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Economy Watch

Monitoring India's macro-fiscal performance

January 2025

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Contents

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Highlights

1. As per the First Advance Estimates (FAE) of national accounts, real GDP and GVA growth rates are estimated at 6.4% each in FY25, moderating from 8.2% and 7.2% respectively in FY24.

2. Services PMI increased to a four-month high of 59.3 in December 2024 while manufacturing PMI dipped to a 12-month low of 56.4 during the month.

3. IIP growth increased to a six-month high of 5.2% in November 2024 driven by higher growth in manufacturing and electricity output.

4. CPI inflation eased to 5.2% in December 2024 as vegetable prices moderated, whereas core CPI inflation remained steady at 3.7% for the third successive month.

5. WPI inflation remained subdued, although increasing to 2.4% in December 2024 from 1.9% in November 2024 led by a slowdown in the pace of contraction in prices of mineral oils and electricity.

6. GoI's GTR showed a growth of 10.7% during April-November FY25 with growth in direct taxes at 12.1% and that in indirect taxes at 7.6%.

7. GoI's total expenditure showed a low growth of 3.3% during April-November FY25, led by a (-)12.3% contraction in capital expenditure even as revenue expenditure showed a robust growth of 7.8%.

8. GoI's fiscal and revenue deficits during April-November FY25 stood at relatively higher levels of 52.5% and 61.5% of their respective annual BEs.

9. Growth in gross bank credit fell to a 31-month low of 11.8% in November 2024 from 12.8% in October 2024.

10. Current account showed a deficit of (-)1.2% of GDP in 2QFY25 only marginally higher than (-)1.1% in 1QFY25 as a widening net merchandise trade deficit was nearly offset by improvement in net invisibles.

11. Merchandise trade deficit eased to US$21.9 billion in December 2024 from an unprecedented high of US$32.8 billion in November 2024.

12. Merchandise exports showed a contraction for the second successive month at (-)1.0% in December 2024 even as growth in imports eased to 4.9% in December 2024 from 17.9% in November 2024, partly reflecting lower global crude prices.

13. Net FDIs and Net FPIs witnessed outflows amounting to US$2.6 billion and US$2.4 billion in November 2024.

14. Average global crude price remained stable at US$72.3/bbl. for the second consecutive month in December 2024.

15. The World Bank has projected global growth at 2.7% in 2025 and 2026. India's real GDP growth is forecasted at 6.5% for FY25 and 6.7% for FY26.

16. EY projects India's fiscal deficit for FY25 at 4.8% of GDP and for FY26 at 4.4%.

Foreword

GoI's FY26 Budget may restore infrastructure expansion momentum to support growth

The 2Q FY25 real GDP growth data at 5.4% came as a surprise. It led to a downward revision of annual GDP growth forecast for FY25 by most multilateral organizations and rating agencies. The IMF, in its January 2025 update of the World Economic Outlook, projected India's real GDP growth at 6.5% for FY25, a 0.5% points downward revision from its growth forecast in October 2024. The RBI also reassessed FY25 real GDP growth at 6.6% in December 2024 as against its October 2024 projection of 7.2%. The First Advance Estimates (FAE) of National Accounts released by NSO for FY25 have assessed a real GDP growth of 6.4%. One key reason for the growth slowdown relates to the unexpected contraction in GoI's capital expenditure at (-)12.3% in the first eight months of FY25, as against a budgeted growth of 17.1% over CGA actuals for FY24. This led to a fall in the growth of gross fixed capital formation (GFCF) that is investment expenditure. The GFCF growth is estimated at 6.4% in FY25 as compared to 9.0% in FY24. However, on the external front, the estimated contribution of net exports to real GDP growth turned positive at 1.7% points, partly reflecting lower crude prices even as global economic headwinds continue to beset the economy.

From the output side, we have observed major weaknesses in the GVA in non-agriculture sectors except for public administration et al. sector. In particular, manufacturing and mining and quarrying showed sluggish growth in FY25. In addition, construction and electricity, gas and water supply et al. sectors and the two major services sectors namely trade, hotels et al. and financial, real estate et al. sectors showed lower than expected growth rates.

CPI inflation moderated to 5.2% in December 2024 from 5.5% in November 2024 as inflation in vegetables moderated to a four-month low of 26.6% in December 2024. Core CPI inflation remained steady for the third successive month at 3.7% in December 2024. If this downward trend in CPI inflation continues, the situation may be conducive to a downward revision in the policy rate in FY26. We expect that a 50-basis points reduction in the repo rate may happen during the year, possibly in two instalments. This may provide some support to private investment expenditure.

Available high frequency data for November and December 2024 point to a mixed picture regarding the growth momentum of the Indian economy. Pointing to further easing of growth momentum of the output of manufacturing sector, headline manufacturing PMI (seasonally adjusted (sa)) moderated to a 12-month low of 56.4 in December 2024 led by weaker expansion in new orders. On the contrary, supported by buoyant demand, services PMI (sa) recovered to 59.3 in December 2024, showing its strongest performance since August 2024. Within the sub-segments, robust new business orders and future activity is indicative of continued strong momentum in services activity. IIP growth in November 2024, increased to a six-month high of 5.2% driven by higher growth rates in manufacturing and electricity output.

As per the data released by Federation of Automobile Dealers Association, retail sales of motor vehicles contracted sharply by (-)12.5% in December 2024 as compared to a growth of 11.2% in November 2024. Within the vehicle segments, retail sales of two wheelers witnessed sharp contraction in December 2024 at (-)17.6% as compared to a growth of 15.8% in November 2024. Sales of passenger vehicles contracted at a slower rate of (-)2.0% in December 2024 as compared to (-)13.7% in November 2024. During April-December FY25, growth in retail sales of motor vehicles was positive at 8.5% supported by a robust growth in the sales of two-wheeler segment at 10.6%. Growth in the sales of passenger vehicles was lower at 3.9% during April to December FY25 reflecting weaker urban demand.

As per the CGA, GoI's GTR showed a growth of 10.7%, close to its budgeted level for FY25, during April-November FY25 with growth in direct taxes at 12.1% and that in indirect taxes at 7.6%. GoI's total expenditure showed a low growth of 3.3% during April-November FY25, with revenue expenditure growing by 7.8% even as capital expenditure showed a contraction. Gross GST revenues in December 2024 grew by 7.3% reaching a level of INR1,76,857 crores.

On the external front, data released by the Ministry of Commerce and Industry, indicated that merchandise trade deficit eased to US$21.9 billion in December 2024 from an unprecedented high of US$32.8 billion in November 2024. Merchandise exports showed a contraction for the second successive month at (-)1.0% in December 2024 even as growth in imports eased to 4.9% in December 2024 from 17.9% in November 2024 partly reflecting lower global crude prices. Growth in exports excluding oil, gold/silver and jewelry was higher, although moderating to 8.3% in December 2024 from 11.8% in November 2024, while growth in imports of the same category eased to 3.9% from 6.1% over the same period. Data on a quarterly basis for the current account showed a deficit of (-)1.2% of GDP in 2QFY25, only marginally higher than (-)1.1% in 1QFY25 as a widening in net merchandise trade deficit was nearly offset by an improvement in net invisibles

In the presence of the continuing global uncertainties, India may have to rely largely on domestic demand drivers to support the growth momentum. The FY26 budget should therefore restore the momentum of growth in GoI's capital expenditure. This may be supplemented by some rate rationalization and income tax deductions aimed at increasing personal disposable incomes particularly in the hands of lower income and lower middle-income groups. Given that in FY25 RE, there is likely be a shortfall in achieving the budgeted capital expenditure target of INR11.1 lakh crore, the FY26 budget should provide for at least a 20% growth in GoI's capital expenditure over the FY25 RE. The macro contours of the Union Budget may provide for a nominal GDP growth of 10.5% in FY26 as compared to the estimated nominal GDP growth of 9.7% in FY25. This translates to an estimated gross tax revenue (GTR) and a net tax revenue of 11.8% and 7.9% of GDP respectively for FY26. While the personal income tax buoyancy at 1.7 is satisfactory, the corporate income tax buoyancy at only 0.8 calls for improvement. We estimate revenue expenditure and capital expenditure relative to GDP at 10.9% and 3.4% respectively for FY26. This implies a continued reduction in fiscal deficit to 4.4% in FY26 BE from an estimated 4.8% in FY25 RE. The budgetary trends show continued improvement in the quality of fiscal deficit as indicated by a fall in the ratio of revenue deficit to fiscal deficit from a level of 65.1% in FY22 to a projected level of 29.7% in FY26. However, beyond FY26, the fiscal consolidation process may slow down as a result of salary and pension hikes based upon the recommendations of the Eighth Pay Commission. It is advisable, however, for the GoI to show continued commitment to fiscal consolidation and give a path to reducing the fiscal deficit to 3% of GDP even if it takes a little longer. If the global situation improves, there is a likelihood of global energy prices to moderate as the US may augment global crude oil and gas supplies with Shale based oil and gas. Such a moderation in global energy prices is likely to prove beneficial for India.

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1 Growth: Real GDP growth is estimated to be lower at 6.4% in FY25

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1.1 GDP and GVA: Estimated to grow by 6.4% each in FY25

- As per the FAE of national accounts released by the MoSPI on 7 January 2025, real GDP is estimated to show a lower growth of 6.4% in FY25, moderating from 8.2% in FY24 **(Chart 1)**. With this, the implied real GDP growth for 2HFY25 is estimated at 6.7%.
- Among demand side components, the slowdown in GDP growth is largely attributable to slower growth in investments, as measured by gross fixed capital formation, (GFCF) at 6.4% in FY25 as compared to 9.0% in FY24 (**Table 1**).
- Among the other two domestic demand components, growth in both PFCE and GFCE is estimated to improve to 7.3% and 4.1% respectively in FY25 from 4.0% and 2.5% in FY24.
- Exports growth is also estimated to improve to 5.9% in FY25 from 2.6% in FY24. With imports estimated to show a contraction of (-)1.3% in FY25, the contribution of net exports (NExp.) to real GDP growth is likely to be positive at 1.7% points.
- On the output side, overall GVA growth is estimated at 6.4% in FY25, moderating from 7.2% in FY24. This is because of a lower GVA growth among sectors excluding agriculture and public administration et al. sectors in FY25.
- GVA growth in manufacturing is estimated to fall from 9.9% in FY24 to 5.3% in FY25, witnessing the sharpest slowdown amongst the GVA sectors. Growth in mining GVA, which is usually volatile, is expected to remain low at 2.9% in FY25, falling from 7.1% in FY24.
- GVA in construction sector is estimated to show a strong growth of 8.6% in FY25, although moderating from 9.9% in FY24.

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

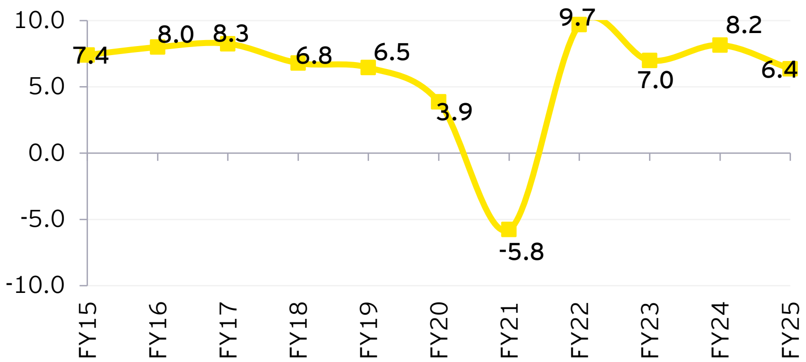


Table 1: Real GDP and GVA growth (%, annual)

Agg. demand	FY21	FY22	*FY23*	*FY24*	*FY25 (FAE)*
PFCE	-5.3	11.7	6.8	4.0	**7.3**
GFCE	-0.8	0.0	9.0	2.5	**4.1**
GFCF	-7.1	17.5	6.6	9.0	**6.4**
EXP	-7.0	29.6	13.4	2.6	**5.9**
IMP	-12.6	22.1	10.6	10.9	**-1.3**
GDP	**-5.8**	**9.7**	**7.0**	**8.2**	6.4
NExp. (% pts.)	*1.5*	*1.0*	*0.5*	*-2.0*	***1.7***
Output side					
Agr.	4.0	4.6	4.7	1.4	**3.8**
Ming.	-8.2	6.3	1.9	7.1	**2.9**
Mfg.	3.1	10.0	-2.2	9.9	**5.3**
Elec.	-4.2	10.3	9.4	7.5	**6.8**
Cons.	-4.6	19.9	9.4	9.9	**8.6**
Trans.	-19.9	15.2	12.0	6.4	**5.8**
Fin.	1.9	5.7	9.1	8.4	**7.3**
Publ.	-7.6	7.5	8.9	7.8	**9.1**
GVA	**-4.1**	**9.4**	**6.7**	**7.2**	**6.4**

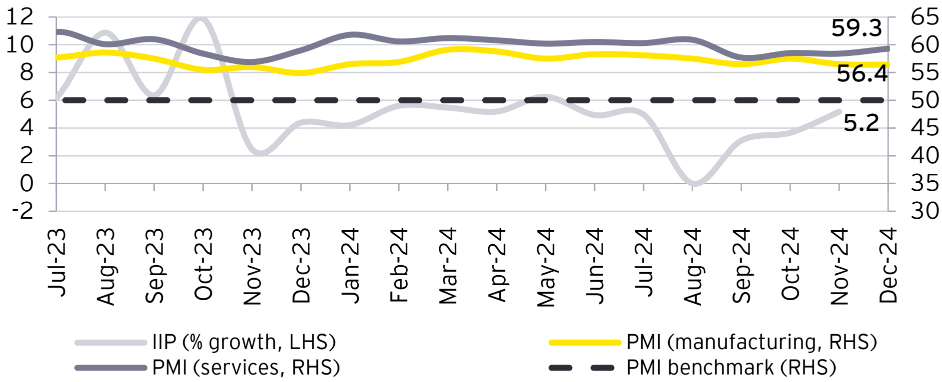
Source: MoSPI, GoI

- Within the services sector, GVA in financial, real estate et al. sector is estimated to grow by 7.3% in FY25, lower as compared to 8.4% in FY24. Similarly, GVA growth in trade, hotels, transport et al. sector is also expected to be lower at 5.8% in FY25 as compared to 6.4% in FY24.
- Growth in agricultural sector estimated at 3.8% in FY25 is an improvement over 1.4% in FY24, implying a recovery in rural demand in FY25. Similarly, GVA growth in public administration et al. is estimated to be robust at 9.1% in FY25, higher as compared to 7.8% in FY24.
- With nominal GDP growth estimated at 9.7% in FY25, the implicit price deflator (IPD) based inflation is estimated at 3.2% in FY25, increasing from 1.3% in FY24.

1.2 PMI: Services PMI is at a four-month high of 59.3 while manufacturing PMI is at a 12-month low of 56.4 in December 2024

- Pointing to further easing of growth momentum of the output of manufacturing sector, headline manufacturing PMI (seasonally adjusted (sa)) moderated to a 12-month low of 56.4 in December 2024 from 56.5 in November 2024 **(Chart 2)**. The slowdown in manufacturing PMI is attributable to the weaker expansion in new orders, pointing to subdued growth in future production.
- Supported by buoyant demand, services PMI (sa) recovered to 59.3 in December 2024 from 58.4 in November 2024, showing its strongest performance since August 2024. Within the sub-segments, robust new business orders and future activity is indicative of continued robust momentum in services activity.
- With a pickup in services activity, the composite PMI Output Index (sa) increased to a four-month high of 59.2 in December 2024 from 58.6 in November 2024.

Chart 2: PMI and IIP growth



Source: MoSPI and S&P Global.

Services PMI increased to a four-month high of 59.3 in December 2024 while manufacturing PMI dipped to a 12-month low of 56.4 during the month.

1.3 IIP: Growth increased to 5.2% in November 2024

IIP growth increased to a six-month high of 5.2% in November 2024 driven by higher growth rates in manufacturing and electricity output.

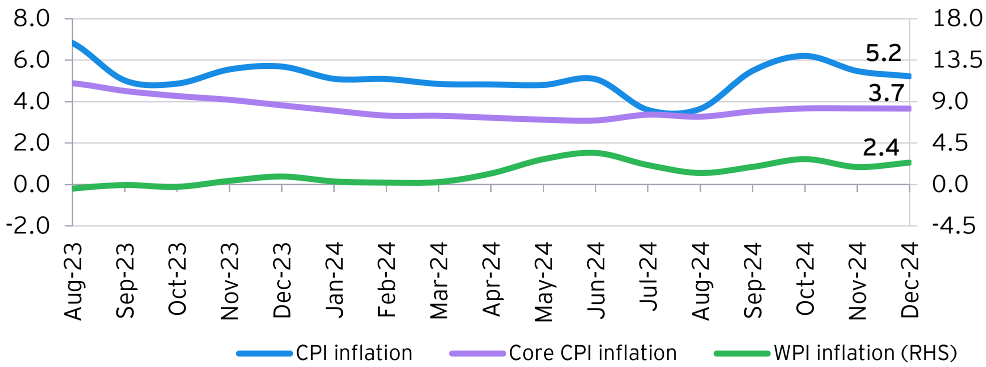
- According to the quick estimates, IIP growth improved to a six-month high of 5.2% in November 2024 from 3.7% in October 2024 due to improved growth in manufacturing and electricity output (Chart 2).
- Among the sub industries, manufacturing sector posted the highest growth at 5.8% in November 2024 increasing from 4.4% in October 2024. The largest contribution to improved growth in IIP during the month was on account of higher growth in electricity sector at 4.4% in November 2024, increasing from 2.0% in October 2024. Growth in mining output stayed low at 1.9% in November 2024, although increasing from 0.9% in October 2024.
- Within manufacturing, among the key sub-industries, sectors with strong growth rates included other non-metallic mineral products (12%), other machinery and equipment (7.9%), basic metals (7.6%), and motor vehicles (5.2%). However, chemical products (3.4%), pharmaceuticals (2.9%), and coke and refined products (2.0%) showed low growth rates during the month, while output of manufactured food products contracted by (-)3.3%.
- As per the 'use-based' classification of industries, improvement in IIP growth in November 2024 was supported by higher growth in the output of consumer durables at 13.1%, infrastructure/construction at 10.0% and capital goods at 9.0%. Growth in the output of primary goods and consumer non-durables remained low at 2.7% and 0.6% respectively during the month.
- Output of eight core infrastructure industries (core IIP) showed a higher growth of 4.3%, its fastest pace since August 2024, improving from 3.7% in October 2024. Among the sub-industries, strong growth rates were seen in the output of cement (13%), coal (7.5%) and steel (4.8%). On the contrary, output of crude oil ((-)2.1%) and natural gas ((-)1.9%) continued to contract for the seventh and fifth consecutive months respectively.

2 Inflation: CPI inflation eased to 5.2% in December 2024

2.1 CPI inflation

- CPI inflation moderated to 5.2% in December 2024 from 5.5% in November 2024 **(Chart 3)**, as consumer food price index-based inflation eased to 8.4% in December 2024 from 9.0% in November 2024.
- Inflation in vegetables moderated to a four-month low of 26.6% in December 2024. Inflation in oils and fats, however, rose to 14.6% in December 2024, its highest level since April 2022.
- Prices of fuel and light continued to contract for the sixteenth successive month by (-)1.4% in December 2024 as compared to (-)1.8% in November 2024 on account of lower global crude prices.
- Inflation in clothing and footwear remained stable for the eighth consecutive month at a 55-month low of 2.7% in December 2024. Inflation in housing was subdued at 2.7% in December 2024, marginally lower than its level of 2.9% in November 2024.
- Inflation in transportation and communication services was at a five-month low of 2.6% in December 2024.
- Core CPI inflation[1] remained steady for the third successive month at 3.7% in December 2024.

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



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

CPI inflation eased to 5.2% in December 2024 as vegetable prices moderated, whereas core CPI inflation remained steady at 3.7% for the third successive month.

2.2 WPI inflation: remained subdued at 2.4% in December 2024

- WPI inflation remained benign, although increasing to 2.4% in December 2024 from 1.9% in November 2024, driven by a) a slowdown in the pace of contraction in prices of mineral oils and electricity owing to waning of favorable base effects, and b) a surge in inflation in floriculture. The increase in inflation in these products more than offset a sharp fall in inflation in tomatoes.
- The pace of contraction in mineral oils and electricity prices fell to (-)3.8% and (-)5.7% respectively in December 2024 from (-)5.2% and (-)10.4% respectively in November 2024.
- Inflation in floriculture turned positive at 12.7% in December 2024 after remaining negative for five successive months, contributing 10 basis points to the increase in the overall WPI inflation in December 2024 over that in November 2024.
- Inflation in tomatoes fell to 5.3% in December 2024 from 28.8% in November 2024. However, inflation in vegetables remained nearly stable at 28.7% due to an uptick in inflation in onion, potato and other vegetables.
- Inflation in manufactured products was low, although showing a slow and steady increase for the fourth successive month to 2.1% in December 2024 from 2.0% in the previous month led by an increase in inflation in manufactured textiles and manufactured food products, accompanied by a slowing pace of contraction in manufactured fabricated metal products.
- Core WPI inflation remained subdued, although increasing for the fourth successive month to 0.7% in December 2024 from 0.5% in November 2024, attributable mainly to the increase in inflation in manufactured textiles and a slower pace of contraction in manufactured fabricated metal products.

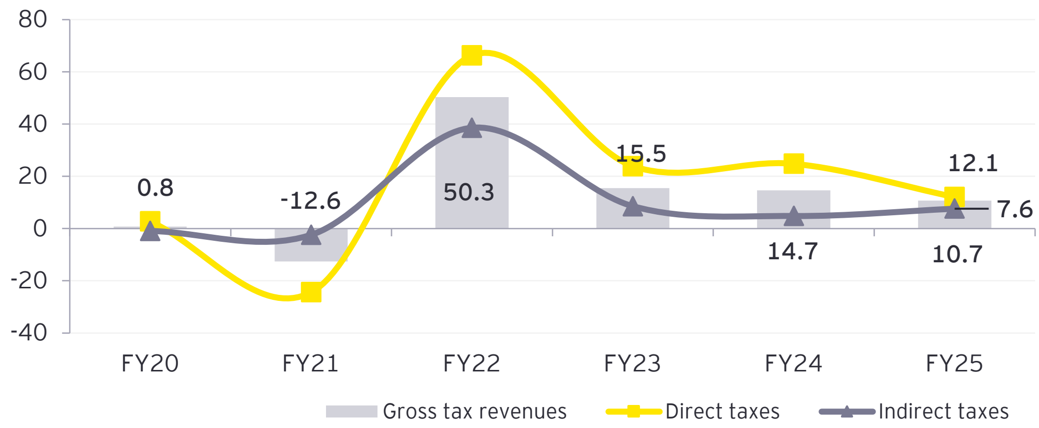
[1] Core CPI inflation is measured in different ways by different organizations. Here, it has been calculated by excluding food, and fuel and light from the overall index.

3 Fiscal: GoI's capital expenditure during April-November FY25 contracted by (-)12.3%

3.1 Tax and non-tax revenues

- As per the CGA, GoI's GTR[b] showed a growth of 10.7% during April-November FY25 as compared to 14.7% during the corresponding period of FY24 **(Chart 4)**. During April to November GTR as a percentage of annual BE stood at 58.9% in FY25, slightly higher than the three-year average of 58.1% during the corresponding period in FY22 to FY24 based on actual data.
- Direct taxes[a] showed a growth of 12.1% while indirect taxes[a] grew by 7.6% during April-November FY25. The corresponding growth rates in FY24 were at 24.8% and 4.8% respectively.
- CIT revenues experienced a contraction of (-)0.5% during April-November FY25, as compared to a significantly higher growth of 20.1% witnessed during the corresponding period of FY24.
- PIT revenues continued to grow at a robust pace of 23.5% during the first eight months of FY25, as compared to 29.4% in the corresponding period of FY24.
- Among indirect taxes, GoI's GST revenues[c] grew by 9.8% during April-November FY25, marginally lower than 10.3% during the corresponding period of FY24.
- Union excise duties (UED) showed a contraction for the third successive year at (-)0.6% during April-November FY25 as compared to (-)7.9% and (-)20.9% during the corresponding periods of FY24 and FY23, respectively.
- Customs duties grew by 8.7% during April-November FY25, higher than 0.3% observed during the corresponding period of FY24.

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



GoI's GTR showed a growth of 10.7% during April-November FY25 with growth in direct taxes at 12.1% and that in indirect taxes at 7.6%.

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.

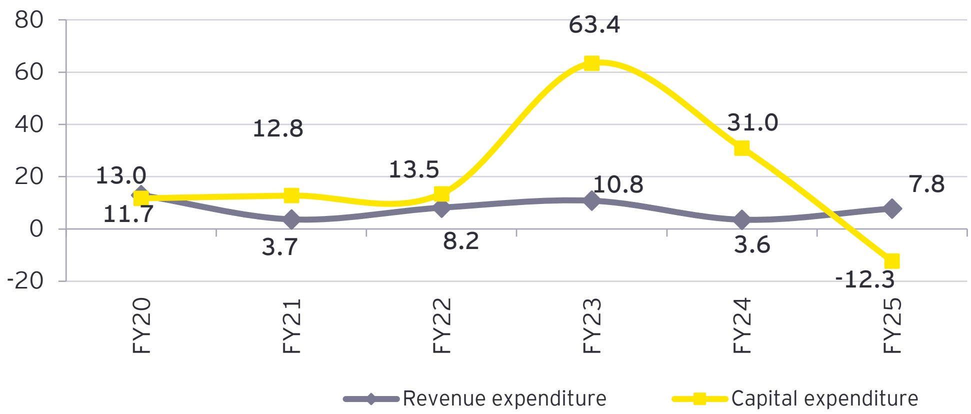
- GoI's non-tax revenues showed a high growth of 50.2% during the first eight months of FY25, owing to substantially higher dividends by the RBI. GoI's dividends and profits during this period at INR2,79,061 crore stood at 96.5% of the FY25 (BE) at INR2,89,134 crore.
- Non-debt capital receipts of the GoI during April-November FY25 stood at 30.7% of the annual BE, much lower than the three-year average ratio at 50.7% during the corresponding period in FY22 to FY24 based on actual data.
- As per the Department of Investment and Public Asset Management (DIPAM)[2], GoI's disinvestment receipts as of 28 January 2025 were at INR8,625.05 crore, amounting to 17.3% of the FY25 BE at INR50,000 crore.

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

3.2 Expenditures: Revenue and capital

- GoI's total expenditure showed a low growth of 3.3% during the first eight months of FY25 as compared to a growth of 8.6% during the corresponding period of FY24. GoI's total expenditure during April-November FY25 stood at 56.9% of FY25 BE, marginally lower than the corresponding average at 57.6% based on the last three years' actual data.
- GoI's revenue expenditure growth picked up to 7.8% during April-November FY25, more than double the growth of 3.6% witnessed during April-November FY24, and higher than the BE growth of 6.2% over FY24 CGA actuals.
- GoI's capital expenditure showed a contraction of (-)12.3% during April-November FY25, unlike the last three years, which showed an average growth of 35.9% during the corresponding period **(Chart 5)**. Capital expenditure during this period stood at 46.2% of FY25 BE, lower than the last three-year average at 56.2% in the same period based on actual data.

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



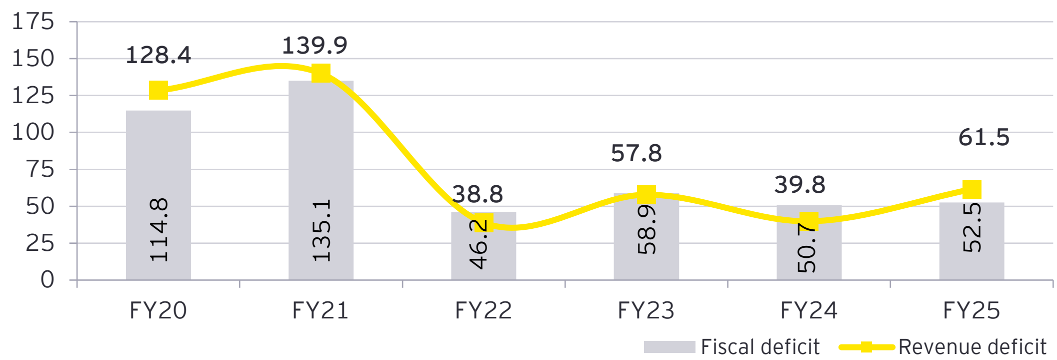
Source (basic data): Monthly Accounts, CGA, Government of India

GoI's total expenditure showed a low growth of 3.3% during April-November FY25, led by a (-)12.3% contraction in capital expenditure even as revenue expenditure showed a robust growth of 7.8%.

3.3 Fiscal imbalance

- GoI's fiscal deficit during April-November FY25 was at 52.5% of the FY25 BE, as substantially enhanced non-tax revenues, a contraction in capital expenditure, and a strong growth in GoI's PIT revenues were offset by contraction in CIT revenues and union excise duties. In comparison, GoI's fiscal deficit as a proportion of BE was 50.7% during April-November FY24 **(Chart 6)**.
- GoI's revenue deficit during April-November FY25 also stood at a higher level of 61.5% of FY25 BE as compared to 39.8% during the corresponding period of FY24.

Chart 6: Fiscal and revenue deficit during April-November as a percentage of BE



GoI's fiscal and revenue deficits during April-November FY25 stood at relatively higher levels of 52.5% and 61.5% of their respective annual BEs.

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

4 Comparative trends: OECD projected India's growth at 6.8% and CPI inflation at 4.8% in FY25

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4.1 Real GDP growth

- The OECD projected low inflation, steady employment growth and less restrictive monetary policy to help underpin global demand till 2026.
- Among advanced economies (AEs), the US real GDP is projected to grow by a robust 2.8% in 2024, and slow gradually to 2.4% in 2025 and 2.1% in 2026 as business investment moderates and consumption growth softens on account of lower scope for households to further draw down savings.
- Owing to fiscal expansion, growth in the UK is projected to strengthen to 1.7% in 2025 and subsequently ease to 1.3% in 2026. Germany is expected to witness a marginally positive growth in 2025 increasing to 1.2% in 2026.
- In Japan, real GDP is expected to rebound by 1.5% in 2025 from a contraction of (-)0.3% in 2024, driven by domestic demand. Growth is forecasted to revert towards potential in 2026 at 0.6%.
- Among emerging market economies (EMEs), growth in India is projected to be the highest in 2025 and 2026, owing to strong public and private investment. Rural consumption is projected to increase at a robust pace driven by higher rural incomes attributable to above-normal monsoon.
- Growth in China is expected to gradually weaken in 2025 and 2026 as exports growth slows due to a probable tightening of global trade restrictions, and consumption growth remains sluggish, dampened by high precautionary savings.
- Real GDP growth in Brazil is projected at 2.3% in 2025 and 1.9% in 2026. Job creation and strong wage growth is expected to drive household consumption in 2025. Private investment is projected to remain buoyant although slowing gradually. A slowdown in export market growth may limit export expansion.
- In South Africa, GDP growth is projected to increase to 1% in 2024, 1.5% in 2025 and 1.7% in 2026 as continued reforms support a more stable electricity supply, ease logistics bottlenecks and reduce supply constraints.

Table 2: Real GDP growth (% annual)

Country	2022	2023	2024	2025	2026
US	2.5	2.9	2.8	2.4	2.1
UK	4.8	0.3	0.9	1.7	1.3
Germany	1.4	-0.1	0.0	0.7	1.2
Japan	1.2	1.7	-0.3	1.5	0.6
Brazil	3.1	2.9	3.2	2.3	1.9
Russia	-1.2	3.6	3.9	1.1	0.9
India*	7.0	8.2	6.8	6.9	6.8
China	3.0	5.2	4.9	4.7	4.4
South Africa	1.9	0.7	1.0	1.5	1.7

Source: OECD Economic Outlook, December 2024;
*data pertains to fiscal year

4.2 CPI inflation

- Headline inflation, which had risen to significantly high levels in 2022, is projected to reach central bank targets by late 2025 or early 2026 in nearly all major economies supported by lower global crude prices.
- Inflation in the US is projected to ease from 2.9% in 2024 to 2.4% in 2025. In OECD's assessment, further easing of monetary policy is likely over the next two years.
- In the UK, inflation is projected at 2.7% in 2025, marginally higher than 2.6% in 2024. Inflationary pressures emanate from an increase in the domestic energy price cap and elevated wage growth. In Germany, fiscal tightening besides fading energy price pressures is forecasted to help to bring down inflation to 2.0% and 1.9% in 2025 and 2026 respectively.
- In Japan, headline inflation is projected to settle around the 2% target in 2025 and 2026, supported by wage growth momentum and the pass-through of labor costs to prices.
- Among EMEs, inflation in India is projected to fall sequentially, reaching 4.2% in 2025 (FY26) supported by good sowing and a heavier than normal monsoon. In 2026 (FY27) it is projected to average 4.0%, the central bank's target.
- In China, after a temporary pick up in late 2024 and early 2025 due to the unfreezing of electricity tariffs, inflation is expected to decline due to contained demand pressures and anchored inflation expectations. It is projected at a benign level of 1.1% in 2025 and 1.4% in 2026.
- Inflation in Brazil picked up in the second half of 2024. It is expected to have averaged 4.5% in 2024. With monetary tightening projected to ensue till mid-2025, inflation is expected to converge towards the 3.0% target by 2026.

Table 3: CPI inflation (%)

Country	2022	2023	2024	2025	2026
US	8.0	4.1	2.9	2.4	2.3
UK	9.1	7.3	2.6	2.7	2.3
Germany	8.7	6.0	2.4	2.0	1.9
Japan	2.5	3.3	2.6	1.9	2.1
Brazil	9.3	4.6	4.5	4.2	3.6
Russia	13.8	6.0	8.2	7.0	5.2
India*	6.7	5.4	4.8	4.2	4.0
China	1.9	0.3	0.4	1.1	1.4
South Africa	6.9	5.9	4.6	3.9	4.5

Source: OECD Economic Outlook, December 2024;
*data pertains to fiscal year

5 In focus: A fiscal architecture for Viksit Bharat (Part 3) – Realigning transfers from the GoI to states

5.1 Introduction

Under Fourteenth Finance Commission (FC14) recommendations, a major increase in the share of states in the divisible pool of central taxes occurred. The share of states in the divisible pool was increased in one step from 32% to 42%. At that time, state plan grants were about to be discontinued. So, part of the increase of 10% points could be justified but not the entire increase. In fact, with FC14 recommendations, in per capita terms, average per year central transfers comprising tax devolution, Finance Commission grants and non-Finance Commission grants for all states taken together, experienced a sharp increase, rising from INR3,988 to INR7,805, a 95.7% increase. It could have been legitimately expected that this may enable the states to reduce their borrowing requirements and increase per capita expenditures on desirable services such as social and to some extent economic services. However, the transition to the FC14 period witnessed adverse results with respect to state finances. In fact, as shown in this writeup, the fiscal deficit and debt relative to nominal GSDP of all states increased; their interest payments also increased; the rate of increase in own revenue receipts fell and the structure of expenditure also changed in favour of non-developmental expenditures rather than developmental expenditures covering social and economic services.

The FC15 recommended a share of 41% in the divisible pool of central taxes which was equivalent to the 42% share recommended by FC14, since with the change of Jammu and Kashmir's status to a Union Territory, the number of states in India were reduced to 28 from 29. In order to make all the data comparable across FCs for the purpose of analysis, we have considered only 28 states for all the years.

In this writeup, we consider realigning the extent and structure of fiscal transfers from the GoI to the states which may encourage the states to bring the fiscal deficit and debt relative to GSDP to sustainable levels, reduce interest payments relative to revenue receipts and change the structure of expenditure in favor of developmental expenditures particularly on health and education.

5.2 Bulge in fiscal transfers: FC14 onwards

During the recommendation period of FC14, Finance Commission transfers to the states considered in per capita per year terms, experienced a 106.1% increase. The non-FC transfers increased at a lower rate of 75.5%. Together, the increase in aggregate transfers in per year per capita terms was 95.7% as already mentioned. This was higher than the corresponding increase for the FC13 period of 87.9%, by 7.8% points. Along with this sharp increase in fiscal transfers, in the FC14 period onwards, almost all of these transfers were also made unconditional. The expectation that can legitimately be associated with such a change can be summarized as:

1. Higher fiscal transfers to the states should lead to reduction in their fiscal deficit and debt relative to respective GSDPs.
2. Higher fiscal transfers that provide greater autonomy of expenditure to states should lead to allocation efficiency in the sense that given the higher autonomy, states should be able to spend relatively more on high priority welfare improving services.

The inter-se allocation of these higher transfers by FC14 amongst the states was done on the basis of relatively broad tax devolution criteria which used dated population and per capita GSDP data along with some other data relating to overall area and area under forests. States in India are highly diversified in structure and characteristics of population, area, GSDP and cost conditions. A proper inter-se allocation calls for a larger, more up-to-date and sharper information base. A heavy dependence on tax devolution alone may not do justice to the varied and differentiated needs and conditions of India's states. This situation is further worsened by supplementing unconditional transfers through a gap filling approach in determining revenue deficit grants. Such an approach largely followed by FC14 and FC15 only exacerbates inequities in the past fiscal history of states.

In this writeup, we are able to show that:

1. Higher fiscal transfers during FC14 recommendation period onwards were accompanied by an increase in fiscal deficit and debt relative to GSDP at the all-state level and at the level of group averages.
2. The period of higher fiscal transfers was also accompanied by a reduction in own revenue receipts (measured as percentage of real per capita transfers).
3. Instead of improving allocation efficiency, there was an increase in interest payments, pensions, general services other than interest payments and pensions, other social services (that is, social services other than health and education), and economic services.

4. These impacts were different for the general group of states (GS) vis-à-vis the northeastern and hilly states (NEHS) in notable aspects[3].

In other words, instead of an improvement in state finances, there has been a general adverse and unexpected impact on the state of state finances as also on its allocative efficiency. In particular, the higher resources and the higher autonomy to the states were accompanied by higher borrowing, higher debt and debt servicing burden, lower own revenue effort, and higher allocation for non-priority services. There is a need therefore, by the FC16, to reconsider the strategy advocated and implemented by the FC14 in designing fiscal transfer from the GoI to the states. The same strategy was followed in general by FC15. In Table 4, we have considered average per-year per-capita central transfers for recommendation periods covered under FC13, FC14 and FC15 (FY2021-23 (Actuals), FY24 (RE) and FY25 (BE)).

Table 4: Average per year per-capita central transfers

	FC13	FC14	FC15	FC13	FC14	FC15
	FY2011-15	FY2016-20	FY2021-25	FY2011-15	FY2016-20	FY2021-25
	INR			Growth (%)		
Average per year per-capita central transfers						
All States	3,988	7,805	11,604	87.9	95.7	48.7
GS Group total	3,594	7,225	10,610	89.0	101.1	46.8
NEHS Group total	10,995	18,124	29,420	81.8	64.8	62.3
Average per year per capita FC transfers (SCT+FC grants)						
All States	2,639	5,438	8,352	89.2	106.1	53.6
GS Group total	2,495	5,066	7,709	91.8	103.0	52.2
NEHS Group total	5,190	12,066	19,872	69.1	132.5	64.7
Average per year per capita Non-FC transfers						
All States	1,349	2,367	3,253	85.5	75.5	37.4
GS Group total	1,098	2,159	2,901	82.9	96.7	34.4
NEHS Group total	5,805	6,058	9,548	94.9	4.4	57.6

Source (basic data): RBI State Finances database, MoSPI
Note: All states data excludes Jammu and Kashmir for FC13 and FC14 to make the data comparable

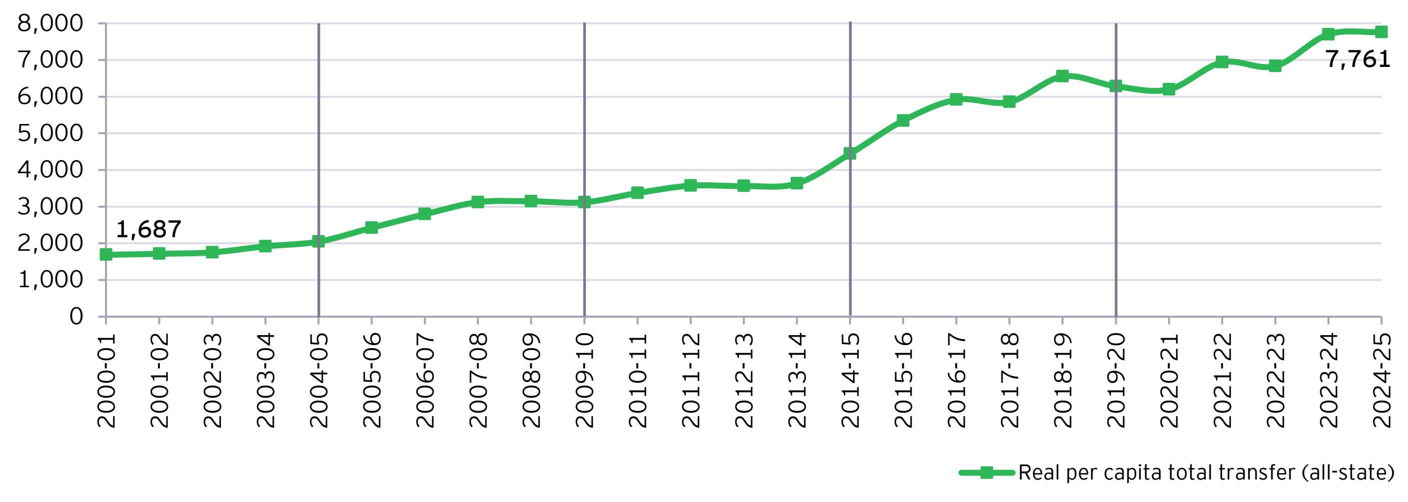
The following observations can be made based on Table 1.

1. Average per year per capita central transfers for all states taken together increased by 95.7% in the FC14 period as compared to the FC13 period, and 48.7% in the FC15 period as compared to the FC14 period. The pattern of increase was, however, different between the GS group and the NEHS group of states.
2. In the case of the GS group, for the FC14 period, the growth in average per year per capita central transfers, comprising FC and non-FC transfers, was higher at 101.1% as compared to 64.8% for the NEHS group.
3. Considering only FC transfers, that is, tax devolution (SCT) and FC grants, this percentage increase were even higher at 103.0% for GS group and 132.5% for the NEHS group for the FC14 period.
4. The corresponding percentage increases for the FC15 period over the FC14 period were relatively lower.

Since these are nominal numbers, it is useful to consider also how inflation behaved during these periods. For this purpose, we consider year-wise real per capita transfers estimated using the year-wise implicit price deflator (derived from GDP) to get an idea as to the increase in fiscal transfers in real terms. Chart 7 shows that the bulge in fiscal transfers in real terms got initiated in FY14 and gathered momentum FY15 onwards. This covers the last year of the FC13 and the period under FC14 recommendations. The two local troughs at FY18 and FY21 are mainly due to the introduction of GST in FY18 and the impact of COVID in FY21. As compared to FY01, the real per-year per capita total transfers have increased from INR1,687 to INR7,761 in FY25, an increase by a factor of 4.6.

[3] Number of states under General States (GS) are 18 and they are: Andhra Pradesh, Bihar, Chhattisgarh, Goa, Gujarat, Haryana, Jharkhand, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Odisha, Punjab, Rajasthan, Tamil Nadu, Telangana, Uttar Pradesh, West Bengal.
Number of states grouped under NEH category are 10 and they are: Arunachal Pradesh, Assam, Himachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura, Uttarakhand.

Chart 7: Real per-year per capita total transfers from the GoI to all-states (INR)



Source (basic data): RBI State Finances database, MoSPI
Note: Real magnitudes are estimated by applying implicit price deflator for GDP on nominal magnitudes

5.3 Higher fiscal transfers to states and states' own revenue receipts

Average per capita own revenue receipts during the recommendation period of FC14, showed much lower increase at 55.5% as compared to the increase in average per year central transfers of nearly 95% in the FC13 period (Table 5). This can be decomposed into corresponding changes in per capita own tax revenues and per capita own non-tax revenues. In the case of own tax revenues, the average per year per capita increase in the FC14 period was only 55.3% for all states as compared to 105.7% in the FC13 period. This clearly reflects that the increase in fiscal transfers was partly accompanied by reduction in the growth in own tax revenues in per capita terms subsequent to the FC14 recommendations as compared to the FC13 period. In contrast, however, own non-tax revenues showed a better performance in the FC14 period as compared to the FC13 period.

There is also notable difference in the relative impacts on the GS group of states vis-à-vis the NEH group of states. In particular, the NEHS group showed better performance in own tax revenues as compared to the GS group of states for the FC14 period although their growth rates were also lower than their corresponding levels in the FC13 period.

Table 5: Average per year per-capita own revenue receipts (INR)

	FC13	FC14	FC15	FC13	FC14	FC15
	FY2011-15	FY2016-20	FY2021-25	FY2011-15	FY2016-20	FY2021-25
	INR			Growth (%)		
Average per year per capita own revenue receipts						
All States	6,155	9,571	14,585	94.9	55.5	52.4
GS Group total	6,233	9,676	14,744	96.0	55.3	52.4
NEHS Group total	4,778	7,687	11,740	72.4	60.9	52.7
Average per year per capita own tax revenue						
All States	5,203	8,080	12,528	105.7	55.3	55.1
GS Group total	5,298	8,203	12,705	105.5	54.8	54.9
NEHS Group total	3,516	5,881	9,371	112.2	67.3	59.3
Average per year per capita own non-tax revenue						
All States	952	1,491	2057	51.4	56.6	38.0
GS Group total	935	1,473	2040	55.3	57.6	38.4
NEHS Group total	1,262	1,806	2369	13.3	43.1	31.2

Source (basic data): RBI State Finances database, MoSPI
Note: All states data excludes Jammu and Kashmir for FC13 and FC14 to make the data comparable

States' own revenue receipts are, however, not necessarily independent of fiscal transfers. In fact, fiscal transfers may generate both an income effect and a substitution effect on own revenue receipts. Fiscal transfers get converted into state expenditures and thereby, add to overall fiscal capacity of the state which may lead to higher tax and non-tax revenues for the states. Further, higher fiscal transfers may result in lower own tax and non-tax effort since the resource has already become available. In that case, fiscal transfers would result in a substitution effect, that is, substitution of fiscal transfers for own revenue effort. The extent of these two effects may differ from state to state. However, in the present analysis, we are looking only at the aggregate level of states and at the group level. Table 6 shows that in the case of FC14, with respect to central transfers, there was an increase of 1.07% points of aggregate GSDP of states as compared to the FC13 period. The corresponding increase for the FC15 period (first three years)[4] was 1.03% points over the central transfers of the FC13 period. These increases were due to increases in states' share in central taxes and central grants to states. At the same time, own revenue receipts relative to the aggregate of GSDP for the states fell in the case of FC14 period ((-)0.34% points) as well as FC15 period ((-)0.71% points) relative to that for the FC13 period. These adverse impacts were relatively larger for the GS group of states compared to the NEH group of states measured in terms of the aggregates of their group GSDPs.

Table 6: Components of states' revenue receipts to GSDP ratio

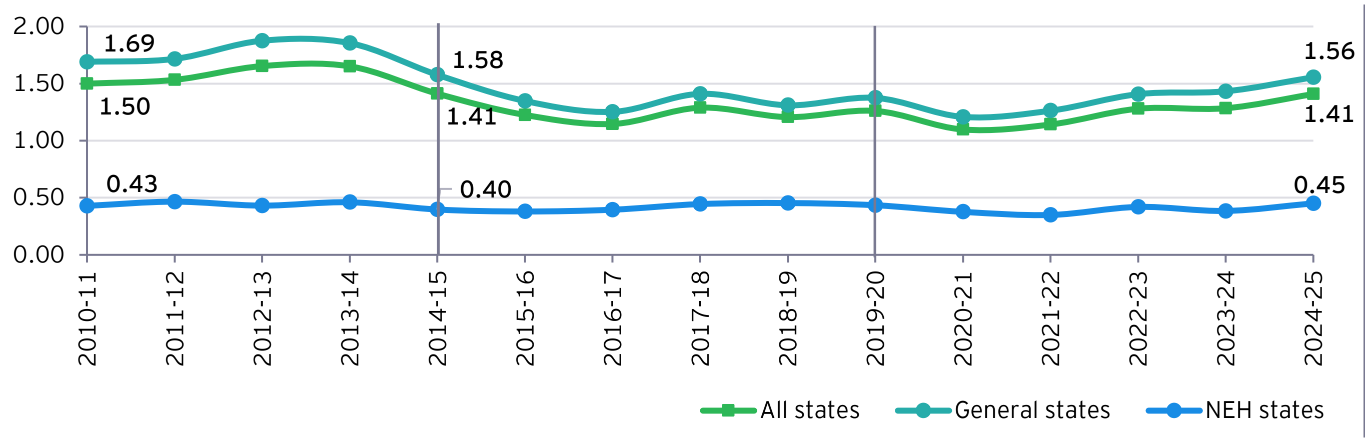
Fiscal aggregates	FC13	FC14	FC15 (first three years)	*FC14 minus FC13*	*FC15 minus FC13*
	FY2011-15	FY2016-20	FY2021-23		
Total central transfers					
All States	0.0513	0.0620	0.0617	***0.0107***	***0.0103***
GS Group total	0.0461	0.0573	0.0563	***0.0111***	***0.0102***
NEHS Group total	0.1466	0.1498	0.1641	***0.0032***	***0.0176***
Of which Share in Central Taxes					
All States	0.0301	0.0382	0.0355	***0.0081***	***0.0054***
GS Group total	0.0292	0.0363	0.0334	***0.0071***	***0.0043***
NEHS Group total	0.0478	0.0736	0.0752	***0.0258***	***0.0275***
Own Revenue Receipts					
All States	0.0793	0.0759	0.0722	***-0.0034***	***-0.0071***
GS Group total	0.0801	0.0766	0.0727	***-0.0036***	***-0.0074***
NEHS Group total	0.0639	0.0631	0.0625	***-0.0008***	***-0.0014***

Source (basic data): RBI State Finances database, MoSPI

Chart 8 shows that real per capita own revenue receipts fell sharply in both periods, that is the FC14 and the FC15 periods, when transfers from the GoI to the states increased. States' own revenue receipts have fallen from a level of 1.50 times the real per capita transfers in FY11 to close to 1.41 times by FY25 (BE). The sharpest fall in this ratio is seen during FY15 to FY17, a period largely under FC14 recommendation and it remained close to this level until FY24. Thus, higher central transfers have been accompanied by lower own revenue receipts in per capita real terms (Chart 9).

[4] State wise GSDP data is available only till 2022-23 for all states.

Chart 8: Ratio of real per capita own revenue receipts to real per capita transfers from the GoI to states (all-state level)



Source (basic data): RBI State Finances database, MoSPI
Note: Real magnitudes are estimated by applying implicit price deflator for GDP on nominal magnitudes

5.4 Higher fiscal transfers and profile of debt and fiscal deficit of states relative to GSDP

We also notice that higher fiscal transfers have been accompanied by a deterioration in fiscal deficit (derived as change in debt) and debt relative to GSDP in the case of states. In spite of the higher fiscal transfers, the level of fiscal deficit and debt relative to GSDP increased for the states in the FC14 period. As Table 7 shows, during the FC14 period, fiscal deficit (average) and debt (end-of-period) of all states, relative to GSDP increased by 1.1% points and 4.4% points of GSDP respectively over their corresponding levels in the FC13 period. The increase in fiscal deficit for the GS states relative to GSDP was relatively higher at 1.1% points in the FC14 period as compared to the corresponding increase of 0.4% points in the case of the NEH group of states. The debt and fiscal deficit relative to GSDP also increased for both the groups in the case of FC15 period.

Table 7: FC-wise debt and fiscal deficit to GSDP ratios

	FC13	FC14	FC15	FC13	FC14	FC15
	FY2011-15	FY2016-20	FY2021-25	FY2011-15	FY2016-20	FY2021-25
	% to GSDP			Change (% point)		
Debt-GSDP (end-of-period)						
All States	22.9	27.3	28.8	-4.3	4.4	1.5
GS Group total	22.6	27.1	28.6	-4.2	4.4	1.5
NEHS Group total	30.0	33.5	35.7	-4.8	3.5	2.2
Fiscal deficit-GSDP (avg)						
All States	2.2	3.3	3.4	-0.5	1.1	0.1
GS Group total	2.2	3.3	3.4	-0.5	1.1	0.1
NEHS Group total	2.9	3.3	3.5	-0.8	0.4	0.1

Source (basic data): RBI State Finances database, MoSPI
Note: All states data excludes Jammu and Kashmir for FC13 and FC14 to make the data comparable

5.5 Adverse changes in structure of expenditure

As the debt GSDP ratio increased for the states, it was to be expected that the structure of expenditure may also change since the burden of interest payments could increase leaving less fiscal space for primary expenditures[5]. As shown in Table 8, per year per capita expenditure on interest payments in FC13 period was INR1,257 which increased

[5] Primary expenditure is derived as total expenditure minus interest payments. It is that part of total expenditure of the government that is available for the purchase of goods and provision of public and merit services and spending on infrastructure.

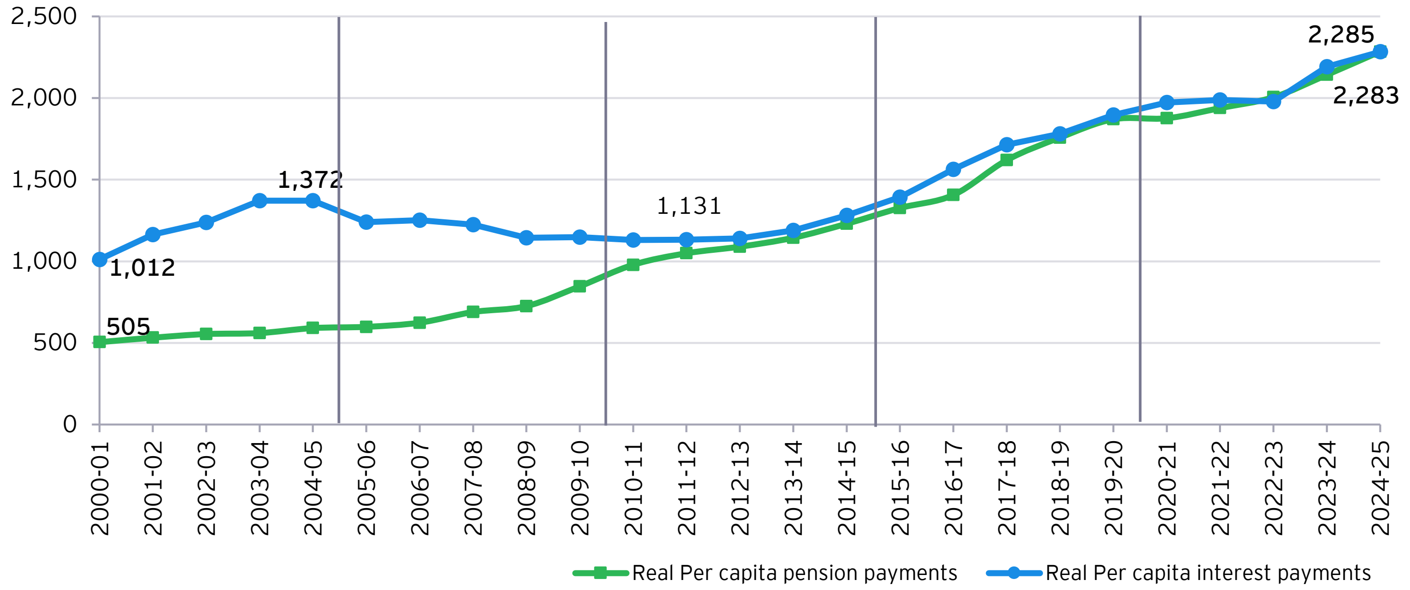
to INR2,179 in FC14 period and further to INR3,405 in FC15 period. The movement in per capita interest payments can also be seen in real terms (Chart 9).

Table 8: Average per year per capita expenditure on general services

	FC13	FC14	FC15	FC13	FC14	FC15
	FY2011-15	FY2016-20	FY2021-25	FY2011-15	FY2016-20	FY2021-25
	INR			Growth (%)		
Interest payments						
All States	1,257	2,179	3,405	45.8	73.4	56.2
GS Group total	1,248	2,178	3,403	46.4	74.4	56.3
NEHS Group total	1,404	2,213	3,437	36.8	57.6	55.3
Pension						
All States	1,178	2,086	3,354	131.8	77.0	60.8
GS Group total	1,145	2,004	3,189	130.5	75.0	59.1
NEHS Group total	1,773	3,549	6,316	148.1	100.2	77.9
General administration excluding interest payments and pensions						
All States	1,165	1,811	2,728	74.7	55.5	50.6
GS Group total	1,098	1,707	2,576	75.8	55.4	50.9
NEHS Group total	2,349	3,672	5,455	66.2	56.4	48.5

Source (basic data): RBI State Finances database, MoSPI
Note: All states data excludes Jammu and Kashmir for FC13 and FC14 to make the data comparable

Chart 9: Real per year per capita pension and interest payments at all-state level (INR)



Source (basic data): RBI State Finances database, MoSPI
Note: Real magnitudes are estimated by applying implicit price deflator for GDP on nominal magnitudes

Chart 9 shows that real per capita interest payments at first increased from a low level of INR1,012 in FY01 to a local peak of INR1,372 in FY05. After that there is a general period of improvement where real per capita interest payments fell to a trough of INR1,131 in FY11. This improvement at least partly reflects, the impact of state governments adopting their fiscal responsibility legislations largely in response to the recommendations of the FC12. FC13 onwards, however, there has been a steady increase in real per capita interest payments and the rate of this increase noticeably accelerated FY16 onwards, that is, after the recommendations of FC14. The situation has not improved after FC15 which broadly followed the FC14 approach. A similar pattern of change is shown for real per capita pension payments which also sharply accelerated FY16 onwards. In fact, the per capita pension payments and per capita interest payments have moved in tandem since FY13.

Table 9: Average per year per capita expenditure on social and economic services

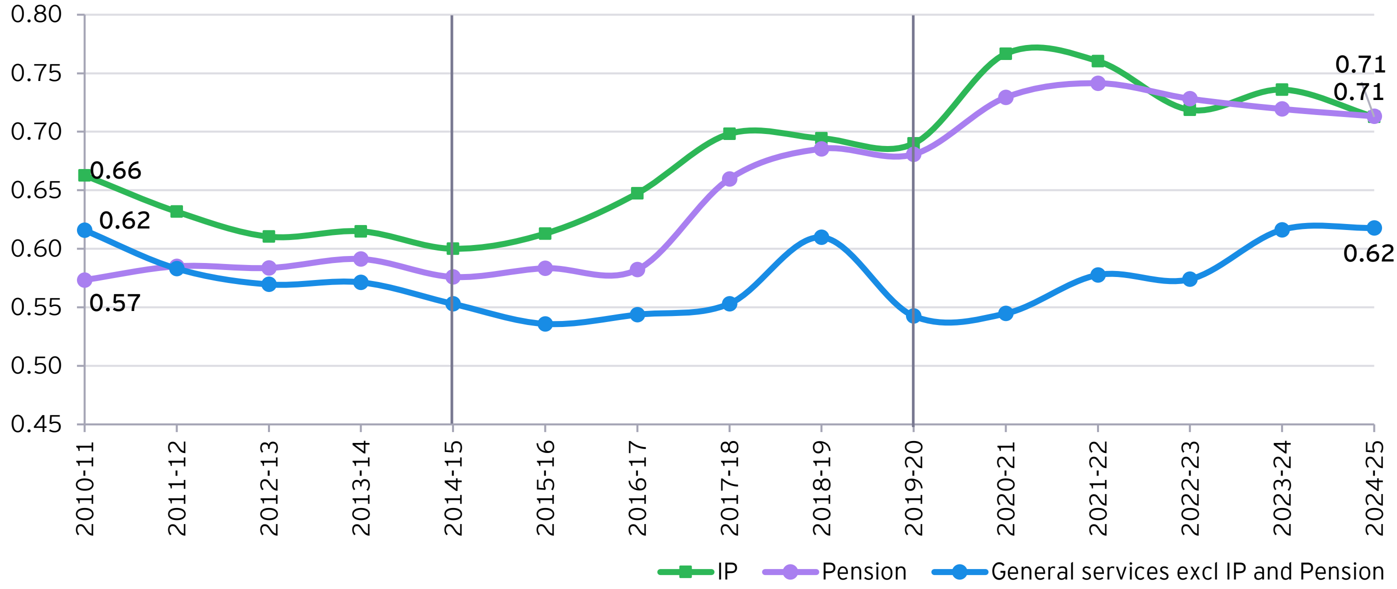
	FC13	FC14	FC15	FC13	FC14	FC15
	FY2011-15	FY2016-20	FY2021-25	FY2011-15	FY2016-20	FY2021-25
	INR			Growth (%)		
Social services						
All States	4,020	7,012	10,975	111.2	74.4	56.5
GS Group total	3,926	6,864	10,696	111.9	74.9	55.8
NEHS Group total	5,705	9,631	15,979	103.5	68.8	65.9
Economic services						
All States	2,244	4,126	6,141	95.6	83.8	48.8
GS Group total	2,192	4,056	6,041	97.5	85.0	48.9
NEHS Group total	3,174	5,367	7,934	75.2	69.1	47.8

Source (basic data): RBI State Finances database, MoSPI
Note: All states data excludes Jammu and Kashmir for FC13 and FC14 to make the data comparable

Pattern of expenditure priority

To highlight the relative priority accorded to different broad categories of expenditures at the all-state level we have benchmarked expenditures in different categories with respect to per capita expenditure on education. Here, the ratios of one category of expenditure aggregate vis-à-vis the expenditure on education does not change whether we measure expenditures in real or nominal terms as along as the deflators for the two categories of expenditures are the same. We have chosen per capita expenditure on education as a desirable priority service since it is a merit service with which high positive externalities are associated. Also, it is the expenditure on education which is considered to be the most relevant in the context of India's unfolding demographic dividend. The growing numbers of employable youth can only be productively employed after they are adequately trained, educated and skilled. If this ratio shows an increase over time, it reflects a higher priority for the concerned service being accorded by the states as compared to the priority attached to education. In other words, it reflects an adverse movement in the priority structure of state expenditures.

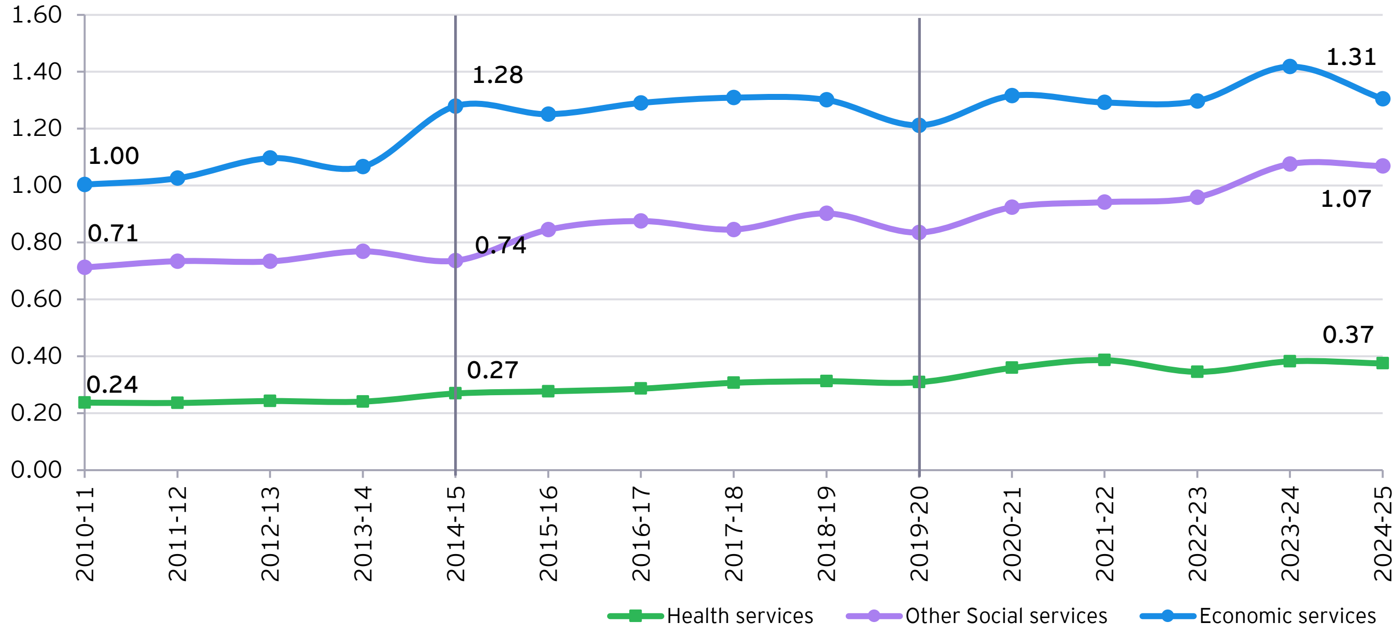
Chart 10: Per year per capita expenditure for all states on general services benchmarked to education services



Source (basic data): RBI State Finances database, MoSPI
Note: All states data excludes Jammu and Kashmir for FC13 and FC14 to make the data comparable

Charts 10 and 11 show an increasing priority relative to education for interest payment, pension, general services excluding interest payment and pensions, other social services and economic services noticeably FC14 period onwards. Arguably, all of these changes reflect adverse changes in expenditure priorities in the case of state governments. The only case where it can possibly be justified is that of health. In this case also, there is an upward movement but even after taking into account the COVID related upward changes in FY21 and beyond, the per capita expenditure on health relative to that on education is still only 37% in FY25.

Chart 11: Per year per capita expenditure on other social services and economic services benchmarked to education services



Source (basic data): RBI State Finances database, MoSPI
Note: All states data excludes Jammu and Kashmir for FC13 and FC14 to make the data comparable

Most of the so-called freebies reside in other social services and economic services. Other social services include social security and welfare, labor and employment, water supply and sanitation, and welfare of SC/STs. Similarly economic services include road transport services, other rural employment programs and power.

It may be noted that in this writeup we have considered the aggregate of state finances without going into the issue of inter-se allocation of transfers amongst states, that is, the horizontal dimension of fiscal transfers.

5.6 The Way Forward

It is shown in this review of state finances that the strategy advocated by FC14 and broadly followed by FC15 favoring larger unconditional transfers to the states has been associated with significant adverse impacts. In fact, FC14 period onwards both central and state finances have suffered. The impact on central finances has been discussed elsewhere[6]. In this writeup, we have undertaken a preliminary analysis of the adverse impact on state finances. In view of these findings, it is important to thoroughly recast the design of fiscal transfers from the GoI to the states. In particular, the following may be considered by FC16 which is presently deliberating on the subject:

1. Vertical transfers should be determined such that available fiscal space is nearly equally divided between the GoI and the states after transfers. This means that the shares of the GoI and of the aggregate of states in total primary expenditure are nearly equal[7]. At best, these ratios can be 52:48 in favor of the states. Similarly, interest payments, net of intergovernmental interest flows, should be nearly equally divided between the GoI and the states. Alongside, fiscal deficit and total government debt would also be nearly equally divided between the two tiers of governments. This may lead to a stable and productive fiscal relationship between the GoI and states, both contributing to the evolution of Viksit Bharat.

[6] Srivastava, D. K. (2025). Resolving Vertical and Fiscal Imbalances in India: A Task for the Sixteenth Finance Commission. *The Indian Economic Journal*, *0*(0). https://doi.org/10.1177/00194662241303987,
Rangarajan, C, and D K Srivastava, *Federalism and Fiscal Transfers in India*, Second Edition (Oxford, 2025; online edn, Oxford Academic, 5 Dec. 2024), https://doi.org/10.1093/9780198930426.001.0001.
[7] For details, see infocus sections of EY Economy Watch November and December 2024 editions

2. States should be subjected to a hard budget constraint. Fiscal transfers should be linked to incentives that encourage i) higher tax and non-tax revenue effort on behalf of the states, ii) establishment of balance on revenue account and iii) higher priority to education and health. Maintenance of balance on revenue account would automatically imply that the entire fiscal deficit is spent on infrastructure expansion.
3. If limiting unconditional fiscal transfers calls for reduction in the share of states in the divisible pool, part of this reduction can be neutralized by an increase in transfers in the form of grants, provided these are not determined on the basis of gap filling. For determining grants, instead of a revenue deficit approach, the approach can be that of revenue needs as specified in Article 275 (1) of the Constitution of India. In order to properly implement this, a suitable normative approach to determine revenue needs grants should be developed and implemented.
   These unconditional transfers may also be supplemented by some conditional and specific purpose transfers. Such transfers may supplement the information base used for determining fiscal transfers. As specific needs of states are attended to, the FC recommended fiscal transfers are likely to be based on a richer information base reflecting the distinct needs and characteristics of India’s varied states.

6 Money and finance: Growth in gross bank credit moderated to 11.8% in November 2024

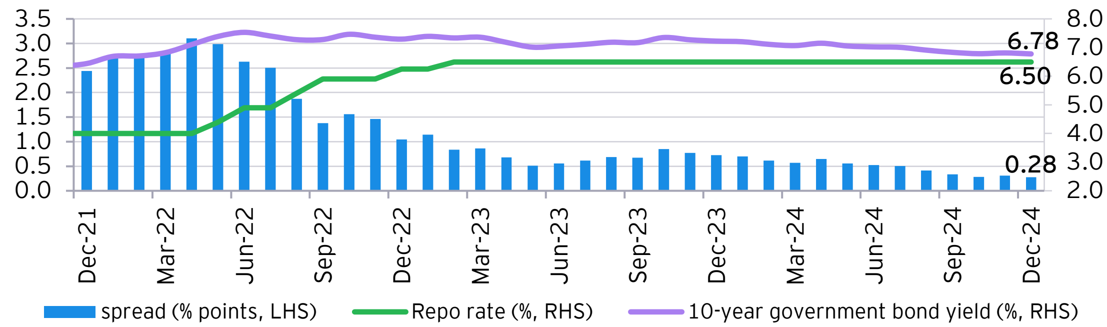
Home

6.1 Monetary sector

Monetary policy

- In its December 2024 monetary policy review, the Monetary Policy Committee (MPC) retained the repo rate at 6.5% for the 11th successive time along with maintaining the policy stance as 'neutral' **(Chart 12).**
- In RBI's assessment, CPI inflation is expected to ease to 4.5% in 4QFY25 from 5.6% in 3QFY25. As per the RBI, one of the major contributors to the moderation in CPI inflation is the fall in food inflation driven by seasonal easing of vegetable prices and the arrival of kharif harvest. However, the RBI points out that upside risks to food inflation could emanate from adverse weather events and rise in international agricultural commodity prices.

Chart 12: Movements in the repo rate and 10-year government bond yield



Growth in gross bank credit fell to a 31-month low of 11.8% in November 2024 from 12.8% in October 2024.

Source: Database on Indian Economy, RBI

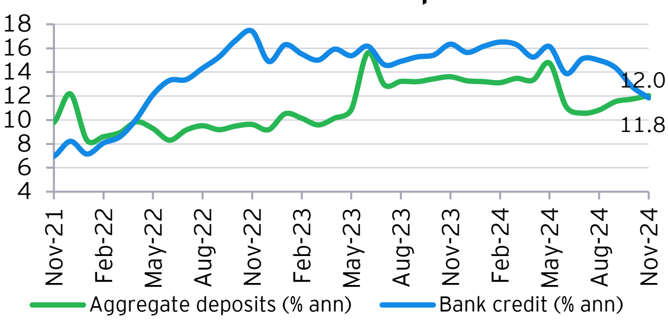
Money stock

- Growth in broad money stock (M3)[8] fell to a 21-month low of 9.3% in December 2024 from 11.1% in November 2024 as growth in both M1 and time deposits moderated during the month.
- Time deposits, the largest component of M3, grew by 10.4% in December 2024, its slowest pace since April 2023, moderating from 12% in November 2024.
- Growth in narrow money (M1) moderated to 6.0% in December 2024, its lowest level since October 2017, from 8.4% in November 2024 as growth in demand deposits fell sharply to 5.1% in December 2024 from 11% in November 2024. Currency with the public, however, grew by 6.3% in December 2024 improving from 5.8% in November 2024.

Aggregate credit and deposits

- Growth in gross bank credit fell to a 31-month low of 11.8% in November 2024 from 12.8% in October 2024 **(Chart 13).**
- Non-food credit growth also eased to 11.8% in November 2024 from 12.8% in October 2024.
- Growth in agricultural credit was marginally lower at 15.3% in November 2024 as compared to 15.5% in October 2024.
- A comparison of credit growth across sectors indicates that personal loans showed the highest growth of 16.3% in November 2024 improving from 15.8% in October 2024. Within personal loans, housing loans, the largest component of personal loans (average share of 49% in total personal loans in the last five years) showed a robust growth of 18% in November 2024 as compared to 17.8% in October 2024. However, vehicle loan growth eased further to 10.3% in November from 11.4% in October 2024 and that in consumer durables fell to 4.8% in November 2024 from 6.6% in October 2024.
- Credit to services, with an average share of 26.6% in total non-food credit (last five years), grew by 14.4% in November 2024 increasing from 14.1% in October 2024.

Chart 13: Growth in credit and deposits



Source: Database on Indian Economy, RBI

[8] The data on M3, demand and time deposits and bank credit exclude the impact of merger of a non-bank with a bank.

- Outstanding credit to industries, having a share of about 27% on average in total non-food credit (last five years), grew by 8.1% in November 2024, close to its level of 8.0% in October 2024.
- Other non-food credit excluding credit to agriculture, industry, services and personal loans showed a sharp contraction of (-)14.4% in November 2024 as compared to a growth of 3.3% in October 2024.
- Within industrial credit, among major segments, credit to infrastructure, having the largest share of 36.5% on average in total industrial credit (last five years), continued to grow at a subdued pace for the second successive month at 1.6% in November 2024. Growth in credit to chemical and chemical products also moderated to 11.4% in November 2024 from 12.7% in October 2024.
- Growth in aggregate deposits rose to a six-month high of 12% in November 2024 from 11.7% in October 2024.

6.2 Financial sector

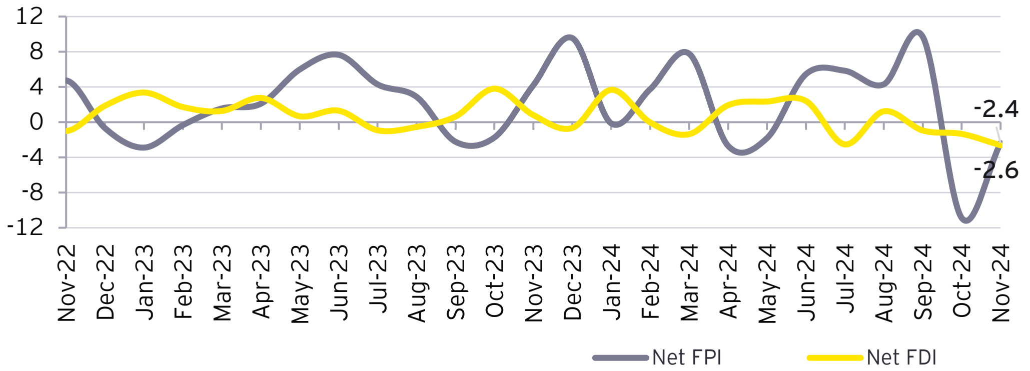
Interest rates

- As per the data released by the RBI in the first week of January 2025, the interest rate on term deposits with a maturity period of more than one year was retained for the fourth consecutive month to average 6.63% in December 2024, with the actual rates ranging between 6.00% and 7.25% during the month.
- Similarly, the average MCLR was at 8.30% for the fourth successive month in December 2024 as the actual MCLR ranged between 8.15% and 8.45% during the month.
- The yield on 10-year government bonds (benchmark) averaged marginally lower at 6.78% in December 2024 as compared to 6.81% in November 2024 **(Chart 12)**. Benchmark bond yield averaged lower at 6.93% during April-December FY25 as compared to 7.17% during the same period of FY24.
- WALR on 'Fresh Rupee Loans' (FRL) by SCBs fell by 14 basis points to 9.40% in November 2024 from 9.54% in October 2024. During April-November FY25, WALR-FRL averaged higher at 9.42% as compared to 9.34% during the same period of FY24.

FDI and FPI

- As per the provisional data released by the RBI on 18 January 2025, overall foreign investments (FIs) continued to witnessed outflows, although lower at US$5.0 billion in November 2024 as compared to US$12.2 billion outflows in October 2024 **(Chart 14)**.

Chart 14: Net FDI and FPI inflows (US$ billion)



Net FDIs and Net FPIs witnessed outflows amounting to US$2.6 billion and US$2.4 billion in November 2024.

Source: Database on Indian Economy, RBI

- Net FDIs witnessed outflows for the third consecutive month at US$2.6 billion in November 2024, increasing from US$1.3 billion outflows in October 2025. Even while gross FDI inflows were at US$5.4 billion in November 2024, the cumulative impact of higher repatriation/disinvestment and sustained outward FDI by India led to negative net FDIs during the month. During April-November FY25, net FDI inflows were at a historic low of US$0.5 billion as compared to US$8.5 billion during the corresponding period in FY24.
- Net FPIs witnessed outflows for the second consecutive month amounting to US$2.4 billion in November 2024, although lower than US$10.9 billion in October 2024. During April-October FY25, net FPI inflows on a cumulated basis amounted to US$7.5 billion as compared to US$23.1 billion net inflows seen during the corresponding period in FY24.

7 Trade and CAB: Current account showed a deficit of (-)1.2% of GDP in 2QFY25

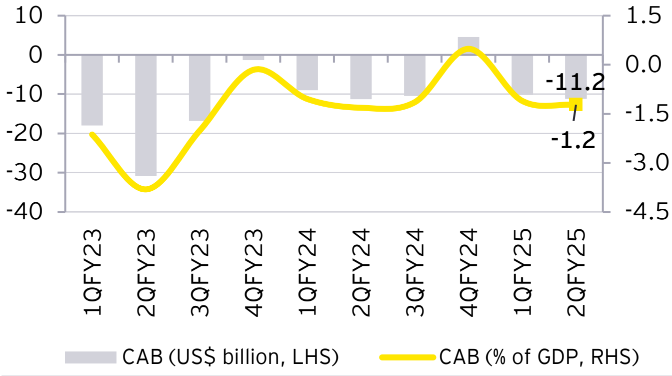
7.1 CAB was at (-)1.2% of GDP in 2QFY25 as compared to (-)1.1% in 1QFY25

- Current account showed a deficit of (-)1.2% of GDP in 2QFY25 **(Chart 15)**. Net merchandise trade deficit widened to 8.2% of GDP in 2QFY25 from 7.0% in 1QFY25 as merchandise exports eased to 11.4% from 12.0% and merchandise imports expanded to 19.6% from 19.0% of GDP over the same period.
- Surplus on account of net invisibles improved to 7.0% of GDP in 2QFY25 from 5.9% in 1QFY25 (**Table 10**) as net services surplus and net private transfers increased to three-quarter highs of 4.9% and 3.2% of GDP respectively in 2QFY25. Deficit on income account fell to a 10-quarter low of 1.0% of GDP in 2QFY25.

Table 8: Components of CAB in US$ billion

Fiscal year	CAB as % of nominal GDP	CAB	Merchandise net	Invisibles* net
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
FY24	-0.7	-26.1	-244.9	218.8
3QFY24	-1.1	-10.4	-71.6	61.2
4QFY24	0.5	4.6	-52.0	56.6
1QFY25	-1.1	-10.2	-65.1	54.9
2QFY25	-1.2	-11.2	-75.3	64.1

Chart 15: CAB



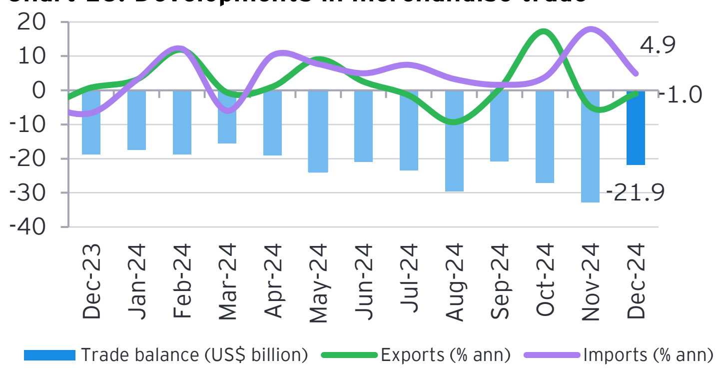
Source: Database on Indian Economy, RBI; Note: (-) deficit; (+) surplus; *invisibles include services, current transfers and income components

7.2 Merchandise trade and exchange rates

Merchandise exports showed a contraction for the second successive month at (-)1.0% in December 2024 even as growth in imports eased to 4.9% in December 2024 from 17.9% in November 2024.

- Oil exports contracted for the seventh successive month, although at a lower pace of (-)28.6% in December 2024 as compared to (-)49.7% in November 2024 reflecting lower global crude prices. Imports of oil grew at a softer pace of 2.2% in December 2024 as compared to 7.9% in the previous month.
- Growth in exports of engineering goods eased to 8.3% in December 2024 from 13.7% in November 2024. Electronic goods exports continued to show a robust growth of 35.1% in December 2024, although lower than 54.7% in November 2024. The pace of contraction in exports of gems and jewelry remained nearly steady for the second successive month at (-)26.5% in December 2024.
- Growth in gold imports remained high at 55.4% in December 2024, although lower than 185.6% in November 2024. Gold import figures were revised down for the period April to November 2024 by the GoI. The pace of contraction in imports of coal, and pearls and precious/semi-precious stones increased to (-)43.4% and (-)42.0% in December 2024 from (-)29.3% and (-)3.3% in November 2024 respectively.
- Growth in exports excluding oil, gold/silver and jewelry moderated to 8.3% in December 2024 from 11.8% in November 2024, while growth in imports of the same category eased to 3.9% from 6.1% over the same period.
- Merchandise trade deficit eased to a six-month low of US$21.9 billion in December 2024 from an unprecedented high of US$32.8 billion in November 2024 (Chart 16).
- Deficit on account of trade in goods and services surged to US$18.0 billion in November 2024 from US$10.0 billion in October 2024.

Chart 16: Developments in merchandise trade



Source: Ministry of Commerce and Industry, GoI

- The Indian Rupee depreciated to INR85.0/US$ (average) in December 2024 from INR84.4/US$ in November 2024 mainly due to foreign investment outflows.

8 Global growth: World Bank projected global growth at 2.7% in 2025 and 2026

Home

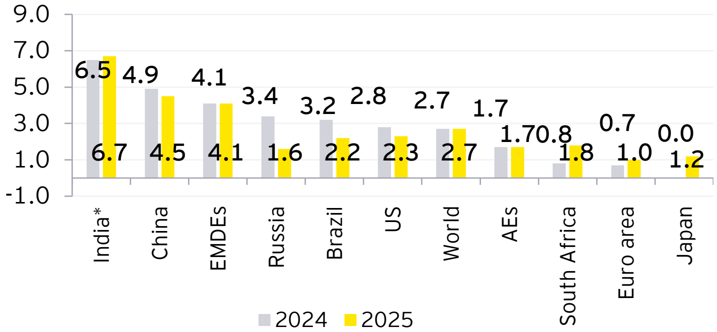
8.1 Global growth

- The World Bank (Global Economic Prospects, January 2025) estimated global growth at 2.7% in 2024 while projecting it to remain at this low level even during 2025 and 2026. According to World Bank, further headwinds to global growth could possibly emanate from heightened policy uncertainty, adverse trade policy shifts, geopolitical tensions, persistent inflation, and climate-related natural disasters.
- Growth in AEs is also estimated to be low at 1.7% in 2024 and 2025 largely owing to moderation in the growth of the US and a continuing subdued growth in the Euro area. In 2026, it is projected improve to 1.8%. Growth in EMDEs is estimated at 4.1% in 2024, remaining stable at this level in 2025 but moderating marginally to 4% in 2026.

The World Bank has projected global growth at 2.7% in 2025. India's growth is forecasted at 6.5% in FY25 and 6.7% in FY26.

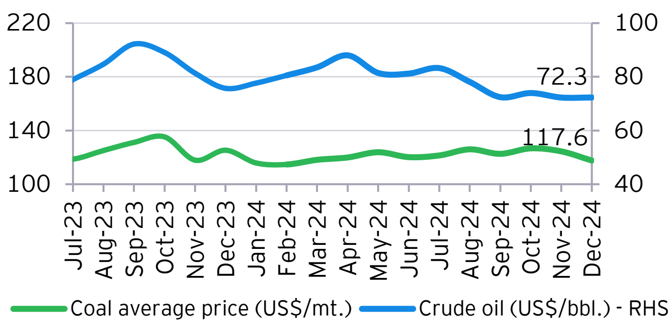
- Growth in the US is estimated at 2.8% in 2024 while it is projected to gradually ease to 2.3% and 2% respectively in 2025 and 2026. This is largely attributable to an anticipated lower growth in investment spending in the coming years.
- Growth in the Euro area is estimated to remain low at 0.7% in 2024 but improve to 1.0% and further to 1.2% respectively in 2025 and 2026 **(Chart 17)**. Although the growth outlook for Euro area remains uncertain, slow recovery is anticipated on the basis of improvements in investment and trade growth. Further, exports from Euro area is likely to strengthen alongside an anticipated improvement in global manufacturing activity while on the sectoral front, economic growth is expected to be supported by expansion in services sector.
- Growth in China is estimated to fall to 4.9% in 2024 from 5.2% in 2023. Growth is projected to moderate to 4.5% in 2025 and further to 4% in 2026 due to weak consumption as consumer confidence remained subdued. In addition, growth in China is likely to be affected by rising corporate and public sector debt levels, impacting growth in investments, slowing productivity growth thereby limiting incomes and consumption growth.
- GDP growth in India is estimated to be lower at 6.5% in 2024 (FY25) as compared to 8.2% in 2023 (FY24). India is projected to maintain the fastest growth rate among major global economies at 6.7% in both 2025 (FY26) and 2026 (FY27). This is likely to be supported by strong services sector activity even while the manufacturing activity is expected to strengthen, supported by government policy initiatives.

Chart 17: Global growth projections (%)



Source: World Bank: Global Economic Perspectives (January 2025)
*Data pertains to fiscal years FY25 and FY26 respectively

Chart 18: Global crude and coal prices



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

8.2 Global energy prices: Global crude price remained stable at US$72.3/bbl. in December 2024

- Average global crude price[9] remained stable at US$72.3/bbl. for the second consecutive month in December 2024 **(Chart 18).** In 2QFY25, average global crude prices fell to a 13-quarter low of US$72.9/bbl., as compared to US$77.9/bbl. in 1QFY25.
- Average global coal price[10] eased to an eight-month low of US$117.6/mt. in December 2024 from US$124.5/mt. in November 2024 largely owing to a sharp fall in the price of Australian coal. Global coal prices averaged lower at US$122.9/mt in 2QFY25 as compared to US$123.4/mt. in 1QFY25. According to the December 2024 edition of Australia's Resources and Energy Quarterly, thermal coal prices (spot) are expected to decline from around US$136 per tonne in 2024 to about US$129 per tonne in 2025 and further to US$114 per tonne in 2026 due to an anticipated easing of global demand for thermal coal amidst stable supply[11].

[9] Simple average of three spot prices, namely, Dated Brent, West Texas Intermediate and Dubai Fateh
[10] Simple average of Australian and South African coal prices.
[11] https://www.industry.gov.au/sites/default/files/2024-12/reqdec2024_03_03_0.pdf

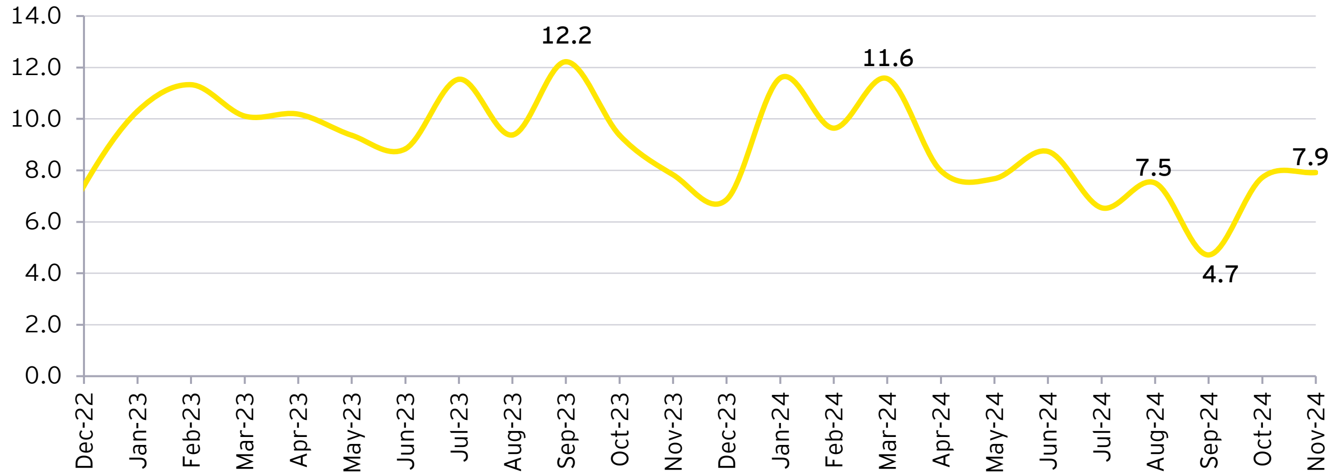
9 Index of Aggregate Demand (IAD): Grew by 7.9% in November 2024

Home

9.1 Growth in IAD increased marginally to 7.9% in November 2024 from 7.7% in October 2024

- Demand conditions continued to improve for the second straight month as indicated by the growth in IAD[12] which increased to 7.9% in November 2024 from 7.7% in October 2024 **(Chart 19 and Table 11)**.
- Demand conditions in the services sector remained strong in November 2024 as evidenced by PMI services (sa) at 58.4 as compared to 56.9 during November 2023. In October 2024, PMI services was at 58.5.
- Similarly, the manufacturing sector also saw a pickup in demand as indicated by manufacturing PMI, whose level was marginally higher at 56.5 in November 2024 as compared to a level of 56 in the corresponding month of FY24. In October 2024, manufacturing PMI was higher at 57.5.
- Demand conditions in the agricultural sector, however, eased as reflected by a further moderation in the growth in agricultural credit to 15.3% in November 2024 from 15.6% in October 2024.

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



Source (Basic data): S&P - IHS Markit PMI, RBI and EY estimates

Table 9: IAD

Month	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24
IAD	178.1	178.7	178.7	180.4	180.2	181.0	177.5	179.6	179.9
Growth (% y-o-y)	11.6	8.0	7.7	8.7	6.5	7.5	4.7	7.7	7.9
Growth in agr. credit	20.2	19.7	21.4	17.2	18.1	17.7	16.4	15.6	15.3
Mfg. PMI**	9.1	8.8	7.5	8.3	8.1	7.5	6.5	7.5	6.5
Ser. PMI**	11.2	10.8	10.2	10.5	10.3	10.9	7.7	8.5	8.4

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 Manufacturing and Services are seasonally adjusted

[12] 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.

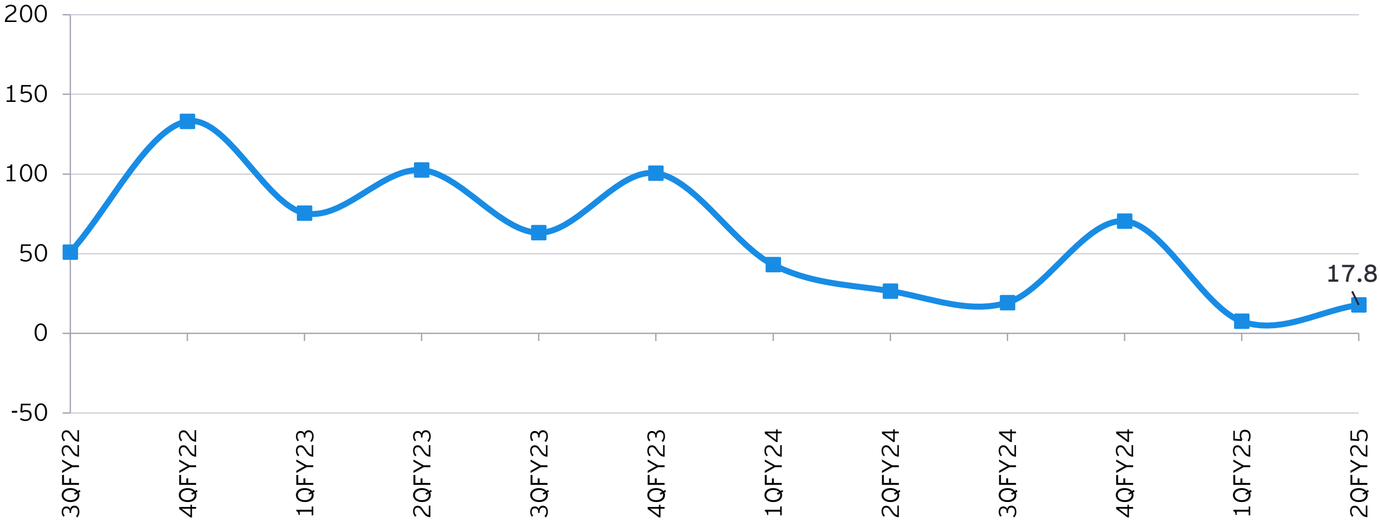
10 Index of Macro Imbalance (IMI): Pointed to marginal deterioration in macro balance in 2QFY25

Home

10.1 The level of IMI increased to 17.8 in 2QFY25 from 7.5 in 1QFY25

- IMI[13] indicated a slight deterioration in the macro balance in 2QFY25 with the index value increasing by 10.3 points to 17.8 from 7.5 in 1QFY25 **(Chart 20)**. This is largely attributable to an increase in GoI's fiscal deficit to GDP ratio above its benchmark during the quarter.
- GoI's fiscal deficit to GDP ratio increased to 4.4% in 2QFY24, 1.4% points above the benchmark value of 3%, from 1.8% in 1QFY25. It contributed the highest to macro imbalance in 2QFY25.
- CPI inflation averaged lower at 4.2% in 2QFY25 as compared to 4.9% in 1QFY25 but was still higher than its benchmark value of 4%, thereby contributing positively to the macro imbalance during the quarter. However, its impact in 2QFY25 was relatively lower as compared to the previous quarter.
- The current account deficit at 1.2% of GDP in 2QFY25 was marginally higher as compared to 1.1% of GDP in 1QFY25. However, its level was still below the benchmark value of 1.3% of GDP and therefore, it did not contribute to macro imbalance in 2QFY25.

Chart 20: IMI (quarterly)



Source (Basic data): RBI, MoSPI and EY estimates.

[13] 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% of GDP and (-)1.3% of GDP (*Rangarajan 2016*). 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.
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.)

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							
FY21	-8.4	-7.8	-9.6	-0.5	-7.8	FY21	50.2	41.7
FY22	11.4	12.2	11.8	7.9	12.2	FY22	54.0	52.3
FY23	5.2	5.8	4.7	8.9	5.8	FY23	55.6	57.3
FY24	5.8	7.5	5.5	7.1	7.5	FY24	57.2	60.3
3QFY24	6.1	8.2	5.4	9.0	8.4	4QFY24	57.5	61.2
4QFY24	5.1	4.9	4.8	7.3	5.8	1QFY25	58.2	60.5
1QFY25	5.5	7.9	4.3	10.8	6.3	2QFY25	57.4	59.6
2QFY25	2.7	-0.1	3.2	1.4	2.4	3QFY25	56.8	58.7
Aug-24	0.0	-4.3	1.2	-3.7	-1.5	Sep-24	56.5	57.7
Sep-24	3.1	0.2	3.9	0.5	2.4	Oct-24	57.5	58.5
Oct-24	3.7	0.9	4.4	2.0	3.7	Nov-24	56.5	58.4
Nov-24	5.2	1.9	5.8	4.4	4.3	Dec-24	56.4	59.3

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				
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
FY24	5.4	7.5	1.2	4.4	-0.7	3.2	-1.7	-4.5	-1.4
4QFY24	5.0	8.5	-1.6	3.4	0.3	4.3	-1.1	-1.6	-1.2
1QFY25	4.9	8.9	-3.8	3.1	2.4	7.6	0.8	0.2	0.3
2QFY25	4.2	6.8	-4.1	3.4	1.8	5.5	1.2	-0.9	0.5
3QFY25	5.6	9.4	-1.6	3.7	2.3	10.0	2.0	-4.6	0.5
Sep-24	5.5	9.2	-1.3	3.5	1.9	9.8	1.1	-3.9	0.0
Oct-24	6.2	10.9	-1.7	3.7	2.8	12.1	1.8	-4.3	0.3
Nov-24	5.5	9.0	-1.8	3.7	1.9	8.9	2.0	-5.8	0.5
Dec-24	5.2	8.4	-1.4	3.7	2.4	8.9	2.1	-3.8	0.7

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	-3.4	-16.1	4.0	-7.8	1.7	4.7	3.3
FY21	0.7	-17.9	-2.3	-10.7	12.7	9.2	7.3
FY22	33.8	55.7	43.5	49.6	20.1	6.7	4.4
FY23	12.7	16.0	20.0	17.9	7.2	6.4	3.9
FY24	13.4	10.3	25.1	17.6	8.2	5.6	2.6
	Cumulated growth (%, y-o-y)					% of budgeted target	
Apr-24	16.9	-6.2	20.6	12.1	19.9	12.5	17.1
May-24	15.8	-19.8	41.6	22.7	7.5	3.1	-15.7
Jun-24	23.7	26.2	49.9	39.9	5.5	8.4	-7.0
Jul-24	21.3	4.8	53.4	33.6	7.1	17.2	3.8
Aug-24	12.1	-6.0	25.5	12.9	9.5	27.0	24.7
Sep-24	12.0	2.3	25.0	13.6	8.4	29.4	12.8
Oct-24	10.8	1.2	20.2	11.1	9.0	46.5	52.2
Nov-24	10.7	-0.5	23.5	12.1	7.6	52.5	61.5

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
Apr-24	91,188	292	-2,645	13,042	1,01,877
May-24	67,653	306	-8,238	11,786	71,507
Jun-24	69,487	279	707	12,940	83,413
Jul-24	72,288	57	-483	12,779	84,641
Aug-24	70,606	352	8,213	11,915	91,086
Sep-24	69,998	338	1,600	11,861	83,797
Oct-24	80,379	323	-9,602	12,159	83,259
Nov-24	82,274	480	-17,406	13,116	78,464

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
Jan-24	6.50	FY21	6.0	11.0	44.0	36.1	FY21	16.2	12.2	6.05	579.3
Feb-24	6.50	FY22	7.0	9.7	38.6	-16.8	FY22	10.7	8.8	6.40	617.6
Mar-24	6.50	FY23	14.4	9.5	28.0	-5.2	FY23	6.9	9.0	7.35	578.4
Apr-24	6.50	FY24	15.7	13.0	9.8	44.1	FY24	7.3	11.1	7.16	645.6
May-24	6.50	3QFY24	15.7	13.4	4.0	12.0	4QFY24	7.3	11.1	7.13	645.6
Jun-24	6.50	4QFY24	16.3	13.3	2.3	11.4	1QFY25	8.5	10.9	7.08	652.0
Jul-24	6.50	1QFY25	15.1	13.0	6.7	0.9	2QFY25	9.2	10.8	6.92	704.9
Aug-24	6.50	2QFY25	14.8	11.0	-2.2	19.9	3QFY25	6.0	9.3	6.79	640.3
Sep-24	6.50	Aug-24	15.0	10.8	1.2	4.3	Sep-24	9.2	10.8	6.83	704.9
Oct-24	6.50	Sep-24	14.4	11.5	-0.9	9.7	Oct-24	9.5	11.1	6.79	684.8
Nov-24	6.50	Oct-24	12.8	11.7	-1.3	-10.9	Nov-24	8.4	11.1	6.81	658.1
Dec-24	6.50	Nov-24	11.8	12.0	-2.6	-2.4	Dec-24	6.0	9.3	6.78	640.3

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		
FY21	-7.0	-16.6	-101.4	74.2	43.8	67.2	2015	3.4	2.3	4.3
FY22	44.7	56.0	-191.0	74.5	78.4	164.8	2016	3.2	1.8	4.4
FY23	6.9	16.8	-264.9	80.4	92.7	283.4	2017	3.8	2.5	4.8
FY24	-4.7	-5.7	-245.3	82.8	81.1	126.4	2018	3.6	2.3	4.6
4QFY24	4.6	2.7	-51.8	82.9	80.6	116.2	2019	2.8	1.7	3.6
1QFY25	4.3	7.6	-63.9	83.4	83.6	121.3	2020	-2.8	-4.2	-1.8
2QFY25	-3.6	4.1	-73.9	83.8	77.9	123.4	2021	6.3	5.6	6.9
3QFY25	3.6	8.6	-81.9	84.5	72.9	122.9	2022	3.5	2.6	4.1
Sep-24	0.5	1.6	-20.8	83.8	72.4	122.6	2023	3.3	1.7	4.4
Oct-24	17.2	3.9	-27.1	84.0	74.0	126.7	2024 (E)	3.2	1.7	4.2
Nov-24	-4.8	17.9	-32.8	84.4	72.3	124.5	2025*	3.3	1.9	4.2
Dec-24	-1.0	4.9	-21.9	85.0	72.3	117.6	2026*	3.3	1.8	4.3

Source: Database on Indian Economy - RBI, Pink Sheet - World Bank and; E = estimates; and *projections as given in January 2025 update of the 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
FY22 (2nd RE)	9.4	4.6	6.3	10.0	10.3	19.9	15.2	5.7	7.5	8.6
FY23 (1st RE)	6.7	4.7	1.9	-2.2	9.4	9.4	12.0	9.1	8.9	6.8
FY24 (PE)	7.2	1.4	7.1	9.9	7.5	9.9	6.4	8.4	7.8	1.2
FY25 (FAE)	6.4	3.8	2.9	5.3	6.8	8.6	5.8	7.3	9.1	2.8
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	8.3	3.7	7.0	5.0	3.2	8.6	9.7	12.6	8.3	0.0
2QFY24	7.7	1.7	11.1	14.3	10.5	13.6	4.5	6.2	7.7	1.5
3QFY24	6.8	0.4	7.5	11.5	9.0	9.6	6.9	7.0	7.5	1.8
4QFY24	6.3	0.6	4.3	8.9	7.7	8.7	5.1	7.6	7.8	1.6
1QFY25	6.8	2.0	7.2	7.0	10.4	10.5	5.7	7.1	9.5	2.8
2QFY25	5.6	3.5	-0.1	2.2	3.3	7.7	6.0	6.7	9.2	2.3

Source: National Accounts Statistics, MoSPI
*Growth numbers for FY21 (3rd revised estimates), FY22 (2nd revised estimates), FY23 (1st revised estimates) are based on the on NAS released by the MoSPI on 29 February 2024. Provisional estimates (PE) for FY24 was released on 31-May-2024. 2Q FY25 growth numbers are based on the quarterly National Accounts Data released on 30-November-2024. FAE for FY25 was released on 07 January 2025.

Fiscal year/quarter	Expenditure components						IPD inflation
	GDP	PFCE	GFCE	GFCF	EX	IM	GDP
FY22 (2nd RE)	9.7	11.7	0.0	17.5	29.6	22.1	8.4
FY23 (1st RE)	7.0	6.8	9.0	6.6	13.4	10.6	6.7
FY24 (PE)	8.2	4.0	2.5	9.0	2.6	10.9	1.3
FY24 (FAE)	6.4	7.3	4.1	6.4	5.9	-1.3	3.2
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	5.5	-0.1	8.5	-6.6	15.2	0.2
2QFY24	8.1	2.6	14.0	11.6	5.0	11.6	1.4
3QFY24	8.6	4.0	-3.2	9.7	3.4	8.7	1.6
4QFY24	7.8	4.0	0.9	6.5	8.1	8.3	2.0
1QFY25	6.7	7.4	-0.2	7.5	8.7	4.4	2.8
2QFY25	5.4	6.0	4.4	5.4	2.8	-2.9	2.5

Source: National Accounts Statistics, MoSPI;
*Growth numbers for FY21 (3rd revised estimates), FY22 (2nd revised estimates), FY23 (1st revised estimates) are based on the on NAS released by the MoSPI on 29 February 2024. Provisional estimates (PE) for FY24 was released on 31-May-2024. 2Q FY25 growth numbers are based on the quarterly National Accounts Data released on 30-November-2024. FAE for FY25 was released on 07 January 2025.

List of abbreviations

Sr. no.	Abbreviations	Description
1	AD	aggregate demand
2	AEs	advanced economies
3	Agr.	agriculture, forests 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

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

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