Economy Watch

Monitoring India's macro-fiscal performance

March 2019

EY

Building a better working world

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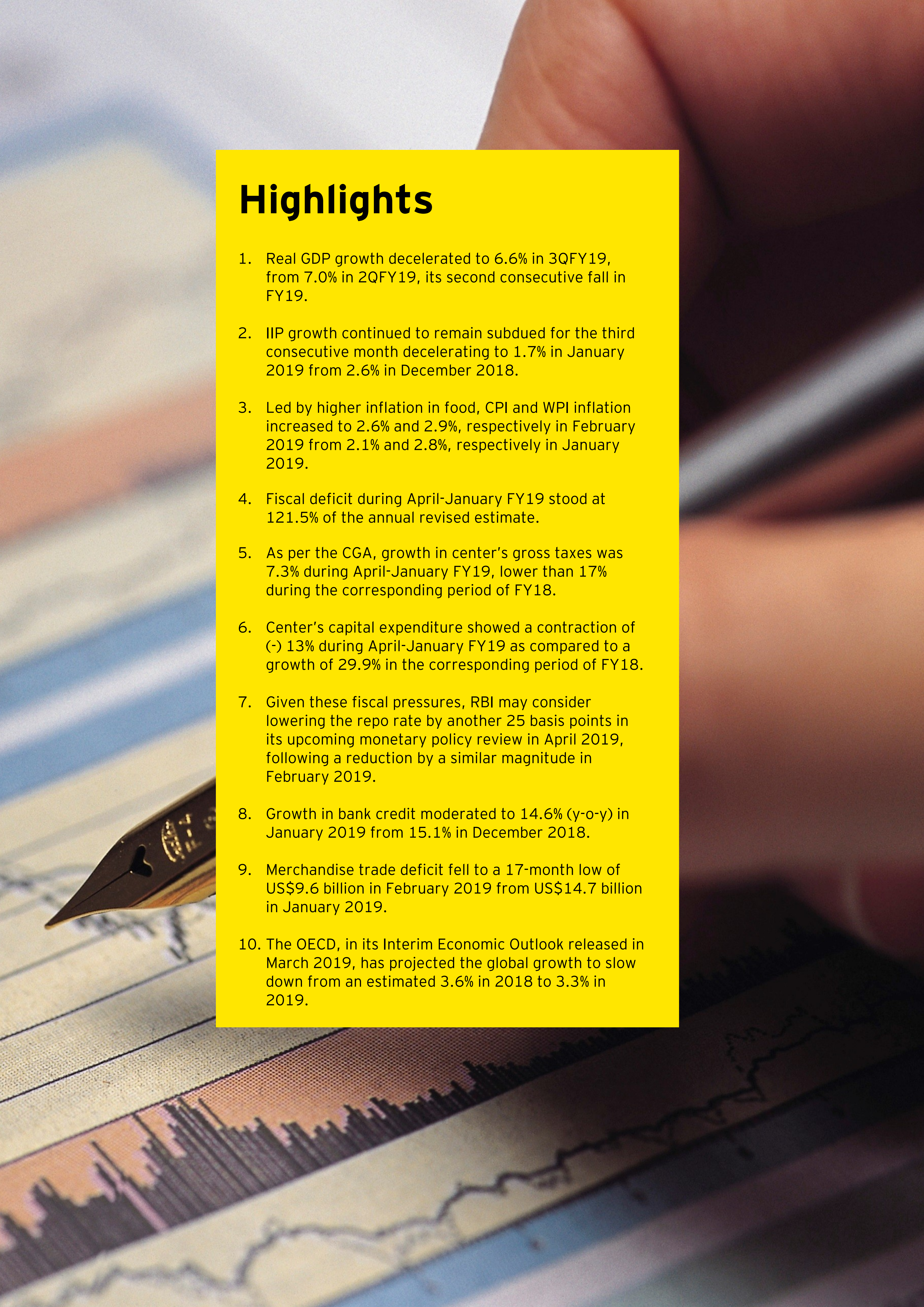

Highlights

1. Real GDP growth decelerated to 6.6% in 3QFY19, from 7.0% in 2QFY19, its second consecutive fall in FY19.

2. IIP growth continued to remain subdued for the third consecutive month decelerating to 1.7% in January 2019 from 2.6% in December 2018.

3. Led by higher inflation in food, CPI and WPI inflation increased to 2.6% and 2.9%, respectively in February 2019 from 2.1% and 2.8%, respectively in January 2019.

4. Fiscal deficit during April-January FY19 stood at 121.5% of the annual revised estimate.

5. As per the CGA, growth in center's gross taxes was 7.3% during April-January FY19, lower than 17% during the corresponding period of FY18.

6. Center's capital expenditure showed a contraction of (-) 13% during April-January FY19 as compared to a growth of 29.9% in the corresponding period of FY18.

7. Given these fiscal pressures, RBI may consider lowering the repo rate by another 25 basis points in its upcoming monetary policy review in April 2019, following a reduction by a similar magnitude in February 2019.

8. Growth in bank credit moderated to 14.6% (y-o-y) in January 2019 from 15.1% in December 2018.

9. Merchandise trade deficit fell to a 17-month low of US$9.6 billion in February 2019 from US$14.7 billion in January 2019.

10. The OECD, in its Interim Economic Outlook released in March 2019, has projected the global growth to slow down from an estimated 3.6% in 2018 to 3.3% in 2019.

Foreword

Scope for monetary easing to stimulate economy given fiscal pressures

Information available up to February 2019 indicates a likely shortfall in direct tax revenues as compared to the revised estimates given in the FY20 budget, which assumed a growth of 19.2% in direct taxes for FY19. By January 2019, according to Comptroller General of Accounts (CGA) data, cumulated growth in direct taxes was 15.7% over the corresponding period of the previous year. Indirect taxes had also shown a cumulated growth of only 1.5% during this period. Although there is a seasonal peak in direct taxes in March, it is likely that there would be an overall revenue shortfall. This may have to be made up by garnering additional non-tax revenues and disinvestment proceeds if a slippage in the fiscal deficit target of 3.4% of GDP is to be avoided.

Part of the sluggishness of revenues is due to a continuing slowdown in the economy. While in 1QFY19, growth was at 8.0%, it slid in the subsequent two quarters to levels of 7.0% and 6.6%. Utilizing the advanced estimates for FY19, GDP growth for the 4QFY19 can be derived at 6.5%. This indicates an ongoing slowing down of the real economy. Furthermore, this is accompanied by a fall in inflation measured both by CPI and WPI. This downward trend in prices is also reflected in the GDP deflator-based inflation. Together, these trends imply that the nominal growth rates have also been falling. In 4QFY19, nominal GDP is expected to grow only by 10.4%, a 13-quarter low.

However, there are signs of a slight reversal in the downward movement of CPI and WPI indices. In February 2019, overall CPI inflation was 2.6%, showing an increase from its January 2019 levels of 2.0%. Similarly, WPI inflation also recorded an increase to 2.9% in February 2019 as compared to 2.8% in January 2019.

The slowdown in prices is led by a sharp and sustained fall in agricultural prices, particularly food prices. In fact, an important reason for the much-discussed farm sector distress is a fall in real output growth in agriculture as well as a fall in farm prices, which together account for a fall in agricultural incomes.

There is a broad indication of sluggishness of demand characterizing the current trends in the Indian economy. Growth in private final consumption expenditure has been falling over recent quarters. Growth in gross capital formation fell to a seven-quarter low of 7.9% in 4QFY19. The impact of global factors transmitted through the contribution of net exports to GDP growth has been limited in recent quarters. In fact, it has continued to be negative, although the magnitude has fallen. In recent months, both exports and imports growth have reflected a downward trend, although this trend is much sharper in imports. The recent withdrawal of tariff advantages for Indian exports to the US under the Generalised System of Preferences (GSP) is also likely to have an adverse impact affecting more than 2,000 tariff lines (Federation of Indian Export Organisation) out of a total 5,111 tariff lines on which India was enjoying a tariff preference.

The medium-term challenge for the Indian economy is to stimulate demand. Fiscal policy at the moment is not likely to support demand as the government, in order to limit any further slippage in the revised fiscal deficit target, is likely to adjust both revenue and capital expenditures downwards. Given the constraints on fiscal expansion, at least in the short-run, there is a strong case for reducing the policy rate further in the upcoming meeting of the monetary policy committee scheduled to be held in April 2019 to support demand from the monetary policy side.

We expect that the economy is likely to show signs of recovery as soon as the new fiscal year starts, as in the months of April and May 2019, while the elections are on, government is likely to frontload its budgeted expenditures for FY20.

D.K. Srivastava
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1. Growth: decelerated to a six-quarter low of 6.6% in 3QFY19

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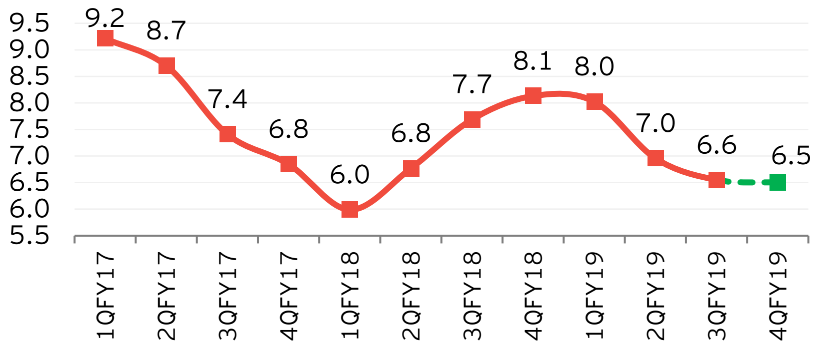
A. Growth: GDP growth fell to a six-quarter low of 6.6% in 3QFY19

- Real GDP growth decelerated to 6.6% in 3QFY19 from 7.0% in 2QFY19, its second consecutive fall in FY19 (**Chart 1**). As per the second advanced estimates of National Accounts Statistics, real GDP is estimated to grow by 7.0% in FY19, lower than 7.2% in FY18. With this, the implied 4QFY19 growth is even lower at 6.5%.
- This is largely attributable to a moderation in the growth of final consumption expenditures, both private and government.
- Growth in both PFCE and GFCE fell to 8.4% and 6.5% in 3QFY19 from 9.8% and 10.8%, respectively in 2QFY19.
- However, gross fixed capital formation (GFCF) grew at 10.6% in 3QFY19, improving from 10.2% in 2QFY19.
- Contribution of net exports to growth continued to be negative although the magnitude was less at (-) 0.6% points in 3QFY19 as compared to (-) 2.2% points in 2QFY19.
- On the output side, GVA growth moderated for the second time in FY19 to 6.3% in 3QFY19 as compared to 6.8% in 2QFY19 due to a relatively lower growth in manufacturing and public administration and defense sectors.
- Growth in manufacturing GVA was at a six-quarter low of 6.7% in 3QFY19 as compared to 6.9% (revised) in 2QFY19 (**Table 1**).
- Growth in public administration and defense sector moderated to 7.6% in 3QFY19 as compared to 8.7% in 2QFY19.

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



Source: MoSPI, GoI

Table 1: Real GDP and GVA growth (%)

Aggregate demand (AD) component	*3Q FY17*	*4Q FY17*	*1Q FY18*	*2Q FY18*	*3Q FY18*	*4Q FY18*	*1Q FY19*	*2Q FY19*	*3Q FY19*
PFCE	9.2	5.1	10.1	6.0	5.0	8.8	6.9	9.8	8.4
GFCE	6.7	17.5	21.9	7.6	10.8	21.1	6.5	10.8	6.5
GFCF	7.9	5.0	3.9	9.3	12.2	11.8	11.7	10.2	10.6
EXP	7.0	6.6	4.9	5.8	5.3	2.8	11.2	13.9	14.6
IMP	10.8	7.0	23.9	15.0	15.8	16.2	10.8	21.4	14.7
GDP	**7.4**	**6.8**	**6.0**	**6.8**	**7.7**	**8.1**	**8.0**	**7.0**	**6.6**
Net Exp. contributions to growth (% points)	-0.9	-0.1	-4.0	-2.1	-2.4	-2.7	-0.4	-2.2	-0.6
Agr.	6.8	7.5	4.2	4.5	4.6	6.5	5.1	4.2	2.7
Ming.	4.8	11.7	2.9	10.8	4.5	3.8	0.4	-2.1	1.3
Mfg.	8.6	6.4	-1.7	7.1	8.6	9.5	12.4	6.9	6.7
Elec.	10.2	8.7	8.6	9.2	7.5	9.2	6.7	8.7	8.2
Cons.	7.4	0.8	3.3	4.8	8.0	6.4	9.6	8.5	9.6
Trans.	7.8	5.9	8.3	8.3	8.3	6.4	7.8	6.9	6.9
Fin.	5.0	3.1	7.8	4.8	6.8	5.5	6.6	7.2	7.3
Publ.	9.0	14.8	14.8	8.8	9.2	15.2	7.6	8.7	7.6
GVA	**7.3**	**6.0**	**5.9**	**6.6**	**7.3**	**8.5**	**7.8**	**6.8**	**6.3**

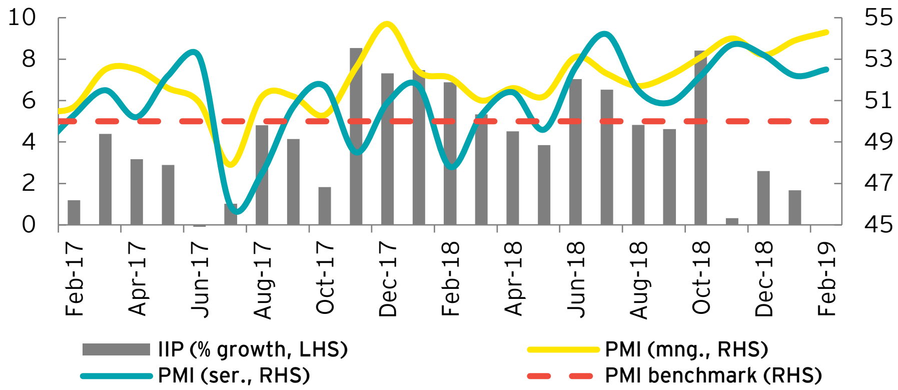
Source (basic data): MoSPI.

- Growth in the financial, real estate and professional services sector increased marginally to 7.3% in 3QFY19 as compared to 7.2% in 2QFY19. GVA growth in construction sector also increased to 9.6% in 3QFY19, an all-time high (2011-12 series), from 8.5% in 2QFY19.
- Growth in agricultural and allied sectors dipped to an 11-quarter low of 2.7% in 3QFY19 as compared to 4.2% in 2QFY19.

B. IIP growth: continued to remain subdued at 1.7% in January 2019

- IIP growth decelerated to 1.7% in January 2019 after improving marginally to 2.6% in December 2018 (**Chart 2**). This was due to a moderation in the growth of output of manufacturing and electricity.
- Manufacturing sector output (accounting for 77.6% of overall IIP) grew at a slower pace of 1.3% in January 2019 as compared to 3.0% (revised) in December 2018 while growth in the output of electricity dipped to a 43-month low of 0.8% in January 2019. However, growth in the output of mining sector recovered to 3.9% in January 2019 as compared to a contraction of (-) 1.0% in December 2018 (Table A1 in Data appendix).
- Output of capital goods industry contracted by (-) 3.2% in January 2019 after witnessing a growth of 5.9% in December 2018. Output of both consumer durables and non-durables decelerated to 1.8% and 3.8% in January 2019 from 3.9% (revised) and 5.9% (revised), respectively in December 2018.
- Growth in the output of eight core infrastructure industries fell to a 19-month low of 1.8% in January 2019 from 2.7% in December 2018, largely due to unfavorable base effect. Among the sub industries, the output of petroleum refinery products ((-) 2.6%), crude oil ((-) 4.3%) and electricity ((-0.4%) contracted in January 2019 while growth in the output of steel moderated (8.2%) during the month.

Chart 2: IIP growth and PMI



IIP growth continued to remain subdued for the third consecutive month decelerating to 1.7% in January 2019 from 2.6% in December 2018.

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

C. PMI: signaled a strong increase in manufacturing and a recovery in services sector output in February 2019

- Headline manufacturing PMI (seasonally adjusted (sa)) increased to a 14-month high of 54.3 in February 2019 from 53.9 in January 2019 (**Chart 2**). There was a pick-up in new orders and output in February 2019, which reached their highest levels since October 2016.
- After falling for the second consecutive month to 52.2 in January 2019, headline services PMI (sa) increased, although marginally, to 52.5 in February 2019.

In February 2019, manufacturing PMI increased to a 14-month high of 54.3. Services PMI also recovered to 52.5 during the month.

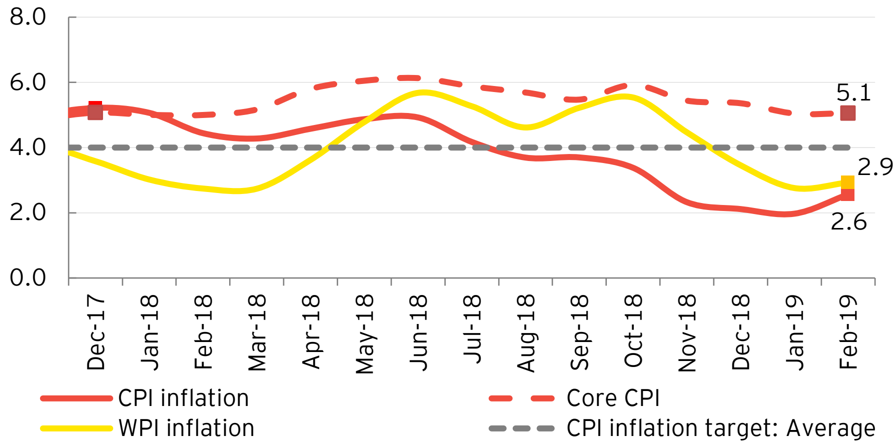
- Reflecting a strong increase in manufacturing PMI and a reversal of the falling trend in services PMI, the composite PMI Output Index (sa) increased to 53.8 in February 2019 from 53.6 in January 2019.

2. Inflation: CPI inflation picked up to a four-month high of 2.6% in February 2019

CPI inflation increased to 2.6% (y-o-y) in February 2019 after declining for four successive months to a 19-month low of 2.0% (y-o-y) in January 2019 (Chart 3), driven mainly by a fall in the pace of contraction in food prices.

- The pace of contraction in consumer food prices eased to a four-month low of (-) 0.7% in February 2019 from (-) 2.2% in January 2019 partly due to base effect. Contraction in prices of vegetables moderated significantly to a five-month low of (-) 7.7% in February 2019 from (-) 13.4% in January 2019.
- Fuel and light-based inflation eased for the fifth successive month to 1.2% in February 2019, an all-time low (2012 base), from 2.1% in January 2019, as LPG prices contracted for the first time in 27 months by (-) 1.0% in February 2019.
- Inflation in transportation and communication services moderated to an 11-month low of 3.1% in February 2019 from 3.4% in January 2019 as inflation in bus/tram fare as well as diesel eased. However, the pace of contraction in petrol prices increased.
- Housing-based inflation eased marginally for the eighth successive month to a 19-month low of 5.1% in February 2019 from 5.2% in January 2019.
- Core CPI inflation[1] rose marginally to 5.1% in February 2019 from an 11-month low of 5.0% in January 2019.

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



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

Led by higher inflation in food, CPI and WPI inflation increased to 2.6% and 2.9%, respectively in February 2019 from 2.1% and 2.8%, respectively in January 2019.

WPI inflation marginally increased to 2.9% in February 2019 from a 10-month low of 2.8% in January 2019 (Chart 3) due to higher inflation in food and fuel.

- WPI inflation for food remained positive for the second successive month increasing to 3.3% in February 2019 from 1.8% in January 2019, as inflation in vegetables turned positive for the first time in eight months at 6.8% in February 2019 from (-) 4.2% in January 2019.
- After three successive months of deceleration, fuel and power-based inflation increased to 2.2% in February 2019 from a 27-month low of 1.8% in January 2019 driven by rising inflation in diesel and furnace oil and a slowdown in the pace of contraction in the prices of naptha and petrol.
- Inflation in manufactured products fell to a 19-month low of 2.3% in February 2019 from 2.6% in January 2019, as inflation in manufactured basic metal products eased to 1.6% from 3.6% over the same period.
- WPI core inflation eased for the fourth successive month to an 18-month low of 2.4% in February 2019 from 2.9% in January 2019.

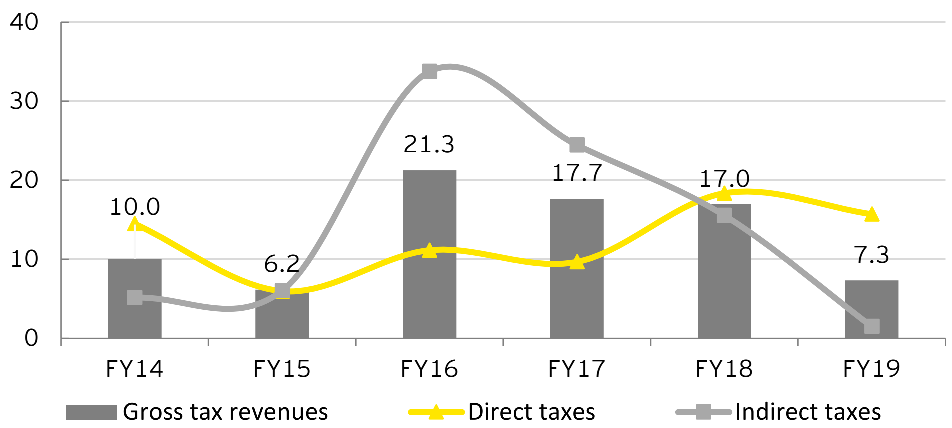
[1] Core CPI inflation is measured in different ways by different organizations/agencies. Here, it has been calculated by excluding food, fuel and light from the overall index.

3. Fiscal performance: fiscal deficit during Apr-Jan FY19 stood at 121.5% of the annual revised estimate

A. Tax and non-tax revenues

- As per the Comptroller General of Accounts (CGA), gross central taxes grew by 7.3% during April-January FY19, lower than 17% during the corresponding period of FY18 (**Chart 4**).
- During April-January FY19, gross taxes stood at 69.5% of the FY19 annual revised target, lower than the three-year average (FY16 to FY18) at 73.6% during April-January as a percentage of annual actuals.
- Growth in direct tax revenues was at 15.7% during April-January FY19 as compared to 18.4% in the corresponding period of FY18.
- Growth in corporate income taxes was at 16.7% during April-January FY19 as compared to 19% during April-January FY18.
- Growth in personal income taxes was at 14.3% during April-January FY19 as compared to 17.5% in the corresponding period of FY18. Growth required during the remaining two months of FY19 for achieving the FY19 revised estimates is 66.2% as compared to an average growth of 17% during February-March over the last three years (FY 16 to FY18).
- Growth in indirect taxes (comprising union excise duties, service tax, customs duty#, CGST, UTGST, IGST* and GST compensation cess) remained low at 1.5% during April-January FY19 as compared to 15.6% in the corresponding period of FY18.

Chart 4: Growth in cumulated central tax revenues up to January 2019



As per the CGA, growth in center's gross taxes was 7.3% during April-January FY19, lower than 17% during the corresponding period of FY18.

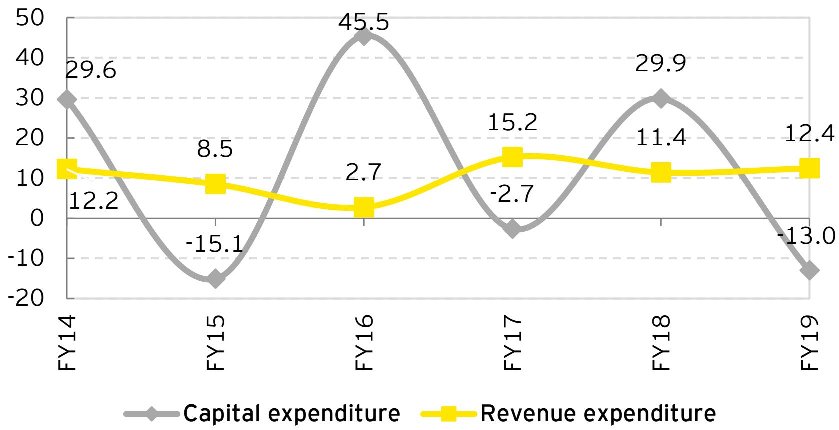
Source: Monthly Accounts, Controller General of Accounts, Government of India
Note: Direct taxes include personal income tax and corporation tax, and indirect taxes include union excise duties, service tax, customs duty, CGST, UTGST, IGST and GST compensation cess from July 2017 onwards; * IGST revenues are subject to final settlement; #Collections under customs for July 2017 also include INR21,377 crore 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 30.4% during April-January FY19 as compared to a contraction of (-) 35.6% in the corresponding period of FY18. Non-tax revenues during the first 10 months of FY19 stood at 66.1% of the annual revised target as compared to three-year average (FY16 to FY18) at 71.9% during April-January as a percentage of annual actuals.
- According to the Department of Disinvestment, the disinvestment proceeds up to 28 February 2019 stood at INR56,473.42 crore, which was 70.6% of the FY19 annual revised target at INR80,000 crores.

B. Expenditures: revenue and capital

- Center's total expenditure during April-January FY19 grew by 8.8% as compared to 13.7% in the same period in FY18 (**Chart 5**). During April-January FY19, total expenditure stood at 81.5% of the FY19 annual revised target.
- Growth in revenue expenditure was at 12.4% during April-January FY19, as compared to 11.4% in the corresponding period of FY18. As percentage of the FY19 annual revised target, revenue expenditure till January 2019 stood at 72.1%.
- Center's capital expenditure showed a contraction of (-) 13% during April-January FY19 as compared to a growth of 29.9% in the corresponding period of FY18. As percentage of the FY19 annual revised target, capital expenditure till January 2019 stood at 72.6%.

Chart 5: Growth in cumulated central government expenditure till January 2019



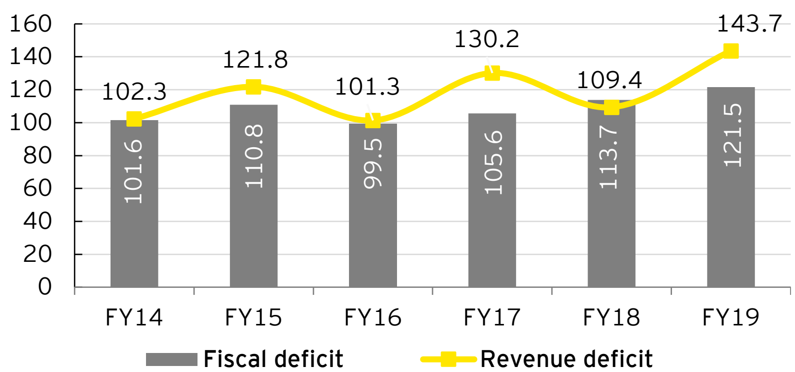
Center's total expenditure during April-January FY19 grew by 8.8% as compared to 13.7% during the same period in FY18.

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

C. Fiscal imbalance

- Center's fiscal deficit during April-January FY19 stood at 121.5% of the FY19 annual revised estimate, increasing from 110.6% till December 2018 (**Chart 6**). Fiscal deficit during April-January FY18 stood at 113.7% of the corresponding annual revised estimate.
- Center's revenue deficit during April-January FY19 stood at 143.7% of the FY19 annual revised target as compared to 109.4% in the corresponding period of FY18.

Chart 6: Cumulated fiscal and revenue deficit till January 2019 as percentage of annual revised target



Center's fiscal deficit during April-January FY19 stood at 121.5% of the annual revised estimate as compared to 113.7% in the corresponding period of FY18.

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

4. India in a comparative perspective: status and prospects

Real GDP growth

Global growth is projected to slow from an estimated 3% in 2018 to 2.8% by 2021; India is projected to remain the fastest growing economy during the forecast period.

- Global GDP growth fell to an estimated 3% in 2018 and is projected to ease to 2.9% in 2019 and further to 2.8% by 2021 due to (a) weak international trade and investment, (b) trade tensions and (c) financial market pressures in some of the large EMDEs.
- Growth in AEs is projected to moderate from 2.2% in 2018 to 1.5% by 2021. This largely reflects the slowing growth in the US as the fiscal policy stimulus which uplifted its growth to 2.9% in 2018 is expected to fade during the forecast period. Growth in Euro area and Japan is also expected to moderate during the forecast period.
- In EMDEs, growth is estimated at 4.2% in 2018 and it is projected to remain at the same level in 2019. Growth is projected to increase thereafter but weakening trade and investment remain as major challenges to growth.
- Among EMDEs, growth in China is estimated to fall in 2019 but remains robust at 6.5% supported by consumption demand and private fixed investment. However, it is estimated to fall to 6% by 2021. Growth in India is estimated at 7.3% in 2018 and it is projected to increase to 7.5% in 2019 and beyond, supported by strengthening private consumption and investment.

Table 2: Real GDP growth (% change, annual)

	2017	2018	2019	2020	2021
AEs	**2.3**	**2.2**	**2.0**	**1.6**	**1.5**
US	2.2	2.9	2.5	1.7	1.6
UK	1.7	1.3	1.4	1.7	1.8
Euro area	2.4	1.9	1.6	1.5	1.3
Japan	1.9	0.8	0.9	0.7	0.6
EMDEs	**4.3**	**4.2**	**4.2**	**4.5**	**4.6**
Brazil	1.1	1.2	2.2	2.4	2.4
Russia	1.5	1.6	1.5	1.8	1.8
India*	6.7	7.3	7.5	7.5	7.5
China	6.9	6.5	6.2	6.2	6.0
World	**3.1**	**3.0**	**2.9**	**2.8**	**2.8**

Source (basic data): Global Economic Prospects, World Bank, January 2019
Note: estimated for 2018 and forecasted for 2019 and beyond;
*data pertains to fiscal year. For example, data for 2019 pertains to the year FY20.

General government expenditure as % of GDP

At 27.7% in 2017, India's general government expenditure as % of GDP was the lowest among the selected economies; this trend is expected to continue until 2023

- General government expenditure as % of GDP represents the size of the government in an economy.
- The size of government in AEs as a group was relatively larger at 38.2% in 2017 as compared (**Table 3**) to 30.6% in EMDEs. By 2023, the size of government in AEs is projected to gradually increase to 38.6% while that for the EMDEs is projected to dip to 29.7%.
- Among the selected major economies, the size of government in the UK was the largest at 38.4% in 2017. Although it is expected to remain the largest during the forecast period, it is projected to dip to 37.2 % by 2022. The size of government in Japan was at 37.5% in 2017. It is projected to gradually dip to 36% by 2019 and broadly remain at that level thereafter. In contrast, the size of government in the US is projected to increase to 36.9% by 2022 from 34.8% in 2017. Amongst the selected EMDEs, the size of government in Brazil (37.9%) was the largest followed by Russia (34.8%), China (32.3%) and India (27.7%) in 2017. This trend is expected to continue during the forecast period.

Table 3: General government expenditure (% of GDP)

	2017	2018	2019	2020	2021	2022	2023
AEs	**38.2**	**38.5**	**38.5**	**38.5**	**38.5**	**38.6**	**38.6**
US	34.8	35.7	36.1	36.4	36.6	36.9	36.8
UK	38.4	38.5	38.4	38.0	37.6	37.2	37.2
Japan	37.5	36.9	36.0	36.1	36.0	35.9	36.0
EMDEs	**30.6**	**30.7**	**30.6**	**30.4**	**30.1**	**29.9**	**29.7**
Brazil	37.9	37.8	37.0	36.3	36.2	35.7	35.3
Russia	34.8	33.9	33.7	33.5	33.5	33.7	33.8
India*	27.7	27.5	27.4	27.3	27.1	27.0	26.9
China	32.3	32.8	33.2	33.0	32.6	32.4	32.1

Source (basic data): IMF World Economic Outlook, October 2018
Note: forecasted for 2018 and beyond;
*data pertains to fiscal year

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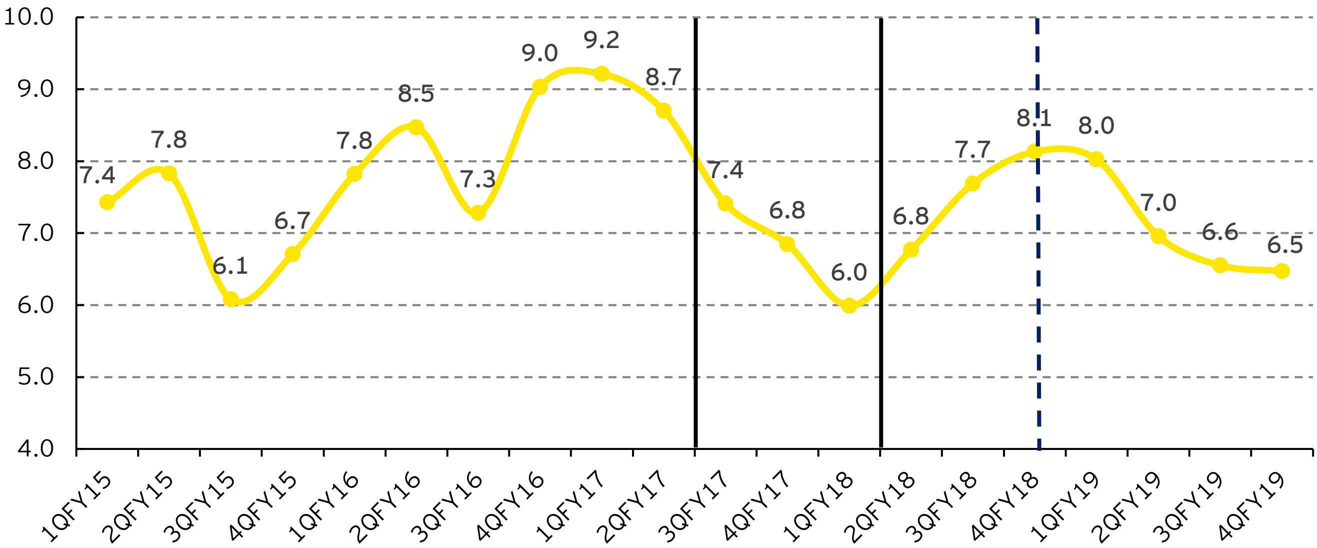
5. In focus: India's growth performance during FY15 to FY19 and prospects for uplifting potential growth

Introduction

During the last five years, the Indian economy witnessed strategic policy shifts such as "Make-in-India" as well as episodic disruptions such as demonetization. Its economic growth currently leads the major economies of the world. In terms of its size, measured in terms of purchasing power parity (PPP), India continues to be the third largest economy after the US and China as per the IMF World Economic Outlook, October 2018. Measured at market exchange rate, India is the fifth largest economy after the US, China, Germany and Japan. Here, we undertake a review of India's growth performance during the last five years from FY15 to FY19.

Quarterly growth rates

Chart 7: Real GDP growth



Source (basic data): CSO, MoSPI

This analysis is based on "Second Advance Estimates of National Income 2018-19 and Quarterly Estimates of Gross Domestic Product for the Third Quarter 2018-19" released on 28 February 2019 by MoSPI and earlier releases of quarterly estimates of gross domestic product[2]. **Chart 7** shows that quarterly real GDP growth during the five-year period 1QFY15-4QFY19 has varied widely between 6.0% to 9.2% over non-uniform cycles. From 7.4% in 1QFY15, growth initially fell to 6.1% in 3QFY15. It subsequently reached a peak of 9.2% in 1QFY17. Demonetization undertaken in 3QFY17, led to a sustained fall in growth, which fell to a trough of 6.0% in 1QFY18. Growth fell by around 3.2% points over the five-quarter period from 1QFY17 to 1QFY18. Post the introduction of GST in 2QFY18, growth improved and reached 8.1% in 4QFY18. It averaged 7.7% during the fourth-quarter period 2QFY18-1QFY19. However, more recently, it has been falling consistently from a peak of 8.1% to a projected level of 6.5% in 4QFY19.

Understanding growth drivers: the demand side

With the contribution of net exports low and largely negative, domestic demand factor determines India's growth performance

In this section, we look at the drivers of growth from the demand side, consisting of four segments, viz., private final consumption expenditure (PFCE), government final consumption expenditure (GFCE), gross capital formation (GCF) and net exports. PFCE accounts for the largest share in GDP, averaging about 56.3% over the period FY15 to FY19. PFCE, GFCE and GCF together represent domestic factors while net exports (exports-imports) represents the impact of global forces. Growth in exports and imports tend to move together. This leads to a net impact on India's growth which tends to be limited. Throughout the 20-quarter period under review, the

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[2] These estimates imply an average increase of 0.9% points in the quarterly growth rate over the period 1QFY17 to 4QFY17 as compared to the First Advance Estimates for 2018-19. From 1QFY18, which represents a trough, the average increase over the period 1QFY18 to 2QFY19 is 0.3% points.

contribution of net exports has been limited to a range of +/(-) 1.0% points, except for four consecutive quarters during FY18, when its contribution was highly negative. This includes 1QFY18, when GDP growth was at its lowest at 6.0%.

Table 4: Demand side components: growth and contribution to GDP growth

Quarter	PFCE	GFCE	GCF	EX	IM	PFCE	GFCE	GCF	NEX	GDP
	Growth rates (%, y-o-y)					Contribution (% points)				
1QFY15	9.6	5.9	8.8	11.7	-0.5	5.3	0.7	3.2	2.9	7.4
2QFY15	9.7	12.3	2.4	1.2	4.7	5.3	1.5	0.9	-1.0	7.8
3QFY15	2.7	29.5	3.9	2.0	5.7	1.6	2.3	1.4	-1.0	6.1
4QFY15	6.6	-3.3	7.3	-6.3	-6.1	3.6	-0.3	2.6	0.0	6.7
1QFY16	3.4	1.4	0.7	-6.2	-5.7	1.9	0.2	0.3	0.0	7.8
2QFY16	5.6	6.1	3.2	-4.6	-3.7	3.1	0.8	1.1	-0.2	8.5
3QFY16	9.9	6.4	4.7	-9.1	-10.1	5.7	0.6	1.6	0.4	7.3
4QFY16	11.8	2.4	5.0	-1.6	-3.7	6.5	0.2	1.8	0.5	9.0
1QFY17	9.9	2.9	9.9	3.6	0.4	5.4	0.3	3.4	0.7	9.2
2QFY17	10.0	2.8	4.4	2.4	-0.2	5.5	0.3	1.5	0.6	8.7
3QFY17	9.2	6.7	3.4	7.0	10.8	5.4	0.6	1.2	-0.9	7.4
4QFY17	5.1	17.5	0.0	6.6	7.0	2.9	1.3	0.0	-0.1	6.8
1QFY18	10.1	21.9	6.7	4.9	23.9	5.5	2.2	2.3	-4.0	6.0
2QFY18	6.0	7.6	10.3	5.8	15.0	3.3	0.9	3.4	-2.1	6.8
3QFY18	5.0	10.8	12.5	5.3	15.8	3.0	1.0	4.1	-2.4	7.7
4QFY18	8.8	21.1	11.8	2.8	16.2	4.9	1.7	3.9	-2.7	8.1
1QFY19	6.9	6.5	9.5	11.2	10.8	3.9	0.8	3.2	-0.4	8.0
2QFY19	9.8	10.8	9.9	13.9	21.4	5.4	1.2	3.3	-2.2	7.0
3QFY19	8.4	6.5	10.5	14.6	14.7	4.9	0.6	3.6	-0.6	6.6
4QFY19	8.1	11.6	7.9	14.0	16.1	4.6	1.1	2.7	-0.8	6.5

Source (basic data): CSO, MoSPI;
Notes: EX – Exports, IM – Imports, NEX – Net exports (exports – imports); gross capital formation (GCF) comprises of gross fixed capital formation, valuables and change in stocks; the sum of contributions of demand side components do not sum exactly to overall GDP growth as the balance is accounted for by discrepancies.
The table is designed as a heat map, with red denoting lower growth rates/contributions and green/blue denoting higher growth rates/contributions.

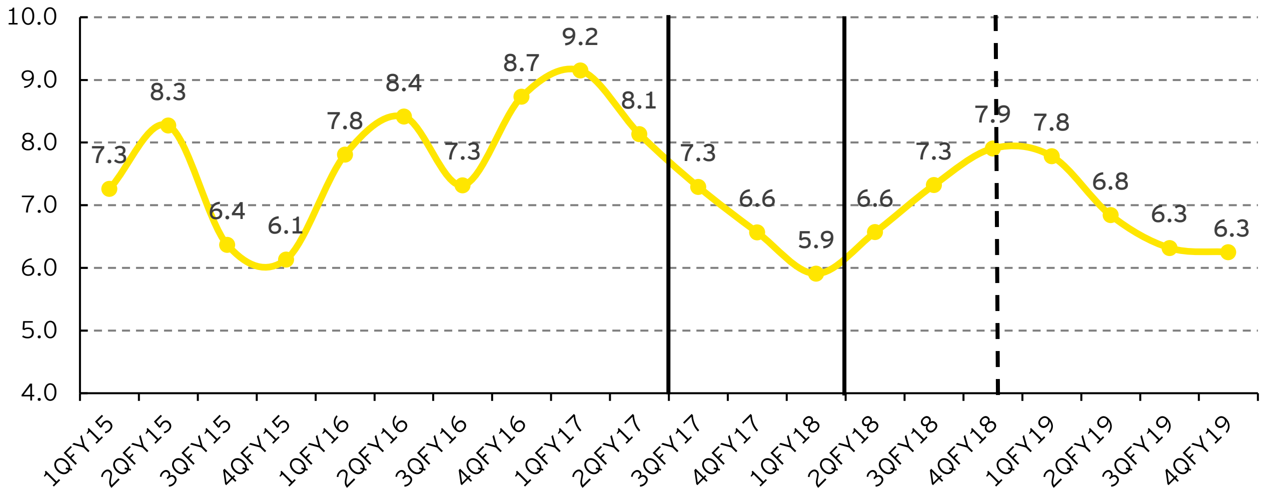
Within the domestic components, the contribution of investment represented by GCF, has been relatively low in the first three years. It has picked up only during FY18 and FY19. The sharp drop in growth in PFCE to 2.7% in 3QFY15 from 9.7% in 2QFY15 led to a steep fall in GDP growth to 6.1% from 7.8% over the same period despite growth in GFCE reaching an all-time high (2011-12 series) of 29.5% in 3QFY15. India's best growth performance since 1QFY13 was observed during the three-quarter period 4QFY16-2QFY17 when GDP growth averaged 9.0%. This was the period when the Seventh Central Pay Commission's recommendations were implemented beginning 01 January 2016. PFCE growth averaged 10.6% during this period compared to an average 7.8% over the entire five-year period. Average crude prices had also dropped to 12-year low in 4QFY16, boosting disposable income as well as ensuring a positive contribution of net exports. Post-demonetization, PFCE growth fell to 5.1% in 4QFY17 dragging down the overall GDP growth.

Growth dynamics viewed from the output side

Growth of services in India's output profile has been the largest and most stable.

From the output side, the performance of the economy is measured in terms of gross value added (GVA). Output is divided into eight broad sectors, namely (1) agriculture, forestry and fishing (agr.), (2) mining and quarrying (ming.), (3) manufacturing (mfg.), (4) electricity, gas, water supply and other utility services (elec.), (5) construction (cons.), (6) trade, hotels, transport, communication and services related to broadcasting (trans.), (7) financial, real estate and professional services (fin.), and (8) public administration, defense and other services (publ.).

Chart 8: Real GVA growth



Source (basic data): CSO, MoSPI

Starting at a high rate of 8.3% in 2QFY15, real GVA growth first fell to 6.1% in 4QFY15, then gradually rose to a peak of 9.2% in 1QFY17 before slowing down to 5.9% in 1QFY18. Subsequently, it improved to 7.9% in 4QFY18 before slowing down to the current level of 6.3% in 3QFY19 and 4QFY19.

Table 5: Contribution to real GVA growth (% points)

Quarter	Agr.	Ming.	Mfg.	Elec.	Cons.	Trans.	Fin.	Publ.	GVA
1QFY15	0.6	0.5	1.6	0.2	0.3	1.6	2.3	0.2	7.3
2QFY15	0.6	0.1	1.5	0.2	0.3	1.2	3.4	1.0	8.3
3QFY15	-0.4	0.2	0.5	0.1	0.2	0.7	2.5	2.4	6.4
4QFY15	0.0	0.3	1.2	0.1	0.1	2.2	2.1	0.2	6.1
1QFY16	0.4	0.4	1.7	0.1	0.4	1.9	2.4	0.6	7.8
2QFY16	0.3	0.3	1.9	0.1	0.0	1.5	3.3	0.9	8.4
3QFY16	-0.5	0.3	2.4	0.1	0.4	1.8	1.9	0.9	7.3
4QFY16	0.2	0.4	2.6	0.2	0.4	2.6	1.7	0.7	8.7
1QFY17	0.7	0.1	1.8	0.3	0.6	1.7	3.1	0.8	9.2
2QFY17	0.7	0.0	1.5	0.2	0.7	1.4	2.9	0.8	8.1
3QFY17	1.3	0.1	1.5	0.2	0.6	1.4	1.0	1.1	7.3
4QFY17	1.2	0.4	1.2	0.2	0.1	1.2	0.6	1.7	6.6
1QFY18	0.6	0.1	-0.3	0.2	0.3	1.5	1.9	1.6	5.9
2QFY18	0.5	0.3	1.3	0.2	0.4	1.5	1.3	1.1	6.6
3QFY18	0.9	0.1	1.5	0.2	0.7	1.5	1.3	1.2	7.3
4QFY18	1.0	0.1	1.8	0.2	0.5	1.3	1.0	1.9	7.9
1QFY19	0.7	0.0	2.1	0.2	0.8	1.5	1.6	0.9	7.8
2QFY19	0.5	-0.1	1.3	0.2	0.7	1.3	1.9	1.1	6.8
3QFY19	0.5	0.0	1.2	0.2	0.8	1.3	1.4	1.0	6.3
4QFY19	0.0	0.1	1.3	0.2	0.6	1.2	1.5	1.3	6.3

Source (basic data): CSO, MoSPI
Notes: The table is designed as a heat map, with red denoting lower growth rates/contributions and green/blue denoting higher growth rates/contributions.

Tables 5 and 6 give component-wise trends in growth and contribution to growth of GVA over the last five-year period. The demonetization period (3QFY17) may be used to divide the entire period into two equal halves, namely 1QFY15-2QFY17 (Period 1) and 3QFY17-4QFY19 (Period 2). GVA growth has averaged 0.9% points lower in

Period 2 as compared to the Period 1. It can be seen from **Table 5** that since demonetization, there has been a marked slowdown in the financial services sector with its average contribution to growth declining by nearly (-) 1.2% points. Contribution to growth by the manufacturing and trade sectors have also fallen by an average (-) 0.4% points and (-) 0.3% points, respectively during Period 2. Public administration has been the strongest and most consistent driver of overall GVA growth in Period 2, with contribution to growth averaging 0.4% points higher as compared to Period 1. Agricultural contribution to growth was also on an average 0.5% points higher, although a downward trend is visible in recent quarters.

Table 6: Real GVA growth (quarterly)

Quarter	Agr.	Ming.	Mfg.	Elec.	Cons.	Trans.	Fin.	Publ.	GVA
1QFY15	3.5	17.8	9.1	8.1	3.0	9.3	10.3	1.5	7.3
2QFY15	5.0	3.8	8.6	8.7	3.3	6.2	14.4	7.2	8.3
3QFY15	-1.6	6.8	3.2	6.4	2.4	4.1	14.2	21.8	6.4
4QFY15	-0.1	10.1	6.8	2.4	1.0	11.6	11.4	1.3	6.1
1QFY16	2.3	11.3	9.7	2.6	4.3	10.5	10.4	5.5	7.8
2QFY16	2.7	11.4	10.9	5.6	0.2	8.5	13.3	6.6	8.4
3QFY16	-2.3	12.0	14.8	3.9	4.3	10.4	10.2	6.9	7.3
4QFY16	1.0	12.3	14.2	7.6	4.6	13.1	8.8	6.1	8.7
1QFY17	4.6	3.9	10.2	13.2	7.5	9.4	13.3	6.6	9.2
2QFY17	6.0	1.9	8.0	7.8	8.3	7.6	11.0	6.5	8.1
3QFY17	6.8	4.8	8.6	10.2	7.4	7.8	5.0	9.0	7.3
4QFY17	7.5	11.7	6.4	8.7	0.8	5.9	3.1	14.8	6.6
1QFY18	4.2	2.9	-1.7	8.6	3.3	8.3	7.8	14.8	5.9
2QFY18	4.5	10.8	7.1	9.2	4.8	8.3	4.8	8.8	6.6
3QFY18	4.6	4.5	8.6	7.5	8.0	8.3	6.8	9.2	7.3
4QFY18	6.5	3.8	9.5	9.2	6.4	6.4	5.5	15.2	7.9
1QFY19	5.1	0.4	12.4	6.7	9.6	7.8	6.6	7.6	7.8
2QFY19	4.2	-2.1	6.9	8.7	8.5	6.9	7.2	8.7	6.8
3QFY19	2.7	1.3	6.7	8.2	9.6	6.9	7.3	7.6	6.3
4QFY19	-0.1	4.2	6.8	8.5	8.1	5.8	8.2	10.0	6.3

Source (basic data): CSO, MoSPI

Notes: The table is designed as a heat map, with red denoting lower growth rates/contributions and green/blue denoting higher growth rates/contributions.

On a quarterly basis, it may be observed that the peak growth in GVA at 9.2% in 1QFY17 was mainly the result of high growth performance in the financial services sector. The subsequent fall to 5.9% in 1QFY18 was, to a great extent, due to contraction in the manufacturing sector and a slowdown in the financial services sector. Improvement in GVA growth to 7.8% in 1QFY19 was largely due to a sharp upsurge in manufacturing growth, which increased to 12.8%, aided by a favorable base effect. The current fall in GVA growth to 6.3% in 3QFY19 and 4QFY19 seems to be again driven by lower growth in the manufacturing and public administration sectors, and a slowdown in the agricultural and trade sectors.

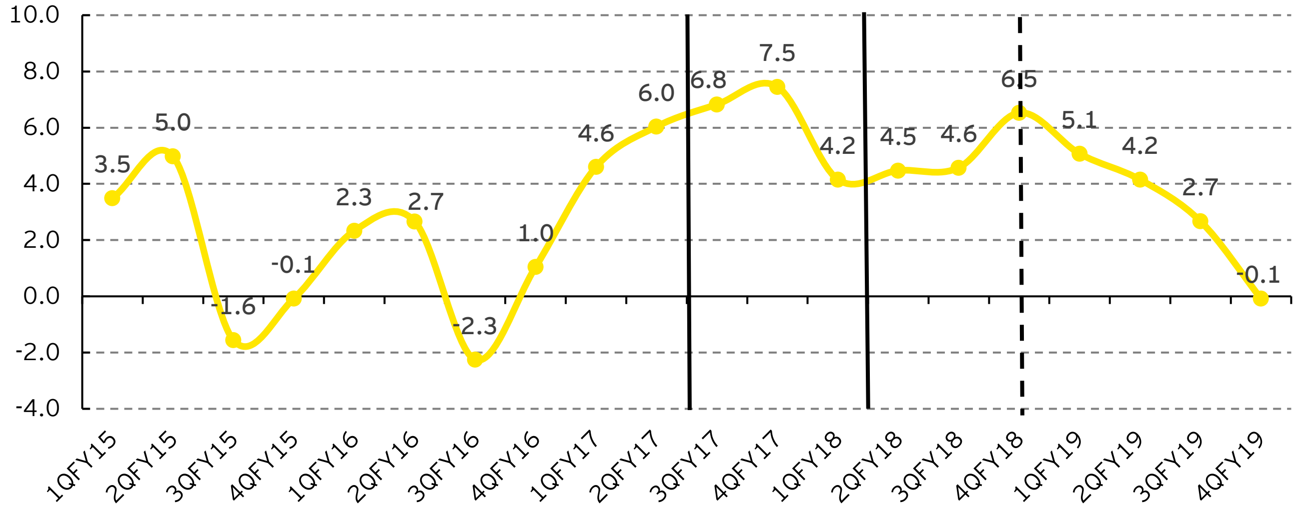
Understanding performance of agriculture

The combination of slowdown in output growth and slump in prices explain recent farm sector distress.

Real growth in agriculture during the five-year period has been low on average and volatile (**Chart 9**), fluctuating between (-) 3.0% and 8.0%. It had reached an all-time high of 7.5% (2011-12 series) in 4QFY17, ranged between 4%-5% till 3QFY18, and again risen to 6.5% in 4QFY18. However, since then, it has sequentially declined, slowing to 2.7% in 3QFY19, and is further projected to contract for the first time in 13 quarters by (-) 0.1% in 4QFY19.

As seen from **Chart 10**, agricultural deflator-based inflation has also slowed down in recent quarters ranging between (-) 1.0% and 2.0% since 4QFY18. It fell for two successive quarters in 2QFY19 and 3QFY19. Together, the fall in real GVA as well as deflator-based inflation in the sector led to a fall in growth in nominal agriculture GVA to a 17-quarter low of 2.0% in 3QFY19, which was equal to the CPI-based inflation in rural areas.

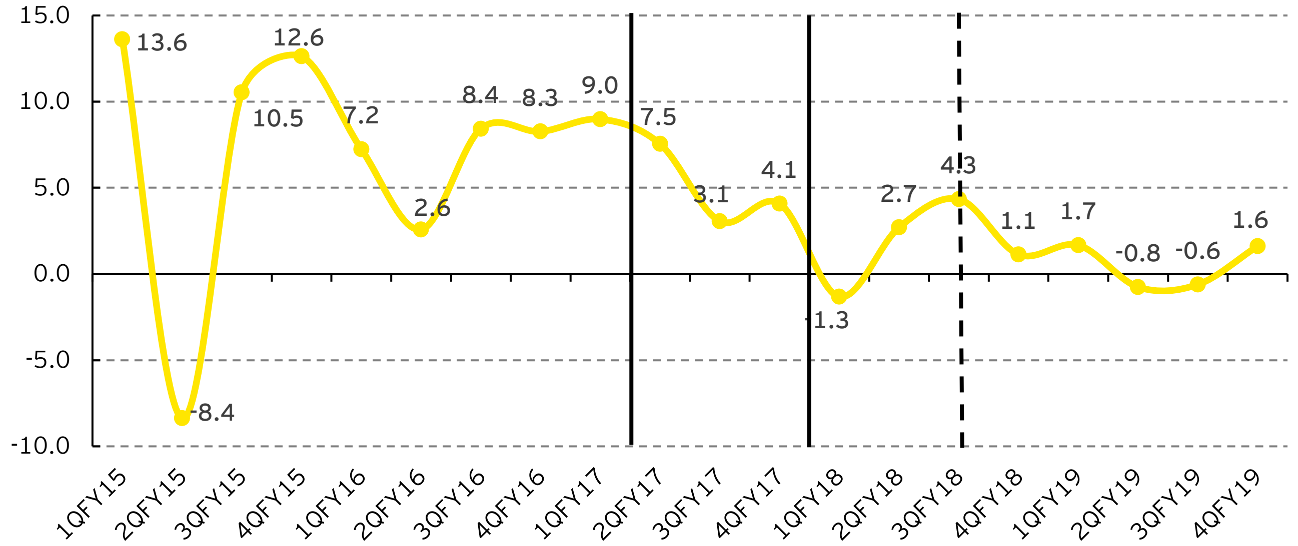
Chart 9: Growth in real agricultural GVA



Source (basic data): CSO, MoSPI

The farm sector distress, which has become quite pronounced in recent times is due to a combination of falling growth and falling agricultural prices (**Charts 9 and 10**). Together, these have resulted in reducing farm sector incomes.

Chart 10: Agricultural deflator-based inflation



Source (basic data): CSO, MoSPI

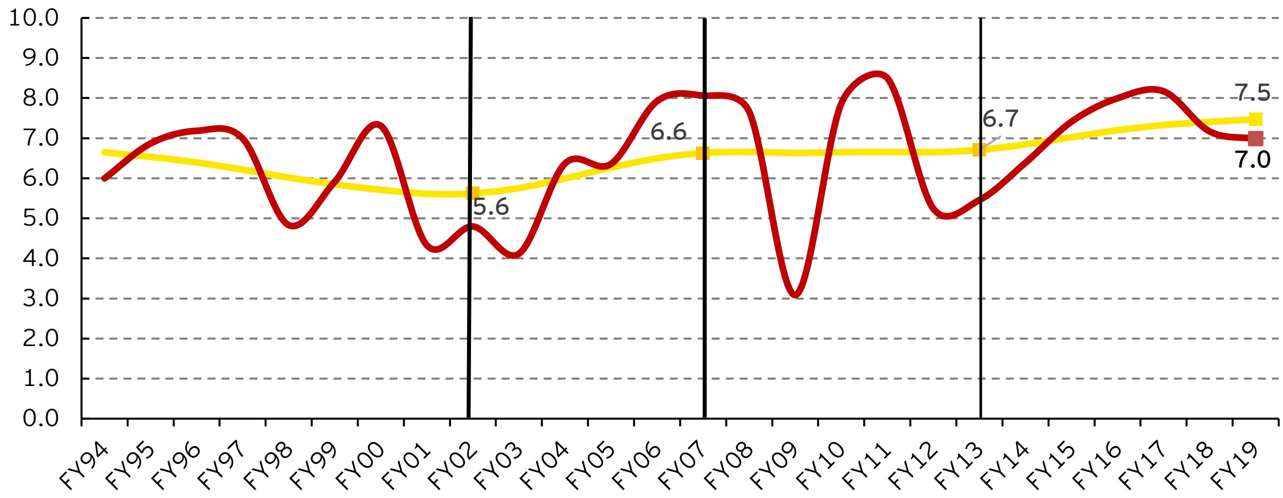
India's actual and potential growth

The key to uplifting India's potential growth is uplifting its saving rate.

Taking a longer-term view of India's potential growth, we juxtapose the annual growth with an estimate for the corresponding potential growth **(Chart 11).** Since FY94, there has been a gradual increase in India's potential GDP growth as measured using the Hodrick Prescott filter[3]. The first upward shift occurred during the period FY02-FY07, when potential growth increased to 6.6% from 5.6%. It plateaued thereafter for the next six years till FY13. Starting FY14, it again started rising steadily and currently stands at 7.5%. Actual growth has fluctuated around the potential growth rate over the entire period. However, in FY18 and FY19, even as potential growth has risen, actual growth has fallen. In FY19, actual growth is estimated at 7.0% as compared to the potential growth rate of 7.5%. Periods where potential growth is higher than actual growth are generally accompanied by an easing of deflator-based inflation and vice-versa.

[3] A statistical methodology, which filters the actual GDP data to extract the trend as its estimate of potential output

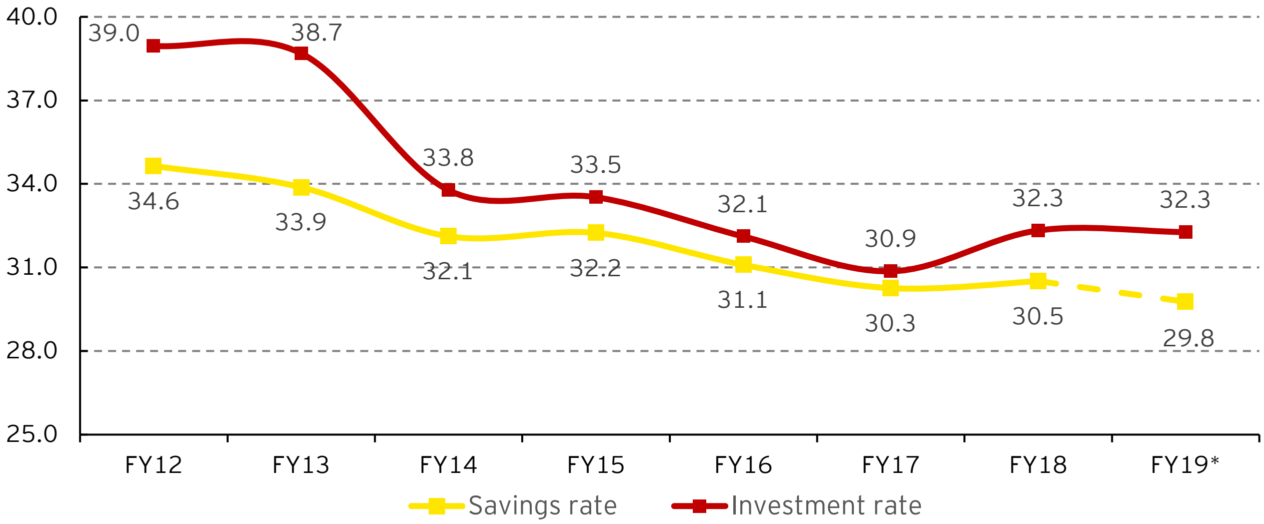
Chart 11: Actual and trend-based annual real GDP growth



Source: CSO, MoSPI; EY estimates

We notice that the potential growth increased in the last five years, even as savings and investment rates fell. This may indirectly indicate an improvement in productivity. However, India's current policy challenge is that actual growth rate has fallen below potential growth rate. The key to uplifting India's potential growth is to uplift India's saving rate, which has fallen by nearly 5% points since FY12. The fall in the investment rate has been even sharper at nearly 7% points in this period.

Chart 12: Savings and investment rates



Source: CSO, MoSPI
* FY19 savings rate is estimated

Conclusion

A review of the growth performance of the Indian economy over the five-year period from FY15 to FY19 indicates a broadly cyclical pattern with a peak growth which averaged close to 9% in three consecutive quarters from 4QFY16 to 2QFY17. This was followed by a steady fall until the economy reached a trough of 6.0% in 1QFY18. The intervening period was characterized by demonetization. After reaching a peak of 8.1% in 3QFY18, growth has again steadily fallen and is estimated to be 6.5% in 4QFY19. Thus, it has fallen below India's potential growth which, on an annual basis, is currently estimated at 7.5% for FY19. The key policy challenge now is to uplift actual growth to the level of potential growth by stimulating the economy using both monetary and fiscal policies. Subsequently, there is scope to uplift the potential growth itself by augmenting the saving and investment rates.

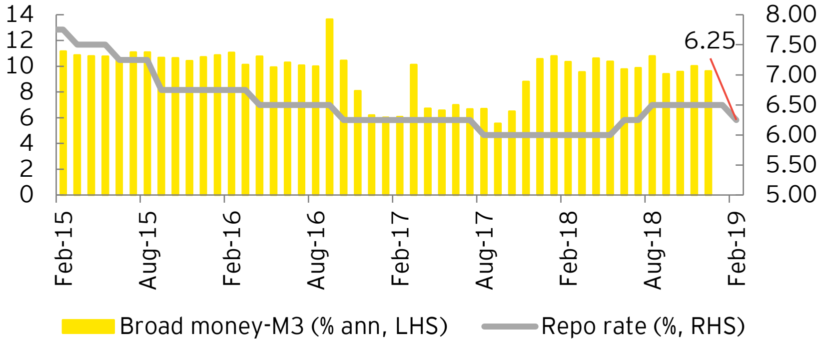
6. Money and finance: RBI may consider another rate reduction in its April 2019 monetary policy review

A. Monetary sector

Monetary policy

- A continued downward trend in CPI inflation rate, which fell to 2.0% in January 2019, enabled the RBI to lower its policy repo rate to 6.25% in February 2019 monetary policy review to provide support to India's growth momentum. While lowering the policy rate, the Monetary Policy Committee also altered the policy stance to "neutral" from "calibrated-tightening".
- In RBI's assessment, headline CPI inflation is expected to remain soft in the near-term. However, some factors that are likely to impact the medium-term inflation outlook include (a) reversal in the volatile food prices, (b) uncertainty surrounding the outlook on global crude oil prices, (c) further heightening of trade tensions and geopolitical uncertainties, and (d) unanticipated spikes in the prices of health and education.

Chart 13: Growth in broad money and movements in repo rate



Sustained downward trend in CPI inflation enabled the RBI to lower the repo rate by 25-basis points to 6.25% during its February 2019 monetary policy review.

Source: Database on Indian Economy, RBI.

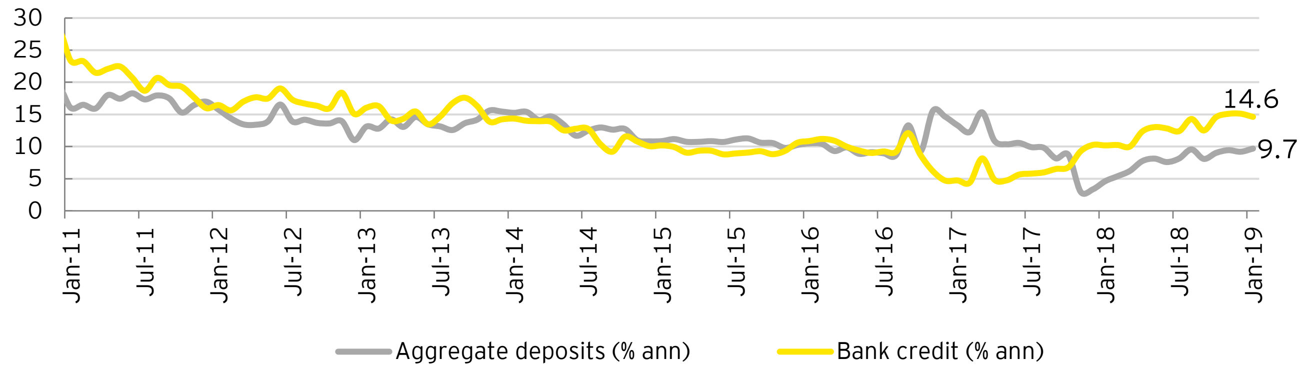
Money stock

- Growth in broad money stock (M3) increased marginally to 10.0% (y-o-y) in January 2019 from 9.6% in December 2018 (**Chart 13**). Growth in time deposits remained stable at 8.8% in January 2019, similar to the growth in December 2018.
- Narrow money (M1) grew by 14.5% (y-o-y) in January 2019 from 12.7% in December 2018. This was due to a sharp increase in the growth of demand deposits by 7.8% in January 2019 from 2.6% in December 2018.

Aggregate credit and deposits

- Growth in bank credit moderated marginally to 14.6% (y-o-y) in January 2019 from 15.1% in December 2018 (**Chart 14**). During April-January FY19, credit growth averaged 13.7%, significantly higher than the growth of 7.0% during the corresponding period of FY18.

Chart 14: Growth in credit and deposits



Source: Database on Indian Economy, RBI.

- Growth in non-food credit improved to 13.1% in January 2019 from 12.8% in December 2018 due to higher credit offtake in both industrial and services sector.

- Credit to services sector continued to post a robust growth of 23.9% in January 2019, increasing from 23.2% in December 2018. Growth in credit to industries increased to a 35-month high of 5.2% in January 2019 from 4.4% in December 2018. However, growth in credit to agricultural sector slowed to 7.6% in January 2019 from 8.4% in December 2018.
- Growth in housing sector credit increased further to 18.4% in January 2019 from 17.1% in December 2018.
- Growth in aggregate bank deposits rose to 9.7% (y-o-y) in January 2019 from 9.2% in December 2018.

B. Financial sector

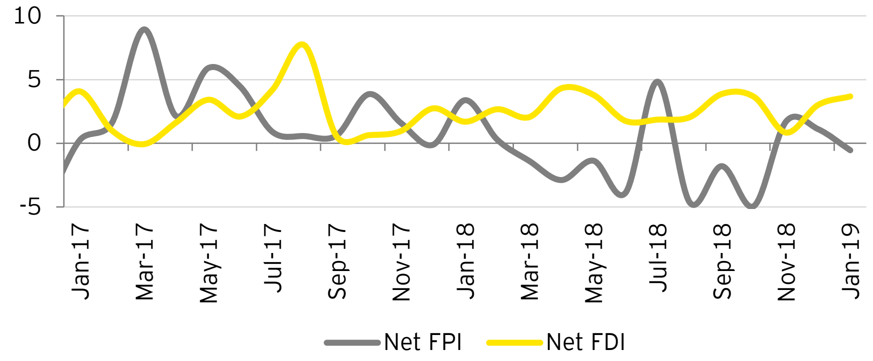
Interest rates

- As per the data released by the RBI, interest rates offered by banks on term deposits with a maturity of more than one year were maintained at 6.9% (average) in February 2019, similar to the levels seen since December 2018.
- Despite a reduction in the repo rate in February 2019, banks continued to retain the marginal cost of lending rate (MCLR) at 8.35% (average) in February 2019, for the third successive month since December 2018.
- The average yield on 10-year government securities increased to 7.43% in February 2019 from 7.35% in January 2019. Higher central government market borrowing for FY19 and FY20 announced in the interim budget and concerns over inflation with the recent rise in crude oil prices are some of the factors that may have pushed up yields during the month.

FDI and FPI

- As per the provisional data released by the RBI, the overall foreign investment inflows (FIIs) were lower at US$3.1 billion in January 2019 as compared to US$4.1 billion (revised) in December 2018 as net FPIs turned negative (**Chart 15**).

Chart 15: Net FDI and FPI inflows



Despite net FDI inflows reaching a four-month high of US$3.7 billion, overall FIIs were lower in January 2019 as net FPIs turned negative.

Source: Database on Indian Economy, RBI.

- Net FDI inflows rose sharply to a four-month high of US$3.7 billion in January 2019 from US$3.0 billion (revised) in December 2018 (Chart 10). Gross FDI inflows increased to US$ 5.9 billion during January 2019 as compared to US$5.7 billion in December 2018.
- Net FPIs turned negative registering an outflow of US$(-)0.6 billion in January 2019 as compared to US$1.1 billion in December 2018.

7. Trade and CAB: growth in exports slows to 2.4% as imports contract by (-) 5.4% in February 2019

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

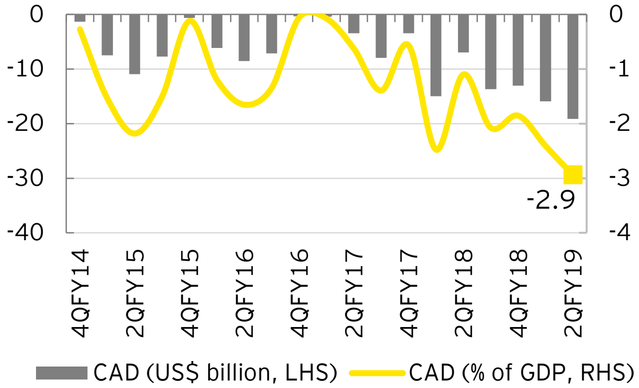
- CAD in 2QFY19 increased to a 21-quarter high of 2.9% of GDP from 2.4% of GDP in 1QFY19 (**Table 7**) as merchandise trade deficit rose to a 23-quarter high of US$50.0 billion. This was due to merchandise imports reaching an all-time high of US$133.4 billion due to faster growth in oil imports, even as exports growth remained subdued. However, CAD is expected to moderate in 3QFY19, reflecting lower oil import bill.

Table 7: Components of CAB in US$ billion

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

Source: Database on Indian Economy, RBI.

Chart 16: CAD



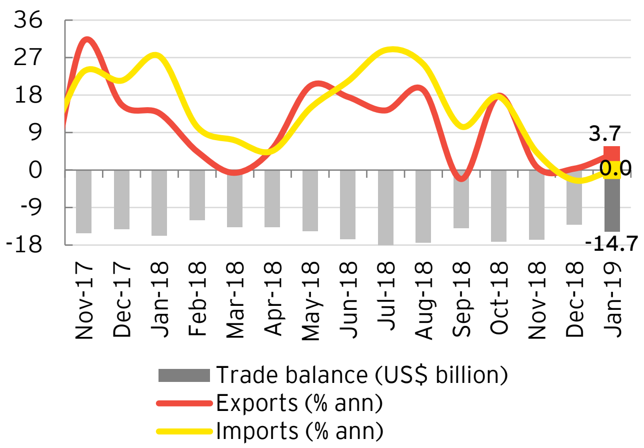
Source: Database on Indian Economy, RBI.

B. Merchandise trade and exchange rate

Growth in merchandise exports fell to 2.4% in February 2019 from 3.7% in January 2019. Merchandise imports contracted for the second time in three months by (-) 5.4% in February 2019 as compared to 0% growth in January 2019.

- Merchandise exports growth eased further to 2.4% in February 2019 from 3.7% in January 2019 (**Chart 17**) led by a contraction in gems and jewelry exports and a slowdown in organic and inorganic chemicals exports.

Chart 17: Developments in merchandise trade



Source: Ministry of Commerce and Industry, GoI

- Growth in exports of organic chemicals reached a 30-month low of 4.1% while gems and jewelry exports contracted by (-) 2.1% in February 2019.
- Contraction in oil exports eased to (-) 7.7% in February 2019 from (-) 19.0% in January 2019.
- Imports contracted by (-) 5.4% in February 2019 from a 0% growth in January 2019 driven by contraction in imports of oil, gold and electronic goods.
- Non-oil non-gold non-jewelry imports contracted by (-) 2.1% in February 2019 from 2.7% growth in the previous month.
- Imports of transport equipment continued to contract for the seventh successive month at (-) 19.6% in February 2019.
- Due to the contraction in imports, merchandise trade deficit fell to a 17-month low of US$9.6 billion in February 2019 from US$14.7 billion in January 2019. Goods and services trade deficit rose to US$8.0 billion in January 2019 from a 10-month low of US$6.5 billion in December 2018.
- The Indian Rupee depreciated marginally to INR71.2 per US$ in February 2019 from INR70.7 per US$ in January 2019.

8. Global growth: OECD projected global growth at 3.6% in 2018, slowing to 3.3% in 2019

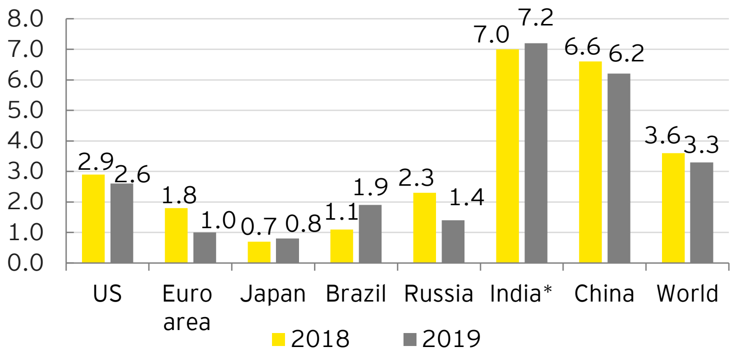
A. Global growth outlook

- The OECD (Interim Economic Outlook, March 2019) projected the global growth to fall from an estimated 3.6% in 2018 to 3.3% in 2019. The 2019 global growth forecast is 0.2% points below the November 2018 Economic Outlook forecast (**Chart 18**). High policy uncertainty, ongoing trade tensions and declining business and consumer confidence have contributed to the slowdown.
- Growth in the US is projected to moderate from an estimated 2.9% in 2018 to 2.6% in 2019 as the fiscal easing gradually fades.
- In the Euro area, growth remained low at 1.8% in 2018. Growth projection for 2019 has been sharply revised down by 0.8% points to 1% particularly due to large downward revisions in growth forecasts for Germany and Italy. The demand slowdown is attributable to weak intra-area trade growth, high political uncertainty, sluggish external demand and moderating confidence.

The OECD has projected the global growth to slow down from an estimated 3.6% in 2018 to 3.3% in 2019. It has revised down the 2019 global growth forecast by 0.2% points with particularly large revisions in the Euro area.

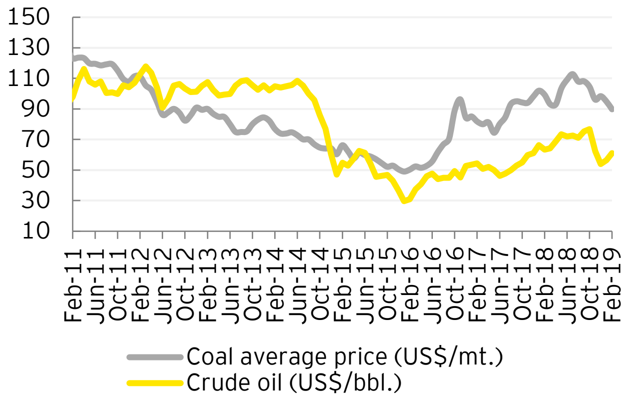
- Growth in Japan is projected to increase marginally from 0.7% in 2018 to 0.8% in 2019. Stronger social spending, FY2018 supplementary budget and increase in temporary spending and tax cuts in the FY2019 budget is expected to partially offset the short-term impact of the scheduled increase in the consumption tax rate in October 2019.
- Growth in China is projected to moderate from 6.6% in 2018 to 6.2% in 2019 as trade tensions have weighed increasingly on exports and industrial production.
- Growth in India is estimated at 7% in 2018. It is expected to increase to 7.2% in 2019 supported by easing financial conditions, lower oil prices, accommodative fiscal policy and recent structural reforms.

Chart 18: Global growth projections



Source: Interim Economic Outlook, OECD March 2019
Note: estimated for 2018 and forecasted for 2019; *data pertains to fiscal year i.e., 2018 indicates 2018-19 and 2019 indicates 2019-20

Chart 19: Global crude and coal prices



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

B. Global energy prices: increased to US$61/bbl. in February 2019

- Average global crude price[4] increased to US$61.1/bbl. in February 2019 from US$56.6/bbl. in January 2019 (**Chart 19**) reflecting the impact of output cuts by Saudi Arabia and Russia post the Vienna agreement and US sanctions on Iran and more recently on Venezuela. However, prices are not expected to increase significantly due to the existing surplus supply and growing US production.
- Average global coal price[5] fell for the second successive month to a 19-month low of US$89.8/mt. in February 2019 from US$94.9/mt. in January 2019.

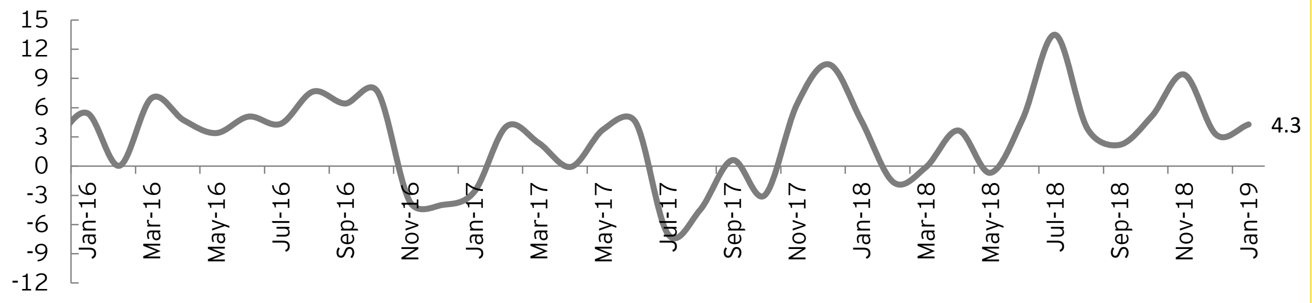
[4] Simple average of three spot prices namely, Dated Brent, West Texas Intermediate and Dubai Fateh
[5] Simple average of Australian and South African coal prices

9. Index of Aggregate Demand (IAD): improved to 4.3% in January 2019

Growth in IAD improved to 4.3% in January 2019 largely due to favorable base effect

- 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 sectoral weights in constructing the IAD are based on their respective shares in nominal GVA in the base year (2011−12): agriculture **(18.4)**, industry **(33.1)** and services **(48.5).**
- Owing to a favorable base effect, the y-o-y growth in the index of aggregate demand recovered to 4.3% in January 2019 from 3.2% in December 2018. (**Chart 20**) supported by stable demand in the manufacturing sector. However, demand conditions in the services and agricultural sectors weakened in January 2019 (**Table 8**).

Chart 20: Growth in IAD (y-o-y)



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

Table 8: IAD

Month	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19
IAD	122.2	128.9	125.6	121.8	125.6	128.8	128.3	127.9	126.9
Growth (% y-o-y)	-0.7	4.9	13.5	3.9	2.2	5.1	9.4	3.2	4.3
Growth in agr. credit	6.4	6.5	6.6	6.6	5.8	8.0	7.7	8.4	7.6
Mfg. PMI**	1.7	2.7	1.7	2.2	2.9	3.8	4.9	2.7	2.7
Ser. PMI**	-0.1	5.8	3.0	-1.4	1.5	4.0	2.5	2.9	1.9

**Values here indicate deviation from benchmark value of 50. A positive value indicates expansion in demand while a negative value implies contraction in demand.

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

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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 15	4.0	-1.3	3.8	14.8	4.9	FY15	52.2	51.7
FY 16	3.3	4.3	2.9	5.7	3.0	FY16	51.3	51.7
FY 17	4.6	5.3	4.3	5.8	4.8	FY17	51.6	51.0
FY 18	4.4	2.3	4.7	5.3	4.3	FY18	51.5	50.0
4Q FY 18	6.5	1.1	7.5	6.1	5.3	4Q FY18	51.8	49.9
1Q FY 19	5.1	5.4	5.1	4.9	5.5	1Q FY19	52.0	51.2
2Q FY 19	5.3	0.9	5.6	7.5	5.4	2Q FY19	52.1	52.2
3Q FY 19	3.7	2.8	3.5	6.8	3.6	3Q FY19	53.4	53.0
Oct-18	8.4	7.3	8.2	10.8	4.8	Nov-18	54.0	53.7
Nov-18	0.3	2.7	-0.6	5.1	3.4	Dec-18	53.2	53.2
Dec-18	2.6	-1.0	3.0	4.4	2.7	Jan-19	53.9	52.2
Jan-19	1.7	3.9	1.3	0.8	1.8	Feb-19	54.3	52.5

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

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

Fiscal year/quarter/month	CPI	Food Price Index	Fuel and light	Core CPI	WPI	Food Price Index	Mfg. products	Fuel and power	Core WPI
	% change y-o-y				% change y-o-y				
FY15	5.9	6.4	4.2	5.8	1.3	4.3	2.6	-6.1	2.7
FY16	4.9	4.9	5.3	4.9	-3.7	1.2	-1.8	-19.7	-1.8
FY17	4.5	4.2	3.3	4.9	1.7	5.9	1.3	-0.3	-0.1
FY18	3.6	1.8	6.2	4.6	2.9	1.9	2.7	8.2	3.0
4QFY18	4.6	3.6	6.8	5.1	2.8	0.6	3.1	4.7	3.8
1QFY19	4.8	2.9	6.1	6.0	4.7	1.2	3.8	12.3	4.4
2QFY19	3.9	0.7	8.4	5.7	5.0	-0.9	4.4	17.7	4.9
3Q FY19	2.6	-2.0	6.7	5.6	4.5	-0.9	4.1	13.9	4.8
Nov-18	2.3	-2.6	7.2	5.4	4.5	-2.0	4.2	15.5	4.9
Dec-18	2.1	-2.6	4.5	5.4	3.5	-0.1	3.6	7.6	4.2
Jan-19	2.0	-2.2	2.1	5.0	2.8	1.8	2.6	1.8	2.9
Feb-19	2.6	-0.7	1.2	5.1	2.9	3.3	2.3	2.2	2.4

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 (RE over FY 18 actuals)	17.2	17.5	22.8	19.8	14.3	3.4	2.2
FY20 (BE over RE)	**13.5**	13.3	17.2	15.0	11.8	**3.4**	2.2
	Cumulated growth (%, y-o-y)					% of budgeted target	
Jun-18	22.1	-1.2	12.8	6.2	36.3	68.7	84.8
Jul-18	11.7	0.6	11.3	6.7	16.1	86.5	106.4
Aug-18	8.7	14.3	17.5	16.1	4.6	94.7	114.0
Sep-18	8.6	17.2	16.5	16.9	4.4	95.3	108.1
Oct-18	6.7	16.6	16.1	16.4	1.2	103.9	117.9
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-18	7.3	16.7	14.3	15.7	1.5	121.5#	143.7#

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
RE – revised estimates; BE – budget estimates

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)				
Jun-18	30,936	62	10,212	8,016	49,226
Jul-18	57,893	163	-39,903	7,963	26,116
Aug-18	36,047	327	5,199	7,405	48,978
Sep-18	29,862	109	14,753	7,850	52,574
Oct-18	47,951	126	-14,215	7,724	41,586
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

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

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

Fiscal year/month	Repo rate (end of period)	Fiscal year/quarter/month	M1	M3	Bank credit	Agg. deposits	10 yr. government bond yield	Net FDI	Net FPI	Fiscal year/quarter/month	FX reserves
	%		% change y-o-y				%	US$ billion			US$ billion
Apr-18	6.00	FY15	11.3	10.9	11.0	12.1	8.3	31.3	42.2	FY15	341.6
May-18	6.00	FY16	13.5	10.1	9.7	10.5	7.7	36.0	-4.1	FY16	355.6
Jun-18	6.20	FY17	3.1	10.1	7.9	11.6	7.0	35.6	7.6	FY17	370.0
Jul-18	6.25	FY18	22.1	9.5	7.5	7.5	7.0	30.3	22.1	FY18	424.4
Aug-18	6.50	4QFY18	22.1	9.5	10.1	5.4	7.5	6.4	2.3	4QFY18	424.4
Sep-18	6.50	1QFY19	18.1	9.8	12.7	7.8	7.8	9.9	-8.1	1QFY19	406.1
Oct-18	6.50	2QFY19	14.6	9.4	13.1	8.6	7.9	7.8	-1.6	2QFY19	400.5
Nov-18	6.50	3QFY19	12.7	9.6	14.9	9.2	7.7	7.5	-2.1	3QFY19	393.4
Dec-18	6.50	Oct-18	14.7	9.6	14.6	9.0	7.9	3.6	-4.9	Oct-18	393.7
Jan-19	6.50	Nov-18	15.8	10.0	15.1	9.4	7.8	0.8	1.7	Nov-18	393.4
Feb-19	6.25	Dec-18	12.7	9.6	15.1	9.2	7.4	3.0	1.1	Dec-18	398.2
Mar-19	6.25	Jan-19	14.5	10.0	14.6	9.7	7.3	3.7	-0.6	Jan-19	399.2

Source: Database on Indian Economy-RBI

Table A5: External trade and global growth

External trade indicators (annual, quarterly and monthly growth rates)							Global growth (annual)			
Fiscal year/quarter/month	Exports	Imports	Trade balance	Ex. rate (avg.)	Crude prices (avg.)	Coal prices (avg.)	Calendar year	World GDP	Adv. econ.	Emer. econ.
	% change y-o-y		US$ billion	INR/US$	US$/bbl.	US$/mt		% change y-o-y		
FY15	-1.3	-0.5	-137.7	61.1	83.2	67.6	2012	3.5	1.2	5.3
FY16	-15.6	-15.2	-117.7	65.5	46.0	54.7	2013	3.3	1.2	5.0
FY17	5.1	0.9	-108.2	67.1	47.9	73.0	2014	3.4	1.9	4.6
FY18	10.5	20.9	-159.2	64.5	55.7	90.8	2015	3.4	2.1	4.3
4Q FY18	5.5	14.8	-41.7	64.3	64.6	98.1	2016	3.2	1.7	4.4
1Q FY19	14.2	13.5	-44.9	67.0	71.4	101.9	2017	3.8	2.4	4.7
2Q FY19	9.5	21.2	-49.4	70.2	73.0	109.6	2018**	3.7	2.3	4.6
3Q FY19	5.7	6.1	-46.9	72.1	64.3	99.7	2019**	3.5	2.0	4.5
Nov-18	0.8	4.3	-16.7	71.8	62.3	96.2	2020**	3.6	1.7	4.9
Dec-18	0.3	-2.4	-13.1	70.7	54.0	98.4	2021*	3.6	1.7	4.9
Jan-18	3.7	0.0	-14.7	70.7	56.6	94.9	2022*	3.6	1.5	4.8
Feb-18	2.4	-5.4	-9.6	71.2	61.1	89.8	2023*	3.6	2.3	4.7

Source: Database on Indian Economy - RBI, Pink Sheet - World Bank and IMF World Economic Outlook Update, October 2018; *indicates projections as per October 2018 database, ** Indicates projections as per January 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 (2nd RE)#	7.9	6.3	9.5	7.9	10.0	6.1	7.7	8.7	9.2	2.7
FY18 (1st RE)#	6.9	5.0	5.1	5.9	8.6	5.6	7.8	6.2	11.9	3.9
FY19 (AE)*	6.8	2.7	1.2	8.1	8.0	8.9	6.8	7.3	8.5	4.3
3QFY17	7.3	6.8	4.8	8.6	10.2	7.4	7.8	5.0	9.0	2.7
4QFY17	6.0	7.5	11.7	6.4	8.7	0.8	5.9	3.1	14.8	5.8
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	8.5	6.5	3.8	9.5	9.2	6.4	6.4	5.5	15.2	3.2
1QFY19	7.8	5.1	0.4	12.4	6.7	9.6	7.8	6.6	7.6	4.6
2QFY19	6.8	4.2	-2.1	6.9	8.7	8.5	6.9	7.2	8.7	4.7
3QFY19	6.3	2.7	1.3	6.7	8.2	9.6	6.9	7.3	7.6	3.8

Source: National Accounts Statistics, MoSPI
*Growth numbers for FY19 (AE) are calculated over the provisional estimates for FY18 as per the first advance estimates of NAS released by MoSPI on 07 January 2019
Growth numbers 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 (2nd RE)#	8.2	7.4	6.8	5.2	-5.6	-5.9	2.1
FY18 (1st RE)#	7.2	7.3	12.2	10.1	5.0	4.0	3.5
FY19 (AE)*	7.0	6.1	10.9	7.6	4.4	9.9	3.0
3QFY17	7.4	9.2	6.7	7.9	7.0	10.8	3.6
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	6.9	6.5	11.7	11.2	10.8	4.3
2QFY19	7.0	9.8	10.8	10.2	13.9	21.4	4.6
3QFY19	6.6	8.4	6.5	10.6	14.6	14.7	4.2

Source: National Accounts Statistics, MoSPI
*Growth numbers for FY19 (2nd AE) are calculated over the revised estimates for FY18
Growth numbers based on the revised estimates of NAS released by MoSPI on 28 February 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	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	IEA	International Energy Agency
35	IGST	Integrated Goods and Services Tax

36	IIP	Index of Industrial Production
37	IMF	International Monetary Fund
38	IMI	Index of Macro Imbalance
39	IMP	imports
40	INR	Indian Rupee
41	IPD	implicit price deflator
42	MCLR	marginal cost of funds based lending rate
43	Ming.	mining and quarrying
44	Mfg.	manufacturing
45	m-o-m	month-on-month
46	mt	metric ton
47	MoSPI	Ministry of Statistics and Programme Implementation
48	MPC	Monetary Policy Committee
49	NEXP	net exports (exports minus imports of goods and services)
50	OECD	Organisation for Economic Co-operation and Development
51	ONGC	Oil and Natural Gas Corporation Limited
52	OPEC	Organization of the Petroleum Exporting Countries
53	PFCE	private final consumption expenditure
54	PIT	personal income tax
55	PMI	Purchasing Managers' Index (reference value = 50)
56	RE	revised estimate
57	RBI	Reserve Bank of India
58	SLR	Statutory Liquidity Ratio
59	Tcf	trillion cubic feet
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., October 2018-March 2019
66	1HFY19	first half of fiscal year 2018-19, i.e., April 2018-September 2018

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Tel: + 91 44 6654 8100

Delhi NCR
Golf View Corporate Tower B
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Tel: + 91 124 443 4000

3rd & 6th Floor, Worldmark-1
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Aerocity, New Delhi - 110 037
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NOIDA - 201 304
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NH-49, Maradu PO
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