State of the Indian Economy

Rajeswari Sengupta, IGIDR

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From 1980 onwards, GDP growth has averaged 6%.
India is now a $2.3 trillion economy.
- We are a young country with favourable demographics.
- We are reaping the benefits of globalisation.
- We are a stable democracy.
  - The outlook is good by global standards.
Part I

Recent years
Macro-indicators

- CPI inflation is down from 11% (2009-2013) to 5%.
- Fiscal deficit seems under control.
- Current account likely to post a surplus after 9 years of deficit.
  - Private sector investment growth rate was close to zero in 2015 (compared to 15% during 2003-2008).
  - Exports grew by -5.2% (compared to 16% during 2000-2008).
2015 GDP growth rates of major EMEs:
- Brazil: -3.85%
- China: 6.90%
- Mexico: 2.55%
- Russia: -3.73%
- Turkey: 3.98%
- South Africa: 1.28%

**India : 7.6%.**

Only country in the post WWII period with falling investment, falling exports and a higher than 7% GDP growth rate.
Part II

Is India a miracle story or are we missing something?
Severe corporate stress

Source: Credit Suisse

41% of debt is with companies with interest cover <1.
Recognised stressed loans post RBI audit stand at 11%. Stressed loans for PSU banks are greater than 20%.
The great GDP fudge
Same data, opposite conclusions, Dr Subramanian?

Written by Jairam Ramesh | Published: September 10, 2016 12:00 am
Moving to more *micro* numbers

- Official databases (NAS, ASI, IIP, MCA21) need to be looked at with caution.
- Micro databases are more transparent.
Net sales of listed non-oil, non-finance companies; nominal, seasonally adjusted
Exports of listed non-oil, non-finance companies (goods & services); nominal, seasonally adjusted

Jan−Mar 2016; 1180.25

Index (SA)
1999 2001 2003 2005 2007 2009 2011 2013 2015

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We look at investment projects that are "announced" and are "under implementation" from the CMIE Capex database.

We focus on three indicators:

1. Private announced projects: A measure of business confidence.
2. Infrastructure projects under implementation: A measure of investment activity in infra sector.
3. Total projects under implementation: A measure of investment demand condition in the economy.
Infrastructure projects under implementation: QoQ % nominal change

Apr–Jun 2016; 0.69

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All projects under implementation: QoQ % nominal change

India not a strong performer after all?

- Business cycle downturn of 2012Q1 has not ended.
- Many firms and banks are in credit distress.
- Exports and investment growth are sluggish.
Part III

How to get back on track?
Fix the underlying cracks

- Distortions in land, labour, and capital markets.
- Lack of sound regulatory organisations.
- Lack of rule of law.
- Insufficient state capacity.
Big areas for reforms

1. Macroeconomic stability (fiscal and monetary).
2. Tax policy and administration.
3. Labour law.
4. Land law.
5. Financial reforms (banks, bond market, currency market, derivatives, equity market).
6. Infrastructure.

Create a favourable environment for firms to make GDP
We were pulled out of the 2000-2003 recession by a strong global economy.
This time it is different.
We should be prepared to reap the benefits once the global economy recovers.
Committees headed by Percy Mistry, Raghuram Rajan, U.K. Sinha and Justice B.N. Sri Krishna have shown us the way forward.
- We need to focus on **implementation** : GST, Bankruptcy Code, Aadhar Act, Inflation Targeting.
- We need to **revive** long pending reforms: Indian Financial Code.
- We need to build sound **institutions**.