Indian economy buffeted by mounting crisis

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The Indian economy is facing a series of interconnected crises as indicated by a sharp decline in economic growth, falling domestic and foreign investment, a depreciating currency, large trade and current accounts deficits, huge stock market losses and near double-digit inflation.

Especially jarring was the almost 5 percent year-to-year contraction in industrial production recorded last October.

Together these developments have dealt a shattering blow to the Congress Party-led government's target of sustained 9 percent per year economic growth.

Last month, India's Finance Minister, in a report to parliament, reduced India's growth target for the current financial year, which runs from April 2011 to March 2012, to 7.5 percent from 9 percent. Then, at the beginning of January, Indian Prime Minister Manmohan Singh told the press that the growth rate will in fact only be 7 percent.

Such a growth rate would be viewed as phenomenal in the advanced capitalist countries. But for the Indian bourgeoisie, which despite its world ambitions leads a country that is poor and backward by almost any measure, the slowing of economic growth is nothing short of a calamity.

Prime Minister Manmoham Singh has repeatedly said that 9 percent annual growth is needed to sustain a popular constituency for the Indian elite's program of transforming India into a cheap-labor producer for world capitalism through tax cuts, deregulation, privatization and other pro-investor policies. Absent such high growth, India—which is home to a quarter of the world's teenage population—will be manifestly unable to absorb into its workforce tens of millions of working- and middle-class job seekers.

The ongoing European economic crisis has particularly exacerbated the dangers facing the Indian economy, since the Eurozone is the country's largest export market. Speaking January 7 at the inaugural session of the Institute of Chartered Accountants of India (ICAI), Finance Minister Pranab Mukherjee acknowledged this. "The Eurozone crisis and the slow recovery all over the world have also affected us," said Mukherjee. "Volatility of the international commodity prices, particularly fuel, has [also] adversely affected our short term and medium term projections."

A further measure of the economic slowdown is a sharp decline in investment. According to a report in the January 11 *Economic Times of India*, new investment proposals fell 45 percent in 2011 to a five-year low of $209.2 billion. This compares with $376 billion in 2010.

Important sections of big business have been agitating for the government to declare victory in its war on inflation and move to stimulate economic growth by lowering interest rates.

So as to contain inflation, the Reserve Bank of India raised its trend-setting interest rate 13 times between March 2010 and October 2011. Recent months have seen the wholesale inflation rate decline to 9 percent, but the government and central bank have been reluctant to lower interest rates because of the recent rapid depreciation of the Indian rupee and fear of capital flight.

The Indian rupee was the worst performing major Asian currency last year with the rupee (Rs.) plunging 17 percent to about Rs. 55 to a US dollar. Almost all of the depreciation came in the second half of the year, when fears of European sovereign debt defaults and the possible unravelling of the Eurozone led investors to stampede to the US dollar.

For India, which is dependent on imports for more than two-thirds of its oil, the rupee depreciation threatens to unleash another major bout of inflation, driving up food prices and further squeezing the meagre incomes of the three-quarters of Indians who survive on less than US $2 per day.

The Indian government and central bank are also deeply worried about foreign investment inflows.

In the April 2010-March 2011 fiscal year, India received only $19.4 billion in foreign direct investment (FDI), an almost 25 percent decline from the $25.8 billion recorded in 2009-10. Government estimates of FDI in the current fiscal year have fluctuated wildly. After small inflows in September and October, officials were warning that India might not even match the 2009-10 figure; then, after a good month in November, they were claiming total FDI could surpass the $27 billion recorded in 2008-9.

Indian share values fell sharply in 2011, with the benchmark Bombay Sensex sustaining a fall of 25 percent. This translated into an estimated loss to investors of around $400 billion. Because of the coincident sharp decline in the value of the Indian currency, foreign institutional investors (FII) such as mutual funds sustained especially heavy losses. According to the *Hindu Business Line*, FII losses averaged 36 percent.

The turbulent domestic and world economic situation has led to concerns about India's capacity to weather a financial storm, in particular a sustained withdrawal of funds from the Indian stock market and a decline in FDI. India's current account deficit (CAD) for the April-Sept. 2011 period jumped to $32.7 billion (3.6 percent of the GDP) from $29.5 billion for the same period in 2010.

Although financing of the CAD is not an immediate concern, India's ability to sustain such deficits is being questioned in the media. Feeding such worries is the fact that India's foreign exchange reserves dipped to 99.5 percent of total external debt in March 2011 and had further declined to 95.4 percent by Sept. 30. Analysts have warned that a decline to around 91 to 92 percent would be serious cause for worry, leading in the first instance to pressure on India's credit rating and increased borrowing costs for the Indian government.

In response to the mounting economic problems, big business has demanded with ever-greater alacrity that the Congress Party-led coalition government dramatically accelerate the introduction of neoliberal reforms—all of which will increase big business profits at the expense of the livelihoods of workers, peasants and small traders. In particular India's business elite have been pressing for the gutting of restrictions on the closure of factories and the contracting-out of work, stepped up privatization and disinvestment, the opening of the retail sector to large foreign multi-brand companies like Wal-Mart, and the imposition of a regressive national goods and services tax.

Business has also been attacking the government for the modest social spending increases it made in its first term in office, pointing to the widening budget deficit-to-GDP gap. Although the government forecast a deficit equal to 4.6 percent of GDP, analysts now predict that it will be around 5.6 percent.

"Investment is weak and if the government does not act fast, it may come to a grinding halt," a financial analyst told the *Economic Times of India*. "The government needs to work overnight and carry forward reforms and approve policies over the next 2-3 months for things to improve."

Like its rivals around the world, the Indian bourgeoisie is determined to place the full burden of the capitalist crisis on the working class and rural toilers.