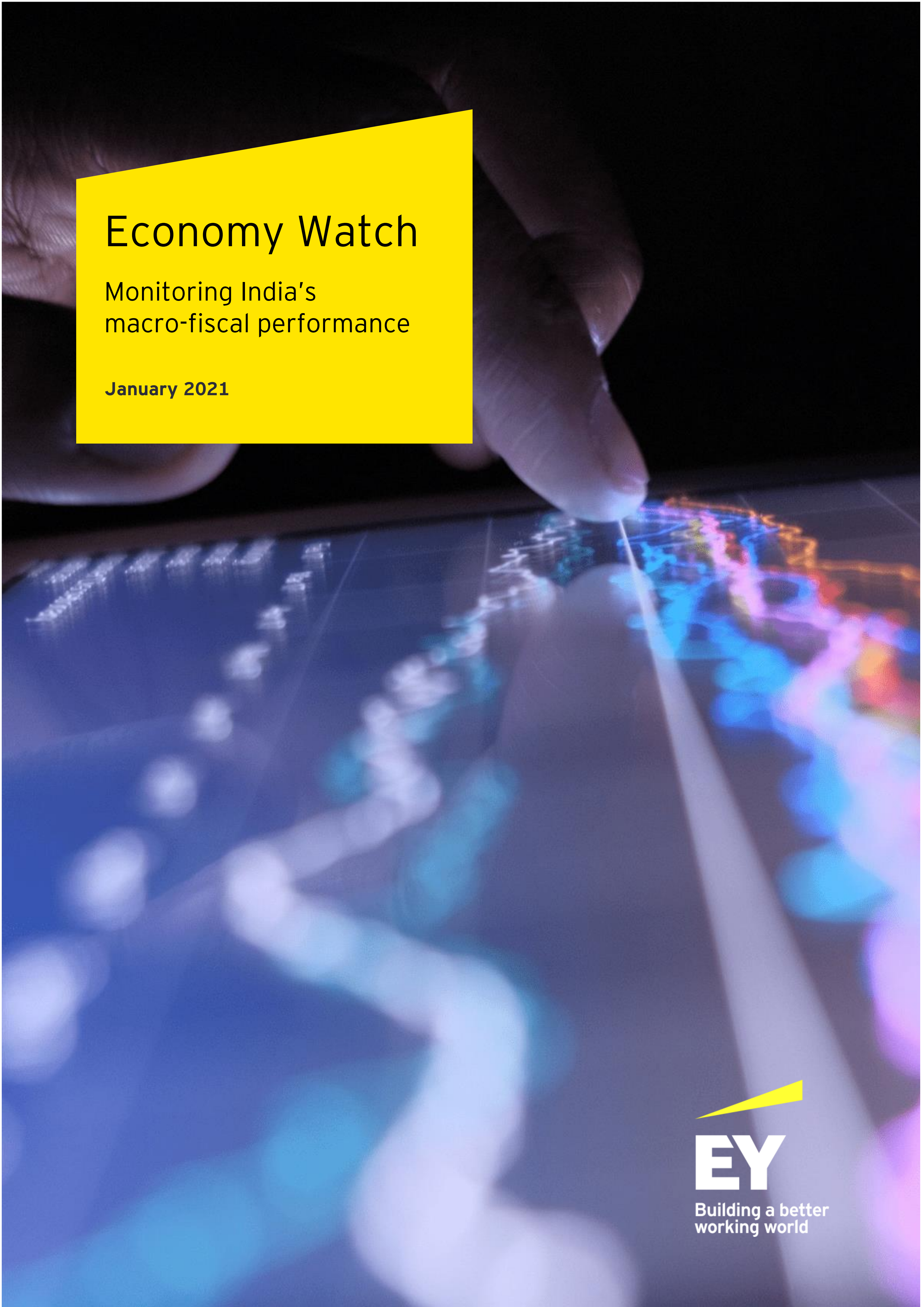

Economy Watch

Monitoring India's macro-fiscal performance

January 2021

EY

Building a better working world

Contents

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Highlights

1. As per the NSO, India's real GDP is estimated to contract by (-)7.7% in FY21 as compared to a growth of 4.2% in FY20. The implied growth in 2HFY21 showed a sharp fall in the rate of GDP contraction at (-)0.1% as compared to (-)15.7% in 1HFY21.

2. PMI manufacturing remained high at 56.4 in December 2020 while PMI services expanded at a slower pace of 52.3.

3. From a growth of 4.2% in October 2020, IIP contracted by (-)1.9% in November 2020 reflecting weakness in industrial activity.

4. For the first time in nine months, CPI inflation at 4.6% in December 2020, was within the RBI's inflation target range. WPI inflation also showed some fall to 1.2% in December 2020 from 1.6% in November 2020.

5. As per the CGA, center's gross taxes contracted by (-)12.6% during April-November FY21 as compared to a low growth of 0.8% in the corresponding period of FY20.

6. During April-November FY21, center's revenue expenditure showed a low growth of 3.7% while growth in capital expenditure improved to 12.8%.

7. During April-November FY21, center's fiscal deficit stood at 135.1% of the annual budgeted target while the corresponding number for revenue deficit was 139.9%.

8. Growth in merchandise exports and imports turned positive at 0.1% and 7.6% respectively in December 2020 after nine successive months of contraction, partly due to higher crude prices affecting imports relatively more than exports.

9. FDI inflows increased to a three-month high of US$5.7 billion while FPIs recorded its highest monthly net inflows of US$9.4 billion in November 2020.

10. Current account recorded a surplus for the second consecutive quarter at 2.4% of GDP in 2QFY21 as compared to 3.8% in 1QFY21.

Foreword

Emerging from COVID's shadow: fiscal policy to play a key role in recovery

Global and Indian policy observers are keenly looking forward to the initiatives and guidance provided by center's FY22 budget. The Indian economy is expected to now emerge from the COVID induced recession. India witnessed an unprecedented contraction in its real GDP at (-)23.9% and (-)7.5% in 1Q and 2Q of FY21 respectively. NSO's recently published advance estimates for GDP indicate a continued contraction at (-)0.1% in 2HFY21 following the contraction of (-)15.7% in 1HFY21. We expect that a small but positive GDP growth may occur in 4QFY21. A strong recovery is expected in FY22 both because of base effects and policy initiatives.

High frequency indicators are signaling the re-emergence of positive growth towards the end of FY21. PMI manufacturing remained high at 56.4 in December 2020. PMI services also expanded for the third successive month in December 2020 although falling to 52.3 from 53.7 in November 2020. Monthly GST collections at INR1.15 lakh crores in December 2020 were at a historically high level. Growth in power consumption increased to 6.1% in December 2020 from 3.9% in November 2020. Passenger vehicle sales at 2,52,998 units in December 2020, showed a y-o-y growth of 13.6%. On a cumulated basis, during April-December 2020, sales were still lower at 17.7 lakh units as compared to 21.2 lakh units during April-December 2019. Growth in merchandise exports and imports turned positive at 0.1% and 7.6% respectively in December 2020 after nine consecutive months of contraction. Weekly data on bank credit shows that its growth improved to 6.7% in the week ending 1 January 2021, the highest since the week ending 24 April 2020. By 8 January 2021, India's foreign exchange reserves reached a historic-high of US$586.1 billion. FDI inflows increased to a three-month high of US$5.7 billion while FPIs recorded its highest monthly net inflows at US$9.4 billion in November 2020. However, IIP data shows that the growth momentum is still volatile. IIP showed a growth of 0.5% in September 2020, its first positive growth since February 2020. It improved further to 4.2% in October 2020 before contracting again in November 2020 at (-)1.9%.

CPI inflation at 4.6% in December 2020, moved back within the RBI's inflation tolerance range for the first time in nine months. WPI inflation also showed some fall to 1.2% in December 2020 from 1.6% in November 2020. Both CPI and WPI inflation have been driven by food prices particularly vegetable prices, and fuel prices. Core CPI and WPI inflation appear to be higher and more sticky. Core CPI inflation was at 5.7% and core WPI inflation was at 4.1% in December 2020. CPI inflation averaged 6.6% for the nine-month period of April-December 2020. Using actual data for the first three quarters and RBI's expectation for the last quarter, the annual CPI inflation rate may turn out to be 6.4% for FY21. Since this is higher than the upper tolerance limit of the Monetary Policy Framework, the expectation is that the monetary authorities may not be forthcoming with any further relaxation in repo rate in the near future. Policy stimulus to the economy is therefore largely dependent on fiscal authorities.

In this month's In-Focus section entitled "*Trends in government finances and FY22 union budget prospects*", we have assessed the broad fiscal contours for the likely outcomes of center's FY21 revised estimates and prospects of FY22 budget estimates. We observed that the estimates for FY21 are way out of line in the context of longer-term fiscal trends both in relation to the receipts and expenditure sides of center's budget. The longer-term fiscal trends covering the period from FY01 to FY20 indicate that center's gross tax revenues (GTR) have fallen significantly on trend basis during FY08 to FY20. Center's GTR to GDP ratio which was 12.1% in FY08 fell to 9.9% in FY20. This fall was also reflected in center's aggregate receipts consisting of net tax revenues, non-tax revenues and non-debt capital receipts. Central government expenditures also fell on trend basis since the fall in the receipts was not made up by an increase in fiscal deficit as the central government had subjected itself to the Fiscal Responsibility and Budget Management Act (FRBMA). FY21 shows a significant dip along the falling trend line in the receipts and expenditure side parameters of the central government. Center's GTR is expected to contract in FY21, after having already contracted in FY20. Center's non-tax revenues and non-debt capital receipts have also fallen well below their corresponding budget estimates. Given these lower receipts, fiscal deficit may have to be kept at a relatively high level, at say about 7% of GDP, to ensure that government expenditures do not fall in line with the fall in receipts so as to support growth. We expect a new fiscal consolidation roadmap and a new growth trajectory to be drawn up in the upcoming FY22 union budget.

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1. Growth: real GDP is estimated to contract by (-)7.7% in FY21

A. Implied 2HFY21 GDP growth pointed to a V-shaped recovery in economic activity

- As per the first advance estimates (FAE) of national income aggregates released by the Ministry of Statistics and Programme Implementation (MoSPI) on 7 January 2021, real GDP is estimated to contract by (-)7.7% in FY21 as compared to a growth of 4.2% in FY20. The implied growth for 2HFY21 pointed to a significant fall in the rate of contraction in GDP at (-)0.1% as compared to (-)15.7% in 1HFY21 **(Chart 1).**
- On the demand side, only one segment namely, government final consumption expenditure (GFCE) is estimated to show a growth of 5.3% in FY21 although lower than 11.8% in FY20. GFCE is estimated to grow by 17.0% in 2HFY21 as compared to a contraction of (-)3.9% in 1HFY21.
- All the other demand side components are expected to show a contraction in FY21. Private final consumption expenditure (PFCE) is estimated to contract by (-)9.5% in FY21 as compared to a growth of 5.3% in FY20.
- Gross fixed capital formation (GFCF), a measure of fixed investment, is estimated to contract sharply for the second consecutive year by (-)14.5% in FY21 pointing to falling investment rate (**Table 1**).
- Both exports and imports are estimated to show a higher contraction in FY21. Since, contraction in imports is sharper at (-)20.5% as compared to that in exports at (-)8.3%, contribution of net exports is estimated to be positive at 2.8% points in FY21.

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

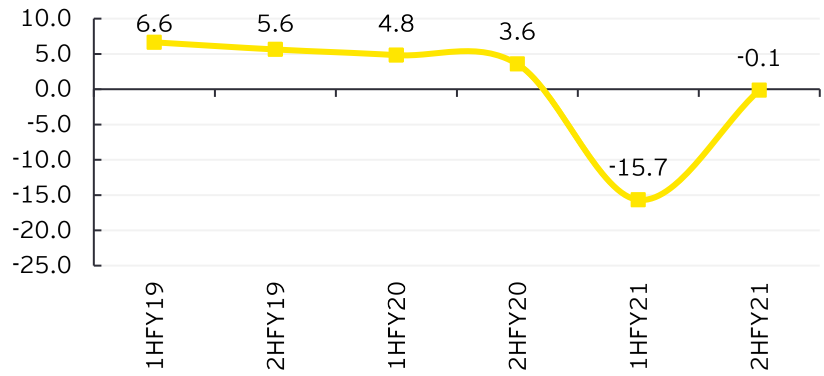


Table 1: Real GDP and GVA growth (%)

Agg. demand	FY17	FY18	FY19	FY20	FY21*	1H FY20	2H FY20	1H FY21	2H** FY21
PFCE	8.1	7.0	7.2	5.3	-9.5	5.9	4.7	-18.9	-0.6
GFCE	6.1	11.8	10.1	11.8	5.8	10.3	13.5	-3.9	17.0
GFCF	8.5	7.2	9.8	-2.8	-14.5	0.3	-5.8	-28.1	-0.8
EXP	5.0	4.6	12.3	-3.6	-8.3	0.4	-7.3	-10.7	-5.8
IMP	4.4	17.4	8.6	-6.8	-20.5	-3.9	-9.7	-29.1	-11.3
GDP	8.3	7.0	6.1	4.2	-7.7	4.8	3.6	-15.7	-0.1
Output: major sectors									
Agr.	6.8	5.9	2.4	4.0	3.4	3.2	4.6	3.4	3.4
Ming.	9.8	4.9	-5.8	3.1	-12.4	2.2	3.8	-17.2	-8.3
Mfg.	7.9	6.6	5.7	0.0	-9.4	1.2	-1.1	-19.4	0.5
Elec.	10.0	11.2	8.2	4.1	2.7	6.3	1.9	-1.4	7.1
Cons.	5.9	5.0	6.1	1.3	-12.6	3.9	-1.2	-30.2	4.4
Trans.	7.7	7.6	7.7	3.6	-21.4	3.8	3.4	-31.5	-12.0
Fin.	8.6	4.7	6.8	4.6	-0.8	6.0	2.9	-6.8	7.1
Publ.	9.3	9.9	9.4	10.0	-3.7	9.4	10.5	-11.3	3.3
GVA	8.0	6.6	6.0	3.9	-7.2	4.5	3.3	-14.9	0.3

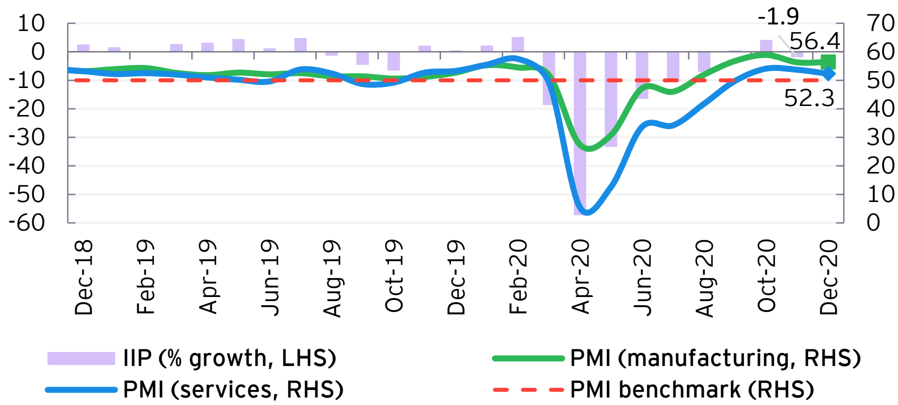
Source: MoSPI, GoI, *first advance estimates; **implied growth for 2HFY21

- On the output side, real GVA is estimated to contract by (-)7.2% in FY21 as compared to a growth of 3.9% in FY20. Six out of eight key sectors accounting for about 80% of real GVA in FY21 depict a contraction.
- Trade, hotels, transport, communication and services related to broadcasting ((-)21.4%), construction ((-)12.6%) and mining ((-)12.4%) sectors are estimated to witness a double-digit contraction. Manufacturing GVA is also estimated to contract sharply by (-)9.4% in FY21.
- Public administration, defence and other services is estimated to contract by (-)3.7% and financial, real estate and professional services by (-)0.8% in FY21. Two sectors namely agriculture (3.4%) and electricity, gas and water supply (2.7%) show a positive but low growth in FY21.
- The implied 2HFY21 GVA growth at 0.3% as compared to a sharp contraction of (-)14.9% in 1HFY21 is indicative of a strong recovery in economic activity. However, this recovery is largely contingent upon a pickup in the growth of financial, real estate and professional services, and public administration, defence and other services in 2HFY21.

B. IIP: contracted by (-)1.9% in November 2020

- As per the quick estimates of IIP for November 2020, released by the MoSPI on 12 January 2021[1], IIP contracted by (-)1.9% as compared to a growth of 4.2% (revised) in October 2020 (**Chart 2**). This was largely attributable to contraction in manufacturing and mining output (Table A1 in data appendix).
- The output of manufacturing contracted by (-)1.7% in November 2020 as compared to a growth of 4.1% (revised) in October 2020, its only positive growth since April 2020. Output of mining contracted sharply by (-)7.3% in November 2020 as compared to (-)1.3% in October 2020. Growth in the output of electricity moderated to 3.5% in November 2020 from 11.2% in October 2020.
- Output of capital goods, an indicator of investment, contracted by (-)7.1% in November 2020 as compared to a growth of 3.5% (revised) in October 2020. Both consumer durables and non-durables contracted by (-)0.7% each in November 2020 as compared to a growth of 18.0% and 7.1% respectively in October 2020. Output of infrastructure/construction goods grew at a slower pace of 0.7% in November 2020 as compared to 9.9% in October 2020.
- Provisional estimates of output of eight core infrastructure industries (core IIP) showed a contraction of (-)2.6% in November 2020 as compared to (-)0.9% in October 2020 (revised). This was due to a contraction in the output of five out of eight industries namely, natural gas ((-)9.3%), cement ((-)7.1%), crude oil ((-)4.9%), petroleum refinery products ((-)4.8%) and steel ((-)4.4%).

Chart 2: IIP growth and PMI



From a growth of 4.2% in October 2020, IIP contracted by (-)1.9% in November 2020 reflecting continued weakness in industrial activity.

Source: Ministry of Commerce and Industry and IHS Markit

C. PMI: signaled an expansion in both manufacturing and services in December 2020 with services showing a slower pace of expansion

- Headline manufacturing PMI (seasonally adjusted (sa)) remained above the threshold of 50 for the fifth successive month in December 2020, increasing marginally to 56.4 from 56.3 in November 2020 (**Chart 2**). On a quarterly basis, PMI manufacturing averaged 57.2 in 3QFY21, up from 51.6 in 2QFY21.
- PMI services showed an expansion for the third successive month in December 2020 although falling to 52.3 from 53.7 in November 2020. On a quarterly basis, PMI services averaged 53.4 in 3QFY21 as compared to 41.9 in 2QFY21.
- Largely reflecting a slower expansion in PMI services, the composite PMI Output Index (sa) fell to 54.9 in December 2020 from 56.3 in November 2020. Composite PMI Output index averaged 56.4 in 3QFY21, increasing from 45.9 in 2QFY21.

PMI manufacturing at 56.4 in December 2020 was marginally higher than 56.3 in November 2020. PMI services also show an expansion in December 2020 although falling to 52.3 from 53.7 in November 2020.

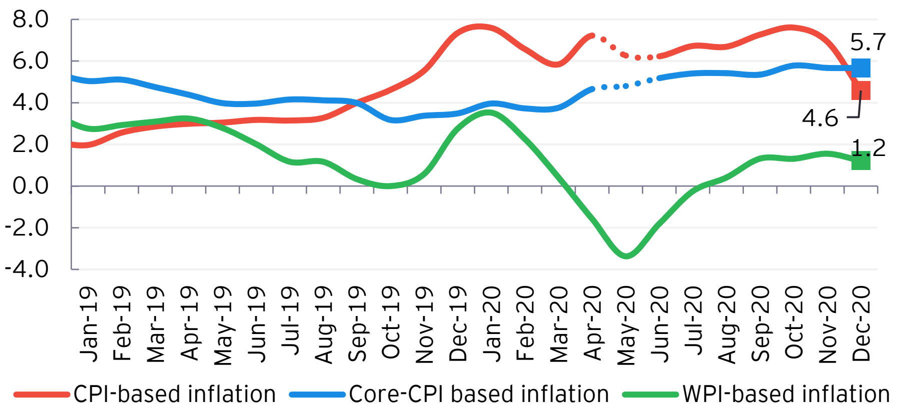
[1] Quick estimates of IIP and use-based index for the month of November 2020: https://www.mospi.gov.in/documents/213904/416359//IIP%20Nov'20%20Press%20Release-Approved%201610452903683.pdf/10c87a98-0e06-0363-c194-ed9d901faecf

2. Inflation: CPI inflation fell to a 14-month low of 4.6% in December 2020

CPI inflation fell to 4.6% in December 2020 (Chart 3) from 6.9% in November 2020, as vegetable prices contracted for the first time in 21 months.

- Vegetable prices contracted by (-)10.4% in December 2020 as compared to 15.5% in November 2020 led by a sharp contraction in the prices of onions at a 22-month high level of (-)46.5% in December 2020.
- Consumer food inflation moderated to a 16-month low of 3.4% in December 2020.
- Inflation in fuel and light increased to a nine-month high of 3.0% in December 2020 due to a hike in the price of domestic LPG.
- Core CPI inflation[2] remained elevated at 5.7% in December 2020, the same level as in November 2020.
- Health services inflation increased to a 15-month high of 6.0% in December 2020 from 5.6% in November 2020.
- Inflation in transportation and communication services fell to a six-month low of 9.3% in December 2020 from 11.1% in November 2020 mainly due to base effect. There was a one-time upward revision in mobile tariffs in December 2019.

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



For the first time in nine months, CPI inflation at 4.6% in December 2020, was within the RBI's inflation target range.

Source: MoSPI, Office of the Economic Adviser, Government of India (GoI)
Note: Headline CPI inflation and inflation in certain groups for the month of April 2020 and May 2020 have been imputed by the MoSPI[3]; Core CPI inflation has been estimated for April 2020 and May 2020 using this imputed data

WPI inflation fell to a four-month low of 1.2% in December 2020 from 1.6% in November 2020, largely due to a sharp contraction in vegetable prices.

- Vegetable prices contracted for the first time in six months at (-)13.2% in December 2020 led by a contraction in prices of onions and a moderation in inflation in potatoes.
- WPI food index-based inflation fell to a 24-month low of 0.9% in December 2020.
- The pace of contraction in fuel and power prices eased to a three-month low of (-)8.7% in December 2020 led by a high rate of inflation in furnace oil.
- Core WPI inflation increased to a 24-month high of 4.1% in December 2020 led by rising inflation in manufactured basic metals which increased to a 25-month high of 11.5% in December 2020.
- The pace of inflation in 19 of the 22 sub-products within the manufactured products category showed an increase in December 2020 over the inflation level in the previous month.

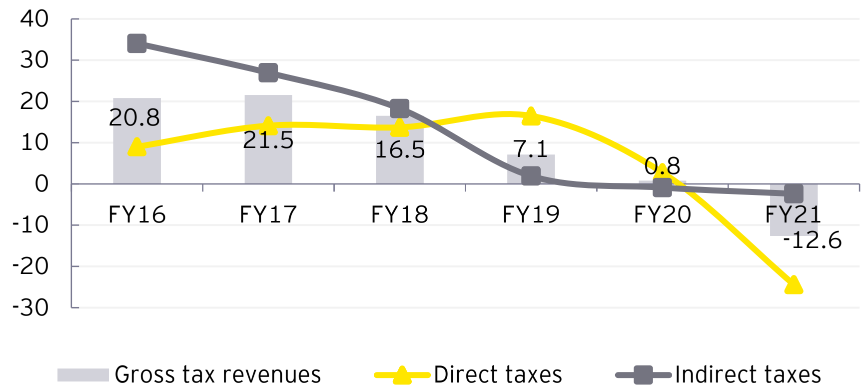
[2] Core CPI inflation is measured in different ways by different organizations/agencies. Here, it has been calculated by excluding food, and fuel and light from the overall index.
[3] http://www.mospi.gov.in/sites/default/files/press_release/CPI%20Technical%20Note%20on%20Imputation.pdf

3. Fiscal performance: center's gross tax revenues during Apr-Nov FY21 contracted by (-)12.6%

A. Tax and non-tax revenues

- As per the Comptroller General of Accounts (CGA)[4], gross central taxes during April-November FY21 contracted by (-)12.6% as compared to a low growth of 0.8% during April-November FY20 (**Chart 4**). Both direct and indirect taxes contracted on a y-o-y basis during the first eight months of FY21 with direct taxes showing a much steeper decline.
- As a proportion of the annual budgeted target, gross taxes during April-November FY21 stood at 42.3% as compared to a three-year corresponding average of 52.0%.
- Direct tax revenues contracted by (-)24.4% during April-November FY21 as compared to a growth of 2.7% in the corresponding period of FY20.
- Corporate income tax (CIT) revenues contracted by (-)35.7% during April-November FY21 as compared to a contraction of (-)0.9% in the corresponding period of FY20. The contraction during April-November FY20 was largely attributable to the 2019 CIT rate reforms.
- There was a contraction of (-)12.3% in personal income tax (PIT) revenues during April-November FY21 as compared to a growth of 7.0% during the corresponding period of the previous year.
- Indirect taxes (comprising union excise duties, service tax, customs duty, CGST, UTGST, IGST[5] and GST compensation cess) showed a contraction of (-)2.4% during April-November FY21 as compared to (-)0.9% during the corresponding period of the previous year.
- Among the indirect taxes, only union excise duties showed a strong positive growth during April-November FY21. Center's GST revenues and customs duties continued to contract during this period.

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



As per the CGA, center's gross taxes contracted by (-)12.6% during April-November FY21 as compared to a low growth of 0.8% in the corresponding period of FY20.

Source: Monthly Accounts, Controller General of Accounts (CGA), Government of India
Notes: (a) Direct taxes include personal income tax and corporation tax, and indirect taxes include union excise duties, service tax, customs duty, CGST, UTGST, IGST and GST compensation cess; (b) Other taxes (securities transaction tax, wealth tax, fringe benefit tax, banking cash transaction tax, etc.) are included in the center's gross tax revenues along with direct and indirect taxes.

- Center's non-tax revenues showed a contraction of (-)46.6% during the first eight months of FY21 as compared to a growth of 67.8% during the corresponding period of FY20.
- As a proportion of the annual budgeted target, non-tax revenues during April-November FY21 stood at 32.3% as compared to a three-year corresponding average of 55.8%.
- As per information sourced from the Department of Investment and Public Asset Management[6] on 22 January 2021, disinvestment receipts stood at INR17,957.7crores, that is, 8.6% of the annual budgeted target of INR2,10,000 crores.

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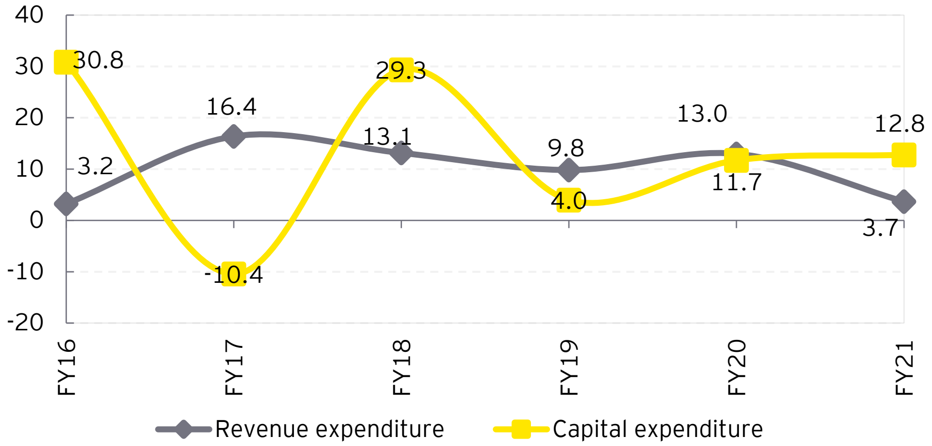
[4] Monthly accounts for November 2020 released on 31 December 2020
[5] IGST revenues are subject to final settlement
[6] https://www.dipam.gov.in/dipam/home

B. Expenditures: revenue and capital

- Center's total expenditure during April-November FY21 grew by 4.7% as compared to a growth of 12.8% during the corresponding period of FY20.
- Revenue expenditure grew by 3.7% during April-November FY21, much lower as compared to 13.0% during the corresponding period of FY20 (**Chart 5**).
- After contracting up till October 2020, center's capital expenditure showed a growth of 12.8% during April-November FY21 as compared to 11.7% in the corresponding period of previous year.

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



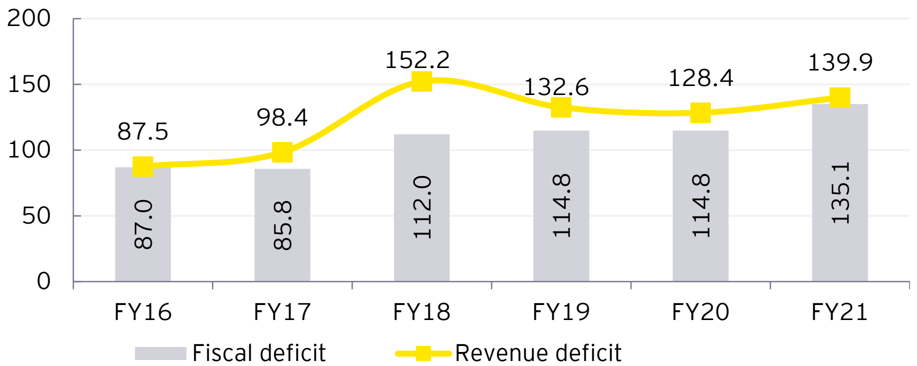
During April-November FY21, center's revenue expenditure showed a low growth of 3.7% while growth in capital expenditure improved to 12.8%.

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

C. Fiscal imbalance

- Center's fiscal deficit during April-November FY21 stood at 135.1% of the annual budgeted target as compared to 114.8% during the corresponding period of FY20 (**Chart 6**).
- Center's revenue deficit during April-November FY21 stood at 139.9% of the annual budgeted target as compared to 128.4% in the corresponding period of FY20.

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



During April-November FY21, center's fiscal deficit stood at 135.1% of the annual budgeted target while the corresponding number for revenue deficit was 139.9%.

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

4. India in comparative perspective: export volumes projected to contract by (-)10.7% in 2020

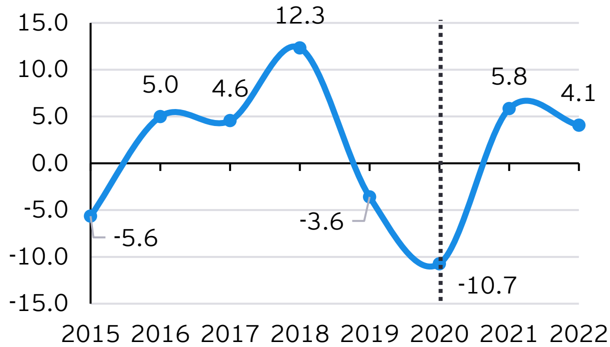
Volume of goods and services exports

Table 2: Export volumes of goods and services (% change)

	2019	2020	2021	2022
US	-0.1	-13.8	3.7	4.4
UK	2.8	-13.1	-1.1	0.1
Germany	1.0	-11.1	4.5	4.5
Japan	-1.6	-14.4	5.2	4.8
Brazil	-2.5	1.4	5.3	4.0
Russia	-2.2	-2.4	1.8	2.3
India*	-3.6	-10.7	5.8	4.1
China	2.0	-3.7	7.5	5.5
S. Africa	-2.5	-15.1	5.4	6.8
World trade	**1.0**	**-10.3**	**3.9**	**4.4**

Source (basic data): OECD Economic Outlook, December 2020
*data pertains to fiscal year; actuals for 2019 and projections from 2020 onwards

Chart 7: Export volumes of goods and services: India (% change)



- Global trade volumes are projected to contract by (-)10.3% in 2020. A modest rebound to 3.9% is projected for 2021 due to a weak recovery in investment as also in international travel and tourism.
- Except for Brazil, all economies are projected to show a contraction in their export volumes in 2020. Countries that are expected to show a contraction of above (-)10% include South Africa, Japan, US, UK, Germany and India.
- A growth of (-)10.7% projected for India's export volumes in 2020 is the lowest since at least 2003.
- As growth improves, export volumes are projected to recover in 2021 and 2022. However, uncertainty relating to the ratification of UK-EU Withdrawal Agreement may lead to an adverse impact on UK's export performance.

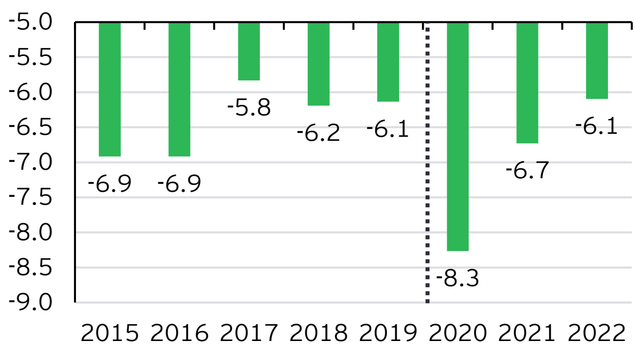
General government financial balance

Table 3: General government financial balance (% of GDP)

	2019	2020	2021	2022
US	-6.7	-15.4	-11.6	-8.3
UK	-2.4	-16.7	-13.3	-8.8
Euro area	-0.6	-8.6	-6.5	-4.1
Japan	-2.6	-10.5	-5.5	-3.5
Brazil	-5.9	-16.9	-7.6	-6.7
Russia	2.5	-4.9	-3.1	-1.6
India*	-6.1	-8.3	-6.7	-6.1
China	-3.7	-6.9	-6.2	-5.2
S. Africa	-4.6	-15.3	-9.9	-8.6

Source (basic data): OECD Economic Outlook, December 2020
*data pertains to fiscal year
Notes: (1) actuals for 2019 and projections from 2020 onwards, (2)-ve sign indicates a fiscal deficit and +ve sign indicates a fiscal surplus

Chart 8: General government financial balance to GDP ratio: India



- In the aftermath of the COVID-19 crisis, nearly all countries have provided sizable stimulus based on government borrowing leading to a sharp deterioration in their fiscal balance in 2020.
- Among selected major advanced economies (AEs), the highest fiscal deficit relative to GDP in 2020 is projected for the UK at (-)16.7%, followed by the US at (-)15.4%, and Japan at (-)10.5%.
- Among emerging market economies (EMEs), while Brazil and South Africa's fiscal deficits are projected at more than (-)15% of GDP in 2020, comparatively lower deficits are forecasted for India, China and Russia.
- Although a reduction in the fiscal deficit relative to GDP is forecasted for all selected economies in 2021 and 2022, these would still remain higher than their 2019 levels.
- In the case of Euro area, fiscal deficit relative to GDP at (-)4.1% in 2022 would remain higher than the Maastricht Treaty norm. Similarly, for India, this ratio is projected to remain higher than the target of 6% for the combined government (center + states).

5. In focus: trends in government finances and FY22 union budget prospects

Introduction

Central government tax revenues have contracted in two successive years in FY20 and FY21 (estimated). Usually, inflation ensures that tax revenues grow in absolute terms year after year. In the long history of tax revenues from the 1950s, center's gross tax revenues have fallen in absolute terms in two successive years way back in FY53 and FY54. The role of financing central government expenditure is primarily that of center's tax revenues with non-tax revenues and non-debt capital receipts playing only a supplementary role. The resource gap in financing is met by fiscal deficit that has been subjected to legislated norms since 2003 although these norms have rarely been met. Center's FY22 budget presents a unique challenge as the Indian economy emerges from the shadow of the COVID pandemic. In examining the prospects for the FY22 budget, we have made a distinction between constraints posed by long-term trends and those posed by the pandemic.

1. The receipts side: trend and volatility

a. Trends in center's gross tax revenues

Charts 9 and 10 show the performance of the center's gross tax revenues (GTR) as percentage of GDP and in terms of percentage annual growth since FY01 and FY02 respectively. The period from FY01 to FY21 is characterized by two major crises namely, the FY09 global economic and financial crisis and the FY21 global COVID crisis. Reflecting the impact of the first crisis, center's GTR to GDP ratio stood at 9.8% in FY10 whereas this ratio at its trough was at 9.9% in FY20, just one year prior to the COVID crisis. In the crisis year, that is, FY21, center's GTR to GDP ratio is estimated at 10%. This appears marginally better than its level as a result of the FY09 crisis. However, it reflects the impact of a contraction in both GTR and GDP in FY21. At its peak, the GTR to GDP ratio stood at 12.1% in FY08, approximately 2% points higher than its level in FY10 and in FY20 (e).

Chart 9: GTR as % of GD

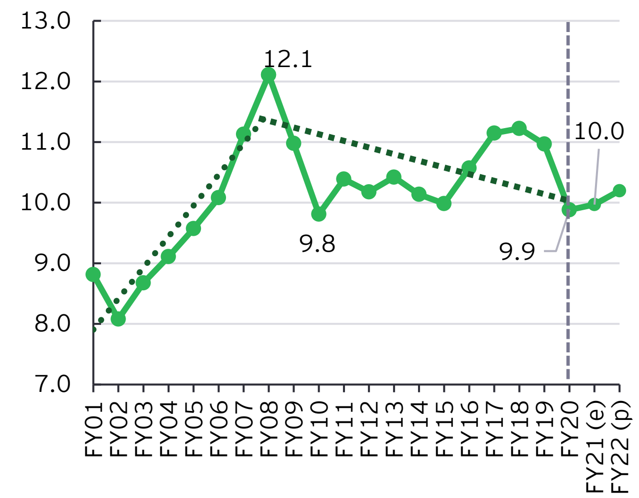
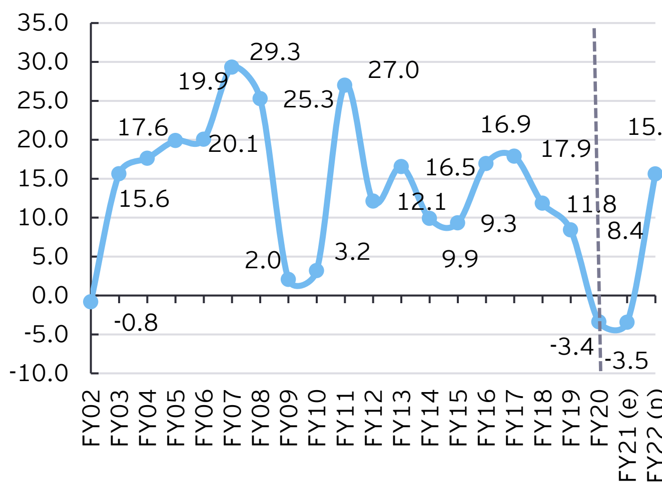


Chart 10: Annual growth in GTR



Source (basic data): Union budget documents, CGA, MoSPI; *(e) denotes estimated values and (p) denotes projected values*

In terms of growth rates, the most promising phase is seen from FY03 to FY08, when the annual growth of GTR averaged at 21.3%. The least satisfactory phase is seen from FY18 to FY21 (e) when the GTR growth averaged 3.4%. These are growth rates in nominal terms. Since the implicit price deflator of GDP shows an average growth of 3.8% during this period, it is implied that GTR in real terms declined during FY18 to FY21 (e). During FY18 to FY21 (e), the nominal GDP growth averaged 6.3%. It is for this reason that during this period the GTR-GDP ratio fell. The profile of annual GTR growth rates reflects significant volatility.

b. *Trends in center's non-tax revenues*

Center's non-tax revenues (NTR) relative to GDP fell on trend basis from FY01 to FY20. At its peak in FY02, and FY03 and in FY11, this ratio was close to 3%. In FY09, it was at 1.8%. In the COVID crisis affected year of FY21, it is estimated at 0.9% (Chart 11). In terms of growth rates for center's NTR, there are a number of years when it was zero or negative. Thus, in spite of a number of new avenues opening up for center's NTR such as spectrum sales, auction of major minerals etc., NTR as percentage of GDP have eroded significantly. One-time spikes in center's NTR due to spectrum sales are noticeable in FY02, FY11, FY16, and FY17.

Chart 11: Center's NTR as % of GDP

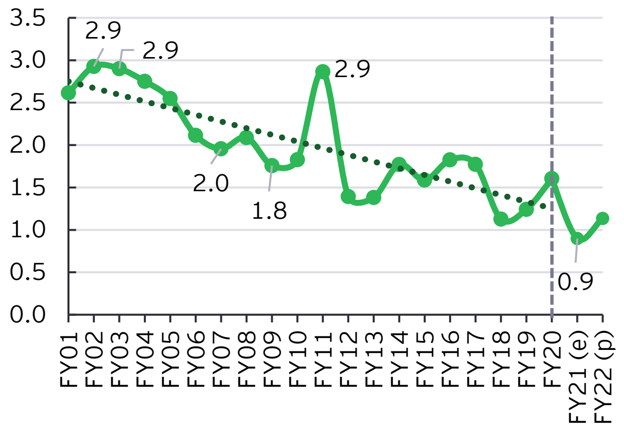
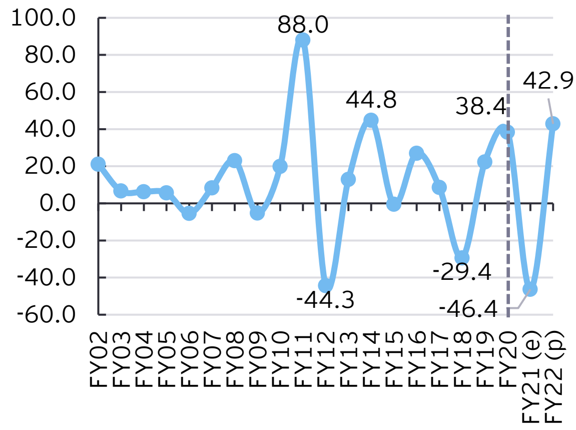


Chart 12: Annual growth in center's NTR



Source (basic data): Union budget documents, CGA, MoSPI

c. *Trends in center's non-debt capital receipts*

Center's non-debt capital receipts (NDCR) primarily reflect disinvestment proceeds. There are some distinct years when disinvestment initiatives succeeded inordinately. These pertain to the early years of the first decade covering the period from FY02 to FY05 when NDCR rose from just above 0.5% of GDP to 3% of GDP. Apart from these years, NDCR relative to GDP fell sharply to nearly 0% in FY07 and in FY09 (Chart 13). Post FY09, the average NDCR to GDP ratio has languished at 0.5%. The growth rates of NDCR show considerable volatility ranging from (-)84.7% in FY09 to 583% in FY08 (Chart 14). In specific years, the magnitude of disinvestment receipts spiked due to successful disinvestment initiatives. Some of the notable years are FY04, FY08, FY10, FY18 and FY19. In FY04, successful disinvestment could be carried out in some major public sector entities such as Indian Petrochemicals Corporation Limited (IPCL), Hindustan Zinc, Gas Authority of India Limited (GAIL), Oil and Natural Gas Corporation (ONGC), and Maruti Udyog Limited. In FY18, successful disinvestment program could be mounted in the case of ONGC, General Insurance Corporation (GIC), and National Thermal Power Corporation (NTPC).

Chart 13: Center's NDCR as % of GDP

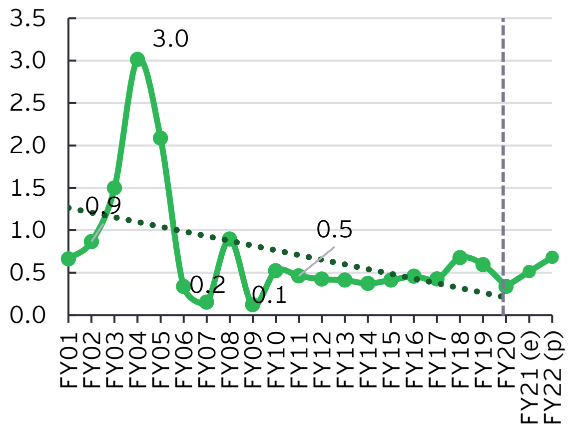
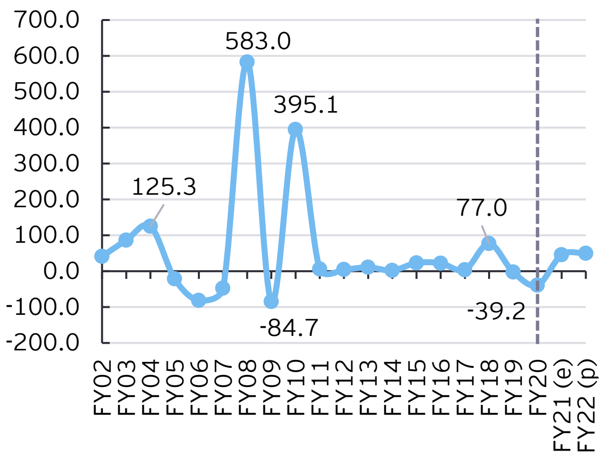


Chart 14: Annual growth in center's NDCR



Source (basic data): Union budget documents, CGA, MoSPI *d. Trends in center's aggregate receipts*

Center's aggregate receipts can be derived by adding center's net tax revenues, NTR, and NDCR. Center's net tax revenues are obtained by deducting states' share in central taxes from center's GTR. This share depends on the recommendations of the Finance Commission (FC) which reviews it, on average, once every five years. The combined effect of adding these three receipts components firmly indicates one outstanding effect, that is, a steady fall in the center's aggregate receipts to GDP from a peak of 12.5% in FY04 to 8.1% in FY21 (e) (Chart 15). The average level of center's aggregate receipts relative to GDP in the initial years of the first millennium decade was at 10.6% (FY01 to FY07). This has fallen to 8.6% during FY18 to FY21 (e). This fall of 2% points would be made up by an increase in borrowing if the fall in receipts is not to be translated into a fall in expenditure. We look at the expenditure trends in the next section.

Chart 15: Center's aggregate receipts as % of GDP

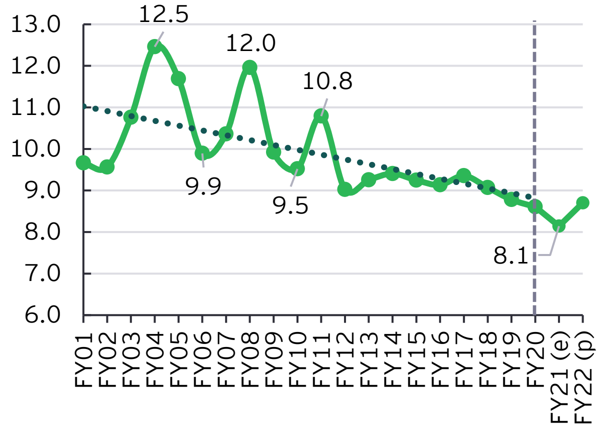
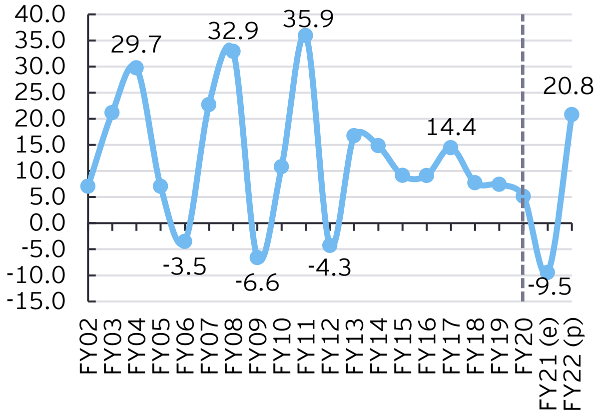


Chart 16: Annual growth in center's aggregate receipts



Source (basic data): Union budget documents, CGA, MoSPI

2. The expenditure side: trend and volatility

a. Trends in center's total expenditure

The effect of a fall in center's aggregate receipts to GDP ratio is seen very largely in a fall in center's total expenditure (TE) to GDP ratio. In other words, fiscal deficit has not been used to compensate for the falling receipts to GDP ratio. At its peak, center's TE to GDP ratio was 16.9% in FY04 and 16.1% in FY10. At its trough in FY19, this ratio fell to 12.2%. It rose marginally to 13.2% in FY20 and in the crisis year of FY21, it is expected to rise further to 15.1% (Chart 17). This rise however should be interpreted with caution. While growth in government expenditure fell by 6.5% points although remaining positive in FY21, nominal GDP growth fell from 7.2% in FY20 to (-)4.2% in FY21 (advance estimate), a fall of 11.4% points. Thus, the increase in TE to GDP ratio in FY21 is due to a sharper fall in nominal GDP growth as compared to that in center's TE. Thus, on trend basis, the size of central government as measured by the expenditure to GDP ratio, has fallen due to a fall in center's receipts relative to GDP.

Chart 17: Center's TE as % of GDP

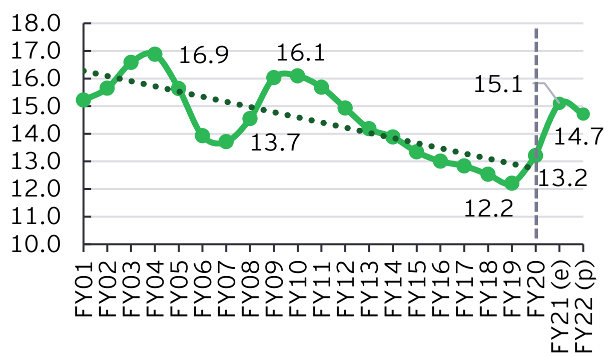
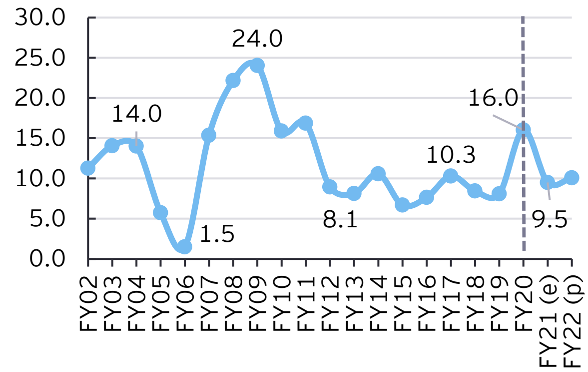


Chart 18: Annual growth in center's TE



Source (basic data): Union budget documents, CGA, MoSPI

b. Trends in revenue expenditure

The troughs and peaks in center's revenue expenditure (RE) as percentage of GDP largely mirror those in TE because of a relatively high weight of RE in TE. The peaks in FY09 and FY10 reflect the policy responses to the FY09 crisis where the government responded by uplifting its own expenditure. The more noticeable trend in the case of both RE and capital expenditure (CE) is a fall in their share relative to GDP on trend basis. In the case of RE, this fall is from the peak of 14.4% in FY09 to a trough of 10.6% in FY19 (Chart 19).

Chart 19: Center's RE as % of GDP

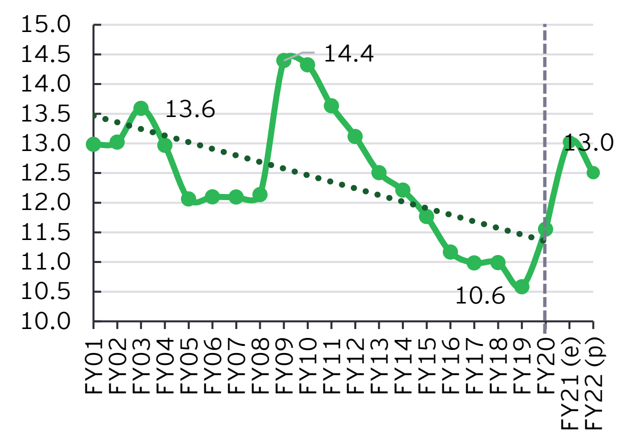
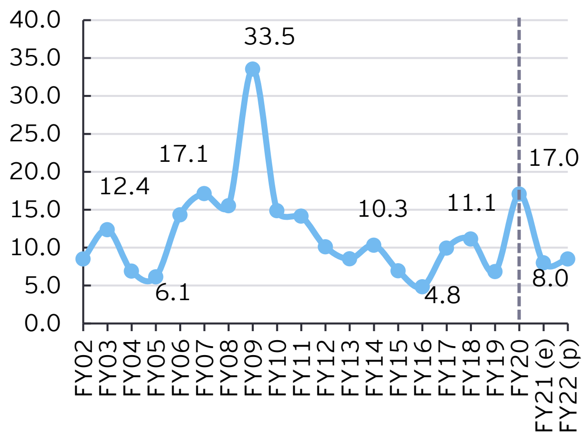


Chart 20: Annual growth in center's RE



Source (basic data): Union budget documents, CGA, MoSPI

c. Trends in capital expenditure

The share of CE in center's TE is relatively low, averaging 15.8% during FY01 to FY10, and 12.8% during FY11 to FY20. In this case also, there was a fall in CE relative to GDP until it effectively stabilized at the low value of 1.7% on average for a longish period of time covering FY12 to FY20. CE relative to GDP showed a local peak in FY08 at 2.4% due to an increase in center's non-defence capital outlay (Chart 21).

Chart 21: Center's CE as % of GDP

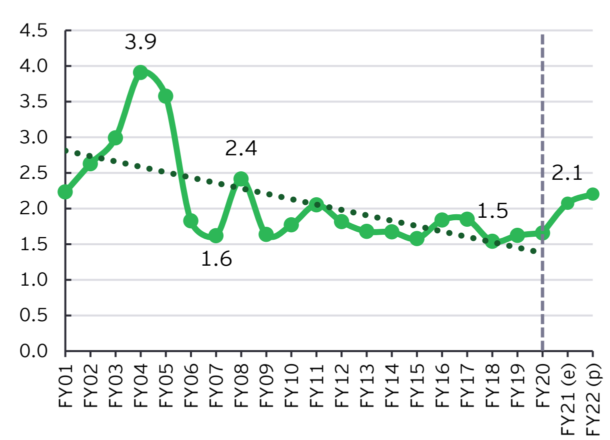
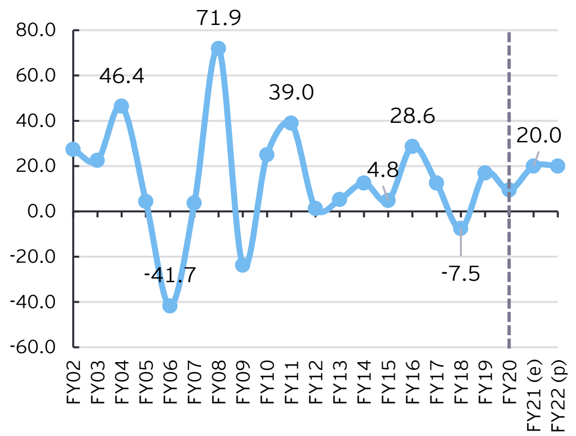


Chart 22: Annual growth in center's CE



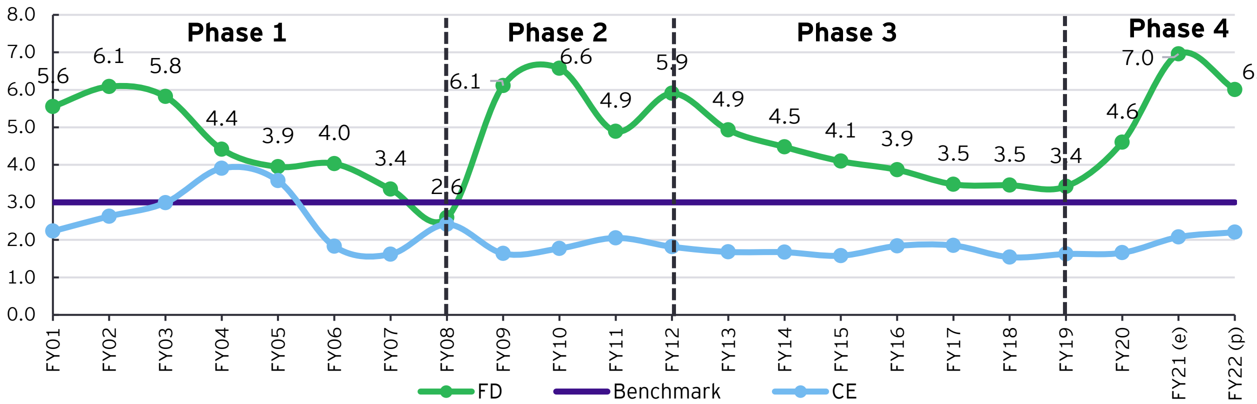
Source (basic data): Union budget documents, CGA, MoSPI

It is thus clear that on trend basis, the fall in receipts to GDP ratio was translated into a fall in expenditure to GDP ratio. This gap was not made up by a rise in fiscal deficit to GDP ratio except in the years of response to the 2008 crisis, seen in FY09 and FY10. Further, the continuing fall in resources led to a fall in the share of CE in TE.

3. Trends in center's fiscal imbalance

Fiscal imbalance as reflected in fiscal deficit to GDP ratio was subjected to center's FRBM targets which became effective from FY04. We can clearly distinguish the four phases in the evolution of the fiscal deficit-GDP ratio (Chart 23). In phase 1, starting from a peak of 6.1% in FY02, the move towards the FRBM target led to a fall in the fiscal deficit to 2.6% of GDP in FY08, well below the target of 3%. But this was derailed due to the 2008 global economic and financial crisis in four succeeding years covering FY09 to FY12 (Phase 2). During this period, the average fiscal deficit was 5.9% of GDP, that is nearly 100% more than the target. From FY12 to FY19 (Phase 3), a sustained effort was made to reduce the fiscal deficit to GDP ratio from 5.9% in FY12 to 3.4% in FY19. This was derailed in FY20 (Phase 4) due to a contraction in center's GTR. It may be attributed partly to the revenue underperformance of GST and partly to the revenue eroding effect of the CIT reforms. This situation was further adversely accentuated due to the impact of COVID in FY21. We expect a period of three to four years when the central government would be required to keep the fiscal deficit to GDP ratio well above the FRBM norm and for this purpose, it may come up with a new fiscal consolidation roadmap.

Chart 23: Center's fiscal deficit as % of GDP



Source (basic data): Union budget documents, CGA, MoSPI

In Chart 23, we have also shown center's CE to GDP ratio. The vertical difference between these two curves of fiscal deficit and CE relative to GDP indicates the extent to which borrowing is used for financing current expenditures. This vertical difference becomes large in the crisis years indicating that RE that largely reflects committed expenditures tend to be rigid, limiting an increase in CE that is required to revive growth in these years.

4. Growth prospects

The first advance estimates of National Statistical Office (NSO) for FY21 real GDP growth at (-) 7.7% improves upon projections by multilateral agencies such as the IMF and the World Bank at (-)10.3% and (-)9.6% respectively. This is driven largely by a robust recovery in 2HFY21 in three sectors namely, (1) financial, real estate and professional services, (2) construction, and (3) public administration, defence and other services which are estimated to grow by 7.1%, 4.4% and 3.3% respectively in 2HFY21 over the corresponding period of the previous year. Agriculture has shown a steady positive growth at 3.4% for the year. The recovery in 'public administration, defence and other services' is contingent upon central and state governments being able to substantially raise their expenditures in the last quarter of the fiscal year. This may call for incurring a larger than the already announced borrowing program of INR12 lakh crores by the central government, that is, 6.2% of GDP. In FY21, the center may require raising its borrowing target to 7% of nominal GDP or above in line with the expectation of a high growth in GFCE as shown in the NSO's advance estimates. Growth in GFCE is expected to pick up to 17.0% in 2HFY21 from (-)3.9% in 1HFY21.

For FY22, policy observers are expecting real GDP growth rate to be 8% or above[7]. For nominal growth, the feasible range being considered is 11-15.5%[7]. This requires adequate government spending in FY22. In the next section, we examine center's FY22 budget prospects.

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[7] https://www.business-standard.com/article/economy-policy/first-advance-estimates-gdp-to-grow-8-11-5-in-fy22-say-experts-121010800051_1.html

5. FY22 budget prospects

In order to arrive at center's FY22 budget aggregates, it is relevant to first derive the base numbers in terms of FY21 likely fiscal outcomes. This assessment can be done by using CGA's fiscal data for eight months covering April to November 2020. NSO's first advance estimates for FY21 GDP growth in real and nominal terms are at (-)7.7% and (-)4.2% respectively. The experience of the first half of FY21, the COVID year, shows that when nominal GDP contracted by (-)13.3%, center's GTR contracted at a faster pace of (-)21.6%.

As the rate of nominal GDP contraction slowed down, the contraction in center's GTR also slowed down noticeably. In 1QFY21, the nominal GDP and center's GTR contractions were at (-)22.6% and (-)32.6% respectively. In 2QFY21, their rates of contraction fell to (-)4.0% and (-)13.1% respectively. In 2HFY21, we expect the nominal GDP growth to turn positive. The implied 2HFY21 nominal GDP growth as per the advance estimates is at 4.3%. While we expect the rate of contraction in center's GTR to fall sharply, we do not expect it to turn positive for FY21 as a whole. Center's GTR contracted by (-)12.6% in the first eight months of FY21. We expect a positive growth in center's GTR in the remaining four-month period of FY21 relative to the corresponding period of the previous year. If this averages at about 9.5%, the year as a whole may show a GTR contraction of about (-)3.5% which would translate to an absolute amount of about INR19.4 lakh crores. As compared to the budgeted FY21 magnitude, there would be a significant contraction of close to (-)20% in center's GTR.

Centre's NTR and NDCR may also fall well short of their respective budgeted magnitudes. By November 2020, NTR were at INR1.2 lakh crores as against the budgeted magnitude of INR3.8 lakh crores. NDCR during the first eight months stood at INR18,141 crores as against the budgeted magnitude of INR2.25 lakh crores, showing significant underperformance as compared to the budget target. We expect some pick up in disinvestment activity as well as in NTR in the remaining four months of FY21. Spectrum sales have been announced to take off in March 2021. Stock prices are also buoyant. However, given the short time available to the center to get more mileage out of these sources, it may be possible to raise only limited amounts in the balance period available within the fiscal year.

During April to November 2020, center's TE, RE, and CE grew by 4.7%, 3.7% and 12.8% respectively. A substantial step up of this growth rate would need to be ensured in the remaining four months in order to achieve the estimated growth in the sector called 'public administration, defence and other services' in 2HFY21 at 3.3% from a contraction of (-)11.3% in 1HFY21. The government has already utilized nearly 90% of the announced borrowing program amounting to INR12 lakh crores. In order to finance a further growth in TE, fiscal deficit may have to be raised to 7% of GDP or above (Table 4). We assess that it may be possible for TE to grow by about 9 to 9.5% in FY21 over the actuals of FY20.

Table 4: Fiscal aggregates in FY21 and FY22: broad contours

Item	FY21 BE	FY21 estimated	FY22 projected	Difference between FY21 BE and estimated	Growth in FY22 projected over FY21 estimated
	INR lakh crores			%	
Gross tax revenues	24.2	19.4	22.4	-19.9	15.6
Net tax revenues	16.4	13.1	15.1	-19.9	15.6
Non-tax revenues	3.9	1.8	2.5	-54.5	42.9
Non-debt capital receipts	2.2	1.0	1.5	-55.5	50.0
Fiscal deficit	8.0	13.6	13.2	70.4	-2.4
Total expenditure	30.4	29.4	32.4	-3.3	10.1
% to nominal GDP				*% points*	
Gross tax revenues	10.8	10.0	10.2	-0.8	0.2
Net tax revenues	7.3	6.7	6.9	-0.5	0.2
Non-tax revenues	1.7	0.9	1.1	-0.8	0.2
Non-debt capital receipts	1.0	0.5	0.7	-0.5	0.2
Fiscal deficit	3.5	7.0	6.0	3.4	-1.0
Total expenditure	13.5	15.1	14.7	1.6	-0.4
Memo				%	
Nominal GDP	224.9	194.8	220.1	-13.4	13.0

Source (basic data): CGA, Union Budget FY21, MoSPI

In the FY22 Budget, the level of government expenditure and its sectoral composition would be critical for supporting growth. The level of expenditure would depend on tax revenue growth, prospects of NTR and NDCR, and fiscal deficit. It is also important to prioritize capital expenditure. With the Report of the Fifteenth Finance Commission available to the government, a new fiscal consolidation roadmap may be spelt out. In any case, in FY22, fiscal deficit would have to be kept in the range of 6-7% of GDP in order to ensure a real growth rate of about 8% or above. This may imply a nominal growth rate of 11.5% or above.

As discussed in Section 4, policy observers are suggesting feasible nominal growth rate for FY22 in the range of 11-15.5%. Considering the mid-point of this range at about 13%, the level of tax revenues has been assessed, by applying a buoyancy of 1.2, at INR INR22.4 lakh crores[8], showing a growth of 15.6% over the FY21 estimated level. Further, a significant improvement in NTR and NDCR is also being expected since it would be feasible to re-activate the disinvestment program and monetize some of the government assets.

Keeping fiscal deficit at 6% of GDP or marginally above in FY22 (Table 4), it may be possible to target a growth of 10% plus in center's TE over estimated expenditure of FY21. CE may be targeted to increase at, say, 20%. It is useful to recall that in response to the 2008 crisis, fiscal deficit was raised in two successive years namely, FY09 and FY10 to 6.1% and 6.6% of GDP respectively. In fact, in the four-year period covering FY09 to FY12, fiscal deficit relative to GDP averaged 5.9% (Phase 2 of Chart 23). The FY21 COVID crisis is a more serious crisis. It is justified now to come up with a new fiscal consolidation roadmap. It is also important to review the progress of the National Infrastructure Pipeline (NIP) as the economy emerges out of the COVID's shadow. The budget may clearly state the required investment by all the participating entities in financing the NIP namely, the central and state governments, the central and state public sector enterprises, and the private sector.

Conclusion

FY21 was way out of line in the context of longer-term fiscal trends both in relation to receipts and expenditure sides of center's budget. In this write-up, we have examined center's fiscal position in the perspective of longer-term fiscal trends covering the period from FY01 to FY20. Center's GTR have fallen on trend basis during FY08 to FY20. This kind of fall on trend basis was also reflected in center's aggregate receipts consisting of net tax revenues, non-tax revenues and non-debt capital receipts. Central government expenditures also fell on trend basis since the fall in the receipts was not made up by an increase in fiscal deficit as the central government had subjected itself to the FRBMA. FY21 shows a significant dip along the falling trend line in the receipts and expenditure side parameters of the central government. Center's GTR is expected to contract for the second successive year in FY21. Center's non-tax revenues and non-debt capital receipts have also fallen well below their corresponding budget estimates. Given these lower receipts, fiscal deficit may have to be kept at a relatively high level, at say about 7% of GDP, to ensure that government expenditures do not fall in line with the fall in receipts so as to support growth. We expect a new fiscal consolidation roadmap and a new growth trajectory to be drawn up in the upcoming FY22 budget.

[8] https://www.thehindubusinessline.com/opinion/govt-must-raise-spending-to-boost-growth/article33570087.ece?homepage=true

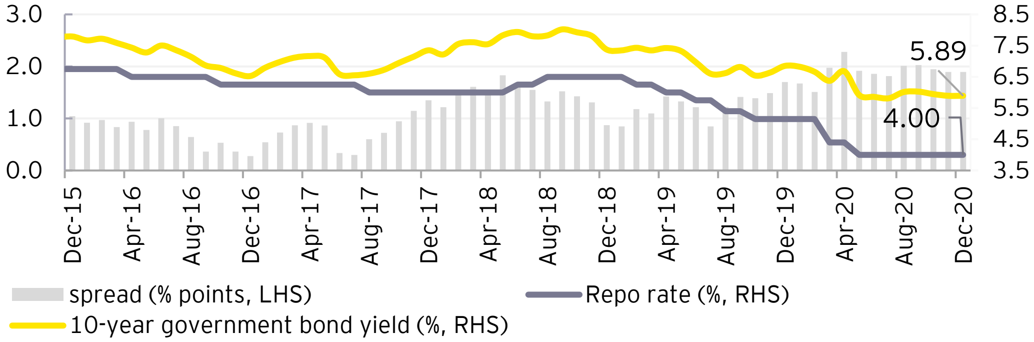
6. Money and finance: growth in bank credit increased to 5.8% in November 2020

A. Monetary sector

Monetary policy

- After having aggressively lowered the repo rate by 115 basis points between February and May 2020, the RBI has retained the repo rate at 4.0% till date as CPI inflation has remained elevated **(Chart 24).** As per the RBI, the factors that were responsible for keeping CPI inflation above the upper limit of the inflation target range include supply side disruptions, elevated taxes on petroleum products by both center and states, a sharp increase in international commodity prices and high retail margins.
- In RBI's assessment, the arrival of winter crops, particularly vegetable crops, and gradual restoration of supply side issues may lead to a moderation in CPI inflation in the coming months. In addition, bumper kharif arrivals and a favorable rabi sowing is expected to keep prices of cereals under check.

Chart 24: Movements in the repo rate and 10-year government bond yield



Source: Database on Indian Economy, RBI

Bank credit grew by 5.8% in November 2020, improving from 5.1% in October 2020.

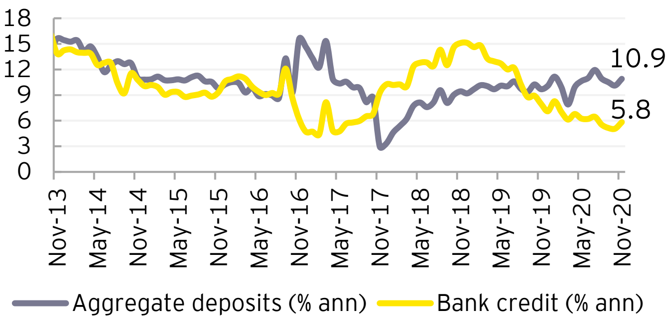
Money stock

- Growth in broad money stock (M3) was at 12.5% in December 2020, similar to the level in November 2020. Time deposits grew by 10.3% in December 2020, marginally lower than 10.6% in November 2020.
- Growth in narrow money (M1) increased to 19.6% in December 2020 as compared to 19.0% in November 2020 due to an increase in the growth of currency in circulation and demand deposits. Currency in circulation and demand deposits continued to post a double-digit growth of 22.3% and 14.6% respectively in December 2020 as compared to 22.2% and 12.8% respectively in November 2020.

Aggregate credit and deposits

- Growth in bank credit increased to 5.8% in November 2020 from 5.1% in October 2020 (**Chart 25**).
- Non-food credit grew by 6.0% in November 2020, increasing from 5.6% in October 2020.
- Among the sectoral deployment of bank credit[9], outstanding credit to industry contracted for the second consecutive month although at a slower pace of (-)0.7% in November 2020 as compared to (-)1.7% in October 2020. Within the industrial sector, credit to infrastructure contracted by (-)1.8% in November 2020, marginally lower than (-)2.0% in October 2020. Credit to iron and steel sector contracted for the fifth successive month by (-)7.7% and credit to cement sector contracted for the fourth consecutive month by (-)2.2% in November 2020.

Chart 25: Growth in credit and deposits



Source: Database on Indian Economy, RBI

[9] As per RBI, data on sectoral deployment of bank credit collected from select 33 scheduled commercial banks accounts for about 90 per cent of the total non-food credit deployed by all scheduled commercial banks

- Credit growth to the services sector fell marginally to 8.8% in November 2020 as compared to 9.5% in October 2020 while credit growth to agricultural sector increased to a 17-month high of 8.5% in November 2020 from 7.4% in October 2020.
- Growth in personal loans, a key driver of retail loans, increased to 10.0% in November 2020 from 9.3% in October 2020.
- Growth in aggregate bank deposits increased to 10.9% in November 2020 from 10.1% in October 2020. This was led by an improvement in the growth of both demand and time deposits to 13.5% and 10.6% respectively in November 2020 from 10.6% and 10.1% respectively in October 2020.

B. Financial sector

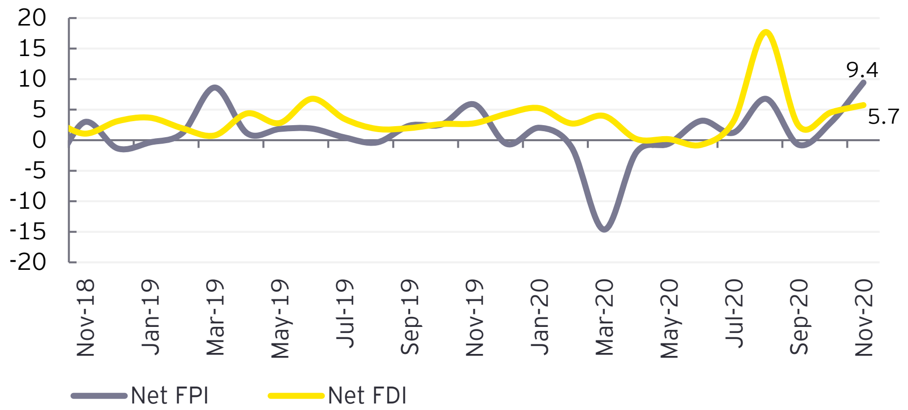
Interest rates

- As per the data released by the RBI on 15 January 2021, interest rates offered by commercial banks on term deposits with a maturity of more than one year averaged 5.20% for the second consecutive month in December 2020 (ranging from 4.90% to 5.50%).
- The MCLR has fallen gradually from 7.74% in January 2020 to 6.84% in December 2020, a fall of only 90 basis points. On the contrary, interest rate on term deposits with a maturity of more than one year fell by 233 basis points during the same period.
- The average yield on 10-year government bond remained at 5.89% in December 2020 for the second consecutive month. Despite RBI's continued interventions, benchmark bonds yields remained at the same level on average. Further, the spread between benchmark bond yield and the repo rate continued to be sticky at around 196 basis points on average during April 2020 to December 2020 as compared to an average of 134 basis points during the corresponding period of previous year **(Chart 24)**.
- WALR on fresh rupee loans by SCBs fell marginally to 8.32% in November 2020 from 8.38% in October 2020. WALR has fallen by a cumulated 104 basis points since January 2020 as compared to a reduction of 115 basis points in repo rate indicating a transmission rate of 90.4%.

FDI and FPI

- As per the provisional data released by the RBI on 21 January 2021, the overall foreign investment inflows (FIIs = net FDIs plus net FPIs) increased sharply to US$15.2 billion in November 2020 from US$7.5 billion in October 2020.

Chart 26: Net FDI and FPI inflows (US$ billion)



Source: Database on Indian Economy, RBI

FDI inflows increased to a three-month high of US$5.7 billion while FPIs recorded its highest monthly net inflows of US$9.4 billion in November 2020.

- Net FDI inflows increased to US$5.7 billion in November 2020 from US$4.6 billion in October 2020 (**Chart 26**). Gross FDI inflows were at US$10.2 billion in November 2020, increasing from US$6.8 billion in October 2020.
- Foreign Portfolio investments (FPIs) recorded its highest monthly net inflows amounting to US$9.4 billion in November 2020 as compared to US$2.9 billion in October 2020.

7. Trade and CAB: growth in merchandise exports turned positive at 0.1% in December 2020

A. CAB: current account posted a surplus of 2.4% of GDP in 2QFY21

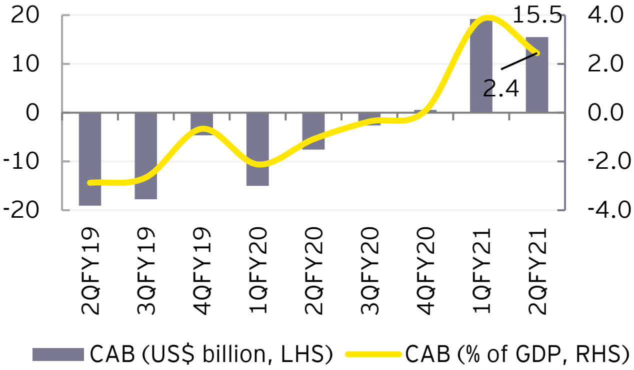
- Current account recorded a surplus for the second consecutive quarter at 2.4% of GDP in 2QFY21 as compared to 3.8% in 1QFY21 **(Chart 27).** Net merchandise trade deficit was at 2.3% of GDP in 2QFY21, marginally higher than 2.1% in 1QFY21 (**Table 5**). Merchandise exports relative to GDP improved to a six-quarter high of 11.9% in 2QFY21 from 10.4% in 1QFY21. Merchandise imports relative to GDP were at 14.2% in 2QFY21 as compared to 12.6% in 1QFY21. Net invisible receipts fell to 4.8% of GDP in 2QFY21 from 6.0% in 1QFY21 reflecting the moderation in net service exports to 3.3% of GDP.

Table 5: Components of CAB in US$ billion

Fiscal year	CAB as % of nominal GDP	CAB	Goods account net	Invisibles* net
FY17	-0.7	-15.3	-112.4	67.5
FY18	-1.8	-48.7	-160.0	77.6
FY19	-2.1	-57.3	-180.3	81.9
FY20	-0.9	-24.7	-157.5	84.9
3QFY20	-0.4	-2.6	-36.0	21.9
4QFY20	0.1	0.6	-35.0	22.0
1QFY21	3.8	19.2	-10.8	20.5
2QFY21	2.4	15.5	-14.8	21.2

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

Chart 27: CAB



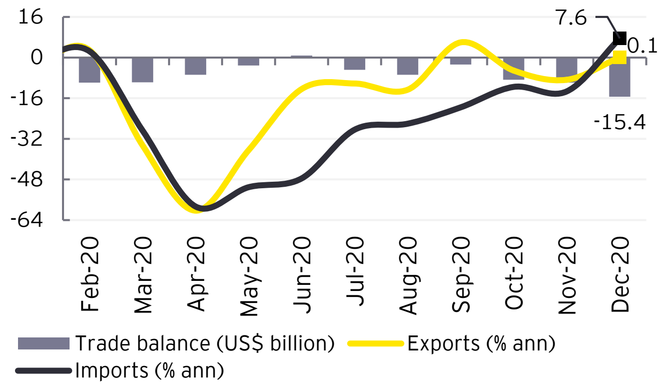
Source: Database on Indian Economy, RBI

B. Merchandise trade and exchange rate

Growth in merchandise exports and imports turned positive at 0.1% and 7.6% respectively in December 2020 after nine successive months of contraction, partly due to higher crude prices affecting imports relatively more than exports.

- Merchandise exports grew by 0.1% in December 2020 as compared to (-)8.7% in November 2020, led by a slowdown in contraction in oil exports **(Chart 28)**.
- Contraction in oil exports slowed to (-)35.4% in December 2020 from (-)59.7% in November 2020.
- Non-oil non-gold exports grew by 5.5% in December 2020 as compared to (-)0.4% in November 2020 led by growth in engineering goods and organic and inorganic chemicals.
- Merchandise imports grew by 7.6% in December 2020 as compared to a contraction of (-)13.3% in November 2020. Contraction in oil imports fell to (-)10.6% from (-)43.4% over the same period.
- Imports excluding oil, gold and jewelry grew for the first time in 17 months by 8.0% in December 2020.

Chart 28: Developments in merchandise trade



Source: Ministry of Commerce and Industry, GoI

- Out of the 30 sectors for which exports and imports data is provided, 10 sectors in each case experienced a contraction in December 2020 as compared to 11 and 19 sectors, respectively, in November 2020.
- Merchandise trade deficit rose to a 25-month high of US$15.4 billion in December 2020.
- The rupee appreciated marginally to INR73.6 per US$ in December 2020 from an average level of INR74.2 per US$ in November 2020.

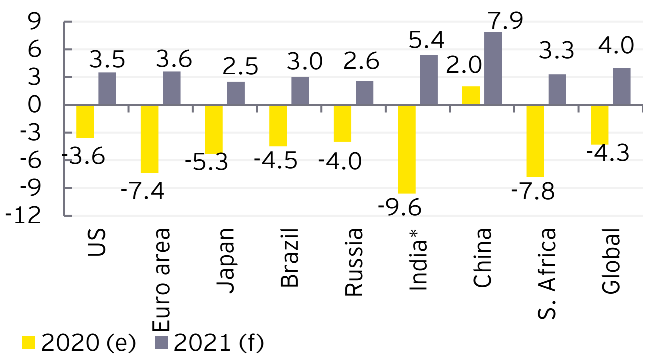
8. Global growth: World Bank projected a global contraction of (-)3.6% in 2020

A. Global growth outlook

The World Bank estimated a global contraction of (-)3.6% in 2020 followed by a recovery of 4.0% in 2021.

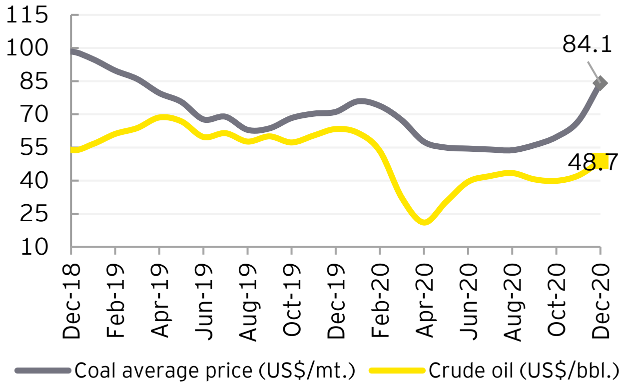
- The World Bank (Global Economic Prospects, January 2021) estimated a global contraction of (-)3.6% in 2020. GDP contraction is estimated to be sharper at (-)5.4% for AEs (due to the occurrence of second wave of COVID) as compared to (-)2.6% for EMDEs (due to a faster than expected recovery in China) (**Chart 29**).
- Global growth is forecasted to recover to 4.0% in 2021 with AEs growing by 3.3% and EMDEs by 5.0%. These projections assume proper pandemic management and effective vaccination limiting the community spread of COVID, as well as continued monetary policy accommodation. However, the level of global GDP in 2021 is forecasted to be 5.3% below pre-pandemic projections for this year.
- In the US, a contraction of (-)3.6% is estimated for 2020 followed by a growth of 3.5% in 2021. Activity is expected to strengthen in the second half of 2020 and firm further in 2021 as improved COVID management, aided by ongoing vaccination is likely to ease the pandemic-control measures.
- A contraction of (-)7.4% in 2020 is estimated for the Euro area due to the resurgence of COVID in many member countries. Growth is expected to recover to 3.6% in 2021 helped by an initial vaccine roll-out, and rising external demand, particularly from China.
- India is estimated to contract by (-)9.6% reflecting a sharp fall in household spending and private investment. The pandemic disproportionately affected activity in the services sector. Growth is forecasted to recover to 5.4% in 2021 as rebound from a low base is offset by subdued private investment growth given financial sector weaknesses.
- China is estimated to grow by 2.0% in 2020 enabled by effective control of the pandemic and public investment led stimulus. Growth is projected to increase sharply to 7.9% in 2021.

Chart 29: Global growth projections (%)



Source: Global Economic Prospects, World Bank, January 2021
(e): estimated, (f): forecasted; *data for India pertains to fiscal year

Chart 30: Global crude and coal prices



Source (basic data): World Bank, Pink Sheet, January 2021

B. Global energy prices: global crude price increased to a 10-month high of US$48.7/bbl. in December 2020

- Average global crude price[10] increased to a 10-month high of US$48.7/bbl. in December 2020 (**Chart 30**) due to the OPEC+ agreement on supply cuts and buoyant demand from Asia. Global crude price averaged US$43.6/bbl. in 3QFY21, increasing from US$42.0/bbl. in 2QFY21.
- Average global coal price[11] increased sharply to a 21-month high of US$84.1/mt. in December 2020. This was due to a strong Asian demand owing to the region's economic recovery and the winter season, and tight global supplies brought about by China's import of non-Australian coal[12].

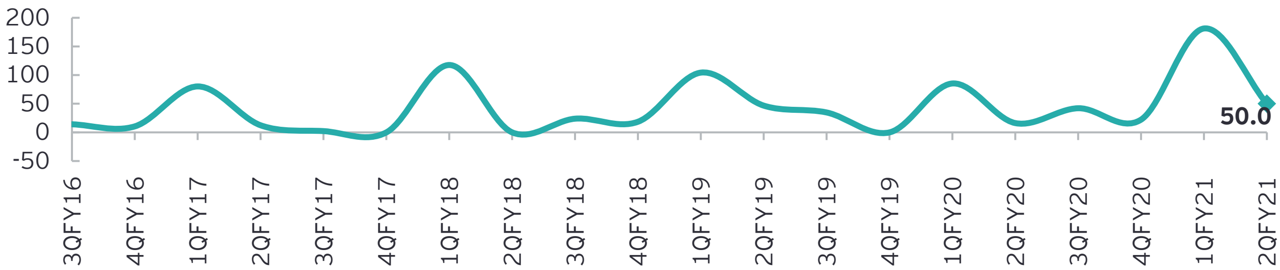
[10] Simple average of three spot prices, namely, Dated Brent, West Texas Intermediate and Dubai Fateh
[11] Simple average of Australian and South African coal prices
[12] https://www.ft.com/content/ceffdada-e4bb-4ef1-99cc-c9713d729de9, https://www.miningweekly.com/article/end-of-year-thermal-coal-price-rally-to-run-out-of-steam-in-early-2021-2020-12-16

9. Index of macro imbalance (IMI): pointed to an improvement in macro balance in 2QFY21

IMI fell to 50.0 in 2QFY21 from 181.4 in 1QFY21

- The IMI is obtained by adding the percentage deviation of inflation rate (based on new CPI 2012 = 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%[13] of GDP. 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.
- IMI pointed to an improvement in the macro balance with the index value falling sharply to 50.0 in 2QFY21 from 181.4 in 1QFY21 (**Chart 31**). This may be attributable to both a relatively lower fiscal deficit in 2QFY21 at 5.3% of GDP as compared to 17.4% in 1QFY21, and a surplus on the current account at 2.4% of GDP in 2QFY21. However, CPI inflation was higher at 6.9% in 2QFY21 as compared to 6.6% in 1QFY21.

Chart 31: IMI (quarterly)



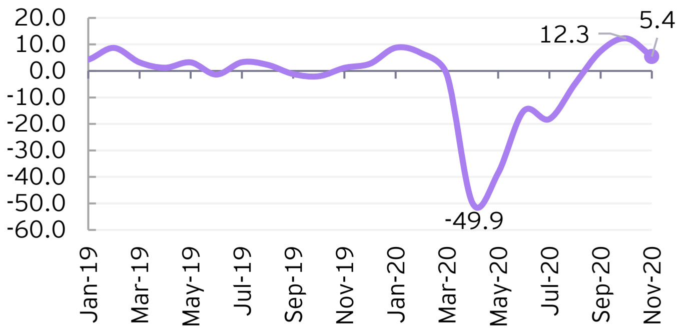
Source (Basic data): RBI, MoSPI and EY estimate

10. Index of aggregate demand (IAD): showed slowing demand in November 2020

IAD grew at a slower pace of 5.4% in November 2020

- Growth in IAD moderated to 5.4% in November 2020 from 12.3% in October 2020 indicating a slowdown in demand. **(Chart 32).**
- Demand conditions in both industrial and services sectors moderated sharply in November 2020. In the agricultural sector, however, demand conditions showed some improvement during the month.

Chart 32: growth in IAD (y-o-y)



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

[13] 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							
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
FY20	-0.8	1.6	-1.4	0.9	0.4	FY20	52.3	51.9
3QFY20	-1.4	0.0	-1.1	-6.0	-0.6	4QFY20	53.9	54.1
4QFY20	-4.3	3.9	-6.3	1.6	-0.4	1QFY21	35.1	17.2
1QFY21	-35.6	-22.3	-40.3	-15.8	-23.8	2QFY21	51.6	41.9
2QFY21	-5.9	-7.0	-6.5	0.1	-5.0	3QFY21	57.2	53.4
Aug-20	-7.1	-8.7	-7.6	-1.8	-6.9	Sep-20	56.8	49.8
Sep-20	0.5	1.4	-0.2	4.9	-0.1	Oct-20	58.9	54.1
Oct-20	4.2	-1.3	4.1	11.2	-0.9	Nov-20	56.3	53.7
Nov-20	-1.9	-7.3	-1.7	3.5	-2.6	Dec-20	56.4	52.3

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				
FY17	4.5	4.2	3.3	4.9	1.7	5.9	1.3	-0.3	-0.1
FY18	3.6	1.8	6.2	4.6	2.9	1.9	2.7	8.2	3.0
FY19	3.4	0.1	5.7	5.5	4.3	0.6	3.7	11.5	4.2
FY20	4.8	6.7	1.3	3.8	1.7	6.9	0.3	-1.8	-0.4
4QFY20	6.7	11.1	5.5	3.8	2.1	7.5	0.5	1.8	-0.7
1QFY21	6.6	9.9	1.7	4.9	-2.3	3.4	0.0	-17.4	-1.0
2QFY21	6.9	9.7	2.9	5.4	0.5	5.5	1.3	-9.2	0.5
3QFY21	6.4	7.9	2.3	5.7	1.4	3.8	3.1	-9.9	2.8
Sep-20	7.3	10.7	2.8	5.3	1.3	7.2	1.9	-8.6	1.3
Oct-20	7.6	11.0	2.1	5.8	1.3	6.2	2.2	-11.1	1.8
Nov-20	6.9	9.5	1.6	5.7	1.6	4.3	3.0	-9.9	2.6
Dec-20	4.6	3.4	3.0	5.7	1.2	0.9	4.2	-8.7	4.1

Source: Office of the Economic Adviser, Ministry of Commerce and Industry and MoSPI
* The CPI for April and May 2020 has been imputed

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 (CGA)	-3.4	-16.1	4.0	-7.8	1.7	4.6	3.3
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	
Apr-20	-44.3	57.7	-32.1	-10.8	-69.9	35.1	41.3
May-20	-41.2	1408.1	-41.0	-14.6	-52.5	58.6	67.6
Jun-20	-32.6	-23.3	-35.9	-30.6	-34.5	83.2	94.8
Jul-20	-29.5	-39.2	-29.1	-33.2	-27.5	103.1	117.4
Aug-20	-23.7	-41.8	-28.9	-34.1	-16.5	109.3	121.9
Sep-20	-21.6	-39.7	-21.8	-31.4	-12.0	114.8	125.2
Oct-20	-16.8	-36.7	-16.9	-27.3	-7.0	119.7	126.8
Nov-20	-12.6	-35.7	-12.3	-24.4	-2.4	135.1	139.9

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)					
Apr-20	5,934	34	9,749	990	16,707
May-20	18,961	107	9,643	6,020	34,731
Jun-20	30,152	154	9,672	7,472	47,450
Jul-20	37,902	224	-6,026	6,816	38,916
Aug-20	32,359	191	5,198	6,856	44,604
Sep-20	37,171	243	-290	6,810	43,934
Oct-20	42,901	136	192	7,840	51,069
Nov-20	39,803	132	7,612	8,029	55,576

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

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

Fiscal year/ month	Repo rate (end of period)	Fiscal year/ quarter/ month	Bank credit	Agg. deposits	Net FDI	Net FPI	Fiscal year/ quarter/ month	M1	M3	10-year govt. bond yield	FX reserves
	%		% change y-o-y		US$ billion			% change y-o-y		%	US$ billion
Jan-20	5.15	FY17	7.9	11.6	35.6	7.6	FY17	3.1	10.1	7.03	370.0
Feb-20	5.15	FY18	7.5	7.5	30.3	22.1	FY18	21.8	9.2	7.05	424.4
Mar-20	4.40	FY19	13.7	8.9	30.7	-0.6	FY19	13.6	10.5	7.68	411.9
Apr-20	4.40	FY20	9.4	9.9	43.0	1.4	FY20	11.2	8.9	6.80	475.6
May-20	4.00	3QFY20	8.0	10.0	9.7	7.8	4QFY20	11.2	8.9	6.62	457.5
Jun-20	4.00	4QFY20	7.1	9.6	12.0	-13.7	1QFY21	17.7	12.3	6.15	475.6
Jul-20	4.00	1QFY20	6.4	10.5	-0.4	0.6	2QFY21	18.6	12.2	5.95	506.8
Aug-20	4.00	2QFY20	5.7	11.1	23.3	7.3	3QFY21	19.6	12.5	5.91	580.8
Sep-20	4.00	Aug-20	5.5	10.9	17.7	6.8	Sep-20	18.6	12.2	6.03	542.0
Oct-20	4.00	Sep-20	5.1	10.5	2.4	-0.7	Oct-20	16.8	11.6	5.95	560.7
Nov-20	4.00	Oct-20	5.1	10.1	4.6	2.9	Nov-20	19.0	12.5	5.89	574.8
Dec-20	4.00	Nov-20	5.8	10.9	5.7	9.4	Dec-20	19.6	12.5	5.89	580.8

Source: Database on Indian Economy - RBI

Table A5: external trade and global growth

External trade indicators (annual, quarterly and monthly growth rates)							Global growth (annual)			
Fiscal year/ quarter/ month	Exports	Imports	Trade balance	Ex. rate (avg.)	Crude prices (avg.)	Coal prices (avg.)	Calendar year	World GDP	Adv. econ.	Emer. econ.
	% change y-o-y		US$ billion	INR/US$	US$/bbl.	US$/mt		% change y-o-y		
FY17	5.1	0.9	-108.2	67.1	47.9	73.0	2010	5.4	3.1	7.4
FY18	10.6	20.9	-159.0	64.5	55.7	90.8	2011	4.3	1.8	6.4
FY19	8.6	10.6	-182.3	69.9	67.3	100.4	2012	3.5	1.2	5.4
FY20	-5.1	-8.3	-156.7	70.9	58.5	70.4	2013	3.5	1.4	5.1
4QFY20	-12.8	-9.8	-34.8	72.4	49.1	72.3	2014	3.5	2.1	4.7
1QFY21	-36.7	-52.4	-9.1	75.9	30.3	55.7	2015	3.4	2.4	4.3
2QFY21	-5.6	-24.8	-14.3	74.4	42.0	54.6	2016	3.3	1.8	4.5
3QFY21	-4.5	-5.6	-34.0	73.8	43.6	70.2	2017	3.8	2.5	4.8
Sep-20	6.0	-19.6	-2.7	73.5	40.6	56.0	2018	3.5	2.2	4.5
Oct-20	-5.1	-11.5	-8.7	73.5	39.9	59.7	2019	2.8	1.7	3.7
Nov-20	-8.7	-13.3	-9.9	74.2	42.3	66.9	2020*	-4.4	-5.8	-3.3
Dec-20	0.1	7.6	-15.4	73.6	48.7	84.1	2021*	5.2	3.9	6.0

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

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

Fiscal year/quarter	Output: Major sectors									IPD inflation
	GVA	Agr.	Ming.	Mfg.	Elec.	Cons.	Trans.	Fin.	Publ.	GVA
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 (PE)$	3.9	4.0	3.1	0.0	4.1	1.3	3.6	4.6	10.0	3.0
FY21(AE)#	-7.2	3.4	-12.4	-9.4	2.7	-12.6	-21.4	-0.8	-3.7	3.3
2QFY19	6.1	2.5	-7.0	5.6	9.9	5.2	7.8	6.5	8.9	4.7
3QFY19	5.6	2.0	-4.4	5.2	9.5	6.6	7.8	6.5	8.1	3.8
4QFY19	5.6	1.6	-4.8	2.1	5.5	6.0	6.9	8.7	11.6	3.7
1QFY20	4.8	3.0	4.7	3.0	8.8	5.2	3.5	6.0	7.7	3.1
2QFY20	4.3	3.5	-1.1	-0.6	3.9	2.6	4.1	6.0	10.9	1.8
3QFY20	3.5	3.6	2.2	-0.8	-0.7	0.0	4.3	3.3	10.9	3.4
4QFY20	3.0	5.9	5.2	-1.4	4.5	-2.2	2.6	2.4	10.1	3.7
1QFY21	-22.8	3.4	-23.3	-39.3	-7.0	-50.3	-47.0	-5.3	-10.3	2.9
2QFY21	-7.0	3.4	-9.1	0.6	4.4	-8.6	-15.6	-8.1	-12.2	3.1

Source: National Accounts Statistics, MoSPI
$ Growth numbers for FY20 are based on the provisional estimates of NAS released by the MoSPI on 29 May 2020 over the first revised estimates (RE) of NAS for FY19 released by the MoSPI on 31 January 2020, #FY21 growth numbers are based on advance estimates released on 7 January 2021.

Fiscal year/quarter	Expenditure components						IPD inflation
	GDP	PFCE	GFCE	GFCF	EX	IM	GDP
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 (PE)$	4.2	5.3	11.8	-2.8	-3.6	-6.8	2.9
FY21 (AE)#	-7.7	-9.5	5.8	-14.5	-8.3	-20.5	3.8
2QFY19	6.2	8.8	10.8	11.5	12.5	18.7	4.9
3QFY19	5.6	7.0	7.0	11.4	15.8	10.0	5.5
4QFY19	5.7	6.2	14.4	4.4	11.6	0.8	2.1
1QFY20	5.2	5.5	6.2	4.6	3.2	2.1	2.7
2QFY20	4.4	6.4	14.2	-3.9	-2.2	-9.4	1.4
3QFY20	4.1	6.6	13.4	-5.2	-6.1	-12.4	3.2
4QFY20	3.1	2.7	13.6	-6.5	-8.5	-7.0	4.3
1QFY21	-23.9	-26.7	16.4	-47.1	-19.8	-40.4	1.8
2QFY21	-7.5	-11.3	-22.2	-7.3	-1.5	-17.2	3.8

Source: National Accounts Statistics, MoSPI
$Growth numbers for FY20 are based on the provisional estimates of NAS released by the MoSPI on 29 May 2020 over the first revised estimates (RE) of NAS for FY19 released by the MoSPI on 31 January 2020. #FY21 growth numbers are based on advance estimates released on 7 January 2021.

List of abbreviations

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

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

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