

India's economy – Figures and perceptions

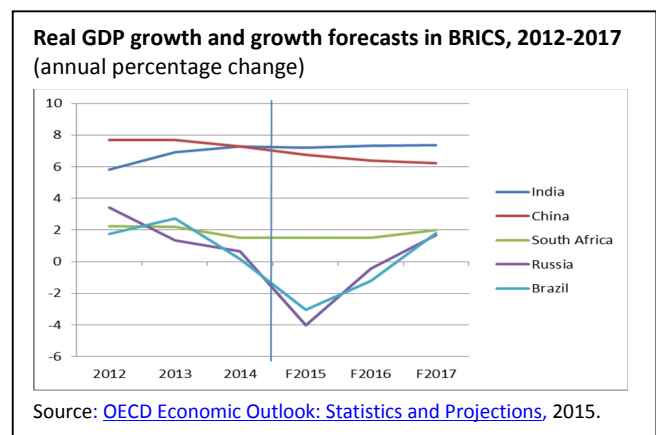
India has recently overtaken China as the world's fastest growing economy. The country has benefited from falling oil prices and from an increase in foreign direct investment, due to Prime Minister Narendra Modi's policies, with the most visible tools branded schemes such as 'Make in India'. However, perceptions of real growth and other indicators point to a less optimistic framework, while Modi is struggling against opposition in the Parliament to deliver major reforms on labour laws, taxation and land acquisition.

India, the fastest growing economy

India, the world's tenth-largest economy by nominal GDP (gross domestic product), and third largest in purchasing power parity (PPP), has recently overtaken China as the fastest-growing economy. According to the International Monetary Fund's January 2016 World Economic Outlook ([WEO](#)), New Delhi had already caught up with Beijing in 2014 (7.3% growth in both countries). By 2015, thanks to one of the fastest rates in the world, India had overtaken China (7.3% to 6.9%). Projections for 2016 (7.5% versus 6.3%), and 2017 (7.5% against 6.0%), confirm the trend. The difference compared to the other [BRICS](#) countries is even more evident: the economies of Russia (-3.7%) and Brazil (-3.8%), largely dependent on decreasing commodity prices, shrank in 2015. The South African economy grew by a mere 1.3%.

India has generally benefited from the fall in oil prices – as well as from low prices for metals – as New Delhi is a major oil importer. The country demonstrates the fastest energy-consumption growth among all major economies and [three quarters](#) of its oil needs – 28.3% of its total energy consumption – are covered by [imports](#) (although coal remains the dominant fuel at 56.5% of total energy consumption). The fall in the price of oil has contributed to moderating the wholesale price index ([WPI](#)), and enabled a [reduction](#) in the official interest rate, while the rupee's value has [stabilised](#). In addition, India is [not burdened](#) with large dollar-denominated external debts, which weigh on many emerging economies, making them vulnerable.

According to the UN Conference on Trade and Development ([UNCTAD](#)), foreign direct investment (FDI) in India almost doubled in 2015, reaching US\$59 billion (FDI inflows to developing Asia rose by 15%). Relaxation of FDI norms in [some sectors](#) (including defence, banking, construction, single-brand retail, broadcasting and civil aviation), and initiatives such as '[Make in India](#)' (see box) have contributed, and attracted foreign companies such as [Apple](#). The [services sector](#), whose contribution to GDP amounted to around 52% in 2014-2015, has also been a major driver in [attracting FDI](#). Additionally, according to Indian Minister of Finance, Arun Jatley, India is '[relatively unimpacted](#)' by some of the factors that have caused the global crisis.



Narendra Modi's 30 branded schemes to change India

More than 30 [schemes](#) to modernise India have been launched since Narendra Modi became Prime Minister in May 2014. Among them, the most relevant to economic growth is the '[Make in India](#)' programme, aimed at transforming India into a global manufacturing hub and improving its business climate for both domestic and foreign investors. India's manufacturing sector is less productive compared to competitors such as China, and accounted for only [17%](#) of GDP in 2015. The government has set a target of [25%](#) of GDP by 2022.



Not all that glitters is gold

Nevertheless, a certain number of caveats contradict the scenario above. Firstly, analysts argue that the new improved growth figures are basically due to a recent revision in [methodology](#) to calculate GDP, which has brought higher figures. Investors [consider](#) Indian growth is not as robust as the official GDP numbers seem to suggest, as it has been [driven](#) by private consumption and public investment, rather than private investment and exports. Both manufactured and services exports have been [stagnating](#) in recent years, and are among the signs that India is [less integrated](#) into the global economy than China. This problem could even worsen. India is a member of the Regional Comprehensive Economic Partnership ([RCEP](#)); but has still joined neither the Trans-Pacific Partnership ([TPP](#)) nor Asia-Pacific Economic Cooperation ([APEC](#)). Should New Delhi remain outside these agreements, and China and the rest of APEC join a second stage of the TPP, India's annual [export losses](#) might approach [US\\$50 billion](#).

Analysts have also pointed out a series of [inconsistencies](#), including weaknesses in corporate profitability and stagnation of freight volumes and in the real estate sector. Both in 2014 and 2015, the country experienced a poor monsoon season, affecting around [half](#) of the Indian population, which is dependent on agriculture. [Bad bank loans](#) put the public banking sector – controlling three quarters of the country's assets – under stress and may undermine India's goal of sustainable recovery.

India also has critical scores on many indicators which measure an economy's capacity to do business. In the World Bank's 'Doing Business 2016' report, [India](#), although better placed than in 2015, still ranks 130th out of 189 economies, lagging substantially behind China (84th). Dealing with construction permits (ranked 183rd) and enforcing contracts (178th) are the most critical points, and starting a business (155th), paying taxes (157th), and resolving insolvency (136th) are also challenging. Access to electricity (70th) is now less difficult. Foreign companies complain about India's poor infrastructure, cumbersome land-purchasing arrangements, excessive regulation, rigid labour laws, frequent power cuts, and corruption. [Retrospective tax disputes](#) involving major foreign companies have created cause for concern among foreign investors.

The political conundrum

Once elected, Narendra Modi [promised](#) a pro-business agenda and aimed to deliver on deregulation, investment facilitation, and spending reduction. Modi has travelled widely, promoting India as an investment destination, and appealing to foreign investors. [FDI ceilings](#) in several sectors have been lowered. However the government failed to have some expected key bills – on the Goods and Services Tax ([GST](#)); on [land acquisition](#); on the [labour laws](#) – approved or even discussed. The budgets tabled by the cabinet in [2015](#) and in [2016](#) avoided making bold economic reforms. Modi was elected in 2014 with a large electoral mandate: his party, the BJP (Bharatiya Janata Party), obtained an absolute majority in the lower chamber, the Lok Sabha. However, the BJP is in a minority in the upper chamber, the Rajya Sabha, and has therefore had difficulties in promoting economic reforms, often blocked by the main opposition party, the Indian National Congress (INC). To reverse the majority in the Lok Sabha, the BJP needs to win control of more states. However two major electoral defeats gave serious warning signals to Modi's party: in February 2015 in the capital [New Delhi](#), and in November 2015 in [Bihar](#).

The European Union and India

The European Union is India's [biggest](#) trade partner, but trade between the two – reaching €72.6 billion in 2014 – is stagnating. India-EU trade in services amounted to €22.9 billion in 2014 – less than in 2013. The EU is the biggest investor in the Indian economy, but figures are [declining](#): €34.7 billion in 2013 – less than 2012. In 2007, India and the EU began talks on a bilateral trade and investment agreement (BTIA), but the negotiations, [welcomed](#) by the EP in 2011, have progressed slowly due to several controversial [issues](#). The most recent EU-India summit was in February 2012, but a [visit](#) to Brussels by Narendra Modi in late March 2016 may break the current deadlock and allow for more promising EU-India relations.

