



India – Outlook on Growth

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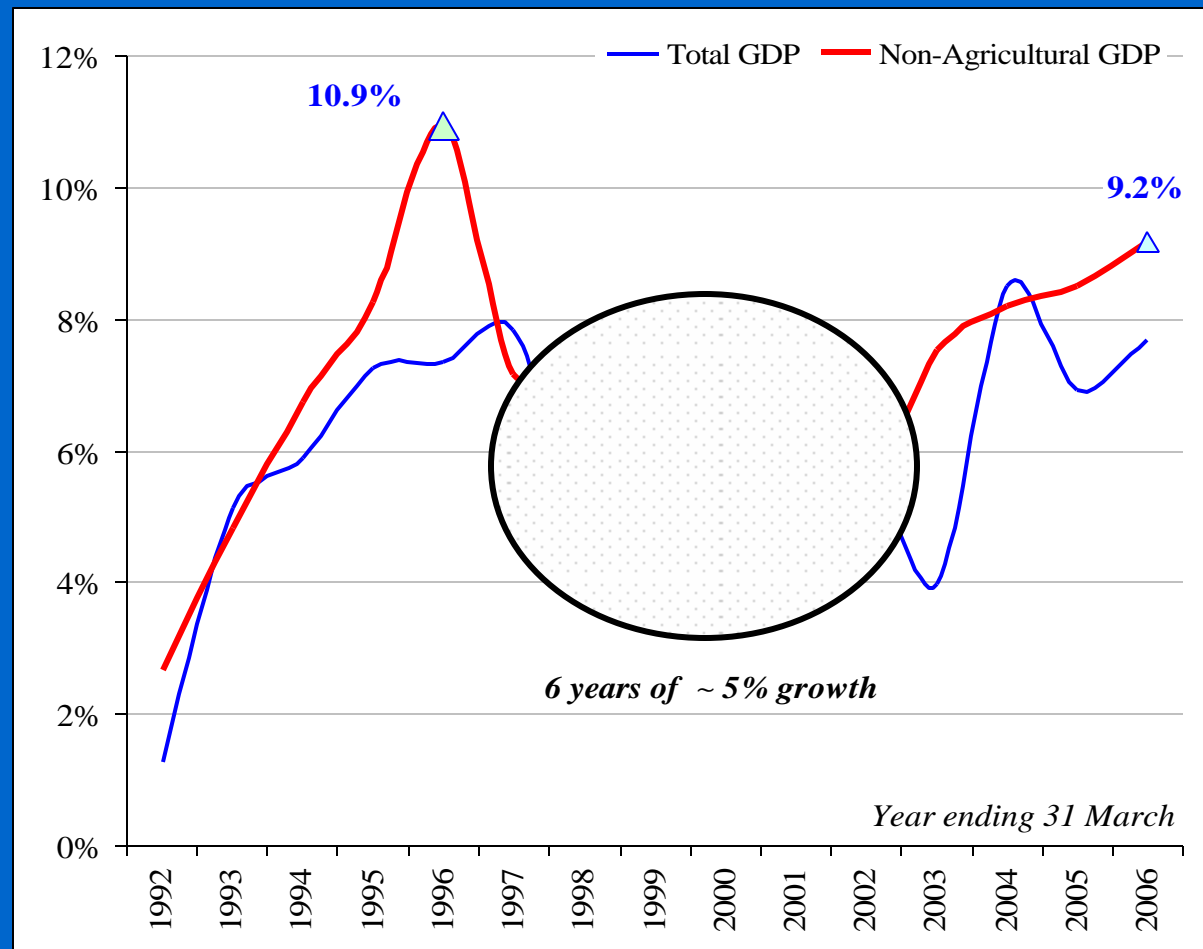
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Is today's growth a replay?

- 1994/95 to 1996/97 – over 3 years:
 - Average GDP growth was 7.5%; after which it fell to an average of 5.2% over the next 6 years.
- Legitimate question – are we seeing a replay?
 - We are well into the 3rd year (actually into the 4th year), and is the end of the road close?
- My contention is that it is not a replay; the conditions are quite different.

Growth post-liberalization





We approach thus

- What were the causes of the growth slump in the mid-1990s?
- Do such conditions obtain today?
- How has the environment changed in the intervening decade?
 - Specifically in respect of those aspects that were vulnerable and proved to be the location of the slump-causing factors of the mid-1990s?



Why did growth falter in mid-1990s?

- Factors behind the collapse of the first flush of growth in the second half of 1990s were:
 - A domestic corporate sector uninitiated to competition (domestic & international) and to financial risk
 - Sharp fall in commodity prices arising from sale by distressed enterprises in the FSU, to be followed by the Asian Currency Crisis and its consequences
 - High financial risk due to very high leverage (old habits) often contracted at high rates of interest
 - Corporate crisis follows with many defaults and a loss of appetite for balance sheet expansion



Major restructuring follows...

- Some corporates/houses go down – first ever shake-up within Indian capitalism
- Those that do not, grow balance sheets through acquisition – few fresh investments
- Many lessons learnt on how to conduct business
 - Recognition and management of business risk exists
- Balance sheets restructured over last 7 years:
 - Low leverage and acute appreciation of financial risk has become the norm



How different are conditions today?

- Corporates understand business & financial risk
- Commodity prices at their strongest and global demand conditions do not suggest a near-term fall
- Corporates adding to balance sheet with caution, but seem to have exhausted potential for growth through acquisition and brown-field expansion
- Policy makers have also learnt – e.g. in electricity
- Fiscal conditions are pointed in a better direction



Some other keys of growth today ...

- Many factors have worked in parallel
 - New income & credit empowered consumers (25–35 years) emerge
 - Successful reform of banking (1994 onwards) means that this retail segment can be serviced
 - Open economy attracts new kinds of business
 - Private (commercial) investment in infrastructure begins to make some movement

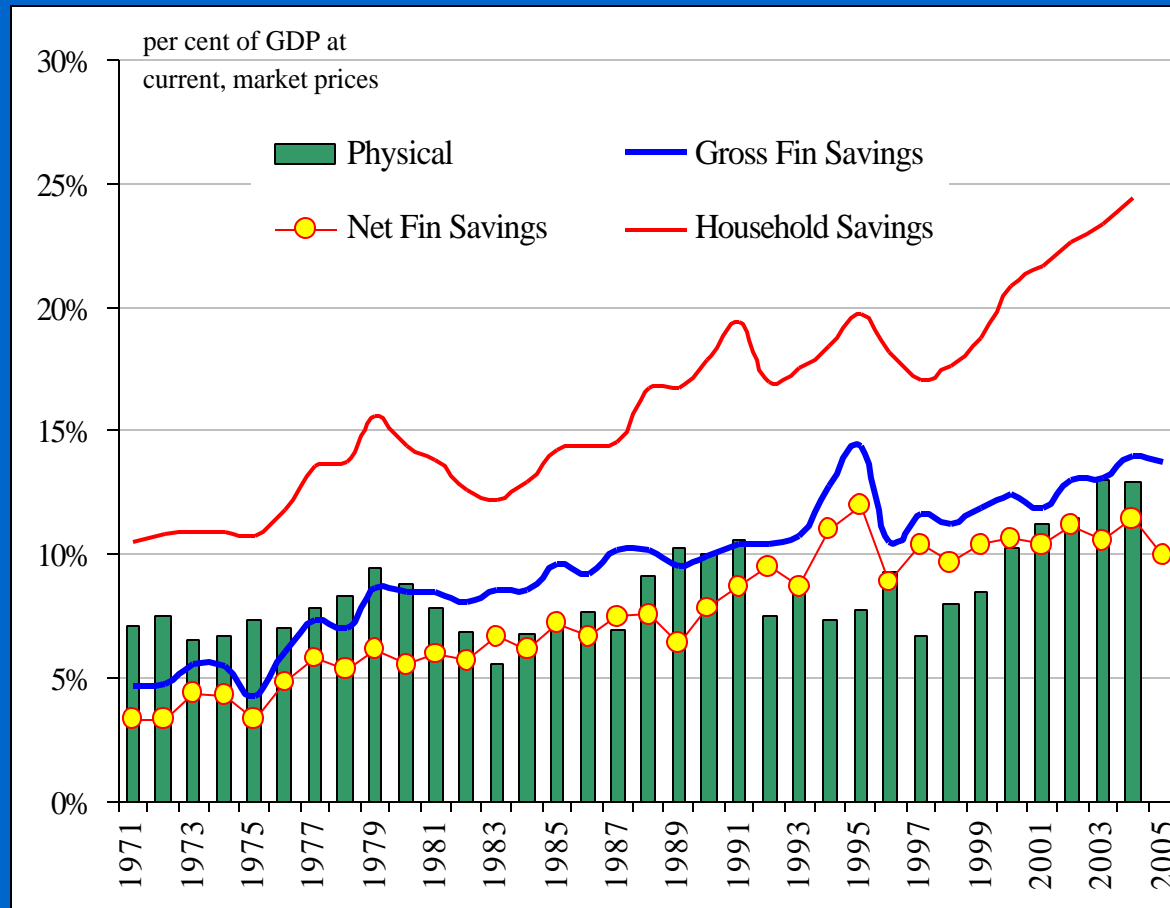


Old destabilizing factors absent, but..

- Thus, the factors that up-ended the cart in the mid-1990s are clearly absent
- Bank, corporate and personal balance sheets have never been stronger
- Direction of fiscal balances are however not unambiguous
- Current account deficit $>3\%$ of GDP is high



H/hold savings close to 25% of GDP



Households purchased imported gold amounting to 1.2% of GDP in 2004/05



Traditional limitations now crossed

- First 40 years, policy-makers' pre-occupation
 - Inadequate food supply
 - Investible resources limitations
 - Foreign exchange constraints
- Led to target and crisis-oriented approach
 - Production, price and other controls
 - Gave rise to multiple rules and regulations, stifled enterprise and eventually led to many lost opportunities
- These limitations have now largely been overcome



Constraints today?

- Short and Medium Term
 - Physical Infrastructure
 - Electricity, transportation & urban and rural economic infrastructure
 - Government deficits –
 - To the extent that a certain amount of state funding is required to get investment going in areas that are not entirely commercial – such as roads, rural water and urban mass transit, over and above other mandated needs



A word on the CAD ...

\$ Billions	DGCI&S merchand ise Trade Balance	Net Invisibles balance from BoP	First level Current Account Balance	Excess of BoP merchandise trade deficit over that of DGCI&S	Current Account Balance as reported in BoP
Apr-Sep 2005/06	-20.7	18.7	-2.1	10.9	-13.0
2004/05	-28.6	31.2	2.6	8.0	-5.4
2003/04	-14.3	27.8	13.5	-0.6	14.1



CAD / Economy disconnect

- Though imports have shot up on account of both oil prices and non-oil imports
- The magnitude of the CAD is at a disconnect to the intensity of economic activity – but seems to be due to other accumulated demands
- Private capital flows likely to be adequate to finance the CAD



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Thank you

For your patience