Macroeconomic Framework Statement 2019-20

G.E. Public Finance, B. Com (H) 4th Sem

Part-B-Unit – 3 Analysis of Budget and Deficits
Readings: - Macroeconomic Framework Statement 2019-20

Macroeconomic Framework Statement:

The Fiscal Responsibility and Budget Management (FRBM) Act, 2003 and the Fiscal Responsibility and Budget Management Rules, 2004 made under Section 8 of the Act have come into force with effect from 5th July, 2004. In sync with the changed Macro-economic circumstances after Global Financial Crisis, the FRBM (Amendment) Act, 2012 was passed by the Parliament and got the assent of the President of India on 28.05.2012. Accordingly, revised targets were set for various Fiscal Indicators. New Rules under the Amended FRBM Act, 2012 were notified on May, 2013.

In compliance with the relevant provisions of the said Act and Rules, the Central Government is required to lay before the Houses of Parliament, Macro-Economic Framework Statement, Medium Term Fiscal Policy Statement and Fiscal Policy Strategy Statement along with the Annual Financial Statement and Demands for Grants.

The Macro Economic Framework Statement contains an estimation of the growth potential of the economy with specification of certain assumptions. It emphasizes the growth in the gross domestic product (GDP) of the country, the fiscal balance of the central government as exhibited in the revenue balance and gross fiscal balance, and the external sector balance of the economy as stated in the current account balance[1] of the balance of payments of the Indian economy.[2]

Overview of the Economy:

Indian economy in the year 2019-20 remained the fastest growing economy despite a moderation in real GDP growth by 40 basis points[3]. The macroeconomic stability

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[11] The current account balance of payments is a record of a country's international transactions with the rest of the world. The current account includes all the transactions (other than those in financial items) that involve economic values and occur between resident and non-resident entities. https://data.oecd.org/trade/current-account-balance.htm

[2] https://business.mapsofindia.com/india-budget/macro-economic-framework.html

[3] The term "Basis Point" in financial term is a unit equivalent to 1/100th of a percent. So, 10 bps means 0.10% and 100 means 1%. It is mostly used to show changes in interest rates and also in bond yields.

was strong with comfortable fiscal situation bringing down the public debt, picking up fixed investment rate and low consumer inflation. Current Account Deficit increased from 1.9% in 2017-18 to 2.4% of GDP in 2018-19. As per World Bank Ease of doing Business 2019 report, India's rank improved by 23 position to 77th rank. Inflow of FDI also shows the global confidence.

Important structural reform measures government has undertaken, incentives for start-ups, measures to promote hydro power sector, support to sugar sector and sugarcane farmers by means of enhancement and augmentation of ethanol production capacity, and Unnat Bharat Programme. To boost manufacturing, employment generation, financial inclusion, improving ease of doing business via schemes such as Make in India, Skill India, and direct benefit transfer. There has been consistent focus on improvement and development of infrastructure in the country.

Economic Growth:

As per the provisional estimate[4] there is a moderation in annual national income from 7.2 in 2017-18 to 6.8 in 2018-19, mainly attributed to 'agriculture & allied' sector and in-service sector low growth. The growth in agriculture, industry and services was 2.9 percent, 6.9 percent and 7.5 percent respectively in 2018-19, as compared to 5.0 percent, 5.9 percent and 8.1 percent respectively in 2017-18.

From demand side private final consumption expenditure which is one of the major drivers of economic growth grew at a at a higher rate than GDP. Fixed investment, export and import also rose.

Prices:

Consumer Price Inflation (CPI) stood at 3%. Consumer Food Price Inflation stood at 1.8% in 2019. The average inflation measure in Wholesale Price Index (WPI) stood at 5.1 in May 2019.

Central Government Finances:

As per the Provisional Actuals (PA), Fiscal deficit was 3.4 percent of GDP and revenue deficit was 2.3 percent of GDP in 2018-19. As per the Public Accounts data on Union Government finances for 2018-19 released by Controller General of

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[44] The actual receipts and expenditure accounts of the Central Government are maintained by the Controller General Accounts (CGA), Ministry of Finance on monthly basis. Apart from that CGA also publishes provisional unaudited figures for the financial year by the end of the month of May. This figure is called provisional estimates. Once these provisional figures are audited by the CAG, they are presented as actuals in next year's budget. https://www.prsindia.org/theprsblog/explaining-difference-between-government-finances-reported-economic-survey-and-union

Accounts, the GTR increased by 8.4 percent over 2017-18 (actuals) and was at 91.6 percent of BE of 2018-19. The non-tax revenue registered an increase of 27.7 percent over 2017-18 actuals. The revised estimates place fiscal and revenue deficits at 3.3 percent of GDP and 2.3 percent of GDP respectively in 2019-20.

Monetary Management and Financial Intermediation:

In June 2019, policy repo rate stood at 5.75 percent. In 2018-19, growth in M3 improved marginally driven mainly by aggregate deposits. Growth of both demand and time deposits increased during 2018-19. Growth of aggregate deposits was 9.6 percent at the end of 2018-19 vis-à-vis 5.8 percent at the end of 2017-18.

External Sector:

Trade deficit increased to US$ 183.5 billion during 2018-19, from US$ 162.1 billion in the previous year. Based on the Balance of Payments (BoP) data available for the first three quarters of 2018-19, the trade deficit on BoP basis increased to US$ 145.3 billion in April-December 2018 from US$ 118.4 billion in April-December 2017. Net invisibles surplus in April-December 2018 increased to US$ 93.4 billion from US$ 82.8 billion in April-December 2017, with increase observed in net services and net private transfers. India's current account deficit (CAD) increased from US$ 35.7 billion (1.8 percent of GDP) in April-December 2017 to US$ 51.9 billion (2.6 percent of GDP) in April-December 2018. On BoP basis, there was net depletion to India's foreign exchange reserves by US$ 17.5 billion in April-December 2018, which including the valuation changes stood at US$ 29.0 billion. The stock of foreign exchange reserves was US$ 395.6 billion at end-December 2018. The improvement of invisible balance and banking capital were not sufficient to finance the CAD, leading to depletion of foreign exchange.

Banking Sector:

The Gross Non-Performing Advances (GNPA) ratio[5] of Scheduled Commercial Banks (SCBs) decreased from 11.5 percent to 10.1 percent between March 2018 and December 2018, as also, their Restructured Standard Advances (RSA) ratio declined from 0.7 percent to 0.4 percent. The Stressed Advances (SA) ratio[6] decreased from 12.1 percent to 10.5 percent during the same period. GNPA ratio of PSBs decreased from 15.5 percent to 13.9 percent between March 2018 and December 2018. Stressed

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[55] Gross NPA Ratio is the ratio of total gross NPA to total advances (loans) of the bankhttp://blog.stockedge.com/difference-between-gross-npa-and-net-npa/

[66] stressed advances are defined as Gross Non-Performing Advances (GNPAs) plus restructured standard advances (RSAs https://m.rbi.org.in/Scripts/PublicationReportDetails.aspx?UrlPage=&ID=887#F4

advances ratio of PSBs decreased from 16.3 percent to 14.4 percent during the same period. The growth in bank credit to medium, micro and small industries have decelerated since October 2018.

Agriculture:

The production of rice has increased by 2.8 million tonnes than the previous year's production of 112.8 million tonnes. The production of wheat, estimated at record 101.2 million tonnes, is higher by 1.3 million tonnes as compared to wheat production of 99.9 million tonnes achieved during 2017-18. India ranks first in milk production, accounting for 20 per cent of world production with 176.3 million tonnes in 2017-18, at an average annual growth rate of 4.5 percent. India is the third largest fish producer in the world with a total production of 12.6 million metric tonnes in 2017-18 of which 65 per cent was from inland sector.

Industry:

The performance of the industrial sectors based on the Index of Industrial Production (IIP) comprising mining, manufacturing and electricity registered a growth of 3.6 percent in 2018- 19, as compared to 4.4 percent in 2017-18. As per the sectoral classification, mining, manufacturing and electricity sectors registered 2.9 percent, 3.6 percent and 5.2 percent growth during 2018-19 respectively. The eight-core infrastructure supportive industries, viz. coal, crude oil, natural gas, refinery products, fertilizers, steel, cement and electricity that have a total weight of nearly 40 percent in the Index of Industrial Production (IIP) grew by 4.3 percent in 2018-19 at the same level of growth at 4.3 percent in 2017-18. The production of coal, natural gas, refinery products, fertilizers, steel, cement and electricity increased by 7.4 percent, 0.8 percent, 3.1 percent, 0.3 percent, 4.7 percent, 13.3 percent and 5.2 percent respectively during 2018-19 while the production of crude oil fell during the same period.

Prospects:

The growth momentum was expected to gain strength unless the global slowdown would not limit the exports. The recent increase in the growth of fixed investment shows a sign of revival. The expected nominal growth projection keeping in line with the international institution, was supposed to be 11 per cent in the financial year 2019-20.