

India's Boom: Real or Overheating?



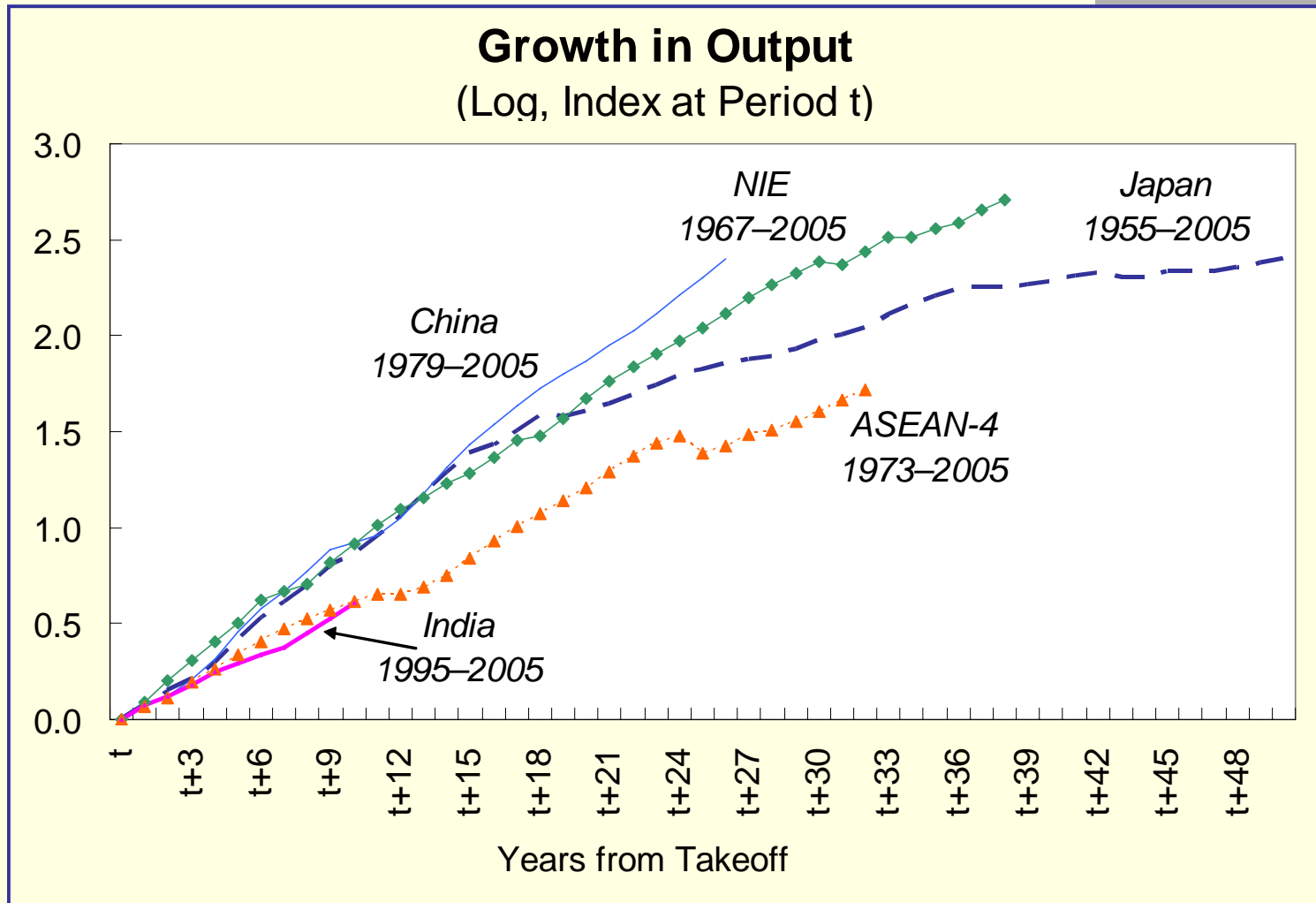
Charles Kramer, IMF
Brookings Institution
March 2007

Is India overheating? Despite a poor business environment...

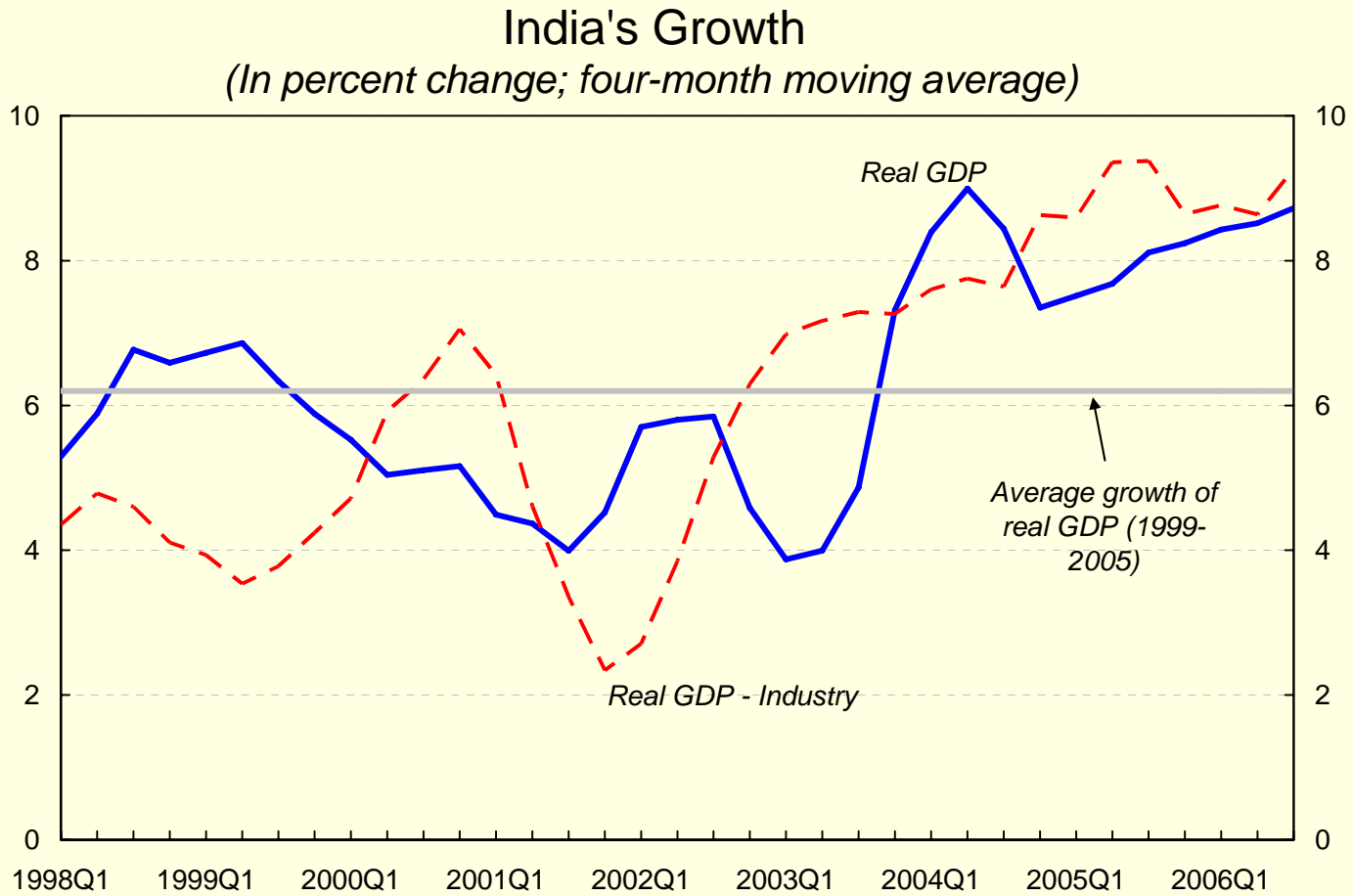
- Water in Bangalore available only 2.5 hrs/day
- Average mfg loses 8.4% in sales to power outages (<2% in China, Brazil)
- 60 percent of mfgs own generators
 - China: 27; Brazil: 17
- 3 months to open a business in Mumbai
- 800 million living under \$2/day

(World Bank Development Policy Review 2006)

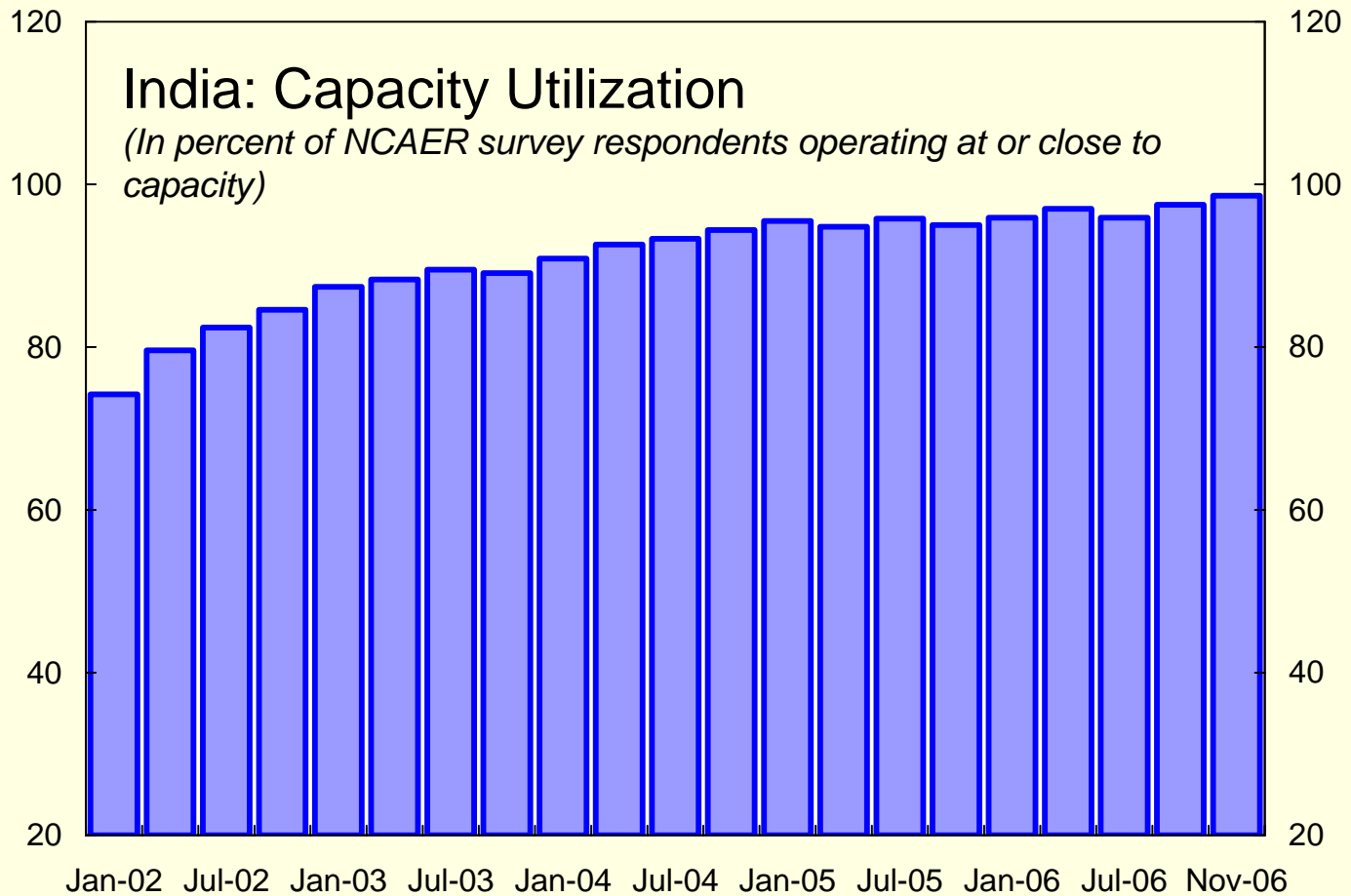
India is at the beginning of a growth takeoff



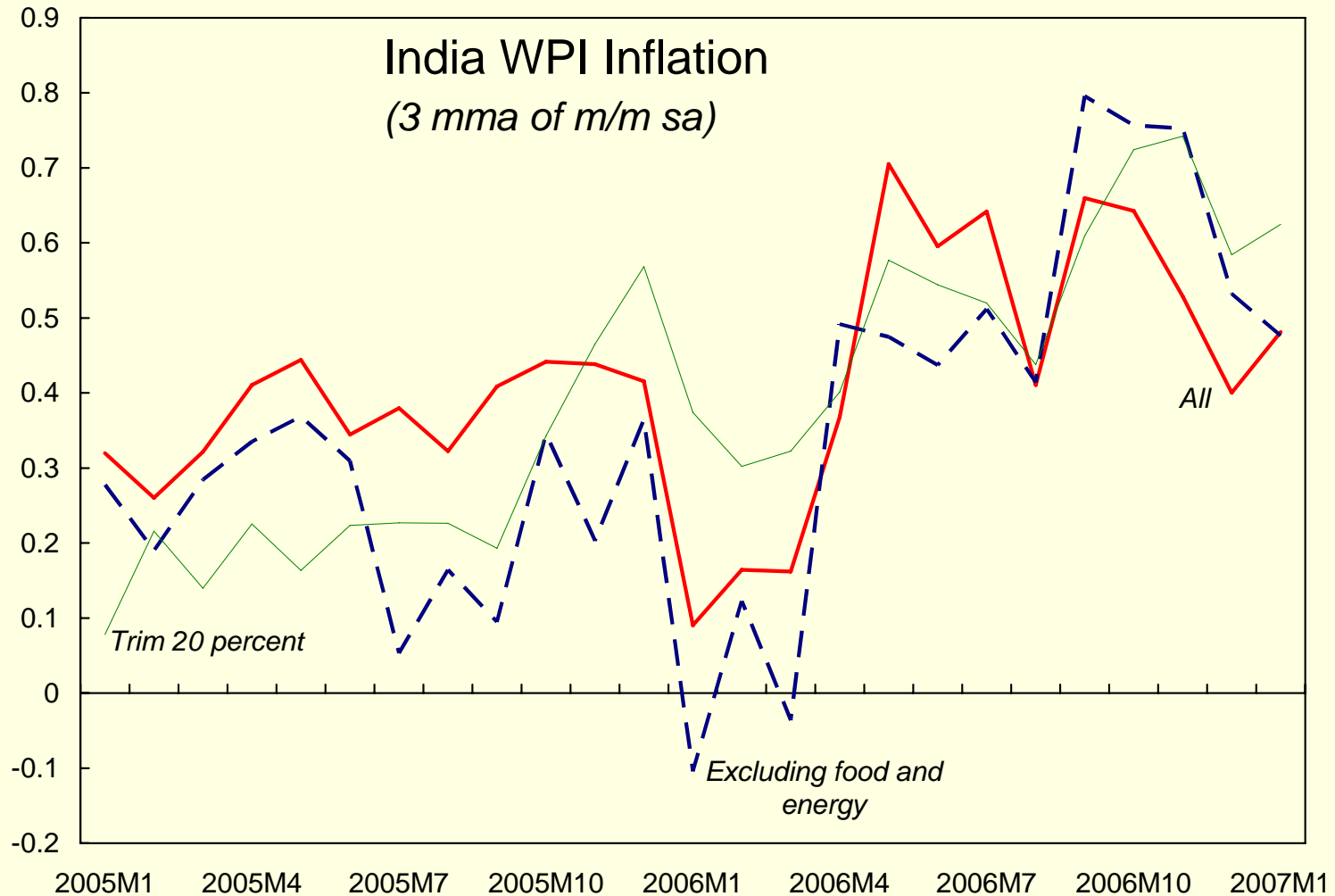
And not just services



But capacity is tightening...

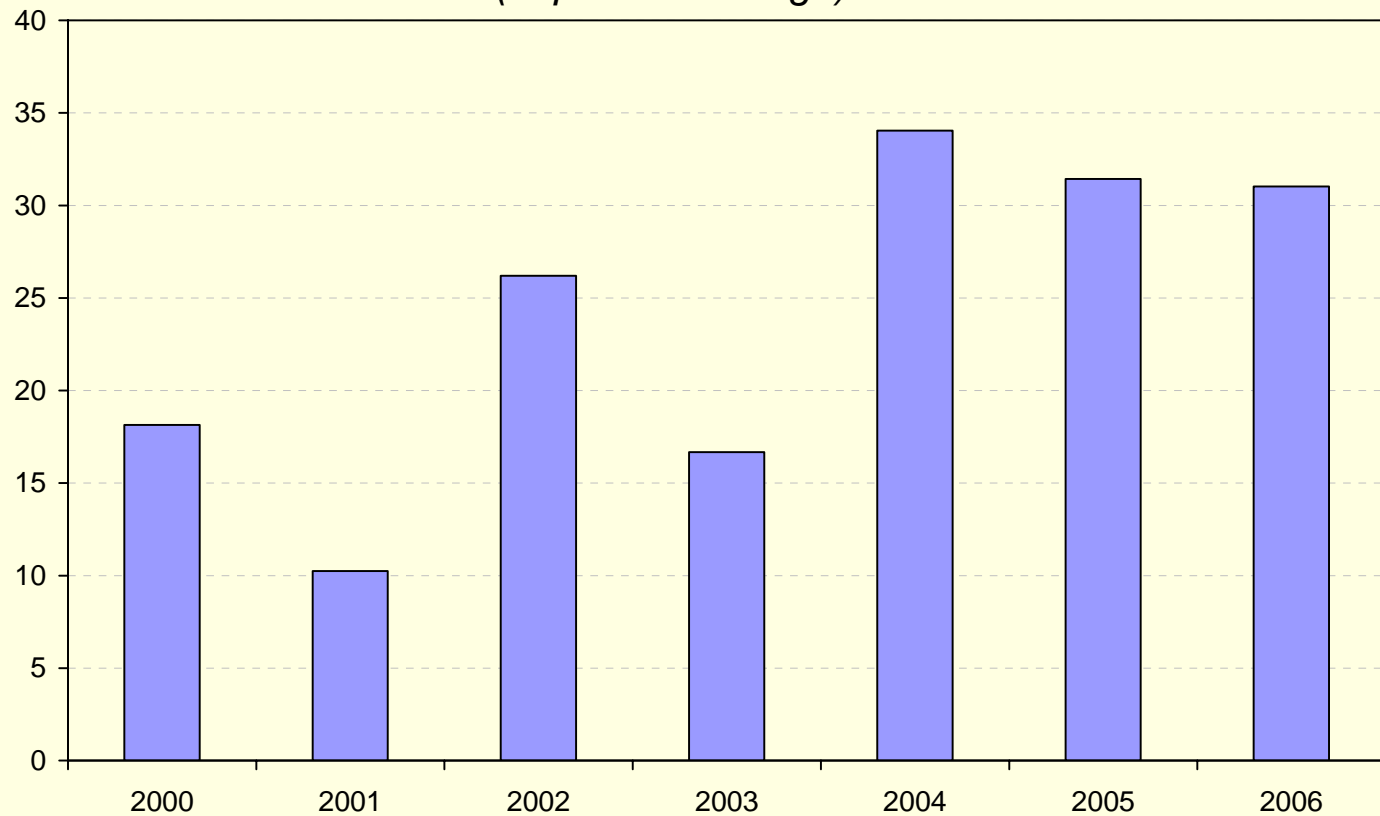


Signs of overheating in goods prices...

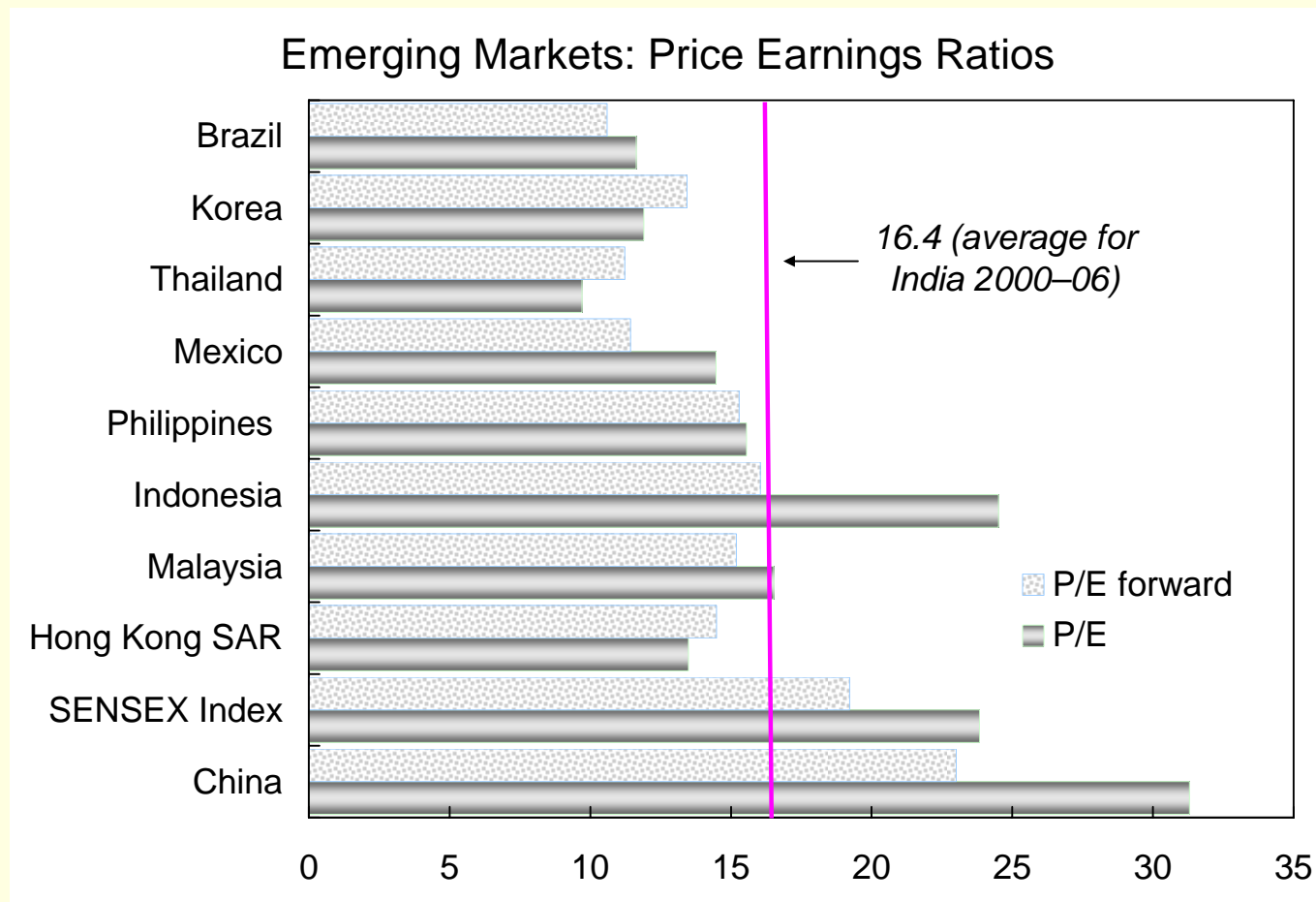


...credit...

India Commercial Bank Non-Food Credit
(In percent change)

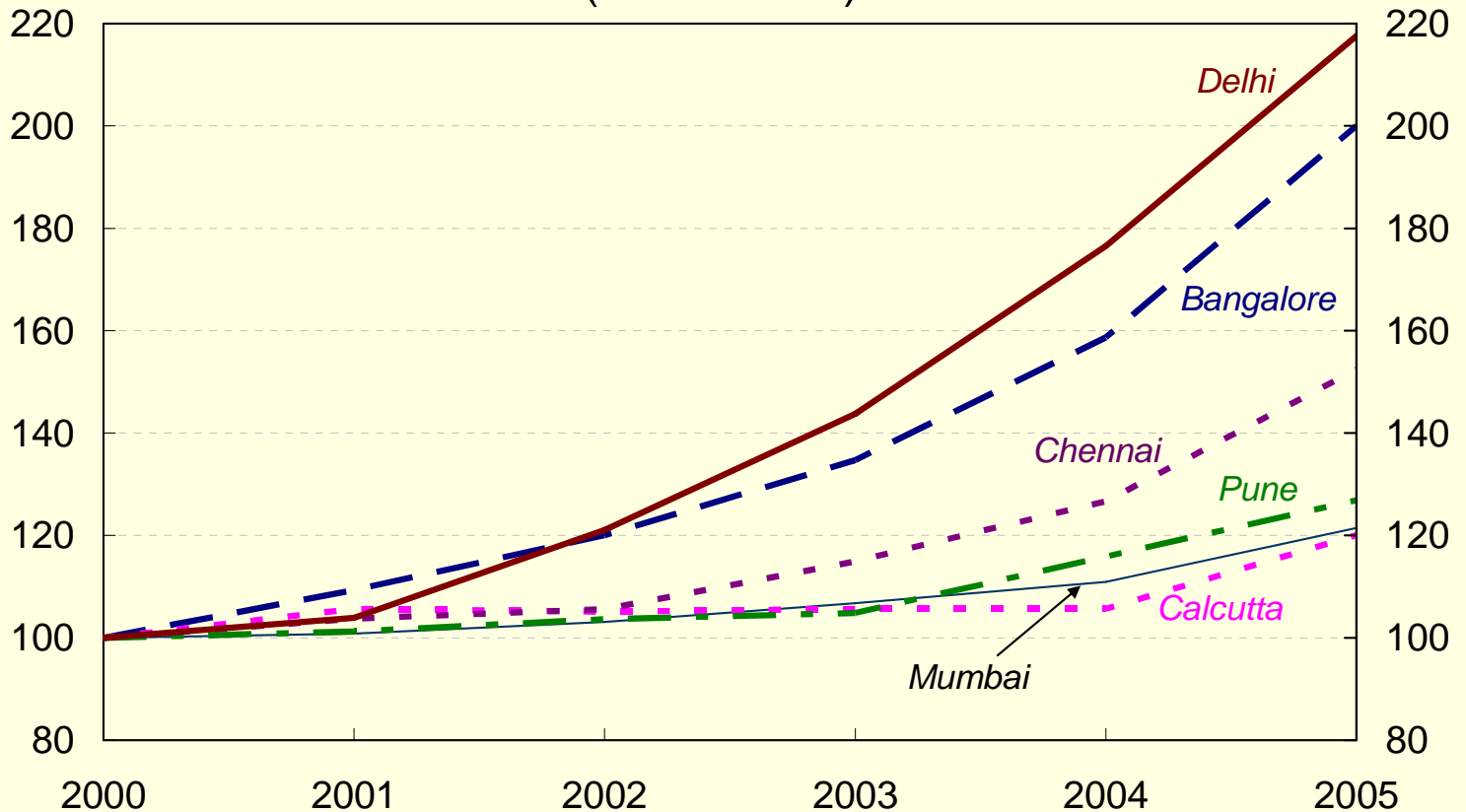


...stock prices...



..and real estate prices

India: Index of House Prices
(2000= 100)



Is it real? Partly...

Fundamentals:

- Demographics: working age pop + 140 million in the next decade
- Productivity (reforms): 1.5% (80s, 90s) → 3+% (?) (2000s)
- Financial deepening (private credit/GDP= 43% in India, 75% in Asia)

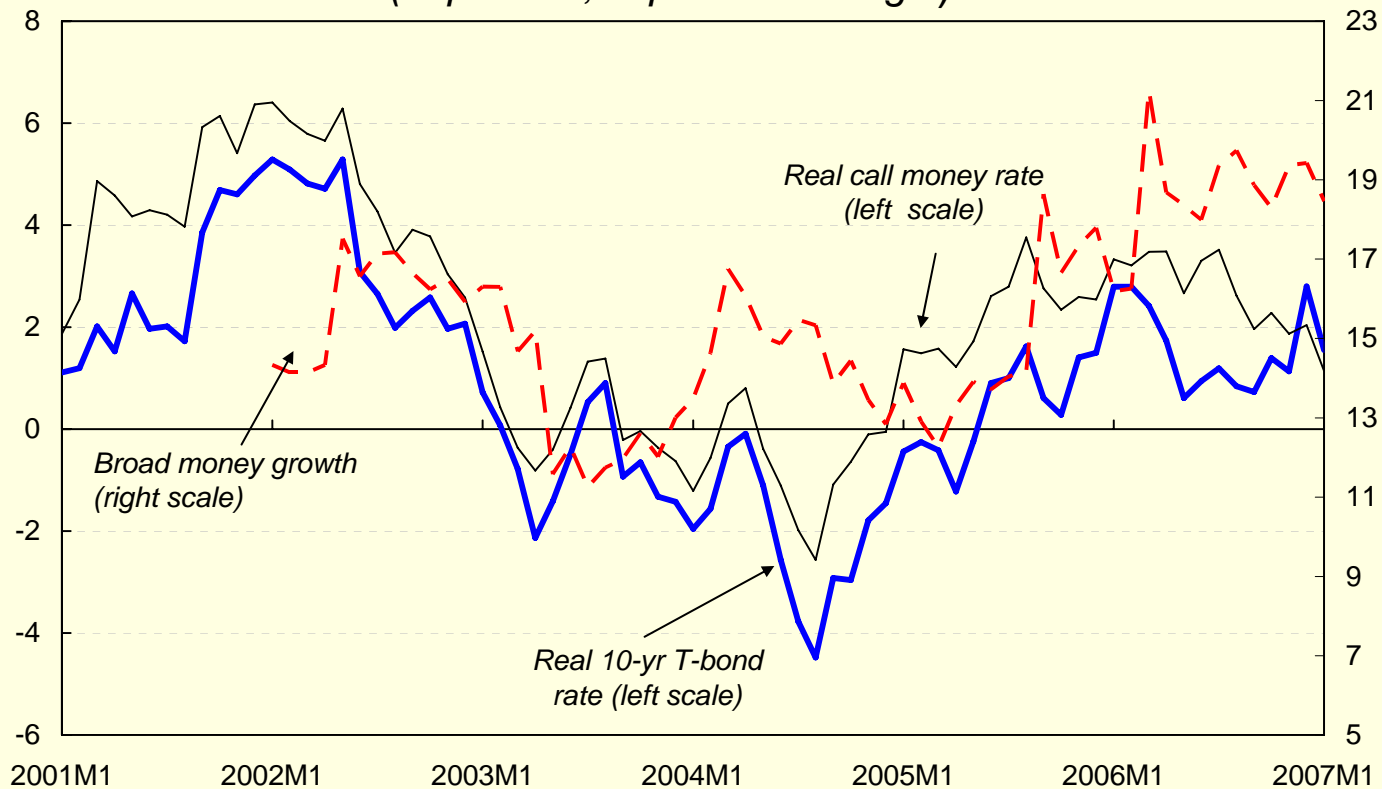
But overheating too

How to maintain growth? 4 steps

1. Withdraw monetary stimulation
2. Bring down public debt
3. Bolster the infrastructure
4. Develop capital markets

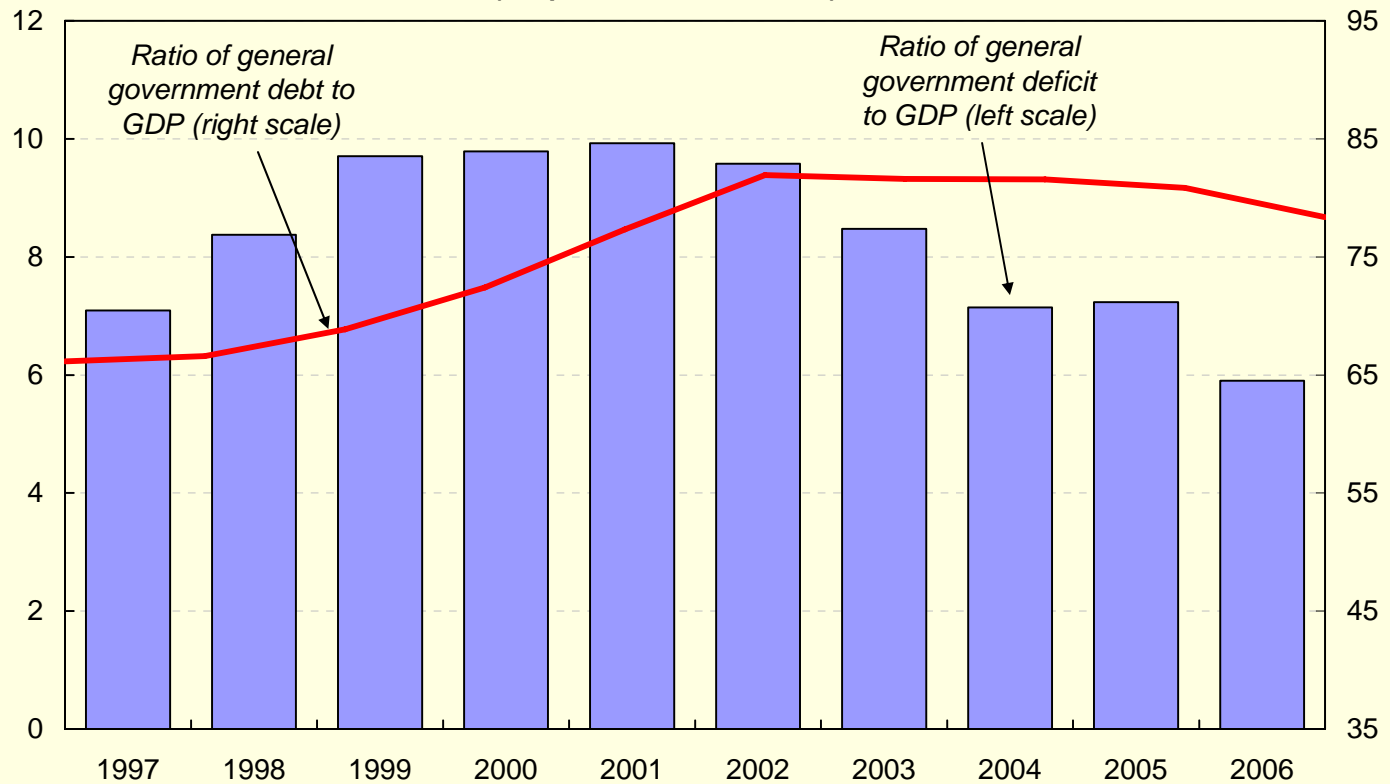
Monetary policy

India's Monetary Policy
(In percent; in percent change)



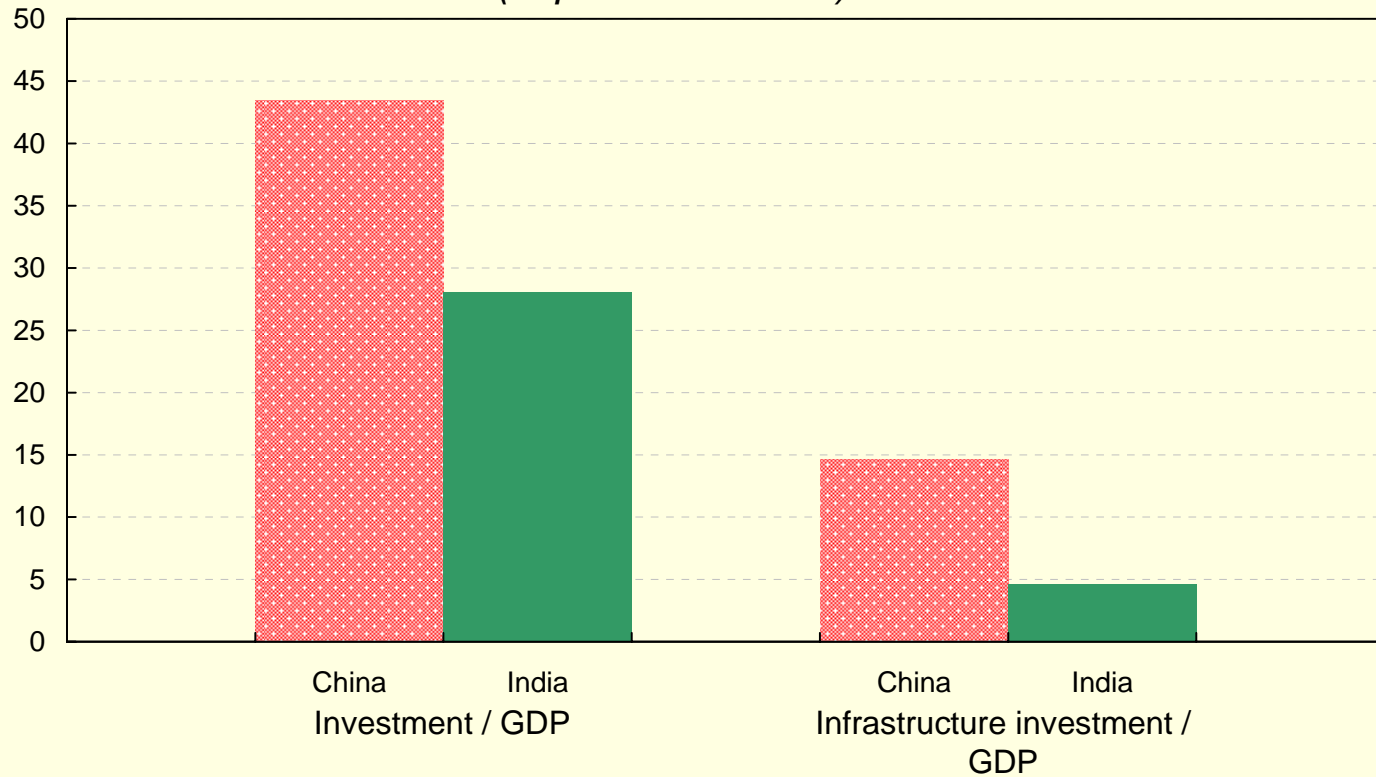
Fiscal Policy

India's Fiscal Policy
(In percent of GDP)



Infrastructure

Infrastructure Indicators in 2005
(In percent of GDP)



Capital Markets Development

