Mid-year Review of Indian Economy

The government has released its report on the mid-year economic analysis for H1FY16 and prospects for FY16 as a whole. In its assessment it has reiterated its growth target for the current fiscal while keeping the inflation at a conservative level.

A brief snapshot of some of the key indicators is presented below-

- **Steady recovery in economic growth**

Government notes that there has been a steady recovery in growth with H1FY16 registering a growth of 7.2% over 7.5% in H1FY15. However, it has expressed difficulties in understanding the pace and strength of the economy for 2 reasons – first the GDP data can be subject to a degree of uncertainty and Second, the economy is sending mixed signals with different indicators not always pointing in the same positive direction.

Going ahead, it projects the economy to grow at 7-7.5% in FY16. It has mentioned that there will no severe expenditure cuts on the fiscal front. It has also accounted for the recent developments – floods in tamil nadu, the weak rainfall adversely impacting the agricultural production and falling oil prices. *CARE projects growth to be between 7.5-7.6% in FY16.*

- **Steady inflation**

Inflation continues to moderate steadily with MSP increases and growth in rural wages being muted. On the other, it states that the real deposits have recovered while the gold imports have stabilized at lower levels.

It expects inflation to grow at 6% for the current fiscal depending on international prices and the domestic conditions. *CARE estimates a marginal increase in the WPI index with the base effect waning in Jan-Feb'16, which could eventually result in a **1%** increase, with an upward bias of up to **2%** in WPI by end March'16. CPI inflation would range between **5-5.5%** by year end.*

- **Robust external position**

External position appears to be robust with CAD at comfortable levels of about 1.2% of GDP. Forex reserves too have risen to $352 .1 billion as of Dec,4. Also, net FDI indicates a growth at $17billion in H1FY16 against $ 15.8bn in H1FY15. Besides, it also notes that the rupee has been the one of best performing currency this year this despite uncertainty in capital flows.

- **Significant improvement in Fiscal performance**

It highlights 3 important achievements on the fiscal management front

  - **Tax performance has been a success** in H1FY16. Buoyant tax collections and plus the additional revenue measures viz. introduction of Swachh Bharat cess and recent increases in excise shall ensure that the central government's fiscal target will be met.
  - **Improved budgetary governance**. The forecast error in this year's budget was a fraction of that last year and also substantially lower than the average error in the four years preceding that.

- **Improved quality of spending.** Aggregate capital expenditure has increased by about 0.5 % of GDP in H1FY16, with contributions from both the centre (60 %) and states (40 %).

Given this, it also states that there have been mixed signals by the economy-

- Tax collections- they have been buoyant relative to the growth in the underlying base, which is nominal GDP. But here too, indirect taxes have fared better than direct taxes, probably because corporate profits have not been buoyant, reflecting the slowing nominal GDP growth.
- Non-food credit shows a pick-up when measured in real terms. This is true of real bank credit and real financing computed as the sum of bank credit, bonds, and external financing as well.
- But this overall picture masks significant variation. Real consumer credit has picked up rapidly while industrial credit has slowed dramatically. Much of the credit to industry may have been to stressed sectors, raising the possibility that loans are provided for balance sheet purposes rather than to finance new activity
- Sectorally too, there are mixed signals. While the overall index of industrial production (IIP) has grown marginally faster in the first six months this year than the last, there is considerable variation in performance across sectors. In terms of production, power, fertilizers, and cars have been surging In contrast, commodities such as steel, iron, aluminium, and cement are doing less well Growth in capital goods imports, which partially proxies for investment, has decelerated sharply from about 12 % in April 2015 to barely positive territory.

- **<u>On the fiscal front- reaffirmation of government's commitment</u>**

  It states that the outcome of the government efforts on the fiscal front in H1FY16 is in conformity with the mid- year benchmark of non –debt receipts, fiscal deficit and revenue deficit. Besides, it is continuously monitoring the emerging economic scenario and taking measure for restoring growth. It commits the carry with its fiscal path of consolidation to its logical conclusion.

Contact:

Madan Sabnavis	***Jyoti Wadhwani***
Chief Economist	***Associate Economist***
madan.sabnavis@careratings.com	*jyoti.wadhwani@careratings.com*
91-022-67543489	*91-022-67543531*

This report is prepared by Credit Analysis &Research Limited (CARE Ratings). CARE Ratings has taken utmost care to ensure accuracy and objectivity while developing this report based on information available in public domain. However, neither the accuracy nor completeness of information contained in this report is guaranteed. CARE Ratings is not responsible for any errors or omissions in analysis/inferences/views or for results obtained from the use of information contained in this report and especially states that CARE Ratings has no financial liability whatsoever to the user of this report.