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Session 1 – Stimulating and Sustaining Growth, Building Resilience: the Role of Macroeconomic Policies

Stimulating Growth, Inclusiveness and Resilience: Lessons from India's experience

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Stimulating Growth, Inclusiveness and Resilience: Lessons from India's experience

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- Impact of the crisis and lessons learnt
- What are the reasons for resilience during and 2009-10 and 2010-11? The roles of monetary, fiscal, prudential financial regulations and capital flows management?
- What are the current Challenges since 2010-11?
- How India wants to come out of the current challenges and stimulate growth?
- Inclusive growth policies.
- Impact of high food inflation and policies
- Energy challenges and policies

Impact of the Crisis

- Compared to East Asian Crisis period, India is more integrated with world during the recent crisis.
- Trade integration: Merchandise exports plus imports as a proportion of GDP more than doubled. From 19.6% in 98-99 to 40.7% in 2008-09
- Financial integration was even deeper.
- Ratio of external transactions (gross current account flows plus gross capital account flows) to GDP had more than doubled from 44% in 1998-99 to 112% in 2008-09.
- Output growth which averaged 9.5% during 2005-08 dropped to 6.7% in the crisis year 2008-09. Adverse impact on exports and exchange rate.

Response to the Crisis

- India's counter-cyclical fiscal stimulus started much before the start of the crisis. It started in Feb.2008
- Farm loan waiver (debt relief package), higher salaries to govt. employees following Sixth Pay Commission Report, higher expenditure on national rural employment guarantee scheme (NREGS), increase in minimum support prices for farmers. But, fiscal deficit increased.
- Although they were not intended as fiscal stimulus, the measures became handy during the crisis. They created rural demand. It generated demand for particular industrial products.

Response to the Crisis

- Three fiscal stimulus packages were announced during December 2008 to Feb.2009. Overall fiscal stimulus of 3.5% of GDP.
- Monetary Policy: Central Bank, Reserve Bank of India (RBI) 's action comprised monetary accommodation and counter cyclical regulatory measures
- RBI's successive policy announcements reduced repo and reverse repo interest rates.
- Repo rate declined from 9% in July 2008 to 4.75% in April 2009. Cash Reserve ratio declined from 9 to 5%.
- Govt. also announced specific measures to address the impact of global slowdown on exports.

Main factors responsible for Resilience

- India's growth rate increased significantly from 6.8% in 2008-09 to 8.4% in 2009-10.
- Exports growth in 2010-11 was 37.5%.
- What are the reasons for a quick rebound and resilience of Indian economy?
- Monetary policy, fiscal policy, export policies and some of structural advantages including calibrated approach to capital convertibility etc. helped for quick recovery and resilience.
- The details of monetary policy indicates that RBI targeted three objectives: (a) to maintain comfortable rupee liquidity (b) augment foreign exchange liquidity; (c) a policy that would keep credit delivery on track.

Response to the challenge

- Like any central bank, RBI used both conventional and unconventional measures.
- Taken together, the measures put in place since mid-September 2008 have ensured that the Indian financial markets continue to function in an orderly manner. About 7% of GDP as liquidity.
- There are also several structural factors that have come to India's aid. (RBI, 2009)

-- First, Inspite of adverse shocks, India's financial markets have shown admirable resilience.

-- This is in large part because India's banking system remains sound, healthy, well capitalized and **prudently regulated**.

Reasons for Resilience

- Second, India's comfortable reserve position provided confidence to overseas investors.
- Third, majority of Indians do not participate in equity and asset markets, the negative impact of wealth loss effect is muted. Consumption demand not affe.
- Fouth, because of India's mandatory priority sector lending, institutional credit for agriculture has remained unaffected.
- Fifth, India has many safety net programmes including the Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS).
- These uniquely Indian version of automatic stabilizers have also protected the poor from the extreme impact of the global crisis.

Current challenges: Growth, Inflation, Twin Deficits

- After showing resilience, growth moderated, increase in inflation, current account deficit and fiscal deficit in 2011-12 and 2012-13 due to global (Eurozone problem) and domestic factors
- **Growth Story**:
- India's growth rate during 5 year period 2003 to 2008 was more than 8% per annum
- What drove India's growth in the pre-crisis period?
- Massive increase investment . Gross domestic capital formation increased from 25% in 2002-3 to 39% in 2007-08. Rise in productivity also.

Macro challenges

- Exports grew from 15% of GDP in 2003 to 23% in 2008.
- As mentioned above, with financial crisis, growth declined to 6.7% in 2008-09 before showing resilience in 2009-10 and 2010-11 (8.4% growth)
- External and domestic factors led to lower growth in 2011-12 (6.5%) and expected to be between 6.5% in 2012-13. Independent estimates put 6 or below 6%.
- Apart from global factors, it was viewed, policy paralysis at the Centre due to coalition politics and governance problems led to decline.
- Investment rate declined. Private consumption also moderated. Tightening of monetary policy was partly responsible for the decline.

GDP growth

Annual Rates	2005-6 to 2007-8 (average)	2008-09	2009-10	2010-11	2011-12	2012-13 (projections)
GDP	9.5	6.7	8.4	8.4	6.5	6.7
Agri.	5.0	0.1	1.0	7.0	2.8	0.5
Manuf.	11.6	4.3	9.7	7.6	2.5	4.5
Industr.	10.5	4.4	8.4	7.2	3.4	5.3
Servic.	10.4	10.0	10.5	9.3	8.9	8.9

Macro challenges

- Inflation increased significantly.
- Reasons for inflation: Food inflation, fiscal deficit, demand increase, oil prices
- Food inflation (also structural problem; protein inflation).
- Fiscal deficit increased since the financial crisis.
- Current account deficit also increased significantly to 4.2% of GDP due to decline in exports and increase in imports (increase in oil prices and increase in gold imports).
- Depreciation of rupee by 19% between June 2011 to June 2012

Table 2. Inflation for Commodity groups

Commodities	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012 August
All	5.42	4.66	8.1	3.8	9.6	8.9	7.56
Primary	7.85	7.61	11.0	12.7	17.7	9.8	10.1
Food Articles	7.78	7.78	9.1	15.3	15.6	7.3	9.1
Fuel and power	5.61	0.93	11.6	-2.1	12.3	14.0	8.3
Manufacture	4.43	4.97	6.2	2.2	5.7	7.3	6.1
Manu. Food products	3.22	4.27	8.7	13.5	3.7	7.1	9.0

Year	Gross Fiscal Deficit		
	Centre	States	Combined
2007-08	2.5	1.5	4.0
2008-09	6.0	2.4	8.5
2009-10	6.5	2.9	9.4
2010-11	4.9	2.1	6.9
2011-12 (RE)	5.9	2.3	8.2
2012-13 (BE)	5.1	2.1	7.1

Year	Current account deficit as % of GDP
Average of 2003-08 (5years)	-0.3
2008-09	-2.3
2009-10	-2.8
2010-11	-2.7
2011-12	-4.2

Reforms and growth

- Although there are current challenges, the 12th Five Year plan aims to achieve more than 8% growth in the next five years.
- Infrastructure development: Trillion dollars in the next five years.
- Reforms since September, 2012.

-Reforms in oil sector: Increase in diesel prices

- FDI multi brand retail upto 51%

- Restructuring State Electricity Boards

q Cabinet approved

--Companies bill

--Foreign investment in Insurance upto 49%

Reforms and growth

- Foreign investment in pension upto 49%
- Disinvestment road map
- Setting up National investment board
- Land acquisition bill
- Fiscal Reforms: Goods and Services Tax, direct tax code
- Monetary policy is expected to reduce interest rates as government is moving towards fiscal consolidation. Rupee is also appreciating.
- All these measures along governance reforms are expected to achieve higher growth from next year onwards.

Energy policies

- Like any other country, India's energy policy is based on demand management and supply augmentation.
- India imports 70 to 80% of its petroleum products.
- Trying to improve energy from non-conventional sources. But these are more expensive.
- But, in the medium term it has to depend on coal for power generation.
- Presently India is concentrating on energy pricing: equalizing domestic prices with the prices of imported energy.
- India also good disaster management policies during droughts, floods, Tsunami etc.

Inclusive Growth

- In the 11th plan period (2007-12), India has focused on faster and more inclusive growth
- In the 12th plan (2012-17) aspires for 'faster, more inclusive and sustainable growth'.
- Since 2004-05, Indian govt. followed inclusive growth policies

-- Focus on agriculture growth

--Increase in social sector expenditures.

--Flagship programmes to provide social services and build rural and urban infrastructure.

-- there are 13 such flagship programmes

National Rural Employment Guarantee Act

- The NREGA was notified in September, 2005. Presently it is called Mahatma Gandhi NREGS (MGNREGS)
- Objective: To **enhance livelihood security in rural areas** by providing at least 100 days of guaranteed wage employment in a financial year to every household
- Primary Objective: Employment Creation
- Auxiliary Objective: Regenerating natural resource base and creating productive assets
- Third is process objective: Strengthening grass root processes of democracy infusing transparency and accountability in governance
- Other indirect benefits: impact on women and agri. growth
- First time a rights based approach. **This is the largest ever public employment programme visualised in human history**

NREGS

- NREGS introduced a rights based framework
- Introduced legal guarantee of work. Earlier programs could be withdrawn by a govt. at will
- Decentralized system (local councils for implementation). No contractors
- Transparency and accountability through social audits and other mechanisms. Better M&E systems
- Implementation is uneven across states and districts. One hears many success stories. In some other areas nothing has changed (law has been openly flouted).
- migration is slowing down, wages are rising, productive assets are being created, and the power equations are changing.

NREGS

- Most evaluations-official and non-official show that implementation has been more effective than any of its predecessor schemes.
- In particular, the leakages have been reduced significantly in many places
- Significant rise in agricultural wage shows its success.
- The success of course is by no means uniform
- Much needed relief during financial crisis even for the urban poor returning to rural areas
- 11th Five Year Plan indicates that NREGS is going to be one of the important programs for poverty reduction in India
- NREGS can transform livelihoods of the poor but also will also lead to revolution in **rural governance**.

Inclusive Growth

- Following rights based approach since mid-2000s.
- Right to food, right to health, right to education, right to employment and right to information.
- Measures for Tackling food inflation: India has done well during 2006-08 global food grain price increase.
- In the past three years, food inflation increased in India due to global and domestic factors. Increase in prices of non-cereal food .
- Increase in prices of pulses, fruits, vegetables, milk, meat etc. Protein food inflation.

Measures for food inflation

- Several Asian countries have used the following measures (ADB, 2011).

-- Food price stabilization measures (cuts in import or value added taxes, buffer stocks)

-- Self sufficiency programs (largely producer subsidies)

-- Safety nets (targeted, cash transfers, food aid)

- In the medium term increase in agri.productivity
- Inspite of high food inflation, India managed to contain social tensions due to increase in purchasing power with programs like NREGS.

Lessons for other countries

- On growth

-- India managed high growth of 8.4% in 2009-10, 2010-11 inspite of global crisis

--Due to appropriate fiscal, monetary, prudential regulations, exp. on safety nets.

- Trying to tackle current challenges with reforms, infrastructure development and inclusive policies
- On inclusive growth
- --Focus on agriculture, on vulnerable regions and sections of the population, social protection NREGS
- Food inflation: Food management policies, social protection, increase in agri wages led to moderation of impact of food inflation.
- Also lessons on energy and disaster management

THANK YOU