Monthly Economic Report June 2015

British High Commission New Delhi

SUMMARY

- Trade balance improves, tax collection and FDI surge. International agencies remain optimistic on India's prospects.
- SEBI relaxes listing norms for start-ups to keep their wealth within the country's shores.
- Modi's Bangladesh visit: Focus on trade and connectivity.

EXTERNAL ACCOUNT REMAINS SOUND

The Current Account Deficit (CAD) fell sharply to its lowest level in a year at $1.3 bn or 0.2% GDP in Q4 2014-15, as the trade gap narrowed based on lower oil prices and robust foreign inflows. For the full year 2014-15, the CAD shrank to $27.5 bn, or 1.3% GDP, from $32.4 bn or 1.7% GDP a year ago. The collapse in crude prices and the lower demand for gold have also helped India improve its external account.

UPTICK IN TAX COLLECTION

Indirect tax collections during the first 2 months of the current financial year rose by 39.2%. The figures reflect in part the effect of the additional measures including increased excise duty on diesel and petrol, a hike in the clean energy cess, and withdrawal of exemptions for motor vehicles and consumer durables. But even without these measures, indirect tax collections show an increase of 12.6% for April-May 2015. The Finance Minister said this reflects a pickup in manufacturing activity particularly because excise collections have moved up.

INVESTMENT PICKS UP

FDI surged 112% in April to $3.6 bn from $1.7 bn in the same month last year. The increase was 71% up on inflows in March. April saw the second highest FDI inflows in the last 18 months, with only January posting a higher figure of $4.4 bn, 109% up from January 2014.

India has moved to 9th in the list of top FDI destinations in 2014 from 15th last year, according to UNCTAD. In 2014, FDI into India jumped 22% to $34bn when global FDI fell by 16%. India's rank as a top prospective host for FDI also rose to third place from fourth place in an UNCTAD survey for 2015-17. In the past few months, the government has liberalised the FDI regime in sectors including medical devices, construction, railways, defence and insurance.

INDIAN START-UPS: TURNING ON THE FUNDING TAP

India is in the middle of a technology boom. Backing from local, U.S., Chinese and Japanese investors has boosted valuations for fledgling Indian tech companies from Bangalore to Mumbai, spawning a series of billion-dollar deals. Among the high-profile home grown start-ups are e-commerce firms Flipkart and Snapdeal; cab company Ola; smart phone maker Micromax and fintech company Paytm.

The Securities and Exchange Board of India (SEBI) has now simplified the rules for listing these companies in a bid to encourage them to raise funds domestically rather than going abroad. A new platform called the Institutional Trading Platform (ITP) where start-ups can list has been announced and relaxed listing norms have been approved. The model is similar in some respects to AIM, but India also has a separate platform for SMEs.

Technology intensive start-ups now only need to sell 25% of shares to qualified institutional investors, and other start ups, 50%. However, retail participation will not be allowed and the minimum investment size will be Rs.1million (£10,000). The lock-in period for founders and early investors, disclosure requirements and restrictions on the use of funds have also been relaxed.

Until now most Indian start-ups chose Singapore as their preferred base, followed by the U.S. Investment bankers caution that Indian start-ups might still prefer listing overseas, to access a sophisticated investor pool that better appreciates the growth prospects of start-ups and is less concerned about short term profitability. In 2014 Koovs, an online fashion retailer, was the first major such listing on the London Stock Exchange.

India is ranked fifth in the world for start-ups after the US, the EU, Canada and China, and the sector grew by more than 400% last year. While most of these new companies are pleased with the proposed regulations, some were expecting greater relaxation including possible tax incentives for investors.

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GROWTH OUTLOOK POSITIVE

The OECD predicted India's growth will remain strong and stable at 7.3% in 2015 on the back of a revival in investments. It expects a pick-up in corporate investments following government measures to improve ease of doing business and the 'Make in India' campaign. But the report also cautioned that if El Nino conditions resulted in a deficit monsoon, this could depress rural incomes and demand, putting pressure on both inflation and the budget.

The World Bank predicted India will be the fastest growing major economy in the world this calendar year, growing at 7.4%, overtaking China for the first time. In its latest 'Global Economic Prospects' report, the Bank said reforms had buoyed confidence in India and falling oil prices reduced its vulnerability as an importer. Concerns over the current account deficit, fiscal deficit and inflation have dissipated with the fall in oil prices. This, coupled with reforms, has raised confidence in the economy.

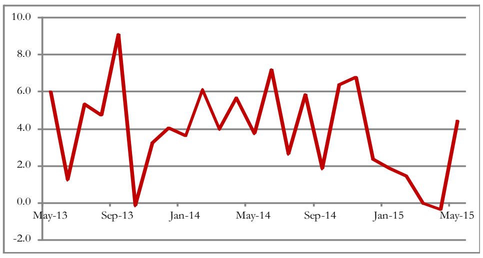
INTERNATIONAL RELATIONS

PM Modi made a two-day state visit to Bangladesh. Twenty-two agreements and MoUs were signed. The centrepiece was a Land Border Agreement that simplifies the border and settles the status of many small enclaves within the territory of both countries. Although the Agreement was finalized in 1974, it was only a month ago that the Indian parliament ratified it, paving the way for implementation. Modi announced a $2bn line of credit for Bangladesh for development of transport infrastructure. Two Indian energy companies will invest $5bn in the Bangladeshi power sector. Bangladesh will set up two special economic zones for Indian industry providing a destination for Indian investment and addressing Dhaka's concern of skewed trade balance. Other deals include a coastal shipping pact and a pact to expand co-operation between coastguards.

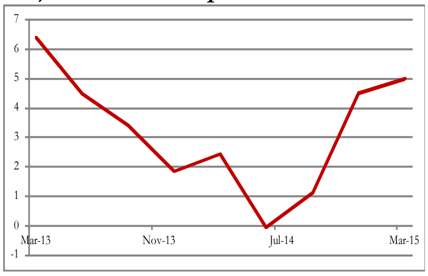
Finance Minister Jaitley concluded a 10 day US tour to woo investors. He assured global businesses that the Modi government is making all efforts to allay their concerns on reforms, taxation and policy stability. The Finance Minister met senior US officials and discussed social security contributions by Indian professionals and a proposed bilateral investment promotion agreement. Investors raised retrospective taxes and the pace of economic reform. Jaitley reiterated his commitment to usher in tax reforms through the roll out of the GST from April, 2016. Terming the retrospective taxation a legacy issue, Jaitley assured US investors that the government will not legislate retrospectively.

GROWTH: *Core sector output growth at a 6-month high of 4.4% in May*

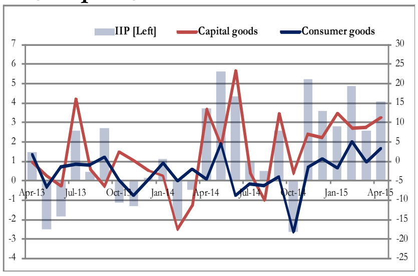
Core Infrastructure Industries



Projects Under Implementation

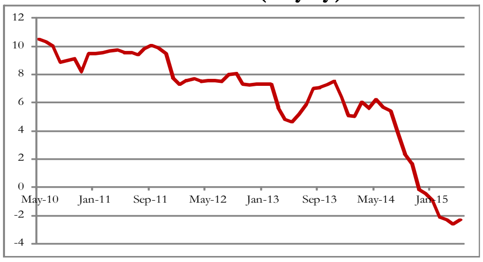


IIP/Capital/Consumer Goods

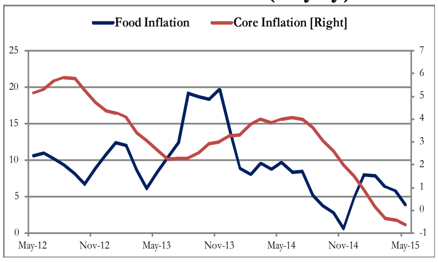


INFLATION: *WPI inflation in negative zone for 7th month*

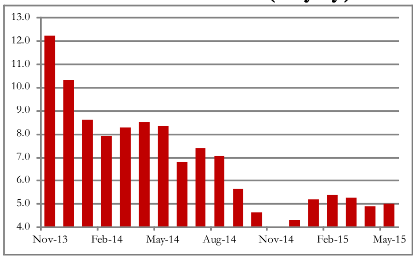
Wholesale Price Index (% y/y)



Food vs. Core Inflation (% y/y)

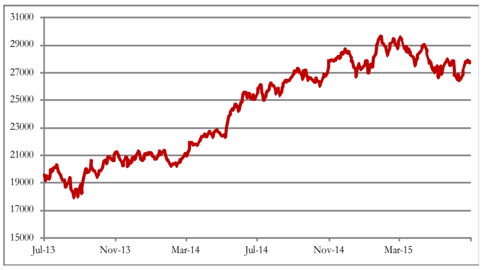


Consumer Price Index (% y/y)

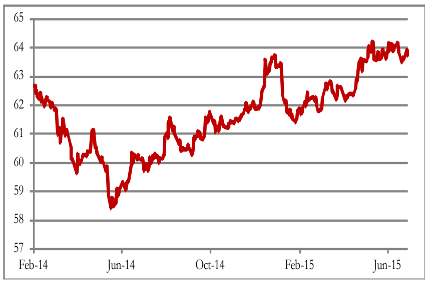


MARKETS: *Sensex remains strong*

SENSEX



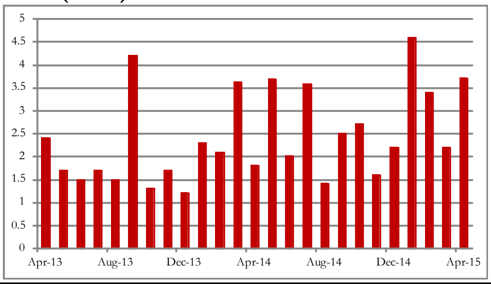
USD/INR



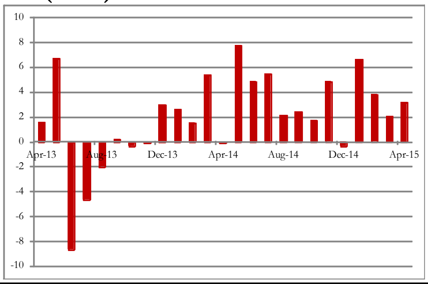
10yr Govt. Securities yield (%)

EXTERNAL: *Current Account Deficit eases to 0.2% of GDP in Q4*

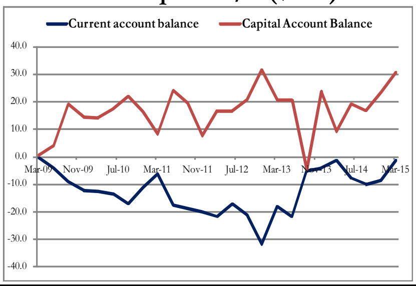
FDI ($ Bn)



FII ($ Bn)

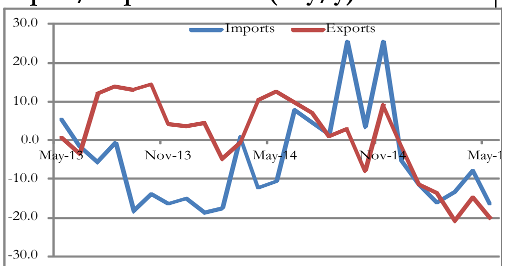


Current vs. Capital A/c ($ Bn)

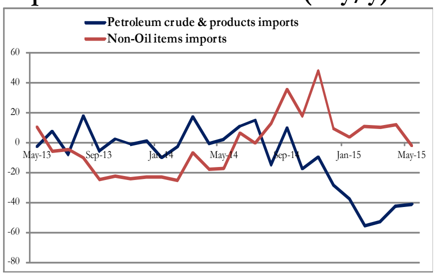


TRADE: *Exports in May plunge 20% yoy, trade deficit narrows to 3-month low*

Export/Import Growth (% y/y)



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



Trade Balance ($ Bn)