



Global Economic Crisis: Impacts on India

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Structure of Presentation

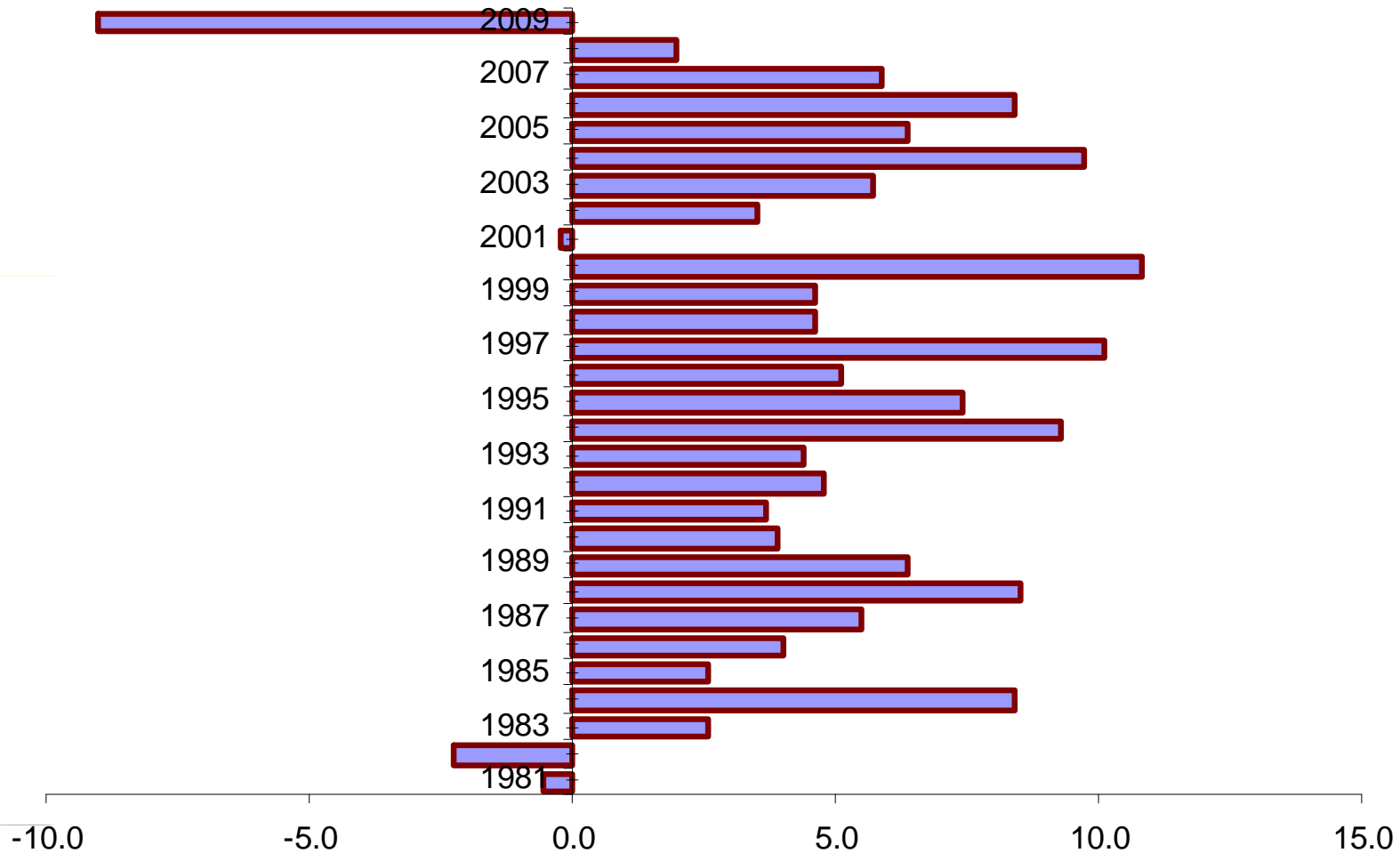
- *Severity of Crisis*
- *Global Crisis and India*
- *India's Policy Response*
- *Assessment of Policy Response*
- *Potential Measures for Reigniting Growth*



Severity of the Current Financial Crisis

Collapse of Global Trade

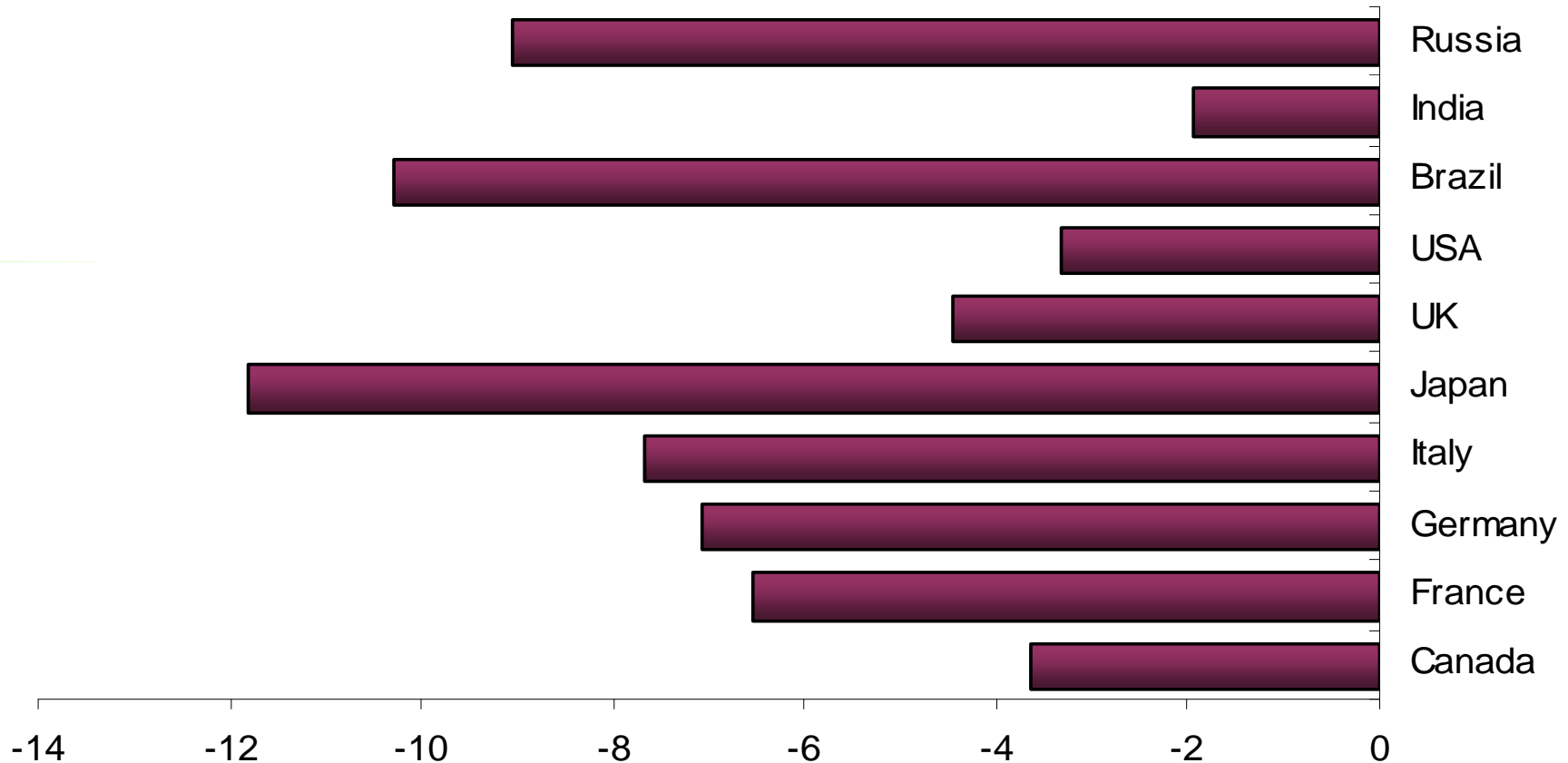
Annual growth of global trade volumes, 1981-2009



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

Source: WTO

Industrial Production Collapse Quarter on Quarter Growth Rate



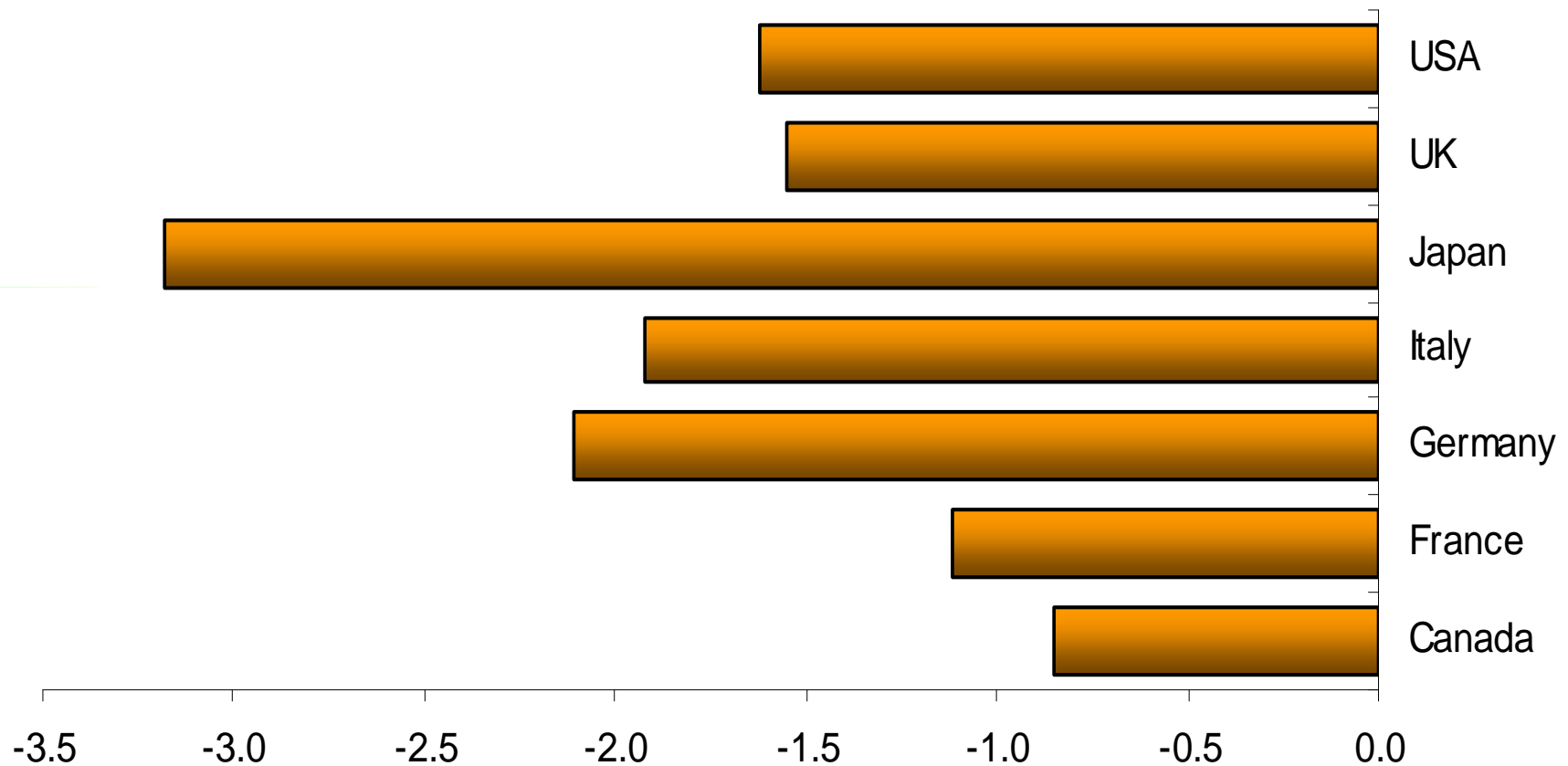
Source: OECD

- *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



Country	GDP Estimates 2009			GDP Estimates 2010		
	Jul, 2008	Nov, 2008	Jan, 2009	Jul, 2008	Nov, 2008	Jan, 2009
USA	0.8	-0.7	-1.6	-	-	1.1
UK	1.7	-1.3	-2.8	-	-	0.2
Germany	1.0	-0.8	-2.5	-	-	0.1
Japan	1.5	-0.2	-2.6	-	-	0.6
France	1.4	-0.5	-1.9	-	-	0.7
Canada	1.9	0.3	-1.2	-	-	1.6
Italy	0.5	-0.6	-2.1	-	-	-0.1
Russia	7.3	3.5	-0.7	-	-	1.3
China	9.8	8.5	6.7	-	-	8.0
India	8.0	6.3	5.1	-	-	6.5
World	3.9	2.2	0.5	-	-	3.0

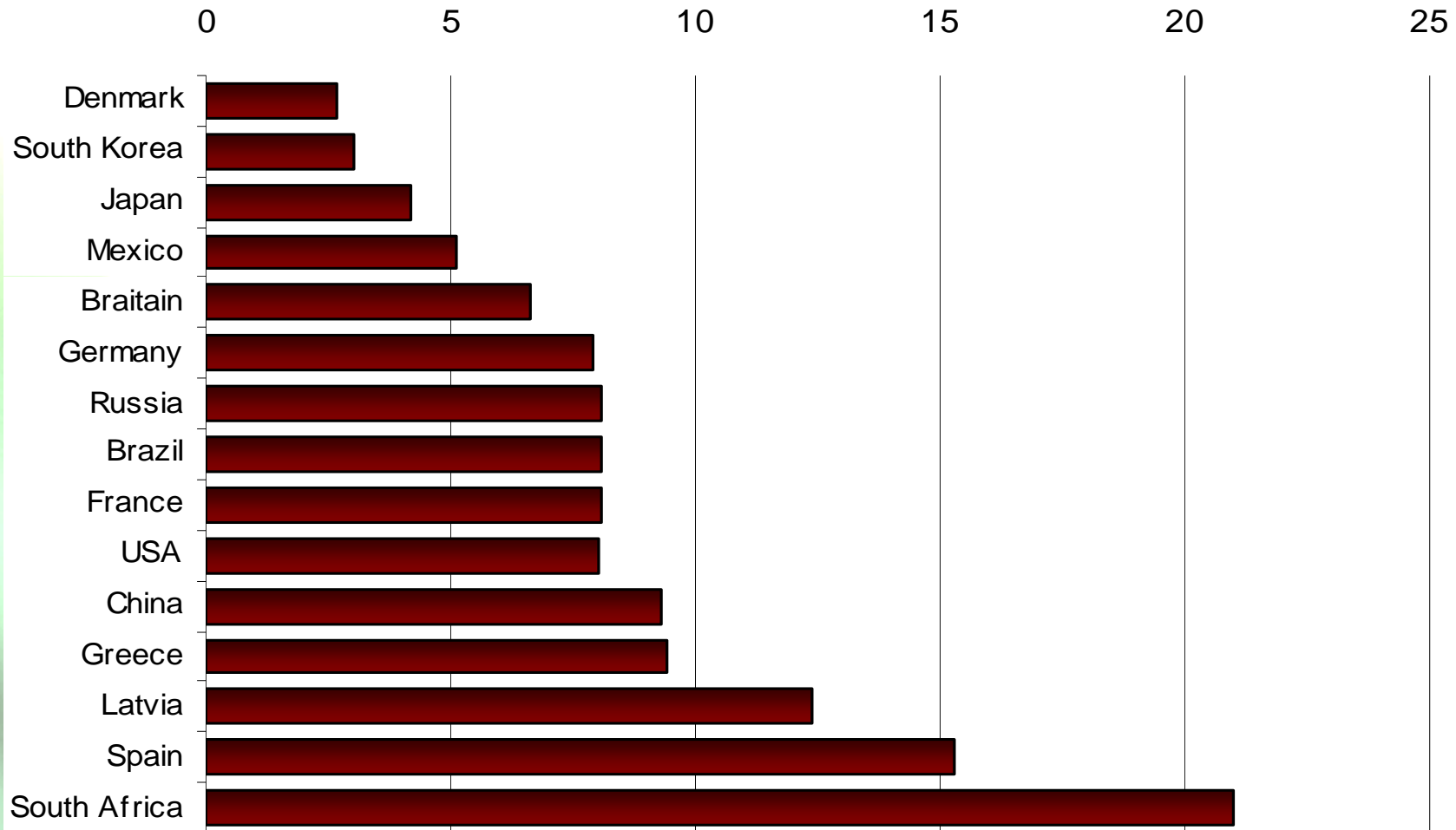
Source: World Economic Outlook updates, IMF

Note: According to an IMF press release in March 2009, world economy is expected to shrink by 0.5 per cent to 1.0 percent in 2009 and in 2010 it would grow by 1.5 - 2.5 percent

Unemployment rate in Selected Countries



January – March 2009



Source: The Economist; using Government Statistics

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.

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



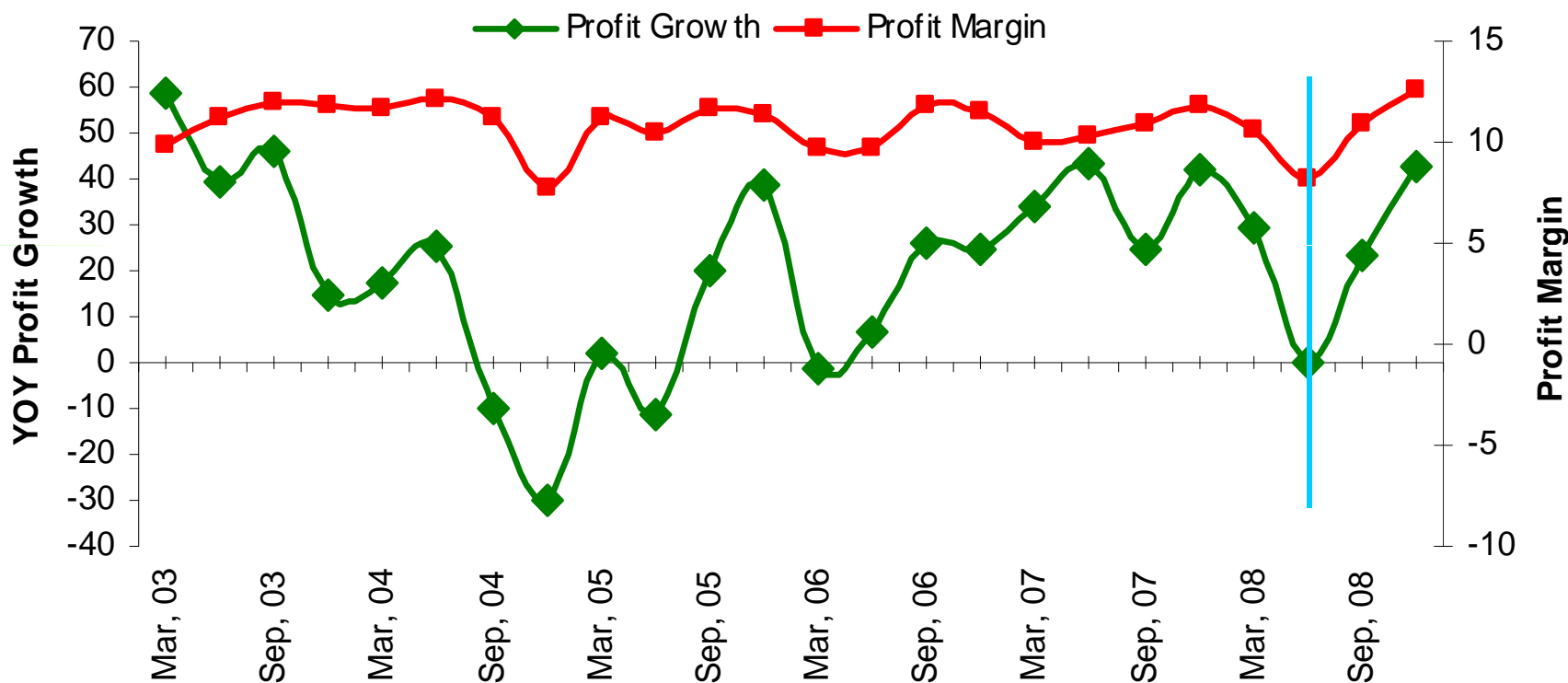
Impact on India

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

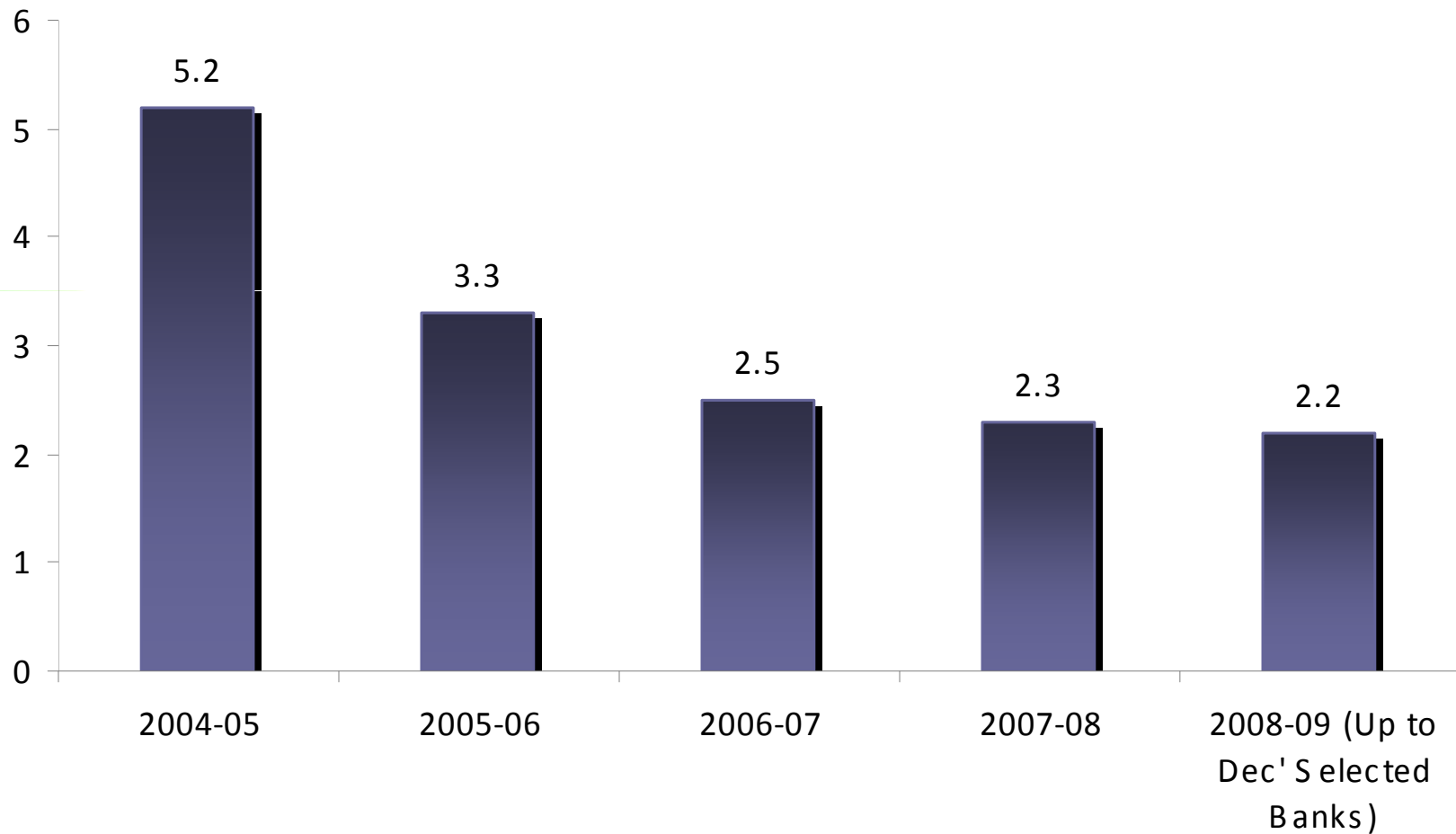


Source: Prowess, CMIE

Note: Figures for the Month of March are Awaited

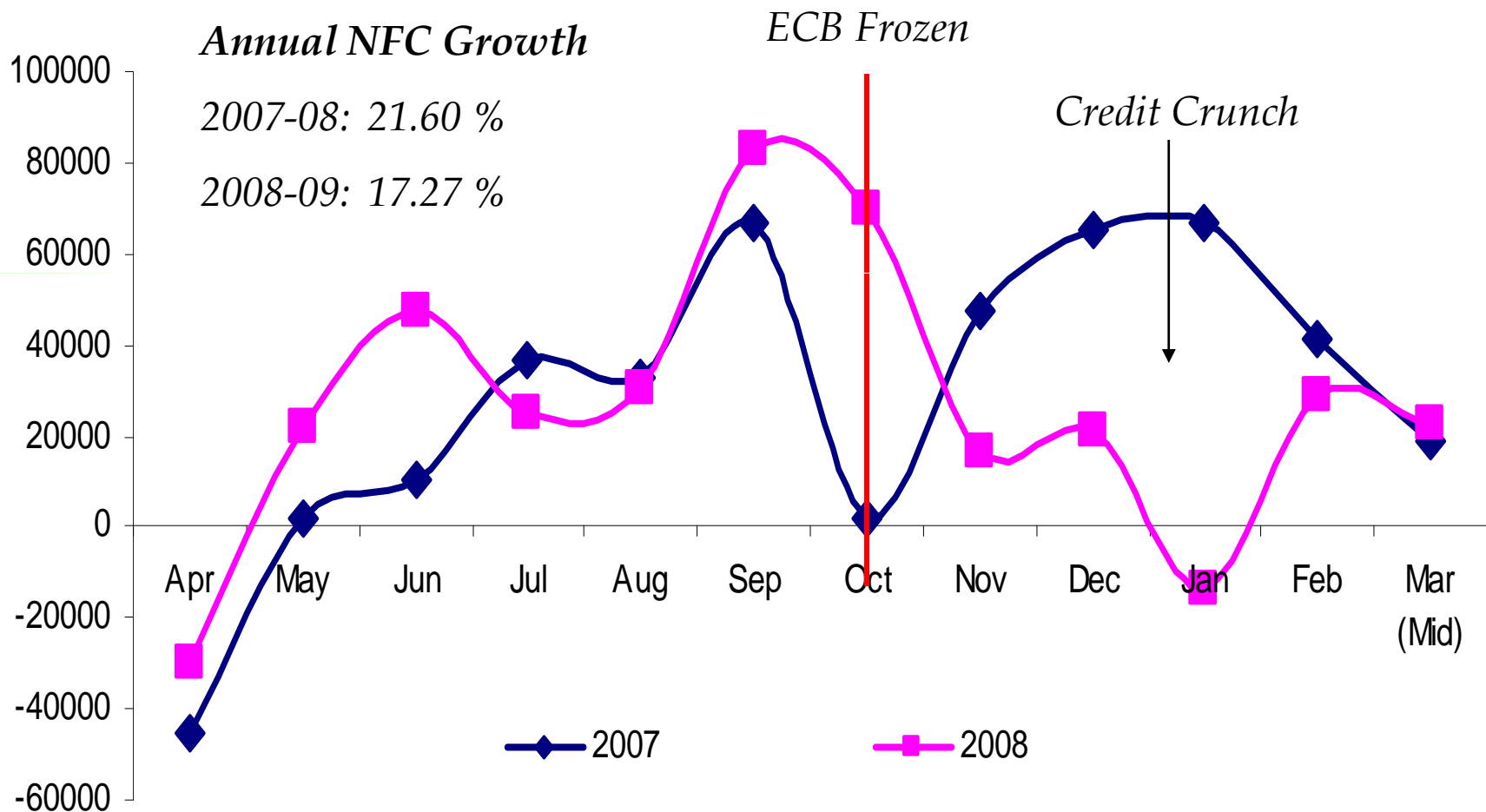
Profit Margin = PAT % to Total Income

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



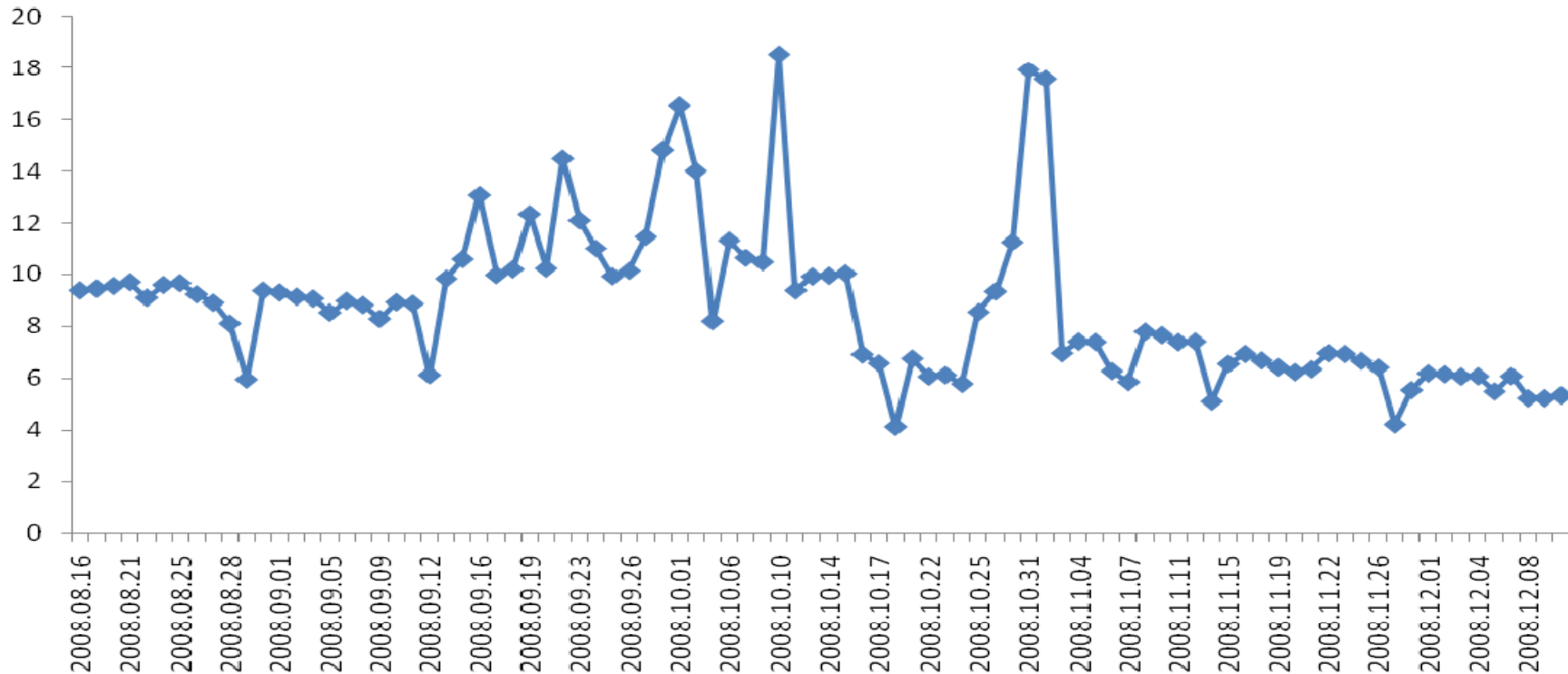
Source: Reserve Bank of India

Note: Values in Rs. Crore

Liquidity Crisis

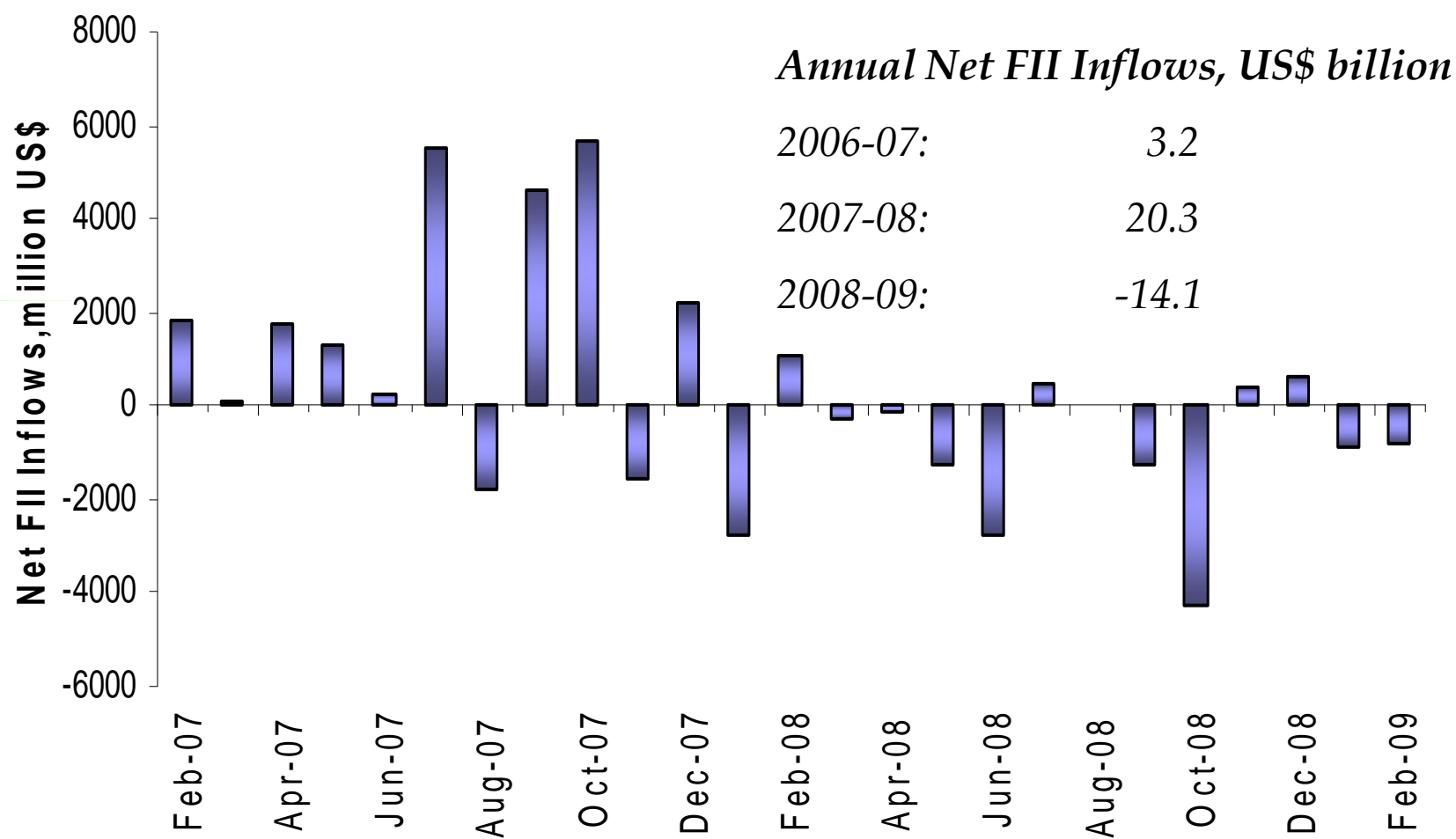


Weighted call money rate



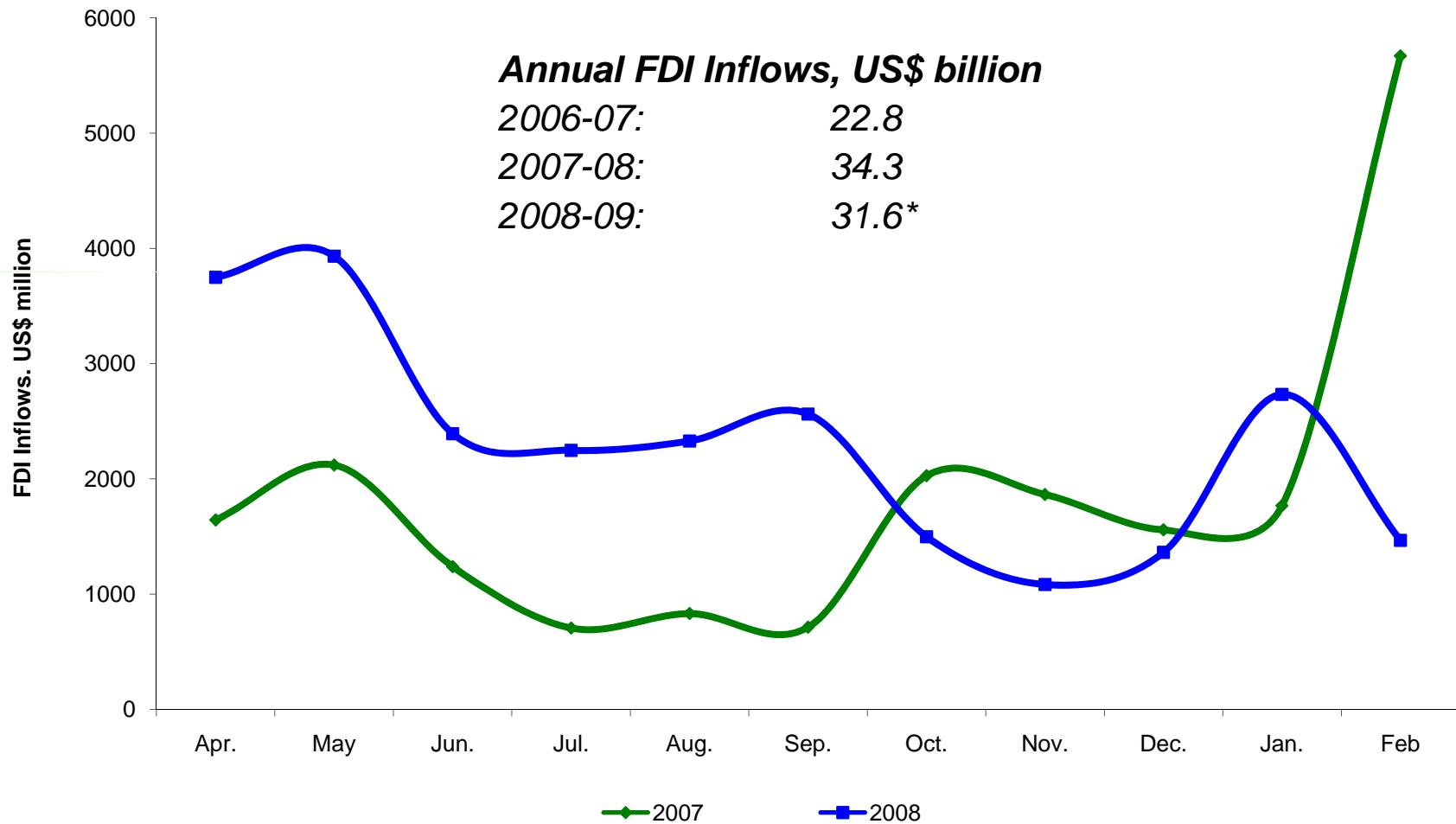
- *Inter-bank call money rate spiking to 20% in October 08*
- *Drying up funds from domestic and foreign capital markets leading to pressure on bank financing*
- *Outflow through banking channels*

Crisis and Indian Capital Market: Net FII Inflows



Source: Reserve Bank of India

Monthly FDI Inflows

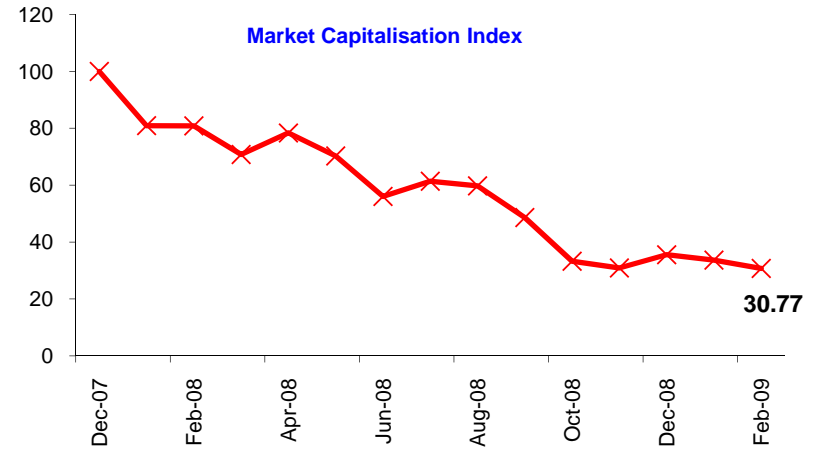
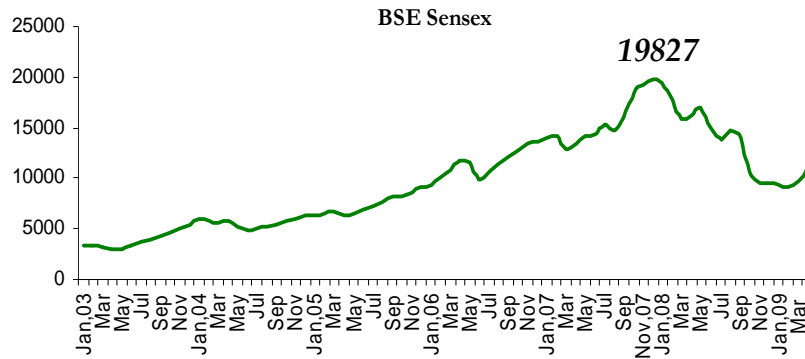


Source: RBI Bulletin, March 16, 2009

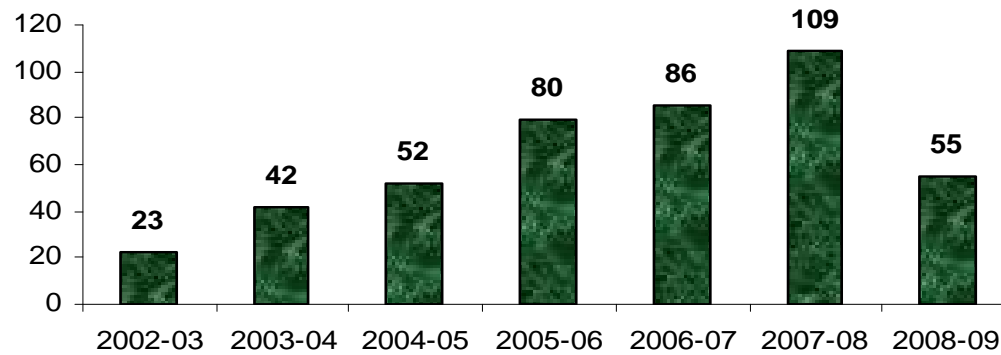
Note: * April to Feb



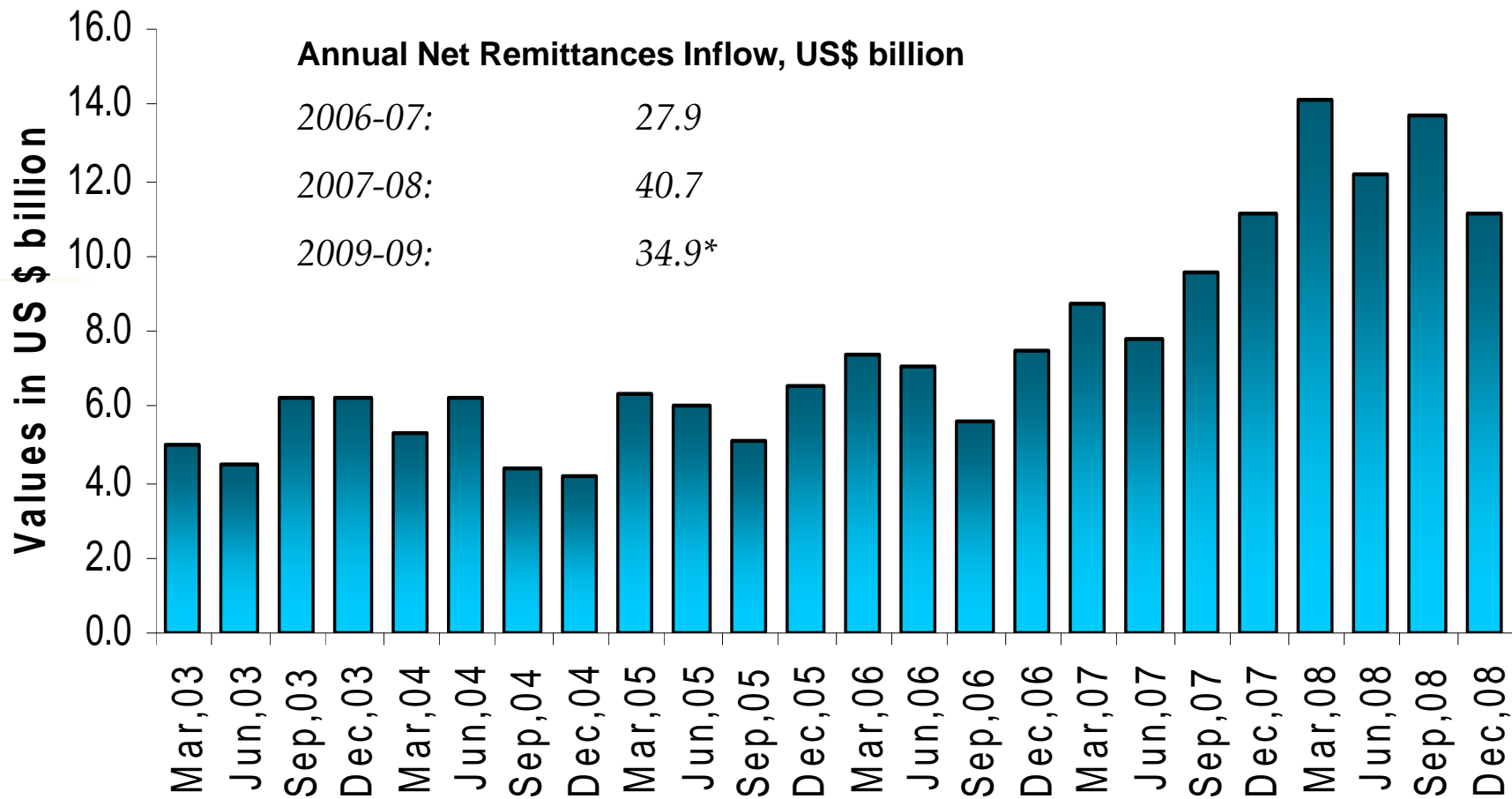
Stock Market Collapse



Market Capitalization % to GDP



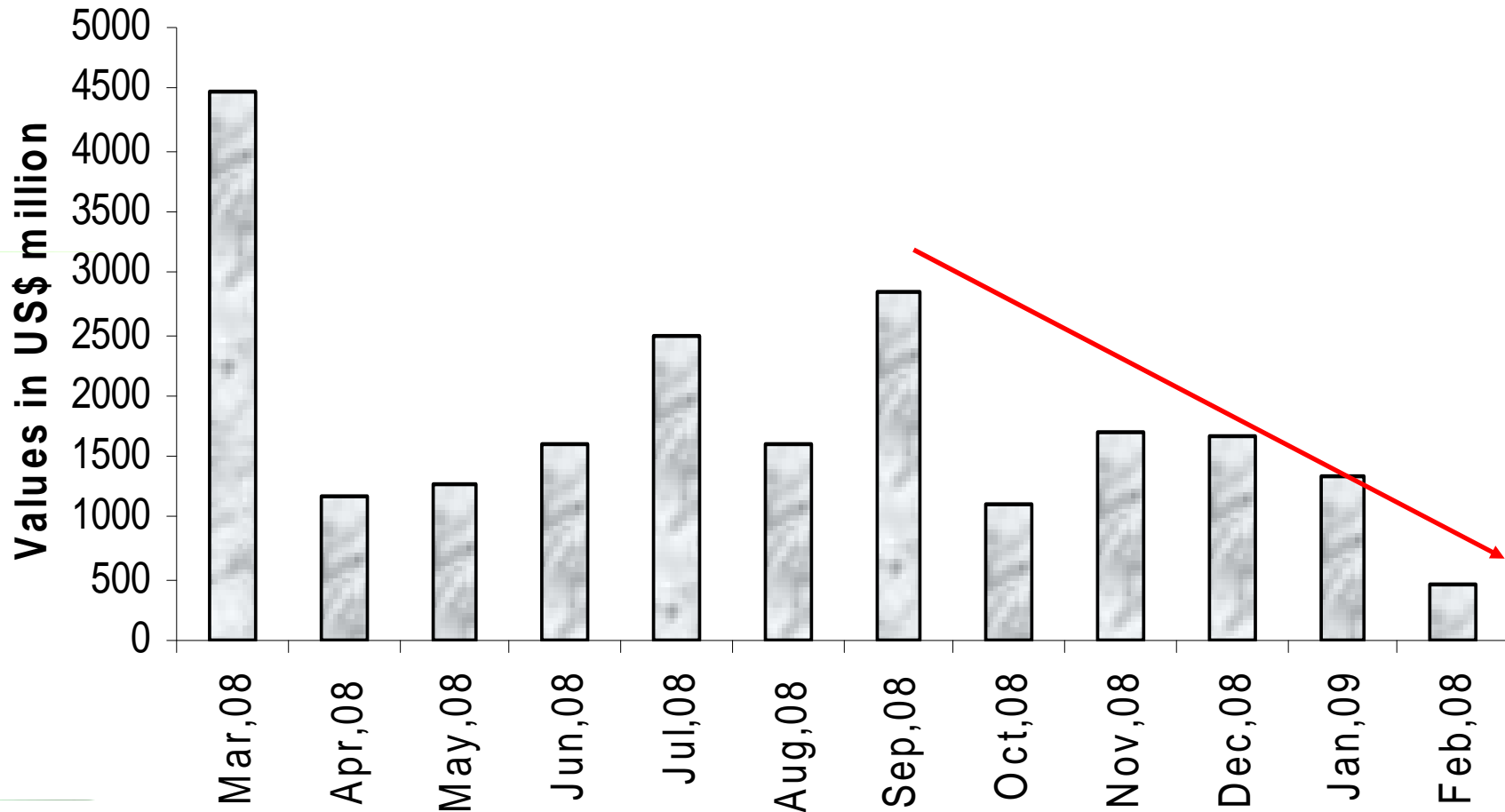
Remittances Inflow



Source: Reserve Bank of India

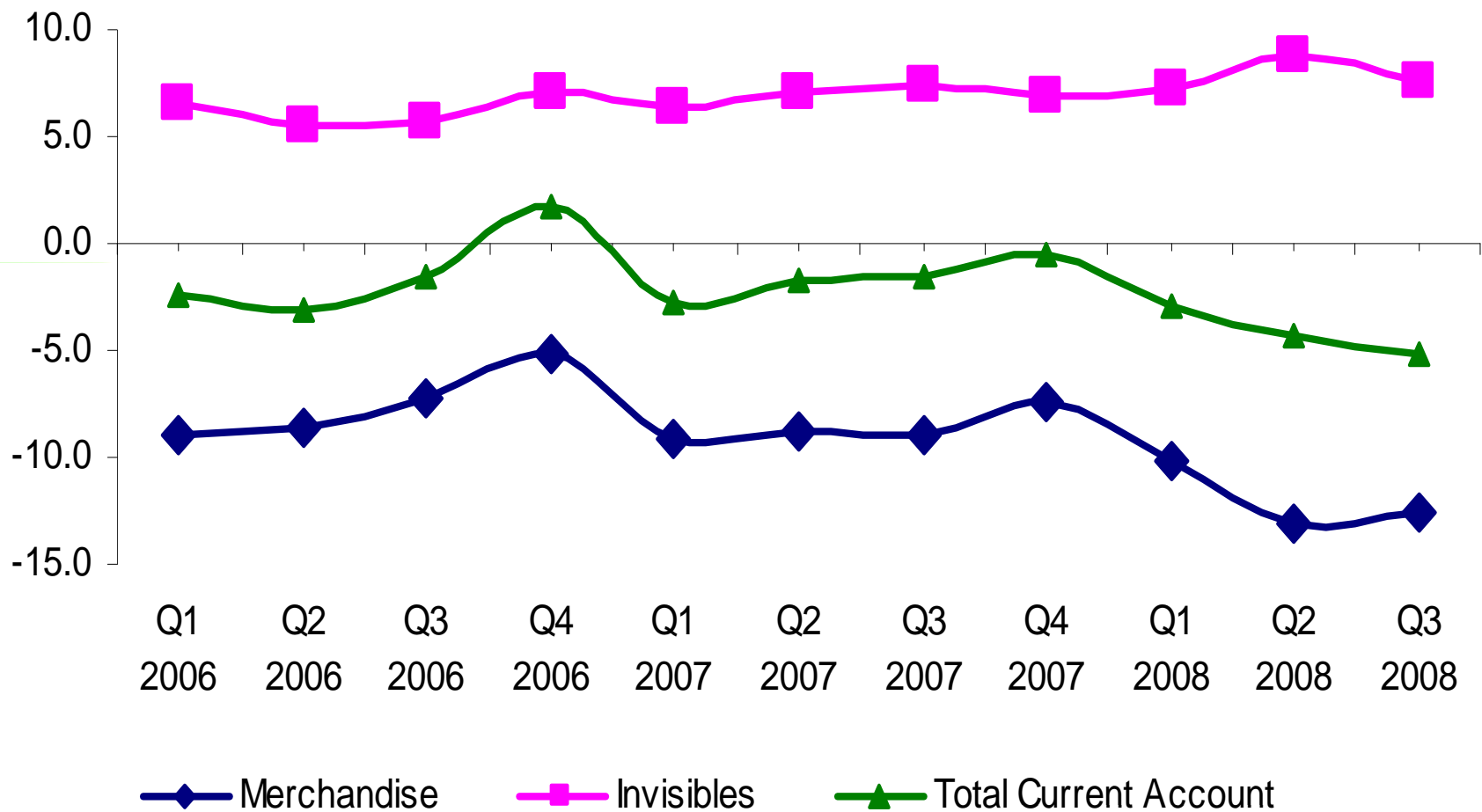
Note: * April to December

External Commercial Borrowings



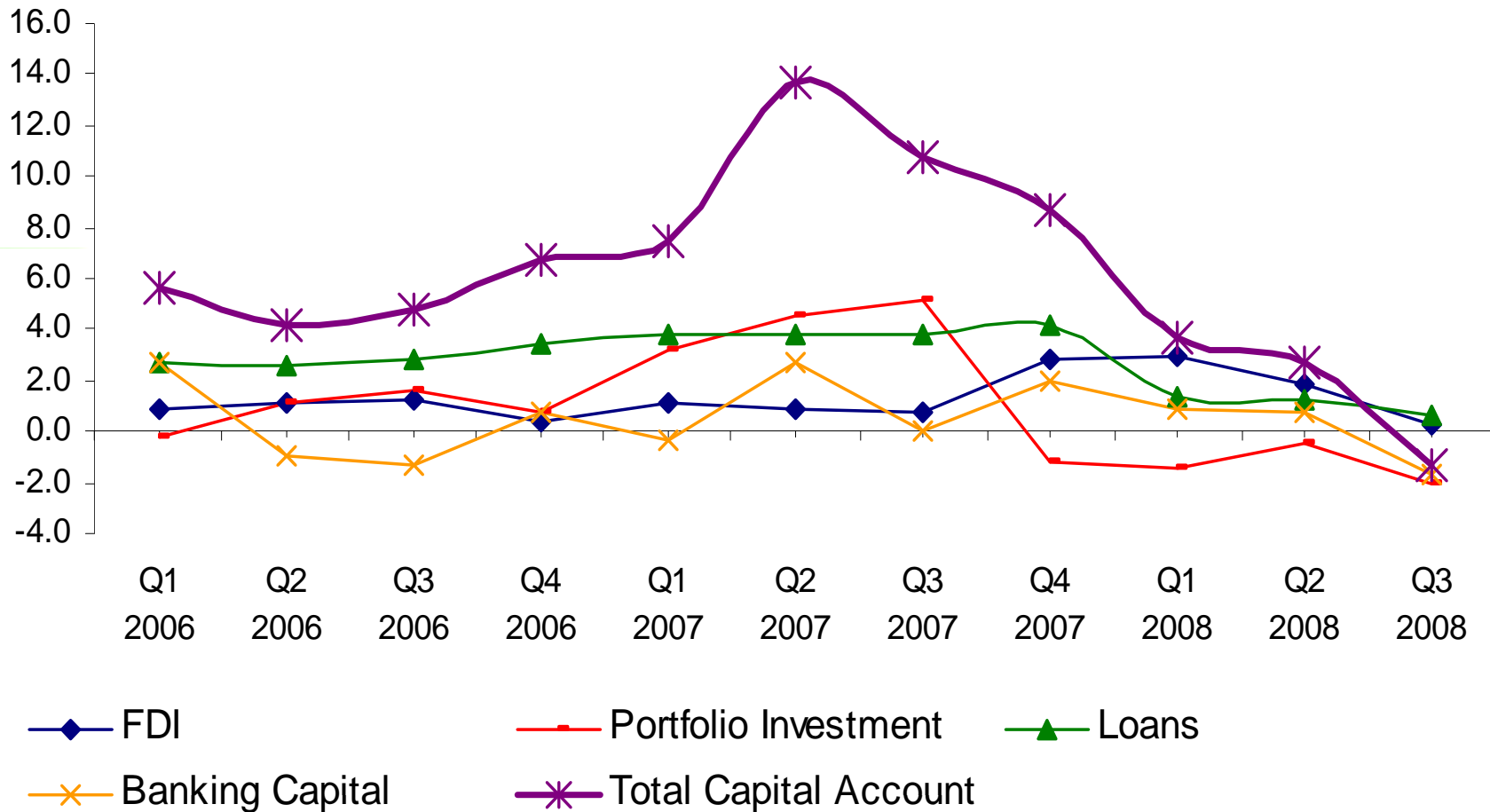
Source: Reserve Bank of India

Current Account BOP % to GDP



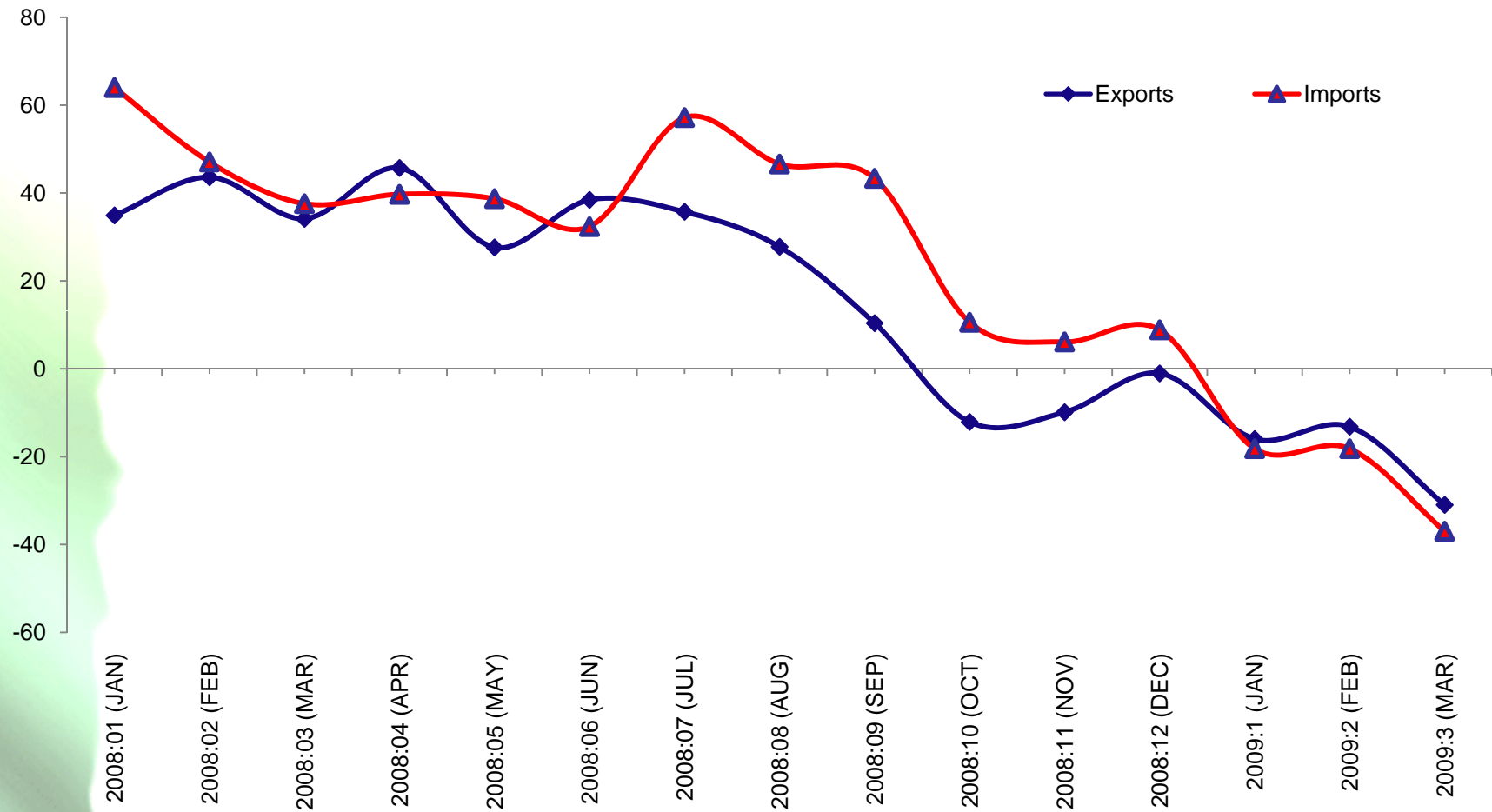
Source: Reserve Bank of India

Capital Account BOP % to GDP

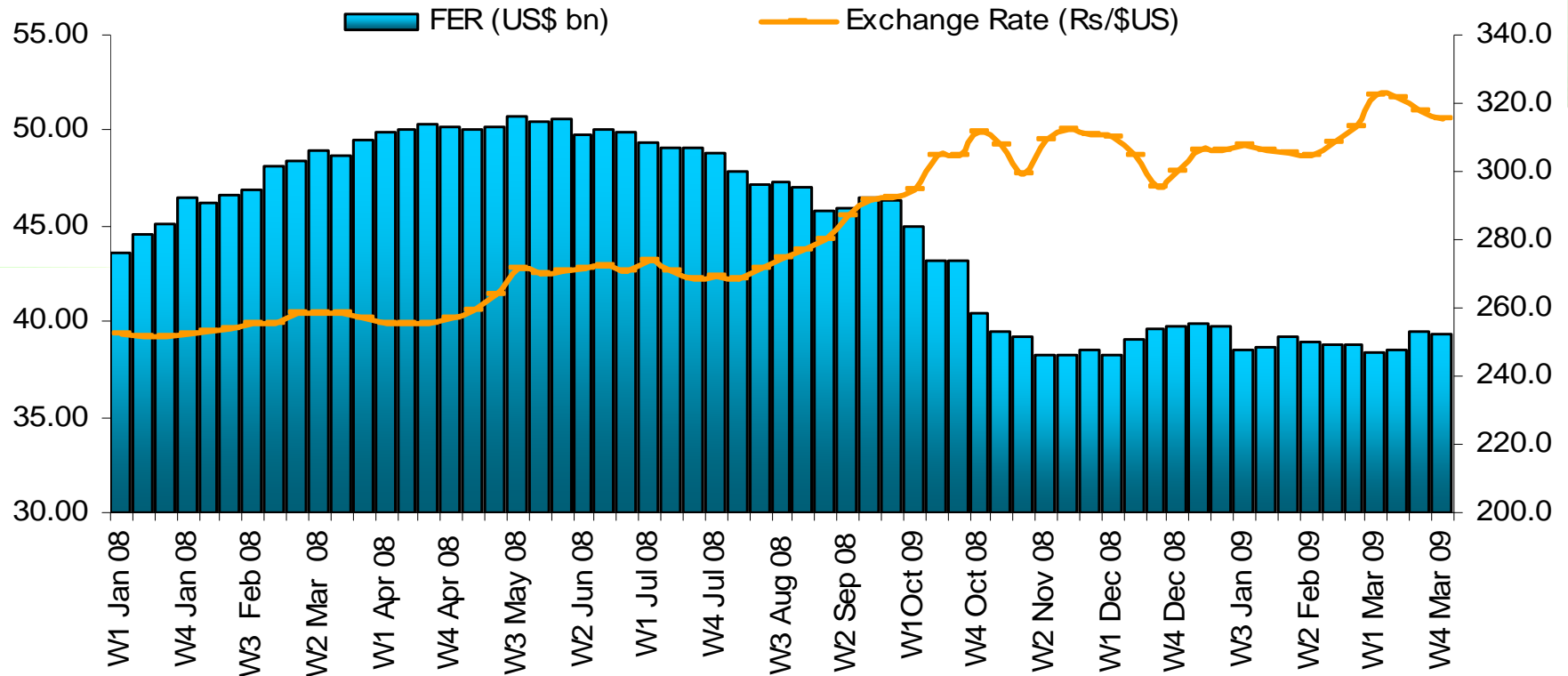


Source: Reserve Bank of India

Imports and Exports Growth



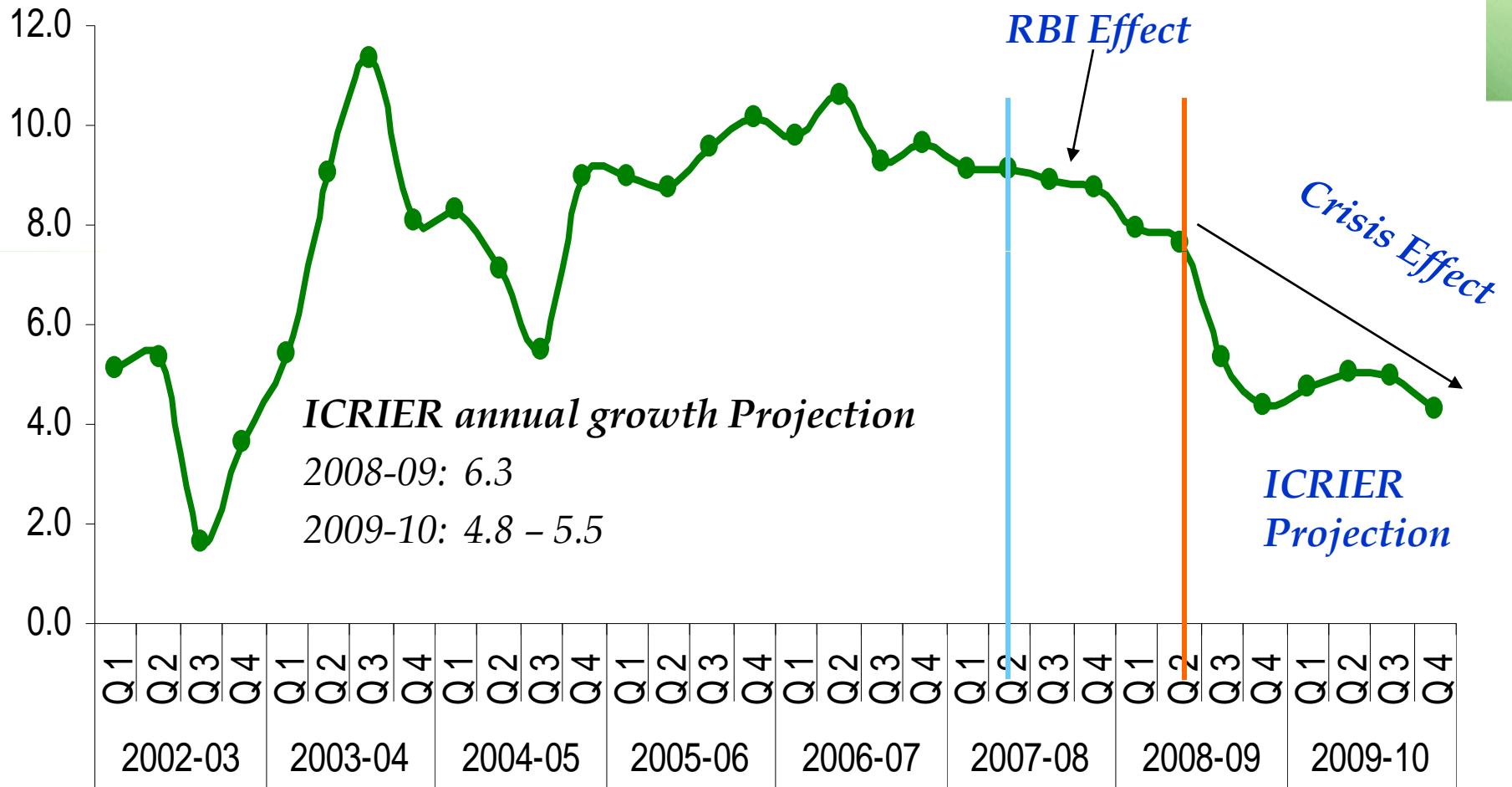
Foreign Reserves & Exchange Rate



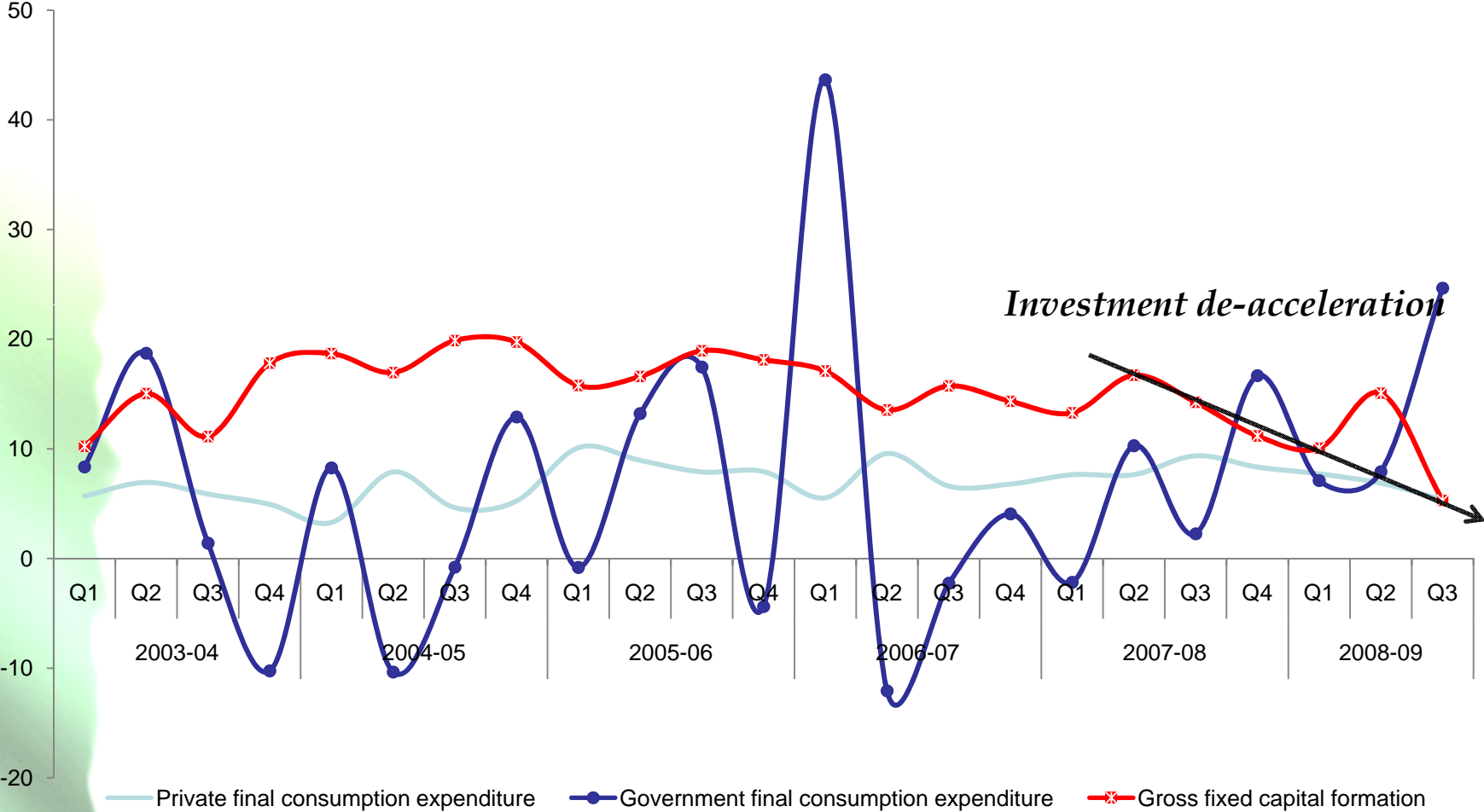
- Stock of Reserves falling from \$315 bn in May 08 to \$252 bn in Mar 09
- Around 63 percent of decline in reserve can be attributed to valuation, hence actual decline in reserve is around US\$ 20 billion
- Rupee tumbling by 27% from end-Apr 08 to end-Mar 09



Quarterly GDP Growth



Composition of Demand Growth



Decomposition of GDP Growth: China Vs India



	China		India	
	1994-00	2000-05	1996-01	2001-07
Final consumption expenditure	63.2	37.6	76.9	53.2
Gross capital formation	29.9	54.4	20.4	57.3
Net exports	6.9	7.9	2.7	-10.5
Total	100.0	100.0	100.0	100.0

Source: Computed from WDI and CSO data.

High growth driven by domestic investment, consumption and net exports in China, while the contribution by net exports negative in India



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)***

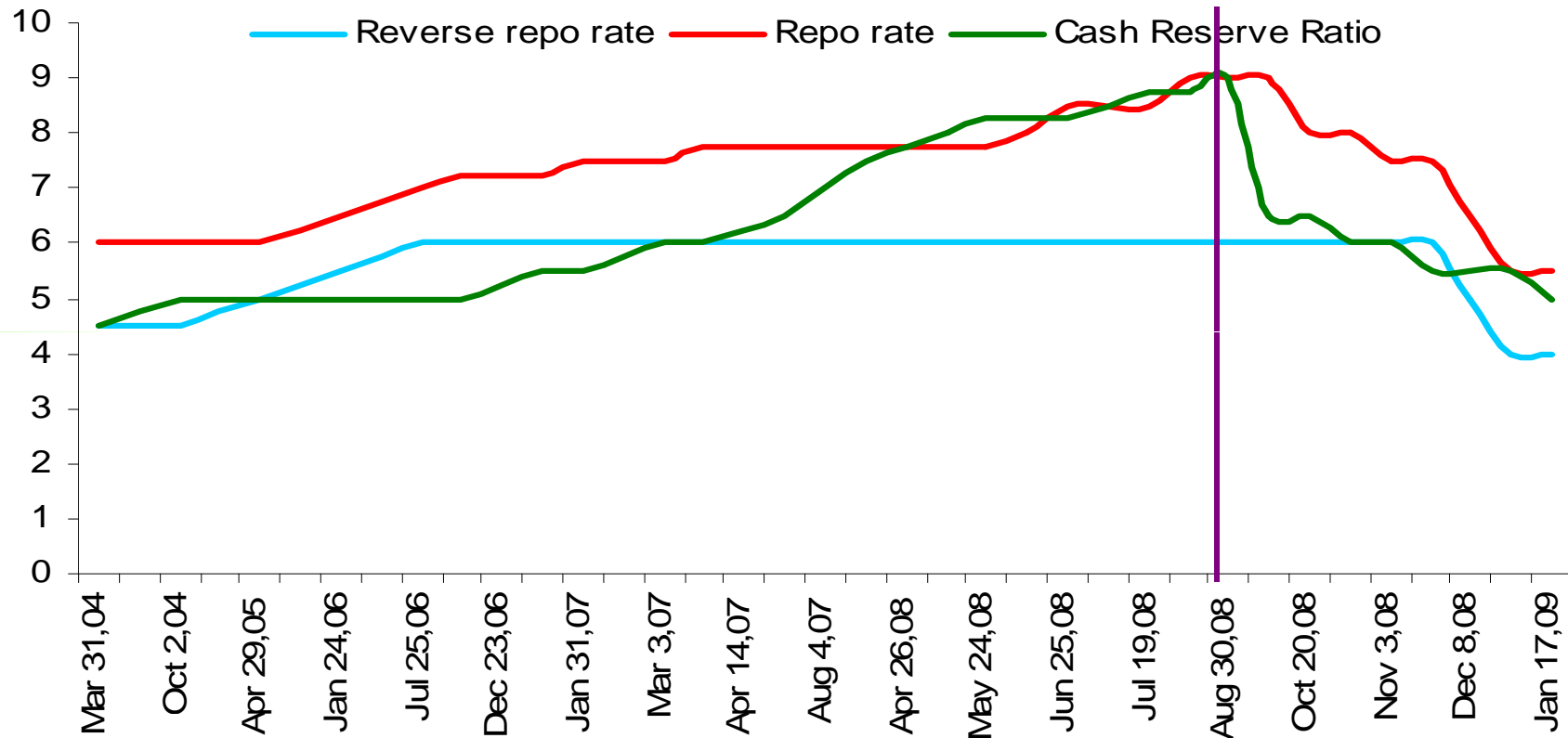
Source: Union Budget

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 5% & reverse repo rate from 6% to 3.5%
- 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: 78 % to GDP*
- *Credit Rating downgrading could hamper capital inflows and could raise the cost of borrowing*
- *Modality of fiscal stimulus*

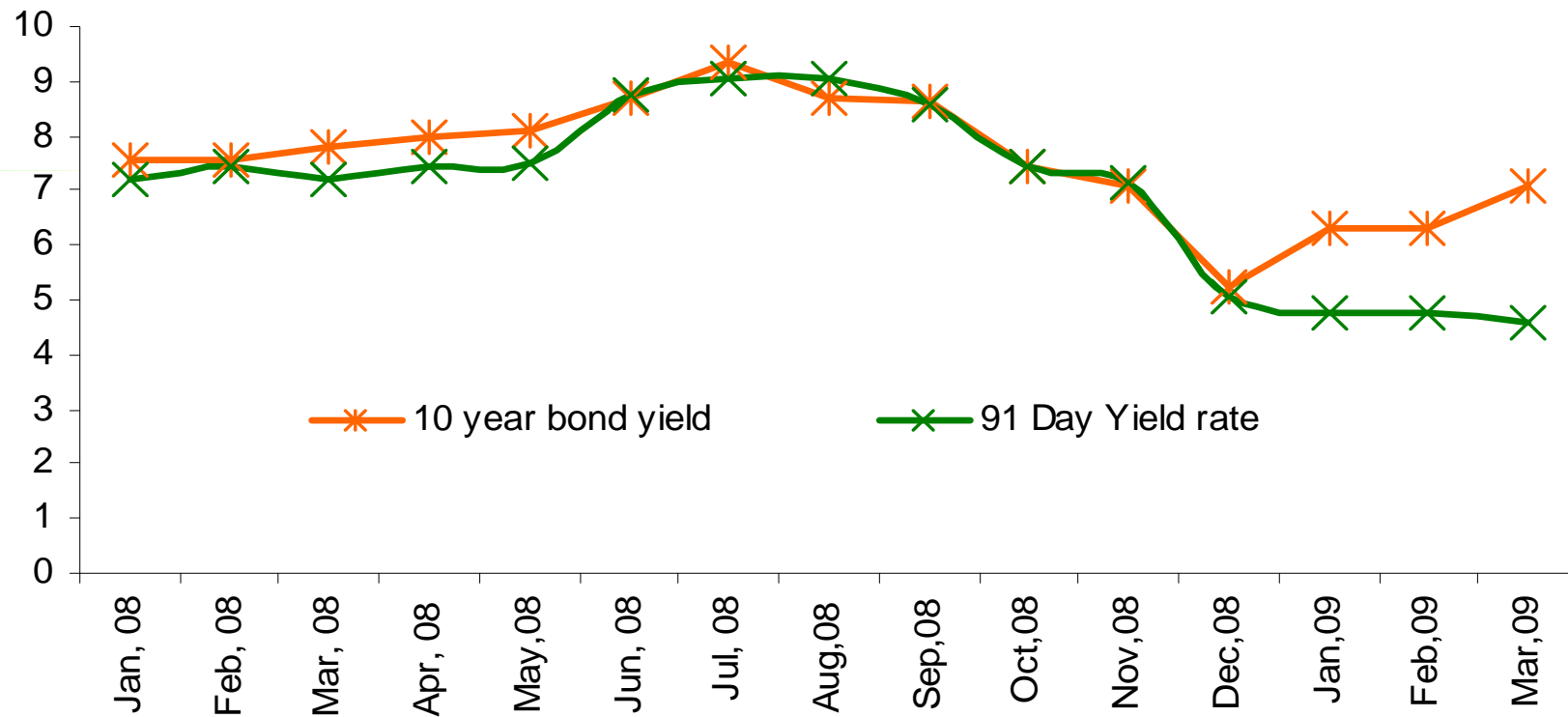
Assessment of Monetary Policy Response



- *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*



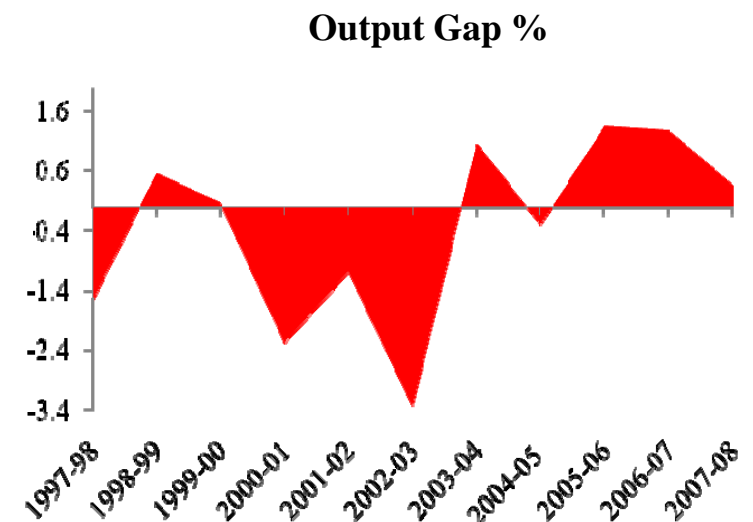
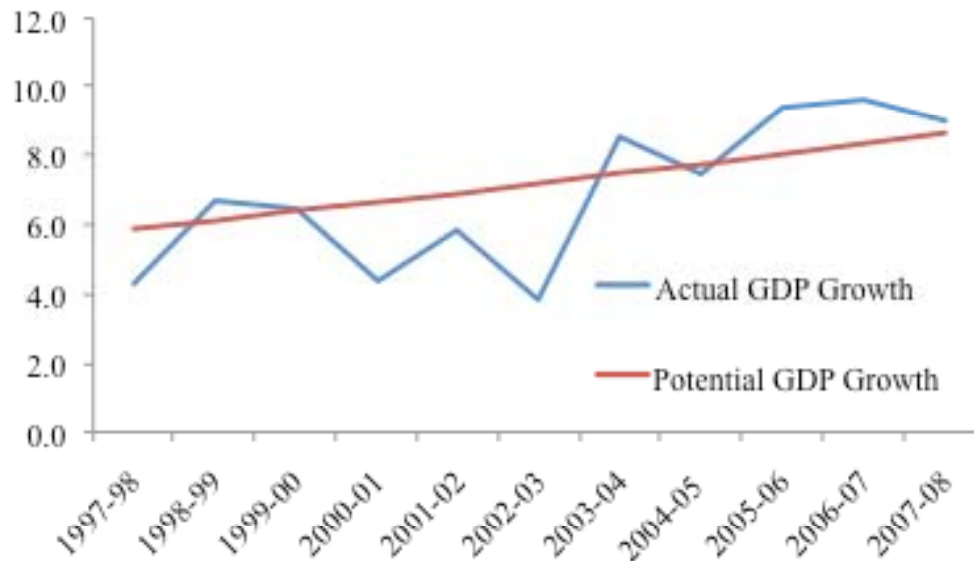
Fiscal Policy and Fear of Crowding Out





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