ONE YEAR OF NEW GOVERNMENT

DEPARTMENT OF ECONOMIC AFFAIRS AND RESEARCH
PHD CHAMBER OF COMMERCE AND INDUSTRY
ONE YEAR OF NEW GOVERNMENT

MAY 2015

Department of Economic Affairs and Research
Executive Summary

*PHD Chamber of Commerce and Industry recently in its Managing Committee Meeting, termed the performance of new government ever since it assumed office on May 26, 2014 as more than satisfactory, giving it 7.4 marks out of 10.*

The government since its formation announced significant reform measures such as the launch of Make in India, facilitating ease of doing business, launch of Jan Dhan Yojana, Digital India and social security schemes for common man among others. However, the macroeconomic situation shows mixed trend even though inflation scenario has improved considerably. The external sector depicts a mixed trend. The investment scenario on the other hand, has improved as the FDI Equity Inflows have increased by about 19% after the new government came into power. However, Industrial Investment Intentions have declined in the year 2014 as compared to 2013.

Various reforms in FDI have been introduced such as 100% FDI in construction, operation and maintenance of identified railway transport infrastructure through automatic route. FII Inflows have registered a remarkable increase in FY2015. Still, there has been a modest increase in Equity Market Capitalization and BSE SENSEX. Further, the declined oil prices helped to boost domestic consumption in the country, besides containing import bill and current account deficit of the government.

The government has made series of appreciable small changes on the executive side. However, there are many reforms which are getting delayed such as implementation of GST, land acquisition bill, companies and MSMEs act.

The Chamber has recommended that reforms so far announced should see their implementation on ground level so that ease of doing business at grassroots is further facilitated. The co-ordination of the centre with states needs to be cemented for which the central government alone has to take a call.

It is of utmost importance that the Government ensures that the existing manufacturing base is not eroded by detrimental steps such as the New Company Act, Environment Laws, Labour Laws etc. The Government must ensure that Commercial Laws should not start carrying criminal penalties as this will scare off investment in an already difficult environment, we reach very much below our target of being 50th in the Ease of Doing Business Index.

Going ahead, the country must have patience to allow the Government to pursue and fulfil its economic agenda for atleast 1-2 more years.
Macro economy shows mixed trend

The macroeconomic situation has improved as there has been significant drop in Inflation and improvement in growth rate of GDP, services and construction sector. However, agriculture, industry and core infrastructure witnessed deceleration.

<table>
<thead>
<tr>
<th>S.No</th>
<th>Parameter</th>
<th>FY2014</th>
<th>FY2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Growth rate of GDP*</td>
<td>6.9%</td>
<td>7.4%</td>
</tr>
<tr>
<td>2</td>
<td>Headline Inflation</td>
<td>6%</td>
<td>2.1%</td>
</tr>
<tr>
<td>3</td>
<td>Growth of Industry(IIP)</td>
<td>(-)0.1%</td>
<td>2.3%</td>
</tr>
<tr>
<td>4</td>
<td>Growth rate of Agriculture*</td>
<td>3.7%</td>
<td>1.1%</td>
</tr>
<tr>
<td>5</td>
<td>Growth rate of services*</td>
<td>9.1%</td>
<td>10.6%</td>
</tr>
<tr>
<td>6</td>
<td>Growth rate of Construction*</td>
<td>2.5%</td>
<td>4.5%</td>
</tr>
<tr>
<td>7</td>
<td>Growth rate of Infrastructure</td>
<td>4.2%</td>
<td>3.5%</td>
</tr>
</tbody>
</table>

Source: PHD Research Bureau, compiled from various sources
* From Advance Estimates of national Income 2014-15
Inflation scenario improving significantly

There has been significant decline in headline and manufacturing inflation with both the indicators entering in negative trajectory since the formation of new government. The CPI and Food Inflation has also declined.

<table>
<thead>
<tr>
<th>S.No</th>
<th>Parameter</th>
<th>April 2014</th>
<th>April 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>WPI Inflation</td>
<td>5.6%</td>
<td>(-)2.7%</td>
</tr>
<tr>
<td>2</td>
<td>CPI Inflation</td>
<td>8.6%</td>
<td>4.9%</td>
</tr>
<tr>
<td>3</td>
<td>Manufacturing Inflation</td>
<td>3.7%</td>
<td>(+)0.5%</td>
</tr>
<tr>
<td>4</td>
<td>Food Inflation</td>
<td>8.7%</td>
<td>5.7%</td>
</tr>
</tbody>
</table>

Source: PHD Research Bureau, compiled from various sources
External Sector mixed

The external sector depicts a mixed trend. Though the current account deficit has declined, the exports have also declined significantly.

<table>
<thead>
<tr>
<th>S.No</th>
<th>Parameter</th>
<th>FY2014</th>
<th>FY2015</th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>Current Account Deficit</td>
<td>1.7%</td>
<td>1.3%</td>
</tr>
<tr>
<td>2</td>
<td>Trade Balance</td>
<td>US$(-) 138.6 billion</td>
<td>US$(-)137 billion</td>
</tr>
<tr>
<td>3</td>
<td>Value of Exports</td>
<td>US$312.4 billion</td>
<td>US$310.5 billion</td>
</tr>
<tr>
<td>4</td>
<td>Growth rate of Exports</td>
<td>3.9%</td>
<td>(-) 1.2%</td>
</tr>
<tr>
<td>5</td>
<td>Value of Imports</td>
<td>US$450.9 billion</td>
<td>US$447.5 billion</td>
</tr>
<tr>
<td>6</td>
<td>Growth rate of imports</td>
<td>(-) 8.1%</td>
<td>(-) 0.6%</td>
</tr>
</tbody>
</table>

Source: PHD Research Bureau, compiled from Ministry of Commerce and Industry, GoI
Investment scenario mixed

The investment scenario has improved as the FDI Equity Inflows have increased by about 19% after the new government came into power. However, Industrial Investment Intentions have declined in the year 2014 as compared to 2013.

<table>
<thead>
<tr>
<th>S.No</th>
<th>Parameter</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>FDI Equity Inflows</td>
<td>US$24.3 billion in FY14</td>
<td>US$28.8 billion from April, 2014 to February 2015</td>
</tr>
<tr>
<td>2</td>
<td>Industrial Investment Intentions</td>
<td>Rs.530086crore in year 2013</td>
<td>Rs. 405027crore in the year 2014</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Rs.133627crore Intentions til April 2015</td>
</tr>
</tbody>
</table>

Source: PHD Research Bureau, compiled from various sources
Reforms in FDIs

2014

• 100% FDI in single-brand retail
• 51% FDI multi-brand retail
• 100% FDI in telecom, asset reconstruction companies and credit information companies
• Automatic route in petroleum and natural gas, commodity bourses, and power exchanges were allowed
• Raised FDI cap from 74% to 100% in basic cellular services

2015

• FDI limits in insurance enhanced to 49%
• FDI in Defence permitted through the Government route up to 49%
• 100% FDI in construction, operation and maintenance of identified railway transport infrastructure through automatic route.
• FDI up to 100% under the automatic route both for green field and brown field projects for manufacturing of defined medical devices
• Increase in FDI cap in the pension sector from 26% to 49%
Financial Markets

FII Inflows have registered a remarkable increase in FY2015. However, there has been a modest increase in Equity Market Capitalization and BSE SENSEX.

<table>
<thead>
<tr>
<th>S.No</th>
<th>Parameter</th>
<th>2014</th>
<th>2015</th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>S&amp;P BSE SENSEX</td>
<td>23906 (as on 15th May 2014)</td>
<td>27324 (as on 15th May 2014)</td>
<td>14.3%</td>
</tr>
<tr>
<td>2</td>
<td>Nifty</td>
<td>7123 (as on 15th May 2014)</td>
<td>8262 (as on 15th May 2014)</td>
<td>16%</td>
</tr>
<tr>
<td>3</td>
<td>Equity Market Capitalization(BSE)</td>
<td>US$1242 billion(April 2014)</td>
<td>US$1589 billion(April 2015)</td>
<td>28%</td>
</tr>
<tr>
<td>4</td>
<td>FII Inflows</td>
<td>US$ 8.5 billion in FY2014</td>
<td>US$ 45.4 billion in FY15</td>
<td>434%</td>
</tr>
</tbody>
</table>

Source: PHD Research Bureau, compiled from various sources
Corporate Profitability

Performance of Non-Government Non Financial Companies

There has been increase in Sales, Gross profits, and value of production of Non-Government Non Financial Companies

<table>
<thead>
<tr>
<th>S.No</th>
<th>Parameter</th>
<th>Q3FY2014</th>
<th>Q32015</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Sales</td>
<td>Rs. 7540 billion</td>
<td>Rs. 7866 billion</td>
</tr>
<tr>
<td>2</td>
<td>Gross Profits</td>
<td>Rs. 887 billion</td>
<td>Rs. 926 billion</td>
</tr>
<tr>
<td>3</td>
<td>Value of Production</td>
<td>Rs. 7500 billion</td>
<td>Rs. 7878 billion</td>
</tr>
</tbody>
</table>

Source: PHD Research Bureau, compiled from RBI
Ease of Doing Business

Recent Initiatives undertaken to facilitate the ease of doing business

• De-licensing and deregulation measures to reduce complexity

• 24×7 basis online applications for Industrial License

• State governments asked to introduce self-certification

• Online process of obtaining environmental clearances

• Multiple registers maintained by various departments to be replaced by Single Electronic Register

• Launch of e-Biz portal and Introduction of single window clearance
<table>
<thead>
<tr>
<th>S.No.</th>
<th>Country</th>
<th>Key MOUs/Agreements/Action Plans</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Bhutan</td>
<td>India allocated Rs./Nu. 45 bn for the 11th Five Year Plan and Rs./Nu. 5 bn for the economic stimulus plan of the Royal Government of Bhutan</td>
</tr>
<tr>
<td>2</td>
<td>Nepal</td>
<td>India announced Line of Credit of USD 1 billion to Government of Nepal for hydropower, irrigation and infrastructural development projects.</td>
</tr>
<tr>
<td>3</td>
<td>Japan</td>
<td>Japan showed interest to make investments to the tune of US$33.5 bn (ODA and FDI) in the next 5 years to improve infrastructural and industrial development of the country.</td>
</tr>
<tr>
<td>4</td>
<td>USA</td>
<td>India and USA committed to facilitate actions necessary to increase trade with another fivefold and raise investment by institutional investors and corporate entities, the leaders pledged to establish an Indo-U.S. Investment Initiative</td>
</tr>
<tr>
<td>5</td>
<td>Australia &amp; Fiji</td>
<td>India announced a Line of Credit for establishing a Co-Generation Plant in Fiji.</td>
</tr>
<tr>
<td>6</td>
<td>Seychelles, Mauritius &amp; Sri Lanka</td>
<td>India offered a concessional line of credit of USD500mn for civil infrastructure projects for Mauritius and Line of Credit of up to USD318mn for the railways sector in Sri Lanka</td>
</tr>
<tr>
<td>7</td>
<td>France, Germany &amp; Canada</td>
<td>India to buy 36 Rafale Jets in fly away condition from France and procurement of Uranium from Canada for the civilian nuclear power plants.</td>
</tr>
<tr>
<td>8</td>
<td>China, South Korea &amp; Mongolia</td>
<td>Currently going on</td>
</tr>
<tr>
<td>S.No</td>
<td>Incoming Visits</td>
<td>Key MOUs/Agreements/Action Plans</td>
</tr>
<tr>
<td>------</td>
<td>--------------------------------------------------------------------------------</td>
<td>--------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>1</td>
<td>US President Barack Obama’s visit to India (25th - 27th January 2015)</td>
<td>US announced an assistance of US$1bn for Make in India Campaign, and US$2bn investment in the renewable energy sector in India</td>
</tr>
<tr>
<td>2</td>
<td>Visit of Chinese President Mr. Xi Jinping to India (17th - 19th September, 2014)</td>
<td>China announced 5 years action plan to make investments of US$ 20 billion in India within 5 years.</td>
</tr>
<tr>
<td>4</td>
<td>Russian President H.E. Mr. Vladimir V. Putin’s visit to India (10th – 11th December, 2014)</td>
<td>Strategic Vision for Strengthening Cooperation in Peaceful Uses of Atomic Energy Enhancement of Cooperation in Oil &amp; Gas in 2015-16</td>
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</tbody>
</table>
# Performance Analysis Report

<table>
<thead>
<tr>
<th>S.No</th>
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<td>Macro economy</td>
<td>7</td>
</tr>
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<td>Inflation scenario</td>
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<td>External Sector</td>
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<td>Investment scenario</td>
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<tr>
<td>5</td>
<td>Reforms in FDI</td>
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<td>6</td>
<td>Financial Markets</td>
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<tr>
<td>8</td>
<td>Ease of Doing Business</td>
<td>6</td>
</tr>
<tr>
<td>9</td>
<td>India’s International Relations – Outgoing Visits</td>
<td>9</td>
</tr>
<tr>
<td>10</td>
<td>India’s International Relations – Incoming visits</td>
<td>9</td>
</tr>
<tr>
<td>11</td>
<td>Overall Ranking</td>
<td>7.4</td>
</tr>
</tbody>
</table>

*Note: Rankings are out of 10*
Crude Prices boon for the new government

Due to increased supply of crude oil in OPEC and United States, the international price of oil declined by about 50% since end-June 2014. The declined oil prices helped to boost domestic consumption in the country, besides containing import bill and current account deficit of the government.

However, looking into the future concerns, uncertainty about the future movement of crude prices needs necessary cushion to be created by government in terms of high forex reserves to absorb any shocks in the coming times.
Significant reforms done so far

- Launch of ‘Make in India’ and announcement of construction of 100 smart cities
- Launch of a user-friendly Indian Trade Portal to facilitate exporters
- Launch of 'Shram Suvidha' portal and Labour Inspection Schemes
- Replacement of the Planning Commission with the NITI Aayog
- Establishment of MUDRA Bank for financial assistance to MSMEs
- Launch of Jan Dhan Yojana to remove financial untouchability
- Relaunch of Kisan Vikas Patra Scheme to increase domestic savings
- Approval to amendments to three archaic labor laws
- Passage of the Coal Mines (Special Provisions) Bill, 2015 by the Parliament
- Launch of 11 services on eBiz platform to facilitate ease of doing business
- RBI, extending its 5:25 refinancing scheme to some existing long-term infrastructure projects where the total exposure of lenders is more than Rs.500 crore.
- Black Money: Passage of Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Bill, 2015 by the Parliament
- Launch of three social security schemes for common man
Significant reforms suggested.....

The government has made series of appreciable small changes on the executive side. However, there are many reforms which are getting delayed such as implementation of GST, land acquisition bill, companies and MSMEs act.

- Implementation of reforms at the ground level
- Facilitating ease of doing business at the grassroots
  - Reduction in tedious process of approvals by fixing time limits
  - Reduction in number of stages for approval
  - Introduction of self authentication of all reports by Individuals for grant of permission
- Reforms must be expedited in labour laws in order to reduce the number of laws, contain duplicity and ease compliances
- Implementation of GST and simplification and rationalization of tax structure
- Environment, Forest and Pollution Laws must be revamped in order to reduce the number of laws, contain duplicity and ease compliances
Significant reforms suggested.... continued.....

- Change in the definition of MSMEs to enhance the limit for investment in their plant and machinery

- MSMEs to be strengthened so that they can generate employment opportunities in the coming times

- Revisiting the new companies act

- Vocational education and skill formation

- Enhanced center-state coordination

- Empowering the states; Strengthening their fiscal arms and ensuring their compliance and proper usage of financial resources in sectors of MSMEs and skill development

- Ease of doing business should be strengthened in states
Significant reforms suggested.. continued..

• Implementation of land acquisition bill

• Passage of the Coal Mines (Special Provisions) Bill, 2015 by the Parliament to facilitate transparent allocation and auction of coal mines.

• Investment and trade promotion at national and regional level

• Doing away with Capital gains tax and application of MAT and DDT payable by the Real Estate Investments Trust (REIT) and Alternative investment Funds (AIF) sponsors in order to bring India at par with international REIT markets.

• Tax free infrastructure bonds for power and Energy sector especially for the clean energy projects.

• Increase in FDI limit in Insurance, Defence and railway infrastructure
Government’s expectation from Corporate sector

Government expects corporate sector to be effectively governed and follow transparency and disclosure norms

- Strict adherence of the corporate sector to transparency and disclosure norms
- Following utmost principles of corporate governance
- Strict compliance of corporates with Tax laws
- Responsible leverage from lending institutions with no diversion of funds
Conclusions

Since the new government has come into power, the macro-economic environment has shown a mixed picture with some indicators showing improvement while others have deteriorated.

Due to various reform measures announced by the government, the business sentiments have improved and there has been significant FII inflows but a little increase in FDI inflows. Corporate investments, on the other hand, are yet to pick up pace.

Going ahead, these reform measures must percolate to grassroots as the situation at the grass root level is almost the same as it was before the announcement of various reforms.

Yet early days, hence optimism!
Economic Affairs Committee

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Chief Economist & Director of Research

Ms. Megha Kaul
Sr. Research Officer

Ms. Ekta Goel
Research Associate

Mr. Prabhat Jain
Chairman of Economic Affairs Committee

Mr. Akhil Bansal
Co-Chairman of Economic Affairs Committee

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PHD Research Bureau

PHD Research Bureau; the research arm of the PHD Chamber of Commerce and Industry was constituted in 2010 with the objective to review the economic situation and policy developments at sub-national, national and international levels and comment on them in order to update the members from time to time, to present suitable memoranda to the government as and when required, to prepare State Profiles and to conduct thematic research studies on various socio-economic and business developments.

The Research Bureau has been instrumental in forecasting various lead economic indicators national and sub-national. Many of its research reports have been widely covered by media and leading newspapers.

Team

Dr. S P Sharma  
Chief Economist & Director of Research  

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<th>Foreign Trade &amp; Investments</th>
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<tr>
<td>Ms. Megha Kaul</td>
<td>Ms. Rashmi Taneja</td>
<td>Ms. Surbhi Sharma</td>
</tr>
<tr>
<td>Sr. Research Officer</td>
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| Ms. Ekta Goel | Ms. Apurva Munjal | 
| Research Associate | Research Assistant | 

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<th>States &amp; Socio Economy</th>
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<tbody>
<tr>
<td>Ms. Huma Sai Qazi</td>
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<tr>
<td>Research Assistant</td>
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| Ms. Sunita Gosain | 
| Secretarial Assistant |
Studies undertaken by PHD Research Bureau

A: Thematic research reports

1. Comparative study on power situation in Northern and Central states of India (September 2011)
2. Economic Analysis of States (October 2011)
5. Emerging Trends in Exchange Rate Volatility (April 2012)
6. The Indian Direct Selling Industry Annual Survey 2010-11 (May 2012)
7. Global Economic Challenges: Implications for India (May 2012)
8. India Agronomics: An Agriculture Economy Update (August 2012)
9. Reforms to Push Growth on High Road (September 2012)
10. The Indian Direct Selling Industry Annual Survey 2011-12 (March 2013)
11. Budget 2013-14: Moving on reforms (March 2013)
12. India-Africa Promise Diverse Opportunities (November 2013)
14. Annual survey of Indian Direct Selling Industry-2012-13 (December 2013)
15. Imperatives for Double Digit Growth (December 2013)
17. Emerging Contours in the MSME sector of Uttarakhand (April 2014)
18. Roadmap for New Government (May 2014)
22. 100 Days of new Government (September 2014)
23. Make in India: Bolstering Manufacturing Sector (October 2014)
24. The Indian Direct Selling Industry Annual Survey 2013-14 (November 2014)
25. Participated in a survey to audit SEZs in India with CAG Office of India (November 2014)
26. Role of MSMEs in Make in India with reference to Ease of Doing Business in Ghaziabad (November 2014)
27. Exploring Prospects for Make in India and Made in India: A Study (January 2015)
28. SEZs in India: Criss-Cross Concerns (February 2015)
29. Socio-economic impact of check dams constructed by PHDRDF in Sikar (February 2015)
30. India - USA Economic Relations (February 2015)
31. Economy on the Eve of Union Budget 2015-16 - India Poised to Enter Double Digit Growth Trajectory
34. Druzhba-Dosti: India’s trade opportunities with Russia (May 2015)

State profiles

35. Rajasthan: The State Profile (April 2011)
36. Uttarakhand: The State Profile (June 2011)
37. Punjab: The State Profile (November 2011)
38. J&K: The State Profile (December 2011)
39. Uttar Pradesh: The State Profile (December 2011)
40. Bihar: The State Profile (June 2012)
41. Himachal Pradesh (June 2012)
42. Madhya Pradesh (August 2012)
43. Resurgent Bihar (April 2013)
44. Life ahead for Uttarakhand (August 2013)
45. Punjab: The State Profile (February 2014)
46. Haryana: The State Profile (May 2015)
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At a Global level we have been working with the Embassies and High Commissions in India to bring in the International Best Practices and Business Opportunities.