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Trade pact with Australia indicates a positive turn

A major development on India's external trade front took place on November 22, with the Australian Parliament clearing the path for a free trade agreement with India. This was significant because in Australia the approval of the legislature for any treaty with a foreign country is required before the executive can sign it, unlike in India. More significant was the fact that the Australian Parliament approved the treaty that gave Indian companies virtually complete access to its domestic market. From the Indian point of view, the green signal to the Economic Cooperation and Trade Agreement (ECTA) with Australia would pave the way for the implementation of the deal by January 2023 and would mark India's first trade deal with a developed country over a decade. The last such agreement was signed with Japan in

2011. According to the details of the ECTA, Australia would eliminate Customs duties on 100 per cent of its tariff lines over a period of five years, while India would do away with import duties on 70.3 per cent of its tariff lines over a period of 10 years. India, however, would immediately remove Customs duties only on 40 per cent of its products. The average Customs tariffs imposed by Australia on its imports are about 5 per cent. The ECTA will, therefore, allow easier access for Indian companies producing textiles, apparels, agricultural products, leather, furniture, jewellery and pharmaceuticals. India's reduction in tariffs, however, would be calibrated. For instance, Australian wine with a value between $5 and 15 per bottle would see a tariff reduction to 50 per cent, down from 150 per cent over a period of ten years, while for wine valued at over $15 a bottle, the tariff would come down to 25 per cent over the same period of 10 years. The new arrangement would also allow India to send 1,800 yoga teachers and Indian chefs to Australia, apart from allowing Indian students in that country to have post-study work visas for four years. On an overall bilateral Indo-Australian trade of $25 billion, India has a trade deficit of about $8.5 billion. The expectation is that the ECTA would raise bilateral trade to $45-50 billion in five years. Equally significant was the Australian Parliament's amendment to the double tax avoidance agreement with India, which would stop taxing offshore income of Indian information technology companies operating in Australia. The double-tax avoidance agreement would kick in from April 2023, but its benefits for the Indian information technology sector would be huge. Apart from resolving a long-drawn issue, it would result in annual savings of over $1 billion for Indian information technology companies.

Mixed outcomes for India from climate deal at COP27

Sharm El-Sheikh, an Egyptian resort town between the desert of the Sinai Peninsula and the Red Sea, was the venue of the 2022 United Nations Climate Change Conference (COP27) or the 27th Conference of the Parties of the United Nations Framework Convention on Climate Change (UNFCCC). At the end of its deliberations, held between November 6 and 22, COP27 produced a mixed outcome, particularly for developing countries like India. On the one hand, the meeting took a landmark decision to create a Loss and Damage Fund or LDF, a mechanism aimed at compensating developing countries for the harm caused to them by climate change. But on the other hand, there was little progress on a critical issue of widening the scope of the global movement on climate change by phasing down all fossil fuels, and not just coal. The agreement on creating LDF was a big development as this was the first time a funding arrangement had been settled in principle to compensate those who suffered from climate change. However, there were no details on LDF. The text that was adopted at the end of COP27 only talked about "institutional arrangements" for averting, minimising and addressing loss and damage associated with the adverse effects of climate change. On the other hand, there was no agreement on emission reductions or on mobilising greater financial and technological resources to fight climate change, just as India's call for phasing down all fossil fuels, not just coal, did not make any headway. The Indian government has welcomed the decision to set up LDF. The coming weeks and months would determine how strong the institutional framework could be made to take care of interests of vulnerable developing countries like India from a climate change perspective. India would also look forward to equal pressure being put also on phasing down fossil fuels, in addition to coal. India is a major coal user and the argument that other fossil fuels like gas should not be subjected to similar treatment is not seen as equitable and fair.

India takes charge of G-20, promises inclusive agenda

India took on the reins of Group of 20 nations or G-20, a premier forum for international cooperation, on November 16. G-20 has 19 countries and the European Union as its members, which account for over 80 per cent of the world's GDP, 75 per cent of global trade and 60 per cent of the world's population. At the end of its 2022 Summit held at Bali for two days from November 15 to 16, Indonesia handed over the baton of presidency to India, which will officially take charge of leading G-20 from December 1, 2022. The challenges for leading G-20 at this time are huge. The two-day Bali summit saw sharp differences over the Russian invasion of Ukraine. Fears of a global recession loom large, with many countries facing rising unemployment, fighting high inflation and raising interest rates. India's Prime Minister Narendra Modi set the tone by earlier declaring in his bilateral meeting with Russian President Vladimir Putin that "today's era must not be of war", a statement that was incorporated in the Bali statement. Modi summed up the challenges before the world succinctly in his remarks at the closing ceremony. He said: "India is taking charge of the G-20 at a time when the world is simultaneously grappling with geopolitical tensions, economic slowdown, rising food and energy prices and the long-term ill-effects of the pandemic…At such a time, the world is looking at the G-20 with hope. Today, I want to assure that India's G-20 presidency will be inclusive, ambitious, decisive and action-oriented." The next 12 months would show how well India uses this opportunity to lead G-20 and leave its mark as a force that strengthens international cooperation, democracy, peace and stability in the world.

Disturbing signals on FDI and exports fronts

Foreign exchange inflows through foreign direct investments (FDI) and exports had done well in 2021-22. Exports of merchandise goods in 2021-22 rose by 43 per cent to $418 billion. Similarly, FDI inflows rose by 3 per cent to $85 billion, even as there was an outflow of foreign institutional investment to the tune of over $14 billion. The situation in the first half of 2022-23 has changed quite significantly, causing some concern for policy makers. The outflow of foreign institutional investment in the April-September period of 2022 slowed to $8 billion, but total FDI inflows during these months fell by 9 per cent to $39 billion. Merchandise exports in the first half of 2022-23 rose by 17 per cent to $232 billion, but the figures for October exports dampened the enthusiasm on this front. For the first time in two years, India's exports in October contracted. And the contraction was as steep as 17 per cent. The first seven months of 2022-23 still showed exports growth of over 12 per cent at $263 billion, but given the slowdown in the western markets, India's exports are likely to face stronger headwinds in the months to come. The 9 per cent decline in total FDI inflows in the first half of 2022-23 presents an interesting picture. Within the overall FDI inflows, the decline in FDI equity has been sharper at 14 per cent at $27 billion. Reinvested earnings by companies with foreign equity, however, have gone up by 11 per cent to $9.3 billion, although these figures are an average of the previous two years. But even this increase was not sufficient to make good the fall in foreign equity inflows. With global capital returning to the US as interest rates go up there, the prospects of India continuing to attract higher foreign equity, a relatively more stable form of capital, do not look very encouraging.

Insolvency resolution gathers momentum, but delays persist

The latest data released in November on corporate insolvency resolution under the Insolvency and Bankruptcy Code (IBC) provided a ray of hope, although they revealed many weaknesses that also needed to be resolved. The data covering the period from the Code's launch in 2016 to September 2022 showed that 54 per cent of the corporate insolvency resolution plans (CIRPs) were resolved, settled, withdrawn or against which appeals were filed. The remaining 46 per cent of the cases were liquidated. Of the 553 cases that got resolved in these years, about 33 per cent of the claims filed by financial creditors or banks could be recovered. The value erosion in the debts of the companies since they came under the IBC process was quite substantial. But the IBC resolution process gave the financial creditors the highest recovery among all the available options. Indeed, resolution plans on average were yielding 84 per cent of the fair value of the corporate debtors, according to the data released by the Insolvency and Bankruptcy Board of India or IBBI. In absolute numbers, 23,417 cases, with an underlying default of Rs 7.3 lakh crore, were resolved till September 2022, even before they could be admitted into the corporate insolvency resolution process. This showed that only a few companies, which failed to address the stress in their finances in the earlier stages had to pass through the entire resolution process. Significantly, the pre-packaged insolvency process for micro, small and medium enterprises, introduced in August 2021, evoked a lukewarm response, with only two admissions. In general, the main cause of the liquidation under IBC was the decision of the committee of creditors, which led to 1,152 companies being liquidated during this period. Other causes for liquidation were resolution plan not received by the National Company Law Tribunal (NCLT) with 586 cases, resolution plan rejected by NCLT with 53 cases and corporate debtor contravening resolution plan provisions with 16 cases. Worryingly, the time for completing the resolution process continued to be inordinately long with 64 per cent of the cases taking more than 270 days, 15 per cent taking over 180 days, 11 per cent taking more than 90 days and only 10 per cent taking less than 90 days.

Easing inflation in retail as well as wholesale segments

Tidings on the inflation front were relatively reassuring. Both retail and wholesale inflation slowed down in October. Retail inflation, based on the Consumer Price Index, declined to a three-month low at 6.77 per cent, compared to 7.41 per cent in September. The decline was largely attributable to a softening of food prices, even as the level was still higher than the upper tolerance band of 6 per cent mandated under the inflation management law that the Monetary Policy Committee of the Reserve Bank of India has to keep in mind while deciding on the future course of the interest rate regime. In spite of that, however, the Committee is likely to be less hawkish on interest rates when it meets in the first week of December. The October inflation number was helped by an easing of food prices to 7.01 per cent (down from 8.6 per cent in September) and services inflation, which reached a 29-month low at 5.9 per cent. The finance ministry was understandably upbeat in its official reaction, when it said that the government’s tariff rationalisation measures had helped augment domestic supplies to keep cost-push inflation in consumer items under control. What must have buoyed spirits in North Block was also the release of the wholesale inflation data for October, based on the movement in the Wholesale Price Index. That data also showed wholesale inflation easing to a 19-month low at 8.39 per cent. The decline was on account of a high base effect in the same month of 2021 and a broad-based easing of pricing pressure. Experts believed that the lower wholesale inflation would help bring down input costs for producers, which in turn should soften retail inflation as well. Whether all these arguments make an impact on the RBI's Monetary Policy Committee members or not would be known on December 7, when the bi-monthly monetary policy review outcomes will be known.

Tax collections up, augurs well for fiscal consolidation

Good news on the Centre's tax collections front continues to pour in without any break. In the first week of November, the collections of goods and services tax or GST for October were reported at Rs 1.52 lakh crore, which showed a rise of over 16 per cent over the same month of 2021. The October figure was the second highest monthly collection since the implementation of the GST in July 2017 and was due to higher festival spending, higher tax rates and improved compliance, thanks to a more efficient technology-driven tax administration. As many as 83 million e-way bills were generated to help collect the GST revenue, compared to 77 million in the previous month. An interesting feature of the October GST numbers was that the growth was more pronounced in the collections of central GST and state GST, with less increase in integrated GST (IGST) on imports. Not surprisingly, the Centre's gross tax collections in the first half of the current year rose by over 17 per cent at Rs 13.92 lakh crore. The Budget had set a target of growing gross tax revenues in 2022-23 by a little less than 2 per cent over Rs 27.08 lakh crore in 2021-22. The healthy increases in collections of corporation taxes, personal income tax and central GST would more than offset the marginal shortfall in collections of excise duty and Customs during 2022-23. The expectation is that the overall increase in the Centre's net tax collections would be about Rs 3-3.5 lakh crore, an increase that would help offset the expenditure increases seen during the year on account of extending the free food ration scheme and higher fertiliser subsidies. A shortfall in disinvestment receipts also is not likely to upset the government's plans to meet the fiscal deficit target of 6.4 per cent of gross domestic product or GDP. The nominal growth of the Indian economy is estimated to be higher at about 15 per cent, against the budgeted number of 11 per cent. This too would help the government meet its fiscal deficit target for the current year. The challenge lies ahead in 2023-24 on determining how much should be the fiscal deficit contraction and how that could be achieved.

Urban unemployment continues to decline

The latest Periodic Labour Force Survey (PLFS), released by the National Statistical Office on November 23, showed that India's urban unemployment rate had dropped in the July-September period of 2022 to 7.3 per cent. This was the fifth consecutive drop in urban unemployment. What should have come as good news for the economy and the government was the fact that the urban unemployment rate of 7.3 per cent, measured on current weekly status terms for all ages, was the lowest unemployment rate recorded in more than four years from the time the NSO had launched the computer-based survey in April 2017. In the current weekly status methodology, a person is believed to be unemployed if he or she is not able to work even for an hour during the week preceding the date of the survey. The PLFS data, however, brought out the continuing sharp divergence between urban unemployment between men and women. The unemployment rate among men was 6.6 per cent while that among women it was much higher at 9.4 per cent. Even the monthly data compiled and released by the Centre for Monitoring Indian Economy (CMIE) corroborated the healthy turn in India's job market. The CMIE survey had shown that except August, India had done well on the employment front in the second quarter with the unemployment rate staying below 7 per cent. The CMIE survey however captured a different kind of divergence – rural unemployment being less pronounced than urban joblessness. But in the October survey of CMIE, unemployment rate was once again on the rise at 7.77 per cent, a rate that continued to rule at that level during most of November as well. The CMIE survey also brought out how in spite of a marginal fall in the already low labour force participation rate to 39 per cent in October, the improvement in the salaried jobs market was a positive development.

Industrial output on a slow recovery path

India's industrial output in the first half of the year grew by 7 per cent, compared to a 23.8 per cent rise in the same period of 2021-22. The growth was driven by a 6.8 per cent rise in the manufacturing sector's output, which has the largest weight in the index of industrial production (IIP) at 77.6 per cent. Electricity reported double-digit growth at over 11 per cent, while mining showed a muted increase of 4.6 per cent. In September 2022, industrial output had returned to the positive territory with a growth rate of 3.1 per cent, after a contraction of 0.6 per cent in August. In terms of the various industrial sectors, the growth rate during April-September 2022 was the strongest in capital goods at 16.8 per cent, followed by consumer durables at 10.7 per cent, primary goods at 9.2 per cent, infrastructure/constructions goods at 7.3 per cent and intermediate goods at 6.8 per cent. A worrying sign emanated from the consumer non-durables sector, which includes the fast-moving consumer goods as well, as its output in the first half of the current year contracted by 2.8 per cent. The numbers for IIP are measured in volume terms, but they provide an indication of the pace at which the industrial sector and the manufacturing sector in particular are faring. A clearer picture of the state of the economy would emerge after the GDP growth numbers for the second quarter of 2022-23 are released on November 30.

The previous issues of Indian Economy Review are available here: LINK

(The views expressed are personal)

COMMENTS