# Economy Watch

October 2014
Issue 4

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

## *State of the Economy*

There has been a perceptible shift in the sentiment with regard to state of the economy since the beginning of current fiscal year. The latest data points reflect this optimism. The GDP numbers for Q1 FY14 have been encouraging. The risks on account of twin deficits – current account and fiscal deficit - stand fairly alleviated. And the inflation numbers have also witnessed softening. However, what remains a concern is the performance of the industry segment. The manufacturing activity is yet to report consistent recovery and the growth numbers continue to indicate precariousness.

During the first 100 days, the government has given a clear direction on reforms. Not only have we seen new campaigns – such as Make in India/Digital India - being announced, the government has also attempted to tread in to the zone of long pending and more difficult reforms. The announcements pertaining to labour laws, environment clearances and revisions in FDI caps in sectors like defence, insurance had been long due and are commendable. Resolving procedural and regulatory issues on a priority basis is of paramount importance for assuring ease of doing business and the government has shown commitment towards this.

**Gross domestic product growth at nine quarter high**

Latest GDP data for Q1 FY15 reported a growth of 5.7%, which was the highest in almost nine quarters. The corresponding number was 4.6% in Q4 FY14 and 4.7% in Q1 FY14. The increase in GDP growth has been supported by a pick up in the industry segment. With all the major sub segments – including mining, manufacturing, electricity gas & water supply and construction - noting an improvement, the industry segment recorded 4.2% growth in Q1 FY15 – the highest since Q4 FY12.

The agriculture sector was also able to show a decent performance, witnessing a growth of 3.8% in Q1 FY15. This was despite the expectation of El Nino effect marring growth prospects in the sector. The South West monsoon has been 12% deficient this year and we are yet to see how the spatial impact pans out. However, the government is upbeat about the rabi season and is already strategizing for higher production during the season.

As for the services segment, the growth has remained steady and was reported at 6.8% in Q1 FY15. While the finance, insurance, real estate & business services and community social & personal services segments recorded reasonably good growth, the trade hotels transport & communication segment is yet to gather pace.

# State of the Economy

**GDP growth (y-o-y): Quarterly growth**

| | GDP | Agriculture, forestry & fishing | Industry | Services |
|---|---|---|---|---|
| **Q 1 2012-13** | 4.5 | 1.8 | 0.3 | 7.2 |
| **Q2 2012-13** | 4.6 | 1.8 | -0.5 | 7.6 |
| **Q3 2012-13** | 4.4 | 0.8 | 1.7 | 6.9 |
| **Q4 2012-13** | 4.4 | 1.6 | 2.1 | 6.3 |
| **Q1 2013-14** | 4.7 | 4.0 | -0.4 | 7.2 |
| **Q2 2013-14** | 5.2 | 5.0 | 2.6 | 6.3 |
| **Q3 2013-14** | 4.6 | 3.7 | -0.4 | 7.2 |
| **Q4 2013-14** | 4.6 | 6.3 | -0.2 | 6.4 |
| **Q1 2014-15** | 5.7 | 3.8 | 4.2 | 6.8 |

*Source: CMIE*

### *Index of Industrial Production (IIP): growth remains uneven*

The IIP grew by 2.5% in September 2014 following a moderation in July (0.4%) and August (0.4%) 2014. Higher output in September was primarily led by an improved performance of the basic and capital goods segment. The manufacturing sector which constitutes three quarters of the IIP index, reported an average growth of 0.1% in the second quarter much lower than 3.8% in the first quarter of FY15.

It might be mentioned here that the Supreme Court judgment on cancellation of coal blocks in August 2014 created some unease and is likely to have an impact both on mining and electricity production. Even though the government has passed an ordinance allowing auction of coal mines to private companies, we need to see further action on this.

Furthermore, results of FICCI's latest Business Confidence Survey indicate that companies have not seen much change in their capacity utilization levels over the past few quarters and members of India Inc. are still wary of undertaking fresh investments. The demand has been weak and needs to be given an impetus.

As per the used based classification of IIP, capital and basic goods segment reported 11.6% and 5.1% growth in September 2014. Meanwhile, consumer goods output dipped by 4.0% during the month with 11.3% decline in the durable goods segment. Consumer non-durables growth stood at 1.5% in September 2014.

**Index of industrial production growth (y-o-y)**

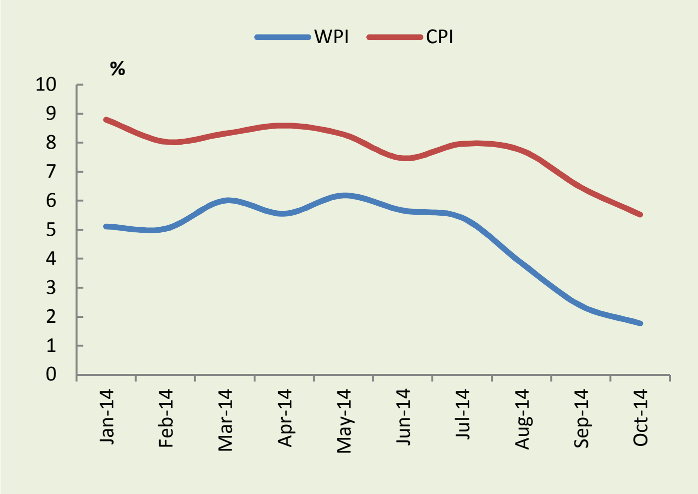
| | Sept-13 | May-14 | Jun-14 | Jul-14 | Aug-14 | Sept-14 |
|---|---|---|---|---|---|---|
| **Economic activity wise** | | | | | | |
| **IIP** | 2.7 | 5.6 | 4.3 | 0.4 | 0.5 | 2.5 |
| **Mining & quarrying** | 3.6 | 2.4 | 4.8 | 1.2 | 2.0 | 0.7 |
| **Manufacturing** | 1.4 | 5.9 | 2.9 | -1.0 | -1.3 | 2.5 |
| **Electricity** | 12.9 | 6.7 | 15.7 | 11.7 | 12.9 | 3.9 |
| **Use based** | | | | | | |
| **Basic goods** | 6.7 | 7.5 | 10.2 | 7.4 | 9.2 | 5.1 |
| **Capital goods** | -6.5 | 4.2 | 23.3 | -3.9 | -9.8 | 11.6 |
| **Intermediate goods** | 4.4 | 3.5 | 2.6 | 3.0 | -0.1 | 1.8 |
| **Consumer goods** | 1.0 | 4.6 | -8.8 | -7.7 | -6.5 | -4.0 |

*Source: CMIE*

### *Inflation moves to downward path*

Both wholesale and retail prices have moved to a downward trajectory and this comes as a welcome respite. The wholesale price index (WPI) was reported at 1.77% in October 2014, which is the lowest in five years. Further, the consumer price index (CPI) which is the new benchmark for monetary policy targeting also moderated to 5.5% in October 2014 from 6.5% in the previous month. The decline in prices has been broad based with a discernible fall noted in food and fuel prices. In addition, the global commodity prices are subdued and is expected to have a salutary effect on inflation.

**WPI & CPI growth (y-o-y)**




*Source: CMIE*

***External position steady***

India's current account position which was a key risk factor until last year is fairly stable at present. The export growth has been steady so far this year. Also, the exchange rate is expected to be range bound posing no significant risk.

Exports increased by 4.6% over the period April-October 2014, vis-à-vis 7.8% growth recorded over the same period last year. Imports on the other hand increased by 2.4% over April-October 2014, vis-à-vis (-) 4.6% growth in the corresponding period last year.

In addition, foreign investments inflows have been robust so far this year taking a cue from the clear election mandate announced in May, followed by a strong and stable government at the Center. Over the period April-September 2014, total inflows amounted to US$ 39.9 billion, up from US$ 7.8 billion in the corresponding period of last year – an increase by more than four times. Over the same period, foreign direct investments (net) stood at US$ 17.8 billion, vis-à-vis US$ 14.6 billion worth of inflows during April-September 2013. Portfolio investments amounted to USD 22.1 billion in April-September 2014, vis-à-vis (-) 6.8 billion over the same period last year.

***Outlook***

The prognosis for the remaining part of the year remains optimistic and growth is expected to see an uptick in the second half of the year. FICCI's latest Economic Outlook Survey (released September 2014), which is conducted among eminent banking and financial sector economists, estimated a growth of 5.6% for the fiscal year 2014-15. This is an improvement over the 5.3% growth projection put out in the previous survey released in July 2014. The increase in the estimate is led by an expectation of an improved performance from the industry segment. While the latter in all probability will clock a better growth over the 0.4% growth witnessed in FY14, it is imperative to earnestly implement some of the announcements made recently. The manufacturing growth needs to be put on a double digit growth trajectory on a sustainable basis.

Further, inflation is expected to remain within the comfort zone for the remaining part of the year. Given that we look forward to a more supportive stance from the Reserve Bank of India. CPI is moving in line with RBI's indicative trajectory and this has created some elbow room for a downward adjustment in key policy rates.

# Expert Opinion

## India's growth prospects in FY15: reform measures will sustain a remarkable turnaround

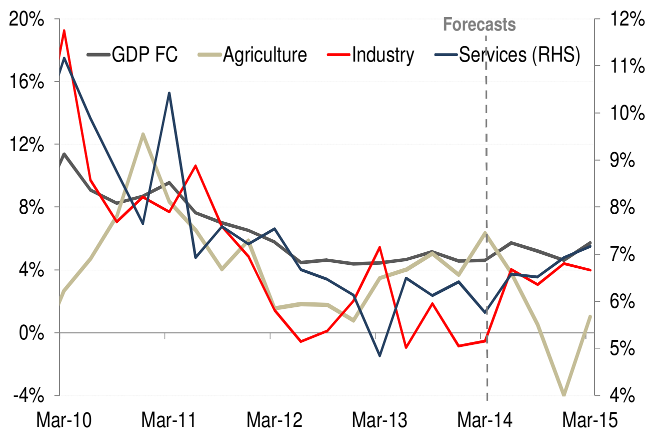
*The views are the author's own and do not necessarily reflect those of the institution to which he is affiliated.*

The theme of this compendium befits the completion of just over a year after one of the most turbulent periods of India's financial markets. The turnaround in India's economic prospects within the span of just over a year has been one of the most remarkable recorded episodes (see chart). This is all the more striking given the global context of the recovery, with Advanced Economies still by and large wobbling on growth, particularly expectations of sustained growth, and the fundamentals of many Emerging Markets appearing to have deteriorated over the past year.

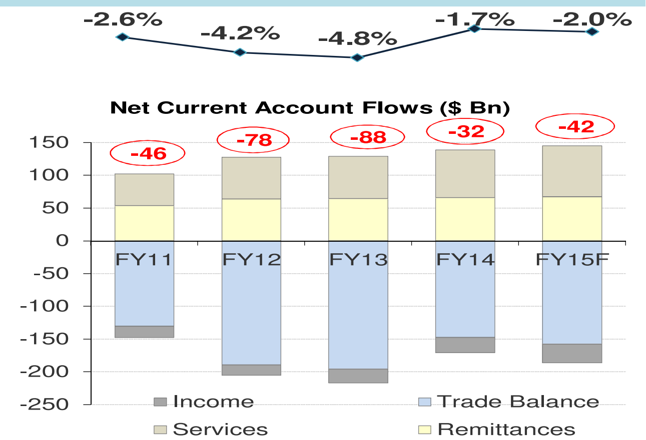
Over the past couple of months India, of course, has been fortunate in being provided a global environment, reinforcing the domestic reform measures which have stabilized and turned around India's macroeconomic fundamentals. The adage "what's good for the Dollar is good for India" has been validated over the past few months. On the basis of expected Federal Reserve tightening policy and increasing rates in the US, and the consequent expected rate differentials and risk aversion in 2015, the US Dollar has rallied 5.4% over the past couple of months against the Euro. This, together with a progressive slowdown in other major economic geographies,` has kept prices of most industrial commodities in check. In addition, increasing excess supply and moderating demand has reduced prices of crude oil by close to $25 / barrel, helping provide ballast against the effects of a slowing global economy.

This moderation of not just global commodities and energy, but also food prices, could not have come at a better juncture. "Persistent" inflation has been one of the biggest impediments in formulating a aggressive policy response to slowing growth and investment. A combination of tight monetary policy, agri pricing (MSP increases in 2014 have been one of the lowest in the past 5 years), global commodity prices and currency stability have resulted in inflation coming down steadily from highs of almost 11% in 2013 to 6.4% currently, and are expected to stabilize in line with the RBI milestones in 2015 and 2016. One of the implications of stable prices is the comfort for savers and investors, both domestic and foreign, whose inclination to move out of financial savings in the past 2 years reflected concerns on the real rates of return on their investments. Stable prices have also become a "nominal anchor" for the Rupee, with the reduction of excess demand, reflecting a significantly shrunk Current Account Deficit, down from 4.7% of GDP in FY13 to 1.7% in FY14. Restrictions on gold imports largely still remain, and a sharp drop in the price of gold with little prospect of a significant upside is keeping demand in check. Although the momentum has moderated, exports have been good, and remain a significant engine of growth.

**GDP growth expected to improve to 6.4% in FY16**




**CAD likely to be below 2% in FY15**



Prospects of a sustained growth recovery, together with improved fundamentals and removal of restrictions on strategic investments in some sectors, have led to an increase in capital inflows, with the consequent net positive inflow of foreign currencies enabling RBI to shore up its forex reserves by over $36 billion since September 2014 (as well as accumulating net forward longs of $39 bn). The Dr. Urjit Patel chaired report on a new monetary policy framework, which seems to have been informally endorsed by the Government, had also strengthened perceptions of a growing independence of India's central bank. This was bolstered by the ongoing exercise under the aegis of Financial Sector Legislative Reforms Commission (FSLRC) of a radical modernization of India's financial sector legal underpinning, with the Indian Financial Code (IFC) as a key pivot.

The obverse side of the lower CAD was a continuing consolidation of the fiscal deficit of the central Government, with a budgeted deficit of 4.1% of GDP likely to be met, based on trends on expenditures and revenues. One of the positive fallouts of the reduced deficits (and consequently improved cash flows of the Centre) has been a reported resumption of payments to vendor and contractors of outsourced Government services, payments which had hitherto become erratic and added to working capital stress of many small enterprises, heavily dependent on Government contracts for business.

India's comparatively low sovereign debt ratio to GDP (as indeed are its household and corporate debt) has always been a relative strength compared to India's EM peers.

A major reform envisaged to be in place by April 2016 is the implementation of a nationwide Goods and Services Tax (GST), designed to rationalize taxes on inputs into production and thereby not just increase India's business competitiveness but also create a national market for goods and services, which in turn will help to increase price stability of agricultural products. The effects of this economic turnaround and political stability on investor and business confidence is evident not just in the renewed foreign capital – particularly portfolio – flows, but also in the recent upgrade in India's sovereign ratings outlook by the last holdout amongst the big 3 global ratings agencies, hopefully setting the stage for an early ratings upgrade by one of the 3. While all the above are setting the stage for India's potential growth to increase in a sustained manner over the medium term, it is likely that in FY15, growth recovery will be modest, and with real GDP growth likely to be in the 5 – 5.5% range. The growth trough is undoubtedly in the past, but the pace of recovery is likely to be moderate, with ongoing initiatives at the centre and states to de-bottleneck the multiple causes of projects stalling seen in the past few years. Despite judicial interventions in some infrastructure and natural resources sectors, the ongoing measures to rationalize auction and allocation processes for scarce public natural resources is likely to lead to a more stable investment regime. Nascent moves in selected states to implement long overdue reforms in various input markets – labour and land in particular – are encouraging and will be social experiments on the extent to which some of these measures can be pushed forward.

While the economy is moving towards greater market orientation, risk management is becoming increasingly important. In financial markets, RBI, other regulators and the Ministry of Finance are liberalizing the use of various risk management products in the Bond – Currency – Derivatives (BCD) space, enabling investors to hedge against financial risks. In the real economy, the Government is leveraging digitization and the rollout of multiple electronic platforms to provide social security safety nets for low income households. The PM Jan Dhan Yojana will be a key enabler of increasing financial access, particularly if used in tandem with electronic Direct Benefits Transfers and mobile banking. In order to sustain the growth recovery over the medium term, India's competitiveness will need to be increased with a focus on skill development, so that small and medium enterprises – the presumptive engines of future growth - have an adequately trained workforce for the global manufacturing and services supply chains which will invariably be sited in India. The PM's initiatives on labour reforms will provide the agile environment in which these skills can be harnessed. The advantage of the 3 Ds – Demand, Democracy and Demographics – which PM Modi stressed, will then truly become the long term growth and employment engine for India.

***The article is written by Mr Saugata Bhattacharya, Senior Vice President and Chief Economist, Axis Bank***

# Policy View

## Can India afford to stay out of FTAs?

For quite some time India's engagement with free trade agreements (FTAs) has come under scrutiny, criticism and even outright opposition from various quarters. Concerns have been expressed on the adverse impact of FTAs on the domestic industry. The Economic Survey 2010-11 observed that while there are benefits from the FTAs for Indian exports, in some cases the benefits to the partner countries are much more, with net gains of incremental exports from India being small or negative. Some FTAs are under review as it was felt that they have not been beneficial for the country.

In view of the widespread reservations against FTAs, an in-depth impact analysis of such deals would help us obtain a more objective and informed assessment of this issue. However, such exercise is constrained by serious data limitations. Statistics on India's trade flow through the 'FTA route' are not available in the public domain (though last month some aggregate-level figures on our preferential imports were quoted in media reports).

In the absence of disaggregated data on 'exports or imports effected under FTA or preferential duty', total trade statistics (MFN plus preferential) are typically used as a 'proxy'. So, any analysis is unlikely to be robust and may not reflect the correct picture.

Ficci study and perception surveys suggest that considerable negative effects mark India's experience with FTAs. India's imports from major FTA partners surged by a higher margin and, as a result, India's trade deficit with them widened. In relative terms, our FTA partners (such as South Korea and Asean) have been able to take more advantage from the trade deals and secure greater access to Indian market.

For example, India's exports to South Korea moved up from $3.4 billion to $4.1 billion between pre-CEPA (2007-08 to 2009-10) and post-CEPA (2010-11 to 2012-13) periods. In the same period, India's imports increased from $7.8 billion to $12.1 billion. Thus, India's trade deficit widened from $4.4 billion (pre-CEPA) to $8 billion (post-CEPA).

To cite just product-specific instances, worried over growing imports from Japan and Korea, a number of leading domestic steel makers have suggested import of steel and steel products from these countries be brought under negative list to safeguard the interest of local firms.

Similarly, domestic paper industry has pointed out how the huge potential for the sector is being thwarted by the India-Asean FTA. This trade deal has provided the window to the paper industry of select South-East Asian countries to offload their substantial surplus produce in the Indian market.

Greater merchandise imports from our FTA partners and relatively modest gains in India's merchandise exports to these markets should not come as a surprise. For one, India's base tariff was comparatively higher than that of Asean and Korea. Thus, as our preferential tariff became lower over the years since the implementation of the FTAs, our partner countries were in a better position to augment their exports to India.

On the other hand, India's exports could not fully seize the benefits of tariff reduction in FTA partner countries because of the issues on competitiveness, systemic inefficiencies and infrastructural bottlenecks. The point is: while the reduction in India's tariffs has increased its merchandise imports, why the offsetting gains expected in India's services exports and higher inflow of investments have not materialised? In addition to the sharp uptrend in imports, other difficulties arising out of FTAs include inverted duty structure. Incidence of inverted duty makes the affected sectors uncompetitive against import of finished products and discourages domestic value addition.

Economic Survey 2013-14 has suggested that it needs to be avoided. Further, there is a problem of trade deflection, i.e. products from 'third country' entering India and getting undue duty benefits import of China-made bicycles are routed through some neighbouring nations taking undue advantage of lower tariff under SAFTA or India-Sri Lanka FTA (0-5% duty as against the MFN rate of 30% that applies to bicycle imports from China).

It is necessary to put in place appropriate remedial measures to contain any surge in imports. According to the analysis made by the Department of Commerce, only 22% of imports from Japan are through the FTA route with accompanying duty benefits, while the corresponding figures for South Korea, Asean and Malaysia are 21%, 17% and 3.5%, respectively.

On the other side of the coin, FTAs offer benefits too. India's clothing exports to the FTA countries have increased after signing of such pacts, Apparel Export Promotion Council said in a recent statement. In a Ficci survey undertaken in October 2013, 35% of the respondents said that the India-Asean FTA in goods had a positive impact on their business through imports from Asean at zero or lower duty that helped to reduce input costs.

So, can India do without FTAs? Here we have a dilemma. On one hand, so far we have not been able to leverage our FTAs and by and large ended up as the losing partner. On the other, as suggested by many, could we really afford to stay out of the FTA landscape and do without such deals? The latter does not seem to be a smart option due to several reasons. One, FTAs are essential not only for expanding India's market penetration but also for maintaining the existing market share in our major trading partners such as the EU.

If India does not have an FTA with the 28-member bloc, then EU's FTA partners (many of which are our competitors) will have distinct 'advantage of lower duty' over India in that market. Remember, Indian apparel industry has called for expediting the process of India-EU FTA finalisation, as this will help our exporters have greater market access. Two, we have to recognise that WTO talks are in a stalemate and 'mega regionals' such as Trans-Pacific Partnership (TPP) and Transatlantic Trade & Investment Partnership (TTIP) representing nearly half the world trade are under progress. India is not a part of either TPP or TTIP.

Therefore, isn't it imperative for India to pursue a calibrated FTA strategy supported by complementary internal reforms and enabling measures so that it does not get left out in the milieu of trade liberalisation through FTA/RTA across the globe and at the same time the country's manufacturing sector is not adversely affected? Three, FTAs may open up doors for Indian businesses to participate in the global/regional value chains and production networks where our presence is marginal now.

Going by the global or regional trends, FTAs/RTAs are here to stay and cannot be wished away. What we need to do is devise ways to better manage and more effectively utilise our FTAs, so that Indian economy could achieve greater benefits from these deals. So, we need a comprehensive impact assessment of FTAs it will help in consolidating/fine-tuning our strategies and adopting necessary course-corrections. We have to be careful in selecting 'partners' for FTAs or CECA/CEPA. It is necessary to sign such trade deals with countries having complementarities of economic or commercial interests, not on the basis of geo-political considerations only.

Also, FTAs need to be entered into where there is potential for Indian business to expand and deepen market penetration in partner countries. In the ongoing/future FTA negotiations, the Indian government should take up goods, services and investment simultaneously, not sequentially. We need to ensure compliance with rules of origin and take strict measures to deny duty benefit to third country products. We have to set up a business-friendly FTA portal (with details on services and investment in easy-to-understand language).

We also need to synchronise trade policy with manufacturing policy and immediately address the problem of inverted duty structure. Back-up FTAs by pushing through outstanding internal reforms are needed. Making substantial progress towards completion of the pending domestic reforms is vital for competitiveness of Indian products. This would enable us to take advantage of export opportunities and face the challenges of tariff liberalisation brought about by FTAs. The bottom line is, we need to negotiate our FTAs cleverly, but simultaneously strengthen our manufacturing base with necessary internal reforms and improvements in infrastructure.

***The article is written by Dr A Didar Singh, Secretary General, FICCI. It was published on August 28, 2014 in The Financial Express***

# Policy View

## *Labour policy in a developing country should take the form of Employment Policy*

***There is a lot of talk on labour policy and labour reforms. This appears somewhat misplaced.***

From my personal experience of starting and running labour intensive industries for decades, my take on the issue is different: for me, it should be Employment policy, rather than a Labour policy. Moreover, it is an imperative, if Prime Minister Narendra Modi's "Make in India" campaign is to succeed. Let me explain.

In the context of a developing economy like India, what is needed is not only reform of labour laws, but to enact a law to promote employment, which may be called "Employment Promotion Law".

Labour laws cover only organised labour, which constitutes less than 8% of the work force. The labour laws were framed in a different context when employees were not so organised and were vulnerable to exploitation. Things are now quite changed. Labour is today, strong, cohesive and can look after or protect its interests. But then what happens to 92 per cent unorganised labour and 10-12 million young boys and girls who join the labour force every year?

The present labour laws in India discourage both small and big entrepreneurs to go in for labour intensive processes -- whether that be manufacturing or services. As the application of labour laws is dependent on certain threshold numbers, the tendency is to employ below that number in the case of small scale industries, and to go for capital-intensive processes in the case of large scale industries, even though in India capital is expensive.

Laws have to be simple, protecting wages, hours of work, holidays and social security on one hand, while providing flexibility to enterprises to adjust to economy and markets so that the entrepreneur is not afraid of taking risks in setting up or expanding business and hiring people. Flexibility is not to remove labour at will, as in a competitive environment no enterprises can survive without skilled manpower, but flexibility means freedom to salvage and redeploy resources or even to close down failing business, after compensating labour.

No entrepreneur can afford to lose a worker who has been trained or is skilled. The challenge today is retaining trained manpower as is the experience of the software industry. Being altogether a new activity, the industry by and large remained outside the framework of existing labour laws but still grew faster.

The demand for skilled manpower has been so strong that industry is setting up gyms, exclusive entertainment lounges, flexible working hours and what-not to keep the workers engaged. This leads to the inevitable conclusion that increasing the demand for labour, upgrades the level of engagement programmes and ultimately the quality of life.

Restrictions on business's right to close down a losing venture have discouraged employment of labour from the start. No one starts a business to close it down but running a business has its intrinsic risks and the risk taker need to be assured that he can easily wind up his business if situation so demands.

Unfortunately, in India, the right to close unviable units has been taken away from industry subjecting it to Government scrutiny since Emergency days in 1976. As a result, losing business is kept on the ventilator for years together and ultimately winds up without paying compensation to employees. At the same time, owners also cannot redeem or liquidate the assets which are left over. Flexible laws in such circumstances can allow restructuring of business after paying labour their dues. That will serve the overall interest as the new businesses will generate fresh employment opportunities and create new income streams. Also, the entrepreneur should be allowed to replace unavailing and unskilled workers. However, this flexibility should not be used for reducing the number of workers.

You cannot protect employment through artificial means if the firm goes sick. It will only distribute poverty besides adversely impacting economy. Businesses must thrive to enrich workers, society and economy.

Entrepreneurs, enterprise and workers' fates are interlinked

Employment laws, as I see it, should cover not only those who are employed, but also the unemployed and those in the informal sector.

For me, an employment policy should have three major elements and one single objective. The objective will be to increase employment and bring all employable working age populations within the fold of the employment.

There could be three main strategies for achieving this objective:

First, employment policy is related to the general overall policy for promotion of enterprises. That is, it should be easy to start businesses as they alone can create employment opportunities. For this purpose, the micro, small and medium enterprises need to be nurtured and encouraged. It is the MSME sector – employing 3 to 10 people -- which creates largest number of employment opportunities.

Secondly, and speaking specifically of India, what we need is employment generation through setting up large-scale manufacturing units. India has so far grown with the development of the services sector. However, employment in services sector is more skill-based than in manufacturing. We need simple laws that encourage large-scale manufacturing like in China.

It is still possible to employ relatively unskilled workers at the entry level in manufacturing and then train them. I hope, amendments in the Apprenticeship Act will take care of that. China has been the best example of increasing employment through large-scale manufacturing. We need to have in India large-scale manufacturing, employing say 40,000-50,000 workers in a single unit.

Even within industry, unorganised employment predominates. Informal employment constitutes more than 95% of the overall employment in industry, more particularly in manufacturing.

Thirdly, an employment policy should also have a framework for incubating entrepreneurship. It is the entrepreneur who creates fresh employment. Entrepreneurship development is the best bet for expanding the employment base.

With an expanding population, India needs to create no less than 10 to 12 million fresh jobs every year to absorb the additions to the labour force. To accommodate these new job seekers we must nurture a million new entrepreneurs. This is a stupendous task.

India is said to have a demographic dividend as the country will still have a thriving working age population till about 2050 when the rest of the world will have an ageing population. This also imposes a responsibility that we have to create job opportunities for those who are joining the workforce through an employment policy.

***The article is written by Mr YK Modi, former President FICCI. It was published on October 28, 2014 in Daily News and Analysis (DNA)***

# Looking beyond 100 days of Narendra Modi-led government

***It is time to focus on tricky issues like GAAR, transfer pricing and subsidies***

Governance, execution and delivery are key to a turnaround and future growth. This sensitisation has been demonstrated well in these 100 days of the Modi-led government. It is, perhaps, not fructuous to lay out a short-term report card of the government as the impact of most measures must really carry to the medium and long-term.

A positive change in mood is evident. While one can debate over the need and relevance of big bang reforms, the government has rightly taken multiple small steps in the right direction.

Revitalisation of the economy, and the true central objective of creating jobs, requires a setting conducive to entrepreneurship and investment. The role of the government is to be the facilitator by setting fair ground rules and non-intrusive regulations, minimising discretionary space.

The first budget of this government made a good start, offering improvements in tax policy, laying emphasis on expansion of economic activity across sectors and initiating steps towards prudent management of public finances. Outside the budget, many progressive announcements were made to facilitate revival of capex and growth cycles.

Raising the cap on foreign investment in defense, allowing FDI in railways, digitisation of approvals and clearances, and the thrust on infrastructure and SMEs, all support the national development agenda. Given that the stage has been set for growth and development, we believe the government will expedite the pace of tax and other policy reforms.

First, tax terrorism in all forms must go. Tax terror occurs when unreal targets and revenue bias become acceptable behaviour. Sustainable, healthy revenues require a much wider tax-base, on both direct and indirect fronts.

Aggressiveness in tax collection is best directed towards those willfully outside the tax net. Differentiated tax policies distort equity and lead to misuse and tax evasion.

It may be time to consider taxing all incomes above some minimum threshold, including income that may be agricultural or disguised as such. As suggested by the Kelkar Committee, tax rental arrangements between Centre and states can be considered, with states passing resolution under Article 252 of the Constitution, authorising the Centre to impose income tax on agricultural income, and such tax collections by the Centre may be assigned to the states.

The government may consider exempting agricultural income up to R10 lakh, which will ensure that a real majority of farmers remain unaffected. This move even with a high exemption limit can mitigate tax evasion and mobilise resources.

Second, GST needs to be implemented at the earliest and we are glad to see positive action and aim for consensus for effective implementation. Setting higher rates or keeping several items out of GST will not bring the desired results.

Third, on transfer pricing, greater clarity is required in avoiding applicability of transfer pricing to capital raising, as well as taxing capital raising based on valuations. Provisions deeming portions of capital to be income are serious deterrents to genuine transactions while leaving the door open for aberrant behavior. In well-known cases, transfer pricing principles are sought to be applied even when effective ownership is unchanged and no transfer takes place.

Domestic companies also come under the ambit due to changes made in 2012 relating to valuations in unlisted companies. The methods prescribed on values are, in the present context, irrationally based on assets instead of relying on the underlying potential, or a fair issuer-subscriber contract. This needs fair correction.

Fourth, the government must re-visit the fundamental relevance of GAAR with reference to our need for capital. There has been enough debate and now that the government intends to move towards simplified taxation, it is suggested that this issue must be buried as we proceed further.

Fifth, the government must re-consider budget proposals disallowing CSR expenditure as business deduction. Spending outside business purposes amounts to appropriation of profits.

Other than shareholders, no one (including the State), can rightfully direct appropriation outside a balance-sheet; therefore, this may well lead to judicial challenges unless this expenditure is considered business expense, as in the past. Further, given the lopsidedness between tax benefits (for example contributions to PM relief fund being allowed as deductions), the new provisions run counter to the intent of promoting corporate participation in CSR which now risks becoming cheque-book philanthropy.

Sixth, we see an ambitious disinvestment target, which can be achieved only through timely intervention. The government should act sooner on disinvestment to take the best advantage of the healthy capital markets. Speed of action and sharing information on disinvestment plans will facilitate this objective.

Finally, subsidy reforms need to be expedited. We look forward to the report of the recently constituted Expenditure Management Commission and hope that it will lay a roadmap for rationalisation of subsidies and bringing efficacy in administration of social programs. Direct Cash Transfers must be aggressively followed for better and effective targeting of subsidies, especially following launch of the Pradhan Mantri Jan Dhan Yojana.

The new leadership has set a progressive direction by articulating an economic vision centered on an investment and growth friendly environment. We are confident that further action and reforms will follow.

***The article is written by Mr Sidharth Birla, President FICCI. It was published on September 5, 2014 in The Financial Express***

## *This business of climate change*

***The cost of adopting mitigation technologies and the collapse of carbon credit markets remain major concerns***

Paris 2015 is the buzzword among the global climate change community today, when the countries would negotiate a long-term agreement on climate change. The road to Paris is also dotted with two events this year — the UN Secretary General's Climate Summit in New York in September, and the 20th Conference of Parties to the UN climate change conference in December. Both aim to rouse the interest and ambition of the global community to strike a successful long-term deal — a deal that will have ambitious goals beyond 2020.

So, what is the deal for business and industry? Many say the negotiations are about the politics of climate change, less about the economics of it. Whatever the outcome of negotiations, there will be an impact on businesses. The impact could be an opportunity or a risk.

**New opportunities**

Indian business and industry, with its proactive attitude to embracing newer opportunities, has not shied away from the opportunity. The carbon market presented an opportunity for new businesses to emerge that dealt with advising, consulting and verifying the generation of carbon credits. And most importantly, helping industry to build a momentum on climate mitigation projects. Hence, the business response to the climate change opportunity was not found wanting in the Indian context. More than 2,500 projects in 7 years from 1600 companies under the Clean Development Mechanism (CDM) is not a small number given a small timeframe.

There are projects ranging in thousands that directly or indirectly mitigate climate change; these have arisen under various domestic schemes, legislations and initiatives. Whether it is the energy efficiency scheme, national solar mission, urban renewal mission, many other projects under renewable energy, green buildings, transportation, forestry, the list is quite a long one.

**Key elements**

Six key elements that will provide industry the impetus for climate change mitigation through the international regime, need to be taken up at the global level.

First, access to international climate finance is the most critical element. Let's be clear. Indian corporates have demonstrated their pro-active approach to mitigation. However, direct investment in climate mitigation on a large economy wide-level is not going to happen easily unless the cost of mitigation is internalised. It needs to be front loaded with climate finance which will help meet the incremental economic costs of mitigation, enable mainstreaming of climate mitigation and adaptation among the small and medium enterprises, and fund collaborative research and development in low-carbon technology. Second, new market mechanisms would have to be devised for the whole business of climate mitigation to be market-driven. Third, there is no point of talking about a carbon tax or a price on carbon. Adding a tax burden will be detrimental to something that can otherwise have a wide-ranging response through positive incentives. Can we instead talk of a price for reducing carbon emissions? Indian corporates need not pay a price on carbon but a price for carbon. Fourth, a mechanism for technology availability and viability needs to be brought in by the UN Framework Convention on Climate Change (UNFCCC). Fifth, it is critical that trade flows should not be impacted by any measure in the garb of climate change action that is unilateral in nature. Any imposition by countries on embodied carbon in goods that cross borders would have a major adverse impact on trade. 'No border taxes' should be the outlook. Standards or norms developed by different countries or an international institution should be used for enhancing the competitiveness in the market, not for potential unilateral measures.

Industry should be aware of standards being pushed to achieve a singular goal of discriminatory market access and guard itself against such standards. Climate action cannot be at the cost of competitiveness, these two should only be mutually reinforcing. Last, a high level panel under the UNFCCC recommended setting up of a stabilisation fund for carbon credits generated and not sold. This can revive the confidence of companies at a time when there is virtually no carbon market. There should be a fund with a sunset clause to clear returns on investment made in carbon emissions reduction projects, projects that yielded carbon credits but did not find any takers.

**Enabling environment**

While these elements will be critical to what the global dialogue yields, the government and industry work towards building an enabling environment at home to scale up efforts at the domestic level. There is a clear set of domestic interventions that can provide the impetus for action to mitigate and adapt to climate change impacts. Indian business and industry need five key touch points domestically to embark on ambitious mitigation and adaptation initiatives. One, an access mechanism for the National Clean Energy Fund to provide funding for incremental cost of low carbon technology adoption, by way of a viability gap funding. Two, create the necessary regulatory environment for long-term funds to step into the climate change mitigation and adaptation space. We need to create an investment climate that will attract pension and insurance funds to tap this market in India.

Three, mainstream climate change concerns and actions across all spheres of policymaking. Climate change has to be accorded priority at the top level in government and in business. Four, facilitate the creation of a voluntary domestic market. With the global carbon market outlook being weak, a voluntary carbon market in India could give the much needed fillip for GHG mitigation initiatives to gather a new momentum. A domestic emissions trading scheme of a voluntary nature should be espoused. Business and industry can work with the government in building the thought process, design, architecture, and operationalisation of such a mechanism for India. Last, create an enabling environment for renewable energy technologies and renewable power. We need the ecosystem for building a strong domestic supply chain for such technologies, create sustainable demand for such technologies and for renewable power. The global delivery of what business needs coupled with a domestic ecosystem will act as strong catalysts for a scaled up response from business towards climate change mitigation and adaptation. It is time the voice of Indian business reaches out and exhorts the global community towards a practical outcome.

*The article is written by Mr Sidharth Birla, President, FICCI. It was published on September 7, 2014 in The Hindu Business Line.*

## Finding common ground for business ties

As Prime Minister Narendra Modi heads for the US, in what would be an impressive and probably his most watched foreign visit, there will be an obvious backdrop of positive vibes and high expectations. The vibes are energised by his stable, progressive government in India, and the image of a "smart, tough and driven Prime Minister"—in the words of Fareed Zakaria in his recent interview on CNN.

On the other hand, the US government has made efforts on feel-good factors, with a series of visits to India by top US officials and rhetoric on their desire to "deliver on the strategic and historic opportunities" that our countries can create together. These raise expectations that summit level dialogues between Prime Minister Modi and President Barack Obama will lead to the "potentially transformative moment" in the US-India partnership.

Of course, a great deal of revitalisation must be injected into current ties before we reach a transformative stage. Slipping bilateral trade has to be driven beyond the current $63 billion annually.

Two-way investments need to pick up. An early conclusion of the Bilateral Investment Treaty (BIT) between India and the US would provide protection to investors on both sides, enforceable by recourse to independent international arbitration. The BIT will facilitate additional investment in infrastructure and manufacturing, areas of top priority for the Modi government.

Similarly, entering into a totalisation agreement between India and the US can benefit many thousands of Indians, who have worked for short periods in America and paid social security but are unable to get its benefits.

There are also intellectual property rights issues. India has been investigated by the United States Trade Representative (USTR) on IPR violations under Special 301 Report and is slated to be put in category of Priority Foreign Country, which, in turn, may warrant unilateral sanctions.

The Indian IPR administration conforms to the provisions of the TRIPS Agreement and other international treaties to which India is a party, and enforcement procedures have improved. Thus, continued investigation and inclusion of India in the list is an irritant. Also, a new IPR policy on the anvil should help bring a change in perception.

There is need for serious attention to the concerns of the Indian IT industry with regard to the movement of highly trained professionals for delivering technology services (which is not 'immigration' as usually defined and accepted) being linked to the larger issue of immigration.

This amounts to non-tariff barriers. These issues must take their due place in the agenda of our leadership. Ficci has identified some more key deliverables for the two sides which will make the outcome a mutually favourable one. These relate to sectors in which current engagement levels defy potential.

The first is defence. The Indian private sector is yearning to develop its capabilities in this area. With India working towards developing indigenous production as captured in Prime Minister Modi's "Make in India" slogan, this can happen only if technology transfer and capacity building take place from the US.

In the sphere of energy, India and the US should explore coal gasification technologies, experience sharing in shale gas exploration, and development of capabilities related to exploration. The partnership for energy security would need to include securing unfettered Indian access to the US fossil fuel reserves and focus on smart grids and energy efficiency.

While the signing of the India-US Civil Nuclear deal threw up new business opportunities for high technology from the US, issues related to civil nuclear liability, nuclear safety and future of fuel supply warrant closer cooperation and understanding.

Indian and American initiatives on strengthening partnership in agriculture and food security should have active involvement of the private sector from both countries.

There is room for joint action in agriculture biotechnology, including joint ventures and R&D projects and cooperation in market news/price information dissemination and development of agri-marketing and storage infrastructure. India and the US need to look at risk management in agriculture through better crop management and insurance practices.

In the life sciences sector, biotechnology, medical devices, drug discovery and healthcare offer significant scope to exploit US-India synergies for mutual benefit.

In pharmaceuticals, there is a possibility to collaborate on "safe and affordable" healthcare through joint activities and ventures on capacity building of Indian companies on compliance and new drug development at significantly lower economic costs.

Media and entertainment industry is another area to look at. Bollywood makes more films than any other film industry. Hollywood is the largest film industry by revenue in the world. Yet our collaboration in this area is peripheral.

The story is much the same for music, television, electronic games and other media segments. Greater partnership here would help bring our people, especially youth, together and lay the foundation for engagement between future generations.

A rapidly changing global economic landscape and growing needs of both economies are dictating the need to find common grounds in doing business for both India and the US. Modi and Obama are uniquely placed to join hands for realising a common vision for the people of India and the US—that of "Sabka Saath, Sabka Vikas", together with all, development for all. That will make the US and India truly "indispensable partners for the 21st century".

***The article is written by Mr Sidharth Birla, President, FICCI. It was published on September 25, 2014 in The Financial Express***

# Latin America beckons

Latin America looks set to take centre stage in India's diplomacy. Nothing drives home this point as emphatically as Prime Minister Narendra Modi's interaction with leaders of several South American countries at Fortaleza, Brazil, on the sidelines of the sixth Brics summit held in July this year. This meeting set the stage for opening new windows of engagement between Asia's second largest economy and a resource-rich vibrant region of the world

There are two compelling reasons for India and Latin America to develop closer synergies.

First, both demonstrate sound economic fundamentals and, like India, Latin America is fast emerging as one of the major growth engines of the world, accounting for a combined GDP of $12 trillion (PPP basis), a population of 600 million and $179 billion of FDI in 2013, the highest for any region in the world. India, with a GDP of $5.5 trillion (PPP basis) and a 1.2 billion strong market is also set to see a quantum jump in inward FDI in the next few years.

Second, India-LAC (Latin American and Caribbean) business partnership is already showing the potential of a giant leap forward. Be it crude or edible oil, pharmaceuticals or textiles, engineering goods or automobiles, aircraft or software, India and the LAC nations are moving steadily towards building trade and investment bridges which is expected to culminate in diversified partnerships between emerging markets.

**Stepping up**

The 'Focus LAC' initiative of the Government, with its broad thrust on encouraging the Indian private sector as well as state entities to develop stronger business links, has played a pivotal role in stepping up our engagement with the LAC region. This is clearly reflected in our trade with the LAC region, which has surged from a few hundred million dollars in the 1990s to $42 billion in 2013.

The expansion of India's Preferential Trade Agreement with Mercosur and the recently granted 'observer' status in the emerging grouping — New Pacific Alliance — will take this trade to new heights and a $100 billion target should be looked at in the next five years.

While our trade would evolve along a natural trajectory, the focus should be on promoting bilateral investments. There are over 100 Indian companies that have planned investments of around $12 billion in Latin America and about 30 Latin American companies that have planned investments of about $1 billion in India.

Now is the time to give this engagement a new thrust. And there are several sectors that present opportunities that both sides much cash in on to create a win-win scenario. Let me highlight a few.

Take agriculture and food processing. Latin America with its vast swathes of fertile land, cutting edge food storage technologies, and leadership in agricultural research has the potential of becoming a major contributor to India's food security by means of trade related investments as well as enhanced cooperation in agricultural technology.

**Viable plan**

A viable action plan by India to boost food security would be to acquire land on long-term lease for production of foodgrains and other agricultural and plantation products for import into India.

To improve manufacturing competitiveness, governments in LAC economies and India are already taking steps to resolve key policy issues. The Indian Government has laid out a red carpet for investors wanting to set up manufacturing units in the country through the 'Make in India' initiative.

For Latin American companies this is a lucrative opportunity to look for collaboration on prototyping and testing facilities for next-generation manufacturing products and processes in India.

Other areas that invite cooperation include biofuels, wind power and solar energy. Companies from both sides must look at joint investments to develop high-tech generators, power monitoring systems and breakthrough technologies that can help reduce the cost of generating and distributing solar and wind-based energy.

Latin America has also emerged as an important source of hydrocarbons for India in the past few years, with the region accounting for around 19 per cent of India's energy imports. India should consider stepping up collaboration with Brazil in the area of eco-friendly ethanol and with Venezuela, Colombia and Mexico for the supply of oil.

In the IT and ITeS industry, business collaborations in applications related to social media, analytics and cloud computing can be useful for both sides.

As countries are putting in place building blocks for digitally driven economic growth, e-governance can be another vital area for sharing of experience. Our companies must pool in efforts to set up centres of excellence on either side in these and other related segments of the industry.

There is need to develop partnerships that are cross-cutting, involving both large and small and medium enterprises.

India and Latin America have strong SME sectors which are taking a lead in industrial innovation and competitiveness and should be brought on a common platform in high technology areas such as defence.
We can explore many more areas, develop synergies and grow together.

***The article is written by Dr Jyotsna Suri, Senior Vice- President, FICCI. It was published on October 16, 2014 in The Hindu Business Line***

# Myanmar means business

Myanmar is changing fast and there are at least three changes that are currently visible. First, there is transition underway from a military system to democratic governance. Second, the economy is moving away from a centrally-planned superstructure to a market-led framework. Third, after decades of violence, we are seeing peace and normalcy return to this beautiful country. All these put together are offering opportunities never seen before to investors near and far. Many countries have either initiated or are at an advanced stage of consultations to carve out an engagement framework that would offer their firms preferential access to one of the few final frontier markets in Asia.

**A growing economy**

Call it the 'gold rush' or simply a case of waking up to smell the coffee, the fact is these transitions have the potential to give Myanmar a chance to retrieve its place as one of the most dynamic economies in Asia. And given a history of robust ethnic, cultural and religious linkages as well as the close physical proximity, India, too, would do well to chalk out a more proactive agenda of engagement with Myanmar.

There are two imperatives for this. First, Myanmar — like the other CLMV countries (Cambodia, Laos, Myanmar and Vietnam) — represents a rapidly growing economy with rising consumption, strategic location and access, rich natural resources (oil, gas, teak, copper and gemstones), biodiversity and an industrious workforce with low wages. And it offers significant opportunities for trade in goods and services, investment and project exports.

Second, Myanmar's strategic connectivity to India's North-East through the land route and maritime connectivity through the Bay of Bengal make it a bridge between India and Asean , which is crucial in the context of our growing engagement with the region.

We get two benefits if we establish strong land and sea links between our North-East and Myanmar. One, it helps India and Myanmar bond better, and two, it creates gateways for our merchandise exports to Asean countries.

**Trade and investment**

The good news is that businesses are beginning to respond to these dynamics and emerging opportunities spanning agriculture, plantation, infrastructure, information technology, healthcare and education. With bilateral trade at $2.18 billion in 2013-14, India and Myanmar are eyeing $3 billion turnover by 2015 and Indian investments in Myanmar, which amounted to $283 million till 2013, are expected to soar to $2.6 billion over the next few years. India's engineering sector is eyeing the Myanmar market to create a bigger presence for engineering exports, and oil and gas companies ONGC Videsh and GAIL are aggressively scouting for more exploratory blocks in Myanmar. United Bank of India, State Bank of India and Bank of India have set up representative offices in Myanmar and so has the Exim Bank of India. These have brightened the outlook for trade and investment, even as we wait for larger scale full operations.

**Need a big leap**

However, India's strategy in Myanmar now needs to move aggressively towards a big leap forward in economic ties, cooperation and investments. Other countries such as China, Japan, the UK, France and the US have been moving at a quick pace for prime slots in vital sectors such as energy, oil and gas, mining and manufacturing and unless we take some proactive measures to step up our presence, we will fall behind. Infrastructure and connectivity are potential game-changers in India's equations with Myanmar. In connectivity, a top priority is developing direct flights between India and Myanmar with the larger objective of expansion of our trade volume.

There is currently only one twice-weekly direct Air India flight from India to Myanmar, from Kolkata to Yangon (besides seasonal flights to Bodh Gaya for

Myanmar pilgrims). In contrast, there are nearly 100 flights from Yangon and Mandalay to Bangkok and over 40 to Singapore. The Indian aviation players would do well to explore the new destinations that are opening up and create direct air links which will also facilitate closer business interaction.

Myanmar's growing need for infrastructure, for instance, ports, to enhance sea and land connectivity, offers a lucrative playing ground for India. The Myanmar government has put huge emphasis on infrastructure development projects as it sees connectivity as a key factor in promoting trade and enabling Myanmar's integration with the Asean Economic Union by 2015. The two countries are working on extension of the India-Myanmar-Thailand trilateral highway project to Laos and Cambodia, which would enhance regional connectivity and commerce. Port connectivity can be an asset and large Indian companies should consider investing in the development of the Kyaukphyu Special Economic Zone for its vantage point in the Bay of Bengal.

India has developed another port a little further north at Sittwe intended to link Kolkata with Mizoram and our North-East through an inland waterway and road along the Kaladan river. It is also extending a road linking the Mizoram border to western Myanmar. These could well be developed into full-fledged economic corridors with industrial hubs in key locations benefiting trade and commerce. Of course, timely completion of such projects is the key. Myanmar has opened doors to support the agriculture sector and companies can tap opportunities in the entire value chain including seeds, agri-machinery, pre- and post-harvest technology. Further, in the energy space, companies should look at setting up power stations, transmission and distribution lines and supply of gensets. As Myanmar further opens up and modernises, its needs will multiply and diversely so. Indian companies are evaluating opportunities, but time is not on our side as the numbers of global players who want to put Myanmar on fast gear are growing. The Indian Government too will have to double its efforts in leading the critical connectivity projects. It is anybody's game. Let it be India's.

***The article is written by Mr Sidharth Birla, President, FICCI. It was published on September 24, 2014 in The Hindu Business Line***

# ‘Economic transformation in India, China provided momentum this time’

In an Op-ed published on the day of his arrival in India, President Xi Jinping wrote “I believe that the combination of China’s energy plus India’s wisdom will release massive potential”.

We can’t agree more. And this potential was on display when he met with Prime Minster Modi. The two leaders had wide ranging and substantive talks. Both countries signed an array of agreements that would lead to closer economic and strategic partnership in the years ahead.

While there are many compelling reasons for India and China to become cooperation partners, it is the political and economic transformation in both countries that provided the momentum this time.

China is in a breakout mode with its economy posting the fastest growth among the largest emerging markets. Its new leadership has been focusing on domestic development, economic growth and improving the living standards of their people. And as President Xi mentioned, the goal is to advance the modernization of national governance system and capability and realise the Chinese dream of great national renewal.

Something similar is happening in India. The new Government, led by Prime Minister Modi, has embarked on a more vigorous agenda of economic development and deeper economic engagement globally and regionally.

It has identified manufacturing, connectivity and infrastructure as the pillars of this nation-building task. Good governance is the common thread that is the basis of and links all government programs and policies. With similar development objectives and public policy priorities, it is natural for China and India to work closely and contribute to each other’s growth.

When viewed in this context, we find the visit of President Xi Jinping as epochal and the personal chemistry on display between the two leaders augurs well for our future relationship. While there are many takeaways from this visit, I will restrict myself to those relevant for business.

From Ficci’s perspective, we are happy to note that the Chinese side has acknowledged that the trade deficit with China is a matter of high concern for India.

The five-year trade and economic cooperation pact signed between the two sides is geared towards addressing this issue and we hope to see trade flows between the two sides become more even in the years ahead.

Market access issues faced by our firms in sectors like pharmaceuticals, IT and agricultural products should now get resolved fast and we could see renewed effort from China to import value added products from India.

Incidentally, on the sidelines of President Xi Jinping’s visit, Ficci organized an India-China Business Meeting with the support of the Ministry of Commerce of both countries.

At this meeting Chinese companies signed buying orders with Indian firms for about $ 740 million for supply of products such as copper cathodes, marine products, polypropylene, industrial salt, cotton yarn & fabric. We will be happy to facilitate more such meetings and host buying missions from China in the times ahead.

Another notable outcome of the visit is the signing of agreements for setting up of Chinese industrial parks in India. Two such agreements worth nearly $ 7 billion were signed to set up industrial parks in Gujarat and Maharashtra. These are an embodiment of Prime Minister Modi’s ‘Make in India’ vision and would encourage flow of more export oriented FDI from China into India. Some of the goods that are currently imported from China — automotive, electronics, power equipment — can be expected to be produced in the country.

Bilateral cooperation in sectors like railways infrastructure is also a great opportunity for us and this too came up for discussions. President Xi indicated that he wants both countries to launch “a batch of exemplary projects” in infrastructure, such as railway construction, to enable more balanced and sustainable trade and offered support from China. We look forward to details on cooperation extended by the Chinese side for re-development of railway stations, enhancing speed of trains and imparting heavy haul transportation training.

This would translate into opportunities for companies in India to collaborate with their Chinese counterparts for a win-win partnership.

Finally, the two sides have already set up a Service Trade Promotion Working Group to efficiently promote the development of India-China trade in services.

There is scope to extend the gamut of exchanges and cooperation in services trade between the two countries in potential areas identified by the group such as tourism, healthcare, entertainment and media services.

What I have listed are just some elements of cooperation examined by the two sides. The potential is huge as we together have a tremendous production and consumer base.

We, at FICCI, look forward to and stand ready to contribute to harnessing this potential and attaining the goal set by Prime Minister Modi which is “INCH (India-China) towards MILES (Millennium of Exceptional Synergy)”.

***The article is written by Mr Sidharth Birla, President, FICCI. It was published on September 23, 2014 in The Financial Express***

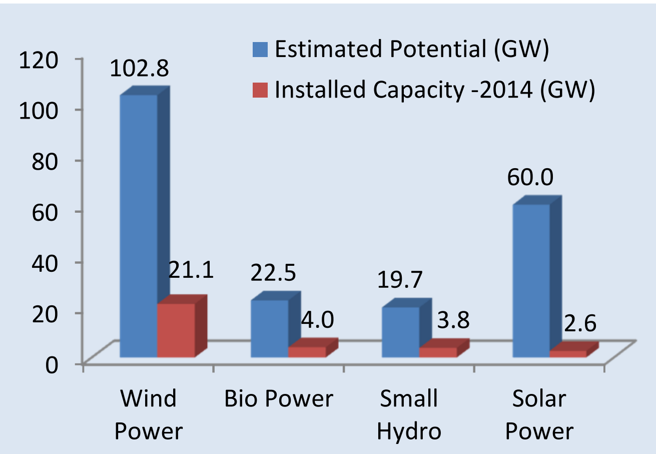
## Renewable Energy Sector in India

The renewable energy (RE) sector in India has made commendable progress in the past few years, with the power generating capacity from renewable sources nearly doubling from 16.8 GW in FY10 to 31.7 GW in FY14. The sector's share in the total power generating capacity has consequently increased from around 10% in FY10 to nearly 13% in FY14. It is worth noting that global renewable energy constituted for a lower 8.5% of the total power generating capacity worldwide in 2013.

The RE sector in India has not only been helping the country meet its growing energy need, it has reportedly been creating a number of new jobs as well. According to a recently released report by the Natural Resources Defence Council (NRDC) - Council on Energy, Environment and Water (CEEW), the RE sector has added around 70,000 new jobs in the country during 2011 to 2014. Of this, around 24,000 full time-equivalent jobs have been created in the solar grid connected projects while about 45,000 jobs have been employed in the wind energy sector during this period.

The sector has immense growth potential as India is endowed with abundant renewable energy resources, which have remained largely untapped so far.

**Chart 1: Estimated Potential and Installed Capacity**




India has an extensive coast line and high wind velocity, which provide opportunities to generate land-based and offshore wind energy. It is estimated that India has the potential to generate nearly 103 GW of wind energy. This is the reason why the wind energy segment has attracted maximum investment over the years and recorded growth at a much faster pace as compared to other segments, enabling India to become the fifth largest wind energy producer in the world.

Wind energy contributes the largest share of about 67% to the total renewable energy capacity of India today. This is followed by biomass power and small hydro projects with shares of around 13% and 12% respectively. While agriculture and forestry residues offer enough resources for generating biomass energy in the country, the numerous rivers and waterways have the potential to generate hydro power. The country also receives one of the highest levels of solar radiation in the world and receives nearly 300 days of sunny days in a year. According to some estimates, the solar energy that reaches the earth's surface per second is equivalent to 4 trillion 100-watt light bulbs. Thus, it is evident that India has huge potential for solar energy. It is estimated that the solar market in India will grow at a CAGR of around 43% over the period of 2013 – 2018.

**Role of Government**

The government of India has played an instrumental role towards shaping the growth of the sector in India over the past years. In 2011, the Ministry of New and Renewable Energy (MNRE) prepared a Strategic Plan for the sector, according to which it envisioned to increase the cumulative installed capacity of renewable power to 72 GW by 2022 from the present 31.7 GW.

During the 12$^{th}$ Plan period (2012-2017), it has set a capacity addition target of 29,800 MW from various renewable energy sources, comprising 15,000 MW from wind power, 10,000 MW from solar power (photovoltaics and thermal), 2,100 MW from small hydro power and 2,700 MW from bio-power. This will take up the total capacity to around 60 GW by 2017. Towards realising this ambitious target, the government has earmarked an amount of Rs 19,113 crores for promotion and generation of renewable energy during the 12th plan period. It allocated funds worth Rs 1,385 crores and Rs 1521 crores for FY13 and FY14, and plans to spend another Rs 2,519 crores in FY15.

The government has been actively promoting the use of renewable energy in the country by extending a gamut of incentives to the project developers and introducing various programmes and schemes to boost the demand for renewable energy. Besides, it has curved out a dedicated ministry to look after the development of the sector. It has also created a favourable environment for foreign investment by allowing FDI up to 100% under the automatic route in both generation and distribution projects that are subject to the provisions of the Electricity Act of 2003. Moreover, no prior approval is required for these investments. The government is also encouraging foreign investors to set up renewable energy projects on a build-on-operate basis in the country.

***Government Incentives***

Renewable energy producers in India enjoy various types of direct and indirect tax benefits, which include:

- 10 years income tax holiday for power generating companies (applicable for plants from which power generation has started before 31 March 2014)
- Customs and excise duty exemptions on specific goods required for setting up the renewable energy projects (helping producers contain their project cost)
- Generation Based Incentives (GBI) for the wind and solar energy segment particularly. These are long term contracts which provide rewards to producers of renewable energies
- State Electricity Regulatory Commissions (SERC) specify Renewable Purchase Obligations (RPO), under which distribution companies, open access consumers and captive consumers are obligated to buy a certain percentage of their power requirement from renewable sources of energy
- Accelerated depreciation: a claim of 80 percent depreciation in the first year for specific equipment are allowed
- Exemption from sales tax in some states
- Financial assistance by setting up Indian Renewable Energy Development Agency (IREDA) as a specialized financing agency to promote and finance renewable energy projects

***Government Programmes***

**National Action Plan on Climate Change (NAPCC)**

India introduced its first National Action Plan on Climate Change (NAPCC) in 2008. The Plan outlined existing and future policies and programmes of the government addressing climate mitigation and adaptation. Under this plan, eight core 'National Missions' were identified for implementation until 2017:

1. National Solar Mission
2. National Mission for Enhanced Energy Efficiency
3. National Mission on Sustainable Habitat
4. National Water Mission
5. National Mission for Sustaining the Himalayan Ecosystem
6. National Mission for a "Green India"
7. National Mission for Sustainable Agriculture
8. National Mission on Strategic Knowledge for Climate Change

**Jawaharlal Nehru National Solar Mission (JNNSM)**

As part of the NAPCC, the government launched the Jawaharlal Nehru National Solar Mission in 2010. The Mission defined some tall targets to be achieved by 2022:

1. Deployment of 20,000 MW of grid connected solar power by 2022.
2. 2,000 MW of off grid solar applications including 20 million solar lights by 2022.
3. 20 million sq. metre solar thermal collector areas.
4. To increase favourable conditions for developing solar manufacturing capability in the country.
5. Support R&D and capacity building activities to achieve grid parity by 2022.

Under the off-grid and decentralized solar applications scheme of this programme, the government is providing special incentive of 30% capital subsidy for installation of solar PV systems and power plants in various parts of the country including power deficit areas/un-electrified areas.

The Mission is being implemented in 3 phases.

**JNNSM Capacity Addition Target**

| | Phase I | Phase II | Phase III |
|---|---|---|---|
| Utility Grid Power, including roof top (MW) | 1,100 | 4,000-10,000 | 20,000 |
| Off-grid Installations (MW) | 200 | 1,000 | 2,000 |
| Solar Collectors (mn sq. m) | 7 | 15 | 20 |

Phase I of the programme has already been completed and Phase II is presently under implementation. An aggregate capacity of 1686 MW of grid connected solar power plants was commissioned by end of Phase-I, and further capacity of 1000 MW has been added during Phase-II till June this year. With this the total solar power generation capacity in the country has now reached 2686 MW.

**Growth Challenges**

Although the sector has showed significant improvements over the years, owing to a number of problems the sector's growth has slowed somewhat in the past couple of years, with actual capacity additions across the four segments falling short of their respective targets in FY13 and FY14.

| Renewable Technology | 2012-13 | | 2013-14 | |
|---|---|---|---|---|
| | Target | Actual | Target | Actual |
| Wind Power | 2500 | 1699 | 2500 | 2079 |
| Small Hydro | 350 | 237 | 300 | 171 |
| Bio Power | 475 | 472 | 425 | 413 |
| Solar Power | 800 | 754 | 1100 | 962 |

According to a report, Global Trends in Renewable Energy Investment, jointly prepared by Frankfurt School and Bloomberg New Energy Finance (BNEF), total investment in the RE sector in India was US$ 6.85 billion in 2012, which was 45 per cent lower than the investments made in 2011. This trend has continued in 2013 as well with the investment further dropping by 15% in 2013 to US$ 6 billion.

There are a number of issues that the industry is facing presently, which have lowered its attractiveness amongst investors, project developers as well as financers in the recent years.

***Policy uncertainty*** – For sectors like wind energy, the government withdrew some of the incentives (AD and GIB) in 2012 which dampened the investor confidence level, resulting in slowdown in investment. In addition, although the government has introduced instruments like RPOs for increasing the use of renewable energy, it has not been able to properly implement the same. There is still no penalty system being introduced for not meeting the RPOs in the country.

***High finance cost*** – The project finance cost in India is one of the highest in the world. According to some studies, the higher cost and inferior terms of debt in India has the potential to raise the cost of renewable energy by manifolds as compared to similar projects financed in the US or Europe. High finance cost also renders the financial closure of projects extremely difficult. Given the capital intensive nature of these projects, many renewable energy producers In India are facing severe financial burden presently.

***Low attractiveness among DISCOMs*** **-** The tariff rates for renewable energy is relatively higher than that of conventional power since the cost of generation of the former is higher in comparison to conventional power. Being in a poor financial condition, state distribution companies show reluctance towards the purchase of renewable energy. The distribution companies also fail to make timely payment, adding further to the woes of the power generating companies.

***Inadequate evacuation Infrastructure*** **-** Most of the renewable energy projects are located far from the substations, which makes power evacuation a major challenge. Lack of proper power evacuation infrastructure, especially for wind power in Tamil Nadu, has been considered as a major barrier for investing in the states.

**Future Government plans**

Aware of these challenges, the government is actively pursuing measures to address these issues. It is aiming to balance the interests of all stakeholders by looking at both the supply side bottlenecks as well as the demand side issues with an aim to provide quality power to consumers at affordable rates. The new government has given the sector a high priority status and has announced a number of sops for the sector in the past few months.

The first budget presented by the new government allocated Rs 1,000 crores for the development of ***Ultra Mega Solar Power Projects*** (UMSP) and ***Solar Parks*** in the country. As per the scheme, the government has planned to set up 25 solar parks, each with a capacity of 500 to 1000 MW; thereby targeting around 20,000 MW of solar power installed capacity within a span of five years. The UMSP or high capacity plants will be constructed in the radiation-rich states of Rajasthan, Gujarat, Tamil Nadu, and Jammu and Kashmir (Ladakh) initially.

MNRE has also envisaged setting up of large scale solar plants or UMPP up to 4000 MW capacity in desert lands including surplus lands lying up with PSUs such as at Sambhar (Rajasthan) – 4000 MW, Kharagoda (Gujarat) - 4700 MW, that would include 700 MW of wind power and 4000 MW of solar power, and Leh/Kargil (J&K) – 2400 MW in the 13th five year plan (FY18 - FY22).

Guidelines for setting up 1,500 MW of grid-connected solar photovoltaic (PV) plants have also been announced recently, the largest tender issued by the government till date. Efforts are also underway to reduce the solar power cost to Rs 5 a unit through this initiative from around Rs 7 per unit prevailing presently, and further to achieve grid parity i.e. to produce solar power at the same cost as conventional power by 2017. Another plan includes implementation of world's largest solar power projects with capacity of up to 4,000 MW, covering canals with solar panels.

In the most recent move, Coal India Ltd. (CIL) and Solar Energy Corporation of India (SECI) entered into a Memorandum of Understanding (MoU) on 1st October, 2014 for setting up about 1000 MW of Solar Projects in a phased manner, with 250 MW planned for the first phase. These projects are expected to be set up in Solar parks located in coal bearing states. Under the MoU, the Solar Projects will be owned by CIL, while SECI would be responsible for executing them on turnkey basis. In addition, SECI would undertake the Operation & Maintenance of these projects on behalf of CIL.

***The National Wind Energy Mission*** *(NWEM),* a dedicated national level programme for promoting wind energy generation is also under implementation. The mission aims to provide incentives to invest, ease in land clearance and regulate tariff in the wind energy sector. The government has also proposed to accelerate the pace of wind energy generation by adding 10,000 MW every year which is five times the total new capacity that came up in the last fiscal.

In 2013, a Rs 43,000 crore **'Green Energy Corridor'** project was initiated by the then government to facilitate the flow of renewable energy into the national grid of the county, thus synchronising electricity produced from renewable sources with conventional power stations in the grid. The corridors are planned to be built across seven states over the next five years.

**State initiatives**

Many states have also announced projects for enhancing the renewable energy capacity in their respective states. ***Andhra Pradesh*** government has decided to go for 'green power' on a massive scale. The state plans to produce 9,000 MW solar and wind power in the next five years to earn clean development mechanism (CDM) benefits from carbon credit exchanges. Newly formed state **Telangana** too has shown strong appetite for solar power development and has issued tender to install 500 MW solar power capacity. The government will allocate the projects through reverse auction and the project developers will be allotted only 10 months to commission the projects.

***Madhya Pradesh*** Plans are afoot to set up the country's largest UMSP in the Rewa district. The plant, to produce 700 MW of electricity would require an investment of Rs 4,000 crores. The electricity from the plant would be available at Rs 5.4 per unit. The State government has planned to set up the plant as a joint venture with the MNRE, Power Grid Corporation and the Solar Energy Corporation of India.

In November 2013, Kerala introduced its solar energy policy with an aim to have an installed capacity of 500 MW till 2017 and of 2500 MW by 2030.

The state government of ***Uttar Pradesh*** put out a request for proposal (RFP) inviting bidders to compete for a total of 300 MW of solar PV capacity via the country's competitive bidding process recently. Under India's National Solar Mission, Uttar Pradesh has targeted a cumulative PV installation capacity of 500 MW by 2017, and has already agreed six power purchase agreements (PPAs) with leading developers; Uttar Pradesh has earmarked 1 GW of installed solar PV capacity by 2020.

The government of ***Rajasthan*** has recently launched a new solar energy policy for the year 2014 to establish 25000 MW solar capacity in the state. The policy has been prepared with an aim to create a conducive environment for the investors in the state and ensuring power supply to urban and rural areas along with less populated areas where there is no power supply.

From the demand side, one of the largest consumers of power, the Indian Railways is planning to source nearly 20% of its total energy demand of about 4000 MW, through renewable sources, primarily solar energy. The government has proposed to harness solar energy by utilising roof top spaces of railway stations, other railway buildings and land, including through the PPP mode. The timeline for the execution of the plan has been kept between two to three years

**Conclusion**

With a series of capacity addition announcements and schemes, the government has renewed its thrust on the development of the sector. However, success of these initiatives is largely dependent on the effective implementation of these plans, which in turn is possible only through removal of the existing hurdles present in the segment. Financing issues have been a major problem for some time now and needs urgent attention. The government should play an active role towards providing public finance on one hand and mitigate risks on the other, which is critical for enhancing the bankability of the renewable energy projects and facilitating easy flow of finance into the sector. It is also important to take up crucial projects like the Green Energy Corridor on a priority basis. This is essential for strengthening the existing electricity transmission infrastructures of the country.

On the policy front, the government must attempt to remove all forms of ambiguity and bring in transparency into the system. Existing policies should be enacted without much delay. For instance, the government should look at setting up a stringent Renewable Purchase Obligation (RPO) compliance mechanism. Removing such uncertainties can go a long way in helping the sector attract the much needed foreign investment.

The recent assurance provided by the government to the solar energy sector stakeholders of keeping its policies related to the sector unchanged in the future is noteworthy as this will help the solar power developers and manufacturers and other stakeholders plan their investments accordingly.

The decision of organising the First Renewable Energy Global Investors Meet & Expo (RE - INVEST) scheduled for February, 2015 is also a move in the positive direction. It signals towards India’s commitment to the development and up scaling of renewable energy for meeting its energy requirement in a sustainable manner. Such events have the potential to attract large scale investment by providing a platform to the global investment community to connect with renewable energy stakeholders in India.

# Global Economic Scenario – A Review

*"The global economy is continuing to expand at a moderate and uneven pace"* – this is the observation being shared by the Organization for Economic Co-operation and Development (OECD) in its Interim Economic Assessment report released on 15th September this year. The organization has noted that most economies across the globe have recorded lower than expected growth during the first half of 2014 and are expected to grow only at a modest pace in the near future. Based on these findings, the OECD has revised down the growth outlook for all the G7 economies and Brazil, keeping the growth forecast unchanged for China. The report has however spelt out positive news for India by revising up its annual GDP forecasts for 2014.

The September OECD Interim Economic Assessment is the partial update of the OECD's yearly Economic Outlook which is due to be published in November 2014.

**Table X: Global Economic Outlook 2014 and 2015**

| | 2014 | | 2015 | |
|---|---|---|---|---|
| | May 2014 Economic Outlook | September Interim Forecast | May 2014 Economic Outlook | September Interim Forecast |
| United States | 2.6 | 2.1 | 3.5 | 3.1 |
| Euro area | 1.2 | 0.8 | 1.7 | 1.1 |
| Japan | 1.2 | 0.9 | 1.3 | 1.1 |
| Germany | 1.9 | 1.5 | 2.1 | 1.5 |
| France | 0.9 | 0.4 | 1.5 | 1.0 |
| Italy | 0.5 | -0.4 | 1.1 | 0.1 |
| United Kingdom | 3.2 | 3.1 | 2.7 | 2.8 |
| Canada | 2.5 | 2.3 | 2.7 | 2.7 |
| | | | | |
| China | 7.4 | 7.4 | 7.3 | 7.3 |
| India | 4.9 | 5.7 | 5.9 | 5.9 |
| Brazil | 1.8 | 0.3 | 2.2 | 1.4 |

***Source:*** *OECD Interim Economic Assessment Report*

The sluggish global growth has also adversely affected the level of world trade where growth has remained below 5% level since 2011. On the other hand, lackluster economic growth has delayed the labour market recovery in most economies.

The interim report has also revealed that not only are the world economies growing at a slower pace, they are showing varied degree of development as well. For instance, while the US is on a strong path of recovery, Japan and China are just close to their respective growth trends with India strengthening its economy gradually. Unlike these economies, Brazil is facing recessionary conditions and growth in the Euro area has remained slow.

Owing to the difference in their economic conditions, the OECD has recommended different sets of measures suitable to these countries' respective economies. Some countries have been suggested to continue with their expansionary monetary policy stance, while others have been cautioned to contain debt levels through fiscal consolidation. There are countries where structural reforms have been identified for implementation while others have been proposed measures to enhance competition and employment to achieve stronger and more inclusive growth.

## Country-wise Outlook

In the first half of 2014, the global economy has expanded at a much slower pace than the pre-crisis period. Moreover the report notices that the recovery has somewhat slowed down in the recent years as compared to the initial period of recovery from the global crisis. However, on a positive note, overall growth of all the economies is expected to remain stable in the short term.

**Chart 1: Inflation rate 2014**

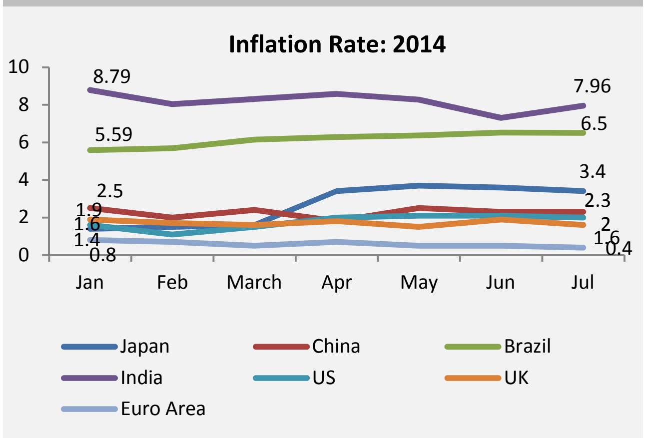
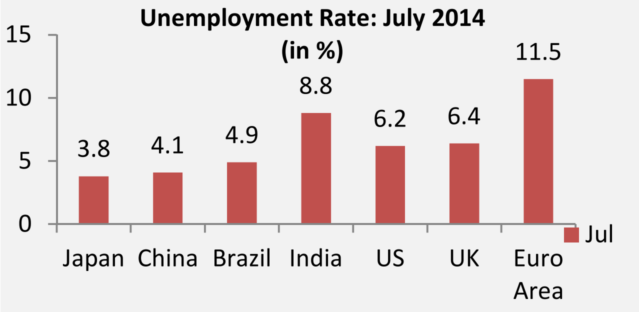
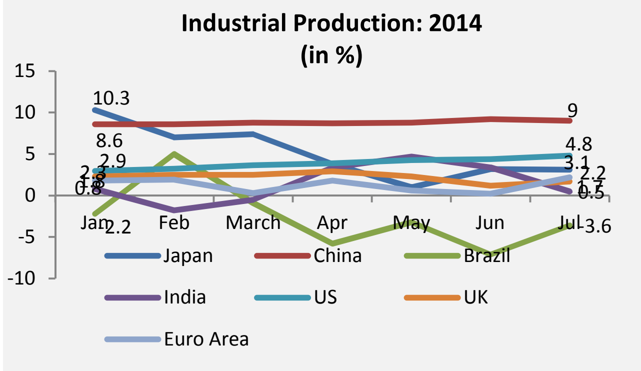


**Chart 2: Unemployment Rate: July 2014 (in %)**




*Note: Figure for India is reported for June*

**Chart 3: Industrial Production: 2014 (in %)**




**United States**

The OECD has revised the annual GDP forecast for the US to 2.1% and 3.1% for 2014 and 2015 respectively, lower than its May forecast of 2.6% (2014) and 3.5% (2015) respectively. Severe weather conditions in the earlier part of the year disrupted production and construction activities and shipments of goods and services in the US, resulting in a 2.1% contraction of the US economy in the first quarter of 2014.

However, the economy rebounded in the second quarter and posted a growth of 4.6%, which was mainly driven by improvements in the private sector investment and higher exports. Though the industrial activity in the country remained mostly flat at 0.4% for both June and July, there was a notable acceleration in job growth, recovery in consumer confidence, improvement in business investments and recovery in the housing market.

Inflation rate in the US has also remained within a comfort zone of around 2% at the end of the first half. Recently, an increase has been noted in the country's domestic oil and gas production, which is expected to keep the energy prices within a reasonable range. This in turn is expected to help in containing the inflation level in the country. Labour market conditions are also showing improvement with the unemployment rate coming down gradually from 6.6% in January to 6.2% in July.

The OECD is of the view that the country may require fiscal consolidation in the medium term to keep its public debt levels sustainable. On the structural front, the OECD expects that improvements in infrastructure investments can spur further growth, while reforms in tax and labour markets can help the US in dealing with its growing inequality.

**Japan**

Japan introduced a 3 percentage point consumption tax hike on April 1 this year which adversely impacted the country's consumer spending levels. As a result, Japan's economy contracted sharply by 7.1% during the April-June quarter of the current year. The country has further plans to introduce the second round of increase in the consumption tax to 10% in October 2015. Based on this scenario, the OECD has projected an overall GDP growth of 0.9% for 2014 and 1.1% for 2015, lower than its May forecast of 1.2% and 1.3% for these two years respectively.

The OECD has suggested Japan to move ahead with its plan to introduce the tax hike, but has recommended that the decision be complemented with monetary expansion policies in order to maintain growth in demand. Although the report has highlighted that in the second half of 2014, Japan's economy will see recovery with improved confidence, growing employment and a reversal of the decline in real wages; the latest economic data released by the Japanese government has showed continued weakness in the economy.

In the month of July, the industrial production declined by 0.9 percent on a yearly basis with slowing manufacturing activity during the month. Inflation continued to remain low at 3.6 and 3.4 percent in June and July respectively; there has been no significant improvement in the employment level either which stood at 3.7 and 3.8 percent during June and July respectively.

**United Kingdom**

For the UK's economy, the OECD reduced its growth forecast to 3.1% from 3.2% in 2014 and increased the forecast to 2.8% from 2.7% in 2015.

The economy of UK gained momentum in the second quarter with a growth of 3.1%, which was mainly driven by the services sector. However, agriculture and industrial production and construction, continued to witness a slowdown in the second quarter. As per the latest economic data, industrial production grew only by 1.2% in June, lower from 2.3% reported in May.

Moreover, foreign trade scenario in UK has not been favourable. There has been a drop in both exports and imports since February this year, with exports witnessing the steepest fall of 7.5% in June. The major hit for UK's exports came from the Euro region, which comprises of its major trading partners.

On the positive side, inflation and unemployment are maintained at reasonable levels. Inflation has been on a declining trend since January and reached 1.6% in July. Unemployment too fell to its lowest level since 2008 and stood at 6.4 percent in the second quarter and is complemented by growing employment rate. Overall, the OECD holds the belief that growth has remained solid so far this year in UK and is expected to continue at a healthy pace into 2015 as well.

**China**

China has been able to stabilise its growth momentum in the recent months. In the first quarter of 2014, China's GDP increased at 7.4% over the same period of previous year. In the second quarter, the growth has been even better at 7.5% mainly due to the range of mini stimulus measures implemented by the government. The OECD has thus kept its economic forecast unchanged for China at 7.4% in 2014 and 7.3% in 2015.

However, in July 2014, there has been a drop witnessed in the industrial activity of the country to 9%. This came after four months of continuous increase.

The major drop in industrial activity originated from the mining and quarrying sector which fell from 7.9% in June to 6.2% in July. On other aspects, China continued to perform better. For instance, the country's trade surplus has improved for three consecutive months and stood at US$ 49.8 billion in August. The inflation rate too has been low and at a manageable level of around 2.3% in June as well as July.

The OECD feels that China's current neutral fiscal stand is appropriate. The OECD has also backed China's decision to go forward with policy measures aimed at increased transparency, lower fiscal risk stemming from sub-national borrowing through local government financing vehicles and reduced pro-cyclicality of the budget.

**India**

India is the only country for which OECD has revised upwards its economic outlook for 2014 as compared to its May projections. The organisation has predicted that the Indian economy would grow by 5.7% in 2014, higher than the growth rate of 4.9% released in May. The forecast for 2015 has been kept unchanged at 5.9%.

The Indian economy has rebounded in the second quarter of 2014 by recording a growth of 5.7% after expanding at a rate of 4.6% in the first quarter. The growth spurt was driven by the manufacturing sector which grew at 3.5% in the second quarter after contracting by 1.4% in the first quarter.

With the new government's plans to inculcate manufacturing prowess in the economy through its 'Make in India' campaign, the prospects of this sector looks even better. Other sectors such as mining, electricity, gas and water production and construction have also seen good growth.

For the Indian economy, inflation continues to remain a worrying factor as it hovered around 7.9% and 7.8% in July and August and has remained well above the government's target rate of 6%. The OECD, in its report has recommended India to make sustainable improvement in its fiscal situation.

It has further advocated that India now needs to shift its fiscal focus away from subsidies and populist policy measures to expenditure in social and physical infrastructure. On the structural front, the OECD has called for simplification of the tax structure as a means to boost investments in the country and propel its growth.

**Brazil**

Brazil's economy is presently in doldrums. In both first and second quarter of 2014, the economy has shrunk by 0.2 percent and 0.9 percent respectively, thus technically entering into a recession. The industrial sector has shown one of its worst performances in the past few months and has contracted consecutively for 4 months since March 2014. In June 2014, industrial production dipped by 7.1%. This has been mainly due to lower production of capital goods and consumer durables. Brazil's investments have been dwindling as there is growing uncertainty about the country's policy environment due to the upcoming elections in October, which led to decline in demand.

The current scenario has prompted the OECD to sharply revise its outlook for Brazil's economy. From an annual GDP projection of 1.8% for 2014, presented in May 2014, the OECD has brought it down to a mere 0.3% for the year. Similarly, for 2015, the forecast has been lowered from 2.2% to 1.4%.

The Brazilian government has also been struggling to control the inflation which has been showing an increasing trend, and reached 6.5% in July, well above the government's target of 4.5%.

Unemployment however remained stable for a greater part of the year, hovering at around 5%. The OECD expects the economy to rebound in the near future given that the country takes some corrective steps to support the growth of demand. These include redesigning the fiscal rule by adopting an expenditure rule. In terms of structural reforms, the OECD is of the view that the country should revamp its tax structure and simplify it. This would provide the much needed boost to investments to spur demand.

**Euro Area**

The most worrying trend highlighted by the OECD's interim report is the continued delay in recovery in the Euro Area. For instance in France, growth eased in the second quarter of 2014 to just 0.1% from 0.8% recorded in the first quarter. The economy saw little improvement in terms of investment and domestic demand during the year. The first quarter of the year witnessed a drop in consumer spending led by lower household consumption owing to a sharp contraction in energy use due to a mild weather. Moreover, industrial production declined sharply in May by 3.7% with lower activity being reported by all sectors.

German economy too witnessed a slowdown in GDP in the second quarter and grew at 0.8%, much lower than the 2.5% expansion in the first quarter. This was triggered mainly by a slowdown of the construction, machinery and equipment sector.

Most of the economies present in the Euro zone are facing lower levels of inflation. Germany saw its lowest level of inflation since February 2010 in August as it stood at only 0.8%, which was still higher as compared to France's inflation rate of 0.5% recorded in August 2014. On the other hand, unemployment rates in the Euro region have only recently started to come down from their post-crisis peaks. While unemployment rate in Germany has declined slightly in July to 4.9% from January's 5%, it remained quite high in France in the second quarter at around 10.2%.

According to the OECD, a number of economies of the Euro region are faced with structural as well as fiscal challenges combined with high levels of debt and require employing vigorous monetary stimulus.
On the fiscal front, the Euro area needs to leverage the flexibility of the fiscal rules to stimulate growth. On the structural front, the Euro area is mainly suffering due to the prevailing structural weakness of its banking system, hampering the effectiveness of the policy initiatives taken by the region to boost demand. The OECD feels that an assessment of the banking system and structural improvements are essential in order to enhance efficiency of the stimulus measures undertaken by the governments of this region.

# Survey Highlights

## Business Confidence Survey

### Prospects for the next six months

| | Investment | Sales | Selling Price | Profit | Exports | Employment |
|---|---|---|---|---|---|---|
| Much Higher | 2 | 11 | 0 | 2 | 3 | 0 |
| Higher | 32 | 64 | 10 | 41 | 45 | 30 |
| Same/ No Change | 54 | 23 | 81 | 41 | 39 | 64 |
| Lower | 12 | 2 | 10 | 16 | 12 | 7 |
| Net Responses ( performance compared to previous survey) | Worse | Better | Worse | Worse | Better | Better |

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

Source: FICCI Business Confidence Survey , September 2014

According to the results of FICCI's latest Business Confidence Survey, the perception of respondents with regard to current situation relative to past two quarters noted a marked improvement. Furthermore, participants were optimistic about the near term prospects as well.

The Overall Business Confidence Index stood at 72.7 in the present survey round, which is the highest in fifteen quarters. The index value in the last survey was 69.0. An improvement was noted in both Current Conditions Index and Expectations Index.

The results with regard to operational parameters have considerably improved when compared to the situation a year ago. However, relative to the previous survey this time around the improvement was marginal for most parameters.

The proportion of respondents expecting higher profits in near term remained at 43 percent as in the previous survey round. However, this is a significant improvement from just about 17 percent participants stating likewise a year ago.

The confidence of the investors is gradually returning. The new government has geared in to action and clearances have been given to some big ticket projects. In the present survey, 34 percent of the respondents expected better investment prospects over the next two quarters up from 21 percent stating likewise a year ago.

With regard to the employment prospects, not much change was noted from the previous survey results. 64 percent of the respondents indicated that they don't intend to higher over the next six months. The corresponding figure in the last survey round was 63 percent. Further, 30 percent of the respondents indicated that they expect to hire more people in near term.

The results of the present survey indicated that there has been some improvement in the demand situation. In the current survey round though more than half of the respondents (57 percent) said that weak demand is a constraining factor, this was lower than 74 percent stating likewise in the previous survey.

Almost 77 percent companies participating in the survey felt that availability of credit was not a problem. Still 45 percent of respondents cited cost of credit to be a problem area; however this is significantly lower than 72 percent stating likewise a year back.

*Note: The current survey round drew responses from companies with a wide sectoral and geographical spread. The survey drew responses from about 150 companies with a turnover ranging from 30 crore to 41,000 crore. The participating companies belonged to a varied array of sectors such as textiles, cement, financial services, manufacturing, chemicals, constructions, metal and metal products, automobiles, FMCG, electrical equipment and machinery, paper and paper products.*

## Survey Highlights

# Economic Outlook Survey

| ANNUAL FORECASTS FY15 | |
|---|---|
| Gross Domestic Product | 5.6% |
| Wholesale Price Index (Avg. 2014-15) | 5.4% |
| Consumer Price Index (Avg. 2014-15) | 7.8% |
| Index of Industrial Production | 4.9% |
| Export Growth | 8.5% |
| Import Growth | 5.0% |
| Trade deficit as % of GDP | 7.0% |
| Current Account deficit as% of GDP | 1.9% |
| Fiscal deficit as % of GDP | 4.3% |
| USD/INR Exchange rate (End March 2015) | Rs 61.0/ USD |

| QUARTERLY FORECASTS Q2 FY15 | |
|---|---|
| Gross Domestic Product | 5.4% |
| Wholesale Price Index (Avg. 2014-15) | 5.5% |
| Consumer Price Index (Avg. 2014-15) | 7.9% |
| Index of Industrial Production | 4.1% |
| Export Growth | 8.8% |
| Import Growth | 4.3% |
| Trade deficit as % of GDP | 7.1% |
| Current Account deficit as% of GDP | 2.0% |
| Fiscal deficit as % of GDP | - |
| USD/INR Exchange rate (End of Q2 FY15) | Rs 60.4/ USD |

Source: FICCI Economic Outlook Survey, Q2 FY15

The results of FICCI's latest Economic Outlook Survey put across a GDP growth estimate of 5.6 percent for FY15, an improvement over the 5.3 percent growth estimate that was indicated in the previous round, reflecting a clear return in optimism.

While agricultural growth is expected to remain steady despite a delay in the monsoons, the outlook for industrial sector has improved considerably. The latter is expected to grow by 4.7 percent in FY15, which is 1.6 percentage points more than the growth estimate in the previous survey round. In addition, growth in the service sector is expected to be steady and the sector is likely to grow by 6.9 percent in FY 15.

On the inflation front, participating economists expect annual average CPI at 7.8 percent in FY15 which is in sync with target indicated by the Reserve Bank of India earlier this year.

Majority of the respondents expects a cut in policy rate only in the first quarter of next calendar year. The household inflationary expectations remain high and the Central Bank will wait and watch until there are definite signs of inflationary pressure abating.

The prognosis made by the economists with regard to exports and current account deficit (CAD) reflected no imminent risks. The CAD to GDP ratio for FY 15 was projected at 1.9 percent. Further, participants were of the view that the macro economic fundamentals are gradually strengthening and the overall health of the economy is set to improve going ahead.

It was pointed out that foreign institutional investment inflows will continue in the second part of the year as well, albeit at a slower pace. The economists participating in the survey felt that though some risk factors remain -recent spate in geo political tensions, US announcing next round of tapering programme and withdrawal of restrictions imposed on gold which might exert pressure on imports; this will be counter balanced by positive factors which most likely will dominate.

Economists were asked to share their views on the priority areas that the government should be focusing on to realize the vision of 'Make in India'. It was clearly highlighted that government should seek to get the basics right to assure a more conducive environment for manufacturing activities

Some of the priority areas identified by the participants included- the need to build world class infrastructure, assure provision of quality and uninterrupted power supply, resolving labour issues, and working out an easy land acquisition process.

*The present round of FICCI's Economic Outlook Survey was conducted in the month of August 2014 and drew responses from leading economists primarily from industry, banking and financial services sector. Opinion of the economists was sought on the key priority areas for the new government to carry forward the vision of 'Make in India', the expected course Reserve Bank will take on the key policy rates and likely trend of foreign institutional investment inflows in the country over the next six months.*

FICCI

**For detailed report you may contact:**
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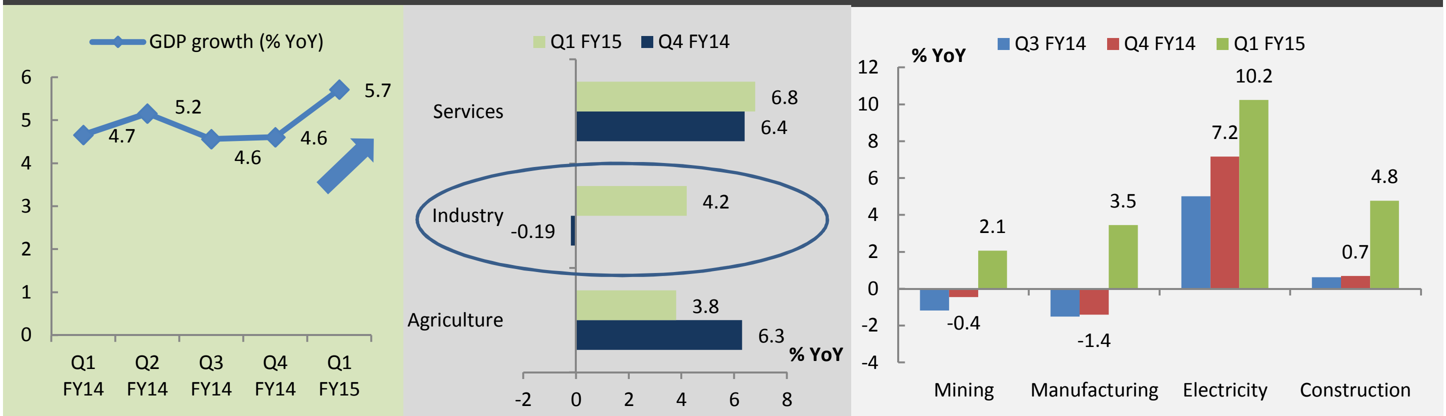
# Fact Sheet: GDP growth rate

## GDP accelerates to 5.7% in Q1 FY15, highest in nine quarters

- *GDP growth rose to a two and half years high of 5.7 percent in Q1 FY15 on a year-on-year basis, up from 4.6 percent in the previous quarter aided by an improvement in the industrial sector performance.*
- *Industrial sector's output grew by a robust 4.2 percent in Q1 FY15 buoyed by a turnaround in manufacturing, mining and construction activities. Manufacturing output rose to a nine quarter high of 3.5 percent in Q1 FY15. Output of mining and construction activities stood at 2.1 percent and 4.8 percent in Q1 FY15 vis-à-vis (-) 0.4 percent and 0.7 percent respectively in the previous quarter.*
- *Government final consumption expenditure grew by 8.8 percent in Q1 FY15 up from (-) 0.4 percent in the previous quarter. Growth in gross fixed capital formation also improved to 7.0 percent in Q1 FY15 as against (-) 0.9 percent in Q4 FY14.*

**GDP growth and its components (Quarterly)**




- The improvement in GDP growth points towards a recovery in economic activities. Overall economic sentiment has improved in the last couple of months and this positive trend is expected to continue in view of several measures taken by the new government.
- The progressive announcements made in the first 100 days by the new government are expected to facilitate both foreign and domestic investments. In light of recent economic performance, various agencies have revised the forecast upward for India's GDP growth in FY15.

**GDP Projections by Various Institutes for FY15**

| | | |
|---|---|---|
| FICCI (EOS)**: 5.3% | World Bank*: 5.5% | IMF*: 5.6% |
| ICRA: 5.5% | NCAER: 5.2-5.7% | Moody's: 5.1% |
| Namura: 5.9% | Religare: 5.8% | Deutsche: 5.6% |

**Note: Forecast of World Bank and IMF is for calendar year 2014*
***Note: FICCI's forecast is from the Economic Outlook Survey, July 2014*

| GDP growth by expenditure (% YoY) | Q1 FY14 | Q2 FY14 | Q3 FY14 | Q4 FY14 | Q1 FY15 |
|---|---|---|---|---|---|
| Private Final Consumption Expenditure (PFCE) | 5.6 | 2.8 | 2.8 | 8.2 | 5.6 |
| Government Final Consumption Expenditure (GFCE) | 12.9 | -0.1 | 3.6 | -0.4 | 8.8 |
| Gross Capital Formation (GCF) | -5.1 | 0.3 | -3.2 | -2.2 | 3.4 |
| Gross Fixed Capital Formation (GFCF) | -2.8 | 3.1 | 0.2 | -0.9 | 7.0 |

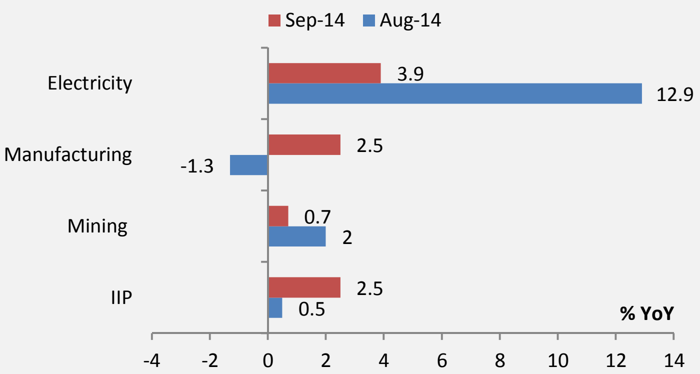
***Source: MOSPI, Economic Outlook, CMIE and FICCI Research***

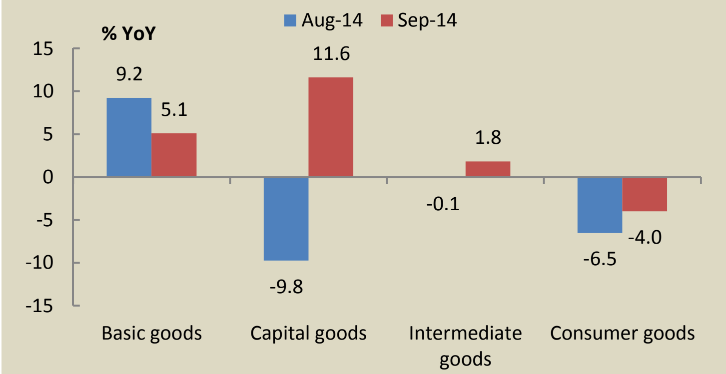
# Fact Sheet : Index of Industrial Production

## IIP grows by 2.5 percent in September 2014

- *IIP growth in September 2014 accelerated to 2.5 percent vis-à-vis 0.5 percent in the previous month, driven by higher output of capital and basic goods.*
- *Manufacturing output after decelerating for the last two months posted a growth of 2.5 percent in the month of September 2014. This was led by higher output in wearing apparel, rubber and plastic products, basic metals, fabricated metal products and electrical machinery.*
- *Growth rate of the electricity sector slowed down to 3.9 percent in September 2014 after witnessing robust growth (above 10.0 percent) in the last three months. Index for mining grew by 0.7 percent during September 2014, down from 2.0 percent in August 2014.*
- *Output of capital and intermediate goods bounced back and recorded growth of 11.6 percent and 1.8 percent in September 2014. Consumer goods output declined by 4.0 percent during September 2014, witnessing its fourth consecutive decline. While durable consumer goods output fell by 11.3 percent, output of non-durable segment rose by 1.5 percent.*
- *For the quarter ending September 2014, overall IIP expanded by 1.1 percent on a year-on-year basis as against 4.5 percent growth recorded in the previous quarter.*

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




- Positive growth in manufacturing is broad-based and it is expected that the manufacturing growth will pick up in the coming months. However, subdued performance of the consumer goods segments over a prolonged period reflects sustained weakness in demand conditions.
- Faster implementation of large projects and improvement in business regulatory environment are required for a sustained recovery in the long run.

| Major items with positive growth | Aug 14 | Sept 14 |
|---|---|---|
| *Food products & beverages* | 10.4% | 4.6% |
| *Wearing apparel* | -10.0% | 2.5% |
| *Rubber and plastic products* | 4.5% | 6.2% |
| *Basic metals* | 18.7% | 12.3% |
| *Paper and paper products* | 4.5% | 0.8% |
| *Electrical machinery* | -13.9% | 29.9% |

| Major items with negative growth | Aug 14 | Sept 14 |
|---|---|---|
| *Publishing and printing* | -6.1% | -3.9% |
| *Coke, refined petroleum products* | -5.2% | -0.3% |
| *Chemical and chemical products* | 5.9% | -4.4% |
| *Office accounting and computing machinery* | -44.0% | -34.2% |
| *Radio, TV and communication equipment* | -48.8% | -43.8% |
| *Tobacco products* | 4.3% | -3.4% |

*Source: MOSPI, Economic outlook CMIE and FICCI Research*

# Fact Sheet : Foreign Trade

## Exports decline by 5% in October 2014

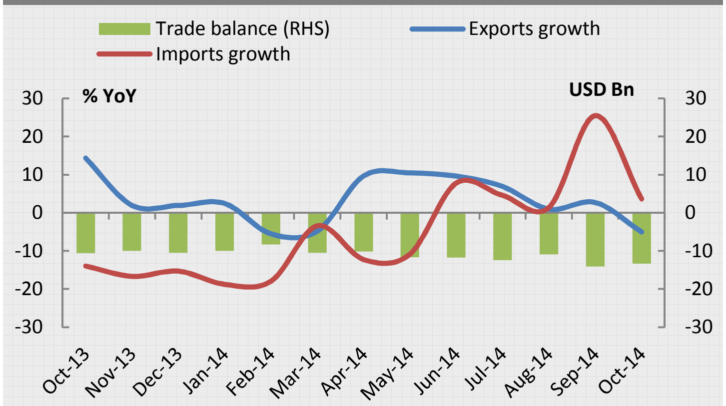
- *India's merchandise exports declined in October 2014 by 5.03 percent on a year-on-year basis to USD 26.1 billion. This was primarily on account of decline in exports of engineering goods, petroleum products, and iron-ore.*

- *Imports expanded by 3.2 percent on a year-on-year basis to USD 39.4 billion in October 2014. At USD 27.1 billion, non-oil imports in October 2014 were 18.9 percent higher over the same period of the previous year. Meanwhile, oil imports for October 2014 shrunk sharply by 19.2 percent to USD 12.4 billion.*

- *Trade deficit in October 2014 was 26.1 percent higher compared to a year earlier and stood at USD 13.4 billion.*

- *For the cumulative period from Apr-Oct 2014, exports grew by 4.6 percent as against 7.8 percent in Apr-Oct 2013. Imports, on the other hand, posted a growth of 2.4 percent during Apr-Oct 2014 as against decline of 4.6 percent during the same period of the previous year.*

**Foreign Trade (Monthly)**




**Imports break-up (Oil and Non-Oil)**

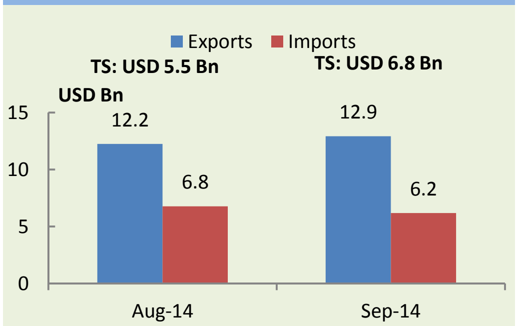
| Time period | Imports (USD Billion) | | Growth rate (YoY %) | |
|---|---|---|---|---|
| | Oil | Non-oil | Oil | Non-oil |
| **Oct 2013** | 15.3 | 22.8 | 2.2 | (-) 22.2 |
| **Oct 2014** | 12.4 | 27.1 | (-) 19.2 | 18.9 |
| **Apr-Oct 2013-14** | 95.3 | 173.2 | 0.74 | (-) 7.3 |
| **Apr-Oct 2014-15** | 94.8 | 178.7 | (-) 0.6 | 3.2 |

**Exports and Imports growth of key commodities (%)**

| Export Items (% YoY) | Sept-14 | Oct-14 |
|---|---|---|
| **Petroleum products** | (-) 13.6 | (-) 0.2 |
| **Engineering goods** | 24.9 | (-) 9.2 |
| **Gems & jewellery** | 11.8 | (-) 2.2 |
| **Iron ore and** | (-) 89.8 | (-) 76.8 |
| **Drugs, pharma and fine chemicals** | 3.6 | (-) 8.3 |

| Import Items (% YoY) | Sept-14 | Oct-14 |
|---|---|---|
| **Petroleum and petro products** | 9.7 | (-) 19.1 |
| **Electronics** | 16.9 | 7.9 |
| **Gold and silver** | 410.0 | 250.3 |
| **Iron and steel** | 55.6 | 34.0 |
| **Coal, coke & briquettes** | 25.8 | (-) 8.1 |

**India's Trade in Services – Aug and Sept 2014**




*Note: TS refers to Trade Surplus*

| Exports growth to select countries (% YoY) | Q4 FY14 | Q1 FY15 | Q2 FY15 |
|---|---|---|---|
| **USA** | 6.55 | 7.18 | 16.53 |
| **China** | 9.09 | 25.56 | -12.29 |
| **UK** | 6.42 | -0.48 | 3.13 |
| **Japan** | 5.81 | -4.33 | -11.66 |
| **UAE** | -15.16 | 18.61 | 9.32 |

- Slowdown in exports over the last few months is a matter of concern. With global economic outlook remaining weak, extra efforts would be required to expand our exports.

- The government should bring the New Foreign Trade Policy at the earliest to remove the anxiety of the exporters who face dilemma while taking fresh contract orders. The government should also consider providing additional support to export oriented sectors to tide away the current global risks and challenges.

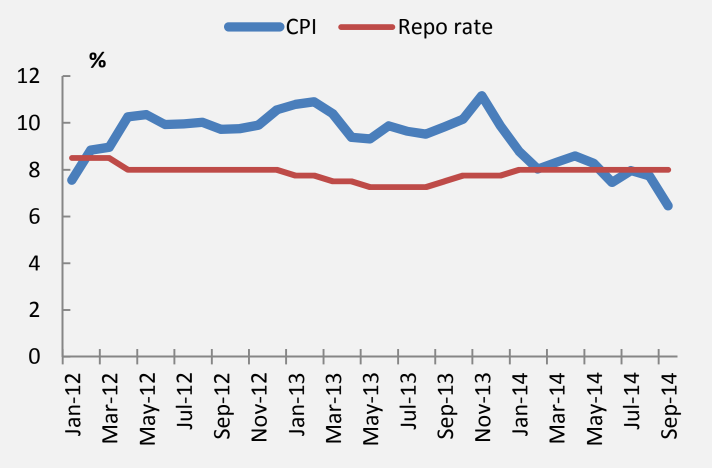
***Source: Ministry of Commerce and Industry, Economicoutlook CMIE and FICCI Research***

# Fact Sheet: Monetary Policy

## Repo rate kept unchanged at 8 percent

- *RBI in its fourth bi-monthly monetary policy meeting in September 2014 kept the repo rate unchanged at 8 percent.*
- *Cash reserve ratio (CRR) of scheduled commercial banks also remains unchanged at 4.0 percent of Net Demand and Time Liabilities (NDTL).*
- *With effect from October 10, 2014, liquidity provided under the export credit refinance (ECR) facility have been reduced to 15.0 percent of eligible credit outstanding from 32.0 percent.*
- *The Marginal Standing facility (MSF) rate and the Bank Rate stand at 9.0 per cent .*
- *Liquidity provided under overnight repo stands at 0.25 percent of bank wise NDTL and liquidity under 7 day and 14 day term repo up to 0.75 percent of NDTL of the banking system through auctioning.*

**Policy Rates and Inflation**




**Macro Indicators Snapshot**

| Indicators | Latest period | Previous period |
|---|---|---|
| CPI | 6.5% (Sept 2014) | 7.7% (August 2014) |
| WPI | 2.4% (Sept 2014) | 3.7% (August 2014) |
| WPI – Food | 3.5% (Sept 2014) | 5.2% (August 2014) |
| WPI – Fuel | 1.3% (Sept 2014) | 4.5% (August 2014) |
| Exports growth | 2.7% (Sept 2014) | 2.4% (August 2014) |
| IIP growth | 0.4% (August 2014) | 0.4% (July 2014) |

| Key Policy Rates | Sept' 14 | Aug' 14 |
|---|---|---|
| *Repo rate* | 8.0% | 8.0% |
| *Reverse Repo rate* | 7.0% | 7.0% |
| *Bank rate* | 9.0% | 9.0% |
| *Marginal Standing Facilit Rate* | 9.0% | 9.0% |
| *Cash Reserve Ratio* | 4.0% | 4.0% |

***Source: RBI, Economic Outlook – CMIE***

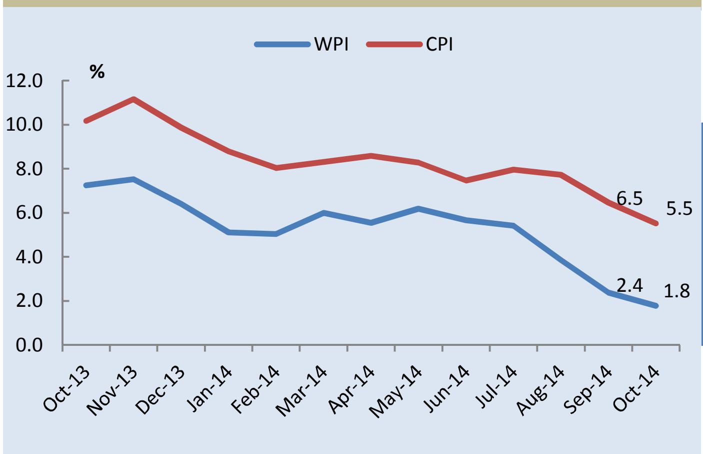
- Although the upside risks to inflation have eased, the RBI has chosen to take a cautious stance given the geo-political risks that could have a bearing on oil prices and the lagged full impact of skewed rainfall which could impact food prices going ahead.
- FICCI surveys points that capacity utilization levels across sectors has not changed much over last six months. There will have to be a substantial improvement in demand for companies to undertake fresh investments.
- The Government and RBI are working in tandem towards an overhauled monetary policy framework. With moderation in inflation numbers, we hope growth considerations will be brought to forefront and the interest regime softened going forward.

# Fact Sheet : Inflation

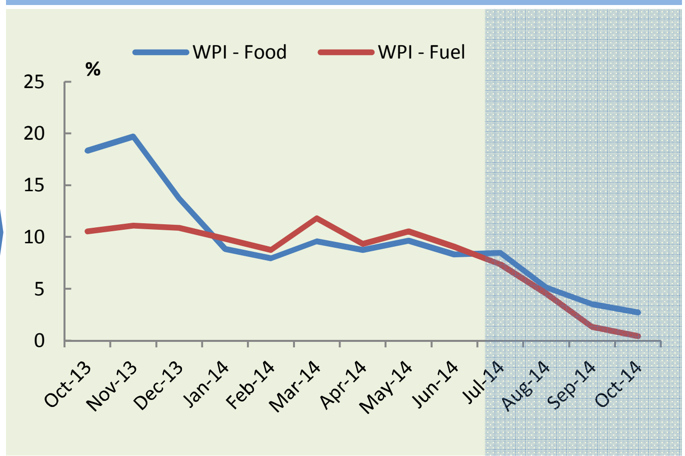
## WPI eases to 5-year low of 1.77 percent in October 2014

- *Headline WPI inflation moderated to a five year low of 1.77 percent in October 2014.*
- *WPI based food inflation has eased since May this year. In October 2014, food inflation stood at two and half year low of 2.7 percent. Prices of fruits & vegetables have declined by 3.5 percent in October 2014.*
- *Fuel and power led inflation eased to 0.4 percent in October 2014, down from 1.3 percent in September 2014. Prices of coal declined (by (-) 0.9 percent), minerals oils remained flat whereas that of electricity eased (by 2.9 percent) during the month.*
- *Inflation of manufactured goods stood at 2.4 percent in October 2014, lowest since November 2009. Within this group, food products, textiles, rubber & plastics, and chemicals witnessed moderation in inflation.*
- *Retail CPI inflation further eased to 5.5 percent in October 2014 from 6.5 percent in September 2014.*

**Trend in WPI and CPI**




**Food and Fuel Inflation - WPI**




- Inflationary risk for the coming months stands alleviated, due to expectations of lower global oil prices. Further, food inflation is expected to remain under control due to arrival of Kharif crops.
- Since inflation has moderated and there are no upside risks on price levels, the Central Bank should consider easing of monetary policy with a view to encourage investments, which have shown no firm signs of improvement.

**Key WPI Components (% change YoY)**

| Food items | Sept-14 | Oct-14 |
|---|---|---|
| *Food grains* | 4.0 | 3.4 |
| *Fruits and vegetables* | -0.5 | -3.5 |
| *Milk* | 11.5 | 11.4 |
| *Egg, meat and fish* | -4.1 | -2.6 |
| *Condiments & spices* | 29.3 | 25.8 |

| Energy | Sept-14 | Oct-14 |
|---|---|---|
| *Fuel and power* | 1.3 | 0.4 |
| *Coal* | -0.9 | -0.9 |
| *Mineral oil* | 1.2 | 0.0 |
| *Electricity* | 3.6 | 2.9 |

| Manufactured goods | Sept-14 | Oct-14 |
|---|---|---|
| *Food products* | 3.0 | 2.1 |
| *Textiles* | 2.9 | 2.1 |
| *Chemical & chemical products* | 3.1 | 3.1 |
| *Basic metals* | 1.3 | 1.1 |

***Source: MOSPI, Economic Outlook – CMIE and FICCI Research***