

World Economic Situation and Prospects

Weekly Highlights

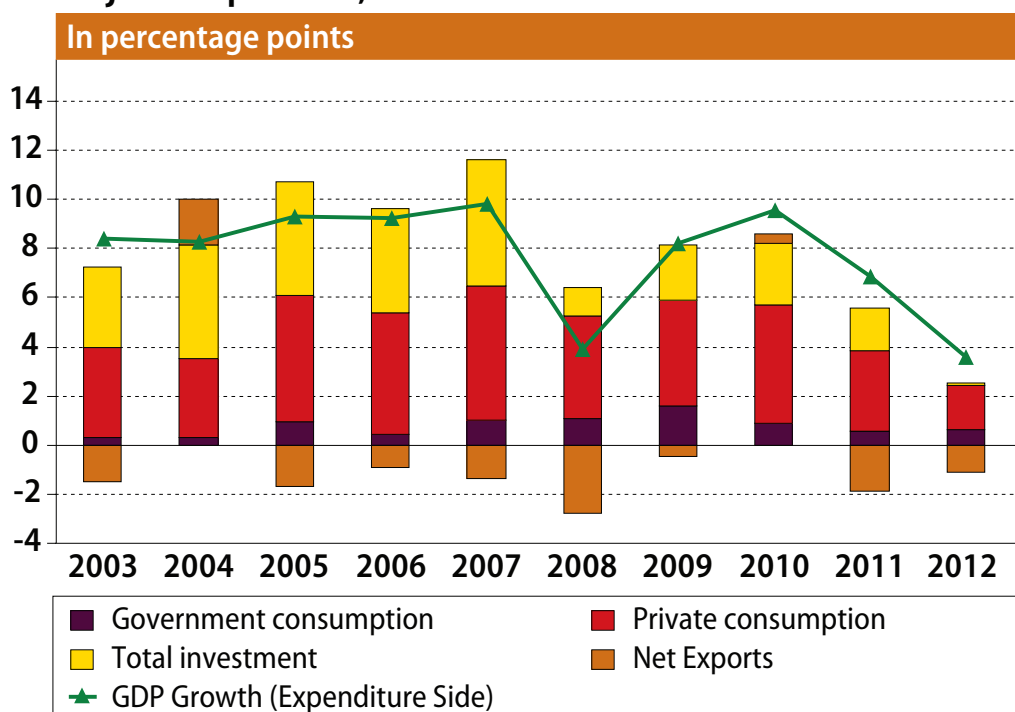
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India's recent growth performance – a look at the expenditure side

From 2004 to 2007, India's economy grew at an average annual rate of more than 9 per cent. The fast pace of expansion, along with expectations of a significant demographic dividend, led many Government officials and analysts to predict a sustained period of double-digit growth that would permit a rapid reduction of poverty. These high expectations, however, have not been realized: in the fiscal year (FY) 2008, the economy was much more severely hit by the global crisis than initially estimated; and after a brief rebound in 2009/10, GDP growth has slowed steadily, dropping to a low of 4.5 per cent in the third quarter of FY 2012. The figure below shows the contributions to GDP growth by major expenditure components during the FY 2003 to 2012 and reveals several important facts regarding India's recent growth performance¹:

Figure 1: India - contributions to GDP growth of major components, 2003 - 2012



Source: UN/DESA calculations based on data from India's Ministry of Statistics and Programme Implementation.

Notes: The data refer to India's fiscal year, which runs from 1 April to 31 March. For 2012, data cover only the first three quarters of the fiscal year. Changes of inventory, valuables and statistical discrepancies are not shown in the chart.

¹ In the case of India, expenditure-side data (market prices) often differ significantly from production-side data (factor cost).

- During the boom years prior to the global financial crisis, growth was equally based on private consumption and investment demand. Government consumption had a small positive direct effect, whereas net exports subtracted from growth during 2005-07.
- The sharp and sudden slowdown in the fiscal year 2008 was caused by a further decline in net exports and much weaker investment growth, while private consumption initially remained fairly robust.
- The most recent episode of subdued growth reflects ongoing weakness in investment growth—which never fully recovered from the slump in 2008— and a significant deceleration in private consumption demand. Both components have been negatively affected by increasing and persistent inflation, high nominal interest rates and political gridlock.

Looking ahead, the simultaneous weakness in India's two major GDP components—private consumption and investment—does not bode well for the short-term prospects of the economy. The way back to faster growth will likely be rockier and more difficult than initially expected, especially since a high fiscal deficit constrains the Government's ability to provide stimulus.