

State of the Indian Economy

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- From 1980 onwards, GDP growth has averaged 6%.
- India is now a \$2.3trillion 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

- 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).

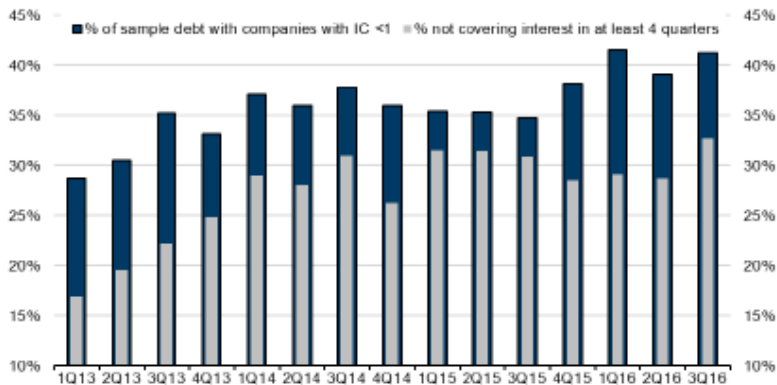
- 2015 GDP growth rates of major EMEs:
 - Brazil: -3.85%
 - China: 6.90%
 - Mexico: 2.55%
 - Russia: -3.73%
 - Turkey: 3.98%
 - South Africa: 1.28%
- **India : 7.6%.**
- Only country in the post WWII period with falling investment, falling exports and a higher than 7% GDP growth rate.



Part II

Is India a miracle story or are we missing something?

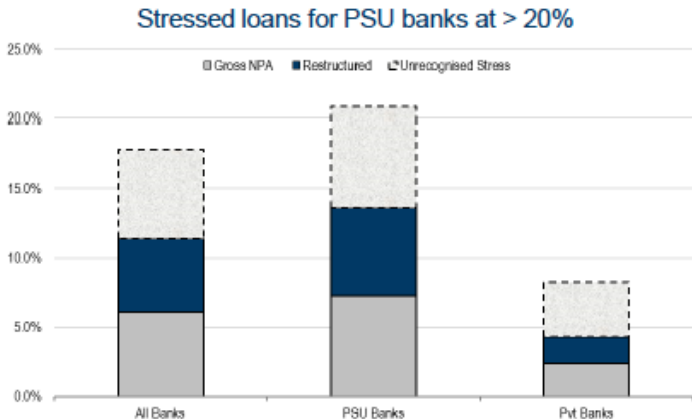
Severe corporate stress



Source: Credit Suisse

41% of debt is with companies with interest cover < 1.

Severe bank stress



Source: Credit Suisse

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?

4.6K

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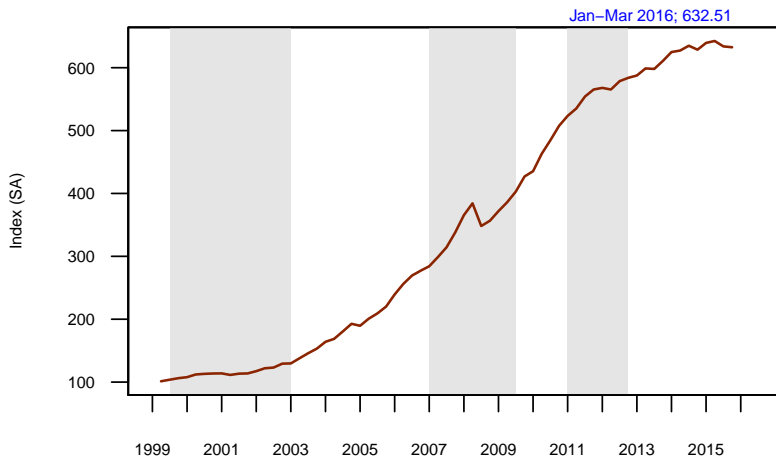
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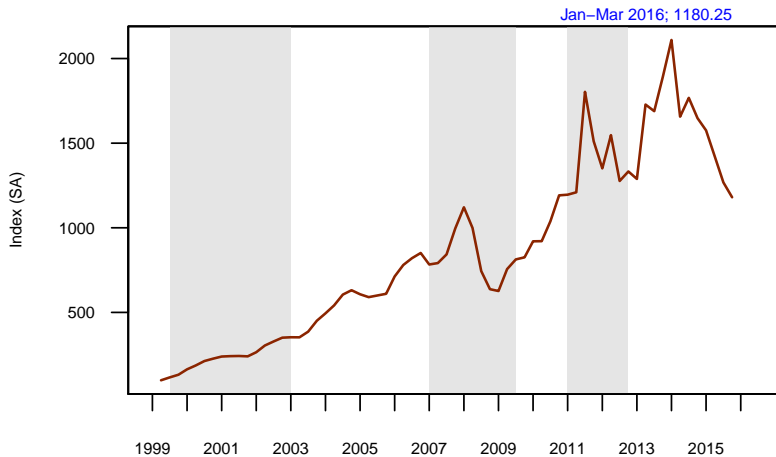
Moving to more *micro* numbers

- 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

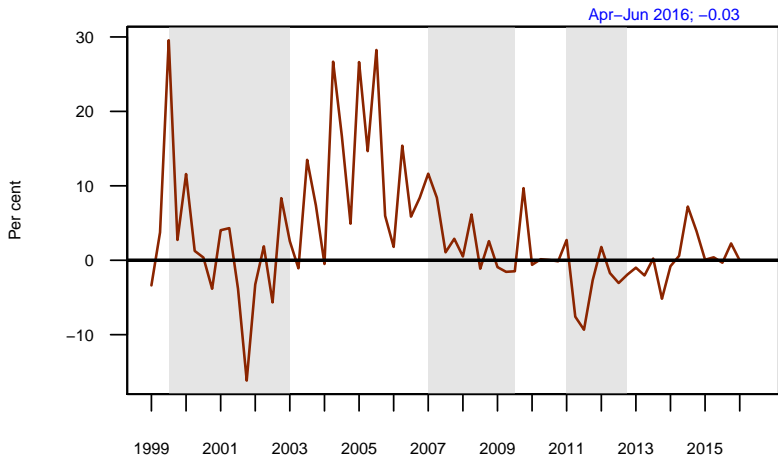


Exports of listed non-oil, non-finance companies (goods & services); nominal, seasonally adjusted

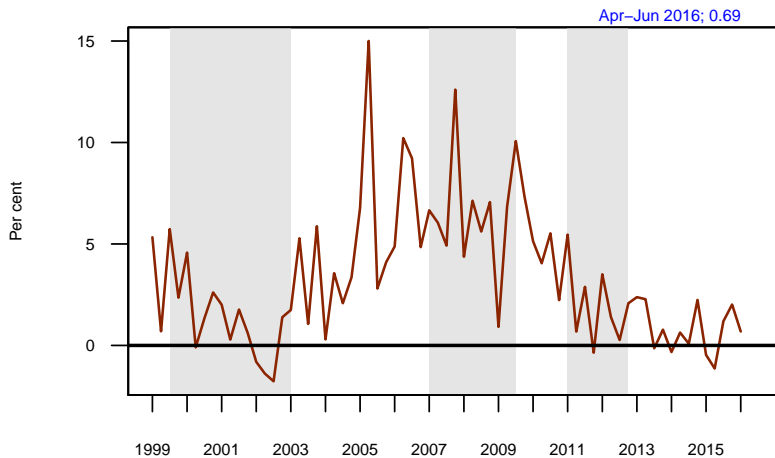


- We look at investment projects that are "announced" and are "under implementation" from the CMIE Capex database.
- We focus on three indicators:
 - ① Private announced projects: A measure of business confidence.
 - ② Infrastructure projects under implementation: A measure of investment activity in infra sector.
 - ③ Total projects under implementation: A measure of investment demand condition in the economy.

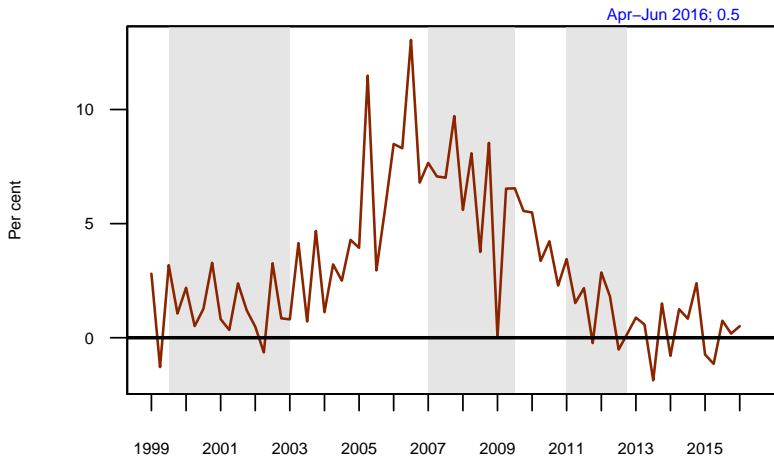
Private announced projects: QoQ % nominal change



Infrastructure projects under implementation: QoQ % nominal change



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?

TARGET 2.0 TWO POINT ZERO



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

Take Aways

- 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**.



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