MACRO-ECONOMIC FRAMEWORK STATEMENT 2018-19

Overview of the Economy

The year 2017-18 was marked with strong macro-economic fundamentals. However, the growth of gross domestic product (GDP) moderated in 2017-18 vis-à-vis 2016-17. There was an improvement in export growth, fiscal trends remained attuned to the consolidation plans and inflation remained within the limits. The year also witnessed an increase in global confidence in Indian economy as well as improvement in ease of doing business ranking.

Various economic reforms were undertaken in the year which include: implementation of the Goods and Service Tax, announcement of bank recapitalization, push to infrastructure development by giving infrastructure status to affordable housing, higher allocation of funds for highway construction and greater focus on coastal connectivity. Further initiatives include: lower income tax for companies with annual turnover up to ₹50 crore; allowing carry-forward of MAT credit up to a period of 15 years instead of 10 years at present; further measures to improve the ease of doing business; and, major push to digital economy.

Other sectoral initiatives undertaken include: measures to revive the construction sector and promotion of exports in textile and apparel industry. Apart from these, the measures that were taken by the Government in the previous years to boost manufacturing, employment generation, improving ease of doing business and transparency via schemes such as Make-in-India, Skill India, direct benefit transfer and measures for financial inclusion were also taken forward in 2017-18.

An important macro-economic challenge faced by the Indian economy relates to the declining trend in the investment and saving rates, as seen from the latest available data. Nonetheless, medium-term macro outlook remains bright against the background of implementation of GST, green shoots in the global economy, relatively stable prices and improvement in indicators of external sector.

GDP growth

As per the 1st Advanced Estimates released by the Central Statistics Office (CSO), the economy is expected to grow by 6.5 per cent in 2017-18 in terms of GDP at constant (2011-12) market prices. The gross value added (GVA) at constant (2011-12) basic prices is expected to grow by 6.1 per cent in 2017-18, as compared to the growth of 7.1 per cent achieved in 2016-17. The growth in agriculture, industry and services is estimated at 2.1 per cent, 4.4 per cent and 8.3 per cent respectively in 2017-18, as compared to 4.9 per cent, 5.6 per cent and 7.7 per cent in 2016-17. Growth rate of industry sector declined in 2017-18, mainly on account of moderate growth in manufacturing sector. It was the services sector that contributed to more than half of the overall GVA growth rate of 6.1 per cent in 2017-18. From the demand side, the final consumption expenditure has been the major driver of GDP growth. The growth of fixed investment at constant prices increased from 2.4 per cent in 2016-17 to 4.5 per cent in 2017-18. As per CSO, the exports of goods and services are estimated to grow by 4.5 per cent in real terms in 2017-18 as was the case in 2016-17, whereas the imports are estimated to grow by 10.0 per cent in 2017- 18 as against 2.3 per cent in 2016-17.

Agriculture

As per the Fourth Advance Estimates released by Department of Agriculture, Cooperation and Farmer's Welfare, the country achieved a record production of food grains estimated at 275.7 million tonnes in 2016-17, which is higher by 10.7 million tonnes than the previous record production of food grains achieved in 2013-14. The production of rice is estimated at 110.2 million tonnes during 2016-17 which is also a new record. Similarly, the production of wheat, estimated at 98.4 million tonnes is higher by 2.6 per cent than the previous record production achieved during 2013-14. Another significant achievement is the production of pulses, which is estimated at 23.0 million tonnes during 2016-17, higher by 3.7 million tonnes than the previous record production achieved during 2013-14. The production of oilseeds and cotton registered a growth of 27 per cent and 10.3 per cent respectively in 2016-17.

As per the First Advance Estimates released on 22nd September 2017, food grains production during kharif season 2017-18 is estimated at 134.7 million tonnes as against the production of 138.5 million tonnes during 2016-17. The total production of rice during kharif season of 2017-18 is estimated at 96.4 million tonnes vis-à-vis 96.4 million tonnes in 2016-17. The production of pulses during kharif season 2017-18 is estimated at 8.7 million tonnes, sugarcane at 337.7million tonnes, oilseeds at 20.7 million tonnes and cotton at 32.3 million bales of 170 kgs each.

Agricultural credit in India has been growing consistently at above 17 percent annually during the last decade. During 2017-18, banks have disbursed ₹5.88 lakh crore (provisional as on 30th September, 2017) against the annual agriculture credit target of ₹10 lakh crore for 2017-18.

Prices

Consumer Price Index (Combined) inflation (Base 2012=100) for 2016-17 declined to 4.5 per cent from 4.9 per cent in 2015-16. It averaged 3.3 per cent in April-December 2017 and stood at 5.2 per cent in December 2017. Food inflation based on Consumer Food Price Index (CFPI) declined to 4.2 per cent in 2016-17 from 4.9 per cent in 2015-16. It averaged 1.2 per cent in April-December 2017and stood at 5.0 per cent in December 2017.

Inflation measured in terms of Wholesale Price Index (WPI), increased to 1.7 per cent in 2016-17 from (-)3.7 per cent in 2015-16 and 1.2 per cent in 2014-15. It averaged 2.9 per cent in April-December 2017 and stood at 3.6 per cent in December 2017.

Astute food management and price monitoring by the Government helped to contain inflation, especially food inflation. A number of measures have been taken by the Government to control inflation and restore price stability. The steps taken, inter alia, include, (i) a scheme titled Price Stabilization Fund (PSF) is being implemented to control price volatility of agricultural commodities like pulses, onions, etc.; (ii) a dynamic buffer stock of pulses of upto 20 lakh tonnes has been built under the PSF Scheme, through both domestic procurement as well as imports.; (iii) announced higher Minimum Support Prices so as to incentivize production; (iv) States/ UTs have been advised to impose stock limit on onions. States were requested to indicate their requirement of onions so that import of requisite quantity may be undertaken to improve availability and help moderate the prevailing high prices; (v) Government imposed 20 per cent duty on export of sugar for promoting domestic availability and moderating price rise; and (vi) Export of edible oils was allowed only in branded consumer packs of up to 5 kg. with a minimum export price of USD 900 per MT. With a view to incentivizing domestic production, this restriction has been removed on edible oils except for palm oil, mustard oil and sunflower oil.

Apart from the above, the Government, in consultation with RBI has 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.

Industry and Services

The performance of the industrial sectors based on the Index of Industrial Production (IIP) comprising mining, manufacturing and electricity reveals the industrial sector registered a growth of 3.2 per cent during April-November 2017, as compared to 5.5 per cent during the corresponding period of previous year. As per the sectoral classification, mining, manufacturing and electricity sectors registered 3.0 per cent, 3.1 per cent and 5.2 per cent growth during April-November 2017 over the corresponding period of previous year respectively. Among the use-based categories, primary goods, capital goods, intermediate goods, infrastructure/construction goods, consumer non-durables goods attained positive growth during April-November 2017.

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 per cent in IIP, registered a cumulative growth of 3.9 per cent during April-November 2017 as compared to 5.3 per cent during April-November 2016. The production of coal, natural gas, refinery products, steel, cement and electricity increased during April-November 2017. The steel production increased substantially, while the production of crude oil and fertilizers fell marginally during this period.

Monetary Management and Financial Intermediation

Monetary policy during 2017-18 has been conducted under the revised statutory framework, which became effective from 5th August 2016. In 2017-18, till December 2017, five meetings of the Monetary Policy Committee (MPC) had been held. In the third bi-monthly Monetary Policy Statement for 2017-18 in August 2017, the MPC decided to reduce the policy Repo Rate by 25 basis points to 6.0 per cent. It kept the rates unchanged both in October and the latest meeting held in December. Accordingly, the reverse repo rate under the liquidity adjustment facility (LAF) stands at 5.75 per cent, Marginal Standing Facility (MSF) rate and the Bank Rate at 6.25 per cent.

In tandem with the remonetisation process, from 17th November 2017, as a favourable base effect set in, the Year on Year (YoY) growth of both Currency in Circulation (CIC) and Reserve Money (M_0) turned sharply positive and higher than their respective growth rates in the previous year. As on 22nd December 2017, M_0 recorded an expansion of 54.8 per cent over 23rd December 2016, primarily on account of an increase in CIC which stood at 94.4 per cent of its pre-demonetisation level.

The YoY growth of broad money (M3) had slackened post-demonetisation, but remained positive– in contrast to the contraction in M0 – because the reduction in Currency with Public (CwP) was partially offset by an upsurge in aggregate deposits. During 2017-18, the YoY growth of M_3 began picking up distinctly from end-September 2017. After demonetisation in November 2016, the Reserve Bank had scaled up its liquidity absorption operations using a mix of both conventional and unconventional instruments. Liquidity conditions remain in surplus mode even as its magnitude moderated gradually with progressive remonetisation. Weighted Average Call Rate in recent months has drifted to the middle of the policy corridor.

Banking Sector

The performance of the banking sector, Public Sector Banks (PSBs) in particular, continued to be subdued in the current financial year. The gross non-performing advances (GNPA) ratio of Scheduled Commercial Banks (SCBs) increased from 9.6 per cent in March 2017 to 10.2 per cent in September 2017. Capital to risk-weighted asset ratio of SCBs increased from 13.6 per cent to 13.9 per cent between March and September 2017.

Non-Food Credit (NFC) grew at 8.9 per cent YoY in November 2017 as compared to 4.8 per cent in November 2016. Bank credit lending to services and personal loans segments continue to be the major contributor to overall NFC growth. Credit growth finally picked up in industrial sector after remaining persistently negative from October 2016 to October 2017. However, growth of credit in Medium industries has remained negative since June 2015.

External Sector

The value of India's merchandise exports (customs basis) increased by 5.2 per cent to US$ 275.9 billion in 2016-17. In April-December 2017, exports increased by 12.1 per cent to US$ 223.5 billion from US$ 199.5 billion in the corresponding period of the previous year.

Imports had also increased by 0.9 per cent in 2016-17. Imports at US$ 338.4 billion in April-December 2017 showed an increase of 21.8 per cent from US$ 277.9 billion in the corresponding period of the previous year. Imports of petroleum, oil and lubricants (POL) increased by 24.2 per cent in April-December 2017 to US$ 76.1 billion from US$ 61.3 billion in the corresponding period of the previous year, mainly due to the rise in international crude oil prices. Non-POL imports for April-December 2017 increased by 21.1 per cent to US$ 262.2 billion from US$ 216.6 billion in the corresponding period of the previous year.

Trade deficit increased to US$ 114.9 billion during April-December 2017, from US$ 78.4 billion in the corresponding period of the previous year.

Based on the Balance of Payments (BoP) data available for the first six months of 2017-18, the trade deficit on BoP basis increased to US$ 74.8 billion in April-September 2017 from US$ 49.4 billion in April-September 2016. Net invisibles surplus in H1of 2017-18 increased to US$ 52.5 billion from US$ 45.7 billion in H1 of 2016-17, with increase observed both in net services and net private transfers. Net services receipts increased by 14.6 per cent on a YoY basis during H1 of 2017-18.

During 2017-18 (April-September), net FDI was US$ 19.6 billion as compared to US$ 20.9 billion in 2016-17 (April-September), while net portfolio was US$ 14.5 billion in 2017-18 (April-September) as against US$ 8.2 billion in the corresponding period of the previous year.

India's current account deficit (CAD) increased from US$ 3.8 billion (0.4 per cent of GDP) in H1 of 2016 -17 to US$ 22.2 billion (1.8 per cent of GDP) in H1 of 2017-18. On BoP basis, there was net accretion to India's foreign exchange reserves by US$ 20.9 billion in 2017-18 (April-September), while it increased by US$ 30.3 billion including valuation changes. This resulted in increase in the stock of foreign exchange reserves, which stood at US$ 400.2 billion at end September, 2017. The stock of foreign exchange reserves was US$ 409.4 billion as on December 29, 2017. While trade deficit widened in 2017-18 H1 as compared to 2016-17 H1, the improvement in invisibles balance and the net capital flows dominated by foreign investment and banking capital was more than sufficient to finance the CAD, leading to accretion in foreign exchange reserves in 2017-18 H1.

In 2016-17 (April-December), the average monthly exchange rate of rupee (RBI's reference rate) was ₹64.51 per US dollar in April 2017 and it was ₹64.24 per US dollar in December 2017. The rupee had appreciated by 2.5 per cent from ₹65.88 per US dollar in March 2017 to ₹64.24 per US dollar in December 2017.

Central Government Finances

Commitment to fiscal consolidation helped the Government achieve the fiscal deficit target of 3.5 per cent of GDP budgeted in 2016-17. In 2017-18, fiscal deficit and revenue deficit were budgeted at ₹5,46,532 crores (3.2 per cent of GDP) and ₹.3,21,163 crores (1.9 per cent of GDP) respectively.

The budget estimates (BE) for 2017-18 envisaged a tax to GDP ratio of 11.3 per cent and total expenditure to GDP ratio 12.7 per cent. The envisaged growth for gross tax revenue (GTR) was 12.2 per cent over revised estimate (RE) of 2016-17. The total expenditure in BE 2017-18 was estimated to increase by 6.6 per cent over RE of 2016-17.

As per the data on Union government finances for April-November 2017 released by Controller General of Accounts, the GTR increased by 16.5 per cent in comparison to the corresponding period of the previous year and was at 56.9 per cent of BE of 2017-18. The non-tax revenue registered a decline of 39.7 per cent over the corresponding period of the previous year. On the contrary, at the end of November 2017, the non-debt capital receipts increased by 89.9 per cent and stood at 73.3 per cent of the BE of 2017-18.

Major subsidies increased by 4.2 per cent during April-November 2017, as compared to April-November 2016. Food subsidy increased by ₹12,196 crore and petroleum subsidy increased by ₹2518 crore during April-November 2017 as compared to the corresponding period in 2016-17 while fertilizer subsidy declined by ₹6,437 crore.

Fiscal deficit and revenue deficit at 112 per cent of BE and 152.2 per cent of the BE respectively in the year 2017-18 (April-November) was higher than the five-year average of 89.2 per cent and 97.8 per cent respectively. The revised estimates place fiscal and revenue deficits at 3.5 per cent of GDP and 2.6 per cent of GDP respectively in 2017-18.

Prospects

The reforms measure undertaken in 2017-18 can be expected to strengthen and reinforce growth momentum. The prospects for Indian economy for the year 2018-19 need to be assessed in the light of emerging global and domestic developments. Indications are that global economic growth is expected to pick up slightly. This can be expected to provide further boost to India's exports, which have already shown acceleration in the current financial year. On the other hand, the increasing global prices of oil and other key commodities may exert an upward pressure on the value of imports. 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 multi-lateral institutions, the nominal growth of the economy is expected to be 11.5 per cent in the financial year 2018-19.

Annex 1

MACROECONOMIC FRAMEWORK STATEMENT
(ECONOMIC PERFORMANCE AT A GLANCE)

Sl.	Item	Absolute value April-December		Percentage change April-December	
		2016-17	2017-18	2016-17	2017-18
Real Sector					
1	GDP at market prices (₹ thousand crore) @				
	a) at current prices	15184	16628	11.0	9.5
	b) at 2011-12 prices	12190	12985	7.1	6.5
2	Index of Industrial Production(2011-12=100)*	117.8	121.6	5.5	3.2
3	Wholesale Price Index (2011-12=100)	111.2	114.4	0.7	2.9
4	Consumer Price Index: New Series (2012=100)	130.2	134.5	4.8	3.3
5	Money Supply (M3) (₹ thousand crore)	12045.0	13272.4	3.7	3.8
6	Imports at current prices **				
	a) In ₹ Crore	1865152	2182290	-3.2	17.0
	b) In US $ million	277899	338370	-6.6	21.8
7	Exports at current prices **				
	a) In ₹ Crore	1338342	1441420	4.7	7.7
	b) In US $ million	199467	223513	1.1	12.1
8	Trade Deficit (US$ million) **	-78432	-114857	-21.6	46.4
9	Foreign Exchange Reserves (upto 29thDec. 2017)				
	a) In ₹ Crore	2437640	2617690	5.4	7.4
	b) In US $ million	358898	409367	2.4	14.1
10	Current Account Balance (US$ million)##	-3868	-22244		
	Government Finances (₹ Crore)#				
1.	Revenue Receipts	796123	804861	24.8	1.1
	Tax Revenue (net to Centre)	621172	699392	33.6	12.6
	Non Tax Revenue	174951	105469	1.0	-39.7
2.	Capital Receipts	490558	673954	-2.7	37.4
	of which				
	Recovery of loans	9033	9471	14.7	4.8
	Other Receipts	23529	52378	83.1	122.6
	Borrowings and other liabilities	457996	612105	-5.3	33.6
3.	Total Receipts (1+2)	1286681	1478815	12.6	14.9
4.	Total Expenditure	1286681	1478815	12.6	14.9
	(a) Revenue Expenditure	1144334	1294700	16.4	13.1
	of which Interest payments	266678	309799	5.6	16.2
	(b) Capital Expenditure	142347	184115	-10.4	29.3
5.	Revenue Deficit	348211	489839	0.8	40.7
6.	Fiscal Deficit	457996	612105	-5.3	33.6
7.	Primary Deficit	191318	302306	-17.2	58.0

@: *GDP is from April to March and 2016-17 is provisional estimate and 2017-18 is the first advance estimate.*

*: *April-November*

**: *On Customs basis (April-December).*

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

##: *April - September.*