



Indian and the World: Growth Equations

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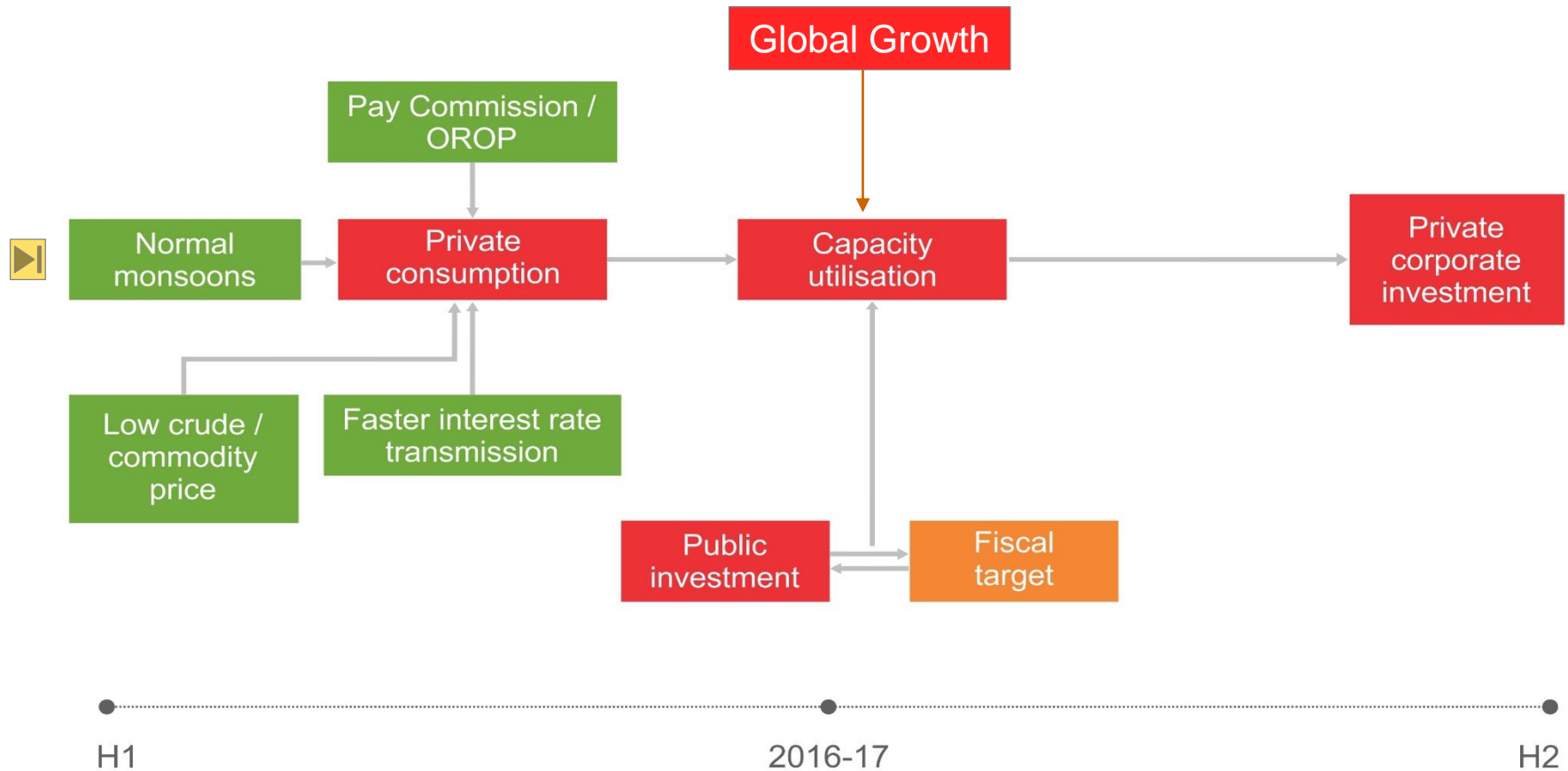
- **2016 is a critical year for reforms and implementation of the measures announced in 2015**
- **Sharp turnaround in the economy still elusive**
 - It needs support from accommodative monetary policy and less restrictive fiscal policy *plus* structural reforms
 - Leverage and NPAs will remain a challenge in 2016
- **Growth-inflation mix to improve only if monsoon supports**
 - GDP growth at 7.9% in fiscal 2017, inflation expected at 5.0%
 - The budget 2016-17 focused on “stability over growth”.
- **Uneven global developments**
 - Worries on growth, trade, monetary policy divergence and China

Indian economy improves over time

	2012-13	2013-14	2014-15 E	2015-16 E	2016-17 F
GDP growth (%)	5.6	6.6	7.2	7.6	7.9
Inflation (%)	10.2	9.5	6.0	5.0	5.0
CAD / GDP (%)	4.7	1.7	1.3	1.3	1.6
Fiscal deficit / GDP (%)	4.8	4.6	4.0	3.9	3.5
Exchange rate (Rs/\$, March-end)	54.4	60.1	62.6	66.0	65.0
10-year yield (March-end)	7.9	8.8	7.7	7.6	7.5
Investment / GDP (%)	34.1	33.0	32.3	31.6	31.7
GNPA / advances (%)	3.3	3.8	4.3	-	-

Source: CRISIL, CSO, MOF, RBI, NPA is non performing assets of the banks,

Growth-investment dynamics as we see it

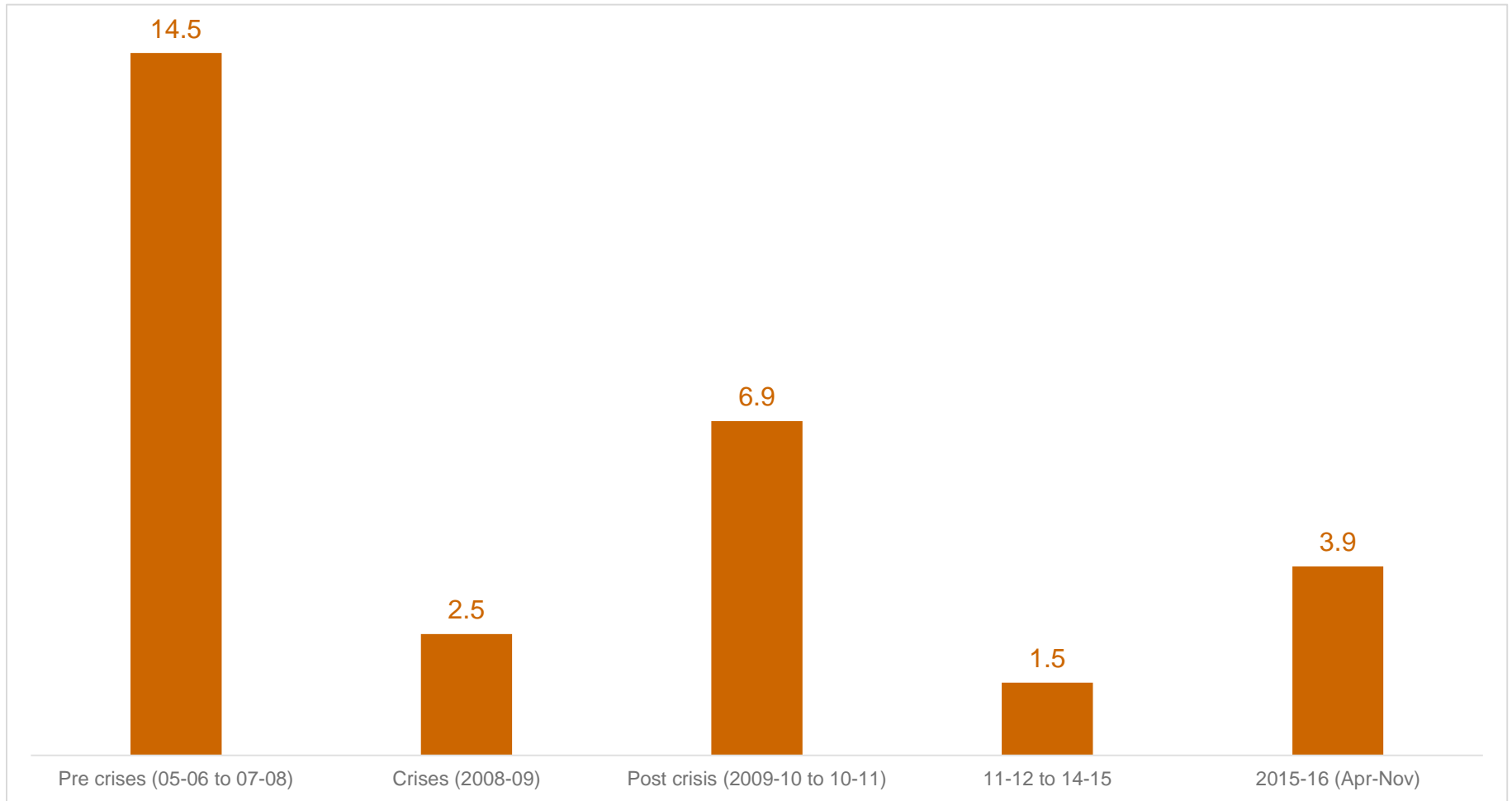


Sector wise investment expectation

Investments over next 2 years	Increase	<ul style="list-style-type: none"> Coal mining Ports 	<ul style="list-style-type: none"> Automobiles National highways Renewable energy 	<ul style="list-style-type: none"> Irrigation Urban infra
	Stable	<ul style="list-style-type: none"> Cotton yarn 		<ul style="list-style-type: none"> Power T&D Oil & Gas Telecom
	Decline		<ul style="list-style-type: none"> Steel Cement Refining & Marketing 	<ul style="list-style-type: none"> Aluminium Power generation
		Low	Moderate	High
		Share in overall investments (5 year average)		

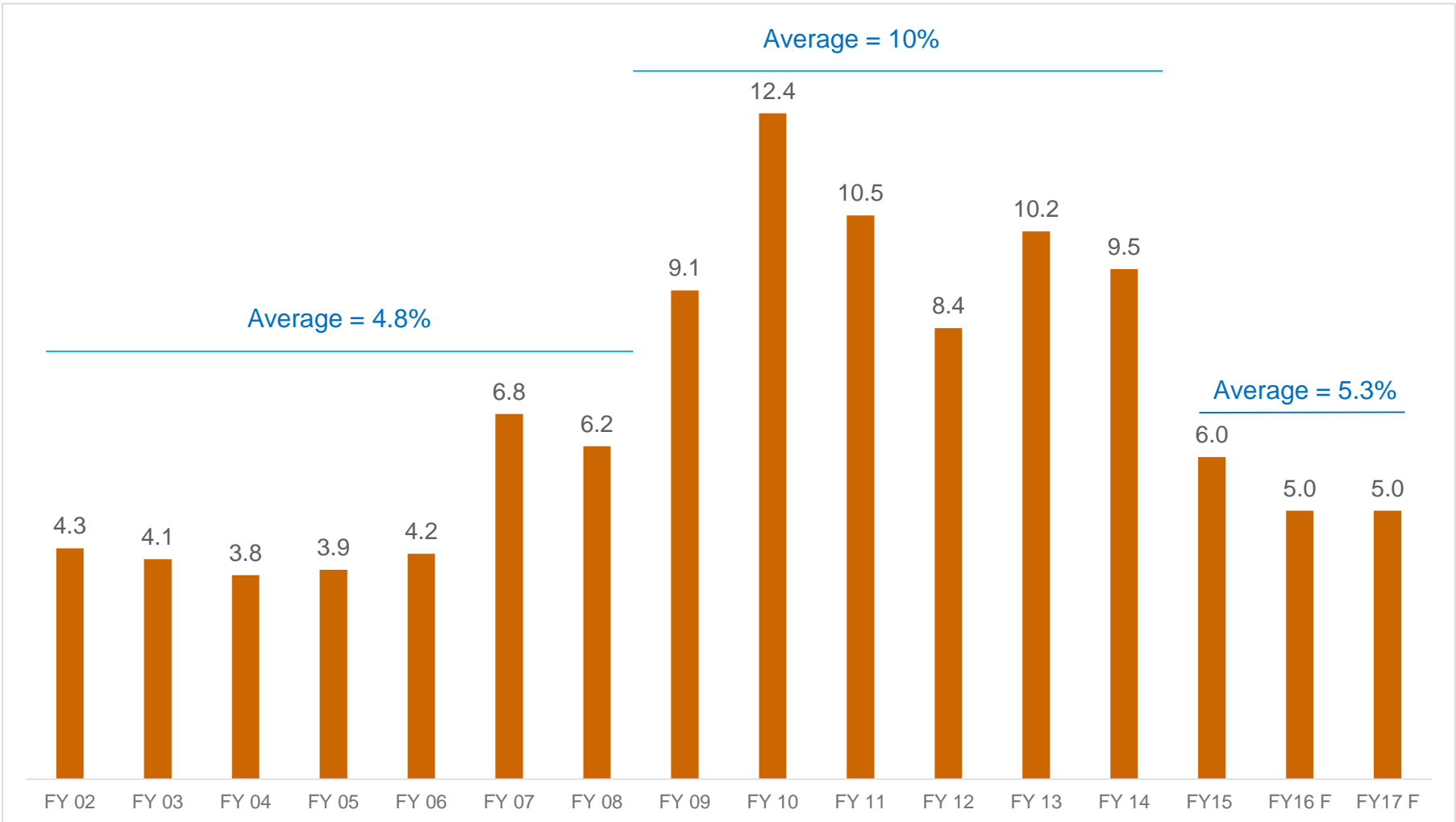
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Index of Industrial Production (% , y-o-y)



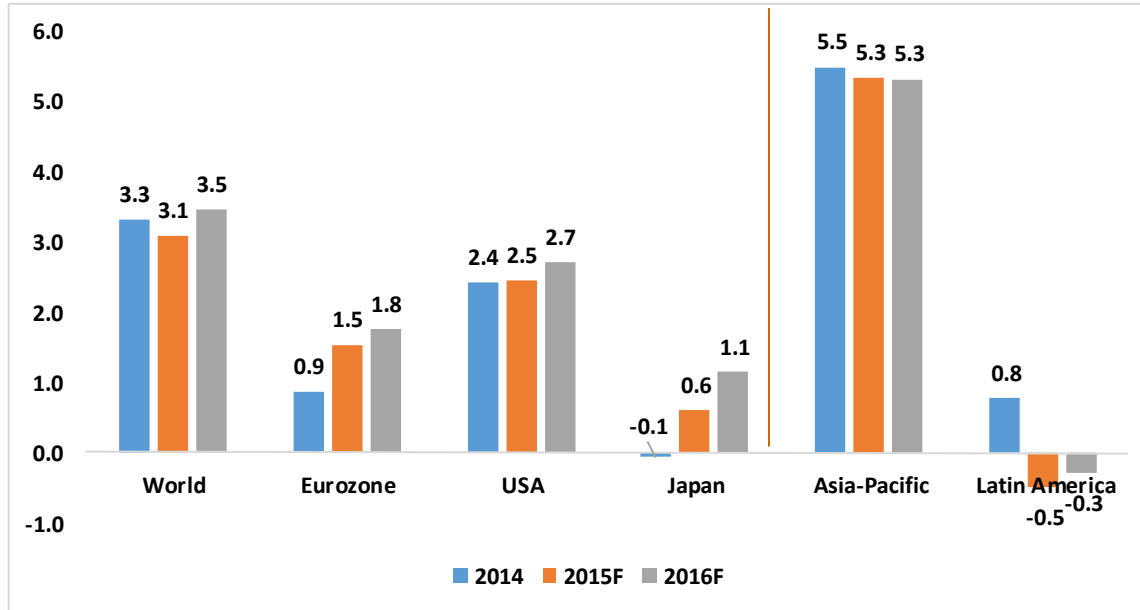
Source: Central Statistical Organisation

CPI (% , y-o-y)



Source: Ministry of Industry, CRISIL Research

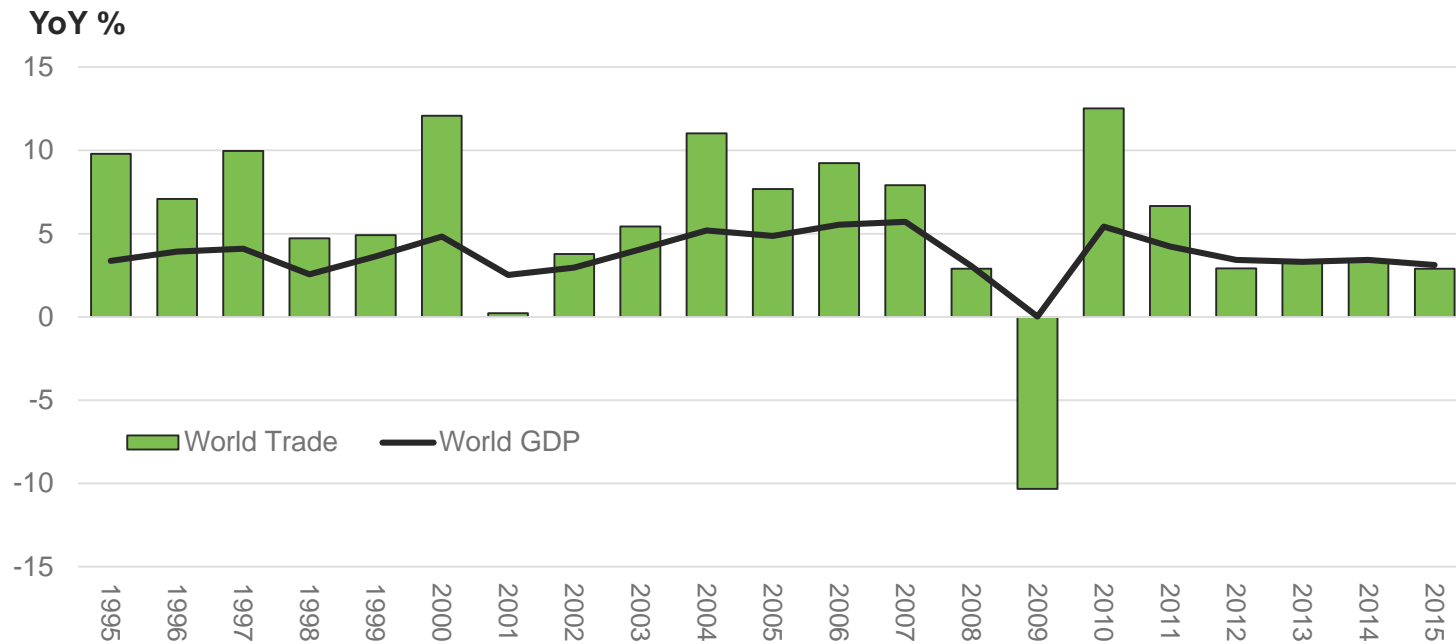
Global economy: Rising Headwinds!



GDP Growth	S&P	S&P	S&P	IMF	OECD
	2014	2015F	2016F	2016F	2016F
China	7.3	6.8	6.3	6.3	6.5
Brazil	0.1	-3.2	-2.5	-3.5	-4.0
India	7.3	7.4	7.9	7.5	7.4
Russia	0.6	-3.6	0.3	-1.0	-0.4
South Africa	1.5	1.4	1.6	0.7	1.5

Source, S&P (2015), IMF, OECD, 2016

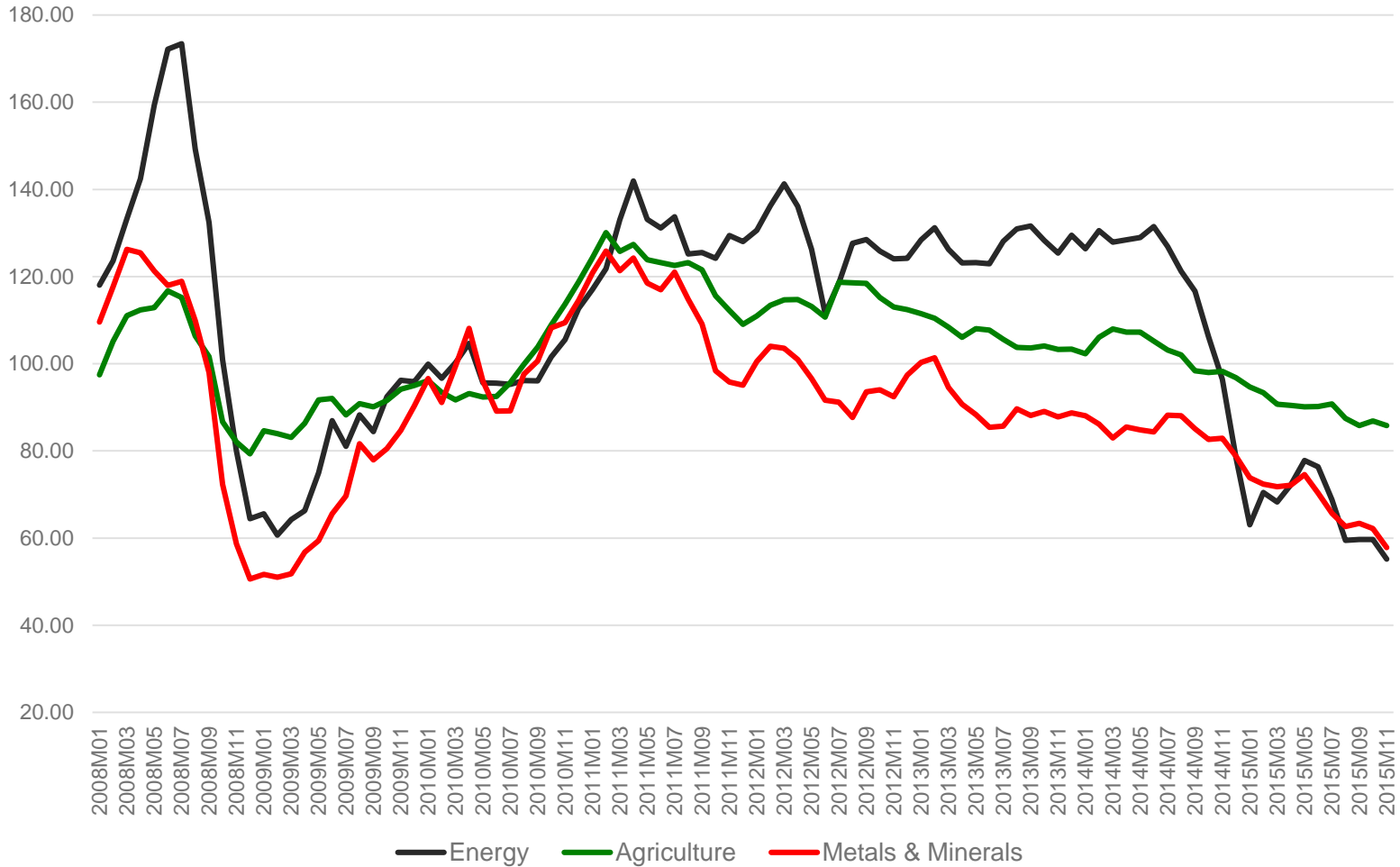
Theme 2: Falling trade intensity of growth



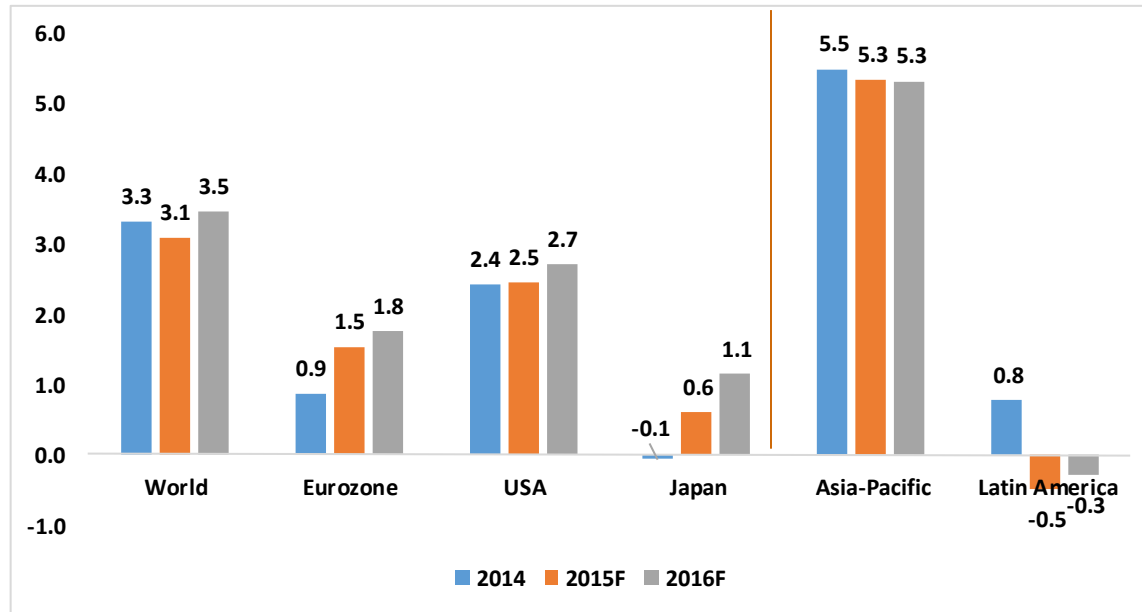
- Trade used to grow twice as fast as GDP. Now it is barely keeping pace
- Breakdown of supply chains, slowdown and changing growth mix in China
- This has implication for trade-led growth and also for commodity prices

Source, OECD Economic Outlook, IMF 2015, CCER Insight (Exports: Hex Vex, 2015)

Theme 3: Gift of soft energy and commodity prices



Source: World Bank; Index 2010=100



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South Africa	1.5	1.4	1.6	0.7	1.5

Source, S&P (2015), IMF, OECD, 2016

- **Increasing divergence in monetary policies**
 - US is tightening compared with softening in Europe, Japan and China
 - Volatility of capital flows
- **Build-up of corporate debt in emerging markets**
 - Increases vulnerability and makes it difficult to finance debt
- **Slowdown + fiscal stress in the Middle East means greater risk to exports and remittances**
- **China**
 - Risk of sharp growth slowdown 

How have growth constraints moved

- **Limited scope to use countercyclical policy tools**

- Difficulty in cutting interest rates (Legacy of high inflation)
- Limits to fiscal stimulus (high debt and deficit)

- **Sluggish investment cycle**

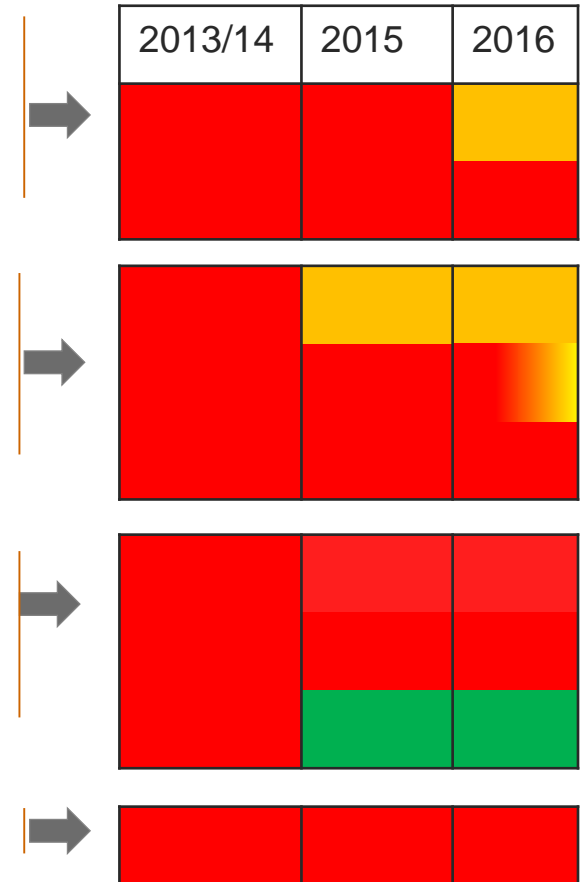
- Time to replenish project pipeline
- Underutilised capacities due to sluggish demand
- Balance sheet leverage of infrastructure companies

- **Global factors**

- Growth in export destinations
- Trade intensity of global growth
- Oil and commodity prices

- **Banking sector's limited ability to finance growth**

- Bad assets in banking sector





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China slowdown: Pain

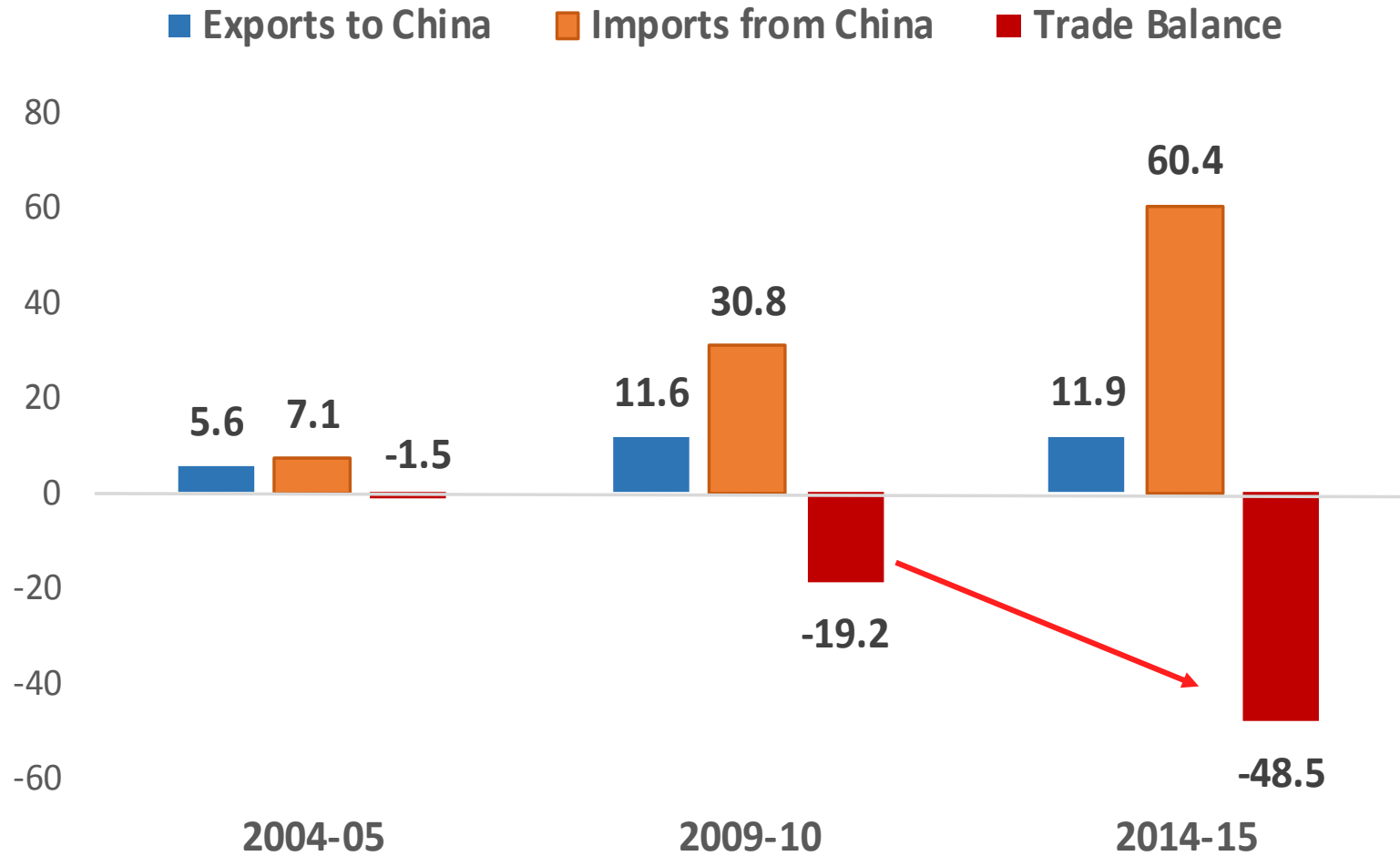
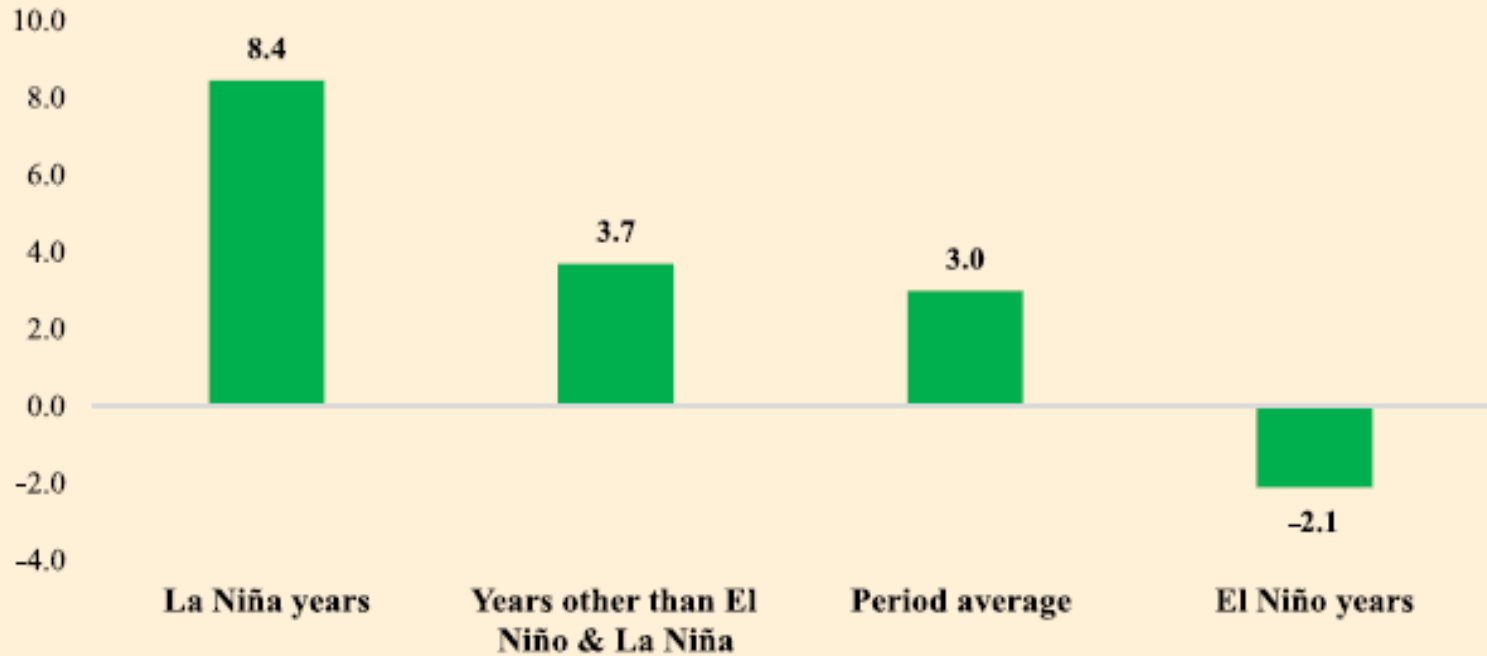


Figure: Agricultural Growth, 1981-82 to 2015-16 (average, Per cent)



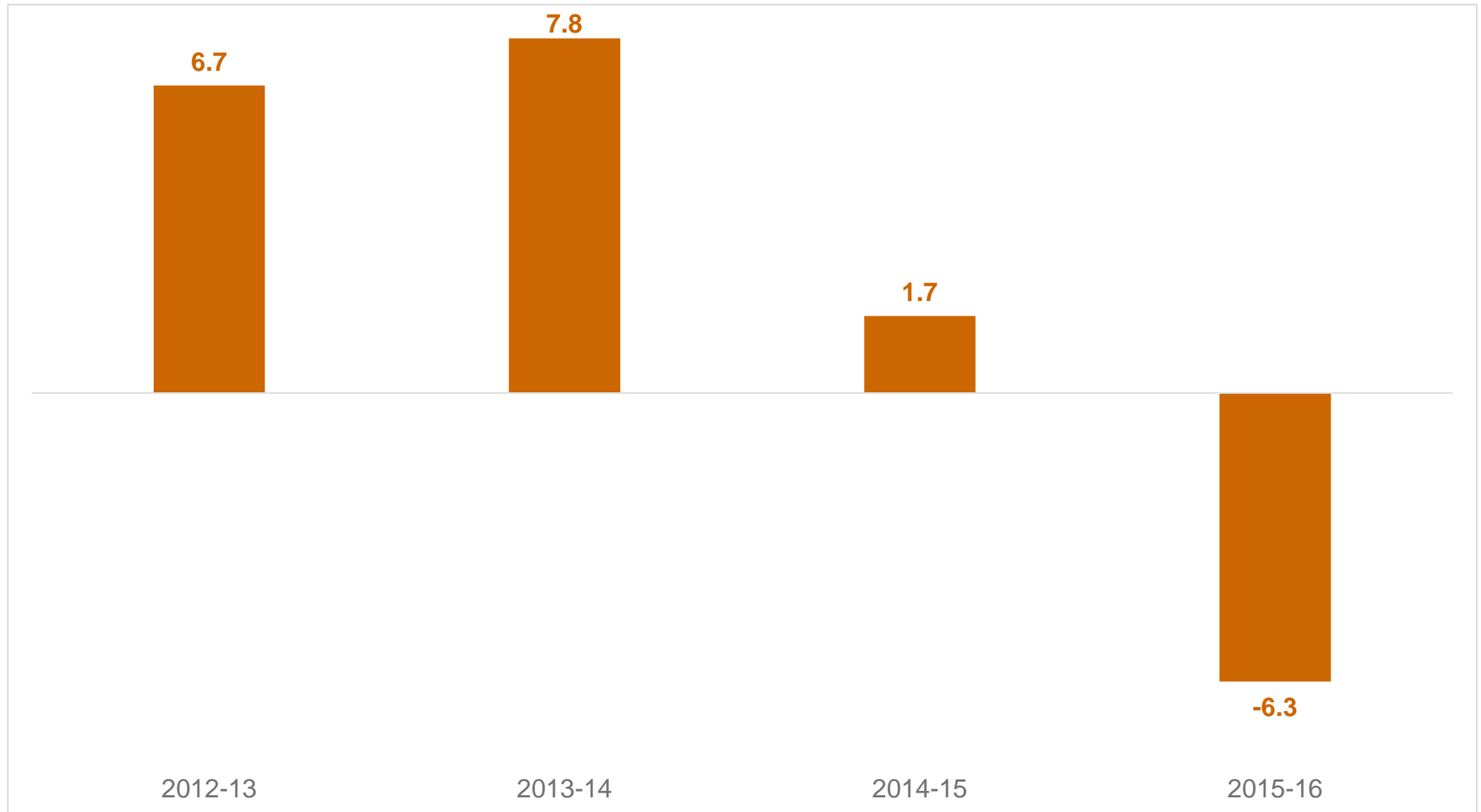
El Niño years (very strong, moderate):

1982-83, 1986-87, 1987-88, 1991-92, 1997-98, 2002-03, 2009-10, 2015-16

La Niña years (strong, moderate):

1988-89, 1998-99, 1999-00, 2007-08, 2010-11

India's growth in real exports (goods and services), %, y-o-y



Source: Central Statistical Office