

Economy Watch

Monitoring India's
macro-fiscal performance

March 2020



Building a better
working world

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Highlights

1. Real GDP growth fell to 4.7% in 3QFY20 and is estimated to remain at the same level in 4QFY20. The annual GDP growth is estimated at 5% in FY20. However, once the full economic impact of COVID-19 is taken into account the 4QFY20 growth estimates may need to be revised significantly downwards.
2. The RBI, on 27 March 2020, lowered the repo rate by 75 basis points to a historic low of 4.40% from 5.15% to stimulate the Indian economy hit by the COVID-19 pandemic on top of an ongoing economic slowdown
3. IIP growth remained low at 2.0% in January 2020 but showed an improvement from 0.1% in December 2019.
4. Although CPI inflation moderated to 6.6% in February 2020 from a 68-month high of 7.6% in January 2020, it remained higher than the target range specified by the monetary policy framework.
5. As per the CGA, center's gross taxes during April-January FY20 contracted by (-) 2.0%. There was a contraction of (-) 4.9% in direct taxes and a subdued growth of 0.9% in indirect taxes during this period.
6. Center's fiscal deficit during April-January FY20 stood at 128.5% of the annual revised estimate while the corresponding number for revenue deficit stood at 150.2%.
7. Bank credit growth remained subdued at 8.3% in January 2020, although improving from 7.1% in December 2019.
8. Current account deficit (CAD) narrowed to 0.2% of GDP in 3QFY20 from 0.9% of GDP in 2QFY20 as merchandise trade deficit fell to a 13-quarter low of 4.8% of GDP from 5.4% of GDP during the same period.
9. The OECD revised down its global growth projection to 1.5% in 2020 due to the coronavirus pandemic (COVID-19). India's growth was projected at 4.9% in FY20 and 5.1% in FY21.
10. Global crude prices fell to a 29-month low of US\$53.3/bbl. in February 2020. By 26 March 2020, Brent and WTI crude oil prices had fallen to US\$23.55/bbl. and US\$16.60/bbl. respectively.



Foreword

COVID-19 health and economic pandemic: impact on global and Indian economies

Even before the onset of COVID-19 pandemic across the world and in India, the Indian economy was slowing down with a real GDP growth rate of 4.7% in 3QFY20. Although the 4QFY20 growth rate is also estimated at 4.7%, this may have to be revised significantly downwards because of the deleterious economic and health effects of the COVID-19 pandemic. Moody's has projected India's GDP growth at 2.5% in 2020. ICRA projected India's growth at 2% for FY21. The economic impact of the COVID-19 will be a function of the magnitude and speed at which it spreads and duration over which it lasts within India and across the globe.

The IMF has observed that the COVID-19 pandemic will lead to a global recession in 2020 that will be at least as severe as the downturn during the economic and financial crisis of 2008. Moody's investor service (Moody's) has projected the global GDP to contract by (-) 0.5% in 2020. Previously, the OECD, in its Interim Economic Assessment dated 02 March 2020, sharply revised down its global growth projection to 1.5% in 2020 due to the adverse economic impact of COVID-19. The UNCTAD on 9 March 2020 estimated a shortfall of US\$2 trillion in the global income on account of the COVID-19 crisis with a US\$220 billion loss to developing countries. The Institute of International Finance (IIF) also downgraded its global growth projection to 1.6% for 2020.

For the Indian economy, there would be both supply and demand side disruptions. On the demand side, sectors which will bear the brunt of the adverse impact of COVID-19 largely include the services sectors. In particular, sectors such as trade, transport, travel and tourism, hotels, sports and entertainment will be directly impacted because of a demand slowdown. The financial services sector will also be impacted equally adversely. On the supply side, the disruptions will come through the impact on supply chain emanating from various countries with whom India has trading relations. On the forefront of the COVID-19 impact are countries such as China, South Korea, Italy, Spain, France, Germany, the UK and the USA. India has substantive trade relations through exports and imports with all these countries.

On the demand side, sectors such as wood products, mineral oils, plastics and chemicals derive a substantial share of their export demand from China and hence may be adversely impacted. Similarly, Germany and the UK account for a significant share of Indian exports of leather products, footwear, machinery and instruments while Iran is a major export destination for vegetable products. Among the countries fulfilling India's import requirements, Australia and Iran are major suppliers of mineral products. China alone accounted for 17.4% of India's imports in FY19¹ especially those related to ceramic products, glass wear, machinery, electrical equipment, etc. India is dependent on Germany for imports of transport equipment. Metal articles and instruments are imported from Japan and foodstuffs and beverages from the UK. There may be a potential negative impact on all these sectors.

An UNCTAD study (4 March 2020) estimated that the most impacted sectors in the EU, US, Japan, Taiwan and Korea include machinery, automotive, communication equipment and chemicals sectors. The impact on India's exports is estimated at a magnitude of US\$348 million, equivalent to approximately 0.1% of India's total goods exports in FY19¹. Chemicals sector is estimated to be most adversely impacted with a 36.8% share in the total decline in exports, followed by textile and apparels at 18.4%, and automotive at 9.8%. A more recent UNCTAD study (9 March 2020) has estimated a shortfall of US\$2 trillion in the global income due to the COVID-19 crisis².

Given the potential impact of COVID-19 on the global economy, the G-20 countries have been taking up policy actions to stimulate their respective economies, similar to their initiatives during the 2008 global economic and financial crisis. The US lowered the Federal funds rate twice in March 2020. On 3 March 2020, the Fed rate was reduced by a margin of 50 basis points to range between 1%-1.25%. On 15 March 2020, the Fed rate was reduced by another 100 basis points to range between 0%-0.25%. On 26 March 2020, the G-20 countries announced a US\$ 5 trillion stimulus package to counter the social and economic impact of COVID-19.

The immediate concern is to consider the available policy options in order to mitigate the impact of COVID-19 in the short-run.

The union government on 24 March 2020³, announced relief measures relating to statutory and regulatory compliance matters in the areas of income tax, GST, customs and central excise, corporate matters, Insolvency and Bankruptcy Code (IBC), fisheries, banking sector and commerce. In particular, these initiatives included extension of tax filing dates, waiver of minimum account balance charges and ATM withdrawal charges and easing of business rules. On the same day, a provision of INR 15,000 crores was made to strengthen India's health infrastructure.

On 26 March 2020, an economic relief package of INR 1.7 lakh crores under the PM Garib Kalyan Yojana including both cash transfer and food subsidy was announced. The stimulus included INR 50 lakh per person insurance cover for doctors, paramedics and healthcare workers dealing with coronavirus pandemic as well as free of cost provision of 5 kg wheat or rice and 1 kg of preferred pulses, over and above the existing provisions, through the public distribution system (PDS) every month for the next three months for 80 crore poor people. Further, direct cash transfers through DBT was announced for farmers, population registered with MGNREGA, senior citizens/widows, women Jan Dhan account holders and women Ujjawala scheme beneficiaries while limit on collateral free loans for Women Self-Help Groups have been increased to INR20 lakhs from the current limit of INR 10 lakhs. For the organized sector, the EPFO regulation is to be amended so that workers can draw up to 75% for their contingency expenditure as non-refundable advance or three months of wages in advance whichever is less, benefiting around 4.8 crore workers. State governments have been directed to use INR31,000 crores accumulated in the *Building and Other Construction Workers Welfare Fund* a central fund, to support registered construction workers. State governments have also been advised to utilize the funds available under the district mineral fund for the purposes of testing, medical screening and prevention measures for containing the spread of COVID-19. In addition to this, we anticipate the announcement of a substantial fiscal stimulus package also.

The monetary authorities have already taken the initiative of reducing the repo rate by 75 basis points bringing it down to its historically lowest level of 4.4%. The RBI has also announced a moratorium of three-months on payment of instalments of outstanding term loans and certain liquidity enhancing measures.

By 26 March 2020, Brent and WTI crude oil prices had fallen to US\$23.55/bbl. and US\$16.60/bbl. respectively. A lower global crude price has the potential of benefiting the Indian economy by reducing the quantum of its overall import bill. Furthermore, it reduces the pressure on both CPI and WPI inflation. A positive spinoff of a lower crude price is that it opens up space for both central and state governments to increase excise duty and VAT rates respectively on petroleum products which may come in handy in current times when overall tax revenues of the governments are under pressure. In fact, the benefit of lower crude prices should be shared between the central government which has already increased the excise duty on petrol and diesel by INR2/liter, the state governments who may also consider some increase in their VAT rates on petroleum and the consumers who may benefit from a reduction in CPI inflation.

With the transmission of monetary policy action remaining limited, the burden of the policy intervention will have to be borne by the fiscal side. However, fiscal space has remained heavily constrained because of a subdued tax performance so far. As per CGA data, center's gross tax revenue has contracted by (-) 2.0% during April-January FY20. This may lead to a slippage from the fiscal deficit target of 3.8% of GDP in FY20 (RE). Further, pressure on fiscal resources will come as a result of the relief and stimulus packages being announced to deal with the COVID-19 impact. The fiscal deficit may have to be relaxed up to 4.25% of GDP for FY20 and 5.0% of GDP in FY21 in the first instance. A good part of this fiscal stimulus should be directed towards the health sector by building additional health infrastructure including hospitals spread across different states and districts in India and investing in medical research as well as setting up additional medical and nursing teaching and training institutions. We may recall that in order to cope with the global economic and financial crisis in 2008, fiscal deficit had to be relaxed up to the extent of 6.1% of GDP in FY09 and 6.6% in FY10⁴. We may use these levels as a benchmark since the current crisis may be more severe than the 2008 global economic and financial crisis. In India, states have to play a key role in coping with the present health sector related crisis since that is primarily the responsibility of the state governments. For this purpose, their fiscal deficit limit of 3% of GSDP may also be relaxed up to 4% of GSDP in the first instance.

In spite of these immediate economic challenges, there are some opportunities for an economy like India which is currently emphasizing a Make in India strategy. In order to minimize the supply side disruptions, India can undertake a policy thrust aimed at import substituting industrialization to set up domestic capacity to fill up the vacuum emanating from China and other countries.

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¹Using data published by Ministry of Commerce and Industry

²<https://unctad.org/en/pages/PressRelease.aspx?OriginalVersionID=548>

³<https://pib.gov.in/PressReleaseSelfFramePage.aspx?PRID=1607942>

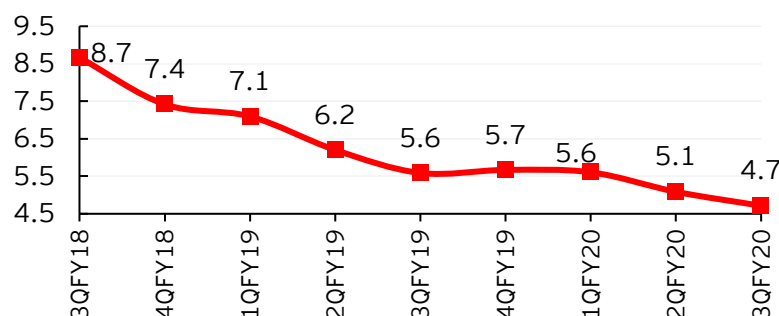
⁴This data is derived based on the revised GDP Back-Series with 2011-12 as the base year.

1. Growth: GDP growth decelerated to 4.7% in 3QFY20

A. Real GDP growth fell to a 28-quarter low of 4.7% in 3QFY20 and the FY20 real GDP growth is estimated at 5% (Chart 1)

- As per data released by Ministry of Statistics and Programme Implementation (MoSPI) on 28 February 2020, real GDP growth decelerated to a 28-quarter low of 4.7% in 3QFY20 from 5.1% in 2QFY20, its third consecutive fall since 4QFY19.

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



- On the demand side, growth slowdown was mainly driven by a sharp contraction in investment demand and subdued growth in private final consumption expenditure (PFCE).
- Investment demand, as measured by gross fixed capital formation (GFCF), is estimated to contract by (-) 0.6% in FY20. On a quarterly basis, GFCF contracted for the second consecutive quarter, the first such instance since FY13, by (-) 5.2% in 3QFY20.
- Growth in PFCE improved only marginally to 5.9% in 3QFY20 from 5.6% in 2QFY20.
- Contribution of net exports to growth has remained positive for five successive quarters. In 3QFY20, it was lower at 1.5% points as compared to 1.9% points in 2QFY20 (Table 1).
- On the output side, GVA growth fell to a 28-quarter low of 4.5% in 3QFY20 as compared to 4.8% (revised) in 2QFY20 due to a contraction in manufacturing sector and subdued growth in the construction sector.

Agg. demand	1Q FY19	2Q FY19	3Q FY19	4Q FY19	1Q FY20	2Q FY20	3Q FY20	FY19	FY20
PFCE	6.7	8.8	7.0	6.2	5.0	5.6	5.9	7.2	5.3
GFCE	8.5	10.8	7.0	14.4	8.8	13.2	11.8	10.1	9.8
GFCF	12.9	11.5	11.4	4.4	4.3	-4.1	-5.2	9.8	-0.6
EXP	9.5	12.5	15.8	11.6	3.2	-2.1	-5.5	12.3	-1.9
IMP	5.9	18.7	10.0	0.8	2.1	-9.3	-11.2	8.6	-5.5
GDP	7.1	6.2	5.6	5.7	5.6	5.1	4.7	6.1	5.0
<i>Net Exp. Contrib. to growth (% points)</i>	0.5	-1.7	0.7	2.1	0.1	1.9	1.5	0.4	0.9
Output: major sectors									
Agr.	3.8	2.5	2.0	1.6	2.8	3.1	3.5	2.4	3.7
Ming.	-7.3	-7.0	-4.4	-4.8	4.7	0.2	3.2	-5.8	2.8
Mfg.	10.7	5.6	5.2	2.1	2.2	-0.4	-0.2	5.7	0.9
Elec.	7.9	9.9	9.5	5.5	8.8	3.9	-0.7	8.2	4.6
Cons.	6.4	5.2	6.6	6.0	5.5	2.9	0.3	6.1	3.0
Trans.	8.5	7.8	7.8	6.9	5.7	5.8	5.9	7.7	5.6
Fin.	6.0	6.5	6.5	8.7	6.9	7.1	7.3	6.8	7.3
Publ.	8.8	8.9	8.1	11.6	8.7	10.1	9.7	9.4	8.8
GVA	6.9	6.1	5.6	5.6	5.4	4.8	4.5	6.0	4.9

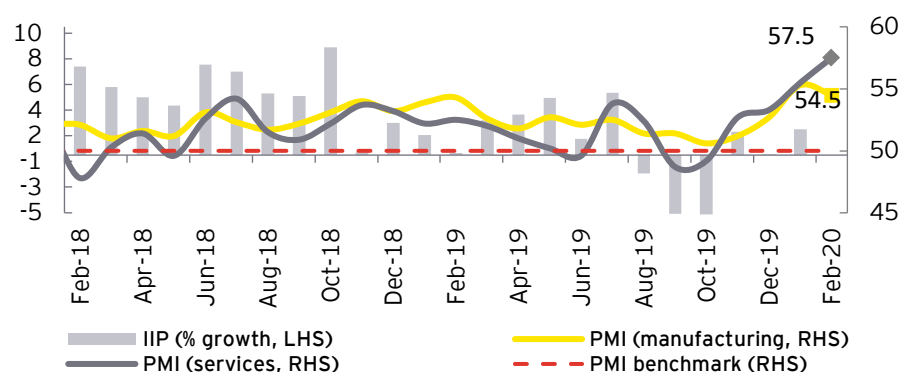
Source: MoSPI, GoI; *derived by using real GDP growth for FY20 and 1HFY20

- Growth in the manufacturing sector contracted for the second consecutive quarter by (-) 0.2% in 3QFY20 as compared to (-) 0.4% in 2QFY20. The sector has been struggling with excess capacity during the last couple of quarters owing to weak demand conditions.
- Growth in construction sector decelerated to an 11-quarter low of 0.3% in 3QFY20 from 2.9% in 2QFY20. Growth in this sector has been falling in each subsequent quarter since 3QFY19.
- Growth in public administration and defence slowed to 9.7% in 3QFY20 from 10.1% in 2QFY20. Lower growth in government revenues may further dampen the sector's performance in 4QFY20. Growth in trade, hotels, transport, communication and services related to broadcasting continued to remain low at 5.9% in 3QFY20, although marginally higher than 5.8% in 2QFY20.
- Growth in the output of financial, real estate and professional services marginally improved to 7.3% in 3QFY20 as compared to 7.1% in 2QFY20.
- Growth in agricultural sector increased to 3.5% in 3QFY20 as compared to 3.1% in 3QFY20.

B. IIP: indicated a modest improvement in the growth of industrial sector output in January 2020

- ▶ IIP continued to post a low growth of 2.0% in January 2020, while improving from 0.1% (revised) in December 2019 (**Chart 2**).
- ▶ Output of manufacturing sector, which has the highest weight of 77.6% in the overall index, grew only by 1.5% in January 2020, as compared to a contraction of (-) 0.7% (revised) in December 2019. Electricity sector output grew by 3.1% in January 2020 as compared to a contraction of (-) 0.1% in December 2019. Growth in the output of mining sector slowed to 4.4% in January 2020 from 5.7% in December 2019 (Table A1 in data appendix).
- ▶ Output of capital goods industry contracted for the 13th consecutive month by (-) 4.3% in January 2020, although at a slower pace as compared to (-) 18.0% in December 2019. Output of both consumer durables and non-durables continued to contract by (-) 4.0% and (-) 0.7%, respectively in January 2020.
- ▶ Growth in the output of eight core infrastructure (core IIP) industries remained positive for the second successive month in January 2020 at 2.2%, marginally increasing from 2.1% in December 2019. This was largely on account of a positive growth in the output of coal (8.0%), cement (5.0%), electricity (2.8%) and steel (2.2%). A sustained contraction in the output of three out of eight core industries including crude oil ((-) 5.3%), natural gas ((-) 9.1%), and fertilizers ((-) 0.1%) dampened the core IIP growth.

Chart 2: IIP growth and PMI



IIP growth remained low at 2.0% in January 2020 but showed an improvement from 0.1% in December 2019. Continued low growth in IIP may constrain the recovery of manufacturing sector in 4QFY20.

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

C. PMI: signaled continued expansion in manufacturing and services in February 2020

- ▶ Headline manufacturing PMI (seasonally adjusted (sa)) was at 54.5 in February 2020, close to the eight-year high of 55.3 in January 2020 (**Chart 2**). Growth was led by consumer goods followed closely by intermediate goods. However, the outlook for manufacturing output remains unpredictable as the COVID-19 outbreak poses threat to exports and supply chains¹.
- ▶ PMI services increased for the fifth successive month to 57.5 in February 2020, its highest level since January 2013, as compared to 55.5 in January 2020. Growth in the service sector was driven by consumer services.
- ▶ Reflecting a continued strong expansion in both manufacturing and services PMI, the composite PMI Output Index (sa) increased to 57.6 in February 2020 from 56.3 in January 2020.

In February 2020, both manufacturing and services PMI continued to expand with the former at 54.5 and the latter at a near-seven year high of 57.5.

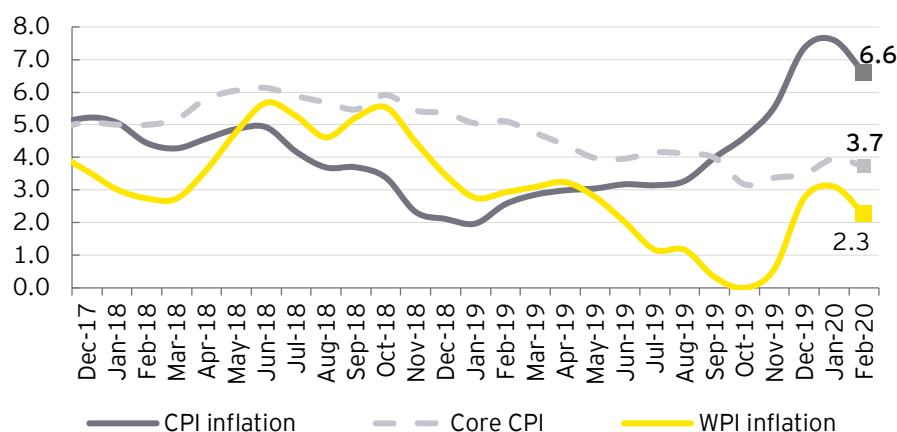
¹ IHS Markit India Manufacturing PMI (released 2 March 2020)

2. Inflation: CPI inflation eased to 6.6% in February 2020

CPI inflation moderated to 6.6% in February 2020 from a 68-month high of 7.6% (y-o-y) in January 2020, mainly due to easing inflation in vegetables.

- ▶ Inflation in vegetables fell for the second successive month to 31.6% in February 2020 from 50.2% in January 2020 as inflation in onions eased to 140.3% from 245.9% over the same period. Consequently, consumer food price based inflation moderated to 10.8% in February 2020 from 13.6% in January 2020.
- ▶ Inflation in fuel and light increased to a 15-month high of 6.4% in February 2020 from 3.7% in January 2020 mainly reflecting the increase in inflation in LPG to a 15-month high of 17.5% from 4.8% over the same period. This was primarily due to a steep hike of over INR 140 in the price of non-subsidized LPG, which was partially rolled back on 29 February 2020.
- ▶ Core CPI inflation² eased to 3.7% in February 2020 from 4.0% in January 2020 as inflation in transportation and communication services moderated to 5.2% from 6.2% over the same period. This was mainly on account of a fall in inflation in petrol and diesel used for transportation which reflected the fall in global crude prices.

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



Both CPI and WPI inflation eased to 6.6% and 2.3% respectively in February 2020. Core CPI inflation moderated to 3.7% and core WPI inflation remained negative at (-) 0.7% in February 2020 reflecting the slowdown in overall demand.

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

WPI inflation moderated to 2.3% in February 2020 from a nine-month high of 3.1% in January 2020 (Chart 3) due to falling food and fuel-based inflation.

- ▶ Food price index-based inflation eased to a five-month low of 7.3% in February 2020 from 10.1% in January 2020 as inflation in vegetables moderated to 30.0% from 52.7% over the same period. There was a broad-based fall in inflation across vegetables although the fall in inflation in onion and potato contributed the most.
- ▶ Inflation in manufactured food products eased to 6.4% in February 2020 from 7.6% in January 2020.
- ▶ Inflation in diesel and petrol fell to 2.1% and (-) 3.1% respectively in February 2020 from 8.0% and 4.9% respectively in January 2020, reflecting the contraction in price of crude petroleum by (-) 1.4% in February 2020 as compared to an inflation of 6.4% in January 2020. Higher inflation in electricity at 9.0% in February 2020 as compared to (-) 0.6% in January 2020 kept fuel and power-based inflation stable at 3.4% in February 2020.
- ▶ Core WPI (non-food manufactured products) based inflation remained negative for the eight successive month at (-) 0.7% in February 2020 as compared to (-) 1.0% in January 2020.

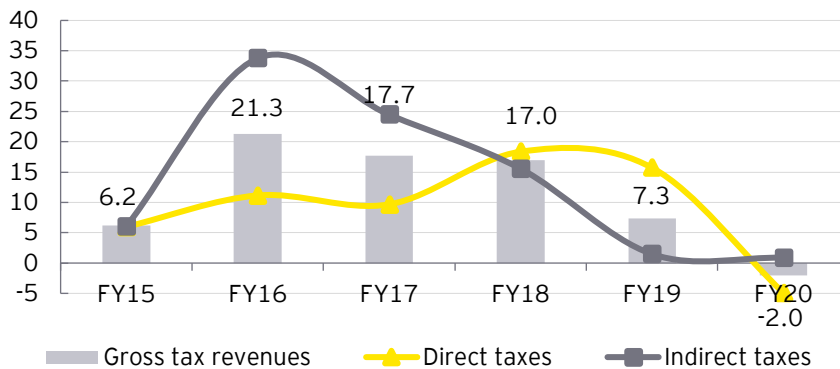
² Core CPI inflation is measured in different ways by different organizations/agencies. Here, it has been calculated by excluding food, and fuel and light from the overall index.

3. Fiscal performance: center's fiscal deficit during Apr-Jan FY20 stood at 128.5% of the annual RE

A. Tax and non-tax revenues

- ▶ As per the Comptroller General of Accounts (CGA)³, gross central taxes during April-January FY20 contracted by (-) 2.0% as compared to a growth of 7.3% during the corresponding period of FY19 (**Chart 4**). The last instance of a contraction in gross taxes during the corresponding period was witnessed in FY10 when gross tax revenues contracted by (-) 1.2%.
- ▶ A growth of 22.1% is required in central gross taxes in the remaining two months of FY20 to realize the revised estimate (RE) as per the Union Budget FY21.
- ▶ Direct tax revenues contracted by (-) 4.9% during April-January FY20 as compared to a growth of 15.7% during the same period in FY19.
- ▶ Corporate tax revenues contracted by (-) 13.5% during the first ten months of FY20 as compared to a growth of 16.7% during the corresponding period of FY19. This partly reflects the impact of the CIT rate reforms undertaken in September 2019.
- ▶ Growth in income tax revenues during April-January FY20 was lower at 6.9% as compared to 14.3% during April-January FY19.
- ▶ Indirect taxes (comprising union excise duties, service tax, customs duty, CGST, UTGST, IGST⁴ and GST compensation cess) witnessed a subdued growth of 0.9% during April-January FY20 as compared to a growth of 1.5% in the corresponding period of previous year.

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



As per the CGA, center's gross taxes during April-January FY20 contracted by (-) 2.0%. There was a contraction of (-) 4.9% in direct taxes and a subdued growth of 0.9% in indirect taxes during this period.

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 from July 2017 onwards; (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 growth of 55.5% during April-January FY20 as compared to 30.4% during the corresponding period of FY19.
- ▶ According to the data available from Department of Disinvestment⁵, the disinvestment proceeds up to 24 February 2020 stood at INR34,845.06 crore, which is 53.6% of the FY20 revised estimate at INR65,000 crores.

³ Monthly accounts for January 2020 released on 28 February 2020

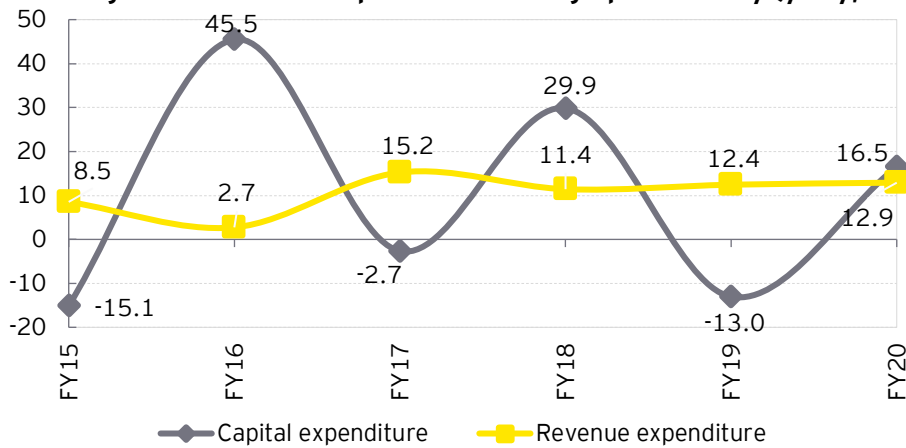
⁴ IGST revenues are subject to final settlement

⁵ <https://dipam.gov.in/en/disinvestment-till-now/2502>

B. Expenditures: revenue and capital

- ▶ Center’s total expenditure during April-January FY20 grew by 13.3% as compared to 8.8% during April-January FY19 (**Chart 5**). Total expenditure during the first ten months of FY20 stood at 84.1% of the revised target.
- ▶ Revenue expenditure during April-January FY20 grew by 12.9%, marginally higher than 12.4% during the corresponding period of FY19.
- ▶ Growth in center’s capital expenditure during April-January FY20 was at 16.5% as compared to a contraction of (-) 13.0% during the corresponding period of previous year.
- ▶ As a proportion of the annual revised estimates, revenue expenditure during the first ten months of FY20 stood at 85.1% while capital expenditure stood at 76.7%.

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



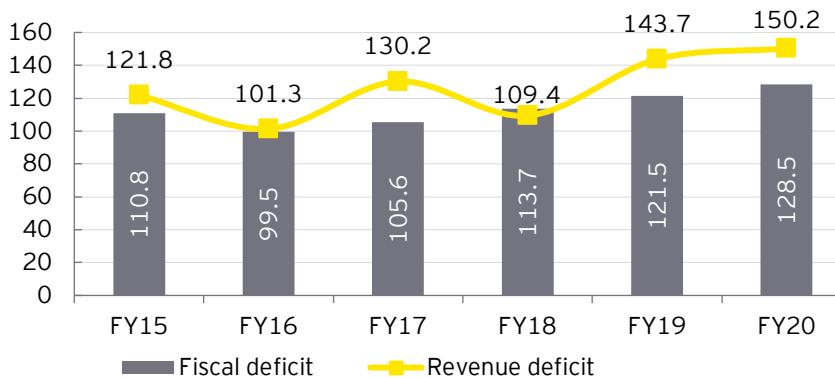
Center’s total expenditure grew by 13.3% during April-January FY20. Revenue expenditure during this period stood at 85.1% of the FY20 RE while the corresponding number for capital expenditure was at 76.7%.

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

C. Fiscal imbalance

- ▶ Center’s fiscal deficit during April-January FY20 stood at 128.5% of the annual revised target, highest since FY01, as compared to 121.5% in the corresponding period of FY19 (**Chart 6**).
- ▶ Center’s revenue deficit during the first ten months of FY20 was at 150.2% of the annual revised target, highest since FY01, as compared to 143.7% during the corresponding period of FY19.

Chart 6: fiscal and revenue deficit during April-January as percentage of annual revised target



Center’s fiscal deficit during April-January FY20 stood at 128.5% of the annual revised estimate while the corresponding number for revenue deficit stood at 150.2%.

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

4. India in a comparative perspective: status and prospects

General government overall balance as percentage of GDP

Fiscal balance is projected to marginally improve in advanced economies (AEs) in 2020 and 2021 as compared to its level in 2019; trends are varied in emerging market economies (EMEs)

- ▶ Among AEs, general government fiscal deficit as a percentage of GDP in the US is projected to marginally fall to 5.5% in 2020 and 2021 as a result of an assumed shift in the fiscal stance from accommodative to broadly neutral (Table 2).
- ▶ Among EMDEs, China's fiscal deficit relative to GDP is expected to increase from 6.1% in 2019 to 6.3% in 2020, falling marginally to 6.2% in 2021 due to continued policy stimulus supporting activity in the face of adverse external shocks.
- ▶ In Russia, fiscal surplus relative to GDP is projected to fall in 2020 and a fiscal deficit is forecasted from 2021 onwards. This may be attributable to a subdued outlook for global crude prices.
- ▶ India's general government fiscal deficit to GDP ratio is projected to decline from 7.5% in 2019 to 7.2% in 2020 and further to 7.0% in 2021. However, it is projected to remain above 6% throughout the forecast period.

Table 2: general government overall balance (% of GDP)

	2018	2019	2020	2021	2022	2023	2024
AEs	-2.7	-2.9	-2.8	-2.8	-2.8	-2.7	-2.6
US	-5.7	-5.6	-5.5	-5.5	-5.6	-5.3	-5.1
Euro area	-0.5	-0.9	-0.9	-0.9	-0.9	-0.9	-0.8
Japan	-3.2	-3.0	-2.2	-1.9	-1.8	-1.8	-2.0
EMDEs	-3.9	-4.9	-5.0	-5.0	-5.0	-4.9	-4.9
Brazil	-7.2	-7.5	-6.9	-6.6	-6.4	-6.1	-5.7
Russia	2.9	1.0	0.1	-0.3	-0.6	-0.7	-0.8
India*	-6.4	-7.5	-7.2	-7.0	-6.9	-6.9	-6.8
China	-4.8	-6.1	-6.3	-6.2	-6.2	-6.2	-6.1
S. Africa	-4.4	-6.2	-6.7	-6.4	-6.4	-6.5	-6.6

Source (basic data): Fiscal Monitor, IMF, October 2019

Note: forecasted for 2019 and beyond; # surplus (+) and deficit (-)

*data pertains to fiscal year. For e.g., data for 2019 pertains to the year FY20.

General government gross debt

General government gross debt relative to GDP is forecasted to increase at a slow pace for AEs and at a faster pace for EMEs barring India, whose debt to GDP ratio is projected to gradually fall

- ▶ General government gross debt relative to GDP for AEs as a group is projected to remain above 100% but increase at a slow pace during the forecast period.
- ▶ General government debt relative to GDP for EMDEs as a group is projected to increase from 56.4% in 2020 to 63.9% in 2024, increasing at a faster pace with the exception of India.
- ▶ General government gross debt in the US is estimated to steadily increase by an average of 2% points of GDP on an annual basis from 2019 onwards.
- ▶ Government debt relative to GDP in Japan is expected to remain nearly stable at high levels in 2020 and thereafter.
- ▶ China's government debt relative to GDP is projected to rise sharply from 55.6% in 2019 to 76.6% in 2024, an increase of 21% points.
- ▶ India's government debt level is forecasted to gradually narrow down from 69.0% in 2019 to 65.6% in 2024, closer to the EMDE average and lower than that in China, South Africa and Brazil.

Table 3: general government gross debt (% of GDP)

	2018	2019	2020	2021	2022	2023	2024
AEs	103.0	104.1	104.8	105.1	105.4	105.6	105.5
US	104.3	106.2	108.0	110.0	112.3	114.2	115.8
Euro area	85.4	83.9	82.3	80.8	79.3	77.7	76.1
Japan	237.1	237.7	237.6	238.4	238.1	237.7	237.6
EMDEs	50.8	53.8	56.4	58.6	60.6	62.3	63.9
Brazil	87.9	91.6	93.9	94.5	95.3	95.0	94.9
Russia	14.6	16.5	17.7	18.3	19.0	19.8	20.9
India*	68.1	69.0	68.5	67.7	66.9	66.2	65.6
China	50.6	55.6	60.9	65.4	69.5	73.2	76.6
S. Africa	56.7	59.9	64.2	67.9	71.1	74.1	77.0

Source (basic data): Fiscal Monitor, IMF, October 2019

Note: forecasted for 2019 and beyond; # surplus (+) and deficit (-)

*data pertains to fiscal year. For e.g., data for 2019 pertains to the year FY20.



5. In focus: report of the fifteenth finance commission: changing contours of fiscal transfers

Introduction

The Fifteenth Finance Commission (15th FC) submitted its first report covering the year FY21 on 5 December 2020. The final report covering the five-year period from FY22 to FY26 is to be submitted by the Commission by the end of October 2020. This six-year period under the 15th FC followed from the additional Terms of Reference (ToR) that were given in July and November 2019. Contextually, two important considerations led to the issuance of the additional ToR to the 15th FC. One related to the change in the status of Jammu and Kashmir (J&K) from that of a state to a set of two union territories (UT) of which J&K became a UT with legislature and Ladakh became a UT without legislature. These changes were affected by the J&K Reorganization Act dated 9 August 2019. The second issue related to the uncertainties in estimating center's gross tax revenues as a result of the continuing economic slowdown and the revenue impact of the recently introduced corporate income tax (CIT) reforms, which involved a revenue loss of INR1,45,000 crores according to government's own estimates. This revenue uncertainty has been further accentuated by the COVID-19 pandemic.

The ToR of the 15th FC: original and additional

Some of the notable features of the original ToR of the 15th FC related to the following

- Shift from 1971 to 2011 population
- Emphasis on introducing performance grants particularly relating to central objectives
- Rationale for continuing with "revenue deficit grants"
- Need for examining the vertical share of the center and states as recommended by the Fourteenth FC (14th FC)
- Need for examining the fiscal roadmap for controlling government debt and deficit and linking it to higher inclusive growth, principles of equity, efficiency and transparency

The additional ToR made reference to

- Revenue uncertainty and by implication the need for making reliable forecasts by the Commission
- The need for creating an earmarked fund for defence and internal security

Vertical sharing of central taxes

In its ToR, the 15th FC was asked to reconsider states' share in the divisible pool of central taxes which was fixed at 42% by the 14th FC in the light of its impact on central and state finances. The vertical share of 42% was an unprecedented increase of 10% points and was done in the context of discontinuance of the mechanism of plan transfers. The central government has been concerned about the narrowing of its own share in the central taxes, particularly in the light of the fact that citizens in India look towards the central government for remedies to all issues even when these pertain to state subjects.

The actual share of the states in center's gross tax receipts tends to be much lower than the recommended share due to the excessive use of cesses and surcharges that are excluded in calculating the divisible pool of central taxes. This is highlighted in Table 4, which shows that instead of 42%, the share of states in the gross central taxes actually amounted to about 34.4% in the 14th FC period. While the share of states was increased in the central taxes, it was expected that the share of grants, which are discretionary transfers, would go down.

Table 4: states' share in central taxes: recommended and effective

Commission	Recommended share in divisible pool (%)	Effective share in gross central taxes (%)	Shortfall in effective share relative to recommended (% points)
Tenth (alternative devolution scheme)	29	27.4	(-) 1.6
Eleventh	29.5	27.1	(-) 2.4
Twelfth	30.5	26.3	(-) 4.2
Thirteenth	32	28.2	(-) 3.8
Fourteenth	42	34.4*	(-) 7.6
Fifteenth	41	32.4**	(-) 8.6

Source: IPFS (2015-16) and Union Budget Documents; *averaged over the period from 2015-16 to 2019-20 (RE); **for FY21 (BE)

The 15th FC, in its first report, has not considered in detail, the principles on which the vertical share of the center and states in center's divisible pool should be determined. It made a marginal change of 1% point to the

vertical share of 42% under the 14th FC, reducing it to 41%, taking into consideration that only 28 states need to be provided for. For J&K, the Commission set aside 1% point arguing that had it been considered as a state under the earlier arrangement, it would have been entitled to a share of 0.85% of the divisible pool. According to our calculations, J&K's share in the horizontal distribution used by the 14th FC would amount to 0.779% of the divisible pool. The figure of 0.85% is with reference to the application of 15th FC criteria to the divisible pool. As such, the reduction of the vertical share from 42% to 41% amounts to a marginal reduction of their aggregate share over and above what could be ascribed for the combined territories of J&K and Ladakh. The substantive question of whether the vertical share of 42% itself is appropriate in terms of assessment of the relative needs of the center and states has not been considered by the 15th FC in its first report.

Structure of transfers

Overall structure of transfers recommended by the 15th FC may be considered as consisting of (a) general purpose transfers and (b) conditional/ specific purpose transfers. In the first category, we may include states' share in central taxes and revenue deficit grants. In the second category, we may include local body grants, disaster relief grants and other grants. Within the general-purpose transfers, the actual magnitude of share in central taxes would only be known after the realized tax revenues of the center become known. This component of recommended transfers is characterized by revenue uncertainty. The revenue deficit grants, on the other hand, are fixed in nominal magnitudes and are therefore assured. In times of revenue uncertainty, relatively larger share of revenue deficit grants and in fact total grants may be desirable.

As per the recommended transfers by the 15th FC, the share of grants including revenue deficit grants amounted to 19% of the total transfers consisting of 12% for specific purpose/ conditional transfers and 7% for revenue deficit grants. As compared to the earlier commissions, the share of grants in total transfers was the highest for the one year under consideration of the 15th FC. The share of local body grants was also the highest as recommended by the 15th FC. This amounts to providing an impetus to the process of decentralization and facilitation of decentralized governments.

A high share of revenue deficit grants is indicative of the fact that revenue deficit grant may become the determining principle of the inter-se distribution of transfers as compared to the role of tax devolution. Since tax devolution is guided by a set of principles and objective criteria, the use of tax devolution as the determining principle for transfers is considered better as compared to revenue deficit grants which are driven by past history of revenues and expenditures of the state governments subject to some norms which may be applied for the assessment of revenues and expenditures. This is discussed in detail subsequently.

Table 5: share of different modes of transfers in total transfers

Finance Commission	Share in taxes	Revenue deficit grants	Disaster relief	Local body grants	Other grants	Total grants	Total transfers
Recommended amounts (INR crore)							
Tenth	200438	6399	4651	5331	2502	18883	219321
Eleventh	371464	24148	8111	9910	4845	47014	418477
Twelfth	605670	44502	15656	24681	44362	129201	734871
Thirteenth	1427913	35864	25495	86468	90498	238325	1666238
Fourteenth	3889408	135155	53829	282667	0	471651	4361059
Fifteenth (1)	855176	74340	22184	90000	14499	201023	1056199
Shares (%)							
Tenth	91.4	2.9	2.1	2.4	1.1	8.6	100.0
Eleventh	88.8	5.8	1.9	2.4	1.2	11.2	100.0
Twelfth	82.4	6.1	2.1	3.4	6.0	17.6	100.0
Thirteenth	85.7	2.2	1.5	5.2	5.4	14.3	100.0
Fourteenth	89.2	3.1	1.2	6.5	0.0	10.8	100.0
Fifteenth (1)	81.0	7.0	2.1	8.5	1.4	19.0	100.0

Source (basic data): Reports of various FCs

Distinction between Medium and Large (M&L) states and Small and Hilly (S&H) states in the scheme of transfers

Until the 14th FC, states used to be categorized between general and special category states although for purposes of tax devolution, all states were treated on par. In the 15th FC, a distinction was made between general states and north-eastern and hilly states. This categorization is not different from that of general and special category states which was relevant for plan assistance. In spite of the fact that for purposes of tax devolution, the commissions have treated all states on par, the overall scheme of transfers was so designed that

it gave, on average, one group of states namely S&H states a much higher per capita transfer (INR 26,494) as compared to M&L states (INR 7,396). This categorization is different from that of general states and north eastern and hilly states in the sense that in the group of S&H states, Goa is included and in the group of M&L states, Assam is included. This appears to be more justified in view of the larger per capita transfers for S&H states vis-à-vis M&L states. In order to draw a perspective, in Table 6, we compare the two groups in terms of relative size as measured by area, population and GSDP.

Table 6: comparison of M&L states and S&H states: Population, area, per capita GSDP, own tax revenue (OTR), and total transfers proposed by 15th FC for FY21

Group	Total transfer	OTR	GSDP	Population	Area
	INR crore		INR crore	Crore	'000 Sq km
M&L	9,55,521 (INR 7,396)	15,52,752 (INR12,018)	210,17,680 (INR1,62,676)	129.2	2757.7 (469)#
S&H	1,00,679 (INR 26,494)	45,709 (INR 12,029)	8,41,375 (INR 2,21,414)	3.8	296.6 (128)#
Total	10,56,200 (INR 7,941)	15,98,461 (INR 12,019)	218,59,055 (INR 1,64,354)	133	3054 (435)#
Share in total (%)					
M&L	90.5	97.1	96.2	97.2	90.3
S&H	9.5	2.9	3.8	2.8	9.7
Total	100.0	100.0	100.0	100.0	100.0

Source (basic data): Report of the 15th FC; values in per capita terms are given in parenthesis, # indicates population density

The share in total transfers of the S&H group corresponds broadly to their share in total area. It is notable that the per capita transfers for the S&H states were much larger than that for M&L states. On average, per capita transfers in S&H group was 3.6 times as large as those for M&L states (Table 7). In the group of S&H states, there was also a noticeably large dispersion around the mean per capita transfers with per capita transfers in Arunachal Pradesh at INR 93,398 crores and that in Uttarakhand at INR 14,280 crores. In the case of M&L states, the per capita transfers varied from INR 4,039 for Haryana and INR 10,766 crores for Chhattisgarh. The relatively higher per capita transfers for the S&H group is on account of higher unit cost of providing services in the S&H states. These cost differentials arise from, among other reasons, higher costs for serving population which is dispersed across the state in low density clusters. The cost differentials also reflect ecological costs in terms of providing forest cover as well as large transportation costs due to difficult terrain. The S&H states are also relatively more vulnerable to natural disasters. Most of these states have international borders and ecological vulnerability due to the presence of glaciers. However, there may be a need for examining the reasons for high dispersion in per capita transfers within this group of states.

Table 7: per capita recommended transfers for M&L states and S&H states (INR)

S&H states			M&L states					
#	State	Per-capita recommended transfer (INR)	#	State	Per-capita recommended transfer (INR)	#	State	Per-capita recommended transfer (INR)
1	UK	14280	1	HR	4039	11	PB	8139
2	ML	20388	2	MH	5154	12	JH	8228
3	GA	22023	3	GJ	5172	13	AP	8917
4	TR	23509	4	TS	5719	14	MP	9087
5	HP	25921	5	TN	5899	15	OR	9721
6	MN	26467	6	KA	6296	16	KL	9933
7	NL	42088	7	UP	7405	17	AS	10744
8	MZ	49830	8	RJ	7458	18	CH	10766
9	SK	57631	9	WB	7720	Average per-capita transfer (S&H)		26,794
10	AR	93398	10	BR	7897	Average per-capita transfer (M&L)		7,396
Ratios								
Ratio of UK to HR						3.5		
Ratio of AR to CH						8.7		

Source (basic data): Report of the 15th FC

Rationale for continuing revenue deficit grants

The 15th FC did not examine the substantive issue of the rationale for providing revenue deficit grants. It only observed that it is continuing with revenue deficit grants because the earlier commissions also did so. It may be recalled that the extant literature on fiscal federalism in India has heavily criticized the mechanism of revenue deficit grants because of the implicit incentive for fiscal indiscipline in this principle. This adverse incentive arises because if a state creates a history of high expenditures based on excessive borrowings of the past, it will create a history of interest payments which will be considered as valid expenditure for purposes of determining revenue deficits. As long as states know that revenue deficit is a principle for determination of transfers, it is in their interest to incur large per-capita expenditures financed by any means including additional and unsustainable borrowings and then ask the FC to underwrite the shortfall. This criticism was particularly valid in the presence of the mechanism of the plan financing where states attempted to maximize their plan size which would entitle them to higher central assistance in the form of loans and plan grants. Although the mechanism of five-year plans has now been discontinued, the adverse incentive of revenue deficit grants has not fully gone away because of the continuance of centrally sponsored schemes and differential performance of states in relation to their history of borrowing and accumulated debt.

To some extent, the adverse incentive of revenue deficit grants is mitigated by the application of normative principles in the assessment of state-wise expenditure needs and own revenues. In its report (*para 2.36*), the 15th FC indicated certain adjustments for states' receipts and expenditures. These adjustments appear to be applied uniformly across states. As such, state specific norms do not appear to have been used.

In the case of own taxes of states, as far as GST is concerned, the first year of recommendation was governed by the application of the growth guarantee of 14% on the base year number for 2015-16 relating to actual tax revenues raised with respect to taxes subsumed under GST. In the case of non-GST taxes, a uniform buoyancy, marginally above 1, was applied for all states, indicating non-application of norms. For own non-tax revenues, the 15th FC did not make a distinction of revenue performance across states and grew them according to GSDP growth rates. There was hardly any application of norms as far as major expenditure items are concerned. Interest payments were driven by the base year numbers of FY20, on which certain growth rate was applied.

Similar approaches applied to salaries and pensions and other expenditure items. Therefore, it is not only the case that revenue deficit grants were continued but also that these grants were determined without the application of any substantive normative principles in the assessment of revenues and expenditures thereby making it the determining principle of fiscal transfers.

If we examine fiscal transfers to individual states, we can make a distinction between two determining principles of fiscal transfers by dividing the states into two groups. Group A consists of states where revenue deficit grants are zero. For this group, the amount of transfers is determined by the principles of tax devolution and other grants. Group B consists of states where total transfers are determined by other grants, share in central taxes, and revenue deficit grants. For them, the determining principle for total transfers is provided by revenue deficit grants. In the case of some recent commissions, revenue deficit grants were usually given to the erstwhile special category states which

Table 8: State-wise recommended revenue gap grants per year

State	13 th FC	14 th FC	15 th FC (1 st report)
	2011-15	2016-20	2020-21
Medium and large states (INR crore)			
Andhra Pradesh	503.2	4422.6	5897.0
Kerala		1903.8	15323.0
Punjab			7659.0
Tamil Nadu			4025.0
West Bengal		2352.0	5013.0
Small and hilly states (INR crore)			
Assam		675.8	1515.8
Himachal Pradesh	1577.8	8125.0	2286.2
Manipur	1211.4	2045.4	564.8
Meghalaya	562.2	354.0	98.2
Mizoram	798.2	2436.6	284.4
Nagaland	1629.2	3695.0	783.4
Sikkim			89.6
Tripura	890.6	1020.6	647.2
Uttarakhand			1015.2

Source (basic data): Reports of the 13th, 14th and 15th Finance Commissions; States that did not receive revenue deficit grants under any of the three FCs include: Bihar, Jharkhand, Gujarat, Haryana, Karnataka, Madhya Pradesh, Chhattisgarh, Maharashtra, Orissa, Rajasthan, Telangana, Arunachal Pradesh and Goa

were small in size and had relatively larger cost disabilities. In the case of the 15th FC's first year award, many of the larger states also became recipients of the revenue deficit grants.

In order to highlight the relative roles of revenue deficit grants vis-à-vis. tax devolution as the determining principle for general purpose transfers, we make a comparison between the 13th, 14th and 15th FC recommendations. Since for the 15th FC, only one-year award is available, we have calculated average per year transfer in the case of 13th and 14th FC so that the magnitudes relate to one year in each case. It is clear that the largest number of recipients of revenue deficit grants was in the case of the 15th FC and the smallest number was for the 13th FC. In the case of the M&L states, only one state was a recipient of the revenue deficit grants in the case of 13th FC and only three states were the recipients of these grants in the 14th FC. But in the case of the 15th FC, five M&L states were recipients of revenue deficit grants. These were Andhra Pradesh, Kerala, Punjab, Tamil Nadu and West Bengal which are essentially high-income states who are supposed to be dependent largely on their own resources. Not only the per-year revenue deficit grant magnitudes were non-zero but also quite large indicating that a good part of the overall transfers was determined by revenue deficit grants for the recipient states. With reference to the S&H states, the number of recipient states in the case of 13th, 14th and 15th FCs was six, seven and nine respectively. Clearly, in the case of S&H states also, the highest number of states receiving revenue deficit grants was under 15th FC.

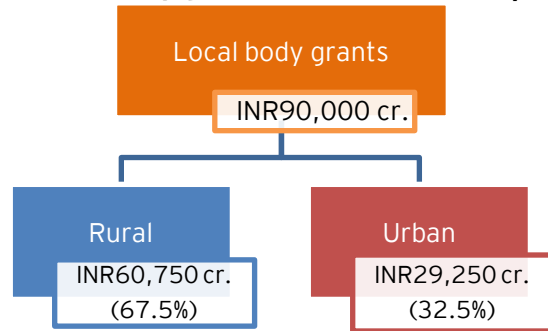
Many of the erstwhile special category states have been recipients of revenue deficit grants as shown in Table 8. As discussed before, these states are highly dependent on central transfers and have higher cost disabilities.

Their cases can continue to be covered by following the equalization principle. Grants as per Article 275 of the Constitution can be designed to take into account considerable details of and variations in state characteristics whereas horizontal sharing of central taxes depend on a limited number of criteria. Thus, while both may be instruments of unconditional transfers, grants can be finely targeted whereas sharing of central taxes can only be broadly targeted. A combination of the two instruments can serve to provide an optimal scheme of transfers.

Local body grants

In the case of local body grants, the 15th FC made some significant departures as compared to the approach of the 14th FC. *First*, grants were given to all tiers of local bodies whereas the 14th FC had given grants only to gram panchayats leaving district and block level committees. *Second*, grants were recommended for fixed scheduled areas as well as cantonment areas. There were other innovations that the 15th FC introduced. In particular, they recommended tied grants for sanitation and drinking water. They also suggested that in line with the increasing urbanization of India's

Chart 7: local body grants as recommended by 15th FC



Source (basic data): 15th FC report

population, the local body grants allocated for urban areas may be increased to 40% over the medium term. In order to further emphasize urbanization and related needs for municipal services, the 15th FC recommended earmarked grants for million plus cities in India. It also increased the magnitude of local body grants to INR 90,000 crores which amounts to 4.31% of the estimated divisible pool for FY21. The inter-se distribution of grants among states was based on population and area in the ratio of 90:10. In FY21, the proportion of grants for rural and urban areas was kept at 67.5% and 32.5% respectively (Chart 7). In relation to the intra-tier distribution among the relevant entities within a state, it may be based on population and area in the ratio of 90:10 or as per the accepted recommendations of the latest SFC. By not emphasizing enough, the need for SFC reports, this provision may only incentivize states to default more on the constitution of SFC and delay decisions regarding acceptance of the SFC reports. In order to ensure timely transfer of resources to the local bodies, the 15th FC has indicated that the states shall transfer the local body grants within 10-working days of receipt of such amount from the center. If there is any delay, then states will have to release grants along with interest as per the effective rate of interest on state development loans or market borrowings for the previous year.

It may be observed that in the provision for the million plus cities, almost all the erstwhile special category states were not entitled and their share in these grants was zero. It is considered desirable that the concept of million plus cities may be extended to million plus and capital cities so as to ensure that every state gets a share in this segment of the grant. In fact, in many of the hilly states, it is the capital city where there is considerable



pressure of residents as well as transitory population and their needs should be considered on par with the million plus cities.

Disaster related grants

Table 9: national and state level allocation for disaster risk management for 2020-21 (INR crore)

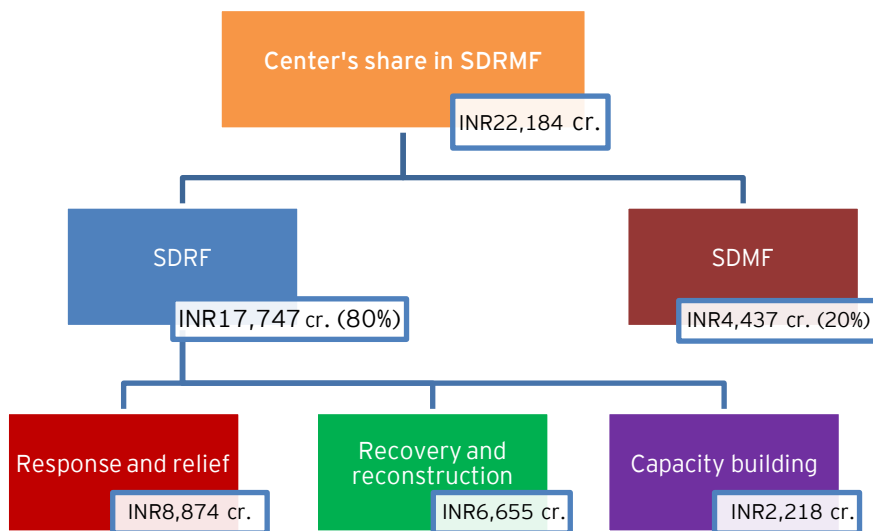
Funding windows/ sub-windows	National corpus	State's corpus
Mitigation - 20%	2478 (NDMF)	5797 (SDMF)
Response - 80%	9912 (NDRF)	23186 (SDRF)
Total	12390 (NDRMF)	28983 (SDRMF)
Distribution of NDRF/SDRF		
i. Response and relief-40%	4956	11593
ii. Recovery and reconstruction -30%	3717	8695
iii. Capacity building -10%	1239	2898

Source: One-year report of Fifteenth FC

In the context of disaster risk management, the 15th FC introduced an innovative concept of developing a disaster risk index (DRI). They recommended the setting up of national and state disaster mitigation funds in accordance with the Disaster Management Act. This was missing in the

recommendations of the recent FCs even though the Disaster Management Act had become effective since 2005. The national and state level disaster risk mitigation fund was recommended as per the details given in Table 9. The share of mitigation was kept at 20% and that for disaster response was kept at 80%.

Chart 8: centre's share in grants for State Disaster Risk Mitigation Fund



Source (basic data): 15th FC report

The DRI was developed based on providing scores to different states with respect to five categories of hazards namely cyclones, floods, drought, earthquakes and other hazards. Excluding other hazards, in the remaining four types of hazards, risk vulnerability was considered in terms of a three-part scheme namely high-risk, medium-risk and low-risk. For high risk, a score of 15, for medium risk, a score of 10 and for low risk, a score of 5 was given. For other risks, every state was kept in the medium risk category and given a score of 10. The consideration for exposure to risk was supplemented

by the consideration of vulnerability which was measured by the incidence of poverty for which the estimates available for 2011-12, based on Tendulkar methodology were used. In this case, the scoring system utilized two benchmark lines of poverty rates at 13% and 26%. States with a poverty rate of less than 13% were given a score of 10; those between 13% and 26% were given a score of 20; and those above 26% were given a score of 30.

Continuing revenue uncertainty

The 15th FC made projections for centre's gross tax revenues as well as states' own tax revenues based on nominal growth and buoyancy assumptions. It was recognized, both by the commission and the central government, that centre's gross tax revenues have been facing significant revenue uncertainty. In spite of this awareness, it appears that the commission made optimistic assumptions about the nominal GDP/ GSDP growth rates and relevant buoyancies. The commission assumed a nominal GDP growth of 10% for FY20 and 11% for FY21. As per the second advance estimates of CSO, nominal GDP growth for FY20 was estimated at 7.5%. The Commission assumed a buoyancy for centre's gross tax revenues at 0.84 for FY20 and 1.14 for FY21. Both these assumptions have proved to be overestimates. Accordingly, the Commission's projection for centre's gross tax revenues for FY20 at INR 22.55 lakh crore and for FY21 at INR 25.38 lakh crore have exceeded the corresponding amounts given in Centre's budget for FY21. The revised estimate (RE) for FY20 is at INR 21.63 lakh crore and the budget estimate (BE) for FY21 is 24.23 lakh crore. Thus, the overestimation by the 15th FC



for FY20 amounts to nearly INR91,577 crore while that for FY21 amounts to INR1.15 lakh crore. However, even the FY20 RE may prove to be optimistic. From the CGA, center's gross tax revenue data for the period April to January 2020 indicates a gross tax revenue collection of INR 15,30,941 crores. This implies that in the remaining two months, a growth rate of 22.1% over the corresponding period of last year would be required in order to realize the FY20 RE. This may prove to be highly difficult given the current economic uncertainty. Since FY20 is the base year for FY21 forecasts, the BE for FY21 may also prove to be optimistic and the forecast by the Commission for FY21 may prove to be significantly higher than the corresponding realization. This has implications for the projected share of central taxes of the states and accordingly the estimation of revenue deficit grants for individual states.

Role of states in coping with COVID-19 economic impact

State governments will need to play a significant role in the implementation of various central government initiatives to deal with the impact of COVID-19. They may also undertake their own initiatives to supplement central efforts by taking into account state specific features. Under the State List of the Seventh Schedule of the Constitution, it is the state governments who have the responsibility to deal with public health and sanitation; hospitals and dispensaries (*item (6) of State List*). In the Concurrent List item (25) and (26) make reference to *Medical Education and Universities* and *Medical Profession*. However, there is no item directly under the Union list relating to health. The Union Government is responsible for *inter-state quarantine* as per item (81) of the Union List. The state governments are also heavily constrained in terms of their own tax revenues due to the ongoing economic slowdown. Since the 15th FC in its first report did not have an occasion to consider any special grant with respect to the economic impact of COVID-19, it may be required that the central government on its own provide a special grant which is distributed among the states on the basis of population in order to supplement the state resources for state level policies that are designed to deal with the health and economic impact of COVID-19.

Concluding observations

The distorted patterns of per capita transfers in the case of recent FCs where noticeable regressive elements are clearly highlighted, is the result of the gap filling approach which has started to dominate the determination of fiscal transfers in recent years. Correspondingly, the emphasis given to the equalization approach has weakened. FCs prior to the 13th FC recommended revenue deficit grants mainly for the erstwhile special category states. However, recent commissions have started recommending these grants for M&L states also. It would be desirable either to drop the provision of revenue deficit grants altogether and replace them with equalization grants or at least significantly reduce the role that they play in the determination of overall scheme of transfers. At best, they should be allowed to play a residual role for some of the hilly states where per capita cost of provision of services may be justifiably high and may not be covered by the tax devolution formula.

The tax devolution formula should be so designed as to be consistent as closely as possible with equalization principle. In particular, the combination of population and distance criteria can be used for providing fiscal capacity equalization to the desired extent. The remaining criteria such as area and forest cover can be used to reflect valid cost differentials. Performance criteria may play a supplementary role. The source of distortion in the tax devolution formula arises from the way area and forest cover criteria have been used by the 14th and 15th FCs. The combined weight of area and forest cover has been quite large at 22.5% in the 14th FC and at 25% in the 15th FC. In the area criterion, whose weight is as high as 15%, an arbitrary floor of 2% for states with a share in area of less than 2% is a source of considerable distortion. In order to justify the relatively high weight given to area criterion which is meant to serve the purpose of reflecting cost differentials, this criterion should be far more elaborate relative to what is being currently used. There are various other factors reflecting cost disabilities such as share of hilly area in total area. In fact, forest cover, which is also a cost disability, is a part of area only. The forest cover criterion can be integrated in the area criterion and it may be better to do so since the way forest cover criterion is currently used, it is without a scaling factor of either population or area. There are various other genuine cost disabilities which are differentiated according to states and these may be captured by redefining the area criterion to better reflect differentiated cost disabilities of different states. Thus, area under glaciers, area reflecting international borders, share of coastal areas, share of hilly areas are all area related cost disabilities which affect different states differently, but may all be incorporated in the area criterion. It can be illustrated that by revising the devolution formula and designing sector specific equalization grants, it would be possible to give up revenue deficit grants altogether or reduce their role to a genuinely residual one.

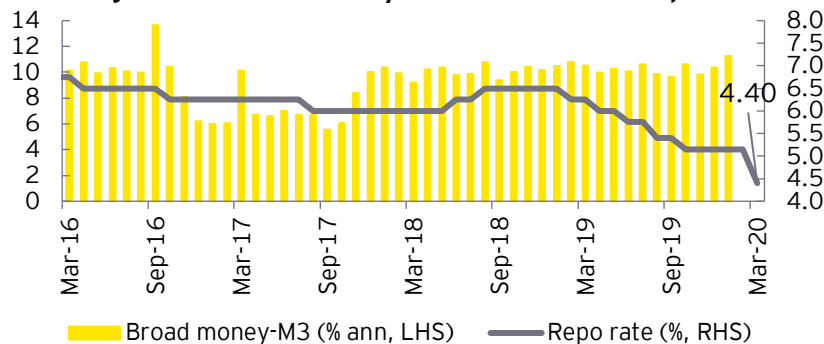
6. Money and finance: repo-rate lowered by 75 basis points to 4.40% in March 2020

A. Monetary sector

Monetary policy

- ▶ The RBI held an unconventional seventh bi-monthly monetary policy review on 27 March 2020 and lowered the repo rate by 75 basis points to a historic low of 4.40% from 5.15%. In RBI's assessment this was necessitated considering the likely impact of COVID-19 pandemic on the Indian economy which was already facing a growth slowdown.
- ▶ The RBI also undertook additional stimulus measures by permitting all commercial banks and other financial institutions to provide moratorium of three months on payment of instalments in respect of all term loans outstanding as on 1 March 2020.
- ▶ The liquidity enhancing measures undertaken include (a) lowering the CRR by 100 basis points to 3.0% unleashing primary liquidity amounting to INR1,37,000 crore, (b) conducting Targeted Long-Term Repos Operations (TLTROs) of up to three years for a total amount of up to INR 1,00,000 crore and (c) permitting banks to borrow overnight by dipping up to 3% into the Statutory Liquidity Ratio (SLR) as against the existing limit of 2%, releasing INR 1,37,000 crore. Together, these three measures are expected to inject a total liquidity amounting to INR 3.74 lakh crore.

Chart 9: growth in broad money and movements in repo rate



The RBI lowered the repo rate by 75 basis points to a historic low of 4.40% from 5.15% to stimulate the Indian economy hit by the COVID-19 pandemic on top of an ongoing economic slowdown.

Source: Database on Indian Economy, RBI

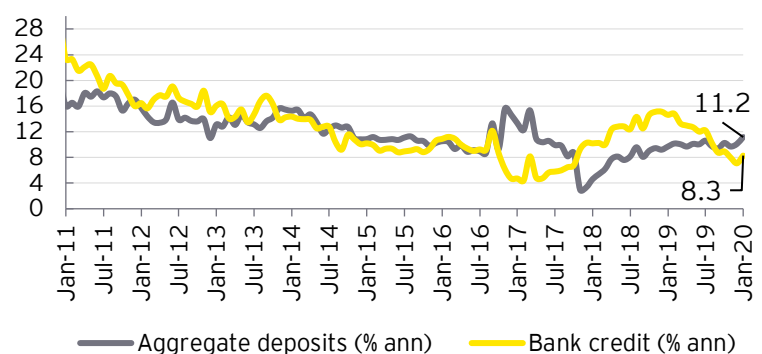
Money stock

- ▶ Growth in broad money stock (M3) improved to 11.2% in January 2020 from 10.4% in December 2019 (Chart 9). Time deposits, accounting for nearly 76% of M3, grew by 10.5% in January 2020 from 9.8% in December 2019.
- ▶ Narrow money (M1) growth increased to 13.9% in January 2020 from 12.5% in December 2019. This was due to strong growth of 16.9% in demand deposits in January 2020 as compared to 13.1% in December 2019. Growth of currency in circulation remained unchanged at 11.9% in January 2020.

Aggregate credit and deposits

- ▶ Growth in bank credit remained low at 8.3% in January 2020 although marginally higher than 7.1% in December 2019 (Chart 10).
- ▶ Growth in non-food credit increased to 8.5% in January 2020 from a 26-month low of 7.0% in December 2019 due to higher growth in credit to industries and services sector.
- ▶ Growth in credit to industry continued to remain subdued but increased marginally to 2.5% in January 2020 from 1.6% in

Chart 10: growth in credit and deposits



Source: Database on Indian Economy, RBI



December 2019. Growth in credit to services and agriculture improved to 8.9% and 6.5% respectively in January 2020 from 6.2% and 5.3% respectively in December 2019.

- ▶ Growth in credit to housing sector was marginally lower at 17.5% in January 2020 as compared to 17.6% in December 2019.
- ▶ Growth in aggregate bank deposits of residents increased to 11.25% in January 2020 from 10.1% in December 2019.

B. Financial sector

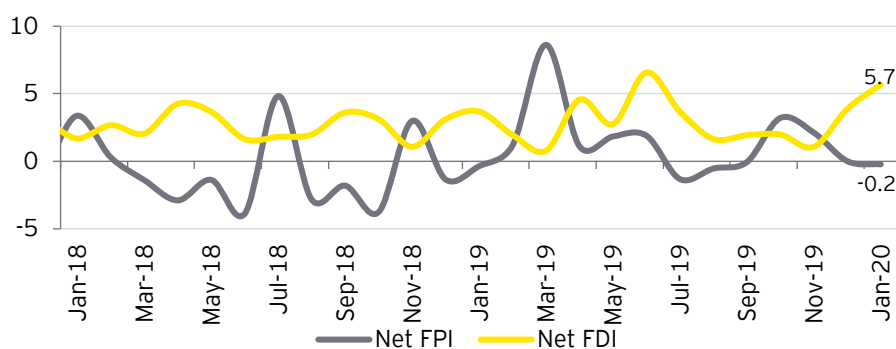
Interest rates

- ▶ Interest rates offered by commercial banks on term deposits with a maturity of more than one year fell further averaging 6.20% (ranging between 6.00% and 6.40%) in February 2020 as compared to 6.26% in January 2020.
- ▶ The average yield on 10-year government securities fell sharply by 16 basis points to 6.66% in February 2020 from 6.82% in January 2020. RBI's recent measures including Long Term Repo Operations (LTROs)⁶ to boost banking system liquidity in a sustained manner has provided some cushion to bond yields.
- ▶ Banks have gradually lowered the lending rates from their levels since early FY20 indicating improved transmission in credit market. However, uncertainties in the banking sector have constrained banks from lowering the lending rates in line with the reduction in repo rate. Instead, the WALR on fresh rupee loans increased for the first time in six months to 9.36% in January 2020 from 9.29% in December 2019.
- ▶ The MCLR was marginally lower on average at 7.72% in January 2020 as compared to 7.74% in December 2020.

FDI and FPI

- ▶ As per the provisional data released by the RBI on 11 March 2020, the overall foreign investment inflows (FIIs) increased to US\$5.4 billion in January 2020 as compared to US\$3.9 billion (revised) in December 2019 due to a surge in net FPI inflows.

Chart 11: net FDI and FPI inflows (US\$ billion)



Net FDI inflows were at a seven-month high of US\$5.7 billion while FPIs witnessed net outflows to the tune of US\$0.2 billion in January 2020.

Source: Database on Indian Economy, RBI

- ▶ Net FDI inflows surged to US\$ 5.7 billion in January 2020 from US\$3.9 billion (revised) in December 2019 (**Chart 11**). Gross FDI inflows were also higher at US\$8.5 billion in January 2020 as compared to US\$6.8 billion in December 2019.
- ▶ Net portfolio investments (FPIs) turned negative indicating outflows to the tune of US\$0.2 billion in January 2020 as compared to net inflows of US\$ 0.01 billion (revised) in December 2019.

⁶ As per the Statement on Developmental and Regulatory Policy released by the RBI on 6th February 2020, the LTROs are being carried forward with a view to assuring banks about the availability of durable liquidity at reasonable cost relative to prevailing market conditions. The RBI decided to inject a total of INR1,00,000 crores into the banking system through LTROs at the policy repo rate for one-year and three-year tenors. By 20th March 2020, the RBI had injected a total of INR75,000 crore, through three separate LTROs (INR25,000 crores each) conducted on 17th February 2020, 24th February 2020 and 18th March 2020.

7. Trade and CAB: current account deficit narrowed sharply to 0.2% in 3QFY20

A. CAB: Current account deficit (CAD) narrowed to 0.2% of GDP in 3QFY20

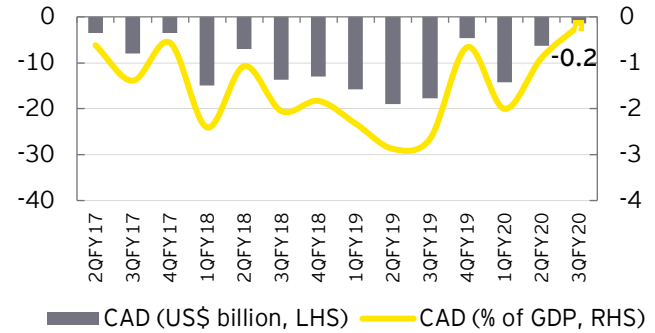
- CAD narrowed to 0.2% of GDP in 3QFY20 from 0.9% of GDP in 2QFY20 (**Chart 10**) as merchandise trade deficit fell to a 13-quarter low of 4.8% of GDP from 5.4% of GDP during the same period (**Table 10**). Merchandise imports moderated to a 62-quarter low of 15.9% in 3QFY20 from 16.8% of GDP in 2QFY20, while merchandise exports eased to a 15-year low of 11.2% from 11.4% of GDP over the same period. Net service exports increased marginally to 3.0% in 3QFY20 from 2.9% of GDP in 2QFY20. Net transfers, however, moderated to a 2.6% in 3QFY20 from 2.8% of GDP in 2QFY20.

Table 10: components of CAB in US\$ billion

	CAB	CAB as a % of nominal GDP	Goods account net	Services account net
FY16	-22.2	-1.1	-130.1	69.7
FY17	-15.3	-0.7	-112.4	67.5
FY18	-48.7	-1.8	-160.0	77.6
FY19	-57.3	-2.1	-180.3	81.9
4QFY19	-4.6	-0.7	-35.2	21.3
1QFY20	-14.2	-2.0	-46.2	20.1
2QFY20	-6.3	-0.9	-38.1	20.4
3QFY20	-1.4	-0.2	-34.6	21.9

Source: Database on Indian Economy, RBI
Note: (-) deficit; (+) surplus

Chart 12: CAD



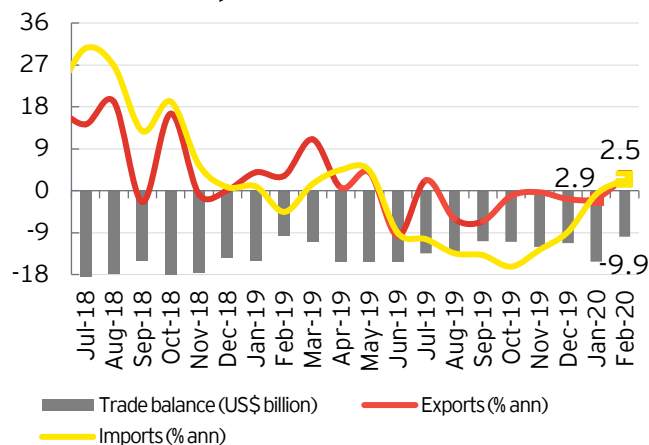
Source: Database on Indian Economy, RBI

B. Merchandise trade and exchange rate

Growth in merchandise exports and imports turned positive at 2.9% and 2.5% respectively in February 2020.

- Merchandise exports grew by 2.9% in February 2020 after contracting for six consecutive months. In January 2020, exports had contracted by (-) 1.7% (**Chart 13**).

Chart 13: developments in merchandise trade



Source: Ministry of Commerce and Industry, GoI

- Oil exports grew by 10.1% in February 2020 as compared to 2.9% in January 2020 partly due to base effect. Growth in exports of engineering goods reached an 11-month high of 8.7% from (-) 4.0% over the same period.
- Growth in imports turned positive for the first time since May 2019 at 2.5% in February 2020 from (-) 0.7% in January 2020 driven by a) higher growth in imports of pearls and precious metals (13.2%), electrical and non-electrical machinery (9.0%) and b) slower pace of contraction in imports of coal (-8.6%) and gold (-8.5%). Growth in oil imports fell to 14.3% in February 2020 from 15.3% in January 2020.
- Imports excluding oil, gold and jewelry continued to contract by (-) 2.2% in February 2020 as compared to (-) 4.6% in January 2020. Exports excluding oil, gold and jewelry expanded by 6.2% in February 2020 as compared to a contraction of (-) 0.8% in January 2020.
- Out of the 30 broad sectors for which exports and imports data is provided, 14 and 16 sectors, respectively, experienced a contraction in February 2020.
- Merchandise trade deficit fell to US\$9.9 billion in February 2020 from US\$15.2 billion in January 2020 due to faster growth in exports relative to imports.
- The Indian Rupee depreciated marginally to INR71.4 per US\$ (average) in February 2020 as compared to INR71.3 per US\$ (average) in January 2020.

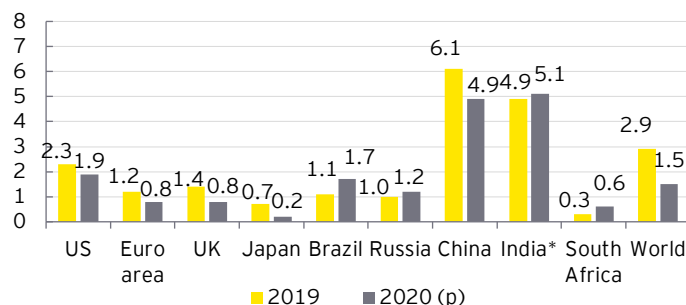
8. Global growth: OECD projected global growth at 1.5% in 2020 due to the COVID-19 pandemic

A. Global growth outlook

- ▶ The OECD (Interim Economic Assessment, March 2020) sharply revised down its global growth projection to 1.5% in 2020 due to the coronavirus pandemic (COVID-19) (Chart 14). This projection assumes a long lasting and more intensive outbreak, spreading widely throughout the Asia-Pacific region, Europe and North America. The 2021 global growth projection, currently at 3.3% may also undergo downward revisions.
- ▶ The IMF has observed that the COVID-19 pandemic will lead to a global recession in 2020 that will be at least as severe as the downturn during the economic and financial crisis of 2008. Moody's investor service (Moody's) has projected the global GDP to contract by (-) 0.5% in 2020. Previously, the UNCTAD revised down its global growth projection to 1.7% for 2020 while the Institute of International Finance (IIF) downgraded its projection to 1.6%.
- ▶ Growth in the US is expected to moderate from an estimated 2.3% in 2019 to 1.9% in 2020, a downward revision of 0.1% points relative to November 2019 estimates. The prospects of a further trade deal between the US and China are uncertain and there is a possibility of bilateral trade tensions between the US and Europe.
- ▶ Growth projections for the UK and the euro area are based on an assumption that a basic free trade agreement for goods comes into force from the start of 2021. Growth in the Euro area is projected at 1.2% in 2019 and 0.8% in 2020 while in the UK, it is projected at 1.4% in 2019 and 0.8% in 2020.
- ▶ As per the OECD⁷, growth in China is projected to fall from 6.1% in 2019 to 4.9% in 2020, a downward revision of 0.8% points due to the adverse impact of COVID-19 on economic activity.
- ▶ Growth in India is estimated at 4.9% in 2019 (FY20) and 5.1% in 2020 (FY21), a downward revision of 1.1% points.

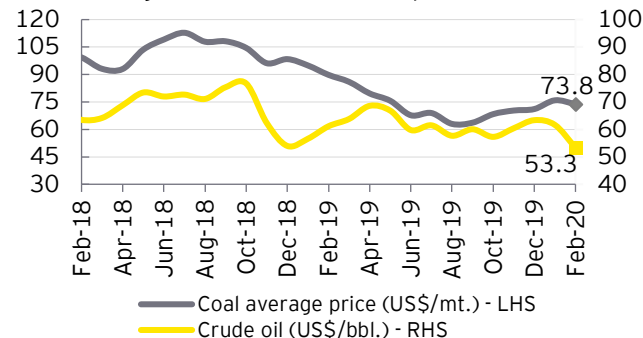
The OECD projected global growth to fall to 1.5% in 2020, a downward revision of 1.4% points resulting from the COVID-19 pandemic.

Chart 14: global growth projections



Source: OECD Interim Economic Assessment, March 2020
* data pertains to fiscal year; (p): projections for 2020

Chart 15: global crude and coal prices



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

B. Global energy prices: global crude price fell to a 29-month low in February 2020 as demand fell sharply due to the COVID-19 pandemic

- ▶ Average global crude price⁸ fell to a 29-month low of US\$53.3/bbl. in February 2020 from US\$61.6/bbl. in January 2020 (Chart 15) due to a sharp fall in demand from China and other countries affected by the COVID-19 pandemic. The IEA has sharply revised down its 2020 demand projection by 1.1 mb/d⁹. By 26 March 2020, Brent and WTI crude oil prices had fallen to US\$23.55/bbl. and US\$16.60/bbl. respectively¹⁰.
- ▶ After increasing to a nine-month high of US\$76.3/mt. in January 2020, average global coal price¹¹ fell to US\$73.8/mt. in February 2020 due to subdued demand particularly from China post the COVID-19 pandemic.

⁷ OECD Interim Economic Assessment, released 2 March 2020; <https://www.oecd-ilibrary.org/docserver/7969896b-en.pdf?expires=1585052698&id=id&accname=guest&checksum=1CCB28C07F60E6F8FB76C0D68DEA8C9D>

⁸ Simple average of three spot prices, namely, Dated Brent, West Texas Intermediate and Dubai Fateh

⁹ <https://www.iea.org/reports/oil-market-report-march-2020>

¹⁰ <https://www.eia.gov/todayinenergy/prices.php>

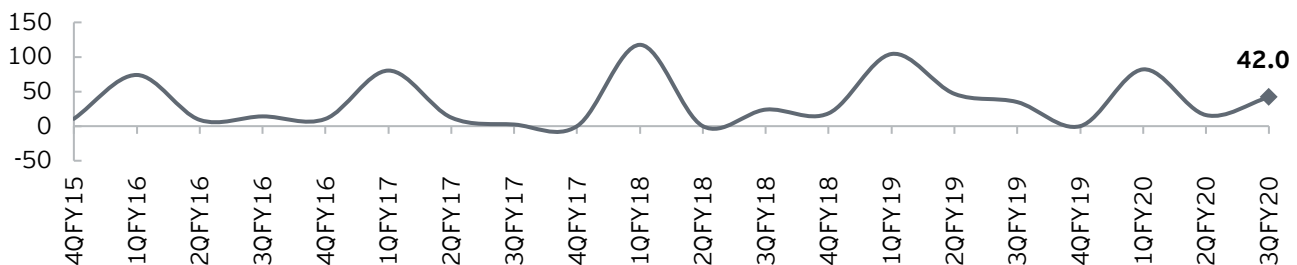
¹¹ Simple average of Australian and South African coal prices

9. Index of Macro Imbalance (IMI): pointed to an increase in the macro imbalance in 3QFY20

IMI indicated an increase in macro imbalance in 3QFY20

- ▶ The IMI is obtained by adding the percentage deviation of inflation rate (based on new CPI 2011–12=100), fiscal deficit (as a percentage of GDP) and current account deficit (as a percentage of GDP) from their respective benchmarks of 4%, 3% and 1.3% of GDP¹². All three components of IMI have been given equal weightage (33.33%). The state of *balance* is judged by a value of 0.
- ▶ An index value greater than zero indicates the presence of an imbalance in the economy. While considering the percentage deviation of each of the indicators from its selected norm, only the positive deviations are taken. Negative deviations are equated to zero to ensure that the negative and positive deviations across indices are not canceled out.
- ▶ IMI pointed to an increase in the macro imbalance as the index value increased to 42.0 in 3QFY20 as compared to 16.0 in 2QFY20 (**Chart 16**). Two of the three components of IMI namely, CPI inflation (5.8%) and center's fiscal deficit (5.4% of GDP) were above their respective benchmark levels during the quarter while current account deficit at 0.2% of GDP was below its benchmark level.

Chart 16: IMI (quarterly)



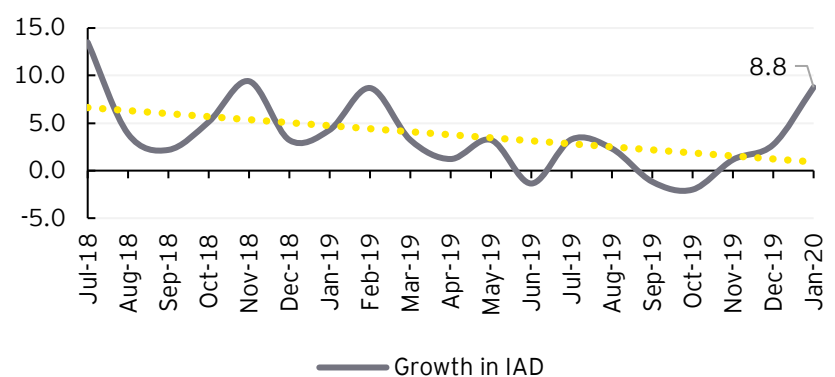
Source (Basic data): RBI, MoSPI and EY estimate

10. Index of Aggregate Demand (IAD): monthly changes remain highly volatile

Growth in IAD increased to 8.8% in January 2020

- ▶ Following 10 successive months of subdued growth, the IAD grew to a 14-month high of 8.8% in January 2020, from 2.7% in December 2019 (**Chart 17**).
- ▶ This surge in demand as indicated by the growth in IAD is on account of an increase in manufacturing and services PMI as well as agricultural credit offtake in January 2020. However, on trend basis, growth in IAD has been falling since July 2018.

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



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

¹² 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.
FY16	3.3	4.3	2.9	5.7	3.0	FY16	51.3	51.7
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
4QFY19	1.5	2.2	1.4	1.5	3.3	4QFY19	53.6	52.2
1QFY20	3.0	3.0	2.4	7.3	3.4	1QFY20	52.2	50.3
2QFY20	-0.4	-1.2	-0.4	0.6	-0.9	2QFY20	51.8	51.6
3QFY20	-1.6	-0.1	-1.3	-6.0	-1.4	3QFY20	51.5	51.7
Oct-19	-6.6	-8.0	-5.7	-12.2	-5.5	Nov-19	51.2	52.7
Nov-19	1.8	1.8	2.7	-5.0	-0.6	Dec-19	52.7	53.3
Dec-19	0.1	5.7	-0.7	-0.1	2.1	Jan-20	55.3	55.5
Jan-20	2.0	4.4	1.5	3.1	2.2	Feb-20	54.5	57.5

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
FY16	4.9	4.9	5.3	4.9	-3.7	1.2	-1.8	-19.7	-1.8
FY17	4.5	4.2	3.3	4.9	1.7	5.9	1.3	-0.3	-0.1
FY18	3.6	1.8	6.2	4.6	2.9	1.9	2.7	8.2	3.0
FY19	3.4	0.1	5.7	5.5	4.3	0.6	3.7	11.5	4.2
4QFY19	2.5	-0.9	1.9	5.0	2.9	3.0	2.4	2.7	2.7
1QFY20	3.1	1.7	2.4	4.1	2.7	5.1	1.5	1.2	1.4
2QFY20	3.5	3.5	-1.4	4.1	0.9	5.6	-0.1	-4.6	-0.5
3QFY20	5.8	10.7	-1.1	3.3	1.0	9.3	-0.7	-5.7	-1.8
Nov-19	5.5	10.0	-1.9	3.4	0.6	9.1	-0.8	-7.3	-1.9
Dec-19	7.4	14.2	0.7	3.5	2.8	11.2	-0.3	0.4	-1.6
Jan-20	7.6	13.6	3.7	4.0	3.1	10.1	0.3	3.4	-1.0
Feb-20	6.6	10.8	6.4	3.7	2.3	7.3	0.42	3.4	-0.7

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

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	Revenue deficit
						% of GDP	% of GDP
FY17 (CGA)	17.9	6.7	21.5	12.3	21.6	3.5	2.1
FY 18 (CGA)	11.8	17.8	19.9	18.6	6.0	3.5	2.6
FY 19 (CGA)	8.4	16.2	13.1	14.9	2.9	3.4	2.4
FY20 (RE over FY 19 actuals)	4.0	-8.0	18.3	2.9	5.3	3.8	2.4
FY 21 (BE over FY 20 RE)	12.0	11.5	14.0	12.7	11.1	3.5	2.7
Cumulated growth (% , y-o-y)						% of budgeted target	
Jun-19	1.4	6.3	12.3	9.7	-4.0	61.4	77.1
Jul-19	6.6	5.5	6.0	5.8	7.3	77.8	94.2
Aug-19	4.2	4.6	13.2	9.6	0.6	78.7	89.9
Sep-19	1.5	2.3	8.9	5.2	-2.0	92.6	99.9
Oct-19	1.2	0.9	6.7	3.5	-1.0	102.4	112.6
Nov-19	0.8	-0.9	7.0	2.7	-0.9	114.8	128.4
Dec-19	-2.9	-13.6	5.1	-5.8	0.1	121.5	141.6
Jan-20	-2.0	-13.5	6.9	-4.9	0.9	128.5 [#]	150.2 [#]

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)					
Jun-19	35,400	188	4,039	8,026	47,653
Jul-19	24,095	197	25,250	8,183	57,725
Aug-19	68,545	117	-46,098	6,822	29,386
Sep-19	38,132	482	-3,650	7,148	42,112
Oct-19	37,135	190	19,573	8,701	65,599
Nov-19	43,654	197	247	7,119	51,217
Dec-19	40,472	170	-1,842	7,913	46,713
Jan-20	43,782	157	2,128	8,359	54,426

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	M1	M3	Bank credit	Agg. deposits	Net FDI	Net FPI	Fiscal year/quarter/month	10-year govt. bond yield	FX reserves
	%		% change y-o-y							US\$ billion	%
Apr-19	6.00	FY16	13.5	10.1	9.7	10.5	36.0	-4.1	FY16	7.74	355.6
May-19	6.00	FY17	3.1	10.1	7.9	11.6	35.6	7.6	FY17	7.03	370.0
Jun-19	5.75	FY18	21.8	9.2	7.5	7.5	30.3	22.1	FY18	7.05	424.4
Jul-19	5.75	FY19	13.6	10.5	13.7	8.9	30.7	-0.6	FY19	7.68	411.9
Aug-19	5.40	4QFY19	13.6	10.5	14.2	10.0	6.4	9.4	4QFY19	7.37	411.9
Sep-19	5.40	1QFY20	11.3	10.1	12.6	9.9	13.9	4.8	1QFY20	7.24	427.7
Oct-19	5.15	2QFY20	10.8	9.6	10.4	9.9	7.3	-1.9	2QFY20	6.68	433.6
Nov-19	5.15	3QFY20	12.5	10.4	8.0	10.0	6.1	4.8	3QFY20	6.68	457.5
Dec-19	5.15	Oct-19	12.9	10.6	8.9	10.2	2.0	3.2	Nov-19	6.64	451.1
Jan-20	5.15	Nov-19	11.1	9.8	8.0	9.7	1.1	2.1	Dec-19	6.85	457.5
Feb-20	5.15	Dec-19	12.5	10.4	7.1	10.1	3.9	0.0	Jan-20	6.82	471.3
Mar-20	4.40	Jan-20	13.9	11.2	8.3	11.2	5.7	-0.2	Feb-20	6.66	481.5

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		
FY16	-15.6	-15.2	-117.7	65.5	46.0	54.7	2013	3.5	1.4	5.1
FY17	5.1	0.9	-108.2	67.1	47.9	73.0	2014	3.6	2.1	4.7
FY18	10.6	20.9	-159.0	64.5	55.7	90.8	2015	3.4	2.3	4.3
FY19	8.4	10.5	-182.1	69.9	67.3	100.4	2016	3.4	1.7	4.6
4Q FY19	6.0	-0.9	-35.5	70.5	60.5	90.2	2017	3.8	2.5	4.8
1Q FY20	-1.7	-0.3	-46.0	69.5	65.1	74.3	2018	3.6	2.3	4.5
2Q FY20	-3.6	-12.6	-37.7	70.4	59.7	65.2	2019	2.9	1.7	3.7
3Q FY20	-1.1	-12.7	-34.4	71.2	60.3	69.9	2020**	3.3	1.6	4.4
Nov-19	-0.3	-12.7	-12.1	71.5	60.4	70.3	2021**	3.4	1.6	4.6
Dec-19	-1.8	-8.8	-11.3	71.2	63.4	71.1	2022*	3.6	1.6	4.8
Jan-19	-1.7	-0.7	-15.2	71.3	61.6	75.9	2023*	3.6	1.5	4.8
Feb-19	2.9	2.5	-9.9	71.4	53.3	73.8	2024*	3.6	1.6	4.8

Source: Database on Indian Economy - RBI, Pink Sheet - World Bank and IMF World Economic Outlook, October 2019, IMF World Economic Outlook Update, January 2020; * indicates projections as per October 2019 database, ** indicates projections as per January 2020 update.

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 (AE) [§]	4.9	3.7	2.8	0.9	4.6	3.0	5.6	7.3	8.8	2.8
3QFY18	7.2	5.7	5.2	9.3	10.1	4.6	8.2	5.7	9.1	5.3
4QFY18	7.8	8.0	3.6	10.1	11.8	13.5	6.4	4.3	8.4	4.1
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	5.4	2.8	4.7	2.2	8.8	5.5	5.7	6.9	8.7	3.0
2QFY20	4.8	3.1	0.2	-0.4	3.9	2.9	5.8	7.1	10.1	1.7
3QFY20	4.5	3.5	3.2	-0.2	-0.7	0.3	5.9	7.3	9.7	3.2

Source: National Accounts Statistics, MoSPI

Growth numbers for FY20 are based on the second advanced estimates of NAS released by MoSPI on 28 February 2020 over the first revised estimates (RE) of NAS for FY19 released by MoSPI on 31 January 2019.

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 (AE) [§]	5.0	5.3	9.8	-0.6	-1.9	-5.5	2.3
3QFY18	8.7	5.3	10.5	8.8	4.4	14.1	3.0
4QFY18	7.4	7.7	8.9	13.7	5.0	23.6	3.9
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	5.6	5.0	8.8	4.3	3.2	2.1	2.6
2QFY20	5.1	5.6	13.2	-4.1	-2.1	-9.3	1.2
3QFY20	4.7	5.9	11.8	-5.2	-5.5	-11.2	2.9

Source: National Accounts Statistics, MoSPI

§: Growth numbers for FY20 are based on the second advanced estimates of NAS released by MoSPI on 28 February 2020 over the first revised estimates (RE) of NAS for FY19 released by MoSPI on 31 January 2019.

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	CSO	Central Statistical Organization
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 advanced 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	FY	fiscal year (April–March)
30	GDP	Gross Domestic Product
31	GFCE	government final consumption expenditure
32	GFCF	gross fixed capital formation
33	Gol	Government of India
34	GST	Goods and Services Tax
35	GVA	gross value added
36	IAD	Index of Aggregate Demand
37	IBE	interim budget estimates
38	ICRIER	Indian Council for Research on International Economic Relations
39	IEA	International Energy Agency
40	IGST	Integrated Goods and Services Tax
41	IIP	Index of Industrial Production
42	IMF	International Monetary Fund



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

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