

# Economy Watch

Monitoring India's  
macro-fiscal performance

February 2024

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# Highlights

1. In January 2024, both manufacturing and services PMI increased sharply with their respective levels at 56.5 and 61.8.
2. IIP growth increased to 3.8% in December 2023 from 2.4% in November 2023. In 3QFY24, IIP growth averaged 5.8% as compared to 7.7% in 2QFY24.
3. The RBI retained the repo rate at 6.5% in February 2024.
4. CPI inflation eased to 5.1% in January 2024 from 5.7% in December 2023, led by lower consumer food inflation. Core CPI inflation moderated for the seventh successive month to 3.6% in January 2024.
5. WPI inflation fell to 0.3% in January 2024 as compared to 0.7% in December 2023 led mainly by moderation in inflation in vegetables.
6. During April-December FY24, Govt's GTR showed a growth of 14.4%, with growth in direct taxes at 23.2% and that in indirect taxes at 4.3%.
7. Govt's total expenditure grew by 8.4% during April-December FY24, with growth in capital expenditure at 37.5% and that in revenue expenditure at 2.3%.
8. The FY25 Union Budget has estimated Govt's fiscal and revenue deficits in FY24 at 5.8% and 2.8% of GDP, an improvement over the budgeted levels of 5.9% and 2.9% respectively.
9. Growth in gross bank credit eased marginally to 15.6% in December 2023 from 16.2% in November 2023. In 3QFY24, bank credit growth at 15.7% was higher than that in 2QFY24 at 15%.
10. Growth in merchandise exports and imports remained low at 3.1% and 3.0% respectively in January 2024 as compared to 1.0% and (-)4.8% respectively in December 2023 reflecting the global economic slowdown besides lower global crude prices.
11. Merchandise trade deficit fell to a nine-month low of US\$17.5 billion in January 2024 whereas goods and services deficit was at an eight-month low of US\$3.8 billion in December 2023.
12. Net FDI outflows amounted to US\$3.9 billion in December 2023 as compared to inflows amounting to US\$2.9 billion in November 2023.
13. From a six-month low of US\$75.7/bbl. in December 2023, average global crude price increased slightly to US\$77.7/bbl. in January 2024.
14. The IMF has projected global growth at 3.1% in 2023, with India's FY24 growth forecasted at 6.7%.



# Foreword

## FY25 Interim Budget: balancing fiscal consolidation with growth

The RBI in its February 2024 review of the monetary policy has estimated India's real GDP growth at 7% for FY25. This coincides with the corresponding assessment by the Ministry of Finance's release of the review of the Indian Economy<sup>1</sup>. The IMF, in its January 2024 update of the World Economic Outlook, has projected India's GDP growth at 6.5% for FY25. In regard to CPI inflation, the RBI has projected an inflation rate of 4.5% for FY25. Recent inflation data indicate a fall in the CPI inflation to 5.1% in January 2024 from 5.7% in December 2023 owing to lower consumer food inflation. In the presence of continued global economic headwinds, these macro parameters may be considered robust. Maintaining a growth rate that is more than twice the global growth as assessed by the IMF at 3.1% and 3.2% for 2024 and 2025 respectively, affirms India's position as a global growth leader amongst major economies.

While the RBI has continued to retain its repo rate at 6.5% since February 2023, it is the fiscal policy that has played the more active role in supporting growth. The Gol has steered the economy towards recovery since the period of the COVID shock in FY21 by focusing on reducing its fiscal deficit on the one hand and expanding infrastructure through capital expenditure growth on the other. This month's In-focus section provides a detailed review of budgetary priorities focused on growth preserving fiscal consolidation. The key strategy has been a sustained reduction in Gol's revenue expenditure relative to GDP enabling a reduction in fiscal deficit and an increase in capital expenditure relative to GDP. Infrastructure expansion is a suitable strategy under India's present circumstances since it has to depend largely on domestic growth drivers. Government capital expenditure has a higher multiplier associated with it as compared to revenue expenditure. The RBI (2019) had estimated the peak multiplier associated with Gol's capital expenditure at 3.25 and that associated with revenue expenditure at 0.45. Further, if government expenditures are being financed by a fiscal deficit higher than its sustainable level, it is better to devote this expenditure to create assets in order to match the liabilities due to additional debt. The private sector would also benefit in the long-term as unit costs of supply and transportation of goods and services reduce with better infrastructure.

India's external sector would remain a cause of concern due to the ongoing supply side disruptions and global demand slowdown. The contribution of net exports to India's real GDP growth was (-)3% points in FY24 as per the first advance estimates of the NSO released on 05 January 2024. This trend is likely to continue even if its magnitude moderates a little in the next few years. During April-December FY23, goods and services exports showed high growth rates of 10.3% and 26.8% respectively. These fell to (-)7.9% and 7.6% during the corresponding period of FY24. Trends in net FDI and FPI present a mixed picture. Net FDI flows have fallen in recent years although these have remained positive. Considering the period April-December 2023, net FDI inflows were significantly lower at US\$9.7 billion as compared to US\$21.6 billion during the corresponding period of the previous year. In contrast, there has been an improvement in the net FPI which witnessed inflows amounting to US\$32.3 billion as compared to outflows of US\$3.5 billion over the same period.

NSO's first advance estimates for FY24 show a balanced recovery in the sectoral composition of output growth. Sectors that show robust performance include construction, with a growth rate of 10.7%, followed by financial, real estate, and professional services at 8.9%, public administration and defense at 7.7%, and manufacturing at 6.5%. With an estimated 7% real growth in FY25, growth in industrial and services sectors are likely to sustain their growth momentum. Available high frequency indicators show a strong and ongoing growth momentum. Headline manufacturing PMI increased to a four-month high level of 56.5 in January 2024, recovering from an 18-month low of 54.9 in December 2023. The current output expansion was led by domestic new orders which grew at a faster pace than export orders. Services PMI also increased sharply to a six-month high of 61.8 in January 2024 from 59 in December 2023. Gross GST collections increased to a three-month high of INR1.72 lakh crore in January 2024 from INR1.65 lakh crore in December 2023. According to the data released by Federation of Automobile Dealers Association (FADA), retail sales of vehicles continued to post a double-digit growth of 15% in January 2024. Gross bank credit continued to post a double-digit growth of 15.6% in December 2023, although it was marginally lower as compared to 16.2% in November 2023. In 3QFY24, bank credit grew at a higher rate of 15.7% as compared to 15% in 2QFY24.

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<sup>1</sup> [https://dea.gov.in/sites/default/files/The%20Indian%20Economy%20-%20A%20Review\\_Jan%202024.pdf](https://dea.gov.in/sites/default/files/The%20Indian%20Economy%20-%20A%20Review_Jan%202024.pdf)

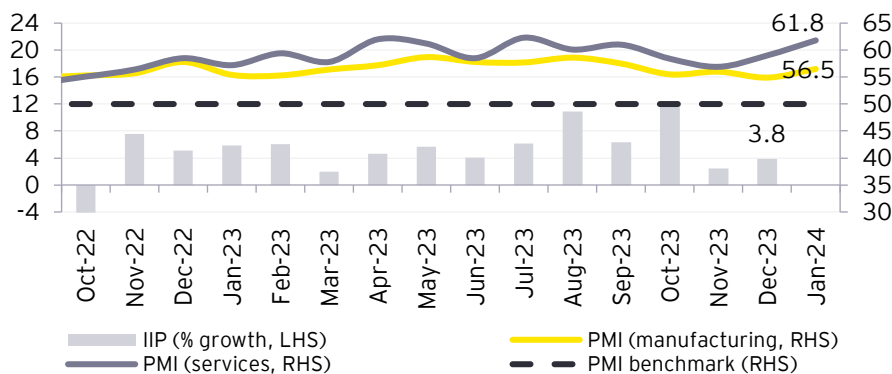


# 1 Growth: PMI signaled a strong pickup in both manufacturing and services in January 2024

## 1.1 PMI: in January 2024, manufacturing and services PMI increased to a four-month high of 56.5 and a six-month high of 61.8 respectively

- ▶ From an 18-month low of 54.9 in December 2023, headline manufacturing PMI (seasonally adjusted (sa)) increased to a four-month high level of 56.5 in January 2024 (**Chart 1**). The current output expansion was led by domestic new orders which grew at a faster pace than export orders.
- ▶ Services PMI increased sharply to a six-month high level of 61.8 in January 2024 from 59 in December 2023. With this, services PMI remained above the threshold of 50 for 30 successive months beginning August 2021.
- ▶ Led by a strong expansion in both manufacturing and services, the composite PMI Output Index (sa) increased to a six-month high level of 61.2 in January 2024 from 58.5 in December 2023.

**Chart 1: PMI and IIP growth**



Source: MoSPI and S&P Global.

In January 2024, both manufacturing and services PMI increased sharply with their respective levels at 56.5 and 61.8.

## 1.2 IIP: growth increased to 3.8% in December 2023

- ▶ According to the quick estimates, IIP growth increased to 3.8% in December 2023 from 2.4% in November 2023 (revised) (**Chart 1**). In 3QFY24, IIP growth averaged 5.8%, slightly lower as compared to 7.7% in 2QFY24.
- ▶ Among sub-industries, manufacturing output, with a share of 77.6% in the overall IIP, grew by 3.9% in December 2023 improving from 1.2% in November 2023. Within manufacturing, strong growth was seen in motor vehicles, trailers and semi-trailers at 9.2% followed by basic metals at 7.3% and coke and refined petroleum products at 6.9% in December 2023. However, output of machinery and equipment and, chemical and chemical products contracted for the second successive month by (-)0.1% and (-)0.2% respectively in December 2023.
- ▶ Among other major sub-industries, the output of the mining sector grew by 5.1% while that of electricity by 1.2% in December 2023, lower as compared to 7% and 5.8% respectively in November 2023.
- ▶ As per the 'use-based' classification of industries, output of both consumer durables and non-durables recovered to show growth rates of 4.8% and 2.1% respectively in December 2023 as compared to contraction of (-)5.5% and (-)3.3% respectively in November 2023. Similarly, output of capital goods grew by 3.2% in December 2023 as compared to a contraction of (-)1.1% in November 2023. Growth in the output of infrastructure/construction improved to 4.1% in December 2023 as compared to 1.7% in November 2023.
- ▶ According to provisional estimates, the output of eight core infrastructure industries (core IIP) grew at a slower pace of 3.8% in December 2023, its lowest growth since October 2022. Among the sub-industries, growth slowdown was seen in electricity (0.6%), petroleum refinery products (2.6%) and steel (5.9%) while cement output continued to show a low growth of 1.3% in December 2023. The output of crude oil contracted for the second successive month by (-)1.0% in December 2023.

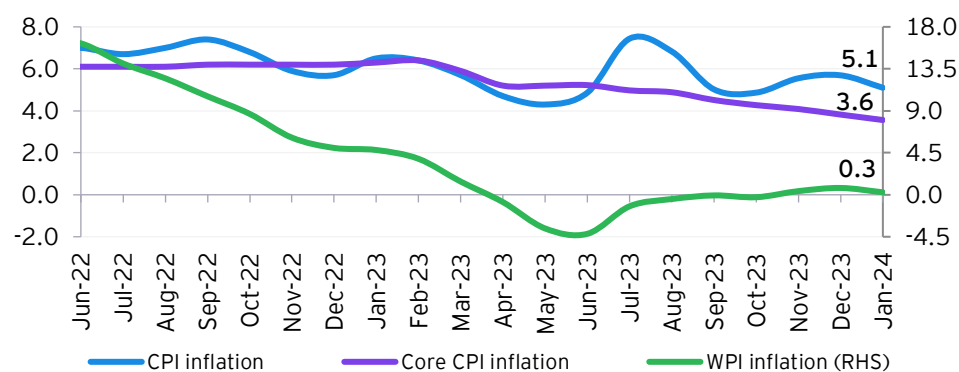
IIP growth increased marginally to 3.8% in December 2023, from 2.4% in November 2023.



### 2.1 CPI inflation

- ▶ Consumer food price index-based inflation moderated to a three-month low of 8.3% in January 2024 led by lower inflation in cereals and products which eased to 7.8% in January 2024 from 9.9% in December 2023 mainly due to a favorable base effect.
- ▶ Fuel and light inflation remained negative for the sixth successive month at (-)0.6% in January 2024 as compared to (-)1.0% in December 2023.
- ▶ Inflation in transportation and communication services was nearly stable at 2.0% in January 2023, reflecting lower global crude price levels than those during the corresponding month in the previous year.
- ▶ Inflation in clothing and footwear decelerated for the fifteenth consecutive month to 3.4% in January 2024 from 3.6% in December 2023. Inflation rates in housing and personal care and effects were at 35-month and 23-month lows of 3.2% and 5.9% respectively in January 2024.
- ▶ Core CPI inflation<sup>2</sup> eased further to 3.6% in January 2024 (**Chart 2**), its lowest level since December 2019, from 3.8% in December 2023, led by lower inflation in clothing and footwear, housing and personal care and effects.

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



CPI inflation eased to 5.1% in January 2024 from 5.7% in December 2023, led by lower consumer food inflation. Core CPI inflation moderated for the seventh successive month to 3.6% in January 2024.

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

### 2.2 WPI inflation: remained low at 0.3% in January 2024 as compared to 0.7% in December 2023 led mainly by some moderation in inflation in vegetables

- ▶ Inflation in vegetables eased to 19.7% in January 2024 from 26.3% in December 2023 due mainly to lower inflation in onion and tomatoes which eased to 29.2% and 57.0% respectively in January 2024 from 91.8% and 81.7% respectively in December 2023.
- ▶ WPI food index-based inflation fell to a three-month low of 3.8% in January 2024.
- ▶ Inflation in crude petroleum and natural gas turned positive at 0.2% in January 2024 after remaining negative for three successive months.
- ▶ Prices of fuel and power continued to contract for the ninth consecutive month at (-)0.5% in January 2024 as compared to (-)2.4% in December 2023. Inflation in mineral oils remained negative at (-)1.1% in January 2024. The pace of contraction in diesel prices slowed to (-)5.3% in January 2024 from (-)6.7% in December 2023.
- ▶ The pace of contraction in prices of manufactured products increased marginally to (-)1.1% in January 2024 from (-)0.7% in December 2023 reflecting declining input cost pressures.
- ▶ Core WPI witnessed a contraction for the eleventh consecutive month at (-)1.0% in January 2024 as compared to (-)0.5% in December 2023, as manufactured basic metals remained in contraction mode for the twelfth successive month.

<sup>2</sup> Core CPI inflation is measured in different ways by different organizations/agencies. Here, it has been calculated by excluding food, and fuel and light from the overall index.

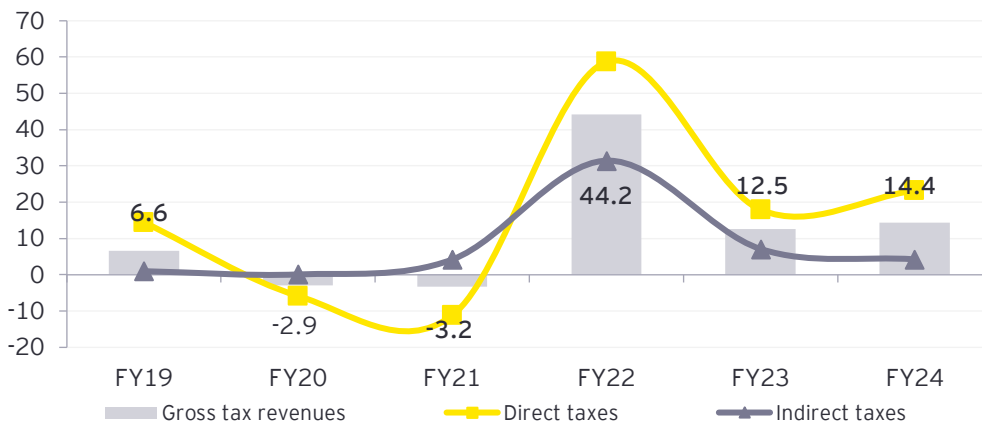


## 3 Fiscal: Gol's capital expenditure growth stood at 37.5% during April-December FY24

### 3.1 Tax and non-tax revenues

- ▶ As per the CGA, Gol's GTR<sup>(b)</sup> showed a growth of 14.4% during the first nine months of FY24 as compared to 12.5% during the corresponding period of FY23 (**Chart 3**).
- ▶ During April-December FY24, GTR stood at 72.2% of the annual RE, higher than the three-year average ratio (FY21 to FY23) based on actual collections at 69.5%.
- ▶ The FY25 Union Budget has estimated Gol's GTR at INR34.4 lakh crore in FY24 (RE), higher than the BE at INR33.6 lakh crore.
- ▶ Direct taxes<sup>(a)</sup> showed a strong growth of 23.2% while indirect taxes<sup>(a)</sup> grew by 4.3% during April-December FY24. The corresponding growth rates in FY23 were at 18% and 7.1% respectively.
- ▶ CIT revenues grew by 18.7% during the first nine months of FY24 as compared to 16.9% during the same period in FY23.
- ▶ PIT revenues grew by 28.4% during April-December FY24, higher than 19.2% during the corresponding period of FY23.
- ▶ Among indirect taxes, Gol's GST revenues<sup>(c)</sup> grew by 9.3% during April-December FY24, lower than 19.8% during the corresponding period of FY23.
- ▶ Union excise duties (UED) showed a contraction of (-)7% during the first nine months of FY24 as compared to (-)19.9% during the corresponding period of FY23.
- ▶ Owing to subdued growth in imports, customs duties also contracted by (-)0.2% during April-December FY24 as compared to a growth of 12.4% during the corresponding period of FY23.

**Chart 3: Growth in central gross tax revenues during April-December (% , y-o-y)**



During April-December FY24, Gol's GTR showed a growth of 14.4%, with growth in direct taxes at 23.2% and that in indirect taxes at 4.3%.

Source: Monthly Accounts, CGA, Government of India

Notes: (a) Direct taxes include personal income tax and corporation tax, and indirect taxes include union excise duties, arrears of service tax, customs duty, and GST (comprising CGST, UTGST, IGST and GST compensation cess) (b) Other taxes (securities transaction tax, wealth tax, fringe benefit tax, banking cash transaction tax, etc.) are included in the Gol's GTR along with direct and indirect taxes, (c) IGST revenues are subject to final settlement.

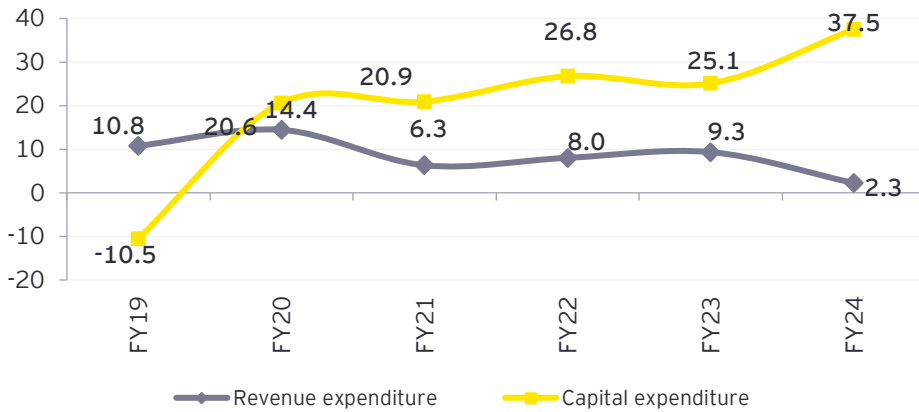
- ▶ Gol's non-tax revenues showed a high growth of 45.8% during April-December FY24 on account of high receipt of dividends and profits.
- ▶ Non-tax revenues during April-December FY24 as a proportion of annual RE stood at 83.1%, much higher than the three-year average (FY21 to FY23) ratio of 68.9% based on actual collections.
- ▶ The FY24 (RE) for non-tax revenues has been increased to INR3.7 lakh crore from the BE at INR3.0 lakh crore.
- ▶ Non-debt capital receipts of the Gol during April-December FY24 stood at 52.9% of the RE, lower than the three-year average (FY21 to FY23) ratio of 68.7% based on actual collections. The FY25 Union Budget has lowered the RE for FY24 to INR56,000 crore from the BE at INR84,000 crore.

- ▶ As per DIPAM<sup>3</sup>, disinvestment receipts as of 19 February 2024 stood at INR12,504.32 crores, that is 41.7% of the FY24 RE at INR30,000 crore (FY24 BE was higher at INR51,000 crore).

### 3.2 Expenditures: revenue and capital

- ▶ Gol's total expenditure grew by 8.4% during April-December FY24 as compared to 11.8% during the corresponding period of the previous year. The annual growth as per the FY25 Union Budget has been estimated at 7.1% for the current fiscal year.
- ▶ Gol's revenue expenditure showed a growth of 2.3% during April-December FY24 as compared to 9.3% during the corresponding period of FY23 (Chart 4). The FY25 Budget has estimated annual growth in Gol's revenue expenditure at 2.5% for FY24 (RE).
- ▶ Gol's capital expenditure continued to show a strong growth of 37.5% during the first nine months of FY24, higher than 25.1% during the corresponding period of FY23. The RE for FY24 has been reduced to INR9.5 lakh crore from the BE at INR10.0 lakh crore. Thus, the annual growth of capital expenditure in FY24 (RE) is estimated at 28.4%.

**Chart 4: Growth in central expenditures during April-December (% , y-o-y)**



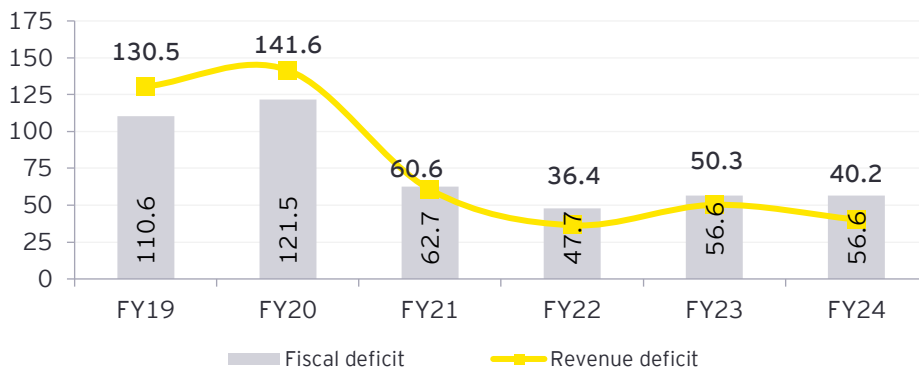
Gol's total expenditure grew by 8.4% during April-December FY24, with growth in capital expenditure at 37.5% and that in revenue expenditure at 2.3%.

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

### 3.3 Fiscal imbalance

- ▶ Gol's fiscal deficit during April-December FY24 stood at 56.6% of the RE (Chart 5). As per the FY25 Union Budget, Gol's FY24 fiscal deficit to GDP ratio is estimated at 5.8%, lower than the budgeted target at 5.9%.
- ▶ Gol's revenue deficit during the first nine months of FY24 stood at 40.2% of the RE. The FY25 Union Budget indicates Gol's FY24 revenue deficit to GDP ratio at 2.8%, lower than the budgeted level of 2.9%.

**Chart 5: Fiscal and revenue deficit during April-December as a percentage of RE**



The FY25 Union Budget has estimated Gol's FY24 fiscal and revenue deficits at 5.8% and 2.8% of GDP, an improvement over the budgeted levels of 5.9% and 2.9% respectively.

Source: Monthly Accounts, CGA, Government of India and MoSPI

<sup>3</sup> <https://dipam.gov.in/>





## 4 Comparative trends: OECD projected India's general government fiscal deficit at 7.5% of GDP in FY25

### 4.1 Fiscal balance

- ▶ From their peak levels in the COVID affected year of 2020, general government fiscal deficit relative to GDP reduced tangibly in 2021 and 2022 across selected major economies (Table 1).
- ▶ In the US, fiscal deficit to GDP ratio worsened in 2023 due to a combination of lower-than-expected tax receipts and higher than expected spending on mandatory social programs. However, fiscal policy is expected to tighten in 2024 and remain broadly neutral in 2025, leading to some reduction in the general government fiscal deficit to GDP ratio.
- ▶ In the UK, the fiscal stance is expected to be restrictive in 2024 and 2025 as the government complies with its national fiscal rule of decreasing public debt within a five-year horizon. Consequently, general government fiscal deficit to GDP ratio is projected to fall to 3.7% by 2025.
- ▶ In Germany, with the reinstatement of the national debt brake in 2023 after suspension during 2020-2022, government fiscal deficit to GDP ratio is projected to witness a substantial fall, reaching a level of 0.9% by 2025.
- ▶ In Japan, fiscal support is projected to decline with the end of pandemic-related measures and the gradual decline in price subsidies in 2024 and the phase-out of subsidies in 2025. This is expected to gradually lower the government fiscal deficit to GDP ratio to 3.3% by 2025. Despite this, Japan's gross public debt to GDP ratio is projected to remain high at 243.8% in 2025.
- ▶ Among emerging economies, in China, fiscal policy is expected to continue to provide support through tax cuts and exemptions for small and micro enterprises and accelerated deductions of research costs. Thus, general government fiscal deficit to GDP ratio is projected to remain elevated throughout the forecast period.
- ▶ In India, with fiscal consolidation remaining a top priority, general government fiscal deficit to GDP ratio is projected to gradually decline, reaching 7.5% of GDP in 2024 (FY25) and 7% in 2025 (FY26). Brazil and South Africa are projected to show some fiscal consolidation in 2024 and 2025.

**Table 1: General government financial balance as % of GDP**

Country	2021	2022	2023	2024	2025
US	-11.5	-4.0	-7.8	-7.0	-7.0
UK	-7.9	-4.6	-5.5	-4.5	-3.7
Germany	-3.7	-2.5	-2.2	-1.6	-0.9
Japan	-6.2	-5.8	-5.2	-4.4	-3.3
Brazil	-4.6	-4.6	-7.2	-6.4	-5.8
India*	-10.4	-8.9	-8.4	-7.5	-7.0
China	-6.4	-6.5	-6.6	-6.7	-6.7
South Africa	-6.4	-4.8	-6.4	-6.3	-6.0

Source: OECD Economic Outlook, November 2023

\*data pertains to fiscal year

Note: -ve indicates a deficit and +ve indicates a surplus

### 4.2 Current account balance (CAB)

- ▶ Trends in current account balances relative to GDP have varied across countries (Table 2).
- ▶ Among advanced economies, while the US and the UK show a deficit on their current account, Germany and Japan witness a surplus. CAB relative to GDP is projected to broadly improve in 2024-25 with the deficit falling in the UK and remaining broadly stable in the US while the surplus increasing in Japan and remaining unchanged at relatively high levels in Germany.
- ▶ Among selected key emerging economies, China has shown a surplus on its current account. This is projected to fall in 2024 and 2025 as exports remain weak amid sluggish global growth.
- ▶ India's current account deficit is estimated to have significantly narrowed in 2023 (FY24) primarily on account of relatively cheaper crude oil imports from Russia and relatively better performance of services exports. However, current account deficit is expected to widen in 2024 (FY25) and 2025 (FY26).
- ▶ In Brazil, owing to robust agricultural exports, current account deficit is expected to reduce tangibly in 2023 and remain at low levels in 2024 and 2025.
- ▶ The current account balance in South Africa is expected to deteriorate in 2023 amid declines in the terms of trade, lower export volumes, higher import volumes, and a weak domestic currency.

**Table 2: Current account balance as % of GDP**

Country	2021	2022	2023	2024	2025
US	-3.5	-3.8	-3.1	-3.0	-3.1
UK	-0.5	-3.1	-3.5	-2.7	-1.9
Germany	7.8	4.4	6.7	6.9	6.9
Japan	3.9	1.8	3.4	3.8	4.0
Brazil	-2.8	-2.8	-1.7	-1.6	-1.5
India*	-1.0	-2.4	-1.8	-2.4	-2.3
China	2.0	2.2	1.6	1.1	1.3
South Africa	3.7	-0.5	-1.9	-1.8	-2.1

Source: OECD Economic Outlook, November 2023

\*data pertains to fiscal year

Note: -ve indicates a deficit and +ve indicates a surplus



## 5 In focus: Abiding by the *Dharma* of Vote on Account: growth preserving fiscal consolidation

### 5.1 Introduction

The GoI has done well to abide by the *Dharma* of Vote on Account. In spite of the general elections being round the corner, it resisted the temptation of making any large budgetary commitments for selected voter segments. In fact, allocations for major social sector schemes do not show any significant departure from normal increments to account for inflation. This self-discipline has created the fiscal space to prioritize fiscal consolidation while not sacrificing growth. In fact, as fiscal consolidation leads the Indian economy closer to the FRBM norms, it would solidify India's medium-term growth prospects.

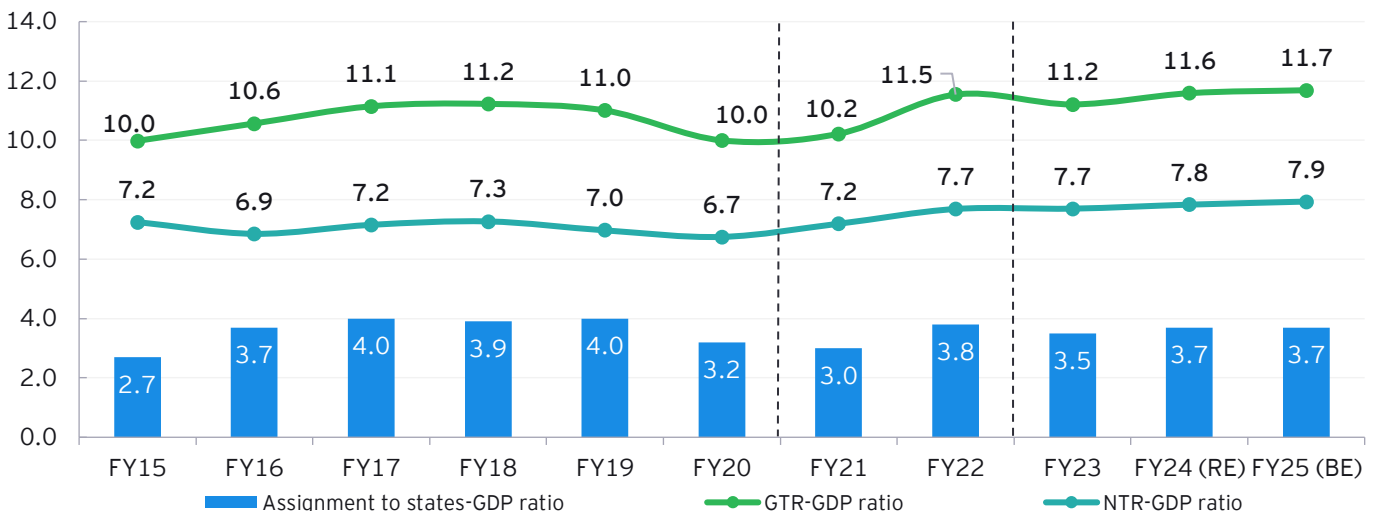
### 5.2 An assessment of fiscal reforms over 10 years: selected dimensions

Other than an analysis of budgetary allocations and the arithmetic to achieve the reduction in fiscal deficit and debt relative to GDP, the FY25 Budget also provides an opportunity to assess the progress of fiscal reforms in the ten years under the guidance of the current government. Three notable aspects relate to (1) improvement on trend basis, in the tax-GDP ratio of the GoI as well on the consolidated account of central and state governments, (2) a persistent change in the structure of GoI's expenditure in favor of capital expenditures, and (3) sustained reduction in GoI's subsidy burden relative to GDP. These developments auger well for the fiscal consolidation roadmap as well as for creating fiscal room for growth and macro stabilization.

#### Improvement in tax-GDP ratio: GoI and the combined government

In the case of the tax-GDP ratio, we can consider the ten-year period in three distinct parts (Chart 6). The first part pertains to the first six years of the current government covering FY15 to FY20. The second part consists of two years subjected to the COVID shock and the subsequent recovery which contains the base effects. The remaining three years cover the period from FY23 to FY25 (BE). The first phase shows an inverted-U shape of GoI's tax-GDP profile. Starting from a relatively low level of 10% in FY15, GoI's gross tax revenue to GDP ratio increased on a consistent basis to 11.2% by FY18. This improvement in the post-demonetization period was largely due to improved compliance linked to increasing digitalization and formalization of the Indian economy. In the latter part of the first phase, two major tax reforms took place namely, transition to the Goods and Services Tax (introduced in July 2017 that is, FY18) and comprehensive Corporate Income Tax (CIT) reforms (introduced in September 2019 that is, FY20). Both led to certain revenue losses in the initial years, so much so that the GoI's tax-GDP ratio was back to 10% in FY20, the pre-COVID year. After that, two years were taken up by the COVID and its immediate aftermath affecting the GTR in FY21 and FY22. In FY22, the GoI's tax-GDP ratio increased to 11.5% reflecting a sharp economic recovery. After that, in the more normal years, the tax-GDP ratio incrementally rose from 11.2% in FY23 to 11.6% in FY24 (RE). It is projected to further increase to 11.7% in FY25 (BE) showing a steady upward movement.

**Chart 6: Trends in GoI's gross tax revenue (GTR) to GDP ratio (%)**



Source (basic data): Union budget documents and MoSPI

The net tax revenue (NTR) relative to GDP indicates the share of Gol's GTR that accrues to the Gol. The excess of GTR over NTR mainly indicates tax revenues that are shared with the states<sup>4</sup>. In the case of the NTR-GDP ratio, there is a notable increase after FY20. The vertical columns indicate the pattern of change in the share of states in Gol's GTR relative to GDP. This share fell from 4% in FY19 to 3% in FY21. This fall was due both to a fall in the Gol's GTR to GDP ratio and an increase in the non-sharable central cesses and surcharges. In fact, if we look at the share of states in Gol's GTR, it fell from 36.6% in FY19 to 29.4% in FY21, the COVID year. However, an improvement in more recent years is visible when this share is shown to increase from 3.5% of GDP in FY23 to 3.7% in FY24 (RE) and FY25 (BE). This translates to an improvement in the share of states in Gol's GTR from 29.4% in FY21 to 31.1% in FY23 and further to 31.9% in FY24 (RE) and 31.8% in FY25 (BE).

### Structure of Gol's total expenditure

A second major outcome of fiscal reforms during the last 10 years relates to an improvement in the structure of government expenditures as shown in Table 3. The period from FY15 to FY21 shows a near stable share of revenue expenditure in total expenditure in the range of 85.6% (FY17) to 88.2% (FY15). FY22 onwards, there has been a steady fall in the share of revenue expenditure so much so that over the entire period covering FY15 to FY25 (BE), there is a fall of 11.5% points in this share from 88.2% to 76.7%. Correspondingly, there is an increase in the share of capital expenditure in total expenditure. This increase is especially pronounced for the period from FY21 to FY25 (BE) when it increased from 12.1% to 23.3%. Within capital outlay, there is a further trend of increase favoring non-defence expenditure which implies expenditure on infrastructure. The share of non-defence outlay in total expenditure rose from 5.2% in FY21 to 16.1% in FY25 (BE).

**Table 3: Structure of Gol's total expenditure (share in total expenditure in %)**

	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24 (RE)	FY25 (BE)
Revenue exp.	88.2	85.9	85.6	87.7	86.7	87.5	87.9	84.4	82.4	78.8	76.7
Interest	24.2	24.7	24.3	24.7	25.2	22.6	19.1	21.1	22.1	23.5	25.0
Defence	8.2	8.1	8.4	8.7	8.4	7.7	5.9	6.0	6.1	6.7	5.9
Capital exp.	11.8	14.1	14.4	12.3	13.3	12.5	12.1	15.6	17.6	21.2	23.3
Capital outlay	10.1	12.7	12.5	11.4	12.1	11.6	9.0	14.1	14.9	18.0	19.7
Non-defence	5.1	8.2	8.2	7.2	8.0	7.5	5.2	10.5	11.5	14.5	16.1
Defence	4.9	4.5	4.4	4.2	4.1	4.1	3.8	3.6	3.4	3.5	3.6

Source (basic data): Union budget documents and MoSPI

**Table 4: Major social sector schemes**

Social sector schemes	FY21	FY22	FY23	FY24 (RE)	FY25 (BE)	FY25 (BE) minus FY24 (RE)
	INR crore					
MGNREGA	1,11,170	98,468	90,806	86,000	86,000	-
Jal Jeevan Mission (JJM)/National Rural Drinking Water Mission	10,998	63,126	54,700	70,000	70,163	163
National Education Mission	40,260	25,305	32,875	33,500	37,500	4,000
National Health Mission	28,088	32,958	33,803	33,886	38,183	4,297
Pradhan Mantri Awas Yojna (PMAY)	37,478	90,020	73,615	54,103	80,671	26,568
Pradhan Mantri Gram Sadak Yojna	13,688	13,992	18,783	17,000	19,000	2,000
Pradhan Mantri Krishi Sinchai Yojna	7,877	11,278	6,380	8,781	11,391	2,610
Urban Rejuvenation Mission: AMRUT and Smart Cities Mission	9,754	13,868	15,153	13,200	10,400	-2,800
Pradhan Mantri Kisan Samman Nidhi (PMKisan)	60,990	66,825	58,254	60,000	60,000	-
Crop Insurance Scheme	14,161	13,549	10,296	15,000	14,600	-400
<b>Total</b>	<b>3,34,464</b>	<b>4,29,389</b>	<b>3,94,665</b>	<b>3,91,470</b>	<b>4,27,908</b>	<b>36,438</b>
<b>Memo</b>						
Total as % of total expenditure	9.5	11.3	9.4	8.7	9.0	
Total as % of primary expenditure	11.8	14.4	12.1	11.4	12.0	

Source (basic data): Union budget documents and MoSPI

<sup>4</sup> A small component also pertains to the Gol's transfers to the National Calamity Contingency Fund

In an interim budget, with general elections round the corner, it is often expected that the government of the day may announce various budgetary giveaways in order to appeal to the voters. However, the understood dharma of a 'Vote on Account' is that the government should not utilize the budget for making any major expenditure commitments. It is basically to be used only for ensuring parliamentary approval for undertaking expenditures from 01 April 2024 to the date when the post-election government's full year budget is made effective. Table 4 gives details of budgetary allocation of major social sector schemes. It may be noted that the Gol's budget does not increase the allocation for major social sector schemes by any significant margin. As a percentage of primary expenditure, it has been kept at 12%, which is close to the average for the last four years.

### Gol's major subsidies

One part of revenue expenditure reforms relates to subsidy reforms. The Gol has been able to show a steady reduction in major subsidies which were at its peak relative to GDP at 3.57% in the COVID year of FY21 (Table 5). Since then, this ratio has steadily fallen to 1.16% in FY25 (BE). In fact, the period from FY15 to FY20 witnessed a steady reform aimed at reducing the share of subsidies in Gol's revenue expenditure primarily by better targeting and delivery to the intended beneficiaries by using India's substantially improved public digital infrastructure.

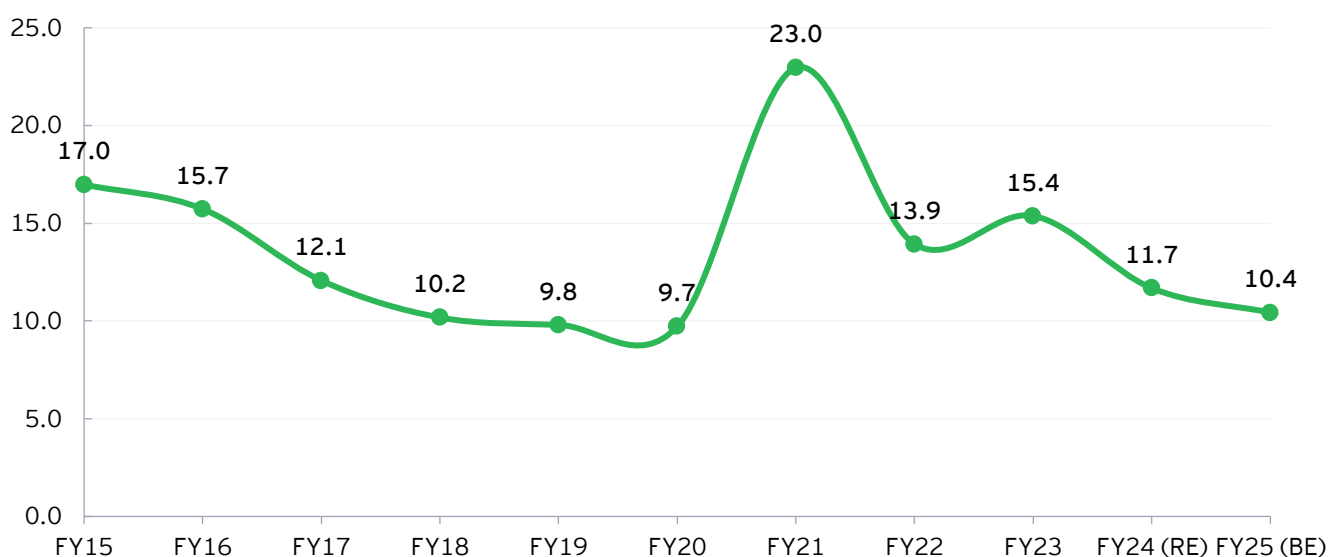
**Table 5: Trends in major subsidies (% of GDP)**

Year	Major subsidies of which	Fertilizer subsidy	Food subsidy	Petroleum subsidy
FY15	2.00	0.57	0.94	0.48
FY16	1.76	0.53	1.01	0.22
FY17	1.33	0.43	0.72	0.18
FY18	1.12	0.39	0.59	0.14
FY19	1.04	0.37	0.54	0.13
FY20	1.14	0.40	0.54	0.19
FY21	3.57	0.65	2.73	0.19
FY22	1.90	0.66	1.23	0.01
FY23	1.95	0.92	1.00	0.03
FY24 (RE)	1.39	0.64	0.72	0.04
FY25 (BE)	1.16	0.50	0.63	0.04

Source (basic data): Union budget documents and MoSPI

As a result, as a percentage of revenue expenditures, major subsidies fell from 17% in FY15 to 9.7% in FY20 (Chart 7). This was disturbed in the COVID year where there was a dire need to increase the extent of benefits and the ambit of beneficiaries. In that year, the share of major subsidies in Gol's revenue expenditure shot up to 23%. This includes the effect also of Gol's effort towards transparency by clearing any arrears of entities like Food Corporation of India and the Oil Marketing Companies. However, since then, it has progressively been brought down to 10.4% in FY25 (BE).

**Chart 7: Share of major subsidies in Gol's revenue expenditure (%)**

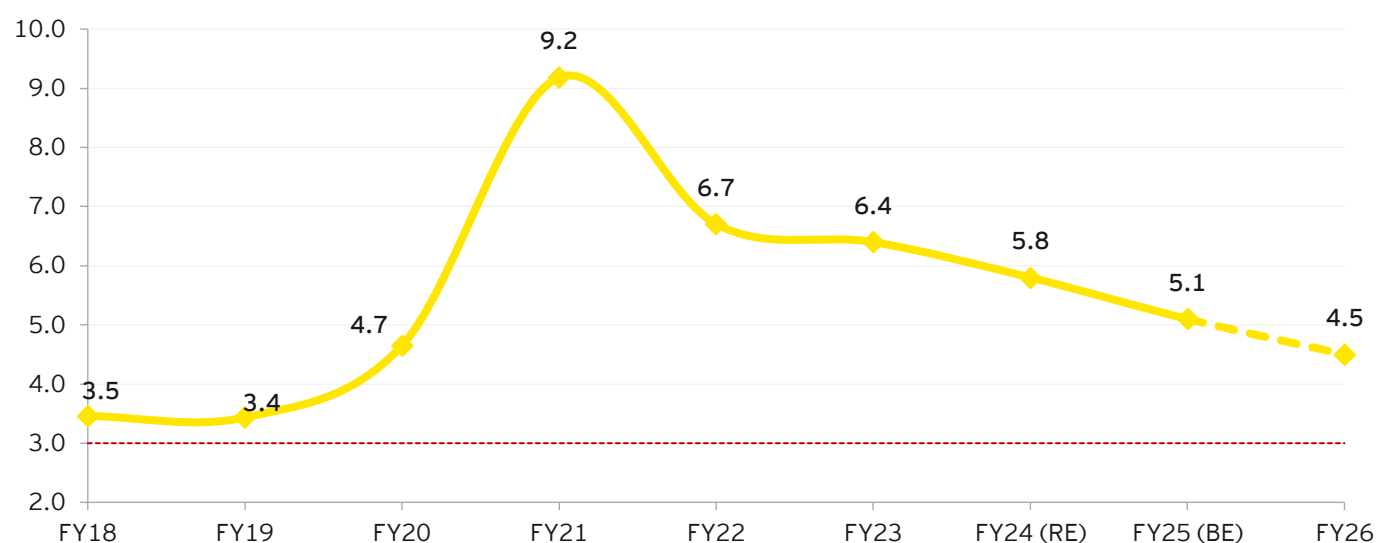


Source (basic data): Union budget documents

### 5.3 Fiscal consolidation - Gol's glide path

A major thrust of the interim budget was to signal that the Gol was serious about fiscal consolidation and was committed to restoring FRBM norms in regard to government debt and fiscal deficit which were disturbed by the onset of COVID. In fact, in FY19, the Gol's fiscal deficit was reduced to 3.4% of GDP with a view to eventually reaching 3% as per the FRBM norms. However, partly as a result of comprehensive CIT reforms in FY20, there was a contraction in Gol's GTR to the extent of (-)3.4%. In this year, real and nominal GDP growth rates also fell to their respective pre-COVID troughs of 3.9% and 6.4%. Thus, the Indian economy faced COVID that unfolded the next year with a relatively weak economic and fiscal situation. A major fiscal stimulus was required to minimize the adverse impact of COVID in FY21. The combination of fiscal stimulus and a contraction in nominal GDP, resulted in the Gol's fiscal deficit to GDP ratio reaching 9.2%, its highest level at least since FY1991<sup>5</sup>. It took concerted effort from then onwards to put Gol's fisc back on the path of fiscal responsibility in incremental steps. The FY25 interim budget projects FY26 fiscal deficit to GDP ratio at 4.5%. Considering incremental reductions of 0.5% points each year, the Gol may reach the target level of fiscal deficit at 3% of GDP in another three years. Thus, it took only one year for the Gol's fiscal deficit to GDP ratio to slip to 9.2% while it would take eight years for the correction to be completed.

**Chart 8: Fiscal deficit to GDP ratio (%)**



Source (basic data): Union budget documents and MoSPI

### 5.4 Understanding the budget arithmetic

It is useful to understand the adjustments in the fiscal aggregates that enabled creation of adequate fiscal space for the reduction in the fiscal deficit. The first positive element that requires emphasis is the improvement in Gol's GTR which rose as percentage of GDP from a low of 11.2% in FY23 to 11.7% in FY25 (BE) as shown in Table 6. This provided additional fiscal space to the extent of 0.48% points and 0.24% points of GDP considering Gol's gross and net tax revenues in FY25 (BE) vis-à-vis FY23. The lower margin in the case of net tax revenues reflects increase in the share of states' in Gol's GTR which should lead to some improvement in revenue flows to the states if the budget estimates turn out to be correct. Most of this improvement has happened between FY23 and FY24 (RE). The second component of adjustment relates to reduction in revenue expenditures relative to GDP. This has fallen from 12.68% in FY23 to 11.94% in FY24 (RE) and further to 11.15% in FY25 (BE). Comparing FY23 to FY25 (BE), there were additional non-debt receipts to the extent of 0.39% points of GDP and saving in revenue expenditures to the extent of 1.52% points of GDP. This fiscal space amounting to 1.91% points of GDP was utilized for two purposes namely (1) reduction in fiscal deficit to the extent of 1.24% points and (2) increase in capital expenditures to the extent of 0.67% points of GDP. This is why we can consider the FY25 budget as supporting growth while succeeding in achieving fiscal consolidation.

<sup>5</sup> Historic data on Gol's fiscal deficit is available from FY1991 onwards from Indian Public Finance Statistics, MoF

**Table 6: Budget arithmetic: FY25 (BE)**

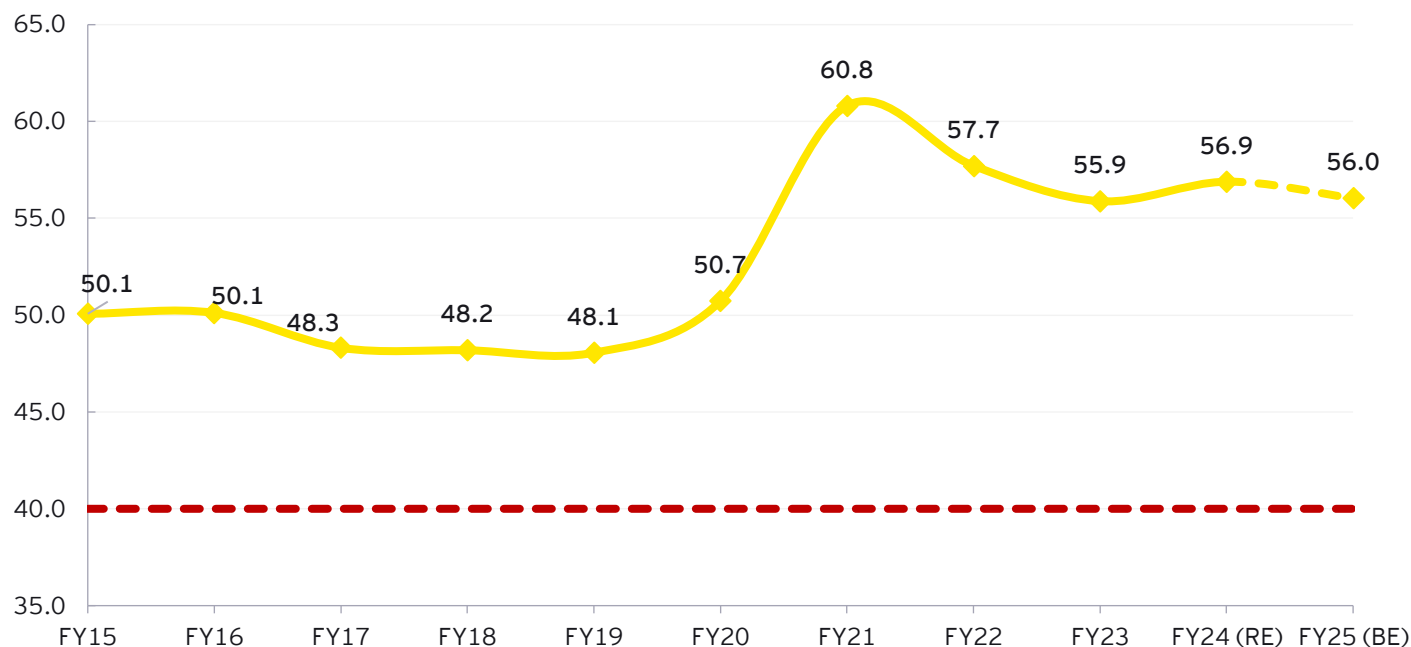
#	Item	FY22	FY23	FY24 (RE)	FY25 (BE)	FY25 (BE) minus FY23	FY23 over FY22	FY24 (RE) over FY23	FY25 (BE) over FY24 (RE)	
						% to GDP	% points	% growth		
1	Gross tax revenues	11.54	11.21	11.59	11.69	0.48	12.7	12.5	11.5	
2	Net tax revenues	7.69	7.70	7.84	7.94	0.24	16.2	10.8	11.9	
3	Non-tax revenues	1.56	1.05	1.27	1.22	0.17	-21.8	31.7	6.4	
4	Non-debt capital receipts	0.17	0.27	0.19	0.24	-0.02	83.4	-22.4	41.1	
5	Non-debt receipts	9.41	9.01	9.29	9.40	0.39	11.1	12.2	11.8	
6	Fiscal deficit	6.75	6.38	5.85	5.14	-1.24	--	---	--	
7	Total expenditure (5+6)	16.16	15.39	15.14	14.54	-0.85	10.5	7.1	6.1	
8	Revenue exp.	13.64	12.68	11.94	11.15	-1.52	7.9	2.5	3.2	
9	Capital exp.	2.53	2.72	3.20	3.39	0.67	24.8	28.4	16.9	
	Memo	INR lakh crore					% growth			
10	Nominal GDP	234.7	272.4	296.6	327.7		16.1	8.9	10.5	

Source (basic data): Union budget documents and MoSPI

## 5.5 Evolving debt GDP profile

The improvement in fiscal deficit should also reflect in an improvement in the debt-GDP ratio of the GoI. The extent of this improvement however depends on the extent to which nominal GDP growth exceeds effective interest rate<sup>6</sup>.

**Chart 9: Trends in GoI's debt-GDP ratio**



Source (basic data): Union budget documents and MoSPI (debt is evaluated at historic exchange rates)

<sup>6</sup> Refer to the following equation  $b_t - b_{t-1} = p_t - b_{t-1}[(g_t - i_t)/(1 + g_t)]$ . This equation shows that current debt-GDP ratio would be lower than the debt-GDP ratio of the preceding year if the second term on the RHS is higher than the primary deficit of the current year. It can be shown that the second term on the RHS exceeds the first term by a margin of close to 0.9% points of GDP which is also the extent of reduction in the debt-GDP ratio of GoI from 56.9% in FY24 (RE) to 56% in FY25 (BE).

The reduction in the debt-GDP ratio in FY25 (BE) is expected to continue if the nominal GDP growth improves in the subsequent years and fiscal and primary deficits continue to fall. As a result of falling debt-GDP ratio, we may expect a fall in the interest payments to revenue receipts, creating further space for reduction in revenue expenditures. It may be recalled that as far as the GoI is concerned, the sustainable level of debt relative to GDP as per the 2018 amendment to the FRBMA has been kept at 40% which is still some distance away. Simulations indicate that it may take up to the mid-2030s for this level to be reached if a 3% fiscal deficit to GDP ratio is maintained from FY28 onwards and a nominal GDP growth of 11.1% is also reached and sustained in subsequent years<sup>7</sup>.

## 5.6 Conclusion: fiscal consolidation and medium-term growth

In the presence of continuing global economic slowdown, India may have to rely largely on domestic growth drivers. In this context, GoI's strategy to proceed on the path of fiscal consolidation by relatively de-emphasizing revenue expenditures and creating fiscal space for augmenting capital expenditure aimed at supporting infrastructure growth is the most desirable strategy for sustained real GDP growth in the medium term. As GoI's debt and fiscal deficit to GDP ratios fall, there would be lower claim of the government on available investible surplus in the economy which should lead to interest rate reduction and therefore encourage private investment. Further, the share of interest payments in revenue expenditures would also fall over time with a fall in the debt GDP ratio along with some fall in the effective interest rate on government debt. This would create further space for the government to continue increasing its infrastructure spending. Based on the IMF's January 2024 revision, India's growth is projected at 6.7%, 6.5% and 6.5% respectively for the three years covering FY24 to FY26<sup>8</sup>. Earlier, in their October 2023 issue of World Economic Outlook, they had projected a growth rate of 6.3% each for FY27 to FY29. Even these growth rates may be revised upwards subsequently if India continues with the current strategy combining capital expenditure expansion along with fiscal consolidation.

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<sup>7</sup> See EY Economy Watch January 2024 issue for the simulation results.

<sup>8</sup> Earlier the October 2023 issue of IMF WEO had projected India's real GDP growth for FY24 to FY26 at 6.5%, 6.3% and 6.3% respectively.



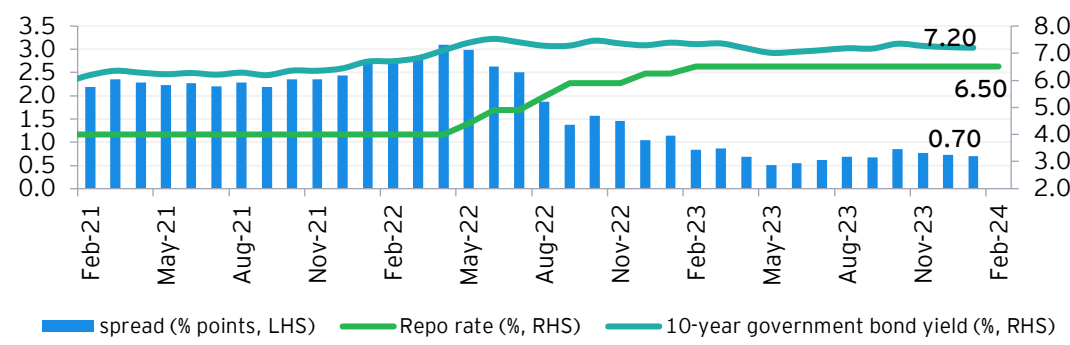
## 6 Money and finance: the repo rate was retained at 6.5% in February 2024

### 6.1 Monetary sector

#### Monetary policy

- ▶ The monetary policy committee (MPC) retained the repo rate for the sixth consecutive time at 6.5% in its monetary policy review held on 8 February 2024 (**Chart 10**). Consequently, both standing deposit facility (SDF) and the marginal standing facility (MSF) rates also remained unchanged at 6.25% and 6.75% respectively. Alongside, the monetary policy stance continued to be focused on absorbing liquidity from the system in order to bring the CPI inflation in line with its target.
- ▶ The February 2024 monetary policy statement highlighted that the CPI inflation outlook for the upcoming months is expected to be shaped by the evolving food inflation outlook, particularly considering the likelihood of adverse weather events. In addition, sustained volatility in crude oil prices continue to remain a cause of concern.

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



The RBI retained the repo rate at 6.5% in February 2024.

Source: Database on Indian Economy, RBI

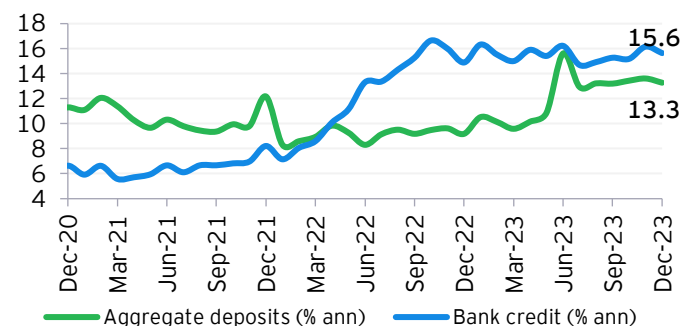
#### Money stock

- ▶ Broad money stock (M3) grew at a stable rate of 11.5% in January 2024, similar to its level in December 2023. Time deposits, the largest component of M3, grew by 13.1% in January 2024 close to its growth of 13.0% in December 2023.
- ▶ Growth in M1 eased marginally to 6.7% in January 2024 from 7% in December 2023 as growth in demand deposits eased. Growth in demand deposits moderated to a five-month low of 8.8% in January 2024 from 10% in December 2023. Growth in currency with the public however increased marginally to 4.8% in January 2024 from 4.3% in December 2023.

#### Aggregate credit and deposits

- ▶ Growth in gross bank credit eased marginally to 15.6% in December 2023 from 16.2% in November 2023 (**Chart 11**). In 3QFY24, bank credit growth at 15.7% was higher than that in 2QFY24 at 15%.
- ▶ Non-food credit grew by 15.8% in December 2023, marginally lower than 16.3% in November 2023 as the growth rates of credit to services and personal loans eased during the month.
- ▶ Sectoral bank credit data indicate that credit to services, with an average share of about 27% in total non-food credit (last five years), showed the highest growth of 19.6% in December 2023, although falling from 21.9% in November 2023.
- ▶ Growth in credit to the agricultural sector increased to a six-month high of 19.5% in December 2023 as compared to 18.2% in November 2023.
- ▶ Personal loans, a key component of retail loans, with a share of close to 29% on average in total non-food credit (last five years), showed a growth of 17.7% in December 2023, easing from 18.6% in November 2023.

**Chart 11: Growth in credit and deposits**



Source: Database on Indian Economy, RBI



- ▶ Outstanding credit to industries, grew by 8.1% in December 2023, its highest level since June 2023. This was largely attributable to higher growth in infrastructure credit. Growth in credit to infrastructure, having the largest share of over 37% on average in total industrial credit (last five years), improved to a 12-month high of 5.8% in December 2023 from 2.1% in November 2023.
- ▶ Among other industrial sectors, growth in credit to iron and steel was the highest at 17.9%, followed by that in drugs and pharmaceuticals and textiles at 14.8% and 13.2% respectively in December 2023. Growth in credit to cement and cement products was sharply lower at 10.9% in December 2023 as compared to 16.7% in November 2023.
- ▶ Growth in aggregate deposits of residents moderated marginally to 13.3% in December 2023 from 13.6% in November 2023.

## 6.2 Financial sector

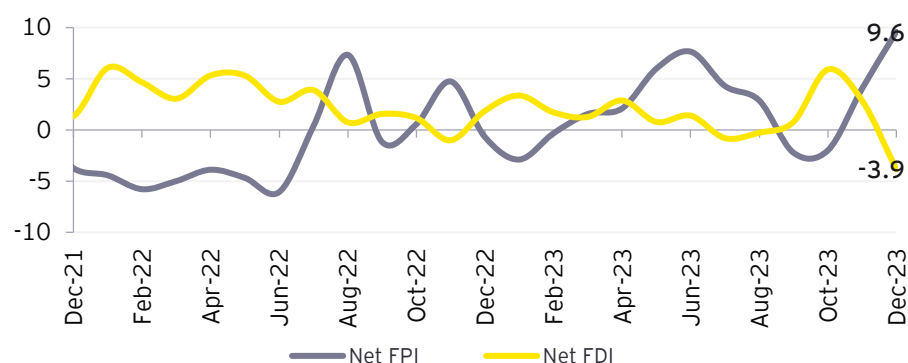
### Interest rates

- ▶ As per the data released by the RBI in the first week of February 2024, the average interest rate on term deposits with a maturity period of more than one year was increased marginally to 6.88% in January 2024 from 6.68% in December 2023. The term deposit rate ranged between 6.50% and 7.25% during the month.
- ▶ The MCLR averaged 8.30% in January 2024, increasing marginally from 8.23% in December 2023. The actual MCLR ranged between 8.00% and 8.60% during the month.
- ▶ The average yield on 10-year government bonds eased for the third successive month to 7.20% in January 2024 from 7.22% in December 2023 (**Chart 10**). During the first 10 months of FY24, benchmark bond yields averaged 7.18%, lower as compared to 7.35% during the corresponding period of FY23.
- ▶ WALR on fresh rupee loans by SCBs fell to 9.32% in December 2023 from 9.41% in November 2023.

### FDI and FPI

- ▶ As per the provisional data released by the RBI on 20 February 2024, overall foreign investments<sup>9</sup> (FIs) were lower at US\$5.7 billion in December 2023 as compared to US\$6.9 billion in November 2023 as net foreign direct investments turned negative.

**Chart 12: Net FDI and FPI inflows (US\$ billion)**



Source: Database on Indian Economy, RBI

Net FDI outflows amounted to US\$3.9 billion in December 2023 as compared to inflows amounting to US\$2.9 billion in November 2023.

- ▶ Net FDIs turned negative implying outflows amounting to US\$3.9 billion in December 2023 as compared to US\$2.9 billion inflows in November 2023 (**Chart 12**). This is largely attributable to a sharp surge in repatriation/disinvestment in December 2023 amounting to US\$6.7 billion as compared to US\$1.4 billion in November 2023. During April-December FY24, net FDI inflows were sharply lower at US\$9.7 billion as compared to US\$21.6 billion during the corresponding period of FY23.
- ▶ Gross FDI inflows were lower at US\$4.5 billion in December 2023 as compared to US\$5.1 billion in November 2023. On a cumulated basis, gross FDI inflows amounted to US\$51.5 billion during April-December FY24 as compared to US\$55.5 billion during April-December FY23.
- ▶ Net FPIs surged to US\$9.6 billion in December 2023 from US\$4.0 billion in November 2023. During April-December FY24, on a cumulated basis, net FPI inflows amounted to US\$32.3 billion as compared to net outflows of US\$3.5 billion during the corresponding period of FY23.

<sup>9</sup> Foreign Investment (FI) = net FDI plus net FPI

# 7 Trade and CAB: merchandise trade deficit falls to a nine-month low of US\$17.5 billion in January 2024

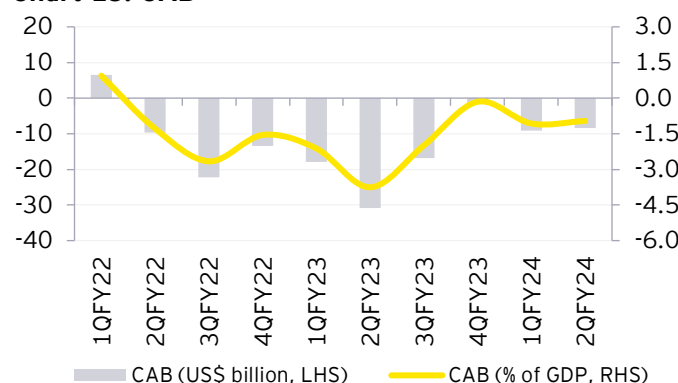
## 7.1 CAB: current account deficit marginally declined to 1.0% in 2QFY24 from 1.1% in 1QFY24

- ▶ Net merchandise trade deficit widened to a three quarter high of 7.0% of GDP in 2QFY24 from 6.6% in 1QFY24. Merchandise imports increased by 0.8% points to 19.6% of GDP in 2QFY24 from 18.8% in 1QFY24, as compared to a 0.3% points rise in merchandise exports to 12.5% of GDP from 12.2% during the same period.
- ▶ Net invisibles were higher at 6.1% relative to GDP in 2QFY24 as compared to 5.5% in 1QFY24, reflecting a substantial improvement in net service exports to 4.6% of GDP in 2QFY24 from 4.1% in 1QFY24. Net private transfers were at a three quarter high of 2.9% of GDP in 2QFY24 whereas net foreign income fell to (-)1.4% of GDP in 2QFY24 from (-)1.2% in the previous quarter.

**Table 7: Components of CAB in US\$ billion**

Fiscal year	CAB as % of nominal GDP	CAB	Goods account net	Invisibles* net
FY20	-0.9	-24.7	-157.5	132.8
FY21	0.9	23.9	-102.2	126.1
FY22	-1.2	-38.8	-189.5	150.7
FY23	-2.0	-67.1	-265.3	198.2
3QFY23	-2.0	-16.8	-71.3	54.5
4QFY23	-0.2	-1.4	-52.6	51.2
1QFY24	-1.1	-9.2	-56.6	47.4
2QFY24	-1.0	-8.3	-61.0	52.7

**Chart 13: CAB**



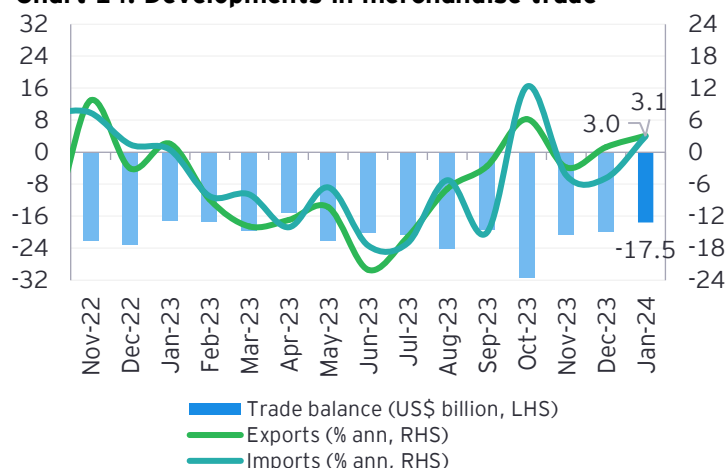
Source: Database on Indian Economy, RBI; Note: (-) deficit; (+) surplus; \*invisibles include services, current transfers and income components

## 7.2 Merchandise trade and exchange rate

**Growth in merchandise exports and imports remained low at 3.1% and 3.0% respectively in January 2024 as compared to 1.0% and (-)4.8% respectively in December 2023 reflecting the global economic slowdown besides lower global crude prices (Chart 14).**

- ▶ Exports growth was positive for the second successive month partly due to a favourable base effect. Growth in oil exports turned positive at 6.6% in January 2024 after showing a contraction for 11 consecutive months. Growth in engineering goods decelerated to 4.2% from 10.2% over the same period while textile exports contracted by (-)3.5% in January 2024, the thirteenth successive month of contraction.
- ▶ Imports growth was led by growth in oil imports turning positive at 4.3% in January 2024 from (-)22.8% in December 2023. Imports of fertilizers contracted for the thirteenth successive month by (-)69.1% in January 2024 due to lower prices. Transport equipment imports also contracted by (-)20.6% in January 2024, although lower than (-)55.1% in December 2023.
- ▶ Electronic goods imports and exports continued to show a positive growth of 27.8% and 9.3% respectively in January 2024.
- ▶ Growth in exports excluding oil, gold and jewelry slowed to 2.5% in January 2024 from 5.4% in December 2023 while contraction in imports of this category was marginally higher at (-)1.2% from (-)0.3% over the same period.
- ▶ Merchandise trade deficit fell to a nine-month low of US\$17.5 billion in January 2024. Goods and services deficit was at an eight-month low of US\$3.8 billion in December 2023.
- ▶ The INR remained appreciated marginally to INR82.7 per US\$ (avg.) in January 2024 from INR83.3 per US\$ (avg.) in December 2023.

**Chart 14: Developments in merchandise trade**



Source: Ministry of Commerce and Industry, GoI

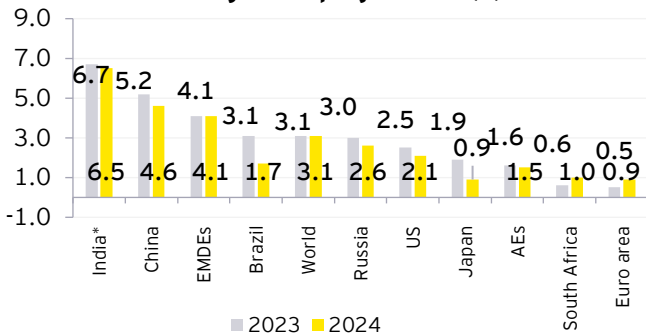
# 8 Global growth: IMF projected global growth at 3.1% in 2023 and 2024

## 8.1 Global growth

- ▶ The IMF (World Economic Outlook Update, January 2024) has projected global growth to remain unchanged in 2024 from 3.1% in 2023. This is much below the historical annual average growth of 3.8% during 2000 to 2019, reflecting restrictive monetary policies and withdrawal of fiscal support, as well as low underlying productivity growth.
- ▶ Growth in advanced economies (AEs) is projected to slow from 1.6% in 2023 to 1.5% in 2024 while that in EMDEs is estimated to remain stable at 4.1% in both 2023 and 2024.
- ▶ Growth in the US is projected to fall from 2.5% in 2023 to 2.1% in 2024 with lagged effects of monetary policy tightening, gradual fiscal tightening and a softening in labor markets slowing aggregate demand (**Chart 15**).
- ▶ Growth in the Euro area is projected to improve from 0.5% in 2023 that reflected relatively high exposure to the Russia-Ukraine conflict, to 0.9% in 2024. Stronger household consumption as the effects of the shock to energy prices and inflation falls, supporting real income growth, is expected to drive the recovery.
- ▶ In Japan, growth is forecasted to fall from 1.9% in 2023 to 0.9% in 2024 reflecting the fading of one-off factors that supported activity in 2023, including a depreciated yen, pent-up demand, and a recovery in business investment.
- ▶ Growth in China is projected at 5.2% in 2023, easing to 4.6% in 2024. There has been an upward revision of 0.4% points for 2024 from the October 2023 WEO. The upgrade reflects carryover from stronger-than-expected growth in 2023 and increased government spending on capacity building against natural disasters.
- ▶ India's growth is projected at 6.7% in 2023 (FY24) and at 6.5% in 2024 (FY25), reflecting an upward revision of 0.2% points from the October 2023 WEO, indicating resilience in domestic demand.

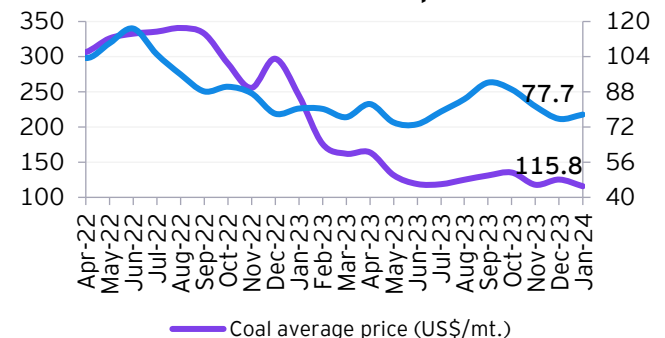
The IMF has projected global growth at 3.1% in 2023, with India's FY24 growth forecasted at 6.7%.

**Chart 15: Global growth projections (%)**



Source: IMF World Economic Outlook Update (January 2024)  
\*Data pertains to fiscal years FY24 and FY25, respectively

**Chart 16: Global crude and coal prices**



Source (basic data): World Bank Pink Sheets, February 2024

## 8.2 Global energy prices: global crude price increased slightly to US\$77.7/bbl. in January 2024

- ▶ From a six-month low of US\$75.7/bbl. in December 2023, average global crude price<sup>10</sup> increased slightly to US\$77.7/bbl. in January 2024 primarily owing to a better growth outlook as forecasted by the IMF as well as a firmer supply situation owing to geopolitical tensions<sup>11</sup> (**Chart 16**).
- ▶ Average global coal price<sup>12</sup> fell from US\$125.3/mt. in December 2023 to a 32-month low level of US\$115.8/mt. in January 2024.

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

<sup>11</sup> <https://www.reuters.com/markets/commodities/oil-edges-up-geopolitical-concerns-support-prices-2024-01-30/>

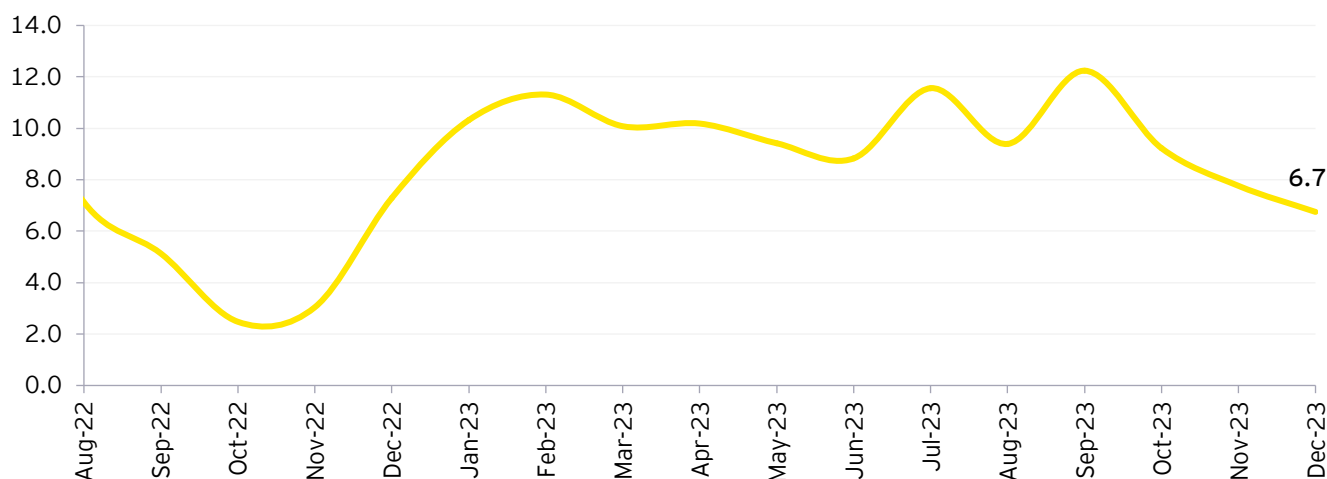
<sup>12</sup> Simple average of Australian and South African coal prices.

# 9 Index of Aggregate Demand (IAD): growth moderated to 6.7% in December 2023

## 9.1 Growth in IAD fell for the third successive month to 6.7% in December 2023 as compared to 7.8% in November 2023

- ▶ Growth in IAD<sup>13</sup> fell to 6.7% in December 2023 from 7.8% in November 2023 as demand conditions in the manufacturing sector eased (Chart 17 and Table 9).
- ▶ Demand conditions in the manufacturing sector moderated in December 2023 as indicated by manufacturing PMI which expanded at a slower pace of 54.9 as compared to 56.0 during November 2023.
- ▶ The services sector however, saw an improvement in the demand conditions in December 2023. This was evident from PMI services which expanded to 59.0 in December 2023 from 56.9 in November 2023.
- ▶ Similarly, demand conditions in the agricultural sector also remained strong as reflected by a higher agricultural credit offtake, which reflected a growth of 19.2% (sa)<sup>14</sup> in December 2023 as compared to 18.1% in November 2023.

**Chart 17: Growth in IAD (y-o-y)**



Source (Basic data): S&P - IHS Markit PMI, RBI and EY estimates  
 Note: From this issue onwards, we will be using seasonally adjusted data for constructing the IAD.

**Table 8: IAD**

Month	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23
IAD	164.2	164.9	165.0	167.9	167.0	168.1	165.6	165.8	168.7
Growth (% y-o-y)	10.2	9.4	8.8	11.6	9.4	12.2	9.2	7.8	6.7
Growth in agr. Credit	16.9	16.1	19.6	16.8	16.6	16.9	17.3	18.1	19.2
Mfg. PMI**	7.2	8.7	7.8	7.7	8.6	7.5	5.5	6.0	4.9
Ser. PMI**	12.0	11.2	8.5	12.3	10.1	11.0	8.4	6.9	9.0

Source (basic data): S&P Global, RBI and EY estimates.  
 \*\*Values here indicate deviation from the 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 seasonally adjusted.

<sup>13</sup> EY has developed an Index of Aggregate Demand (IAD) 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 seasonally adjusted (sa) terms, tracing the demand conditions in these sectors. Movements in the monthly agricultural credit off-take (sa) capture the demand conditions in the agricultural sector.

<sup>14</sup> We have constructed a seasonally adjusted series for agricultural credit using Census X-13 technique in E-views (version 12) and the growth of this SA agricultural credit series is used in the IAD series.

**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							
FY20	-0.8	1.6	-1.4	0.9	0.4	FY20	52.3	51.9
FY21	-8.5	-7.8	-9.6	-0.5	-6.4	FY21	50.2	41.7
FY22	11.4	12.2	11.7	8.0	10.4	FY22	54.0	52.3
FY23	5.2	5.8	4.6	8.9	7.7	FY23	55.6	57.3
4QFY23	4.5	6.9	3.9	6.0	7.0	4QFY23	55.7	58.1
1QFY24	4.8	6.4	5.1	1.3	6.0	1QFY24	57.9	60.6
2QFY24	7.7	11.5	6.7	11.1	10.4	2QFY24	57.9	61.1
3QFY24	5.8	8.2	5.0	9.0	7.8	3QFY24	55.5	58.1
Sep-23	6.2	11.5	4.9	9.9	9.2	Oct-23	55.5	58.4
Oct-23	11.6	13.1	10.2	20.4	12.0	Nov-23	56.0	56.9
Nov-23	2.4	6.8	1.2	5.8	7.8	Dec-23	54.9	59.0
Dec-23	3.8	5.1	3.9	1.2	3.8	Jan-24	56.5	61.8

Source: MoSPI, Office of the Economic Adviser, Ministry of Commerce and Industry and S&P Global

**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			
FY20	4.8	6.7	1.3	3.8	1.7	6.9	0.3	-1.8	-0.4
FY21	6.2	7.7	2.7	5.5	1.3	4.0	2.8	-8.0	2.2
FY22	5.5	3.8	11.3	6.1	13.0	6.8	11.1	32.5	11.0
FY23	6.7	6.6	10.3	6.2	9.4	6.3	5.6	28.1	5.8
4QFY23	6.2	5.6	9.8	6.2	3.3	2.7	1.4	12.5	1.6
1QFY24	4.6	3.8	4.7	5.2	-2.9	-0.8	-2.7	-7.1	-2.0
2QFY24	6.4	9.3	2.6	4.8	-0.6	5.5	-2.1	-7.6	-1.9
3QFY24	5.4	8.3	-0.7	4.1	0.3	4.0	-0.8	-2.7	-0.7
Oct-23	4.9	6.6	-0.4	4.3	-0.3	1.5	-1.1	-1.6	-0.9
Nov-23	5.6	8.7	-0.8	4.1	0.4	5.1	-0.8	-4.1	-0.6
Dec-23	5.7	9.5	-1.0	3.8	0.7	5.4	-0.7	-2.4	-0.5
Jan-24	5.1	8.3	-0.6	3.6	0.3	3.8	-1.1	-0.5	-1.0

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

Note: The CPI for April and May 2020 has been imputed. Core CPI inflation is measured in different ways by different organizations/agencies. Here, it has been calculated by excluding food, and fuel and light from the overall index

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

Fiscal year/month	Gross tax revenue	Corporate tax	Income tax	Direct taxes*	Indirect taxes**	Fiscal deficit % of GDP	Revenue deficit % of GDP
FY20 (CGA)	-3.4	-16.1	4.0	-7.8	1.7	4.7	3.3
FY21 (CGA)	0.7	-17.9	-2.3	-10.7	12.7	9.2	7.3
FY22 (CGA)	33.8	55.7	43.5	49.6	20.1	6.7	4.4
FY23 (CGA)	12.7	16.0	20.0	17.9	7.2	6.4	3.9
FY24 (RE over FY 23 actuals)	12.5	11.7	22.7	17.2	7.0	5.8	2.8
Cumulated growth (% , y-o-y)						% of budgeted target	
May-23	-1.6	-28.0	12.6	-4.0	1.6	11.8	5.2
Jun-23	3.3	-13.9	11.0	-1.0	9.0	25.3	21.1
Jul-23	2.8	-10.4	6.4	-1.1	7.8	33.9	34.7
Aug-23	16.5	15.1	35.7	26.6	7.8	36.0	32.7
Sep-23	16.3	20.2	31.1	25.4	6.5	39.3	26.6
Oct-23	14.0	17.4	31.1	24.1	3.5	45.0	32.2
Nov-23	14.7	20.1	29.4	24.8	4.8	50.7	39.8
Dec-23	14.4	18.7	28.4	23.2	4.3	56.6#	40.2#

Source: Monthly Accounts, Controller General of Accounts, Government of India, Union Budget documents; # indicates that the values as percent of revised estimates

\* Includes corporation tax and income tax

\*\* Includes customs duty, excise duty, service tax, CGST, UTGST, IGST and GST compensation cess.

Fiscal year/month	CGST	UTGST	IGST	GST compensation cess	Total GST (GoI)
INR crore					
FY23 (RE)	7,24,000	-	-	1,30,000	8,54,000
FY24 (BE)	8,11,600	-	-	1,45,000	9,56,600
Monthly tax collection (INR crore)					
May-23	60,667	263	951	11,241	73,122
Jun-23	64,810	343	1,605	11,822	78,580
Jul-23	67,234	250	-2,396	11,392	76,480
Aug-23	62,720	306	6,250	11,430	80,706
Sep-23	61,731	199	1,686	11,385	75,001
Oct-23	70,510	1,122	-15,888	11,898	67,642
Nov-23	66,079	251	4,301	11,802	82,433
Dec-23	68,048	449	-11,276	11,784	69,005

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

Note: IGST revenues are subject to final settlement.

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

Fiscal year/ month	Repo rate (end of period)	Fiscal year/ quarter/ month	Bank credit	Agg. deposits	Net FDI	Net FPI	Fiscal year/ quarter/ month	M1	M3	10-year govt. bond yield	FX reserves
	%		% change y-o-y		US\$ billion			% change y-o-y		%	US\$ billion
Mar-23	6.50	FY20	9.5	9.9	43.0	1.4	FY20	11.2	8.9	6.83	475.6
Apr-23	6.50	FY21	6.0	11.0	44.0	36.1	FY21	16.2	12.2	6.05	579.3
May-23	6.50	FY22	6.7	9.7	38.6	-16.8	FY22	10.6	8.7	6.40	617.6
Jun-23	6.50	FY23	14.5	9.5	28.0	-5.2	FY23	6.8	9.0	7.35	578.4
Jul-23	6.50	4QFY23	15.6	10.1	2.0	4.6	4QFY23	6.9	9.0	7.36	578.4
Aug-23	6.50	1QFY24	15.9	12.2	5.1	15.7	1QFY24	7.5	10.6	7.08	595.1
Sep-23	6.50	2QFY24	15.0	13.1	-0.3	4.9	2QFY24	7.3	10.8	7.16	586.9
Oct-23	6.50	3QFY24	15.7	13.4	4.9	11.6	3QFY24	7.0	11.5	7.28	623.2
Nov-23	6.50	Sep-23	15.3	13.2	0.8	-2.2	Oct-23	6.4	11.4	7.35	586.1
Dec-23	6.50	Oct-23	15.2	13.4	5.9	-2.0	Nov-23	7.9	11.8	7.27	597.9
Jan-23	6.50	Nov-23	16.2	13.6	2.9	4.0	Dec-23	7.0	11.5	7.22	623.2
Feb-23	6.50	Dec-23	15.6	13.3	-3.9	9.6	Jan-24	6.7	11.5	7.20	616.7

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		
FY20	-5.1	-8.2	-157.4	70.9	58.5	70.4	2013	3.4	1.4	5.0
FY21	-7.0	-16.6	-101.4	74.2	43.8	67.2	2014	3.5	2.0	4.7
FY22	44.7	56.0	-191.0	74.5	78.4	164.8	2015	3.4	2.3	4.3
FY23	3.8	15.1	-267.9	80.4	92.7	283.4	2016	3.2	1.8	4.4
4QFY23	-10.1	-6.7	-54.9	82.3	79.0	194.4	2017	3.8	2.5	4.8
1QFY24	-15.2	-12.8	-57.5	82.2	76.6	138.3	2018	3.6	2.3	4.6
2QFY24	-8.6	-12.5	-64.2	83.0	85.3	125.0	2019	2.8	1.7	3.6
3QFY24	1.3	1.0	-71.9	83.3	82.1	126.2	2020	-2.8	-4.2	-1.8
Oct-23	6.2	12.3	-31.5	83.2	89.1	135.3	2021	6.3	5.6	6.9
Nov-23	-2.8	-4.3	-20.6	83.3	81.4	117.9	2022	3.5	2.6	4.1
Dec-23	1.0	-4.8	-19.8	83.3	75.7	125.3	2023*	3.1	1.6	4.1
Jan-24	3.1	3.0	-17.5	82.7	77.7	115.8	2024*	3.1	1.5	4.1

Source: Database on Indian Economy - RBI, Pink Sheet - World Bank and IMF World Economic Outlook (WEO) October 2023; \*based on the January 2024 update of IMF, WEO

**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
FY21 (2nd RE) *	-4.2	4.1	-8.6	2.9	-4.3	-5.7	-19.7	2.1	-7.6	3.3
FY22 (1st RE)*	8.8	3.5	7.1	11.1	9.9	14.8	13.8	4.7	9.7	8.3
FY23 (PE) <sup>§</sup>	7.0	4.0	4.6	1.3	9.0	10.0	14.0	7.1	7.2	7.9
FY24 (FAE)	6.9	1.8	8.1	6.5	8.3	10.7	6.3	8.9	7.7	1.0
2QFY22	9.3	4.8	10.6	6.6	10.8	10.8	13.1	7.0	16.8	8.0
3QFY22	4.7	2.3	5.4	1.3	6.0	0.2	9.2	4.3	10.6	9.4
4QFY22	3.9	4.1	2.3	0.6	6.7	4.9	5.0	4.6	5.2	9.7
1QFY23	11.9	2.4	9.5	6.1	14.9	16.0	25.7	8.5	21.3	12.5
2QFY23	5.4	2.5	-0.1	-3.8	6.0	5.7	15.6	7.1	5.6	10.1
3QFY23	4.7	4.7	4.1	-1.4	8.2	8.3	9.6	5.7	2.0	6.0
4QFY23	6.5	5.5	4.3	4.5	6.9	10.4	9.1	7.1	3.1	4.0
1QFY24	7.8	3.5	5.8	4.7	2.9	7.9	9.2	12.2	7.9	0.2
2QFY24	7.4	1.2	10.0	13.9	10.1	13.3	4.3	6.0	7.6	1.5

Source: National Accounts Statistics, MoSPI

\*Growth numbers for FY21 and FY22 are based on NAS released by the MoSPI on 28 February 2023 and the subsequent data file released on 1 March 2023.

<sup>§</sup>Growth numbers for FY23 are based on the provisional estimates released by MoSPI on 31 May 2023. FAE for FY24 was released on 5 January 2023

Fiscal year/quarter	Expenditure components						IPD inflation
	GDP	PFCE	GFCE	GFCF	EX	IM	GDP
FY21 (2nd RE) *	-5.8	-5.2	-0.9	-7.3	-9.1	-13.7	4.7
FY22 (1st RE)*	9.1	11.2	6.6	14.6	29.3	21.8	8.5
FY23 (PE) <sup>§</sup>	7.2	7.5	0.1	11.4	13.6	17.1	8.2
FY24 (FAE)	7.3	4.4	4.1	10.3	1.4	13.2	1.4
2QFY22	9.1	14.2	11.7	12.4	25.1	26.6	8.5
3QFY22	5.2	10.8	5.8	1.2	27.8	19.7	8.7
4QFY22	4.0	4.7	11.8	4.9	22.4	6.7	8.7
1QFY23	13.1	19.8	1.8	20.4	19.6	33.6	12.9
2QFY23	6.2	8.3	-4.1	9.6	12.2	23.1	10.3
3QFY23	4.5	2.2	-0.6	8.0	11.1	10.7	6.6
4QFY23	6.1	2.8	2.3	8.9	11.9	4.9	4.1
1QFY24	7.8	6.0	-0.7	8.0	-7.7	10.1	0.2
2QFY24	7.6	3.1	12.4	11.0	4.3	16.7	1.4

Source: National Accounts Statistics, MoSPI

\* Growth numbers for FY21 and FY22 are based on NAS released by the MoSPI on 28 February 2023 and the subsequent data file released on 1 March 2023. §Growth numbers for FY23 are based on the provisional estimates released by MoSPI on 31 May 2023. FAE for FY24 was released on 5 January 2023.





# List of abbreviations

Sr. no.	Abbreviations	Description
1	AD	aggregate demand
2	AEs	advanced economies
3	Agr.	agriculture, forestry and fishing
4	AY	assessment year
5	Bcm	billion cubic meters
6	bbl.	barrel
7	BE	budget estimate
8	CAB	current account balance
9	CGA	Comptroller General of Accounts
10	CGST	Central Goods and Services Tax
11	CIT	corporate income tax
12	Cons.	construction
13	CPI	Consumer Price Index
14	COVID-19	Coronavirus disease 2019
15	CPSE	central public-sector enterprise
16	CRAR	Credit to Risk- weighted Assets Ratio
17	Disc.	discrepancies
18	ECBs	external commercial borrowings
19	Elec.	electricity, gas, water supply and other utility services
20	EMDEs	Emerging Market and Developing Economies
21	EXP	exports
22	FAE	first advance 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	FRL	Fiscal Responsibility Legislation
29	FY	fiscal year (April–March)
30	GDP	Gross Domestic Product
31	GFCE	government final consumption expenditure
32	GFCF	gross fixed capital formation
33	GoI	Government of India
34	G-secs	government securities
35	GST	Goods and Services Tax
36	GVA	gross value added
37	IAD	Index of Aggregate Demand
38	IBE	interim budget estimates

Sr. no.	Abbreviations	Description
39	ICRIER	Indian Council for Research on International Economic Relations
40	IEA	International Energy Agency
41	IGST	Integrated Goods and Services Tax
42	IIP	Index of Industrial Production
43	IMF	International Monetary Fund
44	IMI	Index of Macro Imbalance
45	IMP	imports
46	INR	Indian Rupee
47	IPD	implicit price deflator
48	MCLR	marginal cost of funds-based lending rate
49	Mfg.	manufacturing
50	MGNREGA	Mahatma Gandhi National Rural Employment Guarantee Act
51	Ming.	mining and quarrying
52	m-o-m	month-on-month
53	Mt	metric ton
54	MoSPI	Ministry of Statistics and Programme Implementation
55	MPC	Monetary Policy Committee
56	MPF	Monetary Policy Framework
57	NEXP	net exports (exports minus imports of goods and services)
58	NSO	National Statistical Office
59	NPA	non-performing assets
60	OECD	Organization for Economic Co-operation and Development
61	OPEC	Organization of the Petroleum Exporting Countries
62	PFCE	private final consumption expenditure
63	PIT	personal income tax
64	PMI	Purchasing Managers' Index (reference value = 50)
65	PoL	petroleum oil and lubricants
66	PPP	Purchasing power parity
67	PSBR	public sector borrowing requirement
68	PSU/PSE	public sector undertaking/public sector enterprises
69	RE	revised estimates
70	RBI	Reserve Bank of India
71	SLR	Statutory Liquidity Ratio
72	Trans.	trade, hotels, transport, communication and services related to broadcasting
73	US\$	US Dollar
74	UTGST	Union Territory Goods and Services Tax
75	WALR	weighted average lending rate
76	WHO	World Health Organization
77	WPI	Wholesale Price Index
78	y-o-y	year-on-year
79	1HFY20	first half of fiscal year 2019-20, i.e., April 2019-September 2019

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Tower 2, Sector 126  
NOIDA - 201 304  
Gautam Budh Nagar, U.P.  
Tel: +91 120 671 7000

## Hyderabad

THE SKYVIEW 10  
18th Floor, "SOUTH LOBBY"  
Survey No 83/1, Raidurgam  
Hyderabad - 500 032  
Tel: +91 40 6736 2000

## Jamshedpur

1st Floor, Fairdeal Complex  
Holding No. 7, 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: +91 484 433 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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