

# Economy Watch

Monitoring India's  
macro-fiscal performance

February 2020



Building a better  
working world

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# Highlights

1. Reflecting a subdued performance of the industrial sector, IIP growth contracted by (-) 0.3% in December 2019.
2. CPI inflation remained high at 7.6% in January 2020, above the RBI's upper tolerance limit. Core CPI inflation also increased to a four month-high of 4.0% in January 2020.
3. The RBI retained its policy repo rate at 5.15% in its February 2020 monetary policy review while maintaining an accommodative policy stance.
4. Reflective of sustained weakness in domestic demand, average credit growth fell to 8.0% in 3QFY20 from 10.4% in 2QFY20.
5. As per the Controller General of Accounts (CGA), center's gross taxes during April-December FY20 contracted by (-) 2.9%. The last instance of a contraction in gross tax revenues during the corresponding period was witnessed in FY10.
6. As per the FY21 Union Budget, center's fiscal deficit targets for FY20 (RE) and FY21 (BE) have been revised up to 3.8% and 3.5% of GDP, respectively, from their earlier targets of 3.3% and 3% of GDP, respectively. Center's fiscal deficit during April-December FY20 stood at 121.5% of the annual revised target.
7. In January 2020, both manufacturing and services PMI showed an expansion with the former increasing to 55.3 and the latter to 55.5.
8. Merchandise imports contracted for the eighth successive month by (-) 0.7% in January 2020 while merchandise exports contracted for the sixth successive month by (-) 1.7%. Trade deficit widened to US\$15.2 billion in January 2020 from US\$11.3 billion in December 2019.
9. The IMF revised down its global growth projection to 2.9% in 2019 and 3.3% in 2020. India's GDP growth was sharply revised down to 4.8% in 2019 (FY20) and 5.8% in 2020 (FY21).



## Foreword

### Economic slowdown, fiscal policy and the report of the Fifteenth Finance Commission for FY21

Along with the major ongoing economic concerns relating to the continuing growth slowdown in India and the potential impact of the Union Budget of FY21 on it, another economic news of considerable significance in the context of fiscal policy relates to the first report of the Fifteenth Finance Commission (15th FC) pertaining to FY21. State finances and state fiscal policy are of considerable significance in terms of their potential role in combating the economic slowdown. The report of the 15th FC was also released on the day the Union Budget was presented. This report followed an additional Terms of Reference (ToR) given to the FC extending its term up to FY26. The reason that the commission was asked to give only a one-year report for FY21 relates to the revenue uncertainties pertaining to union finances and the difficulties that the commission is facing in making robust forecasts of union tax revenues for the next five years. The subject of revenue uncertainty for FY20 and FY21 has been discussed at length in the In-Focus section of this issue.

In its first report, the 15th FC made assumptions about the growth in GDP and union tax revenues which have already proved to be optimistic. The commission assumed a nominal GDP growth of 10% for FY20 and 11% for FY21. As per CSO's advance estimates for FY20, read together with the first revised estimates for FY19, the nominal GDP growth for FY20 is estimated at 7.8%. Alongside, the commission has also clearly overestimated the union government's gross tax revenues which determines the sharable pool of taxes for the states. The commission has assumed a growth rate of 8.4% for center's gross tax revenues for FY20 as compared to the growth of 4% as per the RE of union budget. For FY21 also, the commission has assumed a tax revenue growth of 12.5% against a budgeted growth rate of 12%. As discussed in the In-Focus section of this issue, the magnitude of union tax revenues in FY20 may fall well short of not only the FC estimates for FY20 but also the RE given in the budget. This may also reflect in the magnitude for FY21, since FY20 revenues serve as the base year figures. Accordingly, states' revenue receipts are also expected to face significant revenue uncertainty both because of lower transfers from the center and subdued own tax revenues due to the economic slowdown. This may hamper their capacity to complement center's efforts to bring about fiscal stimulus in the economy.

The central government, in its Action Taken Report (ATR) on the recommendations of the 15th FC indicated that it has not accepted two of the commission's substantive recommendations relating to (a) special grants for three states and (b) sector-specific grants relating to nutrition. It has been the practice in the past that FC's substantive recommendations are usually fully accepted. One possible reason for the non-acceptance may relate to the revenue pressure that the union government is currently facing. In terms of the vertical sharing of center's resources, the commission has recommended a share of 41% of the divisible pool of union taxes for 28 states. It was reduced by a margin of 1% point from the corresponding vertical share of 42% which was being applied until now under the recommendations of the 14th FC. This reduction of 1% point is on account of the formation of union territories (UTs) of Jammu and Kashmir (J&K) and Ladakh which together accounted for a share of 0.779% points of the divisible pool under the 14th FC. The difference of 0.221% points favors the center viz.-à-viz. the remaining 28 states. The report states that this has been done to meet the security and other special needs of these two newly-formed UTs. In the context of the horizontal distribution of the sharable taxes, there are some changes which were necessitated by the 15th FC's ToR. In particular, the population that has been used is that of 2011 instead of 1971. The commission also introduced two new performance criteria. The first one is based on total fertility rate estimated using 2011 census and the second one relates to estimation of tax effort. Further, some weights of individual criteria were marginally changed. The most notable feature of the recommendations of the commission relates to its preference for continuation of the so-called *revenue deficit grants*. In the list of states for which the revenue deficit grants are recommended, a number of developed states such as Andhra Pradesh, Kerala, Punjab and Tamil Nadu are also included. This is also unusual since the revenue deficit grants were usually given to the erstwhile special category states and a few others having constraints on revenues.

On the whole, the commission's approach is likely to be elaborated in greater detail in its full report covering the period until FY26. This report is to be submitted by end of October 2020. The forecasts for union and state tax revenues may have to be made by May 2020. One may hope that by that time, the current revenue uncertainty is mitigated. At the present juncture, the fiscal capacity of both the central and state governments appear highly constrained to combat the ongoing economic slowdown.

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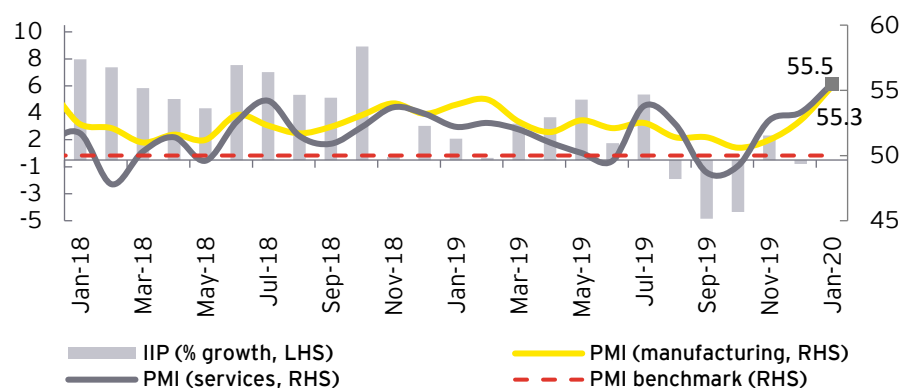


# 1. IIP: growth contracted by (-) 0.3% in December 2019

## A. IIP: pointed to a contraction in industrial sector output in 3QFY20

- ▶ After showing a positive growth of 1.8% in November 2019, IIP contracted by (-) 0.3% in December 2019 due to contraction in both manufacturing and electricity sector outputs (**Chart 1**). Pointing to deterioration in industrial sector output, IIP contracted by (-)0.9% in 3QFY20, as compared to (-) 0.4% in 2QFY20.
- ▶ Output of manufacturing sector, with the highest weight of 77.6% in the overall index, contracted by (-)1.2% in December 2019 as compared to a growth of 2.7% in November 2019, while that of the electricity sector continued its declining trend, although at a slower pace of (-) 0.1% in December 2019 as compared to (-) 5.0% in November 2019. Growth in the output of mining sector however, improved to 5.4% in December 2019 as compared to 1.8% in November 2019 (Table A1 in data appendix).
- ▶ Output of capital goods industry contracted for the 12th consecutive month in December 2019 by (-) 18.2% as compared to (-) 8.2% in November 2019, pointing to sustained weakness in investment demand. Output of both consumer durables and non-durables contracted by (-) 6.7% and (-) 3.7%, respectively, in December 2019.
- ▶ Following four successive months of contraction, the output of eight core infrastructure industries (core IIP) turned positive and grew by 1.3% in December 2019 as compared to a contraction of (-) 0.6% in November 2019. This was largely on account of a positive growth in the output of coal (6.1%), cement (5.5%) and steel (1.9%). A sustained contraction in the output of three out of eight core industries including crude oil ((-) 7.4%), natural gas ((-) 9.2%), and electricity ((-) 1.6%) has dampened the core IIP growth.

**Chart 1: IIP growth and PMI**



Reflecting a subdued performance of the industrial sector, IIP growth contracted by (-) 0.3% in December 2019, its fourth contraction in the first nine months of FY20.

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

## B. PMI: signaled strong expansion in manufacturing and services in January 2020

- ▶ Headline manufacturing PMI (seasonally adjusted (sa)) increased to 55.3 in January 2020, its highest level since February 2012, as compared to 52.7 in December 2019 (**Chart 1**). Growth was led by consumer goods followed by intermediate goods. Capital goods sub-sector also witnessed expansion during the month.
- ▶ PMI services also increased to a near seven-year high of 55.5 in January 2020 from 53.3 in December 2019. New orders and output in the services sector was driven by strong domestic demand during the month.
- ▶ Reflecting a sharp expansion in both manufacturing and services PMI, the composite PMI Output Index (sa) increased to a peak of 56.3 in January 2020 as compared to 53.7 in December 2019.

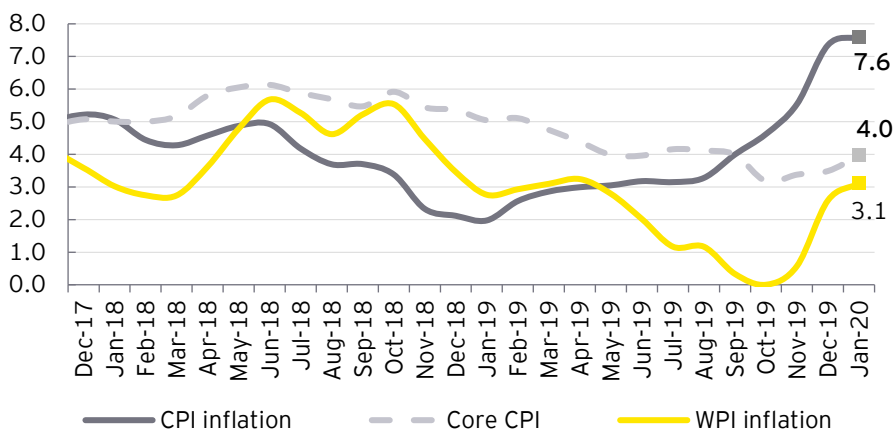
In January 2020, both manufacturing and services PMI showed a strong expansion with the former increasing to a near eight-year high of 55.3 and the latter to a seven-year high of 55.5.

## 2. Inflation: CPI inflation increased to a 68-month high of 7.6% in January 2020

CPI inflation increased for the sixth successive month to 7.6% (y-o-y) in January 2020 from 7.4% in December 2019, mainly due to increase in fuel prices.

- ▶ Inflation in fuel and light increased to a 13-month high of 3.7% in January 2020 from 0.7% in December 2019 mainly due to inflation in LPG turning positive after six successive months of contraction. The higher rate of inflation in LPG was partly the result of base effect.
- ▶ Inflation in vegetables fell from a 73-month high of 60.5% in December 2019 but remained high at 50.2% in January 2020 as inflation in onions eased to 246.9% from an all-time high (FY12 series) of 328.0% over the same period. Consequently, consumer food price based inflation moderated to 13.6% in January 2020 from 14.1% in December 2019.
- ▶ Core CPI inflation<sup>1</sup> rose to a four-month high of 4.0% in January 2020 from 3.5% in December 2019. Inflation in transportation and communication services increased to a 14-month high of 6.1% in January 2020 from 4.8% in December 2019 partly due to the effect of increased telecom charges.
- ▶ Inflation in housing services eased for the sixth successive month to an 80-month low of 4.2% in January 2020 from 4.3% in December 2019.

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



Overall CPI based inflation remained high at 7.6% in January 2020, above the RBI's upper tolerance limit. Core CPI based inflation also climbed to a four month-high of 4.0% in January 2020.

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

**WPI inflation climbed to a nine-month high of 3.1% in January 2020 from 2.6% in December 2019 (Chart 2) due to rising fuel-based inflation.**

- ▶ Fuel and power-based inflation turned positive at 3.4% in January 2020 from (-) 1.5% in December 2019, the seventh successive month of contraction. After contracting for seven successive months, inflation in mineral oils also turned positive at 5.8% in January 2020 as compared to (-) 3.2% in December 2019, mainly due to higher inflation in LPG and diesel, and slower contraction in prices of furnace oil.
- ▶ Food price index-based inflation eased to 10.1% in January 2020 from a 73-month high of 11.0% in December 2019 as inflation in vegetables moderated to 52.7% from 69.7% over the same period.
- ▶ The pace of contraction in prices of manufactured basic articles fell to a seven-month low of (-) 3.9% in January 2020 from (-) 7.7% in December 2019.
- ▶ Contraction in core WPI (non-food manufactured products) slowed to a five-month low of (-) 1.0% in January 2020 as compared to (-) 1.5% in December 2019.

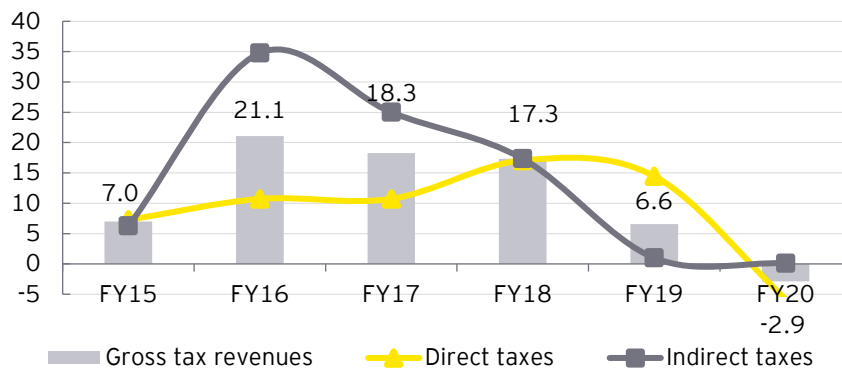
<sup>1</sup> Core CPI inflation is measured in different ways by different organizations/agencies. Here, it has been calculated by excluding food, and fuel and light from the overall index.

### 3. Fiscal performance: center's fiscal deficit target revised up to 3.8% of GDP in FY20 and 3.5% in FY21

#### A. Tax and non-tax revenues

- ▶ As per the Comptroller General of Accounts (CGA)<sup>2</sup>, gross central taxes during April-December FY20 contracted by (-) 2.9% as compared to a growth of 6.6% during the corresponding period of FY19 (**Chart 3**). The last instance of a contraction in gross taxes during the corresponding period was witnessed in FY10, the year after the global economic and financial crisis when gross tax revenues contracted by (-) 2.5%.
- ▶ The FY20 revised estimate (RE) for center's gross taxes at INR21.6 lakh crore has been reduced by INR3 lakh crore from the corresponding BE as per the Union Budget presented in July 2019. In order to meet the FY20 RE for center's gross tax revenues, a growth of 19% would be required in the last quarter of FY20.
- ▶ Direct tax revenues contracted by (-) 5.8% during April-December FY20 as compared to a growth of 14.5% during the same period in FY19.
- ▶ Corporate tax revenues contracted by (-) 13.6% during the first nine months of FY20 as compared to a growth of 14.0% during the corresponding period of FY19. This partly reflects the impact of the CIT rate reforms undertaken in September 2019. The FY20 RE for CIT revenues stood at INR6.1 lakh crore, lower than the BE by INR1.6 lakh crore.
- ▶ Growth in income tax revenues during April-December FY20 was lower at 5.1% as compared to 15.2% during April-December FY19.
- ▶ Indirect taxes (comprising of union excise duties, service tax, customs duty, CGST, UTGST, IGST<sup>3</sup> and GST compensation cess) witnessed a subdued growth of 0.1% during April-December FY20 as compared to a growth of 1.0% in the corresponding period of previous year. The FY20 RE for indirect taxes has also been revised down to INR9.9 lakh crore relative to the corresponding BE.

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



As per the CGA, center's gross taxes during April-December FY20 contracted by (-) 2.9%. There was a contraction of (-) 5.8% in direct taxes and a subdued growth of 0.1% in indirect taxes during this period.

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 from July 2017 onwards; (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 63.8% during April-December FY20 as compared to 30.1% during the corresponding period of FY19. The FY20 RE for non-tax revenues has been increased by INR0.3 lakh crore to INR3.5 lakh crore due to anticipation of additional dividends by the RBI.
- ▶ According to the data available from Department of Disinvestment, the disinvestment proceeds up to 24 February 2020 stood at INR34,845.06 crore. The FY20 RE has been sharply revised down to INR65,000 crore from the corresponding BE at INR1,05,000 crore. The Union Budget FY21 has budgeted disinvestment receipts at INR 2.1 lakh crore for FY21, a growth of 223% over the FY20 RE.

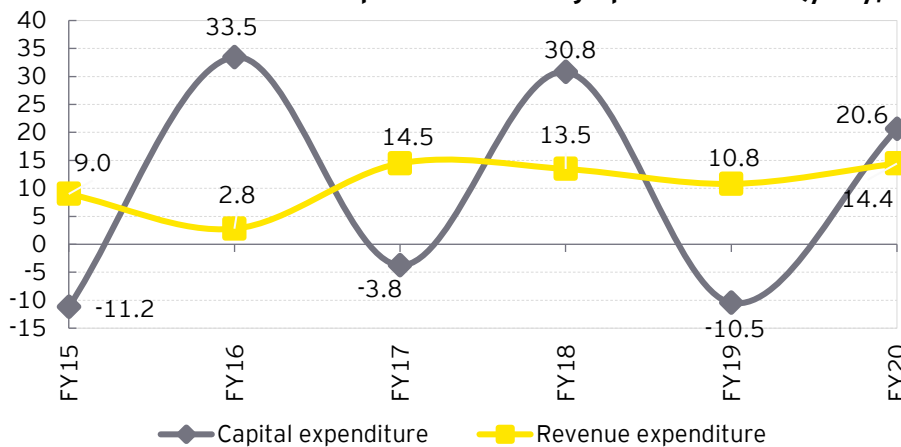
<sup>2</sup> Monthly accounts for December 2019 released on 31 January 2020

<sup>3</sup> IGST revenues are subject to final settlement

## B. Expenditures: revenue and capital

- ▶ Center’s total expenditure during April-December FY20 grew by 15.2% as compared to 7.8% during April-December FY19 (**Chart 4**). Total expenditure during the first nine months of FY20 stood at 78.2% of the revised target.
- ▶ Revenue expenditure during April-December FY20 grew by 14.4% as compared to 10.8% during the corresponding period of FY19.
- ▶ Growth in center’s capital expenditure during April-December FY20 was at 20.6% as compared to a contraction of (-) 10.5% during the corresponding period of previous year.
- ▶ As per Union Budget FY21, revenue expenditure as a percentage of GDP is estimated to increase from 10.6% in FY19 to 11.5% in FY20 (RE) and further to 11.7% in FY21 (BE). Capital expenditure relative to GDP showed a marginal increase from 1.6% in FY19 to 1.7% in FY20 (RE) and to 1.8% and FY21 (BE).

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



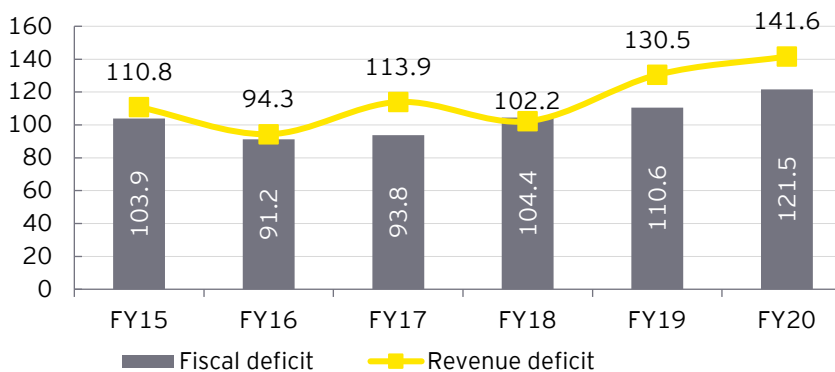
Center’s total expenditure grew by 15.2% during April-December FY20. Capital expenditure relative to GDP is estimated to increase marginally to 1.7% in FY20 (RE) and to 1.8% in FY21 (BE).

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

## C. Fiscal imbalance

- ▶ Center’s fiscal deficit during April-December FY20 stood at 121.5% of the annual revised target, highest since FY01, as compared to 110.6% in the corresponding period of FY19 (**Chart 5**).
- ▶ Center’s revenue deficit during the first nine months of FY20 was at 141.6% of the annual revised target, highest since FY01, as compared to 130.5% during the corresponding period of FY19.
- ▶ Fiscal deficit target for FY20 and FY21 has been revised up to 3.8% and 3.5% of GDP, respectively, from their targets of 3.3% and 3% of GDP as per the earlier glide path contained in the FY20 union budget. Revenue deficit target has also been revised to 2.4% and 2.7% of GDP in FY20 and FY21, respectively, as compared to the earlier targets of 2.3% and 1.9%.

**Chart 5: Fiscal and revenue deficit during April-December as percentage of annual revised target**



The quality of fiscal deficit is expected to deteriorate in FY21 as indicated by the ratio of revenue deficit to fiscal deficit. This ratio is estimated to deteriorate to 76.5% in FY21 (BE) from 65.1% in FY20 (RE).

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



## 4. India in a comparative perspective: status and prospects

### Growth in volume of export of goods and services

**Excluding India, China and Germany, exports growth in major AEs and EMDEs is projected to improve but remain low in 2020 and 2021.**

- ▶ Exports growth in the US is expected to remain low in 2020 at 0.7% increasing to 1.9% in 2021 due to higher import tariffs in China (Table 1).
- ▶ In Germany, exports are expected to contract for the first time in 11 years by (-) 0.1% in 2020 due to the weak global trade growth. Thereafter, it is projected to turn positive at 1.3% in 2021.
- ▶ Exports growth in China is projected to be lower at 1.8% in 2020 and 2.5% in 2021 as compared to 3.7% in 2019 on account of increased import tariffs in the US.
- ▶ In Brazil, exports growth is forecasted to pick up gradually in 2020 and 2021 with downside risks from the crisis in Argentina.
- ▶ Exports growth in India has suffered from the slowdown in global demand. It is expected to remain modest at 4.4% in 2020 and improve slightly to 4.9% in 2021.
- ▶ In South Africa, exports are expected to recover from a contraction in 2019 and grow in 2020 and 2021 in line with an expected improvement in global trade growth.

**Table 1: Volume of export of goods and services (% annual)**

	2018	2019	2020	2021
US	3.0	-0.1	0.7	1.9
UK	-0.9	0.2	1.2	1.6
Germany	2.3	0.8	-0.1	1.3
Japan	3.4	-1.9	1.5	3.2
Brazil	3.4	0.5	2.4	3.2
Russia	5.5	-2.9	-0.8	0.6
India*	12.5	5.0	4.4	4.9
China	3.6	3.7	1.8	2.5
South Africa	2.6	-2.6	1.8	2.3

Source (basic data): OECD Economic Outlook, November 2019

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

### Growth in volume of import of goods and services

**Increased trade-restricting measures led to a fall in import volumes of major AEs and EMDEs in 2019; imports growth is projected to recover modestly in 2020 and 2021.**

- ▶ Reflective of increased trade-restricting measures, growth in the volume of import of goods and services fell in 2019 in all major AEs and EMDEs except for the UK (Table 2).
- ▶ There was a surge in Euro area exports to the UK in early 2019, ahead of the original date of exit from the EU. This led to an increase in the imports growth in the UK in 2019. However, a sharp contraction in import volume is projected in 2020.
- ▶ In the US, imports growth is projected to increase only modestly in 2020 and 2021 due to an expected adverse impact of trade measures on consumption growth.
- ▶ In Brazil, imports growth is projected to pick up to 4.1% in 2020 and further to 4.4% in 2021 due to an anticipated strengthening of private consumption supported by moderate wage growth and low inflation.
- ▶ In China, imports growth is projected at 2% in 2020 and 1.7% in 2021. These levels of growth are much lower as compared to double digit imports growth witnessed by China in early 2000s.
- ▶ Growth in import volume in India fell from high levels of 17.6% and 15.4% in 2017 and 2018, respectively to 2.2% in 2019 (FY20) as a result of weak consumption demand. Imports growth is projected to recover to 4.4% and 5.6% in 2020 (FY21) and 2021 (FY22), respectively, in line with an anticipated improvement in demand.

**Table 2: Volume of import of goods and services (% annual)**

	2018	2019	2020	2021
US	4.4	1.6	2.1	3.0
UK	0.7	2.5	-2.8	1.2
Germany	3.7	2.3	1.4	2.3
Japan	3.4	-0.3	1.2	2.0
Brazil	7.6	1.7	4.1	4.4
Russia	2.7	0.4	-0.3	0.7
India*	15.4	2.2	4.4	5.6
China	5.7	-1.7	2.0	1.7
South Africa	3.3	1.7	3.3	2.7

Source (basic data): OECD Economic Outlook, November 2019

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

## 5. In focus: FY21 budget - combating the economic slowdown under conditions of revenue uncertainty

### Introduction

The FY21 Union Budget was presented in the backdrop of a significant downside in economic growth in both real and nominal terms which had translated into a sharp erosion in tax revenue growth. For policymakers, these conditions are significantly challenging since neither monetary policy instruments nor fiscal policy instruments appear to have any tangible sharp edge. In case of monetary policy, the five successive repo rate cuts since February 2019 have failed to deliver due to inadequate transmission so far. With CPI inflation continuing to show upward pressure, any further reduction in the repo rate does not seem viable. On the fiscal side, it is difficult to provide any meaningful stimulus under conditions of a significant erosion in tax revenue growth.

The FY21 budget is characterized by significant revenue uncertainties particularly on account of tax revenues. The reliability of the revised estimates (RE) for FY20 will only be clear when these are tested against the corresponding actuals in about three months' time when the actual data for FY20 is released by the CGA. The FY21 budget proposals need to be assessed in terms of, among other considerations, the following issues:

1. Whether the FY20 RE of tax revenues are likely to be realized since these constitute the base year numbers for FY21 budget estimates?
2. What is the true extent and quality of fiscal deficit in FY20 RE and FY21BE?
3. What is the credible quantum of fiscal stimulus inherent in the budget proposals for FY20 and FY21?
4. To what extent the proposed National Infrastructure Pipeline (NIP) is dependent on center's budgetary support?

### Assessing FY20 RE of tax revenues: uphill task

As per CGA data covering the first three quarters of FY20, there is a contraction in center's gross tax revenues of (-) 2.9%. The budget was candid enough to keep the annual growth in center's gross tax revenues in FY20 RE at 4%. However, even to realize this low growth target, a growth rate of 19% is required in the last quarter of FY20.

A comparison with actual growth rates in the last quarter of some of the previous years as given in Table 3 indicates that this would be an uphill task. In the case of PIT, a growth of 51.6% is required in the last quarter of FY20 for realizing the RE for FY20. In the case of IDT, the required growth is 18% as against an actual growth performance of only 0.1% in the first three quarters. One unknown in this context relates to the extent of success of the 'Vivad se Viswas' scheme.

**Table 3: Cumulated growth required during 4QFY20 to achieve FY20 (RE)**

Year	Gross tax revenues	DT	CIT	PIT	IDT
<b>Cumulated growth (%) during April-December of each fiscal year</b>					
FY15	7.0	7.3	6.6	8.4	6.3
FY16	21.1	10.7	10.1	11.7	34.8
FY17	18.3	10.7	4.8	20.5	25.0
FY18	17.3	17.1	17.1	17.0	17.3
FY19	6.6	14.5	14.0	15.2	1.0
FY20	-2.9	-5.8	-13.6	5.1	0.1
<b>Cumulated growth (%) during January-March of each fiscal year</b>					
FY15	13.7	11.3	12.7	9.2	16.5
FY16	9.9	0.0	-1.6	2.6	22.1
FY17	17.1	15.6	10.6	23.5	15.1
FY18	0.8	21.7	19.1	25.4	-17.1
FY19	12.6	15.7	20.4	9.3	8.5
FY20 (required)	19.0	22.1	2.1	51.6	18.0

Source (basic data): Union Budget FY21, CGA



## Measuring genuine fiscal deficit

In this section, we consider the true fiscal deficit in FY20 and FY21 based on the official data. In both the years, according to the budget estimates, fiscal deficit has slipped by 0.5% points of GDP from the previously announced targets at 3.3% for FY20 and 3% for FY21 under the Fiscal Responsibility and Budget Management (FRBM) Act. In both years, the slippage takes the fiscal deficit to 3.8% and 3.5% of GDP, respectively. The actual magnitude of the slippage in FY20 may however depend on the extent to which non-tax revenues are augmented by the AGR payments by the telecom companies. Nonetheless, the true fiscal deficit is significantly larger if we take into account the off-budget borrowing and the borrowing from National Small Saving Fund (NSSF). The relevant numbers are given in the appendix to the finance minister's budget speech for FY21.

Off-budget borrowings relate to borrowings done by various special purpose vehicles (SPVs) of public sector enterprises (PSEs) attached to different ministries where the entire burden of servicing the additional liability is on the central government, that is, on budgetary resources. Borrowing from NSSF is also on the same footing.

In recent years, the union government has been using the Food Corporation of India (FCI) to borrow from the NSSF in lieu of the due payment of food subsidy. Had this food subsidy been directly paid by the central government, it would have been part of government expenditure and the corresponding amount would have been directly funded by fiscal deficit if government's tax and non-tax resources fell short. The FCI's borrowing from the NSSF amounts to substitution of financing of government's subsidy expenditure such that the amount is not included in the fiscal deficit. In fact, not only the entire burden of servicing this additional borrowing is to be borne by budgetary resources but such borrowing is shown as part of government's liability. If we add these two elements, the true fiscal deficit amounts to INR9,21,430 crores (4.5% of GDP) in FY20 (RE) and INR9,82,437 crores (4.4% of GDP) in FY21 (BE). Another way of cross checking these numbers is by looking at the change in government's liabilities in these two years. This is shown in Table 4.

**Table 4: Quantum of true fiscal deficit**

Year	Change in liabilities	Fiscal deficit	EBR not included in outstanding liabilities statement	Financial support extended to FCI through loans from NSSF	True fiscal deficit
	1	2	3	4	5=2+3+4
<b>In INR Cr</b>					
2018-19	8,48,038	6,49,418	89,864	97,000	8,36,282
2019-20 (RE)	9,34,905	7,66,846	44,584	1,10,000	9,21,430
2020-21 (BE)	9,31,899	7,96,337	49,500	1,36,600	9,82,437
<b>As % of GDP</b>					
2018-19	4.5	3.4	0.5	0.5	4.4
2019-20 (RE)	4.6	3.8	0.2	0.5	4.5
2020-21 (BE)	4.1	3.5	0.2	0.6	4.4

Source (basic data): Union Budget FY21

If we consider change in outstanding liabilities as an indicator of fiscal deficit, fiscal deficit in FY20 (RE) and FY21 (BE) amounts to INR9,34,905 crores (4.6% of GDP) and INR9,31,899 crores (4.1% of GDP), respectively. However, the change in liabilities may not fully reflect the entire fiscal deficit in the current year to the extent that some of the off-budget borrowing is not added as liability of the government but remains only as a liability of the SPV through which such borrowing is done. Thus, the true fiscal deficit is nearly 1% point higher than what is shown explicitly as fiscal deficit in the budget. Part 2 (a) of the FRBM Act, 2003 defines fiscal deficit as *the excess of total disbursements from the consolidated fund of India, excluding repayment of debt over total receipts into the Fund (excluding the debt receipts) during a financial year*. The true extent of borrowing by the government is understated by keeping such borrowing outside the Consolidated Fund of India even though the servicing of such additional debt falls entirely on budgetary resources.

Furthermore, the slippage in fiscal deficit has not been fully used for augmenting capital expenditure, which would have created assets corresponding to the additional liabilities, and provided a more direct and immediate stimulus. We examine the stimulus contained in the budget in the next section.



## Estimating quality and extent of budgetary fiscal stimulus

We can examine the extent of fiscal stimulus by looking at the explicit increase in purchasing power in the hands of households as a result of budgetary initiatives. First, the estimated revenue cost of the concessionality announced in the case of personal income tax (PIT) amounts to INR40,000 crores. This pertains to lowering of the PIT rate and widening of the tax brackets which is given as an option to the tax assesseees, provided they choose to forgo all existing deductions and exemptions. Since this is voluntary and depends on the option exercised by individual tax assesseees, the full revenue impact will depend on the actual choices made. An additional INR25,000 crores is the estimated revenue cost of the abolition of the dividend distribution tax (DDT). This may be fully accessed by the companies and it will add to the additional profits which were left in the hands of the corporates as a result of the CIT rate reduction that was introduced in September 2019. The additional profits in terms of revenue forgone on CIT reform and the abolition of DDT does not fully translate into additional demand in the system because the companies may use the consequent additional profits in a variety of ways. These were discussed in detail in the October 2019 issue of the Economy Watch. In particular, companies are not likely to increase their investment demand unless capacity utilization improves significantly. Until then, the additional corporate savings may be used for price reduction, reduction in corporate debt, additional dividend distribution and financing buybacks. Therefore, the stimulus out of these two budget initiatives in the case of direct tax may amount to INR65,000 crores at the maximum. In reality, it may only be a fraction of this.

Stimulus has also been provided in the form of additional direct purchases by the government financed from tax and non-tax revenues as well as additional borrowings. For this purpose, it is important to measure the extent of additionality relative to GDP. Since interest payments are only transfer payments, direct purchases by the government may be reflected in the change in the primary revenue expenditure relative to GDP between two consecutive years and the change in capital expenditure relative to GDP for these years. For this purpose, we have compared FY20 (RE) against FY19 (Actuals) and FY21 (BE) against FY20 (RE). These proportions relative to GDP and the corresponding magnitudes are given in Table 5.

**Table 5: Additionality in expenditures: FY20 (RE) and FY21 (BE)**

Item	In INR crore		In % points of GDP	
	FY20	FY21	FY20	FY21
<b>Capital expenditure of which</b>	<b>17,333</b>	<b>28,237</b>	<b>0.08</b>	<b>0.13</b>
Defence capital expenditure	7,780	-7,716	0.04	-0.03
Non-defence capital expenditure	9,554	35,952	0.05	0.16
<b>Primary revenue expenditure</b>	<b>1,89,316</b>	<b>24,698</b>	<b>0.93</b>	<b>0.11</b>

Source (basic data): Union Budget FY21

In the case of primary revenue expenditure, the incremental expenditure relative to GDP in FY20 (RE) over FY19 (Actual) is 0.93% points. It is only 0.11% points in FY21 (BE) over FY20 (RE). We have divided capital expenditure into two parts, namely, defence capital expenditure and non-defence capital expenditure. This is done due to their differential multiplier effects. With respect to total capital expenditure, the incremental expenditure relative to GDP in FY20 (RE) and FY21 (BE) amounts only to 0.1% point each as total government capital expenditure increased from 1.6% of GDP in FY19 to 1.7% in FY20 (RE) and to 1.8% in FY21 (BE). This also implies that while the slippage in fiscal deficit is that of 0.5% points in both these years, the incremental capital expenditure amounts only to 0.1% points each that is only one-fifth of the additional borrowing. In other words, approximately 80% of the additional borrowing in both these years is expected to be used for revenue expenditure or non-asset forming expenditure. Had these additionalities been fully used for capital expenditure, the financing of the National Infrastructure Pipeline (NIP) would have been on a more solid ground. We have discussed this in the next section.

In this context, we note that the multipliers associated with revenue and capital expenditure are different. Most studies indicate that the multiplier for the latter is much higher (Table 6).

**Table 6: Estimates of expenditure multipliers in India: selected studies**

Policy variables	RBI (2013 study) <sup>@4</sup>	RBI (2019 study) <sup>@5</sup>	Expenditure multiplier estimates by Bose and Bhanumurthy <sup>6</sup> (2013)	Expenditure multiplier estimates by Goyal and Sharma <sup>7</sup> (2015)
Aggregate expenditure	0.40 (impact and peak)			
Revenue expenditure	0.19 (impact) 0.09 (peak)	0.45		1.69
Capital expenditure	0.39 (impact) 0.85 (peak)	3.25	2.45	2.38
Non-defence capital expenditure	2.10 (impact) 3.84 (peak)			
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

Note: RBI (2019 study) reports peak multipliers

### Financing of NIP: limited role of center's budgetary investment

The core of government's revival strategy consists of the proposed NIP. In this case, over a six-year period from FY20 to FY25, an additional investment of INR102 lakh crores has been planned. This is to be financed by five different categories of investors, namely, central government, central public sector enterprises (CPSEs), state governments, state public sector enterprises (SPSEs) and the private sector. It is the central government's infrastructure expenditure which is supposed to serve as a pivot to attract state and private sector infrastructure expenditure and that of the CPSEs and SPSEs. These investments may include investments through the public private partnership (PPP) programs which have been planned earlier also. But actual success in this PPP financing mode of infrastructure projects has been quite limited. However, the NIP financing scheme gives a weight of 39:39:22 for center including CPSEs, state including SPSEs and the private sector although the year-wise financing shares differ.

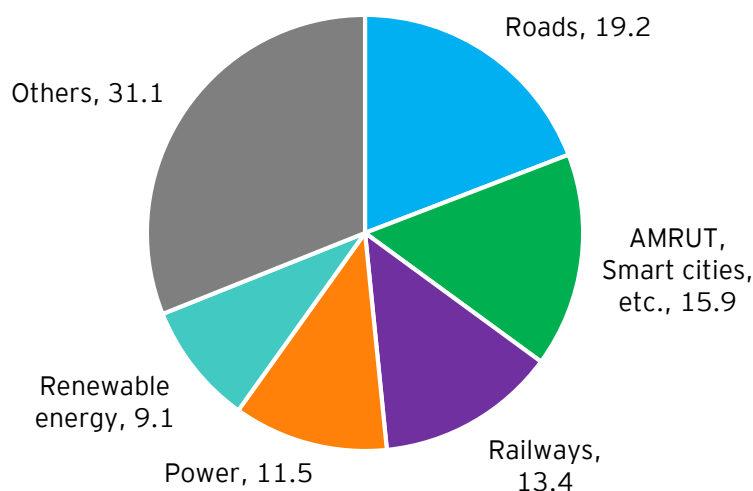
It can be seen that in terms of sectoral shares in infrastructure investment, the NIP is focused on five main sectors namely: (1) roads (19.2%), (2) AMRUT, smart cities, etc. (15.9%), (3) railways (13.4%), (4) power (11.5%) and (5) renewable energy (9.1%). Together, these five sectors account for close to 70% of the total infrastructure investment through NIP. This is shown in Chart 6.

<sup>4</sup> <https://www.rbi.org.in/scripts/PublicationsView.aspx?id=15369>

<sup>5</sup> <https://www.rbi.org.in/scripts/PublicationsView.aspx?id=18941>

<sup>6</sup> Bose, S and N R Bhanumurthy, 2013. "Fiscal Multipliers for India", NIPFP Working Paper No.125.

<sup>7</sup> Goyal A, Sharma B (2015) Government expenditure in India: composition, cyclicity and multipliers. IGIDR Working Paper No. 32. IGIDR, Mumbai

**Chart 6: Sectoral share (%) in total investment (NIP)**

Source (Basic Data): National Infrastructure Pipeline, Government of India;  
<http://164.100.117.97/WriteReadData/userfiles/DEA%20IPF%20NIP%20Report%20Vol%201.pdf>

It is important to indicate the additionality in capital expenditure in the central and state budgets as a result of the NIP. The planned budgetary expenditure of the center in the NIP is 0.9% of GDP on average per year (Table 7). Historically, center has been allocating 1.1% of GDP on an average on non-defence capital expenditure which largely goes into infrastructure expansion. In other words, there is actually no additionality in central government's infrastructure expenditure through the NIP over its existing infrastructure expenditure.

**Table 7: National Infrastructure Pipeline: financing and targets (% of nominal GDP)**

#	Entity	FY20	FY21	FY22	FY23	FY24	FY25
1	Total investment (TI)	6.6	8.6	7.5	4.8	4.0	3.0
2	Center of which:	1.8	2.0	2.2	2.4	2.5	2.7
3	Budgetary support	0.7	0.8	0.9	1.0	1.0	1.1
4	CPSEs (2 - 3)	1.1	1.2	1.3	1.4	1.5	1.6
5	States (derived)	3.1	4.2	3.4	1.6	0.9	0.2
6	Private sector (derived)	1.7	2.4	1.9	0.9	0.5	0.1
<b>Memo</b>							
<b>Nominal GDP growth (%)</b>		<b>8.0</b>	<b>10.5</b>	<b>12.0</b>	<b>12.6</b>	<b>12.9</b>	<b>13.1</b>

Source (Basic Data): National Infrastructure Pipeline, Government of India;  
<http://164.100.117.97/WriteReadData/userfiles/DEA%20IPF%20NIP%20Report%20Vol%201.pdf>

The real success of the NIP would, therefore, depend not on center's budgetary support to infrastructure, but the contributions made by CPSEs, state governments, SPSEs and the private sector. Whether such planned investment will really take off depends on the nature of the concerned projects and the ability of the central government to bring together these different entities on a common platform. We also note that the finances of the state government would be under pressure because of the impact of the economic slowdown and the likelihood of lower magnitude of central transfers due to anticipated shortfall in central gross tax revenues. This may adversely impact the expected contribution of the state governments to the NIP endeavor.



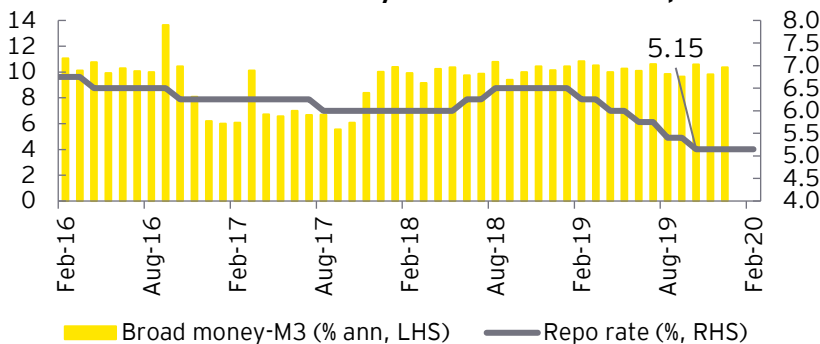
## 6. Money and finance: RBI retained the policy rate at 5.15% in February 2020

### A. Monetary sector

#### Monetary policy

- ▶ With CPI inflation breaching the RBI's average inflation target of 4% in December 2019, the RBI retained the policy repo rate at 5.15% in its February 2020 monetary policy review while maintaining an accommodative policy stance. The RBI projects CPI inflation at 6.5% for 4QFY20, a range of 5.4%-5.0% for 1HFY21 and 3.2% for 3QFY21.
- ▶ In RBI's assessment, the inflation outlook is likely to be influenced by the following factors: (a) pickup in prices of non-vegetable food items like milk due to rising input costs, and pulses due to shortfall in kharif production, which is likely to sustain in the coming months, (b) continued volatility in global crude prices on account of sustained geopolitical uncertainty in the middle-east, (c) sustained volatility in domestic financial markets due to a combination of domestic and global factors.

**Chart 7: Growth in broad money and movements in repo rate**



Reflective of sustained weakness in domestic demand, average credit growth fell to 8.0% in 3QFY20 from 10.4% in 2QFY20.

Source: Database on Indian Economy, RBI

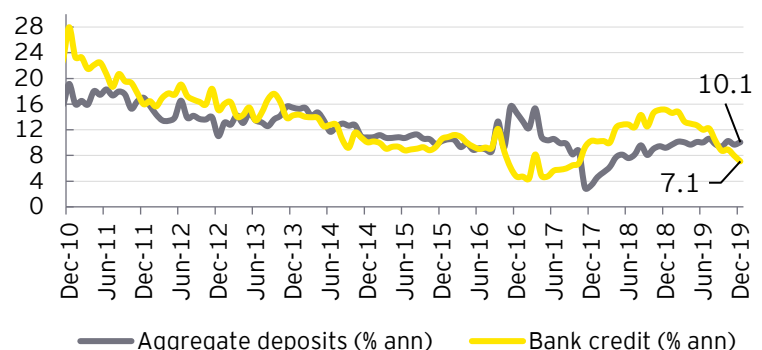
#### Money stock

- ▶ Growth in broad money stock (M3) improved to 10.4% in December 2019 from 9.8% in November 2019 (**Chart 7**). Growth in time deposits, accounting for nearly 76% of M3, grew by 9.8% in December 2019 as compared to 9.5% in November 2019.
- ▶ Narrow money (M1) growth increased to 12.5% in December from 11.1% in November 2019. This was due to higher growth in demand deposits at 13.1% in December 2019 as compared to 8.2% in November 2019. Growth of currency in circulation moderated to 11.9% in December 2019 from 12.8% in November 2019.

#### Aggregate credit and deposits

- ▶ Growth in bank credit continued to remain subdued and fell to a 26-month low of 7.1% in December 2019 from 8.0% in November 2019 pointing to weak domestic demand (**Chart 8**). In 3QFY20, growth in bank credit averaged 8.0%, lower than 10.4% in 2QFY20.
- ▶ Growth in non-food credit fell to a 26-month low of 7.0% in December 2019 from 7.2% in November 2019 owing to a fall in credit to industries and agricultural sector.
- ▶ Growth in credit to industry fell to a 17-month low of 1.6% in December 2019 from 2.4% in November 2019 while credit growth to agriculture fell to 5.3% in December 2019 from 6.5% in November 2019. Growth in credit to services improved to 6.2% in December 2019 from 4.8% in November 2019.

**Chart 8: Growth in credit and deposits**



Source: Database on Indian Economy, RBI

- ▶ Growth in housing sector credit also fell to 17.6% in December 2019 as compared to 18.3% in November 2019.
- ▶ Growth in aggregate bank deposits of residents increased marginally to 10.1% in December 2019 as compared to 9.7% in November 2019.

## B. Financial sector

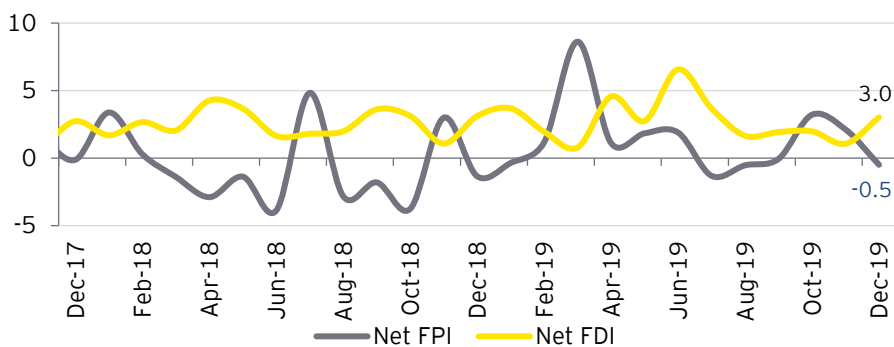
### Interest rates

- ▶ Interest rates offered by commercial banks on term deposits with a maturity of more than one year were lowered further and averaged 6.26% in January 2020 (ranging between 6.12% and 6.40%), as compared to 6.33% in December 2019.
- ▶ The average yield on 10-year government securities was marginally lower at 6.82% in January 2020 as compared to 6.85% in December 2019. Reflecting the impact of the recently conducted open market operations (OMOs)<sup>8</sup> by the RBI, the yield of 10-year government securities softened cumulatively by 15 bps during the period 19 December 2019 to 31 January 2020. As per RBI's assessment, the yield of 10-year government securities fell by 76 bps during the period February 2019 to January 2020.
- ▶ Transmission to credit market is gradually improving as reflected in the marginal cost of lending rate (MCLR) and weighted average lending rate (WALR). The MCLR fell further by 0.9% points to average 7.74% in January 2020, a cumulated reduction of 61 bps points since February 2019. The WALR on fresh rupee loans by scheduled commercial banks was reduced to 9.28% in December 2019, a cumulated reduction of 69 bps during February to December 2019.

### FDI and FPI

- ▶ As per the provisional data released by the RBI on 11 February 2020, the overall foreign investment inflows (FIIs) fell further to US\$2.5 billion in December 2019 from US\$3.2 billion (revised) in November 2019 due to net FPI outflows. In 3QFY20, the overall FIIs were higher at US\$10.9 billion as compared to US\$5.4 billion in 2QFY20.

**Chart 9: Net FDI and FPI inflows (US\$ billion)**



Net FDI inflows were higher at US\$3.0 billion while FPIs witnessed net outflows to the tune of US\$0.5 billion in December 2019.

Source: Database on Indian Economy, RBI

- ▶ Net FDI inflows increased to US\$3.0 billion in December from US\$1.1 billion (revised) in November 2019. (**Chart 9**). Gross FDI inflows were also higher at US\$6.8 billion in December 2019 as compared to US\$4.4 billion in November 2019 (revised). On a quarterly basis, net FDI inflows were lower at US\$6.1 billion in 3QFY20 as compared to US\$7.3 billion in 2QFY20.
- ▶ Net portfolio investments (FPIs) turned negative indicating outflows to the tune of US\$0.5 billion in December 2019 as compared to net inflows of US\$2.1 billion in November 2019. In 3QFY20, the magnitude of net FPI inflows was at US\$4.8 billion as compared to net outflows to the tune of US\$1.9 billion.

<sup>8</sup> RBI conducted four open market operations (OMOs) on 23 December 2019, 30 December 2019, 6 January 2020 and 23 January 2020, where it simultaneously purchased long-term government securities and sold short-term government securities.

## 7. Trade and CAB: merchandise exports contracted by (-) 1.7% in January 2020

### A. CAB: Current account deficit (CAD) narrowed to 0.9% of GDP in 2QFY20

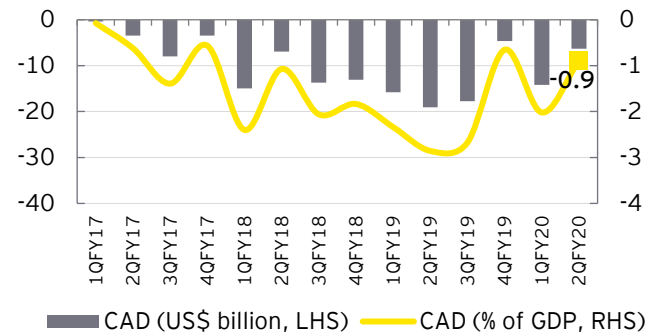
- CAD in 2QFY20 narrowed to 0.9% of GDP from 2.0% in 1QFY20 (Chart 10) as merchandise trade deficit fell sharply to 5.4% of GDP from 6.6% during the same period (Table 8). Merchandise imports moderated to a two-year low of 16.8% of GDP in 2QFY20 from 18.3% in 1QFY20, while merchandise exports eased to a nearly 15-year low of 11.4% of GDP from 11.8% over the same period. Net service exports remained stable at 2.9% of GDP in 2QFY20. Net transfers, however, improved to a four-quarter high of 2.8% of GDP in 2QFY20 from 2.6% in 1QFY20.

**Table 8: 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
3QFY19	-17.8	-2.7	-49.3	21.7
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

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

**Chart 10: CAD**



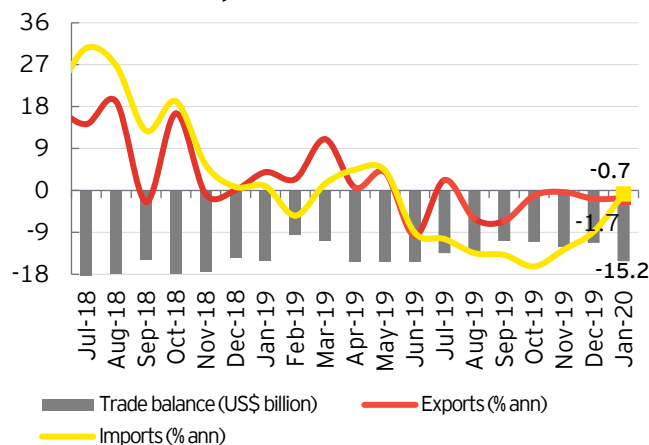
Source: Database on Indian Economy, RBI

### B. Merchandise trade and exchange rate

Merchandise imports contracted for the eighth successive month by (-) 0.7% while merchandise exports contracted for the sixth successive month by (-) 1.7% in January 2020.

- Merchandise exports contracted by (-) 1.7% in January 2020, which is close to the rate of contraction of (-) 1.8% in December 2019 (Chart 11).

**Chart 11: Developments in merchandise trade**



Source: Ministry of Commerce and Industry, GoI

- Oil exports growth turned positive at 2.9% in January 2020 after eight consecutive months of contraction ((-) 4.2% in December 2019). Contraction in exports of engineering goods worsened to (-) 4.0% from (-) 1.2% over the same period.
- The pace of contraction in imports slowed to (-) 0.7% in January 2020 from (-) 8.8% in December 2019 as oil imports showed a positive growth of 15.3% in January 2020 after seven consecutive months of contraction.
- Imports of transport equipment grew by 2.1% in January 2020 after 12 successive months of contraction, mainly on account of base effect.
- Contraction in imports excluding oil, gold and jewelry eased to (-) 4.6% in January 2020 from (-) 12.3% in December 2019.
- Out of the 30 broad sectors for which exports and imports data is provided, 19 and 17 sectors, respectively, experienced a contraction in January 2020.
- Merchandise trade deficit increased to US\$15.2 billion in January 2020 from US\$11.3 billion in December 2019 due to sharper contraction in exports relative to imports.
- The Indian Rupee depreciated marginally to INR71.3 per US\$ (average) in January 2020 as compared to INR71.2 per US\$ (average) in December 2019.



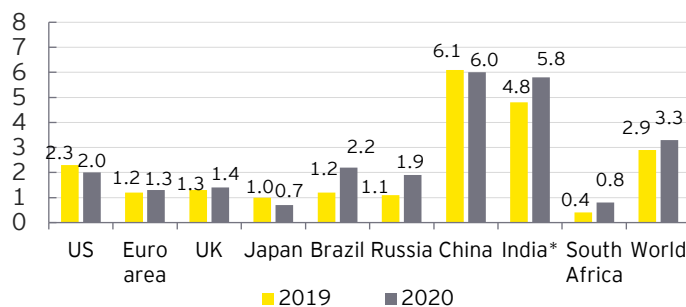
## 8. Global growth: IMF revised down its global growth projection to 2.9% in 2019 and 3.3% in 2020

### A. Global growth outlook

- ▶ The IMF (World Economic Outlook, January 2020) projected the global growth to increase from an estimated 2.9% in 2019 to 3.3% in 2020, a downward revision of 0.1% points for both years relative to October 2019 World Economic Outlook (WEO) projections (**Chart 12**). The downward revision for 2020 reflects lower than expected growth in few EMDEs, particularly India.
- ▶ AEs are estimated to grow by 1.7% in 2019 and 1.6% in 2020, a downward revision of 0.1% points. Growth in EMDEs is projected at 3.7% in 2019 and 4.4% in 2020, downward revision of 0.2% points in both years.
- ▶ Growth in the US is expected to moderate from an estimated 2.3% in 2019 to 2.0% in 2020 reflecting the return to a neutral fiscal stance and anticipated waning support from further loosening of financial conditions.
- ▶ Growth in the Euro area is projected to increase from 1.2% in 2019 to 1.3% in 2020 as improvement in external demand is expected to support growth. Growth projections in the UK were unchanged from the October 2019 WEO at 1.3% in 2019 and 1.4% in 2020 assuming an orderly exit from the EU.
- ▶ Growth in Japan was revised up to 1% in 2019 and 0.7% in 2020 reflecting healthy private consumption on the back of government countermeasures accompanying the hike in consumption tax rate, robust capital expenditure, historical revisions to national accounts in 2019, and anticipated boost from the December 2019 stimulus measures in 2020.
- ▶ Growth in China is projected at 6.1% in 2019 and 6% in 2020, an upward revision of 0.2% points for 2020 reflecting the envisaged partial rollback of past tariffs and *Phase One* trade deal with the US.
- ▶ Growth in India was sharply revised down to 4.8% in 2019 (FY20) and 5.8% in 2020 (FY21) due to a slowdown in domestic demand, stress in the NBFC sector and a decline in credit growth.

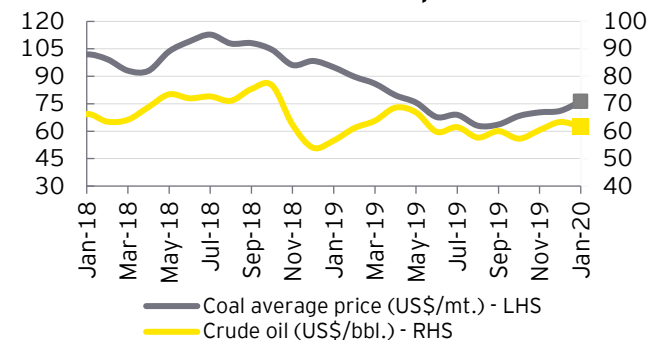
The IMF projected global growth to increase from an estimated 2.9% in 2019 to 3.3% in 2020. Growth projections were revised down by 0.1% points for both years.

**Chart 12: Global growth projections**



Source: World Economic Outlook, IMF, January 2020  
\* data pertains to fiscal year; estimates for 2019 and forecasts for 2020

**Chart 13: Global crude and coal prices**



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

### B. Global energy prices: global crude price fell in January 2020 as supply remained uninterrupted post US-Iran conflict and oil demand from China fell

- ▶ After increasing to US\$63.4/bbl. in December 2019, average global crude price<sup>9</sup> fell to US\$61.6/bbl. in January 2020 (**Chart 13**). Global supply remained uninterrupted post the US-Iran conflict primarily due to strongly rising non-OPEC production and high OECD stocks<sup>10</sup>. Further, the Corona virus outbreak in China, the world's largest oil importer, has adversely impacted its oil demand<sup>11</sup>, thereby putting downward pressure on the prices.
- ▶ Average global coal price<sup>12</sup> increased to a nine-month high of US\$76.3/mt. in January 2020 as compared to US\$71.1/mt. in December 2019.

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

<sup>10</sup> Oil Market Report (January 2020), IEA

<sup>11</sup> <https://www.eia.gov/todayinenergy/detail.php?id=34812>

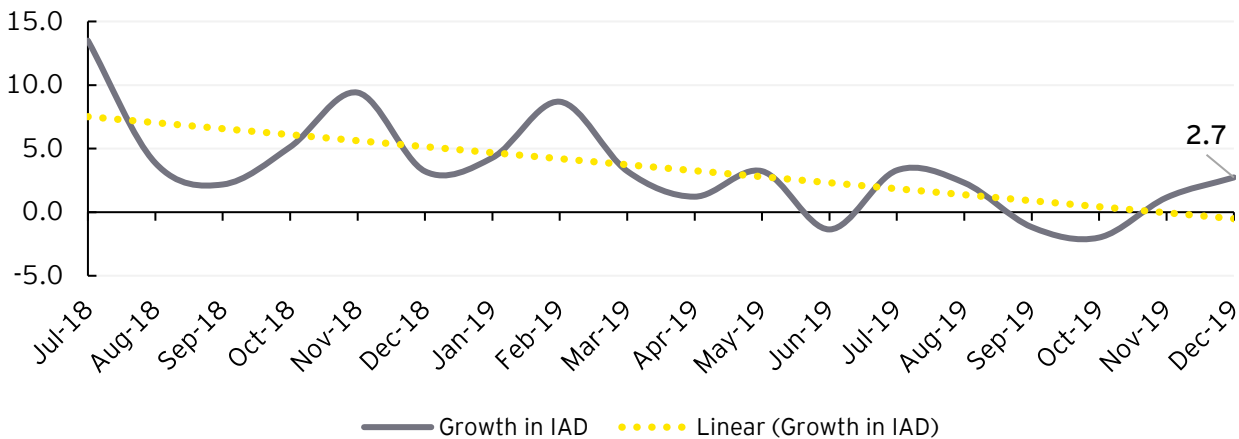
<sup>12</sup> Simple average of Australian and South African coal prices

## 9. Index of aggregate demand: modest growth in December 2019; falling on trend basis since July 2018

### Growth in Index of aggregate demand (IAD) improved marginally to 2.7% in December 2019

- ▶ EY has developed an 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 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.
- ▶ On a y-o-y basis, growth in the index of aggregate demand increased only marginally to 2.7% in December 2019 from 1.2% in November 2019 (**Chart 14**). On trend basis, this has been deteriorating since July 2018.
- ▶ Demand conditions in manufacturing and services sectors witnessed an improvement in December 2019 as compared to November 2019. Demand conditions in the agricultural sector deteriorated for the second successive month in December 2019.

**Chart 14: Growth in IAD (y-o-y)**



Source (Basic data): RBI, MoSPI and EY estimate

**Table 9: IAD**

Month	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19
<b>IAD</b>	126.7	126.1	127.1	129.8	124.6	124.1	126.2	129.7	131.4
<b>Growth (% y-o-y)</b>	1.2	3.2	-1.4	3.3	2.3	-1.2	-2.0	1.2	2.7
<b>Growth in agr. credit</b>	7.9	7.8	8.7	6.8	6.8	7.0	7.1	6.5	5.3
<b>Mfg. PMI**</b>	1.7	3.1	1.7	1.8	1.3	1.4	0.4	1.2	3.2
<b>Ser. PMI**</b>	1.4	-0.3	1.1	4.4	-0.7	-1.9	0.7	3.8	3.9

\*\*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 % change y-o-y	Electricity	Core IIP	Fiscal year/quarter/month	PMI mfg.	PMI ser.
FY16	3.3	4.3	2.9	5.7	3.0	FY16	51.3	51.7
FY17	4.6	5.3	4.3	5.8	4.8	FY17	51.6	51.0
FY18	4.4	2.3	4.7	5.3	4.3	FY18	51.5	50.0
FY19	3.8	2.8	3.8	5.2	4.4	FY19	52.8	52.2
4QFY19	1.5	2.2	1.4	1.5	3.3	4QFY19	53.6	52.2
1QFY20	3.0	3.0	2.4	7.3	3.4	1QFY20	52.2	50.3
2QFY20	-0.4	-1.2	-0.4	0.6	-0.9	2QFY20	51.8	51.6
3QFY20	-0.9	-0.2	-0.3	-6.0	-1.7	3QFY20	51.5	51.7
Sep-19	-4.6	-8.6	-4.3	-2.6	-5.1	Oct-19	50.6	49.2
Oct-19	-4.0	-8.0	-2.3	-12.2	-5.8	Nov-19	51.2	52.7
Nov-19	1.8	1.8	2.7	-5.0	-0.6	Dec-19	52.7	53.3
Dec-19	-0.3	5.4	-1.2	-0.1	1.3	Jan-20	55.3	55.5

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 % change y-o-y	Fuel and light	Core CPI	WPI	Food Price Index % change y-o-y	Mfg. products	Fuel and power	Core WPI
FY16	4.9	4.9	5.3	4.9	-3.7	1.2	-1.8	-19.7	-1.8
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
4QFY19	2.5	-0.9	1.9	5.0	2.9	3.0	2.4	2.7	2.7
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	1.0	9.3	-0.7	-5.7	-1.8
Oct-19	4.6	7.9	-2.0	3.2	0.0	7.6	-0.9	-8.1	-1.8
Nov-19	5.5	10.0	-1.9	3.4	0.6	9.1	-0.8	-7.3	-1.9
Dec-19	7.4	14.2	0.7	3.5	2.6	11.0	-0.3	-1.5	-1.5
Jan-20	7.6	13.6	3.7	4.0	3.1	10.1	0.34	3.4	-1.0

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	
May-19	0.2	-51.6	15.0	12.1	-4.0	52.0	66.3
Jun-19	1.4	6.3	12.3	9.7	-4.0	61.4	77.1
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 <sup>#</sup>	141.6 <sup>#</sup>

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)					
May-19	34,557	154	7,195	7,713	49,619
Jun-19	35,400	188	4,039	8,026	47,653
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

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	M1	M3	Bank credit	Agg. deposits	Net FDI	Net FPI	Fiscal year/quarter/month	10-year govt. bond yield	FX reserves US\$ billion
	%		% change y-o-y				US\$ billion			%	
Mar-19	6.25	FY16	13.5	10.1	9.7	10.5	36.0	-4.1	FY16	7.74	355.6
Apr-19	6.00	FY17	3.1	10.1	7.9	11.6	35.6	7.6	FY17	7.03	370.0
May-19	6.00	FY18	21.8	9.2	7.5	7.5	30.3	22.1	FY18	7.05	424.4
Jun-19	5.75	FY19	13.6	10.5	13.7	8.9	30.7	-0.6	FY19	7.68	411.9
Jul-19	5.75	4QFY19	13.6	10.5	14.2	10.0	6.4	9.4	4QFY19	7.37	411.9
Aug-19	5.40	1QFY20	11.3	10.1	12.6	9.9	13.9	4.8	1QFY20	7.24	427.7
Sep-19	5.40	2QFY20	10.8	9.6	10.4	9.9	7.3	-1.9	2QFY20	6.68	433.6
Oct-19	5.15	3QFY20	12.5	10.4	8.0	10.0	6.1	4.8	3QFY20	6.68	457.5
Nov-19	5.15	Sep-19	10.8	9.6	8.7	9.4	1.9	-0.1	Oct-19	6.54	442.6
Dec-19	5.15	Oct-19	12.9	10.6	8.9	10.2	2.0	3.2	Nov-19	6.64	451.1
Jan-20	5.15	Nov-19	11.1	9.8	8.0	9.7	1.1	2.1	Dec-19	6.85	457.5
Feb-20	5.15	Dec-19	12.5	10.4	7.1	10.1	3.0	-0.5	Jan-20	6.82	471.3

Source: Database on Indian Economy - RBI

**Table A5: External trade and global growth**

Fiscal year/quarter/month	External trade indicators (annual, quarterly and monthly growth rates)						Global growth (annual)				
	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			
FY16	-15.6	-15.2	-117.7	65.5	46.0	54.7	2013	3.5	1.4	5.1	
FY17	5.1	0.9	-108.2	67.1	47.9	73.0	2014	3.6	2.1	4.7	
FY18	10.6	20.9	-159.0	64.5	55.7	90.8	2015	3.4	2.3	4.3	
FY19	8.4	10.5	-182.1	69.9	67.3	100.4	2016	3.4	1.7	4.6	
4Q FY19	6.0	-0.9	-35.5	70.5	60.5	90.2	2017	3.8	2.5	4.8	
1Q FY20	-1.7	-0.3	-46.0	69.5	65.1	74.3	2018	3.6	2.3	4.5	
2Q FY20	-3.6	-12.6	-37.7	70.4	59.7	65.2	2019	2.9	1.7	3.7	
3Q FY20	-1.1	-12.7	-34.4	71.2	60.3	69.9	2020**	3.3	1.6	4.4	
Oct-19	-1.1	-16.3	-11.0	71.0	57.3	68.3	2021**	3.4	1.6	4.6	
Nov-19	-0.3	-12.7	-12.1	71.5	60.4	70.3	2022*	3.6	1.6	4.8	
Dec-19	-1.8	-8.8	-11.3	71.2	63.4	71.1	2023*	3.6	1.5	4.8	
Jan-19	-1.7	-0.7	-15.2	71.3	61.6	76.3	2024*	3.6	1.6	4.8	

Source: Database on Indian Economy - RBI, Pink Sheet - World Bank and IMF World Economic Outlook, October 2019, IMF World Economic Outlook Update, January 2020; \* indicates projections as per October 2019 database, \*\* indicates projections as per January 2020 update.



**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) <sup>§</sup>	5.8	1.9	9.0	2.5	1.8	6.6	5.1	8.6	10.3	2.1
2QFY18	6.6	4.5	10.8	7.1	9.2	4.8	8.3	4.8	8.8	3.8
3QFY18	7.3	4.6	4.5	8.6	7.5	8.0	8.3	6.8	9.2	4.7
4QFY18	7.9	6.5	3.8	9.5	9.2	6.4	6.4	5.5	15.2	3.8
1QFY19	7.7	5.1	0.4	12.1	6.7	9.6	7.8	6.5	7.5	4.6
2QFY19	6.9	4.9	-2.2	6.9	8.7	8.5	6.9	7.0	8.6	4.8
3QFY19	6.3	2.8	1.8	6.4	8.3	9.7	6.9	7.2	7.5	3.8
4QFY19	5.7	-0.1	4.2	3.1	4.3	7.1	6.0	9.5	10.7	3.6
1QFY20	4.9	2.0	2.7	0.6	8.6	5.7	7.1	5.9	8.5	2.9
2QFY20	4.3	2.1	0.1	-1.0	3.6	3.3	4.8	5.8	11.6	1.9

Source: National Accounts Statistics, MoSPI

§: Growth numbers for FY20 are based on the first advanced estimates of NAS released by MoSPI on 07 January 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) <sup>§</sup>	5.7	7.2	12.6	3.0	-1.6	0.1	1.9
2QFY18	6.8	6.0	7.6	9.3	5.8	15.0	4.3
3QFY18	7.7	5.0	10.8	12.2	5.3	15.8	3.6
4QFY18	8.1	8.8	21.1	11.8	2.8	16.2	3.1
1QFY19	8.0	7.3	6.6	13.3	10.2	11.0	4.3
2QFY19	7.0	9.8	10.9	11.8	12.7	22.9	4.7
3QFY19	6.6	8.1	6.5	11.7	16.7	14.5	4.1
4QFY19	5.8	7.2	13.1	3.6	10.6	13.3	3.4
1QFY20	5.0	3.1	8.8	4.0	5.7	4.2	2.8
2QFY20	4.5	5.1	15.6	1.0	-0.4	-6.9	1.5

Source: National Accounts Statistics, MoSPI

§: Growth numbers for FY20 are based on the first advanced estimates of NAS released by MoSPI on 07 January 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	CPSE	central public-sector enterprise
15	CSO	Central Statistical Organization
16	Disc.	discrepancies
17	ECBs	external commercial borrowings
18	EIA	US Energy Information Administration
19	Elec.	electricity, gas, water supply and other utility services
20	EMDEs	Emerging Market and Developing Economies
21	EXP	exports
22	FAE	first advanced 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	FY	fiscal year (April–March)
29	GDP	Gross Domestic Product
30	GFCE	government final consumption expenditure
31	GFCF	gross fixed capital formation
32	Gol	Government of India
33	GST	Goods and Services Tax
34	GVA	gross value added
35	IAD	Index of Aggregate Demand
36	IBE	interim budget estimates
37	ICRIER	Indian Council for Research on International Economic Relations
38	IEA	International Energy Agency
39	IGST	Integrated Goods and Services Tax
40	IIP	Index of Industrial Production
41	IMF	International Monetary Fund
42	IMI	Index of Macro Imbalance



43	IMP	imports
44	INR	Indian Rupee
45	IPD	implicit price deflator
46	J&K	Jammu and Kashmir
47	MCLR	marginal cost of funds-based lending rate
48	Ming.	mining and quarrying
49	Mfg.	manufacturing
50	m-o-m	month-on-month
51	mt	metric ton
52	MoSPI	Ministry of Statistics and Programme Implementation
53	MPC	Monetary Policy Committee
54	NEXP	net exports (exports minus imports of goods and services)
55	NPA	non-performing assets
56	NCLT	National Company Law Tribunal
57	OECD	Organisation for Economic Co-operation and Development
58	OPEC	Organization of the Petroleum Exporting Countries
59	PFCE	private final consumption expenditure
60	PIT	personal income tax
61	PMI	Purchasing Managers' Index (reference value = 50)
62	RE	revised estimates
63	RBI	Reserve Bank of India
64	SOTR	states' own tax revenues
65	SLR	Statutory Liquidity Ratio
66	Trans.	trade, hotels, transport, communication and services related to broadcasting
67	US\$	US Dollar
68	UTGST	Union Territory Goods and Services Tax
69	UT	union territory
70	WPI	Wholesale Price Index
71	y-o-y	year-on-year
72	1HFY20	first half of fiscal year 2019-20, i.e., April 2019-September 2019

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