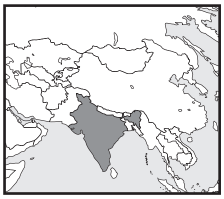
■ INDIA

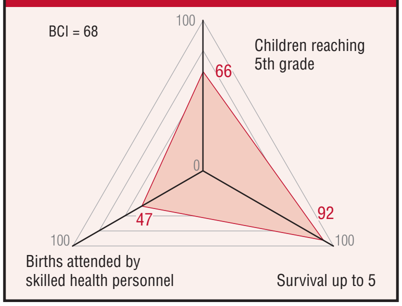
Breaks in the road and missed milestones



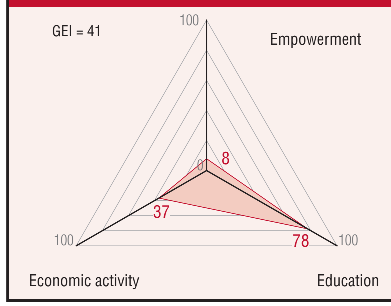
Although several indicators show that India's situation is not among the worst, many sectors have declined due to the downturn in the global economy while others have not been able to regain or maintain their growth trends. Thus, for instance, there has been drastically reduced growth in personal and consumer loans and industrial production. Inflation, increasing unemployment and decline in foreign institutional investment are some additional impacts. The Government must find a balance between economic reforms to stimulate growth and the necessary relief for 250 million Indians living in extreme poverty.

Social Watch India
Himanshu Jha

Basic Capabilities Index (BCI)



Gender Equity Index (GEI)



Contrary to the "decoupling" hypothesis, according to which emerging economies would be relatively untouched by the global financial crisis owing to their substantial foreign exchange reserves, robust corporate balance sheets and relatively healthy banking sectors, many are already feeling the impact.[1] This includes India, which has experienced a significant decline in economic growth— from a healthy 9.3% in 2007 to 7.3% in 2008. For 2009, the IMF forecasts a growth of 4.5%.[2]

The collapse of the stock market in 2008 was an indication of a further deepening of the crisis, and the markets have not been able to regain their health. Although it is hard to predict how things will turn out, it is clear that the Government's initial prediction that the country would emerge unscathed, was shortsighted. It is important to explore the impact on India's poor and marginalized populations as well as the effectiveness of the Government's responses so far.

Impacts of the economic crisis

The downturn can be seen in lower industrial growth, inflation, widening of the current account deficit, a plummeting stock market and a depreciation in the value of the national currency, the rupee. The financial crisis has also been accompanied by a rise in some food prices. According to the Wholesale Price Index (WPI), rice cost 12.8% more in March 2009 than in March 2008, as compared to a global increase of -1.0, while wheat went up 5.2% compared to a global drop of -47.5%. Inflation went from 7.7% in March 2008 to peak at 12.9% in August 2008 (it may be noted that the WPI fell sharply to 0.3% that March). The annual inflation in key commodity prices highlights the severity of the problem. Consumer price inflation reached 9.6–10.8% during January/February 2009 compared to 7.3–8.8% in June 2008 and 5.2–6.4% in February 2008.[3]

The most immediate impact of the crisis was on foreign institutional investment (FII). An outflow of USD 15 billion from the equity market was recorded between April 2008 and March 2009 as compared to an inflow of USD 20.3 billion in the same period in 2007–08. Other portfolio investments such as American Depository Receipts/Global Depository Receipts registered the same trend.[4]

The pullout of FII, which had reached USD 66.5 billion at the beginning of 2008, triggered a collapse in the stock market and as a result the Sensex, an index of the country's biggest enterprises, "fell from its closing peak of 20,873 on 8 January 2008 to less than 10,000 by 17 October 2008".[5] FII outflows also resulted in a dramatic devaluation of the rupee, which fell from 39.99 against the US dollar in March 2008 to 52.09 per dollar in March 2009. The rupee also fell against other currencies including the euro (6.5%), yen (22.8%) and yuan (23.6%).[6] Although this might sound like good news for Indian exports, the downturn in the US, EU and Middle East economies – which constitute three quarters of India's goods and services trade – translated into a lack of demand. From a 24.5% growth between April 2007 and November 2008, exports have declined to 17.6% in the same months between 2008 and 2009.[7]

There is also a likelihood that the slowdown in the export of services will intensify "as the recession deepens and financial firms – traditionally large users of outsourcing services – are restructured".[8] On the other hand, for those who have accumulated foreign exchange payment commitments, the depreciation of the rupee is not good news, nor does it assist in Government's efforts to rein in inflation.[9]

The slower growth of industrial production is evident from the fact that the yearly rate of expansion was 8.8% between April 2007 and February 2008 but came down drastically to 2.8% in 2008–09.[10] The Index of Industrial Production (IIP) registered an average growth of 5.6% during April to July 2008, slipped to a low of 1.7% in August, but recovered to a comparatively healthy 6% in September. However, the IIP registered negative growth again between December 2008 and February 2009. The growth rate of the manufacturing sector declined from 9.3% in 2007-2008 (April to February) to a projected 2.8% in the same period in 2008-2009. The core sector of infrastructure grew at a rate of 3% in 2008-2009 (April to February), down from 5.8% during the same period in 2007-2008.[11]

In addition, banks are cutting back on their credit. Between February 2008 and February 2009, the rate of growth declined substantially from 12% to 7.5% in housing, from 13.2% to 8.5% in personal loans and from 5.9% to -14.5% in consumer durables.[12]

1 Subbarao, D. "India: Managing the Impact of the Global Financial Crisis". Speech delivered at Confederation of Indian Industry Annual Session, 26 March 2009.

2 *Outlook Indi.* "IMF Lowers India's Growth Estimate to 4.5% for 2009." 22 April 2009. Available from: < news.outlookindia.com/item.aspx?658780>.

3 RBI. *Macroeconomic and Monetary Development in 2008-09.* Reserve Bank of India. Available from: <rbidocs.rbi.org.in/rdocs/Publications/PDFs/MMDAPRFull2004.pdf>.

4 *Ibid.*

5 Chandrashekhar C. P. and Ghosh, J. "India and the Global Financial Crisis". Macroscan. 2008 Available from: <www.macroscan.org/the/trade/oct08/trd15102008Crisis.htm>.

6 *Ibid.*

7 *Macroeconomic and Monetary Development in 2008-09.*

8 Subbarao, D., *op. cit.*

9 *Ibid.*

10 *Ibid.*

11 *Ibid.*

12 *Ibid.*

Interventions to check the downturn

Following the G-20 Summit in November 2008, the Prime Minister set up a group under his chairmanship to work out a detailed plan for appropriate and timely state intervention. The Finance Minister, Industry and Commerce Minister, Deputy Chairman of the Planning Commission and Governor of the Reserve Bank of India (RBI) were the other members of this group. Remedies came in the shape of "stimulus packages," the first announced in December 2008 and the second in January 2009.[13] Measures included an additional expenditure of INR 200 billion (USD 4.15 billion) covering critical rural infrastructure and social security schemes, a reduction in central value added taxes (CENVAT) by 4% across the board, specific measures on customs duties in sectors such as steel and cement, and tax concessions and enhancement of drawback rates for exports.

Some additional measures were also adopted, including: subvention of interest rates and pre and post shipment credit for labour-intensive exports; refinancing facilities of INR 40 billion (USD 831 million) for the National Housing Bank for the housing sector, and INR 70 billion (USD 1.5 billion) to the Small Industry Development Bank of India for micro, small and medium enterprises, as well as authorizing the India Infrastructure Finance Company Limited to raise INR 100 billion (USD 2.1 billion) through tax-free bonds.[14] Some monetary measures were also adopted by the RBI, such as the reduction in repo rates (the rate at which Indians banks borrow rupees from the RBI) from 9% in August 2008 to 5% in January 2009, reduction of reverse repo and the reduction of the cash reserve ratio from 9% in August 2008 to 5% from January 2009 onwards.[15]

However, there are some fundamental problems with the nature, direction and anticipated effects of these packages. One is that the amount allocated is grossly inadequate, if one takes into account the fact that the total stimulus amount of INR 311 billion (USD 6.5 billion) is a mere 0.8% of GDP. Moreover, there is ambiguity about the sectors in which the additional amount of INR 200 billion (USD 4.2 billion) is to be spent. There is already a backlog of almost eight months on actual expenditure. Adding more funds with such an existing backlog makes it difficult for the expenditure to be timely.[16]

Central budget allocations for development declined from 7.5% in 2002–03 to 6.0% in 2007–08 under the rules of the Fiscal Responsibility and Budget Management Act. The budget allocation for development in 2008–09 is about 6.8% of GDP; it has to be raised to at least 7.5% to have an overall impact, which means that "additional expenditure should be in the tune of around INR 400 billion (USD 8.3 billion) instead of INR 200 billion (USD 4.1 billion)".[17]

Reduction in CENVAT by 4% means that this will only apply to products with a duty of more than 4%, which entails a boost to consumer demand mainly for durable and luxury goods. In addition, it has been pointed out that this "will have an impact in terms of supporting economic activity only if producers respond by cutting prices and such price cuts generate demand responses".[18] This does not seem to work. For instance, in the aviation industry, the cut in fuel prices did not translate into the reduction of prices to consumers as expected.

There have been numerous demands for a massive public investment programme spent on social and economic infrastructure, providing employment and expanding domestic demand.

Job losses and the social security challenge

Loss of employment in many of the key sectors poses a serious challenge to an already minimalist social security policy. A sample survey of export-related industries carried out by the Department of Commerce reveals some 109,513 job losses during the period August 2008–January 2009. Similarly, the Ministry of Employment carried out a survey of important sectors such as automobile manufacturing, mining, textiles, metals, gems and jewellery, which together contributed to more than 60% of GDP in 2007–2008, revealing that about half a million workers lost their jobs during October–December 2008.

This poses a serious social security challenge since out of the total workforce of 457.5 million, 422.6 million are categorized as unorganized or unprotected. Of these, 393.5 million are in the informal sector and merely 29.2 million are in the formal sector. Around 38% of this unprotected workforce is made up of women.[19]

Conclusion

The citizens of India have shown their confidence and trust in voting back the current United Progressive Alliance for a second term. However, the challenge for the current Government is to strike a judicious balance between its ongoing economic reform agenda and providing social and economic relief to the 250 million Indians who, according to World Bank statistics, are still living in extreme poverty.[20] The current crisis poses a new set of problems for a country already suffering from massive inequalities and alarming levels of hunger and malnutrition.[21] ■

13 Government of India. "Additional Government Measures for Stimulating the Economy." Press release. 2 January 2009, and "Further Concessions in Central Excise and Service Tax Announced." Press release. 24 February 2009.

14 *Ibid.*

15 *Ibid.*

16 EPW Research Foundation. "Stimulus Packages Facing Institutional Constraints". *Economic and Political Weekly,* 44(04), 24 January 2009.

17 *Ibid.*

18 Ghosh, J.. "Weak Stimulus". *Frontline*, 22 January 2009.

19 Government of India. "Unorganized Manufacturing Sector in India: Input, Output and Value Added." *National Sample Survey Report 526*. Ministry of Statistics and Programme Implementation. 2009

20 Chen, S. and Ravallion, M. (). "The Developing World is Poorer than We Thought, But No Less Successful in the Fight against Poverty." *Policy Research Working Paper 4703*. Washington, DC: World Bank. 2008.

21 According to IFPRI (2008), India is home to the world's largest food insecure population, with more than 200 million people who are hungry. The report shows that strong economic growth has not translated into lower hunger levels.