

Financial Crises and the Indian Economy (1979 and 2018): A Twitter Thread

1) **Precondition:** Crises are always interesting to evaluate, let's see how it all started in 1979. As with every crises, capital started flowing in India before 1979. The drought of 1979, dramatic rise in import and oil prices lead our economy crippling.

<https://www.livemint.com/news/india/india-s-tryst-with-recession-40-years-ago-11598862207397.html>

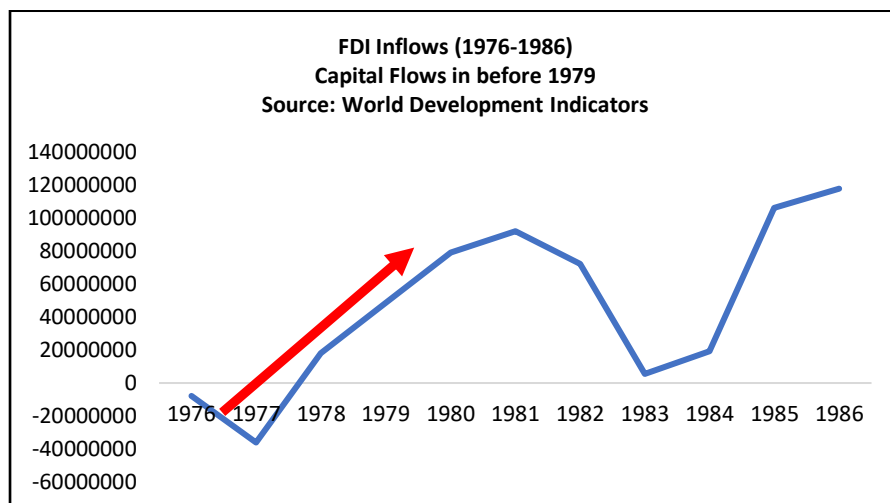


Table 6.1 Annual Changes in Foodgrains and Agricultural Production, 1977/78 to 1984/85 (percent)

Year	Foodgrain production		Agricultural production	
	Annual change	Deviation from trend	Annual change	Deviation from trend
1977/78	15.5	8.6	14.3	6.0
1978/79	4.3	8.5	3.8	7.2
1979/80	-17.6	-13.0	-15.2	-11.4
1980/81	19.8	1.5	15.6	-0.2
1981/82	2.2	0.9	5.6	2.7
1982/83	-3.4	-6.0	-4.0	-4.0
1983/84	18.6	9.6	14.2	6.8
1984/85	-4.2	2.7	-0.9	3.1

Source: Government of India, Ministry of Finance (various years), *Economic Survey*.

Table 6.2 Import Prices, Export Prices, and the Terms of Trade, 1977/78 to 1984/85 (1978/79 = 100)

Year	Import unit value		Export unit value		Terms of trade	
	Index	Percent change	Index	Percent change	Index	Percent change
1977/78	88.0	n.a.	100.3	n.a.	114.0	n.a.
1978/79	100.0	13.6	100.0	-0.0	100.0	12.3
1979/80	114.1	14.1	105.4	5.4	92.4	-7.6
1980/81	134.2	17.6	108.5	2.9	80.8	-12.6
1981/82	133.1	-0.8	124.1	14.4	93.2	15.4
1982/83	136.3	2.4	132.0	6.4	96.8	3.9
1983/84	125.8	-7.7	151.0	14.4	120.0	24.0
1984/85	161.7	28.5	169.8	12.5	105.0	-12.5

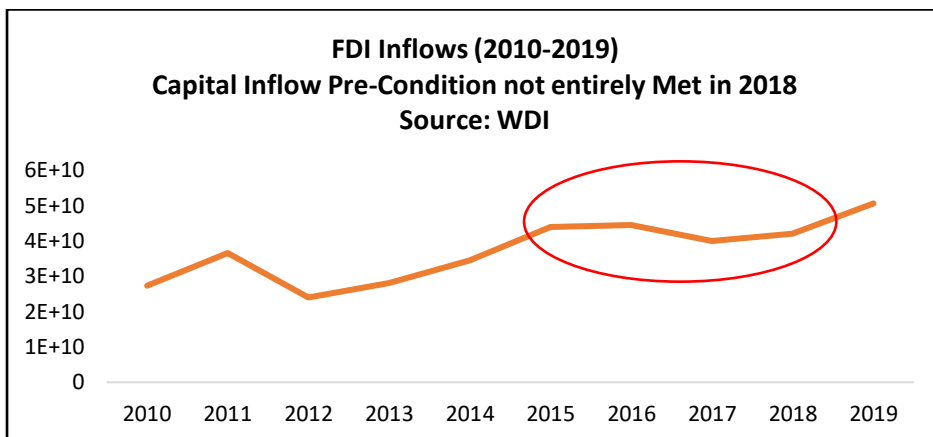
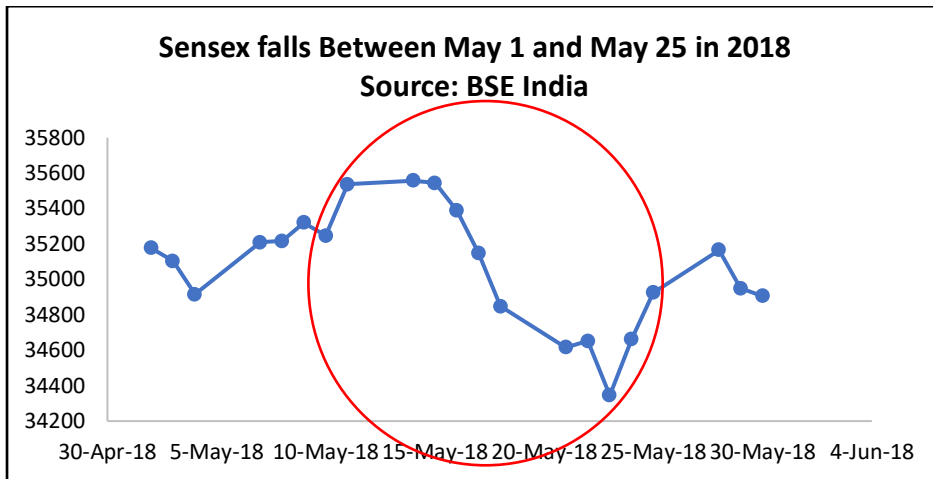
Source: Government of India, Ministry of Finance (various years), *Economic Survey*.



2) Surprisingly, 2018 market turmoil was also ignited by the rise in oil prices. Geopolitical tensions and US relations with oil producers threatened the market. Oil prices rocketed, Sensex crashed, and wealth was wiped. However, no great capital inflows were seen before 2018.

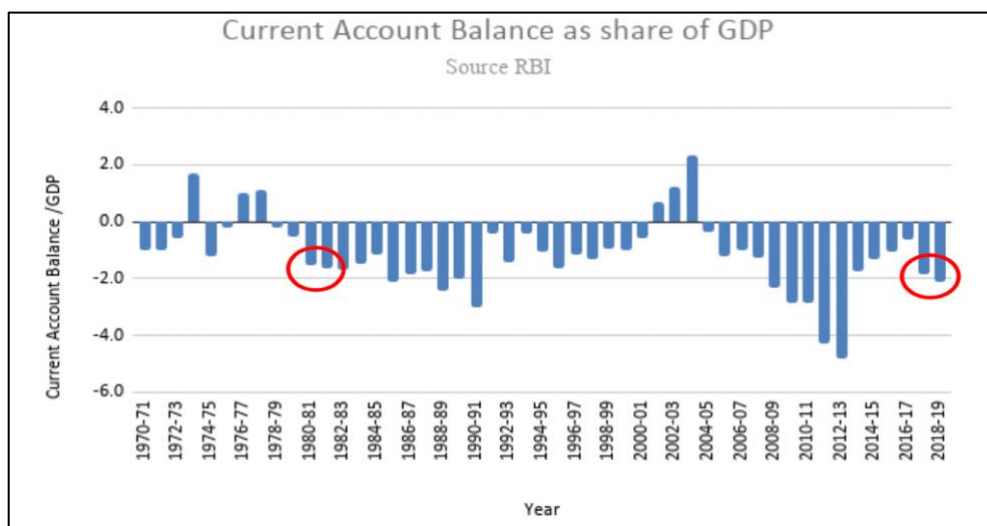
<https://www.businesstoday.in/markets/company-stock/investors-lost-2018-market-capitalisation-bse-nse/story/306032.html>

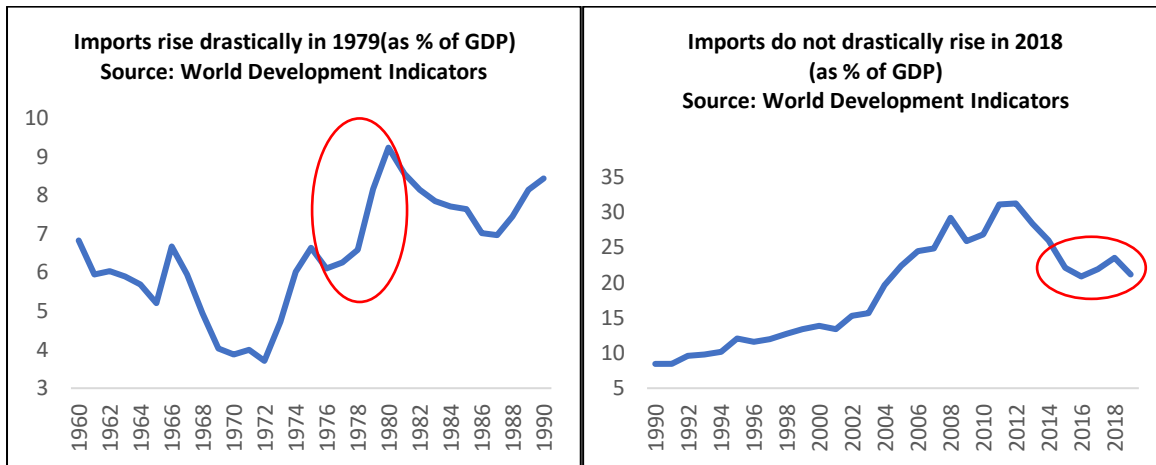
 (Read <https://www.theguardian.com/business/2018/may/17/what-are-the-factors-driving-up-the-price-of-crude-oil> and <https://www.moneycontrol.com/news/business/here-are-top-5-factors-behind-rise-in-crude-oil-prices-in-2018-2539941.html> to see the causes of oil price rise in detail)



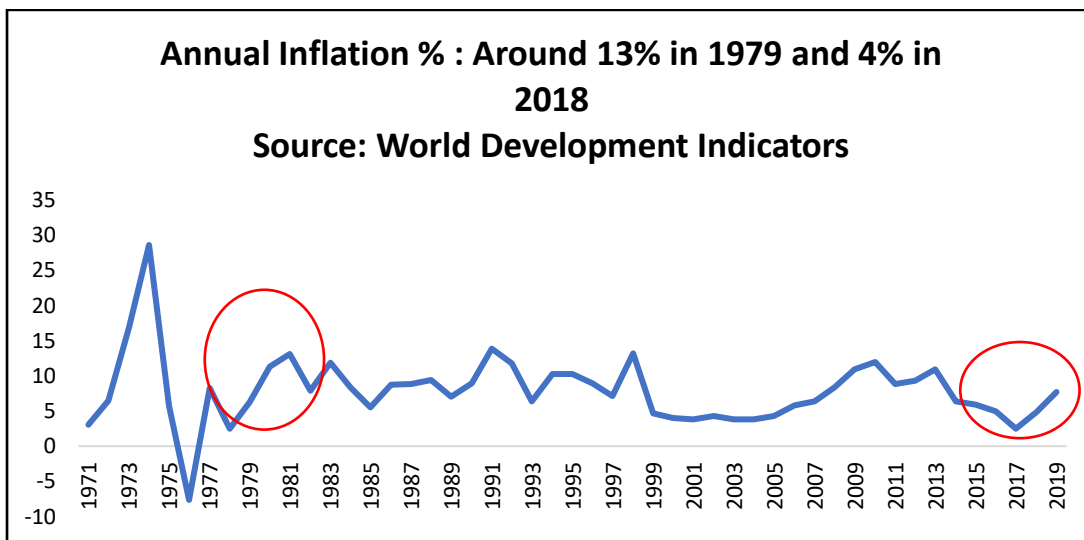
3) **Triggers:** The oil price rise in 1979 and the accompanying world recession lead to a significant deterioration in the BOP leading to a spike in imports and widening of the current account deficit. Similarly, rise in crude oil prices in 2018 had a major impact on the Indian deficit.

<https://www.kotaksecurities.com/ksweb/Meaningful-Minutes/4-reasons-for-market-volatility-in-India>



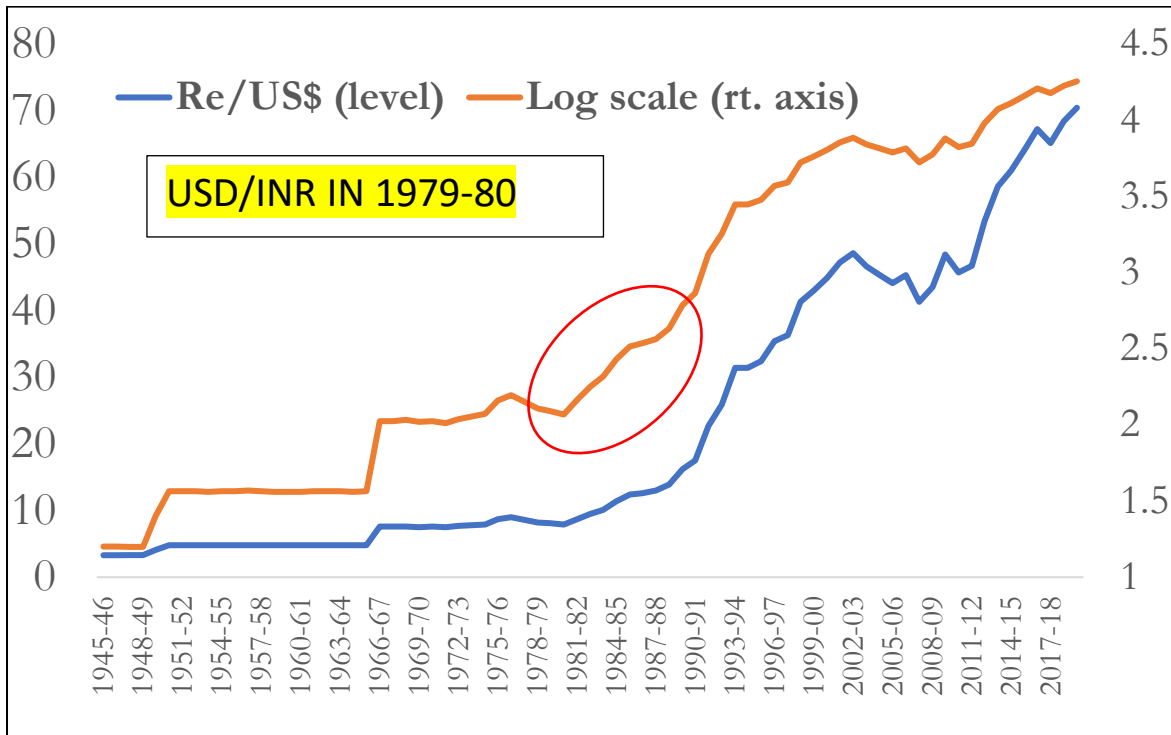


4) **Inflation:** The 1979 crisis was a simultaneous occurrence of a disastrous harvest and rise in the price of imported oil and as every economist would predict, this lead to high inflation. However, inflation was not exorbitantly high in 2018 for the turmoil to classify as a full-fledged crisis.

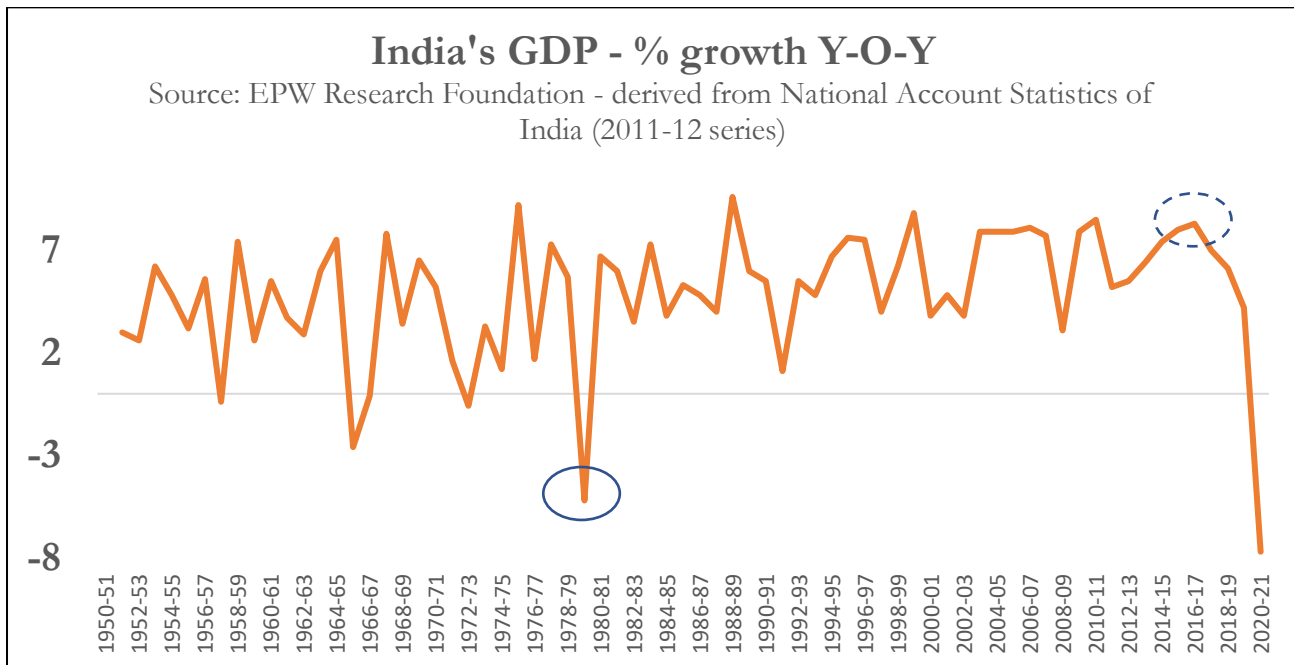


5) **Manifestation:** It must be noted that during the 2018 turmoil, the Indian rupee depreciated from 64 to an all-time high of around 68 in May 2018. Similarly, the oil crisis of 1979-80 also lead to a currency depreciation shown by the dotted circle in the second graph below.



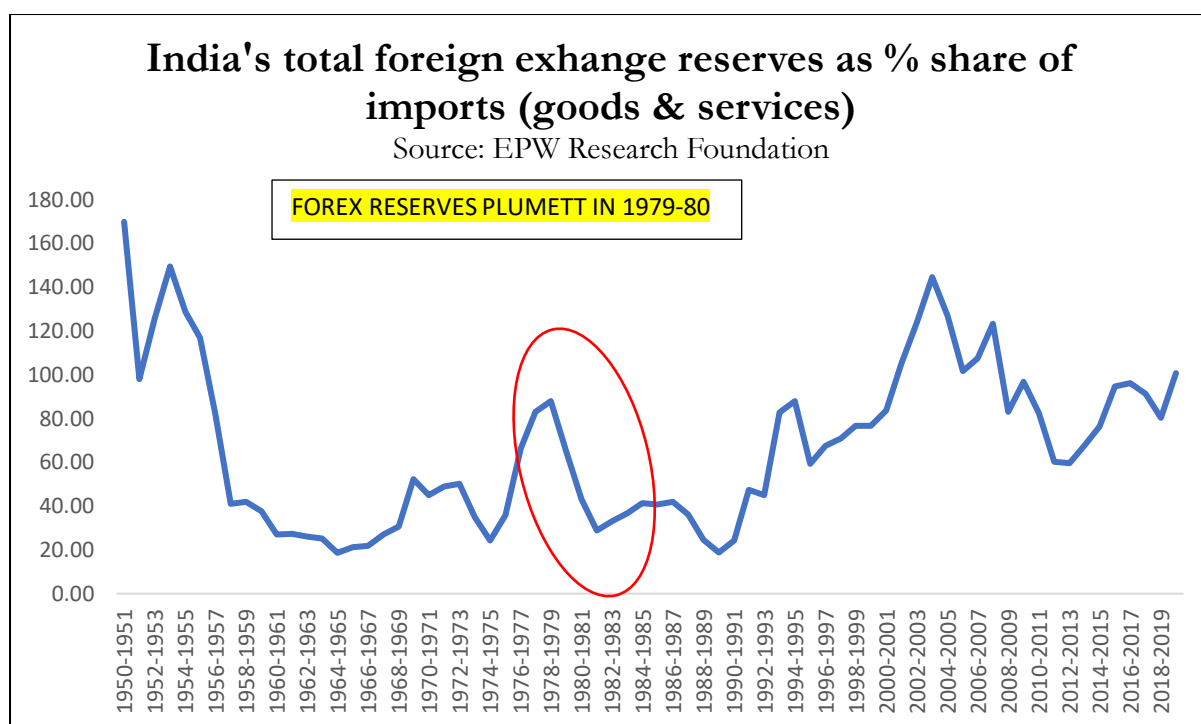
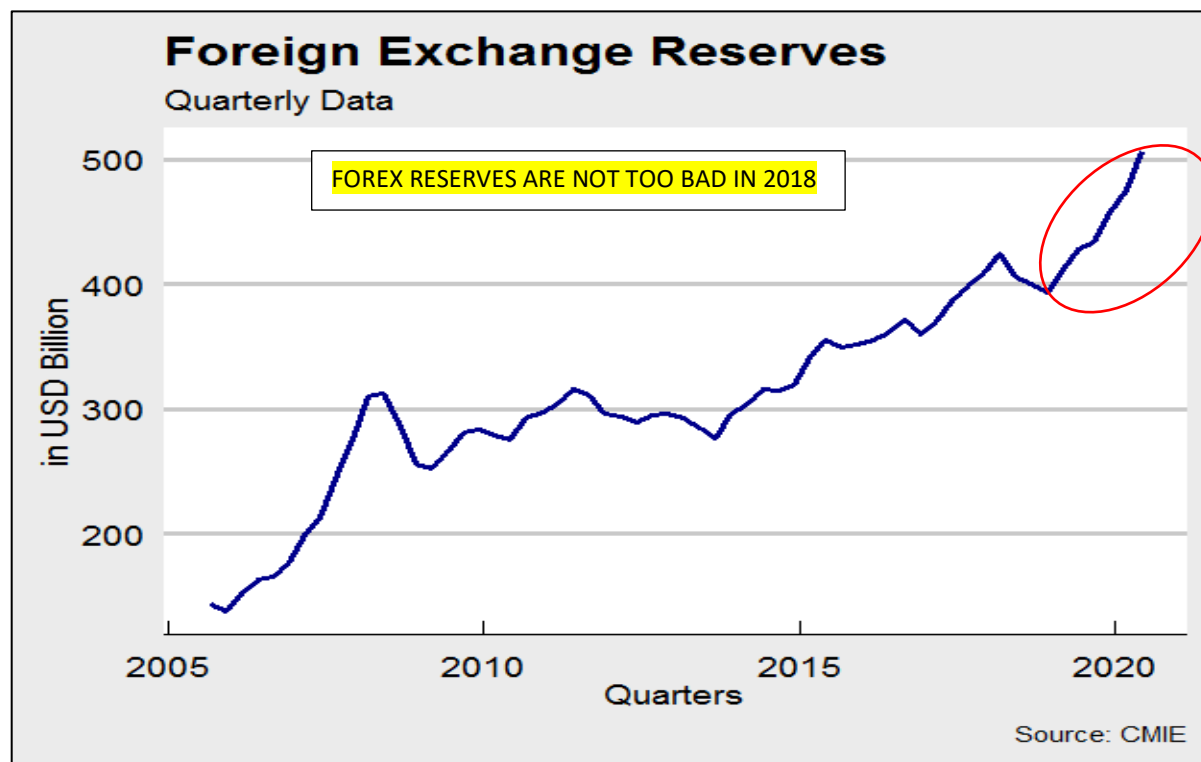


6) **Fundamentals:** The YoY GDP growth plummeted during 1979-80 because of the drought and huge fall in output. But, you should note that the growth was modest during 2018-19 despite the turmoil, indicating this wasn't really a crisis close to what occurred in 1979-80.

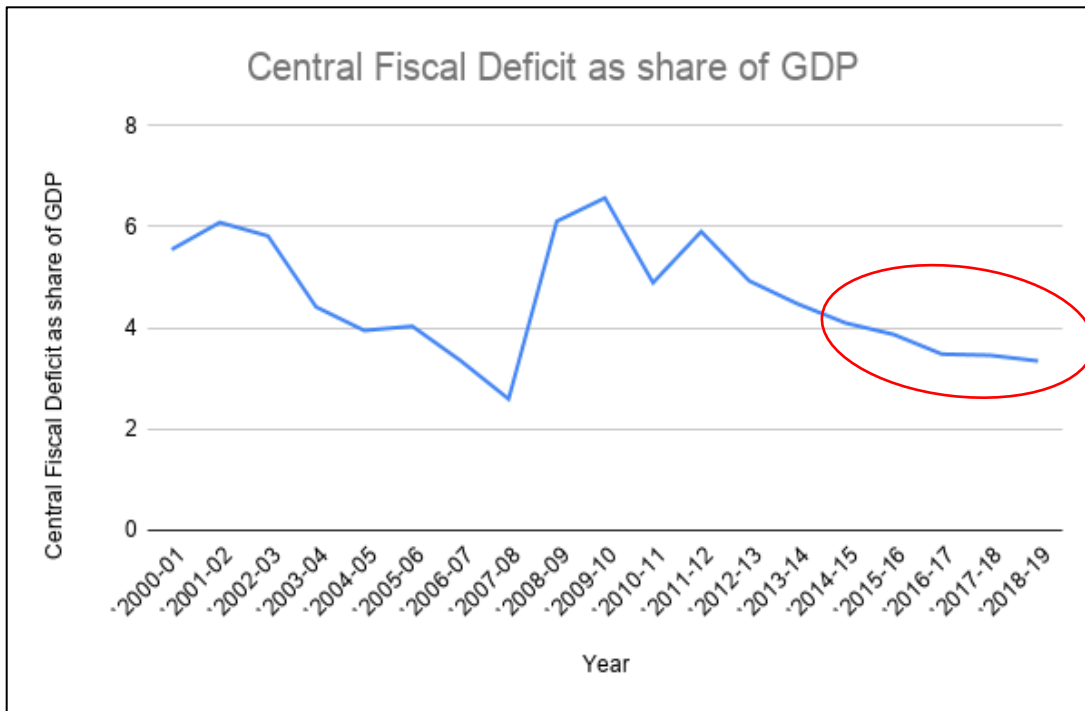


7) Forex Reserves:

One major difference I noticed between the two crisis is the amount of foreign exchange reserves. The foreign exchange position was not too bad during 2018-19. On the contrary, 1979-80 saw one of the greatest falls in total forex as % of GDP.



8) **Fiscal Deficit:** Apart from stable GDP growth, inflation and forex reserves, there is another reason why the turmoil of 2018 does not classify to be a full-fledged crisis. Surge in global oil prices could have adversely affected the fiscal deficit. However, it did not reach alarming levels.



9) **Outcome and Aftermath:** Serious steps were needed in 1979 for recovery because the immediate consequences were dire. The government brought about an expansionary adjustment by increasing investment, and the eventual aftermath proved positive for India's GDP.

10) A massive loan from the IMF was negotiated in 1979. In 2018, I would argue that **it only showed a mini crisis** as oil prices stabilized and GDP growth was good enough during that time. Our market overperformed other markets and a stable government, forex reserves played a huge role.

https://www.business-standard.com/article/news-ians/despite-volatility-indian-equity-market-makes-gains-amongst-best-performers-2018-in-retrospect-series-concludes-118123100934_1.html