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Economic recession deepens in India

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As the markets, currencies, and banks collapse in Asia and Russia, the Indian economy, much isolated from the rest of the world and deeply in recession for the last three years, has little to look forward to. The economic data issued by various institutions recently have been bad enough to jangle the nerves of India's top industrialists, who met recently for informal discussion with almost two score of parliamentary members belonging to the Finance Ministry's Standing Committee. Facing rapidly falling profit margins and fearful of a long-term recession, the industrialists wanted to know the Finance Ministry's gameplan for the future. What they heard was neither reassuring nor convincing.

A survey by the Confederation of Indian Industry of 82 sectors shows that in the first quarter of the 1998-99 fiscal year, 31 sectors reported negative growth and 32 registered only moderate growth with sales below 10%. The study shows that steel, capital goods, fertilizer, cement, and commercial vehicles have all been badly hit by the recession.

Another report, prepared by the Center for Monitoring the Indian Economy, a Mumbai-based outfit with an extensive database, showed that, barring the oil majors, 548 large companies combined registered a 1% rise in profits in the first quarter. Only those dealing in software, tea, coffee, and some consumer goods made a profit. The CMIE executive director predicts that the rest of the year will be "bleak" and characterized by "sluggish consumption buying and investment."

In fact, the gloom is all around. High-growth service-sector areas such as airlines and hotels have also registered negative growth. In June, exports were down 11% from June 1997. This follows a nominal 2.2% growth in April and a huge 17.4% decline in May. As a result, first-quarter exports are down 8% overall.

At the same time, imports have shrunk as well, mostly due to reduced demand for capital goods, industrial raw materials, and components. The fall in imports, however, has not reduced the trade imbalance, which rose by almost $1 billion during the first quarter. With reduced capital inflows into the country, some economists point out that the total deficit may rise to as high as $21 billion, 50% higher than the $14 billion registered during the 1997-98 fiscal year.

The capital market in Mumbai has reflected this gloom in recent months. Since May, the 30-share index has lost about 30% and is still going down. The Indian currency is also on a downward slide, now moving steadily below 43 to the dollar. It probably would have gone down further, if not for occasional interventions by the Reserve Bank of India. With a meager $25 billion in foreign exchange reserves, and a large trade deficit looming ahead, the Reserve Bank is expected to have little choice but let the rupee go further down. It is a moot point whether India will go for a formal devaluation; the forward currency market indicates the likelihood of further erosion of the rupee in the coming months.

The government is unable to act

The highly fragmented 18-party coalition government in power in Delhi is not in a position to deal with this rapidly deteriorating situation. One economist, A.M. Khusro, says, "We are in deep recession, yet it fails to create any concern." Another blames the paralysis that has set in on the government, which "spends only 10% of its time for this [economy] while 90% goes for politics."

The paralyzed state of the government in New Delhi, and the economic situation worldwide, have made foreign institutional investors jittery as well. In the last three months, India experienced a net outflow of foreign capital. With an annual debt-servicing requirement of $6 billion annually, all these negative figures may have a devastating psychological effect in coming days.

Only recently, Finance Minister Yashwant Sinha announced that come September, the Indian economy will begin to turn around. His plan at this point is to pump money into infrastructure development, after concluding the "strategic sales" of a number of public sector units (PSUs). In some cases the government will hold no more than a 26% stake. The question is: Who will buy these stodgy megaliths, and will the expected amount of cash be generated? The shares of some of the PSUs up for sale have lost as much as 50% of their value since 1997.

It is likely that this fire-sale will do little good to the overall economy, even if the proceeds meet the Finance Ministry's questionable expectations. In earlier years, such attempts failed, and proceeds were subsequently used to close the budget deficit instead of the stated purpose of enhancing productive facilities. More important, however, the drumbeat of the economic collapse now in progress throughout India is becoming louder. The negative impact of the collapse of the Russian ruble and the weakening of the Japanese yen have begun to be felt by the Indian Garment Exporters Association. If the recession in Europe and America gets worse, it is expected that Finance Minister Yashwant Sinha will have little room to maneuver and the September turn-around will remain a distant dream.

The fact remains that the impact of the Asian and Russian economic collapse has not been fully understood in the corridors of power in New Delhi. As a result, India's infrastructure remains weak, and the present government's failure to unclog and speed up the major infrastructural sectors leaves the economy more vulnerable to a crisis.

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