Economy Watch

Monitoring India's macro-fiscal performance

July 2019

Building a better working world

Contents

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Highlights

1. IIP growth moderated to 3.1% in May 2019 from 4.3% in April 2019, indicating weakness in the performance of industrial sector.

2. PMI for June 2019 signaled a slowdown in manufacturing and a contraction in services.

3. CPI inflation increased but remained subdued at a low level of 3.2% in June 2019 as compared to 3.0% in May 2019.

4. Central taxes are budgeted to grow by 18.3% in FY20 while growth achieved in FY19 was just 8.4%.

5. Center's capital expenditure during April-May FY20 stood at 14.1% of the annual budgeted target as compared to 21.2% during April-May FY19.

6. Center's fiscal deficit during April-May FY20 stood at 52% of the annual budgeted target as compared to the corresponding value of 55.3% in FY19.

7. Growth in bank credit moderated for the second successive month to 12.5% in May 2019, its lowest level since September 2018.

8. Net FDI inflows were lower at US$2.2 billion in May 2019 as compared to US$4.7 billion in April 2019.

9. Current account deficit narrowed to 0.7% of GDP in 4QFY19. Annual current account deficit for FY19 stood at 2.1% of GDP.

10. Merchandise exports contracted by (-) 9.7% in June 2019, a 41-month low, as compared to a growth of 3.9% in May 2019 led by a sharp fall in oil exports.

11. The World Bank (Global Economic Prospects, June 2019) revised down its global growth forecast for 2019 by 0.3% points to 2.6% reflecting weaker than expected global trade and investment.

Foreword

Continuing slowdown and budget initiatives

High frequency indicators signal a continued slowdown which has characterized 1QFY20. IIP growth slowed to 3.1% in May 2019 from 4.3% in April 2019. PMI manufacturing fell to 52.1 and PMI services contracted to 49.6 in June 2019. Demand related information available on critical sectors such as automobiles, cement and transport and communication also confirm this continuing slowdown. In terms of policy responses, the central bank has reduced the repo rate in three steps of 25 basis points each, translating into a cumulative reduction of 75 basis points during the calendar year 2019. However, the transmission to lending rates has been limited and so far, demand has not responded adequately to overcome the on-going slowdown. In this context, fiscal policy initiatives are of paramount importance.

After the interim budget for FY20 which was presented at the end of January 2019, the final FY20 budget was recently presented. In the interim budget, there were some measures to augment disposable income such as the Kisan Samman Nidhi (PM-KISAN) which was meant to supplement the income of the farmers through direct support. The scope of the scheme was extended later. The overall size of the budget provision for PM-KISAN amounts to INR75,000 crores. Another scheme relates to housing for all. The budget allocated INR25,853 crores for Pradhan Mantri Awas Yojana (PMAY). Together, these amount to close to 0.5% of GDP.

GDP's demand components indicate a weakness in both the domestic and external segments. The growth prospects of the global economy remain tepid. The World Bank and the IMF have both revised their global growth forecasts for 2019 and 2020 downwards. The World Bank has revised down its global growth forecast by 0.3% and 0.1% points to 2.6% and 2.7% in 2019 and 2020 respectively. The IMF has revised down its global growth projection by 0.1% points to 3.2% in 2019. The contribution of India's net exports to GDP growth has been negative for the last two years as growth in imports was larger than that in exports. The tariff war between the US and China continues. India has also appeared prominently in the US's tariff war radar. The prospects of strengthening export growth remain weak. In the short to medium term, India will have to rely largely on domestic demand. Accelerating domestic investment demand can prospectively be the most effective route to uplift India's growth rate.

The budget has focused relatively more on the medium-term by indicating that the government aims to push the economy to the size of US$5 trillion by FY25. The year was specified clearly in the Economic Survey whereas the budget indicated that this target would be reached in the next few years. As discussed in greater detail in the In-Focus titled "*Towards a US$5 trillion Indian economy: Budget and beyond*" in this issue, the achievement of this target by FY25 is contingent upon the aggregate investment rate in India increasing to close to 37% of GDP.

The direct contribution of the central government in the augmentation of the investment rate is quite limited. Both in FY19 and FY20, center's capital expenditure relative to GDP is estimated to be 1.6% which is about 5% of the aggregate investment. Investment through the central public-sector enterprises (CPSEs) is estimated to be 2.4% of GDP in FY19 but is projected to fall to 2.1% in FY20. At 4.0% of GDP, the combined contribution of central government and CPSEs is only about 12% of the present investment rate at just above 31%. The medium-term challenge is to increase it by more than 6% points of GDP. In this endeavour, the state governments including the state-level public enterprises and the private sector will have to participate in a substantial way. A number of growth initiatives have been announced by the central government in the budget including sovereign borrowing from external sources and taking up PPPs in the infrastructure sector in a big way. The PPP mode has so far had only limited success. The sovereign external borrowing route is subject to significant exchange rate risk. Prominent policymakers have cautioned against its use in any major way. If the central government is to succeed in expediting reaching the target of US$5 trillion by FY25, it will have to increase its investment directly through the budget or through the CPSEs*. Unless the center's investment push is large enough, the chances of private investment getting crowded in may be limited.

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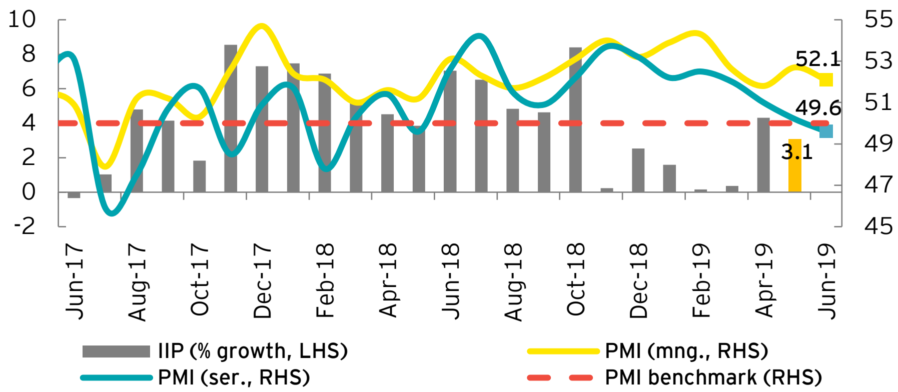
*https://www.financialexpress.com/economy/ex-rbi-governor-c-rangarajan-says-8-per-cent-growth-needed-for-a-5-trillion-economy/1642225/

1. Growth: IIP growth decelerated to 3.1% in May 2019 reflecting weakness in the manufacturing sector

A. IIP Growth: Fell to 3.1% in May 2019 from 4.3% in April 2019

- Following a temporary pickup in April 2019 to 4.3% (revised), IIP growth moderated to 3.1% (y-o-y) in May 2019 due to a fall in the growth of manufacturing sector output (**Chart 1**).
- Manufacturing sector output (accounting for 77.6% of overall IIP) grew at a slower pace of 2.5% (y-o-y) in May 2019 as compared to 4.0% (revised) in April 2019. Output growth of mining sector was also lower at 3.2% in May 2019 as compared to 5.1% in April 2019. However, growth in electricity output increased to 7.4% in May 2019 from 6.0% in April 2019. (Table A1 in data appendix).
- The capital goods industry, an indicator of investment activity, continued to underperform with its growth falling to 0.8% in May 2019 from 1.2% in April 2019. Growth in the output of consumer durables contracted by (-) 0.1% in May 2019 as compared to 2.2% in April 2019. However, growth in the output of consumer non-durables increased to 7.7% in May 2019 from 5.9% in April 2019.
- Growth in the output of eight core infrastructure industries slowed to 5.1% (y-o-y) in May 2019 from 6.3% (revised) in April 2019. This was largely on account of a lower growth in the output of coal (1.8%) and a contraction in the output of petroleum refinery products ((-) 1.5%) and crude oil ((-)6.9%) in May 2019.

Chart 1: IIP growth and PMI



IIP growth moderated to 3.1% in May 2019 from 4.3% in April 2019, indicating weakness in the performance of industrial sector.

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

B. PMI: Signaled a slowdown in manufacturing and a contraction in services in June 2019

- Headline manufacturing PMI (seasonally adjusted (sa)) fell to 52.1 in June 2019 from 52.7 in May 2019 (**Chart 1**). On a quarterly basis, PMI manufacturing averaged 52.2 in 1QFY20, lower than 53.6 in 4QFY19 and 53.4 in 3QFY19.
- After falling for three consecutive months, PMI services contracted to 49.6 in June 2019 from of 50.2 in May 2019. On a quarterly basis, PMI services averaged 50.3 in 1QFY20, its lowest since 2QFY18.
- Reflecting a slowdown in manufacturing PMI and a contraction in services PMI, the composite PMI Output Index (sa) fell to 50.8 in June 2019, a 13-month low, from 51.7 in May 2019. On a quarterly basis, composite PMI Output averaged 51.4 in 1QFY20, its lowest since 4QFY18.

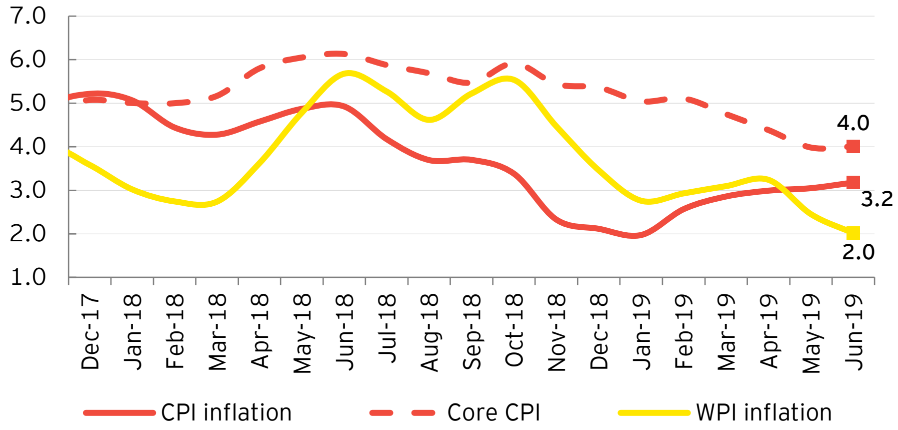
At 52.1 in June 2019, manufacturing PMI expanded at a slower pace. After falling for three consecutive months, services PMI contracted to 49.6 during the month.

2. Inflation: CPI inflation rose marginally to 3.2% in June 2019

CPI inflation, although increased marginally, but remained low at 3.2% (y-o-y) in June 2019 as compared to 3.0% in May 2019, (Chart 2). Core CPI inflation remained at 4.0% in June 2019.

- Consumer food price index based inflation increased marginally to 2.2% in June 2019 from 1.8% in May 2019. The increase was driven by an uptick in inflation in pulses and products, which rose to a 32-month high of 5.7% from 2.1% over the same period.
- Core CPI inflation[1] remained at a 24-month low of 4.0% in June 2019.
- Inflation in transportation and communication services eased for the eighth successive month to a 43-month low of 0.7% in June 2019 from 1.6% in May 2019, partly due to base effect. The fall was driven by a sharp contraction in petrol prices to a seven-month low of (-) 8.6% in June 2019 from (-) 5.9% in May 2019.
- Fuel and light-based inflation dipped further to 2.3% in June 2019 from 2.5% in May 2019.
- Housing-based inflation increased to 3.6% in June 2019, the first increase after 11 successive months of deceleration. It was at a six-year low of 3.1% in May 2019, mainly due to base effect.

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



Core CPI inflation remained unchanged at a 24-month low of 4.0% in June 2019 while core WPI inflation fell to a 31-month low of 0.8% in June 2019.

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

WPI inflation eased to a 23-month low of 2.0% in June 2019 from 2.5% in May 2019 (Chart 2) driven by a fall in inflation in fuel and power, and manufactured basic metals.

- The pace of contraction in crude price remained high at (-) 6.9% in June 2019 as compared to (-) 7.8% in May 2019.
- This was reflected in the easing of fuel and power-based inflation which contracted for the first time in 32 months by (-) 2.2% in June 2019 as compared to 1.0% in May 2019. The fall was driven by a contraction in price of mineral oils (including petrol, diesel, naptha and furnace oil) by (-) 3.1% in June 2019 from 3.0% in May 2019.
- Food price index based inflation remained high at 5.0% in June 2019 as compared to 5.1% in May 2019.
- The pace of contraction in prices of manufactured basic metals increased to a 33-month low of (-) 3.7% in June 2019 from (-) 1.3% in May 2019.
- WPI core inflation eased further to a 31-month low of 0.8% in June 2019 from 1.2% in May 2019.

[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.

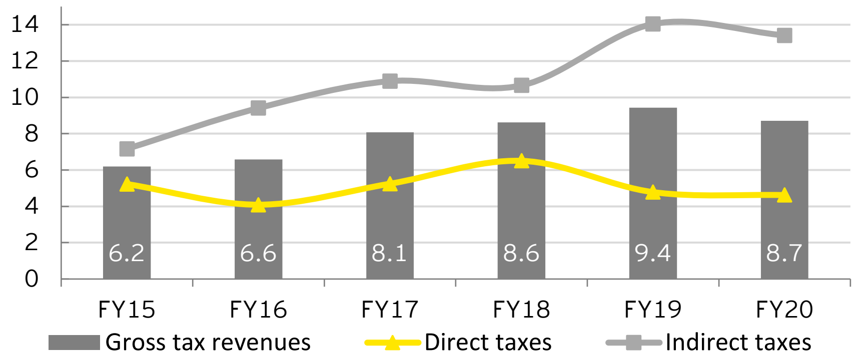
3. Fiscal performance: Center's fiscal deficit target reduced to 3.3% of GDP in FY20

Home

A. Tax and non-tax revenues

- As per the Comptroller General of Accounts (CGA), gross central taxes during April-May FY20 stood at 8.7% of the annual budgeted target, lower than 9.4% in the corresponding period of FY19 (**Chart 3**).
- Gross taxes grew by 8.4% in FY19 over the budget actuals of FY18. However, the budgeted growth in FY20 is estimated at 18.3%, which is higher than the growth achieved in any year since FY15.
- Direct tax revenues during April-May FY20 stood at 4.6% of the annual budgeted target as compared to 4.8% during April-May FY19. Corporate tax refunds were made in May 2019 due to which the tax collections in the first two months of FY20 remained low.
- The budgeted growth in direct taxes for FY20 is 18.6% as compared to 12.3% achieved in FY19.
- Growth in corporate income taxes is budgeted at 15.4% in FY20, slightly lower but comparable to 16.2% achieved in FY19. However, growth in personal income taxes is budgeted at 23.3% in FY20 as compared to 7.2% achieved in FY19. Such a high growth in personal income taxes was last witnessed in FY17, which was the year of demonetization.
- Indirect taxes (comprising union excise duties, service tax, customs duty#, taxes of the UTs, CGST, UTGST, IGST(2) and GST compensation cess) during the first two months of FY20 stood at 13.4% of the annual budgeted target as compared to 14% during the same period in FY19. In this case also, IGST refunds were made in April 2019.
- Growth in indirect taxes is budgeted at 19.8% in FY20 as compared to only 2.5% achieved in FY19.

Chart 3: Central tax revenues during April-May as percentage of annual budgeted target



As per the CGA, center's gross taxes during April-May FY20 stood at 8.7% of the annual budgeted target as compared to 9.4% in FY19.

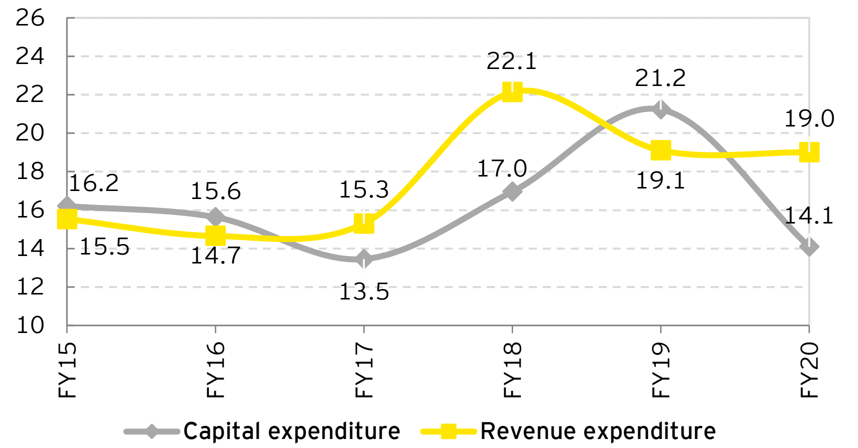
Source: Monthly Accounts, Controller General of Accounts (CGA), Government of India
Notes: (1) Direct taxes include personal income tax and corporation tax, and indirect taxes include union excise duties, service tax, customs duty, CGST, UTGST, IGST and GST compensation cess from July 2017 onwards; (2) 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-May FY20 stood at 9.1% of the annual budgeted target as compared to 9.8% during the corresponding period of FY19. An additional INR 31,901 crore is expected as dividends from the RBI in FY20, constituting about 47% of the increase in total non-tax revenues budgeted in FY20.
- The FY20 budget has set the disinvestment target at INR 90,000 crores. According to the Department of Disinvestment, the disinvestment proceeds up to 13 June 2019 stood at INR2,357.10 crores.

B. Expenditures: Revenue and capital

- Center's total expenditure during April-May FY20 stood at 18.4% of the budgeted target as compared to 19.4% in the corresponding period in FY19 (**Chart 4**). Budgeted growth in total expenditure in FY20 is 20.5% as compared to the actual growth of 7.9% in FY19. This is largely due to a high expected growth of 21.9% in revenue expenditures as compared to 6.9% achieved in FY19.
- Revenue expenditure during the first two months of FY20 stood at 19% of the budgeted target, close to 19.1% in the corresponding period of FY19.
- Center's capital expenditure during April- May FY20 was lower at 14.1% of the annual budgeted target as compared to 21.2% during April-May FY19. Capital expenditure relative to GDP is expected to remain at 1.6% in FY20, same as that in FY19.

Chart 4: Central government expenditure during April-May as percentage of annual budgeted target



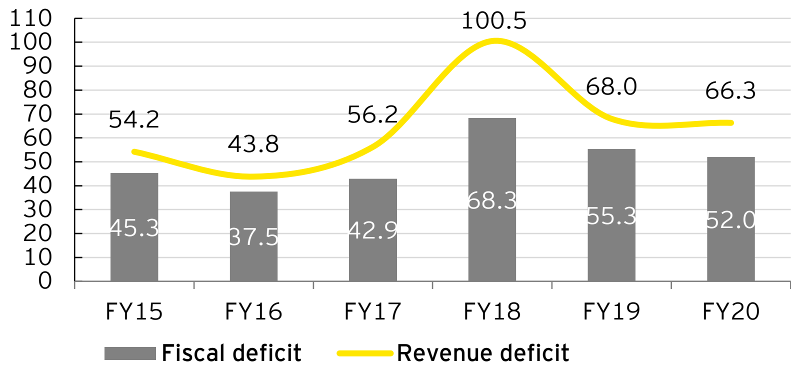
Source (basic data): Monthly Accounts, Controller General of Accounts (CGA), Government of India

Center's capital expenditure relative to GDP increased marginally from 1.5% in FY15 to 1.6% in FY16. It is expected to stagnate at this level in FY20.

C. Fiscal imbalance

- Center's fiscal deficit during April-May FY20 stood at 52% of the annual budgeted target as compared to the corresponding value of 55.3% in FY19 **(Chart 5)**. Achieving the fiscal deficit target of 3.3% of GDP for FY20 is contingent upon targets of disinvestment, tax buoyancy assumptions and nominal growth assumption of 11% being met.
- Center's revenue deficit during the first two months of FY20 was at 66.3% of the annual budgeted target as compared to 68% during the corresponding period of FY19. The revenue deficit target for FY20 was retained at 2.3% of GDP, same as in FY19.

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



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

The central government achieved its fiscal deficit target of 3.4% of GDP in FY19. The fiscal deficit target for FY20 has been reduced to 3.3% of GDP.

4. India in a comparative perspective: Status and prospects

Real GDP growth

Global growth is expected to ease in 2019 due to a moderation in the growth of advanced economies as well as most EMDEs.

- Global growth is expected to fall to 3.2% in 2019 due to heightened policy uncertainty, trade tensions and decline in business and consumer confidence. It is expected to recover slightly to 3.4% in 2020.
- GDP growth in the US increased from 2.2% in 2017 to 2.9% in 2018 due to supportive fiscal policy. However, growth is expected to ease to 2.8% in 2019 and 2.3% in 2020 because of weaker global growth outlook and trade and political uncertainties along with less accommodative fiscal policy.
- Growth is also expected to ease in the UK, Euro area and Japan in the forecast period.
- Real growth in Brazil is expected to recover to 1.4% in 2019 and 2.3% in 2020 supported by private consumption and the implementation of pension reform which is expected to reduce uncertainty and enhance investment.
- In China, growth is expected to moderate gradually to 6% by 2020 as import, investment and credit growth have slowed. Trade tensions are also expected to add to the uncertainty.
- After falling to 7% in 2018, growth in India is projected to strengthen to 7.2% in 2019 and 7.4% in 2020 as credit growth is expected to improve due to a more accommodative monetary policy.

Table 1: Real GDP growth (%, annual)

	2017	2018	2019	2020
Global	3.7	3.5	3.2	3.4
US	2.2	2.9	2.8	2.3
UK	1.8	1.4	1.2	1.0
Euro area	2.5	1.8	1.2	1.4
Japan	1.9	0.8	0.7	0.6
Brazil	1.1	1.1	1.4	2.3
Russia	1.6	2.3	1.4	2.1
India*	7.2	7.0	7.2	7.4
China	6.8	6.6	6.2	6.0
South Africa	1.4	0.8	1.2	1.7

Source (basic data): World Bank Global Economic Prospects, June 2019
Note: forecasted for 2019 and 2020;
*data pertains to fiscal year. For example, data for 2019 pertains to the year FY20.

CPI inflation

CPI inflation in India is expected to be at 3.2% in 2019, well below the average inflation target of 4%.

- In line with a pick-up in activity in 2018, CPI inflation in the US increased to 2.4% in 2018. Inflation is expected to be lower than or close to the long-term inflation target of 2% in the forecast period.
- CPI inflation in Japan is projected at 0.8% in 2019 and 1.5% in 2020. The central bank is expected to expand the monetary base until CPI inflation exceeds the target of 2% and stabilizes above it.
- In Russia, CPI inflation is expected to increase to 4.8% in 2019 and 4% in 2020 in line with an expected increase in global crude prices.
- CPI inflation in China is expected to remain at 1.9% in 2019 but increase to 2.1% in 2020 due to a temporary increase in fresh food prices.
- CPI inflation in India fell to 3.4% in 2018 from 3.6% in 2017. At 3.2% in 2019, inflation is expected to be well-below the average CPI inflation target of 4%.

Table 2: CPI inflation (% change)

	2017	2018	2019	2020
US	2.1	2.4	1.6	2.1
UK	2.7	2.5	1.7	1.9
Euro area	1.5	1.8	1.2	1.5
Japan	0.5	1.0	0.8	1.5
Brazil	3.4	3.7	3.9	4.0
Russia	3.7	2.9	4.8	4.0
India*	3.6	3.4	3.2	4.2
China	1.5	1.9	1.9	2.1
South Africa	5.3	4.6	4.8	4.9

Source (basic data): World Bank Global Economic Prospects, June 2019
Note: forecasted for 2019 and 2020;
*data pertains to fiscal year. For example, data for 2019 pertains to the year FY20.

5. In focus: Towards a US$5 trillion Indian economy - budget and beyond

Linking size to required growth

The Union Budget for FY20 indicates the size of the Indian economy at US$5 trillion in the "next few years". Prior to this, the Economic Survey had specified that this target would be achieved by FY25 (end-March 2025). In FY19, the size of the Indian economy was US$2.7 trillion. Its growth for the next six years covering FY20 to FY25 can be considered in terms of three components: (1) real GDP growth, (2) inflation rate and (3) exchange rate depreciation. Assuming an inflation rate of 4% which is the target inflation rate as per the Monetary Policy Framework, a real growth rate close to 9% would be required to increase the size of the Indian economy to US$5 trillion by FY25. This implies a nominal growth rate of 13%, assuming an average annual depreciation of the INR viz.-a-vis. the US$ at 2%. The annual paths of the trajectories of these three variables are detailed in Table 3.

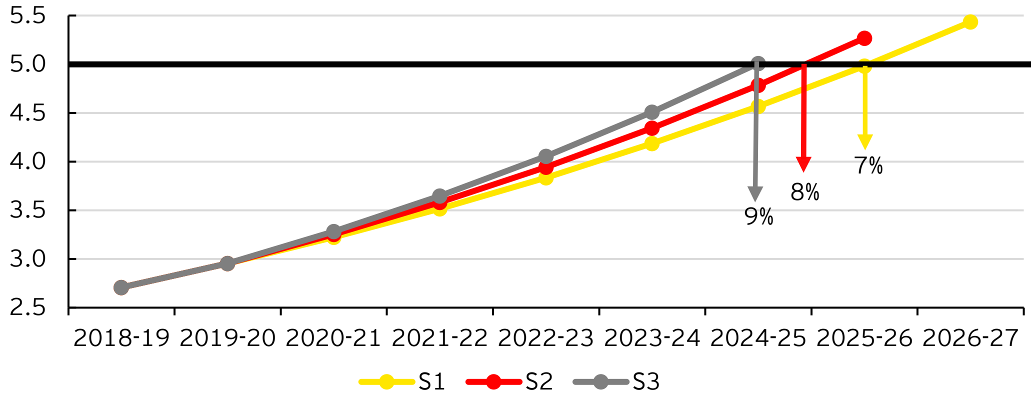
Table 3: Growth required to achieve a US$5 Trillion Economy by FY25

Year	Nominal GDP (INR trillion)	Real growth rate (%)	Derived nominal growth* (%)	Exchange rate (INR/US$)	Nominal GDP (US$ trillion)
FY19	190.1	6.8	11.1	70.2	2.7
FY20	211.5	7.0	11.3	71.6	3.0
FY21	239.8	9.0	13.4	73.0	3.3
FY22	271.8	9.0	13.4	74.5	3.6
FY23	308.2	9.0	13.4	76.0	4.1
FY24	349.3	9.0	13.4	77.5	4.5
FY25	396.0	9.0	13.4	79.1	5.0

Source (basic data): IMF, Union Budget FY20
Note: nominal growth rate is calculated as real growth rate plus inflation rate plus interaction term.
*on the assumption of an inflation rate of 4% per annum

However, in FY20, the projected real growth rate as per the Economic Survey is only 7%. With an inflation rate of 4%, a nominal growth rate of 11% appears feasible. The Budget FY20 also assumes a nominal growth rate of 11% when this is calculated with respect to the provisional estimate of GDP for FY19. Missing the nominal growth target of 13% in the first year itself of the six-year period covering FY20 to FY25 implies that the target nominal and real growth rates for the remaining five years should be increased to above 13% and 9% respectively. We examine the prospects of uplifting the real growth from its current level of 6.8% to such levels, considering investment as its main determinant.

Chart 6: Growth simulations for the Indian economy (size in US$ trillion)



Source (basic data): Union Budget FY20, CSO (MOSPI)
Note: S1, S2 and S3 pertain to simulations assuming annual real growth rates of 7%, 8% and 9% respectively beginning 2019-20 for S1 and 2020-21 for S2 and S3

Simulations can be done with alternative growth assumptions to see the trajectory indicating the year by which the US$5 trillion target would be achieved. We have considered real growth rates at annual averages of 7%, 8% and 9%. The following parameters are common in all three simulations: real growth rate of 7% in FY20, inflation and exchange rate depreciation in all years at 4% and 2% respectively. In the subsequent years starting FY21, for simulations 1 (S1), 2 (S2) and 3(S3), real growth rates are kept at 7%, 8% and 9% respectively. It is shown in Chart 6 that the US$5 trillion target is reached by FY25 at the real growth rate of 9%. It is shifted to FY26 with 8% growth and further to FY27 with 7% growth. If the inflation rate is lower than 4% on an average and if the exchange rate depreciation is higher than 2% per annum, reaching the size of US$5 trillion would be delayed even beyond these target years of FY25, FY26 and FY27.

We now consider the possibility of raising the growth rate to 9% in FY21 which would require uplifting the investment rate to close to 38% of GDP, that is an increase of about 6.5% points of GDP. The extent to which the policymakers succeed in uplifting the investment rate from its level at 31.3% in FY19 would determine the year by which the benchmark size of US$5 trillion would be crossed.

Role of central government in determining overall investment rate

In FY19, the gross investment rate, estimated at 31.3%, was able to deliver a real growth rate of 6.8%. The implicit incremental capital-output ratio (ICOR) was 4.6. This is relatively high because of deficient capacity utilization. According to the RBI, the extent of capacity utilization was at 75.9%[2] in Q3FY19. Historically, India's average ICOR during the three-year period from FY17 to FY19 has averaged 4.2[3]. The highest achieved investment rate in India was 39.6% in FY12. Achieving such levels would be consistent with the requirements of our demographic dividend. In China, average saving and investment rates of close to 45% have been maintained for a long period.

Total investment is the sum of public investment, household investment and investment by the private corporate sector. Information about their relative contribution to the overall investment rate is available only up to FY18. This information is summarized in Table 4.

Table 4: Components of gross investment

Year	Gross investment	Public sector	*Households**	*Pvt. corp. sector**	Total investment* excluding valuables and errors and omissions	Valuables
						As % of GDP
FY17	**30.2**	**7.0**	10.7	11.4	**29.1**	1.1
FY18	**30.9**	**7.4**	10.6	11.6	**29.7**	1.3
FY19	**31.3**	**7.0**	NA	NA	**29.1**	1.0
			As % of gross investment			
FY17	**100.0**	**23.3**	35.5	37.6	**96.4**	3.6
FY18	**100.0**	**24.0**	34.3	37.6	**95.9**	4.1
FY19	**100.0**	**22.5**	NA	NA	**96.7**	3.3

Source (basic data): MoSPI, Union Budget Documents, CAG, CGA
*includes change in stocks

The central government plays a four-fold role in determining the overall investment rate. First, it directly invests through its budgetary capital expenditure. Second, it can invest through its CPSEs. Third, it may, through its policy initiatives, induce the private sector to increase their investment. Fourth, centre can coordinate with the state governments particularly the large ones to increase their budgetary capital expenditures as well as expenditure undertaken through state-level public-sector enterprises (SPSEs).

As indicated in Table 5, the centre's share in India's aggregate investment was quite small at 1.6% of GDP in FY19 as per actuals from CGA, constituting only 5.1% of the aggregate investment. Adding to this, CPSEs' capital expenditure of 2.4% of GDP in FY19, the center's contribution to the investment increases to 4.0% of GDP, which is 12.6% of the total investment. This can be substantially improved. The center may therefore provide a policy framework to induce the state governments and the private sector to uplift their investment rates. Furthermore, if the central government can successfully reduce its revenue deficit, there would be room for higher capital expenditure with the same fiscal deficit. It can also induce additional investment through the CPSEs while keeping in mind, the overall constraint of resources in the form of savings in the system.

Potentially, both central and state governments under their respective FRBMs can incur fiscal deficits up to 3% of GDP each. If they were to follow the golden rule of using the entire fiscal deficit for capital expenditures by keeping the revenue account in balance, their capital expenditures can be in excess of 3% of GDP each by adding non-debt capital receipts which include the disinvestment receipts. At least accounting for 3% of GDP each as potential capital expenditure by the central and state governments while adhering to their respective FRBMs, the general

[2] '*OBISCUS Survey on the Manufacturing sector – Q3: 2018-19*', RBI; https://rbi.org.in/Scripts/PublicationsView.aspx?id=18946
[3] Estimated with reference to nominal investment rate as % of GDP

government's contribution to the investment rate would be 6% of GDP. The CPSEs and SPSEs are not subject to FRBM limits. Another 6% of GDP can come from CPSES and SPSEs. Thus, the total contribution of the public sector can potentially increase to 12% of GDP, which is more than double their current contribution.

Table 5: Components of public sector investment

Year	Gross Investment rate	Central government	CPSEs	Total	State governments (derived)	SPSEs (derived)	Total	Public sector total
	1	2	3	4=2+3	5	6	7=5+6	8=4+7
As % of GDP								
FY17	**30.2**	1.9	2.2	**4.1**	2.0	1.0	**3.0**	**7.0**
FY18	**30.9**	1.5	2.3	**3.9**	2.5	1.0	**3.5**	**7.4**
FY19	**31.3**	1.6	2.4	**4.0**	2.1	1.0	**3.1**	**7.0**
FY20	NA	1.6	2.1	**3.7**	NA	NA	3.1*	**6.8***
As % of gross investment								
FY17	**100.0**	6.1	7.3	**13.4**	6.5	3.4	**9.9**	**23.3**
FY18	**100.0**	5.0	7.6	**12.5**	8.2	3.3	**11.4**	**24.0**
FY19	**100.0**	5.1	7.5	**12.6**	6.6	3.3	**9.9**	**22.5**

Source (basic data): MoSPI, Union Budget Documents, CAG, CGA;
Notes: Investment undertaken by a) general government and b) public sector enterprises (PSE) is available till FY18 from National Accounts. Central government's investment is taken as its capital expenditure sourced from Union Budgets and CGA. State government's investment is derived by reducing central government investment from general government investment for the years FY17 and FY18. For FY19, state government investment is estimated using data from CAG and RBI. Data on investment by CPSEs is taken from Statement 25 of the Union Budget of the respective years. Investment by SPSEs is derived residually by reducing the investment by CPSEs from the total investment by public sector enterprises for FY17 and FY18. For FY19 and FY20 investment by SPSEs is assumed to be 1.0% of GDP, that is, the average for FY17 and FY18.
CPSE-Central Public-Sector enterprises; SPSE-State Public Sector Enterprises
**assuming state level contribution continues at the level of FY19*

Financing of investment

Potential investment through all the channels namely central and state governments, the central and state public-sector enterprises and the private sector is constrained by the supply of investible resources. Total investible resources in India consist of domestic savings and net foreign capital inflows. Domestic savings as percentage of GDP have fallen from their previous peak of 34.6% in FY12 to about 30% in FY19, that is a fall of 4.6% points (Table 6). The main reason for this fall is the household sector where aggregate savings relative to GDP have fallen by a margin of 6.5% points from FY12 to FY18. To some extent, this fall was made up by an increase in the savings of private corporate sector by a margin of 2.2% points of GDP. The public sector's savings increased by a low margin of 0.2% points of GDP during this period.

Table 6: Components of gross domestic savings (% of GDP)

Year	Gross domestic savings	HH sector total	HH sector financial savings	HH sector physical savings	Private corporate sector	Public sector
FY08	**36.8**	22.4	11.6	10.8	9.4	5.0
FY09	**32.0**	23.6	10.1	13.5	7.4	1.0
FY10	**33.7**	25.2	12.0	13.2	8.4	0.2
FY11	**33.7**	23.1	9.9	13.2	8.0	2.6
FY12	**34.6**	23.6	7.4	16.3	9.5	1.5
FY13	**33.9**	22.5	7.4	15.1	10.0	1.4
FY14	**32.1**	20.3	7.4	12.9	10.7	1.0
FY15	**32.2**	19.6	7.1	12.5	11.7	1.0
FY16	**31.1**	18.0	8.1	9.9	11.9	1.2
FY17	**30.3**	17.1	6.3	10.8	11.5	1.7
FY18	**30.5**	17.2	6.6	10.6	11.6	1.7

Source (basic data): MOSPI

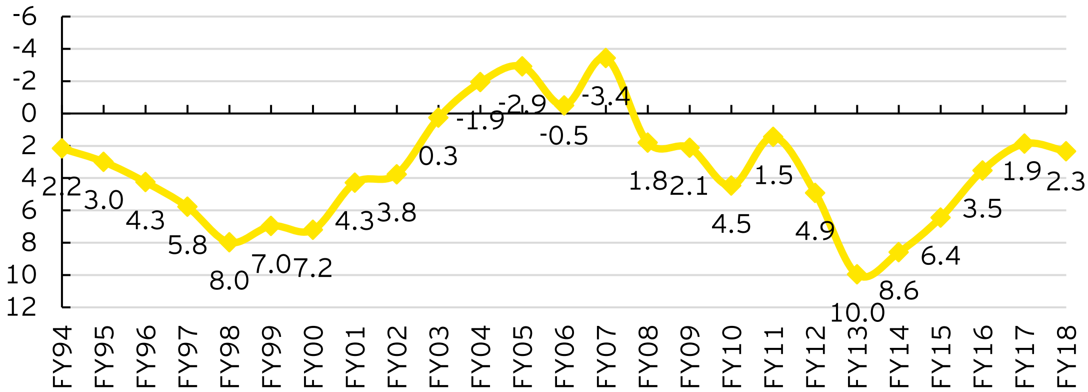
Feasible levels of net capital inflow which depend on sustainable levels of current account deficit can be considered in the range of 2-2.5% of GDP. Any sovereign borrowing from the external market would have to be considered within these overall limits. Stretching net foreign capital inflow much above 2.5% of GDP may involve considerable foreign exchange risk. It is thus clear that the aggregate domestic saving rate needs to be increased in excess of 6% points of GDP to finance the additional investment required to achieve a real growth of 9%.

Revenue deficit of the central and state governments are indicative of their dissaving. Available information indicates that state governments have been maintaining balance on revenue account or showing small surplus in recent years. As such, their dissaving is zero. It is the central government which can, by undertaking further expenditure reforms, reduce its revenue deficit to zero so that its dissavings are also driven to zero. Public sector saving would increase by the margin by which the central government would reduce its revenue deficit. Potentially, this can add more than 2% points of GDP to public sector savings. The balance of 4% points will have to come from the household sector. In their case, both physical and financial savings have fallen from their respective peaks. For this purpose, they need to be incentivized through tax concessions. The emphasis on affordable housing may induce them to increase their physical savings and investment. For improving their financial savings, additional incentives need to be considered including a tangible premium on the average interest rate on small saving instruments.

Foreign currency sovereign bonds and other growth initiatives

The Union Budget has proposed a number of growth-promoting initiatives to induce the private sector for a more active participation in uplifting their investment rate. The government proposes to access global investors by floating sovereign bonds denominated in external currency. Global interest rates are much lower than that in India, and exchange rate depreciation is estimated at 2% per annum by the IMF. The central government can borrow abroad at about 3-4% per annum considered in equivalent rupee terms as compared to about 7% in the domestic market. The amount however, would need to be kept small since there is an associated exchange rate risk. The history of exchange rate movement shows considerable volatility as depicted by Chart 7. In the recent past, the average depreciation rate was as high as 10% per annum during 2012 to 2014. This was also a period of high inflation rate. As the inflation rate was brought down in the subsequent years, the depreciation rate has also come down. If India maintains an average inflation rate of 4%, which is about 2% points higher than that in some of the developed countries with whom India has relatively large volume of trade, it may be possible to maintain an exchange rate depreciation of 2% per annum on average over a longer period. However, exchange rate movements do depend on various other factors including magnitudes of exports and imports of goods and services, capital inflows and outflows through different channels and level of foreign exchange reserves. India's exchange rate is particularly sensitive to global crude price movements.

Chart 7: Exchange rate movement (INR/US$): Three-year moving average



Source (basic data): RBI
Note: -ve sign indicates appreciation and +ve sign indicates depreciation

To the extent investment in India is financed by external savings in this manner, the pressure on domestic savings and interest rates will ease. This may give a boost to private investment in India. It might also facilitate financing government's ambitious infrastructure expansion plans through the PPP route and otherwise. Investment activities would also get a fillip through initiatives such as attracting global investors for setting up mega-manufacturing plants to bring in advanced technology in electric vehicles, electronics and other related areas. The sharper focus of Make in India to select sectors such as MSMEs, start-ups, defence manufacturing, automobiles and electronics may also yield positive outcomes. Further relaxation of the FDI norms introduced in this budget would augment FDI inflows into the economy. The speed with which India can achieve a growth of over 8% may depend largely on the pace and extent of success in implementing these initiatives.

Anticipated release of excess reserves from RBI

Another source of funds can come from the release of special dividends from the RBI aimed at transferring a part of its reserves that are assessed to be excess reserves. The Bimal Jalan committee (the committee) has come up with its recommendations. The total reserves with the RBI as per their 2017-18 annual report amounted close to INR10 lakh crore, that is close to 5% of GDP. Although the magnitude to be transferred as surplus reserves to the Government of India is not clear, the committee has recommended that this transfer be made in a phased manner over a period of three to five years. Considering, as an example, that about one-third of the existing reserves may be transferred as excess reserves over a period of three years, nearly 0.6% of GDP may be transferred in each of these years adding to a total of 1.8% of GDP. If transferred as special dividends, this would add to government's non-tax revenues and may be used to reduce government's revenue deficit and add to its capital expenditure by an equivalent margin assuming that fiscal deficit is kept at the present target of 3.3% of GDP.

Concluding observations

The Budget indicates the requirement of infrastructure investment averaging INR20 lakh crore per year[4]. This amounts to 9.5% of GDP in FY20 which is the required additional investment in the current year. To uplift the current investment rate, significant increase in the domestic saving rate is required. To some extent, external resources can augment the volume of resources but this is constrained by sustainability considerations. Any borrowing from abroad would carry a significant exchange rate risk. In any case, whether the government borrows from domestic or external sources, it is subject to the overall fiscal deficit of 3% of GDP. In order to fill the gap, the state governments and the private sector will have to participate in the investment expansion program in a big way. The central government can increase its investment by reducing revenue deficit and utilizing its non-debt capital receipts. It can also scale up substantially, the participation of CPSEs in government's infrastructure expansion program. Only if the expansion by the central government is large enough, there would be the possibility of crowding in private sector investment.

[4] Union Budget FY20 Budget Speech, paragraph 30.

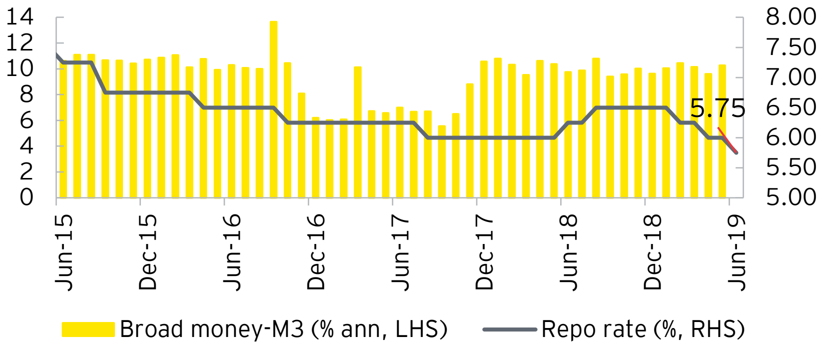
6. Money and finance: The RBI may consider another rate cut as CPI inflation remains moderate

A. Monetary sector

Monetary policy

- With inflation continuing to stay below the RBI's mean target rate of 4% for three successive quarters in FY19, it was possible for the RBI to lower the policy repo rate by a total of 75 basis points since January 2019 in order to stimulate domestic economy. In its June 2019 monetary policy review, the RBI lowered the policy repo-rate by 25 basis points to 5.75%.
- In RBI's assessment, CPI inflation is expected to average 3.3% during FY20. The near-term trajectory of CPI inflation projections has been shaped by the following factors: (i) sharper than expected hike in vegetable prices coupled with a broad-based pick-up in prices of several food items, imparting an upward pressure on inflation; (ii) significant weakening of domestic and external demand leading to a decline in core CPI inflation, imparting downward bias; (iii) the impact of volatile crude prices which has remained muted owing to incomplete pass-through; and (iv) households' inflation expectation which continued to moderate.

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



Source: Database on Indian Economy, RBI

CPI inflation continued to remain below 4% in June 2019, increasing the prospects for another rate reduction by the RBI during the course of the year.

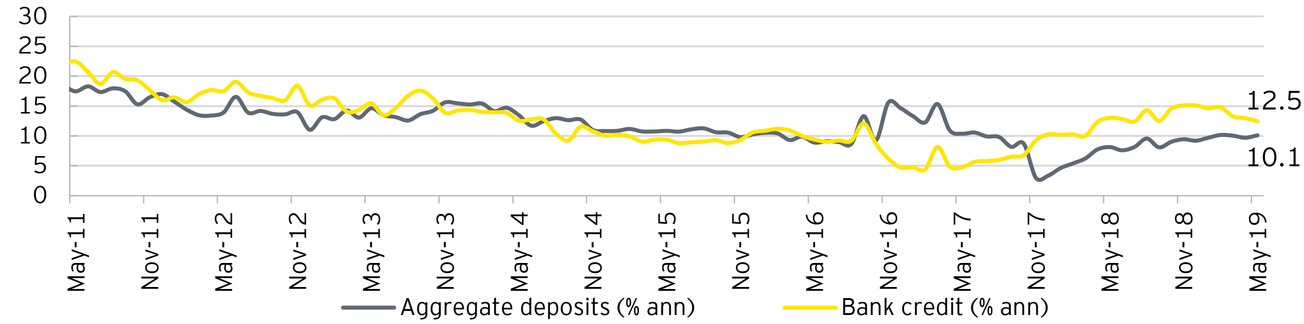
Money stock

- Growth in broad money stock (M3) improved to 10.3% (y-o-y) in May 2019 from 9.6% in April 2019 (**Chart 8**). Time deposits, accounting for nearly 76% of M3, grew by 9.5% in May 2019, increasing from 8.7% in April 2019.
- Narrow money (M1) grew by 12.9% in May 2019, marginally higher than 12.6% in April 2019. This was due to higher growth in demand deposits which increased to 11.3% in May 2019 from 9.5% in April 2019. However, growth of currency in circulation slowed marginally to 14.2% in May 2019 from 14.5% in April 2019.

Aggregate credit and deposits

- Growth in bank credit moderated for the second successive month to 12.5% (y-o-y) in May 2019 (13.0% in April 2019), its lowest since September 2018 (**Chart 9**).

Chart 9: Growth in credit and deposits



Source: Database on Indian Economy, RBI

- Growth in non-food credit fell to an eight-month low of 11.4% in May 2019 from 11.9% in April 2019 due to a sharp slowdown in the growth of bank credit to services sector and industries.
- Growth in credit to services sector was at a 14-month low of 14.8% in May 2019 as compared to 16.8% in April 2019 and growth in credit to industries (accounting for 34% of non-food credit) fell to 6.4% in May 2019 from 6.9% in April 2019. Credit to agricultural sector remained broadly stable at 7.9% since March 2019.
- Housing sector credit, a key driver of retail sector credit, grew at a robust pace of 18.7% in May 2019, similar to the level seen in April 2019.
- Growth in aggregate bank deposits increased to 10.1% in May 2019 from 9.7% in April 2019 led by higher growth in time deposits of residents.

B. Financial sector

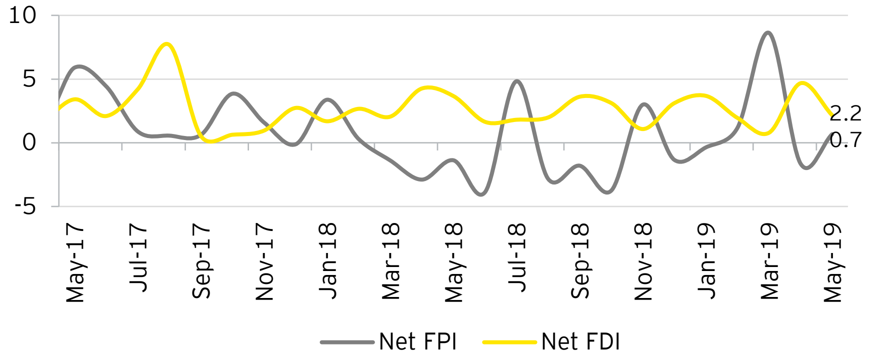
Interest rates

- Banks, for the first time since December 2018, lowered the interest rates offered on term deposits with a maturity of more than one year to 6.8% (average) in June 2019, from 6.9% in May 2019.
- Commercial banks retained the marginal cost of lending rate (MCLR) for the third successive month at 8.28% (average) in June 2019. The transmission of policy rates to lending rates continues to be only fractional as indicated by the RBI in its June 2019 monetary policy statement.
- The average yield on 10-year government securities eased further to 6.97% in June 2019 from 7.33% in May 2019. A reduction in the repo rate by the RBI and change in stance of US Fed, signaling the possibility of rate cuts later this year, may have influenced the bond yields during the month.

FDI and FPI

- As per the provisional data released by the RBI on 11 June 2019, the overall foreign investment inflows (FIIs) fell further to US$2.8 billion in May 2019 from US$3.0 billion (revised) in April 2019 (**Chart 10**) due to lower net FDI inflows.

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



Net FDI inflows were lower at US$2.2 billion in May 2019 as compared to US$4.7 billion in April 2019.

Source: Database on Indian Economy, RBI

- Net FDI inflows moderated to US$2.2 billion in May 2019 from US$4.7 billion (revised) in April 2019. Gross FDI inflows were also lower at US$5.1 billion in May 2019 as compared to US$7.3 billion (revised) in April 2019.
- After registering a net outflow of US$1.6 billion in April 2019, FPIs registered a net inflow of US$0.7 billion in May 2019.

7. Trade and CAB: Merchandise exports contracted by (-) 9.7% in June 2019

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

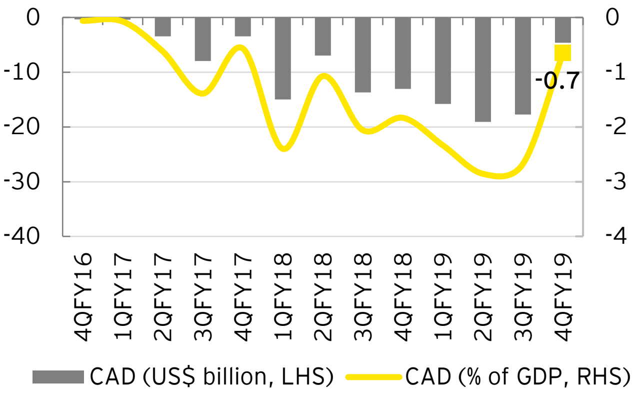
- CAD in 4QFY19 narrowed to 0.7% of GDP from 2.7% in 3QFY19 as merchandise trade deficit moderated to a two-year low of 4.9% of GDP (**Table 7**) due to merchandise imports falling to 10-quarter low of 17.2% of GDP in 4QFY19 from 19.9% in 3QFY19. The fall in CAD was despite net invisibles surplus easing 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 7: 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



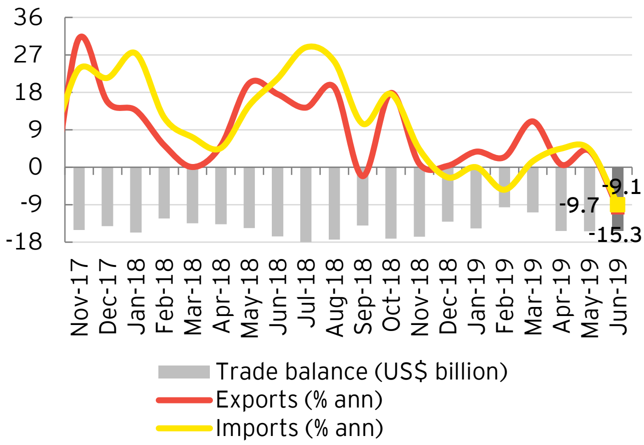
Source: Database on Indian Economy, RBI

B. Merchandise trade and exchange rate

Both exports and imports contracted by (-) 9.7% and (-) 9.1% respectively in June 2019 as compared to growth of 3.9% and 4.3% respectively in May 2019.

- Merchandise exports contracted for the third time in seven months by (-) 9.7% in June 2019 (**Chart 12**), a 41-month low, as compared to a growth of 3.9% in May 2019 led by a sharp fall in oil exports.

Chart 12: Developments in merchandise trade



Source: Ministry of Commerce and Industry, GoI

- Oil exports contracted by (-) 32.8% in June 2019, the fastest pace of contraction in 42 months, as compared to (-) 1.4% in May 2019. A contraction was also observed in exports of engineering goods (-2.7%), gems and jewelry (-10.7%) and readymade garments (-9.2%) in June 2019.
- The pace of contraction in imports, at (-) 9.1% in June 2019, was the highest in the last 34 months. It was driven by a sharp contraction in oil imports at (-) 13.3% in June 2019 as compared to a growth of 8.2% in May 2019.
- Growth in gold imports fell to 13.4% in June 2019 from 37.4% in May 2019. Machinery imports contracted by (-) 9.0% in June as compared to a growth of 5.8% in May 2019.
- Exports and imports excluding oil, gold and jewelry contracted by (-) 4.9% and (-) 7.5% respectively in June 2019.
- Merchandise trade deficit remained elevated at US$ 15.3 billion in June 2019 as compared to US$15.4 billion in May 2019.
- The Indian Rupee appreciated marginally to INR69.4 per US$ (average) in June from 69.8 per US$ in May 2019.

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8. Global growth: World Bank revised down the global growth forecast by 0.3% points to 2.6% in 2019

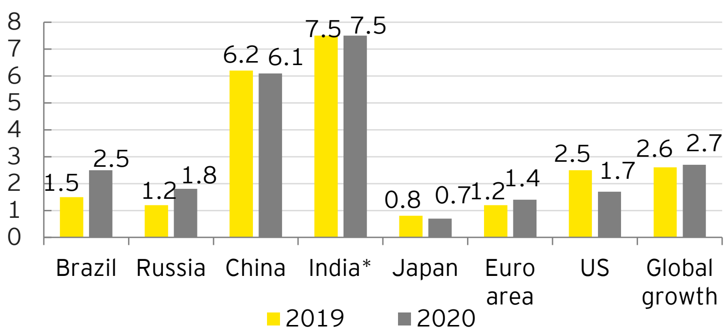
A. Global growth outlook

- The World Bank (Global Economic Prospects, June 2019) revised down the global growth forecast for 2019 by 0.3% points to 2.6% reflecting weaker than expected global trade and investment in the beginning of year. Growth is projected to gradually increase to 2.8% in 2020 driven by a robust recovery in EMDEs.
- While growth in EMDEs is projected to increase from 4% in 2019 to 4.6% in 2020, for AEs, it is expected to fall from 1.7% in 2019 to 1.5% in 2020.
- Growth in the US is projected to moderate to 2.5% in 2019 and 1.7% in 2020 as the effects from recent fiscal easing wane. These projections have remained unchanged from the previous forecasts due to offsetting factors. While the recent tariff increases are expected to weigh on activity, a more accommodative monetary policy is likely to support growth.

The World Bank projected the global growth at 2.6% in 2019, a downward revision of 0.3% points. It is expected to increase slightly to 2.8% in 2020 due to a robust recovery in EMDEs.

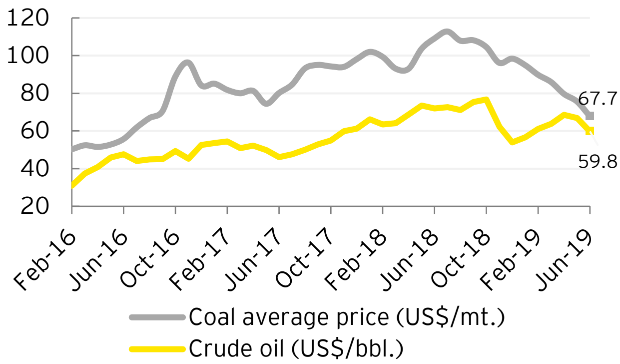
- In the Euro area, growth forecasts have been revised downwards to 1.2% in 2019 and 1.4% in 2020 reflecting weakness in trade and domestic demand. Growth in Japan is projected to be low at 0.8% in 2019 and 0.7% in 2020.
- Growth in China is expected to ease to 6.2% in 2019 and to 6.1% (downwardly revised) in 2020 indicating softening manufacturing activity and trade.
- For India, growth is projected at 7.5% in 2019 and 2020, unchanged from the previous forecasts. Private consumption and investment are expected to pick up as credit growth improves supported by a more accommodative monetary policy in the backdrop of low inflation.

Chart 13: Global growth projections



Source: World Bank Global Economics Prospects, June 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: *Global crude price fell to US$60/bbl. in June 2019*

- Average global crude price[5] fell for the second consecutive month to US$59.8/bbl. in June 2019 from US$66.8/bbl. in May 2019. This could be attributed to concerns relating to weaker global oil demand as a result of an expected global growth and trade slowdown in 2019. As per the IEA, the supply side is expected to be characterized by growing US production and ample OPEC spare capacity.
- Average global coal price[6] declined to a 34-month low of US$67.7/mt. in June 2019 from US$75.6/mt. in May 2019. On a quarterly basis, global coal price averaged US$74.3/mt. in 1QFY20, down from US$90.2/mt. in 4QFY19.

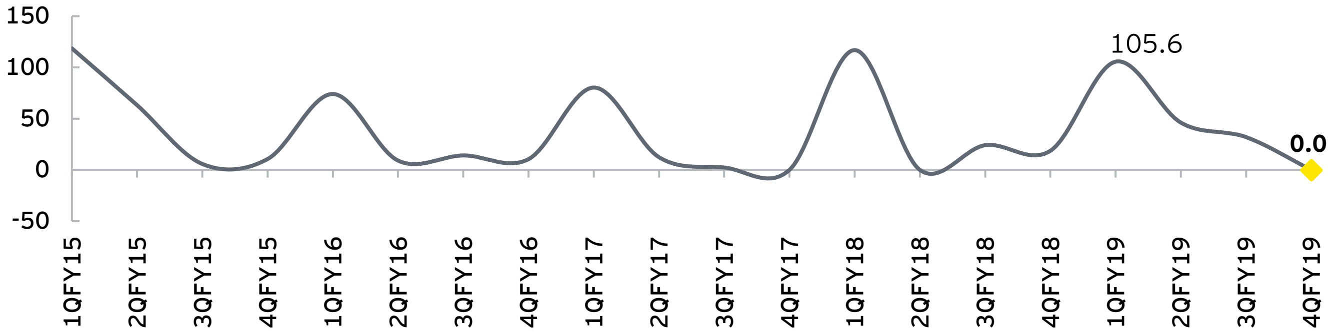
[5] Simple average of three spot prices, namely, Dated Brent, West Texas Intermediate and Dubai Fateh
[6] Simple average of Australian and South African coal prices

9. Index of macro imbalance (IMI): Economy achieved near-full macro balance in 4QFY19

IMI pointed to a near-full macro balance in 4QFY19

- 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[7]. 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.
- Indicating near-full macro balance, the IMI fell to 0.0 in 4QFY19 from 32.0 in 3QFY19 (**Chart 15**). All the three components namely, CPI inflation (2.5%) and center's fiscal deficit ((-)1.1% of GDP) and current account deficit (0.7%) were below their respective benchmark levels in 4QFY19.

Chart 15: IMI (quarterly)



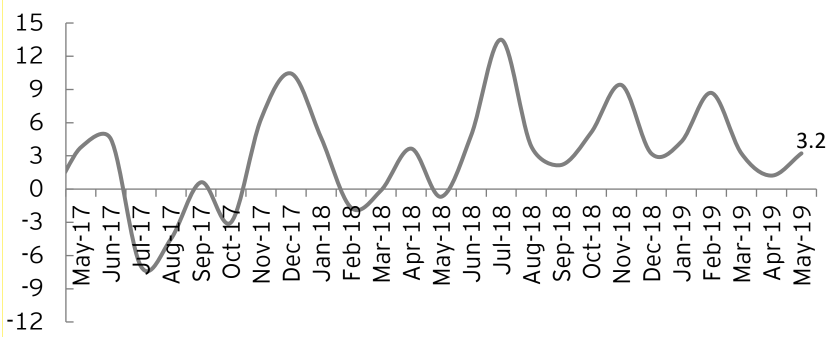
Source (Basic data): RBI, MOSPI and EY estimate

10. Index of Aggregate Demand (IAD): Indicated a continued weakness in demand conditions in May 2019

Growth in IAD remained weak at 3.2% in May 2019

- The y-o-y growth in the index of aggregate demand increased marginally to 3.2% in May 2019 from 1.2% in April 2019. However, it remained below the FY19 annual average growth of 5.1% (**Chart 16**).
- Subdued demand conditions prevailed in services sector while that in manufacturing sector improved only marginally in May 2019. Reflecting stable demand conditions in the agricultural sector, growth in credit to agricultural sector averaged close to 8% since March 2019.

Chart 16: Growth in IAD (y-o-y)



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

[7] 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.

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	3.6	2.8	3.5	5.2	4.3	FY 19	52.8	52.2
1Q FY 19	5.1	5.4	5.1	4.9	5.5	2Q FY 19	52.1	52.2
2Q FY 19	5.3	0.9	5.6	7.5	5.4	3Q FY 19	53.4	53.0
3Q FY 19	3.7	2.8	3.4	6.9	3.4	4Q FY 19	53.6	52.2
4Q FY 19	0.7	2.2	0.3	1.5	2.9	1Q FY 20	52.2	50.3
Feb-19	0.2	2.2	-0.3	1.3	2.2	Mar-18	52.6	52.0
Mar-19	0.4	0.8	0.1	2.2	4.9	Apr-18	51.8	51.0
Apr-19	4.3	5.1	4.0	6.0	6.3	May-18	52.7	50.2
May-19	3.1	3.2	2.5	7.4	5.1	Jun-18	52.1	49.6

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	2.5	4.1	2.6	4.9	1.4	0.8	1.4
Mar-19	2.9	0.3	2.3	4.7	3.1	3.6	2.2	4.6	2.5
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	2.5	5.1	1.3	1.0	1.2
Jun-19	3.2	2.2	2.3	4.0	2.0	5.0	0.9	-2.2	0.8

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	
Oct-18	6.7	16.6	16.1	16.4	1.2	103.9	117.9
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

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)				
Oct-18	47,951	126	-14,215	7,724	41,586
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

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
Aug-18	6.50	FY16	13.5	10.1	9.7	10.5	7.7	36.0	-4.1	FY16	355.6
Sep-18	6.50	FY17	3.1	10.1	7.9	11.6	7.0	35.6	7.6	FY17	370.0
Oct-18	6.50	FY18	22.1	9.5	7.5	7.5	7.0	30.3	22.1	FY18	424.4
Nov-18	6.50	FY19	13.3	10.1	13.8	8.9	7.7	30.7	-0.6	FY19	411.9
Dec-18	6.50	1Q FY19	18.1	9.8	12.7	7.8	7.8	9.6	-8.1	2Q FY19	406.1
Jan-19	6.50	2Q FY19	14.6	9.4	13.1	8.6	7.9	7.4	0.2	3Q FY19	400.5
Feb-19	6.25	3Q FY19	12.7	9.6	14.9	9.2	7.7	7.3	-2.1	4Q FY19	393.4
Mar-19	6.25	4Q FY19	13.3	10.1	14.2	10.0	7.4	6.4	9.4	1Q FY20	411.9
Apr-19	6.00	Feb-19	16.2	10.4	14.8	10.2	7.4	1.9	1.2	Mar-19	411.9
May-19	6.00	Mar-19	13.3	10.1	13.3	10.0	7.3	0.8	8.6	Apr-19	418.5
Jun-19	5.75	Apr-19	12.6	9.6	13.0	9.7	7.4	4.7	-1.6	May-19	421.9
Jul-19	5.75	May-19	12.9	10.3	12.5	10.1	7.3	2.2	0.7	Jun-19	426.4

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	9.5	-176.4	69.9	67.3	100.4	2016	3.4	1.7	4.6
2Q FY19	9.5	21.2	-49.4	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
Mar-19	11.0	1.4	-10.9	69.5	63.8	86.0	2021*	3.6	1.7	4.9
Apr-19	0.6	4.5	-15.3	69.4	68.6	79.6	2022*	3.6	1.6	4.8
May-19	3.9	4.3	-15.4	69.8	66.8	75.6	2023*	3.6	1.6	4.9
Jun-19	-9.7	-9.1	-15.3	69.4	59.8	67.7	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

	Expenditure components						IPD inflation
Fiscal year/quarter	GDP	PFCE	GFCE	GFCF	EX	IM	GDP
FY16	8.0	6.4	7.6	2.6	1.8	0.9	3.3
FY17	8.2	7.4	6.8	5.2	-5.6	-5.9	2.1
FY18	7.2	7.3	12.2	10.1	5.0	4.0	3.5
FY19 (PE)*	6.8	6.1	10.9	7.6	4.4	9.9	3.0
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	WPI	Wholesale Price Index
64	y-o-y	year-on-year
65	2HFY19	second half of fiscal year 2018-19, i.e., September 2018-March 2019
66	1HFY18	first half of fiscal year 2017-18, i.e., April 2018-September 2018

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