*Growth and Development in the BRICS Economies**

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BRICS: FROM ACRONYM TO GLOBAL ECONOMIC POWERHOUSE[1]

Professor Pami Dua, Director, Delhi School of Economics, Prof. Yogesh Singh, Vice Chancellor, University of Delhi, Prof. Sanghamitra Bandyopadhyay, Director, Indian Statistical Institute, Delhi Centre, Prof. Chetan Ghate, Indian Statistical Institute, distinguished invitees and conference participants, I am honoured to be invited to deliver the inaugural keynote address for the conference on 'Growth and Development in the BRICS Economies' jointly organised by the Delhi School of Economics and the Indian Statistical Institute, Delhi Centre. The conference is timely and topical in view of India taking over the presidency of BRICS in 2021. The discussions in the conference and the signed papers to be presented will surely shine light on how the BRICS economies chart their course through the pandemic and into a post-pandemic future. My address is loosely divided into two parts, although I might be moving back and forth to tease out the inter-linkages. The first part will deal with the state of the BRICS economies and the immediate challenges that they face. This will be followed by an overview of the challenges confronting India, in view of the current BRICS presidency.

* Keynote address delivered by Michael Debabrata Patra, Deputy Governor, Reserve Bank of India in the conference on 'Growth and Development in the BRICS Economies' organised by the Delhi School of Economics (DSE) and Indian Statistical Institute (ISI), Delhi.

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BRICS IN THE GLOBAL ECONOMY

The acronym BRIC is traced back to 2001 and widely attributed to Jim O'Neill, then Chairman of Goldman Sachs Asset Management, but apparently there is some dispute about its origin. Be that as it may, the first formal meeting of BRIC, i.e. Brazil, Russia, India and China, represented by their Leaders took place in Yekaterinburg, Russia in 2009. South Africa joined in 2010 and completed the BRICS. Together, the BRICS account for more than 40 per cent of the world's population, a quarter of global GDP, a quarter of global direct foreign investment and close to a fifth of world trade. It is in this context that the BRICS are being regarded as an emerging global powerhouse.

The BRICS encompass a wide diversity as well as distinct similarities. They include the most populous nations as well as relatively sparsely lived ones, with different demographic profiles, especially in terms of population ageing, life expectancy and share of dependents. They also vary quite widely in terms of their financial development, with the proportion of adults owning bank accounts being taken as a measure of financial inclusion. The BRICS also share many common features - broadly similar stages of development; accelerating growth in a sustainable manner as a development strategy; emphasis on inclusivity and digitisation; and investing into climate resilience. It is with these characteristics that BRICS have come together to contribute to the development and prosperity of human societies all over the world and thereby to the global common good.

The International Monetary Fund (IMF) projects global GDP to turn around from an unprecedented decline of 3.1 per cent in 2020 and expand by 5.9 per cent in 2021. The BRICS are expected to be the most important engine of global recovery, contributing 42 per cent of global growth in 2021, which is more than the combined share of the next three growth drivers (the US; the Euro area; the UK). The BRICS are also a formidable force in world trade, accounting for about 16 per cent of world merchandise and services trade by value. They comprise both commodity exporters and importers, with country specialisations across a range of manufactures and services. Intra-BRICS trade is expanding robustly and has exhibited a degree of pandemic proofing - illustratively, India's trade with BRICS partners has risen to USD 113.3 billion in the pandemic financial year 2020-21 (April-March), up from USD 110 billion in the pre-pandemic year of 2019-20. In 2021-22 so far, all the BRICS nations are posting robust export performances.

The BRICS nations are financially open economies and preferred habitats for capital flows. In recent years, they have also experienced sudden stops and reversals accentuated by portfolio flows. By contrast, all of them are also recipients of relatively stable foreign direct investment (FDI). In 2020, there was a retrenchment of capital flows across emerging market economies (EMEs). Among the BRICS, only India and South Africa were spared from net outflows. In 2021 so far, net capital flows continued to favour India and Brazil. In contrast to the situation at the time of the 2013 taper tantrum, the BRICS appear to be well fortified on the external front. Currently, the BRICS collectively hold 33 per cent of global foreign exchange reserves, with China, India and Russia among the top ten reserve holders of the world. Reserve adequacy measured by prospective import cover ranges between 7 and 19 months. China and Russia typically run current account surpluses, and hence the focus of financial markets is usually on BRICS current account deficit economies – Brazil, India and South Africa. India moved into modest current account surpluses in 2020 and 2021 so far, but this may not last in view of rising import demand.

BRICS IN A MULTILATERAL ROLE

The BRICS have been staunch champions of multilateralism, voting unanimously for quota and governance reforms at the IMF to make it more representative of global economic realities, especially the rising profile of EMEs. Together, they hold 14.8 per cent of the IMF's quota resources that total SDR 476.4 billion and 14 per cent of voting power. In the World Bank, they have increased their share in the institution's capital to 14.1 per cent, with a share of 13.4 per cent in voting power. Confronted with an impasse in future quota reform amidst a hostile and volatile international environment, the BRICS have turned creditors to the IMF to supplement its quota resources. The collective share of BRICS in the IMF's new arrangements to borrow (NAB) is 16 per cent of a total of SDR 361 billion. Besides, each BRICS nation has signed bilateral borrowing arrangements (BBA) with the IMF cumulating to a share of 17 per cent of a total of SDR 135 billion. In addition, the BRICS have put in place swap lines under a contingent reserve arrangement or CRA amounting to USD 100 billion, which matches their combined share in IMF quotas and is counted as a part of the global financial safety net (GFSN).

The BRICS were impacted severely by the pandemic, with multiple waves of infections which continue to take their toll. In terms of total infections, three BRICS, viz. India, Brazil and Russia are among the top five affected nations in the world. In terms of seven days rolling averages, new infections have eased in all BRICS countries barring Russia, contained by the scale and speed of vaccination drives. In terms of vaccinations, however, there are wide divergences ranging between three quarters of the population being fully vaccinated in China and only a fifth in South Africa. Full vaccination is an immediate challenge for all the BRICS. Among the leading exporters of vaccines, China, Russia and India figure prominently. In the case of India, vaccine exports were temporarily halted when domestic infections surged. As infections came down, India has resumed exports of vaccines from October, including under the QUAD initiative. Under the QUAD initiative of producing at least 1 billion doses of vaccines for the Indo-Pacific region by the end of 2022, the vaccines will be produced in India with the US financing capacity expansion, Japan providing concessional loans to India and Australia giving last mile delivery support. In a strong expression of commitment to the QUAD initiative, India financed 50 per cent of the first consignment of 1 million doses in October.

MACROECONOMIC DEVELOPMENTS AND POLICY RESPONSES

As a consequence of the differentials in infections and vaccination as well as differences in monetary and fiscal policy support, the BRICS are faced with divergences in macroeconomic conditions. While China's recovery has been quick and strong, the other BRICS are moving into positive growth territory since Q2:2021. Wider differences characterise inflation outcomes. While Brazil and Russia – both commodity exporters – are experiencing inflation rates much above target and tolerance levels, China has kept retail inflation low despite high producer price inflation. In South Africa, inflation is within the target range. In India, inflation breached the upper tolerance band in May, but strong supply side measures in the form of augmented access to imports and buffer stocks as well as measures to incentivise productivity have yielded results, bringing down inflation close to target in September and October 2021.

There is considerable similarity among the BRICS in terms of their monetary policy frameworks. Four of them have adopted inflation targeting. The numerical targets range around four per cent and all of them have tolerance bands barring Russia which aims to keep inflation close to four per cent. South Africa does not have a point target - it follows an inflation target range of 3 to 6 per cent. China has not adopted inflation targeting but keeps inflation low and stable below 3 per cent. All of them responded to the pandemic with large rate cuts and reserve requirement reductions. More recently, Brazil and Russia have completed the normalisation of policy accommodation and Brazil is into orthodox tightening. India, China and South Africa continue to maintain accommodative monetary policy stances.

Another common feature among BRICS has been their pandemic response in the form of large fiscal stimuli and additional spending and/or tax revenue forgone. As a consequence, fiscal positions in terms of the gross fiscal deficit/GDP ratio worsened through the pandemic. Russia was running a fiscal surplus ahead of the pandemic and hence there was fiscal headroom which could be used during the pandemic with the least stress on the fiscal accounts. Accordingly, fiscal risks have risen sharply with debt-GDP ratios in the range of 66 (China) – 99 (Brazil) per cent of GDP. As I mentioned earlier, Russia is an outlier, with its debt-GDP ratio below 20 per cent of GDP.

Medium term challenges for the BRICS arise in the context of climate risks and emission commitments which may engender energy shortages, technology gaps and hence pose risks to medium term growth and inflation, especially for countries with large total emissions. A more immediate challenge stems from elevated commodity prices for net importers like India although they confer terms of trade (ToT) gains for net exporters like Brazil and Russia. For all the BRICS, rising food prices on account of natural calamities and demand-supply imbalances caused by the pandemic involve elevated inflation risks.

Within the BRICS, per capita income levels differ widely. Studies conducted in CAFRAL, the Reserve Bank of India's centre of excellence, show that per capita income is a significant determinant of credit ratings across all three external rating agencies (S&P; Moody's; Fitch). All the BRICS are vulnerable to the middle-income trap, which refers to a situation in which they could fail to transition to a high-income economy due to rising costs and declining competitiveness. Investment and innovation are the two key ingredients for moving a middle-income economy into a high-income economy, and it is necessary to understand the macroeconomic factors that influence each of them in our economies.

MILESTONES AND DELIVERABLES

Since the BRICS came into existence in 2009-10, significant milestones have been passed in their journey together.

- The **New Development Bank (NDB)** started functioning in 2015 and has approved about 80 projects in its member countries involving a portfolio of USD 30 billion in areas such as transport, water and sanitation, clean energy, digital infrastructure, social infrastructure and urban developments. Since September 2021, the NDB is approving new members (Uruguay; the UAE; Bangladesh). The NDB has set a target of USD 10 billion for COVID-related support of which more than USD 7 billion has already been disbursed.
- The **Contingent Reserve Arrangement or CRA** is a mechanism with a total corpus of USD 100 billion to provide short-term swap support during balance of payment crises. The swaps have a delinked portion of 30 per cent which can be extended as emergency liquidity support and a linked portion of 70 per cent, which is contingent upon the requesting country(s) having an IMF programme in place.
- The **BRICS Strategic Economic Partnership 2021-2025** provides a roadmap for economic co-operation among the member countries, with a focus on trade and investment, the digital economy and sustainable development.
- **BRISC or BRICS Information Security Channel** is a recent initiative started during Russia's presidency in 2020, with a focus on information exchange on cyber security and cyber related incidents.
- The **BRICS Taskforce on public private partnership (PPP) and Infrastructure** is another initiative to establish a forum to discuss various aspects related to co-operation in infrastructure. In 2021, the focus is on social infrastructure (health, education).
- **BRICS Payments Task Force (BPTF)** is a central bank initiative to promote co-operation in payments system, including proposal on cross-border payments.
- **BRICS Business Council** has been created as a platform to promote and strengthen business, trade and investment ties amongst the business communities of the BRICS and ensure that there is regular dialogue between them and the governments of the BRICS countries.
- The **BRICS Women's Business Alliance (WBA)** aims at promoting women's entrepreneurship in the BRICS countries.
- The **BRICS Academic Forum (BAF)** is a platform for deliberations and discussions among the leading academic institutions of BRICS countries, seeking ideas and solutions on numerous social, environmental and educational issues.
- The **BRICS Think Tanks Council (BTTC)** was initiated in 2013 to enhance cooperation in research and capacity building, among academic communities of BRICS countries.
- **BRICS Energy Research Cooperation Platform** promotes energy-based sustainable development, sharing of advanced energy

technologies, expansion of cooperation on educational programmes, exchange of statistical data and plans on the development of national energy systems, and information on best practices and regulatory frameworks in the energy sector. The platform also aims at creating synergies in BRICS energy co-operation across various platforms.

- The **BRICS Environmentally Sound Technology (BEST) Platform**, launched in 2015, aims to facilitate accumulation and exchange of experience/information on best available practices and environmentally friendly ("green") technologies to achieve the United Nation's Sustainable Development Goals (SDGs).
- **The Report on Digital Financial Inclusion** puts together initiatives, innovations and reforms undertaken in the BRICS countries in the area of financial inclusion by leveraging digital technology tools. The Report also maps these efforts against the G-20 High-Level Policy Guidelines on digital financial inclusion.

Under India's presidency, six projects have already been taken forward to completion:

- The **e-booklet on Information Security Regulations and the Compendium of BRICS Best Practices on Information Security Risks** cover information security regulations and best practices across BRICS jurisdictions, with the objective of strengthening cyber incidents management systems.
- The **CRA Evaluation Report** covers all the issues and recommendations arising from this year's CRA test run as well as past test runs conducted since 2018.
- The first **BRICS Collaborative Study 'COVID-19: Headwinds and Tailwinds for Balance of Payments of BRICS'** highlights the severe economic disruptions caused by the pandemic globally and in the BRICS economies, resulting in sharp current account adjustments as well as volatility in capital flows.
- The **BRICS Economic Bulletin** for 2021 is on the theme **'Navigating the Ongoing Pandemic: The BRICS Experience of Resilience and Recovery'**. It covers divergent economic recoveries, inflation risks, fiscal stress, external sector performance, and financial sector vulnerabilities.
- In 2021, the test run of the IMF-linked portion of the CRA was conducted for the first time. Modalities of co-operation with the IMF are being finalized.
- Among the deliverables over the rest of the year, the **BRICS Bond Fund (BBF)**, which is a joint initiative of BRICS central banks with a view to developing local bond markets in member countries, is now close to completion.
- BRICS Finance Ministers and Central Bank Governors (FMCBG) adopted a '**BRICS Statement on Global Economic Outlook and Responding to COVID-19 Crisis**' in August 2021. The Finance Ministers and Central Bank Governors agreed to continue efforts to strengthen BRICS cooperation towards achieving strong, sustainable, balanced and inclusive economic growth in a post-pandemic world and welcomed the sharing of policy experiences by BRICS countries on their domestic economic responses to the pandemic.
- The **MSME Roundtable 2021** has helped enhance BRICS cooperation with a view to development of MSMEs integrating them

into global value chains.

- In 2021, **BRICS Agreement on Cooperation and Mutual Administrative Assistance in Customs Matters** was finalised.

CHALLENGES CONFRONTING THE CHAIR

Let me now turn to the challenges facing India in its year of the BRICS presidency.

GDP growth is widely used as an indicator of economic progress of a country. If one looks back over the last 75 years, Bai-Perron structural break point tests reveal that India's growth trajectory has gone through three phases. Up to the end of the 1970s, India averaged trend GDP growth of 3.5 per cent – the so called Hindu rate of growth – which has been associated with inward-looking policies adopted over that period. Trend growth picked up to 5.5 per cent during 1980–2002 as liberalisation and opening up occurred. Thereafter, GDP growth rose to an average of close to 7 per cent over the period 2003-20 till the pandemic arrived. In 2020-21, GDP declined by 7.3 per cent, among the deepest contractions worldwide in that year.

What are the growth drivers in India? It turns out that India's growth is led by households - private consumption expenditure - though its share in GDP has come down from above 75 per cent in 1960s to about 55 per cent in recent years. There have been phases of export-led and investment-led growth, which could not be sustained, but they did provide turning points in the growth path.

The KLEMS[2] database, so assiduously built up by the Delhi School of Economics for the Reserve Bank of India, reveals that capital accumulation is the largest contributor – about 60 per cent - to India's growth. Therefore, the investment rate (total investment/GDP) is regarded as the most important lever of growth in India. A striking feature is that our growth is home grown - investment is financed primarily by domestic savings, with capital inflows from abroad playing only a supplemental role. Another noteworthy feature is that the saving rate has started slowing down after the global financial crisis (GFC). Eventually, this pulled down the investment rate from 2012-13. Reversing this trend is critical to achieve higher growth.

The current account deficit (CAD) in the BoP (X-M) determines how much of net capital inflows into the country can be absorbed or used for growth. Our experience has been that India can sustain a current account deficit of 2.5-3.0 per cent without getting into an external sector crisis. In fact, in a telling reminder of this fact, a record increase in gold imports took the current account deficit above this Plimsoll line to historically high levels during 2011-13. India faced the taper tantrum and was labelled as among the fragile five[3].

After an impressive average export growth of around 20 per cent in the 2000s which also coincided with a pick-up in openness of the economy to trade and finance and a rise in the trend growth of GDP, export growth dropped from 2015 onwards. Rising trade protectionism took its toll, and this period is also associated with GDP growth deceleration. The robust recovery in world trade in 2021 so far has brought with it a renewed sense of optimism about exports acting again as an engine of growth. India's exports are progressing fast towards the annual target of USD 400 billion set for 2021-22. In H1:2021-22, the actual export level was already half of the target. Measures such as production-linked incentive (PLI) scheme are expected to boost exports[4]. Financial openness is also

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[2] KLEMS stands for capital, labour, energy, materials and services. It is based on a growth accounting framework.

[3] Brazil, India, Indonesia, South Africa, and Turkey.

[4] In order to boost domestic manufacturing and cut down on import bills, the union government in March 2020 introduced a PLI scheme that aims to give companies incentives on incremental sales from products manufactured in domestic units.

improving, consistent with trade openness - India bucked the global trend and recorded highest-ever inward FDI to the tune of USD 82 billion in 2020-21.

India has a bank-led financing system and, therefore, bank credit growth is a bellwether indicator of the financing challenges to growth. In recent years – since 2017 - there has been a slowdown in bank credit, especially to industry. This is largely attributable to the stress in banks' balance sheet due to a large overhang of non-performing assets (NPAs), traced to the credit boom in mid-2000s. Global overcapacity and the slowing down of the economy led to a turning of the investment cycle, project delays and cost overruns. Bank defaults increased, and stressed banks became reluctant to take new lending risks. Furthermore, in the aftermath of the GFC, banks were allowed to restructure assets and treat them as 'standard' advances but with additional provisions. Withdrawal of regulatory forbearance on restructuring of advances from April 2015 and a subsequent asset quality review (AQR) led to more realistic recognition of gross NPAs (GNPAs). After reaching a peak of 11.5 per cent in March 2018 the GNPA ratio has been declining, mainly due to resolution of stressed assets under the insolvency and bankruptcy code (IBC) process and the Reserve Bank's revised framework for resolution of stressed assets. Before the onset of COVID-19, the GNPA ratio banks in India stood at 8.3 per cent at end-March 2020. It fell further to 7.5 per cent by the end of March 2021, showing that banks used the pandemic period to improve recoveries and write off intractable loans while making higher provisions in their balance sheets. With banks in a risk averse mode, non-banking sources (both domestic and foreign) are contributing as much or even more in recent years to the flow of resources to India's commercial sector.

The agglutination of supply disruptions, the health crisis, an unparalleled mass migration and a hostile global environment has caused a considerable loss of output - over a tenth of annual GDP of a normal year. With a growth of 9.5 per cent in 2021-22 (according to the Reserve Bank of India's projections), India's GDP would be a shade above its level in 2019-20. Recovering this lost output may take several years – this I will regard as the second most important challenge. Earlier in the context of the BRICS, I had pointed out that speedy vaccination of the entire population is the most important challenge.

The Quarterly Employment Survey (QES) of April 2021 of the Labour Bureau, covering 9 sectors and 85 per cent of organised sector employment, shows that between March 21, 2020 and July 1, 2020, i.e. the lockdown period, all sectors suffered a decline in the number of employees. Only 34 per cent of units could function during March 25, 2020 to June 30, 2020, with the exception of the health and financial sectors. As regards wage loss, the impact on the organised sector was soft as 80.7 per cent of employees received full wages and only 2.7 per cent went without wages. Putting people back to work, reskilling them to respond to the changing environment and enhancing their productivity is the third challenge. Out of 132 countries, India is ranked at 100 in terms of labour productivity.

India's population at 1.38 billion is the world's youngest at 28.4 years, but ageing will close the demographic dividend by 2045. By 2027, India will be the most populous country in the world (1.47 Billion), according to the United Nations World Population Prospects. This structure of the population can be best represented by the age dependency ratio - the ratio of the dependent population (0-14 years and 65+ years) to total working-age population: a lower value of the ratio implies a more productive population. India's age dependency ratio has been declining and is likely to decline further till 2025 after which it may remain stagnant till 2040 and increase thereafter. A comparison of India's working-age population as a ratio of the total population or WAP ratio shows that India stands at an advantageous position - India's WAP ratio will increase till 2045 even as it is declining elsewhere in the world. Making the most of this demographic dividend is fourth major challenge facing the Indian economy.

India was one of the fragile five countries in 2013 as external sector viability deteriorated during the taper tantrum. Relative to macroeconomic configurations in 2013, India is better positioned currently as its macroeconomic fundamentals have improved significantly and external sector indicators point to the availability of enough cushions to manage external shocks. I present this strength as a challenge because the international environment is turning hostile, with geopolitical tensions, the long-lasting scars of COVID and the inevitability of climate change. Furthermore, countries all over the world are contemplating shifting their policy stances away from a pandemic mode to a more normal one. This will involve global spillovers to which India cannot be immune. Hence external sector viability is critical.

India is currently one of the fastest-growing major economies in the world. In purchasing power parity (PPP) terms, India is the third largest economy in the world. Projections show that by 2040 India will be the second largest economy in the world. This, in my view, is the final challenge - preparing, with the BRICS, to be a global economic powerhouse.

Thank you.