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India: An idea whose time has come

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"No power on earth can stop an idea whose time has come."

-- Prime Minister Manmohan Singh quoting well known poet and novelist Victor Hugo

The time has indeed come for the idea of an empowered India to become an inspiring reality. India is increasingly attracting the world's interest for its impressive economic performance and is likely to sustain its current growth figures, says the World Economic Outlook (WEO) 2005 brought out by the International Monetary Fund (IMF).

Driven by liberalisation in the past two decades and the start of a march toward a functioning market economy, India's report card has been exciting both in terms of growth and stability. Its GDP grew by 7.4 per cent in the first quarter and 6.6 per cent in the second quarter of 2004-05, compared with 5.3 per cent and 8.6 per cent in the corresponding quarters in 2003-04. With a 6.7 per cent growth in FY 2005, India stood tall over Brazil and Russia. While Brazil scored 3.7 in the same year, Russia fared better with a 6 per cent growth.

India has, in fact, outperformed the IMF's predictions about it. The September 2004 World Economic Outlook report had projected a likely growth of 6.5 per cent whereas India scored 6.7 per cent this year. In its April 2005 report, the IMF says India's growth figures will continue to remain robust in 2005-06 as the impact of uneven monsoons and higher oil prices is being offset by buoyant industrial activity and strong investment.

Moving a step ahead from the IMF's position on India, the Asian Development Bank has raised its growth forecast for India for 2006-07 from 6.2 per cent to 6.8 per cent.

Indians' capacity to save is also better than ever. The country's gross private savings as a percentage of GDP stand at 25.7 per cent in 2004, up from an average of 18.5 per cent between 1980 and 1996. In comparison, the Asean-4 had gross private savings of 22.4 per cent in 2004, having moved up from 19.2 per cent in 1980-96.

Expressing optimism about the inflation scenario in India, the WEO says it is 4 per cent (as measured by wholesale price index) in 2005 and is expected to reduce to 3.6 per cent in 2006. In contrast, Brazil has an inflation rate of 6.5 per cent in 2005 which is expected to improve to 4.6 per cent in 2006 and Russia has 11.8 per cent that is projected to fall to 9.7 per cent in 2006.

Having inflation rates under control is the hallmark of a well regulated financial sector. The significance of such resilience was witnessed during the Asian crisis when most of India's neighbouring economies went into recession, while India came out of it unharmed.

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India emerged a winner on the back of a prudential supervisory system and efficient governance in private financial institutions. It has ensured that norms are tightened, bank capital bolstered and supervisory systems strengthened. These efforts gave India the confidence to submit itself to the scrutiny of a Financial Sector Stability Assessment (FSSA) a few years ago. A diagnostic tool, the FSSA is conducted by experts drawn from institutions such as the IMF and the World Bank, and is utilised by a number of industrial and developing countries to assess and promote financial stability.

Little wonder then that the gross fixed investment has been on a consistent growth path -- even during the Asian crisis. The IMF report states that the average gross fixed investment in India between 1980 and 1996 was 21 per cent which increased to 22.74 per cent in the post Asian crisis trough. In comparison, the Asean-4 saw a considerable slowdown from 25.62 per cent (1980-96) to 18.83 per cent after the crisis. India's growth curve continued to make a crest with a 23.52 per cent jump in 2004.

India's forex markets have been buoyant with foreign investment and commercial borrowings which sustained the capital account. A strong balance of payments (BOP) position in recent years has resulted in a steady accumulation of foreign exchange reserves. The level of forex reserves crossed the US$ 100 billion mark on December 19, 2003, and was US$ 142.13 billion on March 18, 2005. The IMF report projects a further growth in reserves to US$ 164.1 billion in 2006.

India, a huge draw for foreign investors

The foreign investment sector in India is on an upswing. Foreign institutional investors (FIIs) have infused a new impetus to the India growth story with the trust they have put into the Indian economy. High foreign institutional inflows have driven the equity markets to euphoric heights. In fact, the Bombay Stock Exchange (BSE) Sensex rose to an unprecedented 8000 mark on September 8, 2005. The third fastest four-digit rally of the Sensex, it took just 79 days (55 trading sessions) to rise from 7000 to 8000.

Going against convention, FIIs are no longer looking at quarterly results of companies. Instead, they are paying attention to growth in earnings over a period of three to five years. In other words, FIIs are looking into India for long term gains. The number of new FIIs registering with the Securities and Exchange Board of India (Sebi) has also been increasing with 145 entries in FY2005 alone.

With the Sensex climbing new peaks every day, the Indian capital market has emerged as the third most profitable in the world.

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In the external sector, the tension between the objectives of maintaining low inflation and nominal exchange rate stability remains a key issue. Addressing this issue, the Reserve Bank of India has made credible sterilisation efforts to balance its holding of domestic and foreign assets. As on March 2003, India's domestic assets accounted for only 2.9 per cent of reserve money while foreign assets accounted for 97.1 per cent. In comparison, it used to hold 40 per cent domestic assets and 60 per cent foreign assets only three years ago.

Applauding the strong economic environment in India, the IMF report says that the environment provides a wonderful opportunity to improve business climate. Further, it says, what is encouraging about India is that it is not overtly dependent on western economies for growth (exports contribute to around 12 per cent of GDP while international trade accounts for 25 per cent of GDP). The country, by and large, is still internal demand led. Continuing reforms will aid this momentum over the next three to five years.

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The India Brand Equity Foundation is a public - private partnership between the Ministry of Commerce, Government of India and the Confederation of Indian Industry. The Foundation's primary objective is to build positive economic perceptions of India globally.

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