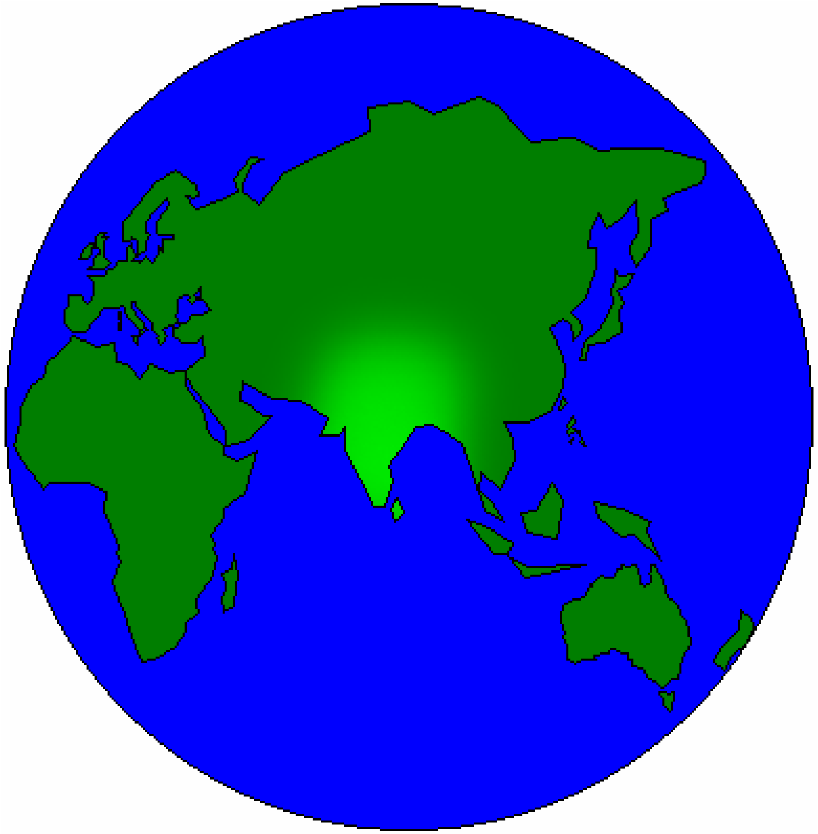
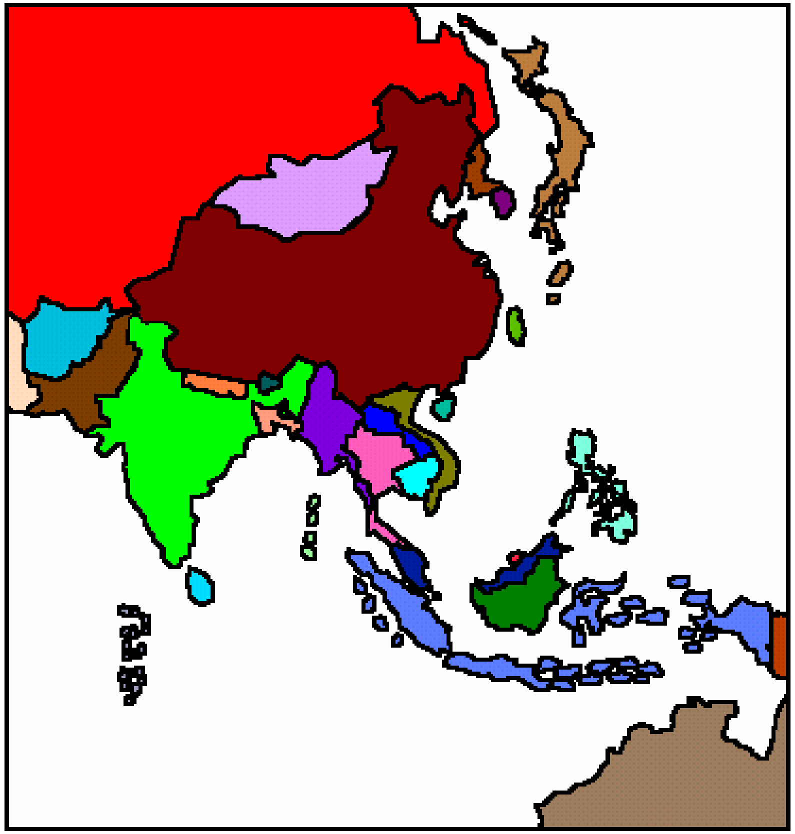
Wharton India Economic Forum

Indian Economy 1980-2000





Comparative Macro-fundamentals: 2000

	USA	Brazil	Russia	China	India
Population	282 M	166 M	145 M	1260 M	1000 M
Area	9.4M Sq Km	8.5M Sq Km	17M Sq Km	9.6 M Sq Km	3.3M Sq Km
% area cropland	21% (1.9M)	6% (.5M)	8% (1.4M)	10% (1M)	57% (1.8M)
% area forest	32%	66%	45%	13%	16%
Agriculture/GDP	2%	8%	7%	21%	29%
GDP(PPP)	$ 9870 Bn	$ 1200 Bn	$ 722 Bn	$ 5900 Bn	$ 2233 Bn
GDP per capita	35000	7710.8	4979.3	4682.5	2038
Gini Index		0.58	0.5	0.41	0.34
Trade/GDP	20%	21%	60%	43%	27%
S&P Credit Rating	AAA	BB-	B	BBB	BB
Life Expectancy	77 years	67 Years	65 Years	69 Years	62 Years
Adult Literacy	100%	84%		81%	52%

Indian Economic Development: Overview

- Major policy shift in 1991 de-regulating the economy
- One of fastest growing major economies since the mid eighties.
- Still a relatively closed economy by global standards.
- External payments position comfortable
- Govt. sector in heavy deficit
- Agriculture and Labour markets relatively untouched by reform.
- Private investment, including FDI, relatively slack.
- Fast growing service sector, esp. IT
- Weak physical and social infrastructure major constraints on growth.
- Some States noticeably forging ahead.
- Slow reduction in poverty, mainly trickle down of enhanced growth rates.
- First round of reforms crisis driven and swift; second round consensus driven and lagged.

SWOT Analysis

- ***STRENGTHS***
  - Robust, services driven growth
  - External sector
    - High reserves
    - Invisible flows
    - ↓Debt service ratios
  - Fiscal Deficit
    - No external spill
    - Limited crowding out effect
  - Market size
  - Limited external contagion
  - Knowledge based eco.activity
  - Agricultural potential
  - Limited long-term pol.risk

- ***WEAKNESSES***
  - Fiscal position
    - power
    - privatisation
    - public employment
    - State deficits
  - Investment
  - Foreign Trade and Investment
  - Big POL deficit
  - Slow reform process
  - Inflexible labour market
  - Contract enforcement
  - Infrastructure
    - physical
    - social

Two Imperatives

- Fiscal Restructuring
  - At pre-crisis level? Shift to States
  - Masstricht Norm of 3%?
    - Persistent slippage & Growth
  - Crowding Out?
    - IR at historic low
    - Inflation at historic low
  - Quality more important
    - Release resources for Infr.
    - Privatisation
  - Political Consensus
    - Subsidies
    - Rollback of public employment
    - Privatisation
- A Robust Infrastructure
  - Fiscal restructuring
  - Attractive policy
  - Centrality of power sector
  - Linkage to Indus.tariffs
  - Political Consensus
    - User charge collections
    - Commercial pricing and operations
    - Loss of public monopolies
    - Fear of Foreign Capital
    - Truly independent regulators
    - No open-ended subsidies:limited to legislative budgetary approvals

First Phase of Reforms - I

- *Indicators averaged for 1980-81 to 1990-91 and 1992-93 to 2000-01 (Crisis year of 1991-92 excluded)*
- External Sector
  - ED ratios improve (1990/91 versus 2000-01)
    - EDT/GDP ↓ from 31.5% to 23.2%
    - FE Reserves ↑ from $ 2 B(1 month import cover) to $ 40 B (8 months import cover)
    - EA/Capital flows ↓ 25% to 5%; FI/Capital Flows ↑ 60% from Nil.
  - Manageable CAD because of Invisibles
    - TB/GDP ± 3.5% between 1990-91 and 2000-01; CAD/GDP ↓ from 3.5% to 0.5%
  - Stable rupee: No sharp variations in real exchange rates
  - Economy more open: Trade/GDP ↑ 17% (1990-91) to 25%.(2000-2001)
  - Float takes wind out of hawala market
  - Fiscal slippages not allowed to spill over externally.
- Domestic Growth ↑ from 5.6% to 6.3%
  - Agriculture declined from 3.8% to 2.8% (Unreformed, monsoon linked)
  - Industry: ↓ slightly from 7% to 6.6% (Distorted flows)
  - Spurt in growth of almost entirely services led ↑ from 6.7% to 7.8%
  - Some States forge ahead taking advantage of reform

First Phase of Reforms - II

- Infrastructure
  - Both physical and social generally neglected under Mahalanobis Model
  - Importance recognised post reform, but yet to be translated into action.
- Poverty
  - Mostly trickle down of growth, a continuation of eighties?
- Inflation
  - ↓ from 8.2% to 7%
  - Differential between US inflation and Indian ↑ from 2.7% to 4.4%.
- Interest rates
  - Real interest rates ↓ by about 1% in the nineties.
  - Real interest rate differential with US ↑ marginally from 2.2% to2.4%.
- Savings and Investment
  - Savings/GDP ↑ from 20% to 23%
  - Public sector savings ↓ 1.8%, household savings ↑ 3% and Corporate savings ↑ 2%
  - Domestic capital formation ↑ 2.5% (from 22% to 24.5% of GDP)
  - Private capital formation ↑ 3%, while public sector ↓ 2.5%.
- Fiscal Management
  - No significant change in consolidated GFD of Centre and States at around 8% of GDP
  - Centre's deficit ↓ about 2% while States' deficits ↑