Economy Watch

Monitoring India's macro-fiscal performance

June 2019

EY
Building a better working world

Contents

Prepared by Macro-fiscal Unit, Policy Advisory Group, EY India

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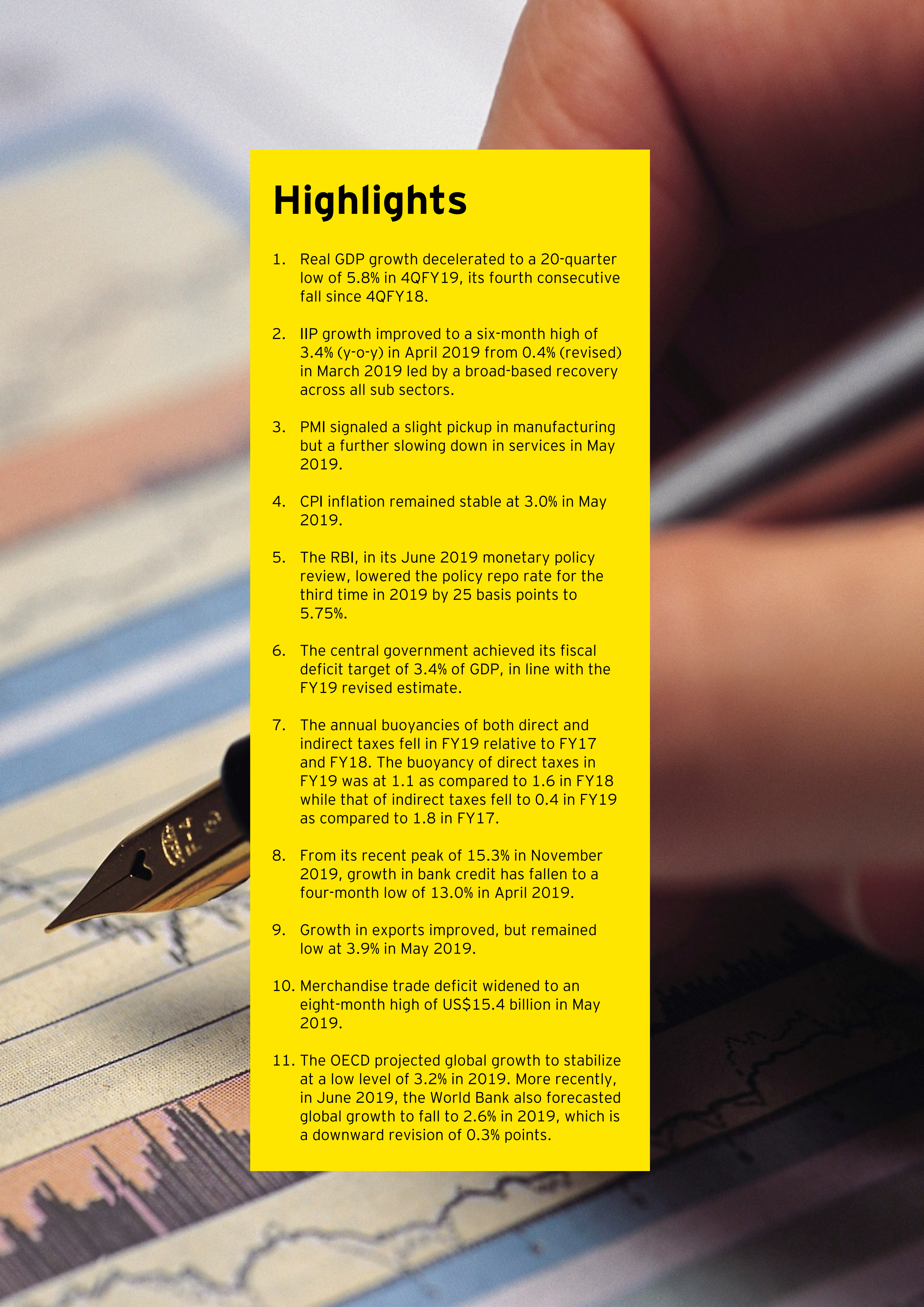

Highlights

1. Real GDP growth decelerated to a 20-quarter low of 5.8% in 4QFY19, its fourth consecutive fall since 4QFY18.

2. IIP growth improved to a six-month high of 3.4% (y-o-y) in April 2019 from 0.4% (revised) in March 2019 led by a broad-based recovery across all sub sectors.

3. PMI signaled a slight pickup in manufacturing but a further slowing down in services in May 2019.

4. CPI inflation remained stable at 3.0% in May 2019.

5. The RBI, in its June 2019 monetary policy review, lowered the policy repo rate for the third time in 2019 by 25 basis points to 5.75%.

6. The central government achieved its fiscal deficit target of 3.4% of GDP, in line with the FY19 revised estimate.

7. The annual buoyancies of both direct and indirect taxes fell in FY19 relative to FY17 and FY18. The buoyancy of direct taxes in FY19 was at 1.1 as compared to 1.6 in FY18 while that of indirect taxes fell to 0.4 in FY19 as compared to 1.8 in FY17.

8. From its recent peak of 15.3% in November 2019, growth in bank credit has fallen to a four-month low of 13.0% in April 2019.

9. Growth in exports improved, but remained low at 3.9% in May 2019.

10. Merchandise trade deficit widened to an eight-month high of US$15.4 billion in May 2019.

11. The OECD projected global growth to stabilize at a low level of 3.2% in 2019. More recently, in June 2019, the World Bank also forecasted global growth to fall to 2.6% in 2019, which is a downward revision of 0.3% points.

Foreword

Economic challenges and Policy Priorities

The new government at the center is well-suited to attend to some of the immediate economic challenges and undertake necessary medium-term reforms. On the growth front, the real GDP growth has steadily fallen on a quarterly basis from a peak of 8% in 1QFY19 to 5.8% in 4QFY19. Consequently, the annual growth in FY19 fell to 6.8% from its peak of 8.2% in FY17. Medium-term growth challenges include uplifting growth to its potential of 8% plus and keeping the deviation from this potential to a minimum across the quarters. This requires a robust employment-oriented growth strategy which should be supplemented by a well-formulated countercyclical policy that can address the problem of temporary slowdowns.

The external economic environment may continue to pose a problem for the Indian economy. The global growth is predicted to slow down in the next two years by most multilateral agencies such as the IMF, World Bank and the OECD. With India's net exports contributing negatively to GDP growth in recent years, most of the Indian growth will have to depend on domestic factors. The US is continuing its tariff war with China and India is also appearing on its radar. India may be better off developing a new trade policy which can protect and promote its domestic production capacity while incentivizing its traditional as well as modern export sectors, including gems and jewelry, textiles and engineering goods. This may require neutralizing fully, the non-GST central and state taxes in India's exports, so that these are genuinely zero-rated.

On the monetary side, three consecutive repo rate reductions of 25 basis points each have been introduced in FY19 by the RBI. In order to increase credit, banks may need to increase the transmission rate, which has so far been only fractional. This combined with a fiscal stimulus would enable a recovery in the next few quarters and a sustained increase in India's growth in the medium term.

The fiscal sector also requires a comprehensive review. According to CGA data, center's net tax revenues have fallen short of the revised estimates for FY19 (Interim Budget FY20) by a margin of 0.9% points of GDP. In the final budget for FY20, which is to be presented in the first week of July, some additional expenditure may also need to be accommodated to meet the election and post-election commitments of the government. The interim budget estimates (IBE) for FY20 may therefore need to be changed by revising the tax revenues downwards and expenditures upwards. The resultant resource gap may have to be filled up by, among other means, an increase in non-tax revenues and disinvestment, if the fiscal consolidation path is to be adhered to. There is a possibility of getting additional dividends from the RBI. The Bimal Jalan Committee is presently examining the case for releasing excess RBI reserves relative to the required norms and global practices. The government's ambitious infrastructure expansion program may call for participation by public and private sector entities. This expansion can provide the much-needed support to demand and growth.

It is time that the next generation of tax reforms are undertaken with a view to increase the buoyancy of direct and indirect taxes. GST reforms may encompass fewer rates and inclusion of sectors that were left out in the first round including petroleum products. CIT and PIT reforms may aim at enhancing their buoyancy by rationalizing the related tax expenditures. This requires a review of various exemptions and deductions as well as reduction and rationalization of tax rates so as to improve the overall compliance.

From a long-term perspective, India's growth strategy should ensure a tangible increase in the saving rate so that it can be pushed up at least to its previous peak of 36%-37% of GDP in FY08. This, supplemented by a net foreign capital inflow of about 2% of GDP, would enable investment at the rate of 38%-39%, which can deliver a growth rate of 8% to 9% for the next few decades, consistent with India's demographic dividend. This would also require increasing the household sector's net financial saving, which has fallen to about 7% of GDP in FY18, by at least 3% points of GDP. This is required for a stable interest rate regime, providing a reasonable share of the investible resources to all the three investing sectors, namely, government, private corporate and the non-government public sectors. Further, in order to improve the employment intensity of growth, a greater emphasis may be on the services sector including construction, which has a relatively lower incremental capital-output ratio. While manufacturing can focus on strategic areas such as defence, it is constrained by a high capital-output ratio. The share of services is increasing steadily in the global economy and the future supply of India's working age population can be absorbed well in some of the service sectors such as health, education, transport and communications, information technology, financial services, real estate services and construction.

Structural changes are needed in the agricultural sector. While the income support programs may improve farmers' welfare in the short run, we may look forward to policy initiatives aimed at enhancing the agricultural productivity and creating a genuine all-India market for agricultural products which is free from jurisdictional fiscal and regulatory barriers. This is an area where the central and state governments may have to work out a joint strategy.

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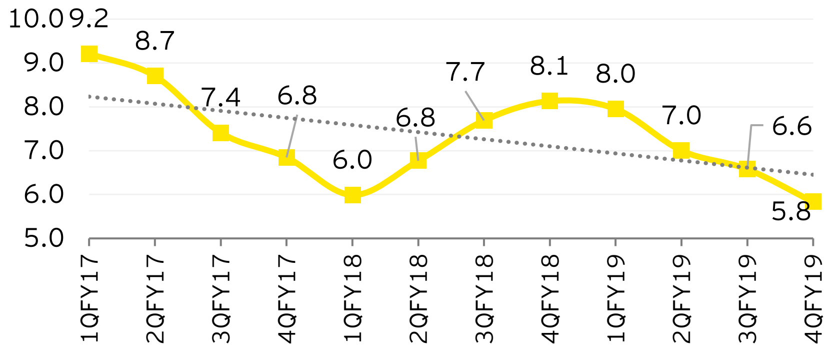
1. Growth: real GDP growth decelerated to a five-year low of 6.8% in FY19

A. Growth: GDP growth fell to a 20-quarter low of 5.8% in 4QFY19

- Real GDP growth decelerated to a 20-quarter low of 5.8% in 4QFY19 from 6.6% in 3QFY19, its fourth consecutive fall since 4QFY18 (**Chart 1**). Slowdown in the growth of private consumption and investment demand coupled with a negative contribution from net exports led to the slowdown of growth.
- As per the provisional estimates of National Accounts Statistics (released on 31 May 2019), real GDP growth fell to a five-year low of 6.8% in FY19 from 7.2% in FY18.
- Reflective of a slowdown in consumption demand, growth in PFCE fell to a five-quarter low of 7.2% in 4QFY19 from 8.1% in 3QFY19.
- Growth in investment demand, measured by gross fixed capital formation (GFCF), fell to a 14-quarter low of by 3.6% in 4QFY19 after remaining in double digits in the preceding five quarters since 3QFY18.
- Contribution of net exports has remained negative for 10 successive quarters. In 4QFY19, the negative contribution of net exports increased to (-) 0.9%.
- On the output side, GVA growth slowed to a 20-quarter low of 5.7% in 4QFY19 due to deceleration in the manufacturing, construction and trade, hotels, transport and communication sectors.
- Growth in manufacturing GVA weakened to a seven-quarter low of 3.1% in 4QFY19 as compared to 6.4% in 3QFY19 (**Table 1**).
- Growth in the output of construction sector at 7.1% in 4QFY19 was the lowest in six-quarters while that in trade, hotels, transport and communication sector was at a 17-quarter low of 6.0%.

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



Source: MoSPI, GoI

Table 1: Real GDP and GVA growth (%)

Agg. demand	1Q FY18	2Q FY18	3Q FY18	4Q FY18	1Q FY19	2Q FY19	3Q FY19	4Q FY19	FY 18	FY 19
PFCE	10.1	6.0	5.0	8.8	7.3	9.8	8.1	7.2	7.4	8.1
GFCE	21.9	7.6	10.8	21.1	6.6	10.9	6.5	13.1	15.0	9.2
GFCF	3.9	9.3	12.2	11.8	13.3	11.8	11.7	3.6	9.3	10.0
EXP	4.9	5.8	5.3	2.8	10.2	12.7	16.7	10.6	4.7	12.5
IMP	23.9	15.0	15.8	16.2	11.0	22.9	14.5	13.3	17.6	15.4
GDP	6.0	6.8	7.7	8.1	8.0	7.0	6.6	5.8	7.2	6.8
Net Exp. contrib. to growth (% points)	-4.0	-2.1	-2.4	-2.7	-0.7	-2.8	-0.2	-0.9	-2.8	-1.1
Agr.	4.2	4.5	4.6	6.5	5.1	4.9	2.8	-0.1	5.0	2.9
Ming.	2.9	10.8	4.5	3.8	0.4	-2.2	1.8	4.2	5.1	1.3
Mfg.	-1.7	7.1	8.6	9.5	12.1	6.9	6.4	3.1	5.9	6.9
Elec.	8.6	9.2	7.5	9.2	6.7	8.7	8.3	4.3	8.6	7.0
Cons.	3.3	4.8	8.0	6.4	9.6	8.5	9.7	7.1	5.6	8.7
Trans.	8.3	8.3	8.3	6.4	7.8	6.9	6.9	6.0	7.8	6.9
Fin.	7.8	4.8	6.8	5.5	6.5	7.0	7.2	9.5	6.2	7.4
Publ.	14.8	8.8	9.2	15.2	7.5	8.6	7.5	10.7	11.9	8.6
GVA	5.9	6.6	7.3	7.9	7.7	6.9	6.3	5.7	6.9	6.6

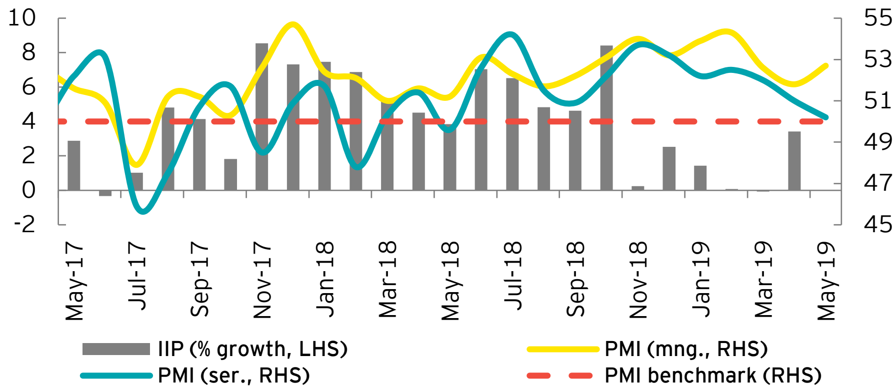
Source (basic data): MoSPI

- From a recent peak of 6.5% in 4QFY18, growth in agricultural and allied activities has fallen in successive quarters. In 4QFY19, it contracted by (-) 0.1%, for the first time in 12 quarters as compared to a growth of 2.8% in 3QFY19.
- The sectors which showed relatively higher growth during 4QFY19 include financial, real estate and professional services (9.5%) and public administration and defense services (10.7%).

B. IIP Growth: improved to a six-month high of 3.4% in April 2019

- IIP growth improved to a six-month high of 3.4% (y-o-y) in April 2019 from 0.4% (revised) in March 2019 led by a broad-based recovery across all sub sectors (**Chart 2**).
- Manufacturing sector output (accounting for 77.6% of overall IIP) grew by 2.8% (y-o-y) in April 2019, its fastest in six-months, relative to 0.4% (revised) in March 2019. Both electricity and mining sectors posted a higher growth of 6.0% and 5.1%, respectively in April 2019 (Table A1 in Data appendix).
- Growth in the output of the capital goods industry, an indicator of investment activity, turned positive for the first time in four months. It increased by 2.5% (y-o-y) in April 2019 as compared to a contraction of (-) 8.4% in March 2019. Growth in the output of consumer durables recovered to 2.4% in April 2019 from (-) 3.1% in March 2019 while that of non-durables increased to a four-month high of 5.2% in April 2019 from 1.0% in March 2019.
- Growth in the output of eight core infrastructure industries fell to 2.6% (y-o-y) in April 2019 from 4.9% (revised) in March 2019. This was largely on account of deceleration in the output growth of sub-industries including steel (1.5%), coal (2.8%) and cement (0.8%) and a sharp contraction in the output of crude oil ((-) 6.9%) in April 2019.

Chart 2: IIP growth and PMI



IIP growth increased to a six-month high of 3.4% in April 2019 led by a broad-based improvement across all sub sectors. However, a recovery would only be reflected in a sustained increase in IIP.

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

C. PMI: signaled a slight pickup in manufacturing but a further slowdown in services in May 2019

- Headline manufacturing PMI (seasonally adjusted (sa)) increased to 52.7 in May 2019 from 51.8 in April 2019, which was an eight-month low (**Chart 2**). The improvement was led by expansion in new export orders, output and total sales in consumer goods relative to intermediate and capital goods.
- PMI services fell for the third consecutive month to a 12-month low of 50.2 in May 2019 from 52 in April 2019.
- The composite PMI Output Index (sa) remained unchanged at 51.7 in May 2019 relative to April 2019 as the slight pickup in manufacturing was offset by a slower expansion in services.

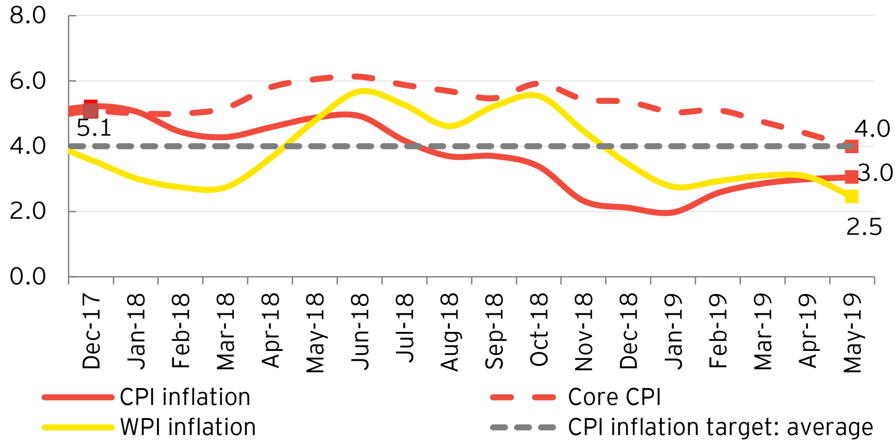
In May 2019, manufacturing PMI improved slightly to 52.7 but services PMI fell to 50.2, its slowest pace of expansion in 12 months. As a result, the composite PMI Output Index remained unchanged at 51.7 during the month.

2. Inflation: CPI inflation remained stable at a low rate of 3.0% in May 2019

CPI inflation remained subdued at 3.0% (y-o-y) in May 2019, the same level observed in April 2019, (Chart 3). However, core CPI inflation slowed further to a 23-month low of 4.0%.

- Core CPI inflation[1] moderated for the third consecutive month to a 23-month low of 4.0% in May 2019 from 4.4% in April 2019.
- Inflation in transportation and communication services eased for the seventh successive month to a 33-month low of 1.6% in May 2019 from 2.5% in April 2019, partly due to base effect. The fall was driven by an increase in the pace of contraction in petrol prices to (-) 5.9% from (-) 3.0% over the same period.
- Consumer food prices grew marginally by 1.8% in May 2019 as compared to 1.1% in April 2019. It had earlier turned positive at 0.3% in March 2019 after contracting for nine successive months. The increase was driven by a pick up in vegetable prices, which rose to 5.5% in May 2019 from 2.9% in April 2019.
- Fuel and light-based inflation declined marginally to 2.5% in May 2019 from a four-month high of 2.6% in April 2019.
- Housing-based inflation decelerated for the 11th successive month to a six-year low of 3.1% in May 2019 from 3.4% in April 2019, mainly due to base effect.

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



In May 2019, core CPI inflation eased to a 23-month low of 4.0% and core WPI inflation eased to a 29-month low of 1.2% from their respective levels of 4.4% and 1.9% in April 2019.

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

WPI inflation eased to a 22-month low of 2.5% in May 2019 from 3.1% in April 2019 (Chart 2) driven by a fall in inflation in fuel and power, vegetables and manufactured basic metals.

- The pace of contraction in crude price increased to (-) 7.8% in May 2019 from (-) 2.5% in April 2019. This was also reflected in the easing of fuel and power-based inflation to a 31-month low of 1.0% in May 2019 from 3.8% in April 2019. The fall was driven by moderation in inflation in mineral oils which include petrol, diesel, naphtha and furnace oil, to 3.0% in May 2019 from 5.8% in April 2019.
- Inflation in vegetables although continued to remain elevated at 33.2% in May 2019, was lower as compared to 40.6% in April 2019. However, consumer food price index based inflation increased marginally to 5.1% from 4.9% over the same period due to an increase in inflation in manufactured food products.
- Inflation in manufactured products moderated to a 31-month low of 1.3% in May 2019 from 1.7% in April 2019 due to a contraction of (-) 2.2% in the prices of manufactured basic metals.
- WPI core inflation eased further to a 29-month low of 1.2% in May 2019 from 1.9% in April 2019.

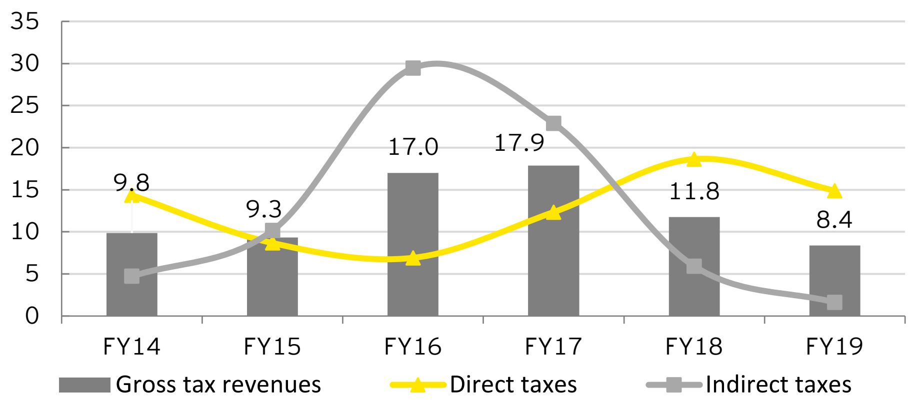
[1] Core CPI inflation is measured in different ways by different organizations/agencies. Here, it has been calculated by excluding food, and fuel and light from the overall index.

3. Fiscal performance: center met the fiscal deficit target of 3.4% of GDP in FY19

A. Tax and non-tax revenues

- As per the Comptroller General of Accounts (CGA), growth in gross central taxes in FY19 fell to 8.4% as compared to 11.8% in FY18 and 17.9% in FY17 (**Chart 4**).
- Gross taxes stood at 92.5% of the FY19 revised target. The percentage shortfall in gross taxes relative to the FY19 revised estimate was 7.5%.
- Growth in direct tax revenues was 14.9% in FY19, lower than 18.6% in FY18. Direct taxes stood at 93.8% of the FY19 revised estimate. The shortfall in direct taxes was INR74,774 crores, which was largely due to an underperformance in personal income taxes.
- Growth in corporate income taxes was 16.2% in FY19 as compared to 17.8% in FY18. Growth in personal income taxes was at 13.1% in FY19 as compared to 19.9% in FY18. The shortfall in personal income taxes relative to FY19 revised estimate was INR67,346 crores.
- Growth in indirect taxes (comprising union excise duties, service tax, customs duty#, taxes of the UTs, CGST, UTGST, IGST* and GST compensation cess) was low at 1.6% in FY19 as compared to 5.9% in FY18 and 22.9% in FY17. The shortfall in indirect taxes relative to the FY19 revised estimate was INR93,198 crores.
- The annual buoyancies of both direct and indirect taxes fell in FY19 relative to FY17 and FY18. Direct tax buoyancy in FY19 was at 1.1 as compared to 1.6 in FY18. Buoyancy of indirect taxes fell to 0.4 in FY19 as compared to 1.8 in FY17.
- Given the underperformance of central taxes, the base numbers for the FY20 budget have shifted down. If the interim budget tax revenue targets are to be met, it might call for a significantly higher growth and buoyancy compared to recent years.

Chart 4: Growth in central tax revenues (% annual)



As per the CGA, growth in center's gross taxes fell to 8.4% in FY19 as compared to 11.8% in FY18. The annual buoyancies for direct and indirect taxes have fallen in FY19 relative to FY17 and FY18.

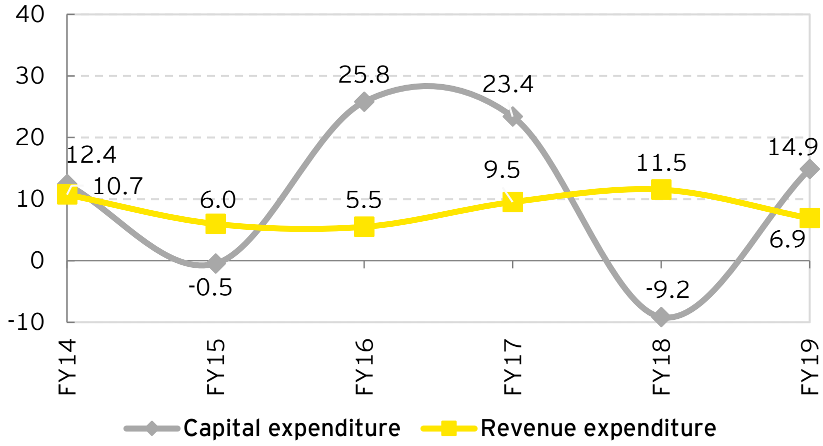
Source: Monthly Accounts, Controller General of Accounts (CGA), Government of India
Note: Direct taxes include personal income tax and corporation tax, and indirect taxes include union excise duties, service tax, taxes of UTs (other taxes), customs duty, CGST, UTGST, IGST and GST compensation cess from July 2017 onwards; *IGST revenues are subject to final settlement; #Collections under customs for July 2017 also include 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 grew by 27.9% in FY19. Non-tax revenues in FY19 stood at 100.4% of the annual revised target.
- According to the Department of Disinvestment, the disinvestment proceeds up to 28 March 2019 stood at INR84,972.16 crores, indicating that the FY19 annual revised target at INR80,000 crores has been met. Going forward, the central government may prioritize privatization of loss-making central public-sector undertakings.

B. Expenditures: revenue and capital

- Center's total expenditure in FY19 grew by 7.9% as compared to 8.5% in FY18 (**Chart 5**). Both revenue as well as capital expenditures were squeezed in FY19, leading to a shortfall of INR1,45,813 crores in total expenditure relative to FY19 revised estimate.
- Growth in revenue expenditure was 6.9% in FY19 as compared to 11.5% in FY18. Revenue expenditures were cut by an amount of INR1,32,149 crores. Of this, INR69,141 crores were on account of underpayment for major subsidies (food, fertilizer and petroleum). In April 2019, the first month of FY20, revenue expenditure stood at 9.2% of the FY20 interim budget estimate.
- Center's capital expenditure showed a growth of 14.9% in FY19 due to base effect as capital expenditures contracted by (-) 9.2% in FY18. Capital expenditure was squeezed by INR13,664 crores relative to FY19 revised estimate. In April 2019, capital expenditure stood at 9.1% of the FY20 interim budget estimate.

Chart 5: Growth in central government expenditure (% annual)



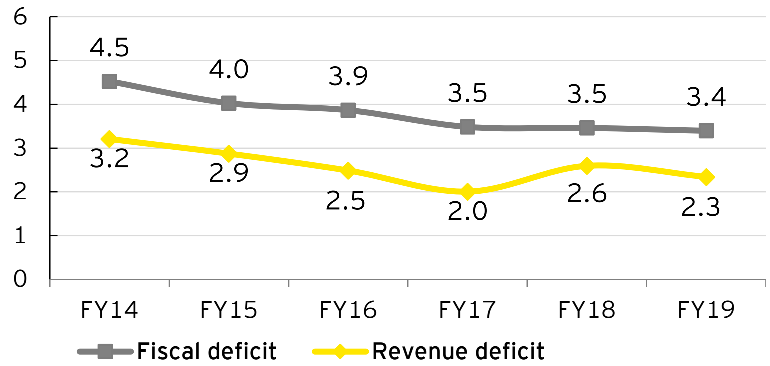
Center's total expenditure grew by 7.9% in FY19 as compared to 8.5% in FY18. Total expenditure cut in FY19 relative to RE amounted to INR1,45,813 crores.

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

C. Fiscal imbalance

- The central government achieved its fiscal deficit target of 3.4% of GDP, in line with the FY19 revised estimate (**Chart 6**). However, given the underperformance of taxes, substantial expenditure cuts, particularly with respect to revenue expenditure were undertaken to achieve the FY19 target. In April 2019, fiscal deficit stood at 22.3% of the FY20 interim budget estimate.
- Center's revenue deficit was at 2.3% of GDP, 0.1% point higher than the FY19 revised estimate. However, it was lower as compared to 2.6% of GDP in FY18. In April 2019, revenue deficit stood at 27.5% of the FY20 interim budget estimate.

Chart 6: Fiscal and revenue deficit as percentage of nominal GDP



Center's fiscal deficit in FY19 was 3.4% of GDP as envisaged in the revised estimate. However, substantial expenditure cuts were undertaken in order to achieve this target.

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

4. India in a comparative perspective: status and prospects

Gross national savings as % of GDP

Saving rate in AEs is expected to increase slightly while it is expected to fall in EMDEs during the forecast period.

- Gross national savings as a percentage of GDP (saving rate) for EMDEs as a group has been consistently higher than that of AEs since 2000 until 2018. This trend is expected to continue during the forecast period.
- However, savings rate in AEs is expected to marginally increase from 22.7% in 2018 to 23.1% by 2024, while in EMDEs, it is expected to fall from nearly 33% in 2018 to 31% by 2024.
- Amongst selected major AEs, the highest saving rate is that of Japan followed by the Euro area and the US. In all three cases, saving rate is expected to broadly increase during the forecast period from their levels in 2018.
- Amongst selected EMDEs, saving rate of China has been the highest. Broad trends during 2018 to 2024 indicate that saving rate is expected to increase in Brazil, fall in Russia and more sharply in China, and remain stable in a narrow range of 29% to 29.8% in India.

Table 2: Gross national savings (% of GDP)

	2018	2019	2020	2021	2022	2023	2024
AEs	**22.7**	**22.7**	**22.7**	**22.7**	**22.9**	**23.0**	**23.1**
US	19.0	19.2	18.9	19.0	19.1	19.3	19.6
Euro area	24.8	24.8	24.9	25.0	25.1	25.1	25.1
Japan	27.9	28.4	28.6	28.5	28.5	28.6	28.7
EMDEs	**32.7**	**32.1**	**31.8**	**31.6**	**31.4**	**31.2**	**30.9**
Brazil	14.6	14.2	14.9	15.5	16.0	16.5	17.0
Russia	30.1	30.0	29.7	29.2	28.6	28.1	27.7
India*	29.1	29.3	29.4	29.6	29.6	29.6	29.8
China	44.6	43.5	42.5	41.9	41.2	40.5	39.8

Source (basic data): World Economic Outlook, IMF, April 2019
Note: forecasted for 2019 and beyond;
*data pertains to fiscal year. For example, data for 2019 pertains to the year FY20.

Total investment as % of GDP

Although investment rate in EMDEs is forecasted to remain higher than that in AEs, it is expected to fall during the forecast period.

- Investment as percentage of GDP (investment rate) shows similar trends as savings across selected major advanced and emerging market economies.
- Investment rate in AEs as a group is expected to increase marginally from 21.9% in 2018 to 22.6% by 2024.
- Investment rate in the US is projected to remain between 21% to 22% during the forecast period. In Japan, the investment rate is expected to increase from 24.4% in 2018 to 25.2% in 2024.
- Among the EMDEs, investment in China is projected to decline from 44.2% in 2018 to 40% by 2024. Investment rates in China witnessed their peak levels during 2010 to 2013 with the average investment rate at 47.6% during this period.
- In India, investment rate is expected to gradually increase from 31.6% in 2018 to 32.3% by 2024. This would still be much lower as compared to the high investment rates of close to 39% during 2011 and 2012.

Table 3: Total investment (% of GDP)

	2018	2019	2020	2021	2022	2023	2024
AEs	**21.9**	**22.1**	**22.2**	**22.3**	**22.4**	**22.5**	**22.6**
US	21.1	21.6	21.6	21.7	21.7	21.7	21.7
Euro area	21.5	21.5	21.7	22.0	22.2	22.4	22.6
Japan	24.4	24.9	25.0	25.0	25.0	25.1	25.2
EMDEs	**32.8**	**32.6**	**32.4**	**32.3**	**32.2**	**32.1**	**31.9**
Brazil	15.4	15.9	16.5	17.1	17.7	18.3	18.9
Russia	23.0	24.3	24.6	24.7	24.6	24.7	24.8
India*	31.6	31.7	31.8	32.0	32.0	32.1	32.3
China	44.2	43.0	42.3	41.8	41.2	40.6	40.0

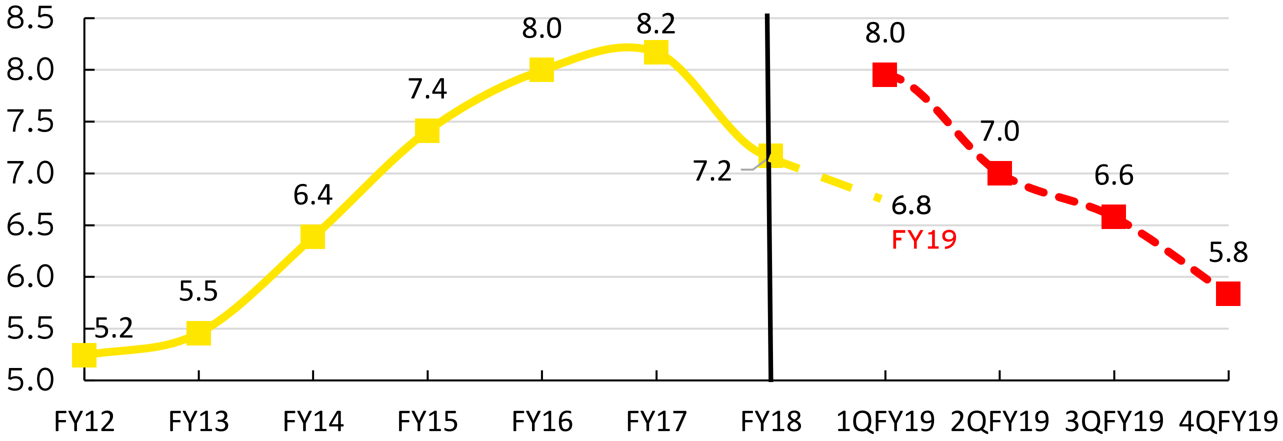
Source (basic data): World Economic Outlook, IMF, April 2019
Note: forecasted for 2019 and beyond;
*data pertains to fiscal year. For example, data for 2019 pertains to the year FY20.

5. In focus: recent fiscal trends and FY20 Union Budget prospects

The context

The FY19 GDP growth fell to 6.8% from a peak of 8.2% in FY17. As shown in Chart 7, the quarterly growth profile indicates a sharper fall in the recent quarters. Real GDP growth in 4QFY19 fell to 5.8% from 8% in 1QFY19. The RBI, in its 6 June 2019 monetary policy review, has lowered its FY20 GDP growth projection to 7% from an earlier estimate of 7.2%. The recently released World Bank Global Economic Prospects[2] has lowered the global growth forecast by 0.3% points to 2.6% for 2019, although India's growth forecasts have been retained at 7.5% for the next three years. In order to reach and sustain the growth level of 7.5%, the domestic economy needs to be stimulated in the short run and the saving rate needs to be uplifted in the medium to long run.

Chart 7: Real GDP growth



Source (basic data): MoSPI

The CPI inflation averaged 3.4% in FY19, which is well below the mean CPI inflation target at 4% as per the MPC. The RBI has estimated the CPI inflation at 3.3% for FY20. This below-target inflation level has facilitated, three consecutive repo rate reductions of 25 basis points each during 2019, although the transmission of the rate reductions has been only fractional. It is estimated that the transmission of the cumulated reduction of 50 basis points in the repo rate in February 2019 and April 2019 was only 21 basis points[3]. There may be a case for supplementing monetary stimulus by a fiscal stimulus but the options may be limited.

In order to consider the fiscal policy options, we have reviewed fiscal trends over the last 10 years, covering two five-year periods from FY10 to FY14 under the UPA regime and from FY15 to FY19 under the NDA regime. These periods are referred to as Period 1 and Period 2, respectively, in the subsequent analysis.

Revenue trends and prospects

In spite of major tax reforms including the implementation of GST, center's gross tax revenue as percentage of GDP increased only by a margin of 0.6% points, averaging 10.8% in period 2 as compared to 10.2% in period 1. However, this increase did not translate into an increase in the center's net tax revenue which fell by a margin of (-) 0.2% points (Table 4) of GDP during the same period. This may be attributed to the recommendations of the 14th Finance Commission, implemented in 2015-16, which increased the share of states in central taxes to 42% from 32%, that is, by a margin of 10% points. Center's non-tax revenue also fell by a margin of (-) 0.3% points relative to GDP in period 2. Together center's net revenue receipts fell by a margin of (-) 0.5% points. It is creditable therefore that, in spite of the fall in revenue receipts relative to GDP, the center was able to reduce, in successive years, its fiscal deficit level from 4.5% in FY14 to 3.4% in FY19, that is by a margin of (-) 1.1% points, comparing the last years of period 1 and period 2, respectively. This reduction was 1.7% point of GDP, if the annual averages of the two periods are compared. With a falling level of borrowing along with a lower level of revenue receipts, the burden of adjustment was borne by expenditures that had to compressed. This is discussed in detail in the next section.

[2] World Bank's Global Economic Prospects was released on 4 June 2019
[3] Second Bi-Monthly Monetary Policy Statement for 2019-20 (released on 6 June 2019)

Table 4: Center's receipts (% of GDP)

	Fiscal year	Gross tax revenue	Center's net tax revenue	Non-tax revenue	Center's net revenue receipts	Non-debt capital receipts	Fiscal deficit
UPA 2	FY10	9.8	7.2	1.8	9.0	0.5	6.57
	FY11	10.4	7.5	2.9	10.3	0.5	4.89
	FY12	10.2	7.2	1.4	8.6	0.4	5.91
	FY13	10.4	7.5	1.4	8.8	0.4	4.93
	FY14	10.1	7.3	1.8	9.0	0.4	4.48
NDA 2	FY15	10.0	7.2	1.6	8.8	0.4	4.10
	FY16	10.6	6.9	1.8	8.7	0.5	3.87
	FY17	11.2	7.2	1.8	8.9	0.4	3.49
	FY18	11.2	7.3	1.1	8.4	0.7	3.46
	FY19*	10.9	6.9	1.3	8.2	0.5	3.39
Period 1 avg.		10.2	7.3	1.8	9.2	0.4	5.4
Period 2 avg.		10.8	7.1	1.5	8.6	0.5	3.7
P2-P1 (% points)		0.6	-0.2	-0.3	-0.5	0.1	-1.7

Source (basic data): Union budget documents, CGA and MoSPI; *basic data is sourced from CGA

Taxes constitute the major part of center's revenue receipts. Personal income tax (PIT) and corporate income tax (CIT) are the main constituents of direct taxes while GST, non-GST domestic indirect taxes and customs are the main central indirect taxes. If we compare the period averages, the CIT revenue to GDP ratio was 3.3% in period 2, lower by a margin of (-) 0.4% points as compared to period 1 (Table 5). This could be attributed, among other reasons, to the rate reduction in the CIT rates which the government introduced in phases during FY17 to FY19.

In the case of PIT, the period 2 average is marginally higher by 0.3% points of GDP compared to the period 1 average. In case of indirect taxes, period 2 average shows an increase of 0.7% points compared to that of period 1. However, most of this increase occurred in the pre-GST era when the revenue from union excise duties increased sharply to 2.5% of GDP in FY17 from 1.5% of GDP in FY15. This may be due to the lowering of global crude prices in these years enabling the central government to increase the specific component of excise duties on petroleum products. It may therefore be better to look at the change in tax GDP ratios by making a comparison of the last year of the two regimes. While comparing FY19 to FY14, we notice that revenues from indirect taxes increased by 0.5% points of GDP.

Table 5: Tax revenues (% of GDP)

	Fiscal year	Direct Tax	*CIT*	*PIT*	Indirect Tax	Customs	Domestic indirect tax	*GST*	*UED*	*Service tax*	Gross tax revenue
UPA 2	FY10	**5.9**	3.8	2.1	**3.9**	1.3	2.6	--	1.6	0.9	**9.8**
	FY11	**5.8**	3.9	1.9	**4.5**	1.8	2.8	--	1.8	0.9	**10.4**
	FY12	**5.7**	3.7	1.9	**4.5**	1.7	2.8	--	1.7	1.1	**10.2**
	FY13	**5.6**	3.6	2.0	**4.8**	1.7	3.1	--	1.8	1.3	**10.4**
	FY14	**5.7**	3.5	2.2	**4.5**	1.5	2.9	--	1.5	1.4	**10.1**
NDA 2	FY15	**5.6**	3.4	2.1	**4.4**	1.5	2.9	--	1.5	1.3	**10.0**
	FY16	**5.4**	3.3	2.1	**5.2**	1.5	3.7	--	2.1	1.5	**10.6**
	FY17	**5.5**	3.2	2.4	**5.6**	1.5	4.2	--	2.5	1.7	**11.2**
	FY18	**5.9**	3.3	2.5	**5.4**	0.8	4.6	2.6 #	1.5	0.5	**11.2**
	FY19*	**5.9**	3.5	2.4	**5.0**	0.6	4.4	3.1	1.2	0.0	**10.9**
Period 1 avg.		5.7	3.7	2.0	4.4	1.6	2.8	--	1.7	1.1	10.2
Period 2 avg.		5.7	3.3	2.3	5.1	1.2	3.9	--	1.8	1.0	10.8
P2-P1 (% points)		-0.1	-0.4	0.3	0.7	-0.4	1.1	--	0.1	-0.1	0.6

Source (basic data): Union budget documents, CGA and MoSPI; *basic data is sourced from CGA;
basic data is from July 2018-March 2019; UED = union excise duty

Non-tax revenue and disinvestments

In the case of non-tax revenues (NTR), while comparing the period averages, there is a fall of 0.3% points of GDP, although in the case of dividends and profits, there is marginal increase (Table 6).

Table 6: Trend in non-tax revenues

		Total NTR *of which:*	Interest receipts	Dividend and profits	Other NTR
UPA 2	FY10	**1.8**	0.3	0.8	0.6
	FY11	**2.9**	0.3	0.6	1.9
	FY12	**1.4**	0.2	0.6	0.5
	FY13	**1.4**	0.2	0.5	0.6
	FY14	**1.8**	0.2	0.8	0.7
NDA 2	FY15	**1.6**	0.2	0.7	0.7
	FY16	**1.8**	0.2	0.8	0.8
	FY17	**1.8**	0.1	0.8	0.8
	FY18	**1.1**	0.1	0.5	0.5
	FY19*	**1.3**	0.1	0.6	0.6
Period 1 avg.		1.85	0.25	0.67	0.88
Period 2 avg.		1.52	0.13	0.69	0.68
P2-P1 (% points)		-0.32	-0.12	0.02	-0.20

Source (basic data): Union Budget various years, CGA and MoSPI

In the case of disinvestment, there is a marginal increase of 0.10% points of GDP with the period 2 average being 0.34% of GDP compared to 0.24% of GDP in period 1 (Table 7).

Table 7: Disinvestment performance: comparison over the recent periods

		Actuals (INR cr)	BE (INR cr)	Actuals as share of BE	Actuals as % of GDP
UPA 2	FY10	23,553	No target	--	0.37
	FY11	22,144	40,000	55.4	0.29
	FY12	13,894	40,000	34.7	0.16
	FY13	23,957	30,000	79.9	0.24
	FY14	15,819	40,000	39.5	0.14
NDA 2	FY15	24,349	43,425	56.1	0.20
	FY16	23,997	41,000	58.5	0.17
	FY17	46,247	56,500	81.9	0.30
	FY18	1,00,057	72,500	138	0.59
	FY19	84,972	80,000	106.2	0.45
Period 1 avg.		--	--	52.38	0.24
Period 2 avg.		--	--	88.14	0.34
P2-P1 (% points)		--	--	35.77	0.10

Source (basic data): Union Budget various years, CGA and MoSPI

Expenditure trends and prospects

In the context of the fall in center's net revenue receipts in period 2 compared to period 1, fiscal deficit was successfully brought down by reducing the revenue expenditure by a margin of (-) 2.1% of GDP in period 2 compared to period 1 on an average. The expenditure reduction in period 2 involved large reductions amounting to (-) 0.8 % points of GDP in social services and (-) 1.3% points in economic services[4]. A part of the reduction in economic services was due to the reduction in expenditure on subsidies, which were lower by a margin of (-) 0.7% points of GDP in period 2. Also, on the capital expenditure side, there was a marginal fall of (-) 0.1% points of GDP in period 2 compared to period 1. Together, this adds to a reduction of (-) 2.2% points of GDP in total expenditure while comparing the average of the two periods.

[4] In computing period averages for revenue expenditure on social and economic services, revised estimate for FY19 has been used because CGA does not provide data for these heads.

Table 8: Center's expenditures as % of GDP

	Fiscal year	*Interest payments*	*Pensions*	*Subsidies*	Revenue expenditure	Capital expenditure	Total expenditure
UPA 2	FY10	*3.3*	*0.9*	*2.2*	14.3	1.8	16.1
	FY11	*3.1*	*0.8*	*2.3*	13.6	2.1	15.7
	FY12	*3.1*	*0.7*	*2.5*	13.1	1.8	14.9
	FY13	*3.1*	*0.7*	*2.6*	12.5	1.7	14.2
	FY14	*3.3*	*0.7*	*2.3*	12.2	1.7	13.9
NDA 2	FY15	*3.2*	*0.8*	*2.1*	11.8	1.6	13.3
	FY16	*3.2*	*0.7*	*1.9*	11.2	1.8	13.0
	FY17	*3.1*	*0.9*	*1.5*	11.0	1.9	12.9
	FY18	*3.1*	*0.9*	*1.3*	11.0	1.5	12.5
	FY19*	*3.1*	*0.9*	*1.6*	10.6	1.6	12.2
Period 1 avg.		*3.2*	*0.7*	*2.4*	13.2	1.8	15.0
Period 2 avg.		*3.1*	*0.8*	*1.7*	11.1	1.7	12.8
P2-P1 (% points)		*-0.1*	*0.1*	*-0.7*	-2.1	-0.1	-2.2

Source (basic data): Union budget documents, CGA and MoSPI; *basic data is sourced from CGA;
Note: red colored cells have data as per FY19 RE and nominal GDP as used for FY19 RE. Period 2 average and % point difference are based on these numbers as CGA does not provide data on pensions and total subsidies.

As shown in Table 9, all major subsidies fell: petroleum subsidies by a margin of (-) 0.4% points, food subsidies by a margin of (-) 0.1% points and fertilizer subsidies by a margin of (-) 0.3% points (Table 9).

Table 9: Explicit subsidies

Subsidies (as% of GDP)					
	Fiscal year	Major subsidies	Fertilizer subsidy	Food subsidy	Petroleum subsidy
UPA 2	FY10	2.1	1.0	0.9	0.2
	FY11	2.2	0.8	0.8	0.5
	FY12	2.4	0.8	0.8	0.8
	FY13	2.5	0.7	0.9	1.0
	FY14	2.2	0.6	0.8	0.8
NDA 2	FY15	2.0	0.6	0.9	0.5
	FY16	1.8	0.5	1.0	0.2
	FY17	1.3	0.4	0.7	0.2
	FY18	1.1	0.4	0.6	0.1
	FY19*	1.0	0.4	0.5	0.1
Period 1 avg.		2.3	0.8	0.9	0.7
Period 2 avg.		1.4	0.5	0.8	0.2
P2-P1 (% points)		-0.8	-0.3	-0.1	-0.4

Source (basic data): Union budget documents, CGA and MoSPI; *basic data is sourced from CGA

In the case of food subsidies, some of the subsidies may have been shifted out of the budget, but may be financed through public sector entities such as Food Corporation of India. However, the fall in subsidies on petroleum and fertilizers are largely related to rationalization of these subsidies including direct benefit transfers (DBTs) and reduction in global crude prices. Further, the central government has been rolling over these subsidies to subsequent years[5], which is a practice on which the Comptroller and Auditor General of India (CAG) has often commented in its reports[6]. Some instances are indicated below.

a. *"Government has adopted off-budget means of financing the subsidy arrears, thereby deferring the payment in the relevant financial year and in the process also incurring additional cost by way of interest payments"*
b. *"When the budget allocation of a financial year to Ministry of Consumer Affairs, Food and Public Distribution is not sufficient to clear all the dues of food subsidies bill raised by FCI, the dues of such subsidies are carried over to next financial year"*

[5] CAG. (2015). Union government: accounts of the union government (p. 14). New Delhi: Government of India
[6] Report of the Comptroller and Auditor General of India on Compliance of the Fiscal Responsibility and Budget Management Act, 2003 for the year 2016-17.

Fiscal imbalance: managing debt and deficit

A major achievement of the government during period 2 is the reduction of fiscal deficit by a margin of 1.1% points of GDP, comparing the last year of the two periods. Alongside, the revenue deficit to GDP ratio also fell by a margin of 1.5% points of GDP. In period 1 on average, revenue deficit amounted to 74% of fiscal deficit. This ratio has been brought down to 68% in period 2, thus reflecting an improvement in the quality of fiscal deficit.

Table 10: Deficit and Debt Indicators

Deficit and debt (as % of GDP)						RD/FD ratio	CE/FD ratio
	Fiscal year	Revenue deficit	Fiscal deficit	Primary deficit	Debt		
UPA 2	FY10	5.32	6.57	3.23	55.45	81.0%	26.9%
	FY11	3.30	4.89	1.83	51.59	67.5%	41.9%
	FY12	4.51	5.91	2.78	51.71	76.4%	30.7%
	FY13	3.66	4.93	1.78	50.99	74.3%	34.0%
	FY14	3.18	4.48	1.14	50.47	71.0%	37.3%
NDA 2	FY15	2.93	4.10	0.87	50.07	71.6%	38.5%
	FY16	2.49	3.87	0.66	50.12	64.3%	47.5%
	FY17	2.06	3.49	0.36	48.40	59.1%	53.1%
	FY18	2.59	3.46	0.36	48.17	75.1%	44.5%
	FY19*	2.34	3.39	0.33	46.71[#]	69.0%	46.9%
Period 1 avg.		4.0	5.4	2.2	52.0	74.1%	34.2%
Period 2 avg.		2.5	3.7	0.5	48.7	67.8%	46.1%
P2-P1 (% points)		-1.5	-1.7	-1.6	-3.3	-6.3	11.9

Source (basic data): Union budget documents, CGA and MoSPI; *basic data is sourced from CGA;
debt for FY19 has been derived by adding the annual fiscal deficit of FY19 as per the CGA to the outstanding liabilities at the end of FY18 as per Union budget actuals

Outstanding liabilities of the central government also fell. Comparing the last year of the two periods, these fell from a level of 50.47% of GDP in FY14 to 46.71% in FY19, witnessing a fall of 3.76% points of GDP (Table 10).

Budget prospects: scope for fiscal stimulus

A major policy decision that has to be taken in the preparation of the final full year budget of FY20 relates to the extent to which the economy can be fiscally stimulated. The interim budget had envisaged a fiscal deficit level relative to GDP of 3.4% for FY20. However, given the shortfall in the actual revenues for FY19 relative to the revised estimates as per the interim budget, and the likely increase in expenditures for FY20 so as to accommodate the government's electoral promises, achieving a fiscal deficit of 3.4% of GDP would be a challenge. Additional stimulus is even more difficult without breaching the fiscal consolidation path. The government may be able to resort to some windfall gains if the Jalan committee recommends the release of excess reserves from the RBI, based on a review of RBI's reserves to liabilities ratio as compared to the corresponding global norms. These funds would add to government's non-tax revenues and would come in handy to contain the FY20 fiscal deficit while providing scope for some additional expenditure over and above the IBE.

The support to India's farmers through a cash subsidy would be entirely on revenue account. While the manifesto promises a much larger amount of infrastructure investment, the government may take only a fraction of this amount on the capital account of the budget, leaving the rest to be financed by extra budget and off-budget resources in line with the practice followed in the recent budgets. In regard to center's commitment for expenditures, relatively larger volumes are involved in funding infrastructure. This could support demand and thereby growth.

Table 11: Key budgetary indicators

Items	FY19 (CAG)	FY20 (IBE)	Difference FY20 (IBE) - FY19	Growth FY20 (IBE) over FY19
	INR crores	INR crores	INR crore	% annual
Revenue receipts	15,63,170	19,77,693	4,14,523	26.5
Tax revenue (net to center)	13,16,951	17,05,046	3,88,095	29.5
Non-tax revenue	2,46,219	2,72,647	26,428	10.7
Capital receipts	1,02,885	8,06,507	7,03,622	--
Recoveries of loans	17,840	12,508	-5,332	-29.9
Other receipts	85,045	90,000	4,955	5.8
Borrowings and other liabilities	6,45,367	7,03,999	58,632	--
Total receipts	16,66,055	27,84,200	11,18,145	--
Total expenditure	23,11,422	27,84,200	4,72,778	20.5
Revenue expenditure	20,08,463	24,47,907	4,39,444	21.9
Capital expenditure	3,02,959	3,36,293	33,334	11.0
Revenue deficit	4,45,293	4,70,214	24,921	--
Fiscal deficit	6,45,367	7,03,999	58,632	--
Primary deficit	62,692	38,938	-23,754	--

Source (basic data): Union Budget various issues, CGA and MoSPI
*IBE – Interim Budget Estimates

In Table 11, FY19 budget actuals as per CGA are compared with the IBE and implied growth rates are estimated. Two numbers are clearly noticeable. The first one pertains to the center's net tax revenues where a growth rate of 29.5% is implied with respect to the FY19 actuals. This is much higher than the annual growth rates observed in recent years. The second number pertains to revenue expenditure. Here, the implied growth in FY20 (IBE) is 21.9% relative to 6.9% in FY19. This also is not in alignment with the revenue expenditure growth rates in recent years. Consequently, both center's net tax revenues and its revenue expenditure estimates for FY20 may have to be revised downwards. Even while revising the revenue expenditure downwards, the commitments in relation to support to famers in the PM-Kisan Samman Nidhi and other post election commitments may have to be accomodated. This may require downward adjustments in other components of revenue expenditure including subsidies which may be rolled over or shifted to some public sector entity like FCI. On the non-tax revenue side, the Jalan committee report may not be submitted to the government prior to the preparation of the budget. Any additional dividend that RBI may release on the basis of the recommendations of this committee would therefore, not be available although some part of it may be incorporated in the upcoming budget in anticipation. Any scope for increasing the fiscal deficit above the level of 3.4% of GDP may be marginal.

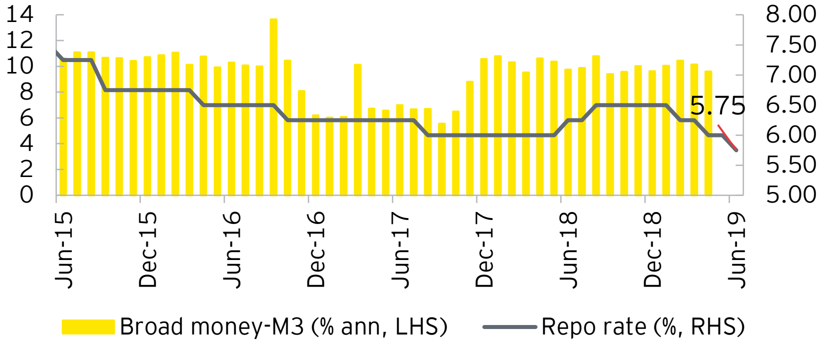
6. Money and finance: RBI lowered the repo rate by another 25 basis points in June 2019

A. Monetary sector

Monetary policy

- In its second bi-monthly monetary policy review (2019-20), held on 6 June 2019, the RBI lowered the policy repo-rate by 25 basis points to 5.75%. A benign CPI inflation rate has provided the RBI the necessary space for stimulating domestic economy, with three consecutive repo rate reductions of 25 basis points each during this calendar year.
- 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

The RBI lowered the repo rate by 25 basis points to 5.75% in June 2019, the level last seen in August 2010. These rate reductions were undertaken to stimulate the domestic economy.

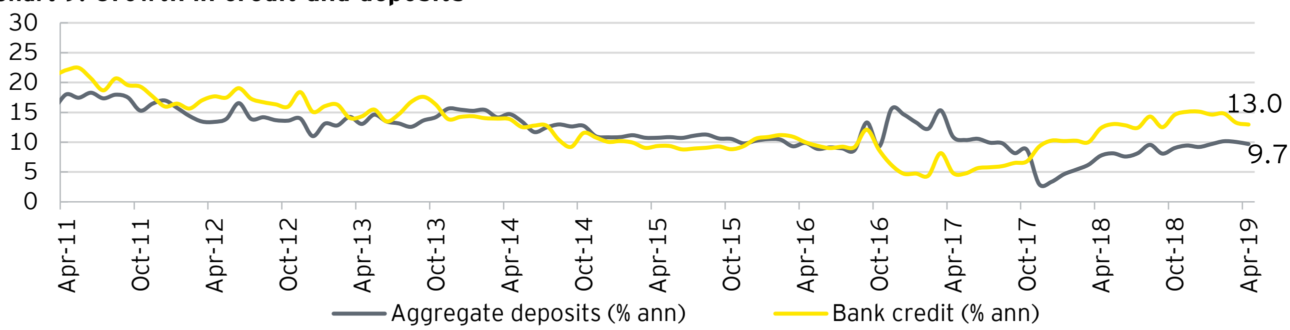
Money stock

- Growth in broad money stock (M3) fell to 9.6% (y-o-y) in April 2019 from 10.1% in March 2019 (**Chart 8**). Time deposits, accounting for nearly 76% of M3, grew by 8.7% in April 2019, its slowest pace in five-months, as compared to 9.2% in March 2019.
- Growth in narrow money (M1) also moderated to a five-month low of 12.6% in April, from 13.3% (y-o-y) in March 2019. This was due to a fall in the growth of currency in circulation to 14.5% in April, an 18-month low, from 16.8% in March 2019.

Aggregate credit and deposits

- From a recent peak of 15.3% in November 2019, growth in bank credit gradually fell to a four-month low of 13.0% (y-o-y) in April 2019. It was at 13.3% in March 2019 (**Chart 9**).

Chart 9: Growth in credit and deposits



Source: Database on Indian Economy, RBI

- Growth in non-food credit dipped to a seven-month low of 11.9% in April 2019 from 12.3% in March 2019 due to a sustained fall in the growth of credit to services sector.
- Growth in credit to services sector was at a 13-month low of 16.7% in April 2019, falling from 17.8% in March 2019 while growth in credit to industries (accounting for 34% of non-food credit) and agricultural sector grew by 6.9% and 7.9%, respectively, in both March 2019 and April 2019.
- Housing sector credit, a key driver of retail sector credit, continued to post a strong growth of 18.6% in April 2019, but was slightly lower than 19.0% in March 2019.
- Growth in aggregate bank deposits fell to 9.7% in April 2019 from 10.0% in March 2019 due to a slower growth in time deposits of residents.

B. Financial sector

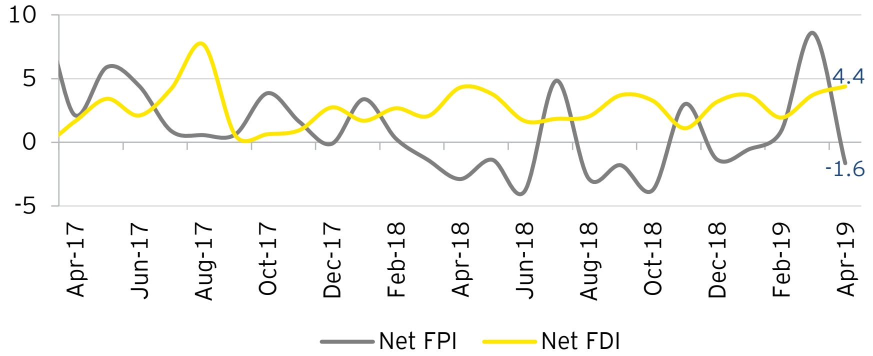
Interest rates

- Banks have retained the interest rates offered on term deposits with a maturity of more than one year for the sixth consecutive month at 6.9% (average) in May 2019.
- Commercial banks retained the marginal cost of lending rate (MCLR) at 8.28% (average) in April 2019 and May 2019. The transmission of policy rates to lending rates continues to be limited.
- The average yield on 10-year government securities was lower at 7.33% in May 2019 as compared to 7.42% in April 2019. Bond yields were influenced by lower crude oil prices and increased prospects of another policy rate reduction in June 2019 as CPI inflation has been below the RBI's mean inflation target rate of 4%.

FDI and FPI

- As per the provisional data released by the RBI on 11 June 2019, the overall foreign investment inflows (FIIs) fell sharply to US$2.7 billion in April 2019 as compared to US$11.1 billion (revised) in March 2019 (**Chart 10**) due to portfolio investment outflows.

Chart 10: Net FDI and FPI inflows



Net FDI inflows were higher at US$4.4 billion in April 2019 as compared to US$2.4 billion in March 2019.

Source: Database on Indian Economy, RBI

- Net FDI inflows increased to US$4.4 billion in April 2019 from US$2.4 billion (revised) in March 2019. Gross FDI inflows were at US$7.0 billion in April 2019, marginally lower than US$7.1 billion (revised) in March 2019.
- Net FPIs turned negative, registering an outflow of US$1.6 billion in April 2019 as compared to an inflow of US$8.7 billion (revised) in March 2019.

7. Trade and CAB: growth in merchandise exports improved but remained low at 3.9% in May 2019

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A. CAB: Current account deficit (CAD) fell to 2.5% of GDP in 3QFY19

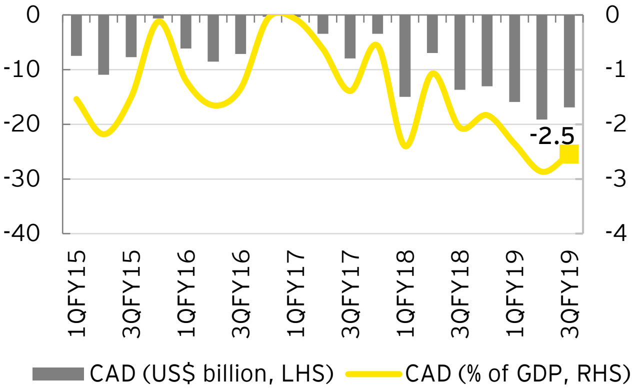
- CAD in 3QFY19 fell to 2.5% GDP from a 21-quarter high of 2.9% in 2QFY19 as net invisibles as a percentage of GDP rose to a three-year high of 4.9% (**Table 12**). This was due to net services exports climbing to a three-year high of 3.2% of GDP and net income transfers improving to (-) 0.9% of GDP in 3QFY19 from 3.0% and (-) 1.3% of GDP, respectively, in 2QFY19.
- Goods and services deficit for 4QFY19 is estimated to have narrowed to 2.2% of GDP as compared to 4.2% in 3QFY19.

Table 12: 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
4QFY18	-13.1	-1.8	-41.6	20.2
1QFY19	-15.9	-2.4	-45.8	18.7
2QFY19	-19.1	-2.9	-50.0	20.2
3QFY19	-16.9	-2.5	-49.5	21.3

Source: Database on Indian Economy, RBI

Chart 11: CAD



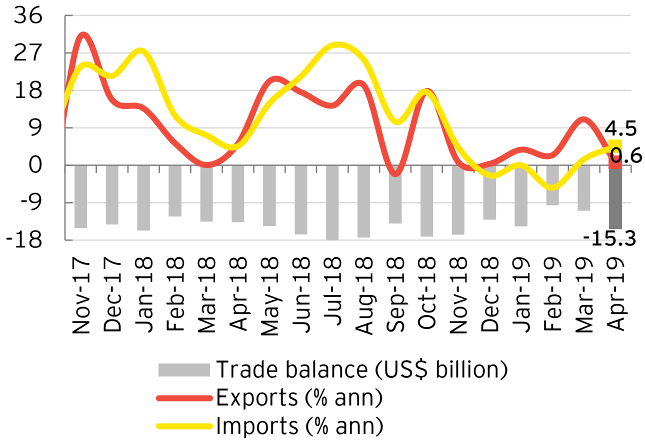
Source: Database on Indian Economy, RBI

B. Merchandise trade and exchange rate

Growth in exports improved to 3.9% in May 2019 from 0.6% in April 2019. Growth in imports was at 4.3% in May 2019 as compared to 4.5% in April 2019.

- Merchandise exports growth increased to 3.9% in May 2019 from 0.6% in April 2019 (**Chart 12**) due to the improvement in exports of engineering goods and gems and jewelry even as oil exports contracted.

Chart 12: Developments in merchandise trade



Source: Ministry of Commerce and Industry, GoI

- Growth in exports of engineering goods turned positive at 4.4% in May 2019 from a contraction of (-) 7.4% in April 2019. The pace of contraction in gems and jewelry exports decreased to (-) 7.4% from (-) 13.4% over the same period. Oil exports contracted by (-) 1.4% in May 2019 as compared to a growth of 30.7% in April 2019, partly due to base effect.
- Growth in exports excluding oil, gold and jewelry turned positive at 7.4% in May 2019 from a contraction of (-) 1.3% in April 2019.
- Imports growth eased to 4.3% in May 2019 from 4.5% in April 2019, mainly due to a) growth in imports of gold and precious/semi-precious stones slowing down to 13.2%, and b) a contraction of (-) 3.2% in electronic goods imports.
- Growth in oil imports marginally fell to 8.2% in May 2019 from a five-month high of 9.3% in April 2019.
- Merchandise trade deficit expanded to an eight-month high of US$15.4 billion in May 2019, marginally higher than the US$15.3 billion deficit in April 2019. Goods and services trade deficit picked up to a five-month high of US$8.7 billion in April 2019 from US$4.3 billion in March 2019.
- The Indian Rupee depreciated marginally to INR69.8 per US$ (average) in May 2019 from INR69.4 per US$ in April 2019.

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8. Global growth: OECD projected a broad-based slowdown in global growth in 2019

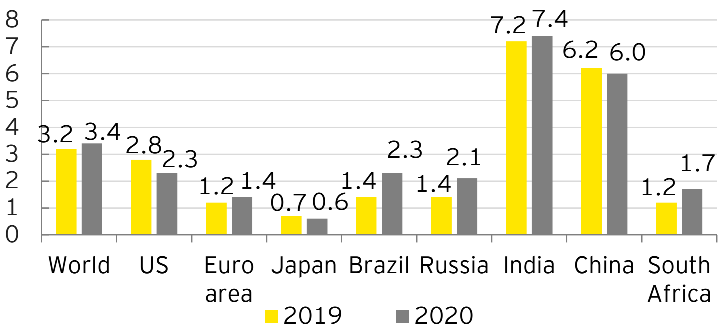
A. Global growth outlook

- The OECD (Economic Outlook, May 2019) projected global growth to fall to 3.2% in 2019 from 3.5% in 2018, attributable to a moderation in the growth of trade and investment. The world's real trade growth is forecasted at 2.1% in 2019, the weakest rate since the global financial crisis. Global growth is expected to remain weak but may recover slightly to 3.4% by 2020.
- Growth in the US is projected to moderate to 2.8% in 2019 and 2.3% in 2020 as support from fiscal easing fades. Although positive labor market outcomes and supportive financial conditions are likely to support consumption, higher tariffs may constrain the growth of business investment and exports.
- In the Euro area, growth is expected to remain weak at 1.2% in 2019 and 1.4% in 2020. Policy uncertainty, weak external demand and low confidence are likely to weigh on investment and trade growth.

The OECD projected the global growth to stabilize at low levels of 3.2% in 2019 and 3.4% in 2020 due to a moderation in the growth of trade and investment and high policy uncertainty. The slowdown is expected to be broad-based with the growth moderating in almost all economies.

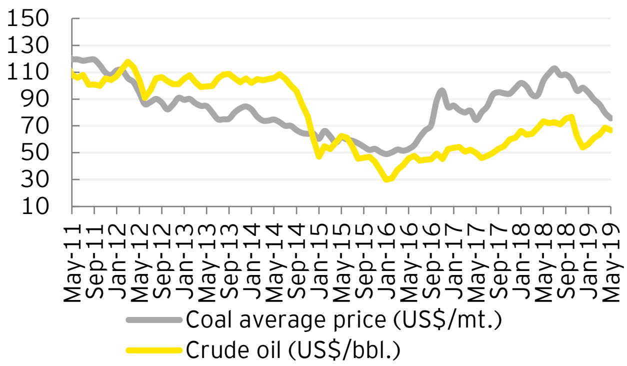
- Growth in Japan is projected around 0.7% in 2019 and 2020. An increase in social spending and a temporary boost to public investment are expected to cushion the immediate impact of the scheduled increase in the consumption tax rate in October 2019, but fiscal consolidation efforts are likely to resume in 2020.
- Growth in China is expected to ease to 6.2% in 2019 and 6% in 2020. Import, investment and credit growth have slowed and trade tensions have led to increased uncertainty. Although, fiscal and monetary policies have been eased to arrest the slowdown, these measures may add to the challenges for deleveraging for corporate sector and aggravate risks to financial stability.
- In India, growth is expected to improve to 7.2% in 2019 from a low of 6.8% in 2018 supported by an expected fiscal stimulus in the form of income support measures to rural farmers. Growth is projected at 7.4% in 2020.

Chart 13: Global growth projections



Source: OECD Economic Outlook, May 2019
*data pertains to fiscal year

Chart 14: Global crude and coal prices



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

B. Global energy prices: *global crude price fell slightly to US$67/bbl. in May 2019*

- Average global crude price[7] fell slightly to US$66.8/bbl. in May 2019 from US$68.6/bbl. in April 2019. This could be due to higher output of the US during the month. Moreover, it is expected that oil demand may grow slower than previously anticipated due to heightened trade tensions.
- Average global coal price[8] declined to a 24-month low of US$75.6/mt. in May 2019 from US$79.6/bbl. in April 2019. The World Bank (Commodity Markets Outlook, April 2019) projected coal prices to partially recover from their current levels and average US$94/mt. in 2019.

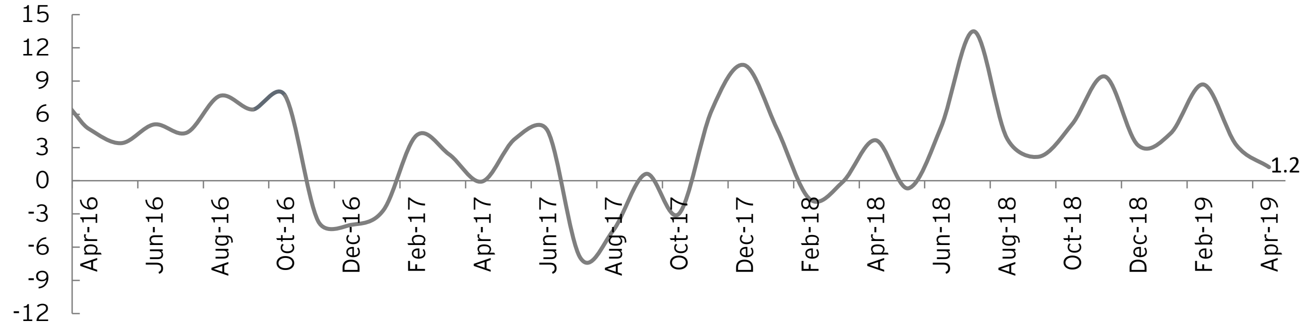
[7] Simple average of three spot prices, namely, Dated Brent, West Texas Intermediate and Dubai Fateh
[8] Simple average of Australian and South African coal prices

9. Index of Aggregate Demand (IAD): grew at a slower pace for the second successive month in April 2019

Indicative of a sustained weakness in demand conditions, growth in IAD moderated for the second successive month to 1.2% in April 2019

- An IAD has been developed by EY to reflect the monthly combined demand conditions in the agriculture, manufacturing and services sectors. It considers the movements in PMI for manufacturing and services, both measured in non-seasonally adjusted terms, tracing the demand conditions in these sectors. Demand conditions in the agricultural sector have been captured by movements in monthly agricultural credit off-take.
- The y-o-y growth in the index of aggregate demand fell to 1.2% in April 2019 as compared to 3.2% in March 2019 (**Chart 15**). Demand conditions in both manufacturing and services sector weakened further in April 2019 while that in agricultural sector remained stable.

Chart 15: Growth in IAD (y-o-y)



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

Table 13: IAD

Month	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19
IAD	121.8	125.6	128.8	128.3	127.9	126.9	129.3	128.1	126.7
Growth (% y-o-y)	3.9	2.2	5.1	9.4	3.2	4.3	8.7	3.2	1.2
Growth in agr. credit	6.6	5.8	8.0	7.7	8.4	7.6	7.5	7.9	7.9
Mfg. PMI**	2.2	2.9	3.8	4.9	2.7	2.7	4.4	2.2	1.7
Ser. PMI**	-1.4	1.5	4.0	2.5	2.9	1.9	2.8	2.3	1.4

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

10. 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	1Q FY 19	52.0	51.2
2Q FY 19	5.3	0.9	5.6	7.5	5.4	2Q FY 19	52.1	52.2
3Q FY 19	3.7	2.8	3.4	6.9	3.4	3Q FY 19	53.4	53.0
4Q FY 19	0.7	2.2	0.3	1.5	2.9	4Q FY 19	53.6	52.2
Jan-19	1.6	3.8	1.3	0.9	1.5	Feb-18	54.3	52.5
Feb-19	0.1	2.2	-0.4	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	3.4	5.1	2.8	6.0	2.6	May-18	52.7	50.2

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
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	17.7	4.9
3QFY19	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	2.9	2.6
Feb-19	2.6	-0.7	1.2	5.1	2.9	3.3	2.3	2.2	2.4
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	3.1	4.9	1.7	3.8	1.9
May-19	3.0	1.8	2.5	4.0	2.5	5.1	1.3	1.0	1.2

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	4.1	3.4	2.3
FY20 (BE over CGA actuals)	22.7	14.5	34.3	22.6	22.7	3.4	2.2
	Cumulated growth (%, y-o-y)					% of budgeted target	
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
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	27.5

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)	6,10,000	-	50,000	1,01,200	7,61,200
Monthly tax collection (INR crore)					
Sep-18	29,862	109	14,753	7,850	52,574
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

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
Jul-18	6.25	FY16	13.5	10.1	9.7	10.5	7.7	36.0	-4.1	FY16	355.6
Aug-18	6.50	FY17	3.1	10.1	7.9	11.6	7.0	35.6	7.6	FY17	370.0
Sep-18	6.50	FY18	22.1	9.5	7.5	7.5	7.0	30.3	22.1	FY18	424.4
Oct-18	6.50	FY19	13.3	10.1	13.8	8.9	7.7	33.3	-2.0	FY19	411.9
Nov-18	6.50	1Q FY19	18.1	9.8	12.7	7.8	7.8	9.8	-8.1	1Q FY19	406.1
Dec-18	6.50	2Q FY19	14.6	9.4	13.1	8.6	7.9	7.5	0.2	2Q FY19	400.5
Jan-19	6.50	3Q FY19	12.7	9.6	14.9	9.2	7.7	7.5	-2.1	3Q FY19	393.4
Feb-19	6.25	4Q FY19	13.3	10.1	14.2	10.0	7.4	8.5	8.1	4Q FY19	411.9
Mar-19	6.25	Jan-19	14.5	10.0	14.6	9.7	7.3	3.7	-0.6	Feb-19	399.2
Apr-19	6.00	Feb-19	16.2	10.4	14.8	10.2	7.4	2.4	0.0	Mar-19	411.9
May-19	6.00	Mar-19	13.3	10.1	13.3	10.0	7.3	2.4	8.7	Apr-19	418.5
Jun-19	5.75	Apr-19	12.6	9.6	13.0	9.7	7.4	4.4	-1.6	May-19	421.9

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
1Q FY19	14.2	13.5	-44.9	67.0	71.4	101.9	2017	3.8	2.4	4.8
2Q FY19	9.5	21.2	-49.4	70.2	73.0	109.6	2018	3.6	2.2	4.5
3Q FY19	5.7	6.1	-46.9	72.1	64.3	99.7	2019**	3.3	1.8	4.4
4Q FY19	6.0	-1.2	-35.2	70.5	60.5	90.2	2020**	3.6	1.7	4.8
Feb-19	2.4	-5.4	-9.6	71.2	61.1	89.8	2021*	3.6	1.7	4.9
Mar-19	11.0	1.4	-10.9	69.5	63.8	86.0	2022*	3.6	1.6	4.8
Apr-19	0.6	4.5	-15.3	69.4	68.6	79.6	2023*	3.6	1.6	4.9
May-19	3.9	4.3	-15.4	69.8	66.8	75.6	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 April 2019 WEO update.

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

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

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

Fiscal year/quarter	Expenditure components						IPD inflation
	GDP	PFCE	GFCE	GFCF	EX	IM	GDP
FY16	8.0	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	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	FAE	first advanced estimates
23	FII	foreign investment inflows
24	Fin.	financial, real estate and professional services
25	FPI	foreign portfolio investment
26	FRBMA	Fiscal Responsibility and Budget Management Act
27	FY	fiscal year (April–March)
28	GDP	Gross Domestic Product
29	GFCE	government final consumption expenditure
30	GFCF	Gross fixed capital formation
31	GoI	Government of India
32	GST	Goods and Services Tax
33	GVA	gross value added
34	IAD	Index of Aggregate Demand
35	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	Tcf	trillion cubic feet
61	Trans.	trade, hotels, transport, communication and services related to broadcasting
62	US$	US Dollar
63	UTGST	Union Territory Goods and Services Tax
64	WPI	Wholesale Price Index
65	y-o-y	year-on-year
66	2HFY19	second half of fiscal year 2018-19, i.e., September 2018-March 2019
67	1HFY18	first half of fiscal year 2017-18, i.e., April 2018-September 2018

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