



PROGRESS HARMONY DEVELOPMENT

Estd. - 1905

ONE YEAR OF NEW GOVERNMENT



DEPARTMENT OF ECONOMIC AFFAIRS AND RESEARCH
PHD CHAMBER OF COMMERCE AND INDUSTRY

ONE YEAR OF NEW GOVERNMENT

MAY 2015

Department of Economic Affairs and Research

Executive Summary

PHD Chamber of Commerce and Industry recently in its Managing Committee Meeting, termed the performance of new government ever since it assumed office on May 26, 2014 as more than satisfactory, giving it 7.4 marks out of 10.

The government since its formation announced significant reform measures such as the launch of Make in India, facilitating ease of doing business, launch of Jan Dhan Yojana, Digital India and social security schemes for common man among others. However, the macroeconomic situation shows mixed trend even though inflation scenario has improved considerably. The external sector depicts a mixed trend. The investment scenario on the other hand, has improved as the FDI Equity Inflows have increased by about 19% after the new government came into power. However, Industrial Investment Intentions have declined in the year 2014 as compared to 2013.

Various reforms in FDI have been introduced such as 100% FDI in construction, operation and maintenance of identified railway transport infrastructure through automatic route. FII Inflows have registered a remarkable increase in FY2015. Still, there has been a modest increase in Equity Market Capitalization and BSE SENSEX. Further, the declined oil prices helped to boost domestic consumption in the country, besides containing import bill and current account deficit of the government.

The government has made series of appreciable small changes on the executive side. However, there are many reforms which are getting delayed such as implementation of GST, land acquisition bill, companies and MSMEs act.

The Chamber has recommended that reforms so far announced should see their implementation on ground level so that ease of doing business at grassroots is further facilitated. The co-ordination of the centre with states needs to be cemented for which the central government alone has to take a call.

It is of utmost importance that the Government ensures that the existing manufacturing base is not eroded by detrimental steps such as the New Company Act, Environment Laws, Labour Laws etc. The Government must ensure that Commercial Laws should not start carrying criminal penalties as this will scare off investment in an already difficult environment, we reach very much below our target of being 50th in the Ease of Doing Business Index.

Going ahead, the country must have patience to allow the Government to pursue and fulfil its economic agenda for atleast 1-2 more years.

Macro economy shows mixed trend

The macroeconomic situation has improved as there has been significant drop in Inflation and improvement in growth rate of GDP, services and construction sector. However, agriculture, industry and core infrastructure witnessed deceleration.

S.No	Parameter	FY2014	FY2015
1	Growth rate of GDP*	6.9%	7.4%
2	Headline Inflation	6%	2.1%
3	Growth of Industry(IIP)	(-)0.1%	2.8%
4	Growth rate of Agriculture*	3.7%	1.1%
5	Growth rate of services*	9.1%	10.6%
6	Growth rate of Construction*	2.5%	4.5%
7	Growth rate of Infrastructure (Core Infra)	4.2%	3.5%

Source: PHD Research Bureau, compiled from various sources

* From Advance Estimates of national Income 2014-15

Inflation scenario improving significantly

There has been significant decline in headline and manufacturing inflation with both the indicators entering in negative trajectory since the formation of new government. The CPI and Food Inflation has also declined.

S.No	Parameter	April 2014	April 2015
1	WPI Inflation	5.6%	(-)2.7%
2	CPI Inflation	8.6%	4.9%
3	Manufacturing Inflation	3.7%	(-)0.5%
4	Food Inflation	8.7%	5.7%

Source: PHD Research Bureau, compiled from various sources

External Sector mixed

The external sector depicts a mixed trend. Though the current account deficit has declined, the exports have also declined significantly.

S.No	Parameter	FY2014	FY2015
1	Current Account Deficit	1.7%	1.3%
2	Trade Balance	US\$(-) 138.6 billion	US\$(-)137 billion
3	Value of Exports	US\$312.4 billion	US\$310.5 billion
4	Growth rate of Exports	3.9%	(-) 1.2%
5	Value of Imports	US\$450.9 billion	US\$447.5 billion
6	Growth rate of imports	(-) 8.1%	(-) 0.6%

Source: PHD Research Bureau, compiled from Ministry of Commerce and Industry, GoI

Investment scenario mixed

The investment scenario has improved as the FDI Equity Inflows have increased by about 19% after the new government came into power. However, Industrial Investment Intentions have declined in the year 2014 as compared to 2013.

S.No	Parameter	2014	2015
1	FDI Equity Inflows	US\$24.3 billion in FY14	US\$28.8 billion from April, 2014 to February 2015
2	Industrial Investment Intentions	Rs.530086crore in year 2013	Rs. 405027crore in the year 2014 Rs.133627crore Intentions til April 2015

Source: PHD Research Bureau, compiled from various sources

Reforms in FDIs

2014

- 100% FDI in single-brand retail
- 51% FDI multi-brand retail
- 100% FDI in telecom, asset reconstruction companies and credit information companies
- Automatic route in petroleum and natural gas, commodity bourses, and power exchanges were allowed
- Raised FDI cap from 74% to 100% in basic cellular services

2015

- FDI limits in insurance enhanced to 49%
- FDI in Defence permitted through the Government route up to 49%
- 100% FDI in construction, operation and maintenance of identified railway transport infrastructure through automatic route.
- FDI up to 100% under the automatic route both for green field and brown field projects for manufacturing of defined medical devices
- Increase in FDI cap in the pension sector from 26% to 49%

Financial Markets

FII Inflows have registered a remarkable increase in FY2015. However, there has been a modest increase in Equity Market Capitalization and BSE SENSEX.

S.No	Parameter	2014	2015	Growth
1	S&P BSE SENSEX	23906 (as on 15 th May 2014)	27324 (as on 15 th May 2014)	14.3%
2	Nifty	7123 (as on 15 th May 2014)	8262 (as on 15 th May 2014)	16%
3	Equity Market Capitalization(BSE)	US\$1242 billion(April-2014)	US\$1589 billion(April-2015)	28%
4	FII Inflows	US\$ 8.5 billion in FY2014	US\$ 45.4 billion in FY15	434%

Source: PHD Research Bureau, compiled from various sources

Corporate Profitability

Performance of Non-Government Non Financial Companies

There has been increase in Sales, Gross profits, and value of production of Non-Government Non Financial Companies

S.No	Parameter	Q3FY2014	Q32015
1	Sales	Rs. 7540 billion	Rs.7866 billion
2	Gross Profits	Rs. 887 billion	Rs. 926 billion
3	Value of Production	Rs. 7500 billion	Rs.7878 billion

Source: PHD Research Bureau, compiled from RBI

Ease of Doing Business

Recent Initiatives undertaken to facilitate the ease of doing business

- De-licensing and deregulation measures to reduce complexity
- 24x7 basis online applications for Industrial License
- State governments asked to introduce self-certification
- Online process of obtaining environmental clearances
- Multiple registers maintained by various departments to be replaced by Single Electronic Register
- Launch of e-Biz portal and Introduction of single window clearance

India's International Relations – Outgoing Visits

S.No.	Country	Key MOUs/Agreements/Action Plans
1	Bhutan (15-16 th June, 2014)	India allocated Rs./Nu. 45 bn for the 11 th Five Year Plan and Rs./Nu. 5 bn for the economic stimulus plan of the Royal Government of Bhutan
2	Nepal (3 rd -4 th August,2014)	India announced Line of Credit of USD 1 billion to Government of Nepal for hydropower, irrigation and infrastructural development projects.
3	Japan (30 th Aug- 4 th Sept. 2014)	Japan showed interest to make investments to the tune of US\$33.5 bn (ODA and FDI) in the next 5 years to improve infrastructural and industrial development of the country
4	USA (26 th -30 th Sept. 2014)	India and USA committed to facilitate actions necessary to increase trade with another fivefold and raise investment by institutional investors and corporate entities, the leaders pledged to establish an Indo-U.S. Investment Initiative
5	Australia & Fiji (14 th -18 th Nov. 2014)	India announced a Line of Credit for establishing a Co-Generation Plant in Fiji
6	Seychelles , Mauritius & Sri Lanka (10 th -14 th March,2015)	India offered a concessional line of credit of USD500mn for civil infrastructure projects for Mauritius and Line of Credit of up to USD318mn for the railways sector in Sri Lanka
7	France, Germany & Canada (9 th – 17 th April,2015)	India to buy 36 Rafale Jets in fly away condition from France and procurement of Uranium from Canada for the civilian nuclear power plants
8	China, South Korea & Mongolia (14 th -19 th May,2015)	Currently going on

India International Relations Contd.. Visits of Foreign Premiers

S.No	Incoming Visits	Key MOUs/Agreements/Action Plans
1	US President Barack Obama's visit to India (25 th -27 th January 2015)	US announced an assistance of US\$1bn for Make in India Campaign; and US\$2bn investment in the renewable energy sector in India
2	Visit of Chinese President Mr. Xi Jinping to India (17 th -19 th September, 2014)	China announced 5 years action plan to make investments of US\$ 20 billion in India within 5 years.
3	Visit of Australian Prime Minister to India 4 th -5 th September, 2014	Cooperation in the peaceful uses of nuclear energy, Sports, Water Resources Management and Technical Vocational Education & Training.
4	Russian President H.E. Mr. Vladimir V. Putin's visit to India 10 th – 11 th December, 2014	Strategic Vision for Strengthening Cooperation in Peaceful Uses of Atomic Energy Enhancement of Cooperation in Oil & Gas in 2015-16

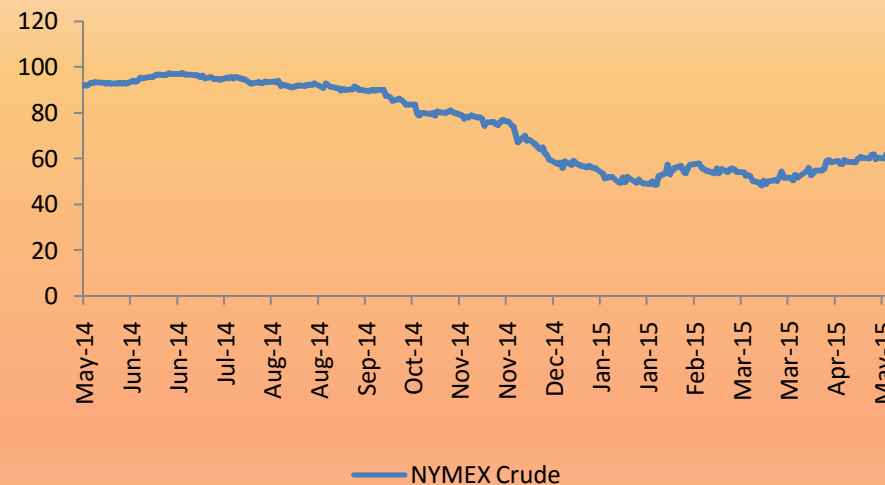
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11	Overall Ranking	7.4

Note: Rankings are out of 10

Crude Prices boon for the new government

Due to increased supply of crude oil in OPEC and United States, the international price of oil declined by about 50% since end-June 2014. The declined oil prices helped to boost domestic consumption in the country, besides containing import bill and current account deficit of the government.



Source: PHD Research Bureau, compiled from New York Mercantile Exchange

However, looking into the future concerns, uncertainty about the future movement of crude prices needs necessary cushion to be created by government in terms of high forex reserves to absorb any shocks in the coming times.

Significant reforms done so far

- Launch of 'Make in India' and announcement of construction of 100 smart cities
- Launch of a user-friendly Indian Trade Portal to facilitate exporters
- Launch of 'Shram Suvidha' portal and Labour Inspection Schemes
- Replacement of the Planning Commission with the NITI Aayog
- Establishment of MUDRA Bank for financial assistance to MSMEs
- Launch of Jan Dhan Yojana to remove financial untouchability
- Relaunch of Kisan Vikas Patra Scheme to increase domestic savings
- Approval to amendments to three archaic labor laws
- Passage of the Coal Mines (Special Provisions) Bill, 2015 by the Parliament
- Launch of 11 services on eBiz platform to facilitate ease of doing business
- RBI, extending its 5:25 refinancing scheme to some existing long-term infrastructure projects where the total exposure of lenders is more than Rs.500 crore.
- Black Money: Passage of Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Bill, 2015 by the Parliament
- Launch of three social security schemes for common man

Significant reforms suggested.....

The government has made series of appreciable small changes on the executive side. However, there are many reforms which are getting delayed such as implementation of GST, land acquisition bill, companies and MSMEs act.

- Implementation of reforms at the ground level
- Facilitating ease of doing business at the grassroots
 - Reduction in tedious process of approvals by fixing time limits
 - Reduction in number of stages for approval
 - Introduction of self authentication of all reports by Individuals for grant of permission
- Reforms must be expedited in labour laws in order to reduce the number of laws, contain duplicity and ease compliances
- Implementation of GST and simplification and rationalization of tax structure
- Environment, Forest and Pollution Laws must be revamped in order to reduce the number of laws, contain duplicity and ease compliances

Significant reforms suggested... continued....

- Change in the definition of MSMEs to enhance the limit for investment in their plant and machinery
- MSMEs to be strengthened so that they can generate employment opportunities in the coming times
- Revisiting the new companies act
- Vocational education and skill formation
- Enhanced center-state coordination
- Empowering the states; Strengthening their fiscal arms and ensuring their compliance and proper usage of financial resources in sectors of MSMEs and skill development
- Ease of doing business should be strengthened in states

Significant reforms suggested.. continued..

- Implementation of land acquisition bill
- Passage of the Coal Mines (Special Provisions) Bill, 2015 by the Parliament to facilitate transparent allocation and auction of coal mines.
- Investment and trade promotion at national and regional level
- Doing away with Capital gains tax and application of MAT and DDT payable by the Real Estate Investments Trust (REIT) and Alternative investment Funds (AIF) sponsors in order to bring India at par with international REIT markets.
- Tax free infrastructure bonds for power and Energy sector especially for the clean energy projects.
- Increase in FDI limit in Insurance, Defence and railway infrastructure

Government's expectation from Corporate sector

Government expects corporate sector to be effectively governed and follow transparency and disclosure norms

- Strict adherence of the corporate sector to transparency and disclosure norms
- Following utmost principles of corporate governance
- Strict compliance of corporates with Tax laws
- Responsible leverage from lending institutions with no diversion of funds

Conclusions

Since the new government has come into power, the macro-economic environment has shown a mixed picture with some indicators showing improvement while others have deteriorated.

Due to various reform measures announced by the government, the business sentiments have improved and there has been significant FII inflows but a little increase in FDI inflows. Corporate investments, on the other hand, are yet to pick up pace.

Going ahead, these reform measures must percolate to grassroots as the situation at the grass root level is almost the same as it was before the announcement of various reforms.

Yet early days, hence optimism !

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PHD Research Bureau

PHD Research Bureau; the research arm of the PHD Chamber of Commerce and Industry was constituted in 2010 with the objective to review the economic situation and policy developments at sub-national, national and international levels and comment on them in order to update the members from time to time, to present suitable memoranda to the government as and when required, to prepare State Profiles and to conduct thematic research studies on various socio-economic and business developments.

The Research Bureau has been instrumental in forecasting various lead economic indicators national and sub-national. Many of its research reports have been widely covered by media and leading newspapers.

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Studies undertaken by PHD Research Bureau

A: Thematic research reports

1. Comparative study on power situation in Northern and Central states of India (September 2011)
2. Economic Analysis of States (October 2011)
3. Growth Prospects of the Indian Economy, Vision 2021 (December 2011)
4. Budget 2012-13: Move Towards Consolidation (March 2012)
5. Emerging Trends in Exchange Rate Volatility (Apr 2012)
6. The Indian Direct Selling Industry Annual Survey 2010-11 (May 2012)
7. Global Economic Challenges: Implications for India (May 2012)
8. India Agronomics: An Agriculture Economy Update (August 2012)
9. Reforms to Push Growth on High Road (September 2012)
10. The Indian Direct Selling Industry Annual Survey 2011-12 (March 2013)
11. Budget 2013-14: Moving on reforms (March 2013)
12. India- Africa Promise Diverse Opportunities (November 2013)
13. India- Africa Promise Diverse Opportunities: Suggestions Report (November 2013)
14. Annual survey of Indian Direct Selling Industry-2012-13 (December 2013)
15. Imperatives for Double Digit Growth (December 2013)
16. Women Safety in Delhi: Issues and Challenges to Employment (March 2014)
17. Emerging Contours in the MSME sector of Uttarakhand (April 2014)
18. Roadmap for New Government (May 2014)
19. Economy on the Eve of Union Budget 2014-15 (July 2014)
20. Budget 2014-15: Promise of Progress (July 2014)
21. Agronomics 2014: Impact on economic growth and inflation (August 2014)
22. 100 Days of new Government (September 2014)
23. Make in India: Bolstering Manufacturing Sector (October 2014)
24. The Indian Direct Selling Industry Annual Survey 2013-14 (November 2014)
25. Participated in a survey to audit SEZs in India with CAG Office of India (November 2014)
26. Role of MSMEs in Make in India with reference to Ease of Doing Business in Ghaziabad (Nov 2014)
27. Exploring Prospects for Make in India and Made in India: A Study (January 2015)
28. SEZs in India : Criss-Cross Concerns (February 2015)
29. Socio-economic impact of check dams constructed by PHDRDF in Sikar (February 2015)
30. India - USA Economic Relations (February 2015)
31. Economy on the Eve of Union Budget 2015-16 - India Poised to Enter Double Digit Growth Trajectory
32. Budget Analysis 2015-16: Fulfilling promises (February 2015)
33. Participated in Report of CAG on Performance of Import & Export Trade Facilitation through Custom Ports (May 2015)
34. Druzhba-Dosti: India's trade opportunities with Russia (May 2015)

State profiles

35. Rajasthan: The State Profile (April 2011)
36. Uttarakhand: The State Profile (June 2011)
37. Punjab : The State Profile (November 2011)
38. J&K: The State Profile (Dec 2011)
39. Uttar Pradesh: The State Profile (Dec 2011)
40. Bihar: The State Profile (June 2012)
41. Himachal Pradesh (June 2012)
42. Madhya Pradesh (August 2012)
43. Resurgent Bihar (April 2013)
44. Life ahead for Uttarakhand (August 2013)
45. Punjab : The State Profile (February 2014)
46. Haryana: The State Profile (May 2015)

About the PHD Chamber

PHD Chamber of Commerce & Industry, a leading Industry Chamber of India, ever since its inception in 1905, has been an active participant in the India Growth Story through its Advocacy Role for the Policy Makers and Regulators of the Country. Regular interactions, Seminars, Conference and Conclaves allow healthy and constructive discussions between the Government, Industry and International Agencies bringing out the Vitals for Growth. As a true representative of the Industry with a large membership base of 48000 direct and indirect members, PHD Chamber has forged ahead leveraging its legacy with the Industry knowledge across sectors (58 Industry verticals being covered through Expert Committees), a deep understanding of the Economy at large and the populace at the micro level.

At a Global level we have been working with the Embassies and High Commissions in India to bring in the International Best Practices and Business Opportunities.

