

## India and the Emerging Economies

Global developments have an impact on the domestic economy. Changes in the monetary policy stance of the Fed or the ECB do have an indirect bearing on the policy stance of RBI as it affects the exchange rate through flow of foreign funds. Similarly developments on the oil pricing front have a deep impact on domestic fiscal balances and inflation. Past few months have seen some major economic developments globally which are mentioned below;

- China in order to counter slowdown in the economy devalued the renminbi. The idea was to boost exports which would provide competitive advantage over the other Asian countries
- European Central Bank continued with its policy of quantitative easing for another 6 months till March 2017 at € 60 bn a month. The ECB is confident of a turnaround taking place by 2017.
- Federal Reserve is expected to increase interest rates in its next policy action as growth tendencies are strengthening over time with unemployment being under control.
- Japan continues to follow an accommodative monetary policy to provide a stimulus to the economy.
- Oil prices are to remain at present levels as OPEC has decided to hold on to its output levels and not reduce the same notwithstanding the low price of crude oil.

Against this backdrop, this report compares the performance of India and other emerging markets across various parameters.

### Growth Indicators

**Table 1: Growth indicators (%)**

Quarter Sept'15	GDP	Unemployment rate
Brazil	-4.5	7.9
Russia	-4.1	5.5
India	7.4	4.9
China	6.9	4.1
South Africa	1.0	25.5
Turkey	3.8	10.1
Indonesia	4.7	6.2
Mexico	2.6	4.4
Malaysia	4.7	2.5
Hong Kong	2.3	3.1
South Korea	2.7	3.1

*Source: Economist*

- India witnessed the highest growth in GDP in the September quarter followed by China, Malaysia and Indonesia
- South Africa grew by just 1% while Mexico, Hong Kong and S Korea grew by between 2-3%.
- Brazil and Russia witnessed contraction in its economic growth
- Unemployment rates remained high in South Africa and Turkey, while other countries witnessed unemployment rate of less than 10%.
- Unemployment rate was lowest in Malaysia
- India's unemployment rate is just above the median level.

While capacity utilization rates are not available for all countries, RBI's data shows that in the last couple of quarters, it ranged between 70-72%. The latest reported by Trading Economics shows Russia at 61% which is lower than India. Others like Indonesia (75%), Brazil (78%), Turkey (76%), South Africa (81%), Brazil (78%) and S Korea (112%) had higher utilization rates which can serve as benchmarks that may be monitored.

### Other Domestic Parameters

**Table 2: Other Domestic Parameters (%)**

	Interest rate(10 yrs)*	Inflation^	Real interest rate	Stock Market@
Brazil	15.6	9.9	+5.7	-12.8
Russia	9.5	15.6	-6.1	14.8
India	7.7	5.0	+2.7	-9.9
China	2.9	1.3	+1.6	20.5
South Africa	8.6	4.0	+4.6	1.1
Turkey	10.1	7.6	+2.5	12.9
Indonesia	8.5	4.9	+3.6	-12.3
Mexico	6.2	2.5	+3.3	-0.6
Malaysia	4.2	2.5	+1.7	-3.2
Hong Kong	1.5	2.4	-0.9	-8.6
South Korea	2.3	1.0	+1.3	24.7

Source: Economist, Trading Economics, Bloomberg

\*as of Nov, ^as of Oct, @as of 4<sup>th</sup> Dec

- Inflation was in double digits for Russia with 15.6% in November 2015 on an annualized basis
  - Brazil and Turkey also recorded high inflation at 9.9% and 7.6% respectively
  - Low levels of inflation were witnessed in China & South Korea, while the others were in the range of 2-5%.
- In terms of interest rates the 10-years benchmark has been taken as a proxy for interest rate regimes across various countries.
  - GSec yields have been high in the double digit range for Brazil and Turkey, while South Africa, Russia, Indonesia and India also have interest rates ranging between 7 – 10%
  - China, Hong Kong & South Korea have interest rates less than 3%
- A quick indicator of monetary conditions and investment environment is obtained from the real interest rate which is the GSec yield adjusted for inflation.
  - Russia and Hong Kong are in a negative real interest situation with inflation being much higher than the nominal interest rate. However, low real rates have not been able to propel their economies into a high growth GDP trajectory.
  - India's real interest rate is just above the median of 2% at 2.7% but is associated with the highest growth in GDP.
- Stock market performance indicates general sentiments and investor confidence
  - South Korea, China, Turkey, Russia witnessed double digit increase in its stock market indices.
  - Countries where the index declined included Brazil, Mexico, Malaysia, Indonesia, Hong Kong and India.

## External Sector Indicators

Table 3 below compares three external indicators across the sample countries: current account balance, changes in currency vis-à-vis the dollar and the overall forex reserves.

**Table 3: External Sector Indicators (%)**

	CAB	Currency*	Change in Forex Reserves
Brazil	-3.8	48.4	-0.6
Russia	5.3	45.6	-4.1
India	-1.1	7.3	8.3
China	3.1	4.1	-9.6
South Africa	-4.3	30.3	-6.1
Turkey	-4.9	30.6	11.8
Indonesia	-2.5	12.5	-9.0
Mexico	-2.7	22.1	-10.7
Malaysia	2.5	25.7	-18.3
Hong Kong	2.8	-9.7	8.8
South Korea	8.0	3.1	1.7

Source: Economist, Trading Economics, \*+depreciation, - appreciation

- In terms of current account balance (Sept'15) as a percentage of GDP,
  - South Korea, Russia, China, Hong Kong, Malaysia are among the countries which enjoy a current account surplus. This is significant because even though oil costs have come down, they have managed their trade balances well given that global exports have also slowed down.
  - Turkey and South Africa had CAD of above 4% which is a sign of vulnerability. Brazil remained just about lower at 3.8%, while Indonesia and Mexico ranged between 2.5-3%.
  - India had the lowest current account deficit at 1.1%
- In terms of currency (Nov'15 over Dec'14) only Hong Kong dollar appreciated vis a vis the dollar
  - All the other currencies depreciated significantly except Indian Rupee, Chinese Yuan and South Korean Won which experienced depreciation of less than 10%.
  - In terms of competitive advantage, countries like Brazil, Russia, S Africa and Turkey witnessed a cutting edge with depreciation of above 30% on a year-on-year basis.
- Foreign exchange reserves (Oct'15 over Dec'14) improved for Turkey, India, Hong Kong and South Korea while the other countries witnessed a decline in the forex reserves

## Government deficits

Table 4 lists the fiscal balances of these countries as % of GDP. With the exception of South Korea, all other countries have a fiscal deficit. India's deficit at 3.8% is at the higher end with Malaysia and Brazil being the only countries with higher deficits. Therefore, by emerging markets standards, India's fiscal deficit is relatively higher.

In terms of government debt, where only the central government has been considered, the ratio is highest for India, with all others having lower ratios. Interestingly, the ratio is higher for developed countries relative to developing countries. Brazil and Malaysia, which are also countries with relatively higher fiscal deficit ratios, follow with debt/GDP ratio of above 50%.

**Table 4: Fiscal deficits as % GDP**

	Fiscal deficit	Government debt to GDP
Brazil	-6.0	58.9
Russia	-2.8	17.9
India	-3.8	66.1
China	-2.7	41.1
South Africa	-3.8	39.0
Turkey	-1.6	33.0
Indonesia	-2.0	25.0
Mexico	-3.4	30.7
Malaysia	-4.0	52.8
Hong Kong	nil	32.0
South Korea	+0.3	36.0

**Concluding remarks: Positioning India**

- The economy is doing better relatively in terms of growth and external account. The latter includes current account balance, currency changes and forex reserves accretion.
- The economy is just above median in case of unemployment and interest rates – both nominal and real.
- The indicators are below average for inflation which is higher, fiscal deficit ratio and debt to GDP ratio which are on the higher end of the scale.

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