Economic Environment and Investment Climatic Conditions – An Empirical Study

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ABSTRACT

Risk in investment is defined as the possibility that the difference between what is actually earned and what is expected to be earned? For example, consider an investor buys equity shares after hearing about the huge returns made by other investors. He expects to earn at least 50% return within two years. But if equity markets decline during that period, the investor could end up with negative returns instead. This investment is considered to be government guaranteed and its returns are viewed as being very safe. The rate of return on PPF was 12% in the year 1999, reduced to 11% in Jan-2000, reduced from 9.5% in Mar'2001 to 8% in Mar-2003. An investor, who begins to invest in 1999, hopping to earn 12% return, would have found that by Mar-2003, the rate has come down to 8%. The unexpected change to investment return that impacts the investor's financial plan is the risk investors have to deal with. The deviations from the expected outcomes can be positive or negative: both are considered to be risky. However the causes of risk associated heavily on economic factors and obviously these factors are influence the expected outcome of investment. The Study focuses on the Indian economy and investment climatic conditions.

Key Words: Investment, Indian Economy, Economic Environment, Investment Climatic Conditions, etc.

INTRODUCTION

The global economic activity that began to re- cover since mid-2016 has gathered further momentum, both in cutting-edge and evolving market economies. World trade growth has also improved in 2017 following two years of sluggishness. Inflation remained unresponsive. The International Monetary Fund in its Apr'18 World Economic Outlook has projected that the World economy would grow at 3.9% in the year-2018 as well as in the year-2019 (Refer Table:1.1). On the downside, transformed fears of protectionism, tit-for-tat actions and trade wars among advanced economies pretense a major challenge towards global economy, the looming fear of trade war may have serious implications particularly for those emerging market economies and are implicating in free international trade and depending on foreign flow of capital and to understand their progressive goals. Growth in advanced economies picked up in 2017 from previous year and continued in the first quarter of 2018, largely backed by investment spending. The IMF in its latest WEO projected that the advanced economies would grow at a pace of 2.5% in 2018 and at a relatively softer pace of 2.2% in 2019. In the US, growth has been strong during recent quarters with stable inflation and relatively low unemployment rate. The economy is expected to far better in the coming quarters as the effects of considerable monetary stimulus boost in. Nevertheless, an escalation in trade strains may have deteriorates effect on business activities that might offset the positive whims from tax-cuts and government expenditure. In UK, growth is projected to slow in 2018 and 2019. European overall economic activity improved with certain exceptions, consistently falling unemployment rate and elevated the confidence of the consumer. The Japanese economy on the other hand registered eight straight quarters of growth till the fourth quarter of 2017.

Table 1.1: The World Economy –Trends (%)

Region/Country	**Year'2016**	**Year'2017**	**Forecasts**	
			Year-2018	**Year-2019**
(1) World output	**3.20**	**3.80**	**3.90**	**3.90**
(2) Advanced Economies	**1.70**	**2.30**	**2.50**	**2.20**
a) United States	1.50	2.30	2.90	2.70
b) Euro-area	1.80	2.30	2.40	2.00
Germany	1.90	2.50	2.50	2.00
France	1.20	1.80	2.10	2.00
Italy	0.90	1.50	1.50	1.10
Spain	3.30	3.10	2.80	2.20
c) Japan	0.90	1.70	1.20	0.90
d) United Kingdom	1.90	1.80	1.60	1.50
e) Canada	1.40	3.00	2.10	2.00
3) Emerging Markets and Developing Economies	**4.40**	**4.80**	**4.90**	**5.10**
a) Brazil	-3.50	1.00	2.30	2.50
b) Russia	–0.20	1.50	1.70	1.50

c) India	7.10	6.70	7.40	7.80
d) China	6.70	6.90	6.60	6.40
e) South Africa	0.60	1.30	1.50	1.70

Source: IMF, WEO report 2018

Economic activity in the Emerging Market and Developing Economies (EMDEs) improved during 2017-18. As per the IMF projection, the growth rate in the EMDEs would strengthen to 4.9 per cent in 2018 and would further improve to 5.1 per cent in 2019. During 2017, the Chinese economy witnessed faster expansion backed by increase in retail sales as well as industrial production activity. The Brazilian economy, which recovered from a recession, recorded expansion, increased thrust determined by higher commodity prices and improved monetary outlook. The Russian economic position is also continued to recover subsequent the recession, aiding from monetary policy easing, higher oil prices and strong household consumption. The Indian economy, which witnessed a number of reforms, also witnessed robust growth during 2017-18.

Looking ahead, there are several factors that might impact global growth in the short and medium term. On a positive side, the overall improvement in the global economy is expected to continue in the short run. On the other hand, downside risks to medium term growth are stemming from tightening liquidity. In the United States, financial conditions could deteriorates than expected, which would have spill over impact on other economies. With the current account deficit of the US remaining high, a much expansionary monetary policy in the United States may broaden the global imbalances. Import procedures/law amendments announced by the United States and subsequent restrictions implemented by China, potential payback by other countries may frustrate global trade activity and sentiment. Besides these specific factors, other general factors like change of financial climate, global political pressures, etc. pose additional threats to the unresponsive global economic outlook. International crude oil prices have become elevated and volatile in the recent past. This has adversely impacted the inflationary impacts.

THE INDIAN ECONOMY: RECENT DEVELOPMENTS

India has been among the fastest growing economies in the world in recent years. This robust growth has been an outcome of a plethora of constructive re-forms in recent years with an aim to make the country more attractive for businesses to expand their operations and raise investment. The implementation of the Goods and Services Tax with effect from 1.7.2017 is a major reform of the Indian tax system to make unite the trickled national market, as well as enhance job market for youths and pave way for larger growth. In addition, the government has come up with sizable infusion of capital for the public sector banks. Important changes in the legal system through a new insolvency and bankruptcy laws has another measure to strengthen the banking system. The foreign direct investment norms have also been liberalized in various sectors to attract more foreign capital. The provisions of Real Estate (Regulation and Development) Act 2016 (RERA) came into effect from May 1, 2017 to protect home-buyers as well as help boost investments in the real estate industry.

The above mentioned measures were adopted with a view to foster long term growth. Considering the reforms undertaken in India, looking ahead economic activity expected to consolidate further in 2018-19. The benefits of implementation of the GST are gradually surfacing. The development of recapitalization of banks and tenacity of troubled assets under the insolvency and bankruptcy code could help improving the business performance. Significant resource mobilization from the primary market in the year 17-18 indicates the improving business sentiment. The added emphasis on rural and infrastructure sectors by the government has the potential to rejuvenate rural demand and attract private investment. On a downside, further weakening of INR against US dollar is going to push up the import bill as crude oil has the highest share among all imported commodities. The Economic Survey of India 2017-18 has predicted the inflation hike 4.7% in the first quarter of 2018-19 and then moderate to 4.4% in the remaining three quarters. In 2019-20, the inflation may move in the range of 4.5%-4.6%.

Considering all these factors, the Economic Survey in the year 17-18 predicts that the Indian Economy would grow in the range of 7.0% to 7.5% in in the year 18-19. World Economic Outlook Apr'18 predicted that the Indian economy would grow by 7.4% in the year'18 and 7.8% in the year'19.

Table 1.2: National Income (Year-11-12 Prices)

ITEM	**Year-5-16**	**Year-16-17**	**Year-17-18**	**% change over previous year**	
	(2nd revised estimates)	**(1st revised estimate)**	**Provisional Estimates**	**Year-16-17**	**Year-17-18**
A.Aggregate Level Estimates					
1)National Product					
a)Gross National Income(GNI)	1,12,51,420	1,20,51,525	1,28,64,227	7.1	6.7
b)Net National Income(NNI)	99,85,060	1,06,81,594	1,14,05,563	7	6.8
2) Domestic Product					
a) Gross Value Added (GVA) at basic prices	1,05,03,348	1,12,47,629	1,19,76,155	7.1	6.5
b)Gross Domestic Product(GDP)	1,13,86,145	1,21,96,006	1,30,10,843	7.1	6.7
c)Net Domestic Product(NDP)	1,01,19,785	1,08,26,074	1,15,52,178	7.0	6.7
B.Per Capita Level Estimates					
a)Population (million)	1,283	1,299	1,316	1.2	1.3
b)Per Capita Net National Income	77,826	82,229	86,668	5.7	5.4
c)Per Capita Gross Domestic Product	88,746	93,888	98,867	5.8	5.3

Source: CSO, MoSPI

GROWTH

The provisional estimates of Central Statistics Office's (CSO's) and the Indian economy grew by 6.7% during the year 17-18 against a growth rate of 7.1% during the year 16-17). Gross

Value Added at basic prices grew at 6.5% during the year 17-18 against 7.1% in year 16-17 (Table-1.2). Slowdown of primary and secondary sectors outweighed the faster expansion of the services sector and resulted in a slowdown in overall growth. The Gross National Income at constant prices rose by 6.7% in the year 17-18 compared to 7.1% growth during the year 16-17. The portions of the different sectors of the economy in the overall Gross Value Added during the year 15-16 to 17-18 and the parallel annual growth rates are given in Table-1.3.

Table 1.3: GDP and Economic Activity (Year 11-12 prices)

INDUSTRY		Year 15-16	Year 16-17	Year 17-18	% change over previous year	
		(2nd RE)	(1st RE)	(PE)	Year 16-17	Year 17-18
1	**Agriculture, Forestry & Fishing**	**16,15,216**	**17,16,746**	**17,74,573**	**6.3**	**3.4**
2	Mining and Quarrying	3,28,453	3,71,066	3,81,965	13.0	2.9
Primary Sector (1+2)		**19,43,669**	**20,87,812**	**21,56,538**	**7.4**	**3.3**
3	Manufacturing	18,98,790	20,48,711	21,66,267	7.9	5.7
4	Electricity, Gas and Water Supply & other utility services	2,24,198	2,44,934	2,62,496	9.2	7.2
5	Construction	8,66,440	8,78,110	9,28,484	1.3	5.7
Secondary Sector (3+4+5)		**29,89,428**	**31,71,755**	**33,57,247**	**6.1**	**5.8**
6	Trade, Hotels, Transport, Communication and services related to broadcasting	19,93,627	21,37,102	23,07,684	7.2	8.0
7	**Financing, Real Estate and Professional Services**	**22,99,913**	**24,37,857**	**25,99,927**	**6.0**	**6.6**
8	Public Administration, Defense and other services	12,76,710	14,13,103	15,54,759	10.7	10.0
Tertiary Sector (6+7+8)		**55,70,250**	**59,88,062**	**64,62,370**	**7.5**	**7.9**
9	**GVA at Basic Price (1+2+3+4+5+6+7+8)**	**1,05,03,347**	**1,12,47,629**	**1,19,76,155**	**7.1**	**6.5**
10	Net Taxes on Products including import duties	8,82,797	9,48,376	10,34,688	7.4	9.1
	GDP (Basic Price) (9-10)	**1,13,86,144**	**1,21,96,005**	**1,30,10,843**	**7.1**	**6.7**

Note: PE stands for Provisional Estimates and RE stands for Revised Estimates

Source: CSO, MoSPI

PRIMARY SECTOR:

Primary sector (which accounts for around 18% of GVA) consists of agriculture, forestry, fishing and mining & quarrying industries. The GVA growth in primary sector slowed down to 3.3% in 2017-18 from 7.4% in 2016-17.

Agriculture: As per provisional estimates of CSO, the ‘agriculture, forestry and fishing’ sector has grown at 3.4% in its GVA during the year 17-18 and the previous year’s growth rate of 6.3%.

Mining and quarrying: The growth in the GVA at basic prices for the year 17-18 is estimated to be 2.9% as compared to growth rate of 13.0% in the year 16-17. Index of Industrial Production-(IIP) of mining recorded growth rate of 2.3% during the year 17-18 as compared to 5.3% during the year 16-17. Key constituents of mining sector, namely, production of coal increased by 2.5% whereas crude oil production contracted by 0.4% during the year 17-18.

SECONDARY SECTOR:

Secondary sector (which accounts for around 28% of GVA) includes manufacturing, electricity, gas, water supply & other utility services. This observed a GVA growth of 5.8% during the year 17-18 compared to 6.1% in the previous year 16-17. The IIP slowed down to 4.3% in the year 17-18 from 4.6% in the previous year 16-17. Performance of the constituents of this sector is as follows:

Manufacturing: The CSO, using available data of major listed companies, estimated the private corporate sector growth using available data of major listed companies to be 9.0% at current prices during 2017-18. This sector consists of around 70% of the manufacturing sector. IIP from manufacturing sector registered a growth rate of 4.5% during 2017-18 compared to 4.4% in the previous year.

Electricity, gas, water supply and other utility services: GVA at basic prices for the year 17-18 grew by 7.2% as compared to growth rate of 9.2% in the year 16-17. The key indicator of this sector, namely, IIP of Electricity registered a growth rate of 5.4% during the year 17-18 as compared to growth of 5.8% during previous year 16-17.

Construction: GVA at basic prices for the year 17-18 from Construction sector is estimated to grow by 5.7% as compared to growth of 1.3% in the previous year16-17. The key indicators of construction sector namely, production of cement and consumption of finished steel registered growth of 6.3% and 7.8% respectively, during the year 17-18 as compared to (-)1.2% and 3.1% respectively, during the previous year 16-17.

TERTIARY SECTOR:

The tertiary sector, which consists of all services is the largest contributor to India’s Gross Value Added and this sector accounted for around 54% of the GVA in the year-17 Growth in Gross Value Added in the tertiary sector accelerated to 7.9% in the year 17-18 from 7.5% a year ago. The industry wise growth of this sector is as under:

Trade, hotels, transport, communication and services related to broadcasting: Gross Value Added at basic prices for the year 17-18 this sector is estimated to grow by 8.0% as compared to growth rate of 7.2% in the year 16-17. Sale of commercial vehicles increased by 19.9%, Cargo handled at major sea ports increased by 4.8%, Cargo handled by the civil aviation increased by 15.6% and Passengers handled by the civil aviation registered growth rate of 16.5% during the year 17-18. Pointers of Railways sector namely, Net Ton Kilo meters and Passenger Kilo meters have shown growth of 6.1%

and 2.1%, respectively, during the year 17-18.

Financial, real estate and professional services: As per the estimates Gross Value Added at basic prices for the year 17-18 this sector grew by 6.6% as compared to growth of 6.0% in the previous year 16-17. The major component of this industry is real estate and professional services which has a portion of 72.0% and the key indicators of banking are aggregate bank deposits and bank credits. As on 31.3.2018, aggregate bank deposits increased by 6.7%, whereas bank credits have shown growth of and 10.3% compared to their values on 31.3.2017.

SAVINGS AND INVESTMENTS

During the year 16-17 the total saving is projected at 45.7 lakh crore as compared to 43.0 lakh crore in the previous year15-16. The rate of total saving to GDP stood at 30.0% for the year 16-17, as compared to 31.3% in the year 15-16 (Table-1.4). The household sector sustained to be the highest contributor to total savings with a stake of 56.9% in the year 16-17 (60.7% in the year 15-16). The stake of non-financial corporations increased from 35.3% in the year 15-16 to 39.8% in the year 16-17. The stake of saving of the financial corporations decreased from 8.4% in the year 15-16 to 6.8% in the year 16-17. The dissaving of General Government decreased from 4.4% of total savings in the year 15-16 to 3.5% in the year 16-17. The Gross Capital Formation (GCF) at current prices is estimated at 46.7 lakh crore for year 16-17 as compared to 44.4 lakh crore in the year 15-16. The rate of GCF to GDP declined from 32.3% during the year 15-16 to 30.6% in the year 16-17

Table 1.4: Investments and Gross Domestic Savings

Sl. No	Item	(` Crore)					(per cent of GDP)				
		2012-13	2013-14	2014-15*	2015-16#	2016-17@	2012-13	2013-14	2014-15*	2015-16#	2016-17@
1	**Household Saving of which:**	22,35,280	22,85,301	24,39,104	24,47,990	24,79,661	22.5	20.3	19.6	17.8	16.3
	a) Net Financial Assets	7,33,617	8,32,091	8,80,415	11,29,639	10,30,146	7.4	7.4	7.1	8.2	6.8
	b) Physical Assets	14,65,013	14,16,428	15,13,127	12,72,105	13,98,462	14.7	12.6	12.1	9.2	9.2
	c) Saving in Valuables	36,650	36,782	45,562	46,246	51,053	0.4	0.3	0.4	0.3	0.3
2	**Non-Financial Corporations**	9,92,193	12,03,536	14,17,053	17,13,073	18,72,741	10.0	10.7	11.4	12.4	12.3
3	**Financial Corporations**	3,00,626	2,93,084	3,39,027	2,90,738	3,33,481	3.0	2.6	2.7	2.1	2.2
4	**General Government**	-158,897	-173,729	-175,227	-149,853	-113,310	-1.6	-1.5	-1.4	-1.1	-0.7
5	**Gross Savings (1 + 2 + 3 + 4)**	33,69,202	36,08,193	40,19,957	43,01,948	45,72,573	33.9	32.1	32.2	31.3	30.0
6	**Net Capital Inflow from ROW**	4,77,920	1,85,942	1,59,822	1,40,399	98,854	4.8	1.7	1.3	1.0	0.6
7	**Gross Capital Formation**	38,47,122	37,94,135	41,79,779	44,42,347	46,71,426	38.7	33.8	33.5	32.3	30.6

Source: CSO, MoSPI

BALANCE OF PAYMENTS

Indian trade deficit increased to US dollar 118.9 billion in Apr-Dec’17 from US dollar 82.7 billion in Apr-Dec’16. On this background, widening of the trade deficit and the current account deficit (CAD) on a cumulative basis increased to 1.9% of GDP in Apr-Dec’17 from 0.7% in the corresponding year of

16-17. Net Foreign Direct Investment (FDI) inflows during Apr-Dec’17 moderated to US dollar 23.7 billion from US dollar 30.6 billion in the previous year. On the contrary, Foreign Portfolio Investment (FPI) recorded a net inflow of US dollar 19.8 billion during Apr-Dec’17 as against a net outflow of US dollar 3.2 billion in the previous year. During Apr-Dec’17 the level of foreign exchange reserves (on a BoP basis) went up by US dollar 30.3 billion to US dollar 409.4 billion as on 29.12.17.

FISCAL DEFICIT

India is returning to the path of gradual fiscal consolidation. This was reflected in the gradual reduction of the fiscal deficit (FD), which was brought down from 4.1% in the year 14-15 to 3.5% during the year 16-17. The budget estimate of FD was 3.2% for year 17-18, as per the revised estimates, the fiscal deficit for the year 17-18 has 3.5% of gross domestic product. The Union Budget has projected the fiscal deficit to be 3.3% of GDP for the year 18-19. Meanwhile, the Gross Fiscal Deficit target of 3.0% of GDP has been deferred to during the year 20-21. However on the downside the revenue deficit increased to 2.6% of GDP in the year 17-18 from the budget estimate of 1.9% of GDP, due to 1.1 trillion increases in revenue expenditure in the year 17-18.

EXCHANGE RATE

During the year 17-18, the US Dollar-INR rate has remained relatively stable. For example, the rupee witnessed sharp depreciation during Sep’17, as a result of selling by foreign investors due to unwinding of stimulus by US Fed. Again, during Dec’17–Jan’18 the INR regained its strength on the back of significant capital flows before witnessing gradual depreciation in the following months. During in the year 17-18, the rupee affected a low of 65.8 on 28.9.17 and a high of 63.3 on 8.1.18 against the US dollar. The Indian rupee closed at 65.0 against the US dollar on 28.3.18 (the last trading day of the year). During the year, foreign exchange reserves increased by about US dollar 54.4 billion from US dollar 369.9 billion as on 31.3.17 to US dollar 424.4 billion as on 30.3.18.

CONCLUSION

Technology is both an enabler for external interactions as well as a productivity tools for the internal functioning of SEBI. In order to achieve the objective of investment via delivery channels in the securities markets, SEBI has implemented SHARE portal (Shared Hub for All Resources) to digitally transform the organization. Sharing of resources, economic happenings are the drivers designing the investment climate and this investment engine leads growth of the country.

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