October 2017

Economy Watch

Monitoring India's macro-fiscal performance

EY

Building a better working world

Contents

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Highlights

1. **The IMF (World Economic Outlook, October 2017) has lowered its FY17 GDP growth forecast for India to 6.7% in 2017.** The World Bank and the ADB have also revised down their estimates of India's growth in FY17.

2. **Repo rate was left unchanged at 6% in the October 2017 monetary policy review** of the RBI.

3. Largely attributable to post-GST re-stocking, **both overall and core sector IIP rose to 4.3% and 4.9% respectively in August 2017.**

4. In September 2017, **manufacturing PMI remained unchanged at 51.2 while services PMI just edged above the threshold of 50.**

5. CPI inflation remained stable at 3.3% in September 2017 with moderation in food price inflation. However, **core CPI inflation was higher at 4.6% during the month compared to 4.4% in August 2017.**

6. **Core WPI inflation remained high at 2.9% in September** as compared to 2.6% in August 2017.

7. As per CGA data, **gross central tax revenues grew by 20% during April–August FY18**, while non-tax revenues contracted by (-) 34.1% during this period.

8. **The Center's fiscal deficit during April–August FY18 stood at 96.1% of the annual budgeted target**, while the revenue deficit during this period was at 133.9% of the corresponding annual budgeted target.

9. **Growth in non-food credit remained low at 5.5% in August 2017** but was marginally higher than 5.3% in July 2017.

10. **Net FDI inflows hit an all-time high of US$8.6 billion in August 2017** as it increased from US$4.0 billion (revised) in July 2017.

11. **Merchandise export growth increased to 25.1% in September 2017** while import growth declined marginally during the month.

12. **As per the IMF, global growth,** which was the weakest in 2016 at 3.2%, **is projected to rise to 3.6% in 2017 and 3.7% in 2018.**

Foreword: Economy's revival may be around the corner

The news of India's GDP growth dipping to a low of 5.7% in 1QFY18 in the background of a steady decline since 4QFY16 has been a cause of concern for economy observers both nationally and internationally. Policy options to reverse this persistent downward trend in GDP growth have dominated recent discourse on the prospects of the Indian economy.

Fortunately, there are signs that revival of the growth momentum may be just around the corner. The reason for this optimism lies in the trends in exports and imports in September 2017. Our analysis (See the "In Focus" section of this issue of Economy Watch) reveals that the primary reason for the erosion of growth in 1QFY18 as compared to 1QFY17 was the decline in the contribution of "net exports." In particular, there was a strong growth in imports and tepid export growth that led to the negative contribution of "net exports" to the overall growth. Imports grew sharply in 1QFY18 because of the appreciating rupee and a sudden surge in demand for imported gold. The latter was due possibly to the anticipated introduction of GST with a relatively higher rate on gold. These factors appear to have abated in their strength, and September merchandise trade data indicates a sharp rise in export growth and moderation in import growth.

From a longer-term perspective, two structural features need to be corrected to make the revival sustainable. First, there is a clear need to strengthen investment in "fixed capital formation." Measured in real terms, the overall investment, consisting of investment in fixed assets, valuables and inventories, as a percentage of GDP does not appear to have fallen. But the composition of this investment has tilted in favor of investment in valuable as opposed to that in fixed assets. This tendency needs to be corrected. Of course, this is a difficult task as long as there is a substantial unutilized capacity in the system. This calls for strengthening domestic demand in the system to take up the slack in utilization of capacity.

There is an intense ongoing debate on whether to rely on fiscal or monetary stimulus for reviving demand. The monetary authorities in their 4 October 2017 review of monetary policy did not reduce the repo rate, thereby postponing the decision for stimulus to a later date. Fiscal stimulus may be considered but not at the cost of sacrificing the identified fiscal deficit reduction path, which envisages 3.2% as the limit for fiscal deficit relative to GDP for FY18. However, while adhering to this ceiling, all other avenues of financing government expenditure – particularly government capital expenditure through, for example, disinvestment and non-tax revenues as well as relying on extra borrowing by the public sector enterprises that can activate their own expansion plans – need to be fully explored.

Fortunately, global growth, which was the lowest at 3.2% in 2016 since the global economic and financial crisis, is projected to be robust at 3.6% in 2017 and 3.7% in 2018, supporting demand for Indian exports. The IMF's latest projection of India's growth at 7.4% in 2018 shows that India would overtake China once again in 2018 and retain this position thereafter.

D.K. Srivastava
Chief Policy Advisor, EY India

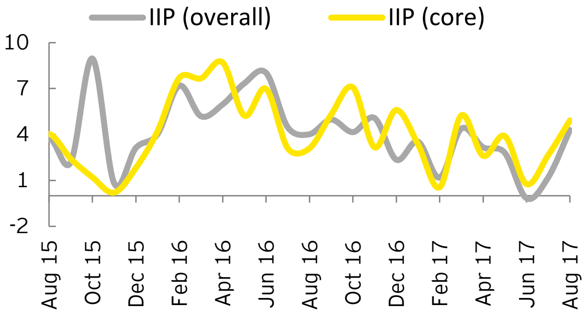
1 Growth: IIP recovered in August 2017

A. Industry growth: Overall and core sector IIP growth recovered in August 2017

Both overall and core sector IIP rose to 4.3% and 4.9% respectively in August 2017. This pickup may be largely attributable to post-GST re-stocking exercise to meet the festive demand.

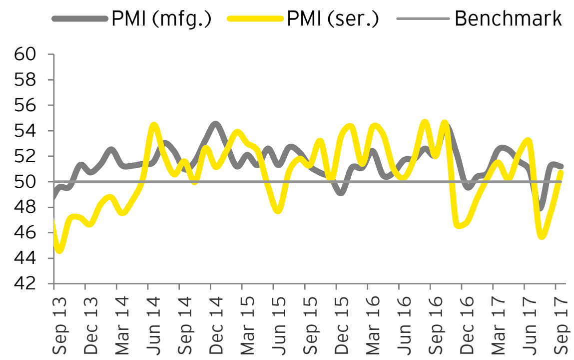
- IIP grew to a five-month high of 4.3% (y-o-y) in August 2017 as compared to 0.9% (revised) in July 2017 (Chart 1), led by a recovery in the growth of key sub-industries.
- Following two consecutive months of contraction, the manufacturing sector output (accounting for 77.6% of overall IIP) grew by 3.1% in August 2017. In addition, output of both mining and electricity grew by 9.4% (4.5% in July 2017) and 4.3% (0.9% in July 2017) respectively during the month.
- Output of the capital goods industry (a proxy for investment demand) turned positive for the first time in 12 months and grew by 5.4% in August 2017 as compared to a contraction of (-)1.3% in July 2017. Growth of consumer durables also increased to 1.6% in August 2017 from (-) 3.6% in July 2017. Growth in the infrastructure sector moderated to 2.5% in August 2017 as compared to 3.5% in July.
- Output of eight core infrastructure industries grew by 4.9% (y-o-y) in August as compared to 2.6% in July 2017. This improvement was due to a strong growth in the output of coal (15.3%) and electricity (10.3%) and a positive growth of 2.4% in the output of petroleum refineries in August 2017. Among other sub-industries, output of crude oil ((-) 1.6%) and cement ((-) 1.3%) continued to contract in August 2017.

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 contraction in services in 1QFY18

In September 2017, manufacturing PMI remained unchanged at 51.2 while services PMI just edged above the threshold of 50. In 2QFY18, both manufacturing and services PMI averaged to their lowest values in the recent past.

- Headline manufacturing PMI (sa) remained unchanged at 51.2 in September 2017 (Chart 2). New orders and output witnessed a modest increase during the month. Destocking continued as post-production inventories (indicated by the Stock of Finished Goods Index) in September 2017 decreased at the fastest pace historically. Manufacturing PMI for 2QFY18 stood at 50.1, the lowest in the last seven quarters.
- After contracting for two months, headline services PMI (sa) at 50.7 edged above the threshold of 50 in September 2017. New orders and output increased only slightly. On a quarterly basis, services PMI was at 48 in 2QFY18, the lowest since 3QFY14.
- Composite PMI Output Index (sa) increased to 51.1 in September 2017 from 49 in August. On a quarterly basis, it was at 48.7 in 2QFY18, the lowest since 3QFY14.

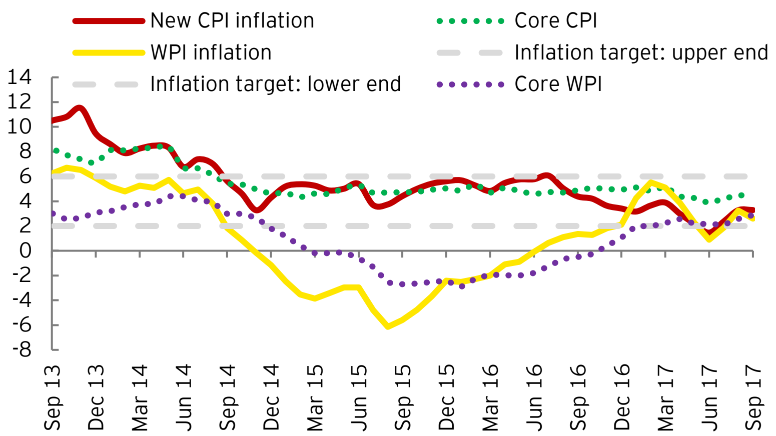
2 Inflation: CPI inflation remained steady as vegetable price inflation eased

CPI inflation remained stagnant at 3.3% in September 2017 due to easing food prices.

- CPI-based inflation (Chart 3) remained constant at 3.3% in September 2017 as growth in vegetable prices eased to 3.9% from 6.9% in August 2017. It had earlier contracted for 11 consecutive months.
- The Consumer Food Price Index based inflation eased to 1.2% in September from 1.5% in August 2017. It had turned positive in August after three successive months of contraction.
- Core CPI inflation (excluding food and fuel and light) increased to 4.6% in September 2017 from 4.4% in August 2017 due to an increase in inflation in housing. Housing inflation rose to a 38-month high of 6.1% from 5.6% in the previous month due to the revision in HRA by the Government.
- Fuel and light based inflation rose to a five-month high of 5.6% as compared to 5.0% in August 2017.
- On a quarterly basis, CPI inflation was higher at 2.9% in 2QFY18 as compared to 2.2% in 1QFY18, which was the lowest historically since the introduction of the new CPI series.

According to the RBI, CPI-based inflation is expected to range between 4.2% and 4.6% in 2HFY18. Implementation of farm loan waivers, increase in salary and allowances by states continue to impart upside risks to this inflation trajectory.

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



Source: MOSPI

WPI-based inflation eased to 2.6% in September 2017 from 3.2% in August due to fall in the prices of food articles particularly in the prices of vegetables. However, core WPI inflation increased to 2.9% in September 2017.

- Inflation in vegetables, although still in double digits, eased to 15.5% in September 2017 from a 45-month high of 44.9% in August 2017.
- WPI-based inflation in onions remained elevated at 79.8% in September 2017 but was marginally lower as compared to 88.5% in the previous month, and that in tomatoes stood at 88.1%, sharply lower as compared to 259.7% in the previous month.
- Fuel and power inflation marginally slowed to 9.0% in September from 10.0% in August 2017 as inflation in petrol and diesel was relatively lower at 15.8% (24.6% in August) and 15.7% (20.3% in August) respectively in September 2017.
- WPI core inflation edged up further to 2.9% in September as compared to 2.6% in August 2017.
- Inflation based on the newly constructed WPI Food Price Index, consisting of primary food articles and manufactured food products, fell to 2.0% in September 2017 from 4.4% in August 2017.

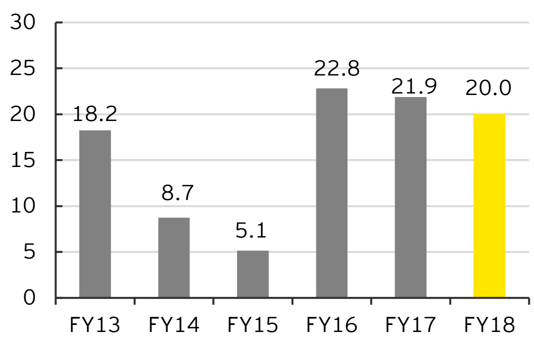
3 Fiscal performance: Fiscal deficit crossed 96% of annual budgeted target up to August FY18

A. Tax and non-tax revenues

As per CGA data, gross central tax revenues grew by 20% during April–August FY18, while non-tax revenues contracted by (-) 34.1% during this period.

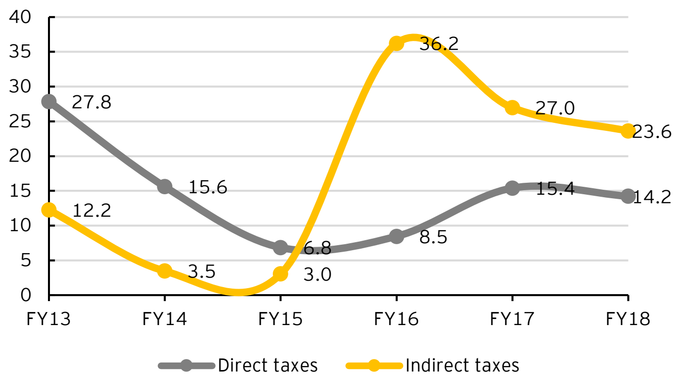
- Gross central taxes grew by 20% during April–August FY18, slightly lower than 21.9% in the corresponding period of the previous year (Chart 4).
- Gross central taxes up to August 2017 stood at 30.5% of the FY18 budgeted target. This was higher as compared to the three-year average of 27.3% achieved up to August 2017 as a percentage of the annual actuals.
- Growth in direct taxes (comprising personal income tax and corporation tax) up to August FY18 was marginally lower at 14.2% as compared to 15.4% in the same period of FY17 (Chart 5).
- After the introduction of GST, growth in indirect taxes (comprising union excise duties, service tax, customs duty, CGST, UTGST, IGST and GST compensation cess) was also lower at 23.6% during April–August FY18 as compared to the corresponding value of 27% in FY17.
- Tax collection on account of GST in July and August 2017 amounted to INR93, 954 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 payment of arrears etc.

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



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

Chart 5: Growth in cumulated tax revenues up to August 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 for July and August 2017

- During April–August FY18, non-tax revenues contracted by (-) 34.1% as compared to (-) 22.9 in the same period of FY17.
- The Center's non-tax revenues up to August 2017 stood at 24% of the FY18 budgeted target. This was much lower as compared to the three-year average of 45.3% achieved up to August 2017 as a percentage of the annual actuals.
- Total receipts from disinvestment up till 4 October 2017 amounted to INR19, 759.2 crore, which were 27.2% of the annual budgeted target.

B. Expenditures: Revenue and capital

- Total expenditure grew by 18.6% during April–August FY18 as compared to the corresponding value of 9.5% in FY17.
- Growth in revenue expenditure was at 18.4% up to August FY18 as compared to 10.9% in the same period of FY17 (Chart 6). Revenue expenditure up to August 2017 stood at 45.8% of the FY18 budgeted target as compared to the three-year average of 41.5% achieved up to August 2017 as a percentage of the annual actuals.
- Growth in the Center's capital expenditure remained high at 20.1% during April–August FY18 as compared to a contraction of (-) 0.7% in the corresponding period of FY17 (Chart 7). However, it slowed down as compared to the growth achieved up till July 2017. Capital expenditure up to August 2017 stood at 35.4% of the FY18 budgeted target as compared to the three-year average of 37.3% achieved up to August 2017 as a percentage of the annual actuals.

The Center's capital expenditure grew by 20.1% during April–August FY18 as compared to a contraction of (-) 0.7% in the corresponding period of FY17.

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

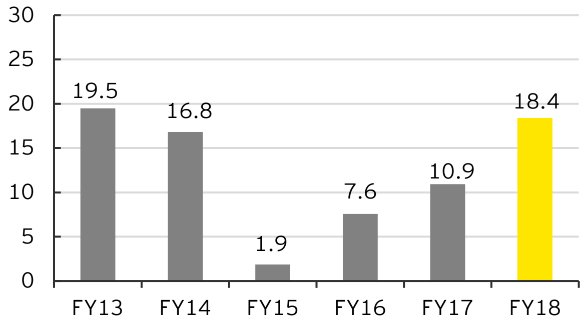
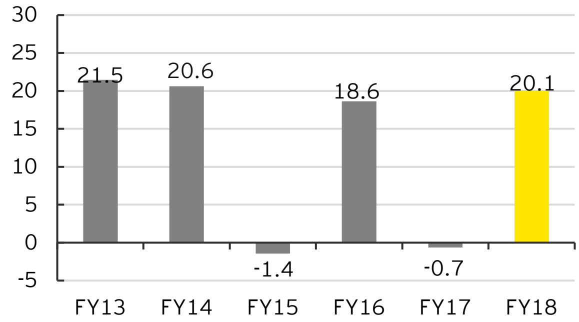


Chart 7: Growth in cumulated capital expenditure up to August 2017 (%, y-o-y)



C. Fiscal imbalance

Fiscal deficit during April–August FY18 stood at 96.1% of the annual budgeted target as compared to 76.4% in the corr

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

onths of a fiscal year since FY01.

- The Center's revenue deficit had crossed the 100% mark up to June 2017. Revenue deficit up to August 2017 was at 133.9% of the annual budgeted target as compared to 91.8% during the corresponding period of FY17 (Chart 9).

The Center's fiscal deficit during April–August FY18 stood at 96.1% of the annual budgeted target, while the revenue deficit during this period was at 133.9% of the corresponding annual budgeted target.

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

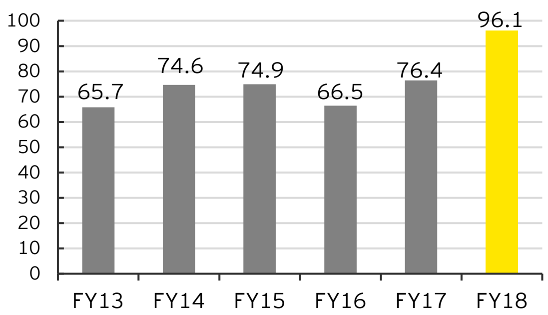
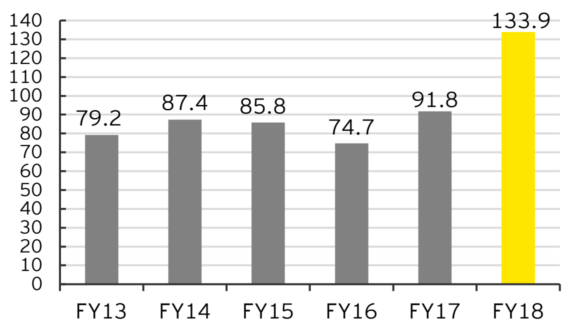


Chart 9: Revenue deficit up to August 2017 as a % of annual budgeted estimate for FY18



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

4 India: Comparative economic performance and prospects

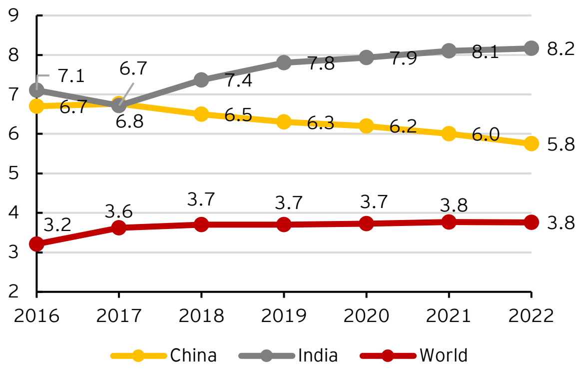
- There has been a downward revision in the 2017 (FY17) GDP growth forecast for India. Growth is now projected at 6.7% in 2017, slightly lower than that of China. However, India is expected to regain its position as the global growth leader among major economies from 2018 onward.
- In most advanced economies, real GDP growth is forecasted to slow down 2018 onward due to weak productivity growth and rising old-age dependency ratios.
- Brazil and Russia are projected to emerge out of recession in 2017, but growth is estimated to remain subdued thereafter.

Table 1: Real GDP growth (%, y-o-y)

Country	2016	2017	2018	2019	2020	2021	2022
China	6.7	6.8	6.5	6.3	6.2	6.0	5.8
India*	7.1	6.7	7.4	7.8	7.9	8.1	8.2
US	1.5	2.2	2.3	1.9	1.8	1.7	1.7
Euro area	1.8	2.1	1.9	1.7	1.6	1.5	1.5
Russia	-0.2	1.8	1.6	1.5	1.5	1.5	1.5
UK	1.8	1.7	1.5	1.6	1.7	1.7	1.7
Japan	1.0	1.5	0.7	0.8	0.2	0.7	0.6
Brazil	-3.6	0.7	1.5	2.0	2.0	2.0	2.0
South Africa	0.3	0.7	1.1	1.6	2.2	2.2	2.2
Advanced economies	*1.7*	*2.2*	*2.0*	*1.8*	*1.7*	*1.7*	*1.7*
EMDEs	*4.3*	*4.6*	*4.9*	*5.0*	*5.0*	*5.1*	*5.0*
World	*3.2*	*3.6*	*3.7*	*3.7*	*3.7*	*3.8*	*3.8*

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

Chart 10: Real GDP growth (%, y-o-y) – selected countries



- CPI inflation for advanced economies as a group is projected to pick up from 0.8% in 2016 to 1.7% in 2017, reflecting recovering demand and increase in commodity prices starting 2H16. It is expected to stabilize around 2% in the medium term.
- CPI inflation in all BRICS countries is expected to fall in 2017 as compared to 2016. CPI inflation in India projected at 3.8% in 2017, higher than that in Brazil (3.7%) and China (1.8%) but lower than that in South Africa (5.4%) and Russia (4.2%).

Table 2: Average CPI Inflation (% change)

Country	2016	2017	2018	2019	2020	2021	2022
South Africa	6.3	5.4	5.3	5.5	5.5	5.5	5.5
Russia	7.0	4.2	3.9	4.0	4.0	4.0	4.0
India*	4.5	3.8	4.9	4.8	4.9	5.0	5.0
Brazil	8.7	3.7	4.0	4.1	4.1	4.0	4.0
UK	0.7	2.6	2.6	2.2	2.1	2.0	2.0
US	1.3	2.1	2.1	2.6	2.4	2.2	2.3
China	2.0	1.8	2.4	2.5	2.6	2.6	2.6
Euro area	0.2	1.5	1.4	1.7	1.8	1.9	2.0
Japan	-0.1	0.4	0.5	1.1	1.6	1.3	1.6
Advanced economies	*0.8*	*1.7*	*1.7*	*2.1*	*2.1*	*2.0*	*2.1*
EMDEs	*4.3*	*4.2*	*4.4*	*4.1*	*4.1*	*4.0*	*3.9*
World	*2.8*	*3.1*	*3.3*	*3.3*	*3.3*	*3.2*	*3.2*

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

Chart 11: Average CPI Inflation (% change) – selected countries

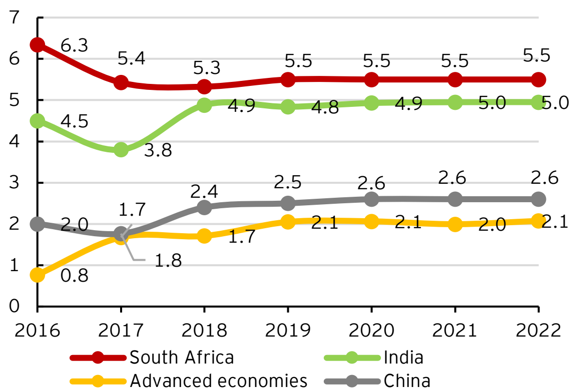
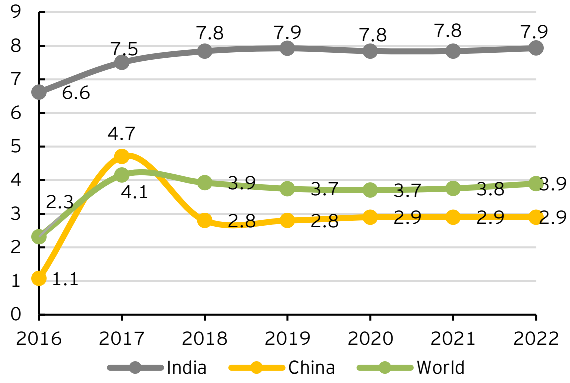


Table 3: Volume of export of goods and services (%, y-o-y)

Country	2016	2017	2018	2019	2020	2021	2022
India*	6.6	7.5	7.8	7.9	7.8	7.8	7.9
Japan	1.2	5.5	2.4	2.1	2.9	1.8	1.6
Brazil	3.7	4.8	3.9	4.1	4.0	3.7	3.5
China	1.1	4.7	2.8	2.8	2.9	2.9	2.9
Russia	0.1	4.6	3.6	3.6	3.6	3.7	3.9
Euro area	3.2	4.4	4.1	3.9	3.9	3.8	3.7
US	-0.3	3.7	3.2	3.6	2.8	3.4	4.2
UK	1.8	2.8	1.8	1.0	0.5	1.1	1.2
South Africa	-0.1	1.9	2.3	3.1	3.2	3.4	3.4
Advanced economies	*2.2*	*3.8*	*3.6*	*3.5*	*3.3*	*3.4*	*3.5*
EMDEs	*2.5*	*4.8*	*4.5*	*4.3*	*4.3*	*4.4*	*4.5*
World	*2.3*	*4.1*	*3.9*	*3.7*	*3.7*	*3.8*	*3.9*

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

Chart 12: Volume of export of goods and services (%, (y-o-y) – selected countries



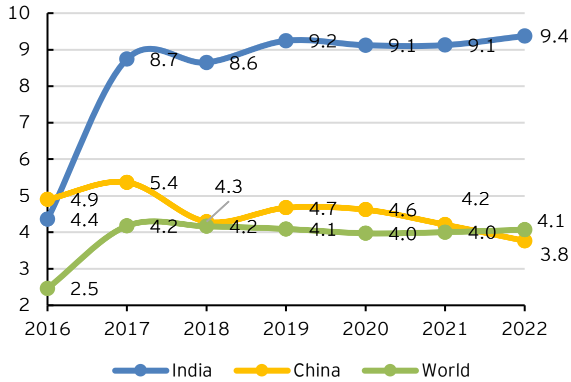
- Global export growth grew by 2.3% in 2016, the lowest since 2009. It is expected to recover to 4.1% in 2017, indicating recovering demand.
- The improvement in global export growth is expected to be led by EMDEs, with their export growth increasing to 4.8% in 2017 as compared to 2.5% in 2016.
- Export growth in India at 6.6% in 2016 was higher than that in major advanced and emerging economies. This trend is projected to continue in 2017 and beyond. However, export growth is still lower than the double-digit growth observed during 2002–07 and more recently in 2010 and 2011.

Table 4: Volume of import of goods and services (%, y-o-y)

Country	2016	2017	2018	2019	2020	2021	2022
India*	4.4	8.7	8.6	9.2	9.1	9.1	9.4
China	4.9	5.4	4.3	4.7	4.6	4.2	3.8
Russia	-4.2	4.6	4.1	1.5	1.7	3.8	5.2
Euro area	4.6	4.4	4.2	4.1	4.1	4.0	4.0
US	1.3	4.2	4.0	3.8	3.0	3.0	3.4
Japan	-2.3	3.6	3.0	3.1	1.9	1.7	1.4
Brazil	-8.2	3.6	4.0	3.2	3.3	3.3	3.4
UK	2.8	2.8	0.7	0.4	0.2	0.8	1.0
South Africa	-3.7	0.8	2.6	3.2	3.1	3.1	3.1
Advanced economies	*2.7*	*4.0*	*3.8*	*3.6*	*3.4*	*3.4*	*3.5*
EMDEs	*2.0*	*4.4*	*4.9*	*4.9*	*5.0*	*5.0*	*5.0*
World	*2.5*	*4.2*	*4.2*	*4.1*	*4.0*	*4.0*	*4.1*

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

Chart 13: Volume of import of goods and services (%, (y-o-y) – selected countries



- Global import growth (in volume terms) is also expected to recover from a low of 2.5% in 2016 to 4.2% in 2017.
- In 2016, China witnessed the highest growth in imports as compared to major advanced and emerging economies. However, in 2017, India's import growth at 8.7% is projected to be the highest among the selected countries. This can partly be attributed to the appreciation of the rupee beginning February 2017.

5 In focus: Uplifting growth – unraveling India's current economic policy dilemma

India's growth in terms of both GDP and GVA has steadily fallen since 4QFY16. In 1QFY18, GDP growth stood at only 5.7%, 3.3% points below that in 4QFY16. There is a lively current debate as to what policy option(s) may be best for uplifting growth. Some suggest a fiscal stimulus, some recommend a monetary stimulus, while others advocate supply-side policies. Many had hoped that in its 4 October 2017 monetary policy review, the RBI would reduce the repo rate tangibly. But these hopes have been belied. In this write-up, we attempt to look at the available policy options in the light of the factors that constrain policy effectiveness. A desired direction of uplifting growth is to ensure that it is non-inflationary and employment promoting.

Drivers of growth: Causes of growth erosion

From the demand side, there are four aggregate drivers of growth: GFCE, PFCE, GCF and net exports. Looking at growth data, we can study their relative role in driving growth. Also, comparing peak growth in a previous quarter with current growth, we see which segment has been responsible for the erosion of growth. The relative contribution of each segment of demand to the overall growth depends on two factors: (i) relative share of the segment in GDP and (ii) segment-wise growth[1].

Table 5: Components of demand: Relative share and contribution to growth

Quarter	GFCE	PFCE	GCF	EX	IM	NE*	SD	Total
Share in GDP (%)								
4QFY16	7.5	56.6	34.9	20.2	20.2	0.0	1.0	**100.0**
1QFY17	11.3	53.6	34.7	20.2	21.1	-0.9	1.3	**100.0**
2QFY17	12.8	53.8	33.0	20.4	21.2	-0.8	1.2	**100.0**
3QFY17	10.6	58.6	32.9	19.9	20.6	-0.8	-1.3	**100.0**
4QFY17	9.4	57.3	32.1	21.0	21.3	-0.3	1.6	**100.0**
1QFY18	12.6	54.0	35.6	19.4	22.6	-3.3	1.1	**100.0**
1QFY18–4QFY16	**5.0**	**-2.6**	**0.7**	**-0.9**	**2.4**	**-3.2**	**0.1**	0.0
1QFY18–1QFY17	**1.2**	**0.5**	**0.9**	**-0.9**	**1.5**	**-2.4**	**-0.2**	0.0
Contribution to GDP growth (% points)								
4QFY16	0.2	6.5	1.8	-0.4	0.8	0.5	0.0	**9.0**
1QFY17	1.7	4.5	2.3	0.4	0.1	0.5	-1.2	**7.9**
2QFY17	1.9	4.3	0.7	0.3	0.9	1.2	-0.6	**7.5**
3QFY17	2.0	6.3	0.4	0.8	-0.5	0.4	-2.0	**7.0**
4QFY17	2.4	4.2	-0.8	2.1	-2.4	-0.3	0.7	**6.1**
1QFY18	1.9	3.6	2.9	0.2	-2.8	-2.6	-0.2	**5.7**
1QFY18–4QFY16	**1.8**	**-3.0**	**1.1**	**0.6**	**-3.6**	**-3.1**	**-0.2**	**-3.3**
1QFY18–1QFY17	**0.2**	**-0.9**	**0.6**	**-0.2**	**-2.9**	**-3.1**	**1.0**	**-2.2**

Source (Basic Data): MOSPI
Notes: EX: Exports, IM: Imports,
*NE: Net exports = Exports–Imports, SD: Statistical discrepancy, GCF: Gross capital formation
Contribution of growth of imports is pre-multiplied by (-) 1 such that a positive value indicates a positive contribution to growth and a negative value indicates erosion of growth.

In order to determine the relative contribution of these four components to the growth erosion that the Indian economy suffered, we may compare component-wise contributions to growth in 4QFY16 with those in 1QFY18. However, it may be argued that there is seasonality in growth and therefore it would be appropriate to compare the same quarters across years. Thus, we compare 1QFY18 with 1QFY17 although we have also given a comparison of 4QFY16 with 1QFY18.

The fall in overall GDP growth during the period from 1QFY17 to 1QFY18 is 2.2% points as shown in Table 5. This can be explained by two factors: (a) change in the contribution of net exports (-3.1% points) and (b) change in the contribution of PFCE (-0.9% points). These adverse impacts were partially neutralized by a positive change in the contributions of GFCE (0.2% points) and GCF (0.6% points). Thus, the main reason for the fall in growth in 1QFY18 is the fall in the contribution of net exports to overall GDP growth. This can further be decomposed into the contributions of exports and imports separately as shown in Table 5. Of these, it is the rise in imports that caused the larger negative impact than the fall in exports.

[1] Relative contribution to GDP growth in period t (% points) = Relative share of the sector in GDP in period *t-1* (%) * Sectoral growth in period *t* (%)

From a longer term and structural perspective, the steady fall in the share of PFCE in GDP quarter after quarter is a cause of concern. It was 56.6% in 4QFY16 and it fell to 54% in 1QFY18 when measured at constant 2011–12 prices. In nominal terms also, there was a fall in its share from 59.1% in 4QFY16 to 57.3% in 1QFY18. In terms of overall investment measured by GCF, its share in real terms marginally increased from 34.9% in 4QFY16 to 35.6% in 1QFY18. In nominal terms, its share increased from 32.1% to 32.5% during this period. The cause of concern in case of GCF is not in the overall investment but with respect to its decomposition in terms of investment in fixed capital formation, valuables and inventories. It is the investment in fixed capital formation that has fallen. During 1QFY17 to 1QFY18, the share of GFCF fell by 1.2% points of GDP while that of investment in valuables increased by 2.2% points. In real terms, the share of GCF in GDP did not fall over this period. It is the composition of investment that is tilted in favor of valuables, particularly during 4QFY17 and 1QFY18, at the cost of investment in fixed assets, which clearly is a matter of concern as it does not add to the country's productive capacity (Table 6). There was a surge in imports of gold in this period. Many people consider this surge as due first to demonetization and later to the anticipation of GST, which has a relatively higher rate of tax on gold.

Table 6: Components of investment – share in GDP and relative contribution at 2011–12 prices

Quarters	GFCF	CIS	Valuables	GCF
Share in GDP (%)				
4QFY16	30.8	2.4	1.6	34.9
1QFY17	31.0	2.5	1.2	34.7
2QFY17	29.4	2.4	1.2	33.0
3QFY17	29.5	2.3	1.2	32.9
4QFY17	28.5	2.4	1.3	32.1
1QFY18	29.8	2.4	3.4	35.6
1QFY18–4QFY16	-1.0	-0.1	1.8	0.7
1QFY18–1QFY17	-1.2	-0.1	2.2	0.9
Contribution to GDP growth (% points)				
4QFY16	1.3	0.8	-0.2	1.8
1QFY17	2.3	0.2	-0.2	2.3
2QFY17	0.9	0.1	-0.4	0.7
3QFY17	0.5	0.1	-0.3	0.4
4QFY17	-0.6	0.1	-0.2	-0.8
1QFY18	0.5	0.0	2.4	2.9
1QFY18–4QFY16	-0.8	-0.7	2.6	1.1
1QFY18–1QFY17	-1.8	-0.2	2.6	0.6

Source (Basic Data): MOSPI

A similar analysis from the supply side indicates that it is the fall in the contribution of manufacturing by (-) 1.7% points and that of financial services by (-) 0.2% points that was responsible for a decline of 2% points in real GVA growth from 1QFY17 to 1QFY18. These two sectors alone accounted for nearly all the decline in GVA growth. These sectors also had the largest share in GVA along with sectors such as transport and storage. Thus, policy focus from the output side should concentrate on these two sectors.

In view of these features of India's growth profile, we have identified the immediate problem as that of increase in imports relative to exports and the long-term problem as that of falling PFCE and falling investment in fixed assets. The fall in PFCE is not by itself a problem if this fall is made up by a corresponding increase in investment particularly in fixed capital formation.

Policy options: The Policy Wheel

The available policy instruments can be divided into two broad categories: those that affect the demand side of the economy and those that affect the supply side. This dichotomy is not watertight. There are also some policy instruments that are primarily demand side policies but with some supply side implications and others that are mainly supply side policies but with demand side effects. Demand side policies affect components of aggregate demand such as consumption, investment and net exports. Supply side policies aim at increasing the productivity of factors of production. Many supply side policies can be non-economic also such as those related to the regulatory and legal environment. In economic policy literature, it is well known that demand side policies have short-term effects on the economy and those effects wear off in a few years. Supply side policies, on the other hand, take more time to show their effects but their positive effects last much longer.

Current policy focus: Supply side thrust

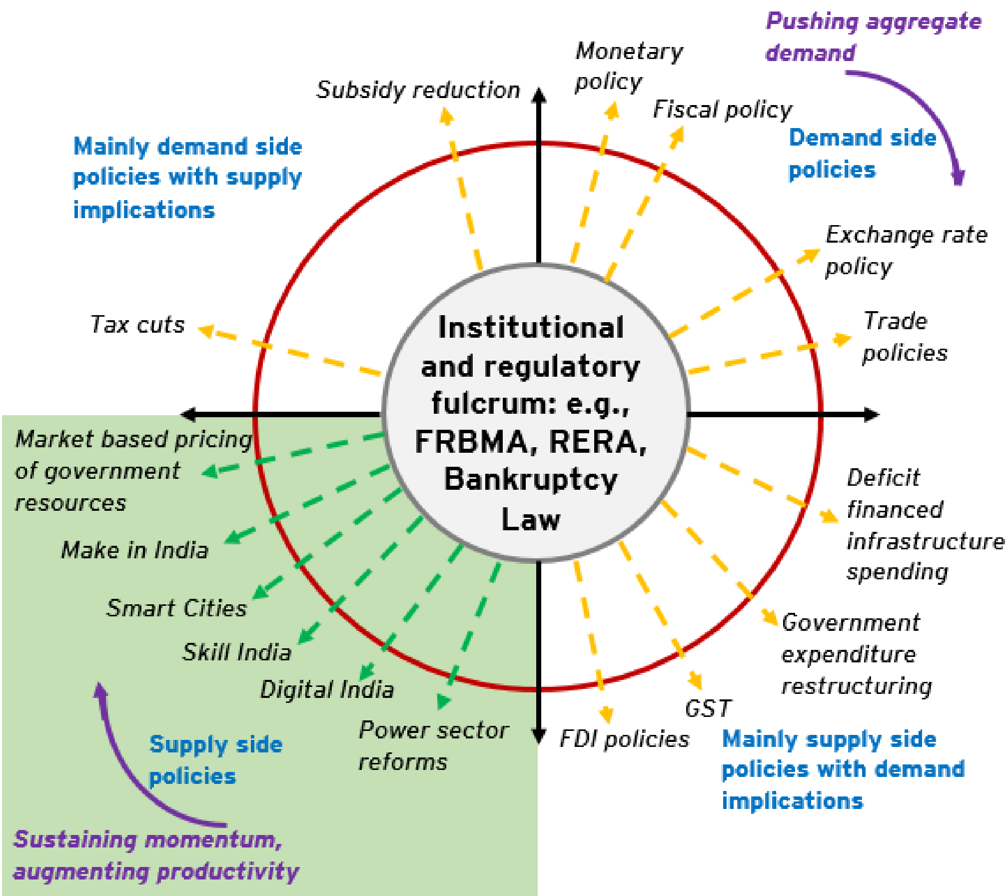
Policies that increase the productivity of resources in the economy are referred to as supply side policies. GST, for example, is very largely a supply side policy reform as it aims to improve the productive efficiency of the economy by better resource allocation, removal of inter-jurisdiction fiscal barriers and bringing in supply chain efficiencies. Improved regulatory policies including the new bankruptcy law, the FRBMA in its current or potentially modified form and RERA are examples of the institutional and regulatory fulcrum of the Policy Wheel (Chart 14).

The focus of the present Government has very largely been on supply side policies. But these may not be enough to push the economy out of the slowdown. As shown in the Policy Wheel, most of the policy initiatives are located in the south-west quadrant (shaded).

Some policies can have both supply and demand side implications. Thus, the Government's capital expenditure on infrastructure adds to demand but infrastructure improves productivity of other resources. Demand and supply side policies are not mutually exclusive. They can be pursued together. Demand side policies get the wheels of the economy moving by giving it a quick push. Supply side policies sustain the momentum of the wheels and help produce long-term beneficial results.

India's GST, because of its detailed rate differentiation and heavy IT compliance load, could not immediately take off as a tool for bringing supply side efficiency in the economy. Its main advantage is still a fiscal barrier-free, all-India common market. Now that the GST is firmly in place, there is a need to reform it quickly to maximize its efficiency-improving effect. The main reforms are needed in four directions: (a) reducing the rate differentiation leading to a GST rate structure with at best three core rates, (b) reducing the compliance burden by reducing the number of forms to be filled in and the number of returns to be filed, (c) making exports genuinely zero-rated and avoiding all possibility of blocking due input tax credit for long periods and (d) including sectors currently excluded from GST (e.g., petroleum, real estate and electricity). Some reforms in these directions have been initiated recently. But we still have to cover considerable distance to make GST a true instrument of bringing efficiency in the economy.

Chart 14: The Policy Wheel



Source: EY analysis

Role of demand-side polices

Fiscal and monetary stimuli are both examples of demand-side policies. In theory, demand stimulus should work effectively in the presence of unemployed resources. However, the effectiveness of any stimulus is constrained because of the existence of unutilized capacity. To be effective, the stimulus would need to be very large so as to substantially reduce the unutilized capacity in the system.

Exchange rate management can also be considered as a demand side tool as it affects imports and exports. The RBI's policy in managing the exchange rate is to minimize volatility but not interfere with the underlying trend. However, there is no ex-ante determination by the RBI as to what this underlying trend would be. In determining such a trend, the rate of inflation in India relative to that in India's major trading partners is an important consideration. As India's inflation rate has come down, it was expected that the rate of depreciation of the Indian rupee would also come down on a trend basis. However, since India's inflation rate is still higher than that in the US and in other developed economies (IMF WEO October 2017), the underlying trend movement should still lead to depreciation of the Indian rupee but the rate of depreciation should be much lower now than earlier. Any departure from this expected underlying trend can only be explained by the role played by transitory factors, which lead to large capital movements, including expectations. It is these factors that led to the appreciation of the Indian rupee against the US dollar since February 2017. In August 2017, the average exchange rate was US$1=INR64.0 as compared to US$1=INR 68.1 in January 2017. This was one of the reasons for the surge in import growth during this period.

Policy intervention: A suggested approach

We suggest a four-pronged policy intervention broadly in the following sequence.

1. **Exchange rate management**: Although the RBI did attempt to curb the trend of appreciation of the Indian rupee, its intervention could have been even stronger. The buying of US dollar so as to constrain the appreciation of the rupee leads to accumulation of foreign exchange reserves. This is a problem since foreign exchange reserves are part of the monetary base and if these are allowed to expand, money supply would increase, leading to pressure on prices. The only way that this can be neutralized is to sterilize or manage a part of the foreign exchange reserves through special sovereign funds, just as China has been doing. Any continued tendency of the Indian rupee to appreciate should be effectively countered by the RBI.

   We consider that a feasible intervention to uplift the contribution of net exports to GDP may yield immediate results. As such, ***as the first step***, policy should aim at reducing demand for non-oil imports by managing exchange rate such that it shows a gentle rate of depreciation (around 2%–3% per annum). This may require accumulation of additional foreign exchange reserves that should be managed so as not to have an adverse impact on domestic inflation. Depreciation of the Indian rupee (or at least a curb on its appreciation) should also encourage exports.

2. **Accelerated GST reforms**: The ***second intervention*** should focus on accelerated GST reforms so as to make it an effective efficiency-augmenting vehicle for the Indian economy. As exporters overcome the problem of input tax credit being blocked, exports should pick up and net exports should begin to contribute positively to growth. This would be further facilitated by the positive outlook of global growth.

3. **Fiscal stimulus within deficit limit**: Private investment would not improve as long as excess unutilized capacity exists. Until that time, it is government investment that has to provide the investment push. As a ***third step***, the Central Government may provide this push by also taking on board the state governments as well as public enterprises. Given the limits on borrowing under the FRBMA, the Government may create additional fiscal space through an effective disinvestment strategy and expenditure restructuring, particularly on reducing expenditure on salaries and establishment, particularly in ministries and department dealing with state subjects. The multiplier effects of this simultaneous push should help reduce excess capacity.

4. **Monetary stimulus**: ***Finally***, when capacity utilization improves, monetary stimulus should be introduced to push private investment. This would be effective when the extent of NPAs has also come down.

6 Money and finance: Repo rate left unchanged at 6% in October 2017 monetary policy review

A. Monetary sector

i. Monetary policy

- During the fourth bi-monthly monetary policy review held on 4 October 2017, the RBI maintained its policy repo rate at 6.0% as headline CPI inflation edged up sequentially in July and August 2017 (Chart 15).
- CPI inflation is expected to increase from its current level and range between 4.2% and 4.6% during the second half of FY18. In the RBI's assessment, factors that continued to impart upside risks to inflation included (a) fiscal slippage on account of the implementation of farm loan waivers by several states, (b) implementation of the pay and allowance award by the state governments, (c) pending price revisions for some products after the introduction of GST and (d) firming up of international crude prices.

Chart 15: Movements in repo rate

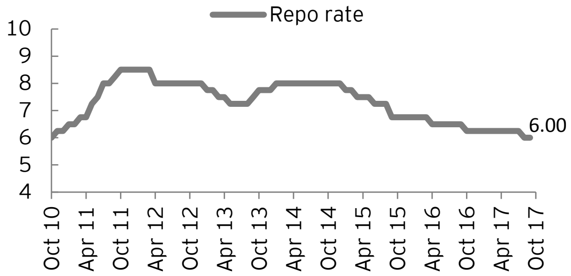
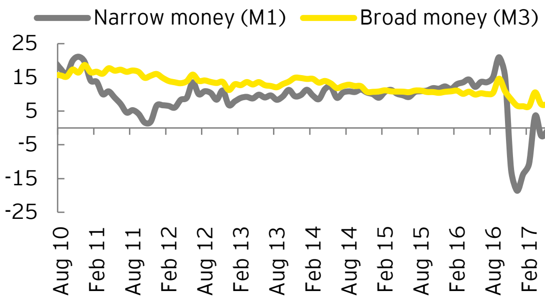


Chart 16: Growth in narrow and broad money



Source: Database on Indian Economy, RBI

Five of the six members of the Monetary Policy Committee (MPC) voted in favor of retaining the policy repo rate at 6.0% during the monetary policy review held on 4 October 2017. In the RBI's assessment, CPI inflation is expected to overshoot the target of 4% during the second half of FY18.

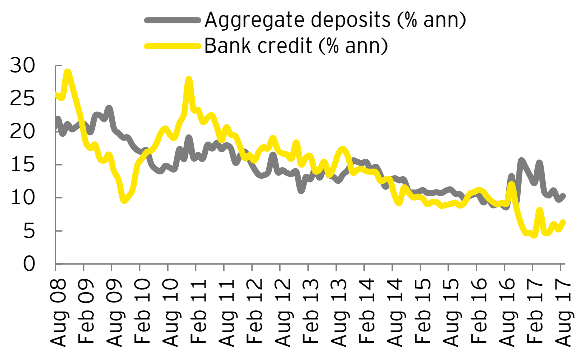
ii. Money stock

- Growth in broad money stock (M_3) remained flat at 6.6% in July as well as in August 2017, falling from 7.4% in June 2017 due to slower growth in demand deposits. Growth in time deposits (accounting for over 76% of the broad money stock) stood at 8.1% in August 2017, similar to the level seen in July 2017, while demand deposits grew marginally by 22.0% in August 2017 as compared to 22.4% in July 2017.
- Narrow money (M_1) continued to post a meager growth of 1.6% in August 2017 but was slightly higher than 1.1% in July 2017 (Chart 16). Currency in circulation (excluding non-demonetized currency) as a percentage of the total demonetized currency (indicating the extent of re-monetization) was 87.1% by 29 September 2017, slightly higher than 85.6% on 25 August 2017.

iii. Aggregate credit and deposits

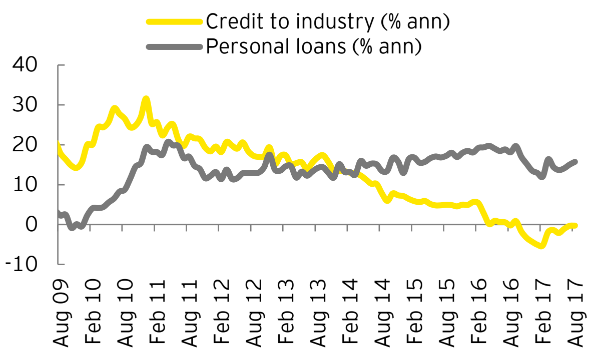
- Credit by scheduled commercial banks grew by 6.3% (y-o-y) in August 2017, improving from 5.2% in July 2017 (Chart 17). Continued tepid demand for credit, which has remained below 10% for 11 consecutive months, is indicative of weakening economic activity.
- Growth in non-food credit remained low at 5.5% in August 2017 but was marginally higher as compared to 5.3% in July 2017. Growth in personal loans, a key driver of retail sector credit, increased to 15.7% in August 2017 (15.0% in July), primarily driven by improving demand for housing loans.
- Credit growth to the services sector, after having fallen to a historic low of 4.1% in April 2017, gradually increased to 5.0% in August 2017. However, credit to industries contracted by (-) 0.3% in August 2017, registering a decline for 11 consecutive months (Chart 18).
- Growth in aggregate bank deposits increased to 10.3% (y-o-y) in August 2017 from 9.7% in July 2017. Since interest rates on savings deposits have been lowered, growth in deposits may slow down in the coming months.

Chart 17: Growth in credit and deposits



Source: Database on Indian Economy, RBI

Chart 18: Growth in industrial and personal loans



Source: Database on Indian Economy, RBI

B. Financial sector

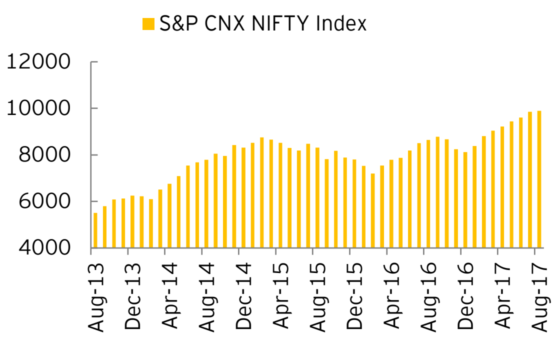
i. Interest rates

- Interest rate paid by banks on term deposits with more than one-year maturity was in the range of 6.25%–6.75% in September 2017, similar to the rates offered in August 2017.
- The marginal cost of fund-based lending rate (MCLR) was retained at 7.75% for the ninth straight month in September 2017. Since the RBI lowered the SLR to 19.5% in October 2017 from 20% earlier, it is important to see whether this would have any impact on MCLR and in turn on lending rates.
- The average yield on 10-year government securities marginally increased from 6.6% in August 2017 to 6.7% in September 2017, reaching its highest level since May 2017. Bond yields were influenced by lower GDP growth numbers in 1QFY18 and a sustained pick up in CPI inflation in August.

ii. FPI and stock market

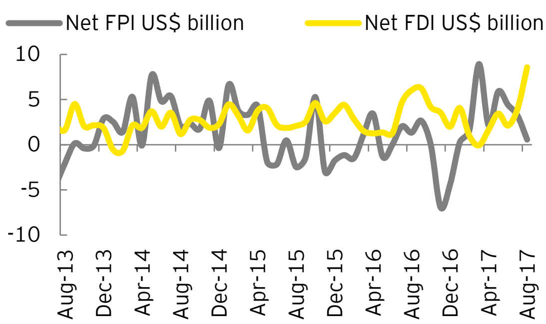
- The benchmark S&P NIFTY index improved further to reach 9,901 points (average) in August 2017 from 9,850 points in July 2017(Chart 19). But the increase in index value was merely 51 points higher as compared to an increase of 233 points in the previous month. Stock markets suffered their steepest monthly loss since November 2016 due to several factors including heightened geopolitical tensions, SEBI's order to ban trading in 331 shell companies and downgrading of India's growth forecast for FY18 by the mid-term Economic Survey.
- As per provisional data, overall FIIs increased further to US$9.2 billion in August 2017 from US$7.2 billion in July 2017 (revised), led by a sharp increase in FDI inflows during the month.

Chart 19: Stock market movement



Source: Database on Indian Economy, RBI

Chart 20: Net FDI and FPI



Source: Database on Indian Economy, RBI

- Net FDI inflows hit an all-time high of US$8.6 billion in August 2017 as they increased from US$4.0 billion (revised) in July 2017. Net FPI inflows, however, were at a seven-month low of US$0.6 billion in August 2017 as compared to US$3.2 billion in July 2017 (Chart 20).

7 Trade and current account balance (CAB): Export growth improved in September 2017

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 7 and Chart 22). 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 7: CAB

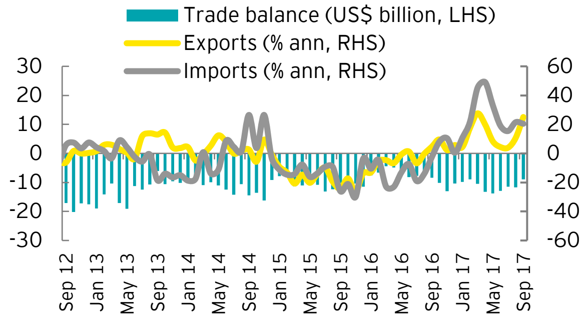
	CAB (- deficit/+surplus) (US$ billion)	CAB as a % of nominal GDP	Goods account net (US$ billion)	Services account net (US$ billion)	Income account net (US$ billion)	Transfers net (US$ billion)
FY14	-32.4	-1.7	-147.6	73.0	-23.0	65.3
FY15	-26.8	-1.3	-144.9	76.6	-24.1	65.7
FY16	-22.2	-1.0	-130.1	69.7	-24.4	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

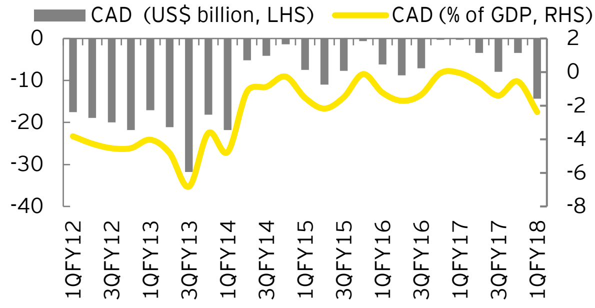
- Growth in merchandise exports more than doubled to a six-month high of 25.1% in September 2017 from 10.7% in August 2017 driven by exports of engineering goods, gems and jewelry and readymade garments (Chart 21).
- Growth in gems and jewelry exports turned positive at 7.1% after three successive months of contraction ending at (-) 25.8% in August 2017. Growth in exports of engineering goods doubled to 41.9% in September from 19.9% in August 2017. Oil exports continued to grow at a high rate of 41.0% as compared to 39.6% in the previous month.
- Growth (y-o-y) in overall imports remained high at 20.4% in September as compared to 21.5% in August 2017. Growth in imports of electronic goods (40.3%) and pearls and precious stones (51.1%) improved significantly. After seven months of high positive growth ending at 69.0% in August 2017, gold imports contracted by (-) 4.9% in September 2017.
- Due to a pickup in exports, India's merchandise trade deficit eased to a seven-month low US$9.0 billion from US$11.6 billion in August 2017.
- The Indian rupee depreciated to INR64.4 per US dollar in September 2017 from INR64.0 in August due to FII outflows resulting from geopolitical concerns, unwinding of stimulus by US Fed and subdued GDP growth in the Indian economy in 1QFY18.

Chart 21: Developments in merchandise trade



Source: Ministry of Commerce and Industry

Chart 22: CAD



Source: Database on Indian Economy, RBI

8 Global growth: Short-term strengthening; challenges in the medium-term

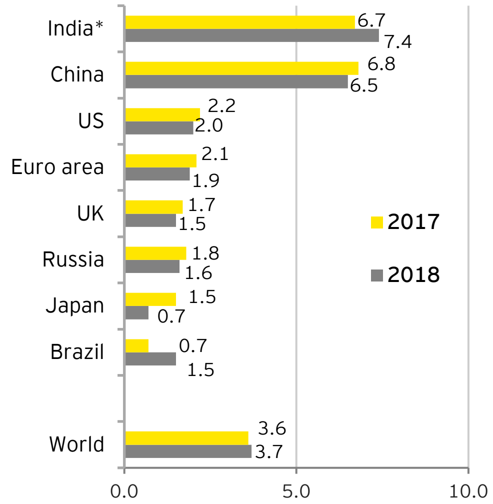
A. Global growth outlook

- The IMF (World Economic Outlook, October 2017) has estimated the global growth to strengthen from 3.2% in 2016 to 3.6% in 2017 and 3.7% in 2018 (Chart 23). Growth forecasts of both 2017 and 2018 are 0.1% points higher relative to July WEO estimates.
- In line with stronger-than-expected rise in growth in advanced countries in 1H17, their projected growth rate has been revised upward to 2.2% for 2017. The forecast for 2018 remains unchanged at 3.7%. This may be due to the lower projected growth in the US under revised assumptions, offsetting the higher projected growth in the Euro area.
- Growth is forecasted to increase strongly in EMDEs from 4.3% in 2016 to 4.6% in 2017 and 4.9% in 2018, primarily reflecting stronger projected activity in China and emerging Europe. However, among EMDEs, growth prospects remain heterogeneous.

As per the IMF, global growth, which was the weakest in 2016 at 3.2%, is projected to rise to 3.6% in 2017 and 3.7% in 2018. In its assessment, the recovery is not complete and policy efforts should be directed at boosting the potential output.

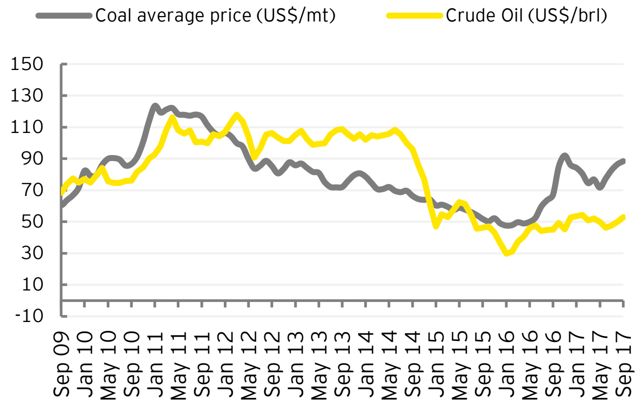
- GDP growth in the US has been revised down to 2.2% in 2017 and 2.3% in 2018, reflecting a correction in the US fiscal policy assumptions. Given the significant policy uncertainty, it has now been assumed that the fiscal policy would not provide the previously envisaged boost to demand.
- In the Euro area, growth is projected to rise to 2.1% in 2017 and 1.9% in 2018, largely reflecting an acceleration in exports and continued strength in the growth of domestic demand supported by accommodative financial conditions and reduced political risk.
- Growth in the UK was revised down to 1.7% in 2017 and 1.5% in 2018 due to weaker-than expected performance in 1H2017 as a result of slowing growth in private consumption. The depreciation of the pound has adversely impacted household real income, which has dented consumption.
- In Japan, growth is forecasted at 1.5% in 2017 as a result of strengthening global demand in general and supportive fiscal stance in particular. It is thereafter expected to slow down to 0.7% in 2018 based on the assumption that fiscal support would wane, leading to a slowdown in the growth of private consumption.
- China is projected to grow at the fastest pace of 6.8% in 2017, reflecting the faster-than-expected growth in 1H2017 driven by policy easing and supply side reforms. Growth is projected to remain high at 6.5% in 2018 on the expectation of continued policy support. However, this is also likely to further increase the debt levels.
- After achieving a positive growth in 1H2017, Brazil is expected to grow by 0.7% in 2017 and 1.5% in 2018. Weakness in investment and increase in political and policy uncertainty pose a challenge to its growth outlook.
- In Russia, economic activity is projected to expand by 1.8% in 2017 helped by stabilizing oil prices, easing financial conditions and improved confidence. However, growth is expected to remain low at 1.5% in 2018.
- In case of India, GDP growth has been revised down to 6.7% in FY17 due to the disruptions caused by demonetization in November 2016 and the transition costs related to the launch of GST in July 2017. But it is expected to strengthen to 7.4% in FY18.
- The World Bank (South Asia Economic Focus, Fall 2017) has also reduced India's FY17 GDP growth forecast to 7% from its earlier forecast of 7.2%. The ADB estimate (Asian Development Outlook Update, September 2017) also stands at 7% as against 7.4% earlier.

Chart 23: Global growth projections



Source: World Economic Outlook, IMF, October 2017
*Forecast pertains to fiscal year

Chart 24: Global crude and coal prices



Souce: World Bank, Pinksheet

B. Global energy prices

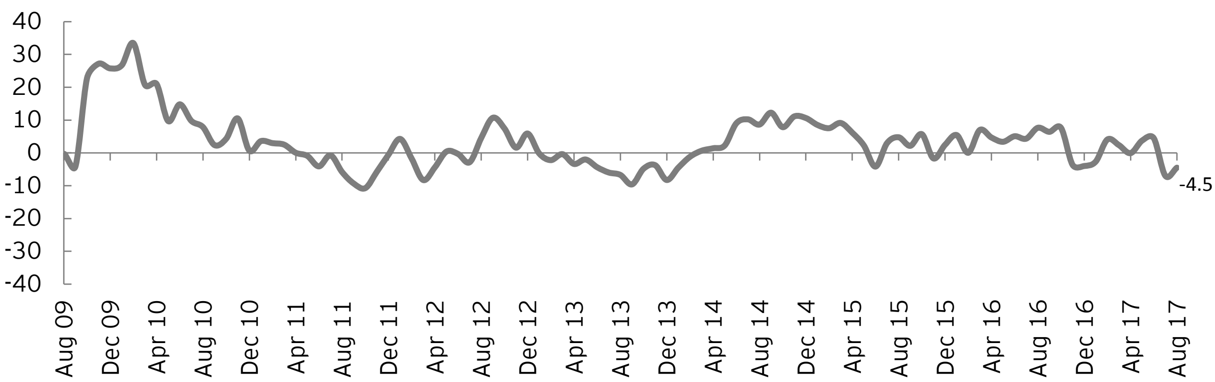
- Global crude prices increased to US$53/bbl. in September 2017 from US$49.9/bbl. in August 2017, the highest since February 2017 (Chart 24). As per IEA, global oil demand grew strongly by 2.4% y-o-y in 2Q17, the highest quarterly y-o-y increase since mid-2015. In August 2017, global oil supply declined particularly due to unplanned outages in non-OPEC countries. Further, among the OPEC countries, there was a sharp reduction in the crude oil output in Libya. On a quarterly basis, global crude prices were at US$ 50.2/bbl. in 2QFY18, marginally higher than US$49.4/bbl. in 1QFY18.
- Average global coal prices also increased to US$88.4/mt. in September 2017 from US$86.5/mt. in August 2017. On a quarterly basis, global coal prices were higher at US$85.9/mt. in 2QFY18 from US$75.3/mt. in 1QFY18. This increase may have been driven largely by China's reforms to reduce over-capacity, improve operating efficiency of state-owned enterprises and reduce pollution, leading to a sharp fall in global coal supply as well as demand since China has been one of the largest producers and consumers of coal.

9 Index of aggregate demand (IAD): Contracted for the second straight month in August 2017

Growth in IAD contracted for the second consecutive month in August 2017. This may be indicative of a weaker domestic demand in 2QFY18 relative to 1QFY18.

- An IAD has been developed to reflect 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).**
- The y-o-y growth in IAD declined for the second straight month to (-) 4.5% in August 2017. But the magnitude of contraction was relatively less as compared to (-) 7.0% in July 2017 (Chart 25). In spite of recovering demand conditions in the manufacturing sector, persistent weakness in the services sector acted as a drag on the growth of overall IAD.

Chart 25: Growth in IAD (y-o-y)



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

Table 8: IAD

Month	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17
IAD	112.2	116.3	121.0	124.2	120.8	123.0	122.9	110.7	117.3
Growth (% y-o-y)	-4.0	-2.6	4.1	2.4	-0.1	3.8	4.5	-7.0	-4.5

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	Manufactu ring	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
2QFY17	4.5	-1.5	5.5	3.1	3.8	3QFY17	52.1	49.3
3QFY17	3.8	6.7	3.1	6.1	5.3	4QFY17	51.2	50.2
4QFY17	3.1	7.9	2.2	4.3	3.1	1QFY18	51.7	51.8
1QFY18	1.9	1.2	1.7	5.3	2.7	2QFY18	50.1	48.0
May-17	2.9	0.3	2.6	8.3	3.9	Jun-17	50.9	53.1
Jun-17	-0.2	0.4	-0.5	2.1	0.8	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	4.3	9.4	3.1	8.3	4.9	Sep-17	51.2	50.7

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/quart er/month	CPI	Food Price Index	Fuel and lighting	WPI	Food Index	Mfg. products	Fuel and power
	% change y-o-y			% change y-o-y			
FY14	9.4	12.1	7.7	5.2	9.6	3.0	7.1
FY15	5.9	6.4	4.2	1.3	4.3	2.6	-6.1
FY16	4.9	4.9	5.3	-3.7	1.2	-1.8	-19.7
FY17	4.5	4.2	3.3	1.7	5.9	1.3	-0.3
3QFY17	3.7	2.2	3.2	1.7	4.8	1.9	1.7
4QFY17	3.6	1.5	4.2	5.0	4.7	3.3	21.3
1QFY18	2.2	-0.9	5.3	2.3	0.5	2.7	11.2
2QFY18	2.9	1.0	4.7	2.6	2.9	2.4	7.8
Jun-17	1.5	-2.1	4.5	0.9	-1.0	2.4	5.2
Jul-17	2.4	-0.4	4.9	1.9	2.2	2.1	4.4
Aug-17	3.3	1.5	5.0	3.2	4.4	2.5	10.0
Sep-17	3.3	1.2	5.6	2.6	2.0	2.7	9.0

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	
Dec-16	18.3	4.8	20.5	4.9	43.7	25.0	93.8 (RE)	113.9 (RE)
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

* 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				
July\-17	21.1	13.9	-	-	34	-	34
Aug-17	14.2	23.6	15, 253	-	70,918	7,749	93,920

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
Mar-17	6.25	2QFY17	21.0	14.6	10.4	10.7	7.0	17.0	6.1	372.0
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	6.9	5.0	10.8	370.0
Jun-17	6.25	1QFY18	1.7	7.4	5.5	11.2	7.0	8.0	12.4	386.5
Jul-17	6.25	May-17	-0.9	7.0	4.7	10.4	7.1	3.4	5.9	378.8
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

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		
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
Jun-17	4.4	19.0	-13.0	64.4	46.2	77.4	2019*	3.7	1.8	5.0
Jul-17	3.9	15.4	-11.4	64.5	47.7	82.7	2020*	3.7	1.7	5.0
Aug-17	10.7	21.5	-11.6	64.0	49.9	86.5	2021*	3.8	1.7	5.1
Sep-17	25.1	20.4	-9.0	64.4	53.0	88.4	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	FRMA	Fiscal Responsibility and Budget Management Act
15	FY	Fiscal year (April–March)
16	GDP	Gross domestic product
17	GFCE	Government final consumption expenditure
18	GFCF	Gross fixed capital formation
19	GoI	Government of India
20	GST	Goods and Services Tax
21	GVA	Gross value added
22	IAD	Index of Aggregate Demand
23	IEA	International Energy Agency
24	IGST	Integrated Goods and Services Tax
25	IIP	Index of Industrial Production
26	IMF	International Monetary Fund
27	IMP	Imports
28	IPD	Implicit price deflator
29	LAF	Liquidity adjustment facility
30	MCLR	Marginal cost of funds based lending rate
31	m-o-m	Month-on-month
32	mt	Metric tonne
33	MPC	Monetary Policy Committee
34	NDU	Non-departmental undertaking
35	NEXP	Net exports (exports minus imports of goods and services)
36	PFCE	Private final consumption expenditure
37	PMI	Purchasing Managers' Index (reference value = 50)
38	PSU	Public sector undertaking
39	RE	Revised estimate
40	RERA	Real Estate (Regulation and Development) Act
41	UTGST	Union territory goods and services tax
42	WEO	World Economic Outlook

43	WPI	Wholesale Price Index
44	y-o-y	Year on year

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