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Expert Commentary

Dr. S. Satya Moorthi, Professor of Economics and Finance at BIM, Trichy, on India's economy

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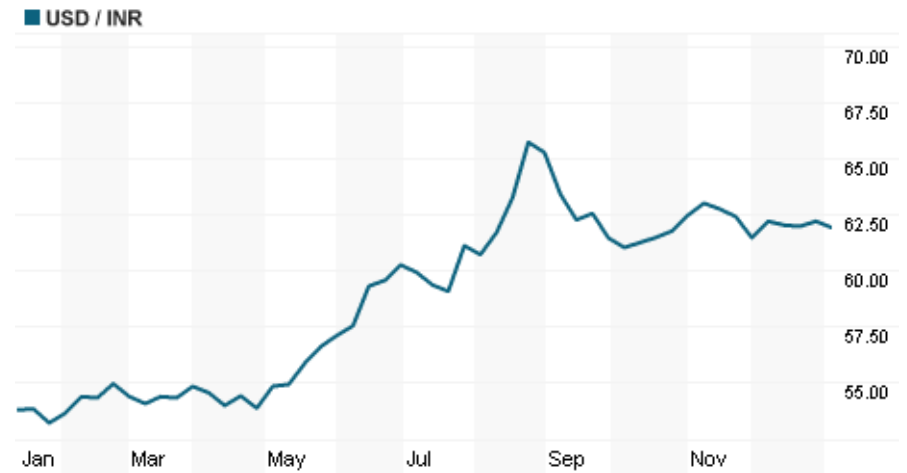
When the Fed expressed its intention to start tapering its QE programme back in May, it sent tremors through global markets, with India being the most affected. The actual tapering has been announced recently. In your opinion, will Indian market be shattered once again as the Fed proceeds with scaling back of its stimulus?

The Indian markets have taken QE tapering announcements in its stride and will not see much impact as it actually commences. The recent Fed announcements have been, as analysts have called, 'dovish' at best. The new Fed Chair is expected to stay on course, but for the concern about the size of the Fed's balance sheet and improvement in labor market outlook as such. What might seriously affect the markets though would be the continued macroeconomic concerns and the expectations from impending General Elections.

This summer was a stormy period for the Indian economy. The Rupee plummeted 25 % against the U.S. Dollar, the industrial and manufacturing sectors continued to underperform, the balance of payments deficit swelled and rocketing inflation hit consumer spending. However, recent data unveiled signs of a tentative positive change in momentum, with India's growth rate rising to 4.8% in the last quarter, exceeding analysts' expectations, and the Rupee recovering in value. Do you think that India's economy is finally out of trouble?

Very true, in the recent weeks, the Rupee has gained some of its lost ground and the trade deficit has reduced to USD 110 bn during the first nine months of this financial year compared with USD 146.8 bn a year earlier, largely due to reduced import of gold and silver.

However, concerns of sustained high inflation – with CPI at 11% levels, and GDP growth at less than 5% remain a worry in the short to medium term. Recovery in industrial growth is unlikely in 2014, present situation of high interest rates and low consumer demand. Also, the central bank has raised its concerns on the asset quality of loans and the NPA (non performing assets) levels in banking industry.



USD/ INR in 2013, Source: Reuters

Jan. 11, 2014 6:31 AM

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The Indian market is highly dependent on FII inflows, do you see that currently as a burden or driver for further expansion?

Yes, liquidity in the markets could be a huge concern if not for continued FII inflows. The government, SEBI and the RBI have been working overtime to diffuse their concerns and make markets look attractive for them. It is all the more a worrisome situation, with markets concerned whether the fiscal deficit target of 4.8% of GDP could be met this year, as economic slowdown is putting pressure on government revenue.

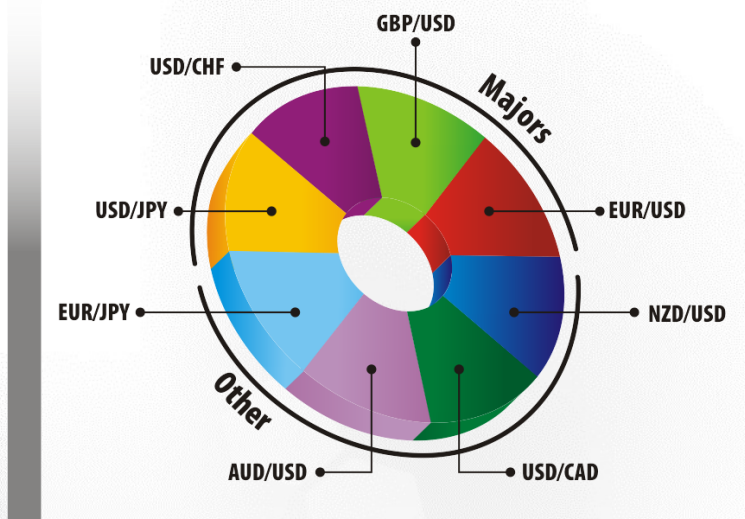
What, to your mind, are the main growth hurdles for India and what key drivers for the growth outlook you see over the next 6-12 months?

In the short term, agricultural output to me seems to be the key growth driver, as increased food supply might bring down CPI, as some of the recent policy initiatives might help this cause. Increased rural demand and lowering of interest rates might help revive industrial production and growth in the economy over the next few quarters. While additional concerns could arise if the incumbent government presents a populist ‘budget’, before the elections, straining the deficit situation further.

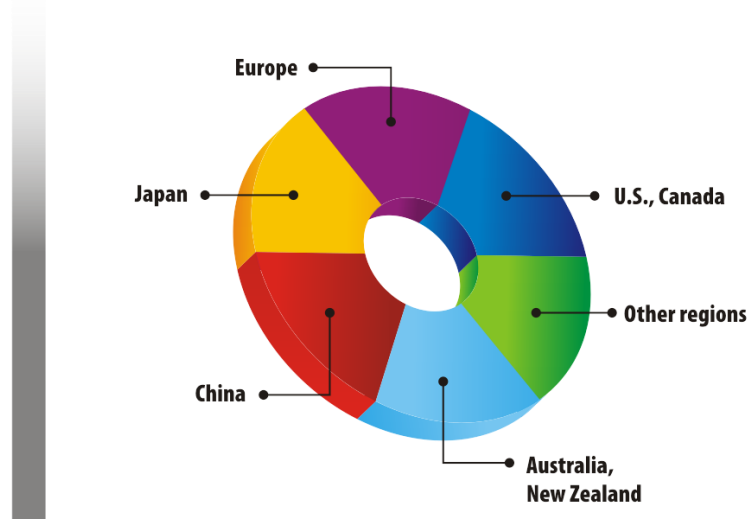
Thus, for sure, Guv Rajan and the incoming Finance Minister have a huge task at hand.

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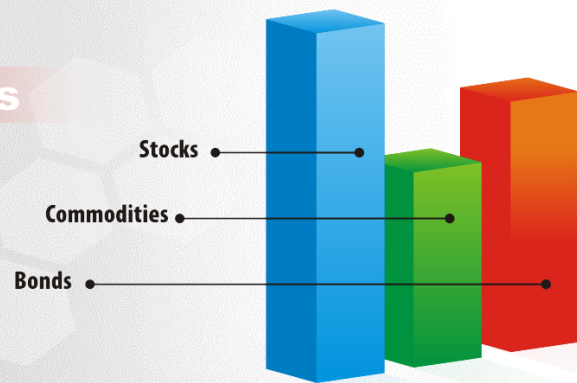
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