MACRO-ECONOMIC FRAMEWORK STATEMENT 2016-17

Overview of the economy

The Indian economy has emerged as a bright spot in the world economy, becoming one of the fastest growing large economies in the world. The 7.6 per cent growth in the GDP at constant market prices in 2015-16, according to the advanced estimates of the Central Statistics Office, compares favourably with growth in the previous three years; 7.2 per cent in 2014-15, 6.6 per cent in 2013-14 and 5.6 per cent in 2012-13. It is noteworthy that this growth is estimated to be achieved despite subdued global demand that dampened India's exports significantly, and two consecutive below-normal monsoons that impacted farm output and productivity.

The macroeconomic stability has improved substantially with the continuance of fiscal prudence, lower inflation, lower current account deficit, and robust foreign exchange reserves. The year 2015-16 witnessed the government doing a fine balancing act, i.e. meeting the requirements of higher untied devolution to states and Union Territories as per the recommendations of the Fourteenth Finance Commission, and, keeping fiscal prudence while also stepping up capital expenditure. The current year also experienced moderation in general price level, with significant decline in the price of Indian basket of crude oil and commodity prices, coupled with astute food supply management policy of the Government. Low levels of current account deficit coupled with moderate rise in capital inflows resulted in accretion in foreign exchange reserves by US$ 10.6 billion in the first half of 2015-16. India's foreign exchange reserves were at US$ 351.5 billion as on February 5, 2016. All this shows that the Indian economy has effectively weathered the global challenges, and the near term growth prospects appear bright.

This year witnessed the continuation of the reform momentum built in 2014-15, aiming at aiding growth and macroeconomic stability. The reforms that were initiated last year for debottlenecking the economy, removing structural constraints, promoting industry and enterprise via Make-in-India initiative and the attendant measures to improve the ease of doing business, improving programme delivery through direct benefit transfer and other measures, encouraging saving and financial linkages through deepening of banking services and liberalising foreign direct investment policy in various sectors have been taken forward this year. The new initiatives like Public Sector Banks' Revamp Plan, UDAY (Ujwal DISCOM Assurance Yojana) for ensuring financial turnaround of the ailing power distribution companies, Start-up India for tapping budding entrepreneurial potential, add to the ongoing reform measures. The implementation of these reforms has improved the business environment and enhanced investors' confidence, which has been acknowledged by multi-lateral institutions and got reflected in faster economic growth and greater investment inflows to the country.

GDP growth

As per the Advanced Estimates released by the Central Statistics Office, the economy is estimated to grow at 7.6 per cent in 2015-16, higher than growth of 7.2 per cent achieved in 2014-15. The growth in agriculture, industry and services is estimated at 1.1 per cent, 7.3 per cent and 9.2 per cent in 2015-16 as opposed to (-) 0.2 per cent, 5.9 per cent and 10.3 per cent respectively in 2014-15. This shows a pick-up in industrial growth, driven by manufacturing which is estimated to grow at 9.5 per cent (in 2015-16), as compared to 5.5 per cent registered in 2014-15. The growth in agriculture remained low on account of second consecutive year of subdued monsoon. GDP growth during April-December 2015 (first 3 quarters) was 7.5 per cent, compared to 7.4 per cent in the same time period in 2014-15.

From the demand angle, the growth in private final consumption expenditure at 7.6 per cent in 2015-16 has been the major driver of growth. The growth of fixed investment improved from 4.9 per cent in 2014-15 to 5.3 per cent in 2015-16. The exports and imports are both estimated to decline by 6.3 per cent in 2015-16, the former mainly on account of subdued global demand and the latter largely reflecting the decline in international petroleum prices.

Agriculture

During the Southwest monsoon season of 2015, the country received 14 per cent lower rainfall than the long period average. As per the 4th Advance Estimates, the production of food grains during 2014-15 is placed at 252.7 million tonnes (rice at 104.8 million tonnes and wheat at 88.9 million tonnes), vis-à-vis 265.0 million tonnes in 2013-14 (final estimates). The production of pulses is estimated at 17.2 million tonnes, sugarcane at 359.3 million tonnes, oilseeds at 26.7 million tonnes and cotton at 35.5 million bales of 170 kg each in 2014-15. As per the first advance estimates released by the Ministry of Agriculture on 16.09.2015, production of total kharif foodgrains during 2015-16 is estimated at 124.1 million tonnes, compared to 120.3 million tonnes in 2014-15.

The flow of agriculture credit increased to ₹8,45,328 crore (provisional) in 2014-15, compared to Rs.7,30,123 crore in 2013-14. The agriculture credit flow target was fixed at ₹8,50,000 crore for 2015-16, against which ₹5,03,898 crore (provisional) was achieved upto 30th September, 2015.

Prices

The year 2015-16 continues to experience moderation in general price level. The significant decline in the price of the Indian basket of crude oil, through the direct and second round effects, partly contributed to the decline in general inflation for the second successive year. The headline inflation, based on the CPI (combined) series, dipped to 4.9 per cent during 2015-16 (April-January), as against 5.9 per cent in the year 2014-15. Food inflation measured in terms of Consumer Food Price Index (CFPI) declined to 4.8 per cent during 2015-16 (April-January), as compared to 6.4 per cent in 2014-15. The CPI-based core inflation (non-food, non-fuel) also remained range-bound, inching up from 4.2 per cent in March 2015 to 4.7 per cent in January 2016. The decline in core inflation was largely on account of the decline in the inflation in housing (rent), transport, communication, education and other services.

The headline WPI inflation declined much faster than the CPI inflation, following the global trend of declining commodity prices. WPI inflation has been in the negative territory since November 2014 and it averaged (-) 2.8 per cent in 2015-16 (April-January), as compared to 2.0 per cent in 2014-15. The WPI inflation in fuel and power group declined significantly to (-) 12.3 per cent in 2015-16 (April-January) from (-) 0.9 per cent in 2014-15. The WPI-based core inflation declined from 2.4 per cent in 2014-15 to (-) 1.5 per cent in 2015-16 (April-January). The WPI combined food inflation continues to remain moderate at 2.2 per cent during 2015-16 (April-January), despite the below-normal monsoon this year and the sporadic spurt in the prices of pulses and a few other essential commodities in the second half of the year.

The astute food supply management policy of the Government through buffer stocking of food grains and minimal increase in the minimum support price of agricultural commodities helped to moderate the prices of essential commodities during 2015-16. The easing of inflationary pressures paved the way for the reduction in policy repo rates by 125 basis points during 2015 by the Reserve Bank of India (RBI).

Industry and Services

The performance of key industrial sectors based on the Index of Industrial Production (IIP) reveals a pick-up in industrial production in first three quarters of 2015-16. Growth in IIP in April-December 2015 was 3.1 per cent, higher as compared to 2.6 per cent in same time period last year. As per the sectoral classification of IIP, electricity sector grew by 4.5 per cent, manufacturing by 3.1 per cent and mining by 2.3 per cent during April-December 2015-16. The factors constraining further growth acceleration in manufacturing sector include; infrastructure bottlenecks and low external demand. Among the use-based categories, consumer durables witnessed marked improvement in growth during April-December 2015-16.

In 2015-16, as per the advance estimates, the services sector accounting for 53.3 per cent of India's gross value added at current basic prices, is estimated to grow at 9.2 per cent (at constant prices). Among the service sector activities, the sectors like: trade, hotels, transport, communication and services; and, financial, real estate and professional services are estimated to register robust growth rates in 2015-16.

Monetary Developments

The RBI effected a shift in its monetary policy stance on January 15, 2015 with a reduction in repo rate by 25 basis points (bps) to 7.75 per cent and followed it up with a cumulative reduction of 100 bps - 25 bps each on March 4, 2015 and June 2, 2015 and another 50 bps on September 29, 2015. RBI kept the policy repo rate unchanged at 6.75 per cent in the sixth bi-monthly monetary policy review on February 2, 2016.

Liquidity conditions were generally tight during the first quarter (Q1) of 2015-16, mainly due to restrained government spending. In the second quarter (Q2) of financial year (FY) 2015-16, however, liquidity conditions eased significantly as public expenditure picked up and deposits exceeded credit substantially. In the third quarter (Q3) of FY 2015-16, liquidity conditions tightened mainly due to the festive season currency demand. RBI conducted variable rate repo and reverse repo (overnight and term) auctions to address the day-to-day liquidity requirements arising out of frictional factors, besides the regular liquidity operations under the Liquidity Adjustment Facility coupled with the Open Market Operations. Accordingly, the weighted average call rate or the operating target of monetary policy remained closely aligned to the policy repo rate.

Banking sector and financial inclusion

The performance of the scheduled commercial banks (SCBs) during 2015-16 remained subdued. The slowdown in the growth in the balance sheets of banks witnessed since 2011-12 continued during 2015-16 as well. The moderation in the growth of assets of the SCBs was mainly attributed to tepid growth in loans and advances (below 10 per cent). Growth in investments also slowed down marginally. The decline in credit growth reflected the slowdown in industrial credit off take, poor growth of earnings reported by the corporate sector and risk aversion on the part of banks owing to rising non-performing assets. Further, with the availability of alternative sources, the corporate sector companies also switched part of their financing needs to other sources such as external commercial borrowings, corporate bonds and commercial papers.

There was considerable increase in the number of basic savings bank deposit accounts (BSBDAs) during the current year under the Pradhan Mantri Jan Dhan Yojana. BSBDAs reached 441 million at end-September 2015, as against 398 million at end-March 2015. The total number of banking outlets increased from 553,713 at the end-March 2015 to 567,530 at end-September 2015. Three schemes were launched in 2015 in the insurance and pension sectors for creating a universal social security system for all Indians, especially the poor and underprivileged. The schemes include; the Pradhan Mantri Suraksha Bima Yojana, the Pradhan Mantri Jeevan Jyoti Bima Yojana and the Atal Pension Yojana.

External Sector

Reflecting the slowdown in the value of global trade owing to the decline in global commodity prices and weak demand, the value of India's merchandise exports (customs basis) declined by 1.3 per cent to US$ 310.3 billion in 2014-15. In 2015-16 (April-January), the growth of exports declined by 17.6 per cent (US$ 217.7 billion vis-à-vis US$ 264.3 billion in the corresponding period of the previous year). Imports declined by 0.5 per cent to US$ 448.0 billion in 2014-15. Imports for 2015-16 (April-January) were valued at US$ 324.5 billion, 15.5 per cent lower as compared to US$ 383.9 billion in the corresponding period of the previous year. Imports of petroleum, oil and lubricants (POL) declined by 41.4 per cent in 2015-16 (April-January) to US$ 73.1 billion, as compared to US$ 124.8 billion in the corresponding period of previous year, mainly due to the decline in international crude oil prices. Non-POL imports for 2015-16 (April-January) declined by 3.0 per cent to US$ 251.4 billion, as compared to US$ 259.1 billion in the corresponding period of the previous year. Resultantly, trade deficit decreased to US$ 106.8 billion during 2015-16 (April-January), as against US$ 119.6 billion in the corresponding period of the previous year.

Based on the Balance of Payments (BoP) data available for the first six months of 2015-16, the trade deficit on BoP basis was US$ 71.6 billion in April-September 2015 as compared to US$ 74.7 billion in April-September 2014. With the net invisibles surplus of US$ 57.2 billion in the first half of 2015-16 (as against US$ 56.3 billion in the first half of 2014-15), current account deficit (CAD) was US$ 14.4 billion in April-September 2015, as compared to US$ 18.4 billion in April-September 2014.

On a BoP basis, there was a net accretion to India's foreign exchange reserves by US$ 61.4 billion and US$ 10.6 billion respectively in 2014-15 and 2015-16 (April-September). Buoyant remittances (private transfers) supplemented the lower crude oil prices in reducing the current account deficit, and lower but the significant capital flows -resulted in a sizeable capital account surplus. This resulted in increase in the stock of foreign exchange reserves, which stood at US$ 350.3 billion at end September, 2015. The stock of foreign exchange reserves was US$ 351.5 billion as on February 5, 2016. As some of the financial flows were debt creating, the total stock of external debt was US$ 483.2 billion at end-September 2015 as against the level of US$ 475.2 billion at end March 2015.

In 2015-16 (April-January), the average monthly exchange rate of rupee (RBI's reference rate) was in the range of ₹62 - 67 per US dollar (₹62.75 per US dollar in April 2015 and ₹67.25 per US dollar in January 2016). During 2015-16 (April-January), the average monthly exchange rate of rupee depreciated by 6.3 per cent. On month-on-month basis, the rupee depreciated by 7.1 per cent from 62.45 per US dollar in March 2015 to 67.25 per US dollar in January 2016.

At end-September 2015, India's external debt stock stood at US$ 483.2 billion, recording an increase of US$ 8.0 billion (1.7 per cent) over the level at end-March 2015. The maturity pattern of India's external debt indicates dominance of long-term borrowings. At end-September 2015, the long-term external debt accounted for 82.2 per cent of India's total external debt, while the remaining portion (17.8 per cent) was short-term external debt. The ratio of short-term external debt to foreign exchange reserves stood at 24.6 per cent vis-à-vis 25.0 per cent at end-March 2015.

Central Government Finances

In 2014-15, the pro-active policy decisions of the Government with firm commitment to fiscal consolidation provided on opporunity to achive the fiscal deficit target of 4.1 per cent of GDP set for the year. In 2015-16, fiscal deficit and revenue deficit were budgeted at ₹5,55,649 crore (3.9 per cent of GDP) and ₹3,94,472 crore (2.8 per cent of GDP) respectively. In B.E. 2015-16, the 'effective revenue deficit', which represents the imbalance in revenue account after netting the grants used for creation of capital assets was estimated at ₹2,83,921 crore i.e. 2.0 per cent of GDP.

The BE 2015-16 envisaged a tax to GDP ratio of 10.3 per cent, non-debt receipts to GDP ratio of 8.7 per cent and total expenditure to GDP ratio of 12.6 per cent. The envisaged growth for gross tax revenue was 15.8 per cent over Revised Estimates (RE) 2014-15. The total expenditure in BE 2015-16 was estimated to increase by 5.7 per cent over RE 2014-15.

As per the data on Union Government Finances released by Controller General of Accounts for April-December 2015, the gross tax revenue increased by 21.1 per cent in comparison to the corresponding period of the previous year and was at 66.5 per cent of BE. The non-tax revenue registered an increase of 22.6 per cent during April-December 2015, over the corresponding period of the previous year. At the end of December 2105, there was a significant shortfall in non-debt capital receipts, mainly on account of the shortfall in disinvestment receipts, as only ₹12866 crore of the budgeted amount of ₹69,500 crore was realized.

Major subsidies decreased by 1.7 per cent during April-December 2015, as compared to April-December 2014 due to a decline in petroleum subsidy by ₹22,545 crore, as compared to the corresponding period in 2014-15, due to fuel pricing reforms and steep decline in the global prices of petroleum products. Conversely, there was an increase in food subsidy by ₹10,278 crore and fertilizer subsidy by ₹8,609 crore.

Fiscal deficit at 87.9 per cent of BE in the year 2015-16 (April-December) was higher than the five-year average of 82.3 per cent, but lower than the corresponding figure of 100.2 per cent in the previous year. The revenue deficit for April-December 2015 was estimated at 81.7 per cent of BE and is significantly lower than the five year moving average of 84.8 per cent. The Revised Estimates place fiscal and revenue deficits at 3.9 per cent of GDP and 2.5 per cent of GDP respectively in 2015-16.

Prospects

In light of the encouraging performance of the economy in the first three quarters of 2015-16, marked by pick-up in economic growth, lower inflation, manageable current account deficit, high foreign exchange reserves, buoyant tax revenues, increasing foreign direct investment flows along with the government's push to reforms in crucial areas including banking, infrastructure, power, taxation, etc., the near term prospects for the economy look bright. A strengthening of growth in India has been projected by multi-lateral institutions. However, the risk that still remains is the subdued global growth; slowdown and rebalancing in China's economy; increased volatility in financial markets; and, gradual tightening in the monetary policy in the United States. Keeping these conditions in view, the rate of nominal growth of the economy is expected to be around 11 per cent in 2016-17.

Annex 1

MACROECONOMIC FRAMEWORK STATEMENT
(ECONOMIC PERFORMANCE AT A GLANCE)

Sl.	Item	Absolute value April-December		Percentage change April-December	
		2014-15	2015-16	2014-15	2015-16
Real Sector					
1	GDP at market prices (thousand crore) (#)				
	a. at current prices	12488	13567	10.8	8.6
	b. at 2011-12 prices	10552	11351	7.2	7.6
2	Index of Industrial Production (2004-05=100)	172.7	178.1	2.6	3.1
3	Wholesale Price Index (2004-05=100) (@)	182.8	177.3	3.3	-3.0
4	Consumer Price Index- Combined (2012=100) (@)	118.5	124.2	6.1	4.8
5	Money Supply (M3) (thousand crore) (at end December)	10211	11338	10.7	11.0
6	Imports at current prices **				
	a) In crore	2136855	1915849	5.3	-10.3
	b) In US $ million	351614	295812	3.7	-15.9
7	Exports at current prices **				
	a) In crore	1458094	1273323	4.5	-12.7
	b) In US $ million	239929	196604	3.5	-18.1
8	Trade Deficit (US$ million) **	-111685	-99208	4.3	-11.2
9	Foreign Exchange Reserves (upto end January)				
	a) In ₹ crore	2031370	2358590	11.7	16.1
	b) In US $ million	328689	349609	12.9	6.4
10	Current Account Balance (US$ million)##	-18434	-14375		
	Government Finances (crore) ^^				
1	Revenue receipts	693773	803808	9.4	15.9
2	Tax revenue (Net)	545714	622247	5.4	14.0
3	Non-tax revenue	148059	181561	27.3	22.6
4	Capital receipts (5+6+7)	542615	510189	2.4	-6.0
5	Recovery of loans	8282	9138	3.0	10.3
6	Other receipts	1952	12866	-64.1	559.1
7	Borrowings and other liabilities	532381	488185	3.1	-8.3
8	Total receipts (1+4)	1236388	1313997	6.2	6.3
9	Non-Plan expenditure	883757	968019	8.8	9.5
10	Revenue Account	813270	895386	11.2	10.1
	of which:				
11	Interest payments	275220	302298	10.8	9.8
12	Capital Account	70487	72633	-13.4	3.0
13	Plan expenditure	352631	345978	0.4	-1.9
	of which:				
14	Revenue Account	282278	230656	3.0	-18.3
15	Capital Account	70353	115322	-8.9	63.9
16	Total expenditure (9+13)	1236388	1313997	6.2	6.3
17	Revenue expenditure (10+14)	1095548	1126042	9.0	2.8
18	Capital expenditure (12+15)	140840	187955	-11.2	33.5
19	Revenue deficit (17-1)	401775	322234	8.2	-19.8
20	Fiscal deficit {16-(1+5+6)}	532381	488185	3.1	-8.3
21	Primary deficit (20-11)	257161	185887	-4.0	-27.7

** *On Customs basis. # GDP figures and growth relate to full year (April-March) ## April-September (@) The figure for 2015-16 is provisional.*

^^ *Figures as reported by Controller General of Accounts, Department of Expenditure, and Ministry of Finance.*