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India returns to high-growth path

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India's real GDP growth in Jul-Sep 2017 accelerated for the first time in six quarters, raised expectations for a return to high-growth path. Looking at the monthly economic indicators, a temporary downward pressure to the economy due to the demonetization of high-value bank notes in November 2016 and the confusion caused by the introduction of Goods and Services Tax (GST) in July 2017 has been reduced. Business confidence in manufacturing sector rose to the highest level in about a year in November 2017, and passenger vehicle sales also showed a strong growth after holding-off buying in the expectation of tax rate reduction with GST introduction and the reaction to it came to an end (see table 1).

Going forward, the economy is expected to return to high-growth path. Domestic demand driven by private consumption will lead the economy as the confusion caused by the introduction of GST has settled and the growth-friendly policy remains. A full-recovery of business investment could take some more time, however, in the long run, it will gradually increase its positive contribution to growth as structural reforms proceed. Firstly, the government has been working on the banks' Non-Performing Advances (NPA) issues which are considered to be part of the reason for a sluggish pace of increase in investments. In India, NPA increased in sectors such as power, transportation and steel due to global financial crisis and slowdown in growth pace after the investment boom in mid-2000. The scheduled commercial banks' NPA ratio rose to 10.2% in September 2017, highest level since 2002. Responding to this, the government accelerated procedures for failure resolution based on the Insolvency and Bankruptcy Code 2016, and announced a plan to inject capital (around 2 trillion rupees) into public sector banks.

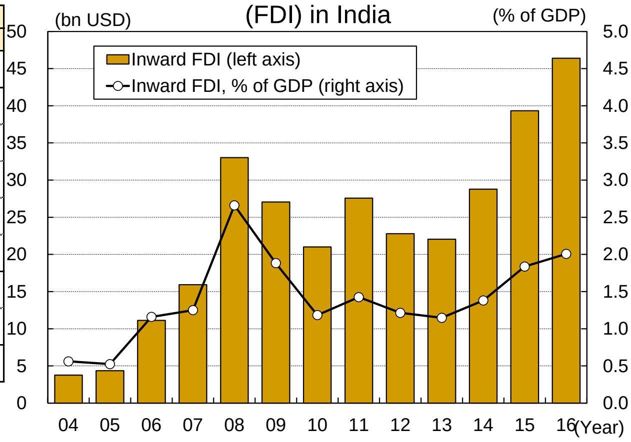
In addition, the introduction of GST allowed for a single national indirect tax to replace more than 15 kinds of indirect taxes which used to be imposed by national and state governments with different purposes and tax rates. It is also expected to accelerate inter-state business activities and the expansion of investments. In "Doing Business 2018" index published by the World Bank in October 2017, India made strides to rank 100th out of 190 countries (up from 130th in previous year) due to factors such as the simplified tax system and the reduced procedures and time required to obtain construction permits. Furthermore, a major rating agency in November upgraded the Government of India's issuer ratings to Baa2 from Baa3 in recognition of the improved growth potential and the receding fiscal risks due to the reforms. Such improvement of trust and confidence from overseas is expected to encourage the expansion of foreign investment which has been increasing again in recent years (see chart 1).

Table 1: Monthly Economic and Monetary Indicators of India

		2017				
		Q1	Q2	Q3	Oct	Nov
Real GDP growth	(YoY, %)	6.1	5.7	6.3	n.a.	
Industrial Production Index (IPI)	(YoY, %)	3.1	1.9	3.2	2.2	n.a.
Passenger Vehicle Sales	(YoY, %)	11.1	4.4	13.4	-0.3	14.3
Two Wheelers Sales	(YoY, %)	- 2.3	7.8	12.3	-2.8	23.5
Exports	(YoY, %)	18.5	8.8	12.9	-1.1	30.5
Consumer Price Index (CPI)	(YoY, %)	3.6	2.2	3.0	3.6	4.9
Manufacturing PMI	(DI, points)	51.2	51.7	50.1	50.3	52.6
Services PMI	(DI, points)	50.2	51.8	48.0	51.7	48.5
Money Supply	(YoY, %)	- 19.7	- 11.6	- 8.1	- 8.0	39.7

Note: "Money Supply" represents end-of-quarter figures
Source: India Central Statistics Office (CSO), Society of Indian Automobile Manufacturers (SIAM), Ministry of Commerce and Industry, Bloomberg, Reserve Bank of India (RBI), BTMU Economic Research Office

Chart 1: Inward Foreign Direct Investment (FDI) in India



Source: Government of India Department of Industrial Policy and Promotion (DIPP), BTMU Economic Research Office

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