Globalization

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Structure of the Presentation

- Global Scenario – growth, inflation, employment
- Domestic Scenario

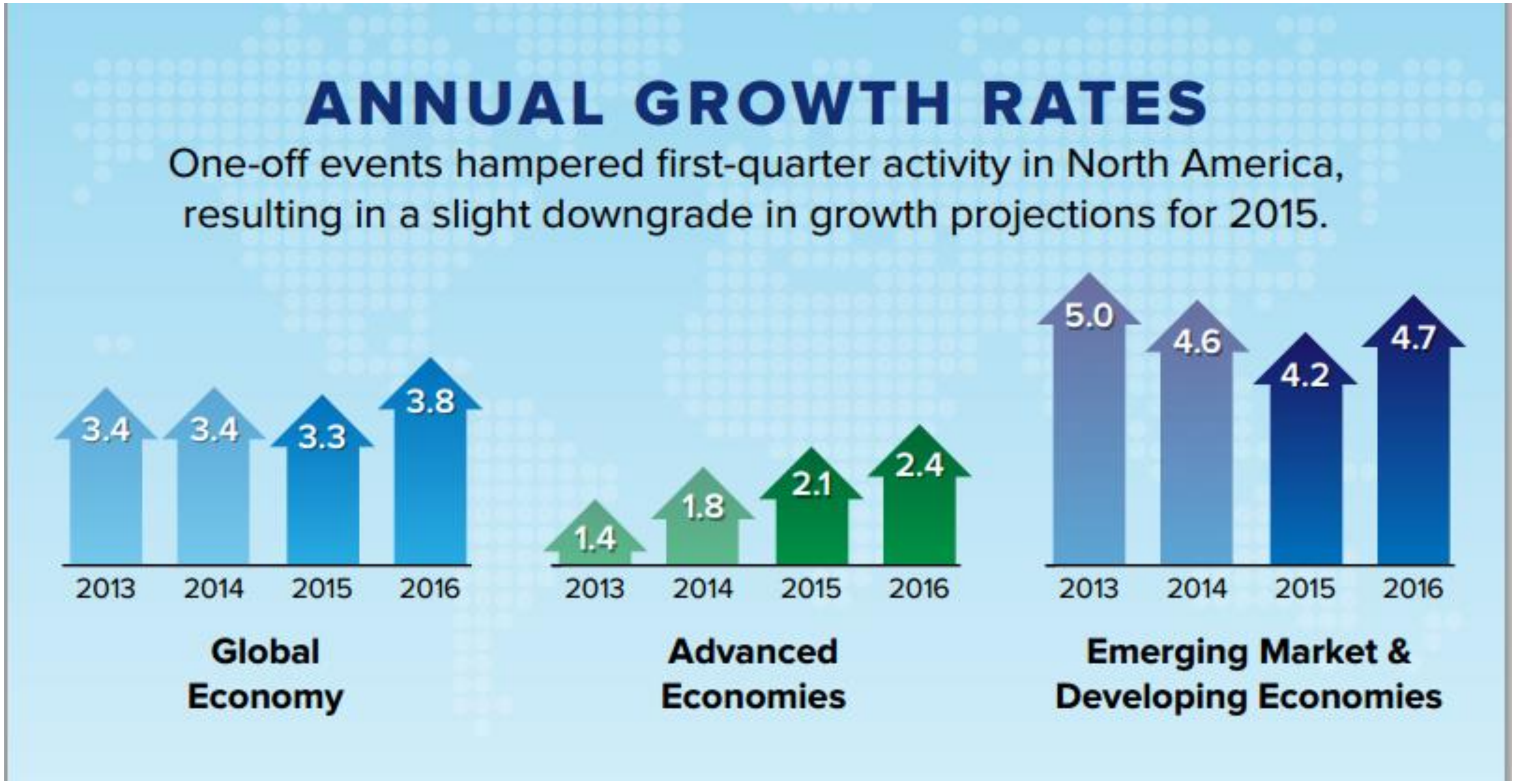
What do you mean by Globalization?

- Economically, globalization means closer integration of national economies through trade and financial flows as well as cross-border migration of people.
- “Globalization [is] a label that is presently in vogue to account for peoples, activities, norms, ideas, goods, services, and currencies that are decreasingly confined to a particular geographic space and its local and established practices” (Rosenau, 1997b, p. 360).

Components of Globalization?

- Economic globalization
  - cross-border trade, investment and income flows in relation to GDP and, on the other, the impact of restrictions on trade and capital movement.
- Political globalization
  - number of foreign embassies, international organisations which the country has joined, UN peace missions in which the country was involved and bilateral and multilateral agreements the country has concluded
- Cultural globalization

World Growth Rates at a Glance



Real GDP Growth (q-o-q, annualized)

(per cent)

	Q3-2014	Q4-2014	Q1-2015	Q2-2015	2015 (P)
Advanced Economics					
US	4.3	2.1	0.6	3.9	2.5
Euro Area	1.2	1.6	2.0	1.6	1.5
Japan	-1.1	1.3	4.5	-1.2	0.8
UK	2.8	3.2	1.6	2.8	2.4
Canada	3.2	2.2	-0.8	-0.5	1.5
Korea	3.2	1.2	3.2	1.2	3.3
Emerging Market Economics (EMEs)					
China	7.6	6.0	5.6	6.8	6.8
Brazil	0.4	0.2	-2.8	-7.6	-1.5
Russia	-1.3	-2.8	-6.3	-8.0	-3.4
South Africa	2.1	4.1	1.3	-1.3	2.0
Thailand	4.0	4.4	1.2	1.6	3.7
Malaysia	3.6	7.2	4.8	4.4	4.8
Mexico	2.4	2.8	1.7	2.0	2.4
Saudi Arabia*	5.9	10.7	4.0	-5.4	2.8

Memo

	2014	2015P	2016P
World Output	3.4	3.1	3.8
World Trade Volume	3.2	4.1	4.4

P: Projection * : Seasonally Unadjusted

Source: Bloomberg and IMF

Global Economic Outlook

- Global growth, currently estimated at 3.1 percent in 2015, is projected at 3.4 percent in 2016 and 3.6 percent in 2017.
- In advanced economies, a modest and uneven recovery is expected to continue
- The picture for emerging market and developing economies is diverse
- The slowdown and rebalancing of the Chinese economy, lower commodity prices, and strains in some large emerging market economies will continue to weigh on growth prospects in 2016–17

- Forecasts of a gradual improvement of growth rates in countries currently in economic distress, notably Brazil, Russia, and some countries in the Middle East

Global Economic Scenario

- Post 2008/09 crisis, the global economy was on a path to recovery in 2010.
- Recovery led by emerging market economies especially Asia.
- However, global economy once again suffered a setback in 2011-14
- Slowdown of growth and uncertainty in developed countries , i.e. EU and Japan

Regional Growth

US

- 2.4% in 2015
- While some of the reasons for this decline—including very weak exports—are likely to prove temporary, final domestic demand was weaker as well, with a decline in nonresidential investment, including outside the energy sector
- labor market indicators continued to improve. In particular, employment growth was very strong, labor force participation rebounded, and the unemployment rate continued its downward trend, with a 4.5 percent reading in March.

Continuing challenges in the global economy

Japan

• Japan's growth rate had recovered in 2012. Grew at 1.5% in 2013.

• Growth is expected to decline-negative growth rate in 2014.

• Growth slow in 2014 because of fiscal policy tightening, increase in consumption tax rate and unwinding of reconstruction spending.

•In Japan, growth came out significantly lower than expected in 2015 reflecting in particular a sharp drop in private consumption.

EU

•GDP growth is projected to rise to almost 2 per cent in 2016 and 2017, despite a slowdown in several emerging markets.

•Activity will continue to be supported by sustained monetary stimulus, a broadly neutral fiscal stance and lower oil prices.

•High private indebtedness will remain a drag on consumption and investment in many countries.

Continuing challenges in the global economy-2014

Emerging market and developing economies

- Grew at 4.6% in 2014 compared to 5% in 2013.
- Decline in growth rates China, ASEAN countries and Latin America
- Growth rate for China declined to around 7.4% in 2014 from 7.7% in 2013.
- Growth rate for Latin America declined to 1.8% in 2014 from 2.9% in 2013. Uneven growth rates across the region.
- Sub Saharan Africa grew at 5% in 2014 compared from 5.2% in 2013.

Decline in Oil Prices

Sharp decline in oil prices since September 2014-almost by 45%.

•Reasons? Unexpected weak demand for oil given weaker global activity and greater supply.

• Rise in oil production in US, OPEC’s decision to maintain production levels despite fall in prices.

•Positive impact on global growth due to fall in oil prices.

Unemployment in the developed coountries

- Unemployment rate in the US declined to around 6% in 2014 from 7.6% in 2013

- However, the unemployment rate in the euro area continues to increase, and touched a new high of 12.2 per cent in 2014.

- Unemployment rate in Greece continues to be anchored around 25 per cent.

- Overall, growth and employment have been dented by slow expansion in industrial growth and global trade.

Inflation

• Inflation projected to decline in 2015 in developed and developing countries reflecting decline in oil prices.

• .In developed countries inflation projected to decline in 2015

• In US, inflation projected to decline to 0.4% in 2015. In Euro area it turned negative in December 2014. Inflation in Japan has begun to increase but at around 1.5% is still below the 2% target.

• Inflation expected to decline in emerging markets and developing countries .

•In China inflation is expected to decline to 1.2% reflecting weakening of domestic demand, appreciation of renminbi decline in commodity prices.

•However for some countries like Brazil, inflation is expected at 4.5% while in Russia expected to be at 18% reflecting large depreciation of the ruble.

The Euro Area crisis

World leaders probably spend more time worrying about the Euro zone crisis than anything else….

• Structural contradiction in the euro system

• Euro zone countries have a monetary union but not a fiscal union

• Led to fiscal free riding of certain countries because of the difficulty in regulating national financial institutions.

•Build up of excessive public and private sector imbalances in several Euro area economies. Exposed after the 2008 recession.

How did the Euro zone crisis start?

- Between 2002-07, global pool of fixed income securities increased significantly.
- Pool increased significantly as savings from high growth developing nations entered global capital markets.
- Investors sought high yields globally.
- Each European country involved in the crisis borrowed and invested the money differently.
- Government debts as a proportion of GDP began to rise.

Greece

- In mid 2000 Greece was one of the fastest growing Euro zone countries but with a large deficit.
- Greece hit hard by global financial crisis-shipping and tourism key sectors.
- Government debt increased sharply. Debt and deficits in excess of target set by Eurozone.
- In April 2010, Greek Government requested loan from EU and IMF.
- Second loan sought in 2012.
- S&P slashed Greece's credit rating.
- Greece announced series of austerity measures in May 2012 to secure another loan.

Euro zone crisis

- European debt crisis moved to other countries viz Italy and Spain.

- Spain-housing bubble-liberal mortgage terms.

- Italy-high debt-low growth.

- European banks with fragile balance sheets unable to lend.

- Was realised that further escalation of sovereign debt crisis may put European banks on the verge of bankruptcy-may trigger a worldwide credit crunch.

Euro zone crisis

- Measures undertaken for greater fiscal integration.

- However measures are counteracted by fiscal austerity measures-.

- Weakening of growth in euro area.

A Nasty Dilemma

- Cut spending and the recession may deepen-increase in unemployment, lowering of ability to repay debt.

- Don’t cut spending and you risk a financial collapse.

Prospects

- Global recovery is fragile and uneven.
- High debts in developed countries are declining but at different rates in different countries. High debt is a key problem area.
- Unemployment is still very high in most of the developed countries.
- Outlook is one of ‘cautious optimism’. US and UK will grow.
- However old risks persist -not been fixed. Financial reforms are underway and have not been completed.
- New risks have emerged. How is the tapering going to take place. At what speed, how is it communicated. What spillover effects does it have on developing countries.
- Eurozone crisis biggest risk
- Europe on the road to recovery. But inflation is a major risk. The longer inflation continues to stay below the 2% level-greater the risk of deflation. Role of the ECB is a challenge.
- UK, Japan recovering. 2% inflation target back on track in UK.
- Financial sector reform is the biggest challenge. Regulatory challenge.

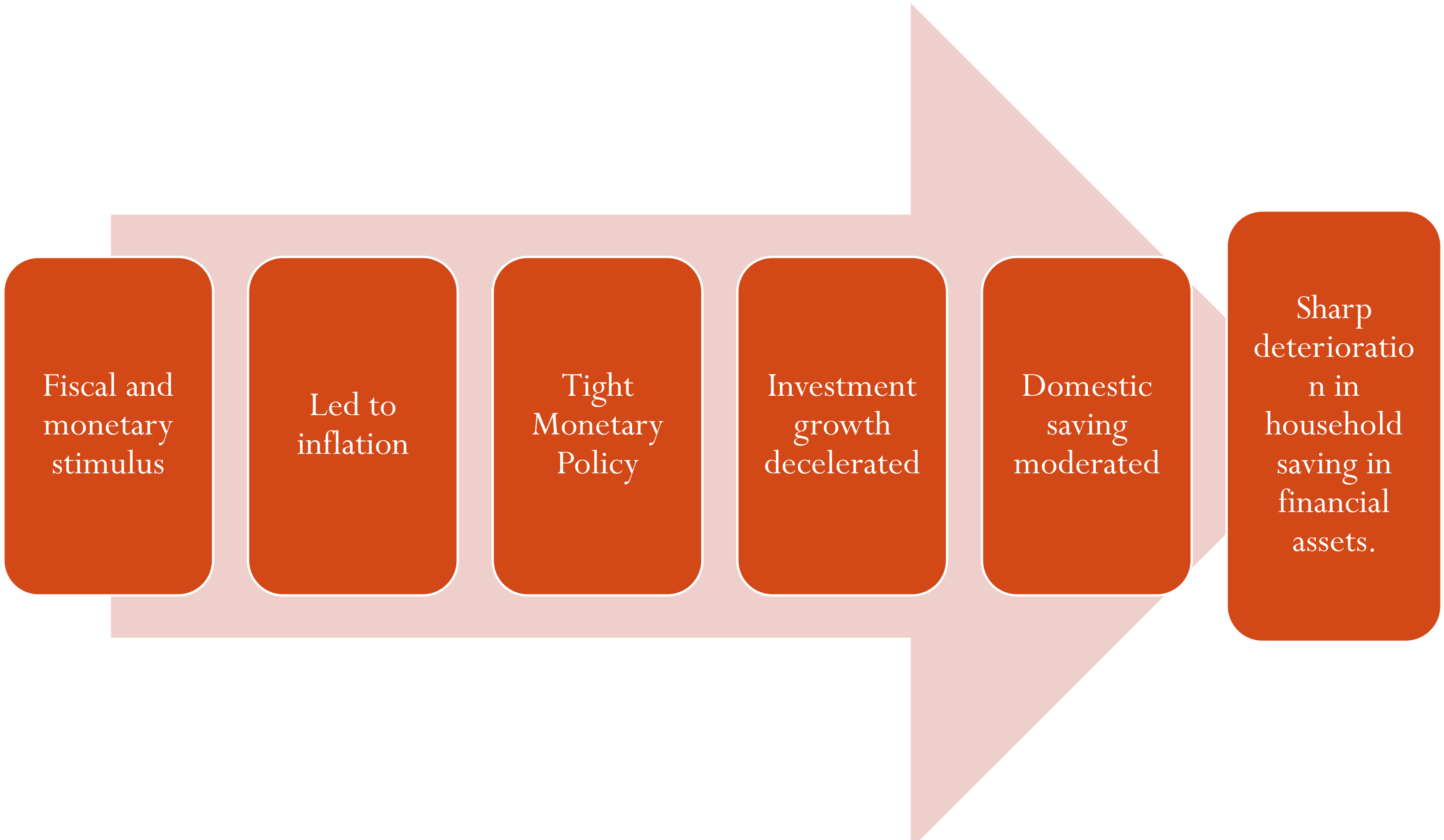
Indian Economy

The Growth Numbers

	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16 (Q1)
Growth Rate	8.6	8.9	6.7	4.5	4.7 (6.1%)	7.2%	7.1%

2014-15/2015-16: Is this an inflexion point in India’s Growth?

What explained the moderation in growth?



- Household savings continue to be the largest contributor to gross capital formation.

Table 5.1: Savings as a percentage of GDP

	2004-05	2009-10	2010-11	2011-12	2012-13	2013-14
Household (Financial)	10.1	12.0	9.9	7.0	7.1	7.2
Household (Physical)	13.4	13.2	13.2	15.8	14.8	10.6
Household (Total)	23.6	25.2	23.1	22.8	21.9	17.8
Gross	32.4	33.7	33.7	31.3	30.1	30.6

Source : Central Statistics Office. Caveat: New method employed in 2013-14.

Stalled Projects (by Value)

Year	Government	Private	Total
2011-12	2	5.7	7.7
2012-13	1.9	6.1	8
2013-14	1.8	6.5	8.3
2014-15	1.4	5.5	6.9

- The stock of stalled projects at the end of December 2014 stood at Rs. 8.8 lakh crore or 7 per cent of GDP.
- Manufacturing, mining and electricity, have had the highest stalling rates
- One sector with large a number (and total worth) of stalled projects in both public and private sectors is electricity. At the end of third quarter of this financial year, 80 projects were stalled in the electricity sector
- private projects are held up overwhelmingly due to market conditions and non-regulatory factors whereas the government projects are stalled due to lack of required clearances.

Current Trends

- The demand side of the GDP presented mixed signals in 2014-15.
- The increasing trends in consumption has gradually firmed up, with both private and government consumption growing
- Fixed capital formation in the economy has picked up growth but lost share in aggregate demand.
- Hardly any support to growth from exports. The deceleration in imports owes substantially to the sharp decline in international oil prices in the current year that compressed the oil import bill

2015-16

- Aggregate demand firmed up modestly in the first half of 2015-16,
  - Resilient consumption demand and
  - an incipient pick-up in investment.

Risks to Growth in 2015-16

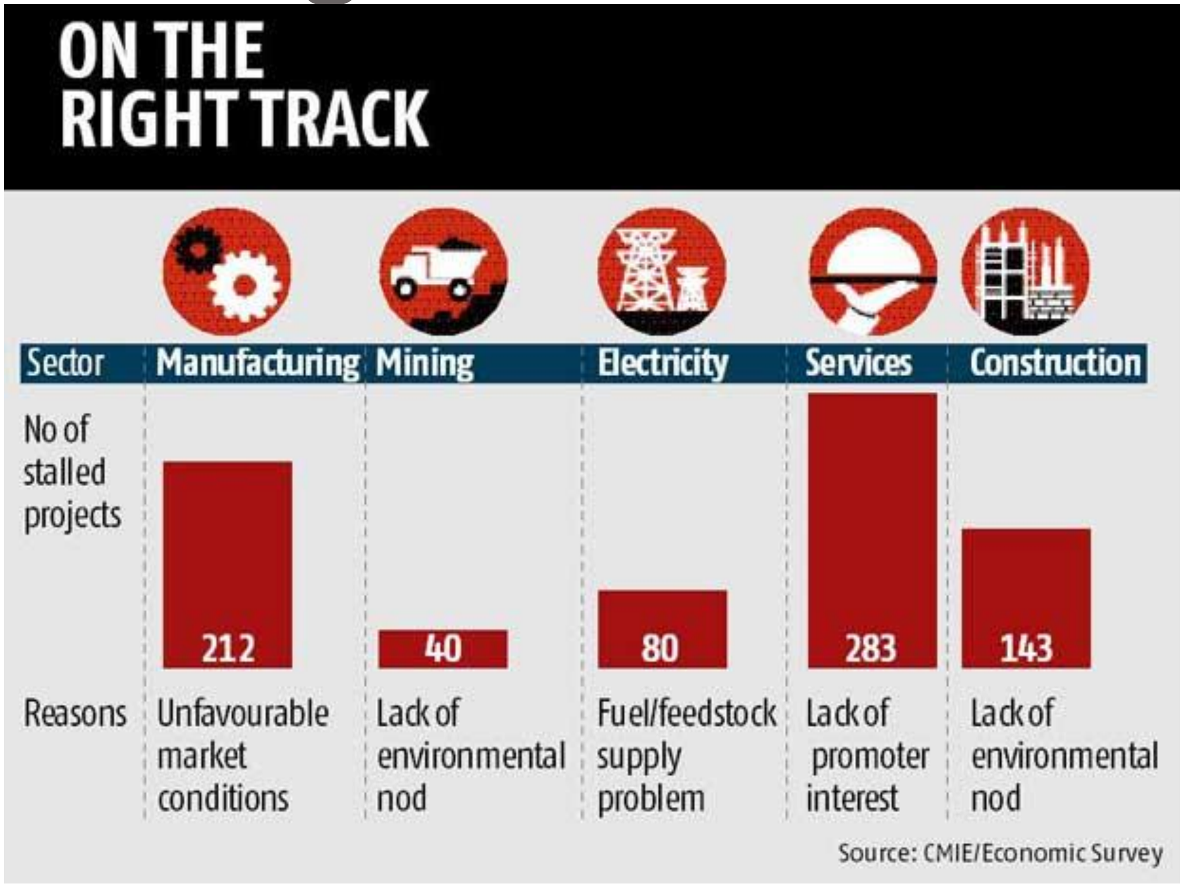
Rural demand subdued by lacklustre agricultural activity,

stranded investment in stalled projects

weak new investment demand

high levels of stress in banking sector assets

Unstalling



the value of stalled projects dipped 60.35 per cent to Rs 79,300 crore in the quarter ended June this year

Inflection Point?

- Markov Switching: Markov switching relies on statistically identifying turning points by estimating the probability of shifts between phases of the growth rate cycle. A regime shift occurs when the growth rate shifts to a new average and the probability of such a turnaround is high, and vice versa
- An inflexion point in the growth path of the Indian economy and, therefore, a transition to a higher growth trajectory may still be some distance away

Some Risks

- fresh capital expenditure by Indian companies remained sluggish in the first three months of this financial year, as lack of raw material and unfavourable market conditions were hurting many companies.
- Six projects, involving investments worth Rs 27,700 crore, were dropped in the electricity generation sector. Reliance Power shelved its Rs 25,000-crore Tilaiya ultra mega power project due to non-availability of land, six years after the contract was awarded.

Real GDP Growth (2011-12 Prices)

Item	2013–14	2014–15	Weighted contribution to growth*	2013-14				2013-14				2015-16
				Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
I. Private Final Consumption Expenditure	6.2	6.3	3.6	7.7	5.6	4.6	7.0	6.2	7.1	4.2	7.9	7.4
II. Government Final Consumption Expenditure	8.2	6.6	0.7	27.3	5.3	11.0	-7.2	1.6	8.9	27.6	-7.9	1.2
III. Gross Fixed Capital Formation	3.0	4.6	1.4	2.3	6.3	5.3	-1.4	8.7	3.8	2.4	4.1	4.9
IV. Net Exports	-69.0	-20.7	0.4	-25.6	55.8	-90.0	-91.0	-68.1	49.8	95.2	-36.1	13.2
Exports	7.3	-0.8	-0.2	2.6	-1.6	15.7	14.1	9.1	-2.0	-0.3	-8.2	-6.5
Imports	-8.4	-2.1	-0.6	-3.5	-8.4	-14.2	-7.0	-3.6	1.1	2.8	-8.7	-5.4
GDP at Market Prices	**6.9**	**7.3**	**7.3**	**7.0**	**7.5**	**6.4**	**6.7**	**6.7**	**8.4**	**6.6**	**7.5**	**7.0**

* In percentage points in 2014-15. Component-wise contributions do not add up to GDP growth in the table because change in stocks, valuables and discrepancies are not included here.

Source: Central Statistics Office

Key Fiscal Indicators Central Government Finances

(per cent)

Indicators	Actual as per cent of budget Estimate (April – July)	
	2014 – 15	2015 – 16
1. Revenue Receipts	14.8	18.3
a. Tax Revenue (Net)	15.0	16.7
b. Non-Tax Revenue (Net)	13.5	24.9
2. Total Non-Debt Receipt	14.2	17.7
3. Non-Plan Expenditure	30.5	33.8
a. Revenue Account	30.3	33.9
b. Capital Account	32.1	32.4
4. Plan Expenditure	23.0	33.9
a. Revenue Account	**22.9**	**32.2**
b. Capital Account	**23.1**	**38.2**
5. Total Expenditure	28.1	33.8
6. Fiscal Deficit	61.2	69.3
7. Revenue Deficit	70.4	77.6
8. Primary Deficit	198.1	258.7

Source: Controller General of Accounts. Government of India

Sectoral Trends

Sector	2007-08	2008-09	2009-10	2010-11	2011-12 (2R)	2012-13 (1R)	2013-14 (PE)
Agriculture, forestry, & fishing	5.8	0.1	0.8	8.6	5.0	1.4	4.7
Mining & quarrying	3.7	2.1	5.9	6.5	0.1	-2.2	-1.4
Manufacturing	10.3	4.3	11.3	8.9	7.4	1.1	-0.7
Electricity, gas, & water supply	8.3	4.6	6.2	5.3	8.4	2.3	5.9
Construction	10.8	5.3	6.7	5.7	10.8	1.1	1.6
Trade, hotels, transport, storage, & communication	10.9	7.5	10.4	12.2	4.3	5.1	3.0
Financing, insurance, real estate, & business services	12.0	12.0	9.7	10.0	11.3	10.9	12.9
Community, social, & personal services	6.9	12.5	11.7	4.2	4.9	5.3	5.6
GDP at factor cost	9.3	6.7	8.6	8.9	6.7	4.5	4.7

Sectoral Trends

Sector	2013-14	2014-15	2015-16 (Q1)
Agriculture	3.7	1.1	1.9
Industry	4.5	5.9	6.4
Services	9.1	10.6	8.6

Agriculture

- Accounts for around 58% of employment in the economy.
- Share of agriculture in GDP has declined over the years.
- Annual average agricultural growth rates has also moderated over the years between successive Plan periods.
- Between 2004/05 to 2010/11, while GDP grew at 8.6%, agriculture grew at 3.6%.
- Causes of low rates of growth?

“Since the industrial revolution, no country has become a major economy without becoming an industrial power.”

Lee Kuan Yew, delivering the Jawaharlal Memorial Lecture in New Delhi, 2005

Industry

- Industrial growth slowed down to 2.9 % during 2011-12,
  - weak demand for consumer durables,
  - deceleration in external demand and
  - subdued investment

In 2012-13, growth in the index of industrial production (IIP) witnessed a slowdown to 1.1 per cent largely due to

- infrastructure and input constraints,
- rising costs and
- moderation of external demand

2013-14

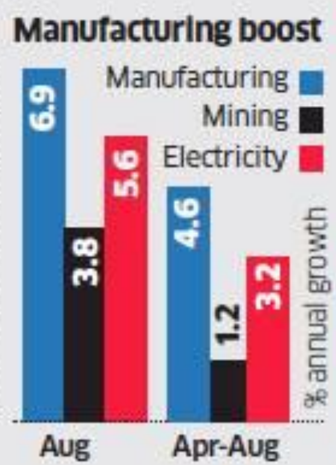
- Dismal growth in IIP
  - cumulative growth for the period April-October 2013-14 over the corresponding period of the previous year stands at 0.0%.

- Important industries such as machinery and equipment, basic metals, fabricated metal products, computing machinery, food products and motor vehicles registered contraction in output during the period.

Recent IIP Data

- The Index of Industrial Production (IIP) rose 6.4% in August, compared with 4.1% in July and 0.5% in August last year

Something to Cheer



Investments & urban demand key drivers

	August	April-August
Consumer durables	17	7.7
Consumer-non durables	0.4	0.1
Capital goods	21.8	7.4

% annual growth in Aug

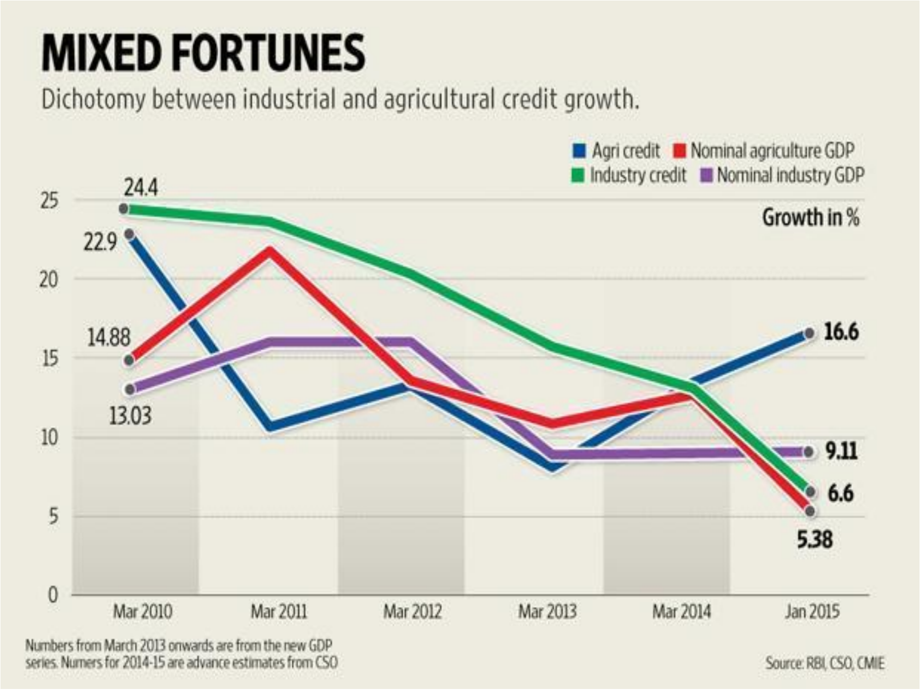
WILL IT SUSTAIN?

NEAR 10% rise in car sales in September suggest good demand

UPCOMING festival season should also provide and impetus

URBAN DEMAND is good and will get a push from interest rate cut

Industrial Credit



Reasons for the fall in industrial credit.

• One, banks are wary of lending to the industrial sector because of rising bad loans.

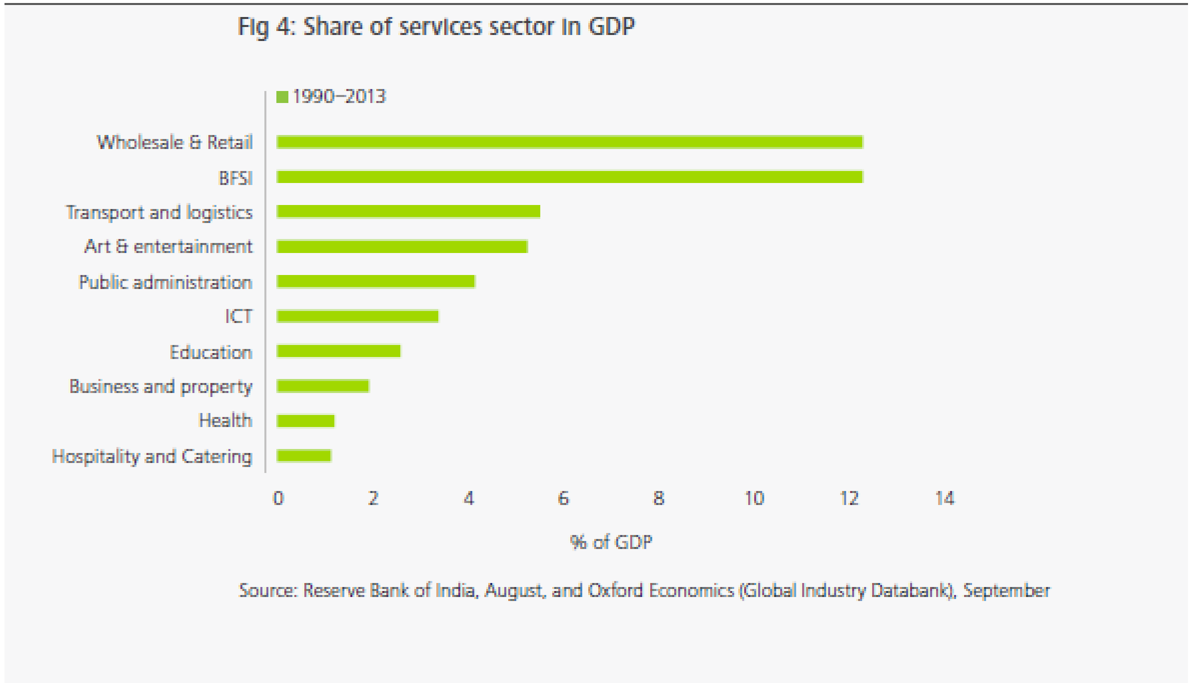
• Second, banks have been reluctant to passing on rate cuts to borrowers. Thus, the latter are increasingly turning to other sources of funding such as bonds, commercial paper and external commercial borrowing.

•Bank credit made up only 42.7% of incremental flow of loan funds to industry, according to Nomura Research. Bonds accounted for almost an equivalent amount, a sharp rise from their 28.2% share in the previous fiscal year.

Services

- Mixed signals

- While the national accounts statistics seem to suggest that consumption demand for services is robust relative to the demand for goods, and purchasing managers perceive activity expanding on new orders, various coincident indicators of services sector activity including railway and port traffic, domestic and international passenger traffic, international freight traffic, tourist arrivals, motorcycle and tractor sales as well as bank credit and deposit growth remain subdued.



- Sub-sector-wise, banking and insurance (11.8 per cent) and real estate, ownership of dwelling, and business services (10.0 per cent) were the best performers in terms of growth rate in 2012-13 and the performance of railways (0.3 per cent) followed by hotels and restaurants (0.5 per cent) was the lowest

Inflation

- Inflation has been coming down. Rate of increase in CPI in June 2015 over June 2014 was 5.4% (prov). Decline from 6.77% in June 2014.
- Inflation measured by the CPI had remained fairly sticky around 9-10% during last two years.
- WPI in June 2015 was -2.4% compared to June 2014. In June 2014 WPI had increased by 5.66% over the previous year. WPI also coming down.
- WPI had touched 8.4% in previous three years.

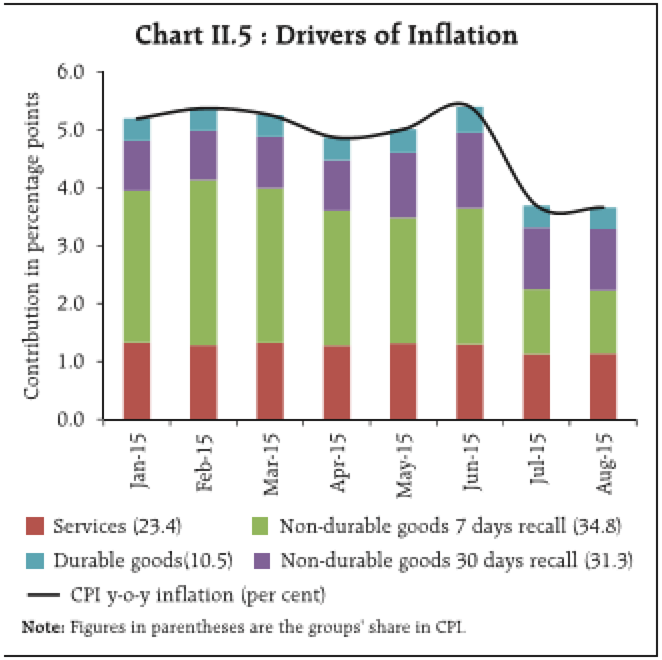
Inflation

- Food inflation, (weight of 45.86 per cent in the CPI), has contributed the largest share of increase in CPI .

- Food inflation had stayed in double digits during last two years. Food prices showed increase of 5.73% in June 2015 compared to previous year. Fuel prices increased by 5.92% over the same period.

- Food and fuel account for major share of inflation.

What is driving inflation in India



• Services inflation has been persistent relative to goods inflation

•Inflation has been hovering around 5 percent for health and 7 percent for education, outpacing the overall price index this year amidst a commodity collapse.

• Within goods : Prices of pulses rose by double digits throughout the year so far because of a production shortfall in the previous year, imparting infl exibility to food infl ation

Thank You