Monthly Economic Report January 2015

British High Commission New Delhi

Summary

- GDP numbers revised. 2013-14 growth up from 4.9% to 6.6%.
- Trade deficit falls to a 10 month low. Oil and gold imports fall.
- Fall in crude oil prices may help the government fiscally.

6.6% is the new 5% - GDP numbers revised!

In line with international standards, India has reworked its GDP calculations using 2011-12 prices, rather than 2004-05 prices. The popularly quoted statistic of 5% growth in 2013-14, turns out to be 6.6%. Manufacturing, earlier showing barely 0.2% growth, was in fact growing by close to 6%. Industry now makes up 22% of GDP compared to 17%. Services now make up only 59.6% compared to 64.8% previously.

	2013-14 (New)	2013-14 (Old)	**2012-13 (New)**	2012-13 (Old)
GDP Factor Cost (Agri+Ind+Serv)	**6.6%**	4.7%	**4.9%**	4.5%
GDP Market Price (*Cons+Inv+Gov+Net Exports*)	**6.9%**	5.0%	**5.1%**	4.7%
Agriculture	3.7%	4.7%	1.2%	1.4%
Industry	4.4%	0.4%	2.3%	1.0%
Services	9.1%	6.8%	8.0%	7.0%
Consumption	6.5%	4.7%	4.9%	5.2%
Fixed Investment	3.0%	-0.1%	-0.3%	0.8%
Government Spending	8.2%	3.8%	1.7%	6.2%
Export	7.3%	8.4%	6.7%	5.0%
Import	-8.4%	-2.5%	6.0%	6.6%

India also intends to change to the international norm of GDP figures based on market prices as opposed to factor cost. Unfortunately historical data is not yet available, so it is difficult to gauge past performance based on these new benchmarks.

Has India learnt its tax lesson?

The Cabinet has decided not to challenge a Bombay High Court ruling that Vodafone is not liable to pay a tax demand of $490m in a transfer pricing case. Transfer pricing is the value which firms put on products, services or assets traded between group companies in different countries – a regular part of doing business for a multinational.

The tax authority issued a show-case notice to Vodafone India in January 2014 and later passed an order asking it to pay additional tax for allegedly undervaluing the shares of its Pune BPO. Vodafone challenged the order in the High Court on the basis that its transfer of shares was not taxable under Indian tax laws. Many large foreign companies in India are fighting similar cases. Such treatment of Vodafone and other MNCs had led to criticism of India's tax regime. Over 36,000 cases of dispute with the taxman are presently pending before various courts.

The government is thinking of applying the Vodafone ruling to all similar transfer pricing cases.

However, Vodafone still has a $2bn tax dispute with the government in arbitration caused due a retrospective amendment by the previous Parliament.

External sector – comfort zone:

India's trade deficit narrowed to a 10-month low of $9.4bn in December 2014. The effect of the global oil price fall is reflected– oil imports have contracted by 29% (y/y). However India re-exports roughly 30% of its imported crude oil as refined petroleum products. This key export has thus registered a corresponding fall of 21%, leading overall export levels to contract by 4%. The RBI seems relaxed – it expects current account deficit to reduce to 1.3% of GDP in 2014-15 from 1.7% in 2013-14, after a record high of 4.7% in 2012-13.

India is one of the world's largest importers of gold. For around a year the government imposed restrictions, like mandating that traders re-export 20% of all gold imported (the 20:80 rule). In addition to a steep 10% customs duty, this had brought down official imports, but increased smuggling. In November, the RBI scrapped the 20:80 rule, and gold imports surged by an absurd 564%! The latest growth of 7.4% in December in comparison indicates normalisation.

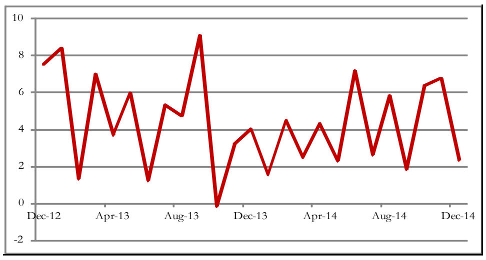
Fiscal situation:

In our November report, we carried a special report on the impact of falling oil prices; and one of our key messages was that it will considerably reduce the fiscal deficit. With three months to go and the government already breaching its deficit target for the whole year, the halving of oil prices has been a windfall gain. Reducing fuel subsidies and simultaneously increasing taxes on fuel products has brought in roughly $3.5bn.

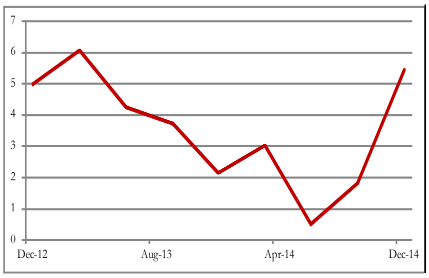
We also publish a monthly trade report. Our previous reports are accessible here.

GROWTH: *Core sector growth slows to 3-month low of 2.4% in December*

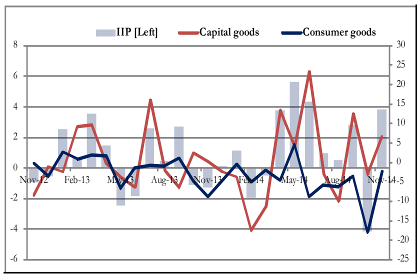
Core Infrastructure Industries



Projects Under Implementation

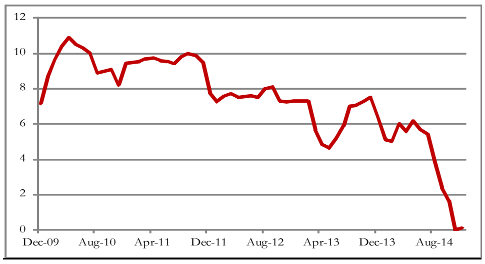


IIP/Capital/Consumer Goods

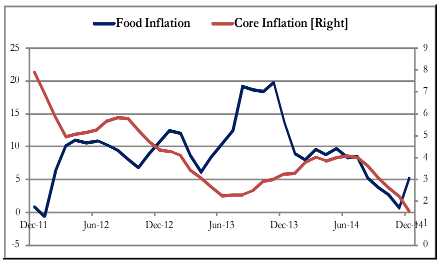


INFLATION: *Retail inflation up at 5% in December on higher food prices*

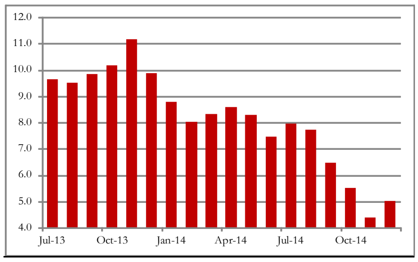
Wholesale Price Index (% y/y)



Food vs. Core Inflation (% y/y)

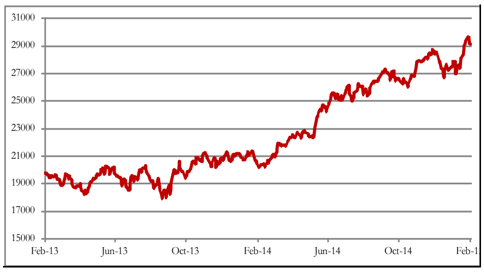


Consumer Price Index (% y/y)



MARKETS: *Sensex scales new heights*

SENSEX

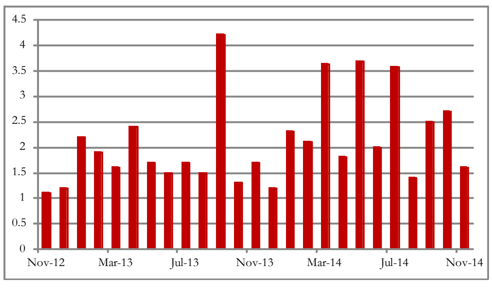


USD/INR

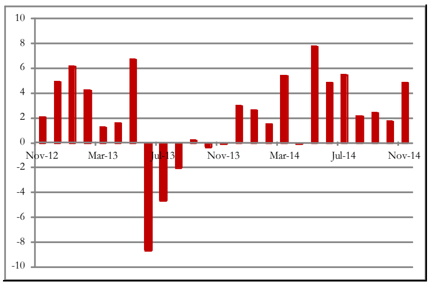
10yr Govt. Securities yield (%)

EXTERNAL: *FIIs increases to $4.8 bn in November 2014*

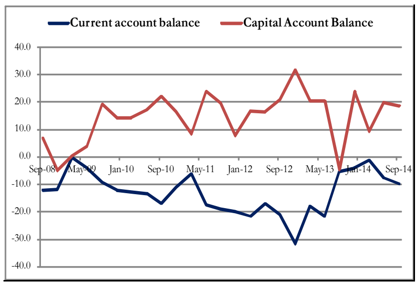
FDI ($ Bn)



FII ($ Bn)

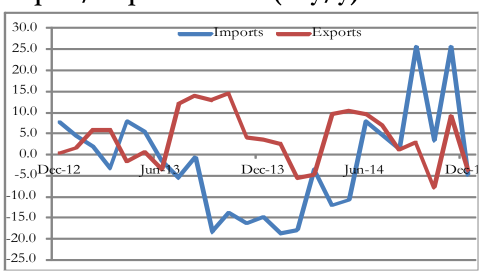


Current vs. Capital A/c ($ Bn)

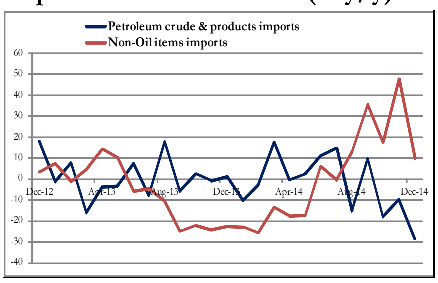


TRADE: *Trade deficit narrows to 10-months low of $9.4 bn in December 2014*

Export/Import Growth (% y/y)



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



Trade Balance ($ Bn)