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Indian GDP growth slides to 5.3%

By James Fontanella-Khan in New Delhi

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India became the latest developing economy to see its once breakneck growth slow sharply on Thursday as it recorded its slowest expansion in almost a decade thanks in large part to political paralysis that economists fear could yield a bigger crisis.

The economy expanded at an annual rate of 5.3 per cent in the three months to March, from 9.2 per cent in the same period last year, as the agricultural and manufacturing sectors were hit by sharp slowdowns.

With that it joined the Brazilian and Chinese economies, both of which have shown signs of slowing in recent months. China’s official purchasing managers' index due to be released today is expected to confirm a slowdown in industrial orders. The Brazilian central bank on Wednesday, meanwhile, cut its benchmark rate to a historic lows as part of efforts to revive growth in Latin America’s largest economy which has fallen from a 7.5 per cent annual rate in 2010 to an annualised rate of a little more than 1 per cent in recent months.

In India the slowing of the economy has been aggravated by political paralysis which has hit the government of one-time reform champion Manmohan Singh, India's premier.

Pranab Mukherjee, finance minister, blamed the weak data on the poor performance of the manufacturing sector, which shrank 0.3 per cent from a year earlier. He also promised to take "all necessary steps" to trim the country's ballooning budget and current account deficits, which are a big drag on growth.

But even economists close to the government said it needed to act quickly to repair confidence. Govinda Rao, a member of the Economic Advisory Council to the prime minister, said the latest data should be the final "wake-up call" for the government.

Eswar Prasad, a former IMF economist who is now a senior fellow at the Brookings Institution, said: "If these dire numbers on falling growth and the plunging currency don't cause alarm bells to ring in the corridors of power and elicit a sharp policy response, it's hard to see what will."

India's growth in the first three months of this year was slower than that witnessed after the collapse of Lehman Brothers in late 2008, when it decelerated to an annual rate of 5.8 per cent. The country's currency, the rupee, hit an all-time low of Rs56.5 against the dollar following Thursday's data. Over the past eight months it has depreciated by about 25 per cent against the dollar – making it one of the worst performing emerging market currencies, according to BNP Paribas.

The weakening of the rupee this year has put further pressure on the country's widening fiscal deficit and caused some to invoke memories of the 1991 current account crisis that precipitate the two decades of economic reforms that have turned India into a developing world champion.

Sonal Varma, economist at Nomura, said India was now sitting on much bigger foreign exchange reserves at $292bn than it had available during the 1991 crisis.

But he was not alone in invoking the crisis. Rajiv Kumar, secretary-general of the Federation of Indian Chambers of Commerce, the country's leading business group, said: "We may be in danger of slipping into a 1991-like crisis," noting that the ruling Congress party faced social instability unless it moved rapidly to restore investor confidence.

A wave of corruption scandals engulfing the government and senior members of the cabinet has left parliament in a state of virtual paralysis with elections not due until 2014. Key reforms – including allowing foreign investment in the retail sector as well as passing a law to facilitate the acquisition of land to develop vital infrastructure projects – have been stalled in parliament for more than a year.

A nationwide strike on Thursday, organised by opposition parties in protest at a 10 per cent increase in petrol prices, however, highlighted the challenge the government faces when it comes to introducing sweeping economic reforms.

Robert Prior-Wandesforde, director of Asian economics at Credit Suisse, said that the poor GDP figures would "send shivers down the spines of senior coalition politicians, who will no doubt be heaping pressure on the Reserve Bank [of India] to... react aggressively". However, analysts said that slowing growth, accelerating inflation and the rupee at a record low would make it hard for the central bank to cut its benchmark interest rate of 8 per cent.

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