



Global Economic Crisis: The Indian Perspective

8th India-Korea Economic Dialogue
New Delhi
20th May 2009

Rajiv Kumar
Pankaj Vashisht



Structure of Presentation

- *Severity of Crisis*
- *Global Crisis and India*
- *India's Policy Response*
- *Assessment of Policy Response*
- *Potential Measures for Reigniting Growth*



Severity of the Current Financial Crisis

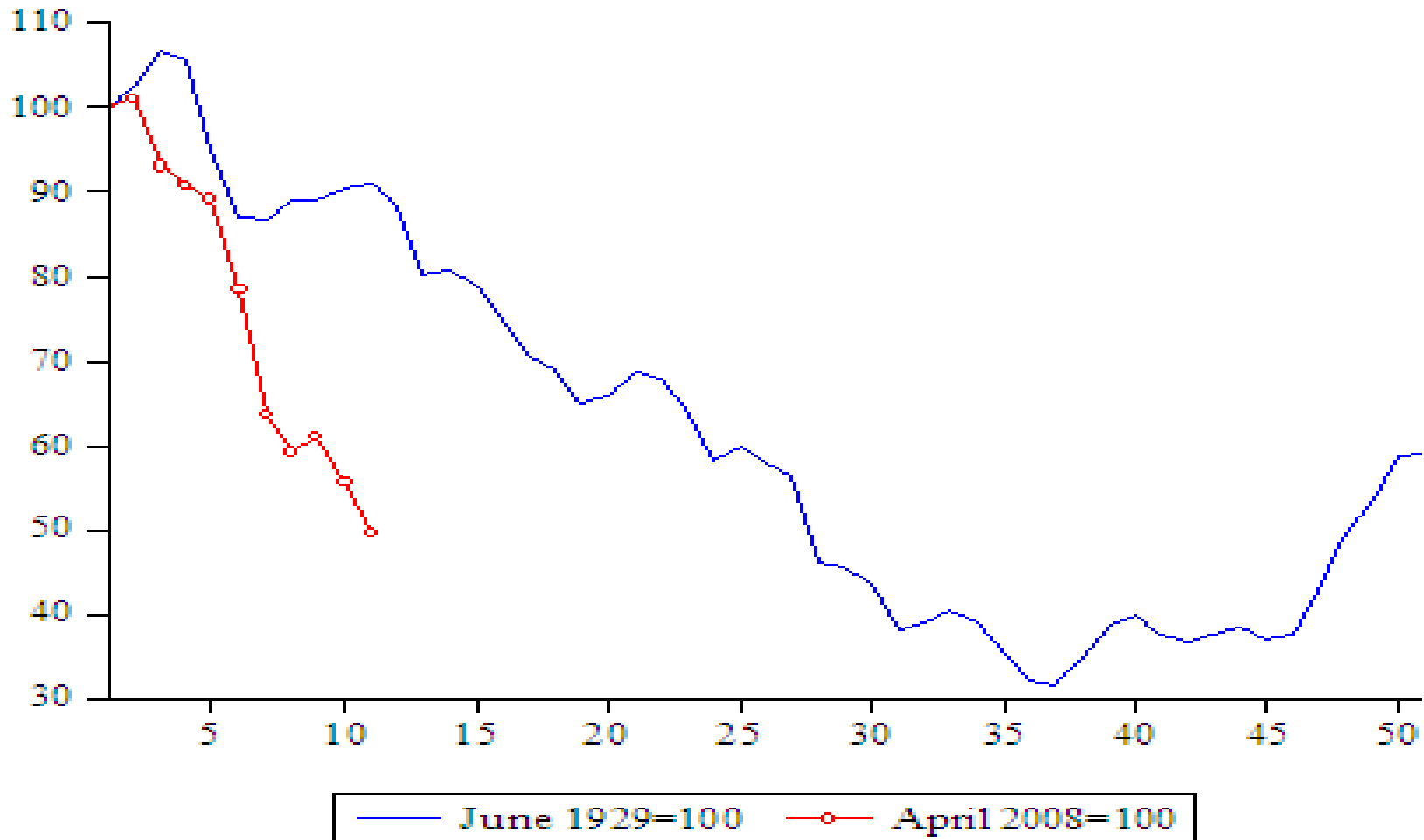
Selected Countries Stock Market and Exchange Rate Changes



	Stock Market Changes June-December 2008 (%)	Exchange Rate changes June –December 2008 vis-à-vis \$ (%)
China	-48	1
Hong Kong	-40	1
India	-41	-13
South Korea	-36	-20
Argentina	-51	-13
Brazil	-49	-31
Mexico	-29	-26
Japan	-36	18
Euro Area	-37	-11
USA (S&P 500)	-36	-

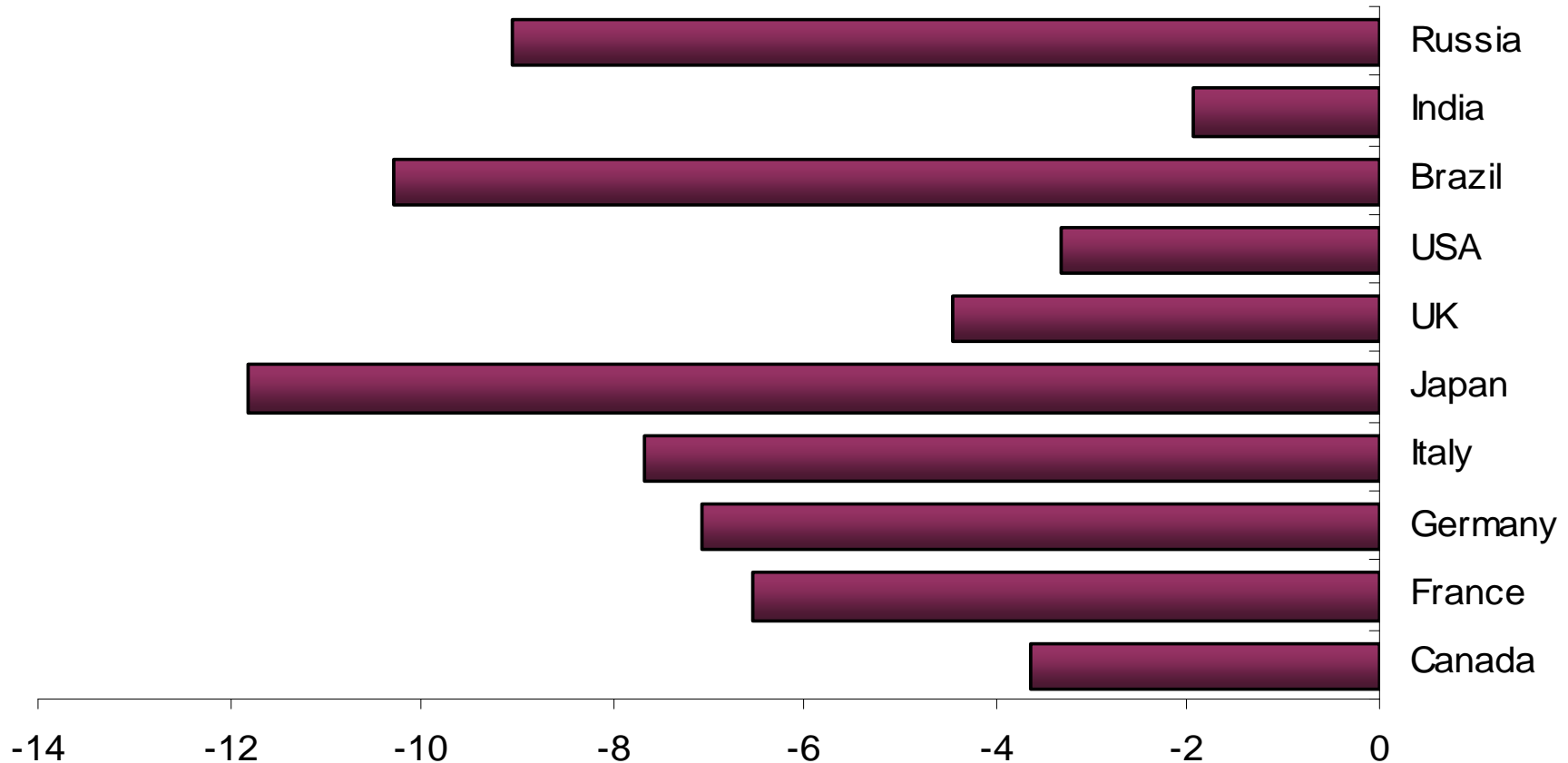
Source: Bloomberg, ADB 2009.

World Stock Market Crash: A Comparative Picture



Source: Barry Eichengreen and Kevin H. O'Rourke, A Tale of Two Depressions

Industrial Production Collapse Quarter on Quarter Growth Rate



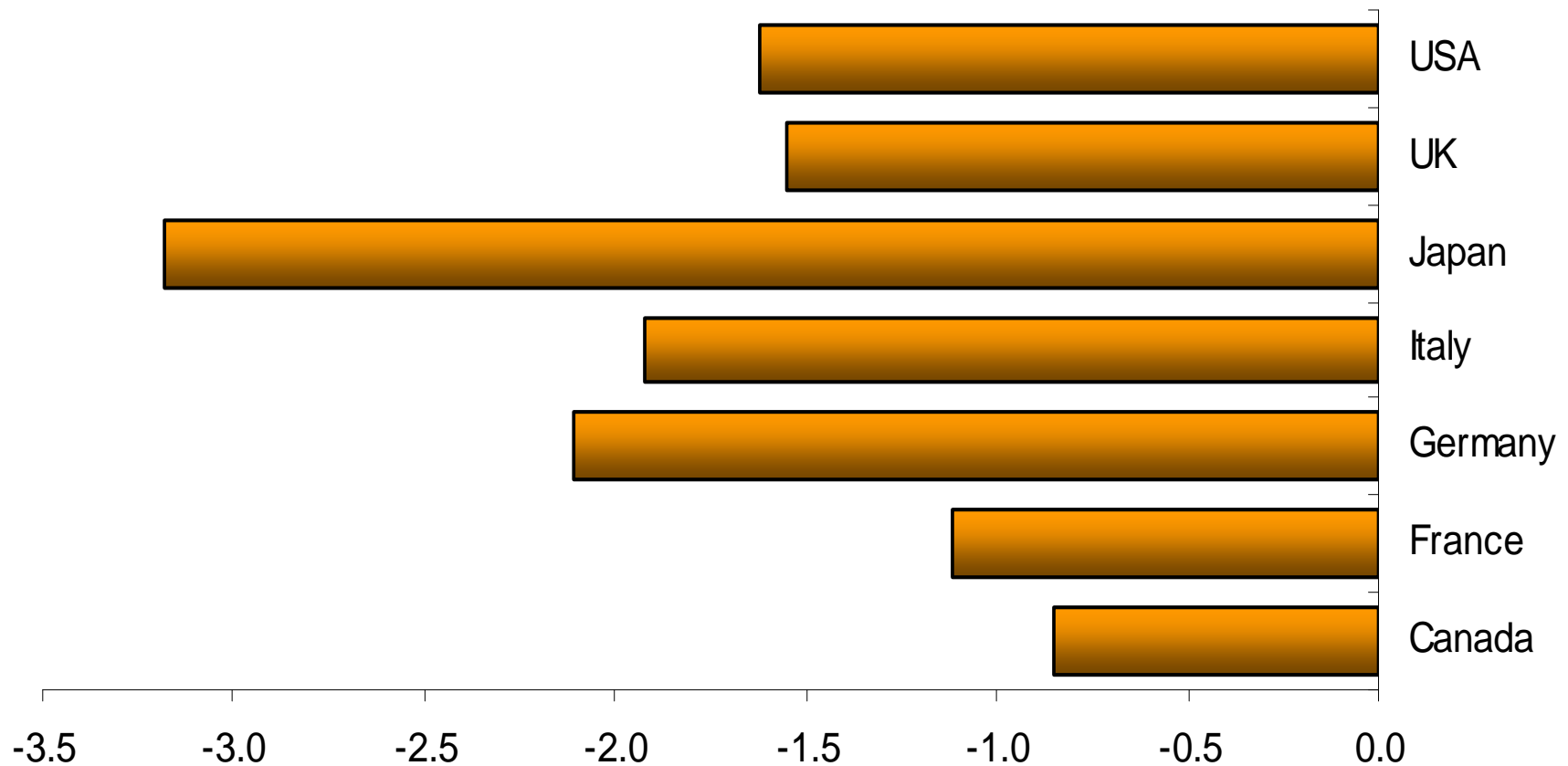
Source: OECD

- *Plunge in Industrial Growth (Quarter 4, 2008)*

Collapse of GDP Growth



Seasonally adjusted quarter on quarter growth rate



Source: OECD

Note: GDP growth Q4, 2008

Rapidly Changing Global Economic Outlook, IMF Growth Projections

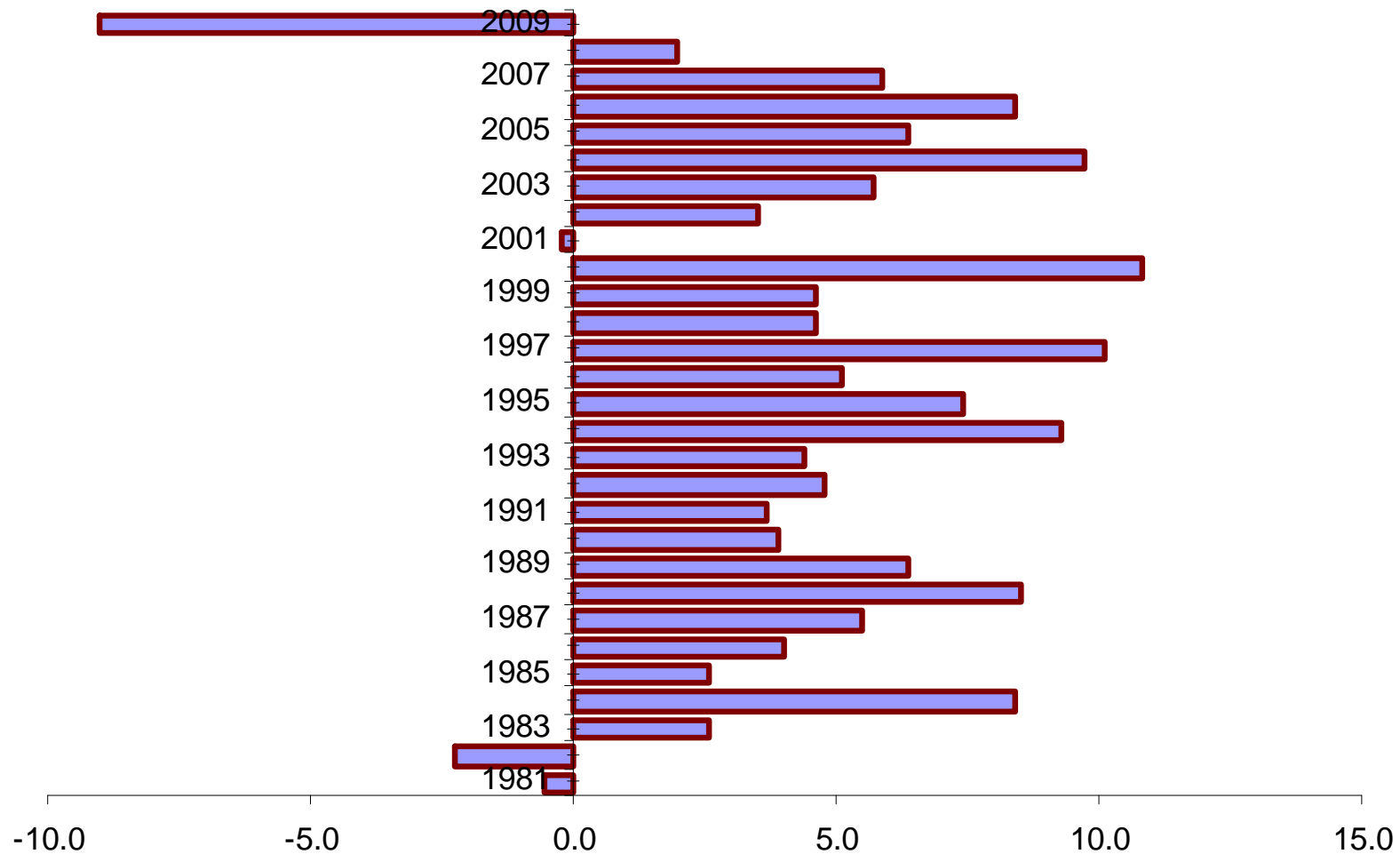


	GDP Estimates for 2009				GDP Estimates 2010	
	Jul, 2008	Nov, 2008	Jan, 2009	Apr, 2009	Jan, 2009	Apr, 2009
USA	0.8	-0.7	-1.6	-2.7	1.1	-0.04
UK	1.7	-1.3	-2.8	-4.0	0.2	-0.4
Germany	1.0	-0.8	-2.5	-5.0	0.1	-1.0
Japan	1.5	-0.2	-2.6	-6.1	0.6	0.5
France	1.4	-0.5	-1.9	-2.9	0.7	0.4
Canada	1.9	0.3	-1.2	-2.5	1.6	1.1
Italy	0.5	-0.6	-2.1	-4.4	-0.1	-0.4
Russia	7.3	3.5	-0.7	-5.9	1.3	0.5
China	9.8	8.5	6.7	6.5	8.0	7.5
India	8.0	6.3	5.1	4.5	6.5	5.6
World	3.9	2.2	0.5	-1.3	3.0	1.8

Source: World Economic Outlook updates, IMF

Collapse of Global Trade

Annual growth of global trade volumes, 1981-2009



Global trade is expected to decline by 9 % in 2009, the biggest contraction since World War II

Source: WTO

Major Fiscal Stimulus in Selected Countries/ Economic Regions



Ser. No	Country Name	Amount, US\$ bn
1	Japan	516.3
2	EU	254.6
3	Australia	7.4
4	China	586
5	Korea	113
6	Chile	4
7	Korea	11.3
8	Mexico	5.8
9	India	80
10	USA	3400
11	Total	4978

Source: Global Economic Monitor, International Institute of Finance, December 2008 & media sources

–Bail out packages never got ahead of the markets



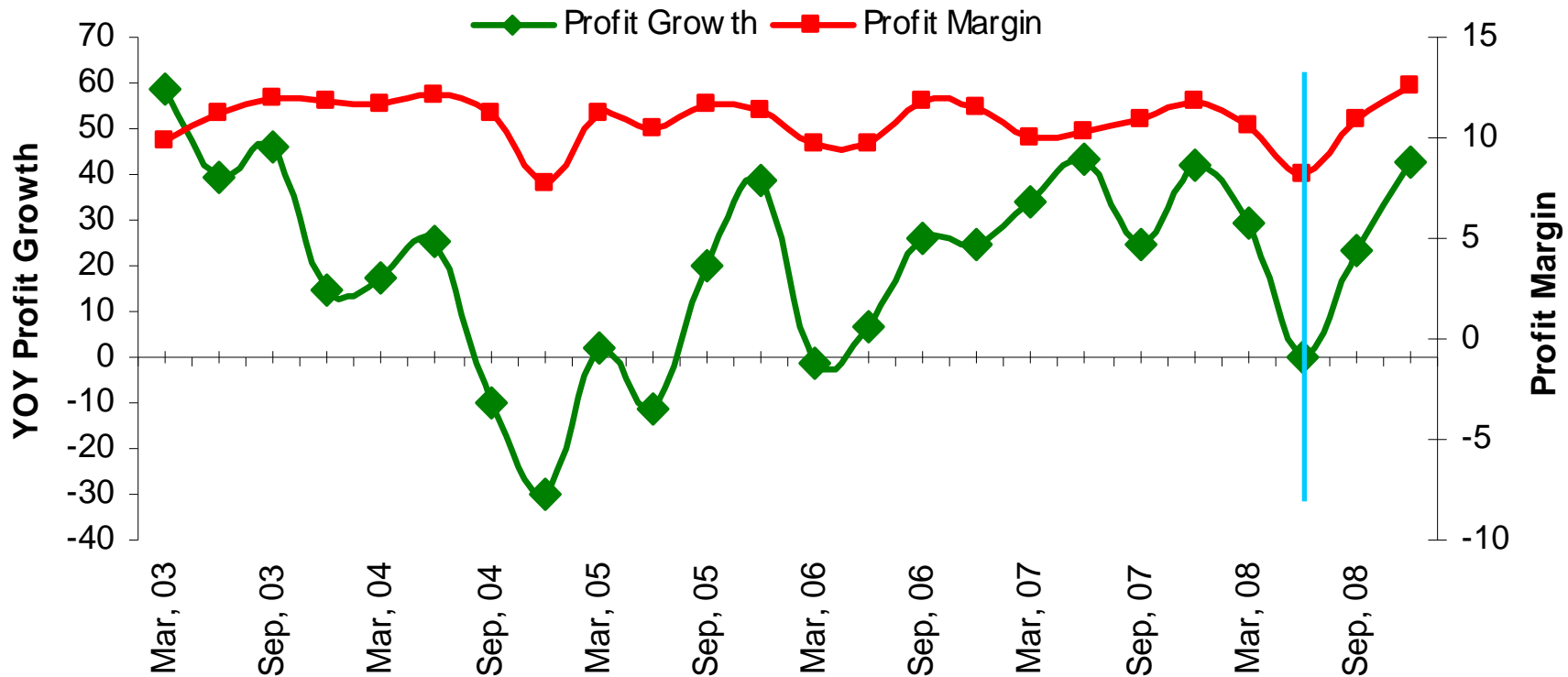
Impact on India

Global Crisis and India



- Three Principal Channels of Transmission
 - Financial Markets
 - Banking Sector
 - Capital Markets
 - Remittances
 - Commercial Borrowings
 - Exports
 - Exchange rate

Limited Impact on Indian Banks: Quarterly Performance Indicators

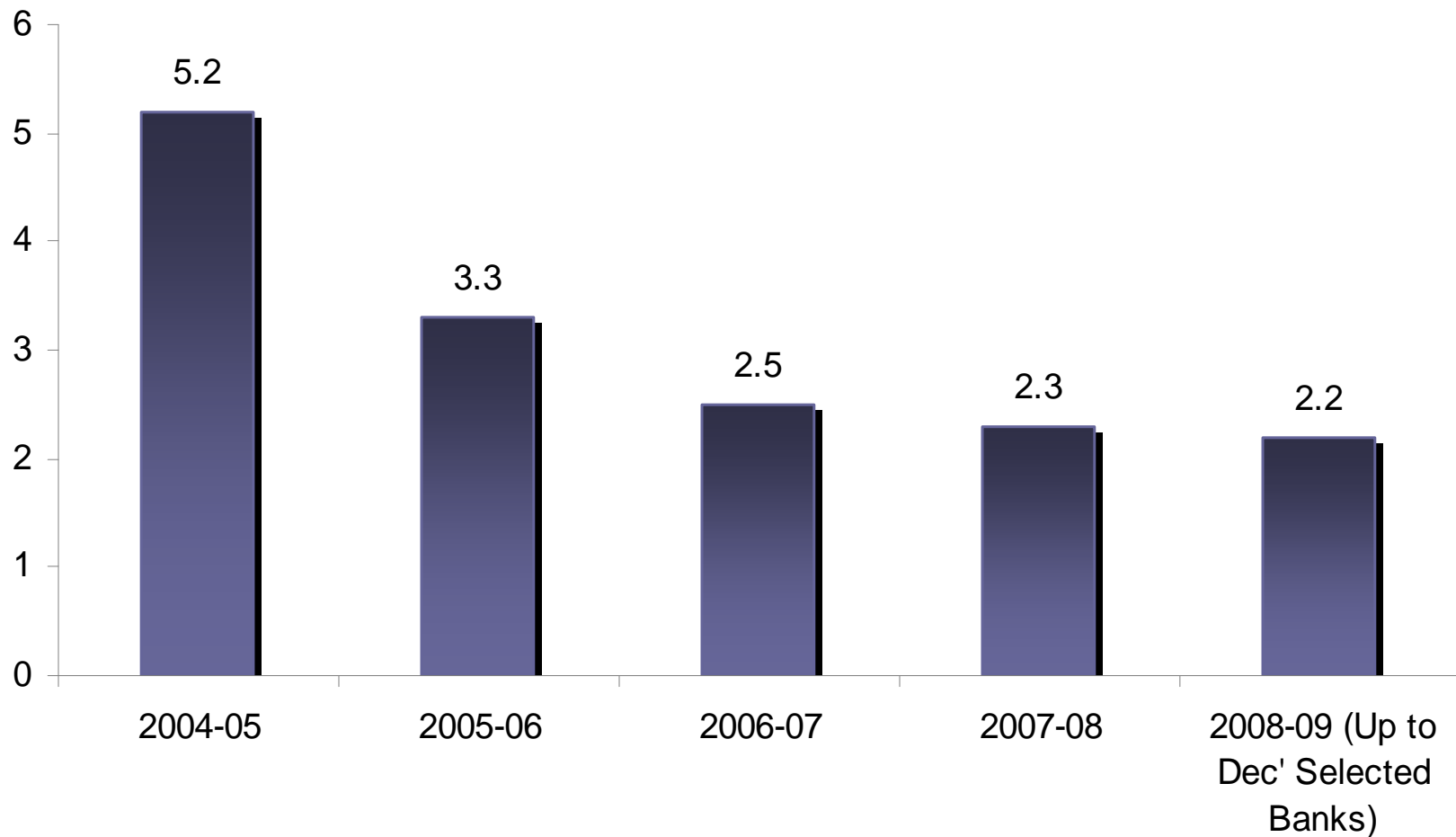


Source: Prowess, CMIE

Note: Figures for the Month of March are Awaited

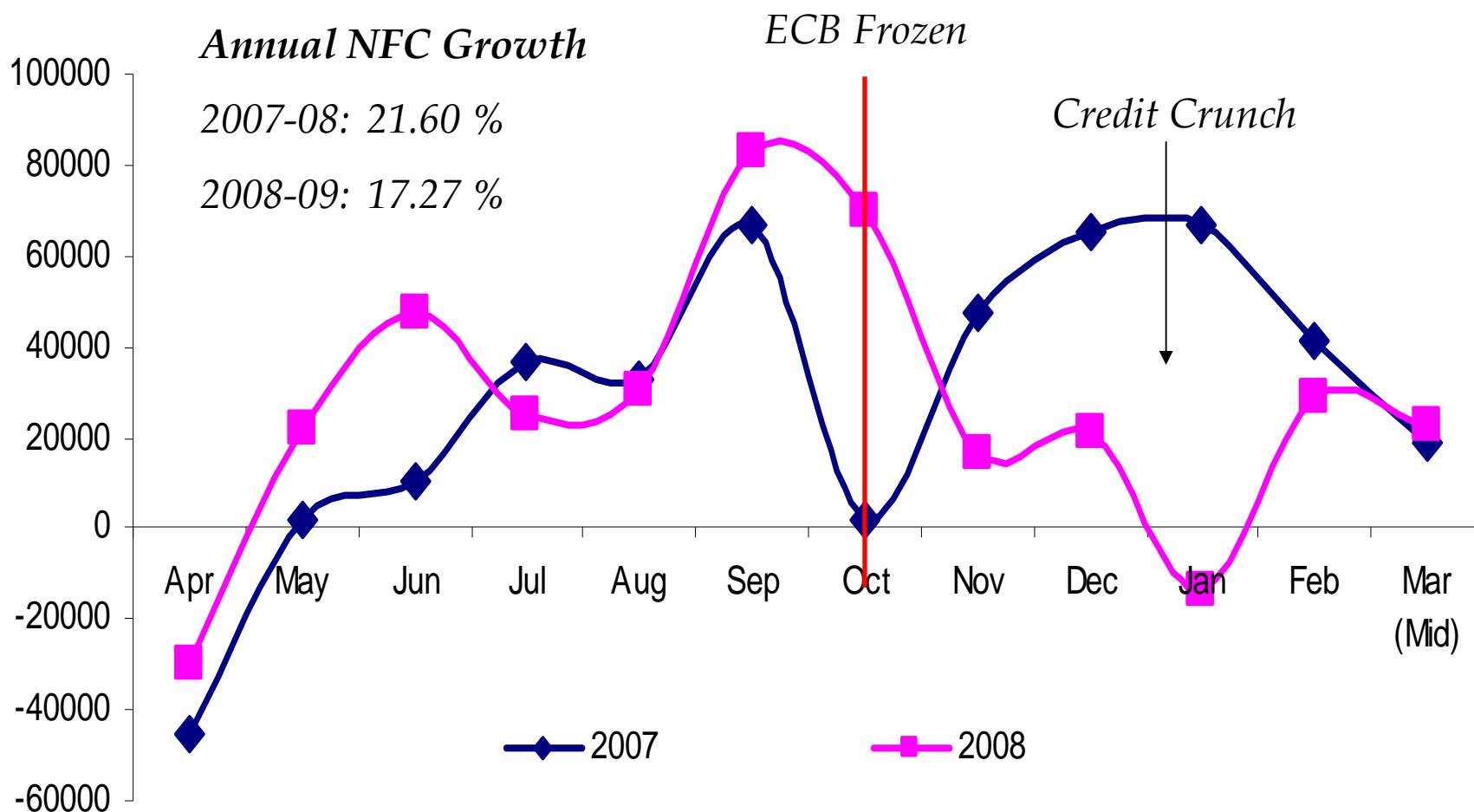
Profit Margin = PAT % to Total Income

Gross NPAs % to Gross Advances



Source: Report on Trend and Progress of Banking in India, 2007-08, RBI and Prowess, CMIE

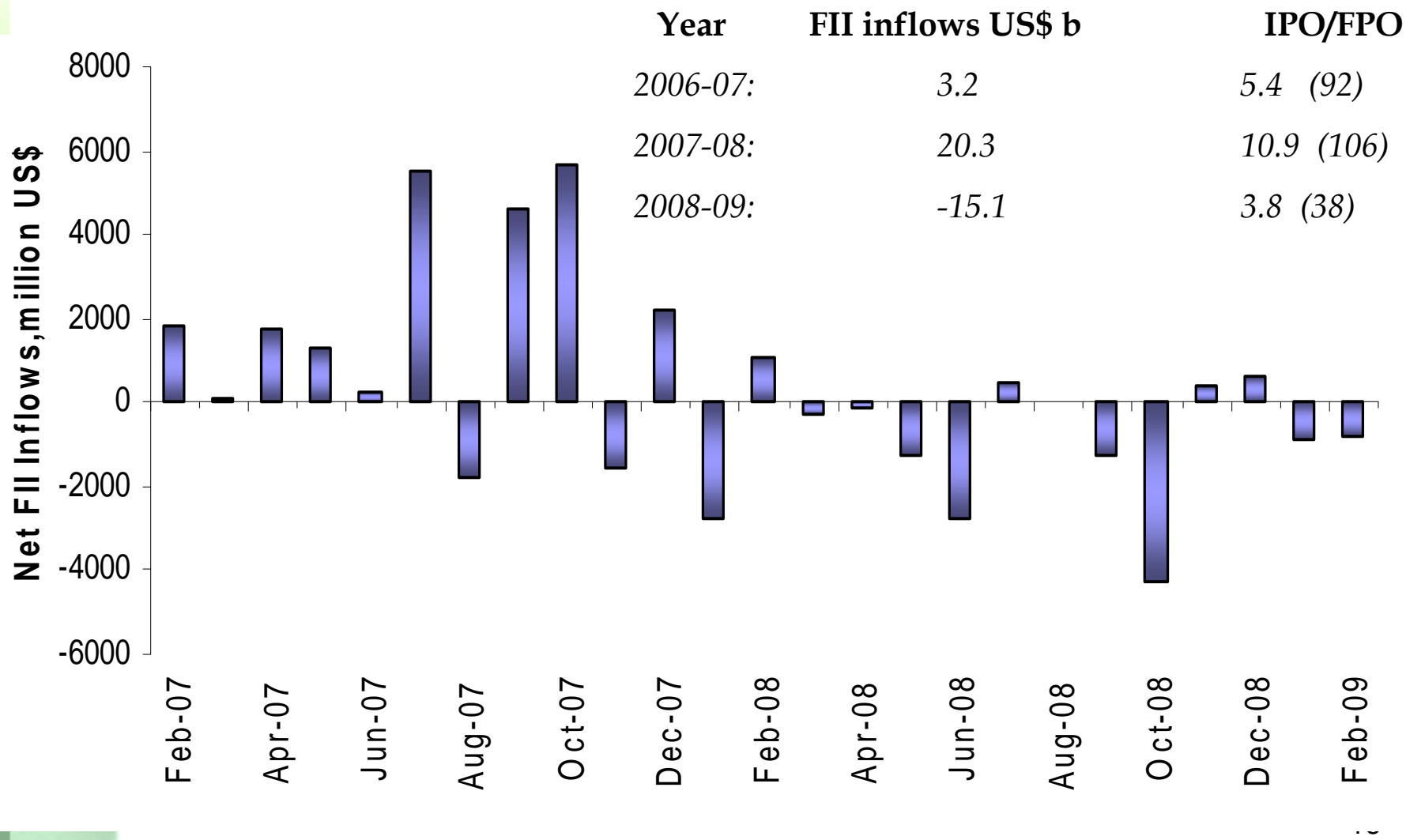
Month on Month Change in Outstanding Non-Food Credit



Source: Reserve Bank of India

Note: Values in Rs. Crore

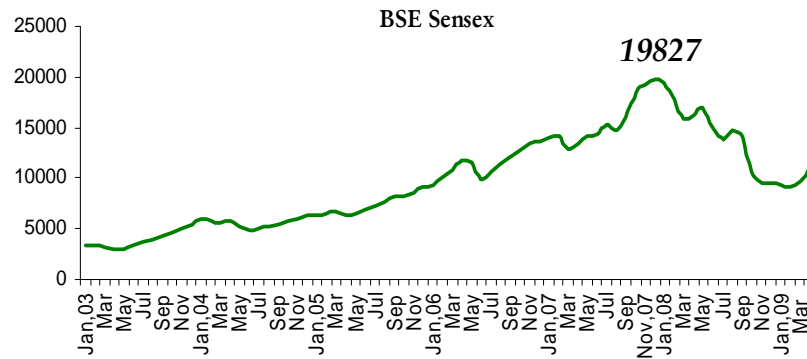
Crisis and Indian Capital Market: Net FII Inflows



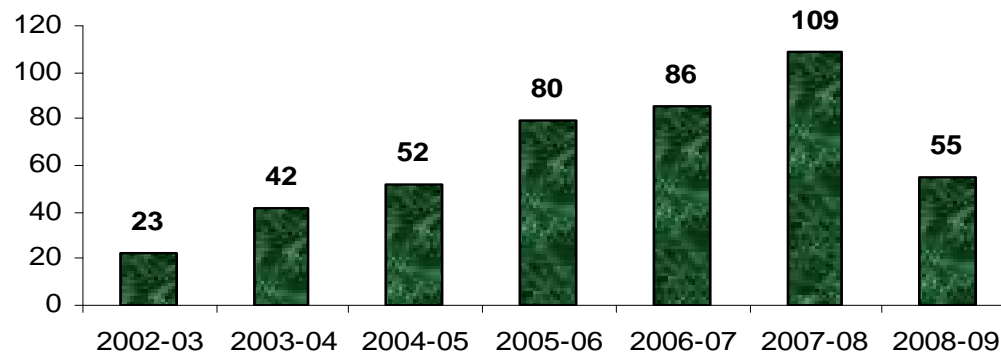
Source: Reserve Bank of India



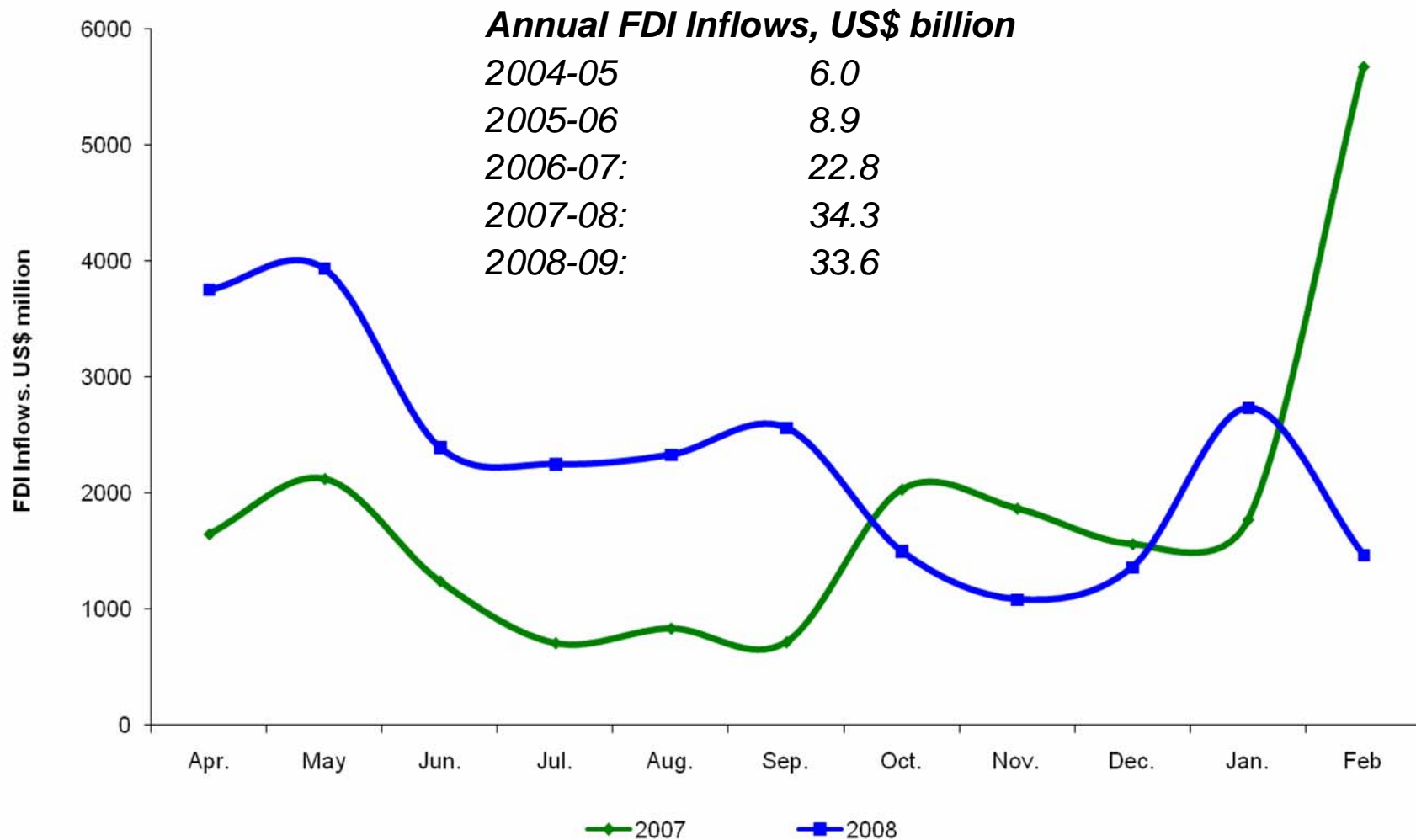
Stock Market Collapse



Market Capitalization % to GDP

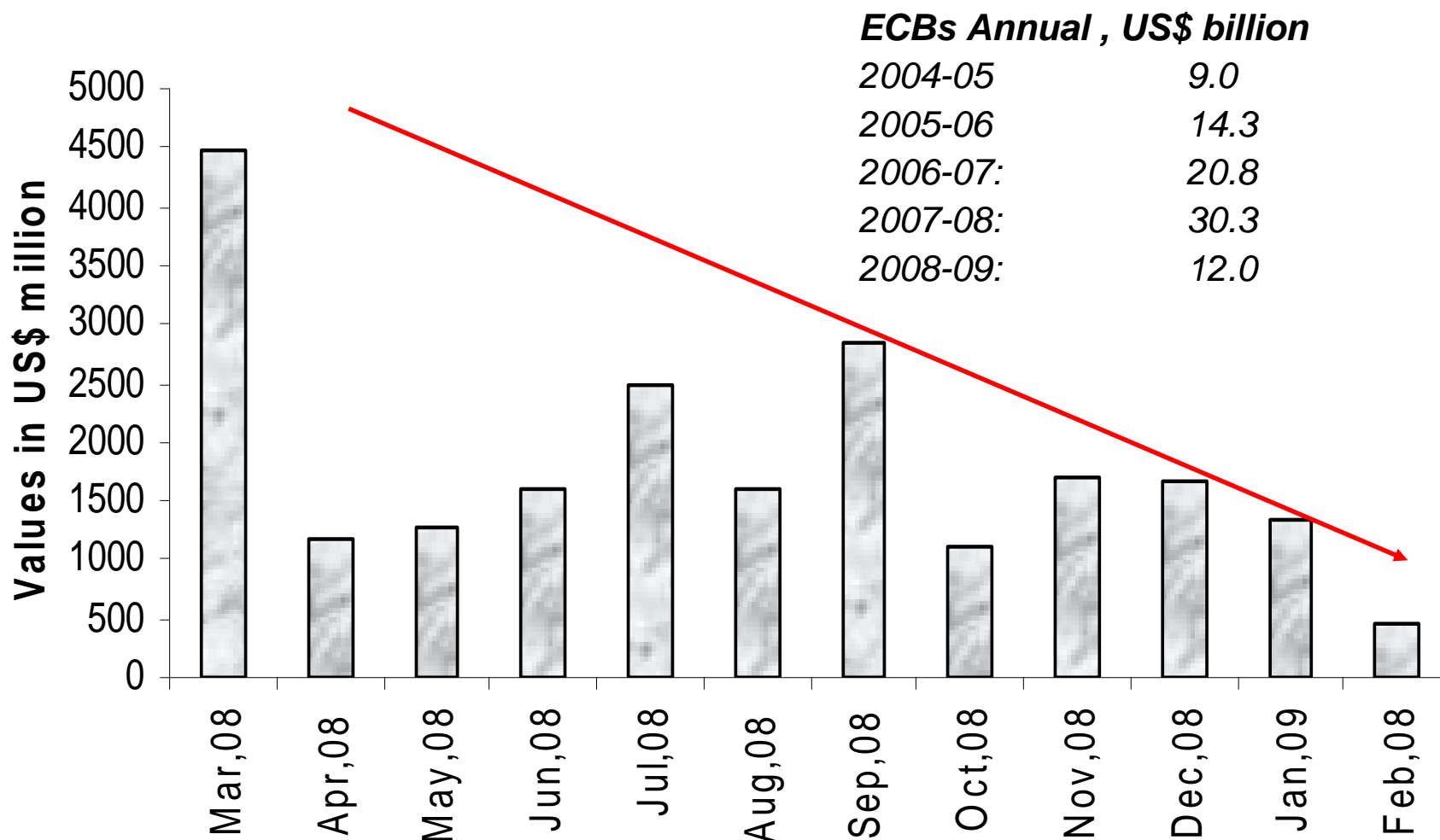


Monthly FDI Inflows



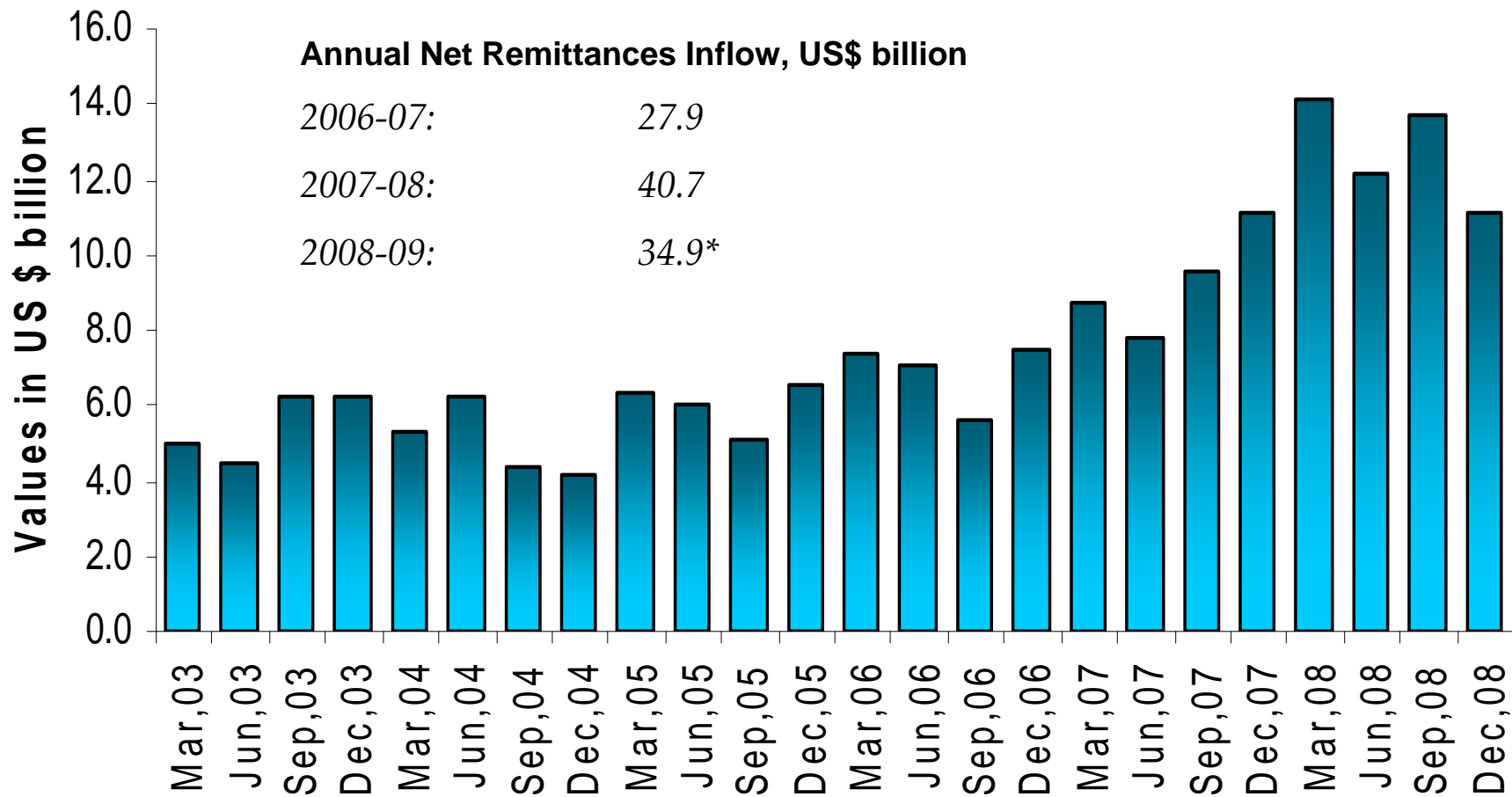
Source: RBI Bulletin, May 11, 2009

External Commercial Borrowings



Source: Reserve Bank of India

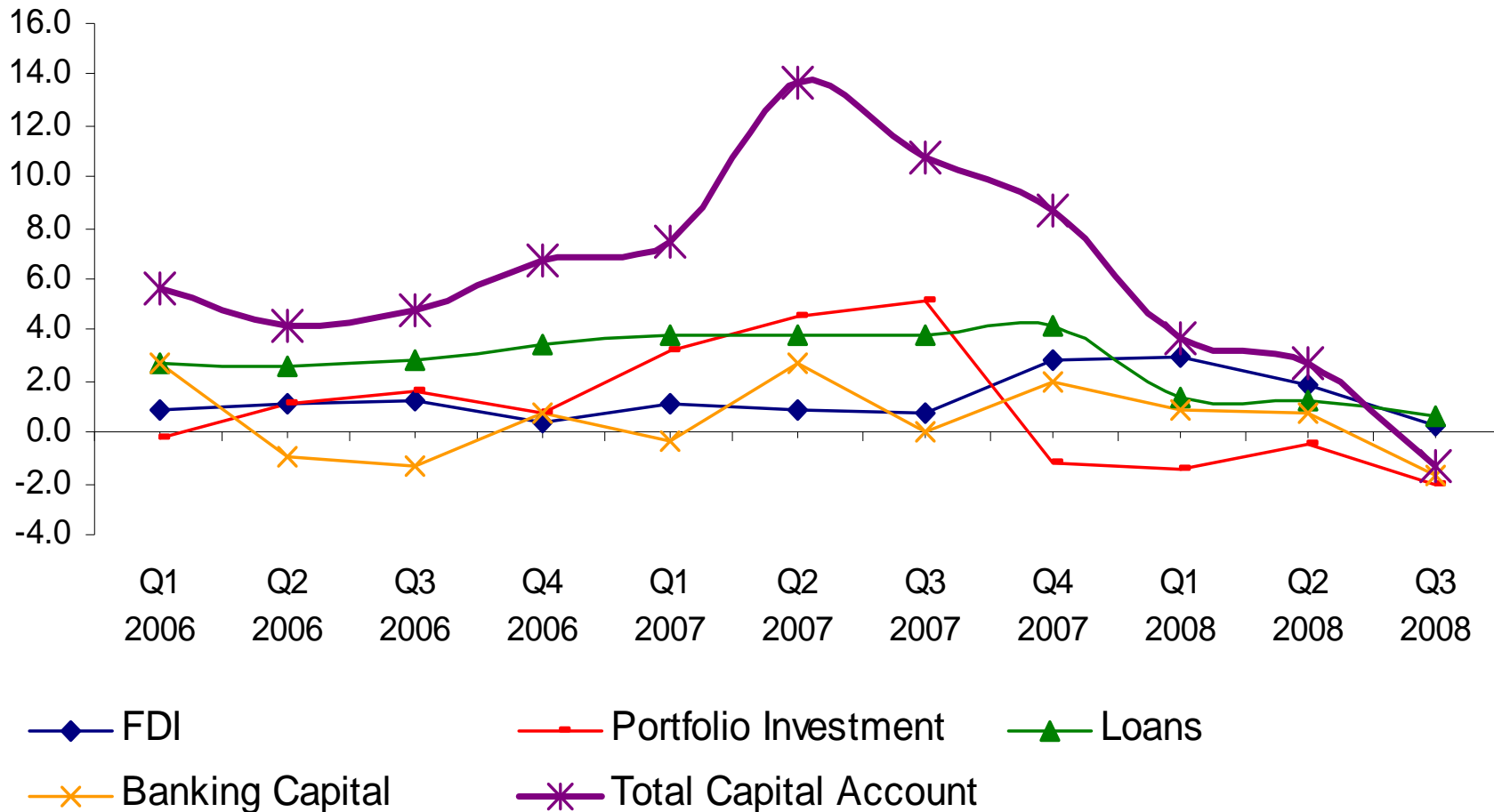
Remittances Inflow



Source: Reserve Bank of India

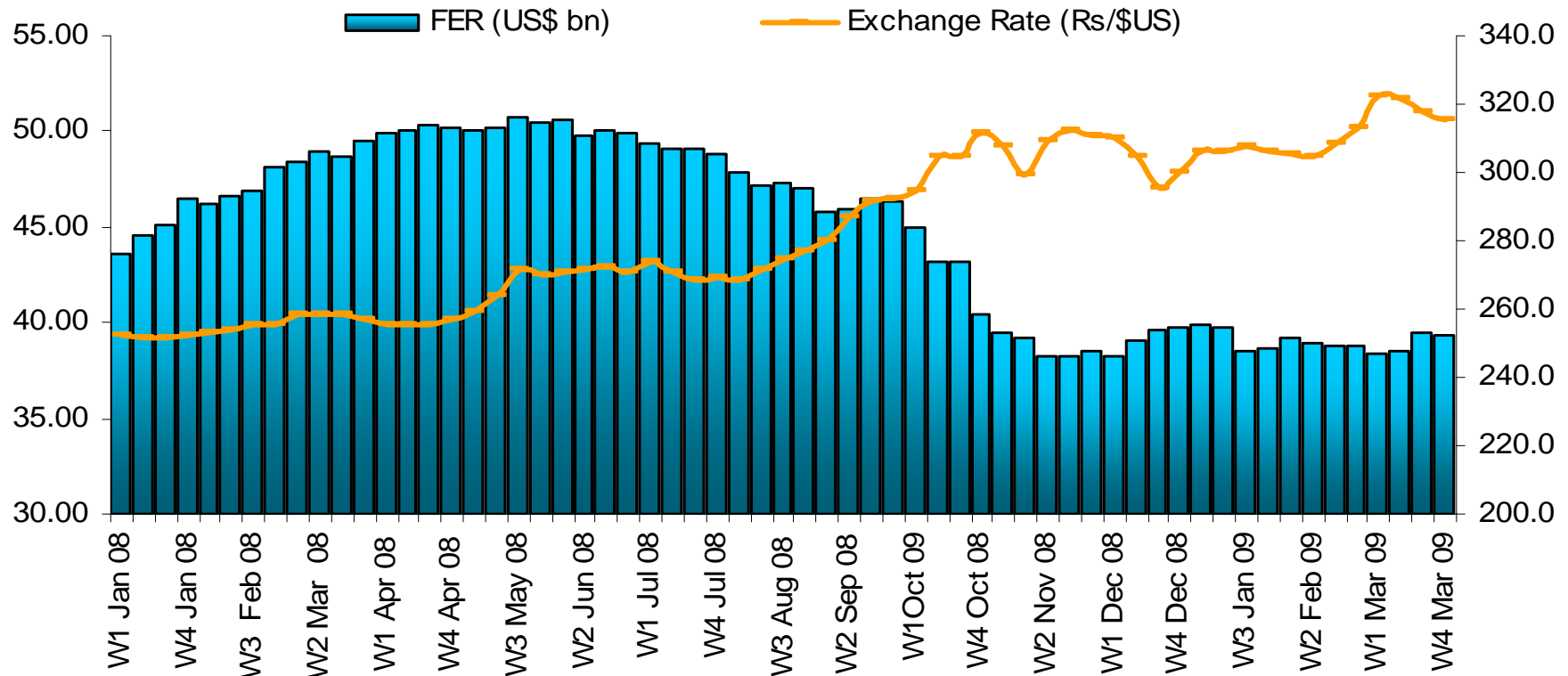
Note: * April to December

Capital Account BOP % to GDP



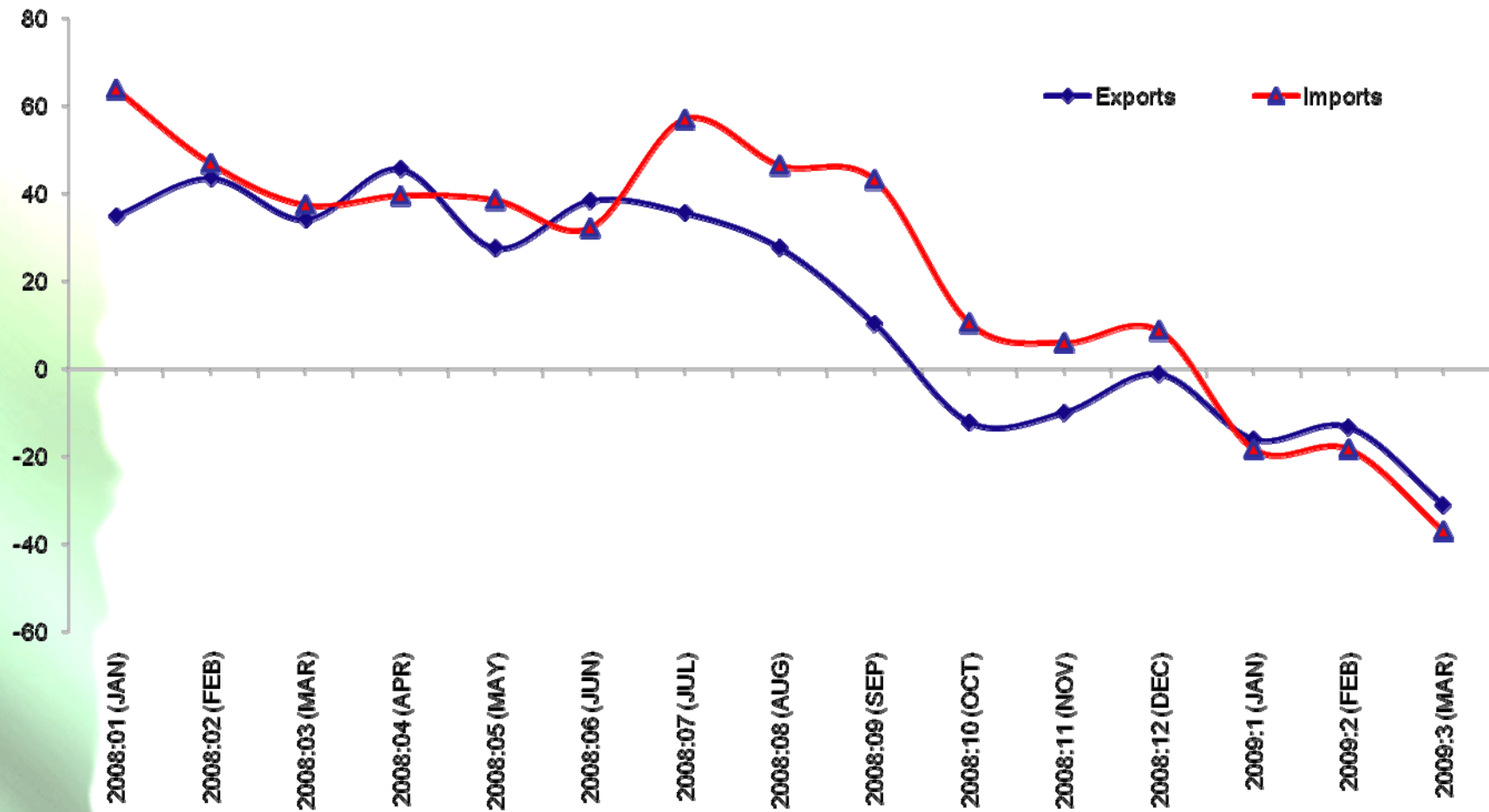
Source: Reserve Bank of India

Foreign Reserves & Exchange Rate

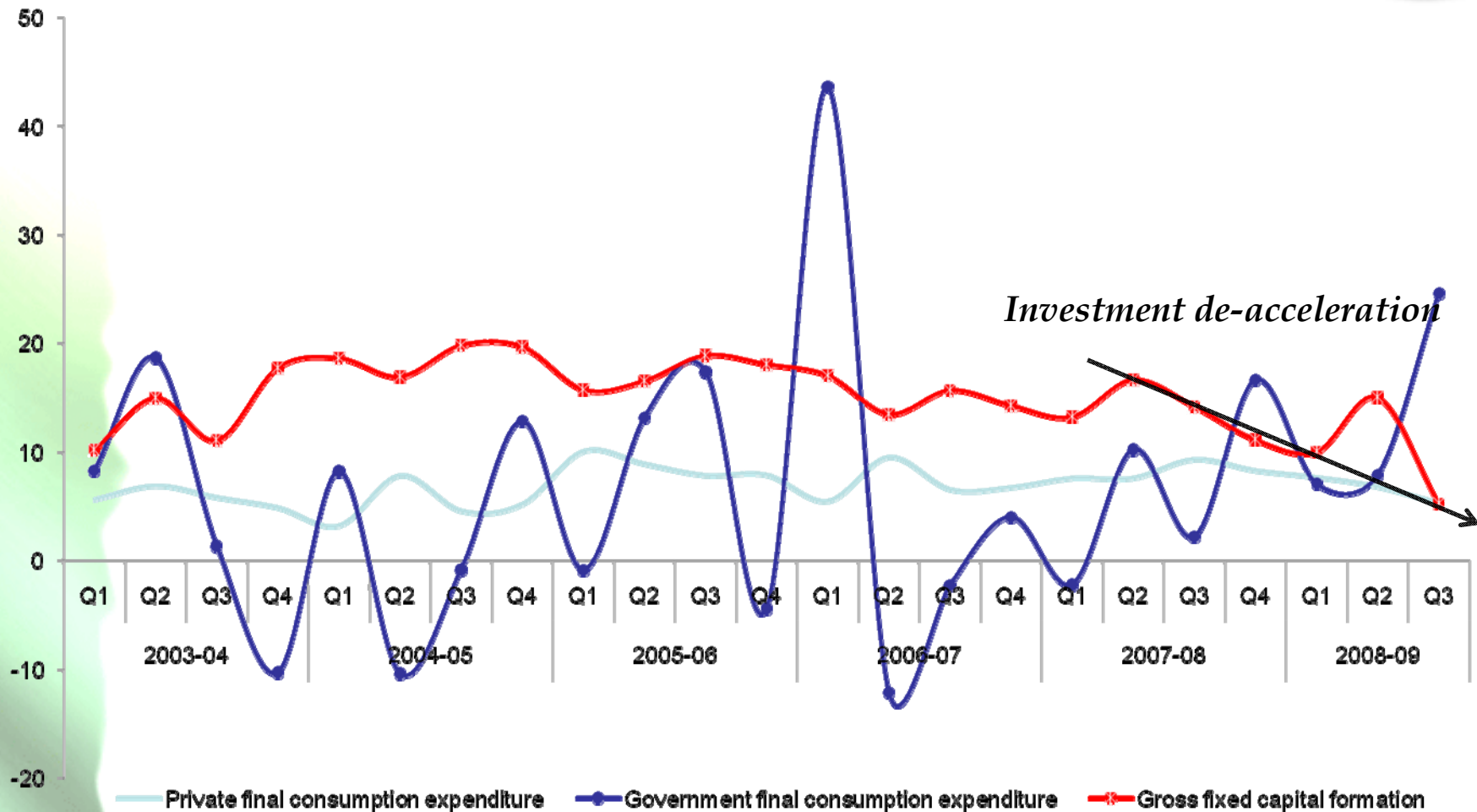


- Stock of Reserves falling from \$315 bn in May 08 to \$252 bn in Mar 09
- Around 63 percent of decline in reserve can be attributed to valuation, hence actual decline in reserve is around US\$ 20 billion
- Rupee tumbling by 27% from end-Apr 08 to end-Mar 09

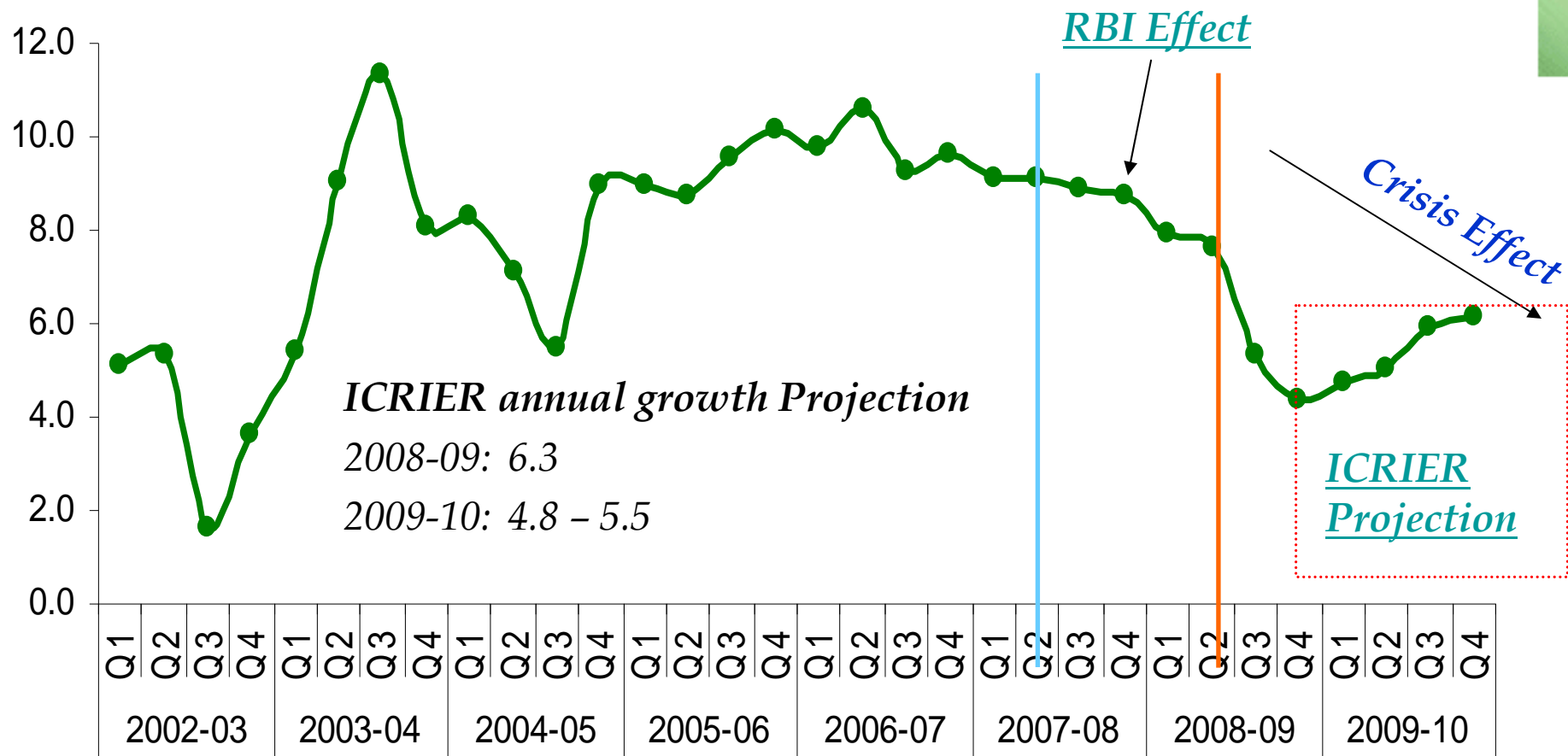
Imports and Exports Growth



Composition of Demand Growth



Quarterly GDP Growth: Actual & Projected





Policy Response

Budget Outlays on Rural India: Blessing in Disguise



Values in US\$ billion

Ser. No.	Item	2008-09 (RE)	2009-10 (BE)
1	Bharat Nirman	6.25	8.18
2	NREGS	6.00	6.02
3	<i>Fertilizer Subsidies (a+b+c)</i>	<i>15.17</i>	<i>10.00</i>
	a. Indigenous Urea	3.30	1.72
	b. Imported Urea	2.20	1.56
	c. Concession on Decontrolled Fertilizers	9.67	6.72
4	Farm Loan Waiver	13.06	-
5	<i>Total</i>	<i>40.49</i>	<i>24.20</i>

- ***MSP for Wheat increased from Rs. 630 per quintal in 2003-04 to Rs. 1080 in 2008-09 (71 % increase)***
- ***MSP for common variety of paddy increased from Rs. 550 per Quintal in 2003-04 to Rs. 900 in 2008-09 (63 % increase)***

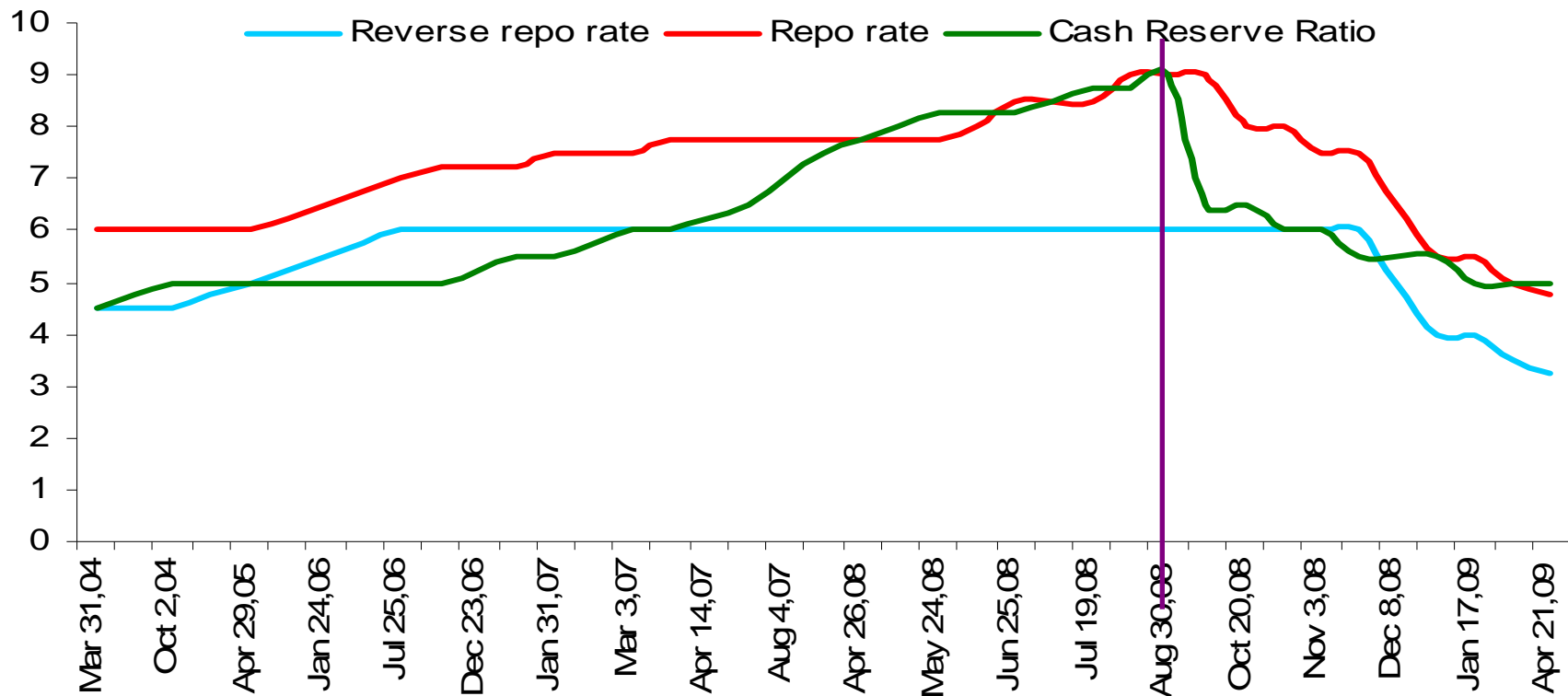
Source: Union Budget

Fiscal Stimulus



- *Three packages of fiscal stimulus, early Dec 08, early Jan 09, early Mar 09*
 - *Across-the-board excise duty reduction by 4 %age points*
 - *Additional plan spending of US\$ 4 billion*
 - *State governments allowed additional market borrowing of US\$ 6 billion for plan expenditure*
 - *Assistance to export industries*
 - *2 percentage point reduction in central excise and service tax*
 - *Current excise duty rate: 8 percent*
- *Direct fiscal burden of stimulus 1.8% of GDP*
- *Fiscal deficit (Central and States combined) rising sharply to 11% of GDP in 2008-09 (5.4% in 2007-08) and likely to be over 10% in 2009-10*

Monetary Policy Response: RBI Policy Rate Changes



- Credit tightening from Sep 2004 to Aug. 2008 and loosening thereafter
- Cash reserve ratio (CRR) brought down from 9% to 5%
- Statutory liquidity ratio (SLR) from 25% to 24%
- Repo rate reduced from 9% to 4.75% & reverse repo rate from 6% to 3.25%
- Special window for banks in their lending to mutual funds, NBFCs and housing finance companies
- Refinance facility for banks from the central bank & dollar swap arrangements, etc.

RBI Liquidity Injection



Actual/Potential Release of Primary Liquidity since Mid-September 2008 (US\$ billion)		
1	Cash Reserve Ratio (CRR) Reduction	32.7
2	MSS Unwinding	12.9
3	Term Repo Facility	12.2
4	Increase in Export Credit Refinance	5.2
5	Special Refinance Facility for SCBs (Non-RRB)	7.9
6	Refinance Facility for SIDBI/NHB/EXIM Bank	3.3
7	Liquidity Facility for NBFCs through SPV	5.1
Total (1 to 7)		79.2
Memo: Statutory Liquidity Ratio (SLR) Reduction		8.2

Nearly US\$80 billion, over 7% of GDP of liquidity release



Assessment of Policy Response

Assessment of Fiscal Policy Response



- *Anticipated the Crisis!*
- *limited fiscal headroom: High fiscal deficit: 11 % to GDP*
- *Too late because of the state of denial that came from the theory of decoupling and strong fundamentals*

Looking forward

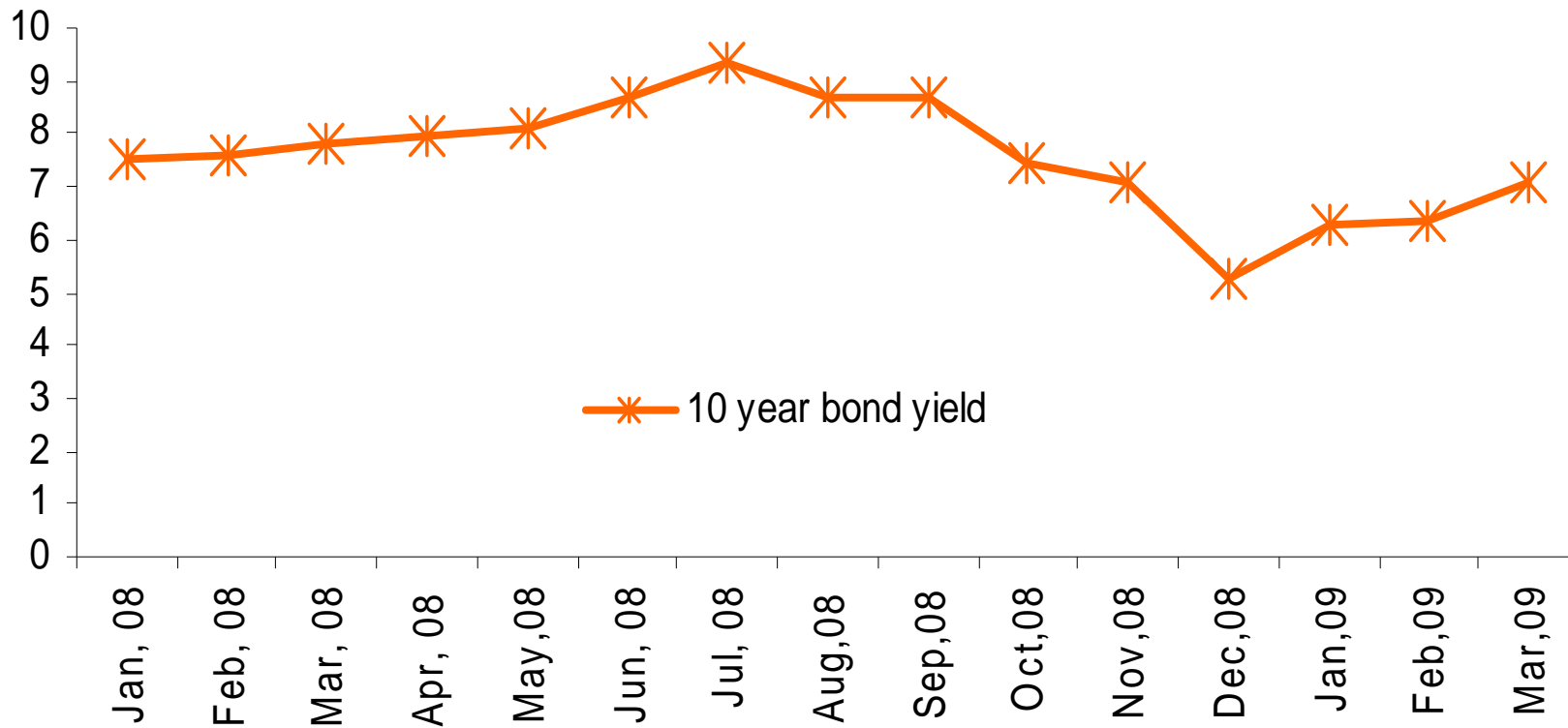
- *Government could monetize fiscal deficit*
- *Increase in public debt-- 2008-09: 85 % to GDP*
- *Credit Rating downgrading could hamper capital inflows and could raise the cost of borrowing*

Assessment of Monetary Policy Response



- *Aggressive and appropriate*
- *But has had limited impact so far– may show effect with lag*
- *Commercial bank's lending rates are still high at around 10 %*
- *Reduction in policy rates is not filtering in to the retail market, because of following reasons:*
 - *The risk averse attitude of commercial banks*
 - *Increase in Government borrowings– crowding out*

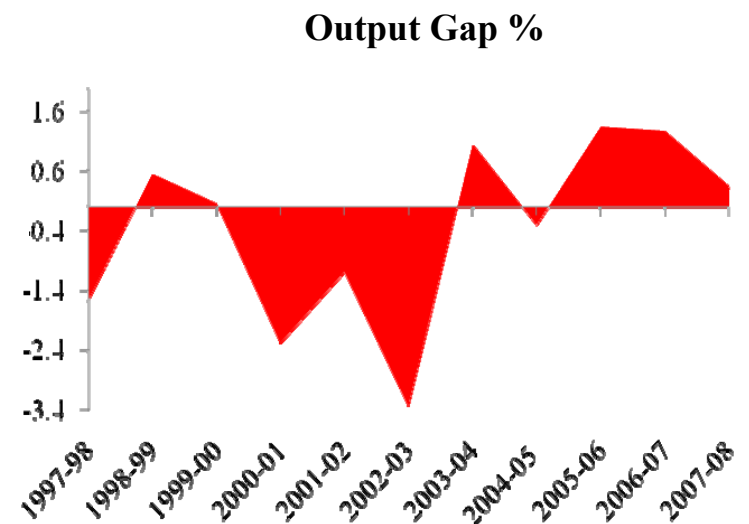
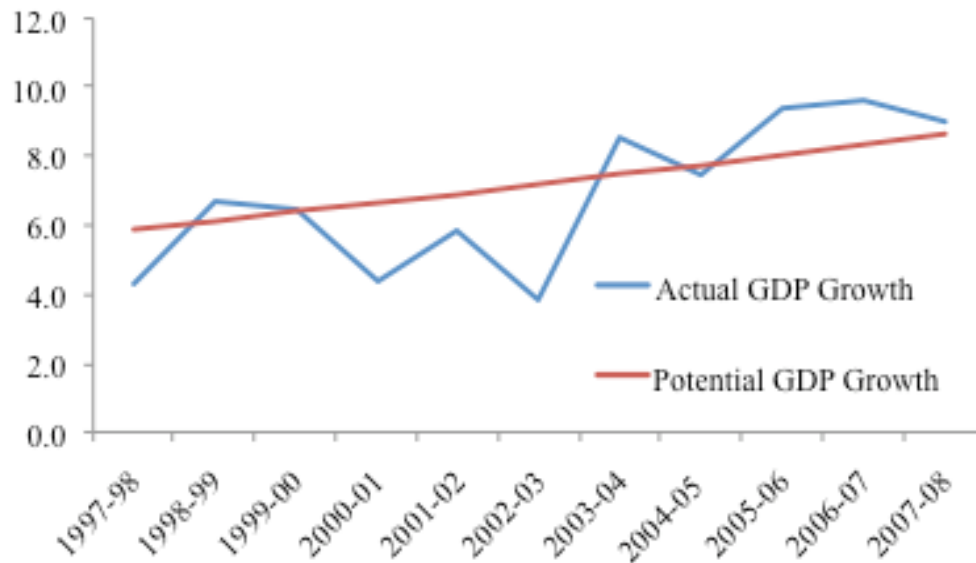
Fiscal Policy and Fear of Crowding Out





Potential Measures for Reigniting Growth

Potential GDP Growth and Output Gap (1997-8 to 2007-8)



Potential output growth: 8.7% in 2007-08
 8.4% in 2006-07
 8.1% in 2005-06

Note: HP filter technique as proposed by Hodrick and Prescott (1997)

Tightening of monetary policy aimed to narrow output gap

Potential Measures for Rebalancing the Growth



- *Fiscal options are not available*
- *Another round of Policy rate cuts should be considered*
- *Initiate Second Generation Structural Reforms to increase the potential rate of growth. These should focus on:*
 - *Infrastructure – Implementation capacity*
 - *Education – liberalization and quality*
 - *Business/investment environment*
 - *Public health: Delivery and Quality*
 - *Agriculture*



THANK YOU

Selected Leading Economic Indicators



- LEI Consists of:
 - (i) production of machinery and equipment
 - (ii) non-food credit
 - (iii) railway freight traffic
 - (iv) cement sales
 - (v) net sales of the corporate sector
 - (vi) fuel and metal prices
 - (vii) real rate of interest
 - (viii) BSE sensex and
 - (ix) exports

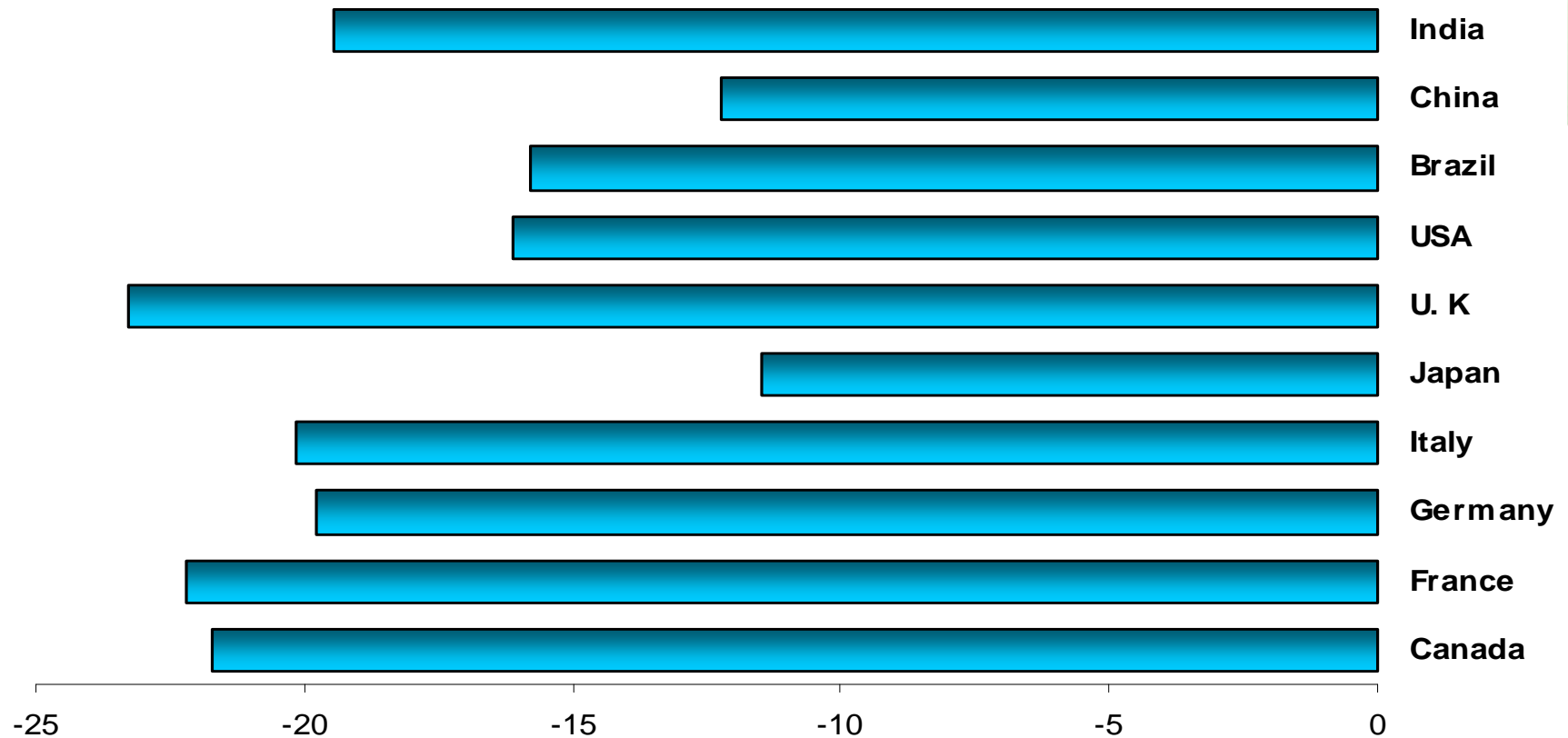
Index of Leading Economic Indicators (LEI)....



- Composite index constructed for 1997-08 with quarterly growth series
- Principal component index (PCA) method
 - Weights assigned through iteration process based on the contribution to total variation in the composite index
- LEI predicts future growth based on the past, 5-quarter in advance
- Cannot capture the effects of sudden external shocks having immediate impact on growth
 - East Asia crisis, 1997-98
 - Dotcom bust and September 11 incident in 2000-01 and 2001-02
 - Crop failure in 2002-03
 - Current shock of US financial crisis in 2008-09 and 2009-10



Collapse of Exports Quarter on Quarter Growth rate



Source: OECD

- *Exports saw a drastic fall (Quarter 4, 2008).*
- *WTO Projects 9% decline in World Trade in 2009.*

NPAs of selected Indian Banks, NPAs % to Total Advances



Bank's Name	NPAs as % of Total Advances					Direction of Change
	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08	
Andhra Bank	1.35	1.07	1.15	1.03	0.89	↓
Bank Of Baroda	2.11	1.84	1.86	1.62	1.50	↓
Bank Of Maharashtra	2.77	2.57	2.49	2.37	2.30	↓
Punjab National Bank	4.11	2.74	2.82	2.37	2.28	↓
Corporation Bank	1.71	1.47	1.46	1.36	1.24	↓
Dena Bank	3.09	2.45	2.47	2.32	2.28	↓
I D B I Bank Ltd.	2.24	1.87	1.98	1.87	1.71	↓
Oriental Bank Of Commerce	2.73	2.31	2.18	1.93	1.66	↓
Syndicate Bank	2.86	2.71	2.84	2.55	2.39	↓
Uco Bank	3.33	2.97	2.82	2.58	2.42	↓
Allahabad Bank	2.06	2.00	1.87	1.93	1.93	=
Bank Of India	1.90	1.68	1.64	1.53	1.63	=
Canara Bank	1.54	1.31	1.31	1.31	1.94	↑
Indian Overseas Bank	1.87	1.63	1.73	2.47	2.4	↑
Kotak Mahindra Bank Ltd.	2.88	2.88	3.17	3.16	4.08	↑
State Bank Of India	2.82	3.04	2.54	2.51	2.61	↑
Central Bank Of India	4.37	3.16	3.03	2.79	2.81	=
H D F C Bank Ltd.	1.20	1.30	1.50	1.60	1.90	↑
I C I C I Bank Ltd.	2.96	3.30	3.72	4.18	4.14	↑

Fiscal Deficit



Item	2007-08	2008-09 (E)
I. Not Provide for in Budget		
Salary increase and Arrears		22100
Farm Loan waiver		25500
Rural employment Guarantee Scheme and Food Subsidy		15564
Tax Reduction for Petroleum Products		22500
Total cash outgo on second supplementary demand for grants		42480
Recapitalization of banks		10000
Addition to fiscal deficit as % to GDP		2.5
II. Off Budget Items		
Bonds for Oil companies	11953	65942
Bonds for Fertilizer Companies	7500	35220
Off budget As % to GDP	0.4	1.9
III. Fiscal deficit as in the Budget- Centre	2.8*	2.5**
IV. Fiscal deficit as in the Budget- states	2.3***	2.1**
V. Additional borrowing for the states		30000
VI. Additional borrowing for the states as % to GDP		0.60
VII. Revenue loss due to expected Reduced tax receipts (% to GDP)		1.00
Total Fiscal Deficit	5.5	10.60

Note: * Provisional, ** Budget Estimates, *** Revised Estimates

43

Values in Rs. Crore