



**Indian Economy**

A Snapshot

January 2017

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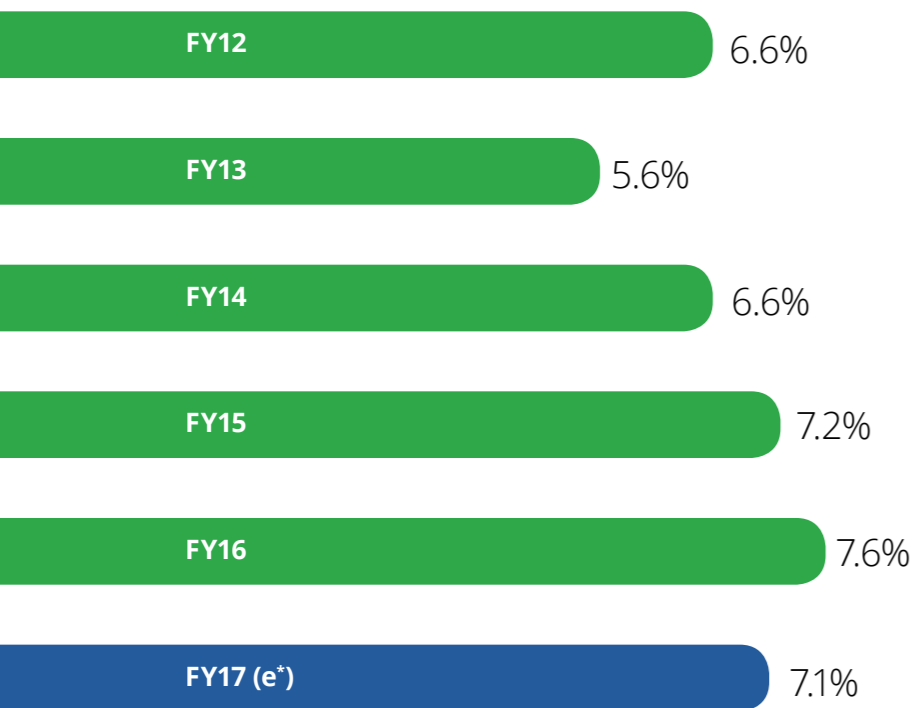
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# India retains fastest growing tag



## GDP growth

The past few years have witnessed India emerge as the fastest growing large economy in the world. Structural drivers based on robust domestic fundamentals continue to drive the economy higher in the face of an uncertain global environment. Going forward, the Indian economy is likely to remain the fastest growing large economy in the world as major macroeconomic parameters remain healthy.



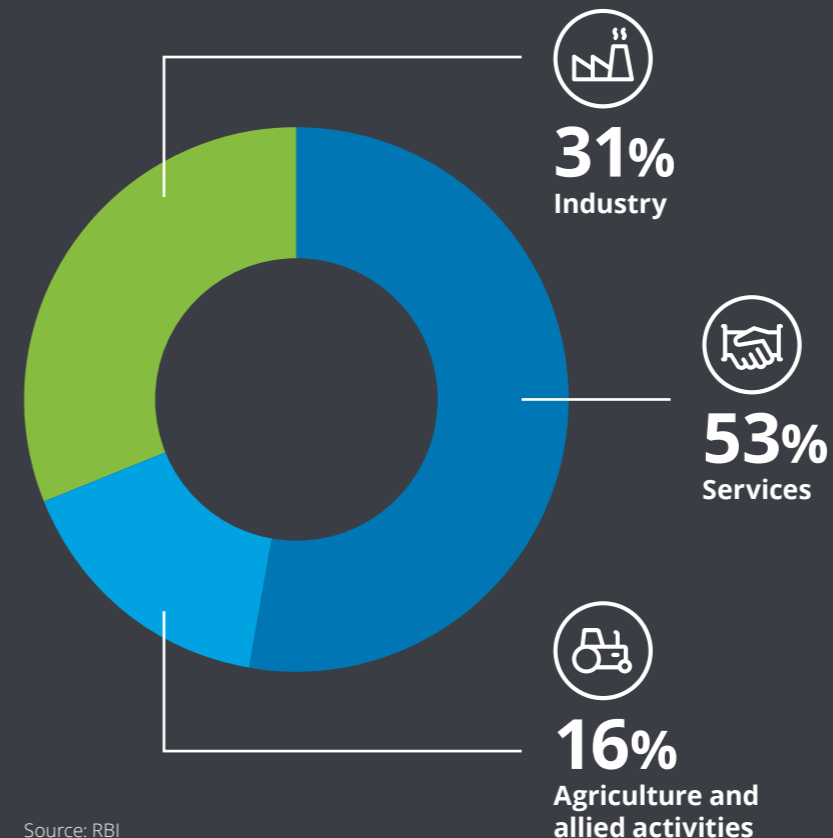
Source: RBI and Mospi  
\*e denotes estimate

# Deeper look into the economy

## Robust growth rates in the services sector

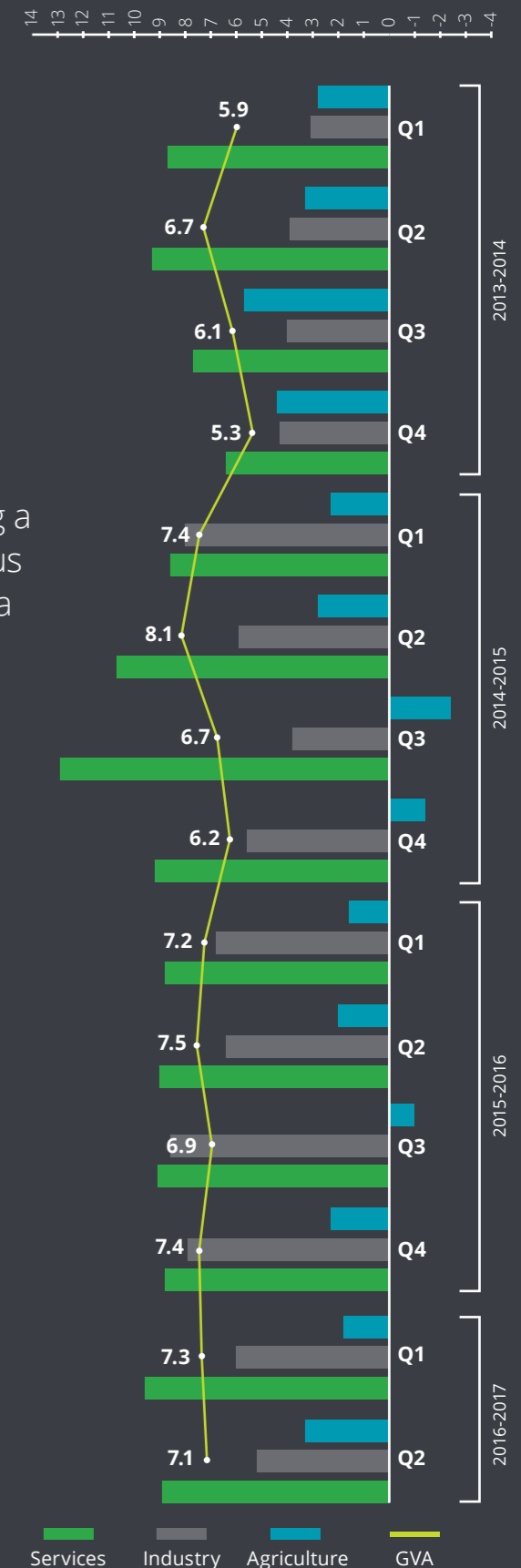
The services sector makes up the largest share of the economy followed by industry and agriculture. India is looking to modernize agriculture while giving a structural boost to industry. As such, increased focus on advancing industry and agriculture can help India achieve its growth potential.

Sectoral share of the economy



Source: RBI

GVA Quarterly Growth Rate



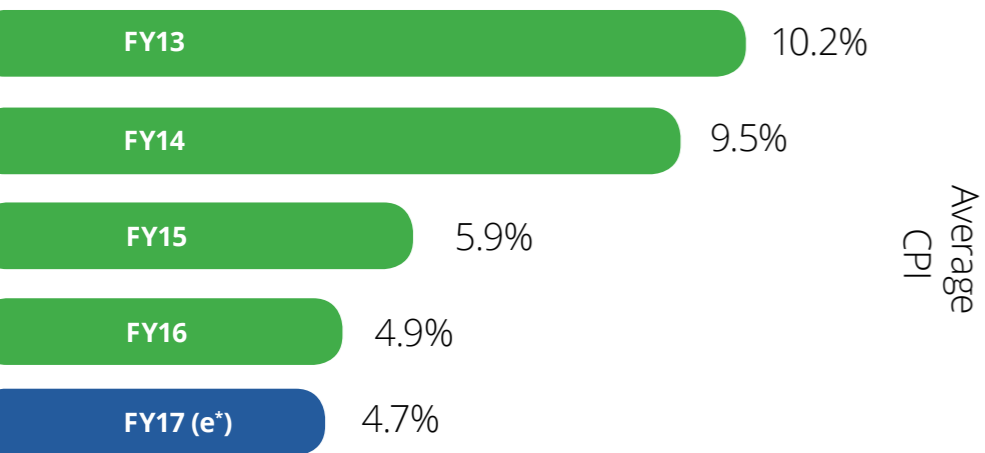
Source: RBI

# Macro check

## Inflation and interest rates move down

Over the past few years, inflation has seen a meaningful decline as supply constraints in the economy have been managed better. Reforms in alleviating some of the structural impediments, especially in the agricultural supply chain, have gone a long way in creating a favourable environment. Inflation is likely to remain within the comfort zone of the Reserve Bank of India.

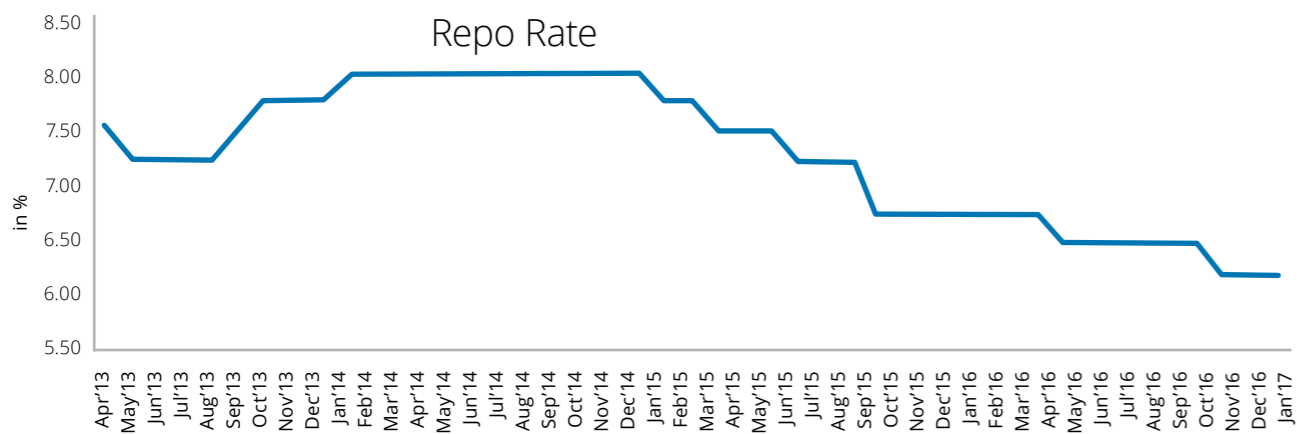
### Inflation subdued



Source: RBI and Deloitte  
\*e denotes estimate

Benchmark bond yield has fallen over the past year as the RBI has cut rates. Interest rates are likely to come down across tenors with ample liquidity and rate cuts by the RBI

### Interest rates moving down



Source: RBI

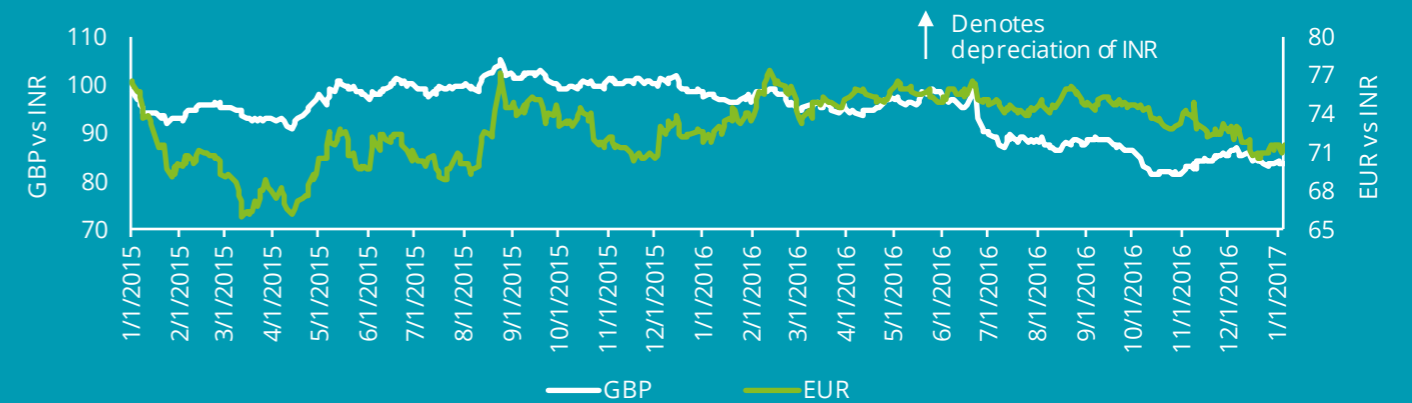
# The Indian Rupee



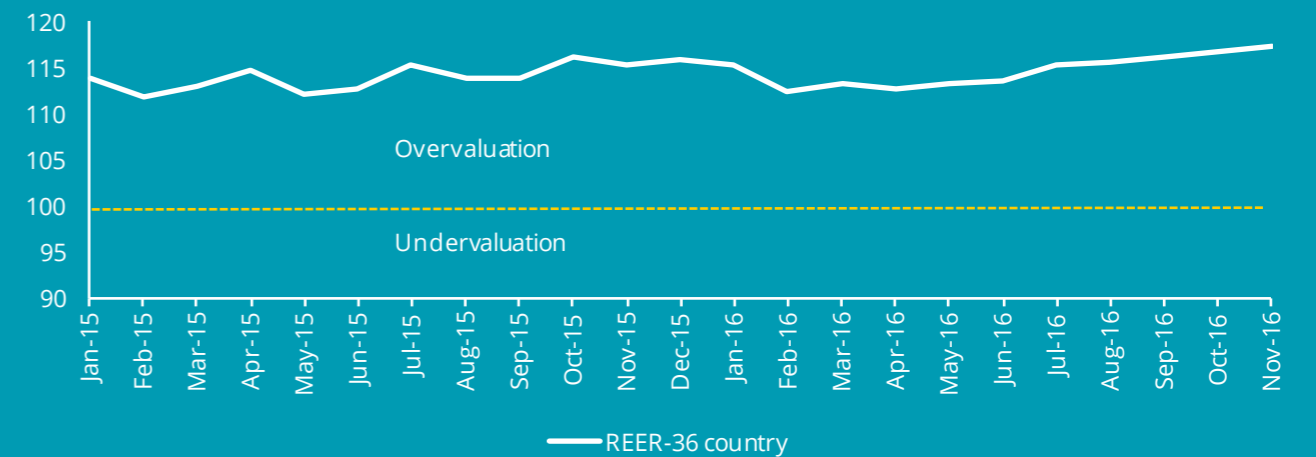
## Good performance

The INR has shown strength in a year that was marred by a number of macro risks. The domestic currency has seen appreciation against the Euro, GBP and against most emerging market currencies, which has led to appreciation in real terms. Given the global economic situation, we can expect the INR to depreciate in an orderly way over the next year.

### Performance of INR versus GBP and EUR



### Real effective exchange rates

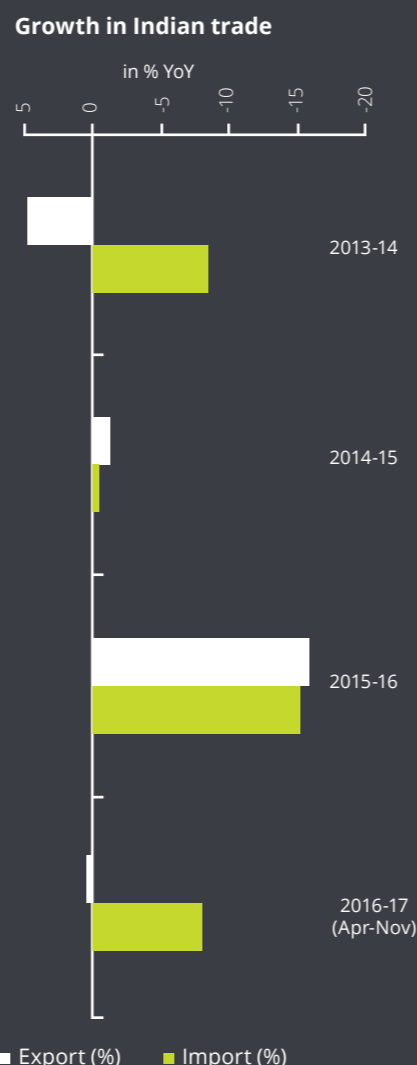


Source: RBI

# External sector

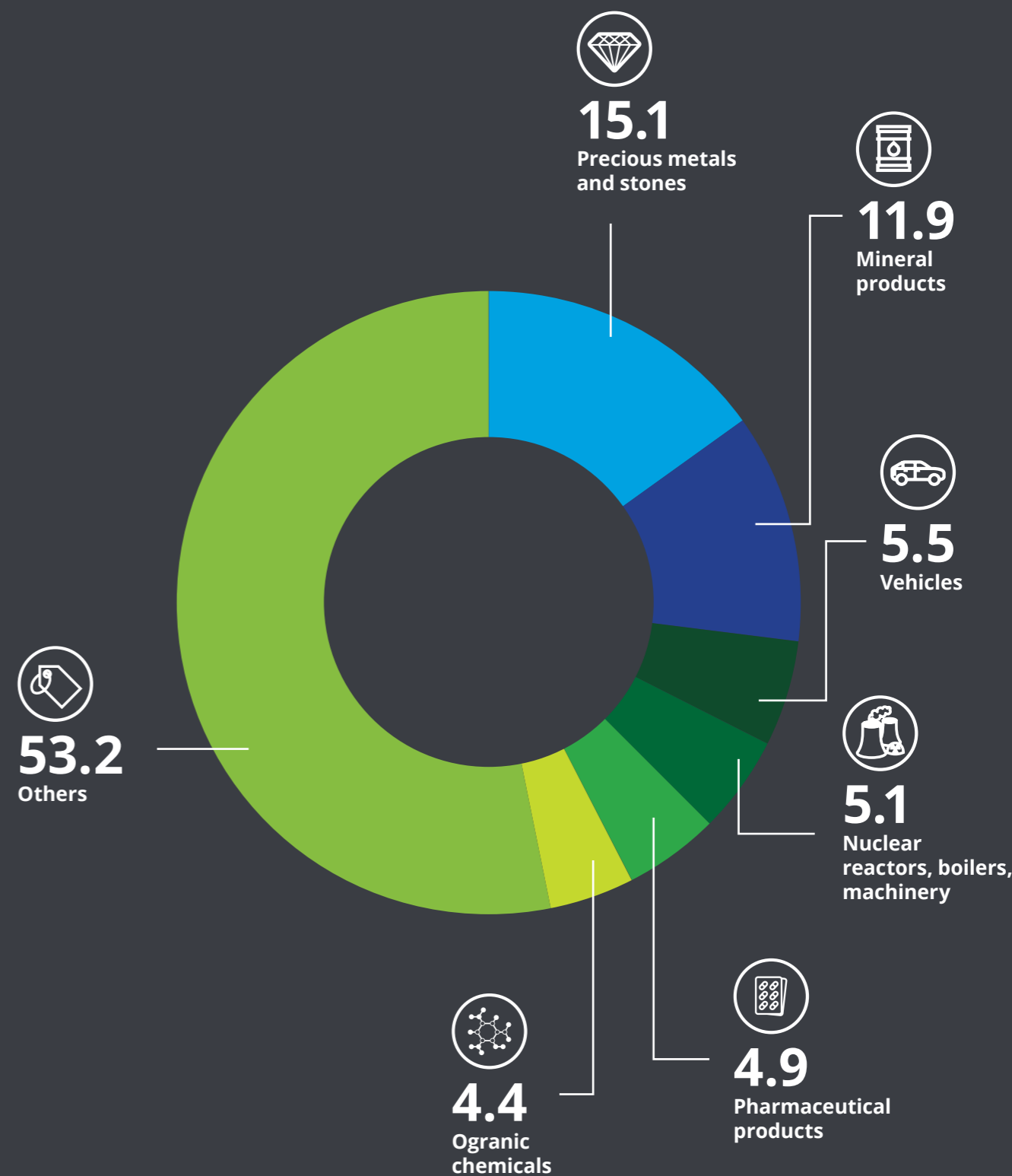
## Exports outperforming imports

Indian bilateral trade was valued at around \$643.3 billion in FY16. Exports stood at around \$262.3 billion and imports stood at around \$381 billion in FY16. Engineering and ancillary product exports currently make up for upwards of 20% of exports showing the increased value added component in Indian export basket. Concentration on emerging markets along with development of higher value added exports likely to benefit India in the medium to long run.



Source: Ministry of Commerce

Top Indian Exports in FY16 (as % of total)



Source: Ministry of Commerce

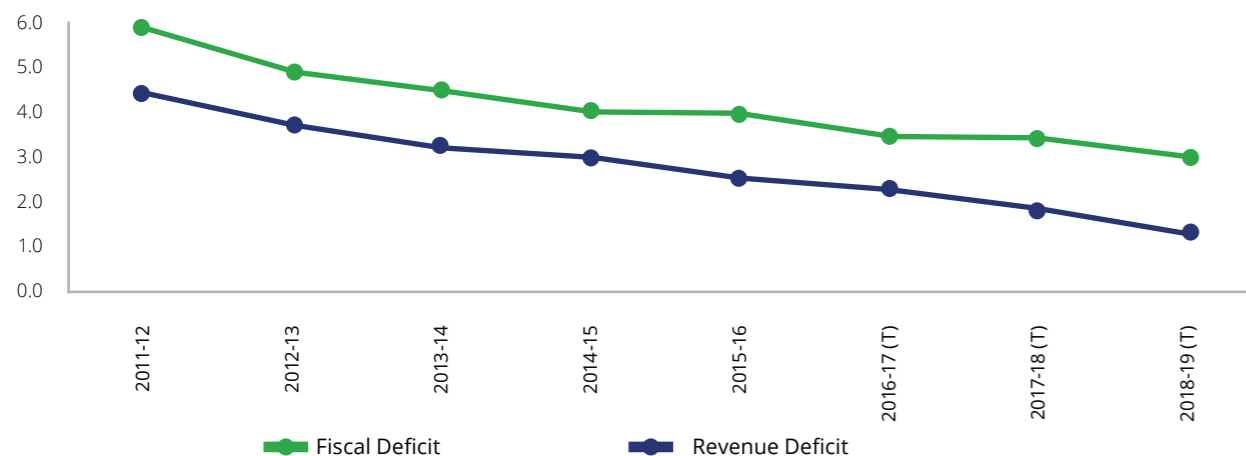
# Fiscal Deficit

## Sticking to plan

The government has been following a path of fiscal consolidation and achieving targets as set under the Fiscal Responsibility and Budget Management Act. The fiscal deficit target has been set at 3.5% for FY17, after achieving 3.9% in FY16. The government overachieved in reduction of revenue deficit at 2.5% for FY16 as compared to a target of 2.8%. The quality of fiscal spend has also gone up substantially as subsidies have come down. Subsidies are likely to move down from 1.9% of GDP in FY16 to 1.7% in FY17.



Trends in fiscal and revenue deficit (% of GDP)



Source: India budget

Expenditure on subsidies (in INR Crores)

Year	FY12	FY13	FY14	FY15	FY16 (R)	FY17 (P)
Food Subsidy	72822	85000	92000	117671	139419	134835
Fuel Subsidy	68484	96880	85378	60269	30000	26947
Fertilizer Subsidy	70013	65613	67339	71076	72438	70000
Total Subsidies	217941	257079	254632	258258	257801	250433

Source: Economic survey

# Major Government Initiatives in India

## Governance

Bill to facilitate removal of dated laws, established Niti Aayog



## Inclusion

Jan Dhan Yojana for financial inclusion/ use of unique identification (UID) for every citizen



## Digital India

Increasing transparency through online clearances and widespread use of information technology in administration



## Ease of doing business

Ranked States in ease of doing business, reducing documentation needs for imports and exports



## Make in India

Encourage domestic manufacturing/ investment in smart cities



## Skill India

Launched national skilling mission to harness India's demographic dividend



## Smart Cities

Technological expansion in 100 cities using information and communication technology to improve quality of life



## Alleviating supply constraints

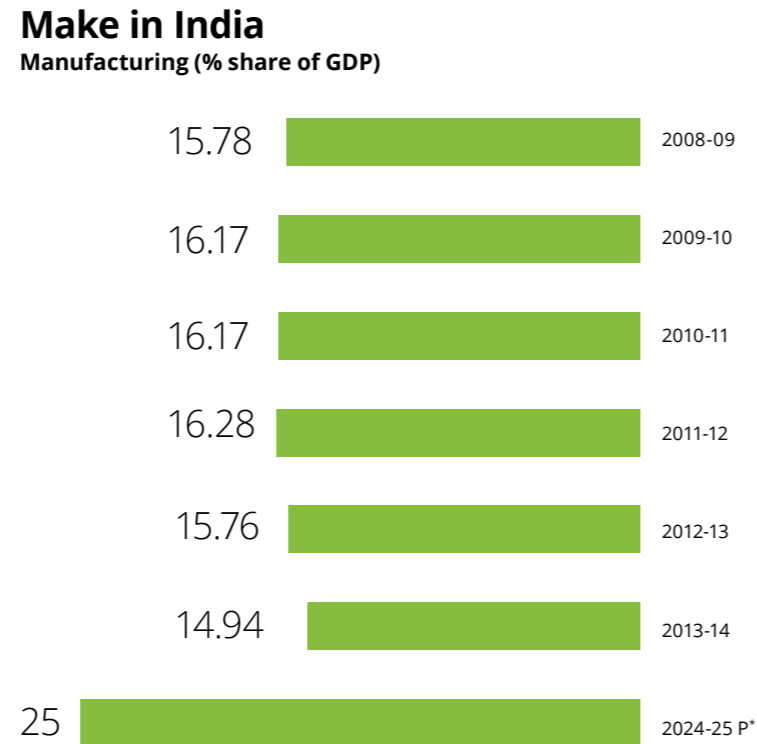
Mines & minerals bill passed, coal auction completed



# Structural push

## Make in India with Skill India

- Operationalizing e-BIZ portal where a business user can fill the eForms online/offline, upload the attachments, make payments online and submit the forms for processing of the department
- FDI norms eased in a number of sectors such as defence, banking, construction etc
- Corporate tax slated to move down to 25% over the next two years
- India and Switzerland have signed an agreement to establish formal cooperation in skill development
- Government approved 'National Apprenticeship Promotion Scheme' (NAPS) with targeted to provide apprenticeship training to 50 lakh youth by 2020
- Uber & Maruti join hands for driver training in the country; promote entrepreneurship

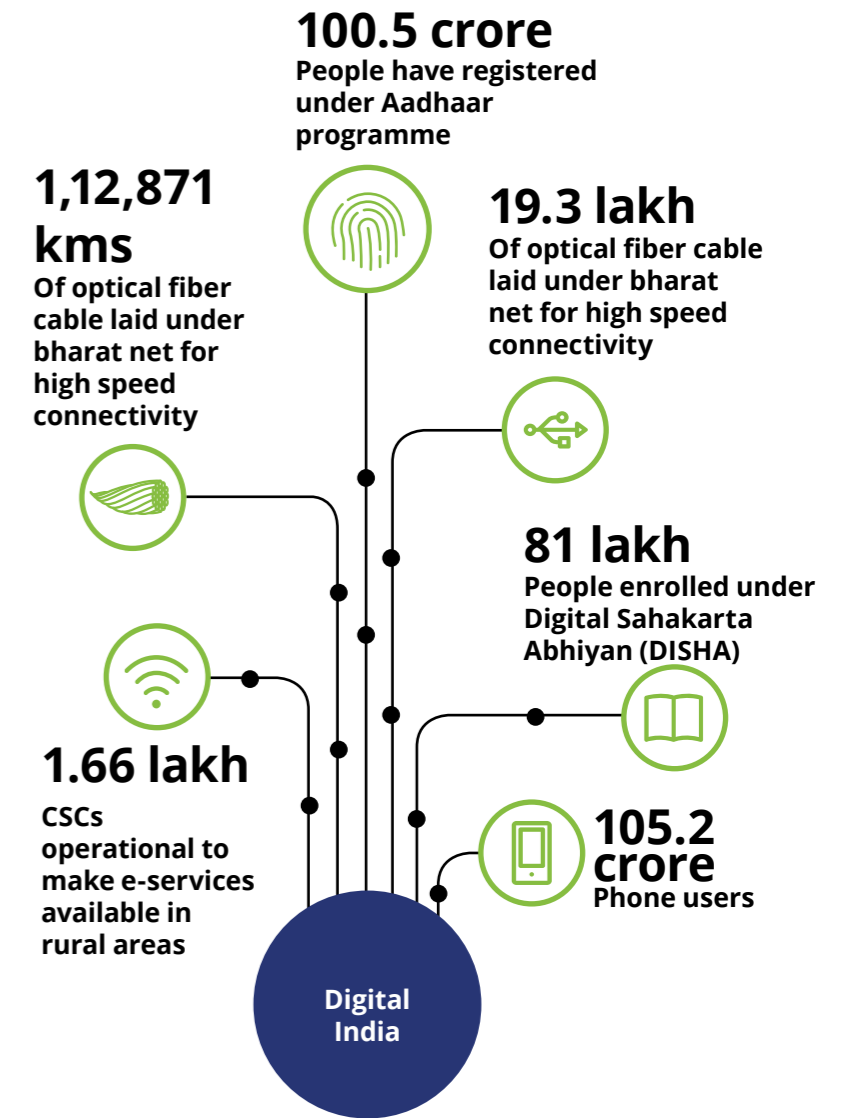


Source: Planning Commission  
\*P denotes projection

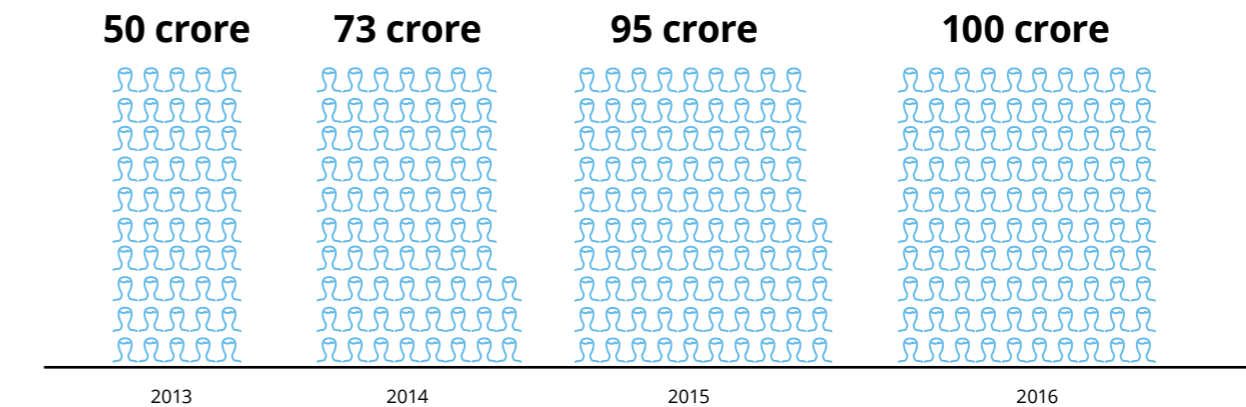


## Digital India

Taking forward the idea of a digital nation, the basic infrastructure for a digital nation, 1,12,871 kms of optical fibre cable have been laid, in an on-going effort to provide high speed connectivity across the country. Citizen engagement platforms such as MyGov have also been started wherein 19.3 lakh registered users provide inputs for improving governance and participate in other activities. Further, to enable penetration of digital services in the hinterlands, 1.66 lakh Common Services Centres providing Government and private e-Services to the citizens have been set up.



Number of Enrollments in Aadhaar (UID)



## Skill India

Years	2013-14		2014-15		2015-16	
	Trainings Reported	Placements	Trainings Reported	Placements	Trainings Reported	Placements
<b>Total</b>	930192	238868	1233346	675255	1355473	635156

Source: Press Information Bureau



# In a growing economy, **why demonetize?**

**1** A World Bank estimate puts the size of the black economy at 23.2% of India's total economy in 2007. Safe to say the current quantum was likely higher

**2** India has one of the highest ratios of cash to GDP in the world at 12.4%, much ahead of countries like China and Brazil

**3** Dubious distinction of being high in corruption rankings – Number 70 on corruption index



## Bringing down



**Black money**



**Counterfeit currency**



**Terror financing entering India**

- Most holdings of black money are in big denominations
- Counterfeit currency is estimated at above INR 400 cr and as such erodes the value of currency
- A substantial portion of terror financing entering India is done via black or otherwise fake currency
- 98% of all transactions are done in cash

### Benefits

- Fillip to the organized sector
- Lower cost of funding for banks
- Push to digital transactions
- Structurally lower inflation
- Improved perception in the international markets
- Fiscal gain
- Improvement in tax buoyancy

### Costs

- Disruption in daily life as households are unable to get liquidity
- Activity levels in the informal economy take a hit
- Short term impact on growth
- Increased demand for gold as a store of wealth





# Transition to a cashless economy

## Ready access

Can access complete amount of funds and also lowers transaction risk

## Security

Increased safety could drive consumption higher

## Convenience

Lowers cost for seller and buyer thereby releasing some surplus to be used elsewhere

## Transparency

Reduces cost and helps eliminate portions of gray economy

## Calibration

Income tends to be periodic while expenditure is continuous



### Security

is higher and also drives higher consumption



### Ready access

to financial resources



### Convenience

is higher with electronic modes of payment



### Transparency

is higher as helps eliminate portions of gray market



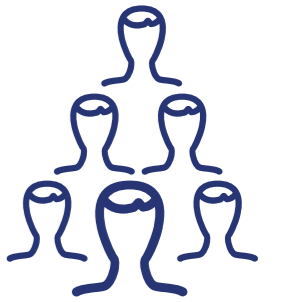
### Calibration

of income and consumption



**GAINS**

# Changes in consumer behaviour



Encouraging consumers to transact via digital methods is likely to bring about higher accountability in the monetary system

## Higher tax compliance

Expect more people to start paying taxes, as the government increases scrutiny, and hoard lesser amount of cash. The implementation of Goods and Services Tax (GST) is also likely to help in more indirect tax payments as economic agents through the value chain demand invoices

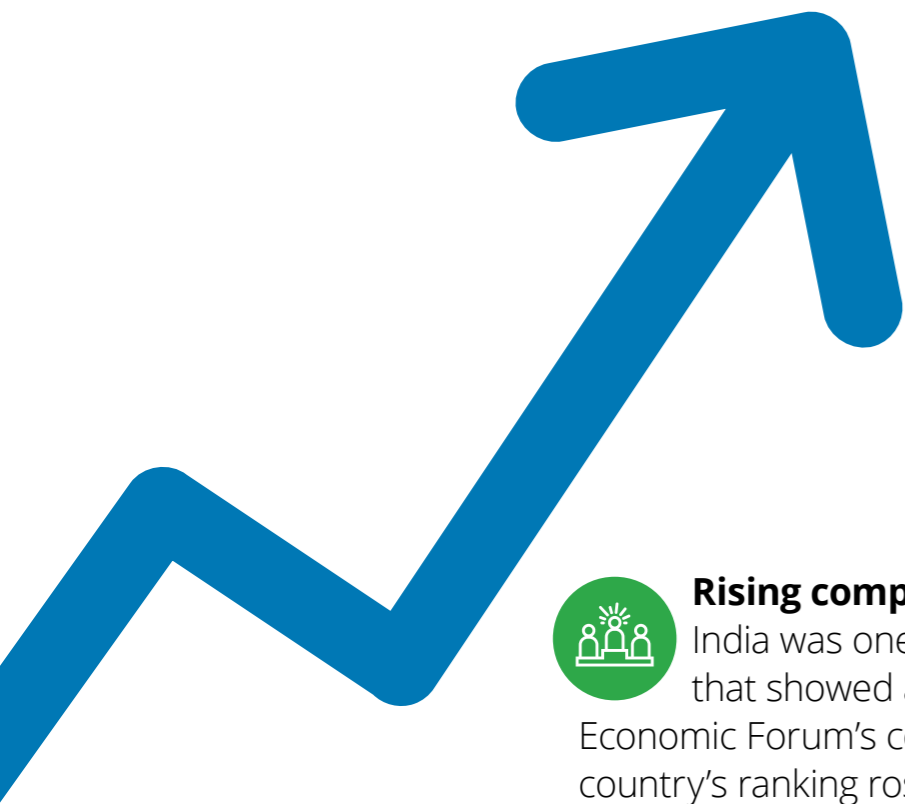


## Faster adoption of banking and technology

Given the inconvenience that a very large part of the populace is experiencing, there could be a faster adoption of cashless methods of payment and banking in general. Overall savings are also likely to get a boost from this move



# Overall improvement



## **Rising competitiveness**

India was one of the only two countries in Asia that showed an improvement in the World Economic Forum's competitiveness index in 2016. The country's ranking rose 16 positions moving up to rank 39th out of 138 countries. The improved performance was on account of progress across all sub-components of the competitiveness index, notably in market efficiency, business sophistication and innovation.



## **Increasing ease of doing business**

India has moved up from 142 to 130 in the World Bank's ease of doing business rankings. Further upmove is likely given the nature of reforms being implemented in the form of GST and Bankruptcy resolution code.

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