MACRO-ECONOMIC FRAMEWORK STATEMENT 2019-20

Overview of the Economy

Despite a moderation in real GDP growth by 40 basis points in 2018-19 over 2017-18, Indian economy remained the fastest growing major economy along with macroeconomic stability. There was a pickup in fixed investment rate in 2018-19. Fiscal situation remained comfortable and the consolidation process continues to bring down the elevated level of public debt. Consumer price inflation was within the targeted limits set by the monetary policy committee of RBI. Current Account Deficit increased from 1.9 percent of GDP in 2017-18 to 2.4 percent in April-December 2018-19. Global confidence on the Indian economy has improved as seen from indicators like improvement in ease of doing business and gross FDI inflows. According to World Bank's Ease of Doing Business 2019 Report, India's ranking improved by 23 positions to 77th rank in 2018.

India has emerged as an important player in the world and the medium term growth prospects of the economy are bright mainly on the back of the important structural reforms initiated in the last few years.

Various measures have been undertaken by the Government which, inter-alia, include: hike in Minimum Support Price of agricultural crops for 2018-19, policy initiatives for development of textiles and handicrafts, outreach programme for growth, expansion and facilitation of Micro, Small and Medium Enterprises, incentives for Startup India, lower effective GST rate for affordable houses, measures to promote hydro power sector, support to sugar sector and sugarcane farmers by means of enhancement and augmentation of ethanol production capacity, and Unnat Bharat Programme. Apart from this, various steps were taken to boost manufacturing, employment generation, financial inclusion, improving ease of doing business via schemes such as Make in India, Skill India, and direct benefit transfer. There has been consistent focus on improvement and development of infrastructure in the country.

Economic growth

As per the provisional estimates of annual national income, the real growth of the economy was 6.8 percent in 2018-19, as compared to 7.2 percent in 2017-18. This moderation in GDP growth momentum is mainly attributed to the lower growth in 'agriculture & allied' sector, and in services sector (except financial, real estate and professional services). The growth of gross value added (GVA) at constant (2011-12) basic prices was 6.6 percent in 2018-19, as compared to the growth of 6.9 percent achieved in 2017-18. The growth in agriculture, industry and services was 2.9 percent, 6.9 percent and 7.5 percent respectively in 2018-19, as compared to 5.0 percent, 5.9 percent and 8.1 percent respectively in 2017-18. From the demand side, private final consumption expenditure is an important driver of growth and has a major share (close to 60 percent) in the economy's GDP, with its growth rate mostly being higher than the overall GDP growth rate. The growth of fixed investment at constant prices increased from 9.3 percent in 2017-18 to 10.0 percent in 2018-19. Exports and imports of goods and services grew at 12.5 percent and 15.4 percent (at constant prices) respectively in 2018-19, as compared to 4.7 percent and 17.6 percent respectively in 2017-18.

Prices

Inflation based on Consumer Price Index (Combined) declined to 3.4 percent in 2018-19 from 3.6 percent in 2017-18. CPI inflation stood at 3 percent in May 2019. In terms of food inflation, average consumer food price index (CFPI) declined to 0.1 percent in 2018-19 from 1.8 percent in 2017-18, 4.2 percent in 2016-17 and 4.9 percent in 2015-16. Inflation based on CFPI stood at 1.8 percent in May 2019.

The average inflation measured in terms of Wholesale Price Index (WPI) stood at 4.3 percent in 2018-19, as compared to 3.0 percent in 2017-18. WPI Inflation stood at 2.5 percent in May 2019. WPI food inflation declined to 0.6 percent in 2018-19 from 1.9 percent in 2017-18. WPI food inflation stood at 5.1 percent in May 2019.

Central Government Finances

The fiscal deficit target for 2017-18 was budgeted at 3.2 percent of GDP, but there was a bump of 0.3 percent and the Fiscal Deficit was 3.5 percent of GDP. Fiscal deficit and revenue deficit were budgeted at higher level in 2018-19 i.e. ₹ 6,24,276 crore (3.3 percent of GDP) and ₹ 4,16,034 crore (2.2 percent of GDP) respectively. As per the Provisional Actuals (PA), Fiscal deficit was 3.4 percent of GDP and revenue deficit was 2.3 percent of GDP in 2018-19.

The budget estimates (BE) for 2018-19 envisaged a growth for gross tax revenue (GTR) of 16.7 percent over RE of 2017-18. The total expenditure in 2018-19 BE was estimated to increase by 10.1 percent over RE of 2017-18. As per the PA data on Union Government finances for 2018-19 released by Controller General of Accounts, the GTR increased by 8.4 percent over 2017-18 (actuals) and was at 91.6 percent of BE of 2018-19. The non-tax revenue registered an increase of 27.7 percent over 2017-18 actuals. Major subsidies increased by 3.1 percent (PA) during 2018-19 over 2017-18 actual numbers. Food subsidy increased by ₹1,622 crore, petroleum subsidy increased by ₹104 crore while fertilizer subsidy increased by ₹4157 crore during 2018-19 over the actual numbers of 2017-18.

Fiscal deficit and revenue deficit are at 103 percent of BE and 107 percent of the BE respectively in the year 2018-19. The revised estimates place fiscal and revenue deficits at 3.3 percent of GDP and 2.3 percent of GDP respectively in 2019-20.

Monetary Management and Financial Intermediation

In its first Bi-monthly Statement, the Monetary Policy Committee (MPC) decided to change the stance of monetary policy from calibrated tightening to neutral and reduced the policy repo rate by 25 basis points to 6.0 percent in April 2019. The policy rate was further cut by 25 bps in the Second Bi-monthly Monetary Policy Statement for 2019-20 in June 2019, consequently policy repo rate stood at 5.75 percent. The monetary policy stance was also changed from neutral to accommodative.

During 2018-19, the growth rate of monetary aggregates reverted to their long-term trend after experiencing an unprecedented behaviour in 2016-17 led by demonetisation and again in 2017-18 due to the process of remonetisation. Reserve Money (M0) as on March 31, 2019, recorded a growth of 14.5 percent over the previous year. The source of expansion in M0 was mainly driven by Currency in Circulation.

Broad money growth (M3) has been on declining trend since 2009. However, in 2018-19, growth in M3 improved marginally driven mainly by aggregate deposits. From the component side, the expansion in M3 during the year was broad-based, contributed by both currency and deposits. Amongst sources, credit from scheduled commercial banks to the commercial sector primarily contributed to an increase in M3 during the year. Growth of both demand and time deposits increased during 2018-19. Growth of aggregate deposits was 9.6 percent at the end of 2018-19 vis-à-vis 5.8 percent at the end of 2017-18.

External Sector

Trade deficit increased to US$ 183.5 billion during 2018-19, from US$ 162.1 billion in the previous year.

The value of India's merchandise exports (customs basis) increased by 8.6 percent to US$ 329.5 billion in 2018-19 from US$ 303.5 billion in the previous year. Imports also increased by 10.2 percent in 2018-19 to US$ 513.1 billion from US$ 465.6 billion in the previous year. Imports of petroleum, oil and lubricants (POL) increased by 29.7 percent in 2018-19 to US$ 140.9 billion from US$ 108.7 billion in the previous year, mainly on account of the increase in international crude oil prices. Non-POL imports for 2018-19 increased by 4.3 percent to US$ 372.2 billion from US$ 356.9 billion in the previous year. The growth of merchandise exports and imports both slowed down in 2018-19 as compared to 2017-18, however the decline in growth in imports was much sharper than that of exports.

Based on the Balance of Payments (BoP) data available for the first three quarters of 2018-19, the trade deficit on BoP basis increased to US$ 145.3 billion in April-December 2018 from US$ 118.4 billion in April-December 2017. Net invisibles surplus in April-December 2018 increased to US$ 93.4 billion from US$ 82.8 billion in April-December 2017, with increase observed in net services and net private transfers. Net services receipts increased by 5.0 percent in April-December 2018 over the corresponding period of the previous year.

During April-December 2018-19, net FDI was US$ 24.8 billion as compared to US$ 23.9 billion in April-December 2017-18. In case of net portfolio there was an outflow of US$ 10.1 billion in April-December 2018-19, as against net inflow of US$ 19.8 billion in the corresponding period of the previous year.

India's current account deficit (CAD) increased from US$ 35.7 billion (1.8 percent of GDP) in April-December 2017 to US$ 51.9 billion (2.6 percent of GDP) in April-December 2018. On BoP basis, there was net depletion to India's foreign exchange reserves by US$ 17.5 billion in April-December 2018, which including the valuation changes stood at US$ 29.0 billion. The stock of foreign exchange reserves was US$ 395.6 billion at end-December 2018. While trade deficit widened in April-December 2018 as compared to April-December 2017, the improvement in invisibles balance and banking capital were not sufficient to finance the CAD, leading to depletion in foreign exchange reserves in April-December 2018.

In 2018-19, the average monthly exchange rate of rupee (RBI's reference rate) was ₹ 68.62 per US$. The rupee had depreciated by 5.2 percent from ₹ 65.04 per US dollar in 2017-18.

Banking Sector

The performance of the banking sector (domestic operations), Public Sector Banks (PSBs) in particular, improved in 2018-19. The Gross Non-Performing Advances (GNPA) ratio of Scheduled Commercial Banks (SCBs) decreased from 11.5 percent to 10.1 percent between March 2018 and December 2018, as also, their Restructured Standard Advances (RSA) ratio declined from 0.7 percent to 0.4 percent. The Stressed Advances (SA) ratio decreased from 12.1 percent to 10.5 percent during the same period. GNPA ratio of PSBs decreased from 15.5 percent to 13.9 percent between March 2018 and December 2018. Stressed advances ratio of PSBs decreased from 16.3 percent to 14.4 percent during the same period.

Growth in non-food bank credit (NFC), which remained sluggish in the last few years, showed improvement in 2018-19. The average NFC growth in 2018-19 improved to 11.2 per cent vis-à-vis 7.7 per cent in 2017-18. Bank credit to large industry and services segments were the main drivers of overall NFC growth in 2018-19. However, the pace of credit growth has moderated since November 2018. Credit growth has come down from 13.8 per cent in November 2018 to 11.9 per cent in April 2019. The main contributor to this moderation has been the services sector which has decelerated from 28.1 per cent to 16.8 per cent between November 2018 and April 2019. The growth in bank credit to medium, micro and small industries have decelerated since October 2018.

Agriculture

Total food-grain production in the country is estimated at 283.4 million tonnes (3rd Advance Estimates) in 2018-19, as compared to the final estimate of 285 million tonnes of production in 2017-18. The total production of rice during 2018-19 is estimated at record 115.6 million tonnes. The production of rice has increased by 2.8 million tonnes than the previous year's production of 112.8 million tonnes. It is also higher by 7.8 million tonnes than the five years' average production of 107.8 million tonnes. The production of wheat, estimated at record 101.2 million tonnes, is higher by 1.3 million tonnes as compared to wheat production of 99.9 million tonnes achieved during 2017-18. Moreover, the production of wheat during 2018-19 is higher by 6.6 million tonnes than the five year's average wheat production of 94.6 million tonnes.

India ranks first in milk production, accounting for 20 per cent of world production. Milk production in India has been increasing steadily over the years and has increased from 55.6 million tonnes in 1991-92 to 176.3 million tonnes in 2017-18, at an average annual growth rate of 4.5 percent. India is the third largest fish producer in the world with a total production of 12.6 million metric tonnes in 2017-18 of which 65 per cent was from inland sector. Almost 50 per cent of inland fish production is from culture fisheries, which constitutes 6.5 per cent of global fish production. The sector has been registering a steady growth in the total gross value added and accounts for 5.23 per cent share of agricultural GDP. Fish and fish product exports emerged as the largest group in agricultural exports and in value terms accounted for ₹ 45107 crore in 2017-18.

The agriculture credit flow target for 2018-19 was fixed at ₹ 11,00,000 crore and against this target, as reported by NABARD, the disbursement by banks till September, 2018 is ₹ 6,45,205 crore.

Industry

The performance of the industrial sectors based on the Index of Industrial Production (IIP) comprising mining, manufacturing and electricity registered a growth of 3.6 percent in 2018- 19, as compared to 4.4 percent in 2017-18. As per the sectoral classification, mining, manufacturing and electricity sectors registered 2.9 percent, 3.6 percent and 5.2 percent growth during 2018-19 respectively. Among the use-based categories, primary goods, capital goods, intermediate goods, infrastructure/construction goods, consumer durables goods and consumer non-durables goods have attained 3.5 percent, 2.8 percent, (-)0.5 percent, 7.5 percent, 5.5 percent and 3.9 percent growth respectively in 2018-19.

The eight core infrastructure supportive industries, viz. coal, crude oil, natural gas, refinery products, fertilizers, steel, cement and electricity that have a total weight of nearly 40 percent in the Index of Industrial Production (IIP) grew by 4.3 percent in 2018-19 at the same level of growth at 4.3 percent in 2017-18. The production of coal, natural gas, refinery products, fertilizers, steel, cement and electricity increased by 7.4 percent, 0.8 percent, 3.1 percent, 0.3 percent, 4.7 percent, 13.3 percent and 5.2 percent respectively during 2018-19 while the production of crude oil fell during the same period.

Prospects

The growth momentum of the economy is expected to strengthen in 2019-20. The prospects for Indian economy for the year 2019-20 need to be assessed in the light of emerging global and domestic developments. Global economic growth is expected to slow down in 2019 which could limit India's export growth. However, growth of the Indian economy is expected to pick up. There are signs of 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. In line with the projections for strengthening of India's growth by international institutions, the nominal growth of the economy is expected to be 11.0 percent in the financial year 2019-20.

MACROECONOMIC FRAMEWORK STATEMENT (ECONOMIC PERFORMANCE AT A GLANCE)					
Sl.	Item	Absolute value April-March		Percentage change April-March	
		2017-18	2018-19	2017-18	2018-19
Real Sector					
1	GDP at market prices (₹ thousand crore) @				
	a)at current prices	17095	19010	11.3	11.2
	b)at 2011-12 prices	13180	14078	7.2	6.8
2	Index of Industrial Production(2011-12=100)	125.3	129.8	4.4	3.6
3	Wholesale Price Index (2011-12=100)	114.9	119.8	3.0	4.3
4	Consumer Price Index: New Series (2012=100)	135.0	139.6	3.6	3.4
5	Money Supply (M3) (₹ thousand crore)	13962.6	15430.9	9.2	10.5
6	Imports at current prices *				
	a)In ₹ Crore	3001033	3587684	16.4	19.5
	b)In US $ million	465581	513086	21.1	10.2
7	Exports at current prices *				
	a)In ₹ Crore	1956515	2303898	5.8	17.8
	b)In US $ million	303526	329536	10.0	8.6
8	Trade Deficit (US$ million) *	-162055	-183550	49.4	13.3
9	Foreign Exchange Reserves (at end March)				
	a) In ₹ Crore	2760850	2855880	15.1	3.4
	b) In US $ million	424545	412871	14.8	-2.7
10	Current Account Balance (US$ million)#	-35651	-51865		
Government Finances (₹ Crore)##					
1. Revenue Receipts		1435233	1563170	4.4	8.9
Gross tax revenue		1919009	2080203	11.8	8.4
Tax (net to Centre)		1242488	1316951	12.8	6.0
Non Tax		192745	246219	-29.4	27.7
2. Capital Receipts, of which		706740	748252	17.6	5.9
Recovery of loans		15633	17840	-11.3	14.1
Other Receipts		100045	85045	109.5	-15.0
Borrowings and other liabilities		591062	645367	10.4	9.2
3. Total Receipts (1+2)		2141973	2311422	8.4	7.9
4.Total Expenditure		2141973	2311422	8.4	7.9
(a)Revenue Expenditure		1878833	2008463	11.1	6.9
Of which Grants for creation of Capital Assets		191034	191220	15.3	0.1
Interest payments		528952	582675	10	10.1
Major Subsidies		191183	197066	-6.3	3.1
Pensions		145745	160123	10.9	9.9
(b)Capital Expenditure		263140	302959	-7.5	15.1
5. Revenue Deficit		443600	445293	-	-
6.Effective Revenue Deficit		252566	254073	-	-
7. Fiscal Deficit		591062	645367	-	-
8. Primary Deficit		62110	62692	-	-

@: GDP is from April to March and 2018-19 is provisional estimate and 2017-18 is the first revised estimate.
**: On Customs basis.*
#: April – December.
##: 1. April-March figures as reported by Controller General of Accounts and Ministry of Finance.
2. 2017-18 are Actual numbers from Interim Budget 2019-20