

# Economy Watch

Monitoring India's  
macro-fiscal performance

April 2019

The EY logo is positioned in the bottom right corner of the page. It consists of the letters 'EY' in a bold, white, sans-serif font. The background of the entire page is a blurred photograph of Indian currency, including several 100 Rupee banknotes and several 10 Rupee coins, all resting on a dark, reflective surface. The lighting is soft, creating a bokeh effect in the background.

Building a better  
working world

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**Prepared by Macro-fiscal Unit, National Tax and Economic Policy Group, EY India**

D.K. Srivastava, Chief Policy Advisor, EY: [dk.srivastava@in.ey.com](mailto:dk.srivastava@in.ey.com)

Muralikrishna Bhardwaj, Senior Manager, EY: [muralikrishna.b@in.ey.com](mailto:muralikrishna.b@in.ey.com)

Tarrung Kapur, Manager, EY: [tarrung.kapur@in.ey.com](mailto:tarrung.kapur@in.ey.com)

Ragini Trehan, Senior Consultant, EY: [ragini.trehan@in.ey.com](mailto:ragini.trehan@in.ey.com)



# Highlights

1. With CPI inflation continuing to remain benign, the RBI lowered the repo rate by 25 basis points to 6.0%, in its first bi-monthly policy review of 2019-20 held in April 2019.
2. CPI inflation in March 2019 has marginally increased to 2.9% due to a fall in the rate of contraction in vegetable prices.
3. In March 2019, manufacturing and services PMI fell to 52.6 and 52.0 respectively signalling a weaker expansion in these sectors.
4. Center's fiscal deficit during April-February FY19 stood at 134.2% of the annual revised estimate.
5. Growth in indirect tax revenues was at 3.3% during April-February FY19 as compared to 13% in the corresponding period of FY18.
6. Growth in direct tax revenues was at 14.9% during April-February FY19 as compared to 18.8% in the corresponding period of FY18.
7. During April-February FY19, credit growth averaged 13.8%, above its five-year average annual growth of 10.2%.
8. Overall foreign investment inflows moderated to US\$2.8 billion in February 2019 from US\$3.1 billion in January 2019 due to a sharp fall in net FDI inflows.
9. Current account deficit fell to 2.5% of GDP in 3QFY19 from 2.9% in 2QFY19.
10. The IMF, in April 2019, has projected the global growth to slow down from 3.6% in 2018 to 3.3% in 2019.
11. Global crude price averaged US\$67.3/bb. in FY19 as compared to US\$55.7/bbl. in FY18.
12. Merchandise trade deficit increased to a five year high of US\$176.1 billion in FY19 from US\$159.0 billion in FY18.



# Foreword

## Stimulating growth: Salient monetary policy changes

In its first bi-monthly monetary policy review of FY20 in April 2019, the RBI reduced the repo rate, for the second successive time in 2019, by another 25 basis points, bringing it down to 6%. This decision was taken by a four to two majority of the Monetary Policy Committee (MPC). The policy stance has been retained as “neutral”. These changes signify a monetary policy thrust aimed at stimulating growth in the economy while inflation prospects broadly remain benign. The RBI projects a range of 3.2%-3.4% for CPI inflation for 1HFY20 which is clearly below the mean target rate of the monetary policy framework at 4%. GDP growth on the other hand requires to be uplifted as it has been slowing down persistently from a peak of 8.1% in 4QFY18 to an estimated level of 6.5% in 4QFY19.

On the fiscal side however, there are signs of revenue stress. It is expected that direct tax revenues may fall short of the revised estimates for FY19 by a margin of INR 40,000 to INR 50,000 crore. In addition, in the case of indirect taxes, the anticipated shortfall would be of a larger magnitude\*. Available information also indicates that to the extent that the government adheres to the revised fiscal deficit target of 3.4% of GDP for FY19, the burden of adjustment may fall largely on capital expenditure. The Center’s capital expenditure showed a contraction of (-) 7.9% during April-February FY19 as compared to a growth of 38.3% in the corresponding period of FY18. As percentage of the FY19 annual revised target, capital expenditure during April-February 2019 stood at 86.4%. The revised estimate for capital expenditure amounts to about 1.7% of GDP, showing that nearly half of the revised fiscal deficit would be on revenue account.

In the empirical literature it has been established that in the context of fiscal multipliers, capital expenditure multipliers are much higher than those of revenue expenditure. According to the RBI’s April 2019 Monetary Policy Report, Center’s revenue expenditure multiplier is estimated at 0.45 while capital expenditure multiplier is estimated at 3.25. Thus, first the slippage in fiscal deficit relative to its budget estimate and second, using a large part of this fiscal deficit for revenue expenditures may imply an adverse impact on India’s growth pulse. Getting fiscal balance back on the rails may be a challenging task for the budget makers when the full year budget for FY20 is presented by the post-election union government. Competitive politics has ensured that additional fiscal commitments would require priority financing from the limited pool of tax and non-tax revenues while the borrowing space is to be progressively reduced relative to GDP.

One positive news emanating from India’s external sector is the reduction in current account deficit to 2.5% of GDP in 3QFY19. This was largely due to an improvement in net exports of services and decline in net income transfers from India to rest of the world.

In the context of the global economy, there has been successive downward revisions of global growth prospects. The IMF, in its April 2019 issue of the World Economic Outlook, projected global growth to slow down to 3.3% in 2019 from 3.6% in 2018. It has revised the 2019 global growth forecast down by 0.2% points. The OECD also, in its Interim Economic Outlook released in March 2019, reduced its 2019 forecast for global growth by 0.2% points to 3.3%. Another concern emanating from the global economy relates to global crude oil prices that are rising again. Average global crude price increased for the third consecutive month to US\$63.8/bbl. in March 2019 from US\$54/bbl. in December 2018.

### **D.K. Srivastava**

Chief Policy Advisor, EY India

\* <https://www.dnaindia.com/business/report-govt-achieves-fiscal-deficit-of-34-of-gdp-2735876>

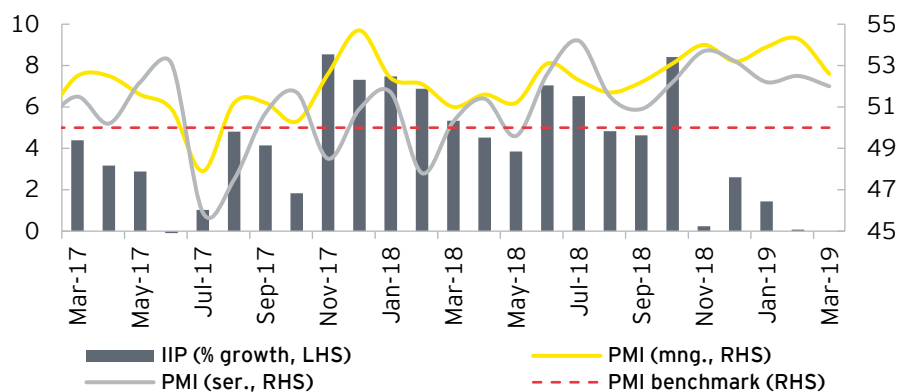


# 1. Growth: IIP growth decelerated to 0.1% in February 2019

## A. IIP growth: pointed to continued deceleration in industrial activity in the last quarter of FY19

- ▶ IIP growth decelerated to a 20-month low of 0.1% (y-o-y) in February 2019 as compared to 1.4% (revised) in January 2019 (**Chart 1**) with broad-based moderation across all sub-industries.
- ▶ Manufacturing sector output (accounting for 77.6% of overall IIP) contracted by (-) 0.3% (y-o-y) in February 2019 as compared to a modest growth of 1.0% (revised) in January 2019. Although both mining and electricity sectors posted a positive growth, they remained low at 2.0% and 1.2% respectively in February 2019 (Table A1 in Data appendix).
- ▶ Output of the capital goods industry, an indicator of investment activity, contracted sharply by (-) 8.8% (y-o-y) in February 2019 as compared to (-) 3.4% in January 2019. Even though growth in the output of consumer non-durables improved marginally to 4.3% in February 2019 relative to the previous month, growth in consumer durables fell to 1.2% over the same period.
- ▶ Growth in the output of eight core infrastructure industries increased at a modest pace to 2.1% (y-o-y) in February 2019 from a 19-month low of 1.5% (revised) in January 2019 largely due to favorable base effect. Among the sub industries, while growth in the output of coal (7.3%) improved, the output of petroleum refinery products ((-) 0.8%) and crude oil ((-) 6.1%) continued to contract in February 2019.

**Chart 1: IIP growth and PMI**



IIP growth fell to a 20-month low of 0.1% in February 2019 from 1.4% in January 2019 indicating continued deceleration in the industrial activity.

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

## B. PMI: signaled a weaker expansion in manufacturing and services sectors in March 2019

- ▶ After reaching a 14-month high of 54.3 in February 2019, headline manufacturing PMI (seasonally adjusted (sa)) fell to a 6-month low of 52.6 in March 2019 (**Chart 1**). PMI manufacturing averaged 52.8 in FY19 as compared to 51.5 in FY18.
- ▶ Headline services PMI (sa) fell to 52 in March 2019 from 52.5 in February 2019. PMI services averaged 52.2 in FY19 as compared to 50 in FY18.
- ▶ Reflecting a weaker increase in manufacturing production, the composite PMI Output Index (sa) fell to a six-month low of 52.7 in March 2019 from 53.8 in February 2019. The composite PMI output index averaged 52.9 in FY19 as compared to 50.9 in FY18.

In March 2019, manufacturing PMI fell to a six-month low of 52.6. Services PMI also fell to 52.0 during the month.

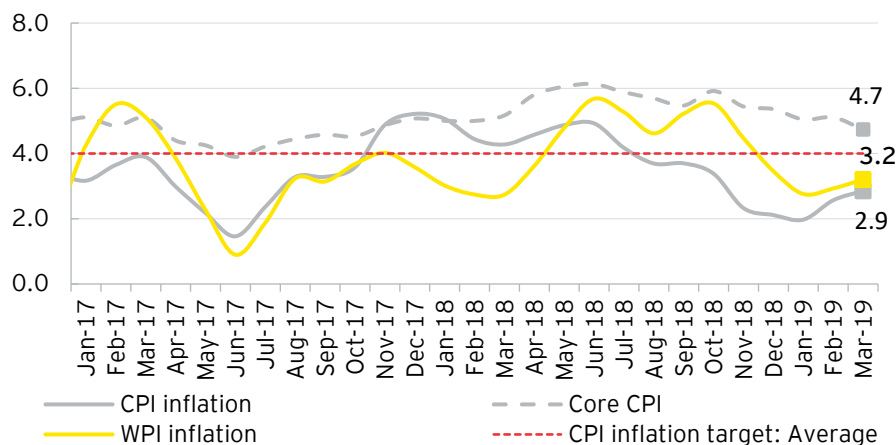


## 2. Inflation: CPI inflation reached 2.9% in March 2019, rising from a trough of 2% in January

CPI inflation increased to 2.9% (y-o-y) in March 2019 from 2.6% in February 2019 after having declined to a trough of 2.0% (y-o-y) in January 2019 (**Chart 2**), driven mainly by a continued fall in the pace of contraction in food prices.

- ▶ Inflation in consumer food prices turned positive at 0.3% in March 2019 after four successive months of contraction ending at (-) 0.7% in February 2019. Contraction in the prices of vegetables moderated significantly to a nine-month low of (-) 1.5% in March 2019 from (-) 7.7% in February 2019.
- ▶ Fuel and light-based inflation increased for the first time in March 2019 to 2.4% after decelerating for five successive months to an all-time low (2012 base) of 1.2% in February 2019.
- ▶ Housing-based inflation eased marginally, for the ninth successive month, to a 20-month low of 4.9% in March 2019 from 5.1% in February 2019.
- ▶ Inflation in personal care and effects eased to a four-month low of 4.1% in March 2019 from 5.0% in February 2019. Inflation in education eased to 7.6% and in pan, tobacco and intoxicants to 4.6% in March 2019.
- ▶ Core CPI inflation<sup>1</sup> fell to a 17-month low of 4.7% in March from 5.1% in February 2019.

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



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

Both headline CPI and WPI inflation increased to 2.9% and 3.2% respectively in March 2019. However, while core CPI inflation fell to 4.7%, core WPI inflation marginally increased to 2.5% during the month.

### WPI inflation increased to 3.2% in March 2019 from 2.9% in February 2019 due to higher inflation in vegetables and fuel

- ▶ WPI inflation for food remained positive for the third successive month, increasing to 3.9% in March 2019 from 3.3% in February 2019, as inflation in vegetables rose sharply to a 14-month high of 28.1% from 6.8% over the same period.
- ▶ Fuel and power-based inflation increased to 5.4% in March 2019 from 2.2% in February 2019 driven by rising inflation across mineral oils such as petrol, diesel, naphtha and LPG.
- ▶ Inflation in manufactured products fell to a 20-month low of 2.2% in March 2019 from 2.3% in February 2019, as inflation in manufactured food products eased to 0.5% from 1.7% over the same period.
- ▶ WPI core inflation increased marginally to 2.5% in March 2019 after decelerating for four successive months to an 18-month low of 2.4% in February 2019.

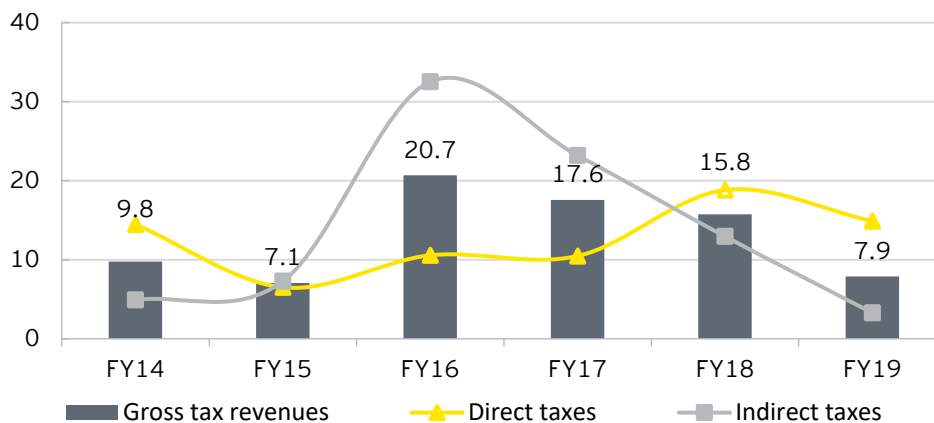
<sup>1</sup> Core CPI inflation is measured in different ways by different organizations/agencies. Here, it has been calculated by excluding food, fuel and light from the overall index.

### 3. Fiscal performance: fiscal deficit during Apr-Feb FY19 stood at 134.2% of the revised estimate

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

- ▶ As per the Comptroller General of Accounts (CGA), gross central taxes grew by 7.9% during April-February FY19, lower than the growth of 15.8% during the corresponding period of FY18 (**Chart 3**).
- ▶ During April-February FY19, gross taxes stood at 75.3% of the FY19 revised target as compared to the three-year average (FY16 to FY18) at 79.9% during April-February as a percentage of annual actuals.
- ▶ Growth in direct tax revenues was at 14.9% during April-February FY19 as compared to 18.8% in the corresponding period of FY18.
- ▶ Growth in corporate income taxes was at 15.4% during April-February FY19 as compared to 19.7% during April-February FY18.
- ▶ Growth in personal income taxes was at 14.2% during April-February FY19 as compared to 17.7% in the corresponding period of FY18. Personal income taxes during this period stood at 68.1% of the FY19 revised estimate as compared to the corresponding figure of 71.5% in FY18.
- ▶ Growth in indirect taxes (comprising union excise duties, service tax, customs duty#, CGST, UTGST, IGST\* and GST compensation cess) was low at 3.3% during April-February FY19 as compared to 13% in the corresponding period of FY18.

**Chart 3: Growth in cumulated central tax revenues up to February 2019**



As per the CGA, growth in center's gross taxes was 7.9% during April-February FY19, lower than 15.8% during the corresponding period of FY18.

Source: Monthly Accounts, Controller General of Accounts, Government of India

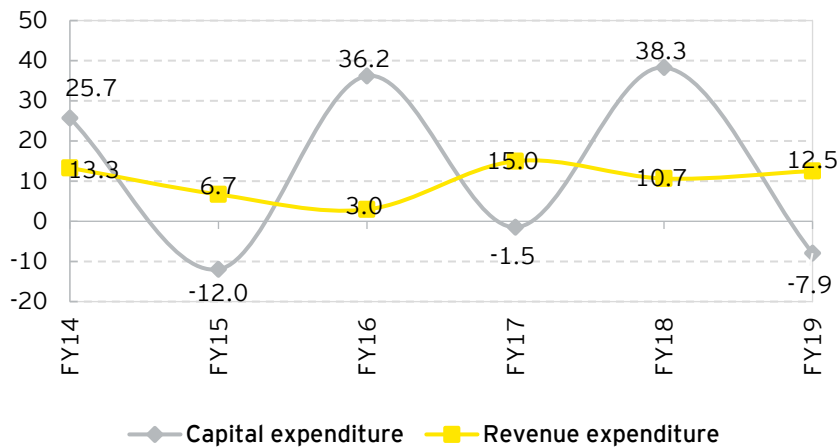
Note: Direct taxes include personal income tax and corporation tax, and indirect taxes include union excise duties, service tax, customs duty, CGST, UTGST, IGST and GST compensation cess from July 2017 onwards; \* IGST revenues are subject to final settlement; #Collections under customs for July 2017 also include INR21,377 crore on account of IGST on import/exports and compensation cess on imports/exports of INR609 crores for 2017-18.

- ▶ The center's non-tax revenues grew by 20.8% during April-February FY19 as compared to a contraction of (-) 32% in the corresponding period of FY18. Non-tax revenues during April-February FY19 stood at 70% of the annual revised target as compared to the three-year average (FY16 to FY18) at 78.1% during April-February as a percentage of annual actuals.
- ▶ According to the Department of Disinvestment, the disinvestment proceeds up to 28 March 2019 stood at INR83,523.13 crore, indicating that the FY19 annual revised target at INR80,000 crores has been met.

## B. Expenditures: revenue and capital

- ▶ Center’s total expenditure during April-February FY19 grew by 9.5% as compared to 14% during the same period in FY18 (**Chart 4**). During April-February FY19, total expenditure stood at 89.1% of the FY19 revised target.
- ▶ Growth in revenue expenditure was 12.5% during April-February FY19 as compared to 10.7% in the corresponding period of FY18. As percentage of the FY19 revised target, revenue expenditure till February 2019 stood at 77.9%.
- ▶ Center’s capital expenditure contracted by (-) 7.9% during April-February FY19 as compared to a growth of 38.3% in the corresponding period of FY18. As percentage of the FY19 revised target, capital expenditure till February 2019 stood at 86.4%.

**Chart 4: Growth in cumulated central government expenditure till February 2019**



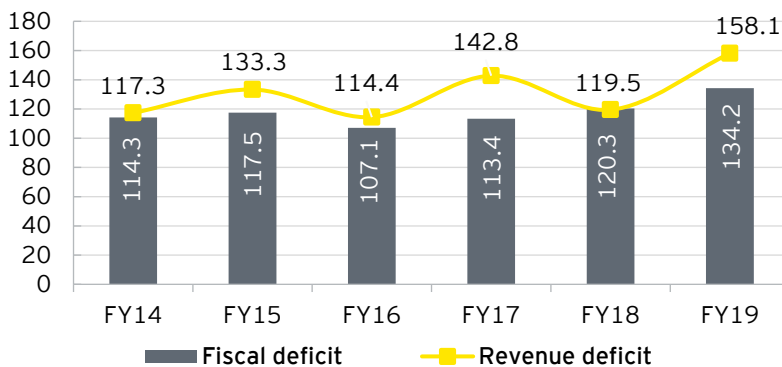
Center’s total expenditure during April-February FY19 grew by 9.5% as compared to 14% during the same period in FY18.

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

## C. Fiscal imbalance

- ▶ Center’s fiscal deficit during April-February FY19 stood at 134.2% of the FY19 revised estimate, increasing from 121.5% till January 2019 (**Chart 5**). Fiscal deficit during April-February FY18 stood at 120.3% of the corresponding revised estimate.
- ▶ Center’s revenue deficit during April-February FY19 stood at 158.1% of the FY19 revised target as compared to 119.5% in the corresponding period of FY18.

**Chart 5: Cumulated fiscal and revenue deficit till February 2019 as percentage of annual revised target**



Center’s fiscal deficit during April-February FY19 stood at 134.2% of the annual revised estimate as compared to 120.3% in the corresponding period of FY18.

Source: Monthly Accounts, Controller General of Accounts, Government of India, Medium-term Fiscal Policy Statement, Union Budget FY19.



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

### Real GDP growth

**Growth in AEs is projected to moderate significantly while that in EMDEs is expected to remain steady in the medium-term.**

- ▶ Global GDP growth is projected to moderate to 3.3% in 2019 reflecting a slowdown in the latter half of 2018 and first half of 2019. In 2020 and beyond, global growth is expected to plateau at 3.6%.
- ▶ Growth in AEs is projected to moderate to 1.8% in 2019 and further to 1.6% by 2024. This may be largely on account of slowing growth in the US and the Euro area.
- ▶ The temporary boost to growth in the US and its trading partners from the US fiscal stimulus is expected to diminish during 2019 and beyond. Growth rates of Germany, Italy and France in the Euro area have been notably marked down.
- ▶ In EMDEs, growth is projected to ease to 4.4% in 2019 particularly due to lower growth in China, recession in Turkey and a contraction in Iran. However, growth in EMDEs is projected to increase to 4.9% by 2021 and remain around that level until 2024.
- ▶ Growth in China is projected to fall to 6.3% in 2019 and further to 5.5% by 2024. Growth in India is expected to remain the highest among EMDEs, increasing to 7.7% by 2024. Growth in Brazil is expected to be stable though moderate during the forecast period as fiscal imbalances weigh on the growth outlook. Growth in Russia is expected to ease to 1.6% by 2024 due to the modest outlook for oil prices.

**Table 1: Real GDP growth (% change, annual)**

	2018	2019	2020	2021	2022	2023	2024
<b>AEs</b>	<b>2.2</b>	<b>1.8</b>	<b>1.7</b>	<b>1.7</b>	<b>1.6</b>	<b>1.6</b>	<b>1.6</b>
US	2.9	2.3	1.9	1.8	1.6	1.6	1.6
Euro area	1.8	1.3	1.5	1.5	1.4	1.4	1.4
Japan	0.8	1.0	0.5	0.5	0.5	0.5	0.5
<b>EMDEs</b>	<b>4.5</b>	<b>4.4</b>	<b>4.8</b>	<b>4.9</b>	<b>4.8</b>	<b>4.9</b>	<b>4.9</b>
Brazil	1.1	2.1	2.5	2.2	2.2	2.2	2.2
Russia	2.3	1.6	1.7	1.7	1.6	1.6	1.6
India*	7.1	7.3	7.5	7.7	7.7	7.7	7.7
China	6.6	6.3	6.1	6.0	5.8	5.6	5.5
<b>World</b>	<b>3.6</b>	<b>3.3</b>	<b>3.6</b>	<b>3.6</b>	<b>3.6</b>	<b>3.6</b>	<b>3.7</b>

Source (basic data): World Economic Outlook, IMF, April 2019

Note: forecasted for 2019 and beyond;

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

### CPI Inflation

**Inflation in AEs is forecasted to remain around 2% after a decline in 2019; inflation in EMDEs is expected to decline steadily after a temporary rise in 2019.**

- ▶ CPI-based inflation in advanced economies is projected to decline to 1.6% in 2019, consistent with softer outlook for commodity prices and moderation in growth. It is expected to stabilize around 2% during 2020 to 2024.
- ▶ With the US's growth expected to be above its potential in 2019 and 2020, inflation is expected to overshoot the medium-term target of 2%. It is expected to decline to the target level thereafter.
- ▶ Inflation in EMDEs is expected to pick up in 2019 reflecting higher inflation in Russia due to higher VAT, gradual pick up in prices in India due to a relatively strong demand and a modest increase in food inflation from a low base.

**Table 2: CPI Inflation (% annual)**

	2018	2019	2020	2021	2022	2023	2024
<b>AEs</b>	<b>2.0</b>	<b>1.6</b>	<b>2.1</b>	<b>1.9</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>
US	2.4	2.0	2.7	2.3	2.2	2.2	2.2
Euro area	1.8	1.3	1.6	1.7	1.9	1.9	2.0
Japan	1.0	1.1	1.5	1.1	1.2	1.3	1.4
<b>EMDEs</b>	<b>4.8</b>	<b>4.9</b>	<b>4.7</b>	<b>4.5</b>	<b>4.4</b>	<b>4.3</b>	<b>4.2</b>
Brazil	3.7	3.6	4.1	4.0	4.0	4.0	4.0
Russia	2.9	5.0	4.5	4.2	4.1	4.0	4.0
India*	3.5	3.9	4.2	4.2	4.2	4.1	4.0
China	2.1	2.3	2.5	2.8	2.9	3.0	3.0
<b>World</b>	<b>3.6</b>	<b>3.6</b>	<b>3.6</b>	<b>3.5</b>	<b>3.5</b>	<b>3.4</b>	<b>3.4</b>

Source (basic data): World Economic Outlook, IMF, April 2019

Note: forecasted for 2019 and beyond;

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

- ▶ In line with the trend of stabilization of growth in EMDEs post 2019, inflation is also expected to moderate.

## 5. In focus: Eliminating extreme poverty in India: Role of growth and fiscal policy interventions

### Changing profile of poverty: A long period perspective

Poverty reduction in India has been a major concern of planners and policymakers. The measurement of poverty started way back in the early 70s. Since then, based on periodic national sample surveys, poverty in terms of its headcount ratio and other related measures, was estimated by the erstwhile Planning Commission. The methodology of measuring poverty has evolved over time. Critical in the measurement of poverty is the concept of a poverty line. Poverty line is a monetary threshold, below which the income level of a “poor” individual or household falls.

Over time, the incidence of poverty in India has significantly reduced. Policymakers in India are now considering a final assault on poverty such that it can be brought to a level which can take India to a group of countries, where poverty can be considered as effectively eliminated. The World Bank’s goal of reducing extreme poverty<sup>2</sup> calls for bringing down the poverty headcount ratio<sup>3</sup> to less than 3%<sup>4</sup> by 2030.

The normal process of growth by itself reduces the poverty headcount ratio. However, due to issues of unequal distribution of income as a result of growth, the impact of growth on poverty reduction is positive but may not be proportionate. It can be accelerated by devising policies which can make normal growth to be more equalizing and hence more poverty-reducing. As a last resort, poverty may be directly attacked by introducing an income transfer program whereby for all or selected segments of poor households, an income transfer is made such that the selected poor households are lifted above the poverty line.

### **Role, definition and measurement of poverty lines: official poverty lines in India have been revised and updated time and again**

Poverty lines can differ according to rural and urban areas and according to states. Measurement of the poverty line in India has been linked to calorific norms. The measurement starts by defining the consumption expenditure required to ensure that the food intake would deliver the minimum required calorific value which may differ for rural and urban areas. Thus, calorific norms are translated into expenditure on food items. The expenditure on food items is then mapped onto a corresponding total expenditure which would cover both food and non-food items.

The last available official estimates of the poverty line relate to 2011 and 2011-12, both by the erstwhile Planning Commission. These poverty line estimates can be referred to as Tendulkar Committee and Rangarajan Committee estimates respectively. There was a controversy caused by the definition of the poverty line by the Tendulkar Committee. In fact, the Tendulkar Committee had used an all-India urban poverty line as the reference to derive the state level rural and urban poverty lines. Prior to this, two separate poverty lines for rural and urban areas were being estimated. The Tendulkar Committee had also decided not to use the available official calorie norms which were used in all poverty estimations since 1979.

In the context of 1999 national sample survey, a controversy had sprung up with reference to the recall periods used in the questionnaires based on which the expenditure data was compiled. In particular, there are three recall periods used, namely seven days, 30 days and 365 days. The 365 days recall period refers to durable goods. For non-durable goods, both seven days and 30 days recall periods have been used. Based on the analysis of questionnaires, Deaton and Dreze (2002)<sup>5</sup> amongst others, argued that the earlier sample surveys were based on uniform recall period for non-durable goods whereas the 1999-00 survey used mixed recall periods implying that questions of seven day recalls and 30 days recalls were put together, leading to higher expenditure estimates. This particularly affected food items. In later surveys, questions with different recall periods were kept in separate questionnaires so that three sets of estimates relating to uniform recall period, mixed recall period and mixed modified recall period (MMRP) can be obtained. The Rangarajan committee has used the MMRP based estimates of consumption expenditure.

<sup>2</sup> Extreme poverty is defined by World Bank as consumption (or income) less than US\$1.90 a day in 2011 purchasing power parity (PPP)

<sup>3</sup> The Head count ratio (HCR) is the proportion of a population that exists, or lives, below the poverty line.

<sup>4</sup> World Bank. 2018. Poverty and Shared Prosperity 2018: Piecing Together the Poverty Puzzle. Washington, DC: World Bank. License: Creative Commons Attribution CC BY 3.0 IGO

<sup>5</sup> Deaton, A., & Dreze, J. (2002). Poverty and inequality in India: a re-examination. *Economic and political weekly*, 3729-3748.

The Rangarajan Committee derived the food component of the poverty line consumption basket by referring to the simultaneous satisfaction of all three nutrient norms<sup>6</sup> taking into account public provision of a range of public goods and services aimed at the amelioration of the diseases facing the population. The Rangarajan Committee used NSSOs estimates and not the NAS estimates for consumption expenditure since the latter led to higher estimates of consumption. Spatial and temporal variation in prices were captured in defining the state level and rural-urban poverty levels. Thus, the Rangarajan Committee poverty estimate refers to normative levels of nourishment, clothing, house rent, conveyance and education and a behaviorally determined level of other non-food expenses. The Rangarajan Committee recommended that their estimated poverty line may be updated by using the Fischer index in future.

**Table 3: Poverty Line estimates by various committees (INR per capita/month)**

Years	Rural			Urban		
	Lkd	Tnd	Rang	Lkd	Tnd	Rang
1973-74	49.6			56.8		
1977-78	56.8			70.3		
1983	89.5			115.7		
1987-88	115.2			162.2		
1993-94	205.8			281.4		
1999-00	327.6			454.1		
2004-05	356.3	446.7		538.6	578.8	
2009-10		673.0	801		860.0	1198.0
2011-12		816.0	972		1000.0	1147.0

Source: NITI Aayog; Rangarajan Committee Report 2014

Note: Lkd - Lakdawala Committee, Tnd - Tendulkar Committee and Rang - Rangarajan Committee

**Table 3** provides a comparative profile of poverty lines as they moved over the years across different studies. In the earlier period covering 1973-74 to 2004-05, the poverty line estimates are based largely on the Lakdawala methodology. This was revised upwards, both for rural and urban areas, in the Tendulkar study for 2004-05. The Committee provided poverty estimates according to these lines for 2004-05, 2009-10 and 2011-12. When these estimates were released in March 2013, a controversy erupted centering on the criticism that Tendulkar Committee's poverty lines are much below than what is required. Consequently, the Rangarajan committee was constituted to review the poverty estimates. It further uplifted the poverty line for 2009-10 and 2011-12. Thus, these three poverty lines are such that Lakdawala poverty line is lower than that of the Tendulkar Committee which in turn is lower than that of Rangarajan Committee.

### **Reduction in poverty headcount ratio: poverty headcount ratio has declined significantly in India over time**

The longest-period picture for India based on defining poverty line using a comparable methodology is that based on the Lakdawala methodology. By the year 2004-05, poverty headcount ratio had been reduced from 56.4 in 1973-74 to 28.3 in rural areas, that is by 27.9% points. Over the same period, the urban poverty headcount ratio reduced from 49.0 to 25.7, that is, by 14.3% points. Thus, reduction in rural poverty was much faster than that in urban poverty. Part of this could be due to migration of the poor from rural to urban areas.

<sup>6</sup> Nutrient norms relating to energy, protein and fat (Planning Commission. (2014). Report of the expert group to review the methodology for measurement of poverty. Government of India, New Delhi.)



**Table 4: Assessment of headcount ratio in rural areas as per Lakdawala, Tendulkar and Rangarajan Committees**

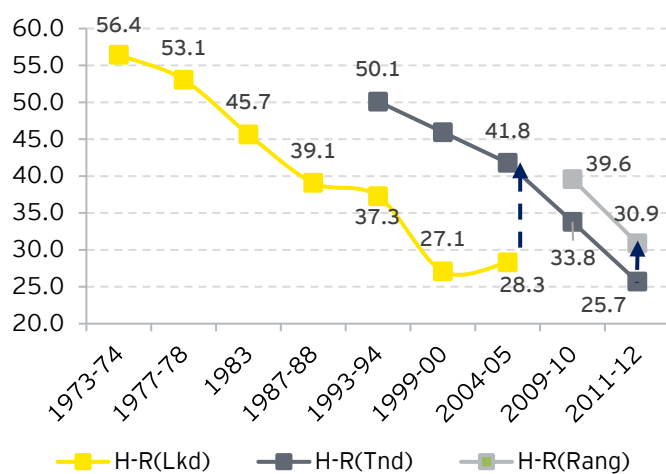
Years	No. of intervening years	Rural						Urban					
		Headcount ratio			Average annual reduction (% points)			Headcount ratio			Average annual reduction (% points)		
		Lkd	Tnd	Rang	Lkd	Tnd	Rang	Lkd	Tnd	Rang	Lkd	Tnd	Rang
1973-74		56.4						49.0					
1977-78	4	53.1			-0.8			45.2			-0.9		
1983	6	45.7			-1.2			40.8			-0.7		
1987-88	4	39.1			-1.6			38.2			-0.6		
1993-94	6	37.3	50.1		-0.3			32.4	31.8		-1.0		
1999-00	6	27.1	45.95		-1.7			23.6	28.8		-1.5		
2004-05	5	28.3	41.8		0.2	-0.8		25.7	25.7		0.4	-0.6	
2009-10	5		33.8	39.6		-1.6			20.9	35.1		-1.0	
2011-12	2		25.7	30.9		-4.1	-4.4		13.7	26.4		-3.6	-4.4

Source: NITI Aayog; Rangarajan Committee Report 2014

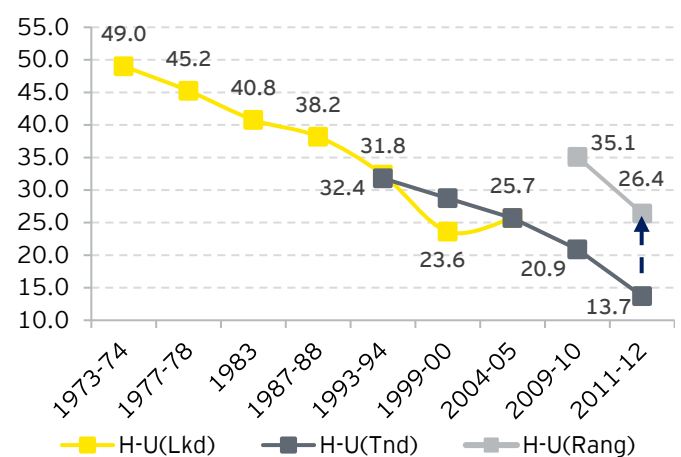
For 2004-05, two estimates based respectively on Lakdawala Committee and Tendulkar Committee are available. Rural poverty was estimated at 41.8 by Tendulkar method as compared to 28.3 in the Lakdawala methodology. In the case of urban poverty, there was no difference in the poverty estimates in these two studies. Starting from this level, in the Tendulkar methodology, poverty headcount ratio for rural areas fell very fast to a level of 25.7 in 2011-12, that is a fall by a margin of 16.1% points. For the urban areas also, the headcount ratio fell from 25.7 to 13.7, that is, a fall of 12% points. The Rangarajan Committee gives poverty estimates for only two years namely, 2009-10 and 2011-12. Compared to Tendulkar Committee, the poverty estimates provided by this Committee show a higher headcount ratio in the rural areas at 30.9. In the case of urban areas also, the poverty headcount ratio was estimated at a higher level of 26.4 as compared to the earlier estimate of 13.7, that is, a difference of 12.7% points. Each time the poverty line is uplifted, a larger number of poor appear below the poverty line.

Thus, the poverty headcount ratio is highly sensitive to the choice of the poverty line. Charts 6 and 7 show the relative position of the poverty headcount ratio according to different poverty lines: poverty lines defined by Lakdawala, Tendulkar and Rangarajan Committees. In all cases, poverty headcount ratio is uplifted for an initial year and then it starts to come down as expected. However, in order to get a consistent picture of poverty reduction over time, it may be more useful to get a consistent set of poverty lines over different years.

**Chart 6: Poverty headcount ratio in rural areas**



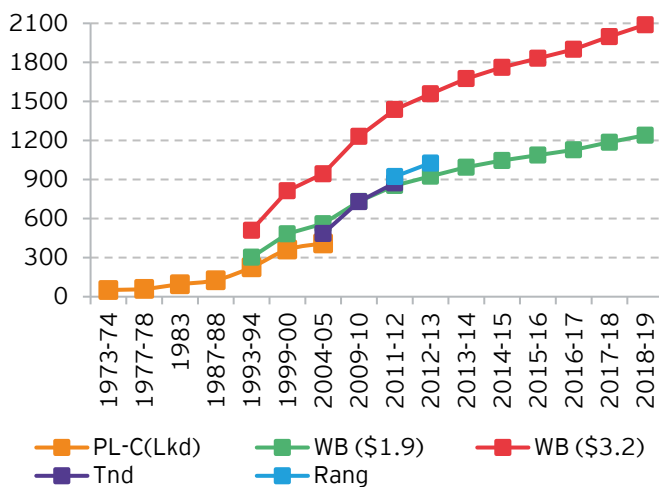
**Chart 7: Poverty headcount ratio in urban areas**



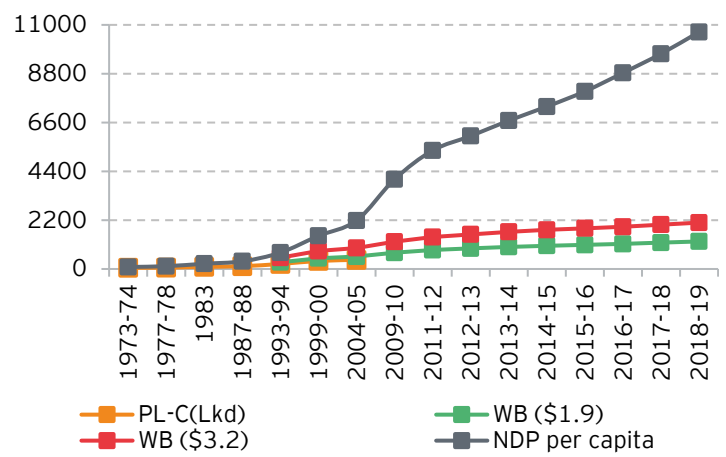
Source (Basic data): NITI Aayog; Rangarajan Committee Report 2014, World Bank; EY estimates

Such a picture can be constructed by using internationally defined poverty lines. Broadly, two alternatives are available, the international \$1.9 and \$3.2<sup>7</sup> per capita per day, defined in 2011 PPP terms. This can be used to provide comparable estimates for different years using two steps: a) conversion of these 2011 (real) poverty lines measured in PPP terms to corresponding estimates of poverty lines expressed in international dollar (nominal) measured in PPP terms<sup>8</sup>. In the second step, these are converted into local currency (INR). For this purpose, the conversion ratios are given by the World Bank<sup>9</sup>. This dataset is available from the early 1990s. This long series can then be related to the mean per capita income of different years in India (Chart 9). It can be seen that the poverty line whether measured at international \$1.9 or \$3.2 becomes a smaller and smaller fraction of mean per capita Net Domestic Product (NDP). This means that due to the normal growth process, the incidence of poverty in India should reduce drastically as mean per capita NDP becomes a higher and higher multiple of the poverty line. This is shown in Table 5.

**Chart 8: Poverty lines by different committees (INR/month)**



**Chart 9: NDP per capita and poverty lines by Lakdawala committee, World Bank (INR/month)**



Source (Basic data): CSO, World Bank, NITI Aayog, Rangarajan Committee Report 2014; EY estimates

Analysts have used a number of factors to predict or interpolate poverty headcount ratio using elaborate regression equations, but in most cases the growth rate, in one form or the other, appears to be an important determinant of the rate of reduction in the poverty headcount ratio. Table 5 shows that starting from 41.1 in 1993-94, the poverty line as percentage of mean per capita income falls to just about 11% with respect to the poverty line defined by international \$1.9 measured in 2011 PPP terms. Table 5 also shows that the Lakdawala poverty lines were relatively lower than the international poverty lines. The poverty line estimates of the Tendulkar Committee were nearly equal to the international estimates. The poverty lines as per the Rangarajan Committee however, were higher than the international benchmark.

<sup>7</sup> The International Poverty Line has a value of international \$1.90 2011 PPP terms and the lower middle income class poverty line has a value of international \$3.20 2011 PPP terms; an international dollar would buy in the cited country a comparable amount of goods and services a US\$ would buy in the United States

<sup>8</sup> PPP conversion factor for 2011 is the ratio of PFCE measured in terms of current international \$ PPP to PFCE measured in 2011 constant international \$ PPP

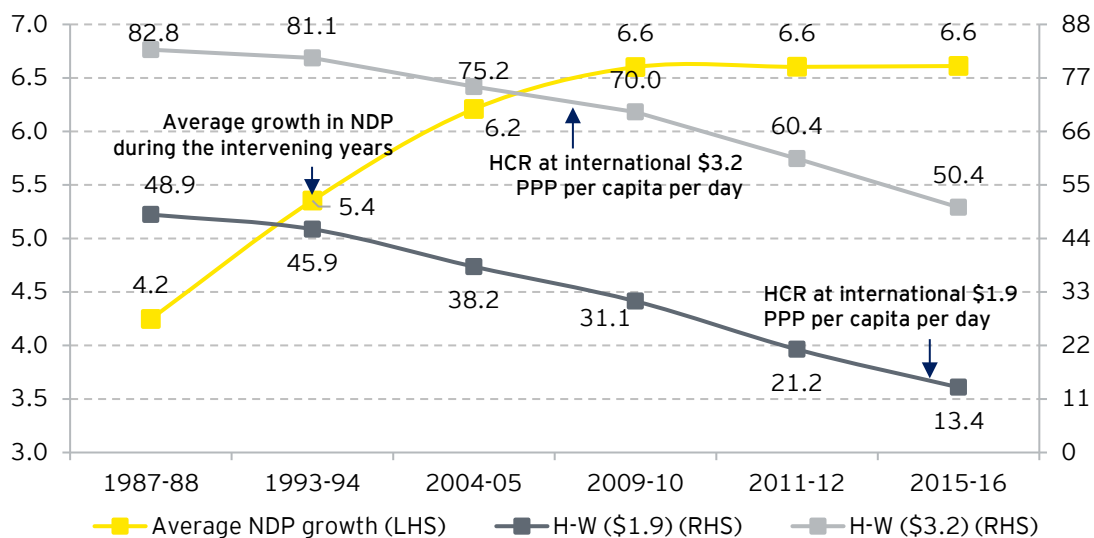
<sup>9</sup> Private consumption - local currency unit per international \$

**Table 5: Poverty line as a share of nominal per capita NDP**

Year	National poverty line as a ratio of international poverty line (INR equivalent of WB poverty line of \$1.9 p.c.)			Poverty line as a ratio of nominal per capita NDP					Headcount ratio	
	Lkd	Tnd	Rang	Lkd	Tnd	Rang	WB \$1.9	WB \$3.2	WB \$1.9	WB \$3.2
1973-74				56.7						
1977-78				47.3					61.6	88.1
1983				40.3					54.8	85.5
1987-88				36.7					48.9	82.8
1993-94	74.5			30.6			41.1	69.2	45.9	81.1
1999-00	75.0			24.3			32.4	54.5		
2004-05	72.9	86.5		18.7	22.2		25.7	43.3	38.2	75.2
2009-10		99.9	126.1		18.1	22.8	18.1	30.5	31.1	70.0
2011-12		102.3	120.3		16.4	19.2	16.0	26.9	21.2	60.4
2012-13							15.4	26.0		
2013-14							14.9	25.1		
2014-15							14.3	24.1		
2015-16							13.6	22.9	13.4	50.4
2016-17							12.8	21.5		
2017-18							12.2	20.6		
2018-19							11.6	19.6		

Source: World Bank, NITI Aayog, Rangarajan Committee Report 2014;

**Chart 10** shows that as the growth rate increases, the poverty headcount ratio falls. Here growth is taken as the average annual growth in the net domestic product over the period between two years for which the headcount ratio is given. The chart indicates a clear inverse relationship between growth and headcount ratio. We can also see that the fall in the poverty headcount ratio becomes quite noticeable as the rate of growth in the relevant periods keeps increasing.

**Chart 10: Average real NDP growth and average reduction in poverty headcount ratio in rural areas (Lakdawala)**

Source (Basic data): NITI Aayog; Rangarajan Committee Report 2014, World Bank; EY estimates



## **Abolishing extreme poverty in India: the world poverty clock indicates that extreme poverty in India may be abolished by November 2019**

According to the UN sustainable development goals, the first goal out of the 17 goals relates to ending “poverty in all its forms everywhere”. In particular, bringing extreme poverty below a level of 3% of population is considered to be equivalent to abolition of poverty<sup>10</sup>, where extreme poverty is defined as “living on less than international \$1.9 a day measured in 2011 purchasing power parity prices.”

The world poverty clock provides an online platform for monthly monitoring of the progress in reaching this goal with respect to individual countries. The background methodological framework for the world poverty clock is given in Cuaresma (2018)<sup>10</sup>. It provides the progress on eradication of extreme poverty under the business as usual assumptions provided by specific scenarios called Shared Socio-economic Pathways (SSP 2). The methodology builds a relationship of poverty reduction with population and average per capita income<sup>11</sup>. This study notes that empirical evidence indicates that increase in the income level of the poor tends to be proportional to increase in average income per capita (Dollar and Kraay, 2002, Dollar et al., 2016)<sup>12</sup>.

According to this clock, which gives month-wise projections, India would be able to eliminate extreme poverty by November 2019, that is, in seven months from now. Even then, by end-October 2019, there would be 41.9 million people who would still be below the threshold of international \$1.9 although this would amount only to 3% of total population. The details are given in Table 6 below.

**Table 6: Estimated people living in extreme poverty in India as per world poverty clock**

Month/Year	Estimated		
	No. of people living in extreme poverty (million)	% of total population	Total population (million)
Jan-2016	90.2	6.8	1,323
Jan-2017	75.4	5.6	1,339
Jan-2018	62.5	4.6	1,355
Jan-2019	50.1	3.7	1,371
Oct-2019	41.9	3.0	1,383

Source: World Poverty Clock website; <https://worldpoverty.io/index.html>

### **Using fiscal instruments for combating poverty: fiscal instruments and improving state-wise focus may be effective strategies for combating poverty**

Market prices do not adequately reflect the purchasing power of the incomes of the poor households because of the prevalence of several subsidies and indirect tax concessions that apply to selected items in the consumption basket of a typical poor household. For example, the PDS system prices are heavily concessional for food items typically purchased by the poor households. Many states provide additional subsidies or concessionalities for poor households. Similarly, medical services can be accessed almost free of cost in the primary health centers and educational fees particularly tuition fees are zero or near zero in most states, up to the primary or secondary level schooling. Electricity and fuel (cooking gas and kerosene) typically in rural areas are also available at concessional rates. For these reasons, an apparently low poverty threshold should represent a relatively larger purchasing power when compared to the purchasing power of the same nominal amount evaluated at prices which would prevail in the absence of subsidies and concessions. Even when extreme poverty is assessed to be abolished as per the world poverty clock, 3% of the population is still estimated to be below the poverty line. This may largely consist of individuals who may not have income or earning opportunities due to chronic health issues, physical infirmities, extreme old age, children who are on the streets without families and other deprived sections. Since this segment of the population is likely to remain detached from the normal economic growth process, an effective way to reach this segment would be through identification and support by a direct income transfer program. However, it may be realized that any income transfer program through the formalized sectors of the economy such as banks may still not be able to capture a good part of this segment

<sup>10</sup> Cuaresma, J. C., Fengler, W., Kharas, H., Bekhtiar, K., Brottrager, M., & Hofer, M. (2018). Will the Sustainable Development Goals be fulfilled? Assessing present and future global poverty. Palgrave Communications.

<sup>11</sup> The methodology used for measuring the head count ratio by world poverty clock is different from that used by the World Bank

<sup>12</sup> Growth is good for the poor. J Econ Growth 7(3):195-225 Edward P, Sumner A (2014) Estimating the scale and geography of global poverty now and in the future: How much difference do method and assumptions make? World Dev 58:67-82; Dollar D, Kleineberg T, Kraay A (2016) Growth still is good for the poor. Eur Econ Rev 81:68-85

because of illiteracy, non-availability of a fixed address, etc. This segment of population can only be assisted through links established with welfare workers in villages and urban areas such as in the Anganwadi program and banking intermediaries.

Fiscal policies for poverty alleviation are effective when they are properly targeted. Such targeting can be facilitated by examining the concentration pattern of the rural and urban poor. Using the Rangarajan Committee data for 2011-12, the long-term poverty trends in India indicate that over time, the poverty headcount ratio has come down, poverty has shifted from rural to urban areas and that the poor are concentrated in a limited number of states. Table 7 shows that three states account for 47% of total rural poor in the country. These states are Uttar Pradesh, Bihar and Madhya Pradesh. If we add another seven states to this, more than 80% of the total rural poor would be covered. A similar concentration pattern is visible in the case of the urban poor. Four states namely, Uttar Pradesh, Maharashtra, West Bengal and Madhya Pradesh account for 45.8% of total urban poor. If we add another six states to this list- Tamil Nadu, Bihar, Karnataka, Gujarat, Andhra Pradesh, Rajasthan and Chhattisgarh, it would be possible to cover more than 80% of the urban poor. We also notice that a number of higher income states are included in this list.

**Table 7: State wise concentration of poor people in rural and urban areas**

Sl. no.	States arranged in descending order of share of poor in total rural poor	Rural			States in descending order of share of poor in total urban poor	Urban		
		No of poor (lakhs)	% of all-state rural poor	Cumulative percentage		No of poor (lakhs)	% of all-state urban poor	Cumulative percentage
1	Uttar Pradesh	600.9	23.1%	23.1%	Uttar Pradesh	208.2	20.3%	20.3%
2	Bihar	376.8	14.5%	37.5%	Maharashtra	88.4	8.6%	28.9%
3	Madhya Pradesh	241.4	9.3%	46.8%	West Bengal	86.8	8.5%	37.4%
4	West Bengal	188.6	7.2%	54.0%	Madhya Pradesh	86.3	8.4%	45.8%
5	Orissa	169	6.5%	60.5%	Tamil Nadu	72.8	7.1%	52.9%
6	Maharashtra	139.9	5.4%	65.9%	Bihar	61.4	6.0%	58.9%
7	Jharkhand	117	4.5%	70.4%	Karnataka	60.9	5.9%	64.9%
8	Assam	114.1	4.4%	74.8%	Gujarat	58.9	5.7%	70.6%
9	Rajasthan	112	4.3%	79.1%	Andhra Pradesh	45.7	4.5%	75.1%
10	Gujarat	109.8	4.2%	83.3%	Rajasthan	39.5	3.9%	78.9%
11					Chhattisgarh	26.9	2.6%	81.6%

Source (basic data): Report of the Expert group to review the Methodology for Measurement of Poverty, Planning Commission (2014)

In terms of policy formulation, these patterns indicate that the following considerations may be relevant in designing a suitable and well targeted poverty alleviation policies: 1) rural and urban poor are concentrated in a limited number of states, 2) in the case of urban poverty, some of these states are also developed and are relatively higher income states, 3) the normal growth process would by itself reduce incidence of poverty but the poverty alleviation impact can be increased by targeted income transfer programs as well as well-designed subsidy and taxation regimes.

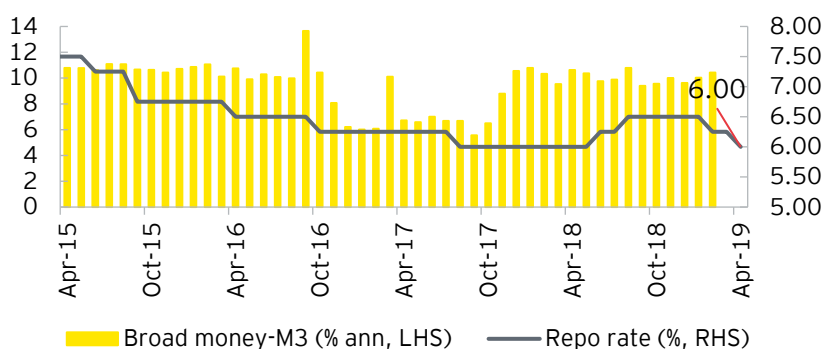
## 6. Money and finance: RBI reduced the repo rate by 25 basis points to 6% in April 2019

### A. Monetary sector

#### Monetary policy

- ▶ The RBI lowered the repo rate by 25 basis points to 6.0% in its April 2019 monetary policy review as CPI inflation remained well below the mid-point (4%) of the RBI's inflation target range of 2% to 6%. This is the second consecutive rate reduction since January 2019. However, the Monetary Policy Committee maintained its policy stance as "neutral".
- ▶ In the RBI's assessment, the outlook for headline CPI inflation is likely to be influenced by: (a) uncertainty surrounding food prices, (b) core inflation which continues to remain at elevated levels, (c) recent pick up in international crude oil prices, (d) likely reversal in fuel inflation, (e) sustained volatility in financial markets and (e) fiscal position of the general government.

**Chart 11: Growth in broad money and movements in repo rate**



With CPI inflation continuing to remain benign, the RBI lowered the repo rate by 25 basis points to 6.0%, in its first bi-monthly policy review of 2019-20 held in April 2019.

Source: Database on Indian Economy, RBI.

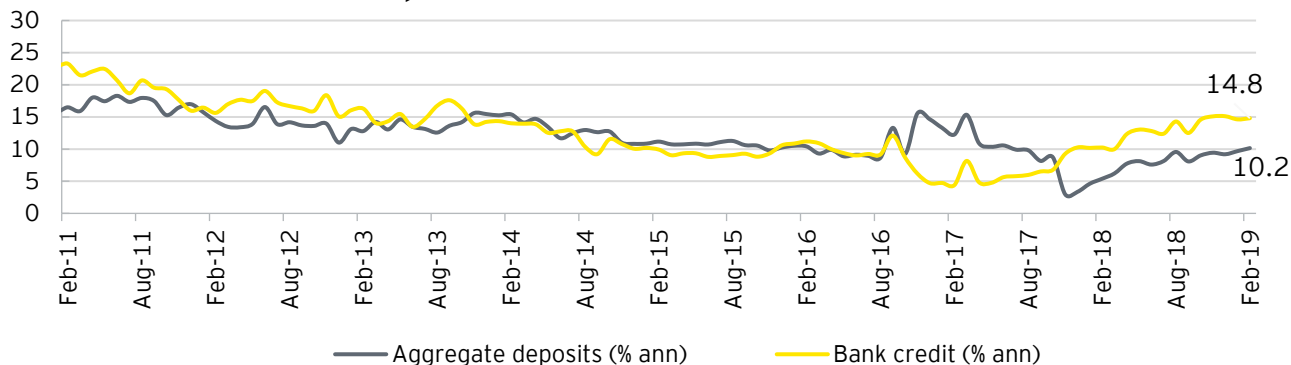
#### Money stock

- ▶ Growth in broad money stock (M3) increased to 10.4% (y-o-y) in February 2019 from 10.0% in January 2019 (**Chart 11**). At 8.8% in February 2019, the time deposits witnessed a stable growth for the third consecutive month.
- ▶ Narrow money (M1) grew at a faster pace of 16.2% (y-o-y) in February 2019 from 14.5% in January 2019. This was largely on account of a sharp increase in the growth of demand deposits, which was at 12.2% in February 2019 as compared to 7.8% in January 2019.

#### Aggregate credit and deposits

- ▶ Growth in bank credit increased, although marginally, to 14.8% (y-o-y) in February 2019 from 14.6% in January 2019 (**Chart 12**). During April-February FY19, credit growth has averaged 13.8%, above its five-year average annual growth of 10.2%.

**Chart 12: Growth in credit and deposits**



Source: Database on Indian Economy, RBI.



- ▶ Growth in non-food credit remained broadly stable at 3.2% in February 2019, similar to the level seen in January 2019.
- ▶ Growth in credit to industries (accounting for 34% of non-food credit) increased to a 36-month high of 5.6% in February 2019 as compared to 5.2% in January 2019. Services sector credit grew at a marginally slower pace of 23.7% in February 2019 as compared to 23.9% in January 2019. Growth in credit to agricultural sector at 7.5% in February 2019 was also slightly lower than 7.6% in January 2019.
- ▶ Housing sector credit, a key driver of retail sector credit, continued to outpace the overall credit growth in February 2019. It grew at a robust pace of 18.8% in February 2019, increasing from 18.4% in January 2019.
- ▶ Growth in aggregate bank deposits increased from 9.7% in January 2019 to 10.0% (y-o-y) in February 2019, its highest since June 2017.

## B. Financial sector

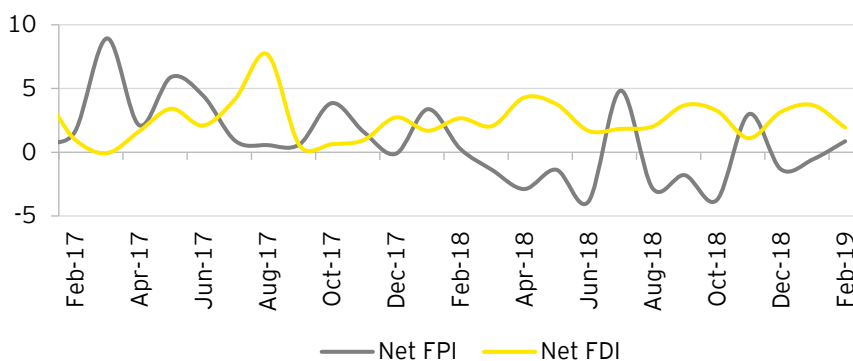
### Interest rates

- ▶ Interest rates offered by banks on term deposits with a maturity of more than one year remained unchanged for the fifth month at 6.9% (average) in March 2019. During FY19, the term deposit rates averaged 6.7%, slightly higher than 6.5% in FY18.
- ▶ Commercial banks marginally lowered the marginal cost of lending rate (MCLR) to 8.30% (average) in March 2019 from 8.35% in February 2019. Although the transmission of reduction in repo rate to lending rate has been slow, banks are likely to reduce the MCLR further in the coming months.
- ▶ The average yield on 10-year government securities dipped to 7.35% in March 2019, from 7.43% in February 2019 largely on account of positive news relating to the fall in the current account deficit in 3QFY19 and continuing low inflation rate. On an average, the yield on 10-year government securities was relatively higher at 7.7% in FY19 as compared to 7.1% in FY18.

### FDI and FPI

- ▶ As per the provisional data released by the RBI, the overall foreign investment inflows (FIIs) moderated to US\$2.8 billion in February 2019 from US\$3.1 billion in January 2019 due to a sharp fall in net FDI inflows (**Chart 13**).

**Chart 13: Net FDI and FPI inflows**



Net FDI moderated sharply to US\$1.9 billion while net FPI reversed its trend and registered an inflow of US\$ 0.9 billion in February 2019.

Source: Database on Indian Economy, RBI.

- ▶ Net FDI inflows were lower at US\$1.9 billion in February 2019 as compared to US\$3.7 billion in January 2019 (Chart 13). Gross FDI inflows also moderated to US\$4.3 billion in February 2019 as compared to US\$5.9 billion in January 2019.
- ▶ After remaining negative for two consecutive months, net FPIs turned positive, registering an inflow of US\$0.9 billion in February 2019, increasing from US\$(-)0.6 billion in January 2019.

## 7. Trade and CAB: growth in exports increased to a five-month high of 11.0% in March

### A. CAB: Current Account Deficit (CAD) fell to 2.5% of GDP in 3QFY19

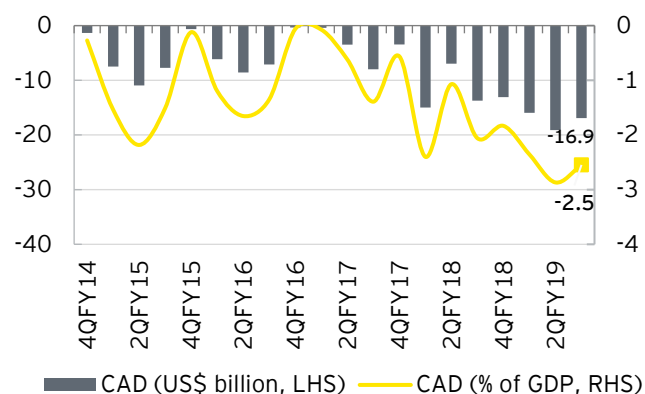
- CAD in 3QFY19 fell to 2.5% GDP from a 21-quarter high of 2.9% in 2QFY19 as net invisibles as a percentage of GDP rose to a three year high of 4.9% (**Table 8**). This was due to net services exports increasing to a three year high of 3.2% of GDP and net income transfers improving to (-) 0.9% of GDP in 3QFY19 from (-) 1.3% of GDP respectively in 2QFY19. Over the same period, net merchandise exports remained stable at an elevated level of (-) 7.5% of GDP.

**Table 8: Components of CAB in US\$ billion**

	CAB (-deficit/+surplus)	CAB as a % of nominal GDP	Goods account net	Services account net
FY15	-26.8	-1.3	-144.9	76.6
FY16	-22.2	-1.1	-130.1	69.7
FY17	-15.3	-0.7	-112.4	67.5
FY18	-48.7	-1.8	-160.0	77.6
4QFY18	-13.1	-1.8	-41.6	20.2
1QFY19	-15.9	-2.4	-45.8	18.7
2QFY19	-19.1	-2.9	-50.0	20.2
3QFY19	-16.9	-2.5	-49.5	21.3

Source: Database on Indian Economy, RBI.

**Chart 14: Current Account Deficit**



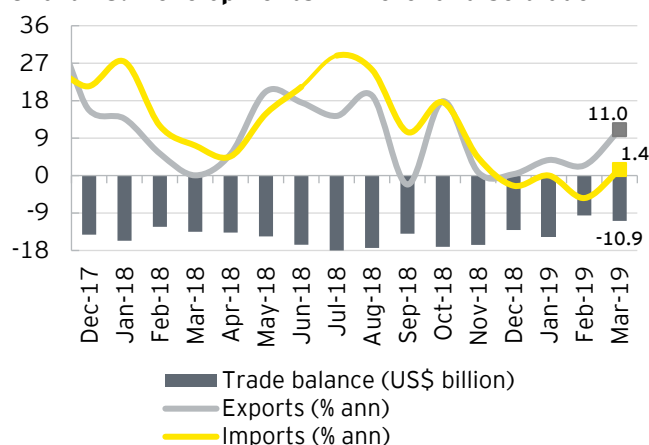
Source: Database on Indian Economy, RBI.

### B. Merchandise trade and exchange rate

Growth in merchandise exports increased to a five-month high of 11.0% in March 2019 from 2.4% in February 2019. Merchandise imports growth turned positive at 1.4% in March 2019 from (-) 5.4% in February 2019.

- Merchandise exports growth increased to 11.0% in March 2019 from 2.4% in February 2019 (**Chart 15**) driven by faster growth in exports of engineering goods and petroleum (oil) products.

**Chart 15: Developments in merchandise trade**



Source: Ministry of Commerce and Industry, GoI

- Growth in exports of engineering goods reached a seven-month high of 16.3% in March 2019 from 1.7% in February 2019. Over the same period, oil exports growth turned positive at 6.6% from (-) 7.7%. On an annual basis, exports growth eased to 8.7% in FY19 from 10.6% in FY18.
  - Growth in imports turned positive at 1.4% in March 2019 from (-) 5.4% in February 2019 driven by positive growth in imports of oil and gold and a slowdown in the contraction in pearls and precious metals. On an annual basis, imports growth eased to 9.5% in FY19 from 20.9% in FY18.
  - Imports excluding oil, gold and jewelry, an indicator of domestic demand, contracted for the second straight month by (-) 2.9% in March 2019 as compared to (-) 2.1% in February 2019.
- Merchandise trade deficit increased to US\$10.9 billion in March 2019 from a 17-month low of US\$9.6 billion in February 2019. On an annual basis, merchandise trade deficit increased to a five year high of US\$176.1 billion in FY19 from US\$159.0 billion in FY18.
  - The Indian Rupee appreciated to INR69.5 per US\$ in March 2019 from INR71.2 per US\$ partly due to strong capital inflows.

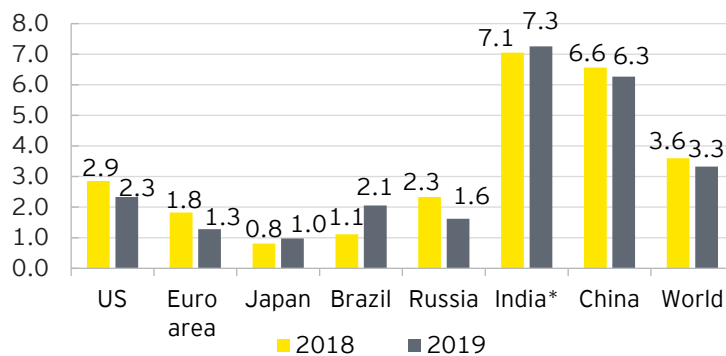
## 8. Global growth: IMF projected global growth to fall to 3.3% in 2019 from 3.6% in 2018

### A. Global growth outlook

- ▶ The IMF World Economic Outlook (WEO), April 2019 projected the global growth to fall from 3.6% in 2018 to 3.3% in 2019. The 2019 global growth forecast is 0.2% points below that in the January 2019 WEO Update (**Chart 16**). Growth in advanced economies is expected to slow from 2.2% in 2018 to a downwardly revised 1.8% in 2019. Growth in emerging market and developing economies (EMDEs) is projected to marginally fall from 4.5% in 2018 to 4.4% in 2019.
- ▶ Growth in the US is projected to fall from 2.9% in 2018 to 2.3% in 2019 as the impact of fiscal stimulus fades. In the Euro area, growth is expected to fall to 1.3% in 2019. The 2019 growth forecasts for both regions have been revised down sharply.
- ▶ Growth in Japan is projected to remain low but improve to 1% in 2019 relative to 0.8% in 2018, mainly reflecting the additional fiscal support including measures to mitigate the effects of the planned consumption tax rate increase in October 2019.
- ▶ Growth in China is projected to moderate from 6.6% in 2018 to 6.3% in 2019. This reflects weaker underlying growth in 2018, especially in the second half and the impact of lingering trade tensions with the US. The projection for 2019 is slightly stronger than that in the January 2019 WEO Update, reflecting the revised assumption of the IMF regarding US tariffs on Chinese exports.
- ▶ Growth in India is projected to improve from 7.1% in 2018 to 7.3% in 2019 due to the recovering investment and consumption and a more expansionary stance of the monetary policy. However, the 2019 growth forecast has been revised down by 0.2% points relative to that in January 2019 WEO Update.

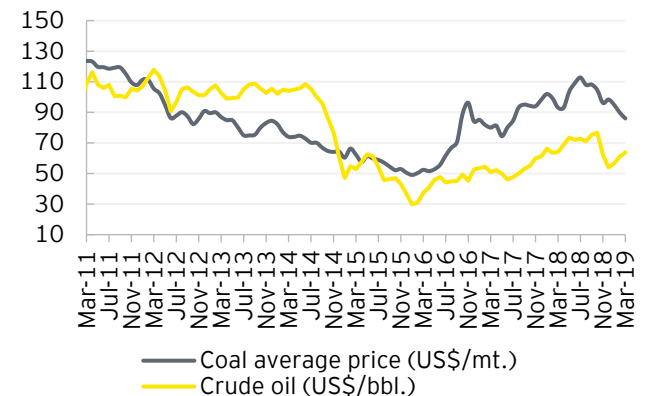
The IMF has projected the global growth to slow down from 3.6% in 2018 to 3.3% in 2019. It has revised down the 2019 global growth forecast by 0.2% points largely due to a downward revision in the growth prospects of advanced economies.

**Chart 16: Global growth projections**



Source: World Economic Outlook IMF April 2019  
Note: forecasted for 2019; \*data pertains to fiscal year i.e., 2018 indicates 2018-19 and 2019 indicates 2019-20

**Chart 17: Global crude and coal prices**



Source (basic data): World Bank, Pink Sheet, April 2019

### B. Global energy prices: increased to US\$63.8/bbl. in March 2019

- ▶ Average global crude price<sup>13</sup> increased for the third consecutive month to US\$63.8/bbl. in March 2019 from US\$61.1/bbl. in February 2019 (**Chart 17**) reflecting supply disruptions in Iran and Venezuela and voluntary output cut by other OPEC countries. Global crude price averaged US\$67.3/bb. in FY19 as compared to US\$55.7/bbl. in FY18. The EIA forecasted Brent spot prices to average \$65/b in 2019 and \$62/b in 2020.
- ▶ Average global coal price<sup>14</sup> fell for the third successive month to a 20-month low of US\$86/mt. in March 2019 from US\$89.8/mt. in February 2019. Global coal price averaged US\$100.4/mt. in FY19 as compared to US\$90.8/mt. in FY18.

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

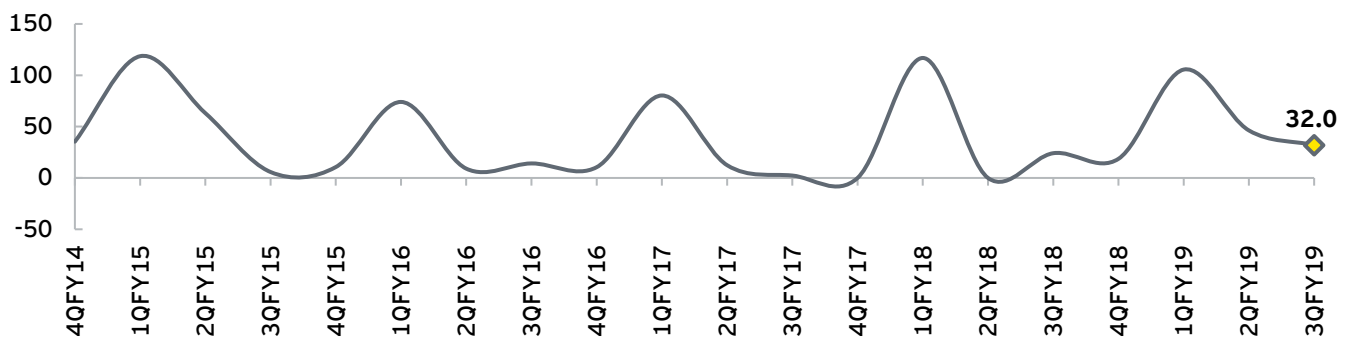
<sup>14</sup> Simple average of Australian and South African coal prices

## 9. Index of macro Imbalance (IMI): macro balance improved further in 3QFY19

### Reflecting an improvement in the macro balance, the IMI fell to 32 in 3QFY19

- ▶ 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% of GDP and 1.3% of GDP<sup>15</sup>. All three components of IMI have been given equal weightage (33.33%). The state of “balance” is judged by a value of “0”.
- ▶ An index value greater than zero indicates the presence of an imbalance in the economy. In 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.
- ▶ The IMI fell by 14.1 points to 32.0 in 3QFY19 from 46.3 in 2QFY19 indicating further improvement in macro balance of the economy (**Chart 18**). Two out of the three components namely, CPI inflation (2.6%) and center’s fiscal deficit (2.2% of GDP) were below their respective benchmark levels in 3QFY19. However, CAD at 2.5% of GDP, was above its benchmark level of 1.3% in 3QFY19.

**Chart 18: IMI (quarterly)**



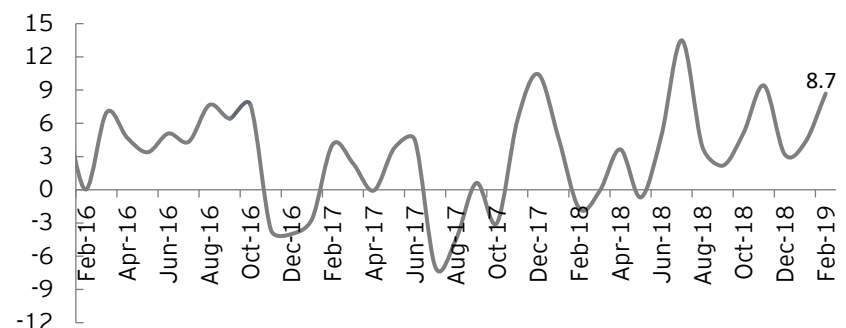
Source (Basic data): RBI, MOSPI and EY estimate

## 10. Index of Aggregate Demand (IAD): reflected improvement in demand conditions in February 2019

### Growth in IAD increased to 8.7% in February 2019 led by higher demand in manufacturing sector

- ▶ The y-o-y growth in the index of aggregate demand accelerated to 8.7% in February from 4.3% in January 2019 (**Chart 19**).
- ▶ This pick-up was partly owing to higher demand in the manufacturing sector and a stable demand in agricultural sector. Even though demand conditions in services sector improved, it was largely due to favorable base effect.

**Chart 19: Growth in IAD (y-o-y)**



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

<sup>15</sup> Rangarajan, C (2016): “Can India grow at 8 to 9 per cent?” The Hindu, <http://www.thehindu.com/opinion/lead/can-india-grow-at-8-to-9-per-cent/article8596824.ece>, Accessed on 17 May 2016.

# 11. Capturing macro-fiscal trends: data appendix

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

Fiscal year/quarter/month	IIP	Mining	Manufacturing	Electricity	Core IIP	Fiscal year/quarter/month	PMI mfg.	PMI ser.
	% change y-o-y							
FY 15	4.0	-1.3	3.8	14.8	4.9	FY16	51.3	51.7
FY 16	3.3	4.3	2.9	5.7	3.0	FY17	51.6	51.0
FY 17	4.6	5.3	4.3	5.8	4.8	FY18	51.5	50.0
FY 18	4.4	2.3	4.7	5.3	4.3	FY19	52.8	52.2
4Q FY 18	6.5	1.1	7.5	6.1	5.3	1Q FY19	52.0	51.2
1Q FY 19	5.1	5.4	5.1	4.9	5.5	2Q FY19	52.1	52.2
2Q FY 19	5.3	0.9	5.6	7.5	5.4	3Q FY19	53.4	53.0
3Q FY 19	3.7	2.8	3.4	6.9	3.6	4Q FY19	53.6	52.2
Nov-18	0.2	2.7	-0.7	5.1	3.3	Dec-18	53.2	53.2
Dec-18	2.6	-1.0	3.0	4.4	2.7	Jan-19	53.9	52.2
Jan-19	1.4	3.9	1.0	0.9	1.5	Feb-19	54.3	52.5
Feb-19	0.1	2.0	-0.3	1.2	2.1	Mar-19	52.6	52.0

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

**Table A2: Inflation indicators (annual, quarterly and monthly growth rates, y-o-y)**

Fiscal year/quarter/month	CPI	Food Price Index	Fuel and light	Core CPI	WPI	Food Price Index	Mfg. products	Fuel and power	Core WPI
	% change y-o-y					% change y-o-y			
FY16	4.9	4.9	5.3	4.9	-3.7	1.2	-1.8	-19.7	-1.8
FY17	4.5	4.2	3.3	4.9	1.7	5.9	1.3	-0.3	-0.1
FY18	3.6	1.8	6.2	4.6	2.9	1.9	2.7	8.2	3.0
FY19	3.4	0.1	5.7	5.5	4.3	0.6	3.7	11.6	4.2
1QFY19	4.8	2.9	6.1	6.0	4.7	1.2	3.8	12.3	4.4
2QFY19	3.9	0.7	8.4	5.7	5.0	-0.9	4.4	17.7	4.9
3Q FY19	2.6	-2.0	6.7	5.6	4.5	-0.9	4.1	13.9	4.8
4Q FY19	2.5	-0.9	1.9	5.0	3.0	3.1	2.4	3.2	2.6
Dec-18	2.1	-2.6	4.5	5.4	3.5	-0.1	3.6	7.6	4.2
Jan-19	2.0	-2.2	2.1	5.0	2.8	2.0	2.8	1.8	3.1
Feb-19	2.6	-0.7	1.2	5.1	2.9	3.3	2.3	2.2	2.4
Mar-19	2.9	0.3	2.4	4.7	3.2	3.9	2.2	5.4	2.5

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



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

Fiscal year/month	Gross tax revenue	Corporate tax	Income tax	Direct taxes*	Indirect taxes**	Fiscal deficit	Revenue deficit
						% of GDP	% of GDP
FY16	17.0	6.0	8.5	6.9	30.1	3.9	2.5
FY 17	17.9	6.7	21.5	12.3	21.6	3.5	2.1
FY 18	11.8	17.8	19.9	18.6	6.0	3.5	2.6
FY19 (RE over FY 18 actuals)	17.2	17.5	22.8	19.8	14.3	3.4	2.2
FY20 (BE over RE)	13.5	13.3	17.2	15.0	11.8	3.4	2.2
Cumulated growth (% , y-o-y)						% of budgeted target	
Jul-18	11.7	0.6	11.3	6.7	16.1	86.5	106.4
Aug-18	8.7	14.3	17.5	16.1	4.6	94.7	114.0
Sep-18	8.6	17.2	16.5	16.9	4.4	95.3	108.1
Oct-18	6.7	16.6	16.1	16.4	1.2	103.9	117.9
Nov-18	7.1	16.6	16.4	16.5	1.9	114.8	132.6
Dec-18	6.6	14.0	15.2	14.5	1.0	110.6	130.5
Jan-18	7.3	16.7	14.3	15.7	1.5	121.5	143.7
Feb-18	7.9	15.4	14.2	14.9	3.3	134.2#	158.1#

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 a proportion of revised estimates FY20

RE - revised estimates; BE - budget estimates

Fiscal year/month	CGST	UTGST	IGST	GST compensation cess	Total GST (center)
	INR crore				
FY 2019 (RE)	5,03,900	-	50,000	90,000	6,43,900
FY 2020 (BE)	6,10,000	-	50,000	1,01,200	7,61,200
Monthly tax collection (INR crore)					
Jul-18	57,893	163	-39,903	7,963	26,116
Aug-18	36,047	327	5,199	7,405	48,978
Sep-18	29,862	109	14,753	7,850	52,574
Oct-18	47,951	126	-14,215	7,724	41,586
Nov-18	34,398	76	9,037	7,936	51,447
Dec-18	43,075	585	-9,368	7,700	41,992
Jan-19	35,066	126	9,511	8,435	53,138
Feb-19	35,908	105	4,453	8,173	48,639

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

Note: IGST revenues are subject to final settlement.

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

Fiscal year/month	Repo rate (end of period)	Fiscal year/quarter/month	M1	M3	Bank credit	Agg. deposits	10 yr. government bond yield	Net FDI	Net FPI	Fiscal year/quarter/month	FX reserves
	%		% change y-o-y				%	US\$ billion			US\$ billion
May-18	6.00	FY15	11.3	10.9	11.0	12.1	8.3	31.3	42.2	FY15	355.6
Jun-18	6.20	FY16	13.5	10.1	9.7	10.5	7.7	36.0	-4.1	FY16	370.0
Jul-18	6.25	FY17	3.1	10.1	7.9	11.6	7.0	35.6	7.6	FY17	424.4
Aug-18	6.50	FY18	22.1	9.5	7.5	7.5	7.0	30.3	22.1	FY18	424.4
Sep-18	6.50	4QFY18	22.1	9.5	10.1	5.4	7.5	6.4	2.3	1QFY19	424.4
Oct-18	6.50	1QFY19	18.1	9.8	12.7	7.8	7.8	9.8	-8.1	2QFY19	406.1
Nov-18	6.50	2QFY19	14.6	9.4	13.1	8.6	7.9	7.5	0.2	3QFY19	400.5
Dec-18	6.50	3QFY19	12.7	9.6	14.9	9.2	7.7	7.5	-2.1	4QFY19	393.4
Jan-19	6.50	Nov-18	15.8	10.0	15.1	9.4	7.8	1.1	3.0	Dec-18	393.4
Feb-19	6.25	Dec-18	12.7	9.6	15.1	9.2	7.4	3.2	-1.3	Jan-19	398.2
Mar-19	6.25	Jan-19	14.5	10.0	14.6	9.7	7.3	3.7	-0.6	Feb-19	399.2
Apr-19	6.00	Feb-19	16.2	10.4	14.8	10.2	7.4	1.9	0.9	Mar-19	411.9

Source: Database on Indian Economy-RBI

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

External trade indicators (annual, quarterly and monthly growth rates)							Global growth (annual)			
Fiscal year/quarter/month	Exports	Imports	Trade balance	Ex. rate (avg.)	Crude prices (avg.)	Coal prices (avg.)	Calendar year	World GDP	Adv. econ.	Emer. econ.
	% change y-o-y		US\$ billion	INR/US\$	US\$/bbl.	US\$/mt		% change y-o-y		
FY16	-15.6	-15.2	-117.7	65.5	46.0	54.7	2013	3.5	1.4	5.1
FY17	5.1	0.9	-108.2	67.1	47.9	73.0	2014	3.6	2.1	4.7
FY18	10.6	20.9	-159.0	64.5	55.7	90.8	2015	3.4	2.3	4.3
FY19	8.7	9.5	-176.4	69.9	67.3	100.4	2016	3.4	1.7	4.6
1QFY19	14.2	13.5	-44.9	67.0	71.4	101.9	2017	3.8	2.4	4.8
2QFY19	9.5	21.2	-49.4	70.2	73.0	109.6	2018	3.6	2.2	4.5
3Q FY19	5.7	6.1	-46.9	72.1	64.3	99.7	2019*	3.3	1.8	4.4
4Q FY19	6.0	-1.2	-35.2	70.5	60.5	90.2	2020*	3.6	1.7	4.8
Dec-18	0.3	-2.4	-13.1	70.7	54.0	98.4	2021*	3.6	1.7	4.9
Jan-19	3.7	0.0	-14.7	70.7	56.6	94.9	2022*	3.6	1.6	4.8
Feb-19	2.4	-5.4	-9.6	71.2	61.1	89.8	2023*	3.6	1.6	4.9
Mar-19	11.0	1.4	-10.9	69.5	63.8	86.0	2024*	3.7	1.6	4.9

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

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

Fiscal year/quarter	Output: Major sectors									IPD inflation
	GVA	Agr.	Ming.	Mfg.	Elec.	Cons.	Trans.	Fin.	Publ.	GVA
FY16#	8.0	0.6	10.1	13.1	4.7	3.6	10.2	10.7	6.1	1.2
FY17 (2nd RE) #	7.9	6.3	9.5	7.9	10.0	6.1	7.7	8.7	9.2	2.7
FY18 (1st RE) #	6.9	5.0	5.1	5.9	8.6	5.6	7.8	6.2	11.9	3.9
FY19 (AE)*	6.8	2.7	1.2	8.1	8.0	8.9	6.8	7.3	8.5	4.3
3QFY17	7.3	6.8	4.8	8.6	10.2	7.4	7.8	5.0	9.0	2.7
4QFY17	6.0	7.5	11.7	6.4	8.7	0.8	5.9	3.1	14.8	5.8
1QFY18	5.9	4.2	2.9	-1.7	8.6	3.3	8.3	7.8	14.8	3.2
2QFY18	6.6	4.5	10.8	7.1	9.2	4.8	8.3	4.8	8.8	3.8
3QFY18	7.3	4.6	4.5	8.6	7.5	8.0	8.3	6.8	9.2	4.7
4QFY18	8.5	6.5	3.8	9.5	9.2	6.4	6.4	5.5	15.2	3.2
1QFY19	7.8	5.1	0.4	12.4	6.7	9.6	7.8	6.6	7.6	4.6
2QFY19	6.8	4.2	-2.1	6.9	8.7	8.5	6.9	7.2	8.7	4.7
3QFY19	6.3	2.7	1.3	6.7	8.2	9.6	6.9	7.3	7.6	3.8

Source: National Accounts Statistics, MoSPI

\*Growth numbers for FY19 (AE) are calculated over the provisional estimates for FY18 as per the first advance estimates of NAS released by MoSPI on 07 January 2019

# Growth numbers based on the revised estimates of NAS released by MoSPI on 31 January 2019

Fiscal year/quarter	Expenditure components						IPD inflation
	GDP	PFCE	GFCE	GFCF	EX	IM	GDP
FY17 (2nd RE)#	8.2	7.4	6.8	5.2	-5.6	-5.9	2.1
FY18 (1st RE)#	7.2	7.3	12.2	10.1	5.0	4.0	3.5
FY19 (AE)*	7.0	6.1	10.9	7.6	4.4	9.9	3.0
3QFY17	7.4	9.2	6.7	7.9	7.0	10.8	3.6
4QFY17	6.8	5.1	17.5	5.0	6.6	7.0	4.3
1QFY18	6.0	10.1	21.9	3.9	4.9	23.9	4.4
2QFY18	6.8	6.0	7.6	9.3	5.8	15.0	4.3
3QFY18	7.7	5.0	10.8	12.2	5.3	15.8	3.6
4QFY18	8.1	8.8	21.1	11.8	2.8	16.2	3.1
1QFY19	8.0	6.9	6.5	11.7	11.2	10.8	4.3
2QFY19	7.0	9.8	10.8	10.2	13.9	21.4	4.6
3QFY19	6.6	8.4	6.5	10.6	14.6	14.7	4.2

Source: National Accounts Statistics, MoSPI

\*Growth numbers for FY19 (2nd AE) are calculated over the revised estimates for FY18

# Growth numbers based on the revised estimates of NAS released by MoSPI on 28 February 2019

# List of abbreviations

Sr. no.	Abbreviations	Description
1	AD	aggregate demand
2	AEs	advanced economies
3	Agr.	agriculture, forestry and fishing
4	bcm	billion cubic meters
5	bbl.	Barrel
6	BE	budget estimate
7	CAB	current account balance
8	CGA	Comptroller General of Accounts
9	CGST	Central Goods and Services Tax
10	CIT	corporate income tax
11	Cons.	construction
12	CPI	Consumer Price Index
13	CSO	Central Statistical Organization
14	DGA	Director General of Hydrocarbons
15	Disc.	Discrepancies
16	dmtu	dry metric ton unit
17	ECBs	external commercial borrowings
18	EIA	US Energy Information Administration
19	Elec.	electricity, gas, water supply and other utility services
20	EMDEs	Emerging Market and Developing Economies
21	EXP	exports
22	FAE	first advanced estimates
23	FII	foreign investment inflows
24	Fin.	financial, real estate and professional services
25	FPI	foreign portfolio investment
26	FY	fiscal year (April–March)
27	GDP	Gross Domestic Product
28	GFCE	government final consumption expenditure
29	GFCF	gross fixed capital formation
30	GoI	Government of India
31	GST	Goods and Services Tax
32	GVA	gross value added
33	IAD	Index of Aggregate Demand
34	IEA	International Energy Agency
35	IGST	Integrated Goods and Services Tax



36	IIP	Index of Industrial Production
37	IMF	International Monetary Fund
38	IMI	Index of Macro Imbalance
39	IMP	imports
40	INR	Indian Rupee
41	IPD	implicit price deflator
42	MCLR	marginal cost of funds based lending rate
43	Ming.	mining and quarrying
44	Mfg.	manufacturing
45	m-o-m	month-on-month
46	mt	metric ton
47	MoSPI	Ministry of Statistics and Programme Implementation
48	MPC	Monetary Policy Committee
49	NAS	National Accounts Statistics
50	NEXP	net exports (exports minus imports of goods and services)
51	NSSO	National Sample Survey Organization
52	OECD	Organisation for Economic Co-operation and Development
53	OPEC	Organization of the Petroleum Exporting Countries
54	PFCE	private final consumption expenditure
55	PIT	personal income tax
56	PMI	Purchasing Managers' Index (reference value = 50)
57	RE	revised estimate
58	RBI	Reserve Bank of India
59	SLR	Statutory Liquidity Ratio
60	Tcf	trillion cubic feet
61	Trans.	trade, hotels, transport, communication and services related to broadcasting
62	US\$	US Dollar
63	UTGST	Union Territory Goods and Services Tax
64	WPI	Wholesale Price Index
65	y-o-y	year-on-year
66	2HFY19	second half of fiscal year 2018-19, i.e., October 2018-March 2019
67	1HFY19	first half of fiscal year 2018-19, i.e., April 2018-September 2018



# Our offices

## Ahmedabad

2nd floor, Shivalik Ishaan  
Near C.N. Vidhyalaya  
Ambawadi  
Ahmedabad - 380 015  
Tel: + 91 79 6608 3800

## Bengaluru

6th, 12th & 13th floor  
"UB City", Canberra Block  
No.24 Vittal Mallya Road  
Bengaluru - 560 001  
Tel: + 91 80 4027 5000  
+ 91 80 6727 5000  
+ 91 80 2224 0696

Ground Floor, 'A' wing  
Divyasree Chambers  
# 11, O'Shaughnessy Road  
Langford Gardens  
Bengaluru - 560 025  
Tel: + 91 80 6727 5000

## Chandigarh

1st Floor, SCO: 166-167  
Sector 9-C, Madhya Marg  
Chandigarh - 160 009  
Tel: + 91 172 331 7800

## Chennai

Tidel Park, 6th & 7th Floor  
A Block, No.4, Rajiv Gandhi  
Salai  
Taramani, Chennai - 600 113  
Tel: + 91 44 6654 8100

## Delhi NCR

Golf View Corporate Tower B  
Sector 42, Sector Road  
Gurgaon - 122 002  
Tel: + 91 124 443 4000

3rd & 6th Floor, Worldmark-1  
IGI Airport Hospitality District  
Aerocity, New Delhi - 110 037  
Tel: + 91 11 4731 8000

4th & 5th Floor, Plot No 2B  
Tower 2, Sector 126  
NOIDA - 201 304  
Gautam Budh Nagar, U.P.  
Tel: + 91 120 671 7000

## Hyderabad

Oval Office, 18, iLabs Centre  
Hitech City, Madhapur  
Hyderabad - 500 081  
Tel: + 91 40 6736 2000

## Jamshedpur

1st Floor, Shantiniketan Building  
Holding No. 1, SB Shop Area  
Bistupur, Jamshedpur - 831 001  
Tel: + 91 657 663 1000

## Kochi

9th Floor, ABAD Nucleus  
NH-49, Maradu PO  
Kochi - 682 304  
Tel: + 91 484 304 4000

## Kolkata

22 Camac Street  
3rd Floor, Block 'C'  
Kolkata - 700 016  
Tel: + 91 33 6615 3400

## Mumbai

14th Floor, The Ruby  
29 Senapati Bapat Marg  
Dadar (W), Mumbai - 400 028  
Tel: + 91 22 6192 0000

5th Floor, Block B-2  
Nirlon Knowledge Park  
Off. Western Express Highway  
Goregaon (E)  
Mumbai - 400 063  
Tel: + 91 22 6192 0000

## Pune

C-401, 4th floor  
Panchshil Tech Park  
Yerwada  
(Near Don Bosco School)  
Pune - 411 006  
Tel: + 91 20 4912 6000

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