



By Invitation

Where's India amidst EM peers?

India is the fastest growing large economy but many pain points must be addressed



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Ever since the global financial crisis, the world looked at the emerging markets with hope to sustain global growth.

India was able to prevent the aftershocks of the global crisis and today is heralded as the poster boy of the Emerging Market (EM) pack. Since 2008, most countries in the

EM space have seen significant changes in their fiscal and monetary policy conduct in the backdrop of some key changes in their political environment. While this has worked well for some countries, others have reeled under the weight of poor policy choices.

This, in turn, has fractured the growth trajectory of the EM pack as a whole.

Nonetheless, given that the advanced economies are still a reasonable distance away from their pre-crisis growth rates, the IMF expects Emerging Markets to

continue to outgrow the developed markets until 2021, for now.

India poised for lift-off

Where does India stand in this pack and what are the key areas wherein we could differentiate ourselves and lead the charge? Some answers to this lie in understanding the basic macro-economic fundamentals — growth, inflation, current account balance, fiscal balance.

Apart from this, factors such as demography, environmental awareness, corruption, infrastructure — both physical and social — and political cycles are as important, if not more, in shaping the economic prospects.

What we have done here is picked up geographically diverse emerging markets — China, India, Indonesia, Malaysia, South Korea, the Philippines, Thailand, South Africa, Russia and Mexico.

Real GDP growth for India has outpaced the peer average for four consecutive years now. In fact, the 2016 estimates only strengthen this trend.

So, India is clearly emerging as the fastest growing large economy. However, given the fact that we house the second largest population in the world, the challenge with our per capita GDP being significantly lower than the peer set remains. India, of course, has more fa-

A mixed bag

- India has favourable demographics but worse unemployment situation
- Higher than peer average CPI inflation
- Emerging market pack largely a net exporter but India a net importer

avourable demographics and this should bode well for us in the future. But in a country where skill and jobs are still a problem, the unemployment situation is worse in the comparative landscape.

Taming inflation

Given the large role of state in our economy, the inflation trajectory gets influenced by administrative forces along with the regular market forces. We have had higher than peer average CPI inflation for some time now. But given the resolve to and legislation of the inflation targeting framework, this gap has been narrowing.

How our inflation behaves versus other trading partners determines our external competitiveness. This gets reflected in the current account balance of the country. The Emerging Markets pack is largely a net exporter and hence maintains a current account surplus. India, on the other hand, is a net importer and has seen sub-



stantial improvement in its current account deficit as global commodity prices have declined significantly in the last one-and-a-half years, continuing the improvement story that began in 2013, when the taper tantrum had put us in a tough spot and called for structural measures to bring down the current account deficit. Our improving position on this measure is shown in the graph.

As per the Economic Intelligence Unit, the political risk score evaluates a range of political factors relating to stability and political efficacy that could affect a country's ability to service its debt obligations. One must appreciate the improvement we have seen in this in-

Modi-led NDA government. As the world's largest democracy, India shoulders the onerous responsibility of putting the government of the people, and by the people, for the use of people. The World Bank group measures this with an annually published indicator (WGI Government effectiveness) which reflects perceptions of quality of public services, degree of independence from political pressures, quality of civil services, quality of policy formation and implementation and the government's commitment to these policies. Our score in this regard is low versus our Emerging Markets peers and this is an important area to address.

In the light of the above, it is only obvious that our rankings as far as ease of doing business or for that matter starting a new business are way below other Emerging Market countries and a key focus for this government.

Of course, as a diverse, democratic economy, our size is bound to face challenges. As Shakespeare said, "There is a tide in the affairs of men, which taken at the flood, leads on to fortune. Omitted, all the voyage of their life is bound in shallows and miseries. On such a full sea we now float."

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| Year | India | Peer average |
|------|-------|--------------|
| 2012 | 132 | 68 |
| 2013 | 131 | 65 |
| 2014 | 140 | 55 |
| 2015 | 134 | 59 |