Ministry Of External Affairs
Government Of India

ECONOMIC DIPLOMACY & STATES DIVISION

MONTHLY

# ECONOMIC REPORT

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# OVERVIEW

The growth of India's gross domestic product (GDP) at constant prices for the first quarter of financial year 2018-19 was 8.2 per cent, reinforcing the upswing trend started since second quarter of 2017-18[1]. As a result, India's US$2.6 trillion economy is estimated to grow by as much as 7.5 per cent over the financial year ending March 31 2019.

Meanwhile, the growth in Gross Value Added (GVA) at constant basic prices for FY 2017-18 is estimated to be 6.5 per cent (PE). At the sectoral level, agriculture, industry and services sectors grew at an estimated rate of 3.4 per cent, 5.5 per cent and 7.9 per cent, respectively, in 2017-18. This indicates towards strengthening of the economy following a slowdown in the aftermath of certain national policy enactments as well as global market headwinds.

The Index of Industrial Production (IIP) grew by 6.6 per cent in July 2018, as compared with a growth of 1.0 per cent recorded in July 2017. IIP growth during April-July 2018-19 was 5.4 per cent, as compared with a growth of 1.7 per cent a year earlier. Meanwhile, production of eight core industries grew by 6.6 per cent in July 2018, as compared with 2.9 per cent in July 2017.

The value of merchandise exports and imports increased by 19.2 per cent and 25.4 per cent, respectively, in August 2018 over August 2017. The nation's foreign exchange reserves stood at US$400.1 billion on August 31, as compared with US$406.1 billion on June 29.

The CPI inflation decreased to 3.7 per cent in August 2018 from 4.2 per cent in July 2018. The WPI inflation decreased to 4.5 per cent in August 2018 from 5.1 per cent in July 2018. The budget estimate of the fiscal deficit for 2018-19 has been set at 3.3 per cent of GDP, as compared with 3.5 per cent in 2017-18 (PA)

1 https://dea.gov.in/sites/default/files/MER_August_2018.pdf

# INDIA'S FINANCIAL MARKETS

**Money Supply:** Growth of money supply on year-on-year basis (as on August 31 2018) stood at 10.3 per cent, as compared with a growth of 6.1 per cent a year earlier. In the components of money supply, the growth of 'currency with the public' was 24.7 per cent, against a drop of 10.8 per cent registered a year earlier.

Growth of aggregate deposits of Scheduled Commercial Banks (SCBs) was 8.9 per cent. Bank credit grew by 13.5 per cent during the period, compared with 6.1 per cent a year earlier.

# INDIA'S PUBLIC FINANCE

The Union Budget 2018-19 was presented on February 1st, 2018. As per the provisional actuals for 2017-18, the fiscal deficit of the Central Government as percentage of GDP is 3.5 per cent, as against the corresponding budget estimate of 3.2 per cent. The fiscal deficit is budgeted to decline to 3.3 per cent of GDP in 2018-19.

Revenue Receipts for 2018-19 is estimated at Rs17.3 trillion, as compared with RS14.4 trillion in 2017-18. Tax revenue (net to Centre) is estimated Rs14.8 trillion, as compared with Rs12.4 trillion. Total expenditure is estimated to rise by more than 14 per cent to Rs24.4 trillion.

# INDIA'S INFLATION

Inflation based on Consumer Price Indices (CPIs): The all India Consumer Price Index – Combined (CPI-C) inflation decreased to 3.7 per cent in August 2018 from 4.2 per cent in July 2018.

Food inflation based on Consumer Food Price Index (CFPI) decreased to 0.3 per cent in August 2018 from 1.3 per cent in July 2018 due to decrease in inflation of milk and products, fruits and vegetables.

CPI Fuel and light inflation for August 2018 increased to 8.5 per cent, as compared with 8 per cent in July 2018.

Wholesale Price Index (WPI): The WPI inflation decreased to 4.5 per cent in August 2018 from 5.1 per cent in July 2018.

WPI food inflation (food articles + food products) dropped by 2.3 per cent in August 2018, as compared with a fall of 0.9 per cent in July 2018, mainly on account of fall in inflation of fruits and vegetables.

Inflation in fuel and power decreased to 17.7 per cent in August 2018, as compared with 18.1 per cent in July 2018.

Inflation for manufactured products increased to 4.4 per cent in August 2018 from 4.3 per cent in July 2018.

Inflation for Non-food manufactured products (core) increased to 5 per cent in August 2018, as compare to 4.7 per cent in July 2018.

# PERFORMANCE OF THE TOP SECTORS

## Agriculture and Food Management

Production of food grains: As per 1st Advance Estimates (AE) released by Ministry of Agriculture and Farmers' Welfare on September 26, production of food-grains during 2018-19 in kharif season is estimated at 141.6 million tonnes, compared with 140.7 million tonnes in 2017-18.

Stocks: The total stocks of rice and wheat held by the Food Corporation of India and State agencies as on September 1 was 61.2 million tonnes, compared with 65.8 million tonnes in August 1.

## Industry and Infrastructure

### Index of Industrial Production (IIP)

The general IIP grew by 6.6 per cent in July 2018, as compared with a growth of 1 per cent recorded in July 2017. The growth of IIP during April-July 2018 was 5.4 per cent, as compared with a growth of 1.7 per cent in the previous year. The production of the manufacturing sector grew by 7 per cent in July 2018, as compared with a contraction of 0.1 per cent in July 2017.

The manufacturing sector's growth during April-July 2018 was 5.6 per cent, as compared with a growth of 1.2 per cent during the previous year. In terms of use based classification, all sectors registered positive growth in July 2018.

### Eight Core Industries

Production of eight core infrastructure industries grew by 6.6 per cent in July 2018, as compared with a growth of 2.9 per cent in July 2017. During April-July 2018-19, the production of eight core industries grew by 5.8 per cent, as compared with the growth of 2.6 per cent in the previous year.

### Infrastructure Indicators

The number of telephone subscribers in India increased from 1.17 billion at the end of June 2018 to 1.18 billion at end July 2018. The overall teledensity in India increased from 89.7 per hundred individuals at end of June 2018 to 90.4 at end July 2018; the urban teledensity was 159.4 and rural tele-density was 58.5 at end July 2018.

The traffic handled at major ports grew by 5.1 per cent to 288.4 million tonnes in April-August 2018, from 274.3 million tonnes in the previous year.

| Production growth (per cent) in Core Infrastructure Supportive Industries | | | | | | |
|---|---|---|---|---|---|---|
| Industry | 2016-17 | 2017-18 | 2017-18 (Apr-Jul) | 2018-19 (Apr-Jul) | July 2017 | July 2018 |
| Coal | 3.2 | 2.6 | -3.3 | 12.3 | 0.6 | 9.7 |
| Cure oil | -2.5 | -0.9 | 0.1 | -3.2 | -0.5 | -5.4 |
| Natural Gas | -1.0 | 2.9 | 4.9 | -1.1 | 6.6 | -5.2 |
| Refinery Products | 4.9 | 4.6 | 0.7 | 8.0 | -2.7 | 12.3 |
| Fertilizers | 0.2 | 0.0 | -0.9 | 3.7 | 0.2 | 1.3 |
| Steel | 10.7 | 5.6 | 7.0 | 3.2 | 9.4 | 6.0 |
| Cement | -1.2 | 6.3 | -2.3 | 14.7 | 1.0 | 10.8 |
| Electricity | 5.8 | 5.3 | 5.6 | 4.8 | 6.6 | 4.8 |
| Overall Growth | 4.8 | 4.3 | 2.6 | 5.8 | 2.9 | 6.6 |
| Source: Office of Economic Advisor, DIPP (Ministry of Commerce) | | | | | | |

The total installed capacity for electricity generation was 345.5 GW at the end of July 2018, of which the share of thermal, hydro, renewable and nuclear sources was 64.4 per cent, 13.1 per cent, 20.4 per cent and 2 per cent, respectively.

As per the Central Electricity Authority, electricity generation grew by 4.3 per cent in July 2018 (year on year basis).

# INDIA'S EXTERNAL TRANSACTIONS

**Foreign trade:** Merchandise exports during August 2018 were valued at US$27.8 billion, as compared with US$23.4 billion in August 2017, exhibiting a positive growth of 19.2 per cent[2].Meanwhile, merchandise imports during August 2018 were valued at US$45.2 Billion, which was 25.4 per cent higher than imports of US$36.1 billion in August 2017. Under services, exports during July 2018 were valued at US$17.6 billion registering a growth of 4 per cent from a year earlier,

2 http://pib.nic.in/newsite/PrintRelease.aspx?relid=183469

and imports were valued at US$10.9 billion registering a growth of 5.4 per cent.

**Balance of Payments:** India's current account deficit (CAD) was US$15.8 billion (2.4 per cent of GDP) in the first quarter (April-June) of 2018-19, as compared with US$15 billion (2.5 per cent of GDP) in the corresponding quarter of 2017-18 . The widening of the CAD on year-on-year basis was primarily on account of a higher trade deficit.

**Foreign Exchange Reserves:** Foreign exchange reserves stood at US$400.1 billion on August 31, compared with US$406.1 billion on June 29. In 2017-18, there was an accretion of US$ 43.6 billion to the foreign exchange reserves as compared with US$21.6 billion a year earlier.

**Exchange rate:** The Indian rupee depreciated against the US dollar, Euro and Japanese Yen by 1.2 per cent, 0.2 per cent, 1.5 per cent, respectively, and appreciated against UK pound sterling by 0.9 per cent in August 2018 over July 2018.

**External Debt:** India's external debt stood at US$529.7 billion at end-March 2018, recording an increase of 12.4 per cent over the level at end-March 2017. Short-term external debt was US$102.2 billion at end-March 2018.

# INDIA'S FDI AND ODI

## Foreign Direct Investment into India (FDI)

- The nation's foreign direct investment (FDI) equity inflow over the first quarter of 2018-19 spanning April-June was US$12.8 billion, marking an increase of 23 per cent from previous year[3].
- The nation's foreign direct investment (FDI) equity inflow over 2017-18 spanning April-March was US$44.9 billion, marking an increase of 3.2 per cent from previous year[4].
- The top investing nations were - Mauritius, Singapore, Japan, the UK, the Netherlands, the USA, Germany, Cyprus, France and the United Arab Emirates.
- The top sectors in India attracting foreign investments were - services, computer software and hardware, telecommunications, infrastructure development, trading, automobile, pharmaceuticals, chemicals, power and construction.
- The top regions receiving foreign investments - Mumbai, New Delhi, Bengaluru, Chennai, Ahmedabad, Hyderabad, Kolkata, Kochi, Jaipur, Chandigarh.

3 http://dipp.nic.in/sites/default/files/FDI_FactSheet_23August2018.pdf

4 http://dipp.nic.in/sites/default/files/FDI_FactSheet_29June2018.pdf

| Exports and Imports (US$ billion) | | | | | | | |
|---|---|---|---|---|---|---|---|
| Item | 2017-18 | August | | Growth (%) | April-August (P) | | Growth (%) |
| | | 2017 | 2018 | | 2017 | 2018 | |
| Exports | 303.3 | 23.4 | 27.8 | 19.2 | 117.2 | 136.1 | 16.1 |
| Imports | 464.7 | 36.1 | 45.2 | 25.4 | 184.5 | 216.4 | 17.3 |
| Oil Imports | 108.6 | 7.8 | 11.8 | 51.6 | 38.3 | 58.8 | 62.0 |
| Non-Oil imports | 356.1 | 28.3 | 33.4 | 18.2 | 146.2 | 157.6 | 7.8 |
| Trade Deficit | -161.4 | -12.7 | -17.4 | _ | -67.3 | -80.4 | - |
| Source: Ministry of Commerce and Industry<br>Note: P: Provisional | | | | | | | |

## India's Overseas Direct Investment (ODI)

- Cumulative ODI outflows (from April to December 2017): US$7.3 billion[5]
- Cumulative ODI (financial commitment): US$16.6 billion
- Top ten ODI destination countries: Mauritius, Singapore, the USA, the UAE, the Netherlands, the UK, Switzerland, Russia, Jersey, British Virgin Islands
- Sectors attracting highest ODI outflows: manufacturing, financial services, retail, logistics, agriculture and mining, community services, energy and water, construction and others.

5 https://dea.gov.in/sites/default/files/ODI%20Fact%20Sheet%20from%20April%202014%20to%20December%20 2017.pdf

# OUTLOOK FOR THE INDIAN ECONOMY

Indian economy is touted to grow by around 7.5 per cent in 2018 and 2019 despite global challenges such as volatile oil prices, according to Moody's Investors Service[6]. In the Global Macro Outlook for 2018-19, Moody's said that the growing consumer base in India along with a steady recovery in industrial and manufacturing activities will drive growth economic. In contrast, Moody's put G-20 growth at 3.3 per cent in 2018 and 3.1 per cent in 2019.

As global economic activity continues to strengthen, growth has been estimated at 3.9 per cent during 2018 as per the International Monetary Fund's (IMF) January 2018 World Economic Outlook. However, the IMF expects India to grow at 7.4 per cent during 2018 which could increase further to 7.8 per cent during 2019 in contrast to 6.7 per cent during 2017[7].

OECD states: "Economic growth will be supported by an acceleration in private investment as excess capacity diminishes, deleveraging by corporates and banks continues and infrastructure projects mature. Exports will strengthen thanks to competitiveness gains resulting from the implementation of the GST. As higher agricultural prices raise rural incomes and consumption, modernisation of labour laws will promote job creation and make growth more inclusive."[8]

India's GDP is expected to reach US$6 trillion by FY 2027 and achieve upper-middle income status on the back of digitisation, globalisation, favourable demographics, and reforms. India is expected to be the third largest consumer economy with consumption tripling to US$4 trillion by 2025, owing to shift in consumer behaviour and expenditure pattern, according to a BCG report.

For more information: Ministry of Finance, Department of Economic Affairs Monthly Economic Report, August 2018.

6 https://www.thehindubusinessline.com/economy/moodys-puts-india-growth-in-2018-2019-at-75/article24759405.ece

7 https://www.ciiblog.in/indian-economic-outlook-2018-19/

8 http://www.oecd.org/eco/outlook/economic-forecast-summary-india-oecd-economic-outlook.pdf