Impact Analysis: Macro

Budget Analysis Macro

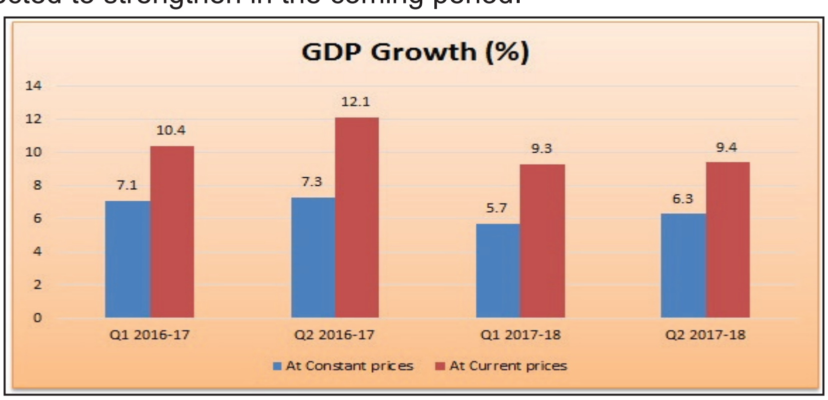
This year's Union Budget was the last full budget of the Modi government before going for the general elections in 2019. The budget, which was presented by Finance Minister Arun Jaitley, mainly focused on agriculture and health to improve rural incomes ahead of general elections next year. The government will now be focusing on low-cost farming and higher Minimum Support Price (MSP). It will ensure payment of full MSP even if farmers sell below MSP. The emphasis is on generating farm and non-farm employment for farmers. Moreover, employment and education also remained on Government's radar in this budget. Micro- Small and Medium Enterprises (MSMEs) segment found special mention in the Budget, with measures ranging from tax sops to easier access to loan.

Fiscal consolidation path

Budget 2018-19 reflects the Government's firm commitment to substantially boost investment in Agriculture, Social Sector, Digital Payments, Infrastructure and Employment Generation on the one hand and simultaneously stick to the path of fiscal rectitude by aiming for a reduction of FD by 0.2% of GDP over RE 2017-18. This is substantiated by increase in expenditure of Rs 2,24,463 crore over RE (2017-18) while simultaneously keeping the fiscal deficit at 3.3% of GDP. RE 2017-18, the total expenditure has been kept at Rs 22,17,750 crore and is more than BE 2017-18 by Rs 71,015 crore. The increase in total expenditure is mainly due to the outgo on account of GST Compensation to States, increased outlays on some important schemes and also to meet the recommendation of 7th CPC with respect to allowances and pensions. The devolution of States' share in taxes witnessed a major jump after the implementation of XIV Finance Commission from 2015-2016 onwards. Continuing with this trend, the total resources going to States including the devolution of States' share in taxes, Grants/Loans, and releases under Centrally Sponsored Schemes in BE (2018-19) is Rs 12,69,435 crore, with a jump of Rs 1,53,558 crore over RE (2017-18) and Rs 2,83,760 crore more than the Actuals (2016-17).

GDP Growth

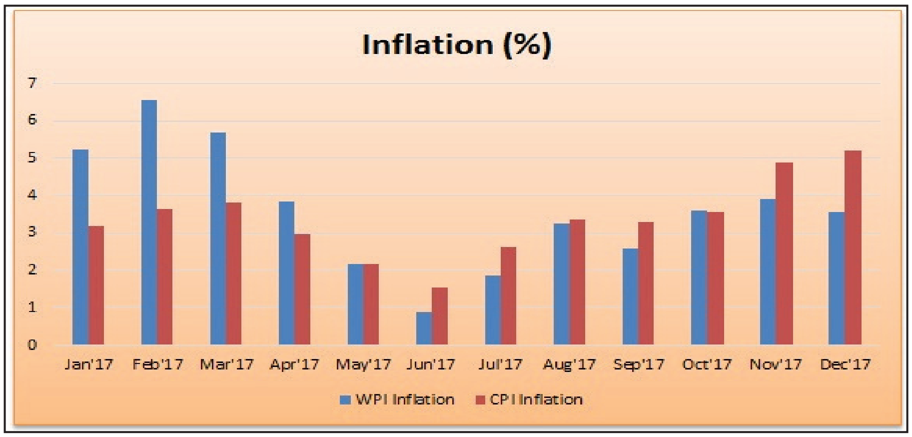
Indian economy as per the first Advanced Estimates released by the Central Statistics Office, is expected to grow by 6.5 per cent in 2017-18 in terms of GDP at constant (2011-12) market prices. The gross value added (GVA) at constant (2011-12) basic prices is expected to grow by 6.1 per cent in 2017-18, 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. Going forward, the GDP growth is expected to become more robust in FY19 as economic activity has been picking up over the last three quarters and can be expected to strengthen in the coming period.



Prices

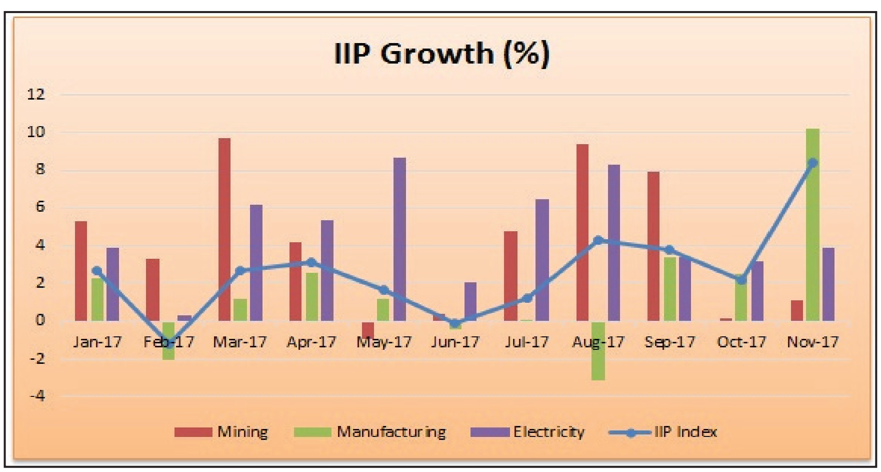
Consumer Price Index (Combined) inflation (Base 2012=100) for 2016-17 declined to 4.5 per cent from 4.9 per cent in

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



Industry and Services

The performance of the industrial sectors based on the Index of Industrial Production (IIP) comprising mining, manufacturing and electricity reveals that 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.



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. 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.

Money and Banking

Liquidity conditions remain in surplus mode even as its magnitude moderated gradually with progressive remonetization. Weighted Average Call Rate in recent months has drifted to the middle of the policy corridor. 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.

Outlook

The Union Budget 2018 was the last full-year budget before the general elections in 2019 and eight state assembly elections this year. In the highly anticipated budget from Finance Minister Agriculture got prime time attention with Finance minister proposing to increase minimum support price (MSP) to at least 1.5 times of production cost. He has also announced a healthcare scheme to cover 10 crore poor families, saying 50 crore beneficiaries will get Rs 5 lakh per family per year. Moreover, the Government has expanded the scope of Custom Act in order to cover the persons who are situated outside India and make contravention of any provisions of Custom Act. This will empower the Government to control offences committed by any person whether In India or outside India.

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

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.