

Macroeconomic Performance and Policies 2000 - 08

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*India's Economy: Performance and Challenges***

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Outline

I. Review of Macroeconomic Developments

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- A. Restoring Fiscal Balance
- B. Convertibility and Exchange Rate Management
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Review of Macroeconomic Developments

**Table 1: Growth of Real GDP
(Percent per year)**

	1992/93- 1996/97	1997/98- 2001/02	2002/03- 2006/07	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
GDP (factor cost)	6.6	5.5	7.8	3.8	8.5	7.5	9.4	9.6	9.0
Agriculture	4.8	2.5	2.5	-7.2	10.0	0.0	5.9	3.8	4.5
Industry	7.3	4.3	9.2	7.1	7.4	10.3	10.1	11.0	8.5
Services	7.3	7.9	9.3	7.5	8.5	9.1	10.3	11.1	10.8
Per capita GDP	4.4	3.5	6.1	2.3	6.9	5.8	7.7	8.1	7.5

Source: CSO.

Note: Industry includes Construction.

Table 2: Sectoral Composition of Growth

	<u>Share in real GDP (%)</u>		<u>Contribution to GDP Growth (%)</u>		
	Average of 1994-97 (1)	Average of 2004-07 (2)	1991/92 to 1996/97 (3)	1996/97 to 2001/02 (4)	2001/02 to 2007/08 (5)
Agriculture	28.2	19.4	21.1	11.5	7.0
Industry	26.4	26.5	29.0	20.2	29.3
Services	45.4	54.1	49.8	68.3	63.6
GDP(Factor Cost)	100.0	100.0	100.0	100.0	100.0

Source: CSO.

Table 3: Expenditure Composition of Growth

	Share in real GDP (%)		Contribution to GDP Growth (%)		
	Average of 1994-97 (1)	Average of 2004-07 (2)	1991/92 to 1996/97 (3)	1996/97 to 2001/02 (4)	2001/02 to 2007/08 (5)
Investment (GDCF)	23.9	32.6	29.2	20.4	57.3
Government Final Consumption	11.1	10.2	8.2	16.7	5.3
Private Final Consumption	65.7	59.6	54.3	60.2	47.9
Net Exports of Goods and Services (including Discrepancies)	-0.7	-2.4	8.4	2.7	-10.5
GDP(Factor Cost)	100.0	100.0	100.0	100.0	100.0

Source: CSO.

Table 4: Inflation Trends
(Percent per year)

	WPI (AC)	CPI(IW)	WPI(MP)	GDP Deflator
	(1)	(2)	(3)	(4)
1992/93-1996/97(average)	8.7	9.3	8.3	9.1
1997/98-2001/02(average)	4.9	6.3	3.0	5.0
2002/03-2007/08 (average)	5.0	4.9	4.5	4.4
2002/03	3.4	4.1	2.6	3.8
2003/04	5.5	3.7	5.7	3.4
2004/05	6.5	4.0	6.3	5.5
2005/06	4.4	4.2	3.1	4.1
2006/07	5.7	6.8	4.6	5.5
2007/08	4.6	6.4	4.9	4.1

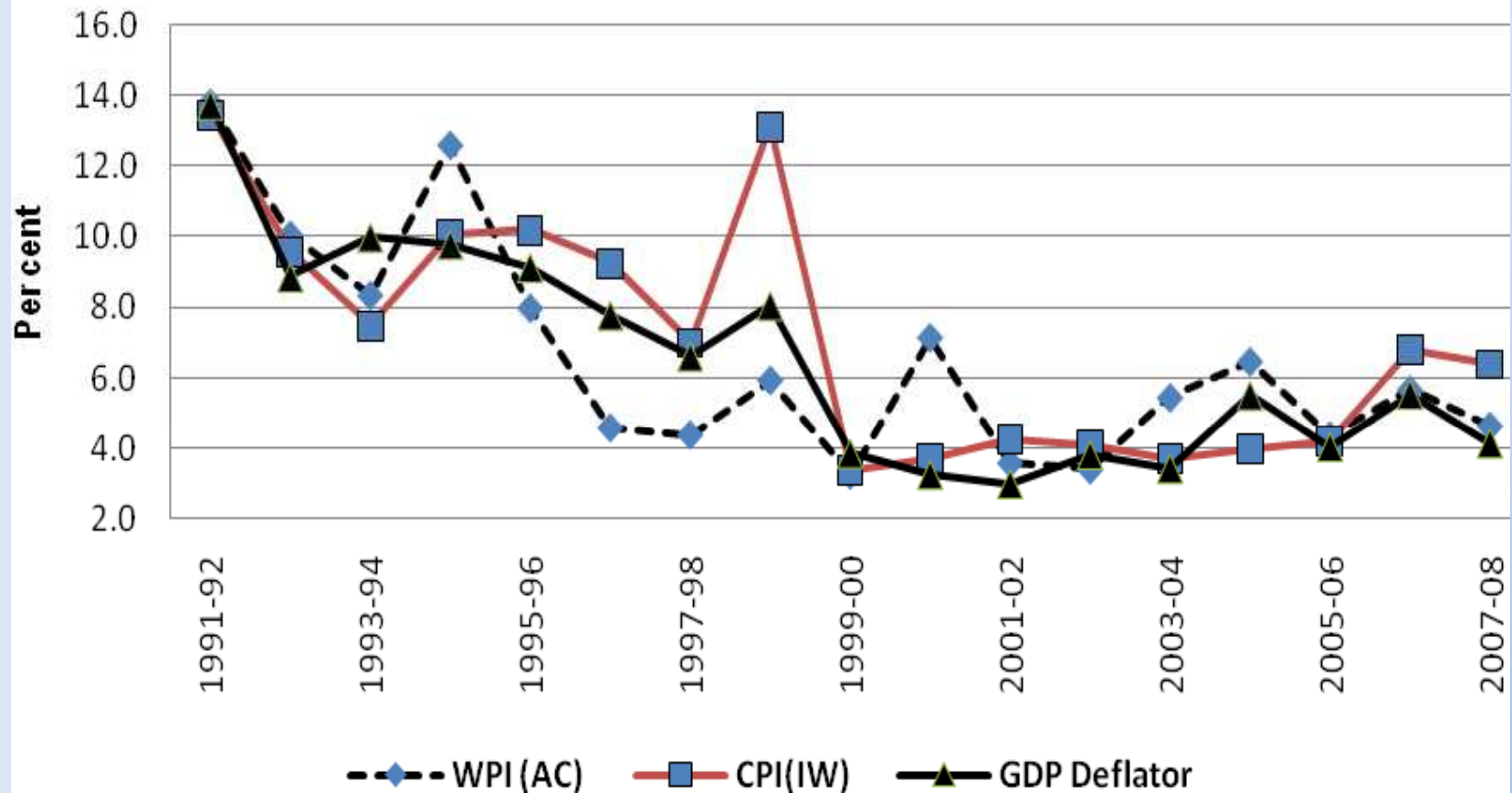
Sources: Reserve Bank of India: Handbook of Statistics on Indian Economy and Bulletins.

WPI (AC) = Wholesale Price Index (All Commodities) 1993/94=100.

CPI (IW) = Consumer Price Index (Industrial Workers) For 1992/93-2006/07, 1993/94=100. For 2007/08, 2001=100.

WPI (MP) = Wholesale Price Index (Manufactured Products) 1993/94=100.

Figure1: Annual Inflation Rates



**Table 5: Balance of Payments Indicators
(Percent of GDP at current market prices)**

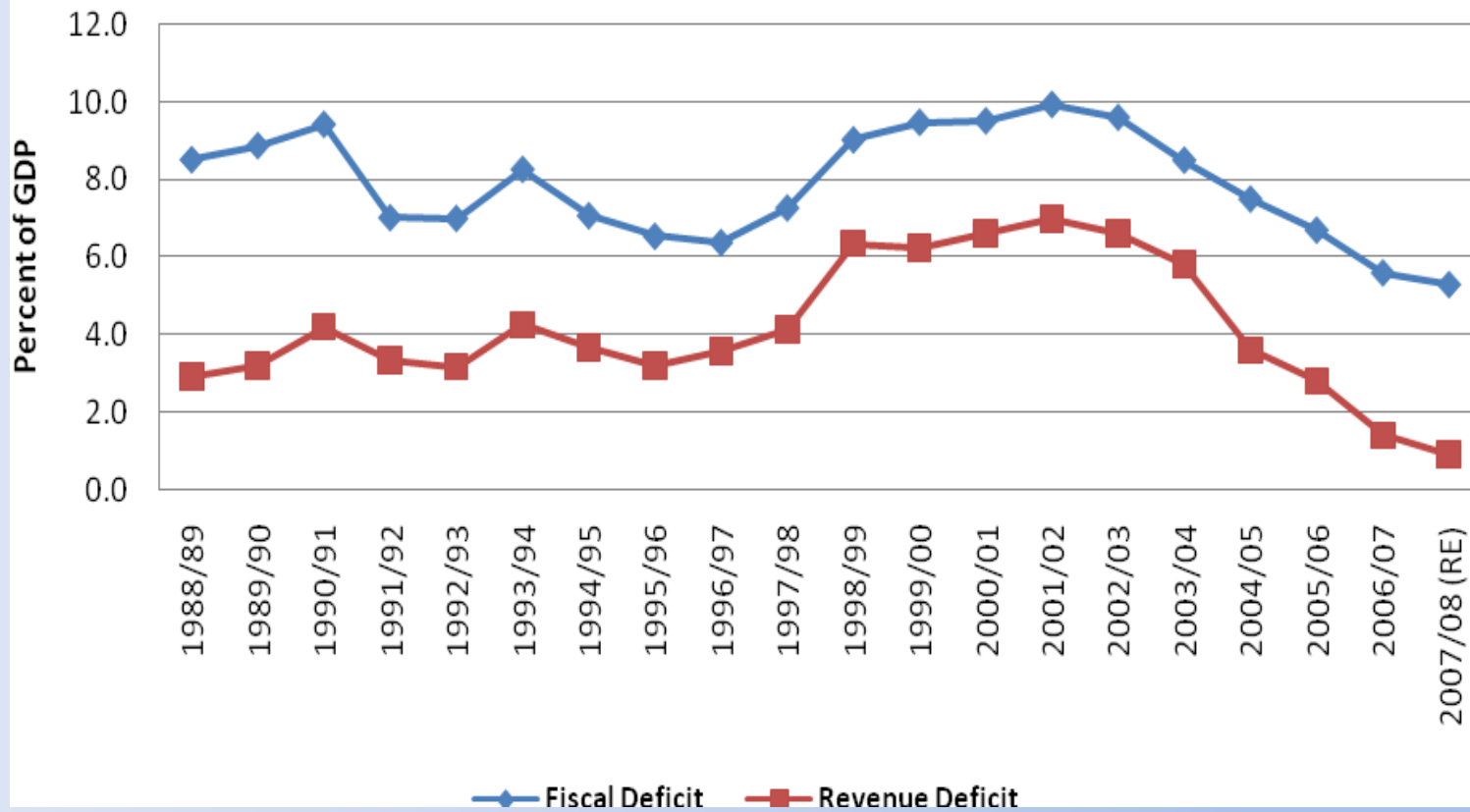
	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
Merchandise								
Exports	9.9	9.4	10.6	11.1	12.2	13.0	14.0	13.5
Imports	12.6	11.8	12.7	13.3	17.0	19.4	20.9	21.2
Trade balance (A-B)	-2.7	-2.4	-2.1	-2.3	-4.8	-6.4	-6.9	-7.7
Invisibles, net	2.1	3.1	3.4	4.6	4.5	5.2	5.8	6.2
of which								
Software Exports	1.2	1.4	1.7	2.1	2.4	2.8	3.2	3.2
Current Transfers	2.8	3.3	3.3	3.7	3.0	3.1	3.1	3.5
Current Account Balance	-0.6	0.7	1.3	2.3	-0.4	-1.2	-1.1	-1.5
Net Capital Inflows	1.9	1.8	2.1	2.8	4.0	3.1	5.0	9.2
of which								
Foreign Direct Investment	0.7	1.0	0.6	0.4	0.5	0.4	0.9	1.3
Foreign Portfolio Investment	0.6	0.4	0.2	1.9	1.3	1.5	0.8	2.5
External Assistance	0.1	0.2	-0.6	-0.5	0.3	0.2	0.2	0.2
External Commercial Borrowing	0.9	-0.3	-0.3	-0.5	0.7	0.3	1.8	1.9
NRI Deposits	0.5	0.6	0.6	0.6	-0.1	0.3	0.5	0.0
Short Term Trade Credit	0.1	-0.2	0.2	0.2	0.5	0.5	0.7	1.5
Memo Items								
Foreign Exchange Reserves (year end US \$ billion)	42.3	54.1	76.1	113.0	141.5	151.6	199.2	309.7
Increase in Reserves (US \$ billion)	4.3	11.8	22.0	36.9	28.6	10.1	47.6	110.5
Net Capital Inflows (US \$ billion)	8.8	8.6	10.8	16.7	28.0	25.5	45.8	108.0
Non Oil Export Growth (%)	16.1	-2.3	20.2	20.2	27.0	19.5	17.8	24.5
Non Oil Import Growth (%)	-5.9	7.2	17.0	31.5	41.8	28.8	22.2	24.4
Services Export Growth (%)	3.6	5.4	21.1	29.4	61.0	33.3	32.1	15.1
Oil Imports (US \$ billion)	15.7	14.0	17.6	20.6	29.8	44.0	57.1	79.6
Exchange Rate (Rs/US \$)	45.7	47.7	48.4	46.0	44.9	44.3	45.3	40.2

**Table 6: Consolidated Deficits of Central and State Governments
(As Percentage to GDP at current market prices)**

	Fiscal Deficit	Revenue Deficit	Primary Deficit
1988/89- 1990/91 (Average)	8.9	3.4	4.8
1995/96- 1996/97 (Average)	6.5	3.4	1.4
1998/99- 2000/01 (Average)	9.3	6.4	3.7
2001/02	9.9	7.0	3.7
2002/03	9.6	6.6	3.1
2003/04	8.5	5.8	2.1
2004/05	7.5	3.6	1.3
2005/06	6.7	2.8	1.0
2006/07	5.6	1.4	0.0
2007/08 (RE)	5.3	0.9	-0.3

Sources: Reserve Bank of India: Handbook of Statistics on Indian Economy and Annual Report, 2007/08.

Figure 2: Combined Deficits of Central and State Governments



The Investment- Savings boom (As % of GDP)

	1990-92	2000-02	2005-07	Difference
	(1)	(2)	(3)	(4)= (3)-(2)
Gross Domestic Investment	24.0	23.6	35.7	+12.1
Gross Domestic Savings	22.2	23.6	34.5	+10.9
of which:				
Households	17.1	21.9	24.0	+2.1
Private Corporate	2.9	3.6	7.6	+4.0
Government Companies	3.7	3.9	4.5	+0.6
Government Administration	-1.5	-5.8	-1.6	+4.2
Private Corporate Investment		5.3	13.9	+8.6

Source: CSO.

Macro overview comparison

	(1)	(2)	(3)
	1992/93- 1996/97	1997/98- 2001/02	2003/04- 2007/08
Economic Growth (% per year)	6.6	5.5	8.8
Inflation (GDP deflator, % per year)	9.1	5.0	4.5
Current Account Deficit (% of GDP)	1.1	0.6	0.4
Combined Fiscal Deficit (% of GDP)	7.1	9.0	6.7
Gross Domestic Investment (% of GDP)	24.2	24.3	33.6

Source: RBI

Major Challenges Faced post 2000

**Table 9: Deficits of Central and State Government
(As Percentage of GDP at current market prices)**

Year	Centre		States		Combined	
	Fiscal Deficit	Revenue Deficit	Fiscal Deficit	Revenue Deficit	Fiscal Deficit	Revenue Deficit
2001/02	6.2	4.4	4.2	2.6	9.9	7.0
2002/03	5.9	4.4	4.1	2.3	9.6	6.6
2003/04	4.5	3.6	4.4	2.3	8.5	5.8
2004/05	4.0	2.5	3.4	1.2	7.5	3.6
2005/06	4.1	2.6	2.5	0.2	6.7	2.8
2006/07	3.5	1.9	1.9	-0.6	5.6	1.4
2007/08 (RE)	3.1	1.4	2.3	-0.5	5.3	0.9

Sources: Reserve Bank of India: Handbook of Statistics on Indian Economy and Annual Report, 2007/08.

Table 10: Centre's Fiscal Position- A Summary Review
(As percent of GDP at current market prices)

	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08(RE)
(1) Revenue Receipts	9.2	8.8	9.4	9.6	9.7	9.7	10.5	11.1
(2) Tax Revenue (net to centre)	6.5	5.9	6.5	6.8	7.1	7.5	8.5	9.2
(3) Non-tax Revenue	2.7	3.0	2.9	2.8	2.6	2.2	2.0	2.0
(4) Expenditure	15.6	15.9	16.8	17.1	15.8	14.2	14.1	15.1
(5) Revenue Expenditure	13.3	13.2	13.8	13.1	12.2	12.3	12.4	12.5
(6) Capital Expenditure	2.3	2.7	3.0	4.0	3.6	1.9	1.7	2.6
(7) Revenue Balance (1-5)	-4.1	-4.4	-4.4	-3.6	-2.5	-2.6	-1.9	-1.4
(8) Fiscal Balance	-5.7	-6.2	-5.9	-4.5	-4.0	-4.1	-3.4	-3.1

Source: Economic Survey- various issues and Budget papers for 2008/09.

Table 11: State's Fiscal Position- A Summary Review
(As percent of GDP at current market prices)

	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08 (RE)
(1) Revenue Receipts	11.3	11.2	11.1	11.2	11.5	12.0	12.8	13.3
(2) Tax Revenue	8.0	7.9	7.9	8.0	8.3	8.6	9.0	9.3
(3) Non-tax Revenue	3.3	3.3	3.3	3.2	3.3	3.5	3.8	3.9
(4) Expenditure	16.0	16.5	16.7	18.7	17.6	15.7	15.9	16.7
(5) Revenue Expenditure	12.6	13.8	13.5	13.5	12.8	12.2	12.2	12.9
(6) Capital Expenditure	3.4	2.7	3.2	5.2	4.8	3.5	3.7	3.8
(7) Revenue Balance (1-5)	-0.9	-2.6	-2.3	-2.3	-1.2	-0.2	0.6	0.5
(8) Fiscal Balance	-3.3	-4.2	-4.1	-4.4	-3.4	-2.5	-1.9	-2.3

Sources: Economic Survey- various issues and Annual Report 2007-08, RBI.

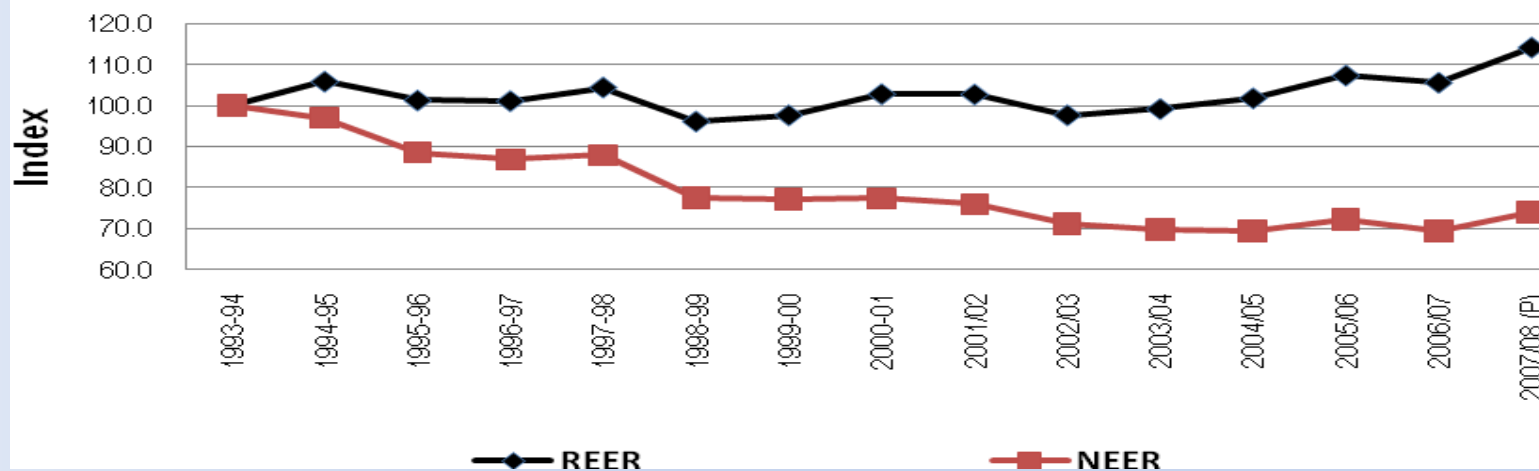
**Table 12: Capital Inflows and Reserves
(\$ billion)**

	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
1. Net Capital Inflows	8.8	8.6	10.8	16.7	28	25.5	45.8	108.0
of which (percent share) :								
Foreign Direct Investment	37.0	55.4	29.7	14.3	13.3	11.9	18.5	14.4
Foreign Portfolio Investment	29.3	22.8	8.7	67.9	33.1	49.1	15.4	27.1
External Commercial Borrowing	48.7	-18.5	-15.6	-17.5	18.5	9.8	35.3	20.5
Non-Resident Deposits	26.2	32.2	27.5	21.8	-3.4	11.0	9.4	0.2
Other	-41.2	8.1	49.8	13.6	38.5	18.2	21.3	37.8
2. Current Account Balance	-2.7	3.4	6.3	14.1	-2.5	-9.9	-9.8	-17.4
3. Increase in Foreign Exchange Reserves*	4.3	11.8	22.0	36.9	28.6	10.1	47.6	110.5

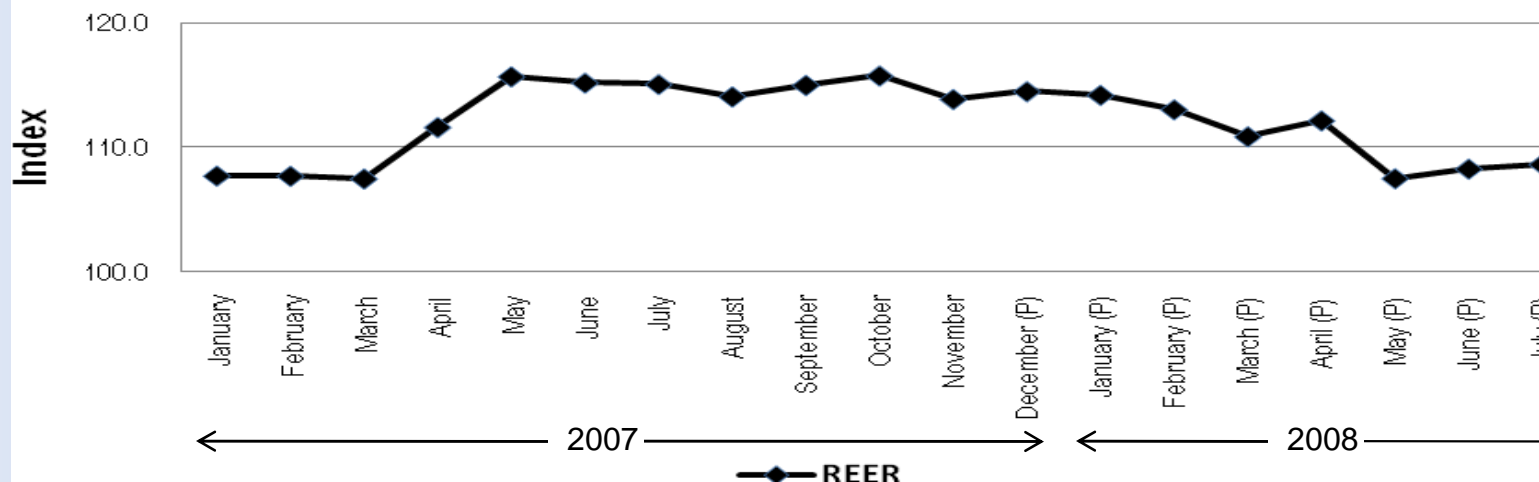
Sources: Reserve Bank of India: Handbook of Statistics on Indian Economy and Bulletins.

* Differs from (1) + (2) because of errors and omissions and valuation charges.

**Figure 4A: Annual 6- country NEER and REER Indices
(1993/94=100; Trade-based weights)**



**Figure 4B: Monthly 6- country Index of REER
(1993/94=100; Trade-based weights)**



Sources: Reserve Bank of India: Handbook of Statistics on Indian Economy and Bulletins.

Key Issues for the Future

Restoring Fiscal Balance

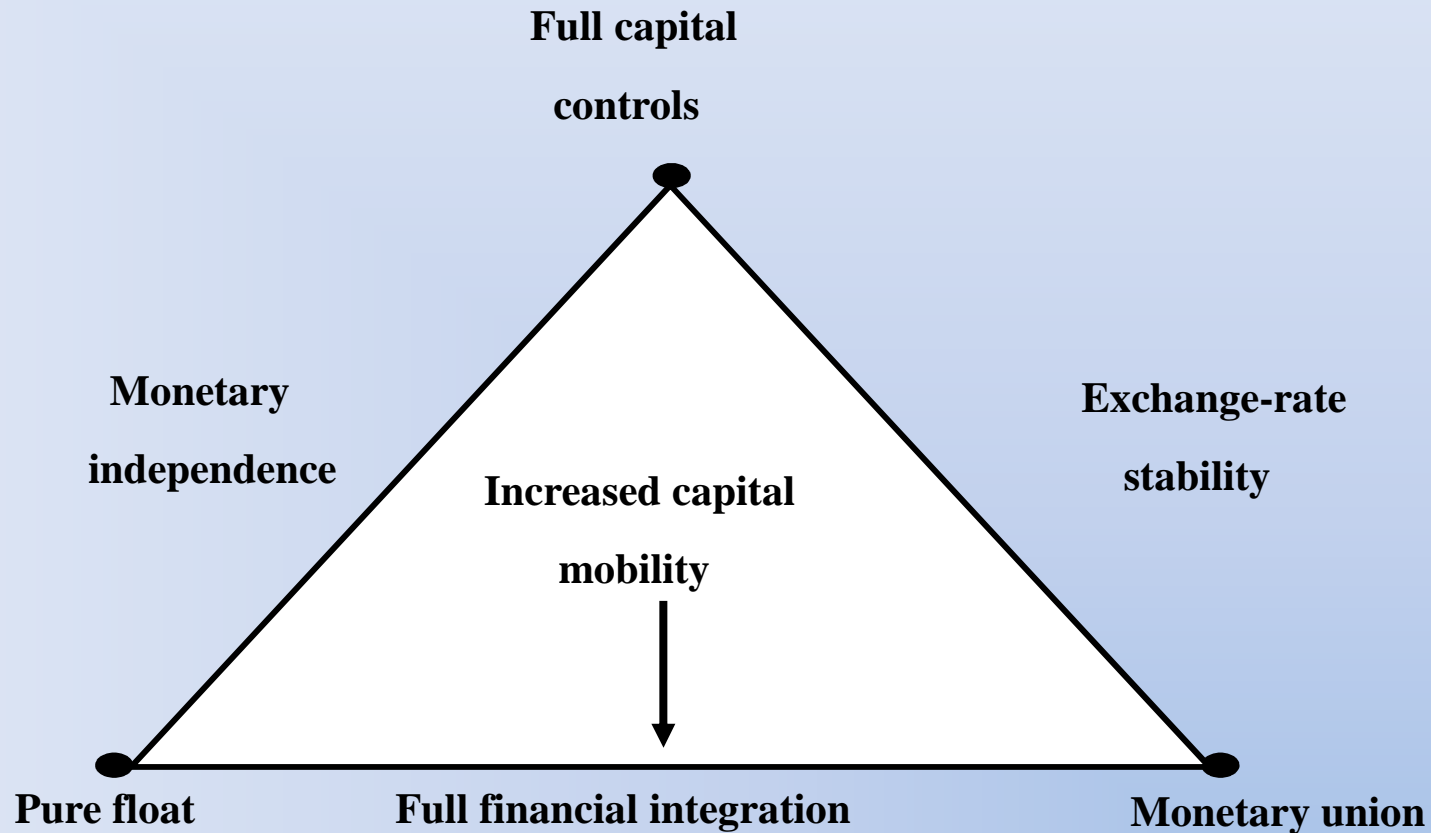
- Commodity Price shock of early 2008.
- Controlled Prices plus 6th Pay Commission award leads to surge in Fiscal Deficit.
- EAC estimates budgeted fiscal deficit will be overshoot by 5% of GDP.

- Main avenues for fiscal adjustment :
 - a) Raising prices of oil, fertilizers and foodgrain.
 - b) Large- scale divestment/ privatization of PSUs.

Convertibility and Exchange Rate Management

- The Impossible Trinity
- Full CAC not necessary for rapid growth
- Premature move to the full CAC is dangerous
- Premature move to full CAC undermines autonomy over exchange rate policy.

Figure 3: **THE IMPOSSIBLE TRINITY**



Source: Jeffrey Frankel, "No single currency regime is right for all countries at all times," Princeton Essays in International Finance No.215, August 1999

Role of the Reserve Bank

- Current objectives/ responsibilities of RBI
 - Low inflation
 - Sustainable economic growth
 - “Orderly forex markets”
 - Financial stability
 - Bank regulation/ supervision
 - Managing Government debt
- Single objective of inflation (Rajan Report) inappropriate for India at present
- Can consider shedding debt management

Coping with Weak International Economy

- Managed flexibility of exchange rate
- Premium on short-run liquidity management
- Move cautiously on CAC at present
- Avoid restrictions on current account
- Loosen monetary policy
- Avoid “oil supply” crisis
- Contain/ reduce rising fiscal deficit
- Reinvigorate economic reforms (infrastructure, privatization, labour laws, education, agriculture)

Thank You