Economy Watch

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State of the Economy

The fiscal 2014-15 was a break away from two previous years of slowdown in growth and a perception of persisting policy paralysis. The year started with a new Government taking over with a clear majority mandate and ended on a positive note with the announcement of a balanced Union Budget for the year 2015-16. Of course, in between the Government displayed its commitment to take forward the reform agenda and continued the momentum on that front.

Thus, over the past year, there has been a remarkable shift in sentiment and the policy landscape has changed towards being more transparent and growth supporting. Carrying forward this, the fiscal year 2015-16 has a strong foundation to begin with. The overall macro-economic situation has noted a significant improvement and it is expected that the buoyancy will continue. Nevertheless, some risk factors with respect to both domestic and global situation remain and it will be critical to monitor these.

Gross Domestic Product (GDP): Shifting to higher growth level

The GDP series has been revised recently to be aligned with the international system of accounts. The series based on a new methodology and a revised base year puts the growth estimate for the fiscal year 2014-15 at 7.4%. This growth is expected to be supported by an improvement in industry and services sector performance, while the agriculture sector growth is projected to remain muted.

The deficient monsoon during July-September 2014 had an impact on Kharif crop and the more recent unseasonal rainfall during March 2015 has had a damaging effect on the Rabi production.

The Economic Survey 2014-15 projects an improvement in growth to between 8.1% and 8.5% in 2015-16. According to the Survey, the cumulative impact of reforms, lower oil prices, further monetary easing and a favorable monsoon are expected to give a thrust to growth in 2015-16. However, it might also be mentioned that the Reserve Bank of India in its policy statement announced on April 07, 2015 put out a slightly conservative growth estimate of 7.8% for 2015-16. Uncertainty surrounding arrival of monsoon and unanticipated global developments were cited as two major risks to baseline growth scenario.

For India to cross the 8.0% growth mark once again, it is most critical that the domestic capex cycle sees a turn around.

Investments still remain elusive and the capacity utilization rate of companies has not witnessed an improvement. Moreover, some of the other indicators like credit growth, demand situation, performance of index of industrial production do not still conform to the trend of higher GDP growth. Though the overall prospects seem to have improved, but India's economy is still not completely out of the woods.

Inflation rate: considerably softened

Both Wholesale Price Index (WPI) and Consumer Price Index (CPI) have been on a downward trajectory since July last year. WPI has been in the negative terrain for four consecutive months ending February 2015. The WPI inflation rate was reported at (-) 2.1% for the month of February 2015. The CPI, on the other hand, more recently has reported an upward movement. The CPI index noted an increase between the months of December 2014 (4.3%) and February 2015 (5.4%). However, the CPI inflation rate has been in line with the target set by RBI. Further, as per the latest monetary policy announcement, the RBI projects CPI inflation rate to be around 5.8% by the end of this year.

By and large the situation on inflation front is expected to remain benign; but some upward pressure is likely to arise from the food price segment. The unseasonal rainfall is expected to cause deviations in vegetable and fruit prices. It remains increasingly critical to improve the supply side response to inflation. Also, risks can emanate from a probable increase in oil prices on the back of a change in the geo political situation and a possible spillover through exchange rate.

Index of Industrial Production: elusive to a sustained growth

The latest data for the month of January 2015 reported a growth of 2.6% in the overall IIP index, vis-à-vis 3.2% growth in December 2014. The slowdown was seen across all the three major sub segments- mining, manufacturing and electricity; with the level of moderation being most significant in case of latter. The electricity segment grew by 2.8% in January 2015, which was the lowest in about fifteen months.

As per the used based classification, the capital goods sector noted a surprising recovery recording double digit growth in January 2015. However, looking at the long term trend, the growth in the capital goods sector has been volatile and is yet to post a sustained recovery. Besides, the performance of the consumer goods segment continued to be subdued reflecting weak demand. The consumer goods segment reported a growth of (-) 1.9% in January 2015.

In fact, weak demand has been a concern for members of India Inc. for over a year now and the same has been reflected in the recent rounds of FICCI's Business Confidence Survey. Also, the survey reports that companies remain cautious with respect to undertaking fresh investments.

Further, the capex data for the quarter ending March 2015 reported a sharp decline in the value of new investments announced during the year. The value of new projects announced in Q4 2014-15 declined to Rs 1950.3 billion, vis-à-vis the value of Rs 4168.5 billion in Q3 2014-15.

The RBI front loaded two repo rate cuts, bringing the key policy rate down by 50 bps so far this year. The full transmission, however, is yet to come from the Bank's side. The Bank's still remain wary to lend, given the rising nonperforming assets. The interest rates continue to remain a major constraining factor for Indian businesses. A recent survey done by FICCI reported interest rate paid by the manufacturers ranging between 9.5% and 14.75% with average interest rate being around 12.2% per annum.

The industry sector has been on the radar of the new government as a key focus area and it is important that government keeps the pace with regard to implementation of reforms for assuring a turnaround in this sector.

External sector: Trade numbers muted

Both exports and imports have been on a declining trail for three consecutive months between December 2014 and February 2015. The exports declined by (-) 15.0% in February 2015 and imports by (-) 15.6%.

India's oil import bill hit a record low and stood at US$ 6.1 billion in February 2015, with petroleum and crude product imports plunging by 55.5%. This resulted in a trade deficit of US$ 6.8 billion, which is the lowest in about seventeen months.

Also, exports of all major commodities from India noted a decline. Petroleum and crude products exports declined by 54.5%, electronic goods by 18.6% and leather & leather goods by 7.5%. The global economy is still recovering and the demand situation remains weak. A recovery in trade numbers would depend on the pace of recovery in the global economy.

However, the recently announced Foreign Trade Policy 2015-2020 is positive and is calibrated to attain closer integration with the global markets. It looks at simplifying export promotion schemes and forging effective linkage with important initiatives such as Make in India and Digital India emphasizing on ease of doing business and reflects the composite thinking and strengths of all government departments. To meet the target of US$ 900 billion exports by 2020 set out in the policy, a more aggressive approach towards augmenting exports will have to be pursued.

Way ahead

The prognosis with regard to the first quarter of 2015-16 is sanguine. The stalled projects are expected to take off and the performance of industrial sector is likely to be on the course of improvement. In addition, Moody's has recently upgraded India's rating outlook to positive from stable. However, it remains critical that the asset quality of banks sees an improvement. Also, the US Federal Reserve is gradually moving towards normalization of its monetary policy and there is some support for a hike in interest rates by end of Q1 of 2015-16. This might lend some uncertainty in the global markets and have a bearing on India as well.

Incremental, cumulative policy change could have far-reaching consequences

Market participants greeted last year's political transition with "big bang" economic policy expectations. Several months later, tempered by legislative, socio-political and institutional realities, these expectations have yielded to forecasts of incremental, rather than radical, policy change.

But incremental policy change isn't inconsequential. As incremental shifts in policy accumulate, they can have far-reaching consequences. Moreover, in India's case process-driven hurdles have been as much of a constraint as policy-driven impediments. So improved governance, transparency and credibility may have as significant an economic impact as so-called 'big bang' announcements that are eventually difficult to implement.

For instance, the success of two recent policy announcements – the budget and the agreement to adopt a flexible inflation targeting framework – will lie as much in how they are implemented as in the content of the respective policy documents.

Budget's implementation of supply side reform will determine its fiscal impact:

The budget prioritized growth over deficit reduction. It did promise to reduce the fiscal deficit to 3.9% of GDP in fiscal 2016, from a projected 4.1% for the fiscal year ending 31 March 2015, and then to 3% by 31 March 2018. Nonetheless, the administration's first full-year budget pushes back by a year the targets of the fiscal roadmap announced by just seven months ago in July, which envisaged a fiscal deficit of 3.6% in fiscal 2016, and 3% by March 2017.

While the shift in fiscal targets is small and is based on realistic revenue assumptions, the government's revision of the earlier, still modest fiscal consolidation plan will keep India's fiscal profile weaker than that of similarly rated sovereigns over the next several years.

On the other hand, a more radical fiscal deficit reduction, had it been set, might have been difficult to achieve, given that India's low per capita incomes limit the government's tax revenue base, and fiscal commitments such as defense expenditure, interest payments, and pensions form a bulk of government spending and are difficult to reduce.

Moreover, even if the central government deficit falls to 3% of GDP, India's general (i.e. state + central) government deficit will likely stand somewhere between 5% and 6% of GDP. This deficit result would mark a reduction from the 7.7% average of the last five years, but would still be higher than the average for the country's peers in the Baa rating range.

Given limited fiscal flexibility, the consequences of fiscal policy in India lie in the level and composition of economic growth that it can generate, and whether this growth itself then leads to an improvement in fiscal metrics.

This is amply illustrated in India's own economic history. When India's GDP growth accelerated to an average of 8%-9% between 2003 and 2008 from 5.5% in the previous five years, the country's general government deficit fell to 4.2% of GDP in 2008 from 10.4% in 2003, due to higher government revenues from corporate and indirect taxes.

However, between 2008-10, growth was prioritized over fiscal consolidation. This resulted in an acceleration in growth to around 9% by 2010, but the general government fiscal deficit also rose, reaching 8%-9% of GDP. The next three years witnessed a deceleration in savings and investment, a rise in inflation, and a widening in the current account deficit; all of which compromised the growth outlook.

Based on this economic history, it appears that the impact of the recent budget on India's sovereign credit profile will depend on whether it facilitates growth that is primarily government expenditure driven, or whether it sets the stage for overall savings, investment, productivity and profitability increases over several years. The latter type of growth, if achieved, will be credit positive.

The recent budget contains several measures that, if effectively implemented, may accelerate growth and lower the fiscal deficit in later years through revenue buoyancy. Fiscal measures such as greater public spending on infrastructure, the introduction of the goods and services tax in April 2016, direct cash transfers for subsidy delivery, the scheme to monetize gold assets, and the planned simplification of the corporate tax regime could facilitate investment could all contribute to savings, investment and productivity growth. But again, their impact depends on implementation.

Inflation targeting plan increases policy transparency and predictability

Similarly, the adoption of a flexible inflation targeting framework institutionalized practices that were evident in the conduct of monetary policy over the last year. The plan to bring inflation below 6% by January 2016 and 4% (plus or minus 2%) in the following years is credit positive for the sovereign because quantitative inflation targeting will foster transparency and predictability in monetary policy.

In the past decade, India's inflation was higher and more volatile than in several comparable economies. Persistent inflation lowers international competitiveness, erodes consumer purchasing power and raises the domestic cost of capital.

Inflation targeting will likely lower volatility and levels of inflation. As capital market participants, businesses and the public understand the drivers of central bank actions, the effectiveness of policy transmission will increase through better anchored inflation expectations.

In addition, the forward-looking nature of inflation targeting will encourage a focus on future, rather than past price trends.

Moreover, an increase in monetary policy transparency and effectiveness will likely lessen volatility in international capital flows into India. Inflation targeting will also support institutional strengthening through accountability.

Because food and global commodity prices are key drivers of inflation in India, they are generally immune to the effects of monetary policy. This immunity raises the question of whether the central bank's focus on lowering inflation through higher interest rates will hurt economic growth without addressing the causes of inflation.

Our answer would be no. While central bank actions to curb inflation do have the effect of lowering demand, they also promote long term macro-economic balance by reducing inflation.

In fact, unchecked inflation has a greater chance of hurting growth than monetary policies to curb inflation. For example, between 2011 and 2014, inflation — largely driven by food and commodity prices — ultimately compromised growth.

Another possible positive outcome of the Reserve Bank of India's implementation of its mandate to curb inflation — regardless of its source — is that the government may heighten efforts to lower food inflation by reducing inefficiencies in food production, distribution and administered pricing.

Another question around the inflation targeting framework is whether, just as the mandates of India's fiscal responsibility framework were eschewed in the period following the global financial crisis, policies could deviate from the new monetary framework under certain circumstances.

In our view, the inflation targeting framework should endure because the institutional structure and drivers of monetary policy are different from government fiscal policy; the latter of which incorporates social and political considerations. Moreover, India's macroeconomic history has fortified a consensus that curbing inflation should be a policy priority.

But again, the announcement of the framework is a first step. It is how monetary policy targets are actually achieved that will determine its success.

The article is written by Ms Atsi Sheth, Senior Vice President, Moody's Investors Service's Sovereign Risk Group for FICCI's Economy Watch newsletter.

"Widening of Tax Base and Tackling Black Money"

The issue of widening of tax base of the country has been a subject matter which has received considerable attention of the successive Governments over the years. There has been intense debate on the subject in the recent past also.

FICCI has come up with an analysis in the form of a paper titled 'Widening of tax base and tackling black money'. The document identifies the root causes of generation of black money in India, sectors where black money generation is prevalent and suggestions to uncover the generation, accumulation and distribution of black money within the Indian economy. A copy of the aforesaid study has been submitted to the Revenue Secretary and other officials of the Ministry of Finance.

Some of the important suggestions forming part of the document are as follows:-

1. Incentivise transactions through credit/debit cards and other banking instruments

It is recommended that Government may provide some incentives so that dealers (particularly of high valued items like jewellery, FMCG etc.) are encouraged to accept payments through credit card / debit card and other banking instruments. These incentives could take the form of an additional deduction from income relatable to the transaction value for calculating the tax liability or a reduced Value Added Tax (VAT).

2. Set-up central database to store invoices

It is suggested that a central database be established, to facilitate storing of invoices issued by Fast Moving Consumer Goods (FMCG) companies to small businesses across the country. The database can be then used to effectively monitor the purchases made by these small businesses from FMCGs stores and the corresponding sales reported by them. This will help in detecting any discrepancy in sales reported by small businesses and probable chain of generation of black money.

3. Expand the scope of Presumptive Taxation

The Government can consider bringing a presumptive
profit estimation scheme by incorporating provisions in the income tax law to capture professionals who operate through transactions in cash and stay out of the tax net.

4. Tax on Agricultural Income

State Governments be encouraged to usher suitable mechanism (while providing reasonably high level of thresholds to avoid small farmers being burdened) for increasing the scope and quantum of agricultural income tax.

5. Reforms in real estate

As the registration charges and taxes are dependent on the value of the transaction, buyers under-report the value to avoid paying higher taxes and charges (by making a portion of the payment in cash). This enables the parties involved to declare lower transaction values. Taxes and charges at the time of registration can be split into two parts — a fixed component and a variable component.

Irrespective of the reported value of the property a fixed component be paid to civic authorities, while the variable component may be dependent on the current market prices of the property. The market price of a property may be determined by an independent government approved agency. The value of the property reported by the agency may form the basis for calculating the taxes and charges to be paid by the buyer.

6. Create IT infrastructure to track tax evasion

It is imperative to deploy and use robust IT Infrastructure to consolidate and exchange information pertaining to different streams of taxes i.e., Income tax, Service tax, Sales tax, Excise duty, etc. by using common means such as PAN of an assesse. This will facilitate in tracking cases pertaining to tax evasion resulting in accumulation of black money.

7. Expand the provisions of Tax Deduction at Source/Tax Collection at Source

It is suggested that the provisions of the Income Tax Act, 1961 be amended to expand the scope of TDS and TCS by including uncovered sectors where black money gets generated.

8. Enhance tax base by detecting non-filers of income tax returns

To enhance the tax base and augment tax collection, it is pivotal for the government to focus on non-filers and uncover black money in the economy. The Income-Tax (IT) department should implement stronger mechanisms to identify persons who resorted to tax evasion and bring them under the tax net.

9. Simplify the tax structure

The Government should simplify the tax structure, and possibly reduce tax rates. This would deter tax evasion by leading to reporting of full transaction value. The step would be instrumental to discourage black money generation.

The Study "Widening of Tax Base and Tackling Black Money" can be accessed from

http://www.ficci.com/publication-page.asp?spid=20548

Union Budget 2015-16: Roadmap to take growth to double digit level

The Union Budget 2015-16 has laid down the roadmap for taking India to double digit growth. We not only see a clear direction in which the economy is going to be steered but also the key milestones that we need to cross on the way. There are several positives not just for the industry but for every section of society. FICCI compliments the Finance Minister for his foresight and for presenting a highly progressive and visionary budget anchored on reforms in an array of areas.

The budget was presented in the backdrop of an improving macro-economic situation. However, as the Economic Survey pointed out Indian economy is recovering but yet not soaring and it was essential to bring the focus back on investments to lend strength to the recovery process. This budget has done just that by stepping up the outlay for the infrastructure sector without compromising on fiscal discipline. The additional Rs 70,000 crore spend on infrastructure sector in the coming year will provide a huge impetus to overall growth and should help in crowding in private sector investment in due course.

With this budget we also see after a long time clear national targets being set for the year 2022 that would mark 75 years of India's independence. The announcements made by the government both in the budget as well as outside of it provide for a concerted effort to move towards these socio-economic targets.

Government has also made efforts to move towards a more simplified tax structure by announcing a plan to rationalise direct tax regime for corporates involving both a reduction in the corporate tax rate from 30 per cent to 25 per cent over the next four years as well as elimination of exemptions. This should help align our corporate tax structure in line with that of our ASEAN neighbours.

The budget has also given a huge boost to the Make in India program by correcting the inverted duty structure in 22 thrust sectors and by allowing complete tax pass through for both category 1 and category 2 Alternative Investment Funds. The latter action, a long standing demand of FICCI, will help mobilise higher resources for investments in manufacturing sector.

We also welcome the clarification on tax related matters on REITs and InvITs, which are the key instruments announced in the last budget for channeling funds into the real estate and infrastructure sectors.

FICCI is also happy to note the Finance Ministers decision to defer GAAR by two years and its prospective applicability. Along with this the statement on increasing the threshold for Transfer Pricing and reducing the discretionary powers of the tax authorities should boost investor confidence further.

Moving towards fiscal prudence

The fiscal deficit target for the year 2014-15 has been maintained and the fiscal deficit to GDP ratio for 2015-16 has been pegged at 3.9%. The government is committed towards moving back on the path of fiscal consolidation. Even though the target of achieving 3.0% deficit to GDP ratio has been rolled over by another year – now to be achieved by 2017-18; the additional fiscal space created is being utilized to give a thrust to public investments in the infrastructure sector. In fact, FICCI had been reiterating the need to curtail consumptive expenditure to enable greater allocation to productive capital expenditure like infrastructure, which will have a positive effect on economic growth and development.

On the revenue side, the gross tax receipts are budgeted to grow by 15.8% in the year 2015-16, from 8.0% growth in 2014-15 RE. The increase in service tax rate, increase in excise duty, and higher surcharge on direct taxes is likely to support the buoyancy anticipated in the gross tax revenue.

The levy of 2.0% surcharge on the super rich with a taxable income of over Rs 1 crore is expected to garner Rs 9000 crore. This is much higher than the tax collection of Rs 1008 crore foregone with the withdrawal of wealth tax, where the yields have not been commensurate with the administrative costs. Further, the measures to curb black money are also likely to facilitate improvement in tax collections.
However, the net tax receipts are budgeted to increase by only 1.3% in the year 2015-16.

Table 1: Trends in Revenue and Expenditure

(Rs. crore)

	2014-15 (RE)	2015-16 (BE)	Growth (%): 2015-16 BE over 2014-15 RE	Growth (%): 2014-15 RE over 2013-14 RE
REVENUE RECEIPTS	1126294	1141575	1.4	9.4
Tax Revenue (Net)	908463	919842	1.3	8.7
Non-Tax Revenue	217831	221733	1.8	12.7
CAPITAL RECEIPTS	570535	623861	9.3	4.5
Internal Debt-Market Borrowings (Net)	446922	456405	2.1	-1.5
External Assistance(Net)	9705	11173	15.1	78.4
Recovery of Loans	10886	10753	-1.2	0.8
Small Savings(Net)	33276	22408	-32.7	186.7
State Provident Funds(Net)	10000	10000	0.0	0.0
Disinvestment	31350	69500	121.7	21.3
TOTAL- RECEIPTS	1696829	1765436	4.0	7.7
Non Plan Expenditure	1213224	1312200	8.2	8.8
Interest payments	411354	456145	10.9	8.2
Defence Expenditure	222370	246727	11.0	9.2
Subsidies	266692	243811	-8.6	4.4
Plan expenditure	467934	465277	-0.6	-1.6
Revenue Account	366883	330020	-10.0	-1.3
Capital Account	101051	135257	33.9	-2.5
Total Expenditure	1681158	1777477	5.7	5.7
Deficit on Revenue Account	362486	394472		
Fiscal deficit	512628	555649		
Fiscal Deficit to GDP Ratio	4.1%	3.9%		

This is primarily on account of greater devolution of finances in favor of States as per the recommendations of the Fourteenth Finance Commission.

Further, the disinvestments receipts have been targeted at Rs. 69,500 crore in the next fiscal year. Though the government's intention towards undertaking strategic disinvestments is very progressive; nonetheless it may be noted that the government was able to meet just 50% of the budgeted amount for disinvestment in the year 2014-15.

We hope the government will be able to meet the set target in the fiscal year 2015-16.

With regard to expenditure, the total expenditure is estimated to rise by 5.7% in 2015-16 BE, with an 8.2% increase in non-plan expenditure and 0.6% decline in planned expenditure. While the planned expenditure on revenue account is budgeted to decline by 10%, on capital account it is budgeted to increase by 33.9% in 2015-16.

The subsidy bill is expected at 2.4 lakh crore (1.7% of GDP) in 2015-16, which is a decline by 8.6% over the revised estimates for 2014-15. The decline in subsidies comes primarily on account of lower oil bill, which is estimated to decline by 50% in 2015-16 BE. The food and fertilizer subsidy are expected to increase marginally. There has been a clear commitment towards better targeting of subsidies and the Finance Minister has indicated further scaling up of the Direct Benefits Transfer scheme. With this we hope the government will be able to plug in serious leakages in dissemination of subsidies.

Government is clearly trying to undertake prudence on the expenditure side. Further, the acceptance of the Finance Commission's recommendations goes on to show the commitment of the government towards strengthening co-operative federalism and ensure better Centre-State financial relations. Giving the flexibility to the States to undertake projects tailored to their needs would enable them to contribute more meaningfully to the overall growth of the country.

The overall growth conditions are conducive. GDP growth numbers have improved, inflation is benign and our current account position is also comfortable. Given this backdrop, the announcements made in the Budget, if implemented earnestly, will augur really well to achieve the big picture envisioned by the government.

Key Highlights of the Union Budget 2015-16

The broad highlights of the Union Budget 2015-16 are as under-

- **Unified National Agriculture Market**: The Government has announced creation of a Unified National Agriculture Market. FICCI too has been advocating this for long as the agriculture sector is one of the most fragmented sectors in the economy.

Move towards a single national market for agri-produce will help rein in the inflationary pressure in case of food commodities as well as provide better prices to farmers for their produce.

- **Make in India**: There has been a reduction in rates of basic customs duty on certain inputs, raw materials, intermediates and components (in all 22 items) to minimize the impact of duty inversion and reduce manufacturing cost in several sectors. Government has allowed complete tax pass through for both category 1 and category 2 Alternative Investment Funds. The latter action, a long standing demand of FICCI, will help mobilize higher resources for investments in manufacturing sector.

- **Infrastructure**: The Government announced an additional Rs. 70,000 crore spend on the infrastructure sector. This is expected to provide a huge impetus to overall growth and should help encourage private sector investments in due course. The setting of the National Investment and Infrastructure Fund in the form of a trust to raise debt funding in various forms and in turn invest as equity in infrastructure finance companies is a welcome move. This would be an additional avenue to support infrastructure financing and hopefully lessen some of the pressure on the public sector banking system. Further, the clarification on tax related matters on REITs and InvITs, which are the key instruments announced in the last budget for channeling funds into the real estate and infrastructure sectors, is also welcome.

  In addition to the above, tax-free infrastructure bonds for rail, road and irrigation projects were reintroduced. Government has also indicated adoption of 'Plug and play' approach in case of UMPPs, plan for corporatization of ports and steps towards revitalizing Public Private Partnerships.

- **Micro Small and Medium Enterprise (MSMEs)**: An electronic trade receivables discounting system (TReDS) has been established to tackle the problem of long receivables realization cycle of the MSMEs. The related move of setting up of the Micro Units Development Refinance Agency (MUDRA) bank will help meet the funding requirements of micro enterprises in the informal sector and provide a boost to entrepreneurship.

  In addition, establishment of a Self Employment and Talent Utilization (SETU) mechanism was announced to support start up businesses and other self employment activities.

- **Gold Monetization:** The Budget for the first time has announced several measures to monetize gold. FICCI had recently submitted a report on this subject and we are happy to note that some of the suggestions contained therein such as developing an Indian Gold Coin, having a Sovereign Gold Bond and revamping the Gold Deposit and Gold Metal Loans scheme have been taken up by the government. These measures should help in more effective utilization of domestic gold reserves through recycling and thus help reduce the imports of gold that have put pressure on the current account in the past.

- **Black Money:** The Government announced introduction of a new comprehensive law on black money held abroad in the current session of the Parliament along with a new and more comprehensive benami transactions (prohibition) bill to curb domestic black money. The issue of black money has been a grave concern for the Indian economy. The existing legal and administrative framework has been ineffective in dealing with this issue and thus there is an urgent need to put in place an efficient legal framework.

- **Corporate Bond market:** The Government announced to set up a Public Debt Management Agency. This is important in the context of deepening the Indian bond market. FICCI has been consistently urging that there is a need to strengthen the corporate debt market to reduce over dependence on banks for long term funding as this leads to asset liability mismatch.

- **Bank Board Bureau:** The Government plans to set up a Bank Board Bureau with the objective of improving governance of Public Sector Banks The Bureau will pick heads of Public Sector banks and help them device differentiated strategies and capital raising plans through innovative financial methods and instruments.

- **Monetary Policy Framework**: The Budget announced that the RBI Act will be amended this year to provide for a Monetary Policy Committee. The Monetary Policy Committee will be set up to reinforce the partnership between the government and the Central Bank with the objective of managing inflation dynamics.

- **'Act East' policy:** The Budget announced setting up of a Project Development Company, which through separate Special Purpose Vehicles (SPVs) will facilitate establishment of manufacturing hubs in CLMV countries -Cambodia, Laos, Myanmar, and Vietnam. This is to drive the interest of Indian private sector to undertake investments in these countries and deepen economic and strategic relations with the South East Asian region.

- Ease of Doing Business: Assuring ease of doing business has been a key priority for the Government. Some of the announcements in the Budget towards improving the business environment included –
  - ✓ **Setting up commercial divisions in various courts:** The Government has proposed to set up exclusive commercial divisions in various courts in India based on the recommendations of the 253rd Report of the Law Commission. In this regard, the Government has proposed to introduce a Bill in the Parliament after consulting stakeholders. This would help curtail the overstretched litigation and ensure speedy disposal of monetary suits at reasonable cost to the litigant. This is definitely a stepping-stone to reform the civil justice system in India.
  - ✓ **Bankruptcy Code**: The budget announced introduction of the much needed comprehensive bankruptcy code in the fiscal year 2015-16. This will bring about legal certainty and speed and is an important measure in improving the ease of doing business in India.
  - ✓ **Procurement Law:** Malfeasance in public procurement can be contained by having a procurement law and an institutional structure consistent with the UNCITRAL model. This would help contain possible avenues of B2G corruption and along with an effective Prevention of Corruption Act, act as a deterrent. We hope that the Parliament will soon take a view on it.
  - ✓ **Expert Committee on regulatory mechanism**: The government indicated that it intends to appoint an Expert Committee to examine the possibility and prepare draft legislation where the need for multiple prior permissions can be replaced with a pre-existing regulatory mechanism. Implementation of such a mechanism would cut down time and cost spent for seeking regulatory approvals and will be a big boost to ease of doing business in India and establishing India as an Investment Destination.

- **National targets for the year 2022:** The government reiterated its resolve to provide for basic amenities to all Indian citizens especially the underprivileged by the year 2022, which marks 75 years of India's independence. These include housing for all, assured water and power supply, substantial reduction in poverty, provision of medical services and education facilities.

A transformational budget for taxes

Union finance minister Arun Jaitley presented a budget that is pro-growth and inclusive. It has laid down the roadmap for the next few years, which is directed towards the vision of a prosperous India by 2022.

The government has committed itself to tread the fiscal consolidation path, especially through rationalisation and efficient delivery of subsidies by means of direct benefit transfers. However, by keeping a slightly higher fiscal deficit target for 2015-16 and extending the medium-term target of fiscal consolidation by one year, more space has been created for productive investments in infrastructure. In fact the budget scores on the thrust laid on public investments to encourage private investments.

The budget can also be termed transformational on the taxation front. The reiteration of GST rollout by April 2016, the announcement of phased reduction in corporate tax rates, and enacting a comprehensive law on black money are encouraging reform measures.

Given the daunting challenge of providing a million jobs each month, the budget has rightly focused on job creation as the central pillar of policy measures. For this, the need of the hour is to propel industrial growth by encouraging investment and the budget has taken care of this. With the rationalisation of taxes, correction of inverted duty structures, and improvement in tax administration and the ease of doing business, Indian industry will become more competitive. The proposal to replace multiple prior permissions by a pre-existing regulatory mechanism is a laudable step and will drive much higher investments.

A large chunk of employment can be generated by creating an enabling environment for MSMEs and start-ups. The budget takes cognisance of the fact that the ease of doing business is most important for small businesses. Establishing the electronic Trade Receivables Discounting System financing and introducing the bankruptcy code are welcome reform measures.

Setting up a Techno-Financial, Incubation and Facilitation Programme to support technology start-ups and reduction in income tax on royalty and fees for technical services will also encourage start-ups.

While embarking upon the growth path, the need to create a supportive financial system is imperative. The budget has struck the right chord in this direction. The plans to set up the Micro Units Development Refinance Agency bank will facilitate funds for micro-enterprises in the informal sector.

There has been a clear focus on financial inclusion. By announcing a number social security measures and utilising the Jan Dhan platform to mobilise various social security schemes, the government is treading the path of inclusive development.

The government has taken a step forward towards monetising gold. Developing the Indian gold coin, having a sovereign gold bond and revamping the gold deposit and gold metal loans scheme will help in more effective utilisation of gold reserves and bring down dependence on gold imports.

Another important announcement in the budget relates to the creation of a unified national agriculture market. A move towards a single national market for agri-produce will help rein in inflationary pressure as well as give better prices to farmers.

Continuing with the positive measures announced in the first budget of this government, Jaitley has again laid a strong thrust on the tourism sector.

The proposal to extend visas-on-arrival to 150 countries, focus on heritage sites and the planned improvement in railways infrastructure, will accrue benefits to the tourism industry.

It is heartening to note that the central focus of the budget has been growth and job creation with the larger objective of poverty elimination.

We hope the government will implement these in right earnest.

The article is written by Dr. Jyotsna Suri, President FICCI. It was published in The Hindustan Times on 3rd March 2015.

Tracking two growth stories

The long anticipated deceleration in the rate of the growth of China's economy is under way. Even the normally conservative World Bank and the International Monetary Fund (IMF) are confirming that its growth is slowing down and is likely to fall below seven per cent. Even those analysts who had forecast a deceleration in its growth were unsure about when exactly the slowdown would start.
In the 2000s, I had estimated that China's growth would decelerate below eight per cent, around the middle of the decade beginning 2010. The global financial crisis of 2008 sharply raised the probability that the slowdown would occur within the following decade despite risky efforts by China to prop up growth.

In contrast, India was forecast to achieve its potential growth rate of about eight per cent, given its export-import neutral growth model. The surprise in India's case was the sharp slowdown from 2011-12, largely attributed to complacency and domestic policy mistakes. However, despite these mistakes, India's growth rate from 2002-03 to 2013-14 was among the 10 highest in the world (using the old data series). Though the correction of these mistakes may no longer be enough to restore growth to earlier levels, India can and must restore growth to the average rates achieved earlier. Again, this has been recognised by both the World Bank and the IMF. These two developments taken together, imply that India's trend growth rate is poised to exceed that of China's in the next few decades.

Closing the GDP gap

This will start the long, slow process of closing the GDP gap with China, which was 1.4 times India's real GDP (in absolutes) in 2013. There is a common tendency to confuse relative levels of GDP with growth rates, so it is important to understand that China's real GDP measured at purchasing power parity in 2011 international dollars is now 2.4 times that of India.

The two economies were almost equal at the end of the 1980s (China was 1.1 times that of India in 1990). During this period, its growth averaged 9.9 per cent per annum, 3.4 per cent points faster than India's 6.5 per cent average. Even if the growth gap was inverted (i.e. became -3.4 per cent), it would take double the time (i.e. 30 years) to close the GDP gap as it took to open it.

Growth slowdown

The basic theory and empirics of growth show that fast growing economies like Japan, South Korea, Singapore and Thailand, which grew fast when they were at low or middle income levels of per capita GDP, maintained growth at high levels for one to two decades and then slowed down as their per capita GDP approached that of the (lower end) high income economies. In the case of China, the surprise was that it maintained an average growth of 10 per cent for 30 years, despite reaching middle income levels of per capita GDP about a decade ago. Many analysts who had been proved wrong in the 1990s, in their predictions of a China growth slowdown, became much more cautious. Those of us who were willing to take a reputational risk have been proved right, as China's economy slowed below eight per cent in 2012 and is now predicted to slow below seven per cent by the multilateral institutions.

The global financial crisis ensured that the growth of world trade would slow sharply below the very high growth seen in the previous decade, aided by a correction of the bubble-like growth seen prior to the crisis. This meant that China's (net) export-investment model was no longer sustainable and would produce slower growth in the 2010s. To delay this slowdown, China pumped large amounts of debt into the economy, with the official debt-GDP ratio rising from 55.2 per cent in 2008 to 88.1 per cent in 2013, an average increase of 6.6 per cent points of GDP per annum. Analysts have estimated that the debt in the shadow banking system may have increased by an equivalent amount, rising to dangerously risky levels. Based on a historical experience of such debt bubbles, some analysts predict that this bubble is likely to burst and reduce China's growth rate to the three to four per cent levels.

Analysts, who have greater confidence in the ability of the Chinese Communist party to manage an economic crisis, nevertheless, predict a deceleration of the trend rate of growth to a range of five to seven per cent.

Comparing growth rates

Based on World Bank "World Development Indicators" data till 2013 (till which year the GDP base for 2004-05 was fully available), we can compare the growth rates of China and India. A plot of these rates shows that the growth rate difference has been narrowing since 1990, due to a gradual deceleration of China and a stronger acceleration of India. Underlying this narrowing growth difference are variables that are drivers of or correlated with GDP growth and productivity. These include foreign direct investment (FDI) and exports, which are indicators of competitiveness, and imports, which reflect openness. The difference between China and India's FDI-GDP ratio has been on a declining trend, from about 3.5 per cent of GDP in 1990 to a little over two per cent of GDP in 2013, suggesting slow but steady progress in attracting technology and risk capital, with a milder decline in China's attractiveness. The difference between China's and India's export-GDP ratio, which was eight per cent in 1990, averaged 18 per cent during 2005 to 2007 before narrowing rapidly to about one per cent in 2013, indicating that India's exports have held up to the global decline in world trade much more effectively than China's. The difference between China's and India's import-GDP, which fluctuated around an average of 7.1 per cent points between 1990 and 2007 declined dramatically to -5.2 per cent by 2011-13, indicating that the Indian economy is now significantly more open than China's.

Forecasting Indian growth

Analysis and forecasting of Indian growth has been confounded by the appearance of a new GDP series (2011 base) which has made some fundamental changes in methodology and data sources. As this new series provides less than three years of growth data, it is impossible to estimate the underlying trend growth rate (using this series).

After the mid-year 2014 Budget, I had said: "The measures taken in the budget will be sufficient to increase growth by about 1 per cent point over the last year's 4.7% to 5.7%. Actualization of some of the measures indicated in the budget will however be necessary to raise growth to the 6.5 to 7% range in 2015-16." Given that the average growth rate as per the new data is about one per cent point above that, using the new data, a projected growth rate of 7.5 per cent to eight per cent is quite conservative. This seems to be the reasoning underlying the World Bank's and IMF's projections for India's growth in 2015 and 2016.

The Central Statistical Organisation (CSO) has projected a growth rate of 7.4 per cent for 2014-15 and a growth acceleration to eight per cent in 2015-16, which would not be wildly optimistic. However, as many observers have pointed out, high frequency data such as the Index of Industrial Production (IIP) for manufacturing, quarterly results for companies, and tax revenues from excise and corporate income tax do not appear consistent with these high growth levels. I had argued that the global financial crisis and the consequent global demand recession and excess capacity have affected not only the export-led Chinese economy, but also the globally connected and competitive corporate sector of India. Thus, post the global financial crisis, the Globally Connected and Competitive (GCC) corporations will lag overall recovery, instead of leading it, as they did in 2002-03 to 2007-08. Thus, all indicators connected with these companies, such as IIP, corporate profits, corporate and excise tax revenue would also lag the GDP recovery.

Based on the theory and empirical evidence provided by high growth economies, some analysts had predicted, since the 2000s, a slowing down of the Chinese economy during the decade of the 2010s to a rate of growth below that of India. By making the export-investment-led strategy of development unviable, the global financial crises made this highly likely if not inevitable. It was also assumed in the forecasts that the Indian government would continue to carry out the minimum reforms necessary to maintain India's growth rate at an average of the previous decade.

Because the Indian government was complacent and made policy mistakes between 2010 and 2012, the Indian economy faltered seriously. Some of the momentum has been restored after the corrections introduced in the last two years. However, a sustained growth of 8 to 8.5 per cent over the next few decades requires implementation of the reform agenda even though continuing sensitivity to shocks can derail growth given that the world environment is far from conducive to sustained high growth. If this is done, we should expect to see India growing faster than China and beginning to close the wide gap that has opened between the per capita GDP of the two countries.

The article is written by Dr. Arvind Virmani, former Executive Director, IMF and Mentor, Public Policy & Economics, FICCI. It was published in The Hindu on 29th April, 2015.

Sri Lanka is more than a pretty place

Sri Lanka is changing fast. The markets wear a vibrant look and are thronged with consumers enjoying higher disposable income, roads have improved and there are more cars on the Lankan roads, a sign of rising prosperity.

There is also a visible air of optimism in the relations between India and Sri Lanka which, as President Maithripala Sirisena has signaled, was keen to elevate its bilateral engagement and take it to "greater heights". A testimony to this are four agreements signed between the two sides, the most significant being the agreement on Co-operation in the Peaceful Uses of Nuclear Energy.

The breakthrough pact which imparts a new strategic element to the Indo-Lankan relations would facilitate cooperation in transfer and exchange of knowledge and expertise, sharing of resources, capacity building and training of personnel in peaceful uses of nuclear energy among others.

The other three are an agreement on agricultural cooperation, a memorandum of understanding on Nalanda University and an MoU on cultural cooperation. All this spells out a lot of opportunities for cooperation between the private sector in both countries.

From India, we also need to see these as offshoots of a vigorous policy adopted by Prime Minister Narendra Modi of reaching out to neighbours to enhance regional economic integration. India is Sri Lanka's largest trading partner with a huge trade surplus and the Government is keen to extend support for a more balanced growth in trade in both directions and greater flow of Indian investments and tourists into Sri Lanka.

Bilateral trade in 2013-14 amounted to US$ 5.3 billion, rising 12.8% from the previous year. The growth which has seen rapid strides since the entry into force of the India-Sri Lanka Free Trade Agreement in March 2000, is, however, not commensurate with the potential.

The Commerce Secretaries of both the countries are expected to meet soon to review trade ties and there are two reasons to hope for progress.

First, the Government led by Prime Minister Modi has embarked on a more vigorous agenda of reforms and growth with measures to cut red tape and liberalise foreign investment norms among others. These, along with a buoyant stock market have positioned India favourably among global investors and it would suit India at this time to draw a regional power like Lanka into exploring these opportunities.

Second, major powers have either initiated or are planning to carve out a framework of engagement with Sri Lanka that offers their firms access to this vibrant Asian market, for instance, Lanka' US$ 1.5 billion "port city" deal with China.

While India remains among the four largest overall investors in Sri Lanka with cumulative investments of over US$ 800 million, Lankan investments have been a trickle. The priority therefore for India is to strategise well with long term interests in mind and focus on investments. We can already see some potential collaborations resulting in a win-win scenario both ways.

Prime Minister Modi has spoken about India's intent to further improve air and sea connectivity between India and Sri Lanka. The two leaders have also discussed expansion of cooperation in the energy sector, both conventional and renewable.

Take manufacturing. The Modi Government's flagship programme "Make In India" positions India strongly as a manufacturing destination with incentives in the form of simplification and rationalisation of existing rules and regulation and expeditious clearances.

The Government has identified 25 sectors including automobile, textiles, bio-technology and ports for potential investments in manufacturing facilities and increased exports. Then there are the huge possibilities of investing in infrastructure development in India and Sri Lanka.

India's ambitious road and industrial corridor projects and mission to create 100 smart cities are a great business proposition.

In Sri Lanka, Government spending on projects to upgrade sea, road, power, aviation and telecom infrastructure and dire need for schools and healthcare facilities offer Indian industry a lucrative window to partner in the island's socio-economic development.

Business ties have to be also about people-to-people connect which can be fostered through tourism. Both India and Sri Lanka have rich prospects with their richly diversified flora and fauna, scenic and historical spots.

The hospitality sector, especially midsized hotels in Sri Lanka and setting up of training institutes for manpower required in this sector holds great promise for Indian companies.

In December 2014, Indian tourists to Sri Lanka numbered 26,153 as against 22,559 in the corresponding period of the previous year, an increase of 15.93 per cent. Clearly, there is scope to do more.

Fulfilment of these objectives requires a strong human capital base. New Delhi and Colombo could join hands to encourage renowned Indian education institutes to set up branches in Sri Lanka and establish a regulatory framework to facilitate investments into higher education.

Clearly, India and Sri Lanka have demonstrated a mutual desire to scripting a new era of friendship. President Sirisena calls his visit to New Delhi a "remarkable milestone in taking India-Sri Lanka relations to a greater height" and Prime Minister Modi points to "a moment of an unprecedented opportunity to take our bilateral relations to a new level".

The pitch is now ready for a more engaging and robust partnership.

The article is written by Dr. Jyotsna Suri, President, FICCI. It was published in The Hindu Business Line on 11th March 2015.

New tracks of development

It is heartening to note that many of the new initiatives taken by the two governments to strengthen economic cooperation resonate strongly with the industry on either side.

This is a great time for India and Japan to bond. There has been a steady and sure progress in bilateral economic partnership. FDI inflow from Japan has jumped, amounting to US$ 618 million during June September, 2014, against US$ 273 million for the corresponding period in 2013.

The number of Japanese companies in India has reached 1209 (as of October 2014) which is 13% higher over the same period last year.

India has been ranked the top destination for future investments by 1,000 manufacturing companies of Japan, according to the Japan Bank for International Cooperation and the expanding frontiers of cooperation are rapidly straddling new shores of technology, infrastructure, renewable energy and defence.

The visit of the Japanese Foreign Minister Fumio Kishida to New Delhi in January this year, saw articulation of a consensus between New Delhi and Tokyo that India and Japan need to be linked by more robust bridges of economic cooperation that factors in the imperatives and future drivers of growth in both countries and mutual desire for greater contribution to the entire Indo-Pacific region.

Mr Kishida pointed out that the Japan-India Investment Promotion Partnership which was agreed at the summit meeting between Prime Minister Narendra Modi and Japanese Prime Minister Shinzo Abe in September last year "seeks synergies between Abenomics and Modinomics".

India on its part has been driving home its three great advantages that the Japanese economy can leverage on; democracy in the form of single-window clearances and speedy decision-making; demography cast in the burgeoning youth segment of India's population more than half of which is currently under the age of 25; and demand, huge capacity for private consumption. Either way it is a win-win scenario for industry in India on both sides.

The good news is that work has already begun on chalking out these synergies with both India and Japan taking steps to unlock the business and economic potential that they offer to each other.

The Indian Government has set up Japan Plus, a special management team, to facilitate Japanese investors. The team is actively interacting with Japanese companies and hand-holding them through various approval processes for diversified projects including Japanese Integrated Industrial Parks.

Japan will contribute to the Indian Government's "Make in India" initiative to "support India in becoming a base of economic growth for the Indo-Pacific region and the world". This will tremendously boost India's prospects as a manufacturing destination which "Make in India" aims to do by offering incentives in the form of simplification and rationalisation of existing rules and regulation and expeditious clearances.

There are 25 potential sectors open for Japanese investments in manufacturing facilities and increased exports. In infrastructure, India and Japan are also discussing possible projects that Japan could help develop in India's north-east that would improve India's connectivity with its South Asian and Southeast Asian neighbours.

With the feasibility study for the country's first high-speed railway in its final stages, Japan also expects India to choose a 360-degree project rather than a piecemeal one, involving the utilisation of Japanese technology, wisdom, experience and human resources.

India and Japan also see opportunities in India's booming ecommerce sector which is growing 40-50% every year. The Japanese ecommerce market looks saturated and companies are looking to expand their presence overseas.

Opening up the space to foreign investment would allow companies like Rakuten, one of Japan's big online retail companies, to enter the Indian market and become a global player. Uniqlo, a clothing retailer with a strong global presence both online and offline is also looking to expand in India.

Besides, Japanese nationals have already jumped into Prime Minister Modi's Swachh Bharat campaign with an initiative “Come Clean India“ aimed at encouraging employees of every Japanese company in India to participate in drive to make India filth free. Japan sees the initiative as a perfect step to strengthen India-Japan relations.

It is heartening to note that many of the new initiatives taken by the two governments to strengthen economic cooperation also resonates strongly with the industry on either side.

The Federation of Indian Chambers of Commerce and Industry is particularly happy to note that there has been forward movement in areas such as high speed train, export-led manufacturing, promotion of pharma exports to Japan, renewable energy, etc.

It is obvious that both India and Japan are aware of the imperatives of leveraging on our strategic and global partnership to ensure economic development and progress of our nations.

The shared dream is that of an Asian century. Mr Abe and Mr Modi need to give a forceful impetus to its realisation.

The article is written by Dr. Jyotsna Suri, President, FICCI. It was published in The Economic Times on 12th March 2015.

Greenbacks For Greening

As the world journeys towards the Paris conference at the end of this year to build a global climate change architecture post 2020, and to finalise the sustainable development goals that will replace the millennium development goals from 2015 onwards, financing becomes the critical pillar to move towards these global goal posts. India is racing ahead to set its own vision and domestic ambitions, scaling up its clean energy targets, planning 100 smart cities, setting strong energy efficiency measures.

Fixing financing needs incrementally, in a piecemeal manner, would not be sufficient in the context of scaled up targets. The ambitious targets set by Prime Minister Modi for the next five years would require the financial regulatory architecture to undergo a massive change.

A vibrant corporate bond market is key for financing of the renewable sector, indeed for all infrastructure financing. As the banking sector is up to its limits in power sector exposure, I fear renewables will get squeezed out. Ideally the banking sector should provide early stage finance with the takeout being through the issue of bonds in the capital markets.

We would need to align the financial sector towards a green agenda. Clean energy is an imperative for energy security and access.

While we need massive funding to flow into this sector, the paradigm shift would come from creating a sustainable framework for the financial sector that would change the rules of the game for financial institutions and create the appeal for financing `green'. Emphasis needs to be put on debt and equity products, as also the banking sector and capital markets.

Efforts must be made to establish a market-based mechanism that channels private capital investments into protection of the environment. This would require the government, RBI, Sebi and Irda to work together to formulate the policies that foster this development.

Restricting excessive investments in polluting sectors and incentivising private investments in green industries, as well as leveraging the magnifying effect of limited government funding so that private green investments can snowball to several or even over ten times of the government contribution, will be the key to promoting green economic growth, facilitating structural transition, reducing pollution and fostering new growth drivers.

We should expedite the development of a green finance system for directing private investments to green industries and projects. We need to direct our pension funds and insurance companies to hold some green investments as is the case with global funds in these sectors. Green ratings, green stock indices and mandatory disclosures can help steer funds into green industries. We also need to set norms for our banks on the style of the Equator Principles which ensure that minimum standards for environmentally sound projects are set and that companies which do not meet this standard cannot access finance.

The business case for financing of sustainability has to be created. The UNEP In quiry on Designing a Sustainable Financial System along with FICCI has set up an India Advisory Council to propose practical solutions for creating a framework for sustainable financing. In its interim report, the Council creates the argument for developing a sustainability oriented market framework that would eventually catalyse capital flow towards clean energy and other sustainable development priorities.

There are some bottlenecks that impede the flow of finance into the sustainability sector which require attention. We need bankable projects, and credit enhancement products will help make such projects more readily financeable. Building stronger green development financing institutions such as the Indian Renewable Energy Development Agency by increasing its bank book size, garnering additional lines of credit and long tenor financing, and making it well positioned to deploy global green funding, would enhance financial flows to clean energy.

India has an extensive regulatory framework for the financial sector. Indian banking regulations and RBI directives hold the power to direct credit to specific sectors and further influence interest rates, exposure limits, incentives, security and other terms and conditions of lending to various sectors. We should direct priority sector lending policy towards funding of `sustainable' businesses by allowing them to qualify for priority sector lending. As of now, 40% of bank lending in India is directed into sectors that qualify for priority sector lending, but renewables and energy efficiency are not included in this definition.

Another key priority in the effort to align financial architecture towards a green agenda would be enabling the institutional finance ecosystem through measures such as green flagging investments into companies that are transparent and resource efficient.

This will ensure financing is effectively channelled to those that are ahead of the greening threshold.

We could channel global climate finance into existing public expenditures on climate mitigation and adaptation to augment the ongoing effort under central and state government budgets.

The global green bond market saw US$ 34 billion of issuance last year, growing rapidly from only US$ 10 billion the previous year. Green bonds could provide innovative routes for green project financing. The market for these innovative products needs to be developed with urgency to allow long term finance into sustainable development priorities. The green asset class will emerge as the raison d'etre of the future corporation. It is time the financial sector realigns itself towards the green asset class and the green economic agenda of the future.

The article is written by Ms. Naina Lal Kidwai, Past President, FICCI. It was published in The Times of India on 13th March 2015.

Needlessly maligning business

Lately, business seems to be receiving negative vibes based on allegations ranging from conspiracy to abetting greed and graft. No responsible businessman supports these traits. Aberrations exist in all walks of life but a presumption of pervasive greed, corruption or collusion in any class amounts to flawed logic. Such an atmosphere creates serious reputational risks for enterprises and the country.

The biggest injustice that can be inflicted on the nation is to keep people in jobless poverty or under-employed (that is, employed below fair-earning capacity). India requires deep reforms that encourage people and businesses to invest, scale up and hire. With the government restricting itself to social goals, infrastructure and agricultural advances, private enterprises must step in.

Confused signals

It is a paradox that India wants massive increases in investment to create jobs and income, and yet the government and the opposition parties seem anxious to convey a "non-pro-corporate image". This is all the more odd, since the leadership rightly maintains that there is no contradiction between being concurrently pro-business and pro-poor. There is a national agenda where all sectors must play a role.

Till about 1991, the Indian state largely viewed private enterprise with suspicion; ironically it was the trust of society in enterprise that supported it.

Our ethos still encourages one with capital to act in trust for himself, his family and society and do good for the nation with his ability, wisdom and experience. However, capital has an inherent need to earn returns matching business risk, and therefore flows to jurisdictions that best allow this. Ease of doing business has much to do with building and administering trust; simplifying rules and processes comes later. They become relevant only when one decides to do business.

An atmosphere of trust is critical for taking business risks, entering into a contract, or for that matter for the bureaucracy to take decisions.

But when push comes to shove why does our national instinct switch so as to demote trust and fall back on populism?

A factor in recent years was allegations and perceptions of crony capitalism; some instances were enough to threaten a mature systemic balance. Ambiguous laws with clouded transparency and scope for discretion can promote a mindset that larger success is driven by relationships. However, business actually seeks legislative clarity, contractual certainty and fair treatment. Instances of greed must be dealt with care, tact and expediency. Public breast-beating achieves nothing.

Capital pressure

Every government in the world leverages the natural resources and tax policies at its command to generate economic activity, provide jobs, and enable profits in rational reward-risk ratios. The resultant benefits to society, the exchequer, and expanding business activity and competitiveness are the real holistic paybacks.

Recently, it has been articulated that India can deliver the highest returns in the world. But working here calls for such returns to compensate for risk and uncertainty.

Our leadership exhorts the bureaucracy to take honest decisions without fear or favour. Exhortations cannot override existing law which can at some future point deem proper decisions to be "corrupt" (even without nexus or gratification). It is no one's case that improper conduct or violation of the law whether by business or otherwise goes unpunished.

Swift judgment in the case of aberrant behaviour builds systemic trust but requires a larger supportive judicial infrastructure and processes, not more laws. Allegations devoid of irrefutable evidence, marked by political expediency, or an extension of outmoded economic thought, threaten the mutual trust of society, business and the government. Like in a family, trust is fragile and needs conviction and perseverance for it to be nurtured.

The article is written by Mr. Sidharth Birla, Immediate Past President, FICCI. The article appeared in The Hindu Business Line on 22nd April, 2015

Winds of change hit green energy sector

India met with huge success on the renewable energy agenda with the recently concluded RE-Invest. The event brought together political and business leaders from the Centre and the States. The Prime Minister put forth a grand vision of reaching the 200 gigawatt target. The huge presence of the Indian and global community at RE-Invest reaffirms that the world has reposed its faith in India's big dream. This was the first time stakeholders were galvanised towards making green energy commitments for the future. The event has been a great confidence builder for the domestic industry. .

The time is ripe to bring innovative ideas on the floor, as we have the ears of the government, the international community, and all stakeholders. We as a nation must move fast; the work has just begun.

A balanced view

There are many issues that need to be addressed to realise the dream vision. The government would, however, have to take a balanced view on several fronts. While keeping an eye on the long-term agenda, the short-term elements cannot be overlooked. Both utility scale and distributed generation would have to be given equal impetus.

The two most important issues that need to be addressed at the earliest are financing and an investor-friendly environment.

The issue of financing has to be tackled at multiple levels. The low hanging fruit for the government would be to prioritise the allocation of the National Clean Energy Fund to meet the critical viability gaps. This could be used to create an escrow fund to provide a payment security mechanism for developers. To ease financing hurdles, the banking sector would have to be encouraged to channel finance effectively.

This could be done by creating a separate class of bank exposure for renewable energy, and according priority sector lending to the off-grid and decentralised segment. The FICCI and Unep Inquiry for India on Designing a Sustainable Financial System is focused on catalysing some of these enablers.

If 'Make in India' for renewable energy has to be achieved, the government must strive towards developing the entire supply chain. This will bring down the cost of raw materials, lower clean energy prices, and reduce the foreign exchange outgo.

Seen to be doing

Alongside the focus on supply, attention would have to be paid to creating demand. This can be done by strengthening renewable purchase obligation (RPO) and ensuring its compliance by States; putting in place net metering for rooftop projects across all States to create demand at individual, residential, and commercial levels; and mainstreaming renewable energy applications in all government programmes and schemes.

Skill development for the sector is an imperative if 100 GW of solar and another 100 GW of other renewables have to be met in the five-year horizon. Developing apprentice courses, rolling out engineering degrees, and building industry-academia linkages for creating the demand pipeline, have to begin in right earnest.

An investor-friendly environment that provides policy certainty, ensures infrastructure ramp-up for evacuation and grid stability, brings States on board to ease approvals and assures land availability will help deliver the vision. As the Prime Minister said, the intention is not to impress the world but to provide reliable clean energy supply to every household.

The article is written by Dr. Jyotsna Suri, President, FICCI. It was published in The Hindu Business Line on 24th February, 2015.

India-ASEAN Relations - Moving towards a new horizon

India's relation with the ASEAN (the Association of South East Asian Nations) is nearly two and a half decade old. Ever since the then Prime Minister of India Shri P V Narasimha Rao unveiled the 'Look East Policy' in 1991 to establish stronger connect with Asia as part of India's larger economic liberalisation programme, India's engagement with the Southeast Asian countries has grown considerably over time. From a dialogue partner of ASEAN, India has become a strategic partner now. With this, the range of areas for collaborative work between the two nations has also widened significantly. However, in spite of considerable progress achieved on many fronts, there has been a prevalent sense that India has is yet to realise the full potential of its partnership with the ASEAN.

From 'Look East' Policy to 'Act East' Policy

It is with this understanding that the new government has attempted to rejuvenate this relationship by bringing a shift in its policy stance from 'Look East' to 'Act East'. The announcement which was made during the latest ASEAN-India summit held in Myanmar in November 2014 indicates that henceforth the government would be following an action-oriented policy towards ASEAN to bring vigour and direction to this engagement. Keeping with this commitment, the government has initiated its first move towards this direction in the latest budget.

CLMV – the next destination

To facilitate Indian private sector investments into CLMV countries (Cambodia, Laos, Myanmar and Vietnam) – which forms an important part of the ASEAN, Indian government has decided to set up a project development company under the Exim Bank. The proposed company will help Indian firms to establish manufacturing hubs in these four countries through separate special purpose vehicles (SPV). A mechanism to take this initiative forward is underway, with the government having decided to put an initial sum of US$ 100 million in this company.

Through the planned SPV, the government intends to acquire Special Economic Zones (SEZ) or industrial parks in the CLMV region, develop them and then allocate these areas to Indian manufacturers. The successful implementation of the move will enable India develop a strong manufacturing base in CLMV and then utilise the region as an export base to become a part of the regional value chain. This would also facilitate in employment generation not only in CLMV but in India as well through backward linkages. The overall benefit that this initiative would bring is strengthening India's relations with the CLMV region, which is weak at present.

Uncertainty regarding the stability of these markets has restricted Indian firms from venturing into this region until now. Though these economies are endowed with abundant natural resources and low-cost labour, these countries suffer on account of underdeveloped infrastructure and logistics. In fact, Cambodia, Laos and Myanmar have been categorised among the least developed countries by the UN. The government's intervention was therefore necessary to kick start investment into these regions and the recent decision to take the much desired first step to drive investment in these countries is a welcome step.

Improving economic scenario in ASEAN

Moreover, the macroeconomic scenario of CLMV is rapidly changing. These countries are emerging as fastest growing economies in the ASEAN region. The future prospects of these nations also are bright. The recently released Economic Outlook report by OECD (March 2015) has projected that Cambodia, Laos and Myanmar which account for around 9% of ASEAN's GDP of US$ 2.4 trillion (2013) and cover 32% of geographical area of the ASEAN, will observe a growth of 7% over the next five years i.e. 2015-2019, and will outpace the ASEAN region which is estimated to grow at a relatively lower rate of 5.6% during the same period.

Besides CLMV, ASEAN also includes Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand. The relatively larger economies including Indonesia, Malaysia, the Philippines, Thailand and Vietnam are predicted to maintain their growth momentum, with Indonesia and the Philippines to register an average growth of 6% and 6.2% respectively over 2015-19 and will lead the overall growth of these economies. Brunei and Singapore will also experience stable growth over the same period.

Growing importance of ASEAN for India

ASEAN holds great importance for India owing to multiple factors such as the strategic location of these countries and their geographical proximity to India, large share of global trade that pass through this region, its growing consumer base and similarity in terms of opportunities and challenges faced by ASEAN and India with both regions having common economic goals and objectives.

ASEAN is one of the fastest-growing consumer markets in the world. With a consumer base of around 626 million, growing middle class and increasing purchasing power, ASEAN offers a large market in the Asia Pacific region. ASEAN imports stood at around US$ 1.24 trillion in 2013 - about half of its total GDP. The ten countries comprising ASEAN also aim to form an ASEAN Economic Community (AEC), allowing free flow of goods, services, investments and skilled labour and free movement of capital in the region by 2015. If formed as per the plan, the combined market of ASEAN will become one of the largest economies and markets in the world.

Strengthening of India-ASEAN relationship

Realizing the growing importance of this region, India has been deepening its relationship with ASEAN. The partnership has seen smooth progression since 1991, the year in which the exercise was formally initiated by the Indian government. Both regions have expanded their collaboration in number of areas to strengthen not only their economic ties but also to achieve the larger goal of development and prosperity of the two nations through ensuring security, peace and stability in the region.

1993: India entered into a Sectoral Dialogue Partnership with ASEAN in three areas - trade, investment and tourism.

1995: The relationship was upgraded to a Full Dialogue Partnership.

1996: ASEAN and Indian ministers determined to work towards a broader vision of shared goals and objectives and intensified cooperation.

1996: India became a member of ASEAN Regional Forum (ARF).

2002: India–ASEAN relations were upgraded to a Summit Level Partnership.

2004: The ASEAN-India Partnership for Peace, Progress and Shared Prosperity and the Plan of Action to implement it were finalised.

2004-2010: The first plan of action was implemented.

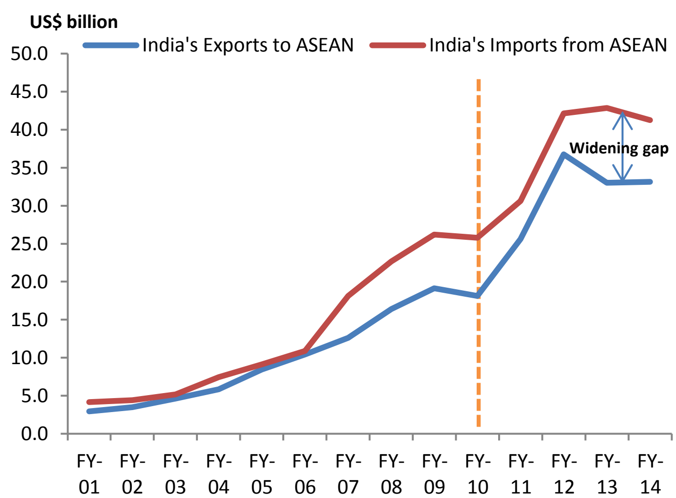
2010-2015: The second plan of action is presently under implementation.

2012: The India-ASEAN relationship was elevated to a strategic partnership and a Vision Statement for the future India-ASEAN cooperation was adopted.

Progress of India and ASEAN economic partnership

Persistent efforts from both sides have resulted in steep increase in trade and investment between India and ASEAN. In 2000-01, the total trade between India and ASEAN was to the tune of US$ 7 billion, which has increased more than 10 folds to US$ 74 billion in 2013-14. India's exports to ASEAN were US$ 33.13 billion in 2013-14, while ASEAN exported India goods and services worth US$ 41.28 billion in the same year. Further, India and ASEAN aim to increase the bilateral trade to US$ 100 billion by 2015 and US$ 200 billion by 2020.

Chart 1: India ASEAN trade



Source: Ministry of Commerce

FICCI

Of the ten countries, India has developed significant trade relations with Indonesia (26.3% share of the total trade), Singapore (25.9%), Malaysia (18%) and Thailand (12.2%).

Table 1: India-ASEAN Trade in 2013-14

Country	Trade (US$ Million)	Share (%)
INDONESIA	19598.5	26.3
SINGAPORE	19273.0	25.9
MALAYSIA	13427.8	18.0
THAILAND	9043.5	12.2
VIETNAM SOC REP	8036.2	10.8
MYANMAR	2182.7	2.9
PHILIPPINES	1810.6	2.4
BRUNEI	796.0	1.1
CAMBODIA	154.0	0.2
LAO PD RP	89.3	0.1
Total	**74411.6**	**100.0**

Source: Ministry of Commerce

AIFTA signed in 2009

To broaden the scope of trade between the two nations, India and ASEAN signed a wide-ranging free-trade agreement in 2009 (AIFTA) which came into effect in 2010. As per the FTA, tariffs on 80% of the goods traded between the two regions would be removed completely by 2016, while on 10% of the remaining goods (sensitive items) tariff will be reduced to 5% by the same year.

Post the implementation of the AIFTA in 2010, India's exports to ASEAN have increased by almost 83% between 2009-10 and 2013-14. During the same period, ASEAN's exports to India have also shown significant growth of around 60%. Thus there has been a mutual gain with the signing of FTA.

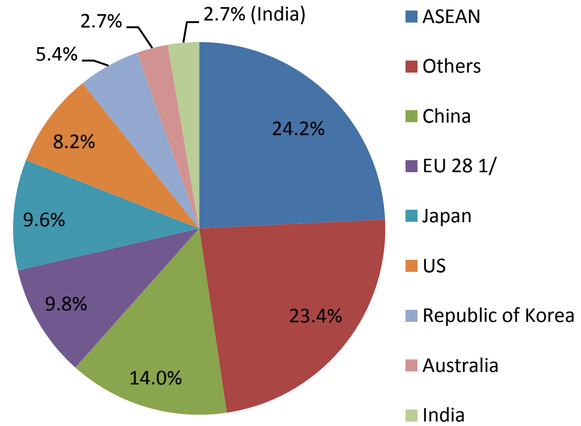
India and ASEAN as trade partners

It is also important to see how India and ASEAN perceive each other as trading destinations. ASEAN accounted for 10% of India's total trade of US$ 764.6 billion in 2013-14. However the scenario changes slightly when looked at from ASEAN's perspective.

In 2013, ASEAN total trade was US$ 2511 billion, of which India's share was only 2.7%.

As an export destination, India's share was a little better at 3.3% while as an import destination the share was even lower at 2.1%. China still figures at the top with 14% share in ASEAN's total trade, followed by EU, Japan and the US.

Chart 2: Top ASEAN trade partner countries/regions



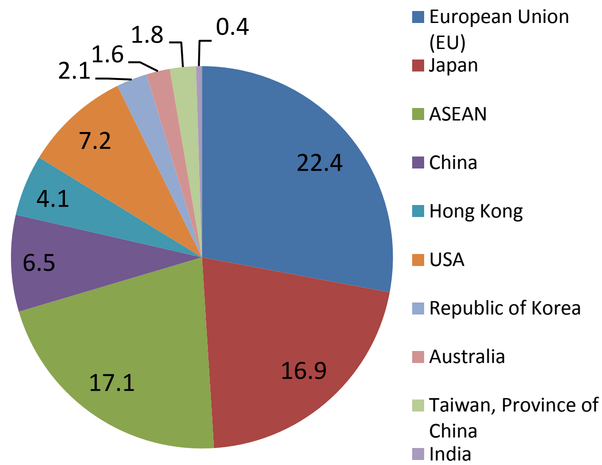
Source: ASEAN Secretariat

Investment growth between India and ASEAN

In terms of investment, India is among the top 10 countries investing in ASEAN. India invested around US$ 1.3 billion in different countries of ASEAN in 2013 which constituted only 1% of the total FDI received by ASEAN (US$ 122 billion) in that year.

The share of India goes down further in terms of cumulative FDI which ASEAN received between 2011 and 2013 which amounted to around US$ 334 billion. India accounted for a share of only 0.4% in this. ASEAN's share in India's total FDI inflows in 2013 was however much higher at 18%. India received around US$ 4 billion from ASEAN in 2013.

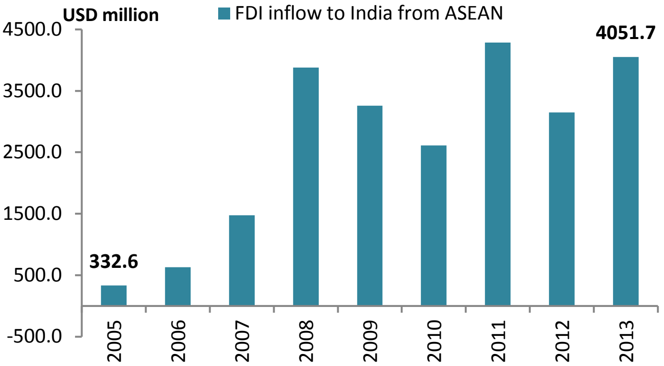
Chart 3: Top ten FDI sources of ASEAN during 2011-13



Source: ASEAN Secretariat

Also, there has been a steady increase in investment flows from ASEAN to India particularly since 2004; the total FDI received from ASEAN was only US$ 73 million in 2004.

Chart 4: FDI inflow to India from ASEAN



Source: Department of Industrial Policy and Promotion

Key bottlenecks to regional growth

Thus it is evident that India and ASEAN have indeed not reaped the full potential of their relationship. In terms of trade and investment, the data indicates that as compared to India, ASEAN has gained greater access to Indian market. Therefore there is a need to take initiatives to make the relationship mutually beneficial and take it to the next level. India and ASEAN must closely examine the factors which have restricted their position in each other's territory.

For instance, in case of India, ease of doing business has often been cited as a major problem hindering the growth of investment in the country. Cumbersome and lengthy regulatory and administrative procedures often mar the interest of foreign investors willing to invest in India.

Another major problem has been lack of proper physical connectivity between India and Southeast Asian countries. Myanmar, the only country with which India shares its borders is not connected by rail with India. The road that connects the two countries is also not well maintained. Absence of proper connectivity has greatly affected the growth of the two nations by hindering smooth flow of goods and services across the borders and increasing the overall transaction cost.

Recent developments and the way forward

Aware of these growth deterrents, the government of India has been actively initiating measures to make the business environment in India investor friendly and make India an attractive investment destination. The series of mega projects announced by the government like Make in India, Digital India, Swachh Bharat etc. in the past few months offer huge investment opportunities for foreign players.

Additionally, to boost trade and investment between the two nations, India has entered into a comprehensive economic partnership with ASEAN in August 2014 by signing a Free Trade Agreement in Services and Investment, which will come into effect from July 1, 2015. This will provide greater opportunities for movement of professionals and investment between India and ASEAN.

With the help of this deal, India should be able to leverage its strong position in the area of finance, IT, education, health, telecommunication and transport. The agreement is also expected to give fresh impetus to tourism, which can be further developed through liberalising visa norms in these countries. India has already proposed to extend its Tourist Visa on Arrival scheme for 150 countries in a phased manner. ASEAN should also consider introducing a common visa for all the 10 countries of the block, which will also facilitate business travel between India and ASEAN, thereby increasing the ease of doing business in these countries.

Similarly, given the significance of physical connectivity between India and ASEAN towards growth of these countries, the issue seek special attention. One of the important steps could be to increase the frequency of flights between the Indian cities and the ASEAN countries and reduce costs of air travel.

There is also a need to eliminate restrictions in marine travel to help the transportation of large container ships more effectively and economically. Better roads will have to be built to ensure improved access to remote areas.

India is attempting to improve national connectivity by building industrial corridors connecting important industrial areas of India. These initiatives will also have regional implications.

On the other hand, projects such as Mekong–India Economic Corridor (MIEC), 3200-km Trilateral Highway (TH) between India, Myanmar, and Thailand along the Asian Highway (AH) No. 1, and Kaladan Multimodal Transit Transport Project (KMTTP) linking Kolkata port with Mizoram via Myanmar are some of the initiatives which after completion will enhance Indian-ASEAN connectivity immensely.

India is also trying to develop the infrastructure of the North-eastern region of the country which can serve as the gateway to access markets of Southeast Asian countries. Given its geographic position, long international borders, proximity with the ASEAN countries and its rich resources, the North East has great potential to become a hub of economic activity and trade for India and the sub region.

The north east could be transformed into an economic corridor connecting India, Myanmar, Bangladesh and ASEAN. Improved connectivity between India and ASEAN is expected to help create a strong regional production network which in turn will help increase trade and investment between India and ASEAN. This will also support the overall objective of deepening India-ASEAN regional economic integration.

In the long term, however, continued measures will be required to keep transaction costs under check which will be critical towards sustaining the production network. An effective and efficient infrastructure would go a long way in buttressing competitiveness of both India and ASEAN, helping the region emerge as a strong player not only in Asia but globally too.

India's Port Sector – Poised for higher growth

India's port sector assumes great importance for India's economic growth as more than 90% of the country's trade by volume and 70% in terms of value is carried by the major and minor ports of India. These ports are therefore the gateways to India's international trade by sea. Rapid increase in the trade volume in the past years though has put severe pressure on the ports infrastructure thereby eroding the efficiency of the Indian ports. Congestion, poor connectivity and lack of modern facilities are some of the problems which have marred the performance of these ports. Indian ports presently compare unfavorably vis-à-vis many other Asian ports and there is still huge scope of improvement there.

Further, questions have also been raised at the way the major ports are administered in the country. India's major ports, which are directly controlled by the government of India, have not been able to function as true commercial entities and their growth remained restricted due to the slow decision making process of the government. This too has largely contributed towards their suboptimal performance. Thus, along with fast infrastructure development of ports, there has been an urgent need for restructuring of these major ports to make them vibrant. Considering this, in the Union Budget 2015-16, the government has proposed to gradually corporatize the major ports of the country. Though the announcement created some unrest in the workers' community initially, the message has been received well by the rest of the industry.

Major and Non-Major ports in India

India has 12 major ports and 200 non-major ports. While the 12 major ports fall under the jurisdiction of the Central Government and are managed by the Port Trust of India, the non-major ports are developed and maintained by the respective governments of the State and Union Territories.

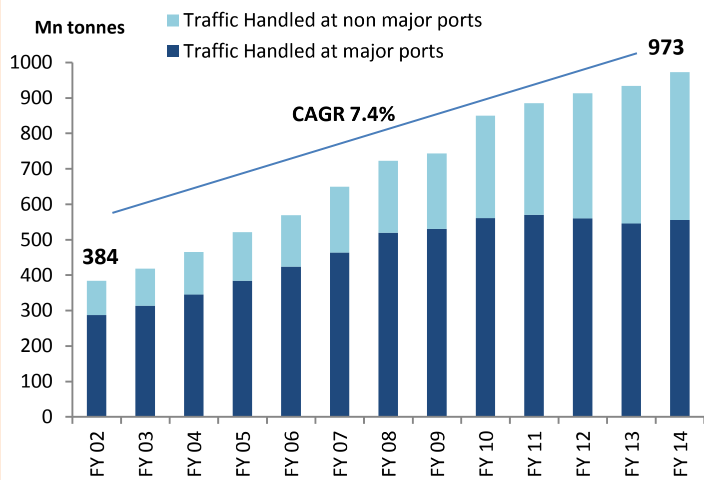
- The 12 major ports are located at Kolkata/Haldia, Paradip, Visakhapatnam, Chennai, Kamarajar, Tuticorin, Cochin, New Mangalore, Mormugao, Mumbai, Jawaharlal Nehru Port at NhavaSheva, and Kandla.
- The 200 non-major ports are located in Gujarat (41), Maharashtra (48), Goa (5), Daman & Diu (2), Karnataka (11), Kerala (17), Lakshdweep (10), Tamilnadu (15), Puducherry (2), Andhra Pradesh (12), Orissa (13), West Bengal (1) and Andaman & Nicobar Island (23)

Traffic growth at Indian ports

There has been a sharp increase in traffic handle by Indian ports over the past decade. In 2000-01, the ports handled traffic of around 384 million tonnes (MT) which has increased to 973 MT in 2013-14 at a CAGR of 7.4%. During the same period, the traffic at major ports increased at 5% while at non-major ports traffic increased at a much faster pace of around 12%.

Over the years, there has been a significant shift in traffic towards the non-major ports which presently handle more than 40% of the total traffic. The share was much lower in FY02 at 25%. It is interesting to note that the non-major ports handled only around 11 MT of traffic in 1990-91 as compared to 417 MT in FY14, indicating towards the growing importance of these ports in India.

Chart 1: Growth of Traffic at Indian Ports



Source: Indian Ports Association

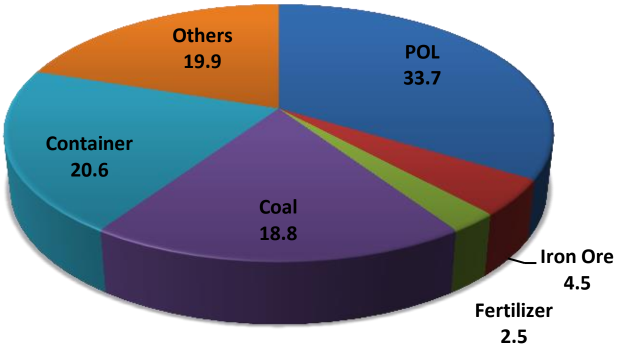
On the other hand, share of traffic at major ports which used to be as high as 90% earlier has come down to only about 57% in 2013-14. The growth of traffic at these ports has also declined over the years. In 2013-14, traffic at major ports registered an increase of only 1.8% over the previous year and stood at 555.5 MT.

Only 7 ports showed positive growth in traffic during the year, with growth in throughput at Kamarajar (Ennore) being the highest at 52.85% followed by Paradip (20.25%).

As compared to that, cargo handled by the non-major ports in FY14 showed a much higher increase of 7.5%. This was however lower than the 9.8% growth recorded in FY13. The growing importance of non-major ports can also be gauged from the fact that during the eleventh five year plan (2007-12), the traffic at non-major ports had increased at an annual rate of close to 14.75%.

The trend has continued in 2014-15 as well. During the first half (April-September) of 2014-15, traffic at non-major ports have witnessed higher growth of 11.1% as compared to 4.1% in major ports. Non-major ports in India collectively handled 226.69 MT of traffic or 44% of the total freight traffic during the first six months of previous fiscal year. Ports at Gujarat, Andhra Pradesh and Maharashtra have primarily driven the growth of traffic at non-major ports, which together accounted for about 95% of the total cargo traffic handled by all non-major ports of India during that period.

Chart 2: Commodity composition of traffic handled at major ports during 2013-14*



Source: Ministry of Shipping

**Note: Commodity wise, POL and Coal account for more than 70% of the total cargo handled at non-major ports, while these two categories make up for about half of the cargo handled by major ports.*

Capacity expansion at Indian ports

Capacity at Indian ports have kept pace with the growing traffic, which has been possible mainly due to the steps taken by the government to facilitate capacity expansion and attract investment in the sector. It has allowed upto 100% FDI under the automatic route for port development projects, extended 10 years income tax holiday to port developers, enhanced ease of operation by standardizing the bidding documents, increased the financial powers of the Ministry of Shipping to accord investment approval for PPP projects and streamlined the security clearance procedures.

The government has also formulated a long term plan for capacity enhancement through developing 'Maritime Agenda', which covers a period of ten years from 2010 to 2020. Under the Agenda the government has planned to increase the total port capacity to 3,130 million tonnes per annum (MTPA) by the year 2020.

In the past several years, the port sector has received substantial investment which has resulted in substantial increase in the port capacity which touched 1245.30 MTPA by the end of Eleventh Plan period (2007-2012). Of this, about 60% was with the major ports, while the minor ports contributed the remaining.

Capacity utilisation improved at major ports

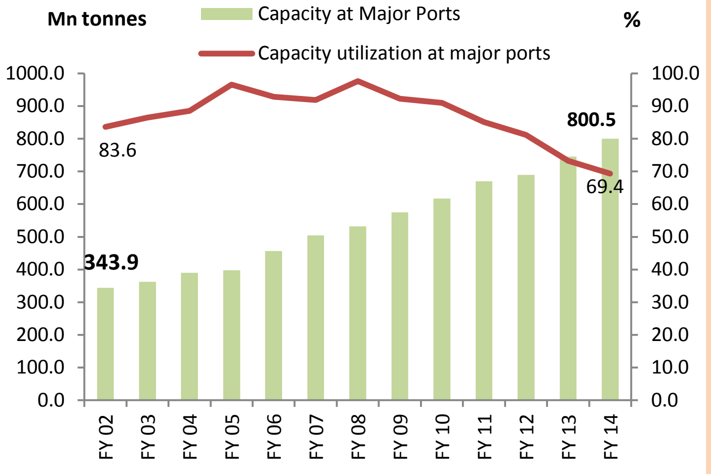
The capacity of major ports has increased from around 344 MTPA in 2001-02 to 800 MTPA in 2013-14, at a CAGR of 6.7%. During the same period the traffic had grown at a slower rate. As a result the capacity utilization rate at major ports has improved from 84% in 2001-02 to 69% in 2013-14. In 2013-14, the Ministry of Shipping awarded 30 projects involving an investment of Rs 207 billion and capacity addition of 217.57 MTPA.

Major Projects awarded in 2013-14

- Development of Liquefied Natural Gas Terminal by Indian Oil Corporation Ltd. at Kamarajar Port at Rs 4512.00 crore
- Development of 4th container terminal at JNPT at Rs 7915.00 crores
- Development of container terminal at Kamarajar Port at Rs 1270.00 crores

For 2014-15, the government had plans to award 35 additional projects to add 259 MTPA in capacity at an estimated investment of Rs 137 billion. Out of these, 23 projects were to be taken on a priority basis (entailing an investment of Rs 52 billion) while the remaining were marked as standby projects.

Chart 3: Capacity at Major Ports in India



Source: Ministry of Shipping

Performance of Indian ports

In addition to increasing the cargo handling capacity of Indian major ports, the government has also taken certain measures targeted at improving the overall efficiency of Indian ports. Along with constructing new berths and terminals for enhancing port capacity, the berths have been modernized by adopting state of the art loading/unloading equipment. This has improved the operational efficiency of these ports.

Channels and berths have been deepened to enhance capability of ports to accommodate larger vessels. Rail and road connectivity of ports have also been improved for speedy evacuation of cargo.

These measures have helped in minimizing pre-berth detention time and reduced turnaround time of vessels. The average turnaround time for all major ports has reduced from 8.10 days in 1990-91 to 3.87 days in 2013-14.

The berth productivity (average output per ship berth-day) has also increased more than four times from 3,372 tonnes in 1990-91 to 14,149 tonnes in 2013-14 for major ports. The average overall pre berthing detention time (pre-berthing delay) for all major ports has declined from 2.2 days in 1990-91 to only 0.29 days in 2013-14.

The performance however varies across ports. For instance, average output per ship berth-day was 25,522 tonnes in case of JNPT and only 3,315 tonnes at Kolkata Dock System during 2013-14 . The variation is mainly due to the type of cargo being handled, level of mechanization and labour practices.

Table 1: Performance of Indian Ports

	1990-91	2000-01	2009-10	2010-11	2011-12	2012-13	2013-14
Average Turn Round Time (Days)	8.10	4.24	4.63	5.29	4.56	4.29	3.87
Average Pre-Berthing Detention (Days)	2.20	1.19	2.16	2.32	2.05	1.79	0.29
Average Output per Ship-Berth-Day (Tonnes)	3372	6961	9215	9140	10575	11812	14149

Source: Ministry of Shipping

Although there has been considerable improvement in the performance of ports, benchmarking them against other regional ports in Hong Kong, Singapore, Sri Lanka and China reveals that Indian ports need substantial improvement in their performance to bring them at par with these international ports.

As compared to India's average turnaround time of about 4 days, the turnaround time at Singapore, Shanghai and Hong Kong ports is less than a day. Indian ports suffer on account of all the three important parameters – capacity, productivity and efficiency, which also impacts the overall transaction cost at these ports. The World Bank Doing Business 2015 data suggests that the transaction cost at Indian ports is much higher as compared to other regional ports.

Table 2: World Bank Doing Business 2015: Trading Across Borders

	Exports		Imports	
	Time (days)	Cost (US$ per container)	Time (days)	Cost (US$ per container)
China	21	823	24	800
Hong Kong	6	590	5	565
India	17.1	1332	21.1	1462
Singapore	6	460	4	440
Sri Lanka	16	560	13	690

Source: World Bank

Key Challenges

The scenario indicates that the Indian port sector is still facing some challenges which need attention to make the Indian ports capable of managing the future demand and the competition from larger and more efficient ports in the region.

World Bank in its report (2013) on the Indian port sector has highlighted some of these challenges confronting the sector today, which include: ability to handle large vessels; transport infrastructure linkages to ports; private sector participation; port governance structures; and the legal and regulatory framework in which ports operate.

Capability to Handle Large Vessels

Over the years, the government has attempted to improve port infrastructure in India. However, even today, none of our ports (major or non-major) has the ability to accommodate larger dry bulk ships (the largest ore and coal carriers) of more than 180,000 dwt (deadweight tonnage), large tankers, or container ships with carrying capacity of over 8,000 TEU (twenty-foot equivalent unit). It is worth noting that CSCL Globe, the world's largest container carrying ship cannot dock in any Indian ports presently due to its size and draft requirements. Moreover, shipping companies worldwide are increasingly opting out for larger vessels to restrict their transportation cost.

Therefore it has been suggested by World Bank that India must develop at least two ports one each in the east coast and west coast to accommodate larger vessels.

Hinterland Connectivity

Poor rail and road connectivity with hinterland is another important factor restricting the performance of Indian ports. To handle the growing cargo traffic and to minimize the transaction cost and time, good connectivity to and from ports is essential. In India, roads and railways have been carrying most of the hinterland traffic. Inland waterways could therefore be developed for easing the burden on the rail and road network.

Private Sector Participation

The government has taken several initiatives since 1996 to encourage private investment in port development. Though private sector participation has increased over the years, implementation of PPPs has been rather slow. This is mainly due to the challenges that the private players have been facing, including a lengthy approval process, stiff bidder selection criteria, operational risks emanating from delays in port connectivity, and funding risks arising from lack of adequate availability of long term loans, etc.

Besides, the role of the Tariff Authority of Major Ports (TAMP) in tariff setting has also been a point of contention for private players. Moreover, there has been an uncertainty regarding the level of economic control that private investors can enjoy for the facilities provided by them.

The Maritime Agenda 2010-20 has estimated that investment required in new projects of major ports will be Rs 1,094 billion of which Rs 729 billion is expected to come through private sector participation and the balance Rs 365 billion to be funded through internal and external budgetary support. To realise this target it is crucial that private sector players are provided a level playing field to enable them operate freely in the sector.

Port governance structure and regulatory framework

Keeping in perspective the changing market environment it is imperative to bring in appropriate changes in the Indian port policy framework to remain in the league of better performing global ports. There is a need for creating a balance between the role of the market and that of the regulator to create commercially efficient ports.

While most of the areas of reform have been touched upon by the government, it has been unable to introduce corporatized 'Landlord Model' which has been the most effective mode of port governance internationally. Under a corporatized 'Landlord Model', the ports are allowed to become commercially structured entities in which the public sector retains the ownership and continues to regulate basic port infrastructure, while the private operators provide the port services.

In contrast, the major ports in India, except the Kamarajar port at Ennore have continued to be managed by the Port Trust under the government of India, with the existing set up failing to improve the efficiency levels of these ports.

Recent government initiatives

The government has taken some notable steps to address these bottlenecks and boost the overall performance of Indian port sector in order to bring them at world-class level.

- The government has planned to launch '**Prime Minister Jal Marg Yojna**' to develop strong inland waterways network in the country, which has been an underdeveloped mode of transportation so far. It projects for setting up dry and satellite ports, besides converting riverways into waterways. The government is also formulating a bill that would allow converting any river into a waterway to enable goods transportation through them. The Jal Marg Network will have at least three meters of draft (depth) and 80 meters of width for the waterways to enable goods transportation through them.
- An ambitious project has been conceived for maritime states, the **'Sagarmala'** with the objective to achieve rapid capacity expansion and modernization of ports along India's East and West Coast. The project aims to integrate various components viz. port facilities, coastal ferry services, tourism infrastructure and inland water transportation and focusing on Port Towns/Cities. This project envisage not merely port development, but port-led development which would include ports, SEZs, and rail, road, air and waterway connectivity with the hinterland, including linkages of cold storage and warehousing facilities.
- The government is also building a **Special Economic Zone (SEZ) at Jawaharlal Nehru Port Trust (JNPT).** The project would cost Rs. 40 billion in phase-I. The project has the potential of generating over 1.5 Lakh direct and indirect jobs and will develop free trade warehousing zones.
- An Integrated **National Water Transportation Grid** has been proposed to be set up to develop 4503 km of National Waterways and establish effective connectivity of river terminals with road, rail and ports. An estimated 159 MT of cargo is estimated to be diverted to Inland Waterways from road and rail with the completion of the project.
- The government is also **encouraging shipbuilding industry** in the country. It is evaluating prospects for shipbuilding facilities in the coastal states like Gujarat, Kerala, Andhra Pradesh, Karnataka, Maharashtra and Tamil Nadu. A dedicated Rs 15 billion funds is being set up by Export Import Bank of India to provide finance for construction, refitting and repair of ships.
- In the 2015-16 Budget announcements, the government has finally proposed to **corporatize major ports**, which will speed up their decision making process, improve their governance structure and standardize their financial accounts. However, actual implementation will be the key to realise this goal.

- The government has recently announced a **new tariff policy for the 12 major ports** providing them the flexibility to set tariffs based on market forces. Under the new guidelines, port trusts will be able to set charges for different services to the extent needed for meeting their annual revenue requirement (ARR), which will be the average of actual expenditure for the past three years plus 16% return on capital employed that includes capital work in progress. However while doing so the ports will have to ensure that this would not result in any loss of traffic.

- In another move, the Attorney General of India has given the approval to existing private operators at major ports operating under the rate guidelines framed in 2005 and 2008 to migrate to the market-linked rate regime, announced in July 2013.

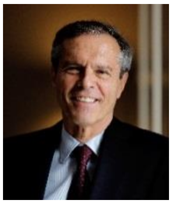
Future prospects

With the whole set of measures announced lately, the government has embarked on the next level of reforms in the ports sector. If implemented in the right earnest this could change the scenario of the port sector in India remarkably.

According to the government's projections, the ports are expected to continue to see high growth in traffic in near future. By 2016-17, it expects the port traffic at major and non-major ports to reach 943.1 MT and 815.2 MT respectively. To match the same, the government has planned to increase the corresponding port capacities at major and non-major ports to 1,241.83 MT and 1,059.80 MT.

This would entail significant investment from the public as well as the private sector. The new initiatives of the government which have attempted to address the key concern areas of private players should help renew the interest of investors towards the Indian ports.

The major ports which have been facing stiff competition from non-major ports and have been unable to attract significant investment lately would be encouraged by the new tariff regulations to improve their performance. This in turn would make these ports more efficient thereby making them more attractive for investment for foreign players.



Mr. Michael Steiner
Ambassador of Germany to India

1. ***What are the expectations out of the Hannover Messe Fair in April 2015? How big and special is the fair this time?***

For the second time, India is the partner country of the "Hannover Messe". The timing is perfect. India has successfully launched a number of initiatives like "Make in India" and "RE-Invest" and displays a new promising dynamism. More than 300 Indian companies have booked stalls, and more than 100 Indian CEOs will accompany PM Modi to Germany.

At Hannover Messe - the world's biggest industrial trade fair - India will present its prowess to the world. I have seen for myself that India's preparations for Hannover have been impressive. India has taken a holistic approach banking also, for example, on its delicious food and its touristic attractions. India will attract great attention, and I am convinced that India will stun the world.

The fair is a truly global event. It regularly attracts more than 200,000 visitors of which a very substantive part comes from outside of Germany. Therefore, this is not just a very good occasion to deepen our bilateral ties, but also for India to connect with the global industry.

2. ***You have said that the visit of your Finance Minister Dr. Wolfgang Schäuble was a significant kick-off to a series of high-level meetings between India and Germany in a very promising year for our bilateral relations. Will this year be a game changer in our ties?***

Our bilateral relations are already in a very good shape. But, yes, 2015 is a very important year, and I am convinced that our bilateral ties will indeed become even closer with this year's high-level interactions. It is not just Prime Minister Modi's trip to Germany for the "Hannover Messe" and Chancellor Merkel's trip to India in autumn for our bi-annual intergovernmental consultations.

Apart from Finance Minister Schäuble in January, we also had Environment Minister Hendricks visiting Delhi, and we are looking forward to the visit of our Defence Minister, Ursula von der Leyen, next month, and many more.

But these are just the tips of the iceberg: Besides these high-ranking interactions, we have a huge number of exchanges on the working level and among private business as well as civil society actors which are proof of the very lively relationship between our two countries.

3. ***The objective of "Make in India" programme is to enhance India's growth through increased exports. How can Germany help India to make inroads into potential markets?***

"Hannover Messe" can be a major milestone for Indian industry to open up new markets for their products. Germany is looking forward to offering the stage to India.

Apart from this, let me mention the roughly 1,800 German companies that already make in India. They have brought along their global business networks and export their India-made products to other markets. These companies have also been transferring know-how to the Indian industry and help sharpen India's competitive edge. In a way, they have become Indian enterprises, which shows how closely intertwined our business communities already are.

4. ***Germany has already been a valuable partner in boosting India's manufacturing capacities through the presence of your automobile companies and dominating the luxury car market in India. What are the next miles that the auto majors in India plan to cover?***

In India we have four major players - Mercedes-Benz, BMW, Volkswagen as well as Audi. They have set up manufacturing facilities in India. Clearly, I cannot speak on behalf of these companies, but I can still assure you that India is a very important market for the German carmakers. This is not only true in terms of domestic sales, but also with regard to the manufacturing capacities that they set up here.

Volkswagen, for example, exports more than 50% of its Indian production capacity to 32 other countries worldwide. In the near future, the German manufacturers want to expand their supply base in India and increase the localisation of auto components. BMW, for example, plans to expand the localisation from 20% now to over 50%. This comes along with increased investments.

Again by way of example, I want to mention that Volkswagen, only recently, invested 30 million Euros in a new Diesel engine plant. And both Mercedes and Audi are doing very well.

5. ***Do you agree that India and Germany need to work towards creating a more conducive climate for deepening and multiplying trade ties?***

Our governments have already agreed on deepening our mutual trade ties during our last intergovernmental consultations. They set very ambitious targets, which have not been met yet. The conclusion of the agreement between the EU and India on investments and free trade would be a major stepping stone and allow our economies to expand trade with each other.

By the way, the Bilateral Trade and Investment Agreement is by no means solely focused on trade. It is also meant to stabilise and improve the investment climates in both our economies which would make it a good component of India’s strategy in attracting more foreign investment.

6. ***The Indian Government has put the economy on fast track with measures to relax labour market laws, link cash transfers with efforts at financial inclusion and liberalise foreign investment norms in defence, insurance, construction and some parts of railways with thrust on public-private partnerships. Do you see these as opportunities for India and Germany to deepen our business linkages?***

An easy-to-understand and transparent FDI framework is a top-priority, not only for German investors. The Indian government has done a lot to make foreign investors feel welcome and tackles the challenge of improving the “ease of doing business” in India.

But there is still a lot to do. Germany stands ready to fully support India`s reform efforts. In the field of railways, I expect closer cooperation between Indian Railways and German companies like Siemens and Bombardier, who have been present in India for many decades. I also hope that Deutsche Bahn with its excellent expertise and international experience will enter the Indian market. Regarding high-speed corridors, skill development and feasibility studies, Deutsche Bahn could be the ideal partner for Indian Railways.

The recent labour law changes of the Modi government under the statutory scheme level can help facilitate entrepreneurship and foster business cooperation and linkages. Simplifying reporting requirements for the employers and more transparent labour inspections at the premises should be priorities. However, the continuous existence of over-regulation in termination rights is a problem that makes each termination a subject to regulatory approval.

7. ***German Chancellor Angela Merkel and Prime Minister Modi have emphasized that Germany and India are natural partners in the field of Vocational Education and Training. Is there any progress on chalking out a framework of cooperation in this respect?***

I am proud that our cooperation on this key issue is already extensive: Germany contributes to the modernisation of the apprenticeship system and curricula, trains master trainers, supports SME's in clusters to participate in the development of VET, and helps setting-up an Indian National Institute of Vocational Higher Learning for Workers.

Delivering Vocational Education and Training to millions of Indians will be the road of success to higher productivity, growth and – jobs. Germany stands ready to help India set-up a system that works for India.

However, it is most decisive in this regard, that companies in India recognize their very own interest to invest in the Education of their employees. For this, especially SMEs need to be provided with financial incentives.

A German-inspired 'dual approach' relies heavily on the participation of the private sector, shaping the VET in accordance with their requirements and demands. Only if companies roll up their sleeves and get engaged in VET, India will meet the challenge of delivering substantial training for millions of youths every year, looking for jobs.

8. ***The visit of the German Environment Minister Barbara Hendricks to India in January was an indication of the importance that environment occupies in our mutual agenda. What is the scope of cooperation between India and Germany in clean energy and environment? Given Germany's expertise in this field, what are the possible collaborations for our businesses in these fields?***

Energy and environment are indeed focus areas of our bilateral cooperation. Recently, we have had meetings of the Indo-German Environment Forum and of the Indo-German Energy Forum in Delhi. Germany has also been a partner country of RE-Invest, the Indian government's important and ambitious initiative to boost investments in the renewable energies sector.

Especially in the field of renewables, Germany has a lot to offer. We ambitiously decided to phase out nuclear energy and to reach a share of 60% renewables by 2035. Germany is willing to share its experience and know-how with India. Hannover Messe, which has a dedicated focus on renewables, will be the next important stop in this regard.

India and Germany have concluded a landmark loan-agreement of over 1 billion Euros for the construction of Green Energy Corridors. The goal is to support power evacuation from renewable energy hubs across India and their effective integration into the grid. In the same year, we committed 200 million Euros to climate-friendly urban mobility and 200 million Euros to a hydropower project in the Himalayan region. Currently, a new programme on Solar Partnership is in the making.

In the field of water management, we have learned a lot from our successful cleaning of the river "Father" Rhine. Germany is ready to share this experience and help India clean "Mother" Ganga.

It's safe to say that the opportunities for cooperation between our two countries, and especially for industry, are nearly endless. Germany has state-of-the-art environmental technology to offer as well as financing.

9. ***Indo-German development cooperation is well integrated in the foreign policy framework of relations between India and Germany. How has this cooperation shaped up over the years since the year 2008 which marked 50 years of Indo-German development cooperation and how can we expand on this?***

Instead of sticking with the traditional donor - recipient relationship, we have both redefined our roles. Today, Germany offers solutions to India's national strategic development agenda. Germany acts as a broker of knowledge and as a networking manager with innovative solutions. In other words: today we are two equal players in a dialogue.

The budget of Indo-German Development Cooperation skyrocketed in the past few years. From about 500 Mio EUR in 2010, financial commitments have increased to 1.1 billion EUR in 2013, only to reach a new record one year later with 1.2 billion EUR. These figures demonstrate the enormous significance Germany gives to the bilateral cooperation with India.

In order to further expand this cooperation, we need readiness for mutual learning and collaboration on the global level on issues of joint interest such as climate and trade. India is Germany's natural partner of choice, especially on the green road to growth.

10. ***Finally, Excellency you have been seen sporting Indian outfits like the kurta and jacket and look very much at home in India. How do you like your tenure here?***

After three years as German Ambassador to India, I feel very much at home here. I have always been fascinated with India's deep and ancient culture and its incredible dynamism and diversity. I am very grateful that I have had the opportunity to come to Delhi and experience it from up close.

I have witnessed tremendous transitions, PM Modi's impressive election campaign and the very busy first year in office. Together with many Indian friends and partners, I celebrated the "Year of Germany in India", the Kashmir Concert and the anniversary of the Fall of the Berlin Wall – incredibly successful events that have brought India and Germany closer together.

Personally, I have met so many wonderful people and grown really fond of India. The kurta I wear because it's nice, it evens out weaknesses of one's body shape, and it's much more comfortable to wear than Western clothes in the - at times - challenging climate of India.

FICCI Survey highlights

Business Confidence Survey, February 2015

Prospects for the next six months

	Investment	Sales	Selling Price	Profit	Exports	Employment
Much Higher	5	12	2	2	3	5
Higher	33	49	7	31	29	30
Same/ No Change	55	35	69	52	52	58
Lower	8	5	21	14	16	7
Net Responses (performance compared to previous survey)	Better	Worse	Worse	Better	Worse	Better

Note: Net responses are measured as the differential between the companies reporting positive and negative responses. These exclude companies reporting same or no change.

Source: FICCI Business Confidence Survey, February 2015

The Overall Business Confidence Index (OBCI) did not report much change in the current survey vis-a-vis the previous round. The OBCI value rose marginally to 70.5 in the current survey, up from 70.4 in the last round.

The value of Current Conditions Index declined slightly to 62.5 in the present survey from 62.9 in the previous round. The Expectation Index, however, indicated a marginal rise to 74.5 in the current round, from 74.1 last time.

The various announcements made by the government over the course of last seven to eight months did have a positive impact on the sentiment of the business community; however in order to sustain this buoyancy it is important that the process of implementation of these reforms continues.

A sustainable turnaround is still elusive for parameters like investments, profits and exports. While the situation is certainly better when compared to last year, the change in quarter on quarter numbers are yet to indicate a firm turnaround.

The outlook with regard to investments still seems weighed down by caution and the projects are yet to take off. In the current survey, about 38% participants expected higher investments over near term; the corresponding number in the previous survey was around the same at 39%.

The perception of the respondents with regard to export prospects also noticed moderation. Only 32% respondents said that they foresee higher exports over the next six months, compared to 47% stating likewise in the last round. The pace of global recovery is yet to pick and demand remains subdued.

Weak demand continues to be a persistent concern. In the current survey, 66% of the respondents indicated weak demand to be a constraining factor as against 59% of the respondents in the previous round.

A marginal increase was noted in the proportion of participants indicating both availability and cost of credit to be constraining factors. Though the Reserve Bank had cut the repo rate , the lending rates being charged by the Banks remain high.

The current survey drew responses from companies with a wide sectoral and geographical spread. The survey drew responses from about 150 companies with a turnover ranging from Rs 3 crore to Rs 10000 crore. The participating companies belonged to an array of sectors such as textiles, pharmaceutical, cement, chemicals, steel and steel products, automotive, food processing, electrical equipment and machinery, paper and paper products, hospitality.

For detailed report you may contact:
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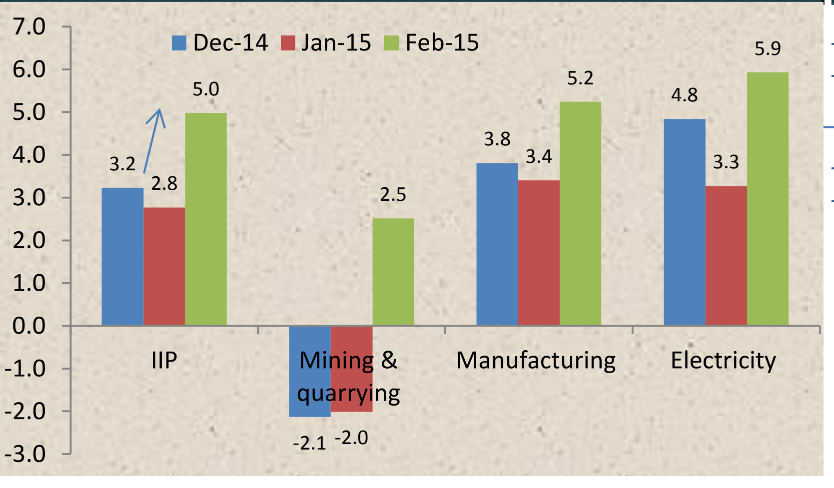
Economy Fact Sheet – Index of Industrial Production
April 2015

IIP grows by 5 percent in February 2015

- *Growth of index of industrial production rose to 5 percent in February 2015 as against 2.8 percent in January 2015.*
- *The improvement in growth can be attributed to strong growth of 5.2 percent and 5.9 percent witnessed by the manufacturing and electricity sectors respectively during February 2015. Mining and quarrying also witnessed a three month high growth of 2.5 percent in February 2015 after observing two consecutive months of negative growth.*
- *The basic goods, capital goods and intermediate goods noted 5 percent, 8.8 percent and 1.1 percent growth respectively in February 2015. Consumer goods segment too observed a relatively high growth, recording a twenty eight month high growth of 5.2 percent during the month.*
- *The growth of consumer non durables sector stood at a high of 10.7 percent in February 2015 vis-à-vis 0.3 percent in January 2015. However, consumer durables segment continues to show negative growth, recording (-) 3.4 percent growth in February 2015.*

Index of Industrial Production and key components (Y-o-Y growth %)



IIP - Use Based Classification (Y-o-Y Growth %)

Basic Goods		
Dec-14	Jan-15	Feb-15
5.7	4.7	5.0

Capital Goods		
Dec-14	Jan-15	Feb-15
5.4	12.6	8.8

Intermediate Goods		
Dec-14	Jan-15	Feb-15
1.0	-0.1	1.1

Consumer Goods		
Dec-14	Jan-15	Feb-15
0.3	-1.8	5.2

Consumer Durables		
Dec-14	Jan-15	Feb-15
-8.9	-5.5	-3.4

Consumer Non-Durables		
Dec-14	Jan-15	Feb-15
5.1	0.3	10.7

- 15 out of 22 industry groups have shown positive Y-o-Y growth during the month of February 2015.
- The IIP data for the month of February 2015 is encouraging. It is important that this positive sentiment and growth continues for the creation of additional jobs.
- We hope to see further growth in manufacturing as a result of recent announcements in the budget and certain other measures announced by the Government. However, to sustain this growth, interest rates need to be brought down further for stimulating investments and demand. At the same time efforts to improve our business regulatory environment should continue.

Major items with positive growth	Jan 15	Feb 15
Wearing apparel, dressing and dyeing of fur	*1.28%*	*62.0%*
Electrical machinery and apparatus n.e.c	*28.0%*	*35.8%*
Wood and products of wood and cork except furniture	*8.6%*	*19.6%*

Major items with negative growth	Jan 15	Feb 15
Office, accounting and computing machinery	*- 35.1%*	*- 44.6%*
Radio, TV and communication equipment and apparatus	*- 51.3%*	*- 43.4%*
Other transport equipment	*- 2.1%*	*- 8.2%*

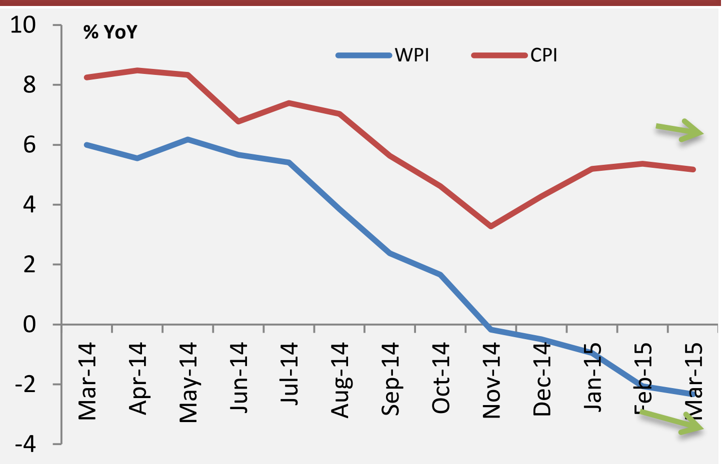
Source: MOSPI, Economic outlook CMIE and FICCI Research

FICCI

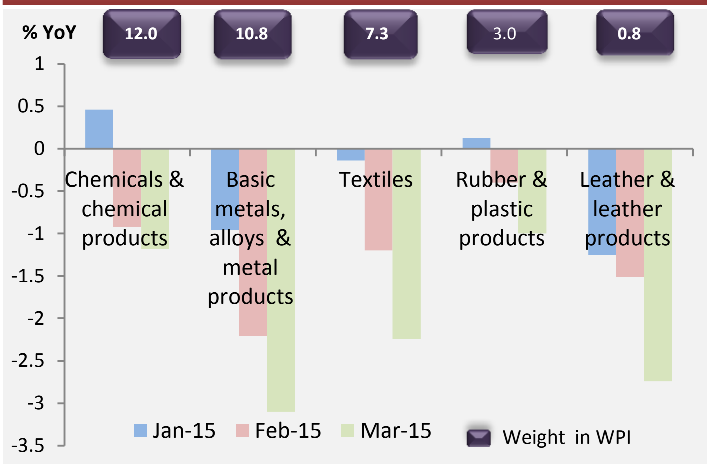
WPI continues to deflate in March 2015, stood at (-)2.33 percent

- *Headline WPI based inflation continued its fall in March 2015 and stood at (-) 2.3 percent.*
- *WPI based food inflation further eased to 6.3 percent in March 2015 vis-à-vis 7.7 percent in February 2015. Non-food articles witnessed deflation of 7.1 percent during the month of March 2015.*
- *Fuel and power led WPI inflation stood at (-) 12.6 percent in March 2015 as against (-) 14.7 percent recorded in the previous month.*
- *Prices of manufactured products too reported a decline of 0.2 percent in March 2015. Major products that noticed a price decline are basic metals, alloys and metal products ((-) 3.1 percent), chemical and chemical products ((-) 1.2percent), rubber and rubber products ((-) 1.0 percent) and textile products ((-) 2.2 percent).*
- *Retail CPI eased to 5.2 percent in March 2015 after rising for three successive months.*

Trend in WPI and CPI and the Repo Rate



Manufactured products that observed deflation



Both WPI and CPI data for the month of March 2015 report moderation in prices. The latest numbers indicate easing of food prices even though possibility of upside risks from unseasonal rains remains imminent. However, this most likely will be counterbalanced with subdued demand conditions and soft commodity prices. As for tackling food inflation, an improved supply side response would be more appropriate.

Further, the IIP numbers released for February 2015 reported a significant improvement, which is encouraging. Going ahead, it will be imperative to support this buoyancy to assure a sustainable turn around in the industrial sector. We look forward to another round of downward revision in the repo rate in June 2015 or perhaps earlier.

Key WPI Components (% change YoY)

	Dec-14	Jan-15	Feb-15	Mar-15	Apr-Mar 2013-14	Apr-Mar 2014-15
Primary articles	0.3	1.4	1.4	**0.1**	9.8	**3.0**
Food articles	5.0	8.0	7.7	**6.3**	12.8	**6.1**
Non-food articles	- 3.6	- 4.2	- 5.6	**- 7.1**	5.6	**- 0.6**
Fuel and power	- 7.8	-11.0	- 14.7	**- 12.6**	10.2	**- 1.0**
Manufacturing products	1.4	1.1	0.3	**- 0.2**	3.0	**2.4**

Source: MOSPI, Economic Outlook – CMIE and FICCI Research

Economy Fact Sheet – Foreign Trade
April 2015

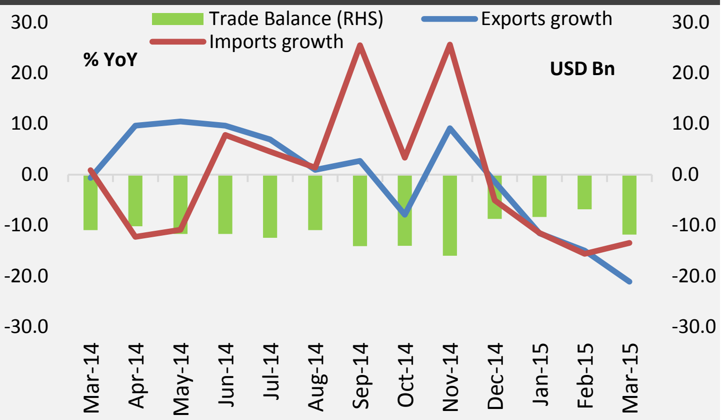
Trade deficit widened to USD 11.8 billion in March 2015

- *India's trade deficit widened to USD 11.8 billion in March 2015 from USD 6.8 billion in February 2015. Exports during March 2015 were valued at USD 24.0 billion, which was 21.1 percent lower as against the level of exports observed during March 2014. Imports also witnessed a Y-o-Y decline of 13.4 percent, falling to USD 35.7 billion in March 2015.*

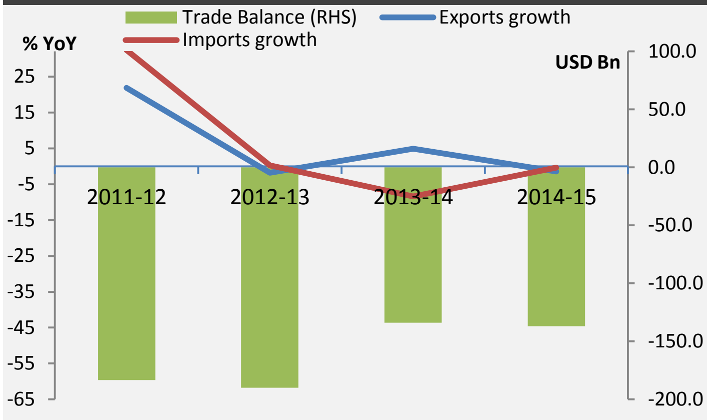
- *For the entire fiscal FY15, exports declined by 1.5 percent vis-à-vis a growth of 4.9 percent observed in FY14. Imports contracted by 0.4 percent in FY15 as against a contraction of 8.4 percent noted in FY14. Total exports in FY15 are valued at USD 310.2 billion while total imports stood at USD 447.1 billion.*

- *The trade deficit for FY15 is estimated at USD 137.0 billion, higher than the deficit of USD 135.8 billion during FY14.*

Foreign Trade Trend (Monthly)



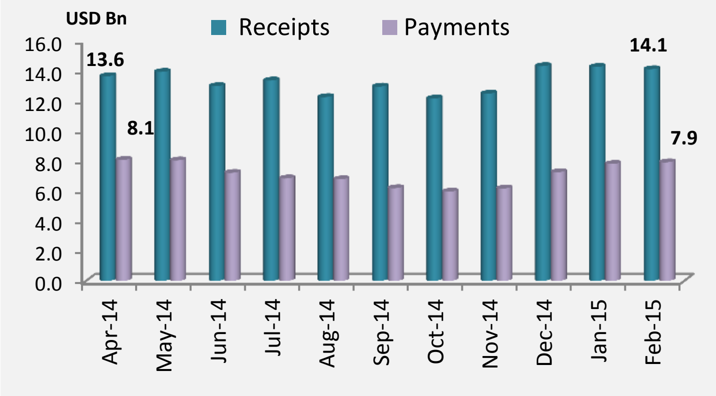
Foreign Trade Trend (Annual)



- Exports of a large number of sectors are reported to have declined in March 2015. These include products such as tea, cereals, marine products, meat & dairy, oil meals, fruits & vegetables, iron ore & coal & other minerals, leather, chemicals, pharmaceuticals, gems & jewelry, engineering goods, cotton yarn, man-made yarn & fabrics, handicrafts, petroleum products, plastic and electronic goods.

- Growth in the country's exports has remained tepid this year. An analysis of exports of commodities for the overall fiscal (FY15) reveals that petroleum products, electronic goods, gems and jewelry witnessed a decline of 11.9 percent, 18.9 percent and 1.2 percent respectively. Weak global demand and appreciation of the Rupee have largely contributed to moderation in exports. A slew of incentives such as re-introduction of interest subvention scheme, quick refunds and additional incentives for export led manufacturing can boost outbound shipments. Going forward, the announcements made in the Foreign Trade Policy 2015-20 could facilitate improvement in exports of goods and services.

Trade in Services



Exports of Major Commodities in FY15

Commodity	Exports (in USD Bn)	% Y-o-Y growth	% Share in total exports
Engineering goods	73.1	14.03	23.55
Petroleum products	55.8	-11.89	17.99
Gems & jewellery	40.9	-1.23	13.17
Readymade garments	16.8	12.26	5.43
Electronic goods	6.4	-18.87	2.06

Source: Ministry of Commerce and Industry, Economic outlook CMIE and FICCI Research

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