SUMMARY

- India's GDP growth
- Special feature on the disinvestment strategy
- Fiscal deficit targets – Sticking to the Roadmap
- Accommodative Monetary Policy

India's GDP growth

GDP at market prices, total of consumption, investments, government spending, and net exports rose to 7.9% (y/y) in Q4 FY16 compared to 7.2% in the previous quarter.

GDP at gross value added, sectoral based measure taking into account agriculture, industry and services rose to 7.4% from 6.9% previous quarter.

Overall, GDP growth in FY2016 was 7.6% as compared to the growth rate of 7.3% in 2014-15. The statistical discrepancies in computing GDP value this fiscal were highest at 2.4% of GDP estimation, without which the GDP growth would have been 5.2%.

Manufacturing grew 9.3% just a shade less than double of what it was in 2014-15 (5.5%). Whereas, industrial output according to the Index of Industrial Production grew by 2.4% in 2015-16, compared to 2.8% in 2014-15. Growth in public spending marked a sharp drop by 5.4% in 2015-16 compared with 18.45% in the preceding year, though there has been a pick-up in activity in the road and the railway sector. Also, key indicators, namely, production of cement and consumption of finished steel registered growth of 2.2% and 4.4%, respectively and construction witnessed just 3.9% growth, against 3.7% in the previous quarter. Despite GDP growth of near-8%, agriculture is stagnating after two successive droughts and imports of corn and lentils have reached record levels.

However, data suggests growth in 2015-16 was driven more by private consumption than public spending. Private consumption grew by 7.4% in 2015-16 as against 6.2% in 2014-15, with its share in GDP improving to 59.5% from 57.6% in 2014-15. Private investments grew by 12.3% from 10.5% in the previous year. The services sectors like trade, transport, communication grew

Strategic Disinvestment Blueprint

The Government of India has announced a roadmap for diluting government stake in public sector enterprises. The plan covers that the revenue should be mobilised by mix of instruments by disinvestment as well as by disposal of certain assets of individual public sector companies. In 2015-16, the government had set a record target of raising £7.3bn through disinvestment, but only managed only £3.3bn. To achieve its target this year, government in India is exploring a new strategy.

The government has set a disinvestment target of £5bn for FY17. Of this, £2.8bn will come from minority stake sale and the remaining £2.2bn from strategic stake sale. The government has already raised £284m through 11.4% stake sale in power sector PSU. Government has lined up as many as 15 PSUs, including Coal India, the world's largest coal producer for stake sale in current fiscal. It recently floated bids to select merchant bankers for managing the share sale in several sectors like oil, energy and capital goods.

The Niti Aayog (former Planning Commission) and the Centre's two-pronged approach will be followed this year – one pertains to decision regarding sick firms which have been making losses, while the second is strategic sale where government wants to reduce its stake. The recommendations of Niti Aayog on the total 74 loss-making companies – 26 have been identified for closure, leasing out of loss-making hotels and revival-linked strategic stake sales in the perennially troubled Air India and 21 other companies. The advisory panel wants the government to let go of management control in companies where state stakes are already at 60% or below.

at 9% against 9.5% whereas financial, insurance, real estate and professional services grew at 10.3% same as projected by estimates.

Fiscal deficit targets – Sticking to the Roadmap

The government met the fiscal deficit target of 3.9% of GDP for the year, just fitting as per the fiscal consolidation roadmap. The fiscal deficit in the first month of FY17 reached 25% of the Budget estimate. In the corresponding period last year, the deficit was 23% of the Budget estimate of 2014-15. However, the overall fiscal deficit target would depend on the factors including the implications of the Seventh Pay Commission which will be accounted in 2017. The total impact from implementation is expected to be £10bn increasing the fiscal deficit by 0.65% of GDP. For this fiscal year, the government has a fiscal deficit target of (£5bn) 3.5% of GDP.

Accommodative Monetary Policy

The central bank, kept its benchmark policy rate unchanged at a four-year low of 6.5%, having already reduced rates by 150 basis points since the start of 2015. RBI aims to bring down inflation to below 5% by March 2017. In the state of two years of successive droughts, consumer price inflation (CPI) quickened to 5.4% in April and wholesale inflation turned positive. However the central bank's monetary policy stance remains accommodative to further rate cuts. Besides, crude oil prices have moved closer to $50 – much higher than the RBI's mean estimate of $40 a barrel which will also impact inflation.

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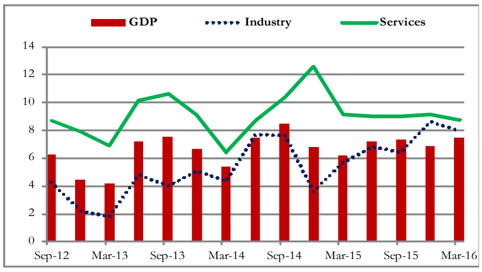
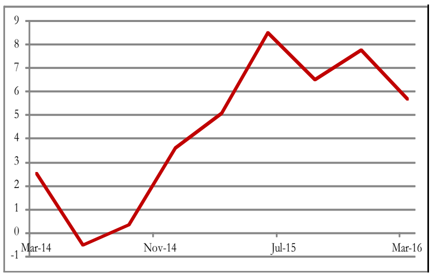
British High Commission New Delhi

GROWTH: ***Fastest GDP growth at 7.6% and Core sector at 8.5%.***

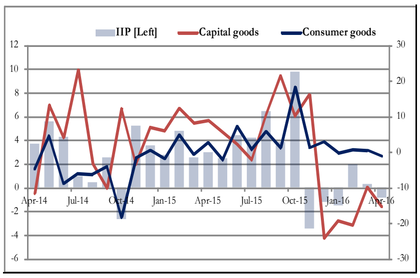
GDP



Projects Under Implementation



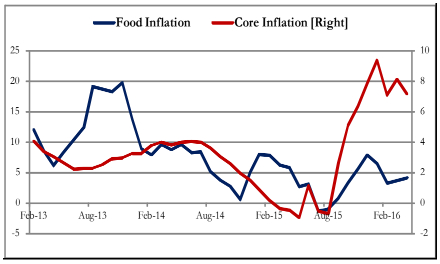
IIP/Capital/Consumer Goods



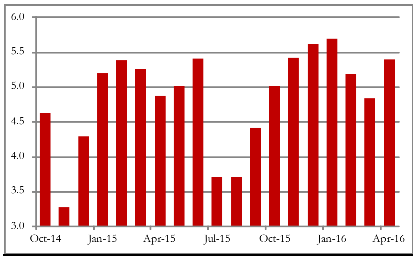
INFLATION: ***Wholesale inflation turns positive while Retail Inflation peaks at 5.4%***

Wholesale Price Index (% y/y)

Food vs. Core Inflation (% y/y)

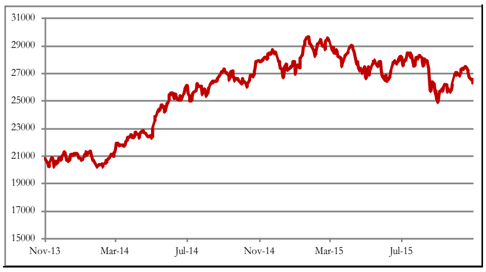


Consumer Price Index (% y/y)

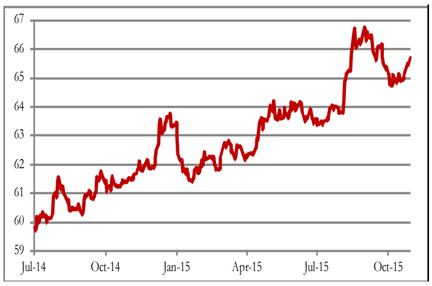


MARKETS: ***Financial Markets oscillate within a range on release of economic growth data.***

SENSEX



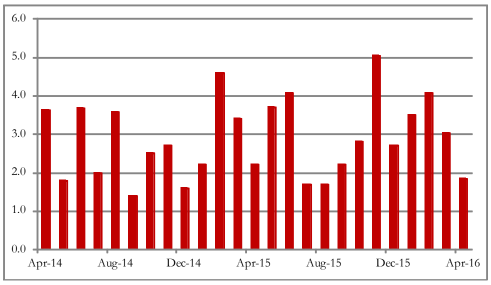
USD/INR



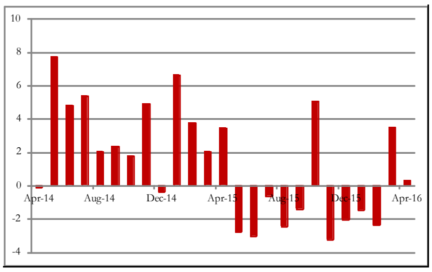
10yr Govt. Securities yield (%)

EXTERNAL: ***FIIs trim exposure.***

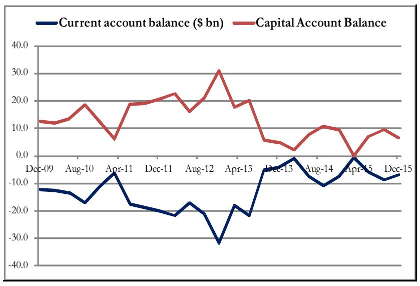
FDI ($ Bn)



FII ($ Bn)

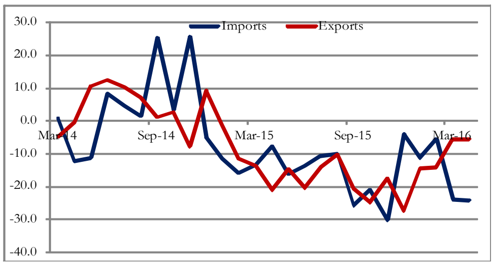


Current vs. Capital A/c ($ Bn)

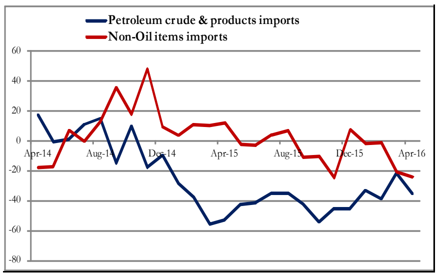


TRADE: ***Trade deficit widens due to stronger core imports in May.***

Export/Import Growth (% y/y)



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



Trade Balance ($ Bn)