NATIONAL APEX CHAMBER

Growth Prospects of the Indian Economy:

Road to US $5 Trillion Economy

May 2018

PHD RESEARCH BUREAU
PHD CHAMBER OF COMMERCE AND INDUSTRY

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Introduction

As the global economy is well on its way to a faster and firmer growth in 2018 with recovery in the world economy gaining momentum on account of an improvement in both advanced economies and emerging-market countries, the International Monetary Fund forecasted the global growth to grow by 3.9% during 2018.

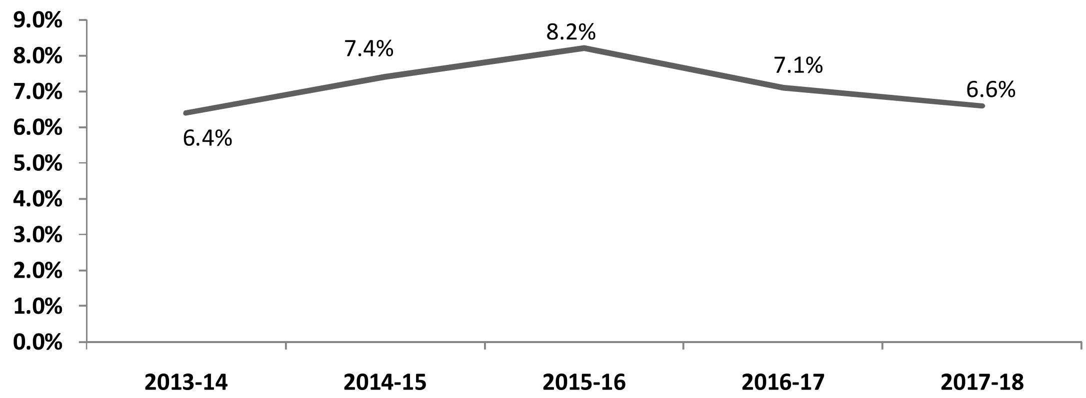
India's GDP growth which saw a temporary dip in the last two quarters of 2016-17 and the first quarter of 2017-18 due to demonetisation and the landmark introduction of Goods and Services Tax (GST) forcing the businesses to adjust to the new regime has gained momentum. The teething problems of GST and demonetization have surfaced and the economic activity has begun to stabilize since August 2017. The IMF has projected India's economic growth to accelerate at 7.4% in FY2018-19 and 7.8% in FY2019-20 in contrast to 6.7% during FY2017-18 lifted by strong private consumption as well as fading transitory effects of the currency exchange initiative and implementation of the national goods and services tax. The economic survey for 2017-18 pegs the figure of India's growth at 7-7.5% for the financial year 2018-19.

In response to this it has been observed that the services sector continue to remain the main driver of economic growth coupled with industrial activity poised to grow, with manufacturing expected to accelerate following the implementation of the GST. The agriculture sector is expected to grow owing to expectation of good monsoons. Further various other macroeconomic indicators such as GDP, Wholesale Price Index (WPI), Consumer Price Index (CPI), Index of Industrial Production (IIP), Fiscal Deficit, Core Infrastructure etc have been taken to analyze the performance of the Indian economy over the years starting from FY2013-14.

1. Gross Domestic Product (GDP)

As per the second advanced estimates of national income, the real Gross Domestic Product (GDP) is estimated to grow at 6.6% for 2017-18. An impressive growth rate of 7.2% was achieved in the third quarter (Oct-Dec) of FY2017-18 as opposed to 6.5% in the second quarter (Jul-Sept). The strong growth in the third quarter of the FY2018 was contributed by all the three major sectors of the economy.

Chart 1: Growth rate of Gross Domestic Product



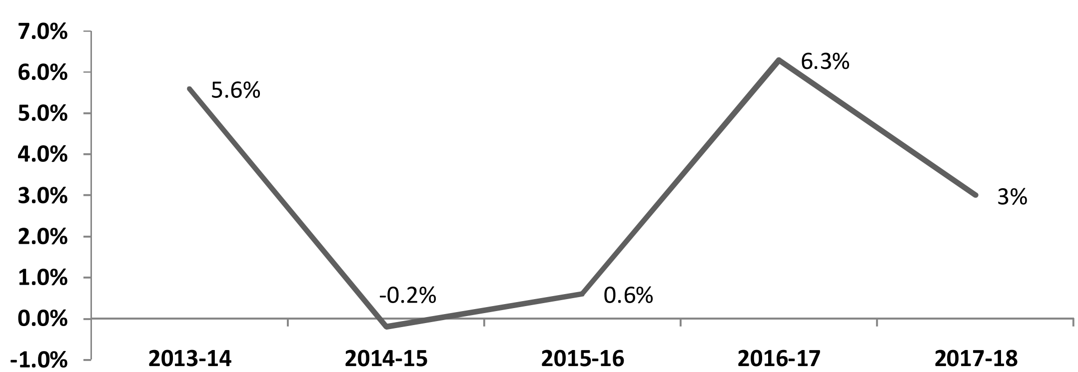
Source: PHD Research Bureau, data compiled from Ministry of Statistics and Programme Implementation, Economic Survey 2017-18

The agricultural sector registered a growth of 4.1% in the third quarter as compared to 2.7% in the second quarter. In the Industry segment the manufacturing sector grew to 8.1% in the third quarter in comparison to 6.9% in the third quarter while the construction sector grew to 6.8% during October-December from mere 2.8% during July-September for the FY2018. Public Administration, defence and other services under the head of the service industry grew from 5.6% in the second quarter to 7.2% in the third quarter for the FY2018.

2. Agriculture Sector Growth

Production in agriculture plays a vital role in the Indian economy. To meet the needs of the food requirements of the increasing population of India, the expansion in the agricultural production ought to be inevitable.

Chart 2: Growth rate of Agriculture Sector



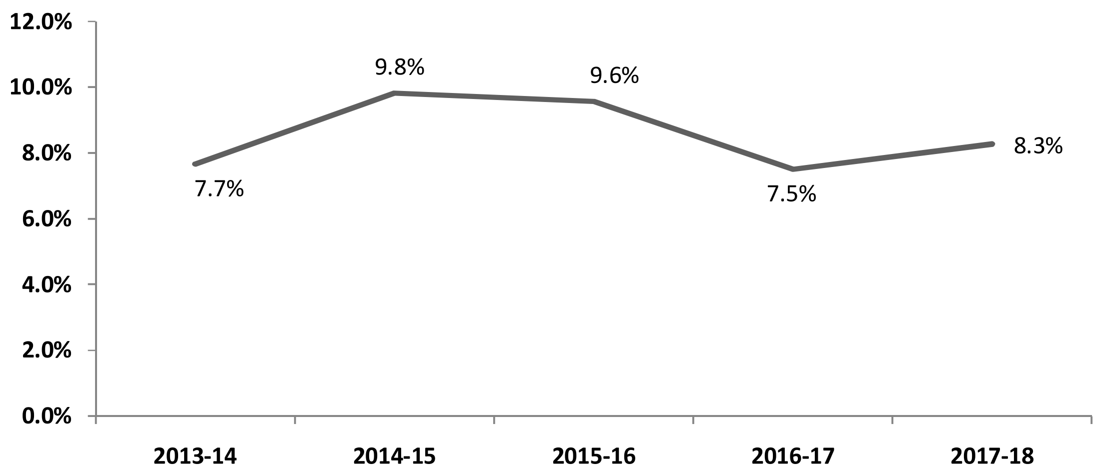
Source: PHD Research Bureau, data compiled from Ministry of Statistics and Programme Implementation; Note: Agriculture sector includes Agriculture, Forestry and Fishing

The growth rate in the agriculture sector for the FY2017-18 was recorded at 3% as compared to a growth rate of 0.6% in FY2015-16. There was an impressive increase in the growth rate of this sector to 6.3% for the FY2016-17.

3. Services Sector Growth

The service sector being the dominant player in the developing countries has started playing a major role in their economic development of India. Today in India, the services sector growth contributing to GDP accounts for 8.3% for the FY2017-18.

Chart 3: Growth Rate of Services Sector



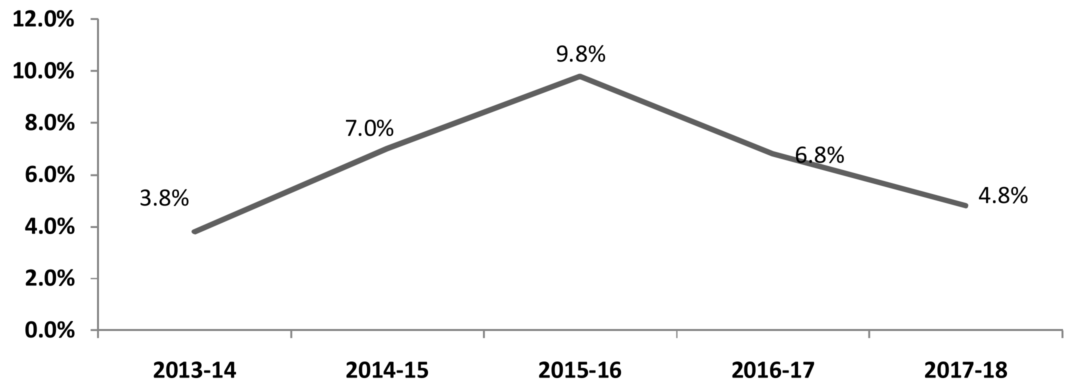
Source: PHD Research Bureau, data compiled from Ministry of Statistics and Programme Implementation; Note: The data for services sector includes Trade, Hotels, Communication and services related to broadcasting, Financial, real estate and professional services, Public Administration, defence and other services

For the time period 2016-17, the service sector growth contributing to GDP was recorded at 7.5%.

4. Industry Sector Growth

Growth in industry output stood at 4.8% for FY2017-18 as compared to a growth rate of 6.8% for FY2016-17. The pace of growth for the financial year 2017-18 can be accorded to the manufacturing and electricity sectors that showed a growth of 5.1% and 7.3%.

Chart 4: Growth rate of industry sector



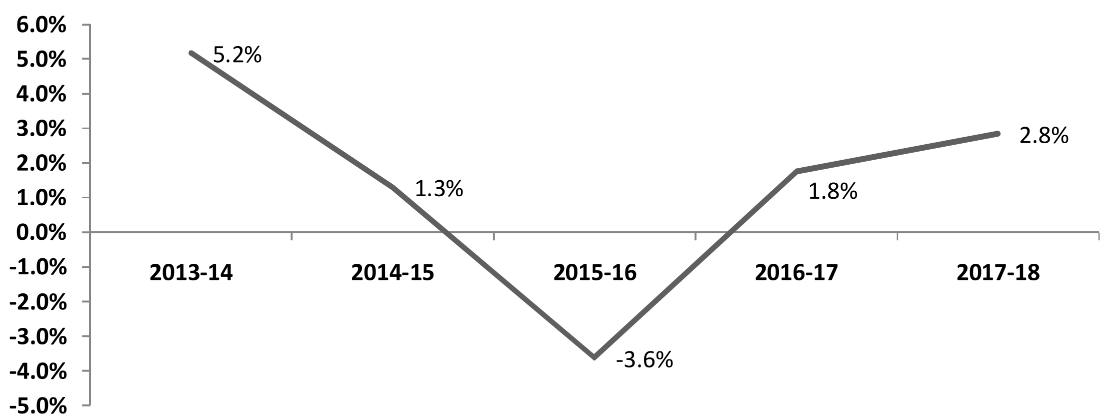
Source: PHD Research Bureau, data compiled from Ministry of Statistics and Programme Implementation; Note: The data for industry includes Mining and Quarrying, Manufacturing, Electricity, Gas, Water Supply and other utility services

During Oct-Dec 2018, the Industry sector registered a growth of 6.8% in contrast to a growth of 5.9% for the second quarter for financial year 2017-18. For the first quarter of the FY2017-18, this growth rate was mere 0.1%.

5. Wholesale Price Index (WPI)

The Wholesale Price Index (WPI) grew to 2.8% for the FY2017-18 as compared to the growth of 1.8% for the FY2016-17. The rise in the inflation is thus a matter of concern which was once -3.6% for the FY2015-16. Currently for the month of April the WPI inflation grew at 3.18% in contrast to the growth of 2.47% in March 2018. The rise in WPI inflation in the month of April 2018 is attributed to rise in the prices of potato (67.94%), fruits (19.47%), petrol (9.45%) and HSD (13.01%).

Chart 5: Growth rate of Wholesale Price Index



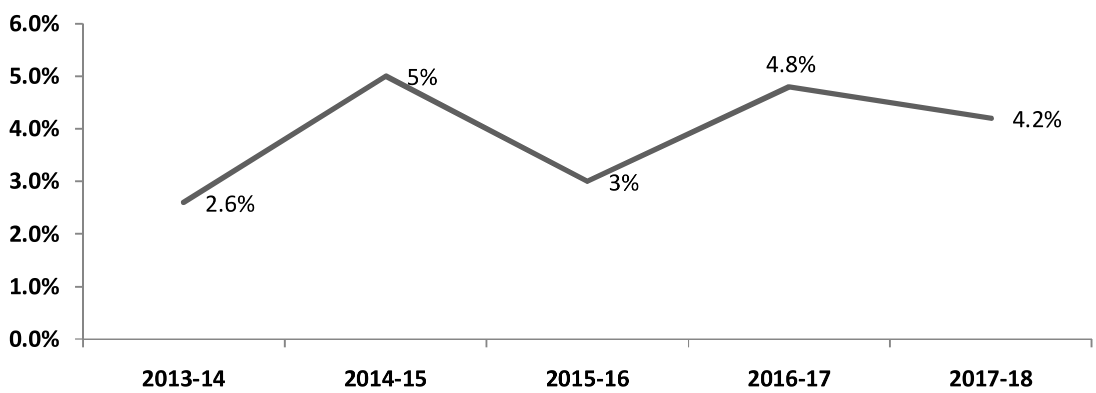
Source: PHD Research Bureau, data compiled from Office of Economic Advisor

The official Wholesale Price Index for All Commodities (Base: 2011-12=100) for the month of April, 2018 rose by 0.7% to 116.8 (provisional) from 116.0 (provisional) for the previous month.

6. Core Infrastructure

The eight industries covered in the eight Core are namely Coal, Crude Oil, Natural Gas, Refinery Products, Fertilizers, Steel, Cement and Electricity. The index of eight core industries growth during 2017-18 was 4.2% as against 4.8% during 2016-17.

Chart 6: Growth rate of Core Infrastructure



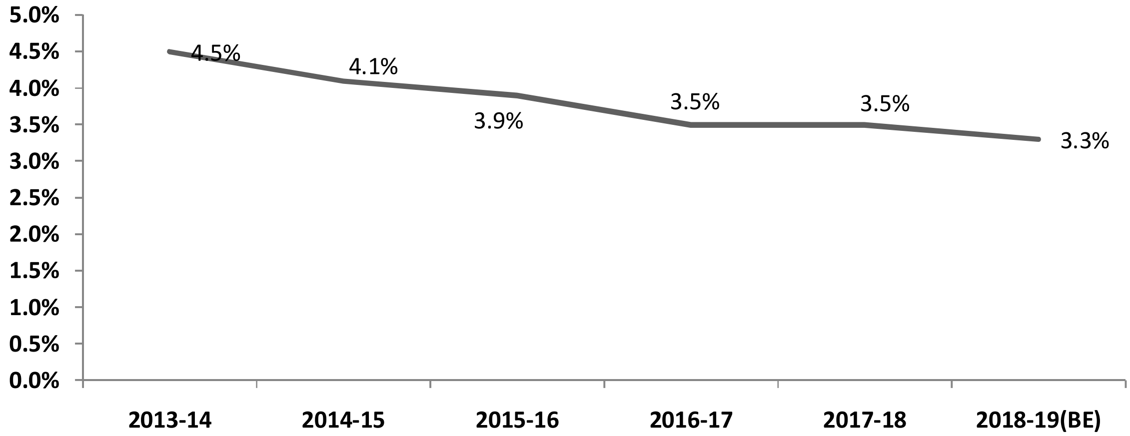
Source: PHD Research Bureau, data compiled from Office of Economic Advisor

The fourth quarter of FY2017-18 (Jan-Mar) had shown a growth of 5.2% in contrast to a growth of 2.5% during the first quarter (Apr-Jun) of the same period. Currently the core infrastructure stands at 4.1% in March 2018 as against 5.4% in February 2018. The combined Index of Eight Core Industries stands at 138.0 in March, 2018, which was 4.1 % higher as compared to the index of March, 2017. Cement and Refinery products growth stands at 13% and 1% respectively in the month of March 2018.

7. Fiscal Deficit

The gross fiscal deficit of the Central Government stands at 3.5% for the FY2017-18 and FY2016-17. The fiscal deficit is budgeted at 3.3% in the next financial year 2018-19.

Chart 7: Growth rate of Fiscal Deficit



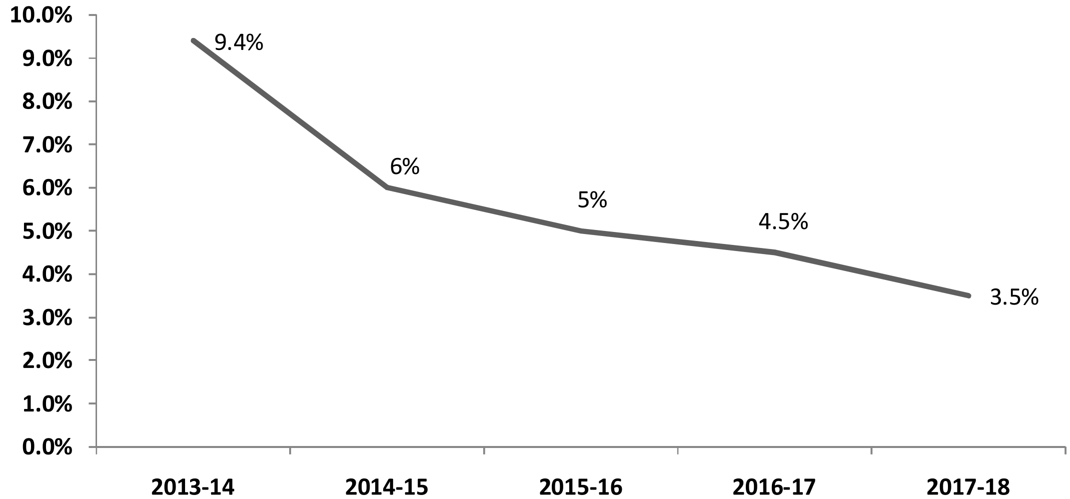
Source: PHD Research Bureau, data compiled from Office of Economic Advisor; Note: BE stands for Budgeted Estimates

The current scenario indicates that the gross fiscal deficit of the Central government stands at 120.3% of the actual to budget estimates (BEs) at the end of February 2018 as compared to 113.4% of the actual to budget estimates in the corresponding period of the previous year. The primary deficit was registered at 414% of the actual to budget estimates at the end of February 2018 as compared to 393.8% of the actual to budget estimates during corresponding period of the previous year. The revenue receipts at the end of February 2018 of the central government stands at 78.2 % of the actual to budget estimates as compared with 76.9 % of the actual to budget estimates at the end of February 2017.

8. Consumer Price Index (CPI)

The economy witnessed a gradual transition from a period of high inflation to more stable prices in the last 5 years. Headline inflation measured by Consumer Price Index (CPI) has remained under control for the 5 successive years. The all India general average CPI inflation (combined) for FY2017-18 stands at 3.5% as compared to 4.5% during FY2016-17. In the first two quarters of FY2017-18, there was a moderate increase in prices, resulting in a low level of inflation of 2.2% in quarter one and 3% in quarter two. The third and fourth quarter witnessed an increase in the inflation rate of 4.6%.

Chart 8: Growth rate of Consumer Price Index



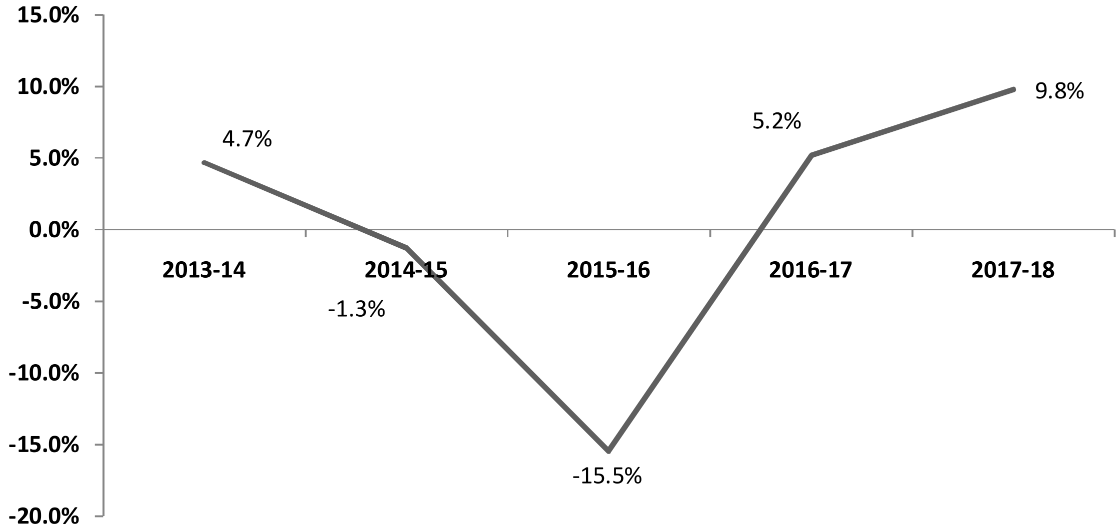
Source: PHD Research Bureau, data compiled from Ministry of Statistics and Programme Implementation; Note: Data for the financial year 2013-14 pertains to base year 2010

The all India general CPI inflation (Combined) for April 2018(Prov.) grows at 4.58% as compared to 4.28% in March 2018. Rate of inflation during April 2018 (Prov.) for the following are fruits (9.65%), housing (8.5%), pan, tobacco and intoxicants (7.91%), vegetables (7.29%) and egg (6.26%) etc.

9. Exports

India's exports showed a mixed trend over the years as the growth rate in exports was recorded at 9.8% for the financial year 2017-18 as compared to the growth of 5.2% for the FY2016-17. The growth in India's exports was negative for the first and second quarter of 2016-17 at -2.1% and -0.8%. However in the third and fourth quarter of 2016-17, the performance of India's exports showed an impressive growth of 5.9% and 16.5%. In 2017-18, the first three quarters exhibited a high and positive growth of 10.8%, 13.3% and 13.9% while the fourth quarter (Jan-March) showed a decline in the growth of exports to 4.3%.

Chart 9: Growth rate of Exports



Source: PHD Research Bureau, data compiled from Office of Economic Advisor

Currently for the month of April 2018, India's merchandize exports have exhibited growth of 5.17% to value at USD 25.91 billion compared to USD 24.64 billion during April 2017. During April 2018, major commodity groups of export showing positive growth over the corresponding month of last year are Engineering Goods (17.63%); Organic & Inorganic Chemicals (38.48%); Drugs & Pharmaceuticals (13.56%); Cotton Yarn/Fabs/made-ups, Handloom Products etc. (15.66%); and Plastic & Linoleum (30.03%).

Conclusions

India's growth in recent years has been supported by prudent macroeconomic policy such as better quality of public expenditure energy subsidy reforms, fiscal consolidation, new inflation targeting framework and a stable balance of payment situation. Further, recent policy reforms have helped India improve the business environment, ease inflows of foreign direct investment (FDI) and improve credit behavior.

India has made progress on structural reforms in the recent past, including implementation of the goods and services tax, which will help reduce internal barriers to trade, increase efficiency and improve tax compliance. While the medium-term growth outlook for India is strong, an important challenge is to enhance inclusiveness. The main priorities for lifting constraints on job creation and ensuring that the demographic dividend is not wasted are to ease labour market rigidities, reduce infrastructure bottlenecks and improve educational outcomes.

Going ahead, economic activity is expected to gather pace in 2018-19, benefitting from a conducive domestic and global environment. First, the teething troubles relating to implementation of the GST are almost over and credit off-take has improved in the recent period and is becoming increasingly broad-based, which indicate new investment activity as well as manufacturing sector to pick up in the coming times. Further, the growth in global trade has accelerated which should facilitate growth in trade in the economy and the upward momentum in global growth to give a boost to the economic growth in the coming times.

Finally, if the Indian economy is well on the way to a faster and firmer growth in the coming future with a progress in the economic reforms supported by prudent macroeconomic policy then India will reach a mark of US$5 trillion economy by the year 2025.

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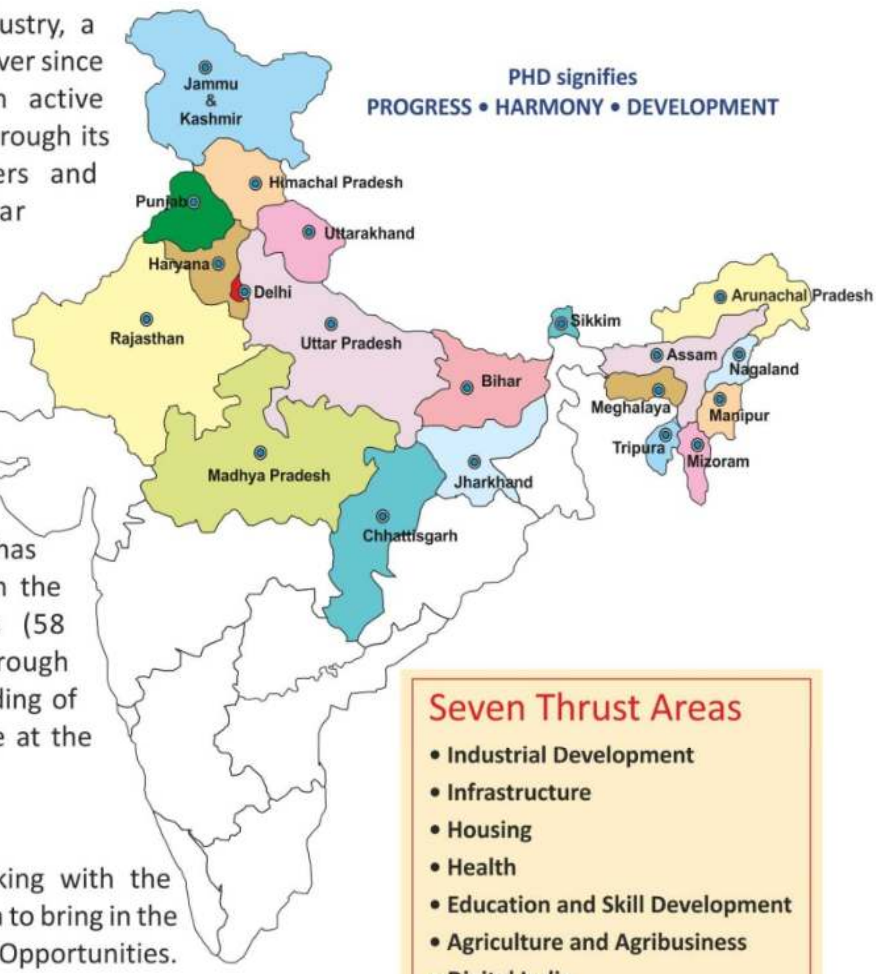

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