

## SUMMARY

- India's GDP growth remains above 7%; but slows
- Purchasing Managers' Index rose to 13-month high
- Credit growth pulse-check
- India in G20 Summit and beyond

### India's GDP growth remains above 7%; but slows

India's GDP growth measured 7.1% (y/y) in the first quarter (April-June) of FY17 as against 7.5% in the same period of FY16 and 7.9% in the quarter ended March 2016. While GVA (Gross Value Added) measured 7.3% as compared to 7.2% in the Q1 last year. The lower than expected growth figure in this quarter was mainly driven by a slowdown in mining, construction and agriculture sectors.

### **Investment Issues?**

Gross fixed capital formation (GFCF), a measure of investment, fell 3.1% in the April-June quarter. Consumption is driving the economy; growing at near 19%.

Also, the construction sector, closely aligned with investment activity performed below the mark, growing 1.5% in the June quarter as compared to last quarter. The mining sector saw a contraction of 0.4% in Q1 of FY16 compared with a strong growth of 8.5% in April-June last year.

### **Manufacturing and Monsoon Support**

Manufacturing (9.1%) and electricity (9.4%) sectors however performed better than the same quarter a year ago when they grew at 7.3% and 4% respectively. The services sector grew 9.6%, led by a 12.3% rise in public spending and a 9.4% increase in financial services and related sectors.

Reflecting the lingering effects of two drought years, the agricultural sector grew at 1.8% as compared to 2.5% last year. However normal monsoon this summer is expected to improve rural consumption and ease out food prices.

### India in G20 Summit and beyond

Prime Minister Narendra Modi along with 19 other Prime Ministers of the major economies recently participated in the eleventh G20 Summit in Hangzhou, China. This was the first G20 summit organized by China. The significance of the summit was further enhanced as it was the first G20 gathering after the Brexit vote and took place just before the U.S. presidential elections, both of which will have a significant impact on the international economy and trade in the coming years. The forum's agenda is not only to discuss macro aspects of trade, finance and economy but also to discuss political and social issues.

In his address at the G20 summit, PM Modi referred to the urgent need to curb black money, to forsake protectionism, eliminate "safe havens" for economic offenders, and secure a "full commitment" from global powers to act against the corrupt and to disrupt excessive banking secrecy. PM Modi emphasized on ensuring global and public health security with significance of AMR (anti-microbial resistance) and to safeguard climate justice and uphold the principles of equity and Common But Differentiated Responsibility (CBDR). He also stated that India's priority is to work toward a Trade Facilitation Agreement in Services, as free mobility of skilled professionals and service providers is essential for a knowledge and innovation driven economy. He further made a strong pitch for the adoption of measures to tackle BEPS (Base Erosion Profit Shifting) to countries that are not part of G20.

Other than the global forum, PM Modi held bilateral meeting with Chinese President Xi Jinping in the backdrop of issues including China stalling India's membership at the elite NSG and \$46 billion China-Pakistan Economic Corridor (CPEC). Before arriving in China, PM Modi also paid a two day visit to Vietnam, where he signed 12 agreements advancing bilateral relations in the spheres of defence, trade and investment.

As G20 summit closed for this year, India will be hosting the BRICS summit in Goa next month to take forward discussions on financial, economic and counter-terrorism issues.

## **Credit Growth pulse-check**

Gross bank credit increased by 9.4% in June 2016 compared to an increase of 8.6% in the year ago period. Aggregate deposits with scheduled commercial banks in India grew at a slower pace of 9.2% (y/y) in June 2016 compared to a growth rate of 10.6% the year before. Though the public sector banks maintain their dominating position accounting for 70% of total deposits, the deceleration in the growth of deposits was broad-based across all population groups, mainly contributed by the public sector banks.

Highlighting the impact of NPA's (Non-performing assets) on India's credit growth, Finance minister Arun Jaitley in his Budget speech for 2016-17 had proposed to allocate £2.8bn (1.2% of the total budget) towards recapitalisation of PSU banks, in line with the infusion plans announced under the umbrella scheme "Indradhanush" introduced last year. The plan proposes infusions adding up to £2.8bn in 2015-16 as well as in 2016-17, followed by £1.1bn each in 2017-18 and 2018-19. The government in July had announced the first round of capital infusion of £2.6bn for 13 banks. The second tranche of capital allocation for the current fiscal would be based on cost of operations as well as recovery and quality of credit on the basis of risk weighted assets.

## **Purchasing Managers' Index rose to 13-month high**

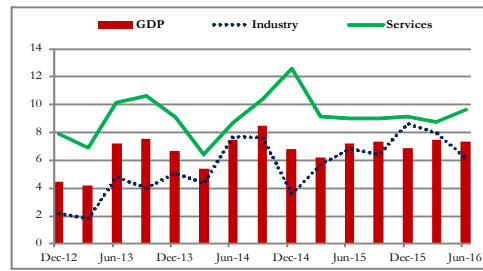
The Nikkei Manufacturing Purchasing Managers' Index (PMI) rose to 52.6 in August from July's 51.8, marking its eighth month above the 50 level that separates growth from contraction. The climb in the index due to a sharp upturn in new business inflows, expanded at the fastest pace since December 2014. Consumer goods producers led the increase and strong growth was also seen in the intermediate and capital goods categories. While price pressures in the service sector remained subdued in August, average costs declined marginally for the second successive month due to lower diesel, fuel and vegetable prices.

# Monthly Economic Report August 2016

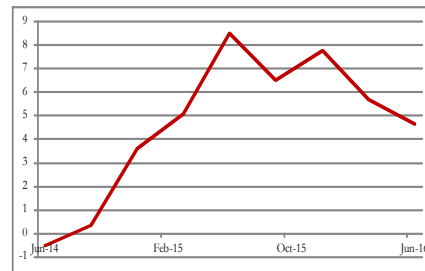
British High Commission New Delhi

## GROWTH: GDP growth at 7.1% in April-June FY17

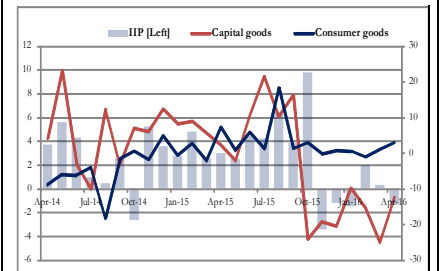
### GDP



### Projects Under Implementation



### IIP/Capital/Consumer Goods

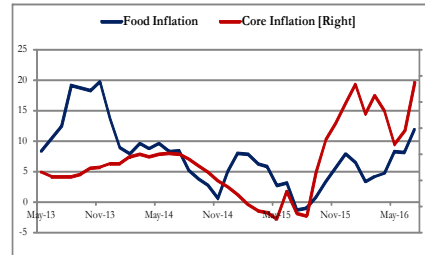


## INFLATION: Wholesale inflation turns positive while Retail Inflation peaks at 6.1%

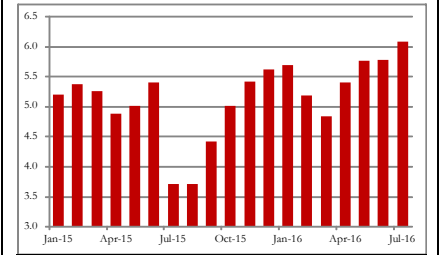
### Wholesale Price Index (% y/y)



### Food vs. Core Inflation (% y/y)

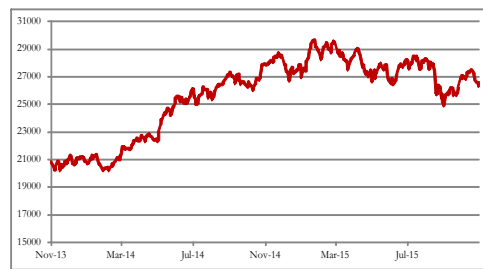


### Consumer Price Index (% y/y)



## MARKETS: Financial Markets remain volatile on global cues

### SENSEX



### USD/INR

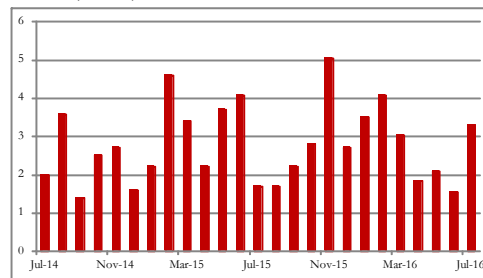


### 10yr Govt. Securities yield (%)

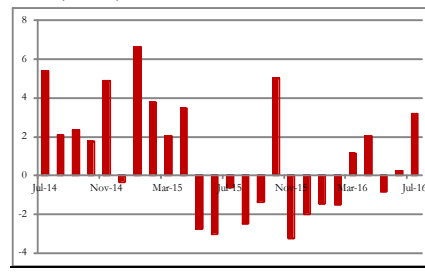


## EXTERNAL: External sector improves, as Current a/c turns surplus

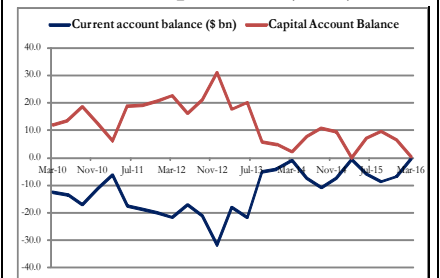
### FDI (\$ Bn)



### FII (\$ Bn)

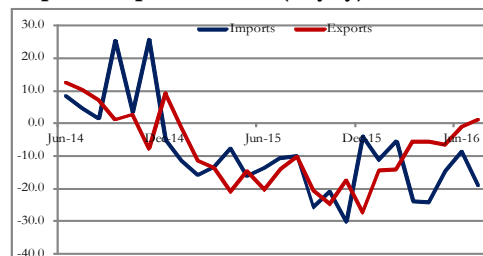


### Current vs. Capital A/c (\$ Bn)

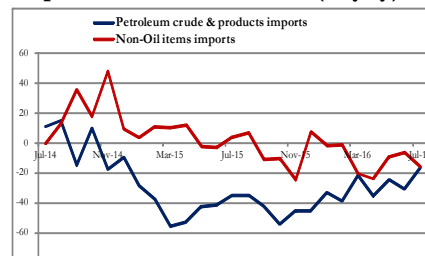


## TRADE: Exports and imports growth worsen from last month

### Export/Import Growth (% y/y)



### Imports- Oil and Non Oil (% y/y)



### Trade Balance (\$ Bn)

