

INDIA

- Growth outlook remains tilted to the downside.
- Fiscal and Monetary Policy have become confusing amidst a lack of meaningful structural reforms.
- RBI's Monetary Policy Committee has ruled out rate cuts for some time to come. The rupee remains sharply overvalued.

India's economic growth as measured by Gross Value Added (GVA) continued to slow in 3QFY2017 down to 6.6% y-o-y, the slowest in the past two years compared to a 7.8% growth in FY2016. Growth could slow further as bank credit has slowed sharply to multi-year lows of less than 5% y-o-y while credit to the industrial sector that has been slowing for several months has now fallen sharply by 5% y-o-y. Meanwhile, industrial production remained flat through 2016 and has grown by only 2.7% in January 2017. Indicators for investment remain weak as does the outlook while consumption growth continues to hold up growth.

The Indian government's fiscal consolidation efforts have largely been a reflection of lower international oil prices that have enabled a sharp reduction in energy subsidies as well as higher indirect taxes on the consumption of diesel and petrol. Service tax rates have also been progressively increased. Personal income tax collections have been buoyed by taxes paid on higher salaries by civil servants as a result of implementation of the Seventh Pay Commission recommendations. Meanwhile, corporate tax collections increased by a mere 3% y-o-y in Apr-Jan 2017 and indicate a very weak corporate sector performance. Fiscal consolidation would imply corrective actions to ensure fiscal sustainability as the economy grows, not continual increases in tax rates and one-time efforts such as divestment and sale of spectrum licences.

RBI's interest rate policy remains unexplainably tight with statements coming from the Monetary Policy Committee (MPC) confusing and contradictory at times. While domestic policy rates should be decided on the basis of domestic economic developments, MPC members cite developments in US policy rates as a driver of their decision. While fiscal policy is being tightened and contractionary, almost all MPC members have praised fiscal policy as being stimulatory! With bank credit to industry declining by 5% y-o-y in recent months, it is unbelievable that MPC members could be sitting back and implicitly assuming that the economy is operating at close to potential output. Finally, there is no discussion on the impact of past policy rate decisions on foreign exchange rates, debt dynamics and the inflation path.

Trade numbers have shown some marginal improvement in recent months off a weak base, however their sustainability remains in doubt. Non-oil exports grew 7% y-o-y in February 2017 compared to a 5% y-o-y on a 3mma basis after several months of low/negative growth. This was largely on the back of an increase in chemicals, engineering goods, and iron-ore partly aided by increases in commodity prices and off a weak base in the previous year. Non-oil, non-gold imports rose by a little over 4% y-o-y in the three months ended February 2017 as domestic demand remains weak.

Capital inflows in March 2017 have been extremely high totalling almost US\$9 billion, both into debt and equity markets. With the withdrawal of specified notes, domestic liquidity increased sharply and flowed into both debt and equity markets. Foreign portfolio investors in the debt market have been enticed into investing in the market because of the RBI's intent to not reduce rates as well as its inclination to intervene in the foreign exchange market to keep

the rupee steady. Foreign equity investors have been induced into investing for fear of underperforming the market as domestic liquidity flowed into the equity markets post demonetization. The rupee has become increasingly overvalued as noted earlier.

Table 1: Select Economic Indicators

	Feb-17	Jan-17	Feb-17	Feb-17	2016	2015
	Actual	Actual	3mma	YTD	Average	Average
Real Sector	% change, y-o-y					
Industrial Production	--	2.7	2.7*	2.7*	0.3	3.2
Two Wheelers Sales: Domestic (DM)	0.0	-7.4	-9.2	-3.7	9.7	0.9
Passenger Vehicle Sales	9.0	14.4	7.4	11.7	7.0	7.7
Commercial Vehicle (CV) Sales	7.3	-0.7	0.7	3.3	7.8	7.5
High Speed Diesel Consumption	-3.8	-7.8	-3.4	-5.8	5.6	5.3
Railway Goods Traffic	--	0.3	1.8*	0.3*	-0.7	1.2
Infrastructure Industries	--	3.4	4.6*	3.4*	5.2	2.2
Consumer Price Inflation (CPI)	3.7	3.2	3.4	3.4	4.9	4.9
CPI: Food	2.0	0.6	1.3	1.3	5.3	5.0
Wholesale Price Inflation	6.5	5.2	5.1	5.9	2.0	-2.7
External Sector	% change, y-o-y					
Export	17.5	4.3	9.0	10.8	-1.3	-17.0
Non-oil Exports	14.9	1.1	7.0	8.0	0.2	-9.1
Import	21.8	10.7	10.0	16.1	-8.4	-14.9
Oil Imports	60.0	61.1	42.0	60.6	-15.8	-43.4
Non-oil/non-gold Imports	4.3	4.1	4.1	4.2	-2.5	-1.4
External Sector	Actual Value					
Trade Balance: USD bn	-8.9	-9.8	-9.7	-18.7	-96.6	-126.0
ForEx Rate: INR/USD	66.7	67.8	67.5	67.3	67.3	64.3
ForEx Rate: YEN/USD	112.9	114.9	114.6	113.9	108.8	121.0
Nominal Effective ExRate Index	75.9	75.1	75.5	75.5	74.1	75.3
Real Effective ExRate Index	116.4	115.2	115.9	115.8	113.3	112.2
Foreign Ex Reserve: USD bn	--	363.0	361*	363*	361.5	348.2
Visitors Arrivals (Person '000)	956.0	983.0	992.0	1939.0	8889.0	8027.1
Foreign Direct Investments: USD bn	--	4.2	4.5*	4.2*	44.6	44.0
Monetary Sector	% change, y-o-y					
Bank Deposit	12.1	13.2	13.3	12.7	10.7	11.1
Bank Credit	4.4	4.6	4.6	4.5	9.3	9.6
Non-Food Bank Credit	--	3.5	4.1*	3.5*	8.0	8.8
Monetary Sector	Actual Value					
Repo Rate	6.25	6.25	6.25	6.25	6.50	7.23
Treasury Bill: 3 month yield	7.19	6.23	6.22	6.19	6.71	7.65
Govt Securities: 10 year yield	7.09	7.15	7.14	7.12	7.35	7.84
LIBOR: USD: 3 month	1.04	1.03	1.02	1.04	0.74	0.32
EURIBOR: EURO: 3 month	-0.33	-0.33	-0.32	-0.33	-0.26	-0.02
Interbank Forward Premia: 3 month	5.13	4.77	4.67	4.95	6.14	7.24
Fiscal Sector	% change, y-o-y					
Central Govt Tax Revenue: Gross	--	11.8	17.0*	11.8*	15.6	18.6
Central Govt Expenditure	--	20.9	12.6*	20.9*	10.8	6.7

A y-o-y change in 3mma February 2017 is the percentage change in the average of December 2016, January and February 2017 data over the average of December 2015, January and February 2016 data. A y-o-y change in actual numbers for a month, say February 2017, is the % change in the Feb. 2017 value over the Feb. 2016 value. Source: CEIC, Marketnomix

Note: * reflects 3-month moving average (3mma) and year-to-date (ytd) data ending January 2017

Figure 1. Trade Remains Weak Despite Some Improvement

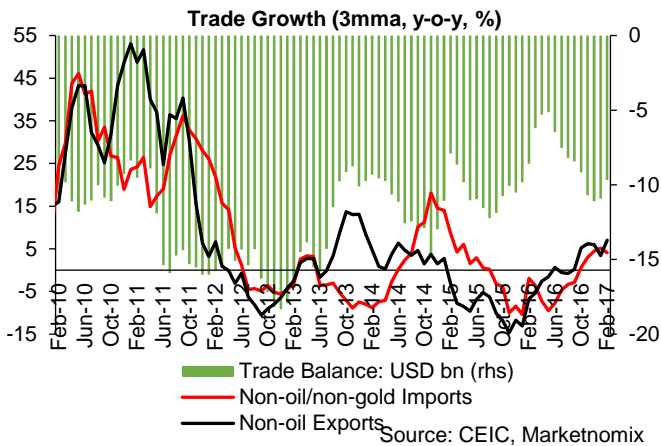


Figure 2. Rupee Overvaluation Increases Further

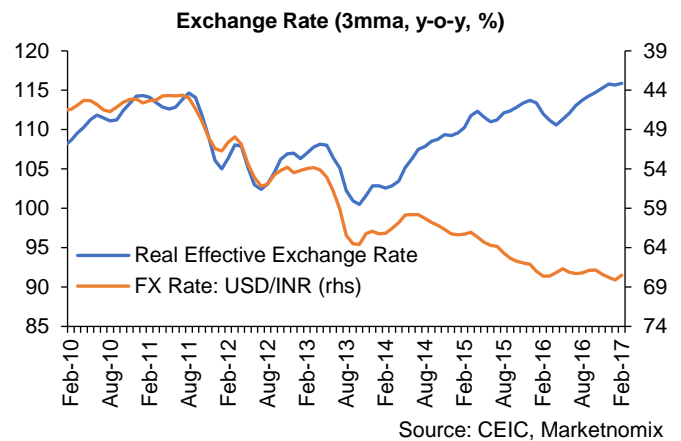


Figure 3. Capital Inflows and Demonetization Lead to Lower Yields

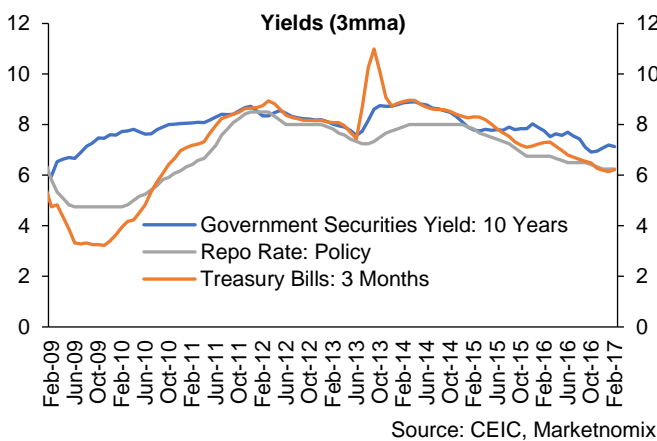
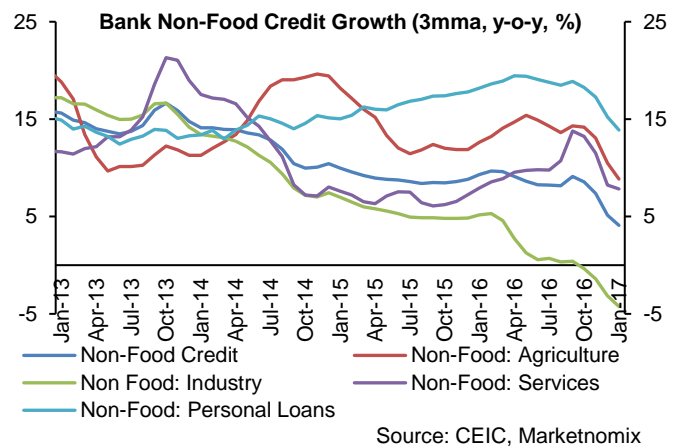


Figure 4. Bank Credit Growth Slows Further



Index of Industrial Production

The Index of Industrial Production (IIP) rose by 2.7% y-o-y in February 2017 after having risen marginally by 0.3% y-o-y in 2016. IIP growth remained weak across most sectors.

Manufacturing output declined 2.4% y-o-y in February 2017 compared to a rise of 0.9% in 2016. On a 3mma basis, manufacturing output rose 1.9% y-o-y in January 2017 compared to a 0.6% y-o-y fall in 2016. On a 3mma basis, mining sector production rose 4.8% y-o-y in January 2017 compared to a rise of 1.3% y-o-y in 2016, aided by an increase in commodity prices in recent months. Electricity production rose 6.3% y-o-y in January 2017 on a 3mma basis compared to an increase of 6.1% y-o-y in 2016.

Of the main sectors in the IIP, production of basic metals, electrical machinery and motor vehicles have shown an uptrend while that of other food products and beverages, textiles, chemicals and furniture, manufacturing nec have continued to remain weak.

The decline in capital and stagnant consumer goods production in 2016 was a reflection of weak domestic demand in the economy, especially for investments. While there has been some improvement in capital goods production, it remains to be seen whether the growth is sustainable going forward. In our view this is unlikely, given the sharp

decline in cement production while most of the increase in steel production has been on account of increased exports – domestic demand increase remains sub 5%.

Table 2: Index of Industrial Production

	Weights	Jan-17	Dec-16	Jan-17	Jan-17	2016	2015
	(in %)	Actual	Actual	3mma	YTD	Average	Average
Overall Industrial Production	100	2.7	-0.1	2.7	2.7	0.3	3.2
Manufacturing	75.5	2.3	-1.7	1.9	2.3	-0.6	3.3
Mining	14.2	5.3	5.5	4.8	5.3	1.3	1.7
Electricity	10.3	3.9	6.3	6.3	3.9	6.1	4.3
Use-Based Classification		% change, y-o-y					
Basic Goods	45.7	5.3	5.5	5.2	5.3	4.2	3.6
Capital Goods	8.8	10.7	-3.9	6.8	10.7	-16.9	4.0
Intermediate Goods	15.7	-2.3	-1.3	-0.4	-2.3	3.1	1.8
Consumer Goods	29.8	-1.0	-6.0	-0.9	-1.0	0.6	3.1
Consumer Durables	8.5	2.9	-8.9	1.0	2.9	6.0	7.5
Consumer Non-Durables	21.3	-3.2	-4.4	-2.0	-3.2	-2.8	0.5
Manufacturing Sector		% change, y-o-y					
Basic Metals	11.3	12.4	11.2	9.5	12.4	4.3	3.7
Other Non-Metallic Mineral Products	4.3	-11.4	-9.2	-7.4	-11.4	2.9	-1.6
Fabricated Metal Products ex Machinery & Equipment	3.1	-4.0	-1.4	-0.2	-4.0	1.1	-0.8
Chemicals & Chemical Products	10.1	7.4	-4.1	1.3	7.4	1.6	4.8
Coke, Refined Petroleum Products & Nuclear Fuel	6.7	-0.2	3.1	0.5	-0.2	8.2	3.7
Rubber & Plastics Products	2.0	-5.7	-4.7	-2.8	-5.7	1.4	2.7
Motor Vehicles, Trailers & Semi-Trailers	4.1	8.3	-7.4	7.7	8.3	6.3	7.7
Machinery & Equipment nec	3.8	-0.3	-1.3	3.2	-0.3	6.1	3.2
Electrical Machinery & Apparatus nec	2.0	42.4	2.3	22.1	42.4	-44.1	6.8
Textiles	6.2	-0.3	-5.7	-1.0	-0.3	1.7	3.2
Wearing Apparel; Dressing & Dyeing of Fur	2.8	9.5	-8.1	0.7	9.5	-2.6	11.0
Food Products & Beverages	7.3	-14.8	-2.7	-4.8	-14.8	-5.0	-3.6
Furniture, manufacturing nec	3.0	-10.5	-6.9	-11.4	-10.5	0.6	47.2
Infrastructure Industries Index		% change, y-o-y					
Infrastructure: Over all	37.9	3.4	5.6	4.6	3.4	5.2	2.2
Steel	6.7	11.4	14.9	10.7	11.4	6.9	-1.6
Cement	2.4	-13.3	-8.7	-7.7	-13.3	5.0	1.7
Coal	4.4	4.8	4.4	5.2	4.8	2.7	4.7
Crude Oil	5.2	1.3	-0.8	-1.6	1.3	-3.2	-0.8
Natural Gas	1.2	11.9	0.0	3.1	11.9	-4.6	-3.4
Refinery Products	5.9	-1.5	6.4	2.2	-1.5	8.2	1.9
Fertilizers	1.3	-1.6	-4.8	-1.4	-1.6	6.2	9.5
Electricity	10.3	4.8	5.9	6.9	4.8	6.7	5.6

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Source: CEIC, Marketnomix

Table 3: Annual Forecasts**Real GDP (% change)**

Country	2016	2017	2018
China	6.7	6.6	6.2
India*	6.8	6.6	6.4
Indonesia	5.0	5.1	5.3
Japan	1.0	1.2	0.6
Malaysia	4.2	4.3	4.5
Myanmar	6.3	7.5	7.6
Philippines	6.8	6.8	6.9
Singapore	2.0	2.2	2.6
Thailand	3.2	3.0	3.3
United States	1.6	2.0	2.2
Euro Zone	1.7	1.7	1.6
Vietnam	6.2	6.5	6.3

Consumer Prices (% change)

Country	2016	2017	2018
China	2.0	2.4	2.3
India*	4.9	4.8	5.1
Indonesia	3.5	4.5	4.5
Japan	-0.1	1.0	0.6
Malaysia	2.1	2.7	2.9
Myanmar	7.0	6.9	6.7
Philippines	1.8	3.6	3.3
Singapore	-0.5	1.1	1.8
Thailand	0.2	1.4	1.5
United States	1.3	2.7	2.4
Euro Zone	0.2	1.7	1.5
Vietnam	2.7	4.9	5.0

Current Account (% of GDP)

Country	2016	2017	2018
China	1.8	1.3	1.2
India*	-0.9	-1.5	-1.5
Indonesia	-1.8	-1.9	-2.0
Japan	4.6	4.6	4.5
Malaysia	2.0	1.8	1.8
Myanmar	-6.5	-6.6	-6.7
Philippines	0.2	-0.1	-0.3
Singapore	19.0	20.1	19.2
Thailand	11.4	9.7	7.8
United States	-2.6	-2.7	-3.2
Euro Zone	3.4	3.0	3.0
Vietnam	4.7	4.1	3.4

Fiscal balance (% of GDP)

Country	2016	2017	2018
China	-3.7	-3.7	-3.4
India*	-6.6	-6.4	-6.3
Indonesia	-2.5	-2.4	-2.5
Japan	-4.2	-4.0	-3.3
Malaysia	-3.0	-3.0	-2.7
Myanmar	-4.6	-4.5	-4.5
Philippines	-0.4	-1.0	-1.2
Singapore	3.3	1.7	1.5
Thailand	-0.5	-1.6	-1.8
United States	-4.6	-4.4	-4.5
Euro Zone	-1.7	-1.5	-1.2
Vietnam	-5.6	-5.7	-5.7

Official Policy Rate***

Country	2016	2017	2018
China**	4.35	4.60	4.85
India*	6.25	6.00	6.00
Indonesia	6.5	4.75	5.00
Japan	-0.1	-0.1	-0.1
Malaysia	3.00	3.25	3.50
Myanmar	--	--	--
Philippines	3.00	3.25	3.50
Singapore	--	--	--
Thailand	1.50	1.50	1.75
United States	0.75	1.5	2.0
Euro Zone	0.00	0.00	0.00
Vietnam	--	--	--

Currency per US Dollar***

Country	2016	2017	2018
China	6.95	7.05	7.13
India*	67.92	67.00	69.00
Indonesia	13473	13800	14400
Japan	116.96	120.00	125.00
Malaysia	4.49	4.70	4.90
Myanmar	--	--	--
Philippines	49.60	51.00	53.00
Singapore	1.45	1.45	1.48
Thailand	35.83	36.50	37.50
United States	--	--	--
Euro Zone	1.05	1.05	1.00
Vietnam	22761	23000	24000

* Data for India are for fiscal years - 2016 corresponds to the period April 2016 to March 2017

**One Year Best Lending Rate (%)

*** Policy Rates and Exchange rates are as of 31 December

Source: CEIC, IMF, Marketnomix estimates.

About Us

Marketnomix comprises a team of professional economists providing sound macroeconomic inputs that capture developments in the global economy. Marketnomix aims to positively impact the strategic decisions of individuals and firms.

Rajan Govil and Janak Nabar are co-founders of Marketnomix. Between them, they have close to 40 years of experience covering a number of economies. Their research experience spans the sell-side as well as the buy-side, including as global asset allocators. They have provided guidance to institutional clients, corporate treasuries, family offices and high net worth individuals with businesses and investments across the world.

Rajan has worked as an economist with the International Monetary Fund (IMF) and as economist/investment strategist with the private financial sector. He presently consults for the IMF and other multilateral agencies. Rajan has worked as Chief Economist-India and later Regional Economist for Asia-Pacific at HSBC Bank, and as the Head of Investment Strategy, Asia at BSI Bank. Rajan has taught at Delhi University, Indian Institute of Management Bangalore and Vanderbilt University. He has a PhD in Economics from Vanderbilt University.

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