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Economy Watch

Monitoring India's macro-fiscal performance

December 2024

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Contents

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Highlights

1. Real GDP and GVA growth eased to a seven-quarter low of 5.4% and 5.6% respectively in 2QFY25.
2. Manufacturing PMI expanded at a slower pace of 56.5 while that of services remained nearly stable at 58.4 in November 2024 as compared to their levels of 57.5 and 58.5, respectively, in October 2024.
3. IIP growth increased to 3.5% in October 2024, exceeding its September 2024 level of 3.1%, due to improved growth in manufacturing and electricity output.
4. The RBI retained the repo rate at 6.5% in its December 2024 monetary policy review. It however, announced a 50 basis points (bps) reduction in Cash Reserve Ratio (CRR) in two tranches of 25 bps each to 4.0%, effective 14 and 28 December 2024 respectively, aimed at infusing liquidity amounting to INR 1.16 lakh crore into the banking system.
5. CPI inflation eased to 5.5% in November 2024 from 6.2% in October 2024 as vegetable prices eased, whereas core CPI inflation remained steady at 3.7% for the second successive month.
6. WPI inflation moderated to 1.9% in November 2024 from 2.4% in October 2024, primarily due to a sharp fall in vegetable inflation.
7. As per the CGA, GoI's GTR showed a growth of 10.8% during April-October FY25 with growth in direct taxes at 11.1% and that in indirect taxes at 9.0%.
8. GoI's total expenditure showed a low growth of 3.3% during April-October FY25, with revenue expenditure growing by 8.7% and capital expenditure contracting by (-)14.7%.
9. GoI's fiscal and revenue deficits during April-October FY25 stood at low levels of 46.5% and 52.2% of their respective annual BEs.
10. Growth in gross bank credit moderated to a 29-month low of 12.8% in October 2024 from 14.4% in September 2024.
11. Growth in merchandise exports turned negative at (-)4.8% in November 2024 partly attributable to easing global economic activity. Growth in merchandise imports surged to a 27-month high of 27.0% in December 2024 primarily due to a sharp increase in gold imports.
12. Merchandise trade deficit surged to a historic high of US$37.8 billion in December 2024.
13. 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.
14. Average global crude price fell to US$72.3/bbl. in November 2024, its lowest level since August 2021, falling from US$74/bbl. in October 2024.
15. The OECD has projected global growth at 3.2% in 2024, with India's FY25 growth forecasted at 6.8%.
16. EY projects India's real GDP growth at 6.5% for FY25 and FY26.

Foreword

Does a slowdown in 2QFY25 growth signal reduced medium-term growth prospects?

The 2QFY25 real GDP growth of 5.4% was lower than anticipated, surprising many observers of the Indian economy. In this context, three important questions arise: *First*, what caused this unexpected slowdown and whether these factors are one-off or they signal longer-term implications? *Second*, whether with such a tangible slowdown, annual FY25 GDP growth projections need to be revised downwards? *Third*, do these developments warrant recasting India's medium term growth prospects to less than 6.5%?

On the demand side, two domestic demand components namely private final consumption expenditure and gross fixed capital formation together accounted for a fall of 1.5% points in 2QFY25 which nearly fully explains the fall in the GDP growth from 6.7% in 1QFY25 to 5.4% in 2QFY25. In identifying the prime cause of the unexpected slowdown in both GDP and GVA growth, one outstanding feature of demand is the slowdown in investment, as reflected in the growth of gross fixed capital formation. This growth is estimated at 5.4% in 2QFY25, which is a six-quarter low. Apart from the fact that private investment demand has not picked up, there was a contraction in GoI's investment expenditure growth, which has remained negative at (-)15.4% in first half of FY25. It continued to be negative even in October 2024 at (-)8.4%, implying that in the first seven months GoI's investment expenditure growth has remained negative at (-)14.7%. In fact, to meet the budgeted target of GoI's capital expenditure growth of 17.1% over CGA actuals for FY24, we now require a growth of 60.5% in the remaining five months of the fiscal year FY25.

Since government investment expenditure is the main driver of domestic demand, it has affected the demand for various industrial and infrastructure related sectors. This resulted in a significant slowdown in the GVA growth of main industrial sectors namely manufacturing, mining and quarrying, electricity, gas and water supply, and construction to 2.2%, (-)0.1%, 3.3%, and 7.7% respectively in 2QFY25. As a result, overall GVA growth fell to a seven-quarter low of 5.6%.

Combining the real GDP growth of first two quarters of FY25 at 6.7% and 5.4%, respectively, with RBI's revised growth estimates for 3Q and 4Q FY25 at 6.8% and 7.2% respectively, the annual FY25 real GDP growth may be estimated at 6.6%. However, if the turnaround in GoI's investment expenditure remains subdued, Q3 growth may be 6.5% or less.

Another matter of concern relates to the low level of nominal GDP growth, which is estimated at 8.0% in 2Q and 8.9% in the first half of FY25. The implicit price deflator (IPD) based inflation in the first half is 2.7%. This is in spite of CPI inflation remaining at 4.6% in the first half of FY25. Clearly, it is the relatively larger weight of WPI inflation, which was only 2.1%, in the construction of the IPD that accounts for such a low level of IPD-based inflation. If nominal GDP growth remains well below the budgeted level of 10.5%, the growth of GoI's gross tax revenues may also be subdued unless, tax buoyancy turns out to be higher than the budget estimate of 1.03 (*estimated over the CGA actuals for FY24*). Further, in its December 2024 review of the monetary policy, the RBI has retained the repo rate at 6.5% while maintaining its policy stance as '*neutral*'. However, to infuse liquidity into the banking system, the RBI announced the reduction of CRR by 50 basis points in two tranches of 25 basis points each, effective 14th and 28th December 2024 respectively[1]. This also means that the more effective growth supporting actions may have to come from the fiscal authorities.

Available high frequency data for October and November 2024 point to a mixed picture regarding the growth momentum of the Indian economy. Headline manufacturing PMI (seasonally adjusted (sa)) witnessed a softer expansion of 56.5 in November 2024 as compared to 57.5 in October 2024 due to cost pressures. Services PMI, however, remained nearly stable at 58.4 in November 2024, close to its level of 58.5 in October 2024 on account of strong international demand and improving business confidence. As per the data released by Federation of Automobile Dealers Association, retail sales of motor vehicles continued to show a double-digit growth of 11.2% in November 2024, although moderating from 32.1% in October 2024. Across vehicle segments, however, the growth performance was mixed. In particular, retail sales of two wheelers and tractors showed robust growth rates of 15.8% and 29.9% respectively in November 2024, indicative of

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[1] https://rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=59246

strong rural demand while sales of passenger vehicles contracted by (-)13.7% in November 2024. As per the CGA, GoI's GTR showed a growth of 10.8%, equal to its budgeted level for FY25, during April-October FY25 with growth in direct taxes at 11.1% and that in indirect taxes at 9.0%. GoI's total expenditure showed a low growth of 3.3% during April-October FY25. GST revenues in November 2024 grew by 8.5% reaching a level of INR1,82,269 crores. October 2024 witnessed an increase in IIP growth to 3.5%, up from September's 3.1%, driven by stronger manufacturing and electricity production. Credit growth moderated to a 29-month low of 12.8% in October 2024 from 14.4% in September 2024.

On the external front, data released by the Ministry of Commerce and Industry, indicate a surge in merchandise trade deficit to a historic high of US$37.8 billion. Growth in merchandise exports turned negative at (-)4.8% in November 2024 from 17.2% in October 2024, partly attributable to easing global economic activity whereas growth in merchandise imports surged to a 27-month high of 27.0% in December 2024 primarily due to a sharp increase in gold imports.

CPI inflation eased to 5.5% in November 2024 from 6.2% in October 2024 as vegetable prices eased, whereas core CPI inflation remained steady at 3.7% for the second successive month. WPI inflation also moderated to 1.9% in November 2024 from 2.4% in October 2024, as a sharp fall in vegetable inflation more than offset a) increase in inflation in eggs, meat and fish, and manufactured food products, and b) easing of disinflationary pressures emanating from crude petroleum, mineral oils, and manufactured basic metals.

With global conditions remaining uncertain and global trade likely to be fragmented, India may have to continue to rely largely on domestic demand and services exports. In the medium-term, India's real GDP growth prospects can be kept at 6.5% per year provided the GoI accelerates its capital expenditure growth in the remaining part of the current fiscal year and comes up with a medium-term investment pipeline with participation from the GoI and state governments and both their respective public sector entities, and the private corporate sector. It would be appropriate to recast the earlier 2019 National Infrastructure Pipeline (NIP) for a period extending up to 2030 with revised targets for the priority sectors including: (1) roads, (2) AMRUT, smart cities, etc., (3) railways, (4) power, (5) renewable energy. Investment targets for all the three major investors namely GoI and state governments and their respective public sector undertakings, and private corporate sector should be recast after evaluating their performance in financing the earlier NIP. Together, the GoI and the state governments should ensure a minimum capital expenditure allocated towards infrastructure growth of 6% of GDP each year over a five-year period. This implies driving their revenue deficits to near zero.

Governments' fiscal interventions in the economy matter both for short-term and long-term growth. In the short-term, fiscal policy can potentially play a macro-stabilizing role by minimizing the departure of actual from potential growth. In the long run, the potential growth can itself be uplifted by government's contribution to overall investment and aggregate savings. In light of India's pursuit to become Viksit, that is becoming a developed nation, it is time to recast India's fiscal responsibility framework. This is discussed in detail in this month's infocus section.

D.K. Srivastava
Chief Policy Advisor, EY India

1 Growth: Real GDP growth moderated to 5.4% in 2QFY25

1.1 GDP and GVA: Grew by 5.4% and 5.6%, respectively in 2QFY25

- The national accounts data for the second quarter of FY25 released by the MoSPI on 29 August 2024 showed that real GDP growth eased to a seven-quarter low of 5.4% in 2QFY25 from 6.7% in 1QFY25 **(Chart 1).** In 1HFY25, real GDP growth averaged 6%, falling from 8.1%.
- Among the domestic demand components, the slowdown was largely attributable to lower growth in gross fixed capital formation (GFCF) and private final consumption expenditure (PFCE).
- GFCF, which measures investment demand in the economy, grew by 5.4% in 2QFY25, its lowest performance in the last six-quarters **(Table 1).**
- PFCE also grew at a slower pace of 6.0% in 2QFY25 as compared to 7.4% in 1QFY25. Even though government final consumption expenditure (GFCE) showed a growth of 4.4% in 2QFY25, it has come over three consecutive quarters of low growth or contraction in government expenditure.
- With regard to external demand, there was a positive contribution of net exports to GDP growth at 1.5% points in 2QFY25 as exports showed a growth of 2.8% while imports contracted by (-)2.9% during the quarter.
- On the output side, real GVA growth eased to 5.6% in 2QFY25 from 6.8% in 1QFY25. This was largely due to subdued growth in the secondary sectors of the economy.
- Growth in the manufacturing GVA moderated to a six-quarter low of 2.2% in 2QFY25 from 7.0% in 1QFY25. Mining GVA showed a contraction of (-)0.1% in 2QFY25 as compared to a growth of 7.2% in 1QFY25. Growth in construction GVA was also at a six-quarter low of 7.7% in 2QFY25, falling from 10.5% in 1QFY25.
- Among the services sector, growth in financial, real estate, et al. sectors eased marginally to 6.7% in 2QFY25 from 7.1% in 1QFY25. Growth in trade, hotels et al. sectors, however, improved to 6.0% in 2QFY25 from 5.7% in 1QFY25. Growth in public administration, defence, et al. showed a strong growth of 9.2% in 2QFY25 although moderating marginally from 9.5% in 1QFY25.
- Agricultural GVA growth improved for the second straight quarter to 3.5% in 2QFY25 from 2.0% in 1QFY25. With nominal GDP showing a low growth of 8.0% in 2QFY25, the IPD-based inflation was at 2.5% in 2QFY25, lower than 2.8% in 1QFY25.

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

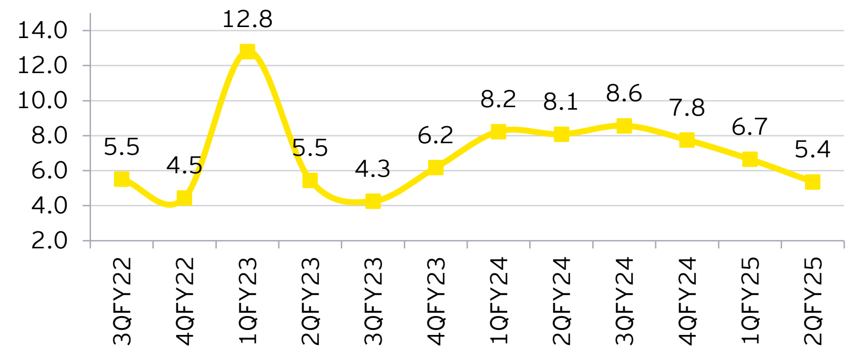


Table 1: Real GDP and GVA growth (%, annual)

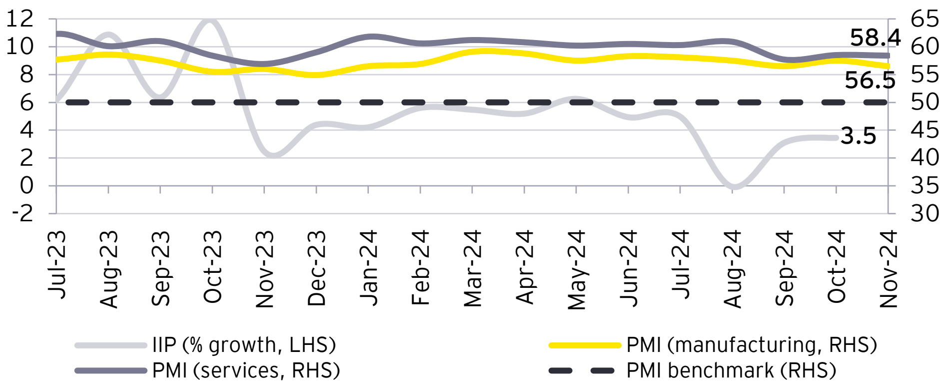
Agg. demand	1Q FY23	2Q FY23	3Q FY23	4Q FY23	1Q FY24	2Q FY24	3Q FY24	4Q FY24	*1Q FY25*	*2Q FY25*
PFCE	18.5	8.2	1.8	1.5	5.5	2.6	4.0	4.0	7.4	6.0
GFCE	9.8	3.4	7.1	13.9	-0.1	14.0	-3.2	0.9	-0.2	4.4
GFCF	13.9	4.7	5.0	3.8	8.5	11.6	9.7	6.5	7.5	5.4
EXP	19.1	11.7	10.9	12.4	-6.6	5.0	3.4	8.1	8.7	2.8
IMP	26.1	16.1	4.1	-0.4	15.2	11.6	8.7	8.3	4.4	-2.9
GDP	**12.8**	**5.5**	**4.3**	**6.2**	**8.2**	**8.1**	**8.6**	**7.8**	**6.7**	**5.4**
Contr. NEXP (% pts)	*-1.4*	*-1.2*	*1.4*	*2.8*	*-5.5*	*-1.8*	*-1.3*	*0.1*	*0.7*	*1.5*
Output side										
Agr.	2.7	2.3	5.2	7.6	3.7	1.7	0.4	0.6	2.0	3.5
Ming.	6.6	-4.1	1.4	2.9	7.0	11.1	7.5	4.3	7.2	-0.1
Mfg.	2.2	-7.2	-4.8	0.9	5.0	14.3	11.5	8.9	7.0	2.2
Elec.	15.6	6.4	8.7	7.3	3.2	10.5	9.0	7.7	10.4	3.3
Cons.	14.7	6.9	9.5	7.4	8.6	13.6	9.6	8.7	10.5	7.7
Trans.	22.1	13.2	9.2	7.0	9.7	4.5	6.9	5.1	5.7	6.0
Fin.	10.5	8.7	7.7	9.2	12.6	6.2	7.0	7.6	7.1	6.7
Publ.	23.6	7.3	3.5	4.7	8.3	7.7	7.5	7.8	9.5	9.2
GVA	**11.3**	**5.0**	**4.8**	**6.0**	**8.3**	**7.7**	**6.8**	**6.3**	**6.8**	**5.6**

Source: MoSPI, GoI

1.2 PMI: Manufacturing PMI eases in November 2024

- Pointing to a softer expansion in the output of manufacturing sector, headline manufacturing PMI (seasonally adjusted (sa)) moderated to 56.5 in November 2024 from 57.5 in October 2024 **(Chart 1).** Despite positive demand trends pushing up sales and output during the month, overall growth was constrained by both input and output price pressures.
- Services PMI (sa) remained nearly stable at 58.4 in November 2024 as compared to 58.5 in October 2024. This was largely attributable to improved export orders. Employment in services sector increased at its fastest pace since 2005, reflective of growing new orders, strong international demand and improving business confidence.
- Reflecting a slower expansion in manufacturing activities, the composite PMI Output Index (sa) at 58.6 in November 2024 was lower compared to 59.1 in October 2024.

Chart 2: PMI and IIP growth



Source: MoSPI and S&P Global.

Manufacturing PMI expanded at a slower pace of 56.5 in November 2024, as compared to 57.5 in October 2024. Services PMI at 58.4 in November 2024 was close to its level of 58.5 in October 2024.

1.3 IIP: Growth improved marginally to 3.5% in October 2024

IIP growth increased to 3.5% in October 2024, exceeding its September 2024 level of 3.1%, due to improved growth in manufacturing and electricity output.

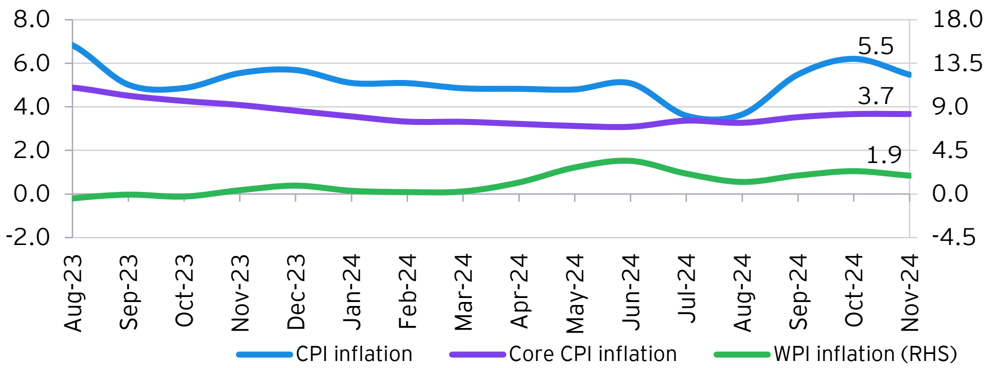
- According to the quick estimates, IIP growth increased to 3.5% in October 2024, exceeding its September 2024 level of 3.1% due to improved growth in manufacturing and electricity output (Chart 2).
- Among the sub industries, manufacturing sector posted the highest growth at 4.1% in October 2024 as compared to 3.9% in September 2024. However, the largest contribution to improved growth in IIP during the month came from electricity output with showed a growth of 2.0% in October 2024, increasing from 0.5% in September 2024. Mining output continued to show a subdued growth of 0.9% in October 2024, although increasing from 0.2% in September 2024.
- Within manufacturing, among sub-industries, sectors with strong growth rates included electrical equipment (33.1%), wood and wood products (10.0%) and fabricated metal products (8.1%) while that of coke and refined petroleum products (5.6%), basic metals (3.5%), food products (4.9%), pharmaceuticals, medicinal and chemical products (2.3%) showed improved growth rates during the month.
- As per the 'use-based' classification of industries, improvement in IIP growth in October 2024 was supported by higher growth in the output of infrastructure/construction at 4.0%, primary goods at 2.6%, consumer non-durables at 2.7% and intermediate goods at 3.7% during the month. Growth of consumer durables and capital goods, however, eased to 5.9% and 3.1% respectively in October 2024.
- Output of eight core infrastructure industries (core IIP) grew by 3.1% in October 2024, improving marginally from 2.4% in September 2024. This recovery was largely owing to relatively higher growth rates in coal and steel output. Output of coal grew at a faster pace of 7.8% in October 2024 as compared to 2.6% in September 2024 and that of steel increased to 4.2% in October 2024 from 1.6% in September 2024.
- On the contrary, growth in the output of petroleum refinery products eased marginally to 5.2% in October 2024 from 5.8% in September 2024. Growth in the output of cement was lower at 3.3% in October 2024 as compared to 7.2% in September 2024 and that of crude oil continued to contract for the sixth-successive month by (-)4.8% in October 2024.

2 Inflation: CPI inflation eased to 5.5% in November 2024

2.1 CPI inflation

- CPI inflation moderated to 5.5% in November 2024 from 6.2% in October 2024 **(Chart 3)**, as consumer food price index-based inflation eased to 9.0% in November 2024 from 10.9% in October 2024.
- Inflation in vegetables moderated considerably to 29.3% in November 2024 from 42.2% in October 2024, due partly to price effect and partly to favourable base effect. Inflation in oils and fats rose to 13.3% in November 2024, its highest level since May 2022.
- Prices of fuel and light continued to contract for the fifteenth successive month by (-)1.8% in November 2024, close to its level of (-)1.7% in October 2024.
- Inflation in clothing and footwear remained stable for the seventh consecutive month at a 54-month low of 2.7% in November 2024. Inflation in housing was subdued at 2.9% in November 2024, although marginally higher than its level of 2.8% in October 2024.
- Inflation in transportation and communication services was at 2.6% in November 2024, lower than a 19-month high of 2.8% in October 2024.
- Core CPI inflation[2] remained steady for the second successive month at 3.7% in November 2024, its highest level since December 2023.

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



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

CPI inflation eased to 5.5% in November 2024 as vegetable prices eased, whereas core CPI inflation remained steady at 3.7% for the second successive month.

2.2 WPI inflation: eased to *1.9% in November 2024*

- WPI inflation moderated to 1.9% in November 2024 from 2.4% in October 2024, as a sharp fall in vegetable inflation more than offset a) increase in inflation in eggs, meat and fish, and manufactured food products, and b) a moderation in disinflationary pressures emanating from crude petroleum, mineral oils, and manufactured basic metals.
- Vegetable inflation fell to 28.6% in November from 63.0% in October 2024 led by a fall in inflation in tomatoes to 28.8% from 239.4% over the same period.
- Inflation in eggs, meat and fish turned positive in November 2024 at 3.2% after contracting for five successive months, partly due to unfavorable base effect. Inflation in manufactured food products increased to 9.4%, its highest level since April 2022.
- The contraction in prices of crude petroleum and mineral oils moderated to (-)7.7% and (-)5.2% in November 2024 respectively from (-)13.0% and (-)7.7% in the previous month led by waning of favorable base effects.
- Inflation in manufactured products was low at 2.0% in November 2024, although rising from 1.5% in October 2024, led by the increase in manufactured food products-based inflation and a slowing pace of contraction in prices of manufactured basic metals.
- Core WPI inflation increased slightly to 0.5% in November 2024 from 0.3% in October 2024, attributable mainly to an easing pace of contraction in the prices of manufactured basic metals.

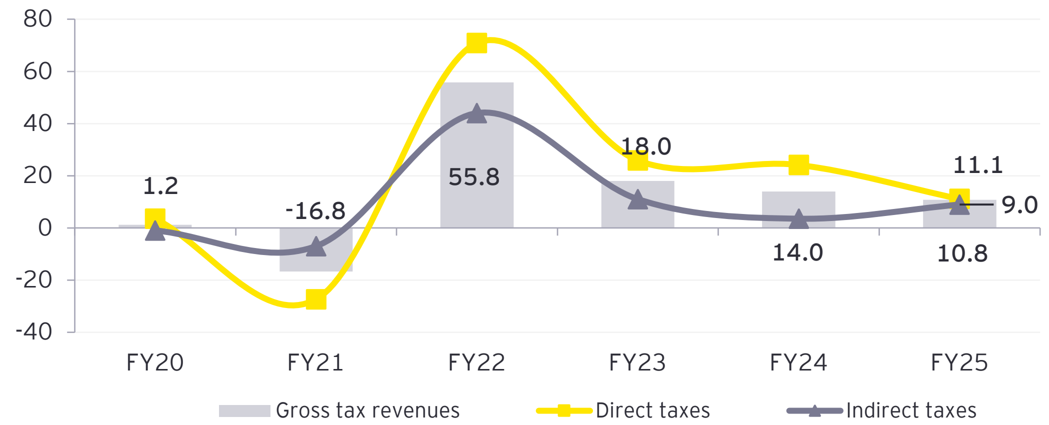
[2] Core CPI inflation is measured in different ways by different organizations. Here, it has been calculated by excluding food, and fuel and light from the overall index.

3 Fiscal: GoI's capital expenditure during April-October FY25 contracted by (-)14.7%

3.1 Tax and non-tax revenues

- As per the CGA, GoI's GTR[(b)] showed a growth of 10.8% during April-October FY25 as compared to 14.0% during the corresponding period of FY24 **(Chart 4).** GTR during April to October as a percentage of annual BE stood at 52.9% in FY25, marginally higher than the three-year average of 52.0% during FY22 to FY24 based on actual data.
- Direct taxes[(a)] showed a growth of 11.1% while indirect taxes[(a)] grew by 9.0% during April-October FY25. The corresponding growth rates in FY24 were at 24.1% and 3.5% respectively.
- Growth in CIT revenues remained positive at 1.2% during April-October FY25, although remaining significantly lower than 17.4% witnessed during the corresponding period of FY24.
- PIT revenues continued to show a robust growth of 20.2% during the first seven months of FY25, as compared to 31.1% in the corresponding period of FY24.
- Among indirect taxes, GoI's GST revenues[(c)] grew by 12.0% during April-October FY25, higher than 8.4% during the corresponding period of FY24.
- Union excise duties (UED) grew at a marginally positive rate of 0.6% during April-October FY25 after showing a contraction for two successive years at (-)18.8% and (-)9.3% during the corresponding periods of FY24 and FY23, respectively.
- Customs duties grew by 6.2% during April-October FY25, higher than 1.2% witnessed during the corresponding period of FY24.

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



GoI's GTR showed a growth of 10.8% during April-October FY25 with growth in direct taxes at 11.1% and that in indirect taxes at 9.0%.

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.

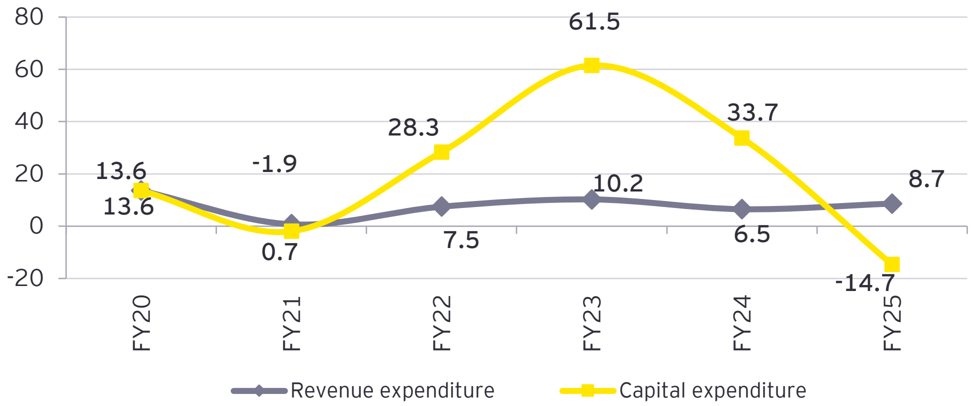
- GoI's non-tax revenues showed a high growth of 50.2% during the first seven months of FY25, owing to substantially higher dividends by the RBI. GoI's dividends and profits during this period at INR2,64,278 crore stood at 91.4% of the FY25 (BE) at INR2,89,134 crore.
- Non-debt capital receipts of the GoI during April-October FY25 stood at 24.1% of the annual BE, much lower than the three-year average ratio at 45.9% during the corresponding period in FY22 to FY24 based on actual data.
- As per the Department of Investment and Public Asset Management (DIPAM)[3], GoI's disinvestment receipts as of 19 December 2024 were at INR8,625.05 crore, amounting to 17.3% of the FY25 BE at INR50,000 crore.

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

3.2 Expenditures: Revenue and capital

- GoI's total expenditure showed a low growth of 3.3% during the first seven months of FY25 as compared to a growth of 11.7% during the corresponding period of FY24. GoI's total expenditure during April-October FY25 stood at 51.3% of FY25 BE, marginally higher than the last three-year average at 51.1% based on actual data.
- GoI's revenue expenditure showed a low growth of 8.7% during April-October FY25, although higher as compared to a growth of 6.5% witnessed during April-October FY24.
- GoI's capital expenditure showed a contraction of (-)14.7% during April-October FY25, unlike the last three years, which showed an average growth of 41.2% **(Chart 5)**. Capital expenditure during this period stood at 42.0% of FY25 BE, lower than the last three-year average at 52.0% based on actual data.

Chart 5: Growth in central expenditures during April-October (%, y-o-y)



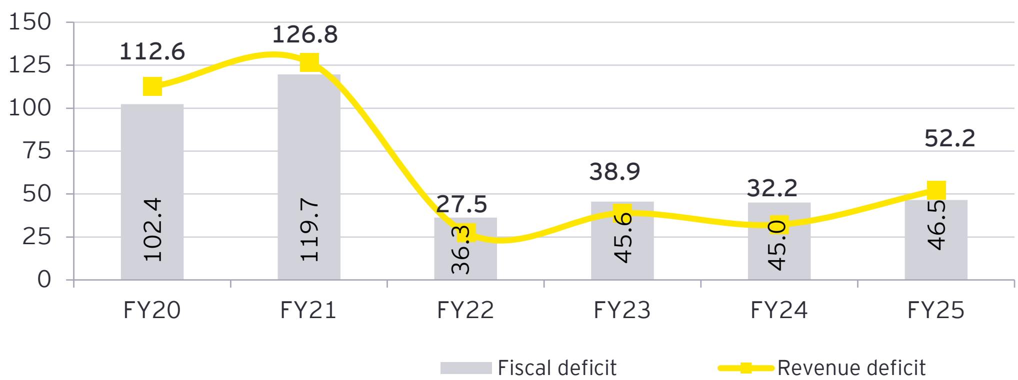
Source (basic data): Monthly Accounts, CGA, Government of India

GoI's total expenditure showed a low growth of 3.3% during April-October FY25, with revenue expenditure growing by 8.7% and capital expenditure contracting by (-)14.7%.

3.3 Fiscal imbalance

- GoI's fiscal deficit during April-October FY25 was at a low level of 46.5% of the FY25 BE owing to substantially enhanced non-tax revenues, a contraction in capital expenditure, and a strong growth in GoI's PIT revenues. In comparison, GoI's fiscal deficit as a proportion of BE was 45.0% during April-October FY24 **(Chart 6)**.
- GoI's revenue deficit during April-October FY25 also stood at a low level of 52.2% of FY25 BE as compared to 32.2% during the corresponding period of FY24.

Chart 6: Fiscal and revenue deficit during April-October as a percentage of BE



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

GoI's fiscal and revenue deficits during April-October FY25 stood at low levels of 46.5% and 52.2% of their respective annual BEs.

4 Comparative trends: IMF projected India's current account deficit at 1.1% of GDP in FY25

4.1 Volume of exports of goods and services

- According to the IMF (World Economic Outlook, October 2024), growth in the volume of exports of goods and services at the global level is projected to recover from 0.8% in 2023 to 3.2% in 2024, reflecting lower inflation and easing monetary policies leading to higher consumption and investment demand.
- Advanced economies (AEs) and Emerging Market and Developing Economies (EMDEs) are both projected to witness an improvement in growth to 2.5% and 4.6% in 2024 from 1.0% and 0.6% respectively in 2023.
- Among AEs, the IMF projects growth in export volumes to remain nearly stable in the US, turn positive in the Euro area, and ease in Japan in 2024 from their respective levels in 2023 **(Table 2)**. UK is the only country showing a contraction in export volumes in 2024, although at a slowing pace as compared to that in 2023.
- Among EMDEs, India and China are likely to show higher growth in their export volumes in 2024 as compared to 2023. After suffering a sharp contraction in 2023 due to lower global prices and sharply lower gas exports to Europe, growth in export volumes in Russia are projected to turn positive, partly due to favorable base effect.
- Owing partly to falling commodity prices, Brazil is projected to see a milder growth of 2.9% in its export volumes in 2024 as compared to 9.5% in 2023. In the case of South Africa, the IMF estimates growth in export volumes to remain positive at 3.5% in 2024, declining from 3.7% in 2023.

Table 2: Volume of exports of goods and services (% change)

Country/Region	2023	2024	2025	2026	2027	2028	2029
World	**0.8**	**3.2**	**3.4**	**3.5**	**3.3**	**3.4**	**3.3**
AEs	**1.0**	**2.5**	**2.7**	**3.0**	**2.9**	**2.9**	**2.9**
US	2.8	2.7	2.5	2.9	2.9	2.9	2.9
UK	-2.2	-0.7	1.1	1.2	1.5	1.2	1.5
Euro area	-0.2	1.6	2.3	2.9	3.0	2.8	2.8
Japan	3.0	1.2	2.7	2.1	1.7	1.6	1.4
EMDEs	**0.6**	**4.6**	**4.6**	**4.3**	**4.0**	**4.0**	**3.9**
Brazil	9.5	2.9	4.9	3.4	3.4	3.4	3.4
Russia	-13.8	4.8	6.0	5.0	5.0	4.6	4.6
India*	0.4	3.5	4.1	3.8	3.7	3.7	3.6
China	1.8	8.4	3.7	3.0	3.0	3.0	3.0
South Africa	3.7	3.5	3.6	3.7	3.7	3.7	3.7

Source (basic data): IMF World Economic Outlook (October 2024)

*Data pertains to fiscal year

4.2 Current account balance

- In IMF's assessment, overall current account surpluses for AEs and EMDEs are expected to widen and narrow respectively by 0.2% points of GDP each in 2024. In the medium-term, current account balances are projected to ease globally (Table 3), supported by a moderation in commodity prices and fiscal consolidation efforts in current account deficit (CAD) countries.
- In 2023, external sector, including current account balances of countries, turned stable owing to moderating commodity prices and receding pandemic factors contributing to increasing savings and investment.
- Within EMDEs, CADs are projected to increase gradually for India and South Africa while the surplus for Russia and China are forecasted to narrow over the medium term. In the case of Brazil, CAD is projected to increase initially and peak at 1.8% in 2025, and subsequently moderate to 1.6% by 2029.
- In India, reflecting buoyant services exports and steady oil prices, the CAD is, at (-)1.1% of GDP, expected to remain smaller than its estimated norm (2.3%) in FY25 (2024), but converge to it over the medium term.
- Russia's current account surplus is forecasted to increase slightly in 2024 from its level of 2.5% in 2023. In China, the IMF attributes the narrowing of the current account surplus to 1.4% in 2023 largely to a slowing of exports due to declining global demand. It is expected to remain at the same level in 2024.
- As per the IMF, risks to the outlook are sizable and tilted toward a widening balance. These include a divergence from projected medium-term fiscal consolidation plans, increasing geopolitical fragmentation, global spillovers from a prolonged real estate slowdown in China, and renewed commodity price spikes amid regional conflicts.

Table 3: Current account balance (% of GDP)

Country/Region	2023	2024	2025	2026	2027	2028	2029
AEs	**0.2**	**0.4**	**0.4**	**0.4**	**0.5**	**0.6**	**0.6**
US	-3.3	-3.3	-3.1	-2.8	-2.5	-2.3	-2.1
UK	-2.0	-2.8	-2.8	-2.8	-2.6	-2.6	-2.5
Euro area	1.6	2.6	2.4	2.3	2.3	2.3	2.3
Japan	3.6	3.8	3.6	3.5	3.4	3.3	3.1
EMDEs	**0.6**	**0.4**	**0.3**	**0.1**	**0.1**	**0.0**	**-0.2**
Brazil	-1.0	-1.7	-1.8	-1.8	-1.7	-1.6	-1.6
Russia	2.5	2.7	2.6	2.5	2.3	2.1	1.7
India*	-0.7	-1.1	-1.3	-1.6	-1.8	-2.0	-2.2
China	1.4	1.4	1.6	1.5	1.4	1.3	1.2
South Africa	-1.6	-1.6	-1.9	-2.0	-2.1	-2.1	-2.2

Source (basic data): IMF World Economic Outlook (October 2024)
Note: *Data pertains to fiscal year; -ve indicates a deficit and +ve indicates a surplus; As per IMF, 2023 (https://shorturl.at/QFE6m), the estimated norm of CAD for India is 2.3% of GDP

5 In focus: Building a fiscal architecture for Viksit Bharat (Part 2): Recasting fiscal responsibility framework

5.1 Introduction

India's journey towards subjecting GoI and the state governments to fiscal responsibility legislations started way back in 2003, with the central government enacting a Fiscal Responsibility and Budget Management Act (FRBMA) followed by corresponding rules announced in 2004. Although a few state governments had enacted their fiscal responsibility legislations (FRLs) a year or two earlier, most of them enacted their legislations during 2005-08 following the recommendations of the Twelfth Finance Commission (FC12) who had linked a major debt relief scheme to state governments undertaking FRLs, subject to providing certain minimum conditions. The GoI improved its debt and deficit profiles, but these improvements were punctured time and again by global economic crisis. The state governments were relatively more successful but partly because of a tangible increase in fiscal transfers 2015-16 onwards. GoI's FRBMA was amended in 2018. However, this amendment is characterized by a number of issues. This amendment envisaged an asymmetric allocation of total government debt-GDP ratio between GoI and the states in the ratio of 40:20 while it implicitly provided a symmetric allocation of fiscal deficit of 3% of GDP each for the GoI and the states. This is an inconsistent combination as long as the underlying nominal GDP growth is the same for the aggregate of the GoI and states. Further, this amendment gave up the target for achieving a revenue account balance, which was the main feature of the 2003 Act. There is a need to bring this provision back with a view to ensuring that the overall saving rate in India is consistent with the potential real GDP growth rate of around 7%, which would be well served by government dissaving being kept to zero.

Governments' fiscal interventions in the economy matter both for short-term and long-term growth. In the short-term, fiscal policy can potentially play a macro-stabilizing role by minimizing the departure of actual from potential growth. In the long run, the potential growth can itself be uplifted by government's contribution to overall investment and aggregate savings. In light of India's pursuit to become Viksit, that is becoming a developed nation, it is time to recast India's fiscal responsibility framework[4].

5.2 Evolution of fiscal responsibility framework in India

GoI's 2003 FRBMA and rules

The central government had enacted its FRBMA in 2003. This Act has been amended a number of times since its inception. In the 2003 Act, in its introduction itself, for macroeconomic stability (and growth), 'achieving sufficient revenue surplus' was mentioned as an objective. Clause 4 (1) provided '*The central government shall take appropriate measures to reduce the fiscal deficit and revenue deficit so as to eliminate the revenue deficit…and thereafter build up adequate revenue surplus*.' Clause 5 (1) provided that '*the central government shall not borrow from the Reserve Bank*', thereby ruling out any monetization of fiscal deficit. Under the related Rules notified in 2004, under Clause 3 (2), it was indicated that '*fiscal deficit is brought down to not more than 3 per cent of GDP*'. In the 2003 FRBMA, it was achieving revenue account balance or surplus, which was provided for in the Act, indicating its primary importance. The fiscal deficit target of 3% was specified only in the Rules. No limit was prescribed with respect to debt or liabilities either in the Act or in the Rules. Clause 4 (2) (b) called for specifying an annual target for total liabilities to be specified under the Rules. However, no target for total liabilities was specified under the Rules. There was some specification of a limit on increment in liabilities. The related clause appears to be anomalous[5].

Table 4 indicates the major landmarks in the evolution of union government's Fiscal Responsibility and Budget Management Act (FRBMA) since its inception in 2003. In the Union Budget of FY13, the concept of 'effective revenue deficit' was introduced which, in a way, diluted the importance of achieving balance on revenue account.

The 2018 Amendment to the FRBMA was introduced as Part XV of the 2018 Finance Bill[6]. In the 2018 Amendment, the target of revenue account balance was dropped. The targets for government debt were specified for GoI and

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[4] 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 (*covered in the November 2024 edition of EY Economy Watch* - http://surl.li/eyyeed) (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 edition we focus on the second dimension namely recasting fiscal responsibility framework.

[5] The relative Clause under the Rules stated 'The Central Government shall not assume additional liabilities (including external debt at current exchange rate) in excess of 9% of GDP for the financial year 2004-2005 and in each subsequent financial year, the limit of 9% of GDP shall be progressively reduced by at least 1% point of GDP.' Additional liabilities or increment in liabilities should be considered equivalent to fiscal deficit. The Rules specify the limit of fiscal deficit at 3% of GDP. Then why did it call for additional liabilities of 9% of GDP for 2004-05. The fiscal deficit, that is, increment in liability in 2003-04 and 2004-05 was 6.3% of GDP each for the GoI. There was no need to mention 9%. If it was to be reduced by 1% points every year, then the fiscal deficit is supposed to be reduced to zero in nine years. The Rules also did not say what happens to fiscal deficit after achieving a level of 3% of GDP in 2007-08. There was no need for it to stop at 3%. There should have been greater clarity in specifying the targets.

[6] https://www.indiabudget.gov.in/budget2018-2019/ub2018-19/fb/bill.pdf; *207. In the Fiscal Responsibility and Budget Management Act, 2003 (hereafter in this Part referred to as the principal Act), in the long title, the words "achieving sufficient revenue surplus and" shall be omitted.*

general government at 40% and 60% of GDP respectively, and by implication for state governments at 20%. This Amendment also provided for deviation from the 3% fiscal deficit to GDP target subject to certain conditions specified in the fourth section of Clause 210.

Table 4: Key features of the FRBMA Amendment (2018)

Year	Change	Comments
April 2018	FRBM Act amended	Debt targets for central and general government at 40% and 60% of GDP by end 2024-25; limit fiscal deficit to 3% of GDP by 31 March 2021; revenue deficit target given up
April 2018	FRBM rules amended	Union government's fiscal deficit – annual reduction margin of 0.1% or more of GDP.

Source (basic data): Department of Economic Affairs, Ministry of Finance, Government of India

FC12 recommendations

Underlying analytical framework

The FC12, in its report submitted in 2004, provided the analytical framework for determining sustainable level of government debt and fiscal deficit by linking it to three key macroeconomic parameters namely growth rate, interest rate, and ratio of revenue receipts to GDP/GSDP. The sustainability targets were alternatively specified in terms of primary deficit or fiscal deficit or interest payments relative to the GDP/GSDP. These were also indicated for general government, central government, the aggregate of state governments, and individual state governments. As such, the FC12 report provided a comprehensive framework for determining fiscal sustainability targets. The FC12 report also highlighted the link between government revenue deficit and government dissavings. The logical structure for deriving sustainability conditions proceeded as follows.

As the first step, the fiscal deficit to GDP ratio is derived from the saving-investment profile of the economy. In particular, the supply of surplus savings emanates from the household sector in the form of household financial savings, which is then absorbed by three deficit sectors where investment demand is in excess of their own savings. These three sectors are government sector, non-government public sector, that is excluding administrative departments and the private corporate sector. The net supply of investible resources is the sum of household financial savings and the net inflow of foreign capital. Fiscal deficit constitutes the first claim on this supply of investible resources. Once fiscal deficit is specified, the balance becomes available for the remaining sectors, namely, non-government public sector and private corporate sector.

Once the fiscal deficit to GDP ratio is determined in this framework, given nominal GDP growth and effective interest rate, the level of debt relative to GDP can be derived such that a sustainable combination of fiscal deficit and debt is determined. Since fiscal deficit is the sum of primary deficit and interest payments, the same sustainability conditions can be written in alternative ways, as explained below.

FC12 has given three alternative ways of writing sustainability conditions for any level of government.

Variable description:

b^* = sustainable level of debt relative to GDP/GSDP for any government entity

f^* = sustainable level of fiscal deficit relative to GDP/GSDP for any government entity

p^* = sustainable level of primary deficit relative to GDP/GSDP for any government entity

g = nominal GDP/GSDP growth depending on central or state government

i = effective nominal interest rate

rr = revenue receipts relative to GDP/GSDP

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210. For section 4 of the principal Act, the following section shall be substituted, namely:
"4.(1) The Central Government shall,–– (a) take appropriate measures to limit the fiscal deficit upto three per cent. of gross domestic product by the 31st March, 2021;
(b) endeavour to ensure that–– (i) the general Government debt does not exceed sixty per cent.; (ii) the Central Government debt does not exceed forty per cent., of gross domestic product by the end of financial year 2024-2025;
(2)…. Provided that exceeding annual fiscal deficit target due to ground or grounds of national security, act of war, national calamity, collapse of agriculture severely affecting farm output and incomes, structural reforms in the economy with unanticipated fiscal implications, decline in real output growth of a quarter by at least three per cent. points below its average of the previous four quarters, may be allowed for the purposes of this section.
(3) Any deviation from fiscal deficit target under sub-section (2) shall not exceed one-half per cent. of the gross domestic product in a year.
(4) The Central Government shall, in case of increase in real output growth of a quarter by at least three per cent. points above its average of the previous four quarters, reduce the fiscal deficit by at least one-quarter per cent. of the gross domestic product in a year.
(5) Where the fiscal deficit is allowed to vary from the target prescribed under the proviso to sub-section (2) or deviation is initiated under sub-section (4), a statement explaining the reasons thereof and the path of return to annual prescribed targets under this section shall be laid, as soon as may be, before both the Houses of Parliament."

ip^* = sustainable level of interest payments relative to GDP/GSDP for any government entity

ipr^* = sustainable level of interest payments relative to revenue receipts for any government entity where $ip^* = ipr^* * rr$

The following conditions describe sustainable combinations of debt and primary deficit (equation 3), debt and interest payments (equation 4), and debt and interest payments relative to revenue receipts (equation 5). Equations 1, 2 and 6 are derived from these.

Equations

1. $\boldsymbol{b^* = f^*(1+g)/g}$
2. $\boldsymbol{f^* = p^*.g/(g-i)}$
3. $\boldsymbol{b^* = p^*.(1+g)/(g-i)}$
4. $\boldsymbol{b^* = ip^*.(1+g)/i}$
5. $\boldsymbol{b^* = ipr^*.rr.(1+g)/i}$
6. $\boldsymbol{f^* = ipr^*.rr.g/i}$

Using this framework, FC12 derived sustainable combinations of fiscal deficit and debt to GDP ratios for general, central and state governments with an underlying nominal GDP growth of 12%. Accordingly, FC12 specified the following targets (Table 5).

Table 5: FC12 fiscal sustainability targets

Tier of government	FC12		
	Debt	Fiscal deficit	Revenue deficit
Union government	28%	3%	Balance or surplus
State	28%	3%	Balance or surplus
Combined	56%	6%	Balance or surplus

Source (basic data): FC12 report

An important principle highlighted by FC12 was that of symmetry in the debt and fiscal deficit targets for the central and state governments. This symmetry was disturbed in the 2018 Amendment to GoI's FRBMA. Any change in nominal GDP/GSDP growth rates and effective interest rates would call for a redetermination of the sustainable fiscal deficit and debt combinations.

FC12 also indicated that individual states may adopt fiscal deficit and debt-GSDP combinations of 3% and 28%, respectively. In this case all states will have similar targets. However, if the states chose, they could also define their targets in terms of debt and interest payments relative to revenue receipts. In this case, their respective FRLs may imply different combinations of debt and fiscal deficit relative to GDP[7].

History of state adoption of FRLs

The FC12 proposed a major debt relief program for the state governments provided they enacted state specific fiscal responsibility legislations (FRLs) subject to certain minimum provisions. Over time, all state governments enacted their FRLs. From 2002 to 2007 FRLs were implemented by 26 states, and in 2010, by West Bengal and Sikkim. Table 6 summarizes this progress.

[7] For further discussion see Srivastava, D.K., Bharadwaj, Muralikrishna, Kapur, Tarrung & Trehan, Ragini (2024) (*forthcoming*), Assessing Finance Commission's Revenue Deficit Grants: normative assessment of interest payments. *Accepted for publication in July 2024 edition of The Indian Journal of Economics.*

Table 6: State-wise adoption of FRLs: A time profile

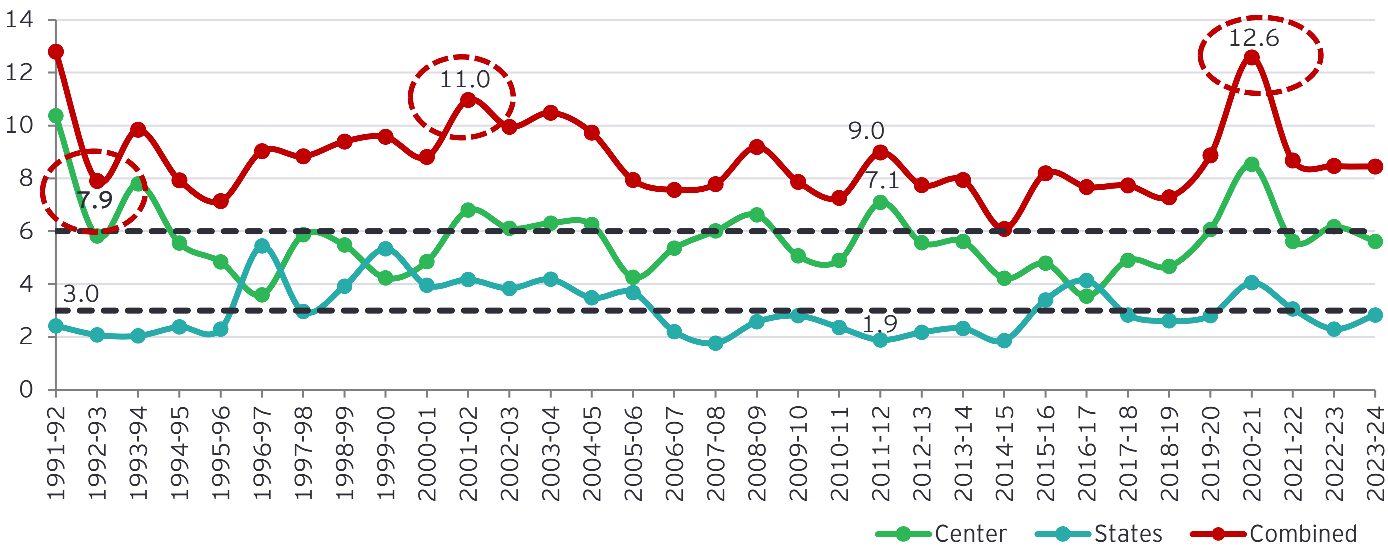
Period	States	Period	States
2002-03	Karnataka	2006-07	Bihar, Goa, Jammu and Kashmir, Mizoram
2003-04	Tamil Nadu, Kerala, Punjab, Uttar Pradesh	2007-08	Jharkhand
2004-05	Gujarat	2009-10	Nagaland
2005-06	Maharashtra, Himachal Pradesh, Rajasthan, Madhya Pradesh, Andhra Pradesh, Odisha, Tripura, Haryana, Manipur, Chhattisgarh, Assam, Uttarakhand, Arunachal Pradesh, Meghalaya	2010-11	West Bengal, Sikkim

Source: State Finances: A Study of Budgets, RBI, 2015.

5.3 Assessment of success of FRLs in India

The GoI enacted its FRBMA in 2003 with a view to bringing the GoI's fiscal deficit and debt to sustainable levels. It succeeded in achieving the specified FRBM 2003 targets of revenue account balance and fiscal deficit below 3% of GDP only in one year, namely 2007-08 on the basis of official or budgeted figures of fiscal deficit. However, when fiscal deficit is derived as the increment in outstanding debt of the government, including its external debt evaluated at market exchange rates, the GoI does not appear to have achieved the 3% fiscal deficit target even once (Chart 7). The revenue deficit target was formally given up in the 2018 amendment of FRBMA. The fiscal deficit to GDP target was made an operational target, whereas debt-GDP ratios of 40% for the GoI and 60% on the combined account of GoI and state governments were specified as the statutory targets. After 2003, the global and Indian economies faced two major crises, one during 2007-08 in the form of global economic and financial crises and another in 2020-21 due to the unanticipated impact of COVID. In both cases, the central government had to play a major macro-stabilizing role that called for substantive fiscal stimuli forcing the GoI to borrow much in excess of the indicated annual fiscal deficit limits. The 2020-21 crisis was far more serious in terms of its economic impact and the stimulus was also much bigger. Chart 7 shows the fiscal deficit to GDP ratio of the GoI, state and combined governments that are based on fiscal deficit derived as change in annual debt relative to GDP.

Chart 7: Fiscal deficit to GDP ratio of the union government, states and combined government



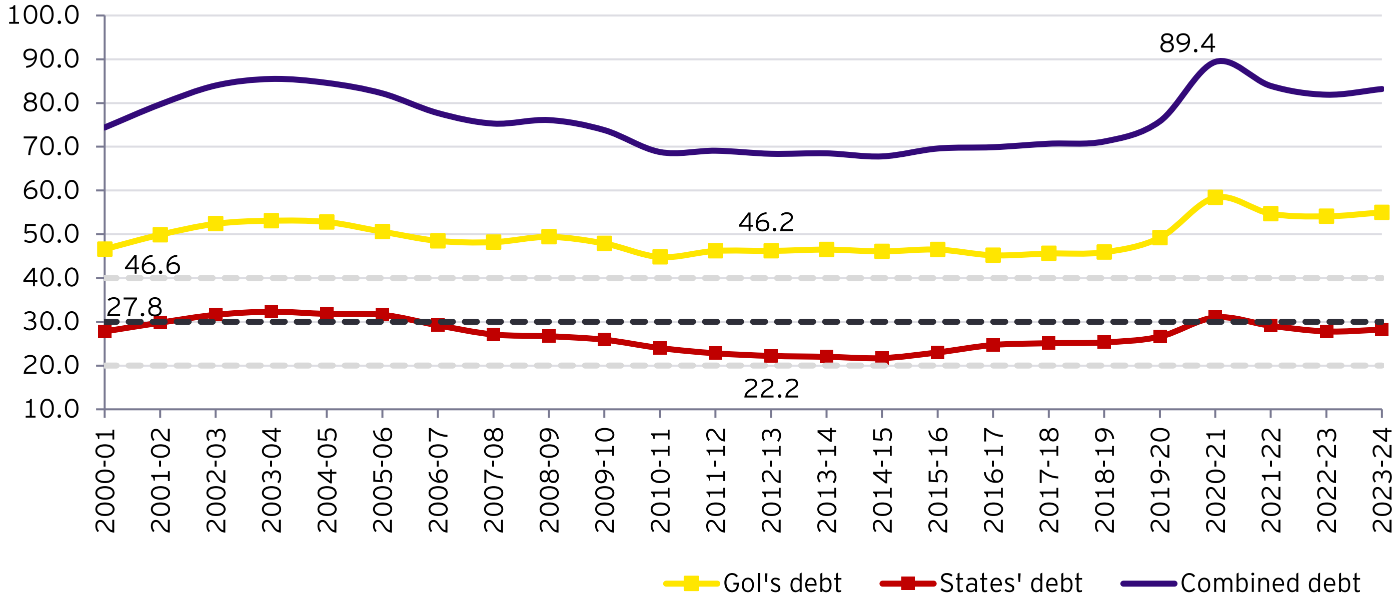
Source: IPFS, RBI, Union Budgets, CGA, and MoSPI
Note: Debt is evaluated in market exchange rate terms; Center's fiscal deficit and debt excludes net on-lending to states.

In the context of debt, we may consider two sets of benchmarks. According to GoI's FRBMA 2018, it is 40% and 20% of GDP for the GoI and states, respectively. FC12 considered a symmetrical debt target of 28% of GDP for both GoI and state governments. In a recent work (Srivastava et al., 2021[8]), it was pointed out that the debt-GDP combination of 40% and 20% is not a valid one if the fiscal deficit to GDP target is equal for both the union government and states at 3%.

[8] Srivastava, D.K., Bharadwaj, M., Kapur, T., & Trehan, R. (2021). Covid's Economic Impact: Should India Recast its Fiscal and Monetary Policy Frameworks?: *Journal of International Economics and Finance. 1(1),* 63-81

However, as Chart 8 indicates, GoI has kept missing its debt target, whether 40% or 28% of GDP, year after year, and states have achieved it almost always.

Chart 8: Combined, states' and union government's debt as a % of GDP

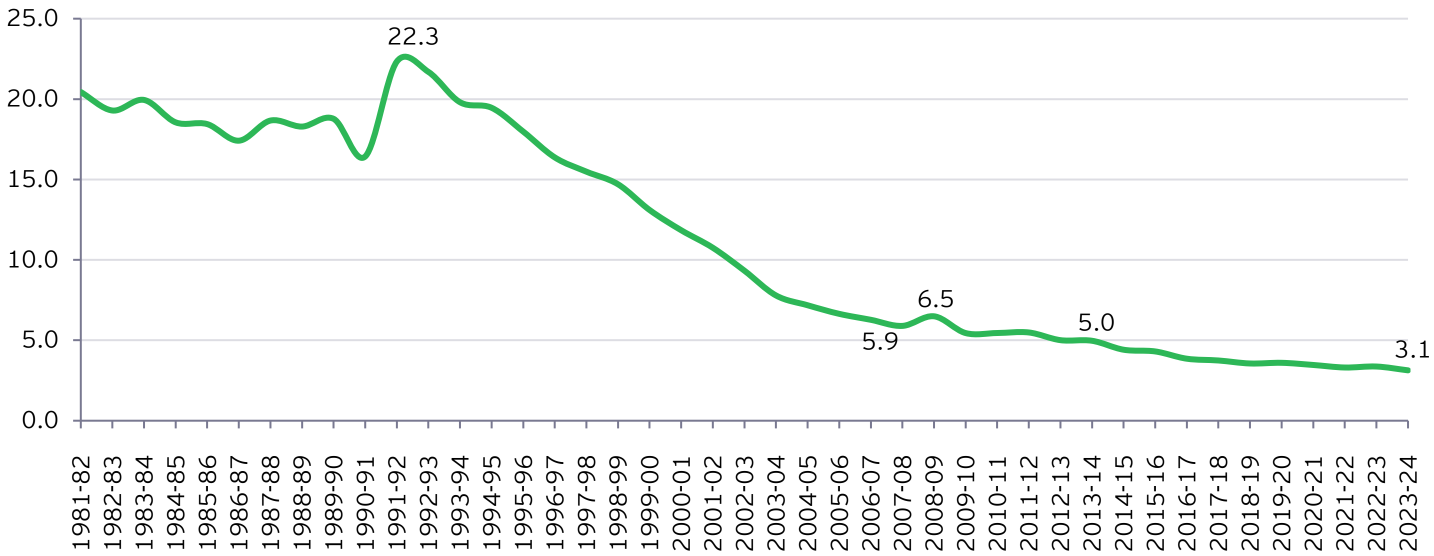


Source (basic data): MoSPI and RBI

5.4 Recasting fiscal responsibility framework for Viksit Bharat

Changed empirical conditions, new aggregate and sectoral investment and saving profiles, and projected profiles of nominal GDP and effective interest rates call for a modified fiscal responsibility framework. This framework should consider the profile of saving-investment rates in India, linking these to India's potential growth rate. It should also consider the financing of government borrowing and debt and the related effective interest rates. We take note of two important trends in this context. First, there has been a fall in the share of external debt in total government debt over time[9]. Second, there has been a fall in the aggregate nominal saving and investment rates. Chart 9 shows the share of government external debt in total government debt. It is seen that from a peak of 22.3% in FY1992, this share has steadily fallen to 3.1% in FY2024.

Chart 9: Share of government external debt in government's total debt (%)



Source (basic data): RBI

[9] Amongst both GoI and states, only the GoI is allowed to borrow from external sources, that is, incur liabilities in non-INR terms.

Table 7: Key dimensions of government external debt

	Total external debt	Government external debt	Government external debt as % of total external debt	Effective interest rate on total external debt	Effective interest rate on government external debt	Government interest payment on external debt as % of government total interest payment
	US$ billion		%	%	%	% of Total
	(1)	(2)	(3)	(4)	(5)	(6)
FY95	99.0	58.4	59.0	4.5	2.0	6.70
FY00	98.3	46.9	47.7	4.6	2.4	4.42
FY10	260.9	67.1	25.7	2.5	1.4	1.14
FY11	317.9	78.1	24.6	2.3	1.1	0.90
FY12	360.8	81.9	22.7	2.7	0.9	0.87
FY13	409.4	81.7	19.9	3.0	0.9	0.88
FY14	446.2	83.7	18.8	2.7	0.8	0.72
FY15	474.7	89.7	18.9	2.8	0.7	0.64
FY16	484.8	93.6	19.3	2.8	0.7	0.60
FY17	471.0	95.8	20.3	2.8	0.8	0.71
FY18	529.3	111.9	21.1	3.1	1.0	0.73
FY19	543.1	103.8	19.1	3.3	1.0	0.90
FY20	558.4	100.9	18.1	3.4	1.7	1.35
FY21	573.7	111.6	19.5	2.8	3.4	2.45
FY22	619.1	130.8	21.1	2.6	2.6	1.77
FY23	624.1	133.3	21.4	3.2	1.8	1.40
FY24	663.8	148.7	22.4	4.3	3.2	2.25

Source (Basic data): RBI, MoSPI, various editions of IPFS and India's External Debt: A Status Report

Table 4 highlights that the share of government external debt in total external debt of India has fallen from 59% in FY1995 to 22.4% in FY2024 (Col (3)), indicating that nearly 80% of external debt is now being accessed by the private sector. Column (6) shows that correspondingly, government interest payment on external debt as percentage of total government interest payment has also fallen from 6.7% in FY1995 to 2.25% in FY2024.

5.5 Saving-investment ratios and India's potential GDP growth

The recasting of fiscal responsibility framework must be placed in the broader perspective of India's potential GDP growth. It is the availability of domestic savings supplemented by net inflow of foreign capital that provides the investible resources which combined with incremental capital-output ratio (ICOR) determines India's potential growth.

In the cross-country sample, we have considered the relevant averages of per capita GDP and saving rate 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. Chart 10 shows that in a multi country-context, India's saving rate should have been 20.1% if India were to be placed on the trend line. However, India's actual nominal saving rate[10] averaged 29.5%, close to its current level, implying that India enjoys a demographic dividend[11]-cum-cultural premium of 9.4% points. This is what explains India's ability to reach and sustain the position of a global growth leader at present. Assuming that this premium is maintained even as India reaches a higher per capita GDP level of US$14,005[12] (natural log of this is 9.5), consistent with a developed country status, India should have a nominal saving rate of 33.5% at the time it reaches a Viksit status.

In order to convert this nominal savings rate into real investment rate, which can then be used for determining the potential growth rate, two steps are involved: first, augmenting nominal saving rate into nominal investment rate by the addition of net inflow of capital from abroad. Assuming this to be 2% points of GDP, a nominal investment rate of 35.5% may be estimated. Second, when nominal investment rate is translated into real investment rate, we need to recognize another premium that India presently enjoys. This premium of approximately 3% points of GDP arises due to differential deflators for investment goods vis-à-vis consumption goods. Adding this to the nominal investment rate of

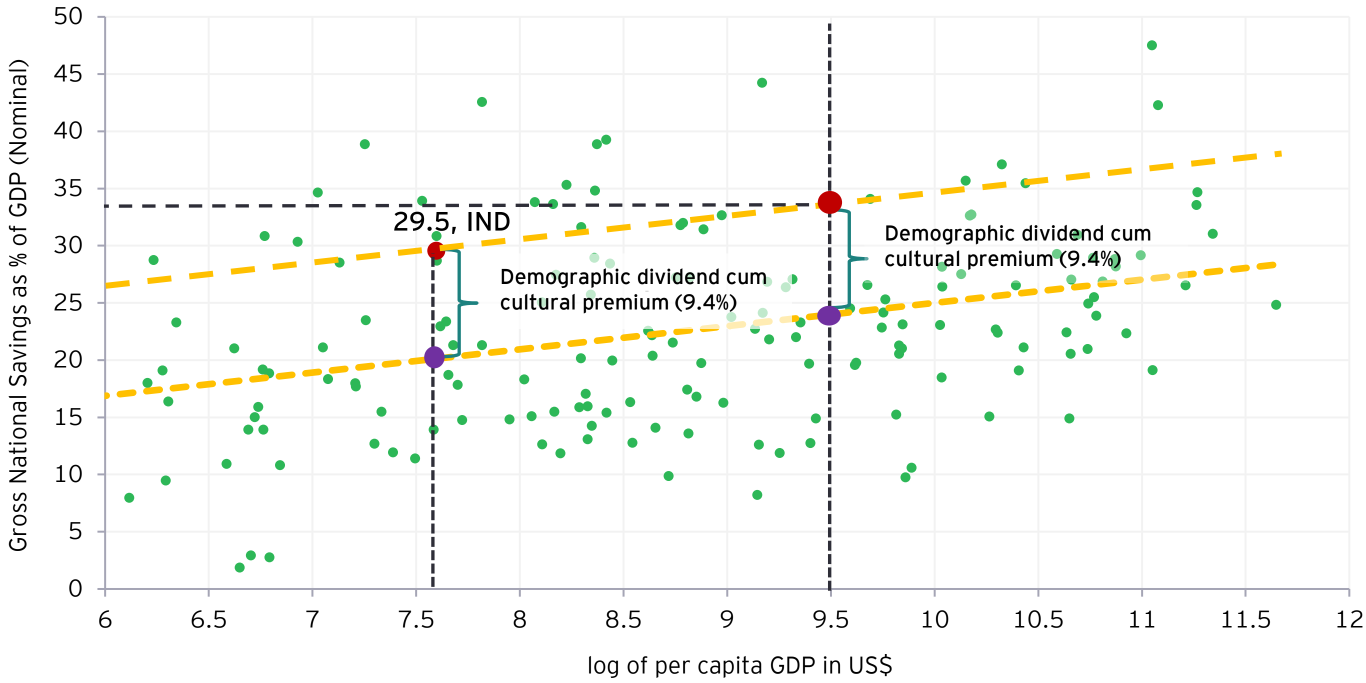
[10] Gross National Savings rate

[11] Srivastava, D.K., Bharadwaj, M., Kapur, T., Trehan, R. (2023). India's Economy in the Twenty-First Century: Role of State-Differentiated Demographic Dividend. In: Srivastava, D.K., Shanmugam, K.R. (eds) India's Contemporary Macroeconomic Themes. India Studies in Business and Economics. Springer, Singapore. https://doi.org/10.1007/978-981-99-5728-6_3

[12] 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 what should be India's nominal saving rate if it had a developed country status at present, that is, FY2024 (2023).

35.5%, a potential real investment rate of 38.5% may be estimated for Viksit Bharat. If an ICOR of 5.5 is applied, it will yield a potential real GDP growth rate of 7%.

Chart 10: Gross national savings as a % of GDP and per capita GDP



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

There are two reasons why we need to provide for a progressively increasing ICOR. First, as the share of manufacturing in output is increased, it would involve more capital-intensive technologies. Second, as the capital stock becomes aged, we have to provide for higher and higher obsolescence of capital.

It is also useful to decompose the aggregate saving rate of 33.5% into its sectoral composition and also link it to government's draft on available sectoral surplus savings.

Table 8 shows the profile of sectoral saving and investment rates from FY2012 onwards. In FY2023, household sector's financial savings at 5.3% of GDP have fallen tangibly below the historical average. This may, however, be temporary. Going forward, a household financial saving rate of 7% may be resumed. By FY2048, a level of household financial saving rate of 6.5% may be enough. Any shortfall in this may have to be made up by government's reliance on external financing. The private corporate sector has been saving in excess of 10%. Its investment has been slightly higher than its own savings rate (Table 9). However, in recent years, the private corporate sector saving rate has exceeded its investment rate, indicating that it has not been dependent on household sector financial saving to any significant extent. If the private corporate sector investment rate increases to about 11%, it may be effectively financed by its own savings. In the case of non-government public sector, the saving and investment rates also broadly match. If these relativities continue, then government fiscal deficit would be almost entirely financed by household sector financial savings. The composition of overall GFCF, in nominal terms, will be made up by investment by the household sector of 13.5%, private corporate sector of 11.0%, non-government public sector of 3% and government (administrative departments) of 6% of GDP in nominal terms. To convert this into real terms, the premium of approximately 3% points of GDP arising due to differential deflators for investment goods vis-à-vis consumption goods will need to be factored in, which would lead to a real GFCF rate of 36.5% of GDP. Accordingly, combined nominal GFCF of these four sectors will be proportionately increased by a factor of 36.5/33.5, that is about 1.1 to derive their magnitude in real terms. There would also be a difference between GCF and GFCF, amounting to 2% points of GDP in nominal terms to account for investment in change in stocks and valuables. In such a situation, for India to reach a Viksit status by FY48, none of the sectors require going through any major changes. The only change that we envisage is reducing government dissaving to zero, linked to achieving revenue account balance and increasing government investment rate to 6.0% of GDP in nominal terms.

Table 8: Sectoral savings and investment rates (Nominal)

	Savings rate						Net foreign capital inflows (derived)	Investment rate (GFCF)			
	HH physical	HH financial	Pvt corp	Non-govt public	Govt	Aggregate domestic savings		HH	Pvt corp	Non-govt public	Govt
2011-12	16.3	7.4	9.5	3.4	-1.8	34.6	4.3	15.7	11.2	3.9	3.5
2012-13	15.1	7.4	10.0	3.0	-1.6	33.9	4.8	14.6	11.8	3.6	3.4
2013-14	12.9	7.4	10.7	2.6	-1.5	32.1	1.7	12.5	11.7	3.6	3.5
2014-15	12.5	7.1	11.7	2.4	-1.4	32.2	1.3	12.1	11.0	3.5	3.5
2015-16	9.9	8.1	11.9	2.4	-1.2	31.1	1.0	9.4	11.9	3.8	3.6
2016-17	10.7	7.4	11.5	2.5	-0.8	31.3	0.6	10.3	11.0	3.2	3.7
2017-18	11.6	7.6	11.2	2.8	-1.2	32.1	1.8	11.3	10.2	3.1	3.6
2018-19	12.4	7.9	10.5	2.3	-1.4	31.7	2.1	12.1	10.3	3.5	3.5
2019-20	11.4	7.7	10.2	3.0	-2.8	29.6	0.8	11.2	10.8	3.0	3.5
2020-21	11.0	11.7	10.5	2.6	-6.7	29.1	-1.0	10.7	10.0	2.8	3.9
2021-22	12.8	7.3	11.2	2.8	-3.0	31.2	1.2	12.5	10.4	3.0	3.7
2022-23	13.2	5.3	11.2	2.9	-2.3	30.2	2.0	12.9	10.9	2.9	4.0
2047-48	13.0	6.5	11	3	0	33.5	2	13.5	11.0	3.0	6.0

Source: MoSPI, GoI

Table 9: Excess of savings over investment rate (Nominal)

	Investment rate					Excess of saving over investment			
	GFCF	CIS	Valuables	Discrepancies (derived)	GCF	HH	Pvt corp	Public non-govt	Govt
2011-12	34.3	2.4	2.9	-0.6	39.0	7.9	-1.8	-0.5	-5.3
2012-13	33.4	2.2	2.8	0.3	38.7	7.9	-1.8	-0.6	-5.0
2013-14	31.3	1.3	1.4	-0.2	33.8	7.8	-0.9	-1.0	-5.1
2014-15	30.1	2.5	1.7	-0.7	33.5	7.5	0.7	-1.1	-5.0
2015-16	28.7	1.9	1.5	0.0	32.1	8.6	0.0	-1.4	-4.8
2016-17	28.2	0.9	1.1	1.8	32.0	7.8	0.5	-0.7	-4.5
2017-18	28.2	1.4	1.4	2.9	33.9	8.0	1.0	-0.4	-4.8
2018-19	29.5	1.7	1.2	1.5	33.8	8.2	0.2	-1.3	-4.9
2019-20	28.5	0.7	1.0	0.3	30.4	8.0	-0.6	0.0	-6.3
2020-21	27.3	0.2	1.4	-0.7	28.2	12.0	0.5	-0.2	-10.5
2021-22	29.6	0.9	1.6	0.3	32.4	7.6	0.8	-0.1	-6.7
2022-23	30.7	1.0	1.2	-0.8	32.2	5.6	0.3	0.0	-6.3
2047-48	33.5	1.0	1.0	0.0	35.5	6.5	0.0	0.0	-6.0

Source: MoSPI, GoI

Accordingly, it is arguable that the GoI's FRBM should be recast in the following way:

1. Revenue account of the GoI and individual state governments should show balance or surplus. We envisage that there would be an increase in the tax-GDP ratio as India progresses towards a Viksit Status[13]. This increase should benefit both GoI and the state governments and should also facilitate keeping the revenue account in balance or in surplus.
2. Fiscal deficit target for the GoI should be set at 3% of GDP annually. Further, the GoI may be provided with a flexibility up to +/- 2% points of GDP in the fiscal deficit target for macro stabilization (i.e. a range of 1% to 5% of GDP). During slowdown years it may be increased up to 5% of GDP. However, in subsequent years, when the economy has normalized it should be brought down suitably so as to keep an average fiscal deficit level of 3% of

[13] Discussed at length in the November 2024 issue of EY Economy Watch

GDP. In case the crisis is much bigger, such as the Covid crisis, suitable variation in GoI's and states' fiscal deficit beyond the above range may be considered by an appropriate body such as a fiscal council which may be constituted either only to deal with that crisis or on a more permanent basis.

3. Individual state governments should also target 3% of GSDP as their annual fiscal deficit.
4. GoI debt and aggregate state debt should stabilize at 60% with each tier of government targeting 30% each, net of any on-lending from the GoI to the state governments. With an underlying nominal GDP growth of 11%, a combination of 60% of combined government debt and 6% of combined fiscal deficit of GoI and states would produce a stable solution.
5. Thus, both GoI and the aggregate of state governments should follow the golden rule and together ensure a minimum of 6% of GDP as annual capital expenditure.
6. Any temporary shortcoming in aggregate financial savings of the household sector can be made up by additional borrowing by the GoI from the external sector, since this component has come down significantly overtime.

5.6 Conclusions

GoI's FRBM norms should be recast. The combined debt-GDP ratio target should be retained at 60% but divided equally between GoI and states at 30% each. There is already a corresponding symmetry in the fiscal deficit targets that are kept at 6% for the combined fiscal deficit and 3% each for the fiscal deficits of the GoI and the aggregate of states.

The target emphasizing achieving a balance on revenue account, both for central and individual state governments, should be restored. This would lead to elimination of government dissavings, thereby facilitating achievement of a nominal saving rate of 33.5% and a real saving rate of 36.5%. Augmenting the nominal savings rate of 33.5% with a net inflow of foreign capital amounting to 2% of GDP would provide aggregate investible resources (GCF) in nominal terms amounting to 35.5% of GDP and in real terms at 38.5% of GDP. Assuming an incremental capital-output ratio (gross) of 5.5, this would translate to a real GDP growth of 7%.

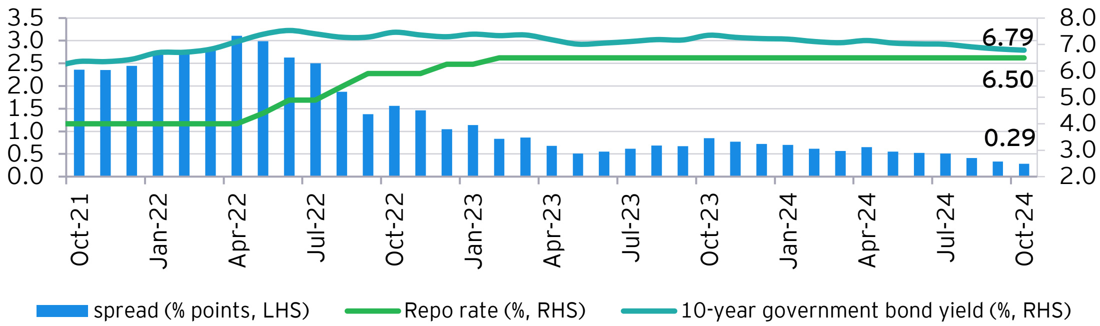
6 Money and finance: RBI retained the repo rate at 6.5% in December 2024

6.1 Monetary sector

Monetary policy

- The Monetary Policy Committee (MPC) retained the repo rate at 6.5% in its monetary policy review held on 6th December 2024 **(Chart 11).** Further, the MPC retained its policy stance as 'neutral' with an aim to align CPI inflation with its target, while also supporting growth.
- The RBI, however, to ease liquidity constraints in the system, announced the reduction in the CRR by 50 bps to 4.0% of net demand and time liabilities (NTDL) in two equal tranches of 25 bps each on 14 and 28 December 2024, respectively. In RBI's assessment, this reduction in CRR is likely to infuse liquidity amounting to INR1.16 lakh crore into the banking system.

Chart 11: Movements in the repo rate and 10-year government bond yield



Source: Database on Indian Economy, RBI

The RBI maintained the repo rate at 6.5% in its monetary policy review held on 6 December 2024. It, however, announced the reduction in CRR by 50 basis points in two equal tranches of 25 bps each on 14 and 28 December 2024, respectively.

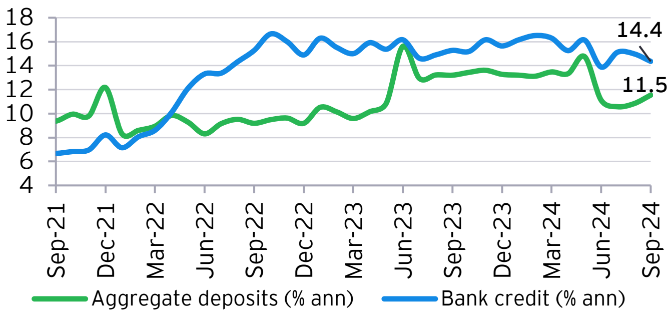
Money stock

- Growth in broad money stock (M3) [14] remained stable at 11.1% in November 2024, similar to its level in October 2024, due to higher growth in time deposits.
- Time deposits, the largest component of M3, grew by 12% in November 2024, its fastest pace since May 2024, improving from 11.6% in October 2024.
- Growth in narrow money (M1) however, moderated to 8.4% in November 2024 from 9.5% in October 2024 as higher growth in currency with the public fell to 5.8% in November 2024 from 6.7% in October 2024. Further, demand deposits, the second component of M1, also showed a relatively lower growth of 11% in November 2024 as compared to 12.4% in October 2024.

Aggregate credit and deposits

- Growth in gross bank credit moderated to a 29-month low of 12.8% in October 2024 from 14.4% in September 2024 **(Chart 12).**
- Non-food credit growth eased to 12.8% in October 2024 from 14.4% in September 2024 due to moderation in credit offtake across key sectors of the economy.
- Growth in personal loans fell to 15.8% in October 2024, its lowest level since March 2022. Within personal loans, housing loans, the largest component of personal loans (average share of 49% in total personal loans in the last five years) grew at a relatively slower pace of 17.8% in October 2024 as compared to 18.3% in September 2024. Similarly, vehicle loan growth also eased to a 31-month low of 11.4% in October 2024 from 13.3% in September 2024 and that in consumer durables fell to 6.6% in October 2024 from 8.6% in September 2024.
- Growth in agricultural credit fell to 15.5% in October 2024, its slowest performance since March 2023, from 16.4% in September 2024.

Chart 12: Growth in credit and deposits



Source: Database on Indian Economy, RBI

[14] 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), also moderated to a four-month low of 8.0% in October 2024 from 9.1% in September 2024.
- 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), showed a low growth of 1.6% in October 2024, falling from 2.1% in September 2024. Growth in credit to chemical and chemical products also slowed to 12.7% in October 2024 from 14.9% in September 2024.
- Credit to services, with an average share of 26.6% in total non-food credit (last five years), also showed a relatively lower growth of 14.1% in October 2024, its slowest growth since March 2022, as compared to 15.2% in September 2024.
- Growth in aggregate deposits improved for the third successive month to 11.7% in October 2024, although remaining close to its level of 11.5% in September 2024.

6.2 Financial sector

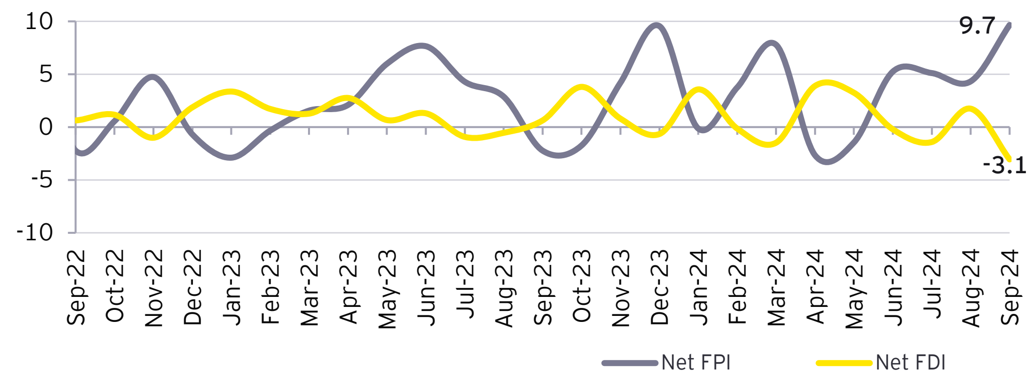
Interest rates

- As per the data released by the RBI in the first week of December 2024, the interest rate on term deposits with a maturity period of more than one year was retained for the third consecutive month to average 6.63% in November 2024, with the actual rates ranging between 6.00% and 7.25% during the month.
- Similarly, the average MCLR was at 8.30% for the third successive month in November 2024 as the actual MCLR ranged between 8.15% and 8.45% during the month.
- The yield on 10-year government bonds (benchmark) averaged 6.81 in November 2024, marginally higher as compared to 6.79% in October 2024 **(Chart 11)**. Benchmark bond yield averaged lower at 6.95% during April-November FY25 as compared to 7.17% during the same period of FY24.
- Reflective of increased cost of borrowing, the WALR on 'Fresh Rupee Loans' (FRL) by SCBs increased by 17 basis points to a six-month high of 9.54% in November 2024 from 9.37% in September 2024. During April-October FY25, WALR-FRL averaged higher at 9.43% as compared to 9.33% 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 13: Net FDI and FPI inflows (US$ billion)



Source: Database on Indian Economy, RBI

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.

- 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 trade deficit rose to a historic high of US$37.8 billion in November 2024

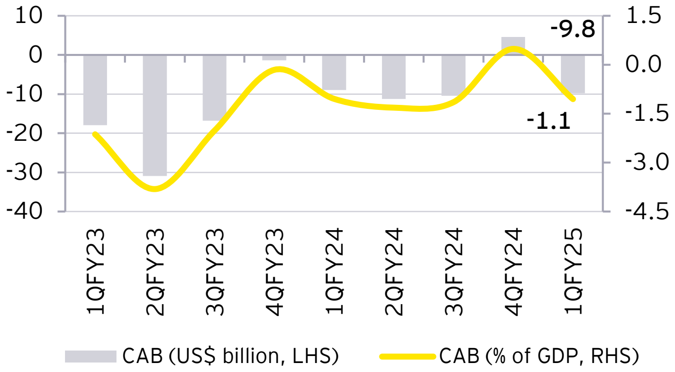
7.1 CAB was at (-)1.1% of GDP in 1QFY25 after showing a surplus of 0.5% in 4QFY24

- 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. Deficit on income account fell to an eight-quarter low of 1.2% of GDP in 1QFY25.

Table 10: 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 14: CAB



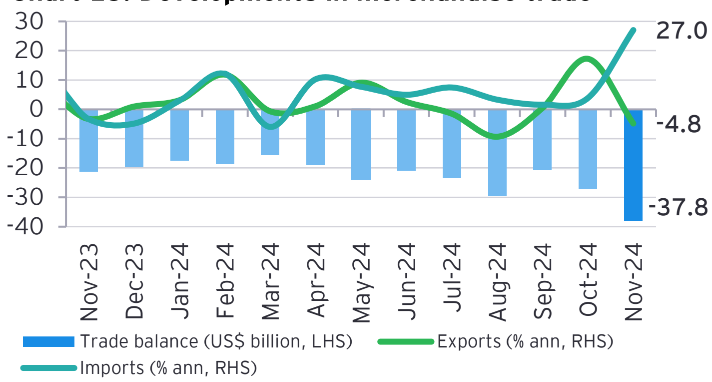
Source: Database on Indian Economy, RBI; Note: (-) deficit; (+) surplus; *invisibles include services, current transfers and income components

7.2 Merchandise trade and exchange rates

Growth in merchandise exports turned negative at (-)4.8% in November 2024 from 17.2% in October 2024 partly attributable to easing global economic activity. Growth in imports surged to a 27-month high of 27.0% in December 2024 mainly due to a sharp increase in gold imports.

- Contraction in oil exports accelerated to a 4-year high of (-)49.7% in December 2024 as global crude prices eased to their lowest level since August 2021.
- Slowing global demand was reflected in lower growth rates of exports of engineering goods, chemicals and readymade garments which fell to 13.7%, (-)4.1% and 9.8% respectively in November 2024 from 39.4%, 27.4% and 35.1% in October 2024. Electronic goods exports, however, grew at a strong pace of 54.7% in November 2024, higher than 45.7% in October 2024, largely reflecting year-end build-up of inventories.
- Gold imports grew by 331.4% in November 2024, their fastest pace in the post-Covid period. Demand for gold surged on account of wedding and festive season as well as from gold importers to build up inventories as gold prices fell. Iron and steel imports contracted by (-) 28.6% in November 2024 as compared to a growth of 0.7% in October 2024.
- Exports excluding oil, gold/silver and jewelry saw robust growth at 11.8% in November 2024, although lower than 27.7% in October 2024, while growth in imports of the same category rose marginally to 6.1% from 5.3% over the same period.
- Merchandise trade deficit widened to an unprecedented high of US$37.8 billion in November 2024 (Chart 16) due to the surge in gold imports along with a slowdown in overall exports. Deficit on account of trade in goods and services increased to US$10.0 billion in October 2024 from US$4.7 billion in September 2024.
- The Indian Rupee depreciated to INR84.4/US$ (average) in November 2024 from INR84.0/US$ in October 2024 partly due to the rising merchandise trade deficit.

Chart 15: Developments in merchandise trade



Source: Ministry of Commerce and Industry, GoI

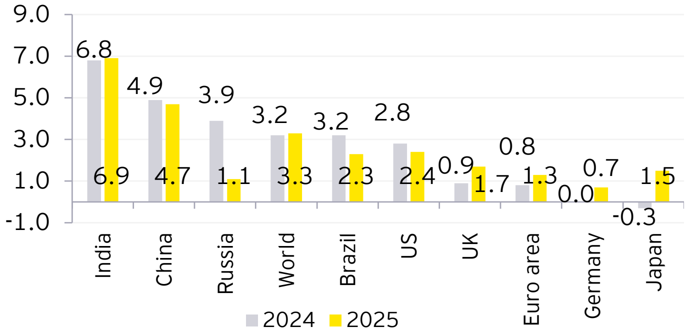
8 Global growth: OECD projected global growth at 3.2% in 2024 and 3.3% in 2025

8.1 Global growth

> **The OECD has projected global growth at 3.2% in 2024, with India's FY25 growth forecasted at 6.8%.**

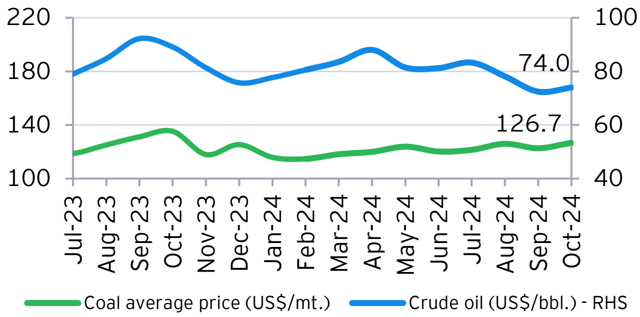
- Supported by steady employment growth, low inflation growth and less restrictive monetary policy, as per the OECD (Economic Outlook, December 2024) global growth is estimated to remain stable at 3.2% in 2024 and improve marginally to 3.3% in 2025.
- Significant downside risks to global outlook emanate from (a) elevated geopolitical tensions, particularly those in the Middle East, with implications for crude oil prices, (b) heightened trade policy uncertainties owing to rising trend in import restrictive measures implemented by major economies and (c) disruptions in global financial markets leading to volatility in capital flows and exchange rates that may particularly impact emerging market economies.
- Growth in the US is estimated to remain stable at 2.8% in 2024 as compared to 2.9% in 2023, although easing to 2.4% in 2025 due to moderation in growth in private and government consumption, and private investment and a marginal uptick in unemployment rate **(Chart 15)**.
- In OECD's assessment, growth in the Euro area is estimated to improve to 0.8% in 2024 from 0.5% in 2023 and strengthen further to 1.3% in 2025 driven by a pickup in private consumption and investment growth. Similarly, in the UK, growth is forecasted to recover to 0.9% in 2024 from 0.3% in 2023 and improve further to 1.7% in 2025 supported by a large increase in public expenditure.
- In Japan, led by contraction in private consumption and a moderation in investment demand, growth in estimated to contract by (-)0.3% in 2024 as compared to a growth of 1.7% in 2023. In 2025, supported by a recovery in private consumption growth and a strong growth in investment demand, real GDP is projected to grow by 1.5%.
- Growth in China is estimated to slow to 4.9% in 2024 from 5.2% in 2023. It is projected to weaken further to 4.7% in 2025 due to continued sluggishness in consumption and housing sector growth. However, further easing of monetary policy rates and continued fiscal support to infrastructure may cushion the growth.
- GDP growth in India is estimated to ease to 6.8% in 2024 (FY25) from 8.2% in 2023 (FY24). However, in 2025 (FY26) growth is forecasted to pick up marginally to 6.9% led by robust growth in investment, driven by higher fiscal support to infrastructure investment, and recovery in the growth of private and government consumption demand.

Chart 16: Global growth projections (%)



Source: OECD Economic Outlook, Volume 2024 Issue 2 (December 2024);
*Data pertains to fiscal years FY24 and FY25 respectively

Chart 17: Global crude and coal prices



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

8.2 Global energy prices: Global crude price eased to US$72.3/bbl. in November 2024

- Average global crude price[15] fell to US$72.3/bbl. in November 2024, its lowest level since August 2021, from US$74/bbl. in October 2024 **(Chart 17).** According to IEA, global crude prices eased due to a shift in the market sentiments from supply risks to concerns regarding slowing global growth[16].
- Average global coal price[17] eased to US$124.5/mt. in November 2024 from a 12-month high of US$126.7/mt. in October 2024, largely owing to a fall in the price of Australian Coal. The World Bank expects global coal prices to decrease by about 12% in 2025 and 2026 due to likely decline in Chinese demand and a moderation in demand for coal from India[18].

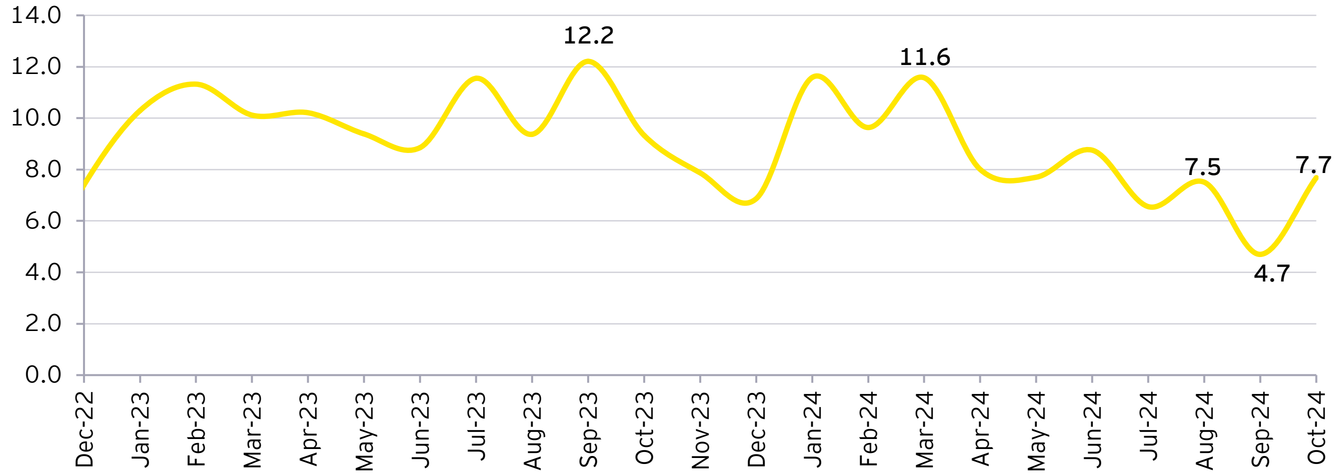
[15] Simple average of three spot prices, namely, Dated Brent, West Texas Intermediate and Dubai Fateh
[16] IEA- Oil Market Report – November 2024 (https://goto.now/HiGiP)
[17] Simple average of Australian and South African coal prices.
[18] https://blogs.worldbank.org/en/opendata/international-coal-price--higher-for-longer

9 Index of Aggregate Demand (IAD): Posted a growth of 7.7% in October 2024

9.1 Growth in IAD recovered to 7.7% in October 2024 from 4.7% in September 2024

- Pointing to improving demand conditions, particularly led by festive demand, growth in IAD[19] increased to a four-month high of 7.7% in October 2024 from a 22-month low of 4.7% in September 2024 **(Chart 18 and Table 11).**
- Demand conditions in the services sector recovered in October 2024 as evidenced by PMI services (sa), which increased to 58.5 in October 2024 from a 10-month low of 57.7 in September 2024.
- Similarly, the manufacturing sector also saw a pickup in demand as indicated by manufacturing PMI, whose level improved to 57.5 in October 2024 from 56.5 in September 2024.
- Demand conditions in the agricultural sector, however, eased marginally as reflected by a slower growth in agricultural credit at 15.6% in October 2024, its lowest level since July 2022, falling from 16.4% in September 2024.

Chart 18: Growth in IAD (y-o-y)



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

Table 11: IAD

Month	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24
IAD	174.9	178.1	178.8	178.8	180.6	180.3	181.0	177.4	179.4
Growth (% y-o-y)	9.6	11.6	8.0	7.7	8.8	6.6	7.5	4.7	7.7
Growth in agr. credit	20.1	20.2	19.8	21.5	17.3	18.1	17.7	16.4	15.6
Mfg. PMI**	6.9	9.1	8.8	7.5	8.3	8.1	7.5	6.5	7.5
Ser. PMI**	10.6	11.2	10.8	10.2	10.5	10.3	10.9	7.7	8.5

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

[19] 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.

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
Jul-24	5.0	3.8	4.7	7.9	6.3	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	2.4	Oct-24	57.5	58.5
Oct-24	3.5	0.9	4.1	2.0	3.1	Nov-24	56.5	58.4

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
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	1.9	9.8	1.1	-3.9	0.0
Oct-24	6.2	10.9	-1.7	3.7	2.4	11.6	1.5	-5.8	0.3
Nov-24	5.5	9.0	-1.8	3.7	1.9	8.9	2.0	-5.8	0.5

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	
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
Oct-24	10.8	1.2	20.2	11.1	9.0	46.5	52.2

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
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
Oct-24	80,379	323	-9,602	12,159	83,259

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
Jan-24	6.50	FY21	6.0	11.0	44.0	36.1	FY21	16.2	12.2	6.05	579.3
Feb-24	6.50	FY22	7.0	9.7	38.6	-16.8	FY22	10.7	8.8	6.40	617.6
Mar-24	6.50	FY23	14.4	9.5	28.0	-5.2	FY23	6.9	9.0	7.35	578.4
Apr-24	6.50	FY24	15.7	13.0	9.8	44.1	FY24	7.3	11.1	7.16	645.6
May-24	6.50	3QFY24	15.7	13.4	4.0	12.0	3QFY24	7.1	11.0	7.28	623.2
Jun-24	6.50	4QFY24	16.3	13.3	2.3	11.4	4QFY24	7.3	11.1	7.13	645.6
Jul-24	6.50	1QFY25	15.1	13.0	6.3	0.9	1QFY25	8.5	10.9	7.08	652.0
Aug-24	6.50	2QFY25	14.8	11.0	-2.8	19.1	2QFY25	9.2	10.8	6.92	704.9
Sep-24	6.50	Jul-24	15.1	10.6	-1.4	5.1	Aug-24	8.1	10.2	6.91	684.0
Oct-24	6.50	Aug-24	15.0	10.8	1.7	4.3	Sep-24	9.2	10.8	6.83	704.9
Nov-24	6.50	Sep-24	14.4	11.5	-3.1	9.7	Oct-24	9.5	11.1	6.79	684.8
Dec-24	6.50	Oct-24	12.8	11.7			Nov-24	8.4	11.1	6.81	658.1

Source: Database on Indian Economy - RBI

Table A5: External trade and global growth

External trade indicators (annual, quarterly and monthly growth rates)							Global growth (annual)			
Fiscal year/ quarter/ month	Exports	Imports	Trade balance	Ex. rate (avg.)	Crude prices (avg.)	Coal prices (avg.)	Calendar year	World GDP	Adv. econ.	Emer. econ.
	% change y-o-y		US$ billion	INR/US$	US$/bbl.	US$/mt		% change y-o-y		
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
Aug-24	-9.3	3.3	-29.6	83.9	78.1	126.0	2022	3.5	2.6	4.1
Sep-24	0.5	1.6	-20.8	83.8	72.4	122.6	2023	3.3	1.7	4.4
Oct-24	17.2	3.9	-27.1	84.0	74.0	126.7	2024*	3.2	1.8	4.2
Nov-24	-4.8	27.0	-37.8	84.4	72.3	124.5	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
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
2QFY25	5.6	3.5	-0.1	2.2	3.3	7.7	6.0	6.7	9.2	2.3

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. 2Q FY25 growth numbers are based on the quarterly National Accounts Data released on 30-November-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
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
2QFY25	5.4	6.0	4.4	5.4	2.8	-2.9	2.5

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. 2Q FY25 growth numbers are based on the quarterly National Accounts Data released on 30-November-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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