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Strains on India's Government Grow After Sharp Economic Slowdown

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MUMBAI, India — India's growth fell to its slowest pace in almost a decade last year, according to government estimates published Thursday, putting further pressure on a fractured coalition government in New Delhi that has been widely criticized for its management of the economy.

India's economy grew 6.5 percent in the fiscal year that ended in March, down from 8.4 percent the year before, as sectors like manufacturing, mining and agriculture did poorly. In a worrying sign for the rest of this year, the report showed a sharp drop-off in economic activity in the first three months of 2012, with growth falling to 5.3 percent, from 9.2 percent a year earlier.

Analysts were expecting India's growth rate to slow because of a contraction in new investments by the private sector and the financial effects of the crisis in Europe, but the numbers were worse than predicted. Moreover, more sectors exhibited slower growth, raising new concern about the economy.

"The latest growth numbers signal India's deteriorating economic prospects and presage much worse to come as industrial output has stalled and investment is falling," said Eswar Prasad, an economist at the Brookings Institution and Cornell. "These numbers reflect not just a loss of economic momentum but, far worse, a loss of confidence in the government's ability to tackle the enormous short-term and long-term challenges to sustaining growth."

The full-year growth number was below the country's growth rate during the financial crisis in 2008-9, when India grew at 6.7 percent. The last time India grew at a slower pace was in the 2002-3 fiscal year, when it registered a 4 percent pace.

Analysts say it will be harder for Indian policy makers to respond to a slowing economy now than in the financial crisis more than three years ago. At that time, the government's finances were relatively healthier and it was able to spend money to stimulate the economy. Now, however, New Delhi is desperately trying to cut its fiscal deficit from 5.9 percent of its

gross domestic product to 5.1 percent. Also, the Reserve Bank of India has less room to cut short-term interest rates to stimulate lending because inflation remains high, at about 7 percent.

Many analysts have been arguing that the best way for policy makers to respond to slowing growth is further liberalization of India's economy, large parts of which are still heavily regulated. The government could, for instance, make it easier for foreigners to invest in industries like retail, aviation and insurance that need more capital.

But the government, led by the Indian National Congress Party, has struggled to pass unpopular measures in recent months because of opposition from its coalition partners and political rivals. Last year, it indefinitely deferred a plan to allow foreign supermarkets into the country after a coalition partner threatened to pull out if the change went through.

On Thursday, much of India was shut down in protest against a sharp increase in petroleum prices by government-owned oil companies. Policy makers said the increase was needed to offset the rising cost of oil imports, which have become more expensive as India's currency, the rupee, has fallen sharply against [the dollar](#). In New Delhi and Mumbai, roads normally clogged with traffic were largely empty Thursday afternoon.

The benchmark Nifty stock index closed down about 0.5 percent. The rupee was trading at 56.1 to the dollar after crossing 56.5 earlier in the day. As recently as February, the rupee was trading about 49 to the dollar.