

Economy Watch

Monitoring India's
macro-fiscal performance

August 2020

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Highlights

1. IIP contracted at a slower pace of (-)16.6% in June 2020 as compared to (-)33.9% in May 2020.
2. PMI manufacturing fell to 46.0 in July 2020 from 47.2 in June 2020.
3. CPI inflation climbed to 6.9% in July 2020 from 6.1% in June 2020 due to higher food and fuel prices.
4. In its August 2020 monetary policy review, the MPC retained the repo rate at 4.0% while maintaining an accommodative policy stance.
5. Center's capital expenditure grew by 40.1% during 1QFY21 as compared to a contraction of (-)27.6% during the corresponding period of FY20.
6. Center's gross taxes contracted by (-)32.6% in 1QFY21 as compared to a growth of 1.4% in 1QFY20.
7. Due to subdued demand, average credit growth fell to 6.4% in 1QFY21 as compared to 7.1% in 4QFY20.
8. Merchandise exports and imports contracted by (-)10.2% and (-)28.4% respectively in July 2020 reflecting a continuing demand slowdown.
9. The OECD projected a global contraction of (-)6.0% in 2020 in the 'single hit' scenario and (-)7.6% in the 'double hit' scenario where the latter assumes a second COVID outbreak.



Foreword

Economic challenges peak in 1QFY21; expected recovery ahead

In its August 2020 monetary policy review, the RBI has assessed that the Indian economy will end the fiscal year FY21 with negative growth resulting from a sharp contraction in the first half. However, the RBI has not given any specific growth forecast either for the two halves or for the full year. Most of the monetary action has already been undertaken in the beginning of the fiscal year with the slashing down of the repo rate to a record low level of 4% on 22 May 2020. In RBI's August 2020 monetary policy review, the repo rate has been left unchanged.

In 1QFY21*, the CPI inflation rate breached the upper tolerance limit of 6% of the monetary policy framework. In July 2020, the CPI inflation rate was 6.9%. This upsurge has been driven mainly by consumer food prices which showed an inflation rate of 9.6% and diesel and petrol prices which are embedded in the group called '*transportation and communication*' services where the inflation rate was above 10%. Since global crude prices had still remained at moderate levels, these high petrol and diesel prices reflect the non-GST taxes on these products which are levied both by the central and state governments. The RBI, in its FY20 Annual Report released on 25 August 2020, has assessed upside risks to inflation prospects due to supply side disruptions. The monetary authorities may therefore prefer to wait until CPI inflation rate moderates before considering any further reduction in the policy rate.

Various multilateral agencies foresee a significant contractionary outcome of the pandemic for the global economy as well as the Indian economy. The IMF projected a global contraction of (-)4.9% in 2020 followed by a sharp recovery to 5.4% in 2021. In the case of advanced economies (AEs), the contraction is projected to be sharper at (-)8.0% in 2020 and the recovery in 2021 is expected to be somewhat mild at 4.8%. IMF's projections for India pertaining to fiscal years FY21 and FY22 envisage a contraction of (-)4.5% followed by a recovery of 6% respectively. One widely anticipated data which is to be released at the end of August 2020 pertains to India's 1QFY21 GDP growth. The RBI's August 2020 Survey of Professional Forecasters has indicated a mean growth forecast of (-)22.8% in 1QFY21. Any growth number that is better than this would come as a positive news. Clearly, 1QFY21 growth is likely to be the worst amongst the four quarters of FY21.

High frequency indicators for India are giving positive signals after the first two months of the pandemic. In June and July 2020, PMI manufacturing was close to the benchmark level of 50 at 47.2 and 46.0 respectively. Although IIP has continued to contract in June 2020, its rate of contraction has come down to (-)16.6% from its May 2020 level of (-)33.9%. In June 2020, passenger vehicle sales picked up sharply with sales of 1,20,188 units as compared to sales of 33,546 units in April and May 2020 considered together. Although power consumption shows a continued contraction, the rate of contraction has been coming down over successive months since April 2020 when it was at (-)25.0%. This fell to (-)0.4% in the first twenty days of August 2020. In the case of merchandise exports also, the rate of contraction has slowed to a five-month low of (-)10.2% in July 2020. Foreign exchange reserves continued to rise steadily reaching a level of US\$538 billion by 07 August 2020. One adverse development is the slowing down of bank credit growth to 5.8% in the fortnight ending 17 July 2020.

CGA data released for the month of June 2020 shows that center's fiscal deficit in 1QFY21 is already 83.2% of the annual budgeted target. In terms of magnitude, the fiscal deficit in 1QFY21 is 53.3% larger than the corresponding magnitude in 1QFY20. Center's revenue deficit during 1QFY21 stood at 94.8% of the annual budgeted target as compared to 77.1% in the corresponding period of FY20. Center's capital expenditure grew by 40.1% during 1QFY21 as compared to a contraction of (-)27.6% during the corresponding period of FY20. This frontloading of capital expenditure by the central government should be welcomed as it signals investment in infrastructure in line with the National Infrastructure Pipeline (NIP) objectives.

In the 41st meeting of the GST council held on 27 August 2020, the issue of a major revenue shortfall in the GST compensation cess relative to the protected amount of INR3,00,000 crore for FY21 was discussed. The estimated shortfall of INR2,35,000 crore is arrived at by deducting INR65,000 crore of expected collection of the compensation cess from the protected amount. This would require extending the cess beyond June FY22. While different options are being considered to enable the states to minimize the consequent fiscal burden in the current year, all of these imply an increase in their fiscal deficit.

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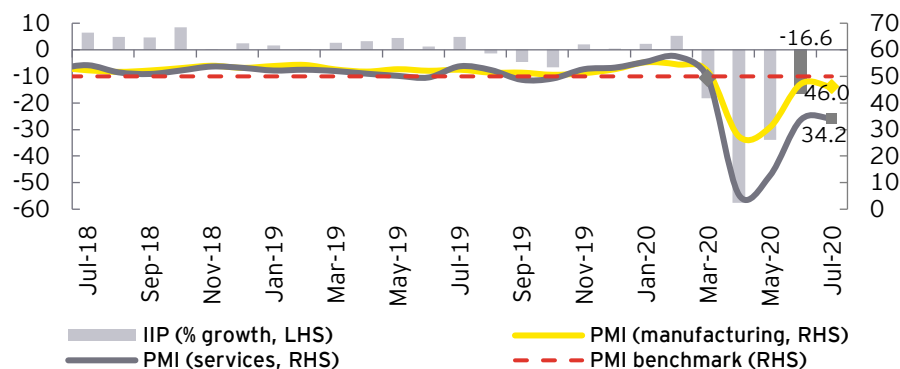
* http://www.mospi.gov.in/sites/default/files/press_release/CPI%20Technical%20Note%20on%20Imputation.pdf

1. Growth: IIP contracted by (-)16.6% in June 2020

A. IIP: the index value increased to 107.8 in June 2020 from 89.5 in May 2020

- As per the quick estimates of IIP for June 2020, released by MoSPI on 12 August 2020¹, IIP contracted for the fourth consecutive month by (-)16.6% in June 2020², lower than (-)33.9% in May 2020 (**Chart 1**). In 1QFY21, IIP declined by (-)35.9% as compared to (-)4.1% in 4QFY20.
- In June 2020, output of all the three sub-sectors continued to contract although at a slower rate as compared to that in the previous two months. Output of manufacturing and mining sectors declined by (-)17.1% and (-)19.8% respectively in June 2020 as compared to (-)38.4% and (-)20.5% respectively in May 2020. Electricity sector output also declined by (-)10.0% in June 2020 as compared to (-)14.9% (revised) in May 2020 (Table A1 in data appendix).
- Contraction in the output of capital goods and consumer durables slowed to (-)36.9% and (-)35.5% respectively in June 2020 as compared to (-)65.2% and (-)69.4% respectively in May 2020. Output of consumer non-durables grew by 14.0% in June 2020 as compared to a contraction of (-)11.1% in May 2020.
- Output of eight core infrastructure industries (core IIP) contracted at a slower pace of (-)15.0% in June 2020 as compared to (-)22.0% in May 2020. Output of seven out of eight sub-industries continued to contract in June 2020. The contraction in the output of steel ((-)33.8%), coal ((-)15.5%), natural gas ((-)12.0%) and electricity ((-)11.0%) was in double-digits while that in petroleum refinery products ((-)8.9%), cement ((-)6.9%), and crude oil ((-)6.0%) was lower.

Chart 1: IIP growth and PMI



IIP contracted at a slower pace of (-)16.6% in June 2020 as compared to (-)33.9% in May 2020. In 1QFY21, IIP showed a contraction of (-)35.9%.

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

B. PMI signaled a continued contraction in manufacturing and services in July 2020

- Headline manufacturing PMI (seasonally adjusted (sa)) fell to 46.0 in July 2020 from 47.2 in June 2020 (**Chart 1**). In July 2020, new orders and output contracted at a faster pace than in June 2020 as demand conditions remained subdued amid lockdown extensions.
- PMI services at 34.2, continued to contract in July 2020 although increasing marginally from 33.7 in June 2020. Substantial reduction in service sector activity led to the sharpest rate of job losses in July 2020. The employment sub-index was at a historically low level of 43.5 in July 2020.
- Reflecting a contraction in private sector output, the composite PMI Output Index (sa) fell to 37.2 in July 2020 from 37.8 in June 2020.

PMI manufacturing fell to 46.0 in July 2020 from 47.2 in June 2020. PMI services at 34.2, continued to contract in July 2020 although increasing marginally from 33.7 in June 2020.

¹ Quick estimates of IIP and use-based index for the month of June 2020 - <http://www.mospi.gov.in/sites/default/files/iip/iipJune20.pdf>

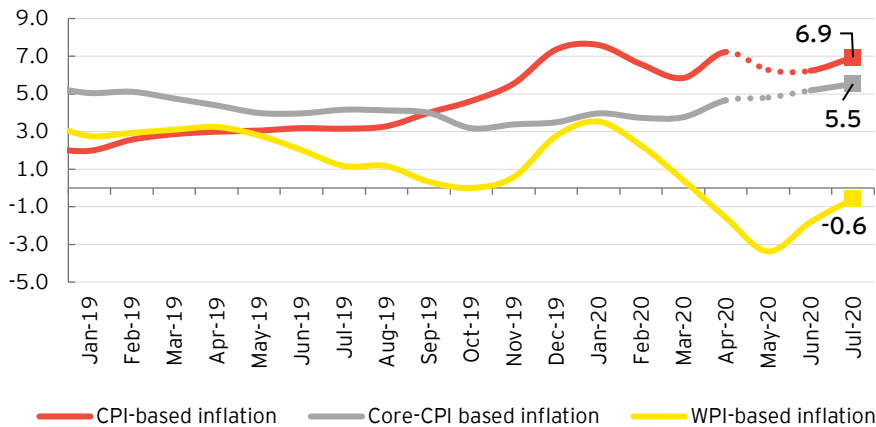
² As such, these index numbers are not strictly comparable with any of the previous months. The quick estimates of IIP for June 2020 was based on a weighted response rate of 88% as compared to a revised response rate of 91% in May 2020.

2. Inflation: CPI inflation at 6.9% in July 2020 remained above the RBI's upper tolerance limit

CPI inflation climbed to 6.9% in July 2020 from 6.2% in June 2020 (Chart 2), breaching the RBI's upper tolerance limit for the fourth successive month, due to higher food and fuel prices.

- ▶ Consumer food inflation increased to 9.6% in July 2020 from 8.7% in June 2020 as inflation in vegetables increased to 11.3% from 4.0% over the same period.
- ▶ Fuel and light inflation increased to a three-month high of 2.8% in July 2020 from 0.5% in June 2020.
- ▶ Core CPI inflation³ was at a 21-month high of 5.5% in July 2020 mainly reflecting higher inflation in transportation services.
- ▶ Inflation in transportation and communication services increased to an all-time high (2012 series) of 10.0% in July 2020 as compared to 8.3% in June 2020 reflecting the higher taxation of petrol and diesel.
- ▶ Housing-based inflation eased for the third successive month to 3.3% in July 2020 from 3.5% in June 2020.
- ▶ Despite a demand slowdown, CPI and Core CPI inflation levels remained elevated primarily due to the higher taxation of petrol and diesel by both the center and the states.

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



At 6.6% in 1QFY21, CPI inflation breached the upper tolerance limit of the RBI for the second successive quarter.

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

Note: CPI and core CPI inflation for the month of April 2020 and May 2020 have been imputed by MoSPI⁴

The pace of contraction in WPI fell to a four-month low of (-)0.6% in July 2020 from (-)1.8% in June 2020 due to higher food inflation and slower pace of contraction in the price of fuel and power.

- ▶ WPI-based food inflation increased to 4.3% in July 2020 from 3.1% in June 2020 as inflation in vegetables turned positive at 8.2% from (-)9.2% over the same period.
- ▶ The pace of contraction in fuel and power prices fell to (-)9.8% in July 2020 from (-)13.6% in June 2020. Contraction in diesel and naphtha prices slowed to (-)15.0% and (-)14.4% respectively from (-)25.1% and (-)34.9% respectively over the same period.
- ▶ Contraction in Core WPI moderated to a 12-month low of (-)0.3% in July 2020 as compared to (-)0.8% in June 2020 as contraction in prices of manufactured basic metals eased to a 14-month low of (-)2.6% in July 2020.
- ▶ The contraction in Core WPI inflation is indicative of a continuing demand slowdown.

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

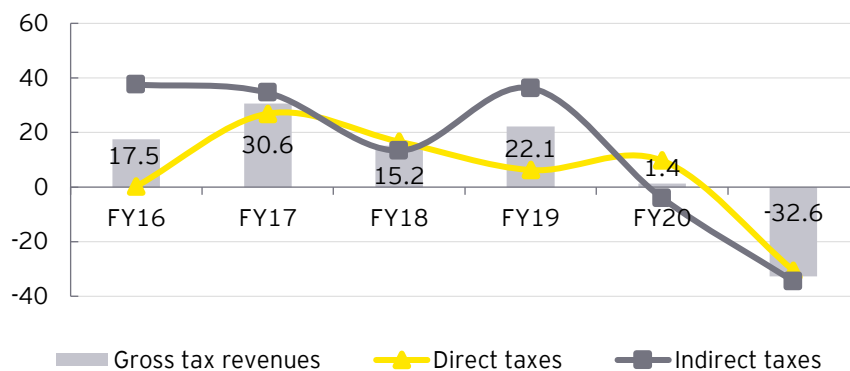
⁴ http://www.mospi.gov.in/sites/default/files/press_release/CPI%20Technical%20Note%20on%20Imputation.pdf

3. Fiscal performance: fiscal deficit during 1QFY21 stood at 83.2% of the annual budgeted target

A. Tax and non-tax revenues

- ▶ As per the Comptroller General of Accounts (CGA)⁵, gross central taxes in 1QFY21 contracted by (-)32.6% as compared to a subdued growth of 1.4% in 1QFY20 (**Chart 3**). Both direct and indirect taxes contracted on a y-o-y basis during the first three months of FY21.
- ▶ As a proportion of the annual budgeted target, gross taxes during April-June FY21 stood at 11.1% as compared to 16.3% in April-June FY20.
- ▶ Direct tax revenues contracted by (-)30.6% in 1QFY21 as compared to a growth of 9.7% in the corresponding period of FY20.
- ▶ Corporate income tax (CIT) revenues contracted by (-)23.3% during April-June FY21 as compared to a growth of 6.3% in the corresponding period of FY20.
- ▶ There was a sharper contraction of (-)35.9% in personal income tax (PIT) revenues during April-June FY21 as compared to a growth of 12.3% during the corresponding period of the previous year.
- ▶ Indirect taxes (comprising union excise duties, service tax, customs duty, CGST, UTGST, IGST⁶ and GST compensation cess) showed a sharp contraction of (-)34.5% during April-June FY21 as compared to a contraction of (-)4.0% during April-June FY20.
- ▶ Assignment to states relative to center's gross tax revenues increased to 49.7% in 1QFY21, significantly higher than the corresponding ratio at 37.1% in 1QFY20.

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



As per the CGA, center's gross taxes contracted by (-)32.6% in 1QFY21 as compared to a growth of 1.4% in 1QFY20. Both direct and indirect taxes contracted on a y-o-y basis during the first three months of FY21.

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

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

- ▶ Center's non-tax revenues showed a contraction of (-)54.6% during April-June FY21 as compared to a growth of 9.4% in the corresponding period of previous year.
- ▶ As a proportion of the annual budgeted target, non-tax revenues during April-June FY21 stood at 3.9% as compared to 10.7% during April-June FY20.
- ▶ As per the RBI's FY20 Annual Report, a surplus of INR57,128 crores was transferred by the RBI to the government of India after closing of its accounts at the end of June 2020. This may augment center's non-tax revenues in FY21.
- ▶ The central government has so far not undertaken any disinvestment of its equity holdings in FY21. The FY21 target for disinvestment stands at INR2,10,000 crores.

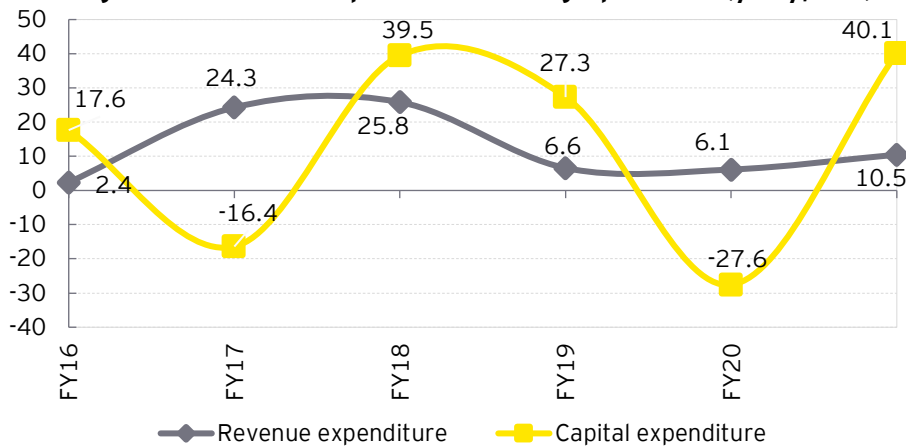
⁵ Monthly accounts for June 2020 released on 31 July 2020

⁶ IGST revenues are subject to final settlement

B. Expenditures: revenue and capital

- ▶ Center’s total expenditure during 1QFY21 grew by 13.1% as compared to 2.0% during the corresponding period of FY20.
- ▶ As a proportion of the annual budgeted target, center’s total expenditure during April-June FY21 stood at 26.8% as compared to 25.9% during the corresponding period of FY20.
- ▶ Revenue expenditure grew by 10.5% during April-June FY21, higher than 6.1% during the corresponding period of FY20 (**Chart 4**).
- ▶ Center’s capital expenditure grew by 40.1% during 1QFY21 as compared to a contraction of (-)27.6% during the corresponding period of FY20. This indicates frontloading of capital expenditure by the central government.

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



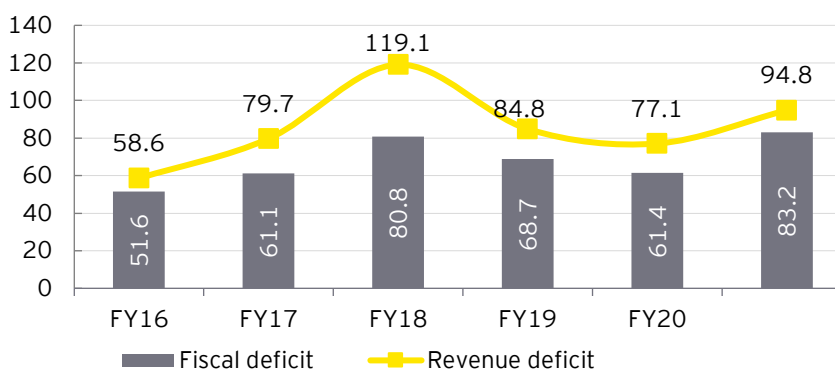
During 1QFY21, center’s capital expenditure grew by 40.1%. Growth in revenue expenditure was at 10.5% during this period.

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

C. Fiscal imbalance

- ▶ Largely attributable to the substantial increase in capital expenditure, center’s fiscal deficit during 1QFY21 stood at 83.2% of the annual budgeted target (**Chart 5**). This was the highest level of fiscal deficit incurred in 1Q of a fiscal year since FY01.
- ▶ As per the revised gross borrowing program, center’s FY21 fiscal deficit target has been uplifted to 5.6% of estimated GDP as compared to 3.5% of GDP that was announced during the FY21 Union Budget presentation on 1 February 2020.
- ▶ Center’s revenue deficit during the first three months of FY21 stood at 94.8% of the annual budgeted target as compared to 77.1% in the corresponding period of FY20.

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



During 1QFY21, center’s fiscal deficit stood at 83.2% of the annual budgeted target while the corresponding number for revenue deficit was 94.8%.

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



4. India in a comparative perspective: world trade volume projected to contract by (-)9.5% in 2020

CPI inflation

Table 1: CPI inflation (% change)

Country	2018	2019	Single hit		Double hit	
			2020	2021	2020	2021
US	2.4	1.8	1.5	1.5	1.4	1.1
Euro area	1.8	1.2	0.4	0.5	0.4	0.2
UK	2.5	1.8	0.7	0.6	0.6	0.0
Japan	1.0	0.5	-0.3	-0.1	-0.3	-0.5
Brazil	3.7	3.7	3.1	3.3	3.0	2.6
Russia	2.9	4.5	2.9	4.0	2.9	4.0
India*	3.4	4.8	4.9	4.3	4.8	4.2
China	1.9	2.9	3.8	1.9	4.0	2.3
S. Africa	4.6	4.1	3.5	3.7	3.4	3.3

Source: OECD Economic Outlook, June 2020

*data pertains to fiscal year

► In line with projected contraction in output in 2020 for all major advanced economies (AEs) and emerging market and developing economies (EMDEs), CPI inflation is forecasted to fall in 2020 relative to 2019 levels in both scenarios⁷ except in China and India.

► In the US, with unemployment rate projected to remain high in 2020, CPI inflation at close to 1.5% in 2020 in both scenarios is projected to remain below the long-term target of 2%.

► In major European countries and the UK, output is projected to contract by more than (-)9.0% in 2020 in both scenarios. Consequently, CPI inflation is expected to fall below 1% in 2020 and remain subdued in 2021. In Japan, inflation

is projected to turn negative in 2020 and 2021 reflecting considerable economic slack and a fall in energy prices.

- Inflation in most EMDEs is expected to decline gradually over 2020 and 1H2021. Inflation outlook is expected to be influenced by (a) weak economic activity, (b) dissipation of inflationary shocks from exchange rate depreciations and (c) higher food and administrative prices.
- Inflation in Brazil is projected to fall from 3.7% in 2019 to 3.1% in 2020 (single hit scenario). Sharp declines in oil prices are expected to be largely compensated by rising agriculture and mineral prices.
- In India, CPI inflation is projected to increase marginally from 4.8% in 2019 to 4.9% in 2020 (single hit scenario), remaining within the RBI's target range of 2-6%.

Export volumes of goods and services

Table 2: Growth in volume of exports of goods and services (% annual)

Country	2018	2019	Single hit		Double hit	
			2020	2021	2020	2021
US	3.0	0.0	-10.2	3.6	-11.1	-0.6
UK	1.2	4.8	-15.8	-1.1	-16.9	-2.9
Japan	3.5	-1.6	-10.5	4.8	-12.7	1.3
Germany	2.3	1.0	-13.6	8.5	-17.1	1.4
Italy	1.7	1.4	-14.4	12.0	-17.8	7.7
Spain	2.2	2.6	-16.7	9.5	-19.8	5.7
Brazil	3.3	-2.5	-14.7	6.2	-17.8	-5.8
Russia	5.6	-2.3	-21.2	13.9	-24.4	5.5
India*	12.3	-3.6	-9.5	9.6	-13.7	7.1
China	3.7	2.0	-3.8	6.1	-4.6	4.4
S. Africa	2.6	-2.5	-10.8	5.6	-12.5	1.5
World trade	3.9	1.1	-9.5	6.0	-11.4	2.5

Source: OECD Economic Outlook, June 2020

*data pertains to fiscal year

► World trade (in real terms) which was already weak prior to the pandemic, is projected to contract by (-)9.5% in the single hit scenario and (-)11.4% in the double hit scenario in 2020 due to a collapse in demand.

► Among AEs, the UK and many European countries including Spain, Italy and Germany are projected to show sharp contraction in export volumes in 2020, ranging from (-)16.7% to (-)10.5% (single hit scenario) reflecting cross border linkages between economies and strong importance of tourism exports in some of these economies.

► Among EMDEs, sharper contraction in export volumes in 2020 is projected for oil

and other commodity exporting economies due to a significant decline in external demand. In 2020, a contraction of (-)21.2% in the single hit scenario is projected for Russia, followed by (-)14.7% for Brazil.

- China's export volumes are projected to contract at a much slower pace of (-)3.8% reflecting a faster than expected recovery from COVID in Asian countries.

⁷ Reflecting the unusual degree of uncertainty, the OECD has estimated two equally likely scenarios for all economic indicators for each country. While the 'double hit' scenario assumes a second wave of COVID-19 in all economies towards the end of 2020, the 'single hit' scenario avoids such an outbreak.

5. In focus: is it time to recast India's fiscal and monetary policy frameworks?

Introduction

The combined fiscal deficit of central and state governments may turn out to be in the range of 11-12%⁸ of GDP in FY21 leading to a sharp upsurge in the debt-GDP ratio. This will lead to a significant departure from the target debt-GDP ratio of 60% for the combined government as per the center's 2018 amendment to the Fiscal Responsibility and Budget Management Act (FRBMA). The CPI inflation had also breached the upper tolerance limit of 6% in 4QFY20 and 1QFY21⁹. In July 2020, the CPI inflation was 6.9%. The RBI, in its FY20 Annual Report, has assessed upside risks to inflation prospects due to supply side disruptions. While the immediate impact is that of COVID, even prior to the pandemic, India's macroeconomic parameters were slipping with real and nominal GDP growth falling well below desired levels in FY20 at 4.2% and 7.2% respectively. This gives an opportunity to review and recast India's macro policy frameworks consisting of fiscal and monetary policy frameworks. In this review, we will examine their infirmities and suggest possible reforms.

Fiscal policy framework: key features

The central government had enacted an FRBMA in 2003. This Act has been amended a number of times since its inception. The latest amendment was in 2018. Center's FRBMA was supplemented by state governments Fiscal Responsibility Legislations (FRLs) which were legislated during 2002 to 2007 for most of the states and in 2010 for two of the remaining states namely, West Bengal and Sikkim.

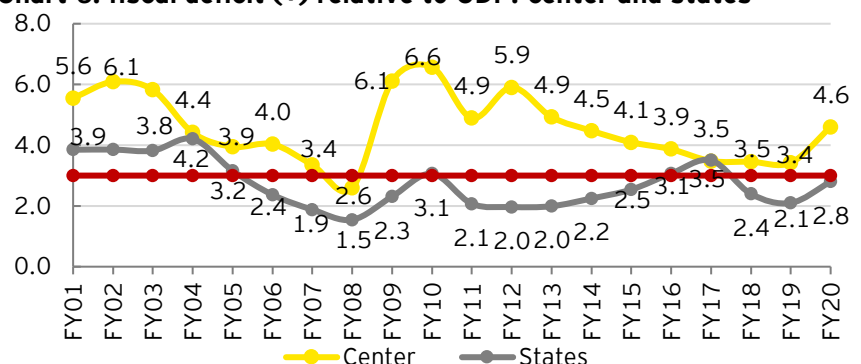
In the 2003 FRBMA, center's fiscal deficit to GDP ratio was targeted at 3% and the revenue account was to be kept in balance or in surplus. The 2018 amendment changed the target variable to debt-GDP ratio and used the fiscal deficit-GDP ratio only as an operational target. The objective of revenue account balance was given up. For the combined account of center and state governments, the debt-GDP ratio target was kept at 60% with center's share at 40% and states' share at 20%. The central government was given a countercyclical role with a flexibility of 0.5% points of GDP in its fiscal deficit-GDP ratio subject to certain conditions and rules.

The state governments enacted their FRLs individually following the guidance given by the Twelfth Finance Commission (12 FC). Although some of them amended their respective FRLs, their basic features remained the same while changing the target dates from time to time. Some of the important features of the state FRLs related to limiting the fiscal deficit to GSDP ratio to 3% and keeping the revenue account in balance if not in surplus. The 12 FC had given an indicative benchmark of 28% as the debt-GSDP target for states. Correspondingly, the benchmark value for interest payment to revenue receipts was provided at 15%¹⁰. Even though the central government amended its FRBMA in 2018, the state governments did not bring about corresponding changes in their respective FRLs which would have required reducing their individual debt-GSDP ratios to 20%.

Trends in fiscal imbalance of center and states

Chart 6 shows the fiscal deficit of center and states during the period FY01 to FY20. In the case of center, there was some initial success with center's fiscal deficit falling gradually to 2.6% of GDP by FY08, the only year in which it was below the FRBM target of 3% of GDP. Fiscal deficit relative to GDP sharply rose to 6.1% and 6.6% in FY09 and FY10 respectively as a consequence of the 2008 global economic and financial crisis. After that, although there was a steady reduction, it could not be brought down to the targeted level.

Chart 6: fiscal deficit (+) relative to GDP: center and states



Source (Basic Data): CGA, IPFS, CSO, RBI FY20 Annual Report (25 August 2020)

Note: For states, data from FY17 onwards is sourced from the RBI where FY20 pertains to RE

⁸ The World Bank in its recent release of India Development outlook (July 2020) has projected a general government deficit of 11.1% of GDP. IMF has projected a general government fiscal deficit of 12.1% of GDP in FY21

⁹ http://www.mospi.gov.in/sites/default/files/press_release/CPI%20Technical%20Note%20on%20Imputation.pdf

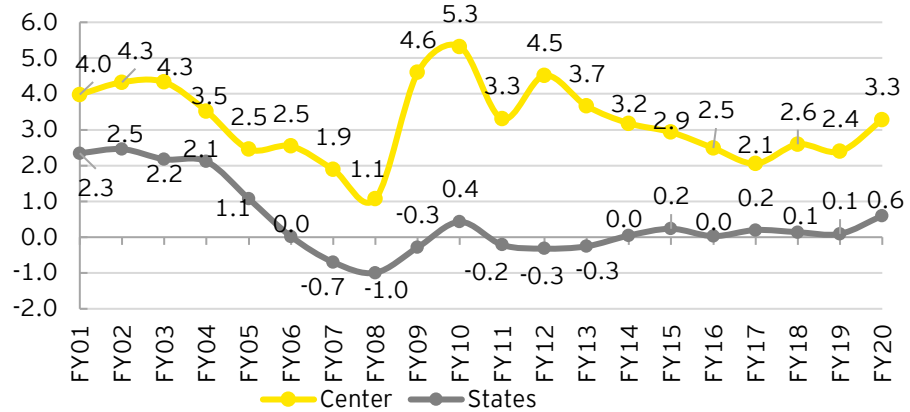
¹⁰ Paragraph 4.54 of the Report of the Twelfth Finance Commission



Instead, the central government resorted to postponing the target dates. In FY20, center's fiscal deficit increased to 4.6% of GDP. In FY21, it is expected to rise to a range of 6-7% of estimated GDP¹¹. States, considered together, have been more successful in keeping their fiscal deficit below 3% of GDP. After FY05, there are three years namely, FY10, FY16, and FY17 in which states' combined fiscal deficit was above 3% of GDP.

With respect to revenue account, the center's budget went into deficit in FY80 and has remained in deficit in all years since then. The aggregate account of the states went into revenue deficit in FY88 on a persistent basis. It remained in deficit until FY06. Post that, there was either a surplus or a marginal deficit (Chart 7). In this analysis, revenue deficits and surpluses of individual states are aggregated together to arrive at the combined revenue deficit of states.

Chart 7: Revenue deficit (+) relative to GDP: center and states



Source (Basic Data): CGA, IPFS, CSO, RBI FY20 Annual Report (25 August 2020)

Note: For states, data from FY17 onwards is sourced from the RBI where FY20 pertains to RE

Impact of slippage in fiscal deficit on the debt-GDP ratio

The debt-GDP ratio at the end of a fiscal year depends on three factors: (a) level of fiscal deficit in the current year (f_t), (b) debt-GDP ratio of the previous year (b_{t-1}), and (c) growth rate of the current year (g_t). The increase in debt-GDP ratio between two successive years ($b_t - b_{t-1}$) would be higher if (i) the current fiscal deficit is higher, (ii) the current growth rate is lower, and (iii) the previous year's debt-GDP ratio is lower¹². Accordingly, in Table 3, we have estimated the likely level of debt-GDP ratios of the center, the states and their combined account. With the nominal GDP growth plummeting in FY20 and FY21 (projected), the predicted debt-GDP ratio on the combined account is likely to be close to 81% with center's debt at 51.0% of GDP and states' at 29.6% of GDP. We may note that the World Bank¹¹ has projected in its baseline scenario, that the general government debt in India would increase to 87.5% of GDP at the end of FY22 and to 89.2% at the end of FY23.

Table 3: Estimated debt-GDP ratio: center, states and combined

Years	f_t	b_t	$b_t - b_{t-1}$	g_t
Combined center and States				
FY18	5.9	69.8		11.1
FY19	5.5	68.4	-1.4	11.0
FY20	7.4	71.2	2.8	7.2
FY21 (projected)	11.5	80.6	9.4	3.0
Center				
FY18	3.5	44.7		11.1
FY19	3.4	43.7	-1.0	11.0
FY20	4.6	45.4	1.7	7.2
FY21 (projected)	7.0	51.0	5.7	3.0
States				
FY18	2.4	25.1		11.1
FY19	2.1	24.7	-0.4	11.0
FY20	2.8	25.9	1.1	7.2
FY21 (projected)	4.5	29.6	3.7	3.0

Source: IPFS, Union Budgets, RBI FY20 Annual Report (released 25 August 2020)

Notes: (1) Initial debt to GDP ratio for FY18 has been sourced from the RBI and for subsequent years, debt-GDP ratios have been estimated using the fiscal deficit numbers from the Union Budget and the RBI; (2) the debt-GDP ratio in FY18 includes external debt evaluated at current exchange rates; (3) The projected debt-GDP ratios for the center excludes extra budgetary borrowing; (4) The Combined debt-to-GDP ratio and the center's debt to GDP ratio are net of inter-governmental transactions between the center and the state governments amounting to 5% points of GDP due to the following components: (a) NSSF investment in State governments special securities (b) Loans and advance by the center to States and (c) State governments' investment in center's treasury bills.

¹¹ 'India Development Update' (July 2020), World Bank

¹² The exact formula is $b_t - b_{t-1} = f_t - b_{t-1} \left[\frac{g_t}{(1+g_t)} \right]$

This implies a slippage of nearly 30% points from the current FRBMA target of 60%, if we go by the World Bank estimate for FY23.

Infirmities in the fiscal policy framework

With the combined debt-GDP ratio likely to depart from the target level of 60% by more than 20% points at the end of FY21, it would render the 2018 amendment completely out of alignment. In fact, the 2018 FRBMA has a number of other infirmities as discussed below:

- 1. Elimination of revenue deficit target:** Maintaining balance or surplus on revenue account is critical since it is linked to government sector dissavings. For realizing India's potential growth, it is important to maximize the savings rate. One important instrument for this is to maintain government's revenue account in balance or in surplus. This was also the primary objective of center's 2003 FRBMA. The target of maintaining a revenue account balance has been given up in Center's 2018 FRBMA.
- 2. Inconsistent targets for debt and deficit for center and states:** It can be seen that maintaining a fiscal deficit target of 3% of GDP for both center and states is inconsistent with targeting debt-GDP ratio of 40% for center and 20% for states. Simulations indicate that they should both be equal if the fiscal deficit targets are equal. Charts 8 and 9 show that they would converge to an equal level if fiscal deficit to GDP ratios are equal and the nominal growth rate is common. In this example, the nominal annual growth rate is assumed to be 12% and fiscal deficit is assumed to be 3% of GDP each for the center and states.

Chart 8: Center's Debt-GDP ratio

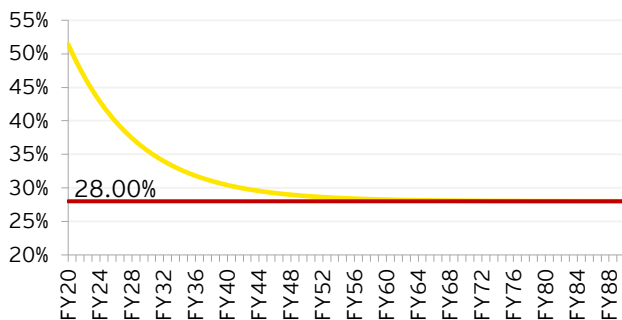
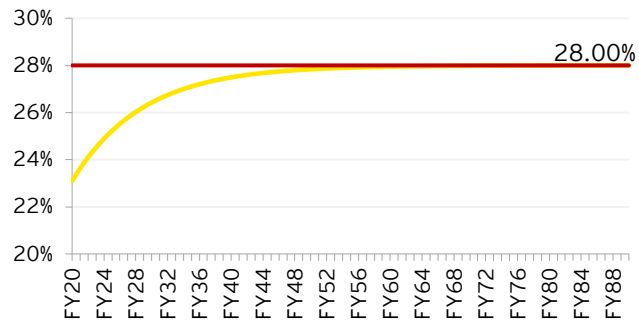


Chart 9: States Debt-GDP ratio



Source: RBI, MOSPI, and author's estimates; Note: Initial debt to GDP ratio for FY20 for the center was taken at 51.4% (RE). Debt-GDP ratio for all states was taken at 23.1% (RE)

- 3. Inadequate countercyclical clauses:** Center's 2018 FRBMA has a provision for countercyclical measures. It provides for five conditions in which a departure from the operational fiscal deficit target of 3% of GDP can be made. These conditions relate to: (a) national security, (b) act of war, (c) national calamity, (d) collapse of agriculture severely affecting farm output and incomes and (e) structural reforms in the economy with unanticipated fiscal implications. The Act provides that if, as a result of one or more of the above conditions, there is a "...decline in real output growth of a quarter by at least 3% points below its average of the previous four quarters...", then fiscal deficit limit may be increased but this increase "shall not exceed one half percent of the gross domestic product in a year". The COVID-19 pandemic may be classified as a national calamity under clause (c) above. However, the real GDP growth had started declining in the pre-pandemic quarters. In fact, it declined from a peak of 8.2% in 4QFY18 for eight successive quarters with one exception in 4QFY19, to 3.1% in 4QFY20. Yet this rule of a departure of 0.5% points of GDP could not be invoked. Its conditions proved to be too impractical to capture the evolving situation. When it was invoked in FY20, the cited reason was 'structural reforms' and the magnitude of actual departure became much larger than 0.5% points of GDP¹³. Further, in a pandemic kind of situation also, the magnitude of permitted departures has proved to be too inadequate.

Monetary policy framework

Monetary policy in India has evolved from a multiple indicator approach and a focus on WPI inflation to a regime of flexible inflation targeting and focus on CPI inflation. In February 2015, a Monetary Policy Framework was agreed upon between the Government of India and the RBI. As per the framework, the RBI was mandated to target a CPI inflation rate below 6% by January 2016. CPI inflation target for 2016-17 and beyond was set at 4%

¹³ Center's fiscal deficit was budgeted at 3.5% of GDP for 2019-20. The actual fiscal deficit relative to GDP was at 4.6%.

with a tolerance range of +/-2%, implying an overall CPI inflation range of 2% to 6%. This target is to be reviewed once in five years¹⁴. It is due for a review in March 2021. In order to implement this framework, a Monetary Policy Committee (MPC) was established in September 2016 by amending the RBI Act. The MPC consists of six members, three from the RBI, and three outside experts/government officials. The Governor is the ex-officio Chairperson. The RBI has been mandated to publish a Monetary Policy Report every six months explaining the sources of inflation and forecasts of inflation for the next 6 to 18 months. According to the Monetary Policy Framework, the RBI would fail to meet the target if the rate of inflation is more than 6% or less than 2% for three successive quarters. Further in case of failure, the RBI is required to submit a report to the Central government detailing a) the reasons for failure, b) remedial actions to be taken and c) estimate of time period within which the target would be achieved.

Since the adoption of CPI inflation target of 4% in 2016, the average CPI inflation (2012 series) during April 2016 to March 2020 has been 4.1%. (Chart 10). We note that the annual IPD-based inflation was below the CPI inflation by a margin of 1.2% points during FY15 to FY20 on average. If we consider this difference from FY16 onwards, it has come down to 0.9% points. It may be noted that the relationship between core CPI inflation and IPD-based inflation is more stable since most of the volatility in CPI inflation is caused by variations in food and fuel prices which are excluded from core CPI inflation and does not have much influence on IPD-based inflation. IPD-based inflation has an important bearing on nominal GDP growth (Chart 11).

Chart 10: CPI inflation

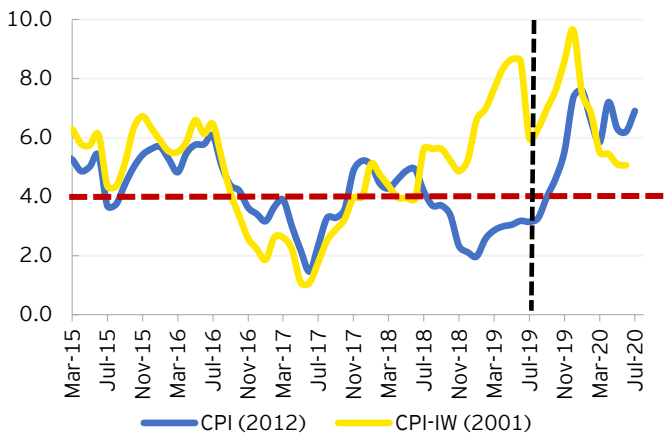
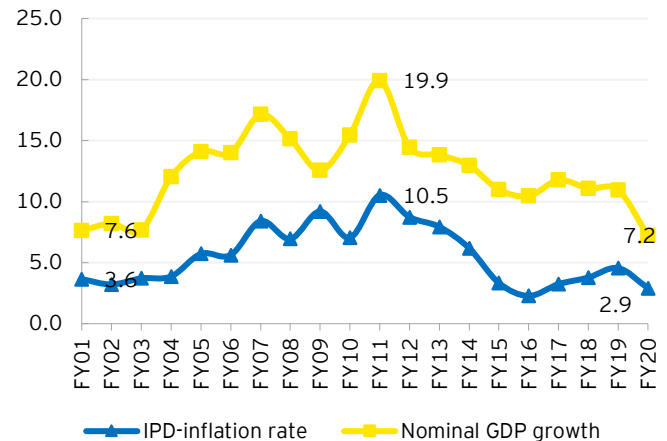


Chart 11: IPD based inflation and nominal GDP growth



Source (basic data): MOSPI

Policy anchor: relative merits of alternative inflation measures

There are three main measures of inflation available in India namely CPI, WPI and the implicit GDP deflator. The GDP deflator is available only at quarterly and annual frequencies. A new CPI series became available in January 2011. Historically, the WPI series has been released by the CSO on a consistent basis for the longest period of time in India, when compared to other price measures, but has been considered inadequate for policy guidance since it does not include services and does not reflect prices that consumers actually pay. For policy guidance, many countries use CPI inflation rate as an anchor. Sometimes, using core CPI inflation which excludes food and fuel prices is considered to be better since these two are determined largely by exogenous factors. Even if CPI is chosen as the policy anchor for inflation, it is important to keep in mind its relationship with IPD-based inflation. This has a bearing on tax revenue growth as discussed in the next section.

Reviewing growth experience in India: real and nominal

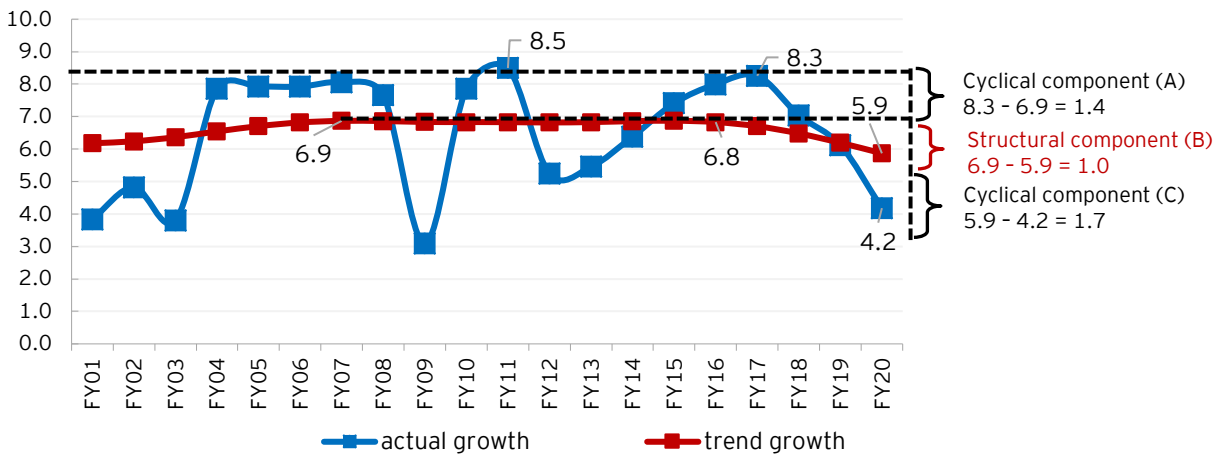
One key macro policy objective is to ensure that the actual growth in the economy remains close to its potential growth¹⁵. While there are a number of methods for measuring potential growth, it is often captured by estimating the trend growth rate over a longer period of time which is estimated in a manner such that cyclical movements are ironed out. For this purpose, we consider the 2011-12 base GDP series.

¹⁴ Chapter III F [Clause 45ZA(1)]; <https://rbidocs.rbi.org.in/rdocs/Publications/PDFs/RBIA1934170510.PDF>

¹⁵ Rangarajan, C., and D. K. Srivastava. "Underlying Drivers of India's Potential Growth." *Economic & Political Weekly* 52.25-26 (2017): 69-77.



Chart 12: Real GDP growth: actual and trend



Source: MOSPI; Note: the trend growth was estimated using Hodrick-Prescott filter using a lambda value of 50

Chart 12 shows that while actual growth peaked at 8.3% in FY17, the trend growth rate remained close to 7% over a longish period ranging from FY07 to FY16. In FY20, the difference between actual growth and the most recent peak growth amounts to 4.1% points. This fall is due to structural as well as cyclical factors. The cyclical factors account for 3.1% points whereas the structural component accounts for nearly 1% point of GDP. It is the responsibility of the macro policy makers to ensure that both the cyclical and structural gaps are minimized. The structural problem has effectively remained unattended. This becomes apparent from the persistent decline in India’s saving and investment rates since FY11¹⁶. The structural problem was overlaid by a cyclical problem of deficient demand in the more recent years particularly in FY20.

Analyzing movement of IPD-based inflation

A link is provided between the monetary policy framework and the fiscal policy framework through the profile of IPD-based inflation. The monetary authorities manage CPI inflation and by implication, also manage the IPD-based inflation. This has a bearing on GDP in nominal terms which determines tax revenue growth, which in turn critically affects the fiscal space. If tax revenue growth falls unduly, it will affect the public sector saving rate by adversely affecting government’s revenue deficit. It will also force the public authorities to borrow more and thereby affect the fiscal deficit. Thus, fiscal and monetary policy decisions must be coordinated for optimum results. This coordination is discussed in the next section.

Chart 13 shows that the deflator-based inflation fell on trend basis from a peak of 7.6% in FY10 to 2.8% in FY20. Nominal GDP growth also fell on trend basis from a peak of 14.9% in FY11 to 8.8% in FY20. The actual nominal GDP growth fell to 7.2% in FY20 (not shown here). Center’s tax revenue growth also fell on trend basis, from 16.8% in FY08 to 5.8% in FY20. In actual terms, there was in fact, a contraction in center’s gross tax revenues of (-)3.4% in FY20 (Chart 14).

Chart 13: Deflator based inflation rate: actual and trend

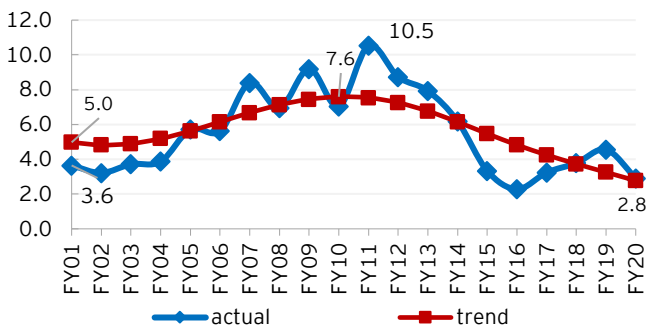
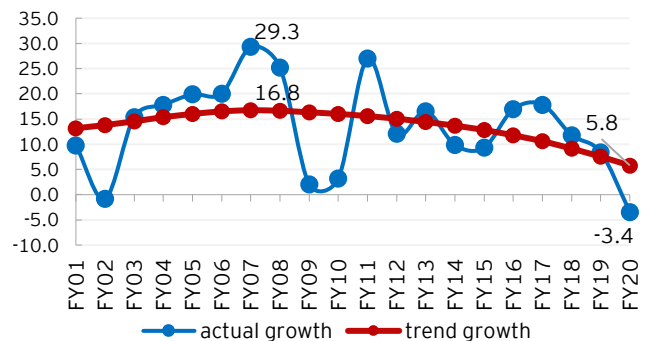


Chart 14: center’s GTR growth: trend and actual



Source: MOSPI

Notes: the trend growth was estimated using Hodrick-Prescott filter using a lambda value of 50

¹⁶ EY Economy Watch September 2019 (https://assets.ey.com/content/dam/ey-sites/ey-com/en_in/topics/tax/economy-watch-september-2019.pdf)



This review indicates two important deficiencies in the monetary policy framework in the current Indian context. First, there is no emphasis on the growth objective for the MPC to consider. Second, the CPI inflation target of 4% on average implies an IPD-based inflation of 2.5-3%. This is too low and inconsistent with the fiscal policy framework which assumes a nominal GDP growth of 11-12% as discussed below.

Issues of coordination between monetary and fiscal policy frameworks

There are notable inconsistencies between implicit growth and inflation targets in major macro policy decisions which were taken roughly around the same time. In the case of fiscal policy decisions, two implicit assumptions regarding nominal GDP growth are important. First, with respect to GST which was implemented on 1 July 2017, the states were guaranteed a growth of 14% in nominal terms in their share of GST revenues. This guarantee was implemented through the mechanism of the compensation cess. A 14% growth in GST revenues assumes a combination of GST buoyancy and nominal GDP growth. The higher the buoyancy, the lower would be the implicit assumption of nominal GDP growth. It would be reasonable to assume that at the time of transition to a revenue neutral GST, a buoyancy higher than 1.2 would have been unreasonable. In fact, the actual buoyancy turned out to be much lower. A buoyancy of 1.2 for the component of GST attributable to states (SGST + states' share in IGST) implies a nominal GDP growth of 11.7% per annum. In the year in which GST was introduced, the Union Budget had assumed a nominal GDP growth of 11.75%¹⁷. According to the minutes of the 3rd GST council meeting (held on 18-19 October 2016), most state ministers had argued for a 14% growth over the base year GST revenue, considering a nominal GDP growth of 12% or above¹⁸.

Second, for stabilizing the combined debt to GDP ratio at 60% with a 6% combined fiscal deficit-GDP as per center's 2018 FRBMA, the implicit nominal GDP growth rate works out to be nearly 11%. These growth assumptions turned out to be much higher than the nominal GDP growth outcome driven by the monetary policy framework. As discussed earlier, the MPF targeted a CPI inflation of 4%. We note that the IPD based inflation during FY15 to FY20 was below the CPI inflation by 1.2% points on average. This implies that a CPI inflation target of 4% was associated with an IPD based inflation of 2.8% during FY15 to FY20. The difference between CPI inflation and IPD-based inflation increased to 1.9% points in FY20. Combining the average IPD based inflation at 2.8% with the average real GDP growth at 6.8% during FY15 to FY20, the resultant nominal GDP growth comes out to be $(6.8+2.8+0.19) = 9.8\%$. This outcome emerging from the monetary policy framework is well-below that emerging from the fiscal policy framework which ranges from 11-12%.

Thus, there is a built-in inconsistency between the two macro policy frameworks. The outcome of this independent pursuit of two macro policy frameworks was that the monetary policy pursuits kept driving the nominal GDP growth down, thereby reducing government's fiscal space which is dependent on tax buoyancy and nominal GDP growth. This led to persistent upward pressures on the fiscal deficit thereby making the central government miss its target of 3% year after year. The GST revenues also fell well-short of the implicit growth of 14%. There is thus a clear need for removing the inconsistency between the two macro policy frameworks.

Modifying fiscal policy framework

The center's FRBMA has been thrown out of gear because at the end of FY21, the policy anchor namely, the combined debt-GDP ratio is likely to be close to 81%, more than 20% points higher than its target value of 60%. Given the history of correction in the debt-GDP ratio, bringing it down from 81% to 60% may prove to be unrealistic. The average annual rate of change in the combined debt-GDP ratio over the period from FY91 to FY20 is close to 0 (0.030% points) with some patches where inter-year variations were relatively larger. This historical experience shows that achieving a reduction of more than 20% points is highly unlikely. It may be better to recast the FRBMA.

There is a case to consider asymmetric debt-GDP targets for the center vis-à-vis the states. In fact, the central government may be given a higher target in view of (a) its higher current debt-GDP levels, (b) its relatively more important macro stabilization role, and (c) its pivotal role in building defence and non-defence infrastructure under the current circumstances faced by India. It may be desirable to continue with the 40% debt-GDP target for the center but change the fiscal deficit target to 4% of GDP. This provides a sustainable combination of debt and deficit at a nominal GDP growth rate of 11%. For the states considered together, the debt-GDP target should be uplifted to 30%, revising up the current inconsistent level of 20%. It can now be combined with a consistent fiscal deficit target for the states at 3% of GDP and for individual states, at 3% of their respective GSDPs. This combination is also consistent with the nominal GDP growth rate of 11%. This implies that the combined debt-

¹⁷ <https://www.indiabudget.gov.in/budget2017-2018/ub2017-18/bag/bag1.pdf>

¹⁸ <http://www.gstcouncil.gov.in/sites/default/files/gst%20rates/Signed%20Minutes%20-%203rd%20GST%20Council%20Meeting.pdf>

GDP ratio target should be revised upwards to 70%. It would be useful to work out the adjustment path to reach this level from the expected peak level of debt-GDP ratio at the end of FY23¹¹. Another important change that is required in center's FRBMA relates to the strategy for dealing with countercyclical provisions.

Distinguishing between agricultural and non-agricultural cycles

In this section, we consider the desirability of developing countercyclical fiscal instruments which are different for dealing with agricultural vis-à-vis. non-agricultural cycles. In spite of progressive investment in irrigation across India, Indian agriculture remains heavily dependent on monsoon and therefore, the cycles that get generated linked to the cyclicity of the rainfall relative to its long period average. This cyclicity is regular in terms of its periodicity, broadly comparable in terms of the related cyclical amplitudes, and its impact on agricultural output and incomes as well as the overall economy.

Chart 15: Real agricultural growth: actual and trend (%)

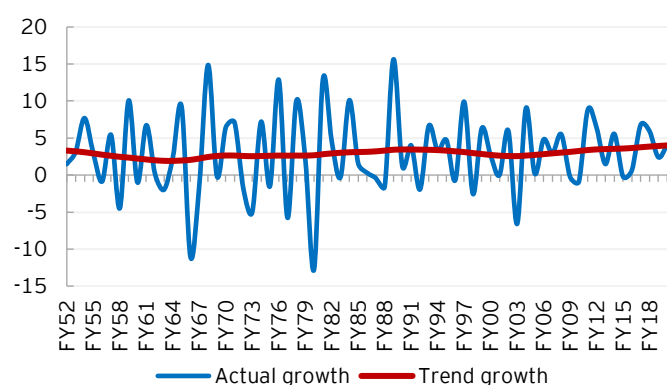
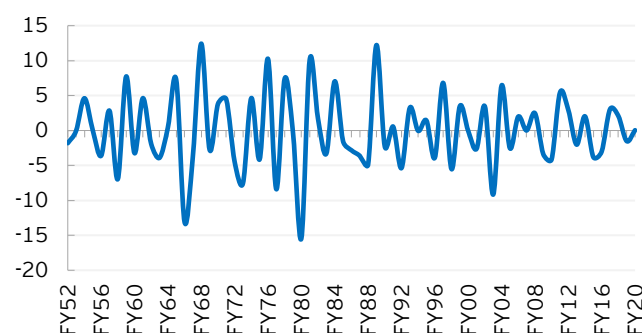


Chart 16: Cyclicity in agricultural growth: deviation of actual growth from trend growth (% points)



Source (basic data): MOSPI

Charts 15 and 16 indicate that the periodicity of real growth in agricultural output (GVA) in India over the last 70 years is close to 3 years. We also notice that the amplitude of agricultural cycles has come down over time. In comparison, for non-agricultural output (GVA) growth, the average periodicity over the same period is close to 6 years (not shown here).

There are two major countercyclical instruments which can be embedded in the FRBMA. One is to establish a stabilization fund from which governments may withdraw in slowdowns while replenishing the fund in expansionary phases. The other instrument is to allow a flexibility in the fiscal deficit limit in relation to its target value, borrowing more than average in slowdowns and less than average in expansionary phases. It may be useful to utilize both instruments in India's case. A stabilization fund-based approach may be effective for tackling agricultural cycles. Further, since agriculture is a state subject and often agricultural droughts tend to be state-specific, states may be given the facility to draw from the fund which should be established and managed by the central government so that discipline is maintained. For the non-agricultural cycle, a flexibility of 1% point of GDP in fiscal deficit may be provided for the central government. In macro stabilization literature, countercyclical policy is the main responsibility of the central government. However, these instruments are meant for regular and periodic agricultural and non-agricultural cycles. This framework would break down in the case of structural breaks such as a pandemic or a war. In these exceptional circumstances, it may be better to have an institutional framework which can devise appropriate methods for dealing with such situations requiring coordination between central and state governments as well as fiscal and monetary authorities.

Ensuring consistency with saving investment profiles

For the fiscal framework, the internally consistent target real GDP growth rate is set at its potential level of 8%¹⁹. This would require an investment of about 36% of GDP, which may be financed by domestic savings of 33.5% of GDP and net capital inflow of 2.5% of GDP which is consistent with a corresponding sustainable level of current account deficit (CAD)²⁰. Achieving a domestic saving rate of 33.5% requires uplifting the current rate of about 29% by more than 4% points. This is to be brought about mainly by eliminating revenue deficits of the central and

¹⁹ Rangarajan, C., and D. K. Srivastava. "Underlying Drivers of India's Potential Growth." *Economic & Political Weekly* 52.25-26 (2017): 69-77.

²⁰ <https://www.thehindu.com/opinion/lead/Can-India-grow-at-8-to-9-per-cent/article14317462.ece>

state governments and by uplifting savings of household and private corporate sectors together by margins of 0.5-1% point of GDP.

Modifying Monetary policy framework

The monetary policy framework is due for a review every five years. Thus, it should be reviewed in March 2021. In view of the earlier discussion, the following changes in the monetary policy framework may be considered:

1. The RBI may continue with CPI inflation as the target variable.
2. The average targeted CPI inflation rate may be kept at 5% with a tolerance range of +/- 2%, so that the IPD based inflation is targeted at 4% on average.
3. The monetary authority may keep in mind an annual real GDP potential growth target of 8% and a nominal GDP growth target of 11-12%. The monetary authority should ensure this in coordination with the fiscal authorities. For this coordination, an institution like a *Macro Policy Coordination Council* (or *Fiscal Council*) may prove to be quite effective.

Coordination issues: role of Macro Policy Coordination Council

There are important coordination issues in managing fiscal and monetary policy frameworks. This is a highly specialized task requiring periodic monitoring, and informing the policymakers both on the monetary and fiscal sides, of the expected implications of their actions. In fact, coordination is needed between the central government, individual state governments and UTs with legislatures, and the MPC. Such a task is best attended to by an institutional innovation such as the setting up of a *Macro Policy Coordination Council* (or a *Fiscal Council*). Many countries across the world have established autonomous Fiscal Councils. Such a Council has also been recommended by a number of recent Finance Commissions as also by the FRBM Review Committee in 2018. The Fiscal Statistics Committee of the National Statistical Commission²¹ had also examined this issue and endorsed the need for instituting a Fiscal Council in India which can play a role as (a) co-ordinator of macro-stabilization policies, (b) fiscal data analyst, (c) fiscal consolidation path monitor, (d) forecaster of fiscal aggregates, (e) fiscal policy advisor, and (f) fiscal data coordinator.

The proposed *Macro Policy Coordination Council* may keep the following targets as part of its objective functions: (1) potential real GDP growth of 8%, (2) CPI inflation of 5% with a flexibility of +/-2% or equivalently, an IPD based inflation of 4% with a flexibility of +/-2%, (3) nominal GDP growth target in the range of 11-12%, and (4) combined debt-GDP target at 70% with 40% for the center and 30% for the states. Correspondingly, the fiscal deficit targets should be 7% for the combined government with 4% for the center and 3% for the states.

Conclusions

We have reviewed India's monetary and fiscal policy frameworks which have guided policymaking during the last five years. We have noted that there are certain infirmities and inconsistencies in these policy frameworks. Further, there has been a lack of coordination between the pursuits of fiscal and monetary authorities to ensure desirable growth and inflation outcomes. In fact, there is an internal inconsistency in their implicit assumptions. In view of these observations, it may be useful to recast these frameworks for which the following may be considered:

1. The 2018 version of FRBMA should be re-amended.
2. The new FRBMA should bring back revenue account balance as a key target for both central and state governments.
3. There is a case to consider the need for introducing asymmetric targets for fiscal deficit and correspondingly for debt relative to GDP for the central government vis-à-vis. the state governments. Center's fiscal deficit and debt may be kept at somewhat higher levels in the current circumstances of the Indian economy given the macro stabilizing role that the center undertakes and the need to build infrastructure in the next five years or so. We may consider a combination of 40% of debt-GDP ratio and 4% of fiscal deficit to GDP ratio for the center and 30% of debt-GDP ratio and 3% of fiscal deficit-GDP ratio for the states considered together. These are stable combinations at a nominal growth rate of 11%. Together, the debt-GDP ratio target can be increased to 70%. It may be noted that for the last 30 years, the combined debt-GDP ratio of the central and state governments in India has remained close to 70% with some inter-year variations.

²¹ http://www.mospi.gov.in/sites/default/files/committee_reports/Report%20of%20the%20Committee%20on%20Fiscal%20Statistics.pdf



4. The combined fiscal deficit to GDP ratio at 7% can be financed by a surplus in the household sector savings rate of an equal amount. The net borrowing requirement of the non-government public sector and the private corporate sector taken together, of 2.5% of GDP can then be met by net capital inflows. As revenue deficit of central and state governments is progressively reduced to zero this would become quite feasible.
5. This level of fiscal deficit for the government can be sustained at a suitable level of saving-investment combination consistent with the potential growth rate of 8%. At an incremental capital output ratio (ICOR) of 4.5¹⁹, an investment rate of 36% would be required to generate this growth. Considering 2.5% of GDP as sustainable level of net capital inflows, a domestic saving rate of 33.5% is required. This can be obtained by combining (a) household sector saving at 19% with a financial saving component of about 8%, (b) private corporate saving of 10.5%, and (c) public sector saving of 4%. These levels are only marginally above those achieved by household and private corporate sectors in recent years. The main improvement is to be brought about in public sector saving for which keeping government's revenue account in balance is necessary.
6. State governments should be given a specific macro stabilization role particularly for agricultural cycles which may be handled by establishing an *Agricultural Cycle Stabilization Fund (ACSF)*.
7. Non-agricultural cycles should be handled by a rule-based flexibility of nearly 1% point of GDP in center's fiscal deficit wherein there should be a mechanism for ensuring that departures of fiscal deficit from its average target are followed symmetrically in cyclical upturns and downturns so that the debt-GDP ratio remains sustainable and stable.
8. The monetary policy framework of 2015 should be amended.
9. The MPC should keep in mind, a growth objective although it is to be monitored by the suggested *Macro Policy Coordination Council*.
10. The target variable may continue to be CPI.
11. The target CPI inflation rate may be kept at 5% on average with a tolerance range of +/-2% points. This would be consistent with an IPD based inflation rate of 4% on average.
12. A *Macro Policy Coordination Council* should be established. It may serve a number of objectives but the most important would be to provide a framework in which monetary and fiscal policy decisions are coordinated. It may also deal with instances of structural breaks caused by extraordinary exogenous events such as a pandemic or a war. Growth and inflation targets should be defined for both of these frameworks in a mutually consistent way. The *Macro Policy Coordination Council* may aim at a potential real GDP growth rate of 8%, a nominal GDP growth in the range of 11-12%, a CPI inflation of 5%²² with a flexibility of +/-2% or equivalently, an IPD based inflation of 4% with a flexibility of +/-2%. The combined debt-GDP target should be 70% with 40% for the center and 30% for the states. Correspondingly, the fiscal deficit targets should be 7% for the general government with 4% for the center and 3% for the states.

²² There has been a discussion around determining a suitable threshold level of inflation for India which may be close to 5%. For example see

(i) <https://www.thehindubusinessline.com/economy/inflation-at-5-an-acceptable-threshold-for-india-rangarajan/article20545706.ece1>

(ii) Mohanty, D., Chakraborty, A. B., Das, A., & John, J. (2011). Inflation Threshold in India: An Empirical Investigation. Reserve Bank of India working paper series, 18, 2-9.

(iii) Singh, P. (2010). Searching threshold inflation for India. *Economics Bulletin*, 30(4), 3209-3220.

(iv) Pattanaik, S., & Nadhanael, G. V. (2011). Why persistent high inflation impedes growth? An empirical assessment of threshold level of inflation for India. RBI Working Paper Series No. 17.

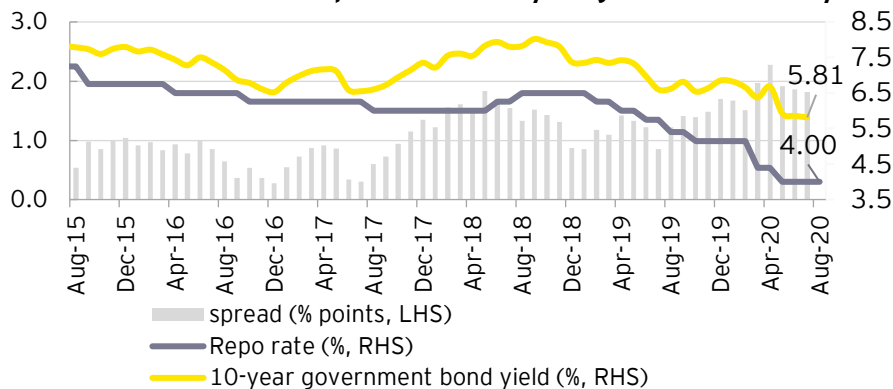
6. Money and finance: repo rate remained unchanged at 4.0% in August 2020

A. Monetary sector

Monetary policy

- ▶ In its monetary policy review held on 6 August 2020, the monetary policy committee (MPC) retained the repo rate at 4.0% (**Chart 17**) and consequently the reverse repo rate was also unchanged at 3.35%. The MPC decided to maintain an accommodative policy stance.
- ▶ In RBI's assessment, COVID-19 induced supply chain disruptions will continue to impact both food and non-food prices. Among food items, price pressure particularly in pulses may ease as a result of a bumper Rabi harvest. However, abatement of inflationary pressure in vegetables is contingent upon the normalization of supplies. Higher domestic taxes on petroleum products have increased the pump price of petroleum products, which may eventually result in cost push inflation.

Chart 17: movements in repo rate and 10-year government bond yield



In its August 2020 monetary policy review, the MPC retained the repo rate at 4.0% while maintaining an accommodative policy stance.

Source: Database on Indian Economy, RBI

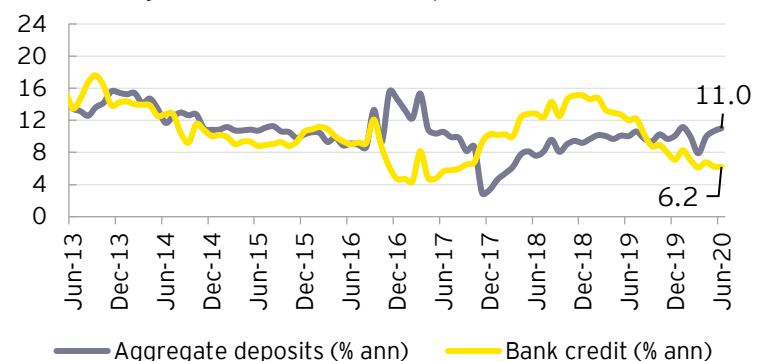
Money stock

- ▶ As per the data released by RBI on 14 August 2020, growth in broad money stock (M3) increased marginally to 12.4% in July 2020 from 12.3% in June 2020. This was led by a sustained strong growth in narrow money, a key component of M3. Growth in time deposits was marginally lower at 10.5% in July 2020 as compared to 10.7% in June 2020.
- ▶ Growth in narrow money (M1) at 18.4% in July 2020 was the highest since May 2018. M1 growth was led by a strong growth in currency in circulation, which increased to 22.2% in July 2020 from 20.6% in June 2020. Growth in demand deposits was at 12.0% in July 2020, marginally lower than 12.1% in June 2020.

Aggregate credit and deposits

- ▶ Credit by scheduled commercial banks grew by 6.2% in June 2020, similar to the level in May 2020 (**Chart 18**). Due to subdued demand, average credit growth fell to 6.4% in 1QFY21 as compared to 7.1% in 4QFY20.
- ▶ Growth in non-food credit was marginally lower at 6.7% in June 2020 as compared to 6.8% in May 2020.
- ▶ Growth in personal loans, a key driver of retail loans, also fell marginally to 10.5% in June 2020 as compared to 10.6% in May 2020.
- ▶ Growth in credit to industry, accounting for about 32% of non-food credit, increased to 2.2% in June 2020 from 1.7% in May 2020. Within the industrial sector, growth in credit to infrastructure increased to 4.2% in

Chart 18: growth in credit and deposits



Source: Database on Indian Economy, RBI



June 2020 from 1.3% in May 2020 while credit growth to chemical and chemical products and iron and steel sectors fell to 3.1% and 0.1% respectively in June 2020 from 3.6% and 0.9% respectively in May 2020.

- ▶ Credit growth to services sector fell to 10.7% in June 2020 from 11.2% in May 2020. Growth in credit to agriculture moderated to historically low levels of 2.4% in June 2020 from 3.5% in May 2020.
- ▶ Growth in aggregate bank deposits improved to 11.0% in June 2020 from 10.6% in May 2020. In 1QFY21, growth in bank deposits averaged 10.5% as compared to 9.7% in 4QFY20.

B. Financial sector

Interest rates

- ▶ As per data released by the RBI on 14 August 2020, interest rates offered by commercial banks on term deposits with a maturity of more than one year was lowered for the fourth consecutive month to average 5.38% in July 2020 (ranging between 5.10% and 5.66%) from 5.69% (ranging between 5.45% to 5.93%) in June 2020.
- ▶ The yield on 10-year government bond fell marginally to average 5.81% in July 2020 as compared to 5.86% in June 2020. For a 250 basis points cumulated reduction in repo rate during February 2019 and July 2020, the benchmark bond yield fell by cumulated 153 basis points during the same period, indicating a transmission rate of close to 61%.
- ▶ The MCLR fell further by 16 basis points to average 7.09% in July 2020 from 7.24% (revised) in June 2020.
- ▶ WALR on fresh rupee loans by scheduled commercial banks fell by 19 basis points to 8.35% in June 2020 as compared to 8.54% in May 2020.

C. Financial sector highlights from RBI's FY20 annual report

The RBI's FY20 annual report was released on 25 August 2020.

- ▶ The report highlights that there is a need for diversifying financing options which may provide alternatives to bank finance. Capital markets and FDI offer opportunities to bring in investors with a relatively longer-term view.
- ▶ There is a need for expanded footprints for specialized non-banking financial companies (NBFCs) classified as 'Infrastructure Finance Companies'.
- ▶ Non-performing assets (NPAs) relating to infrastructure lending by banks have remained at elevated levels. In the context of COVID-19, a big push to certain targeted mega infrastructure projects can reignite the Indian economy.
- ▶ Indian banking has to be liberated from risk aversion that is impeding the flow of credit to productive sectors of the economy and undermining the role of banks as the principal financial intermediaries in the economy.
- ▶ Macro stress tests reported in the July 2020 Financial Stability Report suggest that NPAs may surge 1.5 times above their March 2020 levels under the baseline scenario and by 1.7 times in a very severely stressed scenario by March 2021.
- ▶ The system level capital to risk weighted assets ratio (CRAR) can drop to 13.3% in March 2021 from its March 2020 level under the baseline scenario and to 11.8% under the very severe stress scenario.
- ▶ In this context, the RBI has argued that a recapitalization plan for public and private sector banks assumes critical importance.

Macro stress tests reported in the July 2020 Financial Stability Report suggest that NPAs may surge 1.5 times above their March 2020 levels under the baseline scenario and by 1.7 times in a very severely stressed scenario by March 2021.

7. Trade and CAB: contraction in merchandise exports eased to (-)10.2% in July 2020

A. CAB: current account posted a surplus in 4QFY20 after 51 quarters

- Current account recorded a marginal surplus of 0.1% of GDP in 4QFY20 as compared to a deficit of (-)0.4% in 3QFY20 (**Chart 19**) aided by a lower merchandise trade deficit and higher net invisible receipts (**Table 4**). Merchandise imports relative to GDP fell to 15.2% in 4QFY20 from 16.1% in 3QFY20 while merchandise exports relative to GDP fell to 10.4% from 11.2% during this period. Net invisible receipts improved to 4.8% of GDP in 4QFY20. On an annual basis, current account deficit fell to a three-year low of (-)0.9% of GDP.

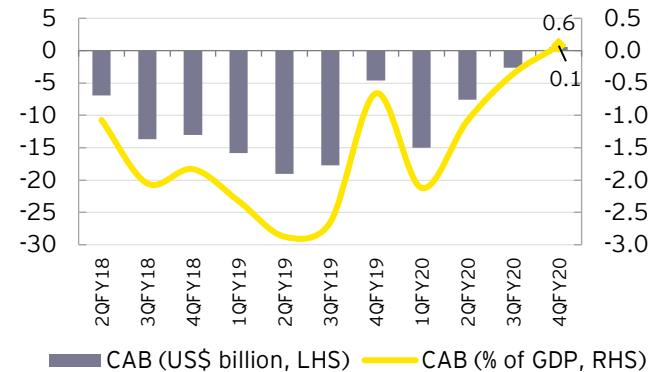
Table 4: components of CAB in US\$ billion

	CAB as % of nominal GDP	CAB	Goods account net	Invisibles*
FY17	-0.7	-15.3	-112.4	97.1
FY18	-1.8	-48.7	-160.0	111.3
FY19	-2.1	-57.3	-180.3	123.0
FY20	-0.9	-24.7	-157.5	132.8
1QFY20	-2.1	-15.0	-46.8	31.8
2QFY20	-1.1	-7.6	-39.6	32.1
3QFY20	-0.4	-2.6	-36.0	33.4
4QFY20	0.1	0.6	-35.0	35.6

Source: Database on Indian Economy, RBI

Note: (-) deficit; (+) surplus; *invisibles include services, current transfers and income components

Chart 19: CAB



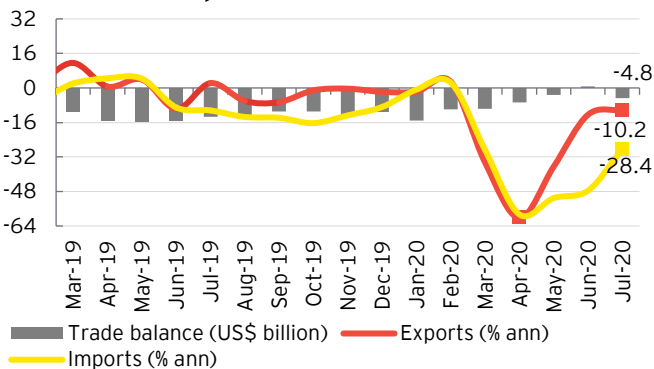
Source: Database on Indian Economy, RBI

B. Merchandise trade and exchange rate

Merchandise exports and imports contracted by (-)10.2% and (-)28.4% respectively in July 2020 reflecting a continuing demand slowdown (**Chart 20**).

- Contraction in merchandise exports eased to a five-month low of (-)10.2% in July 2020 from (-)12.4% in June 2020 led by growth in exports of engineering goods.

Chart 20: developments in merchandise trade



Source: Ministry of Commerce and Industry, GoI

- Growth in engineering goods exports turned positive at 8.5% in July 2020 after four successive months of contraction.
- Contraction in oil exports increased to (-)51.5% in July 2020 from (-)31.6% in June 2020.
- Contraction in imports fell to a five-month low of (-)28.4% in July 2020 from (-)47.6% in June 2020 led by reduced pace of contraction in imports of oil, gold and electronic goods.
- Contraction in oil imports moderated to (-)32.0% in July 2020 from (-)55.3% in June 2020. Growth in gold imports turned positive at 4.2% in July 2020 after seven successive months of contraction.

- Contraction in imports excluding oil, gold and jewelry fell to (-)28.1% in July 2020 from (-)38.9% in June 2020. Growth in exports of this category turned positive at 3.4% in July 2020 after four successive months of contraction.
- Out of the 30 sectors for which exports and imports data is provided, 14 and 24 sectors respectively experienced a contraction in July 2020 as compared to 18 and 26 sectors respectively in June 2020.
- Merchandise trade deficit was at a subdued level of US\$4.8 billion in July 2020 as compared to a surplus of US\$ 0.8 billion in June 2020 observed for the first time in more than 18 years.
- The rupee marginally appreciated to INR75.1 per US\$ (average) in July 2020 from INR75.7 per US\$ (average) in June 2020.

8. Global growth: OECD projected a global contraction of (-)6.0% in 2020 in single hit scenario

A. Global growth outlook

- ▶ The OECD (Economic Outlook, June 2020) estimated two equally likely scenarios for growth outcomes in 2020 and 2021 for each country reflecting the high degree of uncertainty relating to COVID-19. The 'double hit' scenario assumes a second outbreak in all countries towards the end of 2020 and the 'single hit' scenario avoids such an outbreak.
- ▶ In the 'single hit' scenario, global GDP is projected to contract by (-)6.0% in 2020 and growth is projected to recover to 5.2% in 2021. In the 'double hit' scenario, a sharper contraction of (-)7.6% in 2020 and a milder growth recovery to 2.8% in 2021 is forecasted.
- ▶ Amongst AEs, projected rate of contraction in 2020 as also the recovery in 2021 in both scenarios is the sharpest for the UK, followed by the Euro area, US and Japan (Table 5).
- ▶ Amongst EMDEs, commodity producers such as Brazil, Russia and South Africa are projected to contract by more than (-)7.0% in 2020 in both the scenarios. In these countries, inadequate health systems, plummeting commodity prices, declining remittances, weak external demand and tighter financial conditions are expected to have a substantial adverse impact on growth.
- ▶ The adverse impact of COVID-19 has been relatively muted for large EMDEs like China and India (single hit scenario) helped by subdued commodity prices. A contraction of (-)2.6% and (-)3.7% respectively for China and India is projected in 2020 in the 'single hit' scenario. However, India is projected to contract sharply by (-)7.3% in 2020 in the 'double hit' scenario.
- ▶ As in the case of AEs, a sharp V-shaped recovery in 2021 is projected for all major EMDEs in both scenarios.

The OECD projected a global contraction of (-)6.0% in 2020 in the 'single hit' scenario and (-)7.6% in the 'double hit' scenario where the latter assumes a second COVID outbreak.

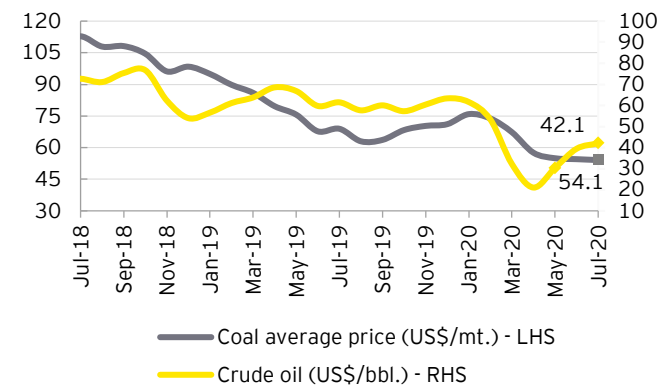
Table 5: global growth projections

Country /Region	Single hit		Double hit	
	2020	2021	2020	2021
Global	-6.0	5.2	-7.6	2.8
US	-7.3	4.1	-8.5	1.9
Euro area	-9.1	6.5	-11.5	3.5
UK	-11.5	9.0	-14.0	5.0
Japan	-6.0	2.1	-7.3	-0.5
Brazil	-7.4	4.2	-9.1	2.4
Russia	-8.0	6.0	-10.0	4.9
India*	-3.7	7.9	-7.3	8.1
China	-2.6	6.8	-3.7	4.5
S. Africa	-7.5	2.5	-8.2	0.6

Source: OECD Economic Outlook Update, June 2020

* data pertains to fiscal year

Chart 21: global crude and coal prices



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

B. Global energy prices: global crude price increased to US\$42.1/bbl. in July 2020

- ▶ Average global crude price²³ increased for the third consecutive month to US\$42.1/bbl. in July 2020 from US\$39.5/bbl. in June 2020 indicative of a nascent recovery in economic activity (Chart 21). However, re-imposition of lockdowns in various regions and the planned output increase by OPEC+ and other major producers beginning August 2020 may put a downward pressure on prices going forward²⁴.
- ▶ Average global coal price²⁵ fell to US\$54.1/mt. in July 2020, its lowest level since May 2016.

²³ Simple average of three spot prices, namely, Dated Brent, West Texas Intermediate and Dubai Fateh

²⁴ IEA, Oil Market Report (July 2020); Press release titled 'More OPEC+ oil production from August and Covid-19 second wave to create a 4-month supply glut' dated 28 July 2020, Rystad Energy

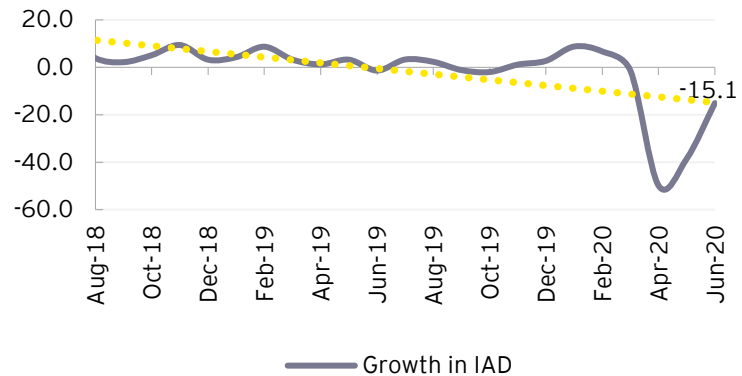
²⁵ Simple average of Australian and South African coal prices

9. Index of Aggregate Demand (IAD): contracted by (-)15.1% in June 2020

IAD continued to contract, although at a slower pace of (-)15.1% in June 2020 amid extensions in lockdown in major cities

- ▶ EY developed an 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 non-seasonally adjusted terms, tracing the demand conditions in these sectors. Demand conditions in the agricultural sector have been captured by movements in monthly agricultural credit off-take.
- ▶ IAD contracted by (-)15.1% in June 2020 as compared to (-)38.5% in May 2020 (Chart 22). The slower pace of contraction may be attributed to the phased opening up of the economy since end-May 2020.
- ▶ Demand conditions showed signs of improvement in June 2020 as the contraction in both manufacturing and services was lower as compared to that in May 2020. However, demand conditions in agricultural sector deteriorated further in June 2020 (Table 6).

Chart 22: growth in IAD (y-o-y)



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

Table 6: IAD

Month	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20
IAD	126.2	129.7	131.4	138.1	137.9	126.2	63.5	77.5	107.9
Growth (% y-o-y)	-2.0	1.2	2.7	8.8	6.7	-1.4	-49.9	-38.5	-15.1
Growth in agr. credit	7.1	6.5	5.3	6.5	5.8	4.2	3.9	3.5	2.4
Mfg. PMI**	0.4	1.2	3.2	5.6	4.7	1.7	-23.9	-16.5	-3.2
Ser. PMI**	0.7	3.8	3.9	8.6	9.0	-1.1	-48.0	-38.4	-16.4

**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 non-seasonally adjusted.

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

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							
FY17	4.6	5.3	4.3	5.8	4.8	FY17	51.6	51.0
FY18	4.4	2.3	4.7	5.3	4.3	FY18	51.5	50.0
FY19	3.8	2.8	3.8	5.2	4.4	FY19	52.8	52.2
FY20	-0.8	1.6	-1.4	0.9	0.4	FY20	52.3	51.9
2QFY20	-0.4	-1.2	-0.4	0.6	-0.9	2QFY20	51.8	51.6
3QFY20	-1.4	0.0	-1.1	-6.0	-0.6	3QFY20	51.5	51.7
4QFY20	-4.1	3.9	-6.3	1.6	-0.4	4QFY20	53.9	54.1
1QFY21	-35.9	-22.4	-40.7	-15.8	-24.6	1QFY21	35.1	17.2
Mar-20	-18.3	-1.3	-22.8	-8.2	-8.6	Apr-20	27.4	5.4
Apr-20	-57.6	-27.0	-67.1	-23.0	-37.0	May-20	30.8	12.6
May-20	-33.9	-20.5	-38.4	-14.9	-22.0	Jun-20	47.2	33.7
Jun-20	-16.6	-19.8	-17.1	-10.0	-15.0	Jul-20	46.0	34.2

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

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

Fiscal year/quarter/month	CPI	Food Price Index	Fuel and light	Core CPI	WPI	Food Price Index	Mfg. products	Fuel and power	Core WPI
	% change y-o-y					% change y-o-y			
FY17	4.5	4.2	3.3	4.9	1.7	5.9	1.3	-0.3	-0.1
FY18	3.6	1.8	6.2	4.6	2.9	1.9	2.7	8.2	3.0
FY19	3.4	0.1	5.7	5.5	4.3	0.6	3.7	11.5	4.2
FY20	4.8	6.7	1.3	3.8	1.7	6.9	0.3	-1.8	-0.4
2QFY20	3.5	3.5	-1.4	4.1	0.9	5.6	-0.1	-4.6	-0.5
3QFY20	5.8	10.7	-1.1	3.3	1.1	9.3	-0.7	-5.1	-1.8
4QFY20	6.7	11.1	5.5	3.8	2.1	7.5	0.5	1.8	-0.7
1QFY21	6.6	9.9	1.7	4.9	-2.3	3.4	0.0	-16.5	-1.0
Apr-20	7.2*	11.7	2.9	4.7	-1.6	4.4	0.2	-12.6	-0.8
May-20	6.3*	9.2	1.6	4.8	-3.4	2.7	-0.3	-23.1	-1.3
Jun-20	6.2	8.7	0.5	5.2	-1.8	3.1	0.1	-13.6	-0.8
Jul-20	6.9	9.6	2.8	5.5	-0.6	4.3	0.5	-9.8	-0.3

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

* The CPI for April and May 2020 has been imputed

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

Fiscal year/month	Gross tax revenue	Corporate tax	Income tax	Direct taxes*	Indirect taxes**	Fiscal deficit % of GDP	Revenue deficit
							% of GDP
FY17 (CGA)	17.9	6.7	21.5	12.3	21.6	3.5	2.1
FY 18 (CGA)	11.8	17.8	19.9	18.6	6.0	3.5	2.6
FY 19 (CGA)	8.4	16.2	13.1	14.9	2.9	3.4	2.4
FY20 (RE over FY 19 actuals)	4.0	-8.0	18.3	2.9	5.3	3.8	2.4
FY 21 (BE over FY 20 RE)	12.0	11.5	14.0	12.7	11.1	3.5	2.7
Cumulated growth (% , y-o-y)						% of budgeted target	
Nov-19	0.8	-0.9	7.0	2.7	-0.9	114.8	128.4
Dec-19	-2.9	-13.6	5.1	-5.8	0.1	121.5#	141.6#
Jan-20	-2.0	-13.5	6.9	-4.9	0.9	128.5#	150.2#
Feb-20	-0.8	-12.0	7.7	-3.5	1.6	135.2#	156.7#
Mar-20	-3.4	-16.1	4.0	-7.8	1.7	122.0#	133.6#
Apr-20	-44.3	57.7	-32.1	-10.8	-69.9	35.1	41.3
May-20	-41.2	1408.1	-41.0	-14.6	-52.5	58.6	67.6
Jun-20	-32.6	-23.3	-35.9	-30.6	-34.5	83.2	94.8

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

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

#: as % of revised targets for FY20.

Fiscal year/month	CGST	UTGST	IGST	GST compensation cess	Total GST (center)
FY 2020 (RE)	5,14,000	-	-	98,327	6,12,327
FY 2021 (BE)	5,80,000	-	-	1,10,500	6,90,500
Monthly tax collection (INR crore)					
Nov-19	43,654	197	247	7,119	51,217
Dec-19	40,472	170	-1,842	7,913	46,713
Jan-20	43,782	157	2,128	8,359	54,426
Feb-20	41,291	159	553	8,604	50,607
Mar-20	40,159	447	2,373	8,089	51,068
Apr-20	5,934	34	9,749	990	16,707
May-20	18,961	107	9,643	6,020	34,731
Jun-20	30,152	154	9,672	7,472	47,450

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
Sep-19	5.40	FY17	7.9	11.6	35.6	7.6	FY17	3.1	10.1	7.03	370.0
Oct-19	5.15	FY18	7.5	7.5	30.3	22.1	FY18	21.8	9.2	7.05	424.4
Nov-19	5.15	FY19	13.7	8.9	30.7	-0.6	FY19	13.6	10.5	7.68	411.9
Dec-19	5.15	FY20	9.4	9.9	42.8	-0.1	FY20	11.2	8.9	6.80	475.6
Jan-20	5.15	2QFY20	10.4	9.9	7.9	2.5	2QFY20	10.8	9.6	6.68	433.6
Feb-20	5.15	3QFY20	8.0	10.0	10.0	7.8	3QFY20	12.5	10.4	6.68	457.5
Mar-20	4.40	4QFY20	7.1	9.6	10.7	-15.3	4QFY20	11.2	8.9	6.62	475.6
Apr-20	4.40	1QFY21	6.4	10.5	--	--	1QFY21	17.7	12.3	6.15	506.8
May-20	4.00	Mar-20	6.1	7.9	2.5	-16.2	Apr-20	12.8	10.8	6.68	479.5
Jun-20	4.00	Apr-20	6.8	9.9	2.4	0.1	May-20	15.3	11.7	5.92	493.5
Jul-20	4.00	May-20	6.2	10.6	2.0	-0.7	Jun-20	17.7	12.3	5.86	506.8
Aug-20	4.00	Jun-20	6.2	11.0	--	--	Jul-20	18.4	12.4	5.81	534.6

Source: Database on Indian Economy - RBI

Table A5: external trade and global growth

External trade indicators (annual, quarterly and monthly growth rates)							Global growth (annual)			
Fiscal year/ quarter/ month	Exports	Imports	Trade balance	Ex. rate (avg.)	Crude prices (avg.)	Coal prices (avg.)	Calendar year	World GDP	Adv. econ.	Emer. econ.
	% change y-o-y		US\$ billion	INR/US \$	US\$/bbl.	US\$/mt		% change y-o-y		
FY17	5.1	0.9	-108.2	67.1	47.9	73.0	2010	5.4	3.1	7.4
FY18	10.6	20.9	-159.0	64.5	55.7	90.8	2011	4.3	1.7	6.4
FY19	8.6	10.6	-182.3	69.9	67.3	100.4	2012	3.5	1.2	5.3
FY20	-4.9	-8.9	-152.9	70.9	58.5	70.4	2013	3.5	1.4	5.1
2QFY20	-3.6	-12.6	-37.7	70.4	59.7	65.2	2014	3.6	2.1	4.7
3QFY20	-1.1	-12.7	-34.4	71.2	60.3	69.9	2015	3.4	2.3	4.3
4QFY20	-12.8	-9.8	-34.8	72.4	49.1	72.3	2016	3.4	1.7	4.6
1QFY21	-36.7	-52.4	-9.1	75.9	30.3	55.7	2017	3.8	2.5	4.8
Apr-20	-60.3	-58.6	-6.8	76.2	21.0	57.6	2018	3.6	2.2	4.5
May-20	-36.5	-51.0	-3.1	75.7	30.4	55.0	2019	2.9	1.7	3.7
Jun-20	-12.4	-47.6	0.8	75.7	39.5	54.5	2020*	-4.9	-8.0	-3.0
Jul-20	-10.2	-28.4	-4.8	75.1	42.1	54.1	2021*	5.4	4.8	5.9

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

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

Fiscal year/quarter	Output: Major sectors									IPD inflation
	GVA	Agr.	Ming.	Mfg.	Elec.	Cons.	Trans.	Fin.	Publ.	GVA
FY17 (3rd RE)	8.0	6.8	9.8	7.9	10.0	5.9	7.7	8.6	9.3	2.9
FY18 (2nd RE)	6.6	5.9	4.9	6.6	11.2	5.0	7.6	4.7	9.9	4.2
FY19 (1st RE)	6.0	2.4	-5.8	5.7	8.2	6.1	7.7	6.8	9.4	4.2
FY20 (PE) [§]	3.9	4.0	3.1	0.0	4.1	1.3	3.6	4.6	10.0	3.0
4QFY18	7.6	7.1	3.3	10.1	11.8	13.7	6.3	4.4	8.3	4.0
1QFY19	6.9	3.8	-7.3	10.7	7.9	6.4	8.5	6.0	8.8	4.6
2QFY19	6.1	2.5	-7.0	5.6	9.9	5.2	7.8	6.5	8.9	4.7
3QFY19	5.6	2.0	-4.4	5.2	9.5	6.6	7.8	6.5	8.1	3.8
4QFY19	5.6	1.6	-4.8	2.1	5.5	6.0	6.9	8.7	11.6	3.7
1QFY20	4.8	3.0	4.7	3.0	8.8	5.2	3.5	6.0	7.7	3.1
2QFY20	4.3	3.5	-1.1	-0.6	3.9	2.6	4.1	6.0	10.9	1.8
3QFY20	3.5	3.6	2.2	-0.8	-0.7	0.0	4.3	3.3	10.9	3.4
4QFY20	3.0	5.9	5.2	-1.4	4.5	-2.2	2.6	2.4	10.1	3.7

Source: National Accounts Statistics, MoSPI

[§] Growth numbers for FY20 are based on the provisional estimates of NAS released by MoSPI on 29 May 2020 over the first revised estimates (RE) of NAS for FY19 released by MoSPI on 31 January 2020.

Fiscal year/quarter	Expenditure components						IPD inflation
	GDP	PFCE	GFCE	GFCF	EX	IM	GDP
FY17 (3rd RE)	8.3	8.1	6.1	8.5	5.0	4.4	3.2
FY18 (2nd RE)	7.0	7.0	11.8	7.2	4.6	17.4	3.8
FY19 (1st RE)	6.1	7.2	10.1	9.8	12.3	8.6	4.6
FY20 (PE) [§]	4.2	5.3	11.8	-2.8	-3.6	-6.8	2.9
4QFY18	8.2	8.1	8.6	13.6	5.1	23.6	3.0
1QFY19	7.1	6.7	8.5	12.9	9.5	5.9	6.0
2QFY19	6.2	8.8	10.8	11.5	12.5	18.7	4.9
3QFY19	5.6	7.0	7.0	11.4	15.8	10.0	5.5
4QFY19	5.7	6.2	14.4	4.4	11.6	0.8	2.1
1QFY20	5.2	5.5	6.2	4.6	3.2	2.1	2.7
2QFY20	4.4	6.4	14.2	-3.9	-2.2	-9.4	1.4
3QFY20	4.1	6.6	13.4	-5.2	-6.1	-12.4	3.2
4QFY20	3.1	2.7	13.6	-6.5	-8.5	-7.0	4.3

Source: National Accounts Statistics, MoSPI

[§] Growth numbers for FY20 are based on the provisional estimates of NAS released by MoSPI on 29 May 2020 over the first revised estimates (RE) of NAS for FY19 released by MoSPI on 31 January 2020.

List of abbreviations

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

43	IIP	Index of Industrial Production
44	IMF	International Monetary Fund
45	IMI	Index of Macro Imbalance
46	IMP	imports
47	INR	Indian Rupee
48	IPD	implicit price deflator
49	J&K	Jammu and Kashmir
50	MCLR	marginal cost of funds-based lending rate
51	Ming.	mining and quarrying
52	Mfg.	manufacturing
53	m-o-m	month-on-month
54	Mt	metric ton
55	MoSPI	Ministry of Statistics and Programme Implementation
56	MPC	Monetary Policy Committee
57	NEXP	net exports (exports minus imports of goods and services)
58	NPA	non-performing assets
59	NCLT	National Company Law Tribunal
60	OECD	Organization for Economic Co-operation and Development
61	OPEC	Organization of the Petroleum Exporting Countries
62	PFCE	private final consumption expenditure
63	PIT	personal income tax
64	PMI	Purchasing Managers' Index (reference value = 50)
65	PoL	Petroleum oil and lubricants
66	PSBR	public sector borrowing requirement
67	RE	revised estimates
68	PSU	public sector undertaking
69	RBI	Reserve Bank of India
70	SAED	special additional excise duty
71	SOTR	states' own tax revenues
72	SLR	Statutory Liquidity Ratio
73	Trans.	trade, hotels, transport, communication and services related to broadcasting
74	US\$	US Dollar
75	UTGST	Union Territory Goods and Services Tax
76	UT	union territory
77	WALR	weighted average lending rate
78	WPI	Wholesale Price Index
79	y-o-y	year-on-year
80	1HFY20	first half of fiscal year 2019-20, i.e., April 2019-September 2019



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