

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.
- Working capital crunches among businesses due to the slow tax credit offsets have also become common.
- 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.
- **Monetary Policy** - Inflation has shown an upward spiral.
- Also, rupee is under pressure with a 2% fall in the last fortnight.
- 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.
- Lowering rupee could cause serious pain for entities handling external debt in the coming months.
- 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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