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## India's economic monsoon

Posted by **Izabella Kaminska** on Mar 30 14:43.

Here's an eye-opening chart if ever there was one (H/T Sean Corrigan at Diapason):



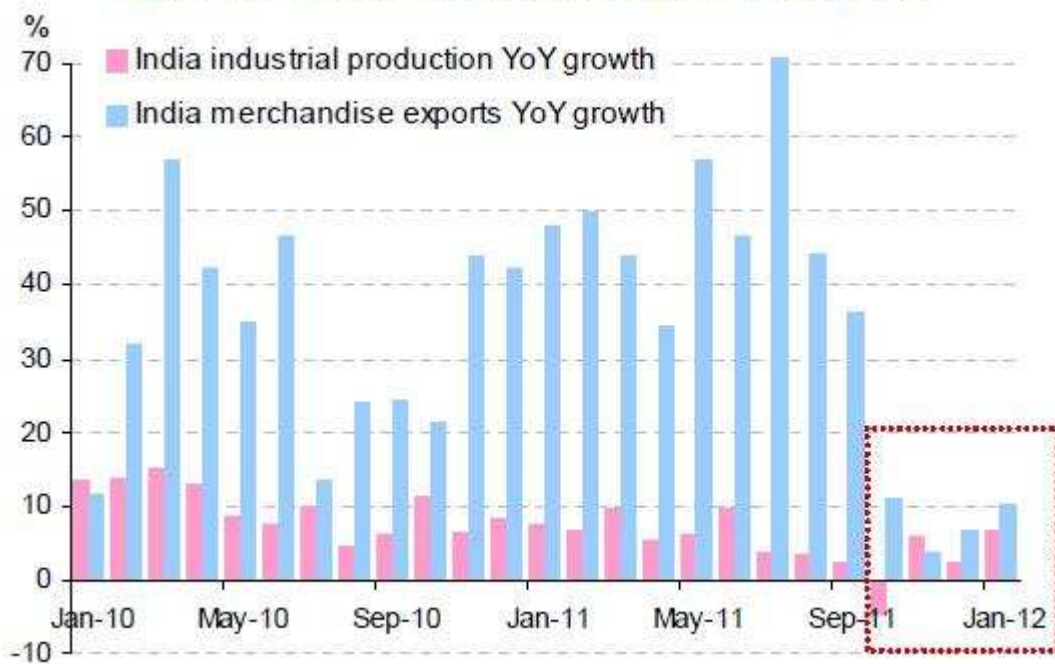
If you were guessing it's the Indian current account deficit... you'd be dead right.

Indeed, if ever there was an excuse to turn your attention away from China and over to the troubles of another BRIC economy, now would be the time.

As the WSJ [noted](#) on Friday:

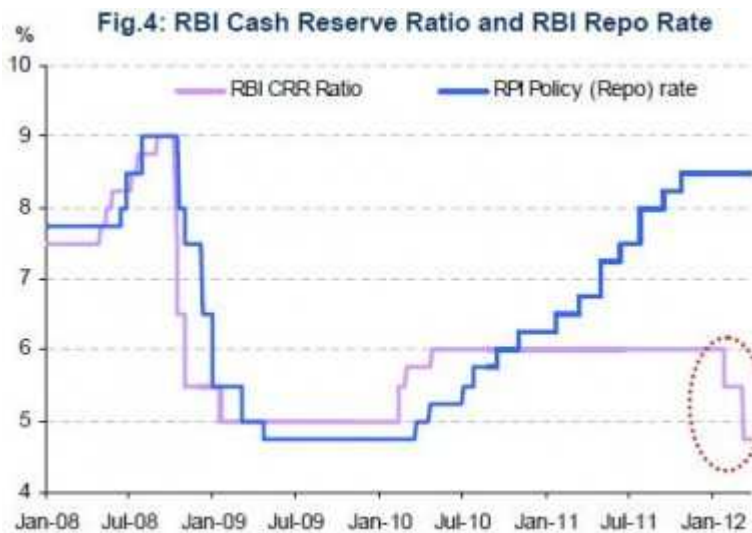
**MUMBAI – India's October-December current account deficit nearly doubled to \$19.6 billion from \$10.1 billion a year earlier due to a sharp slowdown in merchandise and services exports even as imports grew at a rapid pace, the central bank said Friday.** The current account is made up of trade balance and other items such as software payments. The Reserve Bank of India said that the country's balance of payments "experienced a significant stress as trade deficit widened and capital inflows fell far short of financing requirement, resulting in significant drawdown of foreign exchange reserves."

And here's a closer look at that merchandise export slowdown, courtesy of ICAP's shipping analytics team:

**Fig.2: YoY Industrial production and export growth**

Source: Bloomberg

As the analysts note, much of the slowdown is to down to India's recent foray into monetary tightening, to curb the country's runaway inflation problem. While it might be working on that front, the move has also had the unintended consequence of dampening corporate investment in the country, as businesses find that it is unfavourable to invest at such levels of interest:



Source: Bloomberg

To tick over, the Indian government has been ramping up its domestic borrowing. According to the analysts, borrowing spiked to an extremely high \$17.6bn in January this year, with the government announcing further plans for substantial borrowing in the first half.

ICAP's shipping analysts are naturally concerned because of India's prominent influence in their market. As they note:

*"A stronger India is better for commodity inflows into the country, but arguably also better for exports as well because government policy would be less focused on protectionism and following more popular moves politically in times of lower growth."*

An Indian slowdown, thus, could have far reaching implications.

**Related link:**[India Current Account Deficit Nearly Double - WSJ](#)

This entry was posted by [Izabella Kaminska](#) on Friday, March 30th, 2012 at 14:43 and is filed under [Capital markets](#), [Commodities](#). Tagged with [current account](#), [economics](#), [growth](#), [india](#), [shipping](#).

**Comments**

I agree with @Scarlett Pimpernel that is "yeseterday's savers are becoming today's dissavers". Our global imbalance in our global economy which may lead to lower savings rate and lower surpluses.  
Thank you for sharing the graph and starting this discussion !!

Btw I am a commodity Tips trader. Do post more such interesting posts !!

Please DO consider India's SIGNIFICANT "Black" (or NO. 2) money economy is HUGE (Some putting it at 50% of the official economy). The black economy CROWDS OUT the legitimate economy. SO called black money is one reason why Indians in India buy gold so much. But, the really big amounts seek return on investment just like ALL money does. And where does the big political Black Money go for investment? You can't put it in a bank in your name after all, for example! It goes into "Real Assets" like real estate, or cotton hoards, or Sugar hoards, you get the idea. Mr Natwar Singh, (one time minister, member of government cabinet) in a shocking set of exposes on this subject about 10 years ago had significant black money amounts which were exposed in print, and documented earning ROI of 20-25%!! Imagine that! Far MORE than legit money in a BANK! SO as black money earns its return it does so by hoarding and inflating what meager (relative to demand) output India can produce. As soon as "the economy" collectively gets going, Black Money beats the legit money every time (it is after all politically connected money) and the brilliant governors of the RBI go and jack up interest rates (on the legit money) thereby crushing it because you can't win an election in poor india when inflation is running high. So you again and again have this ridiculous 3rd world start stop start stop economy which no amount of Indian PhDs have been able to address/resolve. It's really bad. I hope the recalcitrant Indian powers that be do something...but every election year the system throws up corrupt leadership.

@RedRut There are limits on FDI in different sectors which reduces potential capital account surplus achievable

Current account deficit means capital account surplus, thus hot money inflows into BRIC (India) economies are financing their overspending (on imports of cars and gold?).

Ms. Kaminska I realize apres moi le deluge, but you better hold that metaphor. The Indian Monsoon is the most eagerly awaited event of the year, celebrated in music art and dance as no other occasion each year!

typo ... the last line shd read .." there is NO real need to be alarmed..."

There is a very +ve element which is being overlooked...yeseterday's savers are becoming today's dissavers i.e. spenders...if one looked at the savings rates of the BRICS prior to 2008, one can easily discern a post 2008 shift from savings driver CA surpluses to a lower savings rate and lower surpluses...this is essentially the meat of the global imbalance problem getting resolved by macroeconomic shifts in various areas of the global economy....there is real need to be alarmed by something that is really classical textbook rebalancing...

@Khare things like levies will be on the current account, what kind of protectionism do you mean

Weak exports would indicate weaker global rather than Indian demand. Also, the real rates are negative given CPI running at 8.87%. Lastly, politically protectionism is on the capital account rather than the current account (reversal of foreign investment in retail etc).

<http://www.telegra...tax-proposals.html>

Tehre is a Y axis. It's the Indian Balance of Payment Current Account Index.

It would help to have the y axis as something more meaningful: e.g. pct of gdp.

Certainly the bloomberg one of this looks far less dramatic.

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