Economy Watch

Monitoring India's macro-fiscal performance

September 2019

EY

Building a better working world

Contents

Foreword 3
1. Growth: GDP growth fell to a 26-quarter low of 5% in 1QFY20 4
2. Inflation: CPI inflation remained subdued at 3.2% in August 2019 6
3. Fiscal performance: Center's fiscal deficit during April-July FY20 stood at 94.2% of the budgeted target 7
4. India in a comparative perspective: Status and prospects 9
5. In focus: Combating India's current economic slowdown: Part II 10
6. Money and finance: The RBI lowered the repo to 5.4% in August 2019 from 5.75% in June 2019 18
7. Trade and CAB: Merchandise exports contracted at (-) 6.0% in August 2019 20
8. Global growth: ADB projected developing Asia to grow by 5.7% in 2019 supported by domestic demand 21
9. Index of aggregate demand (IAD): showed a pick-up in demand in July 2019 22
10. Capturing macro-fiscal trends: Data appendix 23

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

D.K. Srivastava, Chief Policy Advisor, EY: dk.srivastava@in.ey.com
Muralikrishna Bhardwaj, Senior Manager, EY: muralikrishna.b@in.ey.com
Tarrung Kapur, Manager, EY: tarrung.kapur@in.ey.com
Ragini Trehan, Manager, EY: ragini.trehan@in.ey.com

Highlights

1. Real GDP growth decelerated to a 26-quarter low of 5% in 1QFY20 from 5.8% in 4QFY19, its fifth consecutive fall since 4QFY18.
2. In August 2019, both manufacturing and services PMI fell to 51.4 and 52.4 respectively from their July 2019 levels.
3. IIP growth recovered to 4.3% in July 2019 from 1.2% in June 2019 led by higher growth in manufacturing and mining sector output.
4. CPI inflation remained low at 3.2% in August 2019 as compared to 3.1% in July 2019.
5. Center's gross taxes during April-July FY20 grew by 6.6% as compared to 11.7% during the corresponding period of FY19.
6. Center's fiscal deficit during April-July FY20 stood at 94.2% of the annual budgeted target in spite of a contraction in capital expenditure during this period. The corresponding ratio for revenue deficit stood at 77.8%.
7. Bank credit grew by 12.2% in July 2019, marginally higher than 12.0% in June 2019 but remained below its 10-year average growth of 13.6%.
8. Merchandise exports contracted for the second time in three months by (-) 6.0% in August 2019, as compared to a growth of 2.2% in July 2019. Imports also continued to contract by (-) 13.4% during the month.
9. The OECD in its September 2019 issue of the Interim Economic Outlook revised down the global growth forecasts to 2.9% in 2019 and 3% for 2020. It projected India's growth at 5.9% in FY20, a downward revision of 1.3% points. The ADB in July 2019 had projected India's growth at 7% for FY20.

Foreword

Policy responses to India's continuing slowdown

The estimate of first quarter real GDP growth in FY20 at 5% provided confirmation of the economic slowdown lately discussed in the media on the basis of high frequency indicators. Even worse is the news related to the nominal GDP growth at 8% in 1QFY20 since it affects growth of tax revenues that depends on nominal growth and tax buoyancy. On the demand side, the lowest growth segments relate to private final consumption expenditure (PFCE) and gross capital formation (GCF), which grew at 3% and 4% respectively in 1QFY20. On the supply side, the weakest growth was that of manufacturing at only 0.6% (y-o-y) in this quarter.

Merchandise exports contracted by (-) 6.0% in August 2019 led by a sharp fall in exports of engineering goods, drugs and pharmaceuticals and inorganic chemicals. Out of the 30 broad sectors, 22 experienced a contraction during the month. Further, the pace of contraction in exports and imports excluding oil, gold and jewelry were at a 37-month high of (-) 5.6% and (-) 8.6% respectively in August 2019.

The government has shown awareness of this economic slowdown. To counter this, a major government initiative announced on 20 September 2019 relates to a reduction in the basic CIT rate from 30% to 22% which translates into a reduction of nearly 10 basis points, when cesses and surcharges are included. For new investment in manufacturing, the CIT rate has been reduced from 25% to 15%, translating into a reduction of nearly 12 basis points taking into account the cesses and surcharges. These rate reductions are effective from FY20 onwards#. Further, the Union Minister of Finance has been announcing sector-oriented policy measures in incremental steps. The recent measures announced on 14 September 2019* focused on exports and the housing sector. In the context of exports, a number of facilities have been announced. These include: (a) introduction of remission of duties or taxes on export products amounting to INR 50,000 crore worth of revenue forgone; (b) additional credit of INR 36,000 crore to INR 68,000 crore as export credit under priority sector; (c) higher insurance cover to banks which lend to exporters and lower premium incidence for MSMEs costing about INR 1,700 crore per annum. New measures announced to boost housing sector include: (a) introduction of a "Special Window" to fund non-NPA and non-NCLT housing projects amounting to INR 10,000 crore; (b) and proposed lowering of interest rate on 'House Building Advance' linking it with 10-year government security yields.

Fiscal deficit stood at 94.2% of the budgeted target during April-July 2019, in spite of a contraction in capital expenditure. During the same period, revenue expenditure showed a growth only of 7.9%, the lowest growth in the last five years. These trends indicate a weakening of government demand in addition to the already weak private demand, which has affected automobiles, consumer durables and the FMCG products. The center's gross tax revenues grew by 6.6% during April-July 2019, its lowest growth in the last five years. The growth in the center's indirect taxes including GST has been limited to 7.3% in the first four month of FY20 as compared to 16.1% in the corresponding period of FY19.

On the external front, the US-China tariff war continues apace. Most international agencies forecast a slowdown in global growth. The OCED Interim Economic Outlook (released 19 September 2019) revised down its global growth forecasts by 0.3% points to 2.9% in 2019 and by 0.4% points to 3% in 2020.

The disruption of Saudi Oil production facilities has opened up prospects of pressure on global crude prices for an uncertain period. It is estimated that the attacks on Saudi Arabian facilities, may lead to a fall in production by 5.7 million barrels per day, which is nearly 50% of Saudi Arabia's crude output and 5% of global crude supplies**. India being a large oil importer is particularly vulnerable to price and supply shocks emanating from the global oil sector. Notwithstanding these short-term disruptions, the longer-term future of crude prices appears to be favorable for India. Oil market experts have predicted that in the context of a broad-based global demand slowdown, oil prices may fall around US$45/ bbl. if not more in the next few years. This may come as a welcome relief and may possibly open up additional taxation space for the central and state governments who tax major petroleum products outside GST.

One positive news relates to the index of industrial production, which showed a recovery in July 2019 with a growth of 4.3% as compared to 1.2% in June 2019.

D.K. Srivastava
Chief Policy Advisor, EY India

*PIB notification dated 14 September 2019; https://pib.gov.in/PressReleseDetail.aspx?PRID=1558102
** BBC article published 17 September 2019;https://www.bbc.com/news/business-49710820
# https://pib.gov.in/PressReleseDetail.aspx?PRID=1585641

Home

1. Growth: GDP growth fell to a 26-quarter low of 5% in 1QFY20

A. GDP Growth: Both real and nominal growth dipped to 5% and 8% respectively in 1QFY20

- As per the data released by MOSPI on 30 August 2019, real GDP growth decelerated to a 26-quarter low of 5.0% in 1QFY20 from 5.8% in 4QFY19, its fifth consecutive fall since 4QFY18 (**Chart 1**).
- From the demand side, the growth slowdown was mainly driven by a sharp fall in the growth of PFCE from 7.2% in 4QFY19 to an 18-quarter low of 3.1% in 1QFY20.
- Reflecting lower growth in governments' revenue expenditures, GFCE grew at a relatively slow pace of 8.8% in 1QFY20 as compared to 13.1% in 4QFY19.
- Investment demand continued to remain subdued for the second consecutive quarter as shown by a low growth of 4.0% in gross fixed capital formation (GFCF) in 1QFY20, only marginally higher than 3.6% in 4QFY19.
- Indicative of a weakness in external demand, exports of goods and services grew by 5.7% in 1QFY20 as compared to 10.6% in 4QFY19. With imports growing at a slower pace than exports at 4.2% in 1QFY20, the contribution of net exports to growth turned positive at 0.1% points after remaining negative for 10 successive quarters.

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

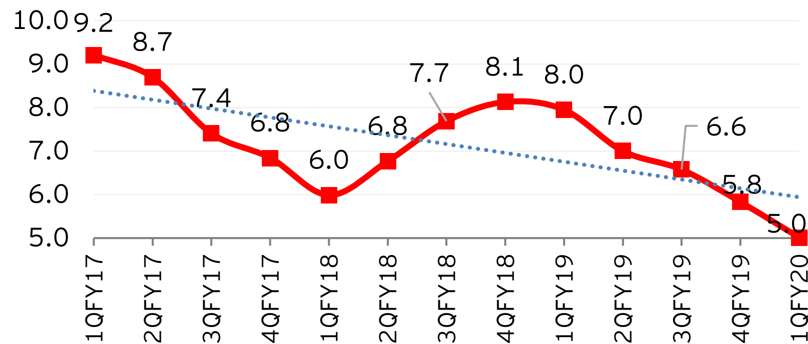


Table 1: GDP and GVA growth

Agg. demand	*4QFY 18*	*1QFY 19*	*2QFY 19*	*3QFY 19*	*4Q FY19*	*1QFY 20*	*FY18*	*FY19*
PFCE	8.8	7.3	9.8	8.1	7.2	3.1	7.4	8.1
GFCE	21.1	6.6	10.9	6.5	13.1	8.8	15.0	9.2
GFCF	11.8	13.3	11.8	11.7	3.6	4.0	9.3	10.0
EXP	2.8	10.2	12.7	16.7	10.6	5.7	4.7	12.5
IMP	16.2	11.0	22.9	14.5	13.3	4.2	17.6	15.4
GDP	8.1	8.0	7.0	6.6	5.8	5.0	7.2	6.8
Net Exp. Contrib. to growth (% points)	-2.7	-0.7	-2.8	-0.2	-0.9	0.1	-2.8	-1.1
Agr.	6.5	5.1	4.9	2.8	-0.1	2.0	5.0	2.9
Ming.	3.8	0.4	-2.2	1.8	4.2	2.7	5.1	1.3
Mfg.	9.5	12.1	6.9	6.4	3.1	0.6	5.9	6.9
Elec.	9.2	6.7	8.7	8.3	4.3	8.6	8.6	7.0
Cons.	6.4	9.6	8.5	9.7	7.1	5.7	5.6	8.7
Trans.	6.4	7.8	6.9	6.9	6.0	7.1	7.8	6.9
Fin.	5.5	6.5	7.0	7.2	9.5	5.9	6.2	7.4
Publ.	15.2	7.5	8.6	7.5	10.7	8.5	11.9	8.6
GVA	7.9	7.7	6.9	6.3	5.7	4.9	6.9	6.6

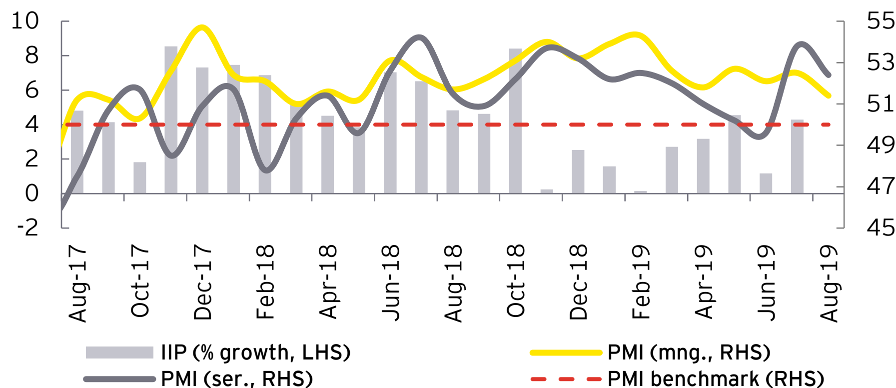
Source: MoSPI, GoI

- On the output side, GVA growth fell to a 21-quarter low of 4.9% in 1QFY20 as compared to 5.7% in 4QFY19 due to a deceleration in five key sectors of the economy namely manufacturing, financial real estate and professional services, public administration and defence, construction and mining (**Table 1**).
- As reflected in the growth trends of a few selected high frequency indicators such as IIP, PMI and motor vehicle production, GVA growth in manufacturing decelerated from 3.1% in 4QFY19 to 0.6% in 1QFY20, its weakest performance since 1QFY18 (Table A6 in data appendix).
- Growth in the output of construction and financial real estate and professional services was lower at 5.7% and 5.9% respectively in 1QFY20. Growth in mining sector has remained remain volatile in the last few quarters, It fell to 2.7% in 1QFY20 from 4.2% in 4QFY19.
- Growth in public administration and defence also slowed to 8.5% in 1QFY20 from 10.7% in 4QFY19.
- GVA growth in agricultural sector was at 2.0% in 1QFY20 as compared to a contraction of (-) 0.1% in 4QFY19. Sustained lower growth in agricultural sector may constrain rural demand.

B. IIP Growth: increased to 4.3% in July 2019 from 1.2% in June 2019

- IIP growth recovered to 4.3% (y-o-y) in July 2019 from 1.2% (revised) in June 2019 led by higher growth in manufacturing sector output (**Chart 2**).
- Manufacturing sector output (accounting for 77.6% of overall IIP) grew by 4.2% in July 2019 as compared to 0.2% (revised) in June 2019. Output growth of the mining sector also increased to 4.9% in July 2019. However, growth in electricity output fell sharply to 4.8% in July 2019 from 8.2% in June 2019. (Table A1 in data appendix).
- Output of capital goods industry contracted further to (-) 7.1% in July 2019 as compared to (-) 6.8% in June 2019 reflecting a subdued investment activity. Output of consumer durables contracted at a slower pace of (-) 2.7% in July 2019 as compared to (-) 10.2% (revised) in June 2019. However, output of consumer non-durables grew at a strong pace of 8.3% in July 2019 as compared to 7.1% (revised) in June 2019.
- Growth in the output of eight core infrastructure industries recovered to 2.1% in July 2019 from 0.7% in June 2019. This was supported by a positive growth in the output of cement (7.9%), steel (6.6%) and electricity (4.2%), and a slowdown in the pace of contraction in the output of petroleum refinery products ((-) 0.9%), crude oil ((-)4.4%) and coal ((-) 1.4%).

Chart 2: IIP growth and PMI



IIP growth recovered to 4.3% in July 2019 from 1.2% in June 2019 led by higher growth in manufacturing and mining sector output.

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

C. PMI: Signaled weaker expansion in manufacturing and services in August 2019

- Headline manufacturing PMI (seasonally adjusted (sa)) fell to a 15-month low of 51.4 in August 2019 from 52.5 in July 2019 (**Chart 2**). The August 2019 level was below its long-term trend at 53.9. There was a contraction in input buying for the first time in 15 months indicating reductions in stocks and shortage in available finance.
- PMI services also fell to 52.4 in August 2019 from 53.8 in July 2019 although four of the five sub-sectors except real estate and business services posted an expansion.

In August 2019, both manufacturing and services PMI fell to 51.4 and 52.4 respectively from their July 2019 levels

- Reflecting a fall in both manufacturing and services PMI, the composite PMI Output Index (sa) declined to 52.6 in August 2019 from 53.9 in July 2019.

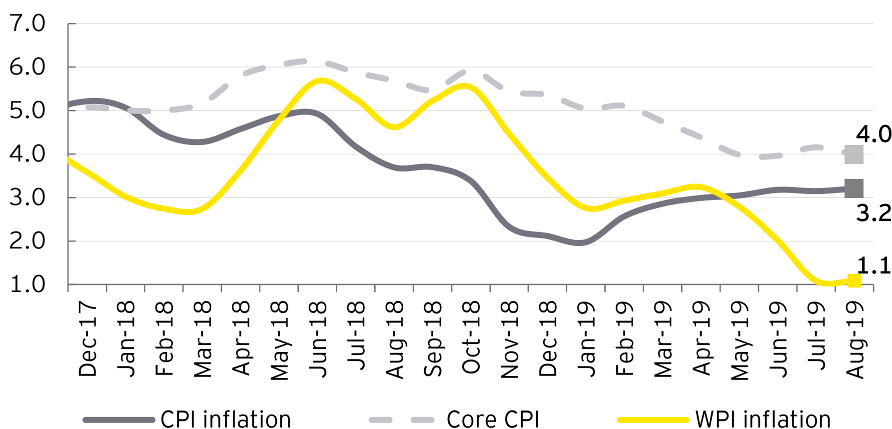
Home

2. Inflation: CPI inflation remained subdued at 3.2% in August 2019

CPI inflation remained low at 3.2% (y-o-y) in August 2019 close to its level of 3.1% in July 2019 (Chart 3).

- Consumer food price based inflation increased to a 15-month high of 3.0% in August 2019 from 2.4% in July 2019 due mainly to an increase in the inflation in vegetables prices to a 14-month high of 6.9% from 2.8% over the same period.
- Fuel and light prices continued to contract by (-) 1.7% in August 2019 as compared to (-) 0.3% in July 2019.
- Core CPI inflation[1] moderated to a 26-month low of 4.0% in August 2019 from 4.2% in July 2019.
- Inflation in transportation and communication services eased to 1.2% in August 2019 from 1.6% in July 2019. It was earlier at a 43-month low of 0.7% in June 2019.
- Housing-based inflation eased marginally to 4.8% in August 2019 from 4.9% in July 2019.

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



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

CPI and WPI based inflation remained nearly stable at 3.2% and 1.1% respectively in August 2019. Both core CPI and core WPI based inflation fell to 4.0% and (-) 0.4% respectively in August 2019 from 4.2% and 0.1% respectively in July 2019.

WPI inflation remained stable at 1.1% in August 2019, the same level as in July 2019 (Chart 3).

- Inflation in manufactured products fell for the tenth successive month to 0% in August 2019as compared to 0.3% in July 2019. Contraction in prices of manufactured basic metals accelerated to (-) 6.1% from (-) 4.3% during the period.
- WPI core inflation turned negative for the first time in 34 months at (-) 0.4% in August 2019 from 0.1% in July 2019.
- The pace of contraction in prices of crude and natural gas remained high at (-) 7.7% in August 2019 as compared to (-) 8.4% in July 2019.
- Contraction in prices of fuel and power accelerated to a 34-month high of (-) 4.0% in August 2019 as compared to (-) 3.6% in July 2019. This was its third successive month of contraction.
- Food price index-based inflation increased to a 35-month high of 5.8% in August 2019 from 4.5% in July 2019 as inflation in vegetables and fruits increased to 13.1% and 19.7% respectively in August 2019.

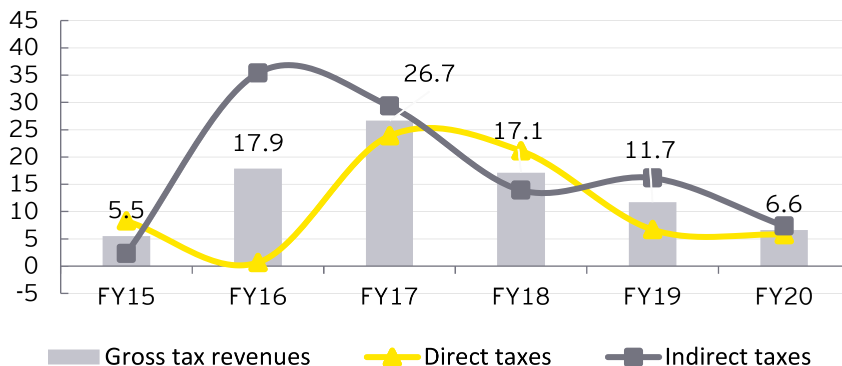
[1] Core CPI inflation is measured in different ways by different organizations/agencies. Here, it has been calculated by excluding food, and fuel and light from the overall index.

3. Fiscal performance: Center's fiscal deficit during April-July FY20 stood at 94.2% of the budgeted target

A. Tax and non-tax revenues

- As per the Comptroller General of Accounts (CGA)[2], gross central taxes during April-July FY20 grew by 6.6% as compared to 11.7% during April-July FY19 (**Chart 4**). Growth in both direct and indirect taxes fell with indirect tax growth falling sharply during this period.
- Gross central taxes during April-July FY20 stood at 21.9% of the annual budgeted target as compared to the corresponding figure of 22.3% in FY19.
- Direct tax revenues grew by 5.8% during April-July FY20, lower than 6.7% during the same period in FY19.
- Corporate tax revenues grew by 5.5% during the first four months of FY20 as compared to 0.6% during the corresponding period of FY19.
- Growth in income tax revenues during April-July FY20 fell to 6% from 11.3% during April-July FY19.
- Indirect taxes (comprising union excise duties, service tax, customs duty#, CGST, UTGST, IGST(2) and GST compensation cess) grew by 7.3% during April-July FY20 as compared to 16.1% during the same period of FY19.
- Indirect taxes during April-July FY20 stood at 28.2% of the annual budgeted target as compared to the corresponding figure of 26.4% in FY19.
- The buoyancy of gross central taxes in 1QFY20 stood at 0.2 with direct tax buoyancy at 1.2. The indirect tax buoyancy was (-) 0.5 due to a negative growth (quarterly, y-o-y) in indirect taxes in 1QFY20.

Chart 4: Growth in central tax revenues during April-July (%, y-o-y)



As per the CGA, center's gross taxes during April-July FY20 grew by 6.6% as compared to 11.7% during the corresponding period of FY19.

Source: Monthly Accounts, Controller General of Accounts (CGA), Government of India
Notes: (1) Direct taxes include personal income tax and corporation tax, and indirect taxes include union excise duties, service tax, customs duty, CGST, UTGST, IGST and GST compensation cess from July 2017 onwards; (2) IGST revenues are subject to final settlement; (3) other taxes (securities transaction tax, wealth tax, fringe benefit tax, banking cash transaction tax etc.) are included in Center's gross tax revenues along with direct and indirect taxes; (4) Collections under customs for July 2017 also include INR21,377 crores on account of IGST on import/exports and compensation cess on imports/exports of INR609 crores for 2017-18.

- The center's non-tax revenues during April-July FY20 grew by 1.8% as compared to 30.1% during the corresponding period of FY19. Non-tax revenues during April-July stood at 14% of the annual budgeted target as compared to 17.6% during the corresponding period of FY19.
- In line with the recommendations of the Bimal Jalan Committee, the RBI would transfer INR1,76,051 crore to the government, including INR52,637 crore of excess provisions identified as per the revised Economic Capital Framework (ECF). Of this, INR28,000 crore has already been paid as interim dividend in FY19. This implies that the government would get INR1,48,051 crores in FY20 of which INR 90,000 crores were already budgeted in the FY20 budget.

[2] Monthly accounts for July 2019 released on 30 August 2019

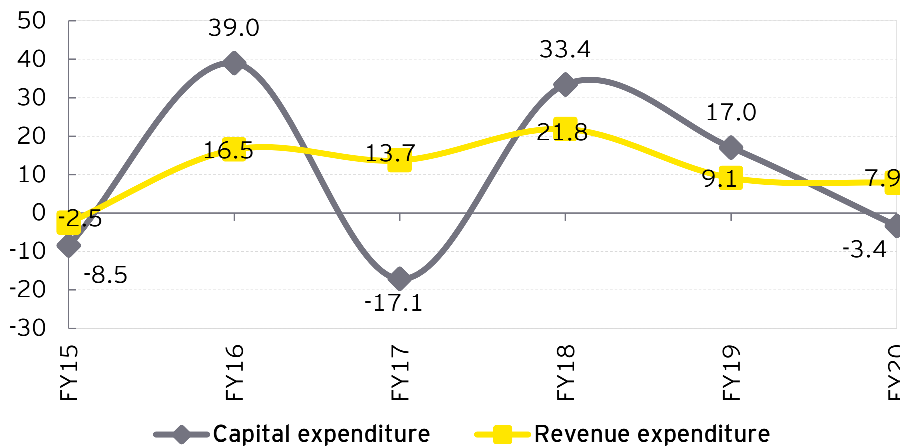
Home

- The FY20 budget has set the disinvestment target at INR105,000 crores. According to the Department of Disinvestment, the disinvestment proceeds up to 23 July 2019 stood at INR12,357.49 crores, which is 11.7% of the FY20 target.

B. Expenditures: Revenue and capital

- Center's total expenditure during April-July FY20 grew by 6.5% as compared to 10.1% during April-July FY19 due to a contraction in capital expenditure during this period (**Chart 5**).
- Revenue expenditure during April-July FY20 grew by 7.9% as compared to 9.1% during the corresponding period of FY19. Revenue expenditure during April-July FY20 stood at 34.3% of the budgeted target as compared to 36.3% in the corresponding period of FY19.
- Center's capital expenditure during April-July FY20 showed a contraction of (-) 3.4% as compared to a growth of 17% during April-July FY19. As percentage of the FY20 budgeted target, capital expenditure during April-July FY20 stood at 31.8%, lower than the corresponding figure of 37.1% in FY19.

Chart 5: Growth in central expenditures during April-July (%, y-o-y)



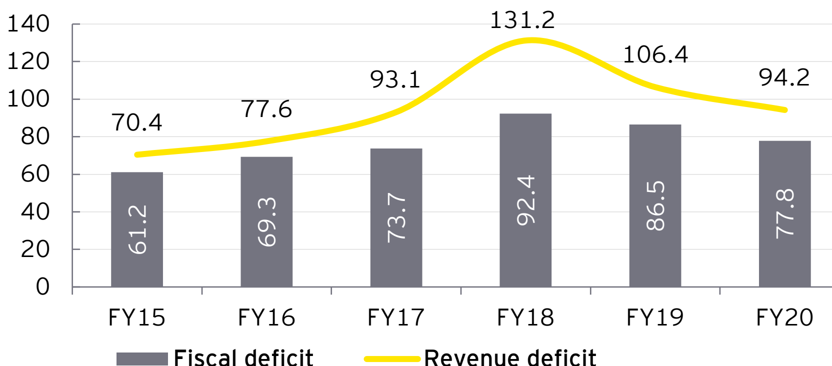
Center's capital expenditure during April-July FY20 witnessed a contraction of (-) 3.4% as compared to a growth of 17% during the same period in FY19.

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

C. Fiscal imbalance

- Center's fiscal deficit during April-July FY20 stood at 94.2% of the annual budgeted target as compared to the corresponding value of 106.4% in April-July FY19 **(Chart 6)**.
- Center's revenue deficit during the first four months of FY20 was at 77.8% of the annual budgeted target as compared to 86.5% during the corresponding period of FY19.

Chart 6: Fiscal and revenue deficit during April-July as percentage of annual budgeted target



Center's fiscal deficit during April-July FY20 stood at 94.2% of the annual budgeted target while the corresponding ratio for revenue deficit stood at 77.8%.

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

4. India in a comparative perspective: Status and prospects

Growth in volumes of exports of goods and services

Export growth is expected to remain low in 2019 and 2020 due to persisting trade tensions.

- In the US, growth in export volume of goods and services is projected to slow down from 4% in 2018 to 1.7% in 2019 as a result of weaker external demand and retaliatory measures introduced in trade disputes[3].
- Export growth in the UK dipped to 0.1% in 2018 due to post-Brexit uncertainty regarding trade relationship with EU. It is expected to improve but remain low at 1.8% in 2019 and 1.6% in 2020.
- In Japan, export growth is expected to fall to 0.2% in 2019 but pick up to 3.7% in 2020 as Olympic Games in Tokyo are expected to boost exports of goods and services.
- Export growth in Brazil is expected to pick up to 7.5% in 2019 as a result of strong reform momentum leading to an improved business climate. However, growth in exports in projected to slow down to 4.2% in 2020. Given that China and the US are Brazil's two major trading partners, the possibility of rising trade tensions between them poses risk to Brazil's export growth.
- China's export growth fell from 11% in 2017 to 4% in 2018 due to higher tariffs faced by the exporters. Growth in exports is expected to be much lower at 1.6% in 2019 due to continued trade tensions.
- India's export growth is projected to fall from 11.9% in 2018 to 6.2% in 2019 and 6.3% in 2020. Weak global demand and withdrawal of US preferential duties have dampened export growth.

Table 2: Export volumes of goods and services (% growth)

	2017	2018	2019	2020
US	3.0	4.0	1.7	2.4
UK	5.6	0.1	1.8	1.6
Japan	6.8	3.1	0.2	3.7
Brazil	5.7	3.4	7.5	4.2
Russia	5.0	5.5	2.5	1.8
India*	4.7	11.9	6.2	6.3
China	11.0	4.0	1.6	3.6
South Africa	-0.7	2.6	5.8	3.0

Source (basic data): OECD Economic Outlook, May 2019
*data pertains to fiscal year.
Note: forecasted for 2019 and 2020

Growth in volumes of imports of goods and services

India's import growth is forecasted to fall sharply in 2019 and remain weak in 2020.

- Import volumes growth in the US is projected to fall to 1.2% in 2019, increasing marginally to 3.4% in 2020 but remaining below 4%+ levels seen in 2017 and 2018. This could be partly attributable to: a) higher import prices on account of higher tariffs, b) the effect of a gradually dissipating fiscal stimulus.
- In Germany, growth in imports is forecasted to remain subdued at around 3.0% in 2019 and 3.3% in 2020 weighed by political uncertainties regarding trade disputes, uncertainty on Brexit, and slowing domestic demand.
- Amid trade tensions and gradually slowing domestic demand, growth in imports in China is projected to remain weak at 3.6% in 2020. Imports of capital goods have slowed amid rebalancing in the structure of the economy.
- In India, growth in imports is forecasted to drop to 6.8% in 2019 and remain low at 9.0% in 2020 as compared to17%+ levels in 2017 and 2018. Slower domestic consumption and investment demand coupled with falling export demand is expected to lead to subdued demand for imports.

Table 3: Import volumes of goods and services (% growth)

	2017	2018	2019	2020
US	4.6	4.5	1.2	3.4
UK	3.5	0.7	9.7	1.3
Germany	5.3	3.4	3.0	3.3
Japan	3.4	3.3	2.5	1.8
Brazil	5.5	7.6	1.6	4.6
Russia	17.4	2.7	1.9	2.2
India*	17.6	17.5	6.8	9.0
China	6.9	8.1	2.8	3.6
South Africa	1.0	3.3	0.7	3.6

Source (basic data): OECD Economic Outlook, May 2019
*data pertains to fiscal year.
Note: forecasted for 2019 and 2020

[3] Projections assume unchanged trade measures from late April 2019, with neither new barriers (including the increase in tariffs on imports from China announced in mid-May 2019) nor relaxation of existing ones.

5. In focus: Combating India's current economic slowdown: Part II

Introduction

Slowdown blues continue in the Indian economy. In this write-up, we continue the analysis of the In-focus theme of the August 2019 issue of the Economy Watch, emphasising both the cyclical and structural causes underlying the slowdown and the available policy options.

Policy initiatives: Steps taken so far

The central government and the RBI have already undertaken a number of measures to respond to the ongoing slowdown. These responses include a four-step repo rate reduction since February 2019. The first three rate reductions amounted to 25 basis points each and the last reduction announced on 7 August 2019 was by a margin of 35 basis points. As a result, the repo rate was reduced from 6.5% in February 2019 to 5.4% in August 2019. The Ministry of Finance had presented the final FY20 budget on 5 July 2019. Since then, the Finance Minister has engaged in active consultations with various industry representatives and announced a number of measures.

The long-awaited CIT rate reduction, which was promised in 2015, has finally been announced. The basic CIT rate has been reduced from 30% to 22%. While availing this option, the companies will have to forego all other exemptions or incentives. This is a welcome move. It will not only improve the investment sentiments but increase both investment and savings of the corporate sector, thereby having a positive impact on the demand and supply sides of the economy. There may be a short-term adverse impact on fiscal deficit. The revenue foregone estimates given by the government on account of the CIT rate reduction and other measures announced along stand at INR 1.45 lakh crore[4]. For the remission of duties on exports announced earlier, the revenue forgone is estimated at INR50,000 crore. Together, these amount to INR1.95 lakh crores, which is nearly 1% of FY20 GDP. However, as the economy makes a transition from the slowdown cycle, the fiscal deficit would also be brought down closer to the FRBM target. Clearly, the government is willing to accept a short-term slippage in the fiscal consolidation path.

Some earlier initiatives announced by the government include:

1. Introduction of a "Special Window" to fund non-NPA and non-NCLT housing projects amounting to INR10,000 crore.
2. Withdrawal of enhanced surcharge on tax payable at special rate by domestic as well as foreign investors on long-term and short-term capital gains arising from the transfer of equity share in a company or unit of an equity-oriented fund/business trust which are liable for securities transaction tax and also on tax payable at special rate under section 115AD of the Income Tax Act, 1961 by the FPI on the capital gains arising from the transfer of derivatives.
3. A public sector bank consolidation plan whereby 10 banks are proposed to be consolidated into four banks.
4. For vehicle manufacturers, provision of an additional 15% depreciation on vehicles acquired from now till March 2020, taking the total depreciation to 30%. All BS-IV vehicles purchased up to March 2020 to remain operational for their entire period of registration. Further the GST rate on automobiles is also proposed to be reduced from 28% to 18%. The central government may take this proposal to the GST Council who will eventually take a decision.
5. More credit support to housing finance companies wherein an extended additional liquidity support to housing finance companies (HFCs)by the National Housing Bank has been announced, which has been increased from INR20,000 crore to INR30,000 crore.
6. Banks to link their lending rates with the RBI's repo rate, leading to lower EMIs for housing, auto and other retail loans. This is also expected to make working capital loans for industry cheaper.
7. The Centre will front-load its INR70,000-crore capital infusion into public sector banks.
8. Public sector banks have been mandated to return loan documents within 15 days of closure. This is expected to help borrowers who mortgaged assets.
9. As a part of the partial credit guarantee scheme announced in the budget for the purchase of pooled assets of NBFCs and HFCs, which was announced for restoring liquidity in NBFCs, the government will provide one-

[4] https://pib.gov.in/PressReleseDetail.aspx?PRID=1585641

time six-month partial credit guarantee to public sector banks for the first loss of up to 10% for the purchase of high-rated assets.

Cyclical and structural causes of slowdown

In devising policies to reverse the slowdown, it is important to recognize the nature of the underlying causes. Distinction is often made between demand and supply factors. When aggregate demand falls because of a fall in one or more of its components, it usually leads to a cyclically driven slowdown. On the other hand, factors that affect the supply side of the economy including level and productivity of capital, structural factors drive the slowdown. These factors often interact and it is not easy to disentangle their effects. One way of understanding the difference is to distinguish between potential and actual growth. Potential growth depends on the economy's capacity to produce. It is usually determined by supply of factors of production and their productivity. Actual growth may be below or above the potential growth due to demand factors. If aggregate demand falls, the actual growth falls below potential growth due to cyclical factors; if demand is excessive, actual growth goes above the potential growth, indicating inflationary pressures. Policy measures adopted to reverse these imbalances take less time to bear fruit when the slowdown is demand driven and relatively more time when these are due to structural factors.

In the present instance, India's economic slowdown is characterized by both cyclical and structural factors. These can be traced to a slowing down of demand as well as factors that have affected India's potential growth rate. The demand slowdown has affected all the three components of domestic aggregate demand (PFCE, GFCE and GCF), which have fallen in the recent quarters. This is further accentuated by weak export demand. Even more serious are the underlying structural causes. We look at some specific features of both sets of factors. The period from FY12 to FY19 has been characterized by a number of critical policy interventions including: (a) a new monetary policy framework[5] (February 2015), (b) demonetization (November 2016), (c) GST (July 2018) and (d) amendment to the erstwhile FRBM Act of the central government (April 2018). While demonetization and GST affected economic activities in India in a major way, the monetary policy framework and the amended FRBM Act affected the fiscal structure of the economy and the available fiscal policy options for undertaking countercyclical measures.

Impact of monetary policy framework

Policy-driven lowering of inflation rate has lowered growth of nominal GDP and tax revenues

In February 2015, a Monetary Policy Framework was agreed upon by the Government of India and the RBI which stipulated a CPI target range of 2-6% for FY17 and beyond. A Monetary Policy Committee (MPC) was established by amending the RBI Act. The MPC is required to set an inflation target based on CPI once every five years. The current target is applicable till 31 March 2021.

Tax revenues are measured in nominal terms. It can be seen as a function of nominal GDP growth and buoyancy of taxes with respect to nominal GDP. There is reason to believe that on account of both these factors, growth in central and state tax revenues has fallen on trend basis with exceptions in some years.

Table 4: Inflation, nominal GDP and central and state tax revenues

Year	IPD based inflation	Growth (%)		
		Nominal GDP	Total central tax revenues	States' own tax revenues
FY13	7.9	13.8	16.5	17.5
FY14	6.2	13.0	9.9	8.6
FY15	3.3	11.0	9.3	9.0
FY16	2.3	10.5	16.9	9.0
FY17	3.1	11.5	17.9	7.6
FY18	3.8	11.3	11.8	6.7
FY19	4.1	11.2	7.6	10.0
Period average				
FY13 and FY14) - (1)	7.1	13.4	13.2	13.1
FY18 and FY19) - (2)	4.0	11.2	9.7	8.4
(2) - (1)	-3.1	-2.2	-3.5	-4.7

Source (basic data): MoSPI, RBI, MoF, GoI

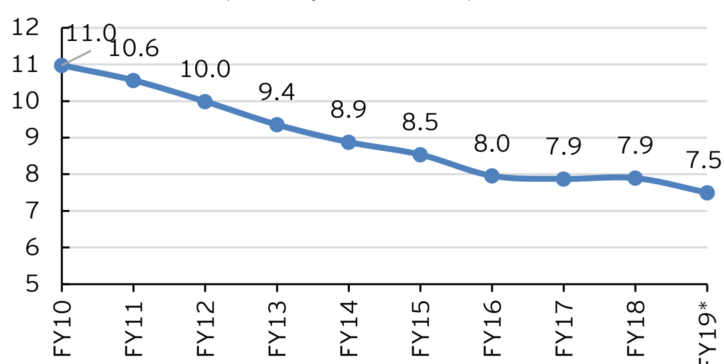
Guided by the MPC, there was a steady reduction in the CPI inflation rate which translated into a reduction in the inflation rate based on the implicit price deflator of GDP. The IPD-based inflation tends to be lower than the CPI-based inflation as it depends on the price movements of both consumption and investment goods. Prices of investment goods have fallen in relative terms faster than those of consumption goods for the period under study. This affected the nominal GDP growth which in turn affected the nominal growth of central and state tax revenues. The inflation rate trend is broadly reflected in nominal GDP growth trend. In the case of central tax revenues, two

[5] The RBI Act 1934 was amended in May 2016 for the constitution of Monetary Policy Committee

years provide a clear exception namely, FY16 and FY17. In these two years, there was a substantial increase in center's indirect tax revenues as the central government increased the specific component of tax on petroleum products, taking advantage of the fall in global oil prices. However, if we take the average of the last two years (FY18 and FY19) and compare this with the average of the first two years (FY13 and FY14), the effects appear to be quite clear. IPD based inflation rate fell by 3.1% points, nominal GDP growth rate fell by 2.2% points, central tax revenue growth fell by 3.5% points and growth in state tax revenues fell by 4.8% points (Table 4). The lower tax revenue growth impacts the balance between committed and discretionary expenditures. In fact, committed government expenditures such as interest payments, pensions and salaries, etc. respond to falling prices to a much lower extent as compared to the fall in tax revenues. This leads to a fall in the discretionary expenditures including capital expenditures. In fact, the burden of adjustment largely falls on capital expenditures of the central and state governments.

In addition, transitional issues relating to GST implementation has also affected the buoyancy of central and state indirect taxes. The buoyancy of central indirect taxes has been as low as 0.5 in FY18, 0.2 in FY19 and budgeted to be 0.6 in FY20. These trends have lowered government demand for goods and services affecting the growth of government final consumption expenditure as also government's capital expenditure. This is reflected in Chart 7 in the persistent fall in center's primary revenue expenditure as percentage of GDP.

Chart 7: Centre's primary revenue expenditure as % of GDP



Source: Union budget documents; *Revised estimate

Underlying growth retarding structural forces

The Indian economy has witnessed critical growth retarding structural changes even prior to these events. Important among these is the persistent fall in the saving and investment rates of the Indian economy and the changing structure of output away from agriculture which has weakened the rural demand.

Fall in saving and investment rates: *Depletion of investment rate has reduced potential growth rate*

One serious structural change is the fall in the saving rate of the Indian economy. As shown by Table 5, it fell from nearly 35% in FY12 to 30.5% in FY18, a fall of 4.1% points of GDP. This trend shows an average fall of 0.7% points of GDP per year. The fall in the domestic saving rate translates into a fall in the investment rate because investment is financed by domestic savings plus net capital inflows. Net capital inflows relative to GDP during these years have been volatile. They have also fallen from levels of more than 4% in FY12 and FY13 to less than 2% of GDP in more recent years.

Table 5: Saving and investment rates: percentage to GDP (current prices)

Saving components	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY18 minus FY12	Average change/ year
Gross domestic saving *of which*	**34.6**	**33.9**	**32.1**	**32.2**	**31.1**	**30.3**	**30.5**	**-4.1**	-0.7
Households	23.6	22.5	20.3	19.6	18.0	17.1	17.2	-6.4	-1.1
Private corporate sector	9.5	10.0	10.7	11.7	11.9	11.5	11.6	2.1	0.3
Public sector	1.5	1.4	1.0	1.0	1.2	1.7	1.7	0.2	0.03
Net capital inflow	**4.3**	**4.8**	**1.7**	**1.3**	**1.0**	**0.6**	**1.8**	**-2.5**	**-0.4**
Gross capital formation	**39.0**	**38.7**	**33.8**	**33.5**	**32.1**	**30.9**	**32.3**	**-6.6**	**1.1**

Source (basic data): RBI, MOSPI

The persistent fall in the saving rate is inconsistent with the expectation from the changing profile of India's demographic structure. In order to take advantage of the demographic dividend, it is essential that the domestic saving rate increases as the share of working age population to total population increases, which in turn enables the investment and growth rates of the economy to increase. This is the essence of the demographic dividend window. If the opposite happens, then it implies that the working age population is not getting productively

employed in the economic activities of the country. In China's case, at the peak of its demographic dividend window which prevailed around 2010, China was able to achieve saving rates in the range of 50-53%. If India's long-term growth prospects are to be made robust, we require a structural reversal in the downward trend in saving and investment rates of the economy.

Changing profile of output: *The share of agriculture in output has shrunk increasing relative employment-intensity of population on the low growing agricultural sector*

The output structure in India has been changing away from agriculture towards industry and services. Focusing on broad sectoral shares, we look at 2011-12 base GVA series. Further, we utilize the official back series released by the CSO starting 2004-05. There is a difference in the evolution of shares of these sectors based on nominal and real terms as the implicit price deflators of these sectors have evolved differently. Table 6 gives the sectoral shares in nominal and real terms.

Table 6: Sectoral shares in GVA (%): real and nominal

Year	Real GVA			Nominal GVA		
	Agriculture	Industry	Services	Agriculture	Industry	Services
FY05 (1)	22.6	30.5	46.9	19.5	32.1	48.4
FY06	21.9	30.9	47.2	19.2	32.2	48.5
FY07	20.9	32.3	46.8	18.3	33.7	48.0
FY08	20.5	32.5	47.0	18.3	33.7	48.0
FY09	19.6	32.4	47.9	17.9	33.2	48.9
FY10	18.2	33.0	48.8	17.8	33.2	49.0
FY11	18.3	33.0	48.7	18.4	33.1	48.5
FY12	18.5	32.5	49.0	18.5	32.5	49.0
FY13	17.8	31.8	50.3	18.2	31.8	50.0
FY14	17.8	31.2	51.1	18.6	30.8	50.6
FY15	16.5	31.1	52.4	18.2	30.0	51.8
FY16	15.4	31.6	53.0	17.7	30.0	52.3
FY17	15.2	31.5	53.3	17.9	29.4	52.7
FY18	14.9	31.2	53.9	17.2	29.3	53.5
FY19 (2)	14.4	31.3	54.3	16.1	29.6	54.3
(2) - (1)	**-8.3**	**0.8**	**7.5**	**-3.4**	**-2.5**	**5.9**

Source (basic data): MOSPI; Note: peaks highlighted in yellow

Comparing FY05 to FY19, the following main trends in the evolving structure of output may be noted:

Table 7: Sectoral real growth (%)

Fiscal Year	Agriculture	Industry	Services	GVA
FY06	4.8	9.6	9.1	8.3
FY07	2.9	13.2	7.0	8.1
FY08	5.5	8.0	7.8	7.4
FY09	-0.2	4.0	6.5	4.3
Avg.	3.3	8.7	7.6	7.0
FY10	-0.9	8.8	8.7	6.9
FY11	8.8	7.9	7.8	8.0
FY12	6.4	3.6	5.9	5.2
FY13	1.5	3.3	8.3	5.4
FY14	5.6	3.8	7.7	6.1
Avg.	4.3	5.5	7.7	6.3
FY15	-0.2	7.0	9.8	7.2
FY16	0.6	9.6	9.4	8.0
FY17	6.3	7.7	8.4	7.9
FY18	5.0	5.9	8.1	6.9
FY19	2.9	6.9	7.5	6.6
Avg.	2.9	7.4	8.7	7.3
All-period avg.	**3.5**	**7.1**	**8.0**	**6.9**

Source (basic data): MOSPI

1. The share of agriculture has fallen in both real and nominal terms. In real terms, this fall is by a margin of 8.3% points from 22.6% in FY05 to 14.4% of GVA in FY19. In nominal terms, this fall is by a lower margin of 3.4% points. This is because the implicit price deflator-based inflation for agriculture was higher than that for industry and services except for FY18 and FY19 when the terms of trade moved against agriculture.

2. The share of industry has increased marginally by 0.8% points in real terms to 31.3% in FY19. In nominal terms however, this trend is reversed with the share of industry falling during this period by a margin of 2.5% points.

3. The share of services has increased both in real and nominal terms. The increase in real terms is by a margin of 7.5% points and that in nominal terms by a margin of 5.9% points.

The average real GVA growth during FY06 to FY19 is 6.9% (Table 7) of which agriculture's average growth rate is the lowest at 3.5%. This is the reason why the share of agriculture has steadily fallen. Between industry and services, the all-period averages are 7.1% and 8.0% respectively. The maximum increase in the sectoral share in real terms (7.5% points) is for services which has shown the highest average real growth at 8%.

Table 8 gives the sector-wise employment intensity. It shows that in spite of the falling share of agriculture in output, this sector supports for each 1% of its share, nearly four times the number of workers supported by industry and services.

Table 8: Sector wise employment intensity

#	Sectors	FY05	FY10	FY12	FY14	FY16	FY18
1	Agriculture	2.6	2.9	2.6	2.7	3.0	3.0
2	Industry	0.6	0.7	0.7	0.8	0.7	0.8
3	Services	0.5	0.5	0.5	0.6	0.6	0.6

Source (basic data): various NSSO – Employment and Unemployment survey reports,
MOSPI and employment-unemployment survey reports by Ministry of Labour and Employment

The 2017-18 employment survey shows the highest unemployment rate at 6.1% in recent years. The unemployment rate has been increasing since 2011-12 as per these surveys (Table 9).

Table 9: Unemployment rate in India

Survey	Year	Unemployment rate
Employment and Unemployment Situation in India - NSSO 68th round (2011-12)	2011-12	2.7
Report on Employment and Unemployment Survey (2013-14)	2013-14	4.9*
Report on Fifth Annual Employment-Unemployment Survey (2015-16)	2015-16	5.0*
Periodic Labour Force Survey (PLFS) (2017-18)	2017-18	6.1*

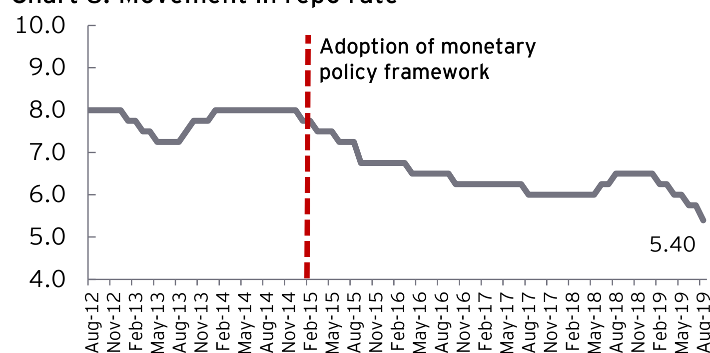
Source (basic data): various NSSO – Employment and Unemployment survey reports, MOSPI and employment-unemployment survey reports by Ministry of Labour and Employment * population aged 15 years and above

Policy effectiveness and options

Overall economic policy, particularly cyclical policy, is primarily in the domain of the central government. There has been heavy reliance on monetary policy so far.

Monetary policy: *Heavy reliance on monetary policy has not yielded results as yet. One more rate reduction may be considered*

Chart 8: Movement in repo rate



Source: Database on Indian Economy, RBI

Difficulties relating to transmission, NPA problems of the banking sector and viability and liquidity problems of the non-banking financial sector have together reduced the effectiveness of monetary policy. The repo rate was steadily reduced from 8% in December 2014 to 6% in August 2017. Later, it was increased to 6.5% by August 2018 and retained until January 2019. The rate reduction became particularly aggressive after that. It was reduced to 5.4% by August 2019 in four incremental steps. It can perhaps be reduced further by another 40 basis points in the upcoming MPC meeting in October 2019.

Fiscal Policy: *Stimulus options should be explored on the expenditure side also*

The government has finally taken the call to fundamentaly reform the CIT rate by lowering it to close to 25% as discussed previously (section on Policy initiatives). Two implications of this change relate to: (1) a possile short-term slippage in fiscal deficit by about 1% of GDP per year, as per governmet's own estimates, and (2) the reduction in CIT rate calls for a reduction in the PIT rate as well. This is because the highest PIT rate should be brought in alignment with the informed CIT rate as was the case historically. The CIT rate changes would largely affect the corporate investment and saving rates and the supply side of the economy. The demand side routes of the slowdown may also require to be attended urgently.

The positive impact of a fiscal stimulus on the expenditure side can be maximised if it is focused on public investment in infrastructure. This is because it would augment demand and also improve supply side conditions. The practical constraints on mounting such a policy are finding resources for such a stimulus and idetifying readily available projects where additional investment can be speedily made.

Finding resources

Given low tax buoyancy and the already increased amounts of revenue forgone due to the CIT reforms, the only other available options include non-tax revenues, disinvestment, and additional borrowing. The RBI has already extended help through a special dividend of INR1,76,000 crore following the Jalan Committee recommendations. A good part of it may be preempted to meet the shortfall in tax revenues as the budget is known to have made optimistic projections. Other non-tax side options include spectrum sales and monetizing government owned land.

Spectrum sales

Using the findings of a study by ICRIER which states that a 10% increase in tele-density leads to a 1.9% increase in GDP, the opportunity cost of the idle spectrum is estimated at INR5.4 lakh crore on the basis of nominal GDP of FY17[6]. This is equivalent to over 160% of the INR3.3 lakh crore of financial benefit received by the government from all spectrum auctions so far. If one compares the spectrum currently used to serve the current active mobile connections (3800 MHz) with the quantum of spectrum remaining unsold in 2016 (1300 MHz), it can be deduced that 278 million additional active mobile users, representing 21% of India's population, could have been served by the unsold spectrum.

Till date, only about 60% of the spectrum auctioned since 2010 has been sold mainly due to high reserve prices. This may be the case with the proposed 5G auctions as well. The current 5G recommended reserve price for the 3.5GHz band to be auctioned is INR492 crore. In absolute terms, the recommended price is five to six times higher than that in other countries. In terms of ARPU (average revenue per user) adjusted dollar cost per MHz per population, which is considered as the benchmark for countrywide spectrum price comparisons, India is about four times higher than South Korea and the UK. The spectrum reserve price valuation fundamentals need to be reviewed since in India, spectrum price is the single most important factor affecting the success of an auction. Reserve prices for spectrum auction should be low enough to facilitate maximum auction participation and sale.

Monetizing government-owned land

According to the Government of India's asset register, which is appended to the budget, the largest share in terms of value is that of land. It was 73% at the end of FY18. The Ministry of Defence as well as the Ministry of Railways may have ownership of huge tracts of land. The evaluation of assets is done in terms of historical prices. In the case of land, when historical prices are not available, these are evaluated at the notional price of INR1. Since the value of land apprceiates, clearly the value of land owned by the government may be highly understated. Monetization of land requires proper evaluation of land and strategies for selling or leasing to generate returns. This is an exercise that would take time but would not only add to government revenues but to the overall productivity of the economy by making land available to the private sector for development and commercial use. It may be useful to set up a *Land Commission* to examine the possibilities and options.

Using countercyclical provision in FRBM framework has limited scope

The FRBM framework provides for a countercyclical intervention. However, it is difficult to invoke this due to the quantitative rule associated with it. This rule says that if growth falls by more than 3% points compared to the average growth of the previous four quarters, the government may increase fiscal deficit by 0.5% points of GDP above the 3% norm.

---

[6] https://www.financialexpress.com/opinion/5g-rollout-why-india-needs-to-get-its-spectrum-prices-right/1625273/

Table 10: Quarterly growth compared to average growth in previous four quarters

Quarter	GDP Growth (1)	Average growth of previous 4 quarters (2)	(2) - (1)	Quarter	GDP Growth (1)	Average growth of previous 4 quarters (2)	(2) - (1)
1QFY13	4.9			1QFY17	9.4	8.0	-1.4
2QFY13	7.5			2QFY17	8.9	8.4	-0.4
3QFY13	5.4			3QFY17	7.5	8.6	1.1
4QFY13	4.3			4QFY17	7.0	8.7	1.7
1QFY14	6.4	5.5	-0.9	1QFY18	6.0	8.2	2.2
2QFY14	7.3	5.9	-1.4	2QFY18	6.8	7.4	0.6
3QFY14	6.5	5.9	-0.7	3QFY18	7.7	6.8	-0.9
4QFY14	5.3	6.2	0.8	4QFY18	8.1	6.9	-1.3
1QFY15	8.0	6.4	-1.6	1QFY19	8.0	7.1	-0.8
2QFY15	8.7	6.8	-1.9	2QFY19	7.0	7.6	0.6
3QFY15	5.9	7.2	1.2	3QFY19	6.6	7.7	1.1
4QFY15	7.1	7.0	-0.1	4QFY19	5.8	7.4	1.6
1QFY16	7.6	7.4	-0.2	1QFY20	5.0	6.8	1.8
2QFY16	8.0	7.3	-0.7	2QFY20	4.75	6.1	1.4
3QFY16	7.2	7.2	0.0	3QFY20	4.5	5.5	1.0
4QFY16	9.1	7.5	-1.6	4QFY20	4	5.0	1.0

Source (basic data): MOSPI

As illustrated by Table 10, it is very difficult to invoke this rule if the GDP growth keeps falling in an incremental manner.

Reducing revenue deficit

Low tax buoyancy has heavily constrained any stimulus which can come directly from the central government. The central government's capital expenditure is quite low at 1.6% of GDP. This constituted a share of only 5% in the total investment in the economy. The central government has to play a more substantive and direct role in augmenting investment in the economy. However, a high level of revenue deficit budgeted at 2.3% of GDP makes it extremely difficult for it to play this role. It would be desirable if in the first instance, the central government could reduce the revenue deficit to 1.3%, which is the level of "effective revenue deficit" and spend an additional 1% point of GDP as capital expenditure. But this is a structural adjustment. Although desirable, it will take time to adjust the balance between revenue and capital expenditures in the central budget.

Bringing states on board

Secondly, some of the large state governments need to be co-opted for expanding their investment expenditures. We have identified six states and the UT of Delhi which: a) have large weights in the total expenditure of all states, and b) whose individual and aggregate capital expenditure is much less than the FRBM limit of 3% of GSDP. It may be feasible to increase the cumulative states' capital expenditure, especially in the identified states, by 1% point of GDP without breaching their FRBM limits. Smart cities and state level highways can absorb the additional investment.

Table 11: Selected states for co-opting investment expenditure

State	Capital expenditure to GSDP ratio	State	Capital expenditure to GSDP ratio
Maharashtra	1.1	West Bengal	1.9
Gujarat	1.8	Tamil Nadu	1.9
Karnataka	2.7	Delhi	1.0
Andhra Pradesh	2.1	**Total states/UT**	1.7

Source (basic data): MOSPI, CAG

Additional investment from public sector enterprises

An additional 1-1.5% points of GDP of investment may need to be taken up by central and state public sector undertakings (PSUs) on viable infrastructure projects. For this purpose, suitable projects need to be identified. The experience of National Highway Authority of India (NHAI) shows that short-term returns from their projects

are not able to service its debt[7]. Further, the private sector can be brought on board in the PPP mode to supplement investment by central and state governments and the PSUs.

Important PSE channels for investment include Housing and Urban Development Corporation, Indian Railway Finance Corporation, Rail Vikas Nigam Ltd., Ircon International Ltd. and India Infrastructure Finance Co. Ltd.

Inducing private sector to participate in joint ventures

The budget had announced an ambitious plan for an additional infrastructure investment amounting to 10% of GDP per annum based on private sector participation using the PPP mode. An expert committee was proposed to be set up to examine the modalities. It is time to initiate this although experiments with the PPP mode has not yielded encouraging results so far.

Altogether, if the central government is able to increase capital expenditure by about 3% points of GDP, it should be able to reverse the current economic slowdown while being supported by monetary and other policy measures. This may at best return India's growth rate to about 7%. Stronger structural measures and reforms which may include amending the center's FRBM Act again may be required if India is to aim for a US$5 trillion economy in the next five to seven years since that requires uplifting the real growth from 7% to 9%.

[7] https://www.business-standard.com/article/economy-policy/nhai-at-a-crossroads-on-debt-servicing-concerned-pmo-raises-red-flags-119083001692_1.html

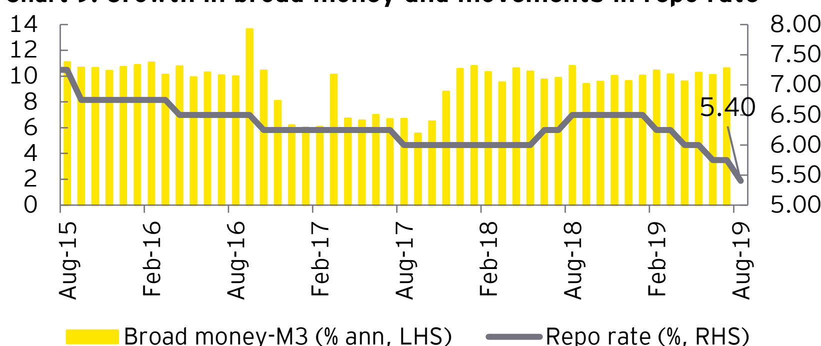
6. Money and finance: The RBI lowered the repo to 5.4% in August 2019 from 5.75% in June 2019

A. Monetary sector

Monetary policy

- During its August 2019 monetary policy review, the RBI lowered its policy repo rate by 35 basis points to 5.40% from 5.75%. The policy rate has been brought down from 6.5% in January 2019 by a cumulated margin of 110 basis points through four successive rate reductions during the calendar year. With CPI inflation continuing to remain below 4% in August 2019, the monetary policy stance is expected to remain accommodative.
- However, as noted in the recently released RBI's Annual Report 2018-19, the transmission continues to be fractional as the weighted average lending rate (WALR) fell only by about 29 basis points in response to a cumulated reduction of 75 basis points in the policy rate during February to June 2019. In addition, monetary transmission also remained uneven across sectors.

Chart 9: Growth in broad money and movements in repo rate



Source: Database on Indian Economy, RBI

The RBI reduced the repo rate by 35 basis points to 5.4% in its August 2019 monetary policy review. With CPI inflation continuing to remain below 4%, it is expected that the monetary policy stance would remain accommodative.

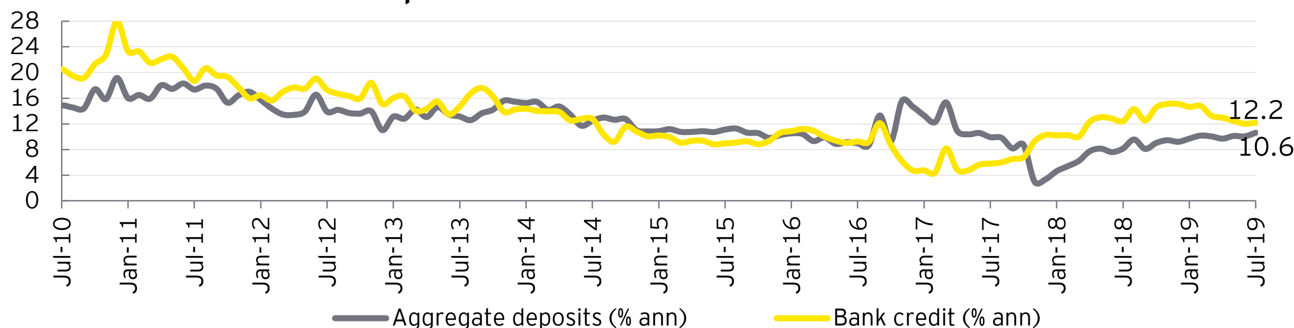
Money stock

- Growth in broad money stock (M3) increased marginally to 10.6% in July 2019 from 10.1% in June 2019 (**Chart 9**). Time deposits, accounting for nearly 76% of M3, grew by 9.9% in July 2019 as compared to 9.7% in June 2019.
- Narrow money (M1) growth increased by 13.2% in July 2019 from 11.3% in June 2019. This was due to a higher growth in demand deposits at 12.8% in July 2019 as compared to 8.8% in June 2018. Growth of currency in circulation was slightly higher at 13.0% in July 2019 as compared to 12.7% in June 2019.

Aggregate credit and deposits

- Bank credit grew by 12.2% in July 2019, marginally higher than 12.0% in June 2019 (**Chart 10**) but remained below its 10-year average growth of 13.6%.

Chart 10: Growth in credit and deposits



Source: Database on Indian Economy, RBI

- Growth in non-food credit was at 11.4% in July 2019 as compared to 11.1% in June 2019 led by a pickup in the growth of credit to services sector.
- Growth in credit to services sector increased to 15.2% in July 2019 from 13.0% in June 2019. However, growth in credit to industries (accounting for 34% of non-food credit) fell to 6.1% in July 2019 from 6.4% in June 2019. Growth in credit to agricultural sector was also lower at 6.8% in July 2019 as compared to 8.7% in June 2019.
- Housing sector credit grew by 19.2% in July 2019 as compared to 18.9% in June 2019.
- Growth in aggregate bank deposits was at 10.6% in July 2019, marginally higher than 10.0% in June 2019.

B. Financial sector

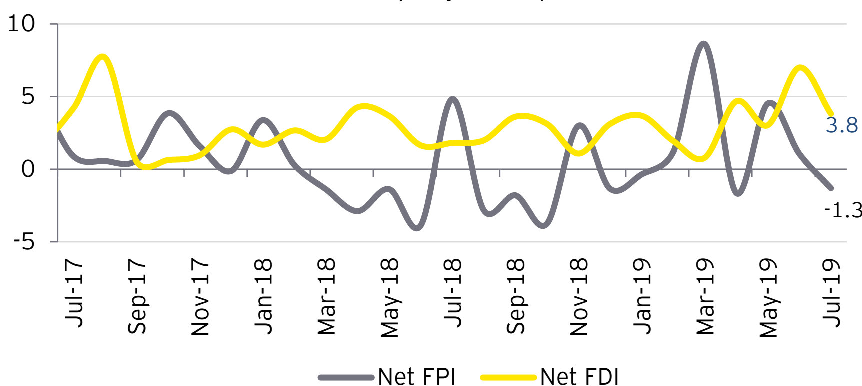
Interest rates

- Interest rates offered by commercial banks on term deposits with a maturity of more than one year averaged at 6.73% in August 2019 (ranging between 6.25% and 7.20%), marginally lower as compared to 6.78% (average) in July 2019.
- Commercial banks lowered the marginal cost of lending rate (MCLR) for the second successive month to 8.15% (average) in August 2019 from 8.20 in July 2019.
- The average yield on 10-year government securities was 6.60% in August 2019, similar to the level seen in July 2019. Government bond yields were influenced by several factors including: (a) reduction in the repo rate by the RBI, and (b) decline in crude oil prices and (C) US benchmark treasury yields amid fears of escalation of trade war between the US and China.

FDI and FPI

- As per the provisional data released by the RBI on 12 September 2019, the overall foreign investment inflows (FIIs) were lower at US$2.5 billion in July 2019 as compared to US$8.1 billion in June 2019 as net FDI inflows were lower and there was a net outflow of FPIs during the month.

Chart 11: Net FDI and FPI inflows (US$ billion)



Net FDI inflows were lower at US$3.8 billion in July 2019 as compared to US$7.0 billion in June.

Source: Database on Indian Economy, RBI

- Net FDI inflows at US$3.8 billion in July 2019 were significantly lower than US$7.0 billion in June 2019 (**Chart 11**). Gross FDI inflows were also lower at US$ 6.0 billion in July 2019 as compared to US$9.2 billion in June 2019.
- Net portfolio investment outflows amounted to US$1.3 billion as compared to inflows of US$1.1 billion in June 2019.

7. Trade and CAB: Merchandise exports contracted at (-) 6.0% in August 2019

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

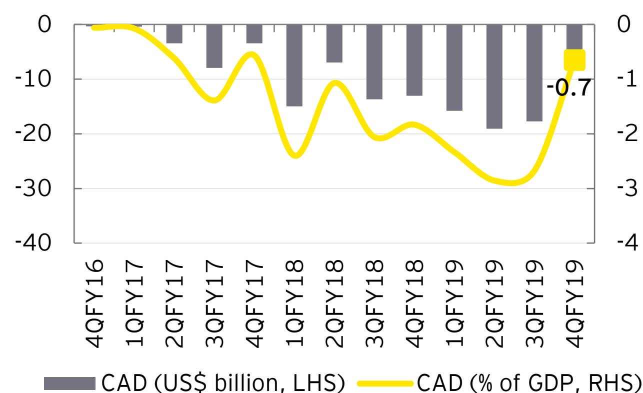
- CAD in 4QFY19 narrowed to 0.7% of GDP from 2.7% in 3QFY19 as merchandise trade deficit moderated to a two-year low of 4.9% of GDP (**Table 12**) due to merchandise imports falling to 10-quarter low of 17.2% of GDP in 4QFY19 from 19.9% in 3QFY19. The fall in CAD was despite net invisibles surplus easing to a four-quarter low of 4.3% of GDP in 4QFY19 from 4.7% in 3QFY19 on account of moderation in net service exports and net transfers.

Table 12: Components of CAB in US$ billion

	CAB (-deficit/+surplus)	CAB as a % of nominal GDP	Goods account net	Services account net
FY16	-22.2	-1.1	-130.1	69.7
FY17	-15.3	-0.7	-112.4	67.5
FY18	-48.7	-1.8	-160.0	77.6
FY19	-57.3	-2.1	-180.3	81.9
1QFY19	-15.9	-2.3	-45.8	18.7
2QFY19	-19.1	-2.9	-50.0	20.3
3QFY19	-17.8	-2.7	-49.3	21.7
4QFY19	-4.6	-0.7	-35.2	21.3

Source: Database on Indian Economy, RBI

Chart 12: CAD



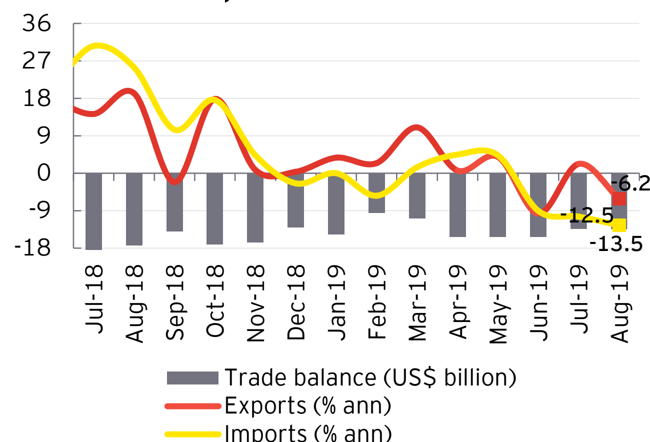
Source: Database on Indian Economy, RBI

B. Merchandise trade and exchange rate

Both merchandise exports and imports contracted sharply by (-) 6.0% and (-) 13.4% respectively in August 2019.

- Merchandise exports contracted for the second time in three months by (-) 6.0% in August 2019 as compared to a growth of 2.2% in July 2019 (**Chart 13**), led by a fall in exports of engineering goods, drugs and pharmaceuticals, organic and inorganic chemicals.

Chart 13: Developments in merchandise trade



Source: Ministry of Commerce and Industry, GoI

- In August 2019, a contraction was experienced in 22 out of the 30 broad sectors for which exports data is released. The contraction in engineering goods exports accelerated to a nine-month high of (-) 9.4% in August 2019 from (-) 1.7% in July 2019.
- The pace of contraction in imports further increased to (-) 13.4% in August 2019 from (-) 10.4% in July 2019, driven primarily by a sustained fall in gold imports, which contracted by (-) 62.5% in August 2019 as compared to (-) 42.2% in July 2019.
- The pace of contraction in oil imports eased to (-) 8.9% in August 2019 from a three year high of (-) 22.1% in July 2019. Contraction in oil exports increased to (-) 10.7% from (-) 5.0% over the same period.
- The pace of contraction in exports and imports excluding oil, gold and jewelry was at a 37-month high of (-) 5.6% and (-) 8.6% respectively in August 2019 indicative of both an external and domestic demand slowdown.
- Merchandise trade deficit remained nearly stable at a subdued level of US$13.5 billion in August 2019 as compared to US$13.4 billion in July 2019 due to the sharp contraction in imports.
- The Indian Rupee depreciated significantly to INR71.1 per US$ (average) in August 2019 from INR68.8 per US$ in July 2019, partly due to weakening domestic growth and global trade tensions.

Home

8. Global growth: ADB projected developing Asia to grow by 5.7% in 2019 supported by domestic demand

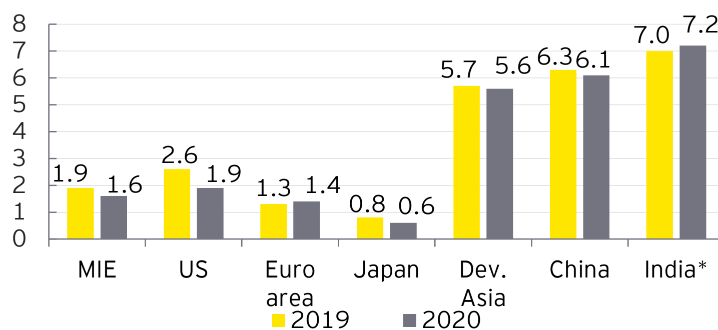
A. Global growth outlook

- The ADB (Asian Development Outlook Supplement, July 2019) projected growth in major industrial economies (US, Euro area and Japan) at 1.9% in 2019, falling from 2.2% in 2018. Growth is forecasted to fall further to 1.6% in 2020.
- Growth in the US is projected at 2.6% in 2019 (upward revision of 0.3% points) reflecting stronger than anticipated performance in the first quarter. It is forecasted to fall to 1.9% in 2020.
- In the Euro area, growth is projected at 1.3% in 2019, a downward revision of 0.2% points. It is expected to remain low at 1.4% in 2020 due to lower export and investment growth.
- Growth in Japan is forecasted at 0.8% in 2019 and 0.6% in 2020. If the government presses ahead with a sales tax hike in October 2019, consumer demand may pick up briefly ahead of the tax but will likely deteriorate toward the end of the year and in 2020.

The ADB projected growth in developing Asia at 5.7% in 2019 and 5.6% in 2020. Growth in major industrial economies is forecasted at 1.9% in 2019 and 1.6% in 2020.

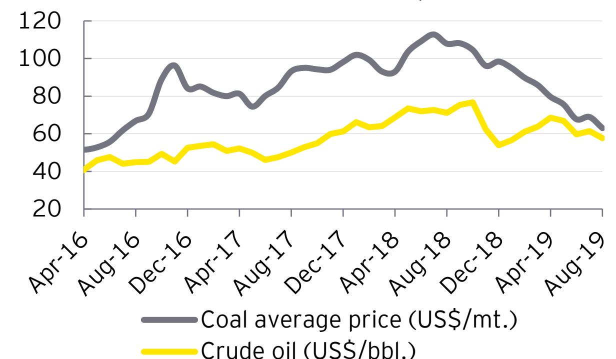
- Developing Asia is projected to grow by 5.7% in 2019 and 5.6% in 2020 with domestic demand supporting expansion as trade tensions persist.
- Growth in China is forecasted at 6.3% in 2019 and 6.1% in 2020 as policy support offsets softening growth in domestic and external demand. Trade tensions between the US and China intensified in August 2019 after the US imposed tariffs on a further US$300 billion of Chinese imports. In retaliation, China introduced additional tariffs on the US$75 billion of imports from the US.
- For India, growth is projected at 7% in 2019 and 7.2% in 2020. However, since the ADB supplement was released in July 2019, it does not take into account the recent growth numbers of India. The OECD Interim Economic Outlook (released 19 September 2019) sharply revised down India's growth forecast by 1.3% points to 5.9% in 2019. Growth is projected at 6.3% in 2020..

Chart 14: Global growth projections



Source: Asian Development Outlook Supplement, July 2019
*data pertains to fiscal year
MIE: Major industrial economies

Chart 15: Global crude and coal prices



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

B. Global energy prices: Global crude prices fell in August 2019 due to increased non-OPEC supply and lower economic growth expectations

- Average global crude price[8] fell to US$57.7/bbl. in August 2019 from US$61.5/bbl. in July 2019. Increased oil supply from the US, Norway and Brazil, lower compliance with the OPEC+ agreement and lower economic growth expectations may have led to a fall in prices during the month[9].
- Average global coal price[10] fell to a 37-month low of US$63/mt. in August 2019 from US$68.9/mt. in July 2019.

---

[8] Simple average of three spot prices, namely, Dated Brent, West Texas Intermediate and Dubai Fateh
[9] 'Oil market report', IEA (released 12 September 2019)
[10] Simple average of Australian and South African coal prices

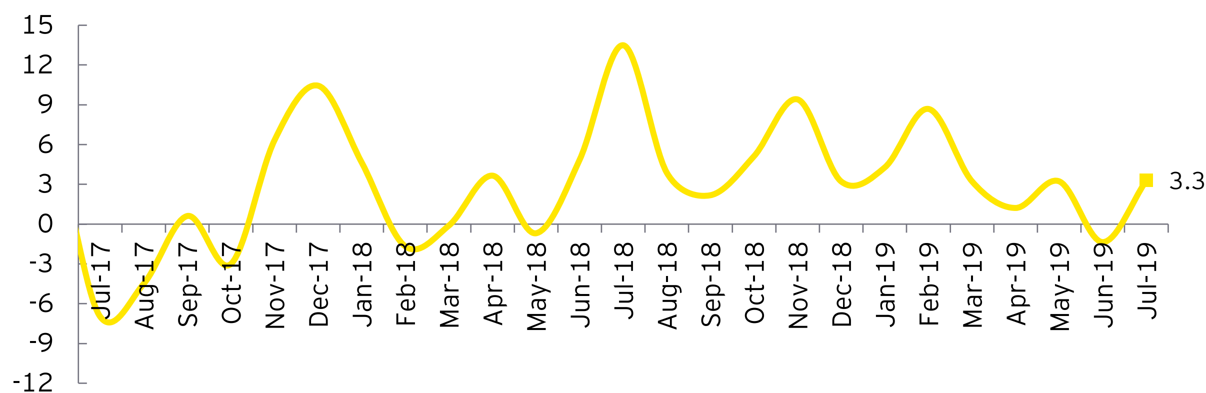
Home

9. Index of aggregate demand (IAD): Showed a pick-up in demand in July 2019

Growth in IAD contracted for the first time in 13-months by (-) 1.4% in June 2019

- An IAD has been developed by EY to reflect the monthly combined demand conditions in the agriculture, manufacturing and services sectors. It considers the movements in PMI for manufacturing and services, both measured in non-seasonally adjusted terms, tracing the demand conditions in these sectors. Demand conditions in the agricultural sector have been captured by movements in monthly agricultural credit off-take
- On an y-o-y basis, the index of aggregate demand grew by 3.3% in July 2019 as compared to a contraction of (-)1.4% in June 2019 (**Chart 16**), owing to demand conditions improving sharply in services sector. Demand conditions in manufacturing and agriculture continued to remain subdued.

Chart 16: IMI (quarterly)



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

Table 13: IAD

Month	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19
IAD	128.3	127.9	126.9	129.3	128.1	126.7	126.1	127.1	129.8
Growth (% y-o-y)	9.4	3.2	4.3	8.7	3.2	1.2	3.2	-1.4	3.3
Growth in agr. credit	7.7	8.4	7.6	7.5	7.9	7.9	7.8	8.7	6.8
Mfg. PMI**	4.9	2.7	2.7	4.4	2.2	1.7	3.1	1.7	1.8
Ser. PMI**	2.5	2.9	1.9	2.8	2.3	1.4	-0.3	1.1	4.4

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

Home

10. Capturing macro-fiscal trends: Data appendix

Table A1: Industrial growth indicators (annual, quarterly and monthly growth rates, y-o-y)

Fiscal year/quarter/month	IIP	Mining	Manufacturing	Electricity	Core IIP	Fiscal year/quarter/month	PMI mfg.	PMI ser.
	% change y-o-y							
FY 16	3.3	4.3	2.9	5.7	3.0	FY 16	51.3	51.7
FY 17	4.6	5.3	4.3	5.8	4.8	FY 17	51.6	51.0
FY 18	4.4	2.3	4.7	5.3	4.3	FY 18	51.5	50.0
FY 19	3.8	2.8	3.8	5.2	4.4	FY 19	52.8	52.2
2Q FY19	5.3	0.9	5.6	7.5	5.4	2Q FY19	52.1	52.2
3Q FY19	3.7	2.8	3.4	6.9	3.4	3Q FY19	53.4	53.0
4Q FY19	1.5	2.2	1.4	1.5	3.3	4Q FY19	53.6	52.2
1Q FY20	3.0	3.0	2.4	7.2	3.5	1Q FY20	52.2	50.3
Apr-19	3.2	5.1	2.5	6.0	5.8	May-19	52.7	50.2
May-19	4.6	2.4	4.5	7.4	6.3	Jun-19	52.1	49.6
Jun-19	1.2	1.5	0.2	8.2	4.3	Jul-19	52.5	53.8
Jul-19	4.3	4.9	4.2	4.8	0.2	Aug-19	51.4	52.4

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

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

Fiscal year/quarter/month	CPI	Food Price Index	Fuel and light	Core CPI	WPI	Food Price Index	Mfg. products	Fuel and power	Core WPI
	% change y-o-y				% change y-o-y				
FY16	4.9	4.9	5.3	4.9	-3.7	1.2	-1.8	-19.7	-1.8
FY17	4.5	4.2	3.3	4.9	1.7	5.9	1.3	-0.3	-0.1
FY18	3.6	1.8	6.2	4.6	2.9	1.9	2.7	8.2	3.0
FY19	3.4	0.1	5.7	5.5	4.3	0.6	3.7	11.5	4.2
2Q FY19	3.9	0.7	8.4	5.7	5.0	-0.9	4.4	17.7	4.9
3Q FY19	2.6	-2.0	6.7	5.6	4.5	-0.9	4.1	13.9	4.8
4Q FY19	2.5	-0.9	1.9	5.0	2.9	3.0	2.4	2.7	2.7
1Q FY20	3.1	1.7	2.4	4.1	2.7	5.0	1.4	1.1	1.4
May-19	3.0	1.8	2.5	4.0	2.8	5.5	1.5	2.0	1.3
Jun-19	3.2	2.2	2.2	4.0	2.0	5.4	1.0	-2.1	0.9
Jul-19	3.1	2.4	-0.3	4.2	1.1	4.5	0.3	-3.6	0.1
Aug-19	3.2	3.0	-1.7	4.0	1.1	5.8	0.0	-4.0	-0.4

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

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

Fiscal year/month	Gross tax revenue	Corporate tax	Income tax	Direct taxes*	Indirect taxes**	Fiscal deficit	Revenue deficit
						% of GDP	% of GDP
FY16	17.0	6.0	8.5	6.9	30.1	3.9	2.5
FY 17	17.9	6.7	21.5	12.3	21.6	3.5	2.1
FY 18	11.8	17.8	19.9	18.6	6.0	3.5	2.6
FY19 (CGA actuals over FY18 actuals)	8.4	16.2	7.2	12.3	2.5	3.4	2.3
FY20 (BE over CGA actuals)	18.3	15.4	23.3	18.6	19.8	3.3	2.2
	Cumulated growth (%, y-o-y)					% of budgeted target	
Dec-18	6.6	14.0	15.2	14.5	1.0	110.6	130.5
Jan-19	7.3	16.7	14.3	15.7	1.5	121.5	143.7
Feb-19	7.9	15.4	14.2	14.9	3.3	134.2	158.1
Mar-19	8.4	16.2	13.1	14.9	2.9	101.7	108.4
Apr-19	6.9	59.3	16.3	24.3	-3.4	22.3	26.6
May-19	0.2	-51.6	15.0	12.1	-4.0	52.0	66.3
Jun-19	1.4	6.3	12.3	9.7	-4.0	61.4	77.1
Jul-19	6.6	5.5	6.0	5.8	7.3	77.8	94.2

Source: Monthly Accounts, Controller General of Accounts-Government of India, Union Budget documents
*Includes corporation tax and income tax **includes customs duty, excise duty, service tax, CGST, UTGST, IGST and GST compensation cess.
As a proportion of revised estimates FY20

Fiscal year/month	CGST	UTGST	IGST	GST compensation cess	Total GST (center)
	INR crore				
FY 2019 (RE)	5,03,900	-	50,000	90,000	6,43,900
FY 2020 (BE)	5,26,000	-	28,000	1,09,343	6,63,343
Monthly tax collection (INR crore)					
Dec-18	43,075	585	-9,368	7,700	41,992
Jan-19	35,066	126	9,511	8,435	53,138
Feb-19	35,908	105	4,453	8,173	48,639
Mar-19	46,191	584	2,340	8,175	57,290
Apr-19	46,848	171	-564	8,874	55,329
May-19	34,557	154	7,195	7,713	49,619
Jun-19	35,400	188	4,039	8,026	47,653
Jul-19	24,095	197	25,250	8,183	57,725

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

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

Fiscal year/month	Repo rate (end of period)	Fiscal year/ quarter/ month	M1	M3	Bank credit	Agg. deposits	10-year govt. bond yield	Net FDI	Net FPI	Fiscal year/quarter/month	FX reserves US$ billion
	%		% change y-o-y				%	US$ billion			
Sep-18	6.50	FY16	13.5	10.1	9.7	10.5	7.7	36.0	-4.1	FY16	355.6
Oct-18	6.50	FY17	3.1	10.1	7.9	11.6	7.0	35.6	7.6	FY17	370.0
Nov-18	6.50	FY18	22.1	9.5	7.5	7.5	7.0	30.3	22.1	FY18	424.4
Dec-18	6.50	FY19	13.3	10.1	13.8	8.9	7.7	30.7	-0.6	FY19	411.9
Jan-19	6.50	2Q FY19	14.6	9.4	13.1	8.6	7.9	7.4	0.2	2Q FY19	400.5
Feb-19	6.25	3Q FY19	12.7	9.6	14.9	9.2	7.7	7.3	-2.1	3Q FY19	393.4
Mar-19	6.25	4Q FY19	13.3	10.1	14.2	10.0	7.4	6.4	9.4	4Q FY19	411.9
Apr-19	6.00	1Q FY20	11.3	10.1	12.5	9.9	7.2	14.7	3.9	1Q FY20	426.4
May-19	6.00	Apr-18	12.6	9.6	13.0	9.7	7.4	4.7	-1.6	May-19	421.9
Jun-19	5.75	May-18	12.9	10.3	12.5	10.1	7.3	3.0	4.5	Jun-19	426.4
Jul-19	5.75	Jun-18	11.3	10.1	12.0	10.0	7.0	7.0	1.1	Jul-19	429.6
Aug-19	5.40	Jul-18	13.2	10.6	12.2	10.6	6.6	3.8	-1.3	Aug-19	428.6

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		
FY16	-15.6	-15.2	-117.7	65.5	46.0	54.7	2013	3.5	1.4	5.1
FY17	5.1	0.9	-108.2	67.1	47.9	73.0	2014	3.6	2.1	4.7
FY18	10.6	20.9	-159.0	64.5	55.7	90.8	2015	3.4	2.3	4.3
FY19	8.7	9.6	-177.0	69.9	67.3	100.4	2016	3.4	1.7	4.6
2Q FY19	9.5	21.8	-50.0	70.2	73.0	109.6	2017	3.8	2.4	4.8
3Q FY19	5.7	6.1	-46.9	72.1	64.3	99.7	2018	3.6	2.2	4.5
4Q FY19	6.0	-1.2	-35.2	70.5	60.5	90.2	2019**	3.2	1.9	4.1
1Q FY20	-1.7	-0.3	-46.0	69.5	65.1	74.3	2020**	3.5	1.7	4.7
May-19	3.9	4.3	-15.4	69.8	66.8	75.6	2021*	3.6	1.7	4.9
Jun-19	-9.7	-9.1	-15.3	69.4	59.8	67.7	2022*	3.6	1.6	4.8
Jul-19	2.2	-10.4	-13.4	68.8	61.5	68.9	2023*	3.6	1.6	4.9
Aug-19	-6.0	-13.4	-13.5	71.1	57.7	63.0	2024*	3.7	1.6	4.9

Source: Database on Indian Economy - RBI, Pink Sheet - World Bank and IMF World Economic Outlook Update, April 2019; *Indicates projections as per April 2019 database, **Indicates projections as per July 2019 WEO update.

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

Fiscal year/quarter	Output: Major sectors									IPD inflation
	GVA	Agr.	Ming.	GVA	Agr.	Cons.	GVA	Agr.	Publ.	GVA
FY16#	8.0	0.6	FY16#	8.0	0.6	FY16#	8.0	0.6	FY16#	8.0
FY17	7.9	6.3	FY17	7.9	6.3	FY17	7.9	6.3	FY17	7.9
FY18	6.9	5.0	FY18	6.9	5.0	FY18	6.9	5.0	FY18	6.9
FY19 (PE)*	6.6	2.9	FY19 (PE)*	6.6	2.9	FY19 (PE)*	6.6	2.9	FY19 (PE)*	6.6
1QFY18	5.9	4.2	1QFY18	5.9	4.2	1QFY18	5.9	4.2	1QFY18	5.9
2QFY18	6.6	4.5	2QFY18	6.6	4.5	2QFY18	6.6	4.5	2QFY18	6.6
3QFY18	7.3	4.6	3QFY18	7.3	4.6	3QFY18	7.3	4.6	3QFY18	7.3
4QFY18	7.9	6.5	4QFY18	7.9	6.5	4QFY18	7.9	6.5	4QFY18	7.9
1QFY19	7.7	5.1	1QFY19	7.7	5.1	1QFY19	7.7	5.1	1QFY19	7.7
2QFY19	6.9	4.9	2QFY19	6.9	4.9	2QFY19	6.9	4.9	2QFY19	6.9
3QFY19	6.3	2.8	3QFY19	6.3	2.8	3QFY19	6.3	2.8	3QFY19	6.3
4QFY19	5.7	-0.1	4QFY19	5.7	-0.1	4QFY19	5.7	-0.1	4QFY19	5.7
1QFY20	4.9	2.0	1QFY20	4.9	2.0	1QFY20	4.9	2.0	1QFY20	4.9

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

Fiscal year/quarter	Expenditure components						IPD inflation
	GDP	PFCE	GFCE	GDP	PFCE	IM	GDP
FY16	8.0	7.9	FY16	8.0	7.9	FY16	8.0
FY17	8.2	8.2	FY17	8.2	8.2	FY17	8.2
FY18	7.2	7.4	FY18	7.2	7.4	FY18	7.2
FY19 (PE)*	6.8	8.1	FY19 (PE)*	6.8	8.1	FY19 (PE)*	6.8
1QFY18	6.0	10.1	1QFY18	6.0	10.1	1QFY18	6.0
2QFY18	6.8	6.0	2QFY18	6.8	6.0	2QFY18	6.8
3QFY18	7.7	5.0	3QFY18	7.7	5.0	3QFY18	7.7
4QFY18	8.1	8.8	4QFY18	8.1	8.8	4QFY18	8.1
1QFY19	8.0	7.3	1QFY19	8.0	7.3	1QFY19	8.0
2QFY19	7.0	9.8	2QFY19	7.0	9.8	2QFY19	7.0
3QFY19	6.6	8.1	3QFY19	6.6	8.1	3QFY19	6.6
4QFY19	5.8	7.2	4QFY19	5.8	7.2	4QFY19	5.8
1QFY20	5.0	3.1	1QFY20	5.0	3.1	1QFY20	5.0

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

List of abbreviations

Sr. no.	Abbreviations	Description
1	AD	aggregate demand
2	AEs	advanced economies
3	Agr.	agriculture, forestry and fishing
4	Bcm	billion cubic meters
5	bbl.	Barrel
6	BE	budget estimate
7	CAB	current account balance
8	CGA	Comptroller General of Accounts
9	CGST	Central Goods and Services Tax
10	CIT	corporate income tax
11	Cons.	construction
12	CPI	Consumer Price Index
13	CPSE	Central public-sector enterprise
14	CSO	Central Statistical Organization
15	Disc.	discrepancies
16	ECBs	external commercial borrowings
17	EIA	US Energy Information Administration
18	Elec.	electricity, gas, water supply and other utility services
19	EMDEs	Emerging Market and Developing Economies
20	EXP	exports
21	FAE	first advanced estimates
22	FII	foreign investment inflows
23	Fin.	financial, real estate and professional services
24	FPI	foreign portfolio investment
25	FRBMA	Fiscal Responsibility and Budget Management Act
26	FY	fiscal year (April–March)
27	GDP	Gross Domestic Product
28	GFCE	government final consumption expenditure
29	GFCF	Gross fixed capital formation
30	GoI	Government of India
31	GST	Goods and Services Tax
32	GVA	gross value added
33	IAD	Index of Aggregate Demand
34	IBE	interim budget estimates
35	ICRIER	Indian Council for Research on International Economic Relations

36	IEA	International Energy Agency
37	IGST	Integrated Goods and Services Tax
38	IIP	Index of Industrial Production
39	IMF	International Monetary Fund
40	IMI	Index of Macro Imbalance
41	IMP	imports
42	INR	Indian Rupee
43	IPD	implicit price deflator
44	MCLR	marginal cost of funds-based lending rate
45	Ming.	mining and quarrying
46	Mfg.	Manufacturing
47	m-o-m	month-on-month
48	mt	metric ton
49	MoSPI	Ministry of Statistics and Programme Implementation
50	MPC	Monetary Policy Committee
51	NEXP	net exports (exports minus imports of goods and services)
52	NPA	Non-performing assets
53	NCLT	National company law tribunal
54	OECD	Organisation for Economic Co-operation and Development
55	ONGC	Oil and Natural Gas Corporation Limited
56	OPEC	Organization of the Petroleum Exporting Countries
57	PFCE	private final consumption expenditure
58	PIT	personal income tax
59	PMI	Purchasing Managers' Index (reference value = 50)
60	RE	revised estimates
61	RBI	Reserve Bank of India
62	SLR	Statutory Liquidity Ratio
63	Trans.	trade, hotels, transport, communication and services related to broadcasting
64	US$	US Dollar
65	UTGST	Union Territory Goods and Services Tax
66	UT	Union Territory
67	WPI	Wholesale Price Index
68	y-o-y	year-on-year
69	2HFY19	second half of fiscal year 2018-19, i.e., September 2018-March 2019
70	1HFY18	first half of fiscal year 2017-18, i.e., April 2018-September 2018

Our offices

Ahmedabad
22nd Floor, B Wing, Privilon,
Ambli BRT Road, Behind Iskcon
Temple, Off SG Highway,
Ahmedabad - 380 015
Tel: + 91 79 6608 3800

Bengaluru
6th, 12th & 13th floor
"UB City", Canberra Block
No.24 Vittal Mallya Road
Bengaluru - 560 001
Tel: + 91 80 6727 5000

Ground Floor, 'A' wing
Divyasree Chambers
11, O'Shaughnessy Road
Langford Gardens
Bengaluru - 560 025
Tel: + 91 80 6727 5000

Chandigarh
1st Floor, SCO: 166-167
Sector 9-C, Madhya Marg
Chandigarh - 160 009
Tel: + 91 172 331 7800

Chennai
Tidel Park, 6th & 7th Floor
A Block, No.4, Rajiv Gandhi
Salai
Taramani, Chennai - 600 113
Tel: + 91 44 6654 8100

Delhi NCR
Golf View Corporate Tower B
Sector 42, Sector Road
Gurgaon - 122 002
Tel: + 91 124 443 4000

3rd & 6th Floor, Worldmark-1
IGI Airport Hospitality District
Aerocity, New Delhi - 110 037
Tel: + 91 11 4731 8000

4th & 5th Floor, Plot No 2B
Tower 2, Sector 126
NOIDA - 201 304
Gautam Budh Nagar, U.P.
Tel: + 91 120 671 7000

Hyderabad
Oval Office, 18, iLabs Centre
Hitech City, Madhapur
Hyderabad - 500 081
Tel: + 91 40 6736 2000

Jamshedpur
1st Floor, Shantiniketan Building
Holding No. 1, SB Shop Area
Bistupur, Jamshedpur – 831 001
Tel: + 91 657 663 1000

Kochi
9th Floor, ABAD Nucleus
NH-49, Maradu PO
Kochi - 682 304
Tel: + 91 484 433 4000

Kolkata
22 Camac Street
3rd Floor, Block 'C'
Kolkata - 700 016
Tel: + 91 33 6615 3400

Mumbai
14th Floor, The Ruby
29 Senapati Bapat Marg
Dadar (W), Mumbai - 400 028
Tel: + 91 22 6192 0000

5th Floor, Block B-2
Nirlon Knowledge Park
Off. Western Express Highway
Goregaon (E)
Mumbai - 400 063
Tel: + 91 22 6192 0000

Pune
C-401, 4th floor
Panchshil Tech Park
Yerwada
(Near Don Bosco School)
Pune - 411 006
Tel: + 91 20 4912 6000

Ernst & Young LLP

EY | Assurance | Tax | Transactions | Advisory

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

Ernst & Young LLP is one of the Indian client serving member firms of EYGM Limited. For more information about our organization, please visit www.ey.com/in.

Ernst & Young LLP is a Limited Liability Partnership, registered under the Limited Liability Partnership Act, 2008 in India, having its registered office at 22 Camac Street, 3rd Floor, Block C, Kolkata - 700016

© 2019 Ernst & Young LLP. Published in India.
All Rights Reserved.

EYIN1909-020
ED None

This publication contains information in summary form and is therefore intended for general guidance only. It is not intended to be a substitute for detailed research or the exercise of professional judgment. Neither Ernst & Young LLP nor any other member of the global Ernst & Young organization can accept any responsibility for loss occasioned to any person acting or refraining from action as a result of any material in this publication. On any specific matter, reference should be made to the appropriate advisor.

RS1

ey.com/in

EY|LinkedIn

EY India

EY India careers

ey_indiacareers