Syllabus subtopic: Indian Economy and issues relating to planning, mobilization of resources, growth, development and employment.

News: Buoyed by an improvement in financial sector indicators, India rose several notches to the second position among large emerging markets in October.

Prelims and mains focus: current slowdown in the Indian economy, its impact on various sectors and overall GDP

Context:

- Reversing months of under-performance, India rose several notches to finish second among key emerging markets (EM) in October, improving its relative attractiveness vis-a-vis other markets. Only the Philippines ranked ahead of India last month, the data show.
- These rankings are based on Mint’s Emerging Markets Tracker, launched two months ago to track seven high-frequency indicators across 10 large emerging markets, and help us make sense of India’s relative position in the emerging markets league tables.
- India’s ranking rose because of improvements in India’s financial sector indicators. Emerging signs of weaknesses in several other large emerging markets have also helped India’s cause, making the country’s economic scorecard look better than its peers. However, it is uncertain whether the relative improvement will last, given that domestic demand conditions in Asia’s third-largest economy continue to be weak.

About the 7 high frequency indicators

- The seven indicators considered in Mint’s Emerging Markets Tracker encompass both real activity indicators (such as PMI manufacturing and real gross domestic product or GDP growth) as well as financial metrics (such as exchange rate movements and changes in the stock market capitalization). The final rankings are based on a composite score, which gives equal weight to each of the seven indicators. (See chart)

- The selection of the emerging markets in Mint’s Emerging Markets Tracker is based on the International Monetary Fund (IMF) classification of emerging and developing economies. The 10 emerging markets selected were the largest economies in this group for which consistent and comparable time series data were available.

Way ahead:

- What happens to growth in the quarters ahead remains the trillion dollar question. That will ultimately shape India’s macroeconomic scorecard and its attractiveness among emerging markets.
- Some economists expect growth to be better in the second half of the current fiscal year (October-March) while others expect a lacklustre performance and have cut back their growth projections. How India’s credit crunch eases in the coming months will likely have
a large bearing on both financial and real indicators, given its central role in the growth slowdown.

- However, the prognosis so far does not appear bright. The credit crunch only intensified in the September quarter as the slowdown in the non-bank sector was compounded by slowdown in bank loan growth, Credit Suisse said in an 11 November report. Given that the banks have not fully accounted for bad loans to non-bank financial companies (NBFCs), the outlook on credit growth remains clouded.