Economy Watch

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

State of the Economy

The two announcements in June – Britain leaving the European Union (Brexit) and Dr. Raghuram Rajan's term getting over with Reserve Bank of India (Rexit) are the key developments in the current fiscal year so far. Brexit is an unprecedented move and is likely to have significant political and economic ramifications going ahead. Given the fact that global economic situation remains fragile, these announcements did raise some immediate skepticism about India's growth prospects. However, India is positioned fairly well vis-à-vis its peers and our macro-economic fundamentals have noted an improvement over the past two years.

The conditions on domestic front are placed favorably. Monsoons have been good this year which is expected to aid agriculture sector and rural economy; in turn giving a push to the domestic consumption. Also, the Seventh Pay Commission awarded in July is expected to bode well for the consumer durables sector.

Further, the Government's commitment with regard to FDI liberalization has been noteworthy. With the round of FDI reforms announced for some additional sectors in June, India today is one of the most open economies in the world. Additionally, the developments on the Goods and Services Tax implementation have moved in a positive direction during the monsoon session, which is very reassuring.

This optimism with regard to India's performance is reiterated in the projections released by key institutions like the World Bank, the International Monetary Fund and the Asian Development Bank. Nonetheless, the tepid recovery in the investment cycle remains a big concern.

Gross Domestic Product

Latest data for the fourth quarter of 2015-16 reported a GDP growth of 7.9 percent. This was higher than 7.2 percent growth noticed in Q3 of 2015-16 and 6.7 percent growth noticed in Q4 of 2014-15. Growth for the entire fiscal 2015-16 was reported at 7.6 percent, which was in line with the advance estimates put out by Central Statistics Office.

The improvement in growth numbers was supported by a turnaround in the performance of agriculture, forestry and fishing sector and industry. Agriculture & allied activities noted a growth of 1.3 percent in 2015-16 vis-à-vis a contraction of 0.3 percent noted in the previous year. Industrial sector growth also noted acceleration, growing by 7.4 percent in 2015-16 as compared to 5.9 percent in 2014-15.

Table 1: GDP Growth - by Economic Activity (% YoY)

	GDP	GVA at basic prices	Agriculture, forestry and fishing	Industry	Services
Jun-15	7.5	7.2	2.6	6.7	8.8
Sep-15	7.6	7.3	2.0	6.3	9.0
Dec-15	7.2	6.9	-1.0	8.6	9.1
Mar-16	7.9	7.4	2.3	7.9	8.8
2015-16	**7.6**	**7.2**	**1.3**	**7.4**	**8.9**
2014-15	7.2	7.1	-0.3	5.9	10.3

Source: CMIE

On the expenditure side, while private final consumption expenditure reported an improvement in growth numbers; gross capital formation and gross fixed capital formation noted moderation.

Table 2: GDP Growth - by Expenditure (% YoY)

	PFCE	GFCE	GCF	GFCF	Net Exports
Jun-15	6.9	-0.2	6.6	7.1	47.6
Sep-15	6.3	3.3	9.6	9.7	41.3
Dec-15	8.2	3.0	2.0	1.2	29.0
Mar-16	8.3	2.9	-2.4	-1.9	11.0
2015-16	**7.5**	**2.2**	**3.8**	**3.9**	**36.6**
2014-15	2.8	1.5	13.0	11.7	-14.9

Source: CMIE

Demand has noted an uptick, which is also affirmed by capacity utilization improvements reported by the industry. Good monsoons and the seventh pay commission are likely to give a further impetus to consumption going ahead.

Nonetheless, the domestic demand pulse will have to be strengthened to see fresh investments coming on board. According to the CMIE Capex Database, latest numbers for both new investments and projects completed reported moderation in the June quarter (both on a y-o-y and q-o-q basis).

Global economic environment is likely to remain difficult for some more time and thus continued thrust on the domestic economy will be imperative to carry forward India's growth ambitions.

Index of Industrial Production (IIP)

Even though industrial production witnessed a recovery in growth numbers in the month of May 2016, the index remains devoid of any firm trend. Growth was reported at 1.2 percent in May 2016 vis-à-vis (-) 1.4 percent growth reported in April 2016. A positive growth number is certainly encouraging, but firming up this growth will be critical.

Table 3: Industrial Performance- Monthly (% Y-o-Y)

	May-15	Feb-16	Mar-16	Apr-16	May-16
Index of Industrial Production	2.5	1.9	0.3	-1.4	1.2
Economic Activity					
Mining	2.1	5.0	0.3	1.1	1.3
Manufacturing	2.1	0.6	-1.1	-3.7	0.7
Electricity	6.0	9.6	11.8	14.6	4.7
Use-base industry classification					
Basic goods	6.2	5.4	4.4	4.7	4.0
Intermediate goods	1.2	4.9	4.4	2.3	3.6
Capital goods	3.0	-9.3	-15.3	-25.0	-12.4
Consumer durable goods	-3.9	10.4	9.9	11.8	6.0
Consumer non-durable goods	-1.0	-4.9	-5.0	-10.8	-2.2

Source: CMIE

The index indicates persisting weakness in the capital goods segment. The segment noticed contraction for the seventh consecutive month in May 2016. Consumer goods segment noted 1.1 percent growth in May 2016 as against (-) 1.9 percent growth noted in April 2016. The improvement in growth was due to a lower fall (lowest in nine months) in the consumer non-durables segment. The consumer durables segment reported a growth of 6.0 percent growth in May 2016, which was almost half of the growth registered in the previous month.

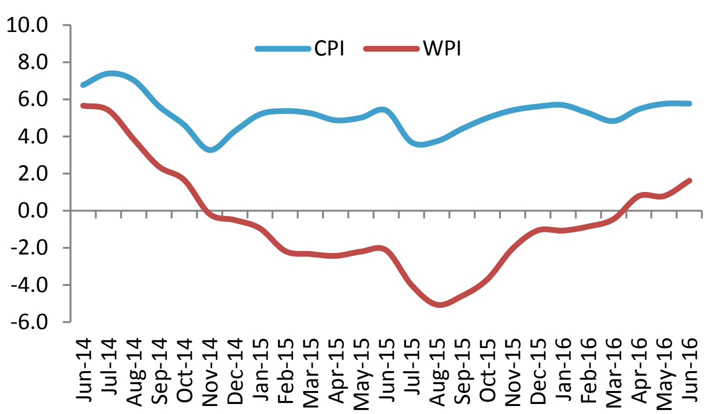
As per the economic activity wise classification of the index, both manufacturing and mining segments noted an improvement in growth numbers in the month of May 2016. Growth in electricity, however, witnessed moderation.

Inflation

Both WPI and CPI based inflation continued to edge up in the month of June 2016 primarily on account of high food prices. WPI inflation rate was reported at 1.6 percent in June 2016 vis-à-vis an inflation rate of 0.8 percent in May 2016 and (-) 2.1 percent in June 2015. The food articles segment reported an inflation of 8.2 percent in June 2016 vis-à-vis 3.1 percent inflation noted in June last year. Prices of vegetables such as potato, tomato and brinjal were seen soaring during the month. Prices of potato and tomatoes have shot up due to decrease in supply from major regions producing these crops. Excessive heat between February and May this year has impacted the tomato crop, while the production of potato in Bengal (which is one of the major producers) was hit by the blight disease in February this year. Further, the recent incessant rainfall in some major crop producing areas might affect supplies. However, the real impact will become clearer only after few months.

Prices of pulses still remain at elevated levels (26.6 percent in June 2016 and 35.6 percent in May 2016). Initiatives such as increasing the MSP and buffer stock of pulses production will help in increasing the domestic supply. Further, the recent approval of the cabinet to import pulses through long term contract with Mozambique will further enhance supply from external sources.

Table 3: Trend in WPI and CPI Inflation



Source: CMIE

CPI based retail inflation was reported at 5.8 percent in June 2016 as compared to 5.4 percent inflation noted in the corresponding month previous year.

Food & beverages segment reported an inflation rate of 7.4 percent in June 2016 as compared to 5.7 percent inflation noted in June last year.

Foreign Trade

India's merchandise exports recovered after contracting for eighteen consecutive months in June 2016 and were valued at US$ 22.6 billion. Exports reported a growth of 1.3 percent in June 2016 vis-à-vis (-) 1.2 percent growth in May 2016 and (-) 14.0 percent growth recorded in June 2015. The rise in the value of exports was driven by an increase in the non-oil exports segment which noted 3.1 percent growth during the month. Oil exports continued to contract with growth declining by 10.8 percent in June 2016.

India's overall imports were valued at US$ 30.7 billion in June 2016 which was 7.3 percent lower than the value of US$ 33.1 billion noticed in the corresponding month previous year. While oil imports contacted by 16.4 percent, non-oil imports contracted by 4.1 percent in June 2016. The decline in non-oil imports was driven by a fall in gold imports to the tune of 38.6 percent during the month.

As a result of an uptick in exports and a decline in imports, trade deficit reduced to US$ 8.1 billion in June 2016 as compared to US$ 10.8 billion reported in June 2015.

Way Forward

India has remained on a steady growth path and given the commitment towards reforms, we are likely to remain afoot on this trajectory. In fact, FICCI's latest Economic Outlook Survey puts across a GDP growth estimate of 7.7 percent for 2016-17.

On the external front, the impact of the Brexit will unfold once the actual negotiations begin. India is in a position to circumvent any direct trouble and will be able to come out relatively unscathed. In fact, the Brexit also gives us a chance to explore new opportunities with the United Kingdom and the European Union. Further, the US Federal Reserve's decision to keep the interest rate on hold is a positive amidst the current global scenario. Also, the G20 nations commitment to work together to foster growth instills a sense of support and optimism.

Sustainability and the Tata group – Gearing up to the Challenge

In many ways, 2015 was a watershed year for the global community as it witnessed the signing of two long-term global agreements – the Sustainable Development Goals and the Paris Agreement on climate change – both with potentially game-changing implications. And perhaps for the first time, business was actively involved in these agreements, not as a participant but as a very important influencer, ready to take responsibility.

For the Tata group too, 2015 was significant. The Tata Global Sustainability Council reiterated the group's belief that creating long-term stakeholder value required it to balance our financial, environmental and social performance. This resulted in a Tata Sustainability Policy that outlined the philosophy, principles and commitments of the group.

This piece outlines what we see as the key sustainability megatrends are and how the Tata group is gearing itself towards to remain relevant in this future.

Climate Change mitigation is key

Climate change mitigation is not just firmly on the global agenda but business will be expected to do more. The signing of the Paris Agreement is obviously the trigger point but clearly none of this can happen without business playing a huge part. Some of the implications and our own actions are:

- Renewables will gain ground. Tata Power has announced that by 2025, 40% of its generation capacity will come from renewables, and its recent acquisition of solar assets shows that is walking the talk. Tata Motors has committed to sourcing all its power from renewables over time. Tata Steel Europe has planned one of the largest rooftop solar installations in the world. Several companies are including the use of renewables into its policies.
- Energy efficiency programmes will have to accelerate. Several group companies have been working on this for a while and we also have a robust Energy Champions programme where, along with IIT Bombay, several employees are trained to deepen and hasten this process.
- Investing in low carbon growth is inevitable. The group has been exploring the use of an internal carbon price as a shadow price which will drive investments down a low-carbon path.
- New opportunities will open up. Solar power generation is an obvious opportunity but a less obvious one is what our group skilling initiative Tata STRIVE has launched – employability programmes for youth in solar installations!

Extreme weather events will be the new normal

It is abundantly clear that while mitigation is the only way to keep temperature rise well below 2 degrees as agreed in Paris, the effects of climate change are already upon us. Natural disasters like the droughts in Maharashtra and Bundelkhand, and the J&K and Tamil Nadu floods are not just isolated events but likely to be the new normal. And while it can be argued that governments have to take responsibility to address the consequences of these events, businesses cannot escape their responsibility.

As these events adversely impact business continuity, Tata companies have initiated several steps. Factoring extreme climate events into business continuity plans is one such step. A study has been commissioned to assess climate change impacts in the state of Gujarat where several of Tata companies have assets, including two on the coast which is vulnerable to sea-level rise. The beverages company has begun mapping potential climate change impacts on tea growing areas to ensure long-term raw material availability.

While responding to natural disasters is very much a part of the Tata DNA, several steps have been taken to strengthen its ability to respond. A Disaster Response Guidelines document and related SOPs have been put in place. As the response is volunteer-driven, a plan to have a cadre of 50 trained project managers who can take charge of our response is under execution.

Competition for water will increase

If anyone thought that predictions of water being the trigger for the next World War was a lot of hyperbole, they should be sobered by the news that Section 144 of the IPC (which prohibits a gathering of more than 5 persons in a place) was promulgated in drought-stricken Latur in Maharashtra. Industry can cry hoarse that they consume less than 6% of water in their processes but given the life-giving nature of water, many realise that they have to not only be a part of the solution, but be seen to be so.

Water-intensive manufacturing processes and products that contain water with little nutritious benefits are likely to be targets of water shortages. Coca Cola's plant in Plachimada has been shut for several years due to an agitation over water. Grasim's Nagda plant and Reliance's Dahej plant had to suspend production due to water shortages.

The Tata group has long recognised this challenge and has been readying itself. It has footprinted water use in several of its companies using the methodology developed by the Water Footprinting Network (WFN) and has a cadre of trained Water Champions who can use this tool and create projects that reduce water consumption. Tata Group KPIs include water consumption intensity and fresh water usage which will be tracked regularly and create conditions for investing in processes that are less water-intensive. Its head-office, Bombay House, which is India's first IGBC Platinum-rated heritage building installed waterless urinals a few years ago.

Society will expect companies to go beyond mere providing goods and services

In an increasingly inequitable world, with governments increasingly challenged in terms of capabilities and resources to provide solutions, business that believe that their role is only to provide goods and services and nothing else will do so at their peril. The Tata group's founder Jamshetji Tata famously said that the "community is not just another stakeholder in business but is in fact the very purpose of its existence". This has been the Tata group's talisman and has driven its CSR activities well before it became law.

As a part of the evolution of CSR, several changes have been made and are in the offing. For one, the SDGs and climate change adaptation will factor more prominently in the way CSR is planned and executed. Experiences of individual companies are being harmonised into Group CSR Programmes (GCPs) so that the impact is great than the sum of the individual initiatives; Tata STRIVE, the group's skilling programme, is the first of the GCPs, has already been rolled out.

Volunteering, that lies at the heart of the Tata way of life, is being connected with its CSR activities. Tata Engage, the group-level volunteering platform, promotes this idea. Listed as one among the top 10 corporate volunteering programmes in the world, the group's volunteering initiatives achieved a million volunteering hours in FY16, to bring the group closer to its vision of touching a quarter of the world's population by 2025.

Another element of societal expectations is the way companies use natural resources beyond water. The Tata group is seriously exploring the case for circularity, both designing goods that require minimal natural resources in their manufacture and use, eliminating non-recyclable material as well as ensuring that no waste goes into landfills, thus making its offerings sustainable. As a member of the Natural Capital Coalition, the group is also helping build the Natural Capital Protocol to value natural capital use. It is also working to develop a global Social Capital Protocol.

The Tata Affirmative Action Programme creates conditions to improve education, entrepreneurship, employability and employment opportunities of Dalits and Adivasis in India. All Tata companies participate in this programme. Work is also being done to improve opportunities for women and people with disabilities.

Endnote

The Tata group believes that sustainability challenges can be overcome through partnerships and collaboration (as articulated by SDG 17) and that responsible businesses must show the way.

The article is written by Mr. Shankar Venkateswaran, Chief, Tata Sustainability Group for FICCI's Economy Watch. The views expressed here are personal

Don't just ask what effect your business has on the planet, but also ask what effect the planet will have on your business!

"By 2017, the Aditya Birla Group endeavours to become the leading Indian conglomerate for sustainable business practices across its global operation." These are the words of the Aditya Birla Group chairman, Mr Kumar Mangalam Birla. To achieve this vision, we are building sustainable businesses capable of operating in the world that will emerge in 2030 and 2050 – worlds where we will be facing greater external pressures than ever before.

The business operating landscape is changing rapidly. It is in our own interests to minimise any negative impact in every way we can, whilst also adapting so that we can be viable in the face of inevitable change, such as the changing climate and shifting demographics.

We began our quest with a question, "If everyone and every business followed the law as written today, is the planet sustainable?" We quickly concluded that, even with a full implementation of the legal frameworks we have today, by 2050 we would see climate change, water scarcity, inequality and many other issues that lock us into an irrecoverable downward spiral.

It is therefore intuitive that laws be tightened over time and imperative that the Aditya Birla Group remain ahead of the curve. We as a Group have to understand how we can mitigate this spiral – not only to reduce our impact on the planet but also to reduce that of external factors (such as legal changes, greater societal expectations on business transparency for instance) on our business viability and that of our supply chain.

To do this, we have developed our Sustainable Business Framework.

In order to be prepared for the stresses that we know we as business, society and the world will face, we look to international standards and best practices. Our Framework prepares us for the shifting, and shrinking space that changing external factors will offer to our operations, products and supply chains. By keeping an eye on the future we are leading our businesses to do the same.

We will need to mitigate, manage and sometimes adapt to these changes, being prepared is critical to our own sustainability, and that of the planet.

The first step on our Framework was to set up a programme to reduce our impact from current operations. This "Responsible Stewardship" aims to improve our management systems such that in addition to complying with local laws, they are aligned with the Aditya Birla Sustainable Business Framework. This means that we align with international standards set by global bodies such as the International Finance Corporation (IFC), the Organisation for Economic Cooperation and Development (OECD), the United Nations Global Compact (UNGC), the International Standards Organisation (ISO), Occupational Health and Safety Advisory Services (OHSAS) and others.

Supported with policies, technical standards and guidance notes, we are giving our employees the chance to understand and apply improvement techniques to reach higher standards of performance. So far, we have had much success with respect to improvements in safety performance, health management, waste management reductions in energy use, water use and air emissions. We are working towards achieving the World Business Council for Sustainable Development's Water and Sanitation and Hygiene pledge (WASH) to make sure that have systems to provide safe drinking water, sanitation and hygiene across all our operations. Our management systems are underpinned with the use of technology to ensure consistency and standardisation across the Group that allows us to track progress in real-time. Each of these achievements helps reduce our negative impact on the planet and build a future in which our businesses can thrive.

If we are to create sustainable businesses for the long term, however, "Responsible Stewardship" – simply reducing impacts or increasing efficiency - by itself is not enough and we need other components to help us with a greater transformation. A truly sustainable business succeeds financially through providing value within the limits of the planet. We need to understand these limits, and the type of value needed by our changing society.

Our performance will need to be improved further and in some cases may even need us to transform our products, operations, and supply chains.

Hence, the second step in our framework is called “Strategic Stakeholder Engagement”. This involves scanning the time horizon to understand these external factors in detail and the way they may evolve, or even disrupt, from now to 2020 and then by 2030 and 2050. By doing so, we increase our understanding of which external changes might heavily influence our value chains and business models in the future and hence what might be expected of our operations, supply chains, products and brands. Working with our strategic stakeholders we are moving away from traditional forms of engagement to push their, and our own, thinking on how our business needs to evolve in line with these external changes – the limits that we face and the value required. Combining our stakeholder’s issue specific expertise with our own knowledge of our operations and business acumen, we are using these relationships to meaningfully influence our forward strategy.

Finally, the third step is our “Future Proofing” programme where we test our current business models and strategies against various scenarios designed to simulate what the business environment will potentially look like in 2030 and 2050. What limits could restrict our desired growth that we haven’t foreseen or cannot predict? How can we manage for this uncertainty? Building truly sustainable businesses will take time, particularly when we consider some of our complex supply chains. By pushing to be the leader today, we are giving ourselves the best possibility of achieving long-term success.

Some of our businesses are further ahead than others. Novelis, for instance, has consciously become the largest recycler of aluminium in the world, offering products with over 50% recycled content.

Understanding that climate change and increasing difficulty in licencing new mines would potentially limit the viable availability of aluminium in the future, they shifted to recycling in an effort to mitigate any shock in the future.

Novelis has understood the changes in the market, societal expectations and resource pressures and has invested heavily in new recycling technology and new capacity in Europe, Brazil and Korea. The move supports the transformation to a circular economy where extracted material will be increasingly used over and over again.

Liva, our natural fluid fabric made from wood pulp, harvested from sustainably managed forests, is bringing sustainable viscose staple fibre to the world of high-end fashion. We are working with the Sustainable Apparel Coalition, a group of over 200 apparel companies to improve the way business is conducted. We are aligning our systems to the “Higg Index” - the fashion industry’s specific set of measures that help advance supply chain performance in terms of operation, product and brand.

Nowhere are sustainable business strategies more important than in India, China and South East Asia. The area is home to over half the population of the planet. Land and natural resources are already feeling the strain, with high pollution, biodiversity loss, growing levels of water stress and high carbon energy provision. This makes building sustainable businesses not just nice to do but also a central business imperative because, “Businesses cannot survive on a planet or in a society that fails”. At the Aditya Birla Group, we see our role as not only ensuring the sustainability of our own businesses and the areas in which we operate in, but as inspiring others to consider what the future of business looks like in a sustainable world.

The article is written by Mr. Tony Henshaw, Chief Sustainability Officer, Aditya Birla Group for FICCI’s Economy Watch.

Driving Sustainability at Mahindra

It wouldn't be wrong to say that 2015 was a landmark year for Sustainability. From adoption of the Paris Agreement and the UN Sustainable Development Goals (SDGs), the year witnessed historical achievements and generated hope that the international community is finally uniting in pursuit of ambitious, long-term solutions to mankind's most significant challenge. There is growing consensus among world leaders across business, government and civil society about the future direction of climate action and the need for concerted, coordinated, systemic responses to resource conservation and deployment. The focus is now on the deliverables.

At Mahindra we are aligned to this purpose. Delivering on the purpose requires an actionable definition of Sustainability. The most frequently cited definition comes from the 1987 report of the World Commission on Environment and Development, titled "Our Common Future" (also known as the Brundtland Commission Report). It reads, "Development that meets the needs of the present without compromising the ability of future generations to meet their own needs." Although this definition reflects the ethos of Sustainability, it does not specify a course of action.

So we took upon ourselves to craft a working definition of Sustainability when viewed from the perspective of a Corporation. The definition that we have adopted reads, "Sustainability is to enable enduring business by empowering the community and rejuvenating the environment." This definition is action-oriented, makes the areas of action clear and lays out the objectives for business and beyond, or shall we say, people, planet and profit.

What the definition translates into includes developing products and services which generate an evergreen stream of green revenue, evangelizing sustainability through the supply chain for greater impact, enabling programs to help the community to rise while being carbon neutral, water positive and making waste a resource and not just mere refuse. In the process we aim to give back to the earth more than we take.

There are multiple ways in which these courses of action are operationalized within the Mahindra Group. Strong actions in many areas including energy efficiency and energy management helped the business remain resilient in bad times (evergreen revenue); Multiple revenue opportunities are being leveraged in areas that are closely connected to climate change such as setting up solar power generation capacity (Mahindra Susten), micro-irrigation (Mahindra EPC), electric cars (Mahindra Reva), electric scooters (Mahindra GenZe), cars that run on CNG (alternative fuel), building green buildings (Mahindra Lifespaces), building a carbon neutral city (Mahindra World City) and leveraging cloud based services in IT applications and the IT business (Tech Mahindra). The portfolio of these green revenue streams exceeds US$ 300 million in 2015-16.

We strive for optimized uses of resources. Our Sustainability practices have enabled one of our Group companies, Mahindra Sanyo Special Steels Ltd., to become a supplier of the BMW Group. The parent company, Mahindra and Mahindra Ltd., was the first company worldwide to commit to doubling energy productivity in the program EP100 floated by the renowned international NGO, The Climate Group.

This commitment is the culmination of high impact work done over the years. Hundreds of projects in the areas of heat recovery, energy efficient cooling, energy efficient lighting, retro fitment of equipment to enhance energy efficiency, etc. within the company and with suppliers has led to energy consumption per vehicle being reduced by one-third in less than a decade.

Another resource that we work on is Water. Harnessing water and being more water efficient has helped Mahindra ensure business continuity at water scarce locations. Our tractor factory at Zaheerabad faced severe shortage of water. Harnessing and afforestation efforts resulted in the factory becoming water secure and the society that lived around it having access to more water than before. A pilot of a small plane is known to have remarked that the enhanced presence of trees in the area makes spotting the runway at the nearby airport a lot easier than before!

Water is also a critical resource for the holidays business of the Mahindra Group, Mahindra Holidays and Resorts India Ltd. The use of water efficient technologies and active recycling of water ensures that the business does not impose a water burden on the communities that it is a part of. More than 60% of the water that it uses gets recycled.

Implementing integrated watershed management projects in rural India has led to the Mahindra Group becoming water positive many times over. These projects have helped the villagers make more than 100 hectares of barren land cultivable, enhance irrigation availability on more than 1500 ha. of land, move from single cropping to multiple cropping, and enhance crop productivity. The resulting financial gains have helped the villagers buy tractors for more efficient cultivation, and micro-irrigation systems for energy and water-efficient irrigation.

We are committed to maintaining the natural water cycle at Mahindra. Hence, efficient discharge systems comprising ETPs (Effluent Treatment Plants) and STPs (Sewage treatment Plants) have been set-up.

The treated water is used within the campus in the most suitable ways possible and thus many of the locations have achieved zero discharge status. Regular monitoring of our waste water is done by internal as well as external agencies, in terms of parameters specified by statutory authorities like C.O.D, B.O.D, pH etc. The values have always been within the guidelines and limits defined by the State Pollution Control Boards and local regulatory authorities.

We recognize that the role of technology and innovation in shaping progress on sustainable development will remain paramount. We will be increasingly looking at cost-effective renewable technologies, new energy efficiency measures and exciting innovations in robotics and big data which could potentially change the way we address environment, social and economic needs. In keeping with the core purpose of our Group, we will challenge conventional thinking and innovatively use all our resources to drive positive change in the lives of our stakeholders and communities across the world to enable them to Rise. For Good.

The article is written by Mr. Anirban Ghosh, Vice President, Group Sustainability, Mahindra for FICCI's Economy Watch.

In post-monsoon quarters, economy will show a healthy upward movement

In an interview to Sunday Gurdian, Mr Harshavardhan Neotia, Ambuja Neotia Group Chairman and President, FICCI shared his views on a range of topics including the Indian economy and the corporate sector. Presented below are the excerpts from the interview:

What are your views on the country's economic prospects?

Generally, FICCI is of the view that the foundation of the economy after the slowdown has been well laid by the government and in terms of many macro economic indicators we can feel that the economy is in a fairly healthy shape. The reason why private investment is taking time is that there is overcapacity on expectation of high growth which is now coming to fruition. The other thing is that everyone had borrowed and they were leveraged and they do not have the appetite to borrow more. So we feel that if monsoon is normal, as we expect it to be, then we should see a fillip in rural demand.

The seventh pay commission and OROP would also bring some liquidity into the market and the massive capital expenditure that is being undertaken by the government should also send a positive signal in terms of the economy. All of this should finally result in general improvement of our GDP numbers. And if the GST happens this would be an added fillip. Even if it does not, I think the numbers would improve.

I think as far as the IIP is concerned, the industry would take a little more time to gather momentum. I see that in the post-monsoon quarters, economy and corporate numbers will show a healthy upward movement.

There appears to be some distrust in some quarters about the government numbers?

Not being an economist, I would not know the construct of these numbers. But if there is a mistake somewhere it would have been over a period. I don't think they are fiddling with the parameters on a daily basis.

If something has systematically gone wrong in some aspects, it may be only half percent here or there. They are never absolutely accurate anywhere in the world. I will tend to rely on them generally.

Do you expect buoyancy in tax collection on GST implementation?

It may take some time to stabilise as you move from one regime to another. There may some implementation issues. But GST certainly improves the ease of business and it puts compliance at a very much higher order. Tax avoidance gets disincentivised.

Yes, buoyancy should come as GST regime would provide a recording. It is a tax where you get credit on what you have paid. You would lose the credit if you do not charge the tax. That is the incentive to put yourself on line.

Can you share your views on the present Government?

We have been optimistic on the government's focus on fixing issues like ease of business, infrastructure creation, on its sticking to fiscal targets and transparency. On all the major fronts we have seen remarkable determination to do the right things. In some ways the government is trying to address the menace of black money. It may take time for results to bear fruit.

Does the employment scenario worry you?

We do have a challenge here. The opportunities for income generation are increasing. But traditional jobs are depleting. We have to shift people's expectations to this reality. Looking for jobs will not help. There are various opportunities in self-employment. Skills will get you get jobs, expectations of regular jobs will not help.

Are there any global concerns? What about Brexit?

You can be concerned about global issues but can you really do much? Our country is going through its own cycle. What we can do and what India should focus on is enhancing on its own competitiveness.

Make world class goods at competitive prices. Brexit is a sovereign issue of that country.

Indian companies invested in that country did so in hopes of making that their gateway to Europe therefore this issue may pose some challenges.

How do you view the prospects of West Bengal?

There is nothing uniquely challenging about West Bengal and yes, this should be a natural selection for a big auto unit – either green or brownfield.

The interview of Mr. Harshavardhan Neotia, President, FICCI was published in Sunday Guardian on June 12, 2016.

Brexit impact on India: From a 'reverse safe haven' to 'no major currency war'

Dr Arvind Virmani shared his views on the impact of Brexit on the Indian economy in an interview with the Financial Express. Presented below are his opinion on the subject:

How do you evaluate the impact of Britain's exit from the EU on the rupee, India's foreign trade, capital flows into and out of the country, the bond markets and the overall economy?

The immediate (one-two days) effects of the referendum are due mostly to the forecasting error made by betting markets (those who put their money on the line). Most of the short-term capital movements vis-à-vis India will be adjusted in a couple of days and won't be very significant.

The rupee-US dollar rate will depreciate by approximately the same percentage as the dollar depreciates against the broad index.

Unlike earlier shocks, this shock was known but its probability was underestimated. I believe that many observers are overestimating the direct economic effects of Brexit based on earlier economic shocks. The heightened risk in this case arises mostly from the uncertainty in predicting adverse politico-economic developments in the EU and in the US elections.

These will of course have economic consequences: increased risk will likely result in lower real investment and consequent further weakening of growth impulses in developed countries.

This will, however, have little net effect on India because of the offsetting effect of slower rise in oil prices and continued weakness in demand.

If economic reforms continue at a steady pace, there could be larger surge of capital inflows into India due to a "reverse safe haven" or "relative economic opportunity" effect.

How should the government and RBI deal with the aftermath of Brexit?

The RBI and other central banks have had many experiences of shocks and by now they know well how to minimise any financial contagion by ensuring liquidity.

How serious is the possibility of competitive devaluation of currencies?

Most countries will let markets adjust to the new expectations. Some such as China, which do not really have a market-determined exchange rate, may use this occasion to nudge its exchange rate a little lower, but not enough to cause any widespread alarm.

The interview of Dr. Arvind Virmani, Mentor, Economic & Public Policy, FICCI was published in The Financial Express on June 27, 2016.

India needs a weaker exchange rate

One of the key things about the Indian economy in the past two years has been a relatively stable rupee. While a stable rupee may be a cause for celebration, it comes at an economic cost—the relative appreciation in the rupee's real value. As other countries' currencies have fallen due to slowing economic growth or loose monetary policies, they remain reasonably competitive. In our case, however, the rupee has become stronger, impacting our overall global competitiveness.

Many economists consider the 'fair' value of the rupee at around 72-73 against the dollar, which means the rupee is 'overvalued' by 6-8%. If we have inflation of 5% in the coming year, then by 2017, the fair value should be about 75-76. Add to this a 'pre-emptive' weaker currency for competitiveness, as highlighted above, rupee value of 80 to the dollar is actually not unthinkable. While this further depreciation in the rupee may sound alarming, it will actually benefit the economy. Currency has been, and continues to be, one of the policy tools used by various countries across time periods to encourage domestic manufacturers.

The global overcapacity affects us deeply as we are now part of the interconnected global supply chain. The historic argument about weak currency for export growth has another equally important import dimension to it. As our currency has become stronger, our import dependency will increase, putting stress on local manufacturing. We are already seeing this in the steel and chemicals sector. Even in the agricultural sector, the overvaluation of the rupee is hurting farm incomes. This can be seen in the case of wheat, where the government had to resort to import duties as domestic prices had become uncompetitive. A sharp fall in the currencies of Argentina, Brazil, Russia and Europe has helped these countries in pushing exports of agricultural commodities at far cheaper rates than we can produce locally.

The world is increasingly moving towards reduction in trade barriers. India is considered to have the highest tariff barriers already as our tradable sectors have been hit by dumping from overseas.

Increasingly, our ability to use tariffs as a way of equalizing the appreciating rupee will have limited scope. A weaker rupee will have the same impact as import tariffs without upsetting our World Trade Organization commitments. Also, a falling rupee will give some protection to local manufacturing—both for India's consumption and some degree of export competitiveness. Therefore, we should move from using tariff to using currency as a key equalization tool.

China has been able to effectively use its currency strategy for many years. The advantage that an aggressive currency strategy confers on a country is more permanent than tariff barriers. At Rs.80 to the dollar, our steel sector can get back to good health and many of the woes that plague this sector will reduce.

There are arguments that we should improve our core competitiveness rather than use currency as a tool to defend ourselves—the same arguments can be used for tariff barriers. But the ground reality is that Indian manufacturers have certain disadvantages like high land costs and lower labour productivity which result in higher production costs compared to our global peers. Some of these are due to past policies, some due to inherent Indian inefficiency, and some due to structural reasons such as high inflation. Improvement in competitiveness will come over the next few years (as government initiatives on ease of doing business, Skill India and Digital India take shape) but in the meantime, to offset these structural costs, we need a weaker rupee.

Many Indians have the dual misconception that a stronger rupee is a matter of great pride and a falling currency is shameful. There is this well-known anecdote (as recounted by Jairam Ramesh in his recent book To the Brink and Back: India's 1991 Story) about the political opposition to the rupee devaluation in 1991. The devaluation was planned in two stages but after stage 1, there was so much political uproar within the Congress party that then prime minister P.V. Narasimha Rao asked finance minister Manmohan Singh to cancel stage 2 of the devaluation. But by then, the Reserve Bank of India had already announced it.

However, most countries do not share this notion. In Japan, whenever the yen falls, the Nikkei index goes up. The US has tried for many years to force China to appreciate the yuan, which China has resisted. In a world of overcapacity and weak demand, a strong currency is not a matter of pride, but a source of concern.

As with everything in economics, this will come at a cost. Any policy tool is about trade-offs. A falling rupee will put pressure on inflation. But with weak global commodity prices and a vigilant central bank, we may be able to manage this. There will also be stress among corporates who have borrowed in foreign currency and not hedged as they will be hit hard.

What we need is a gradual depreciation over the next 12-18 months and as the markets and investors see the trend, they will adjust. Right now, there is an almost free carry trade wherein investors can borrow in dollars and invest in the high-yielding rupee. Many Indian corporates are also using this arbitrage via foreign currency borrowing which is not hedged (as post hedging cost, the interest rate differential narrows considerably).

A falling rupee offers a triple action since it is equivalent to cutting interest rates, extending import tariffs and providing an export incentive—all in one. A weak currency strategy will have the same matrix of cost benefits, but overall at this stage in our economic evolution and the global macroeconomic outlook, the benefits of a weaker currency outweigh the costs.

The article is written by Mr. Rashesh Shah, Vice President, FICCI and Chairman and CEO Edelweiss Group. It was published in Live Mint on June 10, 2016.

Bankruptcy law: An overhaul long overdue

The passage of the Bankruptcy and Insolvency Code is a huge positive for the Indian economy and its businesses. The government has taken several strides forward to enhance the ease of doing business and make life easy for a prospective entrepreneur who wishes to start a new venture. The Bankruptcy and Insolvency Code is another giant leap that would make exiting a non-viable business easier than it currently is. This helps in several ways. You free up capital for more productive uses. You generate new employment opportunities through better use of capital and of course, this helps in tackling one of the key pain points of the banking sector — resolving the stressed assets problem.

The law in India relating to insolvency was contained in several legislations such as the Sick Industrial Companies (Special Provisions) Act, 1985, Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002, constitution and process before the Debt Recovery Tribunals and the Companies Act. However, since the inception of these different legislations, several complexities have been faced in their implementation and they hardly satisfied the imperative for revival and rehabilitation of sick industrial undertakings; rendering them inadequate to meet the changing conditions. Hence, reform in this branch of law was long overdue.

Coupled with this, the Insolvency and Bankruptcy Code is being seen as an important piece of legislation to help create a more business-friendly environment. Failure of business affects employees, shareholders, lenders and the economy at large. Easy exit for a business which is on the brink of collapse helps in speedy winding up, productive redeployment of capital and ensures greater availability of credit by freeing up of capital. This, in turn, boosts productivity and economic growth. Against this backdrop, the industry welcomes the passage of this modern bankruptcy law and views its successful implementation as indispensable to achieve an efficient and swift insolvency regime.

Currently it takes (on an average) more than four years to resolve insolvency in India. The new Code seeks to cut down the time frame drastically.

As per the new regime, corporate insolvency applications will have to be decided within 180 days, with an option of extending it by only an additional 90 days. This is a very welcome move and will provide certainty to the process, though some flexibility in case of companies where Corporate Insolvency Resolution Process is complex may be desirable.

Effective enforcement of the Code is substantially dependent on the efficient functioning of the National Company Law Tribunal (NCLT) and Debt Recovery Tribunals (DRTs). Hence, the key challenges currently include creation of appropriate implementation infrastructure and capacity, including setting up of NCLT and creation of an effective mechanism to resolve the pending cases with DRTs. As per media reports, by December 2014, 59,645 cases involving Rs 3.74 trillion in bank loans were pending before DRTs, according to the data from the Government's Department of Financial Services.

Without an effective mechanism to resolve the pending issues with DRTs, the number of pending cases will keep adding, leading to delay of the insolvency resolution process under the Code instead of providing a time bound resolution process. This brings us to the moot point on whether DRTs should be further strengthened with adequate resources or an alternate authority should be created as the forum for the recovery of debt from individuals and partnership firms. In this regard, the proposal of the Financial Sector Legislative Reforms Commission of digitising the DRT process to improve efficiency and effectiveness of the DRTs may also be considered.

Another issue pertains to the whole ecosystem of Insolvency Professionals who will play a very vital role in the entire insolvency resolution process. Minimum qualification and experience requirements of insolvency professionals have been left to the by-laws to be framed by the insolvency professional agencies and on the Government, which is empowered to make regulations in this regard. Absence of provisions related to minimum qualification and experience requirements for insolvency professionals in the Code, gives uncertainty with regard to the competency of insolvency professionals for handling the insolvency resolution process.

Certain minimum criteria, pertaining to financial literacy and competency, may be prescribed in the Code itself. Other requirements such as requisite experience of 10-15 years etc. may be prescribed in the Rules, under a delegated authority of the government.

Additionally, before the whole mechanism provided under the Code is institutionalised and the structure becomes fully functional, the Insolvency & Bankruptcy Board of India or the designated financial regulator, as the case may be, should have the right to nominate a prescribed number of persons as Insolvency Professionals, who shall be persons of eminence and with experience in the field of finance, law or insolvency. This will help to kick-start the whole machinery and once the process is in place, then more people can be registered as Insolvency Professionals, based on the guidelines provided under the Code and the Rules.

Though the Code may not be a panacea, as some observers tend to articulate, it is a major step forward in the ongoing reform process of attaining the objective of preferred investment destination for India. With such positive measures as these being undertaken by the Government, achieving the target of securing a rank in the first 50 economies in the Doing Business Report won't remain a distant dream. Going forward, Moreover, it will greatly help deal with the existing stressed asset scenario being faced by the banks so that they can productively support country's growth aspirations.

FICCI hopes that the new insolvency framework while providing an enabling environment for growth of India Inc. will also address valid concerns and practical hardships of the Industry and just like any other legislation, the Insolvency and Bankruptcy Code would also evolve over time.

The article is written by Mr. Harshavardhan Neotia, President, FICCI.
It was published in Sunday Guardian on June 12, 2016.

What you see is far from what you get

While India pats itself on the back for a good GDP growth trend, efforts continue to revive the investment and enterprising spirit (both from home and abroad). It is this investment thrust to GDP that will make it sustainable, beyond being consumption-led, and take growth to near double-digits. Without sustained high growth, the dreams of millions to achieve meaningful livelihoods stay jeopardised, even as the Prime Minister reiterates that India can be the new engine for global growth.

WYSIWYG is a somewhat dated yet useful acronym ('what you see is what you get'). It may serve as a handy litmus test in respect of the political, legislative and administrative environment and its impact on enterprise and employment. The aim is not to be critical but evaluate where we stand, with a view to improvement.

Commitment matters

Desi commitment to expanding investment and jobs is the surest vote of confidence. Signals of staying interested yet not investing are not good enough. Mergers, acquisitions and soft-sector investment boost sentiments but the proof of the pudding remains in the restarting of outlays on brick and mortar assets by domestic business.

Global enterprises need India as much as India wants them. India is certainly a secure sweet spot offering a mix of growth potential and geopolitical diversity. Yet the combination of domestic and global interest has not brought us to the major launching pad for a new trajectory. We must improve the balance between cultivating domestic investment and inviting FDI, as well as building a mix of incremental (fresh, long-term, stable ownership) and transactional (private equity, or based on specific market opportunities) investment.

Business and market attractiveness are necessary, but not sufficient conditions for investment decisions. Systemic trust is critical for undertaking risk. The Government gives clear signals about ending crony practices and high-level corruption.

Improving the ease of doing business is high on the policy and action agendas.

Muffled signals

Yet one feels enterprises are getting blurred signals via increased regulatory (sometimes judicial) overreach and confusion. Such events have been mostly addressed by post-injury repair, but the spheres under influence are expanding rapidly and unpredictably. No business can afford to undertake risks over such wide-ranging regulatory or judicial actions. Activism has also made fears omnipresent. One cannot find comprehensive solutions for such anxieties other than to ask for clear rules that have been properly thought through, and swifter judicial disposal where needed.

The leadership has expressed confidence on reduction of high-level corruption (which was likely based on inducement or infraction in the first place); this greatly increases systemic confidence. But, while necessary it may not be sufficient. It will add value and credibility when the leadership can articulate with explicit confidence that pervasive rent-seeking at operational levels, or control-and-discretion-based harassment, are things of the past.

Promoters assume significant financial risks when they invest, contrary to opinion floating around. Aberration by a promoter must be proven promptly, and penalised; only then will the larger ecosystem and public opinion be reassured about not stifling promoters as a class.

Invested capital (be it owned, raised or borrowed) needs to earn risk-weighted returns. The word 'return' equates to profits but unfortunately the prevailing mood, maybe in part due to misplaced outrage or a lack of full appreciation, seems to be that profit is not a good word. Some even rush to the extent of portraying profits as profiteering or greed and thus socially unjust. Such an attitude is not healthy and does not inspire sensible businesses.

Recent banking stresses came to the forefront when the Reserve Bank of India attempted to clean up the problems of the past decade of investments in a few quarters. The timing is open to debate, as business performance of late has been largely sub-optimal.

Cleaning up bank portfolios is sound in principle, but media-led rhetoric and the compounding effects of leadership responses have whipped up sentiments and actions in impractical directions and proportions. Other countries with similar yet more serious problems have resolved matters without disproportionate public debate or ire.

It does not help if the might of the State and its plethora of laws and punishments is invoked in what is essentially a contractual enforcement matter. The substantive line between “deemed” and “proven” guilt also seems to have blurred. Painful as this seems, it may be the sum and substance of many statements and actions of late. If contracts cannot be enforced, must we not look at resolving bottlenecks to ensure their sanctity?

Too little?

Recent assertions espousing a conducive decision-making atmosphere for debt resolution may prove to be too little, too late. The likely effects of over-discussion and analysis will, to my mind, be seen in future.

Lenders’ decision-making will most likely slow down and/or enforce impractical covenants on debtors. Businesses may not borrow to invest if they feel that business difficulty or failure has the potential to classify them as delinquent, and even threaten personal ruin. If genuine risk-taking suffers, the system may well be throwing the baby out with the bathwater.

Corporate structures exist for genuine purposes, and the time-tested principles of limited liability cannot be contravened without proper cause. Rationally, no matter how compelling an idealistic argument may sound, corporate debt (for business purposes) is not the same as personal debt (to buy cars/houses). Each has to be dealt with appropriately; there is no one size that fits all.

A revisit is required on the model of personal guarantee as collateral for loans, which had grown in an era of wobbly governance and centralised promoter control. If one seriously believes that the regulatory system (SEBI, Company Law and others) has brought a sea change to governance where such central control cannot rightfully exist, then extra-constitutional arrangements such as personal guarantees must lose their sanctity. Instead, have strong enforcement that punishes aberration; the potential of facing liquidation under recent insolvency laws is a solemn deterrent. The environment must become yet more conducive for enterprise. India cannot afford continued inconsistencies between what we see and what we get.

The article is written by Mr. Sidharth Birla, Past President, FICCI. It was published in The Hindu Business Line on June 15, 2016.

Swachh Bharat, in more ways than one

Leaders make decisions shaped by their own values. Some decisions can be small or affect a few people briefly; others can be extensive, triggering long-term community impact. Select initiatives can help determine the shape of the nation and the moralities of future generations.

Swachh Bharat is the mass movement for a clean and hygienic India. Inspired by the same ethos, I reflect here on promoting swachhta (cleanliness) in the economic sphere (through ethical dealings) with particular reference to standards of conduct in taxation.

Rights and responsibilities

The civil rights leader Martin Luther King had expressed (in a broad context) the need to link individual duties with the responsibilities of citizenship.

Many thinkers link social values to economic prosperity; they argue that practising principled public values is a moral imperative and in the national interest. All this predictably implies that when people collectively insist that institutions act ethically, they must also strive to so act personally. While this sounds logical it requires much effort and resolve.

Let's look around the globe to see if we are the only ones troubled by tax issues. A simple Google search can show that tax mitigation/evasion is a global passion, not just an Indian aberration. At various points in the past few years, countries such as Canada, the US, Italy, South Africa, Australia, Thailand, some EU countries, Turkey, and the UK have resorted to voluntary disclosure-based tax amnesty in some form — some on time limited, some on an open-ended basis. So, quasi-amnesty is seen as an acceptable alternative globally.

Besides many global citizens regularising their affairs to avoid pursuit by tax authorities and the state, even at home an equitable reassessment of personal assets and income situations will go a long way in the quest for transparency, business ease and improved global standing for India.

Widening the base

In this context it is important that authorities follow the Prime Minister's pointer that the efforts must result in bringing new taxpayers in the ecosystem. Salaried or fixed income persons are automatically in the tax net; the challenge is to garner business, trade and professional incomes and double the number of taxpayers.

I had earlier suggested that every Aadhar cardholder must be suo motu issued a PAN number. Whether he will thereafter be assessed to (and pay) tax will be a matter for the law to dictate.

In its hunt for black money (or unaccounted money kept outside the tax net) India is investing immense political capital and the Government demonstrates great conviction about mitigating (if not eliminating) its weightage in the economy.

I believe that every right-minded citizen, well-intentioned towards the nation, must support this larger initiative so that all persons deemed to be covered can be fairly assessed to tax, and the informal economy can be minimised, if not eliminated.

I also believe that everyone above a certain income — say, in the highest slab of ₹10 lakh and above — should be assessed to tax, irrespective of source.

Source-based and/or other exemptions, where necessary, must be in the lower slabs only.

A key aspect consistently articulated is that the current stress to encourage domestic disclosure/compliance has less to do with short-term revenue mobilisation and more to do with building a morally sustainable culture where everyone with non-exempt taxable earnings can pay his due share towards nation-building.

The leadership extensively elaborates that confidentiality and non-intrusiveness are hallmarks of the current initiative. But, to my mind, there remain significant areas to be tackled if we wish that new taxpayers are brought in.

For one, a historically dysfunctional relationship between authorities and taxpayers (essentially mistrust, and a perception that once you are a taxpayer you can be questioned or harassed anytime) has built up over decades.

This cannot be wished away and is a serious mental deterrent to potential taxpayers. It is thus a moot question if caveats to authorities by the leadership are enough to overcome their ingrained instincts.

Budget after budget seems to increase both the onus on existing taxpayers as well as their divide with the rest of society (for example, by calling some super-rich, ultra-rich).

The tax authorities also do not appreciate distinctions between tax mitigation (which is lawful) and evasion (which is not).

We frequently hear about the real-estate sector as being high on black money usage; must we not revisit the entire chapter of taxes/duties which are probably the key reason for aberrations? Illicit monies are not an essential need for either buyer or seller.

Sustained momentum

In order to sustain hygiene once created, it is essential to eliminate systemic demands for illicit funds. While conspicuous consumption is being tackled, one cannot yet be certain that demands from the administrative ecosystem for routine gratuities and payoffs will disappear.

The Prime Minister is candid about linking electoral reforms and black money control. There are also signals that big-ticket black money use/generation have reduced generally. This is excellent.

Even though taxing the current valuation of undeclared assets can be morally justified, the practical aspects may act to dampen the inclination to disclose. I for one am also concerned that at the end of the current efforts on disclosure we do not revert to a situation (as after past initiatives) that only undeclared inventories come down but future generation or spending does not.

An era of SITs, judicial/civil activism, and data leakages lingers in people's minds. Even if frequent statements are made about watertight compartments with no reference under other laws, given India's extreme plethora of laws (some draconian), regulations and procedures, it is not an easily accepted proposition by most.

To overcome the resulting hesitations requires well publicised, watertight laws rather than FAQs (which do not have force of law). I cite Alistair MacLean's book title, Fear is the Key, as germane to the current crusade; while this is necessary it does beg the question if fear alone is sufficient to inspire declaration from fence-sitters.

Leading writers contend that economic life relies on three interrelated ethical systems : outcome-based, duty/rule-based and virtue-based. I believe that virtue-based swachh standards will be one real icon of our moral citizenship.

The article is written by Mr. Sidharth Birla, Past President, FICCI. It was published in The Hindu Business Line on July 5, 2016.

For revival, keep controversies at bay

The beginning of this century augured well for the hydrocarbon industry in India, with the ambitious roll-out of the New Exploration Licensing Policy (Nelp) for exploration bidding. Within four-five years, the KG Offshore Basin promised to be a boon for the import-dependent Indian economy. Three operators, namely, Oil and Natural Gas Corporation (ONGC), Reliance Industries (RIL) and Gujarat State Petroleum Corporation (GSPC), made impressive gas discoveries in the basin, with claims of making the country energy independent as more discoveries of oil and gas were expected and the KG East Coast was projected to have the potential to turn into the next North Sea in terms of oil and gas operations.

Where do we stand a decade and a half on? RIL fast-tracked its field development and started gas production on an impressive scale. The production rate, however, declined due to controversies over gas pricing, cost recoveries under the production sharing contract and allegations of inflating capital cost. On its part, the Comptroller and Auditor General of India ended up sensationalising the issue. The worst fallout was an industry issue getting politicised to such an extent that global investors panicked. Renowned international oil companies shied away from joining collaborative ventures with ONGC and GSPC. Global players stopped participating in Nelp bidding, leading to a sharp fall in exploration activity in the country. Existing global players exited the Indian hydrocarbon scene one by one.

No exploration bidding has taken place for over six years now. RIL's operations are beset with controversies. ONGC and GPSC have not been able to deliver on their promises, mainly due to gas pricing issues and the lack of global interest to join collaborative ventures in India. The experience of the lone exception, British Petroleum, which joined hands with RIL, put off other global players as well.

So what does the future look like? Last year, Prime Minister Narendra Modi set the target of reducing import dependency in the oil and gas sector by 10 per cent by 2022.

The government has embarked on major reform programmes such as announcing HELP (the new Hydrocarbon Exploration Licensing Policy), open acreage, uniform licensing, reduced loyalty rates and pricing and marketing freedom for gas production. A new pricing mechanism for gas from deep waters, high pressure, high temperature (HPHT) areas has also been announced, which should enable ONGC, RIL and GSPC to monetise stranded gas in difficult areas on the KG East Coast. These reform measures are expected to revive and rejuvenate hydrocarbon activity in the country and help reduce our import dependency.

The latest round of controversies politicising the GSPC issue is again posing a serious threat to investment sentiment in the sector. To be fair to GSPC, it has made genuine efforts to begin production from HPHT and tight reservoir areas. According to a state government release and other media reports, GSPC has established "in-place" gas reserves of 14 to 23 trillion cubic feet (tcf) with recoverable reserves of over seven tcf. Based on current prices, the value of production over the life cycle of these discoveries would be in excess of Rs 3 lakh crore. The company has also made investments of Rs 14,600 crore in creating the infrastructure for production and pipeline transportation from offshore and onshore processing facilities. It has also produced gas, though on a much lower scale than its potential.

An international firm of domain experts is also helping it on the technology front to carry out fracking in tight reservoirs to facilitate production flow.

GSPC has the potential to deliver but it needs to win the trust and confidence of all stakeholders. A full-time professional of proven capability should be employed as CEO on a long-term contract. It should not hesitate to engage additional domain experts of global repute to fast-track production. It should continue efforts to farm out part of the PSE holding in the block to a partner of repute, who can add value and expedite efforts to begin production on a commercial scale.

This is the opportune time to do so, as the government has already approved a higher price and marketing freedom for gas production for such a reservoir.

The government and the Directorate General of Hydrocarbons (DGH), taking their cue from operations in the North Sea and the Gulf of Mexico, should encourage and facilitate collaboration among GSPC, ONGC and RIL to share infrastructure, pipelines, oilfield services and deployment of technology to improve efficiency and reduce cost.

These three operators together have the potential to produce incremental gas of over 50 million metric standard cubic metre per day from the KG Offshore Basin. To make it happen, the government needs to offer further fiscal incentives through the DGH.

Most important, for everyone concerned about India's energy security, is to ensure that GSPC (and other domestic players) are not dragged into unwarranted political controversies. That would go a long way in improving investor sentiment and scale up the activity level in the Indian hydrocarbon sector.

The article is written by Mr. R S Sharma, Chairman, FICCI Hydrocarbon Committee. It was published in The Business Standard on May 23, 2016.

The Role of Structural Transformation in the Potential of Asian Economic Growth

A country's transition from a low-income developing country to a high-income developed country is usually marked with a deep process of structural transformation, whereby the productive structure of an economy undergoes a complete change. This has been observed in some of the Asian economies like the Republic of Korea; Taipei, China; Singapore; Hong Kong, China and more recently People's Republic of China which has experienced high growth period with rapid structural change.

ADB has recently published a paper titled ***'The Role of Structural Transformation in the Potential of Asian Economic Growth',*** in which an attempt has been made by the authors to understand the role that structural change has played in the growth of the Asian economies over the past three decades. It has identified the pattern of structural change that countries undergo during the transition phase, and has also examined how and to what extent such changes impact the labour and factor productivity of a particular country. Based on the analysis, the paper has further assessed how structural changes would influence the growth potential of Asian economies in future.

Structural Transformation in the Global Economy

The complete analysis has been conducted in four stages. At the first stage, the relationship between structural change and economic growth has been established. This has been explained by studying the manner in which the employment shares of nine key sectors have changed in 42 economies with increase in their income levels between the period 1950 and 2011.

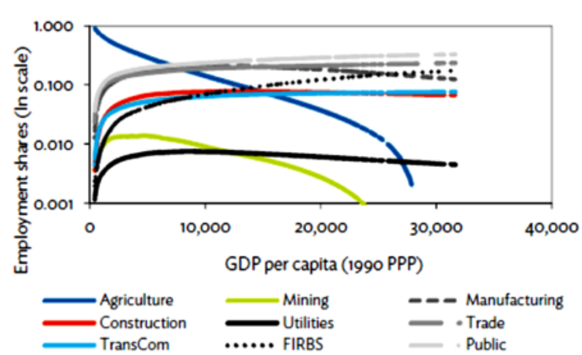
The analysis reveals that during the transition process, an economy turns from agricultural-based to service-based economy while the manufacturing sector plays the transitory role, with its importance reaching a peak at the middle-income stage. The employment data shows that, the proportion of people engaged in agriculture decline as the level of income in an economy increases.

In low income countries, the agriculture sector accounts for about 80% or more of total employment and continues to be the dominating sector in economies with per capita GDP level of below US$ 5,000 (which roughly corresponds to the borderline between low- and middle-income countries).

With increase in income, as the share of agriculture sector in total employment decreases, the share of other sectors increases. For instance, the share of sectors comprising manufacturing, trade (wholesale and retail, and including restaurants and hotels) and the public sector grows rapidly to reach a level of over 10%. Similarly, the employment share of sectors including construction, transport and communication, and finance, insurance, real estate, and business services (FIRBS) also increases but remains under 10% level as the economy reaches middle-income levels. The sectors namely mining, and public utilities, together though witness increase in share in employment, but their shares remain at around 1% level only.

The report further highlights that as economies move from middle-income to high income level, another major structural change takes place as the share of the manufacturing sector declines, while the share of the FIRBS sector increases. The data analysis reveals that the share of the manufacturing sector in employment reaches a peak at around per capita GDP level of US$ 12,000 and then declines steadily. On the other hand, the share of FIRBS sector in employment increases and surpasses that of manufacturing at around US$ 25,000 GDP per capita level.

Figure 1: Employment Shares for Growing Income Levels (Lowess Fitted Results)



FIRBS = finance, insurance, real estate, and business services; GDP = gross domestic product; PPP = purchasing power parity.
Source: Authors.

Potential Labour Productivity Growth in Asia

At the second stage, the study has analysed the trend of the potential rate of labour productivity growth in Asia since 1990 and has attempted to understand to what extent that potential has been exploited in Asian economies. The potential growth rate has been defined as the maximum growth rate that can be obtained without raising inflationary pressure in an economy. *[The potential labour productivity growth rate in the paper has been derived by subtracting the actual growth rate of labour force in a country from its potential output growth rate].*

The data has shown that there has been an increase in potential labour productivity growth rate in most of the Asian countries except for Taipei, China which witnessed a steady declining trend and the Republic of Korea which witnessed a drop in the average rate of potential labour productivity growth after 2000. Also, India and People's Republic of China (PRC), two of the largest countries in terms of populations showed a downward trend associated with the recent crisis. In most of the countries, the actual rate of labour productivity growth fluctuated around the potential rate, barring PRC and Philippines which exhibit a structural deviation between the potential rate and actual rate of labour productivity growth. In the case of PRC, the actual rate is usually above the potential rate, while it is the reverse in the case of Philippines.

The data has further revealed that potential labour productivity growth has been the main contributor to potential output growth in most economies, accounting for about 71% of potential output growth during the crisis period (2008-2013) as well as in the pre-crisis period (2000-2007), except for a few countries (Malaysia, Pakistan, Singapore).

Decomposing Productivity Growth

At stage three, the study has analysed the role that structural change plays, and the role that individual sectors played in Asian economic growth since 1990. The study shows that changes in the employment shares of sectors played a significant role in the growth of most Asian countries.

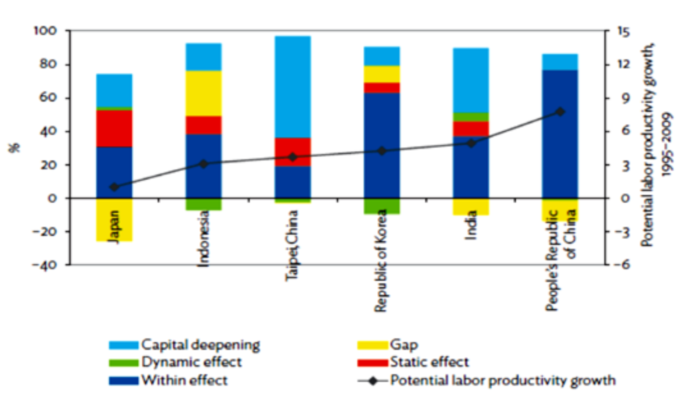
The analysis has shown that manufacturing and FIRBS have been the largest contributing sectors to labour productivity growth. In addition, services sectors such as trade, transport and communication and public sector have also contributed significantly to labour productivity growth in most countries. The contribution of agriculture sector to labour productivity growth however has been very small barring in Pakistan, while contribution of mining sector has been significant only in Kazakhstan and Azerbaijan.

The manufacturing sector's contribution to labour productivity growth has been strong in Thailand, Singapore, Indonesia, Malaysia, Bangladesh, Viet Nam, the Republic of Korea, and the PRC, while the contribution of FIRBS has been is significant in Hong Kong, China and Singapore.

The study also reveals that deindustrialisation slows down labour productivity growth in the high-income Asian countries. It further reveals that employment in the FIRBS sector has been increasing and it has a relatively high productivity level and growth rate. Similar has been the case with trade and transport and communication sectors, indicating that Asia's growth during the period 1990-2011 has been services sector based to a large extent.

The analysis has also revealed that in most economies structural change plays a large role both in the growth rates of labour productivity as well as total factor productivity (TFP).

Figure 2: Potential Labour Productivity And TFP Growth 1995-2009



TFP = total factor productivity.
Source: Authors.

The Role of Structural Transformation: A Counterfactual Analysis

At the last stage, the paper has presented the results of a counterfactual analysis conducted to show the manner in which growth of countries would be influenced if they converge to either a middle-income employment structure, or a high-income structure.

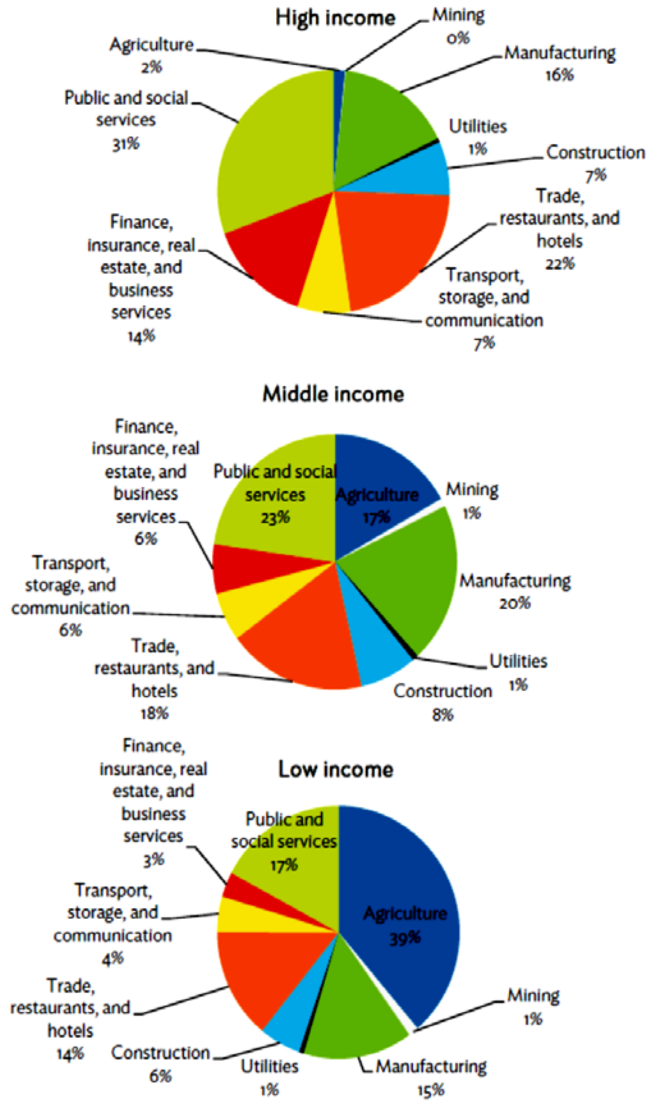
The analysis reveals that structural change has contributed immensely towards the Asian economic growth over the past 25 years. The process of deindustrialization and the rise of the services economy have had a significant impact on labour productivity growth. It has also been realised that all economies typically follow the growth path involving the processes of deindustrialization and the services sector attaining a larger role, when they move from low income to middle income, and ultimately to high income levels.

The study thus concludes that structural change will continue to play a large role in Asian economic growth in future as well, as developing Asian nations will move into middle-income or even high-income levels.

The report has conducted a comparison between the hypothetical high and middle-income employment structures (given in the following picture) with those of the country's' actual sector employment shares. The analysis reveals the following findings:

- The employment structure in Japan is closest to the hypothetical high income sector, while India is the most remote from the typical high income structure among the Asian countries considered.
- India along with Pakistan and Vietnam require no extra structural change to reach the counterfactual middle-income employment structure.
- In the counterfactual analysis with the high-income level as reference, it is revealed that India has the highest structural change requirements implying that its path to a typical high-income structure is most different from the path it has followed.

Figure 3: The Employment Structure of High, Middle and Low Income Reference Economies



Source: Authors.

- The high income economies of Asia (Japan, Taipei, China, Republic of Korea, Hong Kong, China and Singapore) require much less extra structural change to reach the reference employment structure.

The report emphasises that the counterfactual analysis are only rough indications of the order of magnitude of structural change effect on growth and not intended as predictions of what will happen in Asia in future.

Manufacturing as the Key Engine of Economic Growth for Middle-Income Economies

Manufacturing for long has been considered as the engine of economic growth as was witnessed in case of countries like China, Republic of Korea, Indonesia, among others, which attained significant growth through industrial development. However, in recent times, the emergence of the services sector along with the development of the information and communications technology (ICT) sector has contributed immensely towards the growth of some of the developing economies such as India. This has triggered the debate on whether services sector could become the main engine of growth for developing economies, going forward, and whether the industrial policies of these economies should continue to focus on manufacturing, or is it essential for a poor country to undergo full industrialisation on its way to become a rich economy.

The ADB Institute in its paper, 'Manufacturing as the Key Engine of Economic Growth for Middle-Income Economies' has attempted to answer these questions by describing the role that the manufacturing sector plays during the middle income stage of an economy and proving with the help of empirical studies that manufacturing is still the key engine of growth for middle income economies.

According to the findings of the ADBI study, there are three important characteristics of the manufacturing sector typical for middle income economies.

- First, the growth of the manufacturing sector positively influences the growth of the services sector in middle income economies.
- Second, development of the manufacturing sector promotes the incentives of savings and accelerates the pace of technological accumulation in these economies.
- Third, middle income economies with higher share of the manufacturing sector as compared to other sectors, are able to utilize human capital and economic institutions in a more efficient manner.

The above indicates that manufacturing sector plays an integral part for middle income economies. The probable reason for these findings, as highlighted in the paper, could be that the major sources of economic growth for middle-income countries are different as compared to those of the developed ones. In developing economies, structural changes or imported technology from developed economies help in enhancing labour productivity. So, at this stage it becomes imperative for the middle income economies to absorb the global technologies with ease, and the manufacturing sector helps these economies to do so. Additionally, the role of 'investment' is crucial for learning and adopting technology. The manufacturing sector, which demands higher level of capital and investment thus plays an important role in absorbing technology and creating externalities of knowledge flows to other sectors. This establishes the fact that the manufacturing sector plays a vital role for middle income countries. Also, since the technology transfer mainly takes place in the manufacturing sector, it is able to utilize the domestic human capital and economic institutions in a much better way.

ADB in its paper has analysed each relationship using a wide variety of estimation techniques and has focused on the effects of the manufacturing sector development on several important growth determinants, instead of testing their contributions to the growth rate directly. The findings of the study are discussed in the following sections.

Manufacturing sector pulls along services sector during middle-income stage

ADB in its paper has investigated the inter-sectoral linkages between manufacturing and services sector. It examines whether during the middle income stage, manufacturing sector pulls along services sector or it is the other way around. It finds that the links between manufacturing and services may depend on the development stage and externalities from manufacturing to services should be stronger in the middle-income period. For middle-income economies, the tradable manufacturing sector is viewed as the major channel through which a developing economy absorbs best practices from abroad. As industrialization progresses, the manufacturing sector increasingly stimulates demand for service inputs, thus further promoting the development of the services sector.

Thus if a country's manufacturing sector continues to grow fast, the services sector growth rate would also be higher and vice-e-versa. The phenomenon is true in both short-run as well as in long-run. The findings therefore indicate that the manufacturing sector is of great importance for a country's development as it creates significant demand for services sector as well.

Manufacturing sector development promotes the incentives of savings for middle-income economies

The paper has further examined how the manufacturing sector is related to several important growth ingredients. The report states that in comparison with other sectors, manufacturing industries have higher demand for capital and investment and consequently the presence of a strong manufacturing sector is likely to boost the demand for capital leading to an increase in the private savings ratio.

While analysing the cross-country discrepancies in the savings ratio, the paper has found that many East Asian economies promoting industrialisation during their middle-income stage witnessed a higher savings ratio. It added that though cultural and relative price differences could contribute to differing levels of the savings ratio across economies, the emergence of the manufacturing sector can also lead to significant shifts by boosting the demand for capital, as well as increasing the investment return.

The results of the study has therefore confirmed that manufacturing sector development promotes incentives of savings in middle-income economies.

Manufacturing Can Better Utilize Human Capital and Economic Institutions

The report has highlighted the fact that human capital and economic institutions play an important role in facilitating technology adoption and growth of a country. A higher level of educational attainment can help investors introduce advanced technologies to domestic firms of an economy more easily, which enable such firms to absorb superior technologies from other leading economies efficiently.

The paper has mentioned that the degree of technology adoption in the manufacturing sector is usually higher as compared to other sectors. It adds that if a country has a larger share in the manufacturing sector, it is more likely to take advantage of its better economic institutions and higher human capital level to absorb superior technologies from other leading economies. Hence, contribution of human capital and economic institutions is expected to be more pronounced in economies with larger share of manufacturing sector.

Conclusion

The research findings thus indicate that development of the manufacturing sector can play an instrumental role in the growth of the middle income economies in several ways. The findings of the ADB paper along with the findings on sectoral differences could therefore be considered as a guide to frame the industrial policy for middle-income economies and to develop the economic growth theory.

The paper suggests that governments in developing economies should play an important role in preventing a country from premature deindustrialization, especially in the era of globalization.

The poor performance of manufacturing and the relatively strong performance of services in some developing economies may not be a good sign for maintaining sustainable long-term economic growth.

ADB's paper also contributes to the discussion of economies getting caught in the middle-income trap. It states that for low-income economies, the problem basically lies in the lack of driving force to transit resources from agriculture sector to modern sector, while growth in the developed economies is largely driven by knowledge-based innovation. It adds that for middle-income economies, the main obstacle for economic growth lies in both resource reallocations and intra-sectoral catch-up technological growth.

The Status of Financial Inclusion, Regulation and Education in India

Financial inclusion or expansion of financial services to all sections of society is of utmost importance in order to achieve inclusive development and economic growth. Recognising its importance, countries across the globe are promoting financial inclusion, especially for those who are ignored by formal sector institutions. India, too over the years has taken concerted measures to further financial inclusion; however the level of financial inclusion in the country continues to remain low.

ADB Institute has highlighted the overall status of Financial Inclusion in India in its paper titled - ***'The Status of Financial Inclusion, Regulation, and Education in India'***. The paper has discussed the various measures that the government and the RBI have taken towards pursuing the agenda of financial inclusion in the country. The following sections provide some excerpts from this report.

Paradigm shift in concept of financial inclusion

Financial inclusion has always been a priority for India and over the last decade, the country's financial inclusion agenda in India has witnessed a change in approach given the limited success of the earlier agenda. ADB in its paper has mentioned that the earlier approach was biased towards providing credit, while neglecting other aspects such as building a deposit base, promoting savings culture or extending the payment network. The credit drive was implemented through priority sector targets for banks and creation of specialised entities such as regional rural banks and cooperative banks. This approach/policy met with limited success reflecting the inability of banks in promoting financial inclusion.

The government has now adopted a more comprehensive approach towards financial inclusion and aims to provide a gamut of financial products and services including insurance and pension. Change in approach has been partly driven by the need to achieve other policy goals, such as direct cash transfers for beneficiaries, and drop in rate of financial savings. The ADB paper suggests that the new approach necessitates a change in the financial Architecture and explains how banks, intermediaries like business correspondents, MFIs and new regulations of the government can help in achieving the goal of financial inclusion in India going forward.

Public sector banks dominate the Indian banking landscape

The paper discusses the structure of the banking and microfinance institutions in India, which is relevant to the developing model of financial inclusion. India's banking sector is diversified comprising of commercial banks and small banks with limited areas of operation, which were set up to further financial inclusion and poverty alleviation. The diversified nature of the sector reflects the banking needs of the various sectors, with Credit Cooperatives serving the needs of small and marginal farmers as well as poor, while Regional rural banks were created to provide the benefits of credit cooperatives and commercial banks to address the credit needs of poor rural areas. The local area banks were expected to strengthen the institutional credit framework in rural and semi-urban areas.

Table 1: NPLs and Stressed Assets of Banks (%)

Banks	Non-Performing Loans	Stressed Assets
Public sector banks	4.36	10.67
New private sector banks	1.73	3.28
All banks	3.83	9.03

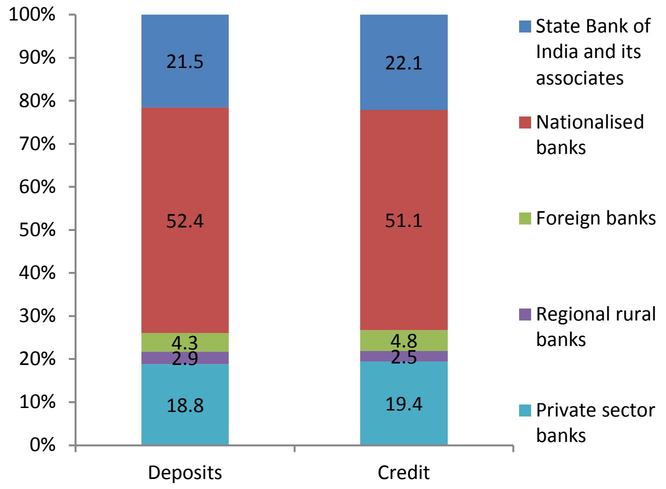
Source: RBI 2013b

Table 2: Structure of Banking in India

Type of Banks	Composition	Number
Commercial banks	Public sector banks Private sector banks Foreign banks Regional rural banks Local area banks	26 20 43 64 4
Cooperative banks	Urban cooperative banks Rural cooperative banks	1606 93551
Microfinance Institutions	Institutions that have either received or applied for registration from RBI as of June 2015	52*

*Note - * They constitute over 90% of the total microfinance industry business in the country*

Chart 1: Market Share of Banks (%)



The paper highlights that traditionally, most formal financial institutions in India showed reluctance towards serving the poor and MSMEs due to perceived high risks, high costs involved in small transactions, low relative profitability and inability to provide physical collaterals. Micro finance Institutions (MFIs) therefore emerged to address this issue; however their role/character has since undergone a shift from operating as non-profit non-government organisations with a strong social focus to non-banking finance companies (NBFCs) that are now increasingly funded by banks and private or shareholder equity.

At present the regulated microfinance market in India has over 30 million clients with a gross loan portfolio of about US$ 7 billion. MFIs have a network of 10,553 branches with the 10 largest MFIs accounting for 75% of the total industry loans. MFI activity is set to grow as only 8% of adults have loans from formal financial institutions and only 35% have banks accounts of which more than half are inactive or semi-active (World Bank 2015).

Level of financial inclusion remains low in India

The report mentions that in spite of the existence of large and well-regulated financial system, India's level of financial inclusion has remained low as reflected in the low 8.9% of household debt-GDP ratio as compared to 36.8% for People's Republic of China and 83.0% for Thailand. The situation is graver in rural India.

Table 3: Financial Inclusion in India (2013-14)

Parameter	Rural	Urban
Per capita deposits (Rs)	9,224	178,942
Per capita credit (Rs)	6,161	143,718
Number of branches (per 100,000 population)	5.25	17.91
ATM penetration (per 100,000 population) (as of March 2015)	3.7	65.5

The International Monetary Fund Financial Access Survey which compared access to financial services across countries revealed that a large percentage of India's population lacks access to financial services despite remarkable progress.

Table 4: Financial access in select countries (2013)

Country/ Parameter	ATMs (per 100,000 adults)	ATMS (per 1,000 kms)	Commercial Bank branches (per 100,000 adults)	Commercial Bank branches (per 1,000 kms)
India	13.3	39	12.2	35.7
Brazil	130.7	23.2	47.7	8.4
People's Republic of China	46.9	55.7	7.8	9.3
Indonesia	42.4	39.8	10.4	9.8
Sri Lanka	16.7	40.5	18.6	45.1
France	109.2	107	38.7	38
UK	126.8	273.4	22.2	47.9

Source: IMF Financial Access Survey

In terms of number of deposit accounts, India fared better reporting an increase from 611.0 per 1,000 adults in 2005 to 1,197.6 in 2013; primarily due to the government's initiative which in 2009 mandated that the transfer of wages under the Mahatma Gandhi National Rural Employment Guarantee Act (MNREGA) be made directly to the bank accounts of the workers.

However, the number of loans with commercial banks remains low, indicating that most of these accounts are used merely for receiving wages.

Quoting a World Bank Survey conducted to study how adults save, borrow, make payments and manage risks, the paper highlighted that use of electronic modes of payment in India is still low (nascent stage) at 2.0% despite vigorous promotion. It also revealed that in India, while 22.4% of the people saved money, however only 11.6% did so at a formal financial institution.

Recent Initiatives of the Government and RBI

Pradhan Mantri Jan Dhan Yojana (PMJDY)

The paper talks about the recent initiatives taken by the Indian government to improve financial penetration in the country like the Pradhan Mantri Jan Dhan Yojana (PMJDY) which seeks to cover each household in India with a bank account wherein account holders are given a debit and credit card. The paper has also mentioned the measures undertaken by the Reserve Bank of India (RBI) to achieve greater access, including introduction/ opening of basic savings bank deposit account (BSBDA) or 'no-frill' account with no or very low minimum balance and no or minimal charges and simplified know-your-customer norms.

However, the paper further highlights that though new accounts have been opened under PMJDY, around 80% of them do not show transactions, implying that account holders are still not really financially included. Additionally most of the MNREGA accounts are also used only to receive wages with beneficiaries withdrawing their money immediately leaving very low balances in their accounts and many new accounts opened under PMJDY also remain dormant, resulting in costs for banks and limited gain to the beneficiaries, the paper stated.

ADB suggests that bundling of government welfare payments into BSBDAs through direct cash transfers is necessary for ensuring that the accounts are used. Also, there is a need to customise products and services that are relevant to account holders.

A review of some of the recommendations of the Mor Committee is also presented in the paper. The Committee had proposed to achieve by January 2016 – provision of full-service electronic bank account for every individual resident (over the age of 18 years); establishment of widely distributed electronic payment access points; provision to each low-income household of convenient access to formally regulated providers of financial products; and provision to every customer of the legally protected right to be offered suitable financial services. RBI identified 490,000 villages, and banks were to open 80,000 additional rural branches during 2013–2016. As against the targets, only 7,459 rural branches were opened.

The ADB paper however mentions that the committee's targets and timelines were aggressive and recommendations were skewed toward payments and deposit creation, and inadequate in ensuring improved credit delivery or risk products to the poor.

Role of Microfinance Institutions in FI

MFIs have remained integral to the objective of financial inclusion in India and have emerged as important players in the financial inclusion space, the paper has observed. The Indian microfinance industry has been revitalised due to regulatory intervention after the 2010 crisis which was caused due to extremely high and often usurious interest rates, coercive debt collection practices, and multiple lending. Following RBI's mandate in 2011 clients are now offered services with clear communication of lending rates, tenure of loans, repayment flexibility. RBI has also stressed the need to create a customer redressal mechanism and has recently introduced self-regulatory initiatives such as the Industry Code of Conduct and development of a credit bureau toward responsible microfinance.

Adoption of Business Correspondents Model

The paper mentions that India has adopted a business correspondent's model to enable banks to use the services of third-party, non-bank agents to extend their services right to people's doorsteps. Business correspondents or bank mitras (agents of the bank) are micro bankers who provide last-mile connectivity for financial services in remote and underbanked locations. They are "protected" by the capital of a sponsor bank, and business correspondents are now allowed to hold capital against the loans that they sanction. Norms for kind of players who can qualify as business correspondents have been relaxed now, thus it is now open to profit-making entities.

Establishment of Payment Banks & Small Finance Banks

The ADB report has also mentioned about the RBI's initiative of granting approval to set up 11 payment banks and 10 small finance banks in the country in 2015. Payment banks are permitted to accept deposits (current and savings banks) from individuals, small businesses, and other entities and restricted to holding a maximum balance of Rs. 100,000 per individual customer, and they cannot issue credit cards or undertake lending activities. Payment banks are permitted to set up outlets such as branches and ATMs, and to appoint business correspondents. Small finance banks can undertake basic banking activities, such as acceptance of deposits and lending to unserved and underserved sections, including small business units, small and marginal farmers, MSMEs, and unorganized sector entities. Indian Post, with 155,000 outlets, has recently been awarded a payment-banking license.

The paper mentioned that an estimated 65% of transactions in India occur in cash and a vital aim of the inclusion agenda is provision of robust payment system that would minimize the use of cash. The JAM number Trinity solution (i.e., Jan Dhan Yojana, Aadhaar cards, and mobile numbers) which involves the convergence of banking, digitization and mobile phones, allows the state to transfer subsidies to poor households in a targeted manner. At present 27 private participants (pre-paid instrument providers) are allowed to offer digital wallets upto Rs. 50,000 which must be backed by escrow deposits placed with a commercial bank.

Policies to aid Financial Inclusion

The ADB report has noted that priority sector lending targets have been used as an important instrument of financial inclusion in India, which mandates that all domestic commercial banks should lend 40% of their adjusted net bank credit or credit equivalent amount of their off-balance sheet exposure to priority sectors. For foreign banks with more than 20 branches, the corresponding figure is 32%.

However, it is widely believed that the quality of execution has been weak and in many instances, the institutions have had to be recapitalized or amalgamated, the paper stated.

Suitability and Financial Literacy

Financial products and financial literacy are of utmost importance to improve financial inclusion in any country. However, the ADB paper has noted that while the new customer protection rules of the Financial Sector Legislation Regulation Reforms Commission stipulate clearly defined processes for monitoring suitability (suitable financial product keeping in mind the risk and income profile of customers) and penal action for violation, it has not been complemented by significant increase in financial literacy in India. India ranked lowest in terms of financial literacy among 16 countries in the Asia-Pacific region in a survey of around 7,756 respondents aged 16-64 years.

Measures are being undertaken to improve financial literacy in the country; few banks have set up literacy centres that work with MFIs and RBI's financial literacy project works with schoolchildren, senior citizens and military personnel. Given the extensive penetration of mobile phones in India, the paper suggests that these phones can be used as a potent platform for promoting financial literacy in India.

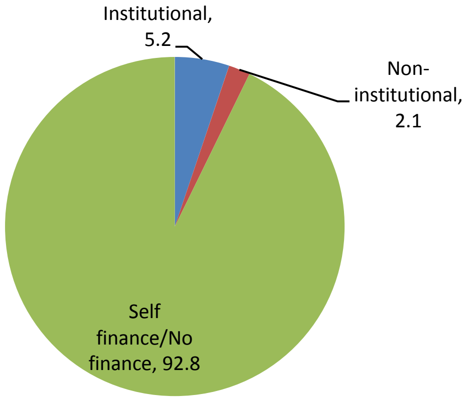
Status of Micro, Small, and Medium-Sized Enterprises

The paper has noted that credit needs of the MSMEs have been largely ignored by the formal financial system of India, mainly due to the perception that they constitute poor-quality credit and their loan impairment ratio is high.

However, unlike the perception, adjusting for write-offs and restructuring, the micro and small enterprises have actually fared better than their larger counterparts. MSMEs have to depend on debt from informal institutional sources which are often at extremely high interest rates.

The survey revealed that few who borrow from banks do so at prohibitively high costs around 13-15%.

Chart 2: Financial inclusion in MSME sector (%)



The paper mentions that greater penetration of banking services combined with the aggregate credit target of 20% year-on-year credit growth to micro and small enterprises as specified by the Prime Minister's Task Force on MSMEs would enable the MSMEs overcome some of the constraints faced by them. In addition, banks have been asked to follow a cluster-based approach to MSMEs and have been directed to open more specialised branches for MSMEs and simplify the credit approval process. The National Stock Exchange of India and Bombay Stock Exchange have set up dedicated platforms for MSMEs and while listings on these exchanges have increased they remain small given the size of the sector, the report mentioned.

MSMEs are also vulnerable to considerable delay in settlement of dues and payment of bills. This can be addressed through factoring. However despite the institution of a legal framework, factoring is yet to take off in a significant manner due to lack of credit insurance, lack of clarity on stamp duty waivers by states, and lack of access to debt-recovery platforms. All of these issues need to be resolved as part of the financial inclusion initiative, ADB mentioned in its report.

The ADB paper suggests that in addition to providing credit to the sector, banks can also cater to the financial management needs (cash flow forecasts, cash flow management) of the sector and in the process boost credit quality of the firms, while garnering more business for themselves.

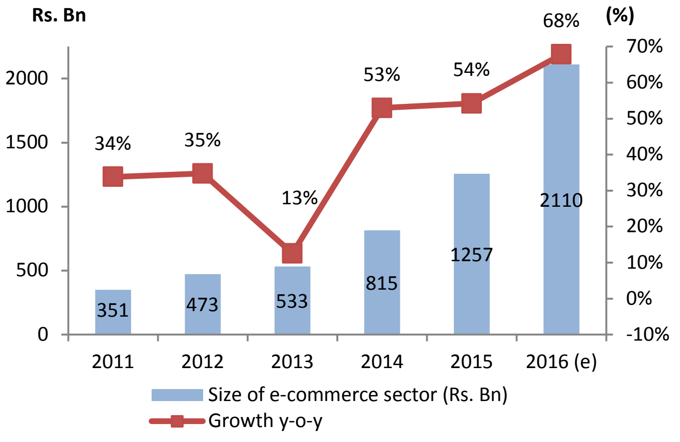
The newly formed MUDRA Bank is aimed at meeting the credit needs of the unfunded categories and primary purpose of the bank is refinancing for lending to MSMEs. In addition it is also envisaged to perform regulatory functions for all types of entities in the microfinance space, the report stated.

E-Commerce Sector in India

Introduction

The e-commerce industry in India has experienced exponential growth over the last decade. This high growth can be attributed to a number of factors including rapid adoption of technology (mainly internet and smartphone) by Indian consumers, favourable demographics of the internet users, advent of enabling technologies, innovative business models (vertical-specific start-ups) and convenient payment options offered by e-commerce companies, to name some important ones. Moreover, the high growth continues to remain unabated, with the sector expecting to see a steep increase in revenues in the coming years. The e-commerce industry which was worth Rs. 351 billion in 2011 grew at a CAGR of 37% to touch Rs. 1257 billion in 2015, and is estimated to become a Rs. 2,110 billion industry by 2016.

Chart 1: Indian E-commerce industry

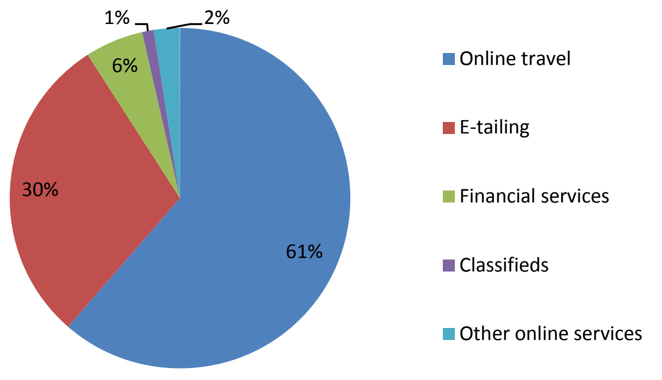


Source: IAMAI Report and Newspaper articles

Composition of the Indian E-commerce industry

Travel related transactions have been the major components of the e-commerce industry, accounting for around 61% of the sector, with non-travel contributing for the remaining. Within the online travel segment, ticket bookings have been the major component, with air ticket bookings (domestic and international) having a share of around 60% of the segment.

Chart 2: Composition of e-commerce sector



Source: IAMAI Digital Commerce Report March 2015

In the non-travel segment, e-tailing has been the largest category. Share of e-tailing has been consistently growing over the years (from 9% in 2010 to 30% in 2014) and is expected to grow further in the coming years. Within the e-tailing category, mobile phones & accessories have the largest share (around 37%) followed by the segment comprising apparels, footwear and personal/healthcare accessories (19%). In the classifieds segment, online matrimony accounts for the majority share of almost around 90%.

Business models of the e-commerce industry

Based on the types of transactions made online, the e-commerce business models adopted by the industry players can be categorised into the following five segments:

- Business-to-business (B2B)
- Business-to-consumer (B2C)
- Consumer-to-consumer (C2C)
- Consumer-to-business (C2B)
- Business-to-business-to-consumer (B2B2C)

E-commerce companies operating in the B2C category can be further categorised into three sub-segments: B2C e- commerce marketplace (Amazon, Flipkart, Snapdeal), B2C e- commerce inventory led (Bigbasket, FirstCry), B2C e- commerce aggregators (Uber, Olacabs).

Some of the other well-known companies operating in the e-commerce space include PayTM, Jabong, MakeMyTrip, Shopclues and Ebay. The e-commerce market is expected to expand further in the next few years as Indian majors like Reliance and the Tata group too have announced plans to launch their own e-commerce platforms in future.

Key drivers of e-commerce industry in India

Rapid adoption of technology

Greater adoption of novel technologies like the internet and smartphones has been one of the biggest drivers of e-commerce in India. About 402 million people in India are presently using internet. The number is further expected to go up to 500 million users by 2017. Increased mobile penetration (mobile density is around 80% in India), greater adoption/usage of smartphones (they account for about 35% of overall mobile phones), launch of 3G and 4G mobile data services, declining data tariff rates (internet technologies), rising broadband subscriptions, etc. are some of the factors that have been driving the growth of internet users in India.

Of the total internet users, about 306 million people are estimated to be mobile internet users, of which nearly 219 million people belong to urban cities and the remaining about 87 million are from rural areas. While the number of mobile internet users in urban cities has grown by about 70% between 2014 and 2015, in rural areas the growth has been higher at more than 90%. It is estimated that by June 2016, the number of mobile internet users in India has touched 371 million.

Though traditional shop-based retail is still a preferred mode of purchase among buyers, buying and selling of products and services exclusively through electronic channels is becoming popular day by day. It is reported that about a quarter of the total internet users or around 100 million people in the country made online purchase during 2014. According to a recently released report, this number will rise to 175 million by 2020. Presently, around 35% of the online transactions and 40% of the e-tailing purchases in India is estimated to be taking place through mobile devices and these shares too are expected to increase in future.

Favourable demographics

The demographic dividend has also been favouring the growth of the e-commerce industry in India. India is amongst the fastest growing economies globally and higher income levels have made India one of the fastest-growing consumer markets in the world. Rapid urbanisation, modernisation of towns, villages, development in tier II and tier III cities, rising disposable income, changes in lifestyle and shopping patterns are some of the factors that have proved instrumental in driving the e-commerce industry in India. As per the estimates, about 34% of the internet users in India fall in the age-group 18-34 years, which reportedly makes higher number of purchases as compared to other age groups due to rising aspirations, higher income levels, peer pressure, etc.

Enabling technologies

Keeping in view the large internet and mobile user base in India, the e-commerce companies have been focusing on developing applications particularly suitable for mobiles/smartphones, enabling users to make online transactions through their devices with ease. Mobile applications have also assisted companies to enhance their geographical reach (particularly to remote and rural areas) and increase their communication level with the end-users through exchange of regular service updates and messages. These initiatives have helped companies to increase their sales. The e-commerce companies have also been receiving valuable customer information through these applications which in turn is helping them serve their customers better.

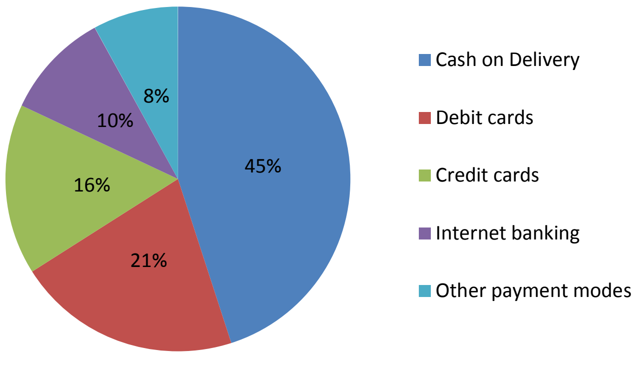
Digital advertisements have also enabled the e-commerce players to reach out to wider audience/customer base as such commercials are easily accessible by all types of devices - laptop, tablet and smartphones. Similarly, adoption of Search Engine Optimization (SEO) as an internet marketing strategy has also helped e-commerce companies improve their search engine rankings, thereby positively impacting their overall sales.

SEO is a methodology of strategies, techniques and tactics used to increase the amount of visitors to a website by obtaining a high-ranking placement in the search results page of a search engine (SERP) like Google or Yahoo.

Easy payment options

The companies in the e-commerce space have also expanded their checkout payment options in line with the preferences of online consumers. Most of the players have been offering 'cash-on-delivery' option to customers, despite incurring higher administration costs on account of such transactions as this is the most preferred mode of payment among consumers. Digital payment products and electronic wallets have also been launched to ease the payment process in e-commerce transactions.

Chart 3: Modes of Payment



Challenges in the E-commerce sector

However, all is not rosy for the e-commerce industry as the players grapple with multiple challenges like an ill-defined tax structure, incidents of fraud, issues with cyber security, intense competition, continued preference for payment in cash (COD), inadequate infrastructure (logistics), and low digital literacy, amongst others.

There has been no uniform tax structure across states (double taxation), and there is ambiguity with respect to categorisation of offerings into 'goods' or 'services' for computing incidence of tax. Also, guidelines on taxation of certain transactions like e-wallets, cash on delivery, gift vouchers etc. are not clearly defined.

Some of these challenges are expected to be resolved after the implementation of the Goods and Services Tax (GST).

Incidents of distribution of counterfeit goods (fraud) through the e-commerce platform has increased in recent times, which has added to the woes of both the consumers as well as the e-commerce companies. This is mainly because of the absence of a trustworthy mechanism which can allow consumers to authenticate sellers or their products. Data/cyber security is also a major challenge faced by the players as they deal with huge volumes of customer information.

In spite of offering a number of payment options, people still prefer paying in cash after the product is delivered to them. Receiving payment in cash (COD) makes the process laborious, risky, and more expensive for the companies as their working capital requirements (higher lead time) increases significantly. Higher return ratio for goods sold online is also proving expensive and presenting challenges for companies. Incidentally, return percentage of orders in COD is much higher compared to online payments.

The e-commerce industry in India which possesses a high growth potential has been attracting a lot of domestic as well as international players. This has intensified competition in the sector, which in turn has forced companies to adopt aggressive pricing policies, offering heavy discounts to customers and high commissions to vendors and other parties. This has exerted a lot of pressure on the profitability of the companies.

Government initiatives

Government has undertaken several initiatives to boost the e-commerce sector in India. It has been leveraging e-commerce digital platforms to organise traditionally offline markets even for agricultural produce, amongst others. It has launched an e-market platform to connect farmers with mandis of various states to sell agro-commodities online. In addition, the government's flagship initiatives such as Digital India, Start-up India, Innovation India, Skill India would also contribute to the growth of the e-commerce industry.

In March this year, the government has permitted 100% foreign direct investment (FDI) under automatic route in online retail of goods and services under the 'marketplace model' to legitimize existing businesses of the e-commerce companies in India and also to attract more foreign investments in the sector. A marketplace model is an information technology platform run by an e-commerce entity on a digital and electronic network to act as a facilitator between buyer and seller. 100% FDI is also allowed in B2B e-commerce in India. However, FDI is not permitted in the inventory based model of e-commerce, which is applicable to companies that own inventories of goods and services and sell directly to consumers using online platforms.

Future Potential

Growth projections for the sector suggest that India can soon become the fastest growing e-commerce market in the world as both the number of internet users as well as the number of online shoppers/users is expected to grow manifolds in coming years. It is worth noticing that while in India only about 25% of the internet users buy or sell goods and services online, in Japan the proportion is as high as about 80% while it is nearly 55% in China. This indicates the huge growth potential that the Indian e-commerce sector has. Moreover, with growth of the Indian economy and subsequent improvement in the per capita income in future, aspirations of Indian consumers will increase which will have a positive impact on e-commerce sales.

Business Confidence Survey, June 2016

Prospects for the next six months

	Investment	Sales	Selling Price	Profit	Exports	Employment
Much Higher	0	11	0	0	0	0
Higher	35	47	16	29	36	32
Same/ No Change	46	34	76	47	52	61
Lower	19	8	8	24	12	8

Source: FICCI Business Confidence Survey, June 2016

Overall Business Confidence Index was seen seven notches higher at 64.3 in the present round vis-à-vis the value of 56.7 in the last round. The efforts made towards providing a conducive business environment have started yielding results and have improved the overall business sentiment.

Both, current conditions index as well as expectations index observed better performance in the present survey round after noticing a decline for three consecutive quarters. The value of Current Conditions Index increased to 60.0 in the present survey from 51.4 in the previous round. The Expectation Index also increased and stood at 66.5 in the current round vis-à-vis 59.4 in the last round.

However, muted recovery in the industrial sector remains a concern. The manufacturing growth numbers have not been very encouraging and the same is reflected in the financials of the companies as well. In addition, the latest survey results did not indicate much improvement in the operational parameters of the companies.

Nonetheless, outlook with regard to parameters like sales, exports and employment did note some improvement in the present survey round. About 58% of the participating companies said that they foresee higher sales over the coming six months. 48% of the companies had reported the same in the previous round. A marginal improvement was also noted in the proportion of respondents expecting higher exports over the near term.

However, the respondents did not seem optimistic about investment prospects and improvement in profit levels. About 35% respondents said that they expect higher investments over the period April-September 2016, vis-à-vis 41% stating likewise in the previous round. The companies remain cautious about undertaking fresh investments with 46% respondents indicating no foreseeable change in investment levels.

In addition, respondents were asked whether they were planning to review their investment plans post Union Budget 2016-17. The respondents seemed divided on this. While about 44% of the respondents said that they are looking at increasing their investments post Union Budget 2016-17; about 21% said they would consolidate existing investments.

The respondents were also asked to share whether they have witnessed any improvement in the investment activity in and around their area of operation given the slew of measures undertaken in the past two years. A majority of them said that they are yet to see investment fructifying. Amidst those who indicated that investments are taking place reported activity mostly in infrastructure projects, renewable energy and defence.

Weak demand has been a persistent concern on account of both domestic (two years of drought) and global factors. About 64% of the companies participating in the current survey reported weak demand to be constraining factor. This was marginally lower than 67% reporting likewise in the last round. The respondents also indicated that they foresee an uptick in demand going ahead.

The current survey drew responses from companies with a wide sectoral and geographical spread. The survey drew responses from about 120 companies with a turnover ranging from Rs 3 crores to Rs 65,000 crores. The participating companies belonged to an array of sectors such as textiles, real estate, electronics, steel, pharmaceutical, agricultural machinery, food processing, electric machinery and transportation.

For detailed report you may contact:
Economic Affairs and Research division
Email: researchdivision@ficci.com

FICCI

Economic Outlook Survey

ANNUAL FORECASTS FY17	
Gross Domestic Product	7.7%
Wholesale Price Index (Avg. 2015-16)	2.2%
Consumer Price Index (Avg. 2015-16)	5.1%
Index of Industrial Production	3.5%
Export Growth	5.0%
Import Growth	5.2%
Trade deficit as % of GDP	3.9%
Current Account deficit as % of GDP	1.4%
Fiscal deficit as % of GDP	3.5%
USD/INR Exchange rate (End March 2016)	Rs 67.8/USD

QUARTERLY FORECASTS Q1 FY17	
Gross Domestic Product	7.6%
Wholesale Price Index (Avg. 2015-16)	-1.0%
Consumer Price Index (Avg. 2015-16)	5.0%
Index of Industrial Production	2.5%
Export Growth	-
Import Growth	-
Trade deficit as % of GDP	-
Current Account deficit as % of GDP	-
Fiscal deficit as % of GDP	-
USD/INR Exchange rate (End of Q4 FY16)	Rs 67.5/USD

Source: FICCI Economic Outlook Survey, May 2016

FICCI's latest Economic Outlook Survey puts across a median GDP growth forecast of 7.7% for the fiscal year 2016-17. Prediction of a good monsoon after two consecutive years of sub-optimal rainfall backs the improved outlook in the current fiscal. Industrial sector growth is also expected to notice an upswing during the year.

Agriculture is expected to record a median growth of 2.8% in 2016-17 with a minimum and maximum range of 1.6% and 3.5% respectively. Industrial growth is anticipated to grow by 7.1% in 2016-17, while services sector growth is estimated at 9.6%.

The median growth forecast for IIP has been put at 3.5% for 2016-17 with a minimum and maximum range of 3.0% and 4.5 % respectively. Outlook of the economists on inflation remained moderate. The median forecast for Wholesale Price Index based inflation has been put at 2.2% while that for Consumer Price Index based inflation at 5.1% for the year 2016-17.

Views of economists were sought on whether the government will be able to achieve the fiscal deficit target of 3.5% in 2016-17. A majority of the participating economists believed that the fiscal deficit target seemed achievable. Some of the enabling factors highlighted in support of their argument included expectation of a normal rainfall, improved buoyancy in domestic growth leading to higher revenue collection and continued rationalization of subsidies by the government. Economists cautioned that the economy will have to achieve a GDP growth rate between 7% - 7.75% to be able to garner the requisite amount of revenue receipts.

Further, on being asked about expectations for recovery of the banking system, majority of the economists felt that while the government and the RBI are working together to address the issues at hand, recovery will take time. It was unanimously felt that a turnaround in this fiscal year looks unlikely and an improvement in numbers would not come until next financial year. In addition, passage of the Insolvency and Bankruptcy Code Bill, 2015 was considered a very positive step.

Economists were also asked to share their views on bank consolidation. Majority of the respondents said that bank consolidation will improve capital efficiency significantly. Most of them felt that the consolidation process can begin only when banks' balance sheets are cleaned. It is necessary to address issues related to asset quality and capital shortfalls of banks.

Further, the participating economists shared their prognosis about the recovery in the investment cycle. A majority of the economists were of the view that investment cycle will take at least two more quarters to witness a pickup. It was further opined that an uptick is likely post monsoons as rural demand is expected to get a boost.

Economists were also asked to indicate the way forward to achieve the government's target of doubling farmers' income by 2022. The participating economists unanimously felt that first and foremost the basics have to be in place. For instance, setting up proper irrigation facilities, better infrastructure facilities are definitely needed. It was also recommended that research and development in agriculture sector should be encouraged.

The present round of FICCI's Economic Outlook Survey was conducted in the month of April/May 2016 and drew responses from leading economists primarily from industry, banking and financial services sector. Economists were asked to share their opinion on a number of issues such as achieving fiscal deficit target, recovery in the banking sector, bank consolidation, recovery in the investment cycle.

For detailed report you may contact:
Economic Affairs and Research division
Email: researchdivision@ficci.com

Economy Fact Sheet – GDP
June 2016

GDP grew by 7.6 percent in 2015-16

- *Gross Domestic Product reported a growth of 7.6 percent in 2015-16 as against 7.2 percent growth reported in 2014-15. Gross Value Added at basic prices grew by 7.2 percent in 2015-16 vis-à-vis 7.1 percent growth in the previous fiscal.*

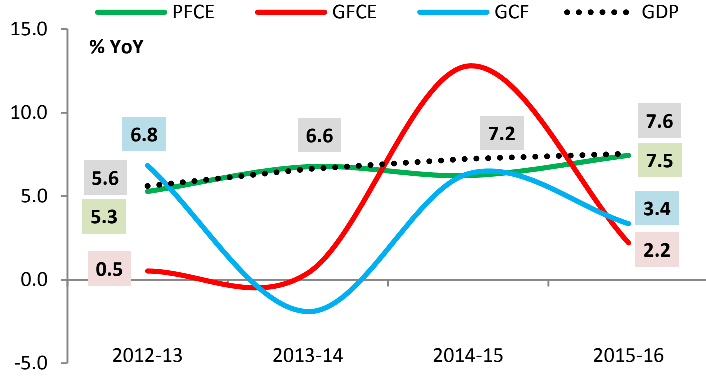
- *Agriculture (and allied activities) sector witnessed a growth of 1.3 percent in 2015-16 as compared to a decline of 0.3 percent in the previous fiscal year. Industry witnessed an improvement in growth, growing by 7.4 percent in 2015-16 as compared to 5.9 percent growth noted in 2014-15. Growth in the services sector, however, noted moderation, growing by 8.9 percent in 2015-16 as compared to 10.3 percent in 2014-15.*

- *On the expenditure side, gross capital formation grew by 3.4 percent in 2015-16 vis-à-vis 6.4 percent growth noted in 2014-15. Government final consumption expenditure noticed sharp moderation, growing by 2.2 percent vis-à-vis 12.8 percent growth in 2014-15. Growth of private final consumption expenditure, on the other hand, increased with the segment growing at 7.5 percent in 2015-16 vis-à-vis a growth of 6.2 percent noted in 2014-15.*

GDP Growth- Annual (% YoY)

	GDP	GVA at basic prices	Agriculture, forestry and fishing	Industry	Services
2012-13	5.6	5.4	1.5	3.6	8.1
2013-14	6.6	6.3	4.2	5.0	7.8
2014-15	7.2	7.1	-0.3	5.9	10.3
2015-16	7.6	7.2	1.3	7.4	8.9

GDP Growth by Expenditure- Annual (% YoY)



Given the current global scenario, robust growth numbers are a result of comprehensive reform measures undertaken by the government. FICCI's latest Economic Outlook Survey puts across GDP growth at 7.7 percent for the fiscal year 2016-17. The outlook is based on the expectation of a normal monsoon in addition to greater focus on the rural sector in the current fiscal .

GDP grew by 7.9 percent in Q4 2015-16

GDP Growth- Quarterly (% YoY)

	GDP	GVA at basic prices	Agriculture, forestry and fishing	Industry	Services
Jun-15	7.5	7.2	2.6	6.7	8.8
Sep-15	7.6	7.3	2.0	6.3	9.0
Dec-15	7.2	6.9	-1.0	8.6	9.1
Mar-16	7.9	7.4	2.3	7.9	8.8

GDP Growth by Expenditure- Quarterly (% YoY)

	PFCE	GFCE	GCF
Jun-15	6.9	-0.2	6.6
Sep-15	6.3	3.3	9.6
Dec-15	8.2	3.0	2.0
Mar-16	8.3	2.9	-2.4

- *GDP growth for the fourth quarter of 2015-16 was observed at 7.9 percent vis-à-vis 6.7 percent growth noted in the corresponding period previous year. Gross value added at basic prices was reported at 7.4 percent in Q4 2015-16.*

- *Agriculture (and allied activities) noticed a stark improvement in growth numbers during the fourth quarter. The sector posted a growth of 2.3 percent in Q4 2015-16 as compared to 1.7 percent contraction noted in the corresponding quarter previous year. Industrial growth also noted marked improvement, reporting a growth of 7.9 percent in Q4 2015-16 as compared to 5.7 percent in Q4 2014-15. Services noticed a moderation in growth during the quarter.*

- *On the expenditure side, while gross capital formation contracted by 2.4 percent y-o-y during Q4 2015-16, government final consumption expenditure grew by 2.9 percent y-o-y. Private final consumption expenditure reported a growth of 8.3 percent, a few notches higher than 6.6 percent growth witnessed in Q4 2014-15.*

Source: MOSPI, RBI, Economic Outlook, CMIE and FICCI Research

Economy Fact Sheet – Balance of Payments
June 2016

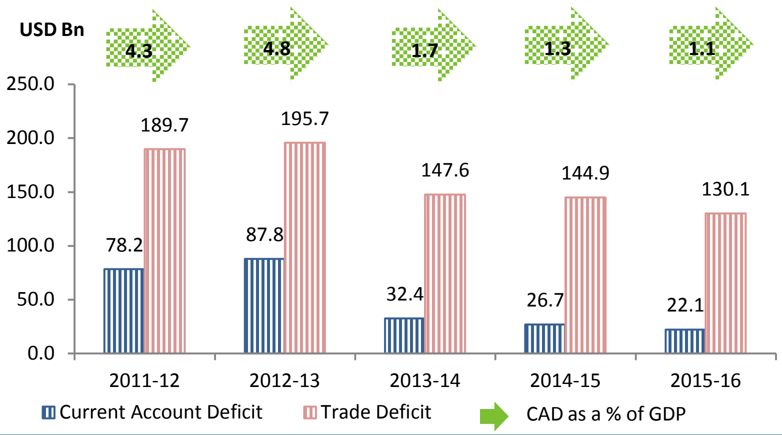
CAD narrowed to 0.1 percent of GDP in Q4 FY16

- *India's Current Account Deficit (CAD) shrunk to USD 317.8 million in Q4 2015-16 as compared to USD 624.7 million in Q4 of 2014-15. As a percent of GDP, CAD stood at 0.1 percent in Q4 2015-16. For the entire fiscal 2015-16, CAD narrowed to 1.1 percent of GDP from 1.3 percent of GDP recorded in the previous fiscal year.*

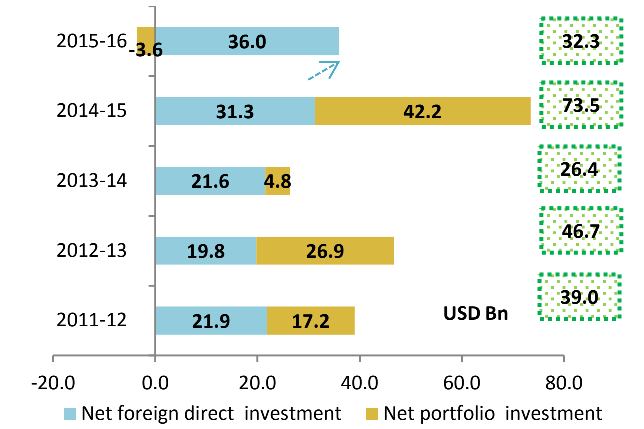
- *Portfolio investments witnessed a net outflow amounting to USD 1.5 billion in Q4 2015-16 as against net inflow of USD 12.5 billion during Q4 in 2014-15. Net foreign direct investment stood at USD 8.8 billion in Q4 2015-16.*

- *The level of foreign exchange reserves stood at US$ 360.2 billion at the end of Q4 2015-16. There was a net accretion of USD 17.9 billion to* foreign exchange reserves (on BoP basis) *during the fiscal 2015-16.*

Snapshot of trends in India's Current Account Balance



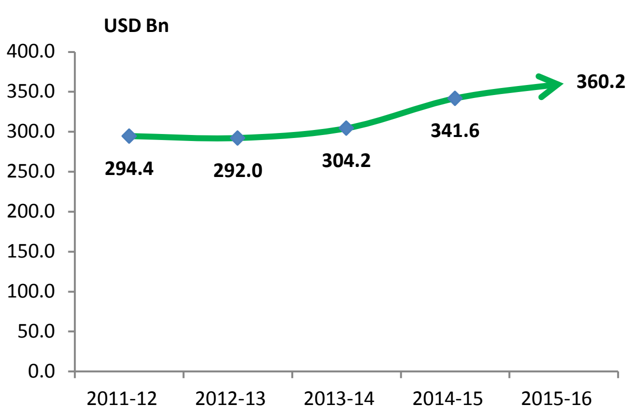
Foreign Investments



Balance of Payments- A Snapshot

Indicators (USD bn)	Q4 FY15	Q1 FY15	Q2 FY16	Q3 FY16	Q4 FY15	2014-15	2015-16
Goods (Net)	-31.6	-34.2	-37.2	-34.0	-24.8	-144.9	-130.1
Services (Net)	20.1	17.8	17.8	18.0	16.1	76.6	69.7
Current Account	-0.6	-6.1	-8.5	-7.1	-0.3	-26.7	-22.1
Portfolio investments	12.5	-0.1	-3.5	0.6	-1.5	40.9	-4.5
Foreign Direct Investments	9.3	10.0	6.5	10.7	8.8	31.3	36.0
Financial Account	-0.2	7.2	9.0	6.8	0.1	27.7	23.1

Forex Reserves



Fall in current account deficit was driven largely by lower trade deficit witnessed throughout 2015-16. India, being a net importer of commodities, has witnessed huge terms of trade benefit in light of lower global commodity prices. Net invisible receipts have declined in 2015-16 reflecting moderation in both net services earnings and private transfer receipts. Workers remittances, which forms a large part of private transfers receipts, declined by 13.2 percent and stood at USD 35.5 billion at the end of 2015-16. Net inflows from services fell by 9.0 percent and stood at USD 69.7 billion during the year.

On the capital front, net FDI inflows increased by 15.3 percent to USD 36.0 billion. This was the highest ever FDI received by the country in a single year. It is evident that the government's efforts to bring investments into the country by promoting ease of doing business and carrying out reforms in the FDI policy are now yielding results. On the back of higher FDI investments and lower commodity prices, the current account deficit looks manageable, going forward.

Source: RBI, Economic Outlook CMIE

Economy Fact Sheet – Index of Industrial Production
July 2016

IIP grew by 1.2 percent in May 2016

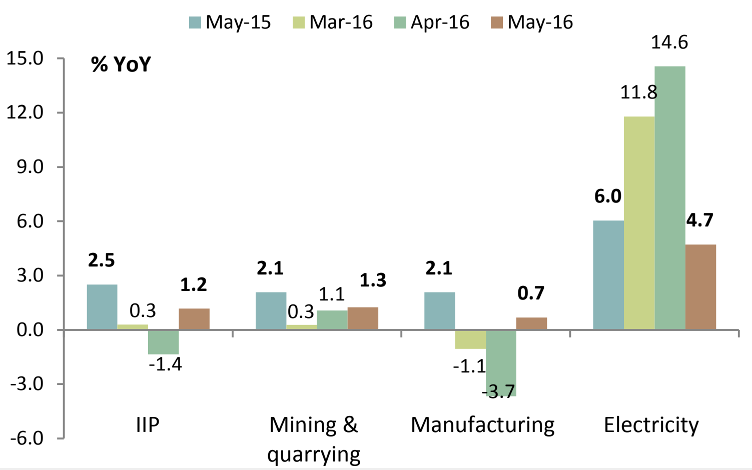
- *Index of Industrial Production registered a growth of 1.2 percent in May 2016 as against a decline of 1.4 percent in April 2016. Cumulative growth for the first two months of the fiscal 2016-17 stood at (-) 0.1 percent as against 2.8 percent growth noticed in the corresponding period previous year.*

- *Manufacturing sector reported a growth of 0.7 percent in May 2016 vis-à-vis a growth of (-) 3.7 percent in the previous month. Growth in the mining sector improved to 1.3 percent in May 2016 vis-à-vis 1.1 percent growth noticed in the previous month. Electricity sector reported a growth of 4.7 percent in May 2016 as compared to 14.6 percent growth noted in April 2016.*

- *As per use based classification of industrial production, basic goods witnessed 4.0 percent growth in May 2016 as compared to 4.7 percent growth noted in April 2016. Intermediate goods recorded 3.6 percent growth during the month of May 2016. Capital goods remained in the negative zone for the seventh consecutive month, shrinking by 12.4 percent in May 2016.*

- *Growth in the consumer goods picked up by 1.1 percent in May 2016 after noting a fall of 1.9 percent in the previous month. Consumer durables grew by 6.0 percent in May 2016 while consumer non- durables continued to shrink with growth declining by 2.2 percent during the month.*

IIP – Economic Activity



- The uptick noted in IIP growth can be attributed to better manufacturing growth numbers in the month of May 2016. The improvement came on the back of high growth of 14.8 percent noticed in the Machinery & equipment segment during the month. Basic metals were seen growing by 4.8 percent in May 2016 after contracting for nine consecutive months. Chemicals & chemical products also recovered in May 2016 after noting a fall in growth in the previous month.

- Although there was an improvement, subdued growth in the manufacturing sector continues to be a cause for concern. The weak consumer and investment demand points to the fact that recovery is going to be slow in manufacturing and there is a need for addressing more deep rooted structural issues. FICCI hopes that with the government focusing on improving the business environment by implementing many measures for ease of doing business, growth of manufacturing in the country will lift, going ahead.

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

	May-15	Mar-16	Apr-16	May-16
Basic goods	**6.2**	4.4	4.7	**4.0**
Capital goods	**3.0**	-15.3	-25.0	**-12.4**
Intermediate goods	**1.2**	4.4	2.3	**3.6**
Consumer goods	**-2.2**	0.5	-1.9	**1.1**
Consumer durables	**-3.9**	9.9	11.8	**6.0**
Consumer non-durables	**-1.0**	-5.0	-10.8	**-2.2**

Growth Rate of Major Items of the Index

	% Share	May-15	Apr-16	May-16
Manufacturing Products				
Basic Metals	15.0	9.9	-0.3	4.8
Food Products & Beverages	9.6	2.1	-24.8	-4.6
Textiles	8.2	-1.4	-0.5	4.5
Machinery & Equipment	5.0	1.8	6.5	14.8
Consumer Non-Durables				
Antibiotics and its preparations	11.4	2.9	-15.8	0.1
Sugar	7.3	35.7	-65.3	-68.4
Newspapers	4.8	-8.7	-11.9	-1.1
Cigarettes	4.1	-12.1	6.0	5.1
Rice	3.1	2.6	-7.4	2.2

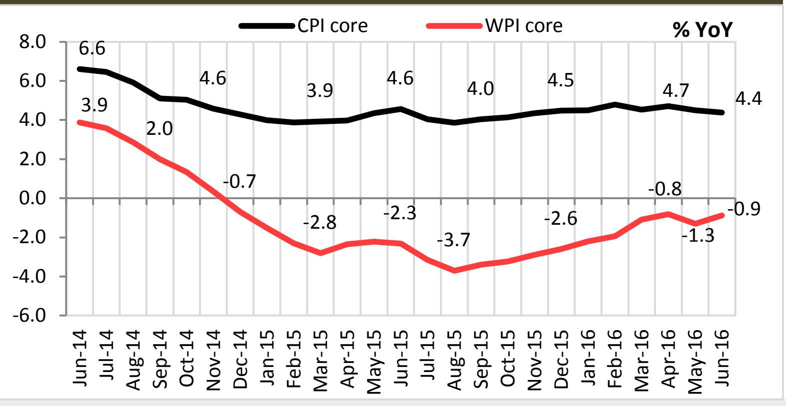
Source: MOSPI, Economic outlook CMIE and FICCI Research

Economy Fact Sheet – Inflation
July 2016

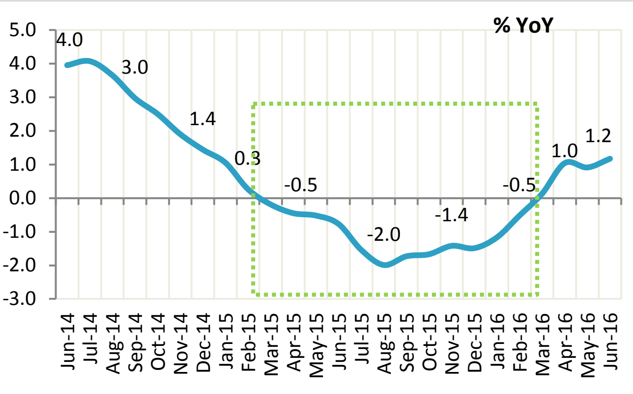
WPI rose to 1.6 percent in June 2016

- *Headline WPI climbed to 1.6 percent in June 2016 vis-à-vis an inflation of 0.8 percent in May 2016. This was the third consecutive month when the index witnessed growth.*
- *WPI based food inflation surged to 8.2 percent in June 2016 vis-à-vis 7.9 percent inflation noted in the previous month. Prices of non-food articles were also seen escalating to 5.7 percent in June 2016 from 4.5 percent inflation noted in the previous month.*
- *Fuel and power segment continued to witness deflation, with the index plummeting 3.6 percent in the month of June 2016. Price index for mineral oils witnessed 4.7 percent contraction in June 2016.*
- *Prices of manufactured products increased by 1.2 percent in June 2016 vis-a-vis a rise of 0.9 percent in May 2016. A surge in prices was seen in manufactured food products (8.4 percent in June 2016 vis-à-vis 7.5 percent in May 2016), beverages, tobacco and tobacco products (7.1 percent in June 2016 vis-à-vis 6.4 percent in May 2016) and paper and paper products (1.7 percent in June 2016 vis-à-vis 1.4 percent in May 2016) segment.*
- *Retail CPI inflation increased to a twenty two month high of 5.8 percent in June 2016. CPI based food and beverages inflation stood at 7.4 percent in June 2016 as compared to 7.2 percent inflation noted in the previous month.*

Trend in CPI and WPI Core Inflation



Inflation Trend in Manufactured Products



Latest data indicates an uptick in inflation numbers driven by a jump in food prices. Continued price pressure was seen in case of commodities like pulses and vegetables. Even food products and sugar have been witnessing an upward pressure in prices. To deal with this, supply side measures from the point of view of enhanced production as well as seamless distribution are needed. The recent agreement between our government and the Government of Mozambique on supply of pulses is an encouraging move. Further, the move to increase the MSP for pulses and increase buffer stocks for the same should also help alleviate price pressure in the future. In case of vegetables, we need to ramp up our storage and distribution network. Better logistics and efficient supply chain management is the key given the perishable nature of these products.

Our government has taken up a series of measures and with the expectation of a normal monsoon, FICCI hopes that these spikes will come under control, going forward.

CPI Based Inflation for Select Food Items (% change Y-o-Y)

	Jun-15	Apr-16	May-16	Jun-16
Potato	-31.0	22.5	36.9	40.0
Brinjal	12.5	2.8	6.3	10.0
Tomato	41.0	-6.0	10.0	51.8
Sugar (other sources)	-10.4	12.8	16.2	19.3
Pulses	22.2	34.2	31.6	26.9

WPI Based Inflation for Select Food Items (% change Y-o-Y)

	Jun-15	Apr-16	May-16	Jun-16
Vegetables	-6.8	2.9	12.9	16.9
Potato	-51.6	40.8	60.0	64.5
Brinjal	5.2	21.8	11.9	22.6
Sugar, khandsari & gur	-12.3	15.3	19.7	23.0
Pulses	36.8	36.6	35.6	26.6

Source: Office of the Economic Advisor, Economic Outlook – CMIE and FICCI Research

Economy Fact Sheet – Foreign Trade
July 2016

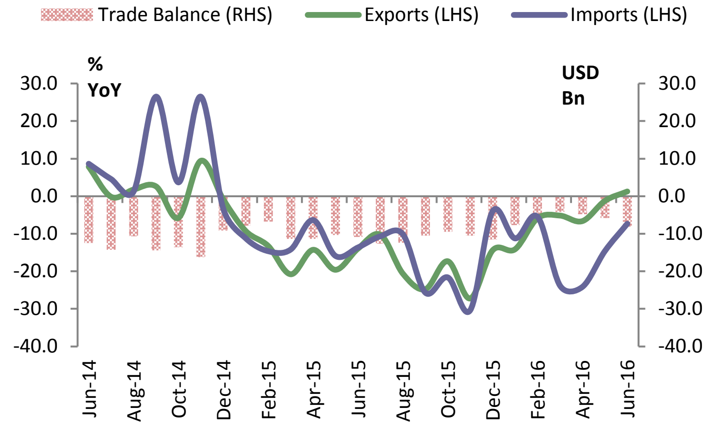
Trade deficit stood at USD 8.1 billion in June 2016

- *India's trade deficit stood at USD 8.1 billion in June 2016 vis-à-vis USD 10.8 billion in the corresponding period previous year.*

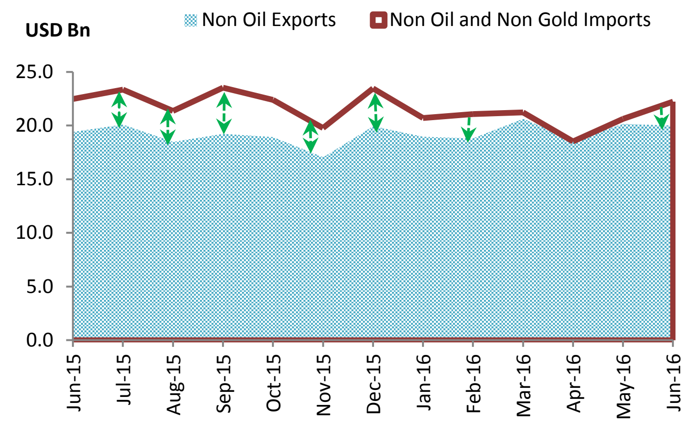
- *Merchandise exports posted a recovery, registering 1.3 percent growth in June 2016 vis-à-vis (-) 14.0 percent growth noticed in the same month previous year. Overall exports were valued at USD 22.6 billion in June 2016. Oil exports continued to contract, declining by 10.8 percent during the month. Non-oil exports, on the other hand, reported a growth of 3.1 percent in June 2016 vis-à-vis a fall of 4.4 percent in the same month last year.*

- *Total imports for the month of June 2016 declined by 7.3 percent and stood at USD 30.7 billion vis-à-vis USD 33.1 billion noted in June 2015. Oil imports fell by 16.4 percent while non-oil imports noted a decline of 4.1 percent in June 2016. Gold imports continued to shrink in June 2016 and were valued at USD 1.2 billion which was 38.6 percent lower than the imports reported in the corresponding period previous year.*

Trend in India's Merchandise Trade



Non Oil exports vis-à-vis Non Oil & Non Gold Imports

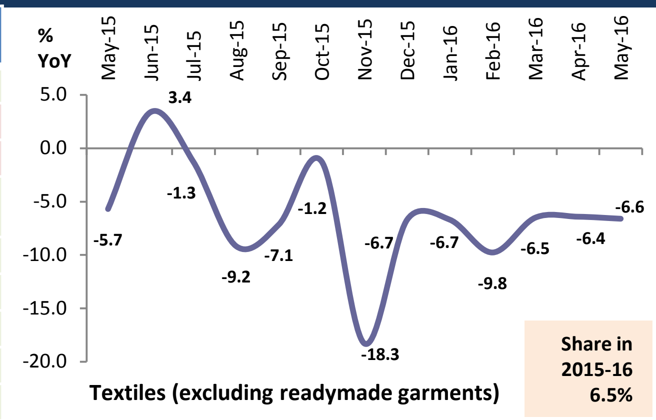


India's merchandise exports reported a recovery in June 2016 after contracting for eighteen consecutive months. Engineering exports, the biggest commodity in India's export basket (22 percent of total exports) recorded 0.9 percent growth in June 2016. This was the second straight month when the segment witnessed growth after noticing sharp decline in growth for nine consecutive months.

The government has taken several initiatives to boost exports and the turnaround noticed in June 2016 indicates that the measures have started yielding results. Recently announced steps to boost textile exports, which have been on a downtrend, augurs well for the sector's performance, going forward. Furthermore, efforts towards ease of doing business must continue in order to improve competitiveness and provide a thrust to overall trade.

India's Major Export Items (% YoY)

	% share Jun-16	Jun-15	May-16	Jun-16
Engineering goods	**22.8**	-0.1	5.3	0.9
Gems & jewellery	**15.6**	5.5	16.0	-0.5
Readymade garments	**7.0**	11.1	-5.3	-0.8
Drugs, pharmaceuticals & fine chemicals	**6.3**	10.3	-14.0	0.1
Inorganic/organic/agro chemicals	**5.4**	46.1	-5.4	14.4
Plastic & linoleum products	**2.4**	23.2	9.6	10.6
Electronic goods	**2.3**	-19.4	2.2	9.9
Marine products	**2.1**	-19.6	11.2	43.2
Handicrafts excl handmade carpets	**1.1**	9.2	32.4	92.0



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

FICCI – Economy Watch Team

- **Monika Dhole**
  Email: *monika.dhole@ficci.com*

- **Pragati Srivastava**
  Email: *pragati.srivastava@ficci.com*

- **Sakshi Arora**
  Email: *sakshi.arora@ficci.com*

- **Meenakshi Srinivasan**
  Email: *meenakshi.s@ficci.com*

- **Shreya Sharma**
  Email: *shreya.sharma@ficci.com*

सत्यमेव जयते
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