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Was Indian Growth Story Any Different?

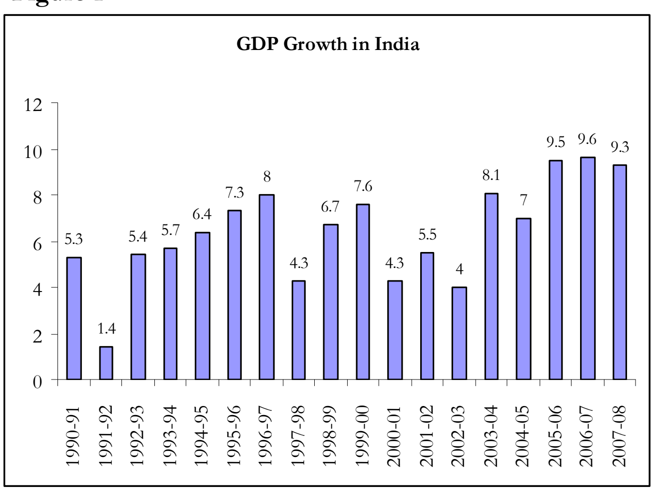
There is huge ongoing debate over the India growth story. What was hailed as a shining star amidst global doom seems to have become a part of the same doom club in 2011-12. The shift to this doom club has been rather quick like the sub-prime crisis. The sub-prime crisis moved from a small housing crisis to a full-blown financial crisis and deep recession in quick time. On similar lines, Indian economy was projected to grow by 9% in Union Budget 2011-12 in Feb-11. In just a year's time, the government statistical agency CSO had lowered the growth projection to 6.9% in Feb-12 which finally printed lower at 6.5% in May-12.

This paper takes a different track than the usual papers on Indian economy. We have already analysed India's potential growth in our previous paper which turned out to be quite prophetic in the end (India's Potential Growth- A Reality Check, Aug-11). In this paper, we look at how Indian economy has fared with its global peers on various economic indicators. We compare the Indian economy performance at both pre-crisis and post-crisis levels to understand whether Indian economy is any different from the other economies.

I. Background

One of the central questions behind this paper is to compare India's growth rates during 2003-08 with growth rate seen in other economies. The large literature and several interviews by Indian policymakers makes one believe that the 2003-08 phase was indeed home-coming for the Indian economy (Figure 1).

Figure 1



Source: RBI

After being an under-achieving country for decades, India finally adopted liberalization and market reforms in 1991. However, the reforms did not lead to consistent growth till 2003. The years between 1991-02 were highly volatile with optimism in few years met by signs of pessimism in later years. After declining to 1.4% in 1991-92, GDP picked up to average 6.5% in the period 1992-97, even touching growth of 8% in 1996-97. Growth declined in 1997-98 to 4.3% tracking South East

Asian crisis and then again increased to 7.6% in 1999-00. The average growth in the next three years was again a disappointing 4.6%.

Growth finally picked up and touched 8.1% in 2003-04 and despite another blip in 2004-05 where growth touched 7%. The average growth in next three years (2005-08) is 9.46%. This makes average growth in 2003-08 at 8.7%, infusing huge confidence in Indian economy. Thus 9% growth rates became the new normal for Indian economy. 9% growth rates seen were seen as given and policymakers aspired and debated on how soon India will touch double digit growth rates. All the plans and policies were centered around this magical growth rate of 9% leading to a virtuous cycle of sorts.

Global financial crisis of 2008 once again tested the Indian growth story. In 2008-09, growth hit a low of 6.7%. Growth rates in the Indian economy did recover sharply from the crisis touching growth rate of 8.4% in both the years 2009-10 and 2010-11. However, once again the growth rate has slipped in 2011-12 to touch a shocking 6.5%. There is a feeling that this is a temporary blip (once again) and India will again go back to pre-crisis growth rates. The logic is that the Indian growth story is based on strong fundamentals which have remained intact. Meanwhile, the recent decline is being blamed on global conditions. There is an irony in these statements as most policymakers say India will not be impacted by ongoing European crisis. But at the same time highlight that growth has fallen lower because of ongoing European crisis!

This paper looks at this issue of India's growth story in 2003-08 phase and compares it with other countries.

II. Growth Rates in India and Rest of World (1990-2017)

For our analysis, we have taken IMF's World Economic Outlook (WEO) database. IMF releases this database as part of its flagship bi-annual report in April and September. IMF also releases mid-term updates in July and January but they are for selective economies. As Apr-12, happens to be the latest WEO we take WEO database for Apr-12. We will also take inputs from the recent WEO update of Jul-12 which will change our post-crisis analysis for the select economies.

IMF releases the data on various economic indicators from 1980 onwards. It is important to note that IMF reports data as per calendar year (Jan-Dec) and in India most data is for financial year (Apr-Mar). The focus of the study is the 2003-07 period as the Indian economy picked up its growth momentum in this period. Hence we do cross-country/region performance across time-periods 1990-02, 2003-07 and 2008-13.

- **Great Moderation (2003-07):** Globally, average growth rates were much higher in the 2002-07 phase compared to 1999-02 phase. The advance economies have nearly similar growth rates but the growth rate in emerging and developing economies (EDE) is much higher. This in turn leads to higher growth rates in the world as well.

  Within the EDE club, developing Asia has highest growth rates but Latin America doubles its growth rate in the 2003-07 period. Growth in MENA and SSA regions are much higher as well. BRIC nations grew by 7.3% in 2003-07 compared to 4.1% in 1990-02.

  Overall, 2003-07 period shows higher growth for most regions barring developed countries which maintain their growth rates of 1990-02 period.

Table 1: Average Growth rates (in %)		
	1990-02	2003-07
World	3.2	4.7
Advanced economies	2.6	2.7
Emerging and developing economies	4.2	7.6
Developing Asia	6.8	9.6
Latin America and the Caribbean	2.3	4.8
Middle East and North Africa (MENA)	4.0	6.2
Sub-Saharan Africa (SSA)	3.7	6.3
BRIC Nations	4.1	7.3
Brazil	2.2	4.0
Russia	1.4	7.5
India	5.1	8.6
China	9.3	11.7
Source: IMF		

Now let us analyze individual countries:

- India grows by 8.6% in 2002-07 vs.5.1% in 1990-02. This implies India's growth was higher by 3.5% from 1990-02 levels. If we rank countries based on difference in growth rate between 1990-02 and 2003-07, India ranks 49 in a list of 182 countries. This means there are 48 economies which have growth rates higher by 3.5% in 2003-07 compared to 1990-02.
- Economies which report higher growth than India in 2002-07 over 1990-02 are mostly commodity exporting countries. This includes countries like Russia, Ukraine, Kuwait etc which grew at higher rates tracking commodity and oil price boom in the period.
- 136 countries report higher growth rate (0.1% and above) in 2003-07 over 1990-02. Countries which report growth rate more than 1% are 110 in a list of 182 countries. The number of countries in the 2% and above category is 80.
- 4o economies show lesser average growth rate in 2003-07 compared to average growth rate 1990-02. This list includes economies in conflict like Kosovo, Bosnia and Herzegovina etc. Countries like Portugal, Italy and Ireland also feature in this list which shows has a bearing on the current Eurozone crisis. When almost all countries grew at a higher rate in 2003-07,these advanced economies failed to grow even during that time. Surprisingly, even Greece managed to register higher growth rates in 2003-07 period.
- There are 6 economies whose growth is similar in 2002-07 compared to 1990-02. This includes countries like Denmark, France and United States.

Overall, country-wise research is in line with the above observation over growth rate of developed and EDE economies. Most developed countries have hardly shown any positive changes in growth. The higher growth in 2003-07 over 1990-02 list is dominated by EDE economies.

The above research also shows that 2003-07 high growth phase was not unique to India (Table 2). Many other economies also registered higher growth rates in 2003-07 over 1990-02. This is line with recent assertions by economists that 2003-07 phase itself was unique where Great Moderation phase peaked Growth rates scaled new heights amidst low inflation (discussed below) and ample financial liquidity. One can always argue whether it was Great Moderation or build-up of Great Bubble, but the fact is a large number of countries show higher growth in 2003-07 compared to 1990-02.

- **The Crisis Phase (2008-??):** The crisis continues and we do not know when it will end. However, in order for comparisons we have taken it as 2008-11. The initial reactions to the crisis was that emerging economies are likely to decouple from the developed world and will be unaffected by the crisis. This was proved wrong with growth in developing economies declining sharply during the crisis. The decline in growth rates was similar to that of developed economies.

  The average growth in developed economies declined from 2.7% in 2002-07 to 0.3% in 2008-11. Growth rate of EDEs declined from 7.6% to 5.6% in the same period. This implies a decline in growth rate in developed economies by 2.4% and in EDEs of 2%. Within EDEs, one sees higher decline in MENA region. The biggest surprise was resilience in Latin American region as it has always been affected harshly by crisis in the past. Developing Asia growth rates become lower but it maintains its lead over other EDE regions. This was mainly because the two largest economies India and China recovered quicker from the crisis.

Table 2: Average Growth rates (in %)

	2003-07	2008-11
World	4.7	2.8
Advanced economies	2.7	0.3
Emerging and developing economies	7.6	5.6
Developing Asia	9.6	8.1
Latin America and the Caribbean	4.8	3.3
Middle East and North Africa (MENA)	6.2	3.9
Sub-Saharan Africa (SSA)	6.3	4.7
BRIC Nations	7.3	4.9
Brazil	4.0	3.8
Russia	7.5	1.5
India	8.6	7.7
China	11.7	9.6

Source: IMF

Growth in the BRICs club declined mainly because of Russia whose growth declined sharply. Some economists had warned earlier that Russia was unlikely to maintain its high growth because of its reliance on earnings from oil and natural gas. This has proved true post-crisis when prices of commodities collapsed. Most of these natural resource rich economies failed to make any provisions during the boom period and suffered greatly during the crisis. They have still not been able to recover fully despite oil/commodity prices either at or higher than pre-crisis levels.

The growth curve indeed shifted lower for both developed and EDE economies. Now let us see individual counties:

- If 136 countries reported higher growth rate in 2002-07 over 1990-02, 138 countries reported lower growth (-0.1% and below) in 2008-11 over 2002-07. Number of countries showing lower growth rate by more than 1% are 117, more than 2% are 88. It is amazing to note the similarity with above reported list which showed number of countries growing in 2003-07 over 1999-02.
- Indian economy growth rate slipped from an average of 8.6% in 2003-07 to 7.7% in 2008-11. This implies a decline of 0.9% in growth rates. There are 117 economies whose growth rates have declined by more than 0.9% compared to their 2003-07 levels. So, in the above list there were 48 economies which reported higher growth than India in 2003-07 over 1990-02. However, there are 117 countries lower in the growth list in 2008-11. This does show that Indian economy performed much better than other economies in the crisis.

- Out of 48 economies which grew higher than India in 2003-07, 33 of these economies report lower growth than India in 2008-11. We had indicated above that many countries which grew faster than India were commodity/oil exporters. Just like Russia, we see other natural resource relying countries like Venezuela, Kuwait, Argentina etc in the list.
- Countries which managed higher growth rate in both 2003-07 and 2008-11 are just eight in number. It includes Uruguay, Qatar, Zambia etc. Qatar is a surprise in the list considering that it also relies on oil for its growth.
- All advanced economies register lower growth rates in 2008-11 over 2003-07. The advanced economies which are least affected in the club are Malta, Israel, Germany and Korea.

Overall, the analysis shows how the crisis lowered the growth curve of the whole global economy. Whereas 2003-07 phase shifted the curve upwards, the global financial crisis brought the whole curve down. The crisis started from developed economies and quickly encapsulated most parts of the world.

This downward shift is expected to be more prolonged as well. In 2012-17, the world economy is still expected to grow at lower rate than seen in 2003-07. The advanced economies are expected to be closer to their pre-crisis average but EDEs are expected to be still farther from the pre-crisis heights. Even more interesting to note is that Developing Asia is expected to grow at lower rate than 2008-11 lows. This is because both India and China which led the growth in 2003-07, are expected to grow at a much slower pace in 2012-17.

Table 3: Average Growth rates (in %)

	2003-07	2008-11	2012-17
World	4.7	2.8	4.3
Advanced economies	2.7	0.3	2.3
Emerging and developing economies	7.6	5.6	6.1
Developing Asia	9.6	8.1	7.8
Latin America and the Caribbean	4.8	3.3	4.0
Middle East and North Africa (MENA)	6.2	3.9	4.1
Sub-Saharan Africa (SSA)	6.3	4.7	5.5
BRIC Nations	7.3	4.9	5.5
Brazil	4.0	3.8	3.9
Russia	7.5	1.5	3.9
India	8.6	7.7	7.5
China	11.7	9.6	8.6

Source: IMF

At a country level also we get the same results. In 2012-17, 130 countries are expected to have lower growth rates lower 2003-07. This means most economies are unlikely to reach growth rates reached before the crisis.

Only 47 economies are likely to touch growth rates higher than pre-crisis levels and 7 economies expected to reach the pre-crisis growth levels. What is even more interesting is that out of the 48 economies which grew faster than India in 2003-07 over 1990-02, 6 economies are expected to grow faster in 2012-17 compared to 2002-07. These are very small economies like Burundi, Dijbouti, Libya etc. (which is expected to recover from its civil and economic crisis). 49 economies are expected to have lower growth rates than even 2008-12 period and most economies in this list are EDEs. India is also expected to be in the list which is a big disappointment for India hopefuls.

In its Jul-12 update, IMF has revised its growth projections lower. World economy is expected to grow by 3.5% in 2012 vs. 3.6% in Apr-12 projection and 3.9% in 2013 vs. 4.1% in Apr-12. Interestingly, growth projections have remained unchanged for advanced economies in 2012 and lowered in 2013 but revised lower for EDEs for both 2012 and 2013.

The growth rate of EDE is also being pulled lower as crisis has intensified in Eurozone. Growth rate of India for 2012 has been revised lower significantly from 6.8% to 6.1% in Jul-12 update. For 2013, the growth projection is 6.5% lower than 7.2% in Apr-12 WEO report. In both the years, the projections are much lower in case of India. Though, these projections are not available in details and expected growth rate for other countries is not available. But going by the recent sentiment, it is possibly that IMF revises growth rates of most economies lower in its next WEO update to be issued in Sep-12.

Summary: The above analysis clearly shows that 2003-07 phase was not unique to India in terms of growth. It was perhaps common for most economies which registered higher growth in the period compared to previous period of 1990-02. It is true that India was relatively less impacted from the crisis compared to other economies during the crisis. But India has so far not been able to lift its performance to the pre-crisis growth levels as expected earlier. What is worse is that even during 2012-17 period, it is expected that growth rates are going to be much lower than the desired magical number of 9%.

Though, these projections are not written in stone and can change considerably over the years. Even if we assume Indian performance to pick up in later years, the probability of developed countries performing below-par is really high. In this globalised world, India's growth rates are likely to be impacted. One of the central lessons of the crisis was that the decoupling hypothesis is mostly wrong. This lesson will apply in future as well.

III. Other Indicators (1990-2017)

There are other indicators apart from GDP growth. We will do a quick comparison of how India has fared on these other indicators compared to other countries:

- **Inflation:** This has been one of the central issues facing Indian economy recently. If we compare similar changes in inflation like growth above, we get some interesting facts. In 2003-07, average inflation in India was 4.8% which rises to 10% in 2008-11 period. In a list of 184 economies, India ranks 13th in list of economies having higher inflation in 2008-11 than 2003-07.Countries having higher inflation than India in 2008-11 compared to 2003-07 are: Seychelles, Congo, Ethiopia, Venezuela, Pakistan etc. Overall. 125 economies report higher inflation in 2008-11 over 2003-07.

  There are 59 economies that have lower inflation in 2008-11 over 2003-07. This includes both countries like Haiti & Iraq and Developed economies like US and UK. The first group has lower inflation because they suffered from high inflation in 2003-07 because of crisis in their own economies. The second has lower inflation because of falling demand in their economies.

  In case of growth analysis above, we saw that all advanced economies reported lower growth in 2008-12 over 2003-07. In case of inflation, one does not see a similar picture. There are advanced economies which have reported higher inflation in 2008-12 over 2003-07 despite declining growth. This includes countries like Australia, This is likely to be mainly on account of rising commodity and oil prices. The depreciating currency also played a large role as in case of UK. However, unlike EDEs inflation in advanced economies remained around their targeted zones. In case of EDEs, inflation rose sharply because of higher weights to food and commodities in their CPI baskets.

- **Budget Deficit:** High Budget deficits have been a perennial issue in Indian economics. Fiscal consolidation was hailed as the biggest reform of 2000s. India implemented Fiscal Responsibility and Management Bill (FRBM) to lower its budget (fiscal) and revenue deficits. The deficits did come down but it was mainly on account of high tax revenues which grew because of high growth in the period. As the crisis struck in 2008, India's fiscal deficits rose sharply as tax revenues declined and expenditure remained sticky.

  Another problem is that of reporting budget deficits. India usually reports the budget deficit of the centre and states separately. The focus remains on the centre's budget deficit and as a result the reported deficit is much lower. IMF reports consolidated fiscal deficits of all the economies in the list.

  It is interesting to note that despite the progress made in cutting centre's fiscal deficits in the period 2003-07, India's consolidated deficits remained one of the highest in the world in 2003-07. The average budget deficit in India was around 6.7% of GDP in 2003-07. This implies, India ranked seventh in high fiscal deficit list. Countries which reported higher inflation than India were Sri Lanka, Hungary, Egypt etc.

  In 2008-11, budget deficit in India average 8.7%, around 2% higher than 2003-07 average figure, However, in terms of rankings India slips one position to eighth. The list of countries at top changes with countries like Liberia, United States, Greece and Ireland. Though, in terms of change in deficit levels India fares much better as India's deficit slips by just 2% (from 6.7% to 8.7% of GDP). There are 84 countries whose deficits have risen by more than 2% of GDP. Countries like Ireland have moved from budget surplus 1.26% of GDP in 2003-07 to a deficit of 15.7% of GDP in 2008-11. But this is because India had much high deficits before the crisis itself.

  India is expected to maintain its high deficit levels in 2012-17 as well. Amongst the large economies, IMF projects India's budget deficit at 8.02% of GDP in 2012-17, just lower than Japan's 8.20% of GDP. Overall, India is expected to again rank seventh in the list of countries with highest budget deficits.

  In its recent Fiscal Monitor Jul-12 update, IMF projects India to have the highest deficit in 2013 amidst select major economies of the world. In 2012, Japan is expected to top the list with deficit at 9.9% of GDP in 2012 vs. India's 8.9% of GDP. In 2013, India's deficit is expected to decline marginally to 8.8% of GDP where as Japan's deficit is expected to decline to 8.6% of GDP. On India, the report says:

  > *In India, overall deficits for 2012–13 were revised upward to almost 9 percent of GDP, more than ½ percentage point higher than in the April 2012 Fiscal Monitor, mainly due to higher fuel subsidies and revenue shortfalls. A determined reduction in costly subsidies would be a strong signal of a credible fiscal turnaround. It would also allow relaxation of financial restrictions, spurring private investment and growth.*

- **Current Account Deficit:** The above indicators are well-known and emphasized in any macroeconomic research. Current Account Deficit (CAD) has emerged as a very important indicator post-crisis. The debate on global imbalances and imbalances within Eurozone have led to understanding CAD levels and its implications.

  The average CAD in India was 0.3% of GDP in 2003-07 which deteriorated to 2.7% of GDP in

2008-11. The deterioration was mainly on account of rising crude oil prices whose demand is inelastic. Last year we also saw huge rise in demand for gold despite rising prices. Both gold and oil imports led to surge in CAD to around 4.2% of GDP in 2011-12, the highest ever in India.

Unlike Budget deficit, India is much better placed as far as CAD is concerned. In 2003-07 phase, India ranked 116th in the list of countries having high CAD levels. Even in terms of deterioration, India is better placed than other countries which saw CAD levels slipping by 15-20% of GDP in 2008-11 over 2003-07. India's CAD just slipped by 2.4% making it 104th in the list. Having said that, there is no room for complacency. All attempts must be made to restore CAD levels to around 2.-2.5% of GDP.

IV. Final Thoughts

The above analysis is an attempt to compare India's growth story with other countries in both pre and post-crisis periods. The idea is to understand how unique the Indian growth story was before the crisis and whether the growth story can continue post-crisis (whenever it ends). The analysis shows that most economies had higher growth rates in the 2003-07 compared to 1990-02. The structural drivers of growth may be different but most economies gained during this unusual growth period dubbed as Great Moderation.

Post-crisis most economies declined sharply making it a global crisis. The difference was that the slowdown in Indian economy was more muted compared to other economies. This led to confidence that Indian economy was more resilient and will quickly go back to pre-crisis growth rates. However, this was again found wanting as recent growth rates in 2011-12 have been much lower than even seen during 2008 crisis. Experts had criticized that quicker recovery from the crisis was on account of large fiscal stimulus in backdrop of general elections. This jump in growth mixed with recent memory of 9% growth rates created the impression that economy was resilient. The decline has led to experts believing that potential growth rates in India have declined from 8.5%-9% to 7-7.5% (even lower as per some experts). Infact, even globally there are talks of potential growth rates declining calling 2003-07 growth rates as above potential.

The analysis also shows India's vulnerability on two other indicators - inflation and budget deficits. Inflation has become a serious concern post-crisis and high budget deficit was an issue even pre-crisis. India should also make efforts to start reporting consolidated budget deficits numbers of centre and states. The current reporting of only centre's fiscal deficit masks the true fiscal deficit of the country. We have seen how India has one of the highest budget deficits in the world and is expected to top the list in 2013. High budget deficits in turn has led to higher inflation and crowding out of private sector investment, both leading in turn to lower growth. With widening current account deficit as well, Indian economy is placed in the twin deficit club with members like Ireland, Greece, Portugal etc.

Overall, focusing extensively on 2003-07 phase as the turning point of Indian economy is not really correct. It was a phase where most countries enjoyed high growth rates and was not unique to India and few others. India clearly has to prove itself in the post-crisis period by growing over a sustainable period. India will also need support from global recovery as decoupling theory has been proved wrong over and over again. With global recovery still some years away, the focus should instead be on lowering its budget deficit and inflation levels. India also ranks very low in Doing Business Rankings compiled by World Bank – 132nd in a ranking of 183 countries. Working on these indicators will make Indian economy more resilient and investor friendly, rather than just mentioning about the magical 9% growth number.

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