



India Macroeconomic Overview



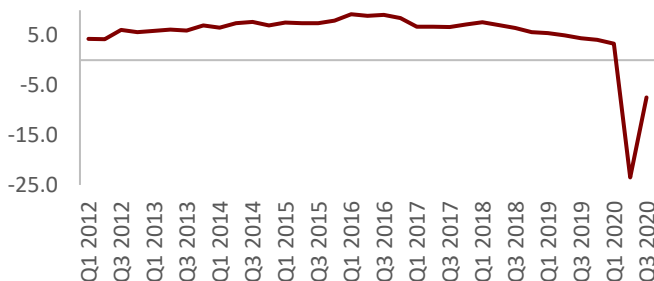
Economic Profile

Country	India
Currency	Rupee
Population	1.366 billion
Economy	Developing
GDP	₹2.869 trillion
GDP PPP	₹6,996.56
Largest Trading Partner	United States

Market Outlook

Point in Economic Cycle	Right-of-Trough
Outlook	Bullish

India GDP, Percent Change from Year Ago



Total Gross Domestic Product for India, Percent Change from Year Ago (St. Louis Federal Reserve)

Macroeconomic Thesis:

After conducting research on various lagging, leading, and coincidental economic indicators, it is my belief that India is currently right-of-trough of the business cycle. Though I am bullish on the long-term economic outlook, I am anticipating economic growth to be sluggish due to the current state of the economy caused from the coronavirus pandemic and the Indian government’s slow stimulus response.

I chose to research India because prior to the coronavirus pandemic, India’s economy was the fastest-growing economy in the world, even surpassing China’s growth rate. Though India’s economy is expected to grow in 2021-2022, the weak growth that is expected is not enough to exceed China’s growth.

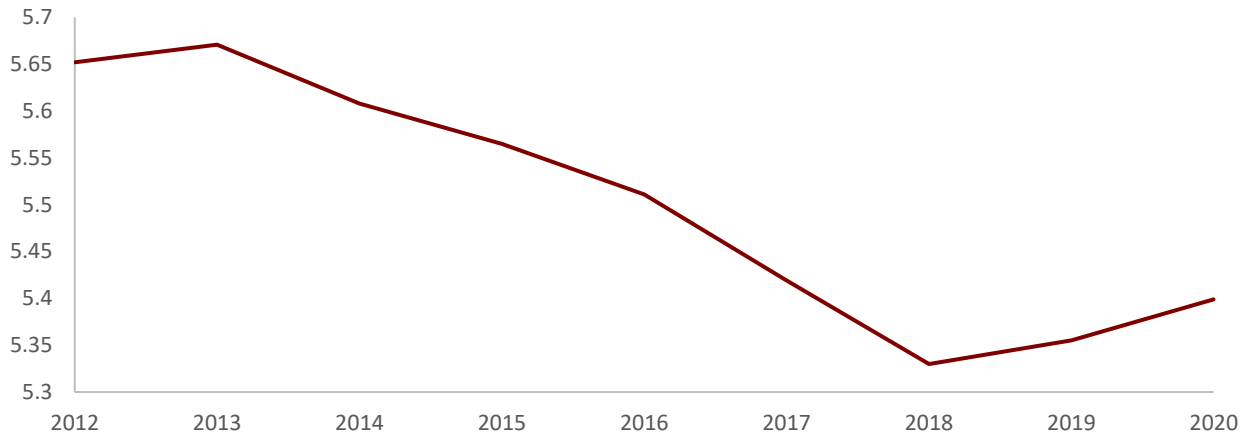
After researching various economic indicators, including unemployment, Consumer Price Index, industry spending, and government spending, I uphold a cautiously optimistic outlook on India’s economy. The Indian government now has plans to boost spending to promote an economic recovery, which include an emphasis on promoting infrastructure, rural development, doubling healthcare spending, privatizing state-owned firms such as Air India to promote investment.

However, there are a few geopolitical factors that threaten India’s economic recovery – most notably, the farmers’ protest. Though the protest was viewed as a challenge to Prime Minister Modi, he still has high approval ratings. The coronavirus pandemic continues to wreak havoc on unemployment in India, with a spike in unemployment in December 2020. Even with these concerns, I maintain that India has already been through the most severe portion of the recession. Especially with the announcement of increased government spending, some growth can be expected.



Economic Indicators

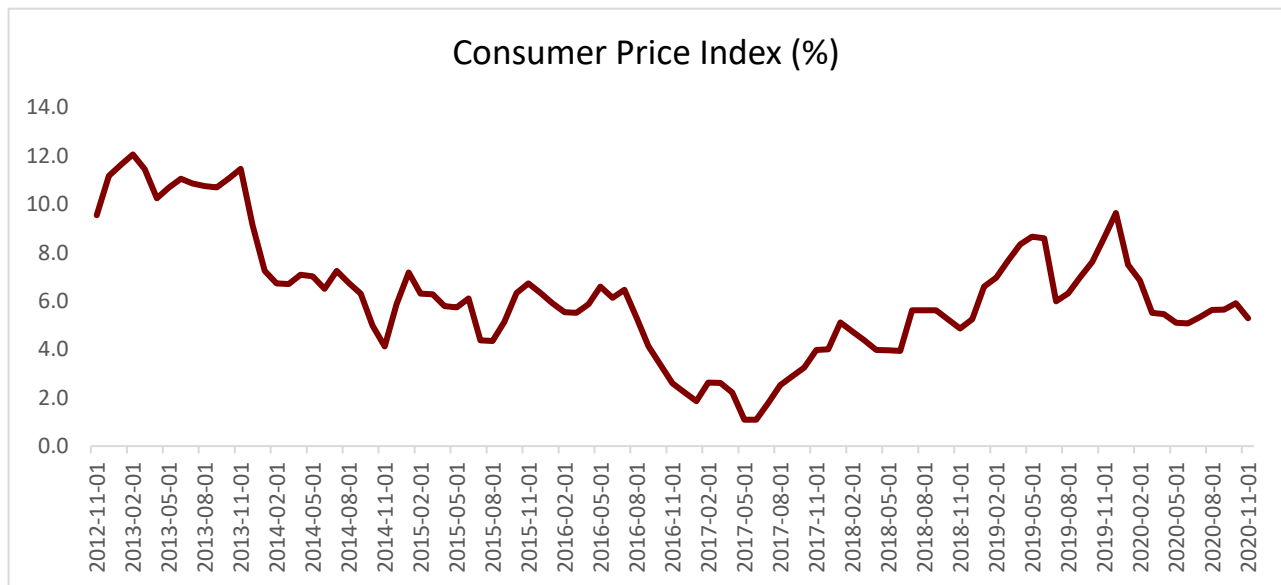
Unemployment Rate



Unemployment, Percent of Total Labor Force (World Bank)

Unemployment Rate

The unemployment rate is the percentage of a country's labor force that is jobless. When the economy is strong, the unemployment rate can be expected to fall, but during a recession the unemployment rate rises. As a result of the coronavirus pandemic, India's unemployment rate rose in 2020 and continues to increase even into 2021, with a 9.1% unemployment rate recorded in 2021 due to India's agricultural sector cutting jobs.



Consumer Price Index: All Items for India, Percent Change from Year Ago (St. Louis Federal Reserve)

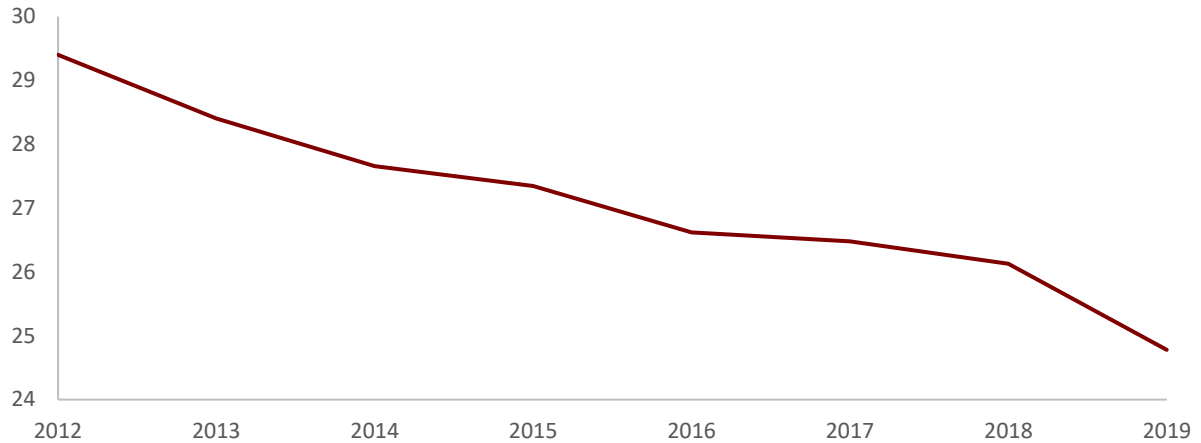
Consumer Price Index

The Consumer Price Index (CPI) is used to determine inflation. It measures the price level of a fixed basket of goods and compares them annually. Though inflation appeared to be steady in Q2 and Q3 2020, inflation has been a concern for the Reserve Bank of India (RBI). Over the past several months inflation has been above the target range of 2%-6%, with no expected timeframe as to when it will dip below 6%.



Economic Indicators

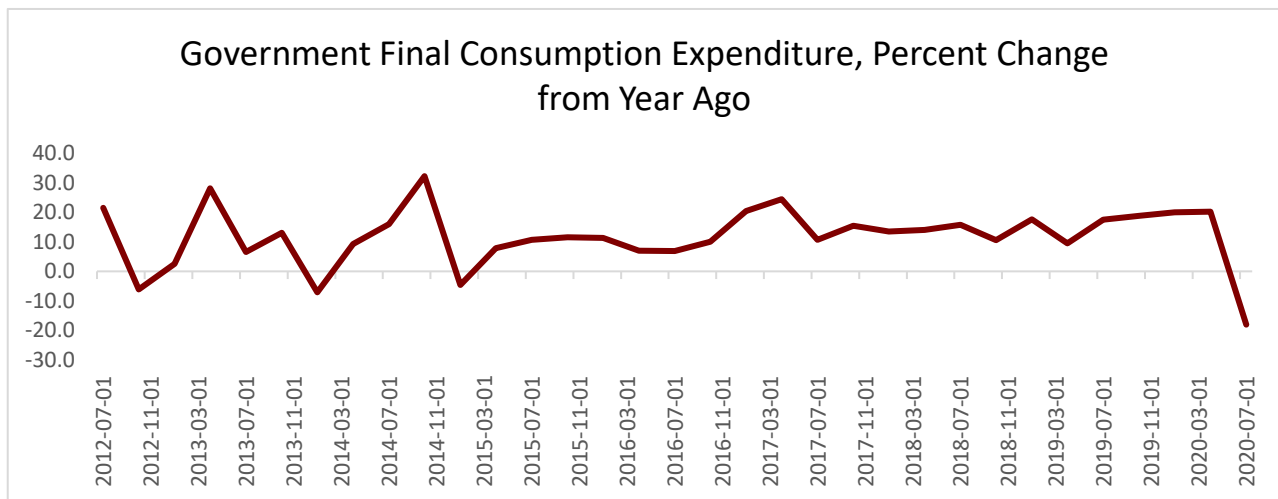
Industry (Including Construction), Percent of GDP



Industry (Including Construction), Percent of GDP (World Bank)

Industry Spending

Industry and construction spending can assist analysts in determining the outlook of an economy. During an economic downturn, spending drops which decreases economic growth; the same is true for an economic expansion. Due to the pandemic, industry spending continued to drop in 2020, even with low interest rates imposed by the RBI, industry and construction spending is still sluggish, though India's government has announced policies to encourage more industry spending.



Government Final Consumption Expenditure, Percent Change from Year Ago (St. Louis Federal Reserve)

Government Spending

Government spending, in terms of fiscal policy, is an important economic tool that governments use to influence the economy. During a recession, governments can increase their spending to try and cause a rise in aggregate demand, thus stimulating the economy (expansionary fiscal policy). Though India's government significantly reduced government expenditures in Q3 2020 due to budget deficit concerns, the finance minister is expected to announce plans to increase government spending, with a focus on infrastructure, rural development, healthcare, and creating jobs to try and encourage consumer spending.



Geopolitical Factors

COVID-19

The coronavirus pandemic has shifted India from the world's fastest-growing economy to an economy that is contracting at one of the highest rates. One reason that could explain the devastating impact on India's economy is the underwhelming stimulus package that was issued and lackluster fiscal policy measures. This is because of concerns about the increasing budget deficit. However, in an attempt to increase the growth rate, the government is expected to announce a proposed budget that would focus on improving economic conditions throughout the country, especially in rural areas, via infrastructure, agriculture, and other job-creating measures. However, this will come at a cost of a significant increase in the government budget deficit. It is also important to note that India has been slow to rollout COVID-19 vaccinations, and Pfizer just withdrew an emergency use application. This could prolong recovery.

Farmers' Protest

For several months, farmers from the states of Punjab and Haryana have camped outside of the capital, New Delhi. However, on India's Republic Day, thousands of farmers stormed into New Delhi, some on tractors, armed with swords, daggers, and other items that can be used as weapons. These farmers are protesting because they want Parliament to repeal a set of agricultural laws that were passed that they believe will favor large corporations and injure them economically, especially due to the already existing job losses in the agricultural sector as a result of the pandemic and the lack of a guarantee price for essential crops. This protest is significant because it is a challenge to Prime Minister Modi's government. Some economists suspect that the Finance Minister's budget proposal is expected to include an emphasis on agriculture and rural development to ease farmers.

U.S. Declaring India as a Developed Country

Despite India's low GDP PPP, lack of membership in OECD, and classification of "developing" by the UN, last February the U.S. declared India as a developed nation. The U.S. defended its position by stating that it is a member of the G-20 and has a share of 0.5% or more of world trade. However, it is also probable that the United States' decision to classify India as "developed" can also be linked to trade. At around the same time, the United States surpassed China as India's largest trade partner. Declaring India as developed, rather than developing, would enable the United States to exempt India from countervailing duty investigations. This means that it would be easier for the United States to impose penalties onto India (in terms of tariffs) if the USTR determines that India's subsidized exports to the U.S. harms U.S. industries.



Geopolitical Factors

Border Conflict with China

The Sino-Indian border dispute between India and China is still ongoing, and relations between the two countries have been worsening since the tension began in April 2020. India and China never agreed on the exact position of the border, which is also referred to as the “Line of Actual Control.” The source of the border dispute began while competing to build infrastructure on the border. Conflict began between India and China after India finished construction of the DSDBO road to their air base. This, along with accusations of encroaching, which both countries denied, led to a clash between the Chinese and Indian military forces in June. Since then, there have been several military clashes between the two countries. Despite the conflict, India and China are continuing to execute their infrastructure construction along the border. Although both countries have recently decided to mutually disengage, strong tensions are still expected.

India-Pakistan Kashmir Hostility

In addition to conflicts over the border with China, India is also engaged with territorial conflict with Pakistan over Kashmir. India and Pakistan have disputed over the Kashmir border in years, but over the past few years, tensions have escalated. There are frequent violent clashes in the Kashmir border region which have killed dozens of soldiers and civilians and disrupted the way of life of those living in the region. Airstrikes deployed from each country and terrorist activity contribute to the threat of war. Additionally, there is increased unrest in India-administered Kashmir, where civilians faced a complete lockdown and telecommunications and internet blackout for over a year. This was imposed by the Indian government after it amended its constitution to eliminate Article 370 (which gave Kashmir special status and autonomy over all matters except for defense, communications, and international affairs) to quell civil unrest. India also believes that Pakistan contributed to the unrest in the India-administered region by supporting the separatists.