Economy Watch

Monitoring India's macro-fiscal performance

August 2019

Building a better working world

Contents

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Highlights

1. IIP growth decelerated to a four-month low of 2.0% in June 2019 from 4.6% (revised) in May 2019.

2. PMI for June 2019 signaled an expansion in both manufacturing and services.

3. CPI inflation remained subdued at 3.1% in July 2019 as compared to 3.2% in June 2019 mainly due to a fall in inflation in fuel and light.

4. Center's gross taxes during 1QFY20 grew by 1.4% as compared to 22.1% during 1QFY19 due to a negative growth in indirect taxes.

5. Growth in center's capital expenditure during 1QFY20 witnessed a sharp contraction of (-) 27.6% as compared to a growth of 27.3% during 1QFY19.

6. Center's fiscal deficit during 1QFY20 stood at 61.4% of the annual budgeted target as compared to the corresponding value of 68.7% during 1QFY19.

7. The RBI reduced the repo rate by 35 basis points in its August 2019 monetary policy review. This was the fourth successive reduction in the repo rate in 2019, bringing it down to 5.4% from 6% in January 2019.

8. Growth in bank credit moderated for the third successive month to 12.0% in June 2019 from 12.5% in May 2019.

9. Net FDI inflows increased to a 22-month high of US$7.0 billion in June 2019 from US$3.0 billion (revised) in May 2019.

10. Merchandise exports grew at a slow pace of 2.2% while the pace of contraction in imports accelerated to (-) 10.4% in July 2019.

11. The IMF revised down its global growth projections for 2019 and 2020 by 0.1% points each to 3.2% and 3.5% respectively.

Foreword

Economic slowdown and current fiscal developments

The RBI in its August 2019 monetary policy review has reduced the repo rate by 35 basis points and kept its stance as accommodative. This is the fourth successive reduction in the repo rate in this calendar year, bringing it down to 5.4%. The cumulated reduction of these successive steps amounts to 110 basis points. The RBI has also reduced its FY20 growth forecast to 6.9% from 7%. The quarterly growth data indicated that real GDP growth has fallen from a peak of 8.2% in 4QFY18 for four successive quarters to 5.8% in 4QFY19. High frequency data indicates a continuing slowdown in several sectors. This economic slowdown has both external and domestic roots. The contribution of net exports to GDP growth has remained negative for the last two years. The major sectors where economic slowdown is prominently visible include automobiles, consumer durables and infrastructure and construction. Almost all of the countercyclical measures so far have come from the monetary side.

Given that the focus of the center's Budget was largely on containing the fiscal deficit relative to GDP at 3.3% in FY20, the center does not appear to have provided a fiscal stimulus. With revenue deficit budgeted at a relatively higher level of 2.2% of GDP, center's capital expenditure was limited only to the extent of 1.6% of GDP. The Budget did lay out a longer-term infrastructure expansion program and mentioned a large infrastructure financing requirement amounting to INR 20 lakh crore per year, that is, about 10% of GDP annually for the next five years. It did not however specify any plan for financing these requirements. With the tax revenue buoyancy likely to be constrained because of the ongoing economic slowdown, there may be a need for exploring options for non-tax revenues and revenues from disinvestment more actively. Since government owns large volume of assets including land as indicated by the Asset Register appended to the budget documents, there is a need to explore ways of generating non-tax revenues through leasing and monetization of land. Future rounds of spectrum auctions may also provide scope for additional non-tax revenues from time to time. Some additional revenues may also come based on Jalan Committee recommendations on sharing of RBI's excess reserves. So far, disinvestment has been largely limited to public sector entities taking up shares of other public-sector entities. A relatively broader-based disinvestment program needs to be considered. There may be some additional expenditure requirements due to the reorganization of Jammu and Kashmir (J&K) and Ladakh as union territories (UTs).

The Jammu and Kashmir Reorganization Act, 2019 contains a clause indicating that there would be an additional Term of Reference (ToR) given by the President to the Fifteenth Finance Commission to consider the fiscal needs of J&K. The reduction in the number of states from 29 to 28 has implications both for the vertical and horizontal dimensions of fiscal transfers. In regard to the vertical dimension, the present share of states in the divisible pool at 42% would require to be reconsidered for 28 states. In considering the fiscal needs of the central government, the requirements of J&K as a union territory (UT) should be considered on par with other needs of the center including expenditure heads such as defence, interest payments, pensions, etc. In fact, there is ground to consider the requirements of all the UTs with legislatures that is, Delhi, Puducherry and J&K, explicitly by the Finance Commission, as part of center's requirements. Ideally, these requirements should be explicitly worked out on the basis of objective parameters for all the three UTs with legislatures by the central government and these should be included in Centre's Memorandum to the Finance Commission. At present, the center may submit a supplementary Memorandum to the Finance Commission for its consideration after an additional ToR has been communicated by the President to the Commission in the light of the J & K Reorganization Act. In the case of the horizontal dimension of transfers, it would be ideal for the central government to assess the needs of J&K on par with the other states particularly for purposes of equalization of services such as health and education and general administration. In addition, there may be special needs of J&K in view of the administrative and other requirements in the new situation. The Jammu and Kashmir Reorganization Act states the following: "*(83) Provided that on the appointed day, the President shall make a reference to the Fifteenth Finance Commission to include Union territory of Jammu and Kashmir in its Terms of Reference and make award for the successor Union territory of Jammu and Kashmir*."

Much might depend on the exact ToR sent to the Finance Commission with reference to the Jammu and Kashmir Reorganization Act. It may be straightforward for the Commission to consider J&K on par with states and determine its needs and requirements on the basis of the same parameters as used for the other states. There is also the consideration for the transitional period, before the award of the Fifteenth Finance Commission becomes effective, that is beginning FY21, to reapportion the vertical share of 29 states recommended by the Fourteenth Finance Commission among 28 states and the UT of J&K while also considering the UT of Ladakh as a distinct entity for the year FY20.

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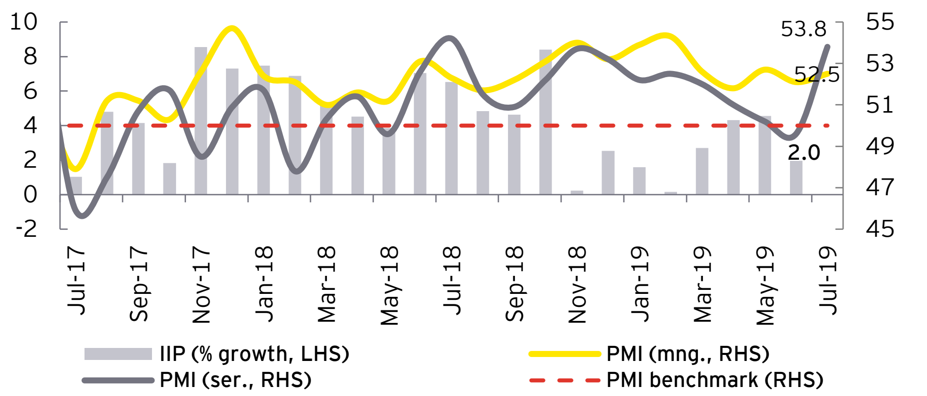
1. Growth: IIP growth fell to 2.0% in June 2019

A. IIP Growth: moderated to 2.0% in June 2019 from 4.6% in May 2019

- IIP growth moderated to a four-month low of 2.0% (y-o-y) in June 2019 from 4.6% (revised) in May 2019 mainly due to a fall in the growth of manufacturing sector output (**Chart 1**).
- Manufacturing sector output (accounting for 77.6% of overall IIP) grew only by 1.2% (y-o-y) in June 2019 as compared to 4.5% (revised) in May 2019. Output growth of the mining sector also slowed to 1.6% in June 2019 from 2.4% (revised) in May 2019. However, growth in electricity output increased to an eight-month high of 8.2% in June 2019 from 7.4% in May 2019. (Table A1 in data appendix).
- Output of capital goods industry contracted sharply by (-) 6.5% in June 2019 as compared to (-) 1.4% in May 2019, pointing to continued deceleration in investment. Growth in the output of consumer durables also contracted sharply by (-) 5.5% in June 2019. Although output of consumer non-durables continued to post a robust growth of 7.8% in June 2019, it was marginally lower than 8.1% in May 2019.
- Growth in the output of eight core infrastructure industries slowed to a 43-month low of 0.2% (y-o-y) in June 2019, falling from 4.3% (revised) in May 2019. This was largely on account of relatively lower growth in the output of steel (6.9%) and coal (3.2%) and contraction in the output of petroleum refinery products ((-) 9.3%) and crude oil ((-)6.8%) in June 2019.

Chart 1: IIP growth and PMI



Source: Office of the Economic Adviser, Ministry of Commerce and Industry, and IHS Markit.

IIP growth decelerated to a four-month low of 2.0% in June 2019 from 4.6% in May 2019.

B. PMI: Signaled stronger manufacturing and services performance in July 2019

- Headline manufacturing PMI (seasonally adjusted (sa)) increased marginally to 52.5 in July 2019 from 52.1 in June 2019 (**Chart 1**). Although PMI manufacturing has consistently remained above 50 for two years, the July 2019 level was below its long-term trend at 53.9.
- After a contraction to 49.6 in June 2019, PMI services increased to 53.8 in July 2019, its highest level in the last 12 months. Four of the five sub-sectors posted an expansion, except real estate and business services.
- Reflecting an increase in both manufacturing and services PMI, with services PMI increasing sharply, the composite PMI Output Index (sa) increased to an eight-month high of 53.9 in July 2019 from 50.8 in June 2019.

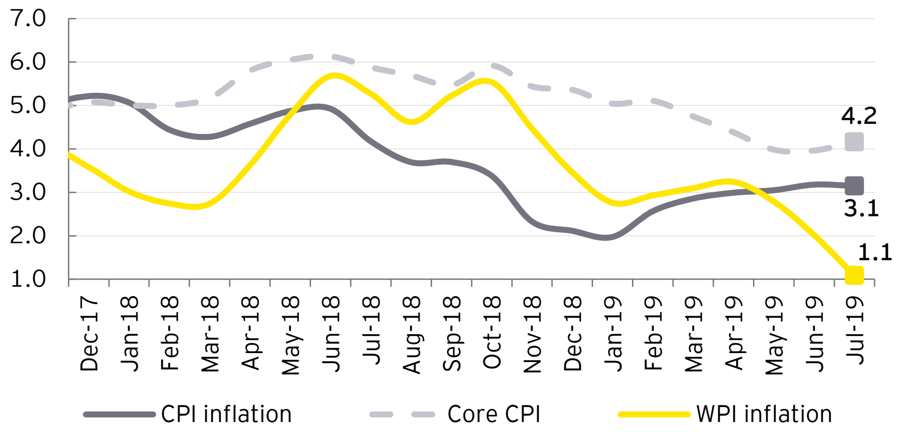
In July 2019, manufacturing PMI increased slightly to 52.5 from 52.1 in June 2019. Services PMI increased sharply to 53.8 in July 2019.

2. Inflation: CPI inflation fell marginally to 3.1% in July 2019

CPI inflation inched downwards to 3.1% (y-o-y) in July 2019 from 3.2% in June 2019 (Chart 2) mainly due to a fall in inflation in fuel and light.

- Fuel and light prices contracted for the first time (2011-12 series) by (-) 0.4% in July 2019 as compared to a growth of 2.2% in June 2019.
- Consumer food price based inflation increased to a 13-month high of 2.4% in July 2019 from 2.2% in June 2019. Contraction in fruit prices was lower at (-) 0.9% in July 2019 as compared to (-) 4.2% in June 2019.
- Core CPI inflation[1] increased slightly to 4.2% in July 2019 from a 24-month low of 4.0% in June 2019.
- Inflation in transportation and communication services increased for the first time in nine months to 1.6% in July 2019 from a 43-month low of 0.7% in June 2019. This increase was mainly due to a moderation in the pace of contraction in petrol prices to (-) 6.0% from (-) 8.6% over the same period, partly due to base effect.
- Housing-based inflation increased to 4.9% in July 2019 from a two year low of 4.8% in June 2019.

Chart 2: Inflation (y-o-y, %)



CPI inflation fell marginally to 3.1% while WPI inflation fell sharply to a 25-month low of 1.1% in July 2019.

Source: MoSPI, Office of the Economic Adviser, Government of India (GoI)

WPI inflation eased to a 25-month low of 1.1% in July 2019 from 2.0% in June 2019 (Chart 2) driven by a fall in inflation in vegetables, fuel and manufactured products, partly due to base effect.

- Inflation in manufactured products fell for the ninth successive month to a 37-month low of 0.3% in July 2019 from 0.9% in June 2019. The fall was experienced in products across the board.
- WPI core inflation eased to a 33-month low of 0.1% in July 2019 from 0.8% in June 2019.
- The pace of contraction in crude prices increased to a 38-month high of (-) 15.0% in July 2019 from (-) 6.9% in June 2019. Inflation in minerals more than halved to 13.5% from 28.2% over the same period.
- This was also reflected in the easing of fuel and power-based inflation which reached a 35-month low of (-) 3.6% in July 2019 from (-) 2.2% in June 2019. The fall was driven by an increase in the pace of contraction in the price of mineral oils (including LPG, petrol, diesel) to (-) 6.3% in July 2019 from (-) 3.1% in June 2019.
- Food price index based inflation eased to 4.5% in July 2019 from 5.0% in June 2019 as inflation in vegetables fell to 10.7% from 24.8% over the same period.

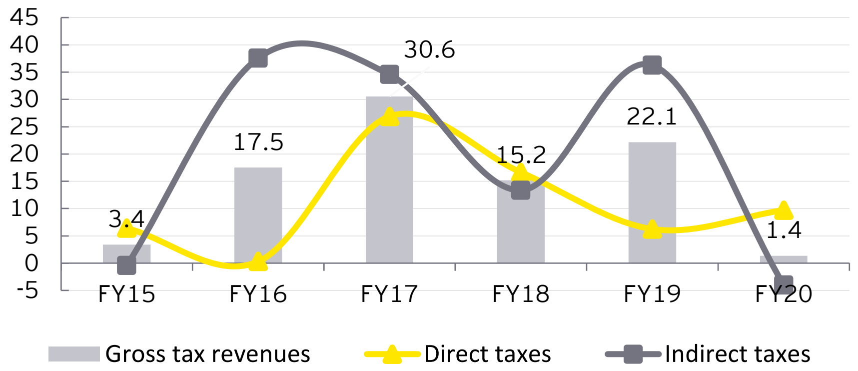
[1] Core CPI inflation is measured in different ways by different organizations/agencies. Here, it has been calculated by excluding food, and fuel and light from the overall index.

3. Fiscal performance: Center's fiscal deficit during 1QFY20 stood at 61.4% of the annual budgeted target

A. Tax and non-tax revenues

- As per the Comptroller General of Accounts (CGA), gross central taxes during 1QFY20 grew by just 1.4% as compared to 22.1% in 1QFY19 (**Chart 3**). This was mainly due to a negative growth in indirect taxes.
- Gross central taxes during April-June FY20 stood at 16.3% of the annual budgeted target as compared to the corresponding figure of 17.4% in FY19.
- Direct tax revenues grew by 9.7% during 1QFY20, higher than 6.2% during 1QFY19. Direct taxes during April-June FY20 stood at 12.6% of the annual budgeted target as compared to the corresponding figure of 13.3% in FY19.
- Corporate tax revenues grew by 6.3% during the first three months of FY20 as compared to a contraction of (-) 1.2% during the corresponding period of FY19.
- Growth in income tax revenues during April-June FY20 was 12.3% as compared to 12.8% during April-June FY19.
- Indirect taxes (comprising union excise duties, service tax, customs duty#, taxes of the UTs, CGST, UTGST, IGST(2) and GST compensation cess) contracted by (-) 4% during 1QFY20 as compared to a growth of 36.3% during the same period of FY19. The negative growth observed in indirect taxes in 1QFY20 could be a result of a high base effect as a high growth was observed during 1QFY18 over 1QFY17, the quarter in which GST was implemented.
- Indirect taxes during April-June FY20 stood at 20.4% of the annual budgeted target as compared to the corresponding figure of 21.3% in FY19.

Chart 3: Growth in central tax revenues during April-June (%, y-o-y)



As per the CGA, center's gross taxes during 1QFY20 grew by 1.4% as compared to 22.1% during 1QFY19 due to a negative growth in indirect taxes.

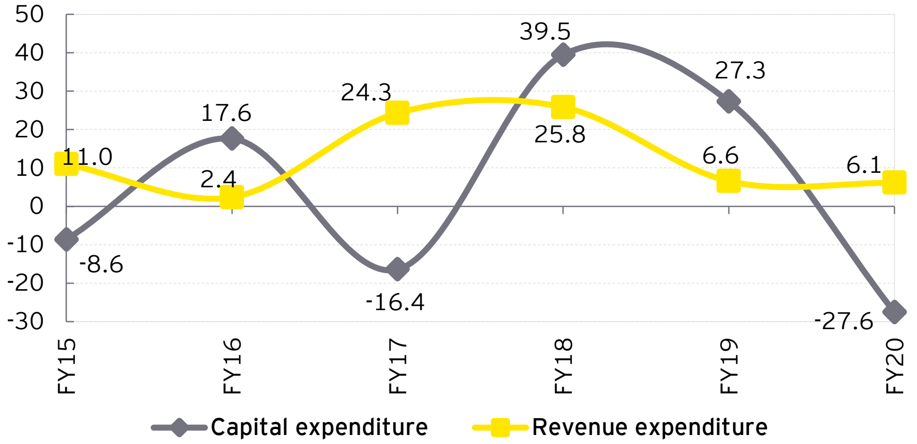
Source: Monthly Accounts, Controller General of Accounts (CGA), Government of India
Notes: (1) Direct taxes include personal income tax and corporation tax, and indirect taxes include union excise duties, service tax, customs duty, CGST, UTGST, IGST and GST compensation cess from July 2017 onwards; (2) IGST revenues are subject to final settlement; (3) other taxes (securities transaction tax, wealth tax, fringe benefit tax, banking cash transaction tax etc.) are included in Center's gross tax revenues along with direct and indirect taxes; (4) Collections under customs for July 2017 also include INR21,377 crores on account of IGST on import/exports and compensation cess on imports/exports of INR609 crores for 2017-18.

- The center's non-tax revenues during April-June FY20 grew by 9.4% as compared to 39.3% during the corresponding period of FY19. Non-tax revenues during 1QFY20 stood at 10.7% of the annual budgeted target as compared to 12.5% during the corresponding period of FY19.
- The FY20 budget has set the disinvestment target at INR105,000 crores. According to the Department of Disinvestment, the disinvestment proceeds up to 23 July 2019 stood at INR12,357.49 crores, which is 11.7% of the FY20 target.

B. Expenditures: Revenue and capital

- Center's total expenditure during April-June FY20 grew by 2% as compared to 8.7% during April-June FY19 due to a sharp contraction in capital expenditure during this period (**Chart 4**).
- Revenue expenditure during 1QFY20 grew by 6.1% as compared to 6.6% during 1QFY19. Revenue expenditure during April-June FY20 stood at 26.9% of the budgeted target, lower than but close to 29% in the corresponding period of FY19.
- Center's capital expenditure during 1QFY20 showed a sharp contraction of (-) 27.6% as compared to a growth of 27.3% during 1QFY19. As percentage of the FY20 budgeted target, capital expenditure during April-June FY20 stood at 18.6%, much lower than the corresponding figure of 29% in FY19. These patterns indicate that capital expenditure has not been front-loaded in the current fiscal year.

Chart 4: Growth in central expenditures during April-June (%, y-o-y)



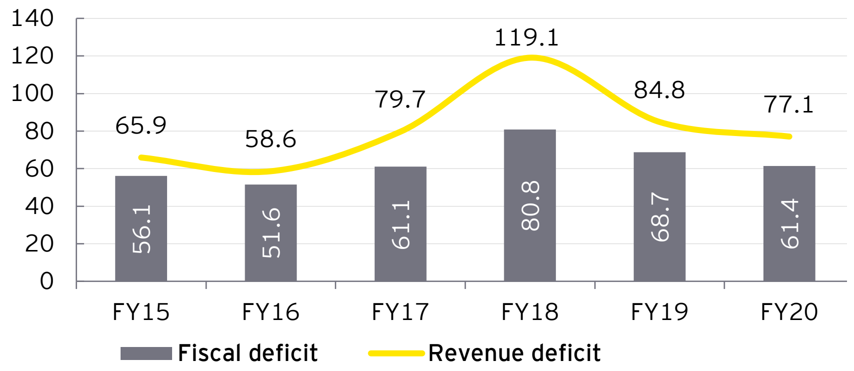
Growth in center's capital expenditure during 1QFY20 witnessed a sharp contraction of (-) 27.6% as compared to 27.3% during 1QFY19.

Source (basic data): Monthly Accounts, Controller General of Accounts (CGA), Government of India

C. Fiscal imbalance

- Center's fiscal deficit during 1QFY20 stood at 61.4% of the annual budgeted target as compared to the corresponding value of 68.7% in 1QFY19 **(Chart 5)**. The fiscal deficit target for FY20 has been brought down to 3.3% of GDP from 3.4% in FY19.
- Center's revenue deficit during the first three months of FY20 was at 77.1% of the annual budgeted target as compared to 84.8% during the corresponding period of FY19. The revenue deficit target for FY20 was retained at 2.3% of GDP, same as in FY19 (actuals).

Chart 5: Fiscal and revenue deficit during April-June as percentage of annual budgeted target



Center's fiscal deficit during 1QFY20 stood at 61.4% of the annual budgeted target as compared to the corresponding value of 68.7% during 1QFY19.

Source: Monthly Accounts, Controller General of Accounts (CGA), Government of India.

4. India in a comparative perspective: Status and prospects

General government financial balances as a percentage of the GDP

Fiscal stance is expected to be accommodative in most OECD countries in 2019-20; fiscal policy requirements differ across EMDEs.

- In the US, general government fiscal deficit to GDP ratio is expected to remain high at 6.6% in 2019 and 6.7% in 2020. Government spending ceilings are expected to be raised to prevent a contraction in 2020.
- Higher projected income tax receipts and lower interest payments have increased the fiscal space in the UK. Given subdued growth, fiscal policy is expected to remain accommodative, with fiscal deficit projected to increase to 2.1% of GDP in 2019.
- In Japan, fiscal deficit to GDP ratio is expected to remain at 2.5% in 2019 and fall to 2% in 2020. Given a high debt-GDP ratio, achieving fiscal sustainability requires a dedicated fiscal consolidation program.

Table 1: General government financial balances as % of GDP

	2017	2018	2019	2020
US	-4.3	-6.6	-6.6	-6.7
UK	-1.8	-1.6	-2.1	-2.0
Euro area	-1.0	-0.5	-0.9	-0.8
Japan	-3.0	-2.5	-2.5	-2.0
Brazil	-7.8	-7.1	-6.2	-5.9
Russia	-1.5	2.9	1.8	1.0
India*	-6.4	-6.3	-6.2	-6.0
China	-3.1	-3.1	-3.4	-3.6
South Africa	-3.8	-3.4	-3.7	-3.9

Source (basic data): OECD Economic Outlook, May 2019
*data pertains to fiscal year.
Notes: (1) forecasted for 2019 and 2020
(2) +ve indicates a surplus and -ve indicates a deficit

- Fiscal deficit relative to GDP in Brazil is expected to remain high even as it falls to 6.2% in 2019 and 5.9% in 2020 in line with the government's plan to contain expenditure particularly on pensions. In Russia, fiscal surplus is expected to fall in 2019 and 2020.
- India's general government fiscal deficit-GDP ratio is expected to fall, reaching 6% by 2020. In China, fiscal deficit to GDP ratio is expected to increase in 2019 and 2020 as fiscal policy is expected to remain accommodative with a return of government-backed infrastructure stimulus.

Current Account Balance (CAB) as a percentage of GDP

India's current account deficit is forecasted to widen to (-) 2.7% by 2020

- Global trade tensions have led to a deceleration in growth of trade and investment, having an impact on current account balances of key AEs and EMDEs.
- In India the current account deficit (CAD) is expected to gradually worsen to (-) 2.7% in 2020 from (-) 2.4% in 2018.
- China's current account is forecasted to turn in a deficit for the first time in over two decades at (-) 0.1% in 2019 as exports are expected to slow down as a result of tariffs imposed by the US.
- CAD in the US is projected to widen marginally to (-) 2.6% in 2020 from (-) 2.4% in 2018. These projections assume trade measures to remain unchanged since late April 2019.

Table 2: CAB as % of GDP

	2017	2018	2019	2020
US	-2.3	-2.4	-2.4	-2.6
UK	-3.3	-3.9	-5.6	-5.0
Euro area	3.9	3.6	3.6	3.5
Japan	4.2	3.5	3.0	3.2
Brazil	-0.4	-0.8	-0.2	-0.3
Russia	2.1	6.9	8.3	8.1
India*	-1.8	-2.4	-2.4	-2.7
China	1.4	0.3	-0.1	-0.3
South Africa	-2.5	-3.6	-3.4	-3.8

Source (basic data): OECD Economic Outlook, May 2019
*data pertains to fiscal year.
Notes: (1) forecasted for 2019 and 2020
(2) +ve indicates a surplus and -ve indicates a deficit

- The Euro area and Japan are forecasted to continue having high current account surpluses over the projection period, although it is expected to narrow significantly in Japan.
- Amongst the selected countries, the current account surplus in Russia is expected to widen significantly to 8.1% in 2020 from 6.9% in 2018.

Home

5. In focus: Combating India's current economic slowdown

Introduction

Quarterly growth data as well as most high-frequency indicators show that the Indian economy is in the grip of an economic slowdown. Structural factors intertwined with cyclical factors may have led to this situation. A demand slowdown with external as well as domestic roots is clearly visible. Domestically, there is evidence indicating a fall in both consumption and investment demand. The Monetary Policy Committee has responded by four successive repo rate reductions during this calendar year, amounting to a total reduction of 110 basis points, bringing the repo rate down to 5.4% in August 2019. The response of the economy to these monetary stimuli has been limited. At this juncture, monetary stimulus may be supplemented by fiscal stimulus, given the structural roots of the problem. Given the FRBMA limits on fiscal deficit, the flexibility that the central government has for injecting fiscal stimulus is however limited.

Growth slowdown: Nature and sources

Annual growth data (Table 3) indicate a fall in GDP growth to 6.8% in FY19 from the peak of 8.2% in FY17. However, the main source of this growth erosion is the external sector. In fact, in FY19 as compared to FY17, neither PFCE nor GFCE indicate a fall in their respective growth rates. Such a fall in growth rate is not even reflected in GCF and GFCF. It is the share of net exports which has fallen from (-) 1.1 in FY17 to (-) 4.4 in FY19. Looking to export and import data individually, growth rates in FY19 are comparatively high in magnitude but import growth is much higher than that of exports leading to an adverse impact on net exports. The analysis of sectoral shares and growth rates on an annual basis therefore points out largely to the negative role of the external sector.

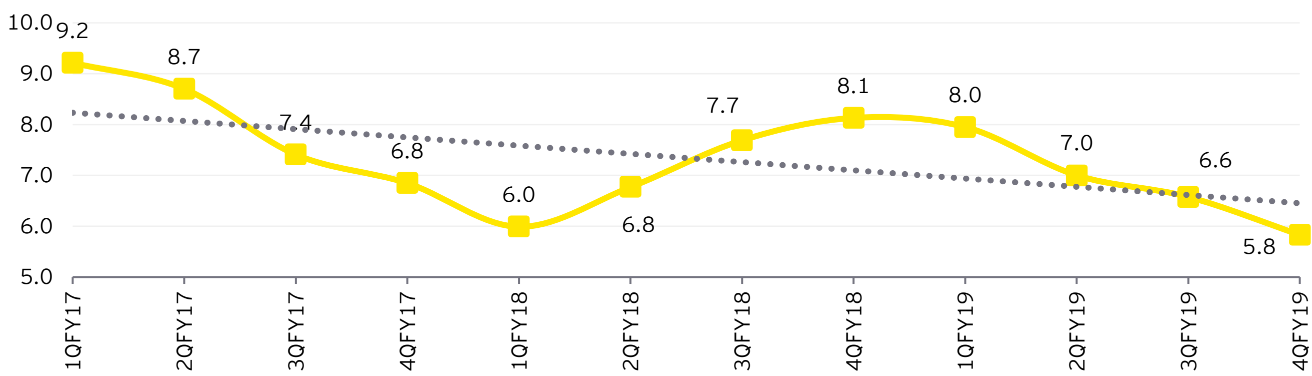
Table 3: Share of aggregate demand components and real growth (annual)

Fiscal year	*Share in real GDP*					*Real growth (%, annual)*						
	PFCE	GFCE	GCF *of which*	GFCF	NE	PFCE	GFCE	GCF *of which*	GFCF	Ex.	Im.	GDP
FY12	56.2	11.1	39.6	34.3	-6.5							
FY13	56.2	10.6	39.2	34.1	-6.4	5.5	0.6	4.3	4.9	6.8	6.0	5.5
FY14	56.7	10.0	35.4	32.6	-1.8	7.3	0.6	-3.7	1.6	7.8	-8.1	6.4
FY15	56.2	10.0	35.5	31.1	-1.5	6.4	7.6	7.7	2.6	1.8	0.9	7.4
FY16	56.1	10.0	34.5	30.7	-1.2	7.9	7.5	4.7	6.5	-5.6	-5.9	8.0
FY17	56.1	9.7	33.0	30.8	-1.1	8.2	5.8	3.6	8.3	5.1	4.4	8.2
FY18	56.3	10.5	34.0	31.4	-3.6	7.4	15.0	10.4	9.3	4.7	17.6	7.2
FY19	56.9	10.7	34.7	32.3	-4.4	8.1	9.2	9.0	10.0	12.5	15.4	6.8

Source (basic data): MOSPI

For discerning the role of the domestic sectors, quarterly growth data provide further insights. Chart 6 shows an ongoing fall in GDP growth from the peak of 8.1% in 4QFY18 to a level of 5.8% in 4QFY19, a fall of 2.3% points in the space of four quarters.

Chart 6: Real GDP growth (quarterly)



Source (basic data): MOSPI

Table 4: Quarterly real GDP growth

Agg. Demand components	*1Q FY18*	*2Q FY18*	*3Q FY18*	*4Q FY18*	*1Q FY19*	*2Q FY19*	*3Q FY19*	*4Q FY19*	*Point difference (4QFY19 minus 4QFY18)*
PFCE	10.1	6.0	5.0	8.8	7.3	9.8	8.1	7.2	-1.6
GFCE	21.9	7.6	10.8	21.1	6.6	10.9	6.5	13.1	-8.0
GCF *of which*	6.7	10.3	12.5	13.4	10.5	11.0	11.2	3.6	-9.8
GFCF	3.9	9.3	12.2	11.8	13.3	11.8	11.7	3.6	-8.2
EXP	4.9	5.8	5.3	2.8	10.2	12.7	16.7	10.6	7.8
IMP	23.9	15.0	15.8	16.2	11.0	22.9	14.5	13.3	-2.9
GDP	6.0	6.8	7.7	8.1	8.0	7.0	6.6	5.8	-2.3
Net Exp. Contrib. to growth (% points)	-4.0	-2.1	-2.4	-2.7	-0.7	-2.8	-0.2	-0.9	-

Source (basic data): MOSPI

Comparing quarterly year-on-year growth for 4QFY18 with 4QFY19, all three important domestic demand components show a fall. PFCE shows a fall of 1.6% points; GFCE, a fall of 8% points, and GFCF, a fall of 8.2% points. The relative contribution of these components to the overall fall in GDP growth depends on the relative shares of these components in GDP. Because of their relative weights, it is the fall in GCF (investment) followed by PFCE and GFCE in that order that have contributed relatively more to the fall in the GDP growth rate measured on quarterly basis.

Table 5: Quarterly shares in real GDP and contribution to real growth

Quarter	PFCE	GFCE	GCF *of which*	GFCF	NE
			Share in GDP (%)		
1Q FY18	56.4	11.5	34.4	31.3	-4.6
2Q FY18	54.6	11.5	33.6	31.0	-3.3
3Q FY18	58.1	9.7	34.2	31.8	-4.1
4Q FY18	56.0	9.3	33.8	31.4	-2.6
1Q FY19	56.1	11.4	35.2	32.8	-4.9
2Q FY19	56.1	11.9	34.9	32.4	-5.7
3Q FY19	58.9	9.7	35.6	33.4	-4.0
4Q FY19	56.8	9.9	33.1	30.7	-3.3
			Contribution to growth (% points)		
1Q FY18	5.5	2.2	2.3	1.2	-4.0
2Q FY18	3.3	0.9	3.4	2.8	-2.1
3Q FY18	3.0	1.0	4.1	3.7	-2.4
4Q FY18 (1)	5.8	1.3	4.3	3.9	-2.8
1Q FY19	4.1	0.8	3.6	4.2	-0.7
2Q FY19	5.3	1.2	3.7	3.7	-2.8
3Q FY19	4.7	0.6	3.8	3.7	-0.2
4Q FY19 (2)	4.1	1.2	1.2	1.1	-0.9
(2) - (1)	-1.8	-0.1	-3.1	-2.7	1.9

Source (basic data): MOSPI

Messages from high-frequency data

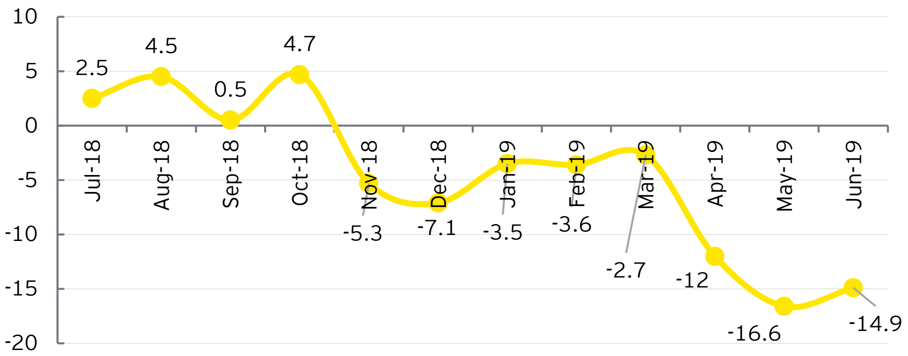
High frequency data particularly that of the IIP indicates a clear downturn in the industrial sector. Comparing the average for three months for 4QFY18 with 4QFY19, the extent of fall in the overall IIP growth rate is 5.8% points; that for IIP growth of consumer goods is higher at 7% points. Further, in the case of IIP growth for infrastructure/ construction goods, comparing the averages for 4QFY18 and 4QFY19, there is a fall of 4.9% points. In the case of services exports, a tangible fall of 12.9% points is indicated between the two quarters under consideration.

Table 6: Trends in high-frequency indicators

Month	IIP overall growth (%, y-o-y)	IIP consumer durables growth (%, y-o-y)	IIP infrastructure/ construction goods growth (%, y-o-y)	Freight movement by rail growth (%, y-o-y)	Services export growth (%, y-o-y)
Jan-18	7.5	7.6	7.5	6.2	20.4
Feb-18	6.9	7.5	13.0	3.9	20.3
Mar-18	5.3	6.2	9.1	3.9	18.7
4QFY18 (1)	**6.6**	**7.1**	**9.8**	**4.7**	**19.8**
Jan-19	1.6	2.5	6.4	2.9	8.6
Feb-19	0.2	0.9	1.9	4.5	5.5
Mar-19	0.4	-3.1	6.4	6.8	6.6
4QFY19 (2)	**0.7**	**0.1**	**4.9**	**4.7**	**6.9**
(2) - (1)	**-5.8**	**-7.0**	**-4.9**	**0.1**	**-12.9**
Apr-19	4.3	2.2	7.2	3.3	2.9
May-19	4.6	0.3	1.8	3.1	15.5
Jun-19	2.0	-5.5	-1.8	2.1	10.0

Source (basic data): Office of the Economic Adviser, Ministry of Commerce and Industry, IHS Markit, RBI, CEIC data

Chart 7: Motor vehicles sales (%, y-o-y)



The clearest downturn is visible in the case of automobiles where motor vehicle sales showed negative growth from November 2018. This downturn accelerated after March 2019.

Source (basic data): CEIC data

Available indicators highlight the concentration of the economic slowdown largely in the industrial sector particularly in the automobile, infrastructure and construction sectors. Based on available information, the following conclusions may be drawn:

1. The external sector poses a continuing challenge to the economy with the net exports contributing negatively to growth for the last eight quarters that is, covering the period from 1QFY18 to 4QFY19.
2. Within the domestic economy, the downturn is noticeable in the industrial sector particularly automobiles, infrastructure and construction sector.
3. Investment demand growth shows a sharp fall; there is also a slowdown in consumption demand, reflected in both private and government consumption expenditures.

The RBI in August 2019 policy review has lowered India's growth for FY20 to 6.9%. This is well-below India's potential growth of 8-8.5% and about 2% points below the required real GDP growth of 9% to take the Indian economy to the targeted size of US$5 trillion by end-FY25. Underlying the short-term demand slowdown witnessed in recent quarters, there is deep seated longer-term erosion of India's investment and saving rates on trend basis since FY12 as discussed in the next section.

Depletion of Investment and saving rates: long-term trends

Table 7 gives the sectoral profile of investment rates measured by gross capital formation (GCF) as percentage of GDP at current prices. Comparing investment rates in FY12 with those in FY18, it is clear that the total investment rate as well as each of its components as divided into households, private corporate sector and the public sector have fallen significantly. The aggregate fall, comparing FY18 to FY12, is 7.0% points of which 5.6, 1.2 and 0.3% points are due respectively to the households, private corporate and public sectors. The largest fall is in the household sector.

Table 7: Investment rates: As % of GDP (current and 2011-12 prices)

Investment components	FY12	FY13	FY14	FY15	FY16*	FY17**	FY18***	FY18 minus FY12
Investment (current prices)								
Households	15.9	14.7	12.6	12.1	9.6	10.5	10.3	-5.6
Private corporate sector	13.3	13.6	12.9	13.4	13.5	11.6	12.1	-1.2
Public sector	7.5	7.2	7.1	7.1	7.6	7.1	7.2	-0.3
Gross capital formation#	**36.7**	**35.6**	**32.6**	**32.6**	**30.6**	**29.1**	**29.7**	**-7.0**

Source (basic data): RBI, CSO
Source (basic data): CSO
* based on Third Revised Estimates; ** based on Second Revised Estimates; *** based on First Revised Estimates; #excludes valuables and errors and omissions

A significant change is discernible FY16 onwards. The level of household sector investment was at its trough in this year at 9.6%. After this, the household sector investment started to pick up. By this year, investment rates had not fallen in the private corporate or the public sectors. These sectors experienced a fall in their respective investment rates in the subsequent years.

Table 8: Saving rate: Percentage to GDP (current prices)

Saving components	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY18 minus FY12
Households *of which*	23.6	22.5	20.3	19.6	18.0	17.1	17.2	-6.4
Financial saving	7.4	7.4	7.4	7.1	8.1	6.3	6.6	-0.8
Physical saving	16.3	15.1	12.9	12.5	9.9	10.8	10.6	-5.7
Private corporate sector	9.5	10.0	10.7	11.7	11.9	11.5	11.6	2.1
Public sector	1.5	1.4	1.0	1.0	1.2	1.7	1.7	0.2
Gross domestic saving	**34.6**	**33.9**	**32.1**	**32.2**	**31.1**	**30.3**	**30.5**	**-4.1**

Source (basic data): RBI

The gross domestic saving has also fallen over the period FY12 to FY18 by a margin of 4.1% points of GDP. However, in this case, comparing FY12 to FY18, the private corporate sector shows an increase of 2.1% points and the public sector shows a small increase of 0.2% points. Thus, the entire fall in the savings rate is due to the household sector where the fall in the aggregate saving rate is by a margin of 6.4% points consisting of a fall of 0.8% points in financial saving and 5.7% points in physical saving.

Table 9: Saving-investment imbalance

Excess of saving over investment	FY12	FY13	FY14	FY15	FY16	FY17	FY18
Household	7.7	7.7	7.7	7.4	8.4	6.6	6.8
Private corporate	-3.8	-3.6	-2.2	-1.7	-1.6	-0.1	-0.5
Public	-6.0	-5.8	-6.0	-6.1	-6.4	-5.4	-5.5

Source (basic data): RBI, CSO

The profile of sectoral investment-saving imbalance indicates that the private corporate and public sectors are deficit sectors, who finance their deficits from the surplus savings of the household sector. In addition, net inflow of foreign capital adds to the flow of investible resources. Throughout the period from FY12, the saving rate of the private corporate sector has increased reducing its dependence on the surplus savings of the household sector. In fact, the excess of private corporate sector's investment (GCF) over its own saving was 3.8% points of GDP in FY12. This imbalance fell to 0.5% points of GDP by FY18. Given this pattern, at present all the surplus savings of the household sector is available for the public sector. With private corporate sector's investment demand being largely met by its own savings, public sector's borrowing requirements can almost be fully financed using the surplus from the household sector supplemented by net inflow of foreign capital without any fear of crowding out.

Countering the economic slowdown: Policy perspectives

While the RBI has been active in responding to the ongoing slowdown by bringing down the repo rate to 5.4% in August 2019, the economy has not responded to this stimulus as yet. The transmission of the rate reduction to prospective borrowers has so far been limited[2]. Demand for funds primarily by households for investment or purchase of consumer durables is dependent not only on the cost of borrowing but also on income levels. It would therefore be far more effective if the monetary initiative is complemented by a corresponding fiscal initiative.

Center's flexibility on the fiscal side is however limited due to the FRBM limits on fiscal deficit. Center's FRBMA, amended in 2018 has a provision for countercyclical measures. It provides for five conditions in which a departure from the operational fiscal deficit target of 3% of GDP can be made. These conditions relate to: (a) national security, (b) act of war, (c) national calamity, (d) collapse of agriculture severely affecting farm output and incomes and (e) structural reforms in the economy with unanticipated fiscal implications. The Act provides that if, as a result of one or more of the above conditions, there is a "*…decline in real output growth of a quarter by at least 3% points below its average of the previous four quarters…*", then fiscal deficit limit may be increased but this increase "*shall not exceed one half percent of the gross domestic product in a year*". As shown in Table 10, the quantitative condition for going beyond the limit of 3% of GDP has not been met so far. In any case, even if this condition had been met, the fiscal deficit limit could only be extended to 3.5% of GDP which would only marginally increase the budgeted fiscal deficit level of 3.3%. As such, any substantive increase in investment may be difficult to bring about by reference to this countercyclical clause of the amended FRBMA.

Table 10: Quarterly growth compared to average growth in previous 4 quarters

Quarter	Growth in current quarter (1)	Avg. growth in previous 4 quarters (2)	(1)-(2)	Quarter	Growth in current quarter (1)	Avg. growth in previous 4 quarters (2)	(1)-(2)
1Q FY14	6.7	5.7	1.0	1Q FY17	9.2	8.2	1.1
2Q FY14	7.8	6.1	1.7	2Q FY17	8.7	8.5	0.2
3Q FY14	6.4	6.1	0.3	3Q FY17	7.4	8.6	-1.1
4Q FY14	5.8	6.4	-0.6	4Q FY17	6.1	8.6	-2.5
1Q FY15	7.4	6.7	0.8	1Q FY18	6.0	7.8	-1.9
2Q FY15	7.8	6.9	1.0	2Q FY18	6.8	7.0	-0.3
3Q FY15	6.1	6.9	-0.8	3Q FY18	7.7	6.6	1.1
4Q FY15	6.7	6.8	-0.1	4Q FY18	8.9	6.6	2.3
1Q FY16	7.8	7.0	0.8	1Q FY19	8.0	7.3	0.6
2Q FY16	8.5	7.1	1.4	2Q FY19	7.0	7.8	-0.8
3Q FY16	7.3	7.3	0.0	3Q FY19	6.6	7.9	-1.3
4Q FY16	9.0	7.6	1.5	4Q FY19	5.8	7.6	-1.8

Source (basic data): CSO

The current policy challenge requires supplementing countercyclical initiatives with structural reforms so as to create the necessary additional fiscal space. In fact, if the Indian economy is to expand to a size of US$5 trillion by end-FY25, a real growth of 9% is required. This requires uplifting the trend growth rate from its current level of 7% by 2% points, calling for additional investment of 8% points of GDP assuming an incremental capital-output ratio of 4. Center's FY20 budget mentions the need for an additional 10% points of GDP for infrastructure investment. The lead for this has to be given by the public sector, particularly by the central government. The following steps may be considered:

1. The central government may create more space for capital expenditure by curtailing its revenue deficit, which is budgeted to be quite high at 2.3% of GDP. If this could be contained at the level of "effective revenue deficit", which is 1.3% of GDP, an additional capital expenditure of 1% point of GDP can be undertaken. This requires expenditure side reforms.
2. The central government should attempt to increase its non-tax revenues supplemented by disinvestment to provide additional resources to the extent of at least 0.5% point of GDP on a sustainable basis.

[2] Second bi-monthly monetary policy statement (June 2019)

Government's Asset Register[3] shows that the share of land in government owned physical assets was as high as 73% at end-FY18. This needs to be monetized in a manner such that sustainable annual revenue gains accrue to the central budget. Additional dividends from the RBI and one more round of spectrum sales would also help.

3. The state governments considered together have a capital expenditure to GDP ratio of about 2% currently. Their combined fiscal deficit limit at 3% provides space for an additional capital expenditure of 1% point of GDP without breaching their FRBM limits. They have to be brought on board for participating in government's ambitious infrastructure program.
4. The central and state public sector enterprises can be persuaded to increase their capital expenditures relative to GDP by an additional 1.5% points of GDP.

Together, these steps may give additional investment of 4% point of GDP from the public sector. This could be combined with a leverage factor of 1.5, that is expecting an additional investment of 1% point of GDP from the public sector to be supplemented by incremental investment of 1.5% points of GDP from the private sector in the PPP mode and otherwise. This would provide the necessary boost to investment by a margin of 10%[4] points of GDP. Some of the steps directed towards improving sentiments of the private sector may include the following. First, the central government may consider announcing its intention in advance to complete the corporate tax reforms in the budget of FY21, that is due to be presented in six months from now, reducing the CIT rate to 25% covering all companies. Second, a massive boost is needed for the housing sector since households need to be persuaded to increase both their physical saving and physical investment[5], most of which may relate to housing. Third, even in the scenario of falling nominal interest rates, some additional margin for the small saving instruments should continue to be provided to arrest any potential fall in household sector's financial savings.

Concluding observations

Policymakers at the current juncture of the Indian economy may need to respond to the ongoing demand driven economic slowdown in the short run and the ongoing decline in the investment and saving rates on a trend basis. The first objective requires supplementing monetary policy initiatives by fiscal policy initiatives. Augmenting public sector investment can trigger this recovery. Structural reforms can then build on the momentum. It is possible to increase India's potential growth rate to 9% plus by increasing its investment rate by 10% points, of which 4% points of GDP may come from the public sector.

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[3] Notes on measurement of Cost at Initial recognition for preparation of Fixed Asset Register: (a) An item of fixed asset which qualifies for recognition should be measured at its historical cost (defined as cost incurred to acquire, purchase or construct and asset including the cost incurred to make them ready for intended use). If the full value has not been paid and the asset is ready for intended use, fixed asset is recognized at the amount paid only; (b) where cost of fixed asset (including land) is not ascertainable, it should be measured at the nominal value of INR1/-; (c) where the fixed asset is acquired without any consideration (such as gifts, donations, sequestration) it should be measured at nominal value of INR1/-.
Sourced from: F.No.1(2)-B(AC)/2017, Ministry of Finance, Department of Economic Affairs - Office Memorandum - Guidance Note on Accounting for 'Fixed Assets' – regarding, Dated 19-July-2018 [http://www.dcmsme.gov.in/employ-corner/d/Guidance_Note.pdf, website accessed on 16-08-2019]
[4] 4%+(4%x1.5)=10%
[5] The difference between physical savings (excluding savings in the form of gold and silver ornaments) and physical investment of households is negligible. The difference was 0.1% of GDP in FY18

Home

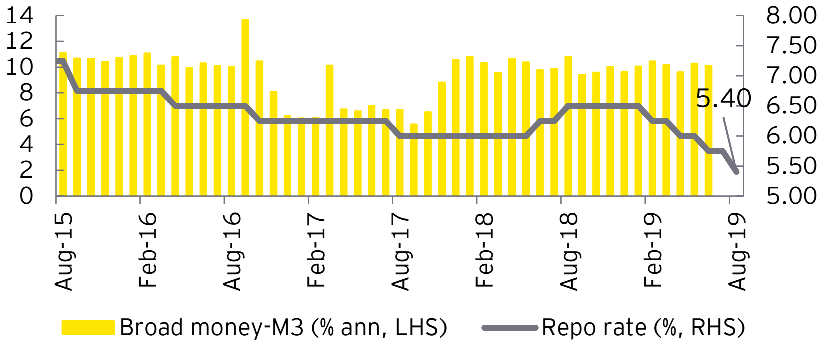
6. Money and finance: The RBI lowered the repo rate by 35 basis points to 5.40%

A. Monetary sector

Monetary policy

- Citing concerns about the growth outlook, the RBI lowered its policy repo rate by an unconventional magnitude of 35 basis points to 5.40% from 5.75% in its third bi-monthly monetary policy review held on 7 August 2019. The policy rate has been brought down from 6.5% in January 2019 by a cumulated margin of 110 basis points through four successive rate reductions during the calendar year.
- In RBI's assessment, CPI inflation trajectory is expected to be shaped by the following factors: (i) sustained uptick in food inflation driven by higher prices of vegetable and pulses; (ii) volatility in crude prices due to ongoing geo-political tensions in the Middle-East; (iii) expectation of benign core CPI (CPI excluding food and fuel items) inflation level in the medium-term; and (iv) moderate households' inflation expectations.

Chart 8: Growth in broad money and movements in repo rate



Source: Database on Indian Economy, RBI

The RBI reduced the repo rate by 35 basis points in its August 2019 monetary policy review. This was the fourth successive reduction in the repo rate in 2019, bringing it down to 5.4%.

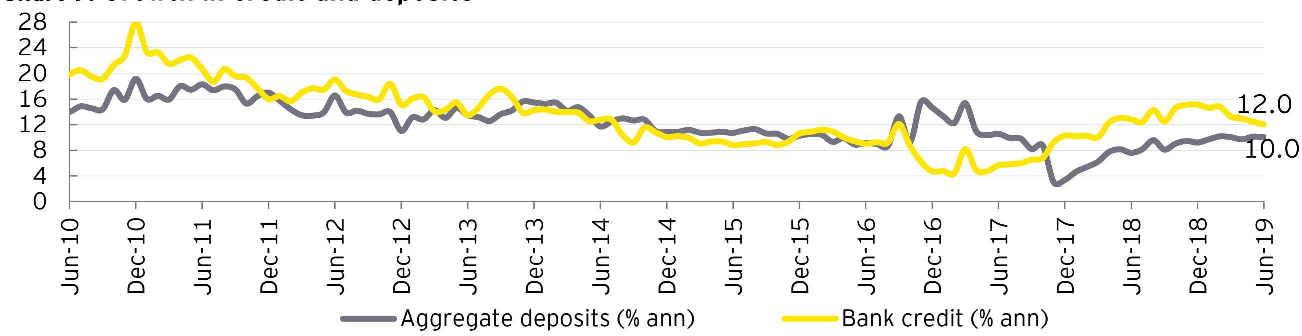
Money stock

- Growth in broad money stock (M3) grew at a relatively slower pace of 10.1% (y-o-y) in June 2019, as compared to 10.3% in May 2019 (**Chart 8**). Time deposits, accounting for nearly 76% of M3, grew by 9.7% in June 2019, improving marginally from 9.5% in May 2019.
- Narrow money (M1) growth has gradually fallen from its recent peak of 16.2% in February 2019 to 11.3% in June 2019. This fall was on account of a slower growth of 8.8% in demand deposits and a lower growth of 12.7% in currency in circulation in June 2019 as compared to a growth of 11.3% and 14.2% respectively in May 2019.

Aggregate credit and deposits

- Pointing towards weakness in demand conditions, growth in bank credit moderated for the third successive month to 12.0% (y-o-y) in June 2019 from 12.5% in May 2019 (13.0% in April 2019), its lowest level since April 2018 (**Chart 9**).

Chart 9: Growth in credit and deposits



Source: Database on Indian Economy, RBI

- Growth in non-food credit fell to an 11-month low of 11.1% in June 2019 from 11.4% in May 2019 due to further slowdown in the growth of bank credit to services sector.
- Growth in credit to services sector was at a 20-month low of 13.0% in June 2019 as compared to 14.8% in May 2019. However, growth in credit to industries (accounting for 34% of non-food credit) stood at 6.4% in June 2019, same as that in May 2019. Credit to agricultural sector grew by 8.7%, its fastest pace since February 2018, as compared to 7.9% in May 2019.
- Housing sector credit, a key driver of retail sector credit, continued to post a strong growth of 18.9% in June 2019, marginally improving from 18.7% in May 2019.
- Aggregate bank deposits grew by 10.0% in June 2019, broadly in line with the average growth of 9.9% during January to May 2019. In FY19, growth in bank deposits averaged 8.9% well below its 10-year average growth of 13.1%.

B. Financial sector

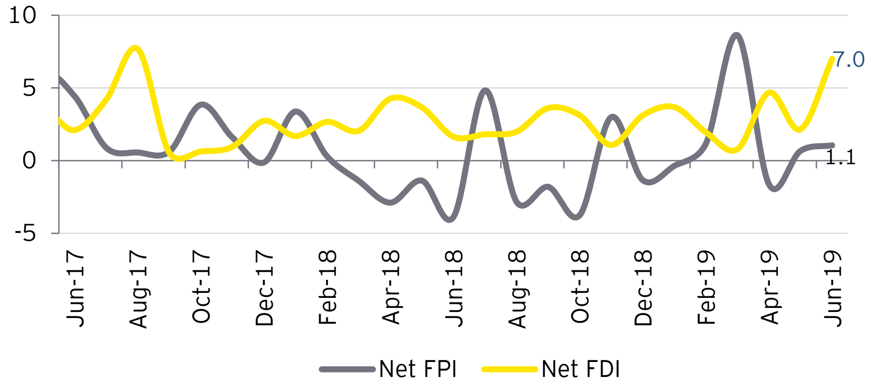
Interest rates

- Commercial banks retained the interest rates offered on term deposits with a maturity of more than one year at 6.8% (average) in July 2019, similar to the levels in June 2019.
- Commercial banks marginally lowered the marginal cost of lending rate (MCLR) to 8.20 in July 2019 (average) from 8.28% in June 2019. The transmission of policy rates to lending rates continues to be only fractional. However, with further reduction in policy rate, it is expected that the banks may pass on the benefit of lower rates to borrowers in the ensuing months.
- The average yield on 10-year government securities eased by an average of 37 basis points to 6.60% in July 2019 as compared to 6.97% in June 2019. Benchmark bond yields were at a 23-month low in July 2019. Factors that influenced bond yields include: (a) prospects of improved pass through of the RBI rate cuts since February 2019 and expectations of further cut; (b) presence of surplus liquidity in the banking system (since June19); and (c) Center's decision to maintain the fiscal deficit target for FY19 thereby lowering additional market borrowing.

FDI and FPI

- As per the provisional data released by the RBI on 14 August 2019, the overall foreign investment inflows (FIIs) increased to US$8.1 billion in June 2019 as compared to inflows of US$7.6 (revised) billion in May 2019 led by a surge in net FDI inflows.

Chart 10: Net FDI and FPI inflows (US$ billion)



Net FDI inflows surged to a 22-month high of US$7.0 billion in June 2019 from US$3.0 billion in May 2019.

Source: Database on Indian Economy, RBI

- Net FDI inflows increased to a 22-month high of US$7.0 billion in June 2019 from US$3.0 billion (revised) in May 2019 (**Chart 10**). Gross FDI inflows were also at a 22-month peak of US$9.2 billion in June 2019 as compared to US$5.1 billion in May 2019.
- Net portfolio inflows were lower at US$1.1 billion in June 2019 as compared to inflows of US$4.5 billion in May 2019.

7. Trade and CAB: Merchandise exports grew at 2.2% in July 2019

A. CAB: Current account deficit (CAD) narrowed to 0.7% of GDP in 4QFY19

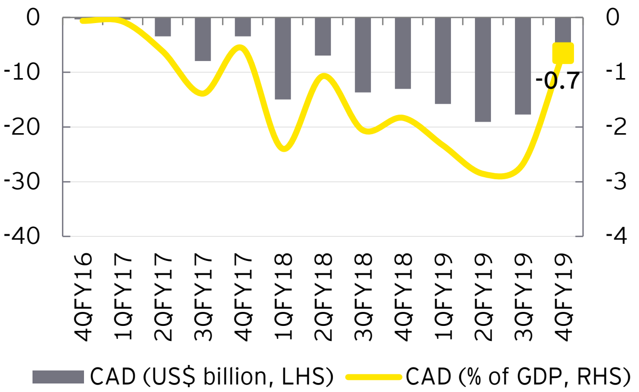
- CAD in 4QFY19 narrowed to 0.7% of GDP from 2.7% in 3QFY19 as merchandise trade deficit moderated to a two-year low of 4.9% of GDP (**Table 11**) due to merchandise imports falling to 10-quarter low of 17.2% of GDP in 4QFY19 from 19.9% in 3QFY19. The fall in CAD was despite net invisibles surplus easing to a four-quarter low of 4.3% of GDP in 4QFY19 from 4.7% in 3QFY19 on account of moderation in net service exports and net transfers.

Table 11: Components of CAB in US$ billion

	CAB (-deficit/+surplus)	CAB as a % of nominal GDP	Goods account net	Services account net
FY16	-22.2	-1.1	-130.1	69.7
FY17	-15.3	-0.7	-112.4	67.5
FY18	-48.7	-1.8	-160.0	77.6
FY19	-57.3	-2.1	-180.3	81.9
1QFY19	-15.9	-2.3	-45.8	18.7
2QFY19	-19.1	-2.9	-50.0	20.3
3QFY19	-17.8	-2.7	-49.3	21.7
4QFY19	-4.6	-0.7	-35.2	21.3

Source: Database on Indian Economy, RBI

Chart 11: CAD



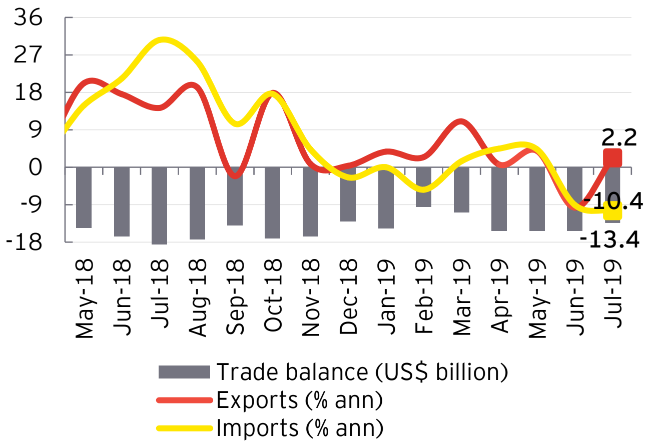
Source: Database on Indian Economy, RBI

B. Merchandise trade and exchange rate

Merchandise exports grew by 2.2% while the pace of contraction in imports accelerated to (-) 10.4% in July 2019.

- Merchandise exports growth turned marginally positive at 2.2% in July 2019 as compared to a contraction of (-) 9.7% in June 2019 (**Chart 12**), led by a slowdown in the pace of contraction in oil exports.

Chart 12: Developments in merchandise trade



Source: Ministry of Commerce and Industry, GoI

- Contraction in oil exports eased to (-) 5.0% in July 2019 from (-) 32.8% in June 2019. Growth in exports of organic and inorganic chemicals, and readymade garments turned positive at 13.4% and 7.1% respectively in July 2019 from a contraction of (-) 8.2% and (-) 9.2% respectively in June 2019.
- The pace of contraction in imports increased to (-) 10.4% in July 2019 from (-) 9.1% in June 2019. It was driven by a sharp contraction in gold imports at (-) 42.2% in July 2019 as compared to a growth of 13.0% in June 2019.
- The pace of contraction in oil imports increased to a three year high of (-) 22.1% in July 2019 from (-) 13.3% in June 2019.
- Growth in exports and imports excluding oil, gold and jewelry turned positive at 5.3% and 0.5% respectively in July 2019 from a contraction of (-) 4.9% and (-) 7.5% respectively in June 2019.
- Merchandise trade deficit narrowed to a four-month low of US$13.4 billion in July 2019 from US$ 15.3 billion in June 2019 due to the sharp contraction in imports.
- The Indian Rupee appreciated marginally to INR 68.8 per US$ (average) in July 2019 from INR69.4 per US$ in June 2019, partly due to the subdued global crude prices.

8. Global growth: IMF revised down the global growth forecast by 0.1% points in 2019 and 2020

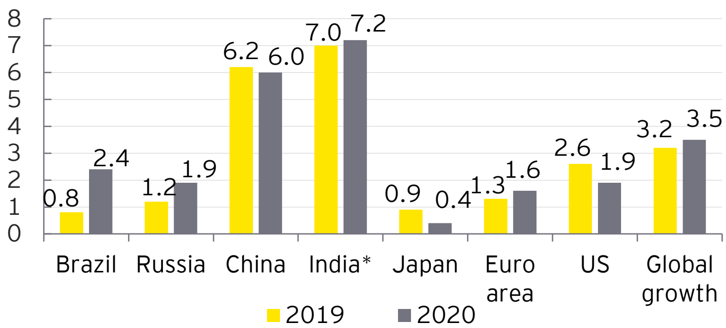
A. Global growth outlook

- The IMF (World Economic Outlook, July 2019) projected the global growth to fall to 3.2% in 2019 but improve to 3.5% in 2020 (0.1% points lower for both years than in April 2019 WEO forecast).
- The lower forecast for 2019 reflects the May 2019 increase of US tariffs on US$200 billion of Chinese exports from 10% to 25%. The recovery in 2020 primarily relies on expected stabilization in stressed EMEs such as Argentina and Turkey and avoidance of sharp collapses in economies such as Iran and Venezuela.
- Growth in EMDEs is projected at 4.1% in 2019, increasing to 4.7% in 2020. Growth in AEs is forecasted at 1.9% in 2019, marginally falling to 1.7% in 2020.

The IMF projected the global growth at 3.2% in 2019 and 3.5% in 2020, a downward revision of 0.1% points in both years.

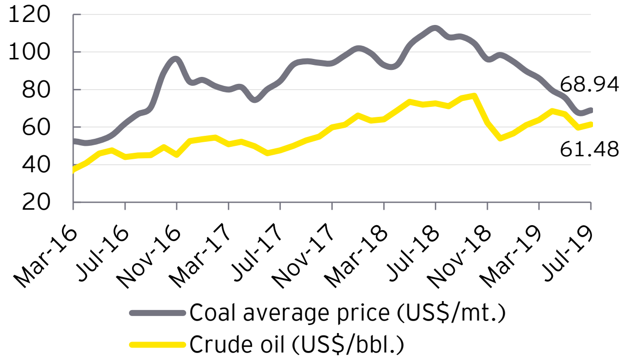
- Growth in the US is projected at 2.6% in 2019 (upward revision of 0.3% points) reflecting stronger than anticipated performance in the first quarter. Growth is forecasted to fall to 1.9% in 2020 as fiscal stimulus unwinds.
- In the Euro area, growth is projected at 1.3% in 2019 and 1.6% in 2020. The improvement in growth in 2020 is expected on the back of a recovery in external demand. Growth in Japan is projected to be low at 0.9% in 2019 and 0.4% in 2020.
- Growth in China is forecasted at 6.2% in 2019 and 6.0% in 2020, a downward revision of 0.1% points in both years. Escalating tariffs and weak external demand are expected to have a negative effect on the economy which is already in a structural slowdown and has high dependence on debt.
- For India, growth is revised down by 0.3% points in both 2019 and 2020 and is projected at 7.0% and 7.2% respectively reflecting a weaker than expected outlook for domestic demand.
- There has been a downward revision in the growth forecasts for Brazil in 2019 and 2020 both, and for Russia in 2019. In Brazil, uncertainty persists about the approval of pension and other structural reforms.

Chart 13: Global growth projections



Source: IMF World Economic Outlook, July 2019
*data pertains to fiscal year

Chart 14: Global crude and coal prices



Source (basic data): World Bank, Pink Sheet, July 2019

B. Global energy prices: *OPEC+ countries extend output cuts until March 2020*

- Average global crude price[6] increased to US$61.5/bbl. in July 2019 from US$59.8/bbl. in June 2019. This could be an effect of the extension of agreement on output cut until March 2020 by the OPEC+ countries (OPEC countries and Russia-led block of non-OPEC countries) in July 2019.
- From a 34-month low of US$67.7/mt. in June 2019, average global coal price[7] increased marginally to US$68.9/mt. in July 2019.

[6] Simple average of three spot prices, namely, Dated Brent, West Texas Intermediate and Dubai Fateh
[7] Simple average of Australian and South African coal prices

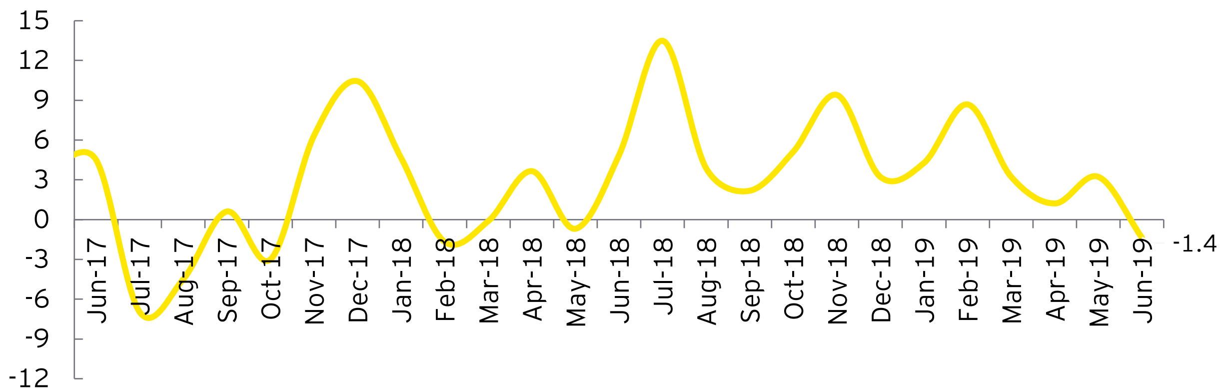
Home

9. Index of aggregate demand (IAD): Pointed towards weakening demand conditions

Growth in IAD contracted for the first time in 13-months by (-) 1.4% in June 2019

- An IAD has been developed by EY to reflect the monthly combined demand conditions in the agriculture, manufacturing and services sectors. It considers the movements in PMI for manufacturing and services, both measured in non-seasonally adjusted terms, tracing the demand conditions in these sectors. Demand conditions in the agricultural sector have been captured by movements in monthly agricultural credit off-take
- On an y-o-y basis, the index of aggregate demand contracted by (-)1.4% in June 2019 from a growth of 3.2% in May 2019 (**Chart 15**), owing partly to an unfavorable base effect and partly to sustained weakness in demand conditions in manufacturing and services sector.

Chart 15: IMI (quarterly)



Source (Basic data): RBI, MOSPI and EY estimate

Table 12: IAD

Month	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19
IAD	128.8	128.3	127.9	126.9	129.3	128.1	126.7	126.1	127.1
Growth (% y-o-y)	5.1	9.4	3.2	4.3	8.7	3.2	1.2	3.2	-1.4
Growth in agr. credit	8.0	7.7	8.4	7.6	7.5	7.9	7.9	7.8	8.4
Mfg. PMI**	3.8	4.9	2.7	2.7	4.4	2.2	1.7	3.1	1.7
Ser. PMI**	4.0	2.5	2.9	1.9	2.8	2.3	1.4	-0.3	1.1

**Values here indicate deviation from benchmark value of 50. A positive value indicates expansion in demand while a negative value implies contraction in demand; PMI for Mfg. and Serv. are non-seasonally adjusted.
Source (Basic data): IHS Markit PMI, RBI and EY estimates.

11. Capturing macro-fiscal trends: Data appendix

Table A1: Industrial growth indicators (annual, quarterly and monthly growth rates, y-o-y)

Fiscal year/quarter/month	IIP	Mining	Manufacturing	Electricity	Core IIP	Fiscal year/quarter/month	PMI mfg.	PMI ser.
	% change y-o-y							
FY 16	3.3	4.3	2.9	5.7	3.0	FY 16	51.3	51.7
FY 17	4.6	5.3	4.3	5.8	4.8	FY 17	51.6	51.0
FY 18	4.4	2.3	4.7	5.3	4.3	FY 18	51.5	50.0
FY 19	3.8	2.8	3.8	5.2	4.4	FY 19	52.8	52.2
2Q FY19	5.3	0.9	5.6	7.5	5.4	2Q FY19	52.1	52.2
3Q FY19	3.7	2.8	3.4	6.9	3.4	3Q FY19	53.4	53.0
4Q FY19	1.5	2.2	1.4	1.5	3.3	4Q FY19	53.6	52.2
1Q FY20	3.6	3.0	3.2	7.2	3.5	1Q FY20	52.2	50.3
Mar-18	2.7	0.8	3.1	2.2	5.8	Apr-18	51.8	51.0
Apr-18	4.3	5.1	4.0	6.0	6.3	May-18	52.7	50.2
May-18	4.6	2.4	4.5	7.4	4.3	Jun-18	52.1	49.6
Jun-18	2.0	1.6	1.2	8.2	0.2	Jul-18	52.5	53.8

Source: Office of the Economic Adviser - Ministry of Commerce and Industry and IHS Markit Economics

Table A2: Inflation indicators (annual, quarterly and monthly growth rates, y-o-y)

Fiscal year/quarter/month	CPI	Food Price Index	Fuel and light	Core CPI	WPI	Food Price Index	Mfg. products	Fuel and power	Core WPI
	% change y-o-y				% change y-o-y				
FY16	4.9	4.9	5.3	4.9	-3.7	1.2	-1.8	-19.7	-1.8
FY17	4.5	4.2	3.3	4.9	1.7	5.9	1.3	-0.3	-0.1
FY18	3.6	1.8	6.2	4.6	2.9	1.9	2.7	8.2	3.0
FY19	3.4	0.1	5.7	5.5	4.3	0.6	3.7	11.5	4.2
2Q FY19	3.9	0.7	8.4	5.7	5.0	-0.9	4.4	17.7	4.9
3Q FY19	2.6	-2.0	6.7	5.6	4.5	-0.9	4.1	13.9	4.8
4Q FY19	2.5	-0.9	1.9	5.0	2.9	3.0	2.4	2.7	2.7
1Q FY20	3.1	1.7	2.4	4.1	2.7	5.0	1.4	1.1	1.4
Apr-19	3.0	1.1	2.6	4.4	3.2	4.5	1.9	3.8	2.0
May-19	3.0	1.8	2.5	4.0	2.8	5.5	1.5	2.0	1.3
Jun-19	3.2	2.2	2.2	4.0	2.0	5.0	0.9	-2.2	0.8
Jul-19	3.1	2.4	-0.4	4.2	1.1	4.5	0.3	-3.6	0.1

Source: Office of the Economic Adviser, Ministry of Commerce and Industry and MoSPI

Table A3: Fiscal indicators (annual growth rates, cumulated monthly growth rates, y-o-y)

Fiscal year/month	Gross tax revenue	Corporate tax	Income tax	Direct taxes*	Indirect taxes**	Fiscal deficit	Revenue deficit
						% of GDP	% of GDP
FY16	17.0	6.0	8.5	6.9	30.1	3.9	2.5
FY 17	17.9	6.7	21.5	12.3	21.6	3.5	2.1
FY 18	11.8	17.8	19.9	18.6	6.0	3.5	2.6
FY19 (CGA actuals over FY18 actuals)	8.4	16.2	7.2	12.3	2.5	3.4	2.3
FY20 (BE over CGA actuals)	18.3	15.4	23.3	18.6	19.8	3.3	2.2
	Cumulated growth (%, y-o-y)					% of budgeted target	
Nov-18	7.1	16.6	16.4	16.5	1.9	114.8	132.6
Dec-18	6.6	14.0	15.2	14.5	1.0	110.6	130.5
Jan-19	7.3	16.7	14.3	15.7	1.5	121.5	143.7
Feb-19	7.9	15.4	14.2	14.9	3.3	134.2	158.1
Mar-19	8.4	16.2	13.1	14.9	2.9	101.7	108.4
Apr-19	6.9	59.3	16.3	24.3	-3.4	22.3	26.6
May-19	0.2	-51.6	15.0	12.1	-4.0	52.0	66.3
Jun-19	1.4	6.3	12.3	9.7	-4.0	61.4	77.1

Source: Monthly Accounts, Controller General of Accounts-Government of India, Union Budget documents
*Includes corporation tax and income tax **includes customs duty, excise duty, service tax, CGST, UTGST, IGST and GST compensation cess.
As a proportion of revised estimates FY20

Fiscal year/month	CGST	UTGST	IGST	GST compensation cess	Total GST (center)
	INR crore				
FY 2019 (RE)	5,03,900	-	50,000	90,000	6,43,900
FY 2020 (BE)	5,26,000	-	28,000	1,09,343	6,63,343
Monthly tax collection (INR crore)					
Nov-18	34,398	76	9,037	7,936	51,447
Dec-18	43,075	585	-9,368	7,700	41,992
Jan-19	35,066	126	9,511	8,435	53,138
Feb-19	35,908	105	4,453	8,173	48,639
Mar-19	46,191	584	2,340	8,175	57,290
Apr-19	46,848	171	-564	8,874	55,329
May-19	34,557	154	7,195	7,713	49,619
Jun-19	35,400	188	4,039	8,026	47,653

Source: Monthly Accounts, Controller General of Accounts - Government of India, Union Budget documents
Note: IGST revenues are subject to final settlement.

Table A4: Monetary and financial indicators (annual, quarterly and monthly growth rates, y-o-y)

Fiscal year/month	Repo rate (end of period)	Fiscal year/ quarter/ month	M1	M3	Bank credit	Agg. deposits	10-year govt. bond yield	Net FDI	Net FPI	Fiscal year/quarter/month	FX reserves
	%		% change y-o-y				%	US$ billion			US$ billion
Sep-18	6.50	FY16	13.5	10.1	9.7	10.5	7.7	36.0	-4.1	FY16	355.6
Oct-18	6.50	FY17	3.1	10.1	7.9	11.6	7.0	35.6	7.6	FY17	370.0
Nov-18	6.50	FY18	22.1	9.5	7.5	7.5	7.0	30.3	22.1	FY18	424.4
Dec-18	6.50	FY19	13.3	10.1	13.8	8.9	7.7	30.7	-0.6	FY19	411.9
Jan-19	6.50	2Q FY19	14.6	9.4	13.1	8.6	7.9	7.4	0.2	2Q FY19	400.5
Feb-19	6.25	3Q FY19	12.7	9.6	14.9	9.2	7.7	7.3	-2.1	3Q FY19	393.4
Mar-19	6.25	4Q FY19	13.3	10.1	14.2	10.0	7.4	6.4	9.4	4Q FY19	411.9
Apr-19	6.00	1Q FY20	11.3	10.1	12.5	9.9	7.2	14.7	3.9	1Q FY20	426.4
May-19	6.00	Mar-18	13.3	10.1	13.3	10.0	7.3	0.8	8.6	Apr-19	418.5
Jun-19	5.75	Apr-18	12.6	9.6	13.0	9.7	7.4	4.7	-1.6	May-19	421.9
Jul-19	5.75	May-18	12.9	10.3	12.5	10.1	7.3	3.0	4.5	Jun-19	426.4
Aug-19	5.40	Jun-18	11.3	10.1	12.0	10.0	7.0	7.0	1.1	Jul-19	429.6

Source: Database on Indian Economy - RBI

Table A5: External trade and global growth

External trade indicators (annual, quarterly and monthly growth rates)							Global growth (annual)			
Fiscal year/quarter /month	Exports	Imports	Trade balance	Ex. rate (avg.)	Crude prices (avg.)	Coal prices (avg.)	Calendar year	World GDP	Adv. econ.	Emer. econ.
	% change y-o-y		US$ billion	INR/US$	US$/bbl.	US$/mt		% change y-o-y		
FY16	-15.6	-15.2	-117.7	65.5	46.0	54.7	2013	3.5	1.4	5.1
FY17	5.1	0.9	-108.2	67.1	47.9	73.0	2014	3.6	2.1	4.7
FY18	10.6	20.9	-159.0	64.5	55.7	90.8	2015	3.4	2.3	4.3
FY19	8.7	9.6	-177.0	69.9	67.3	100.4	2016	3.4	1.7	4.6
2Q FY19	9.5	21.8	-50.0	70.2	73.0	109.6	2017	3.8	2.4	4.8
3Q FY19	5.7	6.1	-46.9	72.1	64.3	99.7	2018	3.6	2.2	4.5
4Q FY19	6.0	-1.2	-35.2	70.5	60.5	90.2	2019**	3.2	1.9	4.1
1Q FY20	-1.7	-0.3	-46.0	69.5	65.1	74.3	2020**	3.5	1.7	4.7
Apr-19	0.6	4.5	-15.3	69.4	68.6	79.6	2021*	3.6	1.7	4.9
May-19	3.9	4.3	-15.4	69.8	66.8	75.6	2022*	3.6	1.6	4.8
Jun-19	-9.7	-9.1	-15.3	69.4	59.8	67.7	2023*	3.6	1.6	4.9
Jul-19	2.2	-10.4	-13.4	68.8	61.5	68.9	2024*	3.7	1.6	4.9

Source: Database on Indian Economy - RBI, Pink Sheet - World Bank and IMF World Economic Outlook Update, April 2019; *Indicates projections as per April 2019 database, **Indicates projections as per July 2019 WEO update.

Table A6: Macroeconomic aggregates (annual and quarterly real growth rates, % change y-o-y)

Fiscal year/quarter	Output: major sectors									IPD inflation
	GVA	Agr.	Ming.	Mfg.	Elec.	Cons.	Trans.	Fin.	Publ.	GVA
FY16#	8.0	0.6	10.1	13.1	4.7	3.6	10.2	10.7	6.1	1.2
FY17	7.9	6.3	9.5	7.9	10.0	6.1	7.7	8.7	9.2	2.7
FY18	6.9	5.0	5.1	5.9	8.6	5.6	7.8	6.2	11.9	3.9
FY19 (PE)*	6.6	2.9	1.3	6.9	7.0	8.7	6.9	7.4	8.6	4.2
4QFY17	6.6	7.5	11.7	6.4	8.7	0.8	5.9	3.1	14.8	5.2
1QFY18	5.9	4.2	2.9	-1.7	8.6	3.3	8.3	7.8	14.8	3.2
2QFY18	6.6	4.5	10.8	7.1	9.2	4.8	8.3	4.8	8.8	3.8
3QFY18	7.3	4.6	4.5	8.6	7.5	8.0	8.3	6.8	9.2	4.7
4QFY18	7.9	6.5	3.8	9.5	9.2	6.4	6.4	5.5	15.2	3.8
1QFY19	7.7	5.1	0.4	12.1	6.7	9.6	7.8	6.5	7.5	4.6
2QFY19	6.9	4.9	-2.2	6.9	8.7	8.5	6.9	7.0	8.6	4.8
3QFY19	6.3	2.8	1.8	6.4	8.3	9.7	6.9	7.2	7.5	3.8
4QFY19	5.7	0.5	4.5	2.6	4.3	7.1	6.0	9.5	10.7	3.6

Source: National Accounts Statistics, MoSPI
*Growth numbers for FY19 (PE) are calculated over the revised estimates for FY18 as per the NAS released by MoSPI on 31 May 2019
Growth numbers are based on the revised estimates of NAS released by MoSPI on 31 January 2019

Fiscal year/quarter	Expenditure components						IPD inflation
	GDP	PFCE	GFCE	GFCF	EX	IM	GDP
FY16	8.0	7.9	7.5	6.5	-5.6	-5.9	2.3
FY17	8.2	8.2	5.8	8.3	5.1	4.4	3.1
FY18	7.2	7.4	15.0	9.3	4.7	17.6	3.8
FY19 (PE)*	6.8	8.1	9.2	10.0	12.5	15.4	4.1
4QFY17	6.8	5.1	17.5	5.0	6.6	7.0	4.3
1QFY18	6.0	10.1	21.9	3.9	4.9	23.9	4.4
2QFY18	6.8	6.0	7.6	9.3	5.8	15.0	4.3
3QFY18	7.7	5.0	10.8	12.2	5.3	15.8	3.6
4QFY18	8.1	8.8	21.1	11.8	2.8	16.2	3.1
1QFY19	8.0	7.3	6.6	13.3	10.2	11.0	4.3
2QFY19	7.0	9.8	10.9	11.8	12.7	22.9	4.7
3QFY19	6.6	8.1	6.5	11.7	16.7	14.5	4.1
4QFY19	5.8	7.2	13.1	3.6	10.6	13.3	3.4

Source: National Accounts Statistics, MoSPI
*Growth numbers for FY19 (PE) are calculated over the revised estimates for FY18 as per the NAS released by MoSPI on 31 May 2019
Growth numbers are based on the revised estimates of NAS released by MoSPI on 31 January 2019

List of abbreviations

Sr. no.	Abbreviations	Description
1	AD	aggregate demand
2	AEs	advanced economies
3	Agr.	agriculture, forestry and fishing
4	Bcm	billion cubic meters
5	bbl.	Barrel
6	BE	budget estimate
7	CAB	current account balance
8	CGA	Comptroller General of Accounts
9	CGST	Central Goods and Services Tax
10	CIT	corporate income tax
11	Cons.	construction
12	CPI	Consumer Price Index
13	CPSE	Central public-sector enterprise
14	CSO	Central Statistical Organization
15	Disc.	discrepancies
16	ECBs	external commercial borrowings
17	EIA	US Energy Information Administration
18	Elec.	electricity, gas, water supply and other utility services
19	EMDEs	Emerging Market and Developing Economies
20	EXP	exports
21	FAE	first advanced estimates
22	FII	foreign investment inflows
23	Fin.	financial, real estate and professional services
24	FPI	foreign portfolio investment
25	FRBMA	Fiscal Responsibility and Budget Management Act
26	FY	fiscal year (April–March)
27	GDP	Gross Domestic Product
28	GFCE	government final consumption expenditure
29	GFCF	Gross fixed capital formation
30	GoI	Government of India
31	GST	Goods and Services Tax
32	GVA	gross value added
33	IAD	Index of Aggregate Demand
34	IBE	interim budget estimates
35	IEA	International Energy Agency

36	IGST	Integrated Goods and Services Tax
37	IIP	Index of Industrial Production
38	IMF	International Monetary Fund
39	IMI	Index of Macro Imbalance
40	IMP	imports
41	INR	Indian Rupee
42	IPD	implicit price deflator
43	MCLR	marginal cost of funds based lending rate
44	Ming.	mining and quarrying
45	Mfg.	Manufacturing
46	m-o-m	month-on-month
47	mt	metric ton
48	MoSPI	Ministry of Statistics and Programme Implementation
49	MPC	Monetary Policy Committee
50	NEXP	net exports (exports minus imports of goods and services)
51	OECD	Organisation for Economic Co-operation and Development
52	ONGC	Oil and Natural Gas Corporation Limited
53	OPEC	Organization of the Petroleum Exporting Countries
54	PFCE	private final consumption expenditure
55	PIT	personal income tax
56	PMI	Purchasing Managers' Index (reference value = 50)
57	RE	revised estimates
58	RBI	Reserve Bank of India
59	SLR	Statutory Liquidity Ratio
60	Trans.	trade, hotels, transport, communication and services related to broadcasting
61	US$	US Dollar
62	UTGST	Union Territory Goods and Services Tax
63	UT	Union Territory
64	WPI	Wholesale Price Index
65	y-o-y	year-on-year
66	2HFY19	second half of fiscal year 2018-19, i.e., September 2018-March 2019
67	1HFY18	first half of fiscal year 2017-18, i.e., April 2018-September 2018

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