Economy Watch

January 2016
Issue 9

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State of the Economy

Our latest assessment on India's economic situation indicates not much deviation from the evaluation as presented in the last edition. The economy remains on recovery course; however, signs of a firm turnaround are yet to emerge.

Weak demand situation persists to be one of the key downside risks. The global economy is yet to gain traction which is reflected in our persistently declining exports. Further on domestic front, there has been an evident moderation in rural demand on the back of two consecutive years of below normal rainfall. Persistently weak demand is also demonstrated in the sub optimal capacity utilization rates of the companies across sectors.

At this juncture, the economy stands at a point where positive signals are emerging but these remain scattered.

Gross Domestic Product

Latest data for the second quarter of current fiscal year announced in November 2015 reported a GDP growth of 7.4%. This was an uptick from 7.0% growth reported in Q1 of 2015-16 and marginally down from 7.5% growth noted in Q4 of 2014-15.

The improvement in growth numbers in the second quarter was supported by a better than expected performance of the agriculture and allied activities sector. The sector reported a growth of 2.2% in Q2 2015-16, vis-à-vis 1.9% growth in Q1 2015-16 and (-)1.4% growth in Q4 2014-15. The uptick was surprising given the below normal rainfall this monsoon season. Also, the recovery in industry and services sector remained by and large intact.

Table 1: GDP Growth (in %)

	GDP	GVA at basic prices	Agriculture, forestry and fishing	Industry	Services
Jun-14	6.7	7.4	2.6	7.7	8.7
Sep-14	8.4	8.4	2.1	7.6	10.4
Dec-14	6.6	6.8	-1.1	3.6	12.6
Mar-15	7.5	6.2	-1.4	5.6	9.2
Jun-15	7.0	7.1	1.9	6.5	8.9
Sep-15	7.4	7.4	2.2	6.9	8.8

Source: CMIE

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

FICCI

However, the recently released Mid-year Review of the Economy by Ministry of Finance revised the GDP growth projection for the current fiscal year to 7.0%-7.5%. This is a downward revision from the earlier estimate of 8.0%-8.5% growth indicated in the Economic Survey 2014-15. The Mid-year review states, "understanding the real economy and the pace and strength of economic recovery is unusually difficult this year for two reasons: GDP data can be subject to a degree of uncertainty (on account of large changes in relative prices), and second, the economy is sending mixed signals with different indicators not always pointing in the same positive direction".

This expectation of a moderation in growth is also corroborated in the results of FICCI's latest Economic Outlook Survey, which puts across a GDP estimate of 7.4% for the current fiscal year, a downward revision from 7.6% growth projected in the previous round. The median estimate for GVA was also revised to 7.4% for the current fiscal year (from 7.7% in the previous round); with estimates for agriculture and allied activities, industry and services segment at 2.0%, 6.9% and 9.9% respectively.

Index of Industrial Production (IIP)

The latest IIP data reported a remarkable recovery, indicating a growth of 9.8% in the month of October 2015. This growth comes on the back of a low base and a pickup noted due to increase in festive demand. The corresponding IIP growth in September 2015 and October 2014 was 3.8% and (-) 2.6% respectively.

As per economic activity wise classification, manufacturing growth was reported at 10.6% - the highest in over four years. Seventeen out of twenty two manufacturing sub segments reported positive growth in October 2015. A pickup was noted in segments like motor vehicles, textiles and chemical and chemical products; however commodities like steel, aluminum, and cement remained under strain. Further, the electricity segment also reported moderation in growth numbers.

The capital goods segment witnessed double digit growth for the fourth consecutive month in October 2015.

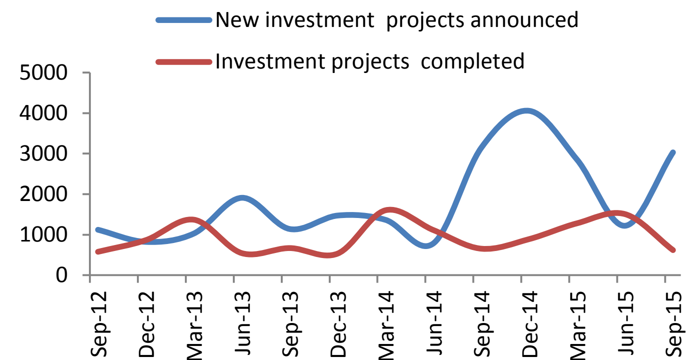
Table 2: IIP Growth (in %)

% growth rate	Oct-14	Jul-15	Aug-15	Sep-15	Oct-15
Index of Industrial Production	-2.7	4.3	6.3	3.8	9.8
Sectoral					
Mining	4.6	1.3	4.2	3.0	4.7
Manufacturing	-5.6	4.8	6.6	2.9	10.7
Electricity	13.7	3.5	5.6	11.5	9.0
Use-base industry classification					
Basic goods	9.7	5.4	3.5	4.2	4.1
Intermediate goods	-3.4	2.0	3.1	2.1	6.7
Capital goods	-3.2	10.1	21.4	10.3	16.1
Consumer durable goods	-35.2	10.6	17.0	8.5	42.2
Consumer non-durable goods	-3.7	-4.4	-1.0	-3.5	4.7

Source: CMIE

The latest CMIE data on new private investment projects announced also reported a pickup in the quarter ending September 2015. But what remains imperative is the actualization of these projects. In fact, the data on completed private investment projects continued to report a decline for the second consecutive quarter for the three months ending September 2015.

Chart 1: Investments (Rs billion): Private Sector



Source: CMIE

The consumer goods segment posted a growth of 18.4% in October 2015, vis-à-vis 1.2% growth in September this year. The jump in the consumer goods segment growth was led by an increase in consumer durables (42.2% in October 2015), which can be attributed to festive demand.

However, these data points Will have to be further monitored to draw any firm conclusions.

The prognosis from FICCI's latest Business Confidence Survey indicates that corporates continue to face a difficult time with regard to key operational parameters. A decline has been noted in the proportion of respondents foreseeing an improvement in parameters such as investment, sales, profits, exports and employment over the period October 2015 to March 2016; while the proportion of participants anticipating no change in the situation or a further deterioration noted an increase. This is a worrying trend as the performance of the corporate sector is not gaining momentum.

Inflation

Both WPI and CPI data continued to edge up in the month of November 2015. This was primarily on account of pressure arising from the food segment. The WPI inflation rate was reported at (-) 1.9% in November 2015, vis-à-vis (-) 3.8% inflation rate in October 2015 and 1.7% in October 2014. The food articles segment prices reported an inflation of 5.2%, vis-à-vis 2.4% growth in October 2015. While pulses prices continued to soar, the vegetable prices also registered double digit growth.

Table 3: WPI based Food Articles Inflation: Growth (in %)

Month	Nov-14	Oct-15	Nov-15
Food Articles	0.7	2.4	5.2
Foodgrains	2.6	9.2	10.8
Fruits & vegetables	-11.8	-1.2	5.9
Milk	10.2	1.8	1.6
Eggs, meat & fish	3.9	-3.4	-2.2
Condiments & spices	19.2	14.3	18.9

Source: CMIE

CPI based retail inflation increased to 5.4% in November 2015, from 5.0% in the previous month. Food and beverages segment which constitutes for 46% of the index, reported an inflation rate of 6.1% in November 2015, vis-à-vis an increase of 5.3% noted in October 2015 and 2.0% noted in the same month last year.

Furthermore, the latest data on area under cultivation for Rabi season reported a fall, with the decline being most evident in case of rice, wheat and coarse cereals like bajra and ragi.

Poor soil moisture and delayed onset of winter has affected the sowing. Also, the unexpected flooding in Chennai has had an impact on rice and sugarcane production.

The Government has been cautious of the situation and has undertaken a slew of measures to keep food prices under check over the course of past eighteen months. These have helped ease the situation. However, it remains a continuous challenge to manage the food situation on account of seasonal variations and supply side bottlenecks. Addressing these two issues remains imperative to have a grip on the situation in the long run.

Nonetheless, the overall situation with regard to prices is expected to remain benign and there doesn't seem to be an immediate risk with global commodity prices too remaining subdued.

Foreign Trade

Both exports and imports remained in the negative zone for the twelfth consecutive month indicating a persisting difficult situation on the trade front. Exports declined by (-) 24.4% in November 2015 and imports by (-) 30.3%. With both exports and imports declining, the trade deficit was reported at US$ 9.8 billion.

In absolute terms exports stood at US$ 20.01 billion which is a five year low. The global recovery is yet to gather pace and low commodity prices have been impacting our export growth. Petroleum & crude products exports which account for a little less than a fifth of our total exports declined by 54% y-o-y in November 2015.

In fact, the decline in exports has been broad based with major commodities like engineering goods, electronics, gems & jewellery, ores & minerals and organic & inorganic chemicals witnessing contraction during November 2015.

Imports on the other hand stood at US$ 29.8 billion in November 2015 and the decline in imports was also broad based. Except for pulses, electronics and fruits and vegetables, all commodities reported a decline in imports.

Way Ahead

At present, there seems no imminent risk that can heavily weigh down growth over the near term. What remains vital is to consolidate the efforts made so far, in order to make sure that these are translated into tangible gains. Government's commitment to reforms has been unrelenting and the readiness displayed towards implementing the announced reforms is encouraging.

The Reserve Bank of India has cut the repo rate by 125 bps in the year 2015. However, just about half of the policy rate reduction of 125 basis points has been transmitted by the banks till now.

We would like banks to pass on the full benefits in the form of lower lending rates for both consumers and investors. This is important for kick starting overall demand in the economy and hence investments.

Also, the constant uncertainty on account of US Federal Reserve increasing the interest rates has been finally put to rest. The Fed Reserve reversed its stance and hiked the rates by 25 percentage points in mid December 2015 for the first time since 2006.

With the Union Budget 2016-17 round the corner, all eyes are set on same. We hope that the budget would further strengthen the growth momentum and would lay out a framework that would stimulate both consumption ad investment demand in the economy.

Key Policy Announcements (October-December 2015)

Date	Announcement
November 24, 2015	Central government has provided indirect tax incentives to the shipbuilding industry. The purchase of raw materials and parts used in the manufacturing of ships will be exempted from customs and central excise duties.
November 20, 2015	Ministry of Power launched the Ujwal Discom Assurance Yojna (UDAY) scheme.
November 19, 2015	Technology Acquisition and Development Fund launched to provide financial assistance to MSMEs.
November 10, 2015	FDI put under automatic route in a slew of sectors.
November 5, 2015	Gold Monetization Scheme launched
November 4, 2015	Draft Insolvency and Bankruptcy code placed for public comments
October 30, 2015	Draft Civil National Aviation Policy announced

Source: Various Press Articles

Expectations from the Union Budget 2016-17

With winter session of Parliament ended without much to show, India Inc. has very high expectations from upcoming Union Budget. Let me list out some of the expectations that corporate India has from the Budget.

Quite in line with the aims and objectives of Make-in-India, FM should give utmost importance to tackling the issue of inverted duty structure that's plaguing domestic value addition, and job creation in many segments of the country's manufacturing sector. Textile and electronics in particular must find mention here.

India's badly designed and ill-conceived trade pacts give rise to what is called – incidence of inverted duties – high import duties on raw materials and intermediates, and lower duties on finished goods. As a result, apparels can be imported into India duty free, but the raw materials needed for apparel manufacturing – wool, polyester or viscous fiber – are subject to 5 to 10% import duties that discourage value addition and job creation within India.

Instead, it prompts retailers to import finished goods i.e. readymade garments from countries like Bangladesh instead of sourcing it from say Tirupur in Tamil Nadu. Similarly, finished products such as lap tops or mobile handsets can be imported in India more cost effectively than all their parts imported separately. This is bound to induce imports rather than manufacture. The last Union Budget did attempt to address this situation, but only half-heartedly.

Addressing the incidence of inverted duties has become even more important after the successful conclusion of expansion of Information Technology Agreement (ITA-II) at the recent WTO Ministerial at Nairobi, Kenya that seeks to eliminate import tariffs on 201 IT products valued at over US$ 1.3 trillion a year that will open up immense opportunities for manufacturing and export of electronics hardware.

Though, India is not a signatory to this 53-member pluri-lateral agreement, being a WTO member, it will benefit from elimination of import tariff imposed on IT products by all 53 member countries that account for over 90% of the world trade in IT products.

At the same time, India has made no commitment to reduce its own import tariffs for these items as it's not a party to the WTO agreement.

Further, with India being blocked out in mega-regional trade pacts such as TPP and TTIP, it will have to rely more on domestic markets to maintain growth momentum.

To that aim, two key reforms can come handy but unfortunately, Modi Government has not been successful in pushing them till now.

The first is of GST that couldn't be passed in winter session of the Parliament. But any positive development on this crucial reform in the budget session will improve business sentiment. Given the size and complementarities of its provincial economies, implementation of GST can unleash India's animal spirits by reducing tax cascading and freeing up interstate trade.

That in turn will create a pan-India common market of over US$ 2 trillion GDP and 1.2 billion people — a big attraction of any investors — and add as much as 2% to the country's GDP. Yet, India's political parties are not able to rise over petty politics but they need to do, in pursuit of India's long term interest.

Secondly, India needs to walk the talk on ease of doing business that is suffocating entrepreneurship. And when it comes to ease of doing business, the most important determinant is ease of contract enforcement that remains the basic pre-requisite for growth of entrepreneurship in any country. And India's record is very poor on this parameter. India is ranked at 178 out of 189 countries on ease of contract enforcement.

The best example of poor contract enforcement is housing sector which (through its backward and forward linkages with other key sectors of economy starting from cement, metals to consumer and capital goods) can bring big multiplier effect for the economy. Yet the sector is hampered by lack of regulation that is driving out genuine home buyers.

Manipulation of housing market by unscrupulous builders and poor contract enforcement is not letting the sector take off. The result is ever rising no. of unsold inventories that may lead to its eventual crash with adverse implications for dependent sectors.

Liberalisation of FDI has become an instrument for export promotion in a world dominated by regional and global production networks.

India needs a bolder rather than an overcautious approach of raising FDI caps in a phased manner, say, from zero per cent to 26 per cent to 49 per cent to 51 per cent e.g. for defence or insurance to become attractive for foreign investors.

Direct Tax Reforms

Highly leveraged Indian corporate sector is constrained by high cost of capital and slowing demand. As announced in the last Union Budget, FM should take concrete action towards bringing corporate tax down to 25%.

That will boost investment in the country by both Indian corporates and multinational corporations.

Agricultural reforms

Infusing growth in manufacturing is not possible if India's farm sector lags far behind. Transferring subsidy benefits directly to the beneficiaries' bank accounts is a good step for reducing leakage and cut subsidy burden of the country to meet fiscal deficit targets. However, it should be followed up with bringing urea under the common fertilizer subsidy regime i.e. Nutrient Based Subsidy (NBS). This will bring down relative gap between prices of urea and non-urea fertilizers and promote their balanced use. That in turn will improve return per unit of fertilizer use in the country and aid farm productivity growth. Money saved because of direct transfer of subsidy can be used for improving irrigation facilities in the countryside. It's painful to see that still almost half of India's cultivable land is dependent upon monsoon that keeps on playing hide and seek with food production with implications for price management.

Food inflation is transmitted into other sectors and we have an economy wide inflation situation that forces RBI to raise interest rates. That in turn hurts growth prospects. A robust agriculture sector will support manufacturing and services sector for a high overall economic growth. And the next Union Budget can play an instrumental role in achieving that despite unfavourable global macroeconomic environment.

The article is written by Mr. Ritesh Kumar Singh, Group Economist, Raymond Limited.

Expectations from the Union Budget 2016-17

India may want to bask in the glow of being the fastest growing economy of the world in 2015, but the Finance Minister cannot afford to let his guard down. All eyes are on India as the next pivot of global growth, even as we grapple with the challenges of delivering inclusion on every front. While acknowledging the importance of classic elements dealing with growth stimulus and inflation control through revenue and expenditure management, this note makes three asks for this Budget towards the Direct Benefits Transfer and Payment Systems architecture that goes a long way in supporting the government's aims of inclusive growth.

Financial inclusion has explicitly been part of Budgetary discourse since 2007-08 and the potential of Direct Benefit Transfers in efficient delivery of government payments and subsidies has been well recognized. A study by Muralidharan, Niehaus, and Sukhtankar (NBER Working Paper 1999, 2014) on the impact of MGNREGA and Social Security payments through Aadhaar linked bank accounts in Andhra Pradesh showed that households received payments on average 10 days faster with the new system, and leakages reduced by 10.8 percentage points. The value of the fiscal savings, due to lower leakages, was estimated as eight times greater than the cost of implementing the program.

Not surprisingly, Direct Benefits Transfers have been on the radar of the government for long and in the last Budget the Finance Minister noted the JAM Trinity (Jan Dhan + Aadhaar + Mobile) as a game changer that will enable transfer of benefits "in a leakage-proof, well-targeted and cashless manner".

With more than 19 crore PMJDY accounts now, the first step for Direct Benefits Transfers (getting a bank account)is well underway. Under the PMJDY mission, significant awareness has been created for banking services along with innovative bundling of accounts with overdraft and insurance and pension schemes. The Department of Financial Services has been monitoring the progress at a granular level and attention must focus now on increasing account

Here one critical issue—creating a universal and commercially viable payments network that connects to the beneficiaries at the last mile— is still not getting due attention. This will become even more important as the new Payments Banks and Small Finance Banks begin operations over the year ahead.

Surveys by CGAP-CAB and MicroSave have shown high levels of agent dormancy and attrition and the Finance Ministry has a powerful tool to raise viability for the agents - that lies in the commissions it gives on DBT payments. There are two issues here – one is the quantum of commission and the second the timeliness of payment. The Nandan Nilekani headed Task Force on an Aadhaar-Enabled Unified Payment Infrastructure, had in 2012 recommended last-mile transaction processing fee of 3.14% (with a cap of Rs. 20 per transaction) against India Post's 5% fee for money orders and the average mobile operator fee of 3.5%. A detailed costing analysis from MicroSave (Policy Brief #12, May 2015) showed that, at a minimum, it costs banks INR 2.63 to transact INR 100 using the agent network. The transaction costs were split across three constituents—0.96% for Business Correspondent Network Managers, 0.85% for Business Correspondent Agents/Bank Mitras, and 0.82% for banks. Costs will decline to less than 2% only when volumes increase with all DBT transactions (including DBTL, MGNREGA and PDS) flowing through the agent network.

Meanwhile, in reality the rates allowed by the Central and State governments so far are low, at 1-2%. In January 2015, the Finance Ministry fixed DBT commissions: for urban schemes, at the National Electronic Funds Transfer/ Aadhaar Payment Bridge rate, but for rural schemes at 1%, subject to an upper limit of Rs.10 per transaction. Interestingly, in the Jan Suraksha schemes, higher payouts are specified—Rs.30 to the business correspondent/micro/corporate agent and Rs.11 to the participating bank of the Rs.330 annual premium, approximating 10% commission.

Unfortunately, banks report that even this low level of commission has not been received by them so far.

Another unaddressed operational issue is that commissions should be paid to the bank on credit of the amount to the beneficiary account. Current processes that payout the commission only when the beneficiary withdraws the money defeats the purpose of encouraging savings in banks and pushes a cash economy instead.

Ask 1: The Finance Minister should clearly allocate adequate funds in this Budget for payment of DBT service fees to Banks and their last mile Bank Mitra networks and put in a transparent payment flow ensuring timely payouts to all constituents in the DBT chain. This will also put the entire PMJDY mission on a much sounder footing as agents will receive the remuneration they deserve.

A key aspect is the applicability of service tax on DBT payment processing. It is imperative at this nascent stages of building a national payments network that digital financial transactions are not taxed at least for the first few years. The budget should provide adequate clarity and comfort on the intent not to levy service tax on rural networks that service transactions linked to DBT payments and withdrawals.

An effective agent network stands on two pillars- a robust physical infrastructure and a viable revenue model. The 33,087 rural bank branches and 1.26 lakh Bank Mitra network in the Sub-Service Areas must have adequate transactions processing infrastructure. All outlets must be equipped with biometric –enabled micro-ATMs or PoS machines and have sufficient bandwidth to transact through Core Banking Systems. A McKinsey study 'Inclusive growth and financial security: The benefits of e-payments to Indian society' estimated the capital outlay of such an infrastructure to be around INR 60-70,000 crore, of which nearly half would be in a national broadband network. An important but insufficiently answered question is: 'Who will invest in the national payments infrastructure, the backbone of India's digital financial future?'

Ask 2: To this end, it would be desirable that the Budget support measures to accelerate the pace of financial inclusion include waiver/ concessional rate of VAT and customs duties on micro ATMs, PoS terminals and retail devices used for payment transactions, and possibly telecom towers installed in rural areas, which will accelerate adoption of digital payments across the country, especially as new Payment Banks roll out operations over the next two years.

Another area for innovation toward a national payments network is the adoption of the best practices used in developing national highways, through effective, transparent and reliable contracts with the private sector. The NHAI's national highway contracts had clear, unambiguous terms of remuneration that made these contracts bankable and enabled several suppliers to invest in short segments that cumulatively built up the national grid. Building a payments infrastructure in the PPP mode will catalyze state and private players to use it for salary and business payments, small business to business payments, and person-to-person remittances, which can be priced competitively by commercial service providers without government subsidization.

Ask 3: There are opportunities for the government to roll out a national retail payments infrastructure through the private sector, with an assured investment-return principle guaranteed by DBT revenues. A policy announcement to this effect in the budget would increase the interest of investors and innovative players to line up interconnected pieces of infrastructure and spread the investment risks in manageable chunks among several players yet creating a seamless national architecture.

An intelligent budget that aids the implementation and expansion of Direct Benefits Transfers will go a long way toward the cherished aims of inclusive economic growth.

The article is written by Dr. Sumita Kale, Chief Economist and Mr. SV Divvaakar, Fellow, Indicus Centre for Financial Inclusion.

Summary of the white paper released at FICCI's 88th AGM

Based on the theme "Translating Aspirations into Reality: India@2022", FICCI organised its 88th Annual General Meeting on December 19, 2015 in New Delhi. At the AGM, Hon'ble Finance Minister, Shri Arun Jaitley released the knowledge paper "Translating Aspirations into Reality: India at 2022". This detailed study by FICCI highlights the importance of Total Factor Productivity (TFP) in driving growth.

The paper reveals that physical infrastructure, strong financial system, ease of doing business, sound governance, robust innovation eco-system, education and employment are the key drivers of TFP which has a positive impact on the growth and development of the economy.

As India moves towards 75 years of Independence in 2022, it should reach the development stage, where dreams and aspirations of all Indians can translate into reality. The path of reforms to transform India, is built on the bedrock of economic, financial, and institutional reforms, and would be the fulcrum for realizing the dream of a strong, developed and inclusive India.

In this light, the knowledge paper envisages two alternative pathways **- "Present Continuum and Prospering India"**, to India's growth up to the year 2022 and estimates the quantum of accelerators including policy interventions needed to enable the leap to realize the potential of the country. In the **Present Continuum scenario**, India can expect moderate gains in various sectors helped by low global commodity prices and increased domestic consumption of its vast population. The alternative path is **Prospering India** where India can take a big leap towards prosperity by actively re-drawing existing parameters, working on natural advantages and seizing opportunities for growth. The table showing growth paths under the two alternative scenarios is given below.

Table 1: Growth Paths: At a Glance

Variables	Present Continuum	Prospering India
GDP growth (%)	7.4	9.4
Agriculture GDP (% share)	12.57	12.46
Industry GDP (% share)	19.27	21.38
Services GDP (% share)	68.16	66.15
TFP Growth (%)	1.2	5.2
Livelihood Opportunities (in millions)	567	605.5
Investment (% GDP)	35.2	38
Private Consumption (% GDP)	59.1	58.5
Savings (% GDP)	32.2	34

Source: GDP data from DBIE, RBI. TFP growth calculated by authors by using RBI KLEMS data

Growth Drivers and Enablers

The paper describes various growth drivers and enablers to achieve 9.4% growth rate under **Prospering India** scenario. To achieve this 9.4% GDP growth, the paper identifies "Total Factor Productivity" (TFP) as the key growth driver for India for the next decade. The paper states that in order to achieve higher GDP growth, TFP has to rise from 1% (2016) to 5.2% in 2022. This will be brought about by improved skills, education, health, innovation, technology and lower transaction costs. One of the key factors for TFP growth will be improvement in Ease of Doing Business with India placed into the top 50 in Doing Business Ranking. This will open various options of capital and reduce cost of doing business. Further, in order to spur growth, total investment - both private and public - has to rise from 33.7% of GDP to 38% of GDP.

The paper further highlights that other major driver of economic growth will be livelihood generation. As livelihood opportunities grow, underemployment will reduce and quality of jobs will improve leading to higher income and consumption, thus enhancing aggregate demand.

In the next seven years till 2022, additional 91 million people will enter the workforce, who would need avenues for livelihood. Of this, 85.5 million additional livelihood opportunities can be generated under the Prospering India scenario with a growth rate of 9.4% for the Indian economy and livelihood share of agriculture, manufacturing, construction and services at 41%, 14%, 13% and 31% respectively. Further, it is expected that entrepreneurship and increase in number of start-ups will drive livelihood in manufacturing and services, including high technology, e-commerce and other services.

Social Dimension

The knowledge paper mentions that higher economic growth does not necessarily mean equitable growth and hence it is important to keep in mind the social dimensions of growth. Thus, in Prospering India, Public health expenditure needs to go up from 1.3% of GDP to 3.5% of GDP and education expenditure from 3.9% of GDP to 5.2% of GDP to improve the quality of human capital and reap the demographic dividend. The investments will be through both government and private outlays with a goal to increase the average school years across India, focused tertiary education and improved access to quality higher education. Further, under Prospering India, female labour force participation rate (FLFP) will increase from 27.6% (2011) to 30.6% in 2022 due to formalization of informal jobs stemming from labour reforms, change in demographics, better education and change in social structure due to urbanization and nuclear families.

Financing the growth

The paper further states that under Prospering India scenario, it is the greater public and private investments that will finance the economic growth of 9.4%. In this scenario, domestic investment, FDI, FII investment will significantly go up because of improvement in governance, better investment environment and ease of doing business.

Further, in this scenario, Government expenditure will go up to 14.9% and is expected to be focused, planned, efficient and outcome based while public capital expenditure will rise to 6.3% of GDP.

Towards a Prospering India: Three Imperatives

The knowledge paper describes that *"Prospering India"* scenario will have three major imperatives: a) Achieve a growth rate of 9.4% to meet the expectations of the aspiring population; b) create enough livelihood opportunities to make such a growth inclusive and equitable and c) improve wellbeing of the billion plus Indians. **The paper puts forth the following key suggestions to achieve these objectives:**

A. Boosting growth to 9.4% and above

- *Enhancing Total Factor Productivity (TFP):* Higher TFP can be achieved by improving labour and capital productivity and higher investment. Some of the other suggestions include
  - ❖ Ease of doing business and Infrastructure: Improving ease of doing business, development of physical and logistic infrastructure, Long Term Funds managed by professional funds managers and improving civic infrastructure to handle rapid urbanization.
  - ❖ Innovation, Technology and Research: Introduction of a comprehensive innovation policy to provide support and incentives to business-led technology innovation through rebated tax structure for innovations and implementation of an IPR regime through cohesive legal framework.
- *Energy Security:* Adoption of principles-based natural resource allocation plan and rationalization of pricing mechanism. In addition to this, incentivizing exploration & production in oil and gas sector, strengthening of Ujjwal DISCOM Assurance Yojana (UDAY) to facilitate financial turnaround of power distribution enterprises and encouraging investment in solar power are the other suggested reforms.
- *Investment:* Driving investments up from 32.7% to 38% of GDP by deepening financial inclusion, diluting government stakes in public sector banks from 51% to 26% and expediting bankruptcy law to free 'dead' assets. Additionally, stepping up efforts to implement Goods and Services Tax, increase tax to GDP ratio by widening tax base, effective transmission of policy rate reduction in lending rates and providing green channel priority to investors bringing cutting edge technology and export oriented FDI are the other recommended measures.

B. Creating Livelihood Opportunities

- Promoting entrepreneurship, self-employment and start-up businesses through a mix of financial incentives and availability of low cost finance.
- Supporting MSMEs through better coordination among the departments of local, state and central governments for creating an enabling environment for growth and their transition to the organised sector.
- Introduction of a rebated income tax scheme called START (Start Up Rebate Tax) wherein tax benefits should be linked to direct employment by the start-up businesses and tax benefit can be given for a defined rebate proportion (say 50%) and for a limited period (say 5 years).
- Supporting sectors with high employment potential like travel and tourism as these create more jobs per million Rupees of investment than any other sector of the economy. The government should consider setting targets for attracting tourist traffic to at least 50 million tourists annually.

C. Creating Wealth and Wellbeing

- Integrate Education with Skills Development which needs to be facilitated by structural implementation of National Skills Qualification Framework (NSQF).
- All entry and operational barriers for private providers should be streamlined to encourage credible private providers to invest in the sector.
- Legislations related to healthcare services across states should converge in sync with the Clinical Establishment Act, 2010 to ensure minimum quality of healthcare facilities.

Way Forward

The knowledge paper highlights that India, today is on a platform from where it can reach to a much higher growth trajectory, but stagnation in growth can get it stuck in what many economists describe as 'the middle income trap'. The immediate imperative is a big push in the form of policy interventions.

As the experience of several transitioning economies shows, reforms are a continuous process as an economy absorbs gains from one level of policy changes and moves to the next level. In the last one and a half years, the government has taken many new policy initiatives to break free from a period of slow growth which is showing a positive change. India is well poised to take a structured and articulated path to enable the country to move into prosperity with sustained and conscious policy push in different dimensions.

Role of ARCs in NPA Management

Current NPA Situation

Post global financial crisis, growth trajectory of banks have witnessed a sea change. Annual bank credit growth fell from ~25% during 2002-08 to ~15% during 2009-13 and most recently below 10%. Economic slowdown in post Lehman Brothers era combined with over-exacting regulations and government's inability to adequately fund public sector banks (PSBs) seems to have forestalled the high growth of Indian banking sector.

However, high growth phases are also when Stressed Assets (SA) are generated within the banking sector. Due to easy availability of credit, not so stringent underwriting, excess capacity creation are the reasons due to which stressed assets are generated in the banking system. The NPAs have a lead time and usually the impact of high growth in credit assets is visible after a lag of few years. If the Bank NPAs and restructured assets are to be combined then total NPAs in system are at 11%, as high as when the banking reforms were started in 2000. The stress is not evenly distributed across the entire banking system and is largely concentrated in Public Sector Banks (PSBs) with stress reaching a level greater than 15% of advances.

The current NPA situation is precarious. Firstly, the companies have become too large to fail and hence, systemically it is important to resolve these NPAs. Many of the NPAs are in core sectors like steel, utilities, and infrastructure. If these are not resolved, then it will be difficult for India to provide requisite infrastructure for growth. Also, The NPAs in the system are creating reluctance on part of Banks to grow credit and on the other side, the companies are unable to take credit due to stressed balance sheets. Large amounts of restructured loans will soon be completing the initial moratorium period and further accretions to the NPAs are expected over the next 12-18 months. A delay in economic revival will further accentuate the problem being faced by the banking system.

In addition, Capital adequacy of banks which is under pressure will get further stressed due to high NPAs. viz. NPA + restructured assets as a ratio of advances is in the range of 11%, the entire equity capital is at risk.

As said by Raghuram Rajan in November 2013 -"You can put lipstick on a pig but it doesn't become a princess. So dressing up a loan and showing it as restructured and not provisioning for it when it stops paying, is an issue". There is an urgent need to solve the current NPAs and put a roadmap to reduce the reasons which lead to creation of such high NPAs.

Under Raghuram Rajan's stewardship, the RBI has announced a host of measures to reign in this problem. Some of the changes introduced include the recent move by RBI are

- Allowing banks to take equity by converting their debt
- Implementation of SMA (Special Mention Accounts) norms have helped in early identification of stress assets in the system
- Creation of an empowered Joint Lender Forum to expedite the process for resolving of NPAs
- Tagging individuals and companies as willful defaulter would help in creating a strong deterrent
- Early last year, the central bank allowed the banks to sell even the loans where the principal or interest was overdue by 60 days rather than 90 days, earlier. In essence, it allowed banks to start selling assets early if they felt the loan was non-redeemable
- Nudging banks to sell NPAs to professionally managed Asset Restructuring Companies (ARCs), who could resolve assets. The RBI extended the benefit which allows banks to spread the loss from sale of assets to ARCs, over two years. Available till March 2016, this benefit has resulted in surge in efforts from banks to clean their balance sheets

Role of ARCs in resolving the NPA situation

ARCs are an important means to help banks manage NPAs. At its heart, ARC business is a resolution business and not a recovery business.

However, ARCs do not have any magic spell for reviving a non performing asset. Process of resolving a stressed asset requires aggregation of debt outstanding to various banks, arrangement of capital, rightsizing the business and bringing in a strategic partner. This requires a period of 3-5 years, first few years to resolve the issues and then the balance period for consolidation and growth.

The growth of ARCs in India has been primarily in 3 phases, the current one being the 3rd phase and the most prominent phase. ARCs have been doing a lot of work to ensure that the banking system is relieved from the structural NPA problem which they are currently facing. Approximately, Rs. 130,000 Crores worth of Gross NPA were sold from 2010 to 2015 to ARCs, however the same is much lower than the current stock of total Gross NPA in the Indian Banking system of ~Rs. 316,000 Crores as on 31st March 2015.

In last few years, banks were incentivized to sell fresh NPAs to ARCs for revival. The banks also responded effectively and majority of assets sold are fresh NPAs with potential to resolve and revive. RBI also raised the skin in the business for ARCs by increasing the contribution to 15%. This has made sure that only serious ARCs participate in the business and pricing can be made more realistic by the banks.

ARCs system has so far worked well to absorb the NPA sales put forth by banks and assisted them in the process. Several large projects, which would have gone down the drain, if they continued to remain NPA in the books of the Bank, have been sustained and are in consolidation phases. If these assets get revived over a period of next 2-3 years, this will be significant improvement for the banking system.

Very large assets, even with debt over 4,000 Crores, have been absorbed by the ARC system, and are now under restructuring / consolidation.

ARCs can act as a catalyst in resolution process for Banks due to several advantages:

- ARCs can bring debt under a single umbrella (debt aggregation) and provide resolution to multiple issues by bringing various stakeholders on a single table. This includes providing additional working capital finance to such companies.
- ARCs can provide a practical approach to restructuring, where restructuring is mapped to sustainable debt and possible cash flows. ARCs also offer a more flexible and dynamic approach to resolution of any issues during the restructuring/reconstruction period.
- Faster decision making and execution assists the borrower companies to adapt to any changes in the business environment. Sale of non-core assets can also be expedited, since NOCs from multiple banks are not required and single window approach is adopted.
- ARCs can also provide their acumen and connect with international/domestic investors and strategic partners to ensure that the companies in their portfolio are revived at the earliest. ARCs are specialized agencies and their focus on such activities is much higher than the NPA management cells of many public sector banks.

Key factors to enhance effectiveness of ARCs

The ARCs can be made more effective provided some structural issues can be resolved. Some of these issues are :

- Banks not following a consortium approach is a major issue which leads to delay of 12-18 months for debt aggregation. ARCs have to resort to a time-consuming process of dealing with each bank separately often at differing commercial terms. ARCs have had to endure long period of effort to aggregate enough debt to control resolution of the accounts. Incentive structure has to be introduced for banks where 100% debt is sold at the same time by all banks to an ARC. This will expedite

- ARCs have limited financial muscle, which leaves little scope for revival. ARCs have spent approximately Rs. 8,800 Crores to acquire total assets of Rs. 1.89 lakh crore of book value till date at a cost of ~Rs. 62,000 crore.

If all NPAs do find themselves in market, that's another Rs. 3.10 lakh crore on sale, assuming similar pricing for the assets, it will require at least ~Rs. 17,000 crore of capital from ARCs by the 15:85 principle. That kind of money ARCs do not have today because of various reasons.

- ARCs are not allowed to go public for now and there is no secondary market for security receipts. With the cash component increased to 15 per cent of acquisition, the current net worth of ARCs would be sufficient to acquire only Rs. 20,000 Crore of stressed assets. Assuming ARCs acquire the NPAs at a discounted norm of 60 per cent of book value, all ARCs put together can garner Rs 33,300 Crore of NPAs. Removing the cap of 50% from the sponsor holding will be a big booster for capital infusion in ARCs as strong financial groups will become interested in the space.

- The companies under reconstruction require working capital lines and in many cases even the non-fund based requirements are high. The selling banks cannot lend, while non-bank entities, such as private equity or NBFC, demand very high interest along with priority in repayment over existing debt. Further the banking system is completely against any new exposure including non-fund based to these companies, even if they have come out of their structural issues. This leaves the responsibility of providing working capital finance on the ARCs and even non-fund based limits have to be raised against 100% cash margins.

- ARCs are not in a position to do the change of management easily. Infact the management has to be restored to original promoters in case the company is fully revived and all debts are repaid. This acts as a deterrent for any new investor to take management control in any business.

- The ARCs are not on par with the banking system when it comes to equity conversion. While RBI has given sweeping powers to banks in form of SDR and even in case of normal debt conversion, ARCs are restricted to maximum 26% of equity share in a particular company.

To bring level playing field as well as to give more teeth to ARCs against promoters of companies having good potential but low promoter intent to revive, similar power should be given to ARCs as to banks. Atleast 49% conversion should be allowed to ARCs, but power to go upto 51% also will be a big boost.

- It is difficult to remove promoter out of the company. There are currently 20 lakh recovery cases pending in Lok Adalats, Debt Recovery Tribunals (DRTs) and SARFAESI. According to the RBI, Rs 1,73,100 crore worth of money is locked in courts with the recovery record at Rs 31,100 crore as on March 31, 2014. There needs to be new mechanism to ensure speedier recovery. The bankruptcy reforms seem to be a step in the right direction.

- There can be measures to clarify the taxation related issues like TDS and taxation of SRs in the hand of the seller banks.

- While the same company's debt might be valued at a huge discount owing to net losses/devaluation in working capital assets, but the Banks are unwilling to part the loans at realistic prices due to provisioning/write-off issues in balance sheet. The ARCs can offer only realistic prices with discount for the contingent liabilities, information deficit & time value of money. The banks however see this as pure asset valuation exercise and the current assets valuation cannot be properly assessed in such companies. This creates a price expectation gap which needs to be bridged.

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One solution is for the Indian Banks' Association in consultation with Association of Asset Reconstruction Companies to draw contours of mutually acceptable methodology for reserve price valuation. Discovery of fair price for NPAs may definitely help in more deals going through auctions and also generate interest from secondary investors like distress asset funds which can participate via securitisation and reconstruction companies.

Renewed focus on NPAs by RBI is a welcome step. However, both Banks and ARCs will need lot of regulatory support and new policies to enable them to structurally overcome the current stock of NPAs and to reduce the NPA formation in the system.

The article is written by Mr. Rashesh Shah, Vice President, FICCI.

In Paris, a chance to lead

All too often, we talk about the costs of climate action: The costs of reducing emissions. The costs of renewable energy. The costs of adapting to rising seas and more extreme weather. But for a country such as India, tackling climate change promises enormous benefits — for economic growth and productivity, public health and the alleviation of poverty. It is actually a high-carbon economy that costs the most. About one in five premature deaths in India — perhaps 2 million each year — is caused by environmental factors. Household air pollution, from burning solid fuels, accounts for half of these.

Outdoor particulate matter pollution, from burning fossil fuels for power and transport, caused an estimated 6,30,000 premature deaths in India in 2010, and costs the equivalent of 5.5-7.5 per cent of GDP each year. Half the world's most polluted cities are here in India, including the top four: Delhi, Patna, Gwalior and Raipur. Indeed, ahead of this year's Diwali festival, authorities called on the inhabitants of Delhi to refrain from the traditional fireworks, given the already alarming levels of air pollution — but to little avail.

Our energy choices are also costing us financially. Domestic energy production has not kept pace with growth in demand, which is doubling every 15 years. As a consequence, energy imports have surged. Between 2008 and 2012, we spent an average of 6.4 per cent of GDP importing fuel from overseas. Meanwhile, poor urban planning is also holding our economy back. In less than 25 years, our urban population has almost doubled from 222 million in 1990 to an estimated 410 million. By 2050, it is projected to almost double again, to 800 million. Cities are the economic engine of India, accounting for two-thirds of our GDP and 90 per cent of government revenue. But uncoordinated planning, unreliable infrastructure, chronic congestion and growing travel times are constraining the economic potential of our cities.

However, many of the measures that India is taking to address climate change can help to alleviate or solve these problems.

In a national climate action plan, unveiled recently ahead of the Paris climate talks, Prime Minister Narendra Modi pledged to reduce the amount of carbon produced for each unit of economic output and increase the share of non-fossil based power generation to 40 per cent of total capacity by 2030.

These goals make good sense. By some measures, the cost of generating power from renewable sources in India has fallen by 65 per cent over the last three years. The cost of electricity from new power plants using imported coal is projected to be 30-50 per cent higher than the cost of wind and solar power in 2030. Homegrown renewable energy will help India's balance of payments, and bring down its exposure to volatile international energy markets.

At the same time, distributed, small scale renewable energy can deliver to rural communities the social and economic benefits of electrification much more quickly than if we rely solely on extending the electric grid. Solar power, potentially coupled with batteries, can improve public health, enable access to education and provide economic opportunities. The financing agenda for renewables is particularly important for India. It will also be the focus of an upcoming UN Environment Programme inquiry. Paris will put a spotlight on this critical issue.

Reducing our reliance on dirty coal-fired power plants will help improve air quality. Providing poor people with clean cook stoves would also help address indoor pollution. These benefits are local, immediate, and substantial: For India, they are estimated to be worth Rs 3,600 per tonne of carbon dioxide reduced. Modi is also pursuing policies to promote smart, urban development. Addressing some of the problems in India's existing model of urban planning could benefit the economy and the climate. For example, compact, connected and well-coordinated cities are more energy efficient. The World Bank estimates that for every 1,000 km of new bus rapid transit lanes, 1,28,000 new jobs are created and 27,000 premature deaths from pollution and accidents are avoided, all the while simultaneously reducing greenhouse gas emissions.

Businesses across the country are also realising that there are clear economic wins if they take action on climate. Leading business houses like Godrej, Mahindra, Tata, Aditya Birla Group, as well as IT powerhouses like Infosys and Wipro, are embracing evolving areas for climate action, such as science-based targets for setting ambitious emission reduction goals, or internalising the price on carbon. Public-sector undertakings like the Indian Railways, National Thermal Power Corporation, Gail and Indian Oil are also leading the business charge on national low-carbon development goals.

More than 42 of the largest businesses in the country voluntarily participate in the India GHG (greenhouse gas) programme — an initiative that facilitates measurement and management of GHG emissions. The programme builds India-specific tools and spreads sectoral best practices, driving more profitable, competitive and sustainable companies.

And India's leading association of business organisations, the Federation of Indian Chambers of Commerce and Industry, has established a "green bond" working group to examine how the country's debt markets can enable the financing of smart infrastructure.

Taking action on climate change and supporting a strong international agreement in Paris offers enormous advantages to India. The government recognises this, and its climate pledges ahead of the Paris talks are to be welcomed. But we can and should go further. Greater ambition on renewable energy and reducing carbon intensity would lead to greater economic benefits for India. It is in our country's interest to capitalise on the low-carbon economy. It will allow us to enjoy cleaner air in more liveable cities and, hopefully, in a more stable and hospitable climate. In Paris, we should be prepared to show leadership on these issues, because solving them collectively will bring benefits to us at home.

The article is written by Ms. Naina Lal Kidwai, Past President, FICCI. It was published in The Indian Express on December 2, 2015.

Climate mitigation — it's now about money

There are many different ways to compare national responsibility for climate change. These include current emissions as well as historical emissions. Since carbon dioxide added to the atmosphere can stay there for centuries, historical emissions assume higher significance. The tricky question of historical responsibility is one of the key tensions in the process of negotiating a global climate deal.

The most important issues include financing of the low-carbon transition (climate financing), necessary technologies and their transfer from developed to developing nations, market mechanisms for carbon trading, and carbon pricing, about which several companies and investors have issued statements in recent months.

Climate finance: The Green Climate Fund (GCF) under the UNFCCC has set itself a goal of raising $100 billion per year by 2020 from developed countries for supporting climate actions by developing countries. The European Union is the largest contributor to climate financing. For the period 2014-20, the EU agreed that at least 20 per cent of its budget would be spent on climate-relevant activities. EU countries such as France and the UK have pledged $5.6 billion and $8.8billion a year by 2020. The US has pledged $3 billion. China has pledged around $3.1 billion towards a South-South climate cooperation fund, to help developing countries combat climate change.

Clear road map

India wants the developed nations to come out with a clear financial roadmap. It also wants resource flow under ODA not to be counted as climate change finance.

Access to climate finance in particular is critical for meeting the incremental cost of technology transfer from the developed to the developing countries, for mainstreaming SMEs into climate change mitigation and adaptation, and for collaborative R&D on low carbon technology.

Technology transfer: The UNFCCC frameworks have not been particularly successful in facilitating the cost-effective transfer of low-carbon technologies from developed to developing countries and its subsequent deployment. This is because of concerns of the developed nations over supposedly weak IPR regime in developing countries. India advocates global collaboration in R&D and enabling their transfer, free of IPR costs, to developing countries. India believes that high costs associated with IPR must be offset by an international mechanism to make innovative low-carbon technologies more affordable.

Market mechanisms: The US does not intend to utilise international market mechanisms to implement its 2025 target of emissions reduction. The EU pioneered international carbon emissions trading in 2005, which is currently the world's largest, covering more than 11,000 power stations and industrial plants, along with airlines. The EU carbon trading scheme, however, has struggled with low prices and excess allowances.

Carbon and taxes

Carbon pricing or carbon taxes: In the US, federal and state taxes levied on gasoline and diesel are effectively carbon taxes. But at the federal level, those taxes have not been increased since 1993, which has eroded their effectiveness. The Carbon Pricing Leadership Coalition, a conglomeration of private entities, has called to put a price on carbon. Even in Europe, the heads of six major oil companies have openly declared that they can take faster climate action if governments provide stronger carbon pricing and eventually link it all up into a global system that puts a proper price on the environmental and economic costs of GHG emissions. India has not yet announced its stance on carbon pricing but has a few carbon tax instruments in place, such as the coal cess or clean energy cess at the national level and a green cess in States such as Maharashtra, which is used to fund clean energy projects.

From the standpoint of the industry, a price on carbon would not determine positive action and innovation by businesses. What would be a strong determinant is a price for carbon — a price that industry can get for reducing greenhouse gas emissions.

COP 21 must send a clear signal to the private sector about the future direction of global climate policy that protects market competitiveness, promotes sustainable investment and innovation, and upscales the deployment of low carbon technologies and finance in developing countries across the short, medium and long terms.

The article is written by Dr A. Didar Singh, Secretary General, FICCI . It was published in The Hindu Business Line on December 11, 2015.

Crouching tiger, hidden elephant

Since 1991, economic reforms analysts have dubbed India an elephant economy. Like the elephant it is slow, they say; but when it moves the world must take notice.

Every now and then Indians get impatient and envy the 'tiger' economies of Southeast Asia or the 'dragon' of Chinese growth, which can sprint faster. But for many reasons, including population and the weight of democracy, India cannot imitate these examples. As The Economist wrote some years ago, "India's emergence will continue; it will not come as quickly as Indians want but it will be relentless (though) sometimes exhilarating and often frustrating."

Testing agenda

The tiger has powers of tenacity and discipline; it knows what's important and stays focused. With industrious energy it does not let a day go by without surveying what is important and making sure that all is well. Elephants symbolise strength, wisdom and purpose.

To effect lasting reduction in poverty India needs to maintain average economic growth of 8 per cent or more. The enormity of our ongoing agenda will totally test the attributes of the elephant in us.

It was a pleasure to hear Prime Minister Narendra Modi at his eloquent best last week, both in Parliament addressing political issues, and at the HT Leadership Summit speaking on India as a future bright spot. Certainly there is merit in his argument that we must evaluate the emerging style of reforms differently from what we have been used to, particularly as they are yielding positive economic and operational outcomes.

There is also great appeal in the assertion that we must assess where we are in relation both to the weak global economic situation and to our own position a few years ago. It is possible to keep analysing or evaluating in general terms, so I venture to make a few recommendations.

Some recommendations

For starters, I believe that the forthcoming Budget, now less than three months away, needs to be somewhat creative but significantly bolder than several Budgets of the past.

A first thought is to look at our banking sector aggressively for the future, rather than mostly repairing the past. This takes us well beyond inherited pain points like NPAs and practices, rules or bankruptcy laws to help recovery. Without the support of banks, future investments will suffer.

Ficci suggested in 2014 that banks could need capital of ₹5 lakh crore over 4-5 years. The prevailing policy of a minimum 52 per cent government shareholding in banks is not likely to be conducive to raising such capital through fresh equity-type instruments.

It makes sense to re-examine possibilities of bringing government holding down to 26 per cent, with a golden share mechanism to protect its strategic control. The enhanced net worth will be a great booster to both bank liquidity and their market rating; more lendable funds allow lending rate reductions through lower spreads on larger volumes.

Interest rates really go down only in small measure compared to global competitiveness needs, since RBI policies tie reductions closely to inflation and similar macro-indicators. To bring deeper reduction to lending rates it is essential to review and lower deposit rates; to the extent that some schemes or sections need to be insulated from such rate cuts they could be compensated through direct transfer mechanisms (if relevant, from central budgetary allocations too).

Second, the general brouhaha over fiscal deficit in past years had as much to do with the quality and composition of spending and revenues, as with the proportion to GDP. The Centre has now demonstrated discipline and control over all these factors.

It would do well to leverage a disciplined track record to redirect spending/additional revenues (minus adventurism or raising rates) by anywhere in the 0.5 per cent to 0.75 per cent GDP range for a period of, say, two years, and allocate these to increased capital investment.

Effective targeted spend on roads, rural construction and social infrastructure, and also improving agricultural support systems (irrigation, warehousing and so on) generate multiplier effects, including increased base-level jobs and rural incomes.

This will also boost sub-optimal rural markets.

Long-term strategy overdue

Third, a comprehensive strategy must be formulated to induce the real estate sector back into action. Allowing FDI is a welcome step; however, investment will not flow in just to bail out the sector but only when there is evident revitalization. One must examine the revival of this sector holistically: in terms of releasing blocked finances, creating jobs if new constructions begin, and — most important — the impetus that consumer goods markets will receive because a new dwelling spurs demand across the whole range of durables.

As an aside, a long-term strategy is overdue in terms of “cleaning up” the real estate and property sectors from the evils of the parallel economy.

As often articulated, issues germinate from impractical rules or revenue considerations and not due to any inherent wants of buyers and sellers.

If the Centre is able to quickly create a level playing field to address this issue permanently, it will be a huge boon with maximum ease flowing to average citizens.

Fourth, this is the relevant time to sincerely address the impact of manufactured imports on our economy. The idea is not to be unduly protectionist but there is a need to be real.

The conversion of all the well-intended pronouncements on inverted duty structures to real outcomes can be an essential deliverable; for this, the authorities must abandon the role of an “argumentative Indian” and replace it with determined top-down action.

Even though they advocate and pressurize for open trade, when it boils down to protecting their own, many advanced economies find innovative yet nontariff-based solutions without violating international undertakings.

It is crucial that manufacturers facing present or imminent pain are equitably safeguarded, without which aggregate manufacturing growth faces dim prospects and the real benefits of Indian growth move abroad.

Now is the appropriate time to make the most of the tenacity and speed of our crouching tiger to effectively liberate the strength of the elephant.

The clock is ticking; the Indian elephant cannot remotely afford to slip on delivery of the development agenda.

The article is written by Mr. Sidharth Birla, Past President, FICCI. It was published in The Hindu Business Line on December 20, 2015.

Is the India Story running thin?

India is the second most populous country, with over 1.3 billion people or about one-sixth of the global population. We are projected to be the most populous nation by 2022 and the population is expected to reach 1.6 billion by 2050. More than 50 per cent of people are below the age of 25, and in 2022 the average age will be below 30. Powered by the intellect, energy and creativity of a young nation, India is certainly poised to grow rapidly.

The journey has challenges and growth is by no means guaranteed. But with concerted efforts I believe equitable, sustainable growth is achievable and India can build shared prosperity for all citizens by transforming the way the economy creates value. I do not intend to link the economic situation or its solution to any political dispensation; but as we cross 18 months of the present government and edge towards the end of 2015, this is a suitable time, both to reflect and take our journey forward.

An act of faith

For sure, things were not good in June 2014. Growth had slowed; the world was also slackening. India faced a wide range of governance issues which, inter alia, shook the faith of investors at home and abroad. State benevolence was becoming the preferred instrument of assuring earnings. The industrial over-capacity we lament today was already entrenched; many debt overhang or health issues of today are fallouts of the circumstances described.

All governments followed policies of promoting foreign direct and institutional capital inflows, and exhorting domestic businesses to invest at home. No one, whether then or now, denies the attractiveness of India as a long-term and growth market.

But at its core, investment remains an act of faith. Business attractiveness is a necessary but not sufficient condition for an investment destination; systemic trust is critical for undertaking risk. Today, much comfort stems from government functioning with a greater sense of purpose, never mind even if the political environment forces it to keep articulating its balance between being pro-business and pro-poor. It is ultimately sound commerce that can provide livelihoods.

Energising an economy that had been slowing for over two years was a Herculean task. But regardless of the views one may hold for the range and speed of actions, one cannot fail to concur with the government's emphasis on doing what's right for India. Broadly speaking, one perceives the pursuit of a three-pronged strategy of nurturing the economy, enhancing India's global profile and standing, and attempting to improve daily lives of citizens. Only some actions yield quantifiable outcomes, others can build positive perceptions when all actions are relentlessly pursued and executed.

Looking inward

As always, external examination and internal reflections are two sides of the coin. One must worry if these generate widely dissimilar conclusions; thankfully, this is not so in India's case.

The external viewpoint — whether of foreign governments, economists, investors and foreign investors doing business here — is overwhelmingly positive, be it on growth, policy direction or stated political will to reform the economy and generate livelihoods. Of course, they also feel that decisions and actions must move faster; but outsiders definitely recognise the limitations of a notoriously creaky implementation machine and of a noisy federal democracy.

For the domestic viewpoint, it is important to recall that local businesses have literally been on an economic rollercoaster since about 2012. They are, therefore, tottering under multiple pressures of capacity and debt overhang, poor exports and increased competition from imports. They need to survive the turmoil in one piece; therefore mindsets remain strained and negative.

In a recent India Risk Survey, concerns on governance seem to have taken a backseat, which is great.

However infrastructure spending not having reached the ground in a big way (it is reported to be on the verge of doing so), and continuing weakness in the rural economy have amplified woes.

In our capital-scarce economy, banks must play a vital financing role in fuelling future growth and investments. Enough has not happened yet in terms of strengthening the banking sector and the "soft" impact of the atmosphere created by bad loans and borrowers is also bound to ensure tough "after-effects" for borrowers.

Reading success

We must also be aware that many actions widely seen to be generally successful (coal and spectrum auctions, revival of stalled road or power projects) may in hindsight really be "qualified successes" in light of the weight and enormity of the larger agenda.

All this may leave some with a haunting feeling that the government has "not done enough" — and that expectations may continue to run ahead of realities. Let us not forget we live in an era of mouse clicks, where patience is a discounted virtue. It cannot, however, be denied that the economy is more stable than before; inflation tends to be lower, fiscal and current account management are better, GDP numbers are decent.

The storyline must shift from "what is not happening" to equitably analysing real impacts; it is important that supporting evidence derives from a wider base which includes corporate performance, industrial production, health of the agricultural sector, and timely delivery on infrastructure. Without these, the economy is just not creating sufficient employment openings.

Ficci reasoned in May 2014 that tangible outcomes could accrue over the next18-24 months, based on a mix of short-term hits and long-term fixes. In the run-up to the next Budget, policies and implementation properly showcased and articulated will multiply confidence. The actions of the next three months could shape the rest of the government's tenure.

In the Mahabharata, the venerable Bhishma articulated the philosophy that if a house collapses in the rain, the fault lies with the dwelling (due to its own weakness) rather than the rain (which influences all houses).

However this well-founded perspective provides no comfort to businesses (ranging from the large to many thousands of small and micro entities) and people looking for greater livelihood opportunities and awaiting a better prioritised policy-cum-delivery environment.

The article is written by Mr. Sidharth Birla, Past President, FICCI. It was published in The Hindu Business Line on December 3, 2016.

It's still a lukewarm economy

Now that the wheels of reforms have been set in motion by the Centre, what is needed is an assessment of how effectively we are reaping the actual benefits of various policy announcements.

True, it will take time to build the momentum. Nonetheless, some intangible benefits have become tangible. For instance, the upswing in sentiment is unmistakable and the investment intentions manifest in campaigns such as 'Make in India' and 'Digital India' are encouraging. The measures undertaken to address procedural and administrative hurdles indicate seriousness to assure ease of doing business. In fact, foreign direct investment inflows have already been on an uptick.

Matter for concern

However, what continues to remain a concern is the persisting slack in domestic investments. A sense of apprehension continues to grip members of India Inc and is reflected in Ficci's latest Business Confidence Survey as well.

The survey results indicate that about 50 per cent of the respondents are still operating at below 75 per cent capacity; therefore, considering fresh investments doesn't yet seem a feasible proposition to them. About 59 per cent of the companies taking part in the survey anticipated 'no change' or a 'decline' in their investments over the near term. Further, the survey results also reported that participating companies are still not optimistic about other operational parameters such as sales, profits and employment in the coming six months. This conforms to the financial results of corporates and is a worrying trend.

The Budget is round the corner and the customary pre-Budget consultations have already taken place. There are some specific points that we would like the Centre to consider as it gives shape to the forthcoming Budget.

Break the low cycle

The cycle of low investment-low demand-low growth needs to be broken. The cost of credit has been one of the primary constraining factors for businesses and the Reserve Bank of India has cut the repo rate by 125 bps so far. The banks responded by initiating a reduction in their base rates; however, an effective and equivalent transmission needs to be assured. The Centre should consider fast-tracking the recapitalisation plans of public sector banks (PSBs) and initiate the review of small savings interest framework to enable banks to effectively pass on the policy rate cuts to their customers. In addition, the Centre should also address the issue of stressed assets of PSBs.

While Asset Reconstruction Companies are being strengthened, the Centre should consider setting up a National Asset Management Company that can take over large NPAs from the balance sheets of banks. This would release capital, provide banks with lendable resources and also help in lowering interest cost.

Going ahead, the Centre should also lay out an appropriate personal tax framework that can put greater disposable income in the hands of consumers. Given the subdued external demand, this will give a strong boost to domestic consumer demand and facilitate expansion of economic activities.

Further, providing quality and productive employment opportunities has been one of the biggest tasks. We have a huge youth population and converting that into the nation's core strength is in our hands. While the Centre has already taken up the challenge, I would like to reiterate that Indians are an enterprising lot and we can achieve a lot by supporting this trait. The 'Startup India Standup India' initiative of is noteworthy; it appears that a policy for startups is being charted out. Towards this we would like to make two suggestions.

Heed this

First, the Centre can look at introducing a rebated income-tax scheme for small called START (startup rebated tax) to encourage them and boost job creation. There should also be clarity in the definition of a 'startup'. It is proposed that the government should establish the same in terms of initial capital, revenue and employment up to a certain threshold and for a specified number of years.

Second, the Centre should provide tax incentives to angel investors and venture capitalists for making investments in small startups. Several countries incentivise investments made in startups. The US allows 100 per cent tax exemption on capital gains income from investments in startup companies. It also allows rollovers on investments in small businesses and permits 100 per cent write-offs from the total taxable income on investment losses (up to $50,000). Similarly, Singapore allows deductions of up to 50 per cent of the money invested by angels into small businesses (up to $250,000). This will help promote the startup eco-system.

The government should also remain on course to simplify the taxation system and make it more equitable. We look forward to a reduction in the corporate tax rate in the forthcoming Budget. Also, as various surcharges and cesses are introduced for a limited period, the Centre should eliminate these once the purpose is achieved. This will also bring down the effective tax rates.

In addition, the Centre should aim at widening the tax base; for this, incomes above a certain threshold need to be taxed irrespective of source.

Next, given the huge fund requirements for the infrastructure sector, the government may consider launching funds similar to the National Investment and Infrastructure Fund, perhaps with other countries as co-investors. Such funds can be managed by professional fund managers and leveraged multiple times by providing equity for large projects across sectors.

Finally, extremely high priority plans are needed to encourage domestic production and reduce reliance on imports of coal, capital goods, electronics, fertilisers and defence products. We need to encourage the creation of domestic capacities of global scale and size, and work aggressively to establish a foothold in global supply chains. A beginning has been made in this direction. We need to follow up on these plans aggressively.

In order to give wings to our growth aspirations, it is imperative to make an honest assessment of the concern areas and take earnest action towards addressing the issues..

The article is written by Dr A. Didar Singh, Secretary General, FICCI . It was published in The Hindu Business Line on January 12, 2016.

Underperformance is not an option

I for one have not fallen prey to the gloom that surfaces from time to time. It is worth appreciating that the intentions of the Centre and the course chosen by it stay true to the development and livelihood-led aspirations of millions.

But the enormity of the task demands that we frequently assess the status and lend support through constructive suggestions.

Available data or arguments soothe us into 'satisfactory' comfort zones, but we also have data — be they business or financial performance pains or lack of creation of meaningful and sustainable livelihoods — of simultaneous 'underperformance' zones.

Charting the path

In the year 2000, Sumantra Ghoshal and other experts conceptualised a phenomenon they termed "satisfactory underperformance". Ghoshal argued that this trend is pervasive in India and gets embedded in the culture and, consequently, in organisations and systems. This entrenchment is one rational explanation why the efforts are not delivering results at the speed we desire or need.

Since the Budget is around the corner, many writers have articulated the need for a "bigger bang". But I also reason that the Budget by itself is not the comprehensive instrument through which all elements addressing strategy and implementation are addressed.

However, the Budget speech can be made significant in charting the path ahead in terms of revenues, investments, spending and fiscal administration.

So we must keenly await articulation of a wide-ranging but grounded action plan that businesses and citizens can reasonably look forward to, covering the next 3 to 5 years. I throw in some ideas.

Some ideas

One possible structured presentation is by way of outlining sectors likely to attract investments — from government, private business or FDI — and estimate the resulting creation of livelihoods by the sector over the next 3 to 5 years.

In short, find a good way to connect fiscal thought and plans to employment in the mind of the average listener, at the same time set up internal metrics linking job creation to investment.

Can we think of suo motu issue of PAN cards to Aadhaar holders (92 per cent of the population)? No liability for tax or filing of returns is suggested, but why not regard such an exercise as a parallel to creating zero balance accounts, and see what the future holds?

Can we substitute the usual incremental expenditure budgeting by zero-base budgeting for material government spending (going beyond expenditure commissions or the like)? India will soon be left with no option but to find ways to protect its industrial base from external onslaught without violating international obligations. Without being protectionist in principle, we have to find ways to shield local manufacturers in key industries, whether through tariff or non-tariff barriers. This budget is now the twilight opportunity.

Of confidence and logic

Despite many positives around us, average citizens are hard-pressed to recognise where and how their lives have improved compared to, say, five years ago. Are small businessmen excited about where they are going? Is the average housewife happy, even if inflation is generally under greater control? Are consumers exhibiting confidence in their own earning stability that allows them to spend while making long-term commitments? Is the next generation on farms clear about whether agriculture will keep them afloat in the coming decade?

Citizens' faith in the present is essential to building trust. People are seeking real answers beyond policy and perception. Therefore, the more factually reinforced the message, the better will be the outcome in building confidence.

How does one address the inherent concerns of business investors? If one has to wait until the 'ease of doing business' numbers published by international agencies look good, it may be too late to achieve meaningful outcomes in the next 3to 5 years (investments take a few years to deliver). The strong signal that the Centre is very serious is necessary but not sufficient to push investment. Intent has to be backed by demonstrable outcomes.

Meanwhile stronger messages from the top will only help drive positivity. In my opinion, there is great merit in Sunil Mittal's statement from Davos that just the way the Prime Minister promotes India's economic interests before foreign business, it is time to collect 100 top, committed entrepreneurs and encourage them with his full backing to find solutions to systemic difficulties in their operating environment.

Let us not forget many of these people are those who remained invested in an India growing at the "Hindu rate of growth", minus 'ease of doing business', with 'old infrastructure' and for entirely non-mercenary reasons.

New initiatives have both signalling and long-term value. Since the government took charge, there has been a need to seek out both short-term hits and long-term fixes.

We have leveraged good fortune (for example, oil prices) to our aggregate economic favour, handled hazards quite well (poor monsoons, inflation risks), and triggered long-term fixes (hygiene, financial inclusion).

Now is the time to deliver short-term hits that improve both real and optical delivery to the people at large. The logical option is to find ways of putting more money into the hands of people and to make sure that infrastructural spending by the state produces new employment.

Hard choices

All of this at this stage of our economy may ultimately go against the prevalent thinking of adhering to internationally expected targets on fiscal matters, but we must decide our own course. We cannot simultaneously be the global darling "because we have growth" and financially an outcast "due to fiscal numbers". But revenues from an expanding economy will correct this.

Satisfactory underperformance is a more dangerous illness than is apparent. That we have no choice but to rely on a notorious, creaky implementation machine that developed over decades is obvious. But we have not built a healthy paranoia that allows us to execute stretched targets and pushes our decision-making and monitoring processes out of the comfort zone.

The steps taken so far to break familiarity and kill unhealthy habits must go a long way beyond eliminating entrenched interests. The new India requires more evolved solutions.

The article is written by Mr. Sidharth Birla, Past President, FICCI. It was published in The Hindu Business Line on January 27, 2016.

A new dawn in Indo-French ties

India and France may well have found their next big common meeting ground in surya namaskar. No, we are not talking of yoga but the path-breaking international solar alliance of over 120 countries that Prime Minister Narendra Modi has launched along with French President Francois Hollande at the Paris COP21 climate summit.

There are other promising areas of engagement which can be taken forward during President Hollande's visit as the Republic Day chief guest. Meanwhile, the solar alliance demonstrates climate justice in action and can be a true game-changer. This holds true even in the context of the bilateral engagement between India and France. Most large French companies are now present in India, leading to a huge growth of French investments aimed at the Indian market, as a consequence of 'Make in India'.

Most French investors have R&D centres in India, which not only work for the Indian market but also the global one. The French have made 'Swachch Bharat Abhiyaan' a priority in the bilateral engagement. More recently, the terror attacks in France have united both people as never before.

Prime Minister Modi's visit to France last April has made this relationship transformational by reassuring French investors that India was committed to reforms driven by good governance, easier norms of doing business and expeditious decision making.

The stage is set for a paradigm change in the structure and content of the strategic cooperation in areas like defence. Scorpene submarines are already under construction at the Mazagon Dock Ltd (MDL) in Mumbai in partnership with French group DCNS. India and France have the opportunity to team up on several other defence projects.

Solar and nuclear potential

A new and evolving strategic dimension of the engagement is renewable energy, which has received a big boost with the international solar alliance forged in Paris. There could not be a better time for India and France to take this partnership ahead.

Solar technology is evolving, costs are coming down and grid connectivity is improving. There is already a commitment from the French side to realise 10 per cent of the 100 GW of solar energy goal that the Prime Minister has announced.

Moreover, the Indian Government is investing an initial $30 million in setting up the alliance's headquarters in India and this initiative opens gives possibilities of sharing technology and mobilising financial resources. The third strategic frontier is nuclear energy which has seen two very transformative initiatives during the visit of PM Modi to France. The partnership between Areva and L&T opens the door to nuclear manufacturing in India of the critical parts.

The capacity to manufacture this will be developed in India with L&T for the Jaitapur project, as also for other reactors that will be built in India or elsewhere, keeping open the export facility in future. The other agreement is between Areva and Nuclear Power Corporation of India Ltd (NPCIL) for high-end pre-engineering studies aimed at fine tuning the details of these projects as well as exploring the scope for price reduction and improvement of some elements.

Smart cities

As for the Smart City project, French companies are already working in 20 big projects in cities across India in areas like the metro and water. That apart, France will also focus on three specific cities and provide a $2.18 billion line of credit to support these projects. That is a great opportunity for the business community.

The French are also keen to work with India on electricity supply, sewage and waste management, energy efficient buildings, security and a range of other small things – like emergency services for hospitals.

Going ahead we need to intensify people-to-people linkages through more scholarly exchanges, tourist flows both ways and maybe yoga. Time to let the champagne flow.

The article is written by Mr. Harshavardhan Neotia, President, FICCI. It was published in The Hindu Business Line on January 23, 2016.

The tenth day of the Mahabharata

Lest it be misconstrued, the reference to the epic is to draw parallels with our economic mission. The tenth day of the Mahabharata had critical significance in many ways. For one, it was the mid-point of a war that lasted 18 days. But more significant was the turning point (even if was through the neutralisation of Bhishma) that unlocked the door to the ultimate victory of the upright.

The mission of comprehensive development of India is in several ways akin to a righteous war that must be won at all costs. The aspirations of society overwhelmingly support this goal.

Beyond numbers

For a government elected for 60, months how is 20 months a mid-point? Because in 45 days we will have the third Budget out of its total of five (2019 will be a vote-on-account), making it one of great significance. It is also safe to say that the last 18 -20 months will be politically safe and correct, yet must showcase the results of the previous 40 months. The time is ripe for bold explicit actions and bringing true creativity to the fore.

It is vital to look beyond numbers, somewhat like a good doctor who balances temperature readings with physical symptoms for effective treatment. Of course, we cannot forsake numbers (the basis for all manner of commentary); yet, we must generate suitable strategies to defend any deemed deviations and not tailor policies to win applause on numbers alone. For beginners, begging pardon of experts, I believe decent GDP growth numbers soothe us into a false sense of security. I cannot pinpoint where the gaps lie but the situation in the marketplace does not reflect this feel-good sentiment, despite inflation of essentials being under control.

Manufacturing data brings pain almost quarter upon quarter. Housing sales are in the doldrums (with resulting effect on consumer durables). Rural incomes and consumption are both down, domestic capacities persist with low utilisation, and private investment is not picking up.

We will soon have many businesses that will bleed into difficulty rather than just piling up debt overhang due to past initiatives.

Comparing day-to-day symptoms in business with the situation a few years ago brings a sense of déjà vu. If this is the ground reality at 7-8 per cent growth, something is not right.

One strategy to address this is by gearing up for even higher GDP ambitions, which will require increased resource allocations for public investment and for banks to finance private investment and growth. Such allocation is bound to attract ire from advocates of cuts in fiscal deficit (even if quality and composition of public spending — capital vs revenue —has improved).

Meaningful USP

The stretching out of the deficit reduction target (to 3 per cent) by at least 1 to 2 years seems inescapable and business must keep supporting this. Advisors may frown but stakeholders may appreciate results in 2 to 3 years. In the face of a global slowdown, exports have suffered and India has also been battered by imports across a wide spectrum. Besides tepid global markets, competitiveness is a major hurdle.

Out of five key areas that impact manufacturing cost — raw materials, energy, logistics, labour cost + productivity, and finance — there is almost no area where we have a competitive edge at a global level; therefore, India is struggling without a meaningful USP. One area where costs can be mitigated is efficient logistics; this will require consistent spending on infrastructure, not just in a spurt for 2-3 years, and must be factored into fiscal plans.

Will it not be a disaster when we have a superb Delhi -Mumbai Industrial Corridor but few viable industries to populate it?

I have argued for some time to be shown — with these present cost structures — how a grassroots manufacturing unit in India can be viable in the near future.

I refer essentially to core products (cement, steel, chemicals, petrochemicals), the kind that are usually the bread and butter of global manufacturing nations. Assembly-led businesses (cars, electronics) or thought-led ones such as pharmaceuticals or software, or service or startup businesses, all have different economics; at the present scale they are probably insufficient to drive our economy to the desired levels.

Until India generates much larger revenues at the present (or even slightly lower) rates of taxation, it will have to find some way of continuing pragmatic deficits aligned to our true needs. We cannot wish away decades of political choices overnight.

Another area where numbers pacify us is FDI inflows, which have increased commendably. In fact, FDIs will grow further on the back of domestic investment revival. But we need to keep critically evaluating additions to livelihoods without which investment flows will eventually be called a successful failure in the larger scheme of things. Let us appreciate some excellent structures and procedures built over the last 20 months which can change the very character of business practices.

Well adjusted

Without assigning any political undertones, the fact remains that Indians have, over decades, culturally taken to jugaad like fish to water.

Whom one knew became more important than what one knew; crony capitalism grew; raising money, grabbing contracts or warping fair competition required influence over merit.

All this has reduced significantly.

At this pace and under the pressure of enhancing ease of doing business, governance hygiene, and qualitative and quantitative benefits will accrue persistently. It will be a leap forward if all Central and State administrations at operating levels are directed to share the same constructive attitude towards virtuous enterprise, as all senior leaderships advocate.

One must remember that in the Mahabharata the winning side bore much pain in the first nine days and paid a heavy price and faced setbacks in the remaining half.

Therefore, it is wishful thinking to assume there is no pain in the pursuit of worthwhile missions. What is critical is unwavering focus on the endgame (in our case the one word, livelihoods) and unrelenting pace of action. Brought to near desperation despite divine sympathy, on that tenth day the Pandavas were forced to both defy and look outside the traditional envelope.

The same approach may serve us, too, as well.

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

UN Conference on Climate Change

Climate Change a Major Concern for Humankind

Extreme variations observed in the weather conditions worldwide lately, have gradually become the norm of the day. Not only these changes have increasingly become highly unpredictable in nature but have reached an unprecedented scale as well. The recent floods in Chennai, an example of the severity of climate change has left us all in a state of shock. It is even more disturbing that human activities are majorly responsible for such disasters. The primary cause of climate change is global warming which in turn is caused by emission of greenhouse gases (GHG) like methane - produced through agricultural practices including livestock manure management, and CO_2 - produced through burning of fossil fuels like coal, oil and gas.

The global temperature has already increased by around 1 degree above the pre-industrial average and if emissions are not controlled the temperature may further rise by 5 to 6 degrees by 2100. Hence, there is an urgent need to significantly reduce the emission of these harmful gases by restricting specific human actions. While mitigation is one of the approaches that can be adopted to address the concern of climate change, the other approach could be to adapt to the impacts of climate change. With these priorities in perspective, the United Nations Framework Convention on Climate Change (UNFCCC) was adopted in 1992 at the Rio Earth Summit as an international political response to climate change, which came into force in March 1994. The Conference of Parties (COP), the supreme decision making body of the convention met for the first time in 1995 to discuss the issues pertaining to climate change and the measures that can be taken to address risks attached to it. Since then it is organising similar meetings every year, unless decided otherwise.

About COP 21

The 21st United Nations Climate Change Conference of Parties, COP21 was held during 30 November to 11 December, 2015 in Paris. This was also the eleventh session of the Conference of the Parties (COP) serving as the meeting of the Parties to the Kyoto Protocol (CMP). The COP21 grabbed the maximum attention because it was organised at a time when the need to adopt a new international regulatory framework for reducing GHG emissions which could replace the Kyoto Protocol has become essential and urgent. The Kyoto Protocol, which came into force in 2005 is set to expire on 2020. Thus it is imperative to set the new emission targets for countries which could come into effect from 2020.

Intended Nationally Determined Contributions (INDCs)

The COP21 was also unique as for the first time all the participating countries were requested prior to the meeting to publicly submit the Intended Nationally Determined Contributions (INDCs), i.e. the measures that individual countries intend to take at the national level to reduce their GHG emissions in order to mitigate global warming, any adaptation programmes that they envision to tackle climate change impacts, and the support the participating country requires or will provide to address the climate change. These INDCs were further negotiated during the COP21.

India's INDCs

- To reduce the emissions intensity of its GDP by 33 to 35 % by 2030 from 2005 level.
- To achieve about 40% cumulative electric power installed capacity from non-fossil fuel based energy resources by 2030, with the help of transfer of technology and low cost international finance, including from Green Climate Fund.
- To create an additional carbon sink of 2.5 to 3 billion tonnes of CO_2 equivalent through additional forest and tree cover by 2030. (Increase of about 680 - 817 million tonne of carbon stock)
- To better adapt to climate change by enhancing investments in development programme in sectors vulnerable to climate change.
- To mobilize domestic and new and additional funds from developed countries to implement the proposed mitigation and adaptation action and work for quick diffusion of cutting-edge climate technology in the country.

The COP21 Agreement/Paris Agreement

The culmination of several rounds of negotiations on the INDCs was **the Paris Agreement** which all the 195 UNFCC participating member states and the European Union adopted on 12 December 2015.

The Paris Agreement which is an agreement within the UNFCCC framework governing carbon dioxide reduction measures from 2020 is expected to redefine the energy landscape. The core elements of the agreement include commitments on emissions, adaptation, finance and transparency, and steps to promote carbon trading. The agreement however heavily banks on the Intended Nationally Determined Contributions (INDCs) submitted by all the participating countries.

The Paris Agreement in order to achieve its objective aims to strengthen the global response to the threat of climate change, in the context of sustainable development and efforts to eradicate poverty.

The agreement has been kept open for signature and is subject to ratification, acceptance or approval by States and regional economic integration organizations that are Parties to the Convention. It will be open for signature at the United Nations Headquarters in New York from 22 April 2016 to 21 April 2017 and will become binding on its member states when 55 parties/countries that account in total for at least an estimated 55% of the world's GHG emissions ratify this agreement.

The core elements of the agreement include the following:

Mitigation - Reducing emissions

- Holding the increase in the global average temperature to well below 2°C above pre-industrial levels.
- To pursue efforts to limit the temperature increase to 1.5°C above pre-industrial levels, recognizing that this would significantly reduce the risks and impacts of climate change, particularly for low-lying or island nations.
- To pursue a goal of zero net greenhouse gas emissions, which translates into removing as much GHG from the atmosphere as is being, added to it by the second half of the century.
- The agreement encourages parties to implement and support activities to cut/reduce emissions from deforestation and forest degradation by providing financial/positive incentives to reduce deforestation and forest degradation, promote forest conservation and sustainable management, and enhance forest carbon stocks in developing countries.

Adaptation to climate change

- Increasing the ability to adapt to the adverse impacts of climate change and foster climate resilience and low GHG emissions development, in a manner that does not threaten food production;
- The Agreement talks about providing adequate support through international cooperation to developing nations for strengthening adaptation to climate change. This in turn will encourage trillions of dollars of capital to be spent adapting to the effects of climate change—including infrastructure like sea walls and programs to deal with poor soil—and developing renewable energy sources like solar and wind power.
- Recognising the importance of averting, minimising and addressing loss and damage associated with adverse effects of climate change, it calls on countries to cooperate to enhance understanding, action and support in areas such as early warning systems, emergency preparedness, slow onset events, comprehensive risk assessment and management, insurance, in building the resilience of communities, livelihoods and ecosystems, and in understanding non-economic losses associated with climate change.

Support

The agreement/accord mentions that developing countries should be provided with support for implementing the agreement.

Finance

- Making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development.
- It renews a commitment by developed countries to send US $ 100 billion annually to their developing counterparts beginning in 2020 to support their efforts to fight climate change (mitigation and adaptation).
- The agreement describes this sum would be a "floor" that is expected to increase with time.

Capacity Building

- To establish a capacity-building Initiative for Transparency (support developing countries, upon request in meeting enhanced transparency requirements) in order to build institutional and technical capacity, both pre- and post-2020.
- The agreement also urges the developed countries to significantly increase adaptation finance from current levels and to further provide appropriate technology and capacity-building support.

Technology

- The agreement re-emphasises the need for a technology mechanism for promoting and facilitating enhanced action for technology development and transfer. Supported by financial resources from the developed world, it will aim to foster innovation, "collaborative approaches to research and development", and facilitate access to "technologies in early stages of technological cycle" for developing countries.

Transparency and stocktaking

- The Paris agreement urges the countries to set tougher emission targets in 2020 and keep revising them every five years.
- The implementation of the agreement by all member countries together will be evaluated every 5 years, with the first evaluation in 2023.
- The outcome is to be used as input for new nationally determined contributions of member states.
- The stocktaking will be in a comprehensive and facilitative manner and will not be of contributions/achievements of individual countries but a collective analysis of what has been achieved and what more needs to be done.
- It will also take stock of the support or aid provided to developing countries by the developed nations in context of technology, mitigation, adaptation and capacity building.
- In order to build mutual trust and confidence and to promote effective implementation, the agreement establishes an enhanced transparency framework for action and support. The framework provides flexibility in implementation of the provisions to developing countries.
- The agreement includes a compliance mechanism, overseen by a committee of experts that operates in a non-punitive way.

The Agreement – a success or a failure?

The agreement has been lauded by many major global leaders and also faced criticism from some. The summit can be termed a success as for the first time all the parties, regardless of their economic status and priorities have committed to work together to control GHG emissions. This is even more important given the fact that previous such attempts made in this direction failed to arrive at any consensus. The other bright spots include the several optimistic targets that have been highlighted in the agreement like limiting the rise in global temperature to 1.5ºC, specific targets defined for individual countries, importance given to preservation of forests, importance accorded to adaptation, loss and damage due to climate change, greater investment promised in renewable technology, and a pledge by the developed countries to extend annual assistance of US$ 100 billion to developing countries. These are some of the positive elements of the Agreement as far as emerging countries like India are concerned which have obtained the assurance of the developed world to abide by certain targets and provide support to their developing counterparts towards implementing their climate change plans.

On the negative front, while the targets look good on paper, they have been criticised for being too ambitious.

Also, another major concern remains on the possibility of participating countries mainly the developed nations, who had been assigned the responsibility of causing climate change historically to wriggle out of their commitments. This is so because while the overall agreement has been made legally binding, compliance with the INDCs has been kept out of it, with no penalties being prescribed for countries which fail to achieve their INDCs in future. The agreement has also not defined a thorough action plan to achieve the set targets. Also, the assistance of US$ 100 billion is expected to be grossly inadequate for developing nations for their adaptation efforts.

There are various such issues with the Agreement. Owing to these factors, there are chances that the Agreement will not be able to evoke the desired results and the targets will be missed. In case this happens, it will prove detrimental for all countries including India.

However, what is important at this point is to recognise the fact that the Paris Agreement has given the world an opportunity to combat the problem of climate change and it is the responsibility of all the parties to work towards translating this opportunity into workable solutions and contribute towards making the world a better place to live in and ensure overall safety of all human beings.

Indian Pension Sector

The Indian pension market is in a nascent stage with immense scope for growth, given the current low and insufficient pension coverage in the country. Pension assets in India as per estimates are around 12% of the country's GDP much lower than levels of 127% and 116% respectively for countries like US and UK[1]. India ranks low on the Melbourne Mercer Global Pension Index, which ranks/measures a country's retirement income system against more than 40 indicators, grouped under the sub-indices of adequacy, sustainability and integrity. India with an index value of 40.3 falls in Grade 'D' of the index. The index value indicates that the Indian pension system has certain desirable features, but also has major weaknesses and/or emissions that need to be addressed.

One of the major weaknesses of the sector is the absence of a universal social security system that could provide cover to all strata of the population. Traditionally, pension coverage in India has been largely skewed and restricted to the organised sector only, as pension has been based on financing through employer and employee contribution and participation. Consequently, a large section of the population/workforce employed in the unorganised sector was left out of the system and did not have access to formal channels of old age financial support system/economic security/retirement benefits.

Hence this section of the society has been forced to rely on their own earnings, or traditional and informal methods of old age security such as the joint family system. However, changes in the demographic and social pattern in recent years with shift towards nuclear families, and settlement pattern, increasing life expectancy and an active lifestyle post retirement; joint family system (intergenerational support) cannot be seen as the support system for old age. Moreover, for a long period of time India's pensions sector was only characterised by the Defined Benefit pension schemes applicable for only State and Central Government employees, where the beneficiaries were promised a specific monthly retirement benefit from the contributor i.e. the government of India.

[1] Tower Watson.

PFRDA brings about change in pension landscape

Over the past decade or so, the pension landscape in the country has witnessed significant changes. Driven by fiscal constraints and concerns of an ageing population that lacked formal means of income security in old age, reforms were initiated in the pension sector to shift from the Defined Benefit pensions system to the Defined Contribution pension system. To promote, develop and regulate the pension sector in India, the Pension Fund Regulatory & Development Authority (PFRDA) was established and the National Pension System (NPS) - a defined contribution pension scheme was introduced for the Central Government Service employees, excluding the Armed forces with effect from 1 January 2004. The NPS was later extended to the State Governments and to all citizens of India, including the unorganised sector workers on voluntary basis (with effect from 1 May 2009) and to Non Resident Indians (NRIs) in 2015.

Employer Dependent Pension Schemes in India

At present mainly three types of pension schemes are available in India for the employed population including mandatory, quasi-mandatory and voluntary plans.

1. Employees' Provident Fund regime

EPF Act is the predominant social security legislation in India aimed at, inter alia, securing retirement benefits for employees. The three schemes operating under this are

- Employees' Provident Fund Scheme (EPFS)
- Employees' Pension Scheme (EPS)
- Employees' Deposit Linked Insurance Scheme (EDLIS)

2. National Pension System (NPS)

NPS is a defined contribution scheme wherein the final corpus depends upon the contribution made by subscribers and the investment returns. In December 2011, the PFRDA introduced a corporate sector model to provide NPS to employees of corporate entities of the private and public sector enterprises

3. Superannuation Funds (SAF)

SAF is an employer-sponsored voluntary pension plan to facilitate pensions for employees when they retire/leave the organisation. SAF can be either a defined contribution or a defined benefit scheme, depending upon the option selected by the employer.

In terms of assets under management, EPFO funds account for around two-thirds of the assets under management, while the private pension and annuities account for the remaining one-third. NPS is relatively smaller in size; however it is gradually gathering popularity and acceptance. As of October 2015, assets under management of the NPS have crossed Rs. 1,000 billion.

Table 1: Assets under Management and Subscriber base – NPS and Atal Pension Yojana (as of 31 Oct 2015)

Segment	No. of Subscribers	Asset under Management (Rs. Cr)
NPS		
Central Government	15,80,705	43,244
State Government	2,795,304	49,454
Corporate Sector	426,223	7,558
Unorganised sector	110,382	739
NPS- Swavalamban	4,467,560	1,883
Total	93,80,174	1,02,877
APY		
Atal Pension Yojana	8,36,674	147

Source: National Pension System Trust www.npstrust.org.in

Pension sector inundated with challenges

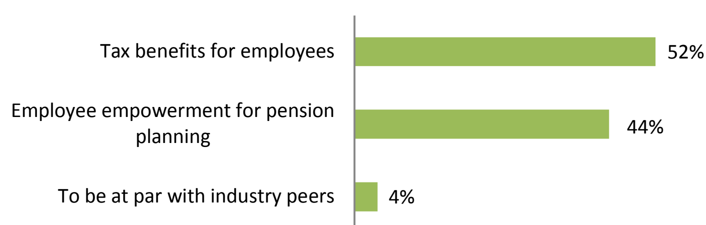
Even after the initiation of reforms, the sector continues to be plagued with challenges which are inhibiting people from benefitting from the NPS and hindering pension penetration in the country. The major bottlenecks are low awareness level and knowledge about retirement savings and the various pension schemes available, competition from other financial products, preference for tangible assets (gold and real estate), lack of specific tax breaks etc.

FICCI in association with KPMG recently published a knowledge paper during FICCI's annual pensions conference titled, 'Employee Pensions in India – Current practices, Challenges and Prospects' which presented the current scenario of the employer related pensions plans in India and highlighted the issues that are hampering the growth of these plans in the country. A survey among 45 companies from a diverse set of sectors was conducted by KPMG to understand the practices that are followed by them regarding pension arrangements for their employees. The survey findings show that NPS is gaining ground slowly. About 22% of the companies surveyed have registered for the NPS and of the organisations not yet registered for NPS so far, around half are considering registering for NPS in future. However, NPS is witnessing enrolment largely from managers and senior level employees.

Some of the other results of the survey are:

- 36% of the companies have set up SAF
- Majority have help desk to address employees' queries on pension
- 40% of the respondents organise awareness sessions/workshops on retirement planning
- 44% of the respondents believed that they can do more to provide for their employees retirement planning.

Chart 1: Primary motivation to opt/consider NPS



The study has further highlighted the major factors impacting growth of the pension sector:

- **Different tax treatments for different schemes:** The schemes, EPF, NPS and SAF are taxed differently, for instance, withdrawals are taxable under the NPS while under EPF, they are tax exempt if the service period is more than five years.

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- **Lack of mandatory contributions:** Establishments with less than 20 employees are not required to set up pension plans, thus depriving a large number of employees in the MSE sector of pension.
- **Problem in voluntary coverage:** Strict regulations of voluntary contributions under EPF regime may hinder increased participation in pension plants. Under EPF coverage, consent of majority of employees is required, however once coverage is granted, employees would be required to contribute irrespective of their consent and the contribution rates are also inflexible.
- **Pension fund portability:** Currently the corpus between EPF, NPS and SAF are not inter portable which results in lack of consolidation of retirement corpus which may lead to inadequate pensions.
- **Absence of catch-up contributions:** In the event of a career break which could be due to any reason, currently there are no policies for catch-up contributions for employees.

Measures taken to improve pension coverage and penetration

Reforms in the sector are underway and measures are being proposed and adopted to improve the pension coverage in the country. These include relaxation in withdrawal rules, considering portability of accumulated corpus, increase in FDI limit in the sector amongst others. With respect to withdrawal of funds, approval of employers is now not required for withdrawing money from EPF corpus, if details such as Aadhaar unique identity number, bank account number have been linked to the EPF Universal Account Number and KYC verification done. To address the issue of portability of accumulated corpus between funds, the labour ministry has proposed permitting shifting of corpus between NPS and EPF under the Employees' Provident Fund and Miscellaneous Provisions Act of 1952. EPFO has taken measure for faster service by reducing timelines for settlement of PF, pension and insurance claims to 20 days from the earlier 30 days.

Relaxing of investment restrictions has been mooted with the Labour Ministry notifying new investment pattern for the EPFO permitting it to invest minimum of 5% and upto 15% of its incremental deposits in equity or equity related schemes in April 2015.

FDI investment limit in the pension sector (funds) was hiked to 49% from the earlier 26% in April 2015. FDI in pensions funds is permitted as per PFRDA Act 2013 ("Act") and while FDI upto 26% is permitted under the automatic route; for FDI above 26% and upto 49%, the foreign investor would need to obtain approval of the Foreign Investment Promotion Board (FIPB).

The Way Ahead

India's pension system holds immense potential and to tap into this the system needs to be transformed into a need-oriented system from a welfare-oriented system with greater accessibility and sustainability. Reform initiatives enabling conducive policy, tax and regulatory environments would encourage people to save for long term and thus aid in pension savings. The government could co-contribute to create a formal old-age income support system specifically for the financially impoverished senior citizens.

Some of the recommendations of the FICCI-KPMG Study to increase pension coverage and adequacy in India include:

- Participation in pension plans should be made mandatory
- Pension should relate to the existing salary levels and also must be able to sustain the cost of living post retirement
- Need for higher tax deductions, making withdrawals tax exempt, giving more tax benefits to NPS
- Pension plans should be transparent and easy to understand
- Indian pension schemes should be benchmarked against the schemes of developed countries
- Better promotion of NPS through electronic and print media

Business Confidence Survey, November 2015

Source: FICCI Business Confidence Survey, November 2015

Overall Business Confidence Index reported a decline for the second consecutive quarter and stood at 64.1, vis-à-vis the reported value of 66.3 in the previous round. The index value a year back was 70.4. The fall came on the back of a slide noted in both the Current Conditions Index and the Expectations Index.

The value of Current Conditions Index decreased to 58.4 in the present survey from 61.0 in the previous round. The Expectation Index also noted a decline and stood at 67.0 in the current round vis-à-vis 68.9 noted in the last round.

Performance of the corporate sector is not gaining traction. Demand situation remains one of the key constraining factors for businesses. Even though a decline was noted in the proportion of respondents citing demand to be a bothering factor, yet a majority 64% of the participants reported it to be a concern. The corresponding numbers was 71% last time.

The sale prospects of the companies do not seem bright going ahead and this to some extent can be attributed to the moderation in rural demand. Also, global demand remains muted which is evident from our declining exports. In our latest survey, 29% of the companies said that they expect exports to be higher over the next six months vis-à-vis 48% stating likewise in the previous survey.

With both external and domestic demand under stress, investment intentions of the companies have remained subdued. Capacity Utilization rates have hardly seen improvement, with 50% of the companies surveyed reported operating at below 75% capacity. 21% of respondents foresee lower investments going ahead, 12 percentage points more than the proportion of respondents stating likewise in the previous round.

The outlook of the respondents with regard to profits remained bleak. In the current round, about 53% participants expected no change in profits over the near term; while 21% anticipated deterioration over the next two quarters.

According to the respondents, slow pace of project execution, slowdown in the real estate sector, high interest rates, increase in non-performing assets of banks and moderation in rural demand are some of the key factors that have dampened the demand prospects. Nevertheless, respondents expected demand to pick up with about 47% participants anticipating an increase in domestic demand over the coming six months.

The companies also suggested that the Government should look at offering more incentives to give an impetus to exports. It was also pointed out that pending reforms such as implementation of GST and amendment of labor laws should be expedited.

The current survey drew responses from companies with a wide sectoral and geographical spread. The survey drew responses from about 156 companies with a turnover ranging from Rs 10 crore to Rs 7000 crore. The participating companies belonged to an array of sectors such as textiles, real estate and construction, oil & gas, steel, cement, agricultural machinery, food processing, electric machinery and medical devices.

For detailed report you may contact:
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Economic Outlook Survey

ANNUAL FORECASTS FY16	
Gross Domestic Product	7.4%
Wholesale Price Index (Avg. 2015-16)	-1.5%
Consumer Price Index (Avg. 2015-16)	5.2%
Index of Industrial Production	4.6%
Export Growth	-8.9%
Import Growth	-4.8%
Trade deficit as % of GDP	6.7%
Current Account deficit as% of GDP	1.3%
Fiscal deficit as % of GDP	3.9%
USD/INR Exchange rate (End March 2016)	Rs 65.5/USD

QUARTERLY FORECASTS Q3 FY16	
Gross Domestic Product	7.4%
Wholesale Price Index (Avg. 2015-16)	-2.7%
Consumer Price Index (Avg. 2015-16)	5.2%
Index of Industrial Production	4.7%
Export Growth	-
Import Growth	-
Trade deficit as % of GDP	-
Current Account deficit as% of GDP	1.1%
Fiscal deficit as % of GDP	3.5%
USD/INR Exchange rate (End of Q3 FY16)	Rs 65.0/USD

Source: FICCI Economic Outlook Survey, December 2015

FICCI's latest Economic Outlook Survey forecasts GDP growth at 7.4% for the fiscal year 2015-16. This is 0.2 percentage points lower than the 7.6% growth forecast in the previous round. The revision comes on the back of further moderation expected in the agriculture & allied activities sector. Industry and services sectors are expected to grow at the same pace as forecasted in the previous round.

India's overall economic prospects have been on the recovery course. However, domestic demand conditions have not fully recovered. The companies are operating at sub optimal capacity and private investors are still apprehensive to undertake new projects. The confidence level is being impacted and the financial results of companies have not been very encouraging.

India's external sector remains fragile due to subdued global conditions which have had a dampening effect. Exports have been in the negative terrain for eleven consecutive months. Announcements of new regional trade arrangements (RTAs) are also expected to further impact our competitiveness in the weak global market.

On being asked about the impact of these agreements on Indian exports, majority of economists were of the view that the development will definitely change India's trade direction. While it is difficult to say as to what will be the extent of impact, it will pose a significant challenge for our businesses as stringent norms would have to be adhered to in a highly competitive environment.

Index of Industrial Production is expected to register a median growth of 4.6% in 2015-16, with a minimum and maximum range of 4.0% and 4.9% respectively. The median forecast of 4.6% is marginally lower than the growth forecast of 5.0% put forth in the previous round.

On being asked about the RBI's monetary policy stance economists were of the view that a further cut in the repo rate seems unlikely. They believed that a full transmission will only be possible when the overall economic conditions improve and credit growth is seen picking up. The respondents also felt that the government should continue providing support to MSMEs by providing affordable credit and better logistics

As for inflation, the economist reported no significant risk. On concerns about deflation, the participating economists unanimously indicated that they do not see the economy moving in that direction. It was opined that the economy is probably going through a phase of disinflation resulting from plunge in global commodity prices. The decline could be counterbalanced by increase in prices of essential commodities like pulses, edible oil and depreciating rupee.

The economists were also asked to share their views on the Gold Monetization Scheme. Majority of the respondents shared a positive feedback about the scheme and felt that it should help to contain gold imports. However greater awareness, standardization of price and quality of gold and strong infrastructure will be essential for the scheme to succeed.

The present round of FICCI's Economic Outlook Survey was conducted in the month of October/November 2015 and drew responses from leading economists primarily from industry, banking and financial services sector. Economists were asked to share their views on the expected course of Reserve Bank of India on the monetary policy, gold monetization scheme and the likely impact of new trade arrangements on India's external sector.

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Economy Fact Sheet – Index of Industrial Production January 2016

IIP contracted by 3.2 percent in November 2015

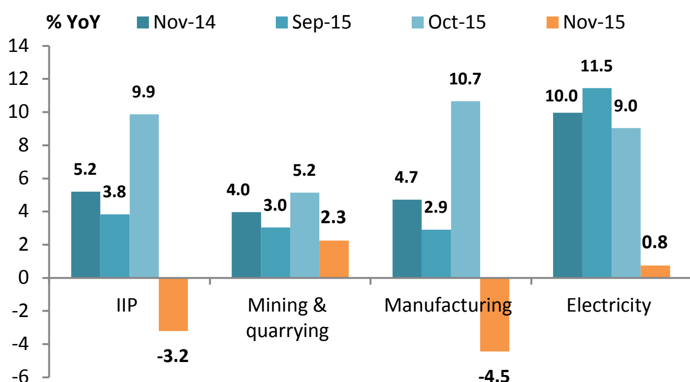
- *Growth of the Index of Industrial Production declined by 3.2 percent in November 2015 after posting a five year high growth of 9.9 percent in October 2015.*

- *Manufacturing sector contracted by 4.5 percent in November 2015 vis-à-vis a growth of 10.7 percent recorded in the previous month. Mining and electricity sectors noticed moderation in the month of November 2015. Mining grew by 2.3 percent in November 2015 as against 5.2 percent growth in the previous month. Electricity noticed a growth of 0.8 percent in November 2015 as against 9.0 percent growth recorded in October 2015.*

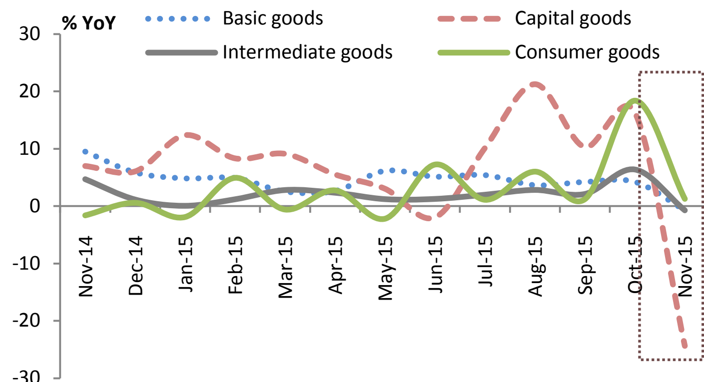
- *As per use based classification of industrial production, growth of basic goods declined by 0.7 percent in November 2015. Capital goods also witnessed a plunge in growth numbers, growth falling by 24.4 percent in November 2015, after noting four consecutive months of double digit growth. Intermediate goods also noted contraction of 0.7 percent in November 2015 vis-à-vis 6.4 percent growth noticed in the previous month.*

- *Consumer goods was the only segment that noticed growth in November 2015. The segment grew by 1.3 percent led by 12.6 percent growth in the consumer durables segment in November 2015 while consumer non-durables declined by 4.7 percent.*

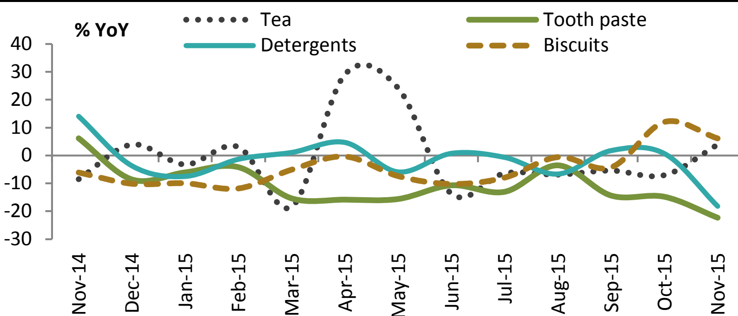
IIP – Economic Activity



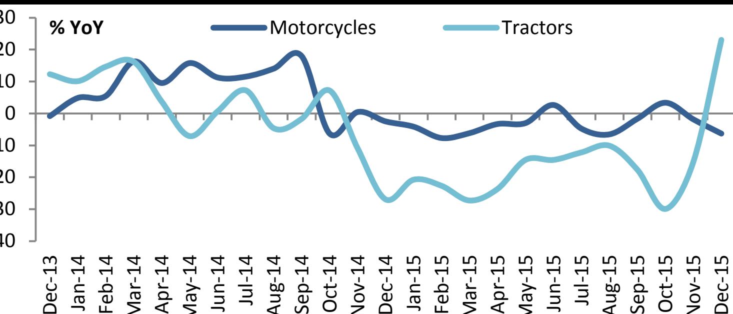
IIP – Use Based Classification



Production of FMCG articles on a decline



Contraction in sale of motorcycles indicates weak rural demand



- The drop in IIP growth has come at the back of a steep fall in the manufacturing sector growth. This aberration was caused by floods in the state of Tamil Nadu during the month of November 2015 which hit production in most factories. Tamil Nadu (in 2013-14) accounted for 10.7 percent of the total manufacturing in India.

- Additionally, both external and domestic demand, especially rural demand, have slowed down. Growth in the production of FMCG articles has remained in the negative zone for the past one year corroborating weak domestic demand in the economy. Further, contraction in sale of motorcycles and tractors since November 2014 and subdued growth since December 2013 points to weak demand in the rural areas.

- This underlines the need for more measures to stimulate investments and demand in the economy, especially in the forthcoming budget.

Source: MOSPI, Economic outlook CMIE and FICCI Research

Economy Fact Sheet – Inflation
January 2016

FICCI

WPI contracted by 0.7 percent in December 2015

- *Headline WPI inflation declined by 0.7 percent in December 2015 as against a decline of 2.0 percent noted in November 2015.WPI based inflation rate has been in the negative territory since November 2014.*

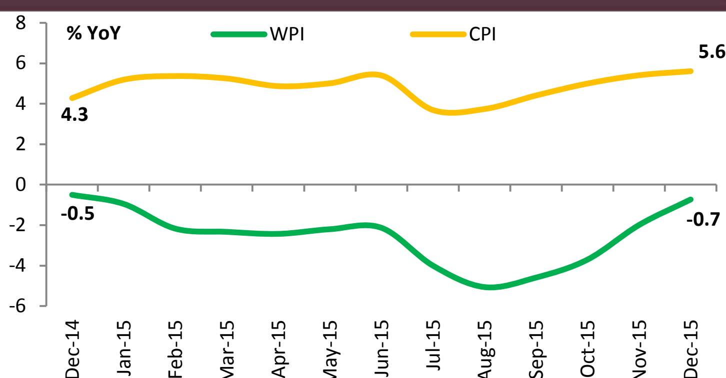
- *WPI based food inflation accelerated to 8.2 percent in the month of December 2015. The corresponding figure in previous month was 5.2 percent. Prices of non-food articles also continued to strengthen, rising by 7.7 percent in December 2015 vis-à-vis 6.3 percent inflation noted in the previous month.*

- *Fuel and power segment remained in the deflationary zone, with the index contracting by 9.2 percent in December 2015. The decline was 11.1 percent in the previous month. Prices of mineral oils (the main component of the segment) plummeted by 15.5 percent y-o-y during December 2015.*

- *Prices of manufactured products dropped 1.4 percent in December 2015, same as that noted in November 2015. Prices of manufactured products have remained subdued since March 2015.*

- *Retail CPI inflation rose to a fifteen month high of 5.6 percent in December 2015 as compared to 5.4 percent in November 2015. CPI based food and beverages segment registered 6.3 percent inflation in December 2015 as against 6.1 percent in November 2015.*

Trend in CPI and WPI Inflation



Total Area Sown Under Rabi Crops (in Lakh Hectares)

(Data as on January 8, 2016)	Area sown in 2015-16	Area sown in 2014-15
Wheat	281.7	299.33
Pulses	134.36	134.81
Coarse Cereals	57.4	52.28
Oilseeds	74.46	77.41
Rice	17.07	18.63
Total	**564.98**	**582.46**

WPI continued to tread on a deflationary path, albeit at a slower pace. Broadly, prices of all food articles(food grains, vegetables and fruits, milk, spices & condiments, meat and fish) noticed inflationary pressure which calls for continuous monitoring by the government. Latest data on the area sown under the rabi crop indicates a lower total area sown in the current fiscal vis-à-vis the previous fiscal year as a result of low soil moisture. A sharp reduction is seen in area sown under wheat crop in the current fiscal. Raising agri-production, by further strengthening the irrigation system, and efficient supply side management are key to tackle elevation in prices of food articles.

Additionally, continuation of the deflationary trend is an indication of weak demand in the economy besides being the spillover effect of lower oil and commodity prices. The latest data on industrial production once again highlights the precarious nature of recovery in this sector. We hope that the government and the central bank will respond to the situation appropriately and take steps that would aid the process of industrial recovery. At this juncture, propelling growth and creating jobs should be a priority and all policy levers should be geared towards that objective.

Key WPI Components (% change Y-o-Y)

	Dec-14	Oct-15	Nov-15	Dec-15
Primary articles	**0.3**	0.0	2.3	**5.5**
Food articles	**5.0**	3.3	5.2	**8.2**
Vegetables	**-6.4**	3.2	14.1	**20.6**
Pulses	**5.9**	53.1	58.2	**55.6**
Fuel and power	**-7.8**	-16.3	-11.1	**-9.2**
Manufactured products	**1.4**	-1.7	-1.4	**-1.4**

Key CPI Components (% change Y-o-Y)

	Dec-14	Oct-15	Nov-15	Dec-15
Food and beverages	4.4	5.3	6.1	6.3
Vegetables	-3.4	2.3	3.9	4.6
Pulses	8.2	42.4	46.1	45.9
Clothing & footwear	6.3	5.6	5.8	5.7
Housing	5.2	4.9	5.0	5.1
Fuel & light	3.4	5.3	5.3	5.5

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

Economy Fact Sheet – Foreign Trade
January 2016

FICCI

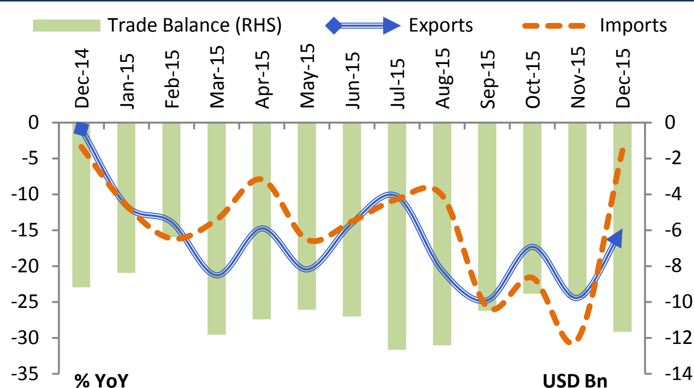
Trade deficit rose to USD 11.7 billion in December 2015

- *India's trade deficit increased from USD 9.8 billion in November 2015 to USD 11.7 billion in December 2015. On a cumulative basis, trade deficit stood at USD 99.2 billion in April-December 2015-16 as against USD 111.7 billion recorded in the corresponding period of previous fiscal year.*

- *Overall exports during the month of December 2015 were valued at USD 22.3 billion, 14.8 percent lower than the level of USD 26.2 billion recorded in the corresponding month of the previous fiscal year.*

- *Total imports for the month of December 2015 fell by 3.9 percent and stood at USD 34.0 billion vis-à-vis USD 35.3 billion worth of imports recorded in December 2014. Oil imports contracted by 33.2 percent while non-oil imports registered a growth of 7.6 percent in December 2015 with gold imports surging 179 percent during the month.*

Trend in India's Merchandise Trade



Oil and Non-oil Imports

Time period	Imports (USD Billion)		Growth rate (% YoY)	
	Oil	Non-Oil	Oil	Non-Oil
Dec-2014	10.0	25.4	-28.4	12.0
Dec-2015	**6.7**	**27.3**	**-33.2**	**7.6**
Apr-Dec 2014-15	116.6	235.1	-4.7	9.2
Apr-Dec 2015-16	**68.1**	**227.7**	**-41.6**	**-3.1**

Merchandise exports have contracted for thirteen consecutive months ending December 2015. Primarily, weak global demand and subdued commodity prices have contributed to the decline in our outbound shipments.

India's exports to Asia contracted by 30 percent in November 2015 as compared to growth of 10 percent in November 2014. Asian countries constitute almost half of our total export basket and a steep fall in growth is worrisome. Similar trend was noticed in our exports to Europe and America. Our exports to Africa have witnessed further contraction in November 2015 as compared to the decline noted in November 2014.

The commerce ministry has recently prepared a strategy to boost shipments to Africa and has identified engineering goods for export to several nations of that continent. The Department of Commerce plans to hold consultation meetings with the Ambassadors and High Commissioners of major African nations and industry stakeholders to implement the strategy. The step is expected to boost exports of engineering goods which forms a major chunk of our exports basket.

Growth in some Export Commodities

Items	Dec-14	Nov-15	Dec-15
Petroleum & crude products	-7.2	-53.9	**-47.7**
Engineering goods	27.4	-28.6	**-15.7**
Gems and jewellery	-1.1	-21.5	**-7.8**
Drugs, pharmaceuticals &fine chemicals	2.8	1.0	**8.2**
Readymade garments	10.1	3.0	**5.0**
Carpets	8.8	8.2	**18.4**

India's Exports to Regions

	YoY growth			% share in total exports		
	Nov-14	Oct-15	Nov-15	Nov-14	Oct-15	Nov-15
Asia	10.3	-22.3	**-30.3**	50.0	46.0	**47.9**
Europe	16.3	-6.5	**-28.1**	19.9	20.5	**19.7**
America	20.1	-13.9	**-20.8**	17.7	20.8	**19.3**
Africa	-8.9	-23.5	**-28.5**	10.0	9.9	**9.8**

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

Economy Fact Sheet – GDP
December 2015

FICCI

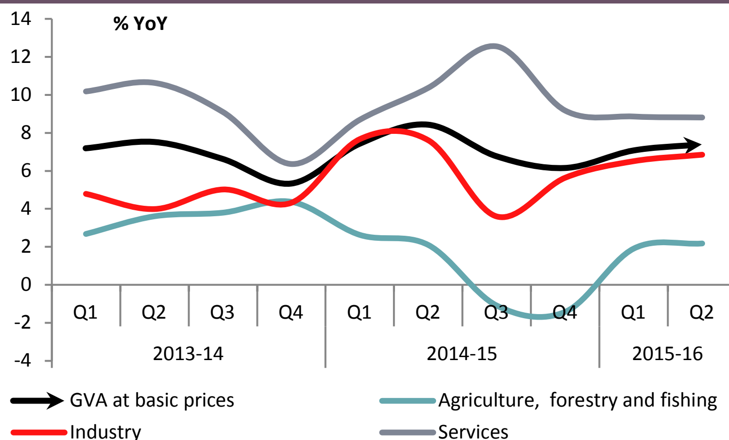
GDP growth accelerated to 7.4 percent in Q2 FY16

- *Gross Domestic Product grew by 7.4 percent in Q2 FY16 as against 8.4 percent in the corresponding period previous year. Gross Value Added at basic prices too grew by 7.4 percent in Q2 FY16 vis-à-vis 8.4 percent in Q2 FY15.*

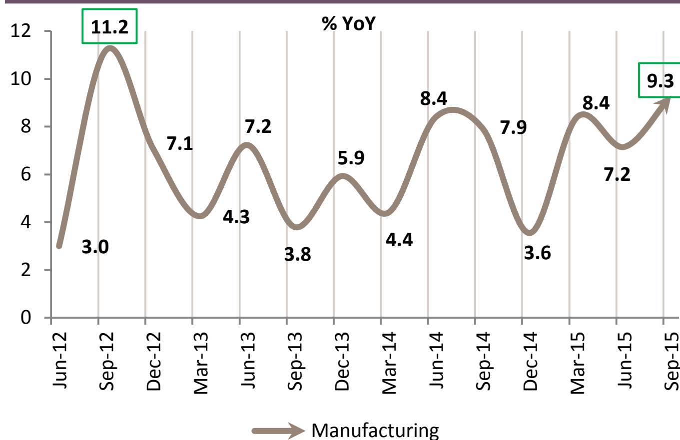
- *The agriculture (and allied activities) sector registered a growth of 2.2 percent in Q2 FY16, slightly higher than 2.1 percent growth registered in Q2 FY15. Industry witnessed growth of 6.9 percent in the second quarter of the current fiscal as compared to 7.6 percent growth in the same period previous fiscal. Growth in the services sector also noted moderation, growing by 8.8 percent in Q2 FY16 as compared to 10.4 percent in Q2 FY15.*

- *Growth in gross capital formation increased to 8.5 percent in the second quarter of the current fiscal vis-à-vis 4.0 percent growth observed in Q2 FY15. Private final consumption expenditure, however, registered a slightly lower growth of 6.8 percent in Q2 FY16 vis-à-vis 7.1 percent noted in the corresponding period previous year. Growth in government final consumption expenditure also slowed down, growing by 5.2 percent during Q2 FY16 as compared to 8.9 percent growth during Q2 FY15.*

Quarterly Growth in GVA and its Components



Quarterly Growth in Manufacturing



Latest GDP numbers showed an uptick indicating that we are in the early stages of economic recovery. The improvement was primarily due to robust growth - twelve quarter high - registered in manufacturing sector. However, there is a need to support the investment cycle, by all means, to sustain and further strengthen the growth momentum. The government has already taken the lead by front loading public investments and enhancing the ease of doing business.

FICCI in its pre-budget memorandum has listed some key areas that require special attention to facilitate transition to high growth trajectory. These include: providing further thrust to the Make in India program by stimulating demand and investments, boosting MSMEs and Start-ups and continuing thrust on infrastructure. FICCI believes that the forthcoming Union Budget provides an opportunity to mend the gaps in the existing system and strengthen the demand conditions to boost overall economic output.

GDP by Expenditure (% Y-o-Y)

	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15
GDP at Market Prices	**8.4**	**6.6**	**7.5**	**7.0**	**7.4**
Private Final Consumption Expenditure (PFCE)	7.1	4.2	7.9	7.4	**6.8**
Government Final Consumption Expenditure (GFCE)	8.9	27.6	-7.9	1.2	**5.2**
Gross Capital Formation (GCF)	4.0	2.9	5.7	5.6	**8.5**
of which Gross Fixed Capital Formation (GFCF)	3.8	2.4	4.1	4.9	**6.8**

The Mid Year Economic Analysis has lowered India's GDP growth projection to lie between 7 percent to 7.5 percent for the fiscal year 2015-16.

The earlier estimate was between 8.1 percent and 8.5 percent.

Source: MOSPI, Economic Outlook, CMIE and FICCI Research

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Economy Fact Sheet – Balance of Payments
December 2015

FICCI

CAD narrows to 1.6 percent of GDP in Q2 FY16

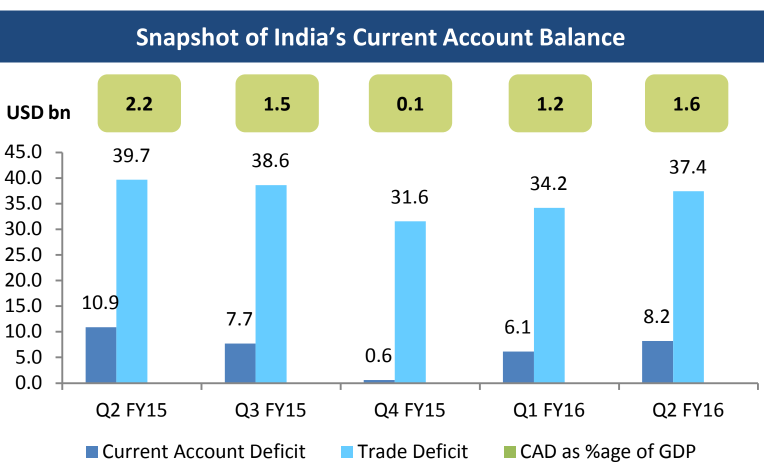
- *India's Current Account Deficit (CAD) in Q2 of 2015-16 stood at USD 8.2 billion as against USD 10.9 billion in Q2 of 2014-15. As a percent of GDP, CAD stood at 1.6 percent in Q1 2015-16 vis-à-vis 2.2 percent noted in Q2 2014-15. On a cumulative basis, CAD narrowed to 1.4 percent of GDP in H1 of 2015-16 from 1.8 percent in H1 of 2014-15.*

- *Trade deficit stood at USD 37.4 billion during Q2 of 2015-16 as against USD 39.7 billion during Q2 of 2014-15. On the other hand, services recorded a surplus of USD 18.0 billion during Q2 of 2015-16 vis-à-vis USD 18.9 billion during Q2 of 2014-15.*

- *Portfolio investments witnessed a net outflow to the tune of USD 6.5 billion in Q2 2015-16 as against net inflow of USD 9.8 billion in Q2 in 2014-15.*

- *At the end of the second quarter of the current fiscal, foreign exchange reserves stood at USD 350.3 billion.* Foreign exchange reserves (on BoP basis) *decreased by USD 0.9 billion in Q2 2015-16.*

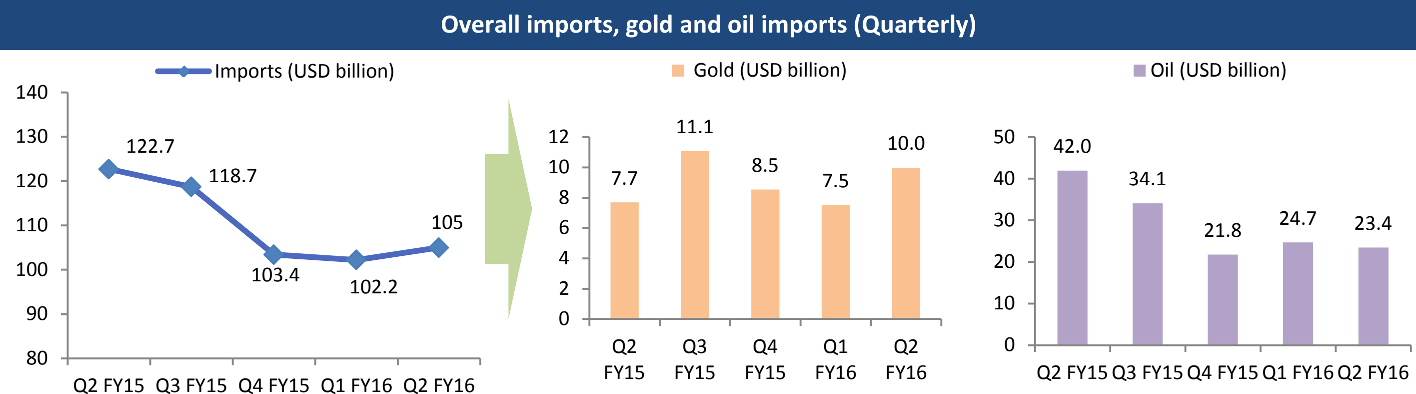
Snapshot of India's Current Account Balance



Balance of Payments– Key Components

Indicators (USD bn)	Q2 FY15	Q3 FY15	Q4 FY15	Q1 FY16	Q2 FY16
Goods (Net)	(-)39.7	(-)38.6	(-)31.6	(-)34.2	(-)37.4
Services (Net)	18.9	20.0	20.1	17.4	18.0
Current Account	(-)10.9	(-)7.7	(-)0.6	(-)6.1	(-)8.2
Direct investment	7.5	6.9	9.3	10.1	6.6
Portfolio investments	9.8	6.3	12.5	(-)2.6	(-)6.5

Overall imports, gold and oil imports (Quarterly)



- The contraction in CAD was primarily on account of lower trade deficit as imports registered a larger absolute decline than exports. India's export earnings dropped to USD 67.6 billion in the September 2014 quarter, while import bill declined to USD 105 billion in Q2 2015. Although net services receipts moderated marginally on a annual basis, largely due to fall in export receipts in transport, insurance and pension services, there has been some improvement over the preceding quarter. On the capital account, net foreign direct investment moderated in the September 2015 quarter, after showing a sharp pick-up in the June 2015 quarter. Portfolio investment noted heavy outflows which was more evident in the equity segment.

- Despite weakness in the global market, CAD is expected to remain manageable on the back of low commodity prices, going forward. FICCI's latest Economic Outlook Survey pegs the CAD at 1.1 percent of GDP for Q3 2015-16 and 1.3 percent of GDP for the entire fiscal year 2015-16.

Source: RBI, Economic Outlook, CMIE, FICCI Research

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