For more information, please contact:
Bornali Bhandari at +91-11-23452630, bbhandari@ncaer.org
Shilpi Tripathi at +91-11-23452605, stripathi@ncaer.org
Sudesh Bala at +91-11-2345-2722, sbala@ncaer.org

PRESS RELEASE

NCAER Retains Forecast of GVA Growth of 7.3 per cent for 2017–18

NCAER'S *Quarterly Review of the Economy*

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New Delhi (Monday, August 27, 2017): NCAER forecasts growth based on both quarterly and annual models. The quarterly model forecasts that Gross Value Added at Basic Prices in (2011-12) prices will grow at 6.6 per cent in 2017–18. For the first quarter it forecasts 5.6 per cent year-on-year growth.

NCAER retains its forecast of a growth of 7.3 per cent for 2017–18 from the last quarter for GVA (Gross Value Added) at basic prices. These forecasts at constant (2011–12) prices are based on NCAER's annual GDP model.

The forecast for the growth of Gross Domestic Product (GDP) at market prices in 2017–18 has, however, been reduced to 7.4 per cent at constant (2011–12) prices. Real agriculture GVA is forecast to grow at 3.8 per cent, real industry GVA at 6.3 per cent, and real services GVA at 8.5 per cent in 2017–18. The Wholesale Price Index (WPI) inflation is projected at 6.7 per cent for 2017–18. The growth rates in exports and imports, in dollar terms, are estimated at 6.9 per cent and 7.0 per cent, respectively, in 2017–18. The current account balance and central fiscal deficit, as percentages of GDP, are projected at –1.0 per cent and 3.2 per cent, respectively, for 2017–18. These estimates have been revised upwards from February 2017.

In the **agricultural** sector, the fourth advance estimates of crop output released on August 16, 2017, reveal that the total output of food grains during 2016–17, estimated at 275.7 million tonnes, touched a new record as compared to the earlier record of 265.0 million tonnes achieved in 2013–14. The situation with regard to rainfall until the middle of August 2017 indicates that of the four main regions of the country, only two (east and north) have so far experienced normal rainfall. Several sub-divisions of the other two regions - western region and southern region have witnessed deficient rainfall. Further, for the country as a whole, of the total 36 sub-divisions, about a little over a quarter (28 per cent) have experienced deficient rainfall. In contrast, last year saw a much better monsoon rainfall. However, a comparison over the last five years shows that the rainfall situation in 2017–18 is better than that witnessed in 2012–13, 2014–15, and even in 2015–16. Going forward, forecasts by the Meteorological Department suggest that the second half of the southwest monsoon season (August–September) is likely to see normal rainfall (94 per cent–106 per cent of the Long Period Average) in the country as a whole. If they turn out to be true, these forecasts could prove to be a boost for the economy, in general, and the agricultural sector, in particular.

As regards the **industrial sector,** the Index of Industrial Production (IIP) of this quarter (April–June) exhibited weak growth, especially in the month of June 2017, recording a massive decline in the growth rate from over 7 per cent in 2016–17: Q1 to just 2 per cent in 2017–18: Q1. The use-based classification of all the six categories of goods, that is, primary goods, capital goods, intermediate goods, infrastructure/construction goods, consumer durables, and consumer non-durables, shows that except for consumer non-durables, all other categories showed a significant slowdown in 2017–18: Q1 as compared to 2016–17: Q1, Consumer non-durables, on the other hand, attained a growth of 7.7 per cent in the first quarter of 2017–18, which was marginally higher than the corresponding figure of 7.6 per cent in the same quarter of 2016–17. It must, however, be pointed out that even the consumer non-durables category exhibited a slow-down as compared to 2016–17: Q4, when it recorded a growth of 8.8 per cent. Capital goods, the bell weather for investment spending in the economy, exhibited the most drastic decline at –3.9 per cent in 2017–18: Q1, falling from 13 per cent in 2016–17: Q1, implying recession of–4 per cent on a year-on-year (y-o-y) basis in this sector. Infrastructure/construction goods registered a significant slowdown in May and June 2017 after recording 5.2 per cent y-o-y growth in May 2017.

The first quarter lead indicators from the **services sector** warrant cautious optimism. While on one hand, the aviation sector, and both the domestic and international tourism sectors displayed a remarkable performance, the production of commercial vehicles showed a continuous slowdown. In terms of cargo handled at major ports, both goods moved by the railways and air cargo showed positive signs. While FDI in the services sector improved, that in the telecommunication sector declined.

Merchandise exports, in dollar terms, which had grown at 19.8 per cent on a y-o-y basis in April 2017, fell to 8.3 per cent and 4.4 per cent in May and June, 2017, respectively. Although the y-o-y growth rate of merchandise imports also fell, it remained in double digits, at49.1 per cent, 33.1 per cent, and 19.0 per cent in April, May, and June, 2017, respectively. The growth in service exports and imports continued to be sluggish, at barely 0.1 per cent and -4.8 per cent, respectively, on a y-o-y basis in 2017–18: Q1. While prospects for international trade, is optimistic globally, the appreciation in the exchange rate may prove to be a dampener for Indian exports. The rupee appreciated by 3.6 per cent in 2017–18: Q1 against the dollar, with the exchange rate falling from Rs/USD 67.5 in 2016–17: Q4 to 64 in 2017–18: Q1.

There was significant moderation in **inflation** in 2017–18: Q1, especially in June 2017. The CPI rural–urban combined inflation was 1.5 per cent in 2017–18: Q1. There has been a decline in the inflation pertaining to fruits and vegetables since 2016–17: Q3, and it stood at -9.3 per cent in 2017–18: Q1. Fuel inflation also decelerated, with both WPI and CPI inflation hovering at around 5 per cent in June 2017.

The **Sensex** continued to show double-digit y-o-y growth in 2017–18: Q1. The Reserve Bank reduced the policy repo rate by 25 basis points in its bi-monthly meeting in August 2017, bringing the repo rate down to 6 per cent. In a surprising move, banks also cut their savings bank deposit rate, following a 50 basis point cut in the savings bank deposit rate by the State

Bank of India at the end of July, 2017. A corresponding cut in bank lending rates following the policy repo rate cut is yet to be effected, raising concerns about the efficiency of monetary policy transmission.

While it is too early to assess the **fiscal** aspect of the economy, especially the impact of the GST, the revenue collection in 2017–18: Q1 has fallen short of the total expenditure in the same quarter, leading to high deficits. The first quarter of 2017–18 has recorded the highest deficit indicators such as fiscal deficit, revenue deficit, and primary deficit, while also showing the highest y-o-y growth as compared to the previous eight quarters. This puts greater pressure on the government to meet the deficit target over the coming months. As regards the expenditure budget, the capital expenditure has shown a significantly higher annual growth than the revenue expenditure.

About the *Quarterly Review of the Economy*

The Quarterly Review of the Economy has been designed to meet the needs of policymakers, corporates and others interested in tracking the latest developments in the Indian economy. It provides an analysis of current policies and tracks developments in both the domestic as well as the global economies. The growth forecasts of NCAER are objective and are widely quoted and referred to in both the Indian as well as international media. An integral part of the *Quarterly Review* are the State of the Economy seminars, organised quarterly at NCAER, which bring together policymakers, industry leaders and researchers at one forum.

About NCAER

NCAER, the National Council of Applied Economic Research, is India's oldest and largest independent economic think-tank, set up in 1956 at the behest of Prime Minister Jawaharlal Nehru to inform policy choices for both the public and private sectors. Over nearly six decades, NCAER has served the nation well with its rich offerings of applied policy research, unique data sets, evaluations, and policy inputs to central and state governments, corporate India, the media, and informed citizens. It is one of the few independent think-tanks world-wide that combine rigorous economic analysis and policy outreach with data collection capabilities, particularly for large-scale household surveys. NCAER is currently led by its Director-General, Dr Shekhar Shah, and governed by an independent Governing Body, chaired by Mr Nandan M. Nilekani.

NATIONAL COUNCIL OF APPLIED ECONOMIC RESEARCH

Parisila Bhawan, 11 Indraprastha Estate, New Delhi 110002
Tel: +91-11-23379861-63, Email: infor@ncaer.org
www.ncaer.org

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