Ministry Of External Affairs
Government Of India

ECONOMIC DIPLOMACY & STATES DIVISION

# MONTHLY ECONOMIC REPORT

MARCH 2019

**India's US$2.6 trillion economy, the fastest growing major economy in the world, is estimated to have grown by 7 per cent during fiscal 2018-19 ending March 31, compared with a growth of 7.2 per cent over fiscal 2017-18. The comparatively slower growth during the year was due to declining growth in private consumption, tepid increase in fixed investment, and muted exports. Meanwhile, on the supply side, the challenge was to reverse a slowdown of growth in agriculture and sustain growth in industry. Despite the challenges, average Gross Domestic Product (GDP) growth during the last five years topped 7.5 per cent defining a new normal for the Indian economy.**

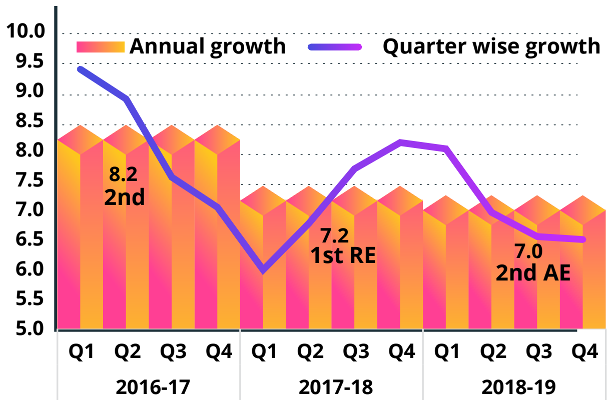
On the external front, current account deficit (CAD) as ratio to the GDP is estimated to have fallen in the fourth quarter of 2018-19, which will limit the leakage of growth impulse from the economy. The fiscal deficit of the Government has been gliding down to the Fiscal Responsibility and Budget Management (FRBM) target. Monetary policy has attempted to provide a fillip to the growth impulse through cuts in repo rate and easing of bank liquidity. 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. Foreign investment into India has strengthened in the second half.

Monthly Economic Report, March 2019

# ECONOMIC OVERVIEW

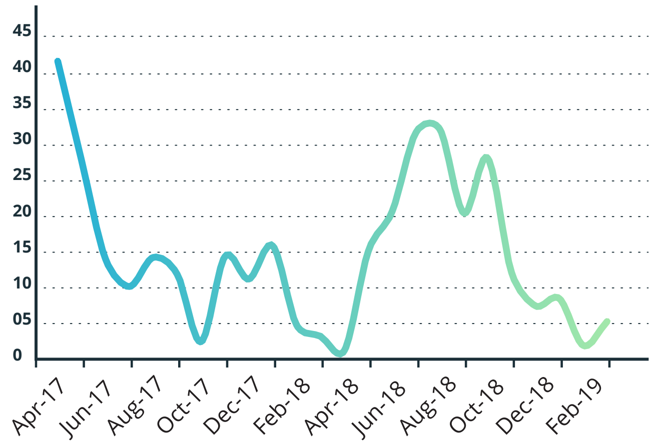
The implied real GDP growth in Q4 of 2018-19 was lower; slowing of real growth rate of imports signal this slowdown in GDP growth.

## FIG 1: REAL GROWTH OF GDP (%)




**Note:** Growth of Q4 2018-19 is implied.

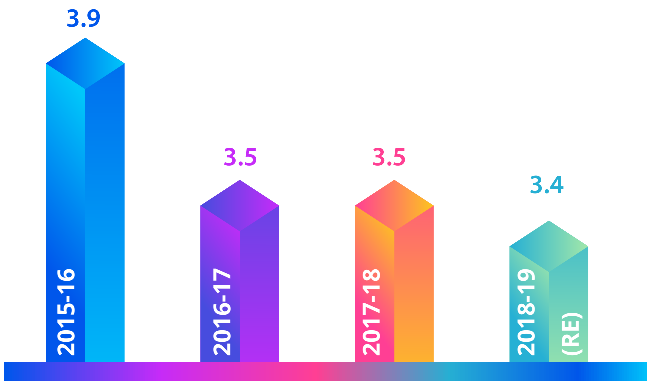
## FIG 2: GROWTH RATE OF REAL IMPORTS (%)



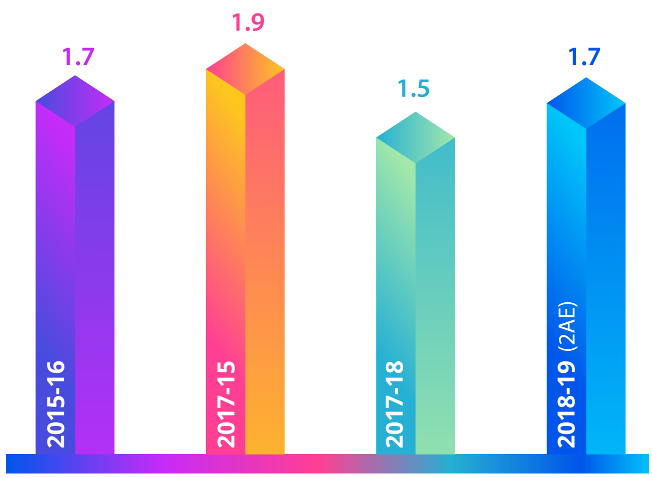

**Note:** Real import is calculated by dividing nominal imports with headline WPI

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

## FIG 3: GROSS FISCAL DEFICIT AS % OF GDP (CENTRE)

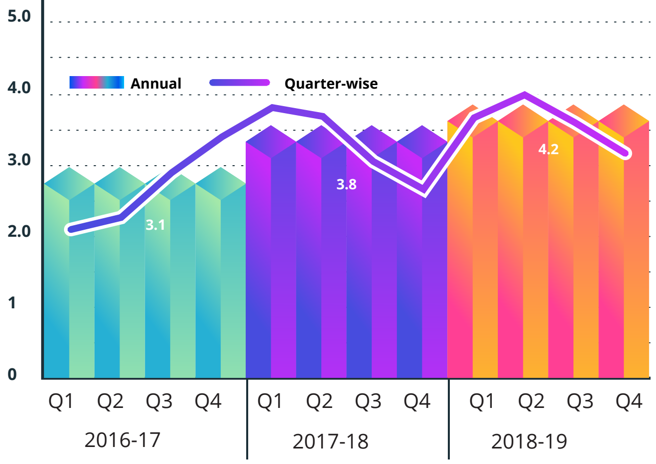



## FIG 4: CAPITAL EXPENDITURE AS % OF GDP (CENTRE)



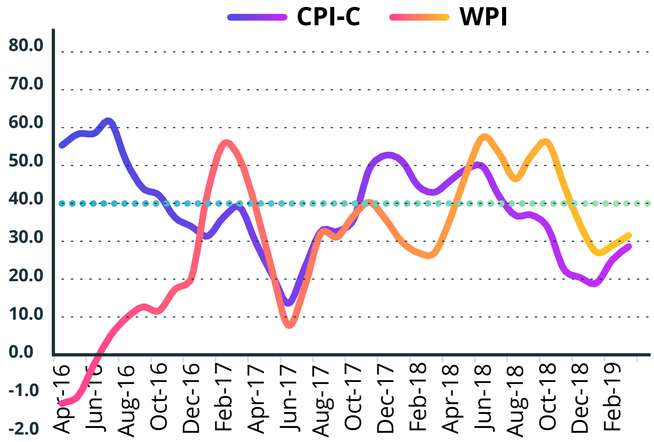
Headline inflation – measured using the consumer and wholesale price indices declined in 2018-19 though inflation has firmed up slightly in recent months.

## FIG 5: GDP DEFLATOR (INFLATION) (%)



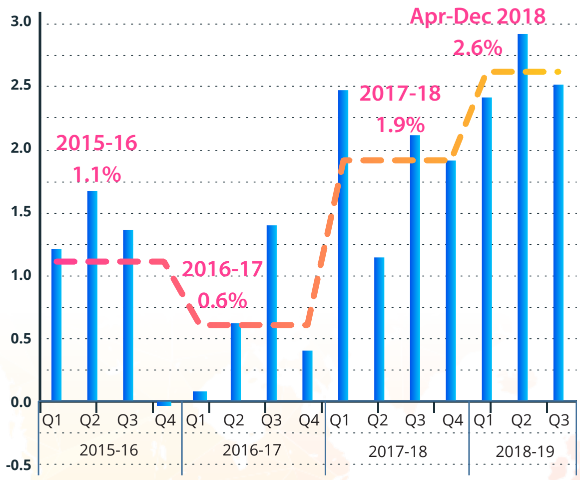

**Note:** GDP deflator for Q4 2018-19 is implied.

## FIG 6: CPI AND WPI INFLATION (%)

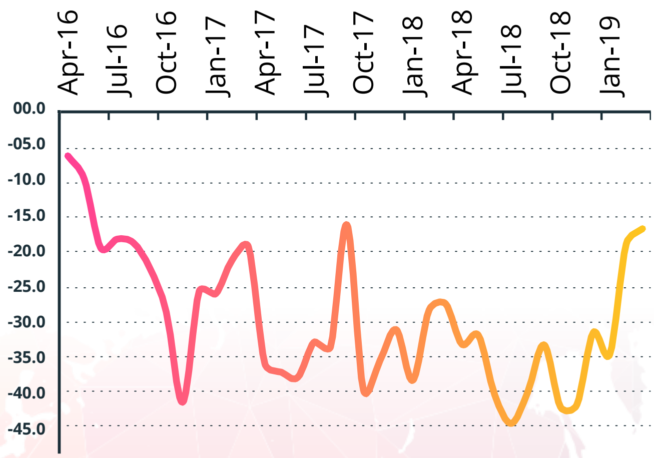



Current account deficit as percent of GDP improved in Q3 and is set to further improve in Q4 of 2018-19 as dip in imports has improved the merchandize trade deficit.

## FIG 7: CURRENT ACCOUNT DEFICIT (AS % OF GDP)



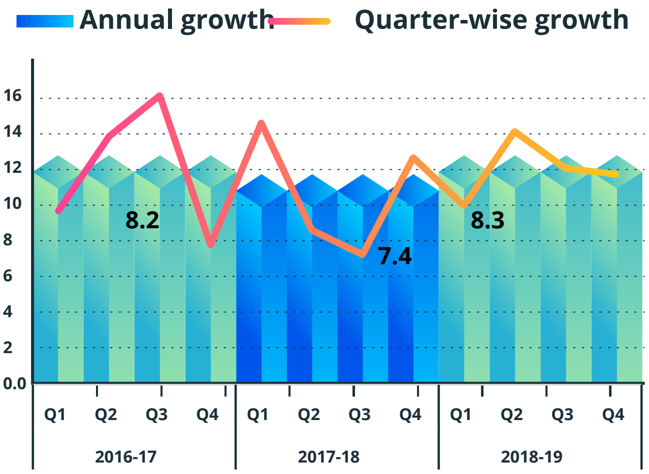

## FIG 8: NET MERCHANDISE EXPORT AS % OF MERCHANDISE IMPORT



# DOMESTIC DEMAND

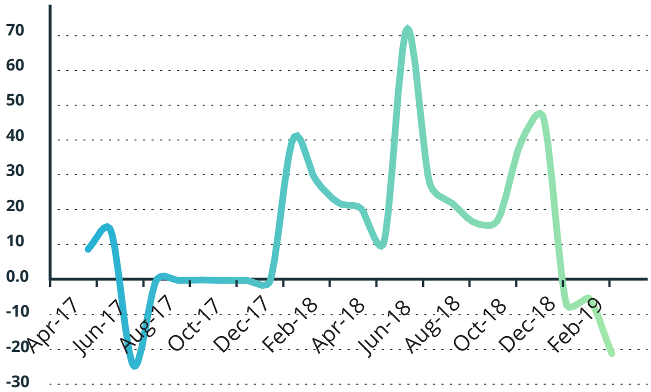
In line with declining real GDP growth, private consumption in Q4 of 2018-19 has also declined as reflected in the drop of growth of two-wheeler sales towards the end of the year.

## FIG 9: PRIVATE CONSUMPTION EXPENDITURE GROWTH (%)



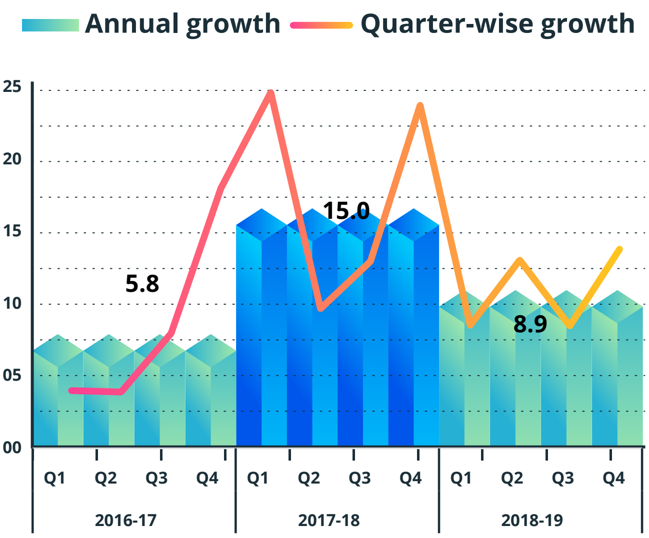

**Note:** Growth of Q4 2018-19 is implied.

## FIG 10: GROWTH OF NO. OF TWO WHEELER SALES (%)



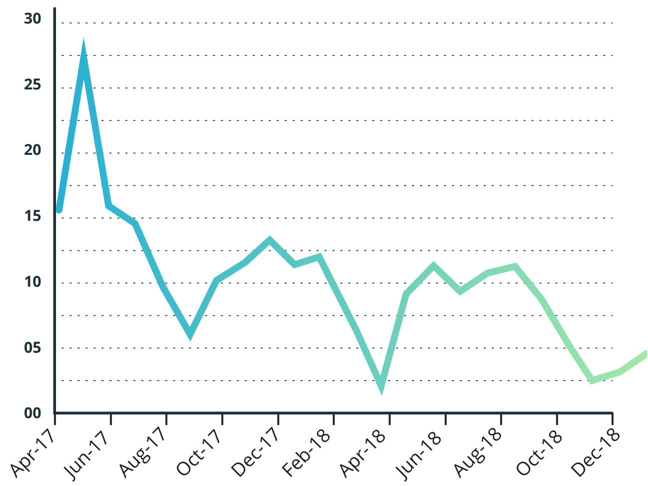

The expected firming up of government consumption expenditure in Q4 of 2018-19 is on course as growth in cumulative revenue expenditure of the central government has been higher in recent months.

## FIG 11: GOVERNMENT CONSUMPTION EXPENDITURE GROWTH (%)




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

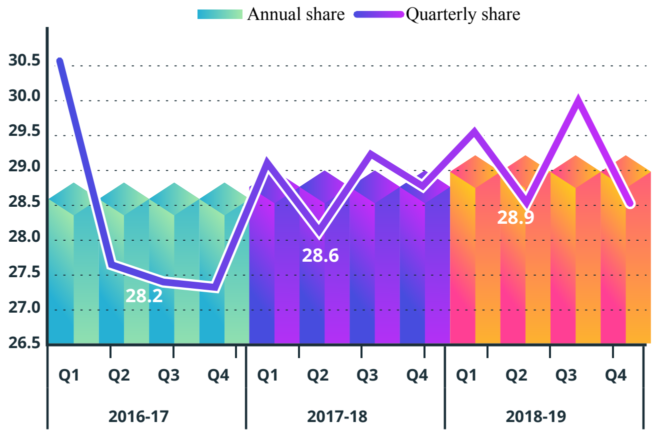
## FIG 12: CUMULATIVE REVENUE EXPENDITURE GROWTH (EXCL. INTEREST PAYMENT & SUBSIDY) (%)




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

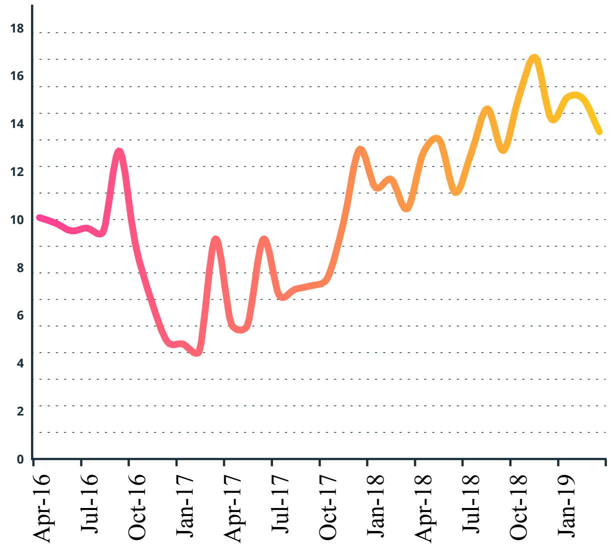
Though fixed investment as percentage of GDP has been trending up since 2017-18, this trend may pause for a while, also evident in slowing down of growth in non-food bank credit in Q4 of 2018-19.

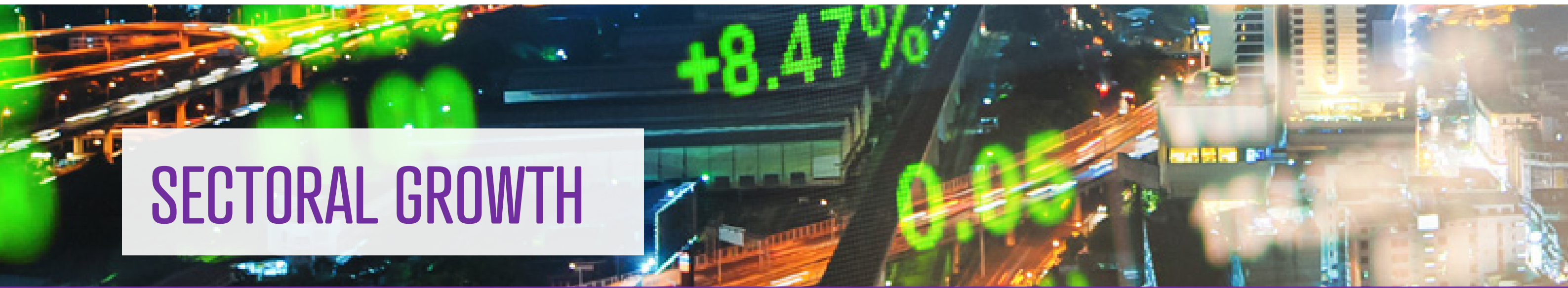
## FIG 13: FIXED INVESTMENT RATE (%)




**Note:** Data for Q4 2018-19 is implied.

## FIG 14: GROWTH OF NON-FOOD BANK CREDIT (%)

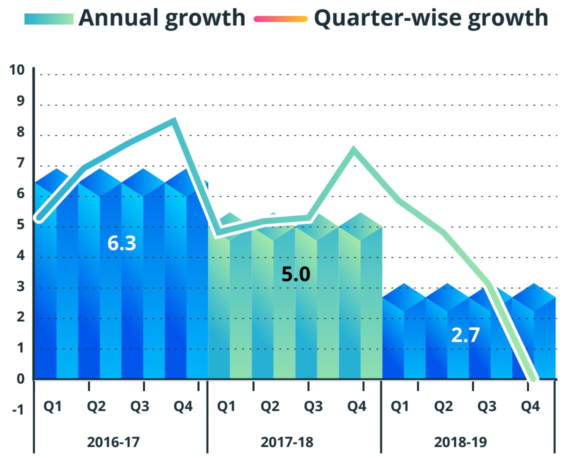



# SECTORAL GROWTH

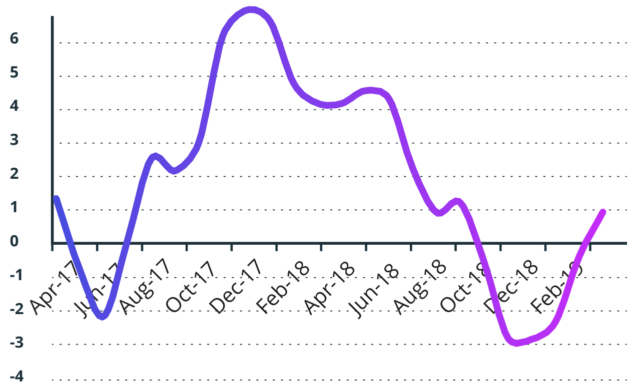
Growth in GVA in agriculture has been slowing since Q1 of 2018-19 and may continue to fall in Q4 as well; moderation in food deflation may soften this decline towards the end of the year.

## FIG 15: GROWTH IN GROSS VALUE ADDED IN AGRICULTURE & ALLIED (%)



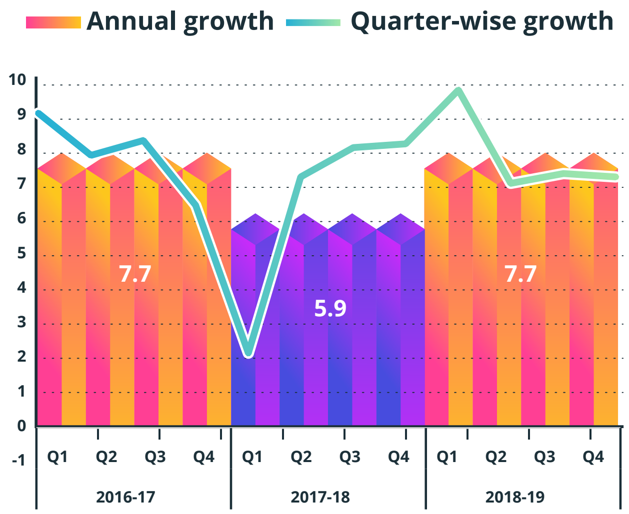

**Note:** Note: Growth of Q4 2018-19 is implied.

## FIG 16: CONSUMER FOOD PRICE INFLATION (%)

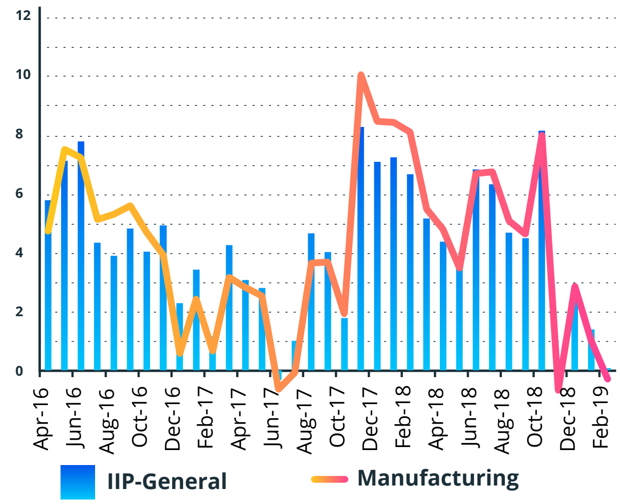


Growth of GVA in industry in 2018-19 will be higher than in the previous year, thereby overcoming the effect of the slowing down of IIP growth in recent months.

## FIG 17: GROWTH IN GROSS VALUE ADDED IN INDUSTRY (%)



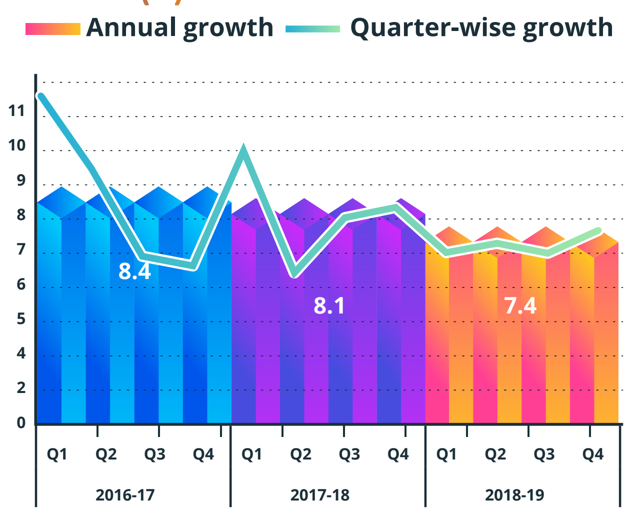

## FIG 18: INDEX OF INDUSTRIAL PRODUCTION GROWTH (%)




**Note:** Note: Growth of Q4 2018-19 is implied.

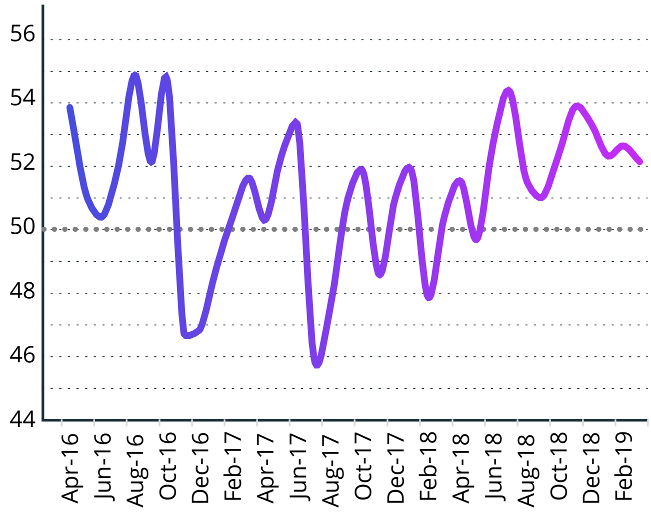
Growth of GVA in services has been robust in 2018-19, as evident in PMI services which remained above 50 throughout the year.

## FIG 19: GROWTH IN GROSS VALUE ADDED IN SERVICES (%)




**Note:** Note: Growth of Q4 2018-19 is implied.

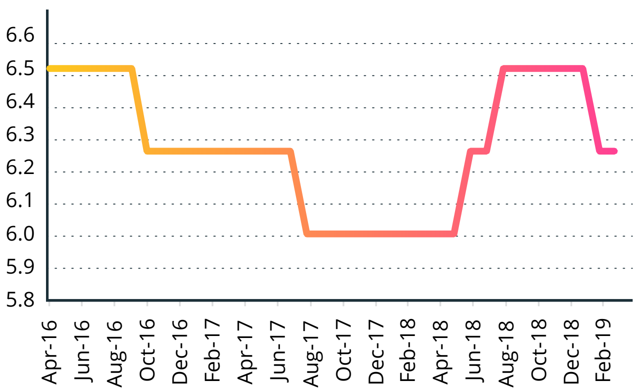
## FIG 20: NIKKEI INDIA PMI FOR SERVICES



# MONEY MARKET

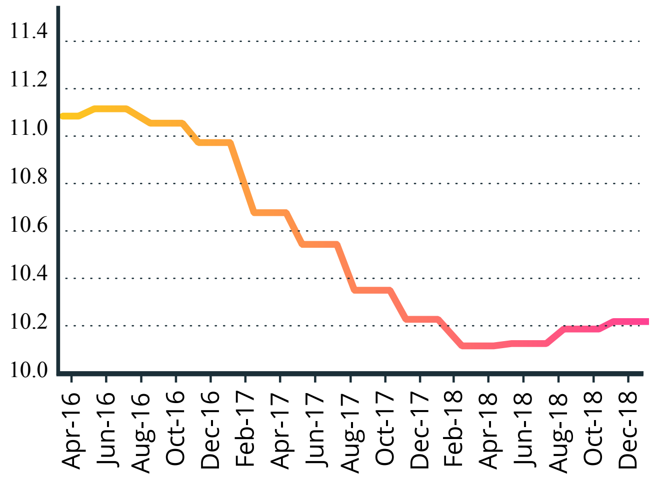
Though easing of monetary policy has the potential to support growth, the recent cuts in repo rate are yet to transmit to weighted average lending rate of banks; thus the effects of the easing on investment activity are yet to manifest.

## FIG 21: REPO RATE (%)



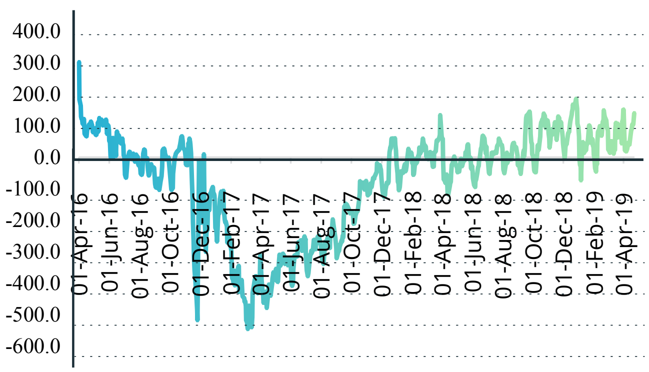

**Note:** In April 2019, the repo rate reduced at 6.0%

## FIG 22: WEIGHTED AVERAGE LENDING RATE (%)



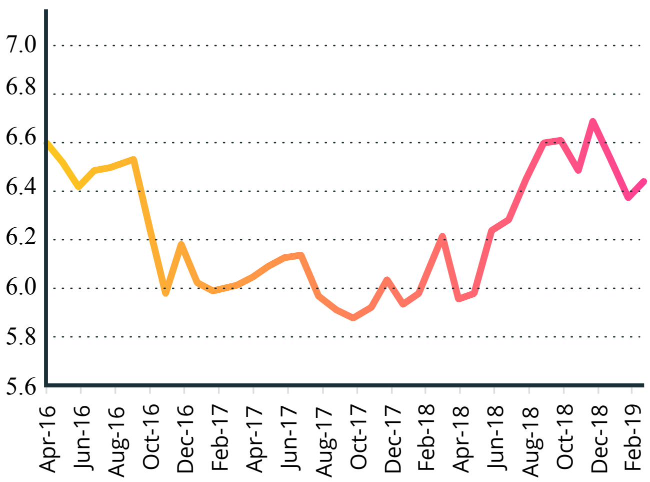

Credit growth could have been challenged by continuous tightening of bank liquidity causing the call money market rates to trend up since Q1; however, some respite is evident in Q4.

## FIG 23: BANK LIQUIDITY (RS. THOUSAND CRORE)




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

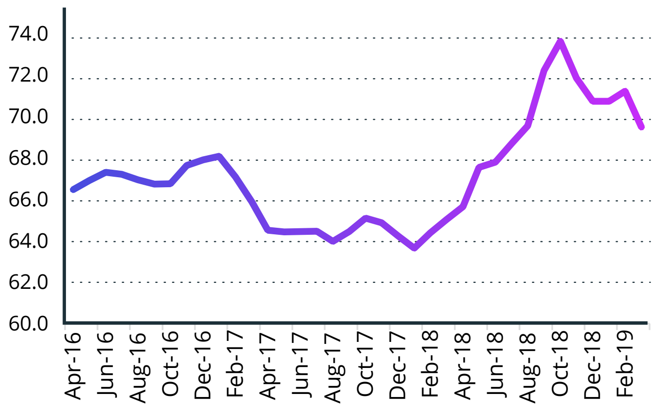
## FIG 24: CALL MONEY MARKET RATE (%)



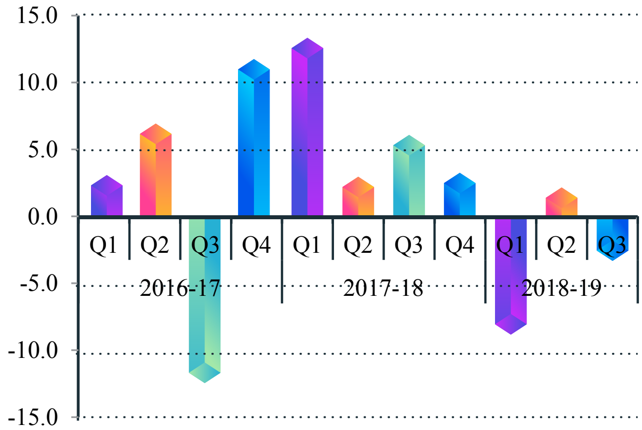

# EXTERNAL SECTOR

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$)

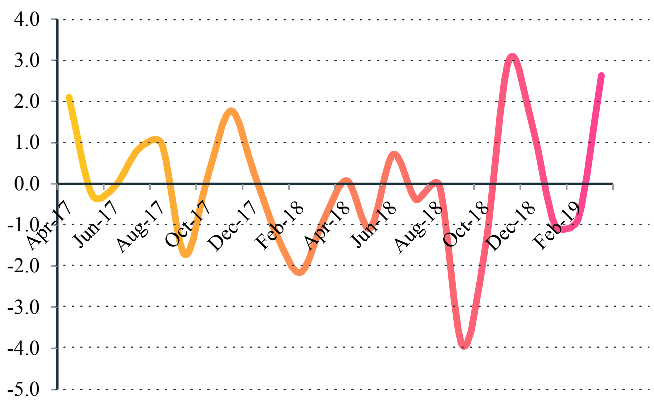



## FIG 26: NET FLOW OF PORTFOLIO INVESTMENT (US$ BILLION)

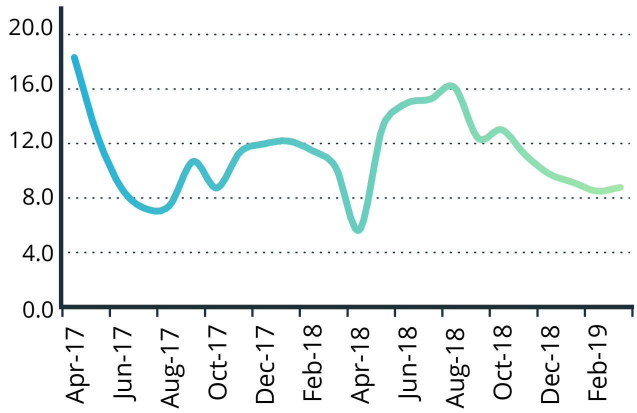



Real effective exchange rate has been appreciating in Q3 of 2018-19, which may have impacted growth of exports towards the end of the year.

## FIG 27: GROWTH OF REAL EFFECTIVE EXCHANGE RATE (%)



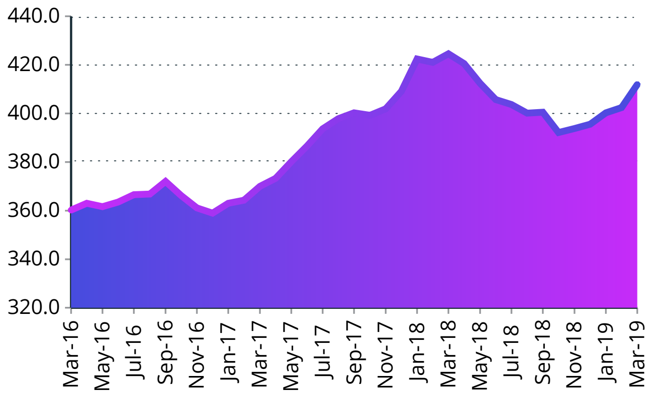

## FIG 28: CUMULATIVE EXPORTS GROWTH (%)




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

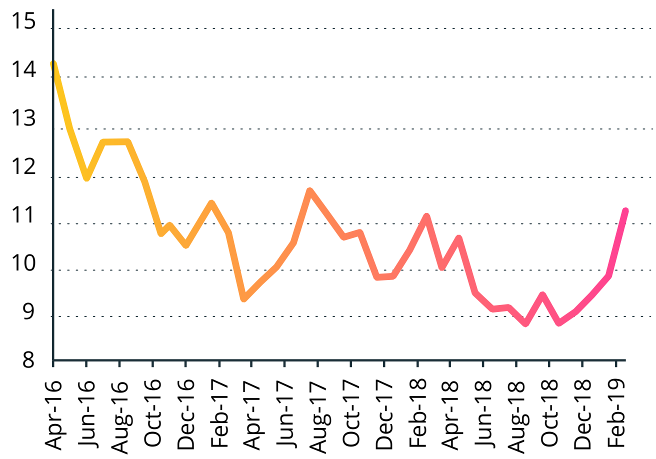
Foreign Exchange Reserves in terms of months of import cover has fallen from 14 months from April 2016 to nine months in October 2018; however, the import cover has been increasing since then.

### FIG 29: FOREIGN EXCHANGE RESERVES (US$ BILLION)




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

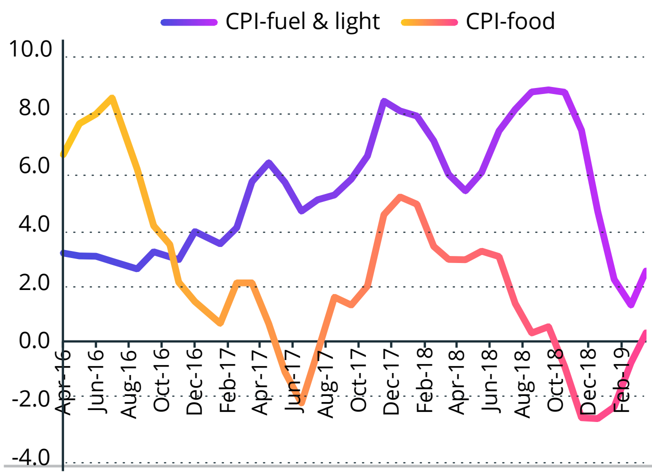
### FIG 30: NO. OF MONTHS OF IMPORT COVER OF FER



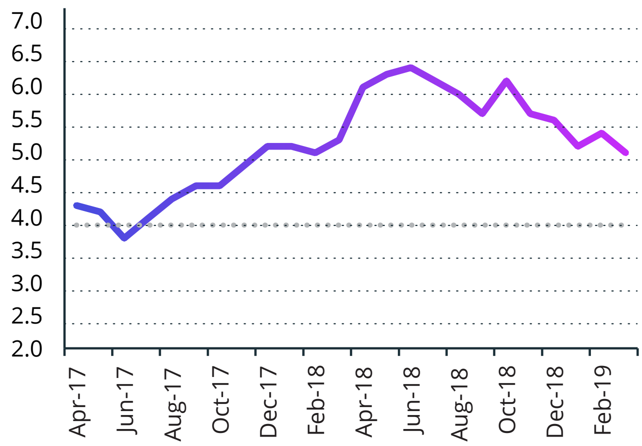

## INFLATION

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 (%)

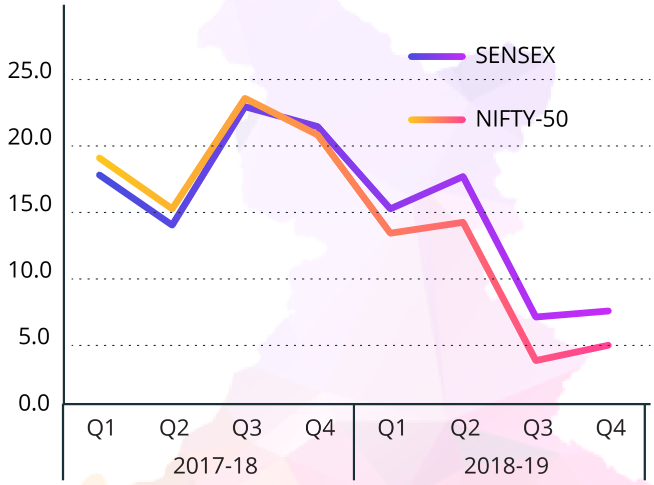



### FIG 32: CPI-CORE INFLATION (%)



# OUTLOOK

## FIG 33: GROWTH OF SENSEX (S&P BSE) AND NIFTY-50 (%)




## FIG 34: YIELD ON TREASURY BILL (%)