

Indian Economy: Outlook and Challenges

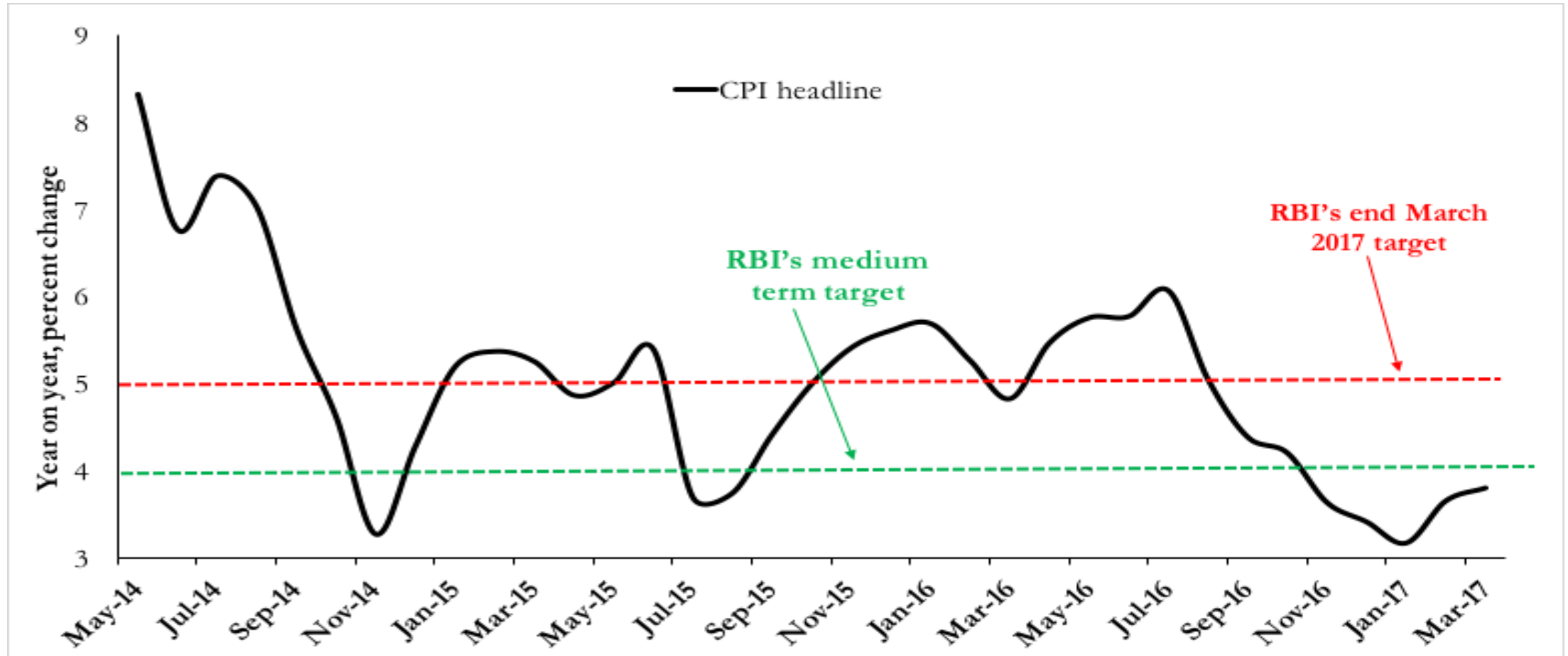
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April 21, 2017

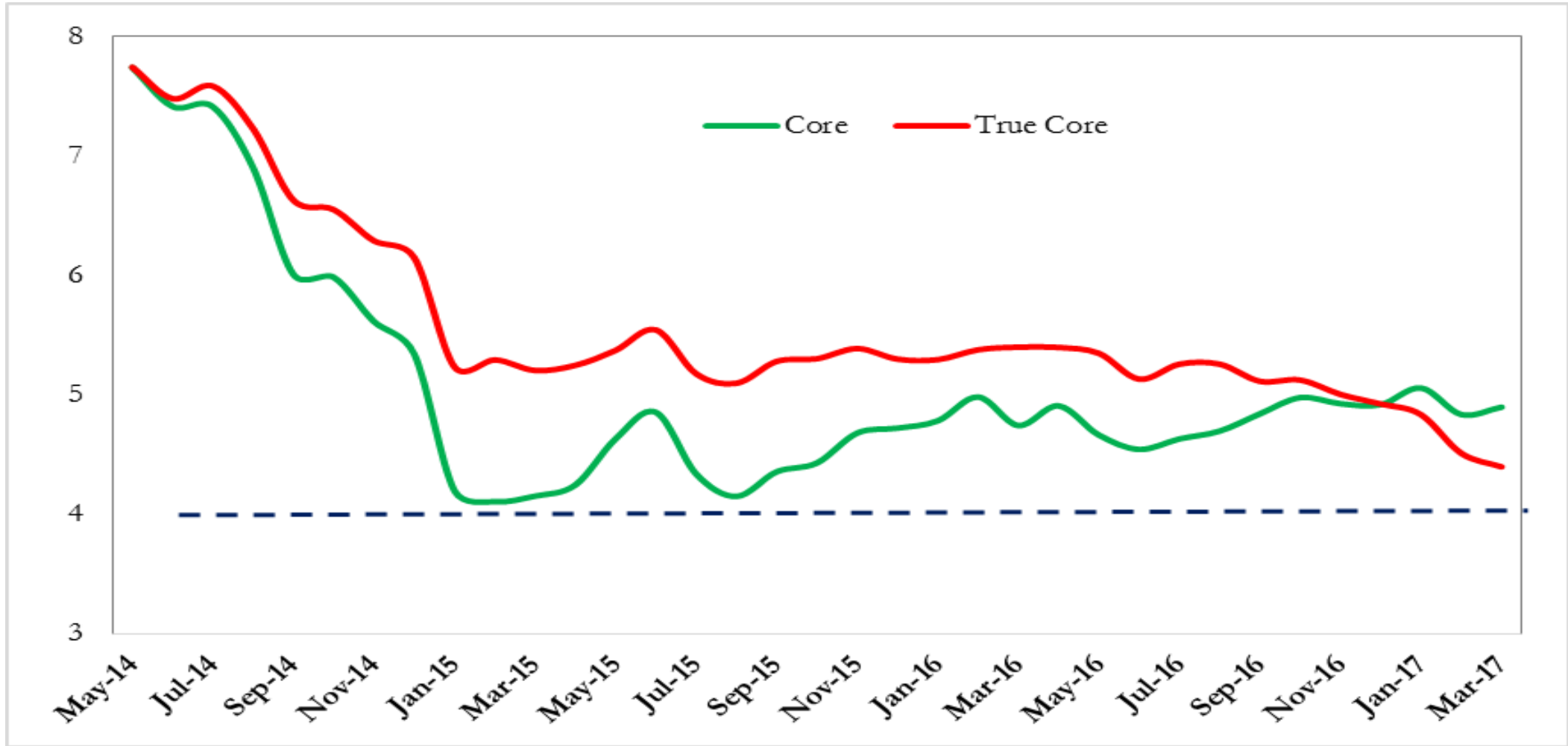
Overview

- Macroeconomic outlook
- Reforms
- Challenges
 - Proximate
 - Structural

Falling headline inflation, below medium-term target of 4%



Easing underlying inflation pressures

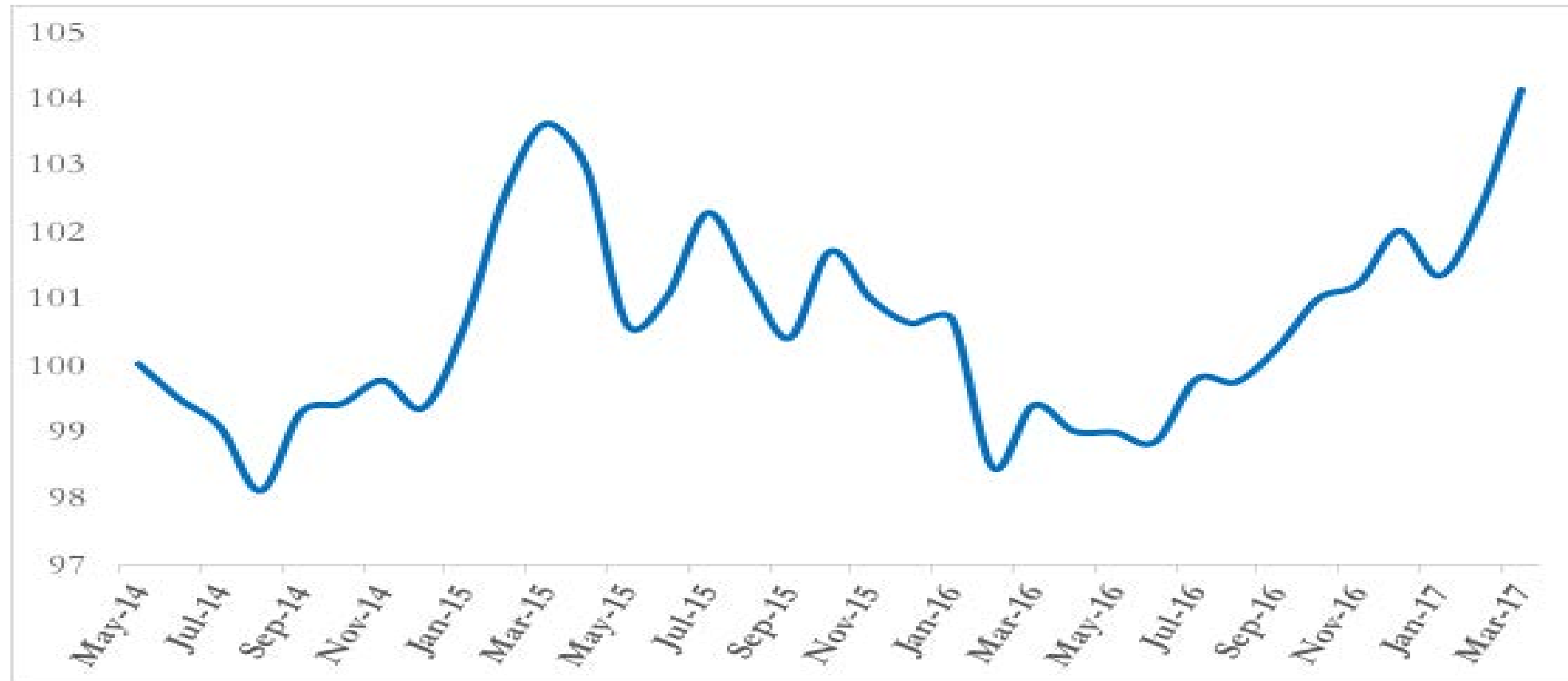


Core inflation excludes food and fuel. "True core" also excludes transport services.

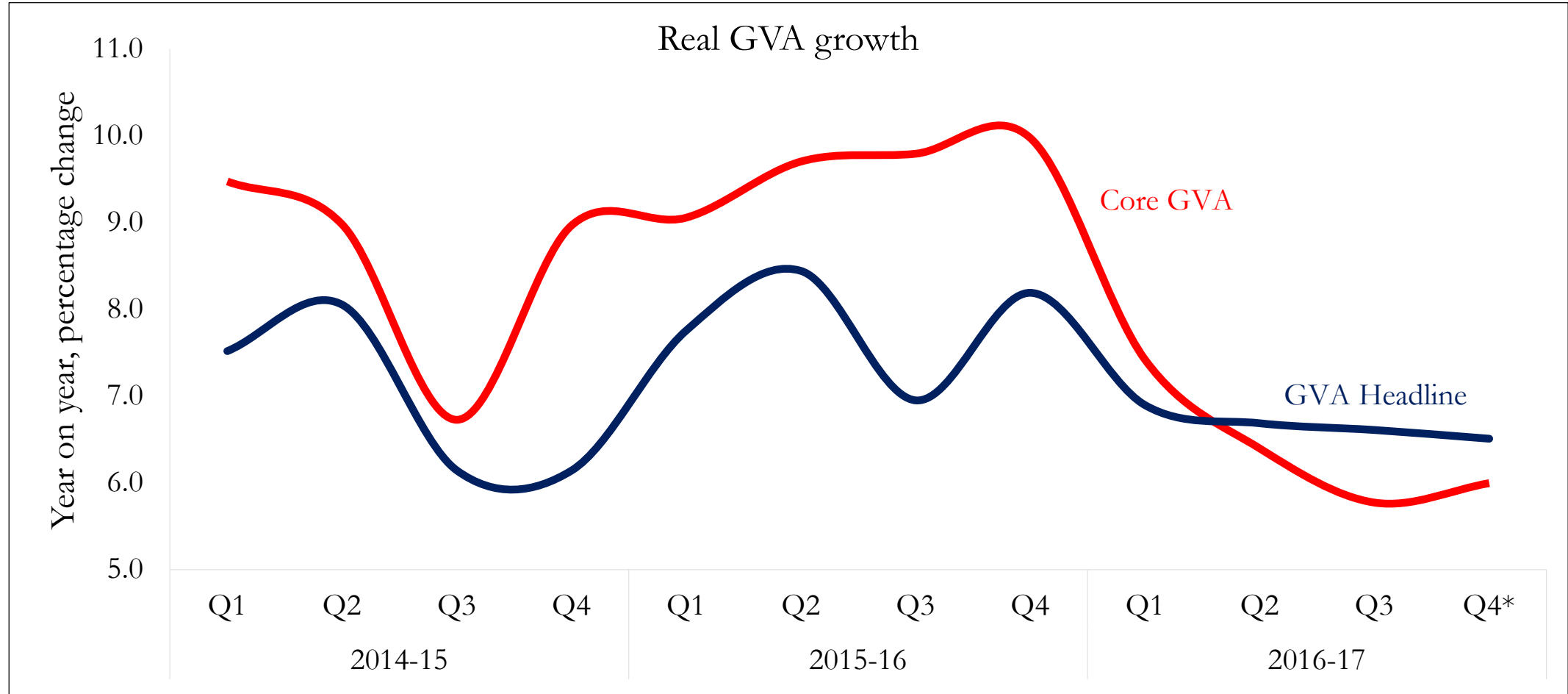
Inflation/ external outlook: Benign

- Appreciating nominal exchange rate
- US policy: Less anxiety about capital outflow from emerging markets than a few months ago
- Monsoon likely to be normal

Easing imported inflation: Appreciating nominal exchange rate



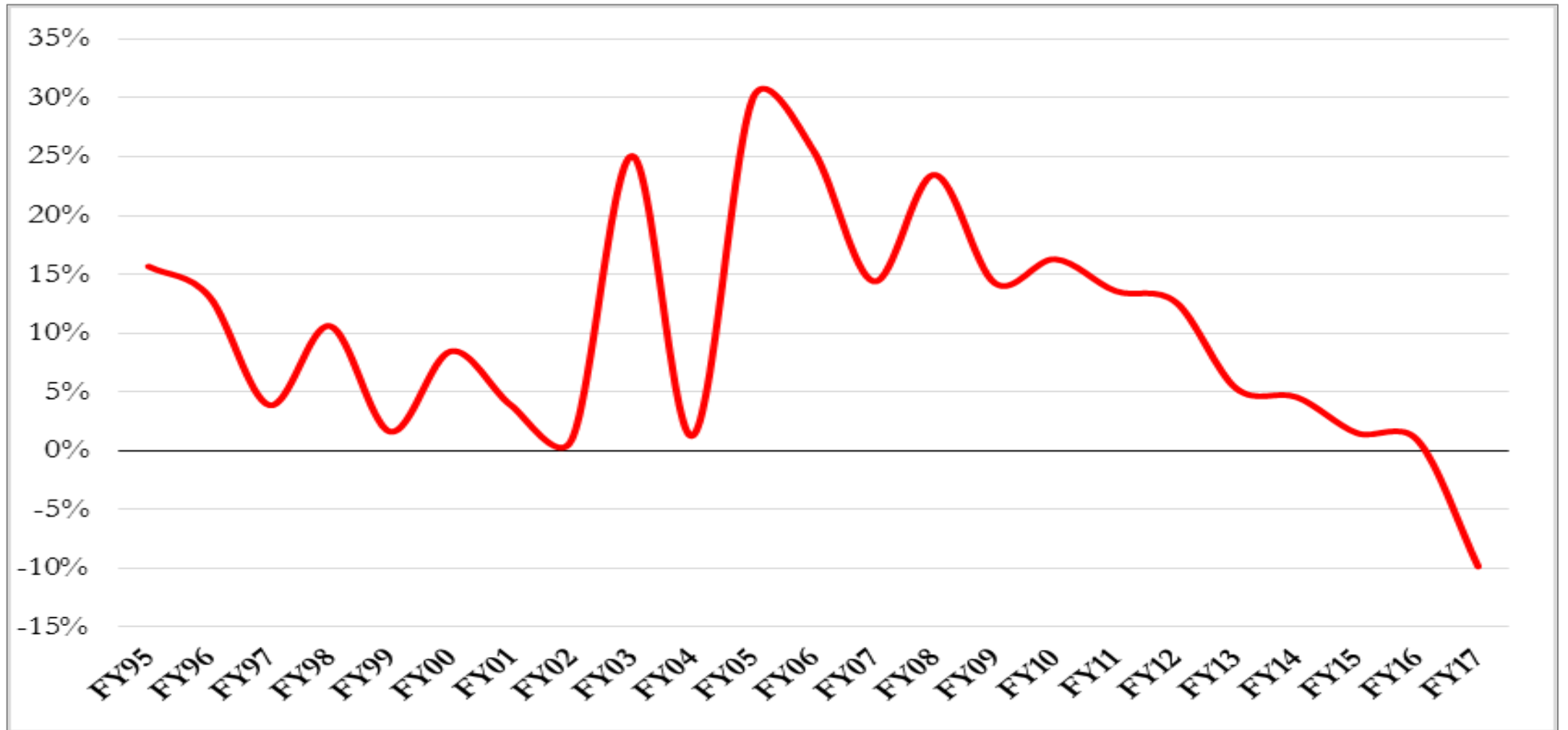
Slowing underlying growth



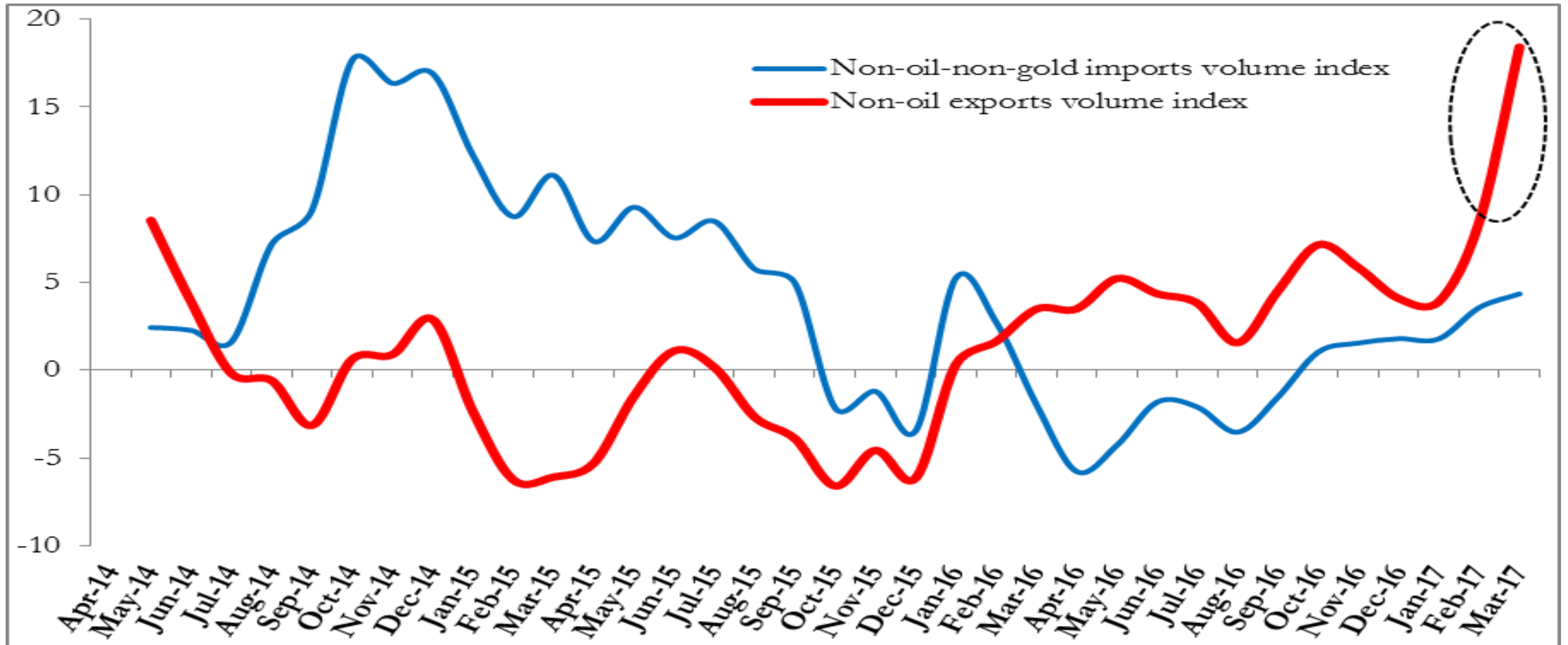
Core GVA is obtained by subtracting agriculture and government services from aggregate GVA.

**Q4 value is based on CSO's projection.*

Sharp decline in credit growth to industry

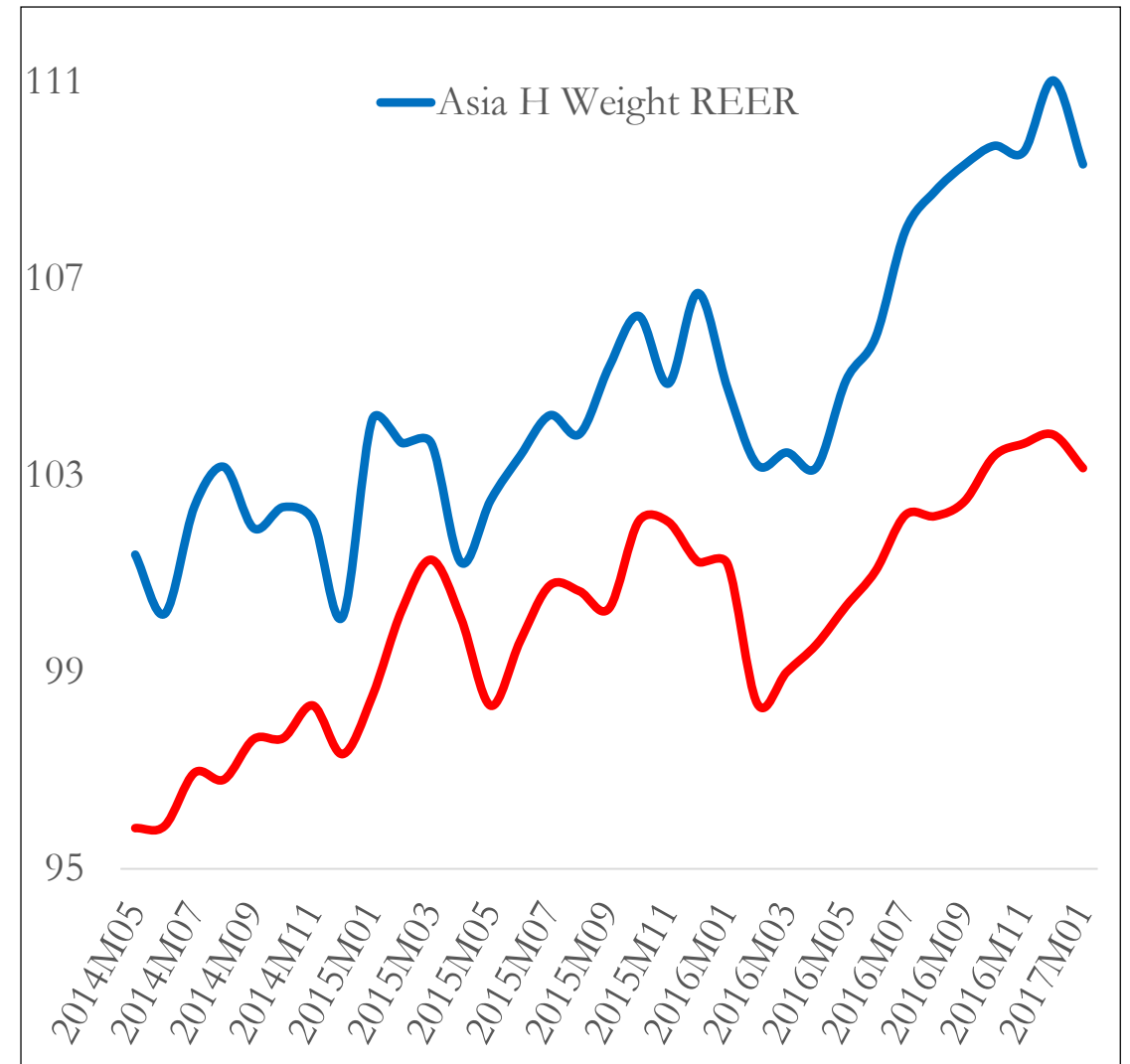
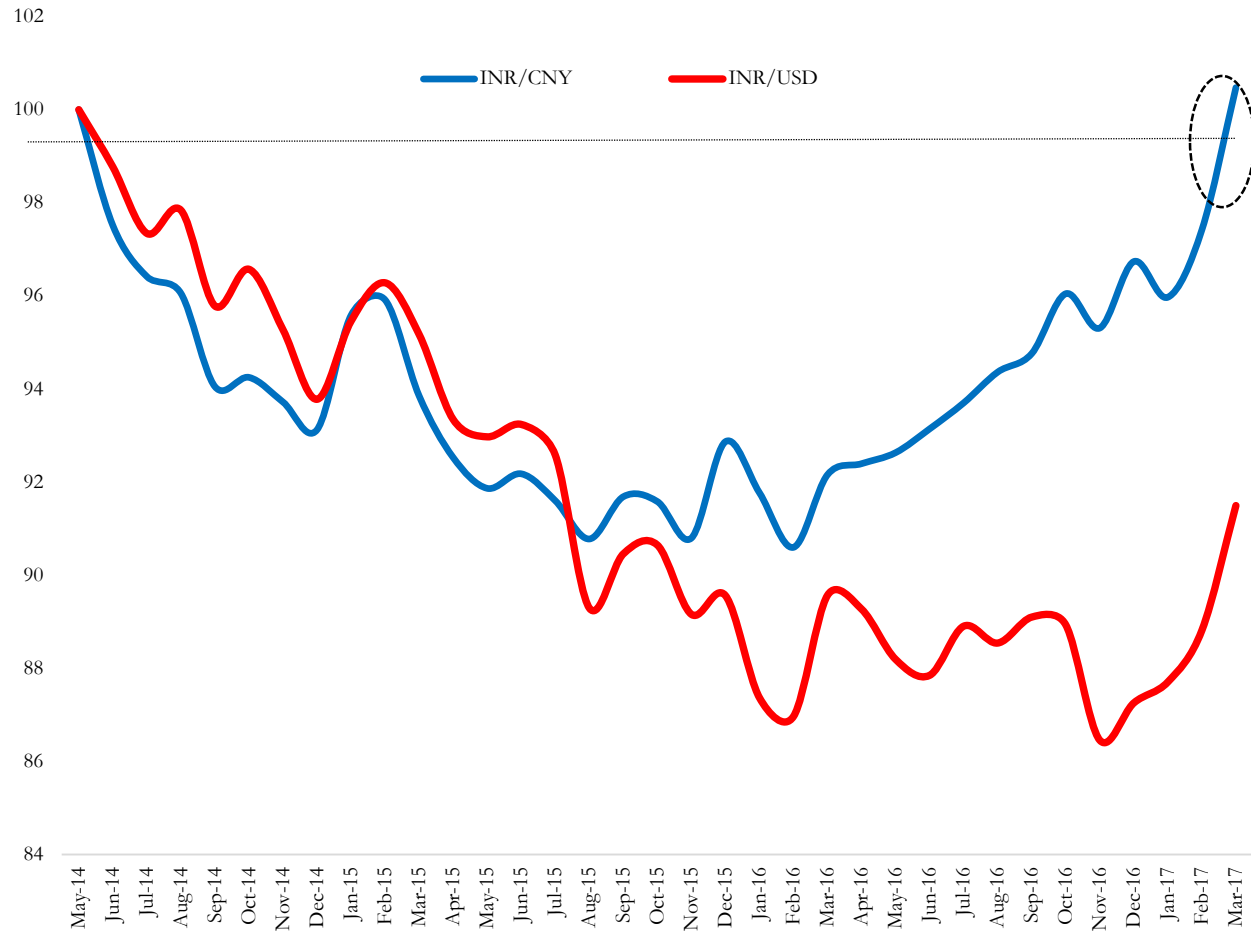


Bright Spot: Exports recovering as world economy bounces back



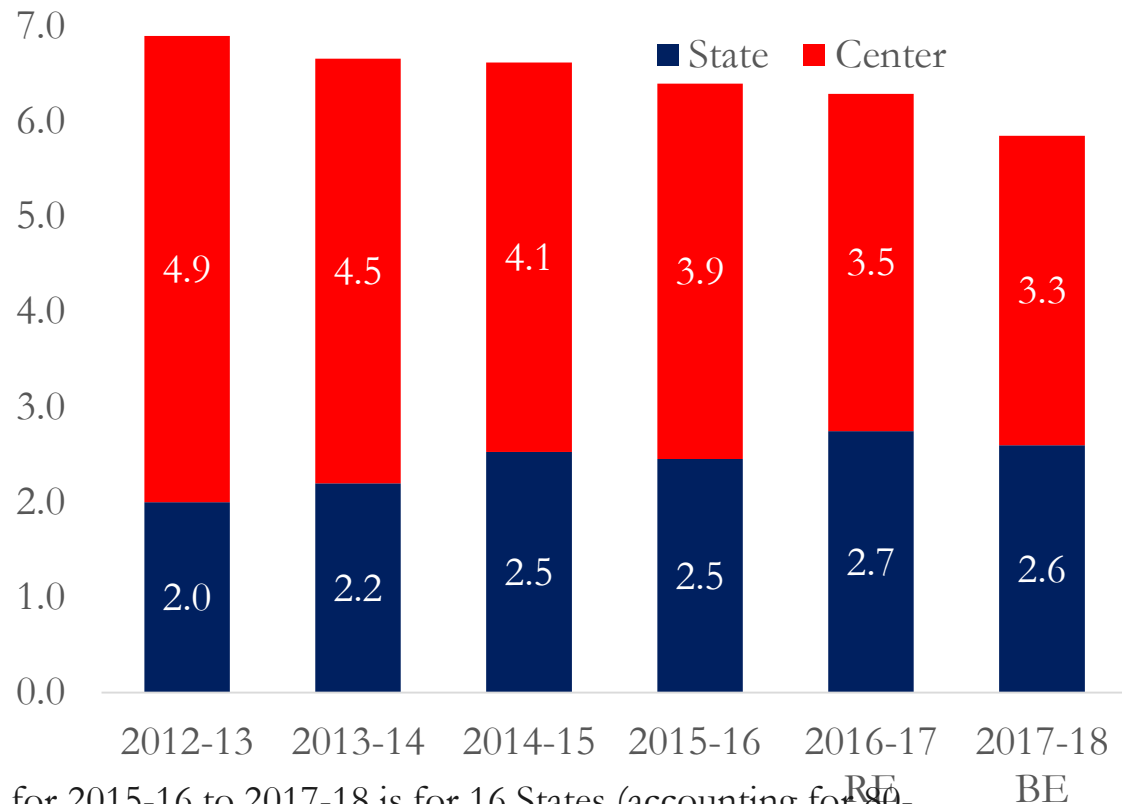


Deteriorating competitiveness as rupee has strengthened...

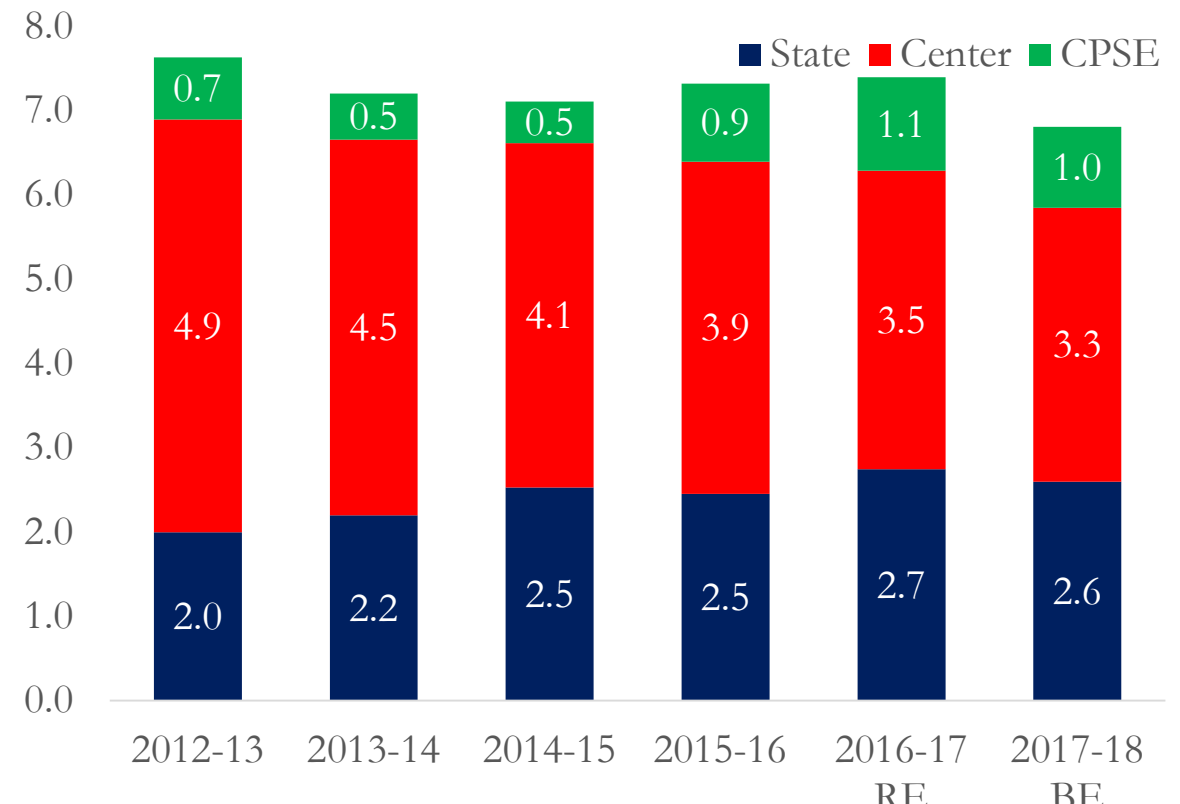


Further Fiscal Consolidation in 2017-18 at central, state, and public sector levels...

Fiscal Deficit of General Government
(Excluding CPSE and UDAY)



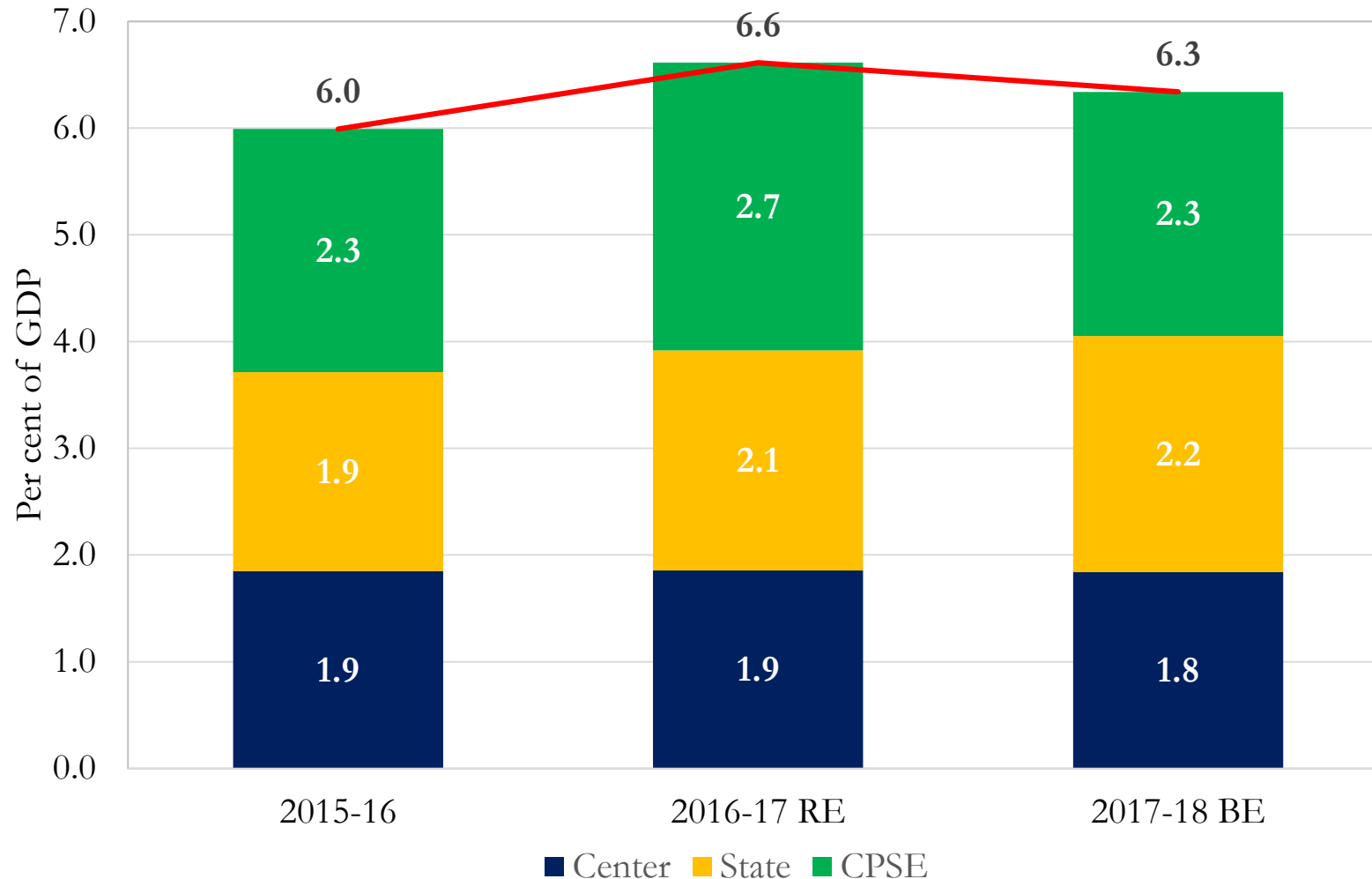
Borrowings of General Government
(Including CPSE, Excluding UDAY)



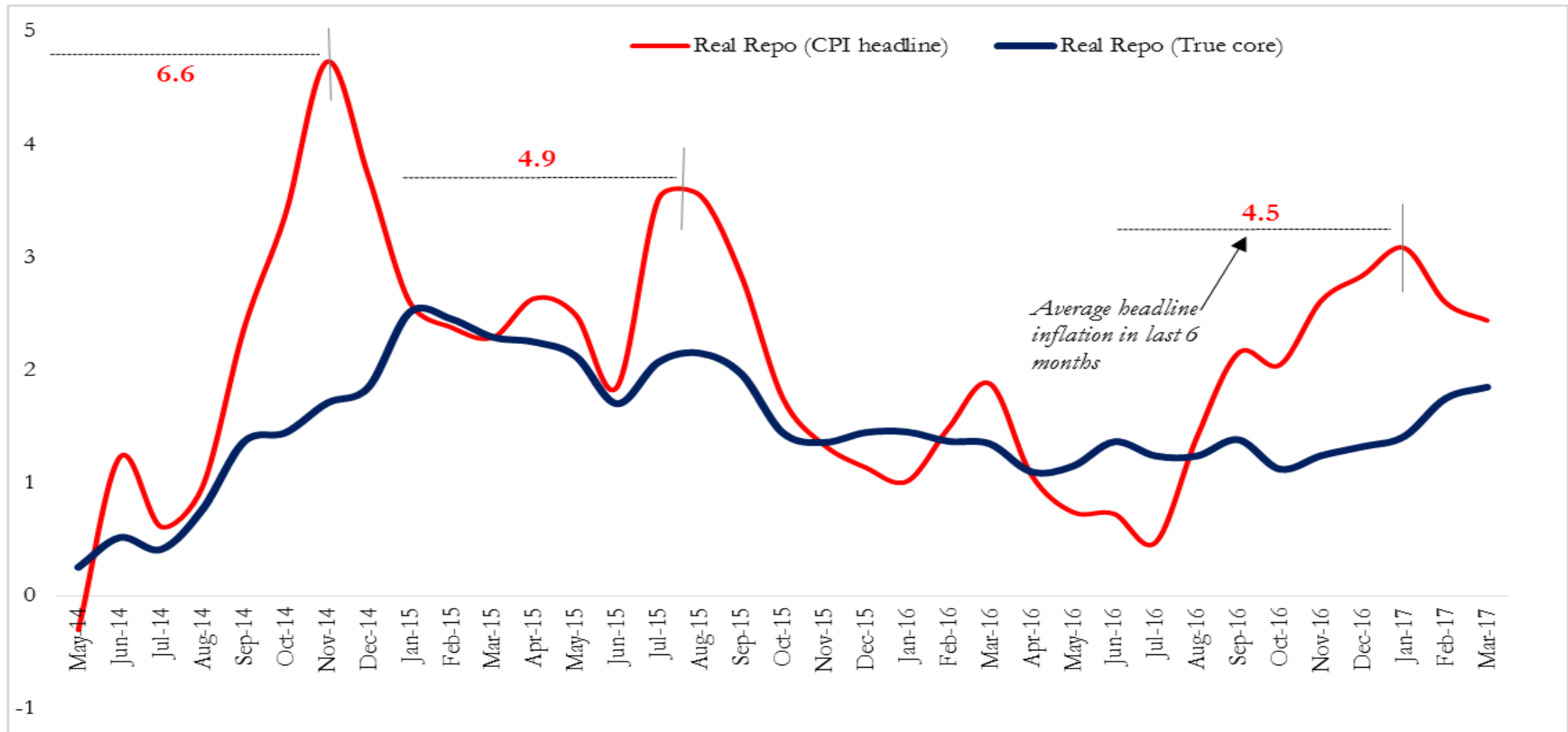
Data for 2015-16 to 2017-18 is for 16 States (accounting for 80-82% of GDP) for which budgets have been presented.

Declining Public Sector Investment

General Government Capital Expenditure



Monetary Policy: Increasing real policy (repo) rate



Real interest rate is obtained by subtracting inflation from the nominal repo rate.

True core excludes prices of food, fuel, and transport services.

Reforms

- Transparency in auctioning public assets
- Bankruptcy and codifying institutional arrangements with RBI
- JAM architecture to improve delivery of government services
- GST



Proximate challenges

- Twin balance sheet
 - About 40% of corporate debt with firms whose interest coverage ratio (ICR) is less than 1
 - Stressed assets as a share of loan portfolio could be as much as 20 percent
- Fiscal: If Center is Penelope during the day are the states Penelope at night?
 - Agricultural loan waivers

Meta-challenges (Economic Survey, Chapter 2)

- Extensive and inefficient redistribution
- Ambivalence about private sector
- State capacity and delivery of health and education