

ASSOCHAM

ECO

PULSE

STUDY

“India & G20:

Economic fundamentals amid global recession”

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## INTRODUCTION

As the global threat of severe downturn in the economic activity unfolded the need for coordinated measures to contend with the depressing forces throughout the world, the leaders of the developed and emerging countries met on November 14-15 in Washington D.C. to arrive at general agreement amongst the G-20 on how to cooperate in key areas so as to strengthen economic growth, deal with the financial crisis, and lay the foundation for reform to avoid similar crises in the future.

The economic strength of the G-20 can be ascertained from the fact that it comprises 19 of the world's 25 largest national economies, plus the European Union (EU). Collectively, the G-20 economies comprise 90 per cent of global gross national product, 80 per cent of world trade (including EU intra-trade) and two-thirds of the world population.

The Assocham Eco Pulse (AEP) analysis of the G20 countries revealed that India, along with its major Asian peers in China, Russia and South Korea, is poised to undermine the global implications of the current crisis in advance of other member nations as the global recessionary forces at work deteriorates significantly.

India ranks fourth among the group of advanced and emerging economies in terms of the seven key economic indicators determining the scope available for policy intervention (both fiscal and monetary) and the likelihood of revival from the aftermaths of the global economic depression.

China along with Russia have been ranked first, reflecting their economic strengths on key economic indicators and hence a tendency to revive the economic activity in advance of rest of the group countries.

## PARAMETERS

The ASSOCHAM Eco Pulse (AEP) Study is based on seven key economic indicators pertaining to the size of economy, spending power, tax structure, interest rate policy, budget balances, debt burden and foreign exchange reserves for the G-20 countries.

## DATA SOURCE

The Study is based on the data derived from the International Monetary Fund (IMF), World Bank, The economist and respective central bank's website.

## METHODOLOGY

Seven economic indicators relating to size of economy, spending power, tax structure, interest rate policy, budget balances, debt burden and foreign exchange reserves have been taken for the inter group analysis of the G-20 countries. The countries analyzed include: Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, UK and US. The 20<sup>th</sup> member is the European Union which has not been taken in the cross-countries analysis since it represents the group of countries.

The seven economic indicators on which the analysis is based include:

S.No.	Indicators
1	Share of World GDP(PPP)
2	Change in GDP(PPP) per capita
3	Budget balance as percentage of GDP
4	Public Debt (per cent of annual GDP)
5	Forex Reserves (in million USD)
6	Income Tax rate (Corporate & Personal)
7	Monetary Policy stance (July-December 2008)

Inter-group ranking on these indicators (based on scores on a scale of 10) has been used to arrive at a composite score, according to which the final ranking has been obtained. The following criterion is used to assign scores in accordance to the rank on the underlying parameters:

Rank	Score
1	10
2	9.5
3	9
4	8.5
5	8
6	7.5
7	7
8	6.5
9	6
10	5.5
11	5
12	4.5
13	4
14	3.5
15	3
16	2.5
17	2
18	1.5
19	1

Source: Assocham Research Bureau

Standalone scores for the G-20 countries on the above mentioned parameters have been assigned on a scale of 1 to 10. Ten being the top ranked country and 1 being the least. These standalone scores for the seven parameters have been added to arrive a composite score, based on which the final rank for the G-20 member countries have been obtained.

## EXECUTIVE SUMMARY

- China and Russia tops of the list among the group of advanced and emerging economies (G-20) in terms of the seven key economic indicators determining the scope available for policy intervention (both fiscal and monetary) and the likelihood of revival from the aftermaths of the global economic depression.
- South Korea is ranked second with higher scores on income tax structure and foreign exchange reserves.
- India with relatively higher scores on foreign exchange reserves and monetary policy stance due to much policy intervention by the central bank of late, stands at fourth position.
- The top four positions being held by the Asian economies suggests that the continent is likely to suppress the global waves of economic downturn ahead of the western advanced countries.
- Europe's largest economy, Germany, is ranked fifth mainly on account of a good score on budget balances and as a result of monetary easing by the European Central Bank.
- US and UK ranked 11<sup>th</sup> and 12<sup>th</sup> respectively are likely to continue witnessing testing times ahead. Both countries have poor scores on Budget balances and change in GDP per capita for 2009.
- Japan lies at 13<sup>th</sup> position with Argentina, France and Italy among the bottom three.

## India fourth strongest economy in G-20 to ward off global recessionary pressure

As the global threat of severe downturn in the economic activity unfolded the need for coordinated measures to contend with the depressing forces throughout the world, the leaders of the developed and emerging countries met on November 14-15 in Washington D.C. to arrive at general agreement amongst the G-20 on how to cooperate in key areas so as to strengthen economic growth, deal with the financial crisis, and lay the foundation for reform to avoid similar crises in the future.

The coordinated fiscal stimuli announced by the G-20 countries in wake of the worst global economic downturn since the great depression have been found to be touching USD 1.5 trillion accompanied by monetary easing policies and hundreds of billions in bailouts to deal with the credit crisis throughout the group of advanced as well as the emerging economies.

The Assocham Eco Pulse (AEP) analysis of the G20 countries revealed that India along with China, Russia and South Korea, would emerge strong out of the current crisis as they enjoy strong economic foundations based on foreign exchange reserves, higher growth rates in GDP per capita and sound monetary policy measures.

The AEP study titled “India & G20: Economic fundamentals amid global recession” considered seven economic indicators relating to size of economy, spending power, tax structure, interest rate policy, budget balances, debt burden and foreign exchange reserves. Ranking on these indicators (based on scores on a scale of 10) suggests India ranks fourth amongst the group of advanced and emerging economies (G-20) in terms of the seven key economic indicators

determining the scope of policy intervention (both fiscal and monetary) and the impact of the global economic slowdown.

The current crisis, having being originated in US then spreading to Europe (with UK majorly hit) and Japan has led these advanced countries low in rankings at 11, 12 and 13 respectively.

#### G 20: STANDING ON KEY ECONOMIC INDICATORS

Country	Score	Rank
China	68	1
Russia	68	1
South Korea	61	3
India	51	4
Germany	50	5
Australia	49.5	6
Mexico	49.5	6
Saudi Arabia	48.5	8
Turkey	48	9
Brazil	47.5	10
US	46	11
UK	45.5	12
Indonesia	44	13
Japan	44	13
South Africa	41.5	15
Canada	39	16
Argentina	37.5	17
France	37	18
Italy	34.5	19

Source: Assocham Research Bureau

Looking at the severity of the current crisis, globally coordinated steps have been taken on both the fiscal as well as the monetary grounds to insure the unprecedented growth story of the world against the recessionary forces pulling down the growth substantially. However policymakers around the world are likely to take further actions to deal with the turmoil.

Although the economic fundamentals have been shaken drastically across the globe in the past few months, two of the three Asia's largest economies scores over other group countries on the aforementioned economic parameters which takes them ahead of the other group members to devise effective action plans to deal with the crisis situation even efficiently.

The study found India ranks fourth among the group of advanced and emerging economies (G-20) in terms of the seven key economic indicators determining the scope available for policy intervention (both fiscal and monetary) and the likelihood of revival from the aftermaths of the global economic depression.

Of the seven key economic indicators, in terms of the economy size (share of world GDP at PPP exchange rates) India ranks fourth among the group countries; preceded by Japan at third, China at second and the US at the topmost spot. Europe's largest economy, Germany, lies fifth. The size of the economy presents them a relative advantage over the peer countries to take robust action against the spreading downturn in the economic activity.

Defining the consumer spending power, the change in GDP per capita as the second economic indicator reveals the respective strengths of the G-20 nations to boost their rapidly slackening domestic demand. As a major part of the announced fiscal stimulus packages globally, a push to lift up the consumer demand is viewed as one of the priority area for the policymakers as it makes heavy contribution to their national output. According to the change in GDP (PPP) per capita for 2009 over 2008, India ranks at third position behind Russia (second) and China (first).

Among the advanced economies for 2008, Japan is likely to witness the maximum contraction in total domestic demand with Italy following at second place.

US would register the minimal increase in demand to rank third with Germany and UK following at fourth and fifth place respectively, while for 2009; US would witness the largest contraction in total domestic demand followed by UK (second), Italy (third) and Germany (fourth) with Japan, at fifth place, to witness a mild increase in domestic demand.

Economic indicators relating to Budget balance as a percentage of GDP and Public Debt as a percentage of GDP, dictating the scope of the size and intensity of the fiscal measures to prop up the deteriorating domestic demand and to intensify efforts to check the unemployment situation in the country present difficulties for India. Among the G-20 countries, India ranks last (19th) in terms of Budget balance as a percentage of GDP and 12th in terms of Public Debt as a percentage of GDP. Low ranking on these indicators presents India key challenges to announce heavy fiscal stimulus package as compared to China which fares better at seventh and third position for the two indicators respectively.

At a time of rising economic uncertainties, foreign exchange reserves have gained much larger importance in the present scenario. In terms of foreign exchange reserves that present a cushion to protect an economy from speculative capital movements, China (at close to USD 2 trillion) tops the list with a huge margin over other group members. India is placed at fourth position behind Japan (second) and Russia (third).

As per the income tax structure in the G-20 countries, Corporate tax rates as well as Personal income tax rates have been taken to analyze the standing of the group countries. The prevailing income tax structure among the group countries has two way implications for the member nations: The corporate tax rate controls the movement of foreign corporations globally. It is considered to be a major barrier to

entry in international economics. On the other hand personal income tax rate has a direct linkage to the household income hence defining consumer demand. In terms of corporate tax rates, India stands at 15th among the group while it occupies seventh position in terms of personal income tax rate.

On the monetary policy stance taken by the G-20 countries during H2, 2008, the interest rate easing policy among the member countries to address the falling economic sentiments has been an indication of the synchronicity of fiscal stimuli and monetary policy to tackle the worst recession since the great depression. India has made significant reduction in the CRR (350 basis points) as well as the repo rate (250 basis points) during the period. Measures of such magnitude places India on second position among the member countries in terms of the monetary policy stance. However in view of the prudent interest rate policy followed by the RBI during the first half of 2008 to have a check on then soaring inflation, further rate cut measures could well be on the cards if the economic situation worsens.

UK and Australia have made biggest rate cuts in H2, 2008. China is third in the list behind India and Saudi Arabia. US, South Korea and the Euro area countries are next at fourth. Interest rates in US at 0-0.25 per cent and Japan at 0.1 per cent are at such low levels leaving little scope for further rate cuts. It appears that the advanced part of the world is going to witness zero interest rate scenario in the coming year.

In terms of the fiscal stimulus packages announced by the G-20 countries, a push to core infrastructure activity, employment generation, tax rate cuts to boost consumption have been announced vehemently to minimize the aftermaths of the worst recession since the great depression.

RECENTLY ANNOUNCED FISCAL STIMULUS PACKAGES (in billion USD)	
Argentina	3.9
Australia	17.1
China	586
EU	259
India	4
Japan	295
Russia	20
South Korea	11

### IMF ECONOMIC OUTLOOK FOR MAJOR G-20 COUNTRIES

In November, IMF revised its forecast for the world output growth for 2009 to 2.2 per cent, which according to the fund (below 3 per cent) is equivalent to global recession signifying next year is going to be even more difficult. The slump in the advanced part of the world which has already made severe impact on the emerging countries is likely to accentuate well into the next year as well. Following is the revised growth rate projections by the IMF for 2008 and 2009 for the major G-20 countries:

#### IMF GROWTH RATE REVISION

Growth rate in per cent	Nov 2008 update		Jan 2008 update	
	2008	2009	2008	2009
Countries:				
Brazil	5.2	3.0	4.5	4.0
Canada	0.6	0.3	1.8	2.4
China	9.7	8.5	10.0	10.0
France	0.8	-0.5	1.5	2.2
Germany	1.7	-0.8	1.5	1.7
India	7.8	6.3	8.4	8.2
Italy	-0.2	-0.6	0.8	1.0
Japan	0.5	-0.2	1.5	1.7
Mexico	1.9	0.9	2.6	3.0
Russia	6.8	3.5	6.6	6.5
UK	0.8	-1.3	1.8	2.4
US	1.4	-0.7	1.5	1.8

Source: World Economic Outlook Updates, IMF

Evident from a large scale downward revision in the growth projections, there has been astonishing differences in the world growth outlook since the beginning of the year and now. As per the latest available World Economic Outlook update of November 08, the stark difference in the projected growth rates between the January 08 update and November 08 update for the G 20 countries sets the basis of an inter-group analysis of the magnitude of change in the growth rate for group countries.

The magnitude of change in the projected growth rates for 2008 and 2009 reveals the following result: Brazil tops the list with respect to the change in growth rate with both 2008 & 2009 taken into consideration. China is placed at second position followed by Germany at third. India lies at fourth position jointly with the US. Russia and Italy tied for the fifth position with Japan and Mexico following at sixth. Among the bottom three, France and Canada are at seventh place while UK could be the worst hit by the global recession.

## APPENDIX

Score-Card										
G-20	I	II	III	IV	V	VI		VII	Composite Score	Rank
						i	ii			
Argentina	1.5	8	7.5	4	3	3	6.5	4	37.5	17
Australia	3	5.5	9	9.5	1	5.5	6	10	49.5	6
Brazil	6	6	5	5.5	7.5	3.5	9	5	47.5	10
Canada	4.5	4	6.5	2	2.5	5	6.5	8	39	16
China	9.5	10	7	9	10	8	5.5	9	68	1
France	6.5	1.5	3	2.5	6.5	4	4.5	8.5	37	18
Germany	8	3	8.5	3	7	6	6	8.5	50	5
India	8.5	9	1	4.5	8.5	3	7	9.5	51	4
Indonesia	3.5	8.5	4	6.5	3.5	5.5	7	5.5	44	13
Italy	5.5	1	3.5	1.5	6	4.5	4	8.5	34.5	19
Japan	9	3.5	2.5	1	9.5	5.5	6	7	44	13
Mexico	5	4.5	5.5	8.5	5.5	6.5	8	6	49.5	6
Russia	7	9.5	9.5	10	9	9	9.5	4.5	68	1
Saudi Arabia	2	5	10	8	1.5	2.5	10	9.5	48.5	8
South Africa	1	6.5	6	7.5	2	7	5	6.5	41.5	15
South Korea	4	7	8	7	8	10	8.5	8.5	61	3
Turkey	2.5	7.5	4.5	6	5	9.5	5.5	7.5	48	9
UK	7.5	2	1.5	5	4	8.5	7	10	45.5	12
US	10	2.5	2	3.5	4.5	7.5	7.5	8.5	46	11

S.No.	Indicators
I	Share of World GDP(PPP)
II	change in GDP(PPP) per capita
III	Budget balance % of GDP
IV	Public Debt (per cent of annual GDP)
V	Forex Reserves (in million USD)
VI	Income Tax
	i) Corporate
	ii) Personal
VII	Monetary Policy stance