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GLOBAL ECONOMIC TURMOIL – A ROAD MAP OF INDIAN ECONOMIC GROWTH

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ABSTRACT

In this global turmoil the growing economy like India, china and South America are moving considerably very high growth rate of their respective countries. India may open its FDI for service infrastructure and aviation sector which will ultimately enhance its growth rate for service and manufacturer units. India has already opened its market for foreign direct investments in 1991 and has grown considerably very high with foreign investors. China has already grown its economy in defense and aviation sectors the economy of India and china are growing simultaneously in same sectors but china is ahead of India in many ways. During international economic summit of various G8 and OPEC nations Brazil has shown its growth in the mid of financial turmoil. In recent time RBI efforts to further push down interest rate which are constrained by other factors such as the government continued dependence on large market borrowings to finance its needs. This can squeeze the bank credits available to the private sectors restrain productions and contribute to higher prices. Similarly the problem of financing a rising current account deficit mainly on account of the soaring import bills is also another pressure point. This paper focuses on constant growth of Indian economy in the period of Global turmoil.

KEYWORDS: global, OPEC, FDI, turmoil, growth, India, RBI, transaction etc.

OBJECTIVES

- To study the phase of global crises in world economy
- To study how Indian Economy survived or less affected during global turmoil
- To study the opportunities available during Global Economic Turmoil for India and Suggest how we can do better in future to tackle such crises

INTRODUCTION

The global economic activity has remained subdued in 2015 with global growth forecast revised down to 3.4% from 3.6% in 2016 and 3.6% from 3.8% in 2017. Growth in emerging markets and developing economies which account for over 70% of global growth, declined for the fifth consecutive year, while a modest recovery continued in advanced economies. It has been pointed out that there are some key transitions which continue to influence the global outlook. These include the gradual slowdown and rebalancing of economic activity in China away from investment and manufacturing toward consumption and services, lower prices for energy and other commodities, and a gradual tightening in monetary policy in the United States in the context of a resilient U.S. recovery as several other major advanced economy central banks continue to ease monetary policy.

Oil prices have further declined markedly, reflecting subdued global demand and expectations of sustained increases in production by OPEC members. With renewed declines in commodity prices and weakness in global manufacturing, headline inflation is set to soften again in most countries. Core inflation rates remain generally stable and well below inflation objectives in advanced economies. Financial market volatility has risen amid declining asset prices. Persistent financial market turbulence and the associated asset price declines could perpetuate tighter financial conditions in advanced economies, increasing the cost of capital as well as risk premiums and interest rates. Triggered by developments in financial markets in advanced economies, a more significant and lasting rise in global risk aversion accompanied by a stronger pullback of capital flows to emerging markets may generate even tighter financial conditions in these economies. Various international organizations have pointed that achieving strong growth in the global economy remains elusive, with only a modest recovery in advanced economies and slower activity in emerging markets. Further, there is need to deploy broad-based reform plans that incorporate monetary, fiscal, and structural policies to stimulate persistently weak demand, re-launch productivity growth, create jobs and build a more inclusive global economy. This is become current constraint on foreign investments including major sectors like retail insurance civil aviation and defense industry which restraints dollar inflows and push down the value of the Rupees which raises import costs and adds to the price line. So any further interest rates cuts by the RBI and fall in lending rates will now depend on government action on these diverse fronts. The Brexit voted to leave British in referendum to leave the European Union. If Britain will go or retained the EU will change dramatically. The central decision of making OPEC ignoring the interest and political considerations which led the transformation of Russian oil and gas supplies. As

NATO is not as useful as it was and at the same time in Europe especially Britain cannot bear the present cost of contribution and USA is involved with the Pacific countries to counter them in grabbing oil. Because of falling oil prices and low oil imports by America as it refines its own oil through shell. The present crisis of Iraq, Afghanistan, Syria and the support of America to Pakistan and Saudi Arabia have led to the emergence of Islamic fundamentalist which ultimate threat to India. This political failure has economic losses and global free trade become a problem. Wide fluctuation and poor economic growth in Europe and Japan is due to Euro and pound Sterling hit badly which affect global economic trade. An easy money policy will raise liquidity in these countries. Flows of investment in stronger economy like India will increase, on the other hand China will remain in economic turmoil as its focuses in internal economy but USA will remain relatively strong. Restructuring in China and declining of euro currency will further raise the status of the dollar and from this situation India will get maximum advantage in his economic and monetary policy. As India is better placed with fastest growing economy with better macroeconomic parameters due to its large and growing domestic market will be a haven for cash rich countries for global trade and investment. But due to changing global political economical and financial conditions it should alert for markets. As the world adjusts to the changes India is now in the middle of a long playing global economic drama as the world adjusts to the changes describe. In India RBI has role to contain currency stability, meeting inflation targets and thus assisting continuous growth. The central government is determined to bring down fiscal deficit and contain them within the target. Government is trying to enhance foreign direct investment and trying to simplify the procedure of foreign business. The government has negotiated the infrastructure investments by Japan, China, and other investors. Government has announces determination to control fiscal deficits, it has introduced three measures now has an agreement on inflation, target with RBI and growth objective. As questioned whether growth in agriculture, and industry-large, medium, small and cottage- have been contained by credit and interest rates or by droughts, poor irrigation, lack of storage, rigid labour laws, red tape, lack of demand, etc. Required government action in additional impediments to growth as are available infrastructure services to all-energy, water, roads, affordable housing for labour, etc. Constraining the RBI will not achieve these. RBI no longer be head of the Public debt management and managed by a Public Debt Management Authority, presumably this will include state governments will allow the government to issue as much debt as it wants. But populist pressures on government are immense, unlike on a seemingly independent RBI. It is the policies and their execution by governments that are most vital. They must encourage, indeed stimulate, investment and production. The country must also treat the Governor of RBI as a necessarily independent actor and not constrain his independence in any way.

CHALLENGES FACING GLOBAL ECONOMY

The recent slowdown of the AEs is both a cause and an effect of the sovereign debt crises in the Eurozone and the associated fiscal problems. The sovereign debt crisis in the Eurozone has not only aggravated the macroeconomic conditions of the countries of the Eurozone but also, in turn, has deeply affected the balance sheets of global banks having exposures to these countries. The political measures and announcements, co-ordinated initiatives of the Governments, and prolonged easing policies backed by unconventional measures of the central banks to provide a solution to the problems arising out of this crisis have not been able to evoke sustainable confidence in the financial markets. The fiscal austerity measures taken in response are further weakening the prospects of growth and employment in the affected European countries and, in turn, fiscal adjustment and repair of the national balance sheet are becoming an onerous task. The US continues to face high levels of unemployment, the consumer and business confidence remains shaken and the financial sector is still recuperating from the earlier crisis. The European Union and the US form the two largest economies in the world and are deeply inter-twined with each other even in such adversities. There is, thus, a felt need for concerted actions by the policy-makers across the AEs to save the global economy from falling into a downward spiral, rejuvenate the employment led recovery and pave the way for structural reforms required for sustainable and balanced growth not only in these economies but also in other economies including India.

Growth prospects

Economic growth around the world weakened significantly in Q2 2012 after being better than expected in Q1 2012. AEs and EDEs alike are experiencing moderation in growth. The numerous problems confronting the highly inter-connected global economy are reinforcing each other in retarding the pace and prospects of growth. Growth in the US has fallen during Q2 2012 while UK has been experiencing negative growth rates for three quarters now. GDP growth in the Euro area and Japan has been negative during Q2 2012. Economic growth even in the BRICS nations, which serve as an engine of growth in the developing world, has slowed down considerably. One of the other pressure points in the world economy, particularly the AEs, is the prevailing high unemployment. Unemployment in the US above 8 per cent has been persistently high. UK is also experiencing high unemployment of about 8 per cent and so is the Eurozone at around 11 per cent. Unemployment in the peripheral countries of Eurozone range between 15 per cent (Portugal) to 25 per cent (Spain). This obviously has implications for economic growth and the social fabric. China, a large contributor to the global GDP in the recent times, is slowing down too, much more than what was anticipated with growth rate for 2012 expected to below 8 per cent vis-à-vis trend rate of near double digit growth rate. This would have significant influence on the growth prospects of both AEs and EDEs.

Inflation prospects

The risk of rising inflation globally is currently not high as demand softens and commodity prices decline. Bond yields across the maturities in the US, the UK and Germany, which are relatively stable AEs, remain low and do not portend higher inflation down the line. A key risk factor to benign inflation expectations is, however, brewing. The US is facing the worst drought in over half a century. There are fears that corn and soya bean crops could fail leading to an increase in the price of these crops. Since these crops also serve as animal feed and bio-fuels, there could be an eventual increase in price of animal products like meat, milk and milk products and bio-fuels due to fall in supply. The drought could have a bearing on the production of other crops which could potentially increase global food inflation. Massive liquidity injections by the central banks of advanced countries also have the potential, particularly through the financialization of the commodity price channel, leading to build up of inflationary pressures. In the face of falling growth, rising inflation could pose tremendous challenge for policy-makers who are fighting against heavy odds to maintain the growth-inflation equilibrium.

European sovereign debt crisis – new challenges

The European debt crisis, which originated in Greece, spread initially to other “peripheral” sovereigns and has now moved to the bigger “core” European countries, such as, Spain and Italy. As is expected, when a sovereign is stressed, its banking system is likely to get embroiled and this is exactly what happened in this case also. The European banking sector was tested during the onslaught of the global financial crisis and was found to be seized with less than optimal assets amidst a stagnating economy and high unemployment level. With aggravation of the sovereign debt crisis, it was observed that these banks with fragile balance sheets could not lend to the sovereigns. On the other hand, the affected sovereigns have been finding it increasingly difficult to borrow to re-capitalise the banking sector as borrowing costs have increased due to perception of high risk associated with sovereigns. In fact, the borrowing costs in Spain and Italy are inching towards unsustainable levels of 7 per cent and 6 per cent respectively

It is important to note that a large number of banks in the Eurozone stand to suffer significant losses in the event of further escalation of sovereign debt crisis which may put many banks on the verge of bankruptcy and trigger a worldwide credit crunch. Another equally important aspect to reckon is the fund availability of the European Financial Stability Facility (EFSF) is likely to be over-stretched if bigger economies like Italy and Spain require bail-out funds. The latest twist to the story is news of regional governments in Spain facing insolvency. Recently, Catalonia and Valencia regions in Spain sought bail outs from the Spanish central government. This has made the job of policymakers even more challenging. Business confidence continues to remain weak and the Keynesian "animal spirits" have long been absent. Any further escalation of the European problem would possibly lead to a deeper crisis with a potential recessionary impact not only in those economies under sovereign debt distress but also on other economies across the globe.

IMPACT ON INDIAN ECONOMY

Growth- India's economic growth is amongst the highest in the world, helped by a reorientation of government spending towards the much needed public infrastructure. These achievements are remarkable because they have been accomplished in the face of global headwinds and a second successive season of poor rainfall. Its macro-economy is robust, and it is likely to be the fastest growing major economy in the world in 2016. The Indian economy has continued to consolidate the gains achieved in restoring macroeconomic stability in the previous year. Inflation, the fiscal deficit, and the current account deficit have all declined, rendering India a relative haven of macro-stability in these turbulent times. Economic growth appears to be recovering, albeit at varying speeds across sectors.

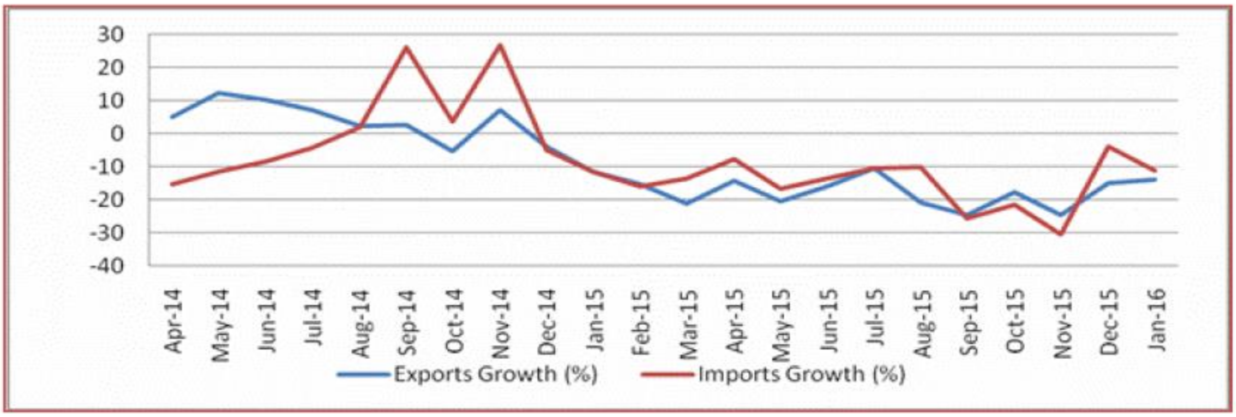
Foreign trade- During the current financial year India's exports declined year-on-year by 17.6 % to US$ 217.7 billion and this decline was broad-based. In keeping with the global trends of slow growth, imports have declined by 15.5 % in 2015-16 (April-January) to US $ 324.5 billion. Lower imports of petroleum, oil and lubricants (POL) are major reasons for the decline in total imports this year so far. The rupee depreciated vis-à-vis the US dollar but appreciated against a number of other major currencies.

India: Statistical snapshot

Indicators	FY10	FY11	FY12	FY13	FY14	FY15	FY16
GDP at FC - Constant prices Rs Bn	45161	49185	52475	54821	91698	9827089*'	2579701*''
GDP at FC - Constant prices growth YOY (%)	8.6	8.9	6.7	4.5	6.6	7.2*'	7.3*''
GDP at MP-current prices Rs. Bn	64778	77841	90097	101133	113550	11550240*'	2640568**''
Agriculture growth	0.8	8.6	5	1.4	3.7	0.2*	(-)1.1*''
Industry growth	10.2	8.3	6.7	0.8	1.2	6.6*	11.1*''
Services growth	8	7.5	4.9	7	4.6	10.2*	9.3*''
Consumption (% YOY)	8.4	8.2	8.9	5.2	4.7	-	-
Private consumption (% YOY)	7.4	8.7	9.3	5.5	6.2	6.3	-
Gross domestic savings as % of GDP	33.7	34	31.4	30.1	30.5	30.6'''	-
Gross Fixed Capital Formation as % of GDP	31.7	30.9	31.8	30.4	28.3	30.0**	30.4*''
Gross fiscal deficit of the Centre as a % GDP	6.5	4.8	5.7	4.9	4.5	4.1''	3.9
Gross fiscal deficit of the states as a % GDP	2.9	2.1	1.9	1.9	2.5	2.3''	-
Gross fiscal deficit of Centre & states as a % GDP	9.3	6.9	8.1	7.2	6.7	6.6''	-
Merchandise exports (US$Bn)	178.3	250.8	305.7	300.2	312.35	310.5	21.1^^^
Growth in exports	-2.6	40.6	21.9	-1.8	3.98	(-)1.2	(-)13.6^^^
Imports (US$Bn)	287.6	369.4	489.1	490.3	450.94	447.5	28.7^^^
Growth in imports (YOY)	-3.9	28.5	32.4	0.2	-8.1	-0.59	(-)11^^^
Trade deficit (US$Bn)	109.3	118.6	183.4	190.1	138.6	137	7.6^^^
Net invisibles US$Bn	80	79.3	111.6	107.5	115	-	-
Current account deficit US$Bn	38.4	48.1	78.2	88.2	32.4	10.1	6.2
Current account deficit as % of GDP	3.2	2.6	4.2	4.8	1.7	1.3~~	1.6^^
Net capital account US$Bn	53.4	60	67.8	94.2	33.3^^	11.8	-
Overall balance of payments US$Bn	-13.4	-13.1	12.8	3.8	15.5^^	6.9	-
Foreign exchange reserves US$Bn	279.1	304.8	294.9	292.04	304.22	316.2 ~	350.37 ~~~
External debt - Short term US$Bn	52.3	65	78.2	96.7	89.2``	86.4```	84.7&&&
External debt - Long term US$Bn	208.7	240.9	267.5	293.4	351.4``	376.4```	
External debt - US$Bn	260.9	305.9	345.8	392.1	441``	462```	-
Money supply growth	16.9	16.1	13.5	13.6	13.2	11.1&&	12&
Bank credit growth	17.1	21.2	16.8	13.5	14	8.6	-
WPI inflation	3.8	9.6	8.9	7.4	5.7#	2.1	(-)0.9^^^
CPI inflation	12.4	10.4	6	10.2	9.8	6.4	5.69^^^
Exchange rate Rs/US$ annual average	47.4	45.6	47.9	54.4	60.68	61.14	68.16@@

Source: *PHD Research Bureau, Compiled from Ministry of Commerce*

Trend in Exports and imports (%)



Source: PHD Research Bureau, compiled from Ministry of Commerce and Industry, GOI

Rupee outlook- Notwithstanding the beneficial impact on rupee from lower Brent Crude, gold, and FDI/ECB inflows, the headwinds force is severe. The downside risk from USD strength against major currencies will add to the pressure on the rupee. Indian exporters which are already not in a comfortable zone will remain vulnerable to the developments in Chinese Yuan and other major emerging market currencies. Large foreign holdings of Indian equities, shifts in global investor sentiment and portfolio rebalancing moves will continue to impact rupee. Near term outlook for rupee is likely to remain clouded by risk perceptions.

Commodity prices- Though the pressure on commodities and specifically on oil prices will likely continue but the pace of fall may not be as steep as has been witnessed in the past two years. Hence any significant weakness in the oil prices beyond the current levels looks limited. Further, with India being a net importer of oil and commodities, it should really focus on taking advantage of the lower global commodity prices and falling oil prices. Low crude oil prices will help India keep its fiscal deficit in control and lower oil prices will imply smaller oil, petroleum and fuel based subsidies. Importantly, a lower import bill will also have positive effects on inflation and inflation expectations. Commodity prices continued to fall in the fourth quarter of 2015, reflecting abundant supplies, weaker growth prospects in emerging economies, and a strong U.S. Dollar. One of the largest declines was in crude oil, which fell from $51 per barrel (bbl) in early October to less than $30/bbl.

Monetary policy stance- Fiscal deficit target of 3.9% of the GDP for this year and pegging it at 3.5% for the next has boosted investor hopes that the central bank can no longer postpone an interest rate reduction. Also with the global economic slowdown, inflation is safe from any risks. In light of this 25 basis points cut can be expected in the next bi monthly policy of RBI. However, the amount of interest rate cuts could be limited since inflation continues to be a concern given the erratic monsoons, which have pushed up food prices. The RBI has already cut rates by 125 bps since January 2015. Existing rigidities in the banking sector have allowed only about half of those rate cuts to get passed on. Bank base rate have adjusted about 60-75 bps over this rate reduction cycle. On top of that, hopes of any further reduction had been dashed as bond yields started to rise. Rate cut will provide a much needed mood lift to markets that have been sulking since the turn of the year. Nonetheless, careful economic management as regards monetary and liquidity policy, inflation, growth outlook, and fiscal consolidation is essential for sustaining India’s growth. As the global prospects and policy challenges point towards a weak global recovery, the task is to sustain India’s achievements in a more difficult global environment as the correlation between global and Indian growth has been growing significantly.

OPPORTUNITIES ARISEN FROM GLOBAL CRISIS

The unfolding global economic crisis came in various forms and presented many challenges but these also brought opportunities. The extent to which the challenges engendered by the crisis can be converted into opportunities by the country so this has given chance to developing countries to mature in various dimensions. The international system and concept of power also undergone a shift and had serious repercussion on developing countries and develop more responsibilities for global economic and financial stability.

Competitive global markets - Against the impact on international business and declining in the exports has demanded a change from the Indian policymakers to maintain the domestic demand work towards gaining investor's confidence. The Indian government has option to explore other ASEAN countries rather solely depending on the developed countries Europe and US with keeping incentive for exporters to be competitive globally. For this strong governance reforms are required from government to improve overall competitiveness of the Indian economy.

Food grain led growth - The government put more emphasis on enlarging government expenditure for the developments and growth rather on new speculative bubbles that caused global financial crisis. This put focus on agricultural sector and production of food that directly improves the livelihoods of the people engaged in particular sector. The new paradigm requires food grain-led growth strategy on the basis of peasant agriculture sustained through larger government spending towards the agriculture and rural sector, which can simultaneously remove both recession and food crisis in India.

Stand in global economic agenda - With the global financial turmoil the emerging markets have got the prominent stand in global economic agenda. The policy choices made by the emerging countries India and China has made their role active internationally on key policy issues and strengthening global economic governance for their long-term interest to take the lead on global challenges.

Strategic Industrial advantage - At the time of crisis when the automobile companies in US were facing recession and received public funds from government to overcome their short comings. In the same phase emerging country like India has got the competitive advantage over the industries' of developed country in terms of operating condition, novel market segments, dynamic market shifts, valuable learning opportunities and enhanced indigenous competition. In structural terms the growth of business capabilities available through market transactions provides international businesses with an increasing range of options in terms of where value is added and whether this is managed under common ownership or contracted externally. These increased strategic and structural options are likely to play an increasingly important role in future competitive adaptation.

LOOK AHEAD

If the world economy remains weak, India's growth will face considerable headwinds. For example, if the world continues to grow at close to 3% over the next few years rather than returning to the buoyant 4%-4.5% recorded during 2003-2011, India's medium-term growth trajectory could well remain closer to 7%-7%. In the current global environment, there needs to be a recalibration of growth expectations and consequently of the standards of assessment.

The government needs to examine exports, consumption, and private investment as there are possibilities for exogenous developments, from a rebound in agriculture to a full-fledged international crisis, uncertainty arising from the divergence between growth in nominal and real aggregates of economic activity. To sum up, India is bright spot in the global economic system, projected to grow at a robust pace in the times to come. India stands out as a haven of stability and an outpost of opportunity. Its macro economy is stable, founded on the government's commitment to fiscal consolidation and low inflation. If the reforms agenda is implemented effectively at the grass root level, we should expect to see India progressing rapidly with increased presence in the world economic system in the coming times. Given the fact that the government is committed to carrying the reform process forward, aided by the prevailing macroeconomic stability, India has every potential to raise the economy's growth momentum and achieve growth rates of 8% or higher in the coming years. Further, sustaining high rates of GDP growth over a longer period will require a recovery of export growth along with reforms in infrastructure sector, especially power and roads. On account of India being a significant, resilient and sustainable economy there is hope for a transformed India to emerge, where the economy will be in double digit growth trajectory, moving forward.

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