Monthly Economic Report
February 2019

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Growth has been estimated to slow down in 2018-19 to 7.0 percent and yet the average GDP growth in the last five years has topped 7.5 percent defining a new normal for the Indian economy.

Fig 1: Annual growth rate (percent)

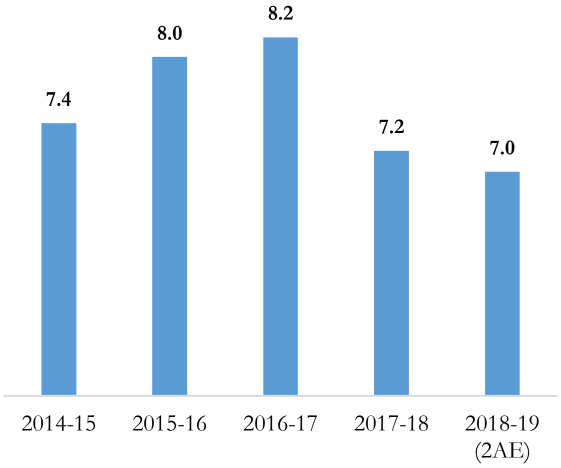


Fig 2: Quarter wise growth rate (percent)

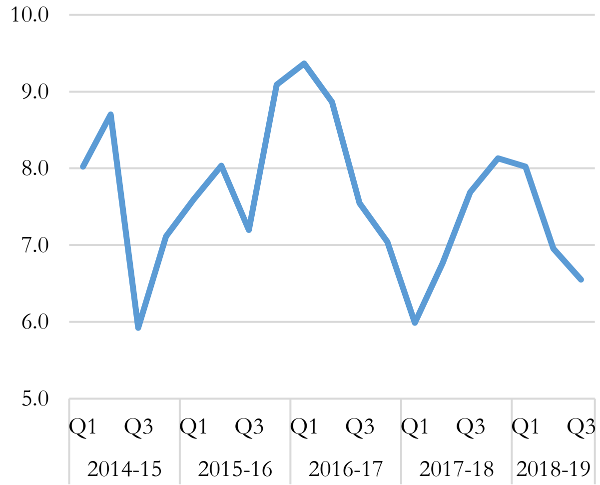


Fig 3: Growth in number of passenger and commercial vehicles sale (percent)

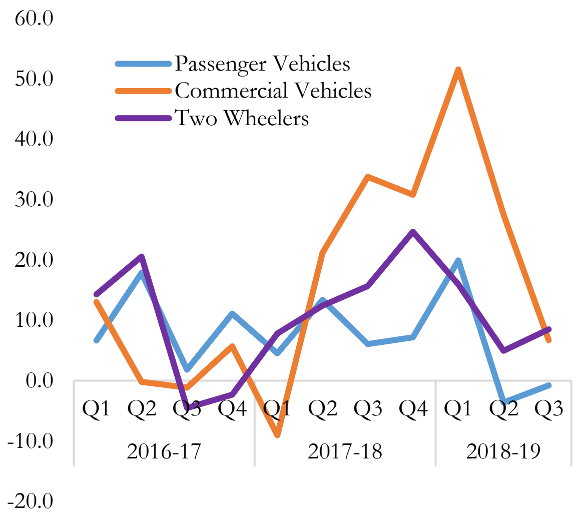
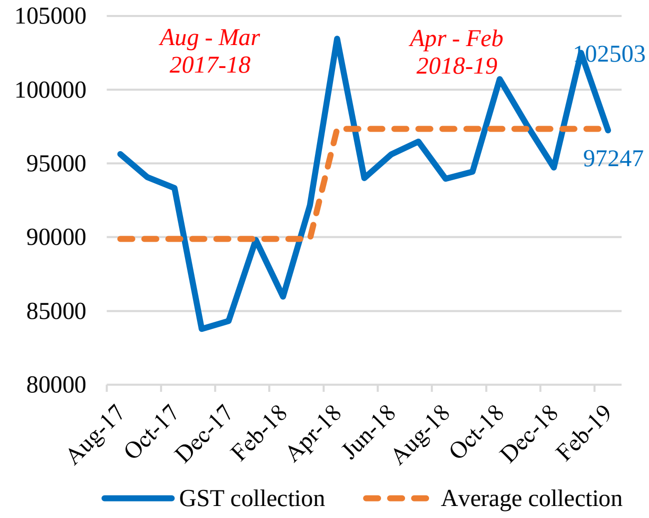
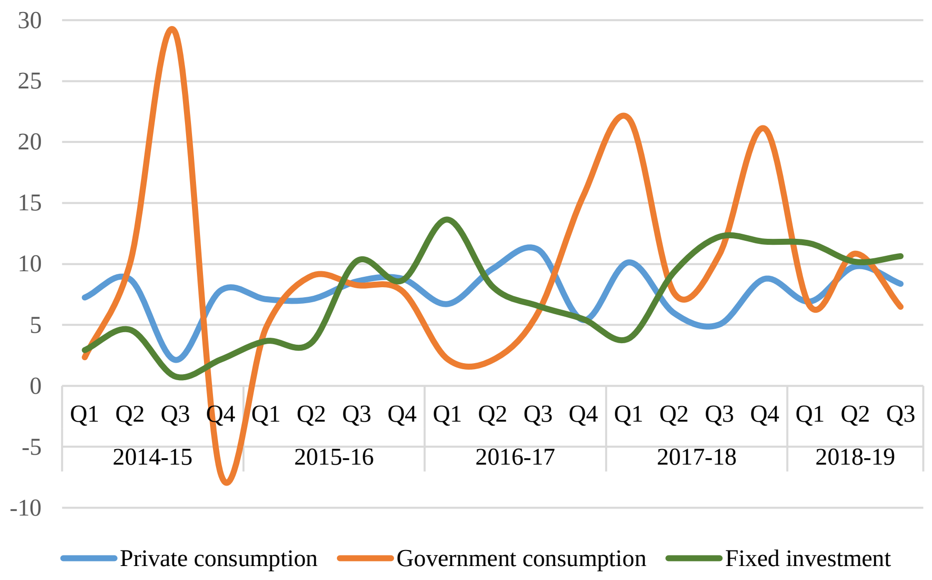


Fig 4: Monthly GST collection (Rs. Crore)



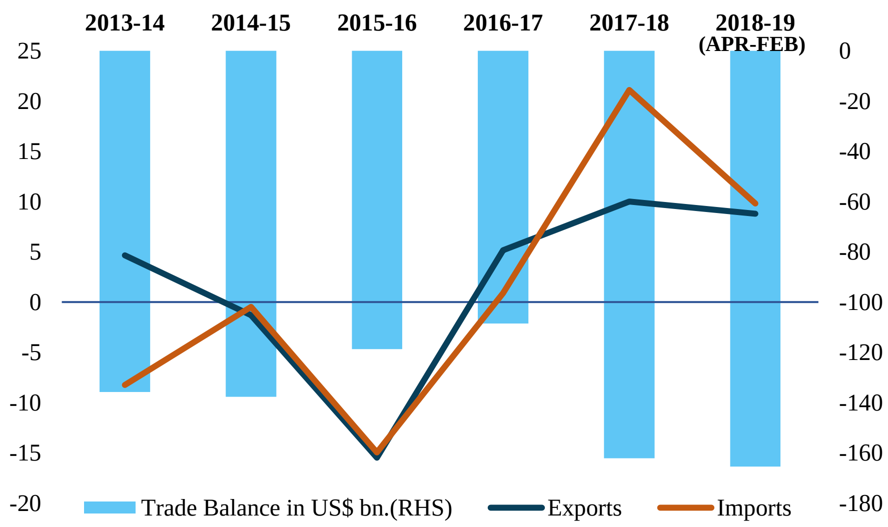
In recent years, growth also has been consumption driven as investment has fallen on the back of high leverage in the corporate sector and overload of non-performing assets (NPA) in the banking sector. However, it appears that declining investment has bottomed out with fixed investment in 2018-19 increasing in proportion to GDP.

Fig 5: Growth rate of real consumption and fixed investment (percent)



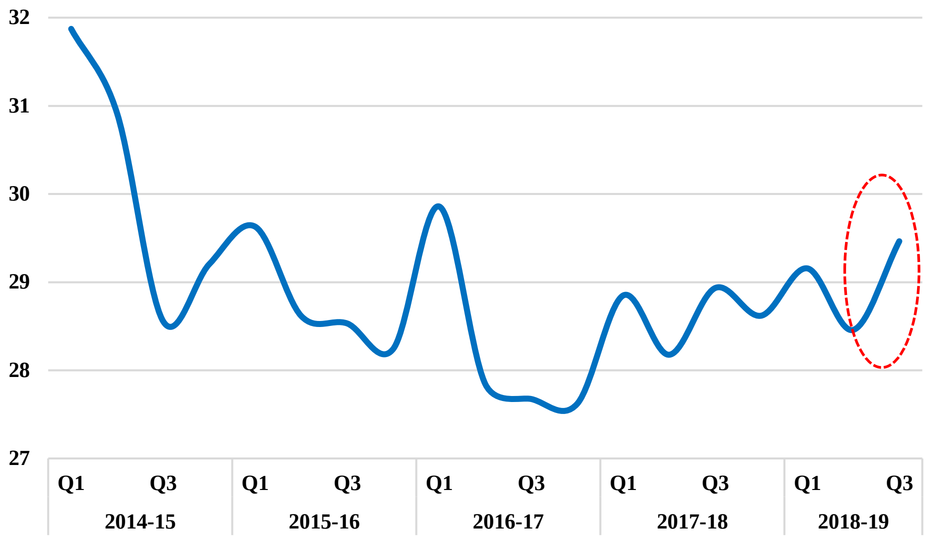
With growth in consumption unyielding and investment looking up, imports have risen more than exports to cause a drop in net exports and consequently growth in 2018-19. The impact of slowing growth has however towards year end limited import demand causing net exports to improve in Q3 of 2019.

Fig 6: Growth of merchandise exports and imports (percent)



Improvement in investment rate has been the most positive development in 2018-19, increasing by 0.3 percentage points (pp) to 28.9 percent and more promisingly by 1 pp to 29.5 percent in Q3.

Fig 7: Fixed investment rate (Share of GFCF to GDP)



Both IIP and manufacturing IIP have also risen in 2018-19 over their respective levels of the previous year as has the production growth of eight core industries.

Fig 8: IIP growth (in per cent)

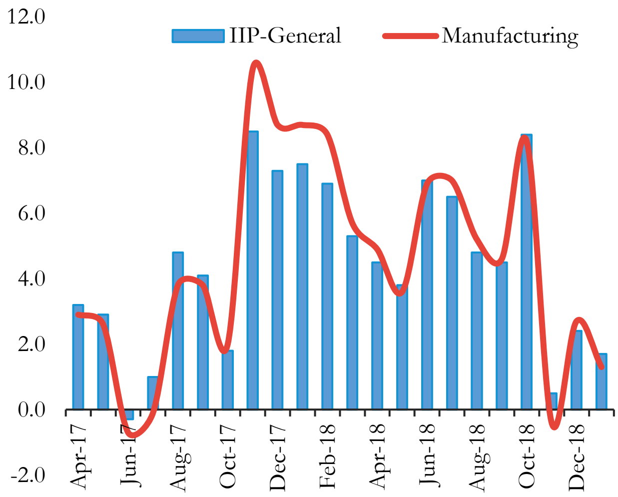
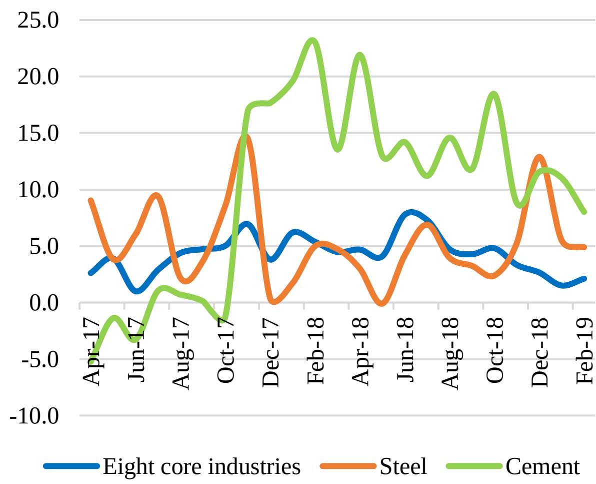


Fig 9: Production growth (in per cent)



An elevated level of both nominal and real repo rate could not deter investment demand as commercial banks responded with higher growth of credit disbursal in 2018-19 and lower burden of NPA in first half of 2018-19. Commercial bank credit growth in February 2019 has increased to 14.6 percent, higher than the cumulative average of the year thus far.

Fig 10: Nominal Repo Rate (per cent)

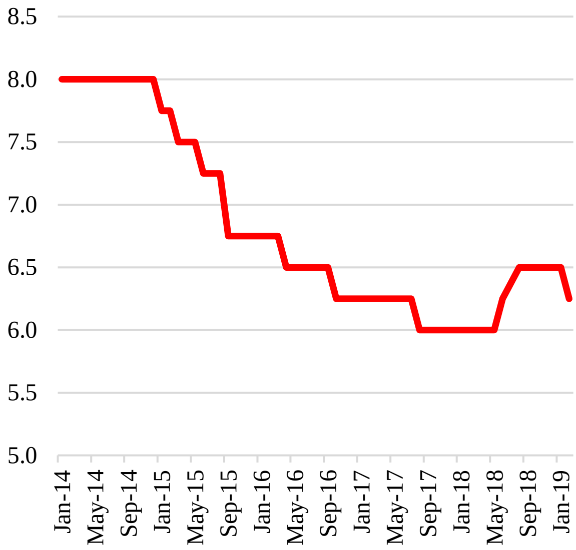
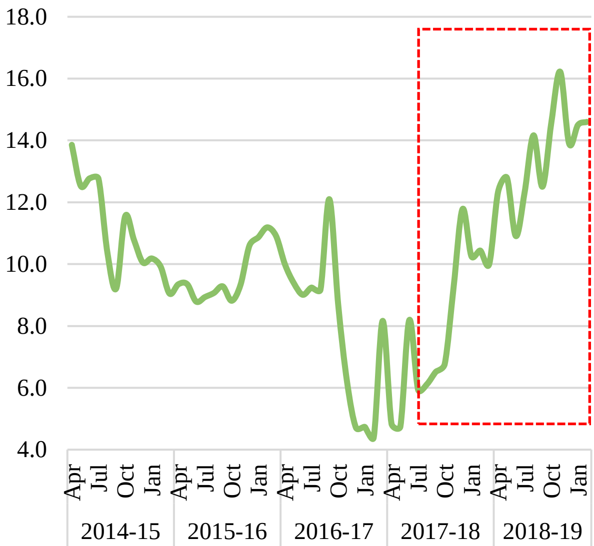
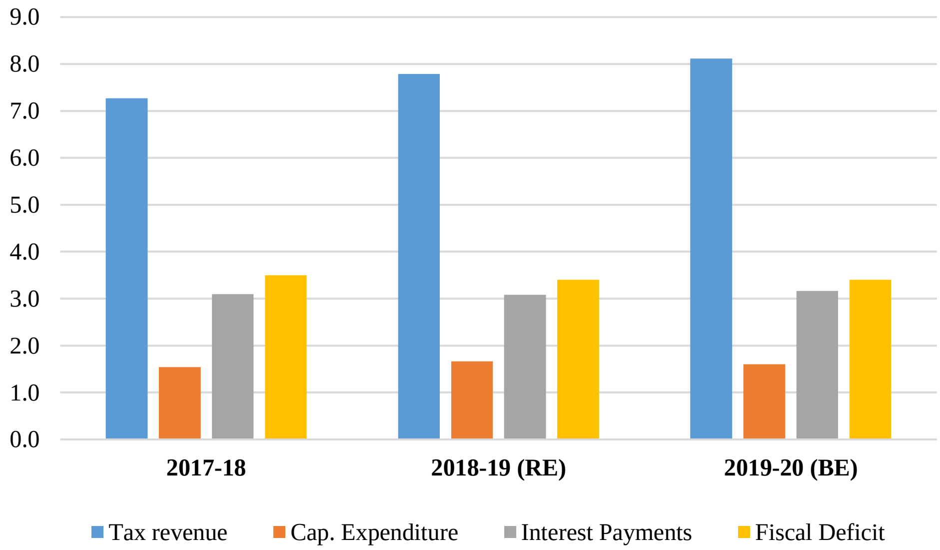


Fig 11: Commercial Bank credit growth (percent)



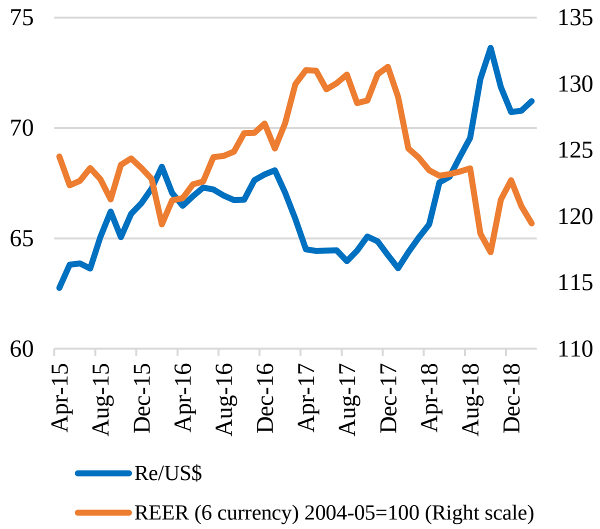
Continued improvement in fiscal discipline has been another major positive of 2018-19. Despite government consumption increasing in relation to GDP combined fiscal deficit of central and state governments is projected to reduce by 0.6 pp to 5.8 percent of GDP in 2018-19. Of this Centre's fiscal deficit is also projected to reduce by 0.1 pp to 3.4 percent and that too without compromising capital expenditure, which in fact is expected to increase by 0.2 pp to 1.7 percent of GDP. A growth in tax revenues (net of states' share) to 8.1 percent of GDP in 2018-19 has helped the Centre maintain fiscal discipline.

Fig 12: Fiscal indicators (as percentage of GDP)



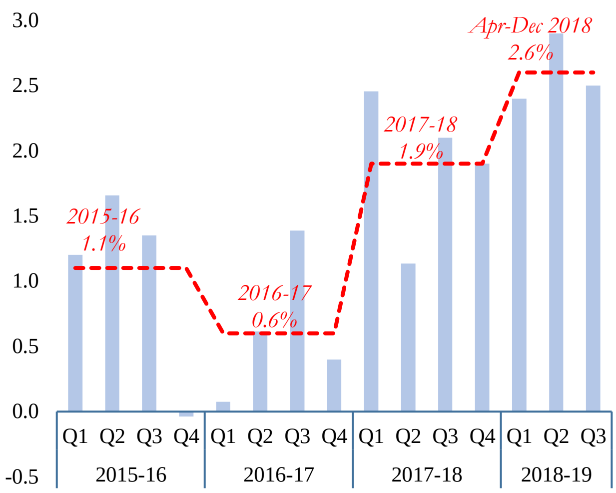
Depreciation of the real effective exchange rate (REER) in 2018-19 has had a limited impact on growth of exports. Current account deficit is 2.6 percent of GDP in April-December 2018, yet India's external sector liabilities continue to be manageable.

Fig 13: Exchange rate movement



Note: Decline in REER indicates depreciation

Fig 14: Current account deficit to GDP (percent)



External debt to GDP ratio is below 21 percent in Q3 of 2018-19 and debt-servicing ratio below 7 percent reflecting an untapped potential for external funding. The forex reserves at more than USD 400 billion in March 2019 provide comfortable support to imports of 8-9 months. Debt portfolio outflows are more an outcome of what happens abroad while inflows continue to grow in the absence of external disturbance reflecting growing confidence of the world in India's economy. Not surprisingly Moody has upgraded India's local and foreign currency issuer rating from Baa3 to Baa2 with a stable outlook.

Fig 15: External debt (US$ billion)

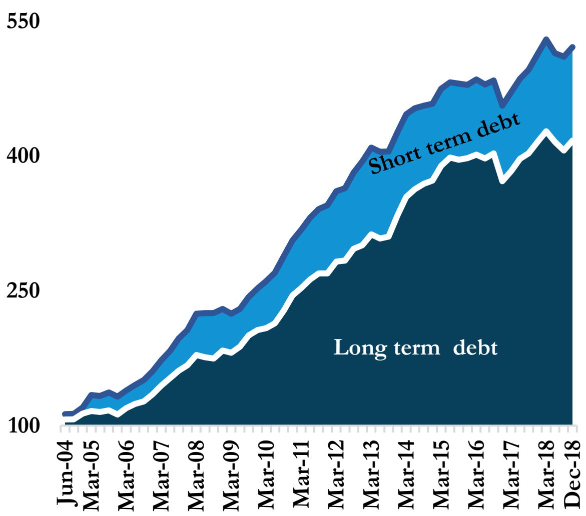
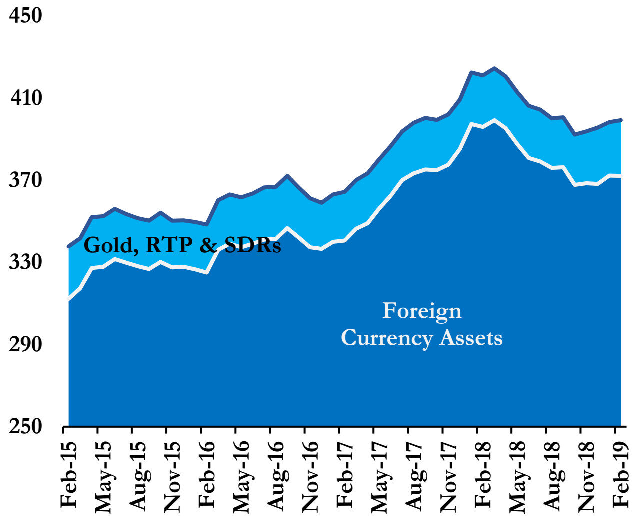


Fig 16: Foreign exchange reserve (US$ billion)



Note: RTP: Reserve Tranche Position, SDRs: Special Drawing Rights

The supply response to demand, as captured by the gross value added (GVA) by various goods and services sectors, show manufacturing and construction sectors taking the lead to drive growth in 2018-19 among the goods sector while financial, real estate and professional services doing it for the services sector, as compared to 2017-18. The contribution of agriculture, forestry & fishing as also mining & quarrying to GVA growth, which was modest in 2017-18 has depressed further in 2018-19. As per the 2nd Advance Estimates for 2018-19, the total production of foodgrains is estimated at 281.4 million tonnes as compared to 277.5 million tonnes (2nd Advance Estimates) in the previous year.

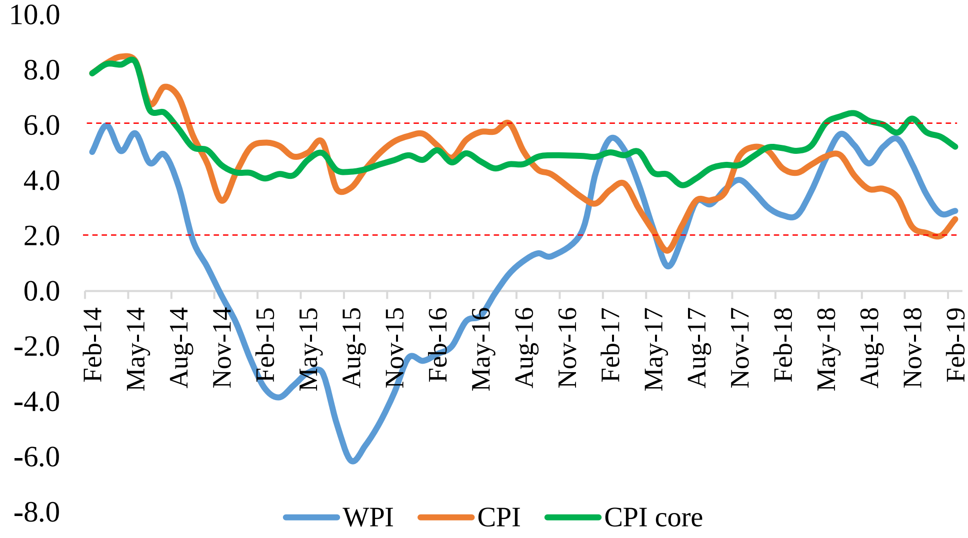
Table 1: Sectoral Share in GVA (percent)

	2016-17 2nd RE	2017-18 1st RE	2018-19 2nd AE
Agriculture, forestry & fishing	**17.9**	**17.2**	**16.0**
Industry	**29.4**	**29.3**	**29.8**
Mining & quarrying	2.3	2.3	2.4
Manufacturing	16.8	16.4	16.6
Electricity, gas, water supply & other utility services	2.5	2.7	2.8
Construction	7.8	7.8	8.0
Services	**52.7**	**53.5**	**54.2**
Trade, hotel, transport, storage, communication & services related to broadcasting	18.2	18.2	18.3
Financial, real estate & professional services	20.9	21.0	21.3
Public Administration, defence and other services	13.6	14.3	14.6

Note: RE - Revised Estimates, AE - Advance Estimates

CPI headline inflation has fallen from an average of 3.6 percent in 2017-18 to 3.5 percent in April-February 2018-19. The fall in Q3 of 2018-19 was sharper and even more so in January 2019 although some hardening is in evidence in February 2019. Significantly headline inflation has stayed within the 4 percent target of the Monetary Policy Committee, partly owing to their own efforts and mostly on account of falling food prices that more than overcame an average rise of about 25 percent in crude prices from 2017-18 to 2018-19. Since headline inflation has shown very little volatility setting itself on a downward trend for now more than two years, it has proven to be a more complete indicator of price change than core inflation.

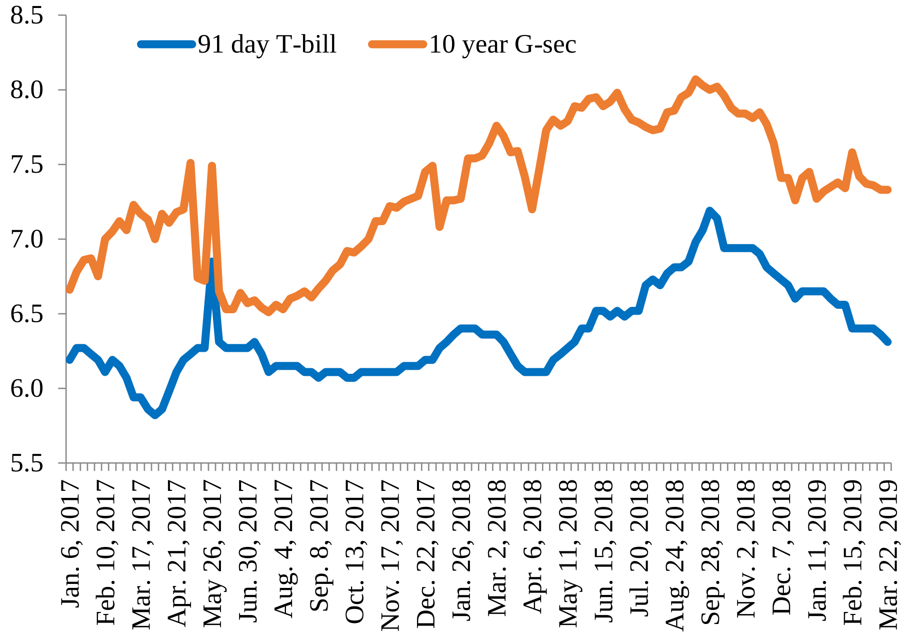
Fig 17: Month wise CPI and WPI Inflation (percent)



GDP deflator however, has risen from 3.8 percent in 2017-18 to 4.2 percent in 2018-19 mostly on account of a sharp rise in the WPI inflation from 3.0 percent to 4.4 percent. It seems that manufacturers had price incentives to increase production, consumers still faced lower price burden.

The yield on 91-days T-bills on average has been falling since Q2 of 2018-19 and now stands at 6.4 percent in February 2019. The T-bill market does not expect inflation to rise at least in the next three months. Yield on 10-year G-sec has also been falling and was 7.4 percent in February 2019. G-sec market does not expect weakening of fiscal discipline of central government in the medium term.

Fig 18: Yield on T-bill and Government Securities (percent)



Growth prospects have however started to improve only recently if equity markets are taken as indicators. SENSEX that grew at 17.5 percent in 2017-18, fell to 10.6 percent in 2018-19, which is consistent with economic slowdown estimated for the year. However, from a low of 10.6 percent in January 2019 the growth has climbed back to double digit at 17.3 percent in February 2019. NIFTI shows a similar jump to 14.9 percent reflecting a positive outlook on the growth prospects of the Indian economy.

SOME MAJOR ECONOMIC DECISIONS IN FEBRUARY 2019

- The Cabinet Committee on Economic Affairs (CCEA) approved to provide soft loans to the extent of about Rs. 7900-10540 crore to the sugar industry. Government will bear the interest subvention cost @ 7 - 10% to the extent of Rs. 553 crore to Rs 1054 crore for one year.
- The CCEA approved for the creation of a corpus of Rs. 2000 crore for Agri-Market Infrastructure Fund to be created with NABARD for development and up-gradation of

agricultural marketing infrastructure in Gramin Agricultural Markets and Regulated Wholesale Markets.

- The CCEA approved the Proposal of the Ministry of Information and Broadcasting regarding Prasar Bharati's "Broadcasting Infrastructure and Network Development" scheme at a cost of Rs.1054.52 crore for 3 years from 2017-18 to 2019-20.
- The CCEA approved for the continuation of the Scheme of "Exploration of Coal and Lignite" with an expected expenditure of Rs.1875 Crore.
- The CCEA approved for the implementation of the Central Public Sector Undertaking Scheme Phase-ll for setting up 12,000 MW grid-connected Solar Photovoltaic (PV) Power Projects.
- The CCEA approved for increase in Minimum Support Price for Fair Average Quality (FAQ) of Raw Jute to Rs.3950/- per quintal for 2019-20 season from Rs. 3700/- per quintal in 2018-19 season.
- The CCEA approved the Credit Linked Capital Subsidy and Technology Up-gradation Scheme (CLCS-TUS) with a total outlay of Rs.2900 crore. The scheme aims at improving the competitiveness of MSMEs by integrating various ongoing schematic interventions aimed at up-grading technology through Credit Linked Capital Subsidy
- The CCEA approved for launch of Kisan Urja Suraksha evam Utthaan Mahabhiyan with the objective of providing financial and water security to farmers.
- The CCEA approved for the Phase-II of Grid Connected Rooftop Solar Programme for achieving cumulative capacity of 40,000 MW from Rooftop Solar (RTS) Projects by the year 2022.
- The Union Cabinet approved for continuation of Khadi GramodyogVikas Yojana from 2017-18 to 2019-20.
- The CCEA has approved the "Pradhan Mantri JI-VAN (Jaiv Indhan- Vatavaran Anukool fasal awashesh Nivaran) Yojana" for providing financial support to Integrated Bioethanol Projects using lignocellulosic biomass and other renewable feedstock.
- The CCEA approved for development of New Greenfield Airport at Hirasar, Rajkot, Gujarat at an estimated cost of Rs.1405 crore.
- The CCEA approved for the construction of four lane bridge including approaches over river Brahmaputra between Dhubri on North Bank and Phulbari on South Bank on NH-127 B in the State of Assam/Meghalaya. The total length of the bridge will be 19.282 km.
- The Union Cabinet approved the National Policy on Software Products - 2019 to develop India as a Software Product Nation.
- The Union Cabinet approved for payment of the face value of the subscribed share capital of Rs.1450 crore in National Housing Bank(NHB) to Reserve Bank of India (RBl) consequent to amendments made to the NHB Act, 1987 in 2018.
- The Union Cabinet approved for establishment of Rashtriya Kamdhenu Aayog for Conservation protection and development of cows and their progeny.

Table 2: Key Indicators						
Indicator	**2017-18**	**2018-19**	**2018-19:Q2**	**2018-19:Q3**	**Jan-19**	**Feb-19**
Real GDP Growth Rate (%)	7.2	7.0	7.0	6.6		
Nominal GDP Growth Rate (%)	11.3	11.5	11.9	11.0		
Real GVA Growth Rate (%)	6.9	6.8	6.8	6.3		
Private consumption as % of GDP (current price)	59.0	59.5	58.4	61.3		
Govt. consumption as % of GDP (current price)	11.0	11.2	12.4	10.2		
Fixed investment as % of GDP (current price)	28.6	28.9	28.5	29.5		
Net exports as % of GDP (current prices)	-3.2	-3.7	-4.5	-3.9		
Net merchandise exports as % of GDP[1]	-6.1	-7.4	-7.7	-7.6		
Current account deficit as % of GDP(CUP) (%)[1]	1.9	2.6	2.9	2.5		
Foreign exchange reserves in US$ billion[2]	424.5	405.6	400.5	395.6	400.2	401.8
Rupee/US Dollar - Period Average	64.5	69.9	70.1	67.0	70.7	71.2
CPI-C Headline Inflation (%)[3]	3.6	3.5	3.9	2.6	2.0	2.6
CPI Core Inflation (%)[3]	4.6	5.9	5.9	5.8	5.2	5.4
WPI Inflation (%)[3]	3.0	4.4	5.0	4.5	2.8	2.9
Crude Oil Price (Indian Basket) $/bbl -Average[3]	56.4	69.9	74.6	67.8	59.3	64.5
Money Supply (M3) Growth Rate (%)[4]	9.2	10.8	9.4	10.2	10.4	10.8
Commercial Bank Credit Growth Rate (%)[4]	10.0	14.6	12.5	13.9	14.6	14.6
SENSEX [S&P BSE] Growth Rate (%)	17.5	10.6	3.7	0.8	4.9	17.3
NIFTI 50 Growth Rate (%)	15.4	8.7	0.5	-1.8	2.9	14.9
Gross Fiscal Deficit as % of GDP (Centre)[5]	3.5	3.4				
IIP growth rate (%)[6]	4.4	4.4	5.3	3.7	1.7	--
Production of Food Grains (million tons)[7]	284.8	281.4				

Notes:
1: For 2018-19 the data corresponds to April-December, **2:** 2018-19 data is up to 15th March 2019, **3:** For 2018-19 the data is for April to February, **4:** 2018-19 data is as on February end, **5:** 2018-19 data is revised estimate, **6:** 2018-19 data is for April to January, **7:** Fourth advance estimate for 2017-18 and second advance estimate for 2018-19