

India different from 2013: Report

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New Delhi: India has transformed in a decade — it is different from what it was in 2013 — and has gained positions in the world order, with significant positive consequences for macro and market outlook, says a report by Morgan Stanley.

“We run into significant scepticism about India, particularly with overseas investors, who say that India has not delivered its potential (despite its being the second-fastest-growing economy and among the top-performing stock markets over the past 25 years) and that equity valuations are too rich. However, such a view ignores the significant changes that have taken place in India, especially since 2014,” said the report.

The report highlighted the 10 big changes, mostly because of India’s policy choi-

POSITIVE OUTLOOK, SAYS MORGAN STANLEY

➤ India gained positions in world order, with positive consequences for macro, market outlook

➤ India will emerge as key driver for Asia and global growth



➤ Next decade will resemble China in 2007-11. GDP and growth differentials will swing in India’s favour

ces, and their implications for its economy and market. These include supply-side policy reforms, formalisation of the economy, real estate (regulation and development) act, digitalising social transfers, insolvency and bankruptcy code, flexible inflation targeting, focus on FDI, India’s 401(k) moment, government support for corporate profits and MNC sentiment at multi-year high.

The report said that India will emerge as a key driver for Asia and global growth and India’s next decade will resemble China in 2007-11 and GDP and growth differentials will swing in India’s favour. It also highlighted 10 implications for the macro and market outlook.

The report said manufacturing and capex as percentage of GDP will increase steadily. “We expect a new cycle in manufacturing and capex, as we estimate share of both to rise in GDP by approximately 5 ppt (percentage point) by 2031,” said the report.

It said export market share to double. “We estimate that India’s export market share will rise to 4.5% by 2031, nearly 2x from 2021 levels, with broad-based gains across goods and services exports.”

The report said changes will result in a major shift in consumption and as India’s per capita income increases

from \$2,200 currently to about \$5,200 by 2032, this will have major implications for change in the consumption basket, with an impetus to discretionary consumption.

The other implications include, lower volatility in inflation and shallower interest rate cycles, benign trend in current account deficit, a profit boom, lower correlation with oil prices, lower correlation with US recession, and valuation re-rating.

“We expect inflation to remain benign and less volatile, which would imply shallower rate cycles. Shallower rate cycles could also imply more benign equity market cycles,” according to the report. The key risks flagged by the report for India include a global recession, a fragmented general election outcome in 2024, sharp rise in commodity prices due to supply outages and shortages in skilled labour supply.