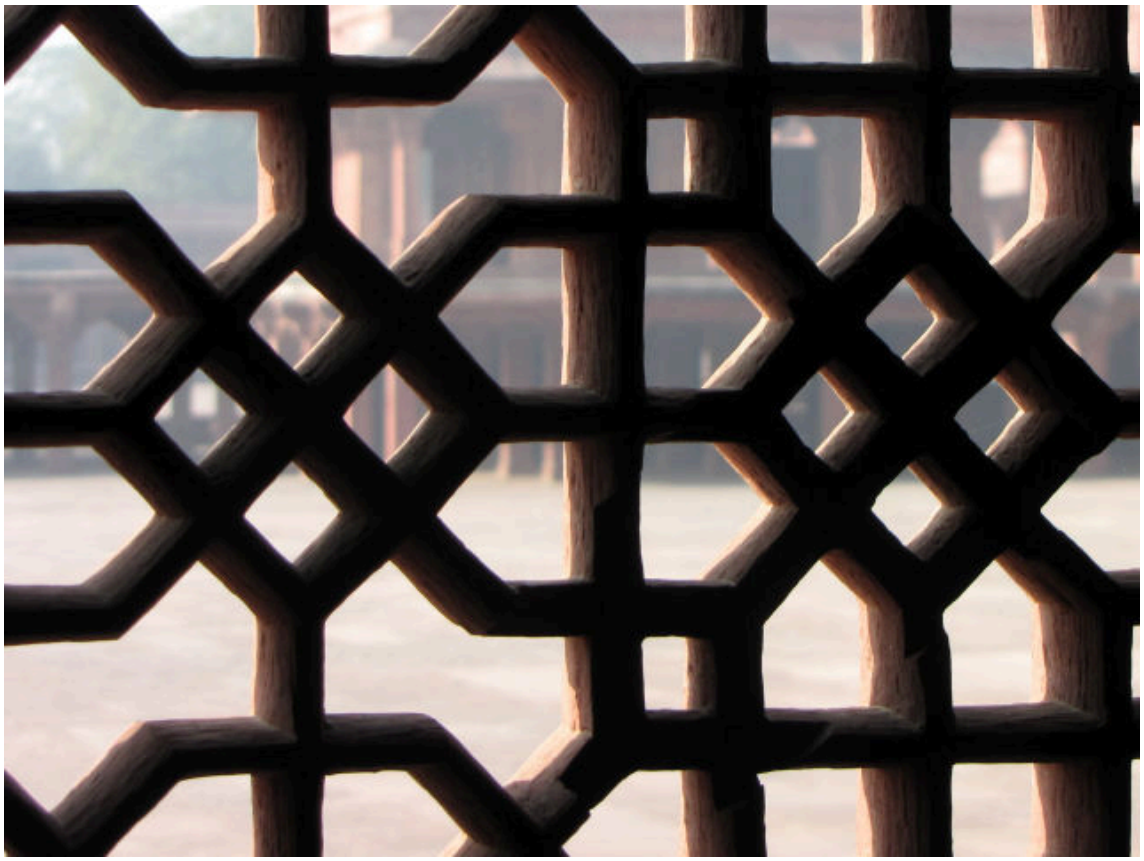
Analysis

India stands out

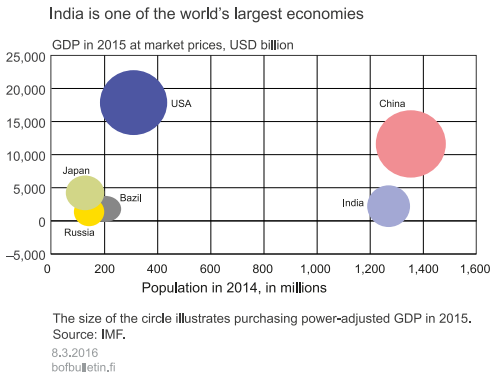
International economy | 13 April 2016

Global economic growth has been resting on the performance of the BRICS countries (Brazil, Russia, India, China and South Africa), but now these countries are facing headwinds. China's economic growth is slowing down, Brazil's and Russia's economies are contracting, and growth in South Africa is sluggish. Within this group, India's economy of 1.3 billion people stands out to its advantage. India's economic growth is strengthening and, according to forecasts by the International Monetary Fund (IMF), stood at 7.3% in 2015. IMF projects India’s growth rate to accelerate further and to reach levels close to 8% by the end of the decade, which underpins India's position as the world's fastest-growing large economy.



India is the world's seventh largest economy in terms of GDP at market prices, and the third largest economy in terms of GDP adjusted for purchasing power. However, the standard of living in India is far lower than, say, in China, where purchasing power-adjusted GDP per capita is nearly four times as high as in India. [1]

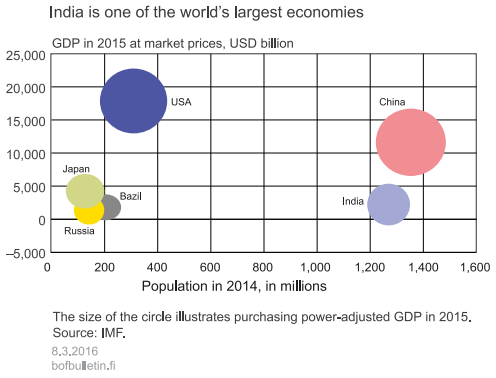
Chart 1.



India has benefited significantly from the decline in oil prices, which has strengthened its current account balance and fiscal balance and moderated the increase in inflation. Moreover, economic policy measures, including those aimed at removing obstacles to competition and increasing the credibility of monetary policy, have strengthened confidence in India's prospects. Investment and domestic demand are expected to boost economic growth.

The turbulence on Chinese markets has only had a moderate impact on India. India displays net imports in commodities, and it is relatively independent of Chinese imports. In addition, the strengthening of India's macroeconomic situation has protected the country against the increase in global financial market volatility.

Chart 2.



Faster growth would require structural reforms

India remains a poor economy where the agricultural sector still plays a significant role. Some 21% of India's population, or 275 million people, subsist on an income below the poverty line.[2] The

agricultural sector accounts for some 20% of India's GDP and employs half of the country's labour force.

An increase in agricultural productivity and a shift of labour force towards industrial and construction sectors with better productivity would allow for an acceleration in India's economic growth.

Such a structural change in the economy would, however, necessitate significant reforms. Key preconditions include reducing poverty and improving education and healthcare services. Growth is constrained by, for instance, bottlenecks in infrastructure, challenges in land management, rigidities on the labour and goods markets as well as the weakness of the business environment.

Prime Minister Modi, who entered office in May 2014, has embarked on a significant reform programme. Its implementation has, however, been slow in many respects.

Risks overshadow growth outlook

Despite strong growth forecasts for India's economy, the downside risks to the projected outlook remain significant. In particular, a weakening of the global economic environment, a slowdown in export growth and a reversal of capital inflows would constrain the financing of investment in India and complicate the current account and budgetary situation.

Internally, the main risks relate to the financial sector and the implementation of economic reforms. India's corporate sector is highly indebted and, in particular, the balance sheets of government-owned banks (accounting for 76% of India's banking sector) have weakened. To safeguard banks' ability to finance investments critical to growth, it is important to recognise the risks threatening the banking sector, recapitalise banks and implement governance reforms.

Another internal risk relates to the governing party's ability to advance the reform programme and dismantle growth-restricting economic structures.

Despite reasonably stable growth prospects, India's development remains far behind China's success story.

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Notes

1. According to IMF estimates, in 2015, purchasing power-adjusted GDP per capita was approximately USD 6,200 in India and USD 24,000 in China. The figures for India's economy have been calculated on the basis of financial years that run from the beginning of April until the end of March of the subsequent year. ↑
2. World Bank data from 2011: the poverty line is taken to be USD 1.90 per day. ↑

Keywords

economic development, India, structure of economy