Indian Economy – A Gloomy Picture

What is the issue?

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- Recently, ‘Foreign portfolio investors – FPI’ have been pulling out.
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- Various such factors have hurt the Indian economy badly.
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How does India’s macro-economic picture look?

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- India’s GDP growth is being re-rated down by many agencies.
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- The fiscal deficit has hit 96% of the full fiscal target & the current account deficit is up a lot.
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- As the monsoon has been average, food production may be lower than last year, thereby affecting rural consumption.
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What are the external reasons?

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- US Federal Reserve signalled a possible raise in policy rates soon.
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- This triggered the FPI’s to rebalance to safer hard currency assets – leading to withdrawal from emerging markets like India.
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- Global crude prices have climbed in the wake of the hurricanes, which knocked out US capacity.

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What are the internal reasons?

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- **GST –** Many companies are struggling to ensure GST compliance due to the laborious filings procedures.
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- Working capital crunches among businesses due to the slow tax credit offsets have also become common.
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- Exporters in particular, are under stress.
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NPAs - The twin balance sheet problem is also a major concern as new investments are coming in.

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- The new bankruptcy law may help banks in this regard.
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- **Monetary Policy -** Inflation has shown an upward spiral.
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- Also, rupee is under pressure with a 2% fall in the last fortnight.
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- Hence, the Monetary Policy Committee (MPC) is unlikely to cut policy rates anytime soon – despite industry hoping for a cut.
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How does the future look?

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- There is no sign of revival of private investment.
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- Lowering rupee could cause serious pain for entities handling external debt in the coming months.
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- The market’s future direction could be defined by FPI attitude.
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- If the FPI selling continues, Nifty could fall lower – thereby creating bearish trends.
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- These disruptions are expected to last for a substantial period.
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Source: The Hindu

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