89th issue

Economy Watch

Monitoring India's macro-fiscal performance

March 2024

ENTER

Building a better working world

Contents

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

D.K. Srivastava, Chief Policy Advisor, EY: dk.srivastava@in.ey.com
Muralikrishna Bharadwaj, Senior Manager, EY: muralikrishna.b@in.ey.com
Tarrung Kapur, Senior Manager, EY: tarrung.kapur@in.ey.com
Ragini Trehan, Senior Manager, EY: ragini.trehan@in.ey.com

Highlights

1. Real GDP growth improved to 8.4% in 3QFY24 from 8.1% in 2QFY24. The second advance estimates (SAE) for FY24 show a real GDP growth of 7.6% in FY24, a significant improvement over 7% seen in FY23.

2. In February 2024, manufacturing PMI increased to 56.9, its highest level since September 2023. Services PMI at 60.6 remained above 60 for the second consecutive month sustaining a sharp rate of expansion.

3. IIP growth eased to 3.8% in January 2024, from 4.2% in December 2023 led by lower growth in the output of manufacturing sector.

4. CPI inflation remained flat at 5.1% in February 2024 due to easing of inflation across items accompanied by some uptick in consumer food inflation. Core CPI inflation declined for the eighth successive month to 3.3% in February 2024.

5. WPI inflation remained low at 0.2% in February 2024, close to its level at 0.3% in January 2024.

6. During April-January FY24, GoI's gross tax revenues (GTR) showed a growth of 14.5%, with growth in direct taxes at 23.6% and that in indirect taxes at 4.5%.

7. GoI's total expenditure grew by 5.9% during April-January FY24, with growth in capital expenditure at 26.5% and that in revenue expenditure at 1.4%.

8. GoI's fiscal and revenue deficits during April-January FY24 as a proportion of their annual RE stood respectively at 63.6% and 49.4%.

9. Gross bank credit grew at a strong pace of 16.1% in January 2024 as compared to 15.6% in December 2023.

10. Growth in merchandise exports and imports increased to 11.9% and 12.2% respectively in February 2024, their highest levels since June 2022 and September 2022 respectively, reflecting some pickup in global demand on account of fiscal stimuli especially in the US.

11. Merchandise trade deficit increased slightly to US$18.7 billion in February 2024 from US$17.5 billion in January 2024. Deficit on account of trade of goods and services was at a 31-month low of US$1.3 billion in January 2024.

12. Net FDI turned positive registering inflows amounting to US$5.7 billion in January 2024 as compared to outflows amounting to US$3.9 billion in December 2023.

13. Average global crude price increased to a three-month high of US$80.5/bbl. in February 2024 from US$77.7/bbl. in January 2024.

14. The OECD has projected global growth to ease from 3.1% in 2023 to 2.9% in 2024, with India's FY24 and FY25 growth forecasted at 6.7% and 6.2% respectively.

Foreword

India's buoyant growth and sharp reduction in the incidence of poverty

As per the second advance estimates released by the NSO on 29 February 2024, real GDP growth for FY24 is estimated at 7.6%, exceeding the first advance estimate at 7.3% that was released on 5 January 2024. The growth of 7.6% exceeds by a significant margin, the IMF and World Bank estimates for India for FY24 at 6.7% and 6.3% respectively. Most of the GDP growth has come about through robust non-agricultural growth on the supply side and substantial investment growth on the demand side. One cause of concern on the demand side is the slowdown in consumption expenditure which shows a growth rate of only 3% for both private and government final consumption expenditure. On the output side, agricultural growth is limited only to 0.7% in FY24. The non-agricultural sectors show robust growth. In particular, construction has grown by 10.7% followed by manufacturing at 8.5% and financial, real estate and professional services sector at 8.2%. This growth has been achieved despite a negative contribution by net exports to real GDP growth at (-)2.3% points. The main driver for this growth has been investment demand (gross fixed capital formation) which has shown a growth of 10.2% in FY24. This has particularly been driven by government capital expenditure growth directed towards building infrastructure. An unanticipated feature of the FY24 annual growth relates to the difference between the GDP growth of 7.6% vis-à-vis GVA growth of only 6.9% which is accounted for by growth in net indirect taxes (indirect taxes net of subsidies). GoI's indirect tax growth remained low at 4.5% during April-January FY24. It implies therefore that subsidies were reduced substantially leading to a significant excess of GDP growth over GVA growth of 0.7% points. Also, the nominal GDP growth is 9.1% implying an implicit price deflator-based inflation of only 1.4%.

In terms of quarterly growth rates, the average GDP growth for the first three quarters of FY24 is 8.2% implying the fourth quarter growth estimate at only 5.9%. In 3QFY24, manufacturing growth was as high as 11.6% although, it partially reflects a strong base effect since manufacturing growth was negative in 3QFY23. Quarterly data also show moderation in the negative contribution of net exports in successive quarters. In 1QFY24, it was at (-)5.5% points which has fallen in 3QFY24 to (-)1.2% points and is expected to further fall to (-)1.0% point in 4QFY24.

Fiscal data for the central government has also been released by the CGA indicating a healthily buoyant growth in GTR at 14.5% during April to January FY24. With only 5.8% growth required in the remaining two months of the fiscal year to meet the revised estimates for FY24, the improvement in fiscal deficit target to 5.8% of GDP seems quite feasible. On the expenditure side, GoI's capital expenditure continued to show a strong growth of 26.5% during April-January FY24.

Available high frequency indicators show a strong and ongoing growth momentum. Headline manufacturing PMI increased to a five-month high of 56.9 in February 2024. Services PMI at 60.6, indicated a softer but sharp rate of expansion during the month. Gross GST collections remained high at INR1.68 lakh crore in February 2024, although slightly lower than INR1.72 lakh crore in January 2024. According to the data released by Federation of Automobile Dealers Association (FADA), growth in retail sales of vehicles was in double-digit at 13.1% in February 2024 driven by strong growth in the sales of passenger vehicles and two-wheeler segments. Gross bank credit grew at a strong pace of 16.1% in January 2024 as compared to 15.6% in December 2023. Further, growth in merchandise exports and imports increased to 11.9% and 12.2% respectively in February 2024, their highest levels since June 2022 and September 2022 respectively, reflecting some pickup in global demand on account of fiscal stimuli especially in the US. 12. Net FDI turned positive registering inflows amounting to US$5.7 billion in January 2024 as compared to outflows amounting to US$3.9 billion in December 2023. There has been positive news also with respect to recent inflation trends. CPI inflation remained flat at 5.1% in February 2024 due to easing of inflation across items accompanied by some uptick in consumer food inflation. Core CPI inflation continued to trend downwards, moderating for the eighth successive month to 3.3% in February 2024. WPI inflation also moderated marginally to 0.2% in February 2024 from 0.3% in January 2024.

After a long gap, the consumer expenditure survey results for FY23 have been published. Using this data set, poverty headcount ratios have been estimated for FY23[1]. Accordingly, it is shown that poverty headcount ratio in India, both rural and urban, have fallen by significant margins. Two alternative poverty lines have been used for this comparison. One is based on the recommendations of the Tendulkar Expert Group and the other by the Rangarajan Expert Group on the measurement of poverty. Accordingly, with reference to the Tendulkar Expert Group poverty line, overall poverty in India has fallen from 21.9% in FY12 to 6.3% for FY23 as decomposed into urban and rural poverty headcount ratios of 4.6% and 7.2% respectively. With reference to the Rangarajan Expert Group poverty line, the overall poverty ratio has fallen from 29.5% in FY12 to 10.8% in FY23. The urban and rural poverty headcount ratios are estimated at 8% and 12.3% respectively for FY23. According to the World Poverty Clock, extreme poverty in India measured by a poverty line of $2.15 (2017 PPP) has fallen below the threshold of 3%. In fact, in the latest update, it has fallen to 2% of population[2]. This implies that extreme poverty in India has been eliminated.

The Sixteenth Finance Commission has been constituted. It is currently deliberating on its Terms of Reference that are drawn directly from the Constitutional provisions regarding fiscal transfers from the central to the sub-national governments. In this month's *In-focus* section, five critical imbalances in the management of central-state fiscal relations have been highlighted pertaining respectively to (1) vertical, (2) horizontal, (3) fiscal, (4) demographic and (5) environmental dimensions.

D.K. Srivastava
Chief Policy Advisor, EY India

[1] https://indianexpress.com/article/opinion/columns/moving-to-a-better-count-9208676/ and SBI Research Report, February 2024
[2] https://worldpoverty.io/

1 Growth: real GDP grew by 8.4% in 3QFY24

1.1 GDP and GVA: showed growth rates of 8.4% and 6.5% respectively in 3QFY24

- The quarterly national accounts data released by the MoSPI on 29 February 2024 show a real GDP growth of 8.4% in 3QFY24 **(Chart 1).** The second advance estimates (SAE) for FY24 show a real GDP growth of 7.6% in FY24, an improvement over 7% seen in FY23.
- Among the domestic demand components, gross fixed capital formation (GFCF) posted the highest growth of 10.6% in 3QFY24 **(Table 1).** In FY24, ably supported by strong government capital expenditure growth, GFCF is estimated to grow by 10.2%.
- Growth in private final consumption expenditure (PFCE) was low at 3.5% while government final consumption expenditure (GFCE) showed a contraction of (-)3.2% in 3QFY24. As per SAE, both PFCE and GFCE are estimated to post a low growth of 3% each in FY24.
- With regard to external demand, exports grew at a relatively lower pace of 3.4% as compared to that in imports at 8.3% in 3QFY24, leading to a negative contribution of net exports to real GDP growth at (-)1.2% points. Thus, due to sustained weakness in global demand, net exports contribution to GDP growth is estimated to be negative at (-)2.3% points in FY24.
- On the output side, real GVA growth eased to 6.5% in 3QFY24 from 7.7% in 2QFY24. As per SAE, real GVA is estimated to grow by 6.9% in FY24.
- In 3QFY24, among the key GVA sectors, growth in manufacturing and construction sectors continued to remain strong at 11.6% and 9.5% respectively. In FY24, both construction and manufacturing sectors are estimated to grow at a robust pace of 10.7% and 8.5% respectively.

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

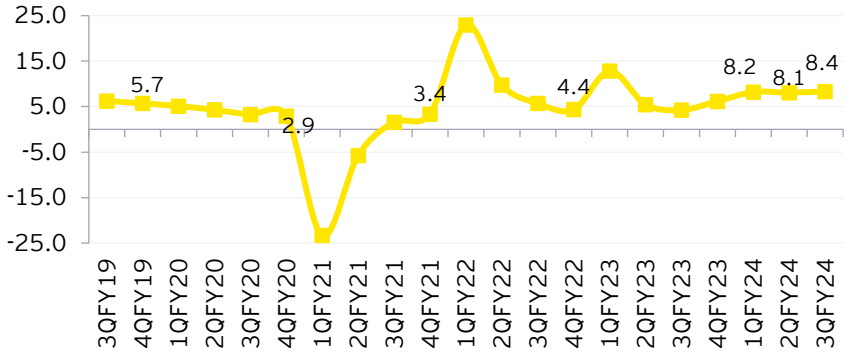


Table 1: Real GDP and GVA growth (%, annual)

Agg. demand	3Q FY22	4Q FY22	1Q FY23	2Q FY23	3Q FY23	4Q FY23	1Q FY24	2Q FY24	3Q FY24	*FY24 (SAE)*
PFCE	11.0	6.1	18.5	8.2	1.8	1.5	5.3	2.4	3.5	**3.0**
GFCE	-0.6	5.1	9.8	3.4	7.1	13.9	-0.1	13.8	-3.2	**3.0**
GFCF	4.8	5.6	13.9	4.7	5.0	3.8	8.5	11.6	10.6	**10.2**
EXP	31.1	25.5	19.1	11.7	10.9	12.4	-6.5	5.3	3.4	**1.5**
IMP	21.4	8.2	26.1	16.1	4.1	-0.4	15.3	11.9	8.3	**10.9**
GDP	**5.7**	**4.4**	**12.8**	**5.5**	**4.3**	**6.2**	**8.2**	**8.1**	**8.4**	**7.6**
Contr. NEXP (% pts)	***1.0***	***2.8***	***-1.4***	***-1.2***	***1.4***	***2.8***	***-5.5***	***-1.8***	***-1.2***	***-2.3***
Output side										
Agr.	3.0	5.4	2.7	2.3	5.2	7.6	3.5	1.6	-0.8	**0.7**
Ming.	5.3	2.0	6.6	-4.1	1.4	2.9	7.1	11.1	7.5	**8.1**
Mfg.	0.3	-0.1	2.2	-7.2	-4.8	0.9	5.0	14.4	11.6	**8.5**
Elec.	6.6	7.4	15.6	6.4	8.7	7.3	3.2	10.5	9.0	**7.5**
Cons.	7.3	6.4	14.7	6.9	9.5	7.4	8.5	13.5	9.5	**10.7**
Trans.	8.9	5.9	22.1	13.2	9.2	7.0	9.7	4.5	6.7	**6.5**
Fin.	5.3	5.6	10.5	8.7	7.7	9.2	12.6	6.2	7.0	**8.2**
Publ.	8.6	3.3	23.6	7.3	3.5	4.7	8.2	7.7	7.5	**7.7**
GVA	**5.2**	**4.2**	**11.3**	**5.0**	**4.8**	**6.0**	**8.2**	**7.7**	**6.5**	**6.9**

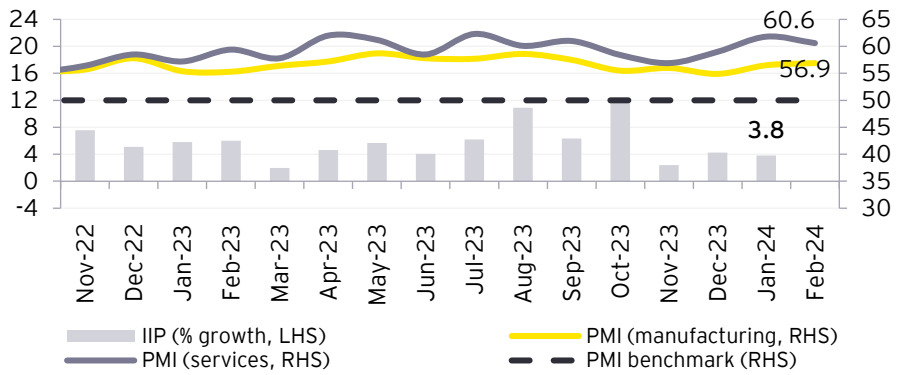
Source: MoSPI, GoI

- Among the services sector, public administration and defence et al. at 7.5%, financial, real estate et al. sector at 7.0% and, trade, hotel, transport et al. sector at 6.7% showed strong growth rates in 3QFY24. Together, these three sectors have contributed 3.7% points, that is, about 56% to overall GVA growth in 3QFY24. For the year as a whole, financial, real estate et al. sector is estimated to show the highest growth at 8.2%, followed by public administration and defence et al. and trade, hotel, transport et al. sectors at 7.7% and 6.5% respectively.
- Agricultural GVA contracted by (-)0.8% in 3QFY24, largely owing to deficient rainfall. In FY24, growth in agricultural sector is estimated to fall to a nine-year low of 0.7%.

1.2 PMI: signaled strong rates of expansion in both manufacturing and services in February 2024

- Headline manufacturing PMI (seasonally adjusted (sa)) recovered further from an 18-month low in December 2023, rising from 56.5 in January 2024 to 56.9 in February 2024, its highest level since September 2023 **(Chart 2).** Along with new domestic orders, demand was also supported by new export orders which expanded at the fastest rate in nearly two years.
- Although services PMI eased from a six-month high level of 61.8 in January 2024 to 60.6 in February 2024, it was well above its long-term average of 53.8. With this, services PMI remained above the threshold of 50 for 31 consecutive months.
- With an expansion in manufacturing but a slight easing in services sector activity, the composite PMI Output Index (sa) fell from a six-month high level of 61.2 in January 2024 to 60.6 in February 2024.

Chart 2: PMI and IIP growth



Source: MoSPI and S&P Global.

In February 2024, manufacturing PMI increased to 56.9, its highest level since September 2023. Services PMI at 60.6 remained above 60 for the second consecutive month sustaining a sharp rate of expansion.

1.3 IIP: growth eased to 3.8% in January 2024

IIP growth eased to 3.8% in January 2024, from 4.2% in December 2023 led by lower growth in the output of manufacturing sector.

- According to the quick estimates, IIP growth eased to 3.8% in January 2024 from 4.2% (revised) in December 2023 **(Chart 2).**
- Among sub-industries, manufacturing output, with a share of 77.6% in the overall IIP, grew at a slower pace of 3.2% in January 2023, moderating from 4.5% in December 2023. Within manufacturing, there was uneven growth across key sub-segments with the output of motor vehicles, trailers and semi-trailers showing strong growth of 18% in January 2024. Growth in basic metals however eased to 5.8% in January 2024 from 8.3% in December 2023. Growth in the output of pharma remained stagnant while that of coke and refined petroleum products and food products contracted by (-)2.2% and (-)0.6% respectively in January 2024.
- Among other major sub-industries, the output of mining and electricity grew by 5.9% and 5.6% respectively in January 2024 as compared to 5.2% and 1.2% respectively in December 2023.
- As per the 'use-based' classification of industries, output of consumer durables showed the highest growth of 10.9% in January 2024, improving from 5.3% in December 2023. This was followed by improvements in the growth of intermediate and capital goods at 4.8% and 4.1% respectively in January 2024. On the contrary, growth in infrastructure/construction goods output eased to 4.6% while output of consumer non-durables contracted by (-)0.3% in January 2024.
- According to provisional estimates, growth in the output of eight core infrastructure industries (core IIP) eased from 4.9% in December 2023 to 3.6% in January 2024, its lowest growth since October 2022. Among the sub-industries, growth slowdown was seen in the output of crude oil at 0.7% while output of petroleum refinery products and fertilizers contracted by (-)4.3% and (-)0.6% respectively during the month. However, there was improvement in the growth of electricity (5.2%) and cement (5.6%) while that of steel remained robust at 7.0% in January 2024.

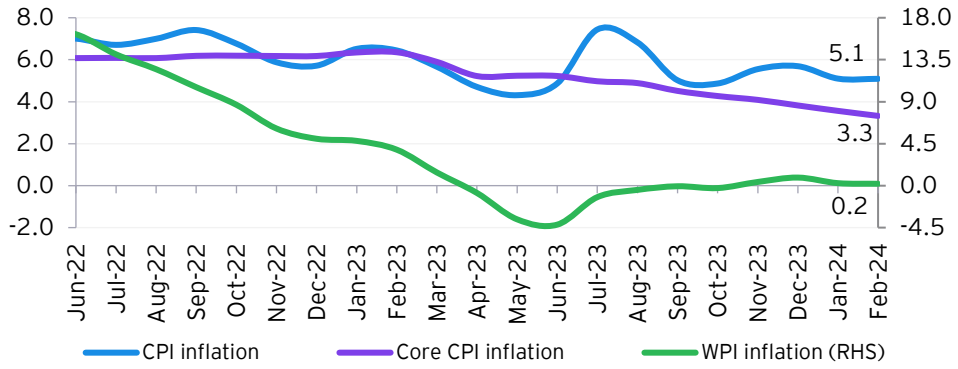
2 Inflation: CPI inflation remained steady at 5.1% in February 2024

Home

2.1 CPI inflation

- Consumer food price index-based inflation increased marginally to 8.7% in February 2024 from 8.3% in January 2024 led by higher inflation in meat and fish, and vegetables. Inflation in meat and fish was at a 13-month high of 5.2% and that in vegetables at a seven-month high of 30.2% in February 2024.
- The uptick in food inflation was offset by a fall in inflation levels across all other categories.
- Housing inflation was at 2.9% in February 2024, its lowest level since May 2013. Fuel and light inflation remained negative for the seventh successive month at (-)0.8% in February 2024 as compared to (-)0.6% in January 2024.
- Inflation in transportation and communication services fell to 1.8% in February 2024, its lowest level since May 2023, reflecting a favorable base effect.
- Inflation in clothing and footwear decelerated for the sixteenth consecutive month to a 41-month low of 3.1% in February 2024.
- Core CPI inflation[3] eased for the eighth successive month from 3.6% in January 2024 to 3.3% in February 2024 **(Chart 3)**, its lowest level since October 2019.

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



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

CPI inflation remained flat at 5.1% in February 2024 due to easing of inflation across items accompanied by some uptick in consumer food inflation. Core CPI inflation declined for the eighth successive month to 3.3% in February 2024.

2.2 WPI inflation: *remained low at 0.2% in February 2024, close to its level at 0.3% in January 2024*

- WPI food index-based inflation increased to 4.1% in February 2024 from 3.8% in January 2024.
- Inflation in foodgrains (cereals and pulses) increased to 8.7% in February 2024 from 6.3% in January 2024. Inflation in fruits turned negative for the first time in six months at (-)4.0% in February 2024 partly due to favorable base effect.
- Inflation in crude petroleum increased to a 14-month high of 16.7% in February 2024 with the waning of favorable base effects.
- Prices of fuel and power continued to contract for the 10th consecutive month at (-)1.6% in February 2024 as compared to (-)0.5% in January 2024. Inflation in mineral oils remained negative for the 11th successive month at (-)3.8% in February 2024. Petrol prices contracted for the first time in six months by (-)0.7% in February 2024.
- The pace of contraction in prices of manufactured products increased marginally to (-)1.3% in February 2024 from (-)1.1% in January 2024 reflecting continued lower input cost pressures.
- Core WPI witnessed a contraction for the 12th consecutive month at (-)1.3% in February 2024 as compared to (-)1.0% in January 2024, as manufactured basic metals remained in contraction mode for the 13th successive month at (-)5.7% in February 2024.

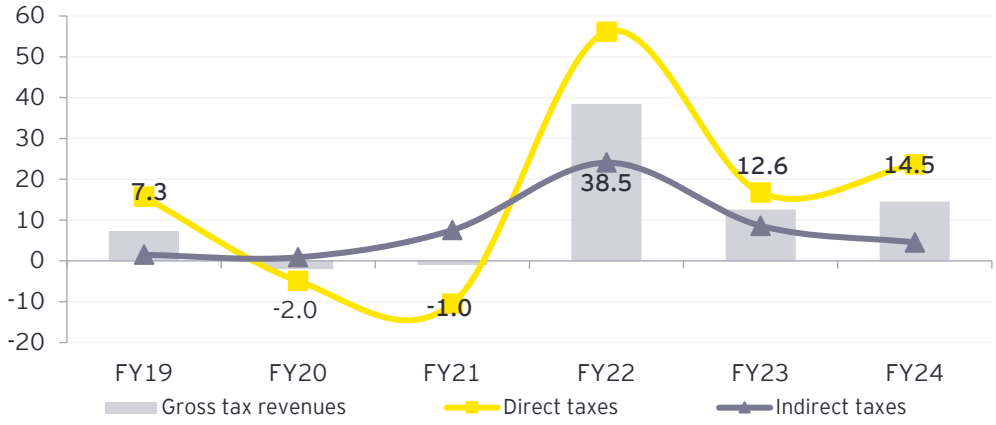
[3] Core CPI inflation is measured in different ways by different organizations/agencies. Here, it has been calculated by excluding food, and fuel and light from the overall index.

3 Fiscal: GoI's capital expenditure growth stood at 26.5% during April-January FY24

3.1 Tax and non-tax revenues

- As per the CGA, GoI's GTR[(b)] showed a growth of 14.5% during the first ten months of FY24 as compared to 12.6% during the corresponding period of FY23 **(Chart 4)**.
- During April-January FY24, GTR stood at 78.7% of the annual RE, higher than the three-year average ratio (FY21 to FY23) based on actual collections at 76.5%.
- A y-o-y growth of only 5.8% is required in the remaining two months of the fiscal year to meet the FY24 RE at INR34.4 lakh crore.
- With a growth of 10.1% in nominal GDP and that of 10.8% in GoI's GTR in 3QFY24, the buoyancy is estimated at 1.1 for this quarter.
- Direct taxes[(a)] showed a strong growth of 23.6% while indirect taxes[(a)] grew by 4.5% during April-January FY24. The corresponding growth rates in FY23 were at 16.8% and 8.6% respectively.
- CIT revenues grew by 20.1% during the first ten months of FY24 as compared to 14.8% during the same period in FY23.
- PIT revenues grew by 27.3% during April-January FY24, higher than 18.9% during the corresponding period of FY23.
- Among indirect taxes, GoI's GST revenues[(c)] grew by 9% during April-January FY24, lower than 21.9% during the corresponding period of FY23.
- Union excise duties (UED) showed a contraction of (-)6% during the first ten months of FY24 as compared to (-)19.3% during the corresponding period of FY23.
- Owing to subdued growth in imports, customs duties showed a low growth of 1% during April-January FY24 as compared to 13.6% during the corresponding period of FY23.

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



During April-January FY24, GoI's GTR showed a growth of 14.5%, with growth in direct taxes at 23.6% and that in indirect taxes at 4.5%.

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 GoI's GTR along with direct and indirect taxes, (c) IGST revenues are subject to final settlement.

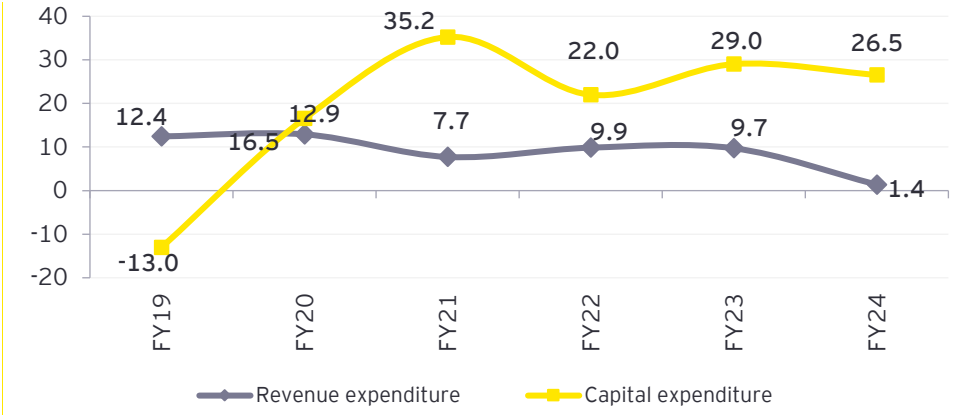
- GoI's non-tax revenues showed a high growth of 46.4% during April-January FY24 on account of high receipt of dividends and profits.
- Non-tax revenues during April-January FY24 as a proportion of annual RE stood at 90%, much higher than the three-year average (FY21 to FY23) ratio of 76.1% based on actual collections.
- Non-debt capital receipts of the GoI during April-January FY24 stood at 61.1% of the RE, lower than the three-year average (FY21 to FY23) ratio of 77.3% based on actual collections.

- As per DIPAM[4], disinvestment receipts as of 21 March 2024 stood at INR14,737.29 crores, that is 49.1% of the FY24 RE at INR30,000 crore.

3.2 Expenditures: revenue and capital

- GoI's total expenditure grew by 5.9% during April-January FY24 as compared to 12.8% during the corresponding period of the previous year. As a proportion of annual RE, total expenditure during April-January FY24 stood at 74.7%, close to the three-year average (FY21 to FY23) ratio of 73.8% based on actual expenditure.
- GoI's revenue expenditure showed a growth of 1.4% during April-January FY24 as compared to 9.7% during the corresponding period of FY23 **(Chart 5)**.
- GoI's capital expenditure continued to show a strong growth of 26.5% during the first ten months of FY24. This was slightly lower than the growth of 29% during the corresponding period of FY23.

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



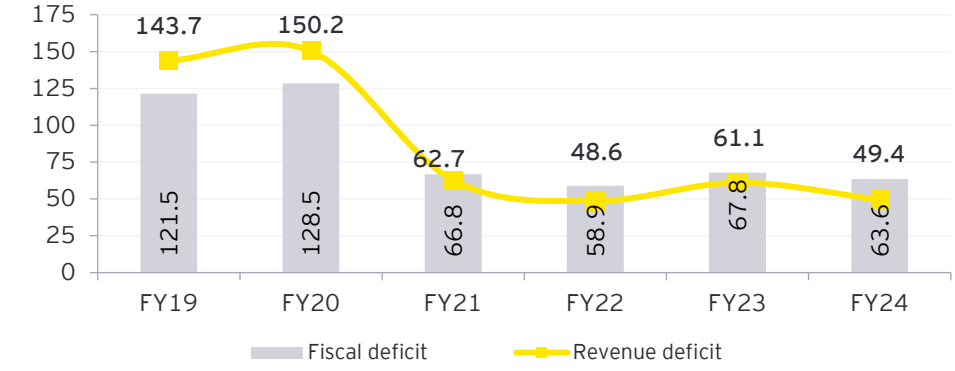
GoI's total expenditure grew by 5.9% during April-January FY24, with growth in capital expenditure at 26.5% and that in revenue expenditure at 1.4%.

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

3.3 Fiscal imbalance

- GoI's fiscal deficit during April-January FY24 stood at 63.6% of the RE, lower than the corresponding ratio at 67.8% in FY23 **(Chart 6)**.
- GoI's revenue deficit during the first ten months of FY24 stood at 49.4% of the RE, its second lowest level at least since FY01 (the lowest level was at 48.6% in FY22).

Chart 6: Fiscal and revenue deficit during April-January as a percentage of RE



GoI's fiscal and revenue deficits during April-January FY24 as a proportion of their annual RE stood respectively at 63.6% and 49.4%.

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

[4] https://dipam.gov.in/

4 Comparative trends: OECD projected growth in India's export volume at 7% in FY25

4.1 Volume of export of goods and services

- According to the OECD, owing to a global demand slowdown, world real trade growth is estimated to fall from 5.2% in 2022 to a low of 1.1% in 2023, before recovering to 2.7% in 2024 and 3.3% in 2025.
- Among selected major advanced economies (AEs), growth in the volume of exports of goods and services eased considerably in 2023 as compared to 2022 in line with a slowdown in global growth (**Table 2**).
- There was a contraction in export volumes in 2023 for the UK and Germany while it remained positive but low in the US and Japan.
- In Germany, export of investment goods, which makes up a large share of the country's exports, were adversely affected as high interest rates weighed on global demand for investment goods in 2023. Export volumes are expected to gradually recover as global demand strengthens.

Table 2: Volume of export of goods and services (% change)

Country	2021	2022	2023	2024	2025
US	6.3	7.0	2.5	1.9	1.8
UK	4.9	8.6	-0.4	1.5	1.6
Germany	9.5	3.4	-0.7	0.5	2.3
Japan	11.9	5.1	2.4	3.0	2.4
Brazil	6.5	5.9	7.2	4.0	3.7
India*	29.3	13.6	-3.3	7.0	6.4
China	15.7	-3.9	1.9	4.0	4.5
South Africa	9.1	7.4	4.2	2.9	2.1

Source: OECD Economic Outlook, November 2023
*data pertains to fiscal year

- In the US, record high petroleum exports supported the positive although low export growth in 2023. However, growth in export volumes is projected to moderate to less than 2% in 2024 and 2025.
- In Japan, buoyant automobile exports and some recovery in inbound tourism supported a low but positive growth in export volumes in 2023. Going forward, further depreciation of the yen could strengthen the price competitiveness of exports, including inbound tourism, having a positive impact on the growth of export volumes.
- In Brazil, agricultural exports have led the growth in overall export volumes in 2023 which was at 7.2%. This trend is expected to continue even in 2024 and 2025 although there would be some moderation in growth due to relatively lower commodity prices.
- India witnessed a contraction in its export volumes in 2023 (FY24) led mainly by subdued merchandise exports owing to the global demand slowdown. However, with recovering global demand in 2024 and 2025, India's export volumes are also projected to recover.
- With regard to China, weak demand in some of its key export markets has weighed on export growth in 2023 although some recovery is expected in the subsequent years.

4.2 Volume of import of goods and services

- Reflecting a weak demand, volume of imports of goods and services is estimated to contract in all the selected major AEs with the US witnessing the maximum contraction (**Table 3**). This situation is expected to gradually improve in 2024 and 2025.
- Growth in import volumes have remained positive in 2023 for all selected major emerging market economies (EMEs). Nonetheless, there are country-wide variations in trends.
- In Brazil and China, the trough with respect to growth in import volumes came in 2022 with an improvement being witnessed in 2023. In India and South Africa, growth in import volumes fell in 2023 relative to their levels in 2022.

Table 3: Volume of import of goods and services (% change)

Country	2021	2022	2023	2024	2025
US	14.5	8.6	-1.5	1.9	2.5
UK	6.1	14.1	-1.3	1.5	1.1
Germany	8.8	6.8	-1.3	0.9	2.4
Japan	5.1	8.0	-1.3	1.8	2.0
Brazil	12.1	0.6	2.4	4.6	2.1
India*	21.8	17.1	11.3	7.4	6.6
China	7.6	-6.7	7.4	3.6	4.4
South Africa	9.6	14.9	9.1	4.9	3.7

Source: OECD Economic Outlook, November 2023
*data pertains to fiscal year

- Trends in growth of import volumes remain varied in 2024 and 2025 as well. While growth is projected to ease in India and South Africa in both years, in Brazil, growth is expected to improve in 2024 followed by a fall. On the other hand, growth in import volumes in China is forecasted to ease significantly in 2024 followed by some recovery in 2025.

5 In focus: critical issues before the Sixteenth Finance Commission

5.1 Introduction

The Sixteenth Finance Commission (FC16) was constituted by a Presidential Order dated 31 December 2023[5]. Its Terms of Reference (ToR) which were issued earlier through a press notification on 29 November 2023[6], based on a Cabinet Committee decision, made reference to the content of Constitutional Articles 270, 271, 275, and 280. The period over which FC16 has been asked to make its recommendations extends from FY27 to FY31. The Commission is expected to submit its report by 31 October 2025. Given that we are already in March 2024, the Commission has only 20 months available to complete its report and finalize its recommendations. Given the evolution of the Indian economy and that of the GoI-state fiscal relations, disparities in fiscal capacities across states appear to be growing accompanied by increasing demands for larger allocations. Further, there are emerging but so far under-attended aspects of the economy that may also need to be taken into account. In particular, five kinds of imbalances among others call for better resolution. These relate to (1) vertical, (2) horizontal, (3) fiscal, (4) demographic, and (5) environmental imbalances. Since these tend to be interdependent, they require to be resolved jointly so that the solutions remain internally consistent. These imbalances arise because of three underlying reasons. First, there is an imbalance by constitutional design. Second, there is an imbalance because of initial conditions particularly relating to the organization of states in India. Third, imbalances evolve, usually increasing in magnitude, due to the dynamics of development. Thus, vertical imbalance as provided by constitutional design provides relatively larger resources to the central government and relatively larger responsibilities to the state governments under the specifications of tax and non-tax items in the Union, State and Concurrent Lists as specified by the Seventh Schedule of the Constitution. The organization of states in India has also been evolving in a manner such that the relativity of areas, per capita GSDP, and size of population across states have been large to start with and have become even larger over time. In the context of the dynamics of development, disparity in per capita GSDP in both real and nominal terms, has grown over time.

Fortunately, the Indian economy and its GDP growth in the medium term appears to be in a golden phase. In spite of the continuing global headwinds, medium term growth is likely to do better than even some of the robust growth rates projected for India by multilateral agencies including the IMF. In its medium-term forecast released in October 2023, extending up to FY2029, the IMF had projected an annual growth of 6.3% for India for each year for this period. In its January 2024 update, the IMF has revised upwards, its estimates for FY2024, FY2025, and FY2026 to 6.7%, 6.5%, and 6.5% respectively. The NSO's second advance estimate for FY2024 is much higher at 7.6%. In IMF's October 2023 release for the medium-term forecasts, the annual nominal growth ranges from 10.5% to 10.7% during FY2024 to FY2029. It is the nominal GDP growth which is material for projecting tax revenue growth for the Finance Commission. It is likely that some of the IMF numbers may need to be revised upwards to provide a nominal growth projection line for the Finance Commission for its recommendation period. This may range between 10.5% to 11% or even higher. In this background, we may consider some of the critical dimensions of the imbalances that require attention by the Commission.

5.2 Resolving vertical imbalance

Vertical imbalance has been provided for by constitutional design. The share of GoI's tax revenues excluding GST in the combined tax revenues of the central and state governments was at 48.1% in FY22[7]. If we include the share of GST accruing to the GoI, GoI's share in combined tax revenues increases to nearly 65%. It is from these central tax revenues that transfers are made to the state governments. These transfers are referred to as tax devolution. Apart from sharing of central taxes, resources are also transferred to the states and local governments through grants. Some of these grants are recommended by the FC and other central grants to states are given through the central ministries.

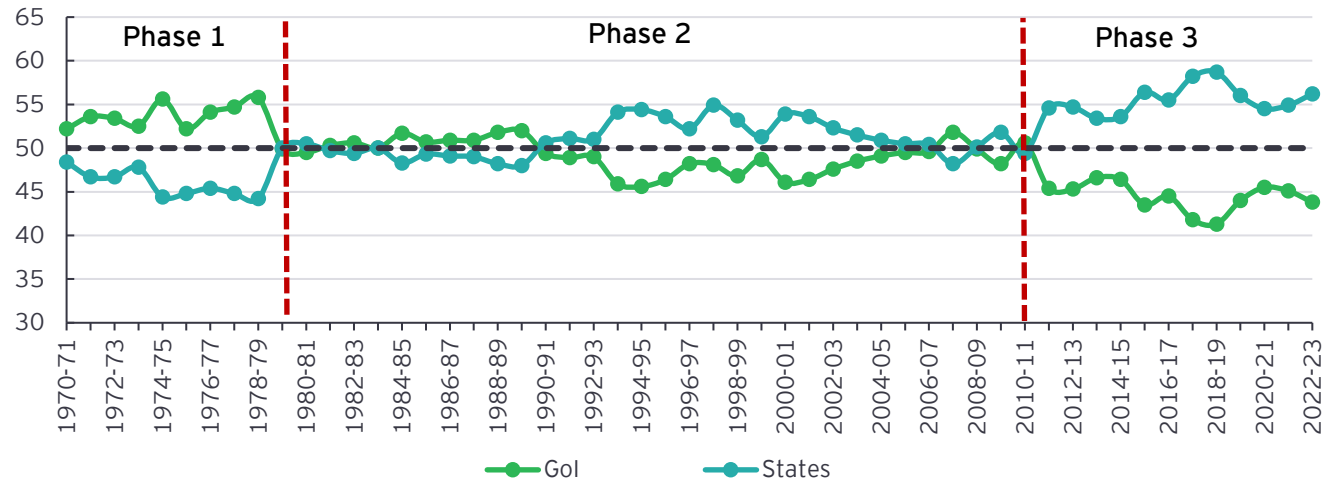
In the resolution of vertical imbalance, reference to any theoretical principles is not of much help due to lack of any quantitative guidance. The only principle relevant here is the principle of subsidiarity that says that a responsibility should be given to that tier of government which can most effectively capture the preferences of the citizens who avail the provisions of the services in relation to the concerned responsibility. This principle helps in assignment of responsibilities but does not provide any quantitative guidance as to what the needed resources are for fulfilling the

[5] https://static.pib.gov.in/WriteReadData/specificdocs/documents/2023/dec/doc20231231295101.pdf
[6] https://pib.gov.in/PressReleaseIframePage.aspx?PRID=1980688
[7] With respect to GST, the autonomy to change taxes, classification schemes, deductions and exemptions is vested with the GST Council.

responsibilities under the concerned head. In India, the picture gets further complicated due to many concurrent responsibilities[8]. One more layer of difficulty gets added as the central government even participates in providing or part-facilitating the provision of items listed under the State List. From an efficiency perspective, transfers should provide resources to that tier of the government which is most efficient in providing the assigned public and merit services. Efficiency measurements especially those utilizing econometric methods, prove so, in a comparative framework. This is feasible in the context of states where the methodology leads to identification of the most efficient state and then rank every other state in relation to the most efficient state. However, this method does not work when the union government is involved since there is only one union government and it cannot be compared with any other entity. It cannot be compared even with the aggregate of all states since their expenditures are on different heads. Even if these are on the same head of expenditure, it is not possible to delineate the effect of GoI's intervention vis-à-vis. that of the states. These may often be complementary.

Considering the trends in transfers through tax devolution, the following patterns can be observed in the way the shares of the GoI and that of the aggregate of states in the combined revenue receipts of the GoI and states have evolved **(Chart 7)**.

Chart 7: Post-devolution shares of GoI and states in combined revenue receipts (%)



Source (Basic data): Indian Public Finance statistics, RBI, Union Budget (several issues), CAG
Note: Revenue receipts of Centre here includes centre's net tax revenues + non-tax revenues. While for states, it is own tax revenues + state's share in central taxes + own non-tax revenues.

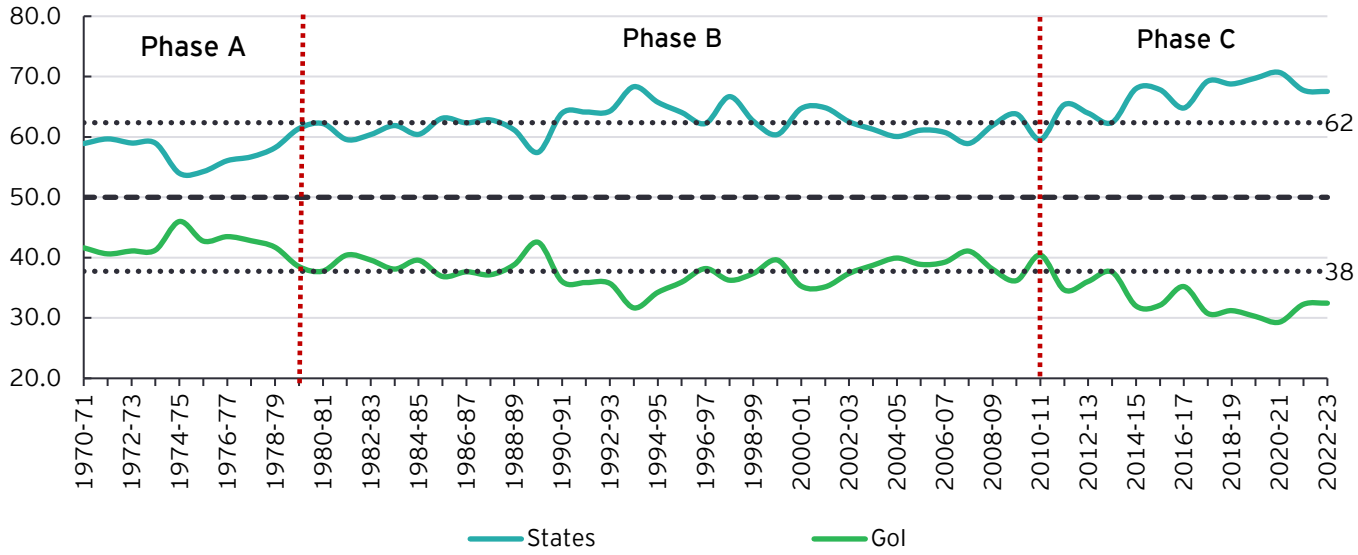
In **Chart 7**, there are three distinct phases that have been identified. In Phase 1, up to FY1980, the pre-devolution vertical imbalance was resolved into a continuing imbalance in favor of the central government. In Phase 2, extending up to FY2011, there is a long period of stability where the pre-devolution imbalance has been resolved into post-devolution balance, giving near equal shares to both central and state governments. FY2011 onwards, in Phase 3, the share of GoI after tax devolution in the combined revenue receipts fell rather sharply. It is notable that FC13 (FY2011 to FY2015) had increased the share of states in tax devolution to 32% from 30.5% under FC12. FC14 (FY2016 to FY2020) increased it further by 10% points from 32% to 42%. It was marginally reduced to 41% in FC15 but this was a consequence of the reorganization of Jammu and Kashmir as a union territory with legislature, thereby reducing the total number of states to 28. At its trough, the post-devolution share of the GoI in combined revenue receipts was at 41.3% in FY2019. There has been some recovery in this post FY2019 due to the central government attempting to claw back some of its lost share in the combined tax revenues, and therefore combined revenue receipts, by increasing its reliance on non-sharable cesses and surcharges. In this phase, the original imbalance is resolved into a post-devolution imbalance in favor of states and against the central government.

To complete the picture, we may also see the resultant patterns after fiscal transfers through tax devolution as well as grants of all kinds when they are considered together **(Chart 8)**. Post transfers, the original imbalance in collection of revenues is resolved into imbalance only but in favor of the state governments. The profile that emerges also has a stable phase but there is no phase of balance or a near equal shares throughout the period under review. In fact, there is a long phase of a stable pattern where on average, states accessed 62% of combined revenue receipts and the central government accessed 38% (Phase B). This pattern was disturbed FY2011 onwards coinciding with the term of FC13 and remaining so in the recommendation periods of FC14 and FC15 (Phase C). At its trough, GoI's share in combined revenue receipts after transfers fell to 29.3% in the COVID year affecting FY2021. The marginal

[8] Rangarajan and Srivastava (2008), Reforming India's Fiscal Transfer System: Resolving Vertical and Horizontal Imbalances, Economic and Political Weekly, Vol. 43, No. 23 (Jun. 7 - 13, 2008), pp. 47-60

increase in the GoI's share post that reflects its effort to increase the share of non-sharable cesses and surcharges and also non-acceptance of some of the FC-recommended grants. The historical trends indicate that once the share of states is increased in tax devolution, it is extremely difficult to lower it due to anticipated resistance by the state governments. There is a downward rigidity in the resolution of the vertical dimension of distribution of resources in the context of tax devolution. It will be argued later in this write-up that the resolution of vertical imbalance is critically related to the resolution of fiscal imbalance and FC16 may find it useful to make reference to the anchor post-transfer shares of the two tiers of government in combined revenue receipts by the observed historical stability phase from FY1981 to FY2011. In a contribution by Rangarajan and Srivastava (2008)[9], it was argued that a suitable point of reference that can provide an anchor to resolving the vertical distribution issue is empirical stability in the shares of the Center and states after transfers.

Chart 8: Post-transfer shares of Centre and states in combined revenue receipts (%)



Source (Basic data): Indian Public Finance statistics, RBI, Union Budget (several issues), CAG
Note: post-transfer revenue receipts on the GoI's side refers to GoI's net tax revenues + non-tax revenues (excluding interest receipts from states) minus grants from GoI to states (all grants). On the state's side, it includes own tax revenues + state's share in central taxes + own non-tax revenues + grants from GoI to states.

5.3 Resolving horizontal imbalance

The well-established principle for resolving horizontal imbalance consistent with the objectives of equity and efficiency and practiced by federal countries such as Canada and Australia is called fiscal capacity equalization. In the case of both Canada and Australia, fiscal capacity equalization is supplemented by equalization in the provision of services either comprehensively as in Australia or with respect to selected services like health and education as in Canada. Fiscal capacity equalization is guided by the underlying idea that fiscal transfers should ensure that deficiency in fiscal capacity is made up while that in tax effort is not rewarded. In India, fiscal capacity equalization is delivered at least partially through a well-known formula called the 'distance formula'. It is also sometimes called the 'income distance' formula or the 'fiscal capacity distance' formula. The distance formula is supplemented by a number of other devolution criteria that have evolved over the periods covered by different FCs. These devolution criteria are given a set of relative weights as summarized in **Table 4**.

[9] Rangarajan, C., & Srivastava, D. K. (2008). Reforming India's fiscal transfer system: resolving vertical and horizontal imbalances. *Economic and Political Weekly*, 47-60.

Table 4: Relative weights for different tax devolution criteria: FC12 to FC15 (2)

#	Criteria	FC10	FC11	FC12	FC13	FC14	FC15 (1)	FC15 (2)
1	Population	20	10	25	25	17.5	15.0	15.0
2	Demographic change			-	-	10	12.5	12.5
3	Income/fiscal capacity distance	60	62.5	50	47.5	50	45.0	45.0
4	Area	5	7.5	10	10	15	15.0	15.0
5	Forest cover			-	-	7.5	10.0	10.0
6	Tax effort	10	5	7.5	-	-	2.5	2.5
7	Fiscal discipline		7.5	7.5	17.5	-	-	-
8	Index of infrastructure	5	7.5					
9	*Sum of weights for population/demographic change, income distance and area*	*85*	*80*	*85*	*82.5*	*92.5*	*87.5*	*87.5*

Source (basic data): Finance Commission Reports [FC12 to FC15 (2)]

On the face of it, the individual criteria as well as their relative weights may appear to be arbitrary. However, to some extent, an underlying theoretical framework has been developed to provide some guidance as to the design of these formulae. The core formulae relate to population (including demographic change), income distance and area. During FC10 to FC15 (2), these together accounted for a total weight in the range of 80% to 92.5%. These may be considered as the core devolution criteria. In the design of these devolution criteria, certain considerations have been kept in mind with respect to scaling and measurement of fiscal capacity. In particular, the underlying considerations have been formalized and summarized in terms of an axiomatic framework which is given in Rangarajan and Srivastava (2008 (a, b) and 2011)[10]. These axioms relate to normalization with respect to size of state, normalization to ensure that inter-se shares add to 1 and axioms relating to horizontal equity, comprehensiveness, and neutrality.

A framework for deriving relative weights at least between population criterion and distance criterion has also been suggested[11]. It can also be shown that under certain assumptions, the income distance criterion is equivalent to the fiscal capacity equalization transfer mechanism although the way it has been used in India, it may have been able to deliver a fraction of the needed equalization transfers. The extent to which capacity equalization is delivered through the distance formula depends on the following factors: (1) the extent to which per-capita GSDP reflects fiscal capacities of individual states, (2) the benchmark income (fiscal capacity from which distances are measured), (3) the weight attached to the distance criterion in the overall devolution framework and (4) the normalization factor which can be written as follows:

$$\frac{1}{\sum(y^* - y_i).N_i}$$

Where N_i is the population of the i^{th} state, y_i is the per-capita GSDP of the i^{th} state and y^* is the benchmark per-capita GSDP from which distances are measured.

Delivering equalization has called for a transfer of larger and larger amounts because of the increase in disparity in the growth of aggregate and per-capita GSDP at current and constant prices across states. A neutral devolution formula such as the population criterion delivers equal per-capita transfers independent of the level of per-capita GSDP or per-capita fiscal capacity. It is another matter that this neutral formula was also distorted in India as FCs were mandated to use dated population data. Compared to a neutral devolution formula, the distance formula involves a re-distribution from higher fiscal capacity states to lower fiscal capacity states. The larger the extent of such re-distribution, the higher is the resistance to it by the higher fiscal capacity states. The way per-capita GSDPs have evolved over time, larger and larger redistribution is required in order to achieve the same degree of equalization. This is because for the lower per-capita GSDP states, the distances from the benchmark have increased over time and the relative size of population of these states have also increased over time. While this is one aspect of the dynamics of development which has not led to convergence, it has been accompanied by the lowering of weights attached to the distance criterion. Thus, FC16 has a daunting task of delivering equalization which is the core principle of horizontal distribution.

Criteria such as area and forest cover reflect some cost disabilities. Area provides for higher unit costs of providing public and merit services which tend to be relatively higher in states characterized by difficult terrain and where the

[10] Refer to (1) Rangarajan, C., & Srivastava, D. K. (2008)[a], Reforming India's fiscal transfer system: resolving vertical and horizontal imbalances. Economic and Political Weekly, 47-60.; (2) Rangarajan, C., & Srivastava, D. K. (2008)[b], Reforming India's fiscal transfer system: resolving vertical and horizontal imbalances. Madras School of Economics. WP 31/2008. (3) Rangarajan, C., & Srivastava, D. K. (2011), Federalism and Fiscal Transfers in India, *Chapter 5:* Resolving Vertical and Horizontal Imbalance in India, OUP (see Appendix 1).

[11] Refer to Chapter 5 of Rangarajan, C., & Srivastava, D. K. (2011)

population is sparsely distributed. The forest criterion reflects another kind of externality indicative of the opportunity cost of forgoing alternative uses of land that are used up to sustain forests so as to extend positive externalities to citizens of other states in terms of absorption of CO_2. There are certain aspects of the area criterion that need to be modified.

After the recommendations of the FC14, the central government has shown reluctance to accept any grants recommended by the FCs other than revenue deficit grants, local body grants and grants with respect to natural calamities. In particular, state specific and purpose specific grants recommended by some of the recent FCs have been discontinued[12]. These grants facilitated augmenting the extent of equalization or delivery of other welfare objectives by finer targeting. Tax devolution can only target broadly. In terms of targeting capability, it is an inferior instrument of transfer. Either the share of states in tax devolution may be reduced from 42/41% of the sharable pool, which appears to be difficult due to the downward rigidity in this share, or tax devolution framework should be modified to impart to it greater targeting capacity. In fact, there is a need to evolve to a second generation of devolution criteria[13]. Possibilities include (a) giving higher weights to economically deprived segments of population such as SC/ST population within the overall population criterion, (b) giving higher weight to segments of area that lead to higher unit costs in providing services such as the share of hilly area in total area, or (c) include considerations of costs that have not so far been included such as share of coastal area in total area.

5.4 Resolving fiscal imbalance

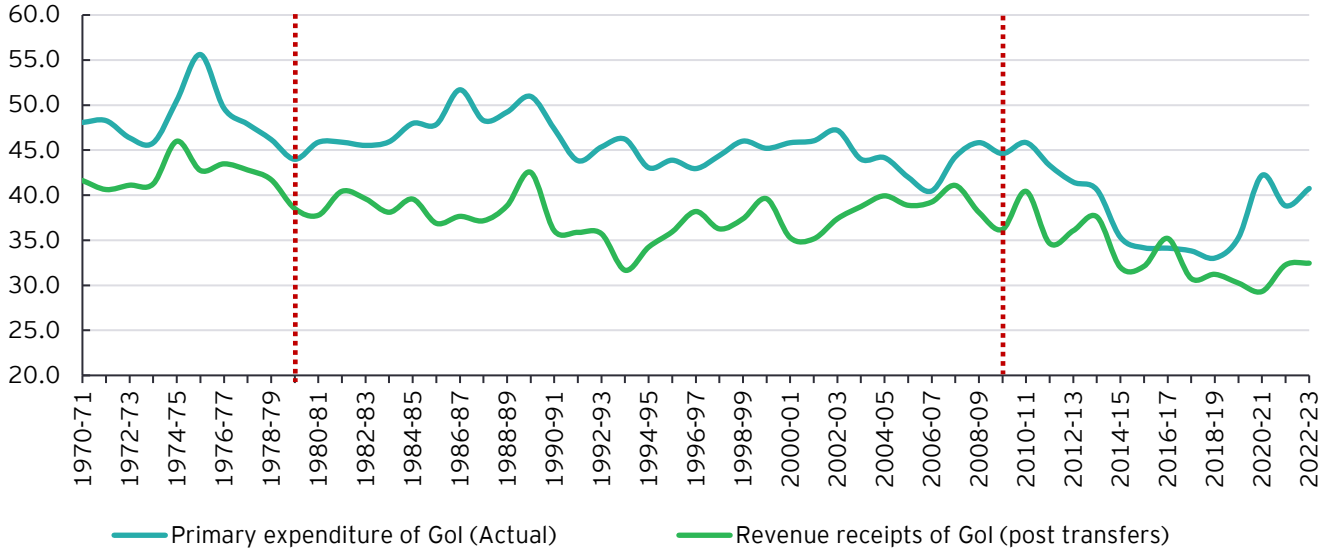
The FC12 had recommended a framework that led to adoption of fiscal responsibility legislations (FRLs) by the state governments such that at the end of the process, the central as well as all state governments have subjected themselves to their respective FRLs. The scheme proposed by the FC12 involved sharing of the borrowing space available in the system by matching the investible resources with the demand for these from the government, the non-government public sector and the private corporate sector. Based on the profile of surplus household savings available to the rest of the system in the form of household financial savings relative to GDP, the FC12 had provided a fiscal deficit target of 3% of GDP each for the central and the aggregate of states with an underlying nominal GDP growth assumption of 12%. These equal fiscal deficit targets were associated with equal debt-GDP targets for the GoI and the aggregate of states at 28% each. This balance and symmetry in targets for the central and state governments is predicated on the nominal GDP growth being common for the central government as well as the aggregate of state governments. Based on the recommendations of the FRBM Review Committee, which submitted its recommendations in 2018, GoI's amended FRBM Act now provides for asymmetric targets. First, it has legislated targets only with respect to debt-GDP ratios at 40% for the GoI and 20% for the aggregate of states which implies a 60% combined debt-GDP target. Second, the fiscal deficit target has now been made only an operational target and kept at 3% of GDP each for the GoI and the aggregate of states. This asymmetry in targets is not viable if the nominal GDP growth is common for the GoI and for the aggregate of states.

The FC16 has not been asked to examine the question of sustainability of debt and fiscal deficit. It is argued below that the resolution of vertical imbalance has a critical bearing on the resolution of fiscal imbalance. As such, the FC16 need not and should not bypass the question of determining sustainable combinations of debt and fiscal deficit both for the GoI and the state governments. It can consider this matter under the provisions of Articles 280 (d) which makes a reference to '*interest of sound finance*' and under articles 292 and 293 of the Constitution that deal with central and state borrowing. Also, the identification of states '*in need of assistance*' as per article 275 (1), under which grants are recommended by the FC cannot be normatively determined until there is a normative determination of the interest payments and revenue expenditures of the state government. As such, resolution of fiscal, vertical, and horizontal imbalances requires to be considered jointly.

The issue of symmetry in fiscal deficit targets for the GoI and the state governments are linked to the way vertical transfers have evolved from the GoI to the state governments. What is critically important is to compare the share of GoI in the combined revenue receipts after all fiscal transfers are taken into account with the share of GoI in the combined primary expenditures of the GoI and state governments **(Chart 9)**. The corresponding shares for the states in the combined revenue receipts and primary expenditures are mirror images and therefore not shown here.

[12] EY Economy Watch March 2021 edition
[13] Srivastava, D. K. (2023). Evolving Contours of Centre-State Fiscal Relations: Inconsistencies, Ad-Hocism and Centralization (MSE Working paper No. 2023-239).

Chart 9: Share of GoI in combined primary expenditure and share of GoI in combined revenue receipts after transfers (%)

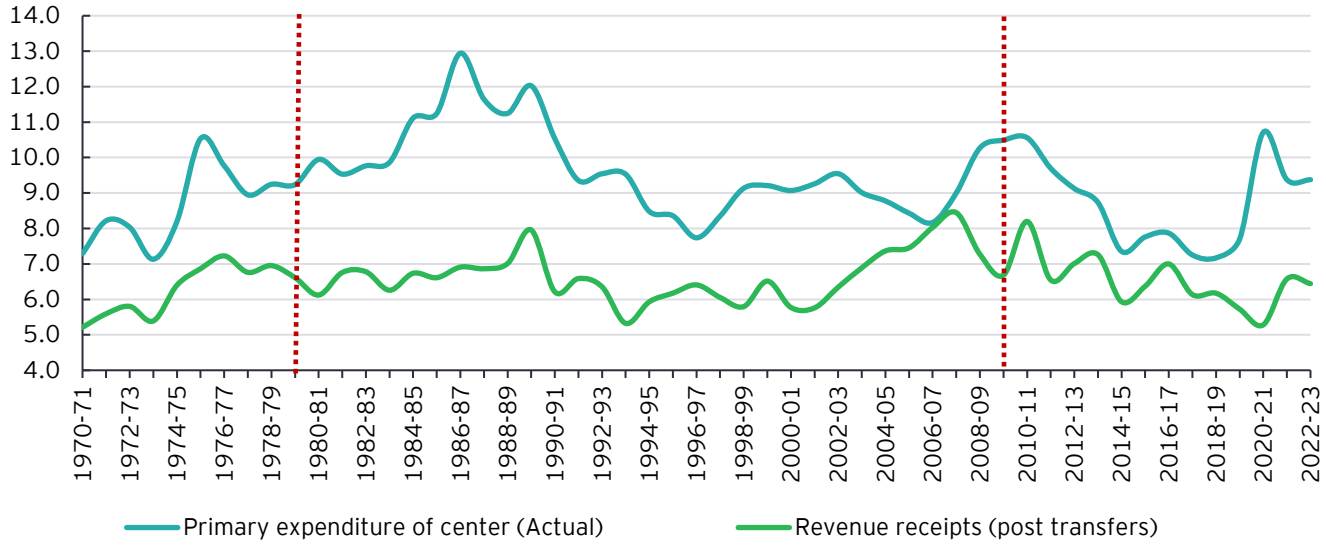


Source (Basic data): Indian Public Finance statistics, RBI, Union Budget (several issues), CAG

It is shown that GoI's share in combined primary expenditures has consistently been higher than its share in combined revenue receipts after transfers. This implies that, on a systematic basis, central government would need a higher share in combined primary deficit in order to finance the excess of its share in primary expenditure over its share in post transfer revenue receipts. As long as the nominal GDP growth rate is common for the GoI and states considered together and effective interest rates are nearly equal, the central government will also need a higher share in combined fiscal deficit.

These two determinants of GoI's requirement of primary and fiscal deficit relative to GDP are shown in Chart 10. GoI's primary expenditure relative to GDP has consistently been higher than its post transfer revenues relative to GDP. They became nearly equal in FY2008 which was the middle year of the recommendation period of FC12. However, this near-equality was disturbed by a fall in GoI's post transfer revenues to GDP ratio which is an outcome of the way in which the vertical distribution was attempted by subsequent FCs.

Chart 10: GoI's primary expenditure and revenue receipts after transfers relative to GDP ratio (%)



Source (Basic data): Indian Public Finance statistics, RBI, Union Budget (several issues), CAG

5.5 Anticipating state differentiated demographic dividend

The latest available Census figures in India still pertain to 2011 as the 2021 Census has not been conducted due to delays caused by COVID-19. The Ministry of Health and Family Welfare (MoHFW) however, has projected forward,

state-wise population up to 2036. Based on these projections, **Table 5** shows that there are considerable differences in the way the size and age profiles of state-wise population are expected to evolve. One common trend, however, is that average population growth rates during 2031-36 are expected to fall across all states. For some high per capita income states, such as Andhra Pradesh, and Tamil Nadu, population growth rates would fall to near-zero. In some of the present-day less developed states such as Odisha, Punjab, and UP, population growth rates are expected to be in the range of 0.32% to 0.55%. Bihar, being the lowest per capita income state presently, would still show the highest population growth rate of 1.04% during 2031-36. In Maharashtra's case also, population growth is projected to fall to 0.49%. As a result of these differential population growth rates, the age structure of the population of different states also shows varying profiles. This is summarily captured in the inter-state profile of the median age of the population. By 2036, Tamil Nadu would have the highest median age of 40.5 years, while median age in Bihar, Jharkhand, and Madhya Pradesh by this time would still be 28.1, 31.4, and 31.7 years, respectively.

Table 5: State-wise population growth rates over selected five-year intervals and median age

State	2011-12	2012-21	2021-31	2031-36	Median age in 2021	Median age in 2036
BH	1.92	1.65	1.36	1.04	22.0	28.1
HR	1.65	1.49	1.11	0.91	28.5	34.5
JH	1.69	1.52	1.16	0.88	25.3	31.4
GJ	1.55	1.42	1.10	0.85	29.3	34.8
CH	1.58	1.42	1.03	0.82	26.9	32.5
MP	1.69	1.49	1.06	0.78	26.0	31.7
RJ	1.65	1.42	0.95	0.76	25.7	32.1
UK	1.32	1.21	0.93	0.71	28.5	35.6
NES	1.08	1.02	0.84	0.60	28.6	36.0
AS	1.25	1.15	0.85	0.62	27.4	33.6
India	1.32	1.16	0.81	0.58	28.3	34.5
UP	1.62	1.42	0.86	0.55	24.7	31.7
JK	1.02	0.87	0.68	0.53	28.4	36.2
MH	1.13	1.00	0.69	0.49	31.3	37.7
KA	1.02	0.88	0.55	0.36	31.5	37.8
PB	1.01	0.87	0.55	0.35	32.0	38.9
OR	0.95	0.83	0.54	0.32	30.2	36.4
HP	0.86	0.72	0.41	0.19	27.6	39.5
WB	0.83	0.70	0.39	0.15	31.5	38.8
KL	0.70	0.59	0.33	0.14	35.1	39.6
TS	0.83	0.73	0.38	0.13	31.2	38.6
AP	0.72	0.61	0.25	0.03	32.5	39.6
TN	0.69	0.55	0.21	0.00	34.2	40.5

Source (basic data): Report of the technical group on population projections (July 2020), MoHFW, GoI
*States are arranged in descending order as per population growth rate

In order to optimally utilize the emerging patterns of the age profile of population across states, it is important for the FC to ensure that higher standards of educational services are provided in states that have a relatively larger share of young age dependency and states that have a larger share of old age dependency are provided with resources to increase the standards of health services catering to the old age populations. In both cases, the young and old age populations tend to be relatively more immobile and need to be provided services where they reside. For the working age population, both health and educational services need to be equalized across states so that they do not migrate for reasons of seeking better standards of these services. Instead, once educated and skilled, they can migrate to states where they can have higher returns on their educational investments and also add to the overall efficiency of the system.

5.6 Compensating for environmental burden

Some aspects of environmental and ecological externalities have been captured through devolution formulae such as the forest criterion. Under this criterion, states that have a higher share of forest area in all-India forest area receive higher share in tax devolution as compensation for the loss that they bear on behalf of other states for absorbing CO_2 and for sharing other forest related benefits while giving up alternative uses of their area under forests and thereby incurring economic cost. On the other hand, there are some aspects where environmental costs are heavy and fiscal

transfers do not take these into account at all. One example relates to the extraction of minerals, particularly coal. Pollution hazards and related costs are quite large for the mineral rich states such as Jharkhand, Chhattisgarh and Madhya Pradesh whereas the benefits of coal mining are shared across the country. It also so happens that these coal and mineral rich states have relatively larger share of tribal population which requires much greater attention in order to bring their health and education indicators up to the levels of the general population.

As per the Global Burden of Diseases, Injuries, and Risk factors Study 2015, diseases caused by pollution were responsible for an estimated 9 million premature deaths in 2015, that is, 16% of all deaths worldwide. According to the 2019 update, this number has not changed since 2015[14]. More than 90% of pollution-related deaths occur in low-income and middle-income countries and, in countries at every income level, diseases caused by pollution are most prevalent among minorities and the marginalized[15].

5.7 Conclusion

The FC16 is required to make recommendations according to the constitutional provisions regarding sharing of central taxes with the states and determination of grants. Its period of recommendation would extend from April 2026 to March 2031. Following the economic shock of COVID in FY2021, the Indian economy has now fully recovered in terms of GDP growth but fiscal deficit and government debt for the GoI remain well above the corresponding norms. Longer-term trends also indicate that the disparity across states in terms of per-capita GSDPs has been increasing over time. As such, larger per-capita transfers would be required for low fiscal capacity states. The Commission has got an opportunity to recast the tax devolution formula and the principles for determining grants in a manner that better reflects current realities and addresses current challenges.

[14] https://www.thelancet.com/action/showPdf?pii=S2542-5196%2822%2900090-0
[15] Lancet Commission Report on Pollution and health 2017

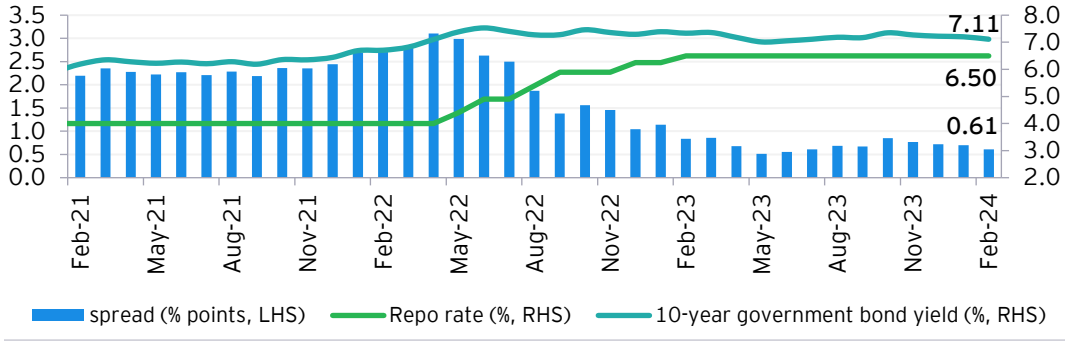
6 Money and finance: bank credit grew at a robust pace of 16.1% in January 2024

6.1 Monetary sector

Monetary policy

- In its February 2024 monetary policy review, the RBI retained the repo rate at 6.5% for sixth consecutive time **(Chart 11)**. Alongside, the monetary policy stance was also maintained as withdrawal of liquidity from the system.
- The RBI, projected CPI inflation to average 5.0% in 4QFY24 thereby implying the annual inflation to average 5.4% in FY24. The RBI projects CPI inflation to ease to 4.5% in FY25. In its assessment, CPI inflation outlook is expected to be largely shaped by the evolving food inflation outlook. However, sustained volatility in crude oil prices and international financial and commodity markets may pose upside risks.

Chart 11: Movements in the repo rate and 10-year government bond yield



Gross bank credit grew at a strong pace of 16.1% in January 2024 as compared to 15.6% in December 2023.

Source: Database on Indian Economy, RBI

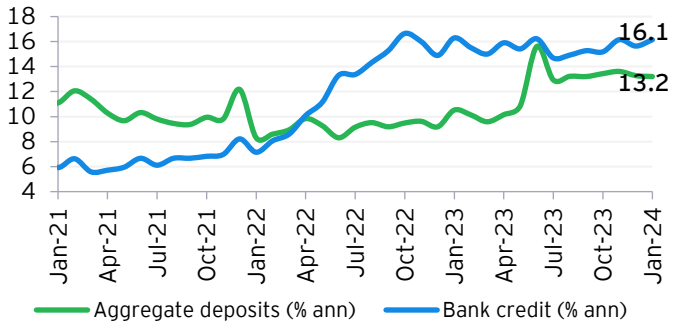
Money stock

- Growth in broad money stock (M3) eased marginally to 11.3% in February 2024 as compared to 11.5% in January 2024. Time deposits, the largest component of M3, grew by 12.9% in February 2024, lower as compared to 13.1% in January 2024.
- Growth in narrow money (M1) at 6.6% in February 2024, remained close to its level of 6.7% in January 2024 as growth in currency with the public eased. Growth in currency with the public fell to a four-month low of 4.0% in February 2024 from 4.8% in January 2024. Growth in demand deposits on the other hand, improved to 9.5% in February 2024 from 8.8% in January 2024.

Aggregate credit and deposits

- Growth in gross bank credit increased to 16.1% in January 2024 from 15.6% in December 2023 **(Chart 12)**. During April-January FY24, credit growth averaged 15.7%, higher than 14.1% during the corresponding period of FY23.
- Non-food credit also posted a higher growth of 16.2% in January 2024 as compared to 15.8% in December 2023 due to higher growth in credit offtake across key sectors of the economy.
- Sectoral bank credit data indicate that credit to services, with an average share of about 26% in total non-food credit (last five years), showed the highest growth of 20.7% in January 2024, improving from 19.6% in December 2023.

Chart 12: Growth in credit and deposits



Source: Database on Indian Economy, RBI

- Growth in credit to the agricultural sector increased to a multi-year high of 20.1% in January 2024 from 19.5% in December 2023.
- Personal loans, a key component of retail loans, with a share of close to 28% on average in total non-food credit (last five years), showed a growth of 18.4% in January 2024, increasing from 17.7% in December 2023.
- Outstanding credit to industries, having a share of about 27% on average in total non-food credit (last five years) grew by 7.8% in January 2024, marginally lower than 8.1% in December 2023. Within the industrial credit,

growth in credit to infrastructure, having the largest share of over 37% on average in total industrial credit (last five years), remained stable at 5.9% in January 2024, close to its level of 5.8% in December 2023.

- Among other industrial sectors, credit to iron and steel showed the highest growth at 14.7% in January 2024, although lower than 17.9% in December 2023. Drugs and pharmaceuticals, and textiles continued to post double digit growth rates at 14.2% and 13.4% respectively in January 2024 as compared to 14.8% and 13.2% respectively in December 2023. Growth in credit to cement and cement products eased to 9.6% in January 2024 from 10.9% in December 2023.
- Aggregate deposits of residents grew by 13.2% in January 2024, close to its level of 13.3% in December 2023.

6.2 Financial sector

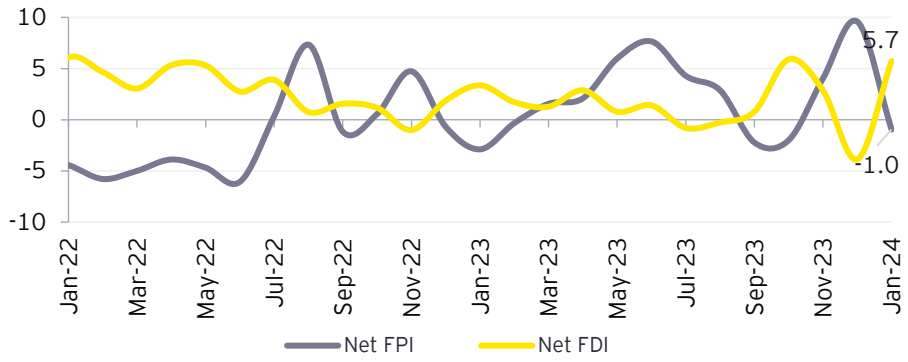
Interest rates

- As per the data released by the RBI in the first week of March 2024, the average interest rate on term deposits with a maturity period of more than one year was retained at 6.88% for the second successive month in February 2024. The term deposit rate continued to range between 6.50% and 7.25% during the month.
- The MCLR, in February 2024, was retained at 8.30% for the second consecutive month. The actual MCLR ranged between 8.00% and 8.60% during the month.
- The average yield on 10-year government bonds fell to a seven-month low of 7.11% in February 2024 from 7.20% in January 2024 **(Chart 10)**. During the first 11 months of FY24, benchmark bond yields averaged 7.17%, lower as compared to 7.35% during the corresponding period of FY23.
- WALR on fresh rupee loans by SCBs increased to a three-month high of 9.45% in January 2024 from 9.32% in December 2023.

FDI and FPI

- As per the provisional data released by the RBI on 19 March 2024, overall foreign investments[16] (FIs) fell to US$4.8 billion in January 2024 from US$5.7 billion in December 2023 as net foreign portfolio investments turned negative.

Chart 13: Net FDI and FPI inflows (US$ billion)



Source: Database on Indian Economy, RBI

Net FDI turned positive registering inflows amounting to US$5.7 billion in January 2024 as compared to outflows amounting to US$3.9 billion in December 2023.

- Net FPI turned negative as it registered outflows amounting to US$1.0 billion in January 2024 as compared to net inflows amounting to US$9.6 billion in December 2023. During April-January FY24, on a cumulated basis, net FPI inflows amounted to US$31.3 billion as compared to net outflows of US$6.4 billion during the corresponding period of FY23.
- Net FDI turned positive registering inflows amounting to US$5.7 billion in January 2024 as compared to outflows amounting to US$3.9 billion in December 2023 **(Chart 13)**. During April-January FY24, net FDI inflows were sharply lower at US$15.4 billion as compared to US$25 billion during the corresponding period of FY23.
- Gross FDI inflows surged to US$8.0 billion in January 2024 from US$4.5 billion in December 2023. On a cumulated basis, gross FDI inflows amounted to US$59.5 billion during April-January FY24 as compared to US$61.7 billion during April-January FY23.

[16] Foreign Investment (FI) = net FDI plus net FPI

7 Trade and CAB: merchandise exports growth increased to a 20-month high of 11.9% in February 2024

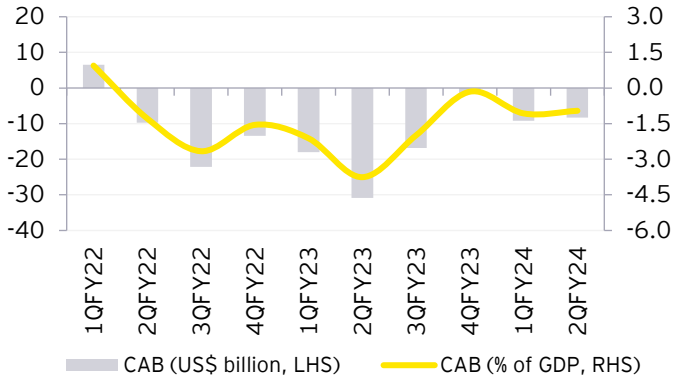
7.1 CAB: current account deficit marginally declined to 1.0% in 2QFY24 from 1.1% in 1QFY24

- 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 6: 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 14: CAB



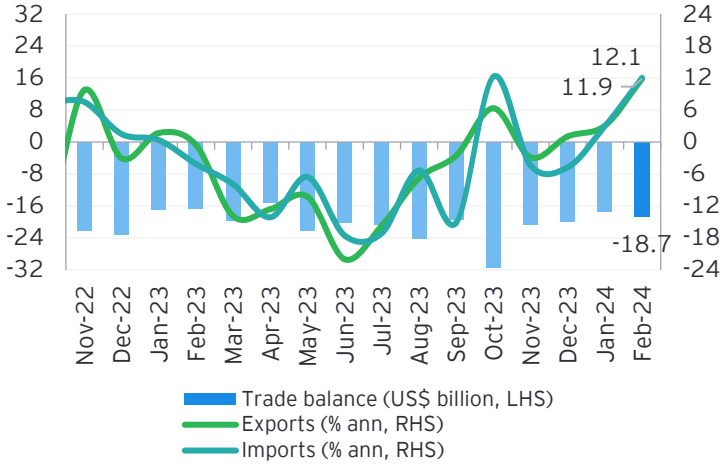
Source: Database on Indian Economy, RBI; Note: (-) deficit; (+) surplus; *invisibles include services, current transfers and income components

7.2 Merchandise trade and exchange rate

Growth in merchandise exports and imports increased to 11.9% and 12.2% respectively in February 2024, their highest levels since June 2022 and September 2022 respectively, reflecting some pickup in global demand on account of fiscal stimuli especially in the US (Chart 15).

- Growth in exports of engineering goods, chemicals, and electronic goods showed a sharp increase to 15.9%, 33.0%, and 54.8% respectively in February 2024 as compared to 4.2%, 0.3% and 9.3% in the previous month. Growth in oil exports was low at 5.1% in February 2024 reflecting lower oil prices on a y-o-y basis.
- Imports growth was led by growth in gold imports which was at 133.8% in February 2024, although lower than 173.6% in January 2024. Higher demand for gold was on account of the wedding season and imports by the RBI. Oil imports showed zero growth in February 2024 as compared to a growth of 4.3% in January 2024 reflecting a favourable base effect.
- Electronic goods imports continued to exhibit a high positive growth of 23.2% in February 2024, slightly lower than 27.8% in January 2024.
- Growth in exports and imports excluding oil, gold and jewelry picked up to 22-month and 17-months highs of 17.2% and 10.6% respectively in February 2024.
- Merchandise trade deficit increased slightly to US$18.7 billion in February 2024 from US$17.5 billion in January 2024. Deficit on account of trade of goods and services was at a 31-month low of US$1.3 billion in January 2024.
- The INR depreciated marginally to INR83.0 per US$ (avg.) in February 2024 from INR82.7 per US$ (avg.) in January 2024.

Chart 15: Developments in merchandise trade



Source: Ministry of Commerce and Industry, GoI

8 Global growth: OECD projected global growth at 3.1% in 2023 and at 2.9% in 2024

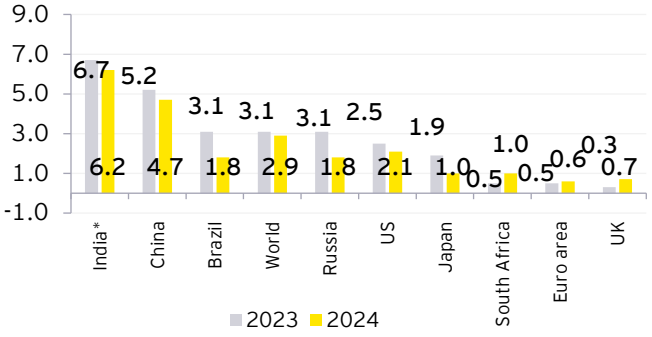
8.1 Global growth

- The OECD (OECD Global Economic Outlook Interim Report, February 2024) has projected global growth to ease from 3.1% in 2023 to 2.9% in 2024 before recovering to 3% in 2025 with an easing of financial conditions.
- Growth in the US is projected to remain supported by household spending and strong labor market conditions, but moderate to 2.1% in 2024 and 1.7% in 2025.
- Euro area GDP growth is projected to be 0.6% in 2024 and 1.3% in 2025, with activity held back by tight credit conditions in the near term before picking up as real incomes strengthen. (**Chart 16**).
- In the UK, growth is projected to remain subdued, although increasing from 0.3% in 2023 to 0.7% in 2024 and 1.2% in 2025.

The OECD has projected global growth to ease from 3.1% in 2023 to 2.9% in 2024, with India's FY24 and FY25 growth forecasted at 6.7% and 6.2% respectively.

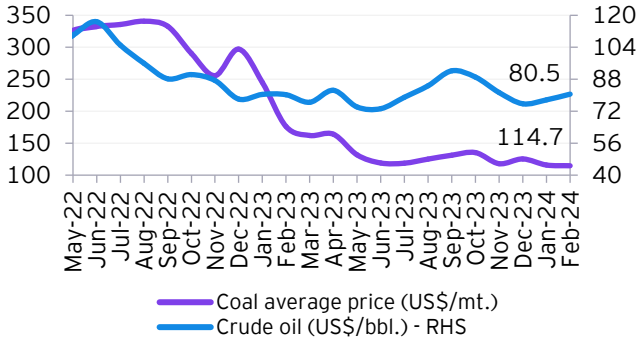
- In Japan, GDP growth is projected to ease from 1.9% in 2023 to 1% in both 2024 and 2025 as macroeconomic policies begin to be tightened.
- Among emerging market economies, growth in China is expected to ease from 5.2% in 2023 to 4.7% in 2024 and 4.2% in 2025 despite additional policy stimulus, reflecting subdued consumer demand, high debt, and the weak property market.
- India's growth is expected to expand steadily over the next two years, helped by strong investment growth. India's real GDP growth, estimated at 6.7% in 2023 (FY24), is the highest among all major economies of the world. This trend is forecasted to continue with India's growth projected to remain strong at 6.2% in 2024 (FY25) and 6.5% in 2025 (FY26).

Chart 16: Global growth projections (%)



Source: OECD Global Economic Outlook Interim Report (February 2024)
*Data pertains to fiscal years FY24 and FY25, respectively

Chart 17: Global crude and coal prices



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

8.2 Global energy prices: global crude price increased to a three-month high of US$80.5/bbl. in February 2024

- Average global crude price[17] increased from US$77.7/bbl. in January 2024 to a three-month high of US$80.5/bbl. in February 2024 primarily owing to concerns over supply disruptions emanating from the Middle East[18] **(Chart 17)**.
- Average global coal price[19] fell from US$115.8/mt. in January 2024 to a 33-month low level of US$114.7/mt. in February 2024. Global coal prices are projected to moderate in 2024 owing to subdued global demand and surplus supply[20].

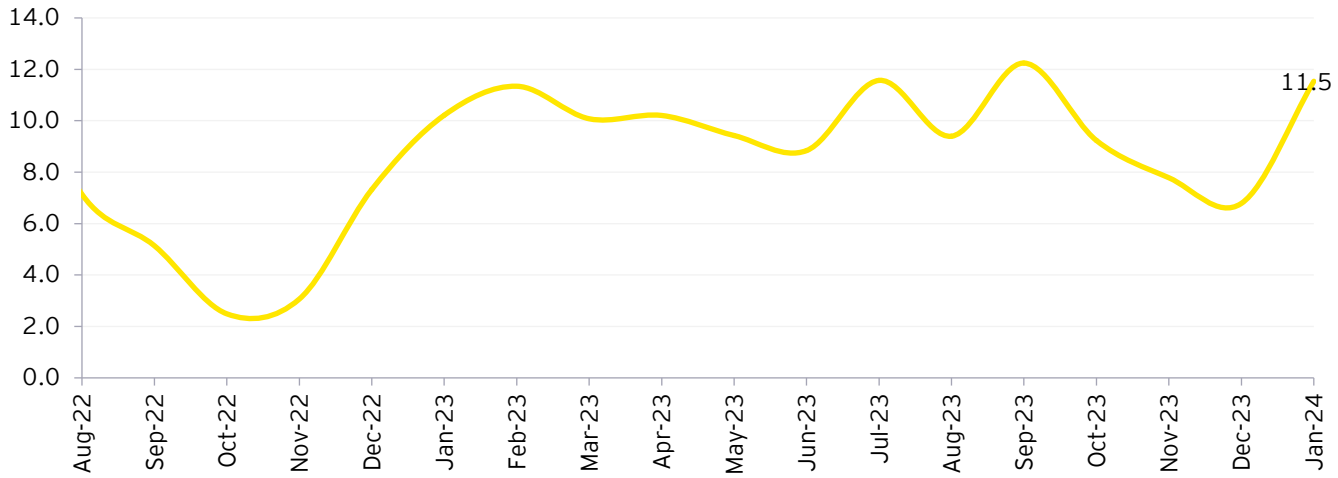
[17] Simple average of three spot prices, namely, Dated Brent, West Texas Intermediate and Dubai Fateh
[18] https://economictimes.indiatimes.com/markets/commodities/news/crude-oil-prices-are-already-up-10-this-year-whats-next/articleshow/107962848.cms?from=mdr
[19] Simple average of Australian and South African coal prices.
[20] https://www.thehindubusinessline.com/markets/commodities/thermal-coal-prices-will-likely-dip-in-2024-on-surplus-supply/article67797800.ece

9 Index of Aggregate Demand (IAD): grew by 11.5% in January 2024

9.1 Growth in IAD recovered to 11.5% in January 2024 from 6.8% in December 2023

- Growth in IAD[21] accelerated to 11.5% in January 2024 from 6.8% in December 2023 led by improvement in demand conditions across the three key sectors of the economy **(Chart 18 and Table 7)**.
- The services sector witnessed a sharp improvement in the demand conditions in January 2024. This was evident from PMI services which expanded to 61.8 in January 2024 from 59.0 in December 2023.
- Demand conditions in manufacturing sector recovered in January 2024 as indicated by manufacturing PMI which expanded at a faster pace of 56.5 as compared to 54.9 in December 2023.
- Similarly, demand conditions in the agricultural sector showed resilience as reflected by a higher agricultural credit offtake in January 2024. Growth in agricultural credit rose to a multi-year high of 20.1% (sa)[22] in January 2024 from 19.3% in December 2023.

Chart 18: 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 7: IAD

Month	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24
IAD	165.0	165.0	167.9	167.2	168.2	165.7	166.0	168.9	173.9
Growth (% y-o-y)	9.4	8.8	11.6	9.4	12.2	9.2	7.8	6.8	11.5
Growth in agr. Credit	16.1	19.7	16.8	16.6	16.9	17.3	18.1	19.3	20.1
Mfg. PMI**	8.7	7.8	7.7	8.6	7.5	5.5	6.0	4.9	6.5
Ser. PMI**	11.2	8.5	12.3	10.1	11.0	8.4	6.9	9.0	11.8

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.

[21] 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.
[22] 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	7.8	11.5	6.8	11.1	10.5	2QFY24	57.9	61.1
3QFY24	6.0	8.2	5.3	9.0	8.4	3QFY24	55.5	58.1
Oct-23	11.9	13.1	10.6	20.4	12.7	Nov-23	56.0	56.9
Nov-23	2.4	7.0	1.2	5.8	7.9	Dec-23	54.9	59.0
Dec-23	4.2	5.2	4.5	1.2	4.9	Jan-24	56.5	61.8
Jan-24	3.8	5.9	3.2	5.6	3.6	Feb-24	56.9	60.6

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	-s7.6	-1.9
3QFY24	5.4	8.3	-0.7	4.1	0.3	4.0	-0.9	-2.4	-0.7
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	0.9	5.4	-0.8	-1.4	-0.6
Jan-24	5.1	8.3	-0.6	3.6	0.3	3.8	-1.1	-0.5	-1.0
Feb-24	5.1	8.7	-0.8	3.3	0.2	4.1	-1.3	-1.6	-1.3

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	
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#
Jan-24	14.5	20.1	27.3	23.6	4.5	63.6#	49.4#

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				
FY24 (RE)	8,11,600	-	-	1,45,000	9,56,600
FY25 (BE)	9,17,650	-	-	1,50,000	10,67,650
Monthly tax collection (INR crore)					
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
Jan-24	73,685	469	-6,530	11,583	79,207

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	6.4	-1.7	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	Oct-23	15.2	13.4	5.9	-2.0	Nov-23	7.9	11.8	7.27	597.9
Dec-23	6.50	Nov-23	16.2	13.6	2.9	4.0	Dec-23	7.0	11.5	7.22	623.2
Jan-24	6.50	Dec-23	15.6	13.3	-3.9	9.6	Jan-24	6.7	11.5	7.20	616.7
Feb-24	6.50	Jan-24	16.1	13.2	5.7	-1.0	Feb-24	6.6	11.3	7.11	619.1

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		
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
Nov-23	-2.8	-4.3	-20.6	83.3	81.4	117.9	2021	6.3	5.6	6.9
Dec-23	1.0	-4.8	-19.8	83.3	75.7	125.3	2022	3.5	2.6	4.1
Jan-24	3.1	3.0	-17.5	82.7	77.7	115.8	2023*	3.1	1.6	4.1
Feb-24	11.9	12.2	-18.7	83.0	80.5	114.7	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 (2nd RE)	9.4	4.5	6.7	10.1	10.5	21.3	14.9	5.5	7.6	8.7
FY23 (1st RE)	6.7	4.7	1.9	-2.2	9.4	9.4	12.0	9.1	8.9	6.8
FY24 (SAE)	6.9	0.7	8.1	8.5	7.5	10.7	6.5	8.2	7.7	1.2
3QFY22	5.2	3.0	5.3	0.3	6.6	7.3	8.9	5.3	8.6	9.8
4QFY22	4.2	5.4	2.0	-0.1	7.4	6.4	5.9	5.6	3.3	10.2
1QFY23	11.3	2.7	6.6	2.2	15.6	14.7	22.1	10.5	23.6	11.5
2QFY23	5.0	2.3	-4.1	-7.2	6.4	6.9	13.2	8.7	7.3	9.2
3QFY23	4.8	5.2	1.4	-4.8	8.7	9.5	9.2	7.7	3.5	4.8
4QFY23	6.0	7.6	2.9	0.9	7.3	7.4	7.0	9.2	4.7	3.0
1QFY24	8.2	3.5	7.1	5.0	3.2	8.5	9.7	12.6	8.2	0.0
2QFY24	7.7	1.6	11.1	14.4	10.5	13.5	4.5	6.2	7.7	1.5
3QFY24	6.5	-0.8	7.5	11.6	9.0	9.5	6.7	7.0	7.5	1.7

Source: National Accounts Statistics, MoSPI
*Growth numbers for FY21 (2nd revised estimates), FY22 (2nd revised estimates), FY23 (1st revised estimates) are based on the on NAS released by the MoSPI on 29 February 2024. Second Advance Estimates (SAE) for FY24 was released on 29 February 2024

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 (2nd RE)	9.8	11.6	0.1	17.8	32.7	23.6	8.4
FY23 (1st RE)	7.0	6.8	9.0	6.6	13.4	10.6	6.7
FY24 (SAE)	7.6	3.0	3.0	10.2	1.5	10.9	1.4
3QFY22	5.7	11.0	-0.6	4.8	31.1	21.4	8.6
4QFY22	4.4	6.1	5.1	5.6	25.5	8.2	8.6
1QFY23	12.8	18.5	9.8	13.9	19.1	26.1	11.3
2QFY23	5.5	8.2	3.4	4.7	11.7	16.1	9.0
3QFY23	4.3	1.8	7.1	5.0	10.9	4.1	4.9
4QFY23	6.2	1.5	13.9	3.8	12.4	-0.4	2.8
1QFY24	8.2	5.3	-0.1	8.5	-6.5	15.3	0.2
2QFY24	8.1	2.4	13.8	11.6	5.3	11.9	1.4
3QFY24	8.4	3.5	-3.2	10.6	3.4	8.3	1.6

Source: National Accounts Statistics, MoSPI
*Growth numbers for FY21 (2nd revised estimates), FY22 (2nd revised estimates), FY23 (1st revised estimates) are based on the on NAS released by the MoSPI on 29 February 2024. Second Advance Estimates (SAE) for FY24 was released on 29 February 2024

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

Our offices

Ahmedabad
22nd Floor, B Wing, Privilon,
Ambli BRT Road, Behind Iskcon
Temple, Off SG Highway,
Ahmedabad - 380 059
Tel: + 91 79 6608 3800

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

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

Chandigarh
Elante offices,
Unit No. B-613 & 614
6th Floor, Plot No- 178-178A,
Industrial & Business Park, Phase-I,
Chandigarh - 160002
Tel: + 91 172 671 7800

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

Delhi NCR
Ground Floor
67, Institutional Area
Sector 44, Gurugram
Haryana - 122 003
Tel: +91 124 443 4000

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

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

Hyderabad
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

Ernst & Young LLP

EY | Building a better working world

EY exists to build a better working world, helping to create long-term value for clients, people and society and build trust in the capital markets.

Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.

Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via ey.com/privacy. EYG member firms do not practice law where prohibited by local laws. For more information about our organization, please visit ey.com.

Ernst & Young LLP is one of the Indian client serving member firms of EYGM Limited. For more information about our organization, please visit www.ey.com/en_in.

Ernst & Young LLP is a Limited Liability Partnership, registered under the Limited Liability Partnership Act, 2008 in India, having its registered office at ground floor, Plot No. 67, Institutional Area, Sector-44, Gurugram-122003, Haryana, India.

EYIN2403-034
ED None

JN

ey.com/en_in

@EY_India EY EY India EY Careers India @ey_indiacareers