SUMMARY

- Fiscal Consolidation – Budget clock ticks
- Trends in Credit Growth
- Special Feature: Start-up India

Fiscal Consolidation – Budget clock ticks

The Finance Minister, Arun Jaitley is set to announce the budget for FY17 on 29th February.

Last year, finance minister announced a fiscal consolidation roadmap with a fiscal deficit of 3.9% GDP for FY16 and gradually coming down to 3.5% in 2016-17 and 3% in 2017-18. The roadmap announced a reduction of interest payments and unlocked funds for social welfare programmes and infrastructure development. Spending on roads and railways were increased by £1.4bn and £1bn respectively, with total investment in infrastructure going up by £7bn in 2015-16 over 2014-15.

The story this year has been overall positive, with the fiscal deficit from April-December standing at 88% of the full-year target compared to 95% in the same period previous year. Capital expenditure increased by 63%, while revenue expenditure contracted by 18%.

On revenue side, the target for direct taxes collection this fiscal was £8bn, and net collections currently stand at about £5.2bn falling short of the target.

However, the fiscal gap may be bridged by additional revenue. Indirect tax collections are buoyant and should make up for the shortfall in direct taxes. In the last Budget, the government announced excise duty hikes on diesel and petrol, withdrawal of exemptions from motor vehicles, capital goods, and consumer durables, a levy of 0.5% to fund the Clean India campaign and an increase in the service tax rate to 14% from 12.36%.

With a tight walk ahead on his fiscal roadmap, how Arun Jaitley tackles adjustments remains to be seen.

Start-up India

Last August, on Independence Day, Modi announced a 'Start up India, Stand-up India' campaign. In January, the action plan was unveiled. While Start-up India aims to support budding start-ups and catalyse entrepreneurship, Stand-up India encourages greenfield enterprises by scheduled castes and women.

The government has promised a fund with an initial corpus of £250m and a total corpus of £1bn over four years, to be managed by a board of private professionals. The fund will participate in venture funds, and invest in sectors such as manufacturing, agriculture, health, and education. A credit guarantee mechanism will help start-ups raise debt funding through the formal banking system with an annual corpus of £50m for the next four years. The government will also launch a mobile app and a portal, through which start-ups can register their company in a day, serving as a single point of contact for clearances, approvals and registrations. The government will allow start-ups to self-certify compliance on nine labour and environment laws through the app. No inspections will be conducted for three years. Further relaxation of public procurement norms and faster exit policies for start-ups are a few of the major areas under the action plan.

The most immediate benefits are tax breaks and funding support. Start-ups will be exempt from income-tax and capital gains for three years. The government launched a policy on pilot basis to reduce cost and protect intellectual property rights for start-ups. The government has also distinguished between small enterprises and start-ups based on their degree of 'innovation'.

Trends in Credit Growth

Despite a pick-up in GDP growth and gradual reforms, credit growth has been relatively subdued. Overall growth in December was 5.4% (y/y) as compared to a 4.9% increase in 2014. In April-December 2015 credit growth to industry actually slowed, increasing by only 1.4% as compared with 1.7% in April-December 2014. This trend was observed in all major sub-sectors except chemical and chemical products and basic metal and metal products. However, credit to the services sector increased by 3.2% against a contraction of 0.1% over the same period last year, with retail trade and professional services particularly strong. Personal loans increased by 14%, up from 13.4% last year.

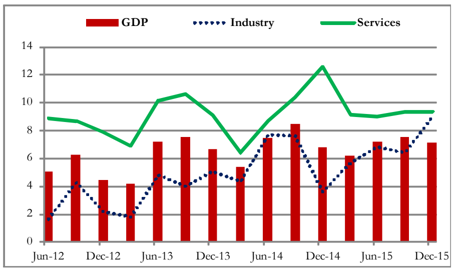
While there is a revival in credit growth of housing loans; vehicle loans decelerated sharply due to lacklustre demand for light commercial vehicles. Due to the poor monsoon, credit growth to agriculture and allied activities slowed, increasing by 10% in comparison to 12.2% a year ago.

Monthly Economic Report January 2016

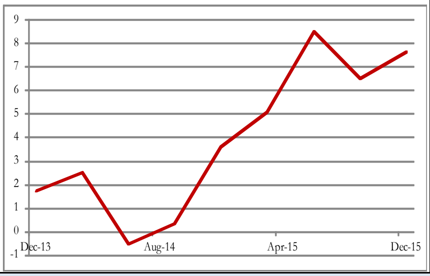
British High Commission New Delhi

GROWTH: *Uptick in Industry growth due to spike in manufacturing by 12%*

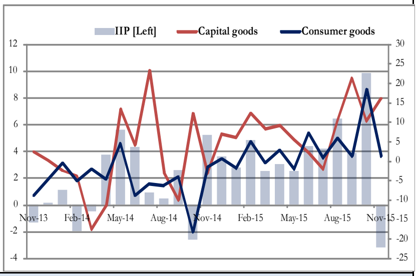
GDP



Projects Under Implementation



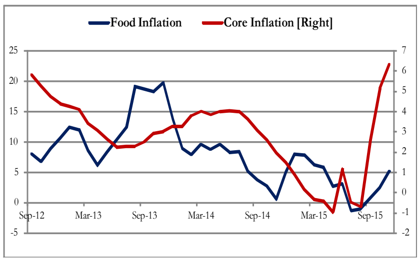
IIP/Capital/Consumer Goods



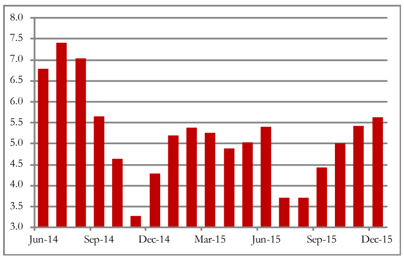
INFLATION: WPI *Food Inflation at peak on 8.2% due to rise in prices of onion and pulses.*

Wholesale Price Index (% y/y)

Food vs. Core Inflation (% y/y)

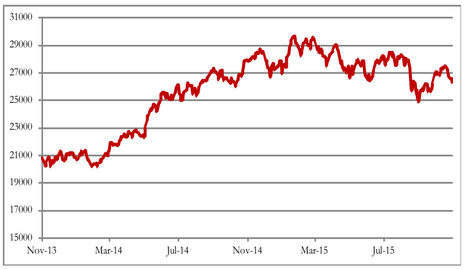


Consumer Price Index (% y/y)

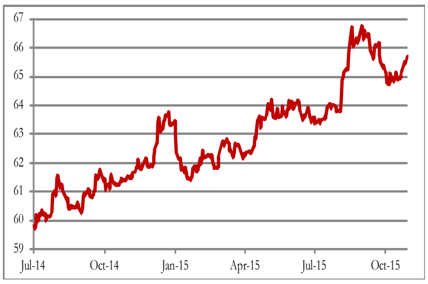


MARKETS: *Rupee weakens further. Sensex down by 6%*

SENSEX



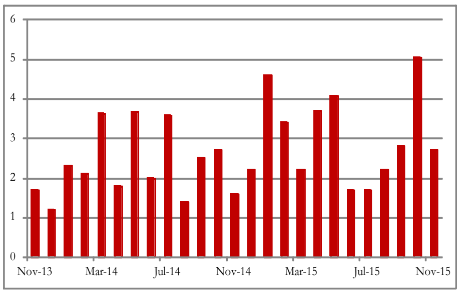
USD/INR



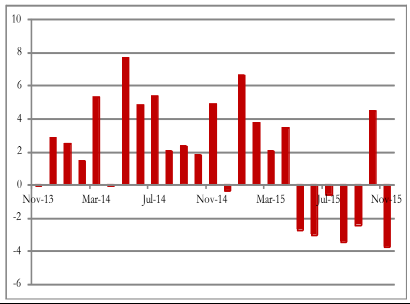
10yr Govt. Securities yield (%)

EXTERNAL: *FIIs pull out $1.8bn.*

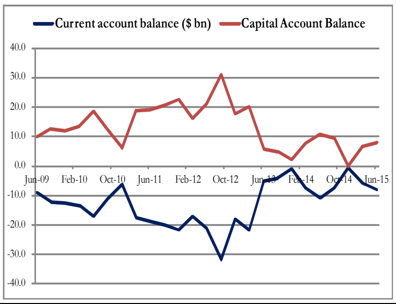
FDI ($ Bn)



FII ($ Bn)

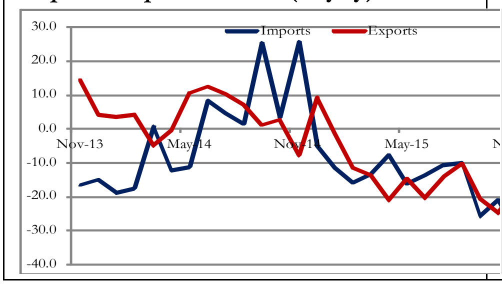


Current vs. Capital A/c ($ Bn)

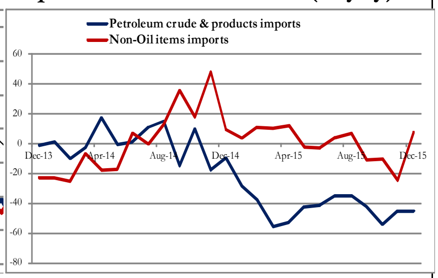


TRADE: *Increase in imports due to correction in Gold prices.*

Export/Import Growth (% y/y)



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



Trade Balance ($ Bn)