

# Economic Framework – Domestic Context

Flame University Jan 2021

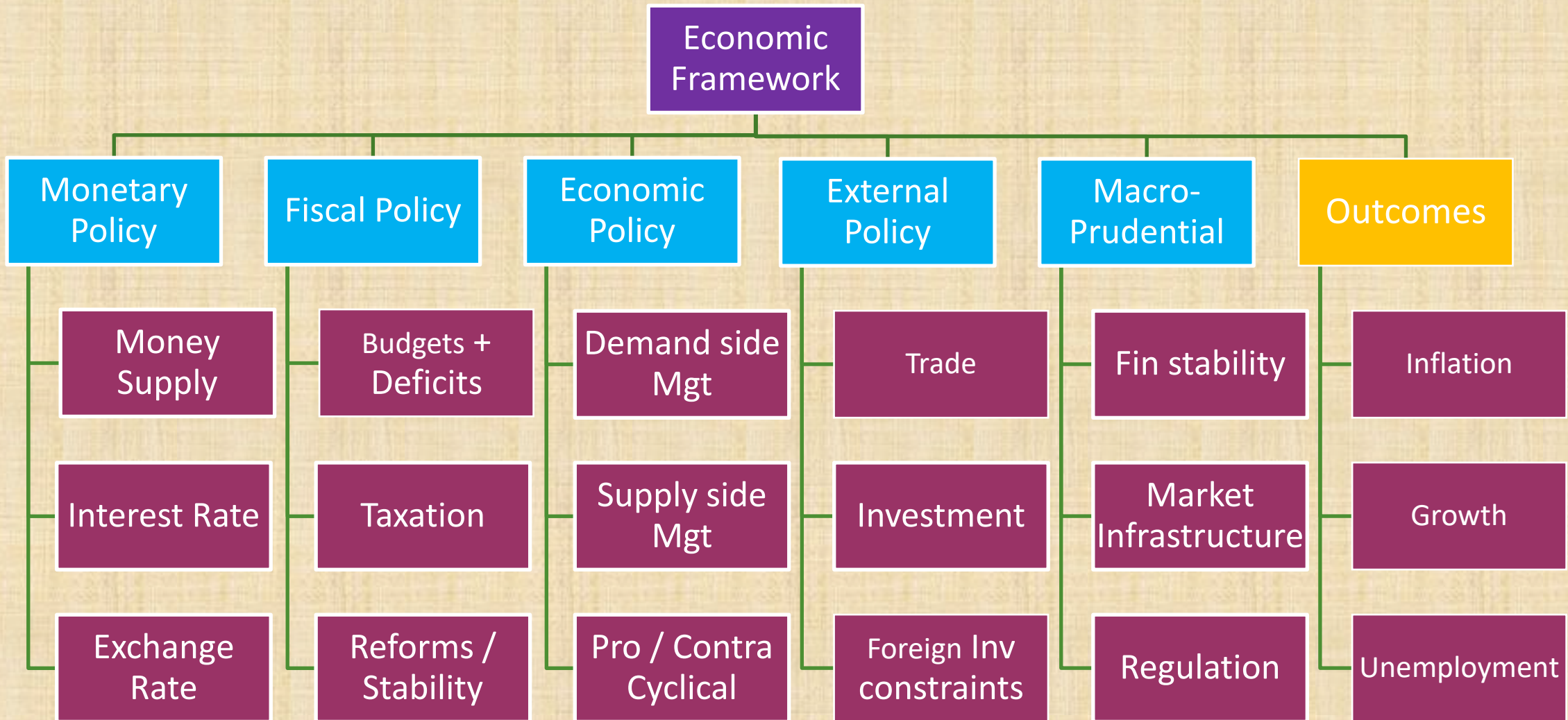
Utpal Sheth

R^RE Enterprises

# Economic Framework: Building Blocks

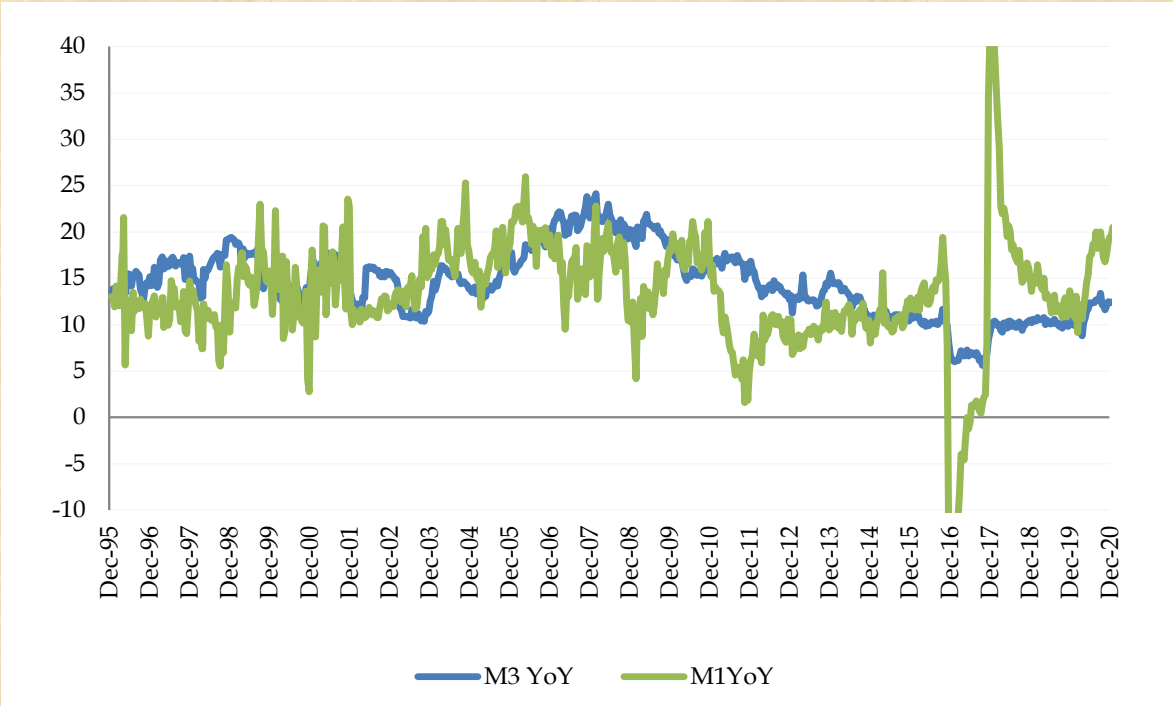
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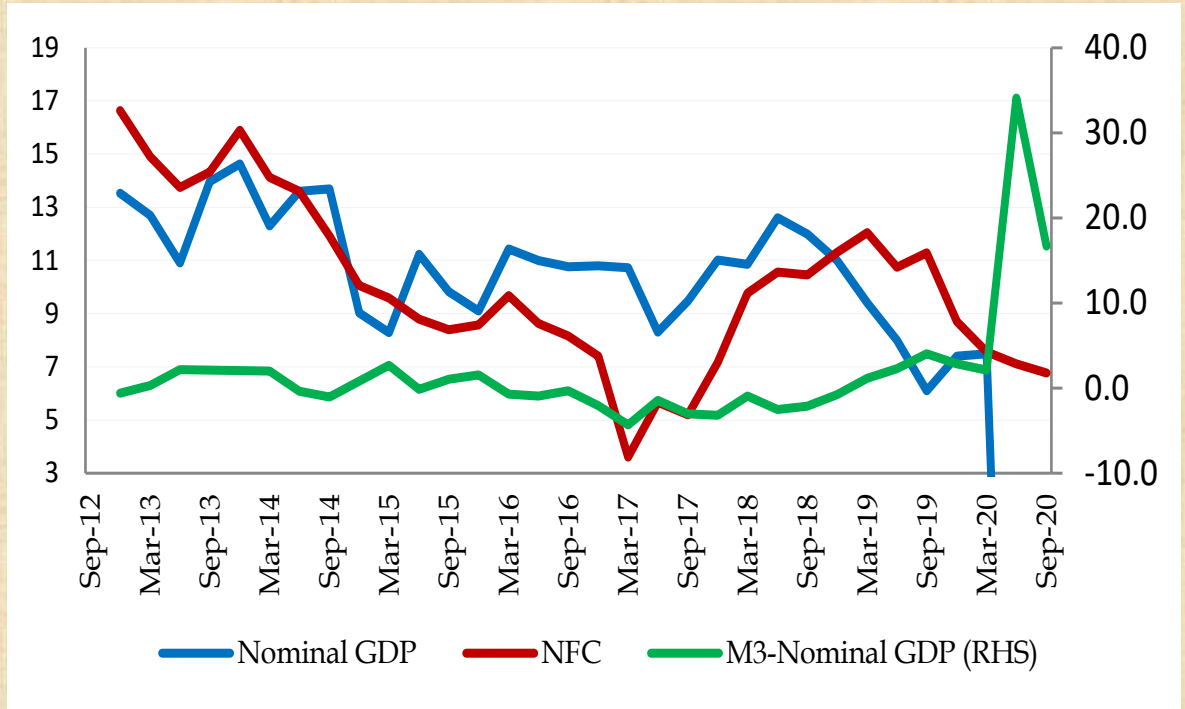


# Monetary Policy: Money makes the world go round!

Money Supply Growth

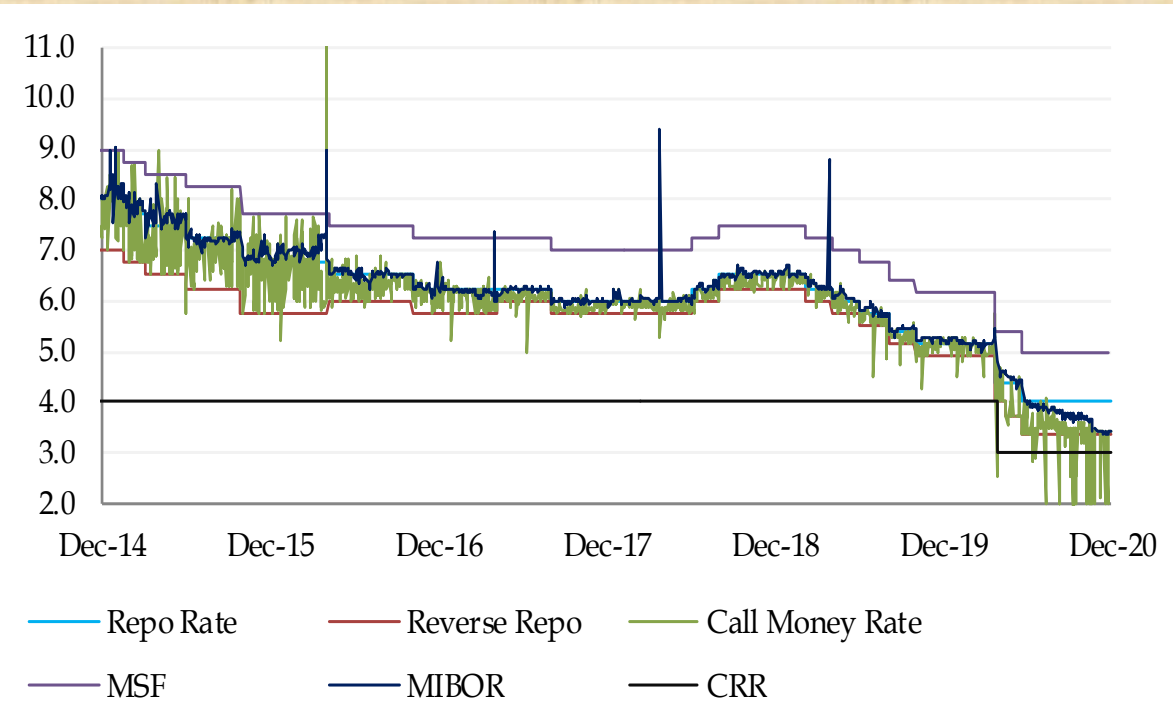


Monetary Slack

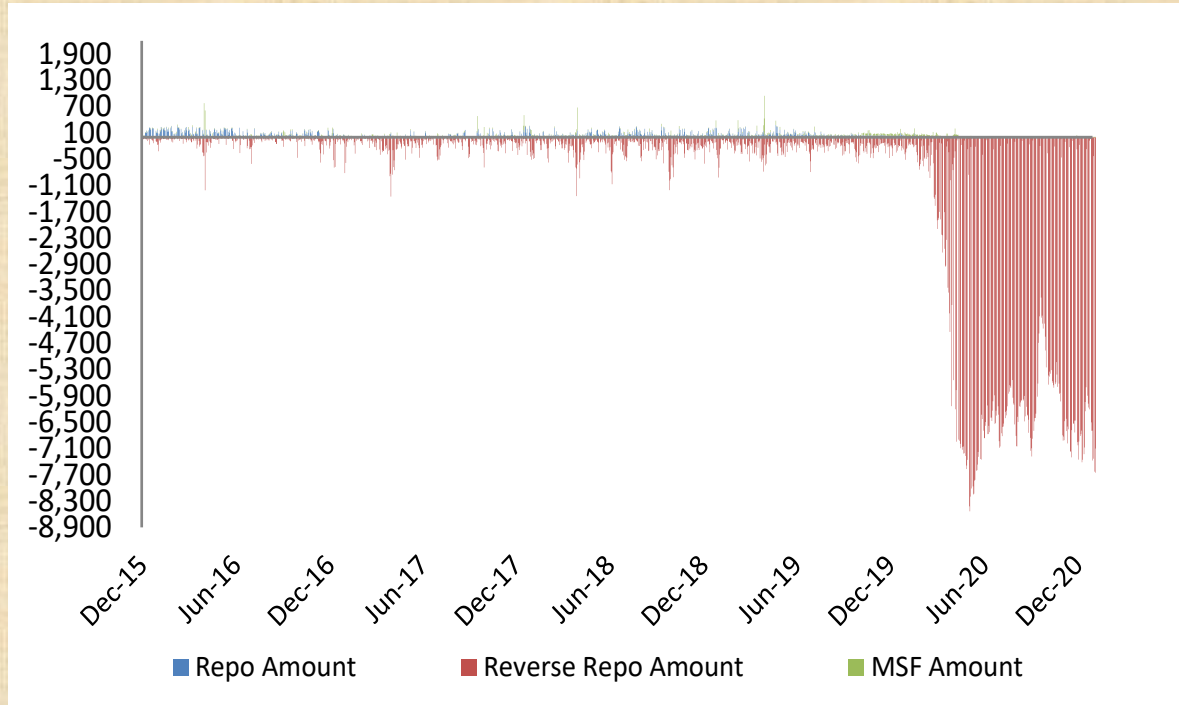


# Monetary Policy: Liquidity pushes Rates outside the corridor!

Policy Rates

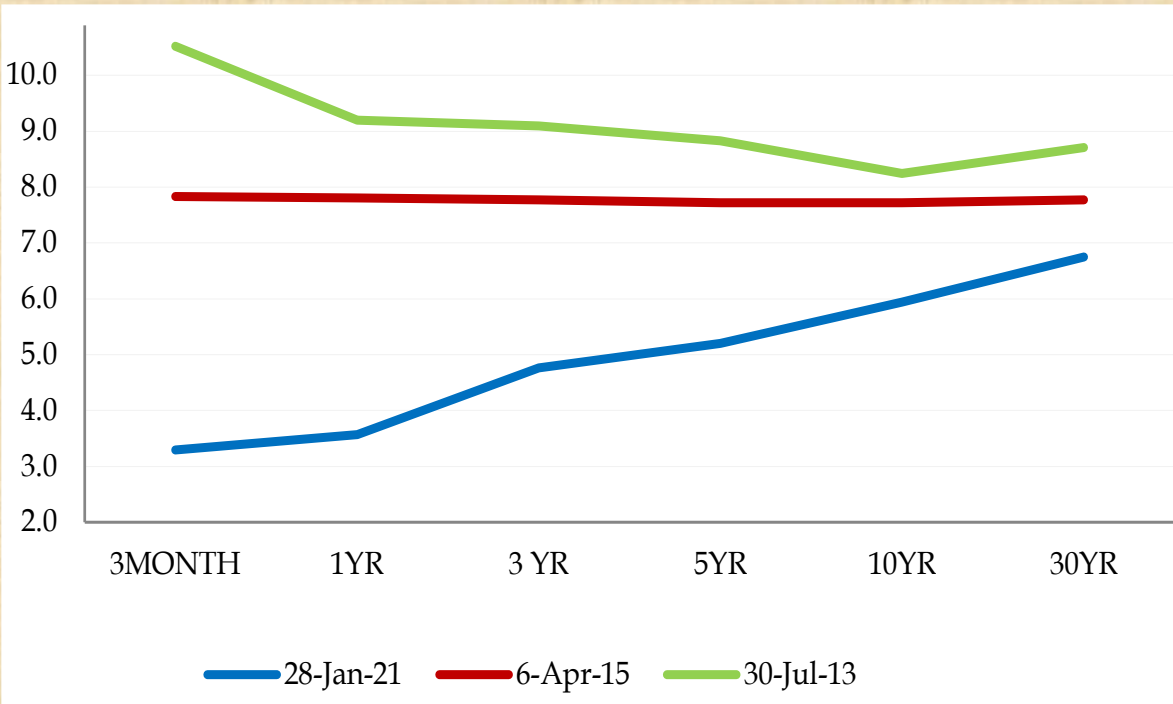


Liquidity Adjustment Facility (Rs. B)

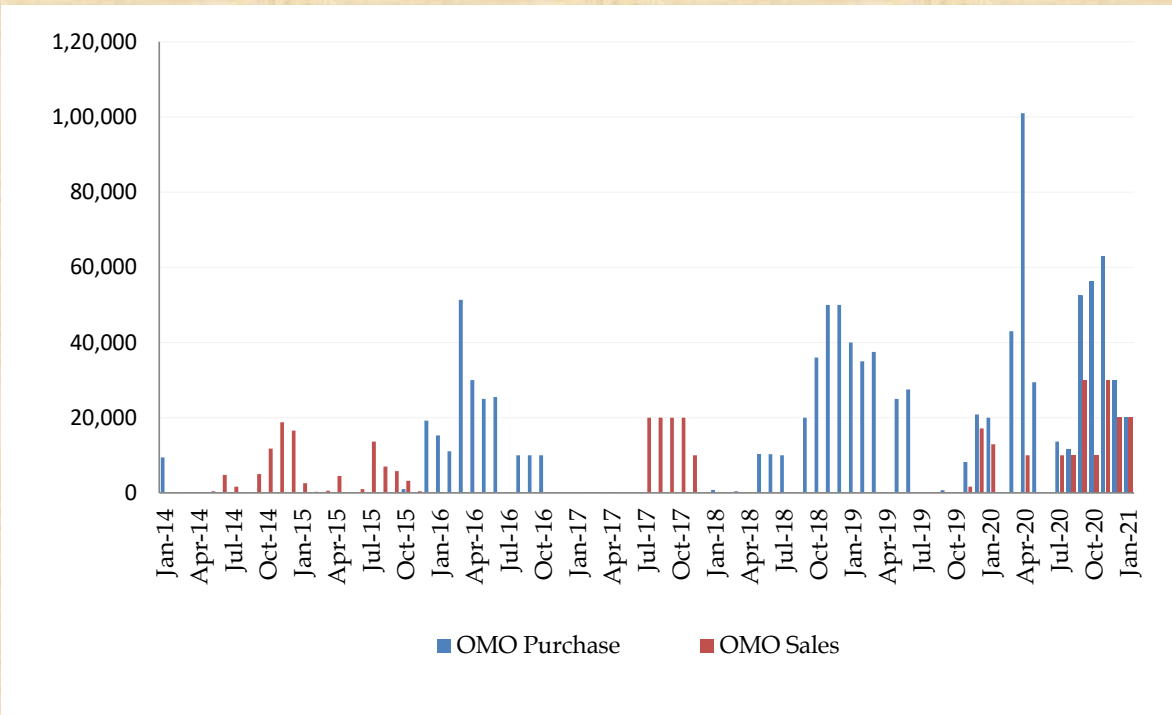


# Monetary Policy : Steeper Yield Curve despite OMO by RBI

Yield Curve Shift



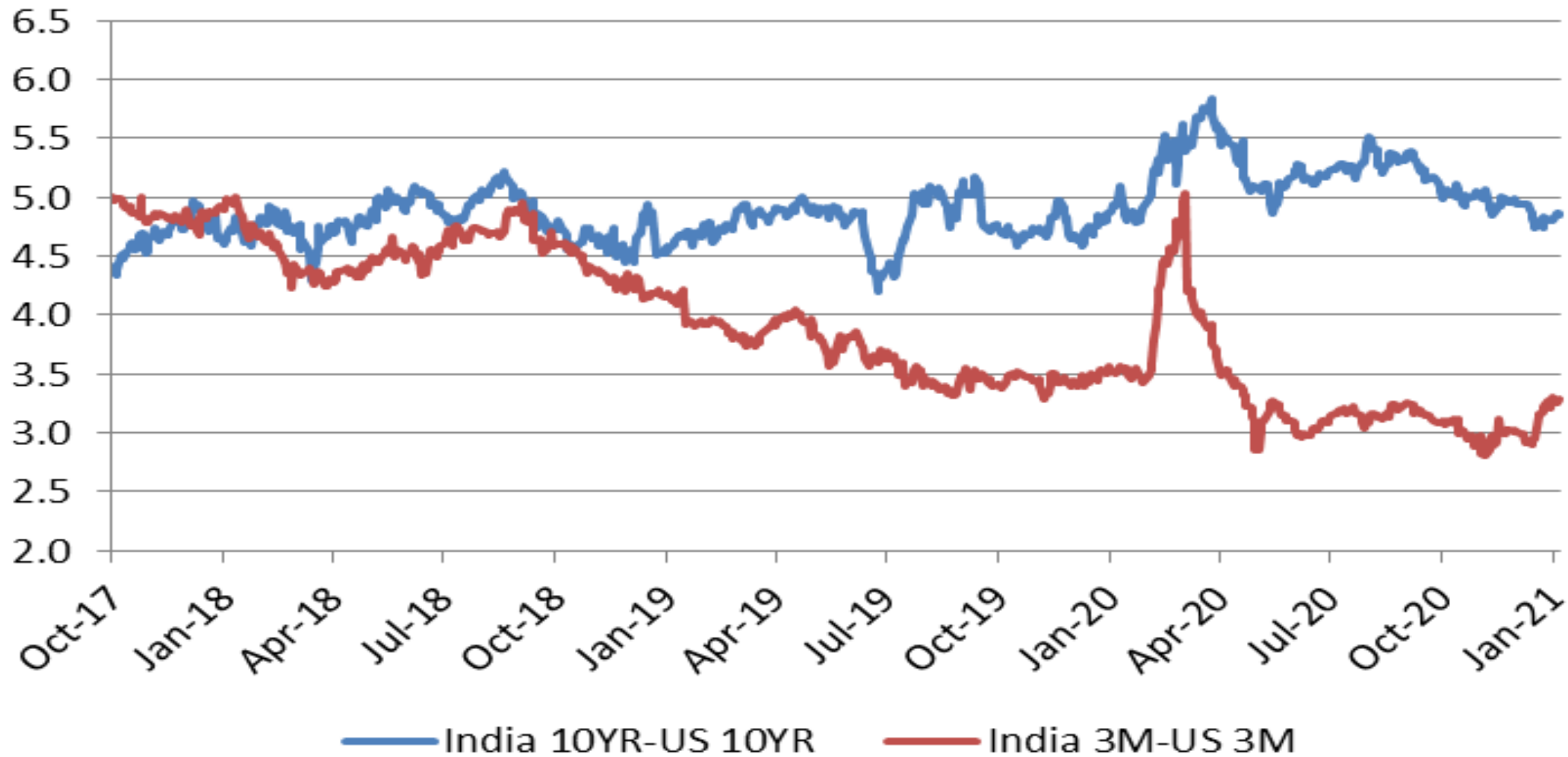
Net RBI OMO Sale/Purchase(Rs Cr)



# Monetary Policy: Rate Differentials over time

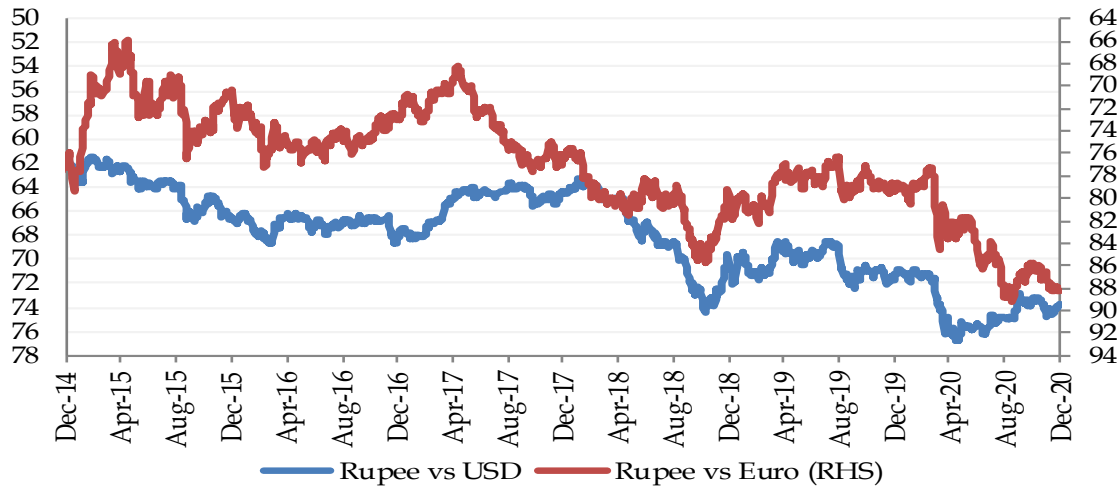
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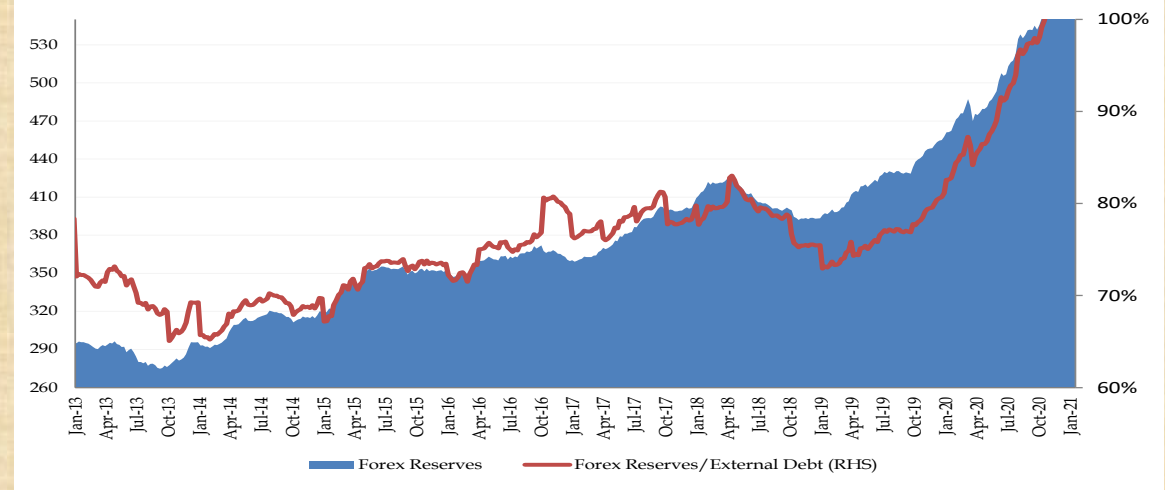


# Monetary Policy: Flows driving Forex!

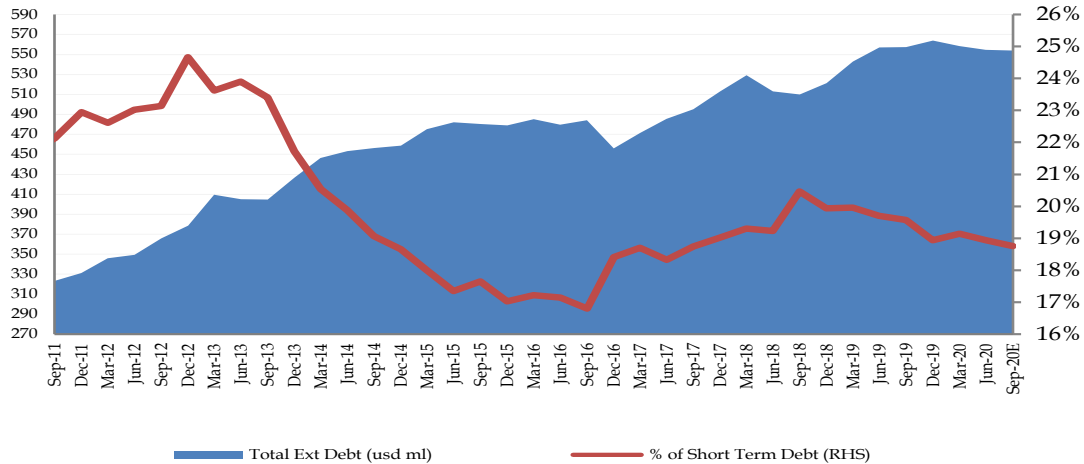
INR against USD and Euro



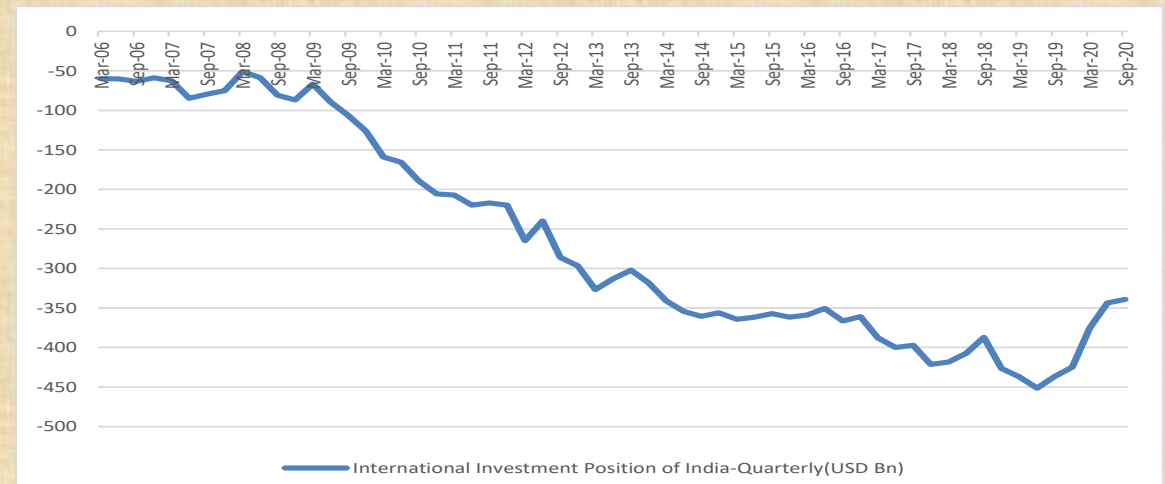
Foreign Exchange Reserves (\$B)



External Debt (\$B)

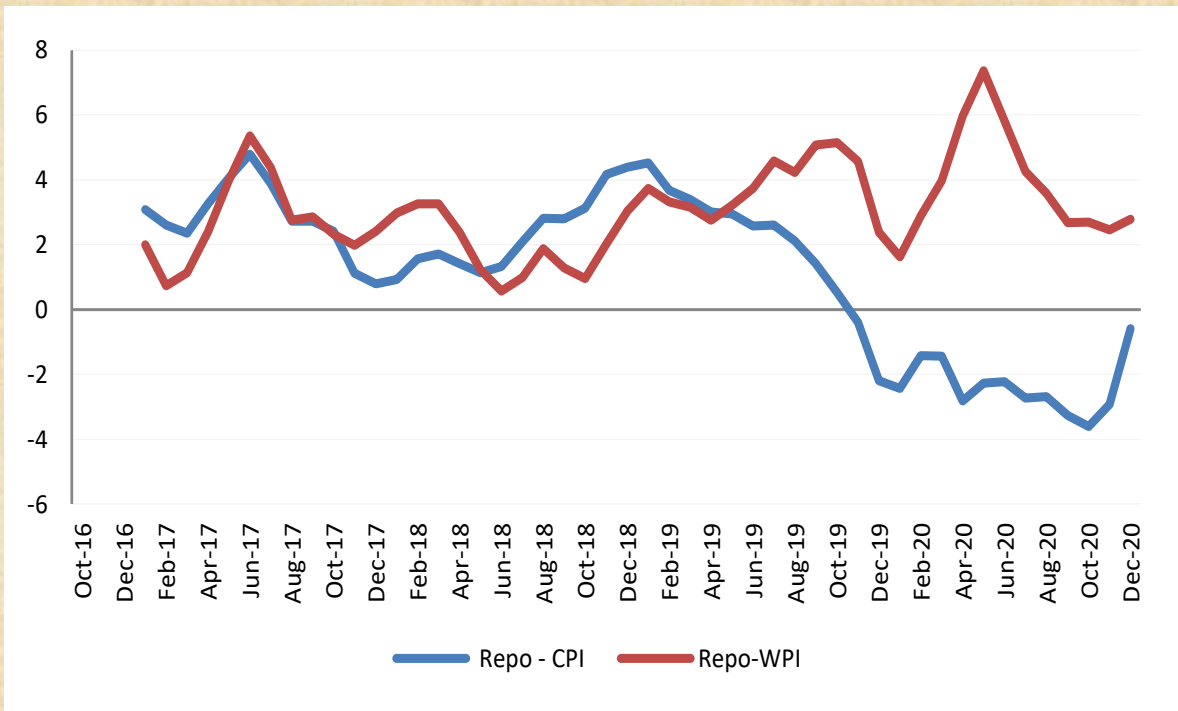


Net International Investment Position(\$B)

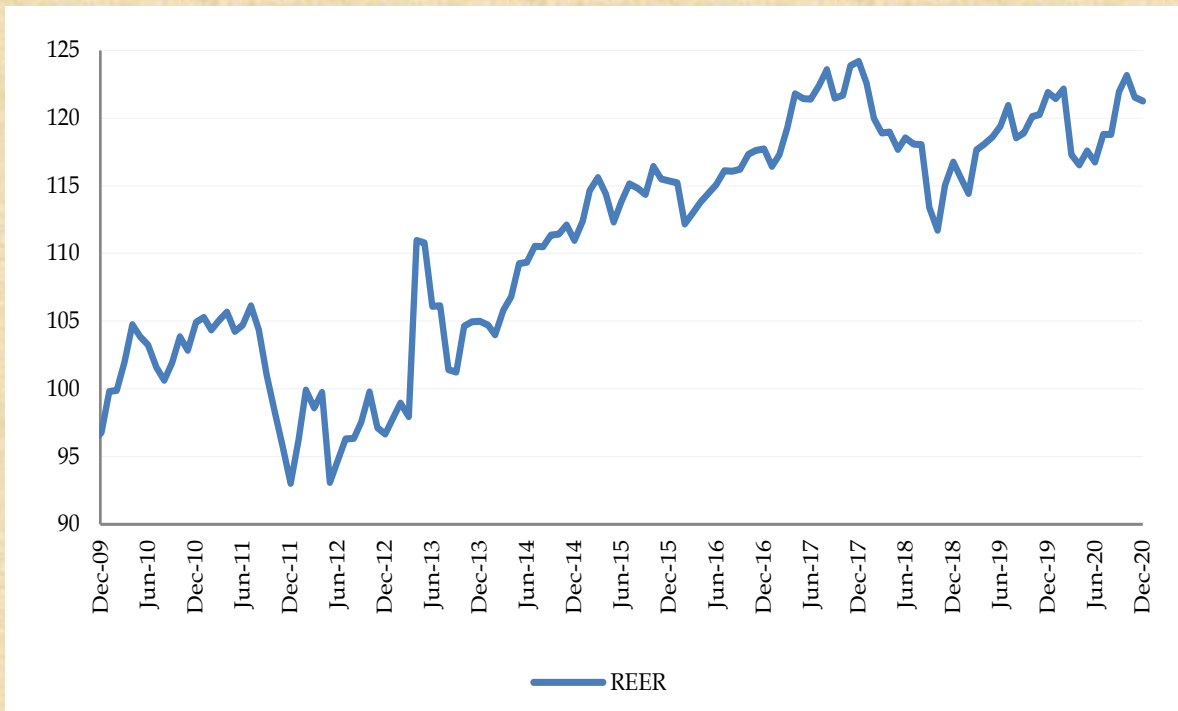


# Monetary Policy: Negative Real Rates + High REER = Lethal Combination!

Real Rates



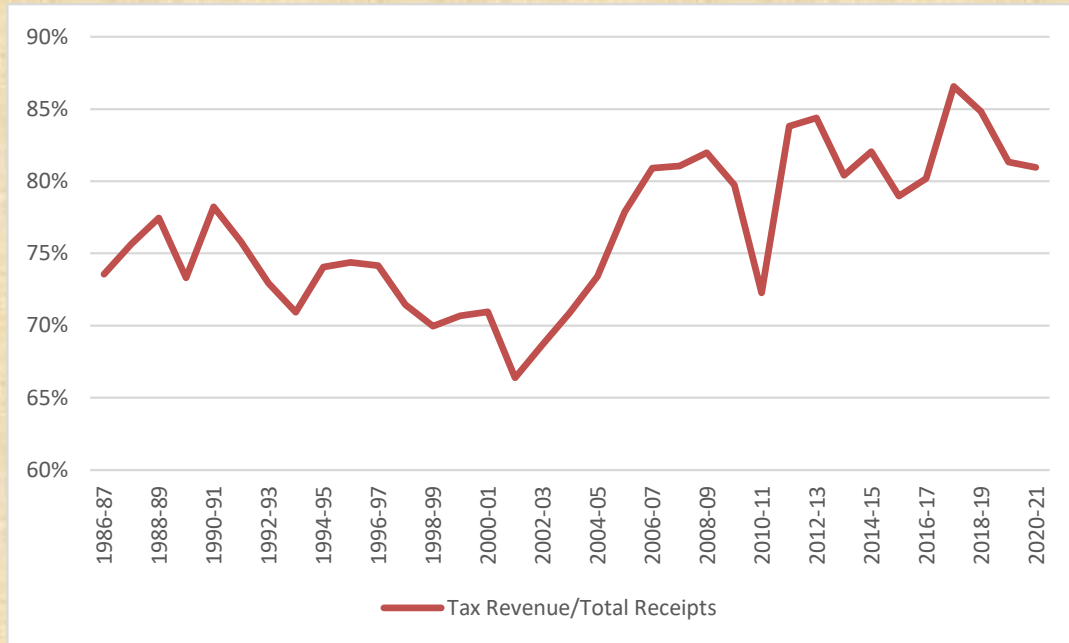
Real Effective Exchange Rate



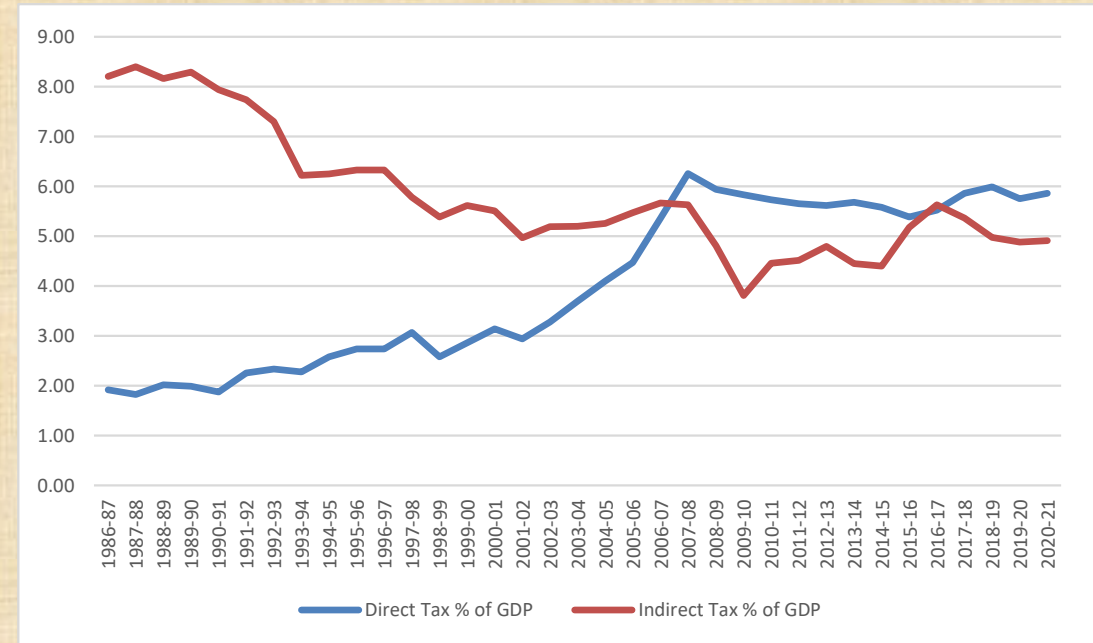


# Fiscal Policy: Change in Tax mix imperative!

### Tax as % of Government revenue

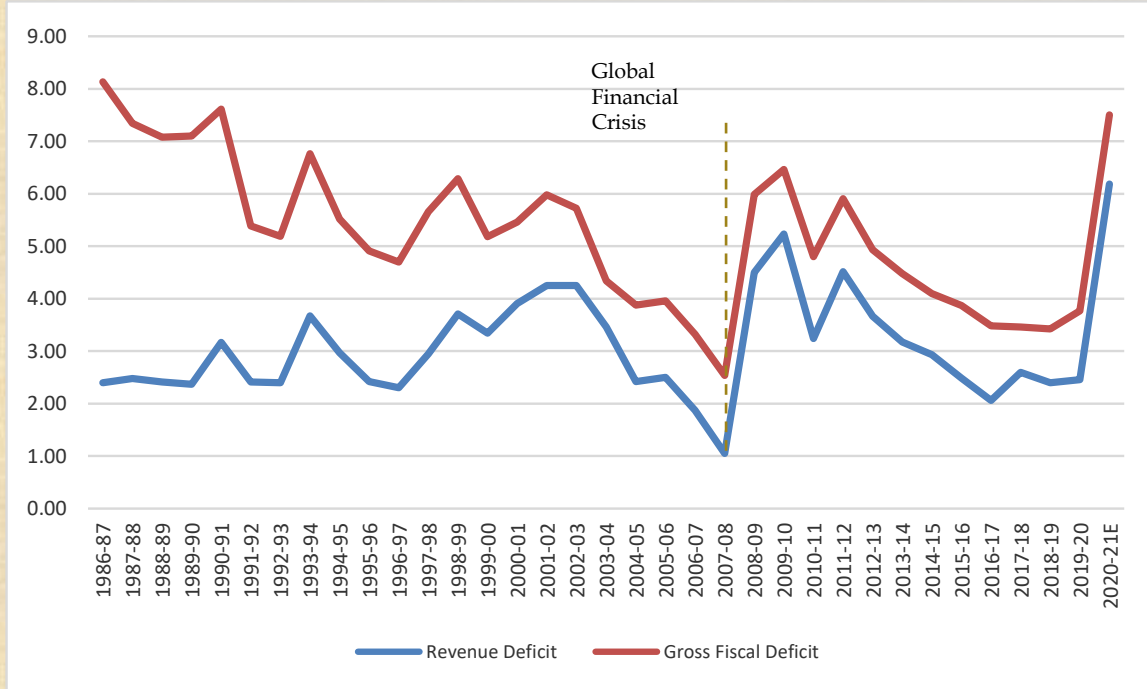


### Tax as % of GDP

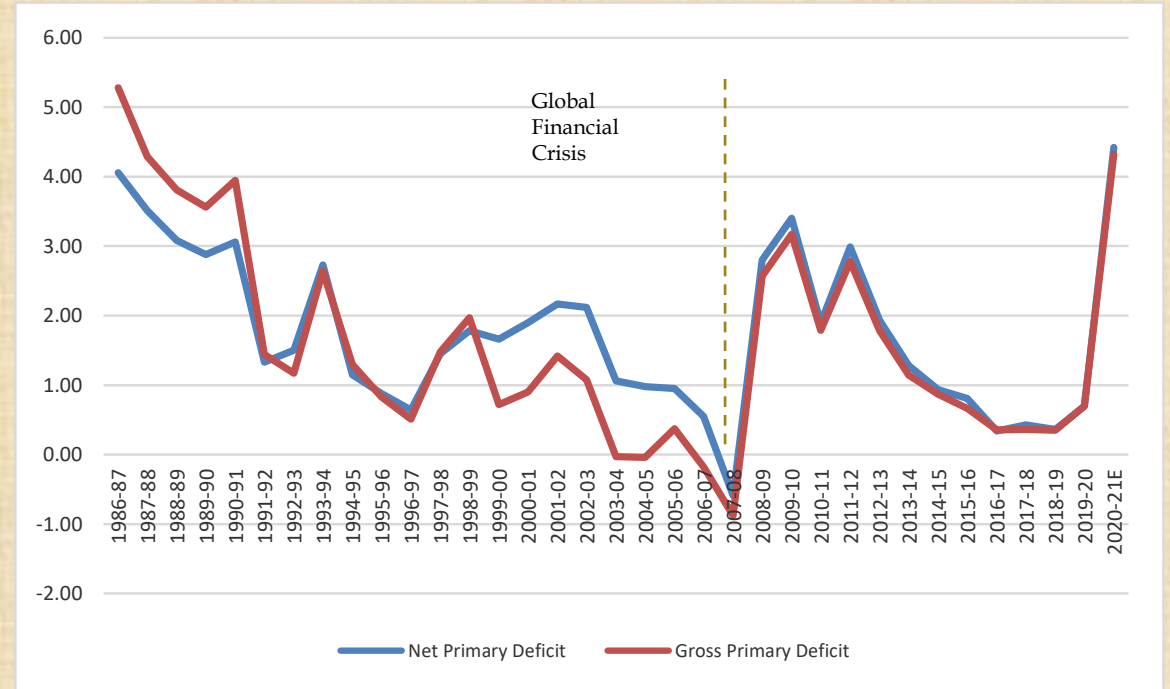


# Fiscal Policy: Fiscal Deficit spike an aberration or a norm?

Revenue and Fiscal Deficits (as % of GDP)



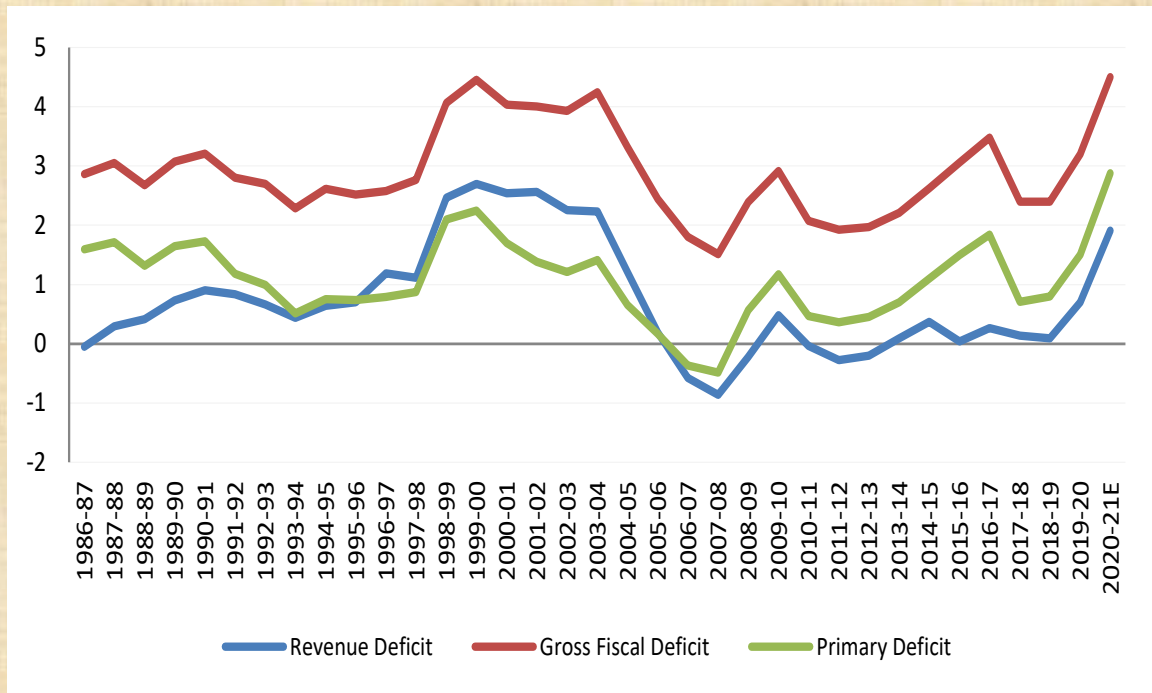
Primary Deficit (as % of GDP)



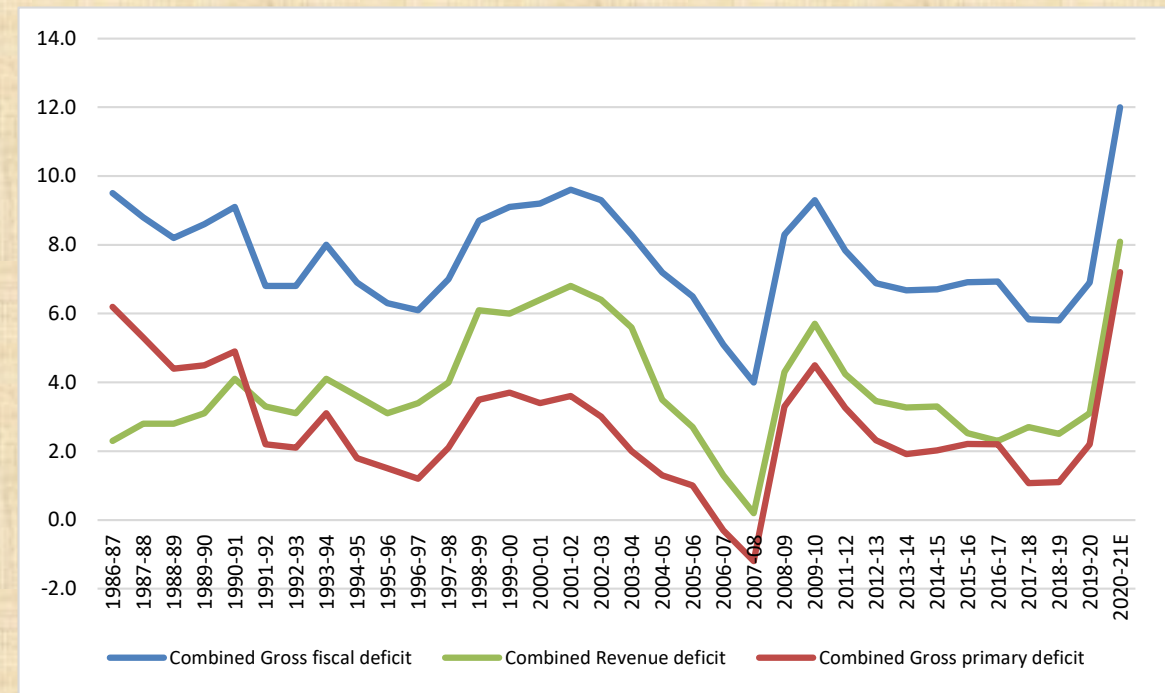
# Fiscal Policy : Combined Deficits sustainable? IEBR, Gol Serviced and Guarantees?



State Budget Deficits (as % of GDP)



Combined Budget Deficits (as % of GDP)



# Economic Policy: Structural Change!

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## Reforms already done

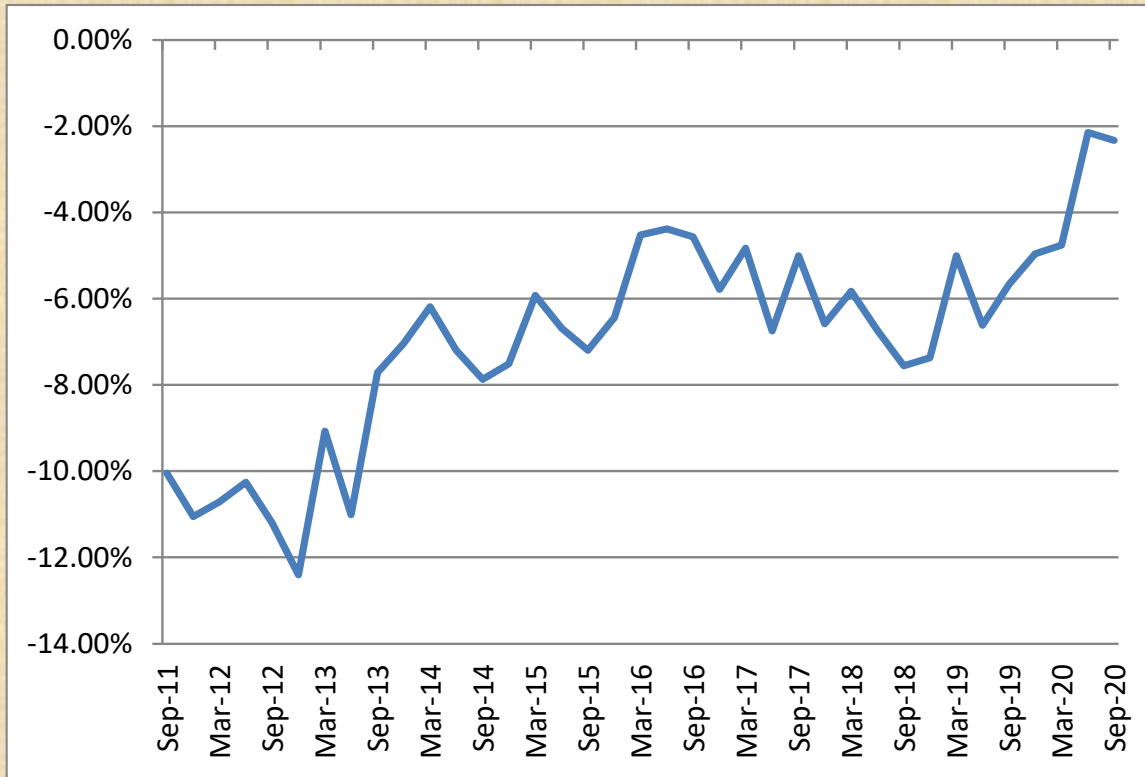
- JAM + UPI + India Stack
- Demonetisation + GST
- IBC
- Protectionism + PLI
- Corporate Tax rate cut
- Labour + Agriculture

## Reforms not visible to all

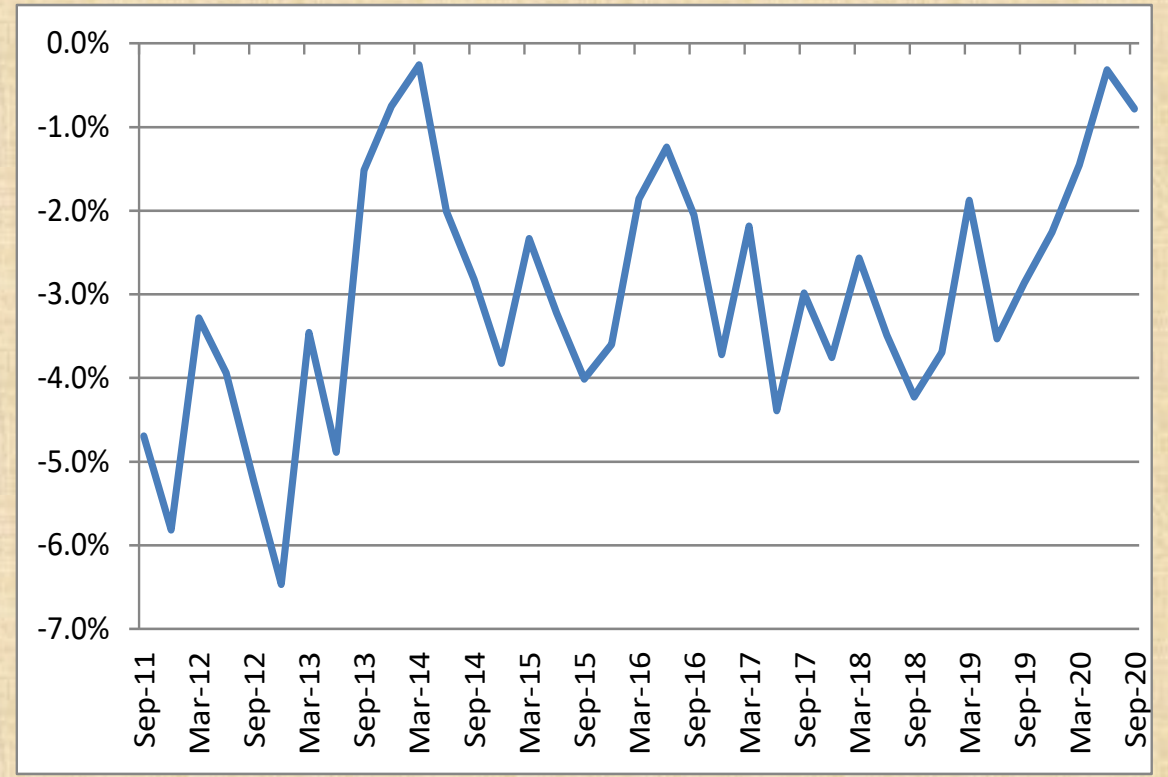
- Demand-side management → Supply-side management
- Prioritising Fiscal prudence over Contra-cyclical push
- Prioritising Financial discipline vs. Zombie companies
- Prioritising “Children” rather than “Dwarfs”
- Pro-cyclical vs. Contra-cyclical
- “Choices have consequences” message

# External Policy: What does Trade Balance reflect?

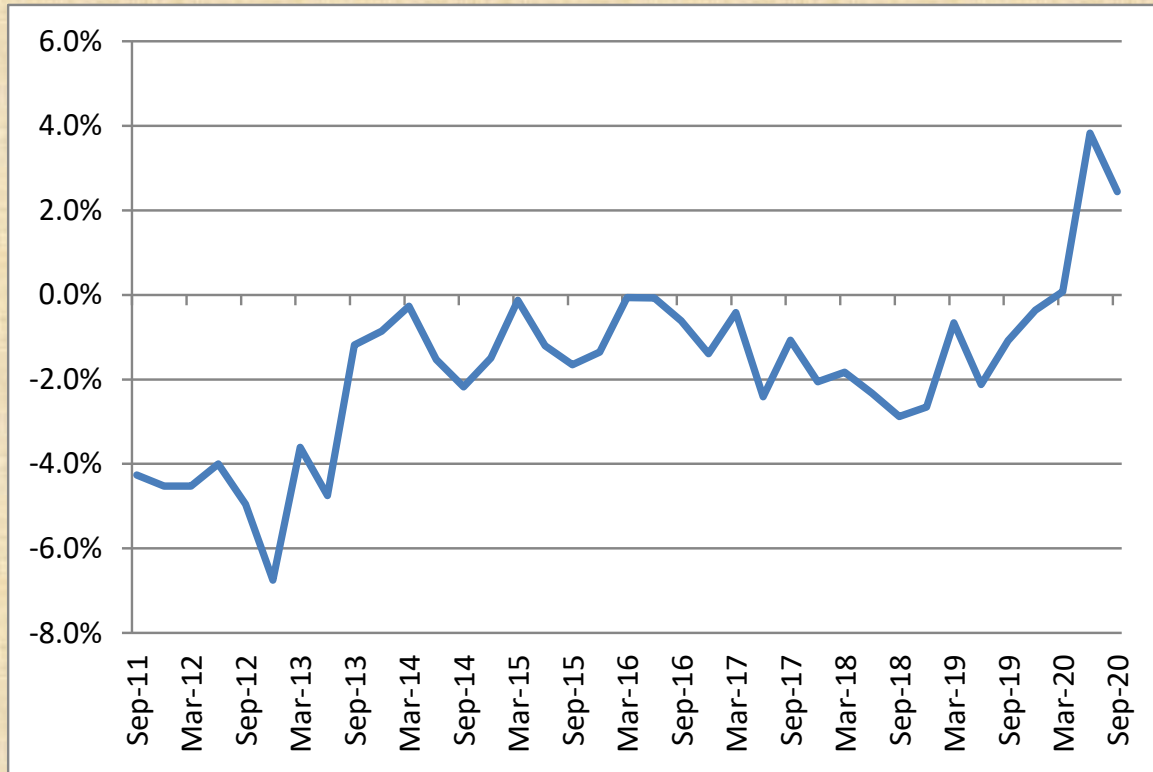
**Trade Balance (as % of GDP)**



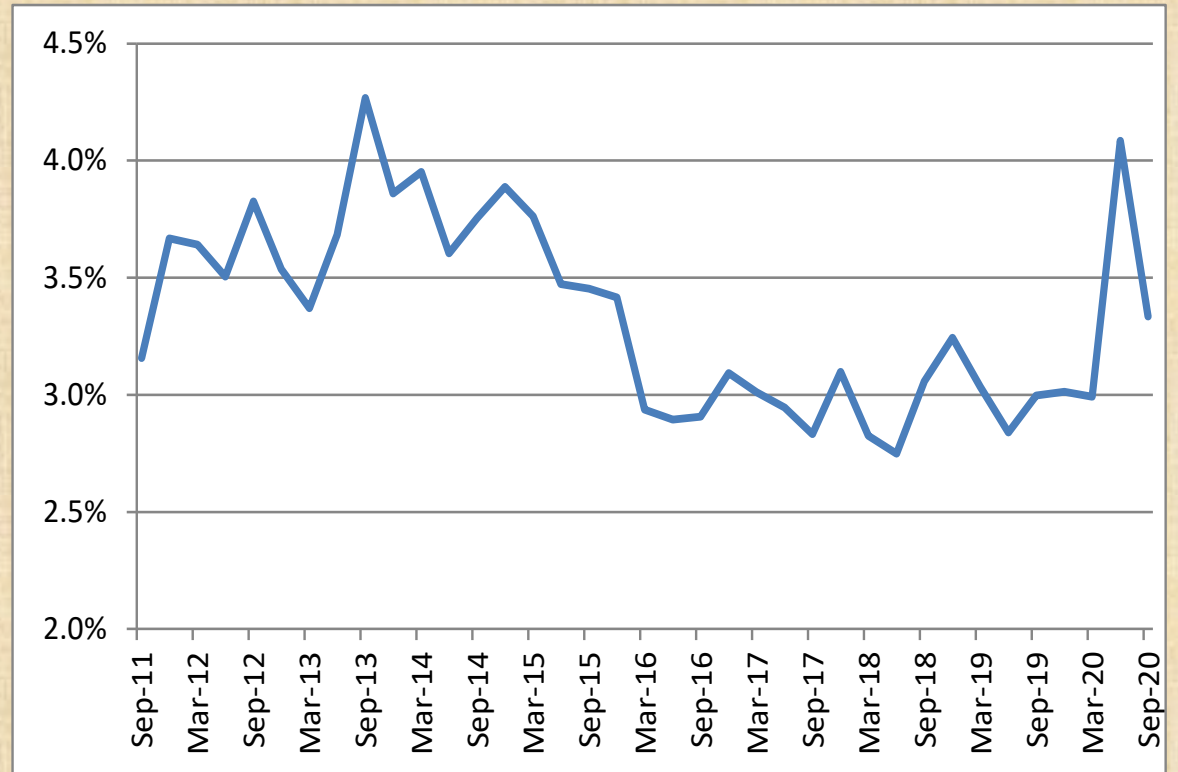
**Non Oil Trade Balance (as % of GDP)**



Current Account Deficit (as % of GDP)

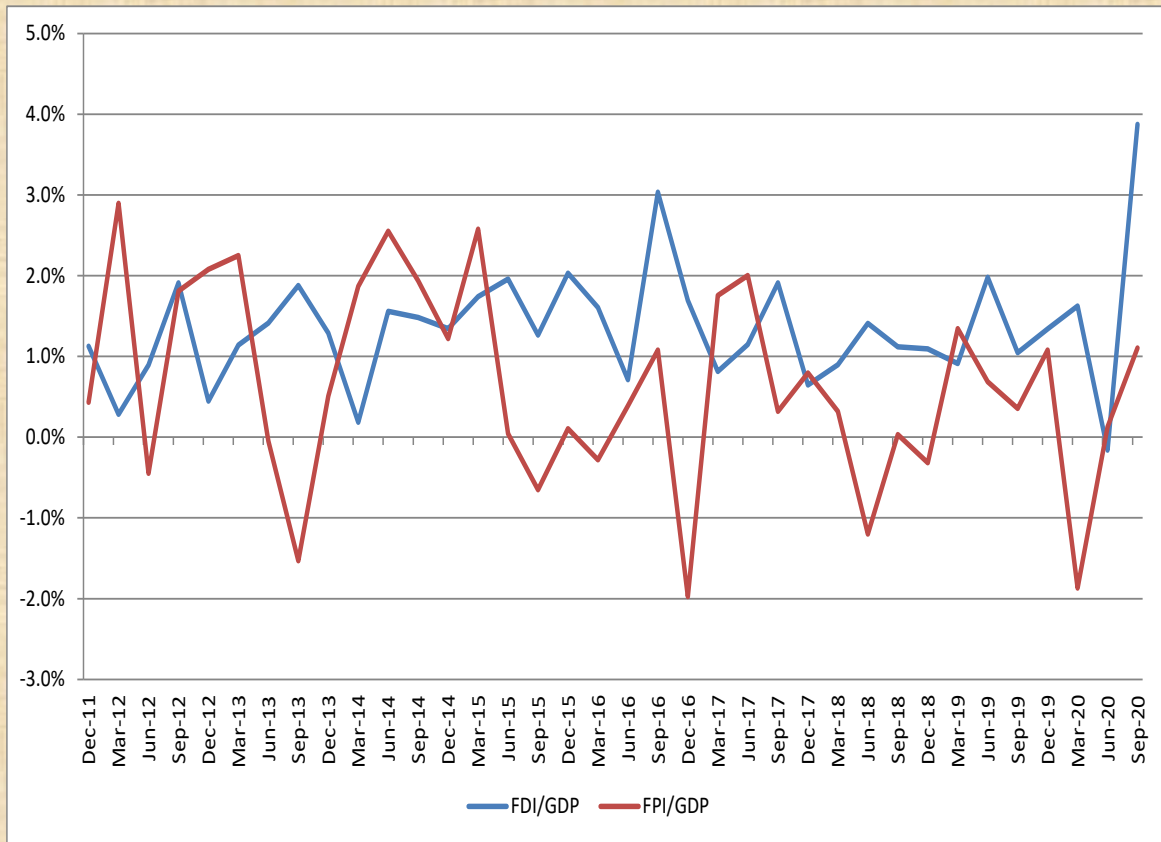


Net Services Inflow as % of GDP (as % of GDP)

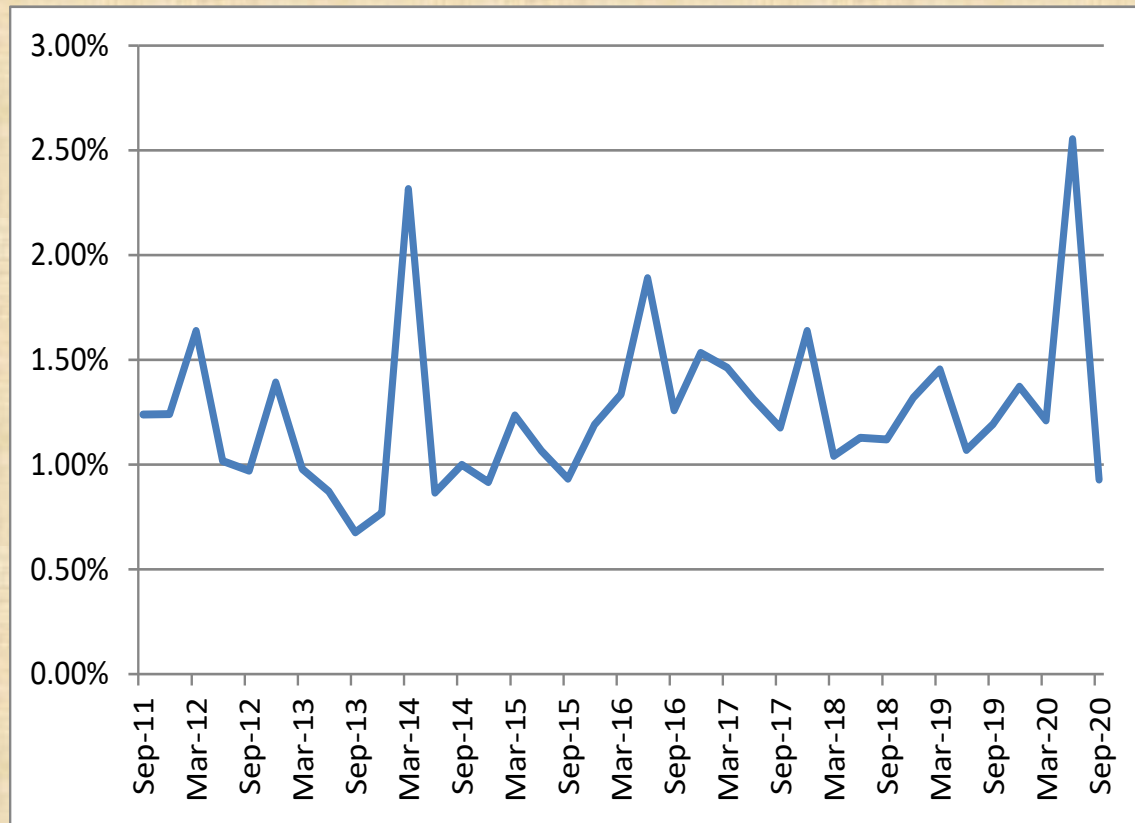


# External Policy: Foreign Interest in India leads to challenge of plenty!

**FDI & FPI (as % of GDP)**



**Outbound FDI (as % of GDP)**



- Negative List - Banned or prohibited items
- Anti-dumping and Countervailing Measures, Tariffs
- Minimum Import Price
- Export Subsidies and Domestic Support
- Ownership Restrictions by country of Origin
- Sectoral Caps – Multi-brand Retail, Insurance, NBFC
- Global Bond Indices inclusion



- ❖ AQR-RBI implemented asset quality review in 2015, accelerating bad asset recognition
- ❖ Bank recapitalisation
- ❖ Bank mergers, Yes Bank and LVB Rescue
- ❖ Exchanges, Corporate Bond Markets, IRF, CDS, Commodity Derivatives, Energy Exchange
- ❖ NBFC categorization and new regulations
- ❖ RBI, SEBI, IRDAI, FSDC → Robust and resilient Regulatory framework

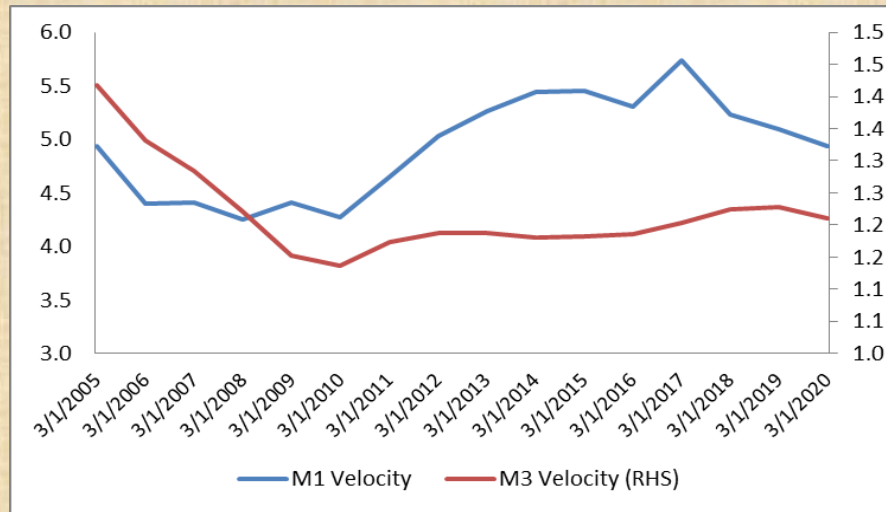
- ❖ Output Gap constrains Private Capex
- ❖ Savings unavailable for Private sector
- ❖ Credit growth anaemic due to risk aversion of both borrowers and lenders
- ❖ Delicate balance of Fiscal Deficit and Debt/GDP
- ❖ Infra buildout imperative, but animal spirits missing despite low interest rates
- ❖ Privatisation necessary to bridge revenue mismatch for GoI

# Constraints and Challenges: Money, Credit and Animal Spirits?

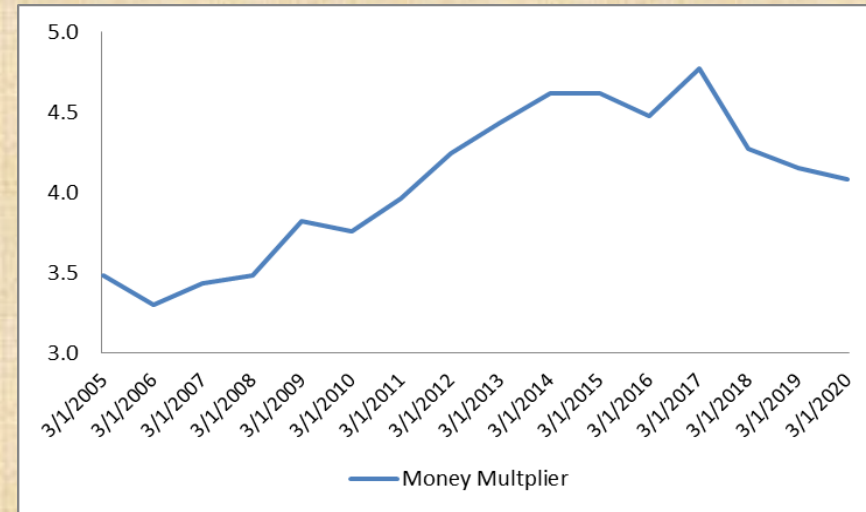
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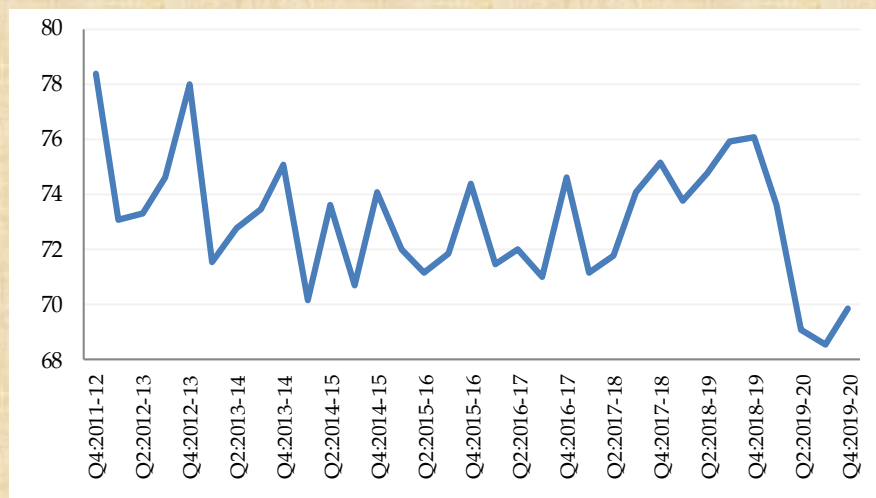
### Velocity of Money



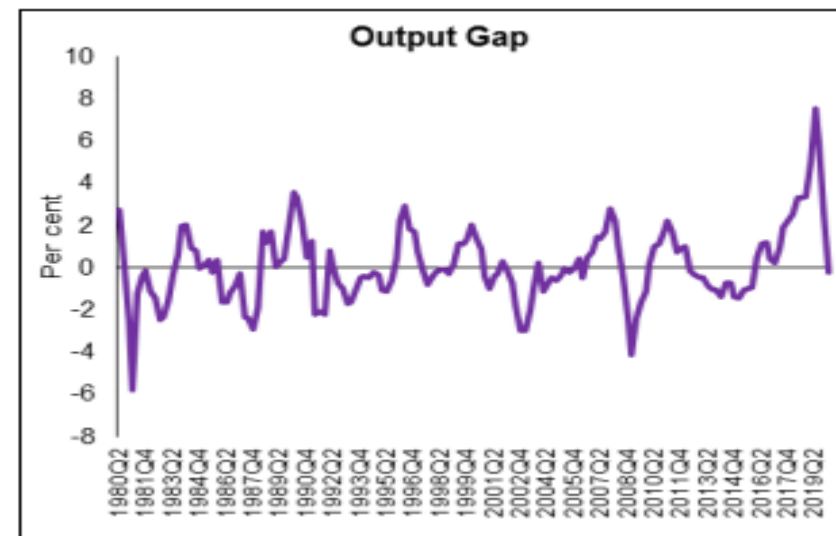
### Money Multiplier



### Capacity Utilisation (OBICUS %)

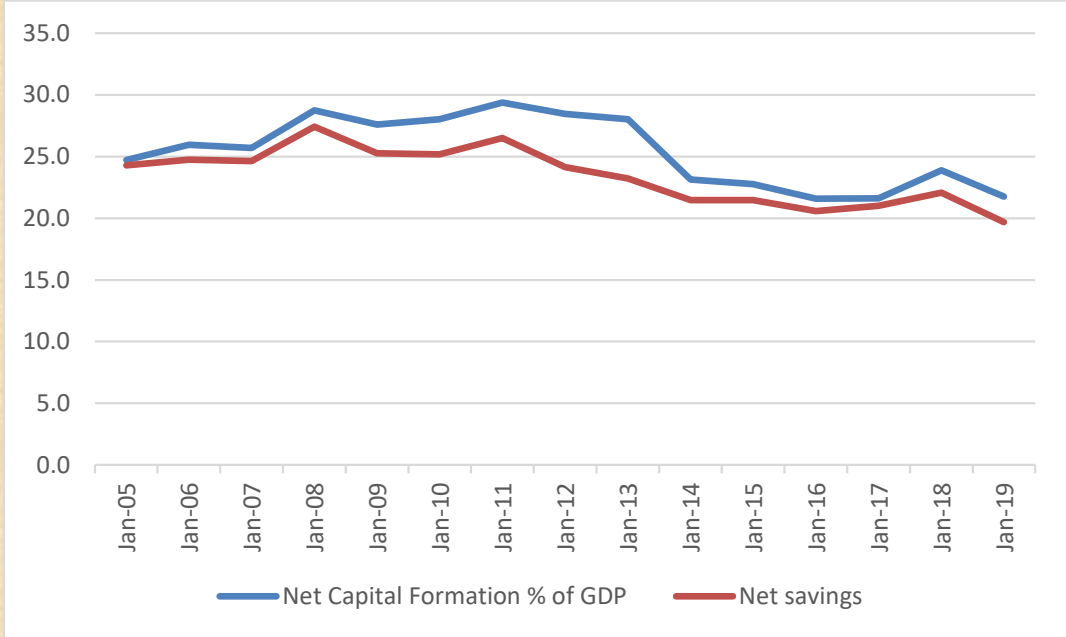


### Output Gap

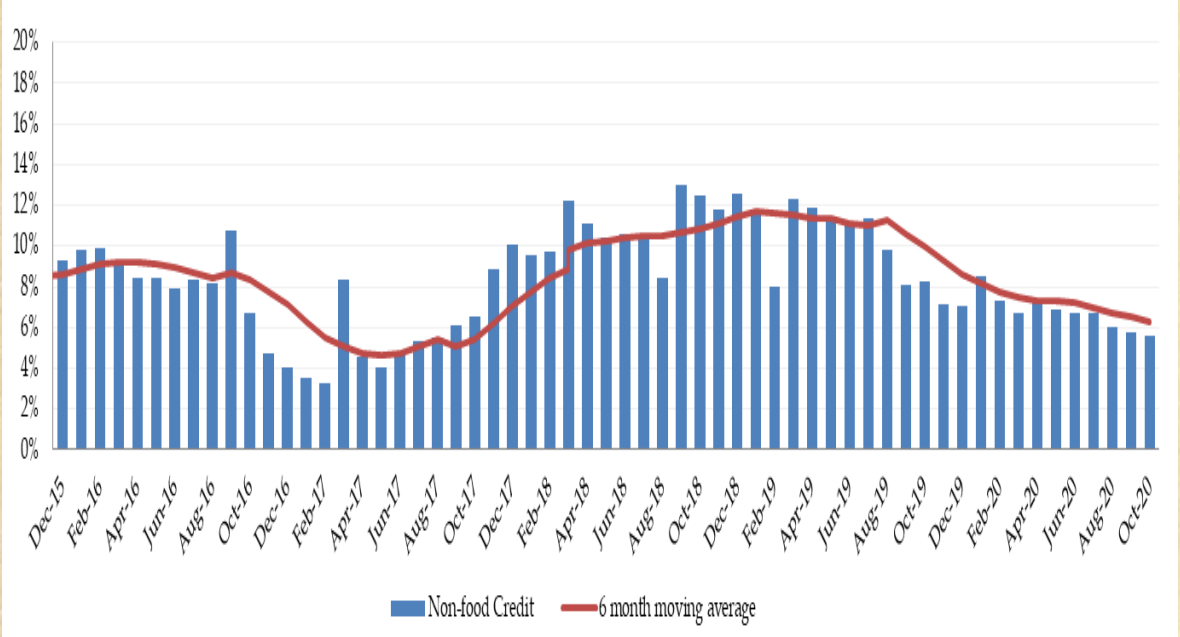


# Challenges and Constraints: Savings unavailable for Private sector

**Investments and Savings(as % of GDP)**

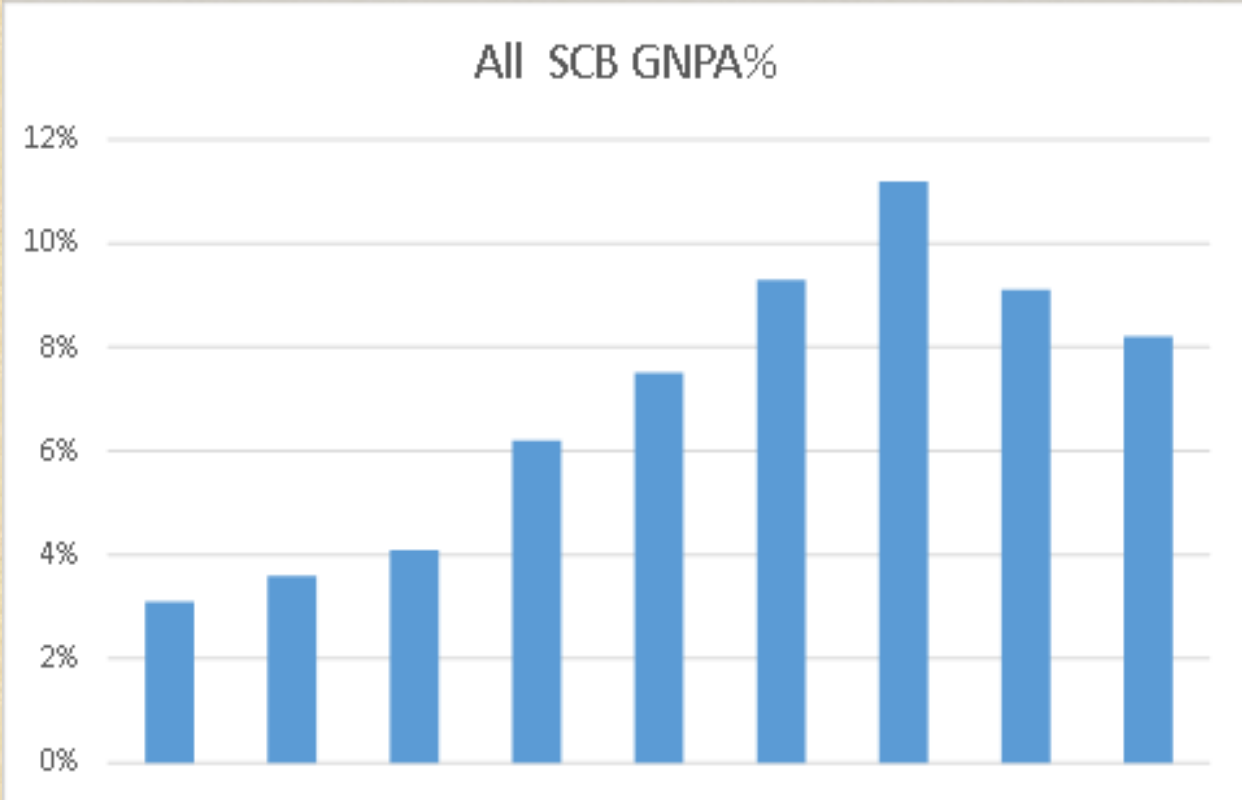


**Credit Growth (as % of GDP)**

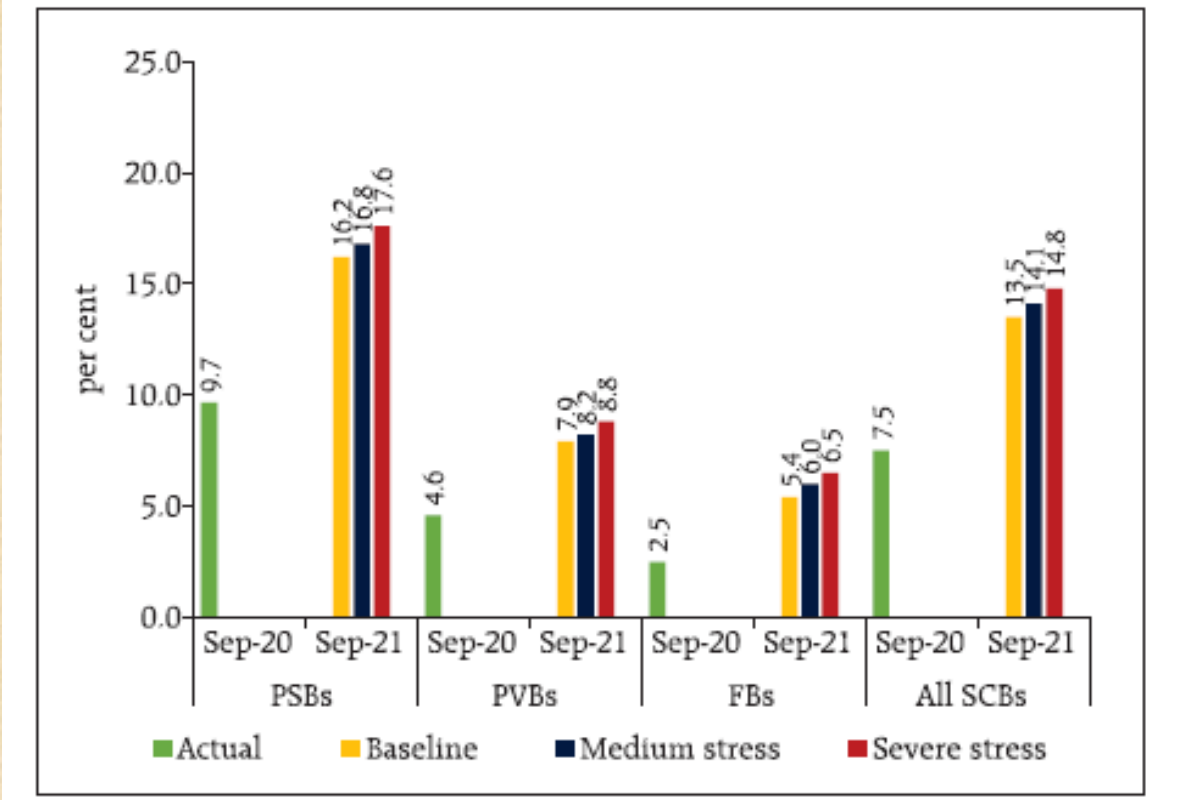


# Challenges and Constraints: NPAs persist, Recap too little too late, Bad Bank solution?

RBI data on Historical NPAs



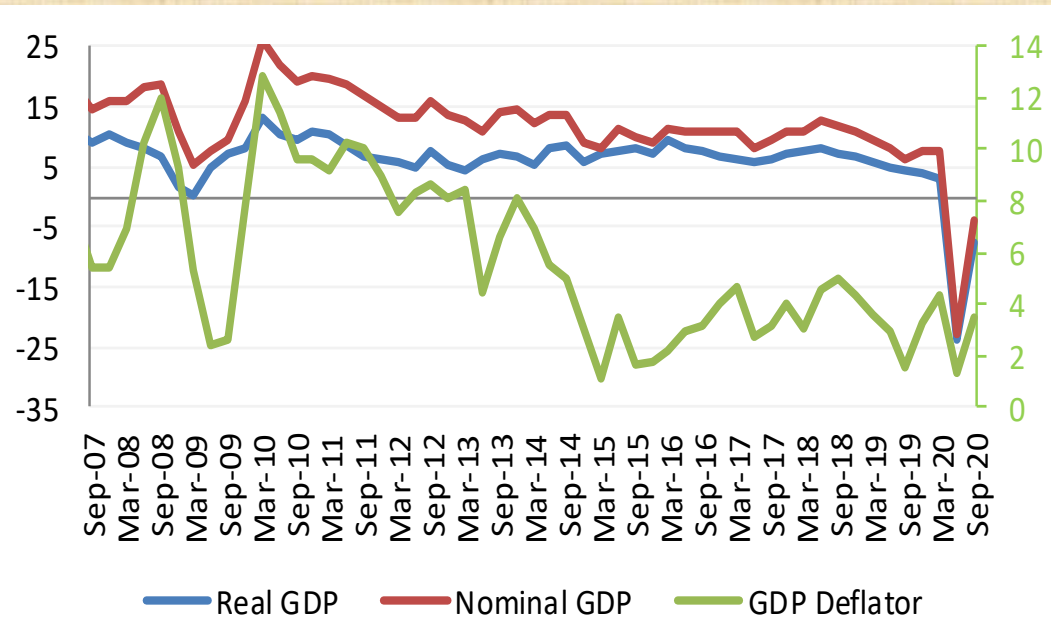
RBI Projection of NPAs



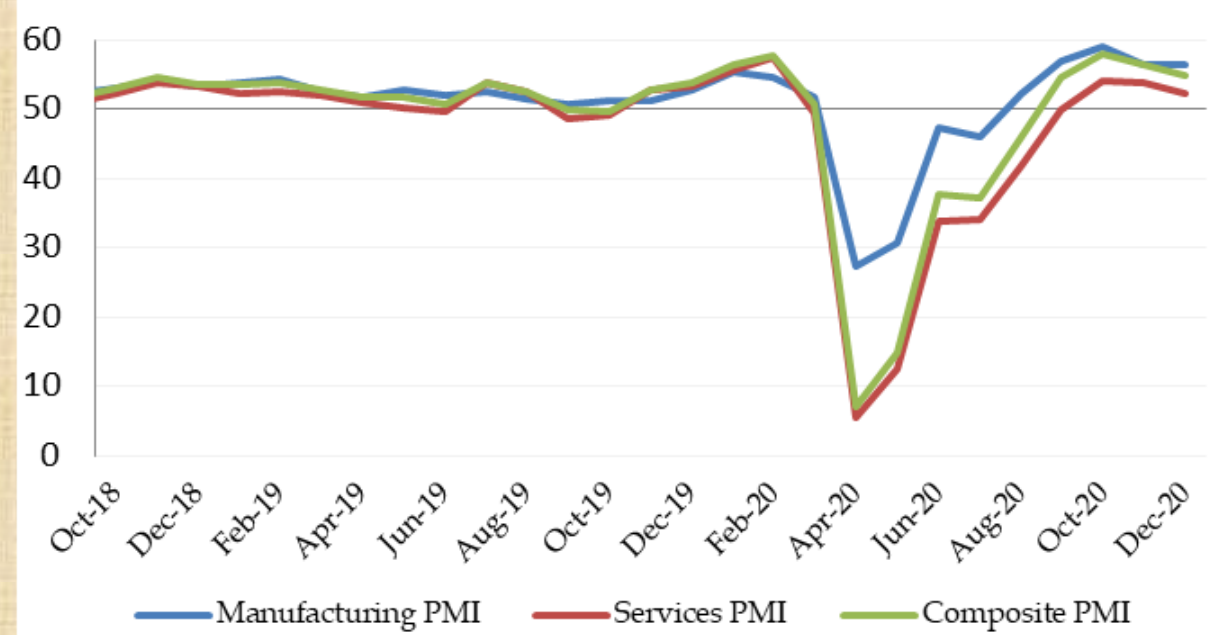
- ❖ Growth – spectacular recovery off a low base
- ❖ Inflation – temporary blip or structural issue?
- ❖ Unemployment – what is the trade-off with Inflation?

# Growth: Spectacular recovery off a low base

Real GDP Growth

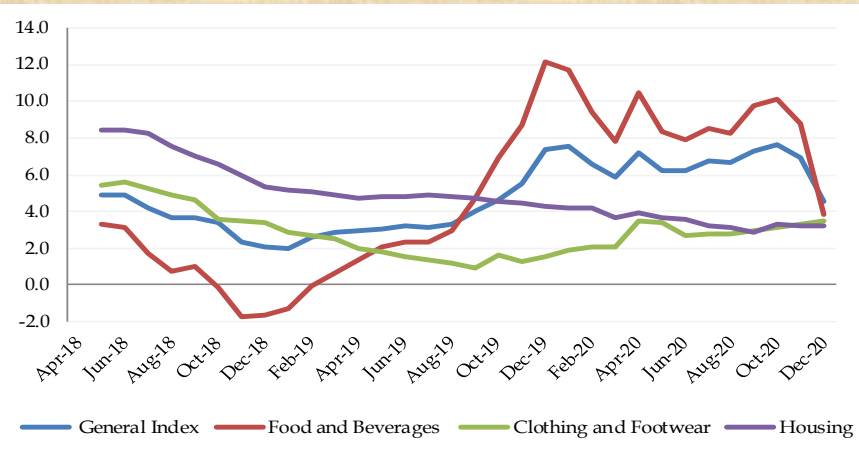


India PMI

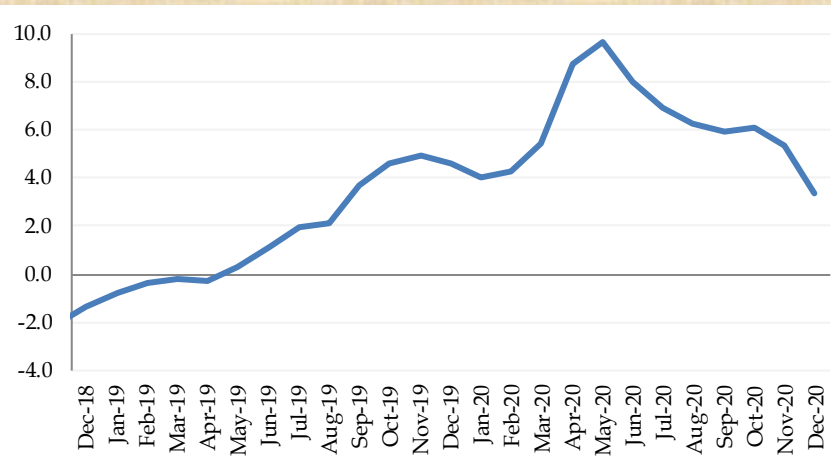


# Inflation: Temporary blip or structural issue?

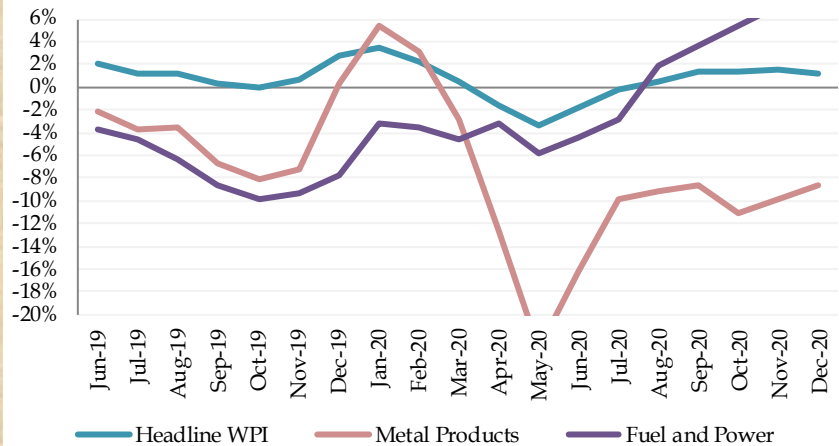
India CPI



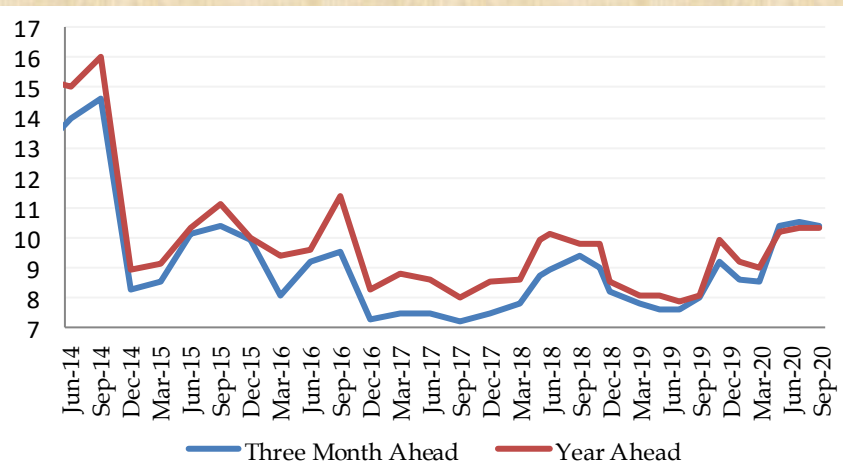
CPI-WPI differential %



WPI



Inflation Expectations





# Unemployment: What is the trade-off with Inflation?

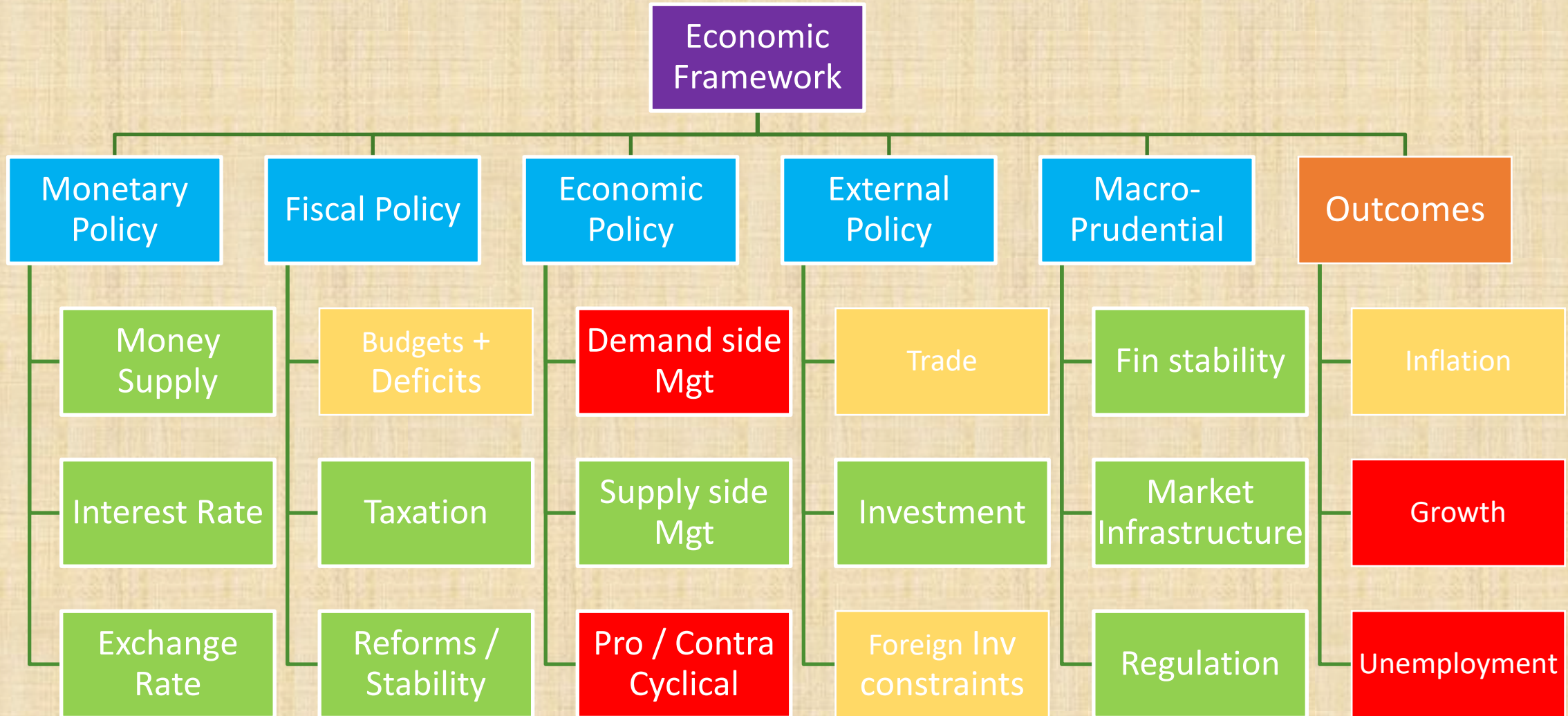
Estimates of Labour Force, Employment, and Unemployment  
for year 2017-18 and 2018-19 (all ages; ps+ss, in crore)

Category	Rural			Urban			Total		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
<b>2017-18</b>									
Labour Force	25.48	8.67	34.15	13.25	3.57	16.82	38.73	12.24	50.97
Employment	23.91	7.70	31.61	12.39	3.15	15.53	36.29	10.85	47.14
Unemployment	1.57	0.97	2.54	0.86	0.42	1.29	2.44	1.39	3.83
<b>2018-19</b>									
Labour Force	25.77	8.77	34.54	13.60	3.68	17.28	39.37	12.45	51.82
Employment	24.37	8.46	32.83	12.64	3.31	15.96	37.01	11.77	48.78
Unemployment	1.40	0.31	1.71	0.96	0.37	1.33	2.36	0.68	3.04

# Economic Framework: Building Blocks

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Thank You

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