

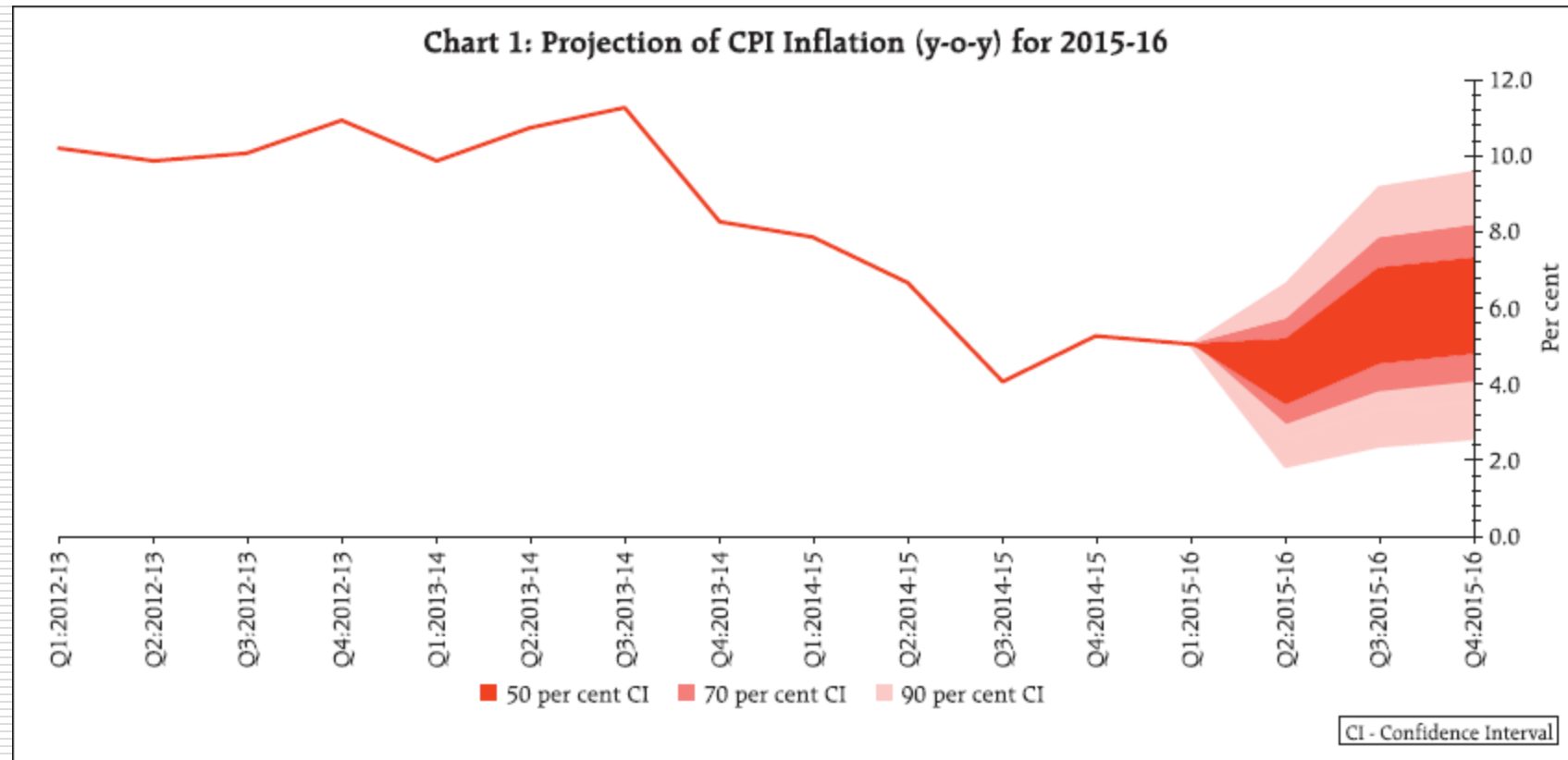
INDIAN ECONOMY: NEAR-TERM OUTLOOK AND STRUCTURAL FEATURES

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NEAR-TERM OUTLOOK

MACROECONOMIC OUTLOOK- INFLATION

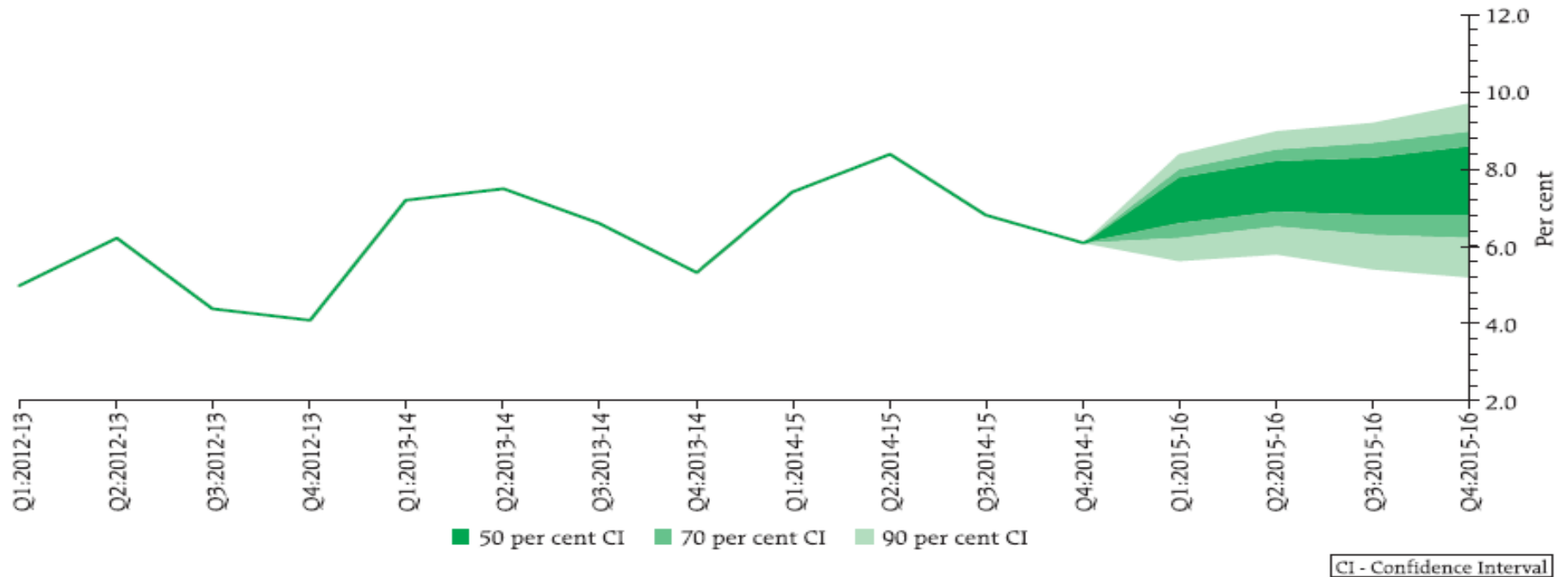


Inflation projections are reduced by prospects of softer crude prices and a near-normal monsoon thus far.

This implies that inflation projections for January-March 2016 are lower by about 0.2 per cent, with risks broadly balanced around the target of 6.0 per cent for January 2016 Source: RBI

MACROECONOMIC OUTLOOK- GROWTH

Chart 2: Quarterly Projection of Growth in GVA at basic prices (y-o-y) for 2015-16



- Favourable real income effects could accrue from weaker commodity prices, in particular crude oil, and a possible step-up in agricultural activity.
- Notwithstanding some improvement in the state of stalled projects, supply constraints continue to be binding and new investment demand emanating from the private sector and the central Government remains subdued.
- On an assessment of the evolving balance of risks, the projected output growth for 2015-16 has been retained at 7.6 per cent

Source: RBI

MACROECONOMIC OUTLOOK- TRADE

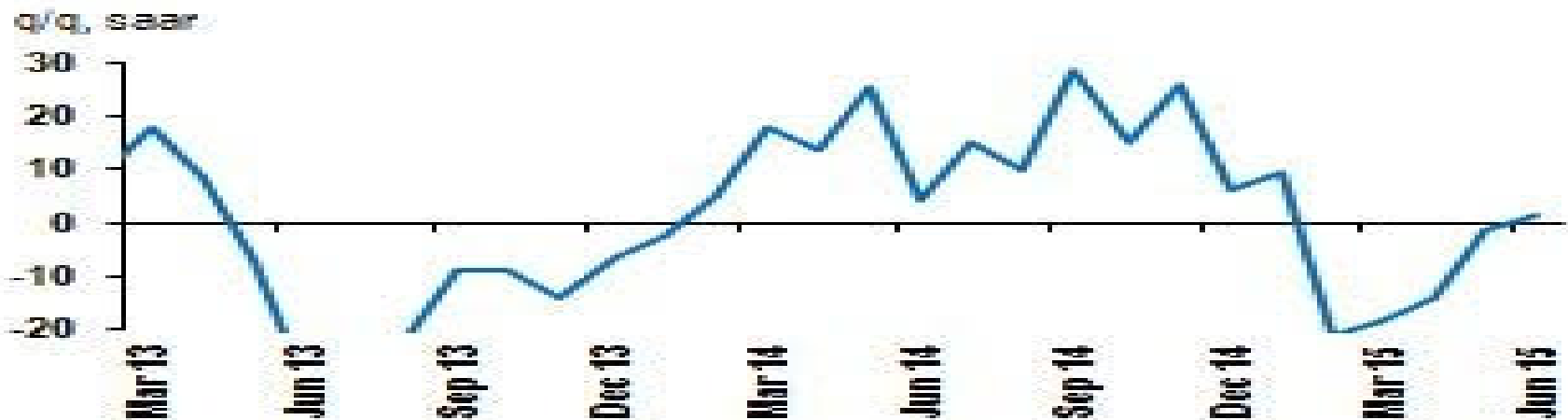
Trade deficit remains contained



Manufacturing exports not as bad as aggregate exports suggest



Non-oil-non-gold imports momentum has increased since March

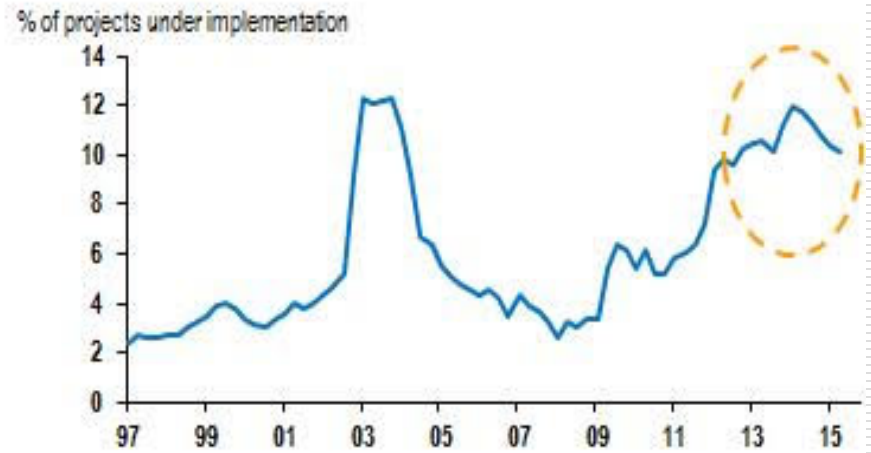


MACROECONOMIC OUTLOOK- CAPEX

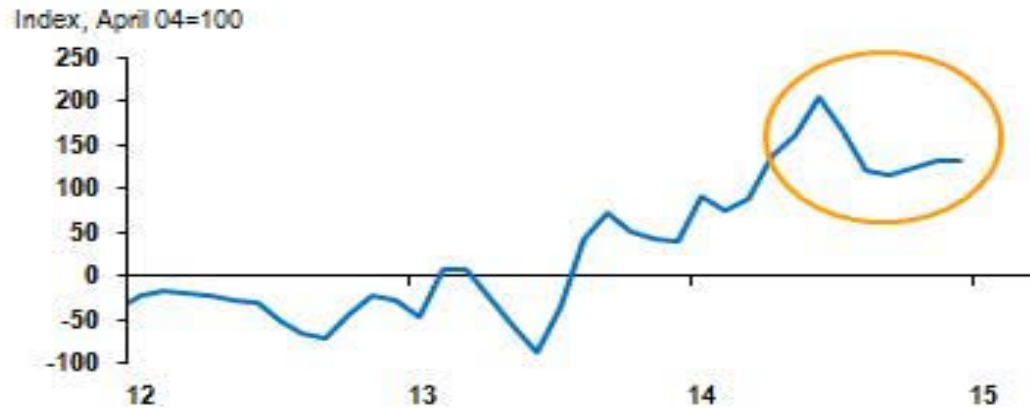
Capital goods have lifted smartly over the last few months



Stalled projects have decline dfor a sixth consecutive quarter



Monetary Condition Index (Real) – shows an easing post November



Government capex expenditure has surged in recent months



Capex upturn to three factors:

- continued alleviation of implementation bottlenecks (reflected in stalled projects reducing for a sixth consecutive quarter in Apr-June),
- some easing of monetary conditions over the last few months, and
- a frontloading of government capital expenditures

CURRENCY DEVALUATION IN CHINA- REACTIONS FROM INDIA

- ❑ **Rupee volatility**-The Indian rupee slipped to a two-month low of 64.26 against the US dollar*. Both the BSE Sensex and the Nifty traded with 0.4 per cent losses
- ❑ **Pressure on exports**-The large overlap between Indian and China in markets and also products highlights the threat Indian exporters face from China
- ❑ **Dumping of Chinese goods**-devaluation in yuan will help China dump goods into the Indian market
- ❑ **Currency wars**- Chinese devaluation would send a new wave of deflation round the globe

*: RBI intervened through Public Sector Banks to stabilise the Indian Rupee fluctuations

STRUCTURAL FEATURES OF INDIAN ECONOMY

FISCAL FEDERALISM

- States have always outperformed Centre in keeping its fiscal deficits low since 1981-82 .



- The Centre has for some time not been the locus for *public investment*, which is principally undertaken by the States.



- Improving the quality of public expenditure now means *co-operative federalism*
-

FISCAL FEDERALISM

- Both States and Centre have been running revenue deficits. However, States have improved their macro-fiscal position since 2003-04.
 - Most of GCSs have been running balanced revenue budgets since 2008-09 (excluding Kerala, Punjab and West Bengal).
 - This is as true for rich States like Maharashtra and Gujarat as for poorer States like Bihar, Orissa and UP.
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THE PRODUCTIVITY CHALLENGE

- ❑ India's Total Factor Productivity (TFP) was not historically below that of China but China's TFP caught up with other Asian economies after India but exceeded it from 2005 and has been rising since then.
 - ❑ Therefore, India, in common with many other emerging economies in the world that are not resource exporters has a significant balance of trade deficit with China as it is unable to compete with productivity levels in China.
 - ✓ Wages in China are 2.5 times higher than India but productivity is 5 times greater than India.
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STALLING ? FIVE KEY TAKE-HOME MESSAGES

- ❑ Projects are stalling at an increasing rate over the last five years.
 - ❑ Stalling of projects is severely affecting the balance sheets of the corporate sector and public sector banks which in turn is constraining future private investment.
 - ❑ The stalling of projects does not seem to have a significant impact on firm equity values. We feel that the market may be internalizing the expectations of bailouts.
 - ❑ The government's stalled projects are predominantly in infrastructure. Unfavourable market conditions (not delays in regulatory clearances) are stalling a large number of projects in the private sector.
 - ❑ Good news:the stock of stalled projects has come down to about 7 per cent of the GDP at the end of the third quarter of 2014-15 from 8.3 per cent in the previous year.
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TAKE AWAYS -I

- ❑ Fiscal Federalism- there is fiscal space
 - ❑ Public Investment Push- the public investment push has a logic
 - ❑ Productivity Challenge- the productivity challenge is specific to China and not India
 - ❑ Taxation- business friendly tax reform is doable
 - ❑ Stalling- many challenges but good news already
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THE NEW AGENDA(S) IN INDIAN ECONOMIC POLICY

MAKE IN INDIA- WHAT ARE WE DOING?



NEW SECTORS

- ❑ With the easing of investment caps and controls, India's high-value industrial sectors – defense, construction and railways – are now open to global participation.
 - ❑ Policy in Defence sector liberalised and FDI cap raised from 26% to 49%.
 - ❑ Portfolio investment in Defence sector permitted up to 24% under the automatic route.
 - ❑ 100% FDI allowed in Defence sector for modern and state of the art technology on case to case basis.
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NEW SECTORS

- ❑ 100% FDI under automatic route permitted in construction, operation and maintenance in specified Rail Infrastructure projects such as:
 - Suburban corridor projects through PPP
 - High speed train projects
 - Dedicated freight lines
 - Rolling stock including train sets and locomotives/coaches manufacturing and maintenance facilities
 - Railway electrification
 - Signaling systems
 - Freight terminals
 - Passenger terminals
 - Infrastructure in industrial park pertaining to railway line/sidings including electrified railway lines and connectivities to main railway line
 - Mass Rapid Transport Systems
 - ❑ Easing of norms underway for FDI in the Construction Development sector.
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TAKE AWAYS -II

- ❑ India faces important challenges but by no means have either governments or society allowed these to become overwhelming.
 - ❑ The constant search for solutions and ways to move forward against gigantic obstacles that make India so distinctive.
 - ❑ A diverse vibrant resilient democracy that refutes global pessimism.
 - ❑ It is this capacity that India has to surprise the world and even its own citizens that is the fundamentally unique ingredient of India's story of emergence.
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Indian Financial Code

A Status Update

COMPONENTS OF LAW

- Consumer protection
- Micro-prudential regulation
- Resolution
- Systemic risk regulation
- Capital controls
- Monetary policy
- Public debt management
- Development and redistribution
- Contracts, trading and market abuse

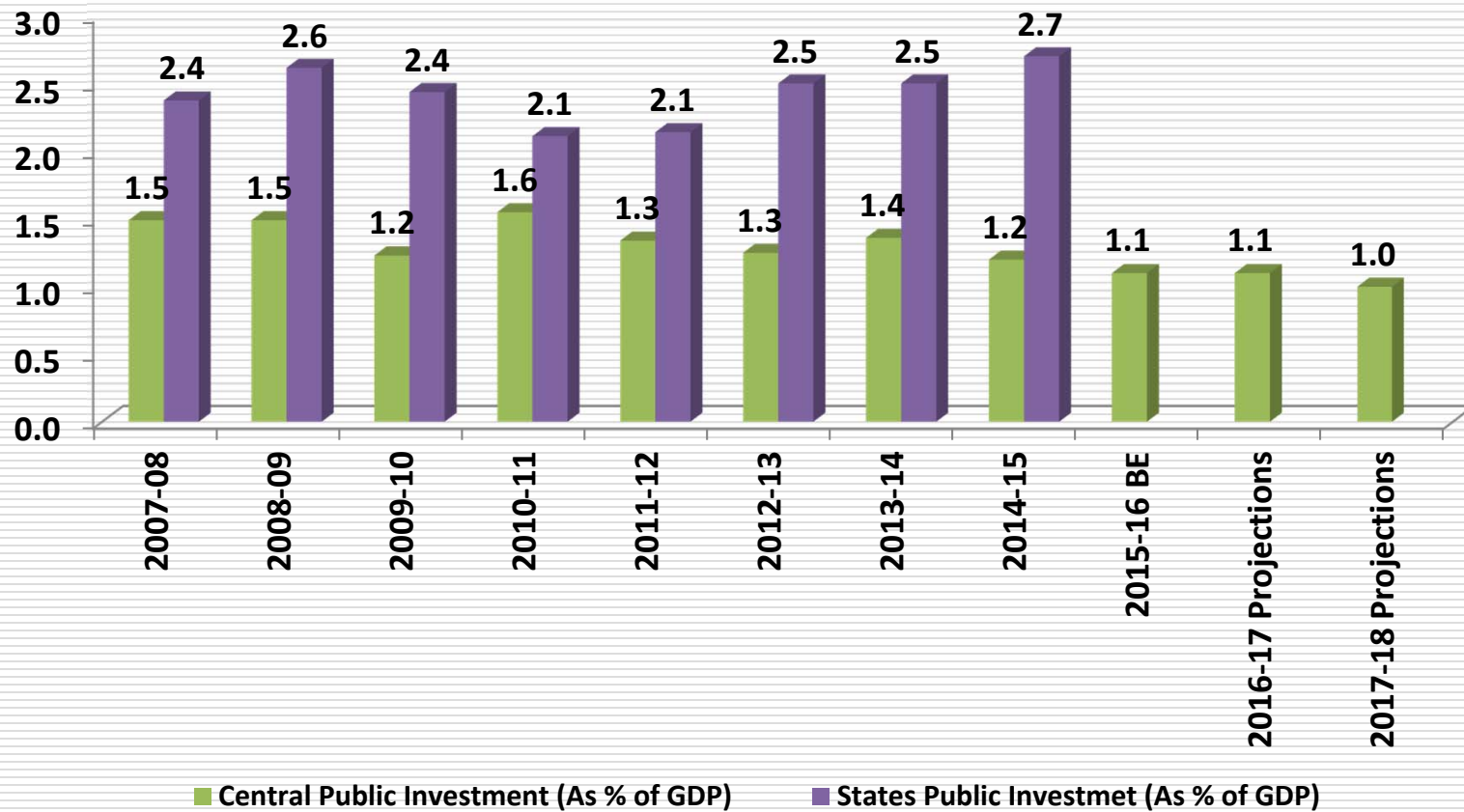
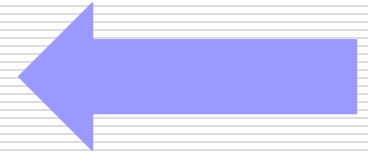


FUTURE LINE OF ACTION

- ❑ Target to introduce IFC in winter session of parliament. Closure by monsoon session 2016
 - ❑ Number of task forces giving final shape to design of IFC
 - ❑ Active dialogue on design details between RBI and Ministry of Finance
 - ❑ Reasonable though not optimal interfacing with stake holders
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THANK YOU

PUBLIC INVESTMENT

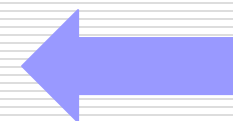


REVENUE DEFICIT (AS % OF GDP)

States	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Andhra Pradesh	2.3	1.0	2.5	1.8	1.8	1.6	1.1	0.0
Bihar	1.9	7.1	5.2	4.1	3.8	1.7	-1.4	-0.1
Gujarat	2.7	3.3	5.7	5.4	2.5	2.2	2.0	0.2
Kerala	3.6	5.2	4.3	3.3	4.7	3.8	3.1	2.3
Madhya Pradesh	3.1	3.7	1.7	3.7	1.3	4.4	-1.5	0.0
Maharashtra	1.9	1.7	3.1	3.0	3.1	2.4	2.4	0.8
Orissa	6.4	6.0	4.4	6.0	3.1	2.3	0.7	-0.6
Punjab	4.7	4.1	3.1	4.7	4.6	4.0	3.5	1.1
Rajasthan	4.1	4.4	3.2	4.1	4.4	3.1	1.7	0.5
Tamil Nadu	2.9	3.3	2.3	1.8	3.1	0.9	0.3	-0.8
Uttar Pradesh	5.3	4.1	3.5	3.2	2.5	8.2	2.7	0.4
West Bengal	4.2	6.9	5.3	5.6	5.1	4.8	3.9	3.2
All GCS	3.1	3.4	3.2	3.4	3.0	3.0	1.6	0.4

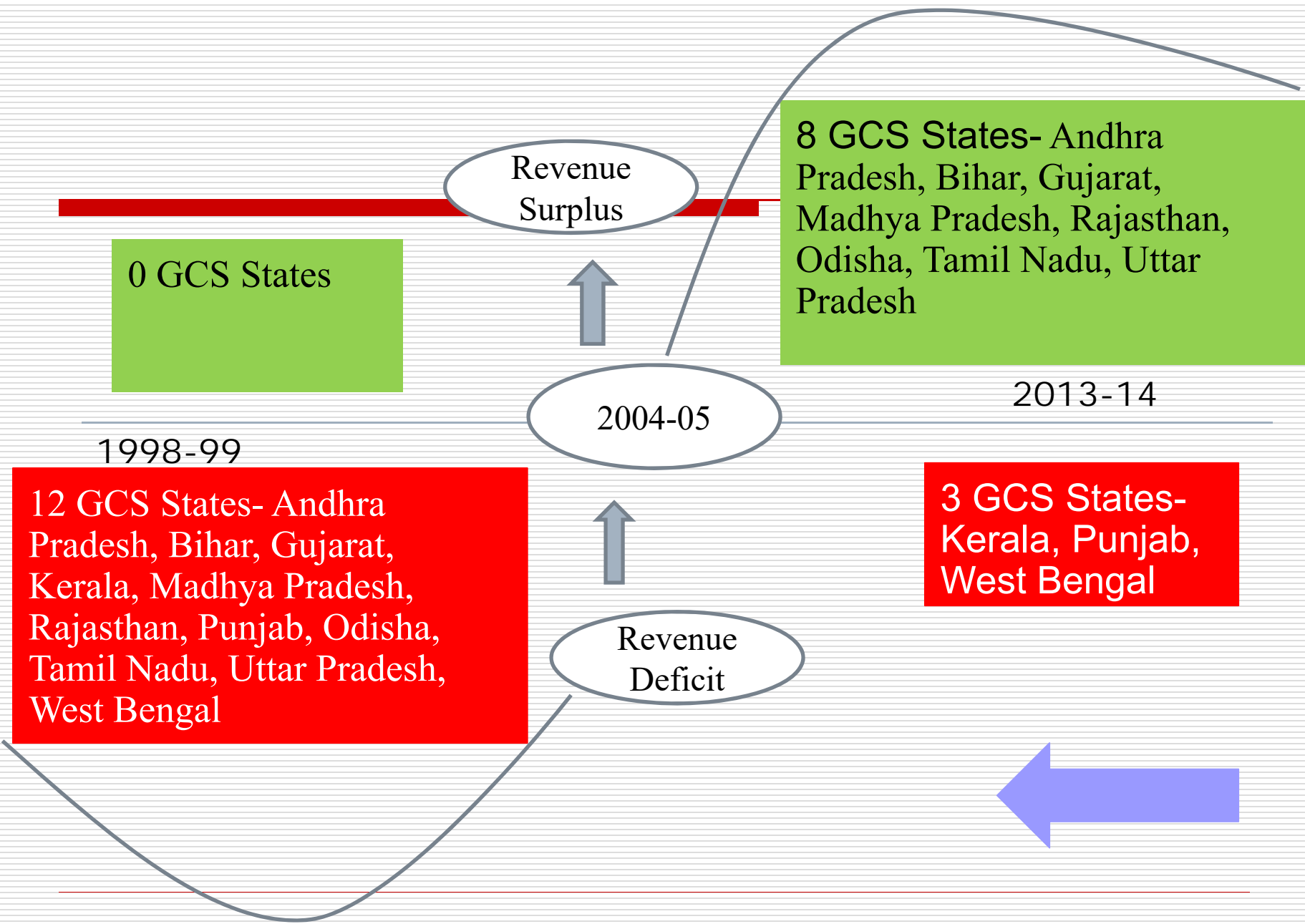
Source: Handbook of statistics on Indian economy, RBI

REVENUE DEFICIT (AS % OF GDP)



States	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15*(RE)	2015-16*(BE)
Andhra Pradesh	-0.9	0.0	-0.2	-0.3	-0.4	-0.5	-0.2	-0.07	2.74	1.25
Bihar	-2.5	-4.1	-3.1	-1.8	-3.1	-1.9	0.2	-1.87	1.12	-2.63
Gujarat	-0.6	-0.7	0.0	1.6	1.0	-0.5	-0.6	-0.62	-0.74	-0.74
Madhya Pradesh	-2.3	-3.2	-2.1	-2.4	-2.6	-3.2	-1.7	-1.35	-1.25	-1.00
Maharashtra	-0.1	-2.2	-0.7	0.9	0.1	0.2	0.0	0.34	0.82	0.2
Odisha	-2.2	-3.3	-2.3	-0.7	-2.0	-2.6	-1.2	-1.22	-1.09	-1.47
Rajasthan	-0.4	-0.8	0.4	1.8	-0.3	-0.8	-0.2	0.20	0.73	-0.08
Tamil Nadu	-0.9	-1.3	-0.4	0.7	0.5	-0.2	-0.1	0.22	0.32	0.42
Uttar Pradesh	-1.5	-0.9	-0.4	-1.3	-0.6	-1.0	-0.7	-1.17	-3.32	-3.20
Kerala	1.7	2.2	1.8	2.2	1.4	2.6	1.0	2.85	2.07	1.37
Punjab	1.4	2.5	2.2	2.7	2.3	2.7	1.7	2.06	1.78	1.60
West Bengal	3.2	2.7	4.3	5.4	3.7	2.7	2.1	2.68	1.29	0.00
All GCS	-0.5	-0.8	0.0	0.7	0.1	-0.2	0.0	0.1	0.3	-0.4

*RE=Revised Estimates *BE= Budget Estimates; NA= Not Available



0 GCS States

8 GCS States- Andhra Pradesh, Bihar, Gujarat, Madhya Pradesh, Rajasthan, Odisha, Tamil Nadu, Uttar Pradesh

1998-99

2004-05

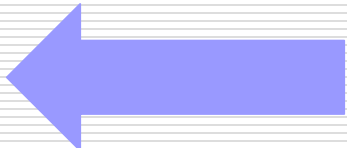
2013-14

12 GCS States- Andhra Pradesh, Bihar, Gujarat, Kerala, Madhya Pradesh, Rajasthan, Punjab, Odisha, Tamil Nadu, Uttar Pradesh, West Bengal

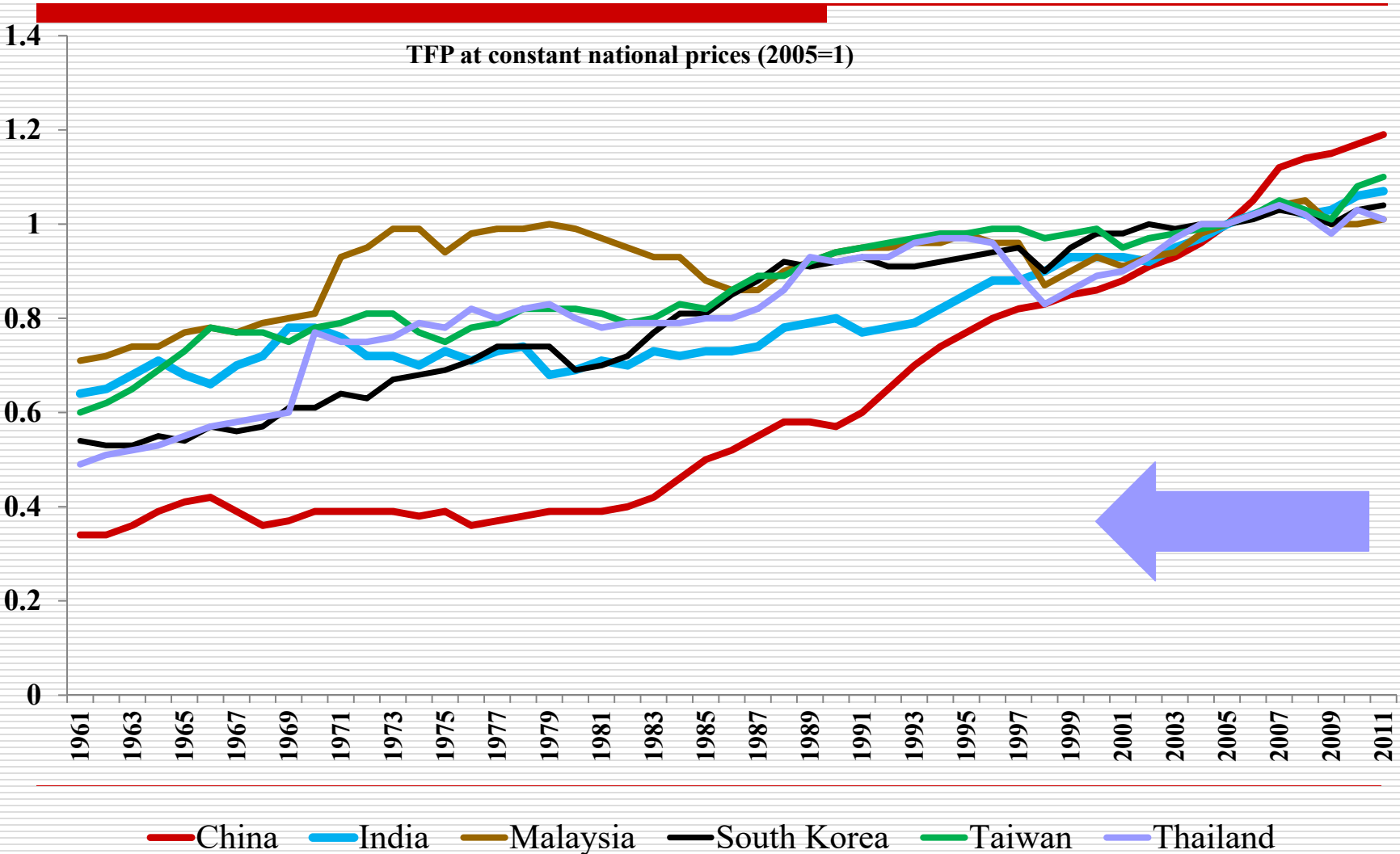
3 GCS States- Kerala, Punjab, West Bengal

Revenue Surplus

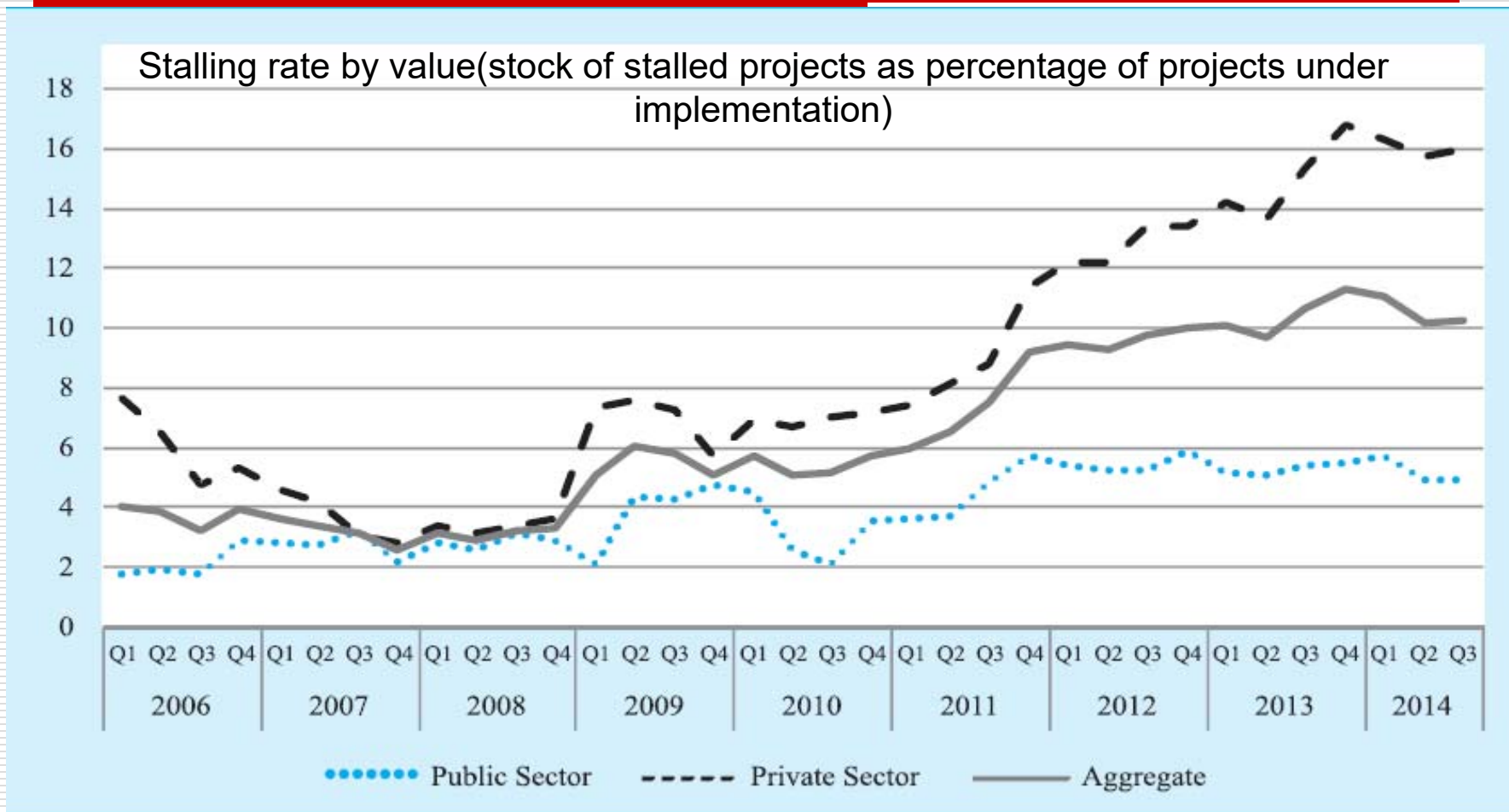
Revenue Deficit



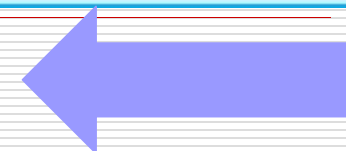
TOTAL FACTOR PRODUCTIVITY



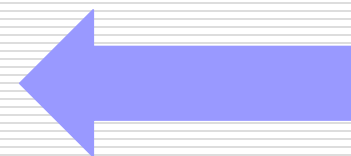
RATE OF STALLING- ALARMINGLY HIGH AND DOMINATED BY THE PRIVATE SECTOR



Source: Economic Survey 2014-15

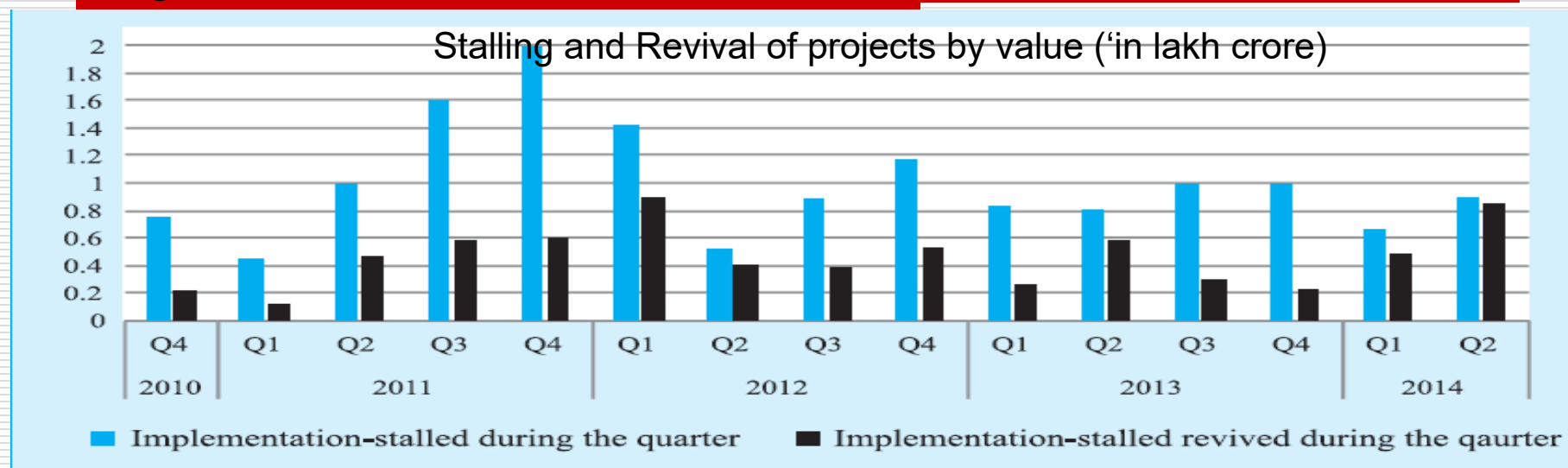


GOOD NEWS



Tapering in the last three quarters.

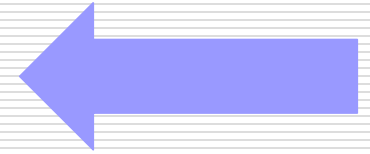
The stock of stalled projects is driven by two factors: rate of stalling and the rate of revival.



Stalled projects (As % of GDP)

Year	Government	Private	Total
2011-12	2.0%	5.7%	7.7%
2012-13	1.9%	6.1%	8.9%
2013-14	1.8%	6.5%	8.3%
2014-15 (till Q3)	1.4%	5.5%	6.9%

Source: Economic Survey, 2014-15



REASONS FOR STALLING ACROSS OWNERSHIPS

Owner	No. of Projects	Top Reasons for Stalling
Private (Indian)	585	Unfavourable market conditions Lack of promoter interest Lack of non-environmental clearances
Government	161	Land acquisition problem Lack of non-environmental Clearances Lack of funds

Source: Economic Survey, 2014-15

