

ENTER

Economy Watch

Monitoring India's
macro-fiscal performance

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Highlights

1. In June 2023, both PMI manufacturing and services remained at high levels of 57.8 and 58.5, respectively. With this, PMI manufacturing and services remained above the threshold of 50 for 24 successive months.
2. Led by higher growth in manufacturing and mining output, IIP growth increased to 5.2% in May 2023 from 4.5% in April 2023.
3. Although CPI inflation increased to 4.8% in June 2023 on account of higher food prices, it continued to remain below the 6% upper tolerance limit for the fourth successive month. Core CPI inflation remained stable at a 37-month low of 5.2%.
4. Contraction in WPI accelerated to (-)4.1% in June 2023 from (-)3.5% in May 2023, led by a faster pace of contraction in prices of crude, and fuel and power.
5. Union government's gross tax revenues (GTR) showed a contraction of (-)1.6% during April-May FY24 largely on account of a contraction in CIT revenues reflecting tax refunds.
6. Gol's total expenditure grew by 6.9% during April-May FY24, with revenue expenditure showing a contraction of (-)4.3% and capital expenditure posting a strong growth of 56.7%.
7. During April-May FY24, Gol's fiscal and revenue deficits as a proportion of their annual BE stood at 11.8% and 5.2% respectively.
8. Gross bank credit by SCBs continued to show a double-digit growth of 15.4% in May 2023, although marginally lower than 15.9% in April 2023.
9. Merchandise exports and imports contracted sharply by (-)22.0% and (-)17.5% in June 2023 as compared to (-)10.3% and (-)6.6% respectively in May 2023, mainly reflecting subdued global demand.
10. Merchandise trade deficit remained elevated at US\$20.1 billion in June 2023 as compared to a five-month high of US\$22.1 billion in May 2023.
11. Current account deficit (CAD) fell to a seven-quarter low of 0.2% of GDP in 4QFY23. On an annual basis, CAD widened to 2% of GDP in FY23 from 1.2% in FY22.
12. Net FPI inflows surged to US\$5.5 billion in May 2023. Net FDI inflows amounted to US\$2.7 billion in this month, close to its level in April 2023.
13. Global crude price fell to an 18-month low of US\$73.3/bbl. in June 2023 driven by concerns of a slowdown in global growth and the possibility of interest rate hikes by the US.
14. The OECD has projected global growth to ease to 2.7% in 2023, with India's FY24 growth forecasted at 6%. More recently, in July 2023, the IMF has forecasted India's growth at 6.1% in FY24.



Foreword

India maintains robust growth prospects in spite of the El Nino concerns

In spite of El Nino, the Indian agricultural performance and its overall growth prospects may emerge with limited adverse impact owing to the expected countervailing effects of the Indian Ocean Dipole. Global weather forecasts had indicated a severe El Nino impact in 2023, affecting a wide range of countries. India was also supposed to be severely impacted given the history of El Nino driven droughts. South-west monsoon (SWM) entered the country in early June 2023 and by 2 July 2023, it had covered the entire country, six days before the normal date. According to the RBI¹, the progress of SWM has been uneven partly on account of the impact of cyclone Biparjoy. Precipitation picked up in recent weeks and as per the data pertaining to 14 July 2023, the cumulative monsoon was 1% above the long period average (LPA). The spatial distribution of rainfall remains skewed. As on 9 July 2023, the total kharif sown area was 5.4% lower than the previous year's level across all major crop categories, except sugarcane and coarse cereals. The current reservoir storage levels are much above LPAs, which augurs well for the ongoing sowing activity. Thus, it seems that agricultural output may witness a normal growth of about 3.5% in FY24, remaining close to the decadal average of 3.7% (FY12 to FY23). There would, however, be certain seasonal and spatial peaks in food and vegetable prices due to the uneven distribution of the SWM. The overall GDP growth in the current year therefore is not likely to be significantly adversely impacted. Confirming this, recent forecasts of India's FY24 growth prospects have been revised upwards. The IMF, in its July 2023 update of the World Economic Outlook, upgraded India's FY24 growth projection to 6.1% from 5.9% earlier. Fitch also revised upwards, its growth projection for India, to 6.3% from 6% earlier². The ADB, in its July 2023 release of the Asian Development Outlook, projected India's real growth at 6.4% in FY24, higher than the projections by IMF and Fitch.

High-frequency indicators for May and June 2023 showed a strong growth momentum during 1QFY24. In June 2023, PMI manufacturing and services remained at high levels of 57.8 and 58.5, respectively. On a quarterly basis, PMI manufacturing averaged 57.9 in 1QFY24, its highest level since 4QFY10. PMI services averaged 60.6 in 1QFY24, its highest level since 1QFY11. Bank credit continued to show a double-digit growth of 15.4% in May 2023, although moderating from 15.9% in April 2023. As per Federation of Automobile Dealers' Association (FADA), retail sales of vehicles continued to show a robust growth of 9.6% in June 2023. As per the data released by the Ministry of Finance, gross GST revenues were at INR1.61 lakh crore in June 2023, increasing from INR1.57 lakh crore in May 2023.

The US Fed, in its June 2023 monetary policy review, had decided against a rate increase amid concerns over economic growth. Reviewing the rate hikes since early 2022, the Fed considered the possibility of future rate hikes at a slower pace as compared to the hectic pace of upward revisions in the recent past. The RBI also avoided further rate hikes in its June 2023 monetary policy review. CPI inflation in June 2023 increased to 4.8% from a 25-month low of 4.3% in May 2023. Nevertheless, it has remained well-below the RBI's upper tolerance limit of 6%.

India's current account deficit (CAD) widened to 2% of GDP in FY23 from 1.2% in FY22. However, CAD fell to a seven-quarter low of 0.2% of GDP in 4QFY23. In June 2023, India's merchandise exports and imports contracted sharply by (-)22.0% and (-)17.5% as compared to (-)10.3% and (-)6.6% respectively in May 2023, mainly reflecting subdued global demand. Growth in exports of electronic goods remained high at 45.4% in June 2023 whereas growth in its imports eased to 8.5% in June 2023 from 18.1% in May 2023. However, the pace of contraction in exports of engineering goods and chemicals more than doubled to (-)11.0% and (-)26.7% respectively in June 2023. Merchandise trade deficit has widened to US\$57.5 billion in 1QFY24 from US\$54.9 billion in 4QFY23. These trends indicate that as long as global economic slowdown continues, India has to rely mainly on its domestic growth drivers for sustaining its robust growth performance.

Another important forthcoming event is the setting up of the 16th Finance Commission (FC16). FC16 will require addressing the issue of large fiscal imbalances of the central and state governments due to the impact of COVID-19 and other subsequent developments. Fiscal pressures on state finances have also developed due to the proliferation of subsidies and the adoption of old pension scheme by many states. The In-focus section of this issue analyzes in detail, issues of vertical, horizontal and fiscal imbalances which provide the context for the deliberations of FC16.

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¹ <https://rb.gy/bj80m>

² <https://rb.gy/4sa66>

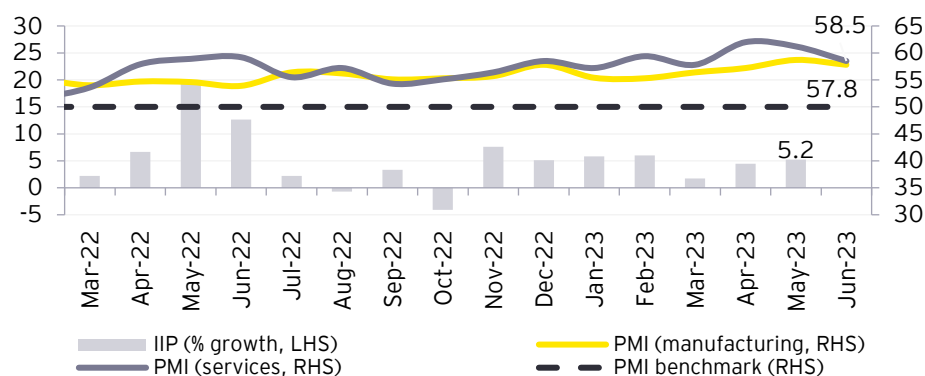


1. Growth: PMI indicated a sustained growth momentum in private sector activity in June 2023

A. PMI: Index values averaged at multi-quarter high levels in 1QFY24

- ▶ Headline manufacturing PMI (seasonally adjusted (sa)) remained high at 57.8 in June 2023, although falling marginally from 58.7 in May 2023 (**Chart 1**). With this, PMI manufacturing remained above the threshold of 50 for 24 consecutive months, indicating sustained growth momentum in the manufacturing sector. On a quarterly basis, PMI manufacturing averaged 57.9 in 1QFY24, its highest level since 4QFY10.
- ▶ PMI services remained above the threshold of 50 for 24 consecutive months, with its level at 58.5 in June 2023 as compared to 61.2 in May 2023. On a quarterly basis, PMI services averaged 60.6 in 1QFY24, its highest level since 1QFY11.
- ▶ Reflecting an ongoing growth momentum in both manufacturing and services, the composite PMI Output Index (sa) remained at a high level of 59.4 in June 2023 as compared to 61.6 in May 2023. The composite PMI Output Index averaged 60.9 in 1QFY24, its highest level since 1QFY11.

Chart 1: PMI and IIP growth



In June 2023, both PMI manufacturing and services remained at high levels of 57.8 and 58.5, respectively. With this, PMI manufacturing and services remained above the threshold of 50 for 24 successive months.

Source: MoSPI and S&P Global.

B. IIP: growth increased to 5.2% in May 2023

- ▶ According to the quick estimates, IIP growth increased to 5.2% in May 2023 from 4.5% (revised) in April 2023 (**Chart 1**) led by a higher growth in manufacturing and mining output.
- ▶ Among the sub-industries, manufacturing output, with a share of 77.6% in the overall IIP, grew by 5.7% in May 2023 as compared to 5.2% (revised) in April 2023.
- ▶ Within manufacturing, some key industries which showed an improvement in growth include motor vehicles et al. (13.4%), other machinery and equipment (10%)³, basic metals (9.6%), other non-metallic mineral products (10.2%) and, coke and refined petroleum products (2.5%).
- ▶ Among other major sub-industries, the mining sector showed a strong growth of 6.4% in May 2023 as compared to 5.1% in April 2023. Output of electricity emerged from a contraction of (-)1.1% in April 2023, although showing a low growth of 0.9% in May 2023.
- ▶ As per the 'use-based' classification of industries, growth in the output of infrastructure/construction goods was the highest at 14.0% followed by that in capital goods at 8.2% in May 2023. Output of consumer non-durables grew by 7.6% and that of consumer durables showed a growth of 1.1%.
- ▶ According to provisional estimates, growth in the output of eight core infrastructure industries (core IIP) grew by 4.3% in May 2023, similar to its level in April 2023. This was largely driven by strong growth rates in cement (15.5%), fertilizers (9.7%), steel (9.2%), and coal (7.2%). Output of petroleum refinery products, having the largest weight of 28% in core IIP, showed a growth of 2.8% in May 2023, improving from a contraction of (-)1.5% in April 2023.

Led by higher growth in manufacturing and mining output, IIP growth increased to 5.2% in May 2023 from 4.5% in April 2023.

³ Refers to machinery and equipment not else classified (n.e.c)

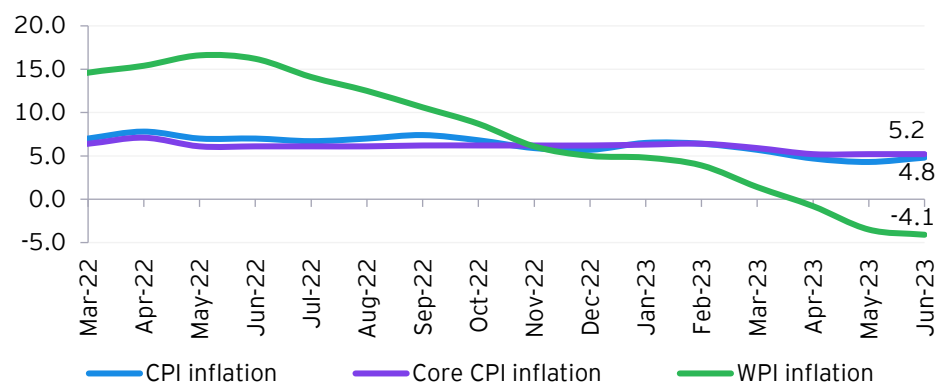


2. Inflation: CPI inflation increased to 4.8% in June 2023

CPI inflation increased to 4.8% in June 2023 from a 25-month low of 4.3% in May 2023, driven by higher food inflation (Chart 2).

- ▶ Consumer food inflation increased to 4.5% in June 2023 from an 18-month low of 3.0% in May 2023 as the pace of contraction in vegetables subsided to (-)0.9% from (-)7.9% over the same period. Inflation in meat and fish turned positive at 1.4% in June 2023 after being in negative territory for two successive months.
- ▶ Transportation and communication services inflation increased to 2.5% in June 2023 from a 42-month low of 1.1% in May 2023 as the pace of contraction in price of petrol used for transportation eased to (-)0.4% in June 2023 from (-)6.5% in May 2023, reflecting mainly an unfavorable base effect.
- ▶ Fuel and light-based inflation moderated to a 28-month low of 3.9% in June 2023, showing a deceleration for the sixth successive month. Inflation in subsidized kerosene was negative for the third successive month at (-)26.7% in June 2023. Inflation in LPG eased to a 25-month low of 9.2% in June 2023.
- ▶ Core CPI inflation⁴ remained stable at a 37-month low of 5.2% in June 2023, staying below 6% for the fourth successive month.

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



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

Although CPI inflation increased to 4.8% in June 2023 on account of higher food prices, it remained below the 6% upper tolerance limit for the fourth successive month. Core CPI inflation remained stable at a 37-month low of 5.2%.

The pace of contraction in prices at the wholesale level (WPI) accelerated to (-)4.1% in June 2023 from (-)3.5% in May 2023, led by a faster pace of contraction in the prices of crude, and fuel and power.

- ▶ The pace of contraction in price of crude petroleum and natural gas fastened to (-)21.4% in June 2023 from (-)13.7% in May 2023.
- ▶ Prices of fuel and power contracted for the second successive month at (-)12.6% in June 2023 as compared to (-)9.2% in May 2023, reflecting considerably lower global crude prices. Inflation in mineral oils fell for the ninth successive month to (-)19.5% in June 2023, aided by a sharp contraction in petrol prices to (-)16.3%. Inflation in electricity eased to a 23-month low of 0.6% in June 2023, led by a favorable base effect.
- ▶ WPI food index contracted for the second consecutive month at (-)1.2% in June 2023 as compared to (-)1.6% in May 2023. Contraction in prices of vegetables increased to (-)22.0% in June 2023 from (-)20.1% in May 2023.
- ▶ Inflation in manufactured products was negative for the fourth successive month at (-)2.7% in June 2023, reflecting broad-based moderation in inflation across segments.
- ▶ The contraction in prices of manufactured textiles, and chemicals and chemical products increased to all-time highs (2011-12 series) of (-)9.5% and (-)6.7% respectively in June 2023.
- ▶ Core WPI showed a contraction for the fourth successive month at (-)2.1% in June 2023, reflecting broad-based easing of price pressures led by manufactured textiles and chemicals, along with a favorable base effect.

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.

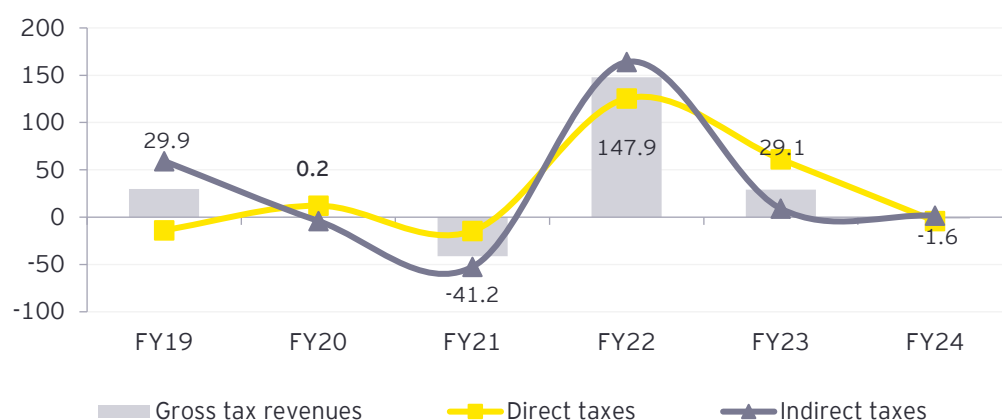


3. Fiscal: Gol's fiscal deficit during April-May FY24 stood at 11.8% of the annual BE

A. Tax and non-tax revenues

- ▶ As per the CGA, the central government's GTR^(b) contracted by (-)1.6% during the first two months of FY24 largely on account of a contraction in direct taxes. In comparison, GTR had shown a growth of 29.1% during the corresponding period of FY23 (**Chart 3**).
- ▶ During April-May FY24, GTR stood at 11.8% of the annual BE, while the three-year average ratio based on actual collections was 10.3%.
- ▶ Direct taxes^(a) showed a negative growth of (-)4.0% while indirect taxes^(a) grew by 1.6% during April-May FY24. The corresponding growth rates in FY23 were at 61.2% and 9% respectively.
- ▶ Corporate income tax (CIT) contracted by (-)28% during April-May FY24 as compared to a growth of 80.7% during April-May FY23. Considering the pre-COVID-19 period from FY15 to FY20, CIT revenues showed a contraction during the first two months in five of the six fiscal years reflecting tax refunds.
- ▶ Personal income tax (PIT) revenues grew by 12.6% during April-May FY24 as compared to 49.9% during the corresponding period of FY23.
- ▶ Among indirect taxes, partly owing to an unfavorable base effect, Gol's GST revenues^(c) grew by 3.8% during April-May FY24 as compared to 23.6% during the corresponding period of FY23.
- ▶ UED showed a contraction of (-)16.3% during April-May FY24, similar to (-)16.6% during the corresponding period of FY23.
- ▶ Customs duties grew by 10.4% during the first two months of FY24 as compared to a contraction of (-)18.8% during April-May FY23.

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



During April-May FY24, central government's GTR experienced a (-)1.6% contraction, primarily due to a decline in CIT revenues, which was attributed to tax refunds.

Source: Monthly Accounts, CGA, Government of India

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

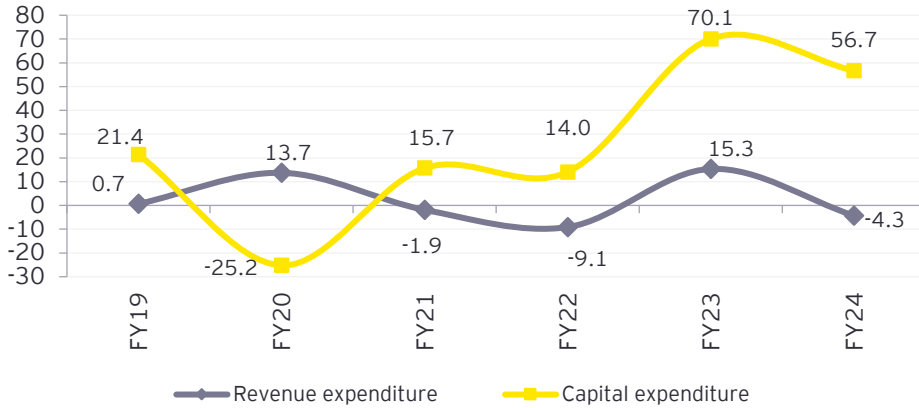
- ▶ Gol's non-tax revenues showed a high growth of 173.4% during the first two months of FY24 on account of high receipt of dividends and profits which stood at 96% of the annual BE. In comparison, non-tax revenues witnessed a contraction of (-)57.7% during April-May FY23.
- ▶ Non-tax revenues as a proportion of annual BE stood at 44.6%, as compared to the three-year average ratio of 18.1% based on actual collections.
- ▶ Non-debt capital receipts of the Gol during April-May FY24 stood at 3.6% of the BE as compared to the three-year average ratio of 16.1% based on actual collections.
- ▶ As per DIPAM⁵, disinvestment receipts as of 27 July 2023 stood at INR 4,235.32 crores, that is 8.3% of the FY24 BE at INR 51,000 crore³.

⁵ <https://dipam.gov.in/>

B. Expenditures: revenue and capital

- ▶ Gol's total expenditure grew by 6.9% during April-May FY24 as compared to 22.6% during the corresponding period of the previous year.
- ▶ Revenue expenditure during the first two months of FY24 showed a contraction of (-)4.3% as compared to a growth of 15.3% during the corresponding period of FY23 (Chart 4).
- ▶ Gol's capital expenditure was front-loaded, showing a strong growth of 56.7% during April-May FY24. This was also the case last year as reflected by a growth of 70.1% during the first two months.

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



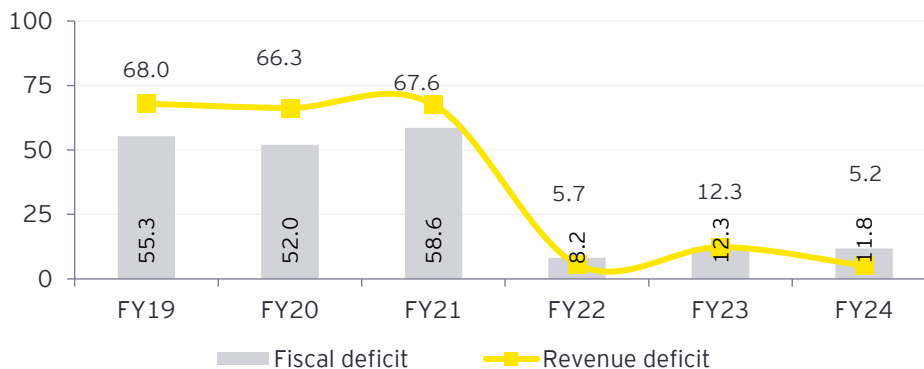
Gol's total expenditure grew by 6.9% during April-May FY24, with revenue expenditure showing a contraction of (-)4.3% and capital expenditure witnessing a strong growth of 56.7%.

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

C. Fiscal imbalance

- ▶ Gol's fiscal deficit during the first two months of FY24 stood at 11.8% of the BE, marginally lower than the corresponding ratio of 12.3% in FY23 (Chart 5).
- ▶ Gol's revenue deficit during this period stood at 5.2% of the BE, its lowest level since at least FY01. This was mainly on account of a contraction in Gol's revenue expenditure and a surge in non-tax revenues during this period.

Chart 5: Fiscal and revenue deficit during April-May as percentage of BE



During April-May FY24, Gol's fiscal and revenue deficits as a proportion of their annual BE stood at 11.8% and 5.2%, respectively.

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



4. Comparative trends: OECD projected India to lead global growth in 2023 and 2024

Real GDP growth

- ▶ After recovering from the COVID-19 pandemic in 2021, global growth eased to 3.3% in 2022 due to the adverse impact of the geopolitical conflict. Global growth is projected to ease further to 2.7% in 2023 and remain subdued in 2024 as the full effects of the quick and synchronized monetary policy tightening appear over the course of these two years, particularly on private investment.
- ▶ In the US, growth fell to 2.1% in 2022 and is expected to show a downward trajectory in 2023 and 2024 as private consumption and investment moderate in response to tightening of monetary and financial conditions and as excess savings further deplete (**Table 1**).
- ▶ The UK and Germany are projected to witness a stagnation in 2023 on account of weak household consumption, subdued household and business investment, and a reduced contribution of trade to growth due to continuing global uncertainty.
- ▶ Among emerging market economies (EMEs), China's growth is projected to improve to 5.4% in 2023 and 5.1% in 2024 as lifting of the zero-COVID-19 restrictions is expected to release pent up demand, particularly in the services sector.
- ▶ Despite weak global demand and inflationary pressures, India's real GDP growth is estimated at 6% in 2023 (FY24), lower as compared to 7.2% in 2022 (FY23) but highest among all major economies of the world. Led by an expected improvement in the global scenario and resilient domestic demand, India's growth is projected to increase to 7% in 2024 (FY25).

Table 1: Real GDP growth (% , annual)

Country	2021	2022	2023	2024
World	6.1	3.3	2.7	2.9
US	5.9	2.1	1.6	1.0
UK	7.6	4.1	0.3	1.0
Japan	2.2	1.0	1.3	1.1
Germany	2.6	1.9	0.0	1.3
Brazil	5.3	3.0	1.7	1.2
Russia	5.6	-2.0	-1.5	-0.4
India*	9.1	7.2	6.0	7.0
China	8.4	3.0	5.4	5.1
S. Africa	4.9	2.0	0.3	1.0

Source: OECD Economic Outlook, June 2023

*data pertains to fiscal year

CPI inflation

- ▶ In 2022, inflation increased in all major economies due to elevated food, fertilizer, and energy prices owing to the geopolitical conflict. (**Table 2**).
- ▶ In the US, CPI inflation is expected to ease in 2023 but still remain elevated according to historical standards. Inflation is expected to remain above the long-term target of 2% even in 2024.
- ▶ CPI inflation in the UK and Germany is projected to remain high in 2023 due to the pass-through of energy and producer prices to consumers and rising wage pressures. Tighter monetary conditions, fading energy price pressures and fiscal tightening will help to bring down inflation to close to 3.0% in 2024.
- ▶ CPI inflation in China is expected to remain benign in 2023 and 2024 due to a moderate recovery in domestic demand.
- ▶ In India, after a spike in headline inflation in 2022 (FY23) on account of high energy and food prices, CPI inflation is expected to moderate to 4.8% in 2023 (FY24) and 4.4% in 2024 (FY25), well within the central bank's tolerance range of 2% to 6%.

Table 2: CPI inflation (% , annual)

Country	2021	2022	2023	2024
US	4.7	8.0	4.2	2.6
UK	2.6	9.1	6.9	2.8
Japan	-0.2	2.5	2.8	2.0
Germany	3.2	8.7	6.3	3.0
Brazil	8.3	9.3	5.6	4.7
Russia	6.7	13.7	5.4	5.2
India*	5.5	6.7	4.8	4.4
China	0.8	1.9	2.1	2.0
S. Africa	4.6	6.9	6.0	4.7

Source: OECD Economic Outlook, June 2023

*data pertains to fiscal year



5. In focus: Issues before the 16th Finance Commission: evolving contours of union-state fiscal relations

Introduction

Finance Commission (FC) is a constitutional body that is set up at intervals of five years under normal circumstances. The Presidential order constituting the Commission specifies a Term of Reference (ToR) for the Commission, spelling out the specific tasks that it should take up. These tasks pertain to the constitutional provisions regarding sharing of central taxes with the states in India and the determination of grants under Article 275(1). These ToR also recognize India's contemporary economic and fiscal realities and specify any particular issue that the Commission should attend to in the context of union-state fiscal relations. So far, 15 FCs have already been set up since FY1951. Resource transfers from union government to the states in India have been largely guided by the recommendations of the FC. The recommendations of FC15 would continue to apply until FY2026. FC15 itself was set up in November 2017. After a gap of six years since then, that is, by November 2023, FC16 is due to be set up. Many economic and fiscal events have taken place in the interim. Both the Indian and global economies have been affected in a major way due to COVID-19 and the ongoing geopolitical conflict which has disrupted worldwide supply chains resulting in many advanced economies (AEs) slipping into economic slowdown or a recession. Indian exports have also been adversely affected due to these developments. In spite of these challenges, the Indian economy appears to have emerged out of the impact of COVID-19 and the subsequent events. Amongst the larger economies, according to the IMF, the Indian economy is slated to lead global growth in the medium term. One serious fallout of the impact of COVID-19 was that the combined debt-GDP ratio of the central and state governments shot up to close to 90% of GDP at the end of FY2021. Restoration of fiscal balance for the central and state governments in line with their respective Fiscal Responsibility Legislations (FRLs) is of paramount importance. The ToR of FC16 is likely to task the Commission to recommend a strategy and glide path towards the restoration of such fiscal balance. This would be in addition to the constitutionally mandated tasks for the Commission of determining the share of states in the divisible pool of central taxes and grants.

Vertical dimension

The vertical dimension of managing government resources has been characterized by a vertical imbalance, which is the result of the constitutional scheme of assignment of resources and responsibilities between the central and the state governments. In particular, the central government has been assigned a relatively larger share in the collection of tax revenues, while the state governments have the relatively larger expenditure responsibilities.

Table 3 gives the share of states in the divisible pool of central tax revenues. Under Articles 270 and 271, all central taxes have been made sharable with the states except cesses and surcharges. A reading of state memoranda to different FCs indicates their continuous demand for assigning at least 50% of Gol's GTR to them. This has not happened so far. In fact, FC14 had raised their share from 32% as recommended by FC13 to 42%, which was revised to 41% by FC15 after the number of states reduced to 28 states when Jammu and Kashmir was made a union territory. However, this increase in the share of states in sharable central taxes is effectively neutralized by the central government by raising the share of cesses and surcharges which are not sharable with the states.

Table 3: Recommended and effective share of states in sharable central revenues (%): FC12 to FC15 (2)

Commission	Recommendation period	Recommended share in divisible pool (%)	Effective share in gross central taxes (%)	Shortfall in effective share relative to recommended (% points)	Share of cesses and surcharges [#] in center's gross tax revenues (%)
FC10	1995-96 to 1999-00	29.0	27.4	-1.6	
FC11	2000-01 to 2004-05	28.0	26.9	-1.0	
FC 12	2005-06 to 2009-10	30.5	25.9	-4.6	
FC 13	2010-11 to 2014-15	32.0	27.9	-4.1	9.6
FC 14	2015-16 to 2019-20	42.0	34.9	-7.1	12.8
FC 15 (1)	2020-21	41.0	29.4	-11.6	20.2
FC 15 (2)	2021-22 to 2025 -26	41.0	31.2*	-9.8	18.0*

Source: Union Budget Documents, Reports of 12th-15th FCs; *pertains to data for three years, FY22 (Actual), FY23 (RE) and FY24 (BE); [#]excludes GST compensation cess

Horizontal dimension

It is notable that a much larger share of transfers has been earmarked for the states under tax devolution. This implies that the inter-se targeting of transfers would suffer since tax devolution is undertaken through broad-based criteria as compared to grants that can be more finely targeted. There is a need for the FCs to introduce

modifications in the tax devolution criteria where better targeting can be achieved in the inter-se distribution of transfers with a view to satisfying the states' requirements. Some of the state and sector specific grants which were used for finer targeting, as recommended by FC15, were not accepted by the central government. This is because of Gol's concerns pertaining to a sharp increase in the states' share in central taxes by 10% points by FC14.

In this context, it is important that tax devolution criteria and their inter-se weights be determined on an objective basis and the chosen indicators should better reflect states' needs and cost disabilities⁶. Table 4 gives the relative weights associated with different criteria used by recent FCs. For recognizing the different roles of the factors considered under these criteria, we may divide them into four broad groups. One set is neutral, implying the same per capita transfers to all states. The population criterion is an example of this (See, for details, Rangarajan and Srivastava, 2011)⁷. Another major criterion is redistributive in the sense that a lower per capita income state receives a higher per capita transfer under this criterion. Relevant examples are income distance and fiscal capacity distance criteria. A third group of criteria reflects differences in unit costs of providing public and merit services across states. Examples include criteria based on area and forest cover. The fourth group relates to embedding incentives within tax devolution. Under this category, criteria pertaining to tax effort, fiscal discipline and demographic change may be listed. Recognizing that there is now a greater dependence on tax devolution as an instrument of fiscal transfers, ways need to be found to increase the information content under each of these groups so that transfers through tax devolution can be better targeted.

Table 4: Relative weights for different tax devolution criteria: FC12 to FC15

#	Type of criteria	Criteria	Relative weights (%)				
			FC 12	FC 13	FC 14	FC 15 (1)	FC 15 (2)
1	Neutral	Population	25	25	17.5	15.0	15.0
2	Redistributive	Income/fiscal capacity distance	50	47.5	50	45.0	45.0
3	Relative costs	Area	10	10	15	15.0	15.0
		Forest cover	-	-	7.5	10.0	10.0
4	Incentives	Tax effort	7.5	-	-	2.5	2.5
		Fiscal discipline	7.5	17.5	-	-	-
		Demographic change	-	-	10	12.5	12.5

Source (basic data): FC Reports [FC12 to FC15(2)]

The debate regarding trade-off between equity and efficiency: the equalization principle

There has been a debate regarding the relative emphasis that needs to be given to criteria reflecting equity vis-à-vis those that reflect efficiency. While some of the less developed states argue in favor of assigning a relatively higher weight to equity considerations, some of the high per capita income states argue for higher weights to efficiency considerations.

In the literature on fiscal federalism as well as in empirical practice, in many established federal countries, the principle of equalization in fiscal transfers has been considered desirable on account of its compatibility with equity and efficiency. Empirically, two approaches have evolved in regard to translating equalization into practice. In the first approach, equalization is limited to fiscal capacity equalization.⁸ In the second approach, this is supplemented by expenditure side equalization. Canada follows the first approach, while Australia is an example of the second.

Equalization payments in the Canadian Constitution are defined as:

"Parliament and the government of Canada are committed to the principle of making equalization payments to ensure that provincial governments have sufficient revenues to provide reasonably comparable levels of public services at reasonably comparable levels of taxation." (Subsection 36(2) of the Constitution Act, 1982)

In this approach, the focus is on fiscal capacity equalization. Here, transfers make up for the deficiency in fiscal capacity but not that in revenue/tax effort. This is consistent with equity as the equalized fiscal capacities lead to equitable standards of publicly provided public and merit goods. Examples of public goods are defence, government administration, internal security, and law and justice. Examples of merit goods are health and education. Merit goods, that are essentially private in nature, are characterized by significant positive externalities, implying that the benefits to the society at large from the provision of merit goods is more than the sum of individual benefits. Such goods are likely to be under-provided if their provision is left entirely to market forces. Equitable provision of public and merit

⁶ Cost and need differentials are primarily due to varying initial and evolving ground conditions of subnational governments such as the nature of terrain and distribution and structure of resident population.

⁷ Rangarajan, C., & Srivastava, D. K. (2011). Federalism and fiscal transfers in India. *OUP Catalogue*.

⁸ Fiscal capacity refers to the revenue raising capacity of a tier of government.

goods across regions ensures that undue migration of people from one region to another in the pursuit of higher standards of such goods does not take place. In this sense, this approach is even characterized by efficiency. Efficiency is also ensured in another sense. If citizens of a region prefer a lower size of government, implying that they are willing to make a lower tax contribution, then the equalization principle ensures that such a preference does not lead to higher transfers. Thus, this approach aims at equalizing fiscal capacity subject to comparable tax effort.

On the other hand, the Australian approach takes into account need and cost disabilities in providing public and merit goods and services in addition to fiscal capacity equalization. The principle of Horizontal Fiscal Equalisation in Australia is defined as:

“State governments should receive funding from the pool of goods and services tax [can apply to any relevant sharable pool] such that, after allowing for material factors affecting revenues and expenditures, each would have the fiscal capacity to provide services and the associated infrastructure at the same standard, if each made the same effort to raise revenue from its own sources and operated at the same level of efficiency” (2015 Review, Commonwealth Grants Commission, Australia)

It is notable that in the Australian definition, reference is also made to infrastructure which requires capital expenditures. Further, there is a stipulation regarding incurring expenditures at comparable levels of efficiency. This approach requires that not only there should be a framework for measuring relative expenditure efficiency, but there should also be suitable recognition of differences in conditions affecting unit costs and relative needs across the subnational governments.

Instruments of transfers in India: relative shares of tax devolution and grants

With the discontinuation of the mechanism of plan grants, the FC has become the main channel through which transfers from the central to the state governments are determined. The targeting of these transfers therefore needs to be considered on a footing different from the time when the Planning Commission also played a major role in the determination of grants. Table 5 gives the relative shares of tax devolution and FC grants since FC10. It is notable that the share of tax devolution in total transfers has come down from a peak of 91.4% (FC10) to 89.2% (FC14) and further to 80.6% [FC15(2)]. Correspondingly, the share of grants has increased to 19.4% in the case of FC15(2). In fact, the share of grants meant for the local bodies has increased nearly four-fold, from 2.4% (FC10 and FC11) to 8.5% and 8.2% [FC15(1) and FC15(2)]. The role of revenue deficit grants was also increased inordinately by FC15 as compared to FC14.

Table 5: Relative importance of tax devolution and grants

Finance Commission	Tax devolution	Revenue deficit grants	Disaster relief	Local body grants	Other grants	Total Grants	Total transfers
Recommended amounts (INR crore)							
FC 10	200438	6399	4651	5331	2502	18883	219321
FC 11	371464	24148	8111	9910	4845	47014	418477
FC 12	605670	44502	15656	24681	44362	129201	734871
FC 13	1427913	35863	25495	86468	90498	238324	1666237
FC 14	3889408	135155	53829	282667	0	471650	4361058
FC 15 (1)	855176	74340	22184	90000	14499 [#]	201023	1056199
FC 15 (2)	4224760	294514	122601	427911	171636 [#]	1016662	5241422
Shares (%)							
FC 10	91.4	2.9	2.1	2.4	1.1	8.6	100.0
FC 11	88.8	5.8	1.9	2.4	1.2	11.2	100.0
FC 12	82.4	6.1	2.1	3.4	6.0	17.6	100.0
FC 13	85.7	2.2	1.5	5.2	5.4	14.3	100.0
FC 14	89.2	3.1	1.2	6.5	0.0	10.8	100.0
FC 15 (1)	81.0	7.0	2.1	8.5	1.4	19.0	100.0
FC 15 (2)	80.6	5.6	2.3	8.2	3.3	19.4	100.0

Source: Reports of FC 10 to FC 15.

Note: For the period from FY10 to FY14, transfers to states excludes the transfers made to Jammu and Kashmir.

[#]For FC 15 (1) and FC 15 (2), some of the grants listed here under other grants are still under the consideration of the central government. These have not been accepted so far

At the time of making recommendations, the FC does not exactly know the magnitude of central taxes as this pertains to future years. There is thus a deviation between recommended transfers and actual transfers. Table 6 gives the relative shares of tax devolution and grants after the actual transfers are determined. Grants are fixed in nominal magnitudes, whereas tax devolution depends on union government's tax performance. In years in which

central taxes underperform relative to FC predictions, the share of tax devolution in total transfers is expected to go down as compared to the share estimated by the FCs.

Table 6: Actual transfers received by states (magnitude and shares)

Finance Commission	Tax devolution	Total Statutory Grants	Total transfers
Actual amounts (INR crore)			
FC 10	190520	20585	211105
FC 11	310721	58335	369056
FC 12	691786	101033	792818
FC 13	1422720	180607	1603327
FC 14	3116820	428627	3545447
FC 15 (1)	595227	182531	777758
Shares (%)			
FC 10	90.2	9.8	100.0
FC 11	84.2	15.8	100.0
FC 12	87.3	12.7	100.0
FC 13	88.7	11.3	100.0
FC 14	87.9	12.1	100.0
FC 15 (1)	76.5	23.5	100.0

Source (basic data): RBI State Finances (2023)

Issues regarding local governments

The Constitution provides for the appointment of State Finance Commissions (SFCs) within one year from the commencement of the Constitution Amendment Act 1992, and, thereafter, at the expiry of every fifth year⁹. Thus, as per the Constitutional provisions, setting up of sixth SFC became due in FY20 in all the states.

Many state governments have lagged in setting up SFCs in their respective states according to this periodicity. As a result, there is now a desynchronization in the sequence of SFCs which have been set up in different states. Table 7 gives the present status regarding the lag between the expected SFCs and the actual SFCs for different states.

Table 7: State-wise status of constitution of SFCs

State	Expected SFC (by 2019-20)	Actual SFC	Lag
Andhra Pradesh	6	4	2
Arunachal Pradesh	6	2	4
Assam	6	6	0
Bihar	6	6	0
Chhattisgarh	6	4	2
Goa	6	3	3
Gujarat	6	3	3
Haryana	6	6	0
Himachal Pradesh	6	6	0
Jammu & Kashmir	6	1	5
Jharkhand	6	3	3
Karnataka	6	4	2
Kerala	6	6	0
Madhya Pradesh	6	5	1
Maharashtra	6	5	1
Manipur	6	5	1
Meghalaya	0	-	-
Mizoram	0	2	-
Nagaland	0	3	-
Odisha	6	5	1
Punjab	6	6	0
Rajasthan	6	6	0
Sikkim	6	6	0
Tamil Nadu	6	6	0
Telangana	2	1	1

⁹ Gupta, M., & Chakraborti, P. (2019). *State finance commissions: How successful have they been in empowering local governments?*. New Delhi, India: National Institute of Public Finance and Policy.

State	Expected SFC (by 2019-20)	Actual SFC	Lag
Tripura	6	4	2
Uttar Pradesh	6	5	1
Uttarakhand	6	5	1
West Bengal	6	5	1

Source: Gupta and Chakraborti (2019), 31st Report of the Standing Committee on Rural Development and Panchayati Raj (2022-23) - presented to Lok Sabha on 14-03-2023

(https://loksabhadocs.nic.in/lssccommittee/Rural%20Development%20and%20Panchayati%20Raj/17_Rural_Development_and_Panchayati_Raj_31.pdf)

<https://dipr.mizoram.gov.in/post/mizoram-finance-commission-pahnihna2nd-mfc-in-hna-thawk-tan>, <https://ipr.nagaland.gov.in/index.php/third-nagaland-state-finance-commission-constituted>

Note: As per 73rd and 74th Constitutional Amendment Act 1992 three states namely Meghalaya, Mizoram and Nagaland are exempted from constituting SFCs. However, Mizoram and Nagaland have constituted SFCs.

However, the issue is not just the setting up of the SFCs, but also the delays regarding accepting and implementing their recommendations. These may have both quantitative and qualitative dimensions. It is important to promote decentralization and use central grants to state governments earmarked for local governments for promoting decentralization.

In this context, FC15 in its final report, had stated that no local body grants would be released to a state after March 2024 if it fails to constitute its SFC on or before March 2024. The relevant recommendation is given below.

"7.58 We recommend that all States which have not done so, must constitute SFCs, act upon their recommendations and lay the explanatory memorandum as to the action taken thereon before the State legislature on or before March 2024. After March 2024, no grants should be released to a State that has not complied with the Constitutional provisions in respect of the SFC and these conditions. The MoPR will certify the compliance of all Constitutional provisions by a State in this respect before the release of their share of grants for 2024-25 and 2025-26."

Managing natural disasters

The Disaster Management Act 2005 envisaged the constitution of two types of funds, one for disaster response and the other for mitigation. These are to be set up at the national, state and district levels. The Disaster Response Funds have been set up at all levels in most states.

In India, the state governments initiate necessary relief measures in the wake of natural calamities from State Disaster Response Fund (SDRF). Contribution to SDRF is made by central and state governments in the ratio of 3:1 for 18 general category states and in the ratio of 9:1 for 10 special category states. Gol provides additional financial assistance from National Disaster Response Fund (NDRF), over and above SDRF, for natural calamities of severe nature as per established procedure and extant norms. Allocation under SDRF is made on the basis of recommendations of the FC.

Until recently, the disaster mitigation funds were not generally set up. Some progress in this context has been made based on the recommendations of FC15, which had developed a Disaster Risk Index which was used to allocate recommended disaster risk funds covering both disaster relief and mitigation requirements. In fact, the central government had set up a Disaster Mitigation Fund on 5 February 2021¹⁰. Many state governments have also taken a similar initiative. In this context, it may be best to earmark a certain portion of central and state budgets for disaster relief and mitigation funds.

Restoring fiscal balance

A number of fiscal policy reforms during the 1990s were accompanied by growing revenue deficits in the central and combined government accounts. One reason for this was proliferating government subsidies. The fiscal cost of explicit and implicit budgetary subsidies was highlighted in a parliamentary discussion paper on subsidies¹¹. Subsequently, policymakers considered legislative and statutory limits on fiscal deficits. As a result, the Gol came up with a Fiscal Responsibility and Budget Management Act (FRBMA) in 2003. Some states had also initiated FRLs in their respective states. The state-level FRLs gathered momentum after the recommendations of FC12. FC12 had linked the enactment of state-level FRLs to a major relief in individual states' debt servicing requirements. As a result, all states, except West Bengal and Sikkim, adopted their FRLs. The two exception states also adopted FRLs subsequently. The conditionalities that needed to be satisfied in the state-level FRLs specified by FC12 (Paragraph 4.45) are as follows:

¹⁰ <https://pib.gov.in/PressReleaseIframePage.aspx?PRID=1907163>

¹¹ Government of India (1997) *Government Subsidies in India*. Discussion Paper. Ministry of Finance. Government of India.

- ▶ *The overall debt-GDP ratio on the combined account (with external debt measured at historical exchange rates) may be targeted to be brought down to 56% GDP over a period of time. Since the level is estimated to be as high as 81% of GDP at the end of 2004-05, it should be brought down to at least 75% by the end of 2009-10.*
- ▶ *The level of combined interest payments relative to revenue receipts should be brought down from 34% in 2004-05 to 22% in 2009-10, and eventually to about 17%.*
- ▶ *The system of on-lending by the centre to the states should be phased out. The long-term goal for the centre and state for the debt-GDP ratio should be 28% each. Their fiscal deficit to GDP ratio targets should be 3% each.*

The union government's FRBMA of 2003 was amended in 2018 based on the recommendations of the FRBM Review Committee which had submitted its report in 2017. There were four main changes brought about by this amendment. First, the target of maintaining a balance or surplus on the revenue account was given up. Second, the fiscal deficit to GDP targets for both central and state governments were kept at 3% of GDP each and these were made operational targets. Third, the statutory target was defined in terms of government debt-GDP ratios. Separate limits were defined for the central government at 40% of GDP and for the aggregate of states at 20%. Fourth, a number of countercyclical clauses were provided as part of the Act. In the literature that developed subsequently, certain inconsistencies in the debt and fiscal deficit targets were noted (see, for details, *Srivastava 2022*)¹². Also, the levels of government debt and fiscal deficits rose inordinately in FY21 in response to COVID-19. There is now a need to re-examine union government's FRBMA as amended in 2018. FC15 had also recommended the setting up of a High-powered intergovernmental group to examine these issues. In particular, three issues need to be addressed. First, the debt and fiscal deficit targets should be made internally consistent. Second, once the new norms are specified, a new glide path can be indicated by the Commission based on their growth projections. Third, a more realistic macro stabilization clause can be incorporated in the FRBMA since the present provisions proved to be inadequate in the face of economic slowdown during FY20 and FY21 which was the COVID year.

In recent years, there has also been a reemphasis on providing subsidies by some of the state governments, which may be non-merit in nature. An example of this is provision of free electricity, which is a private good with limited externalities. Another issue that appears to be gathering momentum pertains to the re-introduction of the old pension scheme in some states without a clear identification of sources of financing the resultant fiscal burdens. In this context, the RBI (State Finances: A Study of Budgets, January 2023) had made the following observation: *'A major risk looming large on the sub-national fiscal horizon is the likely reversion to the old pension scheme by some states. The annual saving in fiscal resources that this move entails is short-lived. By postponing the current expenses to the future, states risk the accumulation of unfunded pension liabilities in the coming years.'* The Commission should find methods to penalize states who are not able to keep their fiscal deficit within the FRL norms. One possibility is to set up a 'Loan Council' which was recommended by FC12 to oversee the debt and fiscal deficit profiles of the central and state governments. This Council may consist of Chairman and Members representing the Ministry of Finance, Reserve Bank of India, two state governments by rotation, and fiscal experts.

Conclusion

Under the guidance of the FCs, the contentious matter of sharing of resources between central and state governments has been handled in a relatively stable manner. So far, 15 FCs have submitted their recommendations. FC16 is due to be set up. There are three key dimensions of the economy and government finances that are pertinent in the context of union-state fiscal relations. These relate to handling of (1) vertical imbalance in the system resulting from asymmetrical allocation of revenue raising powers vis-à-vis. expenditure responsibilities, (2) horizontal imbalances arising from initial conditions regarding needs and costs of provision of public goods, and (3) inordinate rise in fiscal imbalances, especially after the deleterious effect of COVID-19. FC16 would be required to address these issues.

¹² Srivastava, D. K. (2022). The Future of fiscal consolidation in India, *Economic and Political Weekly*, Issue No. 13, Volume 57, 29-35

6. Money and finance: bank credit showed a robust growth of 15.4% in May 2023

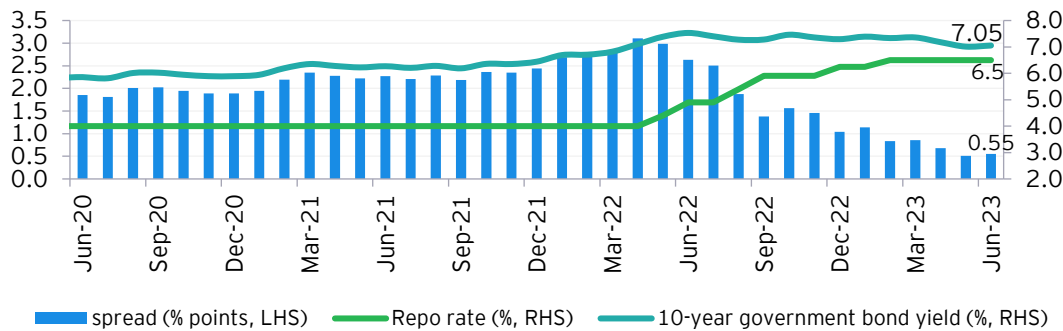


A. Monetary sector

Monetary policy

- ▶ In its June 2023 monetary policy meeting, the members of the Monetary Policy Committee (MPC) unanimously voted to retain the repo rate at 6.5% (Chart 6). The MPC also decided to retain the policy stance as 'withdrawal of accommodation' to ensure that inflation is progressively brought closer to the target.
- ▶ The RBI, while projecting CPI inflation to average at 5.1% in FY24, cautioned that upside risks to inflation may emanate from continued geopolitical tensions, uncertainties around the monsoon, volatility in global financial markets and relatively high international commodity prices, especially those of sugar, rice and crude oil.

Chart 6: Movements in the repo rate and 10-year government bond yield



Growth in bank credit grew at a robust pace of 15.4% in May 2023.

Source: Database on Indian Economy, RBI

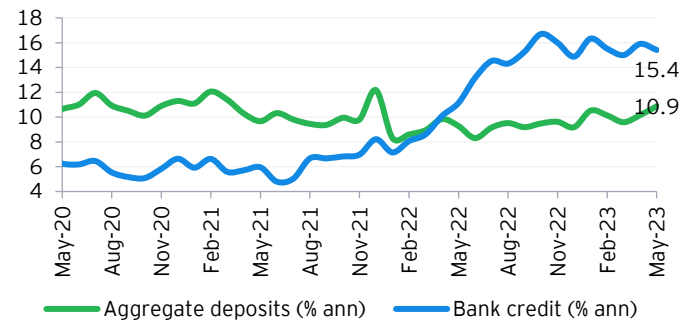
Money stock

- ▶ Growth in broad money stock (M3) increased to an 18-month high of 10.6% in June 2023 from 10.1% in May 2023 as growth in time deposits increased during the month.
- ▶ Time deposits, the largest component of M3, showed a strong growth of 11.7% in June 2023, increasing from 10.9% in May 2023.
- ▶ Growth in M1 at 7.5% in June 2023 was close to its level of 7.6% in May 2023. Growth in currency with the public moderated to 5.3% in June 2023 from 8.1% in May 2023. However, growth in demand deposits increased to 10.2% in June 2023 from 6.3% in May 2023.

Aggregate credit and deposits

- ▶ Gross bank credit by SCBs continued to show a double-digit growth of 15.4% in May 2023 although marginally lower than 15.9% (y-o-y) in April 2023 (Chart 7).
- ▶ Non-food credit grew by 15.6% in May 2023, slightly lower than 16.1% in April 2023 led by a broad-based slowdown in credit growth across key sectors.
- ▶ Sectoral bank credit data indicate that growth in outstanding credit to industries moderated to 6.0% in May 2023 from 7.0% in April 2023. Within the industrial sector, growth in credit to chemicals and chemical products (4.6%), cement and cement products (12.9%) and iron and steel (19.5%) witnessed a slowdown in May 2023. Credit to infrastructure continued to show a subdued growth of 1.8% in May 2023 as compared to 1.7% in April 2023.
- ▶ Although credit to agriculture and allied activities showed a robust growth of 16.0% in May 2023, it was lower than 16.7% in April 2023.
- ▶ Credit to services grew by 21.4% in May 2023, close to its level of 21.6% in April 2023. Similarly, personal loans, a key driver of retail loans, grew by 19.2% in May 2023 as compared to 19.4% in April 2023.

Chart 7: Growth in credit and deposits



Source: Database on Indian Economy, RBI

- ▶ Growth in aggregate deposits of residents increased for the second successive month to 10.9% in May 2023 from 10.2% in April 2023.

B. Financial sector

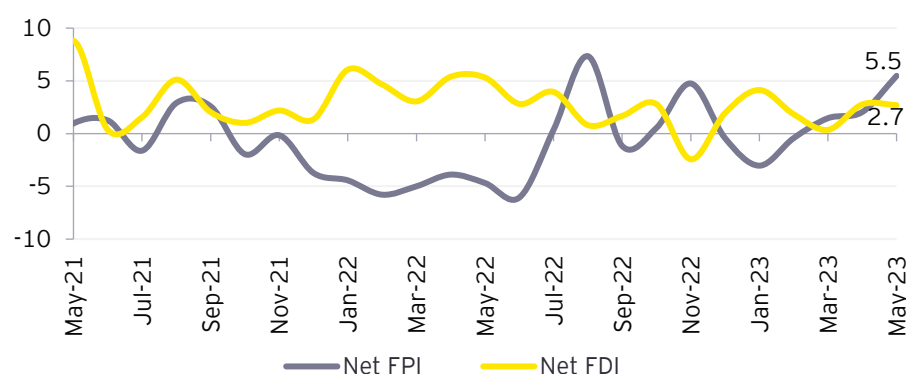
Interest rates

- ▶ As per the data released by the RBI in July 2023, the average interest rate on term deposits with a maturity period of more than one year was retained for the sixth successive month at 6.63% in June 2023 with the actual rate ranging between 6.00% and 7.25%.
- ▶ The MCLR averaged 8.15% in June 2023 with the actual MCLR ranging between 7.95% and 8.35% during the month. In May 2023, the MCLR averaged 8.20%.
- ▶ The average yield on 10-year government bonds at 7.05% in June 2023 was close to its level of 7.01% in May 2023 (**Chart 6**). In 1QFY24, benchmark bond yields averaged 7.08%, that is, about 28 basis points lower as compared to 7.36% in 4QFY23.
- ▶ WALR on fresh rupee loans by SCBs increased to 9.27% in May 2023 from 9.08% in April 2023.

FDI and FPI

- ▶ As per the provisional data released by the RBI on 17 July 2023, overall foreign investments¹³ (FIs) inflows increased to US\$8.2 billion in May 2023 from US\$4.8 billion in April 2023 due to a surge in net FPI inflows.

Chart 8: Net FDI and FPI inflows (US\$ billion)



Net FPI inflows surged to US\$5.5 billion in May 2023. Net FDI inflows amounted to US\$2.7 billion in this month, close to its level in April 2023.

Source: Database on Indian Economy, RBI

- ▶ Net FPI inflows surged to US\$5.5 billion in May 2023 from US\$2.0 billion in April 2023. During April-May 2023, on a cumulated basis, net FPI inflows amounted to US\$7.5 billion as compared to net outflows amounting to US\$(-)8.6 billion in April-May 2022.
- ▶ Net FDI inflows at US\$2.7 billion in May 2023 was close to its level of US\$2.8 billion in April 2023 (**Chart 8**). Gross FDI inflows were lower at US\$5.3 billion in May 2023 as compared to US\$6.9 billion in April 2023. During April-May 2023, net FDI inflows were lower at US\$5.5 billion as compared to US\$10.7 billion during April-May 2022.

¹³ Foreign Investment (FI) = net FDI plus net FPI



7. Trade and CAB: current account deficit fell to 0.2% of GDP in 4QFY23

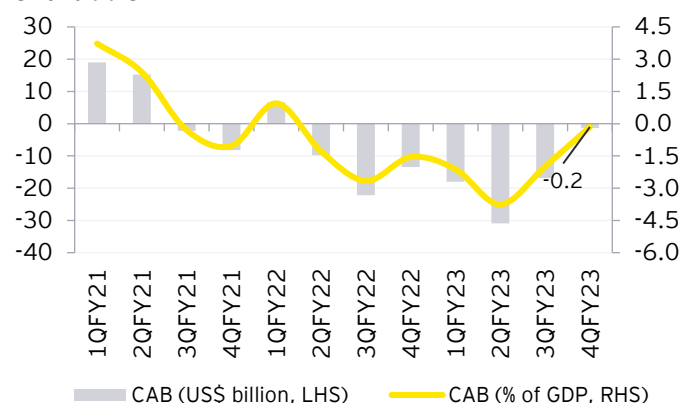
A. CAB: current account deficit eased to a seven-quarter low of 0.2% of GDP in 4QFY23

- ▶ Net merchandise trade deficit narrowed to 6.0% of GDP in 4QFY23 from 8.4% in 3QFY23. This was due to a) a fall in imports to a seven-quarter low of 19.3% of GDP in 4QFY23 reflecting lower global crude prices and b) increase in exports to 13.3% of GDP from a seven-quarter low of 12.5% in 3QFY23. On an annual basis, the current account deficit widened to 2.0% of GDP in FY23 from 1.2% in FY22.
- ▶ Net invisibles relative to GDP were lower at 5.9% in 4QFY23 as compared to 6.4% in 3QFY23, as net private transfers declined to 2.8% of GDP from a 34-quarter high of 3.4% in 3QFY23. For FY23, however, net private transfers were at a seven-year high of 3.0% of GDP.

Table 8: Components of CAB in US\$ billion

Fiscal year	CAB as % of nominal GDP	CAB	Goods account net	Invisibles* net
FY20	-0.9	-24.7	-157.5	132.8
FY21	0.9	23.9	-102.2	126.1
FY22	-1.2	-38.8	-189.5	150.7
FY23	-2.0	-67.1	-265.3	198.2
1QFY23	-2.1	-18.0	-63.1	45.1
2QFY23	-3.8	-30.9	-78.3	47.4
3QFY23	-2.0	-16.8	-71.3	54.5
4QFY23	-0.2	-1.4	-52.6	51.2

Chart 9: CAB



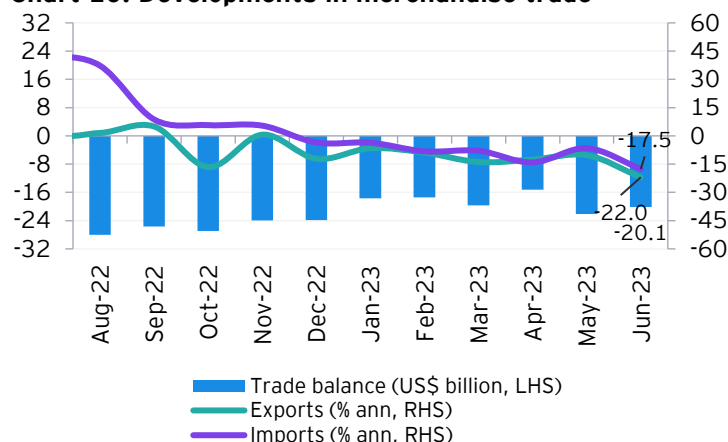
Source: Database on Indian Economy, RBI; Note: (-) deficit; (+) surplus; *invisibles include services, current transfers and income components

B. Merchandise trade and exchange rate

Merchandise exports and imports contracted sharply by (-)22.0% and (-)17.5% in June 2023 as compared to (-)10.3% and (-)6.6% respectively in May 2023, mainly reflecting subdued global demand.

- ▶ The contraction in overall exports and imports was led by contracting trade in oil, which was partly due to the fall in oil prices on a y-o-y basis. Oil exports showed a contraction of (-)47.5% whereas oil imports fell by (-)33.8% in June 2023 as compared to (-)29.9% and (-)6.0% respectively in the previous month.
- ▶ Contraction in exports excluding oil, gold and jewelry increased to (-)10.7% in June 2023 from (-)4.0% in May 2023 and that in imports of this category turned negative at (-)9.6% from a growth of 3.6% over the same period.
- ▶ Growth in exports of electronic goods remained high at 45.4% in June 2023 whereas growth in its imports eased to 8.5% in June 2023 from 18.1% in May 2023.
- ▶ The pace of contraction in exports of engineering goods and chemicals more than doubled to (-)11.0% and (-)26.7% respectively in June 2023.
- ▶ Growth in imports of machinery and non-ferrous metals turned negative at (-)2.2% and (-)3.5% in June 2023.
- ▶ Out of the 30 sectors for which trade data is provided, 21 sectors exhibited a y-o-y decline in exports and imports as compared to 17 and 16 sectors respectively in the previous month.
- ▶ Merchandise trade deficit remained elevated at US\$20.1 billion in June 2023 as compared to a five-month high of US\$22.1 billion in May 2023 (Chart 10). Goods and services deficit had fastened to a six-month high of US\$10.6 billion in May 2023.
- ▶ The INR appreciated marginally to INR82.2 per US\$ (average) in June 2023 from INR82.3 per US\$ in May 2023.

Chart 10: Developments in merchandise trade



Source: Ministry of Commerce and Industry, GoI



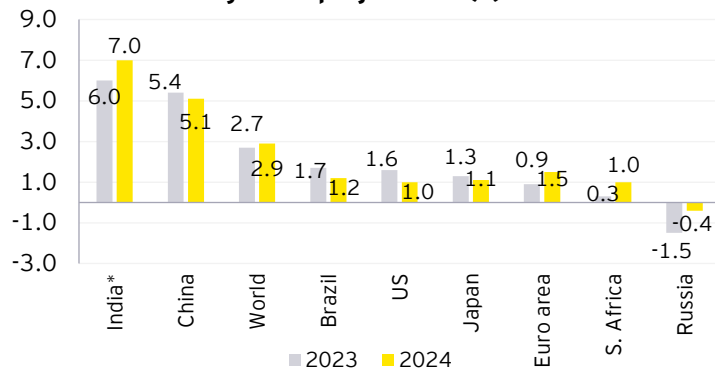
8. Global growth: Global growth is projected at 2.7% and 2.9% in 2023 and 2024

A. Global growth

- ▶ The OECD (June 2023) has projected global growth at 2.7% in 2023, the lowest annual rate since the global financial crisis, with the exception of the pandemic-hit year of 2020 (**Chart 11**). Growth is expected to improve only modestly to 2.9% in 2024, remaining below the historical standards.
- ▶ A sharp rise in interest rates since early 2022 has been reflected in a slowdown in final domestic demand growth in the US. Housing investment has declined sharply, and business investment has shown signs of weakness. Growth in the US is projected at low levels of 1.6% in 2023 and 1% in 2024.
- ▶ In the Euro area, GDP growth is projected at 0.9% in 2023. Private consumption is expected to be supported by strong labor markets, but higher financing costs and tighter credit standards would weigh on investment, despite the boost from higher spending under the Next Generation EU program. Growth is expected to pick up to 1.5% in 2024, helped by rising real incomes as inflation eases.
- ▶ In Japan, monetary policy is expected to remain accommodative, and fiscal policy is set to be largely neutral in 2023 before becoming less supportive in 2024. Policy support, together with signs of stronger wage growth, is expected to help GDP growth pick up to an above-trend pace of 1.3% in 2023 and 1.1% in 2024 and bring underlying inflation up towards 2% by the latter half of 2024 (**see Table 2**).
- ▶ Despite tighter financial conditions, GDP growth in India projected at 6% in 2023 (FY24) would remain higher than the growth in major economies. Growth is forecasted to improve to 7% in 2024 (FY25), helped by lower inflation and stronger external demand.
- ▶ As per the OECD, China is expected to see the sharpest positive shift in growth between 2022 and 2023 among the G20 economies, largely on account of the lifting of the government's zero-COVID-19 policy. Growth is projected to rise to 5.4% in 2023, easing to 5.1% in 2024 as the rebound associated with reopening fades.

The OECD has projected global growth to ease to 2.7% in 2023, with India's FY24 growth forecasted at 6%.

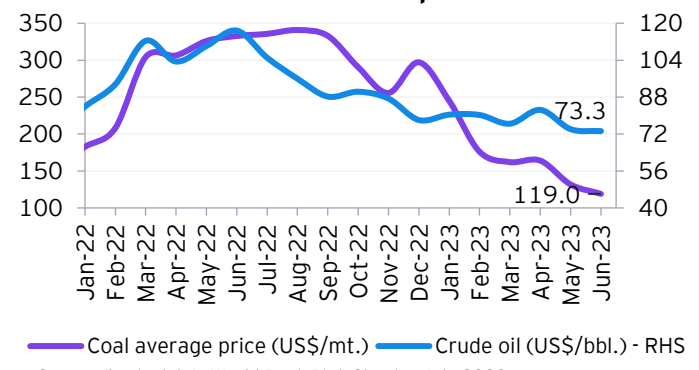
Chart 11: Global growth projections (%)



Source: OECD Economic Prospects (June 2023)

*Data pertains to fiscal years FY24 and FY25 respectively.

Chart 12: Global crude and coal prices



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

B. Global energy prices: global crude price fell to an 18-month low of US\$73.3/bbl. in June 2023

- ▶ Average global crude price¹⁴ fell for the second successive month to US\$73.3/bbl. in June 2023, driven by concerns of a slowdown in global growth and the possibility of interest rate hikes by the US¹⁵ (**Chart 12**). On a quarterly basis, global crude oil price averaged US\$76.6/bbl. in 1QFY24, the lowest since 2QFY22.
- ▶ Average global coal price¹⁶ also fell to a 25-month low of US\$119/mt. in June 2023 from US\$131.7/mt. in May 2023. On a quarterly basis, global coal price averaged US\$138.3/mt. in 1QFY24, the lowest since 2QFY22.

¹⁴ Simple average of three spot prices, namely, Dated Brent, West Texas Intermediate and Dubai Fateh

¹⁵ <https://www.reuters.com/markets/commodities/oil-prices-slip-global-economic-slowdown-fears-2023-07-03/>

¹⁶ Simple average of Australian and South African coal prices.

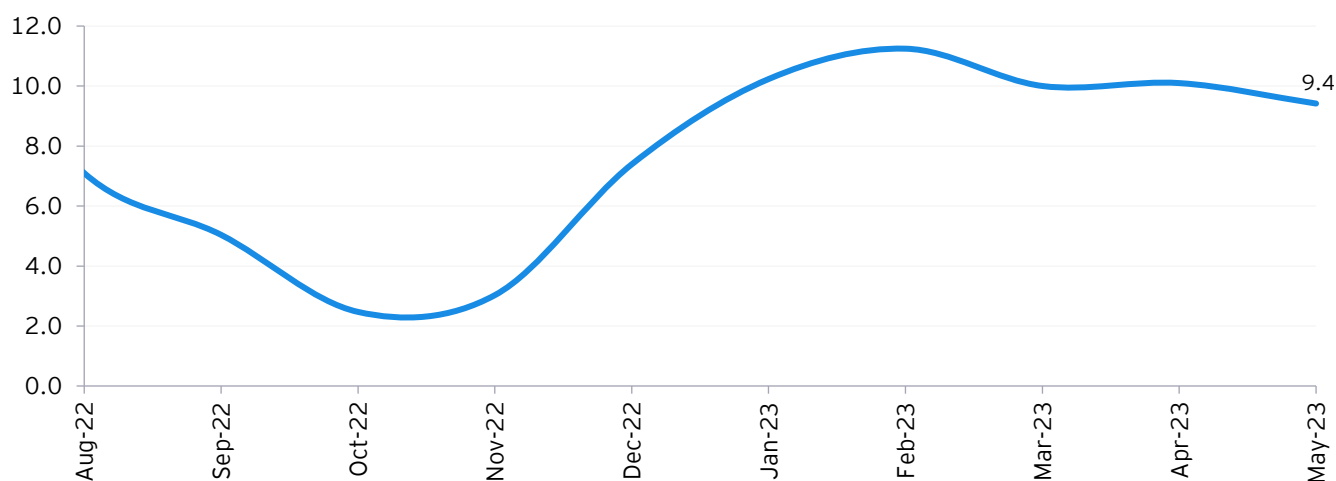


9. Index of Aggregate Demand (IAD): grew by 9.4% in May 2023

IAD continued to show a strong growth of 9.4% in May 2023

- ▶ IAD¹⁷ continued to post a strong growth of 9.4% in May 2023, as compared to 10.1% in April 2023 (Chart 13 and Table 9).
- ▶ There was continued improvement in the demand conditions across the three major sectors of the economy. In particular, demand conditions in the manufacturing sector stayed strong as indicated by the manufacturing PMI, which increased from 57.2 in April 2023 to 58.7 in May 2023.
- ▶ Demand conditions in the services sector continued to show a robust expansion in May 2023. Services PMI was at 61.2 in May 2023 as compared to 62 in April 2023.
- ▶ Similarly, the agricultural sector continued to witness a strong expansion in demand conditions in May 2023. This was reflected by a double-digit growth (sa)¹⁸ in agricultural credit off-take at 16.1% in May 2023 as compared to 16.7% in April 2023.

Chart 13: Growth in IAD (y-o-y)



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

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

Table 9: IAD

Month	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23
IAD	149.4	151.0	153.2	157.4	155.0	157.9	157.9	163.8	164.8
Growth (% y-o-y)	5.0	2.5	3.0	7.4	10.2	11.2	10.0	10.1	9.4
Growth in agr. Credit	13.4	13.5	13.7	11.4	14.4	15.0	15.6	16.7	16.1
Mfg. PMI**	5.1	5.3	5.7	7.8	5.4	5.3	6.4	7.2	8.7
Ser. PMI**	4.3	5.1	6.4	8.5	7.2	9.4	7.8	12.0	11.2

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

Source (basic data): S&P Global, RBI and EY estimates

¹⁷ EY has developed an Index of Aggregate Demand (IAD) to reflect the monthly combined demand conditions in the agriculture, manufacturing, and services sectors. It considers the movements in PMI for manufacturing and services, both measured in seasonally adjusted (sa) terms, tracing the demand conditions in these sectors. Movements in the monthly agricultural credit off-take (sa) capture the demand conditions in the agricultural sector

¹⁸ We have constructed a seasonally adjusted series for agricultural credit using Census X-13 technique in E-views (version 12) and the growth of this SA agricultural credit series is used in the IAD series.

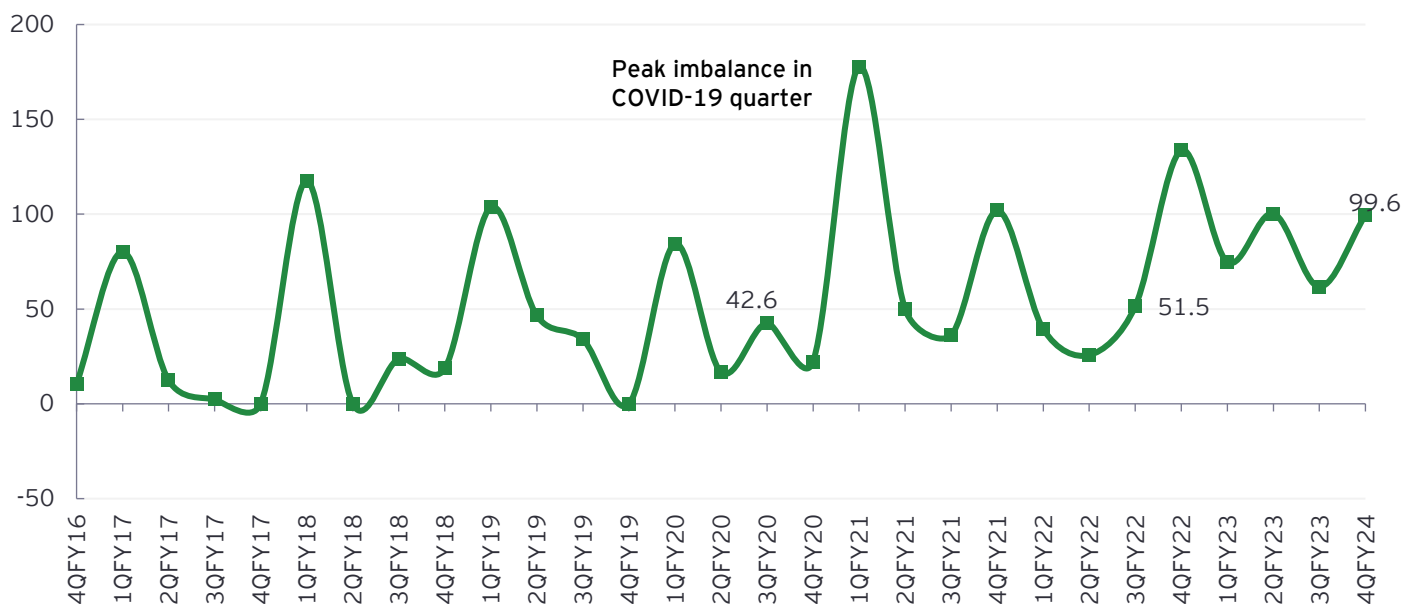


10. Index of Macro Imbalance (IMI): pointed to a deterioration in macro balance in 4QFY23

IMI increased to 99.6 in 4QFY23 from 61.7 in 3QFY23

- ▶ IMI¹⁹ pointed to a deterioration in macro balance in 4QFY23 with the index value rising to 99.6 from 61.7 in 3QFY23 (Chart 14) led by relatively higher fiscal deficit as a percentage of GDP.
- ▶ Govt's fiscal deficit averaged 10.3% of GDP in 4QFY23, increasing from 5.4% of GDP in 3QFY23, remaining significantly higher than the target of 3% of GDP. Therefore, it contributed the maximum to the deterioration in the macro balance in 4QFY23.
- ▶ CPI inflation averaged 6.2% in 4QFY23, close to its level in 3QFY23, but higher than its benchmark value of 4% thereby contributing positively to IMI.
- ▶ Current account deficit narrowed to 0.2% of GDP in 4QFY23, falling below its benchmark value of 1.3%. CAD therefore did not contribute to the macro imbalance during 4QFY23.

Chart 14: IMI (quarterly)



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

¹⁹ The IMI is obtained by adding the percentage deviation of inflation rate (based on new CPI 2012 = 100), fiscal deficit (as a percentage of GDP) and current account deficit (as a percentage of GDP) from their respective benchmarks of 4%, 3% of GDP and (-)1.3% of GDP (Rangarajan 2016). All three components of IMI have been given equal weightage (33.33%). The state of balance is judged by a value of 0. An index value greater than zero indicates the presence of an imbalance in the economy. While considering the percentage deviation of each of the indicators from its selected norm, only the positive deviations are taken. Negative deviations are equated to zero to ensure that the negative and positive deviations across indices are not canceled out.
Rangarajan, C (2016): "Can India grow at 8 to 9 per cent?" The Hindu, (<http://www.thehindu.com/opinion/lead/can-india-grow-at-8-to-9-per-cent/article8596824.ece>, Accessed on 17 May 2016.)



11. Capturing macro-fiscal trends: data appendix

Table A1: Industrial growth indicators (annual, quarterly, and monthly growth rates, y-o-y)

Fiscal year/ quarter/ month	IIP	Mining	Manufacturing	Electricity	Core IIP	Fiscal year/ quarter/ month	PMI mfg.	PMI ser.
	% change y-o-y							
FY20	-0.8	1.6	-1.4	0.9	0.4	FY20	52.3	51.9
FY21	-8.5	-7.8	-9.6	-0.5	-6.4	FY21	50.2	41.7
FY22	11.4	12.2	11.7	8.0	10.4	FY22	54.0	52.3
FY23	5.2	5.8	4.6	8.9	7.7	FY23	55.6	57.3
1QFY23	12.8	9.1	12.8	17.1	13.9	2QFY23	55.9	55.7
2QFY23	1.6	-0.9	1.5	4.9	5.7	3QFY23	56.3	56.7
3QFY23	2.8	7.6	1.4	7.9	4.9	4QFY23	55.7	58.1
4QFY23	4.4	6.9	3.7	6.0	6.7	1QFY24	57.9	60.6
Feb-23	6.0	4.8	5.9	8.2	7.4	Mar-23	56.4	57.8
Mar-23	1.7	6.8	1.2	-1.6	3.6	Apr-23	57.2	62.0
Apr-23	4.5	5.1	5.2	-1.1	4.3	May-23	58.7	61.2
May-23	5.2	6.4	5.7	0.9	4.3	Jun-23	57.8	58.5

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

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

Fiscal year/ quarter/ month	CPI	Food Price Index	Fuel and light	Core CPI	WPI	Food Price Index	Mfg. products	Fuel and power	Core WPI
	% change y-o-y					% change y-o-y			
FY20	4.8	6.7	1.3	3.8	1.7	6.9	0.3	-1.8	-0.4
FY21	6.2	7.7	2.7	5.5	1.3	4.0	2.8	-8.0	2.2
FY22	5.5	3.8	11.3	6.1	13.0	6.8	11.1	32.5	11.0
FY23	6.7	6.6	10.3	6.2	9.4	6.3	5.6	28.1	5.8
2QFY23	7.0	7.6	11.0	6.1	12.4	9.1	7.3	37.5	7.7
3QFY23	6.1	5.3	10.5	6.2	6.6	3.3	3.7	21.0	3.7
4QFY23	6.2	5.6	9.8	6.2	3.3	2.7	1.4	12.5	1.6
1QFY24	4.6	3.8	4.7	5.2	-2.8	-0.8	-2.7	-7.2	-2.0
Mar-23	5.7	4.8	8.8	5.9	1.4	2.3	-0.7	8.7	-0.3
Apr-23	4.7	3.8	5.5	5.2	-0.8	0.4	-2.3	1.0	-1.6
May-23	4.3	3.0	4.7	5.2	-3.5	-1.6	-3.0	-9.2	-2.2
Jun-23	4.8	4.5	3.9	5.2	-4.1	-1.2	-2.7	-12.6	-2.1

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

* The CPI for April and May 2020 has been imputed

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

Fiscal year/month	Gross tax revenue	Corporate tax	Income tax	Direct taxes*	Indirect taxes**	Fiscal deficit % of GDP	Revenue deficit % of GDP
FY20 (CGA)	-3.4	-16.1	4.0	-7.8	1.7	4.7	3.3
FY21 (CGA)	0.7	-17.9	-2.3	-10.7	12.7	9.2	7.3
FY22 (CGA)	33.8	55.7	43.5	49.6	20.1	6.7	4.4
FY23 (CGA)	12.7	16.0	20.0	17.9	7.2	6.4	3.9
FY24 (BE over FY 23 RE)	10.4	10.5	10.5	10.5	10.4	5.9	2.9
Cumulated growth (% , y-o-y)						% of budgeted target	
Oct-22	18.0	24.1	27.7	25.9	11.0	45.6	38.9
Nov-22	15.5	21.1	26.7	23.9	8.6	58.9	57.8
Dec-22	12.5	16.9	19.2	18.0	7.1	56.6 [§]	50.3 [§]
Jan-23	12.6	14.8	18.9	16.8	8.6	67.8 [§]	61.1 [§]
Feb-23	12.0	13.5	19.1	16.2	8.1	82.8 [§]	83.1 [§]
Mar-23	12.7	16.0	20.0	17.9	7.2	98.7 [§]	96.3 [§]
Apr-23	-6.1	-32.0	7.8	-9.2	0.0	7.5	6.4
May-23	-1.6	-28.0	12.6	-4.0	1.6	11.8	5.2

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

* Includes corporation tax and income tax

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

[§]as a proportion of revised estimate

Fiscal year/month	CGST	UTGST	IGST	GST compensation cess	Total GST (GoI)
INR crore					
FY23 (RE)	7,24,000	-	-	1,30,000	8,54,000
FY24 (BE)	8,11,600	-	-	1,45,000	9,56,600
Monthly tax collection (INR crore)					
Oct-22	72,219	595	-19,374	10,281	63,721
Nov-22	57,848	515	-2,580	10,323	66,106
Dec-22	60,778	232	-3,394	10,911	68,527
Jan-23	65,171	238	-1,671	10,427	74,165
Feb-23	60,075	394	-2,288	11,801	69,982
Mar-23	61,131	923	8,590	10,227	80,871
Apr-23	80,902	308	-9,304	11,861	83,767
May-23	60,667	263	951	11,241	73,122

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
Jul-22	4.90	FY20	9.5	9.9	43.0	1.4	FY20	11.2	8.9	6.83	475.6
Aug-22	5.40	FY21	6.0	11.0	44.0	36.1	FY21	16.2	12.2	6.05	579.3
Sep-22	5.90	FY22	6.7	9.7	38.6	-16.8	FY22	10.6	8.7	6.40	617.6
Oct-22	5.90	FY23	14.5	9.5	28.7	-5.2	FY23	6.8	9.0	7.35	578.4
Nov-22	5.90	1QFY23	11.8	9.1	13.6	-14.6	2QFY23	8.5	8.6	7.32	532.7
Dec-22	6.25	2QFY23	14.7	9.3	6.4	6.5	3QFY23	7.6	8.7	7.37	562.9
Jan-23	6.25	3QFY23	15.8	9.4	2.3	4.9	4QFY23	6.9	9.0	7.36	578.4
Feb-23	6.50	4QFY23	15.6	10.1	6.3	-2.0	1QFY24	7.5	10.6	7.08	595.1
Mar-23	6.50	Feb-23	15.5	10.1	1.8	-0.4	Mar-23	6.9	9.0	7.36	578.4
Apr-23	6.50	Mar-23	15.0	9.6	0.4	1.5	Apr-23	7.7	9.5	7.18	588.8
May-23	6.50	Apr-23	15.9	10.2	2.8	2.0	May-23	7.6	10.1	7.01	589.1
Jun-23	6.50	May-23	15.4	10.9	2.7	5.5	Jun-23	7.5	10.6	7.05	595.1

Source: Database on Indian Economy - RBI

Table A5: External trade and global growth

External trade indicators (annual, quarterly and monthly growth rates)							Global growth (annual)			
Fiscal year/ quarter/ month	Exports	Imports	Trade balance	Ex. rate (avg.)	Crude prices (avg.)	Coal prices (avg.)	Calendar year	World GDP	Adv. econ.	Emer. econ.
	% change y-o-y		US\$ billion	INR/US\$	US\$/bbl.	US\$/mt		% change y-o-y		
FY20	-5.1	-8.2	-157.4	70.9	58.5	70.4	2013	3.4	1.4	5.0
FY21	-7.0	-16.6	-101.4	74.2	43.8	67.2	2014	3.5	2.0	4.7
FY22	44.7	56.0	-191.0	74.5	78.4	164.8	2015	3.4	2.3	4.4
FY23	0.9	15.5	-282.0	80.4	92.7	283.4	2016	3.3	1.8	4.4
2QFY23	2.9	28.3	-83.7	79.8	96.4	336.4	2017	3.8	2.5	4.7
3QFY23	-9.9	2.3	-74.6	82.2	85.3	281.1	2018	3.6	2.3	4.7
4QFY23	-10.1	-6.7	-54.9	82.3	79.0	194.4	2019	2.8	1.7	3.6
1QFY24	-15.2	-12.8	-57.5	82.2	76.6	138.3	2020	-2.8	-4.2	-1.8
Mar-23	-13.9	-7.9	-19.7	82.3	76.5	162.0	2021	6.3	5.4	6.9
Apr-23	-12.7	-14.1	-15.2	82.0	82.5	164.0	2022*	3.5	2.7	4.0
May-23	-10.3	-6.6	-22.1	82.3	74.1	131.7	2023*	3.0	1.5	4.0
Jun-23	-22.0	-17.5	-20.1	82.2	73.3	119.0	2024*	3.0	1.4	4.1

Source: Database on Indian Economy - RBI, Pink Sheet - World Bank and IMF World Economic Outlook (WEO) April 2023; *sourced from IMF WEO Update July 2023

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

Fiscal year/quarter	Output: major sectors									IPD inflation
	GVA	Agr.	Ming.	Mfg.	Elec.	Cons.	Trans.	Fin.	Publ.	GVA
FY20 (3rd RE)	3.9	6.2	-3.0	-3.0	2.3	1.6	6.0	6.8	6.6	3.0
FY21 (2nd RE) *	-4.2	4.1	-8.6	2.9	-4.3	-5.7	-19.7	2.1	-7.6	3.3
FY22 (1st RE)*	8.8	3.5	7.1	11.1	9.9	14.8	13.8	4.7	9.7	8.3
FY23 (PE) [§]	7.0	4.0	4.6	1.3	9.0	10.0	14.0	7.1	7.2	7.9
4QFY21	6.3	3.4	-3.8	19.4	2.5	20.1	-3.1	8.3	-0.7	5.2
1QFY22	20.2	3.4	12.2	51.5	16.3	77.0	41.4	2.8	6.5	6.1
2QFY22	9.3	4.8	10.6	6.6	10.8	10.8	13.1	7.0	16.8	8.0
3QFY22	4.7	2.3	5.4	1.3	6.0	0.2	9.2	4.3	10.6	9.4
4QFY22	3.9	4.1	2.3	0.6	6.7	4.9	5.0	4.6	5.2	9.7
1QFY23	11.9	2.4	9.5	6.1	14.9	16.0	25.7	8.5	21.3	12.5
2QFY23	5.4	2.5	-0.1	-3.8	6.0	5.7	15.6	7.1	5.6	10.1
3QFY23	4.7	4.7	4.1	-1.4	8.2	8.3	9.6	5.7	2.0	6.0
4QFY23	6.5	5.5	4.3	4.5	6.9	10.4	9.1	7.1	3.1	4.0

Source: National Accounts Statistics, MoSPI

*Growth numbers for FY21 and FY22 are based on NAS released by the MoSPI on 28 February 2023 and the subsequent data file released on 1 March 2023. [§]Growth numbers for FY23 are based on the provisional estimates released by MoSPI on 31 May 2023.

Fiscal year/quarter	Expenditure components						IPD inflation
	GDP	PFCE	GFCE	GFCF	EX	IM	GDP
FY20 (3rd RE)	3.9	5.2	3.9	1.1	-3.4	-0.8	2.4
FY21 (2nd RE) *	-5.8	-5.2	-0.9	-7.3	-9.1	-13.7	4.7
FY22 (1st RE)*	9.1	11.2	6.6	14.6	29.3	21.8	8.5
FY23 (PE) [§]	7.2	7.5	0.1	11.4	13.6	17.1	8.2
4QFY21	3.4	6.8	23.4	14.0	3.9	11.9	8.2
1QFY22	21.6	17.6	-2.1	61.0	46.1	44.8	8.6
2QFY22	9.1	14.2	11.7	12.4	25.1	26.6	8.5
3QFY22	5.2	10.8	5.8	1.2	27.8	19.7	8.7
4QFY22	4.0	4.7	11.8	4.9	22.4	6.7	8.7
1QFY23	13.1	19.8	1.8	20.4	19.6	33.6	12.9
2QFY23	6.2	8.3	-4.1	9.6	12.2	23.1	10.3
3QFY23	4.5	2.2	-0.6	8.0	11.1	10.7	6.6
4QFY23	6.1	2.8	2.3	8.9	11.9	4.9	4.1

Source: National Accounts Statistics, MoSPI

* Growth numbers for FY21 and FY22 are based on NAS released by the MoSPI on 28 February 2023 and the subsequent data file released on 1 March 2023. [§]Growth numbers for FY23 are based on the provisional estimates released by MoSPI on 31 May 2023.



List of abbreviations

Sr. no.	Abbreviations	Description
1	AD	aggregate demand
2	AEs	advanced economies
3	Agr.	agriculture, forestry and fishing
4	AY	assessment year
5	Bcm	billion cubic meters
6	bbl.	barrel
7	BE	budget estimate
8	CAB	current account balance
9	CGA	Comptroller General of Accounts
10	CGST	Central Goods and Services Tax
11	CIT	corporate income tax
12	Cons.	construction
13	CPI	Consumer Price Index
14	COVID-19	Coronavirus disease 2019
15	CPSE	central public-sector enterprise
16	CRAR	Credit to Risk- weighted Assets Ratio
17	Disc.	discrepancies
18	ECBs	external commercial borrowings
19	EIA	US Energy Information Administration
20	Elec.	electricity, gas, water supply and other utility services
21	EMDEs	Emerging Market and Developing Economies
22	EXP	exports
23	FAE	first advance estimates
24	FC	Finance Commission
25	FII	foreign investment inflows
26	Fin.	financial, real estate and professional services
27	FPI	foreign portfolio investment
28	FRBMA	Fiscal Responsibility and Budget Management Act
29	FRL	Fiscal Responsibility Legislation
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

Sr. no.	Abbreviations	Description
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	MCLR	marginal cost of funds-based lending rate
50	Ming.	mining and quarrying
51	Mfg.	manufacturing
52	m-o-m	month-on-month
53	Mt	metric ton
54	MoSPI	Ministry of Statistics and Programme Implementation
55	MPC	Monetary Policy Committee
56	MPF	Monetary Policy Framework
57	NEXP	net exports (exports minus imports of goods and services)
58	NSO	National Statistical Office
59	NPA	non-performing assets
60	OECD	Organization for Economic Co-operation and Development
61	OPEC	Organization of the Petroleum Exporting Countries
62	PFCE	private final consumption expenditure
63	PIT	personal income tax
64	PMI	Purchasing Managers' Index (reference value = 50)
65	PoL	petroleum oil and lubricants
66	PPP	Purchasing power parity
67	PSBR	public sector borrowing requirement
68	PSU/PSE	public sector undertaking/public sector enterprises
69	RE	revised estimates
70	RBI	Reserve Bank of India
71	SLR	Statutory Liquidity Ratio
72	Trans.	trade, hotels, transport, communication and services related to broadcasting
73	US\$	US Dollar
74	UTGST	Union Territory Goods and Services Tax
75	WALR	weighted average lending rate
76	WHO	World Health Organization
77	WPI	Wholesale Price Index
78	y-o-y	year-on-year
79	1HFY20	first half of fiscal year 2019-20, i.e., April 2019-September 2019

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