Economy Watch

Monitoring India's macro-fiscal performance

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EY

Building a better working world

Contents

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Highlights

1. Real GDP contracted to a historic low of (-)23.9% in 1QFY21 as COVID-19 induced nationwide lockdown severely impacted economic activities.

2. IIP contracted for the fifth consecutive month, but at a slower pace of (-)10.4% in July 2020 as compared to (-)15.8% in June 2020.

3. PMI manufacturing recovered to 52.0 in August 2020 while PMI services at 41.8, continued to contract during the month.

4. At 6.7% in August 2020, CPI inflation breached the upper tolerance limit of the RBI's inflation target range for the fifth successive month.

5. Center's capital expenditure grew by 3.9% and revenue expenditure by 12.2% during April-July FY21.

6. Center's gross taxes contracted by (-)29.5% during April-July FY21 as compared to a growth of 6.6% in the corresponding period of FY20.

7. Net FDI inflows increased to a four-month high of US$3.3 billion in July 2020 as compared to a net outflow of US$0.8 billion in June 2020.

8. Merchandise exports and imports contracted by (-)12.7% and (-)26.0%, respectively, in August 2020 reflecting a continuing demand slowdown.

9. The OECD projected a global contraction of (-)4.5% in 2020. India's real GDP is forecasted to contract sharply by (-)10.2% in FY21.

Foreword

India's growth challenges and fiscal constraints

The 1QFY21 GDP growth numbers highlight an extremely challenging outlook for the Indian economy with only one sector, namely, agriculture, showing positive growth on the output side, and only one demand segment, namely, government final consumption expenditure (GFCE), showing positive growth. The contractionary components have overwhelmed the overall performance to a negative GVA growth of (-)22.8% and a negative GDP growth of (-)23.9%. With nominal GDP also showing a negative growth of (-)22.6% in 1QFY21, central and state governments' tax revenues are also likely to contract in FY21. Data from CGA indicate that Center's gross tax revenues (GTR) during the first four months of FY21 have contracted by (-)29.5%. The contraction in the output sector called 'public administration, defence and other services' at (-)10.3% in 1QFY21 has come as a surprise since this is the sector where policy stimulus should have been reflected. This sector reflects both capital and revenue expenditure of the central and state governments as also expenditures of the public sector enterprises (PSEs). Primary expenditure of the central government in the first three months of the fiscal year showed a growth of 13%. Data compiled from CAG with respect to 19 states show a contraction of (-)1.0% in the primary expenditure of states during this period. While data on expenditure of PSEs is not directly available, the contraction of (-)47.5% in gross capital formation as given by the CSO for 1QFY21 is indicative of its contractionary momentum. Thus, it is weakness of fiscal stimulus, particularly the expenditures of the revenue-constrained state governments and the lockdown affected PSEs, which led to the contraction of the largely policy-related sector of public administration et. al.

With India's real GDP contracting sharply in 1QFY21, there is a strong likelihood that the fiscal year, as a whole, may also end up showing a significant contraction. Numerous rating agencies and multilateral organizations have forecasted India's FY21 GDP growth in the range of (-)5.8% (the RBI's Professional Forecasters Survey) to (-)14.8% (Goldman Sachs) (*see In-Focus of this issue for details*). The OECD in its September 2020 Interim Economic Outlook has projected a contraction of (-)10.2% in FY21 for India. These annual projections also indicate the strong likelihood of even the nominal GDP showing a contraction in FY21.

The latest data released by the MoSPI indicates a CPI inflation rate of 6.7% for August 2020. In fact, the average CPI inflation during the first five months of FY21 is estimated at 6.6%. Given the injection of periodic liquidity into the system and the inflation trends, the year as a whole may show a CPI inflation of close to 7%. Since deflator-based inflation tends to be lower than CPI inflation, it may be about 5% or less. In fact, in 1QFY21, the GDP based deflator was only 1.8%. If we take OECD's real GDP growth projection at (-)10.2% and deflator-based inflation of about 5%, the implied contraction in nominal GDP is about (-)5.0%. This has significant adverse implications for the growth prospects of the central and state tax revenues, which may both contract in FY21. In 1QFY21, center's GTR contracted by (-)32.6% and CAG-based data pertaining to 19 states show a contraction of (-)45.0% in their own tax revenues.

This implies a buoyancy of about 1.65 in the combined tax revenues of the central and state governments in 1QFY21. For the year as a whole, there is thus a strong likelihood of a contraction in the combined tax revenues of center and states by (-)8.0% to (-)10.0%.

These fiscal trends indicate that the only route through which fiscal stimulus can be injected is augmentation of fiscal deficit. States have been allowed an increase in their aggregate fiscal deficit from 3% to 5% of GDP. In fact, the Ministry of Finance's notification on 29 August 2020 relating to *'Borrowing options to meet the GST compensation requirement for 2020-21'* highlighted that the state governments have been given two options for making up for the estimated shortfall through additional borrowing. However, this additional borrowing in both the options is to be considered within the 5% limit notified under the earlier incentive-linked borrowing enhancement program for the states. The earlier borrowing program provided that up to 1% of GSDP, divided into four parts of 0.25% points each, would be linked to the four conditions relating to (a) implementation of '*One Nation One Ration card*' system, (b) implementation of district level and licensing reforms for ease of doing business, (c) power sector reforms, and (d) reforms for strengthening local bodies. While this 1% conditional borrowing continues to remain in force, the balance of 1% of GSDP can now be availed of as unconditional borrowing, as compared to 0.5% of GSDP as per the earlier borrowing program. This unconditional borrowing of 1% of GSDP includes borrowing under either of the two borrowing options for GST compensation. Thus, 5% of GDP is the upper limit of borrowing by the state governments*.

As per the center's already announced borrowing program (8 May 2020), the targeted borrowing amounts to INR12,00,000 crores. This would be about 5.9% of GDP if we keep nominal GDP at the FY20 level, implying a nominal growth of 0% in FY21. If the year ends in a contraction in nominal GDP, the fiscal deficit to GDP ratio would be higher.

The Ministry of Finance has recently brought in supplementary demand for grants for 2020-21 amounting to INR2,35,853 crores, that is, about 1.16% of estimated FY21 nominal GDP. A substantive part of this amount pertains to an already-announced stimulus package with some additionality. The main items include grants-in-aid for the states, direct benefit transfers to women account holders under the *Jan Dhan Yojana*, allocations under MNREGA, and for recapitalization of PSUs. These expenditure commitments may lead to additional borrowing by the center which may take its fiscal deficit to 7.5% of the estimated FY21 GDP. Any additional stimulus will call for a further increase in the center's borrowing. A combined borrowing by center and states of 12.5% of GDP or above may require a substantive portion of the borrowing being monetized by the RBI directly or indirectly, thereby increasing pressure on inflation.

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* Option 2 has two sub-options, (a) and (b). In case all states opt for Option 2 (a), there is a theoretical possibility of a spillover which can take the aggregate state fiscal deficit to above 5% of GDP.

1. Growth: real GDP contracted by (-)23.9% in 1QFY21

A. Real GDP contracted sharply by (-)23.9% in 1QFY21

- As per data released by the Ministry of Statistics and Programme Implementation (MoSPI) on 31 August 2020, real GDP contracted to a historic low of (-)23.9% in 1QFY21 (as per 2011-12 base series) as COVID-19-induced nationwide lockdown severely impacted economic activities.
- On the demand side, two major components, namely, private final consumption expenditure (PFCE) and gross fixed capital formation (GFCF) accounting for about 60% and 27% of GDP[1], respectively, contracted sharply. While PFCE contracted by (-)26.7%, contraction in GFCF was at (-)47.1% in 1QFY21.
- Only government final consumption expenditure (GFCE) posted a strong growth of 16.4% in 1QFY21, increasing from 13.6% in 4QFY20.
- Both exports and imports contracted in 1QFY21. The contraction in imports was sharper at (-)40.4% as compared to that in exports at (-)19.8% (**Table 1**).
- On the output side, real GVA contracted by (-)22.8% in 1QFY21 as compared to a low growth of 3.0% in 4QFY20.
- Except for agriculture, all the remaining GVA sectors (accounting for about 82.0% of the overall output in nominal terms) witnessed a contraction in 1QFY21.

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

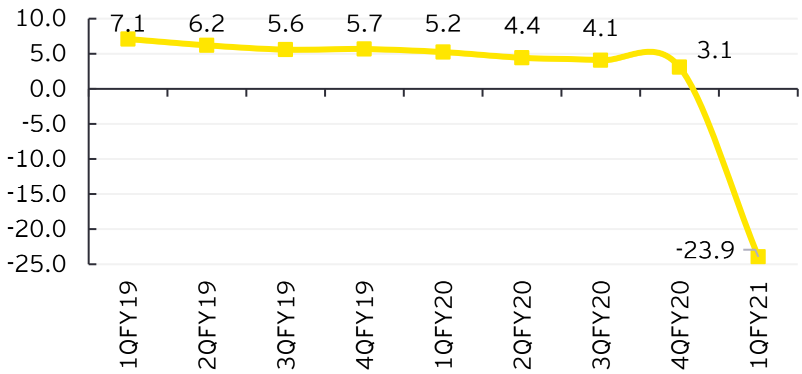


Table 1: Real GDP and GVA growth (%)

Agg. demand	1Q FY19	2Q FY19	3Q FY19	4Q FY19	1Q FY20	2Q FY20	3Q FY20	4Q FY20	1Q FY21
PFCE	6.7	8.8	7.0	6.2	5.5	6.4	6.6	2.7	-26.7
GFCE	8.5	10.8	7.0	14.4	6.2	14.2	13.4	13.6	16.4
GFCF	12.9	11.5	11.4	4.4	4.6	-3.9	-5.2	-6.5	-47.1
EXP	9.5	12.5	15.8	11.6	3.2	-2.2	-6.1	-8.5	-19.8
IMP	5.9	18.7	10.0	0.8	2.1	-9.4	-12.4	-7.0	-40.4
GDP	**7.1**	**6.2**	**5.6**	**5.7**	**5.2**	**4.4**	**4.1**	**3.1**	**-23.9**
Output: major sectors									
Agr.	3.8	2.5	2.0	1.6	3.0	3.5	3.6	5.9	3.4
Ming.	-7.3	-7.0	-4.4	-4.8	4.7	-1.1	2.2	5.2	-23.3
Mfg.	10.7	5.6	5.2	2.1	3.0	-0.6	-0.8	-1.4	-39.3
Elec.	7.9	9.9	9.5	5.5	8.8	3.9	-0.7	4.5	-7.0
Cons.	6.4	5.2	6.6	6.0	5.2	2.6	0.0	-2.2	-50.3
Trans.	8.5	7.8	7.8	6.9	3.5	4.1	4.3	2.6	-47.0
Fin.	6.0	6.5	6.5	8.7	6.0	6.0	3.3	2.4	-5.3
Publ.	8.8	8.9	8.1	11.6	7.7	10.9	10.9	10.1	-10.3
GVA	**6.9**	**6.1**	**5.6**	**5.6**	**4.8**	**4.3**	**3.5**	**3.0**	**-22.8**

Source: MoSPI, GoI

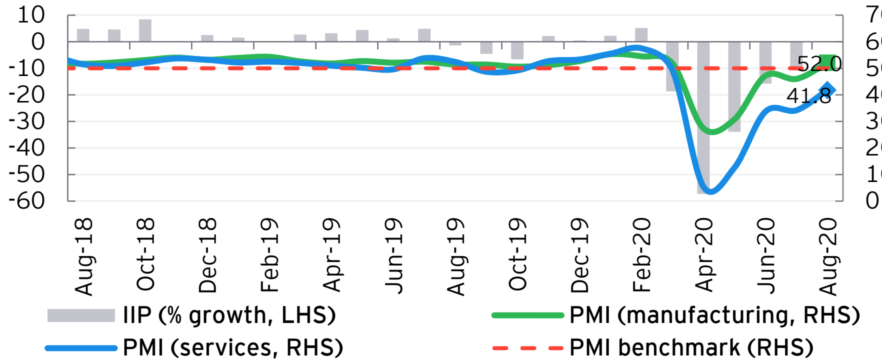
- Sectors that witnessed severe contraction in 1QFY21 include construction which declined by (-)50.3%, followed by trade, hotels, transport, communication and services related to broadcasting at (-)47.0% and manufacturing sector at (-)39.3%.
- GVA of both public administration, defence and other services, and financial, real estate and professional services witnessed a contraction of (-)10.3% and (-)5.3%, respectively in 1QFY21, their first-ever contraction in the 2011-12 base quarterly GVA series.
- Agriculture was the only sector to show a growth of 3.4% in 1QFY21 although it was lower than 5.9% in 4QFY20.
- Nominal GDP also contracted by (-)22.6% in 1QFY21 as compared to a growth of 7.5% in 4QFY20.

[1] Share in nominal GDP in FY20

B. IIP: contracted at a slower pace of (-)10.4% in July 2020

- As per the quick estimates of IIP for July 2020 released by the MoSPI on 11 September 2020[2], IIP contracted for the fifth consecutive month, but at a slower pace of (-)10.4% in July 2020 as compared to (-)15.8% (revised) in June 2020[3] (**Chart 2**).
- Output of all the three sub-sectors continued to contract in July 2020 but the contraction eased as compared to that in the previous three months. Output of manufacturing and mining sectors declined by (-)11.1% and (-)13.0%, respectively, in July 2020 as compared to (-)16.0% and (-)19.6%, respectively, in June 2020. Contraction in the output of electricity was the lowest at (-)2.5% in July 2020 as compared to (-)10.0% in June 2020 (Table A1 in data appendix).
- Contraction in the output of capital goods and consumer durables was also lower at (-)22.8% and (-)23.6%, respectively, in July 2020 as compared to (-)37.4% and (-)34.3%, respectively, in June 2020. Capital goods output contracted for the 19th consecutive month reflecting sustained weakness in investment demand. Output of consumer non-durables grew by 6.7% in July 2020 as compared to 14.3% in June 2020.
- Output of eight core infrastructure industries (core IIP) contracted for the fifth consecutive month by (-)9.6% in July 2020. However, the pace of contraction was lower than that in the previous three months. Output of seven out of eight sub-industries continued to decline in July 2020 with the output of steel ((-)16.4%), petroleum refinery products ((-)13.9%), cement ((-)13.5%) and natural gas ((-)10.2%) contracting in double-digits. Contraction in the output of coal ((-)5.7%), crude oil ((-)4.9%) and electricity ((-)2.3%) was relatively lower.

Chart 2: IIP growth and PMI



IIP declined by (-)10.4% in July 2020, its lowest pace of contraction since March 2020.

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

C. PMI signaled recovery in manufacturing but a continued contraction in services in August 2020

- After four months of contraction, headline manufacturing PMI (seasonally adjusted (sa)) recovered to 52.0 in August 2020, rising from 46.0 in July 2020 (**Chart 2**). In August 2020, new orders and output expanded at the fastest pace since February 2020 despite job losses continuing for the fifth consecutive month.
- PMI services at 41.8 in August 2020, remained below the threshold of 50 for the sixth consecutive month, although increasing from 34.2 in July 2020.
- Reflecting a continued contraction in PMI services, the composite PMI Output Index (sa) was at 46.0 in August 2020 as compared to 37.2 in July 2020.

After four months of contraction, PMI manufacturing recovered to 52.0 in August 2020. PMI services at 41.8, continued to contract during the month.

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

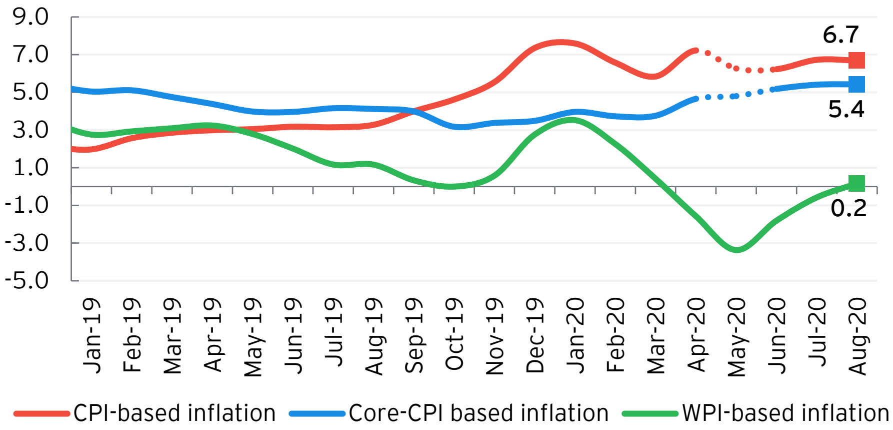
[3] It may not be appropriate to compare the IIP in the post-pandemic months with the IIP for the months preceding the COVID-19 pandemic. Quick estimates of IIP for July 2020 was based on a weighted response rate of only 87%. First revision to June 2020 IIP data is based on a revised response rate of 93% and the final revision for April 2020 indices is based on a response rate of 93%.

2. Inflation: CPI inflation remained elevated at 6.7% in August 2020

CPI inflation remained at an elevated level of 6.7% in August 2020, unchanged from July 2020 (revised), due to high inflation in food and higher taxation of fuel.

- Consumer food inflation remained high at 9.1% in August 2020 although marginally falling from 9.3% in July 2020 (revised) largely due to moderation in inflation in cereals and products to 5.9% from 6.9% over the same period.
- Inflation in fuel and light increased to a five-month high of 3.1% in August 2020 from 2.7% in July 2020.
- Core CPI inflation[4] remained elevated at a 26-month high of 5.4% in August 2020, mainly reflecting higher inflation in transportation services.
- Inflation in transportation and communication services increased to an all-time high (2012 series) of 11.0% in August 2020 as compared to 10.3% in July 2020 reflecting higher taxation of petrol and diesel.
- Housing-based inflation eased for the fourth successive month to 3.1% in August 2020 from 3.3% in July 2020.

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



At 6.7% in August 2020, CPI inflation breached the upper tolerance limit of the RBI's inflation target range for the fifth successive month.

Source: MoSPI, Office of the Economic Adviser, Government of India (GoI)
Note: CPI inflation and inflation in certain groups for the month of April 2020 and May 2020 have been imputed by the MoSPI[5]; Core CPI inflation has been estimated for April 2020 and May 2020 using this imputed data

WPI inflation turned positive at 0.2% in August 2020 after four successive months of contraction, due to an increase in inflation in minerals and manufactured basic metals.

- Inflation in minerals turned positive at 5.0% in August 2020 from (-)7.8% in July 2020 primarily due to higher inflation in copper.
- Inflation in basic manufactured metals turned positive at 1.8% in August 2020 after 15 successive months of contraction.
- Core WPI inflation turned positive at 0.6% in August 2020 after 12 consecutive months of contraction, due to rising prices of manufactured basic metals.
- The pace of contraction in crude prices moderated to (-)17.8% in August 2020 from (-)22.2% in July 2020.
- WPI-based food inflation marginally eased to 4.1% in August 2020 from 4.3% in July 2020.
- The contraction in fuel and power prices remained nearly constant at (-)9.7% in August 2020 as compared to (-)9.8% in July 2020.

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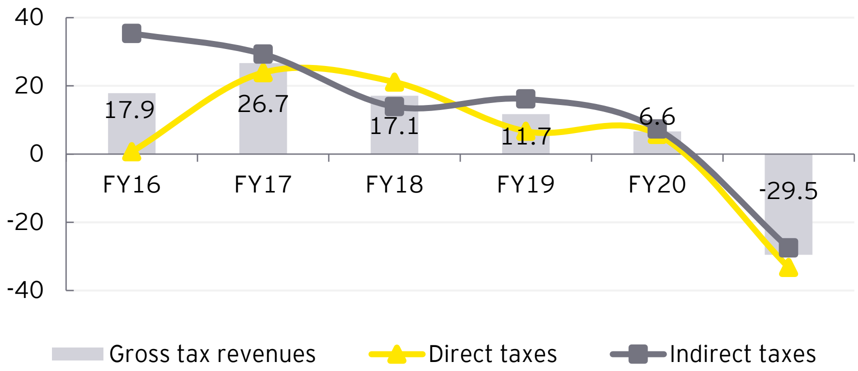
[4] Core CPI inflation is measured in different ways by different organizations/agencies. Here, it has been calculated by excluding food, and fuel and light from the overall index.
[5] http://www.mospi.gov.in/sites/default/files/press_release/CPI%20Technical%20Note%20on%20Imputation.pdf

3. Fiscal performance: center's fiscal deficit during Apr-Jul FY21 crossed 100% of the budgeted target

A. Tax and non-tax revenues

- As per the Comptroller General of Accounts (CGA)[6], gross central taxes during April-July FY21 contracted by (-)29.5% as compared to a growth of 6.6% during April-July FY20 (**Chart 4**). Both direct and indirect taxes contracted on a y-o-y basis during the first four months of FY21.
- As a proportion of the annual budgeted target, gross taxes during April-July FY21 stood at 15.7% as compared to 21.9% in April-July FY20.
- Direct tax revenues contracted by (-)33.2% during April-July FY21 as compared to a growth of 5.8% in the corresponding period of FY20.
- Corporate income tax (CIT) revenues contracted by (-)39.2% during April-July FY21 as compared to a growth of 5.5% in the corresponding period of FY20.
- There was a contraction of (-)29.1% in personal income tax (PIT) revenues during April-July FY21 as compared to a growth of 6.0% during the corresponding period of the previous year.
- Indirect taxes (comprising union excise duties, service tax, customs duty, CGST, UTGST, IGST[7] and GST compensation cess) showed a contraction of (-)27.5% during April-July FY21 as compared to a growth of 7.3% during April-July FY20.
- Amongst indirect taxes, only center's union excise duties showed a positive growth of 23.8% in the first four months of FY21 reflecting increased tax rates on petrol and diesel products by the central government.

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



As per the CGA, center's gross taxes contracted by (-)29.5% during April-July FY21 as compared to a growth of 6.6% in the corresponding period of FY20.

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

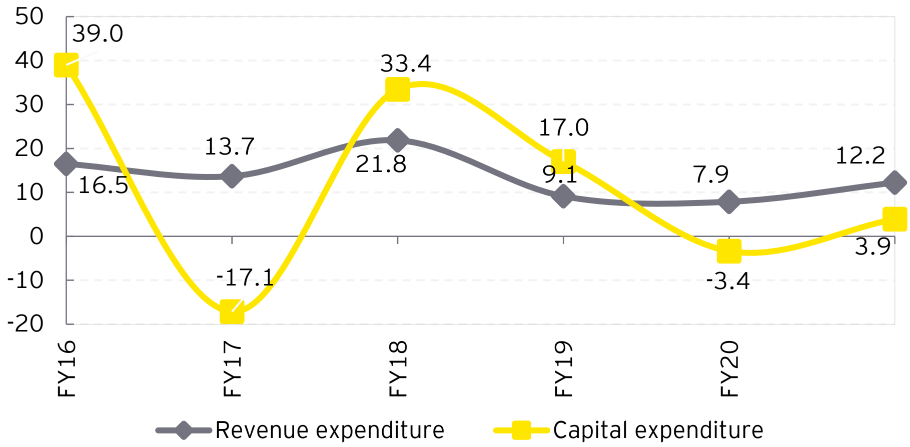
- Center's non-tax revenues showed a contraction of (-)43.9% during April-July FY21 as compared to a growth of 1.8% in the corresponding period of the previous year.
- As a proportion of the annual budgeted target, non-tax revenues during April-July FY21 stood at 6.4% as compared to 14.0% during April-July FY20.
- As per the Department of Disinvestment, disinvestment receipts stood at INR16, 687.63 crores as on 17 September 2020, that is, 7.9% of the annual budgeted target of INR2,10,000 crores.

[6] Monthly accounts for July 2020 released on 31 August 2020
[7] IGST revenues are subject to final settlement

B. Expenditures: revenue and capital

- Center's total expenditure during April-July FY21 grew by 11.3% as compared to 6.5% during the corresponding period of FY20.
- As a proportion of the annual budgeted target, center's total expenditure during April-July FY21 stood at 34.7% as compared to 34.0% during the corresponding period of FY20.
- Revenue expenditure grew by 12.2% during April-July FY21, higher than 7.9% during the corresponding period of FY20 (**Chart 5**).
- After showing a growth of 40.1% up to June 2020, center's capital expenditure growth fell to 3.9% during April-July FY21. In the corresponding period of FY20, there was a contraction of (-)3.4% in center's capital expenditure.

Chart 5: growth in central expenditures during April-July (y-o-y, in %)



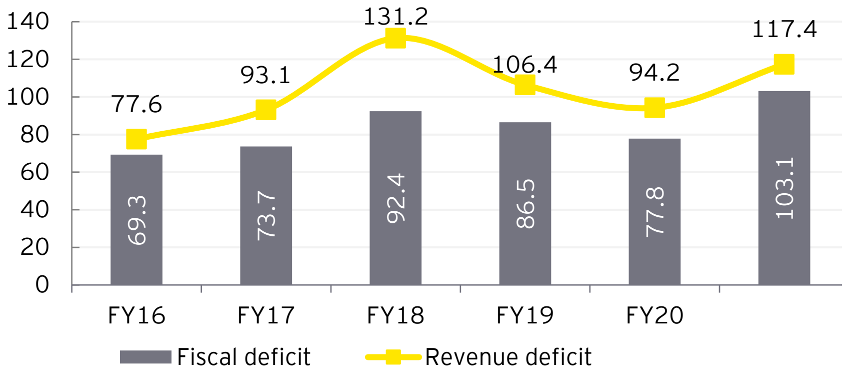
During April-July FY21, center's capital expenditure grew by 3.9% and revenue expenditure by 12.2%.

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

C. Fiscal imbalance

- Center's fiscal deficit during April-July FY21 stood at 103.1% of the annual budgeted target as compared to 77.8% during the corresponding period of FY20 (**Chart 6**).
- Center's revenue deficit during the first four months of FY21 stood at 117.4% of the annual budgeted target as compared to 94.2% in the corresponding period of FY20.

Chart 6: fiscal and revenue deficit during April-July as percentage of annual budgeted target



During April-July FY21, center's fiscal deficit stood at 103.1% of the annual budgeted target while the corresponding number for revenue deficit was 117.4%.

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

4. India in comparative perspective: the country shows recovery from peak contraction in April 2020

OECD's Composite Leading Indicators (CLIs): show slow recovery in August 2020 from peak contraction in April 2020 for most of the selected major economies

- For understanding short-term and medium-term trends in economic activity, the OECD has developed the CLI series, which provides early signs of turning points in the business cycle, which can be defined as fluctuations in the economic activity around its long-term trend.
- The GDP series is used as the reference for identification of turning points in the growth cycle for all countries, except for China, for which the OECD relies on the value added of industry at 1995 constant prices.
- The phases and patterns in CLIs are similar to those of the growth cycles but they anticipate turning points six to nine months before they occur. CLIs do not indicate the degree of growth in economic activity but only provides a strong signal of the '**phase**' a country is likely to be in its growth cycle in the near future.
- The CLI and the GDP series both have a long-term average of 100, and fluctuations around this represent **four phases** of the growth cycle, namely, (1) **Expansion:** series is above 100 and increasing, (2) **Downturn:** series is above 100 but decreasing, (3) **Slowdown:** series is below 100 and decreasing and (4) **Recovery:** series is below 100 but increasing.
- The components of CLIs are time series which show a leading relationship with the reference GDP series at turning points. Component series in CLIs generally include orders and inventory changes, financial market indicators such as share prices, business confidence surveys such as PMI, and in smaller open economies, data on key sectors and trends in key trading partners.

Table 2 CLIs: magnitudes and m-o-m and y-o-y changes (%)

Month	Germany	Japan	UK	US	Brazil	China	India	Russia
Index values								
Apr 20	91.8	98.3	89.0	92.6	93.3	94.9	87.1	91.0
May 20	93.6	97.8	90.5	94.1	95.2	97.1	93.2	93.0
Jun 20	98.1	97.8	95.2	95.8	99.0	97.6	95.8	97.8
Jul 20	99.1	98.5	98.9	97.2	99.6	98.2	96.9	98.6
Aug 20	99.4	98.9	99.3	97.6	100.4	98.8	97.1	98.7
Month-on-month changes (%)								
Apr 20	-5.09	-0.58	-8.22	-5.19	-7.38	1.45	-8.80	-7.14
May 20	1.97	-0.54	1.66	1.66	2.03	2.34	7.02	2.15
Jun 20	4.73	0.03	5.23	1.74	3.94	0.53	2.80	5.26
Jul 20	1.11	0.66	3.93	1.44	0.68	0.58	1.16	0.76
Aug 20	0.23	0.45	0.32	0.49	0.73	0.58	0.25	0.07
Year-on-year changes (%)								
Apr 20	-7.87	-1.90	-9.13	-6.82	-9.16	-4.54	-13.21	-9.33
May 20	-5.87	-2.35	-7.58	-5.18	-7.36	-2.31	-7.09	-7.39
Jun 20	-1.23	-2.24	-2.70	-3.44	-3.82	-1.76	-4.45	-2.50
Jul 20	0.02	-1.52	1.17	-1.98	-3.32	-1.13	-3.32	-1.73
Aug 20	0.34	-1.00	1.53	-1.45	-2.79	-0.45	-3.06	-1.63

Source (basic data): OECD

- For most major economies, CLIs witnessed an unprecedented collapse in April 2020 due to severe impact of COVID-19.
- For China, a crash in monthly CLIs occurred in February 2020 when the index value was at 85.4.
- After April 2020, CLIs for most economies recovered from the crisis low although, remaining below the long-term trend.
- In August 2020, CLIs increased at a slower place as reflected by the m-o-m changes. The OECD has assessed the growth outlook as '*moderating pace of growth*' for most economies, except Brazil and China.
- While Brazil showed a continuous strengthening of CLIs with its value returning to the long-term trend, China showed a stabilization in the pace of growth with m-o-m change in CLIs remaining unchanged at 0.58% in August 2020.
- For India, CLIs witnessed the sharpest y-o-y contraction at (-)13.21% in April 2020 amongst selected set of major economies. Indicative of a recovery, the pace of contraction eased in successive months and was at (-)3.06% in August 2020.

5. In focus: policy messages from India's 1QFY21 growth performance

Introduction

India's real GDP growth at (-)23.9%, although widely expected, signaled that the fiscal year as a whole may also end up showing a significant contraction. An analysis of the sectoral performance of output and segment-wise performance of the demand side may indicate priority areas where policymakers need to focus. The thrust of policy should now be to minimize the pandemic's damage to the Indian economy and also to address the pre-pandemic challenges to India's economic growth.

A sharp contraction in 1QFY21 was the outcome of the severe lockdown imposed during this period. Most analysts expected an outcome similar to the Central Statistical Organization's (CSO's) estimates. For example, the RBI's August 2020 Survey of Professional Forecasters had indicated a median growth forecast of (-)22.8% in 1QFY21. Similarly, ICRA and Care Ratings had forecasted a contraction of (-)25.0% and (-)20.0%, respectively, in 1QFY21.

Output performance: GVA sectors

The National Accounts Statistics (NAS) data on growth performance of the GVA sectors in 1QFY21 indicate that out of the eight sectors, construction was the worst performing sector. It contracted by (-)50.3% followed by trade, transport, storage and communication et. al. by (-)47.0%, and manufacturing by (-)39.3%. Together, these sectors accounted for a share of 44.6% in real GVA in FY20, just a little less than half of the total output. It comes therefore, as no surprise, that the overall output growth has been pulled down to just a little less than (-)23%. Gauging growth prospects in 2QFY21 from PMI data, we note that PMI manufacturing has crossed the benchmark level of 50 in August 2020 while PMI services at 41.8 remained well below the threshold.

Table 3: quarterly real GVA growth (%, y-o-y)

GVA sector	*4Q FY18*	*1Q FY19*	*2Q FY19*	*3Q FY19*	*4Q FY19*	*1Q FY20*	*2Q FY20*	*3Q FY20*	*4Q FY20*	*1Q FY21*	*Contr. (% pts.)*
Agr.	7.1	3.8	2.5	2.0	1.6	3.0	3.5	3.6	5.9	3.4	0.4
Ming.	3.3	-7.3	-7.0	-4.4	-4.8	4.7	-1.1	2.2	5.2	-23.3	-0.7
Mfg.	10.1	10.7	5.6	5.2	2.1	3.0	-0.6	-0.8	-1.4	-39.3	-6.9
Elec.	11.8	7.9	9.9	9.5	5.5	8.8	3.9	-0.7	4.5	-7.0	-0.2
Cons.	13.7	6.4	5.2	6.6	6.0	5.2	2.6	0.0	-2.2	-50.3	-4.0
Trans.	6.3	8.5	7.8	7.8	6.9	3.5	4.1	4.3	2.6	-47.0	-9.0
Fin.	4.4	6.0	6.5	6.5	8.7	6.0	6.0	3.3	2.4	-5.3	-1.3
Publ.	8.3	8.8	8.9	8.1	11.6	7.7	10.9	10.9	10.1	-10.3	-1.3
GVA	**7.6**	**6.9**	**6.1**	**5.6**	**5.6**	**4.8**	**4.3**	**3.5**	**3.0**	**-22.8**	**-22.8**

Source (basic data): CSO

From a policy perspective, the GVA sector that has considerable significance is public administration, defence and other services. In 1QFY21, this sector's growth at (-)10.3% has come as a surprise since this is the sector which should have reflected the direct impact of fiscal stimulus. Although some private services such as health and education are also included in this sector, a substantial part of this sector reflects the impact of government expenditure comprising of the central and state governments as well as public sector enterprises (PSEs). Had the stimulus initiatives been strong and effective enough, this sector may not have shown a contraction in 1QFY21.

Table 4 indicates the share of general government, and departmental and non-departmental enterprises in different GVA sectors. This data is available only in nominal terms. It is indicative of the impact that expenditures of the government and PSEs have on different output sectors. A relatively high and direct impact of government expenditure programs is reflected largely in three sectors namely, (1) public administration, defence and other services (65%), (2) electricity, gas, water supply et. al. (65%), and (3) mining and quarrying (53.2%). Any contraction in government expenditures, including expenditure by PSEs, may be felt directly on these sectors and to a lesser extent, on other sectors as well.

Table 4: nominal share of general government, departmental and non-departmental enterprises in GVA (%)

GVA sector	*FY12*	*FY13*	*FY14*	*FY15*	*FY16*	*FY17*	*FY18*	*FY19*
Agr.	2.8	2.9	S2.6	2.6	2.3	2.1	2.0	2.1
Ming.	62.7	59.8	58.2	55.4	55.8	52.0	52.4	53.2
Mfg.	9.4	8.4	8.0	6.8	6.7	7.7	7.7	7.5
Elec.	71.5	70.8	68.9	66.8	65.7	66.4	67.0	65.0
Cons.	7.6	7.7	7.9	8.2	8.8	9.3	9.9	9.7
Trans.	10.8	10.3	9.7	9.7	10.0	9.5	9.1	8.7
Fin.	16.6	15.6	15.4	14.4	13.8	12.6	12.1	12.0
Publ.	71.5	70.2	69.2	67.9	67.0	66.1	65.8	65.0
GVA	**20.6**	**19.9**	**19.4**	**18.9**	**18.9**	**18.6**	**18.8**	**18.9**

Source (basic data): MoSPI

Central government's fiscal data from the CGA (Table 5) indicate that there was a reduction in the growth of primary revenue expenditure in 1QFY21 which was at 9.7% as compared to an annual growth of 22% in FY20. Although center's capital expenditure grew sharply in 1QFY21 at 40.1%, it reflected a base effect since it had contracted in the corresponding quarter of the previous year. As soon as data of an additional month was considered, growth in the capital expenditure in the first four months of FY21 relative to the corresponding period in the previous year fell to 3.9%. Government's primary revenue expenditure is reflected in the GVA sector relating to public administration, defence and other services. A good part of government's capital expenditure is reflected in the GVA sector of construction. These trends indicate that rather than providing a net fiscal stimulus, the central and state governments together provided a net fiscal de-stimulus. It may be noted that the central government had frozen dearness allowance/dearness relief payments[8] and state governments either followed suit or even cut down on salary payments of employees.

Table 5: Growth in center's expenditure (%)

Period	*Capital expenditure*	*Primary revenue expenditure*	*Primary expenditure*	*Total expenditure*
FY20 over FY19	9.7	22.0	19.8	16.0
1QFY21 over 1QFY20	40.1	9.7	13.0	13.1
Apr-Jul FY21 over Apr-Jul FY20	3.9	13.4	12.0	11.3

Source (basic data): CGA

It is clear that in order to reverse the adverse growth trend in sectors such as public administration, defence and other services, and construction, a second round of stimulus is immediately called for. It needs to be ensured that the second stimulus provides a substantial net additionality over already budgeted expenditures for FY21.

We have compiled data for state government expenditures to consider whether in their case also, there has been a contraction in expenditure in 1QFY21. Based on the CAG's data which could be compiled for 19 states[9], it can be seen that there was a contraction of (-)1.0% and (-)42.6% in primary expenditure and capital expenditure, respectively, during 1QFY21. Thus, while center's expenditure grew at rates less than trend values, states' expenditures contracted. Since states have a relatively higher share of close to 67.3% in the combined primary expenditure[10], clearly states are relatively more responsible for the contraction seen in the GVA sector 'public administration, defence, and other services'.

[8] https://doe.gov.in/sites/default/files/Freezing%20of%20DA_DR%20%2823.04.2020%29_0.pdf
[9] These states are Andhra Pradesh, Chhattisgarh, Gujarat, Himachal Pradesh, Haryana, Jharkhand, Karnataka, Kerala, Madhya Pradesh, Meghalaya, Nagaland, Odisha, Rajasthan, Sikkim, Tamil Nadu, Tripura, Telangana, Uttarakhand and Uttar Pradesh.
[10] Pertains to FY18

Demand-side performance: growth in components of real GDP

Examining the growth performance from the demand side, it is clear that except for the government final consumption expenditure (GFCE) segment, which grew by 16.4%, all other demand segments contracted in 1QFY21. The segment that has the largest weight, namely, private final consumption expenditure (PFCE) has shown a sharp contraction of (-)26.7%. This sector is expected to transit into positive growth territory only when the overall economy picks up.

Investment as measured by gross capital formation (GCF) comprises of capital expenditure of the government including PSEs and the private sector. This segment showed a contraction of (-)47.5% in 1QFY21. Such a massive contraction in investment needs to be reversed primarily by the initial injection of stimulus-based investment through augmenting public sector capital expenditure. As far as the external sector is concerned, both exports and imports contracted but since the contraction in imports was much higher, there was a net positive contribution of net exports that is, exports minus imports. The message from the demand side is that for reversing the contractionary trend, the central and state governments and PSEs should substantially uplift their investment expenditures.

Table 6: quarterly real GDP growth (%, y-o-y)

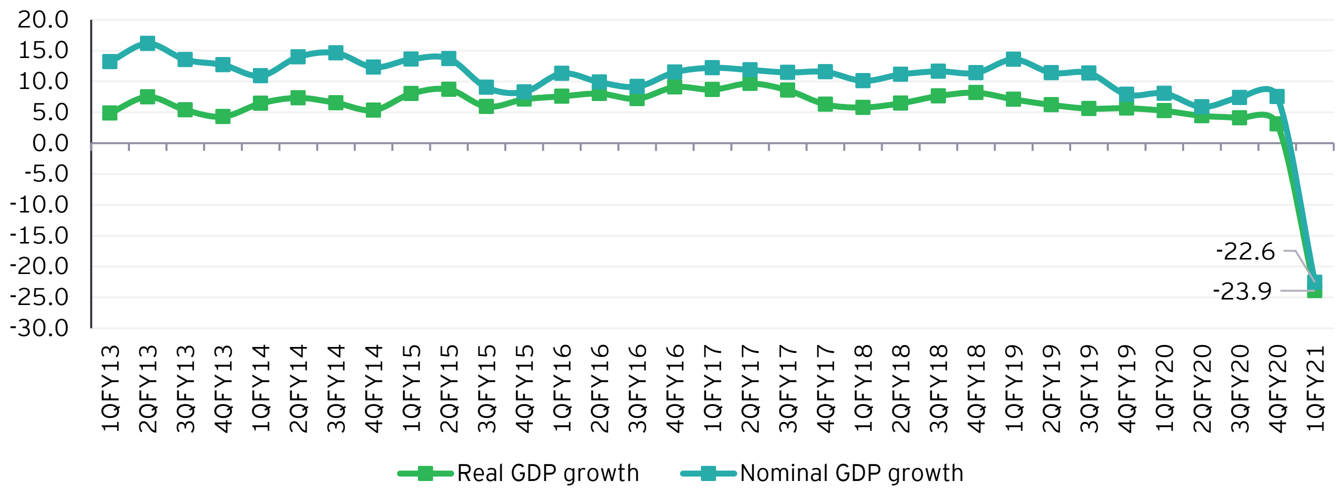
GDP component	*4Q FY18*	*1Q FY19*	*2Q FY19*	*3Q FY19*	*4Q FY19*	*1Q FY20*	*2Q FY20*	*3Q FY20*	*4Q FY20*	*1Q FY21*	*Contr. (% pts.)*
PFCE	8.1	6.7	8.8	7.0	6.2	5.5	6.4	6.6	2.7	-26.7	-15.0
GFCE	8.6	8.5	10.8	7.0	14.4	6.2	14.2	13.4	13.6	16.4	1.9
GCF *of which*	15.2	10.8	11.4	11.5	5.0	5.3	-2.9	-4.3	-5.8	-47.5	-16.8
GFCF	13.6	12.9	11.5	11.4	4.4	4.6	-3.9	-5.2	-6.5	-47.1	-15.1
Exports	5.1	9.5	12.5	15.8	11.6	3.2	-2.2	-6.1	-8.5	-19.8	-4.0
Imports	23.6	5.9	18.7	10.0	0.8	2.1	-9.4	-12.4	-7.0	-40.4	-9.4
GDP	8.2	7.1	6.2	5.6	5.7	5.2	4.4	4.1	3.1	-23.9	-23.9

Source (basic data): CSO
Note: GCF is calculated as the sum of GFCF, valuables and change in stocks
Contr. indicates contribution to overall real GDP growth in 1QFY21

Movement of real viz.-à-viz. nominal GDP growth rates

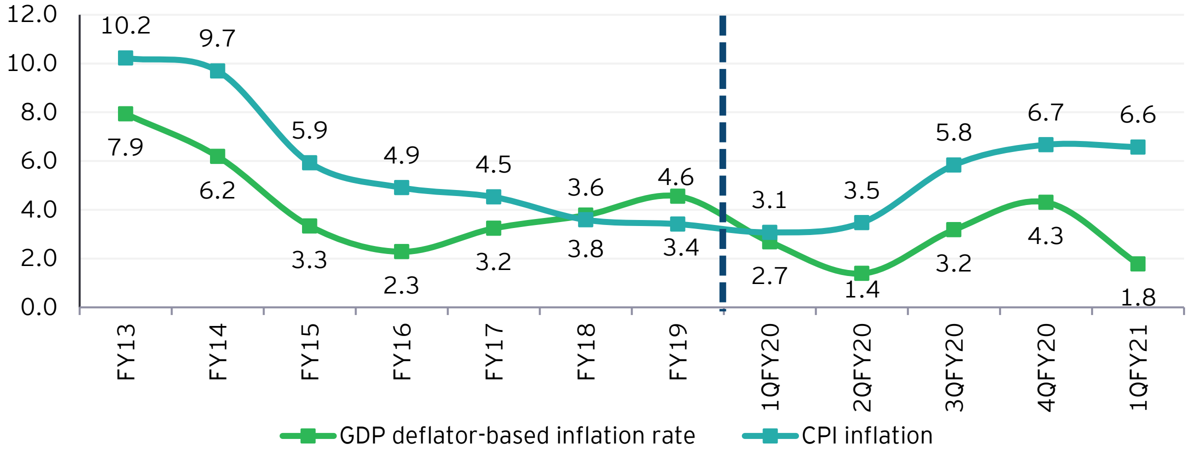
A particularly debilitating feature of the 1QFY21 growth performance is the sharp downturn even in the nominal growth rate. From a level of 7.5% in 4QFY20, the nominal growth rate has plummeted to (-)22.6% in 1QFY21. This explains why union government's gross tax revenues have contracted quite sharply. In 1QFY21, this contraction was at (-)32.6%, while in the first four months of FY21, it was at (-)29.5%. This contractionary trend continues from a contraction of (-)3.4% in FY20. The prospects are that FY21 as a whole would also end up showing a significant contraction in center's gross tax revenues. If this happens, center's gross tax revenues would have contracted for two years in succession for the first time in India's fiscal history since 1954-55.

Chart 7: real and nominal GDP growth



The following chart (Chart 8) shows that with the exception of FY19, the CPI inflation has been consistently higher than the GDP deflator-based inflation. This difference has increased in recent quarters and it has considerably widened in 1QFY21. If this trend continues, then the likelihood of a contraction in nominal GDP in FY21 would increase.

Chart 8: IPD-based inflation and CPI inflation

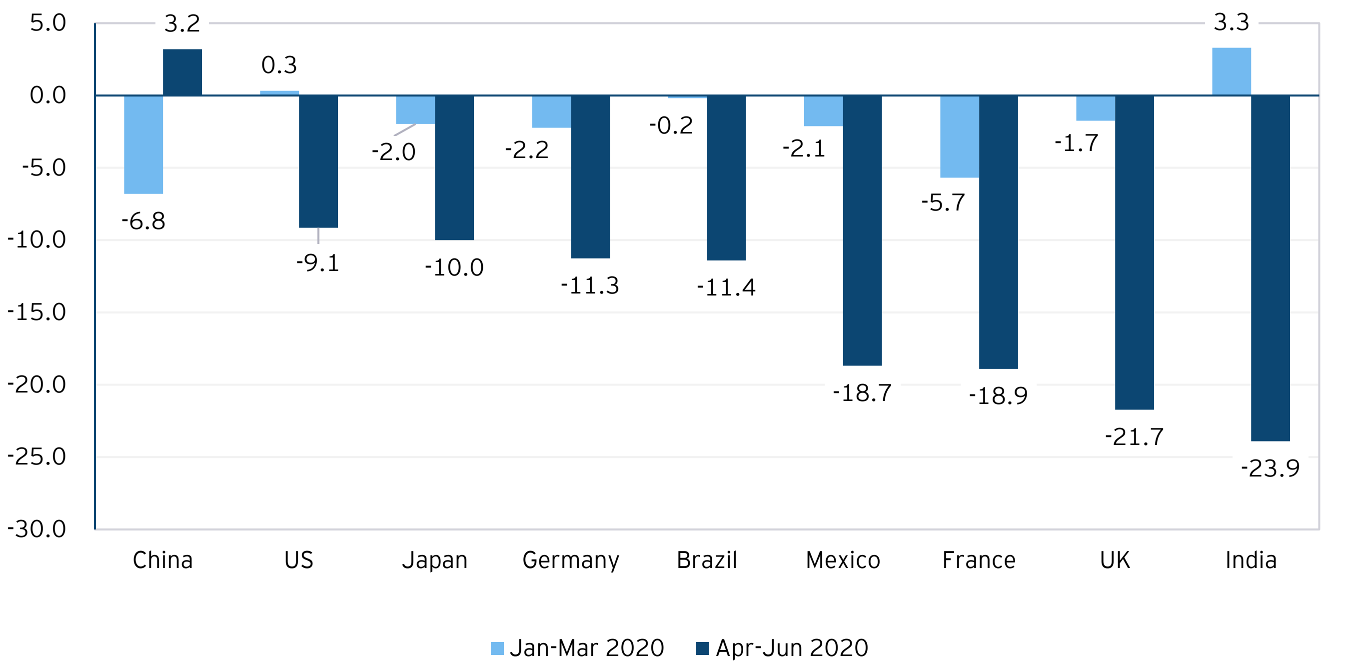


Source (basic data): CSO, RBI

India's growth in an international perspective

In a cross-country comparison of quarterly growth performance, Chart 9 shows a comparison between the periods January-March 2020 viz.-à-viz. April-June 2020. The countries covered here include China, the US, Japan, Germany, Brazil, Mexico, France, the UK and India. It is clear that some countries experienced the impact of COVID-19 relatively more in the January-March quarter of 2020 whereas India experienced the full economic impact of the pandemic only in the April-June quarter of 2020. As such, within the selected group of countries, India had the best performance with a positive growth of 3.3% in the January-March quarter 2020, but the worst growth performance at (-)23.9% in the April-June quarter of 2020.

Chart 9: Cross-country comparison of quarterly GDP growth



Source: OECD, https://in.reuters.com/article/china-economy-gdp-instant-view/chinas-q2-gdp-grows-3-2-beats-expectations-idINKCN24H0B5, https://www.bloomberg.com/news/articles/2020-09-01/brazil-economy-hits-bottom-with-worst-quarterly-plunge-on-record

Prospects of the full year (FY21) growth for India

For the full year FY21, India faces an uphill task in achieving a positive real GDP growth rate. Quite a number of rating agencies and multilateral organizations have forecasted India's full year FY21 growth, and in some cases, have also given the quarterly breakdown. None of the forecasters included here shows a positive real GDP growth. The best performance is reflected in the RBI's Professional Forecaster's Survey at (-)5.8%.

Table 7: Quarterly and annual real GDP growth forecast for FY21

#	Organization	2Q FY20	3Q FY20	4Q FY20	FY21	Previous estimate
1	RBI's survey*$	(-)5.0	0.4	2.9	**(-)5.8**	
2	Barclays	(-)8.0			**(-)6.0**	(-)6.0
3	ICRA				**(-)9.5**	(-)9.5
4	Care ratings				**(-)6.4 to (-)6.5**	(-)6.4 to (-)6.5
5	SBI Research**	(-)12.0 to (-)15.0	(-)5.0 to (-)10.0		**(-)10.9**	(-)6.8
6	India Ratings				**(-)11.8**	(-)5.3
7	Nomura				**(-)10.8**	(-)6.1
8	Deutsche Bank	(-)9.0	(-)1.5	2.5	**(-)8.0**	(-)6.2
9	Fitch***	(-)9.6	(-)4.8	(-)4.0	**(-)10.5**	(-)5.0
10	Goldman Sachs	(-)13.7	(-)9.8		**(-)14.8**	(-)11.8
11	OECD				**(-)10.2**	(-)3.7#
12	Moody's				**(-)11.5**	NA
13	ADB/CRISIL				**(-)9.0**	(-)4.0 (ADB)/(-)5.0 (CRISIL)
14	Credit Suisse				**(-)8.0**	NA
15	HSBC				**(-)7.2**	(-)7.2

Sources: EY's analysis
*median estimate of August 2020 RBI's Professional Forecaster's Survey, $forecasts before the 1QFY21 GDP data release by CSO
**https://www.ndtv.com/business/india-gdp-data-news-state-bank-of-india-sbi-lowers-2020-21-gdp-forecast-to-10-9-per-cent-from-6-8-2289687
***https://economictimes.indiatimes.com/news/economy/indicators/fitch-projects-indian-economy-to-contract-10-5-per-cent-in-current-fiscal/articleshow/77991273.cms
#single hit scenario of OECD's June 2020 Global Economic Outlook

In the quarterly forecasts, the turnaround to a positive real GDP growth is seen only in 4QFY21 as per Deutsche Bank while the RBI's Professional Forecasters Survey predicts a turnaround in 3QFY21.

The annual projections also indicate the strong likelihood of even the nominal GDP growth showing a contraction in FY21. If we take the OECD's real GDP growth projection for India at (-)10.2% and a deflator-based inflation of about 5%, the implied contraction in nominal GDP is about (-)5.0%. A contraction in nominal GDP growth also indicates a contraction in the tax revenues of the central and state governments. This highlights that the key instrument available with the central government for turning around the economy in the current and the next year is an exceptionally high fiscal deficit.

Finding resources for the next round of stimulus

In order to ensure that the Indian economy turns around in at least FY22, the combined fiscal deficit of the central and state governments may have to be exceptionally high both in FY21 and in FY22. A combined fiscal deficit of about 12.5% of GDP or above in FY21 comprising nearly 7.5% for the central government and 5% for the state governments seems quite likely. In FY22, these levels should be brought down but may be kept well above the Fiscal Responsibility and Budget Management (FRBM) limit of 6% of GDP. We may consider a combined fiscal deficit of 9% of GDP in FY22, keeping 5% for the central government and 4% for the state governments so as to smoothen the path of adjustment.

In the remaining part of FY21, a second stimulus is urgently needed but resources need to be identified in the context of a severe contraction in the union government's tax revenues. As per center's already-announced borrowing program (8 May 2020), the targeted borrowing amounts to INR12,00,000 crores. This would be about 5.9% of GDP if we keep the nominal GDP value at the FY20 level implying a nominal growth of 0% in FY21. If additional borrowing takes the center's fiscal deficit to 7.5% of GDP, this would imply additional borrowing of INR3,25,489 crores. Once the already-announced fiscal stimulus till mid-September 2020 and the additionality in the first supplementary grants is provided for, the total resources including borrowing available in FY21[11] may be able to finance an increase of about 6.6% in the center's total expenditures in FY21 over FY20 actuals. However, this would still be a contraction as compared to the center's FY21 budgeted total expenditure. This is based on a likely continuation of a small contraction in the center's tax and non-tax revenues over FY20 actuals. These magnitudes indicate that for providing a net fiscal stimulus, center's borrowings may have to increase above 7% of estimated FY21 GDP.

For the additional borrowing for both the central and state governments up to 12.5% of GDP or more, some of the important sources may include: (a) monetization of debt up to the extent of 2% of GDP, (b) monetization of government assets, particularly land, owned by both defence and non-defence establishments of the Government of India, and (c) borrowing from external sources including multilateral institutions, bilateral assistance, and the private sector abroad.

Conclusion

The central government may have to consider a revised adjustment path for fiscal deficit starting from FY21 where it may exceed 7% of GDP. But in spite of that, real and nominal GDP growth may show a contraction. It is also expected that the center's gross tax revenues may show a sharper contraction. The pressure on center's tax revenues may spill over in FY22 and the fiscal deficit may be reduced from the earlier level of 7% of GDP but still be kept higher than the FRBM limit, say, at 5% of GDP. Some part of this fiscal deficit may have to be monetized in FY21 as well as in FY22.

It may be relevant to consider modification in the center's FRBMA in the longer run. The combined debt-GDP ratio is estimated to rise sharply in the next few years. The World Bank has estimated that it may be close to 90% by the end of FY23[12]. The existing FRBMA target of combined debt-GDP ratio of 60% seems well out of reach. The combined debt-GDP ratio has remained virtually unchanged at nearly 70% over the period FY91 to FY20 with some inter-year variations. It may be worthwhile to fix it at 70% of GDP which is more realistic. This can be divided between the center and states at 40% and 30% of GDP, respectively. This leaves the center's target debt-GDP ratio unchanged but raises states' debt-GDP ratio from the current target level of 20% to 30%. These changes would require corresponding changes in the fiscal deficit targets.

Given the country's defence needs and the center's primary responsibility for handling structural and cyclical challenges to the economy, it may be useful to provide additional borrowing space to the central government. An annual fiscal deficit target of 4% of GDP for the central government may enable it to fulfil its responsibilities in the longer run. It can be shown that with a nominal growth rate of slightly above 11%, debt and fiscal deficit to GDP ratio combinations of 40% and 4% for the central government, and 30% and 3% for the state governments are consistent with sustainability conditions. There would also be a need for a new set of rules to provide for countercyclical variations in these fiscal deficit targets. These changes may be acceptable for both the central and state governments since the central government would have a higher fiscal deficit and state governments would have a higher debt relative to GDP in the proposed modification as compared to the existing FRBMA as amended in 2018.

[11]Total available resources for FY21 comprises net tax revenues, non-tax revenues, non-debt capital receipts and center's borrowing at 7.5% of estimated nominal GDP.
[12] 'India Development Update' (July 2020), World Bank

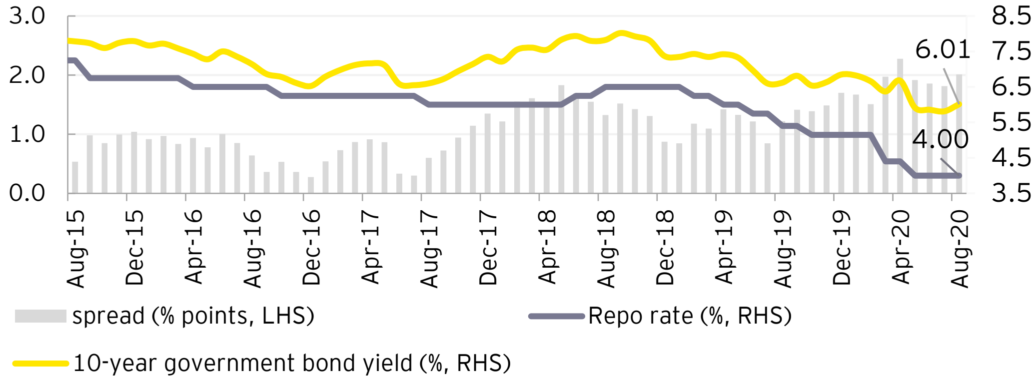
6. Money and finance: credit growth improved marginally to 6.5% in July 2020

A. Monetary sector

Monetary policy

- In the last monetary policy review held on 6 August 2020, all members of the Monetary Policy Committee (MPC) unanimously voted for retaining the policy repo rate at 4.0% and continuing with an accommodative policy stance. Given the uncertainty surrounding the inflation outlook and considering the extremely weak state of the economy in the midst of an unprecedented crisis, the MPC considered it prudent to pause the rate reduction while remaining watchful.
- The MPC noted that the recent trend of CPI inflation was influenced by (a) spike in food prices because of floods in the eastern India, (b) ongoing lockdown-related disruptions, (c) cost-push pressures in the form of high taxes on petroleum products, hikes in telecom charges, rising raw material costs reflected in upward revisions in steel prices, and rising gold prices.

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



Source: Database on Indian Economy, RBI

Growth in credit by scheduled commercial banks (SCBs) increased marginally to 6.5% in July 2020 from 6.2% in June 2020. Credit growth to industries however, fell to 0.8% in July 2020.

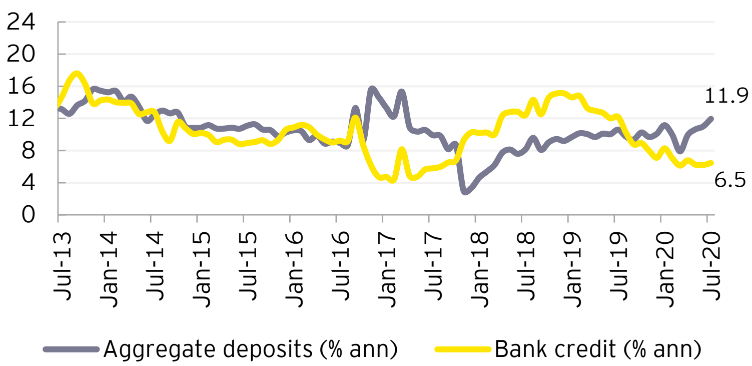
Money stock

- Growth in broad money stock (M3) fell to 12.6% in August 2020 from 13.2% (revised) in July 2020. This was due to slower growth in both time deposits and narrow money (M1). Growth in time deposits fell to 10.6% in August 2020 as compared to 11.4% in July 2020.
- Growth in narrow money (M1) was marginally low at 19.2% in August 2020 from 19.3% (revised) in July 2020. Even though currency in circulation continued to post a robust growth of 23.2% in August 2020 as compared to 22.2% in July 2020, growth in demand deposits fell to 12.3% in August 2020 from 14.5% in July 2020, leading to a marginally lower growth in M1.

Aggregate credit and deposits

- Growth in outstanding credit by SCBs increased marginally to 6.5% in July 2020 from 6.2% in June 2020 (**Chart 11**).
- Growth in non-food credit was at 6.7% in July 2020, similar to the level in June 2020.
- Growth in personal loans, a key driver of retail loans, increased to 11.2% in July 2020 from 10.5% in June 2020.
- Growth in credit to industry, however, fell to 0.8% in July 2020 from 2.2% in June 2020. Within the industrial sector, growth in credit to infrastructure and chemical

Chart 11: Growth in credit and deposits



Source: Database on Indian Economy, RBI

and chemical products fell to 1.9% and 1.3%, respectively, in July 2020 from 4.2% and 3.1%, respectively, in June 2020. Credit to iron and steel contracted by (-)3.4% in July 2020 as compared to a low growth of 0.1% in June 2020.

- Credit growth to the services sector fell to 10.1% in July 2020 from 10.7% in June 2020. Growth in credit to agriculture increased to 5.4% in July 2020 from 2.4% in June 2020.
- Growth in aggregate bank deposits improved to 11.9% in July 2020 from 11.0% in June 2020.

B. Financial sector

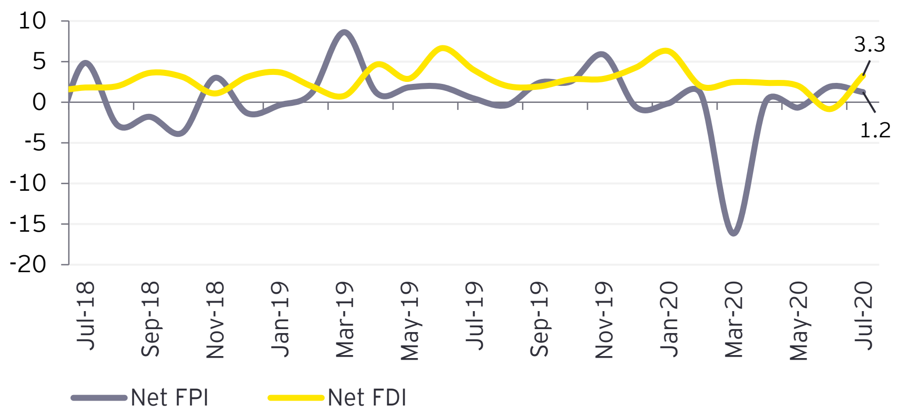
Interest rates

- As per the data released by the RBI on 11 September 2020, interest rates offered by commercial banks on term deposits with a maturity of more than one year were lowered for the fifth consecutive month to average 5.21% (ranging between 5.00% to 5.43%) in August 2020 from 5.30% (ranging between 5.10% and 5.50%) in July 2020.
- After remaining below the average mark of 6% for three consecutive months, the yield on 10-year government bond increased to average 6.01% in August 2020 from 5.81% in July 2020. Bond yields were influenced by rising CPI inflation trend and an expectation of a sharp contraction in India's 1QFY21 real GDP growth. In order to lower the pressure on government bond yields, the RBI on 25 August 2020, announced open market operations for an aggregate amount of INR20,000 crores[13].
- The MCLR fell for the third consecutive month to average 6.93% in August 2020 as compared to 6.98% (revised) in July 2020.
- WALR on fresh rupee loans by SCBs increased by 17 basis points to reach 8.52% in July 2020 from 8.35% in June 2020.

FDI and FPI

- As per the provisional data released by the RBI on 11 September 2020, the overall foreign investment (FIIs) inflows (net FDIs plus net FPIs) increased sharply to US$4.5 billion in July 2020 from US$1.1 billion in June 2020.

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



Net FDI inflows increased to a four-month high of US$3.3 billion in July 2020 as compared to net outflows of US$0.8 billion in June 2020.

Source: Database on Indian Economy, RBI

- Net FDI inflows were higher at US$3.3 billion in July 2020 as compared to net outflows of US$0.8 billion in June 2020 (**Chart 12**). Gross FDI inflows increased sharply to US$4.3 billion in July 2020, its highest level since March 2020.
- Net portfolio investment (FPIs) inflows fell marginally to US$1.2 billion in July 2020 from US$1.9 billion in June 2020.

[13] The simultaneous purchase and sale of government securities under open market operations (OMOs) was for an aggregate amount of INR20,000 crores in two tranches of INR10,000 crores each. The first auction was conducted on 27 August 2020 and the second auction took place on 3 September 2020. (https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=50252)

7. Trade and CAB: contraction in merchandise exports increased to (-)12.7% in August 2020

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

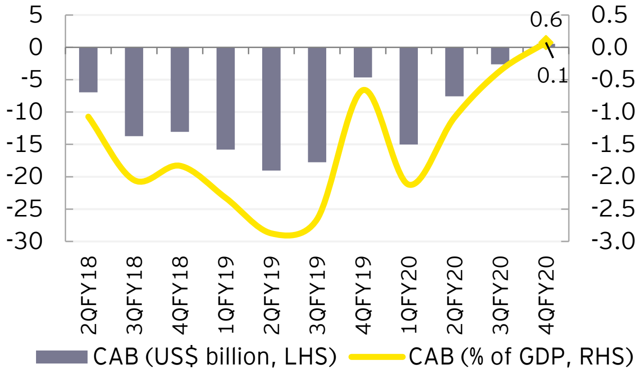
- Current account recorded a marginal surplus of 0.1% of GDP in 4QFY20 as compared to a deficit of (-)0.4% in 3QFY20 **(Chart 13)** aided by a lower merchandise trade deficit and higher net invisible receipts (**Table 8**). Merchandise imports relative to GDP fell to 15.2% in 4QFY20 from 16.1% in 3QFY20 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 8: components of CAB in US$ billion

Fiscal year	CAB as % of nominal GDP	CAB	Goods account net	Invisibles* net
FY17	-0.7	-15.3	-112.4	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 13: CAB



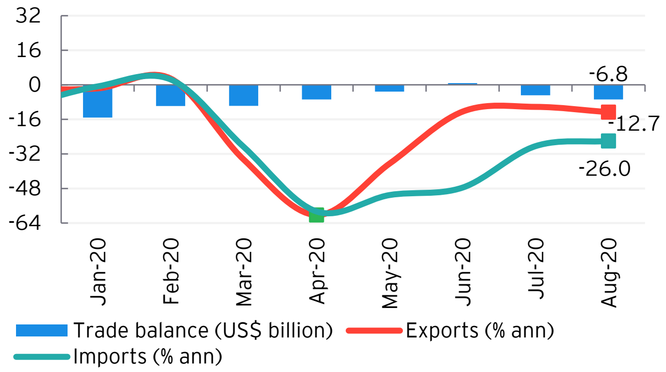
Source: Database on Indian Economy, RBI

B. Merchandise trade and exchange rate

Merchandise exports and imports contracted by (-)12.7% and (-)26.0%, respectively, in August 2020 reflecting a continuing demand slowdown (Chart 14).

- The pace of contraction in merchandise exports was higher at (-)12.7% in August 2020 as compared to a five-month low of (-)10.2% in July 2020.

Chart 14: Developments in merchandise trade



Source: Ministry of Commerce and Industry, GoI

- Engineering goods' exports contracted by (-)7.7% in August 2020 as compared to a growth of 8.5% in July 2020.
- Contraction in oil exports eased to (-)39.9% in August 2020 from (-)51.5% in July 2020.
- Contraction in imports fell to a six-month low of (-)26.0% in August 2020 from (-)28.4% in July 2020 led by higher imports of gold.
- Growth in gold imports rose to a 39-month high of 171.3% in August 2020 from 4.2% in July 2020. Contraction in oil imports increased to (-)41.6% in August 2020 from (-)32.0% in July 2020.
- Contraction in imports excluding oil, gold and jewelry remained elevated at (-)30.0% in August 2020 as compared to (-)28.1% in July 2020. Exports of this category contracted by (-)3.2% in August 2020 as compared to a growth of 3.4% in July 2020.
- Out of the 30 sectors for which exports and imports data is provided, 16 and 25 sectors, respectively, experienced a contraction in August 2020 as compared to 14 and 24 sectors, respectively, in July 2020.
- Merchandise trade deficit remained low at US$6.8 billion in August 2020, although higher than US$4.8 billion in July 2020.
- The rupee marginally appreciated to INR74.7 per US$ (average) in August 2020 from INR75.0 per US$ (Average) in July 2020.

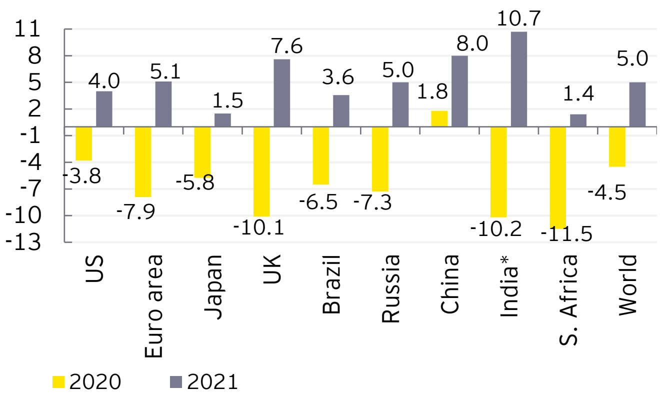
8. Global growth: OECD projected a global contraction of (-)4.5% in 2020

A. Global growth outlook

- The OECD (Interim Economic Outlook, September 2020) projected global GDP to contract by (-)4.5% in 2020, an upward revision of 1.5% points from the June 2020 Economic Outlook (single-hit scenario). This largely reflects upward revisions in growth projections for China and the US. However, growth projections have been significantly revised downwards for India, Mexico and South Africa.
- For 2021, global growth prospects are little changed from the June 2020 projections with growth forecasted to recover to 5%. In most economies, the level of output at the end of 2021 is projected to remain lower than that at the end of 2019, and considerably weaker than projected prior to the pandemic.
- In the US, GDP is projected to contract by (-)3.8% in 2020. This has been revised upward by 3.5% points from the June 2020 projection owing to the expectation of another stimulus worth up to US$1.5 trillion (nearly 8% of 2019 GDP) this year.
- Among other advanced economies (AEs), a sharp contraction of (-)10.1% is projected for the UK in 2020. This is followed by the Euro area at (-)7.9% and Japan at (-)5.8%. A V-shaped recovery is projected for all AEs in 2021.
- Amongst EMDEs, the highest contraction in 2020 is projected for South Africa at (-)11.5%, followed by India at (-)10.2% and Russia at (-)7.3%. China is the only economy which is projected to show a positive growth of 1.8% in 2020 as economic activity reached close to the pre-pandemic levels by the end of April to June quarter of 2020 fueled by a strong infrastructure investment.
- In 2021, India's growth is projected to rebound to 10.7%, surpassing that of China at 8%. In comparison, a milder recovery is projected for South Africa, Brazil and Russia.

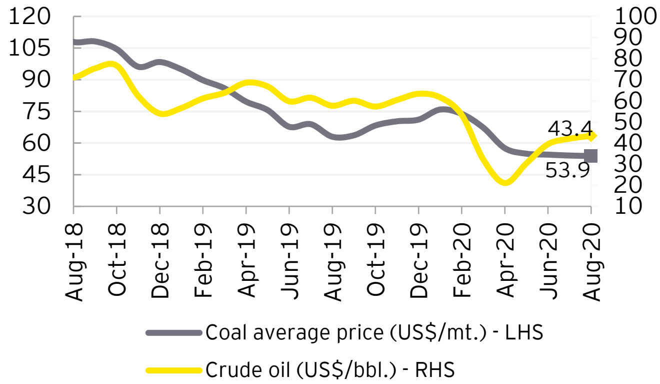
The OECD projected a global contraction of (-)4.5% in 2020, an upward revision of 1.5% points from the June 2020 forecasts.

Chart 15: Global growth projections



Source: OECD Interim Economic Outlook Update, September 2020
* data pertains to fiscal year

Chart 16: Global crude and coal prices



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

B. Global energy prices: global crude oil prices increased to US$43.4/bbl. in August 2020

- Despite OPEC+ countries easing output cuts, average global crude prices[14] increased to US$43.4/bbl. in August 2020 from 42.1/bbl. in July 2020 (**Chart 16**). A weaker US dollar has led to higher crude oil imports by other Asian countries[15].
- Average global coal price[16] fell to US$53.9/mt. in August 2020, the lowest level since May 2016.

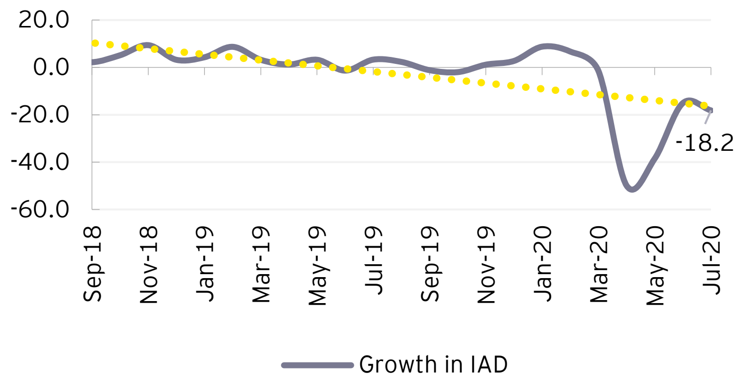
[14] Simple average of three spot prices, namely, Dated Brent, West Texas Intermediate and Dubai Fateh
[15] https://oilprice.com/Energy/Energy-General/Brent-Crude-Hits-5-Month-High-On-String-Of-Bullish-News.html
[16] Simple average of Australian and South African coal prices

9. Index of Aggregate Demand (IAD): contracted by (-)18.2% in July 2020

IAD contracted for the fourth consecutive month by (-)18.2% in July 2020

- 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 at a sharper rate of (-)18.2% in July 2020 as compared to (-)15.1% in June 2020 **(Chart 17).** This may be attributed to unevenness in the opening up of the economy and continued increase in the incidence of COVID-19.
- Demand conditions deteriorated in July 2020 as the contraction in both manufacturing and services was higher than what it was in June 2020. However, demand conditions in agricultural sector improved in July 2020 as compared to that in June 2020 (**Table 9**).

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



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

Table 9: IAD

Month	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20
IAD	129.7	131.4	138.1	137.9	126.2	63.5	77.5	107.9	106.2
Growth (% y-o-y)	1.2	2.7	8.8	6.7	-1.4	-49.9	-38.5	-15.1	-18.2
Growth in agr. credit	6.5	5.3	6.5	5.8	4.2	3.9	3.5	2.4	5.4
Mfg. PMI**	1.2	3.2	5.6	4.7	1.7	-23.9	-16.5	-3.2	-4.9
Ser. PMI**	3.8	3.9	8.6	9.0	-1.1	-48.0	-38.4	-16.4	-17.7

**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	-4.3	3.9	-6.3	1.6	-0.4	4QFY20	53.9	54.1
1QFY21	-35.5	-22.3	-40.1	-15.8	-24.2	1QFY21	35.1	17.2
Apr-20	-57.3	-26.9	-66.6	-22.9	-37.9	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	-15.8	-19.6	-16.0	-10.0	-12.9	Jul-20	46.0	34.2
Jul-20	-10.4	-13.0	-11.1	-2.5	-9.6	Aug-20	52.0	41.8

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

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

Fiscal year/ quarter/ month	CPI	Food Price Index	Fuel and light	Core CPI	WPI	Food Price Index	Mfg. products	Fuel and power	Core WPI
	% change y-o-y				% change y-o-y				
FY17	4.5	4.2	3.3	4.9	4.5	5.9	1.3	-0.3	-0.1
FY18	3.6	1.8	6.2	4.6	3.6	1.9	2.7	8.2	3.0
FY19	3.4	0.1	5.7	5.5	3.4	0.6	3.7	11.5	4.2
FY20	4.8	6.7	1.3	3.8	4.8	6.9	0.3	-1.8	-0.4
2QFY20	3.5	3.5	-1.4	4.1	3.5	5.6	-0.1	-4.6	-0.5
3QFY20	5.8	10.7	-1.1	3.3	5.8	9.3	-0.7	-5.1	-1.8
4QFY20	6.7	11.1	5.5	3.8	6.7	7.5	0.5	1.8	-0.7
1QFY21	6.6*	9.9	1.7	4.9*	6.6	3.4	0.0	-17.4	-1.0
May-20	6.3*	9.2	1.6	4.8*	6.3	2.7	-0.3	-23.1	-1.3
Jun-20	6.2	8.7	0.5	5.2	6.2	3.1	0.1	-16.2	-0.9
Jul-20	6.7	9.3	2.7	5.4	6.7	4.3	0.5	-9.8	-0.3
Aug-20	6.7	9.1	3.1	5.4	6.7	4.1	1.3	-9.7	0.6

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

* The CPI for April and May 2020 has been imputed

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

Fiscal year/month	Gross tax revenue	Corporate tax	Income tax	Direct taxes*	Indirect taxes**	Fiscal deficit % of GDP	Revenue deficit
							% of GDP
FY17 (CGA)	17.9	6.7	21.5	12.3	21.6	3.5	2.1
FY 18 (CGA)	11.8	17.8	19.9	18.6	6.0	3.5	2.6
FY 19 (CGA)	8.4	16.2	13.1	14.9	2.9	3.4	2.4
FY20 (CGA)	-3.4	-16.1	4.0	-7.8	1.7	4.6	3.3
FY 21 (BE over FY 20 RE)	12.0	11.5	14.0	12.7	11.1	3.5	2.7
Cumulated growth (%, y-o-y)						% of budgeted target	
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
Jul-20	-29.5	-39.2	-29.1	-33.2	-27.5	103.1	117.4

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

Fiscal year/month	CGST	UTGST	IGST	GST compensation cess	Total GST (center)
	INR crore				
FY 2020 (RE)	5,14,000	-	-	98,327	6,12,327
FY 2021 (BE)	5,80,000	-	-	1,10,500	6,90,500
Monthly tax collection (INR crore)					
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
Jul-20	37,902	224	-6,026	6,816	38,916

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	43.0	1.4	FY20	11.2	8.9	6.80	475.6
Jan-20	5.15	2QFY20	10.4	9.9	7.3	2.5	2QFY20	10.8	9.6	6.68	433.6
Feb-20	5.15	3QFY20	8.0	10.0	9.7	7.8	3QFY20	12.5	10.4	6.68	457.5
Mar-20	4.40	4QFY20	7.1	9.6	12.0	-13.7	4QFY20	11.2	8.9	6.62	475.6
Apr-20	4.40	1QFY20	6.4	10.5	3.6	1.4	1QFY21	17.7	12.3	6.15	506.8
May-20	4.00	Apr-20	6.8	9.9	2.4	0.1	May-20	15.3	11.7	5.92	493.5
Jun-20	4.00	May-20	6.2	10.6	2.0	-0.7	Jun-20	17.7	12.3	5.86	506.8
Jul-20	4.00	Jun-20	6.2	11.0	-0.8	1.9	Jul-20	19.3	13.2	5.81	534.6
Aug-20	4.00	Jul-20	6.5	11.9	3.3	1.2	Aug-20	19.2	12.6	6.01	541.4

Source: Database on Indian Economy - RBI

Table A5: external trade and global growth

External trade indicators (annual, quarterly and monthly growth rates)							Global growth (annual)			
Fiscal year/ quarter/ month	Exports	Imports	Trade balance	Ex. rate (avg.)	Crude prices (avg.)	Coal prices (avg.)	Calendar year	World GDP	Adv. econ.	Emer. econ.
	% change y-o-y		US$ billion	INR/US$	US$/bbl.	US$/mt		% change y-o-y		
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	-8.8	-153.3	70.9	58.5	70.4	2013	3.5	1.4	5.1
2QFY20	-3.8	-12.4	-38.1	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
May-20	-36.5	-51.0	-3.1	75.7	30.4	55.0	2018	3.6	2.2	4.5
Jun-20	-12.4	-47.6	0.8	75.7	39.5	54.5	2019	2.9	1.7	3.7
Jul-20	-10.2	-28.4	-4.8	75.0	42.1	54.1	2020*	-4.9	-8.0	-3.0
Aug-20	-12.7	-26.0	-6.8	74.7	43.4	53.9	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
1QFY19	6.9	3.8	-7.3	10.7	7.9	6.4	8.5	6.0	8.8	4.6
2QFY19	6.1	2.5	-7.0	5.6	9.9	5.2	7.8	6.5	8.9	4.7
3QFY19	5.6	2.0	-4.4	5.2	9.5	6.6	7.8	6.5	8.1	3.8
4QFY19	5.6	1.6	-4.8	2.1	5.5	6.0	6.9	8.7	11.6	3.7
1QFY20	4.8	3.0	4.7	3.0	8.8	5.2	3.5	6.0	7.7	3.1
2QFY20	4.3	3.5	-1.1	-0.6	3.9	2.6	4.1	6.0	10.9	1.8
3QFY20	3.5	3.6	2.2	-0.8	-0.7	0.0	4.3	3.3	10.9	3.4
4QFY20	3.0	5.9	5.2	-1.4	4.5	-2.2	2.6	2.4	10.1	3.7
1QFY21	-22.8	3.4	-23.3	-39.3	-7.0	-50.3	-47.0	-5.3	-10.3	2.9

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

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

Source: National Accounts Statistics, MoSPI

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

List of abbreviations

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

Sr. no.	Abbreviations	Description
37	GVA	gross value added
38	IAD	Index of Aggregate Demand
39	IBE	interim budget estimates
40	ICRIER	Indian Council for Research on International Economic Relations
41	IEA	International Energy Agency
42	IGST	Integrated Goods and Services Tax
43	IIP	Index of Industrial Production
44	IMF	International Monetary Fund
45	IMI	Index of Macro Imbalance
46	IMP	imports
47	INR	Indian Rupee
48	IPD	implicit price deflator
49	J&K	Jammu and Kashmir
50	MCLR	marginal cost of funds-based lending rate
51	Ming.	mining and quarrying
52	Mfg.	manufacturing
53	m-o-m	month-on-month
54	Mt	metric ton
55	MoSPI	Ministry of Statistics and Programme Implementation
56	MPC	Monetary Policy Committee
57	NEXP	net exports (exports minus imports of goods and services)
58	NPA	non-performing assets
59	NCLT	National Company Law Tribunal
60	OECD	Organization for Economic Co-operation and Development
61	OPEC	Organization of the Petroleum Exporting Countries
62	PFCE	private final consumption expenditure
63	PIT	personal income tax
64	PMI	Purchasing Managers' Index (reference value = 50)
65	PoL	Petroleum oil and lubricants
66	PSBR	public sector borrowing requirement
67	RE	revised estimates
68	PSU/PSE	public sector undertaking/public sector enterprises
69	RBI	Reserve Bank of India
70	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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