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1. Indian economy update. India's GDP growth slowed for the fourth consecutive quarter in Jan-March 2017 to 6.1% (y/y), from 7% in the previous quarter, bringing the annual growth rate to 7.1% (compared to 8% in 2015-16). Over 2016-17 as a whole, the services sector witnessed a slowdown, led mainly by financial, real estate and professional services; while manufacturing and industry growth also fell. Performance in the agricultural sector improved, buoyed by a good monsoon. In the final quarter 2016-17, India's industrial production slowed down to 2.3%, compared to 7.3% in the corresponding quarter in the previous year as the manufacturing and mining sectors contracted. On the other hand, the Services Purchasing Managers' Index – which measures business sentiment – rose to an eight-month high.

Inflation fell to a record low of 1.5% in June 2017 (lowest since 2012), compared to 2.2% in May 2017 and 5.8% in June 2016 – owing mainly to a sharp fall in prices of food items like pulses and vegetables. However, core inflation (non-food, i.e. demand-side) continues to trend above 4% creating a divergence between falling food prices and increase in demand-side inflation. On 2 August, the RBI's Monetary Policy Committee voted to cut its headline interest rate by 25 bps to 6% down from 6.25%.

India's external position remains stable – the current account deficit narrowed to 0.7% of GDP in 2016-17 as compared to 1.1% of GDP in 2015-16. The fiscal deficit in May reached 68% of the government's target compared to 43% of the target during the same period in 2016. The Union Budget 2017-18 has set a fiscal deficit target for FY18 at 3.2% of the GDP – which may turn out to be a tight rope walk ahead. The rupee continued to appreciate, moving from around 65.9/\$ in March to around 64.5/\$ in the last month.

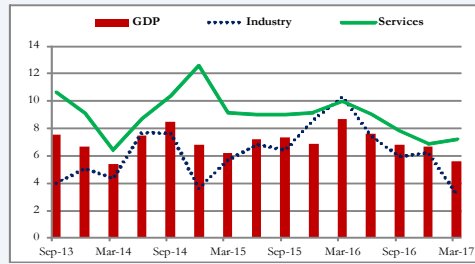
2. Key policy developments – Following the introduction of the Goods and Services Tax (GST) on 1 July, trucks are now covering 30% more distance due to improved ease in crossing state borders (according to Ministry of Road Transport and Highways report).

India's banking sector remains plagued by non-performing assets, which account for 9.6% of total loans as on March 2017. The RBI ordered banks to begin insolvency proceedings against the top 12 corporate defaulters which account for a quarter of total bad loans.

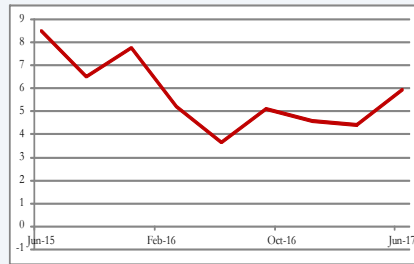
3. Stock market hits all time high – India's benchmark stock market indices BSE Sensex and NSE Nifty 50 hit all time highs of 32,000 and 10,000 respectively in July 2017. This echoes increased expectations of a RBI interest rate cut, after inflation fell to a record low (see above), as well as an increase in investor confidence.

GROWTH: GDP growth slows down to 6.1%

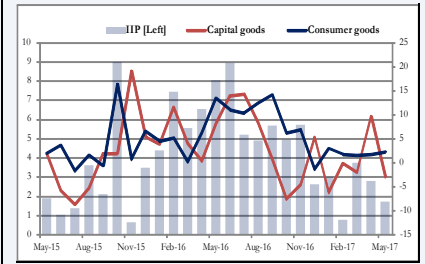
GDP



Investments

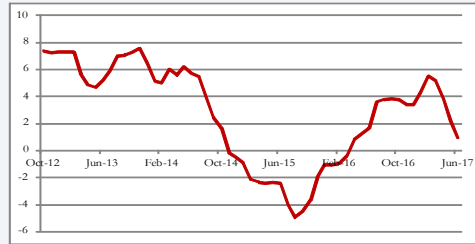


India's industrial production

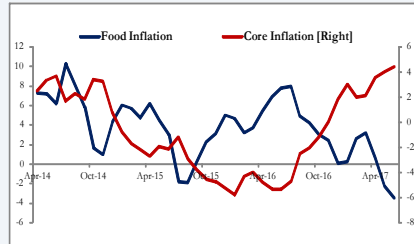


INFLATION: Inflation at lowest levels with divergence in food and core inflation in June 2017

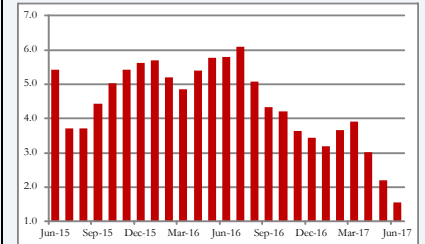
Wholesale price index (% y/y)



Food vs. core inflation (% y/y)

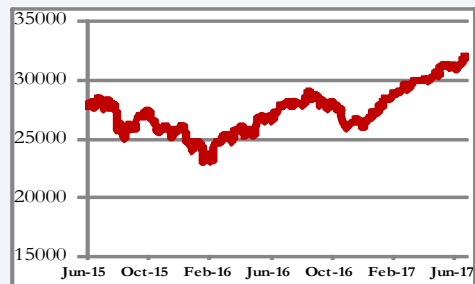


Consumer price index (% y/y)

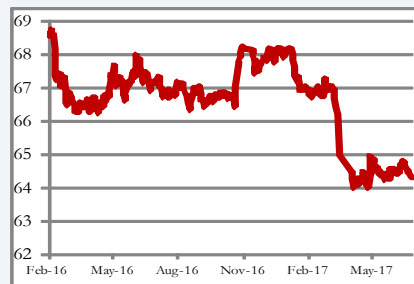


MARKETS: Financial Markets reached highest levels – BSE above 32,000, Nifty above 10,000

SENSEX



USD/INR

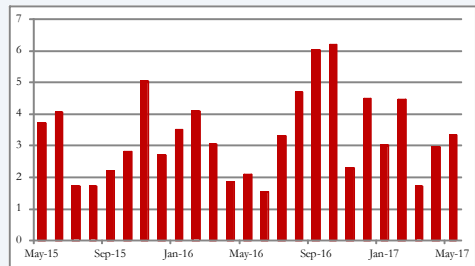


10yr Govt. Securities yield (%)

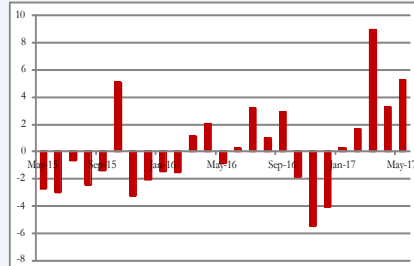


EXTERNAL: FDIs and FII's gain momentum, external sector under control

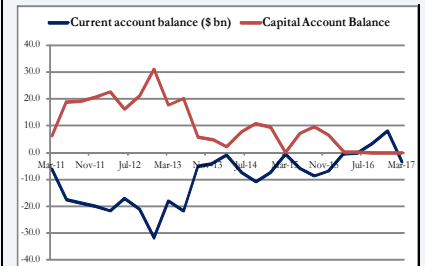
Foreign direct investment (\$bn)



Foreign institutional investment (\$bn)

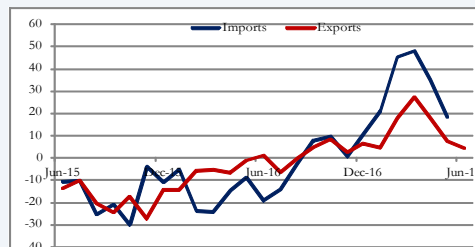


Current vs. capital a/c (\$bn)

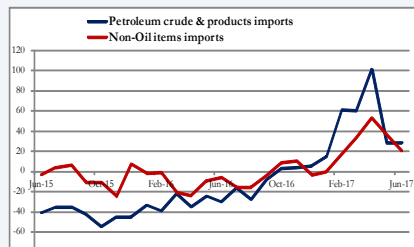


TRADE: Trade continues to improve - exports were in positive territory for the ninth consecutive month

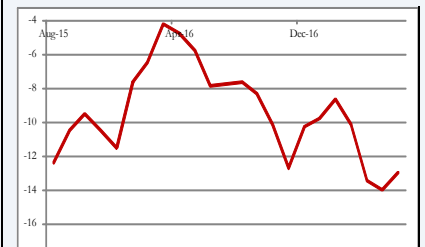
Export/import growth (% y/y)



Imports- oil and non oil (% y/y)



Trade balance (\$bn)



Data Sources : Government of India and Reserve Bank of India official statistics.

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Read our analysis on the [India Economic Share Point](#)