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Economy Watch

Monitoring India's macro-fiscal performance

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ENTER

Building a better working world

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

D.K. Srivastava, Chief Policy Advisor, EY: dk.srivastava@in.ey.com

Muralikrishna Bharadwaj, Senior Manager, EY: muralikrishna.b@in.ey.com

Tarrung Kapur, Senior Manager, EY: tarrung.kapur@in.ey.com

Ragini Trehan, Senior Manager, EY: ragini.trehan@in.ey.com

Highlights

1. Led by a robust growth in investment demand, real GDP grew by 7.6% in 2QFY24 and by 7.7% in 1HFY24.

2. In November 2023, both manufacturing and services PMI remained at high levels of 56 and 56.9 respectively.

3. IIP growth accelerated to a 16-month high of 11.7% in October 2023, largely driven by a favorable base effect.

4. CPI inflation increased to 5.6% in November 2023 from 4.9% in October 2023, led by higher vegetable prices. Core CPI inflation, however, eased for the fifth successive month to 4.1% in November 2023.

5. WPI inflation turned positive at 0.3% in November 2023 after contracting for seven successive months led mainly by higher vegetables prices.

6. The monetary policy committee (MPC) retained the repo rate for the fifth successive time at 6.5% in its December 2023 monetary policy review.

7. During April-October FY24, GoI's gross tax revenues (GTR) showed a growth of 14%, with growth in direct taxes at 24.1% and that in indirect taxes at 3.5%.

8. GoI's total expenditure grew by 11.7% during April-October FY24, with growth in capital expenditure at 33.7% and that in revenue expenditure at 6.5%.

9. During April-October FY24, GoI's fiscal and revenue deficits, as a proportion of their annual BE, stood at 45% and 32.2%, respectively.

10. Gross bank credit continued to show a robust growth of 15.2% in October 2023, close to its level of 15.3% in September 2023.

11. Merchandise exports and imports contracted by (-)2.8% and (-)4.3% in November 2023 respectively as compared to a growth of 6.2% and 12.3% in October 2023, reflecting global slowdown and partly unfavorable base effect.

12. Merchandise trade deficit narrowed to US$20.6 billion in November 2023 from an unprecedented high of US$31.5 billion in October 2023.

13. Net FDI inflows surged to US$5.9 billion in October 2023 from US$1.5 billion in September 2023.

14. Average global crude price moderated to a four-month low of US$81.4/bbl. in November 2023 from US$89.1/bbl. in October 2023.

15. The OECD (November 2023) has projected global growth at 2.9% in 2023, with India's FY24 growth forecasted at 6.3%.

Foreword

Indian economy to scale 7% in spite of global drag

The RBI, in its December 2023 monetary policy review, has revised upward, its earlier real GDP growth forecast of 6.5% to 7% for FY24. The 1H national income accounts data showed a real gross capital formation (GCF) to GDP ratio of 37.4% and a gross fixed capital formation (GFCF) to GDP ratio of 35%. This investment rate (GFCF) is the highest since 2011-12 considering investment rates in the first and second halves of fiscal years. This, in combination with improved capacity utilization in the Indian economy which was at 76.3% in 4QFY23 and 73.6% in 1QFY24 augurs well with RBI's growth optimism. Not only is the prospect of real GDP growth in FY24 high, it is also sectorally quite broad-based. Considering the 1H GVA data with construction showing a growth of 10.5%, manufacturing of 9.3% and financial, real estate et al. of 9.0%, some of the key sectors of the economy are showing a robust growth. Even the trade, hotels, transport et al. sector which had remained below its pre-COVID level of FY20, has now fully recovered. Thus, the Indian economy has now left the COVID shadow well behind and has also negotiated well, the global headwinds that emerged due to the ongoing geopolitical conflicts, with reliance on domestic growth impulses.

Available high frequency indicators support RBI's growth assessment for FY24. In November 2023, both manufacturing and services PMI remained at high levels of 56 and 56.9 respectively, although the growth momentum in services eased. Gross GST collections remained high at INR1.67 lakh crore in November 2023 as compared to INR1.72 lakh crore in October 2023. According to the data released by Federation of Automobile Dealers Association (FADA), retail sales of vehicles showed a robust growth of 18.5% in November 2023 led by a strong growth of 21.1% and 17.2% respectively in two-wheeler and passenger vehicle segments. IIP growth accelerated to a 16-month high of 11.7% in October 2023. Core IIP also showed a robust growth at 12.1% in October 2023, improving from 9.2% in September 2023. Gross bank credit continued to show a double-digit growth of 15.2% in October 2023, close to its level of 15.3% in September 2023.

RBI's CPI inflation forecast for the year as a whole is 5.4%. CPI inflation was at 5.6% in November 2023. Considering average CPI inflation over April-November 2023 of 5.4%, RBI's annual inflation estimate appears to be realistic. It is however higher than the target average CPI inflation of 4%. Given the growth and inflation projections, the RBI may continue to hold the repo rate at the present level for some more time. WPI inflation on the other hand, has been negative during April-October 2023. It has only marginally turned positive in November 2023 at 0.3%. For the year as a whole, it may remain low or close to zero. This implies that the implicit price deflator (IPD)-based inflation which is based on a relatively higher weight given to WPI, may be in the range of 2-2.5%. The combination of a real growth of 7% with an IPD-based inflation of 2.3% may be consistent with a nominal GDP growth of 9.5%.

Some of the extant risk factors to growth also appear to be abating. First, in spite of earlier doubts about deficient monsoon, agriculture may still grow at about 2.5 to 3% for the year as a whole. Second, the prospect of global crude prices remaining comparatively moderate, below US$80/bbl. appears bright. Further, the global drag on the Indian economy in the form of the negative contribution of net exports to real GDP growth was one of the highest at (-)4.1% points in 1HFY24. This may moderate in the second half with some improvement in both merchandise and services exports.

An important condition for maintaining the growth momentum of 1HFY24 in the second half pertains to the government's continued emphasis on capital spending. Even though nominal GDP growth may be lower than the budgeted level of 10.5% by about 1% point, the high direct tax buoyancy may enable the GoI to at least meet its budget estimates for gross tax revenues (GTR). Direct taxes showed a growth of 24.1% during April-October FY24 with CIT showing a growth of 17.4% and PIT of 31.1%. This is likely to enable it to maintain its capital spending momentum which was budgeted to grow at 37.4% for FY24 while meeting the fiscal deficit target of 5.9% of GDP.

D.K. Srivastava
Chief Policy Advisor, EY India

1 Growth: real GDP grew by 7.6% in 2QFY24

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1.1 GDP and GVA: showed strong growth rates of 7.6% and 7.4% respectively in 2QFY24

- As per the national accounts data released by the MoSPI on 30 November 2023, real GDP grew by 7.6% in 2QFY24 **(Chart 1)**. Combining this with the 1QFY24 GDP growth, the 1HFY24 real GDP growth stood at 7.7%, improving from 5.3% in 2HFY23.
- On the demand side, GFCF grew by 11.6% in 2QFY24 **(Table 1)**. With this, the contribution of GFCF to overall GDP growth was the highest in 2QFY24 as well as in 1HFY24. A large part of this may be attributable to higher capital expenditure by both central and state governments.
- Among the other two domestic demand components, government consumption expenditure (GFCE) posted a strong growth of 12.4% in 2QFY24. On the contrary, growth in private final consumption expenditure (PFCE) was low at 3.1% in 2QFY24. Both these components grew by 5.1% and 4.5% respectively in 1HFY24.
- With regard to external demand, exports growth at 4.3% was significantly lower than imports growth at 16.7% in 2QFY24, leading to a negative contribution of net exports to real GDP growth at (-)3.6% points. Thus, due to sustained weakness in global demand during 1HFY24, net exports contribution to GDP growth was at a historic low (2011-12 series) of (-)4.1% points.
- On the output side, led by broad based improvement in the growth across major sectors, real GVA posted a robust growth of 7.4% in 2QFY24. Combining this with the 1QFY24 growth of 7.8%, real GVA growth for 1HFY24 stood at 7.6%.

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

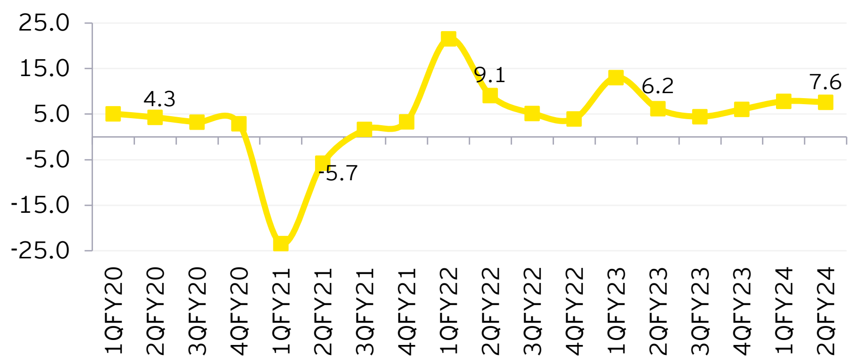


Table 1: Real GDP and GVA growth (%, annual)

Agg. demand	2Q FY22	3Q FY22	4Q FY22	1Q FY23	2Q FY23	3Q FY23	4Q FY23	1Q FY24	2Q FY24	*1H FY24*
PFCE	14.2	10.8	4.7	19.8	8.3	2.2	2.8	6.0	3.1	*4.5*
GFCE	11.7	5.8	11.8	1.8	-4.1	-0.6	2.3	-0.7	12.4	*5.1*
GFCF	12.4	1.2	4.9	20.4	9.6	8.0	8.9	8.0	11.0	*9.5*
EXP	25.1	27.8	22.4	19.6	12.2	11.1	11.9	-7.7	4.3	*-1.7*
IMP	26.6	19.7	6.7	33.6	23.1	10.7	4.9	10.1	16.7	*13.5*
GDP	**9.1**	**5.2**	**4.0**	**13.1**	**6.2**	**4.5**	**6.1**	**7.8**	**7.6**	***7.7***
Output side										
Agr.	4.8	2.3	4.1	2.4	2.5	4.7	5.5	3.5	1.2	*2.4*
Ming.	10.6	5.4	2.3	9.5	-0.1	4.1	4.3	5.8	10.0	*7.6*
Mfg.	6.6	1.3	0.6	6.1	-3.8	-1.4	4.5	4.7	13.9	*9.3*
Elec.	10.8	6.0	6.7	14.9	6.0	8.2	6.9	2.9	10.1	*6.4*
Cons.	10.8	0.2	4.9	16.0	5.7	8.3	10.4	7.9	13.3	*10.5*
Trans.	13.1	9.2	5.0	25.7	15.6	9.6	9.1	9.2	4.3	*6.6*
Fin.	7.0	4.3	4.6	8.5	7.1	5.7	7.1	12.2	6.0	*9.0*
Publ.	16.8	10.6	5.2	21.3	5.6	2.0	3.1	7.9	7.6	*7.7*
GVA	**9.3**	**4.7**	**3.9**	**11.9**	**5.4**	**4.7**	**6.5**	**7.8**	**7.4**	***7.6***

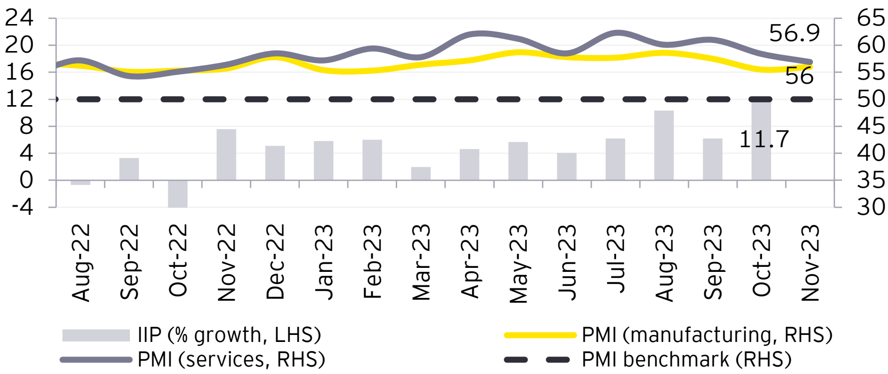
Source: MoSPI, GoI

- In 2QFY24, among the key GVA sectors, growth in manufacturing was the highest at 13.9%, followed by that in construction at 13.3%. In addition, growth in public administration and defence et al. and, financial, real estate et al. sectors also showed strong growth rates of 7.6% and 6.0% respectively in 2QFY24. Together, these four sectors have contributed 5.8% points, that is, about 76% to overall GVA growth in 1HFY24.
- With a growth of 9.2% and 4.3% in 1Q and 2QFY24 respectively, the magnitude of trade, hotel, transport et al. sector in 1HFY24 has surpassed its corresponding magnitude in the pre-COVID period of 1HFY20 by 4.5%, considering first halves of post-COVID fiscal years. This indicates that this employment-intensive sector has now recovered from COVID's impact.
- Growth in agriculture, however, fell to an 18-quarter low of 1.2% in 2QFY24 largely owing to deficient and uneven distribution of southwest monsoon. In 1HFY24, GVA in agriculture grew by 2.4%, similar to its level in 1HFY23.

1.2 PMI: in November 2023, composite PMI output index at 57.4, showed its weakest rate of expansion in one year

- Headline manufacturing PMI (seasonally adjusted (sa)) picked up from its eight-month low of 55.5 in October 2023 to 56 in November 2023, outpacing the series trend at 53.9 **(Chart 2).** Sustained growth in new orders both domestically and from abroad contributed to the robust performance of this sector during the month.
- Despite falling from 58.4 in October 2023 to a one-year low of 56.9 in November 2023, services PMI indicated a sharp expansion in the output of this sector. Rising inflation expectations contributed to a loss in growth momentum during the month.
- Signaling an easing growth in services sector, the composite PMI Output Index (sa) fell from 58.4 in October 2023 to 57.4 in November 2023, its lowest level in one year.

Chart 2: PMI and IIP growth



Source: MoSPI and S&P Global.

In November 2023, both manufacturing and services PMI remained at high levels of 56 and 56.9 respectively, although the growth momentum in services eased.

1.3 IIP: growth accelerated to 11.7% in October 2023

IIP growth accelerated to a 16-month high of 11.7% in October 2023, largely driven by a favourable base effect.

- According to the quick estimates, IIP posted a double-digit growth of 11.7% in October 2023, its highest level since June 2022, as compared to 6.2% (revised) in September 2023 **(Chart 1).** This sharp pick-up in growth may largely be attributable to a favorable base effect.
- Among sub-industries, manufacturing output, with a share of 77.6% in the overall IIP, grew by 10.4% in October 2023. This was more than double the growth seen in September 2023 at 4.9%. Within manufacturing, some key sectors which showed double-digit growth during the month include other machinery and equipment (26.1%)[1], motor vehicles (24.4%), other non-metallic mineral products (12.9%), basic metals (11.9%), and pharmaceuticals and medicinal products (11.2%). Growth in the output of coke and refined petroleum products remained subdued at 2.4% in October 2023.
- Among other major sub-industries, the mining sector output continued to post a double-digit growth for the fifth-successive month at 13.1% in October 2023. While the electricity output also showed a robust growth at 20.4% in October 2023, it may be largely attributable to a favorable base effect.
- As per the 'use-based' classification of industries, growth in the output of capital goods, which is usually volatile, was the highest at 22.6% in October 2023. This was followed by the output of consumer durables with a growth of 15.9% and that of infrastructure/construction at 11.3%. Output of consumer non-durables also grew by 8.6% in October 2023 as compared to 3.0% in September 2023. One may note that except infrastructure/construction, robust growth rates across other use-based segments can be attributable to a favorable base effect.
- According to provisional estimates, the output of eight core infrastructure industries (core IIP) showed a robust growth at 12.1% in October 2023, improving from 9.2% (revised) in September 2023. This strong growth momentum is due to high growth rates across sub-industries including electricity (20.3%), coal (18.4%), cement (17.1%), steel (11.0%), and natural gas (9.9%). On the contrary, growth in the output of crude oil remained subdued at 1.3% in October 2023.

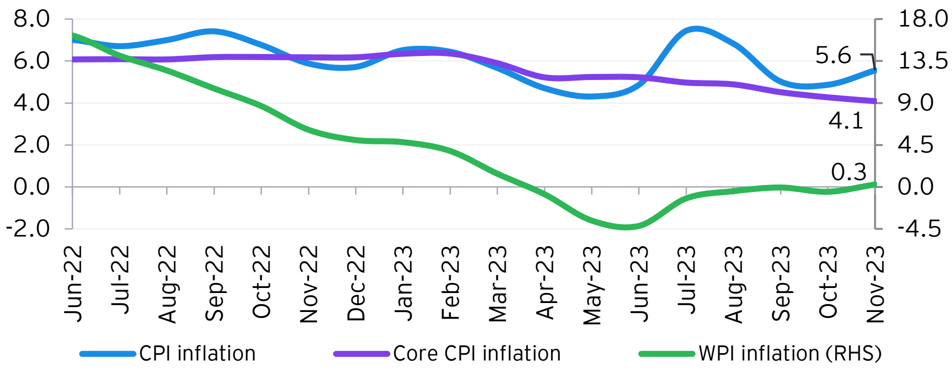
[1] Refers to machinery and equipment not elsewhere classified (n.e.c)

2 Inflation: CPI inflation increased to 5.6% in November 2023

2.1 CPI inflation

- Inflation in vegetables increased to a three-month high of 17.7% in November 2023 from 2.8% in October 2023 partly on account of an unfavorable base effect. Inflation in tomatoes turned positive at 11.4% in November 2023 after showing a contraction of (-)43.9% in October 2023
- In November 2023, consumer food inflation increased to 8.7% from 6.6% in October 2023.
- Fuel and light prices contracted for the third successive month by (-)0.8% in November 2023 as compared to (-)0.4% in October 2023 mainly reflecting the recent price cut on LPG cylinders for all domestic users.
- Inflation in transportation and communication services remained low at 2.1% in November 2023, although marginally higher than 2.0% seen in October 2023, primarily due to a favorable base effect.
- Inflation in clothing and footwear decelerated for the thirteenth consecutive month to 3.9% in November 2023 from 4.3% in October 2023.
- Core CPI inflation[2] fell to 4.1% in November 2023, its lowest level since April 2020, from 4.3% in the previous month led by lower inflation in clothing and footwear.

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



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

CPI inflation increased to 5.6% in November 2023 from 4.9% in October 2023, led by higher vegetable prices. Core CPI inflation, however, eased for the fifth successive month to 4.1% in November 2023.

2.2 WPI inflation: *WPI inflation turned marginally positive at 0.3% in November 2023 after contracting for seven successive months led mainly by higher vegetables prices*

- Inflation in vegetables turned positive at 10.4% in November 2023 from (-)21.0% in October 2023 due partly to unfavorable base effect and partly to higher vegetable prices. Inflation in tomatoes shot up to 24.0% in November 2023 from (-)56.6% in October 2023.
- WPI food index-based inflation increased to 4.7% in November from a four-month low of 1.1% in October 2023.
- Inflation in crude petroleum and natural gas remained negative at (-)7.1% in November 2023 as compared to (-)2.2% in October 2023, mainly reflecting a favorable base effect.
- Prices of fuel and power continued to contract for the seventh consecutive month at (-)4.6% in November 2023 as compared to (-)2.5% in October 2023. The pace of contraction in mineral oils increased to (-)5.7% in November 2023 from (-)0.4% in October 2023 as diesel prices contracted by (-)13.1% in November 2023 from (-)6.8% in October 2023 reflecting low global crude prices.
- Inflation in manufactured products remained negative for the ninth successive month at (-)0.6% in November 2023 as compared to (-)1.1% in October 2023.
- Core WPI witnessed a contraction for the ninth consecutive month at (-)0.4% in November 2023, marginally lower than (-)1.0% in October 2023 as major product groups including manufactured chemicals and chemical products, textiles, basic metals and paper and paper products remained in contraction mode.

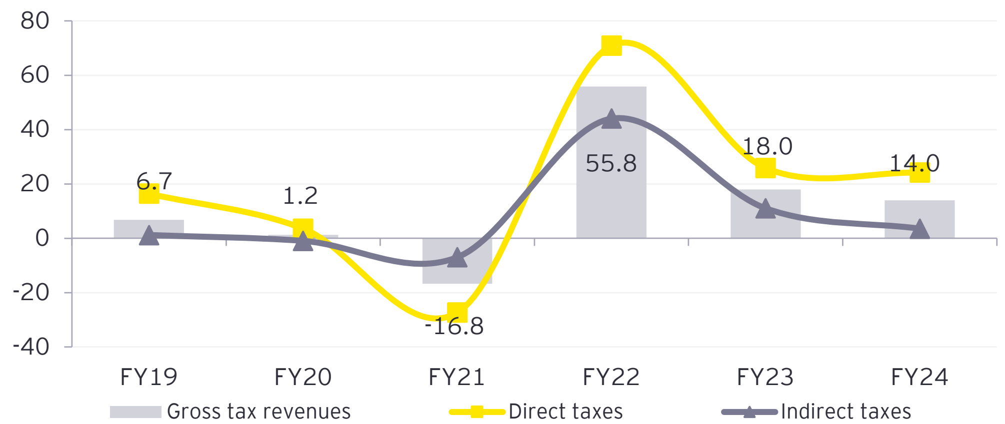
[2] Core CPI inflation is measured in different ways by different organizations/agencies. Here, it has been calculated by excluding food, and fuel and light from the overall index.

3 Fiscal: GoI's capital expenditure growth stood at 33.7% during April-October FY24

3.1 Tax and non-tax revenues

- As per the CGA, GoI's GTR[b] showed a growth of 14% during the first seven months of FY24 as compared to 18% during the corresponding period of FY23 **(Chart 4)**.
- During 1HFY24, GTR stood at 54.6% of the annual BE, higher than the three-year average ratio based on actual collections at 48.8%.
- Considering the nominal GDP growth of 8.6% in 1HFY24 and GTR growth of 16.3%, the estimated buoyancy is 1.9.
- Direct taxes[a] showed a double-digit growth of 24.1% while indirect taxes[a] grew by 3.5% during April-October FY24. The corresponding growth rates in FY23 were at 25.9% and 11% respectively.
- CIT revenues grew by 17.4% during the first seven months of FY24 as compared to 24.1% during the same period in FY23.
- PIT revenues grew by 31.1% during April-October FY24, higher than 27.7% during the corresponding period of FY23.
- Among indirect taxes, GoI's GST revenues[c] grew by 8.4% during April-October FY24, lower than 27.2% during the corresponding period of FY23.
- Union excise duties (UED) showed a contraction of (-)9.3% during the first seven months of FY24 as compared to (-)18.8% during the corresponding period of FY23.
- Customs duties grew by 1.2% during April-October FY24 as compared to 9.5% during the corresponding period of FY23.

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



During April-October FY24, GoI's GTR showed a growth of 14%, with growth in direct taxes at 24.1% and that in indirect taxes at 3.5%.

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

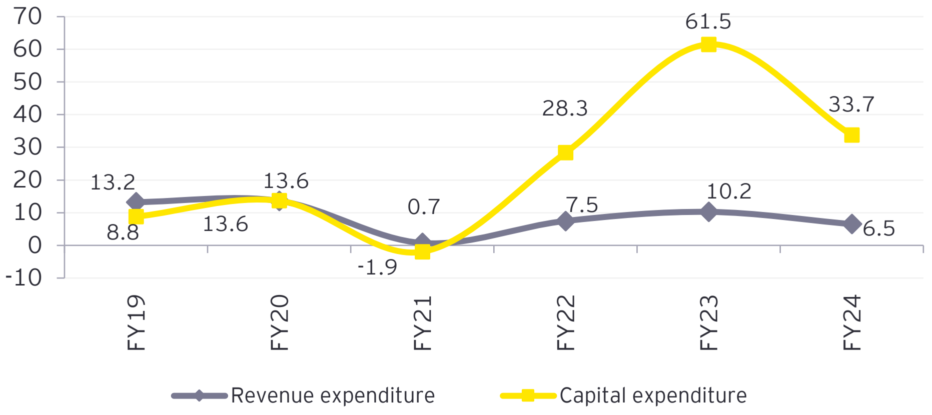
- GoI's non-tax revenues showed a high growth of 48.7% during April-October FY24 on account of high receipt of dividends and profits at INR1,24,530 crore, exceeding its FY24 BE by INR33,530 crore.
- Non-tax revenues during April-October FY24 as a proportion of annual BE stood at 88.1%, much higher than the three-year average ratio of 58.3% based on actual collections.
- Non-debt capital receipts of the GoI during April-October FY24 stood at 27.4% of the BE, much lower than the three-year average ratio of 42.7% based on actual collections.
- As per DIPAM[3], disinvestment receipts as of 22 December 2023 stood at INR10,049.64 crores, that is 19.7% of the FY24 BE at INR51,000 crore.

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

3.2 Expenditures: revenue and capital

- GoI's total expenditure grew by 11.7% during April-October FY24 as compared to 17.4% during the corresponding period of the previous year.
- GoI's revenue expenditure showed a growth of 6.5% during April-October FY24 as compared to 10.2% during the corresponding period of FY23 **(Chart 5).** There is a likelihood of revenue expenditure exceeding its BE on account of higher subsidy burden owing to relatively higher global crude prices.
- GoI's capital expenditure was front-loaded, showing a strong growth of 33.7% during the first seven months of FY24, although lower than 61.5% during the corresponding period of FY23.

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



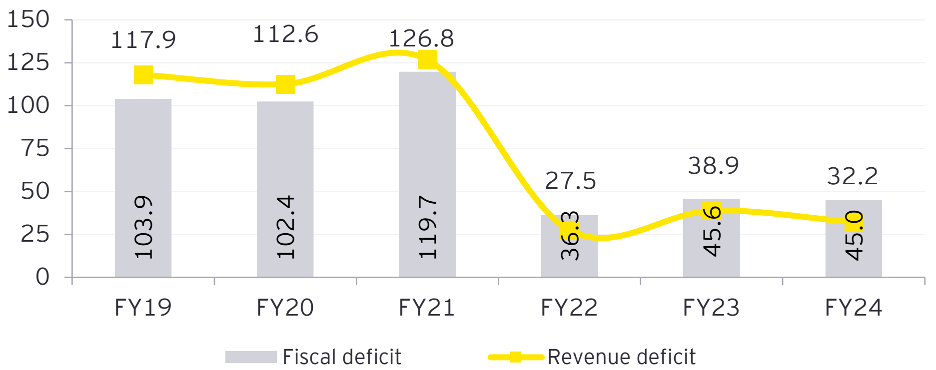
GoI's total expenditure grew by 11.7% during April-October FY24, with growth in capital expenditure at 33.7% and that in revenue expenditure at 6.5%.

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

3.3 Fiscal imbalance

- GoI's fiscal deficit during April-October FY24 stood at 45% of the BE, close to the corresponding ratio in FY23 **(Chart 6).** In 1HFY24, GoI's fiscal deficit stood at 5.6% of GDP.
- GoI's revenue deficit during the first seven months of FY24 stood at 32.2% of the BE, its second lowest level at least since FY01 (this ratio stood at its lowest level of 27.5% in FY22). In 1HFY24, revenue deficit relative to GDP stood at 2%.

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



During April-October FY24, GoI's fiscal and revenue deficits, as a proportion of their annual BE, stood at 45% and 32.2%, respectively.

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

4 Comparative trends: IMF projected India's current account deficit at 1.8% of GDP in FY24 and FY25

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4.1 Volume of exports of goods and services

- According to the IMF (World Economic Outlook, October 2023), growth in the volume of exports of goods and services at the global level is projected to fall sharply from 4.9% in 2022 to 1.1% in 2023, the lowest since 2001 excluding the years of global economic and financial crisis (2009) and COVID (2020). This is mainly attributable to the trade disruptions on account of geopolitical tensions along with easing global demand.
- While advanced economies (AEs) are projected to witness a low but positive growth of 1.8% in their export volumes in 2023, a contraction of (-)0.1% is projected for emerging market and developing economies (EMDEs).

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

Country/Region	2022	2023	2024	2025	2026	2027	2028
World	4.9	1.1	3.5	3.7	3.5	3.4	3.3
AEs	5.3	1.8	3.1	3.3	3.2	3.0	2.9
US	7.1	1.6	-0.2	2.6	2.9	2.9	2.8
UK	9.9	-2.8	1.8	2.4	1.8	1.6	1.6
Euro area	7.3	1.7	3.4	3.5	3.4	3.2	3.1
Japan	5.1	1.0	2.4	2.4	2.0	1.7	1.7
EMDEs	4.1	-0.1	4.2	4.2	3.9	4.1	3.9
Brazil	6.1	7.9	6.0	4.0	3.4	3.0	3.1
Russia	-6.8	-7.5	5.7	3.9	3.1	3.1	3.1
India*	9.7	-0.9	4.7	4.3	4.4	4.4	4.3
China	-2.0	-1.8	1.1	3.0	3.0	3.0	3.0
South Africa	7.4	3.6	5.8	5.3	4.6	3.9	3.6

Source (basic data): IMF World Economic Outlook (October 2023)

*Data pertains to fiscal year

- Among AEs, the IMF projects the growth in export volumes to ease in 2023 for all selected economies with a contraction in the case of the UK. For the US, it projects growth in export volumes to remain positive in 2023 owing to record high petroleum exports but subsequently contract in 2024 **(Table 2).**
- Among EMDEs, Russia, India and China are likely to face a contraction in their export volumes. Despite falling commodity prices, Brazil is projected to see a strong growth of 7.9% in its export volumes driven by agricultural exports. In the case of South Africa, the IMF estimates growth in export volumes to remain positive at 3.6% in 2023 but decline from 7.4% in 2022.
- Growth in export volumes of major selected economies would likely recover beginning 2024 or 2025 in line with an expected pick up in global demand and an easing of geopolitical tensions.

4.2 Current account balance

- In IMF's assessment, current account balances would likely improve in 2023 as compared to 2022 for all major AEs. The worsening of current account balances in 2022 largely reflected commodity price increases triggered by the geopolitical conflict which caused a widening in oil and other commodity trade balances.
- In the medium term, the IMF forecasts all selected AEs to witness an improvement in their current account balances owing to an easing of commodity prices **(Table 3).**
- A divergence in trends would characterize EMDEs. While current account deficit relative to GDP would likely narrow for India and Brazil in 2023, it would likely widen for South Africa. Further, current account surplus is projected to fall for Russia and China.

Table 3: Current account balance (% of GDP)

Country/Region	2022	2023	2024	2025	2026	2027	2028
AEs	-0.4	0.2	0.3	0.4	0.4	0.4	0.4
US	-3.8	-3.0	-2.8	-2.7	-2.6	-2.4	-2.4
UK	-3.8	-3.7	-3.7	-3.6	-3.6	-3.6	-3.5
Euro area	-0.7	1.2	1.4	1.6	1.6	1.7	1.8
Japan	2.1	3.3	3.7	3.6	3.5	3.3	3.2
EMDEs	1.5	0.5	0.4	0.2	0.0	-0.2	-0.3
Brazil	-2.8	-1.9	-1.8	-1.9	-2.0	-2.1	-2.2
Russia	10.5	3.4	4.0	3.4	3.4	2.7	2.3
India*	-2.0	-1.8	-1.8	-1.9	-2.0	-2.1	-2.3
China	2.2	1.5	1.4	1.1	1.0	0.8	0.7
South Africa	-0.5	-2.5	-2.8	-2.4	-2.3	-2.1	-2.1

Source (basic data): IMF World Economic Outlook (October 2023)

*Data pertains to fiscal year; -ve indicates a deficit and +ve indicates a surplus

- In China, the IMF attributes the narrowing of the current account surplus in 2023 largely to a slowing of exports due to sluggish global growth. At the same time, a very limited recovery in tourism imports would help maintain the current account surplus. There would be a sharp easing of the current account surplus in Russia due to a fall in the revenues from oil exports on account of discounted prices for Urals crude and lower natural gas exports.
- In South Africa, current account deficit would likely increase due to declines in the terms of trade, lower export volumes, higher import volumes, and a weak domestic currency.

5 In focus: Sixteenth Finance Commission: starting from the constitutional slate

Home

5.1 Introduction

There was a press notification dated 29 November 2023[4] indicating that the Terms of Reference (ToR) of the Sixteenth Finance Commission (FC16) have been approved by the Union Cabinet. However, the Commission would be formally constituted only after a Presidential notification. The approved ToR makes reference only to the constitutional provisions under Articles 275 and 280 and departs from the earlier practice of giving a detailed set of clauses asking the Commission to adopt a specified methodology and approach or particularly examine a set of listed issues pertaining to the subject of fiscal transfers from the central to the state governments and also the local governments.

5.2 Finance Commission's reference period and ToR

Period of reference

The periodicity of five years which was being maintained since the Tenth Finance Commission covering FY96 to FY00, was disturbed by the coverage of six years in the two Reports by the Fifteenth Finance Commission (FC15) pertaining to FY21 and for the period FY22 to FY26 respectively. The Commission had faced certain difficulties in selecting a suitable base year on account of the change of the status of Jammu and Kashmir from a state to a union territory (UT) with legislature. Subsequently, the onset of COVID-19 which affected FY21, also had to be considered in forecasting economic and fiscal outcomes during the recommendation period of the Commission. Before FC15, it was the Ninth Finance Commission which had a reference period of six years.

The press notification dated 29 November 2023 indicates that FC16 will have a reference period extending from FY27 to FY31. The two constitutional articles relevant for the constitution of the FC are 280 and 281. Clause (1) of Article 280 provides that '*The President shall, within two years from the commencement of this Constitution and thereafter at the expiration of every fifth year or at such earlier time as the President considers necessary, by order constitute a Finance Commission which shall consist of a Chairman and four other members to be appointed by the President*'. Thus, the Commission will stand constituted only after a Presidential notification. FC15 was notified through a Presidential notification on 27 November 2017. A second notification extending the term of FC15 was issued on 29 November 2019[5].

Number of states

When FC15 was constituted in November 2017, India had 29 states. However, with the Jammu and Kashmir Reorganization Act 2019, the erstwhile state of Jammu and Kashmir was made as a UT with legislature while Ladakh was made a UT without legislature. Thus, in the first and the final reports of FC15 pertaining to FY21 and FY22 to FY26 respectively, recommendations were made for the distribution of resources between the GoI and 28 states. This situation may change again if and when Jammu and Kashmir is made a state in regard to the latest Supreme Court judgement[6].

Terms of Reference

The ToR of FC16 as indicated by the press notification are as follows:

(1) *The distribution between the Union and the States of the net proceeds of taxes which are to be, or may be, divided between them under Chapter I, Part XII of the Constitution and the allocation between the States of the respective shares of such proceeds;*

(2) *The principles which should govern the grants-in-aid of the revenues of the States out of the Consolidated Fund of India and the sums to be paid to the States by way of grants- in-aid of their revenues under article 275 of the Constitution for the purposes other than those specified in the provisos to clause (1) of that article; and*

(3) *The measures needed to augment the Consolidated Fund of a State to supplement the resources of the Panchayats and Municipalities in the State on the basis of the recommendations made by the Finance Commission of the State.*

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[4] https://pib.gov.in/PressReleaseIframePage.aspx?PRID=1980688

[5] https://fincomindia.nic.in/writereaddata/html_en_files/fincom15/others/Notification%20dated%2029.11.2019.pdf

[6] https://frontline.thehindu.com/news/jammu-kashmir-supreme-court-upholds-abrogation-of-article-370-in-landmark-decision/article67627243.ece

The Commission may review the present arrangements on financing Disaster Management initiatives, with reference to the funds constituted under the Disaster Management Act, 2005 (53 of 2005), and make appropriate recommendations thereon.

Para (1) of the ToR is based on Article 280 (3), subclause (a) of the Constitution. Para (2) of the ToR is based on Article 280 (3), subclause (b) read with Article 275 (1) of the Constitution. Para (3) of the ToR is based on Article 280 (3), subclauses (bb) and (c) of the Constitution.

'Disaster Management' as a subject is not mentioned in any of the three lists of Schedule VII of the Constitution. It means provisions regarding disaster management come under the Residuary Powers of the Union under entry 97 of the Union List.

It used to be the case with reference to the earlier FCs that quite a number of other clauses were included in the ToR reflecting the provision under clause (d) of Article 280 of the Constitution which made reference to *'any other matter referred to the Commission by the President in the interests of sound finance'*. No specific matter has been referred to FC16 under this clause. However, since this phrase is part of the Constitution, it should be open to the Commission to consider any relevant matter in the interest of sound finance. Some of the other constitutional articles which may have relevance for center-state fiscal relations relate to 292, 293, 270, and 271. Articles 292 and 293 provide that Parliament may prescribe limits for borrowing by the central government and give approval to any borrowing by the state governments if the GoI has extended any loan to the state government or with respect to which a guarantee has been given. Article 270 deals with the distribution of union taxes between the central and the state governments. Clauses (1), 1(a) and 1(b) of this Article cover all central taxes including GoI's share of GST which are to be distributed between the central and the state governments under the recommendations of the FC. Clause (2) of this Article however relates to taxes which may be a part of the Union List but which may be assigned to the states. Another important article namely, Article 271 provides for the levy of surcharge by the GoI. The levy of cess has been mentioned in Article 270 (1) itself which can be levied under any law made by the Parliament for this purpose.

The heavy reliance on cesses and surcharges by the central government has been a subject of discussion in recent times[7]. This may continue to remain an important issue in the context of vertical distribution of resources between central and state governments.

It would be clear when the Presidential notification constituting FC16 becomes available whether any other ToR would be referred to the Commission. As the matters stand at present, the press notification is limited to only the constitutional provisions indicated earlier. If this situation does not change, this may be a fresh and a welcome departure from the earlier practice as it does not constrain the Commission by a detailed set of considerations. This would only mean that considering the entire ambit of center-state fiscal transfers and the constitutional provisions in regard to this, the Commission is free to determine its own approach and methodology. This is also provided for under Article 280 (4) that clearly states that '*the Commission shall determine their procedure and shall have such powers in the performance of their functions as Parliament may by law confer on them.*'

Relevance of missing the missed clauses

In fact, what has been missed out in relation to the ToRs of the preceding FCs, especially some of the recent ones, may be of significance. Some of the missed-out clauses may be grouped under the following sub-categories:

1. **Specification of a Census year:** The ToR of some of the earlier Commissions had mentioned a specific Census year. Since it was a part of the ToR, the Commissions considered it a mandate to utilize population data of that Census year implying use of dated information. This was an unnecessary intervention and may have led to an undue distortion in the methodology adopted and the outcome of FC recommendations. It should be considered a welcome step that no such constraint has been placed on FC16.
2. **Examining the status of fiscal imbalances**: The erstwhile FCs were asked to review the state of government finances of the central and state governments especially with respect to fiscal deficit and debt. This consideration will nevertheless have to inform FC16's deliberations in the context of determining tax devolution and grants. Even if they focus on the revenue accounts of central and state governments, it is the substantive importance of interest payments which is part of revenue expenditure that has a bearing on government borrowing both by the central and the state governments. In fact, the dynamics of movement of interest payments is linked to the dynamics of fiscal deficit and debt.

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[7] Final Report of the Fifteenth Finance Commission (2021). Para numbers 3.63 to 3.65; Srivastava, D. K. (2023). *Evolving Contours of Centre-State Fiscal Relations: Inconsistencies, Ad-Hocism and Centralization* (No. 2023-239); Sharma, Chanchal Kumar, and Wilfried Swenden (2022). "The dynamics of federal (in) stability and negotiated cooperation under single-party dominance: insights from Modi's India." Contemporary South Asia 30.4: 601-618; Srivastava, Dinesh Kumar (2022). Intergovernmental Fiscal Relations in India: Time for the Next Generation of Reforms. Madras School of Economics, Working Paper 222.

3. **Inclusion of incentives:** FCs were often asked to consider providing incentives in their scheme of tax devolution and grants to promote multiple objectives including center's flagship schemes, progress towards sustainable development goals (SDGs), progress made in increasing tax/non-tax revenues, structural reform programs etc. Similarly, efforts and progress made in moving towards replacement rate of population growth were to be considered in devising the scheme of fiscal transfers for FC15. In their ToR, reference was also made to provision of grants in aid to local bodies for basic services, including quality human resources, and implementation of performance grant system in improving delivery of services. In the case of FC13 and FC14, there was a reference made to the *'need to balance management of ecology, environment and climate change consistent with sustainable economic development*'. FC16 would be free to devise its own approach and consider introduction of incentives or compensation as needed with reference to tax effort, fiscal discipline, environmental externalities etc.

Thus, as long as Article 280 (4) remains a part of the Constitution, any fiscal matter may be considered by the FC in the interests of sound finance.

Status of data availability

The latest population data that would be available to FC16 based on Census is 2011. The 2021 Census has not been conducted. Thus, for the reference period of FC16, if the Commission decides to use population data based on the 2011 Census, it would be dated by 15 to 20 years considering the first and the terminal years of the recommendation period of FC16 namely, FY27 and FY31. The latest GSDP data currently available from the NSO pertains to FY22 for all states and FY23 for a selected list of states. Assuming that the FC16 uses data for three years, it may imply utilizing GSDP data pertaining to FY21, FY22, and FY23. The FY21 GDP/GSDP data would contain the deleterious effects of COVID-19 and the FY22 data would reflect its base effects. FY23 would be the first year where, by and large, the GDP/GSDP data would have normalized.

5.3 Resolving vertical, horizontal, and fiscal imbalances

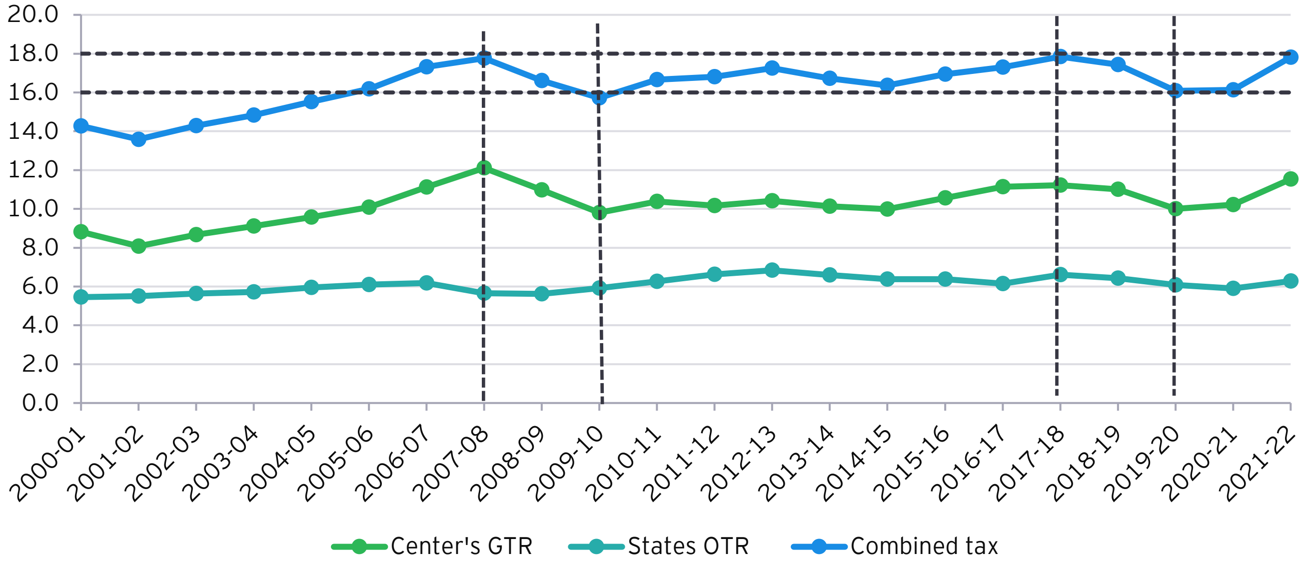
The subject of distribution of GoI's taxes and determination of grants would require consideration of three types of imbalances in the system. The issue of vertical imbalance arises because the Constitution has given relatively larger tax resources to the central government as compared to the states in the interest of efficiency. The levy of taxes at the central level ensures uniform definitions, tax rates, exemptions, provisions etc. throughout the country. This provides a built-in harmonization across states. Transfer of central tax revenues which may be assessed to be in excess of its own needs to the state governments who may have tax resources that are less than their needs, brings the system into balance. The assessment of availability of resources vis-à-vis responsibilities for the central government and state governments considered together is the subject of vertical distribution of resources. Here, the attempt is to move from a situation of imbalance to that of balance.

The second dimension in the context of distribution of resources is the horizontal dimension. This is where the Commission needs to take into account the differential initial conditions as well as the differential current economic and fiscal conditions which characterize the economies and finances of the state governments. Here again, the effort of the Commission is to move from a situation of imbalance to relative balance. The third dimension pertains to fiscal imbalance. Both, central and state governments borrow in order to fill up part of the resource gap which is not met by the availability of resources after transfers. But borrowing leads to an expenditure liability in the form of interest payments as discussed earlier. In fact, all the three imbalances are interlinked. We review below, the current status of the three dimensions of imbalances.

State of vertical imbalance

Chart 7 shows that the combined tax-GDP ratio has broadly ranged between 16-18% from FY06 onwards. Center's tax-GDP ratio sharply fell during FY08 to FY10 and again during FY18 to FY20. In both instances, the fall was of nearly 2% points. This reflected itself in the combined tax-GDP ratio also.

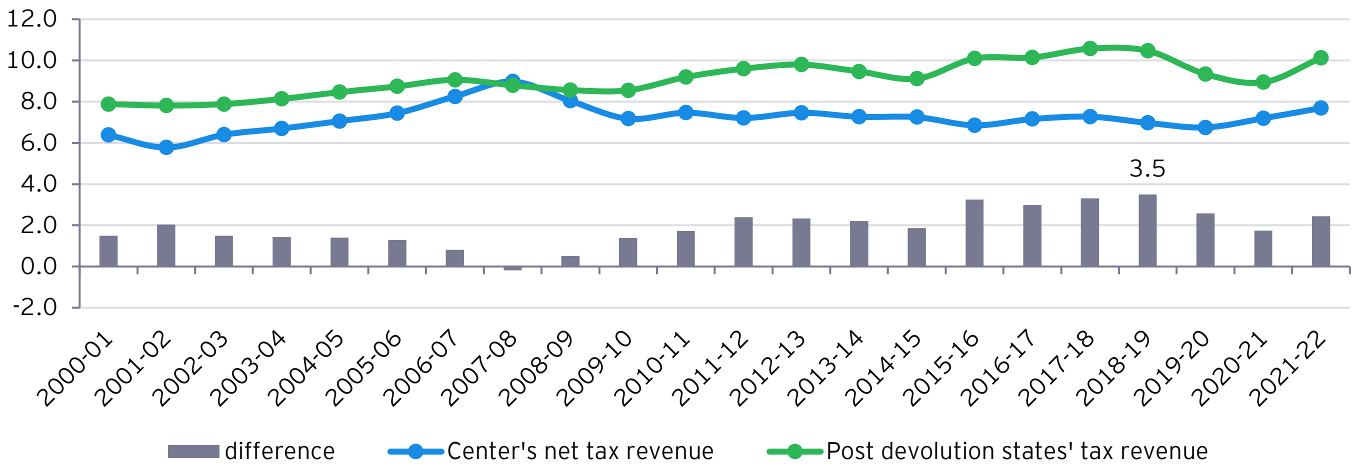
Chart 7: Tax-GDP ratio (%): center, states and combined



Source (basic data): IPFS, Union budget documents and RBI - State finances
Note: state data includes all states and UTs with legislature

The sharing of central taxes with the states resulted in a movement of convergence during FY01 to FY08. In this period, the gap between center's net tax revenue relative to GDP and states' tax revenue post transfers relative to GDP was progressively reduced and the two became effectively equal in FY08 (Chart 8). These years were covered largely by the recommendations of FC11 and FC12. After FY10, the gap between the two started to increase, reaching a peak of 3.5% points in FY19. Thus, in resolving the vertical imbalance, the movement towards bringing post devolution convergence in the access to tax resources of the system to the central and the state governments was reversed, and states' post devolution tax-GDP ratio started to exceed that of the center. This change resulted in the squeezing of fiscal space for the center as discussed subsequently.

Chart 8: Post devolution tax-GDP ratio (%): center and states



Source (basic data): IPFS, Union budget documents and RBI - State finances
Note: state data includes all states and UTs with legislature

Table 4 shows the relative shares of center and states after fiscal transfers in the combined revenue receipts of center and states. All the relevant series are shown as percentage of GDP. The combined revenue receipts relative to GDP have been relatively static, generally moving in the range of 18-20% especially FY05 onwards. After fiscal transfers through tax devolution and grants, it is notable that the share of states has progressively increased. Comparing FC period averages, the share of states in the combined revenue receipts after transfers has increased. This ratio was at 10.8% in FC11, 12.1% in FC12, 12.4% in FC13, and 13.6% in FC14.

Table 4: Pre-and post-transfer status of revenue receipts of central and state governments (as % of GDP)

Fiscal Year	Pre-transfer RR		Post transfer RR		Combined RR
	Centre	States	Centre	States	
FY01	10.2	6.2	6.0	10.4	16.4
FY02	9.8	6.6	5.7	10.7	16.4
FY03	10.4	6.6	6.4	10.6	17.0
FY04	10.9	6.9	6.7	11.1	17.8
FY05	11.4	7.1	7.2	11.3	18.4
FY06	11.9	7.3	7.2	12.0	19.2
FY07	12.8	7.7	7.8	12.7	20.5
FY08	13.9	6.7	8.5	12.0	20.6
FY09	12.5	6.6	7.3	11.8	19.1
FY10	11.4	7.1	6.5	12.0	18.5
FY11	13.1	7.2	8.1	12.2	20.3
FY12	11.5	7.4	6.5	12.4	18.9
FY13	11.6	7.8	6.9	12.5	19.4
FY14	11.8	7.5	7.2	12.1	19.3
FY15	11.4	7.1	6.0	12.5	18.5
FY16	12.3	7.6	6.3	13.5	19.8
FY17	12.9	7.0	6.4	13.5	19.9
FY18	12.3	7.7	5.9	14.0	20.0
FY19	12.2	7.6	5.9	13.9	19.8
FY20	11.6	7.4	5.9	13.1	18.9
FY21	11.2	6.8	4.5	13.5	18.0
FY22	13.1	7.3	5.8	14.6	20.4
11th FC	10.5	6.7	6.4	10.8	17.2
12th FC	12.5	7.1	7.5	12.1	19.5
13th FC	11.9	7.4	6.9	12.4	19.3
14th FC	12.3	7.4	6.1	13.6	19.7
15th FC (2 years)	12.1	7.1	5.2	14.1	19.2

Source (basic data): IPFS, Union budget documents and RBI – State finances
Note: state data includes all states and UTs with legislature

The increasing share of states in the combined revenue receipts is reflected in the falling share of the center in all the three expenditure categories namely, revenue, total and primary expenditures. The combined total expenditure of center and states relative to GDP has been relatively static, broadly in the range of 26-28% (Table 5). Its peak values are noted in those years when the combined fiscal deficit relative to GDP has been the highest. The change in the fiscal deficit relates to policy responses to cyclical challenges and can be considered as temporary. Considering Commission period averages, combined total expenditure relative to GDP has ranged from 26.2% to 26.7% during FC11 to FC14. This narrow range indicates its static nature. Its allocation in terms of primary expenditure however shows a clear movement in favor of the states and against the center. Excluding the two recent years of FY21 and FY22, center's primary expenditure to GDP ratio has fallen from 9.7% in FY12 to 7.8% in FY20, less than 50% of states' primary expenditure relative to GDP. This also implies a lowering of center's share in the combined primary expenditure. This basically indicates squeezing of fiscal space of the center post fiscal transfers.

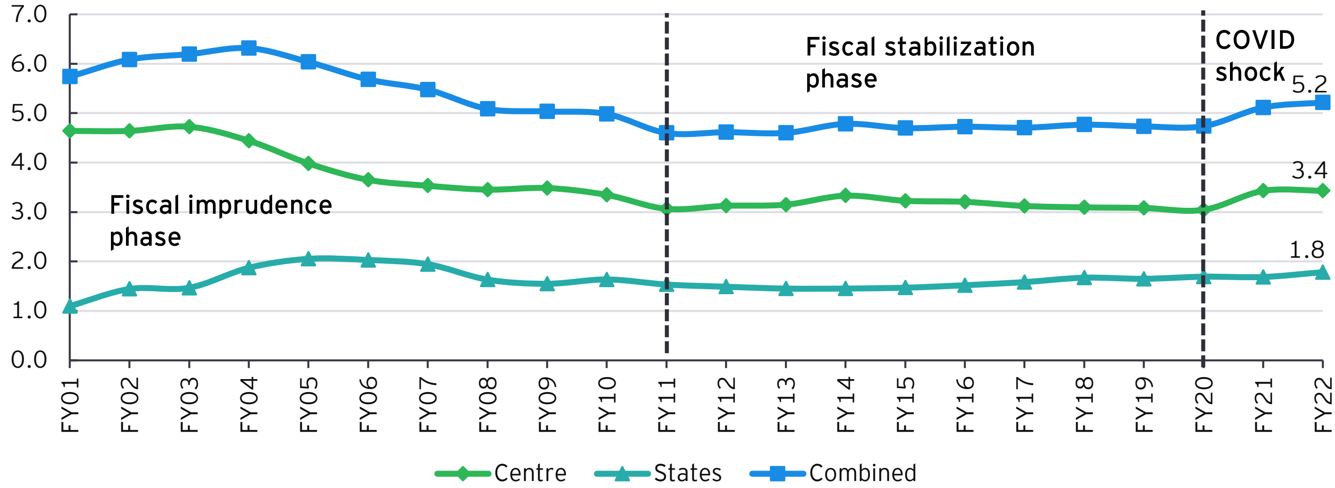
Table 5: Post transfer status of total, revenue, and primary expenditure of central and state governments (as % of GDP)

Fiscal year	Revenue expenditure			Total expenditure			Primary expenditure		
	Center	States	Combined	Center	States	Combined	Center	States	Combined
FY01	11.2	11.5	22.7	12.5	13.1	25.5	9.1	10.7	19.8
FY02	11.2	12.0	23.2	12.7	13.5	26.2	9.3	10.9	20.1
FY03	11.9	11.6	23.5	13.1	13.3	26.4	9.5	10.7	20.2
FY04	11.3	12.2	23.4	12.4	14.4	26.8	9.0	11.5	20.5
FY05	10.3	11.6	22.0	12.0	13.9	25.9	8.8	11.1	19.9
FY06	10.1	11.6	21.7	11.7	14.0	25.8	8.4	11.6	20.1
FY07	10.0	11.7	21.6	11.4	14.3	25.7	8.2	12.0	20.2
FY08	9.9	10.7	20.6	12.2	13.3	25.4	9.0	11.3	20.3
FY09	12.1	11.3	23.4	13.5	13.9	27.4	10.3	12.1	22.4
FY10	12.0	12.2	24.2	13.7	14.8	28.5	10.5	13.0	23.5
FY11	11.5	11.9	23.4	13.5	14.1	27.6	10.6	12.5	23.0
FY12	11.1	12.0	23.1	12.7	14.3	27.0	9.7	12.7	22.4
FY13	10.7	12.2	22.8	12.2	14.4	26.6	9.1	12.9	22.0
FY14	10.4	12.1	22.5	12.0	14.3	26.3	8.7	12.8	21.5
FY15	9.0	12.7	21.7	10.5	15.0	25.5	7.4	13.5	20.8
FY16	8.9	13.5	22.4	10.9	16.5	27.4	7.8	15.0	22.7
FY17	8.5	13.5	22.0	10.3	16.8	27.2	7.3	15.2	22.5
FY18	8.6	13.4	22.0	10.1	15.9	26.0	7.0	14.2	21.2
FY19	8.3	13.7	22.0	9.9	16.2	26.1	6.9	14.5	21.4
FY20	9.2	13.6	22.8	10.8	15.9	26.7	7.8	14.1	22.0
FY21	11.9	14.2	26.1	13.4	16.4	29.7	10.0	14.7	24.6
FY22	10.2	14.1	24.3	11.9	16.6	28.5	8.5	14.8	23.2
11th FC	11.2	11.8	22.9	12.5	13.6	26.2	9.0	11.2	20.2
12th FC	10.8	11.5	22.3	12.5	14.1	26.6	9.7	12.2	21.9
13th FC	10.5	12.2	22.7	12.2	14.4	26.6	8.5	13.4	21.9
14th FC	8.7	13.5	22.3	10.4	16.3	26.7	7.8	14.5	22.3
15th FC (2 years)	11.0	14.2	25.2	12.6	16.5	29.1	8.6	14.2	22.8

Source (basic data): IPFS, Union budget documents and RBI – State finances
Note: state data includes all states and UTs with legislature

Government finances had experienced growing fiscal imbalances on the combined account of central and state governments and on their individual accounts up to FY04. In that year, center's FRBM was enacted and in and around this year, state Fiscal Responsibility Legislations (FRLs) were also enacted. As a result, the debt-GDP ratios started to fall and alongside, the interest payment to GDP ratios also fell. From a peak of 6.3% in FY04, the combined interest payment to GDP ratio fell to a level of 4.6% in FY11 and it had broadly remained at this level until FY20 after which it has picked up again primarily due to the COVID shock which forced the governments to increase their fiscal deficit and debt as a stabilization measure. The phase from FY11 to FY20 can be considered as the 'positive impact phase' or the 'fiscal stabilization phase' which resulted from the enactment of FRLs (Chart 9).

Chart 9: Interest payment to GDP ratio: center, states and combined government (%)



Source (basic data): IPFS, Union budget documents and RBI – State finances
Note: state data includes all states and UTs with legislature

State of fiscal imbalance

The combined government debt to GDP ratio had reached a peak of 85.5% in FY04. This was the outcome of keeping a high fiscal deficit relative to GDP in the range of 8.8% to 11% over the period FY01 to FY04. This was proving to be counterproductive since the interest payment to GDP ratio was also increasing and fiscal imbalances appeared to be unsustainable. Enactment of center's and states' FRLs led to an improvement in the profile of fiscal imbalances of the central and state governments. The combined debt-GDP ratio steadily fell, reaching a trough of 67.8% in FY15. The target for the combined debt-GDP ratio of 56% set by FC12 and 60% set by the 2018 Center's FRBMA amendment was never reached (Table 6). An upward trend in the combined debt-GDP ratio began after FY15. In the recommendation period of FC14 which was from FY16 to FY20, center's debt-GDP ratio witnessed a steady rise from 46.1% to 49.2%. These years witnessed a fall in center's share in the divisible pool of taxes from 68% to 58%. There was also a fall in the combined tax-GDP ratio in FY19 and FY20 as shown earlier in Chart 7.

Table 6: Fiscal imbalance of center and all states as % of GDP

Fiscal Year	Fiscal deficit			Primary deficit			Debt		
	Centre	States	Combined	Centre	States	Combined	Centre	States	Combined
FY01	4.8	4.0	8.8	1.5	1.6	3.1	46.6	27.8	74.4
FY02	6.8	4.2	11.0	3.4	1.5	4.9	49.9	29.8	79.7
FY03	6.1	3.8	9.9	2.6	1.2	3.8	52.4	31.6	84.0
FY04	6.3	4.2	10.5	2.9	1.3	4.2	53.1	32.3	85.5
FY05	6.3	3.5	9.7	3.0	0.7	3.7	52.8	31.8	84.6
FY06	4.3	3.7	7.9	1.0	1.3	2.3	50.6	31.6	82.2
FY07	5.4	2.2	7.6	2.1	0.0	2.1	48.5	29.2	77.7
FY08	6.0	1.8	7.8	2.9	-0.2	2.7	48.2	27.1	75.3
FY09	6.6	2.6	9.2	3.4	0.8	4.2	49.4	26.7	76.1
FY10	5.1	2.8	7.9	1.9	1.0	2.9	47.9	25.9	73.8
FY11	4.9	2.4	7.3	2.0	0.7	2.7	44.8	24.0	68.8
FY12	7.1	1.9	9.0	4.1	0.3	4.4	46.2	22.8	69.1
FY13	5.6	2.2	7.7	2.5	0.6	3.1	46.2	22.2	68.4
FY14	5.6	2.3	7.9	2.4	0.8	3.2	46.5	22.0	68.5
FY15	4.2	1.9	6.1	1.1	0.3	1.4	46.1	21.7	67.8
FY16	4.8	3.4	8.2	1.6	1.8	3.5	46.5	23.0	69.6
FY17	3.5	4.1	7.7	0.5	2.5	3.0	45.2	24.7	69.9
FY18	4.9	2.8	7.7	1.9	1.1	3.0	45.6	25.1	70.7
FY19	4.7	2.6	7.3	1.6	0.9	2.5	45.9	25.3	71.2
FY20	6.1	2.8	8.9	3.1	1.1	4.1	49.2	26.6	75.8
FY21	8.9	4.1	12.9	5.5	2.3	7.8	58.7	31.0	89.8
FY22	5.5	3.1	8.5	2.1	1.3	3.3	55.1	29.3	84.4

Fiscal Year	Fiscal deficit			Primary deficit			Debt		
	Centre	States	Combined	Centre	States	Combined	Centre	States	Combined
11th FC	6.1	3.9	10.0	2.7	1.3	3.9	52.8	31.8	84.6
12th FC	5.5	2.6	8.1	2.2	0.6	2.8	47.9	25.9	73.8
13th FC	5.5	2.1	7.6	2.4	0.5	2.9	46.1	21.7	67.8
14th FC	4.8	3.2	7.9	1.7	1.5	3.2	49.2	26.6	75.8
15th FC (2 years)	7.2	3.6	10.7	3.8	1.8	5.6	55.1	29.3	84.4

Source (basic data): IPFS, Union budget documents and RBI – State finances
Note: state data includes all states and UTs with legislature

State of horizontal imbalance

Apart from resolving vertical and fiscal imbalances, the FC is also concerned with the resolution of horizontal imbalance that is imbalance in the fiscal and economic situation of the states which impacts the standards of publicly provided public and merit services across states. One of the objectives of the exercise of fiscal transfers is to ensure efficiency in the system by ensuring that population migrates across states for contributing to overall productivity of the economy and not for accessing higher standards of services across states or better state-level programs of poverty alleviation and/or income transfers etc. This requires equalizing fiscal capacities of the states as long as the state makes the same tax effort to convert the equalized fiscal capacity to tax revenues. Fiscal capacity differs across states because of differential initial endowments (area, size of population, nature of terrain, access to ports and coastal areas, etc.) and economic growth. The per capita real GSDP across the states in India differ widely.

For analytical purposes, states in India are divided into two broad groups namely medium and large states (ML group) and small and hilly states (SH group). Table 7 shows per capita real GSDP of these states and these two groups. For the ML group, the ratio of highest to lowest per capita real GSDP has been increasing over time. This is the outcome of the lower CAGR of per capita real GSDP of those states which started with a relatively low per capita GSDP. This indicates that divergence in per capita real GSDP and therefore per capita fiscal capacity across states has been increasing over time. If the objective is to equalize standards of services through equalization of fiscal capacity, then the equalization content of fiscal transfers would need to increase over time. Similar patterns are noted for the SH group. The average per capita real GSDP of the SH group has ranged between 1.2 to 1.3 times that of the ML group.

Table 7: State-wise per capita real GSDP: FY11 to FY22

Fiscal year	Per capita real GSDP (INR, period average)				CAGR (FY11 to FY22) in %
	FY11-FY13	FY14-FY17	FY18-FY20	FY21-FY22	
ML group					
GJ	1,09,707	1,39,419	1,76,325	1,87,027	6.8
HR	1,24,130	1,52,801	1,84,186	1,84,491	5.2
KA	1,04,719	1,30,815	1,65,330	1,74,809	6.4
TN	1,09,443	1,29,814	1,57,683	1,69,366	5.4
TS	1,03,519	1,24,591	1,60,933	1,69,258	5.9
MH	1,19,140	1,41,096	1,60,260	1,56,073	3.7
KL	1,14,310	1,32,362	1,56,678	1,54,446	4.1
PB	99,635	1,12,563	1,29,033	1,32,915	3.6
AP	78,482	97,982	1,21,467	1,28,450	5.8
OR	57,893	68,487	85,091	89,912	5.6
RJ	65,362	76,528	84,485	88,373	3.9
CH	64,410	71,507	83,058	87,144	3.9
WB	58,268	64,081	75,366	76,362	3.5
AS	46,567	56,188	67,521	72,035	5.0
MP	46,111	54,179	65,525	67,647	5.1
JH	47,249	52,012	60,193	60,081	3.3
UP	37,186	42,816	48,975	49,314	3.6
BH	24,155	26,645	31,518	31,176	3.2
ML group avg.	71,270	84,145	99,964	1,02,516	4.6

Fiscal year	Per capita real GSDP (INR, period average)				CAGR (FY11 to FY22) in %
	FY11-FY13	FY14-FY17	FY18-FY20	FY21-FY22	
Ratio of highest to lowest	5.1 (HR to BH)	5.7 (HR to BH)	5.8 (HR to BH)	6.0 (GJ to BH)	--
SH group					
GA	2,48,276	3,04,215	3,48,347	3,48,818	2.1
SK	1,86,322	2,22,998	2,81,555	2,97,709	5.3
HP	1,11,498	1,34,453	1,58,856	1,64,964	4.9
UK	1,20,741	1,43,765	1,67,366	1,63,105	4.0
MZ	70,640	1,03,846	1,36,879	1,43,614	8.8
AR	82,244	99,894	1,14,413	1,24,744	4.9
TR	56,121	72,876	90,508	93,204	6.4
JK	63,838	70,963	83,767	88,319	4.1
NL	64,308	71,737	80,549	81,802	3.1
ML	66,245	63,678	68,035	71,171	0.9
MN	45,108	51,474	55,653	54,283	2.5
SH group avg.	90,205	1,05,994	1,23,907	1,26,433	4.1
Ratio of highest to lowest	5.5 (GA to MN)	5.9 (GA to MN)	6.3 (GA to MN)	6.4 (GA to MN)	--
Ratio of SH to ML group averages	1.27	1.26	1.24	1.23	--
All India	*72,080*	*85,127*	*1,01,050*	*1,03,567*	5.8

Source (basic data): MoSPI, GoI

Table 8 gives the differential population size of states in terms of the share of a state in all-state population. Apart from 2011 Census data, we have also given average shares for the period FY20 to FY22 sourced from MoSPI. According to the 2011 Census, nearly 17% of the all-state population resides in UP followed by 9.4% in Maharashtra. At the lower end, the smallest population size state among the ML group is Haryana. The total population of the SH group of states is 3.8% of the all-state population whereas its share in all-state GSDP at constant prices is 4.6% for the period FY20 to FY22. Comparing population shares based on 2011 Census data with those based on FY20-FY22 data shows that the population share has increased for UP, Bihar, MP, Rajasthan, Gujarat, Jharkhand, Punjab, Chhattisgarh and Haryana among the ML states and Uttarakhand, Meghalaya and Manipur among the SH states. The larger population share states also tend to have lower per capita real GSDP.

Table 8: State-wise shares in total, SC and ST population (%)

State	State's share in all-India population (%)		Share of SC population in all-India SC population (%)	Share of ST population in all-India ST population (%)
	FY20-FY22 (avg.)	2011 census	2011 census	2011 census
ML states				
UP	17.337	16.785	20.871	1.091
MH	9.295	9.440	6.700	10.106
BH	9.176	8.745	8.361	1.285
WB	7.339	7.667	10.831	5.093
MP	6.302	6.101	5.724	14.728
TN	5.718	6.061	7.286	0.764
RJ	5.913	5.758	6.168	8.883
KA	4.996	5.132	5.286	4.086
GJ	5.184	5.077	2.056	8.574
AP	3.896	4.149	4.274	2.530
OR	3.416	3.526	3.628	9.222
TS	2.819	2.956	2.730	3.161
KL	2.626	2.806	1.534	0.466

State	State's share in all-India population (%)		Share of SC population in all-India SC population (%)	Share of ST population in all-India ST population (%)
	FY20-FY22 (avg.)	2011 census	2011 census	2011 census
JH	2.868	2.771	2.011	8.313
AS	2.617	2.621	1.126	3.735
PB	2.357	2.330	4.471	--
CH	2.199	2.146	1.652	7.522
HR	2.176	2.130	2.581	0.000
ML Total	**96.235**	**96.177**	**97.290**	**89.560**
SH states				
JK	1.002	1.053	0.467	1.436
UK	0.851	0.847	0.955	0.281
HP	0.553	0.577	0.873	0.377
TR	0.304	0.309	0.331	1.122
ML	0.255	0.249	0.009	2.458
MN	0.264	0.216	0.049	0.868
NL	0.164	0.166	--	1.645
GA	0.117	0.123	0.013	0.144
AR	0.114	0.116	--	0.915
MZ	0.091	0.092	0.001	0.996
SK	0.051	0.051	0.014	0.198
SH Total	**3.765**	**3.800**	**2.710**	**10.440**

Source (basic data): MoSPI and Census 2011

Another important initial condition that has a bearing on cost of providing services is the area of a state and the nature of its terrain. States with a relatively larger share of hilly area relative to its total area are required to incur higher per capita expenditures to reach beneficiary population which may be residing in hilly and sometimes difficult range areas. Usually, their habitations are also characterized by low population density. Other terrain related parameters which may have a bearing on cost or externalities relate to forest area, coastal wetland area, length of coastline and area covered by snow and glaciers. While the importance of hilly and forest areas has been recognized by some of the FCs, there may be a case for recognizing some of the other relevant parameters listed in Table 9. The erstwhile group of special category states largely included states with a high share of hilly area in their total area. Table 9 highlights the large differences in the total area of states. Within the ML group, the ratio of largest to smallest state in terms of area is 8.8. The corresponding ratio with respect to the SH group is 22.6. Some of the states which have a high share of coastal wetland include Maharashtra, Gujarat, Andhra Pradesh, Odisha and Tamil Nadu. A high share of area covered by snow and glaciers characterize Jammu and Kashmir, Arunachal Pradesh, Himachal Pradesh and Uttarakhand. Designing a suitable scheme of horizontal distribution of resources would call for consideration of these parameters which may requires a state to incur higher unit costs in providing services.

Table 9: State-wise shares in area related parameters (%)

State	State's share in all-state aggregate					
	Total area	Hilly area	Forest area	Coastal wetland	Coastline	Snow and glacier area
ML states						
RJ	10.4	0.0	1.1	0.0	0.0	0.0
MP	9.4	0.0	10.2	0.0	0.0	0.0
MH	9.4	10.0	7.3	10.4	10.8	0.0
UP	7.4	0.0	1.7	0.0	0.0	0.0
GJ	6.0	0.0	1.4	60.0	28.5	0.0
KA	5.9	6.9	6.4	0.2	4.6	0.0
AP	4.9	0.0	4.0	8.1	15.0	0.0
OD	4.8	0.0	7.0	12.6	8.0	0.0
CH	4.1	0.0	9.8	0.0	0.0	0.0
TN	4.0	3.3	3.7	6.7	14.5	0.0
TS	3.5	0.0	2.7	0.0	0.0	0.0

State	State's share in all-state aggregate					
	Total area	Hilly area	Forest area	Coastal wetland	Coastline	Snow and glacier area
BH	2.9	0.0	0.9	0.0	0.0	0.0
WB	2.7	0.4	1.8	0.9	7.8	0.0
JH	2.4	0.0	3.1	0.0	0.0	0.0
AS	2.4	2.7	3.3	0.0	0.0	0.0
PB	1.5	0.0	0.2	0.0	0.0	0.0
HR	1.3	0.0	0.1	0.0	0.0	0.0
KL	1.2	4.2	2.9	1.0	8.7	0.0
ML total	**84.2**	**27.5**	**67.5**	**99.8**	**98.0**	**0.0**
Max/Min	8.8 (RJ to KL)	70.6 (MH to WB)	85.6 (MP to HR)	266.5 (GJ to KA)	3.6 (GJ to KA)	NA
SH states						
JK	6.8	31.7	3.1	0.0	0.0	72.4
AR	2.6	12.0	12.9	0.0	0.0	10.0
HP	1.7	7.9	2.6	0.0	0.0	8.6
UK	1.6	6.6	4.5	0.0	0.0	7.1
ML	0.7	3.2	2.4	0.0	0.0	0.0
MN	0.7	3.2	1.8	0.0	0.0	0.0
MZ	0.6	3.0	1.5	0.0	0.0	0.0
NL	0.5	2.4	1.4	0.0	0.0	0.0
TR	0.3	1.5	1.5	0.0	0.0	0.0
SK	0.2	1.0	0.7	0.0	0.0	1.9
GA	0.1	0.0	0.3	0.2	2.0	0.0
SH total	**15.8**	**72.5**	**32.5**	**0.2**	**2.0**	**100.0**
Max/Min	22.6 (JK to GA)	11.8 (JK to SK)	46.1 (AR to GA)	NA	NA	5.3 (JK to SK)
ML/SH	**5.3**	**0.4**	**2.1**	**486.8**	**47.9**	**NA**

Source: Census (2011), Forest Survey of India (2021), Environmental Statistics 2023 (MoSPI, GoI), PIB
Note: The base data for area related parameters are measured in terms of sq kms. Coastline is measured in terms of kms. Total area and hilly area data are taken from FC15 report. Data for forest area pertains to the year 2021. Coastal wetland and snow and glacier area pertain to the year 2015-16. Coastline data is based on PIB release dated 21 December 2022.

Conclusions

The FC16 has a formidable task at hand. During the course of past few years, imbalances have increased in all the relevant dimensions. In the context of vertical imbalance, GoI's fiscal space was squeezed by the sudden and sharp increase in states' share in central taxes by FC14. The GoI has attempted to rely relatively more on cesses and surcharges as also on relatively higher borrowing in order to regain its lost fiscal space measured in terms of its fallen share in the combined primary expenditure of central and state governments. At the state level, the difference in the per capita GSDP of states measured in real terms has also increased. There is no evidence of a reduction in the gap between per capita GSDPs of the relatively high- and low-income states although there have been notable changes in the ranking of states over time. In the context of fiscal imbalance also, both the central and state governments have debt and deficit magnitudes relative to GDP that are well above the FRBM norms. The FRBM norms may themselves require reconsideration. As the FC16 starts with a clean slate as it were, with no instructions from the GoI other than the Constitutional provisions, it can develop a fresh and new methodology which can put the finances of the central, state and local governments towards equity, efficiency, stability and sustainability. There has to be a well-integrated system of management of government finances covering central, state and local governments which ensures providing important public and merit services at equitable standards across the country. In this endeavor, local governments would also have to play a significant role. While ensuring equality in the provision of services, it is also important to bring fiscal imbalances measured in terms of government debt and fiscal deficits to sustainable levels.

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

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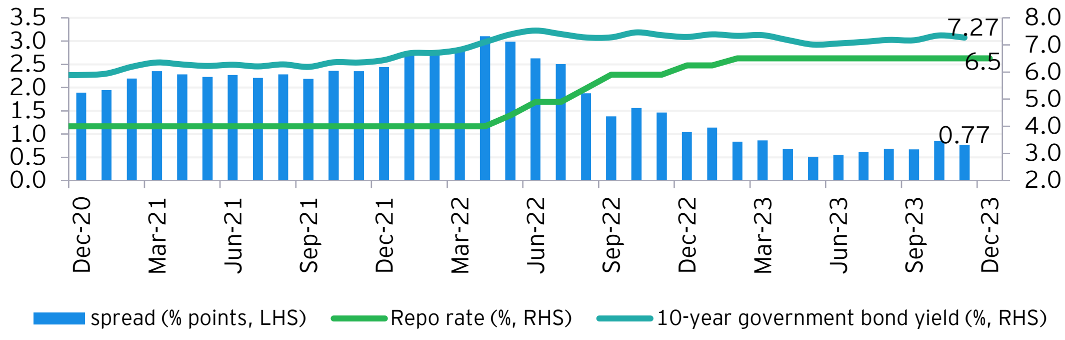
6.1 Monetary sector

Monetary policy

- The Monetary Policy Committee (MPC) retained the repo rate for the fifth successive time at 6.5% in its monetary policy review held in December 2023 **(Chart 10)**. Consequently, the standing deposit facility (SDF) and marginal standing facility (MSF) rates were retained at 6.25% and 6.75% respectively. Further, the MPC also maintained the policy stance as 'withdrawal of accommodation' as CPI inflation is yet to align with its target of 4%.
- In RBI's assessment, the headline inflation may show upward movement in the near term on account of uncertainties in food prices, particularly that of vegetables, coupled with unfavorable base effects. In addition, the RBI expressed caution regarding the impact of El Nino weather conditions on domestic food inflation. However, adequate buffer stocks for cereals, pro-active supply side measures by the government and a sharp moderation in international food prices may limit the impact of these pressures on food prices.

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



Source: Database on Indian Economy, RBI

The monetary policy committee retained the repo rate for the fifth successive time at 6.5% in its December 2023 monetary policy review.

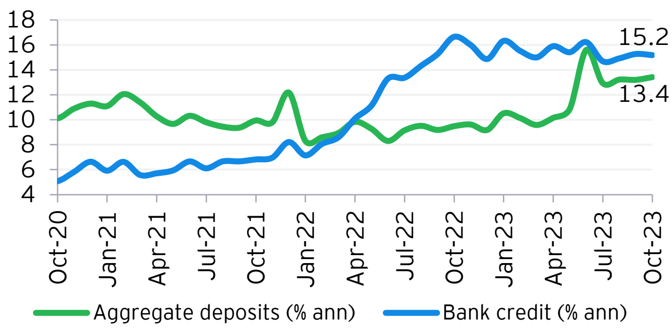
Money stock

- Growth in broad money stock (M3) increased to 11.8% in November 2023, its highest level since March 2021. Time deposits, the largest component of M3, continued to show a robust growth of 13.2% in November 2023 as compared to 13.1% in October 2023.
- Growth in M1 improved to 7.9% in November 2023 from 6.4% in October 2023 due to higher growth in both demand deposits and currency with the public. Growth in demand deposits increased to a 10-month high of 11.7% in November 2023 while growth in currency with the public increased to 5.2% in November 2023 following a low growth of 3.7% in October 2023.

Aggregate credit and deposits

- Gross bank credit continued to show a robust growth of 15.2% in October 2023, close to its level of 15.3% in September 2023 **(Chart 11)**.
- Growth momentum in non-food credit also remained strong and stable at 15.3% in October 2023, similar to its level in September 2023.
- Sectoral bank credit data indicate that credit to services, with an average share of about 27% in total non-food credit (last five years), showed the highest growth of 20.1% in October 2023, although easing marginally from 21.3% in September 2023.

Chart 11: Growth in credit and deposits



Source: Database on Indian Economy, RBI

- Growth in credit to the agricultural sector increased to a four-month high of 17.5% in October 2023 from 16.8% in September 2023.
- Personal loans, a key component of retail loans with a share of close to 29% on average in total non-food credit (last five years), continued to post a double-digit growth of 18.0% in October 2023 but was marginally lower as compared to 18.2% in September 2023.

- Outstanding credit to industries, with a share of close to 29% on average in total non-food credit (last five years), grew by 5.4% in October 2023, moderating from 6.5% in September 2023. Within the industrial sector, growth in credit to iron and steel remained the highest at 17.1% in October 2023 followed by cement at 15.1%, textiles at 12.5% and drugs and pharmaceuticals at 10.5%.
- Growth in credit to infrastructure, having the largest share of over 37% on average in total industrial credit (last five years), fell to 1.0%, its lowest since March 2023. Growth in credit to infrastructure continues to remain subdued, averaging 1.8% since December 2022.
- Growth in aggregate deposits of residents was at 13.4% in October 2023, increasing marginally from 13.2% in September 2023.

6.2 Financial sector

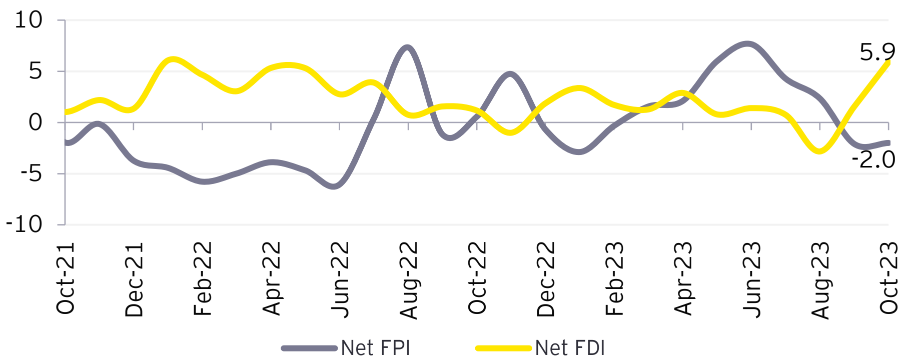
Interest rates

- As per the data released by the RBI in the first week of December 2023, the average interest rate on term deposits with a maturity period of more than one year was lowered to 6.63% in November 2023 from 6.81% in October 2023. The actual rate ranged between 6.00% and 7.25%.
- The MCLR averaged 8.23% in November 2023, ranging between 7.95% and 8.50% and was marginally higher as compared to 8.20% in October 2023.
- The average yield on 10-year government bonds eased to 7.27% in November 2023 from 7.35% in October 2023 **(Chart 10)**. During the first eight months of FY24, benchmark bond yields averaged 7.17% as compared to 7.35% during the corresponding period of FY23.
- WALR on fresh rupee loans by SCBs increased to 9.5% in October 2023, its highest level since October 2019.

FDI and FPI

- As per the provisional data released by the RBI on 20 December 2023, overall foreign investments[8] (FIs) turned positive registering inflows amounting to US$3.9 billion in October 2023 as compared to outflows amounting to US$0.6 billion in September 2023.

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



Source: Database on Indian Economy, RBI

Net FDI inflows surged to US$5.9 billion in October 2023 from US$1.5 billion in September 2023.

- Net FDI inflows increased to US$5.9 billion in October 2023, its highest level since January 2022 **(Chart 12)**. During April-October FY24, net FDI inflows were significantly lower at US$10.4 billion as compared to US$20.8 billion during the corresponding period of FY23.
- Gross FDI inflows surged to US$8.4 billion in October 2023, its highest level since April 2022. On a cumulated basis, gross FDI inflows amounted to US$41.5 billion during April-October FY24 as compared to US$44.5 billion during April-October FY23.
- Net FPIs remained negative for the second successive month, registering outflows amounting to US$2.0 billion in October 2023 as compared to outflows of US$2.1 billion during September 2023. During April-October FY24, on a cumulated basis, net FPI inflows amounted to US$18.3 billion as compared to net outflows of US$7.5 billion during the corresponding period of FY23.

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

7 Trade and CAB: merchandise trade deficit narrowed to US$20.6 billion in November 2023

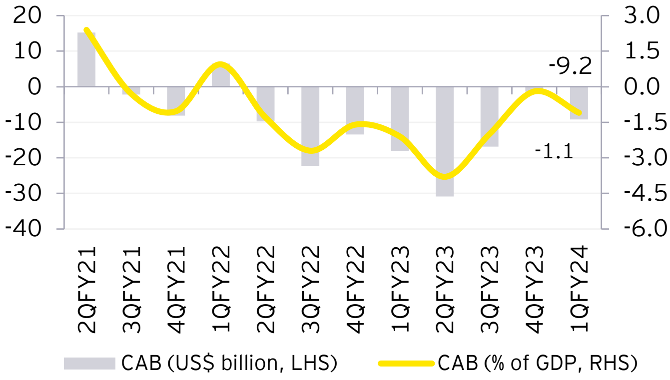
7.1 CAB: current account deficit increased to 1.1% of GDP in 1QFY24 from 0.2% in 4QFY23

- Net merchandise trade deficit widened to 6.6% of GDP in 1QFY24 from 6.0% in 4QFY23 reflecting a fall in merchandise exports to a nine-quarter low of 12.2% relative to GDP. Merchandise imports also eased to 18.8% in 1QFY24 from 19.3% in 4QFY23.
- Net invisibles were lower at 5.5% of GDP in 1QFY24 as compared to 5.9% in 4QFY23, as net service exports moderated to 4.1% in 1QFY24 from 4.5% in 4QFY23. Net private transfers and net foreign income were at 2.7% and (-)1.2% of GDP respectively in 1QFY24, marginally lower than their respective levels at 2.8% and (-)1.4% in 4QFY23.

Table 10: Components of CAB in US$ billion

Fiscal year	CAB as % of nominal GDP	CAB	Goods account net	Invisibles* net
FY20	-0.9	-24.7	-157.5	132.8
FY21	0.9	23.9	-102.2	126.1
FY22	-1.2	-38.8	-189.5	150.7
FY23	-2.0	-67.1	-265.3	198.2
2QFY23	-3.8	-30.9	-78.3	47.4
3QFY23	-2.0	-16.8	-71.3	54.5
4QFY23	-0.2	-1.4	-52.6	51.2
1QFY24	-1.1	-9.2	-56.6	47.4

Chart 13: CAB



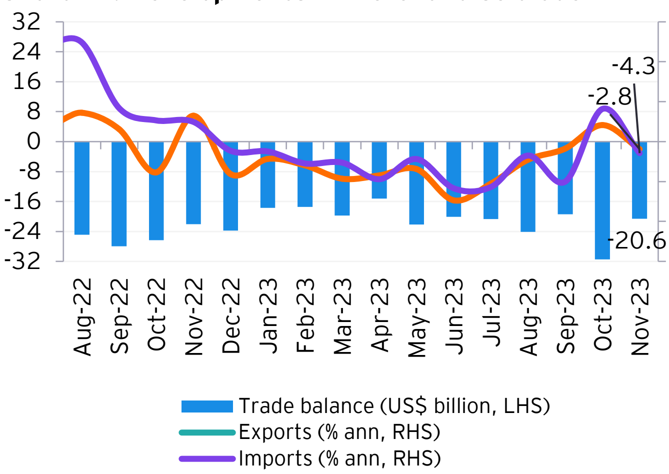
Source: Database on Indian Economy, RBI; Note: (-) deficit; (+) surplus; *invisibles include services, current transfers and income components

7.2 Merchandise trade and exchange rate

Merchandise exports and imports contracted by (-)2.8% and (-)4.3% in November 2023 respectively as compared to a growth of 6.2% and 12.3% in October 2023, reflecting global slowdown and partly unfavorable base effect (Chart 14).

- The contraction in merchandise exports was partly due to unfavorable base effect and led by a contraction in engineering goods, oil exports, and chemicals at (-)3.1%, (-)7.4% and (-)11.4% respectively in November 2023. Growth in electronic goods, and drugs and pharmaceuticals also slowed to 1.1% and 7.3% respectively in November 2023 from 28.2% and 29.3% in October 2023.
- The contraction in imports was led by contraction in crude imports and pearls and precious stones by (-)8.5% and (-)56.7% respectively in November 2023 as compared to a growth of 8.1% and a contraction of (-)9.8% in October 2023. Growth in gold imports moderated substantially to 6.2% from 95.4% over the same period.
- Imports excluding oil, gold and jewelry showed zero growth in November 2023. It had earlier turned positive at 6.9% in October 2023 after showing a contraction for four successive months. Exports of this category contracted by (-)2.8% in November 2023 after showing a positive growth for three consecutive months.
- Merchandise trade deficit narrowed to US$20.6 billion in November 2023 from an unprecedented high of US$31.5 billion in October 2023 due to a sharper pace of contraction in imports vis-à-vis exports.
- The INR remained broadly stable at INR83.3 per US$ (avg.) in November 2023 as compared to INR83.2 per US$ (avg.) in October 2023.

Chart 14: Developments in merchandise trade



Source: Ministry of Commerce and Industry, GoI

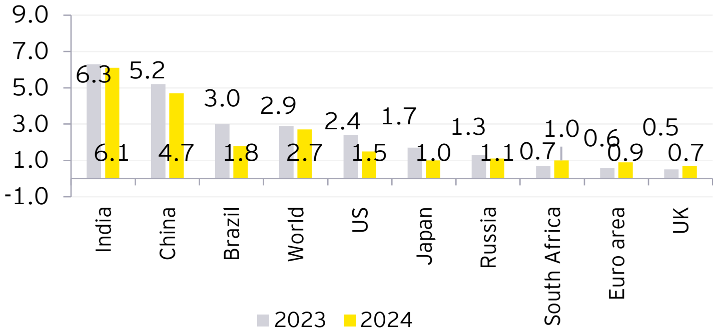
8 Global growth: OECD projected global growth at 2.9% in 2023 and 2.7% in 2024

8.1 Global growth

The OECD has projected global growth at 2.9% in 2023, with India's FY24 growth forecasted at 6.3%.

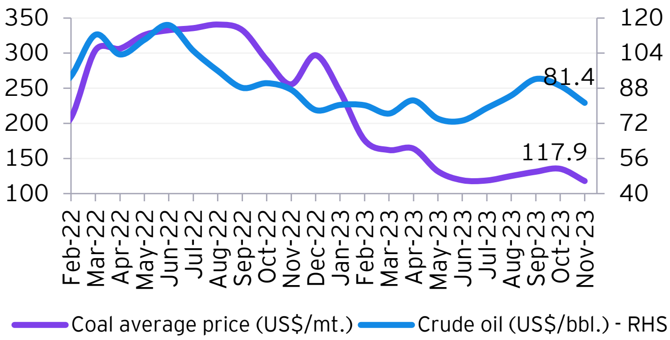
- The OECD (Economic Outlook, November 2023) has projected global growth to fall from 3.3% in 2022 to 2.9% in 2023 and further to 2.7% in 2024, the lowest annual rate since the global financial crisis other than the first year of the pandemic.
- A key downside risk to global outlook emanates from heightened geopolitical tensions that could result in significant disruptions to energy markets and major trade routes, and additional risk repricing in financial markets, slowing growth and adding to inflation.
- According to the OECD, a growing divergence across economies is expected to persist in the near term, with growth in the EMEs generally holding up better than that in the AEs.
- Growth in the US is projected at 2.4% in 2023, easing to 1.5% in 2024 due to tighter monetary and financial conditions, with slower job growth and a mild pick-up in unemployment **(Chart 15).**
- In OECD's assessment, growth in the Euro area is projected to remain subdued at 0.6% in 2023 and 0.9% in 2024 as it remains severely affected by the energy price shock in 2022 and the Russia-Ukraine conflict. Similarly, in the UK, growth is forecasted to remain at low levels of 0.5% in 2023 and 0.7% in 2024, with higher fiscal pressure weighing on household disposable incomes.
- In Japan, where monetary policy has remained accommodative, growth is projected to increase to 1.7% in 2023 before moderating to 1% in 2024 as the positive contribution from net exports fades and macroeconomic policies begin to be tightened.
- Growth in China is projected to have rebounded to 5.2% in 2023 but is expected to slow to 4.7% in 2024 as consumption growth remains subdued and activity in the real estate sector continues to weaken. However, monetary policy easing, and additional infrastructure investment is expected to help underpin domestic demand.
- GDP growth in India is projected to be strong at 6.3% in 2023 (FY24) and 6.1% in 2024 (FY25) driven by public investment and surging services exports.

Chart 15: Global growth projections (%)



Source: OECD Economic Outlook (November 2023)
*Data pertains to fiscal years FY24 and FY25 respectively

Chart 16: Global crude and coal prices



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

8.2 Global energy prices: global crude price fell to a four-month low of US$81.4/bbl. in November 2023

- Average global crude price[9] moderated from US$89.1/bbl. in October 2023 to a four-month low of US$81.4/bbl. in November 2023 owing to concerns regarding subdued demand and continued uncertainty about the depth and duration of OPEC+ supply cuts[10] **(Chart 16).**
- Average global coal price[11] also eased from US$135.3/mt. in October 2023 to US$117.9/mt. in November 2023, its lowest level since May 2021.

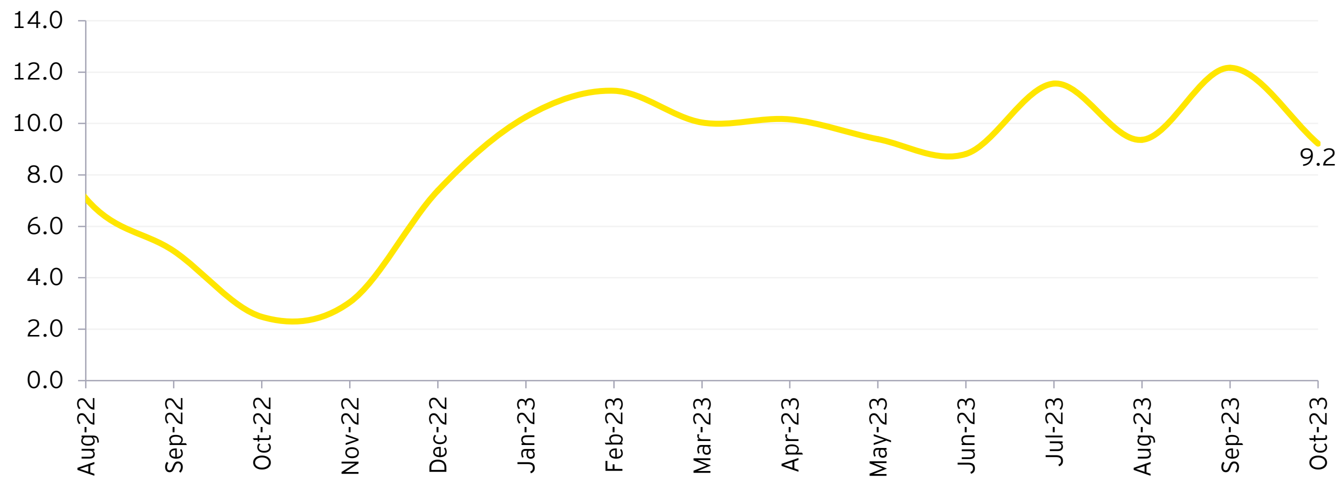
[9] Simple average of three spot prices, namely, Dated Brent, West Texas Intermediate and Dubai Fateh
[10] https://www.reuters.com/markets/commodities/oil-climbs-mideast-tension-back-focus-2023-12-04/
[11] Simple average of Australian and South African coal prices.

9 Index of Aggregate Demand (IAD): grew by 9.2% in October 2023

9.1 Growth in IAD continued to remain strong at 9.2% in October 2023

- IAD[12] maintained a strong growth at 9.2% in October 2023, although lower as compared to 12.2% in September 2023 **(Chart 17 and Table 11)** due to softening of demand conditions in manufacturing and services.
- In particular, demand conditions in the manufacturing sector eased as reflected by the manufacturing PMI which expanded at a slower pace of 55.5 in October 2023 as compared to 57.5 in September 2023.
- Despite remaining robust, the services sector also saw a moderation in demand conditions in October 2023. This was evident in the slower expansion of PMI services at 58.4 in October 2023 as compared to 61.0 in the previous month.
- Demand conditions in the agricultural sector, however, improved further as indicated by agricultural credit offtake, which posted a strong growth of 17.3% (sa)[13] in October 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 11: IAD

Month	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23
IAD	158.1	158.1	164.1	164.8	164.7	167.7	166.8	167.7	165.6
Growth (% y-o-y)	11.3	10.0	10.2	9.4	8.8	11.6	9.4	12.2	9.2
Growth in agr. Credit	15.1	15.7	16.8	16.1	19.7	16.8	16.5	16.8	17.3
Mfg. PMI**	5.3	6.4	7.2	8.7	7.8	7.7	8.6	7.5	5.5
Ser. PMI**	9.4	7.8	12.0	11.2	8.5	12.3	10.1	11.0	8.4

**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): S&P Global, RBI and EY estimates.

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[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 theagricultural sector

[13] 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 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							
FY20	-0.8	1.6	-1.4	0.9	0.4	FY20	52.3	51.9
FY21	-8.5	-7.8	-9.6	-0.5	-6.4	FY21	50.2	41.7
FY22	11.4	12.2	11.7	8.0	10.4	FY22	54.0	52.3
FY23	5.2	5.8	4.6	8.9	7.7	FY23	55.6	57.3
3QFY23	2.8	7.6	1.4	7.9	4.9	3QFY23	56.3	56.7
4QFY23	4.5	6.9	3.9	6.0	7.0	4QFY23	55.7	58.1
1QFY24	4.8	6.4	5.1	1.3	6.0	1QFY24	57.9	60.6
2QFY24	7.6	11.5	6.5	11.1	10.1	2QFY24	57.9	61.1
Jul-23	6.2	10.7	5.3	8.0	8.5	Aug-23	58.6	60.1
Aug-23	10.3	12.3	9.3	15.3	12.5	Sep-23	57.5	61.0
Sep-23	6.2	11.5	4.9	9.9	9.2	Oct-23	55.5	58.4
Oct-23	11.7	13.1	10.4	20.4	12.1	Nov-23	56.0	56.9

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

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

Fiscal year/ quarter/ month	CPI	Food Price Index	Fuel and light	Core CPI	WPI	Food Price Index	Mfg. products	Fuel and power	Core WPI
	% change y-o-y				% change y-o-y				
FY20	4.8	6.7	1.3	3.8	1.7	6.9	0.3	-1.8	-0.4
FY21	6.2	7.7	2.7	5.5	1.3	4.0	2.8	-8.0	2.2
FY22	5.5	3.8	11.3	6.1	13.0	6.8	11.1	32.5	11.0
FY23	6.7	6.6	10.3	6.2	9.4	6.3	5.6	28.1	5.8
3QFY23	6.1	5.3	10.5	6.2	6.6	3.3	3.7	21.0	3.7
4QFY23	6.2	5.6	9.8	6.2	3.3	2.7	1.4	12.5	1.6
1QFY24	4.6	3.8	4.7	5.2	-2.9	-0.8	-2.7	-7.1	-2.0
2QFY24	6.4	9.3	2.6	4.8	-0.6	5.5	-2.1	-7.6	-1.9
Aug-23	6.8	9.9	4.3	4.9	-0.5	6.2	-2.3	-6.3	-2.1
Sep-23	5.0	6.6	-0.1	4.5	-0.1	1.9	-1.3	-3.3	-1.2
Oct-23	4.9	6.6	-0.4	4.3	-0.5	1.1	-1.1	-2.5	-1.0
Nov-23	5.6	8.7	-0.8	4.1	0.3	4.7	-0.6	-4.6	-0.4

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

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

Fiscal year/month	Gross tax revenue	Corporate tax	Income tax	Direct taxes*	Indirect taxes**	Fiscal deficit % of GDP	Revenue deficit % of GDP
FY20 (CGA)	-3.4	-16.1	4.0	-7.8	1.7	4.7	3.3
FY21 (CGA)	0.7	-17.9	-2.3	-10.7	12.7	9.2	7.3
FY22 (CGA)	33.8	55.7	43.5	49.6	20.1	6.7	4.4
FY23 (CGA)	12.7	16.0	20.0	17.9	7.2	6.4	3.9
FY24 (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	
Mar-23	12.7	16.0	20.0	17.9	7.2	98.7$	96.3$
Apr-23	-6.1	-32.0	7.8	-9.2	0.0	7.5	6.4
May-23	-1.6	-28.0	12.6	-4.0	1.6	11.8	5.2
Jun-23	3.3	-13.9	11.0	-1.0	9.0	25.3	21.1
Jul-23	2.8	-10.4	6.4	-1.1	7.8	33.9	34.7
Aug-23	16.5	15.1	35.7	26.6	7.8	36.0	32.7
Sep-23	16.3	20.2	31.1	25.4	6.5	39.3	26.6
Oct-23	14.0	17.4	31.1	24.1	3.5	45.0	32.2

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)				
Mar-23	61,131	923	8,590	10,227	80,871
Apr-23	80,902	308	-9,304	11,861	83,767
May-23	60,667	263	951	11,241	73,122
Jun-23	64,810	343	1,605	11,822	78,580
Jul-23	67,234	250	-2,396	11,392	76,480
Aug-23	62,720	306	6,250	11,430	80,706
Sep-23	61,731	199	1,686	11,385	75,001
Oct-23	70,510	1,122	-15,888	11,898	67,642

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-23	6.25	FY20	9.5	9.9	43.0	1.4	FY20	11.2	8.9	6.83	475.6
Feb-23	6.50	FY21	6.0	11.0	44.0	36.1	FY21	16.2	12.2	6.05	579.3
Mar-23	6.50	FY22	6.7	9.7	38.6	-16.8	FY22	10.6	8.7	6.40	617.6
Apr-23	6.50	FY23	14.5	9.5	28.0	-5.2	FY23	6.8	9.0	7.35	578.4
May-23	6.50	3QFY23	15.8	9.4	2.0	4.6	3QFY23	7.6	8.7	7.37	562.9
Jun-23	6.50	4QFY23	15.6	10.1	6.4	-1.7	4QFY23	6.9	9.0	7.36	578.4
Jul-23	6.50	1QFY24	15.9	12.2	5.1	15.7	1QFY24	7.5	10.6	7.08	595.1
Aug-23	6.50	2QFY24	15.0	13.1	-0.5	4.5	2QFY24	7.3	10.8	7.16	586.9
Sep-23	6.50	Jul-23	14.7	12.9	0.7	4.3	Aug-23	6.0	10.8	7.19	594.9
Oct-23	6.50	Aug-23	14.9	13.2	-2.8	2.3	Sep-23	7.3	10.8	7.17	586.9
Nov-23	6.50	Sep-23	15.3	13.2	1.5	-2.1	Oct-23	6.4	11.4	7.35	586.1
Dec-23	6.50	Oct-23	15.2	13.4	5.9	-2.0	Nov-23	7.9	11.8	7.27	597.9

Source: Database on Indian Economy - RBI

Table A5: External trade and global growth

External trade indicators (annual, quarterly and monthly growth rates)							Global growth (annual)			
Fiscal year/ quarter/ month	Exports	Imports	Trade balance	Ex. rate (avg.)	Crude prices (avg.)	Coal prices (avg.)	Calendar year	World GDP	Adv. econ.	Emer. econ.
	% change y-o-y		US$ billion	INR/US$	US$/bbl.	US$/mt		% change y-o-y		
FY20	-5.1	-8.2	-157.4	70.9	58.5	70.4	2013	3.4	1.4	5.0
FY21	-7.0	-16.6	-101.4	74.2	43.8	67.2	2014	3.5	2.0	4.7
FY22	44.7	56.0	-191.0	74.5	78.4	164.8	2015	3.4	2.3	4.3
FY23	3.8	15.1	-267.9	80.4	92.7	283.4	2016	3.2	1.8	4.4
3QFY23	-5.5	3.7	-72.1	82.2	85.3	281.1	2017	3.8	2.5	4.8
4QFY23	-10.1	-6.7	-54.9	82.3	79.0	194.4	2018	3.6	2.3	4.6
1QFY24	-15.2	-12.8	-57.5	82.2	76.6	138.3	2019	2.8	1.7	3.6
2QFY24	-8.6	-12.5	-64.2	83.0	85.3	125.0	2020	-2.8	-4.2	-1.8
Aug-23	-6.8	-5.2	-24.2	82.8	84.7	125.1	2021	6.3	5.6	6.9
Sep-23	-2.6	-15.0	-19.4	83.0	92.2	131.2	2022	3.5	2.6	4.1
Oct-23	6.2	12.3	-31.5	83.2	89.1	135.3	2023	3.0	1.5	4.0
Nov-23	-2.8	-4.3	-20.6	83.3	81.4	117.9	2024	2.9	1.4	4.0

Source: Database on Indian Economy - RBI, Pink Sheet - World Bank and IMF World Economic Outlook (WEO) October 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 (3rd RE)	3.9	6.2	-3.0	-3.0	2.3	1.6	6.0	6.8	6.6	3.0
FY21 (2nd RE) *	-4.2	4.1	-8.6	2.9	-4.3	-5.7	-19.7	2.1	-7.6	3.3
FY22 (1st RE)*	8.8	3.5	7.1	11.1	9.9	14.8	13.8	4.7	9.7	8.3
FY23 (PE)$	7.0	4.0	4.6	1.3	9.0	10.0	14.0	7.1	7.2	7.9
2QFY22	9.3	4.8	10.6	6.6	10.8	10.8	13.1	7.0	16.8	8.0
3QFY22	4.7	2.3	5.4	1.3	6.0	0.2	9.2	4.3	10.6	9.4
4QFY22	3.9	4.1	2.3	0.6	6.7	4.9	5.0	4.6	5.2	9.7
1QFY23	11.9	2.4	9.5	6.1	14.9	16.0	25.7	8.5	21.3	12.5
2QFY23	5.4	2.5	-0.1	-3.8	6.0	5.7	15.6	7.1	5.6	10.1
3QFY23	4.7	4.7	4.1	-1.4	8.2	8.3	9.6	5.7	2.0	6.0
4QFY23	6.5	5.5	4.3	4.5	6.9	10.4	9.1	7.1	3.1	4.0
1QFY24	7.8	3.5	5.8	4.7	2.9	7.9	9.2	12.2	7.9	0.2
2QFY24	7.4	1.2	10.0	13.9	10.1	13.3	4.3	6.0	7.6	1.5

Source: National Accounts Statistics, MoSPI
*Growth numbers for FY21 and FY22 are based on NAS released by the MoSPI on 28 February 2023 and the subsequent data file released on 1 March 2023.
$Growth numbers for FY23 are based on the provisional estimates released by MoSPI on 31 May 2023. 1QFY24 data was released on 31 August 2023.

Fiscal year/quarter	Expenditure components						IPD inflation
	GDP	PFCE	GFCE	GFCF	EX	IM	GDP
FY20 (3rd RE)	3.9	5.2	3.9	1.1	-3.4	-0.8	2.4
FY21 (2nd RE) *	-5.8	-5.2	-0.9	-7.3	-9.1	-13.7	4.7
FY22 (1st RE)*	9.1	11.2	6.6	14.6	29.3	21.8	8.5
FY23 (PE)$	7.2	7.5	0.1	11.4	13.6	17.1	8.2
2QFY22	9.1	14.2	11.7	12.4	25.1	26.6	8.5
3QFY22	5.2	10.8	5.8	1.2	27.8	19.7	8.7
4QFY22	4.0	4.7	11.8	4.9	22.4	6.7	8.7
1QFY23	13.1	19.8	1.8	20.4	19.6	33.6	12.9
2QFY23	6.2	8.3	-4.1	9.6	12.2	23.1	10.3
3QFY23	4.5	2.2	-0.6	8.0	11.1	10.7	6.6
4QFY23	6.1	2.8	2.3	8.9	11.9	4.9	4.1
1QFY24	7.8	6.0	-0.7	8.0	-7.7	10.1	0.2
2QFY24	7.6	3.1	12.4	11.0	4.3	16.7	1.4

Source: National Accounts Statistics, MoSPI
* Growth numbers for FY21 and FY22 are based on NAS released by the MoSPI on 28 February 2023 and the subsequent data file released on 1 March 2023. $Growth numbers for FY23 are based on the provisional estimates released by MoSPI on 31 May 2023. 1QFY24 data was released on 31 August 2023.

List of abbreviations

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

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

Our offices

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

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

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

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

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

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

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

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

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

Jamshedpur
1st Floor, Fairdeal Complex
Holding No. 7, SB Shop Area
Bistupur, Jamshedpur - 831 001
Tel: + 91 657 663 1000

Kochi
9th Floor, ABAD Nucleus
NH-49, Maradu PO
Kochi - 682 304
Tel: + 91 484 433 4000

Kolkata
22 Camac Street
3rd Floor, Block 'C'
Kolkata - 700 016
Tel: + 91 33 6615 3400

Mumbai
14th Floor, The Ruby
29 Senapati Bapat Marg
Dadar (W), Mumbai - 400 028
Tel: + 91 22 6192 0000

5th Floor, Block B-2
Nirlon Knowledge Park
Off. Western Express Highway
Goregaon (E)
Mumbai - 400 063
Tel: + 91 22 6192 0000

Pune
C-401, 4th floor
Panchshil Tech Park
Yerwada
(Near Don Bosco School)
Pune - 411 006
Tel: + 91 20 4912 6000

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