



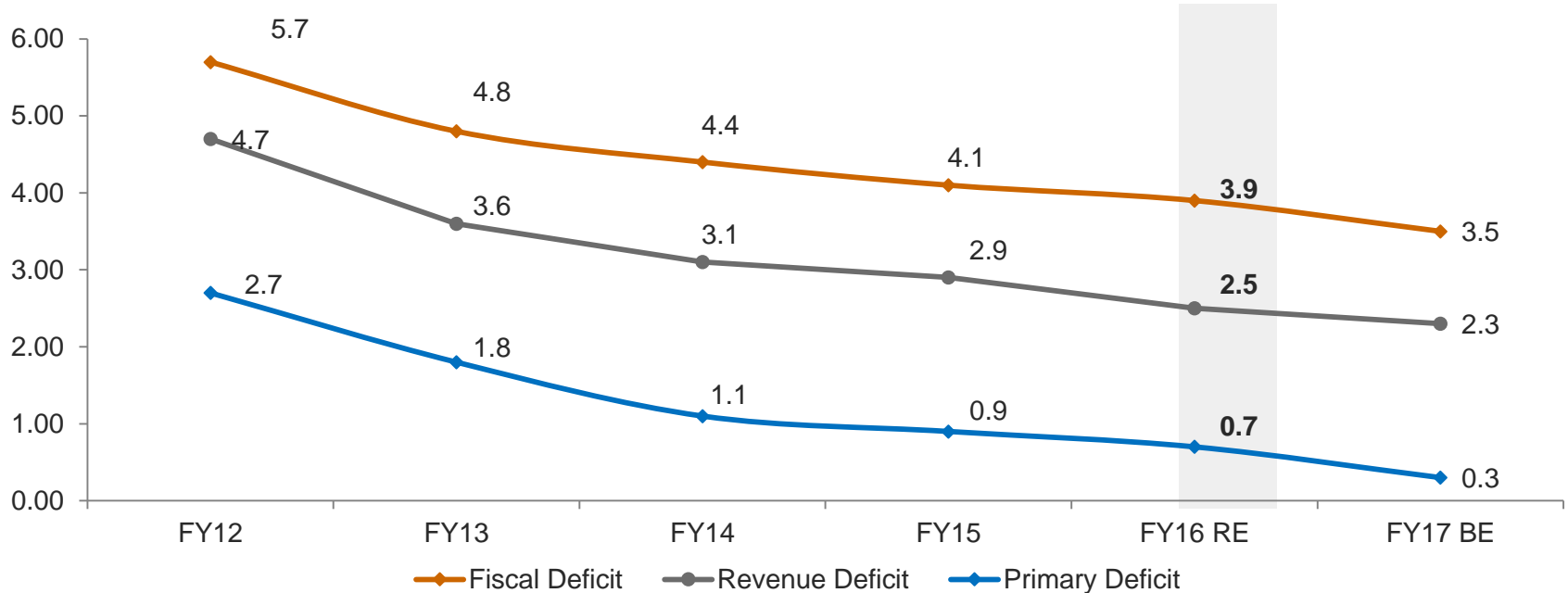
India: The 7.9% Economy

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- **2016 is a critical year for reforms and implementation of the measures announced in 2015**
- **Budget focus on stability over growth**
 - Fiscal prudence 
 - Rural focus
 - Public Infra Investment
- **Sharp turnaround in the economy still elusive**
 - Needs accommodative monetary policy and structural reforms
 - Leverage and NPAs will remain a challenge in 2016
- **Growth to improve only if monsoon supports**
 - GDP growth at 7.9% in fiscal 2017
 - If monsoons fail, growth could slip to 7.3%
- **Global factors cut both ways- low oil, but weak demand for exports** 



- **The Tax arithmetic is broadly credible**

- A miss in divestment target (non-tax revenue) can lead to capex cut

- **Fiscal consolidation to lower bond yields and prompt RBI to cut rates**

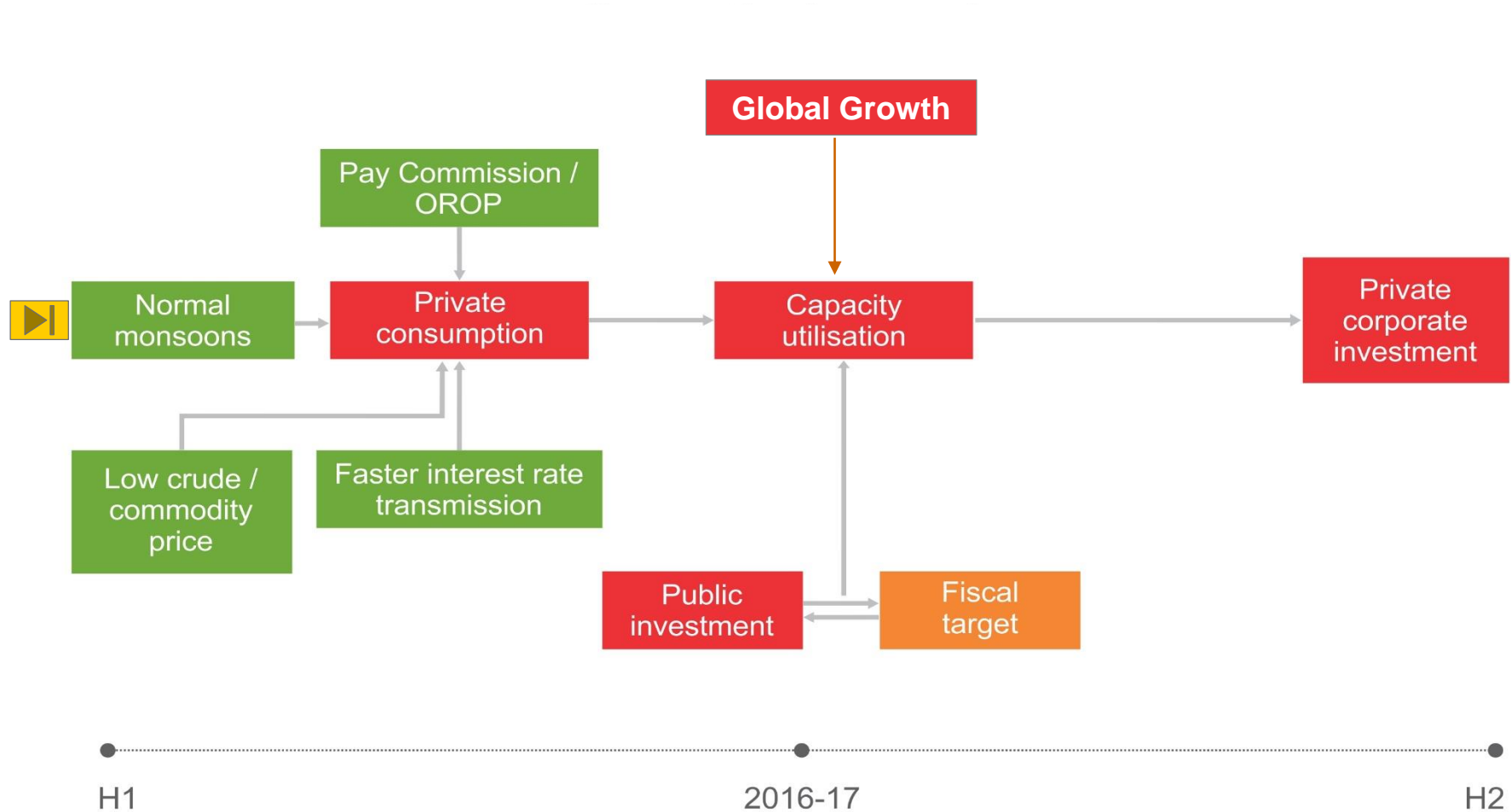
- Mildly positive for private consumption and investment



Indian economy improves over time

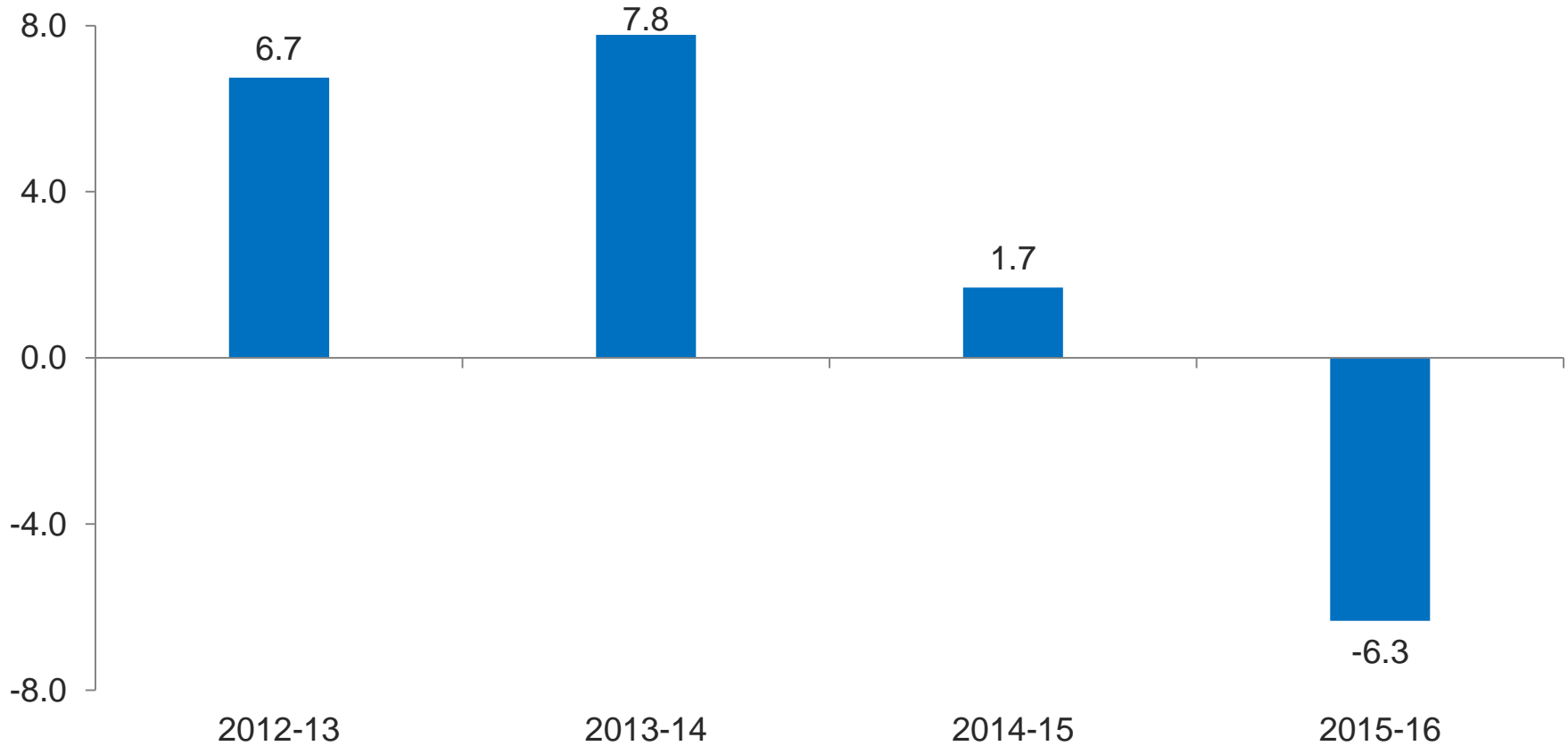
	2012-13	2013-14	2014-15 E	2015-16 E	2016-17 F
<i>GDP growth (%)</i>	5.6	6.6	7.2	7.6	7.9
<i>Inflation (%)</i>	10.2	9.5	6	5	5
<i>CAD / GDP (%)</i>	4.7	1.7	1.3	1.3	1.4
<i>Fiscal deficit / GDP (%)</i>	4.8	4.6	4	3.9	3.5*
<i>Exchange rate (Rs/\$, March-end)</i>	54.4	60.1	62.6	66	65
<i>10-year yield (March-end)</i>	7.9	8.8	7.7	7.6	7.5
<i>Investment / GDP (%)</i>	34.1	33	32.3	31.6	31.7
<i>GNPA / advances (%)</i>	3.3	3.8	4.3	6.8	7.7

Growth-investment dynamics as we see it

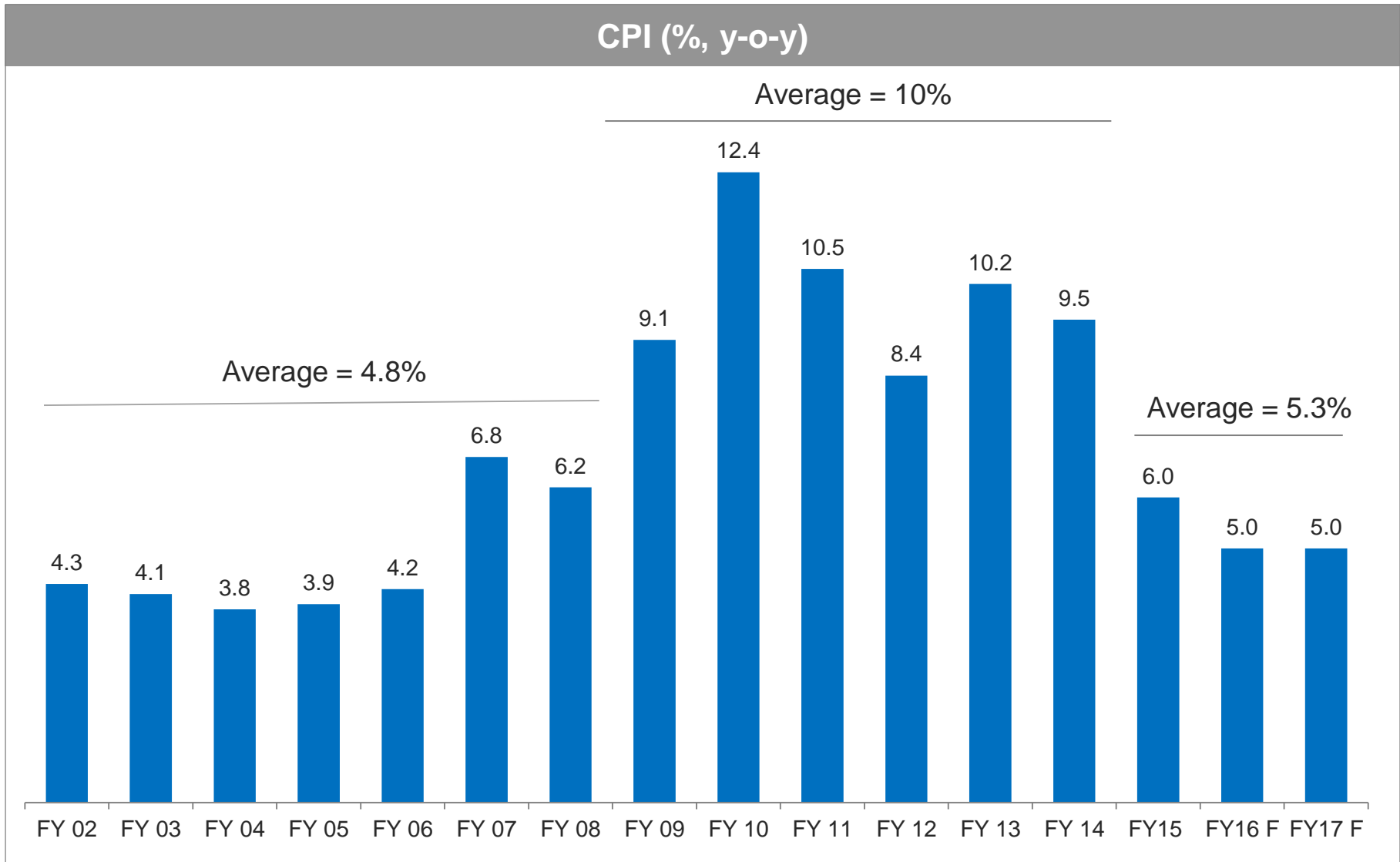


Exports – the weak link

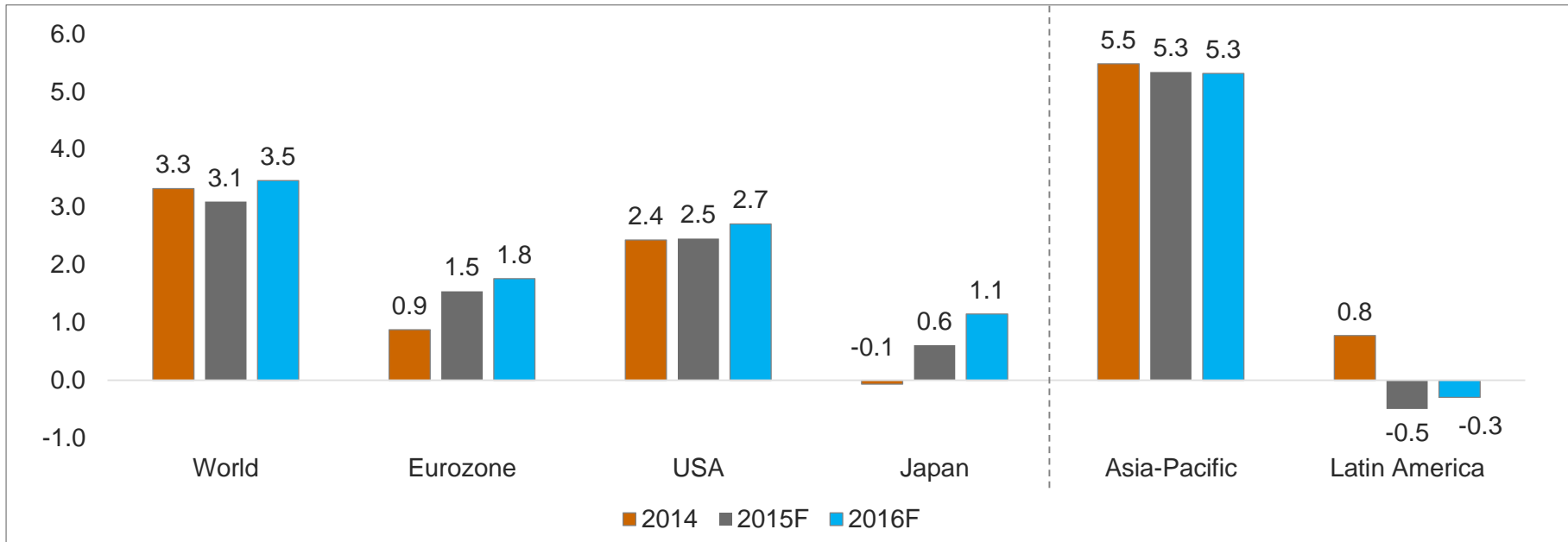
India's growth in real exports (goods and services), %, y-o-y




Inflation gains expected to continue through fiscal 2017



World Economy: Uneven with debility in emerging markets



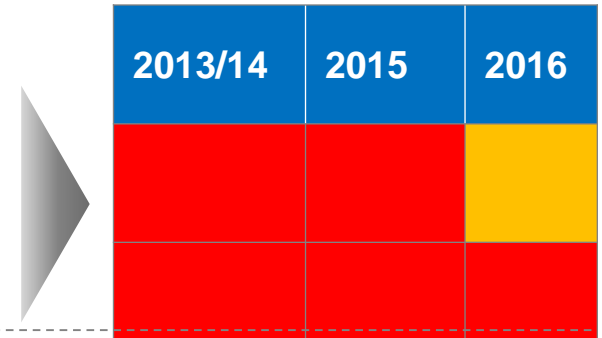
GDP Growth	S&P	S&P	S&P	IMF	OECD
	2014	2015F	2016F	2016F	2016F
China	7.3	6.8	6.3	6.3	6.5
Brazil	0.1	-3.2	-2.5	-3.5	-4
India	7.3	7.4	7.9	7.5	7.4
Russia	0.6	-3.6	0.31	-1	-0.4
South Africa	1.5	1.4	1.6	0.7	1.5

- **Falling trade intensity of global growth**
- **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

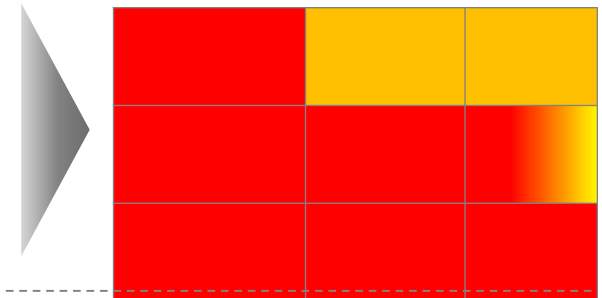
■ Limited scope to use countercyclical policy tools

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



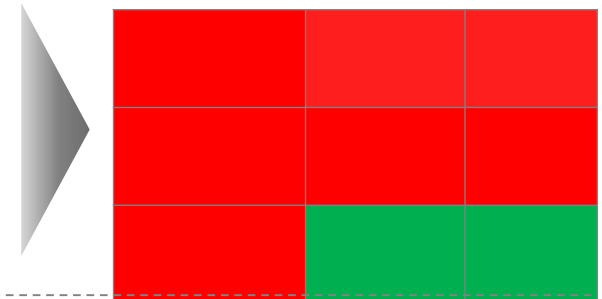
■ Sluggish investment cycle

- 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

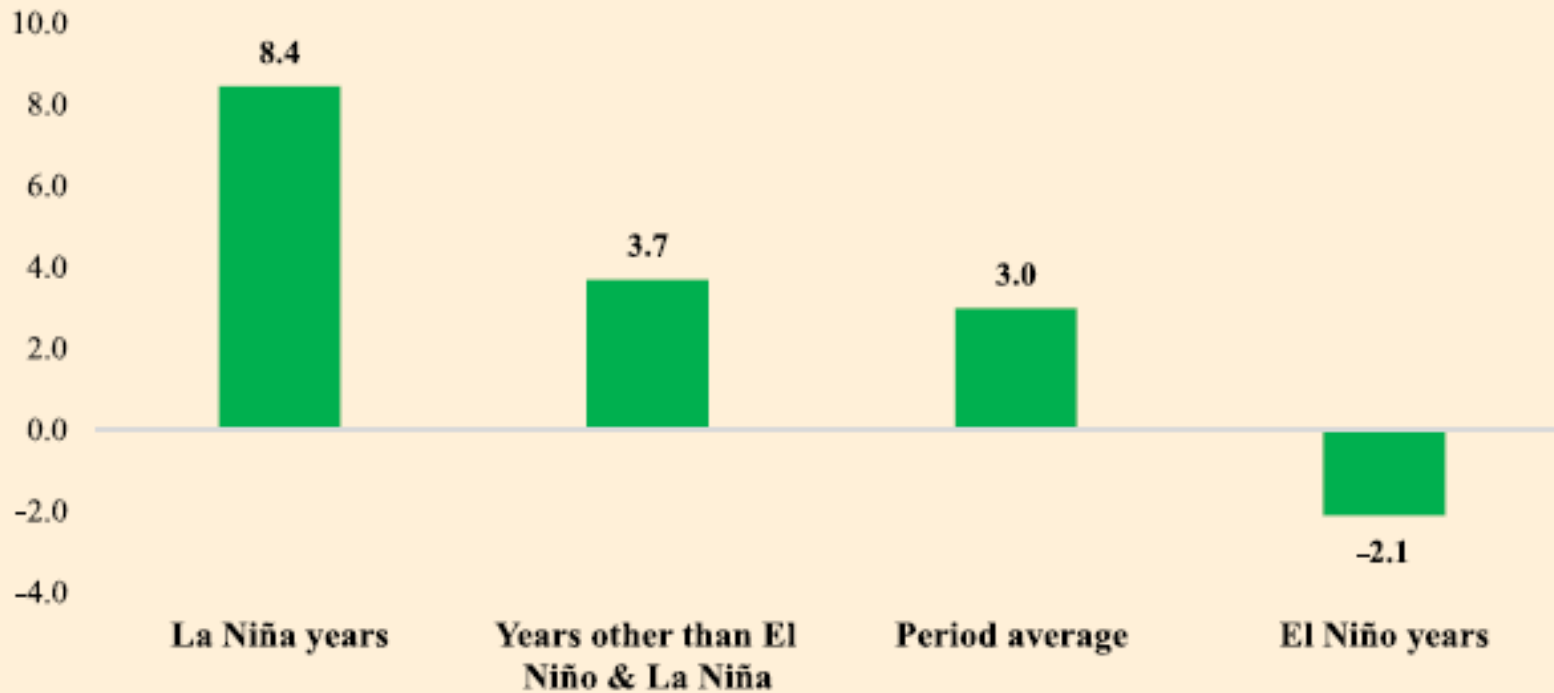




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What monsoons do to Agriculture

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



China slowdown: Pain

