Economy Watch

Monitoring India's macro-fiscal performance

December 2019

Building a better working world

Contents

Prepared by Macro-fiscal Unit, Policy Advisory Group, EY India

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Highlights

1. Real GDP growth fell for the sixth successive quarter to 4.5% in 2QFY20 from 5.0% in 1QFY20. Nominal growth at 6.1% in 2QFY20 was the lowest in the 2011-12 base GDP series.

2. Pointing to continued weakness in the growth of industrial sector output, IIP growth contracted by (-) 3.8% for the third successive month in October 2019.

3. CPI inflation increased to 5.5% in November 2019, its fourth sequential rise, from 4.6% in October 2019 mainly due to rising vegetable prices.

4. In its December 2019 monetary policy review, the MPC, giving higher weight to inflation concerns even while growth slowed, left the repo rate unchanged at 5.15%. The policy stance has been retained as accommodative.

5. As per the CGA, center's gross taxes during April-October FY20 grew by 1.2% as compared to 6.7% during the corresponding period of FY19.

6. Centre's fiscal deficit during April-October FY20 stood at 102.4% of the annual budgeted target while the corresponding figure for revenue deficit was 112.6%.

7. Growth in bank credit remained subdued at 8.9% in October 2019, marginally higher than 8.7% in September 2019.

8. Contraction in merchandise imports and exports continued with imports contracting by (-) 12.7% and exports by (-) 0.3% in November 2019.

9. The RBI, in its December 2019 monetary policy review projected India's real GDP growth at 5% for FY20. The ADB also revised down its growth projection for India by 1.4% points to 5.1% in FY20.

Foreword

Falling growth: constraints on policy stimulus

The 2QFY20 GDP growth at constant prices fell to 4.5% while the nominal GDP growth languished at 6.1%. These numbers imply that for the 1HFY20, real GDP growth was at 4.8% as compared to 7.5% in 1HFY19 indicating a fall of 2.7% points in 1HFY20. In the case of nominal growth, comparing 7.0% in 1HFY20 with 12.3% in 1HFY19, there was a massive fall of 5.3% points. As a result, the RBI in its December 2019 monetary policy review revised downwards its real GDP growth estimate to 5.0% for the full year as compared to its earlier estimate of 6.1%. Consequently, nominal growth is also expected to be significantly lower than the budget projection of 11.5% for FY20. It may be in the range of 7.5% to 8.0% given the 1HFY20 nominal growth at 7.0% was the lowest in the 2011-12 base GDP series.

This may not come as a surprise as high frequency data has already been signaling this persistent downward trend in growth. For example, IIP contracted for the first time under the 2011-12 base series by (-) 0.3 in 2QFY20 and both PMI manufacturing and PMI services expanded at a relatively slower pace of 51.8 and 51.6 in 2QFY20. What may be worrying is that even in the month of October 2019, which has usually been characterized by some festive pickup, the downward trend in these high frequency indicators continued. PMI manufacturing at 50.6 showed a continued slowdown and PMI services at 49.2 showed a contraction in October 2019. There is only a marginal improvement in these indices in November 2019. In the latest release of IIP data, the continuing fall in IIP is reconfirmed since IIP has contracted by (-) 3.8% in October 2019. Contraction in core (non-oil non-gold) imports was at a 12-quarter high of (-) 5.4% in 2QFY20. The pace of contraction increased to (-) 9.5% in October 2019, and further to (-) 14.2% in November 2019.

On the demand side, the weakest growth was that in gross fixed capital formation (GFCF) which grew by only 1% in 2QFY20 and by 2.5% in 1HFY20. Private final consumption expenditure (PFCE) showed a growth of 4.1% in 1HFY20 which is well below 8.5% in the corresponding period of the previous year. With reference to the external sector, exports showed a growth of 2.6% while imports contracted by (-) 1.6% in 1HFY20 as compared to a growth of 11.4% and 16.9% respectively in 1HFY19. Because of the contraction in imports, the contribution of net exports was positive at 0.9% points in 1HFY20 as compared to (-) 1.8% points in 1HFY19.

On the output side, as indicated by sectoral GVA growth rates, the weakest performance in 2QFY20 was that of manufacturing which contracted by (-) 1.0%. Growth in key service sectors namely, trade, transport, etc. and financial and real estate services in 2QFY20 was below their respective growth rates in 2QFY19. A significant boost was given by public and defence services which grew by 11.6% in 2QFY20 as compared to 8.6% in 2QFY19. However, the government may find it difficult to maintain this momentum of growth in public and defence services because of the subdued growth in center's tax revenues relative to budget assumptions. Government's capacity to intervene remains constrained by the underperformance of center's tax revenues in 1HFY20 which affects both center and states' capacity to undertake fiscal stimulus. Growth in center's gross tax revenues during April to October 2019 was at 1.2% while the buoyancy in 1HFY20 was 0.2.

CPI inflation increased to 5.5% in November 2019 from 4.6% in October 2019. In its December 2019 monetary policy review, the RBI chose not to reduce the repo rate any further despite the falling growth rate due to the continuing pressure on inflation. Even though the overall CPI inflation has been rising, its impact on GDP's implicit price deflator-based inflation is limited. This is why nominal GDP growth is expected to remain around 7.5- 8.0% in FY20. This would weaken government's capacity to introduce strong fiscal stimulus because lower nominal GDP growth constraints growth in tax revenues. Furthermore, because of the recent CIT reforms, the government has already sacrificed revenues to the tune of INR 1,45,000 crores amounting to 1.3% of GDP. Thus, in spite of the low growth, countercyclical policy both in the form of monetary or fiscal stimulus remains constrained. There is thus a likelihood of the current economic slowdown stretching itself for a few more quarters reflecting in a U-shaped rather than V-shaped recovery. This may also require postponement of the target of achieving a size of US$5 trillion beyond FY25 possibly by a margin of one or two years.

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1. Growth: GDP growth decelerated to 4.5% in 2QFY20

A. GDP growth: real GDP growth was significantly lower at 4.8% in 1HFY20 as compared to 7.5% in 1HFY19

- As per the data released by MOSPI on 29 November 2019, real GDP growth fell to 4.5% in 2QFY20 from 5.0% in 1QFY20, its sixth consecutive fall since 4QFY18 (**Chart 1**).
- From the demand side, the growth slowdown was mainly on account of a sharp fall in the growth of investment demand, measured by gross fixed capital formation (GFCF), which fell to a 19-quarter low of 1.0% in 2QFY20 from 4.0% in 1QFY20.
- Growth in private final consumption expenditure (PFCE) remained subdued at 5.1% in 2QFY20 although marginally higher than 3.1% in 1QFY20.
- Growth in government final consumption expenditure (GFCE) accelerated to 15.6% in 2QFY20 from 8.8% in 1QFY20.
- Indicative of weakening external demand, exports of goods and services contracted by (-) 0.4% in 2QFY20, a 14-quarter low as compared to a growth of 5.7% in 1QFY20. With imports contracting at a relatively sharper pace than exports at (-) 6.9% in 2QFY20, the contribution of net exports to growth improved to 1.8% points in 2QFY20 from 0.1% points in 1QFY20.
- On the output side, GVA growth fell to 4.3% in 2QFY20, its lowest level under 2011-12 based series, from 4.9% in 1QFY20 due to a broad-based deceleration in the sectoral growth rates in 2QFY20 (**Table 1**).
- GVA growth in manufacturing fell for the fifth consecutive quarter, contracting by (-)1.0% in 2QFY20 as compared to 0.6% in 1QFY20 (Table A6 in data appendix).
- Growth in the output of construction and financial real estate and professional services was lower at 3.3% and 5.8% in 2QFY20 falling from 5.7% and 5.9% respectively in 1QFY20. Growth in mining sector fell to 0.1% in 2QFY20 from 2.7% in 1QFY20. Trade, hotels, transport communication and services related to broadcasting also grew at a slower pace of 4.8% in 2QFY20, falling from 7.1% in 1QFY20. The 2QFY20 growth in this sector was well below its five-year average growth of 8.4%.
- Public administration and defence was the only sector to post a relatively high growth of 11.6% in 2QFY20.
- GVA growth in agricultural sector continued to remain low at 2.1% in 2QFY20, marginally increasing from 2.0% in 1QFY20.

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

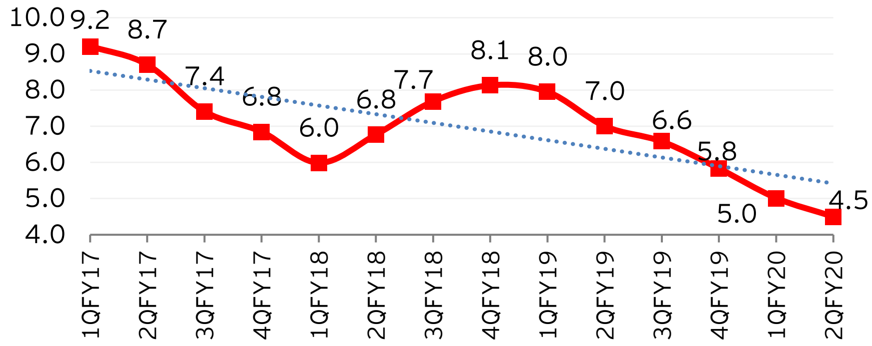


Table 1: GDP and GVA growth

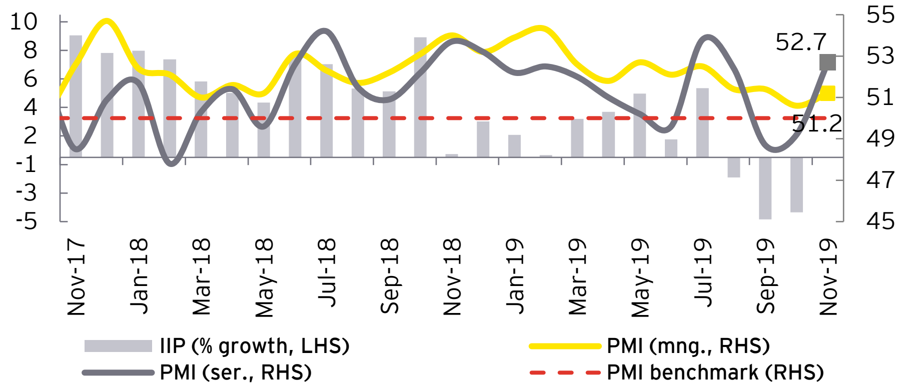
Agg. demand	1Q FY19	2Q FY19	3Q FY19	4Q FY19	1Q FY20	2Q FY20	FY18	FY19
PFCE	7.3	9.8	8.1	7.2	3.1	5.1	7.4	8.1
GFCE	6.6	10.9	6.5	13.1	8.8	15.6	15.0	9.2
GFCF	13.3	11.8	11.7	3.6	4.0	1.0	9.3	10.0
EXP	10.2	12.7	16.7	10.6	5.7	-0.4	4.7	12.5
IMP	11.0	22.9	14.5	13.3	4.2	-6.9	17.6	15.4
GDP	**8.0**	**7.0**	**6.6**	**5.8**	**5.0**	**4.5**	**7.2**	**6.8**
Net Exp. Contrib. to growth (% points)	**-0.7**	**-2.8**	**-0.2**	**-0.9**	**0.1**	**1.8**	**-2.8**	**-1.1**
Agr.	5.1	4.9	2.8	-0.1	2.0	2.1	5.0	2.9
Ming.	0.4	-2.2	1.8	4.2	2.7	0.1	5.1	1.3
Mfg.	12.1	6.9	6.4	3.1	0.6	-1.0	5.9	6.9
Elec.	6.7	8.7	8.3	4.3	8.6	3.6	8.6	7.0
Cons.	9.6	8.5	9.7	7.1	5.7	3.3	5.6	8.7
Trans.	7.8	6.9	6.9	6.0	7.1	4.8	7.8	6.9
Fin.	6.5	7.0	7.2	9.5	5.9	5.8	6.2	7.4
Publ.	7.5	8.6	7.5	10.7	8.5	11.6	11.9	8.6
GVA	**7.7**	**6.9**	**6.3**	**5.7**	**4.9**	**4.3**	**6.9**	**6.6**

Source: MoSPI, GoI

B. IIP: growth contracted for the third consecutive month in October 2019

- IIP continued to contract by (-) 3.8% in October 2019 as compared to a contraction of (-) 4.3% in September 2019. The contraction was broad-based across all sub-sectors, indicating deceleration in the industrial sector output (**Chart 2**).
- Manufacturing sector's output (accounting for 77.6% of overall IIP) declined by (-) 2.1% in October 2019 as compared to a contraction of (-) 4.0% (revised) in September 2019. Output of electricity declined sharply by (-)12.2% in October 2019 as compared to (-) 2.6% in September 2019. Mining sector's output fell by (-) 8.0% in October 2019 as compared to (-) 8.6% in September 2019 (Table A1 in data appendix).
- Pointing to weakening investment demand, contraction in the output of capital goods industry increased to (-) 21.9% in October 2019 from (-) 20.3% in September 2019. Output of consumer durables contracted by (-) 18.0% and that of consumer non-durables contracted by (-)1.1% in October 2019.
- The output of eight core infrastructure industries also contracted for the third successive month by (-) 5.8% in October 2019 as compared to (-) 5.2% in September 2019. Sustained contraction was observed in the output of six out of eight core industries including coal ((-) 17.6%), electricity ((-) 12.4%), cement ((-) 7.7%), natural gas ((-) 5.7%), crude oil ((-) 5.1%) and steel ((-)1.6%) in October 2019.

Chart 2: IIP growth and PMI



Pointing to continued weakness in the growth of the industrial sector output, IIP growth contracted for the third successive month in October 2019.

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

C. PMI: signaled a modest expansion in manufacturing and services in November 2019

- Headline manufacturing PMI (seasonally adjusted (sa)) which had fallen to a two-year low of 50.6 in October 2019 increased to 51.2 in November 2019 (**Chart 2**) indicating a slight improvement in the health of the manufacturing sector. However, the latest reading remained below the survey average of 53.8.
- PMI services signaled output growth for the first time in three months, increasing to 52.7 in November 2019 from 49.2 in October 2019. There was growth in consumer services, information and communication and real estate and business services while activity fell in transport and storage and finance and insurance firms. Headline PMI services remained below its long-run average of 54.2.
- Reflecting a modest expansion in manufacturing and services PMI, the composite PMI Output Index (sa) increased to 52.7 in November 2019 from 49.6 in October 2019.

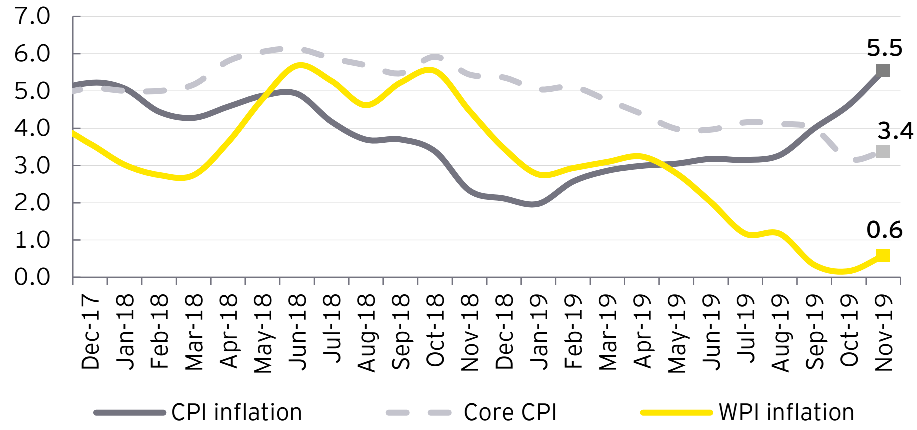
In November 2019, both manufacturing and services PMI showed a modest expansion with the former increasing to 51.2 and the later to 52.7.

2. Inflation: CPI inflation increased to a 40-month high of 5.5% in November 2019

CPI inflation increased to 5.5% (y-o-y) in November 2019, its fourth sequential rise, from 4.6% in October 2019 (Chart 3) mainly due to rising vegetable prices.

- Inflation in vegetables increased to a six-year high of 36.0% in November 2019 from 26.1% in October 2019, driven by inflation in onions which rose to a 22-month high of 144.6% from 97.6% over the same period. Consequently, consumer food price based inflation increased to a 71-month high of 10.0% in November 2019 from 7.9% in October 2019.
- Core CPI inflation however increased only marginally to 3.4% in November 2019 from an all-time low (2011-12 series) of 3.2% in October 2019. Inflation in transportation and communication services turned positive at 0.9% in November 2019 as compared to a contraction of (-) 0.5% in October 2019.
- Fuel and light prices contracted for the fifth successive month by (-) 1.9% in November 2019 as compared to (-) 2.0% in October 2019.
- Inflation in housing services fell to a 52-month low of 4.5% in November 2019 from 4.6% in October 2019.

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



Due to the impact of rising inflation in vegetables, headline CPI and WPI-based inflation increased to 5.5% and 0.6% respectively in November 2019. However, core CPI and core WPI-based inflation remained low at 3.4% and (-) 1.9% respectively in the same month.

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

WPI inflation increased marginally to 0.6% in November 2019 from a 40-month low of 0.2% in October 2019 (Chart 3) due to rising inflation in vegetables and a moderation in contraction in crude prices.

- Food price index-based inflation increased to a 71-month high of 9.0% in November 2019 from 7.6% in October 2019 as inflation in vegetables increased to a 23-month high of 45.3% from 38.9% over the same period.
- Contraction in crude price eased to (-) 13.7% in November 2019 from a 44-month high of (-) 23.6% in October 2019.
- Fuel and power-based inflation was negative for the sixth successive month at (-) 7.3% in November 2019, lower as compared to (-) 8.3% in October 2019. Contraction in prices of petrol and diesel moderated to (-) 6.2% and (-) 8.9% in November 2019 from (-) 10.5% and (-) 9.4%, respectively, in October 2019.
- WPI core inflation (non-food manufactured products) contracted for the fourth successive month by (-) 1.9% in November 2019, a 42-month low, as compared to (-) 1.7% in October 2019.
- The pace of contraction in chemicals and related products increased to (-) 3.6% in November 2019 from (-) 2.6% in October 2019.

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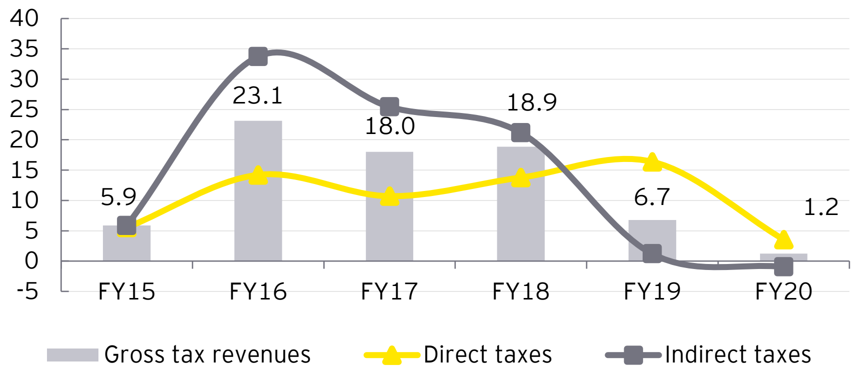
3. Fiscal performance: center's fiscal deficit during April to October 2019 exceeded the budgeted target

A. Tax and non-tax revenues

- As per the Comptroller General of Accounts (CGA)[1], gross central taxes during April-October FY20 grew by 1.2% as compared to 6.7% during the corresponding period of FY19 (**Chart 4**). The cumulated growth in gross taxes during the first seven months of FY20 was the lowest since FY10.
- The buoyancy of center's gross taxes was lower at 0.2 in 1HFY20 as compared to 0.7 in 1HFY19 and 1.8 in 1HFY18.
- Direct tax revenues grew by 3.5% during April-October FY20, lower than 16.4% during the same period in FY19.
- Corporate tax revenues grew by 0.9% during the first seven months of FY20 as compared to 16.6% during the corresponding period of FY19.
- Growth in income tax revenues during April-October FY20 was at 6.7% as compared to 16.1% during April-October FY19.
- Indirect taxes (comprising of union excise duties, service tax, customs duty, CGST, UTGST, IGST[2] and GST compensation cess) contracted for the first time since FY10, by (-) 1.0% during April-October FY20 as compared to a growth of 1.2% in the corresponding period of previous year.

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



As per the CGA, center's gross taxes during April-October FY20 grew by 1.2% as compared to 6.7% during the corresponding period of FY19.

Source: Monthly Accounts, Controller General of Accounts (CGA), Government of India
Notes: (1) 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; (2) IGST revenues are subject to final settlement; (3) 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.

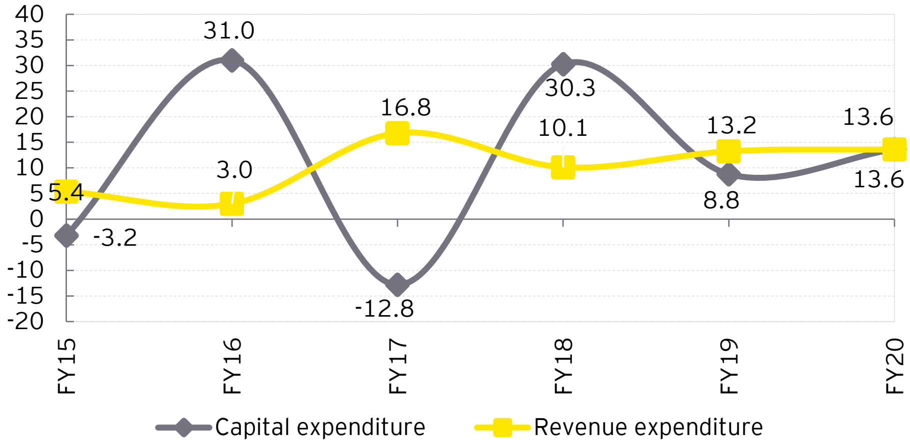
- The center's non-tax revenues showed a growth of 75.5% during April-October FY20 as compared to 34.2% during the corresponding period of FY19. This high growth during the first seven months of FY20 may be attributable to receipt of high dividends and profits in August 2019.
- According to the latest data available as per the Department of Disinvestment, the disinvestment proceeds up to 11 November 2019 stood at INR17,364.26 crore, which is 16.53% of the FY20 target of INR105,000 crore.

[1] Monthly accounts for October 2019 released on 30 November 2019
[2] IGST revenues are subject to final settlement

B. Expenditures: revenue and capital

- Center's total expenditure during April-October FY20 grew by 13.6%, higher than 12.7% during April-October FY19 (**Chart 5**).
- Revenue expenditure during April-October FY20 grew by 13.6% as compared to 13.2% during the corresponding period of FY19.
- Growth in center's capital expenditure during April-October FY20 was at 13.6% as compared to 8.8% during the corresponding period of previous year.

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



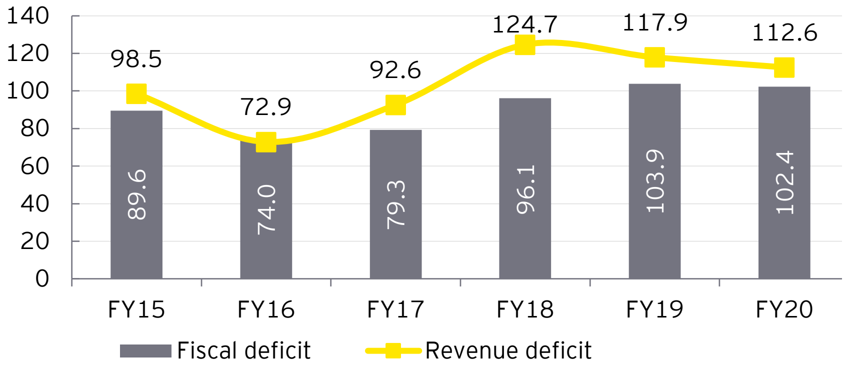
After posting a subdued growth until August 2019, center's capital expenditure grew by 13.6% during April-October FY20, higher than 8.8% during the corresponding period of FY19.

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

C. Fiscal imbalance

- Center's fiscal deficit during April-October FY20 stood at 102.4% of the annual budgeted target as compared to the corresponding figure of 103.9% in FY19 **(Chart 6)**. Center's capacity to undertake a fiscal policy stimulus remains constrained by the sluggish performance of its tax revenues during the first seven months of FY20.
- Center's revenue deficit during the first seven months of FY20 was at 112.6% of the annual budgeted target as compared to 117.9% during the corresponding period of FY19.

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



Centre's fiscal deficit during April-October FY20 stood at 102.4% of the annual budgeted target while the corresponding figure for revenue deficit was 112.6%.

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

4. India in a comparative perspective: status and prospects

Real GDP growth

Reflecting a broad-based slowdown in AEs and EMEs, global growth is expected to ease to about 3% during 2019 to 2021.

- Global growth is expected to fall from 3.5% in 2018 to 2.9% in 2019 and 2020 (Table 2). It is expected to remain subdued at 3% in 2021 due to weak trade and investment growth. These growth rates are about 0.3-0.4% points below the estimated global potential growth.
- Growth in the US is projected to slow to 2.3% in 2019 and to 2% thereafter. Trade tensions and uncertainty, waning fiscal impulse, weaker growth in trading partners and demographic pressures are expected to weigh on confidence and activity.
- Growth in the UK, Euro area and Japan is also expected to reach a trough by 2020.

Table 2: Real GDP growth (%, annual)

	2018	2019	2020	2021
US	2.9	2.3	2.0	2.0
UK	1.4	1.2	1.0	1.2
Euro area	1.9	1.2	1.1	1.2
Japan	0.8	1.0	0.6	0.7
Brazil	1.1	0.8	1.7	1.8
Russia	2.3	1.1	1.6	1.4
India*	6.8	5.8	6.2	6.4
China	6.6	6.2	5.7	5.5
South Africa	0.7	0.5	1.2	1.3
World	3.5	2.9	2.9	3.0

Source (basic data): OECD Economic Outlook, November 2019
*data pertains to fiscal year. For e.g., data for 2019 pertains to the year FY20.

- Brexit-related uncertainty is likely to hold back investment in the UK and hamper exports in the Euro area. In Japan, growth is expected to pick up slightly in 2019 because of fiscal measures undertaken to mitigate the effect of the consumption tax increase and the impact of expenditure related to Olympic games in Tokyo.
- Growth in all BRICS economies is expected to bottom out in 2019 with a moderate pick-up in 2020-21 except in China where challenges to growth emerge from continued rebalancing and high trade tensions.
- In Brazil, growth is expected to increase in 2020-21 on an assumption of continued structural reforms. In India, accommodative fiscal and monetary policies are likely to help revive growth in 2020-21.

CPI inflation

CPI inflation is projected to remain low in AEs and moderate in EMEs during 2019 to 2021

- Annual CPI inflation in major AEs is estimated to ease in 2019 helped by a downturn in energy price pressures. It is projected to fall to 1.8% in the US, 1.9% in the UK, 1.2% in the Euro area and 0.6% in Japan in 2019 (Table 3). Inflationary pressures are expected to remain mild given the subdued growth outlook and rising global slack.
- In the Euro area and Japan, there has been persistent undershooting of inflation targets putting them at a risk of entering a low-inflation trap.
- In most EMEs, CPI inflation is expected to remain moderate during the forecast period with country-specific trends.

Table 3: CPI inflation (%, annual)

	2018	2019	2020	2021
US	2.4	1.8	2.2	2.1
UK	2.5	1.9	2.0	1.8
Euro area	1.8	1.2	1.1	1.4
Japan	1.0	0.6	1.1	1.2
Brazil	3.7	3.7	3.1	3.6
Russia	2.9	4.9	4.0	4.0
India*	3.4	3.5	3.9	4.2
China	1.9	2.5	2.2	1.9
South Africa	4.6	4.2	4.6	4.5

Source (basic data): OECD Economic Outlook, November 2019
*data pertains to fiscal year. For e.g., data for 2019 pertains to the year FY20.

- In Brazil, CPI inflation at 3.1% in 2020 and 3.6% in 2021, is expected to remain below their target. In China, CPI inflation is estimated to increase in 2019 and 2020 due to surging fresh food prices, but this one-off pressure is expected to remain benign.
- In South Africa, CPI inflation fell sharply in 2019 but is expected to increase moderately in 2020-21 to slightly above the central bank's target of 4.5% due to rising electricity, food and fuel prices.
- CPI inflation in India is projected to remain below the target of 4% in 2019 and 2020 given the spare capacity and low oil prices.

5. In focus: Prospects of center's tax revenue growth in FY20 and its impact on state governments

Introduction

India's nominal GDP growth fell to a low of 6.1% in 2QFY20. This was the lowest growth in the new 2011-12 base GDP series. A low nominal GDP growth rate translates into a low tax revenue growth which is a function of GDP growth and tax buoyancy. The central government has already sacrificed considerable direct tax revenues as a result of the CIT reforms which were announced on 20 September 2019. According to government's own estimate, the revenue loss on account of CIT rate reduction could be as much as INR145,000 crores, which is about 1.3% of FY20 budgeted GDP. Erosion in center's tax revenues will also impact states' revenues since they receive 42% of the sharable tax revenues under the award of the Fourteenth Finance Commission. There may be some change in this vertical share in FY21 consequent upon the recommendations of the Fifteenth Finance Commission, details of which are not available yet. States' own tax revenues may also suffer from the general economic slowdown. As a result, formulation of the budget of the center as well as of the states may be a challenging exercise since in both cases, there is a limit to which their respective borrowing can be stretched. In this write-up, we examine the prospects of tax revenue growth of the center in the light of (a) budget estimates, (b) ongoing economic slowdown and (c) revenue performance of central taxes for seven months of FY20.

Center's budgeted targets and performance so far

In the FY20 union budget, the government assumed a nominal GDP growth of 12% for FY20 over the FY19 nominal GDP as given in the FY19 budget. In the medium-term fiscal policy cum fiscal policy strategy statement of FY20, a nominal growth rate of 11.5% was assumed, giving a magnitude of INR2,10,07,439 crores for FY20. However, the FY20 nominal growth turns out to be only 10.5% with respect to FY19 first revised estimate as given by the CSO in May 2019. Given the low nominal GDP growth at 7% in 1HFY20, even this lower growth of 10.5% may turn out to be a considerable overestimate. The RBI has provided an estimate of the real GDP growth at 5% for FY20[3]. However, it does not give an estimate of nominal growth rate for FY20. This requires adding to the real growth rate, the component of implicit price deflator (IPD) based inflation. It has generally been observed that the IPD-based inflation rate tends to be lower than the CPI-based inflation rate. Since the IPD based inflation is significantly impacted by WPI inflation, using an econometric model, we estimate the IPD-based inflation at 3.56% for 2HFY20. Combining this with the 1HFY20 IPD based inflation at 2.14%, gives an IPD-based inflation of 2.84% for FY20. Using this estimate with a real growth rate of 5%, nominal growth rate can be estimated at 8% for FY20 (Table 4). This lower nominal GDP growth rate is expected to lead to lower tax revenue growth for both center and the states.

Table 4: Estimating FY20 real and nominal GDP growth rates

Fiscal year	Real GDP (INR Crore)	Nominal GDP (INR Crore)	Implicit price deflator (Index)	Real GDP growth (%)	Nominal GDP growth (%)	IPD based inflation rate (%)
FY16	1,13,69,493	1,37,71,874	121.1	8.00	10.46	2.28
FY17	1,22,98,327	1,53,62,386	124.9	8.17	11.55	3.12
FY18	1,31,79,857	1,70,95,005	129.7	7.17	11.28	3.84
FY19	1,40,77,586	1,90,10,164	135.0	6.81	11.20	4.11
FY20 (Estimated)	1,47,81,465	2,05,30,977	138.9	5.00	8.00	2.84

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

In order to get an idea of the likely growth in center's gross tax revenues, we need to combine the nominal GDP growth rate with the relevant tax buoyancies. For this purpose, two approaches are possible: (1) we may utilize the buoyancy assumed in the FY20 budget; and (2) buoyancies could be estimated after reviewing the actual tax performance of central taxes during the first six months of FY20 (1HFY20). However, to be on the safer side, we have estimated tax revenue growth using a range of buoyancies as well as a range of nominal GDP growth.

Estimating central tax revenues for FY20

In this section, we estimate the likely shortfall in center's tax revenues, considering: (a) nominal GDP growth prospects, (b) revenue performance in terms of growth during the first seven months of FY20 and buoyancy in the first two quarters of FY20; and (c) the budget assumptions for tax-wise growth and buoyancy.

[3] December 2019 monetary policy statement of the RBI

In respect to PIT, the FY20 budget presented in July 2019 had assumed a nominal growth of 23.3% over CGA actuals of FY19, and a buoyancy of 2. Actual growth in the first seven months of FY20 over the corresponding period of FY19 was 6.7% which is well below the budgeted nominal growth in PIT revenues. The buoyancy of PIT revenue during 1HFY20 was 1.3. Given this evidence of a significant shortfall in PIT revenue, we have estimated the likely shortfall for FY20 through a simulation exercise where nominal GDP growth rate is kept alternatively at 7.5%, 8% and 8.5%. We have also combined this with alternative assumptions for PIT buoyancy and taken two values for it namely 2.0, as assumed in the budget and 1.4 which is the average of the 1HFY20 buoyancy at 1.3 and the estimated buoyancy of 1.5 in 2HFY20. The 2HFY20 buoyancy is based on the 2H performance of PIT revenues in the last three years. The revenue loss in the PIT relative to the budget estimate are summarized in Table 5 above. We have taken nominal GDP growth of 8% and buoyancy of 1.4 for providing benchmark numbers indicating the most likely outcome. The magnitude of the estimated PIT revenue shortfall is INR55,641 crores.

Table 5: Simulations for estimating PIT revenues for FY20

Budgeted buoyancy (Simulation 1; S1)	2.0		
Growth Assumptions (%)	**7.5**	**8.0**	**8.5**
PIT revenue growth (%)	15	16	17
FY20 PIT revenue (INR crores)	5,30,902	5,35,519	5,40,135
Shortfall relative to FY20 BE (INR crores)	38,098	33,481	28,865
Modified buoyancy (Simulation 2; S2)	1.4		
Growth Assumptions (%)	**7.5**	**8.0**	**8.5**
PIT revenue growth (%)	10.5	11.2	11.9
FY20 PIT revenue (INR crores)	5,10,128	5,13,359	5,16,591
Shortfall relative to FY20 BE (INR crores)	58,872	**55,641**	52,409
Memo			
FY19 PIT revenue (INR crore)			*4,61,654*
FY20 BE (INR crore)			*5,69,000*

Source (basic data): CGA, Union Budget FY20 and MOSPI
Note: (1) In S2, 2HFY20 buoyancy is estimated at 1.5;(2) PIT revenues are not adjusted for a small component of other taxes

In the case of CIT, a major reform was undertaken in September 2019. It related to a reduction in the basic CIT rate from 30% to 22% which translates into a reduction of nearly 10 basis points, when cesses and surcharges are included. For new investment in manufacturing, the basic CIT rate was reduced from 25% to 15%, translating into a reduction of nearly 12 basis points taking into account the cesses and surcharges. Further, in order to provide relief to companies which continue to avail exemptions/incentives, the rate of Minimum Alternate Tax (MAT) was reduced from 18.5% to 15%. These rate reductions are effective from FY20 onwards[4]. While availing the option of reduced tax rates, the domestic companies will have to forego all other exemptions or incentives. A comparable rate reduction has not been provided for foreign companies operating in India.

Table 6: Simulations for estimating CIT revenues for FY20

Budgeted buoyancy (S1)	1.3		
Growth Assumptions (%)	**7.5**	**8.0**	**8.5**
CIT revenue growth (%)	10.1	10.7	11.4
FY20 CIT revenue (INR crores)	7,30,373	7,34,826	7,39,280
Shortfall relative to FY20 BE (INR crores) -1	35,627	31,174	26,720
Loss on account of CIT rate reduction (INR crores) - 2	96,878	97,489	98,059
Total shortfall (INR crores) - 1+2	1,32,505	**1,28,642**	1,24,779
Memo			
FY19 CIT revenue (INR crore)			*6,63,572*
FY20 BE (INR crore)			*7,66,000*

Source (basic data): CGA, Union Budget FY20 and MOSPI
Note: CIT revenues are not adjusted for a small component of other taxes

We had analyzed the revenue impact of CIT reforms in detail in the October 2019 issue of the Economy Watch[5]. Given the latest information on GDP growth, we have re-simulated the estimated impact of CIT reforms with respect to three nominal GDP growth rates namely 7.5%, 8% and 8.5% which were used in the case of PIT revenues also. These estimates separately indicate the revenue shortfall on account of: a) lower GDP growth relative to the budget assumptions; and b) the CIT rate reduction due to the September 2019 reforms. The

[4] https://pib.gov.in/PressReleseDetail.aspx?PRID=1585641
[5] https://assets.ey.com/content/dam/ey-sites/ey-com/en_in/topics/tax/economy-watch-october-2019.pdf

estimated revenue shortfall relative to the budgeted magnitude is summarized in Table 6. In this case also, for purpose of comparison, we consider the case of GDP growth rate at 8% as the benchmark. We have made these estimates by retaining the budgeted buoyancy of 1.3. The estimated shortfall for the benchmark solution is INR1,28,642 crores.

Table 7: Simulations for estimating IDT revenues for FY20

Budgeted buoyancy (S1)	1.66		
Growth Assumptions (%)	**7.5**	**8.0**	**8.5**
IDT revenue growth (%)	12.5	13.3	14.1
FY20 IDT revenue (INR crores)	10,56,824	10,64,627	10,72,430
Shortfall relative to FY20 BE (INR crores)	62,423	54,620	46,817
Modified buoyancy (S2)	0.1		
Growth Assumptions (%)	**7.5**	**8.0**	**8.5**
IDT revenue growth (%)	0.75	0.8	0.85
FY20 IDT revenue (INR crores)	9,46,830	9,47,300	9,47,770
Shortfall relative to FY20 BE (INR crores)	1,72,417	**1,71,917**	1,71,477
Memo			
FY19 (INR crore)			*9,39,782*
FY20 BE (INR crore)			*11,19,247*

Source (basic data): CGA, Union Budget FY20 and MOSPI
Note: (1) In S2, 2HFY20 buoyancy is assumed at 0.4 (average of 2H buoyancies for FY17, FY18 and FY19)
(2) IDT revenues are not adjusted for a small component of other taxes

The third broad category is that of center's indirect taxes. This category consists of three indirect taxes namely customs duties, GST and non-GST domestic indirect taxes together, because the budget does not provide clear information on GST, a part of which remains embedded in customs revenues. In the case of center's indirect taxes, we have considered the three alternative nominal GDP growth assumptions as in the case of PIT and CIT. For buoyancy, we have considered two values namely, 1.66, as assumed in the budget and 0.1, which is the average of the 1HFY20 buoyancy of -0.3 and an estimated buoyancy of 0.4 in 2HFY20. The 2HFY20 buoyancy is based on the performance of indirect taxes in 2H of the last three years. In this case, with respect to the GDP growth assumption of 8%, the estimated shortfall amounts to INR1,71,917 crores.

Table 8: Estimated shortfalls in center's gross and net tax revenues for FY20

	FY20 BE (INR crores)	FY20 Estimates* (INR crores)	FY20 adjusted estimates (INR crores)	Shortfall of FY20 adjusted estimates relative to BE (INR crore)	Shortfall as % of estimated GDP
Gross taxes	24,61,195		21,14,044	3,47,151	1.69
PIT	5,69,000	5,13,359	5,17,281	51,719	0.25
CIT	7,66,000	6,37,358	6,42,227	1,23,773	0.60
IDT	11,19,247	9,47,300	9,54,537	1,64,710	0.80
Net taxes	16,52,062		13,80,497	2,71,565	1.32
Assignment to states**	8,09,133		7,33,547	75,586	0.37
Memo					
Estimated FY20 GDP$		2,05,30,977			

Source (basic data): CGA, Union Budget FY20 and MOSPI
$estimated GDP for FY20 is derived by using a nominal GDP growth of 8% over the FY19 numbers; *excludes adjustment for other taxes reported by CGA; ** budgeted ratio of assignment to states to gross taxes at 32.87% has been used

The estimated gross and net central taxes for FY20 and their respective shortfall from the budget estimates are summarized in Table 8. It is shown that in the benchmark solution, consistent with a nominal GDP growth assumption of 8%, center's tax revenue shortfall is estimated to amount to 1.32% of FY20 estimated GDP. The states will also have to bear the burden of shortfall in center's gross tax revenues. This shortfall for the states is estimated to be 0.37% of FY20 estimated GDP. The effect of economic slowdown reflected in the lower GDP growth will in addition affect states' own tax revenues. This is discussed in the next section.

Revenue impact of lower growth on states' own tax revenues (SOTR)

States' own tax revenues also respond to GDP growth. The effect of economic slowdown reflected in lower GDP growth may be estimated using the budgeted buoyancy of states' own tax revenues for FY20. This exercise has been carried out considering all states together. The budgeted buoyancy for FY20 is 1.04. Using this buoyancy and the three growth scenarios, the estimated revenue shortfall for the states considered together is summarized in Table 9. This loss amounts to INR 44,232 crore in the case of the benchmark solution consistent with a growth of 8%. Adding this to the revenue shortfall of states on account of lower share in central taxes (assignment to states), the overall shortfall that the states may have to face amounts to INR1,19,818 crores, i.e., 0.58% of FY20 estimated GDP.

Table 9: Estimating shortfall in state tax revenues for FY20

Budgeted Buoyancy	1.04		
Nominal GDP growth assumption (%)	**7.5**	**8.0**	**8.5**
Estimated growth of SOTR (%)	7.8	8.3	8.8
Estimated SOTR (INR crore)	13,13,176	13,19,495	13,25,814
Estimated Shortfall in SOTR (INR crore) -1	50,551	44,232	37,913
Estimated shortfall in Assignment to states - 2		75,586	
Estimated total loss in State's tax revenues (INR crore) - 1+2		**1,19,818**	
Loss as % of FY20 benchmark nominal GDP		**0.58%**	
Memo			
FY19 SOTR (INR crore)	*12,18,393*		
FY20 SOTR (BE) (INR crore)	*13,63,727*		
estimated FY20 nominal GDP (INR crore)	*2,05,30,977*		

Source (basic data): CGA, Union Budget FY20, CAG, RBI and MOSPI

Impact on center and states' fiscal deficit

The Ministry of Finance, Government of India is making considerable efforts to garner additional non-tax revenues and receipts from disinvestment to minimize the impact of revenue slippage on account of the underperformance of center's tax revenues relative to the budget estimates. The government has recently set out a target for GST collections at INR1.1 lakh crore per month for the remaining four months of FY20[6]. Such efforts may fractionally reduce the impact of erosion of center's tax revenues on the center and all states' fiscal deficit.

Table 10: Estimating impact on fiscal deficit of center and all states for FY20

	Centre (INR Crore)	All states (INR Crore)
Fiscal Deficit (FY20 BE)	7,03,760	5,46,002
Shortfall in revenue relative to FY20 BE (INR crore)	2,71,565	1,19,818
FD as % of estimated GDP	3.43	2.66
Shortfall as % of estimated GDP	1.32	0.58
Total impact as % of estimated GDP	**4.75**	**3.24**
Re-estimated/benchmark nominal GDP for FY20 (INR crore)	2,05,30,977	

Source (basic data): CGA, Union Budget FY20, CAG, RBI and MOSPI

As shown in Table 10, center's fiscal deficit is estimated to go up to 4.75% of GDP due to lower growth and lower tax revenue performance as compared to the corresponding budget estimates, unless it is mitigated by increasing non-tax revenues and disinvestment proceeds and by expenditure compression. States will also have to bear a similar burden. In their case, the estimated fiscal deficit is 3.24% of GDP for FY20. ICRA has estimated that center's gross tax revenues in FY20 may fall short of the budget estimates by INR 3-3.5 lakh crore. As a result, transfers to states for FY20 may also fall short by INR 1.7-2.2 lakh crores[7]. Recognizing the mounting pressure on revenues, state governments, in the GST Council meeting held on 18 December 2019[8], asked for increasing their fiscal deficit limit to 4% of respective GSDPs. We need to acknowledge that to the extent that the slippage in fiscal deficit relative to the budgeted targets is reduced by expenditure compression, it would imply a fall in government expenditure, having a further adverse impact on overall growth. For combating the slowdown in the Indian economy, there is a need for introducing fiscal stimulus, but the government is considerably constrained to undertake it.

[6] https://economictimes.indiatimes.com/news/economy/policy/finmin-sets-rs-1-1-lakh-crore-monthly-gst-collection-target/articleshow/72833596.cms

[7] https://economictimes.indiatimes.com/news/economy/policy/gst-compensation-required-by-9-large-states-could-double-to-rs-70000-crore-in-fy20-icra/articleshow/72886366.cms

[8] https://www.business-standard.com/article/economy-policy/economic-slowdown-states-seek-relaxation-in-fiscal-deficit-target-to-4-119121800869_1.html

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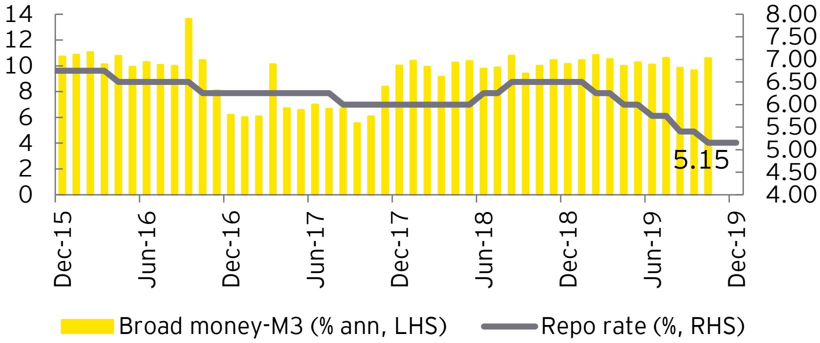
6. Money and finance: RBI retained the repo rate at 5.15% in December 2019

A. Monetary sector

Monetary policy

- In its December 2019 monetary policy review, the monetary policy committee (MPC), giving higher weight to inflation concerns even while growth slowed, left the repo rate unchanged at 5.15%. The policy stance has also been retained as accommodative.
- The CPI inflation in October 2019 was much higher than expected. In the RBI's assessment, the factors that may influence CPI inflation outlook include: (a) continued upsurge in vegetable prices in the immediate months, (b) implications of a sustained price pressure from other food items including milk, pulses and sugar, (c) rising inflation expectations of households, (d) continued volatility in domestic financial markets; and (d) subdued demand conditions.

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



Source: Database on Indian Economy, RBI

The RBI retained its policy repo rate at 5.15% in its December 2019 monetary policy review as CPI inflation increased.

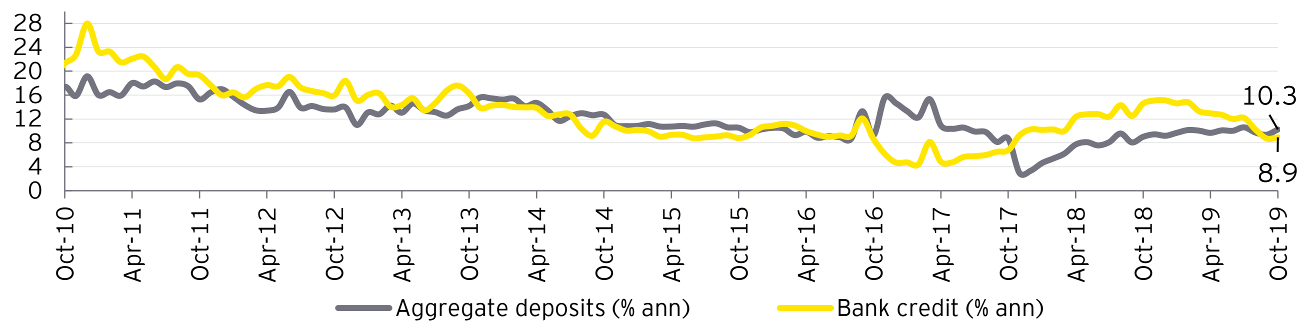
Money stock

- Growth in broad money stock (M3) increased to 10.6% in October 2019 from 9.6% in September 2019 (**Chart 7**). Growth in time deposits, accounting for nearly 76% of M3, increased to 9.9% in October 2019 as compared to 9.3% in September 2019.
- Narrow money (M1) growth also improved to 12.9% in October 2019 from 10.8% in September 2019. This was due to higher growth in both currency in circulation and demand deposits which increased to 15.1% and 9.4% respectively in October 2019 from 13.6% and 7.2% respectively in September 2019.

Aggregate credit and deposits

- Reflective of sustained weakness in demand, growth in bank credit remained subdued at 8.9% in October 2019, marginally higher than 8.7% in September 2019 (**Chart 8**).

Chart 8: Growth in credit and deposits



Source: Database on Indian Economy, RBI

- Growth in non-food credit remained subdued at 8.3% in October 2019 as compared to 8.1% in September 2019 owing to a sustained fall in credit to services sector.
- Growth in credit to services fell to a 26-month low of 6.5% in October 2019 as compared to 7.3% in September 2019. Credit to industries grew by 3.4% in October 2019, slightly higher than 2.7% in September 2019. Growth in credit to the agricultural sector remained stable at 7.1% in October 2019, similar to the level in September 2019.
- Growth in housing sector credit continued to remain robust at 19.4% in October 2019.
- Growth in aggregate bank deposits increased marginally to 10.3% in October from 9.4% in September 2019.

B. Financial sector

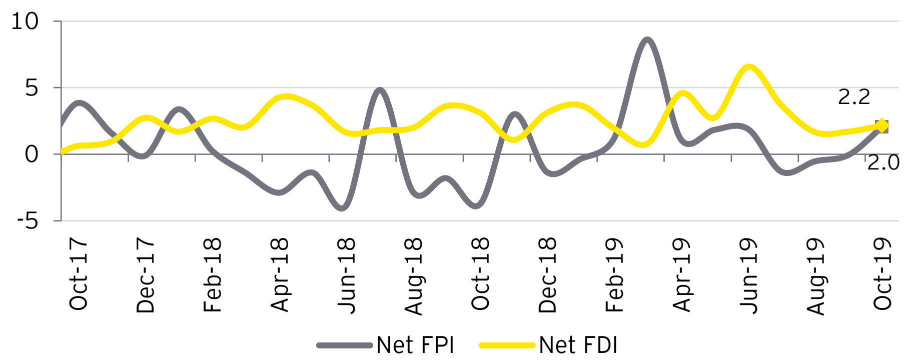
Interest rates

- Interest rates offered by commercial banks on term deposits with a maturity of more than one year was lowered for the sixth successive month to average 6.50% in November 2019, (ranging between 6.25% and 6.75%), as compared to 6.61% in October 2019. The average term deposit rates in November 2019 were 38 basis points lower than those in February 2019.
- Commercial banks lowered the marginal cost of lending rate (MCLR) for the fifth successive month to 7.89% in November 2019 (average) as compared to 7.96% (average) in October 2019 and was about 47 basis points below its February 2019 level.
- The average yield on 10-year government securities increased by 10 basis points on an average to 6.64% in November 2019 from 6.54% in October 2019. Bond yields in November 2019 were influenced by a pickup in CPI-based inflation rate, higher fiscal deficit numbers and a fall in 2QGDP growth.

FDI and FPI

- As per the provisional data released by the RBI on 11 December 2019, the overall foreign investment inflows (FIIs) increased to a four-month high of US$4.2 billion in October 2019 from US$1.9 billion (revised) in September 2019 largely due to a surge in FPI inflows.

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



Net FDI inflows surged to three-month high of US$2.2 billion in October 2019 as compared to US$1.9 billion in September 2019.

Source: Database on Indian Economy, RBI

- Net FDI inflows increased to US$2.2 billion in October 2019 as compared to US$1.9 billion (revised) in September 2019. (**Chart 9**). Gross FDI inflows were higher at US$5.0 billion in October 2019 as compared to US$4.5 billion (revised) in September 2019.
- Net portfolio inflows were at US$2.0 billion in October 2019 as compared to net outflows of US$0.1 billion in September 2019.

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7. Trade and CAB: merchandise imports contracted by (-) 12.7% in November 2019

A. CAB: Current account deficit (CAD) expanded to 2.0% of GDP in 1QFY20

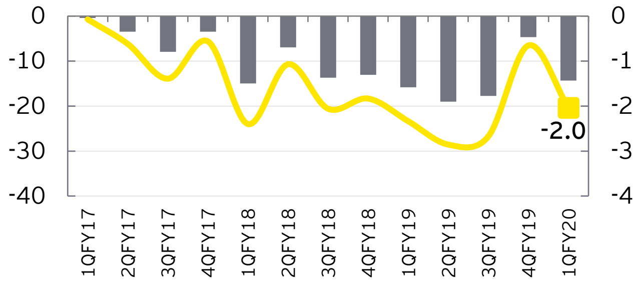
- CAD in 1QFY20 widened to 2.0% from an eight-quarter low of 0.7% in 4QFY19 as merchandise trade deficit increased to 6.6% of GDP from 4.9% during the same period (**Table 11**). Merchandise imports increased to 18.3% of GDP in 1QFY20 from 17.2% in 4QFY19 while merchandise exports fell to 11.8% of GDP from 12.3% over the same period. Net service exports also fell to a four-quarter low of 2.8% of GDP in 1QFY20 from 3.0% in 4QFY19. Net transfers, however, improved to 2.6% of GDP from 2.3% over this period.

Table 11: Components of CAB in US$ billion

	CAB	CAB as a % of nominal GDP	Goods account net	Services account net
FY16	-22.2	-1.1	-130.1	69.7
FY17	-15.3	-0.7	-112.4	67.5
FY18	-48.7	-1.8	-160.0	77.6
FY19	-57.3	-2.1	-180.3	81.9
2QFY19	-19.1	-2.9	-50.0	20.3
3QFY19	-17.8	-2.7	-49.3	21.7
4QFY19	-4.6	-0.7	-35.2	21.3
1QFY20	**-14.3**	**-2.0**	**-46.2**	**20.0**

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

Chart 10: CAD



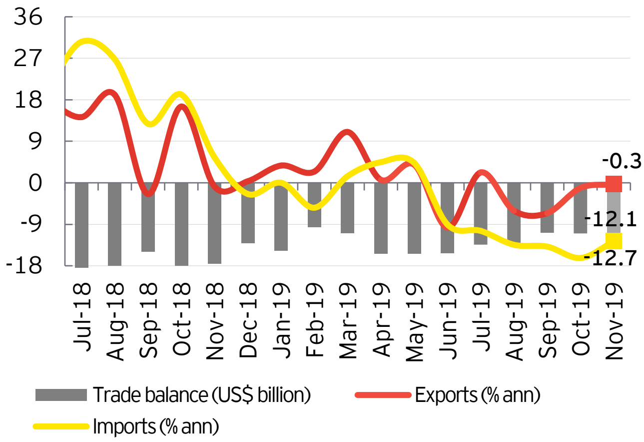
Source: Database on Indian Economy, RBI

B. Merchandise trade and exchange rate

Merchandise imports contracted for the sixth successive month by (-) 12.7% while merchandise exports contracted for the fourth successive month by (-) 0.3% in November 2019.

- The contraction in merchandise exports eased marginally to (-) 0.3% in November 2019, from (-) 1.1% in October 2019 (**Chart 11**), due to increase in the export growth of engineering goods partly due to base effect.

Chart 11: Developments in merchandise trade



Source: Ministry of Commerce and Industry, GoI

- Oil exports contracted for the seventh successive month by (-) 13.1% in November 2019 as compared to (-) 14.6% in October 2019. Growth in engineering goods exports rose to 6.3% in November 2019 from 1.2% in October 2019, partly due to the base effect.
- Imports contracted for the sixth successive month by (-)12.7% in November 2019 as compared to (-) 16.3% in October 2019, driven primarily by a fall in imports of petroleum products and transport equipment.
- Contraction in oil imports eased to (-) 18.2% in November 2019 from 31.7% in October 2019.
- The pace of contraction in imports excluding oil, gold and jewelry rose to a 43-month high of (-) 14.2% in November 2019 from (-) 9.5% in October 2019.
- Out of the 30 broad sectors for which exports and imports data is provided, 17 and 21 sectors, respectively, experienced a contraction in November 2019.
- Merchandise trade deficit increased marginally to US$12.1 billion in November 2019 as compared to US$11.0 billion in October 2019 due to a relatively sharper and sustained contraction in imports. Goods and services deficit fell to a 25-month low of US$4.2 billion in November from US$4.4 billion in October 2019.
- The Indian Rupee depreciated marginally to INR71.5 per US$ (average) in November 2019 from INR71.1 per US$ (average) in October 2019 owing to weak economic data and global trade tensions.

8. Global growth: projected to ease to 2.9% in 2019 and 2020

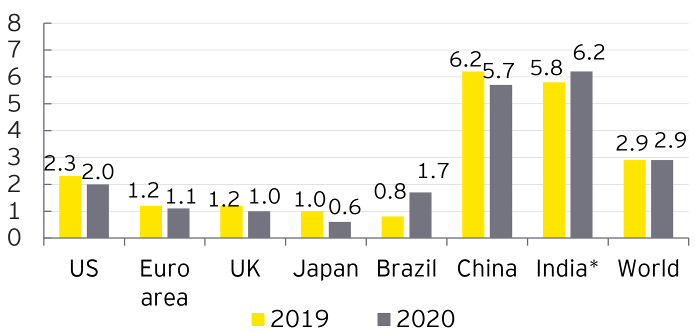
A. Global growth outlook

- The OECD (Economic Outlook, November 2019) projected global growth to ease to 2.9% in 2019 and 2020, with a broad-based slowdown in both advanced and emerging market economies (EMEs). Disruption to trade and cross-border investment and supply chains from rising trade tensions is expected to hamper global demand prospects.
- Growth in the US is projected at 2.3% in 2019, moderating to 2% in 2020. Increasing real wages and an accommodative monetary policy is expected to support household spending and housing investment but higher tariffs and ongoing uncertainty are likely to restrain the growth of business investment and exports.

The OECD projected global growth to ease to 2.9% in 2019 and 2020 due to weak trade and investment.

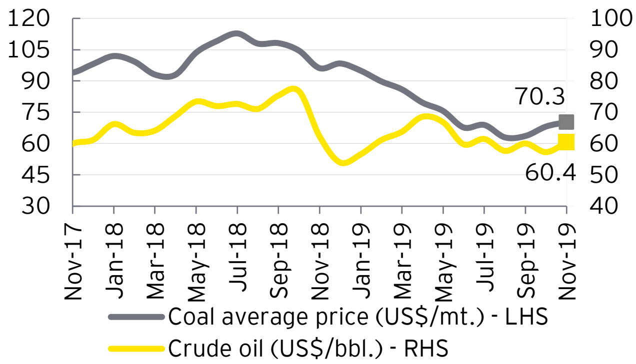
- In the Euro area, growth is projected to be low at 1.2% in 2019 and 1.1% in 2020. Growth outlook is expected to be particularly subdued for Germany and Italy, reflecting their greater dependence on the industrial sector and global trade.
- Growth in Japan is forecasted at 1% in 2019, moderating to 0.6% in 2020. Stronger social spending by the government is expected to support demand but fiscal consolidation is likely to resume in 2020 and 2021.
- Growth in China is forecasted at 6.2% in 2019 as activity was supported by frontloading of exports. Growth is expected to moderate to 5.7% in 2020 as the economy continues to rebalance and trade tensions remain high.
- Growth in India is revised down to 5.8% in 2019 and 6.2% in 2020 due to weaker outlook for domestic consumption and investment demand. Global growth slowdown has also dented prospects for exports.

Chart 12: Global growth projections



Source: OECD Economic Outlook, November 2019
*data pertains to fiscal year

Chart 13: Global crude and coal prices



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

B. Global energy prices: global crude price increased to US$60.4/bbl. in November 2019

- From a five-month low of US$57.3/bbl. in October 2019, average global crude price[9] increased to US$60.4/bbl. in November 2019. This increase may be due to an expected extension of production cuts by the OPEC+ countries. However, as per the IEA (Oil Market Report, November 2019), the oil market is expected to remain well-supplied and demand is likely to remain subdued in line with the global growth slowdown in 2020. These factors may continue to put a downward pressure on crude prices.
- Average global coal price[10] increased to a six-month high of US$70.3/bbl. in November 2019 from US$68.2/mt. in October 2019.

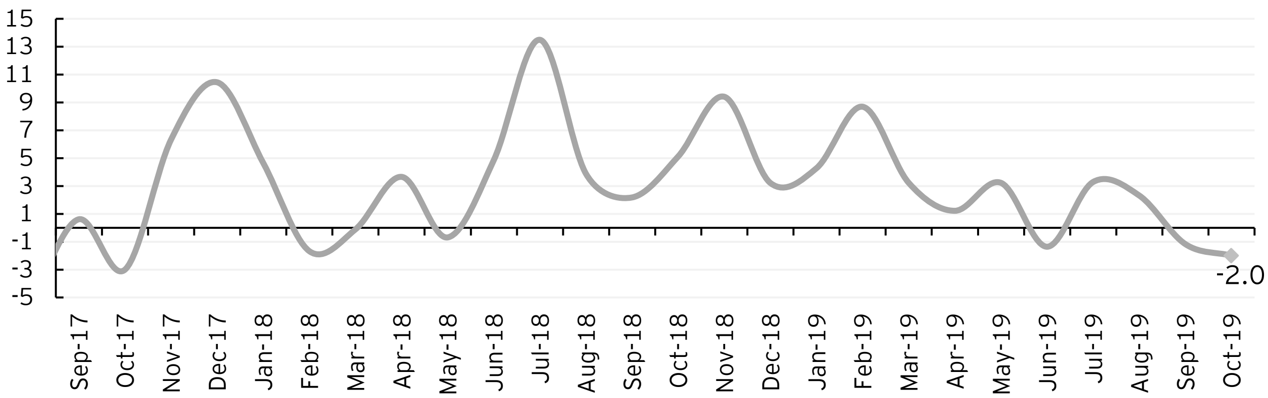
[9] Simple average of three spot prices, namely, Dated Brent, West Texas Intermediate and Dubai Fateh
[10] Simple average of Australian and South African coal prices

9. Index of aggregate demand (IAD): contracted for the second time during this fiscal year

IAD continued to contract by (-) 2.0% in October 2019 primarily due to lower manufacturing demand

- An IAD has been developed by EY to reflect the monthly combined demand conditions in the agriculture, manufacturing and services sectors. It considers the movements in PMI for manufacturing and services, both measured in non-seasonally adjusted terms, tracing the demand conditions in these sectors. Demand conditions in the agricultural sector have been captured by movements in monthly agricultural credit off-take.
- On an y-o-y basis, the index of aggregate demand continued to contract by (-)2.0% in October 2019 as compared to (-) 1.2% in September 2019 **(Chart 14),** partly owing to lower demand in manufacturing sector and partly owing to an unfavorable base effect.
- Demand conditions in the manufacturing sector continued to remain subdued while that in services and agricultural sector improved marginally in October 2019.

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



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

Table 12: IAD

Month	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19
IAD	129.3	128.1	126.7	126.1	127.1	129.8	124.6	124.1	126.2
Growth (% y-o-y)	8.7	3.2	1.2	3.2	-1.4	3.3	2.3	-1.2	-2.0
Growth in agr. credit	7.5	7.9	7.9	7.8	8.7	6.8	6.8	7.0	7.1
Mfg. PMI**	4.4	2.2	1.7	3.1	1.7	1.8	1.3	1.4	0.4
Ser. PMI**	2.8	2.3	1.4	-0.3	1.1	4.4	-0.7	-1.9	0.7

**Values here indicate deviation from benchmark value of 50. A positive value indicates expansion in demand while a negative value implies contraction in demand; PMI for Mfg. and Serv. are non-seasonally adjusted.

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

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10. Capturing macro-fiscal trends: data appendix

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

Fiscal year/quarter/month	IIP	Mining	Manufacturing	Electricity	Core IIP	Fiscal year/quarter/month	PMI mfg.	PMI ser.
	% change y-o-y							
FY 16	3.3	4.3	2.9	5.7	3.0	FY16	51.3	51.7
FY 17	4.6	5.3	4.3	5.8	4.8	FY17	51.6	51.0
FY 18	4.4	2.3	4.7	5.3	4.3	FY18	51.5	50.0
FY 19	3.8	2.8	3.8	5.2	4.4	FY19	52.8	52.2
3Q FY 19	3.7	2.8	3.4	6.9	3.4	3Q FY19	53.4	53.0
4Q FY 19	1.5	2.2	1.4	1.5	3.3	4Q FY19	53.6	52.2
1Q FY 20	3.0	3.0	2.4	7.3	3.4	1Q FY20	52.2	50.3
2Q FY 20	-0.3	-1.2	-0.3	0.6	-0.8	2Q FY20	51.8	51.6
Jul-19	4.9	4.9	4.8	5.2	2.6	Aug-19	51.4	52.4
Aug-19	-1.4	0.0	-1.6	-0.9	0.1	Sep-19	51.4	48.7
Sep-19	-4.3	-8.6	-4.0	-2.6	-5.1	Oct-19	50.6	49.2
Oct-19	-3.8	-8.0	-2.1	-12.2	-5.8	Nov-19	51.2	52.7

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				% change y-o-y				
FY16	4.9	4.9	5.3	4.9	-3.7	1.2	-1.8	-19.7	-1.8
FY17	4.5	4.2	3.3	4.9	1.7	5.9	1.3	-0.3	-0.1
FY18	3.6	1.8	6.2	4.6	2.9	1.9	2.7	8.2	3.0
FY19	3.4	0.1	5.7	5.5	4.3	0.6	3.7	11.5	4.2
3QFY19	2.6	-2.0	6.7	5.6	4.5	-0.9	4.1	13.9	4.8
4QFY19	2.5	-0.9	1.9	5.0	2.9	3.0	2.4	2.7	2.7
1QFY20	3.1	1.7	2.4	4.1	2.7	5.1	1.5	1.2	1.4
2Q FY20	3.5	3.5	-1.4	4.1	0.9	5.6	-0.1	-4.6	-0.5
Aug-19	3.3	3.0	-1.7	4.1	1.2	5.9	0.0	-3.5	-0.4
Sep-19	4.0	5.1	-2.2	4.0	0.3	6.1	-0.4	-6.7	-1.2
Oct-19	4.6	7.9	-2.0	3.2	0.2	7.6	-0.8	-8.3	-1.7
Nov-19	5.5	10.0	-1.9	3.4	0.6	9.0	-0.84	-7.3	-1.9

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

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

Fiscal year/month	Gross tax revenue	Corporate tax	Income tax	Direct taxes*	Indirect taxes**	Fiscal deficit	Revenue deficit
						% of GDP	% of GDP
FY16	17.0	6.0	8.5	6.9	30.1	3.9	2.5
FY 17	17.9	6.7	21.5	12.3	21.6	3.5	2.1
FY 18	11.8	17.8	19.9	18.6	6.0	3.5	2.6
FY19 (CGA actuals over FY18 actuals)	8.4	16.2	7.2	12.3	2.5	3.4	2.3
FY20 (BE over CGA actuals)	18.3	15.4	23.3	18.6	19.8	3.3	2.2
	Cumulated growth (%, y-o-y)					% of budgeted target	
Mar-19	8.4	16.2	13.1	14.9	2.9	101.7	108.4
Apr-19	6.9	59.3	16.3	24.3	-3.4	22.3	26.6
May-19	0.2	-51.6	15.0	12.1	-4.0	52.0	66.3
Jun-19	1.4	6.3	12.3	9.7	-4.0	61.4	77.1
Jul-19	6.6	5.5	6.0	5.8	7.3	77.8	94.2
Aug-19	4.2	4.6	13.2	9.6	0.6	78.7	89.9
Sep-19	1.5	2.3	8.9	5.2	-2.0	92.6	99.9
Oct-19	1.2	0.9	6.7	3.5	-1.0	102.4	112.6

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

Fiscal year/month	CGST	UTGST	IGST	GST compensation cess	Total GST (center)
	INR crore				
FY 2019 (RE)	5,03,900	-	50,000	90,000	6,43,900
FY 2020 (BE)	5,26,000	-	28,000	1,09,343	6,63,343
	Monthly tax collection (INR crore)				
Mar-19	46,191	584	2,340	8,175	57,290
Apr-19	46,848	171	-564	8,874	55,329
May-19	34,557	154	7,195	7,713	49,619
Jun-19	35,400	188	4,039	8,026	47,653
Jul-19	24,095	197	25,250	8,183	57,725
Aug-19	68,545	117	-46,098	6,822	29,386
Sep-19	38,132	482	-3,650	7,148	42,112
Oct-19	37,135	190	19,573	8,701	65,599

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

Note: IGST revenues are subject to final settlement.

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

Fiscal year/month	Repo rate (end of period) %	Fiscal year/ quarter/ month	M1	M3	Bank credit	Agg. deposits	Net FDI	Net FPI	Fiscal year/quarter/month	10-year govt. bond yield %	FX reserves US$ billion
			% change y-o-y				US$ billion				
Jan-19	6.50	FY16	13.5	10.1	9.7	10.5	36.0	-4.1	FY16	7.7	355.6
Feb-19	6.25	FY17	3.1	10.1	7.9	11.6	35.6	7.6	FY17	7.0	370.0
Mar-19	6.25	FY18	21.8	9.2	7.5	7.5	30.3	22.1	FY18	7.0	424.4
Apr-19	6.00	FY19	13.6	10.5	13.7	8.9	30.7	-0.6	FY19	7.7	411.9
May-19	6.00	3Q FY19	13.6	10.2	14.9	9.2	7.3	-2.1	3Q FY19	7.7	393.4
Jun-19	5.75	4Q FY19	13.6	10.5	14.2	10.0	6.4	9.4	4Q FY19	7.4	411.9
Jul-19	5.75	1Q FY20	11.3	10.1	12.6	9.9	13.9	4.8	1Q FY20	7.2	427.7
Aug-19	5.40	2Q FY20	10.8	9.6	10.4	9.9	7.3	-1.9	2Q FY20	6.7	433.6
Sep-19	5.40	Jul-19	13.2	10.6	12.2	10.6	3.7	-1.3	Aug-19	6.6	428.6
Oct-19	5.15	Aug-19	11.8	9.8	10.2	9.7	1.7	-0.5	Sep-19	6.8	433.6
Nov-19	5.15	Sep-19	10.8	9.6	8.7	9.4	1.9	-0.1	Oct-19	6.5	442.6
Dec-19	5.15	Oct-19	12.9	10.6	8.9	10.3	2.2	2.0	Nov-19	6.6	451.1

Source: Database on Indian Economy - RBI

Table A5: External trade and global growth

External trade indicators (annual, quarterly and monthly growth rates)							Global growth (annual)			
Fiscal year/quarter/month	Exports	Imports	Trade balance	Ex. rate (avg.)	Crude prices (avg.)	Coal prices (avg.)	Calendar year	World GDP	Adv. econ.	Emer. econ.
	% change y-o-y		US$ billion	INR/US$	US$/bbl.	US$/mt		% change y-o-y		
FY16	-15.6	-15.2	-117.7	65.5	46.0	54.7	2013	3.5	1.4	5.1
FY17	5.1	0.9	-108.2	67.1	47.9	73.0	2014	3.6	2.1	4.7
FY18	10.6	20.9	-159.0	64.5	55.7	90.8	2015	3.4	2.3	4.3
FY19	8.4	10.1	-180.3	69.9	67.3	100.4	2016	3.4	1.7	4.6
3Q FY19	4.8	7.0	-48.7	72.1	64.3	99.7	2017	3.8	2.5	4.8
4Q FY19	6.0	-1.2	-35.2	70.5	60.5	90.2	2018	3.6	2.3	4.5
1Q FY20	-1.7	-0.3	-46.0	69.5	65.1	74.3	2019*	3.0	1.7	3.9
2Q FY20	-3.6	-12.6	-37.7	70.4	59.7	65.2	2020*	3.4	1.7	4.7
Aug-19	-6.0	-13.4	-13.5	71.1	57.7	63.0	2021*	3.6	1.6	4.6
Sep-19	-6.6	-13.8	-10.9	71.3	60.0	63.7	2022*	3.6	1.6	4.8
Oct-19	-1.1	-16.3	-11.0	71.0	57.3	68.2	2023*	3.6	1.5	4.8
Nov-19	-0.3	-12.7	-12.1	71.5	60.4	70.3	2024*	3.6	1.6	4.8

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

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

Fiscal year/quarter	Output: major sectors									IPD inflation
	GVA	Agr.	Ming.	Mfg.	Elec.	Cons.	Trans.	Fin.	Publ.	GVA
FY16#	8.0	0.6	10.1	13.1	4.7	3.6	10.2	10.7	6.1	1.2
FY17	7.9	6.3	9.5	7.9	10.0	6.1	7.7	8.7	9.2	2.7
FY18	6.9	5.0	5.1	5.9	8.6	5.6	7.8	6.2	11.9	3.9
FY19 (PE)*	6.6	2.9	1.3	6.9	7.0	8.7	6.9	7.4	8.6	4.2
2QFY18	6.6	4.5	10.8	7.1	9.2	4.8	8.3	4.8	8.8	3.8
3QFY18	7.3	4.6	4.5	8.6	7.5	8.0	8.3	6.8	9.2	4.7
4QFY18	7.9	6.5	3.8	9.5	9.2	6.4	6.4	5.5	15.2	3.8
1QFY19	7.7	5.1	0.4	12.1	6.7	9.6	7.8	6.5	7.5	4.6
2QFY19	6.9	4.9	-2.2	6.9	8.7	8.5	6.9	7.0	8.6	4.8
3QFY19	6.3	2.8	1.8	6.4	8.3	9.7	6.9	7.2	7.5	3.8
4QFY19	5.7	-0.1	4.2	3.1	4.3	7.1	6.0	9.5	10.7	3.6
1QFY20	4.9	2.0	2.7	0.6	8.6	5.7	7.1	5.9	8.5	2.9
2QFY20	4.3	2.1	0.1	-1.0	3.6	3.3	4.8	5.8	11.6	1.9

Source: National Accounts Statistics, MoSPI
*Growth numbers for FY19 (PE) are calculated over the revised estimates for FY18 as per the NAS released by MoSPI on 31 May 2019
Growth numbers are based on the 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
FY16	8.0	7.9	7.5	6.5	-5.6	-5.9	2.3
FY17	8.2	8.2	5.8	8.3	5.1	4.4	3.1
FY18	7.2	7.4	15.0	9.3	4.7	17.6	3.8
FY19 (PE)*	6.8	8.1	9.2	10.0	12.5	15.4	4.1
2QFY18	6.8	6.0	7.6	9.3	5.8	15.0	4.3
3QFY18	7.7	5.0	10.8	12.2	5.3	15.8	3.6
4QFY18	8.1	8.8	21.1	11.8	2.8	16.2	3.1
1QFY19	8.0	7.3	6.6	13.3	10.2	11.0	4.3
2QFY19	7.0	9.8	10.9	11.8	12.7	22.9	4.7
3QFY19	6.6	8.1	6.5	11.7	16.7	14.5	4.1
4QFY19	5.8	7.2	13.1	3.6	10.6	13.3	3.4
1QFY20	5.0	3.1	8.8	4.0	5.7	4.2	2.8
2QFY20	4.5	5.1	15.6	1.0	-0.4	-6.9	1.5

Source: National Accounts Statistics, MoSPI
*Growth numbers for FY19 (PE) are calculated over the revised estimates for FY18 as per the NAS released by MoSPI on 31 May 2019
Growth numbers are based on the revised estimates of NAS released by MoSPI on 31 January 2019

List of abbreviations

Sr. no.	Abbreviations	Description
1	AD	aggregate demand
2	AEs	advanced economies
3	Agr.	agriculture, forestry and fishing
4	AY	Assessment Year
5	Bcm	billion cubic meters
6	bbl.	Barrel
7	BE	budget estimate
8	CAB	current account balance
9	CGA	Comptroller General of Accounts
10	CGST	Central Goods and Services Tax
11	CIT	corporate income tax
12	Cons.	Construction
13	CPI	Consumer Price Index
14	CPSE	central public-sector enterprise
15	CSO	Central Statistical Organization
16	Disc.	Discrepancies
17	ECBs	external commercial borrowings
18	EIA	US Energy Information Administration
19	Elec.	electricity, gas, water supply and other utility services
20	EMDEs	Emerging Market and Developing Economies
21	EXP	Exports
22	FAE	first advanced estimates
23	FC	Finance Commission
24	FII	foreign investment inflows
25	Fin.	financial, real estate and professional services
26	FPI	foreign portfolio investment
27	FRBMA	Fiscal Responsibility and Budget Management Act
28	FY	fiscal year (April–March)
29	GDP	Gross Domestic Product
30	GFCE	government final consumption expenditure
31	GFCF	gross fixed capital formation
32	GoI	Government of India
33	GST	Goods and Services Tax
34	GVA	gross value added
35	IAD	Index of Aggregate Demand
36	IBE	interim budget estimates
37	ICRIER	Indian Council for Research on International Economic Relations
38	IEA	International Energy Agency
39	IGST	Integrated Goods and Services Tax
40	IIP	Index of Industrial Production
41	IMF	International Monetary Fund
42	IMI	Index of Macro Imbalance

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

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