MACRO-ECONOMIC FRAMEWORK STATEMENT 2017-18

Overview of the Economy

Despite elevated crude oil prices and several global headwinds, Indian economy is estimated to achieve a growth of 7.2 percent (as per first advance estimates released by Central Statistics Office) in 2018-19, higher as compared to 6.7 percent recorded in 2017-18. The economy has achieved high growth amidst significant improvements in macro-economic stability, mainly on the strength of ongoing structural reforms, fiscal discipline, efficient delivery of services and financial inclusion. Consumer price inflation has moderated significantly from 9.9 percent in 2012-13 to 3.6 percent in 2017-18. In April-December 2018, consumer price inflation was within the comfortable limit (3.7 percent) and is likely to moderate further in coming months. The Current Account Deficit widened to 2.7 percent of GDP in first half of 2018-19 from 1.9 percent of GDP in 2017-18, mainly on account of higher trade deficit arising from higher petroleum, oil and lubricants imports. India is emerging as an important player in the world economy as reflected in World Bank's Ease of Doing Business 2019 Report, which improves India's ranking by 23 positions to 77th rank in 2018.

The gross value added at constant basic prices is estimated to grow at 7.0 percent in 2018-19, as compared to 6.5 percent achieved in 2017-18. The growth in agriculture, industry and services sector is estimated to be 3.8 percent, 7.8 percent and 7.3 percent respectively in 2018-19. There has been a noticeable improvement in fixed investment and exports of goods and services. The growth of fixed investment is estimated to increase from 7.6 percent in 2017-18 to 12.2 percent in 2018-19. This is expected to push up the fixed investment rate, which had remained unchanged over the previous three years. Export of goods and services is estimated to grow at 12.1 percent in 2018-19, as compared to 5.6 percent in 2017-18. The share of total consumption expenditure in GDP is around 70 percent.

The confidence in the Indian economy has improved on account of various policy measures taken up by the government. Various economic reforms undertaken in the year, *inter-alia*, include: push to infrastructure development; historic support and outreach programme for the Micro, Small and Medium Enterprises; enhanced minimum support prices for all kharif and rabi crops for 2018-19 season, lower income tax for companies with annual turnover up to ₹250 crore and further measures to improve the ease of doing business.

Important macro-economic challenges faced by the economy are global headwinds like rising trade tensions and geo-political uncertainties in some parts of the world, and financial health of banking sector. However, medium-term macro outlook remains bright in light of the structural reforms undertaken, revival of investment rate, decline in crude oil prices and stability in exchange rate.

Prices

Inflation based on the Consumer Price Index Combined (CPI-C) averaged 3.7 percent during April-December 2018. There has been a continuous moderation in CPI-C inflation since July 2018. It has declined to 2.2 percent in December 2018 from 2.3 percent in November 2018. CPI-C inflation was 3.6 per cent in 2017-18 and 4.5 per cent in 2016-17. During April-December 2018, food inflation (Consumer Food Price Index) has averaged 0.5 percent. It stood at (-)2.5 percent in December 2018. Food inflation was at 1.8 percent in 2017-18 and 4.2 percent in 2016-17.

Inflation based on Wholesale Price Index (WPI) averaged 4.8 per cent in the April-December 2018. The WPI inflation was 3.0 percent in 2017-18 and 1.7 percent in 2016-17. WPI index has a higher weight of fuel as compared to CPI index and the CPI index has a higher weight of food & beverages. With the increase in crude oil prices, the WPI inflation started increasing from 2016-17. During April-December 2018, WPI food inflation has averaged (-)0.2 percent. WPI food inflation was 1.9 percent in 2017-18 and 5.8 percent in 2016-17.

The Government, in consultation with RBI has fixed the inflation target of 4 percent with tolerance level of (+/-)2 percent for the period beginning from 5th August 2016 to 31st March 2021.

Central Government Finances

In 2018-19, fiscal deficit was budgeted at ₹6,24,276 crore about 3.3 percent of GDP as compared to 3.2 percent budgeted in 2017-18. As fiscal deficit turned out to be slightly higher in 2017-18 it was budgeted at a slightly higher level in 2018-19. Despite the marginal increase the fiscal deficit to GDP ratio is well on track to achieve its target level of

3 percent of GDP. Revenue deficit in 2018-19 was budgeted at ₹4,16,034 crore, 2.2 per cent of GDP.

The budget estimates (BE) for 2018-19 envisaged a gross tax to GDP ratio of 12.1 per cent and total expenditure to GDP ratio of 13.0 per cent. The envisaged growth for gross tax revenue (GTR) was 16.7 per cent over 2017-18 (RE). The total expenditure in 2018-19 was budgeted to increase by 10.1 percent over 2017-18 (RE).

As per the data on Union Government Finances for April-November 2018 released by Controller General of Accounts, Gross Tax Revenue (i.e. before tax devolution to states) increased by 7.1 per cent over the corresponding period of the previous year. Gross Tax Revenue during April-November 2018 also realized 51.3 per cent of its level budgeted for 2018-19. During the same period the non-tax revenue registered an increase of 31.4 percent. On the other hand, the non-debt capital receipts declined by 57.5 percent and stood at 28.5 percent of the budgeted level of 2018-19.

Major subsidies increased by 6.3 per cent during April-November 2018. Food subsidy, fertilizer subsidy and petroleum subsidy were higher by ₹7,161 crore, ₹4,092 crore and ₹1,725 crore respectively during April-November 2018 as compared to the corresponding period in 2017.

Fiscal deficit and revenue deficit were at 114.8 percent and 132.6 percent of the BE respectively in April-November 2018, which are higher than their five-year averages for the same period. The revised estimates place fiscal and revenue deficits at 3.4 percent of GDP and 2.2 percent of GDP respectively in 2018-19.

Monetary Management and Financial Intermediation

In 2018-19, five meetings of the Monetary Policy Committee (MPC) were held so far. In the second (June 2018) and third (August 2018) bi-monthly meetings for 2018-19, the MPC decided to increase the policy Repo Rate by 25 basis points each. The rates were kept unchanged in both the October and December bi-monthly meetings. Consequently, repo rate, as of January 2019, stood at 6.50 percent. Reverse repo rate under the liquidity adjustment facility (LAF) stood at 6.25 percent, Marginal Standing Facility (MSF) rate and the Bank Rate at 6.75 per cent.

In the first two quarters of 2018-19, liquidity remained in comfortable position and mostly in excess. On an average, there was an excess of liquidity of nearly ₹1000 crore between April 2018 and mid-September 2018. However this soon turned into shortage of nearly ₹1,18,000 crore between 15th and 26th September 2018. RBI announced Open Market Operations of ₹30000 crore to ease the liquidity squeeze. Liquidity did ease temporarily but started becoming tight onwards of 15th October. Since then liquidity deficit has averaged nearly ₹90,000 crore. As on 26th December, 2018, liquidity deficit was in excess of ₹1.8 lakh crore.

Banking Sector

The gross non-performing assets (GNPA) ratio of Scheduled Commercial Banks' declined from 11.5 percent in March 2018 to 10.8 percent in September 2018, showing an improvement of asset quality. Their net non-performing assets (NNPA) ratio also registered a decline during the period. In a sign of possible recovery from the impaired asset load, the GNPA ratio of both public and private sector banks showed a half-yearly decline, for the first time since March 2015, the financial year-end prior to the launch of Asset Quality Review (AQR).

On a year-on-year basis, non-food bank credit increased by 13.8 percent in November 2018, as compared with an increase of 8.8 percent in November 2017. Credit to the services sector expanded by 28.1 percent in November 2018, as compared to 14.0 percent in November 2017. Personal loans growth was 17.2 percent in November 2018 as compared to 17.3 percent in November 2017.

External Sector

In April-December 2018, merchandise exports increased by 10.2 percent to US$ 245.4 billion from US$ 222.8 billion in the corresponding period of the previous year. This compares favorably with the 10 percent growth in 2017-18. The value of India's merchandise exports (customs basis) was US$ 303.5 billion in 2017-18.

Merchandise imports at US$ 386.7 billion in April-December 2018 increased by 12.6 percent from US$ 343.3 billion in April-December 2017. This growth was lower than the growth of 21.8 percent realized during 2017-18. Imports of petroleum, oil and lubricants (POL) increased by 42.9 percent in April-December 2018 to US$ 108.1 billion from US$ 75.7 billion in the corresponding period of the previous year, mainly on account of rise in international crude oil prices. Non-POL imports for April-December 2018 increased by 4.1 percent to US$ 278.6 billion from US$ 267.7 billion in the corresponding period of the previous year. Trade deficit increased to US$ 141.2 billion during April-December 2018, from US$ 120.6 billion in the corresponding period of the previous year.

Comparing performances at half-yearly levels it is seen that India's current account deficit (CAD) increased to US$ 35.1 billion (2.7 per cent of GDP) in H1 of 2018-19 from US$ 21.9 billion (1.8 per cent of GDP) in H1 (April-September) of 2017-18. During this period the trade deficit increased to US$ 95.8 billion in H1 of 2018-19 from US$ 74.4 billion in H1 of 2017-18. Net invisibles surplus increased to US$ 60.7 billion in H1 of 2017-18 from US$ 52.5 billion in H1 of 2017-18, with increase observed both in net services and net private transfers.

During H1 of 2018-19, net FDI was US$ 17.7 billion as compared to US$ 19.6 billion in H1 of 2017-18, while change in net portfolio was US$ (-)9.8 billion in H1 of 2017-18 as against US$ 14.5 billion in the H1 of the previous year.

The foreign exchange reserves decreased by US$ 24.0 billion during H1 of 2018-19, as against an increase of US$ 30.3 billion during the H1 of the preceding year. This resulted in decrease in the stock of foreign exchange reserves, which stood at US$ 400.5 billion at end September 2018. The stock of foreign exchange reserves was at US$ 393.4 billion on December 28, 2018.

In April-December 2018-19, the average monthly exchange rate of rupee (RBI's reference rate) was ₹69.74 per US dollar. The rupee depreciated from ₹65.02 per US dollar in March 2018 to ₹70.72 per US dollar in December 2018.

Agriculture

As per the first advance estimates, the total production of kharif foodgrains is estimated at 141.6 million tonnes in 2018-19. The production of rice during kharif season of 2018-19 is estimated at 99.2 million tonnes. The production of oilseeds in 2018-19 (kharif only) is estimated at 22.2 million tonnes.

There was a record production of 284.8 million tonnes of foodgrains in 2017-18 (fourth advance estimate), as against 275.1 million tonnes in 2016-17. Rice and wheat also registered record production at 112.9 million tonnes and 99.7 million tonnes respectively in 2017-18. The production of pulses also increased to 25.2 million tonnes in 2017-18, higher by 2.1 million tonnes than the previous record production achieved in 2016-17. The oilseeds production in the country during 2017-18 is estimated at 31.3 million tonnes.

The agriculture credit disbursement up to September 2018 was ₹6.5 lakh crore, as against the target of ₹11 lakh crore for the financial year of 2018-19.

Industrial Production

The performance of the industrial sector based on the Index of Industrial Production (IIP) registered a growth of 5.0 percent in April-November 2018, as compared to 3.2 per cent during the corresponding period of the previous year. Mining, manufacturing and electricity sectors registered growth of 3.7 percent, 5.0 percent and 6.6 percent respectively in April-November 2018. With respect to the use-based categories of IIP, during April-November 2018-19, capital goods and infrastructure/construction goods sectors have attained strong growth of 7.2 percent and 8.3 percent respectively. IIP grew by 4.6 percent and 4.4 percent respectively in 2016-17 and 2017-18.

The eight core infrastructure industries registered a cumulative growth of 5.1 percent during April-November 2018, as compared to 3.9 percent during April-November 2017. Their growth was 4.8 percent and 4.3 percent respectively in 2016-17 and 2017-18.

Prospects

The reform measures undertaken in 2018-19 are expected to strengthen and reinforce the growth momentum. The prospects for Indian economy for the year 2019-20 need to be assessed in the light of emerging global and domestic developments. The global economy faces certain challenges due to the emerging trade tensions. There is a revival of investment activity in the economy and the recent pick up in the growth of fixed investment can be expected to maintain momentum in the coming year. The nominal growth of the economy is expected to be 11.5 percent in the financial year 2019-20.

MACROECONOMIC FRAMEWORK STATEMENT (ECONOMIC PERFORMANCE AT A GLANCE)					
Sl.	**Item**	**Absolute value April-December**		**Percentage change April-December**	
		2017-18	**2018-19**	**2017-18**	**2018-19**
Real Sector					
1	GDP at market prices (₹thousand crore) @				
	a)at current prices	16773	18841	10.0	12.3
	b)at 2011-12 prices	13011	13952	6.7	7.2
2	Index of Industrial Production(2011-12=100)*	121.6	127.7	3.2	5.0
3	Wholesale Price Index (2011-12=100)	114.5	119.9	2.9	4.8
4	Consumer Price Index: New Series (2012=100)	134.5	139.5	3.3	3.7
5	Money Supply (M3) (₹thousand crore)	13208.7	14551.6	3.3	4.2
6	Imports at current prices **				
	a)In ₹Crore	2214371	2697307	18.7	21.8
	b)In US $ million	343340	386650	23.5	12.6
7	Exports at current prices **				
	a)In ₹Crore	1436614	1711906	7.3	19.2
	b)In US $ million	222767	245440	11.7	10.2
8	Trade Deficit (US$ million) **	-120572	-141210	53.7	17.1
9	Foreign Exchange Reserves (upto 28th Dec. 2018)				
	a) In ₹Crore	2614760	2752310	7.3	5.3
	b) In US $ million	409072	393404	14.0	-3.8
10	Current Account Balance (US$ million)##	-21935	-35054		
Government Finances (₹Crore)#					
1.Revenue Receipts		804861	870306	1.1	8.1
Gross tax revenue		1087302	1164685	16.5	7.1
Tax (net to Centre)		699392	731669	12.6	4.6
Non Tax		105469	138637	-39.7	31.4
2. Capital Receipts		673954	742902	37.4	10.2
(*of which*) Recovery of loans		9471	10467	4.8	10.5
Other Receipts		52378	15810	122.6	-69.8
Borrowings and other liabilities		612105	716625	33.6	17.1
3. Total Receipts (1+2)		1478815	1613208	14.9	9.1
4.Total Expenditure (a)+(b)		1478815	1613208	14.9	9.1
(a) Revenue Expenditure		1294700	1421778	13.1	9.8
Interest payments		309799	348233	16.2	12.4
Major Subsidies		206068	219046	4.2	6.3
Pensions		111593	130079	37.6	16.6
Grants for creation of Capital Assets		128434	134787	13.7	4.9
(b) Capital Expenditure		184115	191430	29.3	4.0
5. Revenue Deficit		489839	551472	40.7	12.6
6.Effective Revenue Deficit		361405	416685	53.6	15.3
7. Fiscal Deficit		612105	716625	33.6	17.1
8. Primary Deficit		302306	368392	58.0	21.9

@: GDP is from April to March and 2017-18 is provisional estimate and 2018-19 is the first advance estimate.

**: April-November*

***: On Customs basis*

#: April-November and figures as reported by Controller General of Accounts, Department of Expenditure, and Ministry of Finance.

##: April – September.