

Department of Economics Affairs
Ministry of Finance
Monthly Economic Report
March 2019

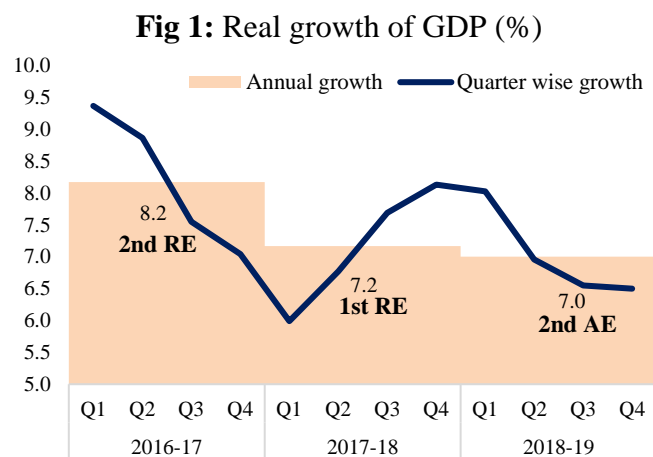


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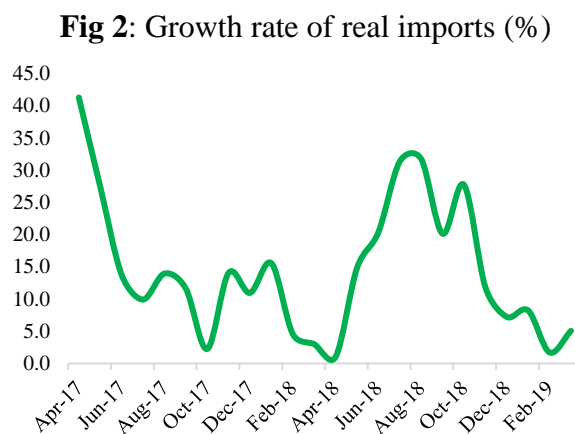
The Indian economy is the fastest growing major economy and is projected to grow faster in the coming years. However, India's economy appears to have slowed down slightly in 2018-19. The proximate factors responsible for this slowdown include declining growth of private consumption, tepid increase in fixed investment, and muted exports. On the supply side, the challenge is to reverse the slowdown in growth of agriculture sector and sustain the growth in industry. On the external front, current account deficit as ratio to GDP is set to fall in Q4 of 2018-19, which will limit the leakage of growth impulse from the economy. The fiscal deficit of the central government has been gliding down to the FRBM target. Monetary policy has attempted to provide a fillip to the growth impulse through cuts in repo rate and easing of bank liquidity. The room for this monetary easing has been created by low inflation in 2018-19, although it has started to inch up in last few months of the year. The real effective exchange rate has appreciated in Q4 of 2018-19 and could pose challenges to the revival of exports in the near future. Increase in foreign exchange reserves in Q4 of 2018-19 on account of improvement in trade balance has increased the import cover for the economy.

1. Economic Overview

The implied real GDP growth in Q4 of 2018-19 was lower; slowing of real growth rate of imports signal this slowdown in GDP growth.



Note: Growth of Q4 2018-19 is implied.



Note: Real import is calculated by dividing nominal imports with headline WPI

While Gross Fiscal Deficit of the Centre has steadily declined in last few years, capital expenditure has been volatile.

Fig 3: Gross fiscal deficit as % of GDP (Centre)

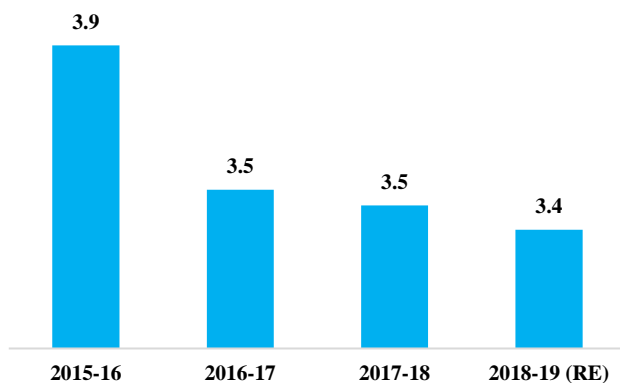
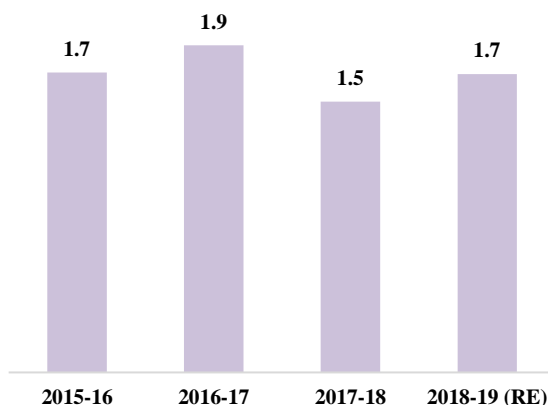


Fig 4: Capital expenditure as % of GDP (Centre)



Headline inflation – measured using the consumer and wholesale price indices declined in 2018-19 though inflation has firmed up slightly in recent months.

Fig 5: GDP deflator (inflation) (%)

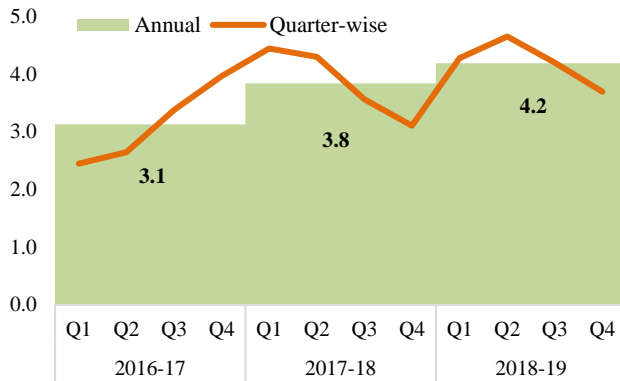
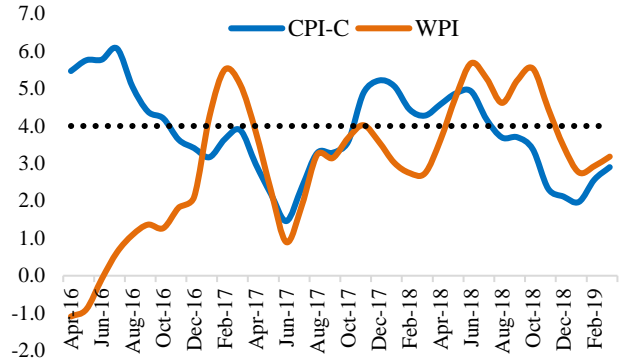


Fig 6: CPI and WPI inflation (%)



Note: GDP deflator for Q4 2018-19 is implied.

Current account deficit as percent of GDP improved in Q3 and is set to further improve in Q4 of 2018-19 as dip in imports has improved the merchandize trade deficit.

Fig 7: Current account deficit (as % of GDP)

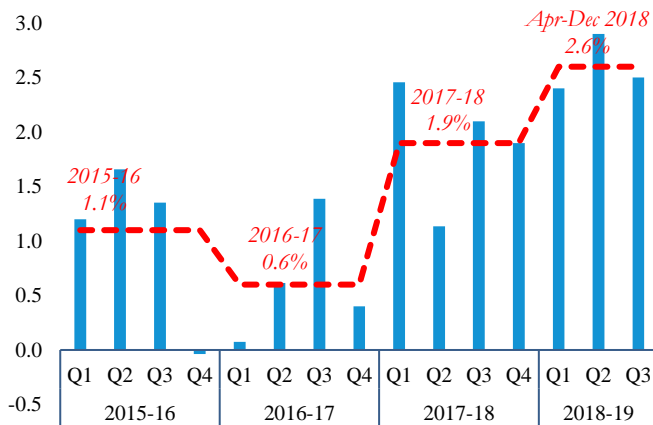
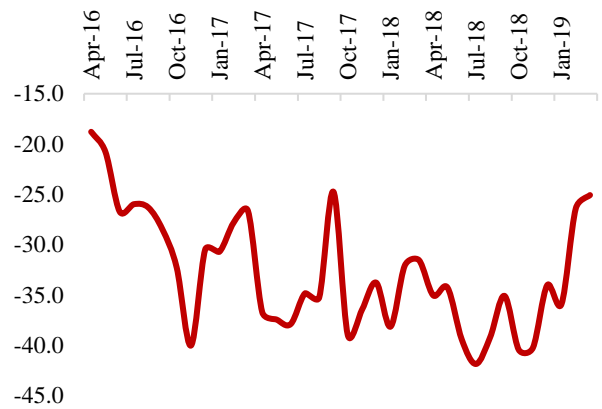


Fig 8: Net merchandise export as % of merchandise import



2. Domestic Demand

In line with declining real GDP growth, private consumption in Q4 of 2018-19 has also declined as reflected in the drop of growth of two-wheeler sales towards the end of the year.

Fig 9: Private consumption expenditure growth (%)

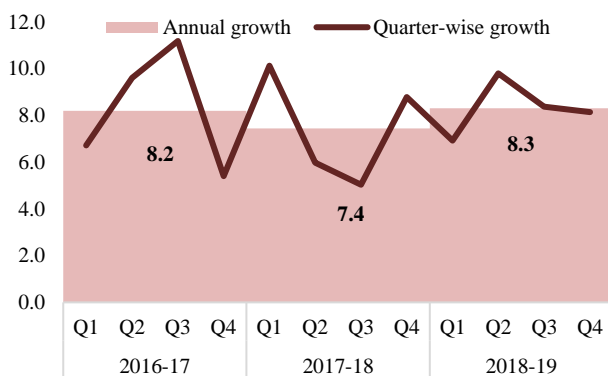
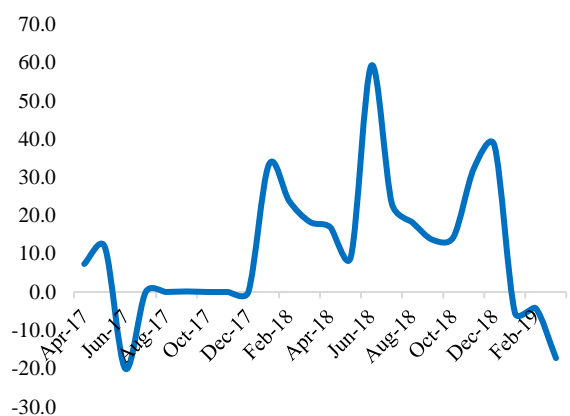


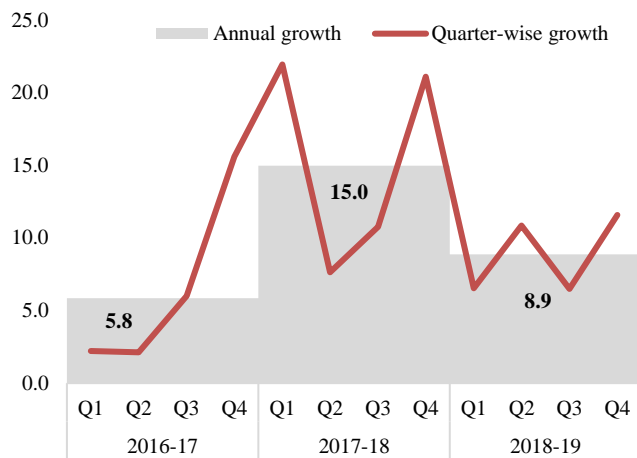
Fig 10: Growth of no. of two wheeler sales (%)



Note: Growth of Q4 2018-19 is implied.

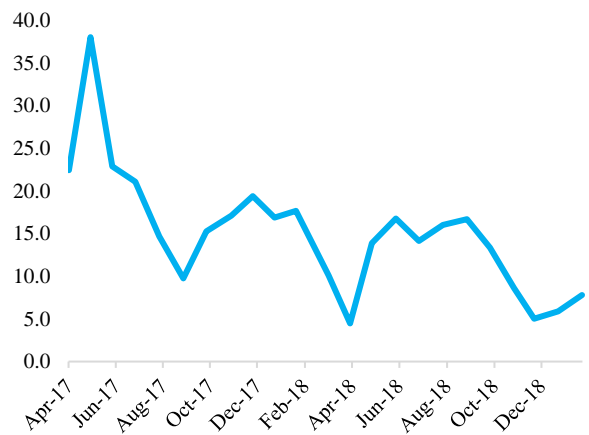
The expected firming up of government consumption expenditure in Q4 of 2018-19 is on course as growth in cumulative revenue expenditure of the central government has been higher in recent months.

Fig 11: Government consumption expenditure growth (%)



Note: Govt consumption growth for Q4 2018-19 is implied.

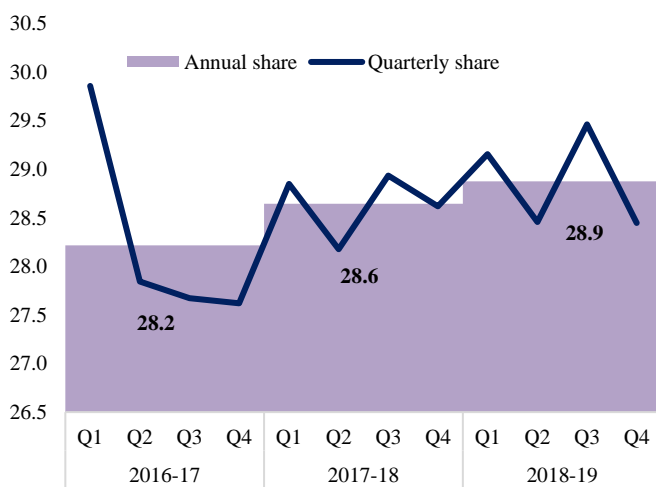
Fig 12: Cumulative revenue expenditure growth (excl. interest payment & subsidy) (%)



Note: Cumulative expenditure from April to each month in a financial year

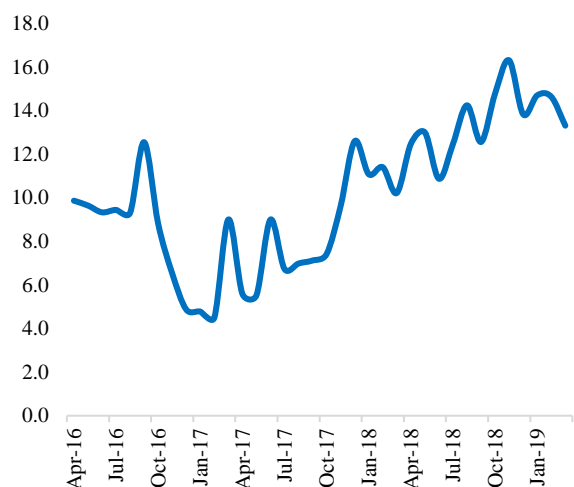
Though fixed investment as percentage of GDP has been trending up since 2017-18, this trend may pause for a while, also evident in slowing down of growth in non-food bank credit in Q4 of 2018-19.

Fig 13: Fixed investment rate (%)



Note: Data for Q4 2018-19 is implied.

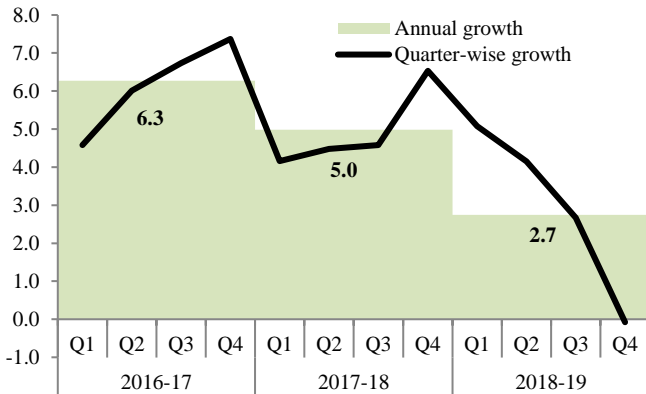
Fig 14: Growth of non-food bank credit (%)



3. Sectoral Growth

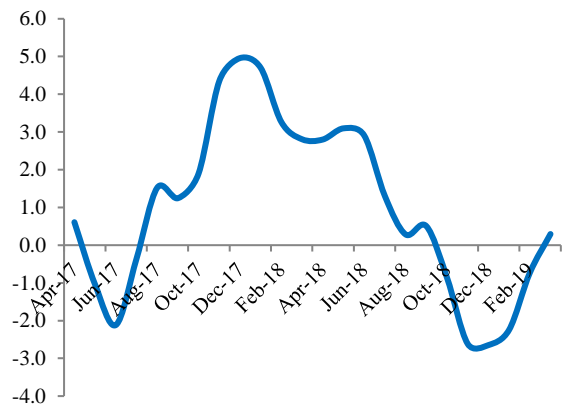
Growth in GVA in agriculture has been slowing since Q1 of 2018-19 and may continue to fall in Q4 as well; moderation in food deflation may soften this decline towards the end of the year.

Fig 15: Growth in gross value added in agriculture & allied (%)



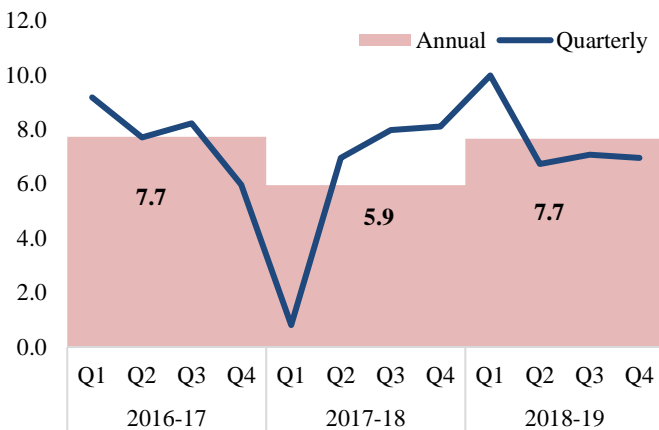
Note: Growth of Q4 2018-19 is implied.

Fig 16: Consumer food price inflation (%)



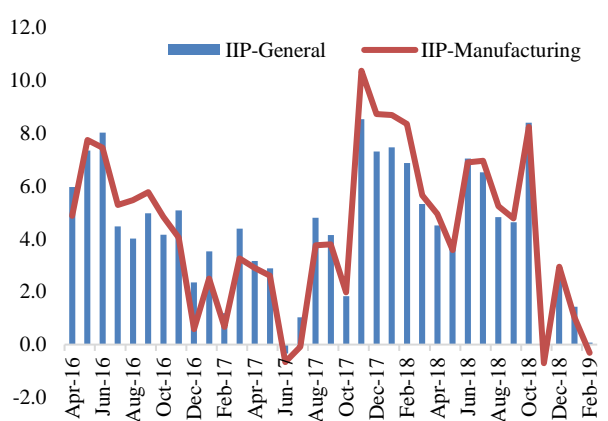
Growth of GVA in industry in 2018-19 will be higher than in the previous year, thereby overcoming the effect of the slowing down of IIP growth in recent months.

Fig 17: Growth in gross value added in industry (%)



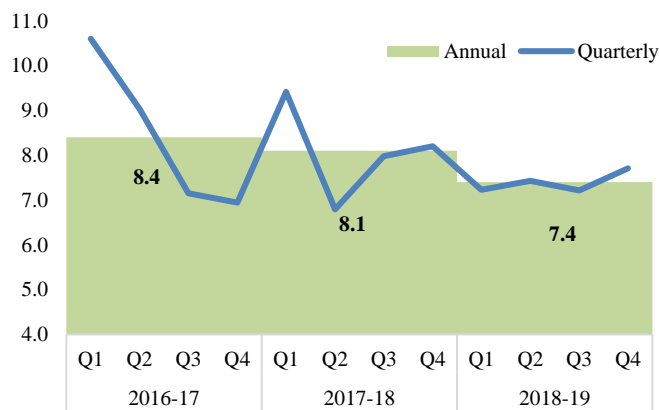
Note: Growth of Q4 2018-19 is implied.

Fig 18: Index of Industrial production growth (%)



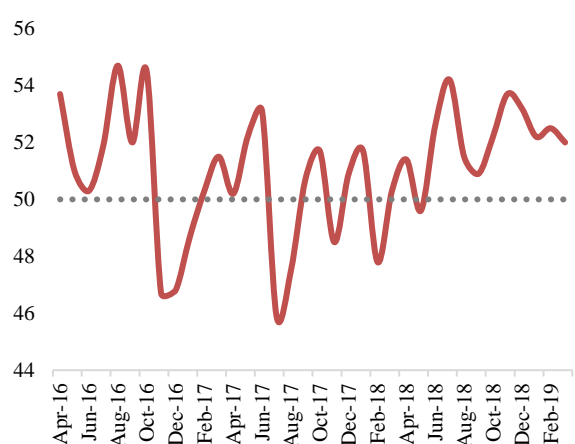
Growth of GVA in services has been robust in 2018-19, as evident in PMI services which remained above 50 throughout the year.

Fig 19: Growth in gross value added in services (%)



Note: Growth of Q4 2018-19 is implied.

Fig 20: Nikkei India PMI for services



4. Money Market

Though easing of monetary policy has the potential to support growth, the recent cuts in repo rate are yet to transmit to weighted average lending rate of banks; thus the effects of the easing on investment activity are yet to manifest.

Fig 21: Repo Rate (%)

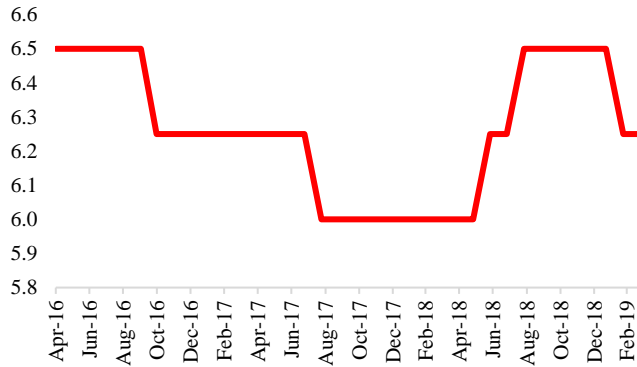
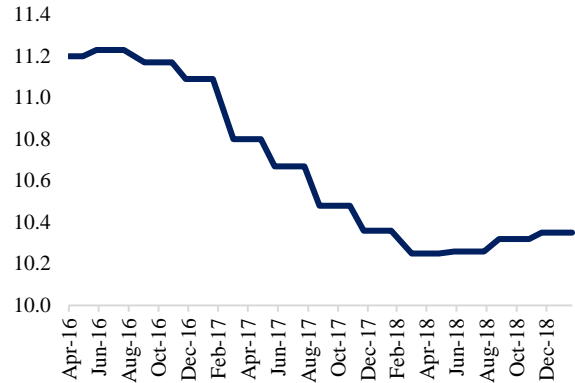


Fig 22: Weighted average lending rate (%)



Note: In April 2019, the repo rate reduced at 6.0%

Credit growth could have been challenged by continuous tightening of bank liquidity causing the call money market rates to trend up since Q1; however, some respite is evident in Q4.

Fig 23: Bank Liquidity (Rs. thousand crore)

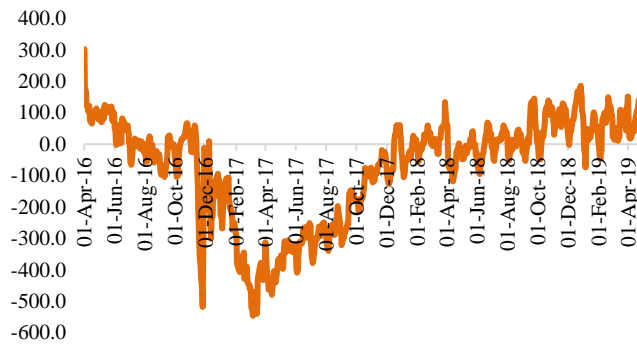
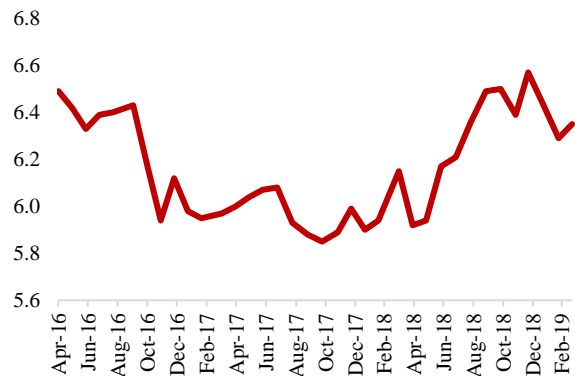


Fig 24: Call money market rate (%)



Note: +ve is liquidity shortage, -ve is liquidity surplus.

5. External Sector

Nominal exchange rate has been appreciating in Q3 of 2018-19; yet net flow of portfolio investment remained negative.

Fig 25: Nominal exchange rate (Rs./US\$)

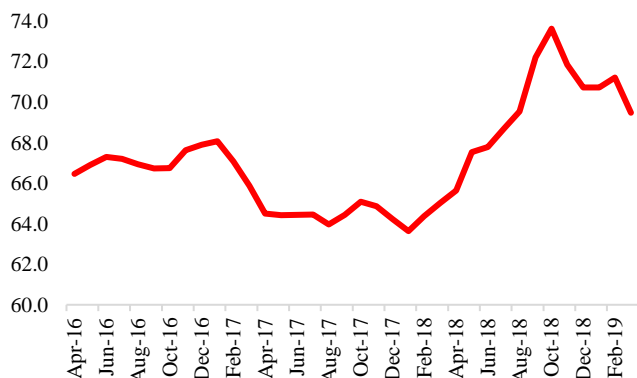
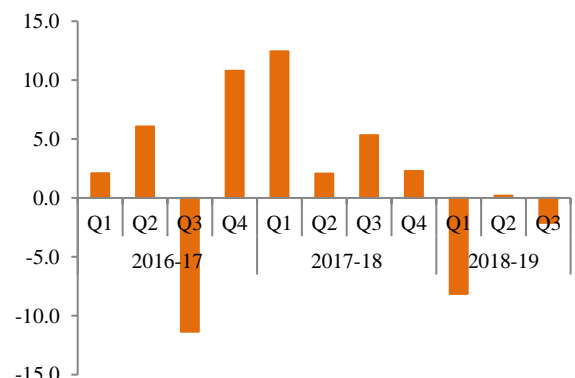


Fig 26: Net flow of portfolio investment (US\$ billion)



Real effective exchange rate has been appreciating in Q3 of 2018-19, which may have impacted growth of exports towards the end of the year.

Fig 27: Growth of real effective exchange rate (%)

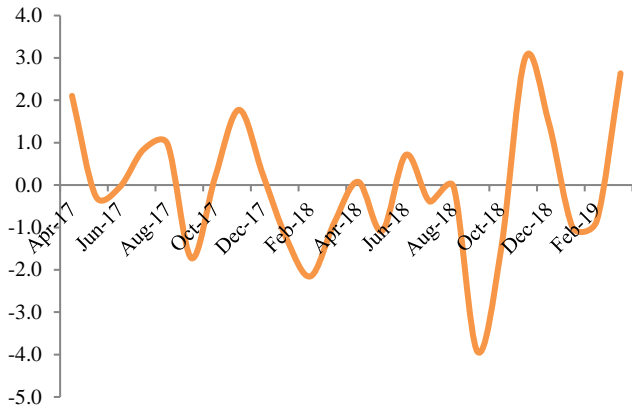
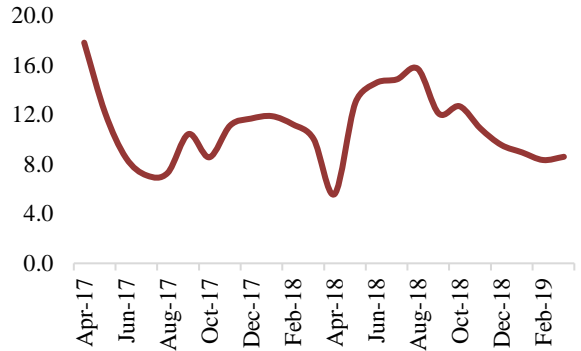


Fig 28: Cumulative exports growth (%)



Note: Cumulative export from April to each month in a financial year

Foreign Exchange Reserves in terms of months of import cover has fallen from 14 months from April 2016 to 9 months in October 2018; however, the import cover has been increasing since then.

Fig 29: Foreign exchange reserves (US\$ billion)

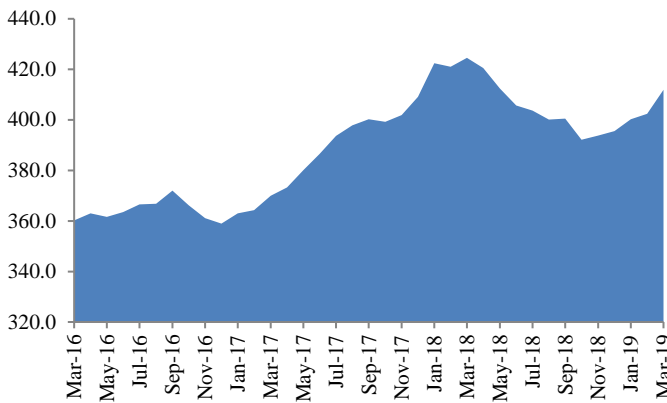
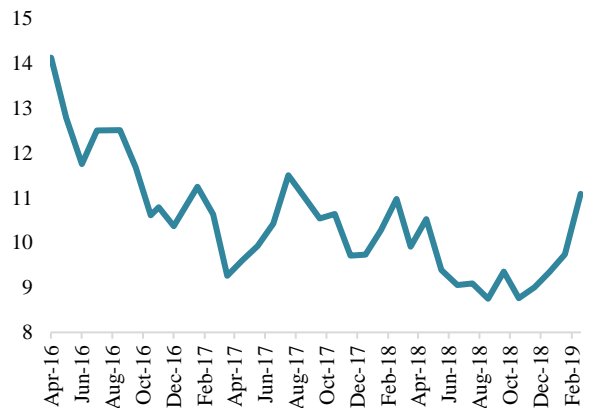


Fig 30: No. of months of Import cover of FER



6. Inflation

Not only do fuel and food inflation directly drive the CPI headline inflation they do so indirectly as well by spilling over into other sectors of the economy as captured by core inflation.

Fig 31: CPI-fuel and CPI-food inflation (%)

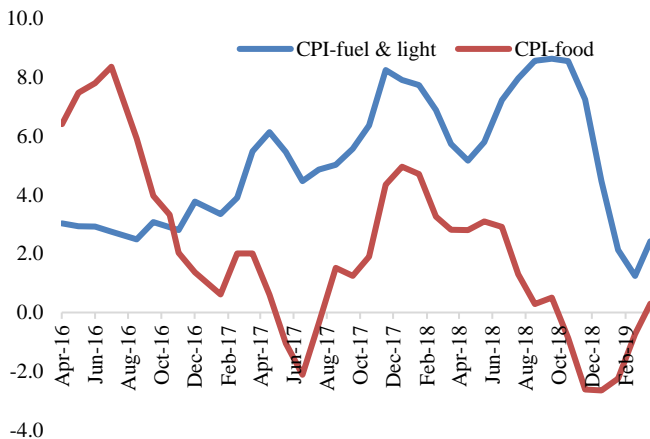
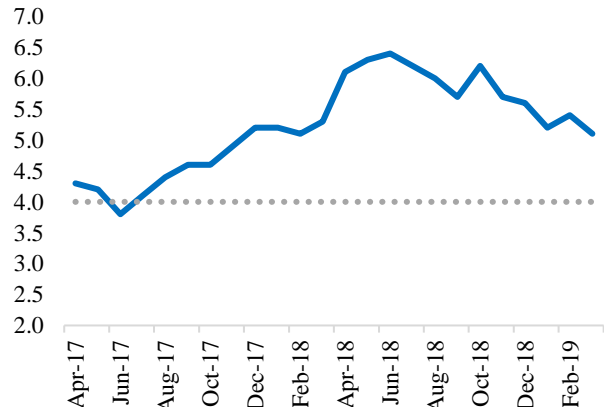


Fig 32: CPI-core inflation (%)



7. Outlook

The growth outlook is upbeat as the SENSEX/NIFTY-50 have risen in Q4 of 2018-19; inflationary expectations are subdued as reflected in the fall in yields on short-term govt. paper.

Fig 33: Growth of SENSEX (S&P BSE) and NIFTY-50 (%)

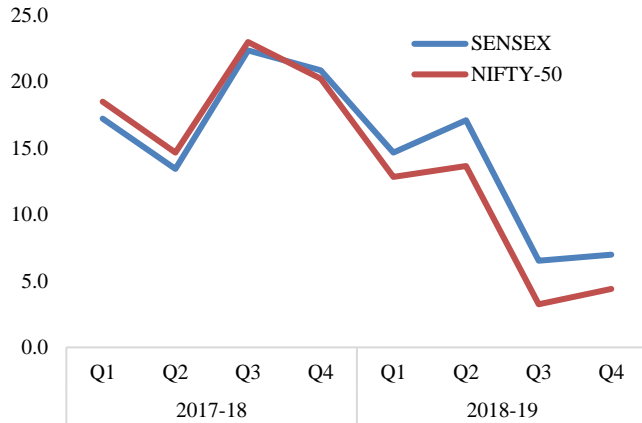


Fig 34: Yield on Treasury bill (%)

