Economy Watch

Monitoring India's macro-fiscal performance

November 2017

Building a better working world

Contents

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Highlights

1. Mixed signals emanated from IIP and **core sectors as IIP growth slowed to 3.8% in September 2017 while core IIP rose to a six-month high of 5.2%.**

2. **CPI inflation reached a seven-month high of 3.6% in October** from 3.3% in September 2017 due to rising vegetable prices and fuel inflation.

3. **WPI-based inflation hardened to a six-month high of 3.6% in October 2017** from 2.6% in September 2017 due to rise in commodity prices.

4. **The RBI abstained from lowering the repo rate** due to heightened uncertainties over the inflation outlook.

5. As per CGA data, **gross central tax revenues grew by 19.9% during the first half of FY18, while non-tax revenues contracted by (-) 31.9%** during this period.

6. The **Center's fiscal deficit during the first half of FY18 stood at 91.3% of the annual budgeted target, showing an improvement from previous month.** The revenue deficit during this period was at 118% of the corresponding annual budgeted target.

7. **Credit by scheduled commercial banks grew by 6.8% (y-o-y) in September 2017.** It has continued to remain below 10% for 12 consecutive months, indicative of weak demand conditions in the economy.

8. **Merchandise exports contracted by (-) 1.1% in October 2017, the first fall in 14 months**, driven by moderation in growth of oil exports and a fall in non-oil exports.

9. **Average global crude prices increased to US$54.9/bbl. in October 2017.** The World Bank has projected global crude prices to average US$53/bbl. in 2017 and US$56/bbl. in 2018.

Foreword

GST Council delivers the first major tranche of reforms

The GST Council in its 23rd meeting held on 10 and 11 November in Guwahati delivered the first major tranche of GST reforms by substantially pruning the number of items in the 28% rate category. This category, which had contained 227 items, was squeezed to only 50 items. Most items that are now left in the list would qualify as demerit or luxury goods. This reform paves the way for India to evolve to three-rate structure consisting of a core GST rate bracketed by a merit rate and a demerit rate. The GST Council also brought about some compliance-related reforms in this meeting. In particular, taxpayers with annual aggregate turnover up to INR1.5 crore have been allowed to file GSTR-1 on a quarterly basis. An important implication of the comprehensive list of items that were subjected to rate reduction is its potential inflation-reducing effect. This will come in handy as inflation has started to inch up again. The CPI inflation in October 2017 clocked in at 3.6%, rising 0.3% points from September 2017. The immediate pressure on inflation was triggered by vegetable prices, which is a seasonal influence. But it was also brought under pressure by rising crude oil prices, which would exert a structural pressure on both WPI and CPI inflation.

Global crude prices that languished in the US$40–US$50/bbl. range for long time have started to rise again. These are now touching levels of US$60–US$65/bbl. This is partly due to the OPEC group agreeing successfully to supply cuts and partly due to political and economic uncertainties in the Middle East. Although India's import-intensity of crude oil has been coming down, India's dependence on oil imports is still very significant. Any sustained upward movement of global crude prices will have adverse effects on India's macro-balances as captured in current account and fiscal deficits. Global crude prices also affect food inflation as well as the overall inflation rate. In this month's In focus, entitled "Oil on reboil — Can it sap India's growth momentum?" we have undertaken a detailed analysis of the implications of increasing global crude oil prices on the Indian economy.

Having introduced GST, what India now needs are accelerated GST reforms in certain critical dimensions in order for GST to contribute effectively to production and consumption efficiencies of the economy, serving the objective of its introduction. Production efficiencies come mainly from removal of inter-jurisdictional fiscal barriers, removal of taxation of inputs/resources/capital goods and zero-rating of exports. Consumption efficiencies come from tax-constrained consumption of demerit goods (sin goods and polluting goods and services) given the inverse-demand elasticity rule holds as in a three-rate structure. Specific reforms for augmenting the efficiency-effects of GST are as follows: (1) the rate structure needs to be further streamlined, (2) the compliance burden needs to be reduced significantly and (3) the excluded sectors such as real estate, petroleum products, alcohol for human consumption and electricity duty need to be integrated within GST possibly in a gradual manner, given states' continuing concerns regarding revenue autonomy.

Factors such as GST-related changes, rising crude prices and large farm loan waivers by states have given rise to the concern about fiscal slippage for the Central Government from its budgeted target of 3.2% of GDP for FY18 and for the combined fiscal deficit of the Central and state governments. In this context, Moody's recent upgrade (17 November 2017) of India's sovereign bond rating to Baa2 with a stable outlook, in appreciation of the sustained supply side structural reforms, should be welcome news not only to the policy makers but to the investment community at large.

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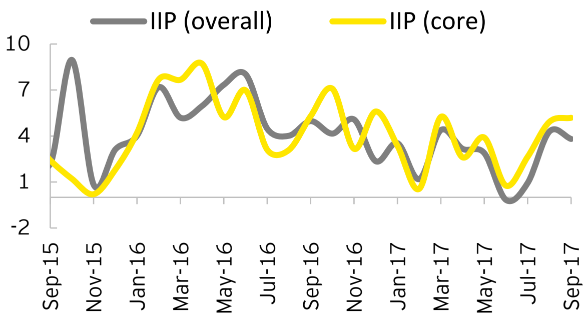
1. Growth: Mixed signals emanate from IIP

A. Industry growth: Overall IIP slows while core IIP improves in September 2017

Mixed signals emanated from IIP and core sectors as IIP growth slowed to 3.8% in September 2017 while growth in core IIP rose to a six-month high of 5.2%.

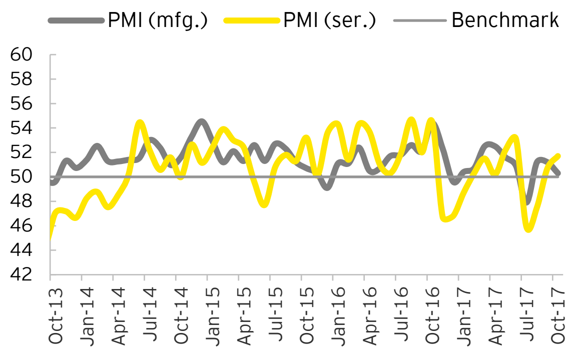
- From a recent peak of 4.5% (revised) in August 2017, IIP growth fell to 3.8% in September 2017 (Chart 1), as the growth of mining and electricity slowed while that of manufacturing remained flat.
- The manufacturing sector output (accounting for 77.6% of overall IIP) grew by 3.4% in September 2017 similar to the revised growth of 3.4% in August 2017. Growth in the output of both mining and electricity slowed to 7.9% (9.2% in August) and 3.4% (8.3% in August) respectively during the month.
- The output of the capital goods industry (a proxy for investment demand) rose to a six-month high of 7.4% in September 2017 as compared to 5.2% (revised) in August 2017. The growth of consumer durables sharply fell to (-) 4.8% in September as compared to 3.4% growth in August. Infrastructure sector grew at a subdued pace of 0.5% in September as compared to 2.7% in August.
- Growth in the output of eight core infrastructure industries rose to a six-month peak of 5.2% (y-o-y) in September 2017 as compared to 4.4% (revised) in August. For the first time in 19 months, seven out of eight core industries posted a positive growth. Growth in petroleum refinery products (having the largest weight in core IIP) rose sharply to 8.1% in September 2017 from 2.2% in August.
- During 2QFY18, growth in IIP and core IIP recovered to 3.1% and 7.2% respectively as compared to 1QFY18.

Chart 1: IIP growth (% y-o-y)



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

Chart 2: NIKKEI PMI



Source: NIKKEI PMI, Markit Economics

B. PMI: Signaled stagnation in manufacturing and mild growth in services

In October 2017, manufacturing PMI fell to 50.3 while services PMI increased mildly to 51.7 as domestic demand is yet to pick up after the introduction of GST in July 2017.

- Headline manufacturing PMI (sa) fell to 50.3 in October 2017 from 51.2 in September 2017 (Chart 2). As indicated by the New Orders Index and Output Index respectively, new orders stagnated and output increased only marginally during October 2017. This has been attributed to subdued demand conditions due to an adverse impact of GST in the transition period.
- Headline services PMI (sa) increased to 51.7 in October 2017 from 50.7 in September 2017. However, it remains lower as compared to the previous peak of 53.1 in June 2017. New orders and output increased slightly during October 2017.
- Composite PMI Output Index (sa) increased marginally to 51.3 in October 2017 from 51.1 in September 2017 reflecting mild improvement in the services sector.

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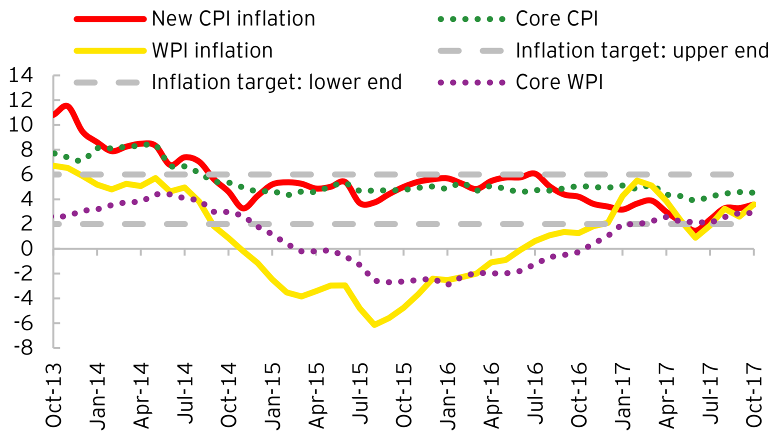
2. Inflation: CPI inflation picks up primarily due to increase in vegetable prices

CPI inflation reached a seven-month high of 3.6% in October from 3.3% in September 2017 primarily due to rising vegetable prices.

- CPI-based inflation (Chart 3) rose to 3.6% in October 2017 as growth in vegetable prices nearly doubled to 7.5% from 3.9% in September 2017.
- Vegetable price inflation was led by inflation in onion prices, which rose to a two-year high of 7.2% as compared to 5.1% in the previous month. Supply of onion and other crops suffered due to a drop in sowing because of unseasonal rains.
- The Consumer Food Price Index based inflation picked up to 1.9% in October from 1.2% in September.
- Core CPI inflation (excluding food and fuel and light) marginally fell to 4.5% in October from 4.6% in September 2017 due to a decline in inflation in transport and communication services to 2.3% from 3.5% in the previous month.
- Fuel and light-based inflation rose to a four-year high of 6.4% as compared to 5.6% in September 2017 due to rising crude prices.
- Housing inflation continued to increase, reaching a 40-month high of 6.7% as compared to 6.1% in September 2017.

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



Source: MOSPI

According to the RBI, CPI-based inflation is expected to average 4.2% in 3QFY18 and 4.6% in 4QFY18, reflecting the combined effects of unfavorable base effects, the upturn in food prices and the impact of the increase in the HRA.

WPI-based inflation hardened to a six-month high of 3.6% in October 2017 from 2.6% in September 2017 due to a rise in commodity prices. However, core WPI inflation remained stable at 2.9%.

- Inflation in primary articles increased to a seven-month high of 3.3% from 0.2% in September 2017, driven by inflation in food articles and minerals.
- WPI-based inflation in vegetables more than doubled to 36.6% in October from 15.5% in September 2017. Inflation in minerals turned positive at 14.8% from (-) 7.1% in the previous month. Together, these two accounted for nearly 70% of the rise in overall WPI-based inflation.
- Fuel and power inflation increased to a five-month high of 10.5% from 9.0% in September 2017 due to rising crude prices.
- WPI core inflation remained constant at 2.9% as inflation in manufactured products declined marginally to 2.6% from 2.7% in September 2017.
- Inflation based on the newly constructed WPI Food Price Index, consisting of primary food articles and manufactured food products, increased to 3.3% in October from 2.0% in September 2017.
- CPI and WPI based inflation reconverged in October 2017 after moving apart in September by 0.7% points.

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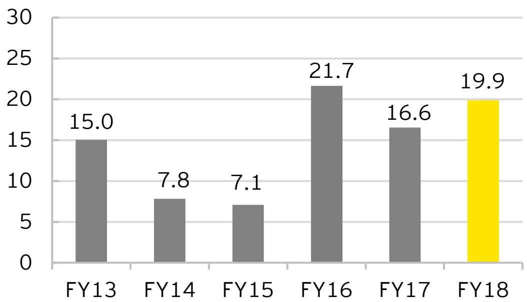
3. Fiscal performance: Fiscal deficit was at 91% of annual budgeted target in 1HFY18

A. Tax and non-tax revenues

As per CGA data, gross central tax revenues grew by 19.9% during 1HFY18, while non-tax revenues contracted by (-) 31.9% during this period.

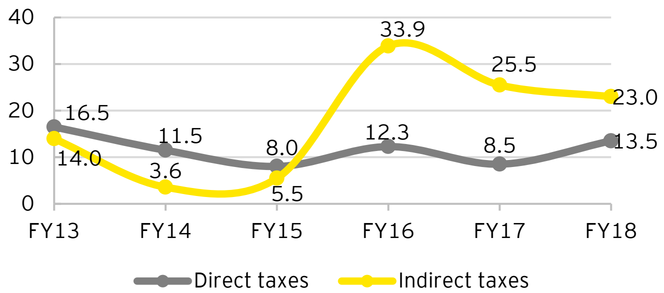
- Gross central taxes grew by 19.9% during 1HFY18, higher than 16.6% in the corresponding period of the previous year (Chart 4).
- Gross central taxes up to September 2017 stood at 43.6% of the FY18 budgeted target. This was slightly higher than the three-year average of 40.3% achieved in the first half of the fiscal year as a percentage of the annual actuals.
- Growth in direct taxes (comprising personal income tax and corporation tax) up to September FY18 was higher at 13.5% as compared to 8.5% in the same period of FY17 (Chart 5).
- Growth in personal income tax during April-September 2017 was 16.4% as compared to 17.8% in the corresponding period of the previous fiscal year. Corporation tax revenues grew by 11.3% in 1HFY18 as compared to 2.3% in 1HFY17.
- Growth in indirect taxes (comprising union excise duties, service tax, customs duty, CGST, UTGST, IGST and GST compensation cess) was lower at 23% during April–September FY18 as compared to the corresponding value of 25.5% in FY17.
- Tax collection on account of GST (CGST, IGST and GST compensation cess) during July-September 2017 amounted to INR1, 47,508 crore.
- For FY18, service tax liabilities would arise only for April–June 2017 as service tax has been subsumed in GST. Any service tax revenue figures afterward would only reflect the payment of arrears etc.

Chart 4: Growth in cumulated gross tax revenues up to September 2017



Source: Monthly Accounts, Controller General of Accounts, Government of India

Chart 5: Growth in cumulated tax revenues up to September 2017



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 and CGST, UTGST, IGST and GST compensation cess from July 2017 onwards

- During April–September FY18, non-tax revenues contracted by (-) 31.9% as compared to (-) 17.3% in the same period of FY17.
- The Center's non-tax revenues up to September 2017 stood at 28% of the FY18 budgeted target. This was much lower than the three-year average of 49.6% achieved up to September as a percentage of the annual actuals.
- Total receipts from disinvestment up till 1 November 2017 amounted to INR30,185.67 crore, which was 41.6% of the annual budgeted target.

B. Expenditures: Revenue and capital

- Total expenditure grew by 11.8% during 1HFY18 as compared to the corresponding value of 12.9% in FY17.
- Growth in revenue expenditure was at 12.3% up to September FY18 as compared to 14.1% in the same period of FY17 (Chart 6). Revenue expenditure up to September 2017 stood at 54.6% of the FY18 budgeted target as compared to the three-year average of 52.1% achieved up to September as a percentage of the annual actuals.
- Growth in the Center's capital expenditure was higher at 8.5% during April–September FY18 as compared to 5.3% in the corresponding period of FY17 (Chart 7). However, this growth was significantly slower than the growth achieved up till August 2017. Capital expenditure up to September 2017 stood at 47.3% of the FY18 budgeted target as compared to the three-year average of 51.3% achieved up to September as a percentage of the annual actuals.

The Center's capital expenditure grew by 8.5% during 1HFY18 as compared to 5.3% in the corresponding period of FY17. Revenue expenditure grew by 12.3% during 1HFY18 as compared to 14.1% in 1HFY17.

Chart 6: Growth in cumulated revenue expenditure up to September 2017 (%, y-o-y)

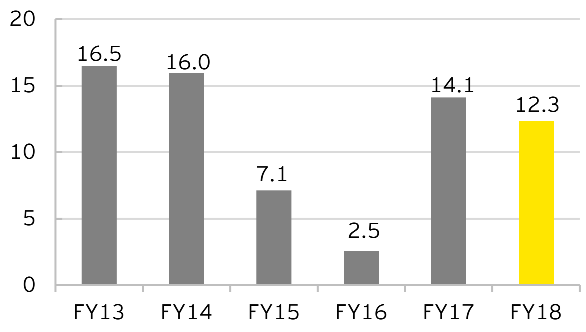
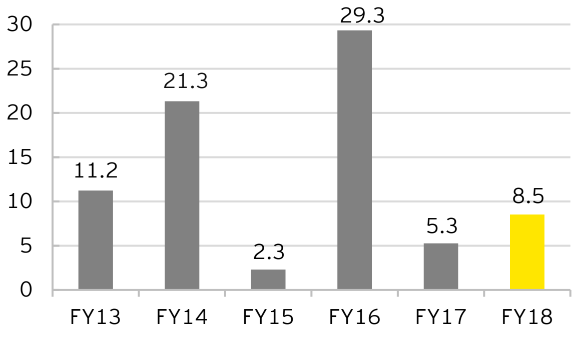


Chart 7: Growth in cumulated capital expenditure up to September 2017 (%, y-o-y)



Source: Monthly Accounts, Controller General of Accounts, Government of India

C. Fiscal imbalance

- Fiscal deficit during 1HFY18 stood at 91.3% of the annual budgeted target as compared to 83.9% in the corresponding period of FY17 (Chart 8). This was the highest share of fiscal deficit incurred in the first half of a fiscal year since FY01.
- The Center's revenue deficit had crossed the 100% mark up to June 2017. Revenue deficit up to September 2017 was at 118% of the annual budgeted target as compared to 92.1% during the corresponding period of FY17 (Chart 9). However, it was lower compared to 133.9% during April-August 2017.

The Center's fiscal deficit during 1HFY18 stood at 91.3% of the annual budgeted target, showing an improvement from the previous month, while the revenue deficit during this period was at 118% of the corresponding annual budgeted target.

Chart 8: Fiscal deficit up to September 2017 as a % of annual budgeted estimate for FY18

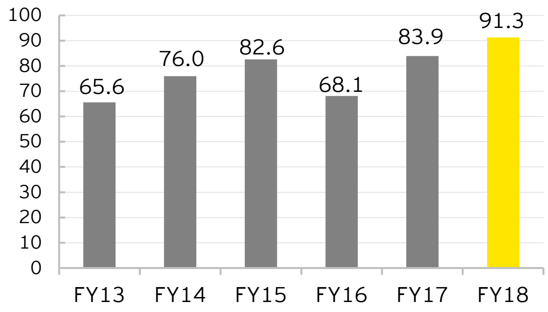
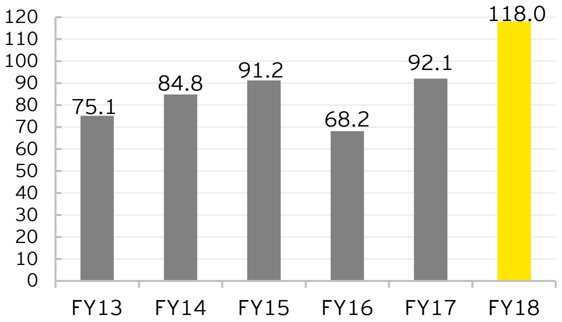


Chart 9: Revenue deficit up to September 2017 as a % of annual budgeted estimate for FY18



Source: Monthly Accounts, Controller General of Accounts, Government of India

4. India: Comparative economic performance and prospects

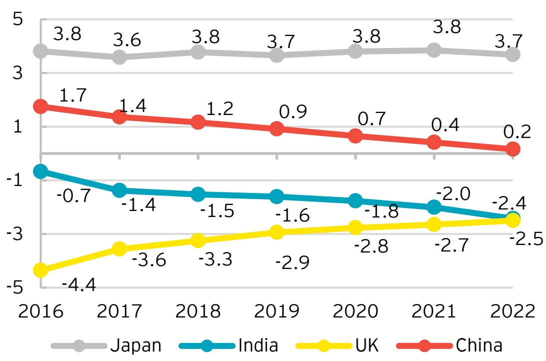
- Japan, Euro area, Russia and China posted a current account surplus in 2016 as opposed to a group of selected countries (India, Brazil, US, South Africa and the UK). This trend is projected to continue up till 2022 although with country-specific variations.
- Current account surplus from 2017 to 2022 is projected to be broadly stable in Japan, gradually reduce in the Euro area and improve in Russia as a result of an expected recovery in crude prices.
- Current account deficit in the US is projected to remain at about 2.5% over the next few years.
- Current account deficit in India and Brazil is expected to deteriorate during 2017 to 2022. In China, although the current account is expected to remain in surplus, it is projected to reduce to 0.2% by 2022.

Table 1: Current account balance (CAB) as a % of GDP

Country	2016	2017	2018	2019	2020	2021	2022
Japan	3.8	3.6	3.8	3.7	3.8	3.8	3.7
Euro area	3.5	3.1	3.0	2.9	2.8	2.7	2.6
Russia	2.0	2.8	3.2	3.6	3.8	3.9	4.0
China	1.7	1.4	1.2	0.9	0.7	0.4	0.2
India*	-0.7	-1.4	-1.5	-1.6	-1.8	-2.0	-2.4
Brazil	-1.3	-1.4	-1.8	-1.8	-1.9	-1.9	-2.0
US	-2.4	-2.4	-2.6	-2.7	-2.7	-2.5	-2.5
South Africa	-3.3	-2.9	-3.3	-3.6	-3.7	-3.8	-3.8
UK	-4.4	-3.6	-3.3	-2.9	-2.8	-2.7	-2.5
Advanced economies	*0.8*	*0.8*	*0.7*	*0.7*	*0.7*	*0.7*	*0.7*
EMDEs	*-0.3*	*-0.3*	*-0.4*	*-0.5*	*-0.6*	*-0.8*	*-0.9*

Source (Basic Data): IMF WEO October 2017, *Data is based on fiscal year
Note: -ve sign indicates a deficit and +ve sign indicates a surplus

Chart 10: CAB as a % of GDP – Selected countries



- The share of government expenditure in GDP is indicative of the size of the government.
- In the Euro area, the size of the government at 47.5% in 2017 is the highest among major advanced and emerging economies.
- In comparison to major advanced and emerging economies, general government total expenditure as a % of GDP in India has been the lowest and is expected to remain low in the medium term. As shown in Table 2, the size of the government total expenditure in India is 2.5%-3% points lower than the EMDE average.

Table 2: General government total expenditure as a % of GDP

Country	2016	2017	2018	2019	2020	2021	2022
Euro area	47.7	47.5	47.0	46.6	46.1	45.9	45.7
UK	39.3	39.4	39.0	38.3	37.9	37.7	37.6
Brazil	39.3	38.6	38.1	37.7	37.5	37.1	36.8
Japan	36.8	36.7	35.7	35.3	35.4	35.3	35.2
US	35.6	35.8	35.5	35.9	36.2	36.5	36.7
Russia	36.4	34.9	33.5	32.8	32.4	31.8	32.0
South Africa	32.9	33.5	33.7	33.9	33.9	33.7	33.5
China	31.9	31.2	31.2	31.2	31.1	31.1	31.0
India*	27.9	27.5	27.3	27.1	27.0	26.8	26.7
Advanced economies	*38.8*	*38.7*	*38.5*	*38.4*	*38.4*	*38.4*	*38.4*
EMDEs	*30.9*	*30.3*	*30.0*	*29.7*	*29.5*	*29.3*	*29.2*

Source (Basic Data): IMF WEO October 2017, *Data is based on fiscal year

Chart 11: General government total expenditure as a % of GDP – Selected countries

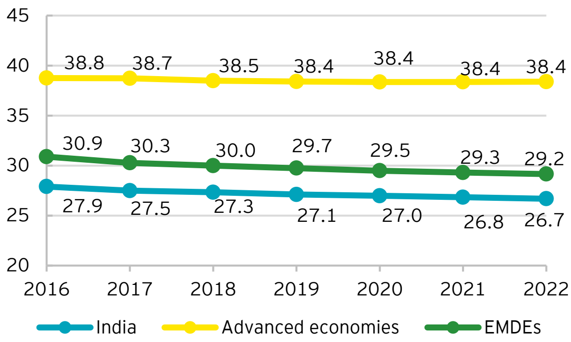
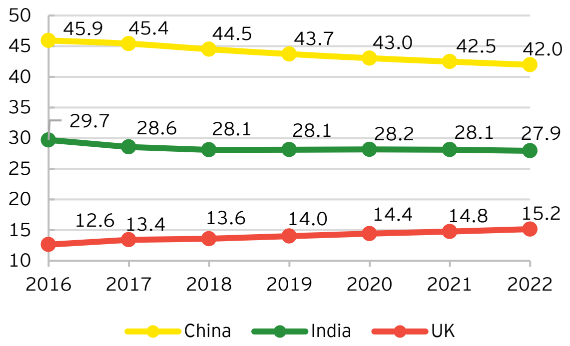


Table 3: Gross national saving as a % of GDP

Country	2016	2017	2018	2019	2020	2021	2022
China	45.9	45.4	44.5	43.7	43.0	42.5	42.0
India*	29.7	28.6	28.1	28.1	28.2	28.1	27.9
Japan	27.2	27.0	27.3	27.4	27.7	27.8	27.7
Russia	27.3	26.6	27.5	27.9	26.1	26.1	26.1
Euro area	23.8	24.2	24.3	24.5	24.6	24.7	24.8
US	18.0	17.5	17.4	17.3	17.5	17.9	18.2
South Africa	16.1	16.2	15.8	15.5	15.5	15.7	15.8
Brazil	16.2	16.2	16.1	16.7	16.9	17.1	17.5
UK	12.6	13.4	13.6	14.0	14.4	14.8	15.2
Advanced economies	*22.0*	*22.0*	*22.0*	*22.0*	*22.2*	*22.4*	*22.5*
EMDEs	*32.0*	*31.7*	*31.5*	*31.4*	*31.3*	*31.4*	*31.4*
World	*25.8*	*25.8*	*25.8*	*25.9*	*26.0*	*26.2*	*26.4*

Source (Basic Data): IMF WEO October 2017, *Data is based on fiscal year

Chart 12: Gross national saving as a% of GDP – Selected countries



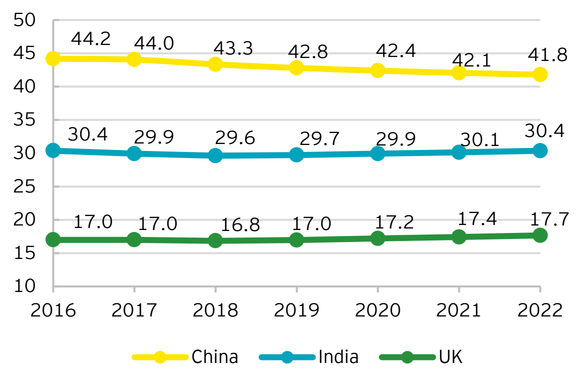
- Gross national saving as a % of GDP, indicating the savings rate of an economy, was the highest in China in 2016. This trend is expected to continue up till 2022. Despite the attempt to move toward a consumption-driven growth, the savings rate in China is projected to fall only marginally up till 2022.
- In India, the savings rate of 29.7% in 2016 was significantly lower than in 2007-08. It is projected to fall to 27.9% in 2022. This is lower than the average savings rate for EMDEs as a whole.
- The savings rate in the UK is forecasted to be the lowest among selected advanced and emerging economies.

Table 4: Total investment as a % of GDP

Country	2016	2017	2018	2019	2020	2021	2022
China	44.2	44.0	43.3	42.8	42.4	42.1	41.8
India*	30.4	29.9	29.6	29.7	29.9	30.1	30.4
Russia	25.3	23.8	24.4	24.2	22.3	22.2	22.1
Japan	23.3	23.4	23.5	23.7	23.9	23.9	24.0
Euro area	20.3	20.6	20.8	21.0	21.2	21.4	21.7
US	19.7	19.8	20.0	20.0	20.2	20.4	20.7
South Africa	19.4	19.1	19.0	19.1	19.3	19.4	19.6
Brazil	17.5	17.6	17.9	18.5	18.8	19.0	19.5
UK	17.0	17.0	16.8	17.0	17.2	17.4	17.7
Advanced economies	*20.9*	*21.1*	*21.3*	*21.4*	*21.5*	*21.7*	*21.9*
EMDEs	*32.3*	*32.0*	*31.9*	*32.0*	*32.0*	*32.1*	*32.2*
World	*25.3*	*25.4*	*25.5*	*25.7*	*25.8*	*26.1*	*26.4*

Source (Basic Data): IMF WEO October 2017, *Data is based on fiscal year

Chart 13: Total investment as a % of GDP – Selected countries



- Total investment as a % of GDP, indicative of the investment rate of an economy, was the highest in China at 44.2% 2016. This trend is projected to continue, although the investment rate is projected to fall to 41.8% by 2022.
- In India, the investment rate was at 30.4% in 2016, significantly lower than the peak of 39% in 2011-12. It is forecasted to fall to 29.6% in 2018 before picking up marginally to 30.4% in 2022.
- Declining savings and investment rates in India constitute a key constraint in achieving its potential growth of over 8%.
- The investment rate in the UK is forecasted to be the lowest among selected advanced and emerging economies.

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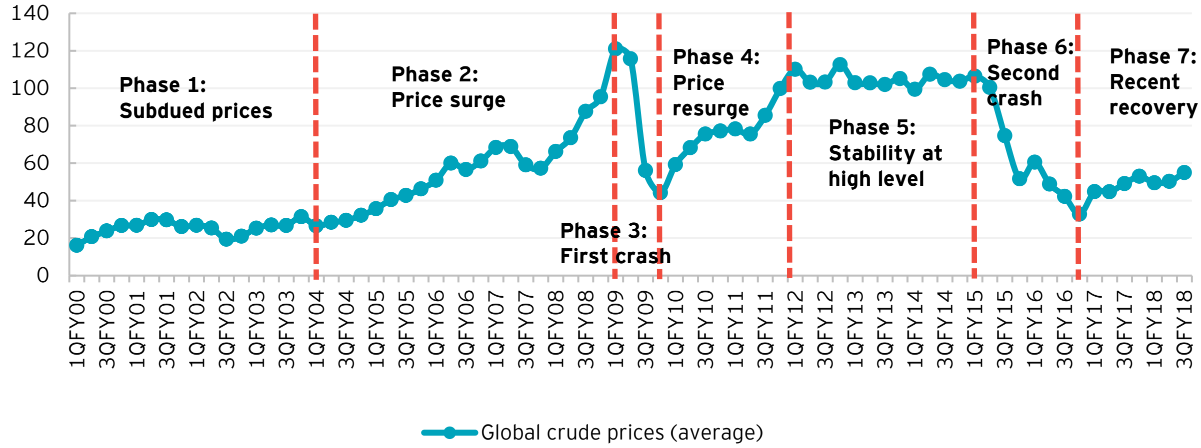
5. In focus: Oil on reboil – Can it sap India's growth momentum?

Introduction

Global crude oil prices, after falling from levels of above US$100/bbl. in 1QFY15 to below US$40/bbl. (Chart 14), are warming up again. Brent crude price has been ranging above US$60/bbl. in recent weeks. The Indian crude basket, which has been on average about US$1 below the Brent, reflects near 100% co-movement with Brent (Chart 15). As a large importer of crude oil, India benefited significantly from lower prices in the recent quarters as it helped contain inflation and had a favorable impact on both the fiscal and current account deficits. But a sharp reversal in prices can reverse some of these gains. Crude (Brent) prices touched a two-year high on 6 November 2017 and have gone up by over 15% since early October 2017. Chart 14 shows the movement of global crude prices over the last 17 years, on a quarterly average basis, in seven phases as described below.

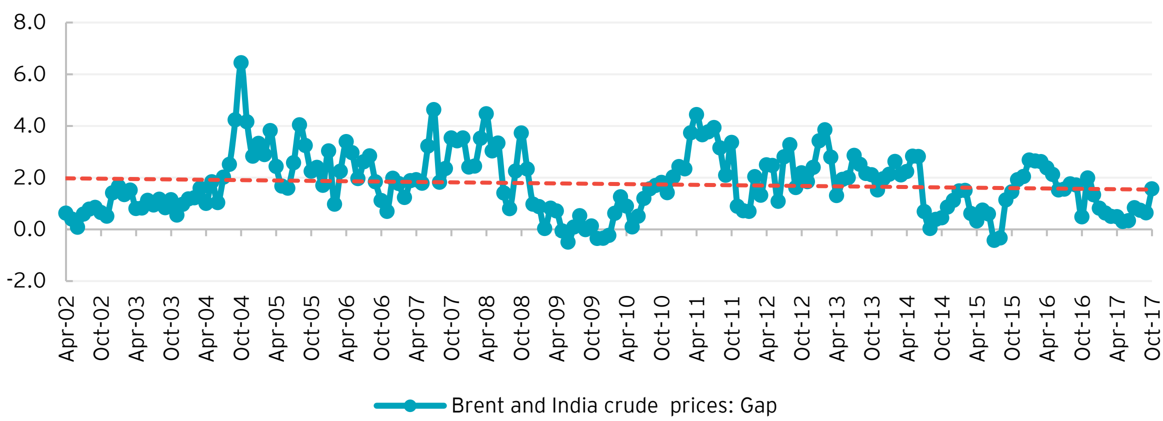
Chart 14: Long-term trend in average global crude prices (US$/barrel) – Different phases



Source (Basic data): World Bank

Phase 1 from 1QFY00 to 1QFY04 is that of subdued prices, which remained below US$35/bbl. Then came the long stretch of **phase 2** with a price surge rising close to US$120/bbl. on a quarterly basis. **Phase 3** from 1QFY09 to 1QFY10 was a short stretch of crash in prices to below US$40/bbl. **Phase 4** from 1QFY10 to 1QFY12 represents the second surge when prices scaled back to above US$100/bbl. They remained at this elevated level all the way up to 1QFY15 in **phase 5**. This was the period when India's macro-balances, particularly the current account deficit as a % of GDP, deteriorated sharply. Fortunately for India, crude prices crashed again **(phase 6)** and remained stable in the range of US$40- US$45/bbl. up to 1QFY17. This was the period when US shale-based oil and gas production added a new factor in the determination of global crude prices. In the current phase **(phase 7)**, oil prices have started to rise again. Although the chances of prices reaching the dizzy heights of above US$140/bbl. are remote, even if they remain in the range of US$60-US$65/bbl. for a long period it is not good news for the Indian economy, given its high import-intensity of crude.

Chart 15: Deviation of Brent crude price from Indian crude basket (US$/bbl)



Source (Basic data): World Bank and PPAC

Chart 15 indicates the deviation of global (Brent) crude price from the India crude basket on a monthly basis from April 2002 to October 2017.

Global crude prices and India's growth momentum

Global crude prices affect the vitals of the Indian economy in many critical ways. First, growth is affected directly by the adverse impact of a rise in crude prices on "net exports." Second, inflation is brought under pressure as crude prices affect food prices as well as energy, transport and storage prices. Third, government finances are adversely affected because of a rise in subsidies (as long as they prevail) and/or the negative impact on excise duty revenues. Indirectly, government consumption expenditure increases since increased prices lead to higher compensatory changes in salaries and pensions. As a result, both fiscal and current account deficits relative to GDP deteriorate.

A fall in net-exports contribution to GDP growth could be a major deterrent to GDP growth, particularly when domestic demand is slowing down. As shown in Chart 17, as growth in oil imports trended downward during 1QFY00 to 4QFY03, growth in real GDP improved. Similarly, after 3QFY14 real GDP began to improve as the trend growth[1] in oil imports dipped to historic low levels. In this context, it is important to note that India's oil intensity of imports has gradually fallen to 22% in 2QFY18 from 39% in 3QFY14 (Chart 20).

As per the RBI[2], a decline in crude oil prices could impact economic activity and inflation in India through (a) higher real incomes for consumers, (b) lower input costs, boosting corporate profitability and investment, and (c) lower CAD. As per RBI estimates, if a US$50/bbl. fall in crude prices (Indian basket) is sustained for over one year, it could lead to a higher real income equivalent of about 4% of total private consumption expenditure and about 2.9% of nominal GDP. Under the assumption of 50% pass-through to domestic prices of petroleum products, the real income gain could uplift aggregate consumption by about 2% and output by 1%. The RBI's estimates also suggest that for a 10% decline in oil prices, under alternative assumptions of pass-through to CPI, output growth is likely to improve in the range of 0.1%–0.3% points while CPI inflation could decline by about 20–25 basis points below the baseline. The converse of these positive changes would happen when oil prices rise.

"Falling oil prices often affect economic activity and inflation by shifting aggregate demand and supply and triggering significant policy responses. On the supply side, lower oil prices lead to a decline in the cost of production." (Finn, 2000). "The lower cost of production across a whole range of energy-intensive goods may be passed on to consumers, thereby indirectly reducing inflation." (Blanchard and Gali 2008) "The lower cost of production can also translate into higher investment. On the demand side, by reducing energy bills, a decline in oil prices raises consumers' real income and leads to an increase in consumption." (Edelstein and Kilian, 2008; Kilian, 2014; Hamilton, 2009)[3]

Chart 16: Growth in real GDP and non-oil imports

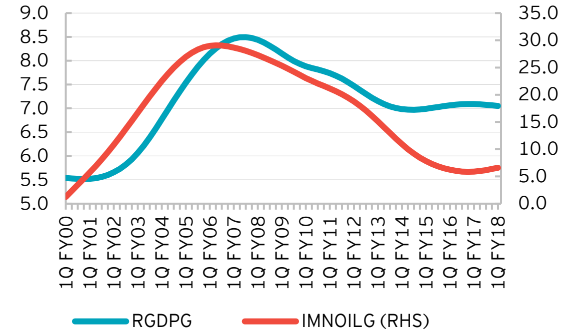
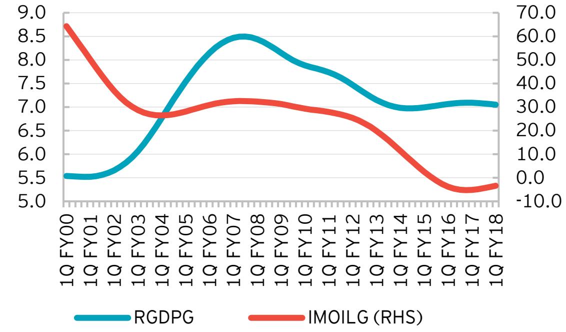


Chart 17: Growth in real GDP and oil imports



Source: MOSPI, RBI and EY estimates

The gains from a fall in global crude prices can potentially be reversed as prices rise. Fortunately, there are a number of countervailing forces that enable the Indian economy to absorb and contain the adverse effects of a rise in global crude prices. First, India has developed a large refining capacity, enabling it to export refined petroleum products. As crude prices increase, India's oil exports increase in value and volume. Second, as the Middle-Eastern countries and other oil suppliers prosper, Indian non-oil exports also rise due to strong trade links with these economies. These factors limit the deterioration of India's current account deficit. Growth in real GDP shows a high degree of co-movement with growth in non-oil imports (Chart 16).

[1] Trend growth is calculated using Hodrick-Prescott filter
[2] RBI Monetary Policy Report, April 2015
[3] World Bank Group, Global Economic Prospects: Having Fiscal Space and Using It, January 2015

Global crude and India's macro imbalances

Still, with rising crude prices, both fiscal deficit and current account deficits relative to GDP come under severe pressure (Charts 18 and 19). When global crude prices peaked at US$107/bbl. in FY12, the fiscal deficit of the Central Government rose sharply to 5.8% of GDP and the current account deficit rose to 4.3%.

Chart 18: Crude price and fiscal deficit as a % of GDP

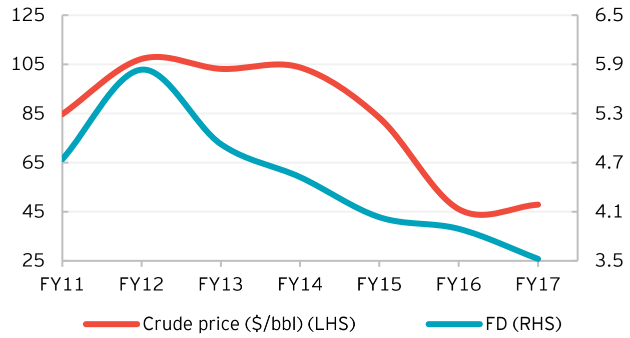
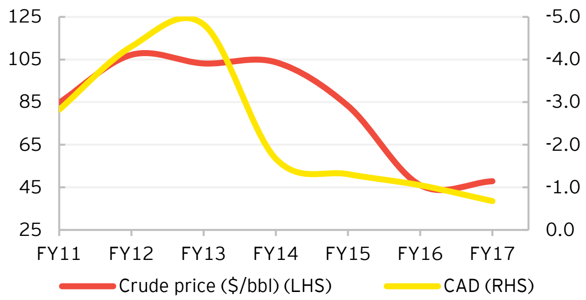


Chart 19: Crude price and current account deficit as a % of GDP



Source: MOSPI, RBI and EY estimates

Crude prices and fiscal parameters

From a fiscal perspective, it is of special interest how excise and sales tax buoyancies respond to changes in crude prices. Sales tax/VAT on petroleum products is largely ad valorem in the Indian states. As crude prices increase, sales tax buoyancy of revenue from POL products also increases. Excise duty rate on POL products was converted to a specific rate by the Central Government in FY12 from a combination of ad valorem and specific rates earlier. These are thus subject to a larger discretionary role on the part of the Central Government.

Table 5: Buoyancies – Petroleum excise and sales tax revenues, domestic indirect taxes and customs duty

Year	Crude price (US$/bbl.) (LHS)	Buoyancies			
		Excise revenues from POL products	Sales tax revenues from POL products	Domestic indirect taxes of Center+states	Customs duty
FY10	70.0	1.0	0.2	0.5	-1.4
FY11	84.7	0.4	1.0	1.4	2.8
FY12	107.2	0.1	2.3	1.5	1.3
FY13	103.2	0.5	1.1	1.5	0.6
FY14	103.7	0.5	0.9	0.7	0.5
FY15	83.2	2.5	0.6	0.7	0.7
FY16	46.0	8.1	0.4	0.6	1.1
FY17	47.9	3.3	1.5	1.8	0.3

Source (Basic data): PPAC

The very high excise buoyancies in FY15, FY 16, and FY 17 indicate that the Central Government utilized the fall in crude prices to garner excise duty revenues while the state governments showed lower sales tax buoyancies, indicating that from their side the benefit of falling prices was passed on to the consumer. This picture changed somewhat in FY17 when many states also increased the specific component in their sales taxes on POL products.

Crude oil and shale: Interface

The expectation in the market is that prices could remain elevated owing to several reasons, such as drawdown in inventories, especially in the US, better compliance with the voluntary production cut by the OPEC countries, slower pickup in US shale oil and continued geopolitical risk in West Asia. In October 2017, as per the monthly oil market reports of the IEA, OPEC members reduced production more than they had initially agreed to. Further, the internal power struggle in Saudi Arabia has added to this uncertainty. According to the IMF, Saudi Arabia will need oil prices to be at US$70/ bbl. for fiscal break-even in 2018 (Regional Economic Outlook, Middle East and Central Asia, October 2017). Members of OPEC will meet on 30 November 2017 and it is likely that they will work to push oil prices to around the US$70/bbl. mark in 2018.

More recently, in October 2017 global crude prices recovered to US$54.9/bbl. from US$46.2/bbl. in June 2017. This was because of a sharp fall in OPEC crude output in October mainly due to lower supply from Algeria, Iraq and Nigeria. Moreover, tensions continue to persist in Saudi Arabia. The compliance rate with supply cuts in October 2017 was 96% and for the year-to-date, it was 87%. Hurricane-related disruptions led to a fall in the global oil stocks, which dropped in 3QCY17. In October 2017, stocks also declined in the US (IEA, Monthly Oil Market Report, 14 November 2017).

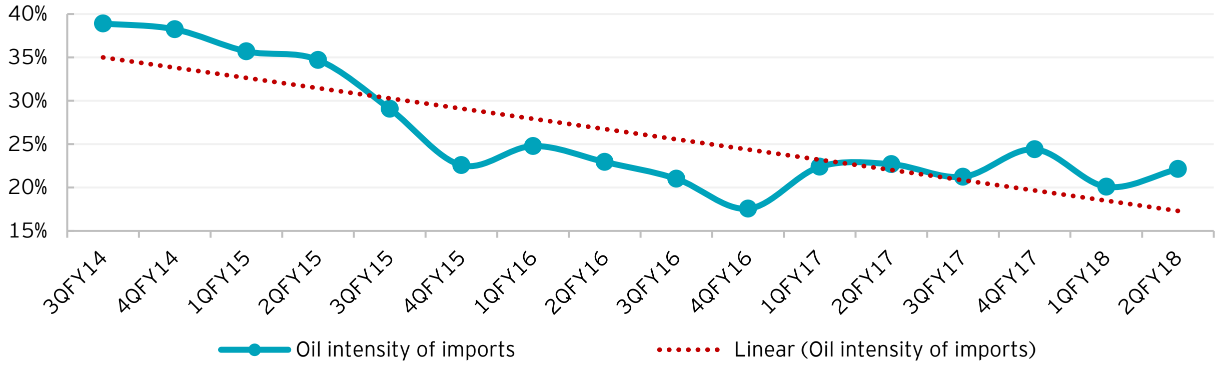
According to Rystad Energy[4], since 2013, the average wellhead breakeven price (BEP) for key shale plays[5] has decreased from US$80/bbl to US$35/bbl. This represents a decrease of over 55% on average. In their analysis, the drop is partly attributable to structural changes such as improved well performance (which can be measured by improvements in the estimated ultimate recovery[6]) and the improved efficiency gains (which can be measured by the effect of lower drilling and completion cost, a result of more effective operations).

Further, they analyze that activity-wise, in the main shale oil plays (EFS, Bakken, Permian and Niobrara), there are approximately 335 horizontal rigs drilling currently, representing a nearly 100% increase compared to the bottom rig count in May 2016 at 168 Hz rigs for the same plays. Shale operators are also entering 2017 with more balanced cash flow from shale operations. Shale companies have been able to reduce the imbalance between cash from operations and investment from US$16 billion in 1Q15 to 0 in 3Q16 with a considerable reduction in investments. For 2017, Rystad Energy forecasts an average WTI oil price of US$60/bbl., which implies a 40% improvement in the cash from operations, which will result in higher investments by shale operators. The growing role of shale-based oil and gas provides a natural buffer against large spikes in global crude prices, which augers well for India.

A viable long-term strategy for India

India's long-term economic purposes would be served by reducing its dependence on imported crude by developing its oil and shale fields and by moving progressively to non-conventional energy sources. Fortunately, the recent initiatives of the Government of India are beginning to pay off as the oil intensity of Indian imports has started to fall quite tangibly from 39% in 3QFY14 to 22% in 2QFY18 (Chart 20).

Chart 20: Oil intensity of India's imports



Source: RBI and EY estimates

In spite of certain countervailing forces, the net impact of an increase in global crude prices is bound to be adverse for the Indian economy with respect to growth, inflation and macro imbalances. The quicker India moves toward non-conventional energy sources and shifts from petroleum and diesel driven vehicles to electricity driven vehicles, the easier it would be for India to adjust to global crude price volatility with minimum adjustment costs. Both taxation and subsidies as well as direct policy support may be provided by the Government of India to induce the economy to move in this direction at an accelerated pace.

4 Article entitled "North American Shale breakeven prices" by Sona Mlada, Rystad Energy, published in Oil and Gas Financial Journal (February 2017)
5 Shale gas is found in shale "plays," which are shale formations containing significant accumulations of natural gas and which share similar geologic and geographic properties.
6 Estimated ultimate recovery (EUR) is an approximation of the quantity of oil or gas that is potentially recoverable or has already been recovered from a reserve or well. In the oil and gas industry, it is of the utmost importance that drilling projects meet an acceptable estimated EUR threshold for a project to be considered viable and profitable.

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6. Money and finance: Repo rate left unchanged at 6%

A. Monetary sector

Monetary policy

- Due to a sustained increase in the headline as well as core CPI inflation in July and August 2017, the MPC recommended that the policy repo rate be retained at 6.0% during the fourth bi-monthly monetary policy review held on 4 October 2017 (Chart 21).
- Analyzing the recent trends in monetary policy transmission, the Monetary Policy Report (October 2017) pointed out that the overall experience under the new MCLR regime (introduced in April 2016) had not been adequately satisfactory. An Internal Study Group, constituted by the RBI to examine various aspects of the MCLR system, has observed that (a) there is arbitrariness in calculating MCLR/base rate and spreads charged over it and (b) MCLR regime is out of sync with the global practice on the pricing of bank loans. Both these factors have undermined the integrity of the interest rate setting process in India.

Chart 21: Movements in repo rate

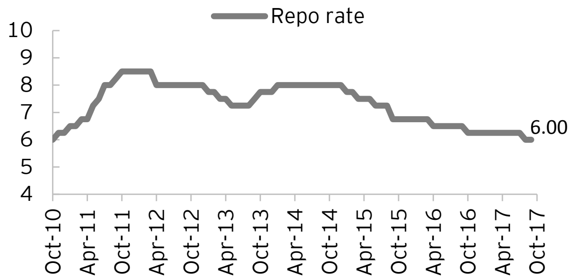
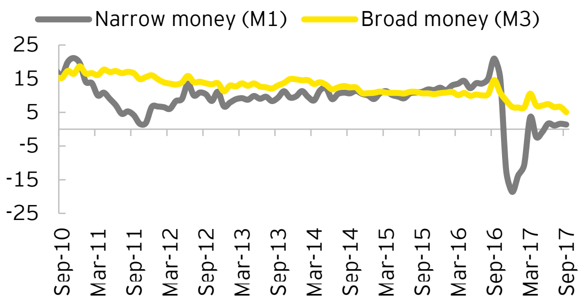


Chart 22: Growth in narrow and broad money



Source: Database on Indian Economy, RBI

The RBI abstained from lowering the repo rate due to heightened uncertainties over the inflation outlook.

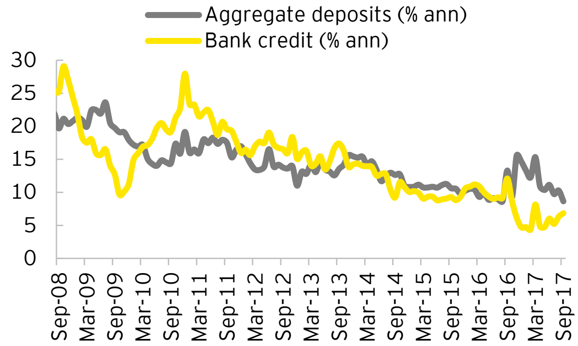
Money stock

- Growth in broad money stock (M3) fell to 5.1% (y-o-y) in September 2017 from 6.6% in August due to relatively lower growth in time and demand deposits. Growth in time deposits (accounting for over 76% of the broad money stock) was lower at 6.1% in September 2017 as compared to 8.1% in August 2017, while demand deposits grew at a slower rate of 16.4% in September as compared to 22.0% in August.
- Growth in narrow money (M1) remained low at 1.4% in September 2017 as compared to 1.6% in August as the y-o-y growth of currency in circulation continued to contract for 11 straight months (Chart 22). Currency in circulation (excluding non-demonetized currency) as a percentage of the total demonetized currency (indicating the extent of re-monetization) increased to 90.1% by 27 October 2017 as compared to 87.1% by 29 September 2017.

Aggregate credit and deposits

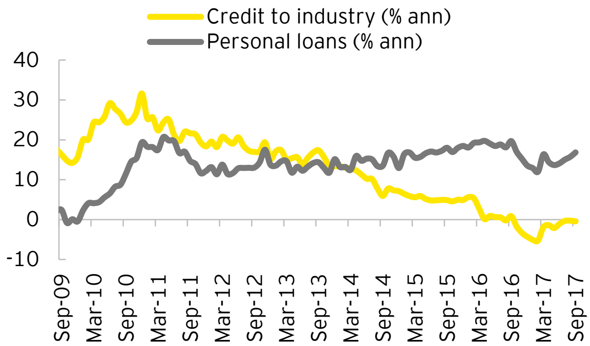
- Credit by scheduled commercial banks grew by 6.8% (y-o-y) in September 2017, its highest level since March 2017, increasing further from 6.3% in August 2017 (Chart 23). Bank credit continued to remain below 10% for 12 consecutive months, indicative of weak demand conditions in the economy.
- Non-food credit grew by 6.1% in September, marginally improving from 5.5% in August 2017. Growth in personal loans, a key driver of retail sector credit, improved further to 16.8% in September from 15.7% in August led by continued double-digit growth in housing loans.
- Credit growth to the services sector improved further to 7.0% in September from 5.0% in August 2017. However, credit to industries contracted by (-) 0.4% in September 2017, registering a decline for 12 consecutive months (Chart 24).
- Growth in aggregate bank deposits fell to a 13-month low of 8.6% (y-o-y) in September 2017 from 10.3% in August 2017.

Chart 23: Growth in credit and deposits



Source: Database on Indian Economy, RBI

Chart 24: Growth in industrial and personal loans



Source: Database on Indian Economy, RBI

B. Financial sector

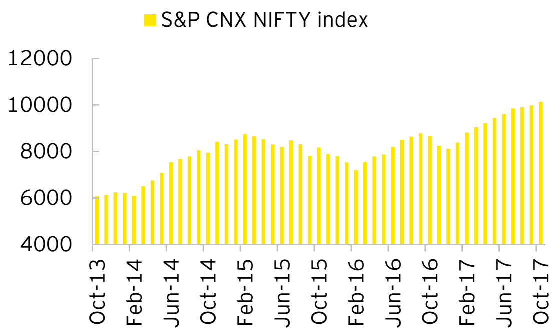
Interest rates

- Banks maintained the term deposits rates (with more than one-year maturity) in the range of 6.25%–6.75% for the third consecutive month in October 2017.
- The marginal cost of fund-based lending rate (MCLR) ranged between 7.7% and 8.1% in October 2017, marginally higher as compared to 7.75% in September 2017.
- The average yield on 10-year government securities increased to a five-month peak of 6.9% in October 2017 as compared to 6.7% in September 2017. The benchmark yields inched upward as risks to CPI inflation outlook increased.

FPI and stock market

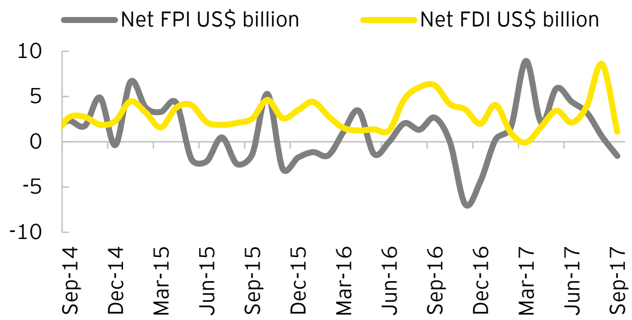
- The benchmark S&P NIFTY index reached its historic high of 10,139 points (average) in October 2017 as it improved from 9,978 points in September 2017 (Chart 25). The overall index increased by 161 points in October as compared to an increase of just 77 points in the previous month. Investors' sentiment was further boosted by the Center's announcements on re-capitalizing public sector banks and building a road network.
- As per provisional data, overall FIIs turned negative for the first time since December 2016, registering an outflow of US$0.5 billion in September 2017 as compared to an inflow of US$9.1 billion (revised) in August. This was on account of a fall in net FDI inflows while net FPIs registered outflows during the month.

Chart 25: Stock market movement



Source: Database on Indian Economy, RBI

Chart 26: Net FDI and FPI



Source: Database on Indian Economy, RBI

- Net FDI inflows hit a seven-month low of US$2.2 billion in September 2017 as compared to US$8.4 billion (revised) in August. Net FPIs registered outflows to the tune of US$1.6 billion in September 2017 as compared to US$0.6 billion inflows in August (Chart 26).

7. Trade and CAB: Contraction in export after 14 months of growth

A. CAB: Significant deterioration

CAB as a percentage of GDP declined sharply to a four-year low of (-) 2.4% in 1QFY18 from (-) 0.6% in 4QFY17 (Table 6 and Chart 28). This was partly due to a pickup in gold imports prior to GST and the lagged effect of rupee appreciation leading to faster growth in non-gold and non-oil imports relative to exports. Merchandise trade balance declined substantially to a four-year low of (-) US$41.2 billion from (-) US$29.7 billion in 4QFY17, while growth in net service exports reached a 19-quarter high of 15.7% mainly due to an increase in net earnings from travel, construction and other business services.

Table 6: CAB

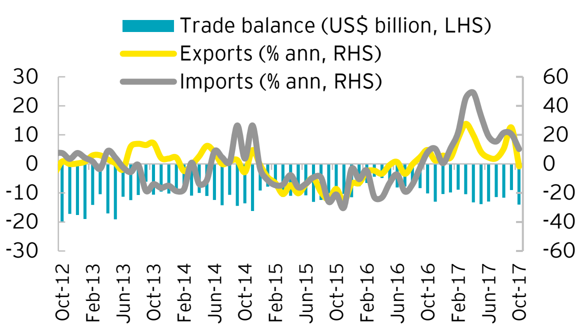
	CAB (- deficit/+surplus) (US$ billion)	CAB as a % of nominal GDP	Goods account net (US$ billion)	Services account net (US$ billion)	Income account net (US$ billion)	Transfers net (US$ billion)
FY14	-32.4	-1.7	-147.6	73.0	-23.0	65.3
FY15	-26.8	-1.3	-144.9	76.6	-24.1	65.7
FY16	-22.2	-1.0	-130.1	69.7	-24.4	63.0
FY17	-15.3	-0.7	-112.4	67.5	-26.3	56.6
2QFY17	-3.5	-0.6	-25.6	16.3	-8.1	14.0
3QFY17	-8.0	-1.4	-33.3	17.8	-6.4	14.0
4QFY17	-3.5	-0.6	-29.7	17.6	-5.6	14.4
1QFY18	-14.3	-2.4	-41.2	18.2	-5.8	14.6

Source: Database on Indian Economy, RBI

B. Merchandise trade and exchange rate

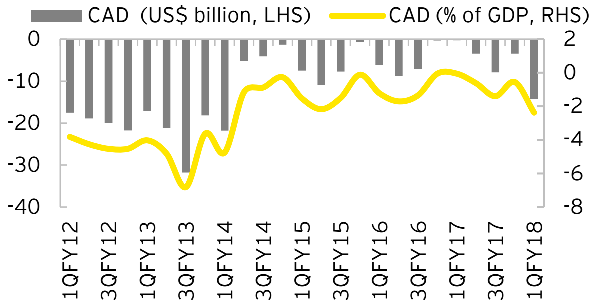
- Merchandise exports contracted by (-) 1.1%, the first fall in 14 months, driven by a moderation in the growth of oil exports and a fall in non-oil exports (Chart 27).
- Exports of gems and jewelry and readymade garments contracted sharply by (-) 24.5% (7.1% in September) and (-) 39.2% (29.5% in September) respectively. Growth in exports of engineering goods reached a five-month low of 11.8% in October from 41.9% in September. Oil exports growth eased significantly to 14.7% as compared to 41.0% in the previous month.
- Growth (y-o-y) in overall imports declined to a 10-month low of 7.6% in October from 20.4% in September 2017 due to a sharp fall in non-oil imports. Imports of pearls and stones, gold and transport equipment contracted by (-) 1.6%, (-) 48.0% and (-) 16.0% as compared to growth rates of 51.1%, 21.4% and (-) 4.9% respectively in September 2017. Oil imports increased by 27.9% as compared to 18.9% in September 2017.
- Due to a fall in exports, India's merchandise trade deficit fell to a three-year low of US$14.0 billion from US$9.0 billion in September 2017.
- The Indian rupee depreciated further to INR65.1 from INR64.4 per US dollar in September 2017.

Chart 27: Developments in merchandise trade



Source: Ministry of Commerce and Industry

Chart 28: CAD



Source: Database on Indian Economy, RBI

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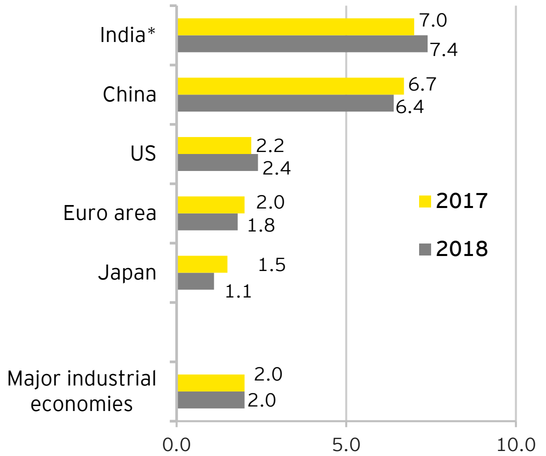
8. Global growth: Global crude prices rise to US$55/bbl. in October 2017

A. Global growth outlook

- As per the ADO (Asian Development Outlook) Update 2017, growth in major industrial economies[7] is expected to be stronger than anticipated earlier in ADO April 2017. Growth is revised up by 0.1% point to 2% in 2017 as well as 2018 (Chart 29).
- In the US, slower-than-expected growth in 1H17 led to a downward revision of GDP growth to 2.2% in 2017. The forecast for 2018 remains unchanged at 2.4%. The World Bank Global Monthly (October 2017) indicated that growth in the US moderated in 3Q17 due to temporary hurricane-related disruptions.
- In the light of declining unemployment, recovering business fixed investment and household spending in the recent quarters and inflation remaining below the long-term target of 2%, the US Fed, in its November 2017 monetary policy meeting, maintained the target range for the federal funds rate at 1%–1.25% to support growth.
- The ADB has revised up the growth forecasts for the Euro area to 2% in 2017 and 1.8% in 2018. The October 2017 issue of the World Bank Global Monthly indicates ongoing recovery reflected by high-frequency indicators. The unemployment rate has fallen and inflation has been closer to the European Central Bank's target of 2% in recent months.
- In Japan, with output growth in 1H17 higher than expected and indications of resilient domestic demand in the coming quarters, the ADB has revised up the growth forecast to 1.5% in 2017, moderating to 1.1% in 2018.
- China is projected to grow by 6.7% in 2017 buoyed by growth in domestic consumption and exports as a result of a pick-up in external demand. The fiscal policy is expected to remain expansionary supporting growth but contributing to rising public debt. GDP growth is projected at 6.4% in 2018.
- In case of India, the ADB has revised down the GDP growth to 7% from 7.4% in FY18 due to the disruptions caused by demonetization and the transition costs related to the launch of GST. Subdued growth in fixed capital formation remains a cause for concern. Growth is expected to strengthen to 7.4% in FY19, although still remain lower than the previously forecast of 7.6%.

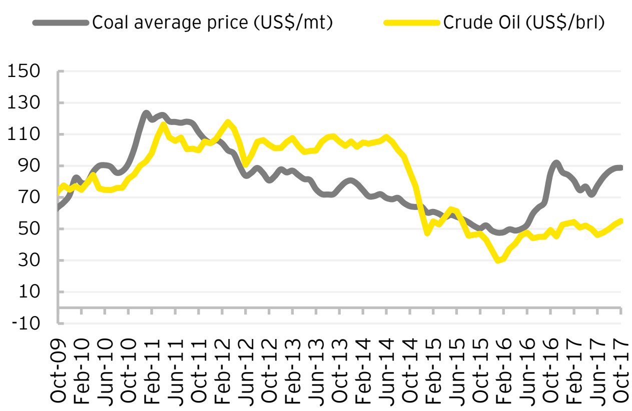
As per the ADO Update 2017, growth in major industrial economies is expected to strengthen to 2% in 2017 and 2018. According to the World Bank, high frequency indicators point to an ongoing recovery in global growth in 3Q17 particularly in the Euro area and commodity-exporting EMDEs.

Chart 29: Global growth projections



Source: Asian Development Outlook Update, 2017
*Forecast pertains to fiscal year

Chart 30: Global crude and coal prices

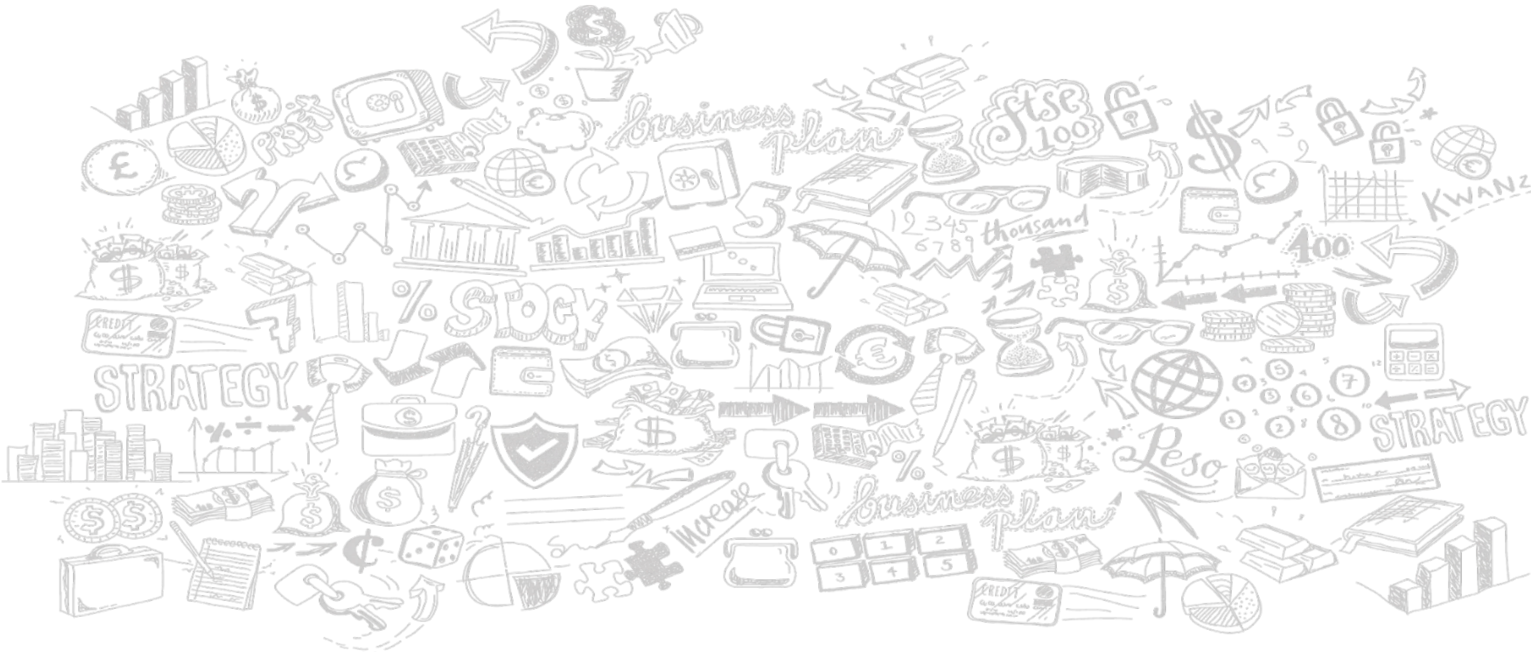


Souce: World Bank, Pinksheet

[7] United States, Euro area and Japan.

B. Global energy prices

- Average global crude prices[8] increased for the fourth consecutive month to US$54.9/bbl. in October 2017 from US$53/bbl. in September 2017 (Chart 30). The World Bank has projected the global crude prices to average US$53/bbl. in 2017 and US$56/bbl. in 2018, reflecting strong global oil demand, falling stocks and production restraint among OPEC and non-OPEC producers. However, the oil market is still expected to remain well supplied due to expected strong gains in US shale oil.
- Average global coal prices increased for the sixth consecutive month to US$88.8/mt. in October 2017 from US$88.4/mt. in September 2017. According to the World Bank, coal prices are expected to average US$85/mt. in 2017 due to continued efforts by China to reduce coal supply. China's coal policy will be a key driver given that the country consumes half of the world's coal output and that coal accounts for more than 60% of the country's energy needs.



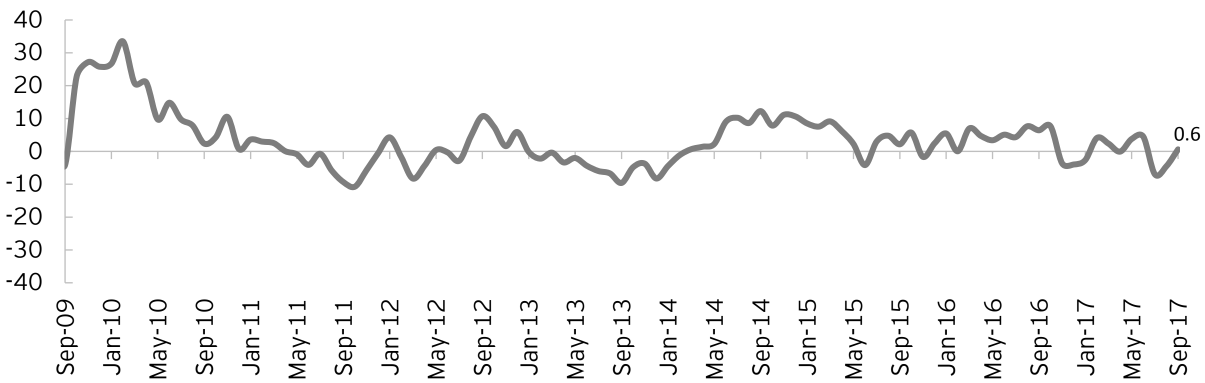
[8] Simple average of three spot prices, namely, Dated Brent, West Texas Intermediate and Dubai Fateh.

9. Index of aggregate demand (IAD): Modest pickup in IAD during September 2017

Growth in IAD turned positive for the first time in two months but grew only marginally by 0.6% in September 2017.

- An IAD has been developed to reflect the combined demand conditions in the agriculture, manufacturing and services sectors on a monthly basis. It takes into account movements in PMI for manufacturing and services, 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).**
- Following two consecutive months of contractions, the y-o-y growth in IAD turned positive but remained low at 0.6% in September 2017 (Chart 31). The improvement was due to a recovery in the services sector, while demand conditions in both the manufacturing and the agricultural sector weakened in September, constraining the growth in IAD.

Chart 31: Growth in IAD (y-o-y)



Source (Basic data): NIKKEI PMI - Markit Economics, RBI and EY estimates

Table 7: IAD

Month	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17
IAD	116.3	121.0	124.2	120.8	123.0	122.9	110.7	117.3	122.9
Growth (% y-o-y)	-2.6	4.1	2.4	-0.1	3.8	4.5	-7.0	-4.5	0.6

Source (Basic data): NIKKEI PMI - Markit Economics, 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							
FY14	3.3	-0.2	3.6	6.0	2.6	**FY14**	50.5	48.5
FY15	4.0	-1.3	3.8	14.8	4.9	**FY15**	52.2	51.7
FY16	3.3	4.3	2.9	5.7	3.0	**FY16**	51.3	51.7
FY17	4.6	5.3	4.3	5.8	4.8	**FY17**	51.6	51.0
3QFY17	3.8	6.7	3.1	6.1	5.3	**3QFY17**	52.1	49.3
4QFY17	3.1	7.9	2.2	4.3	3.1	**4QFY17**	51.2	50.2
1QFY18	1.9	1.1	1.6	5.3	2.5	**1QFY18**	51.7	51.8
2QFY18	3.1	7.2	2.2	6.1	4.1	**2QFY18**	50.1	48.0
Jun-17	-0.3	0.1	-0.7	2.1	1.0	**Jul-17**	47.9	45.9
Jul-17	0.9	4.5	-0.3	6.6	2.6	**Aug-17**	51.2	47.5
Aug-17	4.5	9.2	3.4	8.3	4.4	**Sep-17**	51.2	50.7
Sep-17	3.8	7.9	3.4	3.4	5.2	**Oct-17**	50.3	51.7

Source: Office of the Economic Adviser- Ministry of Commerce and Industry and NIKKEI PMI-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 Index	Mfg. products	Fuel and power	Core WPI
	% change y-o-y				% change y-o-y				
FY14	9.4	12.1	7.7	7.2	5.2	9.6	3.0	7.1	2.7
FY15	5.9	6.4	4.2	5.6	1.3	4.3	2.6	-6.1	2.7
FY16	4.9	4.9	5.3	4.6	-3.7	1.2	-1.8	-19.7	-1.8
FY17	4.5	4.2	3.3	4.8	1.7	5.9	1.3	-0.3	-0.1
3QFY17	3.7	2.2	3.2	5.0	1.7	4.8	1.9	1.7	0.4
4QFY17	3.6	1.5	4.2	4.9	5.0	4.7	3.3	21.3	2.1
1QFY18	2.2	-0.9	5.3	4.2	2.3	0.5	2.7	11.2	2.3
2QFY18	2.9	1.0	4.7	4.0	2.6	2.9	2.4	7.8	2.5
Jul-17	2.4	-0.4	4.9	4.2	1.9	2.2	2.1	4.4	2.1
Aug-17	3.3	1.5	5.0	4.4	3.2	4.5	2.4	9.9	2.4
Sep-17	3.3	1.2	5.6	4.6	2.6	2.0	2.7	9.0	2.9
Oct-17	3.6	1.9	6.4	4.5	3.6	3.3	2.6	10.5	2.9

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

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

Fiscal year/month	Gross tax revenue	Corporate tax	Income tax	Custom duty	Excise duty	Service tax	Fiscal deficit	Revenue deficit
	% change y-o-y						% of GDP	% of GDP
FY15	9.3	8.7	8.7	9.2	11.6	8.6	4.0	2.9
FY16	17.0	6.0	8.5	11.9	51.9	25.8	3.9	2.5
FY17	17.9	6.7	21.5	7.4	32.7	20.4	3.5	2.0
FY18 (BE)	12.2	9.1	24.9	12.9	5.0	11.1	3.2	1.9
Cumulated growth (% y-o-y)							% of budget target	
Jan-17	17.7	3.2	19.7	5.2	42.9	23.3	105.6 (RE)	130.2 (RE)
Feb-17	17.6	3.5	20.9	5.2	40.3	21.3	113.4 (RE)	142.8 (RE)
Mar-17	17.9	6.7	21.5	7.4	32.7	20.4	100.1 (RE)	99.1 (RE)
Apr-17	33.0	322.4	8.0	16.5	429.1	14.3	37.6	55.5
May-17	25.0	2068.2	11.4	17.6	15.9	10.2	68.3	100.7
Jun-17	15.2	24.3	10.6	15.0	7.3	20.4	80.8	119.3
Jul-17	17.1	24.2	18.8	31.7*	-0.6	14.3	92.4	131.5
Aug-17	20.0	15.5	13.3	-	-	-	96.1	133.9
Sep-17	19.9	11.3	16.4	-	-	-	91.3	118

*Collections under customs in July FY18 include INR21,377 crore on account of IGST on imports/exports and compensation cess on imports/exports amounting to INR609 crore for 2017–18.

Month	Direct taxes*	Indirect taxes**	CGST	UTGST	IGST	GST compensation cess	Total GST
	% change y-o-y		INR crore				
Jul-17	21.1	13.9	-	-	34	-	34
Aug-17	14.2	23.6	15, 253	-	70,918	7,749	93,920
Sep-17	13.5	23.0	15, 135	-	30, 395	8024	53, 554

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

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

Fiscal year/month	Repo rate (end of period)	Fiscal year/quarter /month	M1	M3	Bank credit	Agg. deposits	10 yr. Govt. B Yield	Net FDI	Net FPI	FX reserves
	%		% change y-o-y				%	US$ billion	US$ billion	US$ billion
FY14	8.00	FY14	8.5	13.4	14.9	14.2	8.4	21.6	4.8	304.2
FY15	7.50	FY15	11.3	10.9	11.0	12.1	8.3	31.3	42.2	341.6
FY16	6.75	FY16	13.5	10.1	9.7	10.5	7.7	36.0	-4.1	355.6
FY17	6.25	FY17	3.6	10.6	8.0	11.7	7.0	35.6	7.6	370.0
Apr-17	6.25	3QFY17	-18.6	6.6	6.5	13.2	6.6	9.7	-11.3	360.3
May-17	6.25	4QFY17	3.6	10.6	5.8	13.6	7.0	5.0	10.8	370.0
Jun-17	6.25	1QFY18	1.7	7.4	5.2	10.8	7.0	7.2	12.5	386.5
Jul-17	6.25	2QFY18	1.4	5.1	6.1	9.5	6.6	13.6	2.2	399.7
Aug-17	6.00	Jun-17	1.7	7.4	6.0	11.1	6.6	2.1	4.4	386.5
Sep-17	6.00	Jul-17	1.1	6.6	5.2	9.7	6.6	4.0	3.2	392.9
Oct-17	6.00	Aug-17	1.6	6.6	6.3	10.3	6.6	8.6	0.6	394.6
Nov-17	6.00	Sep-17	1.4	5.1	6.8	8.6	6.7	1.1	-1.6	399.7

Source: Database on Indian Economy-RBI

Table A5: External trade and global growth

Fiscal year/quarter/ month	External trade indicators (annual, quarterly and monthly growth rates)						Calendar year	Global growth (annual)		
	Exports	Imports	Trade balance	Ex. rate (avg.)	Crude prices (avg.)	Coal prices (avg.)		World GDP	Adv. econ.	Emer. econ.
	% change y-o-y		US$ billion	INR/US$	US$/bbl	US$/mt		% change y-o-y		
FY14	4.7	-8.3	-135.8	60.5	103.7	76.1	2011	4.2	1.7	6.3
FY15	-1.3	-0.5	-137.7	61.1	83.2	65.9	2012	3.5	1.2	5.3
FY16	-15.5	-15.0	-117.7	65.5	46.0	52.7	2013	3.3	1.2	5.0
FY17	5.0	0.0	-105.6	67.1	47.9	70.4	2014	3.4	1.9	4.6
3QFY17	6.0	6.1	-33.5	67.4	49.1	87.7	2015	3.4	2.1	4.3
4QFY17	16.8	25.6	-29.2	67.0	52.9	79.8	2016	3.2	1.7	4.3
1QFY18	10.6	32.8	-40.1	64.5	49.4	75.3	2017*	3.6	2.2	4.6
2QFY18	13.4	19.1	-32.1	64.3	50.2	85.9	2018*	3.7	2.0	4.9
Jul-17	3.9	15.4	-11.4	64.5	47.7	82.7	2019*	3.7	1.8	5.0
Aug-17	10.7	21.5	-11.6	64.0	49.9	86.5	2020*	3.7	1.7	5.0
Sep-17	25.1	20.4	-9.0	64.4	53.0	88.4	2021*	3.8	1.7	5.1
Oct-17	-1.1	7.6	-14.0	65.1	54.9	88.8	2022*	3.8	1.7	5.0

Source: Database on Indian Economy- RBI, Pink Sheet-World Bank and IMF World Economic Outlook October 2017; *forecasted data

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

Fiscal year/quarter	Output: Major sectors									IPD inflation
Fiscal year/quarter	GVA	Agr.	Ming.	Mfg.	Elec.	Cons.	Trans.	Fin.	Publ.	GVA
FY14	6.2	5.6	3.1	5.1	4.0	3.0	6.8	11.0	3.8	6.0
FY15	7.0	-0.2	9.8	7.7	7.3	4.1	8.9	11.3	8.1	3.5
FY16	7.9	0.7	10.5	10.8	5.0	5.0	10.5	10.8	6.9	0.5
FY17 (PE)	6.6	4.9	1.8	7.9	7.2	1.7	7.8	5.7	11.3	2.9
1QFY16	7.6	2.4	8.3	8.2	2.8	6.2	10.3	10.1	6.2	1.0
2QFY16	8.2	2.3	12.2	9.3	5.7	1.6	8.3	13.0	7.2	-1.4
3QFY16	7.3	-2.1	11.7	13.2	4.0	6.0	10.1	10.5	7.5	0.9
4QFY16	8.7	1.5	10.5	12.7	7.6	6.0	12.8	9.0	6.7	1.6
1QFY17	7.6	2.5	-0.9	10.7	10.3	3.1	8.9	9.4	8.6	1.1
2QFY17	6.8	4.1	-1.3	7.7	5.1	4.3	7.7	7.0	9.5	2.4
3QFY17	6.7	6.9	1.9	8.2	7.4	3.4	8.3	3.3	10.3	2.6
4QFY17	5.6	5.2	6.4	5.3	6.1	-3.7	6.5	2.2	17.0	5.4
1QFY18	5.6	2.3	-0.7	1.2	7.0	2.0	11.1	6.4	9.5	2.2

	Expenditure components						IPD inflation
Fiscal year/quarter	GDP	PCE	GCE	GFCF	EX	IM	GDP
FY14	6.5	7.4	0.6	1.8	7.8	-8.1	6.0
FY15	7.3	6.2	9.6	3.2	1.8	0.9	3.2
FY16	8.0	6.1	3.3	6.5	-5.3	-5.9	1.8
FY17 (PE)	7.1	8.7	20.8	2.4	4.5	2.3	3.6
1QFY16	7.6	2.0	0.1	4.7	-6.1	-5.8	2.9
2QFY16	8.4	3.9	4.1	5.0	-4.4	-3.7	1.0
3QFY16	7.4	5.9	5.1	7.0	-8.7	-10.0	1.2
4QFY16	9.0	11.8	2.4	3.9	-1.6	-3.7	1.6
1QFY17	7.9	8.4	16.6	7.4	2.0	-0.5	2.3
2QFY17	7.5	7.9	16.5	3.0	1.5	-3.8	2.8
3QFY17	7.0	11.1	21.0	1.7	4.0	2.1	3.2
4QFY17	6.1	7.3	31.9	-2.1	10.3	11.9	6.0
1QFY18	5.7	6.7	17.2	1.6	1.2	13.4	3.3

Source: National Accounts Statistics, MOSPI

List of abbreviations

Sr. no.	Abbreviations	Description
1	AD	Aggregate demand
2	ADB	Asian Development Bank
3	bbl.	Barrel
4	CAB	Current account balance
5	CGA	Comptroller General of Accounts
6	CGST	Central Goods and Services Tax
7	CPI	Consumer Price Index
8	CSO	Central Statistical Organization
9	Disc.	Discrepancies
10	EMDEs	Emerging market and developing economies
11	EXP	Exports
12	FII	Foreign investment inflows
13	FPI	Foreign portfolio investment
14	FY	Fiscal year (April–March)
15	GDP	Gross domestic product
16	GFCE	Government final consumption expenditure
17	GFCF	Gross fixed capital formation
18	GoI	Government of India
19	GST	Goods and Services Tax
20	GVA	Gross value added
21	IAD	Index of Aggregate Demand
22	IEA	International Energy Agency
23	IGST	Integrated Goods and Services Tax
24	IIP	Index of Industrial Production
25	IMF	International Monetary Fund
26	IMP	Imports
27	IPD	Implicit price deflator
28	LAF	Liquidity adjustment facility
29	MCLR	Marginal cost of funds based lending rate
30	m-o-m	Month-on-month
31	mt	Metric tonne
32	MPC	Monetary Policy Committee
33	NDU	Non-departmental undertaking
34	NEXP	Net exports (exports minus imports of goods and services)
35	PFCE	Private final consumption expenditure
36	PMI	Purchasing Managers' Index (reference value = 50)
37	PSU	Public sector undertaking
38	RE	Revised estimate
39	UTGST	Union territory goods and services tax
40	WEO	World Economic Outlook
41	WPI	Wholesale Price Index
42	y-o-y	Year on year

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