GLOBAL ECONOMIC MONITOR

Monthly update of developments in the global economy

PHD Research Bureau
PHD Chamber of Commerce and Industry

August 2018

Global growth has strengthened in 2017 to 3.8% and is projected to reach 3.9% in 2018 and 2019. This improved economic performance has, however, been increasingly overshadowed by heightened risks and humanitarian concerns. Trade tensions between major economies have further intensified in recent months, posing a significant threat to the world economy.

Among emerging market and developing economies, growth prospects are also becoming more uneven, amid rising oil prices, higher yields in the United States, escalating trade tensions, and market pressures on the currencies of some economies with weaker fundamentals. Financial market conditions remain accommodative for advanced economies—with compressed spreads, stretched valuations in some markets, and low volatility—but this could change rapidly.

In advanced economies, the macroeconomic stance should be tailored to the maturing cyclical position. Many emerging market and developing economies need to enhance resilience through an appropriate mix of fiscal, monetary, exchange rate, and prudential policies to reduce vulnerability to tightening global financial conditions, sharp currency movements, and capital flow reversals.

Various international organizations are optimistic on India's growth story; World Bank projects India to grow at 7.3%. The IMF expects India to achieve 7.4% and 7.8% growth in FY2018-19 and FY2019-20 respectively on a gradual increase in growth as structural reforms undertaken in the recent past raises prospects for potential output. Also, RBI has forecasted GDP growth at 7.4% for FY2018-19.

Avoiding protectionist measures and finding a cooperative solution that promotes continued growth in goods and services trade remain essential to preserve the global expansion. Policies and reforms should aim at sustaining activity, raising medium-term growth, and enhancing its inclusiveness. But with reduced slack and downside risks mounting, many countries need to rebuild fiscal buffers to create policy space for the next downturn and strengthen financial resilience to an environment of possibly higher market volatility.

NATIONAL APEX CHAMBER

World Economy: Key Monetary and Fiscal Indicators

Country	GDP Billion (US$)	GDP Growth (YoY)	Government Debt as % of GDP	Interest Rate	Inflation Rate	Unemployment Rate	Current Account	Government Budget
	Dec '17	Mar'18	Dec '17	Jul'18	Jul'18	Jun '18	Dec '17	Dec '17
United States	19390	2.8%*	105.4%	2.0%@	2.9%	3.9%%	(-)2.4%	(-)3.5%
Canada	1,653	2.3%	89.6%	1.5%	3.0%	5.8%%	(-)3%	(-).0.9%
Japan	4,872	1.1%	253%	-0.10%	0.9%	2.4%	4.02%	(-)4.5%
Euro Area								
United Kingdom	2,622	1.2%	85.3%	0.75%@	2.5%	4.0%	(-)4.1%	(-)2.3%
Germany	3,677	2.3%	64.1%	0.00%	2.0%	3.4%	8%	1.3%
France	2,582	1.7%*	97%	0.00%	2.3%	9.1%	(-)0.8%	(-)2.6%
European PIIGS								
Portugal	217	2.1%	125.7%	0.00%	1.6%	6.7%	0.50%	(-)3%
Ireland	333	8.4%**	68%	0.00%	0.8%	5.1%%	12.5%	(-)0.3%
Italy	1,934	1.4%	131.8%	0.00%	1.5%	10.9%	2.8%	(-)2.3 %
Greece	200	2.3%	178.6%	0.00%	0.9%	19.5%&	(-)0.8%	0.80%
Spain	1,311	3.0%	98.3%	0.00%	2.2%	15.3%	1.9%	(-)3.1%
BRICS Countries								
Brazil	2055	1.2%	74.04%	6.5%@	4.48%	12.4%	(-)0.48%	(-)7.8%
Russia	1,577	1.3%	12.6%	7.25%	2.5%	4.7%%	1.8%$$	(-)1.5%
India	2,597	7.7%	68.7%	6.50%@	4.1%	3.52%$	(-)1.9%	(-)3.5%
China	12,237	6.7%*	47.6%	4.35%	2.1%	3.83%	1.3%	(-)3.5%
South Africa	349	0.8%	53.1%	6.5%	5.1%	27.20%	(-)2.5%	(-)4.6%

Source: PHD Research Bureau, compiled from various sources, $$ pertains to December 2016, $ Data pertains to December 2017, ** pertains to March 2018, & Data pertains to April 2018, & pertains to May 2018, * pertains to June 2018, % Data pertains to July 2018, @ Data pertains to August 2018.

NATIONAL APEX CHAMBER

Contents

1. Growth

1.1 Stable growth momentum in the OECD area-

Composite leading indicators (CLIs), designed to anticipate turning points in economic activity relative to trend six to nine months ahead, are pointing tentatively to easing growth momentum in the OECD area as a whole. The CLIs point to easing growth momentum in Canada and in the euro area as a whole, including Germany, France and Italy, as well as in the United Kingdom. On the other hand, stable growth momentum remains the assessment for the United States and Japan. Among major emerging economies, growth gaining momentum remains the assessment for the industrial sector in China and for India, while in Brazil and Russia the CLIs anticipate easing growth momentum.

Composite leading indicators

	Ratio to trend, amplitude adjusted (long term average =100)					Month on Month change (%)					Year on Year change (%)	Growth cycle outlook
	2018					2018					Latest month	
	Feb	Mar	Apr	May	Jun	Feb	Mar	Apr	May	Jun		
OECD Area	100.1	100.0	100.0	99.9	99.8	-0.05	-0.08	-0.09	-0.09	-0.09	-0.33	Tentative signs of easing growth momentum
Euro Area	100.4	100.3	100.1	100.0	99.9	-0.12	-0.14	-0.15	-0.14	-0.13	-0.58	Easing growth momentum
Major Five Asia**	99.5	99.5	99.7	99.8	100.1	0.01	0.08	0.12	0.17	0.23	0.10	Growth gaining momentum
Major Seven	100.2	100.1	100.0	100.0	99.9	-0.02	-0.05	-0.07	-0.08	-0.08	-0.13	Stable growth momentum
Canada	100.1	100.0	99.9	99.8	99.7	-0.12	-0.12	-0.12	-0.10	-0.09	-0.64	Easing growth momentum
France	100.1	100.0	99.9	99.8	99.7	-0.13	-0.14	-0.13	-0.11	-0.10	-0.80	Easing growth momentum
Japan	100.1	100.0	99.9	99.9	99.8	-0.06	-0.06	-0.05	-0.05	-0.07	-0.34	Stable growth momentum
Germany	100.7	100.5	100.3	100.2	100.1	-0.16	-0.18	-0.17	-0.14	-0.11	-0.55	Easing growth momentum
Italy	100.6	100.5	100.3	100.2	100.1	-0.12	-0.14	-0.14	-0.13	-0.13	-0.11	Easing growth momentum
United Kingdom	99.4	99.3	99.2	99.1	99.0	-0.09	-0.11	-0.10	-0.07	-0.08	-1.17	Easing growth momentum
United States	100.1	100.1	100.1	100.0	100.0	0.07	0.02	-0.03	-0.06	-0.08	0.32	Stable growth momentum
Brazil	103.5	103.6	103.6	103.5	103.3	0.23	0.12	0.00	-0.11	-0.19	2.40	Easing growth momentum
China***	98.8	99.0	99.2	99.4	99.8	0.01	0.12	0.20	0.28	0.41	-0.20	Growth gaining momentum
India	100.5	100.7	101.0	101.2	101.4	0.21	0.22	0.22	0.22	0.22	2.33	Growth gaining momentum
Russia	100.8	100.7	100.6	100.5	100.4	-0.01	-0.05	-0.08	-0.11	-0.13	0.10	Easing growth momentum

* CLI data for 32 OECD member countries and 6 OECD non-member economies are available at: http://stats.oecd.org/default.aspx?datasetcode=MEI_CLI

** China, India, Indonesia, Japan and Korea.

*** The reference series for China is the value added of industry ,at 1995 constant prices,100 million Yuan.

Source: PHD Research Bureau, compiled from OECD

1.2 US GDP Growth Highest in Near 4 Years in Q2- The US economy advanced an annualized 4.1 % on quarter in the second quarter of 2018, well above an upwardly revised 2.2 % expansion in the previous period and in line with market expectations. It is the strongest growth rate since the third quarter of 2014 amid higher consumer spending and soybean exports while business spending slowed, the advance estimate showed.

1.3 Eurozone Q2 GDP Growth Revised Higher to 0.4%- The Eurozone economy expanded by 0.4 % in the second quarter of 2018, the same pace as in the previous period and above a preliminary reading of 0.3 % growth. The latest upward revision comes after Germany, the bloc's largest economy, recorded a better-than-expected 0.5 % expansion in the second quarter.

1.4 UK Economy Expands 0.4% in Q2- The British economy grew by 0.4 % on quarter in the three months to June 2018, following a 0.2 % expansion in the previous period and matching market expectations, a preliminary estimate showed. Household consumption rose further and fixed investment rebounded firmly, while net trade subtracted from growth.

1.5 German Q2 GDP Growth Stronger than Expected- The German economy grew a seasonally-adjusted 0.5 % on quarter in the three months to June 2018, following an upwardly revised 0.4 % expansion in the previous period and beating market consensus of 0.3 %, a preliminary estimate showed.

1.6 Japan Economy Returns to Solid Growth in Q2- The Japanese economy advanced 0.5 % on quarter in the three months to June 2018, after a 0.2 % contraction in the previous period and beating market consensus of a 0.3 % growth, preliminary estimates showed. It was the highest growth rate since the third quarter of 2017, boosted by a strong rebound in household consumption and a faster rise in business spending.

1.7 China Economy Expands 1.8% QoQ in Q2- The Chinese economy grew by 1.8 % quarter-on-quarter in the three months to June of 2018, compared to a 1.4 % expansion in the previous period and beating market estimates of a 1.6 % growth. It was the fastest quarterly expansion since the September quarter 2017.

1.8 Russian Economy Grows 1.8% in Q2- Russia's gross domestic product grew by 1.8 % year-on-year in the second quarter of 2018, following a 1.3 % expansion reported in the previous period, a preliminary estimate showed.

2. Industry

2.1 US Manufacturing PMI Revised Down to 55.3 in July 2018 - The IHS Markit US Manufacturing PMI edged down to 55.3 in July of 2018 from a preliminary of 55.5 and 55.4 in June. The reading pointed to the slowest expansion in factory activity in five months amid weaker rises in output and employment and higher inflationary pressures while export sales fell for the second month in a row.

2.2 Euro Area Manufacturing PMI confirmed at 55.1 in July 2018- The IHS Markit Eurozone Manufacturing PMI was confirmed at 55.1 in July 2018, little-changed from the previous month's 18-month low amid worries about trade tensions, tariffs and rising prices, as well as general uncertainty about the economic outlook.

2.3 France Manufacturing PMI rose to 53.3 in July 2018- The IHS Markit France Manufacturing PMI rose to 53.3 in July of 2018 from 52.5 in June, above an initial estimate of 53.1 and beating market expectations, final figure showed. Output and new orders growth increased at a faster pace. Also, purchasing activity rose and job creation advanced at its strongest pace in six months.

2.4 Spain Manufacturing PMI fell to 52.9 in June 2018 - The IHS Markit Spain Manufacturing PMI fell to 52.9 in July of 2018 from 53.4 in the month of June, pointing to the slowest expansion in factory activity in eleven months and slightly below market expectations of 53.

2.5 Japan manufacturing PMI came in at 52.3 in July 2018 - The Nikkei Japan Manufacturing PMI came in at 52.3 in July of 2018, above a preliminary figure of 51.6 and compared with June's final 53. Still, it was the weakest reading since August 2017, as new orders rose the least since October 2016, due to a fall in export orders, and output growth slowed to a four-month low.

Manufacturing Purchasing Managers' Index (PMI) of Select Countries

Country	Manufacturing PMI (March)	Manufacturing PMI (April)	Manufacturing PMI (May)	Manufacturing PMI (June)	Manufacturing PMI (July)
United States	55.6	56.5	56.4	55.4	55.3
Eurozone	56.6	56	55.5	54.9	55.1
France	53.7	53.8	54.4	52.5	53.3
Spain	54.8	54.4	53.4	53.4	52.9
Japan	53.1	53.8	52.8	53	52.3

Source: PHD Research Bureau, compiled from various sources

3. Inflation

3.1 US Inflation Rate Unchanged at Over 6-Year High- According to U.S. Bureau of Labor Statistics, US annual inflation rate stood at 2.9 % in July 2018, unchanged from the previous month and slightly below market expectations of 3 %. Still, inflation remained at its highest level since February 2012.

3.2 UK Inflation Rate Rises to 2.5% in July- Consumer price inflation in the UK rose to an annual rate of 2.5 % in July 2018 from a year low of 2.4 % in the previous month and in line with market expectations. Inflation picked up for the first time since last November.

3.3 German July Inflation Rate Confirmed at 2%– Germany's annual inflation rate was confirmed at 2 % in July 2018, slightly below the previous month's 2.1 %. Food inflation eased while prices of services and energy rose at a faster pace.

3.4 Italy July Inflation Rate Confirmed at 1.5%- As per National Institute of Statistics (ISTAT), the annual inflation rate in Italy rose to 1.5 % in July of 2018 from 1.3 % in the previous month, unrevised from the preliminary estimate and above market expectations of 1.4 %. It was the highest inflation rate since April last year, mostly due to higher prices of energy.

3.5 Japan Inflation Rate Unexpectedly Climbs to 4-Month High- As per Ministry of Internal affairs and Communications, Japan's consumer price inflation rose to 0.9 % year-on-year in July 2018 from 0.7 % in the previous month and far above market consensus of 0.4 %. It was the highest rate since March, mainly due to a jump in food prices.

3.6 China Inflation Rate Rises to 4-Month High in July- As per National Bureau of Statistics of China, China's consumer price inflation rose to a four-month high of 2.1 % year-on-year in July of 2018 from 1.9 % in the previous month and above market consensus of 1.9 %. Still, inflation remained well below the Chinese government's target of around 3 % for 2018.

4. Markets

4.1 Most of the key international indices exhibited negative trend- The key international indices exhibited a mixed trend as India's SENSEX registered a maximum increase of 3.78% followed by US DJIA which registered an increase of 1.48%. China's SHSZ registered a maximum decline of 7.05% followed by that of Germany's DAX which declined by 1.46%. Japan's NIKKEI registered a decline of 0.05%.

Global Indices			
Index	Index	Index	Monthly Change
	(as on 25 July, 18)	(as on 24 August, 18)	(in %)
DAX[1]	12,579.33	12,394.52	-1.46
DJIA[2]	25,414.10	25,790.35	1.48
NIKKEI[3]	22,614.25	22,601.77	-0.05
SENSEX[4]	36,858.23	38,251.80	3.78
SHSZ[5]	3,577.75	3,325.34	-7.05

Note: [1] Deutscher Aktien Index (Germany), [2] Dow Jones Industrial Average (US), [3] NIKKEI (Japan), [4] BSE SENSEX (India), [5] Shanghai Shenzhen (China)

5. Commodities

5.1 International prices of most of the key commodities showed mixed trend- During the period July-August 2018, the international prices of the major commodities exhibited a declining trend. Prices of sugar registered a decline of (-) 6.9% to 303.8$/tonne. Further, prices of silver registered a decline of (-) 5.8% to 14.6 $/ounce, followed by (-) 2.8% fall in the prices of gold to 1190.7 $/ounce and (-) 2.4% decrease in the prices of copper to 6000 $/tone. Only the price of crude oil exhibited a positive trend registering an increase of 1.6% to 73.9 $/bbl.

International Commodity Prices				
Commodity	Units	As on (as on 24 July 18)	As on (as on 23 August 18)	Monthly Change (in %)
Gold	$/ounce	1226.0	1190.7	-2.8
Silver	$/ounce	15.5	14.6	-5.8
Copper	$/tonne	6153.0	6000.0	-2.4
Crude Oil	$/bbl	72.7	73.9	1.6
Sugar	$/tonne	326.6	303.8	-6.9

Source: PHD Research Bureau, compiled from various sources

6. Trade

6.1 US Trade Deficit Widens Sharply in June- The US trade deficit widened 7.3 % to USD 46.3 billion in June 2018 from a revised USD 43.2 billion in the previous month and below market expectations of USD 46.5 billion.

6.2 UK Trade Deficit Narrows in June- The total UK trade deficit narrowed by GBP 1.28 billion to GBP 1.86 billion in June of 2018 from an upwardly revised GBP 3.14 billion in the previous month. Exports increased 2.7 % to GBP 52.41 billion and imports rose 0.2 % to GBP 54.27 billion.

6.3 China July Trade Surplus Smaller than Expected- China's trade surplus narrowed sharply to USD 28.05 bilion in July 2018 from USD 44.85 billion in the same month a year earlier and far below market consensus of USD 39.33 bilion. Imports jumped 27.3 % to a near record high while exports rose at a softer 12.2 %.

6.4 Brazil Trade Surplus Falls in July- The trade surplus in Brazil narrowed to USD 4.23 billion in July of 2018 from USD 6.29 billion a a year earlier, lower than market expectations of a USD 5.71 billion surplus. Imports reached the highest value since November of 2014, mainly due to purchase of a platform for oil extraction from China. Exports were the highest since July of 2014, mainly boosted by sales of soybeans, oil and iron ore to China.

6.5 South Korea Trade Surplus Narrows 31.4% YoY in July- South Korea's trade surplus decreased to USD 7.0 billion in July of 2018 from USD 10.2 billion in the same month of the preceding year, as exports rose less than imports, preliminary data showed.

6.6 New Zealand Trade Balance Swings to Deficit- New Zealand posted a NZD 143 million trade deficit in July 2018, compared with a NZD 92 million surplus in the same month of the previous year and with market expectations of a NZD 400 million deficit. Exports surged 15.8 % from the previous year to NZD 5350 million and imports soared 21.3 % to NZD 5492 million.

7. Unemployment

7.1 US Jobless Rate Decreases to 3.9% in July- As per U.S. Bureau of Labor Statistics, The US unemployment rate fell to 3.9 % in July 2018 from 4.0 % in June, matching market expectations. The jobless rate touched an 18-year low of 3.8% in May. The number of unemployed persons declined by 284,000 to 6.3 million and employment was almost unchanged at 156.0 million.

7.2 UK Jobless Rate Falls to Lowest since 1975- The unemployment rate in the UK fell to 4% in the three months to June 2018, the lowest level since the December 1974-February 1975 period and below market consensus of 4.2 %. The number of unemployed declined by 65,000 from the January to March while employment rose by 42,000. Still, annual wage growth eased to a nine-month low.

7.3 Italy Jobless Rate Rises to 10.9% in June- As per National Institute of Statistics (ISTAT), the seasonally adjusted unemployment rate in Italy increased to 10.9 % in June of 2018 from 10.7 % in the previous month and above market expectations of 10.8 %.

7.4 Japan June Jobless Rate Rises to 2.4%- As per Ministry of Internal Affairs and Communications of Japan, the unemployment rate in Japan rose to 2.4 % in June of 2018 from 2.2 % in the previous month and slightly above markets estimates of 2.3 %. Meanwhile, the jobs-to-applicants ratio increased to 1.62 from 1.6 in May, beating expectations of 1.6 and reaching the highest figure since January 1974.

7.5 China's jobless rate decreased to 3.9 % in Q2- Unemployment Rate in China decreased to 3.83 % in the second quarter of 2018 from 3.89 % in the first quarter of 2018. Unemployment Rate in China averaged 4.10 % from 2002 until 2018, reaching an all time high of 4.30 % in the fourth quarter of 2003 and a record low of 3.83 % in the second quarter of 2018.

7.6 Russian Unemployment Rate Unchanged at Record Low- Russian unemployment rate stood at an all-time low of 4.7 % in July 2018, unchanged from June 2018 and compared with last year's 5.1 %. The number of unemployed increased by 1.7 % from June 2018.

7.7 Brazil Jobless Rate Lower than Expected at 12.4%- As per Instituto Brasileiro de Geografia E Estatistica, The unemployment rate in Brazil fell to 12.4 % in the three months to June of 2018 from 13.1 % in the first quarter of the year. It is the third straight decline in the jobless rate, beating market expectations of 12.6 %.

Unemployment Rate of Select Countries

Country	Unemployment Rate in June '18 (in %)
United States	3.9*
United Kingdom	4
Russia	4.7*
Italy	10.9
Japan	2.4
Brazil	12.4

Source: PHD Research Bureau, compiled from various sources Note: * pertains to July 2018

8. Policy Developments

8.1 Fed hikes interest rates - The Federal Reserve kept the target range for the federal funds rate at 1.75 % to 2 % during its August 2018 meeting, in line with market expectations.

8.2 BoE Hikes Bank Rate to 0.75%- The Bank of England voted unanimously to raise the Bank Rate by 25bps at 0.75 % on August 2nd, saying recent data appeared to confirm that the dip in output in the first quarter was temporary and that the labor market has continued to tighten and wage growth has firmed.

8.3 Hong Kong's central bank raises base rate by 25 basis points to 2.25% - The Hong Kong Monetary Authority raised its base rate by 25 basis points to 2.25 % on June 14th, 2018, tracking a similar move by the US Federal Reserve as its currency is pegged to the US dollar. The central bank sets its base rate through a formula that is 50 basis points above the prevailing US Fed Funds Target or the average of the five-day moving averages of the overnight and one-month HIBORS (Hong Kong Interbank Offered Rate), whichever is higher.

8.4 Russia Holds Key Interest Rate at 7.25%- The Bank of Russia held its benchmark one-week repo rate at 7.25 % on July 27th despite low inflation, saying uncertainty persists over how strongly the planned increase of the value added tax may affect inflation expectations and how the external conditions will develop. Policymakers expect annual inflation to be 3.5-4 % in late 2018 and to temporarily overshoot 4 % in 2019, before returning to 4 % in early 2020.

8.5 BoJ Introduces More Policy Flexibility- The Bank of Japan left its key short-term interest rate unchanged at -0.1 % and vowed to keep rates extremely low for an extended period of time at its July 2018 meeting. The central bank reinforced its commitment to continue with powerful monetary easing, defying speculations of a tight regime.

8.6 South Africa Leaves Monetary Policy Unchanged- The South African Reserve Bank kept its benchmark repo rate steady at 6.5 % on July 19th, 2018, as widely expected. Policymakers said the decision is appropriate and accommodative given the current state of the economy. The Committee noted deterioration in the inflation outlook due to supply-side factors. Policymakers added that they will continue to monitor and will act if the inflation deviates from the target range.

8.7 Canada hiked overnight rate to 1.5%- The Bank of Canada hiked its key overnight rate by 25bps to 1.5% on July 11th 2018, in line with market expectations. It is the second rate increase so far this year, as inflation is expected to edge up further to about 2.5% before settling back to the 2% target by the second half of 2019.

9. Miscellaneous

9.1 Fed holds interest rates steady– As per the information received by the Federal Open Market Committee (June), the labor market has continued to strengthen and economic activity has been rising at a strong rate. Job gains have been strong, on average, in recent months, and the unemployment rate has stayed low. Household spending and business fixed investment have grown strongly. On a 12-month basis, both overall inflation and inflation for items other than food and energy remain near 2%. Indicators of longer-term inflation expectations are little changed, on balance.

Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee expects that further gradual increases in the target range for the federal funds rate will be consistent with sustained expansion of economic activity, strong labor market conditions, and inflation near the Committee's symmetric 2% objective over the medium term. **In view of realized and expected labor market conditions and inflation, the Committee decided to maintain the target range for the federal funds rate at 1.75% to 2%.** The stance of monetary policy remains accommodative, thereby supporting strong labor market conditions and a sustained return to 2% inflation.

In determining the timing and size of future adjustments to the target range for the federal funds rate, the Committee will assess realized and expected economic conditions relative to its maximum employment objective and its symmetric 2% inflation objective. This assessment will take into account a wide range of information, including measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial and international developments.

9.2 Indo-German Government signed Umbrella Agreements worth Euro 653.7 Million (approx Rs 5253 crore) on Financial Cooperation and Technical Cooperation 2017-

The Government to Government Umbrella Agreement on Financial Cooperation and Technical Cooperation 2017 under the Indo-German Bilateral Development Cooperation were signed in New Delhi. Government to Government Umbrella Agreement on Financial Cooperation was signed to formalize an amount up to Euro 610 million Reduced Interest Loans (RIL) and Euro 5.5 million Financial grant and the Government to Government Umbrella Agreement on Technical Cooperation was signed to formalize an amount of up to Euro 38.20 million Technical grant for various projects mainly in the field of Energy, Environment and Urban Development. Hence the total amount formalized through Umbrella Agreements is Euro 653.7 million (approx 5253 crore).

The agreements were signed by H.E. Dr. Martin Ney, Ambassador on behalf of the government of Federal Republic of Germany. Shri Sameer Khare, Joint Secretary, Joint Secretary, Department of Economic Affairs, Ministry of Finance signed the Agreements on behalf of Government of India.

Special Feature

Analysis of IMF Country Report 2018

This special feature provides an analysis of India's economic growth and the key policy actions taken in India in various sectors.

India has been among the fastest-growing economies in the world over the past few years, lifting millions out of poverty. The authorities have initiated important structural reforms to spur India's catch up with more advanced economies and to improve living standards for all. Real GDP growth is projected at 7.3%, on strengthening investment and robust private consumption.

Recent Developments, Outlook and Risks

The key macroeconomic developments in FY2017/18 include:

- The GDP growth of India reached 7.7% in the quarter through March 2018, following a recovery from the disruptions related to the November 2016 demonetization and the July 2017 GST rollout.

- Headline inflation averaged 3.6%, reflecting low food prices on a return to normal monsoon rainfall and agriculture sector reforms, subdued domestic demand, and currency appreciation.

- The current account deficit (CAD) widened to 1.9% of GDP, on rising imports and oil prices. But capital inflows have remained strong and helped finance the bulk of the CAD. Gross international reserves rose by US$54.6 billion during 2017/18 to US$424.5 billion in March 2018.

- NPA ratio for the total banking sector increased to 11.6% in March 2018 compared to 9.6% in 2017, in large part reflecting the migration of restructured loans to NPAs and in line with the RBI's new framework for the restructuring of stressed assets.

Outlook

- Real GDP growth is projected at 7.3%, on strengthening investment and robust private consumption. Headline inflation is projected to rise to 5.2%, above the mid-point of the RBI's medium term inflation target band (4% CPI inflation ± 2%), as demand conditions tighten, along with higher oil prices, housing rent allowances (HRAs), and agricultural minimum support prices (MSPs), and the recent depreciation of the rupee.

- The CAD is projected to widen to 2.6% of GDP on rising oil prices and strong demand for imports, offset by a slight increase in remittances. The balance of payments would switch to a small deficit.

- Real GDP growth is expected to rise to 7¾% reflecting continued robustness in private consumption and a recovery in investment, supplemented by progress in bank balance-sheet repair, improved credit growth, and on-going structural reforms, most notably the productivity-enhancing effects of GST.

Key Policy Issues

With limited policy space, growing risks, and the economy recovering, India would be served best by stepping up supply-side measures to revive credit growth and promote inclusive growth.

a) Fiscal Policy

- The central government deficit remained at the FY2016/17 outturn of 3.5% of GDP (authorities' presentation; provisional accounts) and above the budget target of 3.2% of GDP. The deficit is estimated to have deteriorated by 0.3 % of GDP relative to FY2016/17 in the IMF presentation.

- The authorities' presentation shows a reduction of about 0.2% of GDP, while the IMF projects a reduction of 0.4% of GDP.

India: Medium Term Macro-Fiscal Outlook

	Actual Budget			Baseline 1/				Consolidation scenario 3/			
	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY20	FY21	FY22	FY23
Revenue	20.9	20.5	21.3	21.3	21.3	21.3	21.4	21.4	21.6	21.8	22.0
Expenditure	27.5	27.5	27.9	27.8	27.7	27.5	27.4	27.5	27.3	26.9	26.8
General govt overall balance	-6.7	-7.0	-6.6	-6.5	-6.4	-6.2	-6.0	-6.1	-5.6	-5.1	-4.7
General govt debt ratio	68.9	70.4	68.7	67.2	65.7	64.4	63.1	66.7	64.5	62.3	60.0

Source: PHD Research Bureau, data compiled from IMF
Note: 1/ Buoyancy assumptions: Central CIT = 1.1, PIT = 1.05, GST = 1.00.
CIT- Corporate Income Tax, PIT- Personal Income Tax
3/This scenario illustrates achieving the FRBM committee's recommendation that general government debt be reduced to 60 % of GDP by FY2022/23. This is achieved with a combination of greater tax buoyancy and subsidy cuts. (A) Tax buoyancy assumptions are: CIT = 1.1, PIT = 1.1, GST = 1.15 (relative to broadly neutral buoyancy in the baseline), assuming continued base-broadening measures. GST is assumed to achieve buoyancy sufficient to raise GST to GDP ratio by around 0.5 percentage points over 5 years (in line with the median increase in central government Value Added Tax over 5 years in cross-country panel of 69 countries). (B) Subsidies are reduced gradually by 0.5 % of GDP over 4 years, with a 0.3 % of GDP cut in fertilizer subsidies, elimination of fuel subsidies, and a modest cut to food.

- The fiscal deficit, adopted as the operational target, will be reduced to 3% of GDP by FY2020/21 and Central Government debt will be brought down to 40% of GDP by FY2024/25, two years later than recommended.

- Against the backdrop of a narrowing output gap, the FY2018/19 budget targets imply a reduction of the cyclically-adjusted deficit as noted earlier. However, revenue risks, mainly from GST, and expenditure risks may limit the adjustment

India: Summary Fiscal Operations, FY16/17-18/19

Fiscal Indicators	FY2016/17	FY2017/18		FY2018/19
		Budget	Actual	Budget
Total Revenue	9.3	9.3	8.8	9.4
Total Expenditure	13.0	12.9	12.8	13.0
Central Government Balance	-3.7	-3.5	-4.0	-3.6
General Government Balance	-6.7	-6.5	-7.0	-6.6
Fiscal Deficit	**3.5**	**3.2**	**3.5**	**3.3**
Public Debt	**68.9**	**-**	**70.4**	**68.7**

Source: PHD Research Bureau, data compiled from IMF Country Report

b) Monetary and Exchange Rate Policy

- The policy rate had been on hold since August 2017 (6%). After the June rate hike (to 6.25%), monetary policy conditions are broadly neutral based on staff estimates of the natural rate of interest (about 1.45%) and one-year ahead inflation expectations (4.8%).

- External debt at around 20% of GDP is moderate compared to other emerging market economies. Gross reserves, at more than 160% and about 210% of the standard and capital flow measures-adjusted IMF metrics at end FY2017/18, respectively, appear adequate for precautionary purposes.

c) Structural Reforms- Boosting Investment and Inclusive Growth

- Unlike some other emerging market economies, India's manufacturing sector remains relatively small, reflecting major rigidities in labor, land, and product markets.

- Labor market reforms could complement the GST in terms of promoting the formal economy and creating fiscal space for needed social and infrastructure spending.

d) Trade Policy Issues

- India's average most favored nation applied tariff rate (at 13.4% as of 2016) is higher than in some peer countries. Tariffs are being changed frequently, including in the FY2018/19 budget.

- India has recently crossed the income threshold, above which a country becomes subject to the prohibition on export subsidies.

- While a direct impact on India's exports from the tariffs is likely to be relatively small, the authorities are concerned about their possible impact on the global trade system.

Financial Sector	
January 24, 2018	**PSB Reforms**: Following its October 24, 2017 announcement, the government made public its capital infusion plan for 2017/18, which included INR 800 billion through recapitalization bonds and INR 81.39 billion as budgetary support. The government also unveiled a detailed roadmap across six themes that cover 30 action plans to improve the efficiency and better customer services in PSBs.
February 1, 2018	**Merger of Public Sector Insurance Companies**: The government has decided to merge three public sector general insurance companies: National Insurance Company, United India Assurance Company, and Oriental India Insurance Company into a single insurance entity and subsequently list it in the stock exchanges.
March 13, 2018	**Letters of Understanding/Letters of Comfort Discontinued**: Following an investigation of reports of fraudulent misuse of letters of undertaking and letters of comfort for trade credits for imports into India by banks, the RBI directed discontinuation of both these instruments.
April 2, 2018	**Regulatory Forbearance for Banks from Mark-to-Market losses**: The RBI allowed banks to spread over four quarters their bond-trading mark-to-market losses, incurred in the December 2017 and March 2018 quarters due to the sharp rise in government bond yields. The central bank also advised banks to create an Investment Fluctuation Reserve from the year 2018/19 that could be dipped into in case there was a need to provide for bond losses in the future.
April 6, 2018	**Virtual Currency**: The RBI prohibited entities regulated by it from dealing in virtual currencies, or facilitating any person from dealing in virtual currencies. Regulated entities which already provide such services have been directed to exit the relationship within three months.
April 27, 2018	**Foreign Portfolio Investment (FPI)**: The RBI permitted FPI investment in Government securities (Gsecs) and State Development Loans (SDLs) in all maturities, subject to the condition that investment in residual maturity below one year shall not exceed 20 % of the total investment in that category. Prior to this, investment by FPIs was restricted to maturities of three years and above. The RBI also allowed FPIs to invest in corporate bonds with minimum residual maturity of above one year.
May 1, 2018	**FPI:** The RBI permitted FPI investment in corporate bonds with residual maturity below one year, subject to the condition that amounts will not exceed 20% of the total investment. FPIs also permitted to invest in treasury bills issued by the Central Government.
Monetary Policy	
June 6, 2018	**Reversal in Policy Rate**: The Monetary Policy Committee raised the policy repo rate by 25 basis points to 6.25 %. It had previously lowered the rate by 25 basis points on August 2, 2017. **Increase in the LCR Carve-out from the SLR**: The RBI permitted banks to include an additional 2 % of their NDTL under Facility to Avail Liquidity for Liquidity Coverage Ratio within the mandatory SLR requirement, thus raising the total to 13 % of their NDTL. Scheduled commercial banks are required to reach the minimum LCR of 100 % by January 1, 2019.
Fiscal Policy	

February 1, 2018	**Government Accepts Recommendations of the FRBM Committee:** In the budget speech to Parliament, the finance minister indicated acceptance of two key recommendations of the FRBM Committee report, 2017. These are to: (i) set a medium-term target of debt-to-GDP ratio at 40 % for the central government; and (ii) adopt the fiscal deficit as the key operational target consistent with achieving the targeted debt ceiling
April 3, 2018	**Amended the FRBM Act** to require the Central Government to achieve a 40 % debt-to-GDP ratio by financial year 2024/25; and notified new rules that aim to reduce the fiscal deficit by 0.1 % or more of GDP each financial year beginning 2018/19, and reach 3 % of the GDP target by 2020/21
March 26, 2018	**Government Guarantee for Indian Railway Finance Corporation bonds Approved**: The Ministry of Finance approved a government guarantee of INR 50 billion for Indian Railway Finance Corporation bonds to be subscribed by Life Insurance Corporation (LIC). The guarantee would allow LIC to subscribe to these bonds beyond the exposure limits set by the Insurance Regulatory and Development Authority (IRDA).
Agriculture Sector	
February 1, 2018	**Minimum Support Prices (MSPs):** The government proposed to set MSPs for all crops at one and half times of their production cost. The National Institution for Transforming India (NITI Aayog), in consultation with central and state governments, will put in place a mechanism for operationalizing the new scheme.
February 2, 2018	**Minimum Export Price for Onion:** The government permitted farmers to export onion without any minimum export price. Earlier government had imposed one of US$850 per ton effective November 23, 2017 and US$700 effective January 19, 2018.
February 6, 2018	**Import Duties Raised**: The government raised the import duty on raw and refined sugar to 100 %. The government also raised the import duty on chick-peas to 40 % from 30 %.
Trade Policy	
December 5, 2017	**Mid-Term Review of Foreign Trade Policy 2015-2020**: **Exports Zero Rated**: On export of finished goods there is an option of either obtaining refund of the GST paid or getting exemption on submission of letter of undertaking/bond. **Issue of Working Capital Blockage**: Exporters have been extended the benefit of sourcing inputs/capital goods from abroad as well as domestic suppliers for exports without upfront payment of the GST. An 'E-wallet' scheme to be launched from April 1, 2018 to make these schemes operational. Merchant exporters allowed to pay nominal GST of 0.1 % for procuring goods from domestic suppliers for export. **Duty Credit Scrips**: Validity period of Duty Credit Scrips has been increased from 18 to 24 months and GST rates on transfer/sale of scrips has been reduced to zero % from 12 %. **Specified Nominated Agency** permitted to import gold without payment of the Integrated GST.

	Export Incentives: Incentives under merchandise exports from India increased by 2 % across the board for labor intensive MSME sectors. **Self-Assessment Based Duty-free Procurement of Inputs**: A new scheme of self-assessment based duty-free procurement of inputs required for exports has been introduced for authorized economic operators and will get expanded as more exporters join the authorized economic operator program.
Factor Market	
February 1, 2018	**Labor Policy**: The government proposed to contribute 12 % of wages of the new employees in the employees' provident fund for all the sectors for next three years.
March 16, 2018	**Fixed-term Employment**: The government extended fixed-term employment to all sectors. This flexibility was earlier applicable to the apparel manufacturing sector only.
Other Policies	
February 1, 2018	**National Health Protection Scheme**: The government approved the launch of Ayushman Bharat National Health Protection Mission that aims to provide a cover of INR 0.5 million per family per year to about 100 million families belonging to the poor and vulnerable population.

Conclusions

In a nutshell, Global growth has eased but remains robust, and is projected to edge down to 2.9% by 2020 as global slack dissipates trade and investment moderate and financing conditions tighten. Over the recent period, growing headwinds in the global economy have triggered renewed turbulence in international financial markets. Countries with marked vulnerabilities such as fragile GDP growth, elevated political uncertainty as well as large current account and fiscal deficit have been more susceptible to capital outflows and sharp currency depreciations.

In Emerging Market and Developing Economies (EMDEs) monetary and fiscal buffers need to be rebuilt in order to prepare for monetary policy tightening in advanced economies and restore the scope for policy support against negative shocks. Further rising global interest rates will heighten corporate vulnerability and raise EMDE debt-service costs and fiscal sustainability gaps.

The current economic picture has important implications for progress towards the Sustainable Development Goals. The continued improvement in global macroeconomic conditions offers an opportunity to raise living standards on a broad scale. However, this also requires policies aimed at reducing inequality, to ensure that economic gains are widely shared.

Going ahead, avoiding protectionist measures and finding a cooperative solution that promotes continued growth in goods and services trade remain essential to preserve the global expansion. Policies and reforms should aim at sustaining activity, raising medium-term growth, and enhancing its inclusiveness.

NEWSLETTER TEAM

Dr. S P Sharma
Chief Economist

Ms. Kriti Khurana
Research Associate

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PHD Research Bureau; the research arm of the PHD Chamber of Commerce and Industry was constituted in 2010 with the objective to review the economic situation and policy developments at sub-national, national and international levels and comment on them in order to update the members from time to time, to present suitable memoranda to the government as and when required, to prepare State Profiles and to conduct thematic research studies on various socio-economic and business developments.

The Research Bureau has been instrumental in forecasting various lead economic indicators national and sub-national. Many of its research reports have been widely covered by media and leading newspapers. Recently, the Research Bureau has undertaken various policy projects of Government of India including Framework of University-Industry Linkages in Research assigned by DSIR, Ministry of Science & Technology, Study on SEZ for C&AG of India, Study on Impact of Project Imports under CTH 9801 for C&AG of India and has attracted a World Bank Project on free trade zones.

Research Activities	Comments on Economic Developments	Newsletters	Consultancy
• **Research Studies**	• Macro Economy	• Economic Affairs Newsletter (EAC)	• Trade & Inv. Facilitation Services (TIFS)
• **State Profiles**	• States Development	• Forex and FEMA Newsletter	
• **Impact Assessments**	• Infrastructure	• Global Economic Monitor (GEM)	
• **Thematic Research Reports**	• Foreign exchange market	• Trade & Inv. Facilitation Services (TIFS) newsletter	
• **Releases on Economic Developments**	• International Trade	• State Development Monitor (SDM)	
	• Global Economy	• Industry Development Monitor (IDM)	

Studies undertaken by the PHD Research Bureau

A: Thematic research reports

1. Comparative study on power situation in Northern and Central states of India (September2011)
2. Economic Analysis of State (October 2011)
3. Growth Prospects of the Indian Economy, Vision 2021 (December 2011)
4. Budget 2012-13: Move Towards Consolidation (March 2012)
5. Emerging Trends in Exchange Rate Volatility (Apr 2012)
6. The Indian Direct Selling Industry Annual Survey 2010-11 (May 2012)
7. Global Economic Challenges: Implications for India (May 2012)
8. India Agronomics: An Agriculture Economy Update (August 2012)
9. Reforms to Push Growth on High Road (September 2012)
10. The Indian Direct Selling Industry Annual Survey 2011-12: Beating Slowdown (March 2013)
11. Budget 2013-14: Moving on reforms (March 2013)
12. India- Africa Promise Diverse Opportunities (November 2013)
13. India- Africa Promise Diverse Opportunities: Suggestions Report (November 2013)
14. Annual survey of Indian Direct Selling Industry-2012-13 (December 2013)
15. Imperatives for Double Digit Growth (December 2013)
16. Women Safety in Delhi: Issues and Challenges to Employment (March 2014)
17. Emerging Contours in the MSME sector of Uttarakhand (April 2014)
18. Roadmap for New Government (May 2014)
19. Youth Economics (May 2014)
20. Economy on the Eve of Union Budget 2014-15 (July 2014)
21. Budget 2014-15: Promise of Progress (July 2014)
22. Agronomics 2014: Impact on economic growth and inflation (August 2014)
23. 100 Days of new Government (September 2014)
24. Make in India: Bolstering Manufacturing Sector (October 2014)
25. The Indian Direct Selling Industry Annual Survey 2013-14 (November 2014)
26. Participated in a survey to audit SEZs in India with CAG Office of India (November 2014)
27. Role of MSMEs in Make in India with reference to Ease of Doing Business in Ghaziabad (Nov 2014)
28. Exploring Prospects for Make in India and Made in India: A Study (January 2015)
29. SEZs in India: Criss-Cross Concerns (February 2015)
30. Socio-Economic Impact of Check Dams in Sikar District of Rajasthan (February 2015)
31. India - USA Economic Relations (February 2015)
32. Economy on the Eve of Union Budget 2015-16 (February 2015)
33. Budget Analysis (2015-16)
34. Druzhba-Dosti: India's Trade Opportunities with Russia (April 2015)
35. Impact of Labour Reforms on Industry in Rajasthan: A survey study (July 2015)
36. Progress of Make in India (September 2015)
37. Grown Diamonds, A Sunrise Industry in India: Prospects for Economic Growth (November 2015)
38. Annual survey of Indian Direct Selling Industry 2014-15 (December 2015)
39. India's Foreign Trade Policy Environment Past, Present and Future (December 2015)
40. Revisiting the emerging economic powers as drivers in promoting global economic growth(February 2016)
41. Bolstering MSMEs for Make in India with special focus on CSR (March 2016)
42. BREXIT impact on Indian Economy (July 2016)
43. India's Exports Outlook (August 2016)
44. Ease of Doing Business : Suggestive Measures for States (October 2016)
45. Transforming India through Make in India, Skill India and Digital India (November 2016)
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48. Union Budget 2017-18: A budget for all-inclusive development (January 2017)
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51. Special Economic Zones: Performance, Problems and Opportunities (April 2017)
52. Feasibility Study (socio-Economic Survey) of Ambala and Rohtak Districts in Haryana (March 2017)
53. Goods and Services (GST): So far (July 2017)

54. Reshaping India-Africa Trade: Dynamics and Export Potentiality of Indian Products in Africa (July 2017)
55. Industry Perspective on Bitcoins (July 2017)
56. Senior Housing: A sunrise sector in India (August 2017)
57. Current state of the economy (October 2017)
58. Equitable finance to fulfill funding requirements of Indian Economy (October 2017)
59. The Wall of Protectionism: : Rise and Rise of Protectionist Policies in the Global Arena, (November 2017)
60. India-Israel Relations: Building Bridges of Dynamic Trade(October 2017)
61. Role of Trade Infrastructure for Export Scheme (TIES) in Improving Export Competitiveness (November 2017)
62. India - China Trade Relationship: The Trade Giants of Past, Present and Future (January 2018)
63. Analysis of Trade Pattern between India and ASEAN(January 2018)
64. Union Budget 2018-19 – (February 2018)
65. Ease of Doing Work for Women: A survey of Delhi NCR (February 2018)
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69. Growth Prospects of the Indian Economy: Road to US $5 Trillion Economy(May 2018)
70. India's Free Trade Agreements Dynamics and Diagnostics of Trade Prospects(May 2018)
71. Growth Prospects of the India Economy: Road to US $5 Trillion Economy(May 2018)

B: State profiles

72. Rajasthan: The State Profile (April 2011)
73. Uttarakhand: The State Profile (June 2011)
74. Punjab: The State Profile (November 2011)
75. J&K: The State Profile (December 2011)
76. Uttar Pradesh: The State Profile (December 2011)
77. Bihar: The State Profile (June 2012)
78. Himachal Pradesh: The State Profile (June 2012)
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83. Haryana: Bolstering Industrialization (May 2015)
84. Progressive Uttar Pradesh: Building Uttar Pradesh of Tomorrow (August 2015),
85. Suggestions for Progressive Uttar Pradesh (August 2015)
86. State profile of Telangana- The dynamic state of India (April 2016)
87. Smart Infrastructure Summit 2016- Transforming Uttar Pradesh (August 2016)
88. Smart Infrastructure Summit 2016- Transforming Uttar Pradesh : Suggestions for the State Government (August 2016)
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94. Rising Uttar Pradesh : One District One Product Summit (August 2018)

TEAM, PHD RESEARCH BUREAU

Dr. SP Sharma
Chief Economist
Email: spsharma@phdcci.in

Economic Affairs Committee, Industry Affairs Committee, EODB Committee, Macro Economic Developments, Developments in States, Agriculture and Rural Development and Infrastructure

Ms. Megha Kaul
Economist
Developments in Economic Policy

Mrs. Bhavana Rai
Research Officer
Industry Affairs and Ease of Doing Business

Ms. Aarti Jhunjhunwala
Research Associate
States and Social Infrastructure

Ms. Abha Chauhan
Research Associate
States, Agriculture & Rural Developments

Ms. Kriti Khurana
Research Associate
Macroeconomic Developments in National and International arena

Foreign Trade & Investments Committee, FOREX and FEMA Committee, TIFS, Banking and Financial Markets and Taxation

Ms. Surbhi Sharma
Associate Economist
Foreign Trade & Investments and TIFS

Ms. Kritika Bhasin
Research Officer
Banking and Financial Markets, Forex & FEMA

Ms. Shivani Mehrotra
Research Associate
Task force on services sector, Taxation

Ms. Bhawna Kakkar
Research Associate
Development in Foreign Trade

Ms. Sunita Gosain, Secretarial Assistant
Secretarial and Administrative Processes

NATIONAL APEX CHAMBER

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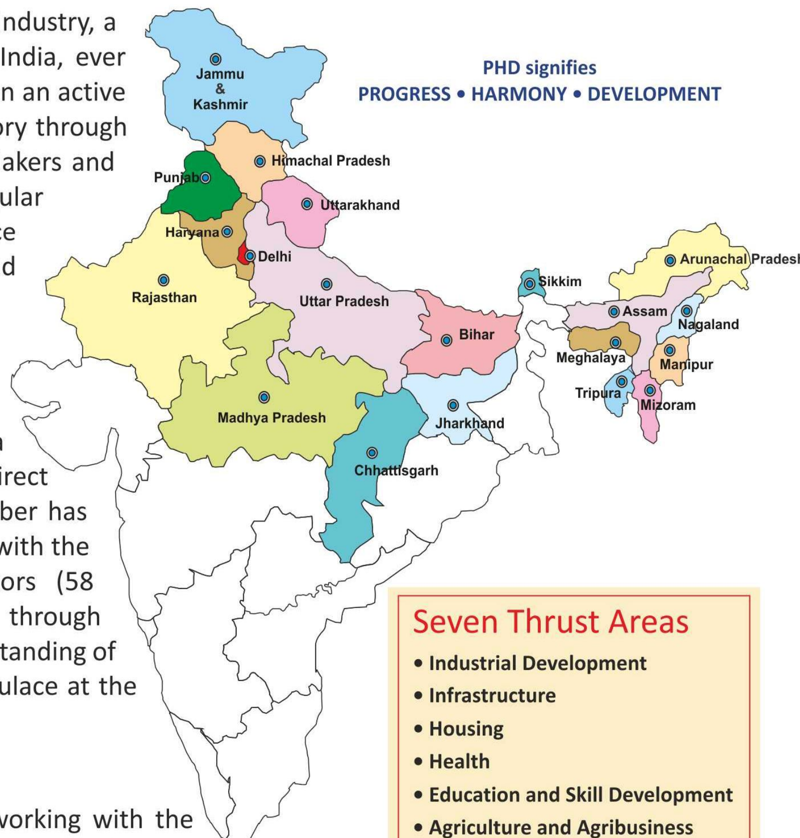
At a Global level we have been working with the Embassies and High Commissions in India to bring in the Int ernational Best Practices and Business Opportunities.



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PHD CHAMBER OF COMMERCE AND INDUSTRY

PHD House, 4/2 Siri Institutional Area, August Kranti Marg, New Delhi - 110 016 (India) • Tel. : +91-11-2686 3801-04, 49545454, 49545400
Fax : +91-11-2685 5450 • E-mail : phdcci@phdcci.in • Website : www.phdcci.in, CIN: U74899DL1951GAP001947