

NCAER - IIC

Mid-Year Economic Review/Outlook

November 1, 2014



Outline of the Presentation

- Macro-economic performance to date
- Dis-aggregated view / sectoral performance
- Near Term Challenges
- Forecast & Outlook

Flashback : NCAER-IIC MYR November 2013

- One word to describe the first Half of 2013-14:

Tumultuous !

- Only good thing about the first half of 2013-14:

It's behind us !



Fast forward :

NCAER-IIC MYR Nov 2014

- Only way to describe H1 2014-15:

Period when India got its mojo back!

- Really good thing about H 1 2014-15:

**It's given us a rare (undeserved?)
window of opportunity**

The Transformation !

- From being a member of the Fragile Five
- To now being the only BRIC standing
- *India has come full circle in 1 yr*

Go further back in time & it's not the 1st time !

- Indian economy has flattered in the past as well...only to deceive ...
- In 1999, *Economist* described India as the
- *World's Biggest Under-achiever*
- By 2003 the tag-line had changed
- India was the 'eye' of the Brics!

The billion dollar question!!



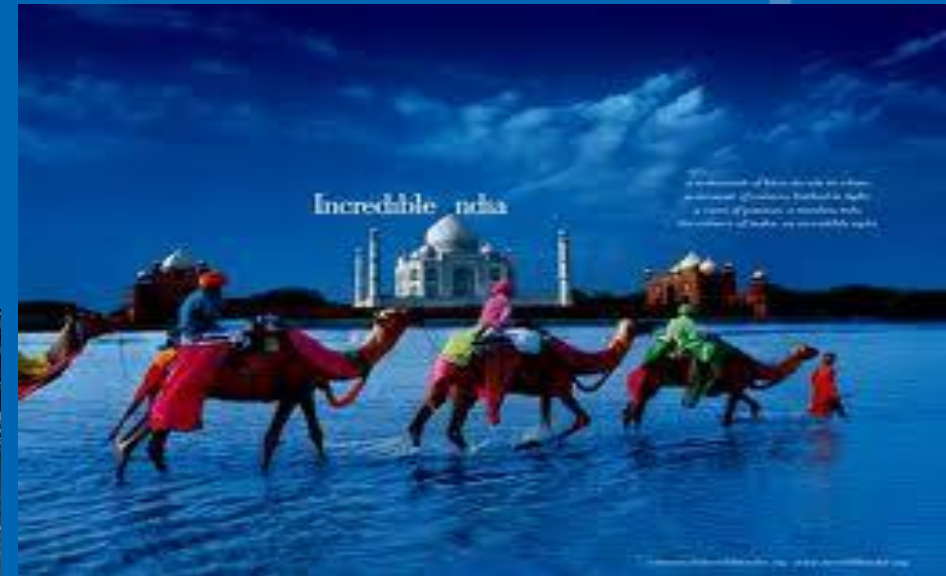
- Crouching tiger?
- Nearly-power?



- Lumbering elephant?
- Tortoise?

Alternatively, as the London *Financial Times* put it, is it

– Incredible India ?
OR

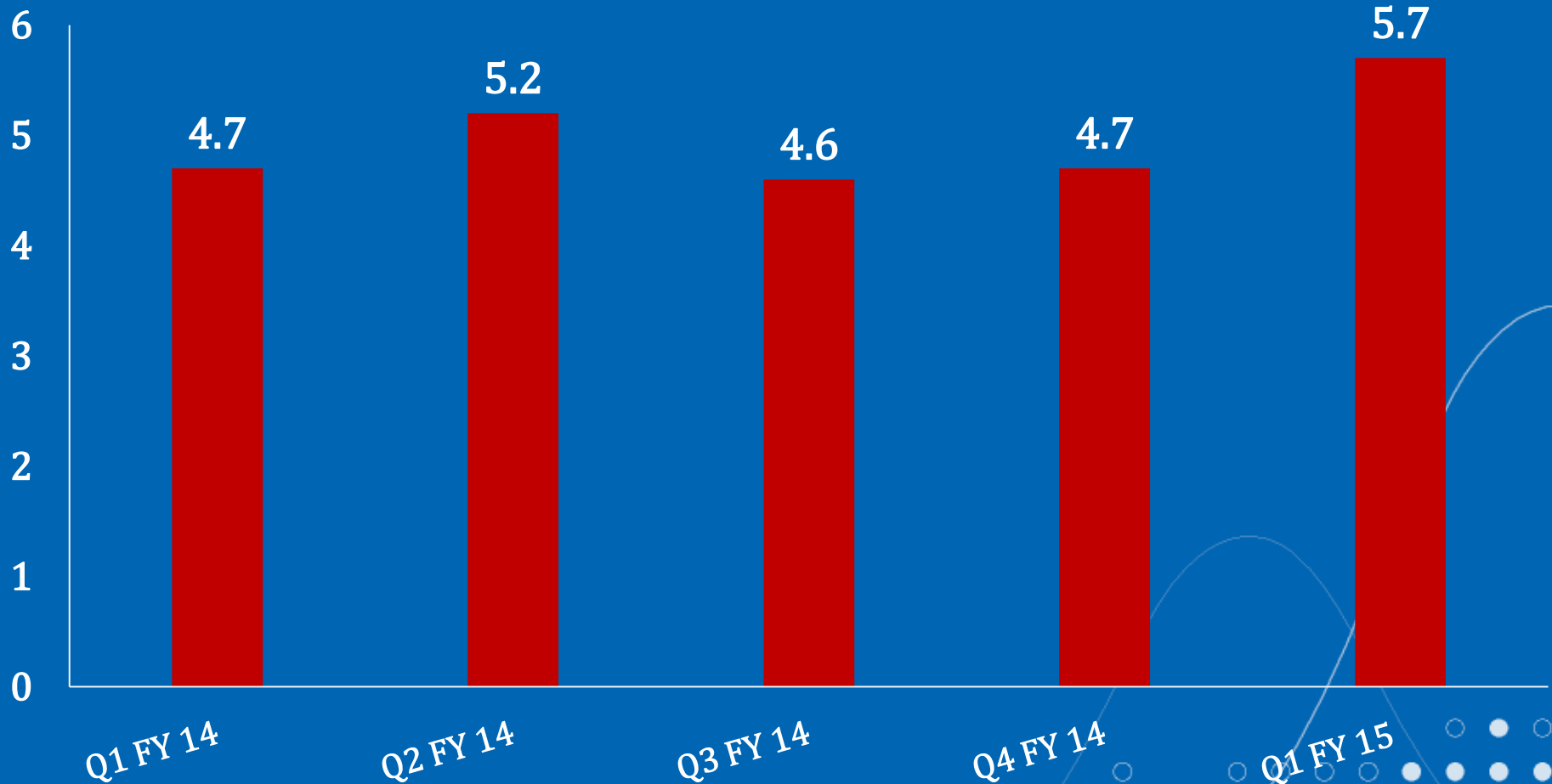


– Incompetent India ?



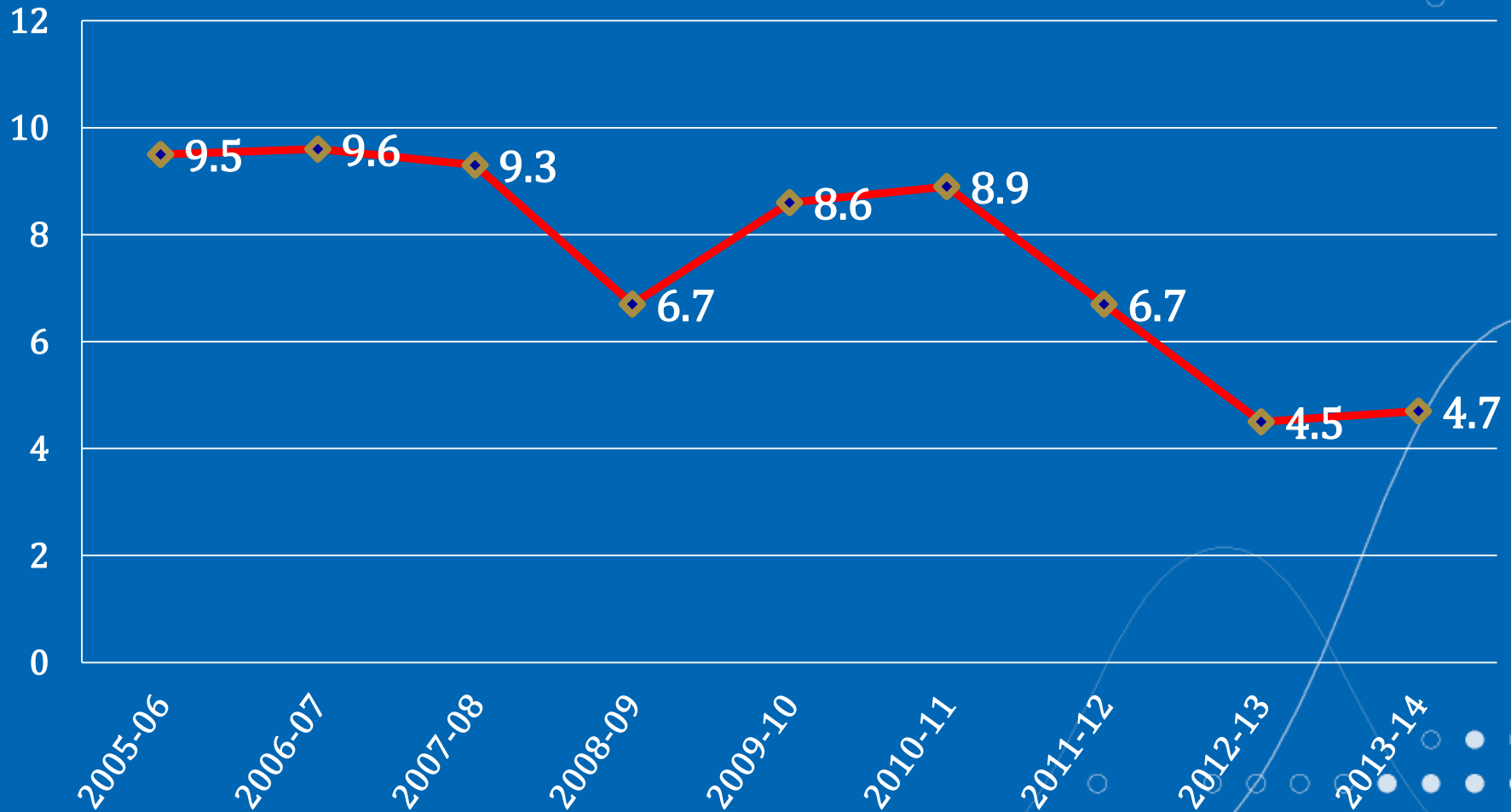
On the Macro Front

GDP Growth recovers from 17 qtr low to 9 qtr high

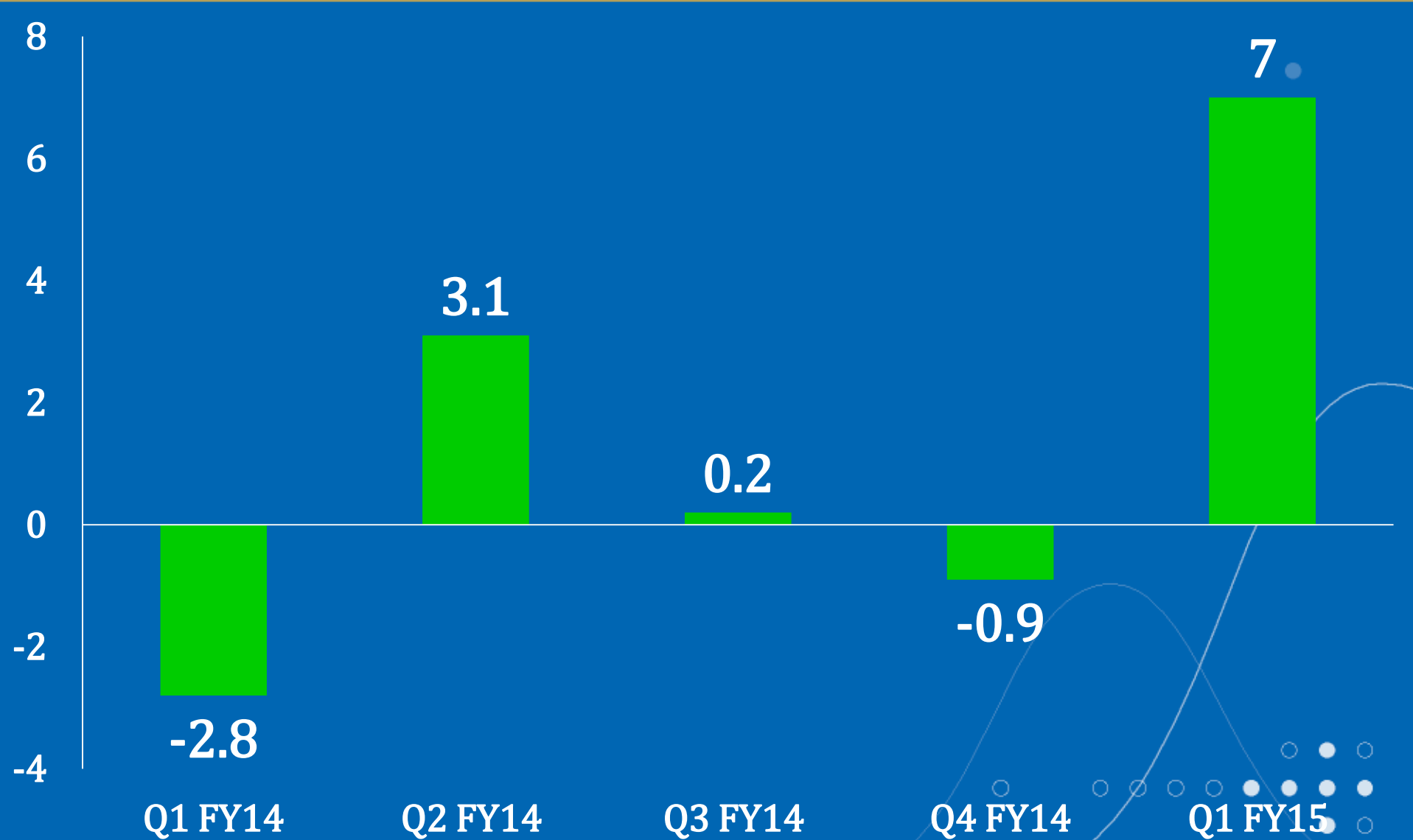


Is this the new normal? Why has growth slowed? Will it revive?

GDP Growth

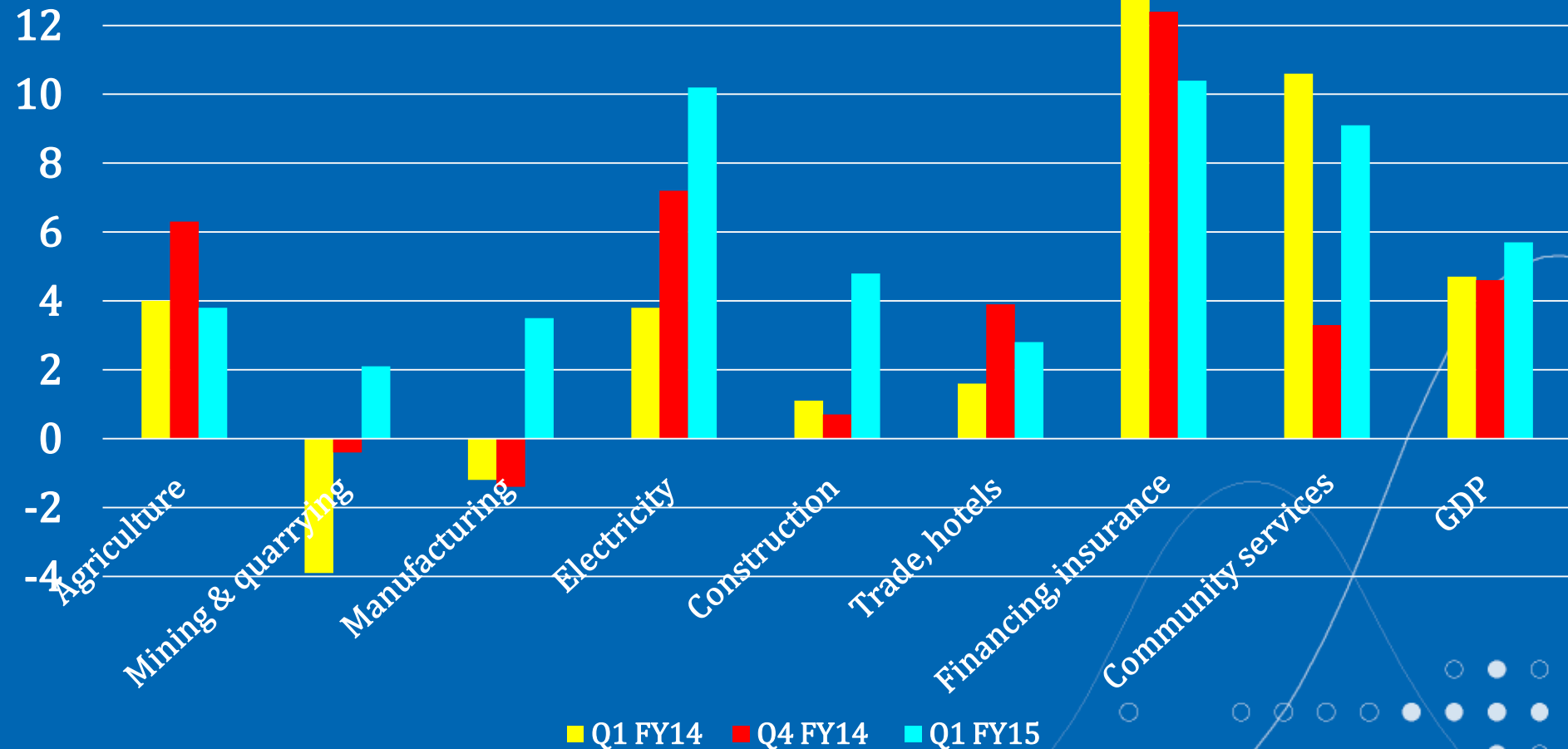


Could growth in gross fixed capital formation be a lead indicator ?



Are the clouds lifting or is it still too early to call?

Sectoral Performance



Is the whole more or less than the sum of its parts?

The dis-aggregated view.....



Agriculture:

Last year's silver lining is fast disappearing !



/bales)

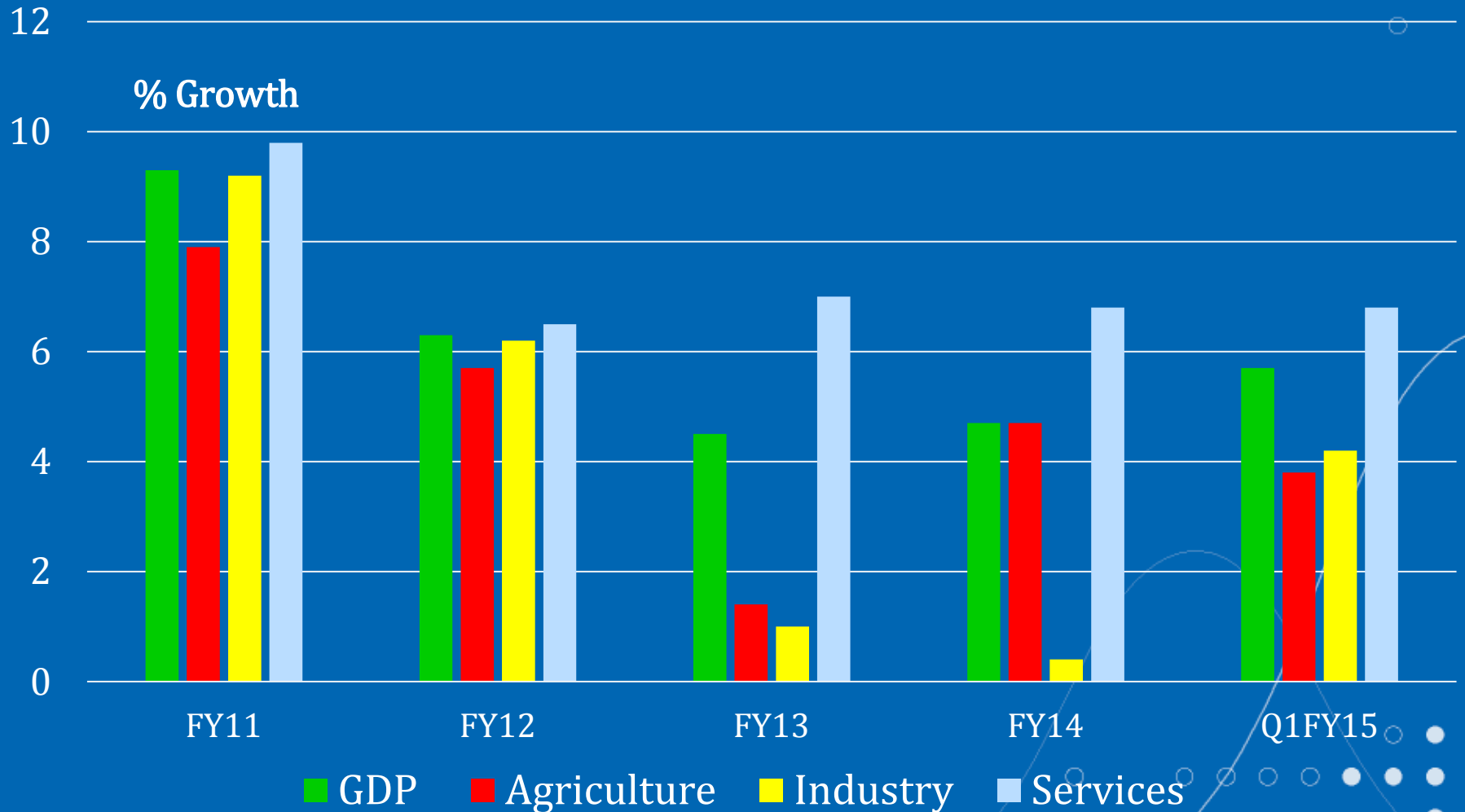
| Crops | 2013-14 | 2014-15 (1st adv estimates) Min of Agriculture | Estimated output (NCAER) | Estimated rates of growth |
|-------------------------|----------------|--|---------------------------------|----------------------------------|
| Kharif Rice | 91.7 | 88.0 | 87.2 - 89.6 | -2.3 to -3.6 |
| Kharif Coarse Cereals | 31.5 | 27.1 | 26.4 - 26.9 | -14.7 to -15.5 |
| Kharif Pulses | 6.0 | 5.2 | 4.9 - 5.1 | -15.5 to -16.7 |
| Kharif Total Foodgrains | 129.2 | 120.3 | 118.5 - 121.6 | -5.9 to -7.1 |
| Kharif Oilseeds | 22.4 | 19.7 | 17.2 - 17.5 | -22.6 to - 23.3 |
| Cotton* | 36.6 | 34.6 | 34.6 - 37.0 | -2.1 to 1.2 |
| Sugarcane | 350.0 | 342.8 | 359.0- 369.0 | 4.1 to 5.7 |

Industry :

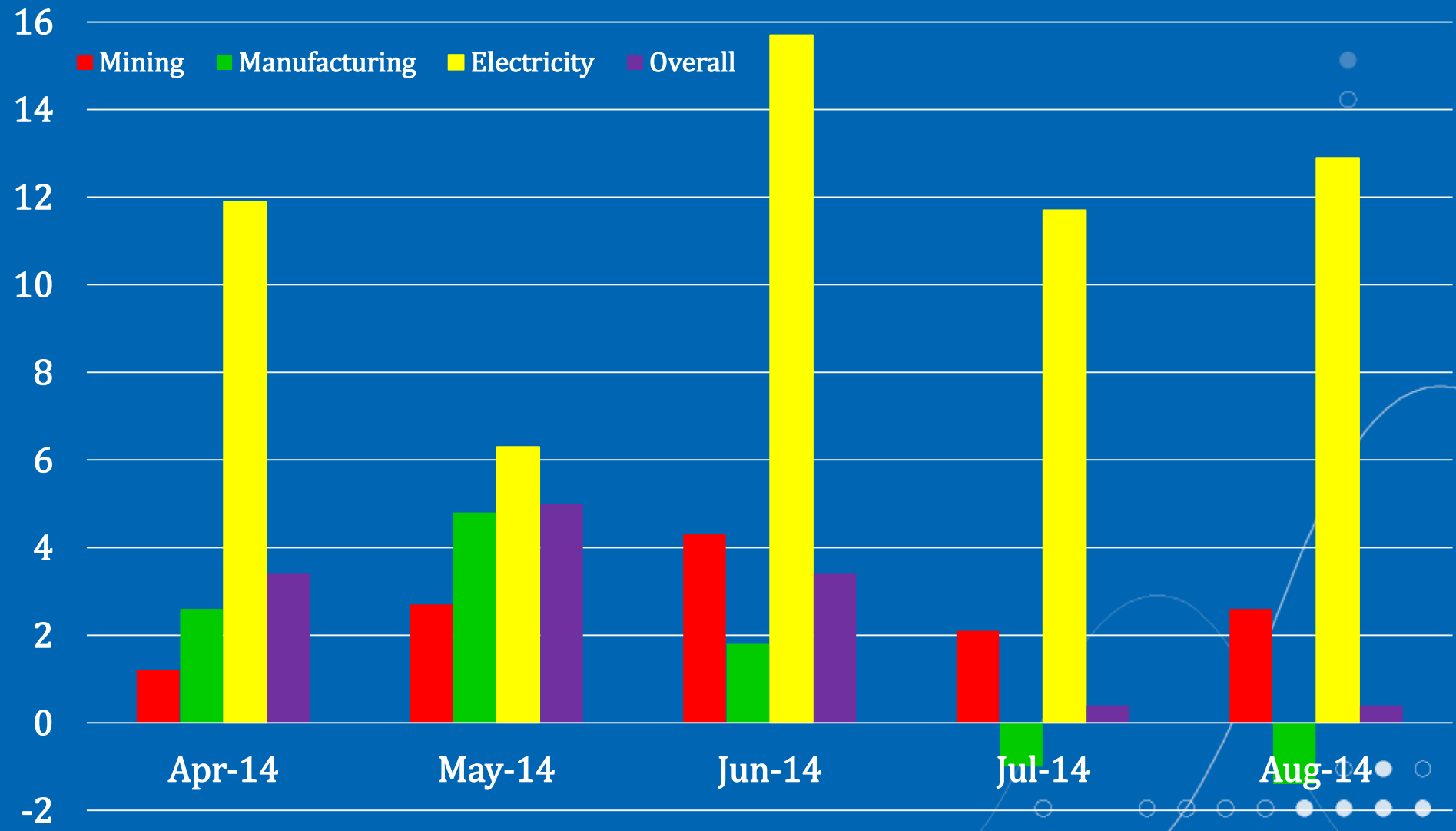
**Have hopes been raised
only to disappoint ?**



Industrial growth falls sharply ...till Q1 FY 15

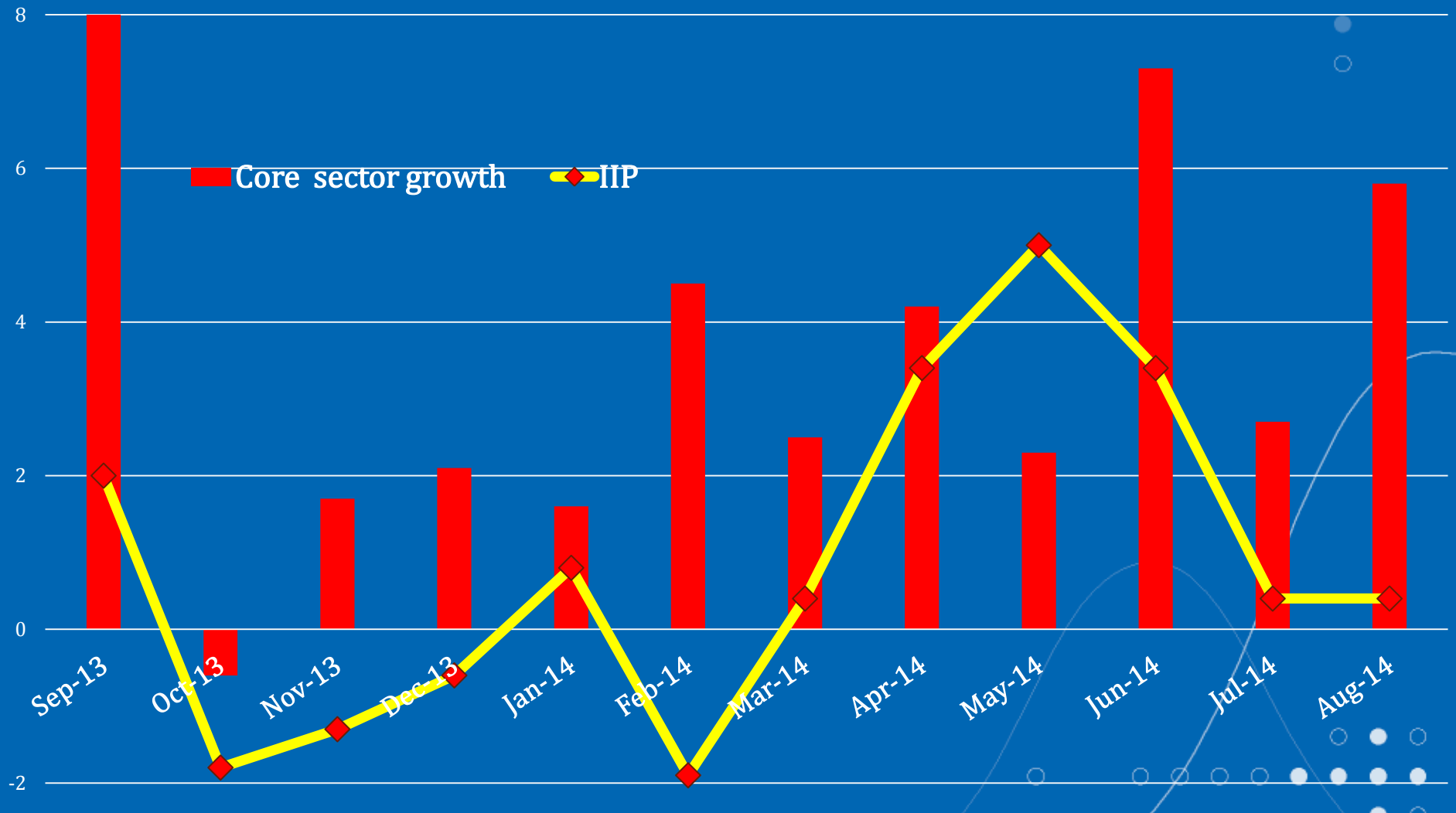


Little to cheer on industrial front ; only bright spot is electricity



Core Sector Growth

a poor indicator of industry's performance



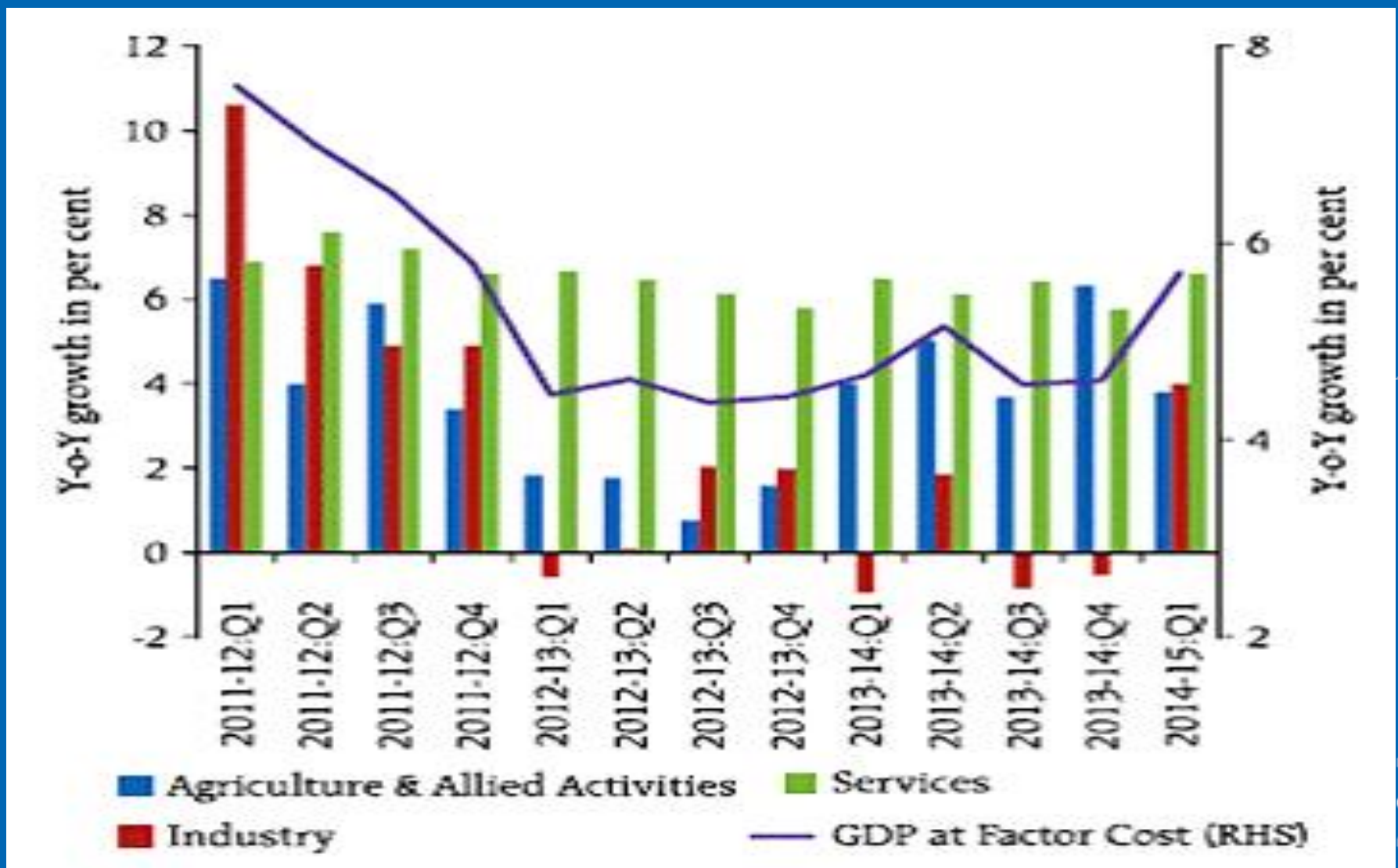
Source: Central Statistical Organisation

Services:

No longer immune



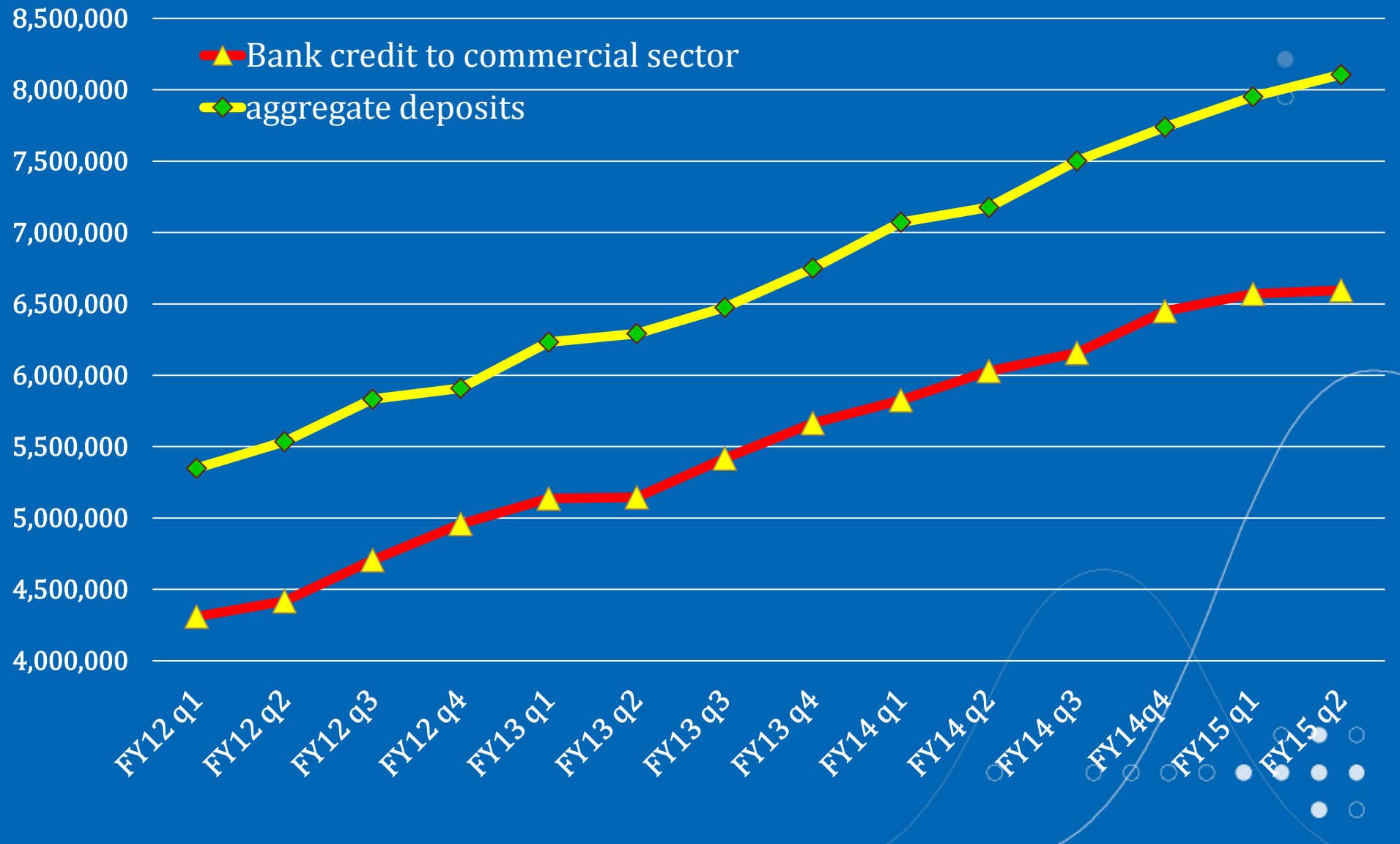
Services: The mainstay that's slowly running out of steam !



Money and Capital Markets

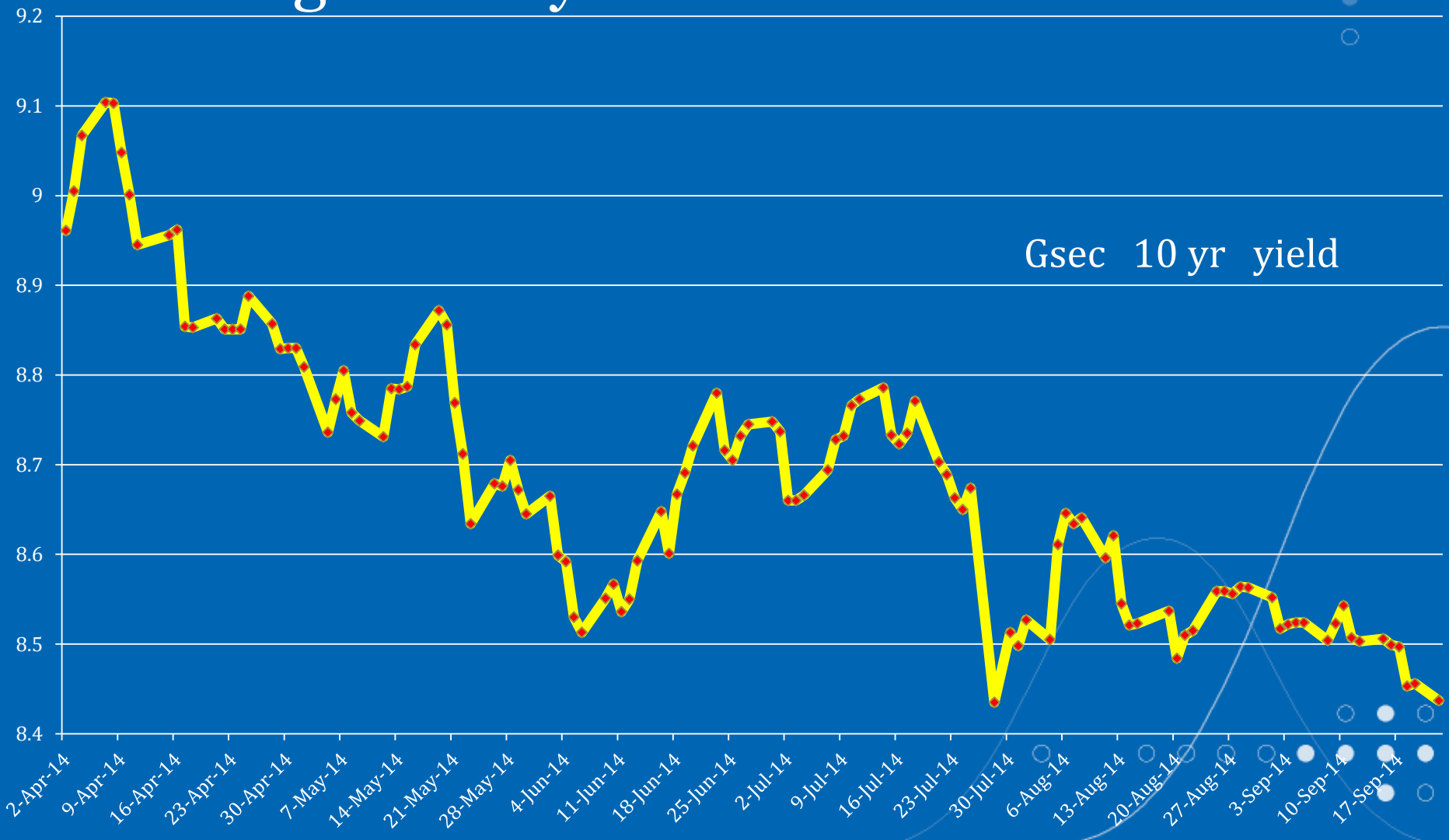


No takers for bank credit



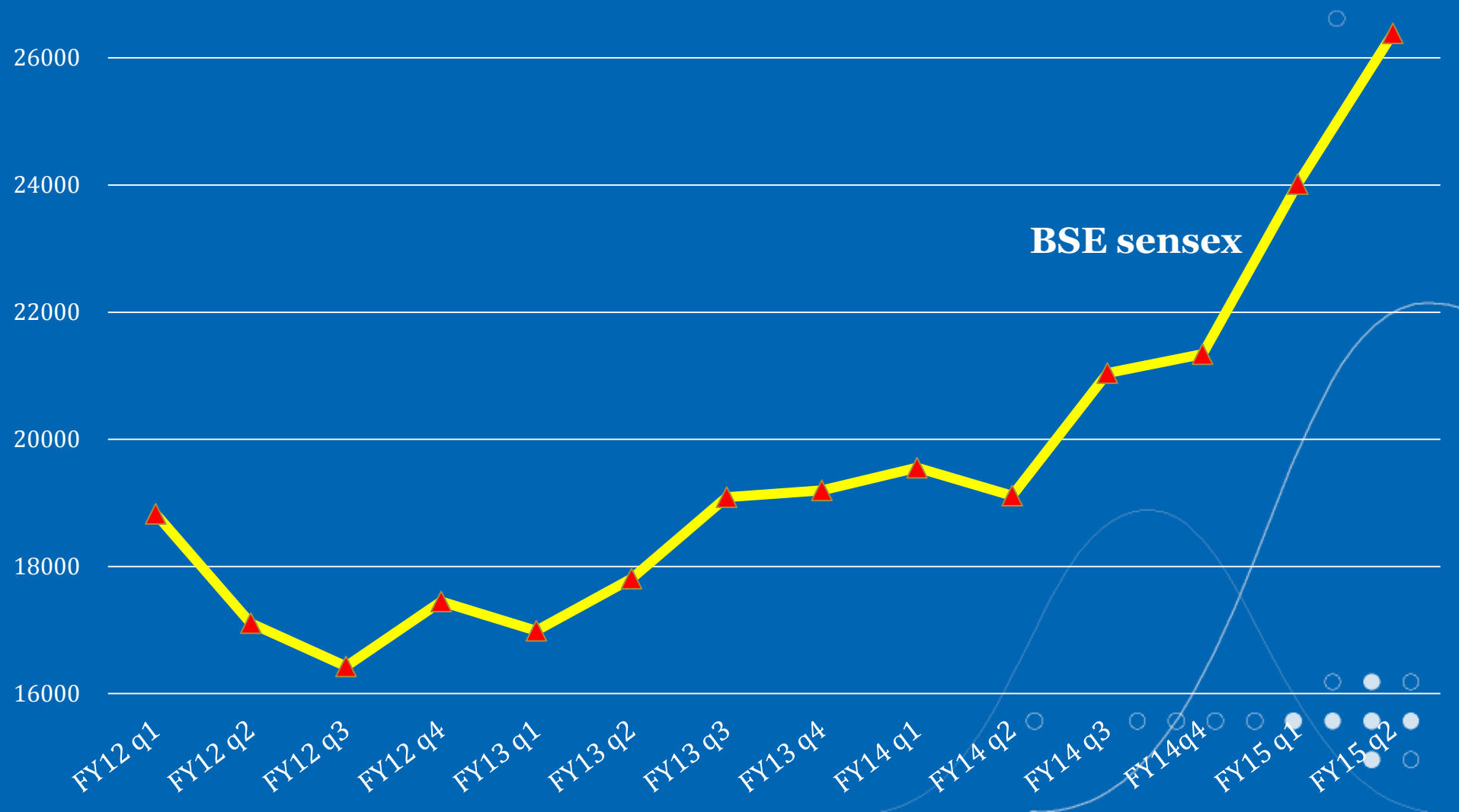
One man's meat is another man's poison!

Govt gets lucky: Yield on G-Secs falls



Govt is not the only lucky one!

Sensex goes stratospheric!



External Sector:

No longer the Achilles heel ...



Current account deficit improves and HOW!

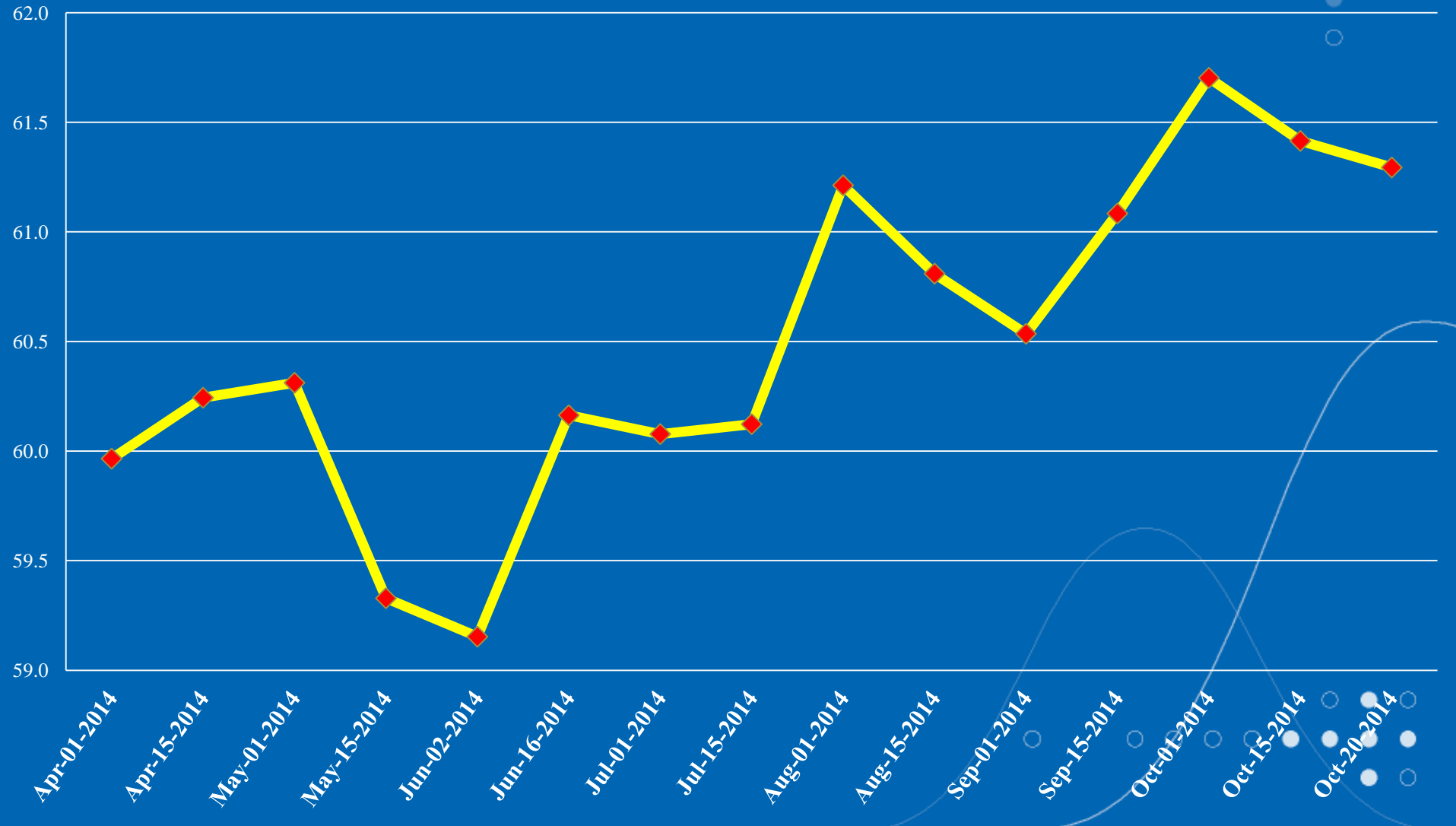
| BOP (US\$ billion) | | | | |
|--------------------|---------|---------|------------|------------|
| | 2012-13 | 2013-14 | Q1 2013-14 | Q1 2014-15 |
| Trade balance | -195.7 | -147.6 | -50.5 | -34.6 |
| Net Service | 64.9 | 73 | 16.9 | 17.1 |
| Net income | -21.5 | -23 | -4.8 | -6.7 |
| Current account | -88.2 | -32.4 | -21.8 | -7.8 |
| | | | (-4.9) | (-1.7) |

Source: RBI; figs in brackets give % of GDP

Rupee recovers

and is relatively stable

INR per USD



Public Finance: Prudence only on paper



Promises to keep ...

but miles to go before he sleeps !

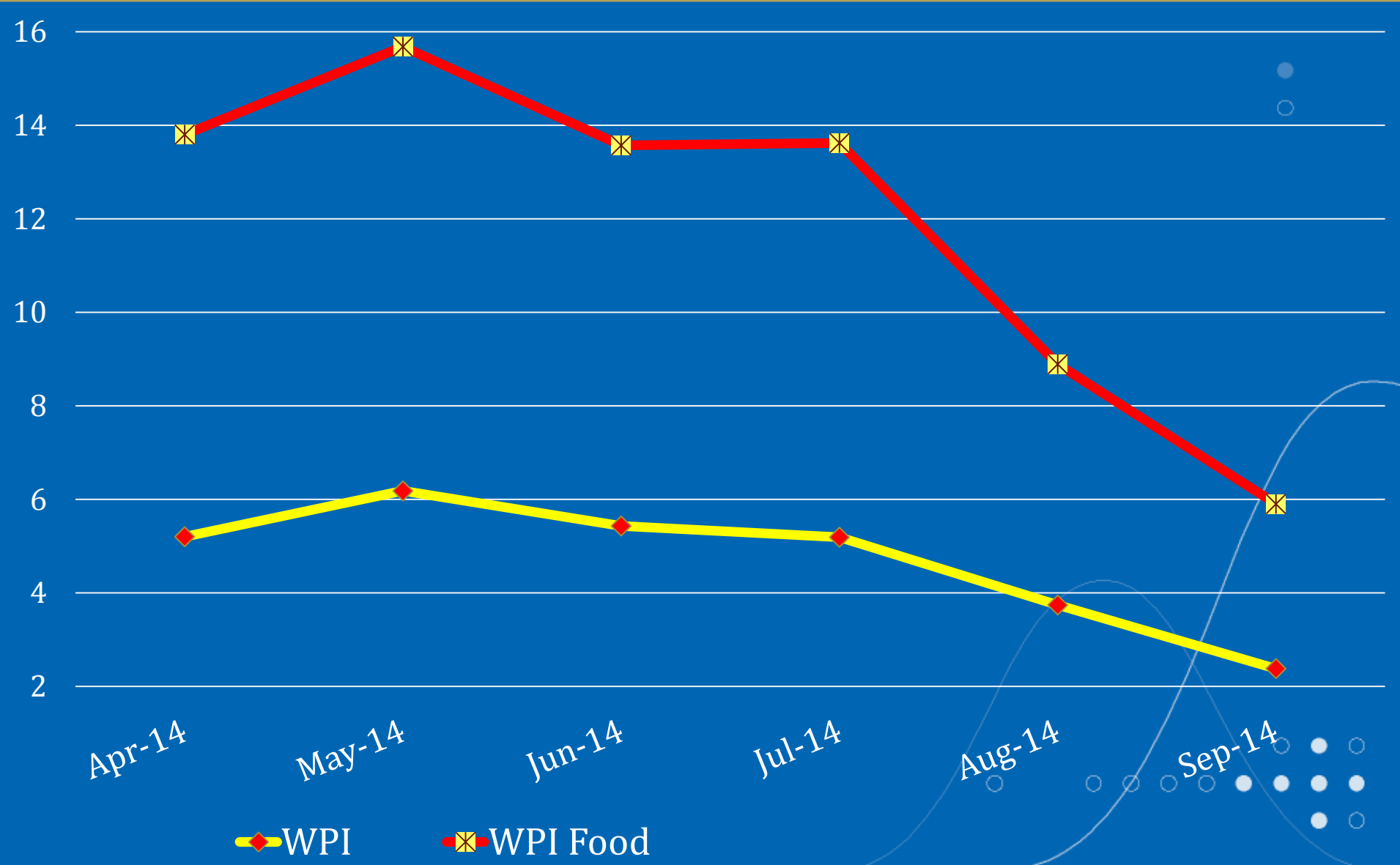
| | <u>Budget estimates</u> | <u>Actuals to Aug 15</u> | <u>% of actuals to BE</u> | <u>Comparable period FY14</u> |
|---------------------------|-------------------------|--------------------------|---------------------------|-------------------------------|
| Revenue receipts | 1189763 | 270455 | 22.7 | 23.9 |
| Non-debt capital receipts | 73952 | 4334 | 5.9 | 8.7 |
| Total receipts | 1263715 | 274789 | 21.7 | 23 |
| Non-plan expenditure | 1219892 | 475095 | 40.6 | 43.2 |
| Plan expenditure | 575000 | 177623 | 30.9 | 33 |
| Total expenditure | 1794892 | 672718 | 37.5 | 39.8 |
| Fiscal deficit | 531177 | 397929 | 74.9 | 74.6 |
| Revenue deficit | 378348 | 324764 | 85.8 | 87.4 |
| Primary deficit | 104166 | 244053 | 234.3 | 160.9 |

Prices:

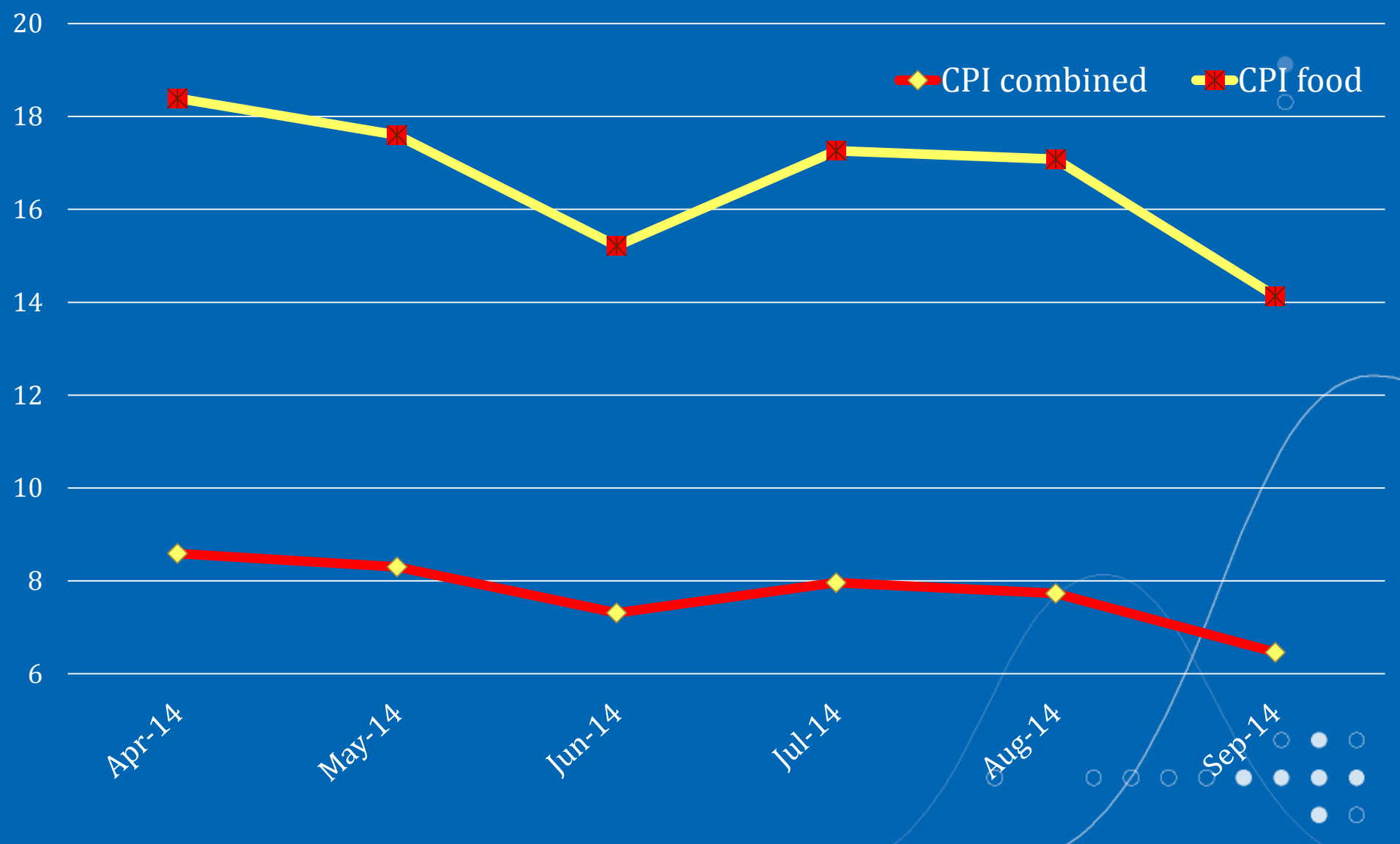
Some signs of respite



Wholesale comfort on price front !



Less comfort for aam admi ... though he fares better than khas admi !



Near-term Challenges : Internal

- Revive investment
- Improve productivity ; arrest rise in ICOR
- Reverse decline in manufacturing sector
- Improve governance
- Improve infrastructure: physical & social
- Structural reform - focus on land and labour markets
- Legal reform

Near term Challenges : External

- End of Federal Reserve's QE and reversal of US interest rate cycle
- Threat of recession in Europe
- Slowdown in China's growth rate
- Geo-political tensions
- Terrorism
- Ebola
- *Despite all this*



Can we do it?

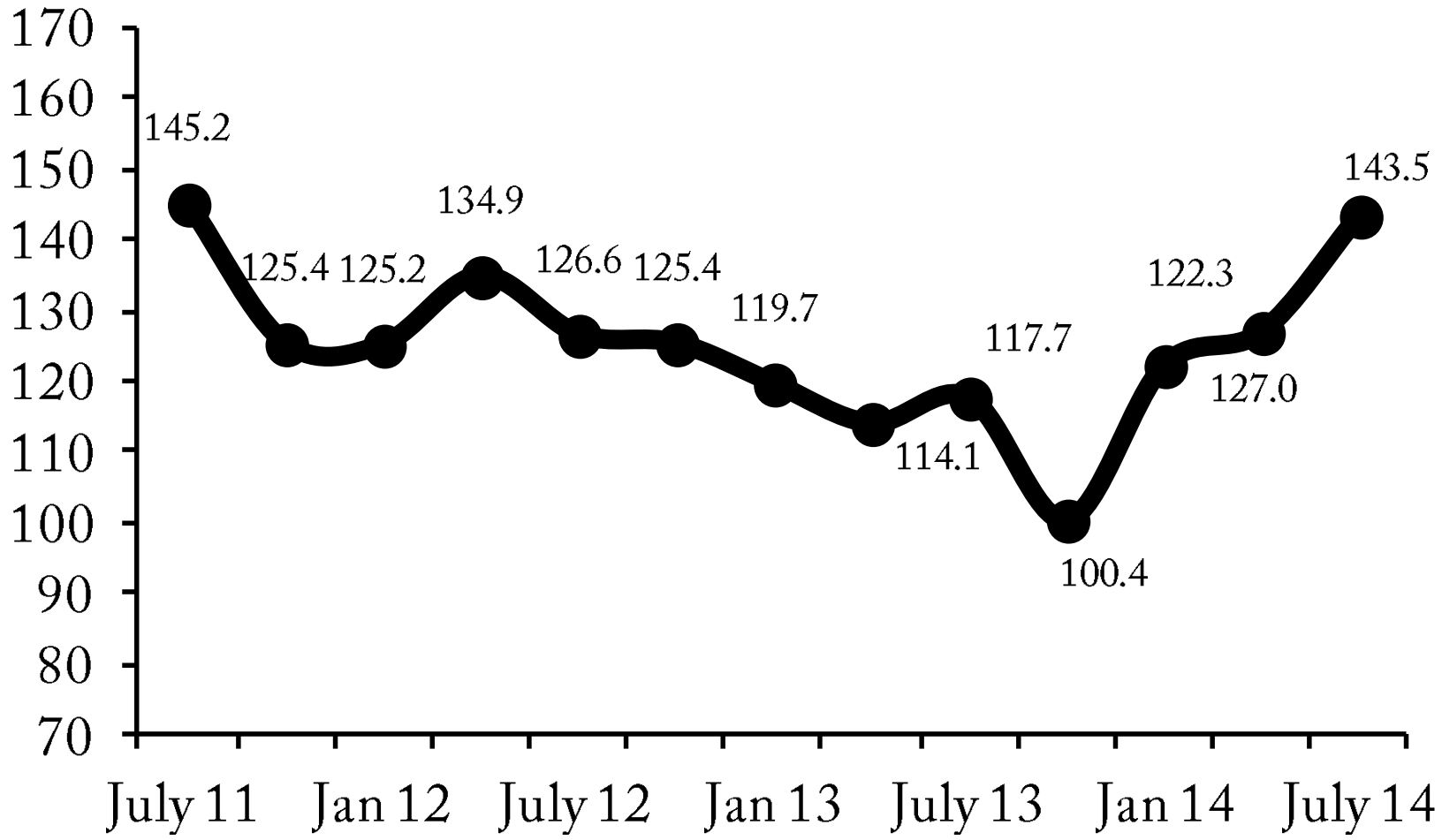


Yes we can!

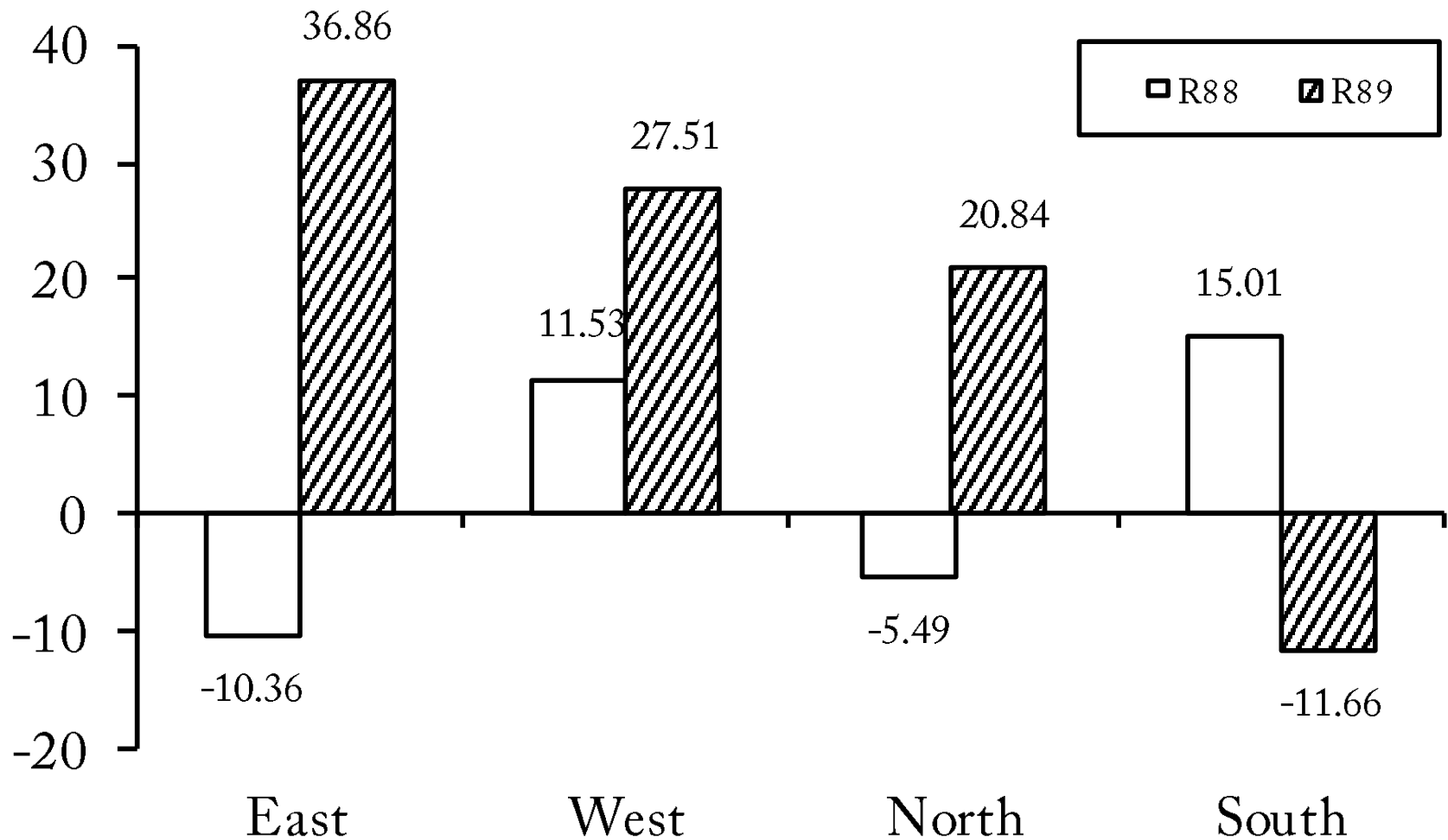
Why optimism might not be misplaced ?



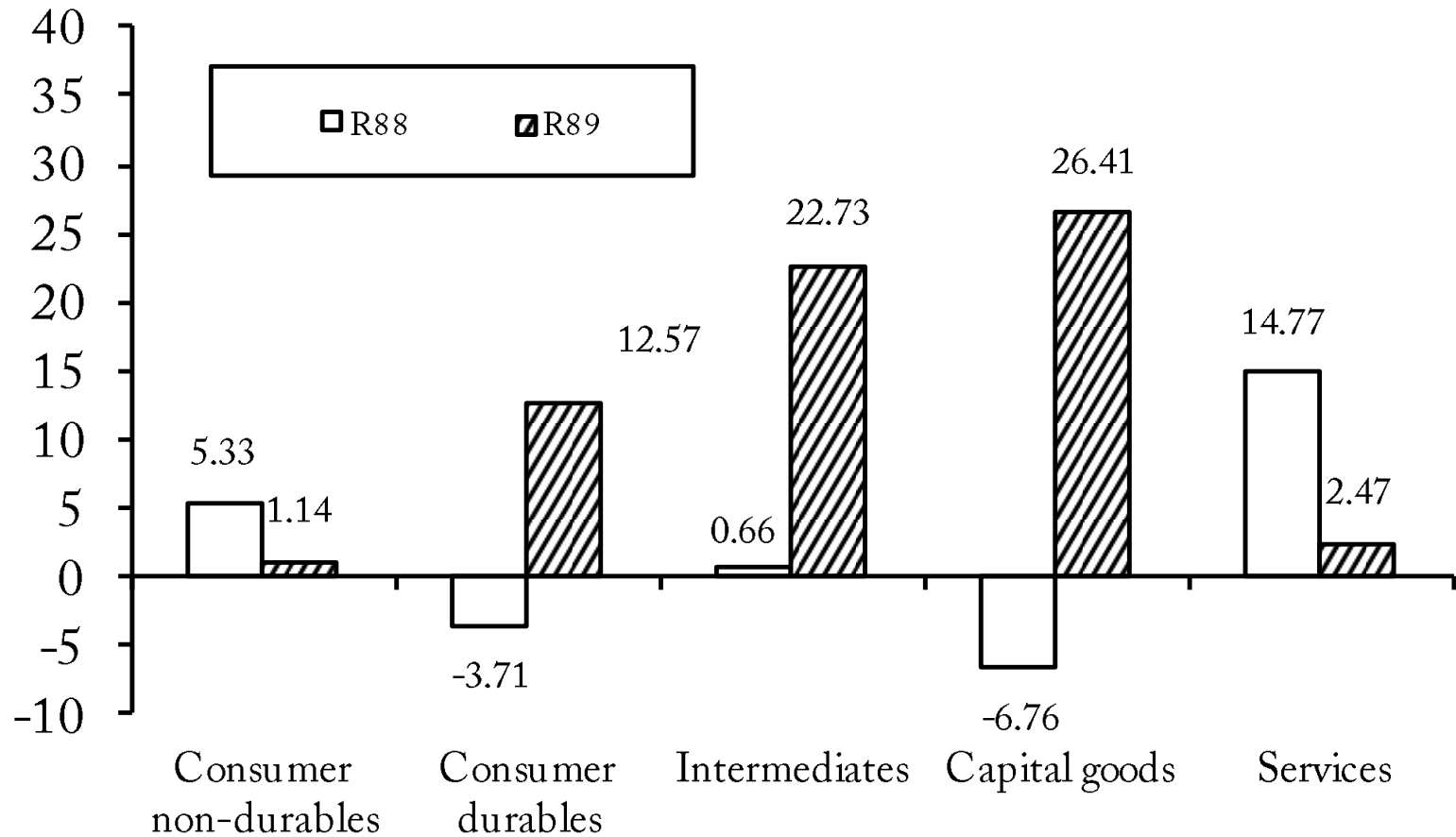
1956 Business Confidence Index : low but improving NCAER Expectations Survey



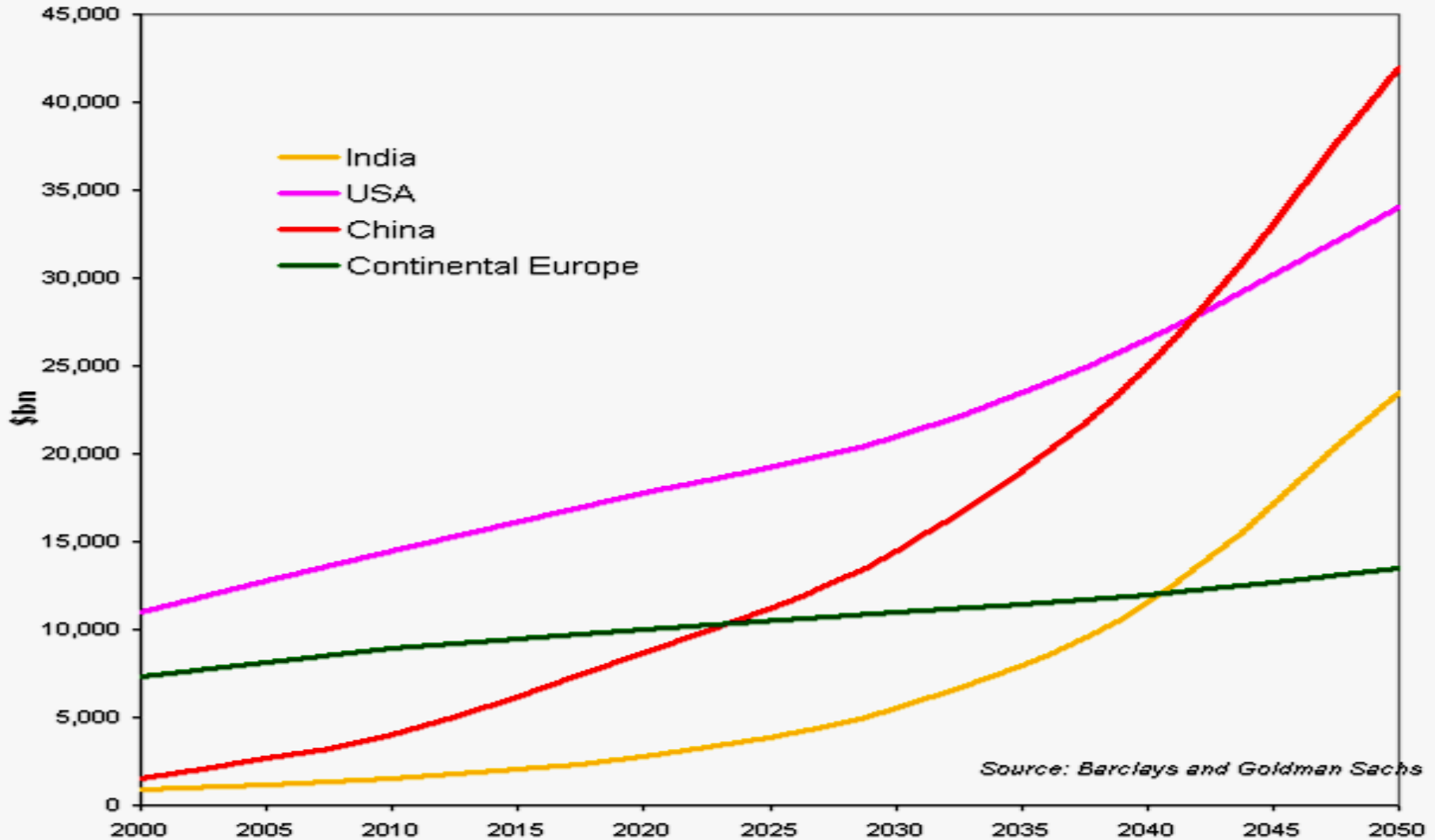
Regional laggards look more optimistic



Sectoral business confidence

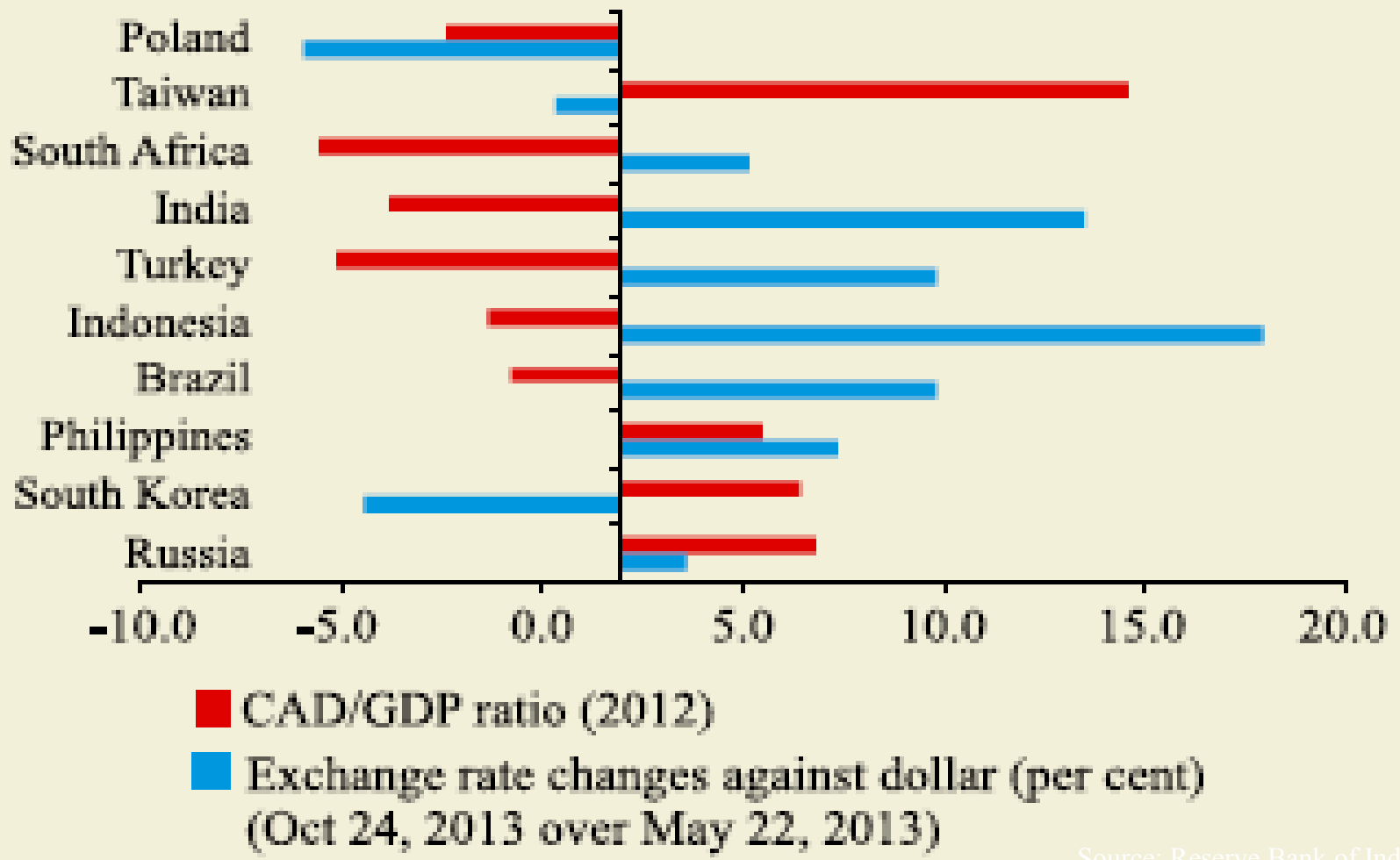


Projected GDP



In 2013 talk of tapering affected all emerging markets; but India more than others

Exchange Rate Movements and Current Account Deficit



Source: Reserve Bank of India

In 2014, India seen as only Bric left standing!

| | GDP | CAD | Budget balance | Interest rate 10 ^{yr} Govt bonds |
|----------|-----|------|----------------|---|
| Brazil | 0.4 | -3.6 | -3.9 | 11.6 |
| Russia | 0.4 | 3.3 | 0.4 | 9.8 |
| India | 6 | -2 | -4.9 | 8.4 |
| China | 7.3 | 2 | -2.9 | 3.8 |
| S Africa | 1.6 | -5.2 | -4.4 | 7.8 |

- GDP growth rate – 6 – 6.5%
- Inflation – 7-8%
- CAD - 2.5 – 3%
- GFCF - 35%
- Fiscal deficit – 5%

Forecast:

**Dare we say we're seeing
light at the end of the tunnel?**



Quarterly Model: Assumptions for 2014-15

| | |
|---|----------------------|
| Exogenous Variables | |
| Rainfall | 17.1% (y-o-y) |
| BSE Sensex (%yoy) | 29.1% |
| Bank Credit to the Commercial Sector (%yoy) | 11.6% |
| Central Government Expenditure (%yoy) | 10% |

Quarterly Model: GDP growth forecast for 2014-15 (%y-o-y)

| Forecast for | 2014-15 July | 2014-15 October |
|----------------|--------------|-----------------|
| Q1 | 5.0 | 5.7 (Actual) |
| Q2 | 5.2 | 6.0 |
| Q3 | 5.3 | 5.9 |
| Q4 | 5.2 | 6.8 |
| Overall | 5.2 | 6.1 |

Annual Model: Assumptions for 2014-15

| | Unit | 2004-05 to 2008-09 Average | 2014-15 |
|--------------------------------------|-----------------|----------------------------------|---------|
| Fiscal Account | | | |
| Disinvestment revenue (Centre) | Rs crore | 9,178 | 63,425 |
| Subsidies | (% of GDPmp) | 1.6 | 2.1 |
| Direct tax collection rate | %YOY | 9.5 | 5.6 |
| Indirect tax collection rate | %YOY | -3.0 | 5 |
| Others | | | |
| WPI energy (Fuel, power, light etc.) | %YOY | 6.7 | 5 |



1956 Annual Model: Assumptions for 2014-15

| Exogenous Variables | Unit | 2004-05 to 2008-09 Average | 2014-15 |
|---|------|----------------------------|-------------|
| Agriculture related | | | |
| Rainfall | | - | 17.1% (yoy) |
| External Conditions | | | |
| World real GDP | %YOY | 3.5 | 3.3 |
| International oil prices | %YOY | 28.5 | -1.3 |
| Non-fuel international prices | %YOY | 10.8 | -3 |
| FDI (US\$) | %YOY | 73.9 | 47 |
| Net foreign institutional investment (US\$) | %YOY | -41.0 | 100 |
| Net invisibles (US\$) | %YOY | 27.3 | 5 |
| Exchange rate (Re/US\$) | %YOY | 0.0 | 0.66 |

Annual Model: Forecast for 2014-15

| Item | 2013-14 ^(PE) | NCAER forecast October 2014 |
|----------------------------------|-------------------------|--------------------------------|
| % Change y-o-y | | |
| Real GDP | | |
| - Agriculture | 4.7 | 2.0 |
| - Industry | 0.4 | 2.3 |
| - Services | 6.8 | 6.9 |
| Total | | |
| Exports (\$ value) | 4.0 | 5.8 |
| Imports (\$ value) | -8.1 | 12.8 |
| Inflation (WPI) | 6.0 | 4.5 |
| % of GDP at market prices | | |
| Current account balance* | 2 | 2.6 |
| Fiscal Deficit (Centre) | 4.6 | 4.3 |

Note: * surplus (+)/deficit (-)

Source: NCAER

Many hands make light work!



To conclude

- There is a tide in the affairs of nations
 - Which, taken at the flood, lead on to fortune;
 - Omitted, all the voyage of their life
 - Is bound in shallows and in miseries.
 - On such a full sea are we now afloat ,
 - And we must take the current when it serves
-Or lose our ventures. (*Julius Caesar*)

Thank You



MYR Team

Overview

Forecast:

Agriculture:

Industry:

Services:

Money and Credit:

Prices:

External Sector:

Public Finance:

Mythili Bhusnurmath

Bornali Bhandari

Anil K. Sharma

Poonam Munjal

Rupa Chanda (IIMB)

Mythili Bhusnurmath

Bornali Bhandari

Rajesh Chadha and Anjali Tandon

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Research/ Data Support: Ajaya Sahu, Praveen Sachdeva

Organisational Support: Sudesh Bala