

Economic Outlook and Macroeconomic Policies

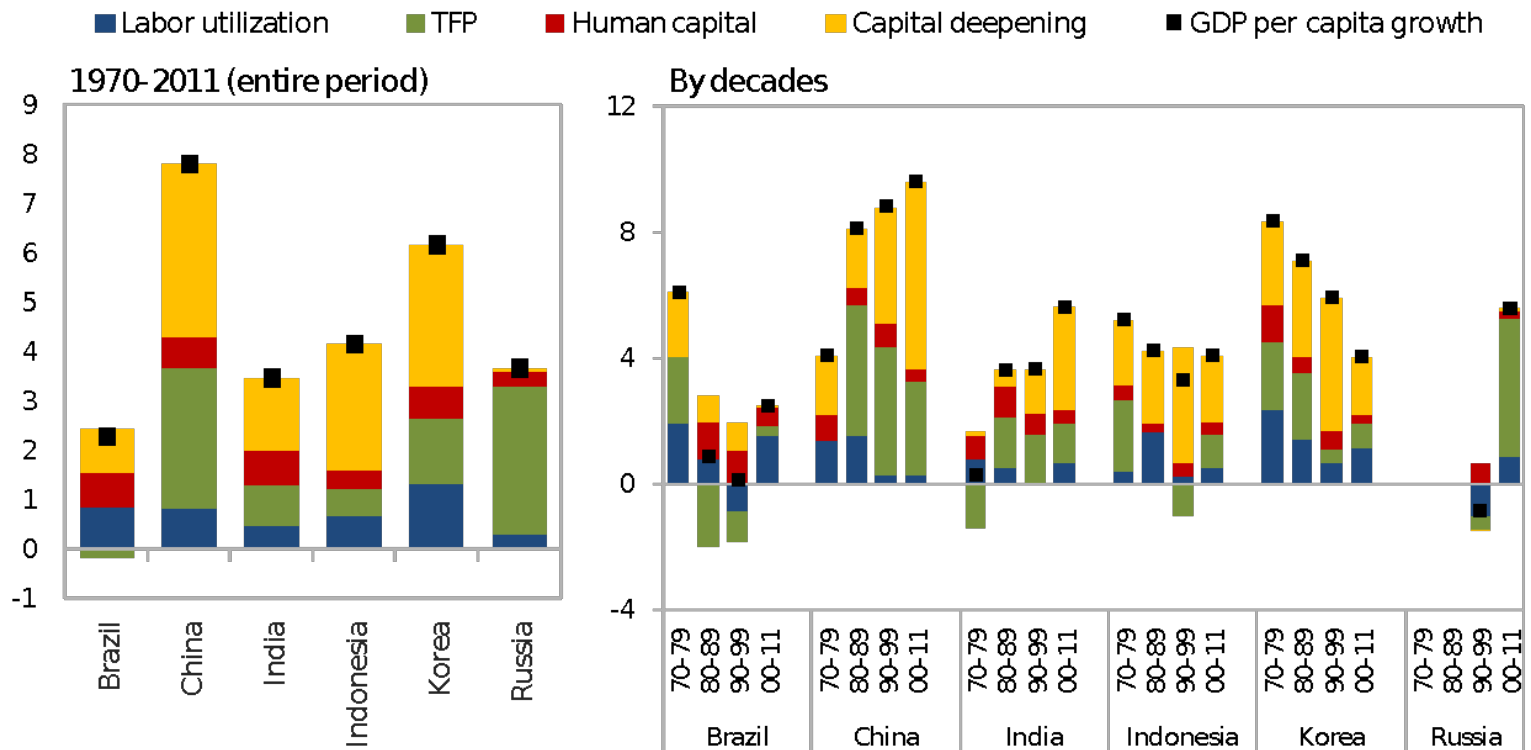
Comments on Mohan and Gupta

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Comments on Mohan

India in comparison with other EMs

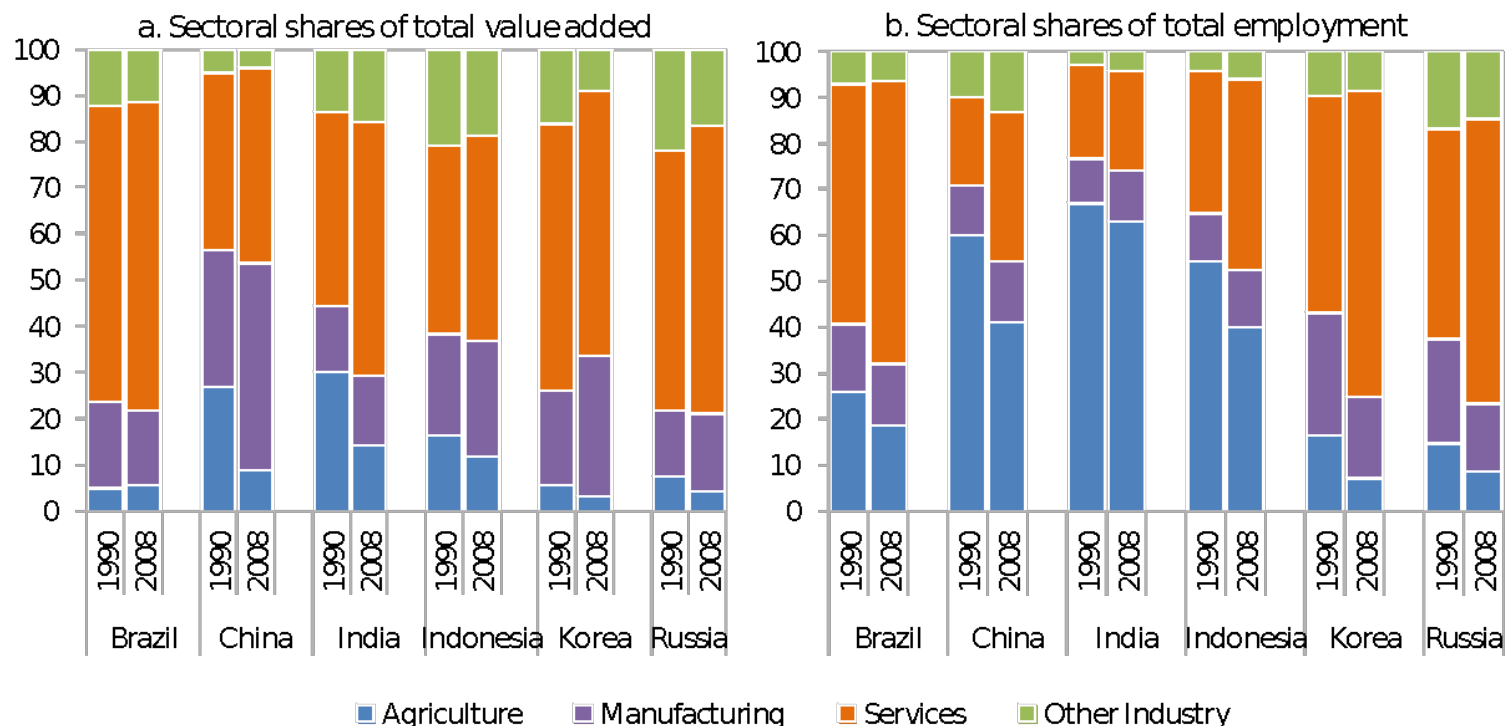
Figure 2. Growth Accounting: Decomposition of Real GDP per Capita, 1970- 2011
(annual average, percent, data start from 1995 for Russia)



Source: Penn World Table 8.0.

Intersectoral resource reallocation in India lags other EMs

Figure 5. Sectoral Shares in Value Added and Employment, 1990 and 2008
(percent)

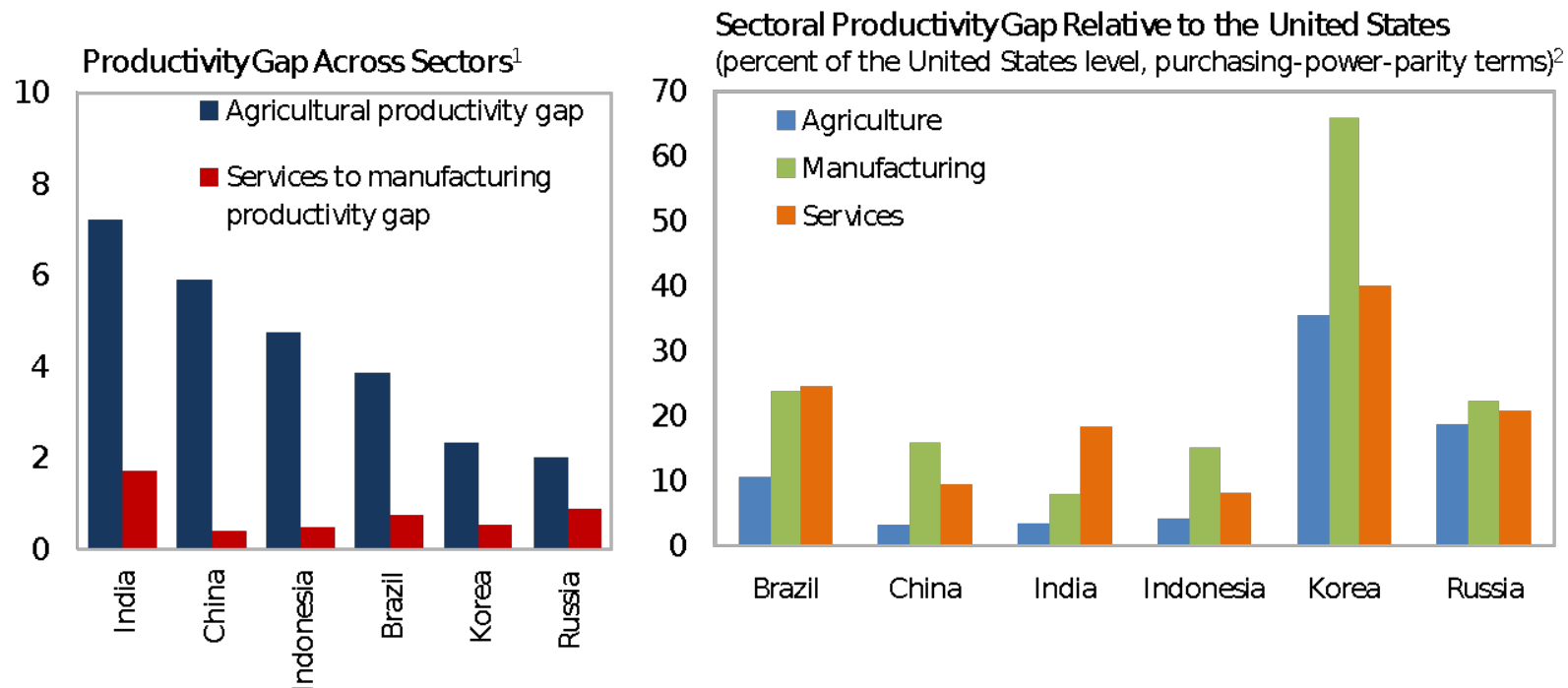


Sources: UN National Accounts database; International Labor Organization; World Bank, World Development Indicators; and Groningen Growth and Development Center (GGDC) database.

Note: Industry includes manufacturing, mining, public utilities, and construction.

And within sector productivity gaps are large

Figure 8. Productivity Gap, 2008



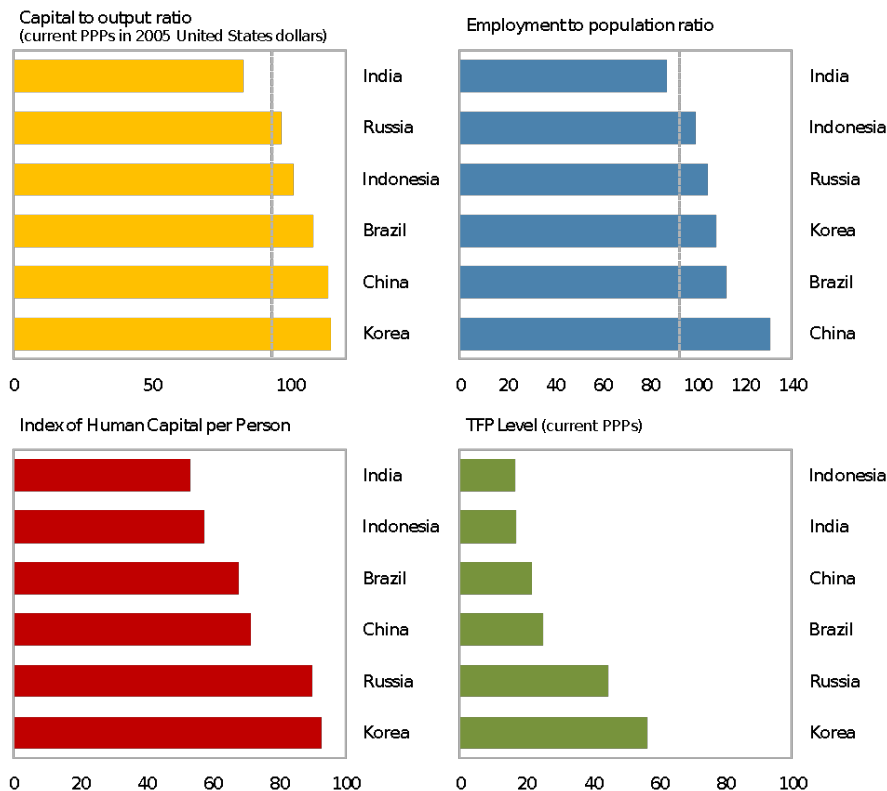
Sources: UN National Accounts database; International Labor Organization; World Bank, World Development Indicators; Groningen Growth and Development Center (GGDC) database; and IMF staff calculations.

¹The agricultural productivity gap is the ratio between real value added per worker in non agricultural sectors to that in agriculture; the services to manufacturing productivity gap is the ratio between real value added per worker in services to that in manufacturing.

²Sectoral productivity is adjusted by economy-wide purchasing-power-parity factors.

Indeed, India lags comparator EMs in all the drivers of growth.

Figure 4. Selected Countries Room to Raise Factor Inputs and Productivity, 2010
(simple average, relative to the United States)



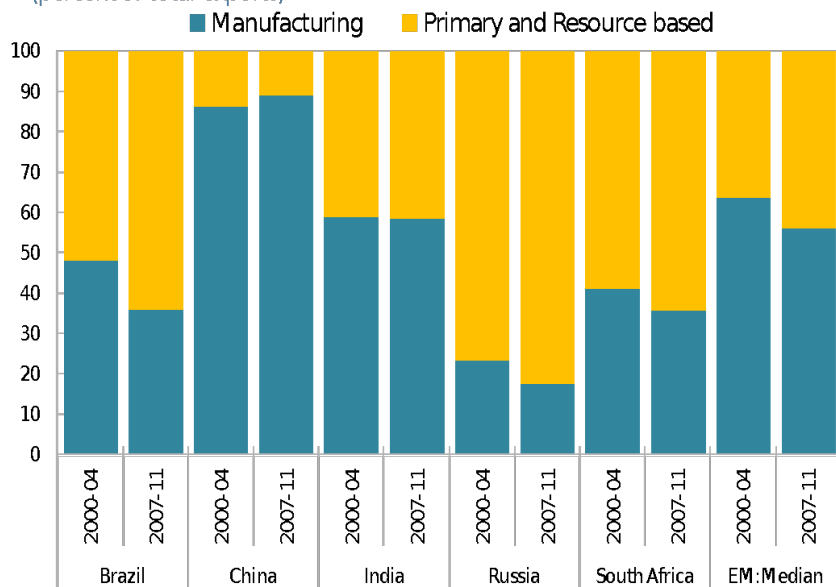
Sources: Penn World Table 8.0; and IMF staff calculations.

Note: Human capital index is constructed based on average years of schooling in the population and assumptions regarding the returns to education. Because of data limitations and assumptions underlying the decomposition, the results reported in this figure should be viewed as indicative.

Structure of India's exports

Manufacturing versus Primary Goods

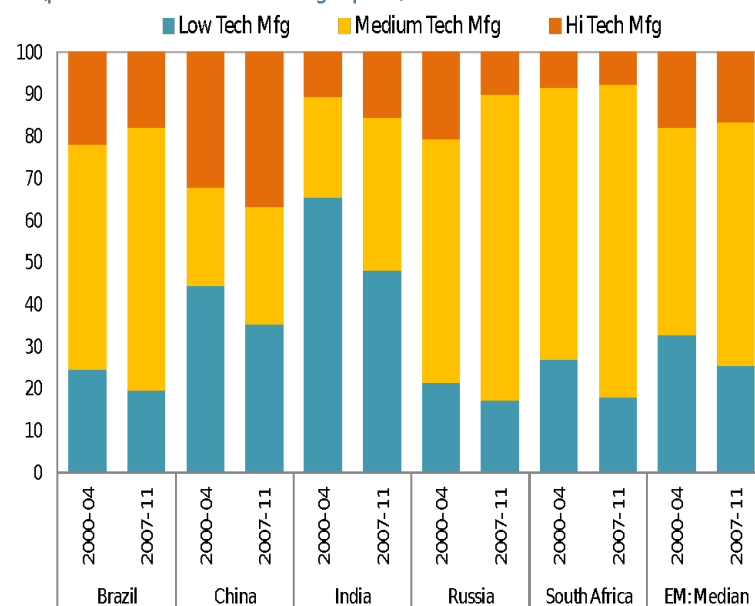
(percent of total exports)



Sources: WITS database, rev. 3, and authors' calculations.

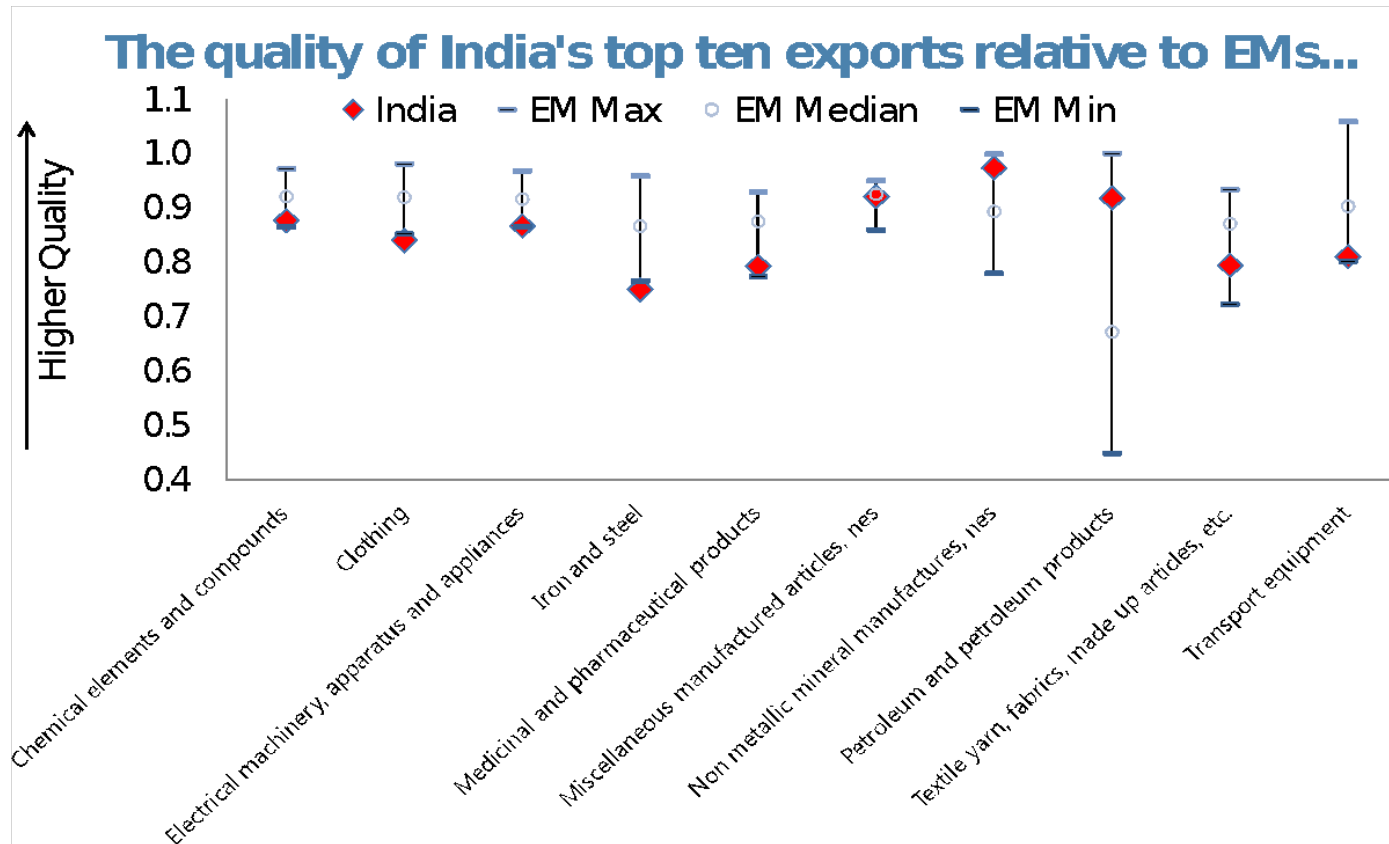
Technological Intensity of Manufacturing Exports

(percent of total manufacturing exports)



Sources: WITS database, SITC rev. 3, and authors' calculations.

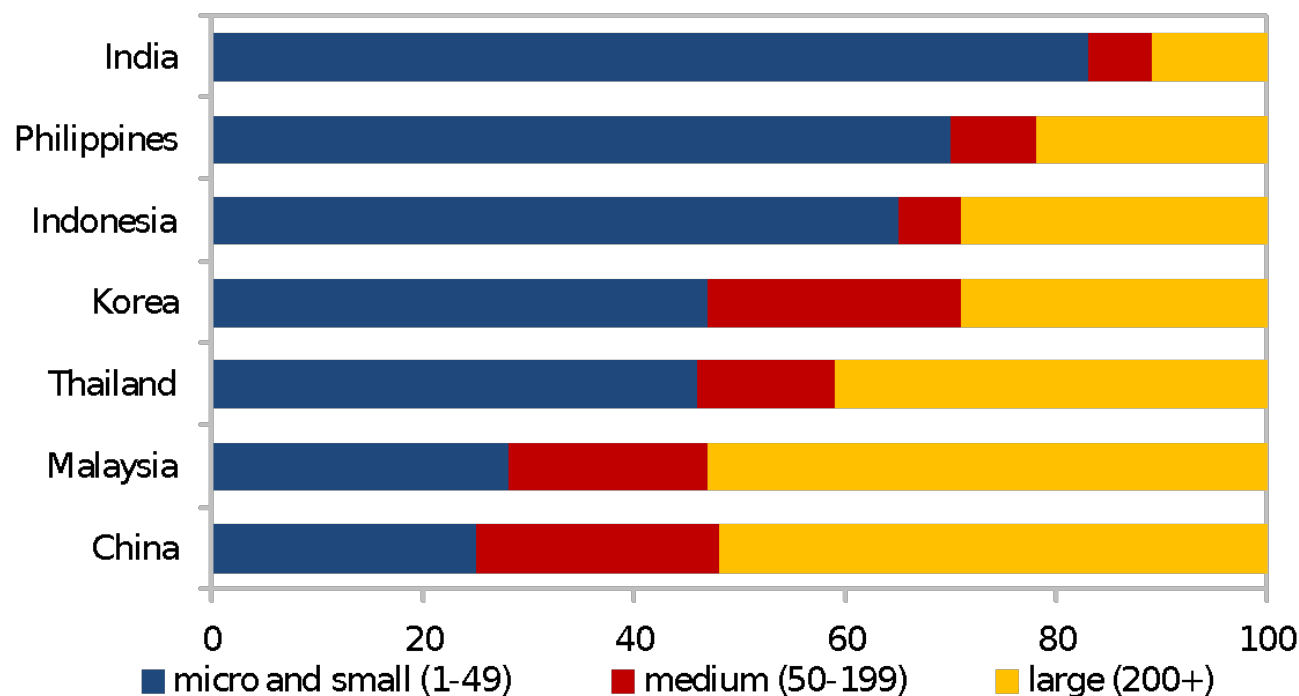
Indian exports are of middling quality



Sources: IMF Database on Export Quality, SITC 2 Digit, 2010 and authors' calculations.

And India stands out relative to other EMs

Figure 10. Share of manufacturing employment by firm size in India and selected East Asian economies

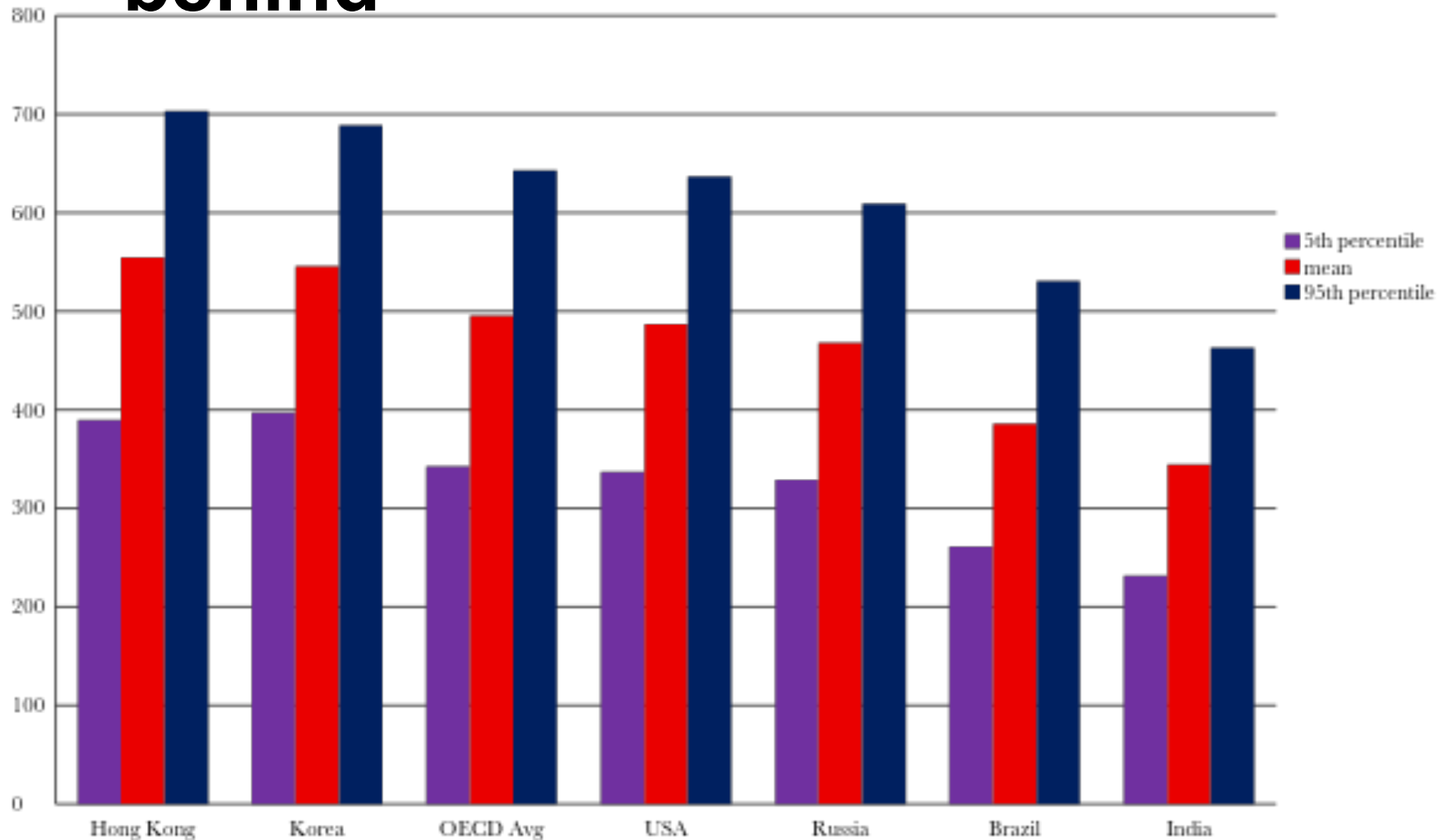


Sources: World Bank, More and Better Jobs in South Asia, April 2012.

Note: Data for India are for 2005. Data for East Asia data are for latest year available between 2004 and 2007.

Indian students have falled far behind

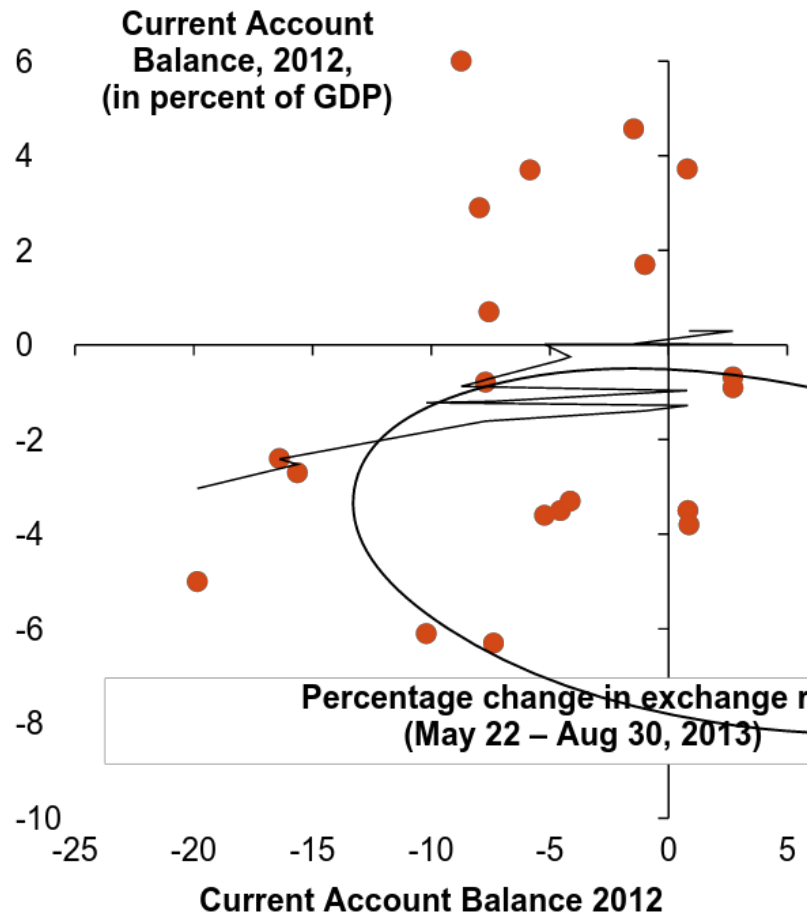
Mastery of Skills (PISA 2009)



Source: OECD, 2011

Comments on Gupta

Market developments in 2013 show that macroeconomic fundamentals matter



IMF Results

- Confirms that a key determinant of the severity of the impact of tapering talks was the volume of prior capital inflows.
- We construct a series of financial weights (based on bilateral stocks of portfolio investment liability positions of countries, covering both equity and debt) in 2009 and 2012.
- Magnitude of impulse responses to external shocks is higher when one using the 2012 financial weights as opposed to the 2009 exposures.
- This reflects the impact of increased cross-country financial flows during periods of UMP program implementation in advanced economies.
- But our findings suggest that sound fundamentals are NOT sufficient “insulation” from volatility.

Other results

- We also confirm Rey's (2013) view that there is a global financial cycle in capital flows and asset prices.
- Finally, consistent with Rajan (2014), we conclude that a prolonged term-premium compression raises financial stability concerns as the magnitude of financial spillovers has become larger over time, while asset prices and interest rates have become more correlated globally during the period of unprecedented monetary easing by advanced economies.

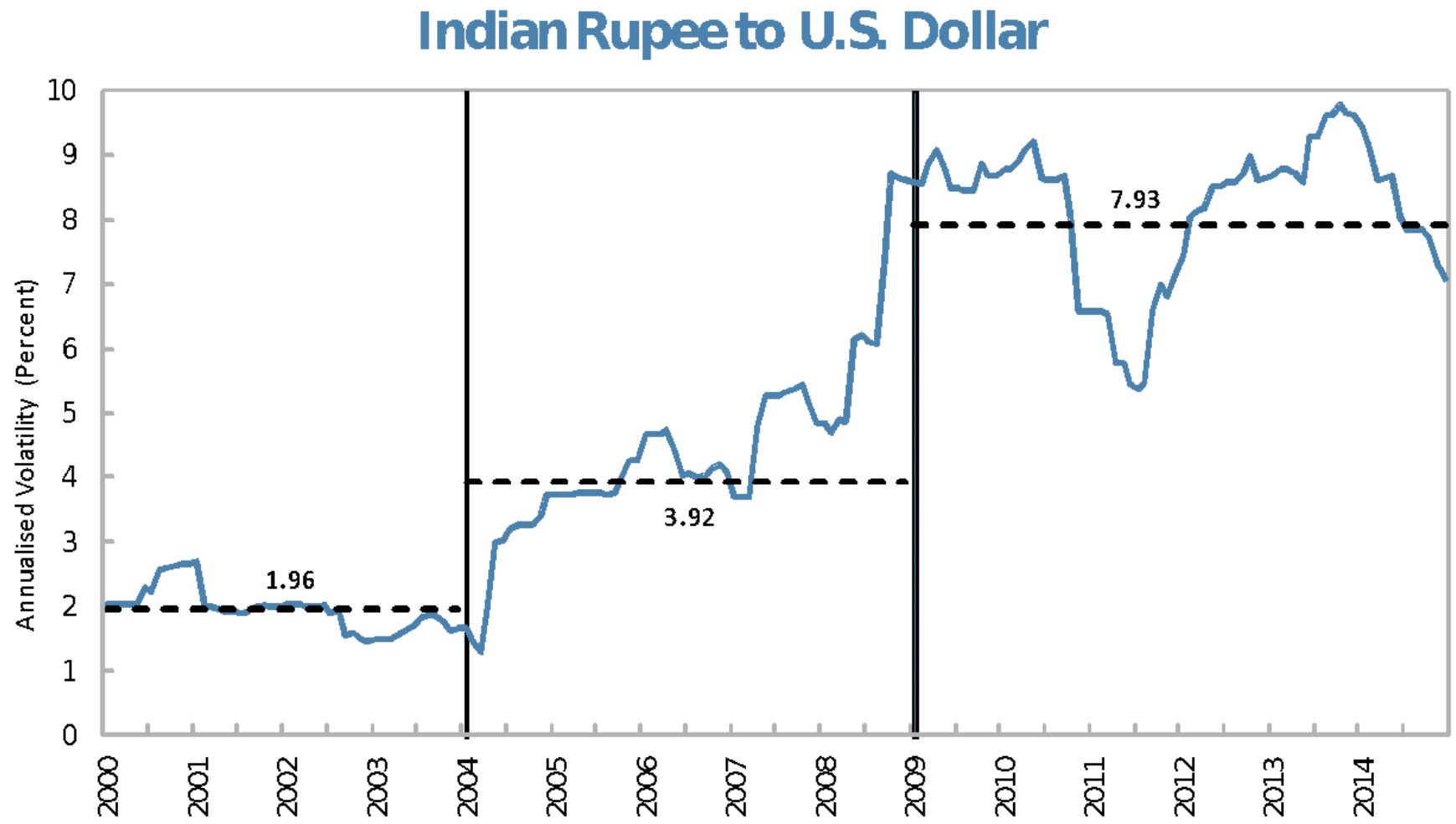
What next?

- Possibility of disruptive asset price shifts and financial market turmoil.
- Term and risk premiums are still very low. Financial market volatility, albeit slightly higher than 6 months ago, is still very low.
- The very accommodative stance of monetary policy in the US will change in 2015
- If rates rise rapidly, EM's are very exposed and India as well.
- Also a further sharp appreciation of the \$ would put stress on the balance sheets of dollar debtors and potentially offset trade benefits from real depreciation.

What should India do?

- Improve fundamentals
- Continue with flexible exchange rate management
- Maintain external buffers

More flexible exchange rate management

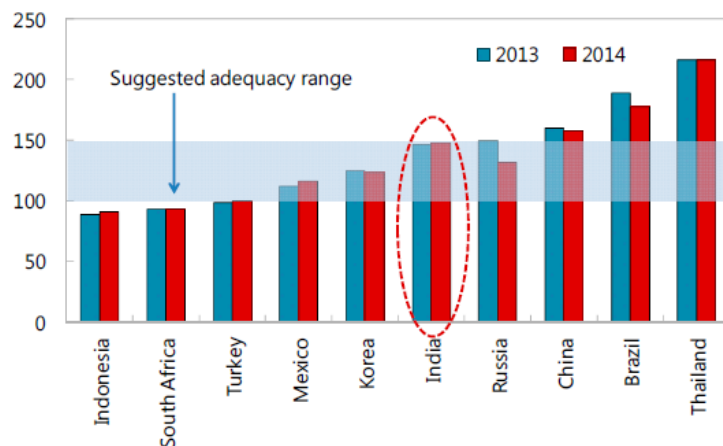


Source: IMF, IFS database

India has built up external buffers

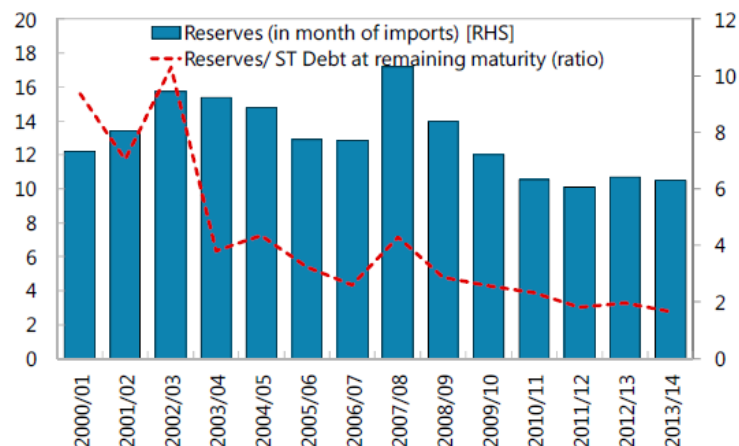
Estimated Reserve Adequacy

(Official reserves as a percent of IMF country-specific metric)



Sources: IMF, *International Financial Statistics*; and IMF staff calculations.

Reserves Coverage

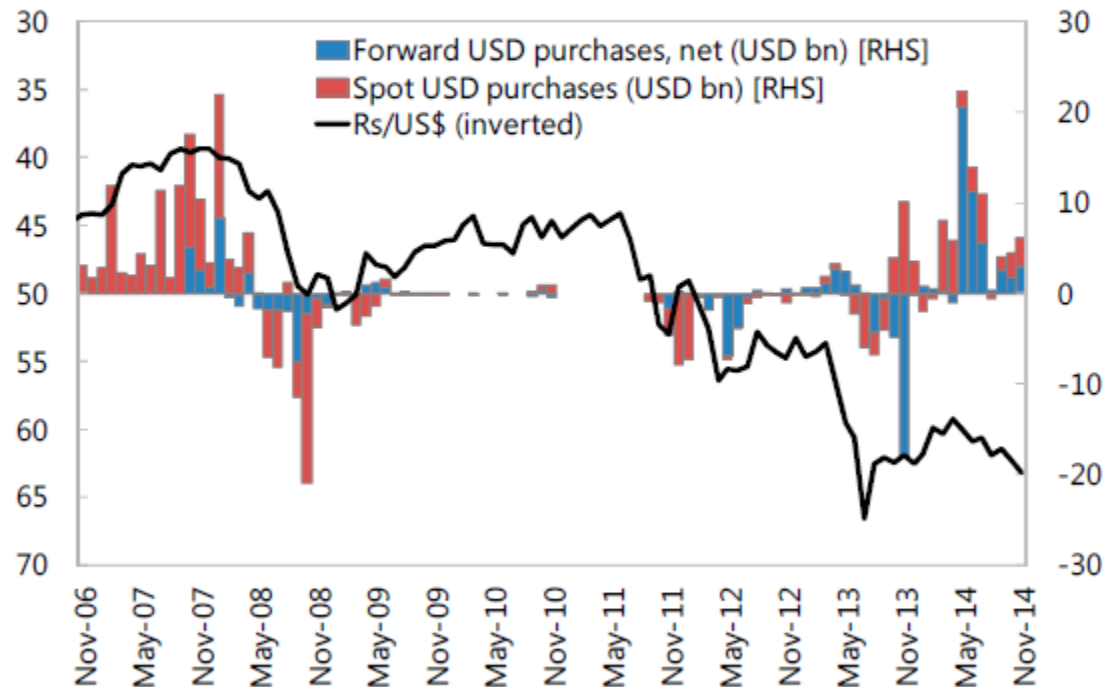


Source: IMF staff calculations.

Balance between building buffers and allowing exchange rate flexibility

Reserve buffers have been built over the past year.

Exchange Rate and Intervention



Sources: CEIC; Bloomberg; and IMF staff calculations

Thank you very much
