Economy Watch

Monitoring India's macro-fiscal performance

December 2018

EY
Building a better working world

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Highlights

1. In 2QFY19, GDP growth fell to 7.1% as compared to 8.2% in 1QFY19 largely due to a negative contribution of net exports.

2. In November 2018, manufacturing PMI at 54 increased to an 11-month high. Services PMI also reached a 2-year peak of 53.7 during the month.

3. Growth in indirect taxes during April-October over the corresponding period of FY18 was 1.2% as compared to a budgeted growth of 22.2% over FY18 actuals.

4. The center's fiscal deficit during April-October FY19 stood at 103.9% of the FY19 annual budgeted target. The corresponding number for revenue deficit was 117.9%.

5. CPI inflation eased further to a 17-month low of 2.3% in November 2018 from 3.4% in October 2018 driven mainly by a contraction in food and fuel prices.

6. The RBI retained the repo rate at 6.5% in its December 2018 monetary policy review.

7. Bank credit growth accelerated to a five-year peak of 14.6% (y-o-y) in October 2018 from 12.5% in September 2018 due to pick up in investment demand.

8. After peaking at US$76.7/bbl. in October 2018, average global crude prices fell sharply to US$62.3/bbl. (average) in November 2018. On a daily basis, oil prices (Brent) had fallen further to US$57.7/bbl. by 30 November 2018.

9. Growth in merchandise exports fell sharply to 0.8% in November 2018 from 17.9% in October 2018 led by falling exports of engineering goods and gems and jewelry.

10. The OECD projected global growth at 3.5% in 2019. This constitutes a fall of 0.2% points from the 2018 global growth of 3.7%.

11. The OECD projects India's growth for FY19 at 7.5% which is the highest among major economies. China's growth for 2019 was forecasted at 6.3%.

Foreword

RBI leaves the repo rate unchanged in its December 2018 policy review

In its latest policy review announced on 5 December 2018, the RBI has left the repo rate unchanged at 6.5%. The policy stance has also been left unchanged as "calibrated tightening". In the RBI's assessment, growth rate in FY19 is likely to be 7.4%. The inflation outlook for 2HFY19 is kept in the range of 2.7% to 3.2%, thereby implying the annual CPI inflation rate in FY19 to be in the range of 3.5% to 3.8%, which is well below 4%. With the global crude prices also trending downwards, India's macro economy appears to be in a sweet spot. The fall in the exchange rate witnessed during January to October 2018 has been arrested and in fact, reversed. Prospects for the current account deficit have also improved. While the earlier assessments had put it close to 2.9% of GDP for FY19, it is now being reassessed at a much more sustainable level. For example, the OECD puts it at 2.1% of GDP and the Moody's has assessed it at 2.4% of GDP. CPI-based inflation has also moderated to 2.3%, a 17-month low, driven by lower food prices and aided by the fall in fuel prices.

On the fiscal side, there are however some areas of concern. Center's indirect tax revenues have grown during April-October FY19 only at 1.2% as compared to an annual budgeted growth of 22.2% over FY18 actuals. If the budget target is to be met, the indirect tax revenues will have to grow in the period during November to March FY19 at about 51%. At present, the disinvestment proceeds up to 5 December 2018 stood at INR 32,737.45 crore which was nearly 41% of the FY19 annual budgeted target at INR80,000 crore. The government will have to raise substantial revenues through direct taxes and non-tax revenues including possible transfers from the RBI to make up for the deficiency that may occur in regard to the indirect tax revenues and to some extent, in disinvestment. Unless this deficiency is made up, there is a possibility of slippage in the FY19 fiscal deficit target of 3.3% of GDP. The option of reducing government expenditures would also be difficult due to the proximity of the elections.

Growth in 2QFY19 fell to 7.1% as against a growth of 8.2% in 1QFY19. This fall was very largely due to the negative contribution of net exports. While exports grew at 13.4%, imports grew at an even faster pace of 25.6% during 2QFY19. This can largely be attributed to the substantial increase in global crude prices. With global crude prices now falling, it is expected that 3QFY19 and 4QFY19 GDP growth rates would improve upon the growth performance of 2QFY19.

The government came out with the back series of GDP and GVA with reference to the 2011-12 base series. This back series goes back to 2004-05. The average growth rate during 2005-06 to 2013-14 according to this back series has been estimated at 6.7%. There has been some debate about the methodology for creating the back series and the related numbers. It is clear that the methodology is consistent with the methodology used for constructing 2011-12 base series. The main sectors where the real growth rate is lower than that shown by the earlier 2004-05 series due to modification in the databases which have been used, are trade, hotel, transport and communications, and financial, real estate and professional services. Both are service sectors with relatively high weights which has led to the difference. It is notable that there is not much difference in the nominal growth numbers when the 2004-05 series is compared with the 2011-12 series. As such, most of the differences in the growth rates are due to the revision of the implicit price deflator for these sectors.

According to OECD, India would be the highest growth performer during FY19 among the major economies of the world. The OECD forecasts India's FY19 growth at 7.5% as compared to the overall global growth of 3.5% in 2019, which is a downward revision of 0.2% points due mainly to trade tensions and tighter financial conditions. China's growth in 2019 has been forecasted at 6.3% which is 0.3% lower than the 2018 growth at 6.6%.

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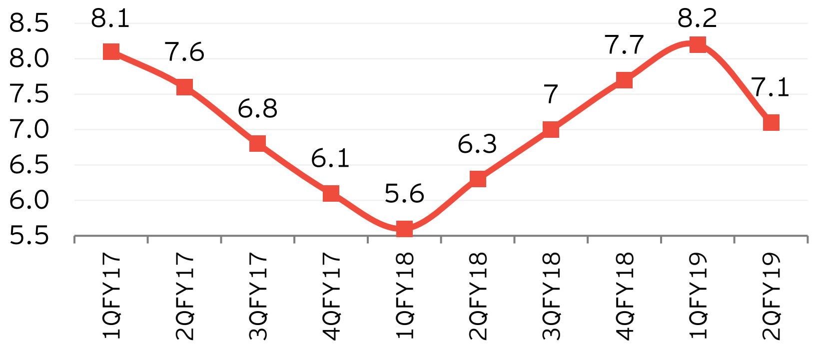
1. Growth: GDP growth moderated to 7.1% in 2QFY19

A. Growth: GDP growth was lower at 7.1% in 2QFY19 due to a negative contribution of net exports

- After steadily improving since 1QFY18 for four successive quarters, real GDP growth dipped to 7.1% in 2QFY19 mainly due to a negative contribution of net exports (Chart 1). However, during 1HFY19 GDP growth was higher at 7.6% as compared to 6.0% in 1HFY18.
- Private final consumption expenditure (PFCE) and gross fixed capital formation continued to support growth in 2QFY19.
- PFCE growth remained strong at 7.0% in 2QFY19, but was lower than 8.6% growth in 1QFY19. However, growth in gross fixed capital formation (GFCF) accelerated to 12.5% in 2QFY19 form 10.0% in 1QFY19.
- A sharp deterioration in net exports contribution to growth at (-) 3.0% points in 2QFY19 has negated the positive contributions (3.8% points) made by strong growth in investment (GFCF).
- On the output side, GVA growth moderated to 6.9% in 2QFY19 from 8.0% in 1QFY19 due to a relatively lower growth in manufacturing GVA and a contraction in the mining GVA.
- Growth in manufacturing GVA was lower at 7.4% in 2QFY19 while that of mining contracted by (-) 2.4% in 2QFY19 (Table 1).
- Growth momentum in the financial, real estate and professional services sector continued to remain robust at 6.3% in 2QFY19, but was marginally lower than 6.5% in 1QFY19. Similarly, GVA in construction sector also registered a lower growth of 7.8% in 2QFY19 as compared to 8.7% in 1QFY19.

Chart 1: GDP growth (y-o-y, %)



Source: MOSPI, GoI

Table 1: Real GDP and GVA growth (%)

Aggregate demand (AD) component	*2Q FY17*	*3Q FY17*	*4Q FY17*	*1Q FY18*	*2Q FY18*	*3Q FY18*	*4Q FY18*	*1Q FY19*	*2Q FY19*
PFCE	7.5	9.3	3.4	6.9	6.8	5.9	6.7	8.6	7.0
GFCE	8.2	12.3	23.6	17.6	3.8	6.8	16.8	7.6	12.7
GFCF	10.5	8.7	4.2	0.8	6.1	9.1	14.4	10.0	12.5
EXP	2.4	6.7	6.6	5.9	6.8	6.2	3.6	12.7	13.4
IMP	-0.4	10.1	6.6	18.5	10.0	10.5	10.9	12.5	25.6
GDP	**7.6**	**6.8**	**6.1**	**5.6**	**6.3**	**7.0**	**7.7**	**8.2**	**7.1**
Net Exp. Contributions to growth (% points)	*0.6*	*-0.8*	*0.0*	*-2.7*	*-0.8*	*-1.1*	*-1.5*	*-0.4*	***-3.0***
Sectoral real GVA growth (%)									
Agr.	5.5	7.5	7.1	3.0	2.6	3.1	4.5	5.3	3.8
Ming.	9.1	12.1	18.8	1.7	6.9	1.4	2.7	0.1	-2.4
Mfg.	7.7	8.1	6.1	-1.8	7.1	8.5	9.1	13.5	7.4
Elec.	7.1	9.5	8.1	7.1	7.7	6.1	7.7	7.3	9.2
Cons.	3.8	2.8	-3.9	1.8	3.1	6.6	11.5	8.7	7.8
Trans.	7.2	7.5	5.5	8.4	8.5	8.5	6.8	6.7	6.8
Fin.	8.3	2.8	1.0	8.4	6.1	6.9	5.0	6.5	6.3
Publ.	8.0	10.6	16.4	13.5	6.1	7.7	13.3	9.9	10.9
GVA	**7.2**	**6.9**	**6.0**	**5.6**	**6.1**	**6.6**	**7.6**	**8.0**	**6.9**

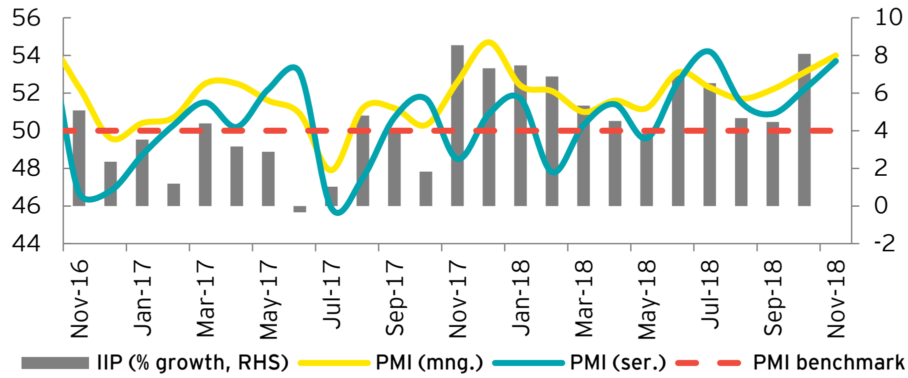
Source (Basic Data): MOSPI., **Provisional estimates

- Growth in agricultural and allied sectors slowed to 3.8% in 2QFY19 as compared to 5.3% in 1QFY19.
- However, GVA in public administration and defense sector grew at a faster pace of 10.9% in 2QFY19 as compared to 9.9% in 1QFY19

B. IIP growth: Accelerated to an 11-month peak of 8.1% in October 2018

- IIP growth increased to 8.1% (y-o-y) in October 2018, its fastest pace in 11 months, from 4.5% in September 2018 (Chart 1) due to a broad-based improvement in the growth of key sub-indices.
- Growth in the manufacturing sector output (accounting for 77.6% of overall IIP) was at a seven-month high of 7.9% in October 2018 as compared to 4.6% in September 2018. Growth in the output of electricity continued to remain robust at 10.8% in October 2018 as compared to 7.0% in September while mining output increased sharply to 7.0% during the month (Table A1) as compared to 0.1% in September 2018.
- Growth in the output of capital goods industry rose to a 36-month high of 16.8% in October 2018 from 6.5% in September 2018. Similarly, output growth of consumer durables accelerated to 17.6% from 5.2% in September 2018.
- Growth in the output of eight core infrastructure industries improved to 4.8% (y-o-y) in October 2018 from 4.3% in September 2018. This was led by a higher growth in the output of cement (18.4%), electricity (11.4%) and coal (10.6) during the month.

Chart 2: IIP growth and PMI



IIP growth at 8.1% in October 2018 was at its fastest pace since December 2017. This was led by a broad-based increase in the growth of key sub-industries.

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

C. PMI: Signaled a strong expansion in manufacturing and services in November 2018

- Headline manufacturing PMI (seasonally adjusted (sa)) increased further to 54.0 in November 2018 from 53.1 in October 2018. The November 2018 level was the highest since December 2017 (Chart 2). Increase in manufacturing output was primarily led by intermediate goods, although there was robust growth in consumer and capital goods output.
- Headline services PMI (sa) increased to a two-year high of 53.7 in November 2018 from 52.2 in October 2018 primarily led by robust growth in information and communication services.

In November 2018, manufacturing PMI at 54 increased to an 11-month high. Services PMI also reached a 2-year peak of 53.7 during the month.

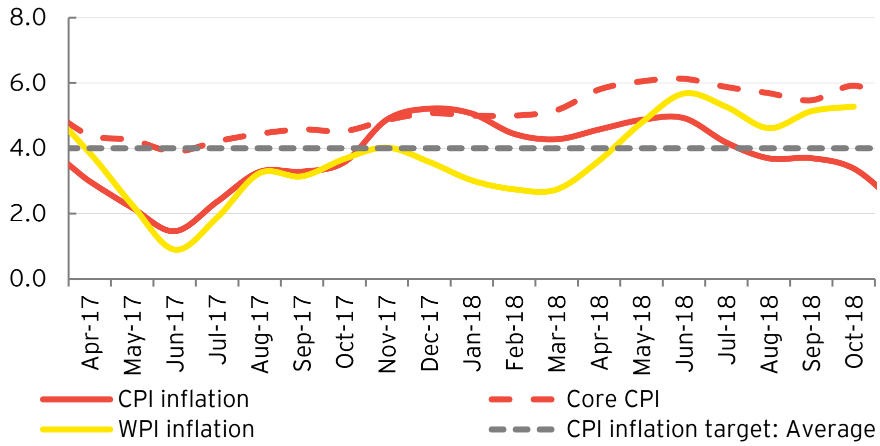
- The composite PMI Output Index (sa) increased to 54.5 in November 2018 from 53 in October 2018 driven by strong growth in both manufacturing and services sectors. This was the fastest expansion in the index since October 2016.

2. Inflation: CPI inflation eased to a 17-month low of 2.3% in November 2018

CPI inflation eased significantly to a 17-month low of 2.3% (y-o-y) in November 2018 from 3.4% in October 2018 (Chart 3) driven mainly by a contraction in food and fuel prices.

- The pace of contraction in consumer food prices quickened to (-) 2.6% in November 2018 from (-) 0.9% in October 2018. Contraction in food prices in October 2018 was the first in 15 months.
- The pace of contraction in vegetable prices nearly doubled to (-) 15.6% in November 2018, reaching a 17-month high, from (-) 8.1% in October 2018. This was mainly on account of falling onion and tomato prices.
- Fuel and light-based inflation eased to a five-month low of 7.4% in November 2018 from 8.5% in October 2018.
- Housing based inflation decelerated for the fifth successive month to a 15-month low of 6.0% in November 2018 from 6.6% in October 2018.
- Inflation in transportation and communication services fell sharply to a six-month low of 6.1% in November 2018 from a 61-month high of 7.7% in October 2018. This was driven by a near-halving of inflation in petrol used for transportation to 8.2% from 16.3% over the same period as a result of falling global crude prices.
- Core CPI inflation[1] moderated to an eight-month low of 5.4% in November 2018 from 5.9% in October 2018.

Chart 3: Inflation (y-o-y, %)



Source: MOSPI, Office of the Economic Advisor, Government of India (GoI)

Over the period June 2018 to November 2018, CPI inflation has fallen at a much faster pace to 2.3% from 4.9% as compared to Core CPI based inflation which fell to 5.4% from 6.1% over the same period.

WPI inflation fell for the second successive month to a three-month low of 4.6% in November from 5.3% (Chart 2) in October 2018 led by fall in inflation in vegetables and fuel.

- The pace of contraction in vegetable prices quickened to an all-time high (2011-12 series) of (-) 27.0% in November 2018 from (-) 18.7% in October 2018 driven by falling tomato prices.
- The pace of contraction in consumer food index based inflation increased to (-) 2.0% in November 2018 from (-) 0.6% in October 2018 whereas that in food articles more than doubled to (-) 3.3% from (-) 1.5% over the same period.
- Fuel and power-based inflation eased to a six-month low of 16.3% in November 2018 from a 19-month high of 18.4% in October 2018 driven by falling prices of petrol, diesel and naptha.
- Inflation in manufactured products moderated to 4.2% in November 2018 from 4.5% in October 2018 as inflation in manufacture of basic metals eased.
- WPI core inflation moderated to 4.9% in November 2018 from 5.1% in October 2018.

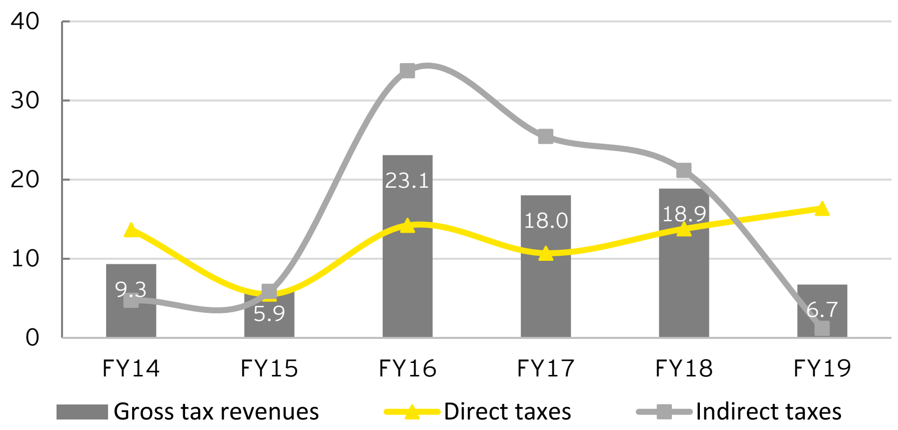
[1] Core CPI inflation is measured in different ways by different organizations/agencies. Here, it has been calculated by excluding food and fuel and light from the overall index.

3. Fiscal performance: Fiscal deficit during April-October 2018 stood at 104% of the annual budgeted target

A. Tax and non-tax revenues

- As per the Comptroller General of Accounts (CGA), gross central taxes grew by 6.7% during April-October FY19, lower than 18.9% during the corresponding period of FY18 (Chart 4).
- During April-October FY19, gross taxes stood at 45.7% of the FY19 annual budgeted target, lower than the three-year average (FY16 to FY18) at 48.7% during April-October as a percentage of annual actuals.
- Growth in direct tax revenues was at 16.4% during April-October FY19 as compared to 13.8% in the corresponding period of FY18 due to a strong growth in both income and corporation tax revenues.
- Growth in corporate income taxes was at 16.6% during April-October FY19 as compared to 11.8% during April-October FY18. Growth in personal income taxes was at 16.1% during April-October FY19, almost same as compared to 16.2% in the corresponding period of FY18.
- Growth in indirect taxes (comprising union excise duties, service tax, customs duty#, CGST, UTGST, IGST* and GST compensation cess) fell further to 1.2% during April-October FY19 as compared to 21.1% in the corresponding period of FY18. This may reflect the impact of IGST transmission to states first in July 2018 (INR39, 903 cr) and then in October 2018 (INR14, 215 cr).
- The buoyancy of center's gross taxes during 1HFY19 was 0.7 with direct tax buoyancy at 1.3 and indirect tax buoyancy at 0.3.
- The center's GST collection (CGST, UTGST, IGST* and GST compensation cess) up till October FY19 stood at INR3,31,464 crore which was 44.6% of the FY19 budget estimate (BE).

Chart 4: Growth in cumulated central tax revenues up to October 2018



As per the CGA, growth in center's gross taxes was 6.7% during April-October FY19 as compared to 18.9% during the corresponding period of FY18.

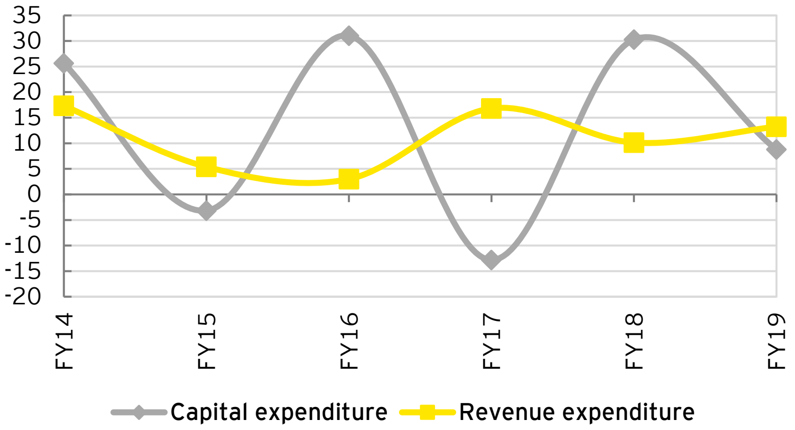
Source: Monthly Accounts, Controller General of Accounts, Government of India
Note: Direct taxes include personal income tax and corporation tax, and indirect taxes include union excise duties, service tax, customs duty, CGST, UTGST, IGST and GST compensation cess from July 2017 onwards; * IGST revenues are subject to final settlement; #Collections under customs for July 2017 also include INR 21,377 crore on account of IGST on Import/Exports and Compensation Cess on Imports /Exports of INR 609 crores for 2017-18.

- The center's non-tax revenues grew by 34.2% during April-October FY19 as compared to a contraction of (-) 43.4% in the corresponding period of FY18. Non-tax revenues during the first seven months of FY19 stood at 52.1% of the annual budgeted target as compared to three-year average (FY16 to FY18) at 58.4% during April-October as a percentage of annual actuals.
- According to the Department of Disinvestment, the disinvestment proceeds up to 5 December 2018 stood at INR32,737.45 crore which was only 40.9% of the FY19 annual budgeted target.

B. Expenditures: Revenue and capital

- Center's total expenditure during April-October FY19 grew by 12.7% as compared to 12.3% in the same period in FY18 (Chart 5). During April-October FY19, total expenditure stood at 59.6% of the FY19 annual budgeted target.
- Growth in revenue expenditure was at 13.2% during April-October, higher than 10.1% in the corresponding period of FY18.
- Center's capital expenditure grew by 8.8% during April-October FY19, lower than 30.3% in the corresponding period of FY18. Growth in center's capital expenditure during April-October has shown considerable volatility over the years.

Chart 5: Growth in cumulated central government expenditure up to October 2018



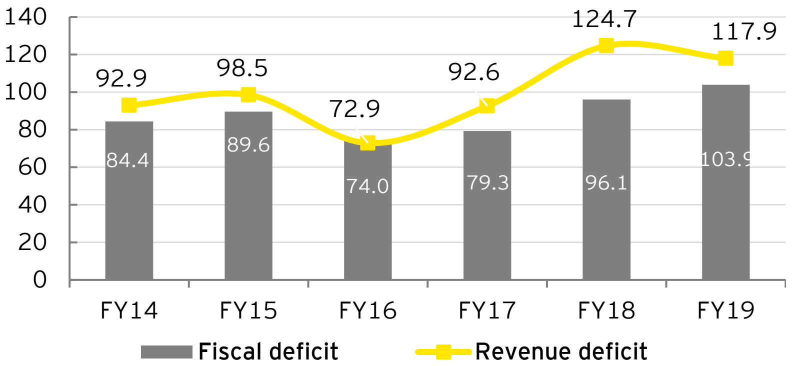
Center's total expenditure during April-October FY19 grew by 12.7%, marginally higher than 12.3% during the same period in FY18 led by a higher growth in revenue expenditure during the first seven months of FY19 relative to the comparable period in FY18.

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

C. Fiscal imbalance

- The center's fiscal deficit during April-October FY19 stood at 103.9% of the FY19 annual budgeted target as compared to 96.1% in the corresponding period of FY18 (Chart 6). The special committee on the RBI's economic capital framework (ECF) has indicated that the RBI may transfer at least about INR 1 lakh crore to the government. Thus, despite slower growth in indirect tax revenues, government may adhere to the FY19 fiscal deficit target by focusing on non-tax revenues and expenditure cuts if needed.
- The center's revenue deficit during April-October FY19 stood at 117.9% of the FY19 annual budgeted target, lower as compared to 124.7% in the corresponding period of FY18.

Chart 6: Cumulated fiscal and revenue deficit up to October 2018 as percentage of annual budgeted target



The center's fiscal deficit during April-October FY19 stood at 103.9% of the FY19 annual budgeted target. The corresponding number for revenue deficit was 117.9%.

Source: Monthly Accounts, Controller General of Accounts, Government of India, Medium-term Fiscal Policy Statement, Union Budget FY19.

4. India in a comparative perspective: Status and prospects

General government net lending/borrowing as % of GDP

Fiscal deficit to GDP ratio is projected to increase for AEs but fall for EMDEs in 2018 and 2019.

- For advanced economies, the IMF projected the fiscal deficit to increase to 2.5% of GDP in 2018 and 2019, after which it is expected to decline to 2.2% of GDP by 2023.
- The projections for 2018 and 2019 are on account of an expected expansionary fiscal stance in advanced economies owing largely to US fiscal stimulus. Fiscal deficit-GDP ratio in the US is projected to peak to 5% by 2019.
- Among the BRICS economies, Brazil had the highest fiscal deficit-GDP ratio in 2017 and this trend is expected to continue during the projection period. Fiscal deficit is first expected to increase in 2018, declining gradually thereafter.

Table 2: General government net lending/borrowing as % of GDP

	2017	2018	2019	2020	2021	2022	2023
AEs	**-2.2**	**-2.5**	**-2.5**	**-2.3**	**-2.4**	**-2.4**	**-2.2**
US	-3.8	-4.7	-5.0	-4.8	-4.9	-4.9	-4.5
Euro area	-0.9	-0.6	-0.6	-0.5	-0.7	-0.8	-0.9
Japan	-4.3	-3.7	-2.8	-2.1	-2.0	-1.9	-2.0
EMDEs	**-4.3**	**-3.8**	**-3.8**	**-3.7**	**-3.7**	**-3.7**	**-3.6**
Brazil	-7.8	-8.6	-8.0	-7.8	-7.5	-7.0	-6.7
Russia	-1.5	1.6	1.8	1.3	0.8	0.4	0.0
India*	-7.2	-6.6	-6.5	-6.3	-6.2	-6.0	-5.9
China	-3.9	-4.1	-4.4	-4.3	-4.2	-4.1	-4.0
S. Africa	-4.6	-4.6	-4.5	-4.5	-4.5	-4.5	-4.5

Source (basic data): IMF World Economic Outlook, October 2018
Note: estimated for 2018 and forecasted for 2019 and beyond;
-ve sign indicates a fiscal deficit and +ve sign indicates a fiscal surplus
*data pertains to fiscal year

- On the other hand, Russia is the only economy to have a fiscal surplus during the projection period although the surplus is expected to narrow after 2019.
- In India, general government fiscal deficit is expected to gradually decline from 7.2% of GDP in 2017 but remain above 6% till 2021 after which it is projected to remain around 6% until 2023.

Current account balance (CAB) as % of GDP

Global current account imbalance is projected to widen after 2018, with surplus for AEs narrowing and deficit for EMDEs widening

- For AEs, current account surplus is expected to narrow during the forecast period due to a reduction in the current account surplus of the Euro area.
- Current account deficit as percentage of GDP in the US is expected to widen from 2017 until 2022 driven by expansionary fiscal policy.
- In the group of selected EMDEs, current account surplus in China is expected to fall from 1.4% of GDP in 2017 to 0.1% of GDP by 2023.
- Current account surplus in Russia is expected to increase in 2018 due to a sharp rise in global oil prices. It is projected to gradually decline thereafter as average oil prices are expected to decline compared to their levels in 2018.

Table 3: Current account balance as % of GDP

	2017	2018	2019	2020	2021	2022	2023
AEs	0.9	0.7	0.5	0.5	0.4	0.3	0.4
US	-2.3	-2.5	-3.0	-3.2	-3.3	-3.4	-3.3
Euro area	3.5	3.0	2.9	2.9	2.8	2.7	2.6
Japan	4.0	3.6	3.8	4.1	4.2	4.1	4.1
EMDEs	-0.04	-0.02	-0.01	-0.2	-0.4	-0.6	-0.7
Brazil	-0.5	-1.3	-1.6	-1.7	-1.8	-1.8	-1.9
Russia	2.2	6.2	5.2	4.3	4.0	3.9	3.4
India*	-1.9	-3.0	-2.5	-2.4	-2.4	-2.5	-2.6
China	1.4	0.7	0.7	0.7	0.5	0.3	0.1
S. Africa	-2.5	-3.2	-3.5	-3.5	-3.6	-3.6	-3.6

Source (basic data): IMF World Economic Outlook, October 2018
Note: estimated for 2018 and forecasted for 2019 and beyond;
-ve sign indicates a current account deficit and +ve sign indicates a current account surplus
*data pertains to fiscal year

- In India, current account deficit is projected to increase to 3% of GDP in 2018 after which it is expected to hover around 2.5% of GDP during the projection period.

5. In focus: Economic reforms since 2014: Taking stock of NDA's economic initiatives

Introduction

India has embarked upon a journey of substantive economic reforms since the early 90s. The last five years under the current National Democratic Alliance (NDA) government have seen a succession of reforms at a fast pace. On the eve of the completion of their current five-year term, it is useful to assess the progress of these reforms and their impact. For this purpose, we have focused on selected major reforms.

Make in India: Expanding India's industrial base

Make in India was one of the first of the major initiatives launched by the NDA government. Make in India identified 25 major sectors as listed in Table 4. The primary objective of the scheme was to attract global investments and strengthen India's manufacturing sector. Several supporting reforms were undertaken including (1) relaxation of FDI norms, (2) Ease of Doing Business and (3) GST.

Table 4: Make in India: Sectors covered		
Automobiles	Electronic systems	Ports and shipping
Automobile components	Food processing	Railways
Aviation	IT and BPM	Renewable energy
Bio-technology	Leather	Roads and highways
Chemicals	Media and entertainment	Space
Construction	Mining	Textile and garments
Defense manufacturing	Oil and gas	Thermal power
Electrical machinery	Pharmaceuticals	Tourism and hospitality
		Wellness

Source (basic data): http://www.makeinindia.com/home/

Table 5 shows that Make in India has not resulted in increasing the share of manufacturing or industry in GVA during FY2015 to FY2018. In fact, there has been a fall in their share, as also that of agriculture, whereas the share of services has increased by 2.02% points. This was despite the liberalization of FDI norms in several sectors to attract more investment. For example, in early 2018, the 100% automatic route for FDI was opened up for the single brand retail trading sector, real-estate broking service sector and core investing companies registered with the RBI.

Table 5: Sectoral composition of nominal GVA (% share)

Fiscal year	Share of agriculture	Share of manufacturing	Share of industries	Share of services
FY2012	18.53	17.39	32.50	48.97
FY2013	18.20	17.09	31.77	50.03
FY2014	18.59	16.53	30.79	50.62
FY2015	18.20	16.33	29.97	51.83
FY2016	17.71	16.84	29.81	52.48
FY2017	17.95	16.83	29.29	52.76
FY2018	17.09	16.67	29.06	53.85
FY18–FY15(% points)	-1.11	-0.34	-0.91	2.02

Source: (Basic Data): National Income Accounts, Ministry Of Statistics and Programme Implementation (MOSPI)

Ease of Doing Business

A concerted effort was made to uplift India's ranking in the Ease of Doing Business (EoDB), an index prepared by the World Bank. The ranking is based on relative performance of a country with respect to ten parameters namely: (1) Starting a business, (2) Dealing with construction permits, (3) Getting electricity, (4) Registering property, (5) Getting credit, (6) Paying taxes, (7) Trading across borders, (8) Protecting minority investors, (9) Enforcing contracts and (10) Resolving insolvency. After remaining nearly stagnant for three consecutive years till 2016, India's ranking showed remarkable improvement over the next two years, jumping 54 places to 77 in 2018 from 131 in 2016.

Table 6: Ease of Doing Business Rankings

Year	2014	2015	2016	2017	2018	2019	2020 (target)
Rank	142	134	130	131	100	77	<50

Source: Doing Business 2019, World Bank
Note: Reforms undertaken in the previous year are reflected in the current year EoDB report. For example the 2019 EoDB report reflects reforms undertaken during the period June 2017 – May 2018

Financial Sector Reforms: Reducing NPAs

The financial sector reforms have focused on reducing the burgeoning NPAs of the public-sector banks (PSBs). The government has undertaken several initiatives to resolve NPAs, recapitalize weaker banks and push credit growth as the Indian economy experienced a falling investment ratio. The Insolvency and Bankruptcy Code, 2016 (IBC) was enacted to create a unified framework for resolving insolvency and bankruptcy matters. Additionally, The Banking Regulation Act, 1949 was amended to provide RBI the authorization to issue directions to banks to initiate the insolvency resolution process under IBC.

Under the PSBs Reforms Agenda, PSBs have created stressed asset management verticals for stringent recovery, segregated pre- and post-sanction follow-up roles for clean and effective monitoring, initiated creation of online one-time settlement platforms and committed to monitoring large-value accounts by tying up with specialized monitoring agencies for loans of INR 250 crore and above. Further six new debts recovery tribunals have been established to expedite recovery. In October 2017, the government had announced a capital infusion program of INR2.11 lakh crore. According to the plan, PSBs were to get INR1.35 lakh crore through recapitalization bonds, and the balance INR58,000 crore through the raising of capital from the market. Out of the INR1.35 lakh crore, the government has already infused about INR82,000 crore through bonds. The government also received assistance from the RBI last month when it deferred the deadline to meet the "capital conservation buffer" of 2.5% by one year to March 2020, freeing about INR37,000 crore for banks. Despite the efforts by the center and the RBI, the gross NPA to gross advances ratio has more than tripled from 3.8% at end-FY14 to 11.6% at end-FY18. It is expected to further rise to 12.2% by end-FY19.

Although credit growth has managed to reach in double digits after bottoming out at 5.1% in 1QFY2018 post demonetization, it remains close to half of the peak growth rate of 24.1% reached in 3QFY2011 as shown in Chart 7.

Chart 7: Gross NPAs to Gross Advances Ratio (%)

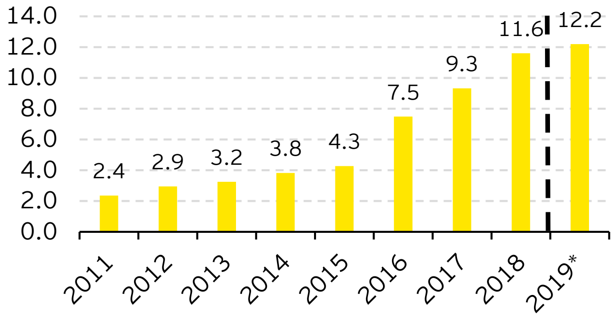
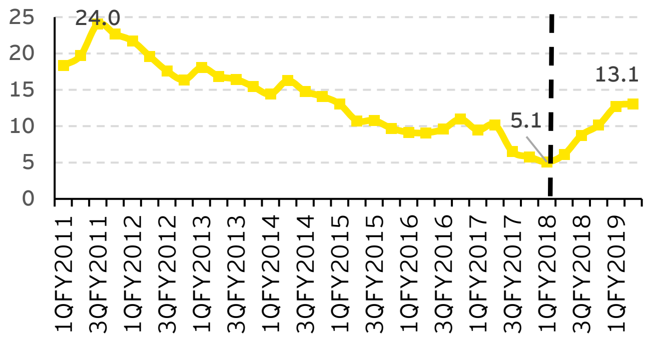


Chart 8: Growth in Banking credit



Source (Basic Data): RBI, CSO
*Projected by IMF

Financial Inclusion Reforms: Jan Dhan Yojana and Mudra Yojana

Jan-Dhan Yojana was launched in August 2014 with the objective of expanding financial inclusion, by providing zero balance bank accounts for individuals. The accounts have played a pivotal role in the implementation of the direct benefit transfer scheme of the government. Since its inception, a total of 33.2 crore accounts have been opened, nearly 60% from rural areas, with deposits totaling to INR84,238 crore as on 14 November 2018. The average account balance has increased more than 3 times over this period.

Table 7: Jan Dhan Accounts: Number, total deposits and average balance

	Total number of accounts (in crores)			Total Deposits	Average balance
Date	Rural	Urban	Total	(INR Cr)	(INR)
09-Sep-14	3.2	2.2	5.4	4,273	795

31-Mar-15	8.8	5.9	14.7	15,670	1,065
31-Mar-16	13.2	8.3	21.4	35,672	1,665
29-Mar-17	16.9	11.3	28.2	62,972	2,236
28-Mar-18	18.5	12.9	31.4	78,494	2,496
14-Nov-18	19.7	13.6	33.2	84,238	2,535

Source: PMJDY

The Pradhan Mantri Mudra Yojana (PMMY) was launched in April 2015 to promote development of micro enterprises and bring them under the formal credit net. Under the scheme loans up to INR10 lakh are provided to small/micro enterprises by commercial banks, RRBs, small finance banks, cooperative banks, micro finance institutions and NBFCs. Table 8 shows the year-wise loans sanctioned and disbursed under PMMY. During FY18, loans sanctioned under the PMMY increased by 40.5% y-o-y to INR 2.5 lakh crore, equivalent to about 3% of total banking credit in the economy[2]. The share of gross NPAs in outstanding Mudra loans also eased to 4.83% at end FY18 from 6.15% at end FY17[3]. These ratios are much lower than the 11% NPA ratio in the overall micro, small and medium enterprises (MSME) category[4].

Table 8: Year-wise loans sanctioned and disbursed under PMMY

	Amount (INR Cr)		Growth (%)	
Year	Sanctioned	Disbursed	Sanctioned	Disbursed
2015-16	1,37,449	1,32,955		
2016-17	1,80,529	1,75,312	31.3	31.9
2017-18	2,53,677	2,46,437	40.5	40.6

Source: https://www.mudra.org.in/

Fiscal Reforms

In the group of fiscal reforms, the following may be mentioned: (a) Direct Benefit Transfer (DBT) and subsidy reduction, (b) GST, (c) FRBMA, and fiscal consolidation, (d) Abolition of plan non-plan distinction and (e) Advancement of Budget presentation.

Subsidy reduction and Direct Benefit Transfer

The Direct Benefit Transfer Scheme was launched by the UPA-2 in 2013. It aimed at providing subsidies and benefits directly to beneficiaries through bank accounts rather than through government offices, removing leakages and enabling better targeting. A total of 433 schemes from 56 ministries of the center are currently deploying direct benefit transfer. The center estimates to have saved INR 90,013 crores till March 2018 through the implementation of DBT as shown in Table 9.

Table 9: Estimated Savings/Benefits under Direct Benefit Transfer Scheme

S. No.	Ministry/ Department	Estimated savings / benefits (in INR Crore)		
		Cumulative upto March 2017	Total during 2017-18	Cumulative upto March 2018
1	Petroleum & Natural Gas	29,769	12,506	42,275
2	Food & Public Distribution	14,000	15,708	29,708
3	Rural Development	12,140	4,372	16,512
4	Minority Affairs	-	159.2	159.2
5	Social Justice & Empowerment	-	238.3	238.3
6	Others	1,120	0.7	1,120.7
Total		**57,029**	**32,984**	**90,013**

Source: https://dbtbharat.gov.in/

Table 10 shows that from 2013-14 to 2017-18, the number of beneficiaries under DBT has grown nearly 12 times while the funds transferred has grown nearly 25 times.

Table 10: No. of beneficiaries and amount of funds transferred under Direct Benefit Transfer scheme

	No. of beneficiaries (in cr)			Funds transferred (in cr)		
Year	Cash	In Kind	Total	Cash	In Kind	Total
2013-14	10.8		10.8	7,637		7,637
2014-15	22.8		22.8	38,926		38,926
2015-16	31.2		31.2	61,942		61,942

[2] Annual Report 2017-18, PMMY; Annual Report 2016-17, PMMY
[3] https://www.financialexpress.com/economy/mudra-loan-npas-ease-to-4-83-per-cent-from-6-15-a-year-ago/1375780
[4] https://www.financialexpress.com/market/kotak-report-mfi-small-business-loans-are-reported-under-mudra/1396067

2016-17	35.7		35.7	74,689		74,689
2017-18	46.3	77.7	124	1,70,292	20,579	1,90,871
2018-19	53.7	76.4	130.1	1,10,895	50,873	1,61,768

Source: https://dbtbharat.gov.in/

Table 11 shows that government's food subsidy bill as percentage of center's (net) revenue receipts fell by 3.7% points during the period FY15 to FY18. The total major subsidies during the same period fell by 9.3% points.

Table 11: Central subsidies during FY12 to FY18

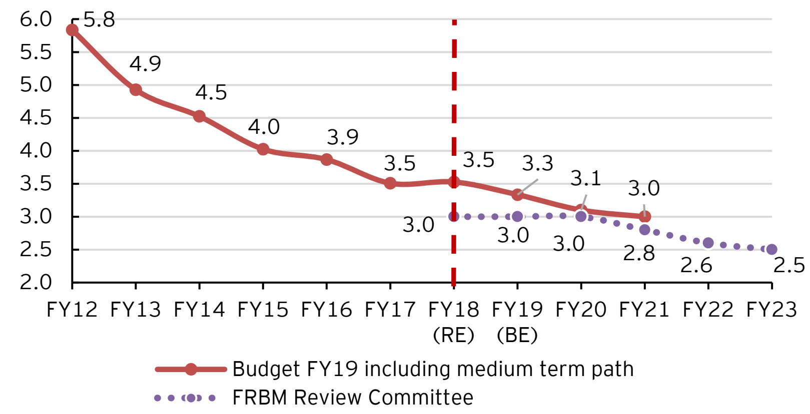
Fiscal Year	As percentage of center's revenue receipts				As percentage of nominal GDP			
	Total major subsidies	Fertilizer	Food	Petroleum	Total major subsidies	Fertilizer	Food	Petroleum
FY15	22.6	6.5	10.7	5.5	2.0	0.6	0.9	0.5
FY16	20.2	6.1	11.7	2.5	1.8	0.5	1.0	0.2
FY17	14.8	4.8	8.0	2.0	1.3	0.4	0.7	0.2
FY18*	13.3	4.6	7.0	1.7	1.1	0.4	0.6	0.1
FY18-FY15	-9.3	-1.8	-3.7	-3.8	-0.9	-0.2	-0.3	-0.3

*actuals as per CGA

Source (basic data): Union Budget documents, CGA, MOSPI

Three successful efficiency enhancing budgetary reforms relate to: (a) Abolition of the plan non-plan distinction for classifying government expenditures, (b) Advancement of presentation of central budget from February end to the beginning to February and (c) Merger of railway budget in the general budget of the Union government.

Chart 9: Fiscal roadmap (Fiscal deficit as % of GDP)



Source (Basic Data): Union budget documents, CGA, MOSPI, Amendment to FRBM (Amendment) Rules and Acts, 2018, MoF

The center has taken upon itself the fiscal responsibility of managing the consolidated debt on account of the union government and the consolidated debt on account of state governments in the context of Articles 292 and 293 of the Constitution. The amended FRBMA has determined the consolidated debt-GDP ratio ceiling at 60% while the center's debt-GDP ratio ceiling has been fixed at 40%. Subject to adjustment for center's on-lending to the state governments, it is implied that the debt-GDP target for the combined debt of the state governments is 20%. In 2017-18, center's debt GDP ratio was 50.1% of GDP and the combined debt GDP ratio was close to 68.9%. In the new framework, fiscal deficit is only an operational target. Achieving the fiscal deficit target of 3% of GDP has been shifted to 2021. Reducing the debt GDP ratio from the current level to 40% has been shifted to 2024-25. Center's modified fiscal roadmap is shown in Chart 9.

A major fiscal reform related to the implementation of the Goods and Services Tax (GST) which required a constitutional amendment (One Hundred and First Amendment Act). This Amendment provided for the setting up of a GST Council in which both the central and all the state governments including the union territories (UTs) with legislatures are represented. The broad rate structure agreed to, had five rate categories as indicated below:

GST Rate	Special rate	Special rate	Lower merit rate	Higher merit rate	Higher merit rate	Standard rate	Demerit rate
	Nil	0.25%	3%	5%	12%	18%	28%

Source (basic data): CBIC; http://www.cbic.gov.in/htdocs-cbec/gst/index

The implementation of GST has been characterized by initial teething troubles which included interface with the IT platforms, frequent revision in commodities being placed in different rate categories, deficiency in revenues raised from the compensation cess and lower than expected revenue growth of CGST, SGST and IGST. It is expected that it might take 1 to 2 years more for the GST system to normalize.

Pradhan Mantri Fasal Bima Yojana (Crop Insurance)

The Pradhan Mantri Fasal Bima Yojana (PMFBY) was launched in April 2016. The scheme provides subsidized insurance to all farmers – 1.5% of the sum insured for rabi crops, 2% for kharif crops, and 5% for horticulture and other commercial crops – besides enhancing the sum insured to cover the cost of cultivation. It has targeted covering 100 million hectares equivalent to 50% of gross cropped area under insurance by 2018-19 as compared to 23% prior to launch of the scheme.

Social sector reforms: Health

Mission Indradhanush

Mission Indradhanush (MI) was launched in December 2014 as an additional vaccination program in 201 districts with low immunization coverage, to ensure that all children under the age of two years and pregnant women are immunized against seven major diseases. Since then, five more diseases have been added. Further in October 2017 the government launched the intensified MI aiming to reach full immunization – or 90 per cent coverage – by December 2018. During the first two phases of this mission, full immunization coverage increased by 6.7% in a year as compared to 1% in the past. According to the National Family Health Survey 4 data, which is prior to the launch of MI, vaccinations among both boys and girls was in the 62% range[5]. Immunization data post MI is still awaited for India. Its current infant mortality rate (2016) is 34 deaths per 1,000 live births and the maternal mortality rate is 130 per 100,000 live births.

Ayushman Bharat-Pradhan Mantri Jan Aarogya Yojna (AB-PMJAY)

The AB-PMJAY considered as the world's largest health-protection scheme, aims to finance hospitalization of 10.74 crore underprivileged families (50 crore people) to the extent of INR5 lakh annually. These families are the ones defined as "poor and vulnerable" in the Rural Development Ministry's Socio-Economic Caste Census, published in 2011 and updated in 2015. To this extent, AB-PMJAY is an entitlement-based plan that won't invite enrolments and will have a pre-determined set of beneficiaries. As of 27 November 2018, 3,65,860 beneficiaries have sought hospitalization under the plan[6]. Identification of beneficiaries and stabilization of IT platforms, developed to run the plan, pose pressing challenges. Also, bulk of the hospitals empaneled under the AB-PMJAY are not accredited to the NABH (National Accreditation Board for Hospitals and Healthcare Providers) or other similar agencies offering quality certification.[7]

Smart Cities

The Smart Cities Mission (SCM) was launched by the government in June 2015. The initiative involved selection of cities, and subsequently development of their core infrastructure such as affordable housing, integrated multi-modal transport, creation and preservation of open spaces and waste and traffic management using modern technology[8]. Under the mission, a total of 99 cities have been selected through four rounds with the last nine selected in January 2018. The target for completing the cities is as follows:

Table 12: Selection and completion timeline of smart cities

Round No.	Time of selection	No. of cities selected	Timeline for completion
1	Jan 2016	20	2019-20 to 2020-21
Fast track round	May 2016	13	2019-20 to 2020-21
2	Sep 2016	27	2019-20 to 2021-22
3	Jun 2017	30	2020-21 to 2021-22
4	Jan 2018	9	2020-21 to 2022-23
Total		99	

Source: http://mohua.gov.in/cms/smart-cities.php; http://pib.nic.in/newsite/PrintRelease.aspx?relid=179368

The government initially allotted a sum of INR98,000 crore which was increased to INR 2.0 lakh crore in Budget 2018-19. The first batch of twenty cities that were selected in January 2016 were to be provided a sum of INR200 crore during FY 2015-16, followed by INR100 crore per year for the next three years implying a total

[5] https://indianexpress.com/article/india/one-of-12-best-practices-in-the-world-intensified-mission-indradhanush-to-feature-in-bmj-special-issue-5464196/
[6] https://www.pmjay.gov.in/
[7] https://www.financialexpress.com/money/insurance/daily-hospitalisation-under-pmjay-may-double-by-january/1398744/
[8] http://bwsmartcities.businessworld.in/article/Assessment-and-Estimation-of-the-Smart-Cities-Mission/14-05-2018-149126/

contribution of INR 500 crore from the center. According to a study[9], by March 2018 only 8% of the total identified projects valued at 3% of the total estimated cost were completed. According to available information[10], smart road projects have been completed in four cities, smart solar projects in six cities and smart water projects in six cities. Smart waste water projects have been either completed or are under implementation/tendering in 46 cities. However, all projects in the 20 cities selected in the first round are expected to be completed only by 2021 missing the original deadline of 2020.[11]

Road transport: Bharatmala

Bharatmala Pariyojana, a program aimed at bridging critical infrastructure gaps through the development of economic corridors, inter- corridors and feeder routes, border and international connectivity roads, coastal and port connectivity roads and greenfield expressways, was launched by the government in October 2017. Under Phase-I of the program about 35,000 km of road construction is targeted to be completed by FY22 at an estimated cost of INR5.35 lakh crore.

One of the major challenges to the program is that the total capital cost at 23.1 crore per km of 6,361 km of projects awarded so far exceeds the cost approved by the Cabinet Committee on Economic Affairs (CCEA) by 50%. Due to the lag in achievement of its financial targets, award targets for the remaining part of the year are expected to be more stringent.

Road transport: Construction of national highways

Over the last four years, construction of national highways has steadily increased. The rate of construction of national highways has more than doubled over the period FY15-18 from 12 km/day to 26.9 km/day. As against 4,410 km of national highways constructed in FY15, 9,829 km were constructed in FY18. Cumulatively 28,531 km of national highways have been constructed in the four-year period FY15-18 as compared to 16,505 km constructed in the four preceding years.

Table 13: Year-wise awards and construction of national highways (in kms)

Year	Awarded	Constructed	Rate of construction in km/day
FY15	7,972	4,410	12
FY16	10,098	6,061	16.6
FY17	15,948	8,231	22.5
FY18	17,055	9,829	26.9
Apr-Aug 2018	NA	3,490	23.3

Source: https://www.financialexpress.com/infrastructure/highway-construction-monsoon-blues-in-august/1332273/

Railways: In the railway sector reforms include 100% FDI in railway infrastructure through the automatic route, announcement of the first high-speed bullet train between Ahmedabad and Mumbai, construction of two dedicated freight corridors, reduction in freight rates for the first in railways history[12] and merger of the rail budget with the Union Budget. The Mumbai-Ahmedabad High Speed Railway Corridor is the first high speed rail project being implemented in India. Two dedicated freight corridors (DFC) have also been planned, covering a length of 2,822 km. In October 2018 the government cleared railway station redevelopment and modernization policy. It plans to invest about INR1 trillion in 600 railway stations[13].

Conclusion: NDA government reforms since 2014 were largely supply-side reforms which have aimed at increasing overall efficiency in the economy. The positive impact of these reforms is expected to become visible in the medium to long term. There is also a need to generate greater synergy by establishing connectivity amongst different programs which appear to be relevant as individual initiatives but interconnections and sequencing amongst them would help augment their overall impact. There is also a need to complement the supply-side initiatives by a greater emphasis on stimulating demand and uplifting India's growth rate to its potential growth rate which is assessed to be more than 8%.

[9] http://hlrn.org.in/documents/Smart_Cities_Report_2018.pdf
[10] press release by the MoHUPA on 17 May 2018
[11] https://www.hindustantimes.com/india-news/20-smart-cities-may-be-ready-only-by-2021/story-g3WNnnHEj8VSDROkTKYWjJ.html
[12] http://pib.nic.in/newsite/mbErel.aspx?relid=174358
[13] https://www.business-standard.com/article/economy-policy/cabinet-clears-the-decks-for-rs-1-trn-railway-station-modernisation-plan-118100301095_1.html

6. Money and finance: The RBI retained the repo rate at 6.5% in its December 2018 monetary policy review

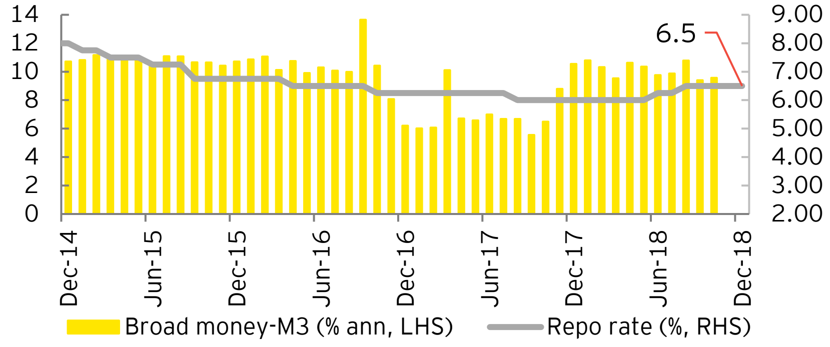
Home

A. Monetary sector

Monetary policy

- As widely expected, the RBI retained its repo rate at 6.5% during the fifth bi-monthly monetary policy review held on 5 December 2018 and continued to maintain the policy stance as "Calibrated Tightening".
- However, the RBI has announced the lowering of the Statutory Liquidity Ratio (SLR) through a phased reduction of 25 basis points in each quarter, with effect from 4QFY19, until it reaches 18.0% from the current level of 19.5%. This move is likely to free-up additional loanable funds and improve the liquidity conditions in the banking sector.

Chart 10: Growth in broad money and movements in repo rate



The RBI retained the repo rate at 6.5% in its December 2018 monetary policy review. However, it has announced the lowering of the SLR by 150 basis points in six instalments starting from 4QFY19, until it reaches 18.0% from its current level of 19.5%.

Source: Database on Indian Economy, RBI.

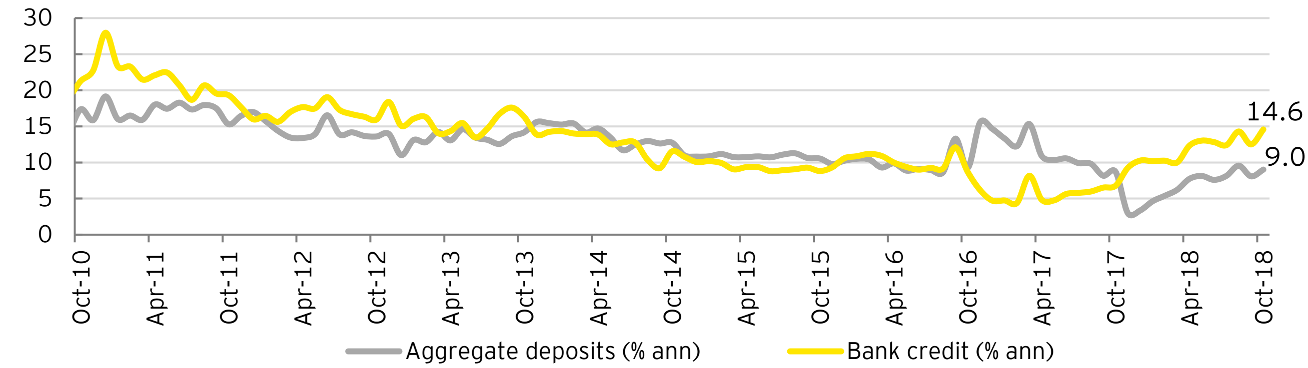
Money stock

- Broad money stock (M3) growth marginally increased to 9.6% (y-o-y) in October 2018 from 9.4% in September 2018 (Chart 10). Time deposits, which account for over 76% of the broad money stock, grew by 8.2% in October 2018 as compared to 8.0% in September 2018.
- Growth in narrow money (M1) was at 14.7% in October 2018, slightly higher than 14.6% in September 2018 supported by above 20% growth of currency in circulation. Despite increased use of digital modes of payment, currency continues to dominate as a preferred mode. This is reflected in a higher currency intensity of GDP (the ratio of currency in circulation to GDP) at 10.9% by the end of FY18 as compared to 8.8% in FY17.

Aggregate credit and deposits

- Bank credit growth accelerated to a five-year peak of 14.6% (y-o-y) in October 2018 from 12.5% in September 2018 due to a pickup in investment demand (Chart 11).

Chart 11: Growth in credit and deposits



Source: Database on Indian Economy, RBI.

- Growth in non-food credit increased to a 54-month high of 13.4% (y-o-y) in October 2018 from 11.3% in September 2018 led by broad based improvement in credit offtake amongst the key sectors of the economy.

- Growth in credit to industries reached a 32-month peak of 3.7% in October 2018 from 2.3% in September 2018 while growth momentum in credit to services remained robust at 27.4% in October 2018. Growth in credit to agricultural sector accelerated to 8.0% in October from 5.8% in September 2018.
- In line with other industry segments, growth in housing sector credit also continued to remain strong at 17.6% in October 2018 increasing from 15.6% growth in September 2018.
- Growth in aggregate bank deposits increased to 9.0% in October 2018 from 8.1% in September 2018.

B. Financial sector

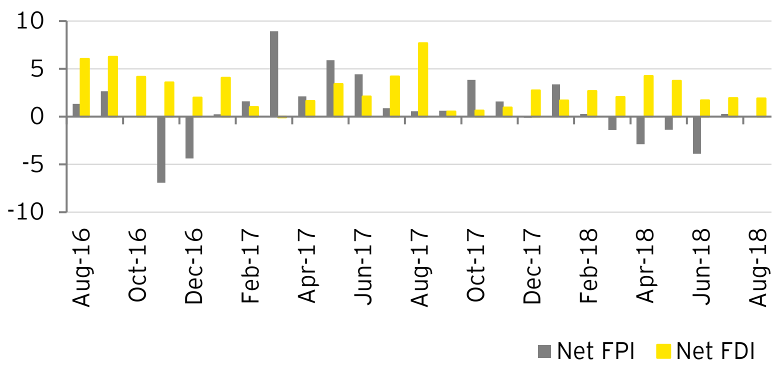
Interest rates

- As per the data released by the RBI, interest rates offered by banks on term deposits with a maturity of more than one year has been increased to 6.83% (average) in November 2018 from 6.75% in October 2018.
- The MCLR was increased for the sixth successive month to average 8.28% in November 2018 from 8.22% in October 2018.
- The average yield on 10-year government securities moderated for the second straight month to 7.81% in November 2018 from 7.93% in October 2018. This can be attributed to falling crude oil prices and easing trend of CPI inflation.

FDI and FPI

- As per the provisional data released by the RBI, the overall foreign investment inflows (FIIs) were lower at US$1.8 (revised) billion in August 2018 as compared to US$2.2 billion (revised) in July 2018. A slowdown in FIIs may have an adverse impact on the financing of the current account deficit thereby increasing the pressure on the rupee.

Chart 12: Net FDI and FPI inflows



Net FDI inflows were low but broadly stable around US$1.8 billion (revised) in August 2018 while net FPI inflows were lower at US$0.05 billion.

Source: Database on Indian Economy, RBI.

- Net FDI inflows continued to remain relatively low at US$1.8 billion in August 2018, marginally lower than US$1.9 billion in July 2018 (Chart 12). Gross FDI inflows were lower at US$3.7 billion in August 2018 as compared to US$4.4 billion in July 2018.
- Although net FPIs continued to remain positive for the second straight month in August 2018, these were significantly lower at US$0.05 billion as compared to US$0.3 billion (revised) in July 2018.

7. Trade and CAB: Growth in merchandise exports plunged to 0.8% in November 2018

A. CAB: Current Account Deficit (CAD) increased to 2.9% of GDP in 2QFY19

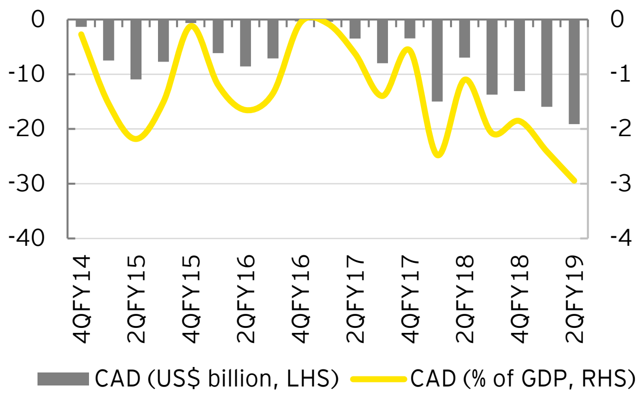
- CAD in 2QFY19 deteriorated to a 21-quarter high of 2.9% of GDP from 2.4% of GDP in 1QFY19 (Table 14) as merchandise trade deficit rose to a 23-quarter high of US$50.0 billion. This was due to merchandise imports reaching an all-time high of US$133.4 billion due to faster growth in oil imports, even as exports growth remained subdued. Although net income receipts deficit reached an all-time high, the strong performance of net transfers and net service exports was reflected in net invisibles increasing to 4.8% of GDP in 2QFY19 from 4.5% in 1QFY19. Further, CAD is expected to fall in 3QFY19 reflecting the lower oil import bill.

Table 14: Components of CAB in US$ billion

	CAB (-deficit/ +surplus)	CAB as a % of nominal GDP	Goods account net	Services account net
FY15	-26.8	-1.3	-144.9	76.6
FY16	-22.2	-1.0	-130.1	69.7
FY17	-15.3	-0.7	-112.4	67.5
FY18	-48.7	-1.9	-160.0	77.6
3QFY18	-13.7	-2.1	-44.0	20.7
4QFY18	-13.1	-1.9	-41.6	20.2
1QFY19	-15.9	-2.4	-45.8	18.7
2QFY19	-19.1	-2.9	-50.0	20.2

Source: Database on Indian Economy, RBI.

Chart 13: CAD



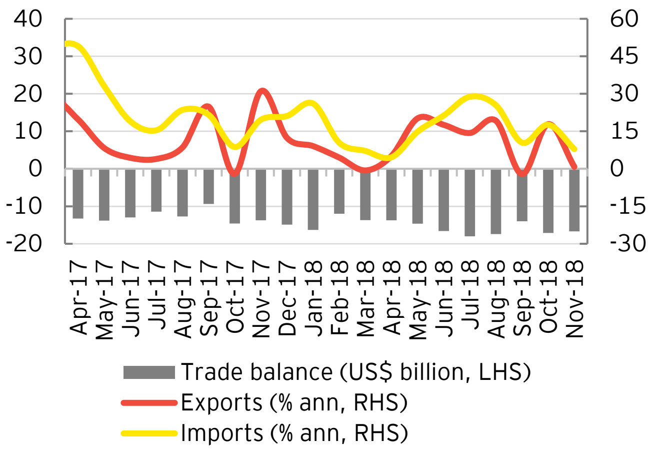
Source: Database on Indian Economy, RBI.

B. Merchandise trade and exchange rate

In November 2018, growth in merchandise exports plummeted to 0.8% in November 2018 from 17.9% in October 2018. Growth in merchandise imports fell to 7.9% from 17.6% over the same period.

- Merchandise exports growth fell to 0.8% in November 2018 from 17.9% in October 2018 (Chart 14) partly due to unfavorable base effect.

Chart 14: Developments in merchandise trade



Source: Ministry of Commerce and Industry, GoI

- Growth in exports of engineering goods and gems and jewelry turned negative at (-) 16.4% and (-) 16.9% respectively in November 2018 from 5.5% and 8.9% respectively in October 2018 partly due to base effect.
- Growth in oil exports remained elevated at 42.7% in November 2018 as compared to 49.4% in October 2018.
- Imports growth eased to 7.9% in November 2018 from 17.6% in October 2018, due to fall in growth in imports of oil and electronic goods, and aided by contraction in gems and jewelry imports.
- Growth in oil imports eased to 41.3% in November 2018 from 52.6% in October 2018.
- Merchandise trade deficit moderated to US$16.7 billion in November 2018 from US$17.1 billion in October 2018.
- The Indian Rupee appreciated for the first time after nine successive months of depreciation, to INR71.8 per US$ in November 2018 from INR 73.7 per US$ in October 2018 driven partly by a fall in the oil import bill.

8. Global growth: OECD projected global growth at 3.7% in 2018, easing to 3.5% in 2019

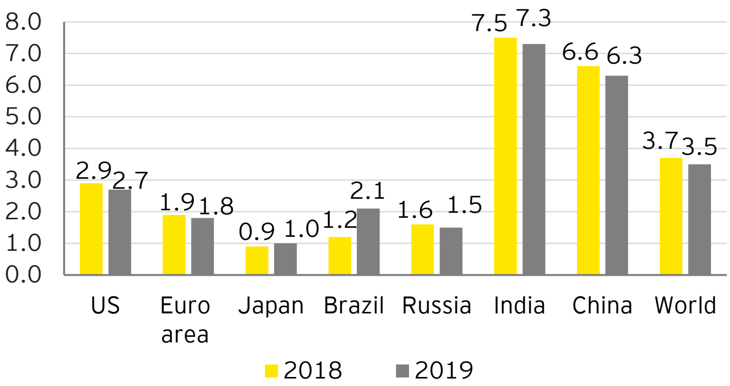
A. Global growth outlook

- The OECD [Economic Outlook, November 2018] projected the global growth at 3.7% in 2018 and revised down the forecast for 2019 by 0.2% points to 3.5% due to less accommodative macroeconomic policies, trade tensions, tighter financial conditions and rising oil prices (Chart 15).
- In the US, growth is projected at 2.9% in 2018, easing to 2.7% in 2019 as support from fiscal easing wanes and monetary policy normalization continues. In OECD's assessment, higher tariffs have started increasing business costs and may moderate investment growth.
- Growth in the Euro area is projected at 1.9% in 2018, moderating to 1.8% in 2019. Although domestic demand has been supported by accommodative monetary policy and expansionary fiscal policy, challenges to growth stem from weaker external demand and higher policy uncertainty.

The OECD projected the global growth at 3.7% in 2018, moderating to 3.5% in 2019. Growth forecasts have been revised down for 2019 for most of the world's major economies.

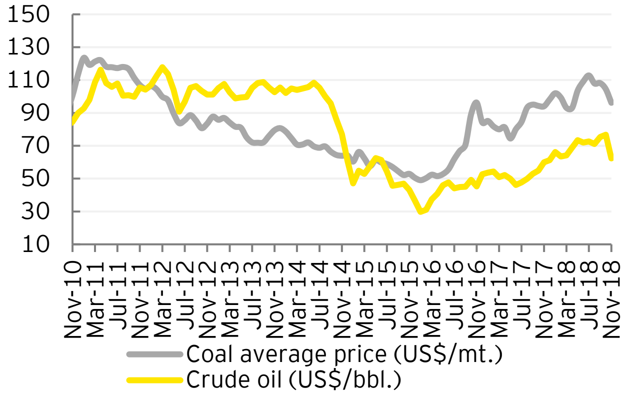
- Growth in Japan is also projected to remain subdued around 1% in 2018 and 2019. A scheduled increase in consumption tax rate in October 2019 could dampen growth prospects in the near term.
- Among EMDEs, growth in China is projected to moderate to 6.6% in 2018 and further to 6.3% in 2019 due to a moderation in infrastructure investment and credit growth. Other factors include declining working age population and trade tensions leading to slower export growth.
- Although growth projections for India have been revised down, they remain robust with GDP forecasted to grow by 7.5% in 2018 and 7.3% in 2019. However, higher oil prices and rupee depreciation may put pressure on demand, inflation, current account deficit and fiscal deficit.

Chart 15: Global growth projections



Source: OECD Economic Outlook, November 2018

Chart 16: Global crude and coal prices



Source (basic data): World Bank, Pink Sheet, December 2018

B. Global energy prices: *Global crude prices witnessed a sharp fall in November 2018*

- After peaking at US$76.7/bbl. in October 2018, average global crude prices[14] fell sharply to US$62.3/bbl. in November 2018 (Chart 16) on account of supply increases in the Middle East, Russia and the US which have more than compensated for a fall in production in Iran, Venezuela and elsewhere.
- Average global coal price[15] also fell to US$96.2/mt. in November 2018 from US$104.5/mt. in October 2018. Global coal price had remained above US$100/mt. during May to October 2018.

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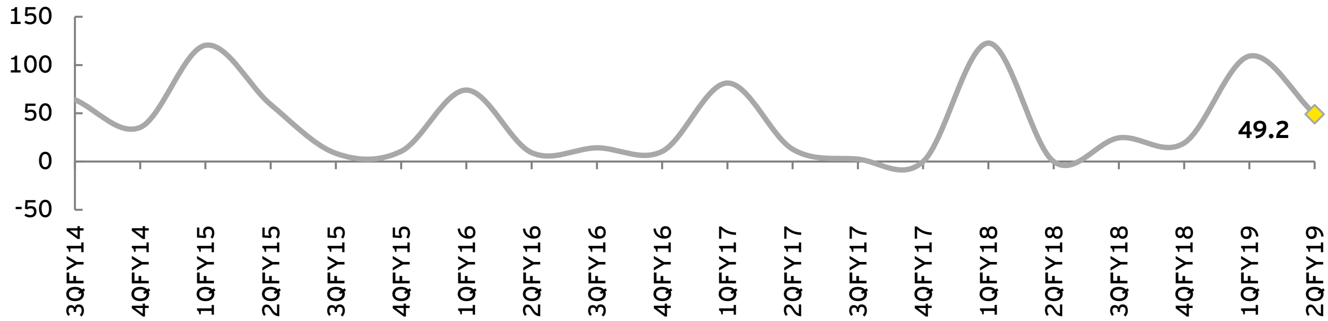
[14] Simple average of three spot prices namely, Dated Brent, West Texas Intermediate and Dubai Fateh
[15] Simple average of Australian, Columbian and South African coal prices

9. Index of Macro Imbalance (IMI): Macro balance improved in 2QFY19

Reflecting an improvement in the macro balance, the IMI fell to 49.2 in 2QFY19

- The IMI is obtained by adding the percentage deviation of inflation rate (based on new CPI 2011−12=100), fiscal deficit (as a percentage of GDP) and current account deficit (as a percentage of GDP) from their respective benchmarks of 4%, 3% of GDP and 1.3% of GDP[16]. All three components of IMI have been given equal weightage (33.33%). The state of "balance" is judged by a value of "0".
- An index value greater than zero indicates the presence of an imbalance in the economy. In considering the percentage deviation of each of the indicators from its selected norm, only the positive deviations are taken. Negative deviations are equated to zero to ensure that the negative and positive deviations across indices are not canceled out.
- The IMI fell sharply by 60.1 points to 49.2 in 2QFY19 from 109.2 in 1QFY19, suggestive of improving macro balance of the economy (Chart 17). Two out of the three components namely, center's fiscal deficit (3.6% of GDP) and the CAD (2.9% of GDP) continued to remain above their respective benchmark levels in 2QFY19. However, CPI inflation at 3.9%, was slightly below the benchmark level.

Chart 17: IMI (Quarterly)



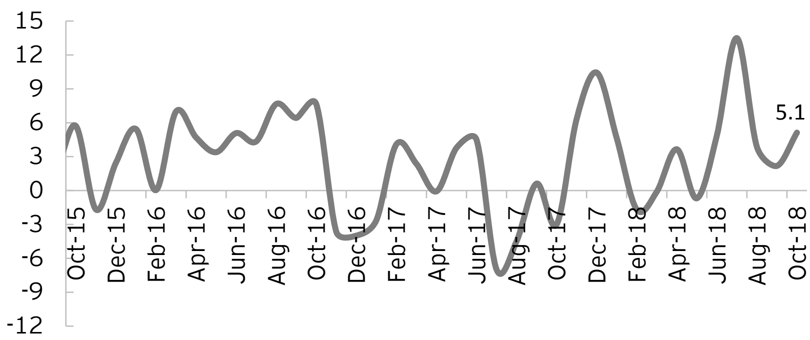
Source (Basic data): RBI, MOSPI and EY estimate

10. Index of Aggregate Demand (IAD): Pointed towards recovering demand conditions

Growth in IAD increased to 5.1% in October 2018

- Reflective of a pickup in demand conditions due to the onset of festive season, the y-o-y growth in the index of aggregate demand increased to 5.1% (y-o-y) in October 2018 from 2.2% in September 2018 (Chart 18).
- There was a broad-based improvement in the demand conditions amongst the key sector of the economy namely the agriculture, industry and services sector.

Chart 18: Growth in IAD (y-o-y)



Source (Basic data): IHS Markit PMI, RBI and EY estimates

[16] Rangarajan, C (2016): "Can India grow at 8 to 9 per cent?" The Hindu, http://www.thehindu.com/opinion/lead/can-india-grow-at-8-to-9-per-cent/article8596824.ece, Accessed on 17 May 2016.

Home

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 15	4.0	-1.3	3.8	14.8	4.9	FY15	52.2	51.7
FY 16	3.3	4.3	2.9	5.7	3.0	FY16	51.3	51.7
FY 17	4.6	5.3	4.3	5.8	4.8	FY17	51.6	51.0
FY 18	4.4	2.3	4.7	5.3	4.3	FY18	51.5	50.0
3QFY18	5.9	0.8	7.0	3.8	5.2	3QFY18	52.5	50.4
4QFY18	6.5	1.1	7.5	6.1	5.3	4QFY18	51.8	49.9
1QFY19	5.1	5.4	5.1	4.9	5.5	1QFY19	52.0	51.2
2QFY19	5.2	1.0	5.5	7.5	5.4	2QFY19	52.1	52.2
Jul-18	6.5	3.4	7.0	6.6	7.3	Aug-18	51.7	51.5
Aug-18	4.7	-0.5	5.1	7.6	4.7	Sep-18	52.2	50.9
Sep-18	4.5	0.1	4.6	8.2	4.3	Oct-18	53.1	52.2
Oct-18	8.1	7.0	7.9	10.8	4.8	Nov-18	54.0	53.7

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				
FY15	5.9	6.4	4.2	5.8	1.3	4.3	2.6	-6.1	2.7
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
3QFY18	4.6	3.7	7.5	4.8	3.8	3.5	2.7	9.1	3.1
4QFY18	4.6	3.6	6.8	5.1	2.8	0.6	3.1	4.7	3.8
1QFY19	4.8	2.9	6.1	6.0	4.7	1.2	3.8	12.3	4.4
2QFY19	3.9	0.7	8.4	5.7	5.0	-0.9	4.4	17.5	5.0
Aug-18	3.7	0.3	8.6	5.7	4.6	-2.1	4.4	17.7	4.9
Sep-18	3.7	0.5	8.6	5.5	5.2	0.1	4.1	17.3	4.8
Oct-18	3.4	-0.9	8.5	5.9	5.3	-0.6	4.5	18.4	5.1
Nov-18	2.3	-2.6	7.4	5.4	4.6	-2.0	4.2	16.3	4.9

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
FY15	9.3	8.7	8.7	8.7	9.8	4.0	2.9
FY16	17.0	6.0	8.5	6.9	30.1	3.9	2.5
FY17	17.9	6.7	21.5	12.3	21.6	3.5	2.1
FY18 (RE# over budget actuals FY17)	13.4	16.3	21.0	18.3	8.6	3.5	2.6
	Cumulated growth (%, y-o-y)					% of budgeted target	
Mar-18	11.8	17.8	19.9	18.6	6.0	99.5	101.1
Apr-18	58.7	24.0	2.5	5.9	130.3	24.3	25.5
May-18	29.9	-82.7	4.8	-13.7	59.3	55.3	68.0
Jun-18	22.1	-1.2	12.8	6.2	36.3	68.7	84.8
Jul-18	11.7	0.6	11.3	6.7	16.1	86.5	106.4
Aug-18	8.7	14.3	17.5	16.1	4.6	94.7	114.0
Sep-18	8.6	17.2	16.5	16.9	4.4	95.3	108.1
Oct-18	6.7	16.6	16.1	16.4	1.2	103.9	117.9

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.
#Revised estimates
From January 2018 to March 2018, the fiscal deficit and revenue deficit values are estimated as percentage of revised estimates.

Fiscal year/month	CGST	UTGST	IGST	GST compensation cess	Total GST (Center)
	INR crore				
FY18 (RE)	2,21,400	-	1,61,900	61,331	4,44,631
FY19 (BE)	6,03,900	-	50,000	90,000	7,43,900
	Monthly tax collection (INR crore)				
Mar-18	27,399	973	13,651	7,569	49,592
Apr-18	32,089	90	19,996	8,503	60,678
May-18	28,119	54	16,932	7,201	52,306
Jun-18	30,936	62	10,212	8,016	49,226
Jul-18	57,893	163	-39,903	7,963	26,116
Aug-18	36,047	327	5,199	7,405	48,978
Sep-18	29,862	109	14,753	7,850	52,574
Oct-18	47,951	126	-14,215	7,724	41,586

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 yr. Govt. bond yield	Net FDI	Net FPI	Fiscal year/quarter/month	FX reserves
	%		% change y-o-y				%	US$ billion			US$ billion
Jan-18	6.00	FY15	11.3	10.9	11.0	12.1	8.3	31.3	42.2	FY15	341.6
Feb-18	6.00	FY16	13.5	10.1	9.7	10.5	7.7	36.0	-4.1	FY16	355.6
Mar-18	6.00	FY17	3.1	10.1	7.9	11.6	7.0	35.6	7.6	FY17	370.0
Apr-18	6.00	FY18	22.1	9.5	7.5	7.5	7.0	30.3	22.1	FY18	424.4
May-18	6.00	3QFY18	45.8	10.6	8.8	4.9	7.1	4.3	5.3	3QFY18	409.4
Jun-18	6.25	4QFY18	22.1	9.5	10.1	5.4	7.5	6.4	2.3	4QFY18	424.4
Jul-18	6.25	1QFY19	18.1	9.8	12.7	7.8	7.8	9.7	-8.1	1QFY19	406.1
Aug-18	6.50	2QFY19	14.6	9.4	13.1	8.6	7.9	3.7	0.3	2QFY19	400.5
Sep-18	6.50	Jun-18	17.4	9.9	12.4	8.1	7.8	1.9	0.3	Aug-18	400.1
Oct-18	6.50	Jul-18	17.8	10.8	14.3	9.6	7.8	1.8	0.0	Sep-18	400.5
Nov-18	6.50	Aug-18	14.6	9.4	12.5	8.1	8.0	--	--	Oct-18	392.1
Dec-18	6.50	Sep-18	14.7	9.6	14.6	9.0	7.9	--	--	Nov-18	393.7

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		
FY15	-1.3	-0.5	-137.7	61.1	83.2	66.6	2012	3.5	1.2	5.3
FY16	-15.6	-15.2	-117.7	65.5	46.0	54.7	2013	3.3	1.2	5.0
FY17	5.1	0.9	-108.2	67.1	47.9	73.0	2014	3.4	1.9	4.6
FY18	9.8	20.2	-158.9	64.5	55.7	90.8	2015	3.4	2.1	4.3
3QFY18	12.8	16.5	-43.3	64.7	58.7	95.5	2016	3.2	1.7	4.4
4QFY18	3.9	13.9	-42.0	64.3	64.6	98.0	2017	3.8	2.3	4.7
1QFY19	14.2	13.5	-44.9	67.0	71.4	102.0	2018*	3.7	2.4	4.7
2QFY19	9.5	21.2	-49.4	70.2	73.0	109.6	2019*	3.7	2.1	4.7
Jul-18	19.2	25.4	-17.4	69.5	71.1	107.9	2020*	3.7	1.7	4.9
Aug-18	-2.2	10.5	-14.0	72.2	75.4	108.2	2021*	3.6	1.7	4.9
Sep-18	17.9	17.6	-17.1	73.7	76.7	104.5	2022*	3.6	1.5	4.8
Oct-18	0.8	7.9	-16.7	71.8	62.3	96.2	2023*	3.6	2.3	4.7

Source: Database on Indian Economy - RBI, Pink Sheet - World Bank and IMF World Economic Outlook Update, October 2018; *indicates projections as per October 2018 database

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

Fiscal year/quarter	Output: Major sectors									IPD inflation
Fiscal year/quarter	GVA	Agr.	Ming.	Mfg.	Elec.	Cons.	Trans.	Fin.	Publ.	GVA
FY15	7.2	-0.2	9.7	7.9	7.2	4.3	9.4	11.0	8.3	3.6
FY16	8.1	0.6	13.8	12.8	4.7	3.7	10.3	10.9	6.1	1.0
FY17 (1st RE)	7.1	6.3	13.0	7.9	9.2	1.3	7.2	6.0	10.7	2.9
FY18 (PE)	6.5	3.4	2.9	5.7	7.2	5.7	8.0	6.6	10.0	3.0
2QFY17	7.2	5.5	9.1	7.7	7.1	3.8	7.2	8.3	8.0	2.3
3QFY17	6.9	7.5	12.1	8.1	9.5	2.8	7.5	2.8	10.6	2.8
4QFY17	6.0	7.1	18.8	6.1	8.1	-3.9	5.5	1.0	16.4	5.1
1QFY18	5.6	3.0	1.7	-1.8	7.1	1.8	8.4	8.4	13.5	2.3
2QFY18	6.1	2.6	6.9	7.1	7.7	3.1	8.5	6.1	6.1	2.9
3QFY18	6.6	3.1	1.4	8.5	6.1	6.6	8.5	6.9	7.7	3.8
4QFY18	7.6	4.5	2.7	9.1	7.7	11.5	6.8	5.0	13.3	2.9
1QFY19	8.0	5.3	0.1	13.5	7.3	8.7	6.7	6.5	9.9	4.6
2QFY19	6.9	3.8	-2.4	7.4	9.2	7.8	6.8	6.3	10.9	4.7

	Expenditure components						IPD inflation
Fiscal year/quarter	GDP	PFCE	GFCE	GFCF	EX	IM	GDP
FY15	7.4	6.4	7.6	2.6	1.8	0.9	3.3
FY16	8.2	7.4	6.8	5.2	-5.6	-5.9	2.1
FY17 (1st RE)	7.1	7.3	12.2	10.1	5.0	4.0	3.5
FY18 (PE)	6.7	6.1	10.9	7.6	4.4	9.9	3.0
2QFY17	7.6	7.5	8.2	10.5	2.4	-0.4	2.9
3QFY17	6.8	9.3	12.3	8.7	6.7	10.1	3.8
4QFY17	6.1	3.4	23.6	4.2	6.6	6.6	4.5
1QFY18	5.6	6.9	17.6	0.8	5.9	18.5	2.6
2QFY18	6.3	6.8	3.8	6.1	6.8	10.0	3.0
3QFY18	7.0	5.9	6.8	9.1	6.2	10.5	3.8
4QFY18	7.7	6.7	16.8	14.4	3.6	10.9	2.9
1QFY19	8.2	8.6	7.6	10.0	12.7	12.5	5.1
2QFY19	7.1	7.0	12.7	12.5	13.4	25.6	4.5

Source: National Accounts Statistics, MOSPI

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	CSO	Central Statistical Organization
14	DGA	Director General of Hydrocarbons
15	Disc.	Discrepancies
16	dmtu	Dry metric ton unit
17	ECBs	External Commercial Borrowings
18	EIA	US Energy Information Administration
19	Elec.	Electricity, gas, water supply and other utility services
20	EMDEs	Emerging Market and Developing Economies
21	EXP	Exports
22	FII	Foreign investment inflows
23	Fin.	Financial, real estate and professional services
24	FPI	Foreign portfolio investment
25	FY	Fiscal year (April–March)
26	GDP	Gross Domestic Product
27	GFCE	Government final consumption expenditure
28	GFCF	Gross fixed capital formation
29	GoI	Government of India
30	GST	Goods and Services Tax
31	GVA	Gross value added
32	IAD	Index of Aggregate Demand
33	IEA	International Energy Agency
34	IGST	Integrated Goods and Services Tax
35	IIP	Index of Industrial Production

36	IMF	International Monetary Fund
37	IMI	Index of Macro Imbalance
38	IMP	Imports
39	INR	Indian Rupee
40	IPD	Implicit price deflator
41	MCLR	Marginal cost of funds based lending rate
42	Ming.	Mining and quarrying
43	Mfg.	Manufacturing
44	m-o-m	Month-on-month
45	mt	Metric ton
46	MOSPI	Ministry of Statistics and Programme Implementation
47	MPC	Monetary Policy Committee
48	NEXP	Net exports (exports minus imports of goods and services)
49	OECD	Organisation for Economic Co-operation and Development
50	ONGC	Oil and Natural Gas Corporation Limited
51	OPEC	Organization of the Petroleum Exporting Countries
52	PFCE	Private final consumption expenditure
53	PIT	Personal Income Tax
54	PMI	Purchasing Managers' Index (reference value = 50)
55	RE	Revised estimate
56	RBI	Reserve Bank of India
57	SLR	Statutory Liquidity Ratio
58	Tcf	Trilion cubic feet
59	Trans.	Trade, hotels, transport, communication and services related to broadcasting
60	US$	US dollar
61	UTGST	Union territory goods and services tax
62	WPI	Wholesale Price Index
63	y-o-y	Year on year

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