a₹tha

A NEWSLETTER OF THE FINANCE LAB

January 2017, Volume 3, Issue 9

INDIAN INSTITUTE OF MANAGEMENT CALCUTTA

Financial Research & Trading Laboratory

Chief Editor
Ashok Banerjee, Professor, IIM Calcutta

Editorial Team
Partha Ray, Professor, IIM Calcutta
Golaka C. Nath, Senior Vice President, Clearing Corporation of India Ltd.

Diamond Harbour Road,
Joka, Kolkata - 700104
West Bengal
033 2467 8300

a₹tha

A NEWSLETTER OF THE FINANCE LAB

Indian Institute of Management Calcutta

Contents

2 Editorial

Ashok Banerjee

3 Budget 2017: Any good news for startups?

Ashok Banerjee

7 Twin Balance Sheet Problem, Indian Banking Sector, and the Budget of 2017-18: Have we forgotten Mary Poppins?

Partha Ray

13 Growth and Fiscal Consolidation: Can both go together?

Sahana Rajaram

16 Market Watch

Raghav Ramesh Pillay and Sreetika Ray Mohapatra

Editorial

We have deliberately delayed the January issue of ***a₹tha*** by three days to cover the Union Budget 2017. Therefore, this is a budget issue. We have not followed the general format of covering all aspects of the budget. This issue highlights some features of the budget which did not get much attention so far in the media. There are several external and internal challenges that pose threat to short and medium-term economic prospects of our country. Did budget 2017 lay down plans for managing external challenges? One view is that budget is an annual exercise and hence one need not try to find announcements that would affect us too much into the future. Another view is it is time that we lower our expectations from the budget. All policy announcements need not be made in the budget. In fact budget will record financial impact of such policy changes and mainly focus on fiscal situation.

In the first article, the author looks at the government's support for startups in India and noted that India could do much more to promote entrepreneurial culture in the country just like Singapore and Israel. The expectation in Budget 2017 was much higher and whether it meet the expectation or not, the author try to answer after analyzing Budget 2017. The second article analyses the recently released *Economic Survey 2016-17* which created some hype about the shape of things to come the Budget of 2017-18 as the banking sector is concerned. In this second piece, the author look at the Budget proposals of 2017-18 in this context. The third article will discuss scenarios under which the fiscal deficit target may be breached not only for the current year but also for the next year. And the culprit could be the unresolved issues of GDP calculation as per the new 2011-12 base and arguably optimistic nominal GDP estimates for FY2016 and FY2017.

The *Market Watch* section by IIM-Calcutta PGP students in this issue highlights market reaction to the 2017-18 Union Budget.

You may send your comments and feedback on this issue to ashok@iimcal.ac.in.
Happy reading!

Ashok Banerjee

Budget 2017: Any Good News for Startups?

Ashok Banerjee

Ashok Banerjee, Ph.D., is Professor, Finance and Control, Indian Institute of Management Calcutta (IIM-C). He is also the faculty in-charge of the Financial Research and Trading Lab at IIM-C. His primary research interests are in areas of Financial Time Series, News Analytics and Mergers & Acquisitions

Promoting startup is a national priority. Recently, a newspaper report mentioned that a major steel company is contemplating an investment of Rs. 3000 crore in West Bengal that will generate an expected employment for 3000 people in the state- that translates to Rs.1 crore investments to create one job. A similar investment in startups and SMEs would definitely create at least five times more jobs. In order to offer enabling ecosystem to startups, three things are essential- providing reliable net connectivity in rural India, facilitating digital transactions and access to risk capital. The Union Budget of 2017 provides necessary incentives for enhancing net connectivity and encouraging digital payments. For example, section 44AD of the Income Tax Act is amended to lower the presumptive income for small and unorganized businesses (with annual turnover up to Rs. 2 crore) to six percent from the present eight percent only in respect of the amount of such turnover or gross receipts (out of Rs. 2 crore) received by account payee cheque/draft or net banking facilities. Thus, if a small trader receives 60% of her sales through bank and rest in cash; the presumptive income for tax purpose would be 6.8% of turnover.

The Union Budget (Budget) of 2016 announced a number of significant concessions/schemes for the startups. Five important announcements in Budget 2016 were: (a) 100% tax exemption in three consecutive financial years out of initial five years of incorporation of the startup; (b) abolition of angel investment tax; (c) setting up of 'fund of funds' for startups of up to Rs. 10,000 crore over a four year period; (d) lowering long-term capital gains for unlisted firms from three to two years so that sale of shares by unlisted firms beyond 2 years do not attract capital gain tax; and (e) allocation of Rs. 500 crore for SC/ST and women entrepreneurs. However, there was a catch. In order to avail above tax exemptions and benefits, a startup needs to satisfy conditions stipulated by the Department of Industrial Policy and Promotion (DIPP). Were the above incentives enough to significantly increase startup movement in India?

If one looks at a few countries and the government's support for startups, one would note that India could do much more to promote entrepreneurial culture in the country. So, the expectation in Budget 2017, presented on 1 February 2017 in the Parliament, was much higher. Did Hon'ble Finance Minister meet the expectations? We would try to answer that question in this article. But before analyzing Budget 2017, let us look at government initiatives in two countries (other than USA) which are known for promoting startups.

Government Support in Singapore

Funding and other concessions initiated by various government agencies include five major areas- (i) equity funding scheme (*where the government co-invests with a private third-party investor in early stage of a business*); (ii) cash grants (*cash grant can vary between S$50,000 and S$ 300,000*); (iii) business incubation scheme (*to provide support to recognized incubators and also provide seed money to startups incubated by the recognized incubators- this is very similar to the schemes of the Technology Development Board (TDB)and National Science and Technology Entrepreneurship Development Board (NSTEDB) of Government of India*); (iv) Debt-financing schemes (*availability of micro-credit of up to S$100,000 and SME credit of up to S$15 million at a concessional rate*); and (iv) tax incentive schemes (*full tax exemption up to S$100,000 taxable income, tax at 8.5% for next S$200,000 of taxable income in first three years and thereafter taxable income up to S$300,000 will be taxed at a concessional rate of 8.5%- which is 50% of the marginal corporate tax rate. Additionally, accelerated depreciation is available for expenditure incurred towards R&D, Intellectual Property Registration, IP acquisition, and design).*

Government Support in Israel

Israel is home for new technology startups. An estimate[1] shows that more than 1400 new technology startups were created in 2015 alone. The country spends more than 4% of GDP in civilian R&D. A startup, subject to conditions, is entitled to a preferred tax treatment (9% against the marginal rate of 16%). In addition, such an enterprise is entitled to investment grant, accelerated depreciation and reduced dividend distribution tax. Various incentive schemes have bias towards R&D focused enterprises. The national pre-seed grant (Tnufa programme) of up to $65,000 is available to individual inventors and nascent startup companies. Government-sponsored technology incubators programme provides funding up to $680,000 to each startup in addition to infrastructure facilities and mentorship support. Generous grant is also available for applied academic research in biotechnology and nanotechnology without any requirement of royalty payments to the government.

[1] https://www.rolandberger.com/publications/publication_pdf/tab_start_ups_israel_final.pdf (accessed on 2 February 2017)

Announcements for startups in Budget 2017

Key highlights of this year's budget so far as startups are concerned include:

Increase in the tax exemption period: The budget offers 100% direct tax exemption for three consecutive years out of initial seven years- thus a startup now gets two more years to avail the tax benefit. This provision will be effective from the assessment year 2018-19. The argument for such extension of time is that startups hardly make profits in initial years and hence if startups have to setoff the losses in first five years, very few would be able to enjoy the tax benefit. Is the two-year extension sufficient? What happens thereafter? If startups have to pay tax at marginal rate immediately after setoff benefits, it would cause great hardship, as profits would still be lower. It is better to offer a lower rate of income tax during the first decade of a startup. We have precedence in this respect- Indian IT companies enjoyed 100% tax holiday for many years and thereafter paid MAT(Minimum Alternate Tax) for a few years. The government is serious in pursuing its startup India policy and it would make immense sense if startups were provided a greater time window to pay tax at the full rate. It may be mentioned here that the reduction of corporate tax rate from 30% to 25% for MSME (Micro, small and Medium enterprise) sector is a praiseworthy step. Therefore, a more generous tax scheme for startups was expected. Two-year extension of exemption period is good but not enough.

Amendment of Section 79 of the Income Tax Act: In order to carry forward and set of losses as mentioned above, section 79 of the Income Tax Act had a restrictive clause- the promoters of the startups, which are privately held, should hold at least fifty-one percent of the voting right. This provision had created a major hurdle in raising significant funds in the initial years when a startup reports loss despite growth in topline. Promoters could not dilute their stake beyond forty-nine percent and many funders considered this restriction as a major hurdle in gaining controlling stake in startups. Budget 2017 makes necessary amendment in section 79 removing the restriction on the promoters to hold minimum fifty-one percent stake. Budget 2017 only requires that in order to avail the carry forward and set off benefits of losses in the initial seven years, the promoters of any startup should continue to hold shares without any minimum threshold.

Capital Gains on Transfer of Shares: The capital gain is generally computed by taking the difference between full value of the consideration received on transfer of a capital asset and cost of such capital asset. In case of listed companies, the value of the consideration is normally at or above the market price of the asset. However, it is found that in case of unlisted companies, the consideration received/offered could be lower than the fair value (estimated using recognized valuation methods) of assets (e.g., shares). A new section 50CA of the Income Tax Act would now provide that where consideration for transfer of share of an unlisted company is less than the fair market value (FMV) of such share, the FMV shall be deemed to be the full value of the consideration for the

purpose of computing capital gains. This is a good move and will ensure that startups get fair value of their shares when they raise funds from Venture Capital (VC) or Private Equity (PE). Whenever any startup seeks to raise funds against shares, it needs a valuation certificate from a recognized valuer and the certificate should be a recent one. The funders (and the promoters of a startup) typically decide quantum of funding and equity stake on the basis of the enterprise valuation. However, funders would always prefer to provide the fund in tranches to ensure that the startup meets certain milestone and follows a desirable growth trajectory. The problem that a funder would face in such a situation is if the subsequent tranches are offered on the basis of original valuation, it may lead to purchase consideration being lower than the FMV at the time of disbursement of funds. If the startup has to get a fresh valuation every time it receives instalment of funds it would be an expensive proposition for the startup. The funder also has a problem- it would get proportionately lower stake for subsequent tranches on the basis of fresh (supposedly higher) valuation. In order to resolve the problem section 50CA could include a provision that any valuation certificate would be valid for one year so that there is no need of further valuation exercise for funds raised within that period of one year.

It is true that one should not look for all the announcements with respect to startups in the budget. The 'Startup India, Standup India' programme launched by Government of India in January 2016 provided major boost to the startup movement in India. Generous funding was made available under this programme to eligible incubators and startups to create a vibrant startup ecosystem in the country. Can we visualize a new India where scientists and academics are allowed to setup startups? Academics who recognize that their discoveries or innovation can be commercialized may be encouraged to start commercial ventures in joint ownership with the host institutions/universities. It is true that an academic-entrepreneur would face great challenge in keeping a barrier between professorial and business activities, but that should not deter one from seeking an opportunity to establish a startup. In fact, if a scientist or an academic has the ability to demonstrate commercial success of her innovation, that would help in teaching as well now that she is able to bring her experience from the business to the classroom.

****

Twin Balance Sheet Problem, Indian Banking Sector, and the Budget of 2017-18: Have we forgotten Mary Poppins?

Partha Ray

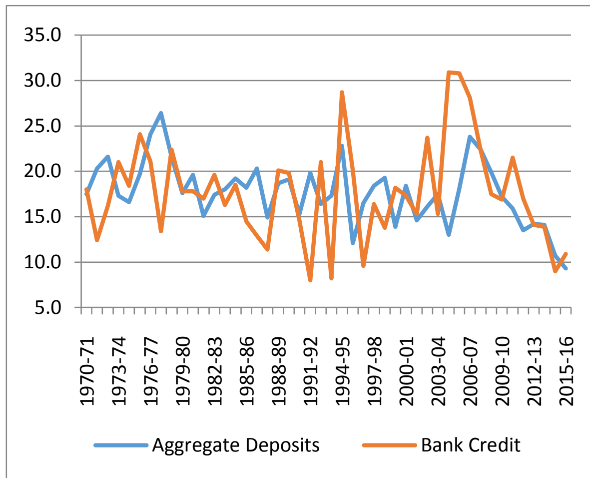
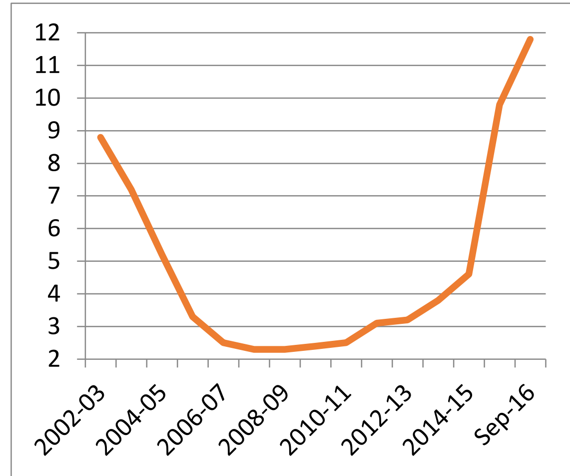
Partha Ray, Ph.D., is Professor, Economics, Indian Institute of Management Calcutta (IIM-C). Prior to joining IIM-C, Prof. Ray, a career central banker, was the adviser to Executive Director, International Monetary Fund, Washington D.C. during 2007-2011.

Of late, Indian banking sector has not been too well. Credit, deposits and assets are down significantly and there has been substantial increase in non-performing assets. In this context, the recently released *Economic Survey, 2016-17* has noted the simultaneous deterioration of corporates' as well as banks' balance sheets and suggested some important measures. Has the Budget proposals of 2017-18 looked into the plight of banking sector sufficiently?

Problems in banks

The recently released *Report on Report on Trend and Progress of Banking in India 2015-16* of the RBI flagged out alarmingly that the consolidated balance sheets of the banking sector grew at meagre pace of 7.7 per cent during 2015-16. More importantly, the pace of expansion of deposits and credit of the scheduled commercial banks has registered unprecedented deceleration in 2015-16 (Chart 1a). Along with these decelerations, the other disturbing trend has been a significant deterioration of asset quality of public sector banks with their gross non-performing advances going up substantially to 11.8 per cent (of total advances); this pushed up the stressed advances (i.e., gross NPA plus restructured standard advances) to 15.8 per cent of total advances in September 2016 (Chart 1b). It looks like whatever has been achieved in terms of cleaning up banking sector balance sheet since the initiation of financial sector reforms all seemed to have wiped away now.

Chart 1: Disquieting trends in Indian Commercial Banks

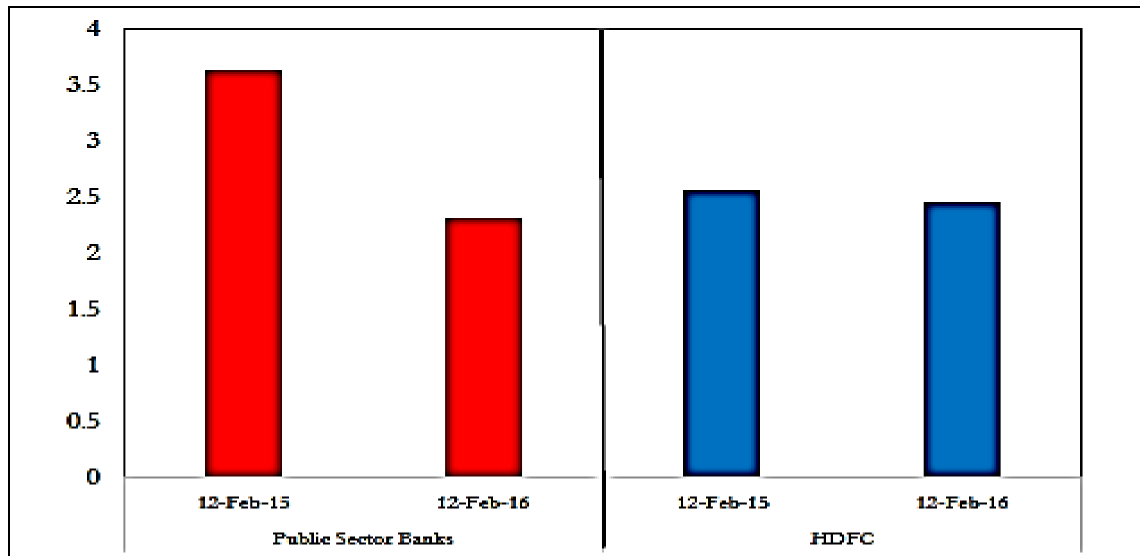
Chart 1a: Growth in Aggregate Deposits and Credits of Scheduled Commercial Banks: 1970-71 to 2015-16 (%)	**Chart 1b: Gross NPA as % of Gross Advances: 2002-03 to Sept 2016**
	

Source: Database on Indian Economy, RBI

This has affected the behaviour and performance of banks in India. The latest *Economic Survey, 2016-17* put the impact somewhat dramatically, and went on to say:

> "In February 2016, financial markets in India were rocked by bad news from the banking system. One by one, public sector banks revealed their financial results for the December quarter. And the numbers were stunning. Banks reported that nonperforming assets had soared, to such an extent that provisioning had overwhelmed operating earnings. As a result, net income had plunged deeply into the red. ...The news set off alarm bells amongst investors, who responded by fleeing public sector bank shares, bringing their prices to such low levels that at one point the medium-sized private sector bank HDFC was valued as much as 24 public sector banks put together" (Chart 2).

Chart 2: Market Capitalisation - Public Sector Banks & HDFC (Rs. trillion)



Source: *Economic Survey, 2016-17*, Government of India.

Why did it happen?

Number of reasons may be cited in this connection. Following are important in particular: (a) relaxation credit norms by the RBI in order to encourage bank lending after the global financial crisis; (b) the sharp fall in commodity prices since 2009 leading to sharp declines in the profitability of sectors such as steel and causing the problem of unpaid debt to banks from these and associated sectors; (c) the government thrust on infrastructure investment through public-private-partnerships (PPP) leading to huge new debt being contracted by highly leveraged Indian corporate entities investing in infrastructure; and (d) instances of governance issues with the management of select public sector banks and cases of political interference (Mohan and Ray, 2017).[2]

Twin Balance Sheet Problem

Economic Survey, 2016-17 in this context flagged the issue of "the Festering Twin Balance Sheet Problem", whereby along with the deterioration of banking sector balance sheet, "around 40 percent of the corporate debt it

---

[2] Mohan, Rakesh and Partha Ray (2017): "Indian Financial Sector: Structure, Trends and Turns", IMF Working Paper, No. WP/17/7, available at https://www.imf.org/en/Publications/WP/Issues/2017/01/20/Indian-Financial-Sector-Structure-Trends-and-Turns-44554

monitored was owed by companies which had an interest coverage ratio less than 1, meaning they did not earn enough to pay the interest obligations on their loans" (Chart 3).

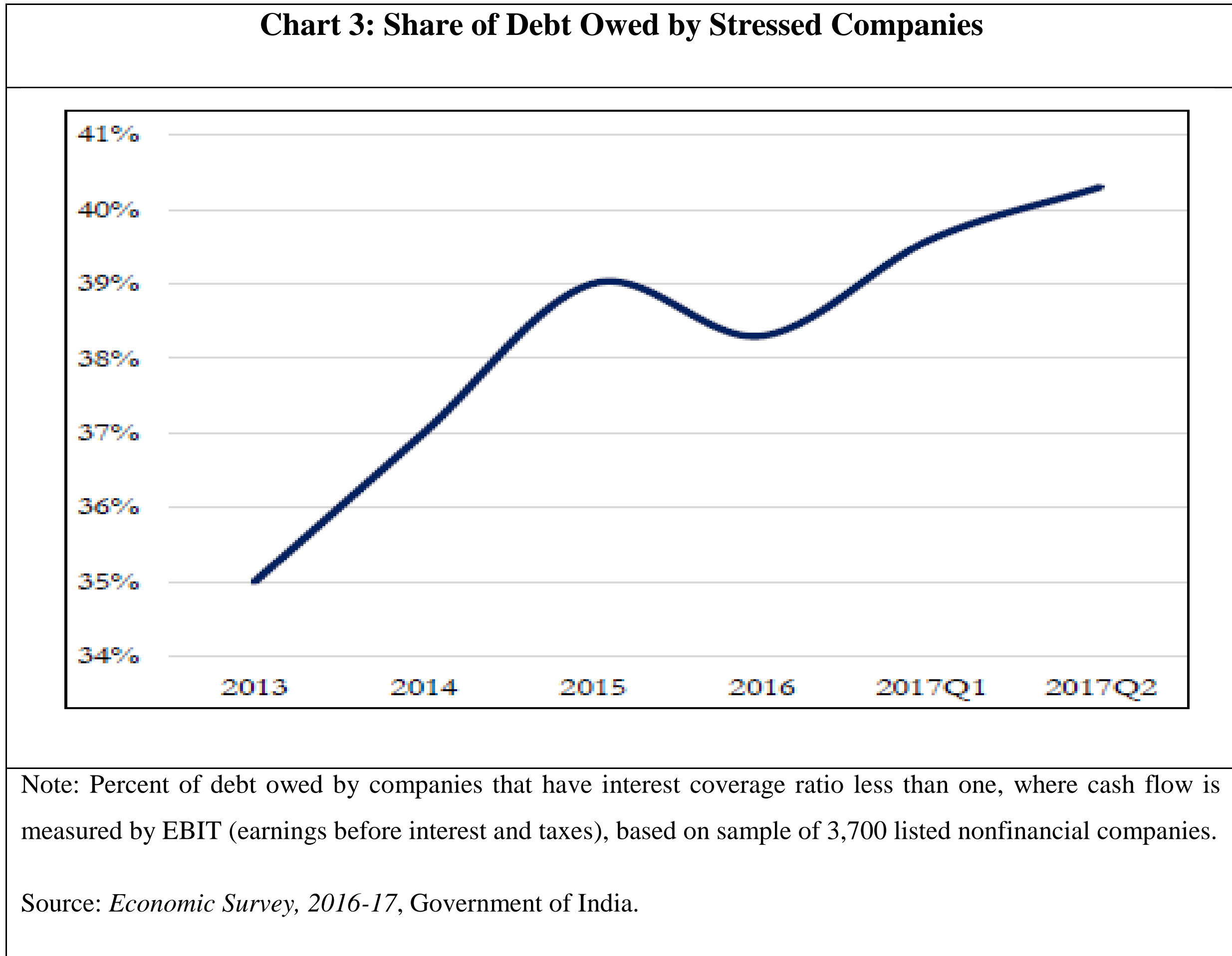


Chart 3: Share of Debt Owed by Stressed Companies

Note: Percent of debt owed by companies that have interest coverage ratio less than one, where cash flow is measured by EBIT (earnings before interest and taxes), based on sample of 3,700 listed nonfinancial companies.

Source: *Economic Survey, 2016-17*, Government of India.

But what is to be done so as to have a resolution of this twin balance sheet problem? The *Economic Survey, 2016-17* candidly argued in favour of establishing a formal agency that can resolve the large bad debt cases - something in the nature of a 'Public Sector Asset Rehabilitation Agency'. This has been employed by the East Asian countries after they were hit by similar balance sheet problem in the 1990s. This is in the nature of a grand Bad Bank.

Budget, 2017-18 and the Banking Sector

Naturally, the analysis of *Economic Survey* created some hype about the shape of things to come the Budget of 2017-18 insofar as the banking sector is concerned. It is interesting to take look at the Budget proposals of 2017-18 in this context. The following deserve special mention.

First, the Finance Minister announced that a bill relating to resolution of financial firms would be introduced in the current Budget Session of Parliament. It was specifically noted, "This will contribute to stability and resilience of our financial system (and) will also protect the consumers of various financial institutions" (p. 20; Finance Minster's Budget Speech, 2017-2018). It was expected that together with the Insolvency and Bankruptcy Code such as a resolution mechanism for financial firms will ensure comprehensiveness of the resolution system in India.

Second, in order to "streamline institutional arrangements for resolution of disputes in infrastructure related construction contracts, PPP and public utility contracts", it was announced that, "the required mechanism would be instituted as part of the Arbitration and Conciliation Act 1996".

Third, in order to solve "the stressed legacy accounts of Banks", In line with the *'Indradhanush'* roadmap, the Finance Minister has provided Rs. 10,000 crore for recapitalisation of Banks in 2017-18, and assured that, "additional allocation will be provided, as may be required".

Fourth, listing and trading of Security Receipts issued by a securitization company or a reconstruction company under the SARFAESI Act has been permitted in SEBI registered stock exchanges. This is expected to "enhance capital flows into the securitization industry and will particularly be helpful to deal with bank NPAs".

Finally, the Budget proposed to double the lending target of 2015-16 to Rs. 2.44 lakh crores under the *Pradhan Mantri Mudra Yojana and added that, "p*riority will be given to Dalits, Tribals, Backward Classes, Minorities and Women".

Have we forgotten Mary Poppins?

Are these measures sufficient to address the plight of the Indian banking sector? At one level, clearly these seem to be insufficient to recapitalize banks and kick-start the credit cycles; at another, one may note that devil may lie in the details that may emerge in the days to come. Thus, a definitive stance about the shape of things to come in the banking sector may be pre-mature.

In situations like this, one is reminded of the 1964 Walt Disney classic *Mary Poppins*, where Mr Banks takes his daughter Jane and son Michael to his work place, the Dawes Tomes Mousley Grubbs Fidelity Fiduciary Bank and the bank's elderly chairman aggressively tries to persuade Michael to invest his modest savings (all of two pence or tuppence) in the bank and went on sing:

"*If you invest your tuppence / Wisely in the bank / Safe and sound / Soon that tuppence / Safely invested in the bank / Will compound ......*

You see, Michael, you'll be part of / Railways through Africa / Dams across the Nile / Fleets of ocean greyhounds / Majestic, self-amortizing canals / Plantations of ripening tea

All from tuppence, prudently / Fruitfully, frugally invested / In the, to be specific, / In the Dawes, Tomes / Mousely, Grubbs/ Fidelity Fiduciary Bank!

In times like this, it may be good to remember Mary Poppins and the tuppence song!

******

Growth and Fiscal Consolidation: Can both go together?

Deep N Mukherjee

Deep N Mukherjee is currently Chief Product Officer, handling product design and analytics in a Indian credit bureau. He has over 14 years of experience in Risk Management and Credit Assessment. Prior to his current role, within Fitch he was in structured finance team. Prior to his organization he was with American Express where he was heading the Institutional Risk Management Team focusing on quantitative risk management. He is also a visiting faculty in finance with IIM Calcutta. He has done his graduation in engineering from IIT, Kharagpur (BTech, 1999) and has obtained his management degree from IIM Lucknow (PGDM 2002).

The Budget 2017 reinforced the message that India will continue to remain in the path of bespoke conservative fiscal approach, as dictated by orthodox economics. To the extent policy uncertainty is reduced , bond and currency markets which tend to pay a premium for policy and economic predictability is likely to view this budget favourably , at least in the immediate short term. Given the low-key recovery the Indian economy has exhibited over the last couple of years, this article will discuss scenarios under which the fiscal deficit target may be breached not only for the current year but also for the next year. And the culprit could be the unresolved issues of GDP calculation as per the new 2011-12 base and arguably optimistic nominal GDP estimates for FY2016 and FY2017.

Upward Bias in GDP estimates: On 31st January 2017, while the release of Economic Survey grabbed eyeballs with its erudition and freshness of perspective, the release of another macroeconomic number went largely unnoticed-The first revised estimate of GDP for the year 2015-16. As the press release from Ministry of Statistics and Program Implementation (MOSPI) states "*The estimates of GDP and other aggregates for the years 2012-13 to 2014-15 have also undergone revision due to use of latest available data on agricultural production; industrial production especially those based on the provisional results of Annual Survey of Industries (ASI): 2014-15 and final results of ASI: 2013-14*". The point to note is that the GDP estimates of period as far as 2011-12 got re-estimated. As Table 1.1 shows for the years FY2012-13 to FY2014-15 the Nominal GDP estimates have been marginally but steadily revised downward. For FY2015-16 the absolute value of nominal GDP got adjusted upwards. As table 1.2 shows the nominal GDP growth rate has been falling steadily since FY2012-13 and as per estimates nominal GDP is expected to change trend and grow by 11.9% in FY16-17.

	Table 1.1:Nominal GDP(INR Lakh Crore)(Base:2011-12)					
	2011-12	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17**
30/1/2015(New Series Launch with Base 2011-12)	88.3	99.9	113.45			
29/5/2015(Provisional Estimate for 2014-15)				125.4		
29/1/2016 (First Revised Estimate of 2014-15)	87.36	99.51	112.73	124.88		
8/2/2016 (Advanced Estimate for 2015-16)					135.67	
6/1/2017(First Advance Estimate for 2016-17)						151.93
31/1/2017(First Revised Estimate of 2015-16)	88.87	99.47	112.37	124.34	136.75	

	Table 1.2:Nominal GDP(Growth)(Base:2011-12)					
	2011-12	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17**
30/1/2015(New Series Launch with Base 2011-12)		13.1%	13.6%			
29/5/2015(Provisional Estimate for 2014-15)				10.5%		
29/1/2016 (First Revised Estimate of 2014-15)		13.9%	13.3%	10.8%		
8/2/2016 (Advanced Estimate for 2015-16)					8.6%	
6/1/2017(First Advance Estimate for 2016-17)						11.9%
31/1/2017(First Revised Estimate of 2015-16)		13.9%	13%	10.7%	10%	

Can we Actually Meet the Fiscal Deficit target this Year? In a year where the mandated currency exchange, called demonetisation in popular parlance, is expected to affect the GDP growth downward, the official estimates suggest that the economy will turnaround. As per the official calculation, which explicitly did not consider the impact of demonetisation, FY16-17 is expected to show the best nominal GDP growth in three years. Of course the Economic Survey estimates the nominal GDP of the current fiscal year to be 100 basis point (bp) to 25 bp lower but this may also turn out to be a tad too optimistic. To the extent the fiscal deficit is calculated as a percentage of nominal GDP a downward adjustment of the same will breach the fiscal deficit target. As such the previous budget (for the year Fy2016-17) estimated a nominal GDP growth rate of 11% so as to restrict the fiscal deficit at 3.5% of GDP.

The 3.2% fiscal deficit target of FY2017-18 is based on a nominal GDP growth rate of 11.75%. An economy of nominal GDP of INR 136.75 lakh crore as of March 31,2016 is expected to grow to an estimated 169.7 Lakh crore by 31 March , 2018 and support a fiscal deficit of INR 5.4 lakh crore ie; hit the fiscal deficit target of 3.2% for FY2017-18. Whew!

Given that GDP estimates gets re-estimated even three years into the future, we may figure out two or three years down the line that India may have missed the fiscal deficit target in FY2016-17.

Past Tango of fiscal deficit and Nominal GDP: Fiscal deficit target overshooting in the first half of a fiscal and thereby forcing government to curtail spending in the second half is not a new phenomenon. Even now by December 2016, around 94 % of the fiscal deficit has already been used up. The need to keep fiscal deficit in check forces government to sharply curtail spending in the last quarter if not the entire second half of the fiscal. In the absence of meaningful private investment this tends to further damp down the economy during the second half.

The nominal GDP growth in H1FY15 was above 13%. However by H1FY15(ie; 30 September 2014) the government had already exhausted 86% of its projected full year Fiscal Deficit(FD) of FY15(INR4.39 trillion). The H2FY15 nominal GDP growth nose-dived to 7% level and thus the full year(FY15) nominal GDP growth was 10.8%. One of the contributing factors has possibly been the sharp curtailment of government spending, which allowed Government to meet a FD target of 4.1% (of nominal GDP) in FY15.

When Mr. Jaitley presented FY2015-16 budget on 28th February 2015, he projected a fiscal deficit of INR 5.55 trillion (1 trillion is 1 Lakh crore). This was expected to be 3.9% of the then (as of Feb, 2015) expected FY16 nominal GDP of INR 141 trillion. This is because the budget expected an 11.5% nominal GDP growth in 2015-16 over the then projected 2014-15 nominal GDP of INR126.5 trillion. Subsequently, the FY15 nominal GDP was re-estimated at a marginally lower amount of INR 124.9 trillion. Since the nominal GDP for FY16 was scaled down from original budget expectations, in order to remain within fiscal deficit target of 3.9% for FY16, the FY16 fiscal deficit of INR 5.55 lakh crore has been reduced to INR5.35 trillion.

The Moment of truth: Thus, the nominal growth rates anticipated in the budget often get revised downward significantly and likewise the government reduces spending to keep the ratio of fiscal deficit in line with budgetary expectations. What is different this year is that the degree of downward revision in nominal GDP estimates may be much higher than has been the case in the past few years. If the spending is reduced by that commensurate amount to keep the fiscal deficit target ratio in check then it may affect the growth of the economy further. Ironically, an approach of fiscal consolidation which is considered conservative may cause larger instability if the growth scenario does not play out.

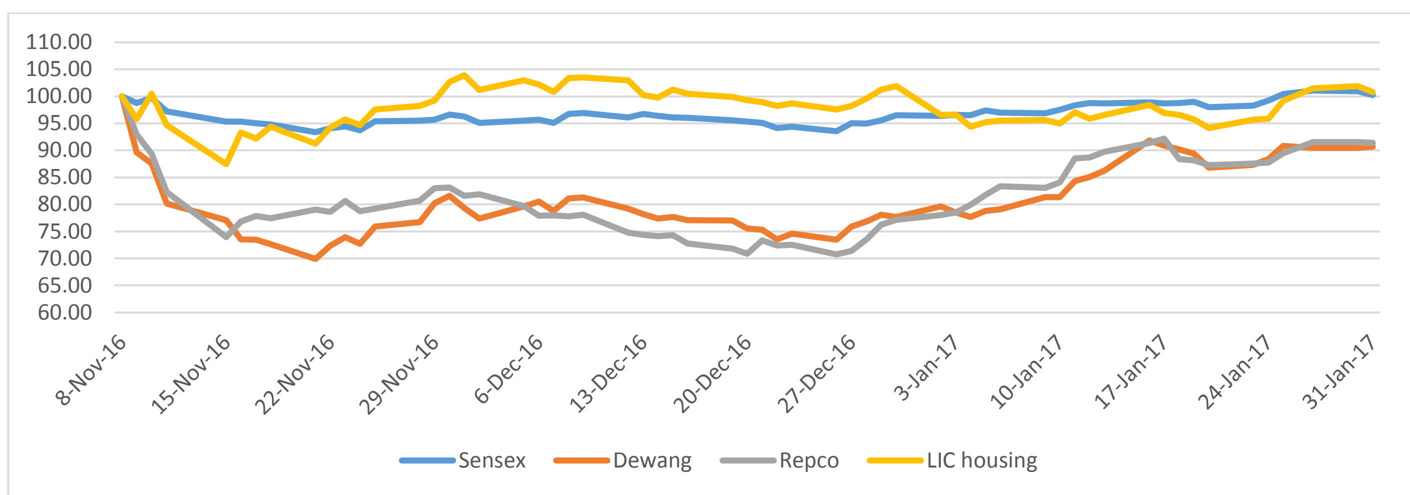
Market Watch

Raghav Ramesh Pillay
PGP student
Indian Institute of Management Calcutta

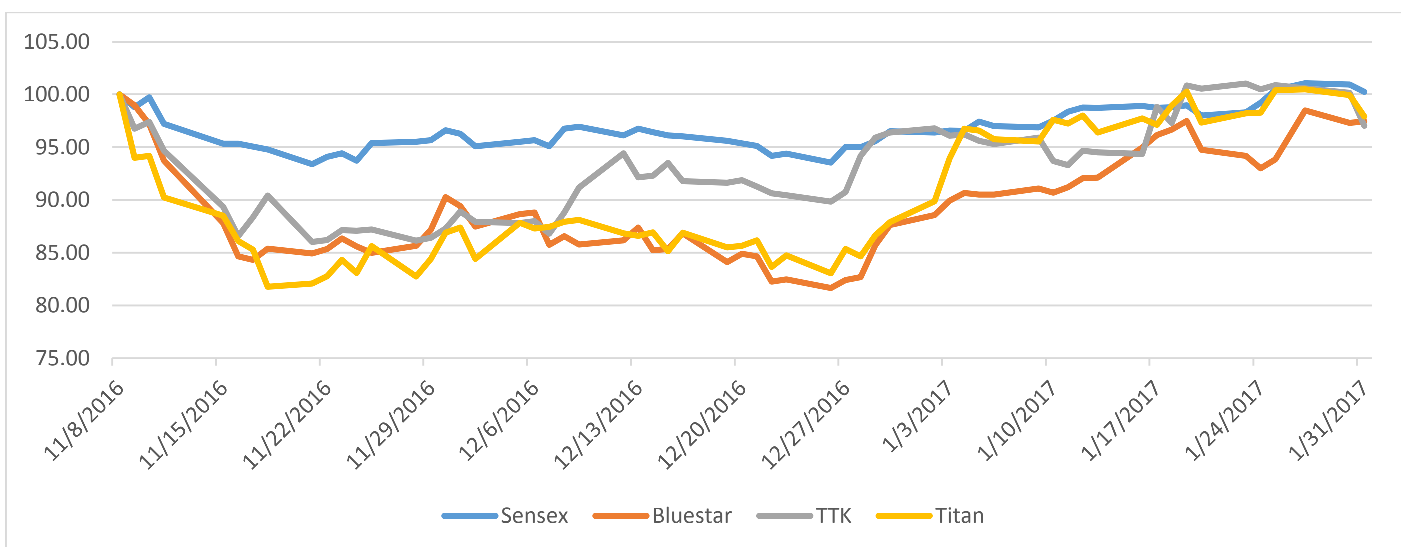
"Drop in economic activity due to demonetisation is transient …..Demonetisation has a strong potential to generate long-term benefits……""

Finance Minister Arun Jaitley

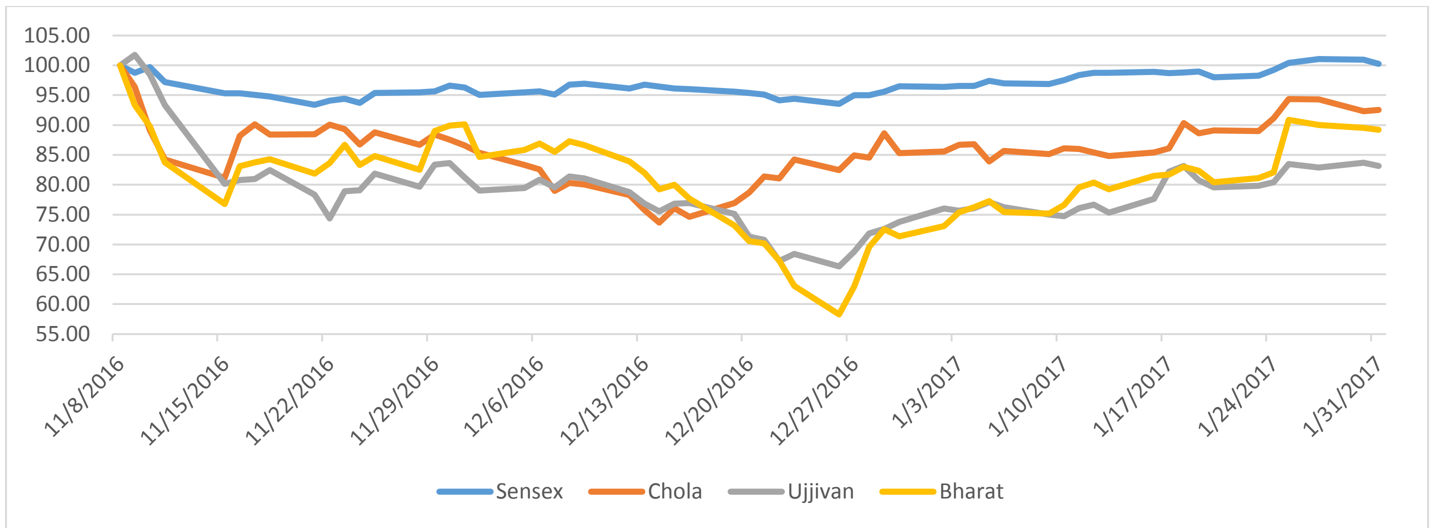
Housing Finance



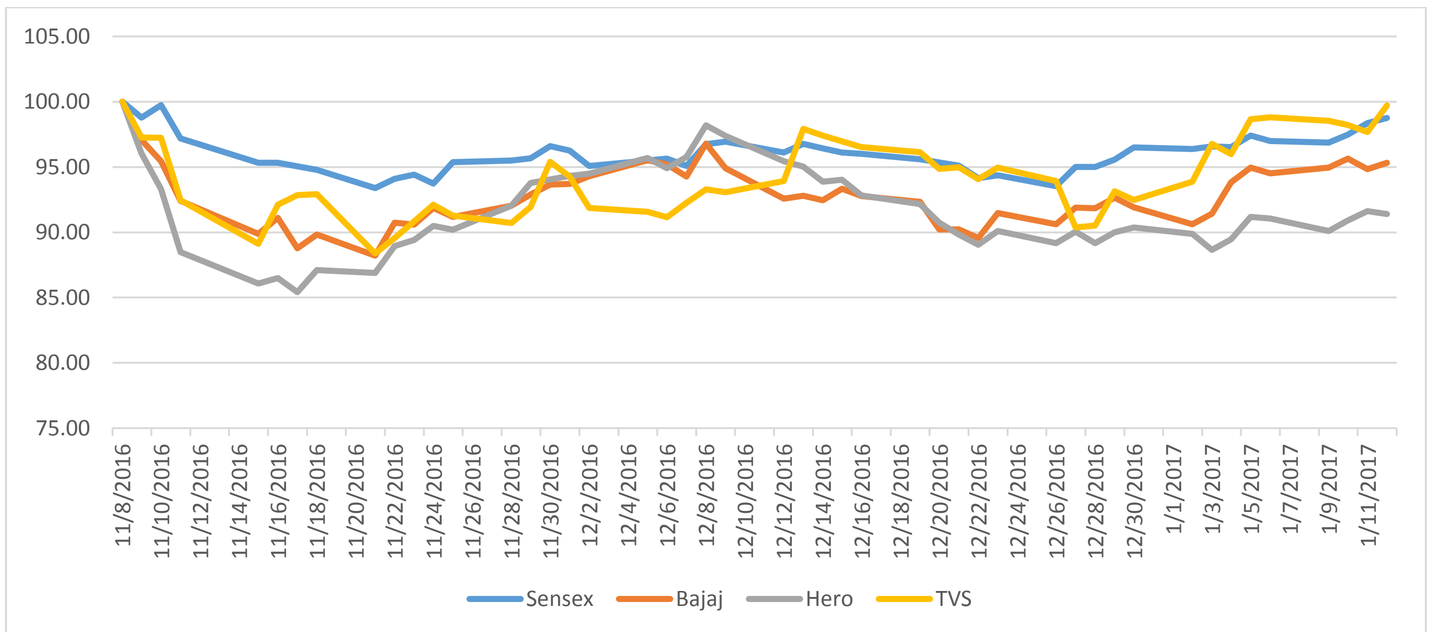
Consumer Durables



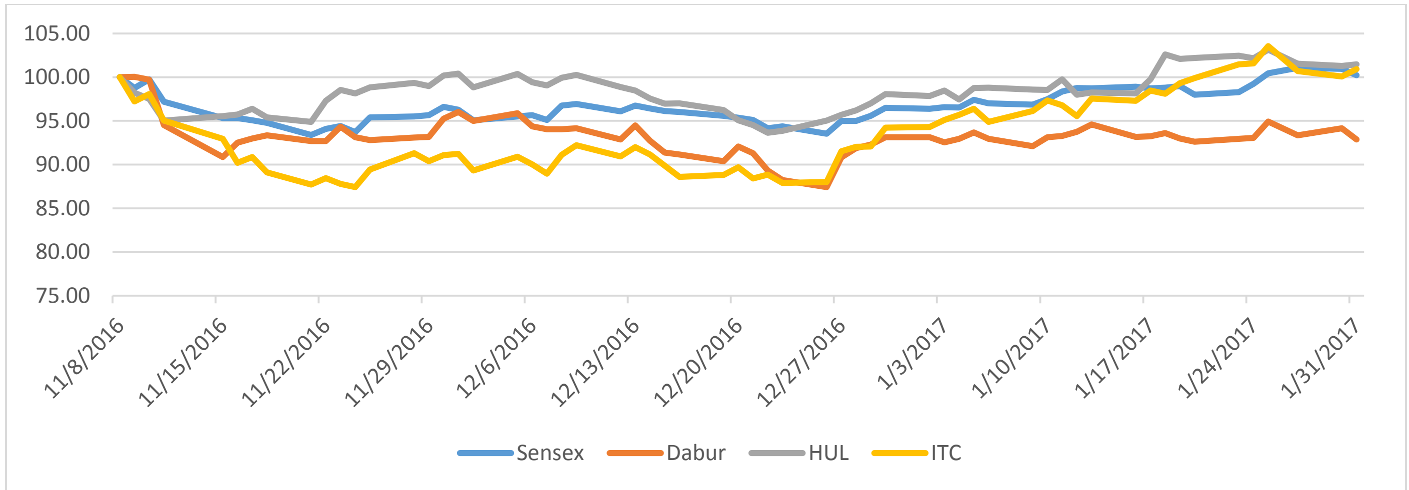
Micro Finance



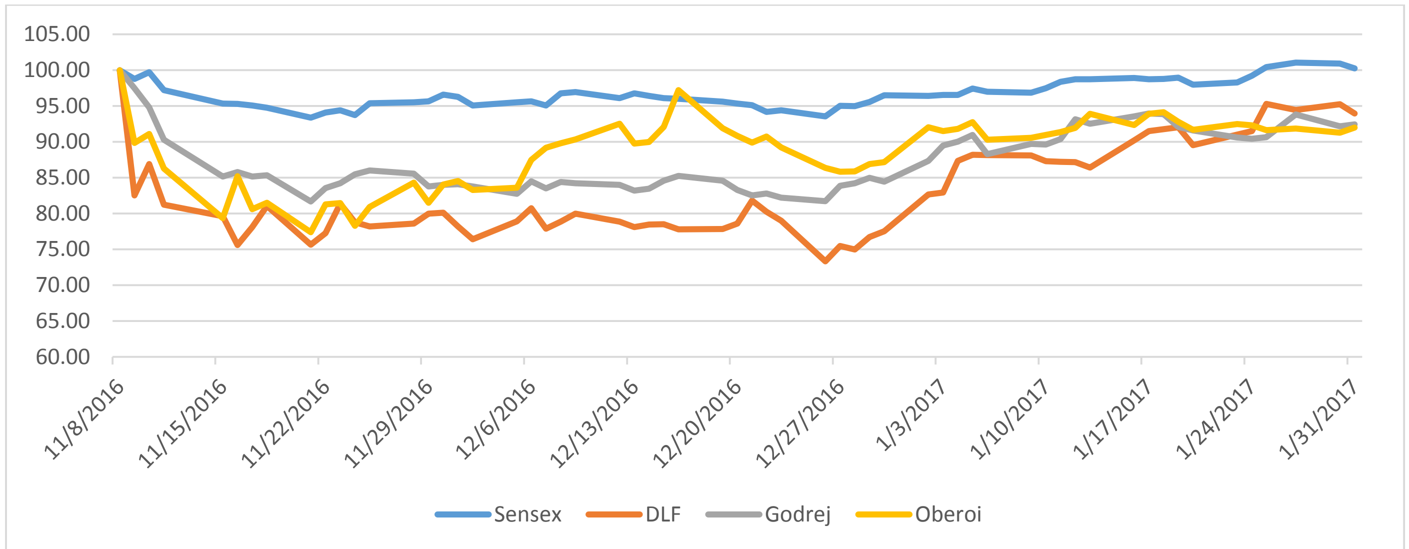
2 Wheeler Industry



FMCG



Real Estate

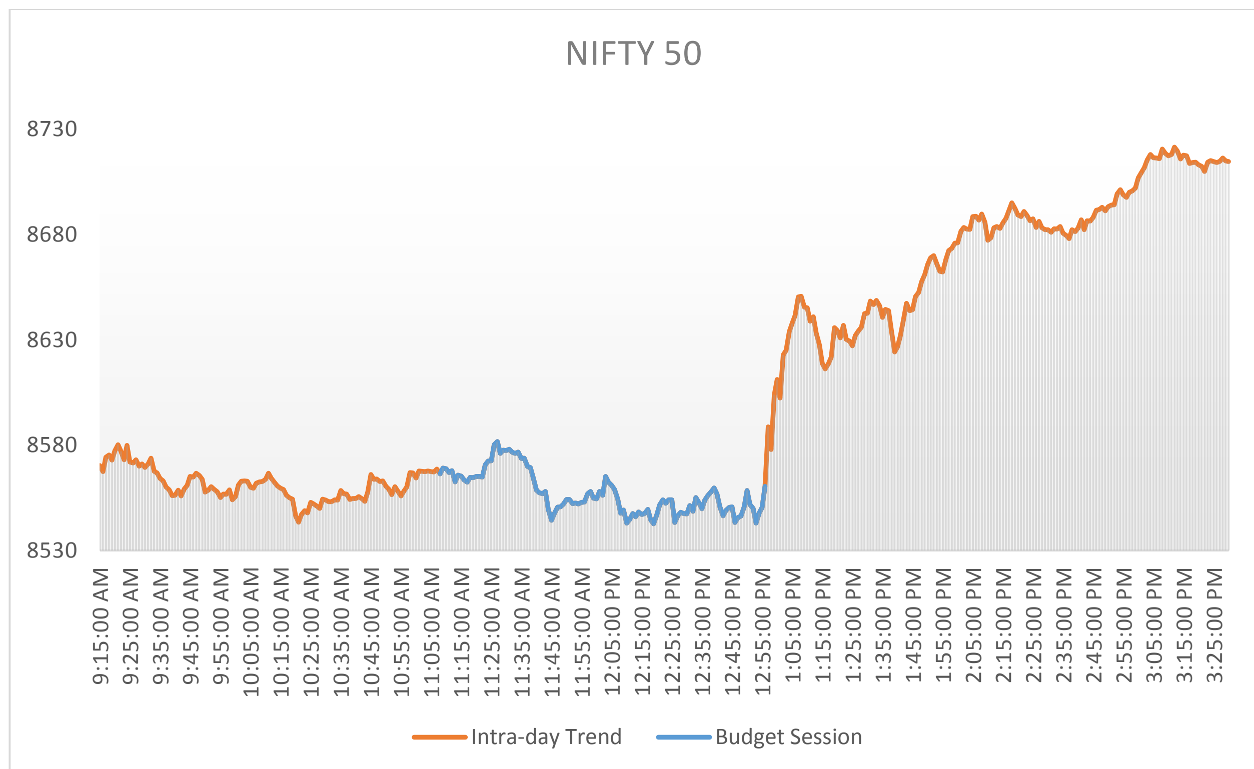


****

Do election results affect S&P 500 returns?

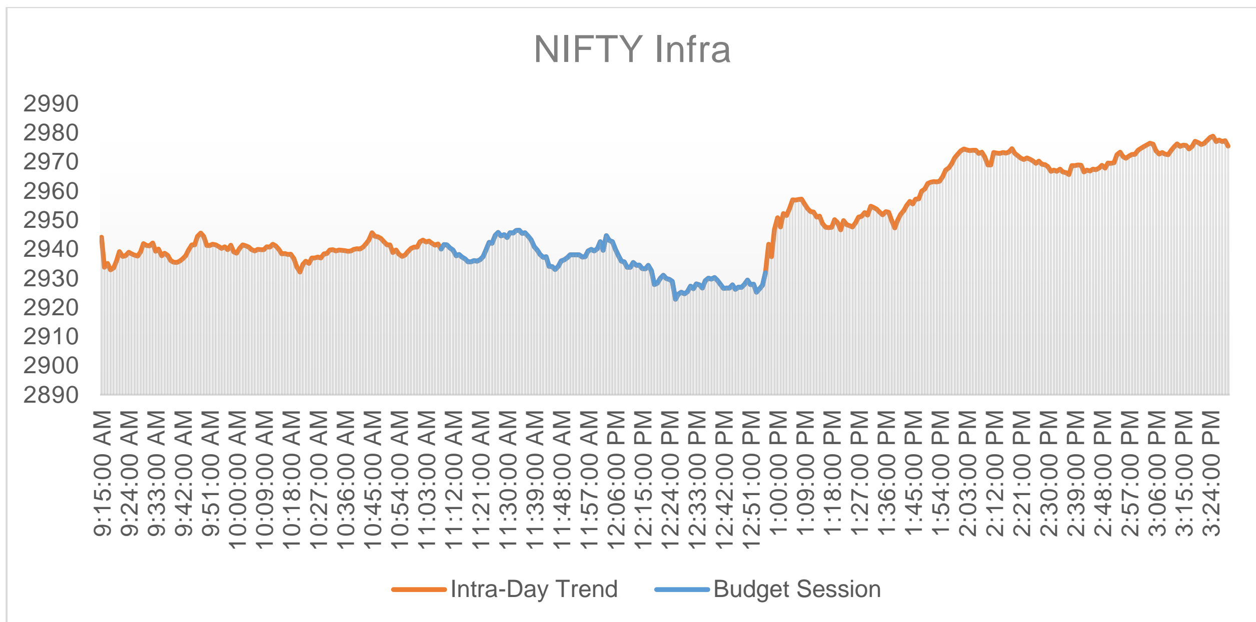
Sreetika Ray Mohapatra
PGP student
Indian Institute of Management Calcutta

The markets gave a positive reaction to the 2017-18 Union Budget with the benchmark NIFTY 50 jumping by 1.683%.

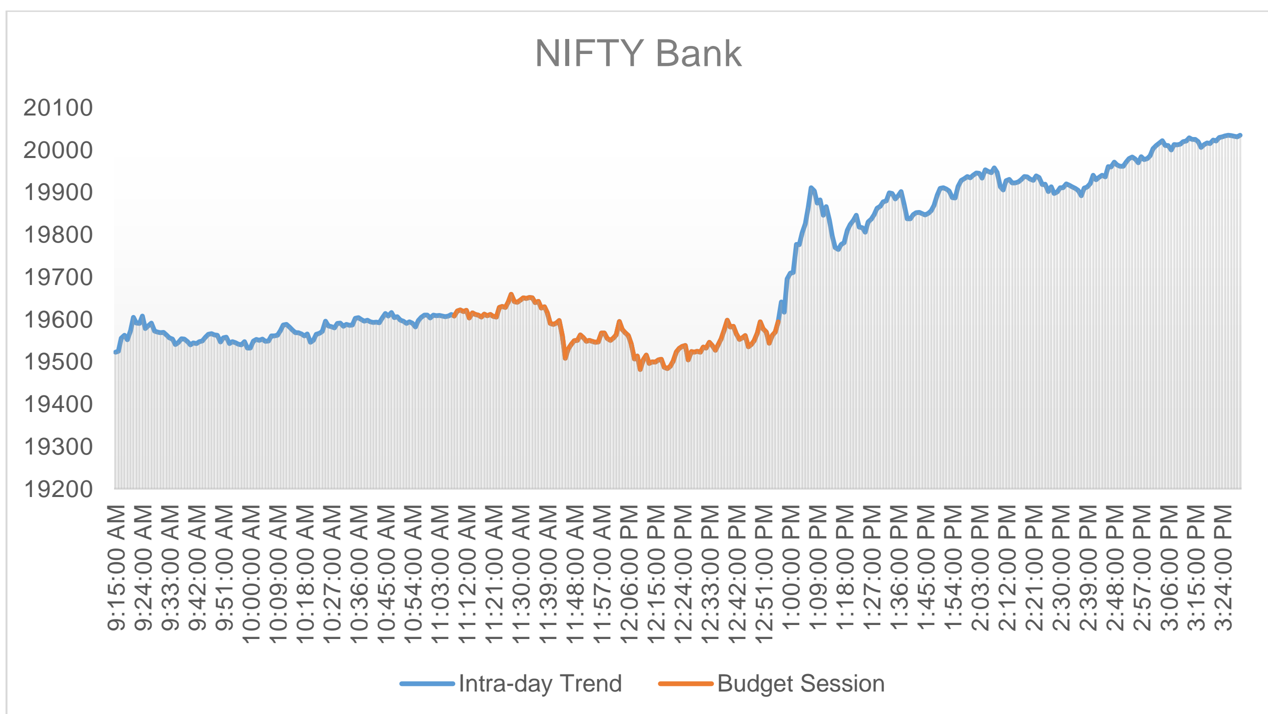


.

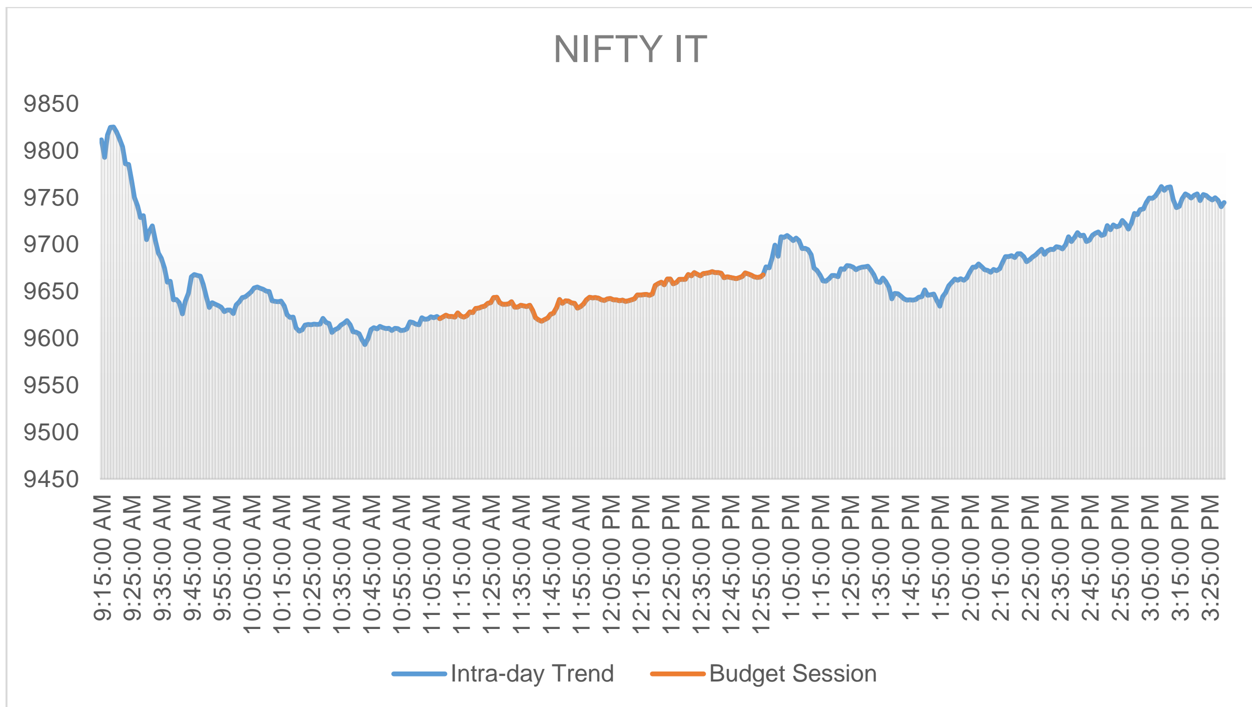
Conferring of "infrastructure" status to construction of affordable housing with increased allocation to Pradhan Mantri Awaas Yojana both promoted an immediate upward movement for infra index.



However, the underwhelming allocation for recapitalization of PSBs did reflect on the index dropping slightly.



A strong stress on digitization from the start of the speech contributed to the positive momentum to IT Index. But overall the IT index fell during the day – Trumped?


NIFTY IT
9850
9800
9750
9700
9650
9600
9550
9500
9450
9:15:00 AM
9:25:00 AM
9:35:00 AM
9:45:00 AM
9:55:00 AM
10:05:00 AM
10:15:00 AM
10:25:00 AM
10:35:00 AM
10:45:00 AM
10:55:00 AM
11:05:00 AM
11:15:00 AM
11:25:00 AM
11:35:00 AM
11:45:00 AM
11:55:00 AM
12:05:00 PM
12:15:00 PM
12:25:00 PM
12:35:00 PM
12:45:00 PM
12:55:00 PM
1:05:00 PM
1:15:00 PM
1:25:00 PM
1:35:00 PM
1:45:00 PM
1:55:00 PM
2:05:00 PM
2:15:00 PM
2:25:00 PM
2:35:00 PM
2:45:00 PM
2:55:00 PM
3:05:00 PM
3:15:00 PM
3:25:00 PM
Intra-day Trend
Budget Session

****