97th issue

Economy Watch

Monitoring India's macro-fiscal performance

November 2024

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Contents

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Highlights

1. Manufacturing and services PMI recovered to 57.5 and 58.5 respectively in October 2024 from their respective levels of 56.5 and 57.7 in September 2024.

2. Led by improved growth across all major sub-industries, IIP growth recovered to 3.1% in September 2024 from a contraction of (-)0.1% in August 2024.

3. CPI inflation increased to a 14-month high of 6.2% in October 2024, whereas core CPI inflation remained below 4%, although increasing to a 10-month high of 3.7%.

4. WPI inflation remained low at 2.4% in October 2024, although rising from 1.8% in September 2024 led by a surge in inflation in tomatoes.

5. As per the CGA, GoI's GTR showed a growth of 12.0% during April-September FY25 with growth in direct taxes at 13.6% and that in indirect taxes at 8.4%.

6. GoI's total expenditure showed a contraction of (-)0.4% during April-September FY25, with revenue expenditure growing by 4.2% and capital expenditure contracting by (-)15.4%.

7. GoI's fiscal and revenue deficits during April-September FY25 stood at their unprecedented low levels of 29.4% and 12.8% of their respective annual BE.

8. Growth in gross bank credit eased to a three-month low of 14.4% in September 2024 from 15.0% in August 2024.

9. Growth in merchandise exports picked up to 17.2% in October 2024 from 0.5% in September 2024 reflecting higher year end demand. Merchandise imports growth increased to 3.9% in October 2024 from 1.6% in September 2024 partly due to rising volume of crude imports.

10. Merchandise trade deficit widened to US$27.1 billion in October 2024 from US$20.8 billion in September 2024.

11. In September 2024, the deficit on account of trade of goods and services fell to a six-month low of US$4.7 billion.

12. Net FPI inflows surged to US$9.7 billion in September 2024, its highest level since November 2020. Net FDI witnessed outflows amounting to US$3.1 billion in September 2024.

13. Average global crude price increased to US$74/bbl. in October 2024 from US$72.4/bbl. in September 2024, although remaining well below the 1HFY25 average of US$80.7/bbl.

14. The IMF projected global growth to ease to 3.2% in 2024, with India's FY25 growth forecasted at 7%.

15. Towards building a Viksit Bharat, we expect general government expenditure to reach 30% of GDP by FY2031, 31.5% by FY2036 and reach 35% by FY2048, driven primarily by an augmented tax-GDP ratio along with downward adjustment in the current fiscal deficit to GDP ratio.

Foreword

Accelerated government investment can improve India’s FY25 growth prospects

Various observers, during September to November 2024, estimated India’s FY25 growth in the range of 6.5% to 7.2%. While some of the major institutions like the RBI and the IMF remain optimistic about India’s growth prospects for FY25 at 7.0% or above, risks to this forecast appear to emanate due to the sluggishness in the expansion of infrastructure through GoI’s investment expenditure which has contracted by (-)15.4% during the first half of FY2025, as against the budget target of 17.1% over the CGA actuals. This implies that in the remaining months, the required growth in GoI’s capital expenditure to achieve the budget target is 52.0%. In fact, GoI’s total expenditure also showed a contraction of (-)0.4% during April-September FY25, with revenue expenditure growing by 4.2%.
At the same time, as per the CGA, GoI’s gross tax revenues (GTR) is showing a growth which is broadly consistent with the budget estimates. GoI’s GTR showed a growth of 12.0% during April-September FY25 with growth in direct taxes at 13.6% and that in indirect taxes at 10.4%.

Available high frequency data for September and October 2024 point to a recovery in growth momentum of the Indian economy. Headline manufacturing PMI (seasonally adjusted (sa)) increased to 57.5 in October 2024 from 56.5 in September 2024 due to a faster growth in new orders and international sales. Similarly, owing to sharper expansion in output, new business and recovery in the growth of new export sales, services PMI recovered to 58.5 in October 2024 from a 10-month low of 57.7 in September 2024. As per the data released by Federation of Automobile Dealers Association, retail sales of motor vehicles showed a strong growth of 32.1% in October 2024, led by festive demand. In September 2024, retail sales of vehicles had contracted by (-)9.3%. Within the vehicle segments, growth in two-wheeler sales was the highest at 36.3% followed by retail sales of passenger vehicles at 32.4% in October 2024. GST revenues in October 2024 grew by 8.9% reaching a level of INR1,87,346 crores, its second highest monthly gross collections since its introduction in July 2017. Following a contraction of (-)0.1% in August 2024, IIP posted a growth of 3.1% in September 2024, led by a broad-based recovery in the growth of all the major sub-industries.

On the external front, recent data indicate some improvement. Growth in merchandise exports picked up to 17.2% in October 2024 from 0.5% in September 2024 reflecting higher year end demand. Merchandise imports growth increased to 3.9% in October 2024 from 1.6% in September 2024 partly due to rising volume of crude imports. It is also notable that growth in textile exports which had gathered momentum since August 2024, surged to 35.1% in October 2024, reflecting a locational shift to India post the political unrest in Bangladesh. Net FPI inflows surged to US$9.7 billion in September 2024, its highest level since November 2020. It is notable, however, that in recent weeks, following global developments, FPI flows are reported to have reversed[1]. Net FDI witnessed outflows amounting to US$3.1 billion in September 2024.

Headline CPI inflation increased to a 14-month high of 6.2% in October 2024, breaching RBI’s upper tolerance limit of 6% for the first time since August 2023 as consumer food inflation surged to 10.9%, its highest level since July 2023. Core CPI inflation, however, remained within 4%, although increasing to a 10-month high of 3.7% in October 2024. WPI inflation remained low at 2.4% in October 2024, although rising from 1.8% in September 2024 led by a surge in inflation in tomatoes which accelerated to a 15-month high of 239.4%. Given the recent surge in inflation, particularly that at the consumer level, the RBI is likely to maintain status quo on the repo rate in its upcoming Monetary Policy Review in December 2024.

[1] https://economictimes.indiatimes.com/news/economy/finance/india-likely-to-attract-20-25-billion-fpi-inflows-in-fy25-recent-outflow-temporary-bank-of-baroda/articleshow/115402635.cms?from=mdr

On the other hand, in the US with CPI inflation moderating further from a recent peak[2] of 3.5% in March 2024 to 2.4% in September 2024, the Federal Reserve on 07 November 2024 reduced the federal funds rate by another 25 basis points bringing it to a range of 4.50% to 4.75%. With this, the federal funds rate has been brought down by a cumulated 75 basis points since September 2024 from a peak of 5.25%-5.5%. In fact, the federal funds rate had been maintained at this high level since July 2023.

The October 2024 edition of IMF's World Economic Outlook undertook some significant revisions to its country level growth projections made in its July 2024 update. Amongst, advanced economies (AEs), it upgraded the growth forecast for the US while downgrading those for others – in particular, some of the largest European countries. Amongst EMDEs, downward revisions were made to the outlook for the Middle East, Central Asia and sub-Saharan Africa. However, forecast for emerging Asia was upgraded, where surging demand for semiconductors and electronics, driven by significant investments in artificial intelligence, has bolstered growth. The latest forecast for global growth five years from now, at 3.1%, remains modest compared with the pre-pandemic average. Persistent structural headwinds such as an aging population and weak productivity are holding back potential growth in many economies. However, cyclical imbalances have eased since the beginning of 2024, leading to a better alignment of economic activity with potential output in major economies. This adjustment is bringing inflation rates across countries closer together and on balance has contributed to lower global inflation. Global headline inflation is expected to fall from an annual average of 6.7% in 2023 to 5.8% in 2024 and further to 4.3% in 2025, with AEs returning to their inflation targets sooner than EMDEs. In this broad context, India remains well positioned to lead global growth by showing more than double the projected global growth in the medium term as per the IMF.

As India aims to become a Viksit, that is, developed economy by FY2048, achieving a minimum of 7%+ potential real GDP growth on a sustained basis and ensuring that actual growth remains close to this potential is critical. For this purpose, building a suitable fiscal architecture is a key requirement. In this month's '*In Focus'* section, we propose a fiscal architecture framework that can help propel the Indian economy to achieve a Viksit status by FY2048. It discusses the first dimension of the framework, namely the achieving the right size of government consistent with a developed status along with its financing. Three additional dimensions of this fiscal architecture that require reforms in: (1) recasting of GoI's FRBMA, (2) fiscal transfers from GoI to states, and (3) government expenditure priorities as divided between GoI and states, would be considered in detail in subsequent editions of *In Focus* writeups of EY Economy Watch.

D.K. Srivastava
Chief Policy Advisor, EY India

[2] CPI Inflation had surged to 9.1% in June 2022, its highest level since 1981. Since June 2022, it has trended downwards with some inter-month volatility; https://www.bls.gov/charts/consumer-price-index/consumer-price-index-by-category-line-chart.htm

1 Growth: Manufacturing and services PMI pointed to a recovery in economic activity in October 2024

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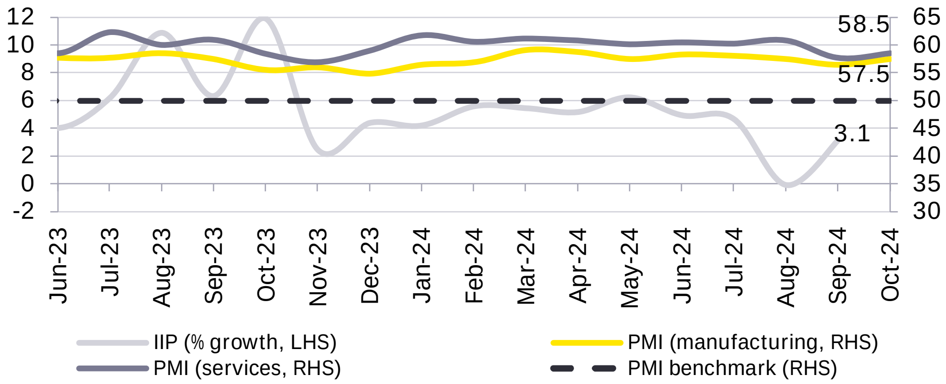
1.1 PMI: pointed to a pickup in manufacturing and services activity in October 2024

- Headline manufacturing PMI (seasonally adjusted (sa)) increased to 57.5 in October 2024 from 56.5 in September 2024 due to a faster growth in new orders and international sales (Chart 1). This was reflective of a strong growth in demand in the manufacturing sector.
- Services PMI recovered to 58.5 in October 2024 from a 10-month low of 57.7 in September 2024. The recovery in services PMI was attributable to sharper expansion in output, new business and recovery in the growth of new export sales.
- Reflecting an upturn in both manufacturing and services activities, the composite PMI Output Index (sa) increased to 59.1 in October 2024 from 58.3 in September 2024.

Chart 1: PMI and IIP growth



Source: MoSPI and S&P Global.

Manufacturing and services PMI recovered to 57.5 and 58.5 respectively in October 2024 from their respective levels of 56.5 and 57.7 in September 2024.

1.2 IIP: grew by 3.1% in September 2024

Led by improved growth across all major sub-industries, IIP growth recovered to 3.1% in September 2024 from a contraction of (-)0.1% in August 2024.

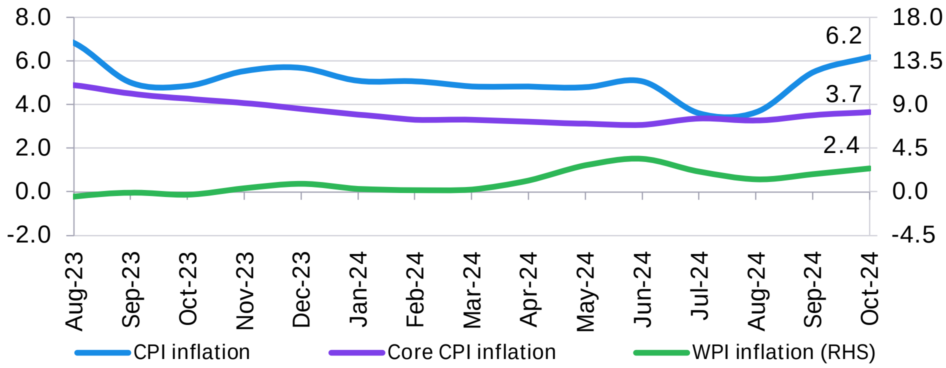
- According to the quick estimates, IIP posted a growth of 3.1% in September 2024, recovering from a contraction of (-)0.1% in August 2024. In 2QFY25, IIP growth averaged 2.6%, moderating from 5.5% in 1QFY25.
- Among the sub industries, the highest growth was seen in manufacturing at 3.9% in September 2024, increasing from 1.1% in August 2024. This was followed by the growth in electricity and mining output which showed low but positive growth rates of 0.5% and 0.2% respectively in September 2024 as compared to a contraction of (-)3.7% and (-)4.5% respectively in August 2024.
- Within manufacturing, among major sub-industries, coke and refined petroleum products (5.3%), chemicals and chemical products (4.9%), other non-metallic mineral products (3.7%), other machinery and equipment (2.8%), motor vehicles, trailers and semi-trailers (2.1%) and pharmaceuticals, medicinal and chemical products (1.5%) showed improved growth rates during the month.
- As per the ‘use-based’ classification of industries, the highest growth was seen by consumer durables at 6.5% in September 2024, increasing from 5.3% in August 2024. This was followed by intermediate goods and infrastructure/construction goods with improved growth rates at 4.2% and 3.3% respectively in September 2024, from 3.0% and 2.2% respectively in August 2024. Growth in the output of capital goods at 2.8% and that of consumer non-durables at 2.0% in September 2024 was also an improvement over their respective levels of 0.5% and (-)4.5% in August 2024.
- Output of eight core infrastructure industries (core IIP) grew by 2% in September 2024 recovering from a contraction of (-)1.6% in August 2024. The recovery was largely on account of a turnaround in the y-o-y growth of petroleum refinery products (from (-)1% in August 2024 to 5.8% in September 2024), coal (from (-)8.1% to 2.6%) and cement (from (-)3% to 7.1%) during the month. However, growth in the output of steel moderated to 1.5% in September 2024, its lowest level since December 2021. The output of crude oil contracted further for the fifth successive month by (-)3.9% in September 2024 as compared to (-)3.4% in August 2024.

2 Inflation: CPI inflation accelerated to a 14-month high of 6.2% in October 2024

2.1 CPI inflation

- CPI inflation surged to a 14-month high of 6.2% in October 2024 (Chart 2), breaching RBI's upper tolerance limit for the first time since August 2023, from 5.5% in September 2024 as consumer food price index-based inflation surged to 10.9%, its highest level since July 2023.
- Inflation in vegetables increased to 42.2%, its highest level since January 2020 while inflation in oils and fats rose to a 29-month high of 9.5% in October 2024.
- Prices of fuel and light continued to contract by (-)1.6% in October 2024 as compared to (-)1.3% in September 2024.
- Inflation in clothing and footwear remained stable at a 54-month low of 2.7% in October 2024 for the fifth successive month. Inflation in housing was subdued at 2.8% in October 2024, although marginally higher than its level of 2.7% in September 2024.
- Inflation in transportation and communication services remained steady for the third successive month at 2.7% in October 2024, its highest level since March 2023.
- Core CPI inflation[3] rose to a 10-month high of 3.7% in October 2024, showing an increase for the second consecutive month.

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



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

CPI inflation increased to a 14-month high of 6.2% in October 2024, whereas core CPI inflation remained below 4%, although increasing to a 10-month high of 3.7%.

2.2 WPI inflation: *remained subdued at 2.4% in October 2024*

- WPI inflation remained low at 2.4% in October 2024, although rising from 1.8% in September 2024. The major contributor to the increase was inflation in tomatoes which accelerated to a 15-month high of 239.4% in October 2024 from 74.5% in September 2024.
- Inflation in vegetables surged to its highest level since July 2023 at 63.0% in October 2024 from 48.7% in the previous month. Wholesale food price index-based inflation was at a 28-month high of 11.6% in October 2024. Increasing inflation in food was transmitted to prices of manufactured food products which showed an inflation rate of 7.8% in October 2024, its highest level since June 2022.
- Disinflationary pressures emanating from fuel and power, however, persisted. The pace of contraction in prices of fuel and power increased to a 14-month high of (-)5.8% in October 2024 as disinflation in mineral oils increased to (-)7.7% in October 2024 from (-)5.8% in September 2024, largely due to favorable base effects.
- In October 2024, prices of crude petroleum continued to contract by (-)13.0%, as compared to (-)16.8% witnessed in September 2024.
- Inflation in manufactured products was subdued at 1.5% in October 2024, although marginally higher than 1.0% in September 2024, led by the increase in manufactured food products-based inflation.
- Core WPI inflation increased slightly to 0.3% in October 2024 from 0.1% in September 2024, attributable mainly to an easing pace of contraction in the price of manufactured basic metals.

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

3 Fiscal: GoI's capital expenditure during April-September FY25 contracted by (-)15.4%

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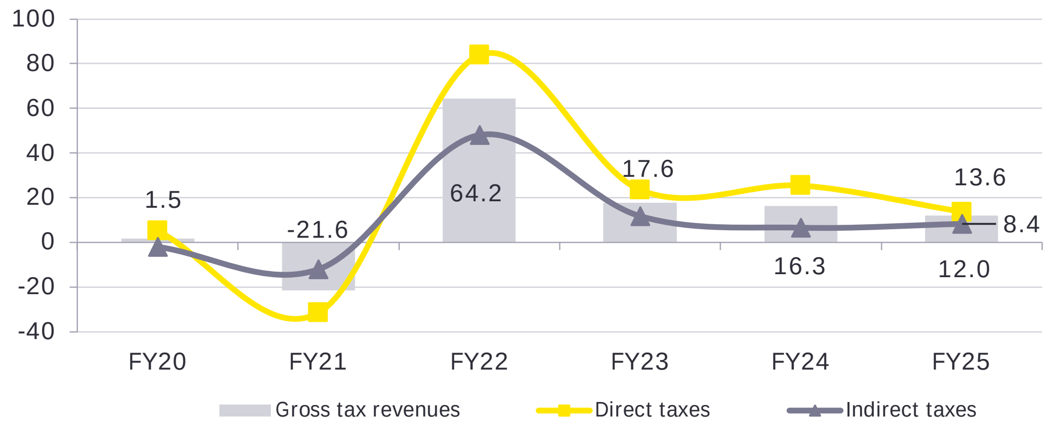
3.1 Tax and non-tax revenues

- As per the CGA, GoI's GTR[(b)] showed a growth of 12.0% during April-September FY25 as compared to 16.3% during the corresponding period of FY24 (Chart 3). GTR during April to September as a percentage of annual BE stood at 47.2% in FY25, slightly higher than the three-year average of 45.3% during FY22 to FY24 based on actual data.
- Direct taxes[(a)] showed a growth of 13.6% while indirect taxes[(a)] grew by 8.4% during April-September FY25. The corresponding growth rates in FY24 were at 25.4% and 6.5% respectively.
- Growth in CIT revenues turned positive at 2.3% during April-September FY25, although remaining significantly lower as compared to a growth of 20.2% during the corresponding period of FY24.
- PIT revenues continued to show a strong growth of 25.0% during the first six months of FY25, as compared to 31.1% in the corresponding period of FY24.
- Among indirect taxes, GoI's GST revenues[(c)] grew by 10.4% during April-September FY25, higher than 8.7% during the corresponding period of FY24.
- Union excise duties (UED) showed a positive growth of 3.0% during April-September FY25 after showing a contraction for two successive years at (-)10.8% and (-)18.5% during the corresponding period of FY24 and FY23 respectively.
- Customs duties grew by 6.4% during April-September FY25, much lower as compared to 23.1% during the corresponding period of FY24.

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



GoI's GTR showed a growth of 12.0% during April-September FY25 with growth in direct taxes at 13.6% and that in indirect taxes at 8.4%.

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

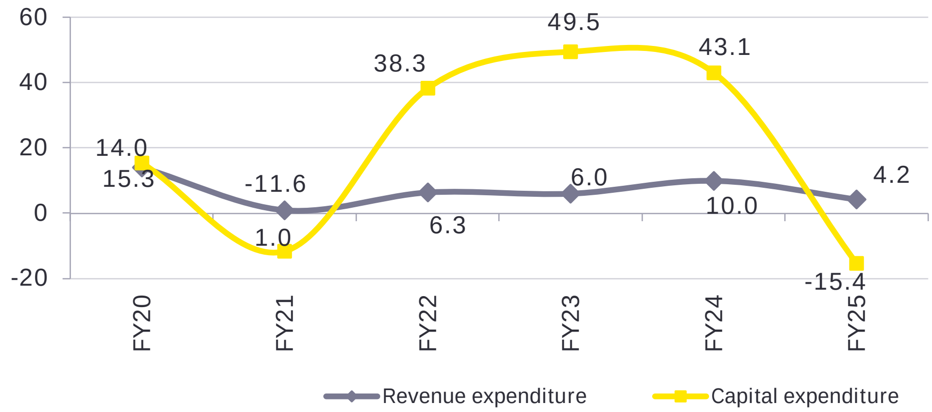
- GoI's non-tax revenues showed a high growth of 50.9% during the first six months of FY25, owing to substantially higher dividends by the RBI. GoI's dividends and profits during this period at INR2,50,632 crore stood at 86.7% of the FY25 (BE) at INR2,89,134 crore.
- Non-debt capital receipts of the GoI during April-September FY25 stood at 18.7% of the annual BE, much lower than the three-year average ratio at 42.2% during the corresponding period in FY22 to FY24 based on actual data.
- As per the Department of Investment and Public Asset Management (DIPAM)[4], GoI's disinvestment receipts as of 26 November 2024 were at INR8,625.05 crore, amounting to 17.3% of the FY25 BE at INR50,000 crore.

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

3.2 Expenditures: Revenue and capital

- GoI's total expenditure showed a contraction of (-)0.4% during the first six months of FY25 as compared to a growth of 16.2% during the corresponding period of FY24. GoI's total expenditure during April-September FY25 stood at 43.8% of FY25 BE, marginally lower than the last three-year average at 44.7% based on actual data.
- GoI's revenue expenditure showed a subdued growth of 4.2% during April-September FY25 as compared to a growth of 10.0% during April-September FY24.
- GoI's capital expenditure showed a contraction of (-)15.4% during April-September FY25 unlike the last three years which showed an average growth of 43.6% (Chart 4). Capital expenditure during this period stood at 37.3% of FY25 BE, lower than the last three-year average at 45.7% based on actual data.

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



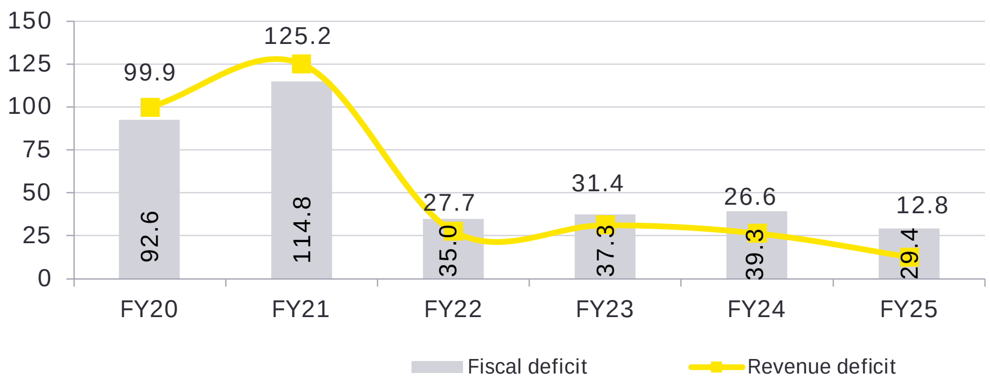
GoI's total expenditure showed a contraction of (-)0.4% during April-September FY25, with revenue expenditure growing by 4.2% and capital expenditure contracting by (-)15.4%.

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

3.3 Fiscal imbalance

- GoI's fiscal deficit during April-September FY25 stood at an unprecedented low level of 29.4% of the FY25 BE owing to substantially enhanced non-tax revenues, a strong growth in GoI's PIT revenues, a contraction in capital expenditure and subdued growth in revenue expenditure. In comparison, GoI's fiscal deficit as a proportion of BE was at 39.3% during April-September FY24 (Chart 5).
- GoI's revenue deficit during April-September FY25 also stood at a historic low of 12.8% of FY25 BE as compared to 26.6% during the corresponding period of FY24.

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



GoI's fiscal and revenue deficits during April-September FY25 stood at their unprecedented low levels of 29.4% and 12.8% of their respective annual BEs.

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

4 Comparative trends: IMF projected India's government debt-GDP ratio at 83.1% in FY25

4.1 General government net lending/borrowing

- The IMF (World Economic Outlook, October 2024) has projected fiscal deficit relative to GDP for advanced economies (AEs) as well as emerging market and developing economies (EMDEs) to remain above the pre-pandemic levels during the forecast period from 2024 to 2028. However, some consolidation is expected for both groups of countries beginning 2025.
- Among the selected major AEs, fiscal deficit relative to GDP for the US is forecasted to increase to 7.6% in 2024 reflecting a combination of higher government spending, particularly on entitlement programs and defense, slower revenue growth, and the continuing fiscal burden of servicing a large national debt amid higher interest rates.

Table 1: General government net lending/borrowing (% of GDP)

Country/Region	2023	2024	2025	2026	2027	2028	2029
AEs	-4.7	-5.0	-4.5	-4.2	-3.9	-3.9	-3.8
US	-7.1	-7.6	-7.3	-6.7	-6.2	-6.2	-6.0
UK	-6.0	-4.3	-3.7	-3.5	-3.4	-3.4	-3.3
Euro area	-3.6	-3.1	-3.1	-2.9	-2.8	-2.7	-2.7
Japan	-4.2	-6.1	-3.0	-2.8	-2.9	-3.5	-4.0
EMDEs	-5.3	-5.6	-5.5	-5.3	-5.2	-5.2	-5.2
Brazil	-7.6	-6.9	-7.3	-6.9	-5.9	-5.5	-5.1
Russia	-2.3	-1.9	-0.5	-0.6	-0.6	-0.7	-0.8
India*	-8.3	-7.8	-7.6	-7.4	-7.1	-6.9	-6.6
China	-6.9	-7.4	-7.6	-7.7	-7.9	-8.1	-8.2
South Africa	-5.8	-6.2	-6.3	-5.4	-5.1	-5.1	-5.1

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

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

- Among EMDEs, the highest general government fiscal deficit relative to GDP is forecasted for India at 7.8% in 2024 (FY25), followed by China at 7.4%. However, during the subsequent years of the forecast period, there is an expectation of a reversal of this trend with India's fiscal deficit falling to 6.6% of GDP by 2029 (FY30) and that of China rising to 8.2% by this year (Table 1).
- Russia, which has generally witnessed a fiscal surplus in the pre-pandemic years, is projected to continue showing a deficit on the fiscal account at 1.9% of GDP in 2024 as a result of a substantial fiscal stimulus by the government in order to support growth. After the suspension of the fiscal rule in 2022 in response to the sanctions imposed, a new fiscal rule is expected to be fully effective in 2025. This is expected to enable a reduction in the fiscal deficit which is projected to range between 0.5-0.8% till 2029.

4.2 General government gross debt

- Despite a soft landing in terms of inflation, global debt is forecasted to increase till 2029 led by higher pressures on government spending, greater fiscal policy uncertainty and upward rigidity in taxation.
- The levels of general government gross debt to GDP ratio in AEs have been much higher than those in EMDEs (Table 2).
- Among AEs, the highest general government debt to GDP ratio is for Japan, followed by the US and the UK. This ratio for the Euro area is well below 100%.
- Considering the forecast period, AEs as a group is expected to witness a milder increase of 5.5% points in its government debt-GDP ratio in 2029 as compared to 2023. The corresponding increase for EMDEs is 10.3% points.

Table 2: General government gross debt (% of GDP)

Country/Region	2023	2024	2025	2026	2027	2028	2029
AEs	108.7	109.4	111.0	112.0	112.8	113.6	114.2
US	118.7	121.0	124.1	126.6	128.4	130.2	131.7
UK	100.0	101.8	103.8	104.9	106.1	107.3	108.3
Euro area	87.8	88.1	88.4	88.5	88.8	88.9	89.0
Japan	249.7	251.2	248.7	246.9	245.7	244.8	245.0
EMDEs	68.5	69.9	71.9	73.7	75.4	77.1	78.8
Brazil	84.7	87.6	92.0	94.7	96.4	97.4	97.6
Russia	19.5	19.9	20.4	21.4	22.5	23.7	25.1
India*	83.0	83.1	82.6	81.8	80.8	79.7	78.4
China	84.4	90.1	93.8	97.7	102.1	106.6	111.1
South Africa	73.4	75.0	77.4	79.1	80.6	82.2	83.6

Source (basic data): IMF World Economic Outlook (October 2023)
*Data pertains to fiscal year

- The increase in the general government debt relative to GDP in the case of AEs is led by the US wherein government debt-GDP ratio is expected to increase by 16.2% points, reaching a level of 131.7% by 2029. In the case of EMDEs, it is led by China with its government debt-GDP ratio projected to rise from 84.4% in 2023 to 111.1% by 2029, an increase of 26.7% points.
- India is the only economy amongst the selected EMDEs whose general government debt to GDP ratio is projected to decline in the forecast period, although remaining more than 18% points above the FRBM (2018) threshold of 60% at the end of 2029.

5 In focus: Building a fiscal architecture for Viksit Bharat (Part 1): Achieving the right size of government

5.1 Introduction

India aims to become a developed, that is, Viksit economy by 2047. This will require achieving a minimum of 7%+ potential real GDP growth from now till then on a sustained basis and ensuring that actual growth remains close to this potential. Building a suitable fiscal architecture is a key requirement for this purpose. We propose a fiscal architecture framework that can help propel the Indian economy to achieve a Viksit status by FY2048. The framework covers four key dimensions namely (1) achieving the right size of government along with its financing (2) recasting of GoI's FRBMA, (3) reforming fiscal transfers from GoI to states, and (4) re-strategizing government expenditure priorities as divided between GoI and states. In this month's writeup, we cover the first dimension while the remaining would be considered in subsequent editions of Economy Watch.

5.2 Measuring the size of government

One key issue in specifying the fiscal architecture for India consistent with its developed country status in future relates to whether there is a need to increase the size of general government comprising central and state governments. One method to measure the size of government is to consider the level of its purchases of goods and services in the economy. This can be indicated by the level of general government primary expenditure relative to GDP. Once a suitable level of primary expenditure consistent with a developed country status is determined, it can also be translated in terms of level of total general government expenditure by adding interest payments to primary expenditures. In order to assess the current vis-a-vis the required level of primary expenditures, we make comparisons with a set of peer countries that can provide a perspective for the Indian economy. We also make comparisons within a large cross-country perspective to determine trend levels of the size of government with reference to per capita GDP.

Size of government: primary expenditure as percentage to GDP

While measuring the size of government, it is relevant to look at the share of general government primary expenditure in GDP by excluding interest payments from total government expenditure since that goes largely only as transfer payments to the private sector. It is the level of primary expenditure that is utilized for general government purchases of goods and services. In this case, compared to its peer countries, India's position is at the lowest level in 2023 (Table 3). Russia, China and South Africa exceed India's corresponding share of primary expenditure in GDP by margins of 12.5% points, 8.4% points and 3.9% points respectively.

Table 3: General government primary expenditure relative to GDP: selected countries

Country	2010	2015	2020	2021	2022	2023
France	55.4	55.7	60.4	58.1	56.5	55.3
Italy	45.7	46.3	53.5	52.7	51.0	50.3
Germany	46.0	43.4	50.7	50.2	48.4	47.7
Canada	42.2	39.4	51.9	46.1	41.4	42.1
UK	42.2	38.9	48.8	43.6	40.4	41.7
Japan	36.7	36.2	43.9	41.9	41.4	41.0
Brazil	34.4	37.8	42.1	35.8	38.2	39.8
Russia	35.4	35.0	38.9	34.3	35.3	36.3
US	37.7	33.2	42.5	40.3	33.5	32.8
China	24.6	31.0	34.4	31.8	32.5	32.2
South Africa	26.1	27.2	30.5	28.3	27.4	27.7
India	23.7	22.5	25.4	24.5	24.2	23.8

Source (Basic data): IMF WEO October 2024
Note: Countries are sorted in descending order based on data for 2023. IMF WEO provides data on general government net lending/borrowing and general government primary net lending/borrowing. Net interest payable/paid (interest expense minus interest revenue) is derived as the difference between these two variables.

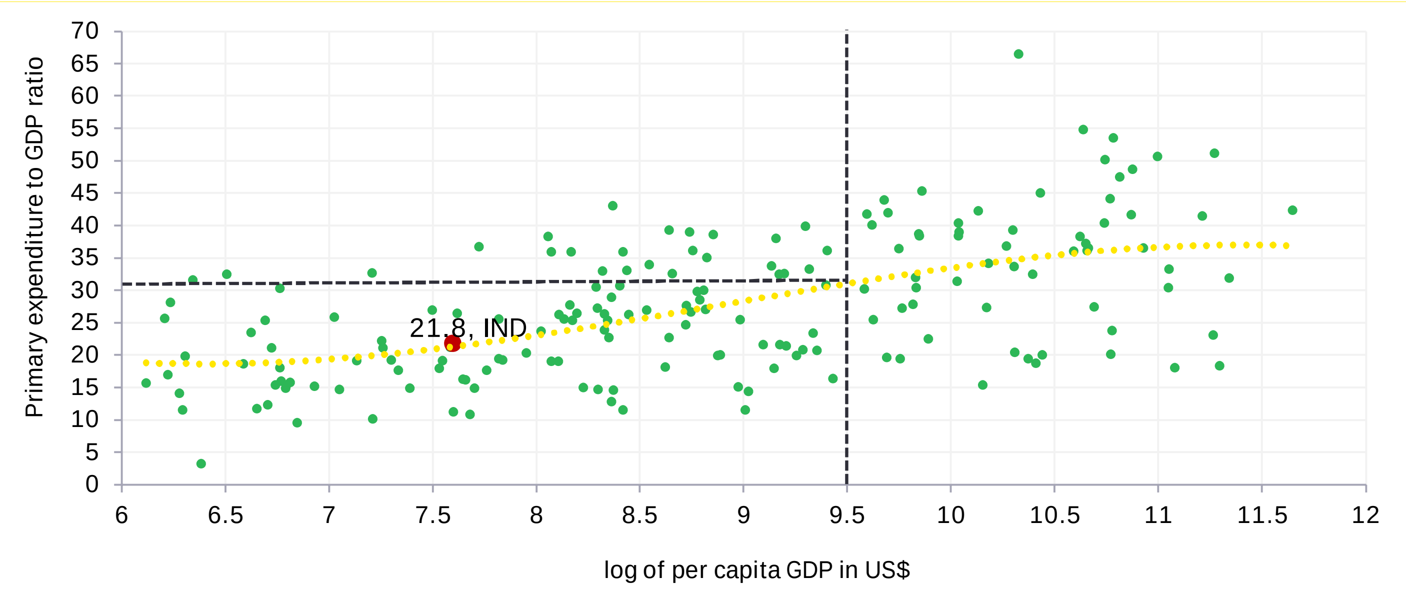
However, it may be more appropriate to consider the level of general government primary expenditure relative to GDP in relation to the per capita GDP. This can be done by looking at the size of government in India in terms of the primary expenditure to GDP ratio for a large sample of countries. Chart 6 gives a scatter plot showing the level of general government primary expenditure as percentage of GDP against the log of per capita GDP measured in US$ market exchange rate terms as sourced from the IMF. If a trendline[5] is fitted to this scatter diagram, it is seen that India's position in terms of the ratio of primary expenditure to GDP is just above the trendline. This means that at the present level of per

[5] Equation for trendline: $y = -0.0005x^4 - 0.2739x^3 + 7.5674x^2 - 62.659x + 182.4$

capita GDP, the size of government in India does not appear to be unduly lower than what is indicated as the general trend across countries. However, as India attains a developed country status, its per capita GDP in market exchange rate terms is expected to increase. We need therefore to estimate what is the required size of government in terms of primary expenditure to GDP ratio that would be consistent with its developed country status.

In the cross-country sample, we have considered the relevant averages over the pre-Covid period covering 2017 to 2019. In terms of the average per capita GDP in those years, the level of per capita GDP for a developed country status was specified as US$12,322. As India progresses towards this status, by FY2048 the size of its government is required to be increased. It would be appropriate to estimate that size in relation to the per capita GDP that would be relevant in FY2048[6]. We can look at the presently defined developed country status per capita GDP which is US$14,005 for the year 2023. Thus, in 2023, a developed country status for India would have called for a level of general government primary expenditure relative to GDP of 31.4%. In FY2024, the ratio of primary expenditure to GDP for India was estimated at 23.8% as per the IMF. This calls for increasing the size of government measured in terms of primary expenditure to GDP ratio to become consistent with a developed country status. GoI's 2003 FRBMA had envisaged keeping its revenue account in balance or surplus. This target was abandoned in the 2018 amendment. However, in most states' FRLs the provision for keeping the revenue account in balance has continued. The GoI may also consider re-introducing the revenue account balance target as this ensures that government dissavings are zero. It is desirable for the general government to keep the overall revenue account in balance. This would ensure that the entire fiscal deficit plus some non-debt capital receipts would be spent on government capital expenditures. Thus, the decomposition of primary expenditure between primary revenue expenditure and capital expenditure would be 25.4% and 6% (at least) respectively. This subject will be further discussed in a detailed discussion on India's FRBM in a subsequent issue of Economy Watch.

Chart 6: General government primary expenditure as % of GDP: a cross-country perspective*



Source (Basic data): IMF WEO, October 2024
Note: *refers to averages over the period 2017-19

From this we can also derive the optimum level of general government total expenditure as percentage of GDP by adding an appropriate level of interest payment to GDP.

From primary expenditure to total general government expenditure

Once the size of the government, consistent with a developed country status is determined in terms of the primary expenditure to GDP ratio, it is useful to also derive the level of total general government expenditure relative to GDP by adding the appropriate level of interest payment to GDP ratio. In this context also, we consider two kinds of comparisons. First, we consider India's level of general government interest payment to GDP ratio relative to a group of selected peer

[6] It is the World Bank that provides the level of per capita GDP that serves as a threshold above which a country is considered to be high per capita income or developed country. This number is defined in terms of US$ at current market exchange rates. This number has been progressively increasing. For example, it was at US$12,695 in 2020. It progressively increased subsequently and was estimated at US$14,005 in 2023. It is likely, therefore, that the per capita GDP threshold for developed country status would increase by FY2048. However, the period from now until then is fraught with uncertainties and it is difficult to take a call on the relevant threshold at that time. We are therefore assessing the size of the level of government with reference to the question as to what should have been the size of government in India if it had a developed country status at present, that is, FY2024 (2023).

countries. We then consider determining a suitable level of interest payment to GDP in relation to per capita GDP in a large cross-country framework.

It can be seen that in comparison to a selected group of peer countries, India's interest payment relative to GDP was the highest (Table 4). A number of countries in the selected group have already achieved a developed country status. However, in nearly all of these countries, the debt-GDP ratio is higher even as the interest payment to GDP ratio is lower than that of India. The reason for this is India's relative higher effective interest rate at which the government is able to borrow. It can be seen that government debt in India is costlier than many of the peer countries. This factor needs to be taken into account while determining the required size of general government total expenditure.

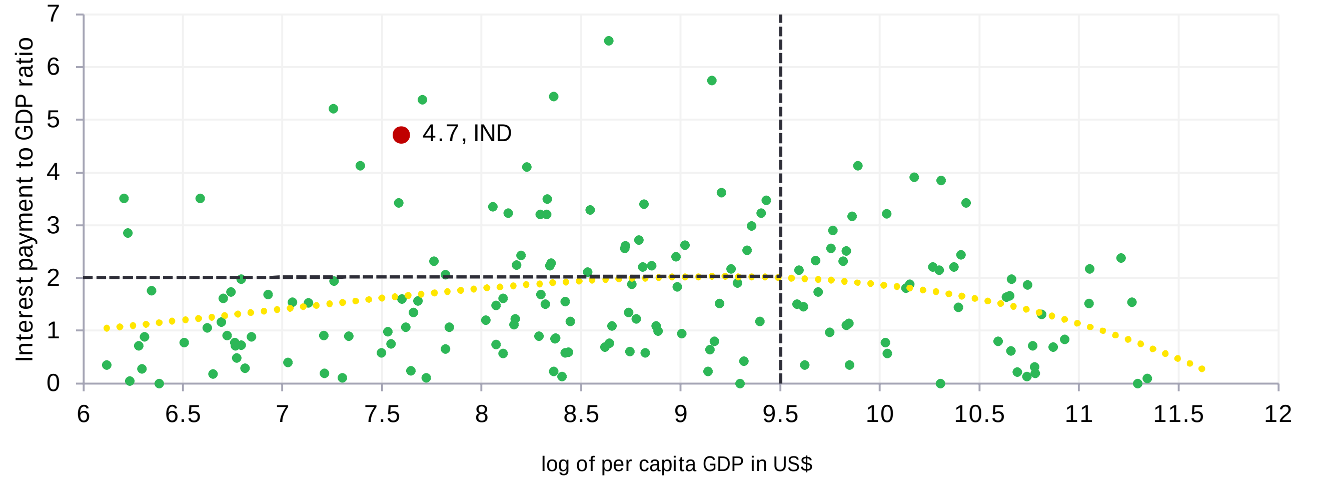
Table 4: General government interest payment and debt relative to GDP

	Interest payment to GDP		Debt to GDP	
Country	2020	2023	2020	2023
India	5.61	5.28	88.4	83.0
Brazil	4.10	5.61	96.0	84.7
South Africa	4.09	4.93	68.9	73.4
Italy	3.28	3.54	154.1	134.6
US	2.05	3.48	131.8	118.7
France	1.26	1.73	114.6	109.9
UK	1.13	2.44	105.8	100.0
China	0.96	0.94	70.2	84.4
Japan	0.64	0.12	258.4	249.7
Canada	0.49	0.37	118.2	107.5
Germany	0.47	0.65	67.9	62.7
Russia	0.24	0.25	19.2	19.5

Source (basic data): IMF WEO, October 2024
Note: General government interest payment to GDP ratio is derived by deducting general government primary net lending/borrowing as % of GDP from general government net lending/borrowing as % of GDP as given by the IMF.

In order to draw up a suitable perspective, on interest payment to GDP ratio relative to the level of per capita GDP, we consider a large cross-country framework. In Chart 7, per capita GDP is shown on the X-axis, while the log of ratio of government interest payment to GDP is shown on the Y axis. Based on the fitted trendline[7], it is estimated that at the present level of India's per capita GDP, the trend or optimal interest payment to GDP ratio is 1.6% of GDP as against its actual level of 4.7% (average FY2018 to FY2020) of GDP. In FY2024, India's interest payment to GDP ratio is estimated at 5.3% (IMF). For a level of per capita GDP consistent with a developed country threshold in 2023 (FY2024), the trend interest payment to GDP ratio is estimated at close to 2%. Thus, India's general government interest payment to GDP ratio is unduly high as explained earlier.

Chart 7: General government interest payment as % of GDP*



Source (Basic data): IMF WEO, October 2024
Note: *refers to averages over the period 2017-19. General government interest payment to GDP ratio is derived by deducting general government primary net lending/borrowing as % of GDP from general government net lending/borrowing as % of GDP as given by the IMF.

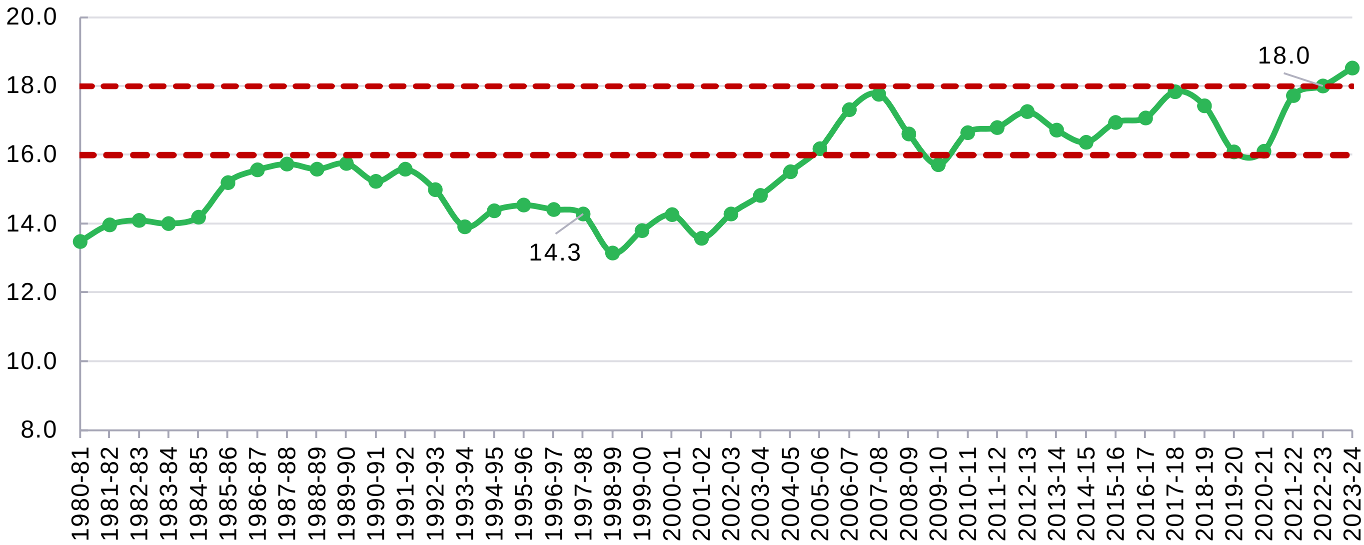
[7] Equation: y = -0.0015x4 + 0.0187x3 + 0.0389x2 - 0.8285x + 2.4653

If by FY2048, India is able to achieve the FRBM target of 60% of GDP for general government debt and if the effective interest rate also goes down to 6% from its current level of 6.5%[8] the corresponding level of interest payment to GDP can be estimated at 3.6%. This will have to be added to the estimated level of primary expenditure to GDP ratio consistent with a developed country per capita GDP threshold of 31.4%. Together, this gives a size of 35% of GDP for general government total expenditure, consistent with a developed country threshold per capita GDP measured in 2023. This implies an increase of about 6% points of GDP, from the FY24 level of general government total expenditure of about 29% of GDP.

5.3 Augmenting tax-GDP ratio

The objective of increasing the size of the government can be satisfied only if it can be financed through increased tax and non-tax revenue to GDP ratios. India's combined tax-GDP ratio, that is, of the GoI and states taken together, had languished in the range of 16% to 18% over a period of more than three decades from the late 1980s up to recent years. In fact, it had dipped to a low level of 13.1% in the late 1990s. There are indications that India may finally be breaking out of this ceiling of 18% of the combined tax-GDP ratio (Chart 8). During FY2015 to FY2024, there has been a rise of more than 2% points in the combined tax-GDP ratio which had fallen to a trough of 16.1% during FY2020 and FY2021. FY2020 was characterized by the adverse initial impact of two major tax reforms that occurred in quick succession relating to the introduction of GST in 2017 and extensive CIT reform in 2019. In FY2021, the economy and government finances were beset by the onset of COVID-19. The pick-up in the combined tax-GDP ratio in the last three years from FY2022 to FY2024 is expected to continue.

Chart 8: India's combined tax-GDP ratio (%)



Source (basic data): IPFS, MoSPI, CAG, CGA, RBI, Union Budget documents

Table 5 shows that India's general government tax GDP ratio is tangibly below that of its peer countries drawn from both advanced economies and BRICS economies. A suitable level of tax-GDP ratio at India's current per capita GDP as also at a developed status consistent level of per capita GDP in a cross-country framework will be examined along with its decomposition between GoI's gross tax-GDP ratio and states' own tax revenues to GDP ratio in a subsequent issue of EY Economy Watch. The policymakers should also take note of the recent change in terms of personal income tax revenues overtaking the corporate income tax revenues in the context of the need to increase India's overall tax-GDP ratio.

[8] Derived by dividing current year's net interest payment by previous year's general government debt, both relative to GDP, using data sourced from October 2024 edition of IMF WEO

Table 5: General government tax-GDP ratio (%): selected countries

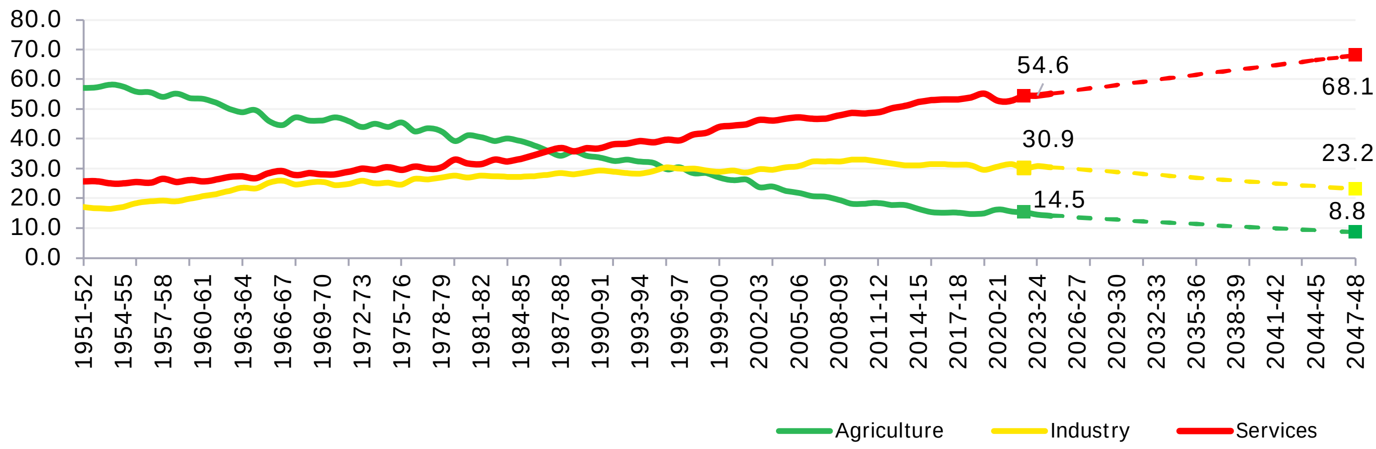
Countries	2005	2010	2015	2018	2019	2020	2021	2022
France	44.5	44.1	47.5	47.9	46.9	47.1	46.8	47.7
Germany	39.0	38.6	39.9	41.0	41.2	40.8	42.0	41.9
UK	33.1	33.0	32.5	33.4	33.1	33.3	35.0	36.2
Japan	26.6	26.9	31.1	32.2	32.2	33.6	34.9	36.0
Brazil	0.0	33.9	33.8	34.5	34.6	33.0	34.3	34.8
Canada	32.7	31.1	33.0	33.6	33.2	34.6	34.0	33.0
South Africa	25.0	24.3	27.0	27.0	27.0	25.4	27.9	28.2
US	26.5	23.8	26.5	25.4	25.5	26.2	27.3	28.2
Russia	30.0	26.3	25.5	27.7	27.4	27.1	27.4	25.3
China	18.3	22.6	24.3	24.8	23.3	21.1	22.3	21.2
India	16.2	16.7	16.9	17.4	16.1	16.1	17.7	18.0

Source (basic data): IMF-Government Finance Statistics database, IPFS-Government of India and Union and States' Budget documents; Except for India, tax to GDP ratio includes social security contributions; *For India, data is with reference to fiscal year. Therefore, year 2022 refers to FY23.

As we go forward, three anticipated changes would automatically increase the tax buoyancy and the tax-GDP ratio. These are:

a) Falling share of agriculture in total GDP: On trend basis, the share of agriculture in India's GDP has been falling and this trend is likely to continue because the average growth rate of the non-agricultural sector tends to exceed that of the agricultural sector by a tangible margin, on average by 2.9% points[9]. Chart 10 shows the dynamic nature of the evolution of the Indian economy in the context of its structure of gross value added (GVA). As a percentage of GVA at constant prices, the share of agriculture has been falling on a trend basis. In the early 1950s, it was higher than 60%. This share steadily fell over the decades to close to 15% by the early 2020s. The share of services in overall GVA has increased on a trend basis, from a level of about 27% in the mid-1950s to about 55% by FY2024. If these trends are extrapolated, the share of agriculture may fall to a little below 9% by FY2048 while the share of services may be close to 68% (Chart 9). The share of industry which was at 30.9% in FY2024 is also expected to fall to a little above 23% by FY2048. Such an evolving structure of output in India would have a positive impact on the tax-GDP ratio. As the share of agriculture falls, the share of non-agriculture in direct taxes would progressively increase. Further, avenues for any tax avoidance due to hiding of non-agricultural income as agricultural income would also be squeezed.

Chart 9: Structure of GVA (%)



Source (basic data): MoSPI
Note: Dotted lines indicate estimates derived based on pre-covid 5-year average sectoral trend growth rates. Trend growth rates have been derived using HP filter.

b) Increasing digitalization of transactions: With the implementation of GST and the growing digitalization of transactions, tax compliance would continue to spontaneously improve, and avenues of tax evasion would continue to shrink. Digital payments already amount to 8.2 times the magnitude of GDP at current prices in FY2024, having increased from 6.7 times in FY2016 (Table 6).

[9] Estimated over FY1951-FY2024

Table 6: Pace of digitalization of transactions in India

Year	Total Value of Digital Payments	Nominal GDP	Value of Digital payments to GDP ratio	Volume of digital payments
	INR Crore		Ratio	Crore
2015-16	9,20,38,330	1,37,71,874	*6.7*	59,361
2016-17	11,20,99,726	1,53,91,669	*7.3*	96,912
2017-18	13,69,78,311	1,70,90,042	*8.0*	1,45,902
2018-19	16,37,13,425	1,88,99,668	*8.7*	2,32,602
2019-20	16,19,68,681	2,01,03,593	*8.1*	3,40,155
2020-21	14,14,58,488	1,98,54,096	*7.1*	4,37,068
2021-22	17,44,01,233	2,35,97,399	*7.4*	7,19,768
2022-23	20,86,84,872	2,69,49,646	*7.7*	11,39,382
2023-24	24,28,23,799	2,95,35,667	*8.2*	16,44,302

Source (Basic data): RBI, MoSPI

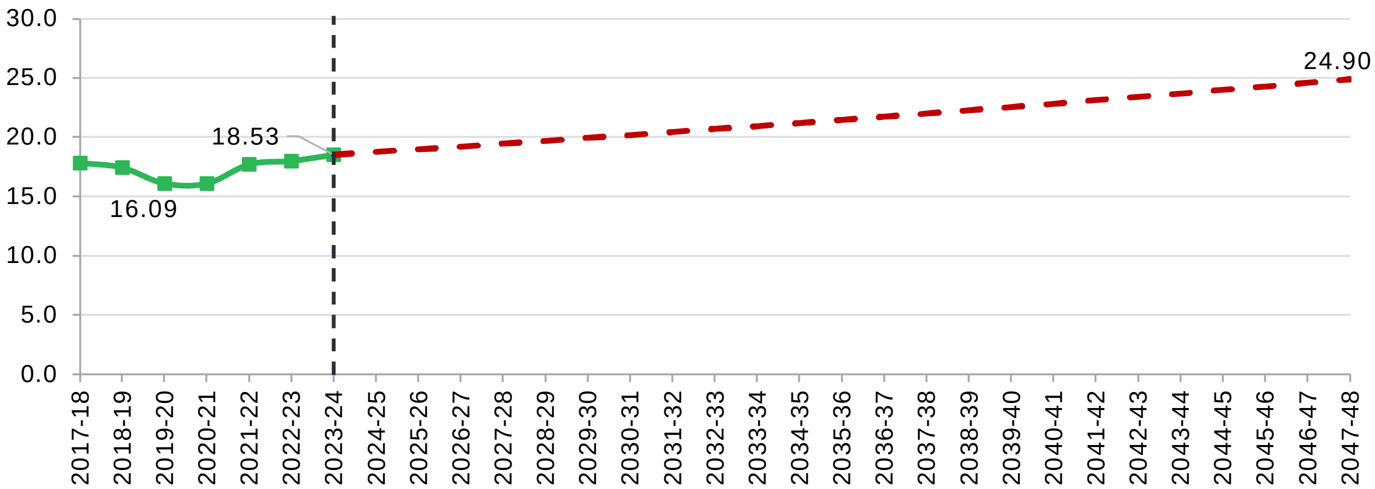
c) Increasing urbanization of the Indian economy: As the economy becomes more and more urbanized, it is also becoming more formalized. This would help improve compliance and tax buoyancy. As per the UN World Urbanisation Prospects 2018, India's level of urbanization is expected to increase substantially from 36.9% in 2024 to 50.9% by 2047.

Apart from these spontaneous changes, certain policy driven changes might also be required for augmenting the tax-GDP ratio. Some of these are listed below:

a) As GST matures, it should aim at ensuring a growth of 14% for both CGST and SGST which was the experience of the pre-GST years. This should happen without the GST compensation cess. In fact, with the withdrawal of the compensation cess, there may be a need to further rationalize the tax brackets and bring the tax rates closer to that tax rate structure which would have yielded revenue neutrality at the time of transition with 14% growth if nominal GDP growth were to be 11%.
b) There might be a need to relook at the structure of import tariffs in the context of the global economy moving towards higher tariffs across the board.
c) Both the GoI and state governments may explore opportunities to refine Central excise duty and VAT structures, particularly on petroleum products.

It can be shown that a sustained nominal GDP growth of 11% and an average buoyancy of 1.125, maintained over the years, would take India's tax-GDP ratio close to 25% by FY2048 (Chart 10), amounting to an increase of 6.5% points over a period of 24 years. We also expect a larger contribution of direct taxes in the overall tax-GDP ratio of the GoI.

Chart 10: Combined tax-GDP ratio - Projection

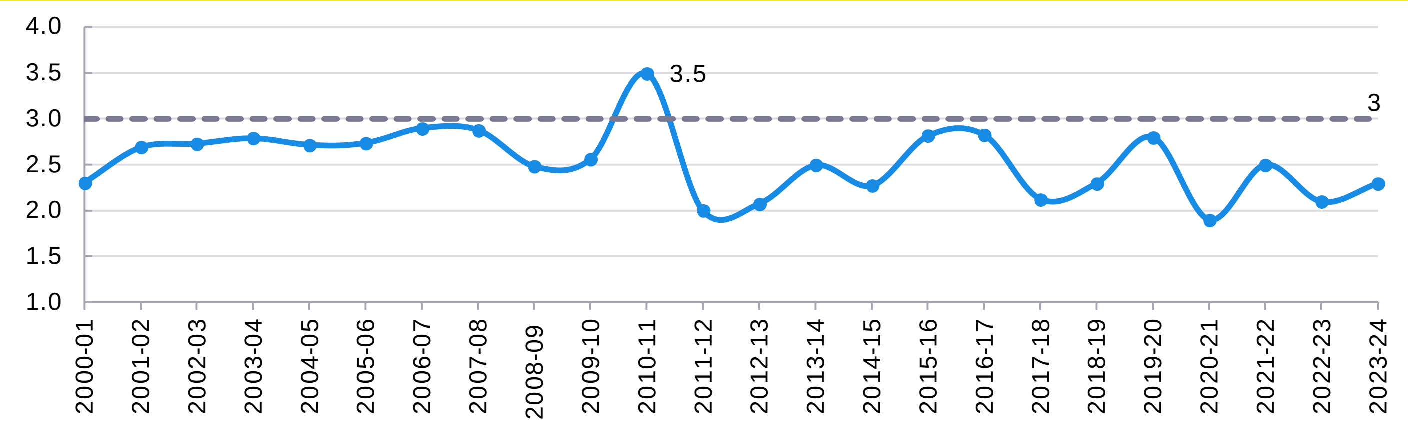


Source: IPFS, RBI, Union Budgets, CGA, and MoSPI
Notes: Tax-GDP projections FY25 onwards is based on the assumption of an 11% nominal GDP growth and a combined tax buoyancy of 1.125 over the projection period. FY24 has been considered as the base year for this exercise.

5.4 India's non-tax-GDP ratio: overcoming stagnation

The stagnation in India's non-tax to GDP ratio at less than 3% has been one of the key factors constraining the growth of its revenues relative to GDP. Chart 11 shows that the general government non-tax to GDP ratio has stagnated at below 3% since FY2001 except for one year, that is FY2011. In that year, the central government was able to garner significant non-tax revenues through spectrum auctions pertaining to 3G and 4G.

Chart 11: India's combined non-tax GDP ratio (%)



Source (basic data): IPFS, MoSPI, CAG, CGA, RBI, Union Budget documents

In Table 7, we compare non-tax revenues relative to GDP for India and a selected set of countries. It is notable that this ratio is the lowest for India at 2.1% in 2022 (FY2023). Other BRICS economies namely, Russia, Brazil, China, and South Africa have a relatively higher ratio ranging from 3.7% to 13.7% in 2022. For advanced economies like Germany, France and Japan, it has been 3.4% or higher.

Table 7: Non-tax revenue as % to GDP: selected countries

Countries	2005	2010	2015	2018	2019	2020	2021	2022
Russia	9.2	11.7	12.0	10.8	13.3	11.5	10.2	13.7
South Africa	5.9	6.5	8.5	7.2	7.9	8.3	8.0	8.3
Brazil	0.0	5.2	6.6	6.0	7.1	5.0	6.1	7.4
Canada	7.5	7.3	7.1	7.5	7.4	7.0	7.5	7.2
France	4.8	5.2	5.0	4.8	4.7	4.6	5.2	5.2
Germany	4.1	4.6	4.7	4.7	4.7	4.7	4.7	4.5
US	4.4	4.9	5.0	4.6	4.4	4.4	4.3	4.4
UK	3.3	9.2	3.4	3.4	3.3	3.5	3.2	3.9
China	7.4	4.5	4.6	3.3	3.9	3.5	3.2	3.7
Japan	3.9	3.0	3.9	3.3	3.2	3.1	3.1	3.4
India	2.7	3.5	2.8	2.3	2.8	1.9	2.5	2.1

Source (basic data): IMF-Government Finance Statistics database, IPFS-Government of India and Union and States' Budget
For India, data is with reference to fiscal year. Therefore, year 2022 refers to FY23.

Non-tax revenues depend on a variety of untapped or under-exploited sources. One important non-tax revenue source relates to the return on government investment in the public sector. Many public sector enterprises, both relating to the central and state governments, have remained loss-making entities. The average rate of return on even the profit-making enterprises, once a select list of public sector enterprises where monopoly advantages may be available is taken out, is also quite low. The rate at which the government is able to disinvest public sector owned assets has been rather low. One notable area where additional non-tax revenues can be generated pertains to land owned by the government and the public sector enterprises where a significant increase in the market value of such land has occurred but has not been tapped or accounted for[10]. Another potential area where non-tax revenues may be increased relates to user fees and charges levied by the central and state governments on various public and merit services that are private in nature in terms of their market characteristics. This includes court fees, fees in educational institutions, charges in government-run hospitals, water supply charges, charges on public transportation services etc. In most cases of such public provision of critical services, unit costs have been increasing as they are generally linked to the overall inflation while the fees and user charges have remained stagnant, or even exempted in certain cases, in nominal terms. This has led to an inordinate increase in the implicit or indirect budgetary subsidies. There is considerable rigidity in increasing nominal levels of fees

[10] An extended discussion on this subject is available in the 'In-focus' section of the February 2021 issue of the EY Economy Watch. https://assets.ey.com/content/dam/ey-sites/ey-com/en_in/topics/tax/economy-watch/2021/02/economy-watch-february-2021.pdf

and charges since these are administered or regulated. An appropriate strategy is needed to determine a suitable level of implicit subsidy and to ensure that a link between unit cost of service provision and recovery rates is maintained[11].

Government owns resources on, below and above land as well as in the territorial waters (12 nautical miles or 22.2 km from the base line). However, a comprehensive enumeration or valuation of these resources is not publicly available. The central government in 2016, had launched the Government Land Information System (GLIS), a centralized database created by the Ministry of Electronics and Information Technology and monitored by the Prime Minister's Office (PMO) containing records of total land area, geo-positioning maps, and details such as ownership rights of land parcels. As per this portal, based on information provided by 51 union ministries and 116 PSEs to the GoI, the GoI owned 15,531 square km. of land assets[12]. Railways owned the highest land assets of 2,929 square km, followed by coal of 2,581 square km., and power ministry of 1,807 square km. Similarly, there would be large land ownerships with the state and local governments.

Government of India had started bringing out an Asset Register under Rule 6 of the FRBM Rules, 2004. This list of assets does not include assets of the Cabinet Secretariat, Central Police Organisations, Ministry of Defence, and Department of Space and Atomic Energy. According to the Government of India's asset register, appended to the FY2025 final budget, the largest share in physical assets in terms of value is that of land at 47.1% followed by roads at 36.5% at the end of FY2023. The Ministry of Defence as well as the Ministry of Railways may have ownership of huge tracts of land. The evaluation of assets is done in terms of historical prices. In the case of any fixed asset, where original documents are not available, these are evaluated at the notional price of INR1[13]. Since the value of land appreciates, clearly the value of land owned by the government may be highly understated. Monetization of land requires its proper evaluation and strategies for selling or leasing to generate returns. Land and real estate assets need to be evaluated on a scientific and dynamic basis for which specialized task forces are needed both at central and state levels. This is an exercise that would take time but would not only add to government revenues but to the overall productivity of the economy by making land available to the private sector for development and commercial use. It may be useful to set up a Land Commission to examine the possibilities and options. In this context, the idea of a National Monetization Pipeline is quite welcome.

Ownership of minerals and water is equally valuable. Coal auctions have led to significant revenues for the state governments. Similarly, the central government has had some windfall gains through spectrum auctions. A study (CBGA, 2014)[14] had estimated that the value of hydrocarbon and other mineral resources available in the country is at least INR 5011.6 lakh crore. This amounts to almost 17 times India's GDP at current prices in FY2024. In order to exploit the revenue potential of these resources, new initiatives are needed. First, an exhaustive survey, enumeration and compilation of ownership records of these resources are needed. Second, a modern office to serve the role of an estate manager is called for. Third, a suitable policy is required to ensure inter-generational equity in the exploitation of this ownership of the government, for not only of the present generation but for all future generations.

Driven primarily by an augmented tax-GDP ratio, supplemented by an increase in the non-tax to GDP ratio along with downward adjustment in the current fiscal deficit to GDP ratio, we expect that the general government expenditure would reach 30% of GDP by FY2031, 31.5% by FY2036 and 35% by FY2048 (Table 8).

Table 8: Milestones in the evolving size of government in India: FY24 to FY48

Items	Current (FY2024)	Target (FY2031)	Change over FY2024-31	Target (FY2036)	Change over (FY2031-36)	Target (FY2048)	Change over (FY2036-48)	Observations/ comments
Tax revenue	18.5	20.5	*2*	21.5	*1.0*	25	*3.5*	Steady incremental increase
Non-tax revenue	2.3	3.5	*1.2*	4.0	*0.5*	4.0	*0*	Adjustment completes in FY2036
Non-debt capital receipts	-0.1	0	*0.1*	0	*0.0*	0	*0*	Residual role
Fiscal deficit	8.4	6.0	*-2.4*	6.0	*0.0*	6.0	*0*	Adjustment completes in FY2031
Total expenditure	29.1	30	*0.9*	31.5	*1.5*	35	*3.5*	Steady incremental increase

Notes: FY2031 coincides with the completion of the award period of FC16. FY2036 covers the next five years likely to be the recommendation period of the next FC.

[11] For a detailed discussion of the concepts and some of the estimates involved, reference may be made to Srivastava and Rao (2004) and Mundle and Rao (1991). Mundle, S., & Rao, M. G. (1991). Volume and composition of government subsidies in India, 1987-88. Economic and Political Weekly, 1157-1172.
[12] https://www.hindustantimes.com/india-news/how-much-land-does-indian-govt-own-officials-building-inventory-railways-biggest-landowner/story-NTUmFHp2xFXoB2lZRbv5TP.html
[13] Guidelines for Asset Register Development – notification issued by Department of Expenditure, GoI dated 11 March 2019; https://dcpw.gov.in/Forms/Guideline%20for%20Asset%20Register%20Development%202019.pdf
[14] https://www.cbgaindia.org/wp-content/uploads/2016/03/Estimated-Value-of-Government-Owned-Natural-Resources-in-India.pdf

Concluding observations

In this writeup we have discussed at length the need and relevance for building a fiscal architecture that would help propel the Indian economy to achieve a developed economy status by FY2048. One key issue in specifying the fiscal architecture for India consistent with its developed country status in future relates to whether there is a need to increase the size of general government comprising central and state governments. This writeup discusses achieving the appropriate size of government for Viksit Bharat along with its financing.

The size of government, measured in terms of the level of general government primary expenditure to GDP consistent with a developed country status for India in 2023 is estimated at 31.4%. India's actual level of primary expenditure to GDP is 23.8% in FY2024. Thus, in order to reach and sustain a developed country status, the level of general government primary expenditure in India will have to be increased by an estimated 7.6% points. With a 6% fiscal deficit and a revenue deficit to GDP ratio of close to zero, the required decomposition of primary expenditure into primary revenue expenditure and capital expenditure would be 25.4% and 6% of GDP respectively.

Further, interest payment to GDP ratio in India is unduly high. If the FRBM targets are achieved, this may come down to 3.6% of GDP as compared to the 2023 (FY2024) level of 5.3% to GDP. By adding interest payment to GDP ratio, we can derive the required level of total general government expenditure to GDP ratio consistent with a developed country threshold per capita GDP. If 3.6% is added the required size of total general government expenditure is estimated at 35% relative to GDP[15]. However, if there is slippage in achieving the FRBM target in the next few years or if there is no tangible fall in the effective interest rate, we may have to add a level of interest payment to GDP ratio of 5.3%. In that case, the required level of total general government expenditure is estimated at 36.7%.

The next question is how to finance this increase in the size of government from its present level to 35% of GDP. We have argued in this writeup that this should be achieved by increasing the tax-GDP ratio from its present level of 18.5% to 25% of GDP. Alongside, the non-tax revenue to GDP ratio should be increased from its present level of 2.3% to 4% of GDP. At the same time fiscal deficit should be brought down to 6% of GDP and the debt-GDP ratio should be brought down to 60% of GDP. There needs to be a calendar for achieving these targets. We have argued that the fastest adjustment should be in the reduction of fiscal deficit followed by that in augmenting non-tax revenue to GDP ratio. As a target, it will be worthwhile to cross the general government expenditure to GDP ratio thresholds of 30% by FY2031, 31.5% by FY2036 and reach 35% by FY2048. The increase in the tax-GDP ratio should be largely based on spontaneous factors and spread over the entire period from the present to FY2048.

The spontaneous increase in the tax-GDP ratio may happen due to both changes in the structure of the Indian economy and its increasing digitalization and formalization. It may also be driven by policy that augments and rationalises the direct and indirect tax structures. It is seen that ensuring an overall tax buoyancy in the range of 1.1 to 1.15 along with a nominal GDP growth of 11% sustained over a long period, would take India's tax-GDP ratio close to 25% by FY2048.

We have also argued that the increase in the non-tax-GDP ratio should be front loaded in terms of policy emphasis. In fact, the adjustment for fiscal deficit requires an accelerated reduction from its current level of 8.4%[16] (FY2024). A fiscal deficit target of a 6% of GDP should be achieved by FY2031.

The fiscal architecture for developed Bharat would require corresponding reforms in three additional dimensions: (1) recasting of GoI's FRBMA, (2) fiscal transfers from GoI to states, and (3) government expenditure priorities as divided between GoI and states. These dimensions will be considered in detail in subsequent editions of *In Focus* writeups of EY Economy Watch.

[15] It may be noted that the per capita GDP benchmark by FY2048 may have increased and correspondingly the required size of government will further increase by that time.
[16] Fiscal deficit, when derived as the difference in debt levels is estimated at 8.4% for FY2024. However, as per official numbers of fiscal deficit for central and state governments, it is estimated at 8% for FY2024.

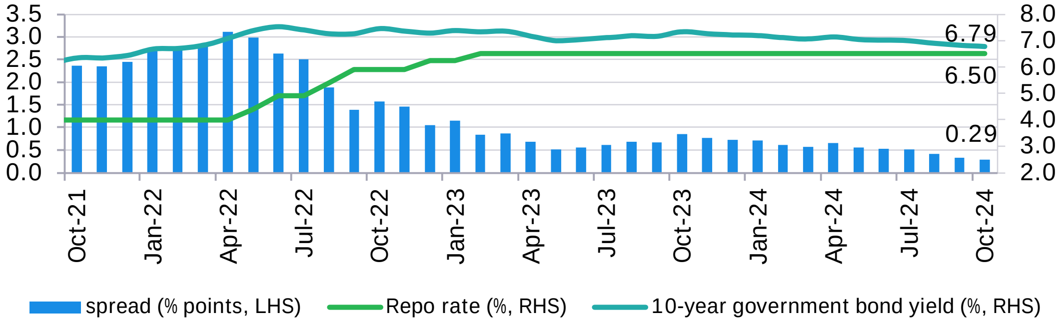
6 Money and finance: growth in bank credit eased to 14.4% in September 2024

6.1 Monetary sector

Monetary policy

- In its October 2024 monetary policy review, the Monetary Policy Committee (MPC) retained the repo rate at 6.5% (Chart 12) for the 10th successive time while changing its policy stance to 'neutral' from withdrawal of accommodation.
- The RBI anticipates a moderation in inflation during the latter part of the fiscal year owing to improved prospects for both *kharif* and *rabi* crops and ample buffer stocks of foodgrains. However, the RBI expressed its concern over the potential risks to inflation outlook that may emanate from escalating geo-political uncertainty, financial market volatility, adverse weather events and the recent pick-up in global food and metal prices.

Chart 12: Movements in the repo rate and 10-year government bond yield



Growth in gross bank credit eased to a three-month low of 14.4% in September 2024 from 15.0% in August 2024.

Source: Database on Indian Economy, RBI

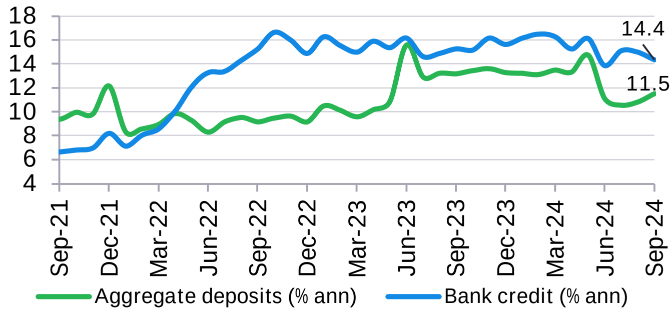
Money stock

- Growth in broad money stock (M3)[17] increased to an eight-month high of 11.1% in October 2024 from 10.8% in September 2024 due to higher growth in both narrow money (M1) and time deposits.
- Time deposits, the largest component of M3, grew by 11.6% in October 2024, improving from 11.3% in September 2024.
- Growth in narrow money (M1) increased for the third straight month to 9.5% in October 2024 from 9.2% in September 2024. This was on account of higher growth in currency with the public which increased to 6.7% in October 2024 from 6.1% in September 2024. Demand deposits continued to show a strong growth of 12.4% in October 2024, although marginally lower as compared to 12.7% in September 2024.

Aggregate credit and deposits

- Growth in gross bank credit eased to a three-month low of 14.4% in September 2024 from 15.0% in August 2024 (Chart 13). During 2QFY25, credit growth averaged lower at 14.8% as compared to 15.1% in 1QFY25.
- Non-food credit grew by 14.4% in September 2024, easing from 15.0% in August 2024.
- Sectoral bank credit indicates that agricultural credit and personal loans continued to show strong growth rates at 16.4% each in September 2024 although, moderating from 17.7% and 16.9% respectively in August 2024. Both agricultural credit and personal loans grew by 17.4% and 17.0% respectively in 2QFY25.
- Within personal loans, housing loans, the largest component of personal loans (average share of 49% in total personal loans in the last five years) showed a marginally lower growth of 18.3% in September 2024 as compared to 18.8% in August 2024. Similarly, vehicle loan growth eased marginally to 13.3% in September 2024 from 13.9% in August 2024. However, growth in consumer loans fell to a three-month low of 8.6% in September 2024 from 10.1% in August 2024.

Chart 13: Growth in credit and deposits



Source: Database on Indian Economy, RBI

[17] The data on M3, demand and time deposits and bank credit exclude the impact of merger of a non-bank with a bank.

- Outstanding credit to industries, having a share of about 27% on average in total non-food credit (last five years), moderated to 9.1% in September 2024 from 9.8% in August 2024. In 2QFY25, growth in industrial credit improved to 9.7% as compared to 7.8% in 1QFY25.
- Within industrial credit, among major segments, credit to infrastructure, having the largest share of 36.5% on average in total industrial credit (last five years), grew by 2.1% in September 2024, its lowest growth since October 2023. Credit to textiles fell to a 17-month low of 5.4% in September 2024 while credit to cement sector contracted by (-)0.7% during the month, its first contraction since June 2022.
- Growth in credit to services, with an average share of 26.6% in total non-food credit (last five years), moderated to 15.2% in September 2024 from 15.6% in August 2024. In 2QFY25, services credit grew by 15.4%, moderating from 18.3% in 1QFY25.
- Growth in aggregate deposits improved to 11.5% in September 2024 from 10.8% in August 2024. In 2QFY25, aggregate deposits showed an average growth of 11% as compared to 13.1% in 1QFY25.

6.2 Financial sector

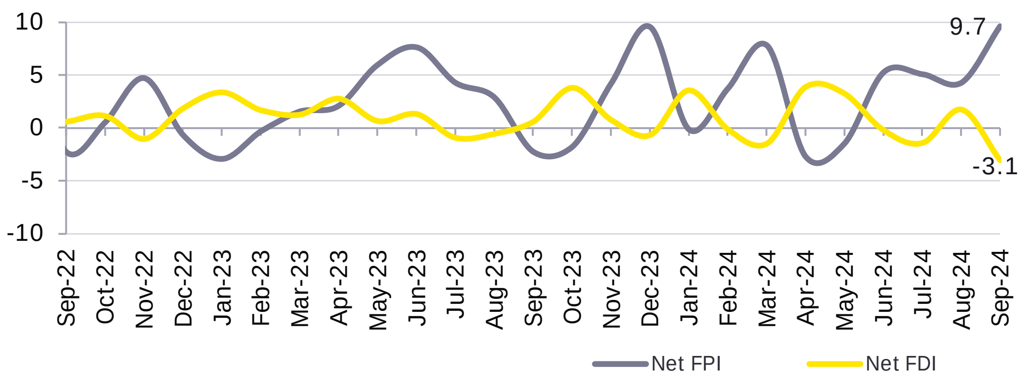
Interest rates

- As per the data released by the RBI in the first week of November 2024, the interest rate on term deposits with a maturity period of more than one year averaged 6.63% for the second successive month in October 2024, with the actual rates ranging between 6.00% and 7.25% during the month.
- The MCLR averaged 8.30% in October 2024, similar to its level in September 2024. The actual MCLR ranged between 8.15% and 8.45% during the month.
- The yield on 10-year government bonds (benchmark) eased for the sixth consecutive month to average 6.79% in October 2024 from 6.83% in September 2024 (Chart 12). Benchmark bond yield averaged lower at 6.97% during April-October FY25 as compared to 7.15% during the same period of FY24.
- WALR on 'Fresh Rupee Loans' (FRL) by SCBs eased marginally to 9.37% in September 2024 from 9.41% in August 2024. During 1HFY25, WALR-FRL averaged higher at 9.41% as compared to 9.31% during the same period of FY24.

FDI and FPI

- As per the provisional data released by the RBI on 20 November 2024, overall foreign investments (FIs) increased further to US$6.6 billion in September 2024 from US$6.1 billion in August 2024 as net FPI inflows continued to remain strong (Chart 14).

Chart 14: Net FDI and FPI inflows (US$ billion)



Net FPI inflows surged to US$9.7 billion in September 2024, its highest level since November 2020. Net FDI witnessed outflows amounting to US$3.1 billion in September 2024.

Source: Database on Indian Economy, RBI

- Net FPI inflows surged to US$9.7 billion in September 2024 from US$4.3 billion in August 2024. During April-September FY25, net FPI inflows on a cumulated basis amounted to US$20.0 billion as compared to US$20.7 billion net inflows seen during the corresponding period in FY24.
- Net FDIs however witnessed outflows amounting to US$3.1 billion in September 2024 as compared to net inflows amounting to US$1.7 billion in August 2024. Despite receiving a gross FDI inflow of US$6 billion in September 2024, the cumulative impact of higher repatriation/disinvestment and sustained outward FDI by India led to a negative net FDI during the month. During April-September FY25, net FDI inflows amounted to US$3.6 billion as compared to US$3.9 billion during the corresponding period in FY24.

7 Trade and CAB: merchandise exports growth increased to 17.2% in October 2024

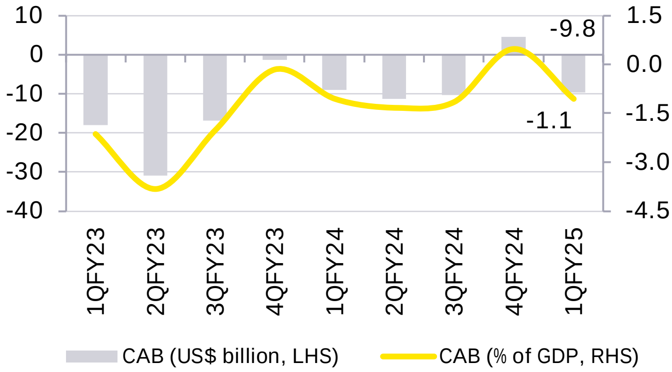
7.1 CAB: was at (-)1.1% of GDP in 1QFY25 after showing a surplus at 0.5% in 4QFY24

- Current account showed a deficit of (-)1.1% of GDP in 1QFY25 (Chart 15). Net merchandise trade deficit widened to 7.0% of GDP in 1QFY25 from 5.5% in 4QFY24 as merchandise exports eased to 12.0% from 12.9% and merchandise imports expanded to 19.0% from 18.4% of GDP over the same period.
- Surplus on account of net invisibles remained at 6% of GDP for the second successive quarter in 1QFY25 (Table 9). Net services surplus moderated to a four-quarter low of 4.3% of GDP in 1QFY25. Net private transfers declined to 2.8% of GDP in 1QFY25 from 3.0% in 4QFY24.

Table 9: Components of CAB in US$ billion

Fiscal year	CAB as % of nominal GDP	CAB	Merchandise net	Invisibles* net
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
FY24	-0.7	-26.1	-244.9	218.8
2QFY24	-1.3	-11.3	-64.5	53.3
3QFY24	-1.1	-10.4	-71.6	61.2
4QFY24	0.5	4.6	-52.0	56.6
1QFY25	-1.1	-9.8	-65.1	55.4

Chart 15: CAB



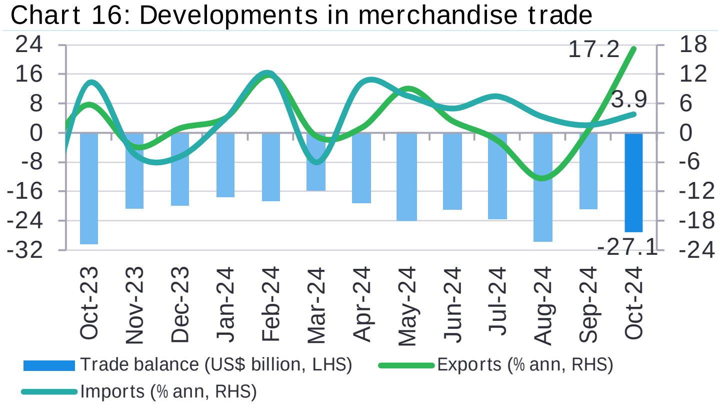
Source: Database on Indian Economy, RBI; Note: (-) deficit; (+) surplus; *invisibles include services, current transfers and income components

7.2 Merchandise trade and exchange rates

Growth in merchandise exports picked up to 17.2% in October 2024 from 0.5% in September 2024 reflecting higher year end demand. Merchandise imports growth increased to 3.9% in October 2024 from 1.6% in September 2024 partly due to rising volume of crude imports.

- Growth in exports of engineering goods surged to 39.4% in October 2024, its highest level since December 2021, from 10.6% in September 2024. Electronic goods exports grew by 45.7% in October 2024, an eight-month high, largely reflecting year end build-up of inventories.
- Growth in gems and jewelry exports turned positive at 8.8% in October 2024 after contracting for nine successive months. It is also notable that growth in textile exports which has gathered momentum since August 2024, surged to 35.1% in October 2024, reflecting a locational shift to India post the political unrest in Bangladesh.
- The pace of contraction in oil exports moderated for the second successive month to (-)22.1% in October 2024 from (-)26.7% in September 2024. Crude oil imports, however, grew strongly by 13.3% in October 2024 after contracting for two successive months.
- Led by high festive demand, growth in imports of vegetable oil was at a 30-month high of 50.9% in October 2024.
- Growth in exports excluding oil, gold/silver and jewelry rose to a 34-month high of 27.7% in October 2024, while that in imports of the same category eased to 5.3% in October 2024 from 6.7% in September 2024.
- Merchandise trade deficit widened to US$27.1 billion in October 2024 from US$20.8 billion in September 2024 (Chart 16). In September 2024, the deficit on account of trade of goods and services fell to a six-month low of US$4.7 billion.
- The Indian Rupee depreciated to INR84/US$ (average) in October 2024 from INR83.8/US$ in September 2024 partly reflecting equity outflows on account of the stimulus package announced by China and concerns about the US election results.

Chart 16: Developments in merchandise trade



Source: Ministry of Commerce and Industry, GoI

8 Global growth: IMF projected global growth to remain stable at 3.2% each in 2024 and 2025

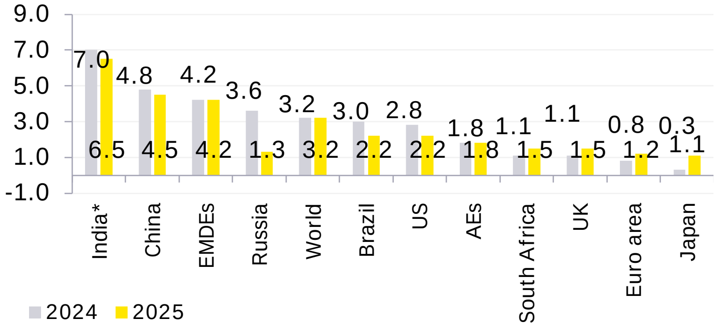
8.1 Growth

- The IMF (World Economic Outlook, October 2024) has projected global growth to decelerate marginally from 3.3% in 2023 to 3.2% each in 2024 and 2025 (Chart 17) and further to 3.1% by 2029.
- The moderation in global growth is largely owing to a slowdown in the growth projected for EMDEs at 4.2% each in 2024 and 2025 from 4.4% in 2023. Growth in the AEs is projected to improve marginally to 1.8% each in 2024 and 2025 from 1.7% in 2023.
- Growth in the Euro area is projected to pick up to 0.8% in 2024 and further to 1.2% in 2025 from 0.4% in 2023. In the UK, growth is forecasted to increase to 1.1% and 1.5% respectively in 2024 and 2025 from 0.3% in 2023.

The IMF has projected global growth to ease to 3.2% in 2024, with India's FY25 growth forecasted at 7%.

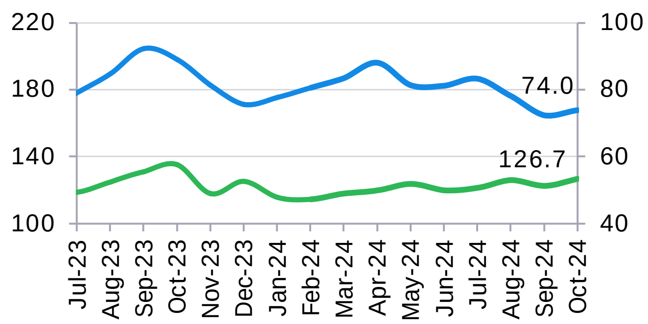
- In the US, growth is estimated at 2.8% in 2024, an upward revision of 0.2% points as compared to the July 2024 forecasts, led by strong consumption and non-residential investment. However, it remains lower than the 2.9% growth seen in 2023. Growth is projected to ease further to 2.2% in 2025 owing to the likelihood of a gradual tightening of fiscal policy and slowdown in consumption on account of a cooling labor market.
- In Japan, growth is projected to decelerate sharply to 0.3% in 2024 from 1.7% in 2023 owing to temporary supply disruptions. With an anticipated pickup in private consumption led by strengthening real wage growth, economic growth in Japan is expected to recover to 1.1% in 2025.
- Growth in China is projected to ease to 4.8% in 2024 from 5.2% in 2023 due to continued weakness in the real estate sector and low consumer confidence despite stronger performance of net exports.
- In Brazil, owing to robust private consumption and investment in the first half of the year, growth is projected to increase to 3.0% in 2024 from 2.9% in 2023. In 2025, growth is expected to ease to 2.2%. In South Africa, growth is projected to improve marginally to 1.1% and 1.5% in 2024 and 2025 respectively from 0.7% in 2023.
- India's growth is projected to ease to 7% in 2024 (FY25) and further to 6.5% in 2025 (FY26) from 8.2% in 2023 (FY24) as the impact of pent-up demand accumulated during the pandemic wanes.

Chart 17: Global growth projections (%)



Source: IMF World Economic Outlook (October 2024)
*Data pertains to fiscal years FY25 and FY26 respectively

Chart 18: Global crude and coal prices



Source (basic data): World Bank Pink Sheets, October 2024

8.2 Global energy prices: Global crude price increased to US$74/bbl. in October 2024

- Average global crude price[18] increased to US$74/bbl. in October 2024 from US$72.4/bbl. in September 2024 (Chart 18), although remaining well below the 1HFY25 average of US$80.7/bbl. The World Bank, projects Brent oil price to fall to US$73/bbl. in 2025 after averaging close to an estimated US$80/bbl. in 2024 on the assumption of weaker-than-expected global growth and steady unwinding of OPEC+ supply cuts. However, as per the World Bank, disruptions due to heightened geopolitical conflicts could pose considerable upside risks to these projections[19].
- Average global coal price[20] increased to a 12-month high of US$126.7/mt. in October 2024 from US$122.6/mt. in September 2024, largely owing to an increase in the price of Australian Coal which in-turn was driven by strong demand from India and China[13].

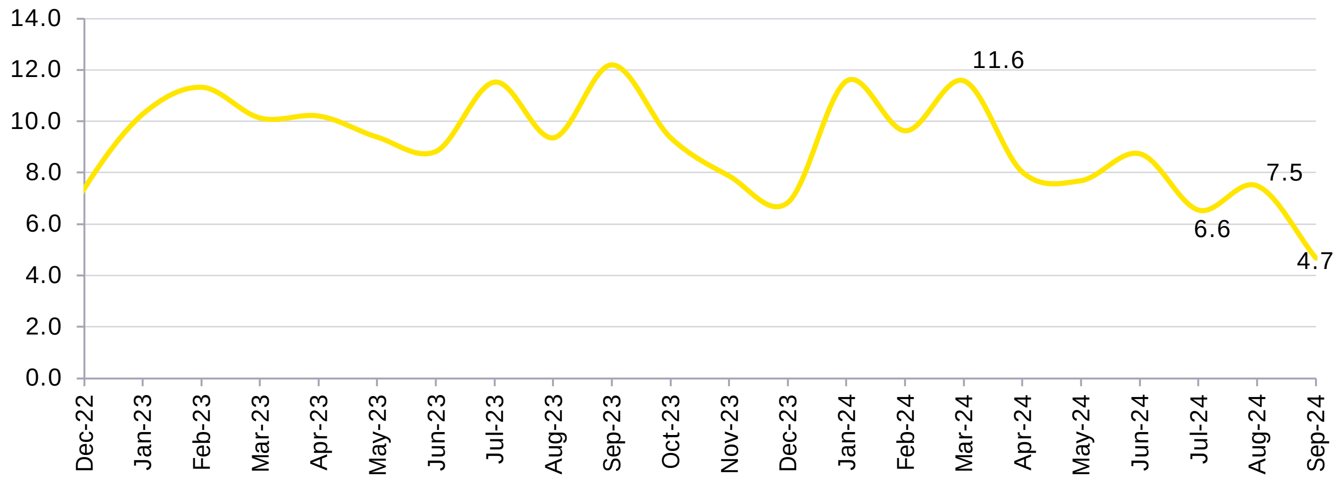
[18] Simple average of three spot prices, namely, Dated Brent, West Texas Intermediate and Dubai Fateh
[19] Commodity Markets Outlook – October 2024 (A World Bank Group Report) http://surl.li/jvwuzv
[20] Simple average of Australian and South African coal prices.

9 Index of Aggregate Demand (IAD): grew by 4.7% in September 2024

9.1 Growth in IAD fell to 4.7% in September 2024 from 7.5% in August 2024

- Pointing to moderating demand conditions across sectors, growth in IAD[21] fell to a 22-month low of 4.7% in September 2024 from 7.5% in August 2024 (Chart 19 and Table 10). In 2QFY25, IAD grew at a slower pace averaging 6.2% as compared to 8.2% in 1QFY25.
- Demand conditions in the services sector witnessed significant moderation as evidenced by PMI services (sa), which fell to a 10-month low of 57.7 in September 2024 from 60.9 in August 2024.
- Similarly, the manufacturing sector also experienced weakening demand as indicated by manufacturing PMI, whose level fell for the third consecutive month to 56.5 in September 2024 from 57.5 in August 2024.
- Demand conditions in the agricultural sector also eased as reflected by a lower growth in agricultural credit at 16.4% (sa)[22] in September 2024 as compared to 17.7% in August 2024.

Chart 19: Growth in IAD (y-o-y)



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

Table 10: IAD

Month	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24
IAD	174.7	174.9	178.2	178.9	178.9	180.6	180.3	181.0	177.4
Growth (% y-o-y)	11.6	9.6	11.6	8.0	7.7	8.8	6.6	7.5	4.7
Growth in agr. credit	20.1	20.2	20.2	19.8	21.5	17.3	18.1	17.7	16.4
Mfg. PMI**	6.5	6.9	9.1	8.8	7.5	8.3	8.1	7.5	6.5
Ser. PMI**	11.8	10.6	11.2	10.8	10.2	10.5	10.3	10.9	7.7

Source (basic data): S&P Global, RBI and EY estimates; **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 Manufacturing and Services are seasonally adjusted

[21] 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.
[22] 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.

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							
FY21	-8.4	-7.8	-9.6	-0.5	-7.8	FY21	50.2	41.7
FY22	11.4	12.2	11.8	7.9	12.2	FY22	54.0	52.3
FY23	5.2	5.8	4.7	8.9	5.8	FY23	55.6	57.3
FY24	5.8	7.5	5.5	7.1	7.5	FY24	57.2	60.3
3QFY24	6.1	8.2	5.4	9.0	8.4	3QFY24	55.5	58.1
4QFY24	5.1	4.9	4.8	7.3	5.8	4QFY24	57.5	61.2
1QFY25	5.5	7.9	4.3	10.8	6.3	1QFY25	58.2	60.5
2QFY25	2.6	-0.1	3.1	1.4	2.2	2QFY25	57.4	59.6
Jun-24	4.9	10.3	3.5	8.6	5.0	Jul-24	58.1	60.3
Jul-24	4.7	3.8	4.4	7.9	6.1	Aug-24	57.5	60.9
Aug-24	-0.1	-4.3	1.1	-3.7	-1.6	Sep-24	56.5	57.7
Sep-24	3.1	0.2	3.9	0.5	2.0	Oct-24	57.5	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				
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
FY24	5.4	7.5	1.2	4.4	-0.7	3.2	-1.7	-4.5	-1.4
3QFY24	5.4	8.3	-0.7	4.1	0.3	4.0	-0.9	-2.4	-0.7
4QFY24	5.0	8.5	-1.6	3.4	0.3	4.3	-1.1	-1.6	-1.2
1QFY25	4.9	8.9	-3.8	3.1	2.4	7.6	0.8	0.2	0.3
2QFY25	4.2	6.8	-4.1	3.4	1.7	5.4	1.2	-0.9	0.6
Jul-24	3.6	5.4	-5.5	3.4	2.1	3.6	1.6	1.9	1.1
Aug-24	3.7	5.7	-5.3	3.3	1.2	3.2	1.0	-0.5	0.5
Sep-24	5.5	9.2	-1.3	3.5	1.8	9.5	1.0	-4.0	0.1
Oct-24	6.2	10.9	-1.6	3.7	2.4	11.6	1.5	-5.8	0.3

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

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

Fiscal year/month	Gross tax revenue	Corporate tax	Income tax	Direct taxes*	Indirect taxes**	Fiscal deficit % of GDP	Revenue deficit % of GDP
FY20	-3.4	-16.1	4.0	-7.8	1.7	4.7	3.3
FY21	0.7	-17.9	-2.3	-10.7	12.7	9.2	7.3
FY22	33.8	55.7	43.5	49.6	20.1	6.7	4.4
FY23	12.7	16.0	20.0	17.9	7.2	6.4	3.9
FY24	13.4	10.3	25.1	17.6	8.2	5.6	2.6
	Cumulated growth (%, y-o-y)					% of budgeted target	
Feb-24	13.4	17.3	25.8	21.6	4.6	86.5#	87.1#
Mar-24	13.5	10.3	25.1	17.6	8.3	95.3#	91.1#
Apr-24	16.9	-6.2	20.6	12.1	19.9	12.5	17.1
May-24	15.8	-19.8	41.6	22.7	7.5	3.1	-15.7
Jun-24	23.7	26.2	49.9	39.9	5.5	8.4	-7.0
Jul-24	21.3	4.8	53.4	33.6	7.1	17.2	3.8
Aug-24	12.1	-6.0	25.5	12.9	9.5	27.0	24.7
Sep-24	12.0	2.3	25.0	13.6	8.4	29.4	12.8

Source: Monthly Accounts, Controller General of Accounts, Government of India, Union Budget documents; # indicates that the values as percent of revised estimates
* Includes corporation tax and income tax
** Includes customs duty, excise duty, service tax, CGST, UTGST, IGST and GST compensation cess

Fiscal year/month	CGST	UTGST	IGST	GST compensation cess	Total GST (GoI)
	INR crore				
FY24 (RE)	8,11,600	-	-	1,45,000	9,56,600
FY25 (BE)	9,17,650	-	-	1,50,000	10,67,650
Feb-24	71,129	376	-12,690	12,529	71,344
Mar-24	73,107	695	38,265	12,709	1,24,776
Apr-24	91,188	292	-2,645	13,042	1,01,877
May-24	67,653	306	-8,238	11,786	71,507
Jun-24	69,487	279	707	12,940	83,413
Jul-24	72,288	57	-483	12,779	84,641
Aug-24	70,606	352	8,213	11,915	91,086
Sep-24	69,998	338	1,600	11,861	83,797

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
Nov-23	6.50	FY21	6.0	11.0	44.0	36.1	FY21	16.2	12.2	6.05	579.3
Dec-23	6.50	FY22	7.0	9.7	38.6	-16.8	FY22	10.7	8.8	6.40	617.6
Jan-24	6.50	FY23	14.4	9.5	28.0	-5.2	FY23	6.9	9.0	7.35	578.4
Feb-24	6.50	FY24	15.7	13.0	9.8	44.1	FY24	7.3	11.1	7.16	645.6
Mar-24	6.50	3QFY24	15.7	13.4	4.0	12.0	3QFY24	7.1	11.0	7.28	623.2
Apr-24	6.50	4QFY24	16.3	13.3	2.3	11.4	4QFY24	7.3	11.1	7.13	645.6
May-24	6.50	1QFY25	15.1	13.0	6.3	0.9	1QFY25	8.5	10.9	7.08	652.0
Jun-24	6.50	2QFY25	14.8	11.0	-2.8	19.1	2QFY25	9.2	10.8	6.92	704.9
Jul-24	6.50	Jun-24	13.9	11.1	2.4	5.4	Jul-24	7.4	10.0	7.01	667.4
Aug-24	6.50	Jul-24	15.1	10.6	-1.4	5.1	Aug-24	8.1	10.2	6.91	684.0
Sep-24	6.50	Aug-24	15.0	10.8	1.7	4.3	Sep-24	9.2	10.8	6.83	704.9
Oct-24	6.50	Sep-24	14.4	11.5	-3.1	9.7	Oct-24	9.5	11.1	6.79	684.8

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		
FY21	-7.0	-16.6	-101.4	74.2	43.8	67.2	2014	3.5	2.0	4.7
FY22	44.7	56.0	-191.0	74.5	78.4	164.8	2015	3.4	2.3	4.3
FY23	6.9	16.8	-264.9	80.4	92.7	283.4	2016	3.2	1.8	4.4
FY24	-4.7	-5.7	-245.3	82.8	81.1	126.4	2017	3.8	2.5	4.8
3QFY24	1.2	0.3	-70.8	83.3	82.1	126.2	2018	3.6	2.3	4.6
4QFY24	4.6	2.7	-51.8	82.9	80.6	116.2	2019	2.8	1.7	3.6
1QFY25	4.3	7.6	-63.9	83.4	83.6	121.3	2020	-2.8	-4.2	-1.8
2QFY25	-3.6	4.1	-73.9	83.8	77.9	123.4	2021	6.3	5.6	6.9
Jul-24	-1.5	7.5	-23.5	83.6	83.3	121.4	2022	3.5	2.6	4.1
Aug-24	-9.3	3.3	-29.6	83.9	78.1	126.0	2023	3.3	1.7	4.4
Sep-24	0.5	1.6	-20.8	83.8	72.4	122.6	2024*	3.2	1.8	4.2
Oct-24	17.2	3.9	-27.1	84.0	74.0	126.7	2025*	3.2	1.8	4.2

Source: Database on Indian Economy - RBI, Pink Sheet - World Bank and IMF World Economic Outlook (WEO) April 2024; *based on October 2024 update of the IMF WEO

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
FY21 (3rd RE)	-4.1	4.0	-8.2	3.1	-4.2	-4.6	-19.9	1.9	-7.6	3.4
FY22 (2nd RE)	9.4	4.6	6.3	10.0	10.3	19.9	15.2	5.7	7.5	8.6
FY23 (1st RE)	6.7	4.7	1.9	-2.2	9.4	9.4	12.0	9.1	8.9	6.8
FY24 (PE)	7.2	1.4	7.1	9.9	7.5	9.9	6.4	8.4	7.8	1.2
1QFY23	11.3	2.7	6.6	2.2	15.6	14.7	22.1	10.5	23.6	11.5
2QFY23	5.0	2.3	-4.1	-7.2	6.4	6.9	13.2	8.7	7.3	9.2
3QFY23	4.8	5.2	1.4	-4.8	8.7	9.5	9.2	7.7	3.5	4.8
4QFY23	6.0	7.6	2.9	0.9	7.3	7.4	7.0	9.2	4.7	3.0
1QFY24	8.3	3.7	7.0	5.0	3.2	8.6	9.7	12.6	8.3	0.0
2QFY24	7.7	1.7	11.1	14.3	10.5	13.6	4.5	6.2	7.7	1.5
3QFY24	6.8	0.4	7.5	11.5	9.0	9.6	6.9	7.0	7.5	1.8
4QFY24	6.3	0.6	4.3	8.9	7.7	8.7	5.1	7.6	7.8	1.6
1QFY25	6.8	2.0	7.2	7.0	10.4	10.5	5.7	7.1	9.5	2.8

Source: National Accounts Statistics, MoSPI
*Growth numbers for FY21 (3rd revised estimates), FY22 (2nd revised estimates), FY23 (1st revised estimates) are based on the on NAS released by the MoSPI on 29 February 2024. Provisional estimates (PE) for FY24 was released on 31-May-2024. 1Q FY25 growth numbers are based on the quarterly National Accounts Data released on 30-August-2024.

Fiscal year/quarter	Expenditure components						IPD inflation
	GDP	PFCE	GFCE	GFCF	EX	IM	GDP
FY21 (3rd RE)	-5.8	-5.3	-0.8	-7.1	-7.0	-12.6	4.8
FY22 (2nd RE)	9.7	11.7	0.0	17.5	29.6	22.1	8.4
FY23 (1st RE)	7.0	6.8	9.0	6.6	13.4	10.6	6.7
FY24 (PE)	8.2	4.0	2.5	9.0	2.6	10.9	1.3
1QFY23	12.8	18.5	9.8	13.9	19.1	26.1	11.3
2QFY23	5.5	8.2	3.4	4.7	11.7	16.1	9.0
3QFY23	4.3	1.8	7.1	5.0	10.9	4.1	4.9
4QFY23	6.2	1.5	13.9	3.8	12.4	-0.4	2.8
1QFY24	8.2	5.5	-0.1	8.5	-6.6	15.2	0.2
2QFY24	8.1	2.6	14.0	11.6	5.0	11.6	1.4
3QFY24	8.6	4.0	-3.2	9.7	3.4	8.7	1.6
4QFY24	7.8	4.0	0.9	6.5	8.1	8.3	2.0
1QFY25	6.7	7.4	-0.2	7.5	8.7	4.4	2.8

Source: National Accounts Statistics, MoSPI
* Growth numbers for FY21 (3rd revised estimates), FY22 (2nd revised estimates), FY23 (1st revised estimates) are based on the on NAS released by the MoSPI on 29 February 2024. Provisional estimates (PE) for FY24 was released on 31-May-2024. 1Q FY25 growth numbers are based on the quarterly National Accounts Data released on 30-August-2024.

List of abbreviations

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

Sr. no.	Abbreviations	Description
40	IEA	International Energy Agency
41	IGST	Integrated Goods and Services Tax
42	IIP	Index of Industrial Production
43	IMF	International Monetary Fund
44	IMI	Index of Macro Imbalance
45	IMP	imports
46	INR	Indian Rupee
47	IPD	implicit price deflator
48	MCLR	marginal cost of funds-based lending rate
49	Mfg.	manufacturing
50	MGNREGA	Mahatma Gandhi National Rural Employment Guarantee Act
51	Ming.	mining and quarrying
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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