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Key achievements of Department of Economic Affairs: Improvement in India's Macroeconomic Stability

India is one of the bright spots among the major countries in the subdued global economic context

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The key initiatives of the Department of Economic Affairs, Ministry of Finance taken in the past 3 years have led to Improvement in India's Macroeconomic Stability.

Today, India is one of the bright spots among the major countries in the subdued global economic context. India recorded a growth of 7.9 per cent in 2015-16, as compared to 7.2 per cent in 2014-15 and 6.5 per cent in 2013-14. Predictions by expert agencies suggest that India's growth rate is set to improve further in 2017-18.

In terms of the Global Competitiveness Index (GCI) prepared by World Economic Forum for 138 countries, India ranked 39 in 2016-17, as compared to India's rank in GCI of 60 (among 148 countries) in 2013-14.

During the last three years, Indian economy has made an improvement in macro-economic stability on the strength of the following indicators, Table 1.

Table 1: Improvement in Macro-economic stability

	2011-12 to 2013-14 (3 year Average)	2014-15 to 2015-16 (2 year Average)	2016-17 *
Inflation CPI (NS)	9.8	5.4	4.6
Inflation WPI	7.4	-0.2	3.5
CAD (% of GDP)	-3.6	-1.2	-0.7
GDP Growth (%)	6.0	7.6	7.1
World GDP growth (%)	3.7	3.3	3.1
Foreign Exchange Reserves (USD Bn)	296.9	350.9	362.8
Net FDI ($ Billion)	21.1	33.6	21.3
Fiscal Deficit (% of GDP)	5.1	4.0	3.5

(*): For 2016-17, CPI inflation till February 2017, WPI inflation till Dec 2016, CAD till December 2016, Net FDI till H1 2016-17, foreign exchange reserves till February 2017, GDP growth is as per 1st advance estimate and fiscal deficit is budget estimate 2016-17

FISCAL SITUATION

The fiscal situation of India has become comfortable, with fiscal deficit as a ratio of GDP steadily declining from 4.5 per cent in 2013-14. Fiscal deficit of the Government of India as a ratio of GDP was 4.1 per cent in 2014-15, 3.9 per cent in 2015-16 and 3.5 per cent for 2016-17 (Revised Estimate). The fiscal deficit is budgeted to be 3.2 per cent of GDP in 2017-18.

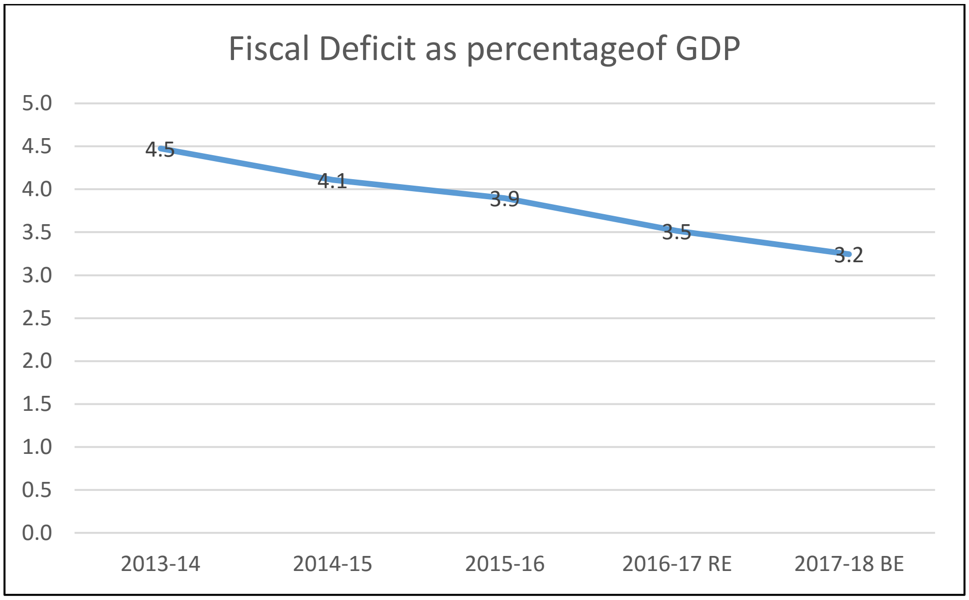

Figure 1: Fiscal Deficit as percentage of GDP

INFLATION

The present Government took charge in May 2014 in the backdrop of persistently high inflation, particularly the food inflation. Astute food management and price monitoring by the Government in the last three years helped control the stubbornly persistent inflation. CPI inflation remained under control for the third successive financial year. The average CPI (combined) inflation declined from 9.5 per cent in 2013-14 to 5.9 per cent in 2014-15 and 4.9 per cent in 2015-16. It declined further to 4.6 per cent in the current financial year, upto February 2017 and stood at 3.7 per cent in February 2017 backed by sharp fall in food inflation. Food inflation based on consumer food price index (CFPI) which was in double digits during 2012-2014 declined to 6.4 per cent in 2014-15 and 4.9 per cent in 2015-16. It declined further to 4.4 per cent in the current financial year, upto February 2017 and stood at 2.0 per cent in February 2017.

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

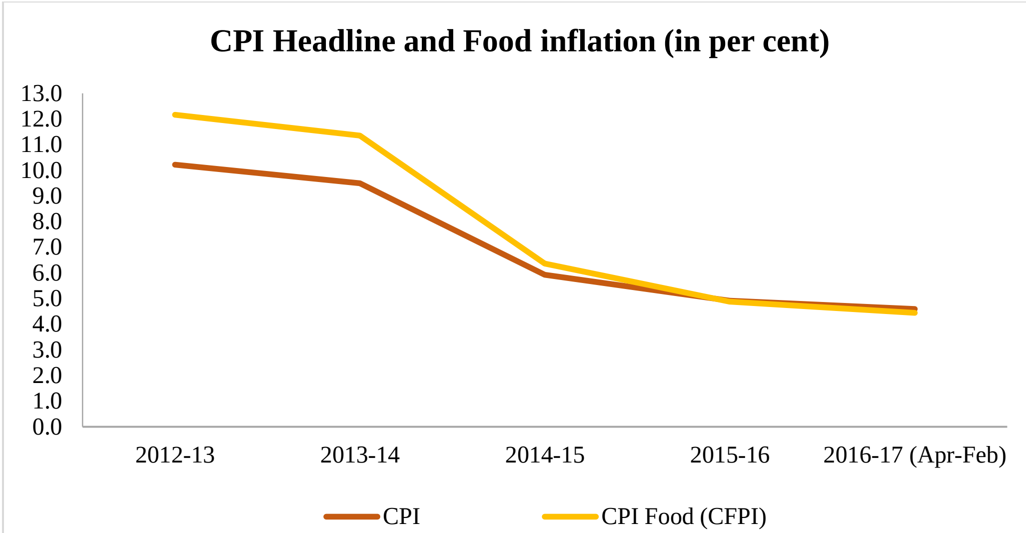

Figure 2: CPI Headline and Food inflation (in percent)

(Source: CSO)

TRADE

India's trade deficit was highest at US$ 190.3 billion in 2012-13. However, it declined by 13.8 per cent to US$ 118.7 billion in 2015-16 which was lower than the level of US$ 137.7 billion in 2014-15. During 2016-17 (April-February), trade deficit decreased to US$ 95.3 billion as against US$ 114.3 billion in the corresponding period of the previous year.

FOREIGN INVESTMENT

Inflow of foreign direct investment increased from US$ 43.6 billion 2013-14 to US$ 51.8 billion in 2014-15 and further to US$ 59.5 billion in 2015-16. During 2016-17 (April-December), net FDI was US$ 31.2 billion as compared to US$ 27.2 billion in 2015-16 (April-December).

BALANCE OF PAYMENT

India's external sector position has been comfortable, with the current account deficit (CAD) progressively contracting from US$ 88.2 billion (4.8 per cent of GDP) in 2012-13 to US$ 22.2 billion (1.1 per cent of GDP) in 2015-16. On a cumulative basis, the CAD narrowed to 0.7 per cent of GDP in April-December 2016 from 1.4 per cent in the corresponding period of 2015-16 on the back of the contraction in the trade deficit.

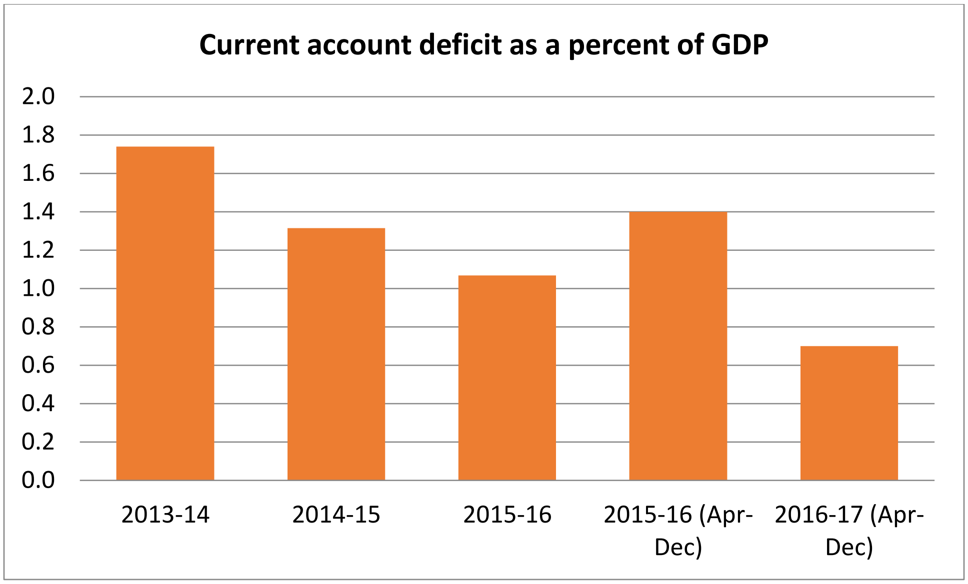

Figure 3: Current Account Deficit (CAD) as a percent of GDP
(Source: RBI)

FOREIGN EXCHANGE RESERVES

Foreign exchange reserves touched an all-time high level of US$ 371.9 billion in end-September 2016. The current position is at a comfortable level to cushion the exchange rate volatility from any international macroeconomic uncertainty.

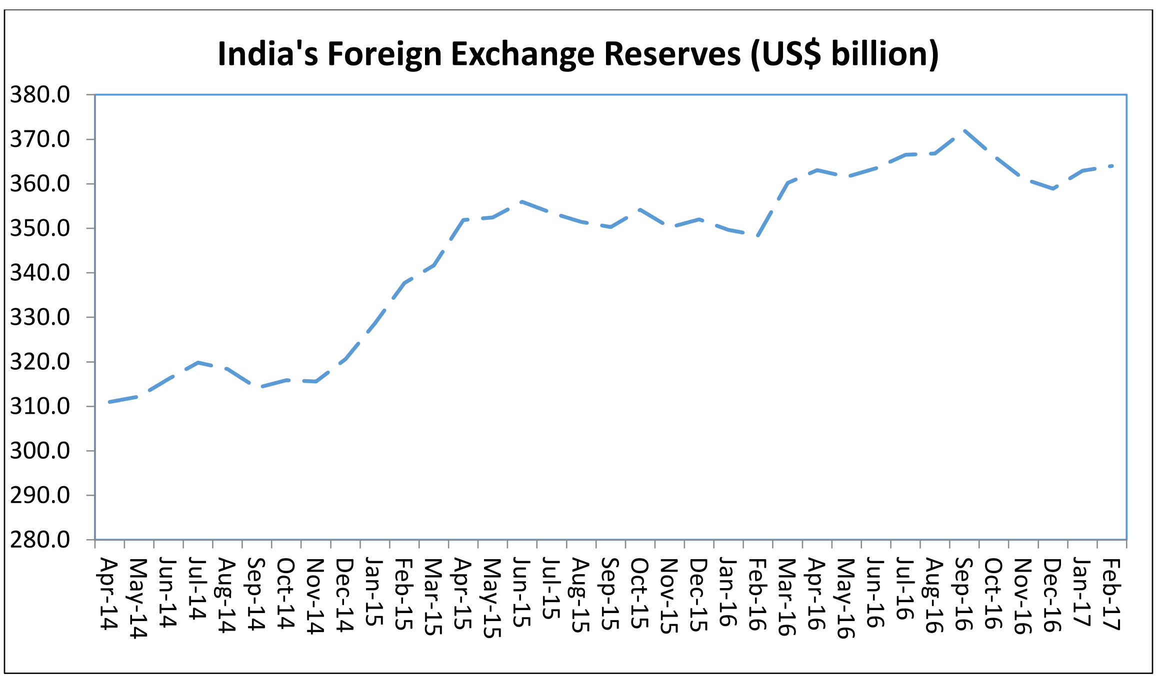

Figure 4: India's Foreign Exchange Reserves (US $ billion)
(Source: RBI)

EXTERNAL DEBT

At end-September 2016, India's external debt stock stood at US$ 484.3 billion, recording a decline of US$ 0.8 billion (0.2 per cent) over the level at end-March 2016.

Most of the key external debt indicators show an improvement in September 2016. The share of short-term debt in total external debt decreased to 16.8 per cent at end-September 2016 from 17.2 per cent at end-March 2016. India's foreign exchange reserves provided a cover of 76.8 per cent to the total external debt stock at end-September 2016 vis-à-vis 74.3 per cent at end-March 2016.

India continues to be among the less vulnerable nations in terms of its key debt indicators which compare well with other indebted developing countries. According to the World Bank's "International Debt Statistics, 2017" which gives external debt data of developing countries for 2015, the ratio of India's external debt stock to gross national income (GNI) at 23.4 per cent was the fifth lowest. In terms of the cover provided by foreign exchange reserves to external debt, India's position was sixth highest at 69.7 per cent.

AGRICULTURE AND FOOD MANAGEMENT

As per the Second Advance Estimates of National Income released on 28th February 2017, the growth rates in Gross Value Added (GVA) of the agriculture and allied sectors were at 4.4 per cent in 2016-17, 0.8 per cent in 2015-16, (-) 0.2 per cent in 2014-15. As per the second Advance Estimates of production of foodgrains released by Ministry of Agriculture & Farmers Welfare on 15th February 2017, production of total foodgrains during 2016-17 is estimated at 271.98 million tonnes compared to 251.57 million tonnes in 2015-16 (Final) and 252.02 million tonnes in 2014-15.

INDUSTRIAL SECTOR

As per the Second Advance Estimates of National Income 2016-17 released by CSO on 28th February 2017, the growth rates in Gross Value Added (GVA) of the industrial sector were 5.8 per cent in 2016-17, 8.2 per cent in 2015-16 and 6.9 per cent in 2014-15.

The index for eight core industries (comprising crude oil, natural gas, petroleum refinery products, coal, electricity, cement, steel, and fertilizers) registered 4.8 per cent growth in 2016-17 (April-January) as compared to 3.4 per cent in 2015-16 and 4.5 per cent in 2014-15.

With the introduction of UDAY scheme in power sector in 2015, most of the States have made significant efforts to reduce AT&C losses. The scheme has already addressed 62% of the DISCOMs' debt that existed at the end of 2014-15.

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