INDIAN BUSINESS & ECONOMY: A CRITICAL ANALYSIS OF THE GLOBAL LINKAGE

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ABSTRACT:
It is always interesting to look at how some important economic variables moved. Today, almost any statistical number that is presented on the state of the economy cannot be looked at in isolation but has to be juxtaposed with what is happening in the world economy. Hence, global linkages at times could present a picture where strength of a country is derived by weakness elsewhere. This paper has compared movements of some important variables like CPI, exchange rate, changes in G secs, stock prices, fiscal deficits and others to see where India stands in global market.

Keywords: global linkages, Indian economy, global exchange rates, fiscal deficit.

OBJECTIVE

To analyze the movement of few important economic variables to see where India stands in global market.

RESEARCH METHODOLOGY

Type of study: Conceptual
Indicators: 8
Countries: G20s
Data Source: Ministry of Finance of respective countries & www.tradingeconomics.com
Type of data: Secondary

INTRODUCTION

MOODY'S Investors Service kept its gauge for G20 financial development at a little more than 3 percent during the current year and next, yet cautioned of geopolitical dangers, US protectionism and overflows from worldwide money related fixing and China's deleveraging measures.

For business sectors, it cautioned of dangers of expanded instability because of generally raised resource costs and wide financial specialist desires that loan costs would stay low even as the Federal Reserve and the European Central Bank said they were planning to begin moving back whimsical jolt.

While raising its China conjectures, the office cautioned the economy has turned out to be progressively dependent on new obligation to encourage development. The office minimized China's appraisals by one score to A1 in May, saying the money related quality of the economy would disintegrate in coming years.

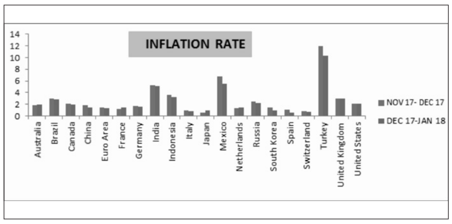
The office updated its India gauge marginally lower to 7.1 percent as the administration's demonetisation move a year ago prompted a while of intense deficiencies for assembling and development firms specifically, in spite of the fact that it said it anticipated that the effect would ease in coming months.

ANALYSIS & INTERPRETATION

1. INFLATION RATE

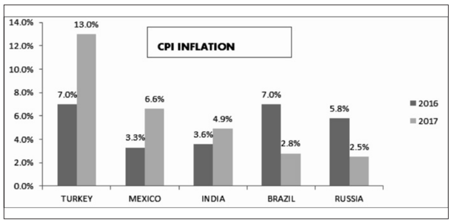
Inflation has been higher in 2017 in most of the countries which may be symptomatic of a global economic recovery which has pushed up prices. Countries like Turkey and Mexico had drastically showed up high inflation rate as compare to previous year 2016.

Figure 1: Inflation Rate



Source: On basis of actual data on extracted from www.tradingeconomics.com & Ministry of Finance of respective countries

Figure 2: CPI Inflation



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In Turkey most analysts trust that inflation could keep in single-digits for 2 or 3 months nonetheless can endure in twofold digits during 2018. In the interim, due to inflation, the legislative assembly toward the start of this current year failed to raise taxes on things, for instance, tobacco that it had done antecedently. This means that it's involved concerning the inflation

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outlook. As annual food inflation was terribly high last year, so a correction in food costs was wide anticipated and so there was decline in food costs thanks to uncommon climatic conditions, vegetable costs, that saw a 23.6 % year-on-year increase at the top of Gregorian calendar month 2017, fell by 6.3 % in January. Thanks to seasonal discounts, consumer goods and footwear costs conjointly declined within the month.

Inflation has come down sharply for countries like Brazil, South Africa and Russia. For instance Brazil is currently experiencing an uneven recovery from its last two years of recession and high inflation. Inflation has fallen since 2016, due to the positive impact of supply-side factors, including improved agricultural output and a decline in electricity prices which has led to the Central Bank of Brazil to slash interest rates . The inflation rate has been slowing for eleven consecutive months due to moderate economic recovery, which is keeping prices at low levels in 2017. Subdued economic activity has also supported the decline in inflation so far in 2017.

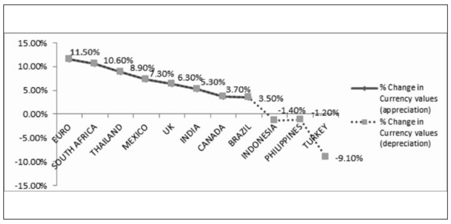
As of late, high food inflation in India is one of the components which bring to non-food inflation and total inflation. Likewise, the oil factor has worked its way through and added to inflationary pressures. The cost of oil and inflation are regularly observed as being associated in a circumstances and end results relationship. The effects of oil price vacillations are distinctive in oil sending out and in oil bringing in nations. For the oil exporting countries, the increment of oil prices constituted good news while the increment of oil prices constituted bad news for oil importing countries. For instance, India was known as the most consumption on the oil among the oil importing countries in the world. Since the early of the 21st century, the prices of oil has rising heavily. This contributed to the higher inflation as the cost of production increased. The increment of cost of production led to the increment of fuel costs and then caused the decrement of supply.

In general, it may be concluded that inflation has tended to rise in most countries which is one reason why some of the central banks have geared up for a combination of monetary tightening including increase in policy rates as was done by the Federal Reserve and Bank of England this year.

2. HOW ABOUT MOVEMENT IN EXCHANGE RATES?

The euro has risen in excess of 14 percent against the dollar so far this year because of positive thinking about financial development and less political dangers, and this climb is relied upon to continue, as indicated by a few market examiners. Europe's enhancing development appears differently in relation to the U.K., which is losing financial force as it keeps on dealing with Brexit transactions. While a more grounded euro is a worry for exporters as more costly money makes their items more costly and therefore less alluring.

Figure 3: Movements in Exchange Rates



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And the Indian rupee has appreciated more than the most countries like Canada, Brazil, etc and the rupee was at the median level of change in exchange rate at 5.3% because of strong capital inflows in 2017. These include portfolio inflows into equities and, more importantly, debt markets. They also include higher levels of foreign direct investment and instruments. These are driven somewhat by worldwide liquidity and PARTLY by the enhancing basics of the Indian economy. The Reserve Bank of India's (RBI) relatively hawkish stance on the policy rate has attracted funds searching for yield.

While the rupee has appreciated more than 5.3% so far in 2017, the U.S. dollar index has declined 8.9% this year that suggests reason for concern, from the point of view of the competitiveness of exporters.

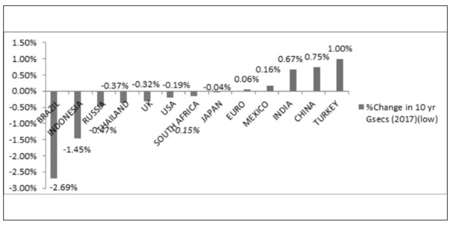
Though the statistics have drastically changed in India in recent months of 2018 as the Punjab National Bank told Indian stock exchanges it has been the victim of an elaborate fraud that could cost the stretched banking system Rs 11,400 crore in the very least.

This announcement of the country's biggest banking fraud seems to have shaken the Indian public lenders thus this glaring oversight gaps in India's banking system now threaten to send the rupee lower.

The rupee could trade in the range of 64.50 and 65.20 to a dollar in 2018, analysts said. If the rupee fall continues in 2018, this could lead to a point of a bigger depreciation in the rupee.

3. HOW GOVERNMENT IS PLAYING WITH INTERST RATES?

Figure 4: Movement in 10yr GSecs (%)



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Interest rate direction in the market is best represented by the 10-years government bond which is the risk-free rate.

India was an outlier with an increase of 0.67% in 2017 as compare to 2016, even though this has been more of a yearend phenomenon as the RBI has been lowering and not increasing rates. This was so as the market has gotten the message that the RBI would not be lowering rates any further due to the hawkish stance taken on inflation. The six-member fiscal arrangement board which had consistently chosen to keep the repo rate unaltered at 6.25 percent toward the beginning of April, had raised an auxiliary rate called the reverse repo rate, which is utilized to empty overabundance funds out of banks. The board, which plans to cut down inflation to 4 percent in the medium term, kept up its hawkish position on inflation, with most individuals communicating worry over upside dangers to core inflation. Besides core inflation, a demand pick-up on a government salary increment and reflation risk from commodities globally were the key reasons that all panel members cited for voting to keep the repo rate unchanged.

A Reuter's poll of 35 economists conducted from April 10-19 showed that the RBI would keep the repo rate unchanged until October-December of 2018 and the next move would be a cut.

Turkey witnessed the highest increase of 1% followed by China with 0.75% in 2017 though Turkey's central bank kept its main interest rates unchanged in current months in 2018 as expected , to keep the cost of lending elevated until there's a marked improvement in inflation. Price gains accelerated to double digits last month, which the bank said showed that the past depreciation of the lira is still feeding into consumer prices. The currency has recovered more than 10 percent from a record low in January, after the regulator raised the cost of borrowing to the highest level in at least six years.

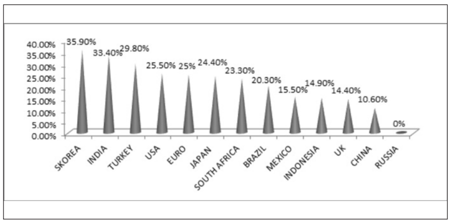
The sharpest decline in rates was witnessed in Brazil due to the gradual economic recovery as the government struggles to pass austerity measures and inflation remains stubbornly below an official target.

However, both USA and UK have witnessed declines in the yields even though the central banks have increased interest rates as in USA ,the country has followed the zero interest rate policy (ZIRP) from 2008 as a mechanism for boosting spending, borrowing and investment but now the Federal Reserve looks ready to raise interest rates in order to have slow and steady economic growth though the worries have intensified since Donald J. Trump's election. Investors are betting Mr. Trump will collaborate with Congress on tax cuts and other measures that could increase economic growth. He has also proposed new barriers to imports, which could drive up inflation further in later times.

4. WHAT ARE THE INVESTORS TAKE ON THESE COUNTRIES?

It appears that the almost all the countries have positive markets and had give good returns to the investors despite economic growth has not been all pervasive across countries.

Figure 5: Change in Stock Indices (%) (2017)



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India is one of the top performers with increase of 33.4%, being lower than only South Korea where markets were up by 35.9% in 2017, although the scam of Punjab national bank and Fed reserve movement of increasing interest rate has build a negative sentiment in global investors and Investors are now bracing for an extended fall, with foreign portfolio investors selling their holdings. Between February 15 and 20, abroad financial investors have net left Rs 2,150 crore worth of debt securities on the whole in a three-day offering binge, indicate information from National Securities Depository. Overseas investors were seen short-selling the rupee against the dollar also.

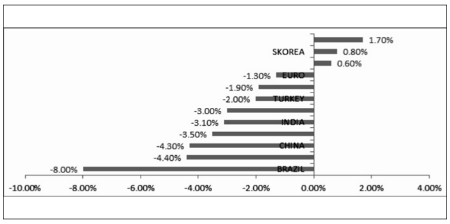
All others had increases of above 10%. Quite clearly, the stock markets have been winners everywhere providing attractive returns.

Russia was the only market where there was virtually no change this is due to the financial crisis (2014-2017). A decline in confidence in the Russian economy caused investors to sell off their Russian assets, which led to a decline in the value of the Russian ruble and sparked fears of a Russian financial crisis. The absence of trust in the Russian economy originated from no less than two noteworthy sources. The first is the fall in the cost of oil in 2014. Unrefined petroleum, a noteworthy export of Russia, declined in cost by about half between its yearly high in June 2014 and the second is the result of international economic sanctions imposed on Russia following Russia's annexation of Crimea and the Russian military intervention in Ukraine.

5. FISCAL DEFICIT

Fiscal deficits have been there in most of these regions with only 3 countries running surpluses – Germany, South Korea, and Hong Kong. The others have deficits with the median for this group of countries being 2.8%. It may be pointed out that some of these countries like USA, UK, Japan and Euro region have been following nonconventional monetary policy involving buyback of bonds coupled with higher deficits to boost their economies post the financial and sovereign debt crises.

Figure 6: Fiscal deficit as % GDP 2017



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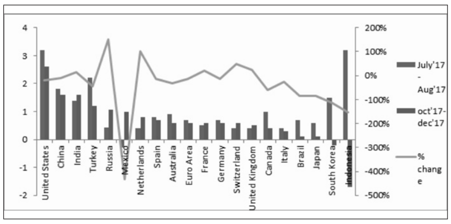
India being on 3.10% in 2017 though have decided to bring the economy back on track, even if is at the cost of fiscal deficit. However, reports suggest that the Finance Minister is going to stick to fiscal deficit target and may sell bonds to raise funds for extra spending. In the Budget 2018 Government has decided to keep the corporation tax rates high, the government is mopping up more revenue than last year and is also simultaneously spending more on providing subsidy to the needy compared to last fiscal. The Finance Minister in February likewise planned to bring 5.8 trillion rupees up in 2017-18 through bond deals to connect the financial shortfall of 3.2 percent of GDP.

Capital flows is the movement into a country of capital resources for the purpose of investment, trade or business production. It has significant role for every national economy, regardless of its level of development. Most of the countries are able to maintain their cash inflows although a high fluctuation can be seen in the countries like US and Russia which may be due to the political as well as economic reforms.

6. NOW WHAT ABOUT GDP GROWTH RATE?

Real gross domestic product (GDP) in the G20 area grew by 1.0% in the third quarter of 2017, the same rate as in the previous quarter but with wide variation across countries, according to provisional estimates.

Figure 7: GDP GROWTH RATE



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Growth accelerated strongly in Korea (to 1.5%, from 0.6%), and to a lesser extent in India (to 1.6%, from 1.4%) and Germany (to 0.8%, from 0.6%). Growth also picked up marginally (to 0.4%, from 0.3%) in Italy and the United Kingdom and was stable in Indonesia (1.2%) and the United States (0.8%).

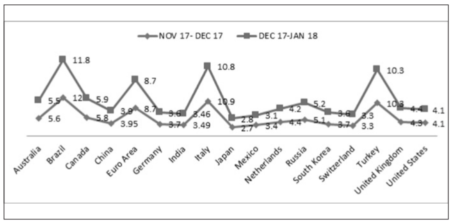
On the other hand, growth slowed markedly in Turkey (to 1.2%, from 2.2%), Russia (to 0.1%, from 1.0%), Canada (to 0.4%, from 1.0%), Brazil (to 0.1%, from 0.7%) and Mexico (to minus 0.3% from 0.3%). Growth also weakened in Australia (to 0.6%, from 0.9%), South Africa (to 0.5%, from 0.7%), China (to 1.7%, from 1.8%), Japan (to 0.6%, from 0.7%) and France (to 0.5%, from 0.6%).

Year-on-year GDP growth for the G20 area increased to 3.9% in the third quarter of 2017 (from 3.7% in the previous quarter), with Turkey (10.2%) recording the highest growth and South Africa the lowest (1.0%).

7. CAN ECONOMY BE AFFECTED BY THE UNEMPLOYMENT RATE?

Notwithstanding various indicators, for example, GDP, inflation and interest rates, the joblessness rate of a nation is an extremely normal measure for deciding the wellbeing of an economy. With the increase rates of unemployment other economy factors are significantly affected, such as: the income per person, health costs, quality of health-care, standard of leaving and poverty. As the pattern of monthly analysis shows that counties like Brazil, Euro ,Italy and Turkey have the high unemployment rate whereas most of the countries has the median of 4.5 %.

Figure 8: UNEMPLOYMENT RATE



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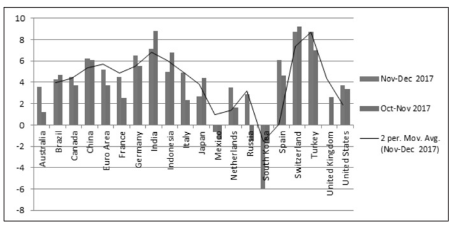
The unemployment rate in India is 3.7 % which still lower than China by 3.9%. Thus, India had performed slightly well in terms of job creation in 2016.

8. WHAT ABOUT INDUSTRIAL PRODUCTION?

Industrial production in India measures the yield of business entities coordinated in various industrial division of the economy like mining, utilities, fabricating, manufacturing and so forth. In India, of aggregate yield has a place with assembling/ manufacturing, 14.4 percent for mining ad digging and power for 8 percent.

Figure 9: Industrial Production



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Australia has relied too much on the mining boom and has lost an opportunity to foster competitive industries. Australia's recent mining boom was no exception. Following the pattern of resource-based economies, a commodity price hike increased their terms of trade without any special effort—adding 15 per cent to their national income over a six year period while the rest of the world languished in recession. Australia has squandered a once in a generation chance to reposition its economy for sustainable growth.

Brazil's industrial output expanded in 2017 for the first year in four due to a strong pickup in auto production. The outlook for Brazilian manufacturers has turned favorable as borrowing costs fall and growth in Latin America's largest economy looks set to shift into a higher gear this year. Brazil's most profound depression in decades left industrial organizations pondering high debt loads and idle capacity, yet booming car exports lit up their fortunes a year ago.

In Turkey, industrial production measures the yield of organizations incorporated in industrial segment of the economy. Manufacturing is the most essential division and records for 84 percent of aggregate generation & production. The biggest fragments inside Manufacturing are: Food items (16% of aggregate production); essential metals (11%); motor engine vehicles, trailers and semi-trailers (9%); material (8%); other non-metallic mineral things (6%); elastic and plastic things (5%); chemical compounds and synthetic items (5%); electrical gear (5%); wearing attire (5%); and created metal things (5%).

Switzerland witnessed an increase in industrial production by 8.7% yoy in the last quarter of 2017, after an upwardly altered 9.2 percent sharp increase in the previous three-month time span. Yield growth slowed for assembling (9.3% versus 9.7% in Q3), mining and quarrying (1.2% versus 4.2%) and power supply (5% versus 5.9%).

CHALLENGES

1. **A major challenge will be to upgrade entire interconnected production systems**

   A test for firms in developing nations will be their capacity to update machines, processing plants and business ICT frameworks, which are required for interconnected generation. NPR advancements work with resiliencies, and with specialized benchmarks and conventions, that developing nation firms are frequently new to. Also, Next Production Revolution (NPR) innovations regularly require a ceaseless continuous wellspring of energy, which isn't accessible in some developing nations.

2. **NPR may be restricted by financial services in some countries**

   New and emerging technologies in production require huge financial outflows, which are generally not recoverable in a short span of time.

3. **Developing countries will need comprehensive telecommunications infrastructures**

   Completely profiting by the Next Production Revolution (NPR) requires far reaching, solid and secure media communications framework, including high data transfer capacity broadband, remote systems and versatile and landline broadcast communications systems. Providing coverage to remote rural areas, particularly in large countries, will facilitate communication between local producers and consumers and the development of integrated domestic markets. Financing Next Production Revolution (NPR) investments can thus necessitate: a range of financing institutions, such as venture capital firms and development banks; machinery-related term lending; and, specialized SME and start-up lending. Such a breadth and depth of financial services is only available in a few countries.

4. **Rethinking investment policy for the Next Production Revolution (NPR)**

   Most developing countries have been able to count on some form of foreign investment in their development strategies. The Next Production Revolution (NPR) could change this and will require careful attention to the design of investment policies. In 2014, India adopted the Make in India and National Manufacturing Policy initiatives.

   Also, in 2015 China embraced Made in China 2025 (along these lines renamed China Manufacturing 2025), which intends to overhaul Chinese industry and create green and cutting edge manufacturing in fields, for example, biomedicine, advanced apparatus, vitality sparing vehicles and IT.

RECOMMENDATIONS

Developing nations are numerous and profoundly financially and economically diverse. Large Developing economies, middle-income economies and least developed nations have distinctive absorptive limits and won't have the capacity to acclimatize Next Production Revolution (NPR) technologies similarly.

Fruitful absorption of Next Production Revolution (NPR) advancements in developing nations could raise efficiency, productivity, and invigorate sustainable economic and financial growth. Infact, some new generation advancements and production technologies are suited to economic conditions frequentlyoften found in developing countries. For instance, certain state-of-the-art robots are self operated as well as relatively inexpensive. China, for instance, is now the world's biggest client of mechanical and industrial robots and somewhere in the range of 3 000 robot makers report beginning activities in China in the previous five years (Xinhua, 2016)

Notwithstanding, NPR advancements and technologies also raise the likelihood of economic disruption in developing countries. As the advances in technologies incite a realignment of relative costs and the improvement of new plans of action, the low wage favored outlook of a couple of countries might be off-set, provoking a move in global value chains.

CONCLUSION

- India showed a tremendous growth in 2017 as number of global investors showed there interest in rupee leading to higher capital inflows and appreciation in currency but due to the latest Punjab National Bank Scam figures have changed drastically for India and other factors such as Federal Reserve decision of increasing interest rate which was zero for so long have undermined the sentiments of global investors and with the dollar gaining strength against major currencies. Money managers find this level attractive enough to bet on the world's safest securities.
- Currencies have by and far strengthened against the dollar in 2017. But in 2018 the USD could be expected to strengthen considering that the economy is gaining momentum and the Federal Reserve would be increasing rates further in upcoming months in 2018.
- Despite of all the markets having good returns in 2017 it would be tough to predict the future movement of the indices due to the uncertainties happening in 2018 in all the countries.
- India has unemployment rate as 3.7 % still lower than China by 3.9% thus India had performed slightly well in terms of job creation in 2016, when a "majority" of the 13.4 million new employment created in Southern Asia happened in the country
- In GDP, Turkey (10.2%) recording the highest growth and South Africa the lowest (1.0%). India comes in top 4 in terms of GDP growth among G20s.
- Most of the countries are able to maintain their cash inflows although a high fluctuation can be seen in the countries like US and Russia which may be due to the political as well as economic reforms.
- Turkey witnessed the highest increase of 1% in interest rates followed by China with 0.75% in 2017
- Inflation has tended to rise in most countries which is one reason why some of the central banks have geared up for a combination of monetary tightening

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