SUMMARY

- Growth in Foreign Direct Investment and Industry
- Moderation in Retail Inflation
- The New Code of Bankruptcy Law

Growth in Foreign Direct Investment and Industry

Foreign direct investment (FDI) touched a new peak clocking £35.8bn — the highest ever FDI inflow in a fiscal, during April-February FY16. FDI rose nearly 15% over the previous year. A year before, foreign investment stood at £30.7bn. The government had brought in FDI-related reforms and liberalisation touching upon 15 major sectors of the economy by putting more FDI proposals in the automatic route in November 2015.

India received FDI equity worth £20.4bn during April-December period in FY16. Computer software and hardware sectors received £3.6bn while services sector accounted for £2.9bn. Automobile and telecom sectors received £1.1bn and £740m respectively. Region-wise, the National Capital Territory (comprising Delhi, part of Uttar Pradesh and Haryana) received £7.3bn while Mumbai got £3.6bn.

Following the trend with the positive FDI inflow, Industrial production grew at 2% in February after remaining negative for a quarter reflecting some improvement in the economy. Although there is an uptick in the industrial output in February, the manufacturing sector, which constitutes over 75% of the index, crawled at 0.7% as against a growth of 5.1% last year. The index had registered a growth of 4.8% last year.

The New Code of Bankruptcy Law

India has moved a step closer to adopting a new bankruptcy law after Indian parliament passed the legislation. The law will ensure time-bound settlement of insolvency, enable faster turnaround of businesses and create a database of serial defaulters — all critical in resolving India's bad debt problem which has crippled bank lending (about 11% of bank loans are in the stressed category). The bankruptcy code is vital to fulfil Prime Minister Narendra Modi's poll promise of improving ease of doing business in India and reviving the government's stalled reform agenda. The creation of the law will improve India's position in the overall World Bank's Doing Business rankings. At present on the parameter of resolving insolvency, India is ranked 136 among 189 countries. Currently it takes more than four years to resolve a case of bankruptcy in India; the code seeks to reduce this time to less than a year.

The Insolvency and Bankruptcy Code, promises to build an efficient process that facilitates bankers' efforts to recover their dues. It creates a mechanism which gives creditors enough powers to decide whether a company should be resuscitated by setting a deadline of 180 days. If 75% of creditors agree on a revival plan, a grace period of another 90 days can be granted. Else, a firm would be automatically liquidated.

Allowing transparency in the system, the government intends to enter into cross-border treaties to confiscate overseas assets of wilful defaulters and recover dues of banks, a reflection on some of the high-profile cases.

The uptick in industrial output was mainly on account of improvement in mining, power and consumer durables. During April-February, industrial output grew at 2.6% compared with a growth of 2.8% in the year-ago period. Mining logged a growth of 5% as against a growth of 1.6% in same month a year ago. Power generation accelerated, growing 9.6% compared with 5.9% growth a year earlier. The output of consumer durable goods grew 9.7% in February as against a contraction of 3.8% in the same month a year ago. However, capital goods, a barometer for investment flow, contracted 9.8% in February compared with a growth of 8.3% in the year-ago period. While this is encouraging, the manufacturing sector remains a concern and the ongoing trend of IIP appears to be volatile.

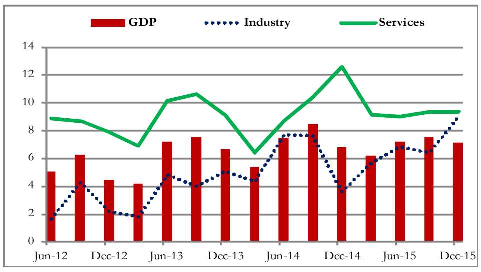
MODERATION IN RETAIL INFLATION

After two straight years of deficient rains, the weather office has forecast above-normal monsoon showers this year, suggesting that food inflation is unlikely to shoot up in the current fiscal. Retail inflation, measured by the Consumer Price Index (CPI), eased to a six-month low to 4.83% (y/y) in March from 5.26% in February. CPI was at 5.25% last year. It is trending below the Reserve Bank of India's (RBI) target of 5% by the end of the current financial year. The decline in retail inflation can be largely attributed to a reduction in food prices in March. Food inflation, eased to 5.21% in March, from 5.30% in February. The food index, which accounts for a large share in CPI, had edged up to 6.14% in March 2015.

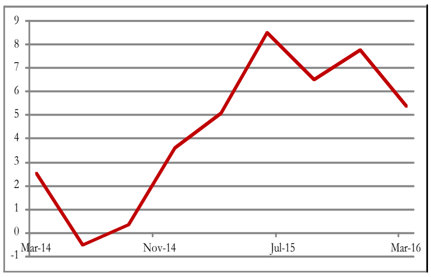
Within the food index, pulses registered the sharpest rise - it was the only category that saw double-digit inflation. Within the non-food category, February inflation moderated to 3.38% in the fuel and light category, from 4.59% in March. A similar trend was observed in the transport and communication categories - 0.91% in March from 2.39% in February. Inflation eased in rural and urban areas. In towns, CPI-based inflation declined to 3.95% in March from 4.3% in February. The corresponding figures for rural areas were 5.7% and 6.05%, respectively, for March and February. Though the retail inflation has eased, food price fluctuations remain and maintain upward inflationary pressures.

GROWTH: *Industrial Production picks up as Core Index shows Fast Growth.*

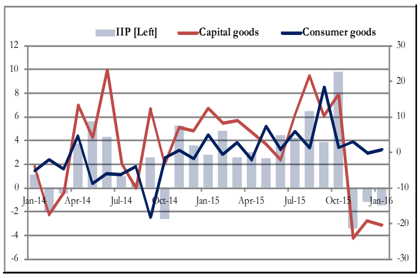
GDP



Projects Under Implementation

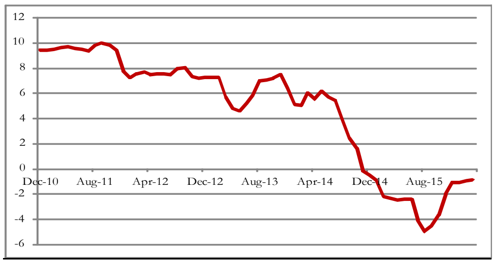


IIP/Capital/Consumer Goods

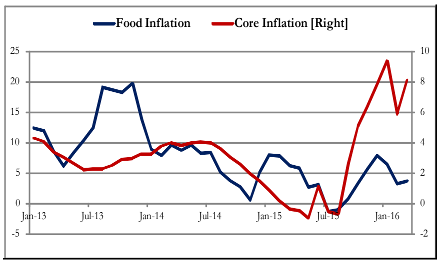


INFLATION: *Ease in retail Inflation on account of lower food inflation*

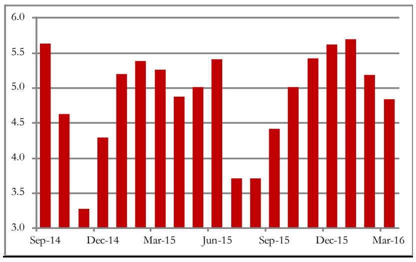
Wholesale Price Index (% y/y)



Food vs. Core Inflation (% y/y)

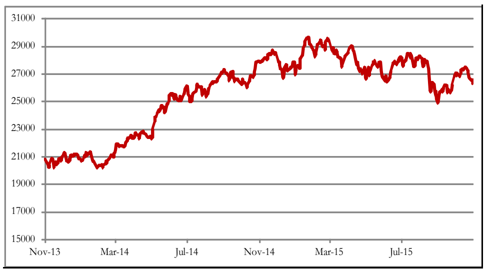


Consumer Price Index (% y/y)

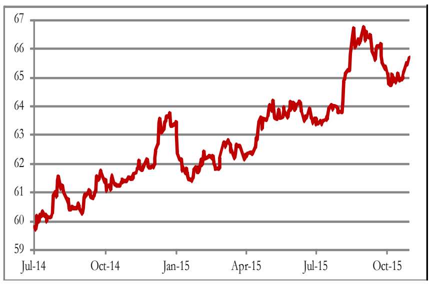


MARKETS: *Markets respond to the Accommodative Monetary Policy*

SENSEX



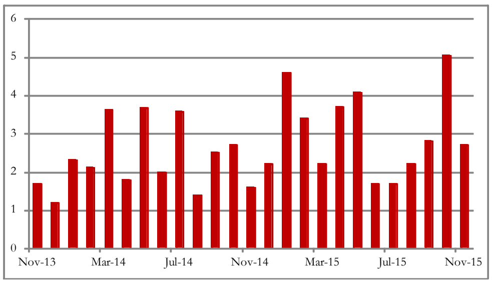
USD/INR



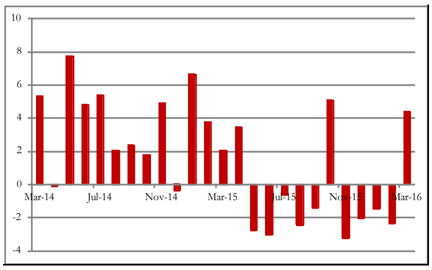
10yr Govt. Securities yield (%)

EXTERNAL: *FDI for Fiscal Year 2015-16 was highest at £35.8bn*

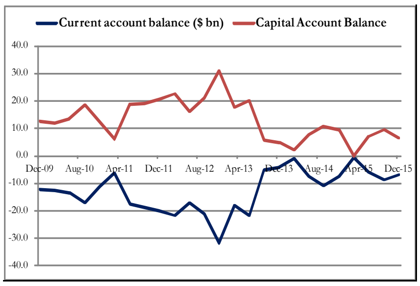
FDI ($ Bn)



FII ($ Bn)

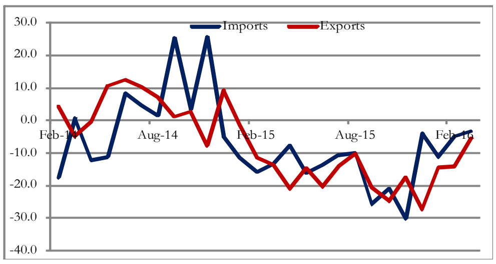


Current vs. Capital A/c ($ Bn)

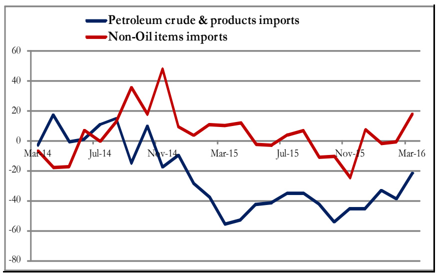


TRADE: *Improvement in Trade Balance*

Export/Import Growth (% y/y)



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



Trade Balance ($ Bn)