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Economy Watch

Monitoring India's macro-fiscal performance

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ENTER

Building a better working world

Contents

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Highlights

1. In July 2024, both manufacturing and services PMI showed continued strong growth momentum with their levels at 58.1 and 60.3 respectively.

2. IIP showed a lower growth of 4.2% in June 2024 as compared to 6.2% in May 2024. In 1QFY25, IIP growth averaged 5.1%, similar to its level seen in 4QFY24.

3. CPI inflation fell to a 59-month low of 3.5% in July 2024 led by favorable base effects, even as core CPI inflation increased to 3.3% in the same month from an unprecedented low of 3.1% in June 2024.

4. WPI inflation eased for the first time in five months to 2.0% in July 2024 from 3.4% in June 2024, mainly due to favorable base effects.

5. In its August 2024 monetary policy review, the RBI retained the repo rate for the ninth successive time at 6.5%.

6. As per the CGA, GoI's gross tax revenues (GTR) showed a growth of 23.7% during 1QFY25 with growth in direct taxes at 39.9% and that in indirect taxes at 5.5%.

7. GoI's total expenditure showed a contraction of (-)7.7% during 1QFY25, with growth in revenue expenditure at 2.2% while capital expenditure contracted by (-)35%.

8. GoI's fiscal and revenue deficits during 1QFY25 stood at their historic low levels of 8.4% and (-)7.0% of their respective annual BE.

9. Growth in gross bank credit moderated to a 23-month low of 13.9% in June 2024 from 16.1% in May 2024. In 1QFY25, growth in bank credit averaged marginally lower at 15.1% as compared to 15.8% during the same period in FY24.

10. Growth in merchandise exports turned negative at (-)1.5% in July 2024 from 2.5% in June 2024 reflecting lower global demand, while that in imports increased to 7.5% from 5.0% over the same period.

11. Merchandise trade deficit widened to US$23.5 billion in July 2024 from US$21.5 billion in June 2024 led by an increase in non-oil non-gold and non-jewelry trade deficit.

12. Net FPI inflows surged to US$5.2 billion while net FDI's registered outflows amounting to US$0.2 billion in June 2024. In 1QFY25, net FDI inflows were at US$6.9 billion while net FPI inflows amounted to only US$1.1 billion.

13. Global crude price increased to a three-month high of US$83.3/bbl. in July 2024 primarily due to the intensification of geopolitical tensions in the Middle East.

14. The IMF (July 2024) has projected global growth at 3.2% and 3.3% respectively for 2024 and 2025 with India's growth at 7.0% and 6.5% in FY25 and FY26.

15. The FY25 Union Budget indicates a commitment only to reducing GoI's debt-GDP ratio after FY26. Such a reduction can be sustained with GoI's fiscal deficit at 4.5% of GDP and a combined fiscal deficit to GDP ratio of 7.5% assuming a nominal growth of close to 10% or above. However, such a high fiscal deficit would leave inadequate investible surplus for the private sector.

Foreword

With CPI inflation in 1QFY25 below 5%, policy rates remained unchanged

With CPI inflation in 1QFY25 remaining at 4.9% and RBI's expectation for FY25 CPI inflation at 4.5%, the Monetary Policy Committee (MPC) remained in favor of keeping the policy rate unchanged at 6.5% for the ninth consecutive policy cycle in August 2024. The US Fed had also postponed any hike in the interest rates in its July 2024 monetary policy review with their guidance for at least one rate cut in the latter part of the year[1]. The RBI did express concern with the continuing pressure on food prices and the fact that core inflation had inched up from its trough of 3.1% in May and June 2024 to 3.3% in July 2024. With food inflation remaining critically dependent on the monsoons, future MPC meetings are likely to closely monitor the composition of CPI inflation in India. The RBI expects domestic growth to hold up at 7.2% in FY25 as projected earlier, on the strength of investment demand, steady urban consumption and rising rural consumption. With RBI's focus remaining on inflation management, fiscal policy, as expressed through GoI's recent final budget for FY25, will have a key role to play in determining overall growth. The Economic Survey (FY2024) had indicated a real GDP growth in the range of 6.5% to 7%. Our assessment for FY25 real GDP growth is in the range of 7% to 7.2%. If the GoI succeeds in meeting its capital spending plans, GDP growth would be closer to 7.2%.

Available high frequency data for June and July 2024 indicate the ongoing robust growth momentum of the Indian economy. PMI manufacturing at 58.1 in July 2024 was changed little from 58.3 in June 2024, indicating an ongoing strong expansion in manufacturing sector activity. PMI services at 60.3 in July 2024 remained above 60 for the seventh consecutive month. This buoyant performance is also reflected in the high levels of gross and net GST collections (net of refunds) in July 2024 which increased to INR1.82 lakh crore and INR1.66 lakh crore, respectively from INR1.74 lakh crore and INR1.54 lakh crore respectively in June 2024. According to Federation of Automobile Dealers Association (FADA), growth in motor vehicle sales accelerated to 13.8% in July 2024 as compared to 0.7% in June 2024. Growth in passenger vehicle sales also surged to 10.8% in July 2024 as compared to a contraction of (-)6.8% in June 2024. Growth in gross bank credit remained high at 13.9% in June 2024, although moderating from 16.1% in May 2024. In 1QFY25, growth in bank credit averaged marginally lower at 15.1% as compared to 15.8% during the same period in FY24. Growth in power consumption remained high at 8.4% in July 2024, although marginally lower as compared to 8.9% in June 2024. In 1QFY25, net FDI inflows were at US$6.9 billion, higher than US$2.4 billion in 4QFY24. However, on the fiscal side, as per the CGA data, GoI's capital expenditure during 1QFY25 showed a contraction of (-)35%. As such, in order to meet the full year target of capital expenditure growth of 17.1%, the expenditure momentum has to be accelerated sharply in the remaining months of the fiscal year.

The final FY25 union budget was presented on 23 July 2024. With a continuing focus on sustaining capital spending, the budgeted capital expenditure growth was retained at 17.1% as in the interim budget. Supported by a marginal increase in GoI's GTR growth in FY25 to 10.8% from the interim budget's estimate of 10.6% over the FY24 CGA actuals, and a large increase in RBI's dividends, the final budget had focused on reducing fiscal deficit to 4.9% of GDP from the interim budget estimate of 5.1%. The budget introduced a counterpart to production linked incentives (PLI) in the form of an employment linked incentive (ELI) scheme with three major components namely, (1) first timers joining a formal workforce, (2) job creation in manufacturing related to first time employees, and (3) an employer-centric scheme covering all additional employment in all sectors within a salary of INR1 lakh

[1] https://rb.gy/misara

per month. Even though the current budget has accelerated the pace of fiscal consolidation, the budget speech had indicated that in future, the focus would be only on reducing GoI's debt-GDP ratio. If this implies any departure from the FRBM 2018's operational fiscal deficit target of 3% of GDP, this issue should be examined in greater detail because of the implications for the long-term prospects of primary deficit to GDP ratio and the burden emanating from the relatively higher debt-GDP ratio on interest payments. This matter has also been examined in this month's *In-focus* section titled *'The state of government finances post FY25 Budget'*.

A long-term overview of the state of government finances indicates one noticeable positive feature namely, an increase in the combined tax-GDP ratio over the threshold of 18% in FY2024, and a likelihood of it remaining above 18% in FY2025 as well. A significant part of the higher than 1 buoyancy is being contributed by direct taxes, both personal and corporate income taxes. The revenue performance of GST has also improved in recent months. If the higher than 1 tax buoyancy can be maintained over the medium-term, the much-needed expansion in the education and health sectors can be supported by the expanded fiscal space financed by the progressively increasing combined tax-GDP ratio with a view to sustaining the medium to long term growth of the Indian economy.

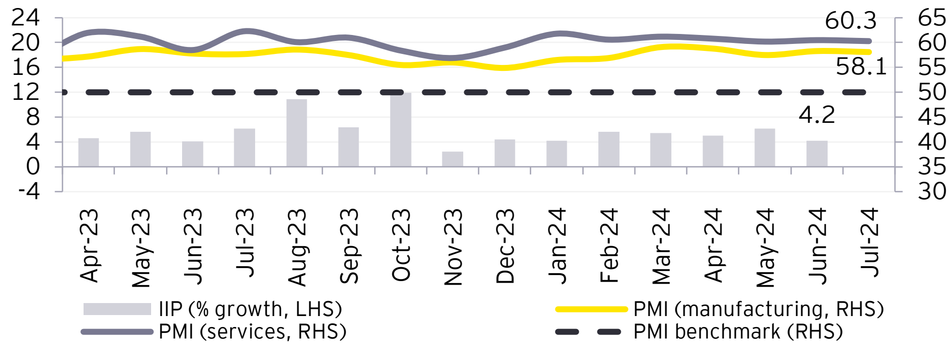
D.K. Srivastava
Chief Policy Advisor, EY India

1 Growth: PMI showed continued growth momentum in manufacturing and services in July 2024

1.1 PMI: PMI services at 60.3 in July 2024 remained above 60 for the seventh consecutive month

- Headline manufacturing PMI (seasonally adjusted (sa)) at 58.1 in July 2024 changed little from 58.3 in June 2024, indicating an ongoing strong expansion in manufacturing sector activity **(Chart 1)**. The July 2024 level remained well above its long-run average of 54.0.
- Services PMI also continued to remain at a high level of 60.3 in July 2024, marginally below 60.5 in June 2024. With this, services PMI remained above 60 for the seventh consecutive month in July 2024.
- Reflecting a continued strong growth momentum in both manufacturing and services sector activity, the composite PMI Output Index (sa) was at 60.7 in July 2024, fractionally below 60.9 in June 2024.

Chart 1: PMI and IIP growth



Source: MoSPI and S&P Global.

In July 2024, both manufacturing and services PMI showed continued strong growth momentum with their levels at 58.1 and 60.3 respectively.

1.2 IIP: growth moderated to 4.2% in June 2024

- According to the quick estimates, IIP growth was lower at 4.2% in June 2024 as compared to 6.2% (revised) in May 2024 **(Chart 1)**. In 1QFY25, IIP growth averaged 5.1%, similar to its level in 4QFY24.
- Among the sub industries, growth in the mining sector output, which is usually volatile, was the highest at 10.3% in June 2024, increasing from 6.6% in May 2024. Output of the electricity sector showed a growth of 8.6% in June 2024, falling from 13.7% in May 2024.

IIP showed a lower growth of 4.2% in June 2024 as compared to 6.2% in May 2024. In 1QFY25, IIP growth averaged 5.1%, similar to its level in 4QFY24.

- Growth in the output of manufacturing sector fell to a seven-month low of 2.6% in June 2024 as compared to 5% in May 2024. Within manufacturing, key sub-industries that contributed to this lower growth include pharmaceuticals et al. products ((-)2.9%), basic metals (4.9%), and coke and refined petroleum products ((-)0.8%).
- As per the 'use-based' classification of industries, growth in the output of consumer durables remained the highest at 8.6% in June 2024, although easing from 12.6% in May 2024. This was followed by the primary goods industry with a growth of 6.3% in June 2024 as compared to 7.3% in May 2024. Growth in the output of capital goods remained low at 2.4% while there was a contraction of (-)1.4% in consumer non-durables in June 2024.
- Growth in the output of eight core infrastructure industries (core IIP) eased to a 20-month low of 3.9% in June 2024 from 6.3% in May 2024. This may be attributable to a moderation/contraction in the output growth of electricity (7.7%), steel (2.7%), petroleum refinery products ((-)1.6%), natural gas (3.3%) and crude ((-)2.6%). Growth in coal output, however accelerated to 14.7% in June 2024. In 1QFY25, growth in core IIP averaged marginally lower at 5.6% as compared to 5.8% in 4QFY24.

2 Inflation: CPI inflation fell to a 59-month low of 3.5% in July 2024

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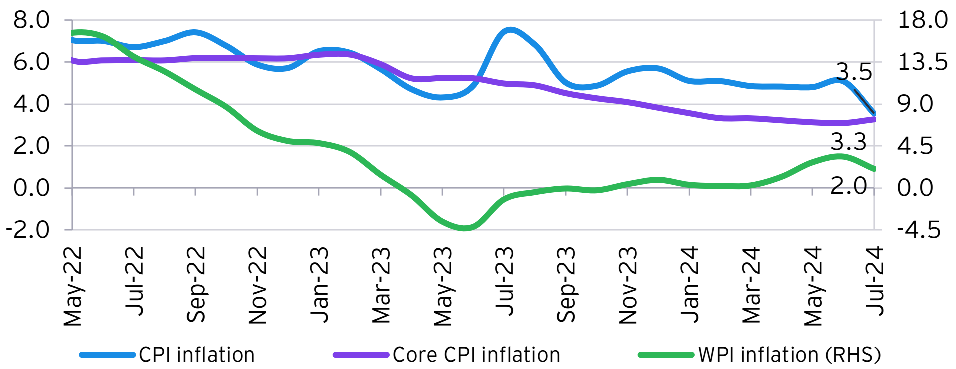
2.1 CPI inflation

- CPI inflation was at 3.5% in July 2024, its lowest level since August 2019, as compared to 5.1% in June 2024, primarily due to a sharp fall in inflation in vegetables to 6.8% from 29.3% over the same period **(Chart 2).**
- The sharp fall in vegetable prices was primarily due to favorable base effects which are expected to continue for the next few months but wear off in 3QFY25 as per the RBI.
- Inflation in cereals and products, and fruits moderated to 8.1% and 3.8% respectively in July 2024 from 8.8% and 7.2% in June 2024. Consumer food price index-based inflation eased to a 13-month low of 5.4% in July 2024.
- Inflation in clothing and footwear remained at a 52-month low of 2.7% in July 2024 for the third successive month. Inflation in housing remained stable at a low level of 2.7% in July 2024.
- Fuel and light inflation remained negative for the eleventh successive month at (-)5.5% in July 2024, reflecting the cumulative impact of the sharp cuts in LPG prices in August 2023 and March 2024.
- Inflation in transportation and communication services increased to an 11-month high of 2.5% in July 2024, due to an upward revision in mobile tariffs, accompanied by broadly stable fuel prices at the retail level. As a result, core CPI inflation[2] increased for the first time after showing a sequential decline since February 2023, to 3.3% in July 2024 from an unprecedented low (2012 series) of 3.1% in June 2024.

Chart 2: Inflation (y-o-y, in %)



Source: MoSPI, Office of the Economic Adviser, Government of India (GoI)

CPI inflation fell to a 59-month low of 3.5% in July 2024 led by favorable base effects, even as core CPI inflation increased to 3.3% during the month from an unprecedented low of 3.1% in June 2024.

2.2 WPI inflation: *eased for the first time in five months to 2.0% in July 2024 from 3.4% in June 2024, mainly due to favorable base effects*

- Food inflation fell to a nine-month low of 3.6% in July 2024 primarily due to a favorable base effect as vegetable prices showed a contraction for first time in nine months of (-)8.9%. This was led by a contraction in prices of tomato by (-)39.6% in July 2024 as compared to an inflation level of 57.8% in June 2024.
- Inflation in manufactured food products also eased to 3.8% in July 2024 from 4.3% in June 2024.
- Inflation in fuel and power increased slightly to 1.7% in July 2024 from 1.0% in June 2024 as inflation in mineral oils nearly doubled to 3.7% from 1.9% over the same period. Inflation in mineral oils was led by a sharp rise in inflation in naptha to 26.1% in July 2024 from 11.1% in June 2024, partly attributable to a base effect.
- Inflation in manufactured products was benign at 1.6% in July 2024, marginally higher than 1.4% in June 2024. Inflation in chemical products turned positive for the first time since February 2023 at 0.1% in July 2024 while that in pharmaceuticals increased slightly to 2.0% in July 2024 from 0.4% in June 2024.
- Inflation in crude petroleum and natural gas moderated to 9.1% in July 2024 from a nine-month high of 12.6% in June 2024 due partly to waning of unfavorable base effect.
- Core WPI inflation inched up to 1.2% in July 2024 from 0.9% in June 2024 mainly due to marginally higher inflation rates in chemicals and pharmaceuticals, and a slower pace of contraction in prices of paper and products and fabricated metal products (excluding machinery and equipment).

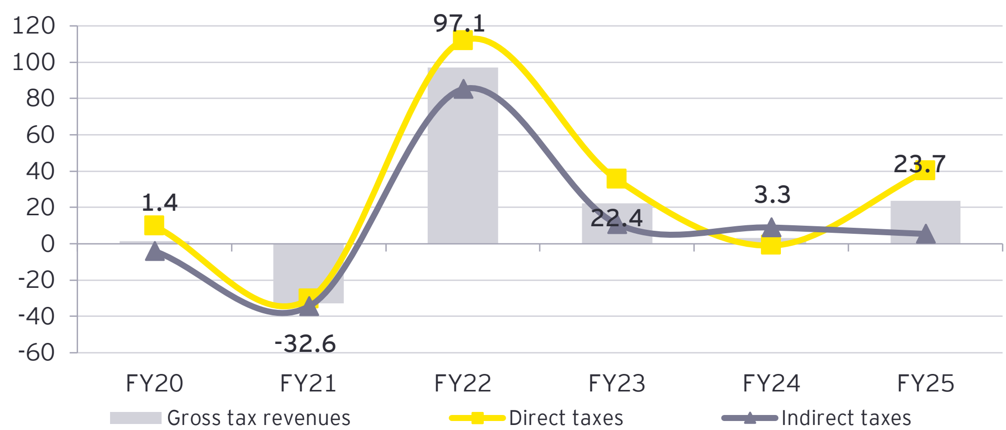
[2] Core CPI inflation is measured in different ways by different organizations. Here, it has been calculated by excluding food, and fuel and light from the overall index.

3 Fiscal: GoI's fiscal deficit during 1QFY25 was at a historic low of 8.4% of BE

3.1 Tax and non-tax revenues

- As per the CGA, GoI's GTR[b] showed a growth of 23.7% during April-June FY25 as compared to 3.3% during the corresponding period of FY24 **(Chart 3)**. GTR during 1QFY25 as a percentage of annual BE stood at 21.6% in FY24, slightly higher than the three-year average of 20.1% during FY22 to FY24 based on actual data.
- Direct taxes[a] showed a strong growth of 39.9% while indirect taxes[a] grew by 5.5% during April-June FY25. The corresponding growth rates in FY24 were at (-)1.0% and 9.0%.
- After showing a contraction of (-)19.8% during the first two months of FY25, largely owing to refunds, CIT revenues grew by 26.2% during April-June FY25. In the corresponding period of FY24, CIT revenues showed a contraction of (-)13.9%.
- PIT revenues grew by 49.9% during the first three months of FY25, significantly higher than the corresponding growth of 11.0% in FY24.
- Among indirect taxes, GoI's GST revenues[c] grew by 9.1% during April-June FY25, slightly lower than 11.5% during the corresponding period of FY24.
- Union excise duties (UED) showed a contraction of (-)0.9% during April-June FY25 although the pace of contraction eased considerably from (-)15.4% during April-June FY24.
- Customs duties also showed a contraction of (-)4.3% during April-June FY25 as compared to a growth of 34.9% during the corresponding period of FY24.

Chart 3: Growth in central gross tax revenues during April-June (%, y-o-y)



GoI's GTR showed a growth of 23.7% during 1QFY25 with growth in direct taxes at 39.9% and that in indirect taxes at 5.5%.

Source: Monthly Accounts, CGA, Government of India
Notes: (a) Direct taxes include personal income tax and corporation tax, and indirect taxes include union excise duties, arrears of service tax, customs duty, and GST (comprising CGST, UTGST, IGST and GST compensation cess) (b) Other taxes (securities transaction tax, wealth tax, fringe benefit tax, banking cash transaction tax, etc.) are included in the GoI's GTR along with direct and indirect taxes, (c) IGST revenues are subject to final settlement.

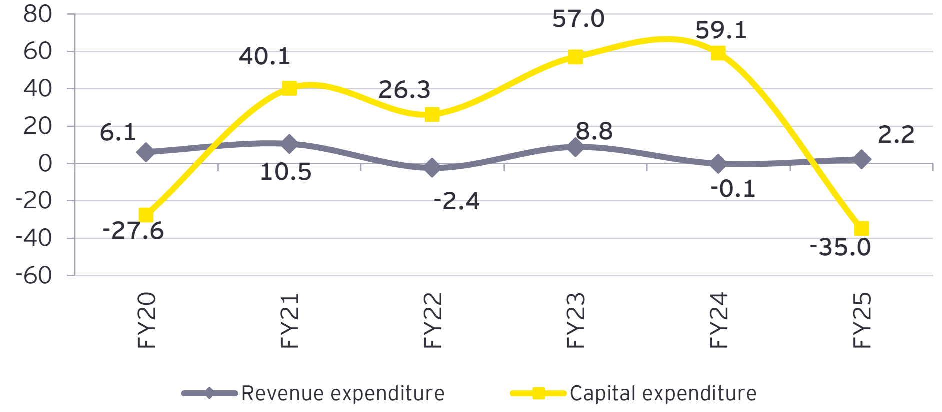
- GoI's non-tax revenues showed a high growth of 80.7% during the first three months of FY25, owing to substantially higher dividends by the RBI. GoI's dividends and profits during 1QFY25 at INR2,24,325 crore stood at 77.6% of the FY25 (BE) at INR2,89,134 crore.
- Non-debt capital receipts of the GoI during 1QFY25 stood at 5.8% of the annual BE, much lower than the three-year average ratio at 25.1% during FY22 to FY24 based on actual data.
- As per the Department of Investment and Public Asset Management (DIPAM)[3], GoI's disinvestment receipts as of 27 August 2024 were at INR815.0 crore, amounting to 1.63% of the FY25 BE at INR50,000 crore.

[3] https://dipam.gov.in/

3.2 Expenditures: revenue and capital

- GoI's total expenditure showed a contraction of (-)7.7% during the first three months of FY25 as compared to a growth of 10.8% during the corresponding period of FY24. GoI's total expenditure during April-June FY25 stood at 20.1% of FY25 BE, slightly lower than the last three-year average at 22.6% based on actual data.
- GoI's revenue expenditure growth was at 2.2% during April-June FY25 as compared to a contraction of (-)0.1% during April-June FY24.
- Unlike the last four years, GoI's capital expenditure showed a contraction of (-)35% during 1QFY25 **(Chart 4)**. Capital expenditure during 1QFY25 stood at 16.3% of FY25 BE, its lowest corresponding level since FY10 based on actual data. The final FY25 Union Budget has retained the capital expenditure level at INR11.11 lakh crore in FY25, implying a growth of 17.1% over the FY24 level.

Chart 4: Growth in central expenditures during April-June (%, y-o-y)



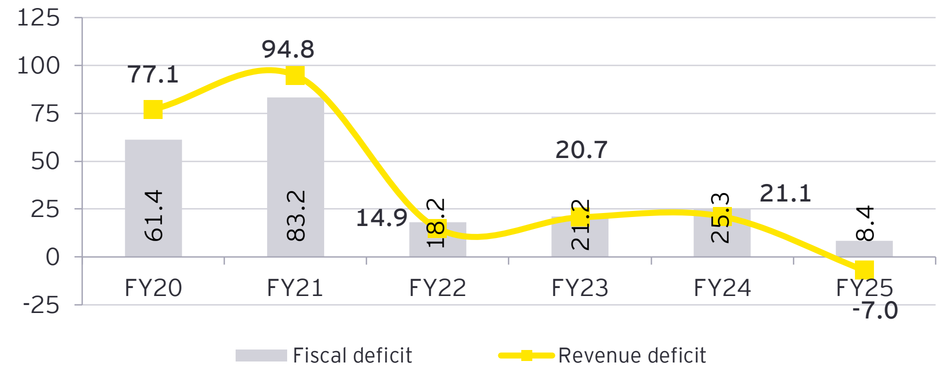
Source (basic data): Monthly Accounts, CGA, Government of India

GoI's total expenditure showed a contraction of (-)7.7% during 1QFY25, with growth in revenue expenditure at 2.2% while capital expenditure contracted by (-)35%.

3.3 Fiscal imbalance

- GoI's fiscal deficit during 1QFY25 stood at a historic low level of 8.4% of the FY25 BE helped by a strong growth in GoI's direct tax revenues, substantially enhanced non-tax revenues, and a contraction in total expenditure. In comparison, GoI's fiscal deficit as a proportion of BE stood at 25.3% in 1QFY24 **(Chart 5)**.
- GoI's revenue account during April-June FY25 showed a surplus of 7% of FY25 BE, the first such instance during the corresponding period since FY01. During 1QFY24, GoI's revenue account showed a deficit of 21.1% of the annual BE.

Chart 5: Fiscal and revenue deficit during April-June as a percentage of BE



Source: Monthly Accounts, CGA, Government of India and MoSPI

GoI's fiscal and revenue deficits during 1QFY25 stood at their historic low levels of 8.4% and (-)7.0% of their respective annual BE.

4 Comparative trends: OECD projected India's current acccount deficit at 0.4% of GDP in FY25

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4.1 General government financial balances

- According to the OECD, after an unexpected fiscal expansion in the US in 2023, the fiscal stance is expected to tighten modestly in 2024, enabling the general government fiscal deficit to reduce to 7.6% of GDP **(Table 1)**. However, the 2024 and 2025 levels remain much higher than their sustainable levels due to the increased burden of spending on mandatory social programs due to aging population accompanied by a narrowing tax base.
- In the UK, fiscal policy is expected to remain restrictive, in line with the government's fiscal target of decreasing public debt within a five-year horizon. Accordingly, the general government fiscal deficit relative to GDP is forecasted to fall from 5.4% in 2023 to 4.6% in 2024 and further to 3.5% in 2025.
- In the Euro area, general government fiscal deficit to GDP ratio is projected to fall significantly, reaching a level of 2.3% by 2025 helped by gradual withdrawal of energy support and fiscal consolidation in large economies such as Germany and France. Similarly, the planned phase out of energy support measures are expected to lower the general government fiscal deficit relative to GDP in Japan.

Table 1: General government financial balances (% of nominal GDP)

Country	2021	2022	2023	2024	2025
US	-11.5	-4.0	-8.0	-7.6	-7.7
UK	-7.9	-4.6	-5.4	-4.6	-3.5
Euro area	-5.3	-3.7	-3.5	-2.9	-2.3
Japan	-6.2	-4.2	-3.9	-3.0	-2.2
Brazil	-4.5	-4.5	-8.7	-6.4	-6.1
India*	-9.5	-9.6	-8.8	-7.9	-7.4
China	-6.4	-6.5	-6.7	-7.5	-7.1
S. Africa	-6.4	-4.8	-7.2	-5.2	-6.0

Source: OECD Economic Outlook, May 2024
*data pertains to fiscal year
Note: +ve indicates surplus and -ve indicates deficit

- In Brazil, fiscal policy expanded in 2023 leading to a sharp increase in the government fiscal deficit to GDP ratio to 8.7%. Fiscal policy is set to consolidate in 2024 to achieve the target of balanced primary budget. However, uncertainty regarding both the amount that newly implemented tax measures will raise as well as spending pressures in health care and education cast doubt on the ability to meet this fiscal target in the near future.
- In South Africa, government fiscal deficit to GDP ratio is projected to ease in 2024 helped by a consolidation in expenditure and a boost to revenue through freezing income tax thresholds and increasing excise taxes. The planned fiscal consolidation would remain insufficient to prevent a further increase in the public debt burden.
- China's fiscal policy is expected to be supportive with regular issuance of additional ultra-long central bonds for priority projects, leading to an increase in fiscal deficit to GDP ratio in 2024 and 2025 relative to the 2023 level.
- In India, general government fiscal deficit relative to GDP is projected to narrow to 7.9% in 2024 (FY25) especially with the GoI committed to accelerated fiscal consolidation. Government fiscal deficit to GDP ratio is projected at 7.4% in 2025 (FY26), remaining higher than the FRBM 2018 target of 6%.

4.2 Current account balances

- Current account deficit (CAD) in the US fell from 3.8% in 2022 to 3% in 2023 owing to record high petroleum exports. It is projected to remain stable at 3% in 2024 and at 3.1% in 2025.
- In the UK, CAD is projected to fall from 3.3% of GDP in 2023 to 1.6% in 2024 and 0.7% in 2025 as sticky services price inflation and fiscal drag is expected to weigh on consumer's purchasing power, adversely affecting imports **(Table 2)**.
- China's current account surplus would remain close to 1% of GDP in 2024 and 2025 with a weak recovery in tourism imports and an improvement in exports owing to recovering foreign demand.
- CAD in South Africa increased to 1.6% of GDP in 2023 amid declines in terms of trade, weak domestic currency and constrained exports due to electricity shortages and freight bottlenecks. CAD is projected to increase in 2024 and 2025 mainly reflecting lower commodity export prices.

Table 2: Current account balances (% of nominal GDP)

Country	2021	2022	2023	2024	2025
US	-3.5	-3.8	-3.0	-3.0	-3.1
UK	-0.5	-3.1	-3.3	-1.6	-0.7
Euro area	4.1	1.4	3.1	2.9	3.0
Japan	3.9	1.8	3.6	4.0	3.5
Brazil	-2.8	-2.5	-1.3	-1.5	-1.4
India*	-1.0	-2.4	-0.9	-0.4	-0.8
China	2.0	2.5	1.4	0.9	1.1
S. Africa	3.7	-0.5	-1.6	-2.3	-2.6

Source: OECD Economic Outlook, May 2024
*data pertains to fiscal year
Note: +ve indicates surplus and -ve indicates deficit

- India's CAD fell from 2.4% of GDP in 2022 to 0.9% in 2023. It is projected to remain at low levels of 0.4% and 0.8% in 2024 and 2025 owing to a strong growth in services exports particularly of information technology and consulting where India will continue to increase its global market share supported by foreign investment.

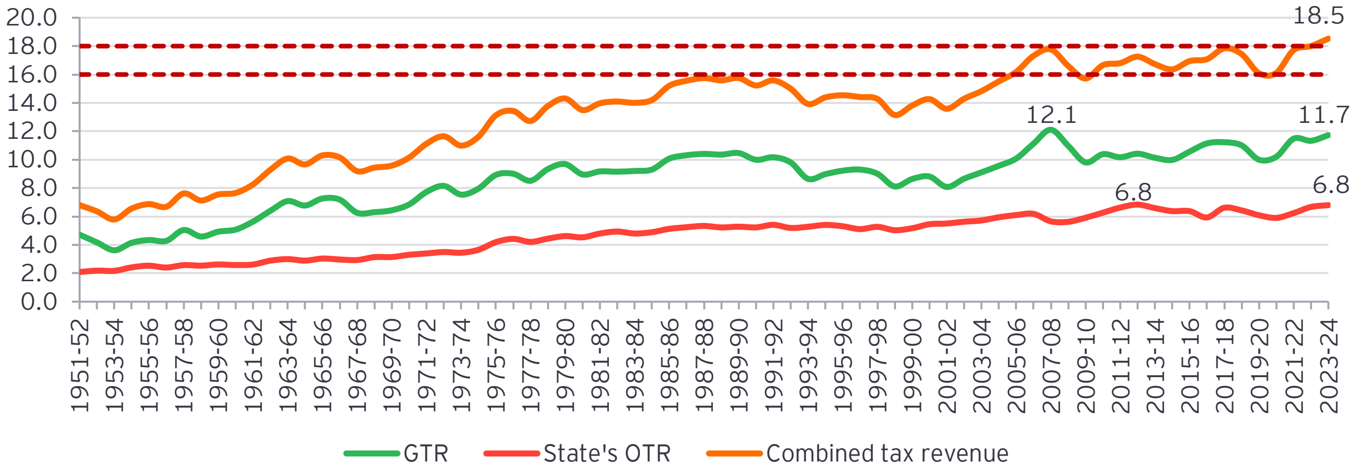
5.1 Introduction

With the presentation of GoI's FY25 budget, it is useful to assess the state of government finances in India comprising both central and state governments. In the medium-term, government's intervention in the economy and its contribution to the overall growth process would remain critical as global demand is expected to remain weak (IMF April and July 2024). Consequently, the Indian economy would have to rely largely on domestic demand. In this write-up, we closely examine the evolution of (1) combined tax-GDP ratio in India, (2) combined non-tax receipts, (3) size of the government as measured by combined expenditure to GDP ratio, (4) decomposition of government expenditure into revenue, capital and primary and (5) state of fiscal imbalances in terms of combined fiscal deficit and debt in India. At relevant places, a decomposition of the combined fiscal aggregates into central and all-states components is also provided with an emphasis on post fiscal transfer profiles which may be of relevance to the deliberations of the Sixteenth Finance Commission (FC16).

5.2 Evolution of the combined tax-GDP ratio and its overall structure

Chart 6 shows the evolution of the combined tax to GDP ratio in India and its decomposition into GoI's GTR and states' own tax revenues (OTR). After increasing on trend basis throughout the period from the early 1950s to the late 1980s, the combined tax-GDP ratio fell from a peak of close to 16% in FY1988 to a trough of 13.1% in FY1999. Since then, it has recovered but remained volatile within the narrow range of 16-18% of GDP. There are signs that this ratio, which has just crossed the threshold of 18% in FY2024, may remain above this level in the near future. Maintaining the steady rise in tax-GDP ratio by ensuring a combined tax buoyancy of more than 1 is critical to increasing the size of government expenditure and government intervention in the economy relative to GDP. In FY2024 when the combined tax-GDP ratio increased to 18.5%, the GoI's contribution was 11.7% which was still lower than the previous peak of 12.1% in FY2008. State governments have also contributed to the extent of 6.8% which is equal to their previous peak achieved in FY2013.

Chart 6: Tax to GDP ratio (%): GoI, states and combined

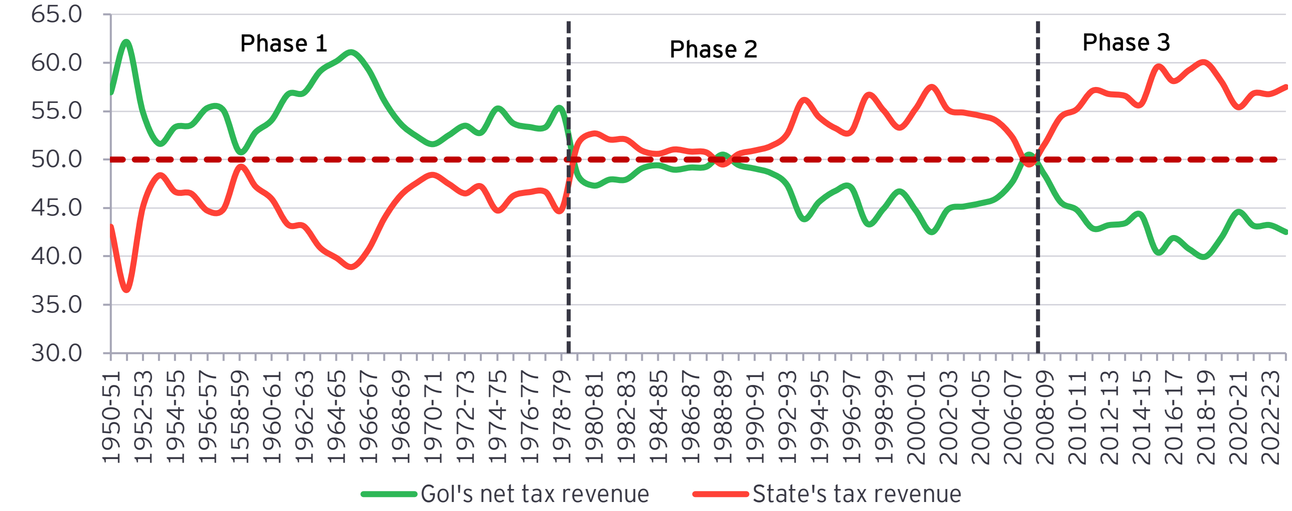


Source (basic data): IPFS, CGA, RBI, and CAG

Share of GoI and states in combined tax revenues

After tax devolution, the relative shares of GoI and that of the states can be analyzed in terms of three clear phases. **Phase 1** is up to FY1979, when GoI's net tax revenues remained higher than states tax revenues after tax devolution. In **Phase 2** extending from FY1980 to FY2008, the share of states' post devolution tax revenues exceeded that of GoI's net tax revenues. On average, this difference was close to 6% points in favor of the states (Chart 7). The average share of the GoI was 47.2% and that of the states was 52.8% during phase 2. Post FY2008 **(Phase 3)**, the share of the states in the combined tax revenues post devolution, increased inordinately. This coincided largely with the recommendation periods of FC13, FC14 and FC15. The average share of states was close to 57% while that of the GoI fell to 43% in phase 3.

Chart 7: Shares of GoI and states in combined tax revenues (%)

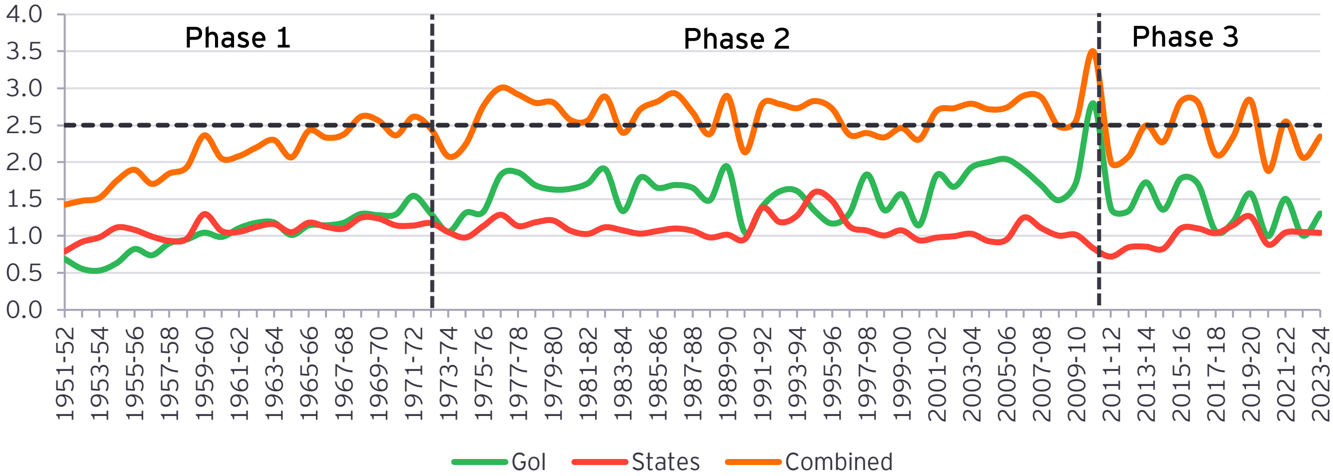


Source (basic data): IPFS, CGA, RBI, and CAG

5.3 Receipts on the non-tax side: limited contribution to revenue receipts

In contrast to the evolution of the tax-GDP ratio which has increased on trend basis over the long period, the evolution of non-tax receipts shows relative stagnation. Its evolution can also be studied in three phases. In the **first phase** extending from FY1951 to FY1972, the combined non-tax revenues to GDP ratio increased from 1.5% to 2.6%, averaging at a level of 2.1% (Chart 8). In **phase 2**, extending from FY1973 to FY2011, the combined non-tax revenue to GDP ratio averaged 2.7%. After that, there is a noticeable fall in the combined non-tax to GDP ratio which averaged 2.4% during FY2012 to FY2024 **(phase 3)**. It has become apparent that in spite of various policy initiatives such as asset monetization etc., the contribution of non-tax revenues to financing government expenditures may remain limited on average to just about 2.5% of GDP.

Chart 8: Non-tax revenues: relative to GDP (%)



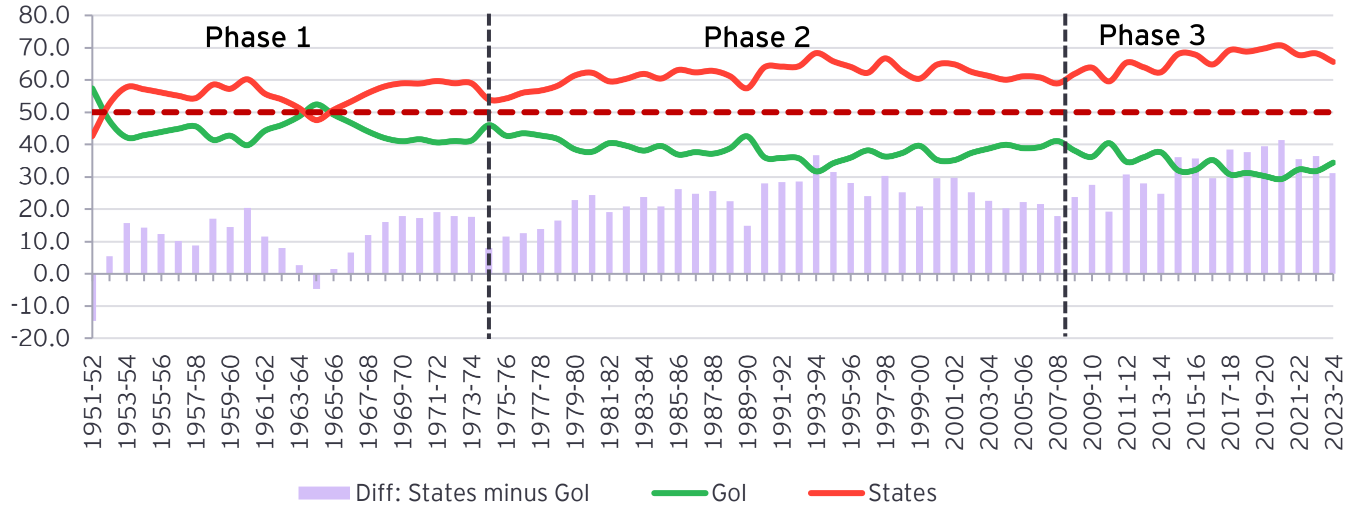
Source (basic data): IPFS, CGA, RBI, and CAG

The main reason for the long-term stagnation of non-tax revenues to GDP ratio relates to relatively negligible recovery of costs of publicly provided private goods and services. These cover a number of merit services including health and education associated with large positive externalities. Thus, to some extent, implicit subsidization in their provision may be justified. However, there are other publicly provided private services such as energy and transport where non-recovery/ under-recovery of costs may not be justified. In fact, there is a rigidity in nominal terms in the user fees and charges associated with publicly provided services such that while recovery remains stagnant in nominal terms, costs keep escalating linked to inflation. As such, the gap between costs and recoveries keeps increasing and the more recent fall in the non-tax revenues to GDP ratio is not surprising. These trends have prevailed in spite of various periodic reviews and examinations of the profile of cost recovery and initiatives for monetization of government assets.

5.4 Relative shares of GoI and states in combined revenue receipts

Together the tax and non-tax revenues raised by the GoI and state governments, after transfers by the GoI to the states in the form of tax devolution and grants, are finally accessed by these two tiers of the government. Thus, the post transfer share of the GoI and the states is of considerable importance in determining their relative intervention in the economy. In this case also, we can divide the long-term history of the evolution of the relative shares into three phases. These phases are marked in Chart 9. Throughout this long history, the share of states after transfers in the combined revenue receipts was higher than that of the GoI except for the early years of up to FY1952. However, in **phase 1** (FY1952 to FY1974), the share of the states which had averaged 55.1%, exceeded that of the GoI by a margin of 10.1% points. In **phase 2** (FY1975 to FY2008), this margin increased on average to 22.9% points with the share of states averaging at 61.4%. In **phase 3** (FY2009 to FY2024), this margin increased further, averaging 32.2% points with the share of states averaging close to 66%.

Chart 9: Shares of GoI and states in combined revenue receipts post transfers (%)



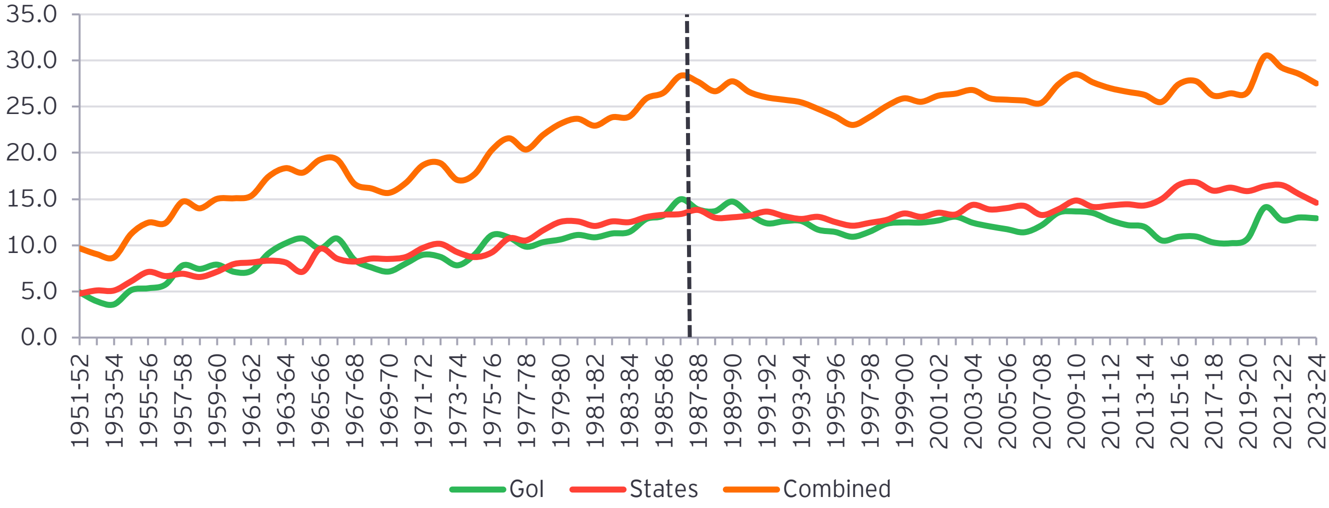
Source (basic data): IPFS, CGA, RBI, and CAG

5.5 Evolution of the size of government in India

The excess of states' share in combined revenue receipts is expected to be reflected in the corresponding excess of states' share in combined government expenditure. It may however be noted that the extent to which states' share exceeds GoI's share in combined expenditures is tangibly less than that in the receipts. This is because GoI's share in combined borrowing is significantly higher.

Chart 10 traces the evolution of combined expenditure of the overall government in India consisting of GoI and state governments. This evolution can be studied in terms of two distinct phases. **Phase 1** extends from the early 1950s to FY1987. This roughly coincides with the rising phase 1 of the combined tax-GDP ratio. In this phase, the size of the government measured in terms of combined government expenditure as percentage of GDP increased from a level of less than 10% in FY1952 to 28.4% in FY1987. After this, there has been a long period of stagnation in which the combined government expenditure to GDP ratio remained range bound within 23% to 30.5%, with an average of 26.5%. It is also notable that throughout the period from the early FY1950s up to FY2010, the difference between GoI and states' total expenditure relative to GDP remained rather low, averaging only 0.5% points. It is only FY2011 onwards that this average difference increased to 3.6% points.

Chart 10: Total expenditure relative to GDP (%): GoI, states and combined



Source (basic data): Union Budget documents, CGA, CAG

Notes:

(1) Net of intergovernmental flows. For deriving combined total expenditure, the following adjustments were made to GoI and States' revenue and capital expenditure

a. GoI's revenue expenditures exclude transfer of total grants from GoI to states and UTs

b. States' revenue expenditures exclude interest payment by states to GoI

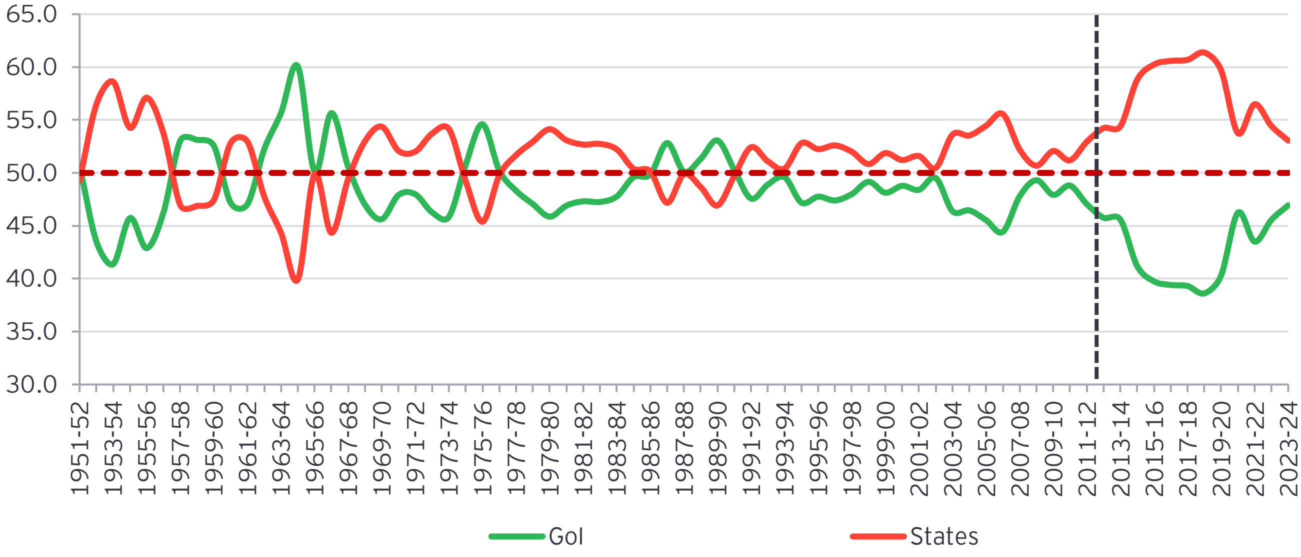
c. GoI's capital expenditure excludes net loans and advances to states (where Net loans and advances to states = gross loans from GoI to states and UTs less repayment of loans and advances by states and UTs)

(2) GoI's primary expenditure = GoI's total expenditure less GoI's interest payments (where GoI's interest payment excludes interest receipts from states on loans given by GoI)

(3) For FY24, interest payments for states have been taken as per BE sourced from RBI.

The near equal shares of GoI and the states in the combined total expenditures for a long period of time are highlighted in Chart 11. As shown, a noticeable departure starts in favor of the states only after FY2012. The bulge in favor of the states coincides with the recommendation period of the FC14.

Chart 11: Shares of GoI and states in combined total expenditure (%)

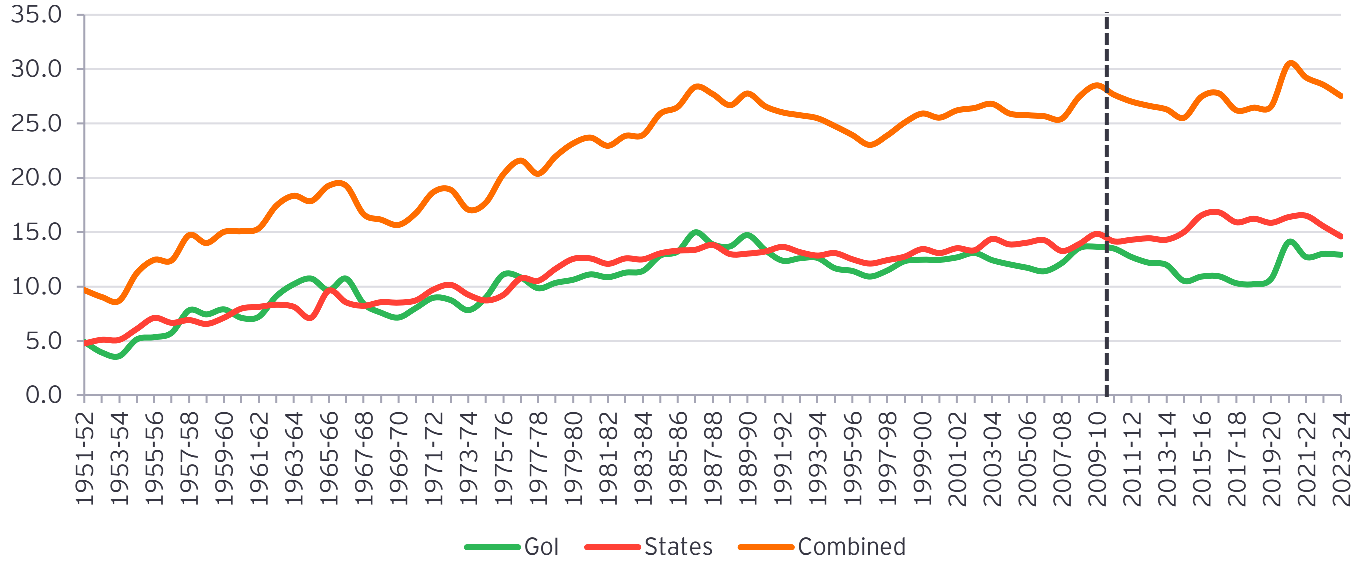


Source (basic data): IPFS, CGA, RBI, and CAG

The effective expenditure by the GoI and the state governments is not total expenditure. Rather, it can be considered as the primary expenditure which is total expenditure minus interest payments. Interest payments constitute transfers to the rest of the economy and do not indicate purchases of goods and services by the government. The primary expenditure thus reflects the available fiscal space for undertaking expenditures by the government. The two tiers of the government compete for this fiscal space in order to be seen by the citizens as being closely involved in their welfare.

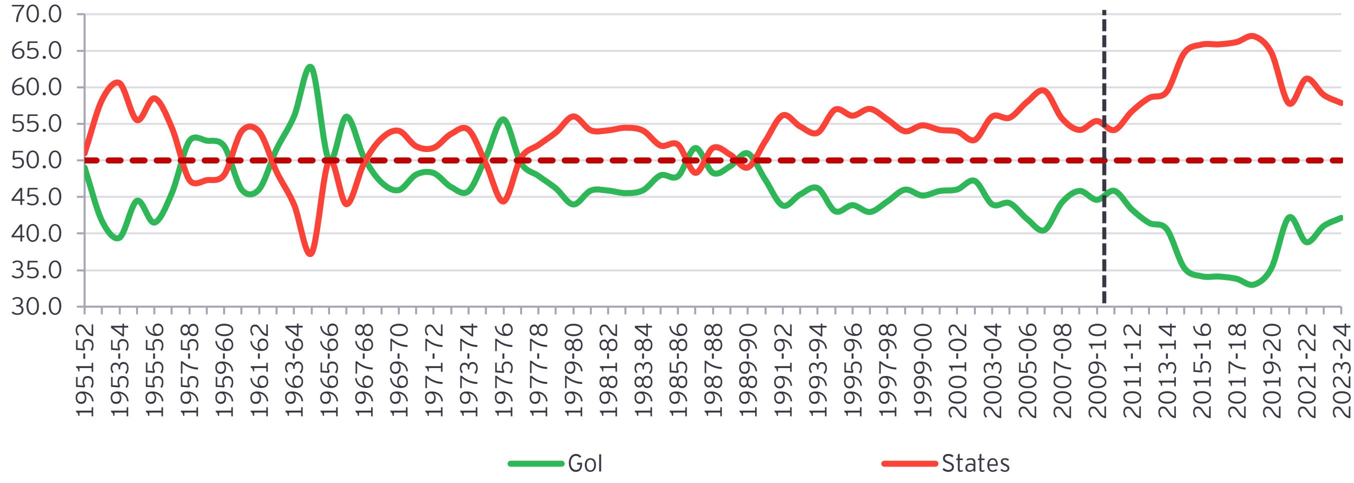
The shares of the GoI and the states relative to GDP remained close to each other throughout the period from the early 1950s to FY2011 (Chart 12). This is also reflected by the relative shares of GoI and states in the combined primary expenditure (Chart 13). This share fell to an average of 38.1% after FY2011. In order to minimize the fall in its share in combined primary expenditure, the GoI has attempted to borrow relatively more. It has also tried to increase the non-sharable cesses and surcharges. That is why, the two relative shares begin to come closer in the more recent years.

Chart 12: Primary expenditure relative to GDP (%): GoI, states and combined



Source (basic data): Union Budget documents, CGA, CAG

Chart 13: Shares of GoI and states in combined primary expenditure (%)



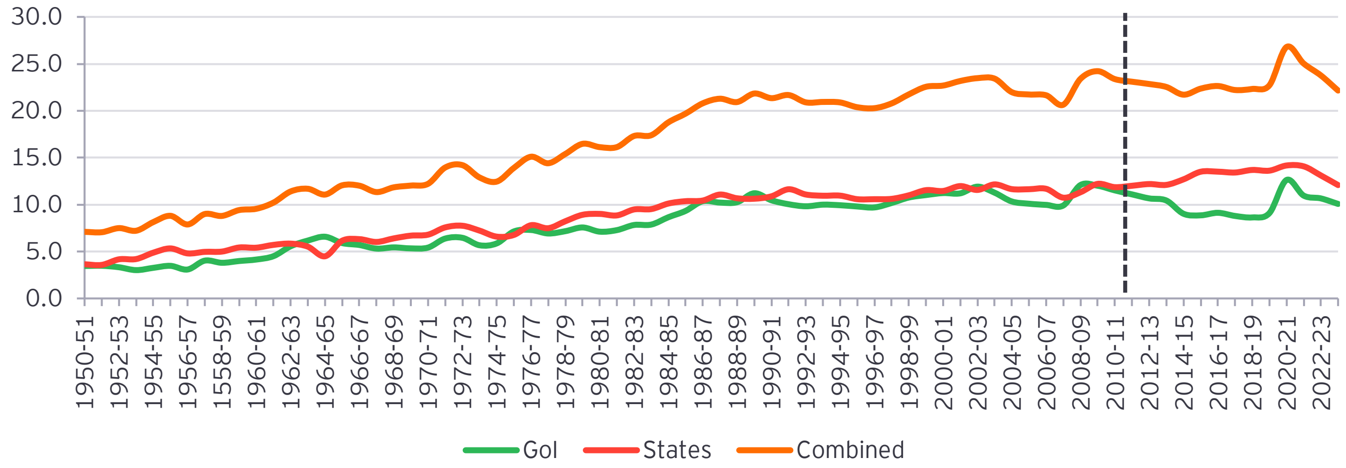
Source (basic data): IPFS, CGA, RBI, and CAG

5.6 Structure of combined government expenditure

One key aspect of management of government finances is its composition in terms of revenue and capital expenditures. Revenue expenditures constitute non-asset forming government expenditures on goods and services whereas capital expenditures are intended to lead to formation of assets which may yield returns in due course. In Chart 14, revenue expenditures by the GoI, state governments, and on their combined account relative to GDP are shown. Throughout the period from the early 1950s to FY2011, revenue expenditure of the states largely exceeded that of the GoI but only by a small margin. There are certain years in which these two were nearly equal. For example, in the early 1950s, around the mid-1960s, in FY1987, and then again in FY1999, FY2001 and FY2010, the average excess of the revenue expenditure of the states relative to GDP over that of the GoI was only 0.2% points. The long period of stability and equality in revenue expenditure shares relative to GDP for the GoI and the states experienced a shift in favor of states beginning FY2012. This coincides with the period of recommendations of FC13, FC14 and

FC15. The maximum excess in favor of states appeared in the recommendation period of FC14, that is from FY2016 to FY2020, with an average of 4.6% points of GDP.

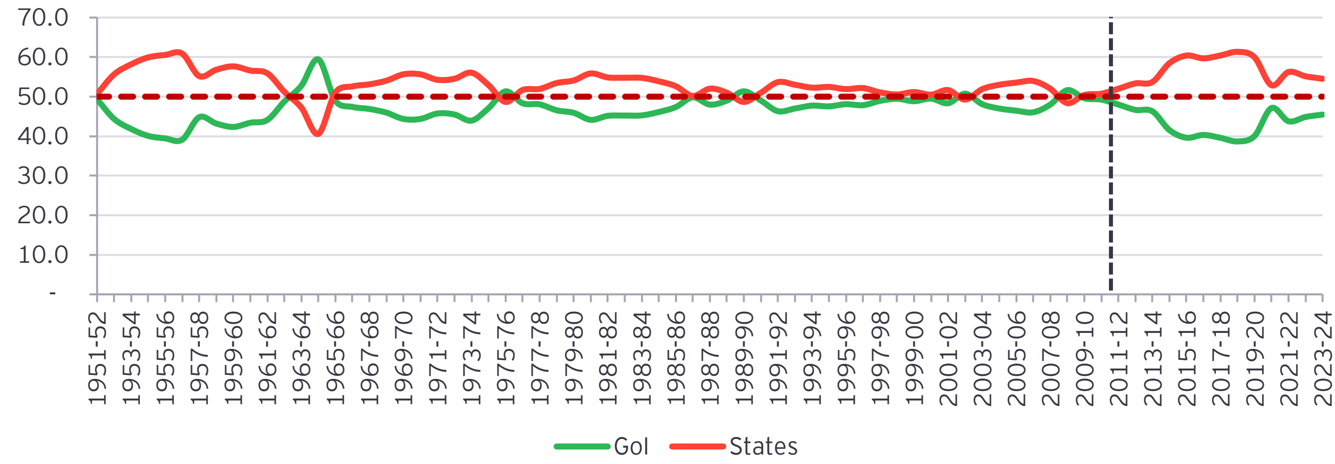
Chart 14: Revenue expenditure as % of GDP: GoI, states and combined



Source (basic data): IPFS, CGA, RBI, and CAG

In terms of relative shares of the GoI and states in the combined revenue expenditure, the excess of states' share over that of the GoI amounted to 20.7% points on average during FY2016 to FY2020, with states' share averaging 60.4% (Chart 15). As indicated earlier, the GoI has responded by increasing the share of non-shareable cesses and surcharges and by not accepting some of the state-specific and sector-specific grants recommended by FC15. It has also tried to minimize this gap by increasing its share in combined borrowing. All of these features may not be desirable in the context of managing healthy Centre-state fiscal relations, and in this context, the determination of the vertical shares of states in tax devolution may require a close re-examination.

Chart 15: Shares of GoI and states in combined revenue expenditure (%)

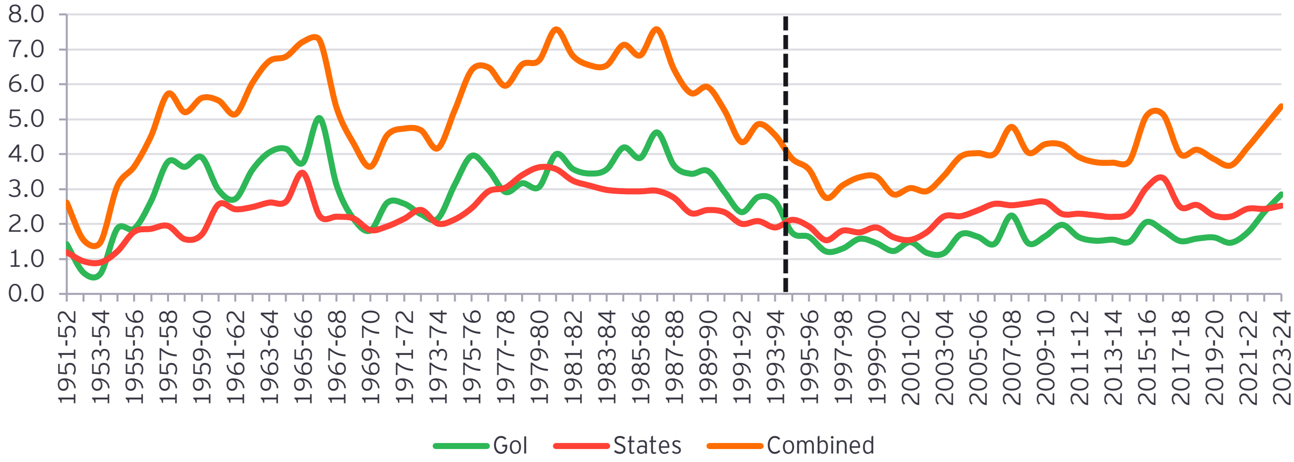


Source (basic data): IPFS, CGA, RBI, and CAG

5.7 States' participation in capital spending

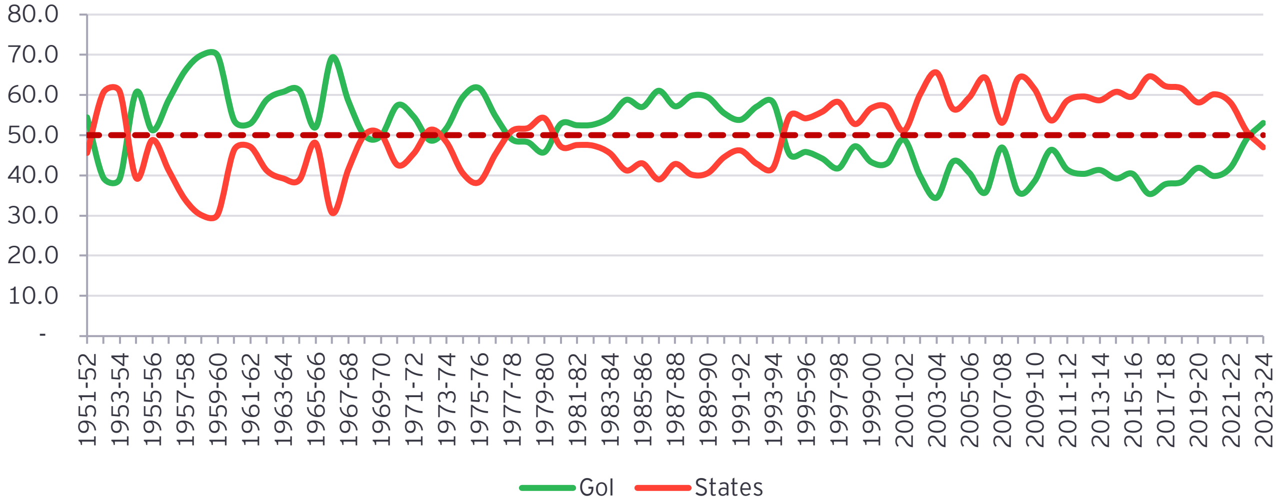
In this section, we discuss a counterpart of these patterns in terms of states' relative participation in aggregate capital expenditure of the combined government. In principle, GoI's FRBM including the 2018 amendment as also the recommendations of FC12 had assigned an equal share to the GoI and states in the combined fiscal deficit at 3% of GDP each. A robust management of government finances would call for an equal share of the GoI and the state governments in the combined capital expenditures. The patterns of capital spending by the GoI and the states are reflected in Charts 16 and 17. From the early 1950s up to FY1994, it is the GoI whose capital expenditure relative to GDP exceeded that of states. After that, the GoI's capital expenditure relative to GDP fell and that of the states increased. It is only in FY2024 that GoI capital expenditure relative to GDP has exceeded that of the states. This pattern has emerged in spite of the fact that the share of the GoI in the combined fiscal deficit has progressively increased and a good part of its expenditure is allocated towards servicing its relatively higher debt.

Chart 16: Capital expenditure as % of GDP: GoI, states and combined



Source (basic data): IPFS, CGA, RBI, and CAG

Chart 17: Shares of GoI and states in combined capital expenditure (%)



Source (basic data): IPFS, CGA, RBI, and CAG

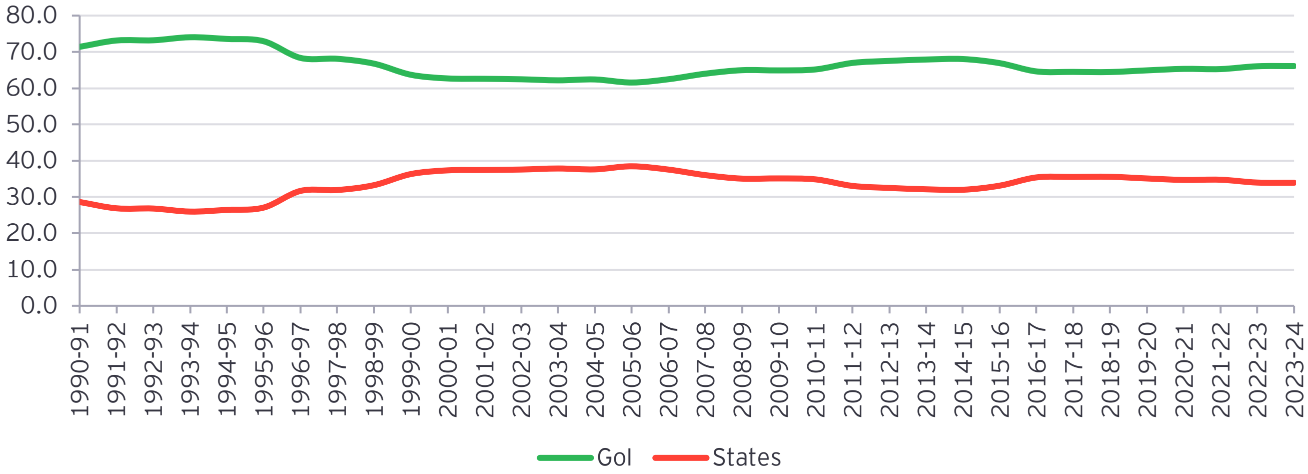
5.8 Status of Fiscal Responsibility in India

The FY25 Union Budget indicates maintaining the GoI's fiscal deficit to GDP ratio at 4.5%, higher than the target specified in the 2018 FRBM. This is also relatively higher compared to the states' target at 3% of GDP. This aspect may require a re-examination because it is accompanied by GoI's relatively higher share in combined fiscal deficit, debt, and interest payments, and its relatively lower share in combined capital expenditures (Charts 18 and 19). An examination of the long-term patterns of government finances indicates that the GoI's approach to incur relatively larger debt on a sustained basis even with its limited ability to incur higher capital expenditures should be closely re-examined. These are structural issues which cannot be addressed without simultaneously addressing the issue of the division of the combined tax revenues and the combined revenue receipts which are largely in the domain of the Finance Commission although part of the discretionary transfers through grants still remains in the hands of the GoI.

Chart 18: Share of GoI and states in combined fiscal deficit (OFD)

Source (basic data): IPFS, CGA, RBI, and CAG

Chart 19: Share of GoI and states in combined debt



Source (basic data): IPFS, CGA, RBI, and CAG

5.9 Concluding observations

This write-up has examined the evolution of government finances in India over its long history from the early 1950s. It has highlighted a notable disturbance in the pattern of stability in the relative shares of the GoI and the states that was observed over a period of 60 years from the early 1950s until the first decade of the 2000s. The changes in the share of tax devolution in favor of states and the resultant changes in the relative shares of GoI and states in the combined primary, revenue and capital expenditures in favor of states do not appear to be stable and sustainable. The GoI's response in recent years has been to rely relatively more on borrowing, increasing the reliance on non-shareable cesses and surcharges, and non acceptance of state and sector specific grants recommended by FC15. Even though the current budget has accelerated the pace of fiscal consolidation, the budget speech had indicated that in future, the focus would be only on reducing GoI's debt-GDP ratio. As per the final FY25 union budget speech, "*The fiscal consolidation path announced by me in 2021 has served our economy very well, and we aim to reach a deficit below 4.5% next year. The Government is committed to staying the course. From 2026-27 onwards, our endeavor will be to keep the fiscal deficit each year such that the Central Government debt will be on a declining path as percentage of GDP*" (**Para 114 of the Budget FY25 Speech).** If this implies any departure from the FRBM 2018's operational fiscal deficit target of 3% of GDP, this issue should be examined in greater detail because of the implications for the long-term prospects of primary deficit to GDP ratio and the burden emanating from the relatively higher debt-GDP ratio on interest payments. It can be shown that the condition of a small fall in GoI's debt-GDP ratio can be met while maintaining a fiscal deficit to GDP ratio of close to 4.5% as long as the nominal GDP growth is high enough, that is, close to 10% or above[4].

[4] Srivastava, D.K. (2024). 'Revisiting macro contours of Budget 2024-25'. Economic and Political Weekly *(Forthcoming)*

6 Money and finance: repo rate retained at 6.5% in August 2024

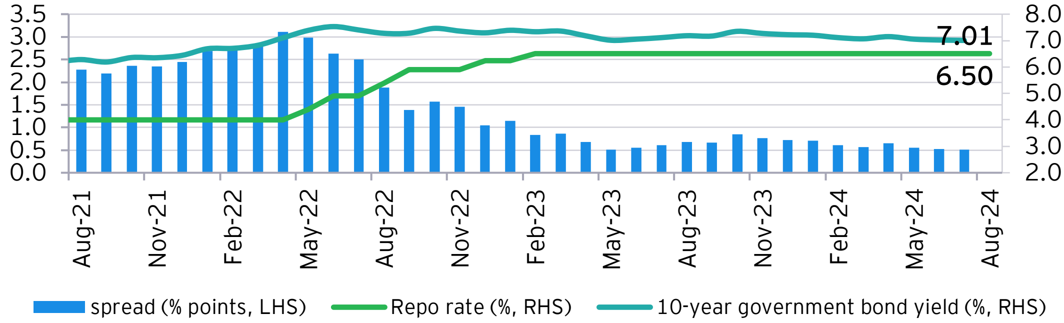
Home

6.1 Monetary sector

Monetary policy

- The Monetary Policy Committee (MPC) retained the repo rate at 6.5% for the ninth successive time in its monetary policy review held on 8 August 2024 **(Chart 20)**. Consequently, the standing deposit facility (SDF) rate and marginal standing facility (MSF) rate also remained unchanged at 6.25% and 6.75% respectively.
- The RBI observed that the stability in domestic demand growth supported by a steady urban demand and a recovery in rural demand, coupled with robust investment demand growth has enabled the MPC to exclusively focus on managing inflation. Against this backdrop, the MPC continued to maintain its policy stance as 'withdrawal of accommodation'.

Chart 20: Movements in the repo rate and 10-year government bond yield



In its August 2024 monetary policy review, the RBI retained the repo rate for the ninth successive time at 6.5%.

Source: Database on Indian Economy, RBI

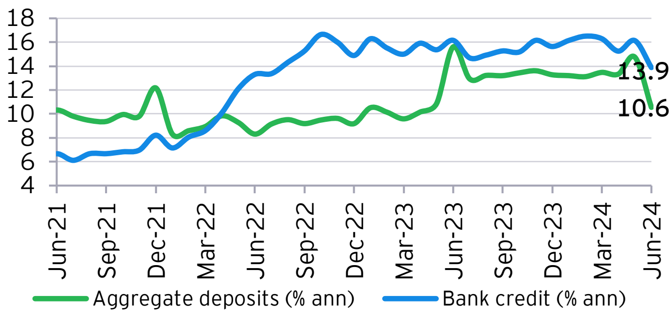
Money stock

- Growth in broad money stock (M3)[5] moderated to 10% in July 2024 from 10.9% in June 2024. This was due to lower growth in narrow money (M1) and time deposits.
- Growth in narrow money (M1) fell to 7.4% in July 2024 from 8.5% in June 2024. This can be attributed to relatively lower growth in both demand deposits and currency with the public at 7.9% and 6.5% respectively in July 2024 as compared to 10.2% and 6.8% in June 2024.
- Time deposits, the largest component of M3, grew at a slower pace of 10.9% in July 2024 as compared to 11.7% in June 2024.

Aggregate credit and deposits

- Growth in gross bank credit moderated to a 23-month low of 13.9% in June 2024 from 16.1% in May 2024 **(Chart 21)**. In 1QFY25, growth in bank credit averaged marginally lower at 15.1% as compared to 15.8% during the same period in FY24.
- Non-food credit growth also eased to 13.9% in June 2024 from 16.2% in May 2024 owing to a broad-based moderation in the growth of credit across key sectors of the economy.
- Sectoral bank credit indicates that credit growth to agricultural sector was the highest at 17.4% in June 2024, although moderating from 21.6% in May 2024. Credit to agriculture showed a higher growth of 19.6% in 1QFY25 as compared to 17.5% in 1QFY24.
- Personal loans, a main component of retail loans, with a share of close to 28% on average in total non-food credit (last five years), showed a growth of 16.6% in June 2024. It was, however, lower than the growth of 17.8% in May 2024 as loan growth in consumer durables segment fell sharply to 7.6% in June 2024 from 15% in May 2024. Growth in housing loans however improved to 18.2% in June 2024 from 16.9% in May 2024. In 1QFY25, growth in personal loans eased to 17.3% from 20% in 1QFY24.

Chart 21: Growth in credit and deposits



Source: Database on Indian Economy, RBI

[5] The data on M3, demand and time deposits and bank credit exclude the impact of merger of a non-bank with a bank.

- Growth in credit to services, with an average share of about 26% in total non-food credit (last five years), was lower at 15.1% in June 2024 as compared to 20.7% in May 2024. On a quarterly basis, growth in credit to services was lower at 18.3% in 1QFY25 as compared to 23.1% during the same period of FY24.
- Growth in outstanding credit to industries, having a share of about 27% on average in total non-food credit (last five years), fell to 7.7% in June 2024 from 8.9% in May 2024. Industrial credit grew at a marginally higher pace of 7.8% in 1QFY25 as compared to 6.9% in 1QFY24.
- Within industrial credit, credit to infrastructure, having the largest share of over 37% on average in total industrial credit (last five years), grew at a slower rate of 5.5% in June 2024 as compared to 7.2% in May 2024. Growth in credit to iron and steel remained high at 17.6% in June 2024, although lower than 20.5% in May 2024. Credit to cement also grew at a slower rate of 6.1% in June 2024 as compared to 9.2% in May 2024. Growth in credit to chemical and textile industries also eased to 11.7% and 6.2% respectively in June 2024 from 13.6% and 9.4% respectively in May 2024.
- Growth in aggregate deposits moderated to 10.6% in June 2024 from 14.8% in May 2024. In 1QFY25, growth in aggregate deposits averaged marginally higher at 12.9% as compared to 12.2% in 1QFY24.

6.2 Financial sector

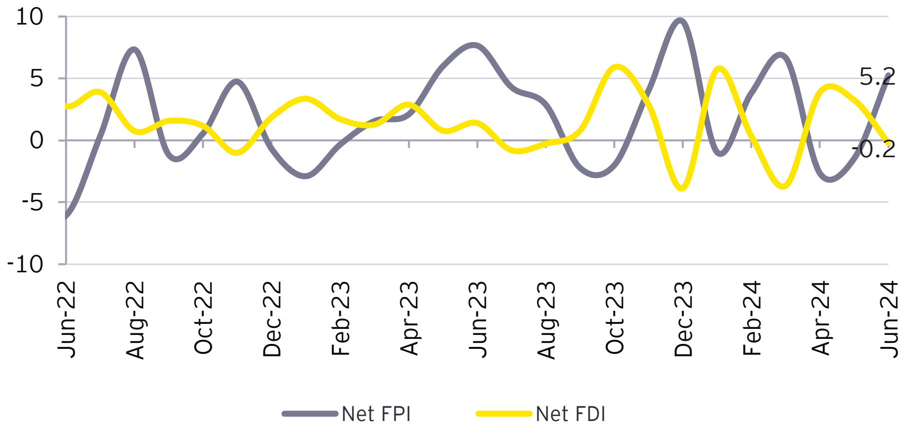
Interest rates

- As per the data released by the RBI in the first week of August 2024, the average interest rate on term deposits with a maturity period of more than one year was at 6.65% in July 2024, close to its level of 6.64% in June 2024. Term deposit rates on average ranged between 6.00% and 7.30% in July 2024.
- The MCLR averaged 8.35% in July 2024, only marginally higher as compared to 8.34% in June 2024, with the actual rates ranging between 8.10% and 8.60% during the month.
- The yield on 10-year government bonds eased for the third consecutive month to average 7.01% in July 2024, its lowest since May 2023. In June 2024, 10-year government bond yield averaged 7.02% **(Chart 20)**.
- WALR on 'Fresh Rupee Loans' by SCBs was lower at 9.32% in June 2024 as compared to 9.45% in May 2024.

FDI and FPI

- As per the provisional data released by the RBI on 20 August 2024, overall foreign investments (FIs) surged to a six-month high of US$5.0 billion in June 2024 from US$1.8 billion in May 2024 owing to large net FPI inflows.

Chart 22: Net FDI and FPI inflows (US$ billion)



Net FPI inflows surged to US$5.2 billion while net FDI's registered outflows amounting to US$0.2 billion in June 2024.

Source: Database on Indian Economy, RBI

- After witnessing two successive months of outflows, net FPIs turned positive and registered inflows amounting to US$5.2 billion in June 2024. During April-June FY25, net FPI inflows amounted to only US$1.1 billion as compared to US$15.7 billion during the corresponding period of the previous fiscal year.
- Net FDI however, turned negative, registering outflows amounting to US$0.2 billion in June 2024 as compared to inflows amounting to US$3.3 billion in May 2024 (**Chart 22**). This may be attributable to significant outflows in the form of repatriation/disinvestment even while gross FDI inflows amounted to US$7.3 billion in June 2024. During April-June FY25, both gross and net FDI inflows were higher at US$22.5 billion and US$6.9 billion respectively as compared to US$17.8 billion and US$4.7 billion during the corresponding period of FY24.

7 Trade and CAB: merchandise exports contracted by (-)1.5% in July 2024

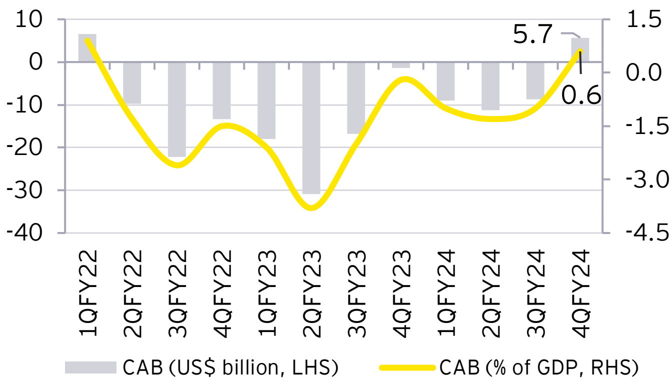
7.1 CAB: showed a surplus for the first time in 10 quarters at 0.6% of GDP in 4QFY24

- Net merchandise trade deficit narrowed to an 11-quarter low of 5.4% of GDP in 4QFY24 as merchandise exports increased to a five-quarter high of 12.9% and merchandise imports moderated to an 11-quarter low of 18.3% of GDP. Surplus on account of net invisibles at 6% of GDP in 4QFY24, remained at or above 6% for the third successive quarter. Net services surplus was elevated at 4.5% of GDP, although lower than 5.0% in the previous quarter.
- On an annual basis, current account deficit eased to 0.7% of GDP in FY24 (**Table 3**) from 2.0% in FY23 due to a sharp fall in net merchandise trade deficit to 6.8% from 7.9% over the same period accompanied by a marginal improvement in net invisibles surplus to 6.1% from 5.9%.

Table 3: Components of CAB in US$ billion

Fiscal year	CAB as % of nominal GDP	CAB	Goods account net	Invisibles* net
FY21	0.9	23.9	-102.2	126.1
FY22	-1.2	-38.8	-189.5	150.7
FY23	-2.0	-67.1	-265.3	198.2
FY24	-0.7	-23.3	-242.1	218.8
1QFY24	-1.0	-9.0	-56.7	47.7
2QFY24	-1.3	-11.3	-64.5	53.3
3QFY24	-1.0	-8.7	-69.9	61.2
4QFY24	0.6	5.7	-50.9	56.6

Chart 23: CAB



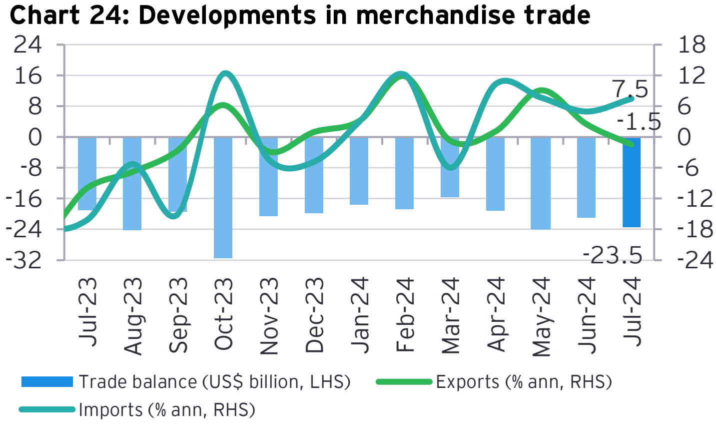
Source: Database on Indian Economy, RBI; Note: (-) deficit; (+) surplus; *invisibles include services, current transfers and income components

7.2 Merchandise trade and exchange rates

Growth in merchandise exports turned negative at (-)1.5% in July 2024 from 2.5% in June 2024 reflecting lower global demand, while that in imports increased to 7.5% from 5.0% over the same period.

- The pace of contraction in oil exports quickened to (-)22.2% in July 2024 from (-)18.3% in June 2024. Growth in oil imports eased slightly to 17.4% from 19.6% over the same period.
- Growth in exports of engineering goods fell to 3.7% in July 2024 from 10.3% in June 2024. Exports of gems and jewelry fell by (-)20.4% in July 2024, showing the fastest pace of contraction over the last 11 months. Exports of chemicals contracted for the first time since December 2023 by (-)12.0% in July 2024.
- Growth in exports of electronic goods at 37.3% in July 2024, was more than twice its level at 16.9% in June 2024. Growth in imports of electronic goods also remained elevated for the sixth successive month at 11.5% in July 2024, although lower than 15.9% in June 2024.
- The faster growth in overall imports was led by a fall in the pace of contraction in gold imports to (-)10.7% in July 2024 from (-)38.7% in June 2024 as well as growth in coal imports turning positive at 9.1% in July 2024 after showing four successive months of contraction since March 2024.
- Growth in exports excluding oil, gold and jewelry remained positive at 5.7% in July 2024, although easing from 8.5% in June 2024, while that in imports of the same category increased slightly to 8.2% from 7.6% over the same period.
- Merchandise trade deficit widened to US$23.5 billion in July 2024 from US$21.5 billion in June 2024 **(Chart 24).** Deficit on account of trade of goods and services narrowed to US$7.2 billion in June 2024 from US$10.8 billion in May 2024.
- The Indian Rupee was stable at INR83.6/US$ in July 2024, close to its level of INR83.5/US$ in June 2024 (average).

Chart 24: Developments in merchandise trade



Source: Ministry of Commerce and Industry, GoI

8 Global growth: IMF projected global growth at 3.2% in 2024 and 3.3% in 2025

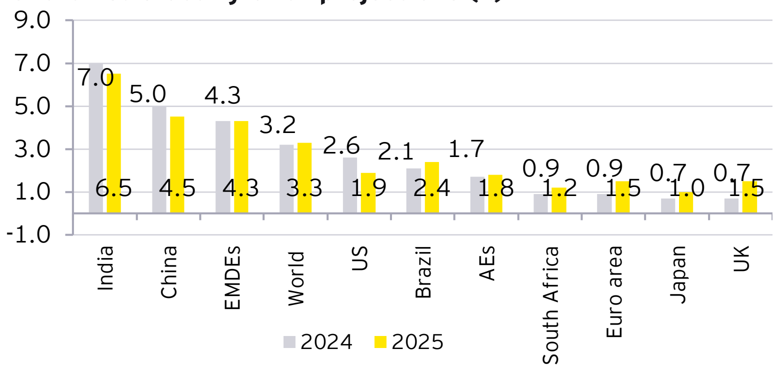
8.1 Growth

- The IMF (World Economic Outlook Update, July 2024) has projected global growth to remain stable at 3.2% in 2024 and 3.3% in 2025 **(Chart 25).**
- Growth in AEs is projected at 1.7% in 2024 and 1.8% in 2025, remaining unchanged from the April 2024 levels. Growth in EMDEs is revised up by 0.1% points to 4.3% each in 2024 and 2025 led by stronger activity in India and China.
- Growth in the US is revised down by 0.1% point to 2.6% in 2024 reflecting slower than expected economic activity in the beginning of the year. Growth is expected to slow to 1.9% in 2025 as the labor market cools and consumption moderates, with fiscal policy starting to tighten gradually.

The IMF has projected global growth at 3.2% in 2024 and 3.3% in 2025, with India's growth in FY25 and FY26 at 7.0% and 6.5% respectively.

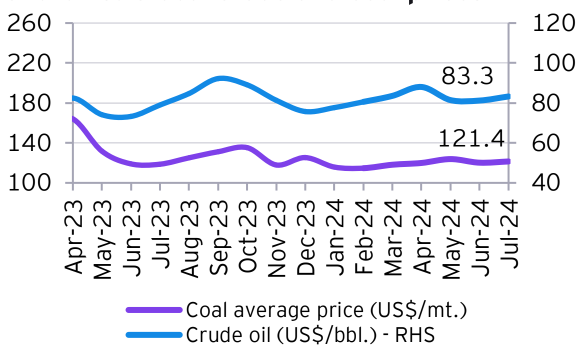
- In the Euro area, growth is projected to remain subdued at 0.9% in 2024 although this marks an upward revision of 0.1% points as compared to the April 2024 projection. Growth is expected to pick up to 1.5% in 2025 underpinned by stronger consumption on the back of rising real wages, and higher investment from easing financing conditions amid gradual monetary policy easing.
- In Japan, growth is projected at 0.7% in 2024, a downward revision of 0.2% points largely reflecting temporary supply disruptions and weak private investment in the first quarter. Growth is projected to improve to 1% in 2025.
- China's growth forecast is revised upward to 5% in 2024 primarily on account of a rebound in private consumption and strong exports in the first quarter. In 2025, growth is projected to slow to 4.5% because of headwinds from aging population and slowing productivity growth.
- India's growth has also been revised up to 7% in 2024 (FY25) reflecting carryover from upward revisions to growth in 2023 (FY24) and improved prospects for private consumption, particularly in rural areas. Growth is expected to remain steady at 6.5% in 2025 (FY26).
- Brazil's growth has been revised downward to 2.1% for 2024, reflecting the near-term impact of flooding. However, growth has been revised upward in 2025 reflecting reconstruction following the floods and supportive structural factors such as acceleration in hydrocarbon production.

Chart 25: Global growth projections (%)



Source: World Economic Outlook Update (July 2024)

Chart 26: Global crude and coal prices



Source (basic data): World Bank Pink Sheets, August 2024

8.2 Global energy prices: global crude price increased to a three-month high of US$83.3/bbl. in July 2024

- From a four-month low of US$81.2/bbl. in June 2024, average global crude price[6] increased to US$83.3/bbl. in July 2024 mainly owing to the intensification of geopolitical tensions in the Middle East that is likely to have a bearing on the unwinding of voluntary production cuts by the OPEC+ countries[7] **(Chart 26).**
- Average global coal price[8] also increased to US$121.4/mt. in July 2024 from US$120.2/mt. in June 2024.

[6] Simple average of three spot prices, namely, Dated Brent, West Texas Intermediate and Dubai Fateh
[7] https://www.iea.org/reports/oil-market-report-july-2024
[8] Simple average of Australian and South African coal prices.

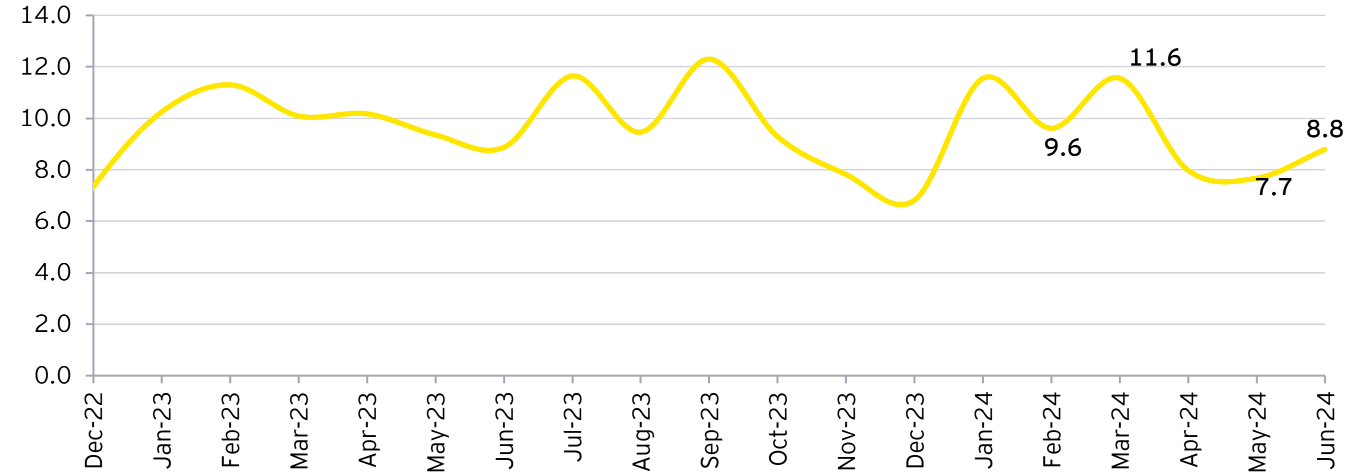
9 Index of Aggregate Demand (IAD): grew by 8.8% in June 2024

Home

9.1 Growth in IAD recovered to 8.8% in June 2024 from 7.7% in May 2024

- IAD[9] pointed to a recovery in aggregate demand as it grew by 8.8% in June 2024, improving from 7.7% in May 2024 **(Chart 27 and Table 4)**. In 1QFY25, however, growth in IAD averaged lower at 8.1% as compared to 10.9% in 4QFY24.
- Demand conditions in the manufacturing sector witnessed some recovery in June 2024 as indicated by the manufacturing PMI whose level increased to 58.3 in June 2024 from 57.5 in May 2024.
- Demand conditions in the services sector remained broadly stable in June 2024. This was evidenced by PMI services, which expanded at a marginally higher pace of 60.5 in June 2024 as compared to 60.2 in May 2024.
- Demand conditions in the agricultural sector remained buoyant in June 2024 as reflected by a continued double-digit growth in agricultural credit at 17.4% in June 2024 (sa)[10]. However, it was lower as compared to a growth of 21.4% in May 2024.

Chart 27: Growth in IAD (y-o-y)



Source (Basic data): S&P - IHS Markit PMI, RBI and EY estimates

Table 4: IAD

Month	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24
IAD	166.3	166.5	169.4	174.5	174.7	177.8	178.5	178.5	180.3
Growth (% y-o-y)	9.3	7.8	6.8	11.6	9.6	11.6	8.0	7.7	8.8
Growth in agr. credit	17.4	18.1	19.3	20.0	20.1	20.2	19.8	21.4	17.4
Mfg. PMI**	5.5	6.0	4.9	6.5	6.9	9.1	8.8	7.5	8.3
Ser. PMI**	8.4	6.9	9.0	11.8	10.6	11.2	10.8	10.2	10.5

Source (basic data): S&P Global, RBI and EY estimates; **Values here indicate deviation from the benchmark value of 50. A positive value indicates expansion in demand while a negative value implies contraction in demand; PMI for Manufacturing and Services are seasonally adjusted.

[9] EY has developed an Index of Aggregate Demand (IAD) to reflect the monthly combined demand conditions in the agriculture, manufacturing, and services sectors. It considers the movements in PMI for manufacturing and services, both measured in seasonally adjusted (sa) terms, tracing the demand conditions in these sectors. Movements in the monthly agricultural credit off-take (sa) capture the demand conditions in the agricultural sector.

[10] We have constructed a seasonally adjusted series for agricultural credit using Census X-13 technique in E-views (version 12) and the growth of this SA agricultural credit series is used in the IAD series.

Table A1: Industrial growth indicators (annual, quarterly, and monthly growth rates, y-o-y)

Fiscal year/ quarter/ month	IIP	Mining	Manufacturing	Electricity	Core IIP	Fiscal year/ quarter /month	PMI mfg.	PMI ser.
	% change y-o-y							
FY21	-8.4	-7.8	-9.6	-0.5	-7.8	FY21	50.2	41.7
FY22	11.4	12.2	11.8	7.9	12.2	FY22	54.0	52.3
FY23	5.2	5.8	4.7	8.9	5.8	FY23	55.6	57.3
FY24	5.8	7.5	5.5	7.1	7.5	FY24	57.2	60.3
2QFY24	7.8	11.5	6.8	11.1	10.5	2QFY24	57.9	61.1
3QFY24	6.1	8.2	5.4	9.0	8.4	3QFY24	55.5	58.1
4QFY24	5.1	4.9	4.8	7.3	5.8	4QFY24	57.5	61.2
1QFY25	5.1	7.9	3.8	10.8	5.6	1QFY25	58.2	60.5
Mar-24	5.5	1.3	5.9	8.6	6.3	Apr-24	58.8	60.8
Apr-24	5.0	6.8	3.9	10.2	6.7	May-24	57.5	60.2
May-24	6.2	6.6	5.0	13.7	6.3	Jun-24	58.3	60.5
Jun-24	4.2	10.3	2.6	8.6	3.9	Jul-24	58.1	60.3

Source: MoSPI, Office of the Economic Adviser, Ministry of Commerce and Industry and S&P Global

Table A2: Inflation indicators (annual, quarterly, and monthly growth rates, y-o-y)

Fiscal year/ quarter/ month	CPI	Food Price Index	Fuel and light	Core CPI	WPI	Food Price Index	Mfg. products	Fuel and power	Core WPI
	% change y-o-y				% change y-o-y				
FY21	6.2	7.7	2.7	5.5	1.3	4.0	2.8	-8.0	2.2
FY22	5.5	3.8	11.3	6.1	13.0	6.8	11.1	32.5	11.0
FY23	6.7	6.6	10.3	6.2	9.4	6.3	5.6	28.1	5.8
FY24	5.4	7.5	1.2	4.4	-0.7	3.2	-1.7	-4.5	-1.4
2QFY24	6.4	9.3	2.6	4.8	-0.6	5.5	-2.1	-7.6	-1.9
3QFY24	5.4	8.3	-0.7	4.1	0.3	4.0	-0.9	-2.4	-0.7
4QFY24	5.0	8.5	-1.6	3.4	0.3	4.3	-1.1	-1.6	-1.2
1QFY25	4.9	8.9	-3.8	3.1	2.4	7.5	0.8	0.4	0.3
Apr-24	4.8	8.7	-4.0	3.2	1.2	6.1	-0.1	-0.9	-0.6
May-24	4.8	8.7	-3.7	3.1	2.7	7.8	1.0	1.0	0.5
Jun-24	5.1	9.4	-3.6	3.1	3.4	8.7	1.4	1.0	0.9
Jul-24	3.5	5.4	-5.5	3.3	2.0	3.6	1.6	1.7	1.2

Source: Office of the Economic Adviser, Ministry of Commerce and Industry and MoSPI
Note: The CPI for April and May 2020 has been imputed. Core CPI inflation is measured in different ways by different organizations/agencies. Here, it has been calculated by excluding food, and fuel and light from the overall index

Table A3: Fiscal indicators (annual growth rates, cumulated monthly growth rates, y-o-y)

Fiscal year/month	Gross tax revenue	Corporate tax	Income tax	Direct taxes*	Indirect taxes**	Fiscal deficit % of GDP	Revenue deficit % of GDP
FY20	-3.4	-16.1	4.0	-7.8	1.7	4.7	3.3
FY21	0.7	-17.9	-2.3	-10.7	12.7	9.2	7.3
FY22	33.8	55.7	43.5	49.6	20.1	6.7	4.4
FY23	12.7	16.0	20.0	17.9	7.2	6.4	3.9
FY24	13.4	10.3	25.1	17.6	8.2	5.6	2.6
Cumulated growth (%, y-o-y)						% of budgeted target	
Nov-23	14.7	20.1	29.4	24.8	4.8	50.7	39.8
Dec-23	14.4	18.7	28.4	23.2	4.3	56.6#	40.2#
Jan-24	14.5	20.1	27.3	23.6	4.5	63.6#	49.4#
Feb-24	13.4	17.3	25.8	21.6	4.6	86.5#	87.1#
Mar-24	13.5	10.3	25.1	17.6	8.3	95.3#	91.1#
Apr-24	16.9	-6.2	20.6	12.1	19.9	12.5	17.1
May-24	15.8	-19.8	41.6	22.7	7.5	3.1	-15.7
Jun-24	23.7	26.2	49.9	39.9	5.5	8.4	-7.0

Source: Monthly Accounts, Controller General of Accounts, Government of India, Union Budget documents; # indicates that the values as percent of revised estimates
* Includes corporation tax and income tax
** Includes customs duty, excise duty, service tax, CGST, UTGST, IGST and GST compensation cess

Fiscal year/month	CGST	UTGST	IGST	GST compensation cess	Total GST (GoI)
	INR crore				
FY24 (RE)	8,11,600	-	-	1,45,000	9,56,600
FY25 (BE)	9,17,650	-	-	1,50,000	10,67,650
Monthly tax collection (INR crore)					
Nov-23	66,079	251	4,301	11,802	82,433
Dec-23	68,048	449	-11,276	11,784	69,005
Jan-24	73,685	469	-6,530	11,583	79,207
Feb-24	71,129	376	-12,690	12,529	71,344
Mar-24	73,107	695	38,265	12,709	1,24,776
Apr-24	91,188	292	-2,645	13,042	1,01,877
May-24	67,653	306	-8,238	11,786	71,507
Jun-24	69,487	279	707	12,940	83,413

Source: Monthly Accounts, Controller General of Accounts, Government of India, Union Budget documents
Note: IGST revenues are subject to final settlement.

Table A4: Monetary and financial indicators (annual, quarterly, and monthly growth rates, y-o-y)

Fiscal year/ month	Repo rate (end of period)	Fiscal year/ quarter/ month	Bank credit	Agg. deposits	Net FDI	Net FPI	Fiscal year/ quarter/ month	M1	M3	10-year govt. bond yield	FX reserves
	%		% change y-o-y		US$ billion			% change y-o-y		%	US$ billion
Sep-23	6.50	FY21	6.0	11.0	44.0	36.1	FY21	16.2	12.2	6.05	579.3
Oct-23	6.50	FY22	7.0	9.7	38.6	-16.8	FY22	10.7	8.8	6.40	617.6
Nov-23	6.50	FY23	14.4	9.5	28.0	-5.2	FY23	6.9	9.0	7.35	578.4
Dec-23	6.50	FY24	15.7	13.0	10.9	42.2	FY24	7.3	11.1	7.16	645.6
Jan-24	6.50	2QFY24	15.0	13.1	-0.3	4.9	2QFY24	7.4	10.9	7.16	586.9
Feb-24	6.50	3QFY24	15.7	13.4	4.9	11.6	3QFY24	7.1	11.0	7.28	623.2
Mar-24	6.50	4QFY24	16.3	13.3	2.4	9.5	4QFY24	7.3	11.1	7.13	645.6
Apr-24	6.50	1QFY25	15.1	12.8	6.9	1.1	1QFY25	8.5	10.9	7.08	652.0
May-24	6.50	Mar-24	16.3	13.5	-3.7	6.7	Apr-24	7.8	10.9	7.15	637.9
Jun-24	6.50	Apr-24	15.3	13.3	3.9	-2.7	May-24	7.5	10.9	7.05	651.5
Jul-24	6.50	May-24	16.1	14.8	3.3	-1.5	Jun-24	8.5	10.9	7.02	652.0
Aug-24	6.50	Jun-24	13.9	10.6	-0.2	5.2	Jul-24	7.4	10.0	7.01	667.4

Source: Database on Indian Economy - RBI

Table A5: External trade and global growth

External trade indicators (annual, quarterly and monthly growth rates)							Global growth (annual)			
Fiscal year/ quarter/ month	Exports	Imports	Trade balance	Ex. rate (avg.)	Crude prices (avg.)	Coal prices (avg.)	Calendar year	World GDP	Adv. econ.	Emer. econ.
	% change y-o-y		US$ billion	INR/US$	US$/bbl.	US$/mt		% change y-o-y		
FY21	-7.0	-16.6	-101.4	74.2	43.8	67.2	2014	3.5	2.0	4.7
FY22	44.7	56.0	-191.0	74.5	78.4	164.8	2015	3.4	2.3	4.3
FY23	6.9	16.8	-264.9	80.4	92.7	283.4	2016	3.2	1.8	4.4
FY24	-4.7	-5.7	-245.3	82.8	81.1	126.4	2017	3.8	2.5	4.8
2QFY24	-6.6	-12.2	-62.5	82.7	85.3	125.0	2018	3.6	2.3	4.6
3QFY24	1.3	1.0	-71.9	83.3	82.1	126.2	2019	2.8	1.7	3.6
4QFY24	4.6	2.7	-51.8	82.9	80.6	116.2	2020	-2.8	-4.2	-1.8
1QFY25	4.3	7.6	-63.9	83.4	83.6	121.3	2021	6.3	5.6	6.9
Apr-24	1.1	10.3	-19.1	83.4	88.0	119.9	2022*	3.5	2.6	4.1
May-24	9.1	7.7	-23.8	83.4	81.4	123.8	2023*	3.3	1.7	4.4
Jun-24	2.5	5.0	-21.0	83.5	81.2	120.2	2024*	3.2	1.7	4.3
Jul-24	-1.5	7.5	-23.5	83.6	83.3	121.4	2025*	3.3	1.8	4.3

Source: Database on Indian Economy - RBI, Pink Sheet - World Bank and IMF World Economic Outlook (WEO) April 2024; *based on July 2024 update of the IMF WEO

Table A6: Macroeconomic aggregates (annual and quarterly real growth rates, % change y-o-y)

Fiscal year/quarter	Output: major sectors									IPD inflation
	GVA	Agr.	Ming.	Mfg.	Elec.	Cons.	Trans.	Fin.	Publ.	GVA
FY21 (3rd RE)	-4.1	4.0	-8.2	3.1	-4.2	-4.6	-19.9	1.9	-7.6	3.4
FY22 (2nd RE)	9.4	4.6	6.3	10.0	10.3	19.9	15.2	5.7	7.5	8.6
FY23 (1st RE)	6.7	4.7	1.9	-2.2	9.4	9.4	12.0	9.1	8.9	6.8
FY24 (PE)	7.2	1.4	7.1	9.9	7.5	9.9	6.4	8.4	7.8	1.2
4QFY22	4.3	5.5	1.0	-0.3	7.2	7.0	6.2	5.8	3.2	10.1
1QFY23	11.3	2.7	6.6	2.2	15.6	14.7	22.1	10.5	23.6	11.5
2QFY23	5.0	2.3	-4.1	-7.2	6.4	6.9	13.2	8.7	7.3	9.2
3QFY23	4.8	5.2	1.4	-4.8	8.7	9.5	9.2	7.7	3.5	4.8
4QFY23	6.0	7.6	2.9	0.9	7.3	7.4	7.0	9.2	4.7	3.0
1QFY24	8.3	3.7	7.0	5.0	3.2	8.6	9.7	12.6	8.3	0.0
2QFY24	7.7	1.7	11.1	14.3	10.5	13.6	4.5	6.2	7.7	1.5
3QFY24	6.8	0.4	7.5	11.5	9.0	9.6	6.9	7.0	7.5	1.8
4QFY24	6.3	0.6	4.3	8.9	7.7	8.7	5.1	7.6	7.8	1.6

Source: National Accounts Statistics, MoSPI
*Growth numbers for FY21 (3rd revised estimates), FY22 (2nd revised estimates), FY23 (1st revised estimates) are based on the on NAS released by the MoSPI on 29 February 2024. Provisional estimates (PE) for FY24 was released on 31-May-2024.

Fiscal year/quarter	Expenditure components						IPD inflation
	GDP	PFCE	GFCE	GFCF	EX	IM	GDP
FY21 (3rd RE)	-5.8	-5.3	-0.8	-7.1	-7.0	-12.6	4.8
FY22 (2nd RE)	9.7	11.7	0.0	17.5	29.6	22.1	8.4
FY23 (1st RE)	7.0	6.8	9.0	6.6	13.4	10.6	6.7
FY24 (PE)	8.2	4.0	2.5	9.0	2.6	10.9	1.3
4QFY22	4.5	6.2	5.0	6.4	22.5	6.9	8.5
1QFY23	12.8	18.5	9.8	13.9	19.1	26.1	11.3
2QFY23	5.5	8.2	3.4	4.7	11.7	16.1	9.0
3QFY23	4.3	1.8	7.1	5.0	10.9	4.1	4.9
4QFY23	6.2	1.5	13.9	3.8	12.4	-0.4	2.8
1QFY24	8.2	5.5	-0.1	8.5	-6.6	15.2	0.2
2QFY24	8.1	2.6	14.0	11.6	5.0	11.6	1.4
3QFY24	8.6	4.0	-3.2	9.7	3.4	8.7	1.6
4QFY24	7.8	4.0	0.9	6.5	8.1	8.3	2.0

Source: National Accounts Statistics, MoSPI
* Growth numbers for FY21 (3rd revised estimates), FY22 (2nd revised estimates), FY23 (1st revised estimates) are based on the on NAS released by the MoSPI on 29 February 2024. Provisional estimates (PE) for FY24 was released on 31-May-2024

List of abbreviations

Sr. no.	Abbreviations	Description
1	AD	aggregate demand
2	AEs	advanced economies
3	Agr.	agriculture, forests and fishing
4	AY	assessment year
5	Bcm	billion cubic meters
6	bbl.	barrel
7	BE	budget estimate
8	CAB	current account balance
9	CGA	Comptroller General of Accounts
10	CGST	Central Goods and Services Tax
11	CIT	corporate income tax
12	Cons.	construction
13	CPI	Consumer Price Index
14	COVID-19	Coronavirus disease 2019
15	CPSE	central public-sector enterprise
16	CRAR	Credit to Risk- weighted Assets Ratio
17	Disc.	discrepancies
18	ECBs	external commercial borrowings
19	Elec.	electricity, gas, water supply and other utility services
20	EMDEs	Emerging Market and Developing Economies
21	EXP	exports
22	FAE	first advance estimates
23	FC	Finance Commission
24	FII	foreign investment inflows
25	Fin.	financial, real estate and professional services
26	FPI	foreign portfolio investment
27	FRBMA	Fiscal Responsibility and Budget Management Act
28	FRL	Fiscal Responsibility Legislation
29	FY	fiscal year (April–March)
30	GDP	Gross Domestic Product
31	GFCE	government final consumption expenditure
32	GFCF	gross fixed capital formation
33	GoI	Government of India
34	G-secs	government securities
35	GST	Goods and Services Tax
36	GVA	gross value added
37	IAD	Index of Aggregate Demand
38	IBE	interim budget estimates

Sr. no.	Abbreviations	Description
39	ICRIER	Indian Council for Research on International Economic Relations
40	IEA	International Energy Agency
41	IGST	Integrated Goods and Services Tax
42	IIP	Index of Industrial Production
43	IMF	International Monetary Fund
44	IMI	Index of Macro Imbalance
45	IMP	imports
46	INR	Indian Rupee
47	IPD	implicit price deflator
48	MCLR	marginal cost of funds-based lending rate
49	Mfg.	manufacturing
50	MGNREGA	Mahatma Gandhi National Rural Employment Guarantee Act
51	Ming.	mining and quarrying
52	m-o-m	month-on-month
53	Mt	metric ton
54	MoSPI	Ministry of Statistics and Programme Implementation
55	MPC	Monetary Policy Committee
56	MPF	Monetary Policy Framework
57	NEXP	net exports (exports minus imports of goods and services)
58	NSO	National Statistical Office
59	NPA	non-performing assets
60	OECD	Organization for Economic Co-operation and Development
61	OPEC	Organization of the Petroleum Exporting Countries
62	PFCE	private final consumption expenditure
63	PIT	personal income tax
64	PMI	Purchasing Managers' Index (reference value = 50)
65	PoL	petroleum oil and lubricants
66	PPP	Purchasing power parity
67	PSBR	public sector borrowing requirement
68	PSU/PSE	public sector undertaking/public sector enterprises
69	RE	revised estimates
70	RBI	Reserve Bank of India
71	SLR	Statutory Liquidity Ratio
72	Trans.	trade, hotels, transport, communication and services related to broadcasting
73	US$	US Dollar
74	UTGST	Union Territory Goods and Services Tax
75	WALR	weighted average lending rate
76	WHO	World Health Organization
77	WPI	Wholesale Price Index
78	y-o-y	year-on-year
79	1HFY20	first half of fiscal year 2019-20, i.e., April 2019-September 2019

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Odisha - 751024
Tel: + 91 674 274 4490

Chandigarh
Elante offices,
Unit No. B-613 & 614
6th Floor, Plot No- 178-178A,
Industrial & Business Park, Phase-I,
Chandigarh - 160002
Tel: + 91 172 671 7800

Chennai
Tidel Park, 6th & 7th Floor
A Block, No.4, Rajiv Gandhi Salai
Taramani, Chennai - 600 113
Tel: + 91 44 6654 8100

Delhi NCR
Ground Floor
67, Institutional Area
Sector 44, Gurugram - 122 003
Haryana
Tel: +91 124 443 4000

3rd & 6th Floor, Worldmark-1
IGI Airport Hospitality District
Aerocity, New Delhi - 110 037
Tel: + 91 11 4731 8000

4th & 5th Floor, Plot No 2B
Tower 2, Sector 126
Gautam Budh Nagar, U.P.
Noida - 201 304
Tel: + 91 120 671 7000

Hyderabad
THE SKYVIEW 10
18th Floor, "SOUTH LOBBY"
Survey No 83/1, Raidurgam
Hyderabad - 500 032
Tel: + 91 40 6736 2000

Jaipur
9th floor, Jewel of India
Horizon Tower, JLN Marg
Opp Jaipur Stock Exchange
Jaipur, Rajasthan - 302018

Kochi
9th Floor, ABAD Nucleus
NH-49, Maradu PO
Kochi - 682 304
Tel: + 91 484 433 4000

Kolkata
22 Camac Street
3rd Floor, Block 'C'
Kolkata - 700 016
Tel: + 91 33 6615 3400

Mumbai
14th Floor, The Ruby
29 Senapati Bapat Marg
Dadar (W), Mumbai - 400 028
Tel: + 91 22 6192 0000

5th Floor, Block B-2
Nirlon Knowledge Park
Off. Western Express Highway
Goregaon (E)
Mumbai - 400 063
Tel: + 91 22 6192 0000

Pune
C-401, 4th Floor
Panchshil Tech Park, Yerwada
(Near Don Bosco School)
Pune - 411 006
Tel: + 91 20 4912 6000

10th Floor, Smartworks
M-Agile, Pan Card Club Road
Baner, Taluka Haveli
Pune - 411 045
Tel: + 91 20 4912 6800

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