

Mammoth moves

India's big reforms and
next steps



May 30, 2017

Research

Key messages

- **Policy focus: fiscal and monetary prudence and potential enhancing reforms**
- **Third year most eventful**
 - Demonetisation, GST and political consolidation
- **Implementation must now take the baton**
- **States begin to play a bigger role**
- **Political math turning favourable for NDA**
- **Macro numbers healthy, but challenges constrain the speed of growth**
- **Outlook 2017-18**

Taking stock of reforms

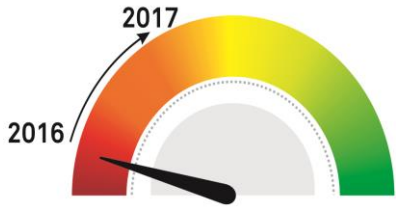
Low

Mid

Fast



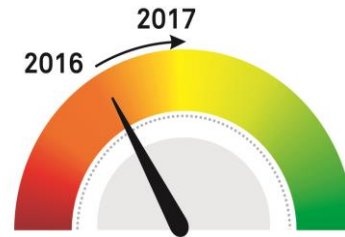
Health and education



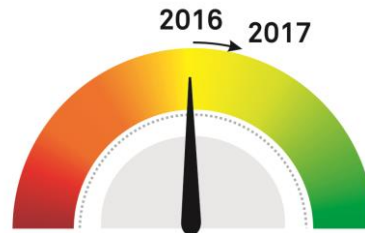
Technological readiness



Macroeconomic environment



Infrastructure



Financial market development



Goods market efficiency



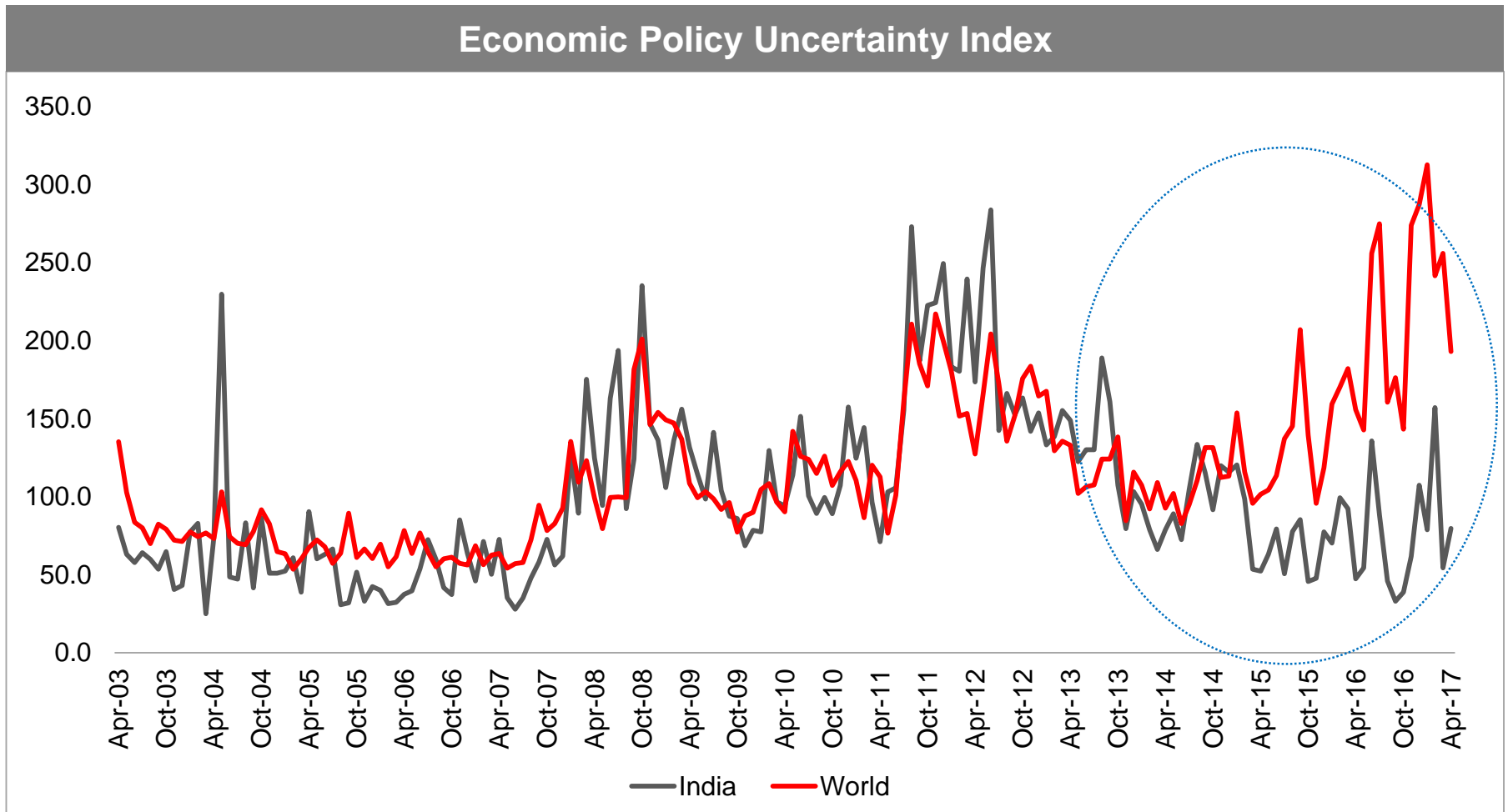
Institutions

Speedometer key

Starting point: WEF Global Competitiveness Ranking 2016

- Dark red: No action
- Red: Identified problem/ measures announced
- Orange: Implementation started and initial steps taken
- Yellow: Work in progress
- Light green: Significant progress made
- Dark green: Action completed

Economic policy uncertainty remains low in India



Source: "Measuring Economic Policy Uncertainty" by Scott Baker, Nicholas Bloom and Steven J. Davis at www.PolicyUncertainty.com.

What do policy moves imply

Policy focus is more about raising 'trend' than 'cyclical' growth



Prudent monetary and fiscal policies



Repair (power, banking) and reforms (GST, Bankruptcy code)

Implications

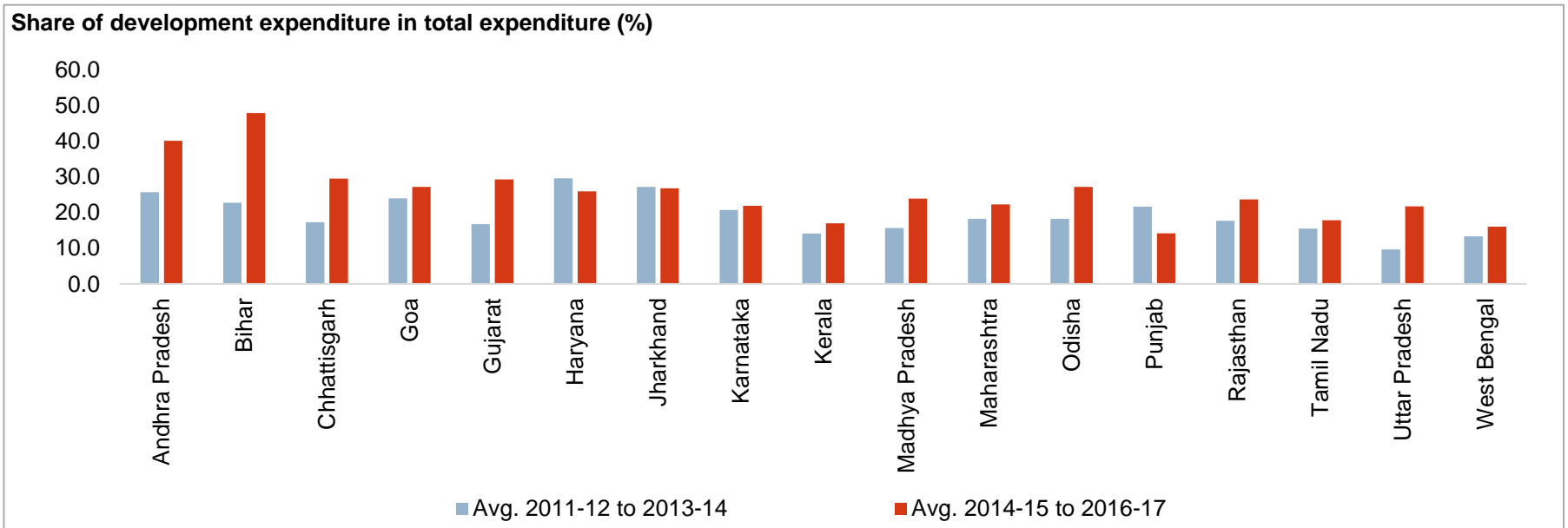
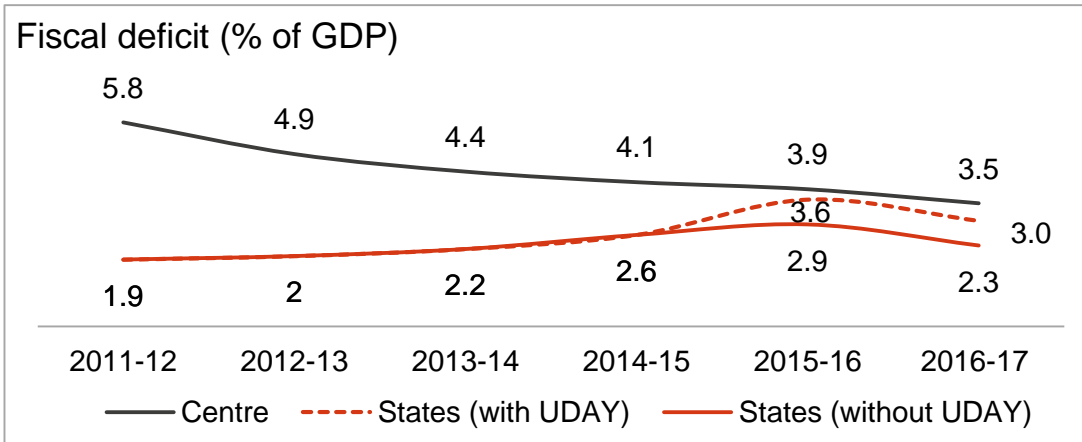
Short term

- Growth will be a grind up
- Macro stability will improve resilience to global shocks

Medium term

- Improve prospects for sustainable high growth
- Formalization of the economy
- Low inflation environment

Centre-state fiscal health dichotomy



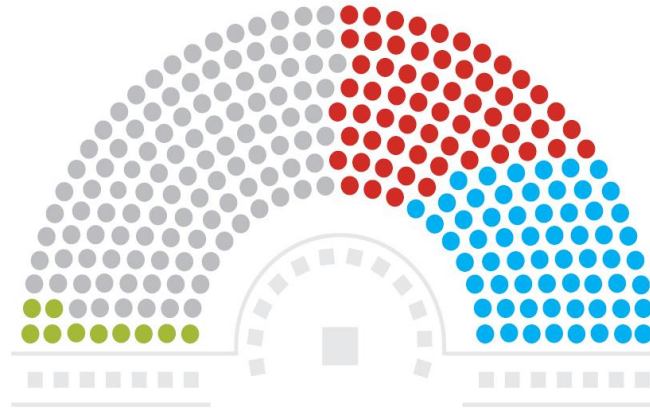
States to play a bigger role

Which states are at the forefront on reforms?

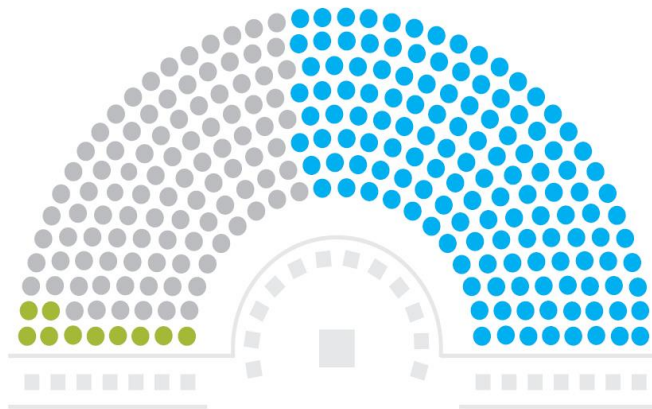
| | Per capita income* (Rs.) | Land | Labour | Rera | Agri |
|------------------|--------------------------|--------|--------|--------|--------|
| Goa | 205,185 | Red | Red | Red | Yellow |
| Chandigarh | 192,951 | Red | Red | Red | Red |
| Sikkim | 177,441 | Yellow | Red | Red | Red |
| Haryana | 124,092 | Green | Green | Red | Yellow |
| Uttarakhand | 116,557 | Green | Green | Red | Red |
| Kerala | 115,848 | Red | Yellow | Yellow | Red |
| Maharashtra | 113,378 | Green | Yellow | Green | Green |
| Gujarat | 109,846 | Green | Green | Yellow | Green |
| Karnataka | 108,908 | Red | Red | Red | Green |
| Tamil Nadu | 106,034 | Green | Red | Red | Red |
| Telangana | 105,488 | Green | Yellow | Red | Yellow |
| Himachal Pradesh | 105,269 | Red | Red | Red | Red |
| Punjab | 96,638 | Red | Green | Red | Yellow |
| Andhra Pradesh | 79,441 | Green | Red | Green | Yellow |
| Chhattisgarh | 64,841 | Yellow | Red | Red | Yellow |
| Rajasthan | 64,001 | Red | Green | Green | Red |
| Tripura | 58,888 | Yellow | Red | Red | Red |
| Odisha | 54,926 | Yellow | Red | Green | Red |
| Assam | 45,692 | Yellow | Yellow | Red | Yellow |
| Jharkhand | 48,549 | Yellow | Green | Red | Yellow |
| Madhya Pradesh | 44,110 | Green | Green | Yellow | Green |
| Uttar Pradesh | 35,693 | Yellow | Red | Yellow | Yellow |
| Bihar | 25,399 | Red | Red | Green | Red |

Legislative math bodes well for NDA

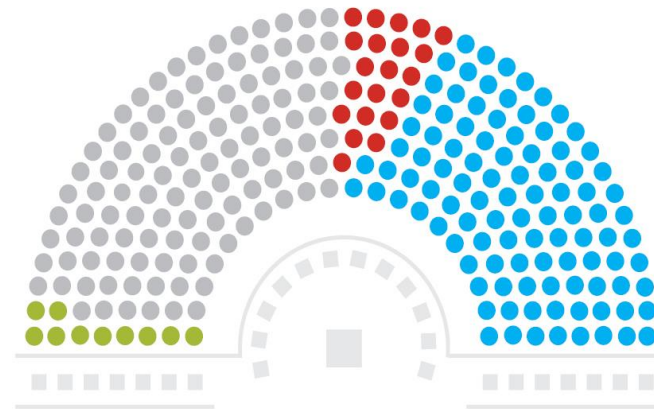
- NDA states by 2022
- Nominated seats
- Other seats
- Required seats for securing majority



Current situation



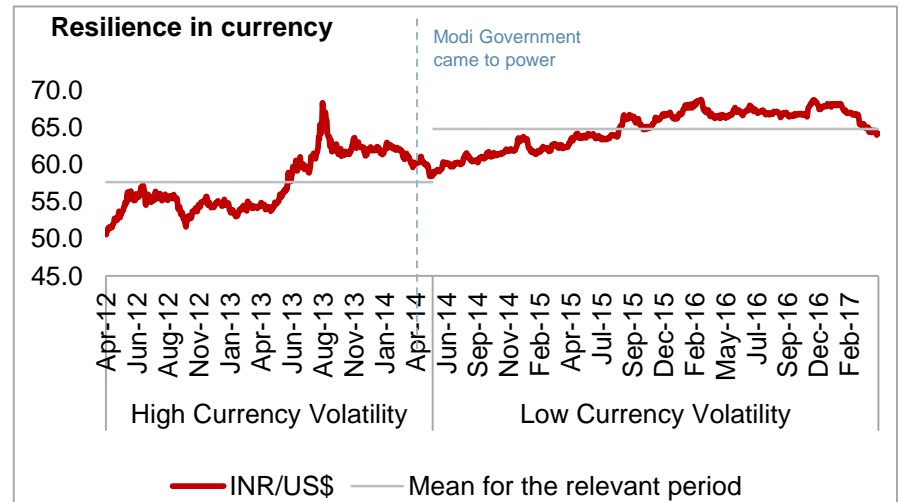
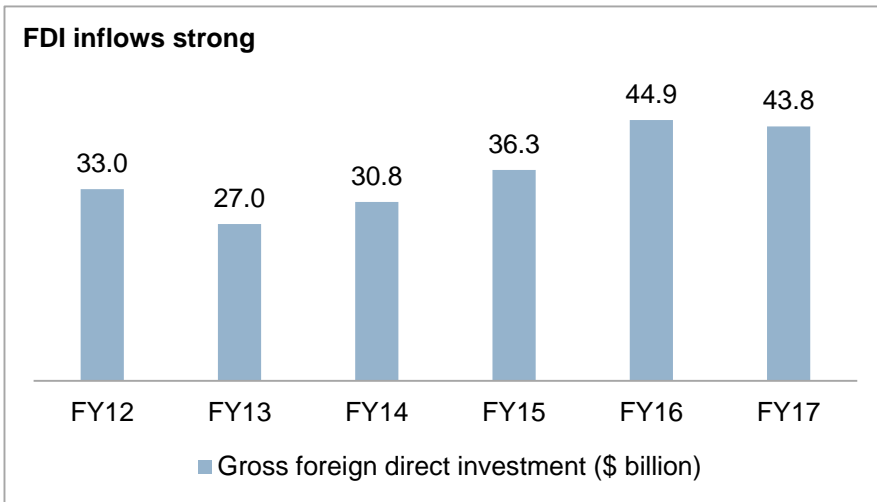
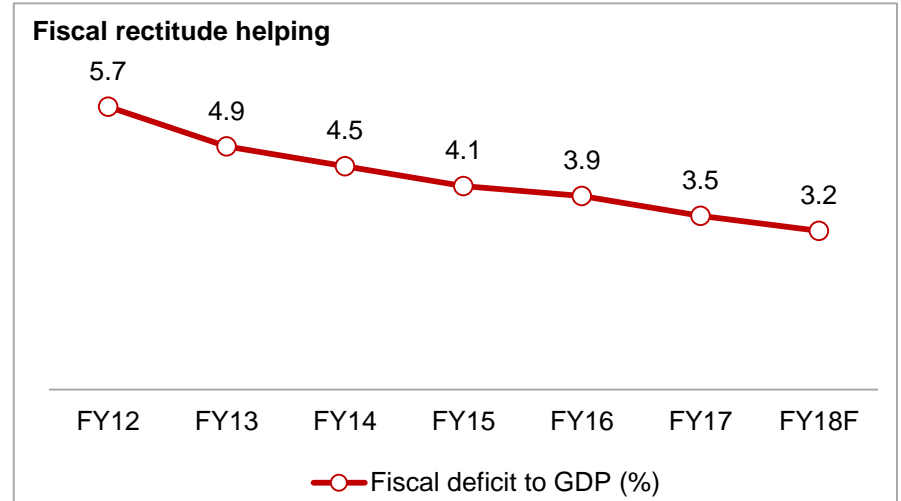
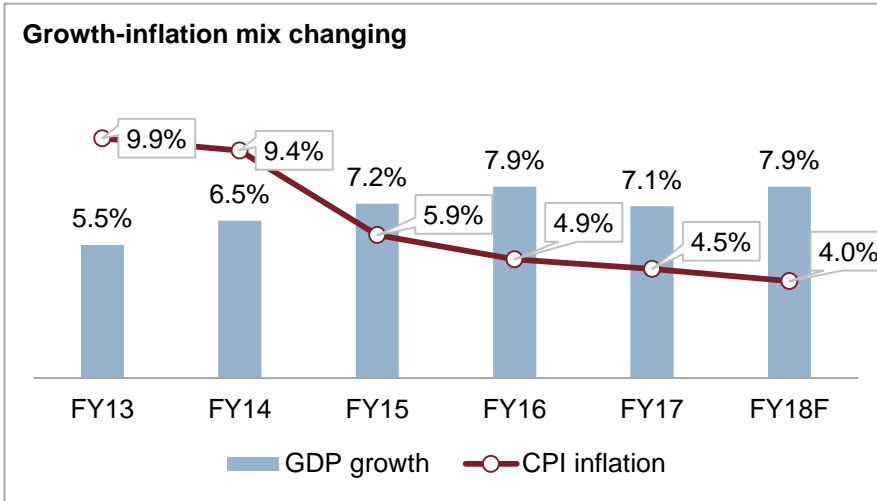
Best case for NDA



Worst case for NDA

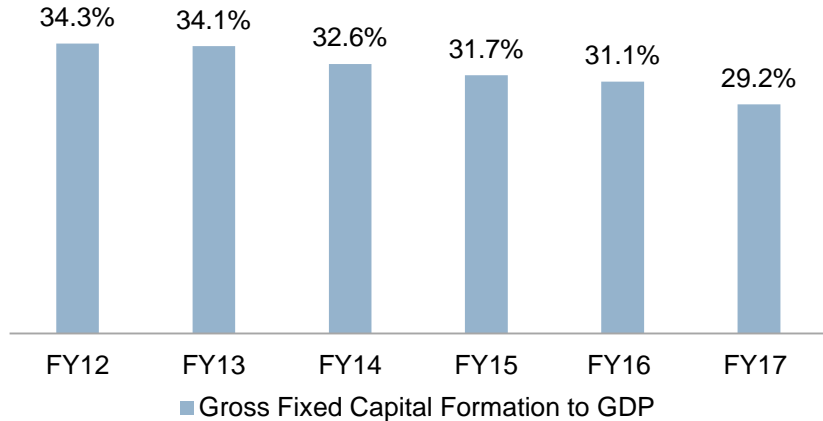
Crucial macros are looking good

Provide leeway for reforms

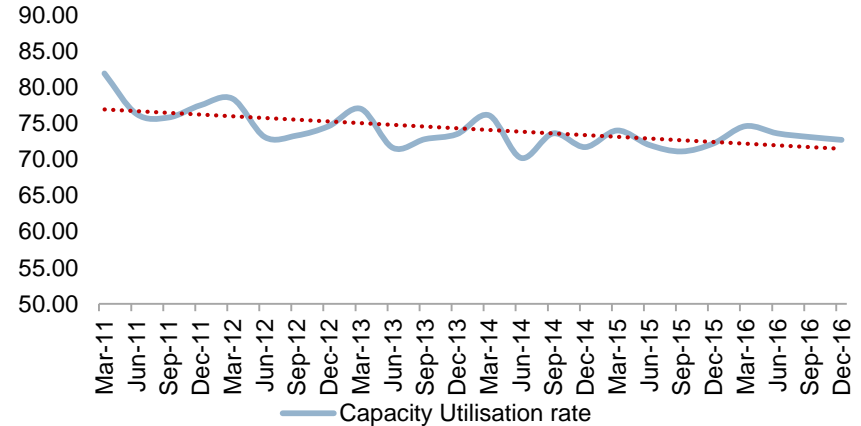


What is holding back

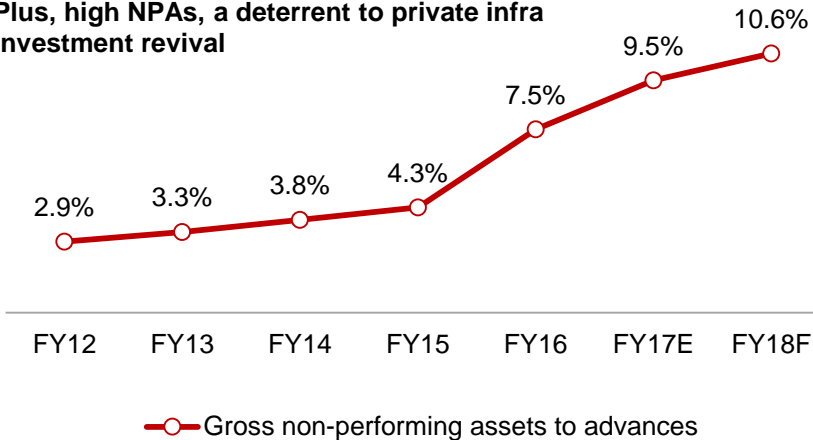
Investments remain a drag on growth.....



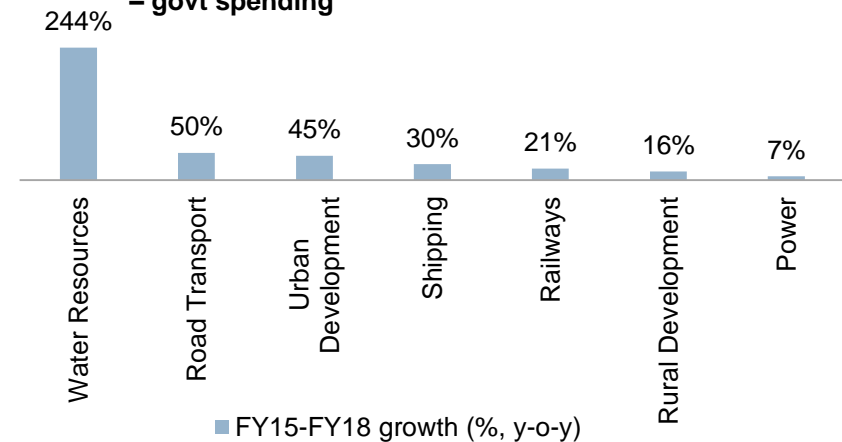
.....as capacity utilisation is still weak



Plus, high NPAs, a deterrent to private infra investment revival



Infra investment currently firing on only one cylinder - gov't spending



Outlook 2017-18

| | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18F |
|------------------------------|---------|---------|---------|---------|----------|
| GDP growth (%) | 6.6 | 7.2 | 7.9 | 7.1* | 7.4 |
| Inflation (%) | 9.5 | 6.0 | 5.0 | 4.7 | 5.0 |
| 10-year yield (March-end) | 8.8 | 7.7 | 7.5 | 6.8 | 6.9 |
| CAD / GDP | 1.7 | 1.3 | 1.1 | 0.9 | 1.3 |
| Fiscal deficit / GDP | 4.6 | 4.0 | 3.9 | 3.5 | 3.2 |
| Exchange rate (Rs/\$, March) | 61.0 | 62.4 | 67.0 | 65.9 | 67.5 |
| Investment / GDP | 32.6 | 31.7 | 31.1 | 29.2 | ~29 |
| NPA / Advances | 3.8 | 4.3 | 7.5 | 9.5 | 10.6 |

Source: Central Statistical Organisation, RBI and CRISIL. Note: * CSO advance estimates

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Thank you

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Research