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Monthly Economic Report November 2014

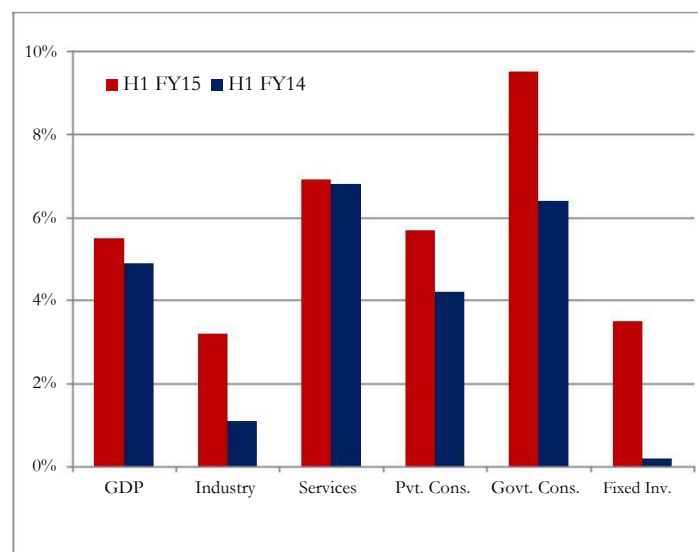
British High Commission New Delhi

Summary

- GDP growth of 5.3% in Q2 2014-15.
- Fall in crude oil prices – welcome news for growth, trade and fiscal deficit (*see special note*)

GDP – Slowly turning around

GDP growth in Q2 2014-15 was 5.3% (y/y) – lower than 5.7% in Q1, but better performance than this time last year. This brings average growth in the first half of the current fiscal year to 5.5%; markedly higher than 4.9% in H1 of the previous year. As the graph shows, there is a broad based improvement in the growth scenario compared to a year back; notably in industry and fixed investment. It is interesting services have continued to grow at a healthy rate of ~7% - primarily driven by a robust financial sector and government spending. Manufacturing growth remained tepid at 0.1% .



India's oil relief – what goes up, must come down!

Over the past six months, global crude oil prices have dipped by over 30%. Crude oil has always been the Indian economy's Achilles' heel. India imports 70% of its crude oil, which accounts for close to 40% of its total imports. For an economy that runs a trade deficit of almost 8% of GDP, the fall in global crude oil prices is positive news. However there are also other indirect effects on the economy – this note summarises what this could imply for growth, subsidy burden, and tax collection.

GROWTH: Lower oil price implies lower inflationary pressures, and thus higher real disposable incomes and higher consumer demand. Firms also benefit from falling input costs. The improvement in the current account and fiscal deficits offers greater monetary and fiscal policy space to support growth. It is estimated that every \$10 fall in oil price can potentially boost GDP growth by 0.1%.

FISCAL: The government has historically subsidised fuel. The previous government did away with petrol subsidy, and the present government has completely deregulated diesel prices (LPG and kerosene still remain controlled). The government is also planning to use this opportunity to shore up revenues – exploiting the fall in retail prices and increased profitability of oil companies with hikes in excise duty on petrol and diesel. India has targeted 4.1% fiscal deficit this year, and the diesel deregulation gives it fiscal space worth 0.3% of GDP. Additionally every \$10 fall in global oil prices improves the fiscal balance by 0.1% of GDP.

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Other short term indicators have been positive this month. The manufacturing Purchasing Managers Index (PMI) rose to a near two year high in November to 53.3 compared to 51.6 in October (a reading above 50 indicates likelihood of expansion). Auto sales have picked up, growing by 10% in November after a disappointing run during the recent festive season. The auto market has seen a slew of new car models– an indication in itself on returning confidence in the Indian consumer. Growth in the eight ‘core’ infrastructure sectors recorded an impressive 6.3% (y/y) in October compared to 1.9% in the previous month (and -0.6% in the same month previous year), driven by production of coal, electricity and refinery products.

Central Bank: Cautiously optimistic

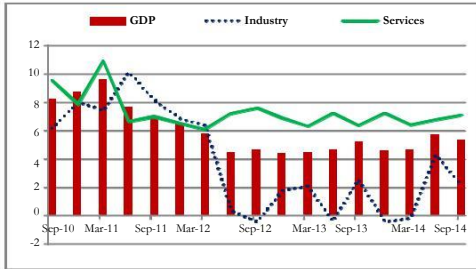
In its latest monetary policy review, the Reserve Bank of India (RBI) left the policy rate unchanged at an elevated 8%. However it has lowered its inflation expectation to 6% in March 2015 from 7.8% previously. The long term forecast has been reduced to 6% for January 2016 from the projection of 7% previously. This forward guidance suggests that the RBI is softening its outlook and is readying the market for a potential rate cut. However the RBI has warned that there could be risks of energy prices rising again and shortfall in crop production (leading to shortage of supply and hence higher prices).

We also publish a monthly trade report. Our previous reports are accessible [here](#).

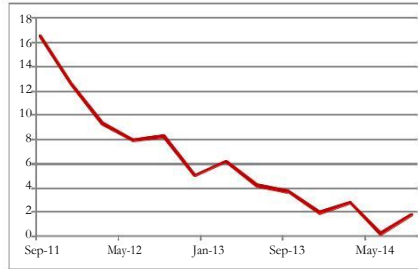
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GROWTH: GDP growth 5.3% in Q2 2013-14

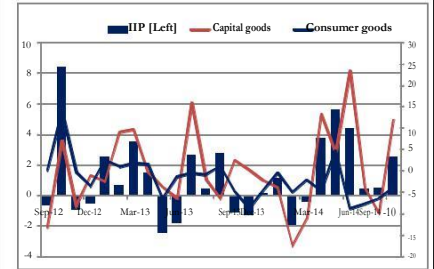
GDP



Projects Under Implementation

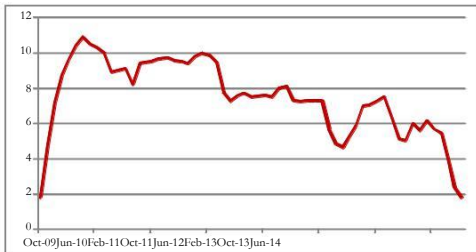


IIP/Capital/Consumer Goods

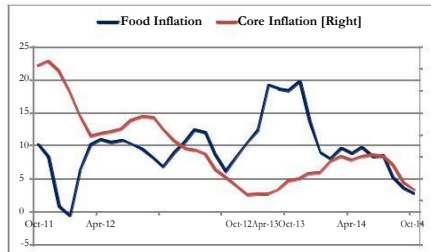


INFLATION: October CPI inflation dips to 5.5%, touches historic low

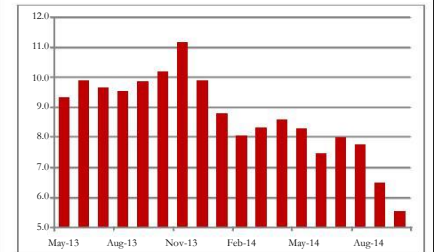
Wholesale Price Index (% y/y)



Food vs. Core Inflation (% y/y)

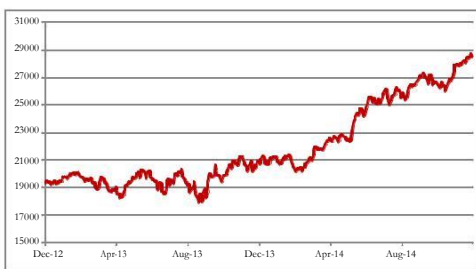


Consumer Price Index (% y/y)

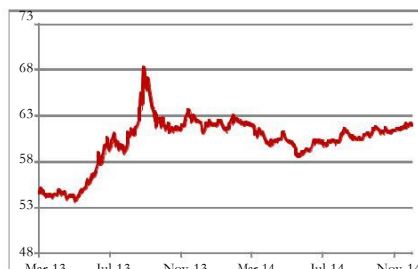


MARKETS: Sensex scales new heights

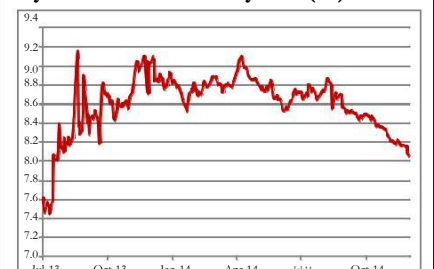
SENSEX



USD/INR

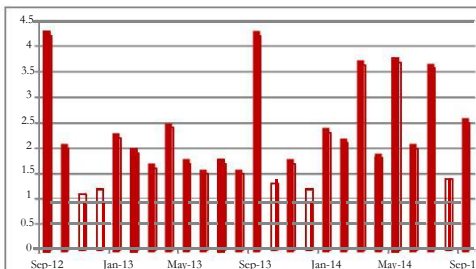


10yr Govt. Securities yield (%)

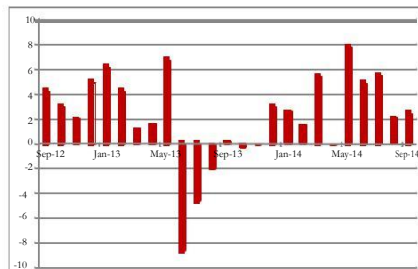


EXTERNAL: FDI rises to \$2.5bn in September 2014

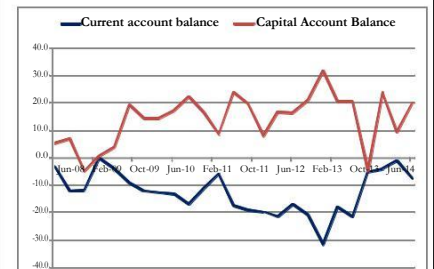
FDI (\$ Bn)



FII (\$ Bn)

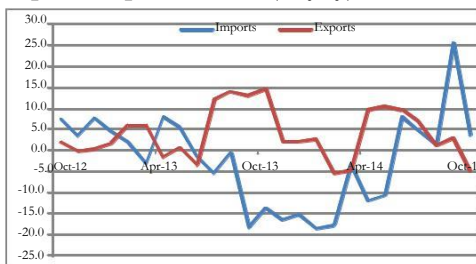


Current vs. Capital A/c (\$ Bn)

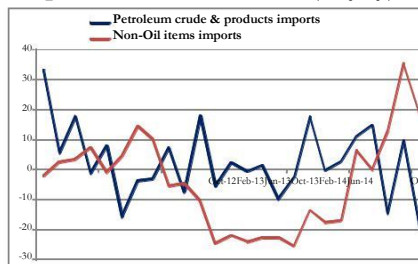


TRADE: October trade deficit at \$13.4bn; exports hit 7-month low

Export/Import Growth (% y/y)



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



Trade Balance (\$ Bn)

