -15.5 |
| | USA | 2.3 | 3.7 | 3.6 | 3.8 | 180.3 | 110.9 | 30.1 | -24.5 |
| | EU | 16.9 | 18.8 | 15.0 | 13.9 | 45.4 | 42.7 | -9.4 | -7.2 |
| | China | 0.8 | 5.3 | 6.3 | 3.0 | -8.4 | 745.2 | 38.1 | -80.3 |
| | Others | 19.9 | 19.4 | 23.4 | 22.7 | -3.9 | 43.6 | 47.0 | -13.6 |
| | **Total Exports** | | | | | | | | |
| | World | 100 | 100 | 100 | 100 | -3.5 | 40.5 | 21.3 | -8.0 |
| | USA | 100 | 100 | 100 | 100 | -7.6 | 29.5 | 35.8 | 14.2 |
| | EU | 100 | 100 | 100 | 100 | -8.4 | 27.9 | 14.1 | -12.7 |
| | China | 100 | 100 | 100 | 100 | 24.2 | 33.6 | 15.3 | -19.7 |
| | Others | 100 | 100 | 100 | 100 | -3.4 | 47.2 | 21.6 | -9.6 |

- **Slowdown in export growth relatively recent. India affected by both EU and Chinese slowdown.**

*Source: Ministry of Finance*

# INDIA – CAPITAL ACCOUNT

## Trends in Capital Account (US$ bn.)

| | FY06 | FY07 | FY08 | FY09 | FY10 | FY11 | FY12 |
|---|---|---|---|---|---|---|---|
| **Borrowings** | **7.9** | **24.5** | **40.7** | **8.3** | **12.4** | **28.4** | **19.3** |
| *External Assistance* | *1.7* | *1.8* | *2.1* | *2.4* | *2.9* | *4.9* | *2.3* |
| *Commercial Borrowings* | *2.5* | *16.1* | *22.6* | *7.9* | *2.0* | *12.5* | *10.3* |
| *Short-term credit* | *3.7* | *6.6* | *15.9* | *-2.0* | *7.6* | *11.0* | *6.7* |
| **FDI (Net)** | **3.0** | **7.7** | **15.9** | **19.8** | **18.0** | **9.4** | **22.1** |
| **Portfolio Invst** | **12.5** | **7.1** | **27.4** | **-14.0** | **32.4** | **30.3** | **17.2** |
| **Banking Capital** | **1.4** | **1.9** | **11.8** | **-3.2** | **2.1** | **5.0** | **16.2** |
| *Commercial Banks (Net)* | *-1.4* | *-2.4* | *11.6* | *-2.8* | *1.9* | *4.4* | *16.0* |
| *NRI Deposits* | *2.8* | *4.3* | *0.2* | *4.3* | *2.9* | *3.2* | *11.9* |
| **Rupee Debt Service** | **-0.6** | **-0.2** | **-0.1** | **-0.1** | **-0.1** | **-0.1** | **-0.1** |
| **Other capital** | **1.2** | **4.2** | **11.0** | **-4.0** | **-13.2** | **-11.0** | **-6.9** |
| **Total Capital A/c** | **25.5** | **45.2** | **106.6** | **6.8** | **51.6** | **62.0** | **67.8** |

*Source: CSO, Budget Documents, RBI, Citi Research*

# ASSESSMENT AND PROGNOSIS

- India has moved from a ‘good’ equilibrium to a ‘not-so-good’ equilibrium.
- Drivers largely internal: investment, inflation, tight money.
- Current account deficit has widened even as investment has fallen: both government and the private sector are saving less.
- Government lacks fiscal, monetary space, so is looking for a confidence shock to boost FDI, private investment through reforms before the next election.
- Ruling party now supportive, but window narrow.
- All eyes on Finance Minister’s budget at the end of February.