

Dr. Rupa Rege Nitsure  
Group Chief Economist

## DISCLAIMER

The views expressed here are personal views of the author and do not necessarily reflect the views, policies and ideology of L&T Finance Holdings Limited (“LTFHL”) or any of its subsidiaries or group companies and associate companies (collectively referred to as the “L&T Group”).

Nothing contained in this document shall constitute or be deemed to constitute an offer to sell/purchase or as an invitation or solicitation to do so for any securities of any entity. LTFHL and/ or L&T Group make no representation as to the accuracy, completeness or reliability of any information contained herein or otherwise provided and hereby disclaim any liability with regard to the same. LTFHL or L&T Group or its officers, employees, personnel, directors may be associated in a commercial or personal capacity or may have a commercial interest including as proprietary traders in or with the securities and/or companies or issues or matters as contained in this publication and such commercial capacity or interest whether or not differing with or conflicting with this publication, shall not make or render LTFHL or L&T Group liable in any manner whatsoever and LTFHL or L&T Group or any of its officers, employees, personnel, directors shall not be liable for any loss, damage, liability whatsoever for any direct or indirect loss arising from the use or access of any information that may be displayed in this publication from time to time.

All opinions and estimates herein, including forecast returns, reflect the judgement of the author on the date of this report and are subject to change without notice and involve a number of assumptions which may not prove valid.

The document (if it) contains forward looking statements which include, but are not limited to assumptions, estimates, projections, opinions, models and hypothetical performance analysis, the said forward looking statements expressed constitute the author’s judgement (unless otherwise specified) as of the date of this material. Forward looking statements involve significant elements of subjective judgements and analyses and changes thereto and/or consideration of different or additional factors could have a material impact on the results indicated; therefore, actual results may vary, perhaps materially, from the results contained herein. No representation or warranty is made by LTFHL or L&T Group as to the reasonableness or completeness of such forward looking statements or to any other financial information contained herein.

## 1. Global economic briefs

- According to IMF (Apr 18), “global growth will accelerate to 3.5% in 2017 and 3.6% in 2018, compared to 3.1% in 2016, as there is a rebound in investment, trade & manufacturing. Higher commodity prices have provided some relief to commodity exporters and helped lift global headline inflation and reduce deflationary pressures. Financial markets are buoyant and expect continued policy support in China and fiscal expansion and deregulation in the US. If confidence and market sentiment remain strong, short-term growth could indeed surprise on the upside”.
- According to IMF's global financial stability report, global trade and growth may decline if protectionist pressures increase in developed countries. This will be followed by rising corporate vulnerability and borrowing costs which may lead to financial stability risks in India, China and South Africa.
- Euro-area economic momentum (as measured by composite PMI) accelerated to its fastest pace in six years in Apr-17, with France unexpectedly outperforming Germany in a strong start to the second quarter that suggests the broadening of economic recovery. Interestingly, the mood among German consumers rebounded more than expected in May-17, as revealed by the Nuremberg-based GfK institute's survey.
- Emmanuel Macron, a young, centrist, pro-EU candidate, came out on top in the first round of voting in the French presidential elections, winning 23.7% of the vote, according to exit polls. He was followed closely by far-right populist Marine Le Pen, who pulled in 21.7%. The two of them will now face off in a runoff election on May 7, and polls show Macron with a solid chance of winning.
- British retail sales posted their biggest quarterly fall (of -1.4%) in seven years during Jan-Mar, 2017, as rising prices since last year's Brexit put more pressure on consumers. This may prove a concern for PM Theresa May, who earlier this week unexpectedly called for an early national election, in an effort to strengthen her mandate for the next two years of negotiating Britain's exit from the EU.
- The US president Donald Trump unveiled a one-page plan yesterday (Apr 26) proposing deep US tax cuts, many for businesses, that would make the federal deficit balloon if enacted, drawing a cautious welcome from fiscal conservatives and financial markets.
- According to the Japanese Finance Minister, the Group of 20 will not lean toward favoring protectionism over free trade ahead of the Group's summit in July-17, even as the new US administration threatened to impose measures to restrict imports. Today, BOJ kept its monetary policy unchanged but offered its most optimistic assessment of the economy in nine years, signaling its confidence that a pick-up in external demand will help sustain an export-driven recovery.
- Profits earned by China's industrial firms rose 23.8% (y-o-y) in Mar-17, buoyed by a continued construction boom, though the pace of growth eased from multi-year highs seen in previous months.
- According to Phoenix Capital research, while the Fed is tightening policy by hiking rates, the rest of the world's central banks are printing a combined \$200 billion in QE every single month. This is an all-time record - greater even than the global money printing that occurred at the depth of the 2008 Crisis when Central banks were desperate to prop the system up.

## 2. India: Agriculture and rural economic news

- India's weather department (IMD) projected a normal monsoon during FY18 at 96% of the long period average. It has also forecasted weak El Nino conditions to develop during the latter part of the monsoon season. Distribution of rainfall is also expected to be good in 2017. IMD will update its forecast in the first

week of Jun-17, as by then more information will be available on the evolution of El Nino conditions in the Pacific.

- Niti Aayog – Indian government’s think tank has proposed taxation of agricultural income at the same threshold as personal income in its draft three-year action plan released yesterday. According to Niti Aayog member Debroy – “there should be no distinction between rural and urban. The threshold for taxing rural agriculture income should be the same as urban income. However, rural agriculture income taxed could be an average of three years as it is subject to weather fluctuations”. However, India’s finance minister has clarified categorically that the central government has no plan to impose any tax on agriculture income.
- Even as India is expecting normal monsoon rains in FY18, its government has prepared contingency plans for 623 districts in 28 states to help farmers deal with lower output in the event of scanty rains or the delayed onset of the monsoons.
- As per the government estimates, India’s wheat production may hit a record 98 mt in the year FY17, compared with the target of 96.64 mt set by the government.

### 3. India’s overall economic & policy developments

- According to the World Bank’s report on South Asia released last week, Indian economy would grow by 7.2% in FY18 and by 7.5% in FY19. A timely & smooth implementation of GST could augur well for the economy.
- According to a report from the Workforce Analytics Institute (WAI), India has witnessed an increase in productivity per person to the tune of 2.7% during 2008-16 as against 1999-07. Among Asian countries, only India, Indonesia and Philippines have shown a rise in labour productivity while others have witnessed a decline.
- According to the IMF’s fiscal monitor report, India’s combined fiscal deficit of central and state governments will be at 6.4% in 2017 and 6.3% in 2018. The country’s gross government debt is expected to improve to 67.8% of the GDP in 2017 from 69.5% of the GDP in 2016.
- As per the Nomura analysis, India’s export growth in value terms surged to a six and a half year high of 27.6% (y-o-y) in Mar-17, with non-oil export value surging by 23.2% (y-o-y). Furthermore, the Mar-17 data suggest that India’s export recovery is being driven by improving global demand and not just by higher commodity prices, which was the case until Jan-17. Moreover, the diversification of exports away from China (towards Europe) and away from commodities (towards capital goods) is a positive signal.
- The RBI released minutes of the Monetary Policy Committee (MPC) meeting held during Apr 5-6, 2017 last week. While two members clearly saw the threat of inflation coming up soon, the rest appeared to be relatively dovish.
- India’s ministry of finance has laid down specific targets to be met by 10 weak public sector banks for eligibility of further capital infusion. They have been asked to lower expenses, excluding salaries, by at least 25% over the next three years. At the branch level, they need to reduce their gross NPAs by at least 10% (y-o-y) and net NPAs by 0.5% of gross NPAs (y-o-y). Further, cash recovery from written-off accounts is required to be decreased by at least 10%. The proportion of loans under Rs 50 mln need to be increased to 50% of total advances in the next three years.
- According to RBI, Indian banks loans and deposits rose by 5.1% and 11.8% on year respectively, as on Mar 31, 2017. While outstanding loans grew by Rs 3.16 trln to Rs 78.82 trln in the two weeks to Mar 31, aggregate deposits rose by Rs 2.63 trln to Rs 108.05 trln. A sudden jump in credit disbursements in the last fortnight of FY2017 primarily reflects the last mile effort by banks to shore up their balance-sheets, which may not sustain for very long.

- India's Broad Money Supply, i.e., M3 growth stood at 7.3 % (y-o-y), as on Mar 31, 2017 (versus 10.0% a year ago), as currency with the public is down by 20.8% (y-o-y) as on Mar 31<sup>st</sup>.
- India's foreign exchange reserves increased by \$889.4 mln to \$369.89 bln in the week ended Apr 14<sup>th</sup> versus a fall of \$956.4 mln to \$369 bln in the previous week. India's FER had touched an all-time high of \$371.99 bln in the week ended Sept 30, 2016.

#### 4. India's industrial & services sectors scenario

- According to media reports, under the upcoming GST (i.e., Goods & Service Tax) in India, the tax rate for services may be restricted to just two slabs – 12% and 18%. A panel within the GST council is expected to identify which all services should fall into each of the two slabs. The proposed tax rates will be applied in such a way that the GST rate on services is closer to existing effective service tax outgo on the transaction.
- The 12<sup>th</sup> five year plan (FY13-FY17) of India saw investments to the tune of Rs 38 trln in 12 specified infrastructure sectors as compared to the target of Rs 55.75 trln, as per a report in Financial Express last week. While slippages were seen in all the 12 sectors, investments in telecom and electricity were way below the target.
- Indian government's think-tank NITI Aayog's three-year action agenda estimates government's total spending on roads and railways to increase from Rs 400 bln in FY17 to Rs 1.2 trln by FY20. The three-year action plan states that the expenditure on health sector should increase from Rs 300 bln to at least Rs 1 trln. Allocation for education is also expected to rise from 3.7% of total budgeted expenditure to four per cent.
- Over 4,000 km of rural roads have been constructed in India using green technology in FY17. Moreover, the government is also aggressively pushing the use of non-conventional materials such as waste plastic, cold mix, geo-textiles, fly ash, iron and copper slag in road construction.

---

#### Disclaimer:

The views expressed in this newsletter are personal views of the author and do not necessarily reflect the views of L & T Financial Services. Nothing contained in this publication shall constitute or be deemed to constitute an offer to sell/ purchase or as an invitation or solicitation to do so for any securities of any entity. L&T Financial Services Group and/ or its Affiliates and its subsidiaries make no representation as to the accuracy, completeness or reliability of any information contained herein or otherwise provided and hereby disclaim any liability with regard to the same. L&T Financial Services Group or its officers, employees, personnel, directors may be associated in a commercial or personal capacity or may have a commercial interest including as proprietary traders in or with the securities and/ or companies or issues or matters as contained in this publication and such commercial capacity or interest whether or not differing with or conflicting with this publication, shall not make or render L&T Financial Services Group liable in any manner whatsoever and L&T Financial Services Group or any of its officers, employees, personnel, directors shall not be liable for any loss, damage, liability whatsoever for any direct or indirect loss arising from the use or access of any information that may be displayed in this publication from time to time.