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Economy Watch

Monitoring India's macro-fiscal performance

February 2025

Shape the future with confidence

CONTENTS

Highlights 3

Special Foreword by Rajiv Memani, Chairman, EY India 4

Foreword: GoI's FY26 Budget: diversifying stimuli 5

Messages of congratulations and good wishes 7

Special feature: Focus of Fiscal Health – Fiscal Deficit or Debt-GDP Ratio by C. Rangarajan and D.K. Srivastava 15

1. Growth: Services PMI moderated sharply to 56.5 in January 2025 19
2. Inflation: CPI inflation eased to a five-month low of 4.3% in January 2025 21
3. Fiscal: Union Budget FY26 estimated fiscal deficit for FY25 (RE) at 4.8% of GDP 23
4. Comparative trends: OECD projected India's general government fiscal deficit at 7.5% of GDP in FY26 26
5. In-focus: GoI's FY26 budget: Continuity and change 28
6. Money and finance: The RBI reduced the repo rate by 25 basis points to 6.25% in February 2025 41
7. Trade and CAB: Merchandise exports showed a contraction at (-)2.4% in January 2025 44
8. Global growth: IMF projected global growth at 3.3% in 2025 and 2026 46
9. Index of Aggregate Demand (IAD): Growth moderated to 6.4% in December 2024 48
10. Capturing macro-fiscal trends: Data appendix 50

List of abbreviations 54

Acknowledgments 56

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Highlights

1. Services PMI moderated to a 26-month low of 56.5 in January 2025, while manufacturing PMI increased to a six-month high of 57.7 during the month.

2. IIP growth fell to a three-month low of 3.2% in December 2024 from 5.0% in November 2024 due to moderation in the growth of manufacturing output. In 3QFY25, IIP growth was higher at 3.9% as compared to 2.7% in 2QFY25.

3. The RBI lowered the repo rate, for the first time since May 2020, by 25 basis points to 6.25% in its February 2025 monetary policy review.

4. CPI inflation eased to a five-month low of 4.3% in January 2025 as inflation in vegetables moderated, whereas core CPI inflation remained steady at 3.7% for the fourth successive month.

5. WPI inflation remained benign, easing marginally to 2.3% in January 2025 from 2.4% in December 2024, as a fall in inflation in vegetables was nearly fully offset by a falling pace of contraction in prices of crude and mineral oils accompanied by an increase in inflation in manufactured products.

6. According to the CGA, during the period April to December 2024, GoI's gross tax revenue (GTR) showed a growth of 10.8%, with growth in direct taxes at 12.2% and that in indirect taxes at 7.4%.

7. GoI's total expenditure grew by 5.8% during April-December FY25, with growth in capital expenditure at 1.7% and that in revenue expenditure at 7.0%.

8. The FY26 Union Budget has estimated GoI's FY25 (RE) fiscal deficit at 4.8% of GDP, an improvement over the budgeted level of 4.9%, whereas the revenue deficit at 1.9% of GDP in FY25 (RE) is marginally higher than the budgeted level of 1.8%.

9. Gross bank credit grew by 12.4% in December 2024, improving from 11.8% in November 2024. Growth in bank credit was at a 10-quarter low of 12.4% in 3QFY25, falling from 14.8% in 2QFY25.

10. Merchandise trade deficit widened to US$23.0 billion in January 2025 from US$21.9 billion in December 2024.

11. Merchandise exports showed a contraction for the third successive month at (-)2.4% in January 2025 while growth in imports increased to 10.3% in January 2025 from 4.9% in December 2024.

12. Growth in exports and imports excluding oil, gold/silver and jewelry surged to 14.3% and 20.3% in January 2025 from 8.3% and 3.9% respectively in December 2024.

13. Net FDI and FPI turned positive, with inflows amounting to US$0.7 billion and US$1.7 billion, respectively, in December 2024.

14. Average global crude price increased to a six-month high of US$78.2/bbl. in January 2025 from US$72.3/bbl. in December 2024.

15. The IMF projected global growth at 3.3% in 2025. India's FY26 growth is projected to remain stable at 6.5%.

16. In the medium-term, for ensuring a growth of about 6.5-7.0%, GoI should target a GTR-GDP ratio of 14.0% and a combined tax-GDP ratio to above 20% by FY31, thereby facilitating reaching the FRBM consistent 40% debt-GDP target of the GoI by FY35.

Special Foreword

by Rajiv Memani

We are pleased to bring out the 100th issue of the EY Economy Watch magazine. I would like to congratulate Dr. D.K. Srivastava and his team who have tirelessly ensured that we present the latest macro-economic analysis every month.

The EY Economy Watch magazine provides a 360-degree view of the economy and analyses what lies behind the headline numbers. It has tracked big economic and fiscal reforms and the impact of key indicators of inflation as well as monetary and fiscal policies on the short to long-term trajectory of the economy. It has also covered significant economic events such as "slowbalisation," the global supply chain disruptions caused by the pandemic and the subsequent geopolitical disturbances.

It is heartening to receive positive response from the readers of the Economy Watch, who comprise a cross-section of policymakers, regulators, C-suite executives, and senior economists in the corporate world as well as in academia. Many readers have said that they have found the magazine's analyses on Union Budgets, growth, inflation, domestic and global shifts in trade, finance, and technology informative and insightful.

As we celebrate this centennial issue, I compliment our macro-economy team led by Dr. D.K. Srivastava. I hope you will continue to find this an indispensable resource for economic intelligence that guides you in making informed decisions.

Rajiv Memani
Chairman and CEO, EY India

Foreword

We are happy to bring out the special 100th issue of the EY Economy Watch. The journey from its first issue in April 2015, which became available for wider circulation from November 2016, has been a creative, educative and exciting experience for the macro-fiscal team. We take this opportunity to extend our heartfelt thanks for the continued support that we have received from EY's senior leadership specially from Rajiv Memani, Sameer Gupta and Ganesh Raj. We would also like to acknowledge the words of encouragement from various readers that we have received from time to time. The quality and reach of EY Economy Watch was developed and maintained by the constant support of EY's production and publication teams. It was with their support that its regularity and consistency could have been maintained while the Indian economy negotiated major headwinds including the COVID. In order to continuously monitor the macro fiscal health of the economy, we developed two indices namely the Index of Macro Imbalance and the Index of Aggregate Demand that are regularly updated.

GoI's FY26 Budget: diversifying stimuli

GoI's FY26 Budget was formulated in the context of slowing real GDP growth, which is estimated at 6.4% for FY25 as per the First Advance Estimates of the NSO as compared to 8.2% in FY24. The Economic Survey for 2024-25 estimates real GDP growth to be in a range of 6.3% to 6.8% for FY26, lower than the corresponding range of 6.5 to 7.0% projected for FY25 in its previous year's edition. The nominal GDP growth has trended down in recent years. In FY24 and FY25 nominal GDP growth was 9.6% and 9.7%, respectively as compared to 14.2% in FY24. The GoI also assumed a lower nominal GDP growth in the FY26 Budget at 10.1%, as compared to 10.5%, in the FY25 Budget.

The Budget attempted to open new channels of stimulus in the economy. Until recently, there was only one main active stimulus channel pertaining to GoI's capital expenditure growth. In view of the fact that GoI's capital expenditure growth did not take off as expected in FY25, the Budget inducted households by increasing their disposable incomes through personal income tax concessions to stimulate demand. It also enhanced the role of state governments in infrastructure formation by providing to them increased grants for capital asset formation. GoI further extended the 50-year interest-free loan facility for the states for another year provided these loans are spent on infrastructure expansion.

The FY26 budget has changed GoI's approach towards fiscal consolidation by stating that the new strategy will focus on achieving a declining path of debt-GDP ratio as compared to a focus on adhering to FRBM consistent levels of fiscal deficit and debt. This approach needs to be examined thoroughly as it implies a deviation from achieving sustainable combinations of debt and fiscal deficit.

The RBI, in its February 2025 monetary policy review, has reduced the repo rate by 25 basis points taking it to 6.25%. CPI based inflation, which has been trending down since October 2024 eased to 4.3% in January 2025, owing to moderation in food inflation. In the RBI's assessment, in FY26, CPI inflation is projected at 4.2%, marginally higher than the CPI target rate of 4%. Real GDP growth is projected at 6.7% for FY26, closer to the upper limit of the range of real GDP growth projected by the Economic Survey 2024-25. The Monetary Policy Committee (MPC) appears to be assigning a higher weight to growth in the inflation-growth trade-off calculus compared to earlier. The 6.7% real GDP growth should be considered more as a target rather than a projection. The MPC appears to be willing to support growth even if the projected inflation level is higher than the average target level of 4%, as long as it assesses a downward trending inflation rate. In fact, as per the RBI CPI inflation is projected to reach a level of 4.0% by 2QFY26 from an estimated level of 4.4% in 4QFY25. More monetary policy support is expected during the calendar year. If global headwinds continue as at present, the repo rate may be further reduced by another 25 to 50 basis points. With this directional change in monetary policy, there are four routes through which growth is likely to be supported. Already fiscal policy support has been announced in the budget for consumption

demand through additional disposable incomes and investment demand through augmented effective capital expenditure. Now, monetary policy has also supported consumption and private investment demand. In fact, the real interest rate may fall in favor of consumers and its positive impact on consumption is expected to be higher than the impact on savings. Given this, households may shift part of their surplus savings from banks to other financial assets. The private sector is also likely to be induced to undertake higher investments with a reduced cost of borrowing and the expectation that it may be reduced further.

Available high frequency data for December 2024 and January 2025 continue to provide mixed signals about the growth momentum of the Indian economy. While the manufacturing PMI recovered to a six-month high of 57.7, services PMI fell to a 26-month low of 56.5 in January 2025 from their respective levels of 56.4 and 59.3 in December 2024. In fact, for the first time since November 2022, services PMI expanded at a rate slower than that of the manufacturing PMI, largely due to a significant moderation in the pace of expansion in new business activity. IIP growth fell to a three-month low of 3.2% in December 2024 from 5.0% in November 2024 due to moderation in the growth of manufacturing output. However, in 3QFY25, IIP growth was higher at 3.9% compared to 2.7% in 2QFY25, indicating an improvement in the industrial activity during the quarter. As per the data released by the Federation of Automobile Dealers Association, retail sales of motor vehicles recovered to show a growth of 6.6% in January 2025 from a contraction of (-)12.5% in December 2024. Within the vehicle segments, retail sales of passenger vehicles showed robust growth of 15.5% in January 2025 as compared to a contraction of (-)2.0% in December 2024. Retail sales of two wheelers also improved during the month with a growth of 4.2% in January 2025 as compared to a sharp contraction of (-)17.6% in December 2024. During April-January FY25, growth in retail sales of motor vehicles was at 8.4%, supported by strong growth rates of 10.0% in the sales of two-wheelers and 5.6% in passenger vehicles.

As per the CGA, during the period April to December 2024, GoI's GTR showed a growth of 10.8%, marginally lower than the annual 11.2% as per revised estimates for FY25. During this nine-month period, with growth in direct taxes was at 12.2% and that in indirect taxes was at 7.4%. GoI's total expenditure grew by 5.8% during April-December FY25, with growth in capital expenditure at 1.7% and that in revenue expenditure at 7.0%. Until November 2024, capital expenditure had been contracting on a cumulative basis. Gross GST revenues during January 2025 grew at a robust pace of 12.3% on a y-o-y basis, reaching a level of INR1,95,506 crore.

On the external front, data released by the Ministry of Commerce and Industry, indicated that merchandise trade deficit widened to US$23.0 billion in January 2025 from US$21.9 billion in December 2024. Merchandise exports showed a contraction for the third successive month at (-)2.4% in January 2025 even as growth in imports increased to 10.3% from 4.9% in December 2024. Growth in exports and imports excluding oil, gold/silver and jewelry surged to 14.3% and 20.3% in January 2025 from 8.3% and 3.9% respectively in December 2024. Owing to strong growth in services exports, net services surplus improved to an unprecedented high of US$19.1 billion in December 2024. Consequently, deficit on account of trade in goods and services fell to its lowest level since March 2024 to US$2.9 billion in December 2024. After three successive months of outflows, net FDIs turned positive with inflows amounting to US$0.7 billion in December 2024. Net FPIs also turned positive with inflows amounting to US$1.7 billion in December 2024 as compared to outflows amounting to US$2.4 billion in November 2024. Gross FDI inflows were at US$6.8 billion in December 2024, higher as compared to US$5.4 billion in November 2024.

The real GDP growth in the first half of FY25 is estimated at 6.0%. In order to reach an annual growth of 6.4% as per the first advance estimates, the required growth in 2HFY25 is close to 6.8%. This is feasible, especially if November 2024 onwards, GoI's capital expenditure growth rises sharply to make up for the deficiency in the earlier part of the fiscal year. In fact, in November and December 2024, the GoI's capital expenditure growth (y-o-y) was 21.3% and 95.3%, respectively. This momentum needs to be maintained to realize the overall annual growth of 6.4% in FY25.

D.K. Srivastava
Chief Policy Advisor, EY India

Messages of congratulations and good wishes

Dr. C. Rangarajan

Chairman, Madras School of Economics, Chennai
Former Governor, Reserve Bank of India
Chairman, Twelfth Finance Commission, Government of India

“I wish to congratulate Dr. D.K. Srivastava and his colleagues on the occasion of the 100th issue of EY Economy Watch. This has been a remarkable journey. Every issue is exhaustive; it covers all aspects of the Indian economy. Each issue also focuses on one important issue particularly in the area of public finance. It has become an important source of data and information on the Indian economy. The analysis presented is the result of meticulous research. I thank EY for bringing out this publication which is used heavily by researchers, academics and professionals in the corporate and non-corporate sectors.

Dr. Anantha Nageswaran

Chief Economic Advisor, Government of India

“It is heartening to witness EY’s Economy Watch reach its 100th issue—an achievement that underscores its unwavering commitment to providing rigorous, data-driven analysis of India’s macroeconomic landscape. Over the years, this publication has served as a valuable resource for policymakers, businesses, and economists alike, offering insightful perspectives on growth, inflation, fiscal policy, and global linkages.

At a time when the world is navigating structural shifts in trade, finance, and technology, such informed analyses are more crucial than ever. By distilling complex economic trends into clear, incisive insights, Economy Watch has contributed meaningfully to the discourse on India’s economic trajectory.

I extend my sincere appreciation to the EY team for this milestone and look forward to their continued efforts in fostering informed economic dialogue. Congratulations, and best wishes for the next hundred issues!

Dr. Rajiv Kumar

Former Vice Chairman, NITI Aayog
Chairman of Pahle India Foundation, New Delhi

“Dear Dr Srivastava, With the 100th issue, EY Economy Watch has reached a major milestone. I have been an avid reader of the Economy Watch and have benefited from the analysis and insights contained in each issue. These reflect Dr Srivastava's deep knowledge of the Indian macroeconomy. My heartiest congratulations to Dr D K Srivastava and his team for achieving this milestone. Here is wishing the very best for the future journey of Economy Watch and its contribution to the understanding of the Indian economy scene.

Dr. Ashok Kumar Lahiri

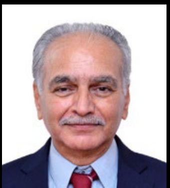
Member, Fifteenth Finance Commission, Government of India
Former Chief Economic Advisor, Government of India

“ Dear Prof. Srivastava, I have been reading the EY Economy Watch regularly and find the analysis very insightful and useful. The 100th issue is coming out this month of February 2025. I extend my best wishes to EY, you and your Macro-fiscal team for the Economy Watch to not only continue but go from strength to strength in terms of its analysis and coverage of the current and prospective policy issues.

Shri Sumit Bose

Secretary, Thirteenth Finance Commission
Former Finance Secretary, Government of India

“ Every month the EY Economy Watch gives us an excellent analysis of the economic and fiscal situation of our country. It contains all the relevant data as well as a very perceptive commentary.
My best wishes to Dr DK Srivastava and the EY team as they bring out their 100th issue. Continue to look forward to many more years of the publication.



Prof. Ravindra Dholakia

Former Member, Monetary Policy Committee, RBI
Professor (Rtd.), IIM Ahmedabad

“ Dear Dr. Srivastava, Congratulations to you and your entire team on the achievement of the milestone of reaching 100th issue of the monthly publication of EY Economy Watch!! It is a very well researched and informative publication on the latest trends in the economy. I wish the publication will reach many more milestones and continue to serve the readers with useful information and analysis of trends and prospects of the Indian and global economy.

Prof. U. Sankar

Honorary Professor, Madras School of Economics, Chennai

“ I congratulate you for bringing out successfully 100 issues of EY Economy Watch; These issues highlighted salient features of Indian economy every month. These issues were published every month regularly. I am sure that the readers-mainly policy makers and economics teachers benefited immensely. Please continue this work with the support of your colleagues.

Prof. N. S. Siddharthan

Honorary Professor, Madras School of Economics, Chennai

“ Dear Professor Srivastava, Congratulations on your special 100th issue. You are doing a very useful and important service. You should continue this and benefit scholars and policy makers.

Dr. K R Shanmugam

Honorary Professor and Former Director, Madras School of Economics, Chennai

Hearty congratulations to Dr. D.K. Srivastava and his team on the remarkable achievement of publishing the 100th edition of the EY Economy Watch. Under your dynamic leadership and with your brilliant, up-to-date research analyses, the Economy Watch has become one of the most trusted resources for understanding the macroeconomic dynamics of India. From its inception, I have been an avid reader, consistently enriching my understanding of the Indian economy through this exceptional report.

It's a privilege to join you in celebrating this significant milestone. I wish you and your team continued success in this outstanding endeavor for many more years to come. My best wishes to all of you as you continue this invaluable work.

Prof. N.M.P. Verma

Former Vice-Chancellor
Babasaheb Bhimrao Ambedkar University, Lucknow

Dear EY Economy Watch Team, I am delighted to extend my heartfelt congratulations on the publication of the 100th issue of EY Economy Watch. Reaching this incredible milestone is a testament to unwavering dedication, in-depth research, and insightful economic analysis, which have made this publication a trusted resource for businesses, policymakers, and industry leaders worldwide.

Over the years, Economy Watch has played a pivotal role in shaping economic discourse, offering a wealth of knowledge on global economic trends, market shifts, policy developments, and financial strategies. In an era of rapid change and uncertainty, the publication has been a beacon of clarity and foresight, helping professionals to navigate complex challenges and seize new opportunities.

From covering critical issues such as inflation, interest rates, trade policies, digital transformation, and sustainable finance to providing expert perspectives on economic resilience, business innovation, and investment strategies, each edition of EY Economy Watch has contributed immensely to informed decision-making across industries.

This achievement is not just a reflection of the past but a foundation for an even brighter future. We are confident that EY Economy Watch will continue to elevate economic discussions, inspire thought provoking leadership, and drive impactful conversations in the years ahead.

Once again, congratulations on this extraordinary accomplishment. Wishing EY Economy Watch a continued success, growth, and influence in the next 100 issues and beyond.

Prof. Ram Narain

Former Professor of Economics, University of Allahabad

Dear Dinesh ji, The publication of EY Economy Watch was a much-needed endeavour. Its publication with high quality and precision resonates well with the resurgent New India in a volatile scenario of the contemporary world. I congratulate the entire team associated with this publication. Kalyanamastu.

Dr. Manmohan Krishna

Professor, Allahabad University

Congratulations to all stakeholders of Economy Watch and especially to the editorial team in reaching such a great milestone which of course is first in the line of many many more. This magazine is loaded with such reliable and latest data along with great analysis as well as predictions which come true almost all times. Since June 2019, I have always been following this magazine and utilising its data not only for my lectures and teaching but also tell all my colleagues and research scholars to read the realistic yet very simple and interesting analysis in lucid language. This makes it different as not only researchers and teachers of economics can use it but it's a must read for all who wish to understand Indian economy. Wish the Economy Watch a grand success as it is one of the must read magazine for all social scientists.

Prof. Pushpa Trivedi

Senior Professor and Head, Department of Economics
School of Science and Humanities
Shiv Nadar University, Chennai

My readings of Economy Watch started in April 2023. Ever since then, it is not only me but my colleagues and my students also have been both beneficiaries of the incisive writings and analyses provided in Economy Watch. Hence, first of all, I would like to record my appreciation and gratitude to Professor D.K. Srivastava and his talented team for regular publication of Economy Watch. My very best wishes for the 100th issue of the Economy Watch and for its onward journey into the times ahead.

What amazes me, besides the content of the Economy Watch to which I will come to very shortly, is its regularity and punctuality. To compile a synoptic view of the macroeconomic development in India on a regular month-to-month basis is just a phenomenal effort. As regards the contents of the Economy Watch, it details the overall growth, sectoral growth, inflation performance not only in for India, but it also provides a comparative picture with the global economy and also the assessment of the Indian Economy from various global fora. It details the developments in monetary and external sectors in nutshell, without missing the necessary nuances. Professor Srivastava and his team also bring to the fore the contemporary issues in the section on 'In Focus' of the Economy Watch. Some of these issues discussed succinctly relate to the India's federal structure, resources for States, 16th Finance Commission, fiscal recovery after COVID-19, BRICS, G7, G 20, Viksit Bharat and many more. Given the distinction of Professor Srivastava on fiscal matters, his budget analyses something which one does not want to miss at any cost. The coverage of external sector with a focus on exports growth and oil price is analogous to a sumptuous readymade meal served on the plate of any economist. The Economy Watch has also another distinction in terms of providing the view on Aggregate Demand and macro balances rooted in theoretical frameworks and so very important for policy matters. Last but not the least, the data appendix provided at the end of the Economy Watch enables the reader to get the latest data at her finger tips and economizes their time in compiling data from diverse sources.

Thanks to Professor Srivastava, his team and EY-India for furthering the academic cause. Indeed the Economy Watch is an Economists Delight! Best wishes for its Eternity!

Satya Poddar

Former Senior Partner, Tax and Economic Policy Group, EY India

Dear DK, I am truly delighted to extend my heartfelt congratulations on the publication of the 100th issue of EY Economy Watch. This remarkable milestone is a testament to the unwavering dedication, expertise, and collaborative spirit of the entire EY Macro-Fiscal team. Through its insightful analyses and thought-provoking content, EY Economy Watch has consistently provided invaluable perspectives on economic trends and policy challenges, shaping discussions and informing decision-makers.

Looking back, it fills me with immense pride to see how this publication has grown and evolved. From its inception in the Tax Policy Group at EY, when I had the privilege of being part of the team, to its current stature as a trusted source of economic insights, its journey has been truly inspiring. I understand that it has now become an indispensable tool in fiscal and monetary policy discussions within the Ministry of Finance and the Reserve Bank of India—an achievement that speaks volumes about its credibility and impact.

As we celebrate this special milestone, I am honored to share this moment with esteemed contributors like Rajiv Memani and Dr. C. Rangarajan, whose insights further enrich this publication. Rajiv's unwavering support has been instrumental in shaping EY Economy Watch. I fondly recall when you first made a presentation to him on the state of the Indian economy, he was so awed and enthused that he immediately suggested sharing it with a larger group of senior partners and top journalists. His continued encouragement has played a pivotal role in its success.

On this momentous occasion, I extend my warmest wishes for the continued growth and influence of EY Economy Watch. May it continue to illuminate economic discourse and serve as a beacon of knowledge for years to come.

Prof. Suresh Babu

Director, Madras Institute of Development Studies, Chennai

It is a matter of great pleasure that Economy Watch has reached an important milestone of 100 issues. Economy Watch provides and in-depth and succinct review of India's macro economy. It is extremely useful for policy makers, academicians, and industry leaders. I personally have been a great beneficiary of this important publication, and quite look forward to the issues covered. On this occasion, we also need to appreciate the sterling leadership of Dr. D.K. Srivastava in bringing out 100 issues covering various aspects of India's Economy. Congratulations to him and his dedicated team on this achievement.
I look forward to the next issue of Economy Watch.

Prof. Shyam Nath

Adjunct Professor, Amrita University, Amritapuri Campus
Kollam, Kerala

This publication has been of immense help as a source of information and knowledge about economic and financial development in India and worldwide.

Sameer Gupta

Partner and National Tax Leader, EY India

“It’s truly a moment of great pride as we mark the 100th edition of EY Economy Watch. As I reflect on its inception, EY Economy Watch was envisioned as a trusted guide, distilling complex economic data and delivering comprehensive, actionable insights.

The commitment to providing thorough analysis and forward-looking insights, beyond merely number crunching, has helped those at the helm of decision-making to steer with clarity. Over the course of these 100 issues, Economy Watch has adeptly charted through unprecedented events that redefined the contours of India's economic landscape: from the global shake-up brought on by COVID-19, to the impact of digital technology, artificial intelligence, changing patterns in global trade, and the imperative of sustainability.

Looking ahead, while the economic landscape presents its share of challenges, it also offers opportunities for those who are equipped with the right insights and knowledge to seize them. I’m confident that Economy Watch will continue to be a beacon for diverse set of stakeholders, highlighting economic trends and policies that foster sustainable development.

My congratulations to the entire EY Economy Watch team, led ably by Dr. D.K. Srivastava, on their painstaking research and impressive coverage, leading to this fantastic achievement! I’m sure this milestone will spur them onwards, to continue delivering insightful economic analysis that empowers informed decision-making, as India moves on her path to becoming a developed nation – Viksit Bharat!

Rohan Sachdev

Partner and National Leader, Consulting Services, EY India

“I am delighted to celebrate a significant milestone—the 100th issue of EY Economy Watch. Since its inception, this publication has provided invaluable insights into India’s macroeconomic landscape, offering in-depth analyses on growth, inflation, fiscal policies, trade, and financial trends. Through its data-driven approach and thematic focus, EY Economy Watch has become a trusted resource for policymakers, industry leaders, and academicians. This achievement reflects the dedication of our team and the engagement of our readers. Congratulations to everyone who has contributed to this journey. Here’s to many more editions of this insightful economic discourse!

Gaurav Taneja

Government and Public Sector Leader and AIM Advisory Government and Public Sector Leader, EY India

“I extend my heartfelt congratulations to Dr. D.K. Srivastava and his team for reaching the milestone of 100 editions of Economy Watch. I have followed the publication since its inception for its rigorous, well-researched analysis. Over time, the Economy Watch has built its reputation as one of the most in-depth and credible publications to understand the dynamics of the Indian economy. I congratulate the team not just for this fantastic achievement, but also for its commitment to excellence. As a devoted reader, I eagerly anticipate every issue and wish the team continued success in future endeavors. Look forward to the next hundred editions!

Home

Ajit Krishnan
Tax Partner, EY India

"Dear Dr. Srivastava and Team, I would like to extend my congratulations to you on reaching the milestone of the 100th edition of the EY Economy Watch. This achievement reflects your consistent dedication and hard work in providing valuable economic insights.

Your thorough analysis and timely updates have been crucial in helping us understand the economic landscape and make informed decisions. The clarity and depth of your reports have been greatly appreciated.

As we celebrate this milestone, I want to acknowledge the importance of the EY Economy Watch to its readers. Your efforts have significantly enhanced our understanding of economic trends and fostered a culture of knowledge within our organization.

Thank you for your continued excellence and for being a reliable source of economic intelligence. We look forward to many more editions of insightful reports.

Ajit Pai
Partner and Strategy Lead, Government and Public Sector, EY India

"Dear Dr. Srivastava, EY Economy Watch has become the leading monthly source of staying informed on what's most relevant for government and business from an economic, financial, and markets perspective and perhaps equally, if not more important, insightful, independent, and well-structured points of view and analysis on what's most relevant. Here's wishing Dr. D K Srivastava and his exceptional team and other contributors all the very best on the milestone of the 100th issue while eagerly awaiting future invaluable perspectives on our fast-changing environment to share with our clients.

Ganesh Raj
Partner and National Leader, Business Tax Services, EY India

"As 'EY Economy Watch' celebrates the 100th edition milestone, I wish to express my heartfelt congratulations to Dr D K Srivastava and his team - Muralikrishna, Ragini and Tarrung – for an impactful journey of providing deep economic insights. The publication has been presenting invaluable analysis of India's macro-economic landscape to a diverse set of readers including EY clients, policymakers at the central government, state governments and the RBI, academicians and students. The solid data-driven approach on matters such as growth, inflation, fiscal and monetary policies, trade and much more, has allowed many of the readers to take informed decisions in today's rapidly evolving economic environment.

I am proud of this unique offering from EY's Tax and Economic Policy Group, and I am confident that 'EY Economy Watch' will continue to provide effective insights for all.

Jayesh Sanghvi
Tax Partner, EY India

"The EY Economy Watch has become a staple read, for its valuable insights, to all observers of India's economic transformation. Best wishes to Dr Srivastava's leadership and his team on the 100th issue and to the many more milestones ahead!

Pranav Sayta

Partner and National Leader, International Tax and Transaction Services, EY India

"Dear Sir, The EY Economy Watch is a feather in the cap of EY India's journey - eagerly awaited every month, by one & all including clients as well as all of us in EY, for its deeply insightful, topical and objective analysis of the Indian Economic landscape, it has become a signature publication and a key differentiator for EY India. Its meticulously planned layout, comprehensive coverage and cutting-edge content makes us all feel proud. My compliments to Dr. D K Srivastava, Muralikrishna, Tarrung, Ragini and the entire team for consistently putting together such an outstanding publication month after month and my very best wishes to the team for many more such milestones!

Rajnish Gupta

Partner, Tax and Economic Policy Group, EY India

"I would like to extend my heartfelt congratulations to Dr. D.K. Srivastava and his colleagues, Murali, Tarrung, and Ragini, on the occasion of the 100th issue of EY Economy Watch. This publication offers a comprehensive, well-researched, objective, and, above all, independent perspective on the economy, covering both past developments and future trends. Producing such a high-quality publication on a monthly basis is no small feat. Economy Watch consistently covers a wide range of topics in a rapidly changing world. Despite the abundance of economic analysis available in the public domain, Economy Watch sets itself apart with its unique insights. I wish Dr. Srivastava and the entire team continued success in their future endeavours.

Shalini Mathur

Director, Tax and Economic Policy Group, EY India

"Having seen the journey of 'EY Economy Watch' up-close since its inception, I am truly excited to see the launch of its 100th edition. Heartfelt congratulations and best wishes to Murali, Ragini and Tarrung, guided by Dr D K Srivastava, for hitting this remarkable milestone. It is genuinely a testament to the expertise and commitment from all of you in making this publication a trusted thought leadership. The insightful data analysis, together with deep-dive perspective on significant macro-economic aspects provided in the 'In-focus' segment of EY Economy Watch has been an interesting and useful read for all. Here's to continued success, newer impactful insights and many more editions to come. 100 Not Out!

Sudhir Kapadia

Senior Advisor, EY India

"Dear DK and team, It has been an absolute pleasure to have known you and worked with you and your team over the years. I fondly recollect our innumerable intellectual interactions on our collective quest of marrying ' exotic' macro economic concepts with impact on real world of business. This got especially accentuated during the pandemic period where your prescient insights proved to be on the right side of GoI's economic and fiscal prudence even though it flew straight in the face of all the so called global economic scholars "preaching" India to recklessly loosen her purse strings! I wish you and the team all the very best for many many more erudite issues of Economy Watch in our journey of Viksit Bharat @ 2047!

Special feature

C. Rangarajan D. K. Srivastava

Focus of fiscal health: fiscal deficit or Debt-GDP ratio

1. Evolution of thought on fiscal consolidation

Containing fiscal deficit was one of the elements of fiscal reforms initiated in the early 1990s. Fiscal imbalances had started deteriorating in the late 1970s for both central and state governments. The central account went into consistent revenue deficit from FY1980 onwards. On the aggregate account of states, revenue deficit started appearing on a consistent basis from FY1988 onwards. Fiscal deficit for the GoI relative to GDP averaged 5% in the 1990s. An attempt was made to reduce the monetization of fiscal deficit in the 1990s. The system of issuance of ad hoc treasury bills was discontinued in April 1997. GoI's fiscal deficit increased to an average of 5.2% of GDP in the first five years of the 2000s. In order to check this significant increase in GoI's fiscal deficit relative to GDP, a Fiscal Responsibility and Budget Management Act (FRBMA) was enacted in 2003. This Act provided for achieving balance on the revenue account and limiting fiscal deficit to 3% of GDP.

In terms of budgeted fiscal deficit, a level of 3% of GDP was achieved only once in FY08. Subsequent amendments diluted the provisions of the GoI's FRBM Act. Finally, in its 2018 amendment, the target of achieving balance on revenue account was given up altogether. The Act provided,

> "The Central Government shall −(a) take appropriate measures to limit the fiscal deficit up to three per cent of gross domestic product by the 31st March, 2021."

It also said that the Central Government shall "endeavour to ensure that— (i) the general Government debt does not exceed sixty per cent.; (ii) the Central Government debt does not exceed forty per cent of gross domestic product by the end of financial year 2024-2025."

Thus, the Act continued to emphasize fiscal deficit relative to GDP while adding additional targets with respect to debt-GDP ratios of the general government and for the union government. In the meantime, states also passed suitable legislations limiting the fiscal deficit at 3% of State Domestic Product. The general government debt-GDP ratio shot up to close to 90% in the COVID year with GoI's debt-GDP ratio increasing to close to 60%. In the FY26 Union Budget, it is contended that we should follow a different path. It has been stated that from now on, the focus will be on annually reducing the debt-GDP ratio. In the annexure statement titled 'Statements of Fiscal Policy as required under the Fiscal Responsibility and Budget Management Act, 2003', alternative paths of the debt-GDP ratio with nominal GDP growth assumptions of 10.0%, 10.5% and 11.0% are given. The glide paths are indicated with alternative assumptions regarding mild, moderate, and high degrees of fiscal consolidation. This makes the effort towards fiscal consolidation somewhat vague. The document outlines a declining path of debt-GDP ratio reaching a level of 50±1% of GDP by FY31. This path is likely to be affected as soon as the recommendations of the Eighth Pay Commission are implemented. It can be shown that if the nominal GDP growth is 10.5%, a fiscal deficit of 3.8% of GDP maintained year after year from FY27 onwards will bring the debt-GDP ratio down to 50% by the end of FY31 as shown in the Table A. This is consistent with a moderate degree of fiscal consolidation scenario, implying a much higher level of fiscal deficit than 3% of the GDP, which should be a matter of concern.

Table A: Path of debt and fiscal deficit with moderate growth and moderate fiscal consolidation (fraction of GDP)

	FY25	FY26	FY27	FY28	FY29	FY30	FY31
Fiscal deficit	0.048	0.044	0.038	0.038	0.038	0.038	0.038
Debt	0.57	0.56	0.55	0.53	0.52	0.51	0.50

Source (basic data): Union Budget documents and MoSPI.

There is no indication whether the FRBMA-2018 target of 40% of debt-GDP ratio has been given up altogether.

2. FRBM target and sustainable combinations of fiscal deficit and debt-GDP ratios

In the discussion on sustainability, given an underlying nominal GDP growth, sustainable fiscal deficit and debt-to-GDP ratios are estimated as a combination. Government debt is sustainable if the debt-GDP ratio remains stable when a fiscal deficit-to-GDP ratio is maintained year after year. Combinations of these can be derived for different underlying nominal GDP growth rates. The FY26 Union Budget recognizes that there is some uncertainty regarding an appropriate nominal GDP growth, which can be considered for the medium term. For the three growth assumptions given in the 'Statements of Fiscal Policy as required under the Fiscal Responsibility and Budget Management Act, 2003' of the FY26 Union Budget, the levels of fiscal deficit at which debt-GDP ratio will be stabilized at 40% are given in the following table. A lower nominal GDP growth calls for maintaining a lower fiscal deficit relative to GDP for sustaining a given debt-GDP ratio, as illustrated in the Table B[1].

[1] With $\boldsymbol{b}^*$ and $\boldsymbol{f}^*$ representing sustainable levels of debt and fiscal deficit relative to GDP, their values are related to the nominal GDP growth $\boldsymbol{g}$ by the following relationship $\boldsymbol{b}^* = \boldsymbol{f}^* . \frac{(1+g)}{g}$.

Table B: Sustainable combinations of debt and fiscal deficit relative to GDP for alternative nominal GDP growth assumptions

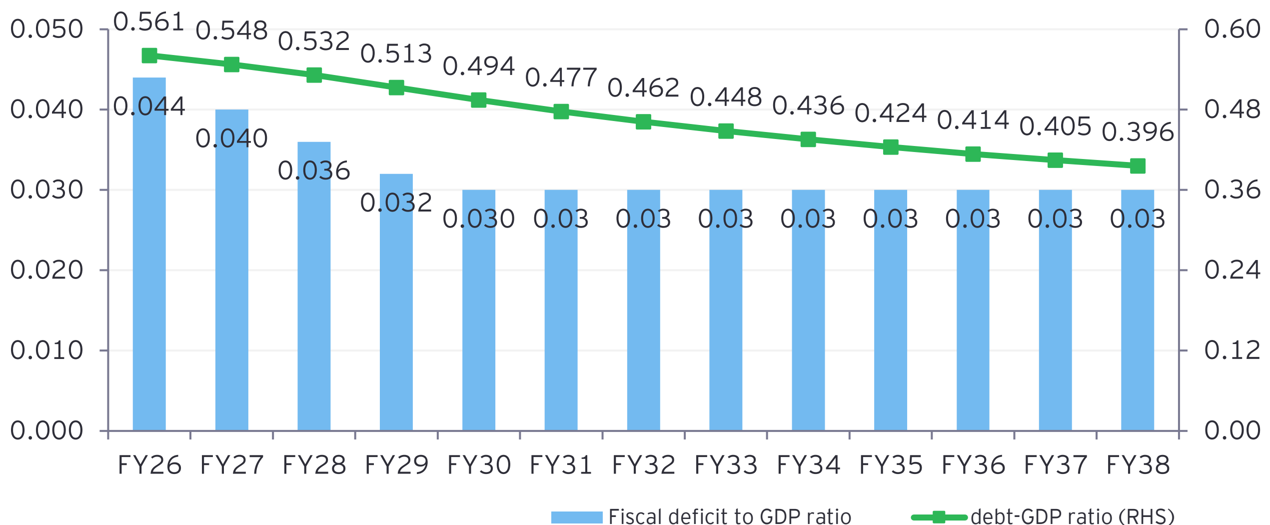
Debt GDP ratio (b*)	Fiscal deficit-to-GDP ratio (f*)	Nominal GDP growth (g)	Year by which desired level of debt-GDP ratio would be reached
0.400	0.0364	0.100	FY2087
0.400	0.0380	0.105	FY2084
0.400	0.0396	0.110	FY2082

Source (basic data): Union Budget documents and MoSPI.

Table B shows the terminal year by which different combinations of nominal GDP and fiscal deficit-to-GDP ratio would lead to a stable debt-GDP ratio of 40%. This FRBM target value would be reached in the 2080s in all the three cases. It can also be seen that throughout the period from now until these terminal years, GoI's debt shows a declining path as a percentage of the GDP. If the year for reaching the FRBM target is to be advanced, we may have to settle for a lower fiscal deficit.

Thus, assuming a nominal GDP growth of 10.5%, a declining path of fiscal deficit-to-GDP ratio reaching a level of 3.2% by FY29 and subsequently remaining unchanged at 3% of GDP, would enable reaching the FRBM debt-GDP target of 40% by FY38 as shown in Chart A.

Chart A: Illustrative glide path to reach FRBM target of 40% of debt-GDP ratio



Source (basic data): Union Budget documents and MoSPI.

The problem arises when an economic shock occurs. Then a decision to depart from the fiscal deficit path is taken to introduce a fiscal stimulus. At that point, the idea of a declining debt-GDP ratio path may have to be given up. The debt-GDP ratio is likely to shoot up and the margin of deviation cannot be indicated a priori. In fact, fiscal deficit always comes first with respect to which the annual decision has to be taken. Then the net borrowing is added to the outstanding debt of the previous year to derive the outstanding debt for the current year.

3. Fiscal deficit and saving-investment balances

The Twelfth Finance Commission had argued that the investible surplus for the private corporate sector and the non-government public sector can be derived as the excess of household financial savings and net inflow of foreign capital over the draft of this total investible surplus by the central and state governments through their borrowing. In this context, the Twelfth Finance Commission had observed (Para 4.41 of their Report),

The transferable savings of the household sector of 10 per cent of GDP combined with an acceptable level of current account deficit of 1.5 per cent would be adequate to provide for a government fiscal deficit of 6 per cent, an absorption by the private corporate sector of 4 per cent, and by non-departmental public enterprises of 1.5 per cent of GDP.

The recent tendency is for the household financial savings to come down. As per information available from the RBI, in FY23 and FY24, it was 5.0% and 5.3% of nominal GDP respectively as against an average of 7.6% during FY18 to FY22 excluding the COVID year of FY21. With 5% of household savings and about 2% of net inflow of foreign capital, available investible surplus of 7% will be fully pre-empted by the fiscal deficits of central and state governments at about 7.4% of GDP. The non-government public sector and private corporate sector may have to borrow from abroad, increasing the net inflow of foreign capital well above sustainable levels. Conditions may also not be conducive to reduce the policy rate when investment demand exceeds available investible surplus. There is thus, strong logic behind maintaining the fiscal deficit of GoI and states taken together at 6% of GDP and a path of fiscal consolidation consistent with this may be followed.

4. Interest payments and revenue receipts

In India's context, if the debt-GDP ratio remains relatively high compared to the norms given in the GoI's and states' FRLs, the ratio of interest payment to revenue receipts is also likely to remain high, pre-empting government's revenue receipts while leaving progressively lower shares for financing non-interest expenditures. The ratio of GoI's interest payment to revenue receipts net of tax devolution, which had fallen to 35% in FY17, has increased to an average of 38.4% during FY22 to FY24. This ratio has fallen to 36.9% in the revised estimates for FY25 but is budgeted to increase again to 37.3% in FY26. In fact, there has been a tendency for GoI's effective interest rate to rise. This is because the GoI has been extending to the state governments interest-free loans since the COVID year of FY21. Estimates indicate that GoI's effective interest rate has crossed 7% in FY26 (BE) from an average level of 6.77% during FY20 to FY25 (RE).

There are many countries which have a far higher level of government debt-GDP ratio as compared to India. Their interest payments to revenue receipts ratio, however, are much lower. For example, during 2015 to 2019, the ratio of interest payment to revenue receipts averaged only 5.5%, 6.6% and 8.5% for Japan, the UK and the US, respectively (IMF). This is because their revenue receipts relative to GDP are much higher and interest rates are much lower than comparable ratios in India's case. In contrast, GoI's interest payment to net revenue receipts, that is, after excluding tax devolution to states, is estimated at 37.3% in FY26 (BE). This ratio increases to 50.4% of GoI's net revenue receipts after both tax devolution and grants to states are excluded.

As it stands now, the goal is unclear. Since the operating variable is fiscal deficit, we need to translate the preferred path of debt-GDP ratio into the implied path of fiscal deficit to GDP ratio. We can then find out whether that fiscal deficit is appropriate for the targeted debt-GDP path. In fact, a larger claim on the available investible resources by the government may make it difficult for the private investment to pick up. The GoI may also be mindful of the impact of the message it is sending to the states by shifting the focus to only annually reducing the debt-GDP ratio.

C. Rangarajan is Former Chairman, Economic Advisory Council to the Prime Minister and Former Governor, Reserve Bank of India. D.K. Srivastava is Chief Policy Advisor, EY India and Member, Advisory Council to the Sixteenth Finance Commission.

Views expressed are personal.

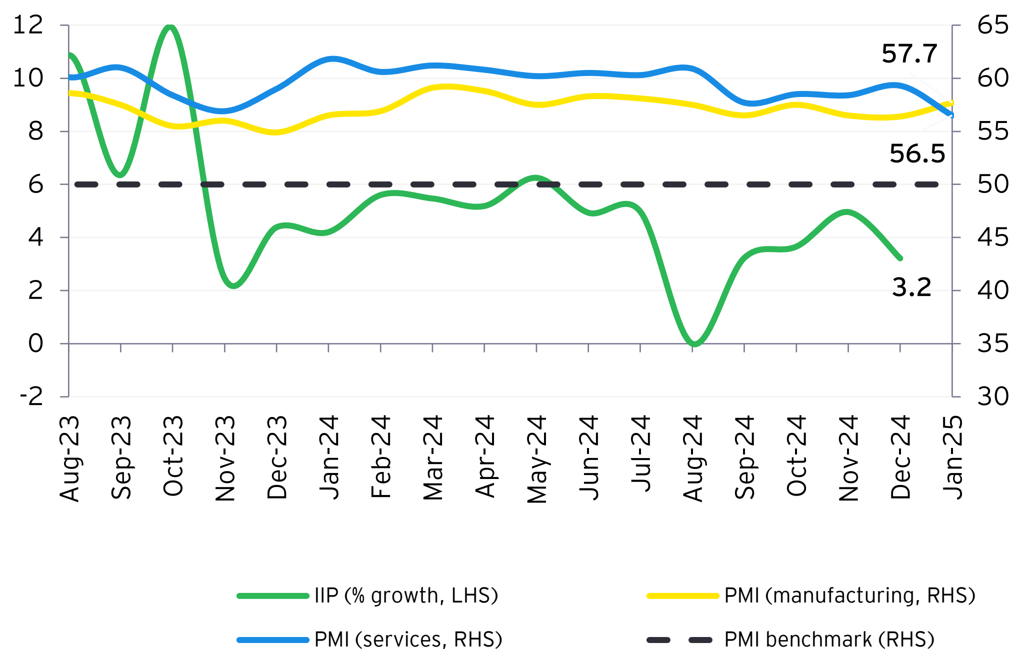
1.

Growth: Services PMI moderated sharply to 56.5 in January 2025

1.1. PMI: Services PMI pointed to a loss in growth momentum of the services activity in January 2025

- Pointing to a sharp moderation in the services activity, the services PMI (sa) fell to 56.5 in January 2025, its lowest level since November 2022, from 59.3 in December 2024 (Chart 1). This was largely due to a significant moderation in the pace of expansion in new business activity.
- Manufacturing PMI, however, pointed to a pickup in industrial activity as it increased to a six-month high of 57.7 in January 2025 from 56.4 in December 2024. This improvement was attributable to a sharp surge in both new domestic and export orders while total sales as well as output indices also increased at a robust pace during the month.
- Due to a moderation in the growth momentum of services activity, the composite PMI Output Index (sa) fell to a 14-month low of 57.7 in January 2025 from 59.2 in December 2024.

Chart 1: PMI and IIP growth



Source: MoSPI and S&P Global.

Services PMI moderated to a 26-month low of 56.5 in January 2025, while manufacturing PMI increased to a six-month high of 57.7 during the month.

1.2. IIP: Growth moderated to 3.2% in December 2024

- According to the quick estimates, IIP growth fell to a three-month low of 3.2% in December 2024 from 5.0% in November 2024 due to moderation in the growth of manufacturing output (Chart 1).
- Growth in the manufacturing sector fell to 3.0% in December 2024 from 5.5% in November 2024. Growth in mining output remained low at 2.6% in December 2024, although improving from 1.9% in November 2024. Output of electricity, however, posted a higher growth of 6.2% in December 2024 from 4.4% in November 2024.
- Within manufacturing, among key sub-industries, sectors which showed moderation in growth include other non-metallic mineral products (2.8%), chemicals and chemical products (2.2%), and basic metals (6.7%) while those which showed contraction include pharmaceutical products ((-)9.5%), motor vehicles ((-)1.8%) and primary products ((-)5.5%).
- As per the 'use-based' classification of industries, moderation in IIP growth was due to lower growth in the output of consumer durables and infrastructure/construction sectors at 8.3% and 6.3% respectively in December 2024 from 14.1% and 8.1%, respectively, in November 2024. Further, output of consumer non-durables contracted by (-)7.6% in December 2024 as compared to a low growth of 0.4% in November 2024.
- Output of eight core infrastructure industries (core IIP) showed a slower growth of 4.0% in December 2024 as compared to 4.4% in November 2024. Among the sub-industries, there was a slowdown in the output growth of coal (5.3%), cement (4.0%) and petroleum refinery products (2.8%) in December 2024. Growth in the output of crude oil, turned positive for the first time since May 2024, although at a low level of 0.6% in December 2024.

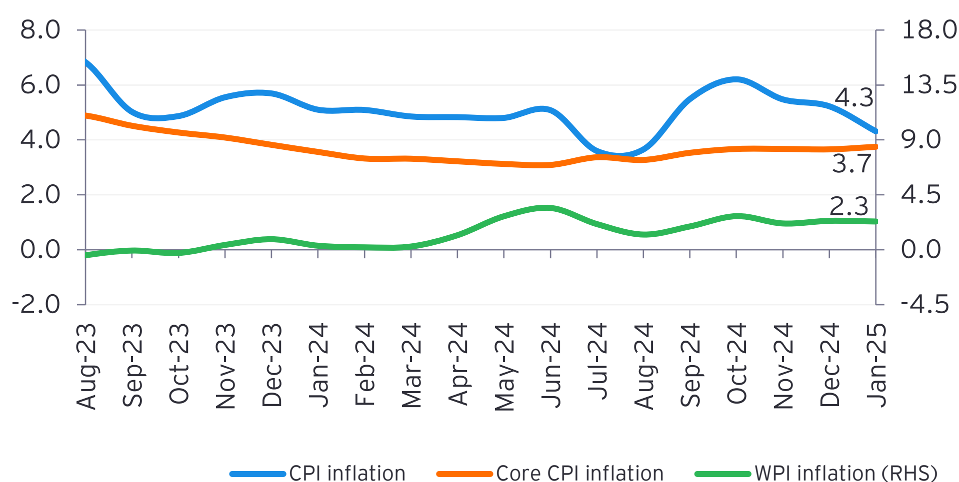
IIP growth fell to a three-month low of 3.2% in December 2024 from 5.0% in November 2024.

2. Inflation: CPI inflation eased to a five-month low of 4.3% in January 2025

2.1. CPI inflation

- CPI inflation moderated to a five-month low of 4.3% in January 2025 from 5.2% in December 2024 (Chart 2), as inflation in vegetables fell to 11.3% from 26.6% over the same period.
- Inflation in potatoes eased to 49.6% in January 2025 from 68.2% in December 2024 whereas the price of tomatoes showed a contraction for the first time in five months at (-)7.1% in January 2025.
- Inflation in fruits, however, climbed to its highest level since October 2014 at 12.2% in January 2025, partly due to unfavorable base effect.
- Consumer food price index-based inflation eased to a five-month low of 6.0% in January 2025.
- Prices of fuel and light continued to contract for the 17th successive month by (-)1.4% in January 2025, close to the level of contraction at (-)1.3% in December 2024.
- Inflation in clothing and footwear remained stable for the ninth consecutive month at 2.7% in January 2025, its lowest level since March 2020. Inflation in housing was subdued at 2.8% in January 2025, marginally higher than 2.7% in December 2024.
- Transportation and communication services saw a benign level of inflation at 2.8% in January 2025, although marginally higher as compared to 2.6% in December 2024. Core CPI inflation[2] remained steady for the fourth successive month at 3.7% in January 2025.

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



CPI inflation eased to a five-month low of 4.3% in January 2025 as inflation in vegetables moderated, whereas core CPI inflation remained steady at 3.7% for the fourth successive month.

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

[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.

2.2. WPI inflation: Remained subdued at 2.3% in January 2025

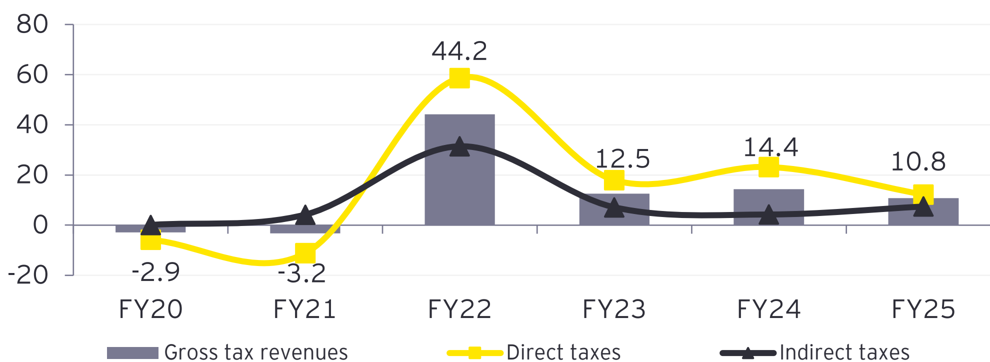
- WPI inflation remained benign, easing marginally to 2.3% in January 2025 from 2.4% in December 2024 (Chart 2), as a fall in inflation in vegetables was nearly fully offset by a falling pace of contraction in prices of crude and mineral oils accompanied by an increase in inflation in manufactured products.
- Inflation in vegetables moderated from 28.7% in December 2024 to 8.4% in January 2025, its lowest since August 2024, owing to seasonal easing of prices. Inflation, as per the food price index, fell to a five-month low of 7.5% in January 2025.
- The pace of contraction in prices of crude petroleum and natural gas, and mineral oils fell to (-)0.5% and (-)2.6% in January 2025 from (-)6.8% and (-)3.8% respectively in December 2024 reflecting higher global crude prices.
- Inflation in manufactured products increased to 2.5% in January 2025 from 2.1% in December 2024 led by a higher inflation in manufactured food products (10.4%), manufactured chemicals and chemical products (1.0%), and a slower pace of contraction in prices of manufactured other non-metallic mineral products ((-)1.9%).
- Core WPI inflation remained subdued, although increasing for the fifth successive month to 1.0% in January 2025 from 0.7% in December 2024, led by the increase in inflation in manufactured chemicals and chemical products, and a slower pace of contraction in prices of manufactured other non-metallic mineral products.

3.

Fiscal: Union Budget FY26 estimated fiscal deficit for FY25 (RE) at 4.8% of GDP

- As per the CGA, GoI's GTR[(b)] showed a growth of 10.8% during the first nine months of FY25 as compared to 14.4% during the corresponding period of FY24 (Chart 3). The revised estimates for FY25 show an annual growth of 11.2% in GoI's GTR.
- During April-December FY25, GTR stood at 71.4% of the annual RE, nearly equal to the three-year average ratio (FY22 to FY24) based on actual collections at 71.3%.
- The FY26 Union Budget has estimated GoI's GTR at INR38.5 lakh crore in FY25 (RE), marginally higher than the BE at INR38.4 lakh crore.
- Direct taxes[(a)] showed a stronger growth of 12.2% as compared to indirect taxes[(a)] which grew by 7.4% during April-December FY25. The corresponding growth rates in FY24 were 23.2% and 4.3% respectively.
- CIT revenues grew by 2.7% during the first nine months of FY25 led by an unfavorable base effect and moderate growth in profits, as compared to a robust growth of 18.7% during the same period in FY24.
- PIT revenues grew at a strong pace of 22.2% during April-December FY25, although lower than 28.4% during the corresponding period of FY24.
- Among indirect taxes, GoI's GST revenues[(c)] grew by 10.1% during April-December FY25, slightly higher than 9.3% during the corresponding period of FY24.
- Union excise duties (UED) showed a contraction of (-)1.4% during the first nine months of FY25, lower as compared to (-)7.0% during the corresponding period of FY24.
- Customs duties grew by 7.6% during April-December FY25, partly due to a favorable base effect on account of contraction of (-)0.2% during the corresponding period of FY24.

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



During April-December FY25, GoI's GTR showed a growth of 10.8% with growth in direct taxes at 12.2% and that in indirect taxes at 7.4%.

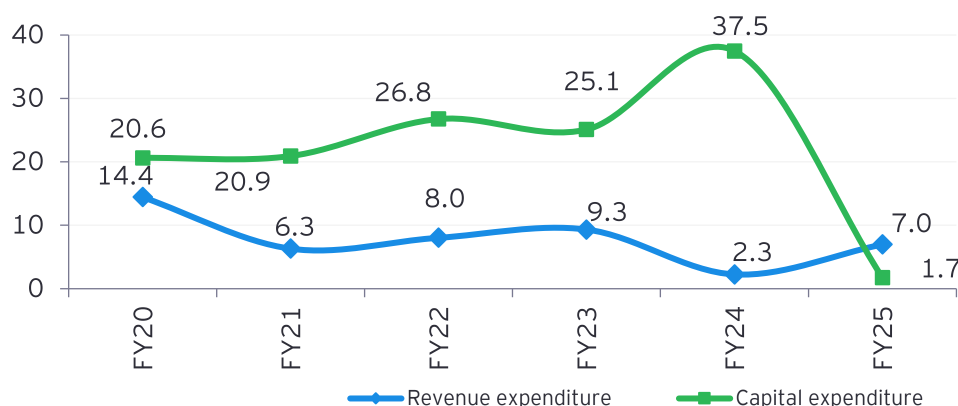
Source: Monthly Accounts, CGA, Government of India
Notes: (a) Direct taxes include personal income tax and corporation tax, and indirect taxes include union excise duties, arrears of service tax, customs duty, and GST (comprising CGST, UTGST, IGST and GST compensation cess) (b) Other taxes (securities 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 43.3% during April-December FY25 on account of high receipt of dividends and profits. The revised estimates for FY25 show a growth of 32.2% in GoI's non-tax revenues.
- Non-tax revenues during April-December FY25 as a proportion of annual RE stood at 84.3%, much higher than the three-year average (FY22 to FY24) ratio of 74.6% based on actual collections.
- The FY25 (RE) for non-tax revenues has been reduced to INR5.31 lakh crore from the BE at INR5.45 lakh crore.
- Non-debt capital receipts of the GoI during April-December FY24 stood at 46.3% of the RE, lower than the three-year average (FY22 to FY24) ratio of 65.9% based on actual collections. The FY26 Union Budget has lowered the RE for FY25 to INR59,000 crore from the BE at INR78,000 crore.
- As per DIPAM[3], disinvestment receipts as of 22 February 2025 stood at INR8,625 crore, that is 26.1% of the FY25 RE at INR33,000 crore which was itself lower than the BE at INR50,000 crore.

3.1. Expenditures: Revenue and capital

- GoI's total expenditure grew by 5.8% during April-December FY25 as compared to 8.4% during the corresponding period of the previous year. The annual growth as per the FY26 Union Budget has been estimated at 6.1% for the current fiscal year.
- GoI's revenue expenditure showed a growth of 7.0% during April-December FY25 as compared to 2.3% during the corresponding period of FY24 (Chart 4). The FY26 Budget has estimated annual growth in GoI's revenue expenditure at 5.8% for FY25 (RE).
- Growth in GoI's capital expenditure, at 1.7% during the first nine months of FY25 was significantly lower than 37.5% during the corresponding period of FY24. The RE for FY25 has been reduced to INR10.2 lakh crore from the BE at INR11.1 lakh crore. Thus, the annual growth of capital expenditure in FY25 (RE) is estimated at 7.3% as against a budgeted growth of 17.1% over CGA actuals.

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



GoI's total expenditure grew by 5.8% during April-December FY25, with growth in capital expenditure at 1.7% and that in revenue expenditure at 7.0%.

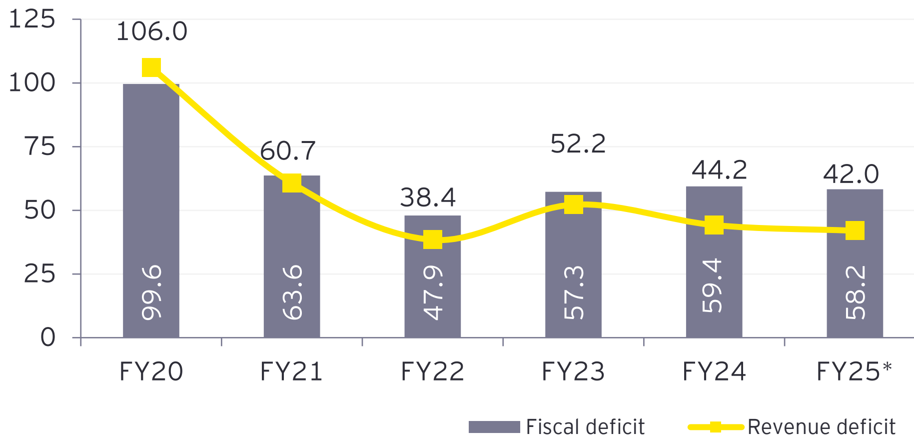
Source (basic data): Monthly Accounts, CGA, Government of India

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

3.2. Fiscal imbalance

- GoI's fiscal deficit during April-December FY25 stood at 58.2% of the RE (Chart 5), higher than the three-year average (FY22 to FY24) ratio of 54.9% based on actuals.
- GoI's revenue deficit during the first nine months of FY25 stood at 42.0% of the RE, slightly lower than the average over the corresponding period of the last three years (FY22 to FY24) at 44.9% based on actuals.

Chart 5: Fiscal and revenue deficit during April-December as a percentage of actuals



Source: Monthly Accounts, CGA, Government of India and MoSPI
Note: *for FY25, the ratios are given as percentage of RE

The FY26 Union Budget has estimated GoI's FY25 (RE) fiscal deficit at 4.8% of GDP, an improvement over the budgeted level of 4.9%, whereas the revenue deficit at 1.9% of GDP in FY25 (RE) is marginally higher than the budgeted level of 1.8%.

4. Comparative trends: OECD projected India's general government fiscal deficit at 7.5% of GDP in FY26

4.1. Fiscal balance

- After a fall from their peak levels in the COVID affected year of 2020, a worsening in 2023 followed by some improvement in 2024, general government fiscal deficit relative to GDP is expected to ease in most major economies in 2025 and 2026.
- In the US, a large structural shortfall in government revenue relative to spending is projected to persist in 2025 leading to an increase in the government's borrowing requirement in this year. Fiscal deficit is projected to remain stable at a high level in 2026.
- In the UK, fiscal policy is projected to tighten over 2025 and 2026. However, this tightening is projected to be at a slower than expected pace due to significant fiscal loosening owing to the tax, spending, and borrowing package announced at the 2024 autumn budget. Fiscal deficit is forecasted to fall to 3.9% of GDP in 2026 from 5.6% in 2024 (Table 1).
- In Germany, the fiscal stance as measured by fiscal deficit relative to GDP is expected to tighten in 2025 reflecting the impact of the recent economic stimulus package. In 2026 however, fiscal deficit is expected to fall to 1.8%.
- In Japan, fiscal deficit is projected to ease only marginally to 2.2% of GDP in 2025 with the recent economic stimulus package, before tightening to 1.8% in 2026.

Table 1: General government financial balance as % of GDP

Country	2022	2023	2024	2025	2026
US	-3.7	-7.6	-7.6	-7.9	-7.9
UK	-4.6	-5.7	-5.6	-4.5	-3.9
Germany	-2.2	-2.6	-2.3	-2.0	-1.8
Japan	-4.2	-3.8	-2.3	-2.2	-1.8
Brazil	-4.5	-8.9	-7.9	-7.0	-6.7
India*	-9.6	-8.8	-8.2	-7.5	-7.0
China	-6.5	-6.7	-7.6	-7.4	-6.8
South Africa	-5.0	-6.6	-5.5	-6.4	-4.3

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

- Among emerging economies, in China, fiscal policy became more expansionary in 2024, as the central government started issuing ultra-long maturity bonds (worth 0.8% of GDP in 2024) to finance priority projects. In 2025 and 2026, however, fiscal deficit is projected to moderate to 7.4% and 6.8% of GDP respectively from an estimated 7.6% in 2024.
- In India, general government fiscal deficit-to-GDP ratio is projected to gradually decline, reaching 7.5% in 2025 (FY26) and 7.0% in 2026 (FY27). Brazil is projected to show some fiscal consolidation in 2025 and 2026. South Africa's fiscal deficit is forecasted to expand in 2025 before easing in 2026.

4.2. Current account balance (CAB)

- As per the OECD, data, current account balances in most of the selected major economies are projected to remain relatively stable in 2025 and 2026 compared to 2024.
- Among advanced economies, while the US and the UK show a deficit on their current account, Germany and Japan witness a surplus (Table 2). CAB relative to GDP is projected to broadly improve in 2025 and 2026 in the UK and Germany, deteriorate in Japan and remain stable in the US.

Table 2: Current account balance as % of GDP

Country	2022	2023	2024	2025	2026
US	-3.9	-3.3	-3.7	-3.8	-3.7
UK	-2.1	-2.0	-2.8	-2.6	-2.6
Germany	4.4	5.9	6.5	6.6	6.6
Japan	1.9	3.8	4.5	4.2	3.9
Brazil	-2.5	-1.4	-1.7	-1.9	-2.0
India*	-2.4	-0.9	-0.5	-0.6	-1.0
China	2.5	1.4	2.1	2.9	3.2
South Africa	-0.5	-1.6	-1.5	-2.1	-2.0

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

- The US is projected to continue showing a large current account deficit ranging between 3.7% and 3.8% of GDP till 2026, despite past increases in trade policy restrictions, as export growth remains relatively contained and the import intensity of demand stabilizes.
- UK's current account deficit is expected to remain broadly stable at 2.6% of GDP in 2025 and 2026, marginally lower than its level at 2.8% in 2024.
- Amongst selected key emerging economies, China shows a surplus on its current account. This is projected to increase in 2025 and 2026 as technological upgrading and competition in the domestic markets keep exports competitive, and weak recovery of tourism imports limits total import growth.
- India's current account deficit is estimated to be significantly low at (-)0.5% of GDP in 2024 (FY25) primarily on account of falling oil import values, and strong services exports and remittances. In 2025 (FY26) and 2026 (FY27), current account is projected to remain in a small and easily financeable deficit at 0.6% and 1.0% of GDP, respectively.
- In Brazil and South Africa, current account deficit levels in 2025 and 2026 are projected to increase above their 2024 levels and remain close to 2.0% of GDP.

5. In-focus: GoI's FY26 budget: Continuity and change

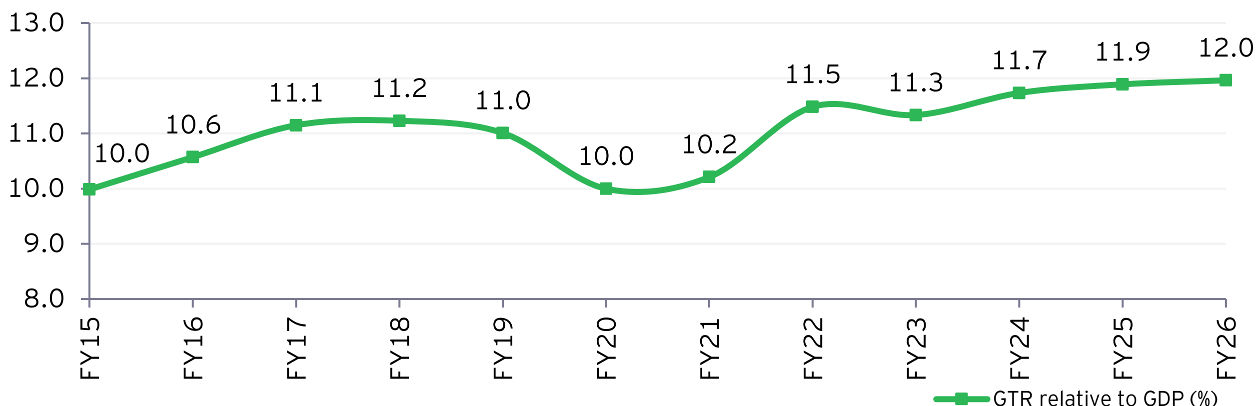
5.1. Introduction

Under the auspices of the NDA in their continuous governance since FY15, fourteen GoI budgets have been presented including two interim budgets in 2019 and 2024. A series of fiscal reforms were initiated during this period through these annual budgets as also outside of these. In this writeup, we take a comprehensive review of the nature of these fiscal reforms and their impact through these annual budgets. We also highlight the next steps needed and any course correction if required for India to achieve a Viksit nation status.

5.2. Trends in GoI's gross tax revenues

A major achievement of the NDA government since FY15 is to increase the GoI's gross tax-GDP ratio from 10% in FY15 to 12% in FY26 (BE), an increase of 2% points. This journey has been remarkable in many ways. First, GST was introduced in July 2017. Subsequently, the GTR-GDP ratio dipped to 11% in FY19 from 11.2% in FY18 (Chart 6). Then major CIT reforms were undertaken in 2019, resulting in a further and sharper dip in FY20, when the GTR-GDP ratio fell to 10%. After this, the Indian economy was hit by the COVID shock in FY21. In that year, the GTR-GDP ratio improved to 10.2%. Although the magnitude of GTR improved marginally in FY21, there was a fall in the magnitude of nominal GDP, which resulted in the increase in the GTR-GDP ratio. After the COVID year, the GTR-GDP ratio has regained the ground lost during the two years in FY19 and FY20 which reflected the immediate revenue eroding impact of tax reforms. This was followed by a third year of revenue erosion owing to COVID's impact in FY21. Maintaining an overall buoyancy of higher than 1 in the GTR throughout the period from FY22 to FY26 (BE), with the exception of FY23, there was a steady improvement in the GTR-GDP ratio.

Chart 6: GoI's GTR relative to GDP (%)



Source (basic data): Union Budgets various years and MoSPI.
Note: Data for FY25 pertains to revised estimates and that for FY26 pertains to budget estimates

It is also notable that, since FY15, in most years the highest buoyancy and annual growth rate of tax revenues was recorded in the case of personal income tax (PIT) as shown in Table 3. The first impact of CIT reforms on revenues was adverse. In FY20, it contracted sharply by (-)16.1% as compared to a high growth of 16.2% in FY19. In the next year, which was affected by COVID, its growth rate remained negative at (-)17.8%. It turned into positive territory in FY22 with a large growth due to the base effect.

After that, its buoyancy was higher than 1 in FY23 and FY24, but it fell below 1 in FY25 (RE). Although a buoyancy of higher than 1 is budgeted in FY26 (BE), its realized value will become available only after an interval of one year. On the other hand, PIT revenues performed well with a buoyancy of higher than 2 in FY24 and FY25 (RE). Even after a tax revenue foregone on account of rate rationalization and reductions in FY26 (BE), the PIT buoyancy is budgeted to remain higher than 1 at 1.42. In the case of GST, buoyancy was less than 1 in FY20, two years after its introduction. However, it has shown a buoyancy of higher than 1 throughout the period since FY21, although there is a falling trend since FY23.

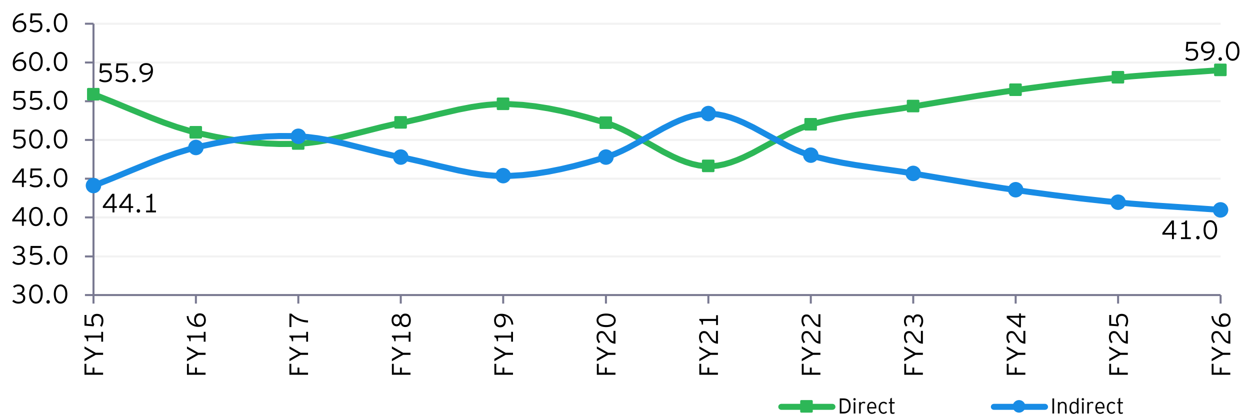
Table 3: Performance of GoI's major tax revenues

	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25 (RE)	FY26 (BE)
% of GDP												
CIT	3.4	3.3	3.2	3.3	3.5	2.8	2.3	3.0	3.1	3.1	3.0	3.0
PIT	2.1	2.1	2.4	2.5	2.5	2.5	2.5	3.0	3.1	3.5	3.9	4.0
GST	0.0	0.0	0.0	0.0	3.1	3.0	2.8	3.0	3.2	3.2	3.3	3.3
Gross taxes	**10.0**	**10.6**	**11.1**	**11.2**	**11.0**	**10.0**	**10.2**	**11.5**	**11.3**	**11.7**	**11.9**	**12.0**
Buoyancy												
CIT	0.79	0.54	0.59	1.61	1.53	NA	NA	2.95	1.13	1.08	0.78	1.03
PIT	0.86	0.79	2.28	1.64	0.93	0.65	NA	2.28	1.39	2.65	2.09	1.42
GST					2.97	0.46	NA	1.44	1.52	1.33	1.12	1.08
Gross taxes	**0.85**	**1.62**	**1.52**	**1.07**	**0.79**	**NA**	**NA**	**1.78**	**0.90**	**1.40**	**1.15**	**1.07**
Growth (% annual)												
CIT	8.7	5.7	7.0	17.8	16.2	-16.1	-17.8	55.6	16.0	10.3	7.6	10.4
PIT	9.4	8.2	26.8	18.1	9.8	4.2	-1.1	42.9	19.7	25.4	20.3	14.4
GST					31.4	3.0	-8.3	27.2	21.6	12.7	10.9	10.9
Gross taxes	**9.3**	**16.9**	**17.9**	**11.8**	**8.4**	**-3.4**	**0.8**	**33.7**	**12.7**	**13.5**	**11.2**	**10.8**
Memo												
Nominal GDP growth (%)	11.0	10.5	11.8	11.0	10.6	6.4	-1.2	18.9	14.2	9.6	9.7	10.1

Source (basic data): Union Budgets various years and MoSPI

Driven mainly by the impressive performance of PIT, the share of direct tax revenues in GTR has steadily increased since FY22. In FY26 (BE), it is estimated to reach 59%, up from 46.6% in FY21 (Chart 7). This is a welcome trend.

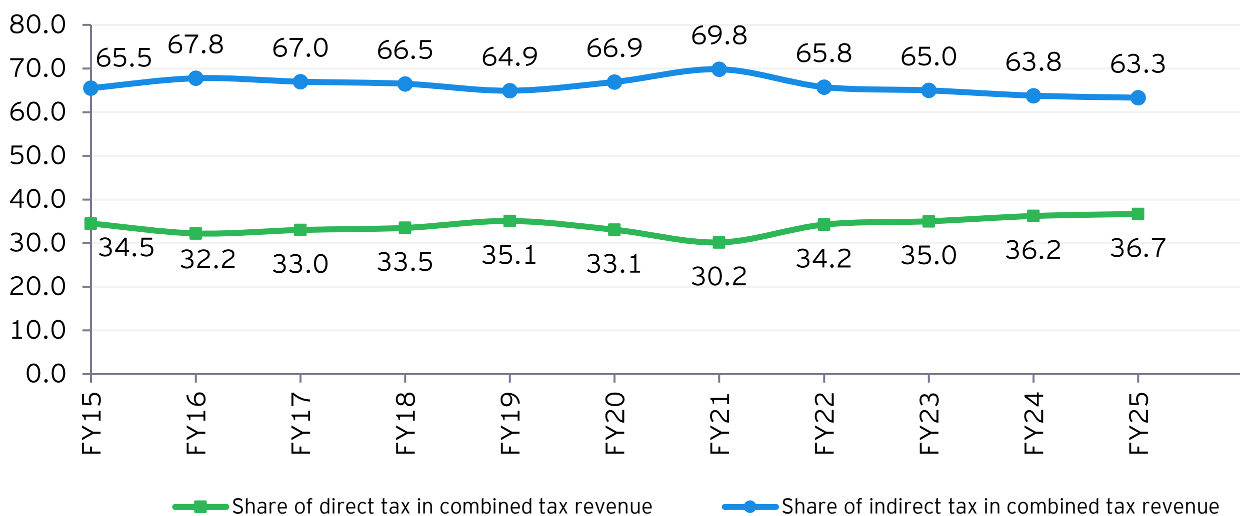
Chart 7: Share of direct and indirect taxes in GoI's GTR (%)



Source (basic data): Union Budgets various years and MoSPI.
Note: Data for FY25 pertains to revised estimates and that for FY26 pertains to budget estimates

However, when the GTR is combined with states' own tax revenues, the relative shares of direct and indirect taxes get reversed, with the share of indirect tax revenues being much higher than that of direct taxes. This is due to the presence of very few direct taxes with the state governments, although even in this case there is a downward trend. From a recent peak of a share of nearly 70% in FY21, the share of indirect taxes in combined[4] tax revenues have fallen to 63.3% in FY25 (Chart 8).

Chart 8: Share of direct and indirect taxes in combined tax revenues (%)

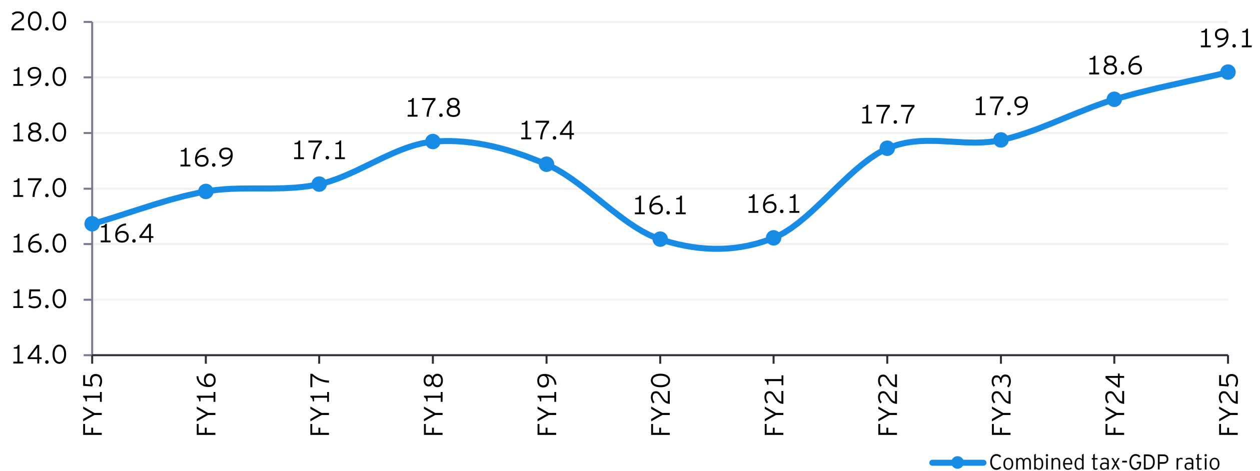


Source (basic data): Union Budgets various years, RBI State Finances - A Study of Budgets (2024-25) and MoSPI.
Note: With respect to states, data for FY24 pertains to revised estimates and that for FY25 pertains to budget estimates while for GoI, data for FY25 pertains to revised estimates.

In the case of states' own tax revenues also, buoyancy has been higher than 1, FY22 onwards. Together, the combined tax revenue relative to GDP is estimated to reach a level of 19.1% in FY25 (Chart 9), crossing the threshold of 19% of GDP for the first time in India's post-independence history. This trend needs to be continued until the general government tax-GDP ratio reaches a level close to 25% of GDP. This is critical for raising the level of government expenditure to a level needed for a Viksit Bharat[5].

[4] GoI and State governments taken together
[5] For more details, see November 2024 edition of the EY Economy Watch; https://www.ey.com/content/dam/ey-unified-site/ey-com/en-in/insights/tax/economy-watch/documents/2024/11/ey-economy-watch-november-2024.pdf

Chart 9: Combined tax revenues relative to GDP (%)

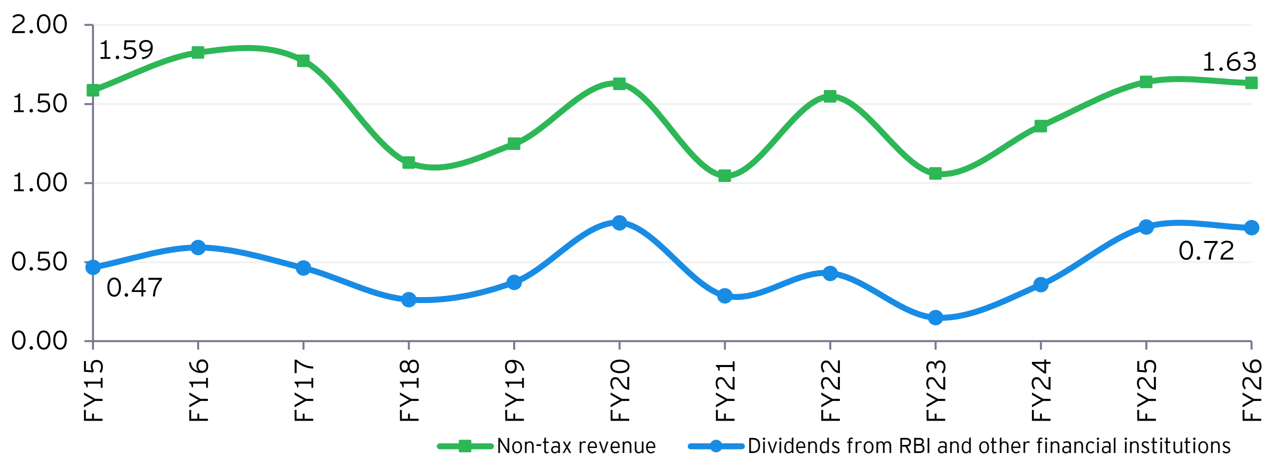


Source (basic data): Union Budgets various years RBI State Finances – A Study of Budgets (2024-25) and MoSPI.
Note: With respect to states, data for FY24 pertains to revised estimates and that for FY25 pertains to budget estimates while for GoI, data for FY25 pertains to revised estimates.

5.3. Performance of non-tax revenues

GoI's non-tax revenues relative to GDP have broadly remained stagnant over a relatively long period of time, although some marginal improvement was seen FY24 onwards (Chart 10), primarily because of higher transfer of dividends from the RBI. Non-tax revenues include returns on government loans and advances, as well as cost recoveries through user charges and fees. Greater attention is required to make non-tax revenues more revenue productive.

Chart 10: Trends in non-tax revenues and dividends from RBI and financial institutions as a % to GDP



Source (basic data): Union Budgets various years and MoSPI.
Note: Data for FY25 pertains to revised estimates and that for FY26 pertains to budget estimates

In fact, a National Monetization Pipeline (NMP) was introduced in the FY22 budget. This was a first step towards assessing the potential value of government-owned assets and devising strategies for their monetization. Monetized government assets, if leased or rented out, may yield a stream of periodic incomes which may be counted under non-tax revenues. The NMP included assets with monetization potential of INR6 lakh crore during the four-year period from FY22 to FY25. The total target for the first two years, that is, FY22 and FY23, under the NMP was around INR2.5 lakh crore, against which around INR2.3 lakh crore was achieved[6]. During FY24, against the target of INR1.8 lakh crore, which was the

[6]https://pib.gov.in/PressReleaseIframePage.aspx?PRID=2026675#:~:text=During%20the%20financial%20year%202023,the%20achievement%20in%202021%2D22.

highest among all the four years, the achievement was INR1.56 lakh crore. At the individual ministry level, those ministries who achieved more than 70% of their FY24 target were the ministries of Road Transport and Highways with an achievement of INR40,314 crore, Coal with INR56,794 crore, Power with INR14,690 crore, Mines with INR4,090 crore, Petroleum and Natural Gas with INR9,587 crore, Urban with INR6,480 crore, and Shipping with INR7,627 crore.

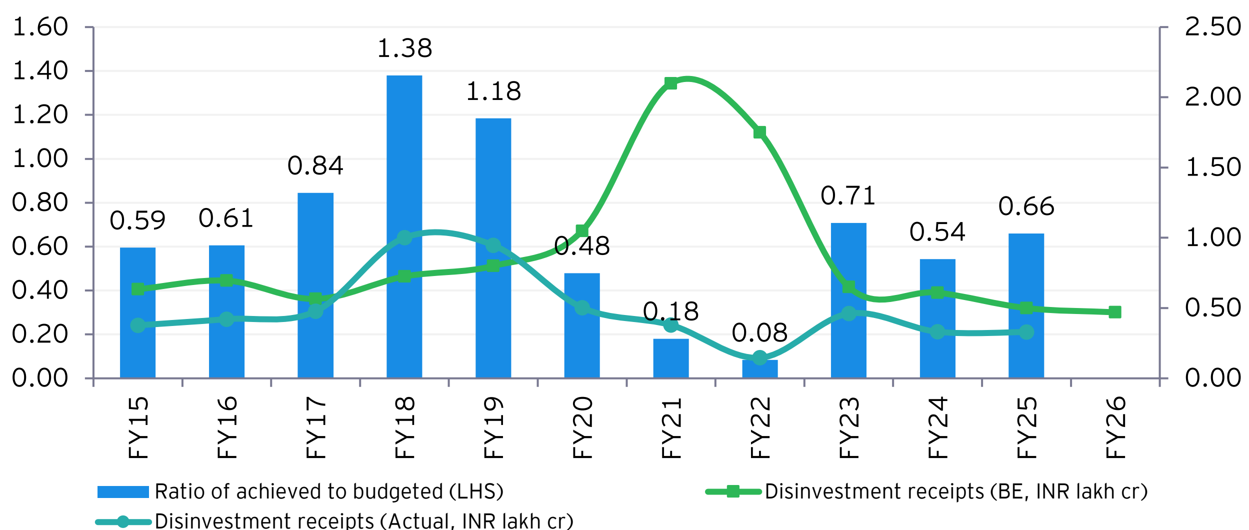
One underutilized source of non-tax revenue is the potential monetization of government-owned land assets. However, a comprehensive enumeration or valuation of this resource is not publicly available. GoI had started bringing out an Asset Register under Rule 6 of the FRBM Rules, 2004. This list of assets does not include assets of the Cabinet Secretariat, Central Police Organisations, Ministry of Defence, and Department of Space and Atomic Energy. According to the GoI's asset register, appended to the FY26 budget, the largest share in physical assets in terms of value at the end of FY24 is that of land at 44.2% followed by roads at 39.4%. The evaluation of assets is done in terms of historical prices. In the case of any fixed asset, where original documents are not available, these are evaluated at the notional price of INR1[7]. Since the value of land appreciates, the value of land owned by the government may be highly understated.

The central government had, in 2016, launched the Government Land Information System (GLIS), a centralized database containing records of total land area, geo-positioning maps, and details such as ownership rights of land parcels. As per this portal, based on information provided by 51 union ministries and 116 PSEs to the GoI, the GoI owned 15,531 square km. of land assets[8]. Railways owned the highest land assets of 2,929 square km, followed by coal of 2,581 square km., and Power ministry of 1,807 square km.

5.4. Disinvestment and non-debt capital receipts

In the context of disinvestment, which accounts for a larger share of non-debt capital receipts, active efforts were made in FY18 and FY19 when the ratio of achievement to target exceeded 1. However, since then, there has been considerable underachievement relative to target, as shown in Chart 11. Considering that since FY15, disinvestment receipts have, on average, accounted for 66% of total non-debt capital receipts, overall non-debt capital receipts reflect a trend similar to that of disinvestment receipts.

Chart 11: Disinvestment receipts: Budgeted vs. achieved



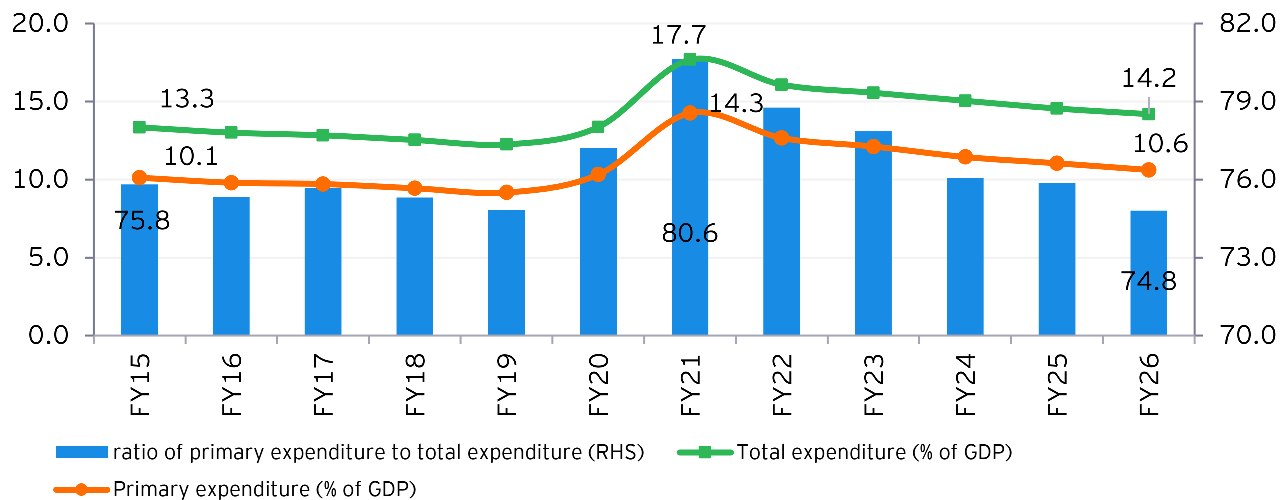
Source (basic data): Union Budgets various years and MoSPI.
Note: Magnitude shown under 'disinvestment receipts (actuals)' for FY25 pertains to revised estimates

[7] Guidelines for Asset Register Development - notification issued by Department of Expenditure, GoI dated 11 March 2019; https://dcpw.gov.in/Forms/Guideline%20for%20Asset%20Register%20Development%202019.pdf
[8] https://www.hindustantimes.com/india-news/how-much-land-does-indian-govt-own-officials-building-inventory-railways-biggest-landowner/story-NTUmFHp2xFXoB2IZRbv5TP.html

5.5. Structural reform of government expenditures

The size of government expenditure relative to GDP shows the role of government in contributing to the aggregate demand. In both pre-COVID years covering FY15 to FY20 and post COVID years covering FY22 to FY26, there has been a downward movement in GoI's total expenditure relative to GDP. Over the entire period from FY15 to FY26, GoI's total expenditure to GDP ratio increased from 13.3% to 14.2%, an increase of 0.9% points (Chart 12). Primary expenditure relative to GDP, that is total expenditure net of interest payments increased marginally from 10.1% to 10.6% of GDP. The share of primary expenditure in total expenditure as indicated by the height of the column depicted on the right vertical axis of the chart shows a fall from the peak of 80.6% in FY21 to 74.8% in FY26 (BE). In FY15, this share was 75.8%. This trend shows the importance of managing government finances with a sustainable level of debt and fiscal deficit. If total expenditures are increased by borrowing, then eventually interest payments increase and the share of primary expenditures in total expenditure falls.

Chart 12: GoI's primary and total expenditure relative to GDP (%)



Source (basic data): Union Budgets various years and MoSPI.
Note: Data for FY25 pertains to revised estimates and that for FY26 pertains to budget estimates

Role of capital expenditures

The structure of expenditure is best seen in terms of relative shares of revenue and capital expenditures in total expenditure. Government capital expenditures are known to have higher multiplier values. Some earlier estimates provide the relative values of these multipliers as shown in Table 4. According to a study published by the RBI in 2020[9], central government capital expenditure multiplier has been estimated at 2.45 and 3.14 in the first and second year, respectively. The RBI, in a 2024 study, estimated the multipliers for revenue and capital expenditure undertaken by state governments. Clearly, government capital expenditure multipliers are much higher than government revenue expenditure multipliers. In an earlier study (RBI 2013)[10] multipliers for non-defence capital outlays were estimated, showing that the non-defence capital expenditure multipliers were higher in magnitude as compared to total capital outlay multipliers. As such, the quality of expenditures measured in terms of the share of capital expenditure in total expenditures reflects an increasing impact of government's contribution to aggregate demand.

[9] RBI Bulletin December 2020
[10] https://www.rbi.org.in/scripts/PublicationsView.aspx?id=15369

Table 4: Estimates of expenditure multipliers in India: Selected studies

Policy variables	RBI (2019 study)@[11]	RBI (2020) GoI's capital expenditure multiplier	RBI (2024)[12]	Expenditure multiplier estimates by Bose and Bhanumurthy[13] (2013)	Expenditure multiplier estimates by Goyal and Sharma[14] (2015)
Revenue expenditure	0.45		1.43 (impact/peak multiplier**)		1.69
Capital expenditure	3.25	2.45 (first year) and 3.14 (Second year)	2.77 (impact multiplier) 3.84 (peak multiplier**/ cumulative over 3 years)	2.45	2.38
Transfer payments				0.98	
Other revenue expenditure*				0.99	

*Other revenue expenditure of the government is the revenue expenditure after netting out the transfer payments
@multiplier estimated for the central government; **multipliers refer to those of state government expenditure
Note: RBI (2019 study) reports peak multipliers

Chart 13 shows that the share of capital expenditure in total expenditure has nearly doubled from a level of 11.8% in FY15 to 22.1% in FY26 (BE). Further, Chart 14 shows that, within capital expenditure, the share of non-defence capital expenditure has been progressively increasing, reaching a peak of 2.15% of GDP in FY24. After that it is estimated to fall marginally to 2% of GDP in FY26 (BE).

Chart 13: Share of GoI's revenue and capital expenditure in GoI's total expenditure (%)

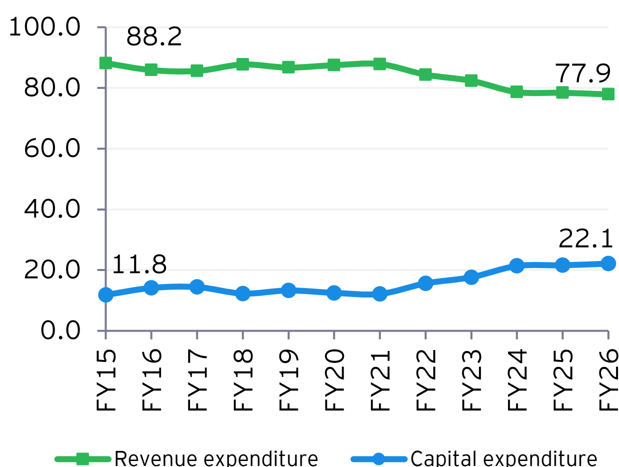
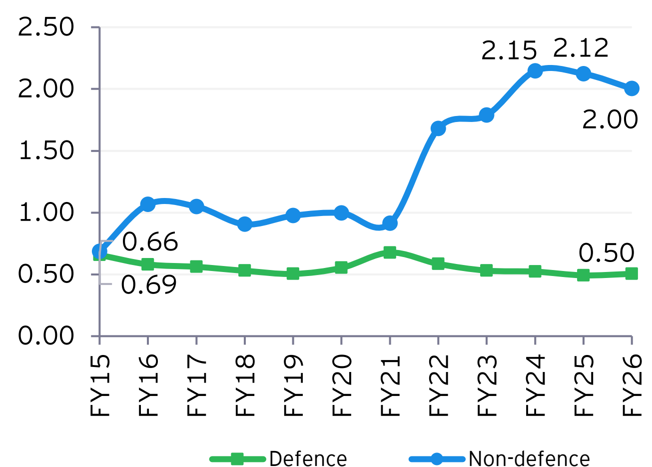


Chart 14: Non-defence and defence capital expenditure as % of GDP

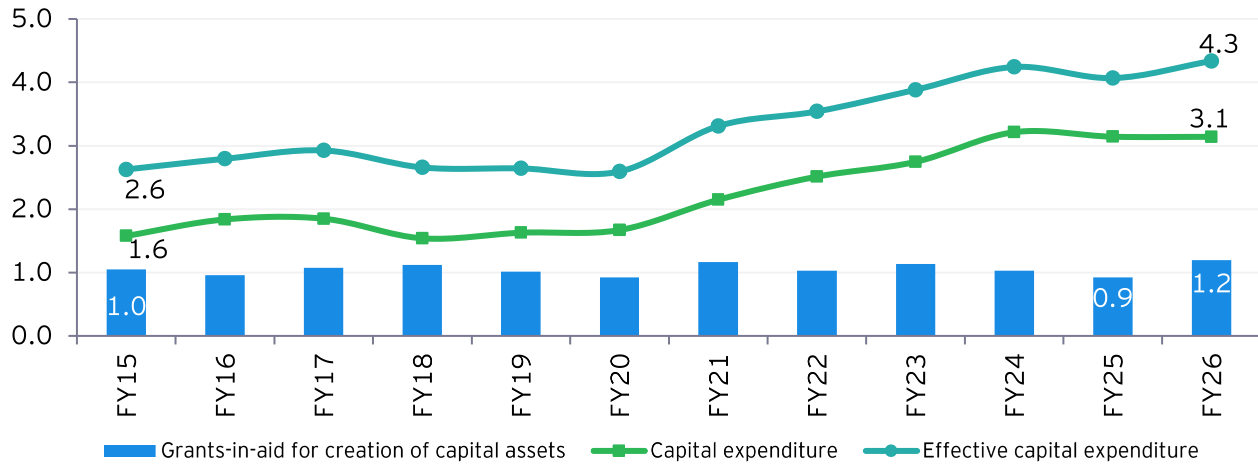


Source (basic data): Union Budgets various years.
Note: Data for FY25 pertains to revised estimates and that for FY26 pertains to budget estimates

[11] https://www.rbi.org.in/Scripts/PublicationsView.aspx?id=18941
[12] https://rbidocs.rbi.org.in/rdocs/Publications/PDFs/02FISCAL3CBC101452F4418DB938C50BC2089E07.PDF
[13] Bose.S and N R Bhanumurthy, 2013. "Fiscal Multipliers for India", NIPFP Working Paper No.125.
[14] Goyal A, Sharma B (2015) Government expenditure in India: composition, cyclicality and multipliers. IGIDR Working Paper No. 32. IGIDR, Mumbai

GoI has been earmarking some portion of its grants to states for building capital assets at the state level. This expenditure is shown as revenue expenditure in the GoI's budget. However, since it is meant for capital asset creation, it is also shown as effective capital expenditure for purposes of assessing GoI's resources being spent on capital formation. This concept is linked to the concept of effective revenue deficit, which is also being reported in the 'Budget at a Glance' statement in the GoI's budget. Chart 15 shows that the excess of effective capital expenditure over GoI's capital expenditures has increased to 1.2% points of GDP in FY26 (BE) from 0.9% points in FY25 (RE). This gap was 1% point of GDP in FY15.

Chart 15: Capital expenditure and effective capital expenditure relative to GDP (%)



Source (basic data): Union Budgets various years and MoSPI.
Note: Data for FY25 pertains to revised estimates and that for FY26 pertains to budget estimates

There is another route through which the central government is inducing the state governments to undertake capital expenditures. This is through the GoI on-lending to the state governments interest-free loans for a period of 50 years, provided it is spent on capital expenditures. This practice was introduced in the COVID year of FY21. Since then, it has been continued. Although, as Table 5 shows, state governments have not been able to fully utilize this allocation. Since FY23, the maximum utilization rate was at 84% in FY24 and until November FY25 the utilization rate was 83.3%. In a way, these practices of grants and loans being given to the states by the GoI for capital asset formation are reminiscent of the erstwhile plan assistance which had a grant and a loan component meant for developmental expenditures. However, since developmental expenditures could also have a revenue expenditure component, plan assistance could also cover revenue expenditure. In the present case, since these transfers are meant for only capital asset creation, they are better in quality.

Table 5: 50-year interest-free loan to state governments for capital expenditures

Year	Budgetary allocation	Utilization	Ratio of Utilization to Budget allocation
	INR crore		%
FY21		11,830	
FY22	10,000	14,186	141.9
FY23	100,000	81,195	81.2
FY24	130,000	109,554	84.3
FY25	150,000	125,000	83.3
FY26	150,000		

Source: (basic data): Union Budget documents and Response given by the Minister of State, Shri. Pankaj Chaudhary dated 02-Dec-2024 to Lok Sabha on the Unstarred Question[15] No. 1109

[15] https://sansad.in/getFile/loksabhaquestions/annex/183/AU1109_oPdEyl.pdf?source=pqals

5.6. Evolving contours of macro-fiscal arithmetic

Given these trends in revenues and expenditures, it is useful to also review the working of budget's macro-fiscal arithmetic so that the role of borrowing financed expenditures can be highlighted. The excess of GoI's total expenditures (TE) over net-revenue receipts (NRR) and non-debt capital receipts (NDCR) is financed by fiscal deficit. The GoI has committed itself to follow a fiscally sustainable path of fiscal deficit and debt under its FRBM, which was last amended in 2018. According to the Act, the target fiscal deficit is 3% of GDP. From time to time, the economy has gone into a downturn as a result of which the fiscal deficit-to-GDP ratio had to be increased in order to stimulate the economy. The level of fiscal deficit was 4.1% of GDP in FY15. It had earlier been increased due to the global economic and financial crisis of 2008 and was gradually being brought down. That downward path continued until FY19 when it reached a level of 3.4%. Then in FY20, because of the revenue eroding effects of the CIT reforms, fiscal deficit increased to 4.6% of GDP. Subsequently, in FY21, due to the impact of the COVID and the recession in the economy, GoI's fiscal deficit had to be increased to 9.2% of GDP (Table 6). Once it was increased, an attempt has been made to bring it down closer to its sustainable value. However, due to the continuing global economic headwinds, the GoI has had to calibrate the downward path of fiscal deficit in a manner such that it has taken quite a number of years without yet reaching the level of 3% of GDP.

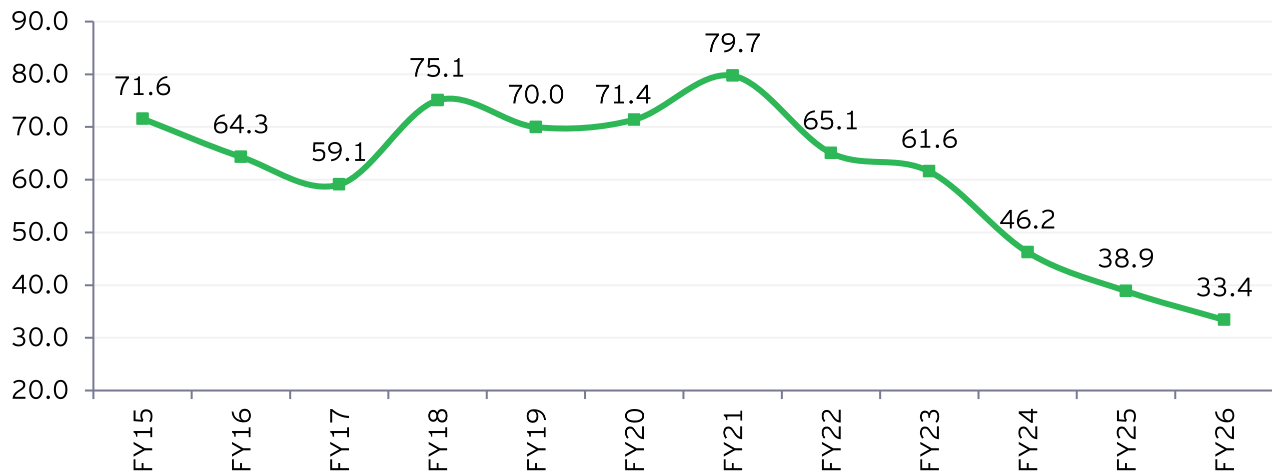
Table 6: Budget arithmetic (% to GDP)

	Item	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25 (RE)	FY26 (BE)
1	**GTR**	10.0	10.6	11.1	11.2	11.0	10.0	10.2	11.5	11.3	11.7	11.9	12.0
2	**SCT**	2.7	3.7	4.0	3.9	4.0	3.2	3.0	3.8	3.5	3.8	3.9	4.0
3 = 1-2	NetTR	7.2	6.9	7.2	7.3	7.0	6.7	7.2	7.6	7.8	7.9	7.9	7.9
4	NTR	1.6	1.8	1.8	1.1	1.2	1.6	1.0	1.5	1.1	1.4	1.6	1.6
5 = 3+4	**NRR**	8.8	8.7	8.9	8.4	8.2	8.4	8.2	9.2	8.8	9.2	9.5	9.6
6	NDCR	0.4	0.5	0.4	0.7	0.6	0.3	0.3	0.2	0.3	0.2	0.2	0.2
7 = 5+6	**NDR**	**9.2**	**9.1**	**9.4**	**9.1**	**8.8**	**8.7**	**8.5**	**9.4**	**9.1**	**9.4**	**9.7**	9.8
8	FD	4.1	3.9	3.5	3.5	3.4	4.6	9.2	6.7	6.4	5.6	4.8	4.4
9 = 7+8	TR or TE	13.3	13.0	12.8	12.5	12.2	13.4	17.7	16.1	15.6	15.0	14.6	14.2
10	**REXP**	11.8	11.2	11.0	11.0	10.6	11.7	15.5	13.6	12.8	11.8	11.4	11.0
11	**CEXP**	1.6	1.8	1.8	1.5	1.6	1.7	2.1	2.5	2.7	3.2	3.1	3.1
12	**RD**	2.9	2.5	2.1	2.6	2.4	3.3	7.3	4.4	4.0	2.6	1.9	1.5
13	**DT**	50.1	50.1	48.3	48.2	48.1	50.7	60.7	57.4	56.5	57.5	56.1	55.1

Source (basic data): Union Budgets various years and MoSPI.
GTR = Gross tax revenues, SCT = State's share in central taxes (assignment to states), NetTR = Net GoI's tax revenues, NTR = Non-tax revenues, NRR = Net-Revenue receipts, NDCR = Non-debt capital receipts, NDR = Non-debt receipts, FD = fiscal deficit, TR or TE = Total Resources or Total Expenditure, REXP = revenue expenditure, CEXP = Capital expenditure, RD = Revenue deficit, DT =Debt.

However, the quality of fiscal deficit measured by the ratio of revenue deficit to fiscal deficit has steadily improved. This indicates that a larger portion of the GoI's borrowing is being used to finance asset-forming capital expenditures. As shown in Chart 16, the share of revenue deficit in fiscal deficit has fallen from a peak of nearly 80% in FY21 to 33.4% in FY26 (BE).

Chart 16: Revenue deficit (RD) to fiscal deficit (FD) ratio (%)



Source (basic data): Union Budgets various years.
Note: Data for FY25 pertains to revised estimates and that for FY26 pertains to budget estimates

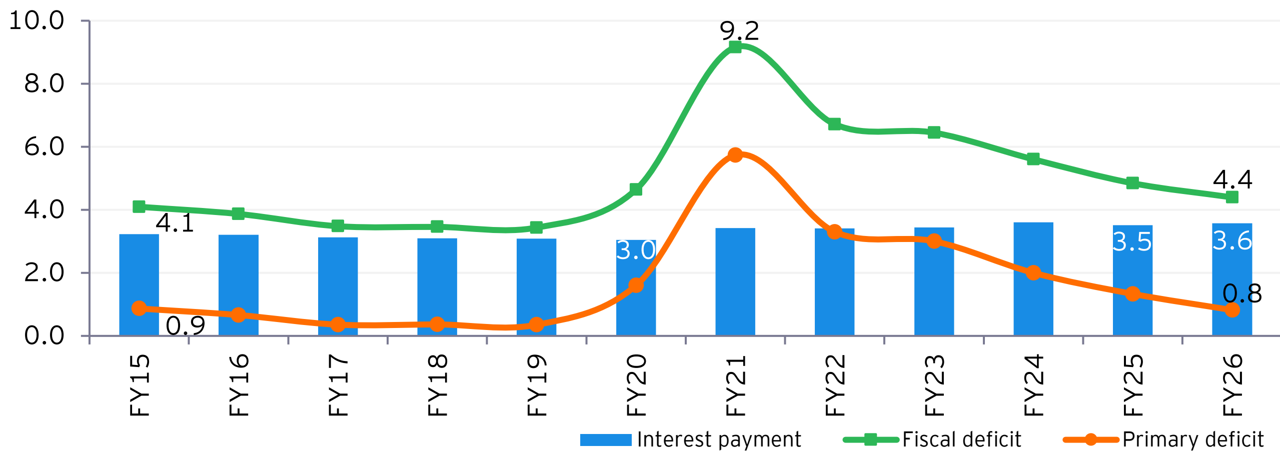
5.7. Journey of fiscal consolidation

The journey of GoI's handling of fiscal consolidation should be seen in the perspective of the FRBM targets. The 2018 amendment to the FRBM Act had made several important changes. First, it had dropped the mandate of the original FRBM Act of 2003 to keep the revenue account in balance or surplus. Second, it changed the target of debt-GDP ratio of the GoI to 40% while retaining the fiscal deficit to GDP target at 3%. This Act also specified the general government debt-GDP target at 60%. By implication, the debt to GDP target for the state governments considered together after adjusting out any on-lending from the GoI to the states was 20%. However, these configurations introduced an inconsistency in the formulation of the sustainable targets. It has been shown in the literature[16] that since the underlying nominal GDP growth is the same for the GoI and the aggregate of all states, the sustainable debt-fiscal deficit combinations should be in consonance with the underlying nominal GDP growth rate. The assumed nominal GDP growth in the working of the FRBM Review Committee of 2018 was 11.1%. This is consistent with either a 30:3 or 40:4 combination of debt and fiscal deficit relative to GDP. However, a 40:3 combination for the GoI or a 20:3 combination for the states is inconsistent from the viewpoint of sustainability. The FRBM targets should therefore be recalibrated. In particular, if the fiscal deficit target is 3% of GDP, then GoI's debt-GDP ratio should be 30% and the same values would apply to state governments.

The path of fiscal deficit, however, has remained asymmetric in its upward and downward departures after reaching a peak due to an economic shock. The latest shock that occurred was because of COVID in FY21. In this year, the GoI's fiscal deficit shot up to 9.2% of GDP. In fact, the upward path continued for two years beginning FY19 when the level of fiscal deficit relative to GDP was 3.4%. However, the downward journey has been much longer, and we are still at some distance from reaching the trough of 3.4% of GDP or the target level of 3% of GDP. Chart 17 depicts this asymmetric path quite clearly. It can also be noted that the primary deficit, which actually becomes available to undertake expenditures from borrowing after interest payments, has been falling. This is partly because interest payments relative to GDP have risen from 3.0% in FY20 to 3.6% in FY26 (BE).

[16] Srivastava, D. K. (2022). The Future of fiscal consolidation in India, *Economic and Political Weekly*, Issue No. 13, Volume 57, 29-35

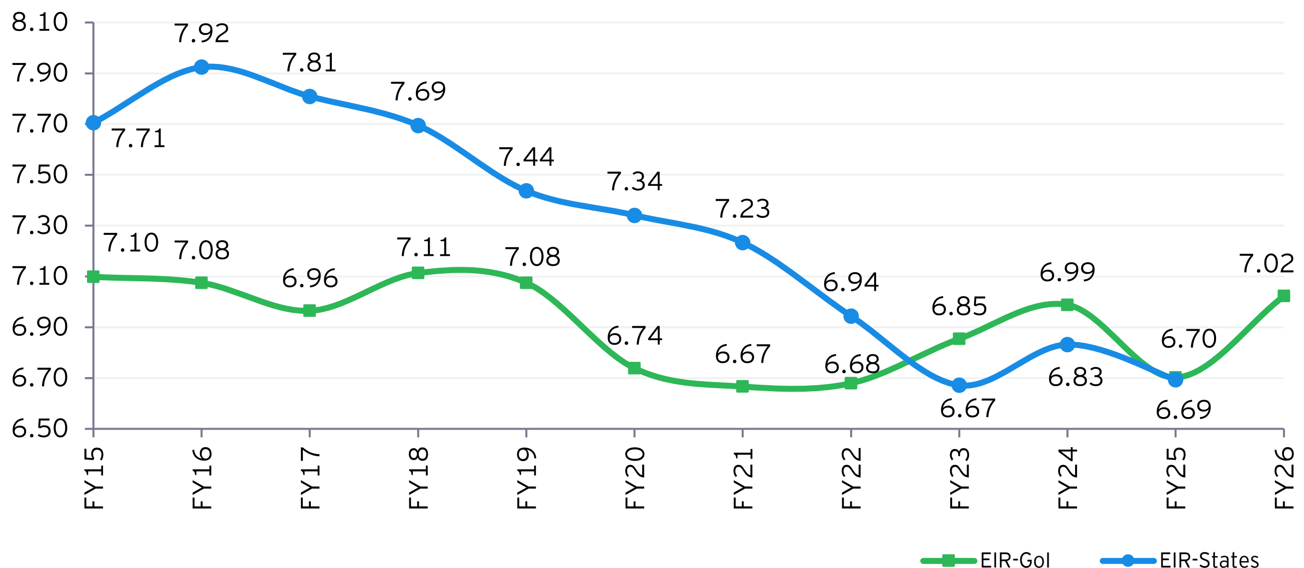
Chart 17: Interest payments, fiscal and primary deficits relative to GDP (%)



Source (basic data): Union Budgets various years and MoSPI
Note: Data for FY25 pertains to revised estimates and that for FY26 pertains to budget estimates

We also take note of the fact that due to the GoI's practice of on-lending interest-free loans to the state governments, its own effective interest rate (EIR) has started to rise. Earlier, GoI's effective interest rate used to be marginally lower than that of states. However, now they have begun to exceed the effective interest rate of the states, as shown in Chart 18.

Chart 18: Effective interest rate (EIR, %) of GoI and aggregate of state governments

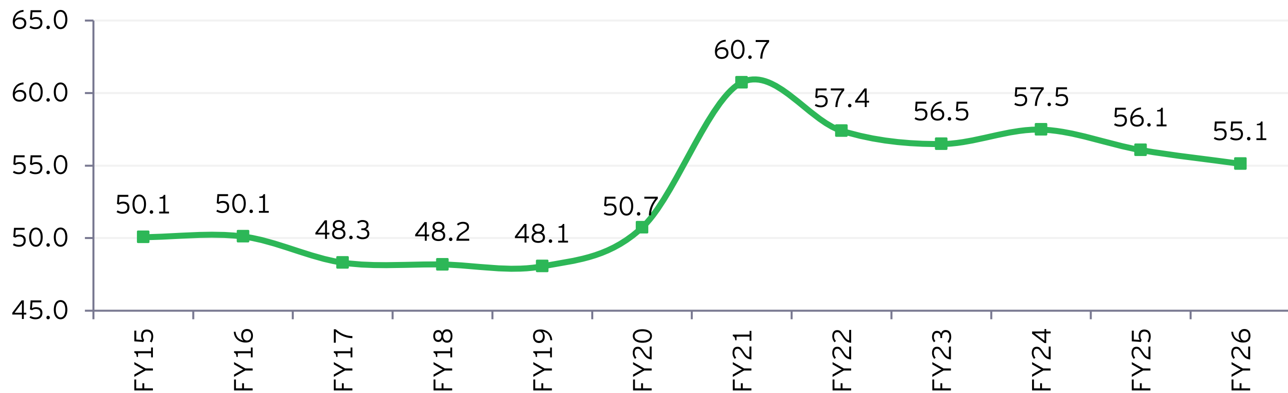


Source (basic data): Union Budgets various years and MoSPI
Note: Data for FY25 pertains to revised estimates and that for FY26 pertains to budget estimates

At this juncture, the GoI in its FY26 budget has re-confirmed a change in the strategy of fiscal consolidation, which was announced in the FY25 budget presented in July 2024. The strategy now is to focus on an annual reduction in the debt-GDP ratio rather than having any target for either debt or fiscal deficit relative to GDP. There are various shortcomings in such an approach. First, the debt-GDP ratio can be reduced in a manner such that any sustainable level of debt and corresponding level of fiscal deficit can take many years to be achieved. For example, the GoI is still far away from the FRBMA 2018 debt-GDP target of 40% which itself needs to be corrected. Any intermediate economic event such as the implementation of the Eighth central pay commission may lead to the need for additional borrowing in FY27, which may upset the downward path of the debt-GDP ratio and further delay in achievement of sustainable levels of debt and fiscal deficit. Chart 19 shows the slow rate at which GoI's debt-GDP ratio has been falling. It has remained well above the level of the previous trough of 48.1% in FY19, thus remaining somewhat distant from the 40% FRBMA 2018 target and the 30% target implied in the original 2003

FRBMA. The Twelfth Finance Commission had in fact given the GoI a debt GDP target of 28% in combination with a fiscal deficit to GDP target of 3% assuming a nominal GDP growth of 12%. Most of these numbers may have to be recalibrated if the steady value of nominal GDP growth remains much lower at close to 10%.

Chart 19: GoI's debt relative to GDP (%)



Source (basic data): Union Budgets various years and MoSPI
Note: Data for FY25 pertains to revised estimates and that for FY26 pertains to budget estimates

5.8. Conclusion

The period from FY15 to FY25 was characterized by major fiscal reforms. In this period, GST was introduced in 2017, and major CIT reforms were undertaken in 2019. Their initial impact was revenue eroding. In FY20, both GDP growth and tax revenue growth had fallen tangibly. In the very next year, the impact of COVID-19 forced the economy to go into contraction. Since then, the economy has recovered sharply. Considering the overall period of FY15 to FY25, the following fiscal developments stand out:

1. A major achievement relates to the increase in GoI's gross tax-GDP ratio from 10% in FY15 to 12% in FY26 (BE), an increase of 2% points.
2. The structure of tax revenues also changed with a greater emphasis on direct taxes due to the impressive performance of the PIT revenues. In FY26 (BE) the share of direct tax revenues in GTR is estimated at 59%, increasing from 46.6% in FY21.
3. The combined tax revenues relative to GDP is estimated to reach a level of 19.1% in FY25, crossing the threshold of 19% for the first time in India's post-independence history.
4. Non-tax revenues as a percentage of GDP have remained stagnant. Their potential needs to be re-examined.
5. After registering remarkable inflows through disinvestment in the earlier parts of the decade under review, efforts towards disinvestment stalled FY19 onwards.
6. Another major achievement in the period under review is GoI's consistent emphasis on increasing the share of capital expenditure in total expenditure. This share has nearly doubled from a level of 11.8% in FY15 to 22.1% in FY26 (BE).
7. GoI is also trying to bring states on board for infrastructure expansion by providing them grants meant for capital asset creation and interest-free loans for infrastructure expansion.
8. In the first five years of the period under review, there was a significant degree of fiscal consolidation with GoI's fiscal deficit-to-GDP ratio falling to a level of 3.4% in FY19 from 4.1% in FY15. This path was disturbed with the onset of COVID in FY21. In this year, the GoI's fiscal deficit shot up to 9.2% of GDP. However, the downward journey has been much longer, and we are still far away from reaching the earlier trough of 3.4% of GDP or the target level of 3%.

The FY26 budget has changed GoI's approach towards fiscal consolidation by asserting that the new strategy of fiscal consolidation will focus only on achieving a declining path of debt-GDP ratio rather than any consideration of sustainable levels of debt and fiscal deficit relative to GDP. This approach requires to be examined thoroughly, as it implies abandoning of achieving sustainable combinations of debt and fiscal deficit.

Going forward, for ensuring a medium-term growth in the range of 6.5-7.0% and for laying solid foundations for a Viksit Bharat, GoI should continue to ensure an overall tax buoyancy in the range of 1.2 to 1.5 so as to increase GoI's gross tax to GDP ratio from 12.0% in FY26 (BE) to 14.0% and the combined tax GDP ratio to above 20% by FY31. This will create enough fiscal space to a) accelerate fiscal consolidation, facilitating reaching the FRBM consistent 40% debt-GDP target of the GoI by FY35, b) allocate higher resources for physical infrastructure thereby supporting growth, and c) emphasize social infrastructure spending focused on health and education, thereby taking advantage of India's unfolding demographic dividend.

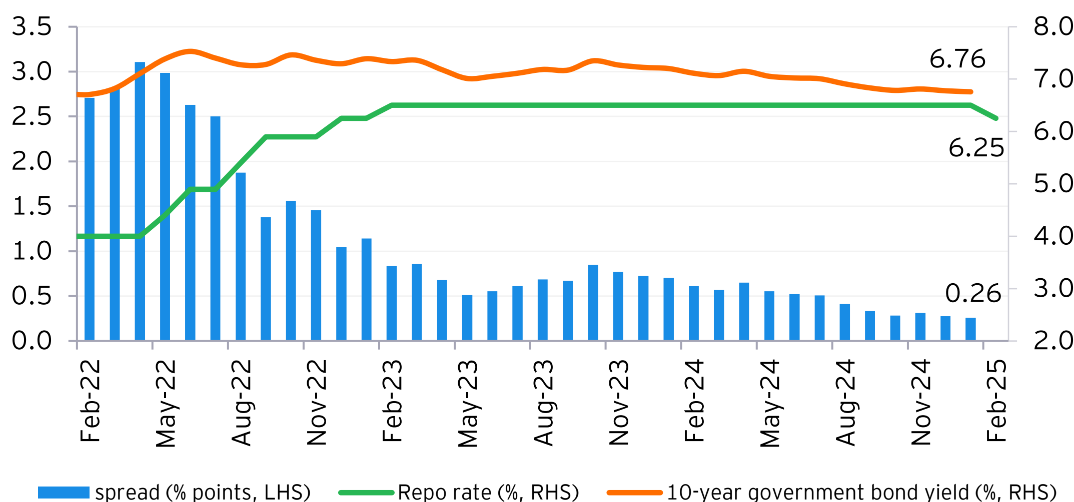
6. Money and finance: The RBI reduced the repo rate by 25 basis points to 6.25% in February 2025

6.1. Monetary sector

Monetary policy

- The Monetary Policy Committee (MPC), in its monetary policy review held on 7th February 2025 reduced the repo rate, for the first time since May 2020, by 25 basis points to 6.25% from 6.5% while maintaining the policy stance as 'neutral' (Chart 20).

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



The RBI lowered the repo rate, for the first time since May 2020, by 25 basis points to 6.25% in its February 2025 monetary policy review.

Source: Database on Indian Economy, RBI

- The MPC noted that the CPI inflation had eased, and, in its assessment, inflation is expected to further moderate in FY26 supported by a favorable outlook on food inflation and ongoing transmission of past monetary policy actions. It also noted that with the FY25 real GDP growth expected to remain lower than that in the previous fiscal year, the growth-inflation dynamics has opened up policy space for the MPC to support growth.

Money stock

- Growth in broad money stock (M3)[17] increased marginally to 9.6% in January 2025 from 9.3% in December 2024 following marginal improvement in the growth of time deposits and nearly stable growth in narrow money (M1).

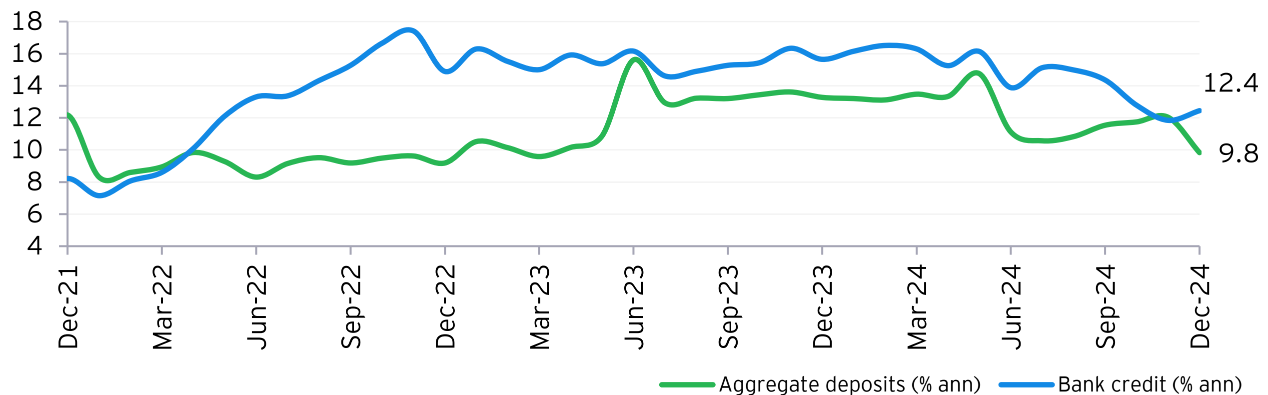
[17] The data on M3, demand and time deposits and bank credit exclude the impact of merger of a non-bank with a bank.

- Time deposits, the largest component of M3, showed a growth of 10.7% in January 2025, improving only marginally from 10.4% in December 2024.
- Growth in M1 remained nearly stable at 6.1% in January 2025, close to its level of 6.0% in December 2024. While growth in demand deposits improved to 6.2% in January 2025 from 5.1% in December 2024, growth in currency with the public moderated to an eight-month low of 5.4% in January 2025 following a growth of 6.3% in December 2024.

Aggregate credit and deposits

- Gross bank credit grew by 12.4% in December 2024, improving from 11.8% in November 2024 (Chart 21). Growth in bank credit was at a 10-quarter low of 12.4% in 3QFY25, falling from 14.8% in 2QFY25.

Chart 21: Growth in credit and deposits



Source: Database on Indian Economy, RBI

- Non-food credit growth also increased to 12.4% in December 2024 from 11.8% in November 2024 owing to significantly higher growth in other non-food credit.
- Growth in other non-food credit, that is, non-food credit excluding credit to agriculture, industry, services and personal loans, accelerated to 16.8% in December 2024 as compared to a contraction of (-)14.4% in November 2024.
- A comparison of credit growth across sectors indicates that personal loans continued to show the highest growth of 14.9% in December 2024, although moderating from 16.3% in November 2024.
- Within personal loans, housing loans, the largest component of personal loans, showed a relatively slower growth of 16.7% in December 2024 as compared to 18.0% in November 2024.
- Growth in vehicle loan also sequentially eased for the fifth successive month to 8.8% in December 2024. Loans for consumer durables contracted by (-)1.1% in December 2024 following a growth of 4.8% in November 2024.
- Growth in agricultural credit fell to a two-year low of 12.5% in December 2024 from 15.3% in November 2024. Credit to services, with an average share of 26.6% in total non-food credit (last five years), also posted a growth of 13.0% in December 2024, its lowest level since March 2022.
- Outstanding credit to industries, having a share of about 27% on average in total non-food credit (last five years), grew by 7.4% in December 2024, slower than 8.1% in November 2024.
- Within industrial credit, among major segments, credit to infrastructure, having the largest share of 36.5% on average in total industrial credit (last five years), witnessed a further moderation in its growth to 1.0% in December 2024 from 1.6% in November 2024.
- Growth in credit to chemical and chemical products also fell to 7.0% in December 2024 from 11.4% in November 2024.
- Growth in aggregate deposits fell to a 21-month low of 9.8% in December 2024 as compared to 12.0% in November 2024. In 3QFY25, aggregate deposits grew by 11.2%, marginally higher than 11.0% in 2QFY25.

6.2. Financial sector

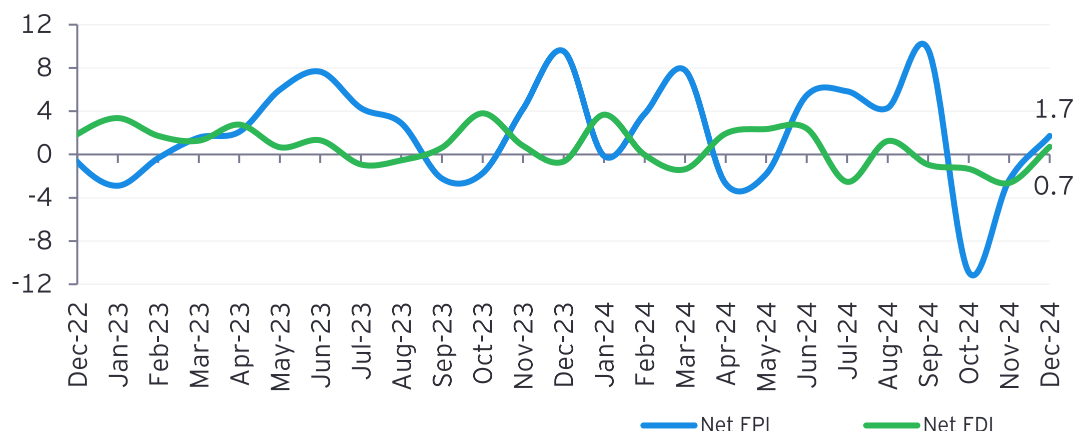
Interest rates

- As per the data released by the RBI in the first week of February 2025, the yield on 10-year government bonds (benchmark) averaged marginally lower at 6.76% in January 2025 as compared to 6.78% in December 2024 (Chart 20).
- The interest rate on term deposits with a maturity period of more than one year was retained for the fifth consecutive month to an average of 6.63% in January 2025, with the actual rates ranging between 6.00% and 7.25% during the month. Similarly, the average MCLR was at 8.30% for the fifth successive month in January 2025, with the actual MCLR ranging between 8.15% and 8.45%.
- WALR on 'Fresh Rupee Loans' (FRL) by SCBs fell by 15 basis points to 9.25% in December 2024, its lowest level since June 2023, from 9.40% in November 2024. During April-December FY25, WALR-FRL averaged higher at 9.40% as compared to 9.34% during the same period of FY24.

FDI and FPI

- As per the provisional data released by the RBI on 19 February 2025, overall foreign investments (FIs) witnessed inflows amounting to US$2.4 billion in December 2024 as compared to outflows of US$5.0 billion in November 2024 as both net FDIs and net FPIs turned positive during the month (Chart 22).

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



Net FDI and FPI turned positive, with inflows amounting to US$0.7 billion and US$1.7 billion, respectively, in December 2024.

Source: Database on Indian Economy, RBI

- After three successive months of outflows, net FDIs turned positive, with inflows amounting to US$0.7 billion in December 2024. Gross FDI inflows were at US$6.8 billion in December 2024, higher as compared to US$5.4 billion in November 2024.
- Gross FDI inflows surged to US$62.5 billion during the first nine months of FY25 as compared to US$51.8 billion during the corresponding period of FY24. However, net FDI inflows at US$1.2 billion during April-December FY25 were sharply lower compared to US$7.8 billion during the corresponding period of FY24 due to higher repatriation/disinvestments and outward FDI by India.
- Net FPIs also turned positive, with inflows amounting to US$1.7 billion in December 2024 as compared to outflows amounting to US$2.4 billion in November 2024. During April-December FY25, net FPI inflows were sharply lower at US$9.3 billion as compared to US$32.7 billion during the corresponding period of FY24.

7. Trade and CAB: Merchandise exports showed a contraction at (-)2.4% in January 2025

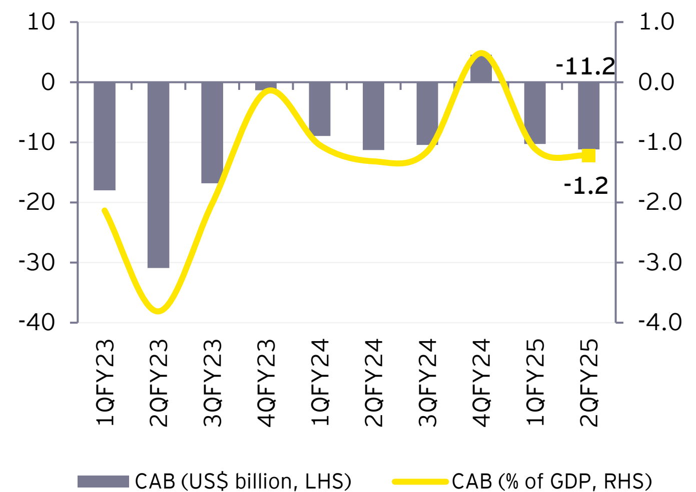
7.1. CAB was at (-)1.2% of GDP in 2QFY25 as compared to (-)1.1% in 1QFY25

- Current account showed a deficit of 1.2% of GDP in 2QFY25 (Chart 23). Net merchandise trade deficit widened to 8.2% of GDP in 2QFY25 from 7.0% in 1QFY25 as merchandise exports eased to 11.4% from 12.0% and merchandise imports expanded to 19.6% from 19.0% of GDP over the same period.
- Surplus on account of net invisibles improved to 7.0% of GDP in 2QFY25 from 5.9% in 1QFY25 (Table 7) as net services surplus and net private transfers increased to three-quarter highs of 4.9% and 3.2% of GDP, respectively, in 2QFY25. Deficit on income account fell to a 10-quarter low of 1.0% of GDP in 2QFY25.

Table 7: Components of CAB in US$ billion

Fiscal year	CAB as % of nominal GDP	CAB	Merchandise 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	-26.1	-244.9	218.8
3QFY24	-1.1	-10.4	-71.6	61.2
4QFY24	0.5	4.6	-52.0	56.6
1QFY25	-1.1	-10.2	-65.1	54.9
2QFY25	-1.2	-11.2	-75.3	64.1

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

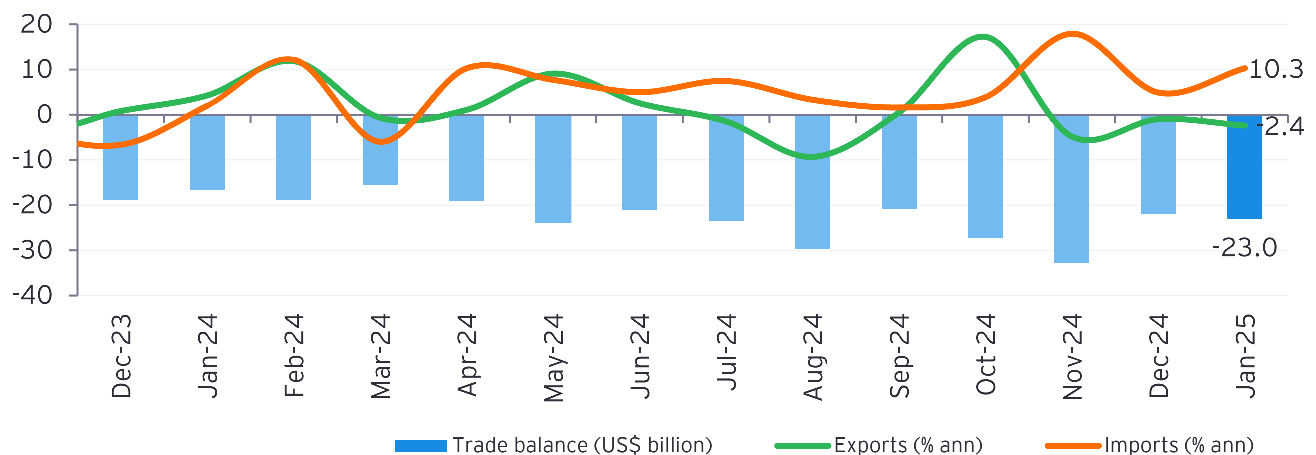
Merchandise exports showed a contraction for the third successive month at (-)2.4% in January 2025, even as growth in imports increased to 10.3% from 4.9% in December 2024.

- Oil exports contracted for the eighth successive month by (-)58.7% in January 2025, the highest pace of contraction since November 2020. Oil imports also showed a contraction of (-)13.5% in January 2025 as compared to a growth of 2.2% in the previous month. This slowdown in oil trade reflects a) lower pace of growth in volume of exports and imports of oil and b) unfavourable base effect.
- Growth in exports of electronic goods surged to 79.0% in January 2025, its highest level since May 2021. Growth in exports of drugs and pharmaceuticals increased to an 11-month high of 21.5% in January 2025, while that in engineering goods declined marginally to 7.4% from 8.3% in the previous

month. After showing a contraction for 11 months out of 12 in 2024, growth in exports of gems and jewelry turned positive at 15.9% in January 2025.

- Growth in imports of chemicals, machinery and electronic goods was higher at 36.9%, 27.8% and 17.8% in January 2025 as compared to 7.6%, 11.7% and 9.6% respectively in December 2024. Growth in gold imports remained high at 40.8% in January 2025, although slowing down from 55.4% in December 2024.
- Growth in exports and imports excluding oil, gold/silver and jewelry surged to 14.3% and 20.3% in January 2025 from 8.3% and 3.9% respectively in December 2024.
- Merchandise trade deficit widened to US$23.0 billion in January 2025 from US$21.9 billion in December 2024 (Chart 24).

Chart 24: Developments in merchandise trade



Source: Ministry of Commerce and Industry, GoI

- Deficit on account of trade in goods and services fell to its lowest level since March 2024 to US$2.9 billion in December 2024 as net services surplus improved to an unprecedented high of US$19.1 billion.
- The Indian Rupee depreciated to INR86.3/US$ in January 2025 from INR85.0/US$ (average) in December 2024 owing to foreign investment outflows, rising crude prices on a m-o-m basis, and a widening trade deficit.

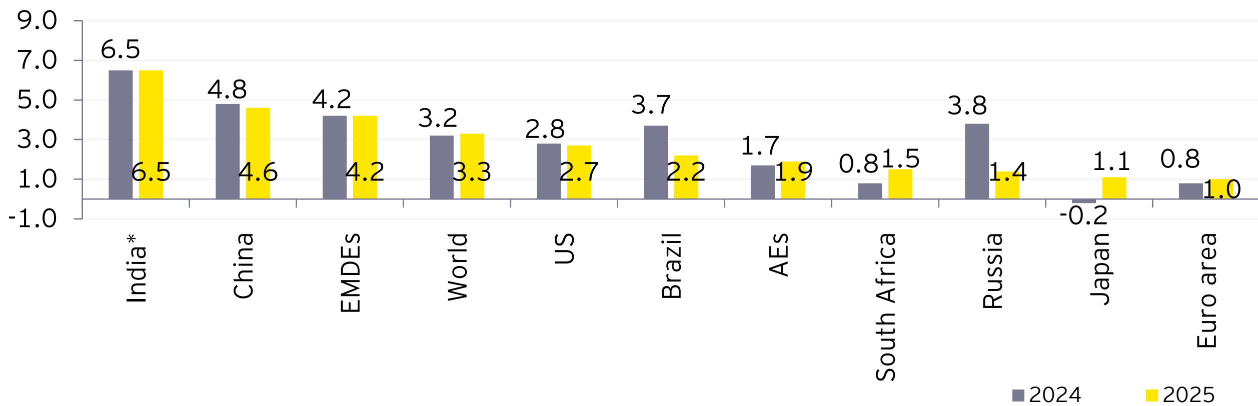
8. Global growth: IMF projected global growth at 3.3% in 2025 and 2026

8.1. Global growth

> The IMF projected global growth at 3.3% in 2025. India's FY26 growth is projected to remain stable at 6.5%.

- The IMF (World Economic Outlook, January 2025) estimated global growth at 3.2% in 2024. Global growth is projected to improve marginally to 3.3% in 2025 and 2026 but remain below the historical (2000-2019) average of 3.7%.
- In IMF's assessment, risks to global growth could emanate from intensification of protectionist policies. In particular, an increase in tariffs could exacerbate trade tensions, lower investments, distort trade flows and disrupt supply chains.
- Growth in AEs is estimated to be at 1.7% in 2024, improving to 1.9% in 2025 and moderate marginally thereafter to 1.8% in 2026. Higher growth in 2025 is largely due to improved growth prospects for the Euro Area, Japan, UK and Canada. Growth in EMDEs is estimated at 4.2% in 2024. It is projected to remain stable at this level in 2025 and improve marginally to 4.3% in 2026 (Chart 25).
- Growth in the US is estimated at 2.8% in 2024. Supported by sustained robust demand and a less restrictive monetary policy stance, growth is projected at 2.7% in 2025. In the near term, economic activity in the US is expected to be led by fiscal policy support, especially through new expansionary measures such as tax cuts. However, in 2026, growth is projected to moderate to 2.1%, closer to its potential level.
- In the Euro area, growth is estimated to remain low at 0.8% in 2024, although improving from 0.4% in 2023. In 2025 and 2026, growth is projected to improve gradually to 1.0% and further to 1.4%, respectively, supported by strengthening domestic demand.
- Owing to supply disruptions, the Japanese economy is estimated to contract by (-)0.2% in 2024 following a growth of 1.5% in 2023. In 2025, however, growth is projected to recover to 1.1% but moderate marginally to 0.8% in 2026.
- China's economic growth is estimated to moderate to 4.8% in 2024 from 5.2% in 2023. In IMF's assessment, this falling momentum is likely to continue into 2025 and 2026 with growth rates projected at 4.6% and 4.5% respectively.
- India's real GDP growth is estimated at 6.5% in 2024 (FY25), moderating from 8.2% in 2023 (FY24). The IMF projects India to maintain its growth rate at 6.5% both in 2025 (FY26) and 2026 (FY27).

Chart 25: Global growth projections (%)

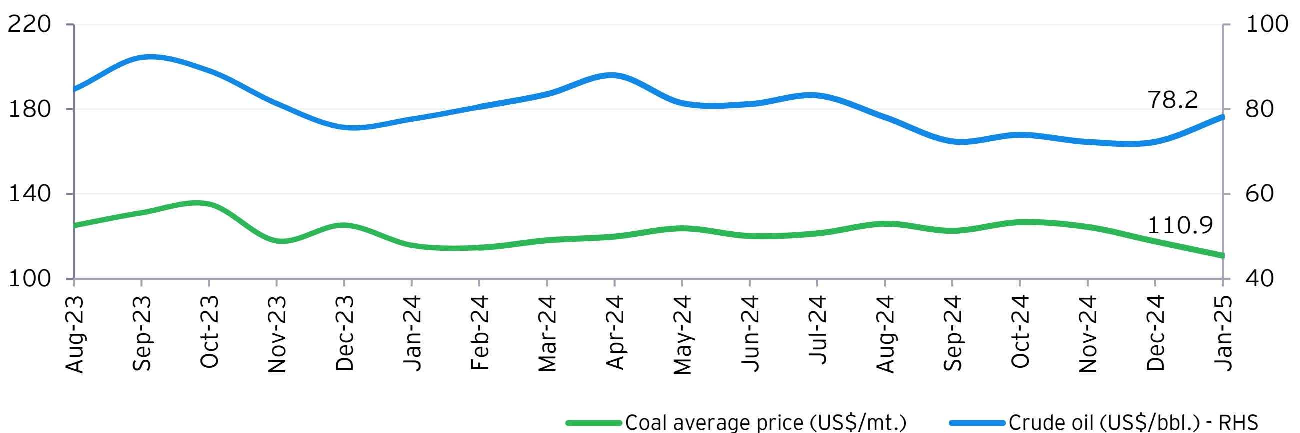


Source: World Bank: Global Economic Perspectives (January 2025)
*Data pertains to fiscal years FY25 and FY26 respectively

8.2. Global energy prices: Global crude price surged to US$78.2/bbl. in January 2025

- Average global crude price[18] increased to a six-month high of US$78.2/bbl. in January 2025 from US$72.3/bbl. in December 2024 (Chart 26).
- As per the IEA[19], benchmark crude oil prices were influenced by the intensification of US sanctions on Iran and Russia and the prospect of higher US tariffs which weighed down the market sentiment.
- Average global coal price[20] eased for the third successive month to US$110.9/mt. in January 2025, its lowest level since May 2021. This is largely due to a fall in the price of Australian coal by US$11.2/mt. to US$118.6/mt in January 2025 from US$129.8/mt in December 2024 following weaker demand from major importers including China, India and Japan[21].
- The price of South African coal also fell to US$103.3/mt in January 2025 from US$105.5/mt. in December 2024.

Chart 26: Global crude and coal prices



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

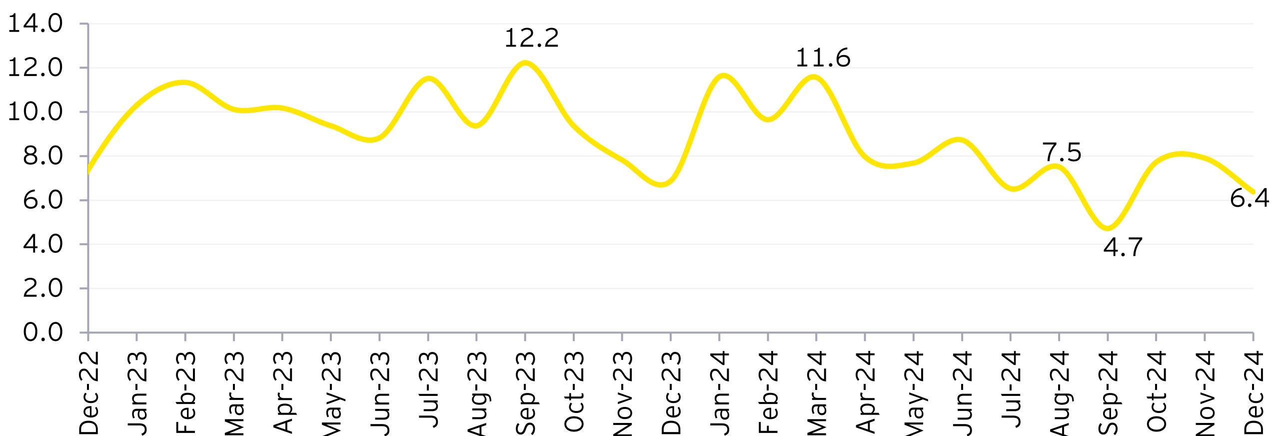
[18] Simple average of three spot prices, namely, Dated Brent, West Texas Intermediate and Dubai Fateh
[19] https://www.iea.org/reports/oil-market-report-january-2025
[20] Simple average of Australian and South African coal prices.
[21] https://gmk.center/en/news/australia-reduced-coking-coal-exports-by-23-m-m-in-january/

9. Index of Aggregate Demand (IAD): Growth moderated to 6.4% in December 2024

9.1. Growth in IAD moderated to 6.4% in December 2024 from 7.9% in November 2024

- Pointing to a slower improvement in demand conditions, growth in IAD[22] moderated to 6.4% in December 2024 from 7.9% in November 2024 (Chart 27 and Table 8). This moderation is largely attributable to easing demand conditions in agriculture. On a quarterly basis, in 3QFY25, growth in IAD was higher at 7.3% as compared to 6.2% in 2QFY25.
- Demand conditions in the agricultural sector moderated in December 2024 as reflected by a fall in the growth in agricultural credit for the third successive month to 12.5% (sa) from 15.3% in November 2024.
- In the manufacturing sector, demand conditions were nearly stable in December 2024 as compared to those in November 2024 as indicated by manufacturing PMI, whose level at 56.4 during the month was close to its level of 56.5 in November 2024.
- Demand conditions in the services sector showed improvement in December 2024 as evidenced by an increase in PMI services (sa) to 59.3 from 58.4 in November 2024.

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



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

[22] 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.

Table 8: IAD

Month	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24
IAD	178.6	178.7	180.3	180.1	181.0	177.5	179.6	179.8	180.5
Growth (% y-o-y)	8.0	7.7	8.7	6.5	7.5	4.7	7.7	7.9	6.4
Growth in agr. credit	19.7	21.4	17.2	18.0	17.7	16.4	15.6	15.3	12.5
Mfg. PMI**	8.8	7.5	8.3	8.1	7.5	6.5	7.5	6.5	6.4
Ser. PMI**	10.8	10.2	10.5	10.3	10.9	7.7	8.5	8.4	9.3

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.

10. Capturing macro-fiscal trends: Data appendix

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
4QFY24	5.1	4.9	4.8	7.3	5.8	4QFY24	57.5	61.2
1QFY25	5.5	7.9	4.3	10.8	6.3	1QFY25	58.2	60.5
2QFY25	2.7	-0.1	3.3	1.4	2.4	2QFY25	57.4	59.6
3QFY25	3.9	1.8	4.3	4.1	4.0	3QFY25	56.8	58.7
Sep-24	3.2	0.2	4.0	0.5	2.4	Oct-24	57.5	58.5
Oct-24	3.7	0.9	4.4	2.0	3.7	Nov-24	56.5	58.4
Nov-24	5.0	1.9	5.5	4.4	4.4	Dec-24	56.4	59.3
Dec-24	3.2	2.6	3.0	6.2	4.0	Jan-25	57.7	56.5

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
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	7.6	0.8	0.2	0.3
2QFY25	4.2	6.8	-4.1	3.4	1.8	5.5	1.2	-0.9	0.5
3QFY25	5.6	9.4	-1.6	3.7	2.4	10.0	2.0	-4.0	0.5
Oct-24	6.2	10.9	-1.7	3.7	2.8	12.1	1.8	-4.3	0.3
Nov-24	5.5	9.0	-1.8	3.7	2.2	8.9	2.1	-4.0	0.6
Dec-24	5.2	8.4	-1.3	3.7	2.4	8.9	2.1	-3.8	0.7
Jan-25	4.3	6.0	-1.4	3.7	2.3	7.5	2.5	-2.8	1.0

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, unless otherwise specified)

Fiscal year/month	Gross tax revenue	Corporate tax	Income tax	Direct taxes*	Indirect taxes**	Fiscal deficit % of GDP	Revenue deficit % of GDP
FY22	33.7	55.6	42.9	49.0	20.2	6.7	4.4
FY23	12.7	16.0	19.7	17.8	7.2	6.4	4.0
FY24	13.5	10.3	25.4	17.9	8.5	5.6	2.6
FY25 (RE over act.)	11.2	7.6	20.3	14.4	6.8	4.8	1.9
FY26 (BE over RE)	10.8	10.4	14.4	12.7	8.3	4.4	1.5
	Cumulated growth (%, y-o-y)					% of budgeted target	
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
Jul-24	21.3	4.8	53.4	33.6	7.1	17.2	3.8
Aug-24	12.1	-6.0	25.5	12.9	9.5	27.0	24.7
Sep-24	12.0	2.3	25.0	13.6	8.4	29.4	12.8
Oct-24	10.8	1.2	20.2	11.1	9.0	46.5	52.2
Nov-24	10.7	-0.5	23.5	12.1	7.6	52.5	61.5
Dec-24	10.8	2.7	22.2	12.2	7.4	58.2#	42.0#

Source: Monthly Accounts, Controller General of Accounts, Government of India, Union Budget documents; # indicates that the values as percent of revised estimates; annual data is sourced from Union budget documents.

* Includes corporation tax and income tax
** Includes customs duty, excise duty, service tax, CGST, UTGST, IGST and GST compensation cess

Fiscal year/month	CGST	IGST	GST compensation cess	Total GST (GoI)
	INR crore			
FY25 (RE)	9,08,459	0	1,53,440	10,61,899
FY26 (BE)	10,10,890	0	1,67,110	11,78,000
May-24	67,653	-8,238	11,786	71,201
Jun-24	69,487	707	12,940	83,134
Jul-24	72,288	-483	12,779	84,584
Aug-24	70,606	8,213	11,915	90,734
Sep-24	69,998	1,600	11,861	83,459
Oct-24	80,379	-9,602	12,159	82,936
Nov-24	82,274	-17,406	13,116	77,984
Dec-24	69,383	-3,736	11,958	77,605

Source: Monthly Accounts, Controller General of Accounts, Government of India, Union Budget documents
Note: IGST revenues are subject to final settlement; Total GST does not include UTGST to maintain consistency with GST data as reported in the Union Budget.

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
Mar-24	6.50	FY21	6.0	11.0	44.0	36.1	FY21	16.2	12.2	6.05	579.3
Apr-24	6.50	FY22	7.0	9.7	38.6	-16.8	FY22	10.7	8.8	6.40	617.6
May-24	6.50	FY23	14.4	9.5	28.0	-5.2	FY23	6.9	9.0	7.35	578.4
Jun-24	6.50	FY24	15.7	13.0	9.8	44.1	FY24	7.3	11.1	7.16	645.6
Jul-24	6.50	4QFY24	16.3	13.3	2.3	11.4	4QFY24	7.3	11.1	7.13	645.6
Aug-24	6.50	1QFY25	15.1	13.0	6.7	0.9	1QFY25	8.5	10.9	7.08	652.0
Sep-24	6.50	2QFY25	14.8	11.0	-2.2	19.9	2QFY25	9.2	10.8	6.92	704.9
Oct-24	6.50	3QFY25	12.4	11.2	-3.3	-11.5	3QFY25	6.0	9.3	6.79	640.3
Nov-24	6.50	Sep-24	14.4	11.5	-0.9	9.7	Oct-24	9.5	11.1	6.79	684.8
Dec-24	6.50	Oct-24	12.8	11.7	-1.3	-10.9	Nov-24	8.4	11.1	6.81	658.1
Jan-25	6.50	Nov-24	11.8	12.0	-2.6	-2.4	Dec-24	6.0	9.3	6.78	640.3
Feb-25	6.25	Dec-24	12.4	9.8	0.7	1.7	Jan-25	6.1	9.6	6.76	630.6

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	2015	3.4	2.3	4.3
FY22	44.7	56.0	-191.0	74.5	78.4	164.8	2016	3.2	1.8	4.4
FY23	6.9	16.8	-264.9	80.4	92.7	283.4	2017	3.8	2.5	4.8
FY24	-4.7	-5.7	-245.3	82.8	81.1	126.4	2018	3.6	2.3	4.6
4QFY24	4.6	2.7	-51.8	82.9	80.6	116.2	2019	2.8	1.7	3.6
1QFY25	4.3	7.6	-63.9	83.4	83.6	121.3	2020	-2.8	-4.2	-1.8
2QFY25	-3.6	4.1	-73.9	83.8	77.9	123.4	2021	6.3	5.6	6.9
3QFY25	3.6	8.6	-81.9	84.5	72.9	122.9	2022	3.5	2.6	4.1
Oct-24	17.2	3.9	-27.1	84.0	74.0	126.7	2023	3.3	1.7	4.4
Nov-24	-4.8	17.9	-32.8	84.4	72.3	124.5	2024 (E)	3.2	1.7	4.2
Dec-24	-1.0	4.9	-21.9	85.0	72.3	117.6	2025*	3.3	1.9	4.2
Jan-25	-2.4	10.3	-23.0	86.3	78.2	110.9	2026*	3.3	1.8	4.3

Source: Database on Indian Economy - RBI, Pink Sheet - World Bank and; E = estimates; and *projections as given in January 2025 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
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
FY25 (FAE)	6.4	3.8	2.9	5.3	6.8	8.6	5.8	7.3	9.1	2.8
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
1QFY25	6.8	2.0	7.2	7.0	10.4	10.5	5.7	7.1	9.5	2.8
2QFY25	5.6	3.5	-0.1	2.2	3.3	7.7	6.0	6.7	9.2	2.3

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. 2Q FY25 growth numbers are based on the quarterly National Accounts Data released on 30-November-2024. FAE for FY25 was released on 07 January 2025.

Fiscal year/quarter	Expenditure components						IPD inflation
	GDP	PFCE	GFCE	GFCF	EX	IM	GDP
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
FY24 (FAE)	6.4	7.3	4.1	6.4	5.9	-1.3	3.2
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
1QFY25	6.7	7.4	-0.2	7.5	8.7	4.4	2.8
2QFY25	5.4	6.0	4.4	5.4	2.8	-2.9	2.5

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. 2Q FY25 growth numbers are based on the quarterly National Accounts Data released on 30-November-2024. FAE for FY25 was released on 07 January 2025.

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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