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Economy Watch

Monitoring India's
macro-fiscal performance

April 2023

The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. A yellow triangle is positioned above the 'Y', pointing to the right. The background of the entire page features a large, glowing blue Indian Rupee symbol (₹) superimposed over a pair of hands cupped together, set against a dark blue background with abstract geometric patterns and light effects.

Building a better
working world



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Highlights

1. In March 2023, PMI indicated a strong rate of expansion in manufacturing and services with their levels at 56.4 and 57.8 respectively.
2. Led by higher growth in manufacturing output, IIP showed a growth of 5.6% in February 2023, nearly unchanged from 5.5% in January 2023.
3. CPI inflation moderated to 5.7% in March 2023 from 6.4% in February 2023 driven by lower food prices. On an annual basis, CPI inflation averaged at a nine-year high of 6.7% in FY23.
4. WPI inflation fell to a 31-month low of 1.3% in March 2023, led by moderating inflation in crude and commodities, as well as aided by a favorable base effect. On an annual basis, WPI inflation averaged 9.4% in FY23 as compared to 13.0% in FY22.
5. The RBI retained the repo rate at 6.5% in its April 2023 monetary policy review.
6. Central government's gross tax revenues (GTR) grew by 12% during April-February FY23 with growth in direct taxes at 16.2% and that in indirect taxes at 8.1%.
7. During April-February FY23, Gol's total expenditure grew by 11.1%, with growth in revenue expenditure at 9.2% and that in capital expenditure at 21.7%.
8. During April-February FY23, Gol's fiscal and revenue deficits as a proportion of RE stood at 82.8% and 83.1% respectively.
9. Growth in gross bank credit by SCBs moderated to 15.5% in February 2023 from 16.3% in January 2023.
10. Merchandise exports and imports contracted for the fourth successive month by (-)13.9% and (-)7.9% in March 2023 as compared to (-)8.8% and (-)8.2% respectively in February 2023 reflecting slowing global demand and lower commodity prices.
11. Merchandise trade deficit increased to US\$(-)19.7 billion in March 2023 from US\$(-)17.4 billion in February 2023.
12. Net FDI inflows fell to US\$1.9 billion in February 2023 from US\$4.1 billion in January 2023.
13. Global crude price fell to a 15-month low of US\$76.5/bbl. in March 2023 from US\$80.3/bbl. in February 2023. On an annual basis, global crude price averaged US\$92.7/bbl. in FY23, up from US\$78.4/bbl. in FY22.
14. The IMF has projected global growth at 2.8% in 2023, with India's FY24 growth forecasted at 5.9%.



▲ 19,580



Foreword

Expecting inflation to trend downwards,
the RBI projects a higher GDP growth

The RBI, based on the deliberations of the Monetary Policy Committee, announced its monetary policy on 6 April 2023, keeping the policy repo rate under the liquidity adjustment facility unchanged at 6.5%. In contrast, the US Fed, on 22 March 2023, had raised the Federal Funds Rate by 25 basis points to range between 4.75% and 5%. The RBI also decided to remain focused on withdrawal of accommodation with a view to ensuring that inflation gets progressively aligned to the policy target while supporting growth. The RBI indicated a lower inflation expectation at 5.2% for FY24 while revising upward, its GDP growth forecast to 6.5%. This implies that as compared to RBI's earlier forecasts in February 2023, CPI inflation was reduced by 10 basis points while growth was increased by the same margin. The RBI's assessment is based on assuming an annual average price of the Indian crude basket at US\$85/bbl. It also assumes a normal monsoon. The RBI takes note of the continuing global economic uncertainties in terms of persistent inflation at elevated levels, tight financial conditions, and continuing geopolitical challenges.

RBI's expectation regarding improvement in the GDP growth rate in spite of these continuing global challenges is predicated on a healthy Rabi output, sustained growth in contact-intensive services that would support urban demand, double digit credit growth, above trend capacity utilization in manufacturing, and the moderation in commodity prices driving manufacturing and investment activity. The RBI takes note of government's recent thrust on expanding capital expenditure with a view to further developing India's infrastructure. As per available information¹, the GoI has indicated that it will start releasing the interest-free capital expenditure loans to state governments in April/May 2023 to ensure that the resultant investments by them are evenly spread out during the year to produce a large growth multiplier.

Recent estimates of India's GDP growth for FY24 by a number of multilateral agencies continue to subscribe to the view that, in spite of the global challenges, India will show a robust growth which is close to 6%. The World Bank, in its India Development Update², has projected India's real GDP growth at 6.3% in FY24. In its assessment, India's economy has been relatively resilient to uncertain external conditions. Domestic demand is expected to remain robust despite an expected moderation in consumption growth due to rising borrowing costs, slower income growth and continued fiscal consolidation. Investment is expected to be supported by the government's sustained capex-push and improved corporate and banking sector balance sheets due to healthy corporate profits and a reduction in non-performing assets (NPAs) respectively. The ADB, in its Asian Development Outlook³, has projected India's growth at 6.4% in FY24, increasing to 6.7% in FY25. The ADB notes that India's growth would remain stronger than that in many peer economies, reflecting relatively robust domestic consumption and lesser dependence on global demand.

The IMF, in its April 2023 issue of the World Economic Outlook⁴, has projected India's growth at 5.9% in 2023 (FY24), increasing to 6.3% in 2024 (FY25). Although these forecasts have been revised downwards by 0.2% points and 0.5% points respectively, India continues to lead global growth in these two years and even beyond until 2028 (FY29). Global growth is projected to remain subdued at 2.8% in 2023, rising slowly and stabilizing at an average of 3% over the period 2024 to 2028 - the lowest medium term forecast in decades. Advanced economies (AEs) are expected to witness an especially pronounced growth slowdown, from 2.7% in 2022 to 1.3% in 2023. While Japan and the US are projected to grow by 1.3% and 1.6% in 2023, Euro area is expected to show an even lower growth at 0.8%. The UK is forecasted to contract by (-)0.3%. China's growth is projected at 5.2% in 2023, falling to 4.5% in 2024 and further to 3.4% by 2028. With respect to CPI inflation, although global headline inflation is projected to moderate to 7% in 2023 from 8.7% in 2022 on account of lower commodity prices and the expected cooling effects of monetary tightening on economic activity, underlying core inflation is expected to decline more gradually. In IMF's assessment, the return of the CPI inflation to the target is unlikely before 2025 in the case of most countries.

¹ <https://www.financialexpress.com/economy/capex-loans-to-start-flowing-to-states/3038463/>

² <https://rb.gy/1truv>

³ <https://www.adb.org/sites/default/files/publication/863591/asian-development-outlook-april-2023.pdf>

⁴ <https://rb.gy/usa0w>



High frequency indicators signal the ongoing recovery in the Indian economy. Manufacturing PMI remained above the threshold of 50 for the 21st consecutive month in March 2023, with its level at a three-month high of 56.4 as compared to 55.3 in February 2023. PMI services also remained above 50 for the 20th successive month in March 2023, with its level at 57.8 as compared to 59.4 in February 2023. As per Federation of Automobile Dealers Association (FADA), automobile retail sales continued to show a double digit growth of 13.9% in March 2023. Led by higher growth in manufacturing output, IIP showed a growth of 5.6% in February 2023, close to 5.5% in January 2023. Gross GST collections were at an eleven-month high level of INR1.6 lakh crore in March 2023. On an annual basis, gross GST collections showed a double-digit growth of 21.4% in FY23.

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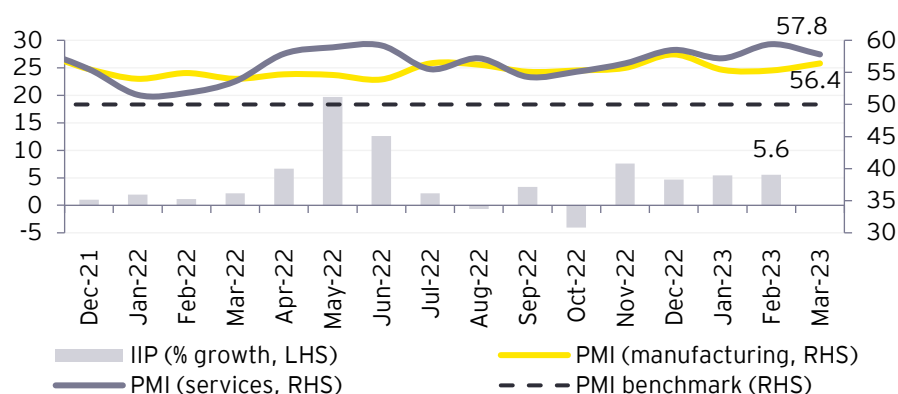


1. Growth: PMI indicated a strong rate of expansion in manufacturing and services in March 2023

A. PMI: indicated a strong expansion in private sector output in March 2023

- ▶ Headline manufacturing PMI (seasonally adjusted (sa)) remained above the threshold of 50 for the 21st consecutive month in March 2023 with its level at a three-month high of 56.4 as compared to 55.3 in February 2023 (Chart 1). On a quarterly basis, PMI manufacturing averaged 55.7 in 4QFY23 as compared to 56.3 in 3QFY23.
- ▶ PMI services also remained above 50 for the 20th successive month in March 2023, with its level at 57.8 as compared to 59.4 in February 2023. On a quarterly basis, PMI services averaged 58.1 in 4QFY23, up from 56.7 in 3QFY23.
- ▶ Despite falling to 58.4 in March 2023 from 59 in February 2023, composite PMI Output Index (sa) showed a sharp rate of expansion that was above its long-run average of 54.1. On a quarterly basis, composite PMI Output Index averaged 58.3 in 4QFY23, increasing from 57.2 in 3QFY23.

Chart 1: PMI and IIP growth



Source: MoSPI and S&P Global.

In March 2023, PMI indicated a strong rate of expansion in manufacturing and services, with their levels at 56.4 and 57.8, respectively.

B. IIP: grew by 5.6% in February 2023

- ▶ According to the quick estimates, IIP grew by 5.6% in February 2023, close to its level of 5.5% (revised) in January 2023 (Chart 1). This was led by a higher growth in manufacturing output.
- ▶ Among the sub-industries, manufacturing output, with a share of 77.6% in the overall IIP, grew at a faster pace of 5.3% in February 2023 as compared to 4% (revised) in January 2023.
- ▶ Within manufacturing, industries that showed strong growth rates include pharmaceutical products (23%), electrical equipment (12.5%), motor vehicles (8.2%), machinery and equipment (10.8%), food products (8.3%), and chemical and chemical products (7.7%).
- ▶ Among other major sub-industries, growth in the output of electricity and mining sector moderated to 8.2% and 4.6% respectively in February 2023 from 12.7% and 8.8% in January 2023.
- ▶ As per the 'use-based' classification of industries, output of consumer non-durables grew by 12.1% in February 2023, improving from 6.3% in January 2023. Growth in capital goods and infrastructure/construction continued to remain strong at 10.5% and 7.9% respectively in February 2023, but was lower than 10.7% and 9.8% respectively in January 2023.
- ▶ According to provisional estimates, growth in the output of eight core infrastructure industries (core IIP) fell to 6% in February 2023 from 8.9% (revised) in January 2023. This moderation was due to relatively lower growth in the output of petroleum refinery products (3.3%), steel (6.9%), electricity (7.6%), and coal (8.5%), and continued contraction in crude oil output ((-4.9%).

Led by higher growth in manufacturing output, IIP showed a growth of 5.6% in February 2023, nearly unchanged from 5.5% in January 2023.

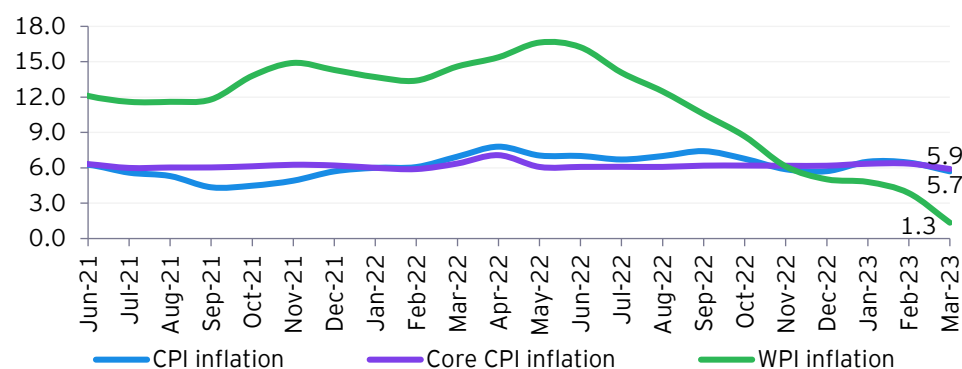


2. Inflation: CPI inflation eased to 5.7% in March 2023

CPI inflation moderated to 5.7% in March 2023 from 6.4% in February 2023 driven by lower food prices (Chart 2).

- ▶ Consumer food inflation eased to 4.8% in March 2023 from 6.0% in February 2023 led by a) a sharper contraction in the price of oil and fats at (-)7.9% as compared to (-)0.5% over the same period, and b) inflation in meat and fish turning negative for the first time (2012 base series) at (-)1.4% in March 2023.
- ▶ Vegetable prices continued to contract, although by a lower magnitude of (-)8.5% in March 2023 as compared to (-)11.5% in the previous month.
- ▶ Fuel and light-based inflation eased for the third successive month to a 12-month low of 8.9% in March 2023.
- ▶ Transportation and communication services inflation moderated to a 40-month low of 4.0% in March 2023 partly due to a favorable base effect.
- ▶ Core CPI inflation⁵ declined to 5.9% in March 2023 from 6.4% in February 2023. This was the first time in 13 months that it fell below 6%.
- ▶ During 4QFY23, CPI inflation averaged 6.2%. On an annual basis, CPI inflation was at a nine-year high of 6.7% in FY23.

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



In March 2023, CPI inflation moderated to a three-month low of 5.7%. Core CPI inflation fell to 5.9%, its lowest level since February 2022.

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

WPI inflation fell to a 31-month low of 1.3% in March 2023, led by moderating inflation in crude and commodities, as well as aided by a favorable base effect.

- ▶ Inflation in crude petroleum contracted for the second successive month by (-)23.5% in March 2023 as compared (-)10.2% in February 2023, reflecting both lower global crude prices and a favorable base effect.
- ▶ Fuel and power-based inflation was at a 27-month low of 9.0% in March 2023 as inflation in diesel eased to a 23-month low of 24.6%, mainly due to a favorable base effect.
- ▶ WPI food index-based inflation remained subdued at 2.3% in March 2023 as compared to 2.8% in February 2023.
- ▶ Inflation in manufactured products fell to its lowest level since November 2019 at (-)0.8% in March 2023 led by inflation in manufactured food products turning negative for the first time in 61 months at (-)3.0% in March 2023.
- ▶ Core WPI inflation turned negative for the first time since July 2020 at (-)0.3% in March 2023, reflecting broad-based easing of price pressures, led by a contraction in prices of manufactured basic metals at (-)7.1%.

⁵ Core CPI inflation is measured in different ways by different organizations/agencies. Here, it has been calculated by excluding food, and fuel and light from the overall index.

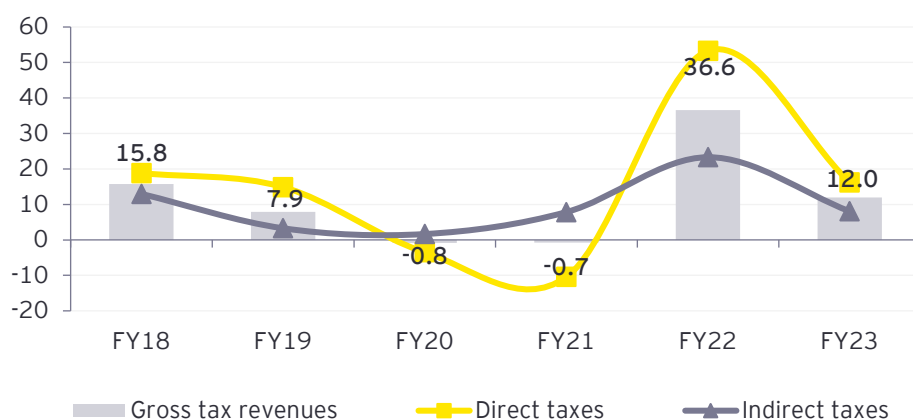


3. Fiscal: Gol's fiscal deficit during Apr-Feb 2023 stood at 83% of the RE

A. Tax and non-tax revenues

- ▶ As per the CGA, the central government's GTR^(b) grew by 12% during April-February FY23. GTR had shown a high growth of 36.6% during the corresponding period of FY22, partly due to a favorable base effect (**Chart 3**).
- ▶ As a proportion of the annual revised estimate (RE), Gol's GTR during April-February FY23 stood at 83.7%, close to the three-year average of GTR during April-February as a proportion of annual actuals at 83.2%.
- ▶ An estimated y-o-y growth of 14.4% would be required in March 2023 to achieve the FY23 (RE) for GTR at INR30.4 lakh crore.
- ▶ During April-February FY23, direct taxes^(a) showed a growth of 16.2% while indirect taxes^(a) grew by 8.1%. Owing to tangible base effects, growth in direct and indirect taxes during the corresponding period of FY22 was high at 53.3% and 23.3%, respectively.
- ▶ Both corporate income tax (CIT) and personal income tax (PIT) revenues showed double-digit growth rates of 13.5% and 19.1% respectively during April-February FY23. In comparison, these taxes showed a growth of 61.3% and 45.7% respectively during the corresponding period of FY22.
- ▶ Among indirect taxes, the central government's GST revenues^(c) showed a strong growth of 20.2% during April-February FY23 as compared to 29.5% during the corresponding period of FY22.
- ▶ Union excise duties (UED) showed a contraction of (-)18.6% during April-February FY23 as compared to a growth of 5.4% during the corresponding period of the previous year.
- ▶ Customs duties grew by 14.4% during April-February FY23 as compared to a high growth of 46.6% during April-February FY22, reflecting strong base effects.

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



Central government's GTR grew by 12% during April-February FY23, with growth in direct taxes at 16.2% and that in indirect taxes at 8.1%.

Source: Monthly Accounts, CGA, Government of India

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

- ▶ Gol's non-tax revenues contracted by (-)19.8% during April-February FY23. Non-tax revenues during this period stood at 95% of the annual RE, much higher than the three-year average of non-tax revenues during April-February as a proportion of annual actuals at 81.3%. This is attributable to Gol's receipt of dividends and profits, which has already exceeded its RE up to February 2023.
- ▶ Non-debt capital receipts of the Gol during April-February FY23 stood at 70.5% of the RE as compared to the corresponding ratio of 36.3% during FY22.
- ▶ As per DIPAM⁶, disinvestment receipts in FY23 stood at INR35,293.52 crore, implying a shortfall of nearly INR14,706 crore from the RE at INR50,000⁷ crore.

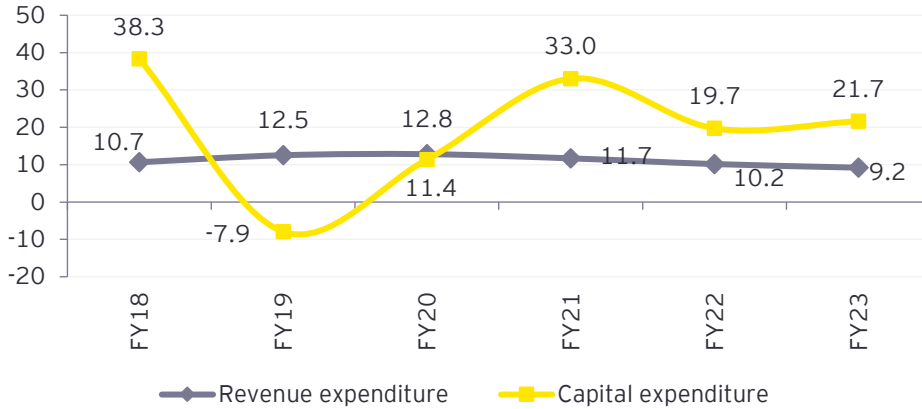
⁶ <https://dipam.gov.in/>

⁷ <https://indianexpress.com/article/business/extra-dividend-receipts-more-than-make-up-for-disinvestment-shortfall-8531346/>

B. Expenditures: revenue and capital

- ▶ Gol's total expenditure grew by 11.1% during April-February FY23, close to 11.5% during the corresponding period of FY22. As a proportion of FY23 (RE), Gol's total expenditure during this period stood at 83.4%.
- ▶ Revenue expenditure grew by 9.2% during April-February FY23 as compared to 10.2% during April-February FY22.
- ▶ Gol's capital expenditure showed a strong growth of 21.7% during April-February FY23, higher than the corresponding level of 19.7% in FY22 (Chart 4). A growth of 28.3% is required in the month of March 2023 in order to realize the FY23 (RE) of INR7.28 lakh crore.

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



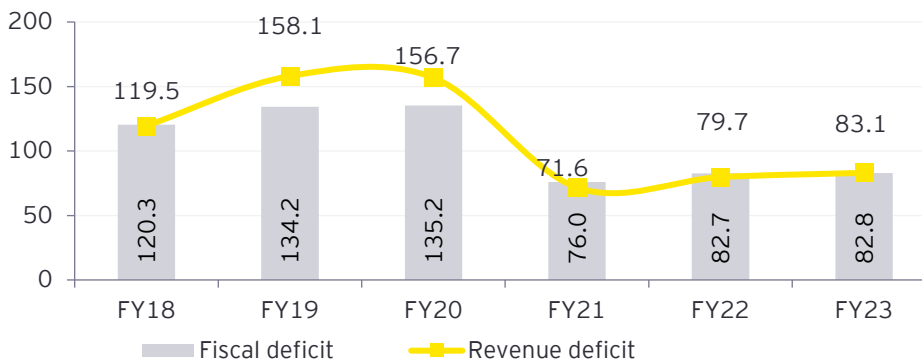
During April-February FY23, Gol's total expenditure grew by 11.1%, with growth in revenue expenditure at 9.2% and that in capital expenditure at 21.7%.

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

C. Fiscal imbalance

- ▶ Gol's fiscal deficit during April-February FY23 stood at 82.8% of the annual RE, close to the corresponding ratio at 82.7% in FY22. The Gol's fiscal deficit target of 6.4% of GDP in FY23 (RE) may be re-assessed at 6.5% considering the magnitude of fiscal deficit as per FY23 (RE) and the NSO's second advance estimate of GDP for FY23 (Chart 5).
- ▶ Gol's revenue deficit during April-February FY23 was at 83.1% of the annual RE as compared to 79.7% during the corresponding period of FY22.

Chart 5: Fiscal and revenue deficit during April-February as percentage of RE



During April-February FY23, Gol's fiscal and revenue deficits as a proportion of RE stood at 82.8% and 83.1%, respectively.

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



4. Comparative trends: IMF assesses India to lead global growth during 2023 to 2028

Real GDP growth

- ▶ According to the IMF's baseline scenario which assumes that the recent financial sector stresses would be contained, global growth is projected to fall from 3.4% in 2022 to 2.8% in 2023 before stabilizing at an average of 3.1% over the period 2024 to 2028 - the lowest medium term forecast in decades (**Table 1**). In comparison, during the two pre-pandemic decades (2000-09 and 2010-19), world growth averaged 3.9% and 3.7% respectively.
- ▶ In an alternative scenario with further financial sector stress, the IMF projects global growth to fall to 2.5% in 2023 - the weakest growth since the 2001 global downturn, barring the COVID-19 crisis (2020) and the global financial crisis (2009).
- ▶ In the baseline scenario, AEs are expected to witness an especially pronounced growth slowdown, from 2.7% in 2022 to 1.3% in 2023. Growth is projected to increase only modestly in the medium term.
- ▶ In the US, growth is projected to gradually recover from its low levels in 2023 and 2024 to 2.1% by 2026 and remain at that level until 2028. In the case of the UK and the Euro area, there is some inter-year volatility but average growth during the period 2024 to 2028 is estimated at 1.7% and 1.6% respectively.
- ▶ Growth outlook for emerging market and developing economies (EMDEs) is relatively better than that for AEs, with their growth remaining close to 4% during the forecast period. However, there are country-specific variations. India's growth, averaging 6.1% during 2024 (FY25) to 2028 (FY26), is expected to be the highest among major economies. China's growth is projected to trend downwards, averaging 3.9% during this period.

Table 1: Real GDP growth (% annual)

Country	2022 (e)	2023	2024	2025	2026	2027	2028
World	3.4	2.8	3.0	3.2	3.2	3.1	3.0
AEs	2.7	1.3	1.4	1.8	1.9	1.8	1.8
US	2.1	1.6	1.1	1.8	2.1	2.1	2.1
UK	4.0	-0.3	1.0	2.2	2.0	1.8	1.5
Euro area	3.5	0.8	1.4	1.9	1.7	1.5	1.4
Japan	1.1	1.3	1.0	0.6	0.5	0.4	0.4
EMDEs	4.0	3.9	4.2	4.0	4.0	3.9	3.9
Brazil	2.9	0.9	1.5	1.9	2.0	2.0	2.0
Russia	-2.1	0.7	1.3	1.0	0.8	0.8	0.7
India*	6.8	5.9	6.3	6.2	6.1	6.0	6.0
China	3.0	5.2	4.5	4.1	4.0	3.6	3.4
S. Africa	2.0	0.1	1.8	1.6	1.4	1.4	1.4

Source: IMF World Economic Outlook, April 2023
*data pertains to fiscal year; (e) refers to estimate; projection period: 2023 to 2028

CPI inflation

- ▶ As per the IMF, global CPI inflation would moderate, although more slowly than initially anticipated, from 8.7% in 2022 to 7.0% in 2023 and further to 4.9% in 2024.
- ▶ The projected decline in CPI inflation reflects declining fuel and non-fuel commodity prices, as well as the expected cooling effects of monetary tightening on economic activity.
- ▶ In IMF's assessment, core inflation, that is inflation excluding food and energy, is expected to decline much more gradually, reflecting the stickiness of underlying inflation.
- ▶ The return of the CPI inflation to the target is unlikely before 2025 in the case of most countries (**Table 2**).
- ▶ Among AEs, CPI inflation during 2024 to 2028 is projected to average 2.2% for both the UK and the Euro area, 2.1% for the US, and 1.7% for Japan. Among EMDEs, for the same period, CPI inflation is expected to average 4.6% for South Africa, followed by 4.1% for both India and Russia, 3.4% for Brazil and 2.2% for China.

Table 2: CPI inflation (% average)

Country	2022 (e)	2023	2024	2025	2026	2027	2028
World	8.7	7.0	4.9	3.9	3.6	3.5	3.5
AEs	7.3	4.7	2.6	2.1	1.9	1.9	1.9
US	8.0	4.5	2.3	2.1	2.0	2.0	2.1
UK	9.1	6.8	3.0	1.8	2.0	2.0	2.0
Euro area	8.4	5.3	2.9	2.2	2.0	1.9	1.9
Japan	2.5	2.7	2.2	1.6	1.5	1.5	1.5
EMDEs	9.8	8.6	6.5	5.2	4.7	4.6	4.4
Brazil	9.3	5.0	4.8	3.0	3.0	3.0	3.0
Russia	13.8	7.0	4.6	4.0	4.0	4.0	4.0
India*	6.7	4.9	4.4	4.1	4.1	4.0	4.0
China	1.9	2.0	2.2	2.2	2.2	2.2	2.2
S. Africa	6.9	5.8	4.8	4.5	4.5	4.5	4.5

Source: IMF World Economic Outlook, April 2023
*data pertains to fiscal year; (e) refers to estimate; projection period: 2023 to 2028



5. In focus: India's digital leap: providing a growth edge to Indian economy

Introduction

According to data provided by the European Commission, the pace of digitalization in India was the fastest among most major economies in the world during 2011 to 2019. Its growth in India ran neck to neck with China at 11%. Digitalization is getting a further fillip in India now and would become a major factor in sustaining India's long-term growth story.

The term Digital Economy, coined in the 1990s, has expanded in consonance with the rapidly changing nature of technology to include digital technologies, products and services across a wide spectrum of sectors. Digitalization in India has been progressing in discrete steps, first covering large urban areas, followed by smaller urban areas and then rural areas. Models like Direct to Consumer (DTC) and social commerce have improved the accessibility of the digital players to the Indian market by reducing barriers to entry⁸. Digitalization is affecting both formal and informal sectors in India.

1. Digitalization: definition and scope

Digitalization is by nature multidimensional. It requires a broad definition to cover all activities that use digitized data as a part of the digital economy (IMF, 2018). Joint collaborative research by Huawei and Oxford Economics pegged the size of the global digital economy to be around US\$11 trillion i.e., 15.5% of global gross domestic product (GDP) in 2016⁹, which is expected to reach US\$23 trillion (24.3% of global GDP) by 2025.

The ADB (2021) framework identifies **core digital products** classified under the following five product groups namely: (a) hardware, (b) software publishing, (c) web publishing, (d) telecommunications services, and (e) specialized and support services. It defines digital economy as the contribution of economic transactions that involve both digital products and digital industries to GDP (or Gross Value Added (GVA)). Digital products are the goods and services that primarily generate, process, and/or store digitized data. ADB's framework makes a distinction between the core digital economy with digitally enabling and digitally enabled products. Digitally enabling products reflect backward linkages of the core digital economy while digitally enabled products capture forward linkages. These concepts are summarized in Table 3. Digital products and industries are identified from international industry and product classification systems - the International Standard Industrial Classification System (ISIC Rev. 4) and the Central Product Classification System (CPC 2.1), which are used to construct official economic statistics.

Table 3: Tiers of digital economy

1	Core Measure	Economic activity from ICT goods and digital services producers
2	Narrow Measure	Core measure + economic activity from firms reliant on digital inputs
3	Broad Measure	Narrow measure + economic activity from firms significantly enhanced by the utilization of digital inputs
4	Digital Society	Broad measure + digitalized interactions and activities, e.g., use of digital platforms
5	Digitally ordered and/or delivered	Ordering and delivering methods of digital economy

Source: Report for the G20 Digital Task Force (OECD)

Examples of digitally enabling products include semiconductors used for electrical conductivity that are integral components of computer manufacturing but, by themselves, do not have a direct function in relation to digitized data¹⁰. Examples of digitally enabled products include car manufacturing, which uses digital components into the vehicles, such as in-car entertainment, vehicle systems management, self-driving capabilities. Digitally enabled sectors also include media content and retail sales.

⁸ <https://timesofindia.indiatimes.com/blogs/voices/direct-to-a-billion-consumers-unlocking-indias-100-billion-opportunity/>

⁹ Huawei and Oxford Economics (2017), Digital Spillover, Measuring the true impact of the digital economy, Huawei Technologies Co., Ltd. (https://www.huawei.com/minisite/gci/en/digital-spillover/files/gci_digital_spillover.pdf)

¹⁰ ADB (2021), Capturing the Digital Economy: A Proposed Measurement Framework and its Applications.



As per the RBI¹¹, industries with the highest forward linkages in India from the aggregate core digital economy in 2019 were construction, renting of machinery and equipment, food beverages and tobacco, textiles and textile products, and electrical and optical equipment (Table 4).

Table 4: Digitally enabled sectors

Sector	2014	2019
Construction	5.4	6.1
Renting of Machinery and Equipment and other business activities	2.2	4.2
Food, beverages, and tobacco	3.2	3.8
Textiles and textile products	3.3	3.6
Electrical and optical equipment	3.6	3.5
Transport equipment	3.5	2.9
Financial intermediation	1.3	2.6
Retail trade, except of motor vehicles and motorcycles; repair of household goods	1.3	2.2
Other community, social, and personal services	1.2	2.2
Education	0.5	2.0
Machinery, not elsewhere classified (n. e. c.)	2.0	1.9
Manufacturing, n. e. c.; recycling	2.9	1.8
Real estate activities	1.0	1.7
Chemicals and chemical products	1.3	1.7
Air transport	0.2	1.5
Wholesale trade and commission trade, except of motor vehicles and motorcycles	0.8	1.4
Other supporting and auxiliary transport activities; activities of travel agencies	0.4	1.3
Basic metals and fabricated metal	1.7	1.2
Health and social work	0.8	1.2
Inland transport	4.7	1.0
Agriculture, hunting, forestry, and fishing	0.7	0.9
Coke, refined petroleum, and nuclear fuel	0.5	0.9
Rubber and plastics	0.5	0.5
Pulp, paper, paper products, printing, and publishing	0.5	0.4
Hotels and restaurants	0.8	0.4
Electricity, gas and water supply	0.3	0.4
Mining and quarrying	0.1	0.3
Leather, leather products and footwear	0.3	0.3
Other non-metallic minerals	0.2	0.2
Sale, maintenance, and repair of motor vehicles and motorcycles; retail sale of fuel	0.1	0.2
Wood and products of wood	0.2	0.2
Water transport	0.1	0.2
Postal and Courier	0.0	0.1

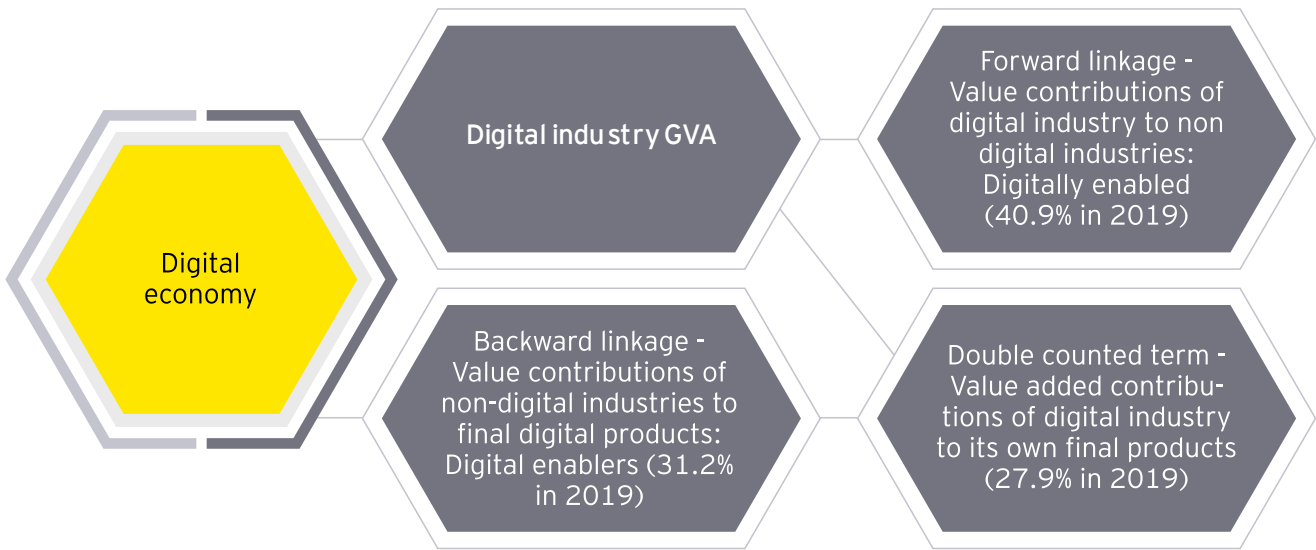
Source: RBI (December 2022)

Note: For more details see ADB (2021), Capturing the Digital Economy - A Proposed Measurement Framework and its Applications, A special supplement to Key Indicators for Asia and the Pacific 2021, Asian Development Bank

Chart 6 highlights linkages between the core digital economy with the digitally enabling sectors (backward linkages) and the digitally enabled sectors (forward linkages). It shows that a major proportion of the digital GVA for India is attributed to forward linkages, implying that the digital economy acts as a supplier of value-added to the non-digital sectors. The digital sector contributes around 28% of its own value added (the double-counted term).

¹¹ Measuring India's Digital Economy, RBI Bulletin, December 2022

Chart 6: Digital Economy Measurement Framework

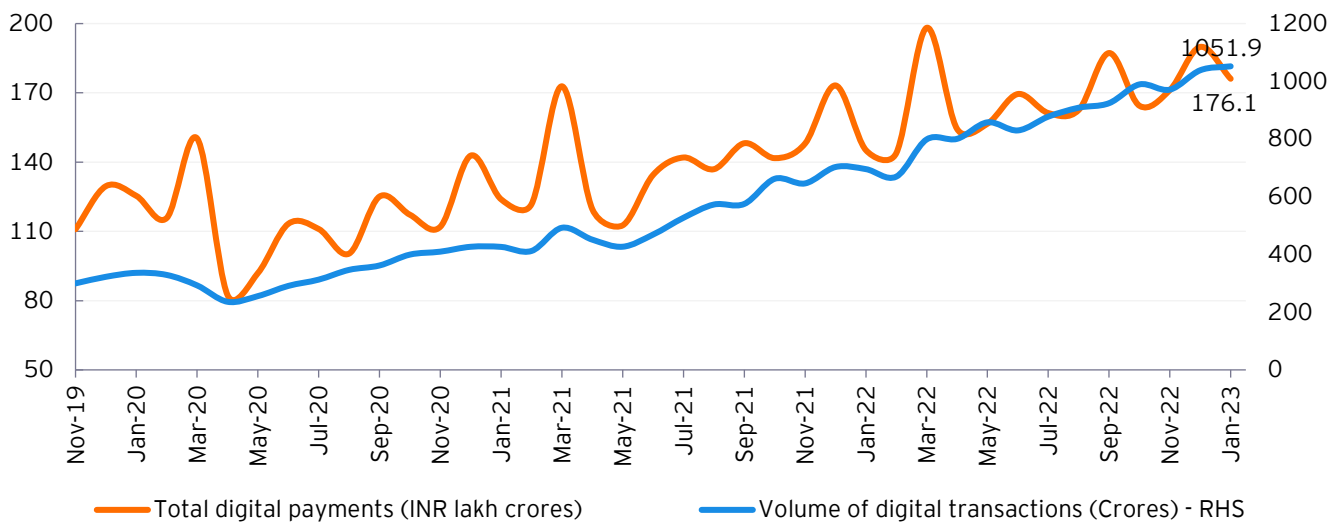


Source (basic data): Capturing the Digital Economy: A Proposed Measurement Framework and its Applications, ADB (2021)

2. Progress of digitalization in India: an overview

Both the value and volume of digital payments in India have grown at a fast pace in recent months including the COVID affected months covering the period November 2019 to January 2023 as shown in Chart 7. The number of digital transactions increased more than three times from 300 crores in November 2019 to 1,052 crores by January 2023.

Chart 7: Volume and value of digital payments

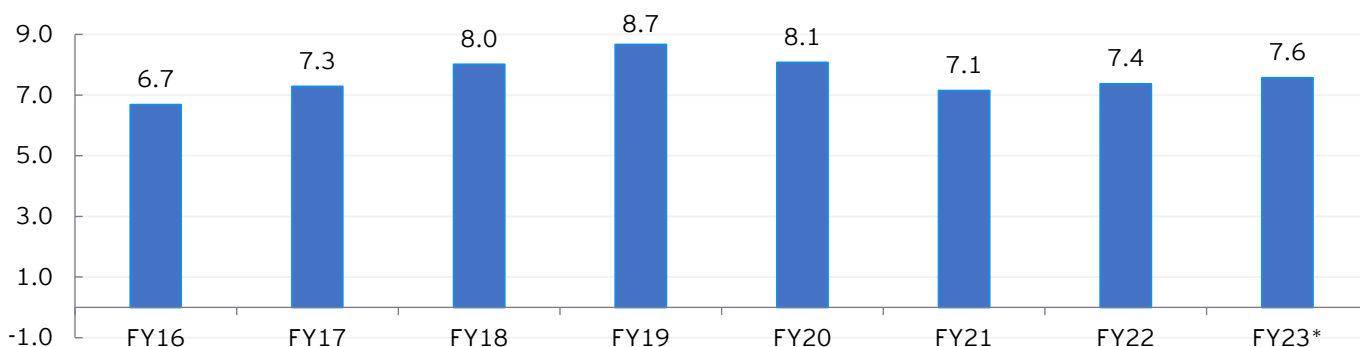


Source: RBI
 Note: Monthly average exchange rates from the RBI-FBIL have been used for conversion into US\$ terms

Chart 8 shows the value of total digital payments relative to nominal GDP. It was 8.7 times the nominal GDP in FY19. Although it fell during the COVID-19 year, this multiple is rising again. This chart shows that the value of total digital payments is a multiple of nominal GDP indicative of the velocity of digital transactions.



Chart 8: Value of total digital payments relative to nominal GDP



Source: RBI

*Note: Pertains to the period April-December FY23

3. Measuring the size of India's digital economy

As per the RBI,¹² the share of India's core digital economy¹³ increased from 5.4% of GVA in 2014 to 8.5% in 2019 (Table 5). In US dollar terms, India's digital economy exhibited a growth rate of 15.6% over the period 2014 to 2019, which was 2.4 times the growth of the Indian economy. Further, the share of digitally dependent economy (digitally enabled sectors) is estimated at 22.4% in 2019.

Table 5: Size of the Digital Economy at current prices

Year	Size (US\$ billion)	Share (%)
2014	107.7	5.40
2019	222.5	8.49

Source: RBI (December 2022)

RBI has also decomposed the overall output multiplier into digital and non-digital output multipliers. The output multiplier is defined as capturing the direct and indirect impact of a unit change in final demand covering digital and non-digital sectors on the economy's total output. The RBI then estimated separately the digital and non-digital output multipliers for 2014 and 2019. It is shown that while the non-digital output multiplier fell from 1.68 to 1.57 during this period, the digital multiplier increased from 1.34 to 1.50.

Estimation of India's potential digital economy by 2025: MeITY report (2019)

A recent study by MeITY (2019) has estimated the size of India's digital economy at US\$200 billion in 2019, which is expected to rise to US\$500 billion by 2025 in their 'business as usual' scenario. However, they also point out that potentially, the size of India's digital economy can be increased up to US\$1 trillion by following a set of policy initiatives covering 30 digital themes under nine national goals. These goals are listed below:

1. 21st-century IT infrastructure and software capabilities
2. E-governance of the future
3. Healthcare for all
4. Quality education for all
5. Energy for all
6. Next-generation financial services
7. Doubling farmers' income
8. Make in digital India, make for India, make for the world
9. Jobs and the skills of the future

The main findings of the report are highlighted in chart 9.

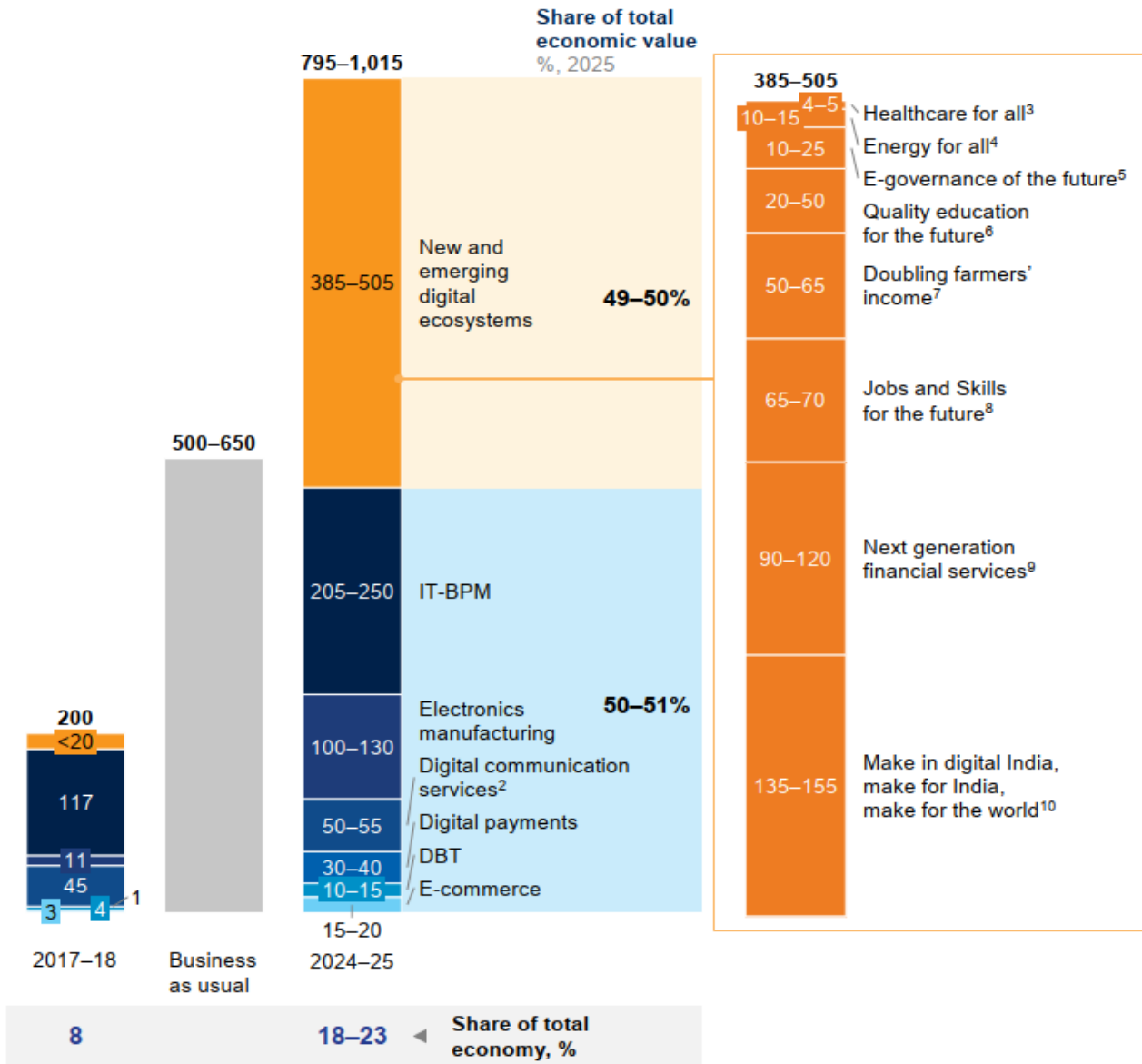
¹² December 2022 monthly bulletin of the RBI

¹³ Constitutes economic activity from ICT goods and digital services producers

Chart 9: Composition of the potential uplift in economic value added of size of India's digital economy

India's digital economy could contribute 18–23% of overall economic activity by 2025, with more than half the potential coming from scaling up new and emerging digital ecosystems

Size of India's digital economy, \$ billion, nominal



Source: Meity (2019)

Note: See Exhibit 16 Page 110 for more details

Employment in the digital sector

The RBI report points out that employment in the digital sectors of the Indian economy is still quite limited. Based on India's current population (2022) and the worker population ratio in 2019-20 as per PLFS (at 38.2%), the total employed workers in the core digital economy was estimated at 4.9 million. Table 6 gives the relative share of employment in the digital sectors. The highest share at 59.8% pertains to computer programming consultancy and related activities followed by telecommunication services at 15.2%.


Table 6: Sector-wise employment distribution in digital sector (%)

Sector	Share
Computer programming consultancy and related activities	59.8
Telecommunications	15.2
Manufacturing, nec; recycling	9.8
Data processing, hosting and related activities	7.6
Software publishing	2.2
Motion pictures, videos, TV	2.2
Computer manufacturing	1.1
Web portals	1.1
Tapes, CDs	1.1
Total	100

Source: RBI (December 2022)

4. Accelerating growth of digital economy in India: role of policy interventions

In July 2015, the GoI launched the 'Digital India' initiative to improve online infrastructure and increase internet accessibility for citizens, empowering them to become more digitally advanced. This initiative encompasses three key dimensions namely, a) establishing a secure and stable digital infrastructure, b) delivering digital services and c) ensuring that every citizen has access to the Internet. GoI's persistent effort to digitalize the Indian economy and make India's population at large participate in it, is already showing results.

Some notable GoI initiatives for creating public digital infrastructure include the UPI and Open Network of Digital Commerce (ONDC). The latter is based on open-sourced methodology, using open specifications and network protocols independent of any specific platform. In the financial sector, digitalization is taking advantage of a large set of Application Programming Interfaces (APIs) which allows the government and private companies to deploy cashless and paperless technology products. In the health sector, a notable initiative pertains to Ayushman Bharat Digital Mission (ABDM) which involves extensive digitization of various health records and related data. Public health stack includes linking historical records of patients, offering a network of doctors and medical service providers, and a linked registry of drugs¹⁴. The main initiatives affecting the growth of digitalization in India include Aadhaar, Common Services Centres, DigiLocker, Unified Mobile Application for New-age Governance (UMANG), e-Sign, MyGov, MeriPehchaan, Digital Village, National Rollout of eDistrict MMP, Open Government Data Platform, eHospital/ Online Registration System (ORS), CoWIN etc¹⁵.

Increased allocation in education

Digital sectors of the economy are technical skill intensive. They require a minimum foundation of education supplemented by further training and skilling. The central and state governments need to prioritize the education sector as a whole and within that, education oriented toward participation in the digitalization process even more with a view to increasing employment in this sector.

Education has a two-way relationship with digitalization. The more educated the population of a country, the easier it is to popularize digitalization in that country. At the same time, the more digitalized an economy, the easier it is to educate its population by using digital delivery models to improve the quality and reach of classroom education. In the new wave of digital delivery of education in India, teachers are routinely using online lessons, videos, and digital examples and applications to impart quality education to their students. Internet is proving to be a great facilitator for augmenting the quality and quantity of content for the students. Internet also enables cross-country comparisons and compilation of relevant case studies for enriching classroom education.

¹⁴ Prime Minister Narendra Modi (BRICS Business Forum 2022 held in June 2022)

¹⁵ <https://pib.gov.in/PressReleaseIframePage.aspx?PRID=1885962>



5. Role of digital economy in India's economic future: digitalization as a growth enabler

India's explosive growth of the digital economy is itself going to serve as a significant enabler of India's overall economic growth. As compared to developed countries, India's pace of digitalization has been very high in recent years, particularly over the period from 2011 to 2019 (Table 7). The pace of digitalization as measured by CAGR in the ICT sector during this period has been as high as 10.6% with only China exceeding India's growth marginally. With the advent of 5G and the setting up of semiconductor industries in the country, India is expected to accelerate further its pace of digitalization in the next few decades.

Table 7: Pace of digitalization: a cross country perspective (% CAGR in the ICT sector)

	CAGR (2001 to 2011)	CAGR (2011 to 2019)	CAGR (2001 to 2019)
China	17.8	11.0	14.7
India	11.0	10.6	10.8
South Korea	6.4	2.5	4.7
Taiwan	5.3	3.3	4.4
Brazil	9.8	-2.1	4.3
Germany	2.3	4.1	3.1
EU	2.4	3.2	2.8
France	1.7	3.0	2.2
United States	-3.0	6.8	1.2
United Kingdom	-0.9	3.9	1.2
Japan	-0.5	-0.3	-0.4

Source (basic data): European Commission, PREDICT database

Note:

India is projected to become one of the largest economies by the middle of this century in market exchange rate terms. This has been highlighted in EY's recent publication titled "*India@100: realizing the potential of US\$26 trillion economy*". In this growth journey, digitalization is expected to play a key role.

According to a recent study published by ACI Worldwide¹⁶ in collaboration with GlobalData, India is way ahead even in comparison with China in terms of the number of digital payments. According to this source, the number of real time payments in 2021 was at 48.6 billion in India as compared to 18.5 billion in China and 8.7 billion in Brazil. This is indicative of the ease with which the Indian population has adopted digital platforms for making payments even if the average value of such payments may be rather low.

6. Conclusion

India's digital leap distinguishes the Indian economy as compared to those of its peer countries. India's digital payment platforms have become quite popular amongst its general population. The digital economy, however, has broader connotations due to its backward and forward linkages with other sectors in the economy.

The RBI estimates the size of India's core digital economy at US\$222.5 billion in 2019, exhibiting a growth rate of 15.6% over the period 2014 to 2019. Its share in overall GVA is estimated to have increased from 5.4% in 2014 to 8.5% in 2019. Further, the share of digitally dependent economy (digitally enabled sectors) is estimated at 22.4% in 2019. Another recent study by MeITY (2019) projects the size of India's digital economy to rise to US\$500 billion by 2025 in their 'business as usual' scenario. However, it also points out that potentially, the size of India's digital economy can be increased up to US\$1 trillion by following a set of policy initiatives.

Digitally enabling products reflect backward linkages of the core digital economy while digitally enabled products capture forward linkages. As per RBI, industries with the highest forward linkages in India from the aggregate core digital economy in 2019 were construction (6.1%), renting of machinery and equipment (4.2%), food beverages and tobacco (3.8%), textiles and textile products (3.6%), and electrical and optical equipment (3.5%). The growing digitalization of India's economy may itself serve as a major factor for sustaining a robust growth over a long period of time. Thus, digitization is a critical and distinguishing feature of India's unfolding growth story in the 21st century.

¹⁶ <https://investor.aciworldwide.com/news-releases/news-release-details/india-surges-ahead-worlds-leader-real-time-payments-boosting>

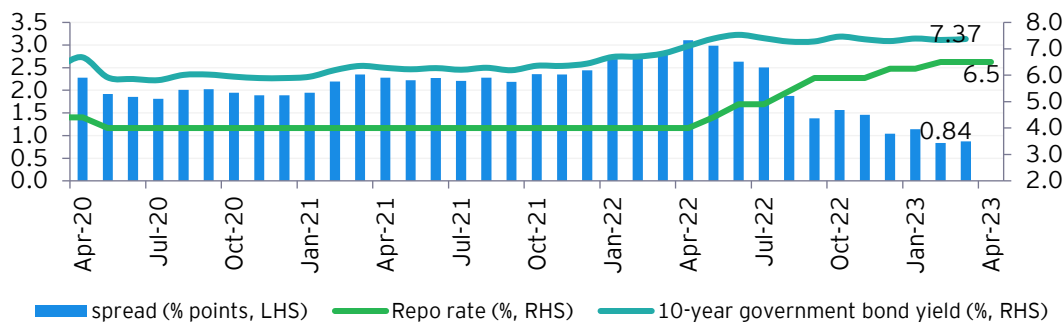
6. Money and finance: the RBI retained the repo rate at 6.5% in April 2023

A. Monetary sector

Monetary policy

- ▶ In its monetary policy review held on 6 April 2023, the RBI left the repo rate unchanged at 6.5%, its first such decision during the last 12 months. Further, the RBI decided that the monetary policy stance would continue to remain focused on withdrawal of liquidity.
- ▶ Earlier, between May 2022 and March 2023, the MPC had increased the repo rate six consecutive times taking it from 4.0% in April 2022 to 6.5% (Chart 10).
- ▶ While the RBI projected CPI inflation to moderate to 5.2% in FY24, it highlighted that the outlook for crude oil prices may remain highly uncertain and heightened volatility in the global financial markets may lead to imported inflation risks. On the domestic front, higher input costs and seasonal factors are likely to keep the milk prices firm and the impact of unseasonal rains may also pose some risks to the inflation outlook.

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



The RBI retained the repo rate at 6.5% in its April 2023 monetary policy review.

Source: Database on Indian Economy, RBI

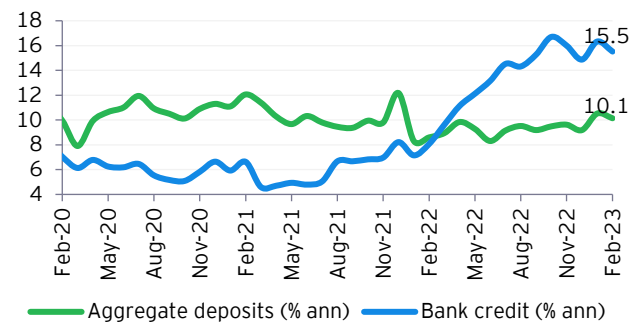
Money stock

- ▶ Growth in broad money stock (M3) eased to 9% in March 2023 from 9.5% in February 2023, reflecting a moderation in the growth of narrow money (M1).
- ▶ Growth in M1 slowed to 6.8% in March 2023, its lowest level since October 2017. This was due to lower growth in both demand deposits and currency with the public. Growth in demand deposits moderated to 4.9% in March 2023 from 9.0% in February 2023. Currency with the public grew at a slower pace of 7.9% in March 2023 as compared to 8.4% in February 2023.
- ▶ Time deposits, accounting for slightly over 75% of M3 on average in the last three years, grew by 9.8% in March 2023, similar to its level in February 2023.

Aggregate credit and deposits

- ▶ Growth in gross bank credit by SCBs moderated to 15.5% (y-o-y) in February 2023 from 16.3% in January 2023 (Chart 11).
- ▶ Non-food credit grew by 15.9% in February 2023, slightly lower than 16.7% in January 2023 due to moderation in the growth of credit to industries and services sector.
- ▶ Sectoral bank credit data indicate that growth in outstanding credit to industries slowed to an 11-month low of 7.0% in February 2023 as compared to 8.7% in January 2023. Within the industrial sector, credit to infrastructure grew by 0.6% in February 2023, its lowest pace since July 2021. Growth in credit to iron and steel, and chemical and chemical products also moderated to 23.1% and 15.2% respectively in February 2023 from 29.2% and 17.6% in January 2023. However, growth in credit to cement industries increased to 14.6% in February 2023 from 12.3% in January 2023.

Chart 11: Growth in credit and deposits



Source: Database on Indian Economy, RBI



- ▶ Credit to services continued to post a robust growth of 20.7% in February 2023, although moderating marginally from 21.5% in January 2023.
- ▶ Growth in credit to the agricultural sector increased to 14.9% in February 2023, its highest level since September 2016.
- ▶ Personal loans, a key component of retail loans, also showed a strong growth of 20.4% in February 2023, similar to its level in January 2023.
- ▶ Growth in aggregate deposits of residents at 10.1% in February 2023 was marginally lower than 10.5% in January 2023.

B. Financial sector

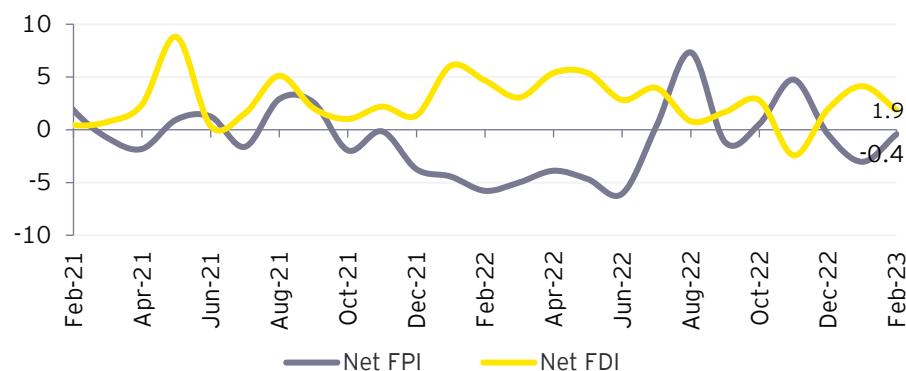
Interest rates

- ▶ As per the data released by the RBI on 7 April 2023, the average interest rate on term deposits with a maturity period of more than one year was retained for the third successive month at 6.63% in March 2023 with the actual rate ranging between 6.00% and 7.25%. Term deposit rates averaged 5.98% in FY23 as compared to 5.23% in FY22.
- ▶ The average MCLR increased to 8.0% in March 2023 from 7.95% in February 2023. Actual MCLR ranged between 7.50% and 8.50% during the month.
- ▶ The average yield on 10-year government bonds was marginally higher at 7.37% in March 2023 as compared to 7.34% in February 2023 (Chart 10).
- ▶ WALR on fresh rupee loans by SCBs increased to 9.24% in February 2023, its highest level since January 2020. During April to February 2023, on a cumulated basis, WALR on fresh rupee loans rose by 173 basis points while the repo rate was hiked by 250 basis points.

FDI and FPI

- ▶ As per the provisional data released by the RBI on 21 April 2023, overall foreign investments¹⁷ (FIs) inflows increased to US\$1.4 billion in February 2023 from US\$1.1 billion in January 2023 on account of lower net FPI outflows.

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



Net FDI inflows fell to US\$1.9 billion in February 2023 from US\$4.1 billion in January 2023.

Source: Database on Indian Economy, RBI

- ▶ Net FPI witnessed outflows for the third second successive month amounting to US\$(-)0.4 billion in February 2023 but was significantly lower than US\$(-)3.0 billion in January 2023.
- ▶ Net FDI inflows fell to US\$1.9 billion in February 2023 as compared to US\$4.1 billion in January 2023 (Chart 12). Gross FDI inflows also moderated to US\$4.8 billion in February 2023 from US\$6.2 billion in January 2023.

¹⁷ Foreign Investment (FI) = net FDI plus net FPI

7. Trade and CAB: current account deficit narrowed to 2.2% of GDP in 3QFY23



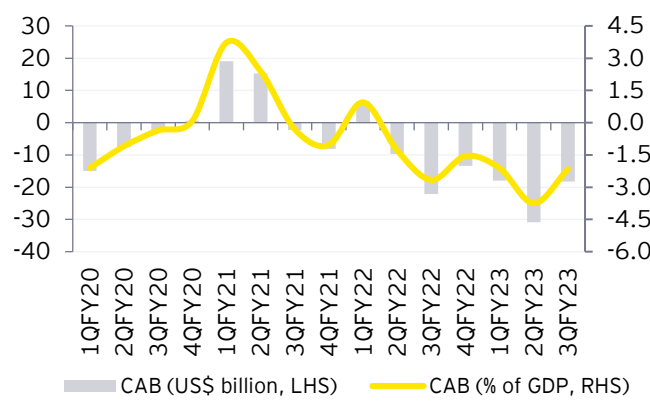
A. CAB: current account deficit fell to (-)2.2% of GDP in 3QFY23 from nine-quarter high of (-)3.7% in 2QFY23

- ▶ Net merchandise trade deficit fell to (-)8.6% of GDP in 3QFY23 from (-)9.5% in 2QFY23. This was due to a) fall in imports to 21.1% of GDP from a 32-quarter high of 23.1% of GDP reflecting lower global crude prices and b) moderation in exports to a seven-quarter low of 12.5% of GDP in 3QFY23 reflecting easing global economic activity.
- ▶ Net invisibles relative to GDP increased to a 37-quarter high of 6.5% in 3QFY23, as net services exports improved to a 56-quarter high of 4.6% of GDP and net transfers to a 34-quarter high of 3.4% of GDP.

Table 8: Components of CAB in US\$ billion

Fiscal year	CAB as % of nominal GDP	CAB	Goods account net	Invisibles* net
FY19	-2.1	-57.3	-180.3	123.0
FY20	-0.9	-24.7	-157.5	132.8
FY21	0.9	23.9	-102.2	126.1
FY22	-1.2	-38.8	-189.5	150.7
4QFY22	-1.6	-13.4	-54.5	41.1
1QFY23	-2.1	-18.0	-63.0	45.1
2QFY23	-3.7	-30.9	-78.3	47.4
3QFY23	-2.2	-18.2	-72.7	54.5

Chart 13: CAB



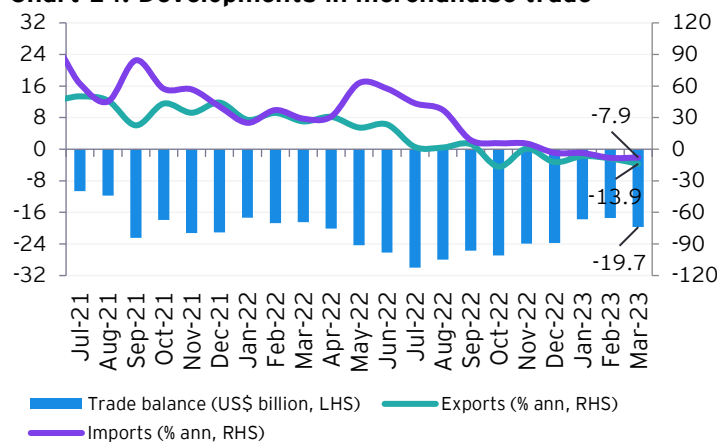
Source: Database on Indian Economy, RBI; Note: (-) deficit; (+) surplus; *invisibles include services, current transfers and income components

B. Merchandise trade and exchange rate

Merchandise exports and imports contracted for the fourth successive month by (-)13.9% and (-)7.9% in March 2023 as compared to (-)8.8% and (-)8.2% respectively in February 2023 reflecting slowing global demand and lower commodity prices.

- ▶ The decline in overall merchandise exports was led by a sharp contraction in exports of oil ((-)44.6%), engineering goods ((-)7.5%), cotton yarn and fabrics ((-)23.9%), and chemicals ((-)5.9%) in March 2023. Growth in electronic goods exports accelerated to 57.4% in March 2023 from 29.9% in February 2023.
- ▶ Contraction in overall imports in March 2023 was led by oil, which contracted for the second successive month by (-)23.8%. Imports of coal ((-)24.9%), fertilisers ((-)51.0%), and electronic goods ((-)16.8%) continued to contract in March 2023.
- ▶ Contraction in exports excluding oil, gold and jewelry slowed to a four-month low of (-)2.5% in March 2023 while that in imports of the same category was at (-)4.8% in March 2023 as compared to (-)3.4% in February 2023.
- ▶ Merchandise trade deficit widened to US\$(-)19.7 billion in March 2023 from US\$(-)17.4 billion in February 2023 (Chart 14).
- ▶ Services trade surplus was slightly lower, at US\$13.1 billion in February 2023 from US\$13.8 billion in January 2023. Goods and services deficit was slightly higher at US\$(-)4.4 billion in February 2023 as compared to US\$(-)3.9 billion in January 2023.
- ▶ The rupee appreciated marginally to a level of INR82.3 per US\$ in March 2023 from a level of INR82.6 per US\$ in February 2023 partly due to stronger foreign investment inflows especially in equities.

Chart 14: Developments in merchandise trade



Source: Ministry of Commerce and Industry, GoI



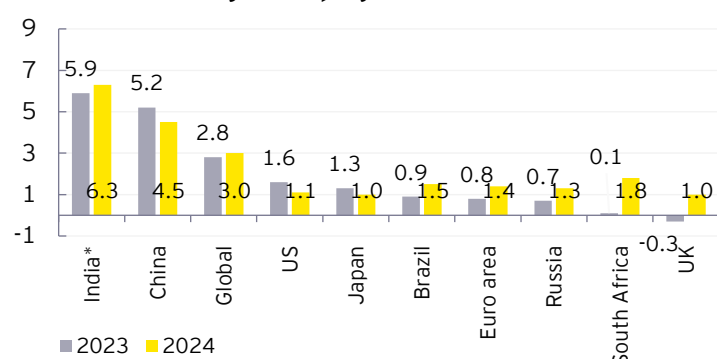
8. Global growth: IMF projected global growth at 2.8% in 2023 and 3.0% in 2024

A. Global growth

- ▶ The IMF (April 2023) has projected global growth to fall to 2.8% in 2023 from 3.4% in 2022. The 2023 global growth forecast is 0.1% point below its earlier estimate (January 2023) (**Chart 15**). Global growth is projected to average around 3% over the next five years - the lowest medium term forecast in decades.
- ▶ AEs are projected to show a subdued growth of 1.3% in 2023 and 1.4% in 2024. EMDEs are projected to witness a relatively stronger growth of 3.9% and 4.2% in these two years.
- ▶ Among major AE, Japan and the US are projected to grow by 1.3% and 1.6% in 2023, with their growth rates falling to 1% and 1.1% in 2024.
- ▶ The Euro area is forecasted to show a low growth of 0.8% and the UK is expected to contract by (-)0.3% in 2023. In both these cases, growth is expected to show a mild recovery in 2024.
- ▶ Among EMDEs, growth in China is projected to rebound to 5.2% in 2023 and 4.5% in 2024 from just 3% in 2022, with the reopening of the economy and easing supply chain disruptions.
- ▶ Growth in Brazil, South Africa, and Russia is projected to remain below 1% in 2023. Further, only a modest recovery is projected for these economies in 2024.
- ▶ Despite a downward revision in India's growth projections for 2023 and 2024, it continues to remain the global growth leader with its growth forecasted at 5.9% in 2023 (FY24), increasing to 6.3% in 2024 (FY25).

The IMF has projected global growth at 2.8% in 2023, with India's FY24 growth forecasted at 5.9%.

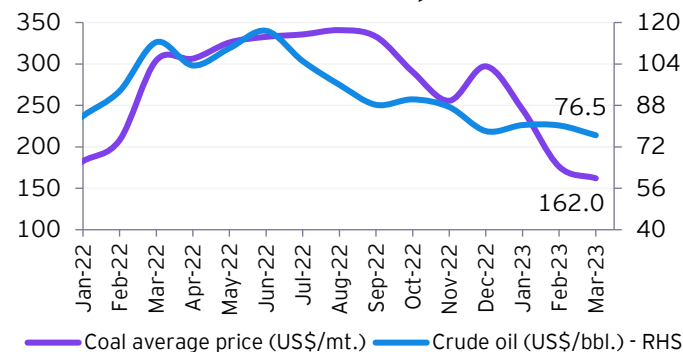
Chart 15: Global growth projections (%)



Source: IMF Economic Outlook, (April 2023)

*Data pertains to fiscal years FY24 and FY25 respectively.

Chart 16: Global crude and coal prices



Source (basic data): World Bank Pink Sheets, April 2023

B. Global energy prices: global crude price averaged US\$92.7/bbl. in FY23, up from US\$78.4/bbl. in FY22

- ▶ Average global crude price¹⁸ fell to a 15-month low of US\$76.5/bbl. in March 2023 from US\$80.3/bbl. in February 2023 amid concerns regarding a potential global recession stemming from banking sector crisis in the US and Europe¹⁹ (**Chart 16**). However, more recently, daily Brent crude prices have been on a rising trajectory after the OPEC+ countries announced an output cut by 1.16 million bbl./day beginning May 2023. The IMF (World Economic Outlook, April 2023) has projected global crude price to average US\$73.1/bbl. in 2023, falling to US\$68.9/bbl. in 2024.
- ▶ Average global coal price²⁰ also fell to a 15-month low of US\$162/mt. in March 2023 from 176.1/mt. in February 2023. On an annual basis, global coal price averaged US\$283.4/mt. in FY23, up from US\$164.8/mt. in FY22. According to the World Bank²¹, possible supply redirection from the geopolitical conflict and a faster-than-expected pace of China's reopening could impact the outlook of falling coal prices.

¹⁸ Simple average of three spot prices, namely, Dated Brent, West Texas Intermediate and Dubai Fateh

¹⁹ <https://www.reuters.com/markets/commodities/oil-prices-bounce-back-helped-by-stronger-opec-outlook-china-2023-03-15/>

²⁰ Simple average of Australian and South African coal prices.

²¹ <https://blogs.worldbank.org/opendata/declining-coal-prices-reflect-reshaping-global-energy-trade>

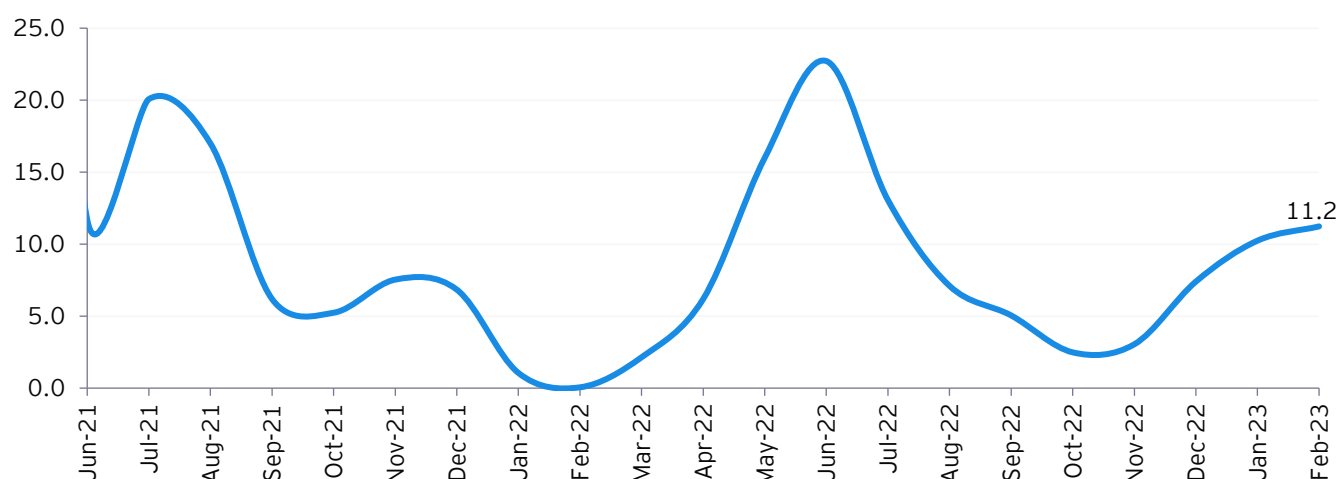


9. Index of Aggregate Demand (IAD): grew at a robust pace of 11.2% in February 2023

IAD posted a strong growth of 11.2% in February 2023 as compared to 10.2% in January 2023

- ▶ 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)²² capture the demand conditions in the agricultural sector.
- ▶ Growth in IAD increased to a seven-month high of 11.2% in February 2023 from 10.2% in January 2023 led by an improvement in demand conditions in the services and agricultural sectors (**Chart 17 and Table 9**).
- ▶ Demand conditions in the services sector showed a robust improvement as reflected by services PMI, which increased to 59.4 in February 2023 from 57.2 in January 2023. Demand conditions in the agricultural sector continued to remain buoyant as indicated by a higher growth in agricultural credit off-take (sa) at 15% in February 2023 as compared to 14.5% in January 2023.
- ▶ Demand conditions in the manufacturing sector remained broadly stable, as indicated by manufacturing PMI at 55.3 in February 2023, close to its level of 55.4 in January 2023.

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



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

Note: From this issue onwards, we will be using seasonally adjusted data for constructing the IAD.

Table 9: IAD

Month	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23
IAD	151.5	150.3	152.5	149.5	151.1	153.3	157.5	155.1	157.8
Growth (% y-o-y)	22.7	13.1	7.1	5.0	2.5	3.0	7.4	10.2	11.2
Growth in agr. Credit	13.0	13.1	13.4	13.4	13.5	13.7	11.4	14.5	15.0
Mfg. PMI**	3.9	6.4	6.2	5.1	5.3	5.7	7.8	5.4	5.3
Ser. PMI**	9.2	5.5	7.2	4.3	5.1	6.4	8.5	7.2	9.4

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

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

²² We have constructed a seasonally adjusted series for agricultural credit using Census X-13 technique in E-views (version 12) and the growth of this SA agricultural credit series is used in the IAD series.

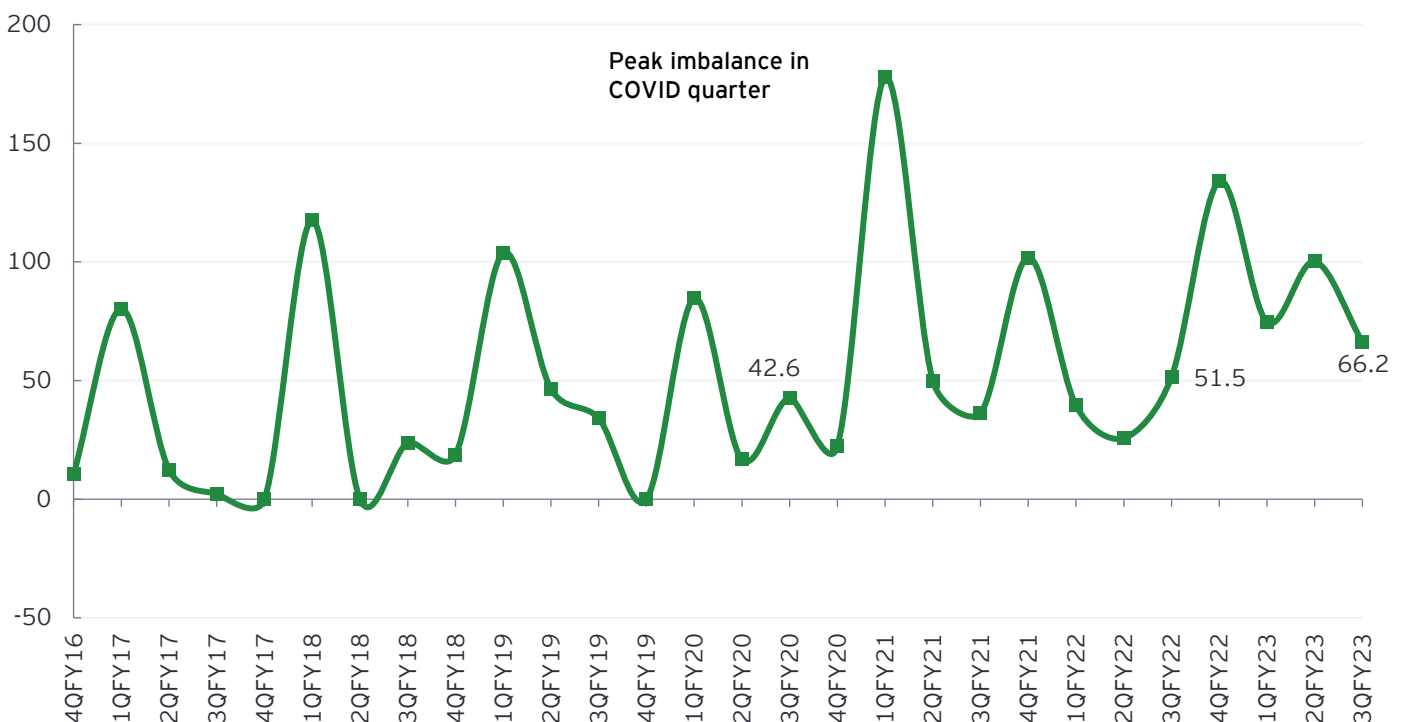


10. Index of Macro Imbalance (IMI): pointed to improvement in the macro balance in 3QFY23

IMI moderated to 66.2 in 3QFY23 from 100.1 in 2QFY23

- ▶ 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%²³ of GDP. 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 an improvement in the macro balance in 3QFY23 with the index value falling to 66.2 from 100.1 in 2QFY23 (Chart 18) led by relatively lower current account deficit as % of GDP and falling CPI inflation.
- ▶ Current account deficit narrowed to (-)2.2% of GDP in 3QFY23 from (-)3.7% (revised) in 2QFY23 while CPI inflation eased to 6.1% in 3QFY23 from 7.0% in 2QFY23. However, both these indicators were higher than their respective benchmark values and therefore contributed positively to the IMI.
- ▶ Govt's fiscal deficit averaged 5.4% of GDP in 3QFY23, increasing from 4.1% in 2QFY23, remaining significantly higher than the target of 3% of GDP. Therefore, it contributed the highest to the deterioration in the macro balance in 3QFY23.

Chart 18: IMI (quarterly)



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



²³ 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							
FY19	3.8	2.8	3.8	5.2	4.4	FY20	52.3	51.9
FY20	-0.8	1.6	-1.4	0.9	0.4	FY21	50.2	41.7
FY21	-8.5	-7.8	-9.6	-0.5	-6.4	FY22	54.0	52.3
FY22	11.4	12.2	11.7	8.0	10.4	FY23	55.6	57.3
4QFY22	1.8	3.8	1.2	3.9	4.9	1QFY23	54.4	58.7
1QFY23	12.8	9.1	12.8	17.1	13.9	2QFY23	55.9	55.7
2QFY23	1.6	-0.9	1.5	4.9	5.7	3QFY23	56.3	56.7
3QFY23	2.6	7.5	1.1	7.9	4.5	4QFY23	55.7	58.1
Nov-22	7.6	9.7	6.7	12.7	5.7	Dec-22	57.8	58.5
Dec-22	4.7	10.0	3.1	10.4	7.0	Jan-23	55.4	57.2
Jan-23	5.5	8.8	4.0	12.7	8.9	Feb-23	55.3	59.4
Feb-23	5.6	4.6	5.3	8.2	6.0	Mar-23	56.4	57.8

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

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

Fiscal year/ quarter/ month	CPI	Food Price Index	Fuel and light	Core CPI	WPI	Food Price Index	Mfg. products	Fuel and power	Core WPI
	% change y-o-y					% change y-o-y			
FY20	4.8	6.7	1.3	3.8	1.7	6.9	0.3	-1.8	-0.4
FY21	6.2	7.7	2.7	5.5	1.3	4.0	2.8	-8.0	2.2
FY22	5.5	3.8	11.3	6.1	13.0	6.8	11.1	32.5	11.0
FY23	6.7	6.6	10.4	6.2	9.4	6.3	5.6	28.2	5.8
1QFY23	7.3	8.0	10.1	6.4	16.1	10.5	10.3	46.3	10.6
2QFY23	7.0	7.6	11.0	6.1	12.4	9.1	7.3	37.5	7.7
3Q FY23	6.1	5.3	10.5	6.2	6.6	3.3	3.7	21.0	3.7
4Q FY23	6.2	5.6	9.9	6.2	3.3	2.7	1.4	12.9	1.5
Dec-22	5.7	4.2	10.9	6.2	5.0	0.9	3.4	18.1	3.2
Jan-23	6.5	6.0	10.8	6.3	4.8	3.1	3.1	15.0	2.9
Feb-23	6.4	6.0	9.9	6.4	3.9	2.8	1.9	14.8	2.1
Mar-23	5.7	4.8	8.9	5.9	1.3	2.3	-0.8	9.0	-0.3

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
FY20 (CGA)	-3.4	-16.1	4.0	-7.8	1.7	4.7	3.3
FY21 (CGA)	0.7	-17.9	-2.3	-10.7	12.7	9.2	7.3
FY22 (CGA)	33.8	55.7	43.5	49.6	20.0	6.7	4.4
FY23 (RE over FY 22 Actuals)	12.3	17.3	17.1	17.2	7.1	6.4	4.1
FY24 (BE over FY 23 RE)	10.4	10.5	10.5	10.5	10.4	5.9	2.9
Cumulated growth (% , y-o-y)						% of budgeted target	
Jul-22	24.9	34.7	50.0	42.7	10.8	20.5	16.4
Aug-22	18.7	23.6	33.2	28.8	11.2	32.6	32.4
Sep-22	17.6	21.6	25.7	23.5	11.8	37.3	31.4
Oct-22	18.0	24.1	27.7	25.9	11.0	45.6	38.9
Nov-22	15.5	21.1	26.7	23.9	8.6	58.9	57.8
Dec-22	12.5	16.9	19.2	18.0	7.1	56.6 [§]	50.3 [§]
Jan-23	12.6	14.8	18.9	16.8	8.6	67.8 [§]	61.1 [§]
Feb-23	12.0	13.5	19.1	16.2	8.1	82.8 [§]	83.1 [§]

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

* Includes corporation tax and income tax

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

[§]as a proportion of revised estimate

Fiscal year/month	CGST	UTGST	IGST	GST compensation cess	Total GST (GoI)
INR crore					
FY23 (RE)	7,24,000	-	-	1,30,000	8,54,000
FY24 (BE)	8,11,600	-	-	1,45,000	9,56,600
Monthly tax collection (INR crore)					
Jul-22	55,357	155	6,898	10,654	73,064
Aug-22	51,911	149	8,938	9,889	70,887
Sep-22	54,689	406	9,964	9,967	75,026
Oct-22	72,219	595	-19,374	10,281	63,721
Nov-22	57,848	515	-2,580	10,323	66,106
Dec-22	60,778	232	-3,394	10,911	68,527
Jan-23	65,171	238	-1,671	10,427	74,165
Feb-23	60,075	394	-2,288	11,801	69,982

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
May-22	4.40	FY19	13.7	8.9	30.7	-0.6	FY20	11.2	8.9	6.83	475.6
Jun-22	4.90	FY20	9.5	9.9	43.0	1.4	FY21	16.2	12.2	6.05	579.3
Jul-22	4.90	FY21	5.9	11.0	44.0	36.1	FY22	10.6	8.7	6.40	617.6
Aug-22	5.40	FY22	6.7	9.7	38.6	-16.8	FY23	6.8	9.0	7.35	578.4
Sep-22	5.90	4QFY22	8.2	8.6	13.8	-15.2	1QFY23	8.7	7.8	7.34	593.3
Oct-22	5.90	1QFY23	12.1	9.1	13.6	-14.6	2QFY23	8.5	8.6	7.32	532.7
Nov-22	5.90	2QFY23	14.7	9.3	6.4	6.5	3QFY23	12.4	10.7	7.37	562.8
Dec-22	6.25	3QFY23	15.8	9.4	2.3	4.9	4QFY23	6.8	9.0	7.37	578.4
Jan-23	6.25	Nov-22	16.0	9.6	-2.4	4.8	Dec-22	12.4	10.7	7.29	562.9
Feb-23	6.50	Dec-22	14.9	9.2	2.0	-0.4	Jan-23	9.8	9.8	7.39	576.8
Mar-23	6.50	Jan-23	16.3	10.5	4.1	-3.0	Feb-23	8.7	9.5	7.34	560.9
Apr-23	6.50	Feb-23	15.5	10.1	1.9	-0.4	Mar-23	6.8	9.0	7.37	578.4

Source: Database on Indian Economy - RBI

Table A5: External trade and global growth

External trade indicators (annual, quarterly and monthly growth rates)							Global growth (annual)			
Fiscal year/ quarter/ month	Exports	Imports	Trade balance	Ex. rate (avg.)	Crude prices (avg.)	Coal prices (avg.)	Calendar year	World GDP	Adv. econ.	Emer. econ.
	% change y-o-y		US\$ billion	INR/US\$	US\$/bbl.	US\$/mt		% change y-o-y		
FY20	-5.1	-8.2	-157.4	70.9	58.5	70.4	2013	3.5	1.4	5.1
FY21	-7.0	-16.6	-101.4	74.2	43.8	67.2	2014	3.5	2.1	4.7
FY22	44.7	56.0	-191.0	74.5	78.4	164.8	2015	3.4	2.4	4.3
FY23	1.0	15.8	-283.7	80.4	92.7	283.4	2016	3.3	1.8	4.5
1QFY23	24.8	49.5	-70.6	77.2	110.1	321.7	2017	3.8	2.5	4.8
2QFY23	2.9	28.3	-83.7	79.8	96.4	336.4	2018	3.5	2.2	4.5
3QFY23	-9.9	2.3	-74.6	82.2	85.3	281.1	2019	2.8	1.6	3.7
4QFY23	-10.1	-6.7	-54.9	82.3	79.0	194.4	2020	-3.1	-4.5	-2.0
Dec-22	-12.2	-3.5	-23.8	82.5	78.1	297.1	2021	6.3	5.4	6.9
Jan-23	-6.6	-3.6	-17.7	81.9	80.4	245.0	2022	3.4	2.7	4.0
Feb-23	-8.8	-8.2	-17.4	82.6	80.3	176.1	2023	2.8	1.3	3.9
Mar-23	-13.9	-7.9	-19.7	82.3	76.5	162.0	2024	3.0	1.4	4.2

Source: Database on Indian Economy - RBI, Pink Sheet - World Bank and IMF World Economic Outlook October 2022 and World Economic Outlook Update January 2023


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
FY20 (2nd RE)	3.8	5.5	-1.5	-2.9	2.2	1.2	5.9	6.7	6.3	2.9
FY21 (2nd RE) *	-4.1	4.7	-9.9	2.8	-4.3	-5.3	-19.7	2.1	-7.4	3.3
FY22 (1st RE)*	8.8	3.5	7.1	11.1	9.9	14.8	13.8	4.7	9.7	8.3
FY23 (2nd AE) *	6.6	3.3	3.4	0.6	9.2	9.1	14.2	6.9	7.1	8.1
3QFY21	2.9	5.3	-7.0	12.7	0.7	8.9	-9.5	9.7	-4.9	3.4
4QFY21	6.5	4.1	-4.8	19.3	2.6	20.6	-3.1	8.3	-0.4	5.2
1QFY22	20.2	3.4	12.2	51.5	16.3	77.0	41.4	2.8	6.5	6.1
2QFY22	9.3	4.8	10.6	6.6	10.8	10.8	13.1	7.0	16.8	8.0
3QFY22	4.7	2.3	5.4	1.3	6.0	0.2	9.2	4.3	10.6	9.4
4QFY22	3.9	4.1	2.3	0.6	6.7	4.9	5.0	4.6	5.2	9.7
1QFY23	12.1	2.5	9.3	6.4	14.9	16.2	25.7	8.6	21.3	12.5
2QFY23	5.5	2.4	-0.4	-3.6	6.0	5.8	15.6	7.1	5.6	10.1
3QFY23	4.6	3.7	3.7	-1.1	8.2	8.4	9.7	5.8	2.0	5.9

Source: National Accounts Statistics, MoSPI

*Growth numbers for FY21, FY22 and FY23 are based on NAS released by the MoSPI on 28 February 2023

Fiscal year/quarter	Expenditure components						IPD inflation
	GDP	PFCE	GFCE	GFCF	EX	IM	GDP
FY20 (2nd RE)	3.7	5.2	3.4	1.6	-3.4	-0.8	2.4
FY21 (2nd RE) *	-5.7	-5.3	-0.4	-7.7	-9.1	-13.7	4.8
FY22 (1st RE) *	9.1	11.2	6.6	14.6	29.3	21.8	8.5
FY23 (2nd AE) *	7.0	7.3	1.2	11.2	11.5	18.8	8.3
3QFY21	1.7	1.5	-4.2	2.6	-8.5	-5.0	4.6
4QFY21	3.5	6.7	24.0	13.6	3.9	12.0	8.2
1QFY22	21.6	17.6	-2.1	61.0	46.1	44.8	8.6
2QFY22	9.1	14.2	11.7	12.4	25.1	26.6	8.5
3QFY22	5.2	10.8	5.8	1.2	27.8	19.7	8.7
4QFY22	4.0	4.7	11.8	4.9	22.4	6.7	8.7
1QFY23	13.2	20.0	1.8	20.6	19.7	33.7	12.9
2QFY23	6.3	8.8	-4.1	9.7	12.3	25.9	10.3
3QFY23	4.4	2.1	-0.8	8.3	11.3	10.9	6.6

Source: National Accounts Statistics, MoSPI

*Growth numbers for FY21, FY22 and FY23 are based on NAS released by the MoSPI on 28 February 2023



List of abbreviations

Sr. no.	Abbreviations	Description
1	AD	aggregate demand
2	AEs	advanced economies
3	Agr.	agriculture, forestry and fishing
4	AY	assessment year
5	Bcm	billion cubic meters
6	bbl.	barrel
7	BE	budget estimate
8	CAB	current account balance
9	CGA	Comptroller General of Accounts
10	CGST	Central Goods and Services Tax
11	CIT	corporate income tax
12	Cons.	construction
13	CPI	Consumer Price Index
14	COVID-19	Coronavirus disease 2019
15	CPSE	central public-sector enterprise
16	CRAR	Credit to Risk- weighted Assets Ratio
17	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 advance 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	FRL	Fiscal Responsibility Legislation
31	FY	fiscal year (April–March)
32	GDP	Gross Domestic Product
33	GFCE	government final consumption expenditure
34	GFCF	gross fixed capital formation
35	Gol	Government of India
36	G-secs	government securities
37	GST	Goods and Services Tax
38	GVA	gross value added
39	IAD	Index of Aggregate Demand

Sr. no.	Abbreviations	Description
40	IBE	interim budget estimates
41	ICRIER	Indian Council for Research on International Economic Relations
42	IEA	International Energy Agency
43	IGST	Integrated Goods and Services Tax
44	IIP	Index of Industrial Production
45	IMF	International Monetary Fund
46	IMI	Index of Macro Imbalance
47	IMP	imports
48	INR	Indian Rupee
49	IPD	implicit price deflator
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	MPF	Monetary Policy Framework
58	NEXP	net exports (exports minus imports of goods and services)
59	NSO	National Statistical Office
60	NPA	non-performing assets
61	OECD	Organization for Economic Co-operation and Development
62	OPEC	Organization of the Petroleum Exporting Countries
63	PFCE	private final consumption expenditure
64	PIT	personal income tax
65	PMI	Purchasing Managers' Index (reference value = 50)
66	PoL	petroleum oil and lubricants
67	PPP	Purchasing power parity
68	PSBR	public sector borrowing requirement
69	PSU/PSE	public sector undertaking/public sector enterprises
70	RE	revised estimates
71	RBI	Reserve Bank of India
72	SLR	Statutory Liquidity Ratio
73	Trans.	trade, hotels, transport, communication and services related to broadcasting
74	US\$	US Dollar
75	UTGST	Union Territory Goods and Services Tax
76	WALR	weighted average lending rate
77	WHO	World Health Organization
78	WPI	Wholesale Price Index
79	y-o-y	year-on-year
80	1HFY20	first half of fiscal year 2019-20, i.e., April 2019-September 2019

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EYIN2304-013
ED None

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