

# Economy Watch

Monitoring India's  
macro-fiscal performance

January 2020



Building a better  
working world

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# Highlights

1. Real GDP growth is estimated to fall to an 11-year low of 5.0% in FY20 from 6.8% in FY19. Estimated nominal growth at 7.5% in FY20 is the lowest since 1975-76 (FY76) as per the FY12 based GDP series.
2. IIP growth turned positive but remained low at 1.8% in November 2019 after contracting by (-) 4.0% in October 2019.
3. CPI inflation increased to a 65-month high of 7.4% in December 2019, its fifth sequential rise, from 5.5% in November 2019 mainly due to persistently rising vegetable prices.
4. As per the CGA, center's gross taxes during April-November FY20 grew by 0.8% as compared to 7.1% during the corresponding period of FY19.
5. Centre's fiscal deficit during April-November FY20 stood at 114.8% of the annual budgeted target while the corresponding figure for revenue deficit was 128.4%.
6. Growth in bank credit fell to a 25-month low of 8.0% in November 2019 from 8.9% in October 2019.
7. Current Account Deficit in 2QFY20 narrowed to 0.9% of GDP from 2.0% in 1QFY20 due to a sharp fall in merchandise trade deficit.
8. Contraction in merchandise imports and exports continued with imports contracting by (-) 8.8% and exports by (-) 1.8% in December 2019.
9. The World Bank revised down its global growth projection to 2.4% in 2019 and 2.5% in 2020. India's GDP growth was sharply revised down by 2.5% points to 5% in 2019 (FY20).



# Foreword

## FY21: Budget and growth prospects under severe policy constraints

The CSO's advance estimates for FY20 released on 7 January 2020 project the real GDP growth to be at 5% and the real GVA growth at 4.9% for FY20. The annual GDP growth at 5% in FY20 is the lowest since FY09, when the growth was only 3.1% indicating the impact of the global economic and financial crisis. Nominal GDP growth for FY20 is at a 44-year low of 7.5%. Nominal growth had fallen below this level to 7.4% way back in FY76 according to the CSO's recently released GDP series with FY12 as the base year. Such a low nominal GDP growth translates into a low tax revenue growth, which has also suffered from a low tax buoyancy both for direct and indirect taxes in FY20. Tax revenues have also been adversely affected in this year because of discretionary policy decisions particularly relating to CIT reforms. According to the government's own estimates, the revenue cost of corporate income tax (CIT) reforms is estimated at INR 1.45 lakh crore which amounts to 0.7% of FY20 GDP. The central government's tax base has also been eroded by a significantly lower growth in imports due both to weak domestic demand for imports and global trade challenges. As a result, the personal income tax (PIT), CIT, and center's indirect taxes showed buoyancies of 1.3, 0.3 and (-) 0.3 in 1HFY20. The buoyancy of overall gross taxes of the center in 1HFY20 was at 0.2 as compared to the five-year average 1H buoyancy of 1.3. The combination of low nominal GDP growth and extremely low tax buoyancies together with the impact of CIT reforms is anticipated to result in a major fall in center's gross tax revenues. It may be possible to contain the extent of slippage in fiscal deficit in FY20 by garnering some additional dividends from the RBI. In this month's in-focus section, we have estimated the likely shortfall in center's gross tax revenues at 1.7% of the FY20 GDP.

The Indian economy is currently facing another major challenge due to uncertainties in relation to global crude prices. The situation has become volatile because of the recent escalation of the US-Iran geopolitical tensions in early January 2020. The Brent crude price rose sharply to a peak of nearly US\$70/bbl. on 6 January 2020, immediately after the US-Iran conflict. Any increase in global crude prices is likely to have an adverse impact on India's growth and it also puts pressure on inflation due to the close link between crude prices and food and fuel prices. An earlier analysis by the RBI had estimated that an increase of US\$10/bbl. in global crude prices reduces growth by 15 basis points and increases inflation by 30 basis points. While the crude supply situation remains unpredictable, any disruption may partly be counterbalanced because of the weaker global demand for oil in 2020 due to lower global growth prospects. India's CPI inflation rate increased to a 65-month high of 7.4% in December 2019. The WPI inflation also increased from 0.6% in November 2019 to 2.6% in December 2019. In both cases, the increase is driven by food and fuel inflation. Given this inflationary pressure, any monetary policy stimulus may be ruled out at the current juncture.

The Union Budget for FY21 has to be prepared in the backdrop of a substantial shortfall in center's gross and net tax revenues in FY20 as well as center's ongoing efforts to initiate a major expenditure compression aimed at keeping the fiscal deficit slippage to an acceptable margin. This proposed expenditure compression in 4QFY20 is likely to have a growth reducing effect precisely at a time when stimulus is called for. The upcoming budget would contain revised estimates for revenues and expenditures for FY20 which would be much lower than budgeted targets and would therefore hardly provide for any growth over the corresponding numbers of FY19. Furthermore, because of the proposed expenditure compression, there may not be any fiscal stimulus that can constitute a meaningful countercyclical intervention to the ongoing economic slowdown.

Real GDP growth in FY21, according to at least three sources is expected to be less than 6%. The World Bank, in its January 2020 release of the World Economic Prospects and the IMF in its World Economic Outlook Update January 2020 projected India's real GDP growth at 5.8% for FY21. In a recent analysis, the State Bank of India\* has also indicated prospects of a sub 6% growth in FY21 and FY22.

The only redeeming feature at the moment appears to be the central government's National Infrastructure Pipeline (NIP) in which the central and state governments including their public sector enterprises and the private sector are meant to participate. As per the NIP, the shares of central and state governments along with their public enterprises in total projected investment of INR 102 lakh crores is 39% each while the share of the private sector is 22%. This pipeline covers a period from FY20 to FY25. According to available information, the center has at its disposal, significant unspent balances from various cesses which it has been collecting over the years. But the government has not been able to spend it on the earmarked purposes. These balances may amount to more than INR 3 lakh crore including the GST compensation cess\*\*. Excluding the GST compensation cess amount, such a large amount can prove to be handy in financing the recently proposed NIP provided suitable projects are identified in line with the basic purposes of the relevant cesses.

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\* <https://www.businesstoday.in/current/economy-politics/state-bank-of-india-lowers-gdp-estimates-for-fy20-to-4-6-percent-from-5-percent/story/393413.html>

\*\* <https://www.thehindubusinessline.com/portfolio/news-analysis/why-is-the-government-sitting-on-unutilised-cess-of-3-lakh-crore/article30550983.ece>

# 1. Growth: real GDP growth is estimated to fall to an 11-year low of 5% in FY20

## A. GDP Growth: First Advance Estimates (FAE) point to a deceleration in GDP growth to 5.0% in FY20 from 6.8% in FY19

- ▶ The FAE released by the MOSPI on 07 January 2020 show that the real GDP growth is likely to fall to 5.0% in FY20 from 6.8% in FY19 (Chart 1). The implied growth for 2HFY20 is higher at 5.2% as compared to 4.8% in 1HFY20. The nominal growth for FY20 is estimated at 7.5%, its lowest level in over four-decades.
- ▶ Growth in private final consumption expenditure (PFCE) is estimated at a seven year low of 5.8% in FY20 as compared to 8.1% in FY19. Implied growth in PFCE for 2HFY20 is higher at 7.3% as compared to 4.1% in 1HFY20.
- ▶ Growth in investment demand, as measured by gross fixed capital formation (GFCF), is estimated to be at a 17-year low of 1.0% in FY20. In fact, the implied growth in GFCF for 2HFY20 shows a contraction of (-) 0.5%.
- ▶ Growth in government final consumption expenditure (GFCE) is estimated at 10.5% in FY20. However, the implied growth in 2HFY20 at 8.5% as compared to 12.3% in 1HFY20 suggests an expected slowdown in government spending.

Chart 1: GDP growth (y-o-y, %)

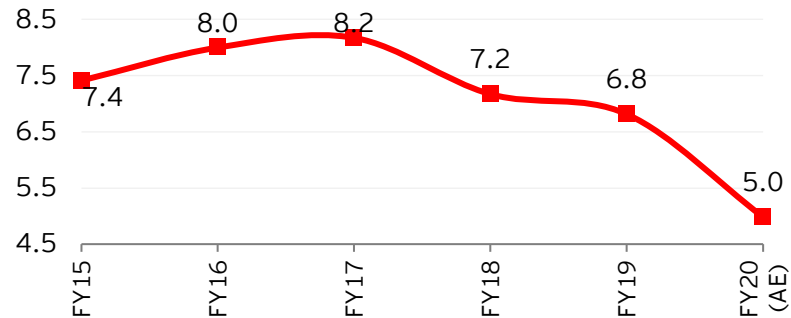


Table 1: GDP and GVA growth (%)

Agg. demand	1H FY18	2H FY18	1H FY19	2H FY19	1H FY20	2H FY20*	FY18	FY19	FY20
PFCE	8.0	6.9	8.5	7.7	4.1	7.3	7.4	8.1	5.8
GFCE	14.3	15.7	8.7	9.8	12.3	8.5	15.0	9.2	10.5
GFCF	6.5	12.0	12.5	7.6	2.5	-0.5	9.3	10.0	1.0
EXP	5.4	4.1	11.4	13.6	2.6	-6.4	4.7	12.5	-2.0
IMP	19.3	16.0	16.9	13.9	-1.6	-10.4	17.6	15.4	-5.9
<b>GDP</b>	<b>6.4</b>	<b>7.9</b>	<b>7.5</b>	<b>6.2</b>	<b>4.8</b>	<b>5.2</b>	<b>7.2</b>	<b>6.8</b>	<b>5.0</b>
<i>Net Exp. Contrib. to growth (% points)</i>	-3.1	-2.6	-1.8	-0.5	0.9	1.2	-2.8	-1.1	1.1
<b>Output: major sectors</b>									
Agr.	4.3	5.5	5.0	1.4	2.1	3.3	5.0	2.9	2.8
Ming.	6.2	4.1	-0.7	3.1	1.6	1.4	5.1	1.3	1.5
Mfg.	2.7	9.1	9.4	4.7	-0.2	4.1	5.9	6.9	2.0
Elec.	8.9	8.4	7.7	6.3	6.1	4.7	8.6	7.0	5.4
Cons.	4.0	7.2	9.1	8.4	4.6	1.8	5.6	8.7	3.2
Trans.	8.3	7.3	7.4	6.4	6.0	5.8	7.8	6.9	5.9
Fin.	6.2	6.2	6.8	8.4	5.9	7.0	6.2	7.4	6.4
Publ.	11.6	12.1	8.1	9.1	10.1	8.3	11.9	8.6	9.1
<b>GVA</b>	<b>6.2</b>	<b>7.6</b>	<b>7.3</b>	<b>6.0</b>	<b>4.6</b>	<b>5.2</b>	<b>6.9</b>	<b>6.6</b>	<b>4.9</b>

Source: MoSPI, GoI; \*derived by using real GDP growth for FY20 and 1HFY20

- ▶ Due to continued weakness in external demand, exports of goods and services is estimated to contract for the first time since FY16 by (-) 2.0% in FY20 due to a sharp contraction in 2HFY20 (Table 1). With imports contracting at a sharper pace of (-) 5.9% relative to exports in FY20, the contribution of net exports to growth is estimated to be positive at 1.1% points in FY20.
- ▶ On the output side, real GVA growth is estimated at an 11-year low of 4.9% in FY20 as compared to 6.6% in FY19 due to deceleration in growth rates of key sectors of the economy (Table 1).
- ▶ GVA growth in manufacturing at 2.0% in FY20 is the lowest in two decades. However, the implied growth in 2HFY20 at 4.1% suggests an improvement over the contraction of (-)0.2% in 1HFY20.
- ▶ Growth in the output of three sectors: (1) construction, (2) trade, transport and communications and (3) financial, real estate and professional services is estimated to be lower in FY20 as compared to FY19. The implied growth in 2HFY20 for construction and trade, transport and communications is expected to be lower

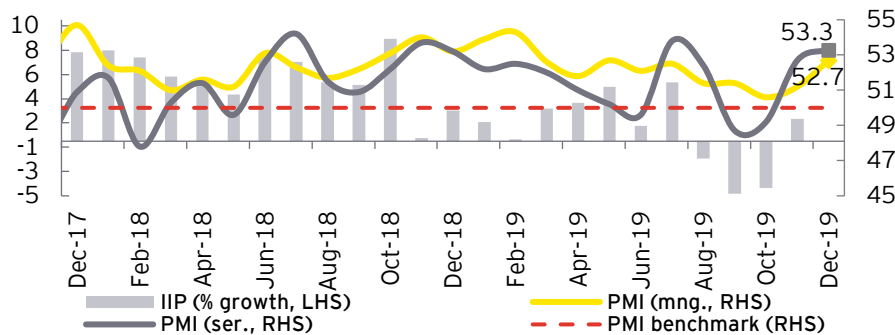
at 1.8% and 5.8% respectively relative to 1HFY20. However, implied growth in financial, real estate and professional services at 7.0% is likely to improve in 2HFY20.

- ▶ GVA growth in public administration and defence at 9.1% in FY20 is estimated to be the highest among all the other sectors but the implied growth in 2HFY20 is lower at 8.3% as compared to 10.1% in 1HFY20.
- ▶ Real GVA growth in agricultural sector continued to remain subdued at 2.8% in FY20 while its nominal GVA growth is likely to increase to 9.8% in FY20. The deflator-based inflation in agricultural sector at 6.8% in FY20 is the highest since FY15 and may have some positive impact on farm incomes.

### B. IIP: growth turned positive for the first time in three months

- ▶ Reversing its declining trend since August 2019, IIP grew by 1.8% in November 2019 as compared to a contraction of (-) 4.0% in October 2019 (revised). While growth in mining and manufacturing turned positive, growth in electricity sector continued to contract in November 2019 (**Chart 2**).
- ▶ Manufacturing sector's output (accounting for 77.6% of overall IIP) grew by 2.7% in November 2019 as compared to a contraction of (-) 2.3% in October 2019 (revised) while that of mining sector grew by 1.7% in November 2019 as compared to a contraction of (-) 8.0% in October 2019. Output of electricity however, declined for the fourth successive month by (-) 5.0% in November 2019. (Table A1 in data appendix).
- ▶ Output of capital goods industry contracted for the 11th consecutive month by (-) 8.6% in November 2019 as compared to (-) 22.0% in October 2019, suggesting continued weakness in investment demand. Output of consumer durables contracted by (-) 1.5% while that of consumer non-durables grew by 2.0% in November 2019.
- ▶ The output of eight core infrastructure industries contracted at a relatively slower pace of (-) 1.5% in November 2019 as compared to (-) 5.8% in October 2019. Sustained contraction was observed in the output of five out of eight core industries including natural gas ((-) 6.4%), crude oil ((-) 6.0%), electricity ((-) 5.7%), steel ((-) 3.7%) and coal ((-) 2.5%) in November 2019.

**Chart 2: IIP growth and PMI**



IIP growth turned positive but remained low at 1.8% in November 2019 after contracting by (-) 4.0% in October 2019.

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

### C. PMI: signaled improvement in manufacturing and services in December 2019

- ▶ Headline manufacturing PMI (seasonally adjusted (sa)) increased to a ten-month high of 52.7 in December 2019 from 51.2 in November 2019 (**Chart 2**). However, owing to weak performance in October and November 2019, PMI manufacturing averaged 51.5 during 3QFY20, lowest since 2QFY18.
- ▶ PMI services also increased to 53.3 in December 2019, its highest level since July 2019, as compared to 52.7 in November 2019. On a quarterly basis, PMI services averaged 51.7 in 3QFY20, marginally higher than 51.6 in 2QFY20.
- ▶ Reflecting a stronger rate of expansion in both manufacturing and services PMI, the composite PMI Output Index (sa) increased to 53.7 in December 2019 from 52.7 in November 2019. On a quarterly basis, composite PMI output index averaged 52.0 in 3QFY20 as compared to 52.1 in 2QFY20.

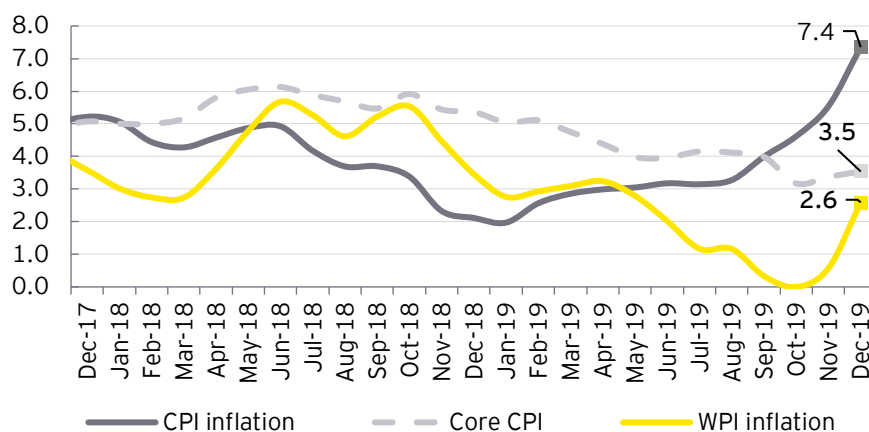
In December 2019, both manufacturing and services PMI showed a strong expansion with the former increasing to 52.7 and the latter to 53.3.

## 2. Inflation: CPI inflation increased to a 65-month high of 7.4% in December 2019

CPI inflation increased to 7.4% (y-o-y) in December 2019, its fifth sequential rise, from 5.5% in November 2019 (Chart 3) mainly due to sustained increase in vegetable prices.

- ▶ Inflation in vegetables was at a 73-month high of 60.5% in December 2019 as compared to 36.0% in November 2019, driven by inflation in onions which rose to an all-time high (FY12 series) of 328.0% from 145.7% over the same period. Consequently, consumer food price based inflation increased to a 73-month high of 14.1% in December 2019 from 10.0% in November 2019.
- ▶ Core CPI inflation however rose only marginally to a three-month high of 3.5% in December 2019 from 3.4% in November 2019. Inflation in transportation and communication services increased to a 13-month high of 4.8% in December 2019 from 0.9% in November 2019.
- ▶ Inflation in fuel and light turned positive at 0.7% in December 2019 from a contraction of (-) 1.9% in November 2019 due to subdued contraction in price of LPG.
- ▶ Inflation in housing services fell to a six-year low of 4.3% in December 2019 from 4.5% in November 2019.

**Chart 3: Inflation (y-o-y, in %)**



Overall CPI based inflation increased substantially to a 65-month high of 7.4% in December 2019, breaching the RBI's upper tolerance limit of 6%, for the first time since July 2016.

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

**WPI inflation increased significantly to 2.6% in December 2019 from 0.6% in November 2019 (Chart 3) due to rising vegetables and fuel-based inflation.**

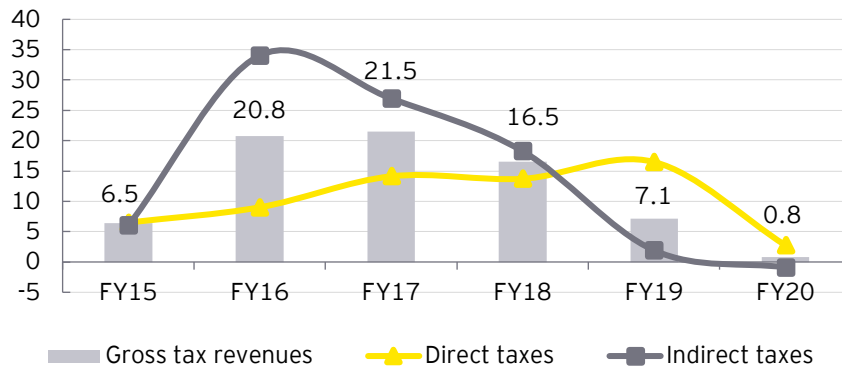
- ▶ Food price index-based inflation increased to a 73-month high of 11.0% in December 2019 from 9.0% in November 2019 as inflation in vegetables increased to 69.7% from 45.3% over the same period.
- ▶ Inflation in non-food articles rose to a 41-month high of 7.7% in December 2019 from 1.9% in November 2019 due to rising inflation in floriculture products.
- ▶ Inflation in crude prices turned positive at 5.0% in December 2019 from (-) 13.7% in November 2019, which was the seventh successive month of contraction.
- ▶ The pace of contraction in prices of fuel and power eased significantly to (-) 1.5% in December 2019 from (-) 7.3% in November 2019. Contraction in prices of mineral oils eased to (-) 3.2% in December 2019 from (-) 13.2% in November 2019 mainly due to inflation in petrol, diesel and naphtha turning positive.
- ▶ WPI core inflation (non-food manufactured products) was negative for the fifth successive month at (-) 1.5%, in December 2019, slightly lower than (-) 1.9% in November 2019.

### 3. Fiscal performance: center's fiscal deficit during Apr-Nov 2019 stood at 115% of the budgeted target

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

- ▶ As per the Comptroller General of Accounts (CGA)<sup>1</sup>, gross central taxes during April-November FY20 grew by 0.8% as compared to 7.1% during the corresponding period of FY19 (**Chart 4**). The cumulated growth in gross taxes during the first eight months of FY20 was the lowest since FY10.
- ▶ Direct tax revenues grew by 2.7% during April-November FY20, much lower than 16.5% during the same period in FY19.
- ▶ Corporate tax revenues contracted by (-) 0.9% during the first eight months of FY20 as compared to a growth of 16.6% during the corresponding period of FY19.
- ▶ Growth in income tax revenues during April-November FY20 was also relatively lower at 7.0% as compared to 16.4% during April-November FY19.
- ▶ Indirect taxes (comprising of union excise duties, service tax, customs duty, CGST, UTGST, IGST<sup>2</sup> and GST compensation cess) witnessed a contraction of (-) 0.9% during April-November FY20 as compared to a growth of 1.9% in the corresponding period of previous year.

**Chart 4: Growth in central tax revenues during April-November (y-o-y, in %)**



As per the CGA, center's gross taxes during April-November FY20 grew by 0.8%. Growth in direct taxes was at 2.7% while indirect taxes showed a contraction of (-) 0.9% 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 67.8% during April-November FY20 as compared to 31.4% during the corresponding period of FY19. This high growth during the first eight months of FY20 may be attributable to the one-time receipt of high dividends and profits in August 2019.
- ▶ According to the data available from Department of Disinvestment, the disinvestment proceeds up to 9 January 2020 stood at INR18,094 crore, which is 17.2% of the FY20 target of INR105,000 crore.

<sup>1</sup> Monthly accounts for November 2019 released on 31 December 2019

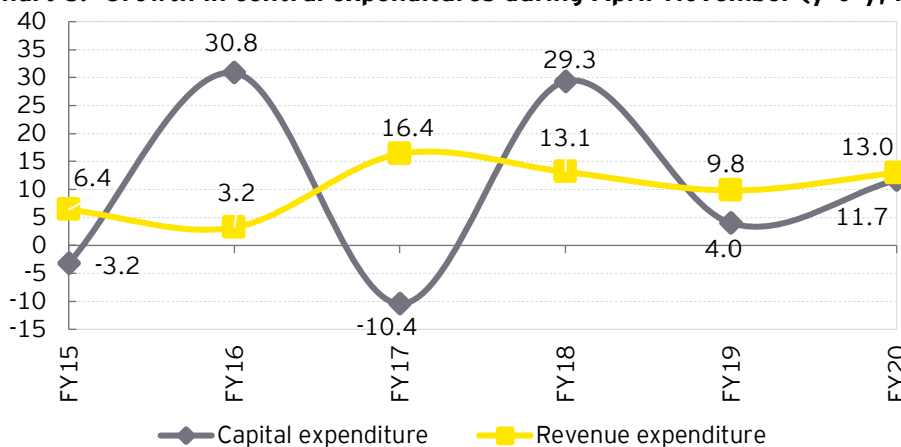
<sup>2</sup> IGST revenues are subject to final settlement



## B. Expenditures: revenue and capital

- ▶ Center’s total expenditure during April-November FY20 grew by 12.8% as compared to 9.1% during April-November FY19 (**Chart 5**). Total expenditure during the first eight months of FY20 stood at 65.3% of the budgeted target.
- ▶ The center has recently directed its ministries/departments to limit their expenditures for 4QFY20 to 25% of their respective FY20 BE (FY20 RE if they are lower than BE)<sup>3</sup>. This may lead to an expenditure compression for FY20, enabling the government to minimize the likely slippage in this year’s fiscal deficit relative to target.
- ▶ Revenue expenditure during April-November FY20 grew by 13% as compared to 9.8% during the corresponding period of FY19.
- ▶ Growth in center’s capital expenditure during April-November FY20 was at 11.7% as compared to 4% during the corresponding period of previous year.

**Chart 5: Growth in central expenditures during April-November (y-o-y, in %)**



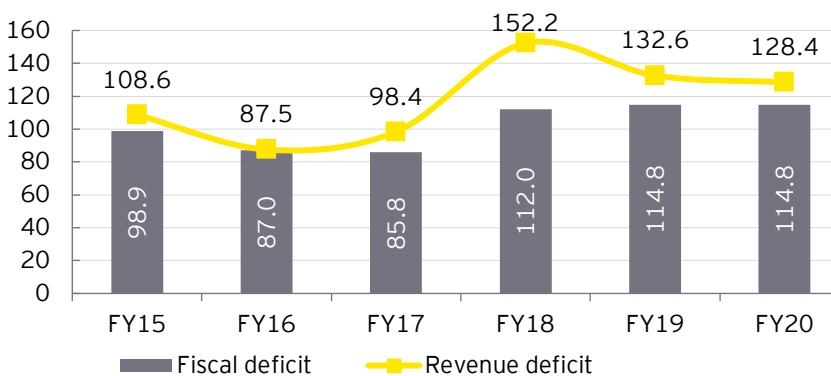
Center’s total expenditure grew by 12.8% during April-November FY20, compared to 9.1% during the corresponding period of FY19. Total expenditure during the first eight months of FY20 stood at 65.3% of the budgeted target.

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

## C. Fiscal imbalance

- ▶ Center’s fiscal deficit during April-November FY20 stood at 114.8% of the annual budgeted target, the same level as in the corresponding period of FY19 (**Chart 6**).
- ▶ Center’s revenue deficit during the first eight months of FY20 was at 128.4% of the annual budgeted target as compared to 132.6% during the corresponding period of FY19.

**Chart 6: Fiscal and revenue deficit during April-November as percentage of annual budgeted target**



Centre’s fiscal deficit during April-November FY20 stood at 114.8% of the annual budgeted target. Subdued tax revenue growth, lower GDP growth and the impact of CIT reforms may lead to a slippage in the FY20 fiscal deficit from its target of 3.3% of GDP.

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

<sup>3</sup> Memorandum issued by the Budget division of the Department of Economic Affairs, Ministry of Finance, Gol on 27 December 2019.

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

### General government financial balances as percentage of GDP

**General government fiscal deficit relative to GDP is expected to increase in major AEs and EMDEs excluding Brazil in 2019.**

- ▶ General government fiscal deficit to GDP ratio in the US is projected to increase to (-) 7.0% in 2019 and remain elevated thereafter (Table 2).
- ▶ Fiscal deficit to GDP ratio in the UK is expected to increase in 2019 and beyond as the government has announced increased spending in 2020-21 and has signaled future tax cuts.
- ▶ In the Euro area, fiscal stance is expected to remain expansionary. Euro area countries with moderate public debt to GDP ratios have considerable fiscal space, which low and declining interest rates have boosted further.
- ▶ Fiscal deficit to GDP ratio in Japan is projected to increase in 2019 indicating fiscal measures to mitigate the impact of the consumption tax increase. Deficit to GDP ratio is projected to fall to (-) 1.9% by 2021 in line with government's fiscal consolidation plan of achieving a primary surplus by 2025.
- ▶ In Brazil, fiscal deficit as percentage of GDP is projected to fall gradually during 2019 to 2021 to ensure fiscal sustainability. Gross public debt in Brazil remains high at about 80% of GDP.
- ▶ In India, government fiscal deficit to GDP ratio is projected at (-) 6.2% in 2019 owing to the CIT reform, dismal performance of taxes and lower GDP growth. Fiscal deficit to GDP ratio is projected to increase further in 2020.
- ▶ Fiscal deficit to GDP ratio in China is projected to increase during 2019 to 2021 indicative of accommodative fiscal policy for supporting growth. In South Africa also, fiscal deficit to GDP ratio is forecasted to increase driven by rising government wage bill, increasing interest payment and bailouts of state-owned enterprises.

**Table 2: General government financial balances (% of GDP)**

	2018	2019	2020	2021
US	-6.7	-7.0	-6.9	-6.9
UK	-2.2	-2.6	-3.2	-3.2
Euro area	-0.5	-0.8	-0.9	-1.0
Japan	-2.4	-2.6	-2.4	-1.9
Brazil	-7.1	-6.2	-5.6	-5.3
Russia	2.9	1.9	0.8	0.5
India*	-6.2	-6.2	-6.3	-6.1
China	-3.1	-3.3	-3.6	-3.8
South Africa	-3.4	-5.9	-6.6	-6.3

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

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

Note: (1) +ve indicates surplus and -ve indicates deficit.

### Current account balance as percentage of GDP

**Excluding India and China, current account deficits (CAD) are projected to increase while current account surpluses are expected to narrow in major AEs and EMDEs in 2019**

- ▶ In the US, CAD relative to GDP is projected remain elevated at around 2.5% during 2019 to 2021. In the UK, CAD is projected to increase in 2019 but narrow down thereafter (Table 3).
- ▶ In the Euro area, current account surplus is expected to reduce during 2019 to 2021.
- ▶ In Brazil, CAD relative to GDP is expected to widen during 2019 to 2021 which may be attributable to trade tensions between the US and China, its two major trading partners.
- ▶ In India, CAD to GDP ratio is expected to fall in 2019 and rise only slightly thereafter. This is due to the relatively large spare capacity in the economy and moderate global oil prices.
- ▶ In China, current account surplus is expected to increase in 2019 and stabilize thereafter as rebalancing from investment to consumption has reduced the demand for imported capital goods and raw materials. Greater domestic production of inputs is also expected to contribute to weaker import demand.

**Table 3: Current account balance (% of GDP)**

	2018	2019	2020	2021
US	-2.4	-2.5	-2.5	-2.6
UK	-4.3	-4.5	-3.7	-3.6
Euro area	3.6	3.2	3.1	2.9
Japan	3.5	3.5	3.4	3.5
Brazil	-1.2	-2.4	-2.5	-2.6
Russia	6.9	4.5	3.6	3.2
India*	-2.1	-1.7	-1.8	-2.0
China	0.4	1.4	1.4	1.3
South Africa	-3.6	-3.6	-3.6	-3.6

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

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

Notes: (1) +ve indicates surplus and -ve indicates deficit.



## 5. In focus: Budget FY21: revenue shortfall, expenditure compression and subdued reform prospects

### Introduction

In the context of the relatively underperforming Indian economy in terms of growth as well as fiscal aggregates, it is to be seen whether or not, the union budget for FY21 provides for a strong countercyclical fiscal intervention which could reverse India's ongoing downward growth momentum. The FY21 budget will utilize FY20 revised estimates as its base year numbers. The FY20 actuals will become available only in FY22 budget. However, it is widely anticipated by analysts that the revised estimates for revenue and most expenditure aggregates will be significantly lower than the corresponding budgeted numbers which were presented in July 2019. Those numbers have already become dated by a wide margin. The government acknowledged<sup>4</sup> that there is going to be a significant shortfall in its gross tax revenues. There may also be a slippage in non-debt capital receipts including disinvestment relative to the budget estimates (BE). This has necessitated considerable expenditure compression if the slippage in the fiscal deficit for FY20 is to be maintained within acceptable limits. However, any expenditure compression at this juncture will only exacerbate the current economic slowdown. In this write-up, we shall examine the prospects of tax revenue shortfall in FY20 as also the likelihood and extent of expenditure compression. In the light of these two developments, we will examine the growth prospects as well as the prospects for the upcoming budget.

### Challenges of revenue shortfall

In the in-focus section of the December 2019 issue of the Economy Watch, we had undertaken a detailed analysis of the anticipated shortfall in center's gross tax revenues as divided amongst three main categories namely PIT, CIT and total indirect taxes (IDT) of the center. These contained simulations in relation to three assumed nominal GDP growth rates at 7.5%, 8% and 8.5% for FY20. However, the core solutions were developed with respect to the nominal growth assumption of 8%. Utilizing the information given in CSO's advance estimates released on 7 January 2020, it would be relevant now to revise the nominal GDP growth to 7.5% for analyzing the revenue shortfall and its impact on center's fiscal deficit. Accordingly, in Table 4, we have summarized the estimated shortfall in PIT, CIT and IDT revenues.

**Table 4: Estimated shortfall in center's tax revenues in FY20**

Gross/net tax revenues	FY20 BE (INR crore)	FY20 estimates (INR crore)	Shortfall of FY20 estimates relative to BE (INR crore)	Shortfall as % of FY20 GDP
Gross tax revenues <i>of which</i>	24,61,195	21,04,624	3,56,571	1.7
PIT	5,69,000	5,14,042	54,958	0.3
CIT	7,66,000	6,36,486	1,29,514	0.6
IDT	11,19,247	9,54,096	1,65,151	0.8
Net Central taxes	16,49,582	14,10,236	2,39,346	1.2
Assignment to states	8,09,133	6,91,908	1,17,225	0.6

Source (Basic data): Union Budget 2019-20 released on 05 July 2019, CGA

With respect to non-debt capital receipts, available information indicates that against the FY20 disinvestment target of INR 1,05,000 crores, only INR 18,094 crores has been achieved up to 9 January 2020. Even though disinvestment receipts may increase during the balance of the fiscal year, there may still be some slippage. To some extent, this may be made up if the central government is able to access some additional dividend from the RBI like in the previous fiscal year.

### Center's proposed expenditure compression: likely scenarios

Center has already incurred expenditures up to the month of December 2019 and any proposed expenditure compression can only pertain to expenditures in the remaining three months. We have information on actual expenditure incurred up to November 2019 covering a period of first eight months of FY20 from the CGA. For the month of December 2019, we have projected the expenditures by using monthly average for the previous eight months. Based on our estimates for the first three quarters, it becomes clear that the expenditure compression options available to the government may be quite limited because of the frontloading of expenditures in the earlier part of the year.

<sup>4</sup> <https://pib.gov.in/PressReleaseDetail.aspx?PRID=1585641>



**Table 5: Central government expenditure during April-December FY20 as percentage of BE**

#	Item	% to BE
1	Revenue expenditure	73.8
1.1	Interest payments	58.2
1.2	Primary revenue expenditure	79.6
2	Capital expenditure	71.1
3	<b>Total expenditure</b>	<b>73.5</b>

Source (Basic data): CGA

Note: Expenditure for December 2019 is estimated

Recently, the Ministry of Finance advised the central ministries to impose an expenditure limit of 25% of the annual budgeted expenditure estimate approved for their ministries<sup>5</sup> in the last quarter of FY20. However, as indicated in Table 5, close to 75% of the budgeted central government expenditure has already been incurred in the first nine months. Therefore, unless the ministries have plans for bringing out supplementary demands to increase the budgeted amounts, the imposition of the limit

of 25% may not provide much savings relative to the budgeted expenditures.

Given the prospects of shortfall in center's tax revenues and lower nominal GDP growth relative to the budgeted growth assumption of 12%, we can now examine the impact on fiscal deficit with alternative degrees of expenditure compression. Recently available information<sup>6</sup> had indicated that the government may be looking for an expenditure compression of about INR 2 lakh crores. In the case of interest payments, there may not be much option for expenditure compression since these are committed expenditures undertaken according to debt servicing schedules. That is why we have focused our analysis on remaining three broad categories of expenditure namely primary revenue expenditure, defence capital expenditure and non-defence capital expenditure. In case the government is successfully able to contain these expenditures in the last quarter of FY20 to 13.5% (Scenario 1) of the budgeted expenditure, non-tax revenue target is met and the shortfall in tax revenues and non-debt capital receipts is close to our estimates, the FY20 fiscal deficit is estimated at 3.8% of GDP. However, limiting these key expenditures to 13.5% of BE in the last quarter appears to be difficult because of seasonal peak in the month of March. Accordingly, we have worked out likely slippages in fiscal deficit with alternative degrees of expenditure compression namely 20% (Scenario 2) and 25% (Scenario 3). These scenarios are summarized in Table 6.

**Table 6: Likely expenditure compression in FY20: alternative scenarios**

4QFY20 expenditure capped at		13.5%	20%	25%	13.5%	20%	25%
#	Items	S1	S2	S3*	S1	S2	S3*
		INR Cr			% to GDP		
1	Total expenditure of which:	2,00,066	61,671	-44,623	0.6	-0.1	-0.6
1.1	Revenue expenditure of which:	1,47,742	31,388	-57,977	0.3	-0.2	-0.7
1.1.1	Interest payments	23,994	23,994	23,994	0.0	0.0	0.0
1.1.2	Primary revenue expenditure	1,23,748	7,394	-81,972	0.3	-0.2	-0.7
1.2	Capital expenditure of which:	52,324	30,283	13,354	0.2	0.1	0.0
1.2.1	Defence capital expenditure	15,979	9,248	4,078	0.1	0.0	0.0
1.2.2	Non-defence capital expenditure	36,345	21,035	9,276	0.1	0.1	0.0
2	<b>Fiscal deficit slippage</b>	<b>79,280</b>	<b>2,17,675</b>	<b>3,23,969</b>	<b>0.5</b>	<b>1.2</b>	<b>1.7</b>

Source (Basic Data): Union Budget 2019-20; CGA, MoSPI

Note: Shortfall is estimated as (BE minus Estimates). A positive sign implies compression in case of expenditure and shortfall in case of revenue; \*Scenario S3 involves an increase in primary revenue expenditure above the budgeted estimate. This is because no compression can be introduced on interest payments since this is a committed liability; Nominal GDP for FY20 is estimated at INR 204,42,233 crores.

### Fifteenth Finance Commission's FY21 recommendations

The Fifteenth Finance Commission had submitted its recommendations for one year namely FY21. Its term has been extended by a period of one year and in its final report, the Commission will make recommendations for another five years covering the period from FY22 to FY26. The center's vertical share would be affected because of the modification in the status of Jammu and Kashmir (J&K) to that of a union territory (UT) with a legislature as also of Ladakh to that of a UT without a legislature. The share of J&K in the award of the Fourteenth Finance Commission was 1.854%. The Fifteenth Finance Commission will have to provide separate resources for J&K and Ladakh as part of center's share. This may involve a reduction in the vertical share of the remaining 28 states. This will affect center's net tax revenues for FY21 and beyond. The Fourteenth Finance Commission had recommended a share of 42% of the divisible pool of center's gross tax revenues for the states. In its Terms of Reference (ToR), the Fifteenth Finance Commission was asked to examine this particular

<sup>5</sup> Notification dated 27 December 2019 by the Budget division, Department of Economic Affairs, Ministry of Finance, GoI.

<sup>6</sup> <https://www.financialexpress.com/economy/fiscal-woes-centre-set-to-cut-spending-by-nearly-rs-2-2-lakh-crore-details-here/1813954/>

recommendation of the previous commission afresh. As a result, the Fifteenth Finance Commission may revise the vertical share of the states because of a re-examination of the entire question of distribution of resources between the center and all states considered together as also because of the change in the status of J&K and Ladakh.

It may also be noted that the entire sharable pool of center's tax revenues is likely to show a relatively low growth in FY20 which will affect the projections for FY21 as discussed earlier. This will adversely affect the revenue prospects of the states who may have to bear the burden of any modification involving lowering of the vertical share of the states in the sharable pool as well as its lower growth prospects. This will affect states' contribution to the financing of the proposed National Infrastructure Pipeline (NIP).

### National Infrastructure Pipeline (NIP)

Given the anticipated slippage in revenues and the likely slippage in fiscal deficit in FY20, it may not be possible to fix a higher fiscal deficit target for FY21 although it may be critical for providing a stimulus to growth. In this context, it is important to make reference to the recently announced (31 December 2019) National Infrastructure Pipeline (NIP) in which the central and state governments including their public sector enterprises and the private sector are expected to mount a joint and coordinated effort for infrastructure expansion in India. The NIP covers the period from FY20 to FY25. Based on the NIP report, year-wise targets and source-wise financing plan for central and state governments and the private sector, for the NIP, is given in Table 7.

**Table 7: National Infrastructure Pipeline: targets and financing (INR lakh crore)**

	FY20	FY21	FY22	FY23	FY24	FY25
<b>Total investment (TI)</b>	<b>13.64</b>	<b>19.50</b>	<b>18.96</b>	<b>13.80</b>	<b>12.78</b>	<b>11.06</b>
Center (39% of TI) of which	5.32	7.61	7.39	5.38	4.99	4.31
Budgetary support	1.53	1.86	2.25	2.74	3.33	4.04
States (39% of TI)	5.32	7.61	7.39	5.38	4.99	4.31
Private sector (22% of TI)	3.00	4.29	4.17	3.04	2.81	2.43

Source (Basic Data): National Infrastructure Pipeline, Government of India;

<http://164.100.117.97/WriteReadData/userfiles/DEA%20IPF%20NIP%20Report%20Vol%201.pdf>

The financing plan of the NIP does not make a distinction between governments and the related public sector enterprises. As far as the central and state governments are concerned, they are subject to their fiscal responsibility legislations until such legislations are formally given up or postponed. The limit to which central and state governments can provide budgetary support for infrastructure expansion is determined by their revenue account surplus and the fiscal deficit limit. In FY20, both central and state governments are likely to incur a deficit on their revenue accounts. In the case of the states, it may be so at an aggregate level even though individually, few states may show a revenue account surplus. In addition, there may be some cushion from non-debt capital receipts for the states. We have estimated that in FY20, the center is likely to miss its targets for non-debt capital receipts as well as revenue deficit and therefore the budgetary support to infrastructure investment will be limited to the excess of fiscal deficit over the revenue deficit plus lower than budgeted non-debt capital receipts. The situation of states is not any better in FY20 because the slippage in center's gross tax revenues will affect the sharable pool of center's gross taxes thereby reducing the outgo to the states. Furthermore, because of the lower nominal GDP growth, states' own tax revenue growth is also likely to be adversely affected.

### FY21 budget and reform prospects

In the context of reforms, following the substantive lowering of the CIT rates, there is an expectation that there would be some reform and reduction in the PIT rates. In August 2019, the *Task Force on New Direct Tax Law* had also submitted its recommendations suggesting an overhaul of the PIT rate structure. However, the available fiscal space for this reform may be limited because of the revenue side pressures. At the same time, a reduction in the PIT rates would lead to an increase in personal disposable incomes. As a result, the households' purchasing power may go up leading to an increase in aggregate demand. However, for stimulating demand, any significant concessionality in PIT may not be the most suitable option at the current juncture because of its implied revenue cost. In the long-run, rationalization of the PIT rate structure is called for to incentivize savings and improve productivity. Another option for putting additional purchasing power into the hands of households pertains to direct income transfers such as by increasing the amounts in the Kisan Sammaan Nidhi scheme and/or in MGNREGA. This option may provide some relief to the rural households but it is also constrained by the

subdued revenue prospects. In the short-run, a countercyclical fiscal policy should be designed taking into consideration other available options.

The major challenge before the central government currently is to reverse the ongoing economic slowdown. The available countercyclical policy tools with the central government have not proved to be effective. The monetary policy intervention in the form of successive repo rate reductions, by a cumulative margin of 135 basis points from 6.5% in January 2019 to 5.15% in October 2019, has not been able to produce any meaningful stimulus. The transmission rate has been fractional and there has been no tangible increase in the demand for credit. Given the ongoing inflationary pressures driven by food and fuel prices, a further reduction of the repo rate does not appear to be on the cards. Capacity utilization has reached historical lows. It was at 68.99 in 2QFY20 as compared to a recent peak of 76.1 in 4QFY19. Capacity utilization will only improve if overall demand in the system improves. This includes all components of demand namely PFCE, GFCE and investment by the public and private sectors.

All eyes are on fiscal policy and the FY21 budget provides the first opportunity to announce and implement growth-promoting fiscal initiatives even though the available fiscal space is quite limited. The amended FRBM Act (April 2018) provides for a set of conditions for countercyclical interventions. However, these conditions are quite unfeasible, and it has not been possible to invoke any of them so far. In any case, those countercyclical rules could become relevant only after the central government starts meeting the fiscal deficit norm of 3% of GDP on a regular basis. But that target has been postponed year after year. In the context of the FY20 fiscal numbers, as discussed earlier, a fiscal deficit in the range of 3.5%-3.8% of GDP may require an expenditure compression rather than expenditure stimulus. In such a situation, in order to pursue a sustainable augmentation of India's growth rate and for an effective fiscal countercyclical intervention, there is a need either to amend the FRBMA again or postpone its implementation for a few years. India may be better off following the so-called *Golden Rule* which calls for maintaining a revenue account balance and once that condition is met, one can borrow amounts which may be more than 3% of GDP as long as the entire borrowed money is invested in asset creation. In other words, any additional fiscal liability should be matched by a corresponding asset creation. Furthermore, these assets should be such that the rate of return is adequate to service the additional debt liability. Such a modification of the FRBM Act may be needed in order to finance the NIP. This would be warranted provided enough fiscal discipline is shown to curb revenue/ non-asset forming expenditure and identifying such infrastructure projects that may prove to be productive enough to provide reasonable returns. However, in FY21 budget, there may be only a limited scope to curb government revenue expenditure. As such, it is only the fiscal deficit target which may have to be increased to a level say, close to 3.5% of GDP. Alongside, it should be ensured that about 75% of this borrowing be spent on capital expenditures as compared to only 46.9% in FY19.

Another area for tax reform is to re-examine the way GST has been implemented although this is a matter to be considered by the GST Council and not in the FY21 budget. So far, GST implementation has been riddled with a number of problems including the inadequacy of the IT platform, excessive rate differentiation, low revenue buoyancy, non-availability and non-transparency of GST data and poor compliance. The provision of the compensation cess has resulted in significant adverse incentive since the state governments have virtually no incentive to mount any effective compliance effort. The center had assumed a 14% annual growth over the FY16 state revenues subsumed under GST to estimate states' protected revenues. This growth rate has proved to be out of sync, since the tax base, that is, consumption expenditure, has not shown a growth in line with such an assumed high growth rate. In any case, at the end of the compensation period in June 2022, almost all states except the erstwhile special category states would be subject to a major revenue shock. India's GST was introduced requiring excessive information regarding individual transactions and filing of large number of returns. This did not prove to be compliance friendly for small and medium sized taxpayers. With such a complex GST structure, neither the central nor the state governments have seen either the revenue benefits or the growth benefits that were predicted when GST was being introduced. It is time to overhaul the GST rate structure and its informational requirements according to the original scheme in line with the objective of a low rate and broad tax base structure. Two implementable GST reforms appear to be (a) a simplification and rationalization of the GST rates strictly into no more than two to three rate categories and (b) reducing compliance burden by focusing on invoice matching on assesseees with an annual turnover above a certain threshold say, INR 50 crores. Such a reform can be undertaken independent of the revenue constraints on the upcoming budget. In fact, a reformed GST may even ameliorate the current revenue constraints.

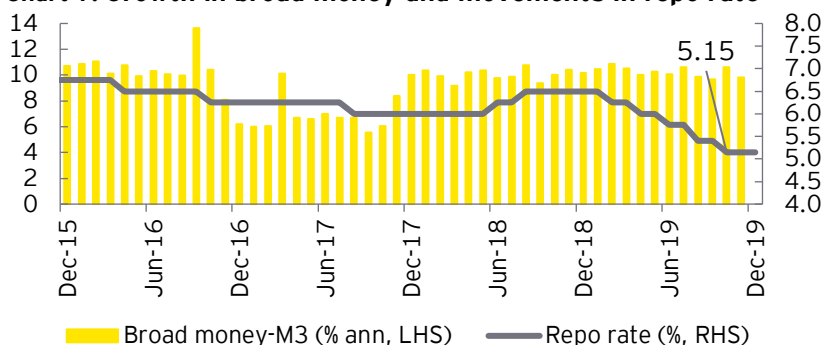
## 6. Money and finance: Credit growth fell to a 25-month low in November 2019

### A. Monetary sector

#### Monetary policy

- ▶ In its December 2019 monetary policy review, the monetary policy committee (MPC) unanimously voted in favor of retaining the repo rate at 5.15% thereby giving higher weight to inflation concerns even while growth slowed.
- ▶ The RBI has been concerned about limited transmission of repo rate to lending rates in the economy. Attempting to improve the transmission, the RBI on 23 December 2019, simultaneously bought long-term bonds and sold short-term bonds through Open Market Operations (OMOs)<sup>7</sup>. Subsequently, the RBI conducted two more such OMOs on 30 December 2019 and 6 January 2020 respectively<sup>8</sup>.

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



Credit growth remained subdued in November 2019 pointing to sustained weakness in demand conditions.

Source: Database on Indian Economy, RBI

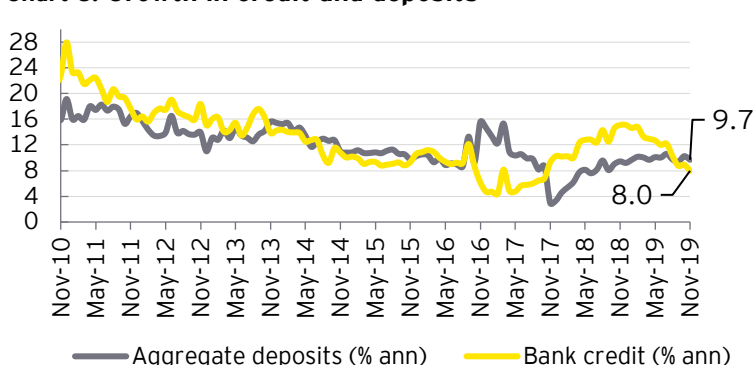
#### Money stock

- ▶ Growth in broad money stock (M3) fell to 9.8% in November 2019 from 10.6% in October 2019 (**Chart 7**). Growth in time deposits, accounting for nearly 76% of M3, moderated to 8.2% in November 2019 from 9.9% in October 2019.
- ▶ Narrow money (M1) growth was also lower at 11.1% in November 2019 as compared to 12.9% in October 2019. This was due to a fall in the growth of both currency in circulation and demand deposits to 12.8% and 8.2% respectively in November 2019 from 15.1% and 9.4% respectively in October 2019.

#### Aggregate credit and deposits

- ▶ Growth in bank credit fell to a 25-month low of 8.0% in November 2019 as compared to 8.9% in October 2019 pointing to deterioration in domestic demand conditions (**Chart 8**).

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



Source: Database on Indian Economy, RBI

- ▶ Growth in non-food credit fell to a 25-month low of 7.2% in November 2019 from 8.3% in October 2019 owing to a broad-based slowdown in credit growth across all the key sectors of the economy.
- ▶ Growth in credit to services fell to a 29-month low of 4.8% in November 2019 from 6.5% in October 2019 while that to industries grew at a slower pace of 2.4% in November 2019 as compared to 3.4% in October 2019. Growth in credit to the agricultural sector also fell to 6.5% in November 2019 from 7.1% in October 2019.

<sup>7</sup> The policy of simultaneous purchase and sale of government securities has been termed by experts as 'Operation Twist'. For details see <https://www.livemint.com/news/india/rbi-s-operation-twist-may-boost-lending-growth-11577895083068.html>.

<sup>8</sup> [https://www.rbi.org.in/Scripts/BS\\_PressReleaseDisplay.aspx?prid=48996](https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=48996); [https://www.rbi.org.in/Scripts/BS\\_PressReleaseDisplay.aspx?prid=49074](https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=49074)

- ▶ Growth in housing sector credit although remained strong at 18.3% in November 2019, was slightly lower than 19.4% in October 2019.
- ▶ Growth in aggregate bank deposits of residents moderated to 9.7% in November 2019 from 10.3% in October 2019.

## B. Financial sector

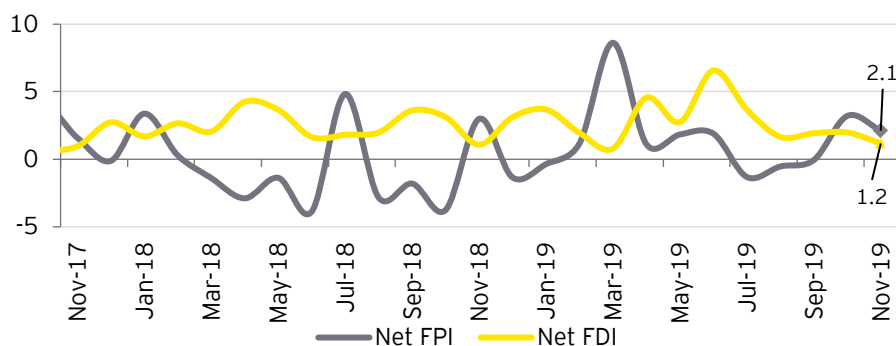
### Interest rates

- ▶ Interest rates offered by commercial banks on term deposits with a maturity of more than one year were lowered further to average 6.33% in December 2019 (ranging between 6.21% and 6.45%), as compared to 6.50% in November 2019.
- ▶ Commercial banks lowered the marginal cost of lending rate (MCLR) for the sixth successive month to average 7.83% in December 2019 as compared to 7.89% in November 2019. In December 2019, MCLR was about 53 basis points below that in February 2019.
- ▶ The average yield on 10-year government securities increased by 21 basis points on an average to 6.85% in December 2019 from 6.64% in November 2019.
- ▶ The RBI, in its December 2019 monetary policy statement had indicated that the transmission of the repo rate reduction of 135 basis points since February 2019 to 10-year benchmark bond yields was only partial at 89 basis points. This prompted the RBI to introduce the first tranche of OMOs on 23 December 2019<sup>9</sup> as discussed above.

### FDI and FPI

- ▶ As per the provisional data released by the RBI on 11 January 2020, the overall foreign investment inflows (FIIs) were lower at US\$3.3 billion in November 2019 as compared to US\$5.2 billion (revised) in October 2019 due to fall in both net FDI and FPI inflows.

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



Net FDI and FPI inflows were lower at US\$ 1.2 billion and US\$2.1 billion respectively in November 2019.

Source: Database on Indian Economy, RBI

- ▶ Net FDI inflows fell to US\$1.2 billion in November 2019 from US\$2.0 billion (revised) in October 2019. (**Chart 9**). Gross FDI inflows were at US\$4.6 billion in November 2019, marginally lower as compared to US\$4.7 billion (revised) in October 2019.
- ▶ Net portfolio inflows were also lower at US\$2.1 billion in November 2019 as compared to US\$3.2 billion (revised) in October 2019.

<sup>9</sup> The second tranche of OMO was performed on 30 December 2019 and with this the 10-year bond yields had effectively fallen to 6.55 on 31 December 2019. However, heightened prospects of a slippage in fiscal deficit in FY20 may limit the impact of these operations on bond yields.



## 7. Trade and CAB: merchandise imports contracted by (-) 8.8% in December 2019

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

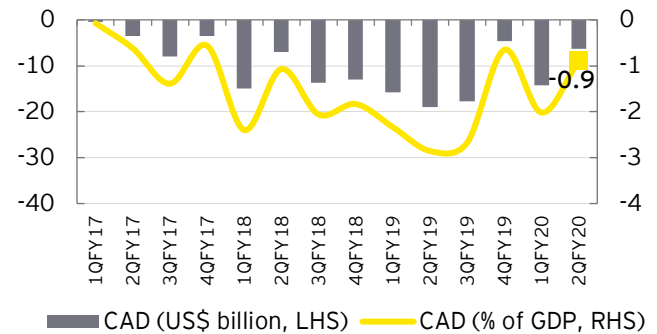
- CAD in 2QFY20 narrowed to 0.9% of GDP from 2.0% in 1QFY20 (Chart 10) as merchandise trade deficit fell sharply to 5.4% of GDP from 6.6% during the same period (Table 8). Merchandise imports moderated to a two year low of 16.8% of GDP in 2QFY20 from 18.3% in 1QFY20 while merchandise exports eased to 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**



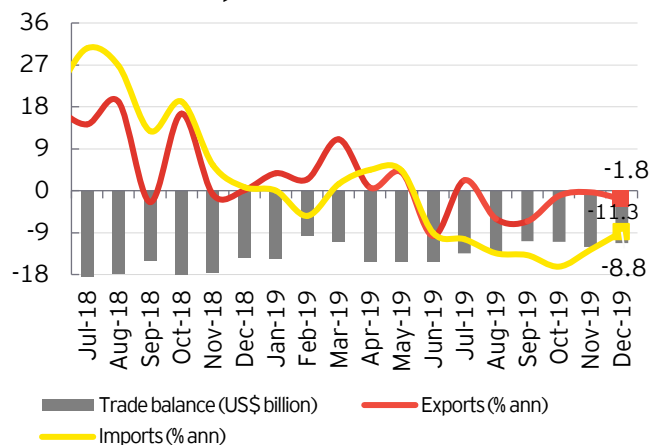
Source: Database on Indian Economy, RBI

### B. Merchandise trade and exchange rate

Merchandise imports contracted for the seventh successive month by (-) 8.8% in December 2019 while merchandise exports contracted for the fourth successive month by (-) 1.8% in December 2019.

- The contraction in merchandise exports increased to (-) 1.8% in December 2019 from (-) 0.3% in November 2019 (Chart 11) due to a contraction in exports of engineering goods.

**Chart 11: Developments in merchandise trade**



Source: Ministry of Commerce and Industry, GoI

- Oil exports contracted for the eighth successive month by (-) 4.2% in December 2019 as compared to (-) 13.1% in November 2019. Growth in exports of engineering goods turned negative at (-) 1.2% in December 2019 from 6.3% in November 2019.
- Imports contracted for the seventh successive month by (-) 8.8% in December 2019 as compared to (-) 12.7% in November 2019, driven by a broad-based contraction across commodities.
- Imports of transport equipment contracted for the twelfth successive month by (-) 30.1% in December 2019.
- Contraction in oil imports eased to (-) 0.8% in December 2019 from (-) 18.2% in November 2019.
- Contraction in imports excluding oil, gold and jewelry remained high at (-) 12.3% in December 2019 as compared to (-) 14.2% in November 2019.
- Out of the 30 broad sectors for which exports and imports data is provided, 19 and 25 sectors respectively experienced a contraction in December 2019.
- Merchandise trade deficit fell to US\$11.3 billion in December 2019 from US\$12.1 billion in November 2019 due to sharper contraction in imports relative to exports.
- The Indian Rupee appreciated marginally to INR71.2 per US\$ (average) in December 2019 from INR71.5 per US\$ (average) in November 2019.

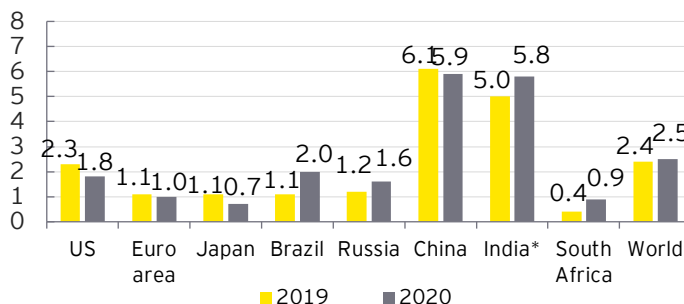
## 8. Global growth: World Bank revised down its global growth projection to 2.4% in 2019 and 2.5% in 2020

### A. Global growth outlook

- ▶ The World Bank (World Economic Prospects, January 2020) revised down its global growth estimate by 0.2% points to 2.4% for 2019 (**Chart 12**) due to weak global trade and investment, subdued global demand and heightened policy uncertainty. Global growth is forecasted at 2.5% in 2020, a downward revision of 0.2% points. The projected recovery could be stronger if recent policy actions particularly those mitigating trade tensions lead to a reduction in policy uncertainty.
- ▶ AEs are projected to grow by 1.6% in 2019 and 1.4% in 2020 (downward revision of 0.1% points) reflecting lingering weakness in manufacturing. Growth in EMDEs is projected at 3.5% in 2019 and 4.1% in 2020 (downward revision of 0.5% points).
- ▶ Growth in the US is projected at 2.3% in 2019, moderating to 1.8% in 2020 as the effect of the fiscal stimulus wanes and continued uncertainty due to persisting trade tensions.
- ▶ Growth in the Euro area is estimated at 1.1% in 2019, falling to 1% in 2020 due to continued weakness in industrial production. Japan is also estimated to grow by 1.1% in 2019 and 0.7% in 2020 as anticipatory purchases prior to the VAT increase in October 2019 are unwound.
- ▶ Among EMDEs, growth in China was revised down to 6.1% in 2019 and 5.9% in 2020 amid slowing domestic demand as reflected in falling imports and heightened trade tensions leading to a contraction in exports.
- ▶ Growth in India was sharply revised down by 2.5% points to 5% in 2019 (FY20) as activity was constrained by insufficient credit availability and subdued private consumption and investment. Growth in 2020 (FY21) was also revised down by 1.7% points to 5.8%.

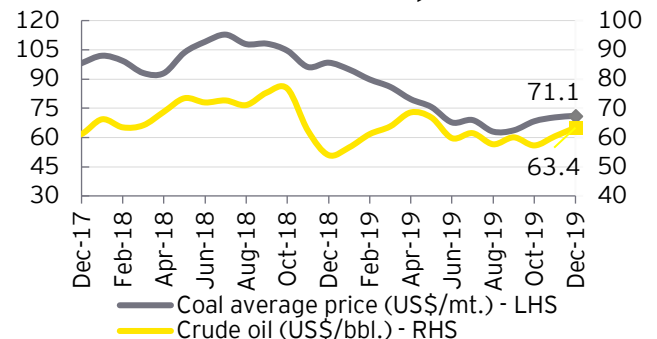
The World Bank revised down its global growth projection to 2.4% in 2019 and 2.5% in 2020. Challenges to global growth emanate from escalation of trade tensions, sharp downturns in major economies and financial disruption in EMDEs.

**Chart 12: Global growth projections**



Source: Global Economic Prospects, World Bank, 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, January 2020

### B. Global energy prices: global crude price increased in December 2019 owing to agreement on deeper production cuts; upward pressure on prices emanate from anticipated supply disruptions from the middle east

- ▶ Average global crude price<sup>10</sup> increased for the second straight month to US\$63.4/bbl. in December 2019 from US\$60.4/ bbl. in November 2019 (**Chart 13**). This may be attributable to a deepening of production cuts from 1.2 mb/d to 2.1 mb/d (including additional voluntary reduction of 0.4 mb/d by Saudi Arabia) by the OPEC+ countries effective 1 January 2020. On a quarterly basis, global crude prices averaged US\$60.3/bbl. in 3QFY20, higher than US\$59.7/bbl. in 2QFY20. More recently, daily Brent prices increased sharply to nearly US\$70/bbl. in early January 2020 post the US-Iran conflict.
- ▶ Average global coal price<sup>11</sup> increased to a seven-month high of US\$71.1/mt. in December 2019 from US\$70.3/mt. in November 2019. On a quarterly basis, global coal price averaged US\$69.9/mt. in 3QFY20, higher than US\$65.2/mt. in 2QFY20.

<sup>10</sup> Simple average of three spot prices, namely, Dated Brent, West Texas Intermediate and Dubai Fateh

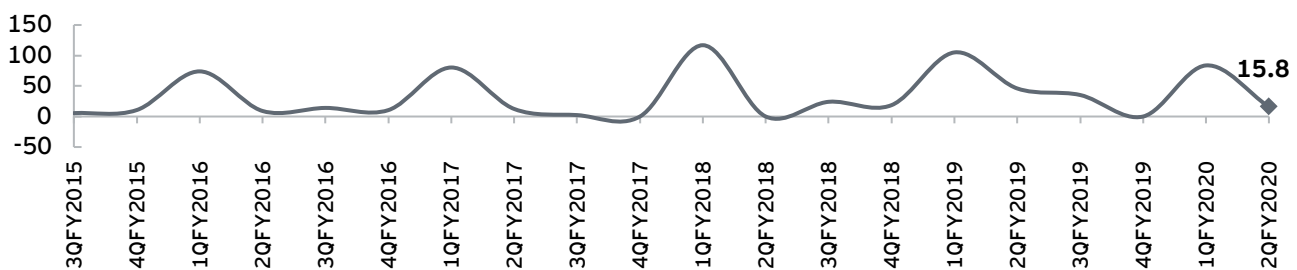
<sup>11</sup> Simple average of Australian and South African coal prices

## 9. Index of Macro Imbalance (IMI): pointed to an improvement in the macro-balance in 2QFY20

### IMI pointed to an improvement in the macro-balance in 2QFY20

- ▶ The IMI is obtained by adding the percentage deviation of inflation rate (based on new CPI 2011–12=100), fiscal deficit (as a percentage of GDP) and current account deficit (as a percentage of GDP) from their respective benchmarks of 4%, 3% and 1.3% of GDP<sup>12</sup>. All three components of IMI have been given equal weightage (33.33%). The state of “balance” is judged by a value of “0”.
- ▶ An index value greater than zero indicates the presence of an imbalance in the economy. While considering the percentage deviation of each of the indicators from its selected norm, only the positive deviations are taken. Negative deviations are equated to zero to ensure that the negative and positive deviations across indices are not canceled out.
- ▶ Reflective of an improvement in the macro balance, the IMI fell to 15.8 in 2QFY20 from 83.7 in 1QFY20 (Chart 14). Two of the three components of IMI namely, CPI inflation (3.5%) and current account deficit (0.9% of GDP) were below their respective benchmark levels. However, center’s fiscal deficit at 4.4% of GDP was above its benchmark level in 2QFY20.

Chart 14: IMI (quarterly)



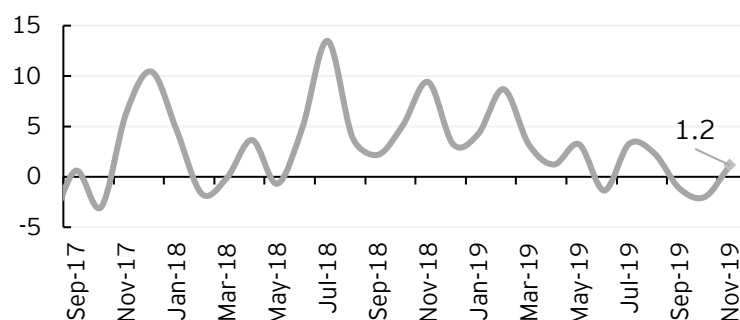
Source (Basic data): RBI, MoSPI and EY estimate

## 10. Index of Aggregate Demand (IAD): growth in IAD turned positive but remained low in November 2019

### Growth in IAD was positive but low at 1.2% in November 2019

- ▶ Following two successive months of contraction, the index of aggregate demand grew by 1.2% in November 2019 as compared to a contraction of (-) 2.0% in October 2019 (Chart 15).
- ▶ Demand conditions in the agricultural sector moderated marginally and that in the manufacturing sector remained subdued in November 2019. However, demand conditions in services improved in November 2019.

Chart 15: Growth in IAD (y-o-y)



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

<sup>12</sup> Rangarajan, C (2016): “Can India grow at 8 to 9 per cent?” The Hindu, <http://www.thehindu.com/opinion/lead/can-india-grow-at-8-to-9-per-cent/article8596824.ece>, Accessed on 17 May 2016.

## 11. Capturing macro-fiscal trends: data appendix

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

Fiscal year/quarter/month	IIP	Mining	Manufacturing	Electricity	Core IIP	Fiscal year/quarter/month	PMI mfg.	PMI ser.
	% change y-o-y							
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
3QFY19	3.7	2.8	3.4	6.9	3.4	4QFY19	53.6	52.2
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	-0.3	-1.2	-0.3	0.6	-0.9	3QFY20	51.5	51.7
Aug-19	-1.4	0.0	-1.7	-0.9	-0.2	Sep-19	51.4	48.7
Sep-19	-4.3	-8.6	-4.0	-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	1.7	2.7	-5.0	-1.5	Dec-19	52.7	53.3

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
	% change y-o-y				% change y-o-y				
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	3.4	1.0	9.2	-0.7	-5.7	-1.7
Sep-19	4.0	5.1	-2.2	4.0	0.3	6.1	-0.4	-6.7	-1.2
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	9.0	-0.8	-7.3	-1.9
Dec-19	7.4	14.1	0.7	3.5	2.6	11.0	-0.25	-1.5	-1.5

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	Revenue deficit
						% of GDP	% of GDP
FY16	17.0	6.0	8.5	6.9	30.1	3.9	2.5
FY 17	17.9	6.7	21.5	12.3	21.6	3.5	2.1
FY 18	11.8	17.8	19.9	18.6	6.0	3.5	2.6
FY19 (CGA actuals over FY18 actuals)	8.4	16.2	7.2	12.3	2.5	3.4	2.3
FY20 (BE over CGA actuals)	18.3	15.4	23.3	18.6	19.8	3.3	2.2
Cumulated growth (% , y-o-y)						% of budgeted target	
Apr-19	6.9	59.3	16.3	24.3	-3.4	22.3	26.6
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

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.

Fiscal year/month	CGST	UTGST	IGST	GST compensation cess	Total GST (center)
	INR crore				
FY 2019 (RE)	5,03,900	-	50,000	90,000	6,43,900
FY 2020 (BE)	5,26,000	-	28,000	1,09,343	6,63,343
Monthly tax collection (INR crore)					
Apr-19	46,848	171	-564	8,874	55,329
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

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
	%		% change y-o-y				US\$ billion			%	US\$ billion
Jan-19	6.50	FY16	13.5	10.1	9.7	10.5	36.0	-4.1	FY16	7.7	355.6
Feb-19	6.25	FY17	3.1	10.1	7.9	11.6	35.6	7.6	FY17	7.0	370.0
Mar-19	6.25	FY18	21.8	9.2	7.5	7.5	30.3	22.1	FY18	7.0	424.4
Apr-19	6.00	FY19	13.6	10.5	13.7	8.9	30.7	-0.6	FY19	7.7	411.9
May-19	6.00	3QFY19	13.6	10.2	14.9	9.2	7.3	-2.1	4QFY19	7.4	393.4
Jun-19	5.75	4QFY19	13.6	10.5	14.2	10.0	6.4	9.4	1QFY20	7.2	411.9
Jul-19	5.75	1QFY20	11.3	10.1	12.6	9.9	13.9	4.8	2QFY20	6.7	427.7
Aug-19	5.40	2QFY20	10.8	9.6	10.4	9.9	7.3	-1.9	3QFY20	6.7	433.6
Sep-19	5.40	Aug-19	11.8	9.8	10.2	9.7	1.7	-0.5	Sep-19	6.8	433.6
Oct-19	5.15	Sep-19	10.8	9.6	8.7	9.4	1.9	-0.1	Oct-19	6.5	442.6
Nov-19	5.15	Oct-19	12.9	10.6	8.9	10.2	2.0	3.2	Nov-19	6.6	451.1
Dec-19	5.15	Nov-19	11.1	9.8	8.0	9.7	1.2	2.1	Dec-19	6.9	457.5

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		
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	10.4	-181.7	69.9	67.3	100.4	2016	3.4	1.7	4.6
4Q FY19	6.0	-1.2	-35.2	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*	3.0	1.7	3.9
3Q FY20	-1.1	-12.7	-34.4	71.2	60.3	69.9	2020*	3.4	1.7	4.7
Sep-19	-6.6	-13.8	-10.9	71.3	60.0	63.7	2021*	3.6	1.6	4.6
Oct-19	-1.1	-16.3	-11.0	71.0	57.3	68.3	2022*	3.6	1.6	4.8
Nov-19	-0.3	-12.7	-12.1	71.5	60.4	70.3	2023*	3.6	1.5	4.8
Dec-19	-1.8	-8.8	-11.3	71.2	63.4	71.1	2024*	3.6	1.6	4.8

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


**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	7.9	6.3	9.5	7.9	10.0	6.1	7.7	8.7	9.2	2.7
FY18	6.9	5.0	5.1	5.9	8.6	5.6	7.8	6.2	11.9	3.9
FY19 (PE)*	6.6	2.9	1.3	6.9	7.0	8.7	6.9	7.4	8.6	4.2
FY20 (AE) <sup>§</sup>	4.9	2.8	1.5	2.0	5.4	3.2	5.9	6.4	9.1	2.5
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 FY19 (PE) are calculated over the revised estimates for FY18 as per the NAS released by MoSPI on 31 May 2019

§ Growth numbers are based on the First advanced estimates of NAS released by MoSPI on 07 January 2020

Fiscal year/quarter	Expenditure components						IPD inflation
	GDP	PFCE	GFCE	GFCF	EX	IM	GDP
FY17	8.2	8.2	5.8	8.3	5.1	4.4	3.1
FY18	7.2	7.4	15.0	9.3	4.7	17.6	3.8
FY19 (PE)*	6.8	8.1	9.2	10.0	12.5	15.4	4.1
FY20 (AE) <sup>§</sup>	5.0	5.8	10.5	1.0	-2.0	-5.9	2.4
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 FY19 (PE) are calculated over the revised estimates for FY18 as per the NAS released by MoSPI on 31 May 2019

§ Growth numbers are based on the First advanced estimates of NAS released by MoSPI on 07 January 2020

# 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	GoI	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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