

Economy Watch

Monitoring India's
macro-fiscal performance

April 2020



Building a better
working world

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Highlights

1. Multilateral institutions have sharply revised down their FY21 growth projection for India which ranges between 0.8% (Fitch) to 4% (ADB) with the median growth rate at 2.4%, due to the adverse impact of COVID-19. The International Monetary Fund (IMF) has projected India's growth rate at 1.9% for FY21.
2. The IMF has projected the global GDP to contract by (-) 3.0% for 2020 with advanced economies (AEs) declining by (-) 6.1% and emerging market and developing economies (EMDEs) contracting by (-) 1.1%.
3. Merchandise exports contracted by (-) 34.6% in March 2020, the highest pace of contraction in nearly three decades.
4. Gross tax revenues of the center contracted by (-) 0.8% during April-February FY20 with direct taxes contracting by (-) 3.5% and indirect taxes witnessing a subdued growth of 1.6%.
5. Bank credit fell to a 28-month low of 7.0% in February 2020. The falling trend in bank credit was intensified in March 2020 with growth in bank credit falling to 6.1% in the fortnight ending 27 March 2020.
6. In March 2020, manufacturing PMI fell to a four-month low of 51.8 while services PMI contracted to 49.3 from its 85-month high of 57.5 in February 2020.
7. Both CPI and WPI inflation eased to 5.9% and 1.0% respectively in March 2020 reflecting the slowdown in overall demand partly caused by the adverse impact of the COVID-19 pandemic.
8. With the prospects of falling inflation, there is a likelihood of a further reduction in the repo rate by a margin of 25 basis points by the RBI in its next MPC review or earlier.
9. For easing financial stress in the economy, the RBI on 17 April 2020 announced additional liquidity enhancing measures such as a reduction in the reverse repo rate, Targeted Long Term Operations (TLTRO) 2.0, special refinance window and increased limit under ways and means advances (WMAs).
10. Average global crude price fell to US\$32.2/bbl. in March 2020, its lowest level since February 2016. However, daily prices of Brent and WTI crude sharply fell to US\$9.1/bbl. and US\$8.9/bbl. respectively on 21 April 2020.



Foreword

Indian economy: coping with COVID compulsions

The IMF has assessed in the World Economic Outlook (WEO) April 2020 that the COVID-19 pandemic will lead to a global contraction worse than that experienced during the 2008-09 global economic and financial crisis. Its impact may be the worst since the Great Depression of 1929. The IMF projected the global GDP to contract by (-) 3.0% in 2020 with AEs expected to contract by (-) 6.1% and EMDEs by (-) 1.1%. Two major EMDEs namely India and China are expected to show a low but positive growth respectively at 1.9% (FY21) and 1.2% in 2020. Other institutions and rating agencies project the global growth in 2020 to range from (-) 2.7% (Bank of America) to 1.95% (OECD).

India's growth prospects are also quite challenging as it has entered the COVID-19 crisis on the back of an economic downslide. The real GDP growth was estimated at 5.0% for FY20 as per the CSO release dated 28 February 2020. As more recent information for 4QFY20 becomes available, this estimate may be revised down significantly. The IMF has projected India's growth at 4.2% in FY20 and at 1.9% in FY21. Other multilateral institutions have projected India's FY21[#] growth to range between 0.8% (Fitch) to 4.0% (ADB) with the median growth rate at 2.4%. The first month of FY21, that is, April 2020 has been effectively wiped out as far as economic activities are concerned due to the near-complete lockdown. India is likely to start rebooting the economy from early May 2020.

High frequency indicators highlight the unfolding adverse impact of the COVID-19 pandemic. Growth in goods exports contracted by (-) 34.6% in March 2020, the highest pace of contraction in nearly three decades. Power consumption which was already contracting by (-) 4.0% over the period August 2019-January 2020 further contracted by (-) 7.0% in March 2020. Specifically, during the lockdown period from 22 March 2020 to 21 April 2020, it fell even more sharply by (-) 23.3% (y-o-y) indicating a steep fall in economic activity. Retail sales of automobiles contracted to its historic low of (-) 44.95% led by a sharp decline in the sale of passenger vehicles and two-wheelers by (-) 51.0% and (-) 39.8% respectively in March 2020 as per the latest data released by Society of Indian Automobile Manufacturers. Growth in bank credit fell to 6.1% (y-o-y) in the fortnight ending 27 March 2020, its lowest level since the fortnight ending 18 August 2017. Growth in bank credit has been falling in each subsequent fortnight since 3 January 2020. Gross tax revenues of the center contracted by (-) 0.8% during April-February FY20 with direct taxes contracting by (-) 3.5% and indirect taxes witnessing a subdued growth of 1.6%. PMI services also contracted to 49.3 in March 2020 from its 85-month high of 57.5 in February 2020 due to a sharp fall in new domestic and export orders.

Two related favorable developments for India are historically low global crude prices and the falling CPI and WPI inflation. Average global crude price fell to US\$32.2/bbl. in March 2020, its lowest level since February 2016. This downward trend strengthened further in April 2020 with Brent and WTI crude price falling to US\$9.1/bbl. and US\$8.9/bbl. respectively on 21 April 2020. In a recent meeting of the OPEC+ countries (12 April 2020), a production cut of 9.7mb/d was agreed upon beginning 1 May 2020 for an initial period of two months concluding 30 June 2020. However, analysts* indicate that the production cut may not mitigate the downward pressure on prices as total oil demand has fallen very sharply in the aftermath of COVID-19. Rystad energy estimates total oil demand to contract by (-) 10.4% for 2020 as per its forecast as on 23 April 2020. In order to take advantage of the low global crude prices, India has started filling up its strategic petroleum reserves**. The fall in crude prices can also be taken advantage of by the central and state governments as also by consumers and industrial users. The central and state governments can partly increase their excise duty/state VAT on petroleum products to augment their tax revenues. To some extent, the benefit may be passed on to the industrial users and consumers in the form of lower retail prices of petroleum products.

CPI inflation fell to a four-month low of 5.9% in March 2020 led by a sustained moderation in vegetable-based inflation. WPI inflation also eased to a four-month low of 1.0% in March 2020 due to easing of food and fuel-based inflation. This may create scope for a further repo rate reduction by the RBI even though it has already been lowered to a historically low level of 4.4%.

A major constraint in reviving the economy comes from the limited scope to mount a large fiscal stimulus. There is a vicious circle that needs to be broken. As long as economic activities remain subdued, central and state taxes will grow at rates much lower than the budgeted magnitudes, constraining the government's ability to provide an adequate amount of stimulus. Large additional borrowing is required first to make up for this revenue loss. More borrowing would be needed to finance relief and stimulus packages over and above the budgeted expenditures. The financing of the entire public sector borrowing requirement would call for measures that India has not utilized in recent years such as monetizing the fiscal deficit and borrowing from multilateral institutions including the IMF. These aspects are discussed in detail in the In-Focus section of this issue of the Economy Watch. Clearly, some bold and innovative solutions are called for to break the vicious circle that the Indian economy finds itself in, during these unprecedented times.

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*<https://energy.economictimes.indiatimes.com/news/oil-and-gas/coronavirus-outbreak-global-oil-demand-to-fall-to-95-96-mbd-in-2020-say-agencies/74923648>

** https://www.business-standard.com/article/economy-policy/india-plans-to-fill-strategic-oil-storage-by-the-third-week-of-may-report-120041400693_1.html

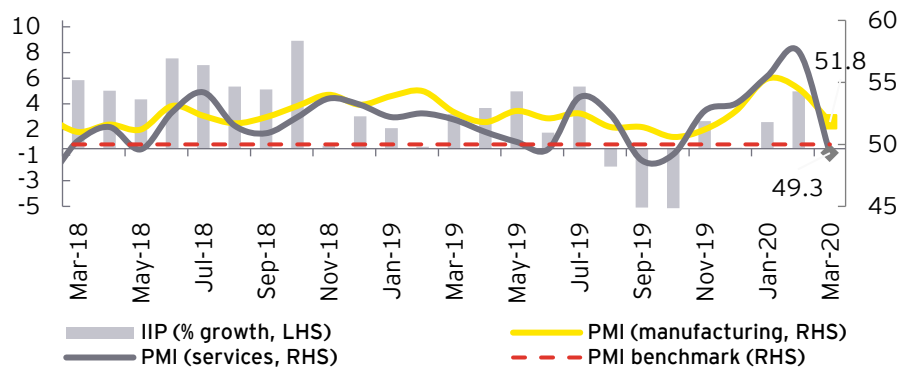
Some rating agencies have predicted a contraction for India in FY21. Both Goldman Sachs and Nomura estimate it to be (-) 0.4%.

1. Growth: IIP grew by 4.5% in February 2020 due to low base effect

A. IIP: grew to a seven-month high of 4.5% in February 2020 due to low base effect

- ▶ Led by a favorable base effect, overall IIP grew at a faster pace of 4.5% (y-o-y) in February 2020 as compared to 2.1% in January 2020 (**Chart 1**). On a m-o-m basis, IIP contracted by (-) 2.8% in February 2020.
- ▶ Output of manufacturing sector, which has the highest weight of 77.6% in the overall index, grew by 3.2% in February 2020 as compared to 1.6% (revised) in January 2020. Electricity sector output grew at a relatively faster pace of 8.1% in February 2020 as compared to 3.1% in January 2020. Due to low base effect, growth in the output of mining sector increased to 10.0% in February 2020 as compared to 4.3% in January 2020 (Table A1 in data appendix).
- ▶ Output of capital goods as well as consumer durables contracted at a faster pace of (-) 9.7% and (-) 6.4% respectively in February 2020 as compared to (-) 4.3% and (-) 3.8% respectively in January 2020. There was no growth in the output of consumer non-durables in February 2020 as compared to a contraction of (-) 0.3% in January 2020.
- ▶ Growth in the output of eight core infrastructure industries (core IIP) increased to an 11-month high of 5.5% in February 2020 from 1.4% in January 2020, largely due to favorable base effect. Among sub-sectors, relatively higher growth was seen in the output of coal (10.3%), cement (8.6%), electricity (11.0%) and petroleum refinery products (7.4%) during February 2020. A sustained contraction was visible in the output of natural gas ((-) 9.6%), and crude oil ((-) 6.4%) during the month.

Chart 1: IIP growth and PMI



IIP growth increased to 4.5% in February 2020 largely due to favorable base effect. This pickup is likely to be temporary as the lockdown due to COVID-19 is expected to have a deleterious effect on industrial activity.

Source: Office of the Economic Adviser, Ministry of Commerce and Industry and IHS Markit

B. PMI: signaled a slowdown in manufacturing and a contraction in services in March 2020

- ▶ Headline manufacturing PMI (seasonally adjusted (sa)) fell to a four-month low of 51.8 in March 2020 from 54.5 in February 2020 due to the negative impact of COVID-19 pandemic particularly on new export orders (**Chart 1**). On an annual basis, manufacturing PMI averaged 52.3 in FY20, down from 52.8 in FY19.
- ▶ PMI services contracted to 49.3 in March 2020 from its 85-month high level of 57.5 in February 2020. The adverse impact of COVID-19 was also seen in the services sector which faced a sharp fall in domestic as well as export orders. On an annual basis, services PMI averaged 51.9 as compared to 52.2 in FY19.
- ▶ Reflecting a sharp slowdown in private sector output growth, the composite PMI Output Index (sa) fell to 50.6 in March 2020 from 57.6 in February 2020. On an annual basis, composite PMI Output averaged 52.6 in FY20 as compared to 52.9 in FY19.

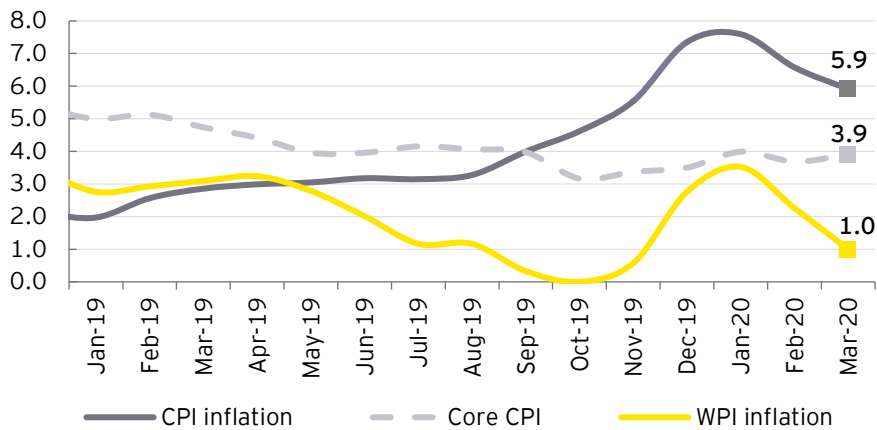
Due to the adverse impact of COVID-19 on new orders and output, manufacturing PMI fell to a four-month low of 51.8 while services PMI contracted to 49.3.

2. Inflation: CPI inflation eased to 5.9% in March 2020

CPI inflation eased to a four-month low of 5.9%¹ in March 2020 from 6.6% in February 2020, due to sustained moderation in inflation in vegetables. On an annual basis, CPI based inflation averaged 4.8% in FY20 as compared to 3.4% in FY19.

- ▶ Inflation in vegetables fell for the third successive month to 18.6% in March 2020 from 31.6% in February 2020. Consequently, consumer food price inflation moderated to a five-month low of 8.8% in March 2020 from 10.8% in February 2020.
- ▶ Inflation in transportation and communication services moderated to a four-month low of 4.3% in March 2020 from 5.2% in February 2020. This was likely on account of a fall in inflation in fuels such as petrol and diesel used for transportation, reflecting the fall in global crude prices.
- ▶ Inflation in fuel and light increased to a 16-month high of 6.6% in March 2020 from 6.4% in February 2020 reflecting the increase in inflation in LPG due to a steep hike in the price of non-subsidized LPG in end-February 2020.
- ▶ Core CPI inflation² increased marginally to 3.9% in March 2020 from 3.7% in February 2020. Inflation in Pan, tobacco and intoxicants increased for the fourth successive month to a seven-month high of 4.7% in March 2020 from 4.1% in February 2020. Inflation in personal care and effects rose to a 76-month high of 8.8% from 6.9% over the same period.

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



Both CPI and WPI inflation eased to 5.9% and 1.0% respectively in March 2020 due to falling inflation in food and fuel, partly reflecting the slowdown in overall demand aggravated by the adverse impact of the COVID-19 pandemic.

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

WPI inflation moderated to a four-month low of 1.0% in March 2020 from 2.3% in February 2020 (Chart 2) due to falling food and fuel-based inflation. On an annual basis, WPI based inflation fell to 1.7% in FY20 from 4.3% in FY19.

- ▶ Price of mineral oils (includes petrol and diesel) contracted by (-) 8.2% in March 2020, a four-month low, from 1.1% in February 2020, reflecting the sharp fall in crude prices by (-) 11.3% in March 2020 as compared to (-) 1.4% in the previous month. Fuel and power-based inflation was negative at (-) 1.8% in March 2020 as compared to 3.4% in February 2020.
- ▶ Food price index-based inflation eased to an eight-month low of 5.5% in March 2020 from 7.3% in February 2020 as inflation in vegetables moderated to 11.9% from 30.0% over the same period. There was a broad-based fall in inflation across vegetables with the fall in inflation in tomato contributing the most.
- ▶ Core WPI (non-food manufactured products) based inflation remained negative for the ninth successive month at (-) 0.8% in March 2020 as compared to (-) 0.7% in February 2020.

¹ CPI inflation for March 2020 is based on data gathered up to 19 March 2020 (RBI Governor's statement on 17 April 2020)

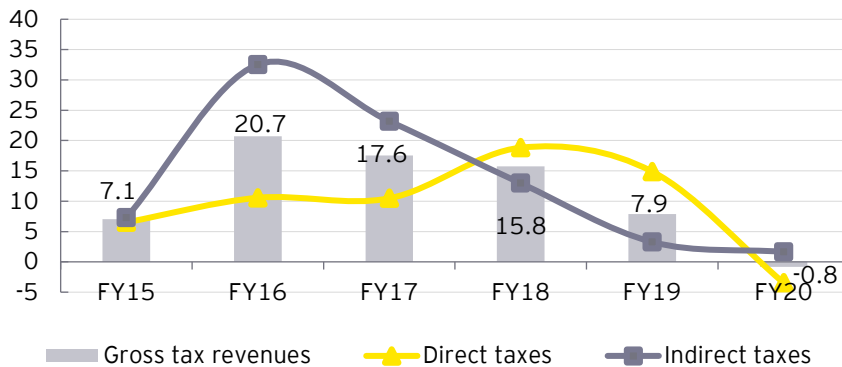
² Core CPI inflation is measured in different ways by different organizations/agencies. Here, it has been calculated by excluding food, and fuel and light from the overall index.

3. Fiscal performance: center's fiscal deficit during Apr-Feb FY20 stood at 135.2% of the annual RE

A. Tax and non-tax revenues

- ▶ As per the Comptroller General of Accounts (CGA)³, gross central taxes during April-February FY20 contracted by (-) 0.8% as compared to a growth of 7.9% during the corresponding period of FY19 (**Chart 3**).
- ▶ A growth of 23.4%⁴ is required in central gross taxes in the last month of FY20 to realize the revised estimate (RE) as per the Union Budget FY21.
- ▶ Direct tax revenues contracted by (-) 3.5% during April-February FY20 as compared to a growth of 14.9% during the same period in FY19.
- ▶ Corporate tax revenues contracted by (-) 12.0% during April-February FY20 as compared to a growth of 15.4% during the corresponding period of FY19. This reflects the impact of the CIT rate reforms undertaken in September 2019 as well as the ongoing economic slowdown.
- ▶ Growth in income tax revenues during April-February FY20 was lower at 7.7% as compared to 14.2% during April-February FY19.
- ▶ Indirect taxes (comprising union excise duties, service tax, customs duty, CGST, UTGST, IGST⁵ and GST compensation cess) witnessed a subdued growth of 1.6% during April-February FY20 as compared to a growth of 3.3% in the corresponding period of previous year.

Chart 3: growth in central tax revenues during April-February (y-o-y, in %)



As per the CGA, center's gross taxes during April-February FY20 contracted by (-) 0.8%. A growth of 23.4% is required in March 2020 to realize the FY20 (RE) as per the Union Budget FY21.

Source: Monthly Accounts, Controller General of Accounts (CGA), Government of India

Notes: (a) Direct taxes include personal income tax and corporation tax, and indirect taxes include union excise duties, service tax, customs duty, 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 center's gross tax revenues along with direct and indirect taxes.

- ▶ Center's non-tax revenues showed a growth of 53.2% during April-February FY20 as compared to 20.8% during the corresponding period of FY19.
- ▶ According to the data available from Department of Disinvestment⁶, disinvestment proceeds stood at INR50,298.64 crores. This was INR14,701.36 crores short of the FY20 (RE) at INR65,000 crores.

³ Monthly accounts for February 2020 released on 31 March 2020

⁴ FY20 (RE) for indirect taxes excludes taxes of the UTs

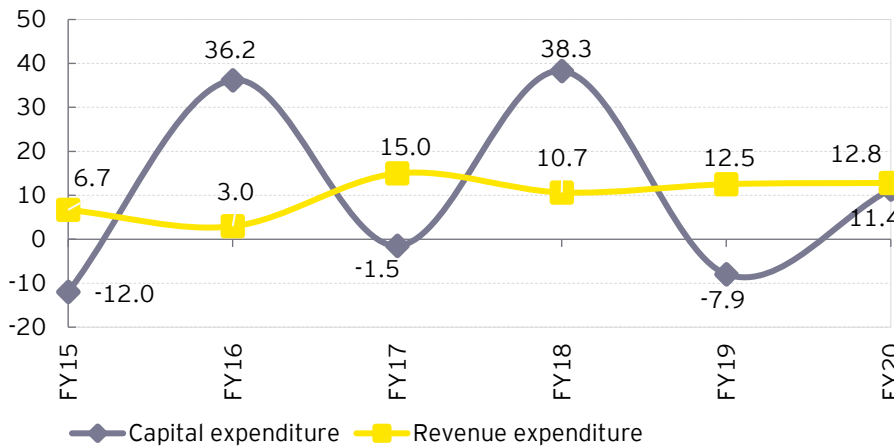
⁵ IGST revenues are subject to final settlement

⁶ <https://dipam.gov.in/highlights>

B. Expenditures: revenue and capital

- ▶ Center’s total expenditure during April-February FY20 grew by 12.6% as compared to 9.5% during April-February FY19 (**Chart 4**). Total expenditure during April-February FY20 stood at 91.4% of the RE.
- ▶ Revenue expenditure during April-February FY20 grew by 12.8%, marginally higher than 12.5% during the corresponding period of FY19.
- ▶ Growth in center’s capital expenditure during April-February FY20 was at 11.4% as compared to a contraction of (-) 7.9% during the corresponding period of the previous year.
- ▶ As a proportion of the annual RE, revenue expenditure during the first eleven months of FY20 stood at 92% while capital expenditure stood at 87.3%.

Chart 4: growth in central expenditures during April-February (y-o-y, in %)



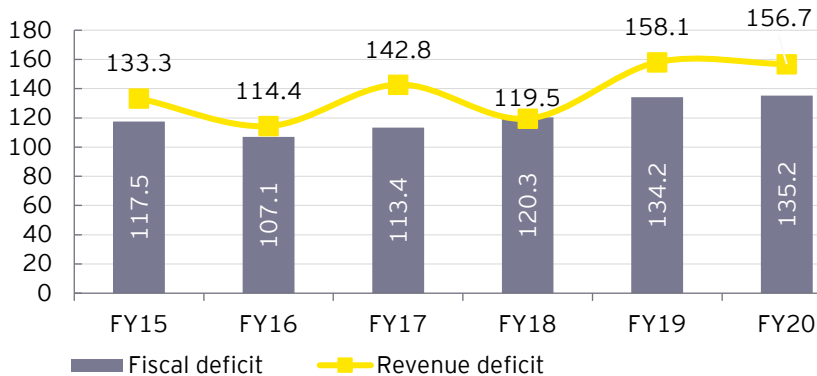
Center’s total expenditure grew by 12.6% during April-February FY20. Revenue expenditure during this period stood at 92% of the FY20 RE while the corresponding level for capital expenditure was at 87.3%.

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

C. Fiscal imbalance

- ▶ Center’s fiscal deficit during April-February FY20 stood at 135.2% of the annual revised target as compared to 134.2% in the corresponding period of FY19 (**Chart 5**). There may be some slippage in the fiscal deficit target of 3.8% of GDP in FY20 due to a shortfall in tax revenues and disinvestment receipts of the center.
- ▶ Center’s revenue deficit during April-February FY20 was at 156.7% of the annual revised target as compared to 158.1% during the corresponding period of FY19.

Chart 5: fiscal and revenue deficit during April-February as percentage of annual revised target



Center’s fiscal deficit during April-February FY20 stood at 135.2% of the annual revised estimate. There may be some slippage in center’s fiscal deficit target of 3.8% of GDP in FY20 due to a shortfall in tax revenues and disinvestment receipts.

Source: Monthly Accounts, Controller General of Accounts (CGA), Government of India.

4. India in a comparative perspective: global contraction in 2020 projected to be sharper than that in 2009

Real GDP growth

Affected by COVID-19 pandemic, global GDP is projected to witness a sharper contraction relative to that in the 2009 global economic and financial crisis

- ▶ The IMF projected the global GDP to contract by (-) 3% in 2020 due to the COVID-19 pandemic (Table 1).
- ▶ Global growth had peaked at 3.9% in 2017 but fell to 3.6% in 2018 and further to 2.9% in 2019 due to weak trade and investment.
- ▶ The current crisis is expected to be worse than the 2008-09 global economic and financial crisis wherein global GDP had contracted by (-) 1%.
- ▶ Assuming a normalization in activity helped by policy support, global growth is expected to rebound to 5.8% in 2021. In comparison, in 2010, global growth had recovered to 5.4%.
- ▶ All AEs are expected to contract in 2020 with the sharpest contraction in the Euro area (-7.5%) followed by the UK (-6.5%), US (-5.9%) and Japan (-5.2%).
- ▶ Among EMDEs, India and China are expected to grow at positive rates in 2020 with India's growth at 1.9% exceeding that of China at 1.2%.
- ▶ In the pre-COVID years, China was the global growth leader, posting a growth of 6.8% and 6.1% in 2018 and 2019 respectively. India's growth was at 6.1% in 2018 (FY19) before it fell to 4.2% in 2019 (FY20).

Table 1: real GDP growth (% , annual)

	2018	2019	2020	2021
Global	3.6	2.9	-3.0	5.8
AEs	2.2	1.7	-6.1	4.5
US	2.9	2.3	-5.9	4.7
UK	1.3	1.4	-6.5	4.0
Euro area	1.9	1.2	-7.5	4.7
Japan	0.3	0.7	-5.2	3.0
EMDEs	4.5	3.7	-1.1	6.6
Brazil	1.3	1.1	-5.3	2.9
Russia	2.5	1.3	-5.5	3.5
India*	6.1	4.2	1.9	7.4
China	6.8	6.1	1.2	9.2
S. Africa	0.8	0.2	-5.8	4.0

Source (basic data): WEO, IMF, April 2020

Note: actuals for 2018 and 2019 and forecasts for 2020 and 2021

*data pertains to fiscal year. For e.g., data for 2019 pertains to the year FY20.

Average CPI inflation

CPI inflation projected to fall in 2020 in most AEs and EMDEs due to subdued demand and commodity prices

- ▶ Average CPI inflation is projected to fall in 2020 for all major AEs and EMDEs due to the adverse impact of COVID-19 on demand and a sharp fall in global crude and other commodity prices.
- ▶ Global inflation is expected to fall from 3.6% in 2018 and 2019 to 3% in 2020.
- ▶ CPI inflation in AEs is expected to be muted at 0.5% in 2020 with Japan, Euro area and the US having inflation below 1%. Inflation in AEs is expected to increase to 1.5% in 2021 as demand gradually increases, but still remain below the long-term inflation targets of most AEs.
- ▶ In EMDEs, CPI inflation is projected to fall to 4.6% in 2020 and further to 4.5% in 2021.
- ▶ Commodity and oil exporters such as Brazil, Russia and China are expected to face lower inflation even in 2021 due to subdued prospects for commodity prices and global crude prices.
- ▶ CPI inflation in India is projected at 3.3% in 2020 and 3.6% in 2021, well below the target of 4% owing to lower global crude prices and subdued domestic demand.

Table 2: average CPI inflation (% , y-o-y)

	2018	2019	2020	2021
Global	3.6	3.6	3.0	3.3
AEs	2.0	1.4	0.5	1.5
US	2.4	1.8	0.6	2.2
UK	2.5	1.8	1.2	1.5
Euro area	1.8	1.2	0.2	1.0
Japan	1.0	0.5	0.2	0.4
EMDEs	4.8	5.0	4.6	4.5
Brazil	3.7	3.7	3.6	3.3
Russia	2.9	4.5	3.1	3.0
India*	3.4	4.5	3.3	3.6
China	2.1	2.9	3.0	2.6
S. Africa	4.6	4.1	2.4	3.2

Source (basic data): WEO, IMF, April 2020

Note: actuals for 2018 and 2019 and forecasts for 2020 and 2021

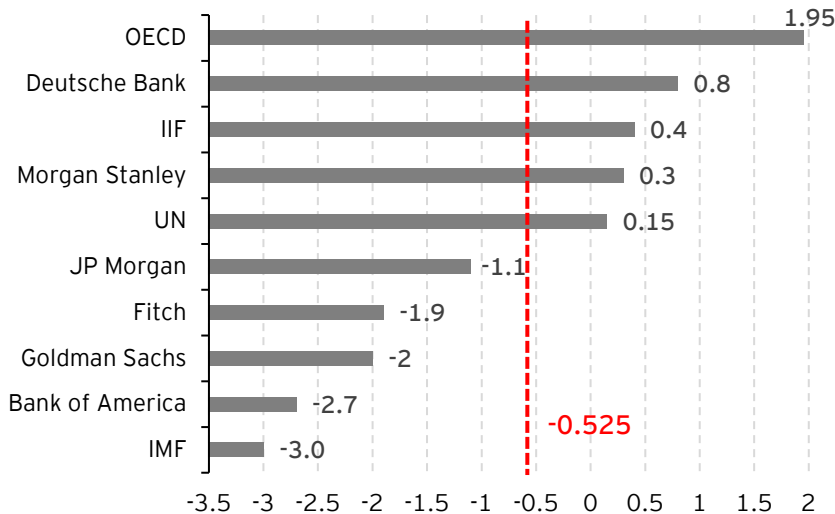
*data pertains to fiscal year. For e.g., data for 2019 pertains to the year FY20.

5. In focus: Overcoming COVID-19's economic impact: calibrating India's fiscal stimulus

Introduction

Multilateral institutions have assessed that the COVID-19 global pandemic will leave the world economy worse off than the 2008-09 global economic and financial crisis (Charts 6 and 8) which took the world economy nearly five years to recover from. Its impact may be more comparable with the Great Depression of 1929. Many analysts expect that after the crisis, there would be a restructuring of the global economy and trade. If India manages its policy response promptly and strategically, it may emerge among the top economies of the world.

Chart 6: Global GDP growth projections for 2020*



Global growth erosion

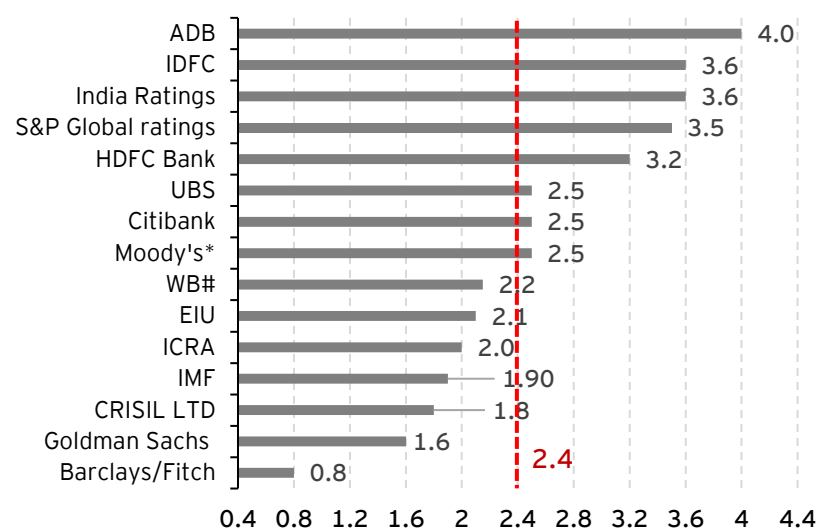
Consequent upon the unleashing of COVID-19 on the global economic system, most developed countries have admitted that they are staring at a major contraction in their GDP. Chart 6 indicates the present assessment of the global growth prospects for 2020. These may be considered as preliminary estimates since, as the crisis deepens, new releases may indicate progressively worse global growth prospects. At present, the projected global growth ranges from (-) 3.0% (IMF) to 2.4% (OECD's upper range). The mid-point of OECD's projection is 1.95%.

Source: Various media articles and organization websites;
 Note: Projection by OECD represents the mid-point of the range 1.5-2.4%; projection by UN represents the mid-point of the range (-) 0.9% - 1.2%.
 * data updated till 15 February 2020

India's growth prospects

India is facing equally challenging economic growth prospects as it has entered the COVID-19 crisis on the back of an economic downslide. In fact, in FY20, the real GDP growth was estimated at 5.0% as per the CSO release dated 28 February 2020. As more recent information for 4QFY20 becomes available, this estimate may be revised down. The IMF has projected India's FY20 growth at 4.2%. Real GDP growth projections for India for FY21 range from 0.8% (Fitch) to 4.0% (ADB). The median growth rate in the group of large number of projections given in Chart 7 by different agencies is at 2.4%.

Chart 7: Real GDP growth projections for India FY21*



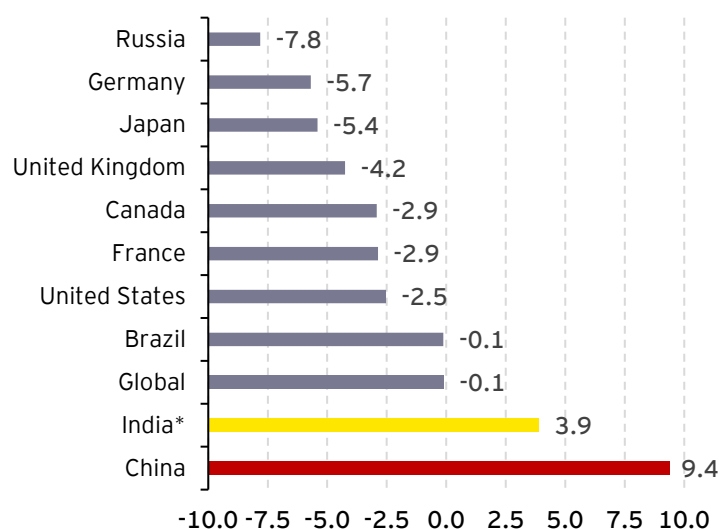
Source: Various media articles and organization websites;
 Note: *Projections for calendar year 2020; #-Projection by WB represents the mid-point of the range 1.5-2.8%.
 Some rating agencies have predicted a contraction for India in FY21. Both Goldman Sachs and Nomura estimate it to be (-) 0.4%.

Comparing the present crisis with the 2008-09 global economic and financial crisis

Multilateral agencies have already provided their preliminary estimates of the contractionary impact of COVID-19 on major world economies. As discussed earlier, many of these institutions have expressed their view that the economic impact of COVID-19 is likely to be tangibly worse than the impact of the global economic and financial crisis of 2008-09. Chart 8 shows that in 2009, except for India and China which showed positive growth, most of the other major economies went into a significant contraction. Some of the larger economies such as Germany, Japan, the UK, France and the US showed sharp contraction ranging from (-) 5.7% (Germany) to (-) 2.5% (the US).

India faced the 2008-09 crisis on the back of five successive high growth years over the period FY04 to FY08. The average growth rate during this period was 7.9%. In FY08, the combined fiscal deficit of the central and state governments was also at its lowest at 4.1% of GDP.

Chart 8: Country-wise GDP growth in 2009



Source: Various media articles and organization websites;
* FY2009

Table 3: Private corporate (non-financial) and government debt of AEs and EMDEs: pre and post global economic and financial crisis

Country	Borrowing sector	2003	2005	2007	2008	2009	2011	2011 minus 2008	2019 (end Sep)
Global	Government	70.9	64.7	62.7	63.5	76.9	82.4	18.9	86.1
	Corporates	NA	NA	NA	78.0	87.2	85.0	7.0	92.8
AEs	Government	77.0	71.9	71.7	76.5	90.8	106.6	30.1	109.1
	Corporates	84.0	76.6	88.9	86.7	92.9	88.6	1.9	90.4
US	Government	56.1	61.1	60.7	71.6	81.3	102.4	30.8	103.5
	Corporates	62.0	62.6	69.9	72.5	70.3	66.6	-5.9	75.3
UK	Government	37.7	43.2	44.1	54.0	67.2	96.0	42.0	115.7
	Corporates	82.3	89.8	93.9	101.2	97.2	92.1	-9.1	81.5
Euro area	Government	72.3	74.6	66.9	72.2	83.4	98.7	26.5	100.6
	Corporates	82.9	85.3	91.9	96.2	100.7	104.5	8.3	108.7
Japan	Government	142.1	149.6	145.5	150.3	169.1	196.9	46.6	218.4
	Corporates	106.3	103.4	101.8	105.5	108.5	102.6	-2.9	102.9
EMDEs	Government	45.0	39.1	37.5	31.0	42.2	38.1	7.1	49.9
	Corporates	NA	NA	NA	56.0	73.0	78.3	22.3	96.5
Brazil	Government	71.6	67.0	63.1	61.5	64.8	61.6	0.1	87.6
	Corporates	37.7	32.3	30.1	35.7	36.2	41.9	6.2	42.8
Russia	Government	32.4	15.3	8.3	7.7	10.2	11.9	4.2	15.3
	Corporates	28.0	31.0	39.0	42.8	47.2	39.8	-3.0	46.0
India	Government	84.7	83.8	76.1	72.9	73.5	66.9	-6.0	68.8
	Corporates	NA	NA	NA	45.7	48.5	50.1	4.4	44
China	Government	26.8	26.4	29.3	27.1	34.6	34.5	7.4	52.5
	Corporates	NA	NA	98.1	97.7	121.7	132.8	35.1	150.4

Source (basic data): Bank for International Settlements (BIS)

These two economic crises are different in some crucial respects. The roots of the 2008-09 crisis emanated from the housing market crisis of the US and excessive lending by global financial institutions to households based on poor quality collaterals. Once the financial crisis became apparent by the failure of the highly reputed banks and financial organizations, the housing market started to collapse and the value of house as a collateral also collapsed in the US and other developed country markets. This gave rise to a domino effect and financial institutions being interlinked across the globe, started to fail. The credit markets across the world crashed,

leading to a collapse of credit demand across countries. This was primarily a demand-led crisis. It was addressed by individual and coordinated stimulus across the G-20 countries. These countries coordinated their stimulus action by reducing interest rates as also tax rates and by increasing their debt-financed government expenditures. In those economies where this was overdone, there was a sharp rise in inflation. The longer-term outcome was an increase in the indebtedness of the whole world. In particular, since most governments followed strong fiscal stimulus measures based on borrowing, it is the government debt which increased sharply after the 2008-09 crisis (Table 3). Comparing government debt-GDP ratio of 2011 with that of 2008, we note that for the AEs, it rose by a magnitude of 30.1% points of GDP whereas for EMDEs, it rose by 7.1% points of GDP. In fact, within just one year that is from 2008 to 2009, for the EMDEs, it had risen by more than 10% points of GDP. After that there was some reduction in the government debt to GDP ratio. But in subsequent years, government debt increased at a fast pace for EMDEs, but the pace of increase was comparatively lower for the AEs.

Since the present crisis in all likelihood may be deeper than the 2008-09 crisis, the reliance on fiscal measures would be even larger. In fact, in most developed countries, the interest rates are near zero and any monetary side stimulus may have limited effect. As such, it is the borrowing-based financing of government expenditure which will serve to boost demand in different countries. This is likely to result into governments across the world sinking into greater indebtedness.

In contrast to the 2008-09 crisis, the current crisis is a combination of supply side disruptions and a sinking of demand. As demand is uplifted through stimulus, supply side disruptions may have to be simultaneously removed so that the two sides may come out of the crisis in sync. This calls for a carefully calibrated injection of demand stimulus which should be synchronized with the stages of the exit from the lockdown.

First round of global stimulus measures

To counter the economic shock, many AEs have taken bold monetary and fiscal measures to stimulate their economies. On 26 March 2020, the G-20 countries announced a US\$ 5 trillion stimulus package to counter the social and economic impact of COVID-19. The US has announced a fiscal stimulus package amounting to more than 10% of its GDP. The Federal Reserve has reduced the federal funds rate by a cumulative margin of 150 bps in March 2020 to range between 0-0.25%. Japan has also announced a large stimulus package in which fiscal spending is estimated at close to 7% of GDP⁷. Other AEs such as Australia and Germany have announced similar fiscal stimulus packages amounting to 9.7% and 4.9% of their respective GDPs. Besides direct fiscal spending, Germany has announced that it shall provide public loan guarantees amounting to 25% of GDP. France plans to provide state guarantees for bank loans to companies amounting to 13% of GDP.

Table 4: Magnitude of fiscal stimulus in selected G-20 countries

Country	Magnitude of fiscal stimulus	Comments, if any
US	US\$ 2.3 trillion = 11% of GDP	
Australia	AUS\$194 billion = 9.7% of GDP	Budgeted stimulus to extend till FY2023-24, with the majority to be executed in FY2019-20 and FY2020-21
Canada	CAD\$ 193 billion = 8.4% of GDP	
Japan	US\$ 362 billion = 7% of GDP	Total Stimulus package = US\$ 990 billion = 20% of GDP
Germany	EUR 156 billion = 4.9% of GDP	
Brazil	NA. Fiscal package amounting to 3.5% of GDP.	
Saudi Arabia	US\$ 18.7 billion=2.7% of GDP	
France	EUR 45 billion = 2% of GDP	EUR 300 billion (13% of GDP) of state guarantees for liquidity bank loans to companies are given separately
Russia	NA. Fiscal package is valued at 1-1.5% of GDP	
Turkey	US\$ 11.6 billion = 1.5% of GDP	Separately US\$ 3.8 billion (0.5% of GDP) is provided for the doubling the credit guarantee fund
Italy	EUR 25 billion = 1.4% of GDP	
China	RMB 1.3 trillion = 1.2% of GDP	The overall fiscal expansion is expected to be significantly higher, reflecting the effect of already announced additional measures

⁷ <https://www.cnbc.com/2020/04/07/japan-declares-coronavirus-emergency-and-approves-a-near-1-trillion-stimulus-package.html>

Country	Magnitude of fiscal stimulus	Comments, if any
Argentina	NA. Cost of adopted measures is estimated at 1% of GDP	
South Korea	KRW 16 trillion = 0.8% of GDP	Includes a supplementary budget of KRW 11.7 trillion ~0.6% of GDP
EU	EUR 37 billion = 0.3% of GDP	The European Commission also activated the general escape clause in the EU fiscal rules, which suspends the fiscal adjustment requirements for countries not at their medium-term objective and allow countries to run deficits in excess of 3 percent of GDP.
Indonesia	33.2 trillion rupiah = 0.2% of GDP	

Source: IMF; Note: Information in the Table is as per data available as on 14 April 2020

Policy challenges for India

India's first three-week lockdown was slated to end on 14 April 2020. It has now been extended up to 3 May 2020. Thus, the month of April 2020 was nearly washed out as far as economic output is concerned. Economic activities may not normalize for some time even after 3 May 2020. In fact, the exit from the lockdown needs to be according to a well-thought out plan. Different output sectors may resume activities at different pace as the health pandemic is gradually brought under control. As sectors are opened up, fiscal stimulus should be injected targeted towards these sectors. GDP growth in India in FY21 would depend critically on the pace of opening up of the sectors and the extent of stimulus alignment. It is possible that as in response to the 2008-09 crisis, stimulus was introduced in two successive years, in the present case also, we may consider injecting stimulus over several quarters. First, we need to recognize that the available excess of savings over investment supplemented by net capital inflows from abroad may be quite limited in FY21. A large fiscal deficit would be highly constrained even if it is partly financed by monetization. This is so because of an extremely subdued tax revenue performance in FY20 which provided the base for FY21 tax revenue growth projections. The present fiscal trends indicate that the FY21 budget estimates for both revenues and expenditure have been rendered irrelevant due to the unfolding economic reality. The budgeted fiscal deficit for FY21 which had already provided for a relaxation of 0.5% points of GDP, may need to be relaxed further. The arithmetic of fiscal deficit calculations even if we take into account broad contours of its determinants, indicate that the scope for additional relaxation of fiscal deficit may be limited.

Space for fiscal stimulus

Industry bodies namely CII, FICCI, ASSOCHAM and PHD Chambers and the NITI Ayog have urged the center to announce packages providing substantive fiscal stimulus financed by borrowing (Table 5).

Table 5: stimulus packages suggested by industry bodies to the government for FY21

Industry body	Stimulus package	Basic features of stimulus package
NITI Ayog	INR 10 lakh crore ~ 5% of GDP	► Income support to the poor, equity support to corporates, absorption of a portion of NPAs in MSME sector and additional investments in healthcare.
CII	INR 4.5 lakh crore ~ 2% of GDP (budgeted)	► Estimated that India would need a credit expansion of 14 to 15% and hence the RBI may extend the wage and interest support. In particular, banks may provide additional working capital limits, equivalent to the April-June wage bill of the borrowers, backed by a government guarantee, at 4-5%, with a refinance guarantee from RBI.
FICCI	INR 9-10 lakh crores ~ 4-5% of GDP	► Setting a "Bharat Self-Sufficiency Fund" with an outlay of INR 2 lakh crore for promoting scientific research and innovation and creating self-sufficient industry clusters. ► Extension of timeline for loan moratorium. ► Interest free and collateral free loans be given to MSMEs with a turnover of less than INR 500 crore for a period of up to 12 months depending on the sector to enable them to cover fixed costs, salaries and other operational expenses.
ASSOCHAM	US\$200- US\$300 billion ~ 10% of GDP	► Infusion of US\$50-US\$100 billion cash over the next three months to arrest the loss of jobs and income.

PHD Chamber	INR 11 lakh crore ~ 5% of GDP	<ul style="list-style-type: none"> ▶ Immediate reduction in the lending rate by banks to percolate the full effect of recent repo rate reduction of 75 basis by the RBI. ▶ Deferment of the EMIs of the term-loans for six months. ▶ Special interest subvention at the rate of 3% per annum in loans to MSMEs and other badly affected industries. ▶ Abolition of all fixed charges of all the utilities and deferment of their bills by three months.
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Source (basic data): <https://www.outlookindia.com/newsscroll/india-inc-seeks-urgent-stimulus-package-worth-rs-9rs-11-lakh-cr-roundup/1796152>, <https://www.financialexpress.com/economy/covid-19-crisis-stimulus-of-5-of-gdp-needed-says-niti-aayog/1930993/>

While appreciating the need for a large magnitude of fiscal stimulus to support relief and stimulus measures, the available resources for the government appear to be highly constrained when we match the public sector borrowing requirement (PSBR) with the sources of its financing. This is so because India is facing the COVID-19 crisis in the context of two successive years of fiscal slippage where the central government had to provide for a countercyclical relaxation of 0.5% points of GDP each from their respective targets in FY20 (RE) and FY21 (BE). As noted earlier, India is in a far more handicapped position at present as compared to the 2008-09 crisis.

Table 6 shows that the centre would need to borrow about 1.4% of GDP in FY21 just to make up for the likely shortfall in the budgeted net tax revenues and non-debt capital receipts of the center after accounting for the lower than budgeted nominal GDP. If the budgeted expenditures are maintained, the fiscal deficit of the center would balloon up from an already escalated level of 3.5% of GDP to 4.9% of estimated GDP even before any additional stimulus is considered. In the relief package of INR 1.7 lakh crore under Pradhan Mantri Garib Kalyan Yojana, announced on 24 March 2020, the additionality for FY21 is estimated to be only about 0.3% of GDP since some of the expenditures were already budgeted but brought forward for release. Including this amount, center's borrowing requirement amounts to 5.2% of GDP for FY21. Assuming a fiscal deficit of 3.0% of GDP for the states and also accounting for significant revenue erosion due to lower tax devolution (0.5% of GDP) and lower own tax revenues (0.5% of GDP) compared to the corresponding budgeted amounts, the combined fiscal deficit to meet FY21 budgeted expenditures and provide for the already announced relief package is estimated at 9.2% of GDP. Considering additional stimulus spending of 3% of GDP by the central government, 1% of GDP by the state governments, and a borrowing requirement of 3.5% of GDP by the central and state public sector enterprises (PSUs), the total PSBR is estimated at 16.7% of GDP.

Examining the issue from the side of sources of financing PSBR, based on information for FY19 regarding household, private corporate and public sector saving and investment profiles, the estimated excess savings from the household and private corporate sector along with savings of the public sector is about 8.5% of GDP. This may be considered as the upper limit in FY21 given the ongoing economic slowdown. The prospects of net capital inflows from abroad, as reflected by a likely low current account deficit, also appear to be limited to about 1% of GDP in FY21. These estimates may be considered as providing only broad contours. There is thus a significant financing gap between PSBR of 16.7% of GDP to maintain FY21 budgeted expenditures and provide some stimulus, and feasible financing of about 9.5% of GDP. Overall, financing gap can be considered in two steps: (a) gap 1 - to protect budgeted expenditures of the center and states (3.2% of GDP) and (b) gap 2 consisting of gap 1 plus stimulus expenditure amounting to 4.0% of GDP together by the center and states, adding to 7.2% of GDP. Some of the channels through which this gap may be filled up include monetization of fiscal deficit, borrowing from multilateral institutions including the IMF, and borrowing from NRIs. As borrowing by the central and state governments increase the cost of borrowing is likely to go up over the course of the year.

Table 6: PSBR in FY21 and sources of financing: an analysis

#	Item	Amount (INR crore)	% to estimated nominal GDP FY21)
Requirement of resources			
1	Shortfall* in net tax revenue in FY21	2,27,567	1.0
2	Shortfall* in non-debt capital receipts in FY21	60,000	0.3
3	Estimated slippage in fiscal deficit due to lower GDP in FY21	26,304	0.1
4=1+2+3	Slippage in center's FD due to lower GDP, lower net tax revenue, lower non-debt capital receipts	3,13,871	1.4
5	Additionality in first relief package announced on 26 March 2020	65,000	0.3
6=4+5	Additional fiscal deficit (center) in FY21 required to maintain budgeted expenditure and provide first relief package	3,78,871	1.7
7	Budgeted fiscal deficit of the center	7,61,130	3.5
8	Borrowing of the states as per FRLs	6,52,397	3.0

9	Additional borrowing of states to make up for shortfall in tax devolution (0.5%) and own tax revenues (0.5%)	2,17,466	1.0
10=6+7+8+9	Combined fiscal deficit to meet budgeted expenditures and provide first relief package	20,09,864	9.2
Scope for fiscal stimulus			
11	Borrowing by central and state PSUs	7,61,130	3.5
12	Center's additional borrowing for stimulus	6,52,397	3.0
13	States' additional borrowing for stimulus	2,18,124	1.0
14=10+11+12+13	Total PSBR	36,41,516	16.7
View from financing side			
15	HH and pvt. corporate sector excess savings	15,22,260	7.0
16	Public sector saving	3,26,199	1.5
17	Net capital inflow from abroad	2,17,466	1.0
18=15+16+17	Supply of resources	20,65,925	9.5
19=10+11-18	Financing gap 1: to protect FY21 budgeted expenditure	7,05,069	3.2
20=12+13+19	Financing gap 2: to provide additional stimulus + financing gap 1	15,75,591	7.2
Memo			
1	FY21 estimated nominal GDP		2,17,46,577

Source (basic data): Union budget documents FY21, CGA, MOSPI, and PIB; *as compared to FY21 (BE)

Notes: (1) A nominal GDP growth of 7% is assumed over the revised nominal GDP for FY20. The revised nominal GDP for FY20 is estimated to be lower than the second advance estimate of the CSO (released on 28 February 2020) by INR 60,855 crores

(2) Centre's gross tax revenue for FY20 is estimated to be lower than the FY20 (RE) by INR 1,75,070 crores

(3) A lower than budgeted buoyancy of 1 is assumed for center's gross tax revenues of FY21

(4) Shortfall in center's non-debt capital receipts in FY21 is on account of a shortfall in disinvestment receipts

(5) The genuine additionality in the relief package of INR 1.7 lakh crore under the Pradhan Mantri Garib Kalyan Yojana announced in March 2020 is estimated at nearly INR 65,000 crores

(6) For states, 0.5% of GDP each is required on account of shortfall in own tax revenues and tax devolution in FY21

(7) In calculating tax devolution to states, the budgeted ratio of assignment to states to center's gross tax revenues at 32.5% is used.

(9) For the borrowing requirement of public sector enterprises, the budgeted requirement of central PSUs at 2.6% of GDP is retained and a requirement of 0.9% of GDP is estimated for the state PSUs.

(10) Basic data from the CGA involves adjustment of CIT, PIT and indirect tax revenues for other taxes.

(11) Indirect tax revenues used from FY21 budget exclude taxes of the UTs.

Financing state level borrowing requirements has already added upward pressure on the interest rates indicating low demand for state bonds. The adverse borrowing environment for states was visible on 7 April 2020 when 19 states sought to borrow an amount of INR37,500 crores from the market through sale of bonds. These states could manage to fulfil approximately 87% of this borrowing need but only at a steep rise in their cost of borrowing. Media sources report that the spread between states' borrowing costs and equivalent government securities (G-secs) increased to 140-200 basis points as compared to a normal level of 60-70 basis points^[1]. Despite a steep cut in the repo rate of 75 basis points on 27 March 2020, the average yield for 10-year state government bonds in the 7 April 2020 auction was at 7.81%, 51 basis points higher than their weighted average yield on 30 March 2020, and nearly 100 basis points higher than the yield on 9 March 2020. Reasons for the rising borrowing cost include: a) uncertainty in regard to the future borrowing requirements of states, b) large supply of central and state G-secs, coupled with lower demand due to FPI outflows and c) cautiousness amongst banks on account of expected constrained liquidity due to the interest moratorium on loans placed by the RBI.

Concluding observations

There is an urgent need to reprioritize budgeted expenditures in favor of health-related expenditures including health infrastructure. In terms of rebooting the economy, new manufacturing capacity needs to be attracted in India which would require additional budgetary allocation. In fact, both revenue and expenditure side estimates of the central and state budgets which were only recently presented in the Parliament and respective legislatures would need to be overhauled. Effective economic policy would require aligning the calendar of opening up of economic sectors with injections of fiscal stimulus while being supported by monetary policy initiatives and other industrial policy interventions. As things begin to normalize, there may be a need to present new full year budgets since the existing budgetary numbers have been rendered irrelevant by the onslaught of the economic pandemic.

^[1] https://www.business-standard.com/article/economy-policy/cash-starved-and-desperate-states-borrow-at-steep-rate-in-lockdown-120040701763_1.html

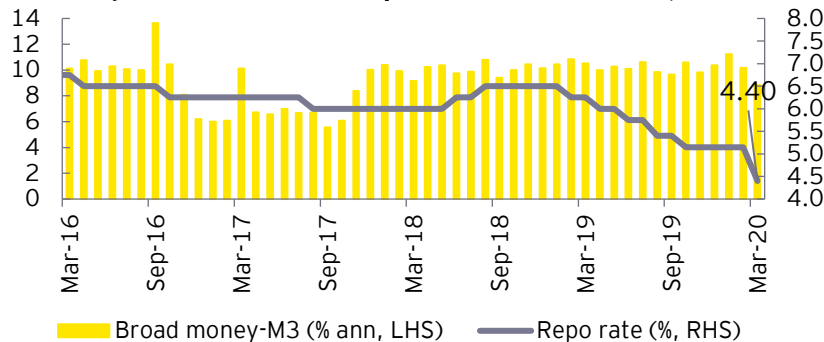
6. Money and finance: growth in bank credit fell to a 28-month low of 7.0% in February 2020

A. Monetary sector

Monetary policy

- ▶ The RBI on 17 April 2020 undertook additional regulatory and liquidity augmenting measures to facilitate and incentivize bank credit and ease financial stress in the economy.
- ▶ The latest liquidity enhancing measures include (a) reduction in the reverse repo rate by 25 basis points to 3.75%, (b) Targeted Long Term Operations (TLTRO) 2.0, specially aimed at NBFCs, with an aggregate amount of INR50,000 crore, (c) special refinance window amounting to INR 50,000 crore for all India financial institutions and (d) increase in limit under ways and means advances (WMAs) for state governments by 60% of the original limit and for the central government to INR2 lakh crore for 1HFY21
- ▶ The pass-through of repo rate reduction to lending rates continued to remain varied and partial. In RBI's assessment, as against a cumulated 210 basis points reduction in repo rate during February 2019 and March 2020, the WALR⁸ on fresh rupee loans and outstanding rupee loans have declined by a cumulated 71 basis and 16 basis points respectively. The one-year median MCLR rate has fallen by a cumulated 60 basis points during the same period.

Chart 9: growth in broad money and movements in repo rate



Bank credit fell to a 28-month low of 7.0% in February 2020 as compared to 8.3% in January 2020 pointing to weak demand in the economy.

Source: Database on Indian Economy, RBI

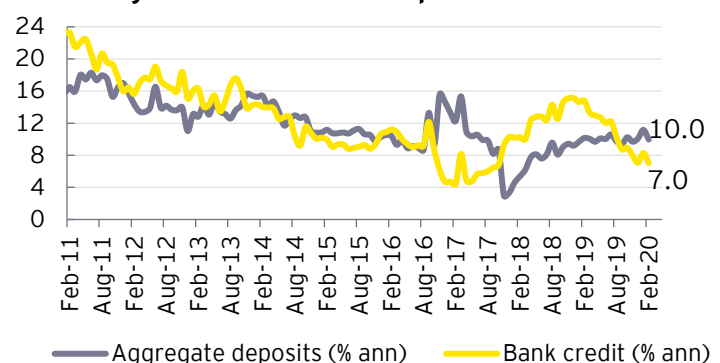
Money stock

- ▶ Growth in broad money stock (M3) fell for the second consecutive month to 8.8% in March 2020 as compared to 10.2% in February 2020 (**Chart 9**). Time deposits, accounting for nearly 76% of M3, grew at a slow pace of 8.2% in March 2020 as compared to 9.6% in February 2020.
- ▶ Narrow money (M1) growth also fell to 11.0% in March 2020 from 11.9% in February 2020. This was due to a sharp fall in the growth of demand deposits to 6.8% in March 2020 from 12.7% in February 2020. Growth of currency in circulation increased to 14.2% in March 2020 as compared to 11.5% in February 2020.

Aggregate credit and deposits

- ▶ Growth in bank credit fell to 7.0% in February 2020 from 8.3% in January 2020 indicating weak demand in the economy (**Chart 10**).
- ▶ Growth in non-food credit was lower at 7.3% in February 2020 as compared to 8.5% in January 2020 due to slower credit growth across all major sectors.
- ▶ Growth in credit to industry fell to a 19-month low of 0.7% in February 2020 from 2.5% in January 2020. Growth in credit to

Chart 10: growth in credit and deposits



Source: Database on Indian Economy, RBI

⁸ WALR is only till February 2020.

services and agriculture was also lower at 6.9% and 5.8% respectively in February 2020 as compared to 8.9% and 6.5% respectively in January 2020.

- ▶ Although credit to housing sector posted a double-digit growth of 17.1% in February 2020, it was marginally lower than 17.5% in January 2020.
- ▶ Aggregate bank deposits grew at a relatively slow pace of 10.0% in February 2020 as compared to 11.3% in January 2020.

B. Financial sector

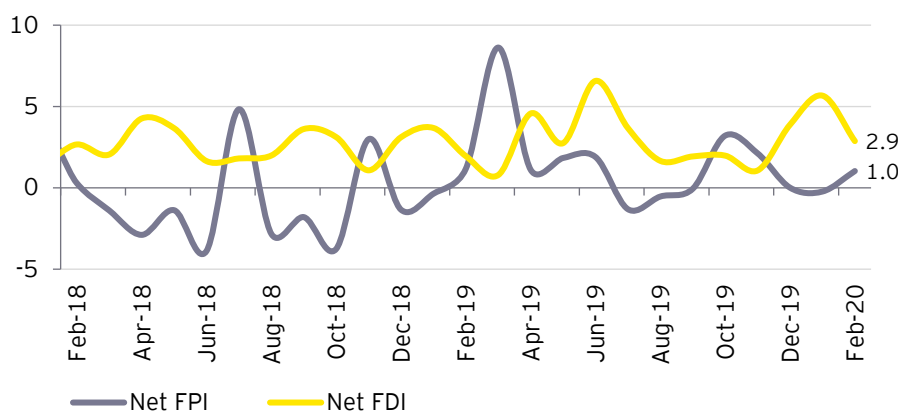
Interest rates

- ▶ Interest rates offered by commercial banks on term deposits with a maturity of more than one year increased to 7.53% on average (ranging between 7.31% and 7.75%) in March 2020 as compared to 6.20% in February 2020.
- ▶ The average yield on 10-year G-secs fell sharply by 29 basis points to 6.37% in March 2020 as compared to 6.66% in February 2020. Bond yields were influenced by the COVID-19 relief package announced by the central government and the liquidity augmenting measures including a steep reduction in the repo rate by the RBI during the second fortnight of March 2020.
- ▶ The MCLR was lower on average at 7.66% in March 2020 as compared to 7.72% in February 2020.
- ▶ The WALR on fresh rupee loans by scheduled commercial banks was marginally lower at 9.26% in February 2020 as compared to 9.36% in January 2020.

FDI and FPI

- ▶ As per the provisional data released by the RBI on 13 April 2020, the overall foreign investment inflows (FIIs) fell to US\$3.9 billion in February 2020 from US\$5.4 billion in January 2020 due to lower net FDI inflows.

Chart 11: net FDI and FPI inflows (US\$ billion)



Net FDI inflows were lower at US\$2.9 billion in February 2020. Net FPI turned positive registering inflows to the tune of US\$1.0 billion in February 2020.

Source: Database on Indian Economy, RBI

- ▶ Net FDI inflows fell sharply to US\$2.9 billion in February 2020 as compared to US\$ 5.7 billion in January 2020 (**Chart 11**). Gross FDI inflows fell to US\$4.5 billion in February 2020 from US\$6.7 billion in January 2020.
- ▶ Net portfolio investments (FPIs) turned positive registering inflows of the magnitude of US\$1.0 billion in February 2020 as compared to net outflows to the tune of US\$0.2 billion in January 2020.

7. Trade and CAB: contraction in merchandise exports intensified to (-) 34.6% in March 2020

A. CAB: Current account deficit (CAD) narrowed to 0.2% of GDP in 3QFY20

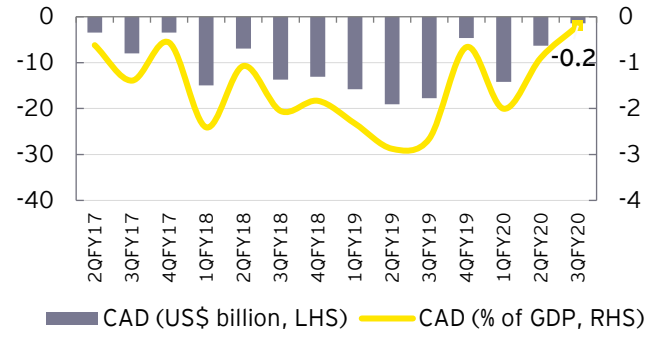
- CAD narrowed to 0.2% of GDP in 3QFY20 from 0.9% of GDP in 2QFY20 (Chart 12) as merchandise trade deficit fell to a 13-quarter low of 4.8% of GDP from 5.4% of GDP during the same period (Table 7). Merchandise imports moderated to a 62-quarter low of 15.9% in 3QFY20 from 16.8% of GDP in 2QFY20, while merchandise exports eased to a 15-year low of 11.2% from 11.4% of GDP over the same period. Net service exports increased marginally to 3.0% in 3QFY20 from 2.9% of GDP in 2QFY20.

Table 7: components of CAB in US\$ billion

	CAB	CAB as a % of nominal GDP	Goods account net	Services account net
FY16	-22.2	-1.1	-130.1	69.7
FY17	-15.3	-0.7	-112.4	67.5
FY18	-48.7	-1.8	-160.0	77.6
FY19	-57.3	-2.1	-180.3	81.9
4QFY19	-4.6	-0.7	-35.2	21.3
1QFY20	-14.2	-2.0	-46.2	20.1
2QFY20	-6.3	-0.9	-38.1	20.4
3QFY20	-1.4	-0.2	-34.6	21.9

Source: Database on Indian Economy, RBI
Note: (-) deficit; (+) surplus

Chart 12: CAD



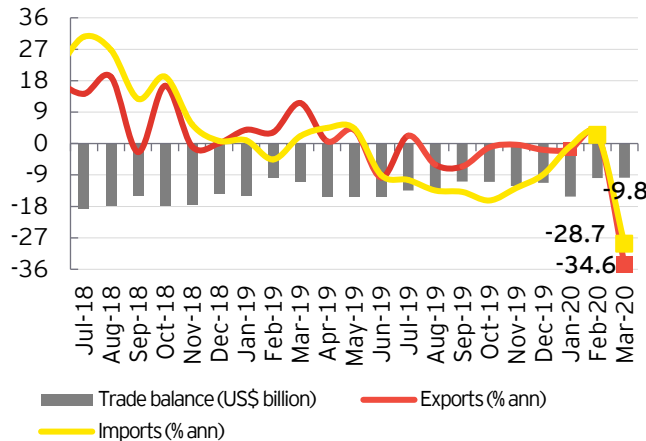
Source: Database on Indian Economy, RBI

B. Merchandise trade and exchange rate

Merchandise exports and imports contracted by (-) 34.6% and (-) 28.7% respectively in March 2020 due to slowdown in the global and Indian economy aggravated by COVID-19 (Chart 13).

- Merchandise exports contracted by (-) 34.6% in March 2020, the highest pace of contraction in nearly three decades. In February 2020, growth had turned positive at 2.9% after eight successive months of contraction.

Chart 13: developments in merchandise trade



Source: Ministry of Commerce and Industry, GoI

- Oil exports contracted by (-) 31.1% in March 2020 as compared to a growth of 10.1% in February 2020. Exports of engineering goods contracted to a four-year low of (-) 42.3% from a growth of 8.7% over the same period.
- Imports contracted by (-) 28.7% in March 2020, the highest pace of contraction in 52 months, as compared to a growth of 2.5% in February 2020.
- Oil imports fell by (-) 15.0% in March 2020 from a growth of 14.3% in February 2020 due to both lower domestic demand and lower oil prices.
- The pace of contraction in pearls and precious stones, machinery, and electronic goods imports sharpened to a four-year high of (-) 53.5%, (-) 31.7% and (-) 29.1% respectively in March 2020.
- Imports and exports excluding oil, gold and jewelry contracted by (-) 27.8% and (-) 34.2% respectively in March 2020 as compared to (-) 2.2% and 6.2% respectively in the previous month. 29 of the 30 sectors for which exports and imports data is provided, experienced a contraction in March 2020.
- Merchandise trade deficit remained nearly stable at US\$9.8 billion in March 2020 as compared to US\$9.9 billion in February 2020 due to sharp contraction in both exports and imports.
- Exports and imports contracted for the first time in four years by (-) 4.9% and (-) 8.9% respectively in FY20.
- The Indian rupee depreciated considerably to INR 74.4 per US\$ from INR 71.4 per US\$ partly due to substantial capital outflows.

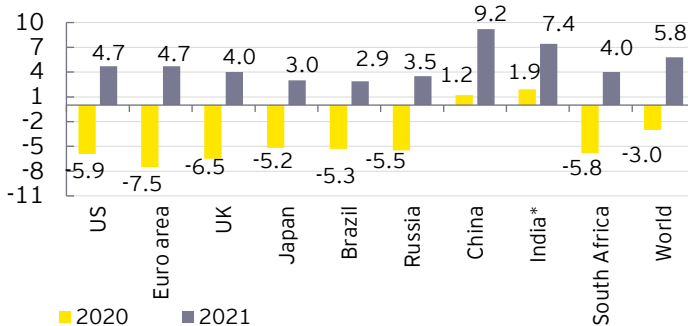
8. Global growth: IMF projected a global contraction of (-) 3% in 2020 due to the COVID-19 pandemic

A. Global growth outlook

- ▶ The IMF (WEO, April 2020) projected a global contraction of (-)3% in 2020 due to the severe impact of COVID-19 on economic activity. The current crisis is assessed to be worse than the 2009 global economic and financial crisis. Assuming that the pandemic fades in 2H2020 and containment efforts are gradually unwound, global economy is projected to grow by 5.8% in 2021 as economic activity normalizes helped by policy support.
- ▶ A contraction of (-) 6.1% is projected for AEs in 2020 with most economies in this group including the US (-5.9%), Euro area (-7.5%), the UK (-6.5%) and Japan (-5.2%) expected to contract.
- ▶ EMDEs are projected to contract by (-) 1.1% in 2020 with all countries facing severe external demand shock, dramatic tightening in global financial conditions, and a plunge in the commodity prices.
- ▶ Growth in AEs and EMDEs is expected to recover to 4.5% and 6.6% respectively in 2021 provided economic activity normalizes as a result of several policy actions taken across the world.
- ▶ Amongst all major economies, growth in China and India is expected to be in the positive territory in 2020.
- ▶ In China, indicators such as industrial production, retail sales and fixed asset investment suggest that the contraction in economic activity in the first quarter of 2020 could have been about (-) 8% y-o-y. However, even with a recovery in the remainder of the year and massive fiscal support, growth is projected to be subdued at 1.2% in 2020. Growth is expected to recover to 9.2% in 2021.
- ▶ Growth in India is projected at 1.9% in 2020 (FY21), recovering to 7.4% in 2021 (FY22).

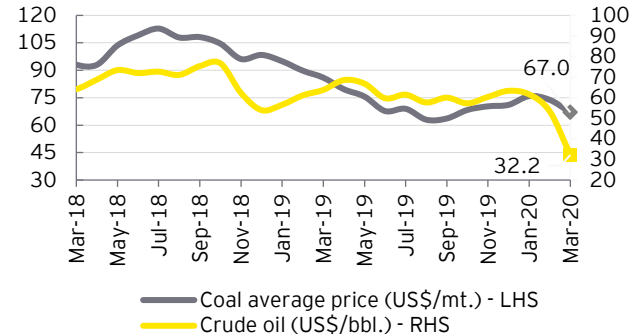
The IMF projected a global contraction of (-) 3% in 2020 due to the severe impact of COVID-19. The current crisis is assessed to be worse than the 2008-09 crisis and worst since the Great Depression of 1929.

Chart 14: global growth projections



Source: IMF World Economic Outlook, April 2020
* data pertains to fiscal year

Chart 15: global crude and coal prices



Source (basic data): World Bank, Pink Sheet, April 2020

B. Global energy prices: global crude price fell to US\$32.2/bbl. in March 2020, its lowest level since March 2016

- ▶ Average global crude price⁹ fell to US\$32.2/bbl. in March 2020, its lowest level since February 2016, from US\$53.3 in February 2020, due to weak demand and increased supply following the suspension of previously agreed upon production cuts (Chart 15). However, in the meeting of OPEC+ countries on 12 April 2020, a production cut of 9.7mb/d was agreed upon starting 1 May 2020¹⁰. Despite the accord, daily crude prices remained subdued with Brent and WTI crude at US\$9.1/bbl. and US\$8.9/bbl. as on 21 April 2020¹¹.
- ▶ Average global coal price¹² also fell to US\$67/mt. in March 2020 from US\$73.8/mt. in February 2020. Global coal price averaged US\$70.4/mt. in FY20, down from US\$100.4/mt. in FY19, a decline of nearly 30%.

⁹ Simple average of three spot prices, namely, Dated Brent, West Texas Intermediate and Dubai Fateh

¹⁰ https://www.opec.org/opec_web/en/press_room/5891.htm

¹¹ <https://www.eia.gov/todayinenergy/prices.php>

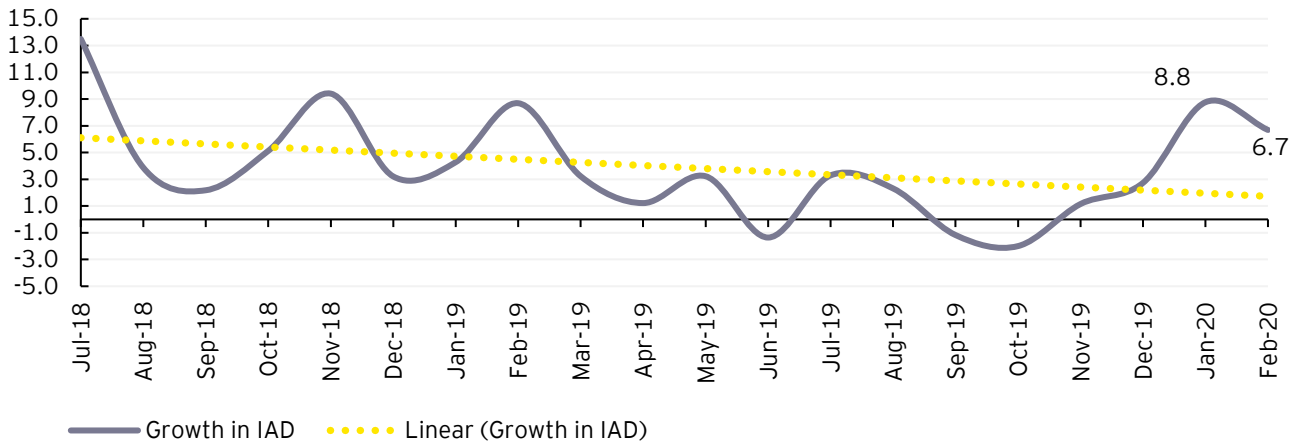
¹² Simple average of Australian and South African coal prices

9. Index of Aggregate Demand (IAD): growth fell to 6.7% in February 2020

Growth in IAD fell to 6.7% in February 2020

- ▶ An IAD has been developed by EY 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 non-seasonally adjusted terms, tracing the demand conditions in these sectors. Demand conditions in the agricultural sector have been captured by movements in monthly agricultural credit off-take.
- ▶ The y-o-y growth in IAD fell to 6.7% in February 2020 from 8.8% in January 2020, pointing to subdued demand in the economy (Chart 16).
- ▶ This slowdown was largely because of a slowdown in agricultural credit offtake as well as a lower manufacturing demand during February 2020. However, demand conditions in services remained strong during the month (Table 8).
- ▶ On trend basis, growth in IAD has been falling since July 2018.

Chart 16: growth in IAD (y-o-y)



Source (Basic data): IHS Markit PMI, RBI and EY estimates

Table 8: IAD

Month	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20
IAD	127.1	129.8	124.6	124.1	126.2	129.7	131.4	138.1	137.9
Growth (% y-o-y)	-1.4	3.3	2.3	-1.2	-2.0	1.2	2.7	8.8	6.7
Growth in agr. credit	8.7	6.8	6.8	7.0	7.1	6.5	5.3	6.5	5.8
Mfg. PMI**	1.7	1.8	1.3	1.4	0.4	1.2	3.2	5.6	4.7
Ser. PMI**	1.1	4.4	-0.7	-1.9	0.7	3.8	3.9	8.6	9.0

**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 Mfg. and Serv. are non-seasonally adjusted.

Source (Basic data): IHS Markit PMI, RBI and EY estimates.

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			Core IIP	Fiscal year/quarter/month	PMI mfg.	PMI ser.
			Electricity	% change y-o-y					
FY16	3.3	4.3	2.9	5.7	3.0	FY17	51.6	51.0	
FY17	4.6	5.3	4.3	5.8	4.8	FY18	51.5	50.0	
FY18	4.4	2.3	4.7	5.3	4.3	FY19	52.8	52.2	
FY19	3.8	2.8	3.8	5.2	4.4	FY20	52.3	51.9	
4QFY19	1.5	2.2	1.4	1.5	3.3	1QFY20	52.2	50.3	
1QFY20	3.0	3.0	2.4	7.3	3.4	2QFY20	51.8	51.6	
2QFY20	-0.4	-1.2	-0.4	0.6	-0.9	3QFY20	51.5	51.7	
3QFY20	-1.5	0.0	-1.2	-6.0	-0.9	4QFY20	53.9	54.1	
Nov-19	2.1	1.9	3.0	-5.0	0.7	Dec-19	52.7	53.3	
Dec-19	0.1	5.7	-0.7	-0.1	2.1	Jan-20	55.3	55.5	
Jan-20	2.1	4.3	1.6	3.1	1.4	Feb-20	54.5	57.5	
Feb-20	4.5	10.0	3.2	8.1	5.5	Mar-20	51.8	49.3	

Source: Office of the Economic Adviser, Ministry of Commerce and Industry and IHS Markit Economics

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
FY17	4.5	4.2	3.3	4.9	1.7	5.9	1.3	-0.3	-0.1
FY18	3.6	1.8	6.2	4.6	2.9	1.9	2.7	8.2	3.0
FY19	3.4	0.1	5.7	5.5	4.3	0.6	3.7	11.5	4.2
FY20	4.8	6.7	1.3	3.8	1.7	6.9	0.3	-1.7	-0.4
1QFY20	3.1	1.7	2.4	4.1	2.7	5.1	1.5	1.2	1.4
2QFY20	3.5	3.5	-1.4	4.1	0.9	5.6	-0.1	-4.6	-0.5
3QFY20	5.8	10.7	-1.1	3.3	1.1	9.3	-0.7	-5.1	-1.8
4QFY20	6.7	11.1	5.5	3.9	2.3	7.6	0.5	2.3	-0.7
Dec-19	7.4	14.2	0.7	3.5	2.8	11.2	-0.3	0.4	-1.6
Jan-20	7.6	13.6	3.7	4.0	3.5	10.1	0.6	5.4	-0.7
Feb-20	6.6	10.8	6.4	3.7	2.3	7.3	0.4	3.4	-0.7
Mar-20	5.9	8.8	6.6	3.9	1.0	5.5	0.34	-1.8	-0.8

Source: Office of the Economic Adviser, Ministry of Commerce and Industry and MoSPI

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

Fiscal year/month	Gross tax revenue	Corporate tax	Income tax	Direct taxes*	Indirect taxes**	Fiscal deficit % of GDP	Revenue deficit % of GDP
FY17 (CGA)	17.9	6.7	21.5	12.3	21.6	3.5	2.1
FY 18 (CGA)	11.8	17.8	19.9	18.6	6.0	3.5	2.6
FY 19 (CGA)	8.4	16.2	13.1	14.9	2.9	3.4	2.4
FY20 (RE over FY 19 actuals)	4.0	-8.0	18.3	2.9	5.3	3.8	2.4
FY 21 (BE over FY 20 RE)	12.0	11.5	14.0	12.7	11.1	3.5	2.7
Cumulated growth (% , y-o-y)						% of budgeted target	
Jul-19	6.6	5.5	6.0	5.8	7.3	77.8	94.2
Aug-19	4.2	4.6	13.2	9.6	0.6	78.7	89.9
Sep-19	1.5	2.3	8.9	5.2	-2.0	92.6	99.9
Oct-19	1.2	0.9	6.7	3.5	-1.0	102.4	112.6
Nov-19	0.8	-0.9	7.0	2.7	-0.9	114.8	128.4
Dec-19	-2.9	-13.6	5.1	-5.8	0.1	121.5	141.6
Jan-20	-2.0	-13.5	6.9	-4.9	0.9	128.5	150.2
Feb-20	-0.8	-12.0	7.7	-3.5	1.6	135.2 [#]	156.7 [#]

Source: Monthly Accounts, Controller General of Accounts-Government of India, Union Budget documents

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

#: as % of revised targets for FY20.

Fiscal year/month	CGST	UTGST	IGST	GST compensation cess	Total GST (center)
INR crore					
FY 2020 (RE)	5,14,000	-	-	98,327	6,12,327
FY 2021 (BE)	5,80,000	-	-	1,10,500	6,90,500
Monthly tax collection (INR crore)					
Jul-19	24,095	197	25,250	8,183	57,725
Aug-19	68,545	117	46,098	6,822	29,386
Sep-19	38,132	482	3,650	7,148	42,112
Oct-19	37,135	190	19,573	8,701	65,599
Nov-19	43,654	197	247	7,119	51,217
Dec-19	40,472	170	1,842	7,913	46,713
Jan-20	43,782	157	2,128	8,359	54,426
Feb-20	41,291	159	553	8,604	50,607

Source: Monthly Accounts, Controller General of Accounts - Government of India, Union Budget documents

Note: IGST revenues are subject to final settlement.

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

Fiscal year/month	Repo rate (end of period)	Fiscal year/quarter/month	Bank credit	Agg. deposits	Net FDI	Net FPI	Fiscal year/quarter/month	M1	M3	10-year govt. bond yield	FX reserves
	%		% change y-o-y		US\$ billion			% change y-o-y		%	US\$ billion
Apr-19	6.00	FY16	9.7	10.5	36.0	-4.1	FY17	3.1	10.1	7.03	370.0
May-19	6.00	FY17	7.9	11.6	35.6	7.6	FY18	21.8	9.2	7.05	424.4
Jun-19	5.75	FY18	7.5	7.5	30.3	22.1	FY19	13.6	10.5	7.68	411.9
Jul-19	5.75	FY19	13.7	8.9	30.7	-0.6	FY20	11.0	8.8	6.80	475.6
Aug-19	5.40	4QFY19	14.2	10.0	6.4	9.4	1QFY20	11.3	10.1	7.24	411.9
Sep-19	5.40	1QFY20	12.6	9.9	13.9	4.8	2QFY20	10.8	9.6	6.68	427.7
Oct-19	5.15	2QFY20	10.4	9.9	7.3	-1.9	3QFY20	12.5	10.4	6.68	433.6
Nov-19	5.15	3QFY20	8.0	10.0	6.9	5.3	4QFY20	11.0	8.8	6.62	475.6
Dec-19	5.15	Nov-19	8.0	9.7	1.1	2.1	Dec-19	12.5	10.4	6.85	457.5
Jan-20	5.15	Dec-19	7.1	10.1	3.9	0.0	Jan-20	13.9	11.2	6.82	471.3
Feb-20	5.15	Jan-20	8.3	11.2	5.7	-0.2	Feb-20	11.9	10.2	6.66	481.5
Mar-20	4.40	Feb-20	7.0	10.0	2.9	1.0	Mar-20	11.0	8.8	6.37	475.6

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		
FY17	5.1	0.9	-108.2	67.1	47.9	73.0	2010	5.4	3.1	7.4
FY18	10.6	20.9	-159.0	64.5	55.7	90.8	2011	4.3	1.7	6.4
FY19	8.6	10.6	-182.3	69.9	67.3	100.4	2012	3.5	1.2	5.3
FY20	-4.9	-8.9	-152.9	70.9	58.5	70.4	2013	3.5	1.4	5.1
1Q FY20	-1.7	-0.3	-46.0	69.5	65.1	74.3	2014	3.6	2.1	4.7
2Q FY20	-3.6	-12.6	-37.7	70.4	59.7	65.2	2015	3.4	2.3	4.3
3Q FY20	-1.1	-12.7	-34.4	71.2	60.3	69.9	2016	3.4	1.7	4.6
4Q FY20	-12.8	-9.8	-34.8	72.4	49.1	72.2	2017	3.8	2.5	4.8
Dec-19	-1.8	-8.8	-11.3	71.2	63.4	71.1	2018	3.6	2.3	4.5
Jan-20	-1.7	-0.7	-15.2	71.3	61.6	75.9	2019	2.9	1.7	3.7
Feb-20	2.9	2.5	-9.9	71.4	53.3	73.8	2020*	-3.0	-6.1	-1.1
Mar-20	-34.6	-28.7	-9.8	74.4	32.2	67.0	2021*	5.8	4.5	6.6

Source: Database on Indian Economy - RBI, Pink Sheet - World Bank and IMF World Economic Outlook, April 2020, * indicates projections.

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
FY17 (3rd RE)	8.0	6.8	9.8	7.9	10.0	5.9	7.7	8.6	9.3	2.9
FY18 (2nd RE)	6.6	5.9	4.9	6.6	11.2	5.0	7.6	4.7	9.9	4.2
FY19 (1st RE)	6.0	2.4	-5.8	5.7	8.2	6.1	7.7	6.8	9.4	4.2
FY20 (AE) ^S	4.9	3.7	2.8	0.9	4.6	3.0	5.6	7.3	8.8	2.8
3QFY18	7.2	5.7	5.2	9.3	10.1	4.6	8.2	5.7	9.1	5.3
4QFY18	7.8	8.0	3.6	10.1	11.8	13.5	6.4	4.3	8.4	4.1
1QFY19	6.9	3.8	-7.3	10.7	7.9	6.4	8.5	6.0	8.8	4.6
2QFY19	6.1	2.5	-7.0	5.6	9.9	5.2	7.8	6.5	8.9	4.7
3QFY19	5.6	2.0	-4.4	5.2	9.5	6.6	7.8	6.5	8.1	3.8
4QFY19	5.6	1.6	-4.8	2.1	5.5	6.0	6.9	8.7	11.6	3.7
1QFY20	5.4	2.8	4.7	2.2	8.8	5.5	5.7	6.9	8.7	3.0
2QFY20	4.8	3.1	0.2	-0.4	3.9	2.9	5.8	7.1	10.1	1.7
3QFY20	4.5	3.5	3.2	-0.2	-0.7	0.3	5.9	7.3	9.7	3.2

Source: National Accounts Statistics, MoSPI

Growth numbers for FY20 are based on the second advanced estimates of NAS released by MoSPI on 28 February 2020 over the first revised estimates (RE) of NAS for FY19 released by MoSPI on 31 January 2019.

Fiscal year/quarter	Expenditure components						IPD inflation
	GDP	PFCE	GFCE	GFCF	EX	IM	GDP
FY17 (3rd RE)	8.3	8.1	6.1	8.5	5.0	4.4	3.2
FY18 (2nd RE)	7.0	7.0	11.8	7.2	4.6	17.4	3.8
FY19 (1st RE)	6.1	7.2	10.1	9.8	12.3	8.6	4.6
FY20 (AE) ^S	5.0	5.3	9.8	-0.6	-1.9	-5.5	2.3
3QFY18	8.7	5.3	10.5	8.8	4.4	14.1	3.0
4QFY18	7.4	7.7	8.9	13.7	5.0	23.6	3.9
1QFY19	7.1	6.7	8.5	12.9	9.5	5.9	6.0
2QFY19	6.2	8.8	10.8	11.5	12.5	18.7	4.9
3QFY19	5.6	7.0	7.0	11.4	15.8	10.0	5.5
4QFY19	5.7	6.2	14.4	4.4	11.6	0.8	2.1
1QFY20	5.6	5.0	8.8	4.3	3.2	2.1	2.6
2QFY20	5.1	5.6	13.2	-4.1	-2.1	-9.3	1.2
3QFY20	4.7	5.9	11.8	-5.2	-5.5	-11.2	2.9

Source: National Accounts Statistics, MoSPI

S: Growth numbers for FY20 are based on the second advanced estimates of NAS released by MoSPI on 28 February 2020 over the first revised estimates (RE) of NAS for FY19 released by MoSPI on 31 January 2019.

List of abbreviations

Sr. no.	Abbreviations	Description
1	AD	aggregate demand
2	AEs	advanced economies
3	Agr.	agriculture, forestry 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	CSO	Central Statistical Organization
17	Disc.	discrepancies
18	ECBs	external commercial borrowings
19	EIA	US Energy Information Administration
20	Elec.	electricity, gas, water supply and other utility services
21	EMDEs	Emerging Market and Developing Economies
22	EXP	exports
23	FAE	first advanced estimates
24	FC	Finance Commission
25	FII	foreign investment inflows
26	Fin.	financial, real estate and professional services
27	FPI	foreign portfolio investment
28	FRBMA	Fiscal Responsibility and Budget Management Act
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
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	J&K	Jammu and Kashmir
49	MCLR	marginal cost of funds-based lending rate
50	Ming.	mining and quarrying
51	Mfg.	manufacturing
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	NEXP	net exports (exports minus imports of goods and services)
57	NPA	non-performing assets
58	NCLT	National Company Law Tribunal
59	OECD	Organization for Economic Co-operation and Development
60	OPEC	Organization of the Petroleum Exporting Countries
61	PFCE	private final consumption expenditure
62	PIT	personal income tax
63	PMI	Purchasing Managers' Index (reference value = 50)
64	PSBR	Public sector borrowing requirement
65	RE	revised estimates
66	RBI	Reserve Bank of India
67	SOTR	states' own tax revenues
68	SLR	Statutory Liquidity Ratio
69	Trans.	trade, hotels, transport, communication and services related to broadcasting
70	US\$	US Dollar
71	UTGST	Union Territory Goods and Services Tax
72	UT	union territory
73	WPI	Wholesale Price Index
74	y-o-y	year-on-year
75	1HFY20	first half of fiscal year 2019-20, i.e., April 2019-September 2019

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