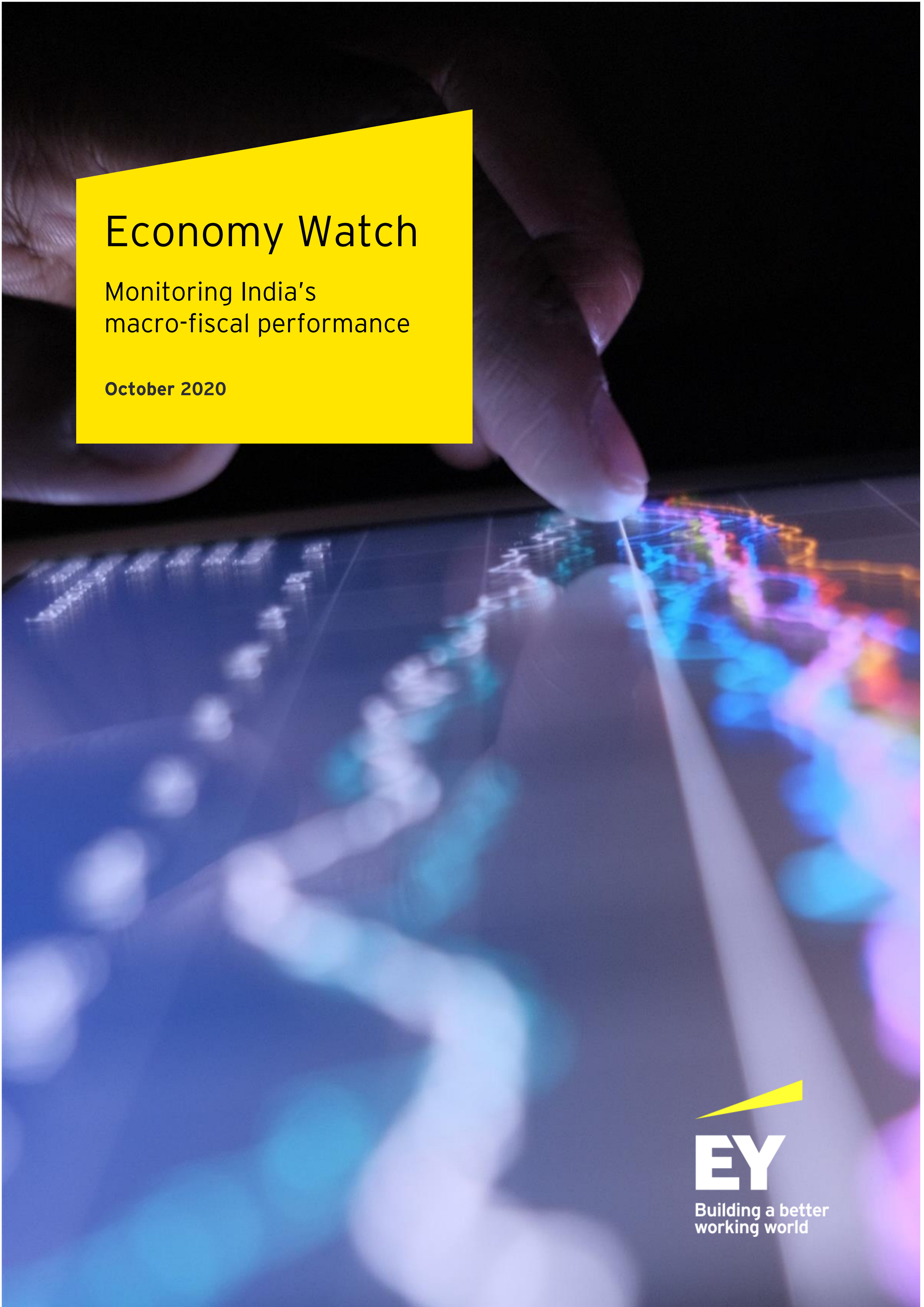

Economy Watch

Monitoring India's macro-fiscal performance

October 2020

Building a better working world

Contents

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Highlights

1. IIP contracted for the sixth successive month, but at a slower pace of (-)8.0% in August 2020 as compared to (-)10.8% in July 2020.

2. PMI manufacturing increased to 56.8 in September 2020, the highest level since January 2012. PMI services at 49.8 in September 2020 was close to the threshold of 50.

3. At 7.3% in September 2020, CPI inflation continued to breach the 6% upper tolerance limit of the RBI's inflation target range for the sixth successive month.

4. The RBI, in its monetary policy review held on 9 October 2020, retained the repo rate at 4.0%.

5. As per the CGA, center's gross taxes contracted by (-)23.7% during April-August FY21 as compared to a growth of 4.2% in the corresponding period of FY20.

6. Center's capital expenditure showed a contraction of (-)1.3% during April-August FY21 as compared to a growth of 3.0% in the corresponding period of FY20.

7. Net FDI inflows surged to US$17.8 billion in August 2020, the highest monthly net inflow recorded so far.

8. India's current account showed a surplus of 3.9% of GDP in 1QFY21, the highest in 65 quarters.

9. Growth in merchandise exports turned positive at 6.0% in September 2020 after six successive months of contraction.

10. The IMF projected a global contraction of (-)4.4% in 2020. India's real GDP is forecasted to contract sharply by (-)10.3% in FY21.

Foreword

Despite positive signals, India's FY21 growth outlook remains challenging

Ahead of the festive season, some economic indicators for the Indian economy have begun to signal significantly positive news. In September 2020, PMI manufacturing was at a record-high at 56.8. Even PMI services which had languished below 40 for April to July 2020, reached 49.8 in September 2020 which is very close to the benchmark of 50. GST collections at INR95,480 crores in September 2020 were also at the highest level since April 2020. India's current account showed a surplus of 3.9% of GDP in 1QFY21. The foreign exchange reserves also reached a record level of US$551.5 billion as on 9 October 2020. The y-o-y growth in power consumption turned positive at 3.5% in September 2020 after showing a contraction for six successive months. It further increased to 10.3% during the period 01 October 2020 to 24 October 2020. Net FDI inflows to India reached US$17.8 billion in August 2020, the highest monthly net inflow recorded so far. Growth in merchandise exports turned positive at 6.0% in September 2020 after six successive months of contraction.

The much-awaited second round of stimulus, aimed at boosting both consumption and investment demand was announced on 12 October 2020. The total amount of this stimulus was INR73,000 crores, consisting of additional capital expenditure of INR37,000 crores and directly additional consumption expenditure of INR36,000 crores. Coming ahead of the festive season, it may be considered a limited but a welcome move. These expenditure commitments may be supplemented by an increase in private expenditure since government employees have been given an incentive to spend on goods and services bearing a GST rate of 12% or above. This scheme, however, may be beset by excessive conditionalities. The capital expenditure part of the stimulus should prove to be effective as it is focused on high multiplier sectors such as roads, defence infrastructure including capital equipment, water supply, and urban development. Although this round of stimulus is quite limited in scope, another boost to demand, perhaps in the fourth quarter of FY21, may not be ruled out, when the economy is expected to fully exit from the lockdowns and has started gathering momentum.

The Monetary Policy Committee (MPC) after its reconstitution in October 2020, met during 7-9 October 2020. It released the Monetary Policy Statement on 9 October 2020, indicating no change in the repo rate and the monetary policy stance which has remained accommodative. In context of liquidity, however, the RBI has envisaged conducting TLTROs with tenors of up to three years for a total amount of up to INR1,00,000 crore by 31 March 2021.

CPI inflation, which increased to an eight-month high of 7.3% in September 2020, continued to breach the 6% upper tolerance limit of the RBI's inflation target range for the sixth successive month. The higher CPI inflation was mainly driven by higher inflation in vegetables which nearly doubled to 20.7% in September 2020 from 11.5% in August 2020. Core CPI inflation also remained elevated at 5.5% in September 2020, reflecting the higher inflation in the petroleum products used for transportation services.

As per the CGA, center's gross taxes during April-August FY21 contracted by (-)23.7% as compared to a growth of 4.2% in the corresponding period of FY20. During this period, center's revenue expenditure grew by 7.1% while capital expenditure showed a contraction of (-)1.3%. In this period, center's fiscal deficit stood at 109.3% of the annual budgeted target as compared to 78.7% during the corresponding period of FY20. The central government has so far indicated that it will adhere to the announced net borrowing of INR12,00,000 crores, amounting to about 6% of the estimated FY21 GDP. This may have to be enhanced if one more round of fiscal stimulus is to be accommodated later in the year or if tax revenue growth does not pick up adequately. The central government has agreed to borrow an amount of INR1.1 lakh crore with respect to GST compensation option 1 on behalf of states so as to ensure that states can access this borrowing at uniform and somewhat lower interest rates.

The IMF, in its recent release of the World Economic Outlook in October 2020, has projected a global contraction of (-)4.4% in 2020. For India, it has projected a contraction of (-)10.3% in real GDP and (-)6.3% in nominal GDP for FY21. India's comparative economic prospects, stimulus profile and its specific policy challenges are analyzed in detail in this month's In-focus section on '**Growth prospects and stimulus packages: India in a comparative perspective**'.

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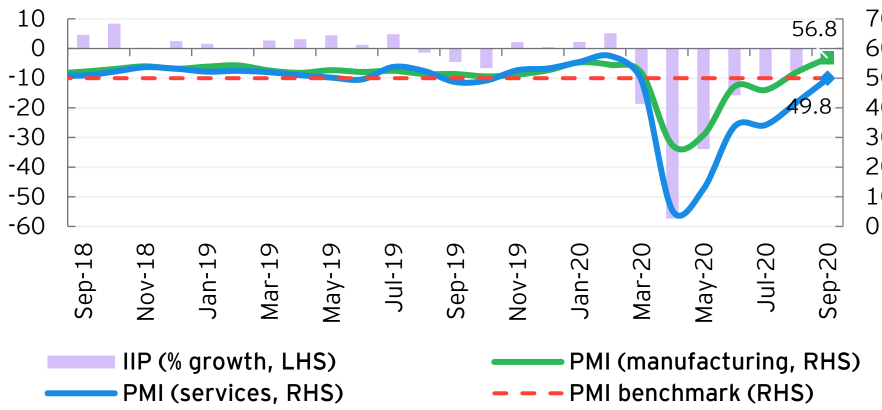
1. Growth: IIP contracted by (-)8.0% in August 2020

A. IIP: a broad-based contraction across all key sub industries continued in August 2020

- As per the quick estimates of IIP for August 2020, released by the MoSPI on 12 October 2020[1], IIP contracted for the sixth successive month, but at a slower pace of (-)8.0% in August 2020 as compared to (-)10.8% (revised) in July 2020[2] (**Chart 1**).
- Output of all the three sub-sectors continued to contract in August 2020. Output of manufacturing and mining sectors declined by (-)8.6% and (-)9.8%, respectively, in August 2020 as compared to (-)11.6% and (-)12.8%, respectively, in July 2020. Among the three sub-sectors, contraction in the output of electricity was the lowest at (-)1.8% in August 2020 as compared to (-)2.5% in July 2020 (Table A1 in data appendix).
- Contraction in the output of capital goods and consumer durables was lower at (-)15.4% and (-)10.3%, respectively, in August 2020 as compared to (-)22.8% and (-)23.0%, respectively, in July 2020. Output of consumer non-durables contracted by (-)3.3% in August 2020 as compared to a growth of 1.8% in July 2020.
- Output of eight core infrastructure industries (core IIP) contracted at a higher pace of (-)8.5% in August 2020 as compared to (-)8.0% in July 2020. This was led by a sharper contraction in the output of petroleum refinery products ((-)19.1%), cement ((-)14.6%), crude oil ((-)6.3%) and electricity ((-)2.7%) during August 2020 relative to July 2020.

Chart 1: IIP growth and PMI



IIP contracted for the sixth consecutive month by (-)8.0% in August 2020.

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

B. PMI signaled a sharp increase in manufacturing production and a stabilization of service sector output in September 2020

- Headline manufacturing PMI (seasonally adjusted (sa)) increased from 52.0 in August 2020 to 56.8 in September 2020, its highest level since January 2012 (**Chart 1**). In September 2020, new orders expanded at the fastest pace since February 2012 and new export orders crossed the threshold of 50 after six consecutive months of contraction. On a quarterly basis, PMI manufacturing increased to 51.6 in 2QFY21 from 35.1 in 1QFY21.
- PMI services increased to 49.8 in September 2020 from 41.8 in August 2020 indicating stabilization of service sector output. On a quarterly basis, PMI services averaged 41.9 in 2QFY21, up from 17.2 in 1QFY21.

PMI manufacturing increased sharply to 56.8 while services PMI at 49.8 in September 2020 was close to the threshold of 50.

- Reflecting a sharp increase in manufacturing production and stabilization of service sector activity, the composite PMI Output Index (sa) increased to 54.6 in September 2020 from 46.0 in August 2020.

[1] Quick estimates of IIP and use-based index for the month of July 2020
http://www.mospi.gov.in/sites/default/files/press_release/IIP%20Aug%2720%20Press%20Release.pdf

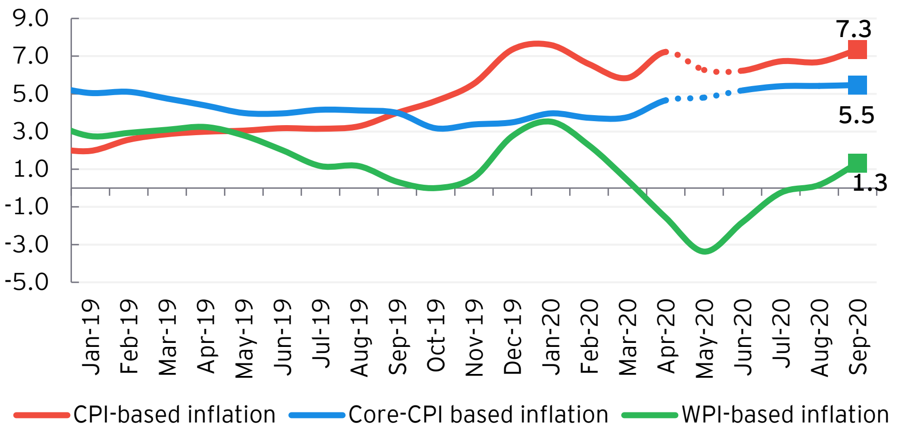
[2] It may not be appropriate to compare the IIP in the post-pandemic months with the IIP for months preceding the COVID-19 pandemic. Indices for the months of May 2020 and July 2020 incorporate updated production data.

2. Inflation: CPI inflation increased to 7.3% in September 2020

CPI inflation increased to an eight-month high of 7.3% in September 2020 from 6.7% in August 2020, driven by higher inflation in vegetables.

- Inflation in vegetables nearly doubled to 20.7% in September 2020 from 11.5% in August 2020 led by a spike in inflation in tomatoes to 54.6% from 7.0% over the same period.
- Consumer food inflation increased to a five-month high of 10.7% in September 2020.
- Inflation in transportation and communication services was at a historical high (2012 series) of 11.5% in September 2020 as compared to 11.0% in August 2020. Since April 2020, both the center and states have significantly increased taxes on petrol and diesel used for transportation, leading to a sharp increase in their prices.
- Core CPI inflation[3] remained elevated at a 23-month high of 5.5% in September 2020 mainly reflecting higher inflation in transportation services.
- Inflation in fuel and light marginally declined to 2.9% in September 2020 from 3.1% in August 2020.
- Housing-based inflation eased to an 88-month low of 3.1% in September 2020.
- On a quarterly basis, CPI inflation averaged 6.9% in 2QFY21, increasing from 6.6%[4] in 1QFY21.

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



At 7.3% in September 2020, CPI inflation continued to breach the 6% of the upper tolerance limit of the RBI's inflation target range for the sixth successive month.

Source: MoSPI, Office of the Economic Adviser, Government of India (GoI)
Note: CPI inflation and inflation in certain groups for the month of April 2020 and May 2020 have been imputed by the MoSPI[4]; Core CPI inflation has been estimated for April 2020 and May 2020 using this imputed data

WPI inflation increased to a seven-month high of 1.3% in September 2020 from 0.2% in August 2020, due to an increase in inflation in vegetables and manufactured basic metals.

- Inflation in vegetables surged to an eight-month high of 36.5% in September 2020 from 7.0% in August 2020. WPI food index-based inflation increased to a seven-month high of 6.9% in September 2020.
- The pace of contraction in price of fuel and power eased to six-month low of (-)9.5% in September 2020 which was the sixth successive month of contraction in fuel and power prices.
- Inflation in basic manufactured metals increased to a 20-month high of 3.4% in September 2020 from 1.8% in August 2020.
- Core WPI inflation increased to a 16-month high of 1.1% in September 2020 from 0.6% in August 2020 due to rising prices of manufactured basic metals.

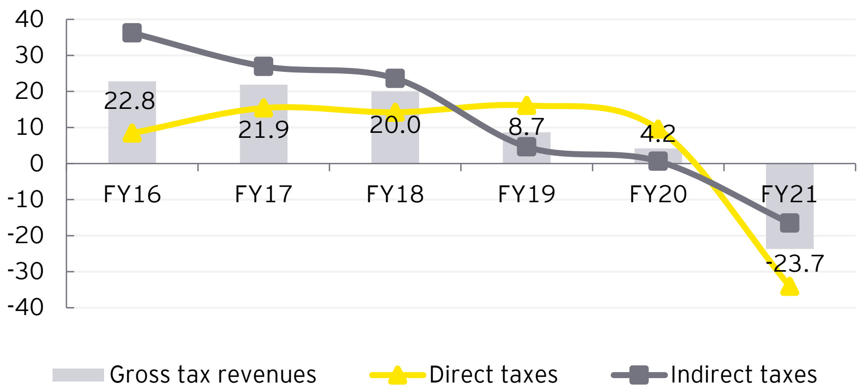
[3] Core CPI inflation is measured in different ways by different organizations/agencies. Here, it has been calculated by excluding food, and fuel and light from the overall index.
[4] http://www.mospi.gov.in/sites/default/files/press_release/CPI%20Technical%20Note%20on%20Imputation.pdf

3. Fiscal performance: center's gross tax revenues during Apr-Aug FY21 contracted by (-)23.7%

A. Tax and non-tax revenues

- As per the Comptroller General of Accounts (CGA)[5], gross central taxes during April-August FY21 contracted by (-)23.7% as compared to a growth of 4.2% during April-August FY20 (**Chart 3**). Both direct and indirect taxes contracted on a y-o-y basis during the first five months of FY21.
- As a proportion of the annual budgeted target, gross taxes during April-August FY21 stood at 20.8% as compared to 26.8% in April-August FY20.
- Direct tax revenues contracted by (-)34.1% during April-August FY21 as compared to a growth of 9.6% in the corresponding period of FY20.
- Corporate income tax (CIT) revenues contracted by (-)41.8% during April-August FY21 as compared to a growth of 4.6% in the corresponding period of FY20.
- There was a contraction of (-)28.9% in personal income tax (PIT) revenues during April-August FY21 as compared to a growth of 13.2% during the corresponding period of the previous year.
- Indirect taxes (comprising union excise duties, service tax, customs duty, CGST, UTGST, IGST[6] and GST compensation cess) showed a contraction of (-)16.5% during April-August FY21 as compared to a growth of 0.6% during the corresponding period of the previous year.

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



As per the CGA, center's gross taxes contracted by (-)23.7% during April-August FY21 as compared to a growth of 4.2% in the corresponding period of FY20.

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

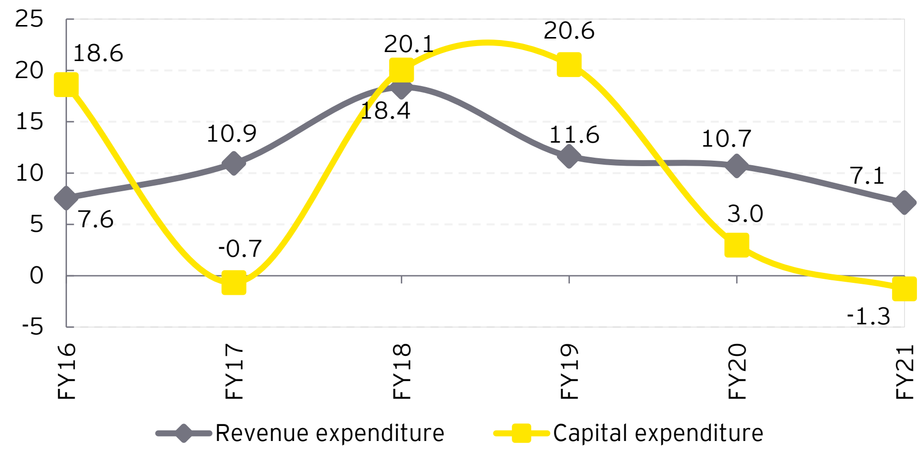
- Center's non-tax revenues showed a contraction of (-)56.6% during April-August FY21 as compared to a growth of 102.0% in the corresponding period of the previous year. The surplus transferred by the RBI to the central government for this year amounts to INR57,128 crores as compared to INR1,75,987 crores last year[7].
- As a proportion of the annual budgeted target, non-tax revenues during April-August FY21 stood at 22.4% as compared to 63.4% during April-August FY20.
- As per the Department of Disinvestment, disinvestment receipts stood at INR6,138.48 crores as on 22 October 2020, that is, 2.9% of the annual budgeted target of INR2,10,000 crores.

[5] Monthly accounts for August 2020 released on 30 September 2020
[6] IGST revenues are subject to final settlement
[7] RBI Annual Report 2019-20; https://rbidocs.rbi.org.in/rdocs/AnnualReport/PDFs/0RBIAR201920DA64F97C6E7B48848E6DEA06D531BADF.PDF

B. Expenditures: revenue and capital

- Center's total expenditure during April-August FY21 grew by 6.2% as compared to 9.8% during the corresponding period of FY20.
- Revenue expenditure grew by 7.1% during April-August FY21, lower than 10.7% during the corresponding period of FY20 (**Chart 4**).
- After showing a growth of 3.9% up to July 2020, center's capital expenditure showed a contraction of (-)1.3% during April-August FY21. In the corresponding period of FY20, there was a growth of 3.0% in center's capital expenditure.

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



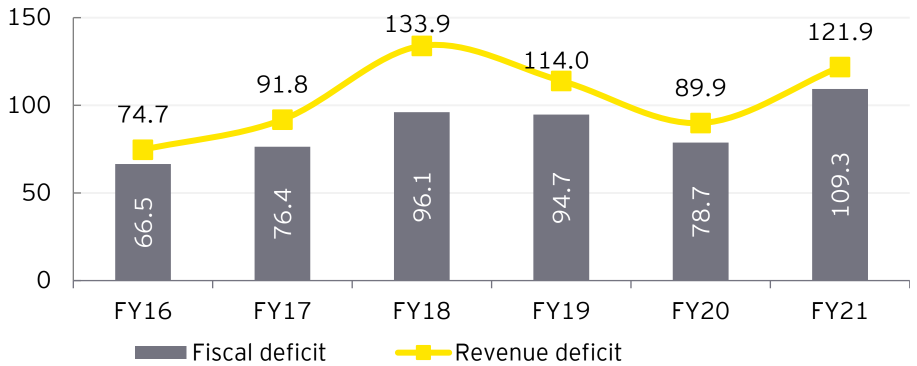
During April-August FY21, center's capital expenditure contracted by (-)1.3%. Growth in revenue expenditure at 7.1% was also lower as compared to that in the corresponding period of FY20.

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

C. Fiscal imbalance

- Center's fiscal deficit during April-August FY21 stood at 109.3% of the annual budgeted target as compared to 78.7% during the corresponding period of FY20 (**Chart 5**).
- Center's revenue deficit during the first five months of FY21 stood at 121.9% of the annual budgeted target as compared to 89.9% in the corresponding period of FY20.

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



During April-August FY21, center's fiscal deficit stood at 109.3% of the annual budgeted target while the corresponding number for revenue deficit was 121.9%.

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

4. India in comparative perspective: government revenues projected to fall to 18% of GDP in 2020

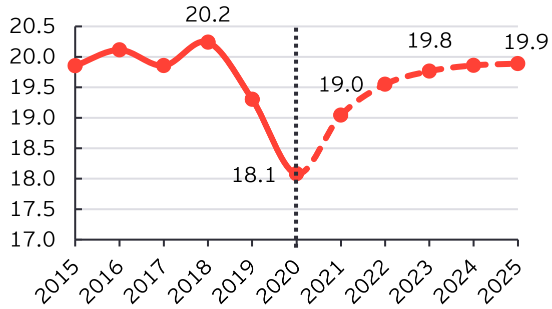
General government revenues as percentage of GDP

Table 1: General government revenues as % of GDP

	2019	2020	2021	2022	2023	2024	2025
AEs	**35.4**	**34.5**	**35.0**	**35.7**	**35.9**	**35.9**	**35.9**
US	29.4	28.5	28.8	30.0	30.3	30.3	30.4
UK	36.4	36.6	36.4	36.4	37.1	37.6	38.2
Euro area	46.4	45.6	46.2	46.3	46.2	46.0	45.8
Japan	34.4	34.0	33.9	34.4	34.6	34.7	34.8
EMDEs	**26.3**	**23.5**	**24.3**	**24.5**	**24.5**	**24.5**	**24.5**
Brazil	31.8	28.0	29.8	30.7	30.7	30.4	30.2
Russia	35.5	32.0	32.6	33.1	33.4	33.5	33.4
India	19.3	18.1	19.0	19.5	19.8	19.9	19.9
China	27.7	24.4	25.0	25.0	25.0	25.0	25.0
S. Africa	29.1	27.0	26.9	28.4	29.0	29.3	29.5

Source (basic data): IMF World Economic Outlook, October 2020
*data pertains to fiscal year; actuals for 2019 and projections from 2020 onwards

Chart 6: India's general government revenues to GDP ratio (%)



- Due to the COVID-19 pandemic, there has been a sharp slowdown in economic activity. In 2020, the real and nominal GDP growth in nearly all countries is expected to fall, with many countries witnessing a contraction at least in real terms. Consequently, government revenues in almost all countries is expected to fall in 2020.
- General government revenues as a proportion of GDP is projected to fall in all major economies of the world in 2020 relative to 2019 with the exception of the UK. The fall in this ratio is forecasted to be sharper for EMDEs relative to AEs. After 2020, while general government revenues to GDP ratio is expected to recover to close to 2019 levels by 2025 for AEs, it is expected to languish in case of EMDEs.
- For India, general government revenues relative to GDP has been the lowest as compared to other major economies, averaging nearly 20% during 2015 (FY16) to 2019 (FY20). This ratio is expected to fall to 18.1% in 2020 (FY21), the lowest since 2002 (FY03) when it was at 17.7%.

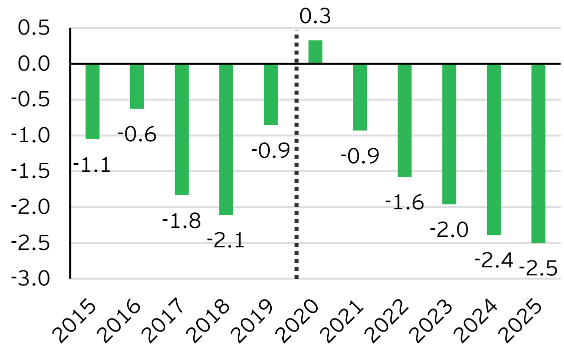
Current account balance (CAB) as percentage of GDP

Table 2: CAB as % of GDP

	2019	2020	2021	2022	2023	2024	2025
AEs	**0.7**	**0.5**	**0.6**	**0.6**	**0.6**	**0.7**	**0.7**
US	-2.2	-2.1	-2.1	-2.1	-2.1	-2.0	-2.0
UK	-4.0	-2.0	-3.8	-3.6	-3.5	-3.4	-3.3
Euro area	2.7	1.9	2.4	2.5	2.5	2.6	2.5
Japan	3.6	2.9	3.2	3.0	3.0	3.0	3.1
EMDEs	**0.2**	**-0.1**	**-0.4**	**-0.3**	**-0.3**	**-0.4**	**-0.4**
Brazil	-2.8	0.3	0.0	0.0	-0.2	-0.5	-0.7
Russia	3.8	1.2	1.8	2.1	2.0	2.0	1.8
India	-0.9	0.3	-0.9	-1.6	-2.0	-2.4	-2.5
China	1.0	1.3	0.7	0.6	0.6	0.6	0.5
S. Africa	-3.0	-1.6	-1.8	-1.8	-2.0	-2.3	-2.4

Source (basic data): IMF World Economic Outlook, October 2020
*data pertains to fiscal year; actuals for 2019 and projections from 2020 onwards
Note: +ve indicates surplus and -ve indicates deficit

Chart 7: India's CAB (% to GDP)



- Reflecting weak external environment, current account surpluses and deficits relative to GDP are projected to shrink for all selected AEs in 2020. Post 2020, current account surplus to GDP ratio for AEs as a group is expected to increase to a level close to that in 2019, with some country-specific variations.
- Among EMDEs, current account surplus is expected to narrow to 1.2% of GDP in 2020 in Russia and remain close to 2% thereafter. For China, a modest increase in current account surplus is projected for 2020.
- Reflecting weakness in domestic demand and/or lower global crude prices, CAD is projected to decrease for South Africa and a small surplus is projected for Brazil and India in 2020. In India, the current account surplus of 0.3% of GDP is projected for 2020. A surplus of 2.3% of GDP was last witnessed way back in 2003 (FY04).
- In many countries, the improvement in CAB is also expected to result from a drop in the denominator (GDP), reflecting a sharp decline in economic activity in 2020.

5. In focus: growth prospects and stimulus packages - India's policy constraints

Introduction

The IMF's recently released World Economic Outlook highlights differential growth prospects in 2020 for different countries, bringing out two sets of countries impacted by the pandemic. In the first set are the countries likely to experience GDP contraction at different rates while the second set contains countries that are likely to experience growth in spite of the pandemic. A good number of countries in the second set are from Asia including some of India's neighbors.

India has recently shown very high levels of fiscal deficit and inflation rates which are indicative of the policy initiatives. In spite of these initiatives, India is projected to show one of the highest rates of GDP contraction in FY21. It is therefore worth examining the features of the Indian economy and economic policy to understand this contradictory outcome[8]. In fact, India had emerged as one of the best performers in the 2008 global economic and financial crisis. But the current outcomes indicate that India might emerge as one of the worst performers in economic terms in the 2020 crisis. In this review, it is argued that this turnaround in the comparative performance can be explained by the differences in the economic situation preceding the crisis year.

Growth prospects: the pandemic year and beyond

Table 3 shows growth prospects of selected countries and country groups in 2020. With the exception of nine countries, where positive growth is being assessed by the IMF for 2020, all the remaining countries show a contraction. All the major country groups also show a contraction. The Euro area among the country groups shows the highest contraction at (-)8.3%. The emerging market and developing economies (EMDEs) group shows a relatively lower contraction of (-)3.3%. The world economy as a whole is predicted to contract by (-)4.4%.

Table 3: Real GDP growth including projections (%, y-o-y): cross country comparison

#	Country	2018	2019	2020	2021	2022	#	Country	2018	2019	2020	2021	2022
1	Argentina	-2.6	-2.1	-11.8	4.9	2.5	23	Venezuela	-19.6	-35.0	-25.0	-10.0	-5.0
2	Australia	2.8	1.8	-4.2	3.0	2.8	24	Hong Kong	2.8	-1.2	-7.5	3.7	3.4
3	Brazil	1.3	1.1	-5.8	2.8	2.3	25	Malaysia	4.8	4.3	-6.0	7.8	6.0
4	Canada	2.0	1.7	-7.1	5.2	3.4	26	Philippines	6.3	6.0	-8.3	7.4	6.4
5	China	6.7	6.1	1.9	8.2	5.8	27	Singapore	3.4	0.7	-6.0	5.0	2.6
6	France	1.8	1.5	-9.8	6.0	2.9	28	Sri Lanka	3.3	2.3	-4.6	5.3	5.0
7	Germany	1.3	0.6	-6.0	4.2	3.1	29	Thailand	4.2	2.4	-7.1	4.0	4.4
8	India*	6.1	4.2	-10.3	8.8	8.0	30	UAE	1.2	1.7	-6.6	1.3	2.2
9	Indonesia	5.2	5.0	-1.5	6.1	5.3	31	Israel	3.5	3.4	-5.9	4.9	4.6
10	Italy	0.8	0.3	-10.6	5.2	2.6	32	Bangladesh	7.9	8.2	3.8	4.4	7.9
11	Japan	0.3	0.7	-5.3	2.3	1.7	33	Bhutan	3.8	3.8	0.6	-0.5	5.8
12	Korea	2.9	2.0	-1.9	2.9	3.1	34	Egypt	5.3	5.6	3.5	2.8	5.0
13	Mexico	2.2	-0.3	-9.0	3.5	2.3	35	Ethiopia	7.7	9.0	1.9	0.0	8.9
14	Russia	2.5	1.3	-4.1	2.8	2.3	36	Kenya	6.3	5.4	1.0	4.7	6.0
15	Saudi Arabia	2.4	0.3	-5.4	3.1	3.4	37	Myanmar	6.4	6.5	2.0	5.7	6.2
16	South Africa	0.8	0.2	-8.0	3.0	1.5	38	Nepal	6.7	7.1	0.0	2.5	6.0
17	Turkey	3.0	0.9	-5.0	5.0	4.0	39	South Sudan	-1.9	0.9	4.1	-2.3	0.8
18	UK	1.3	1.5	-9.8	5.9	3.2	40	Vietnam	7.1	7.0	1.6	6.7	7.4
19	US	3.0	2.2	-4.3	3.1	2.9		**AEs**	**2.2**	**1.7**	**-5.8**	**3.9**	**2.9**
20	Chile	4.0	1.1	-6.0	4.5	3.2		**Euro area**	**1.8**	**1.3**	**-8.3**	**5.2**	**3.1**
21	Colombia	2.5	3.3	-8.2	4.0	3.7		**EMDEs**	**4.5**	**3.7**	**-3.3**	**6.0**	**5.1**
22	Peru	4.0	2.2	-13.9	7.3	5.0		**World**	**3.5**	**2.8**	**-4.4**	**5.2**	**4.2**

Source (basic data): IMF
*Data for India pertains to fiscal year; Note: actuals for 2018 and 2019 and projections for 2020 and beyond

There are five countries among those depicted in Table 3, where contraction is predicted to be more than (-)10.0% in 2020. These include Argentina, India, Italy, Peru and Venezuela. While Argentina, Peru, Italy and Venezuela have often experienced severe economic crisis, India has joined these countries for the first time. Among Asian economies, Bangladesh appears to have out-performed most others during the pandemic year, the years preceding it (2018 and 2019) and the years succeeding it (2021 and 2022). This differential in

[8] It may be noted that the IMF forecasts pertaining to other countries relate to the calendar year whereas for India, 2020 implies April 2020 to March 2021 (fiscal year FY21). India witnessed the worst part of COVID-19 in the quarter from April to June 2020. In the calendar year in other countries, except China, the first quarter (January to March 2020) performance was near-normal and it was not excessively affected by COVID-19.

comparative performance may be explained by the respective size of stimulus packages announced by different countries, differences in pre-crisis economic conditions, and other country-specific factors.

Stimulus packages: fiscal

Most of the countries have responded to the COVID-19 crisis by introducing sizable fiscal stimulus. Table 4 depicts the general government net lending/borrowing, which is indicative of fiscal deficit relative to GDP of different economies. Fiscal deficit (net borrowing) is shown by a negative sign while a surplus (net lending) is indicated by a positive sign in this table.

Our analysis is focused on the 22 countries[9] depicted in Table 4. For analyzing the magnitudes of fiscal stimulus in different economies in 2020, we have categorized these 22 countries in three groups. These are **Group A** consisting of countries with fiscal deficit relative to GDP of 0 to (-)10%, **Group B** consisting of countries with fiscal deficit of (-)10 to (-)15%, and **Group C** comprising countries with fiscal deficit of above (-)15%. Group A includes Indonesia, Malaysia, Bangladesh and Turkey. Only one developed country namely, Germany is included in this group. Germany is characterized by a fiscal surplus in three out of the five years under review. It appears to be the most fiscally prudent country in the world. In group B, several large countries are included. This group includes France, Argentina, China, Italy, India and Japan. Both China and India are expected to show historically unprecedented levels of fiscal deficit relative GDP in 2020 at (-)11.9% and (-)13.1%, respectively. In the next two years also, fiscal deficit for these two countries is predicted to be above (-)10% of GDP.

Table 4: General government net lending/borrowing (% to GDP)

Group	#	Country	2018	2019	2020	2021	2022
A	1	Korea	2.6	0.4	-3.2	-2.3	-2.7
	2	Russia	2.9	1.9	-5.3	-2.6	-1.0
	3	Mexico	-2.2	-2.3	-5.8	-3.4	-2.6
	4	Vietnam	-1.0	-3.3	-6.0	-5.2	-4.5
	5	Indonesia	-1.8	-2.2	-6.3	-5.5	-4.0
	6	Malaysia	-3.3	-3.7	-6.5	-4.7	-3.6
	7	Bangladesh	-4.6	-5.4	-6.8	-6.1	-5.5
	8	Turkey	-3.7	-5.6	-7.9	-7.9	-8.1
	9	Germany	1.8	1.5	-8.2	-3.2	0.6
B	10	Australia	-1.2	-3.9	-10.1	-10.5	-6.2
	11	Saudi Arabia	-5.9	-4.5	-10.6	-6.0	-4.0
	12	France	-2.3	-3.0	-10.8	-6.5	-5.3
	13	Argentina	-5.5	-4.5	-11.4	NA	NA
	14	China	-4.7	-6.3	-11.9	-11.8	-10.9
	15	Italy	-2.2	-1.6	-13.0	-6.2	-3.9
	16	India*	-6.3	-8.2	-13.1	-10.9	-10.0
	17	South Africa	-4.1	-6.3	-14.0	-11.1	-7.9
	18	Japan	-2.5	-3.3	-14.2	-6.4	-3.2
C	19	UK	-2.3	-2.2	-16.5	-9.2	-7.1
	20	Brazil	-7.2	-6.0	-16.8	-6.5	-5.6
	21	US	-5.8	-6.3	-18.7	-8.7	-6.5
	22	Canada	-0.4	-0.3	-19.9	-8.7	-5.4

Source (basic data): IMF
*Data for India pertains to fiscal year; Note: actuals for 2018 and 2019 and projections for 2020 and beyond

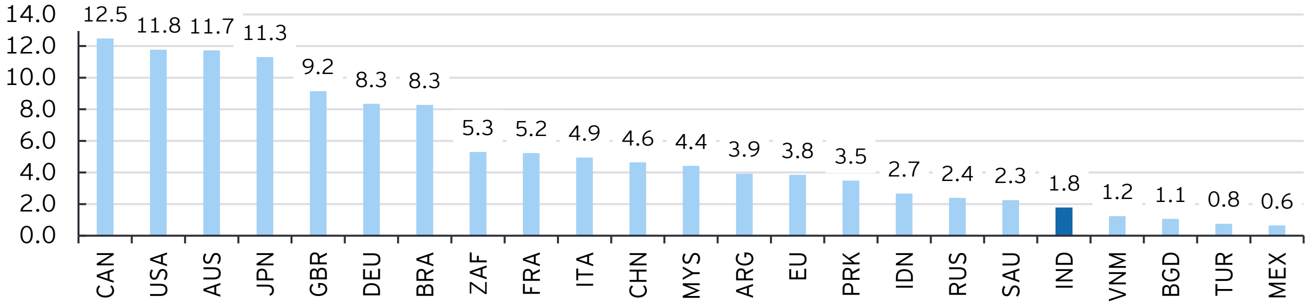
In group C, there are four countries where policymakers have not fought shy of increasing their fiscal deficits to levels higher than (-)15% in 2020. These countries are the UK, Brazil, the US and Canada. However, in Group C countries, the predicted fiscal deficit in the next two years falls below (-)10%. In other words, some of these countries have decided to concentrate their fiscal support to the economy primarily in 2020. Their fiscal deficits, prior to 2020, are also comparatively low. This is a choice that India also faces, i.e., whether to further increase its fiscal deficit in 2020 and thereby reduce the contractionary growth impact or spread this effort out in the next few years.

[9] List of countries include Argentina (ARG), Australia (AUS), Bangladesh (BGD), Brazil (BRA), Canada (CAN), China (CHN), France (FRA), Germany (DEU), India (IND), Indonesia (IDN), Italy (ITA), Japan (JPN), Korea (PRK), Malaysia (MYS), Mexico (MEX), Russia (RUS), Saudi Arabia (SAU), South Africa (ZAF), Turkey (TUR), the United Kingdom (GBR), the United States (USA) and Vietnam (VNM).

While Table 4 includes projected fiscal deficit levels for the full years (calendar/fiscal), a more directly relevant indicator of fiscal support to deal with the pandemic relates to stimulus measures announced up to September 2020. These measures include additional spending relative to the budgeted expenditures as also the quantified value of tax cuts, if any. A comparative picture as shown in Chart 8 indicates that for India, in spite of the high level of fiscal deficit expected for 2020 (FY21) as given in Table 4, the direct fiscal stimulus so far in the fiscal year is relatively quite low at 1.8% of GDP. This is because a significant portion of the expected increase in fiscal deficit would go towards making up for the revenue shortfall in FY21.

The highest fiscal stimulus at 12.5% of GDP is for Canada, followed by the US at 11.8%, Australia at 11.7%, Japan at 11.3%, and the UK at 9.2% of GDP (Chart 8). Most European countries have taken substantially large fiscal stimulus measures. China's fiscal stimulus at 4.6% of GDP is more than 250% than that of India. Bangladesh is exceptional in the sense that with a limited fiscal stimulus of 1.1% of GDP, it is able to show a positive growth in 2020.

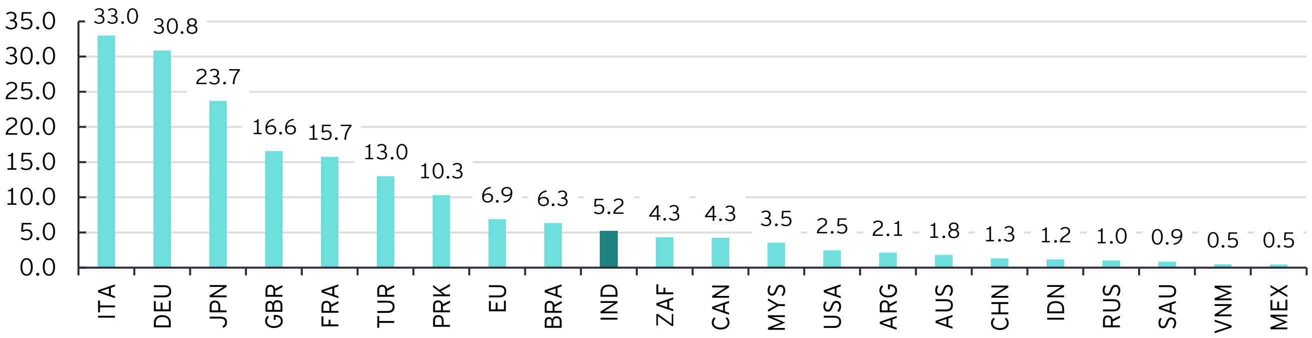
Chart 8: Direct fiscal stimulus (additional spending and foregone revenue) as a proportion of GDP: cross-country comparison



Source (basic data): IMF
Note: incorporates fiscal measures announced up to 11 September 2020

The IMF also considers some fiscal measures that are undertaken to support liquidity in the system. Liquidity support includes a) below the line measures which include equity injections, loans, asset purchase or debt assumptions, b) government guarantee to banks, firms, or households and c) quasi-fiscal operations such as non-commercial activity of public corporations on behalf of the government. Below the line measures generally involve the creation of assets. These measures may have little or no upfront impact on the fiscal deficit unless they have a concessional component, but they can increase debt. Government guarantees usually have no immediate upfront cost in the form of deficit or debt unless the expected cost is budgeted, but they create a contingent liability, with the government exposed to future calls on guarantees.

Chart 9: Liquidity support as % to GDP: cross-country comparison



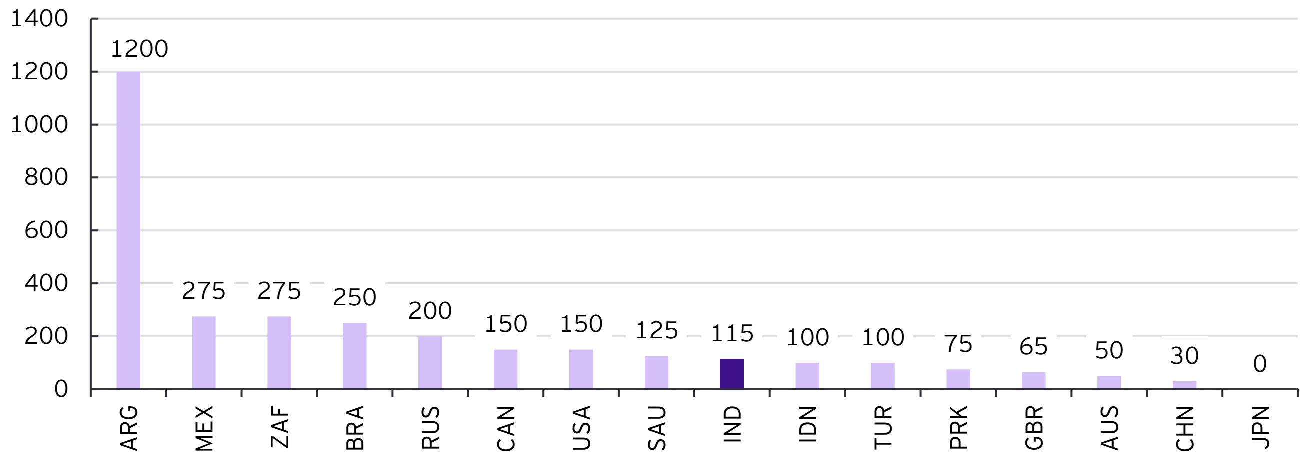
Source (basic data): IMF

The quantified values as percentage of GDP of these liquidity support measures are summarized in Chart 9 for different countries. The leading country in this respect is Italy, followed by Germany, Japan and the UK. India's position is somewhere in the middle, with its liquidity support measures amounting to 5.2% of GDP. This is much less than the corresponding magnitudes relative to GDP for some of the developed countries.

Stimulus packages: monetary

In Chart 10, we have given a comparative picture of the relative strength of the monetary stimulus initiated by these countries in terms of the magnitude of the cumulated policy rate cuts since 31 January 2020 up to 1 October 2020. In India's case, the policy rate reduction during this period amounts to 115 basis points. In contrast, quite a number of other countries have relied relatively more on the monetary stimulus measures. Some of the Latin American countries are notable in this respect. For example, Argentina has implemented a rate cut of 1200 basis points, Mexico, 275 basis points, and Brazil, 250 basis points. Some of the developed and developing countries have also been bolder with respect to policy rate cuts. Canada and the US have implemented rate cuts of 150 basis points each. South Africa and Russia have implemented rate cuts of 275 and 200 basis points, respectively.

Chart 10: monetary stimulus - cumulative policy rate cuts from 31 January to 1 October 2020 (basis points)



Source (basic data): BIS
Note: The chart incorporates rate cuts announced up to 1 October 2020

Inflation prospects

A relatively higher inflation is the expected cost of monetary stimulus particularly if an economy is characterized by supply-side constraints. The IMF assessed the CPI inflation of 4.9% in 2020 (FY21) for India, which is somewhat lower than the RBI's assessment at 5.85%[10] in FY21. With the exception of Bangladesh and Turkey, India's expected CPI inflation even on the basis of IMF's assessment is the highest amongst the countries included in Table 5. Thus, in spite of its willingness to bear a relatively higher inflation cost, India's growth prospects, both in real and nominal terms appear to be challenging.

Table 5: CPI based inflation rate (%)

Country	2018	2019	2020	2021	2022
Malaysia	1.0	0.7	-1.1	2.4	1.9
Japan	1.0	0.5	-0.1	0.3	0.7
Italy	1.2	0.6	0.1	0.6	0.9
France	2.1	1.3	0.5	0.6	1.0
Germany	2.0	1.3	0.5	1.1	1.3
South Korea	1.5	0.4	0.5	0.9	1.1
Canada	2.3	1.9	0.6	1.3	1.6
Australia	1.9	1.6	0.7	1.3	1.5
United Kingdom	2.5	1.8	0.8	1.2	1.7
United States	2.4	1.8	1.5	2.8	2.1
Indonesia	3.3	2.8	2.1	1.6	2.5
Brazil	3.7	3.7	2.7	2.9	3.1

[10] The CPI inflation averaged 6.7% in 1HFY21. This utilizes imputed CPI inflation rates for April and May 2020 as provided by the MoSPI. Combining the CPI inflation in 1HFY21 with the average CPI inflation projected at 4.95% (range of 4.5% to 5.4%) by the RBI, we get an expected annual CPI inflation of 5.85% for FY21.

Country	2018	2019	2020	2021	2022
China	2.1	2.9	2.9	2.7	2.6
Russia	2.9	4.5	3.2	3.2	3.2
South Africa	4.6	4.1	3.3	3.9	4.3
Mexico	4.9	3.6	3.4	3.3	3.0
Saudi Arabia	2.4	-2.1	3.6	3.7	2.0
Vietnam	3.5	2.8	3.8	4.0	4.0
India*	3.4	4.8	4.9	3.7	3.8
Bangladesh	5.8	5.5	5.6	5.9	5.5
Turkey	16.3	15.2	11.9	11.9	11.4
Argentina	34.3	53.5	NA	NA	NA

Source (Basic data): IMF
*pertains to fiscal year; Note: actuals for 2018 and 2019 and projections for 2020 and beyond

Since CPI inflation does not directly reflect the impact on nominal GDP growth, we have also looked at the inflation prospects in terms of GDP deflator-based inflation. These numbers are given in Table 6 based on IMF's data. In India's case, the GDP deflator-based inflation is shown at 4.4% in 2020 (FY21). Juxtaposing this to IMF's forecasted real GDP growth of (-)10.3%, the implied nominal GDP shows a contraction of (-)6.3%[11] in FY21. With the nominal growth contracting so sharply, a contraction in tax revenues for both the central and state governments is highly likely. For the first five months of FY21, that is, during April to August 2020, the central government's gross tax revenues have shown a contraction of (-)23.7%. This revenue shortfall is likely to absorb a substantial part of government borrowing if budgeted expenditures are to be maintained. This is the reason why despite the exceptionally large fiscal deficit that India is likely to incur in FY21, its translation into net additional spending over and above the budgeted amounts, is very small.

Table 6: GDP deflator-based inflation rate (%)

Country	2018	2019	2020	2021	2022
Saudi Arabia	11.5	0.5	-9.2	4.8	2.2
Russia	11.1	3.8	-0.8	4.6	3.3
Malaysia	0.7	0.1	-0.8	2.5	1.9
Japan	-0.1	0.6	0.3	0.3	0.3
Canada	1.8	1.9	0.8	2.5	1.7
Korea	0.5	-0.9	0.9	0.9	1.4
China	3.5	2.4	1.1	1.7	2.1
Italy	0.9	0.9	1.2	0.9	0.9
United States	2.4	1.8	1.4	2.2	1.8
Australia	2.2	3.1	1.4	0.3	1.1
France	1.0	1.2	2.0	0.3	1.0
Germany	1.7	2.2	2.0	1.9	1.4
Indonesia	3.8	1.6	2.1	1.6	2.5
Vietnam	3.8	2.2	2.5	3.4	3.5
United Kingdom	2.1	1.9	2.9	-0.1	2.0
Mexico	4.9	3.3	3.0	2.9	3.2
Brazil	3.3	4.2	3.4	3.3	4.1
South Africa	3.9	4.0	3.4	3.9	4.3
India*	4.6	2.9	4.4	3.0	3.7
Bangladesh	5.6	4.5	5.1	5.9	5.4
Turkey	16.5	13.9	9.4	5.9	11.4
Argentina	40.0	50.6	42.5	47.0	40.8

Source (Basic data): IMF WEO database, October 2020
*Pertains to fiscal year; Note: actuals for 2018 and 2019 and projections for 2020 and beyond

[11] IMF has provided this forecast for nominal GDP growth which is consistent with the real GDP growth and GDP deflator-based inflation after taking into account, the interaction term.

Conclusion: a comparison between the FY09 and FY21 crises

In order to draw a perspective of the current challenges being faced by the Indian economy, it may be useful to compare the pre-crisis situation with respect to FY09 and FY21 using a selected set of important macroeconomic parameters. For this purpose, we have looked at three fiscal years prior to the FY09 crisis and the FY21 crisis. It is argued here that the extremely challenging situation of the Indian economy in FY21 has arisen largely due to the weak position of the economy before we entered into the COVID-19 crisis. Thus, the real GDP growth during FY06 to FY08 averaged 7.9%, which was close to the highest level recorded historically over a continuous period of three years[12]. In contrast, the average growth in the three years preceding FY21 was 5.8%. In FY20, in fact, it was much lower at 4.2%. Similarly, for other important parameters also, the situation preceding FY09 crisis was much better than that preceding the FY21 crisis. In the last row of Table 7, these differences are highlighted.

The average saving and investment rates were lower by 5.6% points and 5.4% points, respectively, in the three-year period preceding FY21 as compared to the three-year period preceding FY09. The GDP-deflator-based inflation was lower by 3.2% points and export growth in real terms was lower by 13.0% points. Due to these reasons, India emerged as one of the few countries showing positive real GDP growth in FY09. With economic strength characterizing the initial conditions, India was able to undertake effective stimulus measures at that time. It may be particularly noted that the growth in combined tax revenues of central and state governments considered together was 13.3% points lower in the three-year period preceding FY21 than that in the three years preceding FY09. In fact, tax revenues had contracted in FY20. This explains why fiscal stimulus has remained so weak in 2020 so far.

Table 7: India - FY09 and FY21: comparing pre-crisis critical macro parameters

Year	Real GDP growth	Savings rate	Investment rate	Combined Fiscal deficit	Combined tax revenues	GDP deflator-based inflation rate	Exports of goods and services
	% ann.	% of GDP			% ann.		
FY06	7.9	35.2	34.7	7.4	18.9	5.6	26.1
FY07	8.1	34.9	35.7	6.3	25.4	8.4	20.4
FY08	7.7	37.8	42	4.5	18.1	6.9	5.9
FY09	**3.1**	**36**	**38.4**	**9.0**	**5.2**	**9.2**	**14.8**
3-year average before FY09 (I)	**7.9**	**36.0**	**37.5**	**6.1**	**20.8**	**7.0**	**17.5**
FY18	7.0	32.4	34.2	6.4	14.6	3.8	4.6
FY19	6.1	30.1	32.2	6.3	10.1	4.6	12.3
FY20	4.2	28.7	29.7	8.2	-2.3	2.9	-3.6
FY21	-10.3	--	--	13.1	--	4.4	--
3-year average before FY21 (II)	**5.8**	**30.4**	**32.0**	**7.0**	**7.5**	**3.8**	**4.4**
Difference (II-I) (% point)	**-2.1**	**-5.6**	**-5.4**	**0.9**	**-13.3**	**-3.2**	**-13.0**

Source (basic data): IMF, CSO, IPFS, RBI, CAG, CGA and union budget documents;
Notes: (1) FY21 numbers are taken from the IMF
(2) While estimating combined government tax revenues, central governments gross tax revenues and states' own tax revenues have been taken from the IPFS up to FY16. From FY17 to FY19, central government's gross tax revenues are taken from the union budget documents and for FY20, these are taken from the CGA. For states, their own tax revenues for FY17 and FY18 have been taken from the RBI and for FY19 and FY20, these have been estimated based on the CAG data.

The economic challenge faced by the Indian economy is significantly different from many of its counterparts. India's economic crisis in this year of the pandemic has been preceded by a steady erosion of India's saving and investment rates, its export growth and the growth rate of the tax revenues of central and state governments. These trends are required to be reversed if the Indian economy is to achieve its genuine growth potential when recovery starts after the pandemic.

[12] The average real GDP growth for the three years of FY05, FY06 and FY07 was marginally higher at 8.0%.

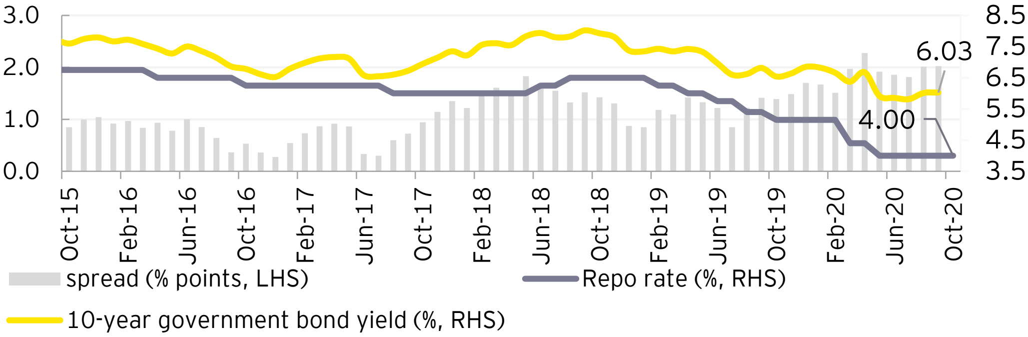
6. Money and finance: the RBI left the repo rate unchanged at 4.0% in October 2020

A. Monetary sector

Monetary policy

- In its monetary policy review held on 9 October 2020, the RBI retained the repo rate at 4.0% for the second time since May 2020 when it was lowered to 4.0% from 4.4%. The Monetary Policy Committee (MPC) anticipated the CPI inflation to remain elevated in September 2020 but ease gradually and move closer to the target of 4% over 3Q and 4Q of FY21.
- In RBI's assessment, aggregate demand may remain subdued, while excess supply conditions are expected to prevail in the food grains and horticulture sectors. Further, global crude prices are expected to be range-bound in the near term. Therefore, the MPC considered the current inflation surge as transient and therefore retained accommodative policy stance.

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



Source: Database on Indian Economy, RBI

The RBI, in its monetary policy review held on 9 October 2020, retained the repo rate at 4.0%. Consequently, the reverse repo rate was also maintained at 3.35%.

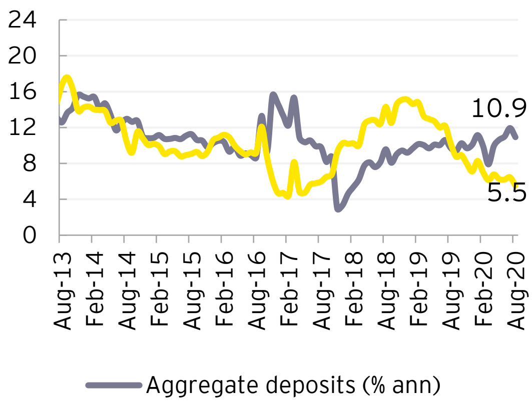
Money stock

- Growth in broad money stock (M3) fell marginally to 12.2% in September 2020 from 12.6% in August 2020. This was due to lower growth in both time deposits and narrow money (M1). Growth in time deposits fell to 10.3% in September 2020 from 10.6% in August 2020.
- Growth in narrow money (M1) was lower at 18.6% in September 2020 as compared to 19.2% in August 2020. Both currency in circulation and demand deposits grew at a relatively slower pace of 22.7% and 11.3%, respectively, in September 2020 as compared to 23.2% and 12.3%, respectively, in August 2020.

Aggregate credit and deposits

- Reflective of sustained weakness in domestic demand conditions, growth in outstanding credit by SCBs fell to 5.5% in August 2020, its lowest since May 2017 (**Chart 12**).
- Growth in non-food credit fell to a 36-month low of 6.0% in August 2020 due to a lower growth in credit to all three sectors of the economy namely, agriculture, industry and services.
- Growth in outstanding credit to industry continued to remain subdued at 0.5% in August 2020 as compared to 0.8% in July 2020. Within the industrial sector, growth in credit to infrastructure fell marginally to 1.8% in August 2020 from 1.9% in July 2020. Credit to iron and steel contracted for the second consecutive month by (-)3.5% in August 2020 as compared to (-)3.4% in July 2020.

Chart 12: Growth in credit and deposits



Source: Database on Indian Economy, RBI

- Credit growth to the services sector fell to 8.6% in August 2020 as compared to 10.1% in July 2020. Credit growth to agriculture was also lower at 4.9% in August 2020 as compared to 5.4% in July 2020.
- Growth in personal loans, a key driver of retail loans, fell to 10.6% in August 2020 from 11.2% in July 2020.
- Growth in aggregate bank deposits fell to 10.9% in August 2020 from 11.9% in July 2020.

B. Financial sector

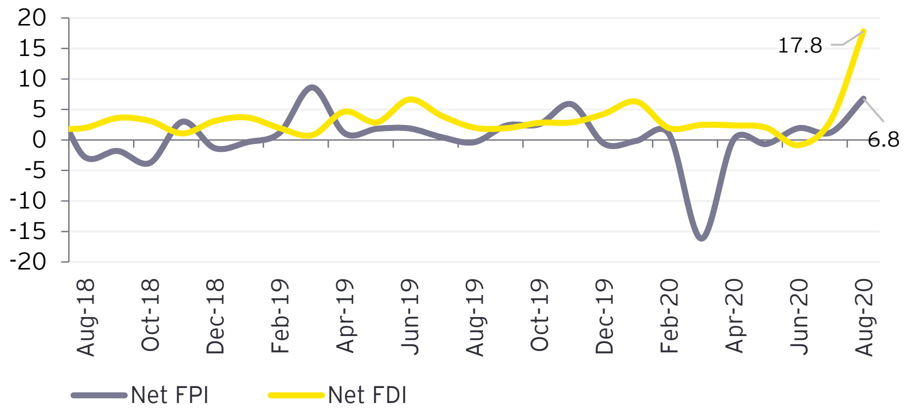
Interest rates

- As per the data released by the RBI on 13 October 2020, interest rates offered by commercial banks on term deposits with a maturity of more than one year ranged between 4.93% to 5.50% in September 2020 as compared to the range of 5.00% to 5.43% in August 2020.
- The yield on 10-year government bond averaged 6.03% in September 2020 as compared to 6.01% in August 2020. Given that there was no change in the repo rate in August 2020, the spread between benchmark bond yield and the repo rate was close to 2.0% points in August and September 2020 as compared to 1.81% points in July 2020 **(Chart 10).**
- The MCLR was nearly the same at 6.90% on average in September 2020 as compared to 6.93% in August 2020.
- WALR on fresh rupee loans by SCBs was at 8.35% in August 2020, lower by 18 basis points as compared to 8.53% in July 2020.

FDI and FPI

- As per the provisional data released by the RBI on 14 October 2020, the overall foreign investment inflows (FIIs = net FDIs plus net FPIs) were at US$24.6 billion in August 2020, the highest monthly net inflows so far, increasing from US$4.4 billion (revised) in July 2020.

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



Net FDI inflows surged to US$17.8 billion in August 2020, the highest monthly net inflow recorded so far. FPI inflows were also at a 17-month high of US$6.8 billion.

Source: Database on Indian Economy, RBI

- Net FDI inflows reached a historic high of US$17.8 billion in August 2020as compared to US$3.2 billion (revised) in July 2020 (**Chart 13**). Gross FDI inflows were also at a historic high of US$19.3 billion in August 2020 as compared to US$4.6 billion (revised) in July 2020.
- Net portfolio investment inflows (FPIs) were at a 17-month high of US$6.8 billion in August 2020.

7. Trade and CAB: growth in merchandise exports turned positive at 6% in September 2020

A. CAB: current account posted a surplus of 3.9% of GDP in 1QFY21

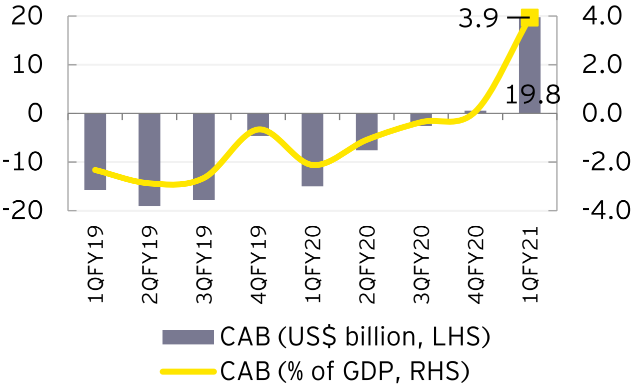
- Current account recorded a surplus of 3.9% of GDP in 1QFY21, the highest in 65 quarters **(Chart 14)** aided by lower merchandise trade deficit and higher net invisible receipts (**Table 8**). Merchandise imports relative to GDP fell to a 73-quarter low of 12.4% in 1QFY21 while merchandise exports were at 10.4% of GDP, the same level as it was in 4QFY20. Net invisible receipts improved significantly to 5.9% of GDP in 1QFY21 from 4.8% in 4QFY20. The improvement in CAB relative to GDP is partly attributable to a fall in the denominator arising from a sharp contraction in GDP in 1QFY21.

Table 8: components of CAB in US$ billion

Fiscal year	CAB as % of nominal GDP	CAB	Goods account net	Invisibles* net
FY17	-0.7	-15.3	-112.4	67.5
FY18	-1.8	-48.7	-160.0	77.6
FY19	-2.1	-57.3	-180.3	81.9
FY20	-0.9	-24.7	-157.5	84.9
2QFY20	-1.1	-7.6	-39.6	20.9
3QFY20	-0.4	-2.6	-36.0	21.9
4QFY20	0.1	0.6	-35.0	22.0
1QFY21	3.9	19.8	-10.0	20.5

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

Chart 14: CAB



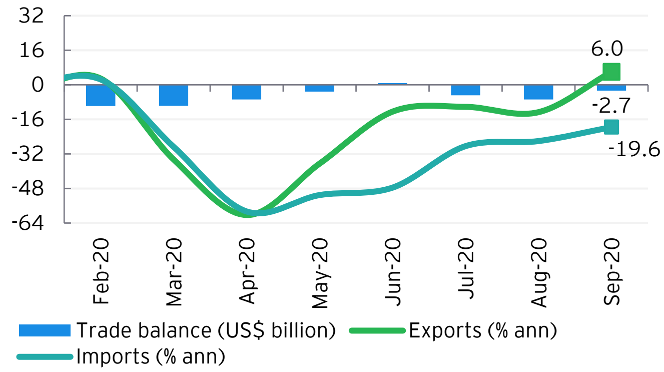
Source: Database on Indian Economy, RBI

B. Merchandise trade and exchange rate

Merchandise exports and imports grew by 6.0% and (-)19.6%, respectively, in September 2020 indicating a slow recovery in demand (Chart 15).

- Growth in exports turned positive at 6.0% in September 2020 after six successive months of contraction.

Chart 15: Developments in merchandise trade



Source: Ministry of Commerce and Industry, GoI

- Growth in oil exports turned positive at 5.1% in September 2020 after six consecutive months of contraction. Exports of engineering goods grew by 5.4% in September 2020 as compared to a contraction of (-)7.7% in August 2020.
- The pace of contraction in imports eased to a seven-month low of (-)19.6% in September 2020 from (-) 26.0% in August 2020.
- Contraction in oil imports eased to (-)35.9% in September 2020 from (-)41.6% in August 2020. Growth in imports of electronic goods turned positive at 3.5% in September 2020 after 16 successive months of contraction.
- The pace of contraction in imports excluding oil, gold and jewelry eased to a seven-month low of (-)13.3% in September 2020. Exports of this category grew by 11.9% in September 2020 as compared to (-)3.2% in August 2020 indicating a recovery of external demand.
- Out of the 30 sectors for which exports and imports data is provided, 8 and 22 sectors, respectively, experienced a contraction in September 2020 as compared to 16 and 25 sectors, respectively, in August 2020.
- Merchandise trade deficit fell to US$2.7 billion in September 2020 from US$6.8 billion in August 2020.
- The rupee appreciated to INR73.5 per US$ (average) in September 2020 from INR74.7 per US$ (average) in August 2020, largely due to higher net foreign investment inflows.

8. Global growth: IMF projected a global contraction of (-)4.4% in 2020

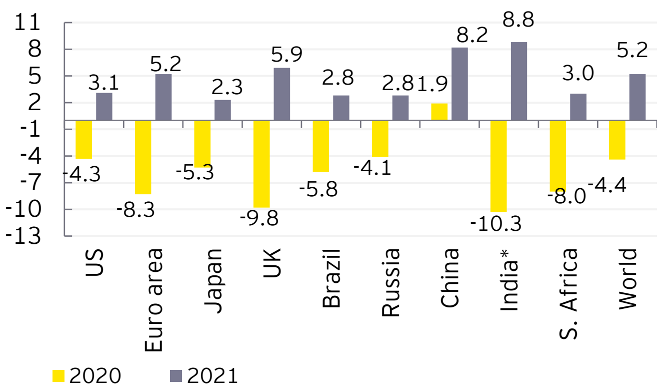
A. Global growth outlook

- The IMF (World Economic Outlook, October 2020) projected the global GDP to contract by (-)4.4% in 2020, an upward revision of 0.8% points from the June 2020 WEO update. This largely reflects upward revisions in growth projections for advanced economies (AEs) and China on account of better than expected growth outcomes in the second quarter of 2020.
- The IMF expects a recovery in the third quarter of 2020, strengthening gradually over 2021. Global growth is projected at 5.2% in 2021. Following the contraction in 2020 and recovery in 2021, the level of global GDP in 2021 is expected to be only 0.6% above that of 2019.
- AEs are projected to contract by (-)5.8% while emerging market and developing economies (EMDEs) are projected to contract by (-)3.3% in 2020. In 2021, growth is projected at 3.9% for AEs and at 6.0% for EMDEs.

The IMF projected a global contraction of (-)4.4% in 2020, an upward revision of 0.8% points from the June 2020 forecasts.

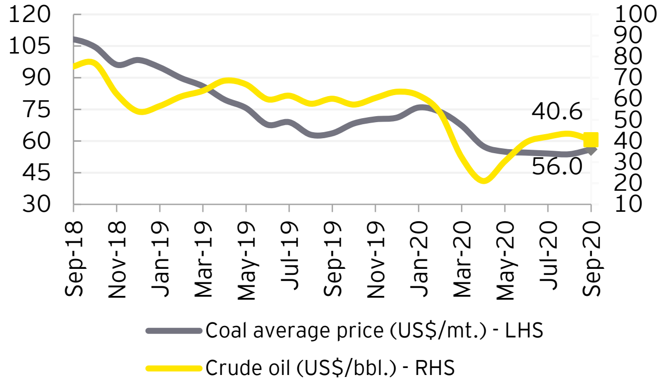
- Among AEs, a contraction of (-)8.3% is projected for the Euro area in 2020, driven by sharp contractions of (-)12.8% and (-)10.6% for Spain and Italy, respectively. Contraction in the US is projected to be relatively lower at (-)4.3% in 2020. Accordingly, in the Euro area, the growth bounce back to 5.2% in 2021 is expected to be stronger from a lower base.
- Amongst selected EMDEs, the highest contraction in 2020 is projected for India at (-)10.3%, followed by South Africa at (-)8.0% and Russia at (-)4.1%. China is the only economy which is projected to show a growth of 1.9% in 2020. In China, lockdowns eased in April 2020 and increased public investment enabled a positive growth in the second quarter of 2020. In 2021, growth for India is projected at 8.8%, followed by 8.2% for China.

Chart 16: Global growth projections



Source: IMF World Economic Outlook, October 2020
* Data pertains to fiscal year

Chart 17: Global crude and coal prices



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

B. Global energy prices: the IMF projected global crude oil price at US$41.0/bbl. in 2020

- After increasing for four consecutive months, average global crude price[13] fell to US$40.6/bbl. in September 2020 from US$43.4/bbl. in August 2020 (**Chart 17**). This could be attributed to weak global demand due to a resurgence of COVID-19 cases in many European countries[14]. The IMF projected the average global crude price at US$41/bbl. in 2020 and US$43.8/bbl. in 2021.
- After falling for seven successive months, the average global coal price[15] increased to US$56.0/mt. in September 2020 from US$53.8/mt. in August 2020 on the back of an expected easing of China's import restrictions and a recovery of automotive production. Downside risks to global coal prices remain from the second wave of COVID-19 and China's final decision on import quotas[16].

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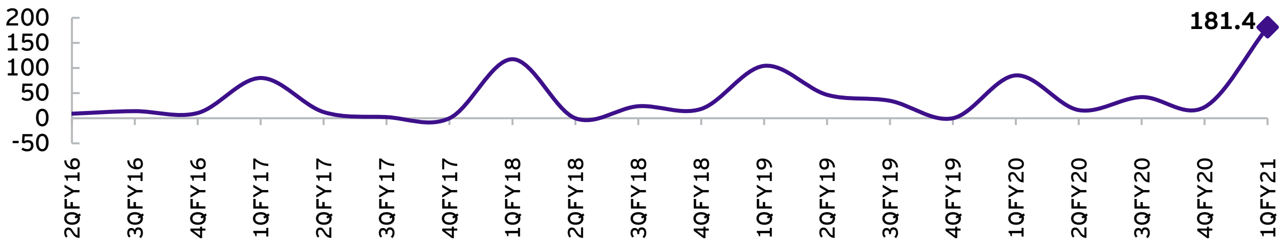
[13] Simple average of three spot prices, namely, Dated Brent, West Texas Intermediate and Dubai Fateh
[14] https://www.iea.org/reports/oil-market-report-september-2020
[15] Simple average of Australian and South African coal prices
[16] https://www.woodmac.com/reports/coal-global-metallurgical-coal-short-term-outlook-september-2020-price-recovery-begins-in-earnest-441258

9. Index of Macro Imbalance (IMI): pointed to an increase in macro imbalance in 1QFY21

IMI indicated worsening of macro balance in 1QFY21

- The IMI is obtained by adding the percentage deviation of inflation rate (based on new CPI 2012 = 100), fiscal deficit (as a percentage of GDP) and current account deficit (as a percentage of GDP) from their respective benchmarks of 4%, 3% and 1.3% of GDP[17]. All three components of IMI have been given equal weightage (33.33%). The state of *balance* is judged by a value of 0.
- An index value greater than zero indicates the presence of an imbalance in the economy. While considering the percentage deviation of each of the indicators from its selected norm, only the positive deviations are taken. Negative deviations are equated to zero to ensure that the negative and positive deviations across indices are not canceled out.
- IMI pointed to a deterioration in the macro balance with the index value increasing sharply to 181.4 in 1QFY21 from 22.2 in 4QFY20 (**Chart 18**). Two of the three components of IMI, namely, center's fiscal deficit and CPI inflation were above their respective benchmarks. While center's fiscal deficit was at 17.4% of GDP, CPI inflation was at 6.6% in 1QFY21. However, current account posted a surplus of 3.9% of GDP in 1QFY21.

Chart 18: IMI (quarterly)



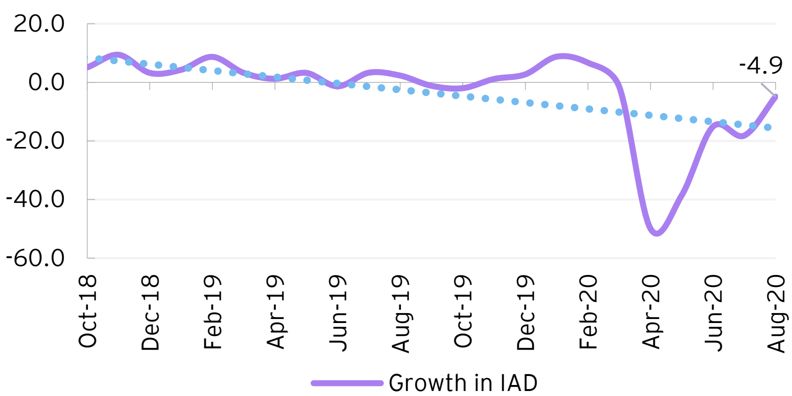
Source (Basic data): RBI, MoSPI and EY estimate

10. Index of aggregate demand (IAD): showed signs of recovery in domestic demand in August 2020

IAD contracted at a slower pace of (-)4.9% in August 2020 as compared to (-)18.2% in July 2020

- IAD contracted for the sixth consecutive month in August 2020. However, the contraction was at a slower pace of (-)4.9% in August 2020 as compared to (-)18.2% in July 2020 **(Chart 19).**
- Demand conditions in the manufacturing sector improved considerably in August 2020 as compared to July 2020, while those in the agricultural sector moderated marginally in August 2020. In the services sector, demand conditions continued to remain subdued during the month.

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



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

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

11. Capturing macro-fiscal trends: data appendix

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

Fiscal year/ quarter/ month	IIP	Mining	Manufacturing	Electricity	Core IIP	Fiscal year/ quarter /month	PMI mfg.	PMI ser.
	% change y-o-y							
FY17	4.6	5.3	4.3	5.8	4.8	FY17	51.6	51.0
FY18	4.4	2.3	4.7	5.3	4.3	FY18	51.5	50.0
FY19	3.8	2.8	3.8	5.2	4.4	FY19	52.8	52.2
FY20	-0.8	1.6	-1.4	0.9	0.4	FY20	52.3	51.9
2QFY20	-0.4	-1.2	-0.4	0.6	-0.9	3QFY20	51.5	51.7
3QFY20	-1.4	0.0	-1.1	-6.0	-0.6	4QFY20	53.9	54.1
4QFY20	-4.3	3.9	-6.3	1.6	-0.4	1QFY21	35.1	17.2
1QFY21	-35.3	-22.3	-39.9	-15.8	-24.0	2QFY21	51.6	41.9
May-20	-33.4	-20.4	-37.8	-14.9	-21.4	Jun-20	47.2	33.7
Jun-20	-15.8	-19.6	-16.0	-10.0	-12.9	Jul-20	46.0	34.2
Jul-20	-10.8	-12.8	-11.6	-2.5	-8.0	Aug-20	52.0	41.8
Aug-20	-8.0	-9.8	-8.6	-1.8	-8.5	Sep-20	56.8	49.8

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

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

Fiscal year/ quarter/ month	CPI	Food Price Index	Fuel and light	Core CPI	WPI	Food Price Index	Mfg. products	Fuel and power	Core WPI
	% change y-o-y				% change y-o-y				
FY17	4.5	4.2	3.3	4.9	1.7	5.9	1.3	-0.3	-0.1
FY18	3.6	1.8	6.2	4.6	2.9	1.9	2.7	8.2	3.0
FY19	3.4	0.1	5.7	5.5	4.3	0.6	3.7	11.5	4.2
FY20	4.8	6.7	1.3	3.8	1.7	6.9	0.3	-1.8	-0.4
3QFY20	5.8	10.7	-1.1	3.3	1.1	9.3	-0.7	-5.1	-1.8
4QFY20	6.7	11.1	5.5	3.8	2.1	7.5	0.5	1.8	-0.7
1QFY21	6.6*	9.9	1.7	4.9	-2.3	3.4	0.0	-17.4	-1.0
2QFY21	6.9	9.7	2.9	5.4	0.4	5.2	1.2	-9.7	0.5
Jun-20	6.2	8.7	0.5	5.2	-1.8	3.1	0.1	-16.2	-0.9
Jul-20	6.7	9.3	2.7	5.4	-0.2	4.7	0.6	-9.8	-0.2
Aug-20	6.7	9.1	3.2	5.4	0.2	4.1	1.3	-9.7	0.6
Sep-20	7.3	10.7	2.9	5.5	1.3	6.9	1.6	-9.5	1.1

Source: Office of the Economic Adviser, Ministry of Commerce and Industry and MoSPI
* The CPI for April and May 2020 has been imputed

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

Fiscal year/month	Gross tax revenue	Corporate tax	Income tax	Direct taxes*	Indirect taxes**	Fiscal deficit % of GDP	Revenue deficit
							% of GDP
FY17 (CGA)	17.9	6.7	21.5	12.3	21.6	3.5	2.1
FY 18 (CGA)	11.8	17.8	19.9	18.6	6.0	3.5	2.6
FY 19 (CGA)	8.4	16.2	13.1	14.9	2.9	3.4	2.4
FY20 (CGA)	-3.4	-16.1	4.0	-7.8	1.7	4.6	3.3
FY 21 (BE over FY 20 RE)	12.0	11.5	14.0	12.7	11.1	3.5	2.7
Cumulated growth (%, y-o-y)						% of budgeted target	
Jan-20	-2.0	-13.5	6.9	-4.9	0.9	128.5#	150.2#
Feb-20	-0.8	-12.0	7.7	-3.5	1.6	135.2#	156.7#
Mar-20	-3.4	-16.1	4.0	-7.8	1.7	122.0#	133.6#
Apr-20	-44.3	57.7	-32.1	-10.8	-69.9	35.1	41.3
May-20	-41.2	1408.1	-41.0	-14.6	-52.5	58.6	67.6
Jun-20	-32.6	-23.3	-35.9	-30.6	-34.5	83.2	94.8
Jul-20	-29.5	-39.2	-29.1	-33.2	-27.5	103.1	117.4
Aug-20	-23.7	-41.8	-28.9	-34.1	-16.5	109.3	121.9

Source: Monthly Accounts, Controller General of Accounts, Government of India, Union Budget documents
* Includes corporation tax and income tax
** Includes customs duty, excise duty, service tax, CGST, UTGST, IGST and GST compensation cess.
#: as % of revised targets for FY20.

Fiscal year/month	CGST	UTGST	IGST	GST compensation cess	Total GST (center)
	INR crore				
FY 2020 (RE)	5,14,000	-	-	98,327	6,12,327
FY 2021 (BE)	5,80,000	-	-	1,10,500	6,90,500
Monthly tax collection (INR crore)					
Jan-20	43,782	157	2,128	8,359	54,426
Feb-20	41,291	159	553	8,604	50,607
Mar-20	40,159	447	2,373	8,089	51,068
Apr-20	5,934	34	9,749	990	16,707
May-20	18,961	107	9,643	6,020	34,731
Jun-20	30,152	154	9,672	7,472	47,450
Jul-20	37,902	224	-6,026	6,816	38,916
Aug-20	32,359	191	5,198	6,856	44,604

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
Nov-19	5.15	FY17	7.9	11.6	35.6	7.6	FY17	3.1	10.1	7.03	370.0
Dec-19	5.15	FY18	7.5	7.5	30.3	22.1	FY18	21.8	9.2	7.05	424.4
Jan-20	5.15	FY19	13.7	8.9	30.7	-0.6	FY19	13.6	10.5	7.68	411.9
Feb-20	5.15	FY20	9.4	9.9	43.0	1.4	FY20	11.2	8.9	6.80	475.6
Mar-20	4.40	2QFY20	10.4	9.9	7.3	2.5	3QFY20	12.5	10.4	6.68	433.6
Apr-20	4.40	3QFY20	8.0	10.0	9.7	7.8	4QFY20	11.2	8.9	6.62	457.5
May-20	4.00	4QFY20	7.1	9.6	12.0	-13.7	1QFY21	17.7	12.3	6.15	475.6
Jun-20	4.00	1QFY20	6.4	10.5	3.6	1.4	2QFY21	18.6	12.2	5.95	542.0
Jul-20	4.00	May-20	6.2	10.6	2.0	-0.7	Jun-20	17.7	12.3	5.86	506.8
Aug-20	4.00	Jun-20	6.2	11.0	-0.8	1.9	Jul-20	19.3	13.2	5.81	534.6
Sep-20	4.00	Jul-20	6.5	11.9	3.2	1.2	Aug-20	19.2	12.6	6.01	541.4
Oct-20	4.00	Aug-20	5.5	10.9	17.8	6.8	Sep-20	18.6	12.2	6.03	542.0

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		
FY17	5.1	0.9	-108.2	67.1	47.9	73.0	2010	5.4	3.1	7.4
FY18	10.6	20.9	-159.0	64.5	55.7	90.8	2011	4.3	1.8	6.4
FY19	8.6	10.6	-182.3	69.9	67.3	100.4	2012	3.5	1.2	5.4
FY20	-4.9	-8.7	-154.1	70.9	58.5	70.4	2013	3.5	1.4	5.1
3QFY20	-1.1	-12.7	-34.4	71.2	60.3	69.9	2014	3.5	2.1	4.7
4QFY20	-12.8	-9.8	-34.8	72.4	49.1	72.3	2015	3.4	2.4	4.3
1QFY21	-36.7	-52.4	-9.1	75.9	30.3	55.7	2016	3.3	1.8	4.5
2QFY21	-5.6	-24.8	-14.3	74.4	42.0	54.6	2017	3.8	2.5	4.8
Jun-20	-12.4	-47.6	0.8	75.7	39.5	54.5	2018	3.5	2.2	4.5
Jul-20	-10.2	-28.4	-4.8	75.0	42.1	54.1	2019	2.8	1.7	3.7
Aug-20	-12.7	-26.0	-6.8	74.7	43.4	53.8	2020*	-4.4	-5.8	-3.3
Sep-20	6.0	-19.6	-2.7	73.5	40.6	56.0	2021*	5.2	3.9	6.0

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

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

Fiscal year/quarter	Output: Major sectors									IPD inflation
	GVA	Agr.	Ming.	Mfg.	Elec.	Cons.	Trans.	Fin.	Publ.	GVA
FY17 (3rd RE)	8.0	6.8	9.8	7.9	10.0	5.9	7.7	8.6	9.3	2.9
FY18 (2nd RE)	6.6	5.9	4.9	6.6	11.2	5.0	7.6	4.7	9.9	4.2
FY19 (1st RE)	6.0	2.4	-5.8	5.7	8.2	6.1	7.7	6.8	9.4	4.2
FY20 (PE)$	3.9	4.0	3.1	0.0	4.1	1.3	3.6	4.6	10.0	3.0
1QFY19	6.9	3.8	-7.3	10.7	7.9	6.4	8.5	6.0	8.8	4.6
2QFY19	6.1	2.5	-7.0	5.6	9.9	5.2	7.8	6.5	8.9	4.7
3QFY19	5.6	2.0	-4.4	5.2	9.5	6.6	7.8	6.5	8.1	3.8
4QFY19	5.6	1.6	-4.8	2.1	5.5	6.0	6.9	8.7	11.6	3.7
1QFY20	4.8	3.0	4.7	3.0	8.8	5.2	3.5	6.0	7.7	3.1
2QFY20	4.3	3.5	-1.1	-0.6	3.9	2.6	4.1	6.0	10.9	1.8
3QFY20	3.5	3.6	2.2	-0.8	-0.7	0.0	4.3	3.3	10.9	3.4
4QFY20	3.0	5.9	5.2	-1.4	4.5	-2.2	2.6	2.4	10.1	3.7
1QFY21	-22.8	3.4	-23.3	-39.3	-7.0	-50.3	-47.0	-5.3	-10.3	2.9

Source: National Accounts Statistics, MoSPI
$ Growth numbers for FY20 are based on the provisional estimates of NAS released by the MoSPI on 29 May 2020 over the first revised estimates (RE) of NAS for FY19 released by the MoSPI on 31 January 2020.

Fiscal year/quarter	Expenditure components						IPD inflation
	GDP	PFCE	GFCE	GFCF	EX	IM	GDP
FY17 (3rd RE)	8.3	8.1	6.1	8.5	5.0	4.4	3.2
FY18 (2nd RE)	7.0	7.0	11.8	7.2	4.6	17.4	3.8
FY19 (1st RE)	6.1	7.2	10.1	9.8	12.3	8.6	4.6
FY20 (PE)$	4.2	5.3	11.8	-2.8	-3.6	-6.8	2.9
1QFY19	7.1	6.7	8.5	12.9	9.5	5.9	6.0
2QFY19	6.2	8.8	10.8	11.5	12.5	18.7	4.9
3QFY19	5.6	7.0	7.0	11.4	15.8	10.0	5.5
4QFY19	5.7	6.2	14.4	4.4	11.6	0.8	2.1
1QFY20	5.2	5.5	6.2	4.6	3.2	2.1	2.7
2QFY20	4.4	6.4	14.2	-3.9	-2.2	-9.4	1.4
3QFY20	4.1	6.6	13.4	-5.2	-6.1	-12.4	3.2
4QFY20	3.1	2.7	13.6	-6.5	-8.5	-7.0	4.3
1QFY21	-23.9	-26.7	16.4	-47.1	-19.8	-40.4	1.8

Source: National Accounts Statistics, MoSPI
$Growth numbers for FY20 are based on the provisional estimates of NAS released by **the** MoSPI on 29 May 2020 over the first revised estimates (RE) of NAS for FY19 released by the MoSPI on 31 January 2020

List of abbreviations

Sr. no.	Abbreviations	Description
1	AD	aggregate demand
2	AEs	advanced economies
3	Agr.	agriculture, forestry and fishing
4	AY	assessment year
5	Bcm	billion cubic meters
6	bbl.	barrel
7	BE	budget estimate
8	CAB	current account balance
9	CGA	Comptroller General of Accounts
10	CGST	Central Goods and Services Tax
11	CIT	corporate income tax
12	Cons.	construction
13	CPI	Consumer Price Index
14	COVID-19	Coronavirus disease 2019
15	CPSE	central public-sector enterprise
16	CRAR	Credit to Risk- weighted Assets Ratio
17	CSO	Central Statistical Organization
18	Disc.	discrepancies
19	ECBs	external commercial borrowings
20	EIA	US Energy Information Administration
21	Elec.	electricity, gas, water supply and other utility services
22	EMDEs	Emerging Market and Developing Economies
23	EXP	exports
24	FAE	first advanced estimates
25	FC	Finance Commission
26	FII	foreign investment inflows
27	Fin.	financial, real estate and professional services
28	FPI	foreign portfolio investment
29	FRBMA	Fiscal Responsibility and Budget Management Act
30	FY	fiscal year (April–March)
31	GDP	Gross Domestic Product
32	GFCE	government final consumption expenditure
33	GFCF	gross fixed capital formation
34	GoI	Government of India
35	G-secs	government securities
36	GST	Goods and Services Tax

Sr. no.	Abbreviations	Description
37	GVA	gross value added
38	IAD	Index of Aggregate Demand
39	IBE	interim budget estimates
40	ICRIER	Indian Council for Research on International Economic Relations
41	IEA	International Energy Agency
42	IGST	Integrated Goods and Services Tax
43	IIP	Index of Industrial Production
44	IMF	International Monetary Fund
45	IMI	Index of Macro Imbalance
46	IMP	imports
47	INR	Indian Rupee
48	IPD	implicit price deflator
49	J&K	Jammu and Kashmir
50	MCLR	marginal cost of funds-based lending rate
51	Ming.	mining and quarrying
52	Mfg.	manufacturing
53	m-o-m	month-on-month
54	Mt	metric ton
55	MoSPI	Ministry of Statistics and Programme Implementation
56	MPC	Monetary Policy Committee
57	NEXP	net exports (exports minus imports of goods and services)
58	NPA	non-performing assets
59	NCLT	National Company Law Tribunal
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	PSBR	public sector borrowing requirement
67	RE	revised estimates
68	PSU/PSE	public sector undertaking/public sector enterprises
69	RBI	Reserve Bank of India
70	SLR	Statutory Liquidity Ratio
71	Trans.	trade, hotels, transport, communication and services related to broadcasting
72	US$	US Dollar
73	UTGST	Union Territory Goods and Services Tax
74	WALR	weighted average lending rate
75	WPI	Wholesale Price Index
76	y-o-y	year-on-year
77	1HFY20	first half of fiscal year 2019-20, i.e., April 2019-September 2019

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