Economy Watch

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This newsletter is prepared by the Economic Affairs & Research Division, FICCI

State of the Economy

The optimism amongst members of the business community following the reform process initiated by the Government last year is noteworthy and has once again raised expectations of India's flight to the next level of growth trajectory. This positivity has been carried forward to the current fiscal year 2015-16 as well, as Government continues to stay active on its broad policy agenda.

The announcement of the blueprint of the 'Atal Mission for Rejuvenation and Urban Transformation', 'Smart Cities Mission' and 'Housing for All schemes' in June 2015 and other flagship initiatives – 'Skill India Mission' and 'Digital India' in July 2015 highlight the national development plans of the Government. However, the basic ground work for these campaigns is yet to gather pace and going ahead, it would be critical to assure that the implementation of these programs progresses smoothly.

Further while these reforms and policy announcements have raised confidence in the economy, we are yet to see a firm turnaround in the macro parameters. The key macro indicators so far this year indicate a mixed trend with data for the first three months of the fiscal year showing a somewhat diffused recovery.

Even though latest industrial production data reported an improvement; prospects of a pickup in industrial activity remain hazy as investments are yet to gather traction. The situation with regard to exports has also been rather unfavorable. Inflation had been a pain point for some time and once again came under the scanner at the onset of this fiscal year with predictions of a deficient monsoon doing rounds.

However, prices so far have remained range bound and with rains improving in the last week of June and acreage under Kharif crop going up, we expect food inflation to be in control in the months ahead.

Gross Domestic Product (GDP)

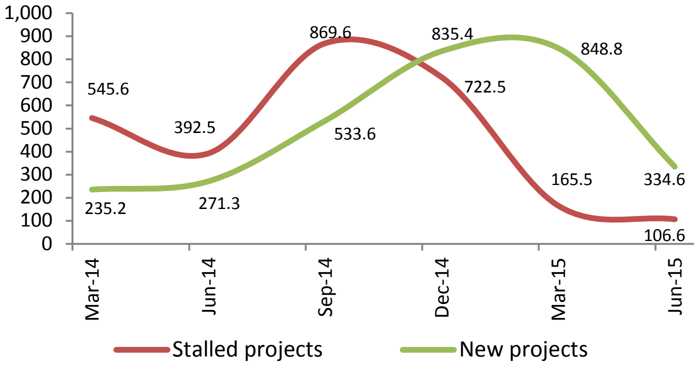
GDP numbers for the first quarter of this fiscal year are expected to be announced in the last week of August 2015. According to the results of FICCI's latest Economic Outlook Survey, GDP growth in Q1 2015-16 is projected at 7.5% with a minimum and maximum range of 7.0% and 8.4%. Further, GVA at basic prices is also expected to grow by 7.5% in the first quarter of 2015-16, which is 1.3 percentage point higher than 6.2% growth registered in Q4 of 2014-15.

This improvement in growth is backed by an expectation of a pickup in performance across all three major sub segments- agriculture and allied activities, industry and services sector.

For the fiscal year as a whole, the survey results project a growth of 7.8%. The latest survey round was conducted during the months of April/May 2015. The Reserve Bank of India in its third bi-monthly monetary policy announced on August 4, 2015 retained the GDP growth estimate for 2015-16 to 7.6%. In April this year, the Bank had made a projection of 7.8%.

One of the key stress points is persisting apprehension among private investors to undertake fresh projects. The CMIE data indicates that while the value of stalled projects has come down indicating that stuck projects are gradually rolling out; the value of new projects has also come down. FICCI's Business Confidence Survey also indicates that the companies are conservative with regard to investment plans in near future. This remains a major worry as kick starting domestic capex cycle is a necessary condition to break away from a situation of moderate growth.

Chart 1: Manufacturing Sector: Stalled and New Projects (Rs billion)



Source: CapEx CMIE

Further, some downside risks that might mar the growth prospects include- (i) weak demand situation; (ii) frail situation in Euro Area particularly in countries like Greece and Portugal; (iii) expected increase in interest rates by Federal Reserve by end of this year, (iv) oil and commodity prices which have been moderate so far, however any sudden shock in the geopolitical arena can strain the situation, (v) high NPAs for banks in sectors like infrastructure, iron & steel and power.

Index of Industrial Production

Growth in Index of Industrial Production (IIP) climbed to a four month high of 3.8% in June 2015 supported by a pickup in manufacturing activity.

Growth in the manufacturing sector rebounded to a four month high of 4.6% during the month of June 2015, an improvement over 2.0% growth reported in May 2015 and 2.9% in June 2014. Sixteen out of twenty two manufacturing sub-segments posted positive growth in the month of June 2015.

However, the other two segments – mining and electricity- noted a discernible moderation.

As per the use based classification of industrial production, consumer goods segment noted a surprising recovery on the back of monumental growth of 16.0% noted in the consumer durables segment in June 2015 - a thirty two month high. Growth of basic goods as well as intermediate goods noted moderation; while capital goods segment after reporting positive growth for seven consecutive months, once again indicated contraction in June 2015.

However, the performance of the industrial sector is yet to display firm signs of recovery. The capacity utilization rate of companies has been suffering as weak demand conditions continue to persist. The same was also reflected in the corporate results announced for the first quarter of 2015-16.

The Reserve Bank of India has cut the repo rate by 75 bps so far this year; however the same has not been transmitted in the form of lower lending rates. The Banks have been maintaining a cautious stance and have brought down the lending rates by about 25-30 basis points so far. A cut in lending rates would enable a stronger support for the industry and help expedite revival of private investments and demand for housing, automobiles and consumer durables.

Inflation

The Wholesale price based index remained on the deflationary path for the ninth consecutive month according to the latest data release. The WPI based inflation rate was reported at (-) 4.1% in the month of July 2015. However, the Consumer Price Index based inflation rate also noted moderation in the same month. The CPI based inflation rate was reported at 3.8% in July 2015, vis-à-vis 5.4% in June 2015. The fall in prices has been broad based; however, the decline was most discernible in case of food inflation, both for wholesale and retail prices.

CPI based food and beverages inflation rate was reported at 2.9% y-o-y in July 2015, vis-à-vis 5.7% y-o-y in June 2015 and 8.7% in July 2014. Moderation was noted in prices of all major sub-segments under the food and beverages segment except for pulses – prices of pulses registered 22.9% y-o-y growth in July 2015.

There has been some uncertainty on account of monsoons this season. Up to August 13, 2015 seasonal showers have been 9% deficient from the long period average. Nonetheless, Government seems adequately prepared to handle any sudden shock with respect to food prices. Further, oil prices have fallen to a near six year low and other commodity prices also remain subdued. Thus the possibility of any stress on prices is expected to remain within range.

Inflation is in line with RBI's indicative trajectory and we feel that there is space to give precedence to growth considerations.

Foreign Trade

Exports and imports witnessed contraction for the eighth consecutive month in July 2015.

Trade deficit widened slightly and stood at US$ 12.8 billion in July 2015, vis-à-vis US$ 10.8 billion in June 2015. However, the deficit was lower when compared to the figure of US$ 14.3 billion in July 2014.

Exports during July 2015 were valued at US$ 23.1 billion, 10.3% lower than the level of US$ 25.8 billion recorded in the corresponding month of the previous year. Key sectors that posted a fall in exports in July 2015 included petroleum products, leather products, iron ore and electronic goods.

The weakness in global demand has been persistent worry, which is also reflected in the subdued commodity prices. In addition, the recent devaluation of the Yuan has raised further concerns.

Overall imports stood at US$ 35.9 billion in July 2015, 10.3% lower than US$ 40.1 billion imports recorded in July 2014. Oil imports declined by 34.9% y-o-y in July 2015; while non-oil imports reported an increase of 3.8% y-o-y in the same month.

Way Ahead

The Government has indicated a clear long term vision for the country and several steps are being taken in that direction.

Latest assessments by various multi-lateral agencies reiterate the promise that India holds. World Bank's in its latest Global Economic Prospects released in June 2015 projects India's GDP growth to surpass China's and forecasts India to become the fastest growing country in the world in 2015.

However, the report also states that this would hinge on the 'steady progress on reforms'. Thus, while we may be assured of improved numbers this fiscal year, sustaining them would require a more concerted effort.

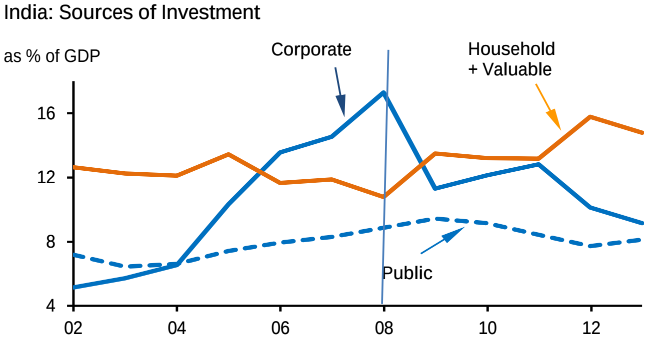
Is India's much-awaited capex cycle finally lifting?

In the short matter of 8 quarters, India has gone from being the poster-child of emerging market vulnerability during the taper-tantrum of 2013 to a beacon of macroeconomic stability in the run-up to the Fed lift-off in 2015. This is manifested most visibly in the fact that the Indian Rupee – after being in a free fall in 2013 – has consistently been among the best performing currencies over the last two years, despite the fact that the RBI has (appropriately) intervened heavily to prevent further appreciation.

But even as stability has returned, growth has not followed suit. The new GDP series suggests a rollicking economy but, as has been widely discussed, the new GDP data just does not sync with the reality on the ground over the last few quarters. Instead, until recently, a variety of high-frequency indicators – corporate earnings, industrial production, imports, tax collections – have reflected growth's soft underbelly over the last two years.

Of particular concern and lament is the lack of investment growth in recent years. Pre-crisis, fixed capital formation grew at a whopping 14% a year for 5 years. In particular, (productive) corporate investment rose from 5% of GDP in 2002 to 18% of GDP by 2008 (see chart). These dynamics were critical to boosting total factor productivity, creating much-needed capacities to keep inflation contained, and giving exports a much-needed fillip. No wonder then, that GDP growth averaged 9% and core inflation less than 5% in the mid-2000s. In short, it was the fact that growth was driven by investment that made it non-inflationary and therefore sustainable in the mid-2000s.

Chart 1: Sources of Investment



In contrast, investment has largely dried up over the last three-years, averaging a paltry 1.6% annually, and post-crisis growth has largely been driven by consumption. However, this was never going to be a sustainable mix. Either inflation was poised to surge or the current account was destined to become unsustainable. As it turned out, both fears manifested between 2011 and 2013.

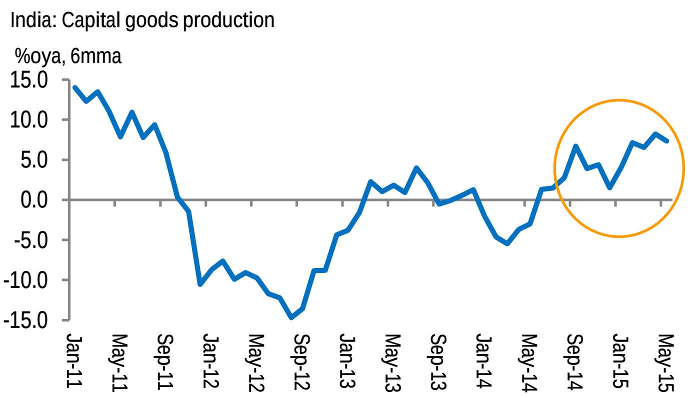
Core inflation averaged 9% post-crisis even as growth slowed markedly, and the current account deficit surged to 5% of GDP before policymakers had to jam on the brakes, which expectedly slowed growth further. All told, the experience of the last decade has taught us that the quality of growth matters every bit as much as the quantity.

And this is where some goods news is finally emerging. After three years of dormancy, there are early signs that something is stirring on the capex cycle led by infrastructure investment. What is the evidence to support this, one could justifiably ask?

- Capital goods production has increased smartly within the IIP and is averaging above 7% (in real terms) over the last six months, a consistency and level not seen since the middle of 2011.
- Admittedly, given that the IIP is notoriously volatile, the risk of over-interpreting a few data points is high. Therefore, to distinguish whether this is signal or noise we looked at the sales of capital goods companies in the BSE 100. We find that sales in real terms are averaging 10-11% over the last two quarters, adding credence to the cap-goods production lift.
- Third, lending to infrastructure is picking up. Given the dramatic fall in inflation over the last year, it is very important to distinguish between nominal and real variables. In real terms, credit off-take to infrastructure grew at over 7% over the last three months, compared to 5% all of last year
- Fourth, the momentum of commercial vehicle sales has ticked up smartly over the last few months.

- And finally, orders books in the road-sector are thickening, with the National Highway Authority of India's (NHAI) order book increasing by nearly 13% and Larsen & Toubro's (the best proxy for infrastructure in India) increasing by a whopping 28%.

Chart 2: Capital Goods Production



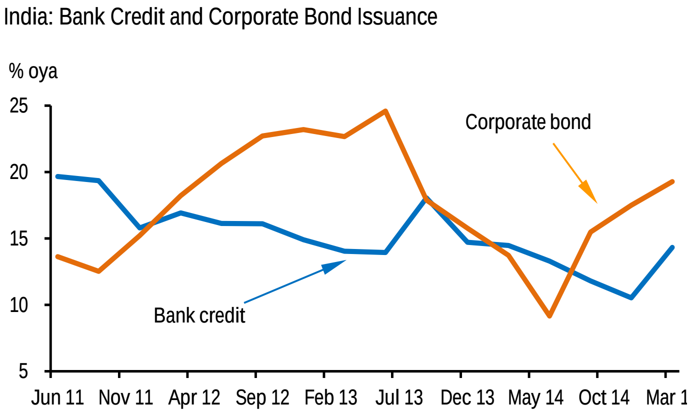
So something is clearly stirring on the ground. But the question is how will this be financed as the cycle picks up?

Given the level of impaired assets and capital constraints, public sector banks are understandably averse to cutting rates and growing their asset books, thereby impeding monetary transmission. So broader credit growth remains anemic, and is often cited as a symptom of weak growth. But we believe credit is going to be a lagging, not leading, indicator of growth in this cycle.

Instead, the early part of the capex cycle is likely to be financed by non-bank sources that have experienced far greater monetary transmission. Take the case of corporate bonds: yields have fallen by 75 bps since last September and, between April and December last year, corporate bonds accounted for nearly a quarter of all flows to the corporate sector compared to an average of 15% in years past.

In fact, during that time, corporate bonds and FDI together accounted for about 43% of corporate funding, even higher than bank credit! So non-bank sources are likely to dominate in the early part of the cycle.

Chart 3:Bank Credit and Corporate Bond Issuance



Complementing this is the fact that in the transportation sector, most capex is likely to happen on the back of government-funded cash contracts ("the EPC" model) from higher budgetary allocations instead of the erstwhile BOT ("Build-Operate-Transfer") model, complemented by other more innovative models such as the "hybrid-annuity-model" (HAM) in the roads sector. In short, the public sector will be playing a more important role – at least in the initial stages – of funding investment in the transportation sector, partially offsetting balance-sheet stresses in the private sector.

So what's changed? What's driving this pick-up? A confluence of three factors, in our view.

First, implementation bottlenecks on the ground (coal, environmental clearances) -- which were long a binding constraint – are gradually being alleviated. This is best proxied in the fact that, after peaking at the end of 2013, stalled projects —as a fraction of projects that got started – have gradually declined for six consecutive quarters.

Second, a front-loading of government capex spending – which averaged 138% in the three months leading up to May. The government's intention appears clear – to bunch up capital spending early in the year to help catalyze private capex. Finally, monetary conditions have eased in recent months on the back of rate cuts and some real depreciation of the currency in April and May. We believe all three factors have conspired to drive some lift.

Remember, however, that this will not mimic a typical capex cycle of the past – it is likely to be more narrowly driven by public investment to start with, and financed initially by non-bank sources. So don't expect to see much buoyancy in the typical high-frequency indicators – credit growth, cement, steel – to start with.

But even as hopes are rising, it's important to be realistic. For now, any capex lift is expected to be modest given prevailing headwinds. Government capex expenditures have been strong over the last few months, but this is more a front-loading of capex than a sign that the space available is meaningfully larger than believed a few months ago.

Fiscal constraints are still likely to bind and the space for increasing the overall envelope of capital expenditures in FY16 is still limited.

So private sector financing will eventually need to kick-in and, even as firms are able to tap non-bank sources of financing for now, banks' risk aversion linked to their capital constraints will eventually become a binding constraint as the cycle becomes more broad-based.

Second, while implementation bottlenecks are easing, land acquisition remains an impediment for many infrastructure projects, with prospects of near-term reform reducing. Finally, even as roads, power, railways and defense sectors are likely to get a boost, investment in commodity-intensive sectors is likely to remain weak amidst depressed global commodity markets and excess global capacity. But these headwinds have long been known. For now, let's just heave a sigh of relief that the much-awaited capex cycle – albeit different in nature from past cycles – may finally be shaking off some of its slumber.

This article is written by Dr. Sajjid. Z. Chinoy, Chief India Economist, J.P. Morgan for FICCI's Economy Watch newsletter. A slightly-modified version of this article appeared in the Business Standard on July 6, 2015.

FICCI

Indian Banks' Association

FIBAC 2015

'Inclusive Growth with Disruptive Innovations'

Date: 24^{th}-25^{th} August, 2015

Venue: Hotel Trident, Nariman Point, Mumbai, India

Inaugural Address by

Dr. Raghuram Rajan
Governor, Reserve Bank of India

About the Conference

Federation of Indian Chambers of Commerce and Industry (FICCI) and Indian Banks' Association (IBA) are back with the fourteenth edition of FIBAC, viz. FIBAC 2015 on 24^{th}-25^{th} August, 2015 at Hotel Trident, Nariman Point, Mumbai. The theme for this year's conference is 'Inclusive Growth with Disruptive Innovations'.

Banking industry in India is poised for several changes which include the entry of new banks in the form of payment banks and small banks; rapid developments in mobile banking and digital technology for furthering financial inclusion, among others. These positive developments across various dimensions will make the banking sector growth much stronger, deeper and more inclusive, which is also the primary theme of the conference.

This year's forum will deliberate on most exciting innovations and developments in banking technology and digital world and how these can be leveraged to promote India's ambitious inclusive growth agenda.

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- Executives of the Banking and Financial Services Sector
- CEOs and CFOs of Corporate Sector
- International Banking and Financial Services Companies foraying into India
- Private Equity and Venture Capitalists
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Inside, outside

The Economic Survey said that India has reached a sweet spot. It could finally be launched on a double-digit medium-term growth trajectory. It also stated that "in the short run, growth would receive a boost from lower oil prices". India has benefited greatly from the recent changes in the global economic environment. Further, this is the major reason for the transformation of India's external position and the dramatic decline in inflation. But this is only one side of the story. The other negative side effect of the external environment is the prolonged U-shaped bottom in the index of industrial production for manufacturing and the fluctuating fortunes of the corporate sector.

The collapse of the prices of oil, related refined products as well as manufactured items based on them has had a positive effect on the current account deficit (CAD), inflation and the fiscal deficit. But the same global fundamentals that led to the collapse of commodity prices have had a deleterious effect on the world and Indian economies since 2008.

The story starts with the world-trade and GDP-growth boom of the 2000s. This boom, almost a bubble in some respects, went bust because of the global financial crisis, which left in its wake large excess capacities in the tradable sectors of the world economy. World GDP growth, which averaged 3.1-3.2 per cent during the 10-15 years ending 2008, collapsed to 2 per cent for the following seven years.

The nature of the bubble is better captured by the growth of world imports, which accelerated from an average of 5.8 per cent per year in 1999-2003 to 7.8 per cent in 2004-08 and then collapsed to 3 per cent during 2009-13. World gross fixed capital formation (GFCF) grew at an average 5.4 per cent during 2003-07, more than double the 2.5 per cent of the previous five years. As in most recessions in the West, the globalised corporate sector tightened its belt and improved efficiency, preserving, and in some countries even increasing, profitability.

The corrective worldwide fiscal stimulus and monetary easing that followed led to a quick recovery in the developing economies. But it had some effects that weren't necessarily beneficial for all countries because of the short-term focus and mistiming of policies. Many developed countries switched from a relaxed fiscal policy to a contractionary one in 2010, instead of correcting the weak demand-excess capacity problem in tradable goods and services. This put an extra burden on developed-country central banks at a time when monetary policy was already constrained by near-zero interest rates. The commodity boom/ bubble revived quickly after the temporary collapse at the end of 2008 and continued for several years, even after the slowdown in world GDP and trade growth. It was finally pricked in 2014 after a credible announcement of an end to the US Fed's quantitative easing (QE) programme.

Some large emerging economies compounded the global excess-capacity problem by continued investments through large, risky injections of policy-directed credit or expansionary fiscal policy. For instance, the rate of growth of China's GFCF declined only marginally from 13.4 per cent per year during 2002-07 to 12 per cent between 2008-13, while overall world GFCF collapsed from 4.6 to 1.8 per cent. Consequently, the excess capacity in tradable goods and services did not reduce and, in fact, worsened for some products. This low demand and excess capacity meant fewer or no opportunities for private capital in developed countries, driving it into commodity markets.

The negative effects of the global demand deficit and excess capacity have affected different countries to different degrees. The export-oriented economies of China, East and Southeast Asia have been most severely affected. India, an export-neutral economy, has been impacted less. But India is a dual economy and a substantial part of its corporate sector is globalised. A sub-index for this globalised sector, derived from the IIP for manufacturing, was in the last quarter of 2014 still below the level it was at in the first quarter of 2011.

Its average growth rate during the last four years was minus 0.3 per cent, compared with 3.1 per cent for the non-globalised IIP sub-index and 6.7 per cent for the IIP for electricity. Part of the corporate sector and most of the non-corporate economy remains relatively isolated from global cross currents, as suggested by the robust growth of electricity supply. The vehicle sector, which is somewhat shielded from global pressures, shows signs of sustained recovery, despite the negative effect of rising real interest rates during 2014-15. The recovery of growth of private consumption (5.2, 6.2, 7.1 per cent), GFCF (minus 0.3, 3, 4.1 per cent) and GDP (5.1, 6.9, 7.1 per cent) in 2012-13, 2013-14 and 2014-15 is, therefore, consistent with the dual nature of the Indian economy.

One implication of the negative effect of the external environment on the corporate sector is the slower recovery in tax revenues. The corporate sector contributes tax revenues, not just directly as corporate income tax, but also through the income taxes paid by its employees and excise taxes. This negative revenue effect of the external recession has offset some of the positive effects of the reduction in oil-related subsidies on the fiscal deficit.

The external environment has, therefore, had both a positive and negative effect on the Indian economy. The negative effects of the global recession were felt immediately but were masked by the temporary bubble created in India in 2010-11 through directed credit to PPP infrastructure contractors.

These negative effects were felt again after the pricking of the local Indian bubble. The positive effects of the recession on commodity prices were delayed because of the global monetary expansion but started to be felt in 2013-14, with the prospective end of the Fed's QE. Further, the negative effects on the globalised sector have been magnified whenever the rupee appreciated in real effective exchange rate (REER) terms. Between September 2013 and April 2015, the REER appreciated by 11.4 per cent.

On balance, the effect of external factors on the Indian economy in 2014-15 has been positive on the current account, mildly positive on the fiscal account and negative on corporate growth.

The net overall effect is positive, but not as large as most analysts have assumed.

The article is written by Dr. Arvind Virmani, Mentor to FICCI (Economic and Public Policy). It was published in The Indian Express on 6th June 2015.

Private investments need a big push

One year is too short a time to judge the performance of the government given the magnitude of problems the country faces. While the seeds of development have been sown, it will take time to bear fruit. Some green shoots have become visible, such as higher GDP growth of 7.4 per cent, lower inflation, lower fiscal and current account deficit, and surging foreign investment inflows, though industrial growth is yet to take off in the desired manner.

The government remains committed to its goals, clearly visible from the pace of executive and legislative actions being taken. Key economic bills encompassing much-needed reforms have been introduced and many of these have been cleared. The amendments to the Coal and the Mines & Minerals Act herald a new era of competition, efficiency and transparency in allocation of natural resources. The proceeds of e-auctions of coal blocks will be shared with State governments, thus promoting co-operative federalism in true spirit.

At home

The government has laid a strong impetus on infrastructure development in the Railway and Union Budget. Public spend of ₹70,000 crore in infrastructure and policy measures like plug and play approach along with tax benefits to INViTs will help accelerate economic growth. The decision to open FDI in Railways infrastructure is commendable.

There is equal emphasis on other sectors including agriculture, manufacturing and services. 'Make in India', 'Smart Cities', 'Skill India', and 'Digital India' have the potential to transform India. All these programmes are aligned to the larger objective of creating opportunities for employment and growth. At the same time, the government is making efforts to create a conducive, competitive and non-adversarial tax and policy regime to build trust and confidence among investors.

Indians are entrepreneurial by nature; they just need a conducive environment, a rational tax regime and capital at reasonable cost.

The government has taken several steps to facilitate larger employment and self-employment opportunities. It has made a serious attempt to address the issues and challenges faced by the MSMEs, which significantly contribute to large-scale job creation. Steps towards establishing the Mudra Bank, an electronic trade receivables discounting system, the bankruptcy code and pre-existing regulatory mechanism are some key measures that should ease the regulatory hurdles and financing constraints faced by MSMEs.

While placing emphasis on the growth and development oriented policies, the government has also adopted an inclusive approach. The launch of the Jan Dhan Yojana is a giant leap towards financial inclusion. The government intends to use this as a platform for carrying out socio-development activities such as transfer of subsidies and the roll-out of newly introduced social security benefits of insurance and pension for all citizens.

And abroad

The government has done remarkably well in terms of foreign policy and international diplomacy. Modi has been a goodwill ambassador for India's tourism, promoting India's rich culture and heritage and encouraging pravasi bhartiya as well as foreigners to visit India.

In all his international visits, the Prime Minister has given priority to the economic interest of our country, promoting mega domestic plans to attract greater foreign investment inflows. Japan and China have together committed to invest $55 billion in India in the next five years. South Korea has offered $10 billion for infrastructure projects, including Smart Cities and Railways. India has made significant progress in its relationship with the SAARC countries, especially through goodwill gestures like the invitation to the Prime Minister's swearing-in ceremony, rescue and relief efforts in Nepal, and making efforts to resolve disputes and enhance economic cooperation in the region.

Some other notable achievements include winning the presidency of BRICS Bank, settlement of the civil nuclear deal with the US, the development of 3 smart cities with US support, getting Australia and Canada to supply uranium for India's nuclear energy needs, the defence deal with France involving the purchase of Rafael jets, and the support of Germany in India's renewable energy plans. While the government has laid a strong foundation for sustainable growth by laying out a sound roadmap, implementing the same in true spirit remains the key challenge.

Private investments need a further push to gain momentum, which can be achieved through timely implementation of GST, clearance of land related hurdles, absolute clarity in tax policies, reduction in interest rates and stimulating consumer demand. We are hopeful the government will focus on accomplishing the work-in-progress agenda through continuous policy action and reforms.

The article is written by Dr. Jyotsna Suri, President, FICCI. It was published in The Hindu Business Line on 27th May 2015.

It never rains but it pours

It is probably the fifth time in 15 years (and the second in two) that India has been kept guessing about weather deviations and the consequent effects on the poorer sections of society and the economy in general; a reported 60 per cent of Indian farming has to "just rely on good monsoons".

We have no control over the weather but we can attempt to mitigate its ill effects by clever planning, skilful decision making and — above all — by bringing about structural changes which can mitigate dependence of a large populace on the whims of the weather god. Fire-fighting strategies are good for the short run; we need to fortify for the long run. This will call as much for political determination as for sound decisions.

By its very nature, Indian public policy tends to be reactive (especially to a crisis) rather than pro-active. Rural distress triggers policy or political interventions with overdue attention on debating the social-crisis philosophy, instead of the solutions that are needed.

Agriculture needs policy

Agriculture is India's largest private sector enterprise but has been effectively neglected at policy levels due to its limited and diminishing share in an otherwise growing GDP. Detailed ideas on restoring true viability in agriculture cannot be captured in the space here, but the core point is that agriculture needs a sound policy environment, predictable yet dynamic, just as industry and services do. If handouts and subsidies become the only way to keep agriculture afloat, the nation will stand weakened.

Deficient rainfall is not a drought. Yet, sufficient average rainfall is no guarantee of success, as both over- and under-supply damage output. Even though major cereal-producing States have irrigation backup, they are also dependent on groundwater replenishment, meaning they can weather one poor monsoon but not many. The real problems occur in the area of perishables (fruits, vegetables) or pulses and these shortages have a direct impact on inflation.

Besides causing hardships to citizens, inflationary trends affect the real economy via monetary and interest rate policies, etc. The biggest unquantified impact arises from the topic of inflation occupying the political mind-space, restricting discourse on development agendas before the government of the day.

In 2014, FICCI's national economic agenda (an aspirational document) spoke of the need to contain food inflation as one of the overriding priorities. Fruits and vegetables were identified as a key area of concern, both from an output point of view, and that of post-harvest preservation and distribution (calling for robust infrastructure). A proactive coordination framework called the Food Inflation Response and Strategy Team (FIRST) and controlled at the highest executive levels was suggested, designed to leverage real-time information to help moderate inflation via better distribution, procurement or management of stocks. Seeking global cooperation to grow fruits and vegetables in an arid countryside is also a real option.

Addressing the basics

Procurement price-led inflation was a real issue in the previous few years and in many ways this exemplifies the attempt to replace true farm viability with State benevolence. Moderation in this area, to address both inflation and fiscal concerns, obviously hits the economy by squeezing rural surplus. But we spend much time addressing collateral damage (for example, fall in rural demand, farmer distress) rather than the underlying causes (minimum economic sizes of farms, seed and soil health, productivity in farming practices, irrigation, distribution) for support prices becoming so crucial to maintain viability.

At the end of the day, mitigating the effects of climate on an economy is as much about making sure that people are employed steadily and non-seasonally to generate enduring incomes, as it is about ensuring that the country does not run short of food or face spiralling inflation. Logically, non-farm employment creation can play a key role in ring-fencing rural distress from climatic anomalies.

One report from McKinsey also points out that the most striking benefit to developing economies arose from the creation of close to 900 million non-farm jobs, many in low-to-medium skill areas. China alone added about 120 million non-farm jobs in manufacturing and services out of which 80 million were reported to be filled by people shifting out of low productivity (and income) agriculture. Vietnam witnessed a farm-to-factory evolution bringing down agri-employment from 66 per cent in 2000 to 50 per cent in 2010.

Huge challenge

Herein lies the challenge of stupendous magnitude. While India also created about 67 million non-farm jobs in 2000-2010, this just about kept pace with growth in the workforce and did not allow people to move upward from agriculture into better opportunities In the future, there are likely to be increased imbalances between high-skill and low-skill workers, with shortages at the higher end and a surplus at the lower.

For India, this implies the possibility of huge numbers with lower-end skills remaining trapped in subsistence agriculture or in urban poverty, as well as a risk of this imbalance pushing deeper inequality divides in society over time.

In India, the drive to develop respectable proportions of high-skill workers must be accompanied by a hitherto unparalleled thrust (including under social spending schemes) on construction and infrastructure to absorb people at low-skill levels. Expansion of labour-intensive manufacturing, adding industry which moves up the agricultural value chain (food-processing), and the like will all help the workforce move up the economic ladder and improve the resilience of the economy to shocks; but these will still take a lot of time to deliver results.

When rain, hailstorms and days of excess heat fade into the background, that is the time to really hit the drawing boards to evolve structural solutions taking into collective account (i) true economics and the viability of farming, (ii) the balancing aspirations of families involved in agriculture (particularly the youth) with alternative and better employment opportunities, and (iii) prudently and effectively channelling government spends in the rural sector (for example, support schemes like MGNREGA, support prices and stocking levels, etc). ‘Business as usual’ solutions are likely to be woefully insufficient; only fundamental reform will ring-fence our economy and farmers from the vagaries of the seasons.

The article is written by Mr. Sidharth Birla, Past President, FICCI. It was published in The Hindu Business Line on 22nd June 2015.

What's the sweet spot in policymaking?

National, sector-agnostic competitiveness is central to India's growth and creation of livelihoods on the back of that growth. To cover lost ground we must evolve solutions to fragmented approaches of the past, which obstructed India from being an industrial powerhouse, and keep us exposed to significant threats even in our home market, especially from imports. I expand here on my thoughts written a while ago (without being critical as is becoming trendy) but to constructively articulate a thought process.

Ease of doing business is occupying significant mind-space, but the real challenge is to go beyond mere simplification of procedures. We need a strong link running through relevant areas, binding policy formulation and implementation. Without this we continue to have many areas where actions end up contradicting intentions in another area. Recent months have seen positive actions to improve ease of doing business but regrettably, actions and formulations happening in compartments frustrate the competitive ability of doing business.

Unless a sweet spot profitably bonds both zones, dreams of growth and accompanying livelihoods — be it employment or self-employment — will remain just that: dreams.

It is clear from stressed financial results even in a depressed and deflationary domestic market, and from contracting exports, that our global competitiveness has fallen. We must think outside the box to advance our potency. Put simply, no enterprise — be it foreign, domestic or even a mom-and-pop venture — flourishes in an environment which does not exhibit "competitive, cost-effective, or profit-friendly" habits, irrespective of how easy it may be to conduct business. Achieving this requires a much-changed mindset across government, business and society.

Missing components

'Make in India' is described on its website as "a major new national programme, designed to facilitate investment, foster innovation, enhance skill development, protect intellectual property and build best-in-class manufacturing infrastructure".

This initiative is consistent with a belief that a coveted global position in manufacturing is achievable. But to my surprise these aspirations do not spell out any need to enhance our competitive and productive strengths, or to build scale or to join in the global supply chain. Such vital considerations must become an integral part of the vision.

Cost of capital has been often seen as a serious impediment to our being truly competitive. The reality is that our interest rates are steered by inflation, which in turn is more driven by supply-side and sometimes distribution issues.

A surprising reality check is that commerce and industry display flawed happiness in seeing miniscule cuts, sometimes as low as 25 basis points (sometimes not fully passed on).

A true zero-base budgeting based on the premise of competing with the world actually calls for structural changes in the way our cost of capital (interest rate and maturity) gets built up. There are no easy answers, since all this can impact international flows and currency rates. But the fact remains that we need a quantum shift to effectively support infrastructural and manufacturing effectiveness.

Tax matters matter

We speak time and again of improvements in tax laws and practices; but, as any businessman will confirm, frequent changes in direct (and even more so, in indirect) tax matters leave much to be desired. Laws tend to be punitive rather than promote hygiene, and a corresponding power is handed to inspectorates. Sooner rather than later such steps could destroy confidence.

We do not really debate a systemic solution to the root of the problems in indirect taxation but try to address it through frequent notifications, which is counterproductive. We would probably do better to base decisions on long-term competitive benchmarks and make up our minds on what "embedded taxation" can a product bear and still be competitive.

Even a comprehensive GST with a sound architecture and enforcement may not yield expected results if, at the end of the day, indirect taxation continues to be repeatedly tweaked.

A huge part of the GDP and growth of many developing economies is directly or indirectly based on proper exploitation of natural resources (for example, ores to metal, limestone to cement) to add maximum value via manufacturing and processing.

There will always be a dichotomy in pricing of resources to maximise revenue to Union and State exchequers. Sometimes maximisation takes the form of multiple levies and barriers, which in difficult markets can only render Indian produce uncompetitive. An analysis of underlying costs in competing countries supplying many of our commodity imports will throw up startling results vis-à-vis our own effective costs.

Such analysis can go on, but we need to move to solutions. The government has been publicising key advances in the ease of doing business through simplification of procedures, transparency and in effect trying to rely on a larger "trust" factor between enterprises and government. This is happening at both Union and State levels, and is welcome.

But these efforts remain incomplete because improvements on procedural fronts cannot deliver results without changes on the "substantive" front. The latter needs to be delivered at a much faster pace.

Focus on detail

A comprehensive study seems to have begun on the effect of FTAs on our manufacturing sector and one looks forward to a good outcome. I believe much work needs to be triggered on tax (direct, indirect and administration), on customs duties, and on import/export regulations where a number of changes take place every year, and changes in labour/factories laws and sector-related regulations.

The manner (not merits) of a recent food-related controversy shows that India holds enormous risk of regulatory confrontation that the country is ill prepared to resolve speedily. No amount of ease compensates for such systemic weakness.

The time-honoured idiom, "God is in the detail", expresses the idea that whatever one does should be done thoroughly; meaning, details are important. Its thwarting counterpart, which seems to play a larger role, could be, "Devil is in the detail". Let's carve out a sweet spot that embraces and bridges both ease and competitiveness.

The article is written by Mr. Sidharth Birla, Past President, FICCI. It was published in The Hindu Business Line on 28th July 2015.

It's time for South Korea

South Korea may be known as 'The Land of Morning Calm', however, the serene beauty of its landscape camouflages a bustling economy and a high level of entrepreneurial energy and industrial activity, which has powered the nation into a 'tiger economy'.

South Korea's open market policies, technological advancement and innovation find resonance in India's pursuit of vigorous economic reforms, industrialisation, and a proactive 'Act East' policy, which makes Korea an important partner. There are positive vibes on both sides with Modi and President Park Geun-Hye sharing a commitment on further deepening and expanding bilateral relations.

Anticipating change

India is undergoing a transformation reflected in reforms to unify the country into a single market through a Goods and Services Tax, expedite decision-making and clearances, cut red tape, relax labour laws and liberalise foreign investment norms in critical sectors of the economy such as defence, railways, insurance and construction. The three 'Ds' that India flaunts — democracy, demography and demand — offer a win-win proposition for those who are eyeing Indian shores.

These dynamics should fit in well with Korea's changing landscape empowered by Park Geun-hye's vision to expand the welfare state, raise the potential growth rate of Korean exports, and create jobs for young graduates. Data collected by the Organisation for Economic Cooperation and Development (OECD) shows that the Korean economy is entering an expansionary phase, which would require collaboration with countries like India.

The Comprehensive Economic Partnership Agreement has helped India and Korea register growth in bilateral trade to the tune of about $17 billion. Korean conglomerates have invested more than $1.5 billion in state-of-art facilities in India; Indian companies have used the acquisitions route to establish their presence in Korea with investments worth $3 billion. Korean brands, including Hyundai, LG and Samsung, have taken a firm grip on the Indian consumers' mindset, especially the youth.

Pushing for more

Clearly, there is scope for much more, especially at a time when the Indian economy is registering a growth of 7 per cent with the clear objective of attaining much higher levels over the next few years. Given Korea's worldwide investment which is estimated to be about $270 billion, there is tremendous potential waiting to be tapped.

Take manufacturing. 'Make in India' offers the opportunity to choose from 25 key sectors to set up manufacturing bases in India and use the benefit of an increasingly enabling ecosystem. Korean investments can be instrumental in making India a strong export hub and generate some of the one million jobs that India needs to create every month.

Given India's huge energy requirements, there is tremendous scope to collaborate with South Korea in areas such as technology transfer relating to super-critical boilers and clean coal technologies, nuclear energy and joint development of LNG ships with established players in South Korea.

India's other priority is infrastructure. The government has already rolled out a plan of developing 100 smart cities which will require the latest technologies for provision of various social amenities and services. Mega plans in India include creating a network of new industrial corridors. To develop a high-speed rail network in India, 100 per cent FDI has been allowed in certain segments of the railway sector.

Korea can play a crucial role in building world class infrastructure, which can be a game changer in India's growth story even as it helps South Korea buffer its own growth.

Further, there are opportunities for Indo-Korean partnerships like manufacturing of medical equipment in India on a joint venture basis, collaboration amongst hospitals for exchange of best practices, promotion of medical travel and exchange programmes between medical educational institutions.

The 'Digital India' programme puts India on track to enhance digital connectivity for delivery of government services to its citizens. This will mean a higher spend on technology, including internet services, software, data centres, devices and telecom services by local and national governments. This should lure Korean businesses.

People connect

Engagement between nations is led by a people-to-people connect and in this context tourism assumes great significance.

Since ancient times, Buddhism has been an unbroken link between our two peoples.

The rich cultural heritage of Buddhism in India housed in Bodh Gaya and other places of Buddhist interest open up an enormous potential in tourism.

Our friends from South Korea have also been visiting India for ayurvedic treatment even as they enjoy golf at some of the most scenic locations. Indians too have shown deep interest in exploring the rich cultural heritage of South Korea. We must build on these possibilities.

The India-Korea strategic partnership has emerged as a natural corollary of shared values, common interests and ambition to scale higher peaks of growth and development.

It is encouraging that the Korean government has indicated it is time to think 'big' and take 'bold' initiatives to boost bilateral ties. Both countries need to nurture the convergence of interests to sustain this important relationship.

The article is written by Dr. Jyotsna Suri, President, FICCI. It was published in The Hindu Business Line on 18th May 2015.

Consensus, not discord, to drive BRICS

The recent BRICS Summit in Ufa, Russia talked of economic cooperation between the member nations. Onkar Kanwar, Past President, FICCI and Chairman of the Indian chapter of the BRICS Business Council in an interview with the Business Standard shares that the chapter has finalised areas of cooperation with other member countries, and allays fears that China might hijack the agenda of the grouping.

Q. Has the BRICS Business Council, India identified areas of interests in terms of sectors and products that could be traded with each of these countries?

We have identified areas and sectors where we aim to promote cooperation in India and outside with businesses from other BRICS nations. Also, we have developed areas where we can ramp up exports to each of the BRICS countries. In terms of cooperation, with regard to China, we see a lot of interest in partnerships in sectors like infrastructure and railways. We are keen on developing synergies in areas like defence, aviation, pharmaceuticals and advanced manufacturing with Russia. With Brazil, there is a lot of interest in agro-processing and renewables. Mining and metals have emerged as priority areas for South Africa. These are indicative and not exhaustive. Federation of Indian Chambers of Commerce and Industry (Ficci), which provides the technical secretariat for the BRICS Business Council in India, is actively engaged with companies having business interests in BRICS markets. A series of engagements are also planned in future.

Q. The combined output of BRICS is equivalent to that of the US. Does it not make sense to have a kind of economic integration in BRICS as ASEAN has or the future TPP or RCEP will have?

The economic weight of BRICS countries at the global level is increasing. Today, they account for nearly 20 per cent of global gross domestic product (GDP), 18 per cent of the global trade and nearly 21 per cent of the global foreign direct investment (FDI) inflows. However, our economic engagement level is below potential. Intra-BRICS trade and investment flows do not reflect the potential on offer.

The need for greater market and economic integration is obvious. At the recently concluded BRICS Summit at Ufa, Russia, our governments have agreed on 'The Strategy for BRICS Economic Partnership' which provides for initiatives that would boost trade, financial integration and infrastructure connectivity among the BRICS countries.

Q. China, whose economy is double that of the other four nations, dominates BRICS. Do you think it will hijack the economic interests of the grouping?

Certainly not. Even as the economic size of member states of the BRICS grouping varies, this partnership is unique in the sense that we work as equals and give due consideration to the proposals and priorities of all constituents. For example, in the BRICS Business Council, we work on consensus and all suggestions and recommendations must have the approval of all the Chairs. We have already submitted two annual reports to our respective governments and our partnership is a good example of how collaborative work can yield benefits for all.

Q. The Modi government has embarked on Make in India. China is already a manufacturing powerhouse. Will it allow India to become one?

Each of the BRICS countries has tremendous strength in different areas. Brazil is an agricultural powerhouse with strengths in commodities. South Africa is home to huge mineral reserves. India has strengths in the service sector and is fast emerging as knowledge-led economy. Russia holds one of the largest reserves of oil and gas in the world. With such diverse strength areas of strength, we can support each other and take part in each other's growth and development.

The Make in India programme is an opportunity for all other countries to come and partake in India's growth story. We are actively seeking export-oriented FDI, which is appreciated by the other constituents. Several Chinese companies have visited India to evaluate manufacturing opportunities after reading about it in the BRICS portal.

Q. Don't you think US$100 billion planned by BRICS as a pool to help the countries tide over dollar liquidity crunch is too small an amount, in case another global financial crisis hits?

The BRICS Contingent Reserve Arrangement (CRA) is a landmark initiative as it proposes to provide short-term liquidity support to the members to help mitigate any exigencies that may arise on the external/balance of payments front. The BRICS CRA is expected to serve the interests of our economies as it will boost access to additional foreign exchange reserves, provide mutual support and further strengthen financial stability. It would also contribute to strengthening the global financial safety net and complement existing international arrangements (from IMF) as an additional line of defence.

Given that it is an important supplementary resource pool, I think the initial amount proposed is good.

Q. Will the two banks promoted by BRICS force World Bank and IMF to give greater say to emerging economies, which US is consistently blocking?

One of the major agenda items of the grouping is to reform the global governance architecture which is yet to reflect the changing global picture where emerging economies are playing a larger role. BRICS countries would like the decision-making process at multi-lateral institutions such as the World Bank and IMF to reflect this. Whether the establishment of the New Development Bank (NDB) will hasten this process of change is something only time will tell.

This interview of Mr. Onkar Kanwar, Past President, FICCI was published in Business Standard on 27th July 2015.

Asia Pacific Economic Cooperation – A Case for India's Participation

The Asia-Pacific Economic Cooperation (APEC) forum is a premier regional forum promoting trade, investment and other linkages among economies of the Asia-Pacific region. India is not a member of APEC but has close political, economic and strategic ties with many of its economies.

APEC is credited with many successes. The APEC Business Travel Card that enables accredited business persons (the number of APEC card holders exceed 166,000) to enter all APEC economies virtually visa free has become very popular. The implementation of APEC Trade Facilitation Action Plan (TFAP-I) from 2002-2006 resulted in reducing transaction costs by at least 5 per cent that was followed by TFAP-II from 2007-2010 with another similar 5 per cent reduction. APEC is building on this further by targeting a 10 per cent improvement in supply chain performance by 2015. Likewise is the action programme launched for bringing about a 25 per cent improvement in the Ease of Doing Business by 2015. APEC has progressively transformed itself into a process by which a steady stream of realistic but ambitious targets are sought to be achieved.

There are several benefits that can flow from India becoming part of the APEC process and integrating more with the dynamic Asia-Pacific region. Participation in its numerous trade and investment facilitation initiatives could bring benefits. Many APEC members have significantly improved in recent years their ranking on 'Ease of Doing Business' and in the Logistic Performance Index. The 'Make in India' campaign and making India an attractive business destination requires support from every quarter. India needs to get more involved in regional production and supply chain networks. Even as India's trade and economic links with the Asia-Pacific region presently are substantial with APEC economies accounting for 35 per cent of India's merchandise trade, 27 per cent of FDI inflows and 40 per cent of FDI outflows, these are still not commensurate with APEC's overall trade and investment profile and India's proximity to this region.

From a trade policy angle as well it will be strategically good for India to be part of APEC.

India is a participant in the Regional Comprehensive Economic Partnership (RCEP) negotiations, but is not involved in the Trans Pacific Partnership (TPP) initiative. Should APEC members move to establish the Free Trade Area of Asia Pacific (FTAAP), it cannot be ruled out that this initiative too could see India not being part of that process. India becoming part of APEC that has been the incubator of several regional initiatives will enhance India's options and will also strengthen India's capacity for exercising those options as and when decisions may be taken.

APEC began with its focus largely on liberalising trade and investment that continues till date. The Bogor Goals (announced in 1994) of freeing trade and investment by 2010 by developed APEC member economies and by 2020 on the part of developing APEC members were to be achieved through a voluntary process on an 'open liberalism' model and the roadmap for achieving these goals was laid out in 1995 in the Osaka Action Agenda (OAA) in fifteen areas covering trade and investment liberalisation and facilitation. These efforts are supported by economic and technical cooperation among member economies.

APEC has progressively moved from looking at not only measures at the border but also those inside the border (domestic measures affecting trade and investment) and across the border. APEC has also come to address a range of issues in reaction to evolving international developments.

Structural reforms, secure trade, climate change, dealing with pandemics and disaster preparedness are some of them. All these have resulted in creation of sectoral and functional networks, greater information exchange, identification of best practices/policy principles, mutual recognition arrangements, centres of excellence or other facilities, all of which seek to promote policy development in the respective areas and foster closer regional economic integration.

APEC's membership, which was 12 economies to begin with, steadily expanded to 21, but after 1998 there has been no further expansion.

However, the relative economic weight of APEC economies has grown, accounting now for over 43 per cent of world population, 57 per cent of world GDP and 47 per cent of world trade.

APEC's major annual event, that has largely been behind its prominence and effectiveness, has been the Leaders' Meeting that has been held every year since the Seattle Summit in 1993 with consistent highest level attendance.

The business sector in APEC economies have been very much part of the APEC process working mainly through the APEC Business Advisory Council (ABAC), which is an integral part of its consultative mechanism. APEC has three senior business people from each member economy and a Secretariat based in Manila. ABAC meets four times a year, participates in Senior Officials' Meetings (SOMs), ministerial meetings and various other expert level meetings and presents recommendations to APEC Leaders at the annual business dialogue held on the margins of the Summit.

APEC celebrated its 25th anniversary last year. At the meeting held in Beijing from 10 to 11 November 2014 the Leaders declared that in the quarter century APEC not only made significant contributions to the region's economic development, social progress and improvement of people's livelihoods, but also epitomised the great changes and rising strategic position of the Asia-Pacific. The Summit meeting held under China's Chairmanship also took several initiatives towards further advancing the Asia-Pacific partnership. Key among them was its endorsement of a roadmap for achieving a Free Trade Area of the Asia-Pacific (FTAPP). The Summit also launched a blueprint for the next ten year period 2015-25 on enhancing physical, institutional and people-to-people connectivity to reach a seamlessly and comprehensively connected and integrated Asia-Pacific. A third major outcome was the adoption of a blueprint on global value chain development.

The Philippines, Chair of APEC for 2015, has already announced the priorities for APEC during the year. President Aquino has proposed establishing a more inclusive economic environment across Asia-Pacific as the main focus.

APEC's work is to be taken forward under four main themes, viz. enhancing regional economic integration, fostering SMEs participating in the regional and global economy, strengthening human capital development, and building sustainable and inclusive communities including enhancing disaster preparedness.

India's non-inclusion in APEC has remained a void. It is a large emerging economy at the gateway to the Asia Pacific region exuding rapid growth and development. India is also a key maritime nation that has from time to time contributed to efforts aimed at maintaining regional maritime security and provided assistance when disasters have struck in this region. India's 'Act East' policy is also increasingly attending to infrastructure and connectivity needs in the neighbourhood.

While India's participation in the region's political and security architecture has come more easily, this has not been the case on the economic front. The Indian Prime Minister joining other economic Leaders of the region will be a plus for both India and APEC in terms of the value that India can bring to the table.

Recently the Research and Information System for Developing Countries (RIS) has published a report on 'India and APEC: An Appraisal' that has examined the case for India's membership in some detail. It has also analysed how India's policy environment and reforms compare with several of APEC's developing economies in a range of areas like tariffs, Non-tariff barriers, Services, Investment, Competition, IPRs and customs procedures.

The comparative study finds that in certain areas like services, government procurement and competition, India's progress is quite comparable to those of APEC developing economies. In relation to areas such as Trade Facilitation and Customs Procedures, Standards and Conformance and Ease of Doing Business there is clearly a need to step up. But, these are also areas where there is already a very keen interest to significantly scale up India's performance in a short period and improve ranking. APEC could provide synergies to India's efforts on these fronts.

On the other hand, for bringing down tariffs more time will be needed.

Again, for IPRs, while the enunciation of a new policy could further streamline India's efforts to protect, administer and enforce its IPRs regime, no major changes can possibly be expected that are seen to dilute public health interests or consumer welfare. Clearly, India joining APEC will have to be explored within these contours.

It must be mentioned that not all developing APEC economies are part of every APEC activity. Nor does APEC act as a caucus in WTO with unified positions. India should be able to find a suitable groove for itself even as it can exude a keen interest and be supportive of keeping up the momentum of Asia-Pacific regional integration. There are many potential gains that can accrue from India's membership of APEC even as managing some of the ensuing expectations and pressures will need deft handling.

If it is decided to move ahead with gaining membership of APEC, a well crafted effort will be necessary that also articulates well the limitations posed by domestic compulsions and the flexibilities needed. A persuasive case can, however, still be made regarding India's keen interest to work towards promoting Asia-Pacific integration.

The overall progress made by India and the various business facilitation and reform measures being introduced by the new government to significantly improve ease of doing business in India form a good basis for this purpose.

If the Indian economy also gets on to a higher growth trajectory soon, APEC will perhaps find it compelling enough.

The article is written by Ambassador V.S. Seshadri, Vice Chairman, Research and Information System for FICCI's Economy Watch.

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Understanding the Greek debt crisis

Greece is a small country accounting for just two percent of the GDP of the Euro zone. But the turmoil in the Greek economy has raised anxiety and fear at the global level. In this article, we attempt to understand the causes and implications of the Greek debt crisis.

Background to the Greek Crisis

Greece became the twelfth country to join the Euro zone just before the launch of the Euro in early 2002. For becoming a part of the Eurozone, the countries needed to demonstrate "economic convergence" with other members in order to ensure that the common currency would not get jeopardized. However, Greece (and a few more countries) lacked certain requirements. One of the key requirements was that the budget deficit should be less than 3% of GDP. However, Greece continued to show wrong figures for the same till early 2004 (1.5%). The new government which came into power in 2004 admitted that the actual figures were many times higher than the reported ones.

Hosting the 2004 Athens Olympics proved further damaging for Greece. The country spent almost 9 billion Euros on this event, and as a result its fiscal deficit touched 6.1% of GDP, more than double the Euro-zone limit, while debt reached 110.6% of GDP. Greece became the first EU country to be placed under fiscal monitoring by the European Commission in 2005.

In the aftermath of the Global Financial crisis in 2008, Greece was one of the European countries (others were Ireland and Spain) which suffered the most. With a large gap between the revenue collection and expenditure incurred, the problems of Greek economy became too big to be hidden anymore. The debt component kept rising. Greece was in dire need of financial help. The other Eurozone countries feared that Greece's default on its debts would lead to increase in their cost of borrowing to unsustainable levels which would lead to contagion, fearing which they succumbed to helping Greece.

In 2009, after the Greek government announced publicly that it had been understating its deficits, further doubts were raised about the soundness of the country's finances and its ability to pay off its debts. Credit rating of Greece was downgraded, first by Fitch and then by Moody's. Greece's debt to GDP ratio jumped to 146% in 2010 from 109% in 2008 after which the country was downgraded to junk bond status.

In May 2010, to stop the crisis from aggravating, the International Monetary Fund (IMF), the European Central Bank (ECB) and European Commission (EC) nicknamed the "troika" - arranged funds of 110 billion Euro to bail out the country. The bailout plan was attached with strict conditions of improvements in tax collection, privatization of various government assets and saving government money (for example, by laying off government workers) to improve efficiency and propel growth. But this led to rise in unemployment, and less disposable income which in turn affected other businesses, and further depressing of government tax revenues. Another bailout plan of 130 billion Euro was worked out in February 2012 along with a new and stricter austerity program. By this time, the international debt to these lenders rose to 135% of GDP.

These bailout packages were mostly utilized for paying earlier debts and hence did little in balancing the budget. The economic and financial situation, instead of improving, worsened further with unemployment rising to 25% and youth unemployment soaring to a whopping 50%. The austerity measures attached with the loans were highly detested in Greece and led to a premature election in December 2014 whose central issue was the austerity measures adopted by troika. The Syrizan party won the elections on the grounds of anti-austerity and declined to accept the terms of the agreement. This led to political uncertainty and a suspension of the remaining tranche of aid.
Later in June end this year, Greece missed the deadline for a 1.5 billion Euro repayment to the IMF, the first European Union country to do so.

The Greece banks started to run out of money and capital controls were introduced, limiting the amount of money people could withdraw each day to 60 Euros (before this, the banks had closed for almost 2 weeks).

Latest Bailout

The Greek government held a referendum on 5th of July 2015 in which the Greeks voted against anymore austerity measures which were the requisites for getting further loans. With much negotiations and little alternative option left, the Greek government finally agreed to a third bailout deal of 86 billion Euros in exchange for tougher reform requirements. So, for the time being, Greece is very much a part of the Eurozone.

Assessing implications

The real questions that arise now are: Are these bailout plans sustainable for Greece? Will they help Greece revive its economy or like the earlier bailout packages even this one would go in repaying the earlier debts? Whether Greece will be able to adjust in the Eurozone or will it be on the brink of collapse and default (Grexit) once again, that too very soon?

First, what are the implications for Greece economy with the third bailout?

Greece has received its third bailout package of 86 billion Euros of financing over three years. The bailout is conditional on reforms including measures to streamline pensions, raise the revenue and liberalize the labor market among others. The agreement includes an offer to reschedule Greek repayments “if necessary” but does not include any provision for the reduction in Greek debt that the Greek government had sought.

Just like an individual piles up his/her debts if he/she spends more than what he earns, Greece has accumulated its debt over time by spending more than it earned/earns. Constant borrowings by the government to finance its promises made to the public has led Greece on this path of unsustainable development.

There are various other structural issues which worsened the economy even more. For example, Greece has a retirement age of 57, even lower than that of the US. While retiring early is good for the Greek workers who start getting paid out benefits early, it is a major financial burden for the government. Tax collection mechanism is also inefficient as tax evasion in Greece is pervasive.

The present government came to power on a promise to end austerity. But with the acceptance of this bailout package, it has agreed to impose strict austerity measures attached with the bailout. This has led to widespread anger and public unrest in Greece. There are chances of recovery depending on the manner in which the Greeks take the austerity measures. But in the near future, the Greek economy cannot be expected to grow at some remarkable rate; unemployment situation is also not likely to improve soon.

Second, what is the probability of Greece defaulting in future?

According to analysts, there are chances of Greece defaulting in future. This is so because with further austerity measures, there are bleak chances of economic recovery since these measures are more focused towards balancing the debt status than increasing the national income and employment generation. Another important factor which has hindered the growth of the Greek economy is the common currency - Euro. Whenever a country borrows too much, the IMF recommends that it writes down its debts, balance its budget and devalue its currency. However, the current situation in Greece is highly tricky- while on the one hand, taxes have to be raised and expenditure is to be cut (which hurts the economy), on the other hand measures are required for enabling the economy to expand and grow. Since fiscal stimulus cannot be provided, a monetary stimulus becomes important and this ideally requires a cheaper currency unlike the Euro. While Greece has done its austerity part on one hand, it does not have a cheaper currency to sustain its economy. Neither has it got any debt relief. Hence, the concern of a possible default will continue in the future too.

Third, what could be the likely impact on other economies in near future?

Although global capital markets have taken a hit in recent times, there are no signs of widespread panic outside Greece. Today Greece's debt is mostly held by government agencies and international organizations, including the ECB which has committed to buy government bonds to hold down the rates in case there is a massive investor sell-off. Together with that, in 2012 the Eurozone countries have set up a crisis resolution mechanism with a lending capacity of 500 billion Euros as a firewall to guard against contagion to other Euro member States.

When it comes to the US economy, the Greek debt crisis has had little impact on it. The US only has limited exposure as it is a shareholder of the International Monetary Fund, which is a creditor of Greece. But under the IMF's arrangement, its member countries including the US are expected to be paid back the credit in full eventually.

The volume of exports of US to Greece is also less than 0.05% of the total merchandize exports of US. A prolonged debt crisis though could impact the already sluggish Europe which in turn could impact the US trade. As of now, with the third bailout of the Greek economy, such a scenario is unlikely.

For the Indian economy, it is widely agreed that there is likely to be no direct impact of Greece fallout since the trade between the two countries is very low. There could be some indirect impact in terms of volatility in Indian financial market if any future crisis leads to devaluation of Euro. It is further argued by some experts that adverse consequences will only be short-lived as Eurozone could see an early recovery with the departure of ailing Greece economy. Moreover, the extent of impact would also depend upon the deft management of exchange rate volatility by India's Central Bank. With adequate forex reserves and effective leadership at the Central Bank, it can be said that India can escape any adverse impact of a possible Greek crisis in the future.

Indian Insurance Sector: Ready to take a new leap

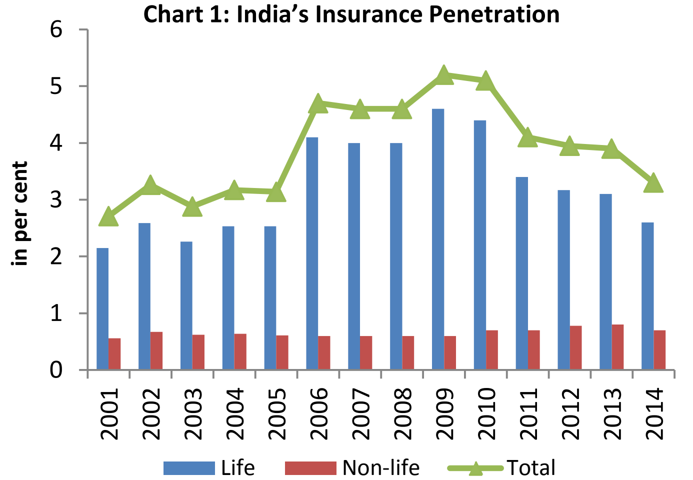
With the passage of the long-awaited reform in the insurance sector in the form of the new Insurance (amendment) Bill (2015), the insurance sector of the country is expected to accelerate its growth trajectory. The move is expected to mark a new beginning in the insurance sector and pave the way for higher foreign investment leading to increase in penetration levels, efficient competition and lower premiums among other things. Together with this, the government's newly launched social security schemes aimed at providing insurance cover to the economically vulnerable section of the society and providing economic security to the older sections have brought the insurance sector much into limelight.

The new developments had been the need of the hour as the sector had lately been experiencing a slowing growth since 2010-11. The insurance penetration (measured as ratio of insurance premium to gross domestic product) which observed a consistent growth from 2.71% in 2001 to 5.20% in 2009, has fallen to 3.3% in 2014. Similarly, insurance density (measured as ratio of premium underwritten in a given year to the total population) which reached a level of US$ 64.40 in 2010 from US$ 11.50 in 2001 has slipped to US$ 55 in 2014.

While the non-life insurance segment has shown a balanced and steady growth over the period, the performance of the life insurance segment which accounts for nearly 80% of the total insurance business in India has been rather subdued in the recent years.

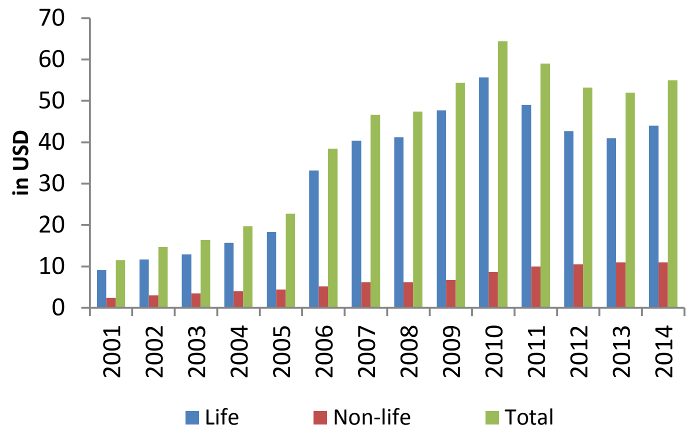
The life insurance segment faces a number of challenges, most prominent being a dearth of capital required to undertake expansionary activities. The expected infusion of capital post the announcement of the new bill is therefore likely to bring a new lease of life to this segment and would help in arresting the declining trend. Further, with the other new initiatives put forward by the government, the industry is now hopeful of bringing the growth back on track. The industry is presently working towards increasing the

Chart 1: India's Insurance Penetration



Source: IRDAI Handbook on Indian Insurance Statistics 2013-14 & Swiss Re (2015)

Chart 2: Insurance Density (in USD)



Source: IRDAI Handbook on Indian Insurance Statistics 2013-14 & Swiss Re (2015)

penetration level to 5% and achieving a market size of Rs. 22,000-25,000 billion by the next five years.

Structure of the Industry

The insurance industry today has a preponderance of private players in terms of numbers. Out of total 52 insurance companies operating in this sphere, 45 are in the private sector.

There are 24 companies in the life insurance business with Life Insurance Corporation (LIC) being the sole national life insurer of India. National Insurance Company, The New India Assurance Company, Oriental Insurance Company, United India Insurance

Company and two specialized insurers namely Agriculture Insurance Company and Export Credit Guarantee Corporation are the six public sector companies serving the non-life insurance segment of the country. Besides, General Insurance Corporation is the only national re-insurance company present in India.

Thus, it is evident that the insurance industry has a highly skewed structure. However, in spite of the strong presence of private companies in the sector, the insurance market, both life as well as non-life, is still predominantly being catered to by the public sector units. In the life insurance segment, LIC holds a market share of as high as 70%, while the six non-life national insurers together have a share of around 57%. The trend clearly indicates towards the huge opportunity that the sector offers for the existing as well as new private players who are now looking to enter the market with the passage of the new insurance bill.

Strong Growth during FY 2001- FY 2010

The insurance industry experienced steady and rapid growth during the post liberalized period in terms of all parameters. In the life insurance space, there were only 5 companies operating in the segment in 2000-01. By 2009-10, the number of life insurers went up to 23. With the increase in the number of players, the life insurance business also grew manifolds. The total number of new policies issued by all the life insurers together jumped almost two folds from 254 lakhs in 2002-03 to 532 lakhs in FY 2009-10. (Data for FY 2001 and 2002 have not been reported by IRDA Annual Report). The first year premium collection (including single premium) also known as new premium income increased from Rs 9707 crore in 2000-01 to Rs 109, 894 crore in 2009-10, and the total premium collection for the same period went up from Rs 34, 898 crore to Rs 265, 447 crore.

Consequently, life insurance penetration and density also witnessed significant improvement; penetration level went up from 2.15% in 2001 to 4.6% in 2009, and for the same period insurance density surged from US$ 9.1 to US$ 47.7 respectively. The distribution network also expanded tremendously over this period. The number of insurance agents, through whom the life insurance business is primarily conducted in India, also grew from 826,334 in 2001-02 to 2,898,653 in 2009-10. During the same period, number of corporate agents increased from 275 to 2,930.

Positive growth trend was also observed in the non-life insurance segment with insurance penetration of non-life insurance moving up from 0.56% to 0.70%, and density increasing from US$ 2.4 to US$ 8.7 between 2001 and 2010. Number of new policies issued and gross direct premium also witnessed firm growth and touched 675 lakhs and Rs. 35, 816 crore by 2009-10 respectively.

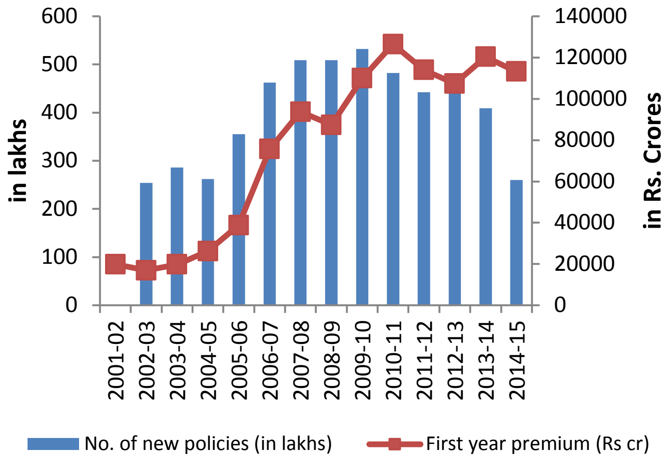
Slowdown since FY 2011

After witnessing unprecedented growth for nearly a decade, the life insurance sector saw a dip in the number of new policies issued for the first time in 2010-11 which decreased to 482 lakhs, and continued to fall in subsequent years to touch 409 lakhs in 2013-14. According to the data available from Life Insurance Council, the number of life insurance policies issued by the industry has further declined sharply by around 37% to 259 lakhs in 2014-15. New premium income also fell continuously since 2010-11 and touched Rs 120,320 crore in 2013-14. In 2014-15, it has declined by another 6% to reach Rs 113,141 crore. The slowdown in the industry also adversely impacted the life insurance penetration and density which fell to 2.6% and US$ 44 in 2014 respectively.

The private life insurance companies recorded better performance as compared to LIC during the last fiscal year. While private life insurers saw 18.03% growth in new premium collection in 2014-15, LIC posted a decline of 13.62%. As a result, the national life insurer saw erosion in its market share from 75% to about 70%.

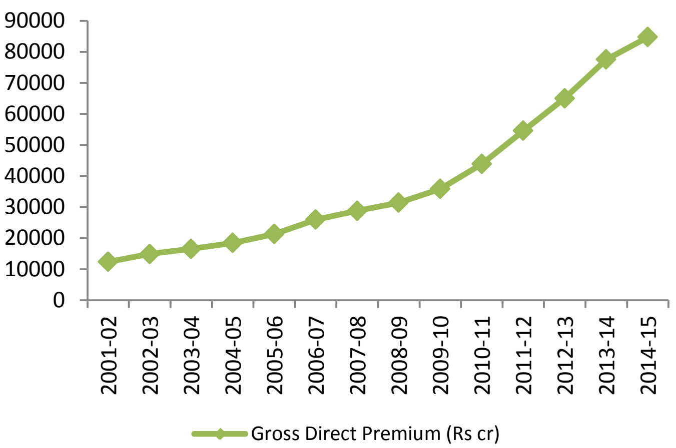
Unlike the life insurance segment, the non-life insurance sector continued to show positive growth since 2010-11 in terms of both number of new policies issued and gross direct premium collection which touched 1025 lakhs and Rs 72,990 crore respectively in 2013-14. According to the data published by General Insurance Council, the gross premium income has increased by 16% in 2014-15 to Rs 84, 715 crore. However, there has not been much improvement in the penetration level as it hovered around 0.7%-0.8% (0.7% in 2014) for the past few years. Non-life insurance density though has steadily improved to touch US$ 11 in 2013 and remained at the same level in 2014 as well.

Chart 3: Life Insurance Sector- Growth Trend



Source: IRDAI Handbook on Indian Insurance Statistics 2013-14 and Life Insurance Council Database

Chart 4: Non-life Insurance Sector Growth Trend



Source: IRDAI Handbook on Indian Insurance Statistics 2013-14 and General Insurance Council Database

Growth Challenges

The declining trend observed in the insurance sector can be attributed to multiple factors. The primary reason being the slowdown of the Indian economy; according to the World Bank data, India's GDP growth which was at its peak at 10.3% in 2010, fell sharply to 6.6% in 2011 and further to 5.1% in 2012. It revived in the later years but could not retain the 2010 level. With the resulting contraction in disposable income and consequent stagnation in household savings, more funds started being channelized away from insurance products towards physical assets like gold and real estate.

Another important factor which adversely impacted the growth of the life insurance sector had been the sharp decline in the sale of Life Insurance policies primarily due to a decrease in sale of Unit Linked Insurance Policies (ULIP) post the new regulations announced by Insurance Regulatory and Development Authority of India (IRDA) for these products in 2010. The reforms which were aimed at making the insurance products more investor friendly mandated an increase in the lock-in period for ULIPs from three to five years and reduction in commission payments for agents to minimize the expenses on this account. This led to agents losing interest in selling the ULIPs. Moreover, as a result of underperforming markets, customers' confidence in market linked products dwindled, leading to a decline in demand for such products.

In 2010-11, number of new life insurance policies issued dropped to 482 lakh from 532 lakh in 2009-10, which further fell to 442 lakh in 2011-12. The new premium income also showed a decline from Rs 126 thousand crore in 2010-11 to Rs 113 thousand crore in 2011-12 and further to Rs 107 thousand crore in 2012-13.

Besides the above mentioned factors, there are certain other issues which have continued to affect the attractiveness of insurance in India over the years. Insurance products still continue to be seen as a "push" product indicating the lack of awareness among consumers about the benefits of life insurance. Insurance products are mainly seen as a savings instrument, mostly purchased to save taxes or to accumulate savings to take care of future needs.

Features of insurance products have remained complex, deterring the interest of consumers towards them. This has also often resulted in miss-selling of products where consumers ended up purchasing wrong products, leading to higher incidents of surrender later on.

Government Initiatives

To increase insurance penetration level in the country it is thus important to create greater awareness about the importance of these products among consumers, make product features simpler and design them as per the needs of the target groups. Most importantly efforts are also required to make insurance products affordable and available to rural masses where the penetration level is the lowest. In response to all these factors, the government has taken some strong and innovative measures in the recent months.

In March this year, the government approved the long pending Insurance Laws (Amendment) Bill, 2015, thereby paving the way for higher foreign investment in the sector. With the passage of the Bill, the foreign investment limit for the sector has now been enhanced from 26% to 49%. This move is likely to provide fresh impetus to the insurance sector by way of attracting higher foreign capital thereby relieving the industry from its cash crunch position and allowing it to undertake measures to stimulate growth of the sector. Continuing with its pledge to provide greater protection to consumers, the Bill has vested more powers to IRDA to ensure efficient management of the sector.

Further, within a span of two months in May 2015, the government launched two new insurance schemes for the rural class, namely, the Pradhan Mantri Suraksha Bima Yojana (PMSBY) and The Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY) which aim at providing Accidental Death Cover and Life Insurance Cover, respectively. The PMSBY offers accidental insurance worth Rs 2 lakh at a premium payment of as low as Rs 12 per annum, while the PMJJBY provides life insurance cover worth Rs 2 lakh at a premium payment of Rs 330 per annum. These schemes have been designed to tap into the heavily under-penetrated rural sector of India in terms of insurance. More than 100 million people have reportedly enrolled for the above schemes in a span of a few weeks of their launch.

Recent Developments

With the passage of the new Insurance Bill, many of the global joint venture players present in the Indian insurance sector have indicated their intent to enhance their existing stake. As per media reports, some of these companies include:

1. Bharti AXA: The French insurance firm AXA has announced to raise its stake in its life insurance joint venture with Bharti Group (Bharti AXA) to 49% for Rs 858.6 crore. AXA is also raising its stake in the general insurance joint venture with Bharti Group which entails capital flow of Rs 431.40 crore. Together, AXA’s investment in Bharti Group will be worth Rs 1,290 crore.
2. Edelweiss-Tokio Life Insurance: Japanese insurer Tokio Marine Holdings Inc. has indicated to hike its stake to 49% in its life insurance joint venture with Edelweiss Group and is expected to infuse around Rs 500 crores in additional capital.
3. Aegon Religare Life Insurance: Netherlands-based Aegon has decided to hike its stake to 49 percent in the joint venture, while Religare Enterprises, which currently holds 44% stake would sell its entire holding to Bennett, Coleman and Company Ltd .
4. SBI General Insurance: Insurance Australia Group (IAG), the Australian partner of SBI, is planning to raise its stake to 49% in the joint venture, in which, currently, SBI owns 74% and IAG 26%.
5. Birla Sun Life Insurance: Canadian insurer Sun Life Financial Inc. is considering to hike its stake in the joint venture – Birla Sun Life – to 49% from current 26%.
6. Star Union – Dai-ichi Life: Japanese life insurer Dai-ichi Life is also likely to increase its stake in its Indian joint venture from 26% to 49%.
7. Max Bupa: Bupa Insurance, Max India’s UK-based partner in the Joint Venture announced to raise its stake from 26% to 49% in early Jan this year following the amendments to the insurance laws.
8. Lloyd’s: The UK based re-insurer has initiated talks with the IRDAI to start its operations in India, and is looking to opening many branches in India for its re-insurance business.

Way Forward

The enthusiasm shown by some of the players provides a glimpse of what the industry can expect in terms of attracting foreign capital going forward. Greater infusion of capital in the future in turn would enable insurance players in India to invest in the development of their managerial capabilities, technical know-how, product and process innovation, etc. This would also provide companies the opportunity to invest in activities aimed towards enhancing awareness and insurance penetration in the country. As compared to the global average insurance penetration level of 6.2%, India's penetration level is quite low. India currently accounts for less than 1.5% of the world's total insurance premium and about 2% of the world's life insurance premium despite being the second most populous nation. The Indian insurance market thus offers a huge business opportunity.

Presently, the country is the fifteenth largest insurance market in the world in terms of premium volume and with the help of recent policy measures and better macroeconomic scenario, the sector could grow exponentially in the coming years. A fast growing economy, rising income levels and improving life expectancy rates are some of the favorable factors that are likely to boost the sector's growth in future. The trend of digitization is expected to add further momentum to the insurance growth in India due to greater penetration of smart phones and internet in the country.

Table 1: Global Comparison

	Rank	Total Premium (USD Billion)	Density (USD)	Penetration (%)
United States	1	1280	4017	7.3
Japan	2	480	3778	10.8
UK	3	351	4823	10.6
China	4	328	234	3.2
India	15	70	55	3.3
World		4778	662	6.2

Source: Swiss Re Sigma No4/2015-World Insurance in 2014

According to the Indian Credit Rating Agency (ICRA), India's life insurance industry is likely to grow by 12% to 15% in the current financial year due to improved market scenario and the government's push to improve insurance penetration in the country.

The analysis has been based on the performance of 9 life insurance firms - state-owned LIC and eight private sector firms - collectively representing around 92% of the market. The latest data released by the Life Insurance Council shows that there has been an increase of 21.5% in the number of new policies issued by the life insurance sector in the first quarter of 2015-16, while the new insurance premium income has gone up by nearly 20% during the same period to Rs 23 thousand crore.

In the long term, the life insurance sector could see strengthening on account of favourable demography, growing awareness, new product launches, and expansion of operations and supportive regulatory developments. Given the large untapped rural 'un-insured' population which presents a significant growth opportunity, insurers are expected to further expand distribution in rural areas for inclusive growth.

Penetration level of non-life insurance in India is also very low at 0.7% as compared to global average of 2.7%, highlighting potential for substantial growth in this sector as well. The non-life business in India is expected to strengthen on account of improvement in GDP growth and rise in income levels which would drive demand for non-life insurance products. According to the data released by the General Insurance Council, the gross direct premium underwritten by the sector has increased by 12.4% to Rs 23 thousand crore during April-June 2015. On the back of double-digit growth, the general insurance industry has set a target of crossing Rs 1 trillion-mark in gross annual premium income in the 2015-16 fiscal.

Table 2: Gross Direct Premium Income underwritten up to the month of June 2015 (In Rs. crores)

Insurers	Apr-Jun 2015	Apr-Jun 2014	YTY Variation (%)
Private Sector	9732.8	8735.77	11.40
Public Sector	12429.04	11103.56	11.90
Stand-alone Health	776.18	547.79	41.70
Specialized	479.65	450.19	6.50
Grand Total	23417.67	20837.31	12.40

Source: https://www.gicouncil.in/statistics/business-figures.aspx

H.E Mr. François Richier
Ambassador of France to India

France, undoubtedly, is a strategic partner for bilateral trade and economic relations for Indian industries. FICCI, in its efforts to share insights of our economic relations, recently interviewed H.E Mr. François Richier, Ambassador of France to India, where he not only shared the success of our existing cooperation in focus sectors, but the opportunities in other very prominent and promising sectors, which are directly related to mega initiatives of Government of India. We are thankful to H.E Mr. François Richier for giving us time and sharing his views to further strengthen our economic cooperation.

1. ***Bilateral relations between India and France have traditionally been close and friendly. How has the strategic partnership signed in 1998 contributed to the building of India-France ties?***

Indeed, the relationship between India and France are longstanding and, over the decades, the two countries have been working actively to take it forward in a different fashion while retaining its historic strength and spirit. What has changed over the last 10-15 years is the structure and transformation of the strategic cooperation. Our space cooperation is very substantive, forward-looking and highly scientific, while defense cooperation is something that everybody is talking about and it is maturing rapidly.
What is really interesting in the context of India-France relations is the dynamics of French investment in India, which of course triggers a lot of economic benefits. These for India are in terms of growth and for France in terms of competitiveness. There are new dimensions of the engagement, like skill development. Then there is R&D and it is estimated that 10 per cent of the total investment (which is 20 bn USD), or maybe more is earmarked for R&D activities. Most of the French investors have R&D centers in India, which not only work for the Indian market but also the global one.

We also have French companies in India that only carry on R&D activities in India and have something like 3000 engineers and technicians. We can develop the same model in agriculture. That makes my life as an Ambassador happy because I think whatever seed we plant, grows.

2. ***Has the recent visit of Hon'ble Prime Minister of India, Shri Narendra Modi to France been transformational in the Indo-French ties?***

Yes, that is exactly the right word. Because while all these areas were developing, cooperation was also to a certain extent suffering from the difficulties that India faced in the recent period. It was important to reassure the French investors that India was taking a different path. Prime Minister Modi met business communities across the board and small groups, and devoted a lot of time to speaking to them and explaining his vision. We also had a very successful meeting of the Indo-French CEOs forum. So the message was transformational in the sense that all the French companies have a sense of where India is heading.

During this visit, important signals were also sent out. The decision on the Rafale was important as it revived a process, which was pending from quite a long time and Prime Minister Modi showed that he was capable of deciding when the interest of India was at stake and move forward. That was a very important signal.

Second, there was a direction given on sustainable development and climate change, which is also a very important message for the French companies and Indian companies and for them to work together. Let me give you an example – commitment taken by the French side to realise 10 per cent of the 100 GW of solar energy goal that the Prime Minister has announced.

This is a very important step because many people said yes, of course, that's a big announcement but can it be done? So we said, as far as we are concerned, we are capable of doing 10 per cent. Of course, there will be bidding and we have to be competitive, but we are ready.

3. What are the other potential avenues of collaboration?

An important area of engagement is the smart city project. We are committed to partnering with Indian cities in the framework of a broader engagement in urban development because French companies are already working in 20 big projects in cities across India in areas like the metro and water. We will continue with this but we will also focus on three specific cities, plus provide financing – line of credit of €2bn ($2.18bn) – to support projects. That is also good for the business community because it gives a vision of where we can go. There are clear commitments and plans to go forward.

We also see developments in aviation. During Prime Minister Modi's visit there was a presentation of all the Indian partner companies from which Airbus is sourcing parts for the Airbus aircraft. The companies explained to the Prime Minister what particular elements of the Airbus planes are already manufactured in India, and the Airbus chief committed to increasing procurement in India to 22 bn Euros as a sign of further engagement.

4. France was the first country India entered into an agreement with on civil nuclear cooperation following the waiver by the Nuclear Suppliers' Group. What is the way forward?

With regard to nuclear energy cooperation with India, there are two domains. First is the scientific cooperation, which is very important. The second is the energy production potential, which involves the project to build six EPR reactors in Jaitapur, Maharashtra. What is really exceptional in the project is that EPR is the most powerful nuclear reactor in the world and of 1650 MW each – which is roughly twice the average record of 800 MW. This means that with six you can have 10,000 MW on one side. If you were to produce the same amount of electricity with coal you would need 30 thermal power plants. So you can imagine the scale of the project which has been going on for several years. During the visit of the Prime Minister there were two transformative initiatives. One was a partnership between Areva and L&T, opening the door to nuclear manufacturing in India of the critical parts that are otherwise manufactured in Japan.

The capacity to manufacture this will be developed in India with L&T for that particular project, Jaitapur, as also for other reactors that will be built in India or elsewhere.

So export facility will be there in future. The other agreement is between Areva and Nuclear Power Corporation of India Ltd (NPCIL) for launch of high-end pre-engineering studies aimed at fine tuning the details of these projects as well as exploring the scope for price reduction and improvement of some elements.

5. France has emerged as a major source of FDI for India. What is France's plan for upgrading this figure given the measures being taken by the Indian Government towards ease of doing business?

There is no limit to the potential of French FDI in India. The more the progress in ease of doing business, the more investments will continue to flow. Most of the large French companies are present in India and together with subsidiaries there must be 1200. The Indian Government has the ambition of moving up the ranks of ease of doing business and we see several measures heading that way. The French feel at home in India and the connection at the people-to-people level is very good. Second is the long-term vision of French engagement with India. When you see the CEOs of the French companies in India, most of them are Indian. There is a process of Indianisation of the management. They are highly skilled and professional people and with all this, French investments in India should evolve significantly.

6. The objective of "Make in India" programme is to enhance India's manufacturing growth. Can France be a valuable partner in boosting India's prospects in this regard?

There has been a huge growth of French investments in India producing for the Indian market. That is a consequence of "Make in India". France is also working actively on the construction of the metro in Kochi. Most of the equipment will be manufactured by French companies like Alstom and the production of the coaches for the Kochi metro will take place in Andhra Pradesh where Alstom has built a factory.

Manufacturing of automobiles is also a high growth area. Renault is an established name now in India with an alliance with Nissan. Then we have Michelin which has the largest tyre plant in India in Chennai and a large number of companies that are manufacturing parts for the automobile industry in the vicinity of Chennai.

Renault has plans to launch a new car that will be manufactured in Chennai for the world market - apart from the Indian market – and it has been co-designed by the Indian team in Chennai and the French team in France with a little bit of Japanese input. Mahindra has bought the motorcycle business of Peugeot so there will be in the future, a very good partnership with manufacturing in India.

7. ***How is France partnering in the Indian Government's Swachch Bharat Abhiyaan and projects on sustainable urban development?***

There are three angles to France's interest in the Swachch Bharat Abhiyaan and projects on sustainable urban development and smart cities. As the population of India continues to grow, cities of India will grow at a fast pace, which will bring in more challenges including climate and sustainability challenges. This assessment along with the French expertise represented by 40 of our companies present in India has made Swachch Bharat Abhiyaan a priority of our engagement.

These companies have a lot of Indian engineers and offer a range of technology, organisational skills, urban services to state governments and municipalities that desire to prepare for the future. We can support these with lines of credit.

The focus is on water supply, electricity supply, sewage and waste management, energy efficient buildings, security and a range of other small things which people from time to time forget but are very important – like emergency services for hospitals.

8. ***You were appointed Ambassador Extraordinary and Plenipotentiary of France to India in October 2011. How has been your experience in India, challenges and what do you think are the highlights of your tenure in terms of India-France bilateral relations?***

I feel at home in India and am overwhelmed by the openness with which I have been welcomed. That is important. It is not just me but France in general. I have seen, felt and perceived a lot of goodwill, good intention and engagement even in the remote corners of India. I see this when I travel and come across people who have some idea about contemporary France or ancient France. It is very moving.

In my experience, I have had two key ones. Change of government in France and change of government in India. It was necessary to explain to the newcomers in France what the relation with India was, and to the newcomers here, what the relationship with France was. That forced me to draw on my capacity to explain and describe. It was from time to time challenging but there was again a lot of goodwill on both sides and confidence about India-France relations. That was a very fascinating moment from both sides. Our engagement has been growing and I tried to intensify it more in some specific areas where things were not moving as per expectations. So we launched the new initiative during the Prime Minister's visit on heritage preservation and archaeology. There was a great desire to work on that.

FICCI Survey highlights

Business Confidence Survey, August 2015

Prospects for the next six months

	Investment	Sales	Selling Price	Profit	Exports	Employment
Much Higher	0	3	0	3	0	0
Higher	43	63	9	34	48	33
Same/ No Change	49	26	62	46	26	61
Lower	9	8	29	17	26	6

Source: FICCI Business Confidence Survey, August 2015

Latest round of FICCI's Business Confidence Survey reported signs of moderation in the optimism level of corporate India. The OBCI value slipped seven notches to a six quarter low of 66.3 in the current survey. The index value stood at 73.5 in the last round.

The value of Current Conditions Index declined to 61.0 in the present survey from 65.2 in the previous round. The Expectation Index also noted a fall and stood at 68.9 in the current round as against the value of 77.2 noted last time.

Even though the proportion of respondents anticipating an increase in investments, profits and employment noted an increase in the latest survey; this was offset by an increase noted in the proportion of participants foreseeing worsening for these parameters. Further, the outlook of the respondents with regard to sales and exports also took a beating.

The capacity utilization rate of companies remains low with about 50% of the participants reporting that they are operating at below 75% capacity.

In the current survey, about 43% participants expected higher investments over the coming two quarters, vis-à-vis 38% stating likewise in the previous round. However, the proportion of respondents anticipating lower investments went up to 9% in the present survey from 3% last time.

Likewise, with regard to profits, while the proportion of respondents foreseeing higher profits increased to 37% in the current survey from 32% last time; those anticipating a decline increased to 17% from 3% in the last survey.

Weak demand and cost of credit continue to be primary concern factors for businesses. In the current survey, 71% of the respondents indicated weak demand to be a constraining factor as against 77% of the respondents stating likewise in the last survey. Further, 58% of the respondents indicated high cost of credit to be a bothering factor in the present survey.

An increase was noted in the proportion of participants citing threat of imports being a constraint. 44% of the participants indicated rising imports as a worry vis-à-vis 40% stating likewise last time.

The current survey drew responses from companies with a wide sectoral and geographical spread. The survey drew responses from about 130 companies with a turnover ranging from Rs 6 crore to Rs 92000 crore. The participating companies belonged to an array of sectors such as textiles, infrastructure, chemicals, steel and steel products, food processing, oil & gas, electrical equipment and machinery.

For detailed report you may contact:
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Economic Outlook Survey

ANNUAL FORECASTS FY16	
Gross Domestic Product	7.8%
Wholesale Price Index (Avg. 2015-16)	2.0%
Consumer Price Index (Avg. 2015-16)	5.3%
Index of Industrial Production	5.0%
Export Growth	3.9%
Import Growth	2.4%
Trade deficit as % of GDP	6.3%
Current Account deficit as% of GDP	1.2%
Fiscal deficit as % of GDP	3.9%
USD/INR Exchange rate (End March 2016)	Rs 62.7/ USD

QUARTERLY FORECASTS Q1 FY16	
Gross Domestic Product	7.5%
Wholesale Price Index (Avg. 2014-15)	-0.4%
Consumer Price Index (Avg. 2014-15)	5.2%
Index of Industrial Production	3.5%
Export Growth	-1.0%
Import Growth	-1.2%
Trade deficit as % of GDP	6.2%
Current Account deficit as% of GDP	1.0%
Fiscal deficit as % of GDP	4.0%
USD/INR Exchange rate (End of Q2 FY15)	Rs 62.5/ USD

Source: FICCI Economic Outlook Survey, March/April 2015

The results of FICCI's latest Economic Outlook Survey put across a GDP growth estimate of 7.8% for FY16, with a range of 7.5% to 8.0%. Growth is likely to be supported by an uptick in the performance of the industrial and service sectors. However, structural reforms are needed to keep growth anchored.

While agricultural growth is expected to remain steady, the outlook for industrial sector has improved considerably. The median growth forecast for agriculture and allied activities is 3.2% for the current fiscal. The industrial sector is expected to grow by 6.5% while the service sector is likely to grow by 10.3% in FY 16.

On the inflation front, participating economists expect annual average CPI at 5.3% in FY16. The economists expect prices to remain benign in the current fiscal. Annual average WPI is expected to be at 2.0% in FY16.

The prognosis made by the economists with regard to exports and current account deficit (CAD) reflected no imminent risks. The CAD to GDP ratio for FY16 was projected at 1.2%. Further, participants were of the view that the macro economic fundamentals are gradually strengthening.

The participating economists also suggested some structural reforms that can help trigger investments. These include lowering of interest rates, introduction of GST, easing land acquisition, reforming the labor laws.

Majority of the participating economists felt that it was necessary to maintain the momentum with respect to reforms for supporting growth and taking it to a higher and sustainable level.

Economists were also asked to share their views on the revamped GDP series. It was unanimously felt that the new series is definitely more comprehensive in terms of coverage which is expected to capture the changing structure of the economy more adequately. Additionally, almost half of the respondents felt that more robust techniques to measure indicators such as IIP, employment, retail sales should also be looked at.

In addition, on being asked about the risk emanating from United States Federal Reserve normalizing its monetary policy, almost all of the economists taking part in the survey felt that India is well placed to handle the anticipated increase in interest rates.

The present round of FICCI's Economic Outlook Survey was conducted in the month of March/April 2015 and drew responses from leading economists primarily from industry, banking and financial services sector. Opinion of the economists was sought on the key priority areas for structural reforms, the expected course of the US Federal Reserve and its impact on the Indian Economy and views on the revamped GDP series.

FICCI

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

IIP growth climbs to 3.8 percent in June 2015

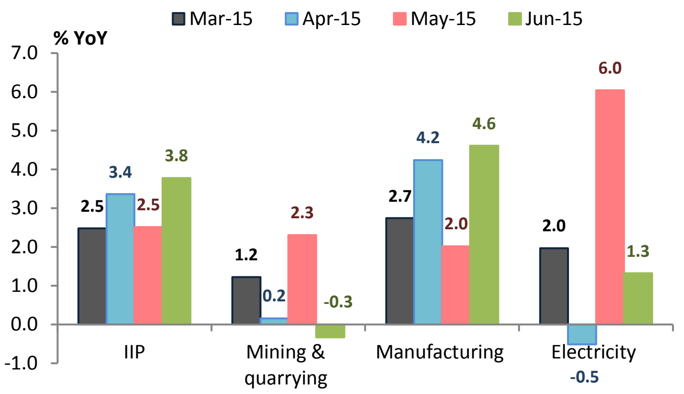
- *Index of industrial production grew by 3.8 percent in June 2015. Industrial growth for the month of May 2015 has been revised to 2.5 percent, vis-à-vis 2.7 percent growth reported earlier.*

- *The manufacturing sector grew at a four month high of 4.6 percent in June 2015 as against 2.0 percent growth reported in the previous month. However, growth of the electricity sector slowed down to 1.3 percent in June 2015 (as compared to 6.0 percent growth noted in May 2015), while that of the mining and quarrying sector declined by 0.3 percent (as compared to 2.3 percent growth noted in May 2015).*

- *As per the use based classification of industrial production, consumer goods segment noted a thirty two month high growth of 6.6 percent on the back of monumental growth of 16.0 percent recorded in the consumer durables segment in June 2015. Consumer non-durables grew by 1.3 percent during the month.*

- *Growth of basic goods as well as intermediate goods witnessed moderation, posting a growth of 5.1 percent and 0.8 percent respectively in June 2015; while capital goods registered a negative growth of 3.6 percent in the same month.*

IIP – Economic Activity (% YoY)



IIP – Use Based Classification (% YoY)

	Basic Goods	Capital Goods	Intermediate Goods	Consumer Goods	Consumer Durables	Consumer Non-Durables
Jun-14	**10.2**	**23.3**	**2.7**	**-8.9**	**-23.3**	**1.9**
Mar-15	2.6	9.1	2.8	-0.6	-4.6	1.9
Apr-15	2.8	6.8	2.5	3.0	1.3	4.2
May-15	6.2	2.2	1.3	-2.1	-3.9	-0.9
Jun-15	**5.1**	**-3.6**	**0.8**	**6.6**	**16.0**	**1.3**

- 16 out of 22 manufacturing sub-segments recorded positive Y-o-Y growth in the month of June 2015.

- Although a revival was witnessed in the growth of the manufacturing sector, it is imperative that this momentum is sustained. With a greater diversification of growth in the manufacturing sector, measures to prop up demand can yield great benefits at this point of time.

- Turnaround in investments is expected to take more time. Going forward, efforts should be made to expedite infrastructure and other projects and provide a more simplified business environment for start ups and operating business.

Growth in Consumer Durables (%YoY)

Sub-Segments	Jun-14	Mar-15	Apr-15	May-15	Jun-15
Passenger Cars	**8.9**	5.9	12.5	0.2	**11.4**
Gems & Jewelry	**-22.4**	42.4	0.1	2.5	**148.7**
Motor Cycles	**7.7**	-2.0	-1.6	-3.7	**0.5**
Colour TV sets	**27.6**	6.9	13.6	-10.1	**-15.8**
Glazed/Ceramic Tiles	**2.9**	-1.0	-12.5	-6.7	**0.6**

Growth of Major Sectors – Manufacturing (%YoY)

Sectors with high positive growth		Sectors with high Negative growth	
Furniture; Manufacturing n.e.c	83.7	Publishing, printing & reproduction of recorded media	-11.4
'Wearing apparel; dressing and dyeing of fur	27.6	'Electrical machinery & apparatus n.e.c	-10.0
Wood and products of wood & cork except furniture	21.0	'Radio, TV and communication equipment & apparatus	-8.7

Source: MOSPI, Economic outlook CMIE and FICCI Research

Economy Fact Sheet – Inflation
August 2015

WPI stood at (-) 4.1 percent in July 2015

- *Headline WPI inflation plunged to (-) 4.1 percent in July 2015 as compared to (-) 2.4 percent inflation noted in June 2015. WPI based inflation rate has been in the negative terrain for nine consecutive months.*

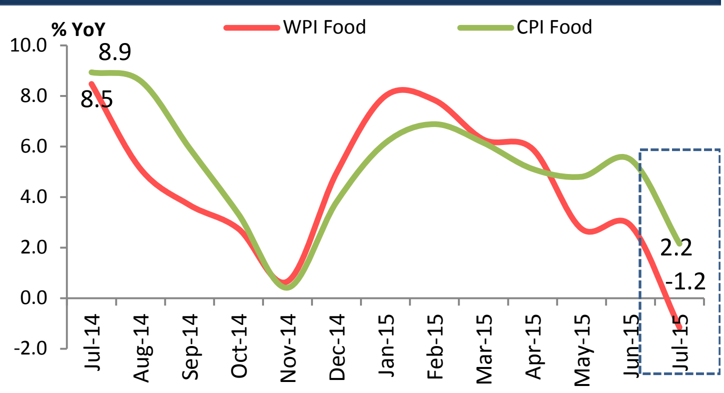
- *WPI based food inflation declined by 1.2 percent in July 2015, vis-à-vis a growth of 2.9 percent observed in June 2015. Prices of non-food articles also noted a decline of 0.7 percent in July 2015 as against a growth of 1.1 percent observed in June 2015.*

- *Fuel and power led WPI declined by 12.8 percent in July 2015 as against a decline of 10.0 percent in June 2015. Prices of mineral oils fell by 19.0 percent during the month of July 2015 due to fall in the international price of crude oil on the back of oversupply, sluggish demand and a stronger US Dollar.*

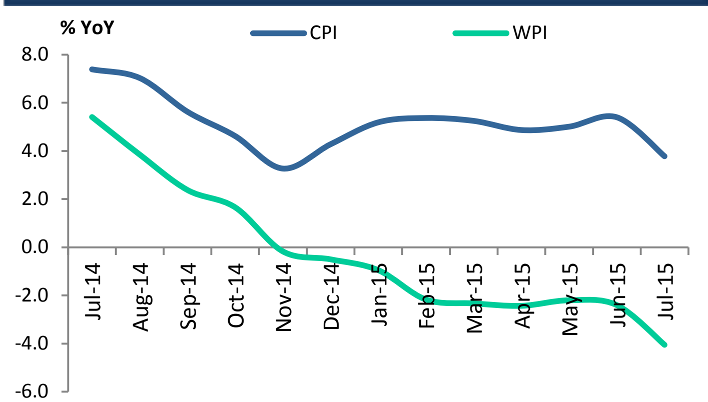
- *Prices of manufactured products fell by 1.5 percent in July 2015 as compared to a 0.8 percent fall noticed in the previous month. Major segments that witnessed a decline in prices were basic metals alloys & metal products ((-) 6.0 percent), leather & leather products ((-) 2.4 percent), textiles ((-) 2.2 percent), food products ((-) 1.8 percent) and chemical & chemical products ((-) 1.7 percent).*

- *Retail CPI inflation also witnessed a sharp moderation in growth numbers and was pegged at 3.8 percent in July 2015 vis-à-vis 5.4 percent noted in June 2015 mainly on account of low inflation in the food and beverages segment during the month. All major segments of CPI witnessed a moderation in inflation except pan, tobacco and intoxicants.*

Trend in WPI and CPI based food inflation



Trend in CPI and WPI Inflation



There has been uncertainty on the progress of monsoon this season. Nonetheless the government seems adequately prepared to keep food prices in check. Additionally, oil prices have fallen to a six year low and other commodity prices have also remain subdued. Hence, the issue of imported inflation is also not much of a concern presently.

Latest manufacturing numbers, which noticed a rebound, require adequate support to maintain the momentum. Softening inflation numbers together with improved industrial performance makes a good case for further cuts in the policy rate by the RBI. There is a need to propel domestic demand on a sustainable basis that could lead to higher capacity utilization and eventually more investments. We hope that the RBI will consider a more accommodative stance in the forthcoming monetary policy to be announced in September 2015 followed by an equivalent transmission by the banks in the form of lower lending rates, going forward.

Key WPI components (% change YoY)

	Jul-14	May-15	Jun-15	Jun-15
Primary articles	**6.8**	-1.1	-0.8	**-3.7**
Food articles	**8.5**	2.7	2.9	**-1.2**
Fuel and power	**7.4**	-9.4	-10.0	**-12.8**
Manufacturing products	**4.1**	-0.5	-0.8	**-1.5**

Key CPI Components (% change YoY)

	Jul-14	May-15	Jun-15	Jul-15
Food and beverages	8.7	5.1	5.7	2.9
Clothing & footwear	8.3	6.0	6.3	5.9
Housing	6.6	4.6	4.5	4.4
Fuel & light	4.3	6.0	5.8	5.4

Source: MOSPI, Economic Outlook – CMIE and FICCI Research

Economy Fact Sheet – Foreign Trade
August 2015

FICCI

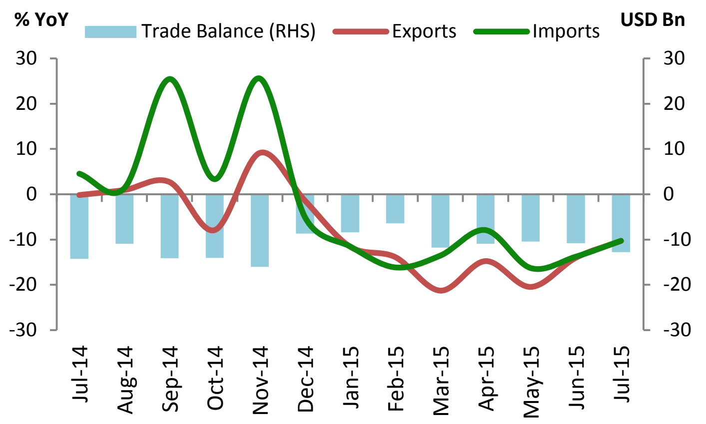
Trade deficit widened to USD 12.8 billion in July 2015

- *India's trade deficit expanded to USD 12.8 billion in the month of July 2015 as compared to USD 10.8 billion noted in June 2015. Trade deficit for the cumulative period Apr-Jul 2015 stood at USD 45.0 billion as against USD 47.6 billion noted in the corresponding period previous year.*

- *Merchandise exports and imports contracted for the eighth consecutive month in July 2015. Exports during the month of July 2015 were valued at USD 23.1 billion, 10.3 percent lower than the level of USD 25.8 billion recorded in the corresponding month of the previous year. Key sectors that posted a fall in exports this month were petroleum products, leather and leather products goods and electronic goods.*

- *Imports stood at USD 35.9 billion in July 2015, 10.3 percent lower than USD 40.1 billion recorded in July 2014 primarily due to contraction in oil imports ((-) 34.9 percent) with crude prices further tumbling during the month. Non-oil imports grew by 3.8 percent in July 2015 as compared to a fall of 3.0 percent observed in the previous month.*

Trend in India's Merchandise Trade

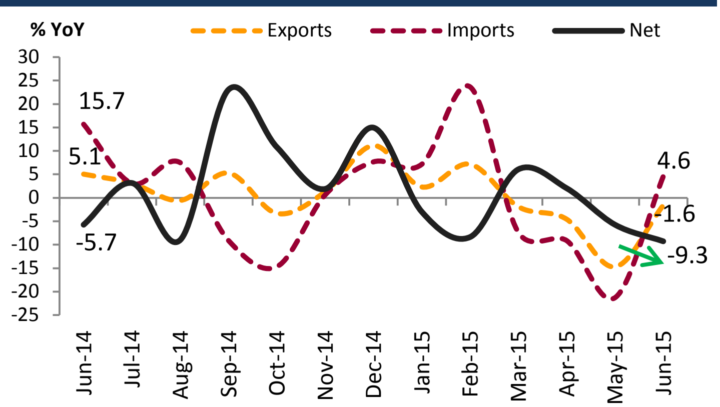


Oil and Non-Oil Imports

Time period	Imports (USD Billion)		Growth rate (% YoY)	
	Oil	Non-Oil	Oil	Non-Oil
Jul-2014	14.6	25.5	14.5	-0.4
Jul-2015	9.5	26.5	-34.9	3.8
Apr-Jul 2014-15	55.0	98.3	6.7	-8.1
Apr-Jul 2015-16	34.1	100.7	-37.9	2.4

Services exports witnessed a decline of 1.6 percent in June 2015 and stood at USD 12.8 billion, vis-à-vis USD 13.0 billion observed in June 2014. Services imports, on the other hand, grew by 4.6 percent during the month of June 2015 and stood at USD 7.5 billion. The persistent weakness in global demand has been a worry which is also reflected in subdued commodity prices. Moreover, the recent devaluation of the Chinese currency is expected to further weigh on the prospects of Indian exports.

Trend of India's Services Trade



Exports of Major Commodities (% Y-o-Y growth)

Commodity	July 2014	May 2015	June 2015	July 2015
Engineering goods	31.6	- 10.7	-5.5	0.8
Petroleum products	-5.4	- 58.8	-48.5	-43.2
Gems & jewelry	- 16.8	- 10.5	5.5	4.9
Readymade garments	13.3	5.0	11.1	6.6
Electronic goods	- 27.8	- 16.0	- 6.3	- 8.5

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

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