

SUMMARY

- Three major pieces of legislation passed in the Budget session.
- Economy mixed: growth forecast improves and inflation falls but industrial output slows.
- SpyGate: Leaks found in Indian Petroleum Ministry

LEGISLATIVE PRODUCTIVITY PICKS UP: LONG AWAITED REFORMS

The Modi government succeeded in getting some of its crucial agenda passed but deferred the land bill. We cover some of the key bills passed:

(1) Insurance Laws (Amendment) Bill, 2015

The Indian Parliament approved the Insurance Bill which has been pending in Parliament since 2008. The Bill permits foreign partners to raise their stake in joint ventures from 26% to 49%. This is arguably the most significant economic reform since Modi took office.

It marks a crucial milestone for the Insurance industry and also permits the entry of Lloyds and other foreign reinsurers. The legislation grants significant powers to the Insurance Regulatory Development Authority, including framing new regulations governing foreign reinsurance branches. Passage of the Bill also automatically increased the investment limit in the pensions sector to 49%.

(2) Coal Mines Special Provisions Bill, 2015

The coal bill opens the sector for commercial mining and aims to facilitate the (re)auction of over 200 coal blocks. Currently, power, steel and cement companies run mines for their own use but all other mining is state controlled. This will end the 40-year monopoly of Coal India.

The first auction of coal mines produced a huge scandal during the UPA regime. This month, former PM Manmohan Singh was summoned by a CBI court over his alleged role in the process during his tenure as Minister for Coal.

(3) Mines & Minerals (Development and Regulation) Amendment Bill

The mines bill seeks to introduce a system of auction for mines that supply minerals like iron ore and bauxite. Parliament's approval is a thumbs-up for Modi's bid to kickstart an industry that has languished for years.

Some major bills that could not be passed were the GST Bill and the Land Acquisition Bill. These could be the government's focus in the second part of the budget session that starts on April 20.

Corporate espionage: Who is to blame?

Corporate espionage in India is hardly new. The scandals around the allocation of 2G telecommunications spectrum and coal blocks are instances of how government decision making on issues of key commercial importance to companies has been compromised by cronyism.

In a recent incident sensitive documents were stolen from Ministry of Petroleum files and sold to private companies in the energy & petrochemical sector. A number of personnel including two junior oil ministry officials, senior executives from known businesses houses like Reliance, Essar, Cairn/Vedanta and Jubilant have been detained for investigations.

The espionage ring unearthed was not confined to the petroleum ministry and the same gang had allegedly infiltrated the ministries of coal, power and defence.

In another case, the Central Bureau of Investigation (CBI) arrested two employees of the finance and commerce ministries and a Mumbai-based consultant for their alleged involvement in illegally obtaining documents on foreign investment policies and passing them on to companies. The agency conducted raids at Department of Economic Affairs and Department of Disinvestment in the Finance Ministry, and the Department of Industrial Policy and Promotion in the Commerce Ministry as part of the investigation. The alleged involvement of more senior government employees than those arrested in the petroleum ministry case is being investigated in this case.

Monthly Economic Report March 2015
British High Commission New Delhi

WPI at record low but India still far from deflation

The Wholesale Price Index was negative for the fourth straight month, dropping to -2.1%, its lowest since April 2005 when the current series was introduced, mainly as a massive drop in global crude oil prices drove down fuel inflation. However Consumer Price inflation is still 5%. The gap between retail and wholesale inflation widened due to the much higher weight of food items (prices of which have remained elevated) and lower weight of fuel items in the Consumer Price Index.

Growth forecasts move up: reflecting revised series

IMF managing director Christine Lagarde visited India. She welcomed the budget as a step in the right direction but highlighted that while increasing public spending in infrastructure was critical more needed to be done to pull in additional private investment. The IMF expects Indian economy to grow at 7.2% in 2014-15 and accelerate to 7.5% in 2015-16.

The ADB has also forecasted that India's growth will improve from 7.4% in current fiscal to 7.8% in 2015-16 and further to 8.2% in 2016-17.

The Fitch Ratings Global Economic Outlook report pegs India's economic growth at 8% in 2015-16 and 8.3% in 2016-17 based on revised data series.

But Industrial growth inches down

Industrial production growth slowed to 2.6% in January from a revised 3.2% a month ago because of lower electricity generation and manufacturing output. Although capital goods output rose to its highest level since June last year with a 12.8% expansion in January, consumer goods production, which had grown 0.3% in December after six straight months of contraction, dropped again, this time by 1.9%.

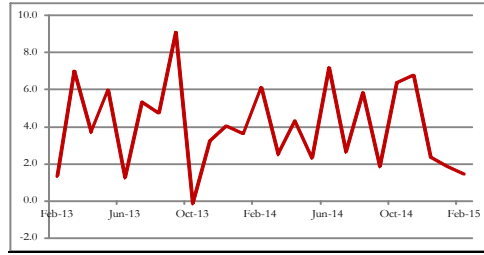
While fluctuation is inherent in the way capital goods output growth is measured, the persistent weakness in consumer demand suggests a broad-based rebound in the economy is still far away.

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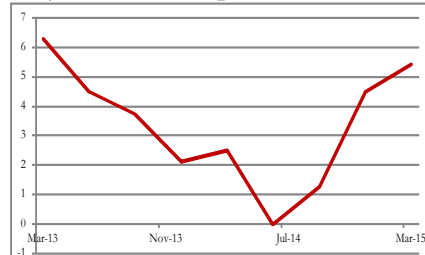
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GROWTH: IIP slows to 2.6% in Jan

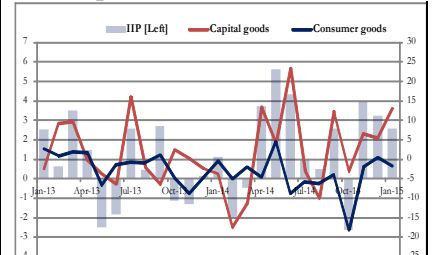
Core Infrastructure Industries



Projects Under Implementation

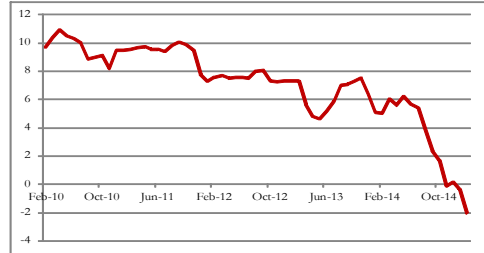


IIP/Capital/Consumer Goods

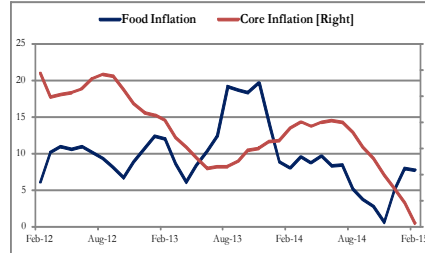


INFLATION: WPI inflation falls to all-time low of -2.1% but CPI at 4-month peak in Feb

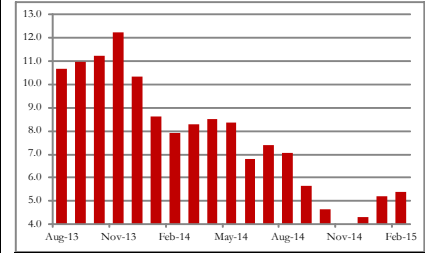
Wholesale Price Index (% y/y)



Food vs. Core Inflation (% y/y)

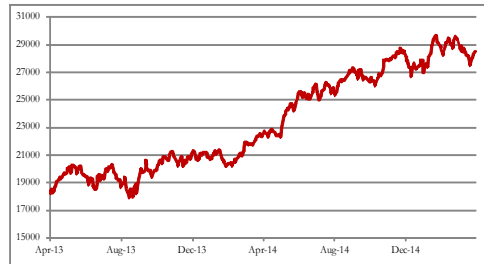


Consumer Price Index (% y/y)



MARKETS: Rupee remain range-bound

SENSEX



USD/INR

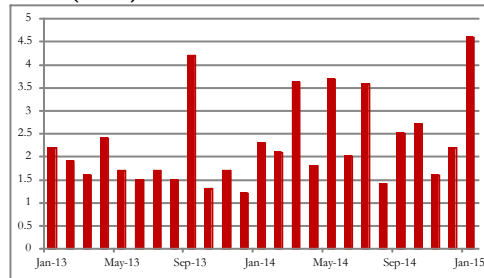


10yr Govt. Securities yield (%)

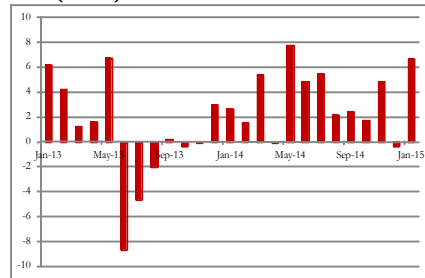


EXTERNAL: FDI at record high

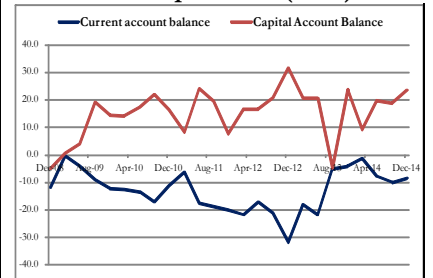
FDI (\$ Bn)



FII (\$ Bn)

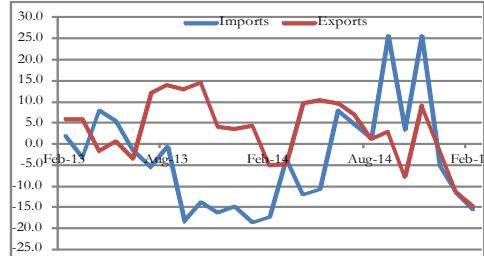


Current vs. Capital A/c (\$ Bn)

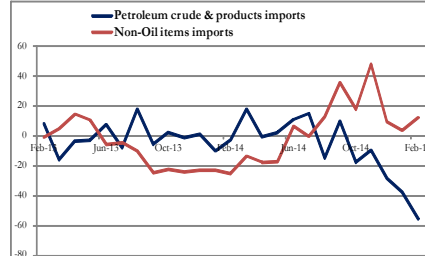


TRADE: Exports dip 15% in February; trade deficit at 17-month low

Export/Import Growth (% y/y)



Imports- Oil and Non Oil (% y/y)



Trade Balance (\$ Bn)

