

Economy Watch

Monitoring India's
macro-fiscal performance

July 2020



Building a better
working world

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Highlights

1. PMI manufacturing at 47.2 in June 2020 was close to the benchmark of 50 reflecting recovery during the month although still indicating a contraction.
2. CPI inflation was at 6.1% in June 2020, thereby crossing the upper tolerance limit of the monetary policy framework.
3. Center's capital expenditure grew by 15.7% during April-May FY21 as compared to a contraction of (-)25.2% during the corresponding period of FY20, thereby indicating a frontloading of capital expenditure.
4. Center's fiscal deficit during April-May FY21 stood at 58.6% of the annual budgeted target.
5. In May 2020 and in the first fortnight of June 2020, growth in bank credit remained low but positive at 6.2%.
6. Merchandise exports and imports contracted by (-)12.4% and (-)47.6% respectively in June 2020 reflecting a sustained demand slowdown.
7. India's current account has posted a surplus of 0.1% of GDP in 4QFY20. A current account surplus has appeared after 51 quarters.
8. The IMF, in its June 2020 issue of World Economic Outlook, projected a global contraction of (-)4.9% in 2020.
9. Global crude prices, on a daily basis, crossed US\$40/bbl. in mid-July 2020. On 23 July 2020, these were at US\$42.9/bbl. (Brent) and US\$40.9/bbl. (WTI crude).



Foreword

Signs of green shoots amidst contractionary growth prospects

Many multilateral institutions and rating agencies have revised India's FY21 GDP growth forecast taking it from a positive territory to a sharp contraction zone. India's FY21 growth projections range from (-)3.2% (World Bank) to (-)9.5% (ICRA). The IMF projected India's FY21 GDP to contract by (-)4.5%. This is only marginally better than IMF's projection of a global contraction of (-)4.9% for 2020. The sharp downward revision in India's growth by various national and international agencies indicates the deleterious impact of the lockdown. Anticipating this, the Government of India had already embarked upon significant monetary and fiscal stimuli from March 2020. These stimuli measures are beginning to show positive impact as reflected by some high frequency indicators.

High frequency indicators of economic activities have been showing signs of green shoots particularly in the month of June 2020. PMI manufacturing at 47.2 in June 2020 showed a significant increase compared to its level at 30.8 in May 2020. The level of 47.2 is encouragingly close to the benchmark level of 50. GST collections in June 2020 rose to INR90,917 crores, which again, is close to the expected monthly benchmark of INR1,00,000 crores. Contraction in power consumption eased to (-)9.8% in June 2020 as compared to (-)15.9% in May 2020. There is a consistent improvement on monthly basis, in the consumption of petrol and diesel even though these have not normalized as yet. In June 2020, petrol consumption showed a reduced rate of contraction at (-)13.6% as compared to (-)35.3% in May 2020. Similarly, with respect to diesel consumption also, there was a reduction in the pace of contraction from (-)29.4% in May 2020 to (-)15.4% in June 2020. IIP also improved to a level of 88.4 in May 2020, increasing from 53.6 in April 2020. Center's capital expenditure grew by 15.7% during April-May FY21 as compared to a contraction of (-)25.2% during the corresponding period of FY20. This frontloading of government's capital expenditure augers well for the National Infrastructure Pipeline (NIP). Credit growth has remained positive but subdued at 6.1% in the fortnight ending 3 July 2020. Contraction in merchandise exports eased significantly to (-)12.4% in June 2020 from (-)36.5% in May 2020. A merchandise trade surplus was also observed for the first time in more than 18 years at US\$0.8 billion in June 2020. FPI inflows increased to US\$3.4 billion in June 2020 as compared to outflows of US\$1.0 billion in May 2020. Foreign exchange reserves peaked at US\$517 billion as on 19 July 2020, rising from US\$506 billion as on 26 June 2020.

CPI data released on 13 July 2020 showed an inflation rate of 6.1% in June 2020. The overall CPI inflation rate was not reported for the months of April and May 2020. Recalling that CPI inflation rate was in excess of the prescribed upper tolerance limit of 6% in the months also of December 2019, January and February 2020 respectively at 7.4%, 7.6% and 6.6%, it is clear that the monetary policy framework has been breached in the COVID period and some months preceding it. The center's Fiscal Responsibility and Budget Management Act (FRBMA) threshold for fiscal deficit is also likely to be breached in FY21 with the center's estimated fiscal deficit at 5.6% or above of the estimated GDP. These exceptions may well be justified given the extraordinary situation created by the global pandemic. These also point to weaknesses in the monetary and fiscal policy frameworks since these were not designed to cope with such structural economic breaks as posed by a calamity like COVID-19.

The European Council recently agreed to initiate a 'Next Generation EU recovery fund', amounting to €750 billion (US\$886.4 billion). This large stimulus package would augment demand and liquidity in the global context. In India's case also, an additional fiscal stimulus has been implemented with the central government extending its existing PM Garib Kalyan Anna Yojana up to November 2020 from its earlier applicability until June 2020. This involves an additional expenditure amounting to INR90,000 crores, taking the overall size of the scheme to INR1.5 lakh crore from its earlier envisaged level of INR60,000 crores. This takes the size of fiscal stimulus based on budgetary resources to about 1.4% of estimated FY21 GDP*.

One important issue concerning both the central and state governments relates to taxation of petroleum (PoL) products that have remained outside GST. Governments at both levels have been increasing the non-GST taxes on PoL products under their respective control leading to high retail prices even as global crude prices remain low. This issue is discussed at length in this month's *In Focus* entitled, *Trends in petroleum retail prices: sharing of revenue space between center and states*.

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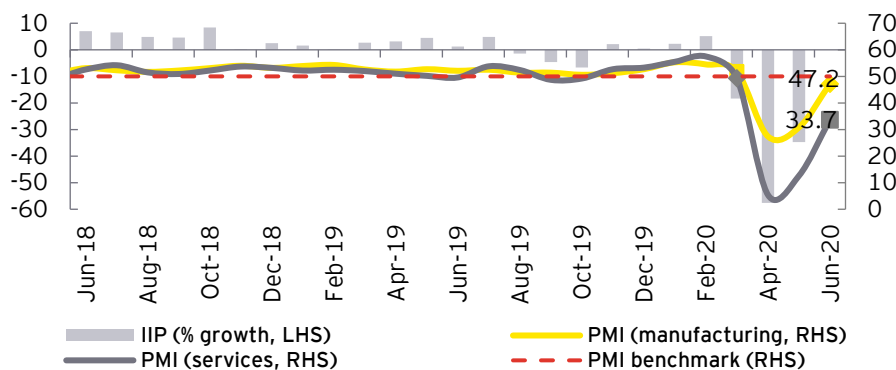
* In-Focus section titled 'Deciphering India's stimulus package: the sum and fiscal substance', EY Economy Watch, May 2020

1. Growth: IIP contracted by (-)34.7% in May 2020

A. IIP: the index value increased to 88.4 points in May 2020 from 53.60 in April 2020

- ▶ The nationwide lockdown since end-March 2020 and the subsequent periods of conditional relaxations have had an adverse impact on the output of industrial sector as also the compilation of related data. As per the quick estimates of IIP for May 2020 released by MoSPI on 10 July 2020¹, IIP showed a contraction of (-)34.7% in May 2020, lower than (-)57.6% (revised) in April 2020² (**Chart 1**).
- ▶ Output of all the three sub-sectors contracted for the third consecutive month. Output of manufacturing and mining sectors declined by (-)39.3% and (-)21.0% respectively in May 2020 as compared to (-)67.1% (revised) and (-)27.0% (revised) respectively in April 2020. Electricity sector output also declined by (-)15.4% in May 2020 as compared to (-)23.0% in April 2020 (Table A1 in data appendix).
- ▶ Output of capital goods and consumer durables declined sharply by (-)64.3% and (-)68.5% respectively in May 2020 as compared to (-)92.6% and (-)96.0% respectively in April 2020. Output of consumer non-durables declined at a slower pace of (-)11.1% in May 2020 as compared to (-)48.7% in April 2020.
- ▶ Output of eight core infrastructure industries (core IIP) contracted by (-)23.4% in May 2020 as compared to (-)37.0% (revised) in April 2020. Output of all eight sub-industries contracted for the second consecutive month in May 2020. The decline continued to be sharp in steel ((-)48.4%), cement ((-)22.2%), petroleum refinery products ((-)21.3%) and electricity ((-)15.6%).

Chart 1: IIP growth and PMI



IIP contracted for the third consecutive month by (-)34.7% in May 2020 as compared to (-)57.6% in April 2020.

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

B. PMI signaled a slower pace of contraction in manufacturing and services in June 2020

- ▶ Headline manufacturing PMI (seasonally adjusted (sa)) increased to 47.2 in June 2020 from 30.8 in May 2020 (**Chart 1**). Despite the increase, the latest index value pointed to the third successive month of contraction in manufacturing activity although at a slower pace as compared to that in April and May 2020.
- ▶ PMI services increased to 33.7 in June 2020 from 12.6 in May 2020, although remaining lower than 50 for the fourth successive month in June 2020.
- ▶ Reflecting a slower pace of contraction in private sector output, the composite PMI Output Index (sa) increased to 37.8 in June 2020, up from 14.8 in May 2020.

In June 2020, both PMI manufacturing and services contracted but at a slower pace as compared to April and May 2020. PMI manufacturing at 47.2 was close to the benchmark level of 50.

¹ Quick estimates of IIP and use-based index for the month of May 2020 - <http://www.mospi.gov.in/sites/default/files/iip/iipMay20.pdf>

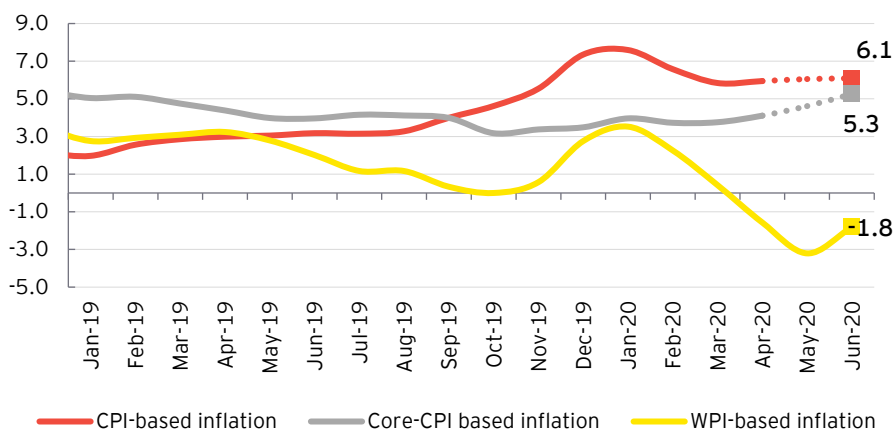
² As such, these index numbers are not strictly comparable with any of the previous months. The quick estimates of IIP for May 2020 was based on an improved response rate of 91% as compared to 87% in April 2020.

2. Inflation: CPI inflation at 6.1% in June 2020 breached the RBI's upper tolerance limit

CPI inflation remained high at 6.1% in June 2020 (Chart 2), as compared to a level of 5.8% in March 2020³, partly due to high food-based inflation and increasing fuel prices.

- ▶ Fuel and light-based inflation increased to 2.7% in June 2020 from 1.4% in May 2020 largely due to higher prices of LPG.
- ▶ Core CPI inflation⁴ was at an 18-month high of 5.3% in June 2020 mainly reflecting higher inflation in the transportation services and services related to education and personal care and effects.
- ▶ Inflation in transportation and communication services was at an 18-month high of 7.1% in June 2020 reflecting higher retail selling prices of petrol and diesel used for transportation.
- ▶ Housing-based inflation moderated to 3.5% in June 2020 from 3.7% in May 2020.
- ▶ Consumer food price inflation remained elevated at 7.9% in June 2020 although lower as compared to 9.3% in May 2020. Inflation in vegetables and fruits moderated to 1.9% and (-) 0.7% respectively from 5.3% and 2.1% respectively over the same period.

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



CPI based inflation was high at 6.1% in June 2020 due to a) high food-based inflation at 7.9%, b) rising fuel prices and c) high core CPI-based inflation at 5.3%.

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

Note: CPI and core CPI inflation have been interpolated using their respective data for the months of March and May 2020

The contraction in WPI was lower at (-)1.8% in June 2020 as compared to (-)3.2% in May 2020, partly due to lower pace of contraction in crude and mineral oils.

- ▶ Crude prices contracted for the fifth successive month, although at a slower pace of (-)41.5% in June 2020 as compared to (-)58.5% in May 2020.
- ▶ Contraction in fuel and power prices eased to (-)13.6% in June 2020 as compared to (-)19.8% in May 2020. This was led by a moderation in contraction in prices of diesel and naphtha to (-)25.1% and (-)34.9% respectively in June 2020 from (-)30.0% and (-)69.3% in May 2020.
- ▶ Wholesale food price inflation increased to 3.1% in June 2020 from 2.3% in May 2020 as contraction in fruits and vegetables prices reduced to (-)4.5% from (-)7.0% over the same period.
- ▶ Inflation in manufactured products turned positive at 0.1% in June 2020 from (-)0.4% in May 2020 led by a reduced pace of contraction in prices of manufactured basic metals at (-)4.4% as compared to (-)5.8% over the same period.
- ▶ Core WPI based inflation continued to contract for the twelfth successive month at (-) 0.8% in June 2020 as compared to (-) 1.3% in May 2020 indicative of a sustained domestic demand slowdown.

³ Headline CPI inflation data was not released for April and May 2020. Due to the nation-wide lockdown to contain the spread of COVID-19, price data of only select groups/sub-groups could be collected which was subsequently released by the government.

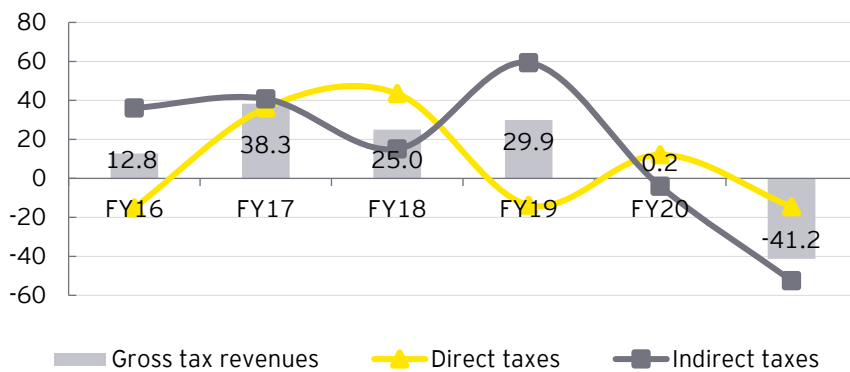
⁴ Core CPI inflation is measured in different ways by different organizations/agencies. Here, it has been calculated by excluding food, and fuel and light from the overall index.

3. Fiscal performance: fiscal deficit during April-May FY21 stood at 58.6% of the annual budgeted target

A. Tax and non-tax revenues

- ▶ As per the Comptroller General of Accounts (CGA)⁵, gross central taxes during April-May FY21 contracted sharply by (-)41.2% as compared to a subdued growth of 0.2% in April-May FY20 (**Chart 3**). Both direct and indirect taxes contracted on a y-o-y basis during the first two months of FY21.
- ▶ As a proportion of the annual budgeted target, gross taxes during April-May FY21 stood at 5.2% as compared to 8.7% in April-May FY20.
- ▶ Direct tax revenues contracted by (-)14.6% during April-May FY21 as compared to a growth of 12.1% during the corresponding period of FY20.
- ▶ Corporate tax revenues (CIT) showed an abnormally high growth during April-May FY21 as compared to a sharp contraction in the corresponding period of FY20 due to relatively low CIT refunds in May 2020 vis-à-vis May 2019.
- ▶ The initial months of a fiscal year are usually characterized by CIT refunds. Year-to-year variations in the magnitude of these refunds contribute significantly to the variation in revenues collected during April-May. Historically, CIT revenues have shown extremely high positive as well as negative growth rates on a y-o-y basis during April to May.
- ▶ Income tax revenues contracted by (-)41.0% during April-May FY21 as compared to a growth of 15.0% during the corresponding period of the previous year.
- ▶ Indirect taxes (comprising union excise duties, service tax, customs duty, CGST, UTGST, IGST⁶ and GST compensation cess) showed a sharp contraction of (-)52.5% during April-May FY21 as compared to a contraction of (-)4.0% during April-May FY20.

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



As per the CGA, center's gross taxes during April-May FY21 contracted sharply by (-)41.2% as compared to a growth of 0.2% in FY20. Both direct and indirect taxes contracted on a y-o-y basis during the first two months of FY21.

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

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

- ▶ Center's non-tax revenues showed a contraction of (-)61.9% during April-May FY21 as compared to a growth of 18.2% in the corresponding period of previous year. As a proportion of the annual budgeted target, non-tax revenues during April-May FY21 stood at 2.8% as compared to 9.1% in April-May FY20.
- ▶ The central government has so far not undertaken any disinvestment of its equity holdings in FY21. The FY21 target for disinvestment stands at INR2,10,000 crores.

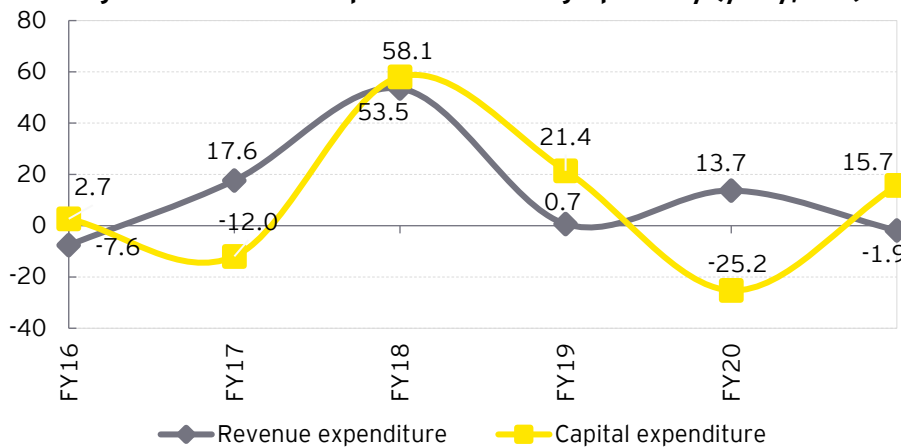
⁵ Monthly accounts for May 2020 released on 30 June 2020

⁶ IGST revenues are subject to final settlement

B. Expenditures: revenue and capital

- ▶ Center’s total expenditure during April-May FY21 contracted by (-)0.2% as compared to a growth of 8.5% during the corresponding period of FY20.
- ▶ As a proportion of the annual budgeted target, center’s total expenditure during April-May FY21 stood at 16.8% as compared to 18.4% during the corresponding period of FY20.
- ▶ Revenue expenditure contracted by (-)1.9% during April-May FY21 as compared to a growth of 13.7% during the corresponding period of FY20 (**Chart 4**).
- ▶ Center’s capital expenditure grew by 15.7% during April-May FY21 as compared to a contraction of (-)25.2% during the corresponding period of FY20. This indicates frontloading of capital expenditure by the central government. However, as percentage of budgeted capital expenditure, it was at 13.4% in April-May FY21 as compared to 14.1% in April-May FY20.

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



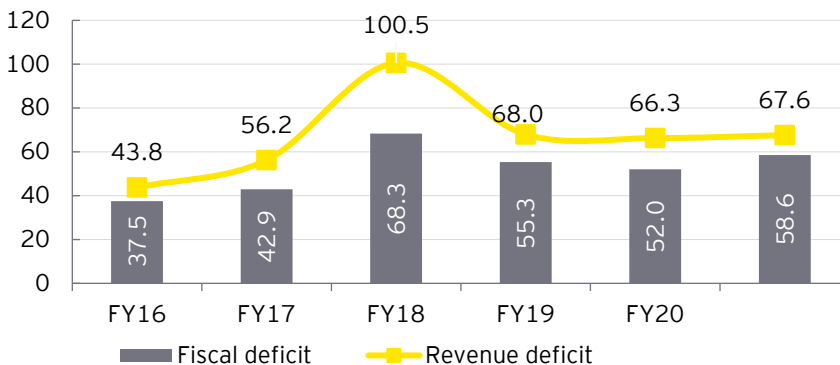
During April-May FY21, center’s revenue expenditure contracted by (-)1.9% while capital expenditure grew by 15.7%.

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

C. Fiscal imbalance

- ▶ Center’s fiscal deficit during April-May FY21 stood at 58.6% of the annual budgeted target as compared to 52.0% in the corresponding period of the previous year (**Chart 5**).
- ▶ The FY21 revised fiscal deficit target as per center’s revised gross borrowing program stands at 5.6% of estimated FY21 GDP as compared to the annual budgeted target of 3.5% of GDP.
- ▶ Center’s revenue deficit during the first two months of FY21 stood at 67.6% of the annual budgeted target as compared to 66.3% in the corresponding period of FY20.

Chart 5: fiscal and revenue deficit during April-May as percentage of annual budgeted target



During April-May FY21, center’s fiscal deficit stood at 58.6% of the annual budgeted target while the corresponding number for revenue deficit was 67.6%.

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

4. India in a comparative perspective: global public debt projected to exceed 100% of GDP in 2020

General government fiscal balance as percentage of GDP

- ▶ The COVID-19 pandemic has led to a steep contraction in output and government revenues. The large discretionary fiscal measures undertaken by all major economies have resulted in a surge in government deficits and debt levels.
- ▶ The IMF estimated the announced fiscal measures at nearly US\$11 trillion globally as compared to US\$8 trillion estimated in April 2020.
- ▶ The general government fiscal deficit at the global level is projected to increase to 13.9% of GDP in 2020, 10% points higher than that in 2019. It is expected to narrow in 2021 but remain significantly above the levels in 2018 and 2019.
- ▶ In advanced economies (AEs), government fiscal deficit to GDP ratio is projected to increase to 16.6% in 2020, 13% points higher than that in 2019. With additional fiscal packages announced during April to June 2020, fiscal deficit relative to GDP in 2020 is forecasted at 23.8% in the US, followed by Japan at 14.7% and the UK at 12.7%. These levels are much higher as compared to those projected by the IMF in April 2020.
- ▶ In EMDEs, fiscal deficit relative to GDP is estimated to rise to 10.6% in 2020 from 4.9% in 2019 reflecting fiscal expansion, output contraction, lower commodity revenues and higher external borrowing costs.
- ▶ Fiscal deficit relative to GDP in 2020 is estimated to be the highest in Brazil (16.0%), followed by South Africa (14.8%) and India and China (12.1%). Russia is projected to have a fiscal deficit of 5.5% of GDP in 2020 as compared to a surplus in 2018 and 2019.

Table 1: general government fiscal balance (percentage of GDP)

	2018	2019	2020	2021
AEs	-2.7	-3.3	-16.6	-8.3
US	-5.8	-6.3	-23.8	-12.4
Euro area	-0.5	-0.6	-11.7	-5.3
UK	-2.2	-2.1	-12.7	-6.7
Japan	-2.5	-3.3	-14.7	-6.1
EMDEs	-3.8	-4.9	-10.6	-8.5
Brazil	-7.2	-6.0	-16.0	-5.9
Russia	2.9	1.9	-5.5	-3.9
India*	-6.3	-7.9	-12.1	-9.4
China	-4.7	-6.3	-12.1	-10.7
South Africa	-4.1	-6.3	-14.8	-11.0
World	-3.1	-3.9	-13.9	-8.2

Source (basic data): WEO Update, IMF, June 2020

Note: (1) actuals for 2018 and 2019 and forecasts for 2020 and 2021,

(2) -ve indicates deficit while +ve indicates surplus

*data pertains to fiscal year.

General government gross debt as percentage of GDP

- ▶ Global public debt is projected to reach an all-time high of 101.5% of GDP in 2020, an increase of nearly 19% points from its level in 2019.
- ▶ The IMF assessed that government revenues are expected to fall more than the output and are expected to be 2.5% points of GDP lower, on average, than in 2019, reflecting lower incomes and subdued private consumption. Lower revenues are expected to contribute significantly to higher deficit and debt levels.
- ▶ General government debt relative to GDP in AEs is projected to increase to 131.2% in 2020 from 105.2% in 2019.
- ▶ Government debt to GDP ratios in Japan and the US are expected to be above the average for AEs. These are estimated at 268% for Japan and 141.4% for the US in 2020.
- ▶ Government debt relative to GDP in EMDEs has remained much below that in AEs. In 2020, debt to GDP ratio in EMDEs is projected at 63.1%, an increase of 10.7% points from its level in 2019.
- ▶ Government debt to GDP ratio for Brazil is expected to exceed 100% in 2020. India's debt to GDP ratio is projected at 84%, followed by South Africa at nearly 80% and China at 64.1%.

Table 2: general government gross debt (percentage of GDP)

	2018	2019	2020	2021
AEs	104.0	105.2	131.2	132.3
US	106.9	108.7	141.4	146.1
Euro area	85.8	84.1	105.1	103.0
UK	85.7	85.4	101.6	100.5
Japan	236.6	238.0	268.0	265.4
EMDEs	48.9	52.4	63.1	66.7
Brazil	87.1	89.5	102.3	100.6
Russia	13.5	13.9	18.5	18.8
India*	69.6	72.2	84.0	85.7
China	47.0	52.0	64.1	70.7
South Africa	56.7	62.2	79.9	84.6
World	81.2	82.8	101.5	103.2

Source (basic data): WEO Update, IMF, June 2020

Note: (1) actuals for 2018 and 2019 and forecasts for 2020 and 2021,

(2) -ve indicates deficit while +ve indicates surplus

*data pertains to fiscal year.

5. In focus: Trends in petroleum retail prices: sharing of revenue space between center and states

Introduction

While the global crude prices have remained low since March 2020, the domestic prices of petrol and diesel (hereinafter referred to as petroleum, oil and lubricants (PoL) products) have been increasing in recent weeks. For example, in Delhi, the price of petrol has risen from INR 71.9/ltr as on 07 June 2020 to INR 80.4/ltr as on 27 July 2020⁷. Given the contraction in center's gross tax revenues (GTR) in FY20 and the erosion in tax buoyancy in recent years constraining both central and state revenues, there has been a competition between the center and the states to take advantage of the lower global crude prices by increasing taxes on PoL products under their respective control. This has led to increased retail prices of PoL products leading to the unexpected situation of falling global crude prices with rising domestic prices of PoL products much to the detriment of the industrial users and consumers.

As a result, there are extensive debates about the reasons and implications of this trend. The gap between domestic prices and global crude price is meant to be shared between different stakeholders. Five of these stakeholders are the following: (a) oil refinery units, (b) oil marketing companies (OMCs), (c) central government, (d) state governments and (e) users comprising both consumers and producers. The central and state governments have a critical role in the determination of the retail prices even though these retail prices are meant to respond to market signals. The reason for this is the revenue implications for the central and state governments linked to the excise taxation of PoL products by the central government and the levy of state VAT/sales tax by the state governments. In this write-up, we examine whether the central and state governments have used the available space excessively to make up for the revenue loss on account of other taxes. This may have an adverse impact on inflation and eventually on economic growth.

Movement of global crude prices and Indian crude basket

Chart 6 shows the movement of global crude prices over a long period of time, starting FY01 to the current period. The chart has three parts showing annual, quarterly and monthly price movements. It can be seen that global crude prices and the price of Indian crude basket have moved closely together throughout the period under consideration. Both reached a trough in April 2020.

Chart 6: global crude price (US\$/bbl.): annual, quarterly and monthly

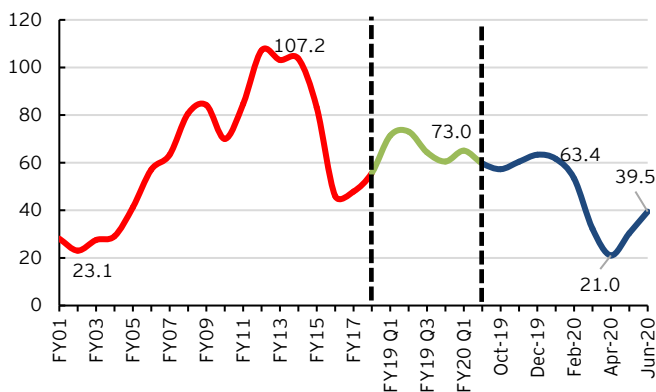
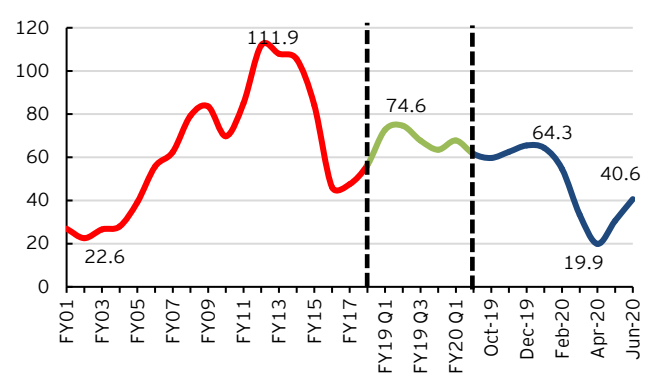


Chart 7: Indian crude basket (US\$/bbl.): annual, quarterly and monthly



Source (basic data): World Bank, PPAC

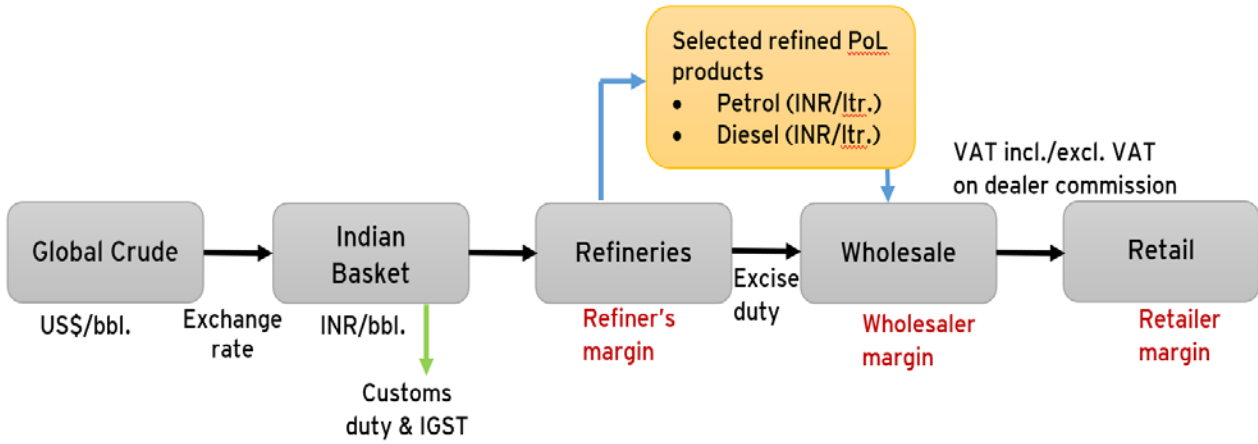
Note: Global crude price is the simple average of three spot prices, namely, Dated Brent, West Texas Intermediate and Dubai Fateh

Retail prices of the PoL products in India are based on a cost-mark up system reflecting margins of refiners, wholesalers and retailers, and taxes that cascade, covering customs, central excise and VAT. Global crude prices are translated into retail prices for PoL products in India through a number of steps. First, crude oil is imported/procured by the oil refineries in India. At this point, crude oil is refined into various PoL products for use by industrial users and consumers. These products are supplied to OMCs. Some of the oil companies work as both refiners and as marketing companies. When the products come out of the OMCs, the units of the products are changed. On the relevant units, ex-refinery costs are determined. On this base price, central excise duty is levied

⁷ PPAC, RSP of Petrol and Diesel; https://www.ppac.gov.in/WriteReadData/userfiles/file/PP_9_a_DailyPriceMSHSD_Metro_27_7_2020.pdf; as accessed on 27 July 2020

and dealer’s commission is also added. State VAT is levied on a price that includes the ex-refinery price, the central excise duty and the dealer’s commission. However, in many states, VAT is levied on a base price which excludes dealer’s commission. After the levy of state VAT, we arrive at the retail selling price of PoL products. The process of transition from global crude to domestic retail pricing is summarized in Chart 8.

Chart 8: process of transition from global crude to retail selling price



Source: Prepared by Authors

Table 3 provides, illustratively, the price build-up and the relative share of taxes and other cost components in respect of petrol and diesel in Delhi.

Table 3: price build-up of petrol and diesel in Delhi on 16 July 2020

Sr. no.	Elements	Unit	Price		Share in final price (%)	
			Diesel	Petrol	Diesel	Petrol
1	Base price/Ex-refinery price	INR/ltr	27.52	24.92	33.9	31.0
2	Freight	INR/ltr	0.3	0.33	0.4	0.4
3=1+2	Price charged to dealers (excluding Excise duty and VAT)	INR/ltr	27.82	25.25	34.3	31.4
4	Central taxes (excise duty)	INR/ltr	31.83	32.98	39.2	41.0
5	Dealer commission (Average)	INR/ltr	2.55	3.6	3.1	4.5
6	State taxes (VAT including VAT on dealer commission)	INR/ltr	18.98	18.56	23.4	23.1
7=3+4+5+6	Retail selling price at Delhi	INR/ltr	81.18	80.43	100.0	100.0

Source: PPAC, Indian Oil (<https://www.iocl.com/Products/PetrolDieselPrices.aspx>)

Sharing of revenue space: central and state governments

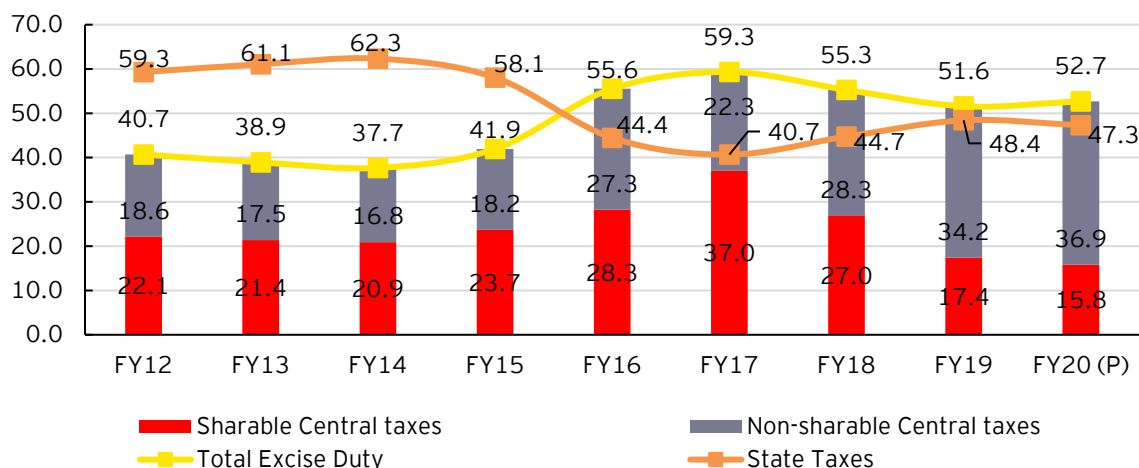
Central taxes consist of basic excise duty, additional excise duty⁸(AED), special additional excise duty (SAED) on the central excise on POL products. The basic excise duty is sharable with the states while the remaining two components are not. Excise duty is levied on a specific basis upon the price charged to dealers. State VAT is levied mainly as an ad-valorem tax on the value arrived at by adding the price charged to dealers (excluding excise duty and VAT), central taxes and in some states, the dealer commission. By virtue of being ad-valorem in nature, state VAT tends to fall as the price of crude falls, given the specific excise duty rate. In some states, VAT is a combination of ad valorem and specific taxes.

We can analyze the relative share of the central and the state governments in the revenue space provided by petroleum taxes in two parts: (a) before devolution of taxes and (b) after devolution. Here devolution refers to the sharing of center’s basic excise duty revenue on PoL products. The SAED and AED are not sharable with states.

⁸ Clause 110 of the Finance Bill 2018 provides that the government will levy an additional duty of excise to be called the Road and Infrastructure Cess on the goods mentioned in the schedule 6 (motor spirit and high speed diesel oil) being the goods manufactured or produced at INR 8 per ltr. for the purpose of financing infrastructure projects. The cess leviable shall be in addition to any other duties of excise chargeable on such goods under the Central Excise Act, 1944 or any other law for the time being in force. With this amendment, the erstwhile Road Cess (additional excise duty) was replaced by the Road and Infrastructure Cess (additional excise duty). <https://www.cbic.gov.in/resources/htdocs-cbec/ub1819/finbill2018.pdf>

Chart 9 shows that pre-devolution, the center had the relatively smaller share⁹ in the period covering FY12 to FY15. This trend was reversed from FY16 onwards. Prior to FY16, the state taxes¹⁰ accounted for a much larger share ranging from 58.1% to 62.3%. The central taxes can be divided into two parts, namely, taxes that are sharable with states and taxes that are not. The non-sharable portion of central taxes has increased beginning FY18 with a considerable increase in FY19 and FY20 (P).

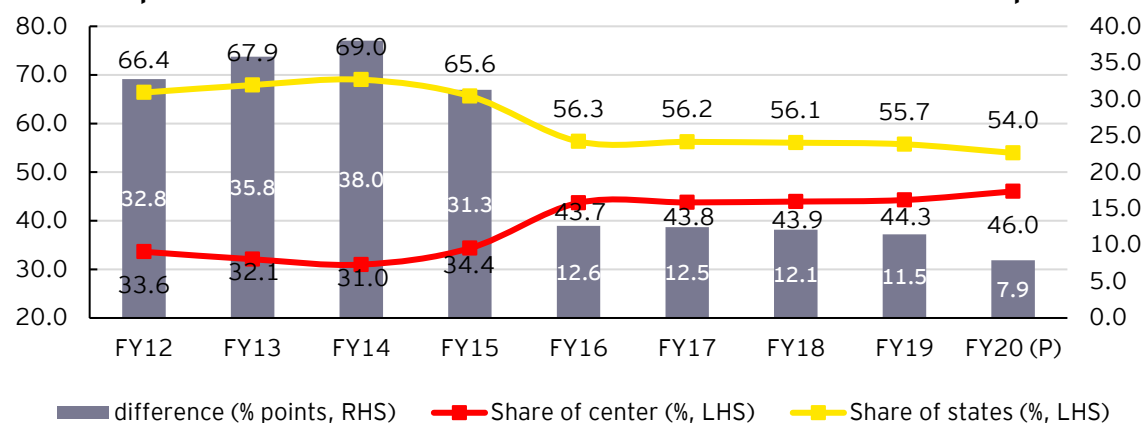
Chart 9: pre devolution share of the center and state in total tax revenues from PoL products (%)



Source: PPAC, Ministry of Petroleum and Natural Gas, GoI; Union Budgets 2013-14 to 2020-21

Chart 10 shows the sharing of revenue space after considering the impact of the sharing of basic excise duty under the recommendations of the 13th and 14th finance commissions respectively. In this case, the states received a relatively larger share throughout the period under consideration. It is however noticeable that the excess of states' share over that of the center started to come down sharply from FY16 onwards. From this year, the recommendation of the 14th finance commission which uplifted state's share in divisible central taxes from 32% to 42% became applicable. However, despite this increase in states' share in the basic excise duties, the overall share of the states came down because of the increases in the non-sharable portion of center's taxes on PoL products¹¹. This difference has progressively come down since FY16. From a peak of 38% points in FY14, this difference has fallen to 7.9% points in FY20 (P), indicating that the available revenue space has largely been pre-empted by the central government.

Chart 10: post devolution share of center and states in tax revenues from PoL products



Source: PPAC, Ministry of Petroleum and Natural Gas, GoI; Union Budgets 2013-14 to 2020-21

⁹ Central taxes refer to basic excise duty, AED and SAED. It excludes customs duty, cess on crude oil, service tax levied prior to GST, and CGST and IGST

¹⁰ State taxes include only state VAT levied on Petroleum, Oil and Lubricants (POL) products but excludes entry tax, octroy and electricity duty paid on inputs

¹¹ In-Focus section entitled 'Overcoming center's fiscal constraints with infrastructure-centered investment strategy' in the June 2020 issue of the EY Economy Watch.

Sharing of VAT revenue: pattern of inter-state shares

For examining the sharing of the VAT revenue from PoL products amongst states, we have selected 10 major states, accounting for nearly 75% of the total states' revenue from VAT on PoL products (Table 4). The largest share accrues to Maharashtra followed by Uttar Pradesh and Tamil Nadu. This pattern reflects the relative size of these state economies in terms of their share in GSDP which also indicates the share of use and consumption of PoL products in these economies. In the middle ranges are states like Karnataka, Gujarat, Rajasthan and Madhya Pradesh. These data also indicate the changes over time, in the shares of individual states. In some cases, there has been a noticeable fall. This is particularly visible in the case of Gujarat, whose share in VAT on PoL products fell from 11.6% in FY15 to 7.7% in FY20 (P). There are marginal improvements in the relative shares in the case of Uttar Pradesh, Rajasthan, and Telangana, comparing FY20 with FY15.

Table 4: state-wise share in total VAT revenue from PoL products

#	State	FY15	FY16	FY17	FY18	FY19	FY20 (P)
1	Maharashtra	14.4%	13.6%	13.9%	13.6%	13.5%	13.4%
2	Uttar Pradesh	9.2%	9.9%	9.5%	9.4%	9.5%	10.0%
3	Tamil Nadu	9.0%	7.7%	7.5%	8.3%	9.0%	9.1%
4	Karnataka	6.3%	6.1%	6.7%	7.2%	7.2%	7.7%
5	Gujarat	11.6%	10.3%	9.6%	8.4%	8.1%	7.7%
6	Rajasthan	6.1%	6.5%	6.4%	6.5%	6.3%	6.7%
7	Madhya Pradesh	5.0%	5.3%	5.5%	5.0%	4.7%	5.4%
8	Andhra Pradesh	6.4%	5.5%	5.4%	5.2%	5.4%	5.1%
9	Telangana	3.3%	4.5%	4.5%	4.7%	5.0%	5.0%
10	Kerala	3.9%	4.3%	4.1%	3.9%	4.0%	4.0%
11	Other states/UTs	24.8%	26.4%	26.8%	27.7%	27.4%	26.0%
	Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: PPAC

Oil prices: impact on India's macro economy

Influence of global crude prices on the Indian economy is transmitted through a high import bill and an increase in the cost of production of all goods and services where PoL products are used as inputs. Growth, inflation, current account balance (CAB) and fiscal balance are adversely impacted by increasing global crude prices. Table 5 gives some estimates of the impact of an increase of US\$10/barrel in global crude prices on India's macroeconomic parameters like GDP growth, inflation, CAB, and fiscal balance.

Table 5: estimates of impact of a US\$10/barrel rise in crude price on the Indian economy

#	Impacted parameter	RBI (2019)	RBI (2017)*	Economic Survey	SBI**	Nomura@
1	GDP Growth ((-) impact)		0.15% points	0.2-0.3% points	0.16% points	
2	Inflation (+ impact)	CPI: 0.49% points (at USD 65/bbl.); 0.58% points (at USD55/bbl.)	CPI: 0.30% points	WPI: 1.7% points	CPI: 0.3% points	CPI: 0.6-0.7% points
3	CAB ((-) impact)	0.43% points		US\$ 9-10 billion	0.27% points	0.4% points
4	Fiscal balance ((-) impact)	0.43% points			0.08% points	0.1% points

Source: Mint street memo no. 17, "The impact of crude price shock on India's current account deficit, inflation, and fiscal deficit", RBI (January 2019)

*Monetary Policy Report, October 2017

**Oil on boil: It's time we understand oilnomics better, SBI Ecowrap, Issue No. 12, FY19 dated 21 May 2018

@<https://www.livemint.com/Politics/QpeXAepvLtLg9DQ3z76y2M/Higher-crude-oil-prices-will-worsen-fiscal-balance-Nomura-r.html>



A recent analysis by the RBI¹² (January 2019) assesses the quantitative impact of a crude price shock on India's three major macro-stability indicators namely, current account deficit (CAD), inflation and fiscal deficit. The study finds that every US\$ 10/barrel increase in crude price increases the CAD relative to GDP by 43 basis points.

A rise in global crude prices increases the domestic price of crude products and consequently domestic inflation. This impact of crude on CPI comes from the direct as well as the indirect channels. The direct channel is where crude products themselves appear as constituents in the CPI. In the short run, a change in prices of crude products affects the CPI directly due to their weighted contribution in the index. The CPI categories which contain crude products as constituents are: (1) transport (petrol and diesel), (2) fuel and light (fuel others) and (3) fuel and light (kerosene, LPG). Together these three categories have a weight of 4.4% in the overall CPI index. The indirect effect occurs as the retail prices of all other commodities manufactured using crude as an input increase due to a crude price shock. The net impact of the crude price increase on inflation is given by the sum of direct and indirect effects.

A given change in international crude price does not lead to an equal percentage change in pump prices, that is, the price paid by the final consumers. Therefore, it is important to differentiate between the static and dynamic components of pump prices. Some components of pump prices do not change with change in prices charged by oil marketing companies (OMCs) and are static over time (e.g., dealer's commission). After correcting for these static components, the study found that the pass-through of international crude prices into pump prices is only around 66%, if OMCs pass the whole of international price increase on to the final consumers. The study reported results for both 100% and 66% pass-through as shown in Table 6.

Table 6: direct and indirect impact of crude prices (in bps)

	CPI weight	Initial price=US\$55/barrel			Initial Price=US\$65/barrel		
		Direct	Indirect	Total	Direct	Indirect	Total
Pass-through assumption of pump price to international crude= 66% (controlling for cess)							
CPI (transport)	2.4	28	30	58	24	26	49
CPI (transport + others)	2.5	30	30	60	26	26	51
CPI (trans. + others + LPG + Kerosene)	4.4	52	30	82	44	26	70
Pass-through assumption of pump price to international crude= 100% (ignoring cess)							
CPI (transport)	2.4	43	46	89	36	39	75
CPI (transport + others)	2.5	46	46	92	39	39	78
CPI (trans. + others + LPG + Kerosene)	4.4	79	46	125	67	39	106

Source: Mint street memo no. 17, "The impact of crude price shock on India's current account deficit, inflation, and fiscal deficit", RBI (January 2019)

Note: Kerosene and LPG are currently subsidized and may not see full pass-through of international prices.

The impact of an increase in crude prices on fiscal deficit depends on several factors that include: (a) pass-through of international prices to pump prices, (b) excise and custom duty and (c) petroleum subsidy by the central government. The study finds that an increase of US\$10/bbl. in global crude prices would increase the fiscal deficit by 43 basis points as a percentage of GDP, if the government decides to absorb the entire oil price shock rather than passing it to the end users. In this case, there would be no impact of the higher global crude prices on domestic inflation.

Although global crude oil prices have fallen in recent months to levels much below those in the corresponding period of last year (Chart 6), the retail selling prices of petrol and diesel are significantly higher. While average global crude prices fell from US\$59.8/bbl in June 2019 to US\$39.5/bbl in June 2020, the average retail selling price of petrol in Delhi increased from INR70.4/ltr to INR76.1/ltr over the same period. Already the overall CPI-based inflation has crossed 6% in June 2020 breaching the upper tolerance limit as per the monetary policy framework. Specifically, CPI inflation in transportation and communication services was at 7.1% in June 2020. Petrol and diesel used for transportation constitute 27.2% of the group of transportation and communication services. These provide a cost-push factor to the overall CPI inflation rate.

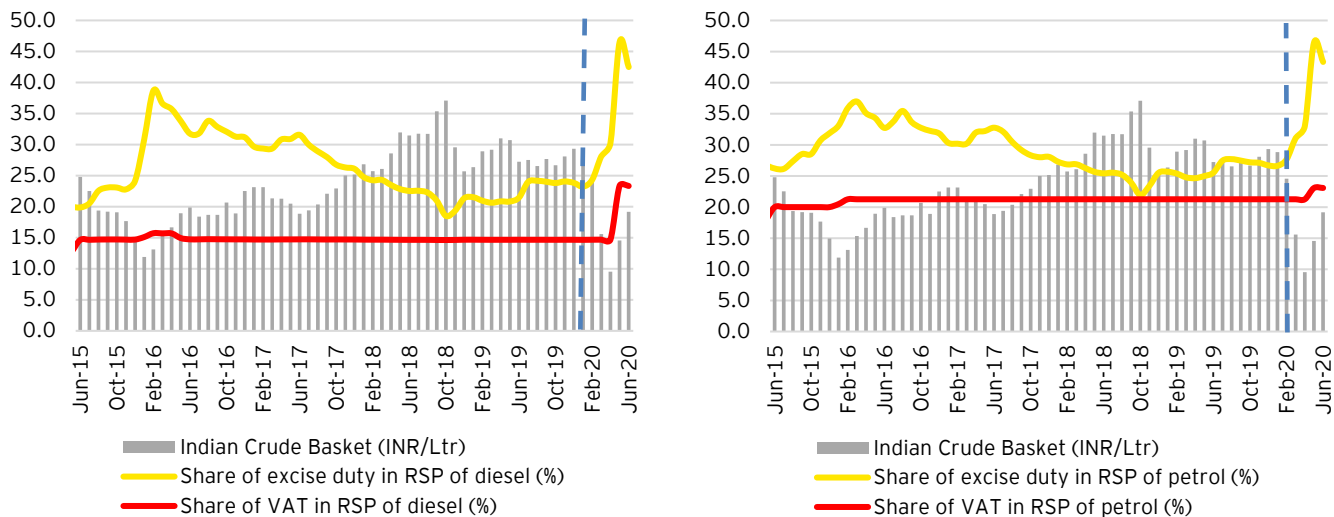
Comparing incidence of VAT and excise duty on PoL products

In this section, we compare the incidence of state level VAT on PoL products vis-à-vis center's excise duty which includes the basic excise duty, AED, and SAED. We trace their relative position over time and for this purpose we have taken the tax components as applicable in Delhi and Mumbai for illustrative purposes. Charts 11 and 12

¹²https://m.rbi.org.in/Scripts/MSM_Mintstreetmemos17.aspx#:~:text=Since%20a%20USD%2010%2Fbarrel,percentage%20of%20total%20CPI%2012.

provide the relevant comparative profiles for petrol and diesel respectively for Delhi and Mumbai. In these charts, three variables are represented namely: (a) price of Indian crude basket (INR/Ltr.), (b) percentage share of excise duty in retail selling price and (c) percentage share of VAT in retail selling price.

Chart 11: trend in share of excise duty and VAT in retail selling price of diesel and petrol in Delhi

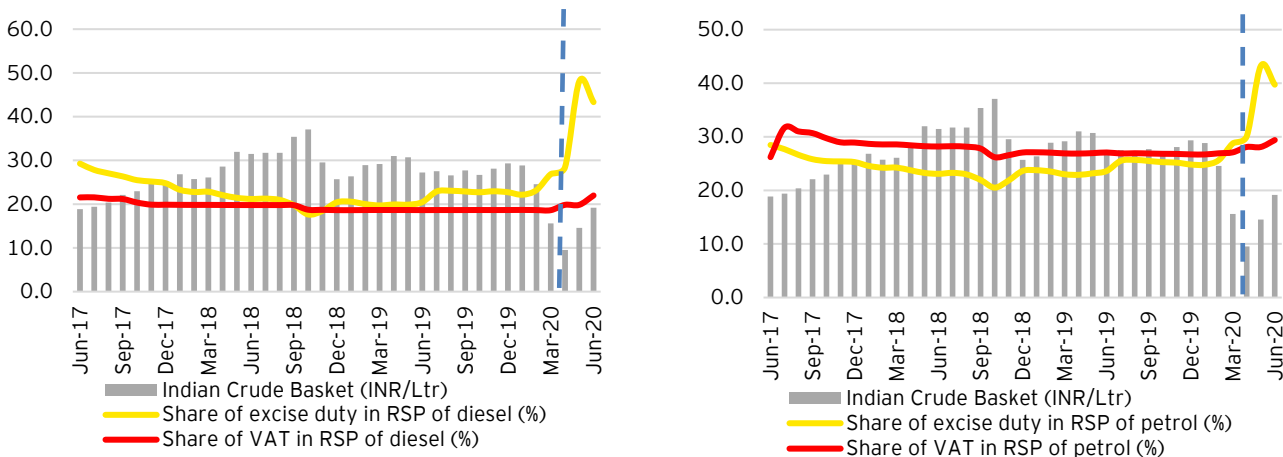


Source (basic data): PPAC, CBIC, RBI

Note: Indian crude basket (INR/Ltr.) has been estimated by using the magnitude on Indian crude basket (US\$/bbl.) from PPAC and the average monthly exchange rate (INR per US\$) from RBI.

The time profiles for petrol and diesel are broadly comparable. There are clear differences between the relative positions of center and states as reflected in the case of Delhi and Mumbai. This is due to differences in the VAT rates that were applicable in Delhi vis-à-vis Mumbai. It is noticeable that while the percentage share of state VAT remained relatively static throughout the respective periods under consideration, the percentage share of center's excise duty had remained variable. In the case of Delhi, with respect to diesel, there were two peaks for center's share of excise duty. One occurred in March 2016 and the latter occurred in May 2020. In both cases, the Indian crude basket price was at a significantly low level reflecting weak global crude prices. This indicates that the center has been inclined to take advantage of lower global crude prices by increasing its excise duty rates. It is only in the more recent periods that a state/UT like Delhi also uplifted its VAT rate for diesel. They did not increase the VAT rate on petrol by as much. States are sensitive to retail prices of PoL products prevailing in their respective neighboring states. Individually, they may be constrained to raise VAT rates on PoL products. To have greater flexibility in this regard, they need to come on a common platform to consider their responses to center's frequent changes in the excise rates on PoL products.

Chart 12: trend in share of excise duty and VAT in retail selling price of diesel and petrol in Mumbai



Source (basic data): PPAC, CBIC

In the case of Mumbai, the patterns are somewhat different. With respect to diesel, both the center and the state started with relatively high shares of taxes on diesel when the price of Indian crude basket was relatively low. Both of them brought the tax incidence down as the crude basket price increased. The share of center's excise duty was higher than that of the state VAT largely throughout the period except for a range of months during September 2018 to November 2018 when they were roughly equal. But the share of excise duty leaped up in recent months whereas there was a much milder increase in the state VAT. This recent pattern is roughly the same for petrol.

Taxes on PoL products: an international comparison

Table 7 provides a cross country comparison indicating the relative share of petroleum taxes in the retail selling price of petrol and diesel for selected countries. These data pertain to the month of June 2020. In June 2020, India was the fifth highest in terms of share of petroleum taxes compared to some major economies of the world. According to our estimate, the share of petroleum taxes in India in the case of petrol and diesel accounted for 66.4% and 65.8% respectively in June 2020. These rates indicate the average share for the month in Delhi which is taken as representative of the Indian situation.

Table 7: cross country comparison of price and tax in Indian rupees rupee per litre

Country	Petrol				Diesel			
	Retail selling price	Ex-tax price	Taxes	% of taxes in RSP	Retail selling price	Ex-tax price	Taxes	% of taxes in RSP
UK	101.1	29.2	71.9	71.1%	106.8	34.0	72.7	68.1%
Italy	117.8	34.4	83.3	70.7%	108.2	36.1	72.1	66.7%
France	111.5	34.0	77.5	69.5%	102.8	33.8	69.1	67.2%
Germany	107.9	34.9	73.1	67.7%	92.5	37.7	54.8	59.3%
India*	76.1	25.6	50.5	66.4%	74.9	25.6	49.3	65.8%
Spain	95.4	38.5	56.9	59.6%	87.0	39.6	47.4	54.5%
Japan	91.4	44.8	46.6	51.0%	77.8	49.2	28.6	36.8%
Canada	57.5	33.8	23.8	41.3%	52.9	32.3	20.6	39.0%
USA	41.6	32.0	9.6	23.1%	48.2	37.0	11.2	23.3%

Source: PPAC, IEA (<https://www.iea.org/reports/monthly-oil-price-statistics>)

Notes

1. Prices in US\$ per litre for the month of June 2020 for France, Germany, Italy, Spain, UK, Japan, Canada & USA are sourced from IEA Monthly Oil Price Statistics (released July 2020).
2. Average exchange rate of INR75.73/ US\$ (June 2020) has been used to convert the retail selling prices in US\$ to INR.
3. VAT is excluded from prices for automotive diesel for France, Italy, Spain and UK as it is refunded to industry.
4. * Prices in India are based on retail selling (RSP) in Delhi.

Conclusion

In the context of the ongoing pandemic, one development that has favored India relates to the low level of global crude prices. The expectation was that this would benefit the users of PoL products particularly in the industry and transport sectors and the consumers. This expectation has so far been belied as the available space between the input price of crude and the retail price of PoL products has been used up by the central and state governments by hiking up the tax rates on PoL products under their respective control. Instead of retail prices coming down as the crude price came down, these have gone up to significantly high levels. The main reason for these trends pertains to the highly constrained fiscal space of both the central and the state governments at a time precisely when they need to provide strong fiscal stimuli to cope with the pandemic's economic fallout. Since retail prices of PoL products have a potential inflationary impact through transport and energy costs, this matter needs to be carefully monitored as the fiscal year progresses.

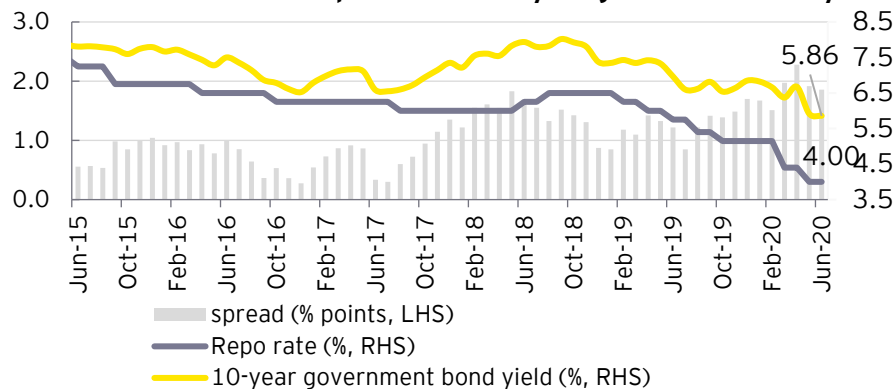
6. Money and finance: credit growth fell to 6.2% in May 2020

A. Monetary sector

Monetary policy

- ▶ In its monetary policy review held on 22 May 2020, the RBI reduced the repo rate by 40 basis points to a historic low level of 4.0%. So far, the RBI has been proactive in responding to the COVID-19 induced economic crisis by introducing a slew of measures including: (a) reduction in repo and reverse repo rates, (b) lowering the CRR, (c) infusing additional liquidity through TLTROs and special refinance windows and (d) easing regulatory norms. As assessed by the government, the magnitude of stimulus through various RBI measures until mid-May 2020 amounted to INR 8,01,603 crores.
- ▶ CPI inflation in June 2020 crossed the upper tolerance level of 6% of the monetary policy framework. This may be a cause of concern for the RBI in its upcoming monetary policy review, scheduled between 4th and 6th August 2020.

Chart 13: movements in repo rate and 10-year government bond yield



In May 2020, growth in bank credit fell to 6.2% from 6.8% in April 2020 led by a fall in the growth of personal loans and continued low growth in credit to industries.

Source: Database on Indian Economy, RBI

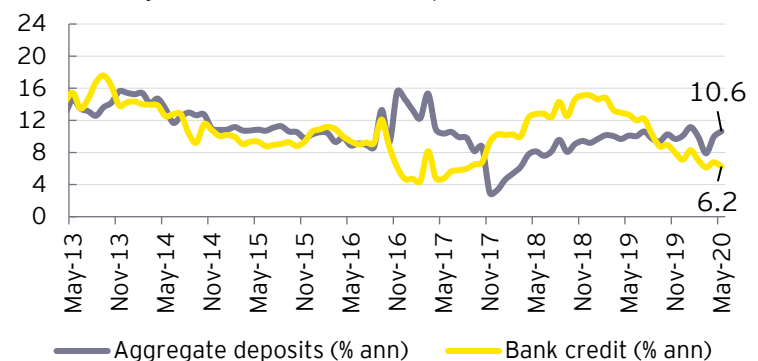
Money stock

- ▶ Growth in broad money stock (M3) increased to 12.3% in June 2020, its highest level since November 2014. This was largely on account of a strong growth in narrow money, a key component of M3. Growth in time deposits stood at 10.7% in June 2020, similar to the level in May 2020.
- ▶ Growth in narrow money (M1) increased to 17.6% in June 2020 from 15.3% in May 2020. M1 growth was led by higher growth in currency in circulation, which increased to 20.6% in June 2020, its highest level since November 2018. Growth in demand deposits also improved to 12.1% in June 2020 from 9.8% in May 2020.

Aggregate credit and deposits

- ▶ Growth in credit by scheduled commercial banks fell to 6.2% in May 2020 from 6.8% in April 2020 (**Chart 14**). With the contraction in economic activities due to the nationwide lockdown since end-March 2020, credit growth continued to remain subdued averaging 6.5% during April and May 2020.
- ▶ Growth in non-food credit was lower at 6.8% in May 2020 as compared to 7.3% in April 2020 due to a fall in the growth of personal loans and credit to agricultural sector.
- ▶ Growth in personal loans fell to a 10-year low of 10.6% in May 2020 from 12.1% in April 2020.

Chart 14: growth in credit and deposits



Source: Database on Indian Economy, RBI

- ▶ Credit to industry, accounting for about 32% of non-food credit, grew by 1.7% in May 2020, similar to level in April 2020. Within the industrial sector, growth in credit to infrastructure, iron and steel, and chemicals remained low at 1.3%, 0.9% and 3.6% respectively in May 2020.
- ▶ Credit to services sector grew by 11.2% in May 2020, similar to the level in April 2020 while growth in credit to agriculture moderated to 3.5% in May 2020 from 3.9% in April 2020.
- ▶ Growth in aggregate bank deposits improved to 10.6% in May 2020 from 9.9% in April 2020 led by higher growth in both time and demand deposits during the month.

B. Financial sector

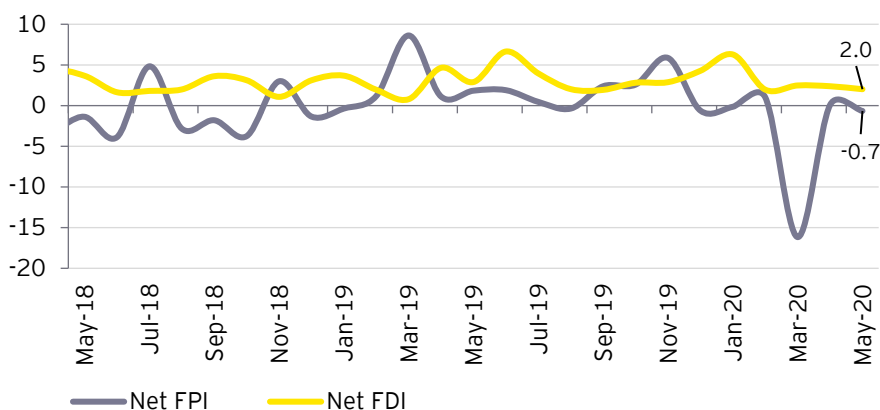
Interest rates

- ▶ Interest rates offered by commercial banks on term deposits with a maturity of more than one year fell for the third consecutive month to average 5.40% (ranging between 5.10% to 5.70%) in June 2020 from the average of 5.72% (ranging between 5.50% and 5.94%) in May 2020.
- ▶ The yield on 10-year government bond fell marginally to average 5.86% in June 2020 as compared to 5.92% in May 2020. For a 250 basis points cumulated reduction in repo rate during February 2019 and June 2020, the benchmark bond yield fell by cumulated 149 basis points during the same period, indicating a transmission rate of close to 60%.
- ▶ The MCLR fell by 15 basis points to average 7.11% in June 2020 as compared to 7.26% in May 2020.
- ▶ WALR on fresh rupee loans by scheduled commercial banks was marginally higher at 8.54% in May 2020 as compared to 8.52% (revised) in April 2020.

FDI and FPI

- ▶ As per the provisional data released by the RBI on 13 July 2020, the overall foreign investment (FIIs) inflows (net FDIs plus net FPIs) were lower at US\$1.4 billion in May 2020 as compared to US\$2.5 billion (revised) in April 2020.

Chart 15: net FDI and FPI inflows (US\$ billion)



Net FDI inflows were lower at US\$2.0 billion in May 2020 as compared to US\$2.4 billion in April 2020.

Source: Database on Indian Economy, RBI

- ▶ Net FDI inflows were at US\$2.0 billion in May 2020, lower than US\$2.4 billion (revised) in April 2020 (**Chart 15**). Gross FDI inflows slowed to US\$3.6 billion in May 2020 from US\$4.5 billion (revised) in April 2020.
- ▶ Net portfolio investment (FPIs) turned negative reflecting outflows of US\$0.7 billion in May 2020 as compared to inflow of US\$0.1 billion (revised) in April 2020.

7. Trade and CAB: contraction in merchandise exports eased to (-)12.4% in June 2020

A. CAB: Current account posted a surplus in 4QFY20 after 51 quarters

- CAB recorded a marginal surplus of 0.1% of GDP in 4QFY20 as compared to a deficit of (-)0.4% in 3QFY20 (**Chart 16**) aided by a lower merchandise trade deficit and higher net invisible receipts (**Table 8**). Merchandise imports relative to GDP fell to a 63-quarter low of 15.2% in 4QFY20. Merchandise exports relative to GDP fell to a 67-quarter low of 10.4% in 4QFY20. Net invisible receipts improved to a 17-quarter high of 4.8% of GDP. On an annual basis, current account deficit fell to a three-year low of (-)0.9% of GDP.

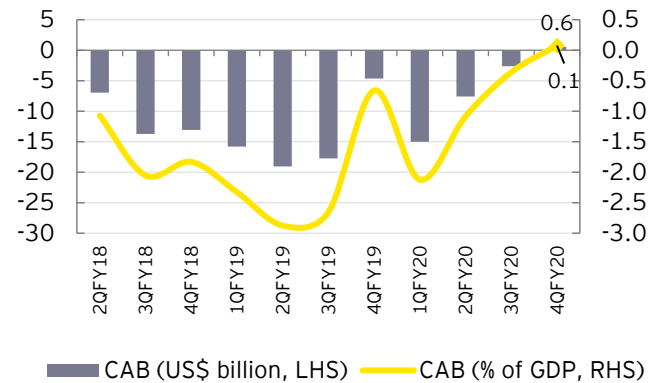
Table 8: components of CAB in US\$ billion

	CAB as % of nominal GDP	CAB	Goods account net	Invisibles* net
FY17	-0.7	-15.3	-112.4	97.1
FY18	-1.8	-48.7	-160.0	111.3
FY19	-2.1	-57.3	-180.3	123.0
FY20	-0.9	-24.7	-157.5	132.8
1QFY20	-2.1	-15.0	-46.8	31.8
2QFY20	-1.1	-7.6	-39.6	32.1
3QFY20	-0.4	-2.6	-36.0	33.4
4QFY20	0.1	0.6	-35.0	35.6

Source: Database on Indian Economy, RBI

Note: (-) deficit; (+) surplus; *invisibles include services, current transfers and income components

Chart 16: CAB



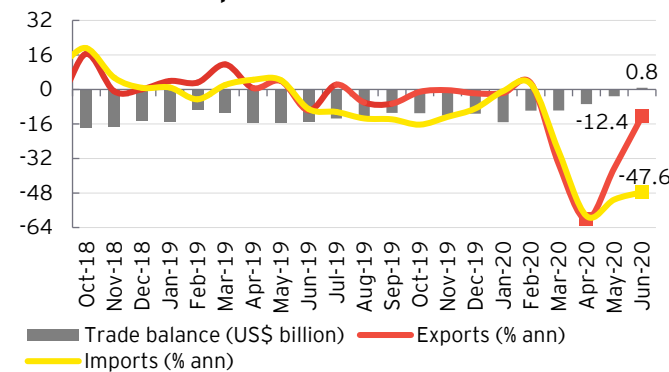
Source: Database on Indian Economy, RBI

B. Merchandise trade and exchange rate

Merchandise exports and imports contracted by (-)12.4% and (-)47.6% respectively in June 2020 reflecting a sustained demand slowdown (**Chart 17**).

- Contraction in merchandise exports eased to a four-month low of (-)12.4% in June 2020 from (-)36.5% in May 2020 led by slower pace of contraction in exports of petroleum products (oil) and engineering goods.

Chart 17: developments in merchandise trade



Source: Ministry of Commerce and Industry, GoI

- The pace of contraction in exports of engineering goods slowed to (-)7.5% in June 2020 from (-)24.2% in May 2020 and that in oil exports to (-)31.6% from (-)68.5% over the same period.
- Contraction in imports remained high at (-)47.6% in June 2020 as compared to (-)51.0% in May 2020.
- Contraction in oil imports was high at (-)55.3% in June 2020 as compared to (-)72.0% in May 2020 reflecting subdued domestic demand and lower oil prices.
- Iron and steel imports contracted by (-)56.1% in June 2020 as compared to (-)19.1% in May 2020.
- Contraction in imports excluding oil, gold and jewelry rose to (-)38.9% in June 2020 from (-)31.0% in May 2020. Over the same period, contraction in exports of this category eased to (-)3.5% from (-)23.6%.
- Out of the 30 sectors for which exports and imports data is provided, 18 and 26 sectors respectively experienced a contraction in June 2020 as compared to 26 and 28 sectors respectively in May 2020.
- A merchandise trade surplus was observed for the first time in more than 18 years at US\$0.8 billion in June 2020 as compared to a deficit of US\$3.1 billion in May 2020.
- The rupee exchange rate remained constant at a low level of INR75.7 per US\$ (average) in June 2020, the same level as observed in May 2020 partly due to sustained foreign exchange demand by the RBI.

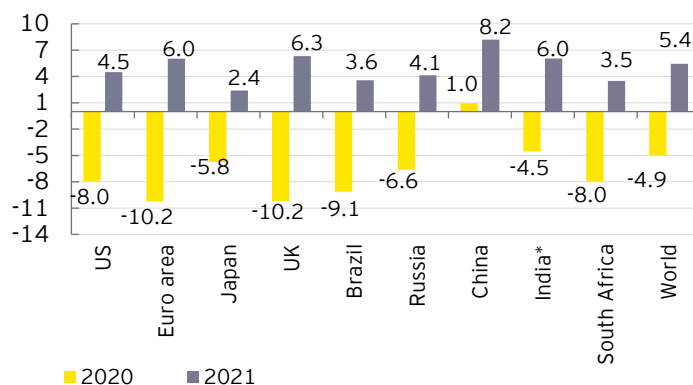
8. Global growth: IMF projected a global contraction of (-)4.9% in 2020

A. Global growth outlook

- ▶ The IMF (World Economic Outlook, June 2020) projected a global contraction of (-)4.9% in 2020. This is a downward revision of 1.9% points from its WEO forecast in April 2020. Consumption growth was, in particular, downgraded for most economies reflecting sharper than anticipated disruption to domestic activity. A moderate recovery is projected in 2021, with global growth forecasted at 5.4%.
- ▶ In AEs, a contraction of (-)8.0% is projected in 2020. This reflects a downward revision of 1.9% points from the April 2020 forecast. Growth is forecasted to strengthen to 4.8% in 2021.
- ▶ Sharp contractions are projected for all major AEs in 2020. Both, the UK and the Euro area are projected to contract by (-)10.2%, followed by the US at (-)8.0% and Japan at (-)5.8%.
- ▶ EMDEs are projected to contract by (-)3.0% in 2020, a downward revision of 2.0% points from the April 2020 forecast. The downgrade reflects domestic disruptions as well as spillovers from weaker external demand. In 2021, growth in EMDEs is projected to strengthen to 5.9%, largely reflecting the rebound in China.
- ▶ Brazil and South Africa are projected to contract sharply by (-)9.1% and (-)8.0% respectively in 2020. A positive growth of close to 3.5% in 2021 is projected in these two economies. Russia is forecasted to contract by (-)6.6% in 2020 as a result of a sharp decline in global fuel prices. Growth is projected to recover to 4.1% in 2021.
- ▶ India's 2020 GDP is projected to contract by (-)4.5%, a downward revision of 6.4% points from the April 2020 forecast. Growth is projected at 6.0% in 2021.
- ▶ China's growth is projected to be positive at 1.0% in 2020 reflecting a stronger than anticipated recovery in April and May 2020. A sharp recovery at 8.2% is forecasted for 2021.

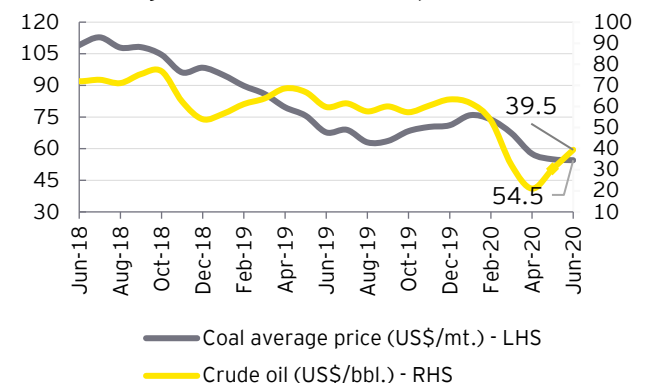
The IMF projected a global contraction of (-)4.9% in 2020. This is a downward revision of 1.9% points from its WEO forecast in April 2020.

Chart 18: global growth projections



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

Chart 19: global crude and coal prices



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

B. Global energy prices: global crude price increased to US\$39.5/bbl. in June 2020

- ▶ Average global crude price¹³ increased for the second consecutive month to US\$39.5/bbl. in June 2020 as compared to US\$30.4/bbl. in May 2020 as demand began to recover and global supply fell sharply (Chart 19). On a daily basis, as of 23 July 2020, Brent and WTI crude prices were at US\$42.9/bbl. and US\$41.0/bbl. respectively¹⁴.
- ▶ Average global coal price¹⁵ fell to US\$54.5/mt. in June 2020, its lowest level since May 2016.

¹³ Simple average of three spot prices, namely, Dated Brent, West Texas Intermediate and Dubai Fateh

¹⁴ <https://www.eia.gov/todayinenergy/prices.php>

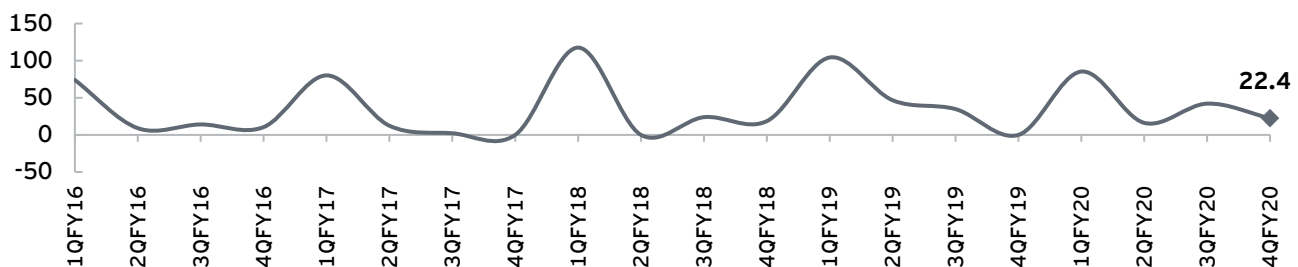
¹⁵ Simple average of Australian and South African coal prices

9. Index of Macro Imbalance (IMI): pointed to an improvement in the macro-balance in 4QFY20

IMI indicated an improvement in the macro-balance in 4QFY20

- ▶ 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 GDP¹⁶. 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 from 42.1 in 3QFY20 to 22.4 in 4QFY20 (**Chart 20**). Two of the three components of IMI namely, center's fiscal deficit and current account deficit were below their respective benchmarks. While center's fiscal deficit was at 0.1% of GDP, current account posted a surplus of 0.1% of GDP in 4QFY20. However, CPI inflation at 6.7% in 4QFY20 was well above its benchmark level.

Chart 20: IMI (quarterly)



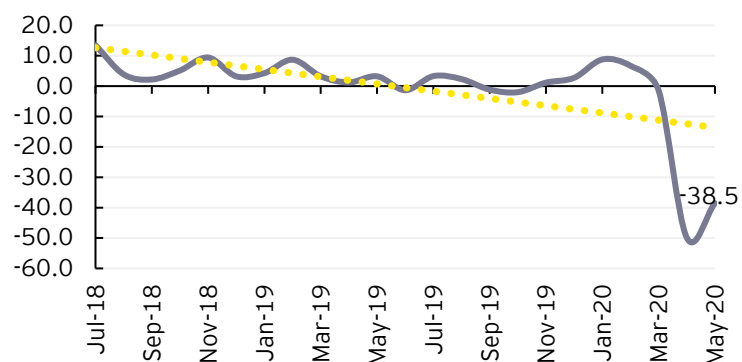
Source (Basic data): RBI, MoSPI and EY estimate

10. Index of Aggregate Demand (IAD): pointed to continued deterioration in demand in May 2020

IAD contracted by (-)38.5% in May 2020

- ▶ Pointing to sustained deterioration in demand conditions, IAD declined by (-)38.5% in May 2020, although at a slower pace as compared to (-)49.9% in April 2020 (**Chart 21**). This sharp contraction in IAD may be attributable to the nationwide lockdown imposed since the last week of March 2020, which continued till end-May 2020.
- ▶ Demand conditions continued to deteriorate in both manufacturing and services during May 2020 while those in the agricultural sector improved at a slower pace during the month.

Chart 21: growth in IAD (y-o-y)



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

¹⁶ 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	1.5	-1.4	0.9	0.3	FY20	52.3	51.9
1QFY20	3.0	3.0	2.4	7.3	3.4	2QFY20	51.8	51.6
2QFY20	-0.4	-1.2	-0.4	0.6	-0.9	3QFY20	51.5	51.7
3QFY20	-1.4	0.0	-1.1	-6.0	-0.6	4QFY20	53.9	54.1
4QFY20	-4.1	3.9	-6.1	1.6	-0.6	1QFY21	35.1	17.2
Feb-20	5.2	9.6	3.8	11.5	6.4	Mar-20	51.8	49.3
Mar-20	-18.3	-1.4	-22.4	-8.2	-9.0	Apr-20	27.4	5.4
Apr-20	-57.6	-27.0	-67.1	-23.0	-37.0	May-20	30.8	12.6
May-20	-34.7	-21.0	-39.3	-15.4	-23.4	Jun-20	47.2	33.7

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									
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
2QFY20	3.5	3.5	-1.4	4.1	0.9	5.6	-0.1	-4.6	-0.5
3QFY20	5.8	10.7	-1.1	3.3	1.1	9.3	-0.7	-5.1	-1.8
4QFY20	6.7	11.1	5.5	3.8	2.1	7.5	0.5	1.8	-0.7
1QFY21	---	9.2	2.2	---	-2.2	3.2	-0.1	-15.4	-1.0
Mar-20	5.8	8.8	6.6	3.8	0.4	5.2	0.3	-2.9	-0.8
Apr-20*	---	10.5	---	---	-1.6	4.4	0.2	-12.6	-0.8
May-20*	---	9.3	1.4	---	-3.2	2.3	-0.4	-19.8	-1.3
June-20	6.1	7.9	2.7	5.3	-1.8	3.1	0.1	-13.6	-0.8

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

* The CPI and WPI data could only be collected for selected groups/sub-groups in April and May 2020

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

Fiscal year/month	Gross tax revenue	Corporate tax	Income tax	Direct taxes*	Indirect taxes**	Fiscal deficit % of GDP	Revenue deficit % of GDP
FY17 (CGA)	17.9	6.7	21.5	12.3	21.6	3.5	2.1
FY 18 (CGA)	11.8	17.8	19.9	18.6	6.0	3.5	2.6
FY 19 (CGA)	8.4	16.2	13.1	14.9	2.9	3.4	2.4
FY20 (RE over FY 19 actuals)	4.0	-8.0	18.3	2.9	5.3	3.8	2.4
FY 21 (BE over FY 20 RE)	12.0	11.5	14.0	12.7	11.1	3.5	2.7
Cumulated growth (% , y-o-y)						% of budgeted target	
Oct-19	1.2	0.9	6.7	3.5	-1.0	102.4	112.6
Nov-19	0.8	-0.9	7.0	2.7	-0.9	114.8	128.4
Dec-19	-2.9	-13.6	5.1	-5.8	0.1	121.5#	141.6#
Jan-20	-2.0	-13.5	6.9	-4.9	0.9	128.5#	150.2#
Feb-20	-0.8	-12.0	7.7	-3.5	1.6	135.2#	156.7#
Mar-20	-3.4	-16.1	4.0	-7.8	1.7	122.0#	133.6#
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

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)					
Oct-19	37,135	190	19,573	8,701	65,599
Nov-19	43,654	197	247	7,119	51,217
Dec-19	40,472	170	-1,842	7,913	46,713
Jan-20	43,782	157	2,128	8,359	54,426
Feb-20	41,291	159	553	8,604	50,607
Mar-20	40,159	447	2,373	8,089	51,068
Apr-20	5,934	34	9,749	990	16,707
May-20	18,961	107	9,643	6,020	34,731

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
	%										
Aug-19	5.40	FY17	7.9	11.6	35.6	7.6	FY17	3.1	10.1	7.03	370.0
Sep-19	5.40	FY18	7.5	7.5	30.3	22.1	FY18	21.8	9.2	7.05	424.4
Oct-19	5.15	FY19	13.7	8.9	30.7	-0.6	FY19	13.6	10.5	7.68	411.9
Nov-19	5.15	FY20	9.4	9.9	42.8	-0.1	FY20	11.2	8.9	6.80	475.6
Dec-19	5.15	1QFY20	12.6	9.9	14.2	4.8	2QFY20	10.8	9.6	6.68	427.7
Jan-20	5.15	2QFY20	10.4	9.9	7.9	2.5	3QFY20	12.5	10.4	6.68	433.6
Feb-20	5.15	3QFY20	8.0	10.0	10.0	7.8	4QFY20	11.2	8.9	6.62	457.5
Mar-20	4.40	4QFY20	7.1	9.6	10.7	-15.3	1QFY21	17.6	12.3	6.15	506.8
Apr-20	4.40	Feb-20	7.0	10.0	2.0	1.0	Mar-20	11.2	8.9	6.37	475.6
May-20	4.00	Mar-20	6.1	7.9	2.5	-16.2	Apr-20	12.8	10.8	6.68	479.5
Jun-20	4.00	Apr-20	6.8	9.9	2.4	0.1	May-20	15.3	11.7	5.92	493.5
Jul-20	4.00	May-20	6.2	10.6	2.0	-0.7	Jun-20	17.6	12.3	5.86	506.8

Source: Database on Indian Economy - RBI

Table A5: external trade and global growth

Fiscal year/quarter/month	External trade indicators (annual, quarterly and monthly growth rates)						Global growth (annual)			
	Exports	Imports	Trade balance	Ex. rate (avg.)	Crude prices (avg.)	Coal prices (avg.)	Calendar year	World GDP	Adv. econ.	Emer. econ.
	% change y-o-y	US\$ billion	INR/US\$	US\$/bbl.	US\$/mt	% change y-o-y				
FY17	5.1	0.9	-108.2	67.1	47.9	73.0	2010	5.4	3.1	7.4
FY18	10.6	20.9	-159.0	64.5	55.7	90.8	2011	4.3	1.7	6.4
FY19	8.6	10.6	-182.3	69.9	67.3	100.4	2012	3.5	1.2	5.3
FY20	-4.9	-8.9	-152.9	70.9	58.5	70.4	2013	3.5	1.4	5.1
2QFY20	-3.6	-12.6	-37.7	70.4	59.7	65.2	2014	3.6	2.1	4.7
3QFY20	-1.1	-12.7	-34.4	71.2	60.3	69.9	2015	3.4	2.3	4.3
4QFY20	-12.8	-9.8	-34.8	72.4	49.1	72.3	2016	3.4	1.7	4.6
1QFY21	-36.7	-52.4	-9.1	75.9	30.3	55.7	2017	3.8	2.5	4.8
Mar-20	-34.6	-28.7	-9.8	74.4	32.2	67.3	2018	3.6	2.2	4.5
Apr-20	-60.3	-58.6	-6.8	76.2	21.0	57.6	2019	2.9	1.7	3.7
May-20	-36.5	-51.0	-3.1	75.7	30.4	55.0	2020*	-4.9	-8.0	-3.0
Jun-20	-12.4	-47.6	0.8	75.7	39.5	54.5	2021*	5.4	4.8	5.9

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

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

Fiscal year/quarter	Output: Major sectors									IPD inflation
	GVA	Agr.	Ming.	Mfg.	Elec.	Cons.	Trans.	Fin.	Publ.	GVA
FY17 (3rd RE)	8.0	6.8	9.8	7.9	10.0	5.9	7.7	8.6	9.3	2.9
FY18 (2nd RE)	6.6	5.9	4.9	6.6	11.2	5.0	7.6	4.7	9.9	4.2
FY19 (1st RE)	6.0	2.4	-5.8	5.7	8.2	6.1	7.7	6.8	9.4	4.2
FY20 (PE) [§]	3.9	4.0	3.1	0.0	4.1	1.3	3.6	4.6	10.0	3.0
4QFY18	7.6	7.1	3.3	10.1	11.8	13.7	6.3	4.4	8.3	4.0
1QFY19	6.9	3.8	-7.3	10.7	7.9	6.4	8.5	6.0	8.8	4.6
2QFY19	6.1	2.5	-7.0	5.6	9.9	5.2	7.8	6.5	8.9	4.7
3QFY19	5.6	2.0	-4.4	5.2	9.5	6.6	7.8	6.5	8.1	3.8
4QFY19	5.6	1.6	-4.8	2.1	5.5	6.0	6.9	8.7	11.6	3.7
1QFY20	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

Source: National Accounts Statistics, MoSPI

[§] Growth numbers for FY20 are based on the provisional estimates of NAS released by MoSPI on 29 May 2020 over the first revised estimates (RE) of NAS for FY19 released by MoSPI on 31 January 2020.

Fiscal year/quarter	Expenditure components						IPD inflation
	GDP	PFCE	GFCE	GFCF	EX	IM	GDP
FY17 (3rd RE)	8.3	8.1	6.1	8.5	5.0	4.4	3.2
FY18 (2nd RE)	7.0	7.0	11.8	7.2	4.6	17.4	3.8
FY19 (1st RE)	6.1	7.2	10.1	9.8	12.3	8.6	4.6
FY20 (PE) [§]	4.2	5.3	11.8	-2.8	-3.6	-6.8	2.9
4QFY18	8.2	8.1	8.6	13.6	5.1	23.6	3.0
1QFY19	7.1	6.7	8.5	12.9	9.5	5.9	6.0
2QFY19	6.2	8.8	10.8	11.5	12.5	18.7	4.9
3QFY19	5.6	7.0	7.0	11.4	15.8	10.0	5.5
4QFY19	5.7	6.2	14.4	4.4	11.6	0.8	2.1
1QFY20	5.2	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

Source: National Accounts Statistics, MoSPI

[§] Growth numbers for FY20 are based on the provisional estimates of NAS released by MoSPI on 29 May 2020 over the first revised estimates (RE) of NAS for FY19 released by MoSPI on 31 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	COVID-19	Coronavirus disease 2019
15	CPSE	central public-sector enterprise
16	CSO	Central Statistical Organization
17	Disc.	discrepancies
18	ECBs	external commercial borrowings
19	EIA	US Energy Information Administration
20	Elec.	electricity, gas, water supply and other utility services
21	EMDEs	Emerging Market and Developing Economies
22	EXP	exports
23	FAE	first advanced estimates
24	FC	Finance Commission
25	FII	foreign investment inflows
26	Fin.	financial, real estate and professional services
27	FPI	foreign portfolio investment
28	FRBMA	Fiscal Responsibility and Budget Management Act
29	FY	fiscal year (April–March)
30	GDP	Gross Domestic Product
31	GFCE	government final consumption expenditure
32	GFCF	gross fixed capital formation
33	GoI	Government of India
34	G-secs	Government Securities
35	GST	Goods and Services Tax
36	GVA	gross value added
37	IAD	Index of Aggregate Demand
38	IBE	interim budget estimates
39	ICRIER	Indian Council for Research on International Economic Relations
40	IEA	International Energy Agency
41	IGST	Integrated Goods and Services Tax
42	IIP	Index of Industrial Production

43	IMF	International Monetary Fund
44	IMI	Index of Macro Imbalance
45	IMP	imports
46	INR	Indian Rupee
47	IPD	implicit price deflator
48	J&K	Jammu and Kashmir
49	MCLR	marginal cost of funds-based lending rate
50	Ming.	mining and quarrying
51	Mfg.	manufacturing
52	m-o-m	month-on-month
53	Mt	metric ton
54	MoSPI	Ministry of Statistics and Programme Implementation
55	MPC	Monetary Policy Committee
56	NEXP	net exports (exports minus imports of goods and services)
57	NPA	non-performing assets
58	NCLT	National Company Law Tribunal
59	OECD	Organization for Economic Co-operation and Development
60	OPEC	Organization of the Petroleum Exporting Countries
61	PFCE	private final consumption expenditure
62	PIT	personal income tax
63	PMI	Purchasing Managers' Index (reference value = 50)
64	PoL	Petroleum oil and lubricants
65	PSBR	public sector borrowing requirement
66	RE	revised estimates
67	PSU	public sector undertaking
68	RBI	Reserve Bank of India
69	SAED	special additional excise duty
70	SOTR	states' own tax revenues
71	SLR	Statutory Liquidity Ratio
72	Trans.	trade, hotels, transport, communication and services related to broadcasting
73	US\$	US Dollar
74	UTGST	Union Territory Goods and Services Tax
75	UT	union territory
76	WALR	weighted average lending rate
77	WPI	Wholesale Price Index
78	y-o-y	year-on-year
79	1HFY20	first half of fiscal year 2019-20, i.e., April 2019-September 2019



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