



India's Transformation: Morgan Stanley's Report

Why in News?

A recent report by **Morgan Stanley** (global financial services firm) highlights the significant changes that have taken place in India over the past decade.

- The report challenges the skepticism surrounding India's potential and emphasizes the transformative reforms implemented in recent years.
- Morgan Stanley counters **global opinions of India's underperformance**. It emphasizes **India's growth as the second-fastest-growing economy** and **top-performing [stock market](#)**.

What are the Key Highlights of the Report?

- **Significant Growth Drivers:**
 - **Supply-Side Policy Reforms:**
 - Bringing **[corporate tax at par](#)** with other countries.
 - **Acceleration of infrastructure** investment.
 - **Formalization of the Economy:**
 - Rising collection of **[Goods and Services Tax \(GST\)](#)**.
 - Implementation of the **[Insolvency and Bankruptcy Code](#)**.
 - Introduction of **[flexible inflation targeting](#)**.
 - Focus on **[foreign direct investment \(FDI\)](#)**.
 - Government support for corporate profits.
 - **[Digitalizing Social Transfers](#)**.
 - **[Real Estate \(Regulation and Development\) Act](#)**.
 - Multi-year high sentiment among multinational corporations (MNCs).
 - **India's 401(k) Moment**.

Note:

India's 401(k) Moment:

- India's 401(k) moment is the **term used by Morgan Stanley** to describe moment **refers to the increase in household savings** and investments in financial assets, **inspired by the US 401(k) retirement savings plan**.
- This shift reflects a change in **household preferences from physical assets** like gold and real estate to **financial assets like equities and bonds**.
- Key financial assets involved in India's 401(k) moment include **mutual funds, insurance, and pension schemes**.

Economic Indicators:

- Manufacturing and capital spending as a percentage of **[Gross Domestic Product \(GDP\)](#) have consistently risen**.
- Export market share is projected to **double to 4.5% by 2031 (from 2021 level)**.
- Lower volatility in inflation and shallower interest rate cycles has impacted consumption patterns.

Future Outlook:

- Anticipated **rise in manufacturing and capital spending in GDP.**
- Expected **broad-based gains in goods and services exports.**
- **Per capita income is projected to increase** and implications for discretionary consumption.
 - It is expected to clock in at **\$5,200 within the next decade.**
- Structural transformation contributing to a narrower **current account deficit (CAD).**
- Doubling of profits in GDP, resulting in strong earnings growth.
- **Implications on Stock Market:**
 - There is a possibility of **higher valuations for domestic shares**, which could lead to increased investment opportunities.
 - The demand for **stocks within India** is expected to remain strong, contributing to **sustained growth in the market.**
 - India's reduced dependence on global capital flows may contribute to a more **stable stock market, with less vulnerability to international market fluctuations.**
 - The stock market **may become less influenced by changes in oil prices** and the US **recession.**
 - **India's beta to emerging markets** falling to 0.6, which is a consequence of reduced dependence on global capital market flows.

Note:

- **Beta:**
 - Beta is a measure of systematic risk, also known as market risk or non-diversifiable risk. It **quantifies how sensitive a stock's returns are to changes in the broader market.**
 - A **beta of 1 indicates that the stock tends to move in line with the market**, while a **beta greater than 1 suggests the stock is more volatile** than the market.
 - A beta less than 1 indicates the stock is less volatile than the market.
- **Anticipated Key Risks:**
 - Global recession.
 - Sharp rise in commodity prices and supply outages.
 - Shortages in **skilled labor supply.**

UPSC Civil Services Examination, Previous Year Question (PYQ)

Prelims

Q. In the context of finance, the term “beta” refers to (2023)

- (a) the process of simultaneous buying and selling of an asset from different platforms
- (b) an investment strategy of a portfolio manager to balance risk versus reward
- (c) a type of systemic risk that arises where perfect hedging is not possible
- (d) a numeric value that measures the fluctuations of a stock to changes in the overall stock market

Ans: (d)

Source: FE