

4QCY20 – India's Quarterly Economic Outlook

Watch out for inflation and INR trends in 2021

- In the last version of QEO, we began by saying “the worst quarter is behind us”; we are happy to begin this version noting that a terrible year is over and hoping the New Year will bring back old cheer. The most difficult times are the best teachers and 2020 has lived up to the hype.
- We expect contraction of 6.9% in real GDP in FY21, followed by growth of 9.5% in FY22. What concerns us, however, is headline inflation is likely to remain sticky at ~5.5% next year, much higher than market consensus and the RBI’s projection. We expect inflation to ease toward 5.5% YoY by Jan’21 (from 6.9% in Nov’20), before climbing back to 6.3% once again by Mar’21. We do not foresee any rate action next year, although rates hikes could begin in FY23.
- Furthermore, while the current account is expected to move back into marginal deficit in FY22, continued accretion to foreign exchange (FX) reserves may help the INR strengthen against the USD. Moreover, while the USD could reverse its falling trend, we do not see any serious headwinds for the INR.
- Lastly, while economic activity has picked up in the last few months, the liquidity surplus in the Banking sector has widened sharply. With market interest rates bottoming out in CY20, we expect debt growth in India to improve only gradually and remain subdued next year.

Changes in economic forecasts since Sep’20

Real GDP: The contraction of 7.5% YoY in [2QFY21](#) was better than market consensus, but worse than our forecast. Thus, while most participants have revised up their FY21/FY22 growth forecasts, we have revised our forecasts downward/upward for FY21/FY22 to 6.9%/9.5% (from 6.5%/7.8% earlier).

Policy/Market interest rates have largely bottomed out, and the next policy move could be a hike, most likely in FY23.

CPI inflation and interest rates: Notwithstanding the collapse in real GDP, upward revisions in inflation have been surprising. With inflation averaging 7% over the past three months (Sep–Nov’20), we have revised our forecasts upward once again – to 6.6%/5.5% for FY21/FY22 from 5.9%/4.9% earlier. The monetary easing cycle is therefore over. Policy/Market interest rates have largely bottomed out, and the next policy move could be a hike, most likely in FY23.

Exchange rate: Despite adding more than USD100b to its FX reserves, the INR has weakened 3% against the USD in CY20. While the current account would return to deficit, FX reserves are expected to increase by another USD55b in FY22. Therefore, we anticipate some appreciation in the INR (1.3%) next year, unless there is an unexpected global shock. Moreover, although the USD may reverse its losses in CY21, this does not present any serious headwinds for the INR.

Exhibit 1: Forecasts of key macroeconomic variables for the Indian economy

Macro indicators	Unit	Actual data		Dec’20 forecasts					
		FY19	FY20	FY21F	FY22F	3QFY21F	4QFY21F	1QFY22F	2QFY22F
Nominal GDP _{MP}	% YoY	11.0	7.2	(4.6)	12.8	1.7	5.2	30.0	11.7
Real GDP _{MP}	% YoY	6.1	4.2	(6.9)	9.5	(0.7)	3.4	26.4	8.9
Consumer price index (CPI)	% YoY	3.4	4.8	6.6	5.5	6.7	6.0	5.9	5.7
Policy repo rate (year-end)	% pa	6.25	5.15	4.00	4.00	4.00	4.00	4.00	4.00
INRUSD (average)	unit	69.9	70.9	74.5	73.5	73.8	73.5	73.3	73.0
Current account balance	% of GDP	(2.1)	(0.9)	1.3	(0.2)	0.3	0.4	(1.4)	(1.3)
Fiscal balance*	% of GDP	(3.4)	(4.6)	(7.0)	(5.5)			n/a	

* For the central government only

F = Forecasts

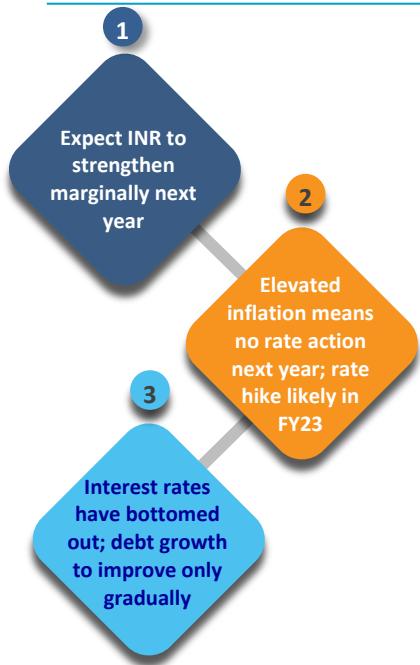
Source: Various national sources, MOFSL

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

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Three key themes:

In this note, we not only provide our updated macroeconomic forecasts for India but also discuss the three main themes likely to play out in the coming quarters. These themes have helped shape our forecast.

- 1) Notwithstanding the highest accretion in FX reserves v/s other Emerging Markets (EMs), the INR has weakened 3.1% against the USD in CY20 vis-à-vis appreciation (or lower depreciation) in all East Asian currencies. While the current account is expected to return to marginal deficit next year, continued accretion in FX reserves may help the INR strengthen in FY22. Moreover, although the USD may recover its losses next year, we do not foresee any headwinds for the INR.
- 2) As against the sharp decline in India's GDP, the elevated levels of inflation in India came as the biggest surprise. We expect inflation to move down sharply toward 5.5% YoY by Jan'21 (from ~7% in Nov'20), before climbing back toward 6.3% by Mar'21 and remaining at ~5.5% in FY22. Our forecasts are in contrast with the RBI's projections, which see headline inflation averaging ~5% in 1HFY22. Thus, we do not foresee any rate action next year, but there could be rate hikes beginning FY23.
- 3) Although economic activity has picked up in the past few months, the liquidity surplus in the Banking sector has widened. Notwithstanding the sharp monetary easing in CY20, India's debt growth has remained extremely weak. Since we believe interest rates have bottomed out, we expect debt growth to improve only gradually and remain subdued next year.

Notwithstanding the record rise in India's FX reserves, the INR has weakened 3.1% against the USD in CY20, v/s appreciation in most East Asian currencies.

I. Expect INR to strengthen marginally next year

As a result of a) sharp contraction in domestic economic activity, b) the crash in commodity (oil and non-oil) prices, and c) very strong capital inflows, India has posted its first quarterly current account surplus in 13 years and expected to post first annual surplus in 17 years in FY21 (*Exhibit 2*). Consequently, India's FX reserves jumped to USD580b in early-Dec'20, implying growth of >25% in the year. This not only marks the first annual USD100b rise in India's FX reserves but it is also the highest v/s other major EMs (*Exhibit 3*). Considering this huge accretion in FX reserves, the INR should have appreciated against the USD, like most East Asian currencies. However, due to the RBI's intervention and the general bias against a strong INR, the currency actually weakened 3.1% against the USD in CY20 (*Exhibit 4 on the following page*).

Exhibit 2: India's first current account surplus in 17 years...

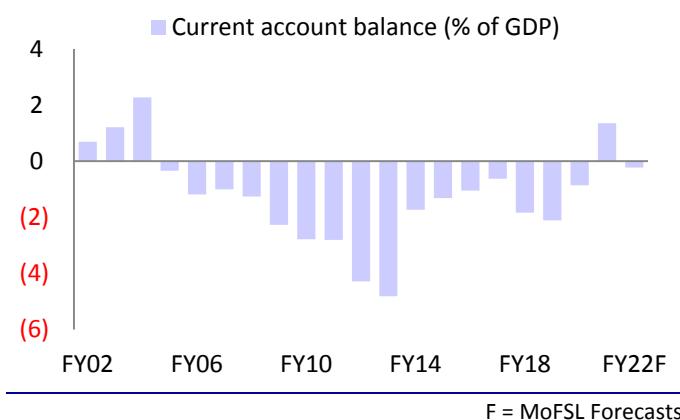
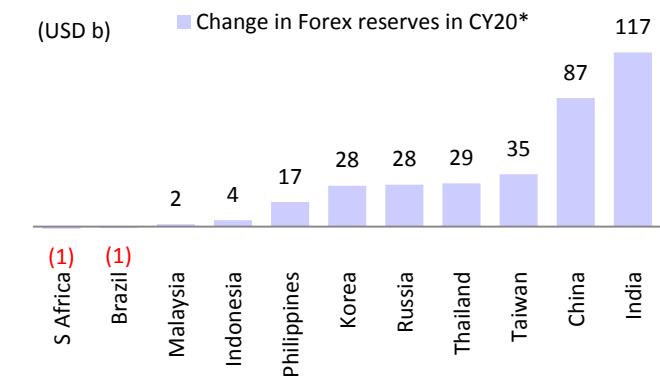


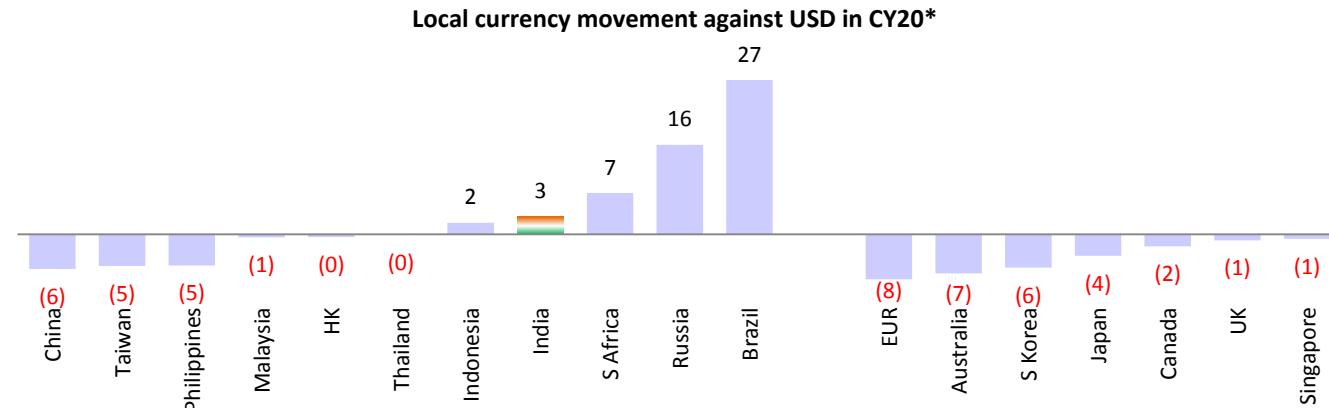
Exhibit 3: ...helped its FX reserves rise the most in CY20*



* Up to end-Nov'20

Source: CEIC, RBI, MOFSL

Exhibit 4: INR among very few currencies to have weakened against USD in CY20*

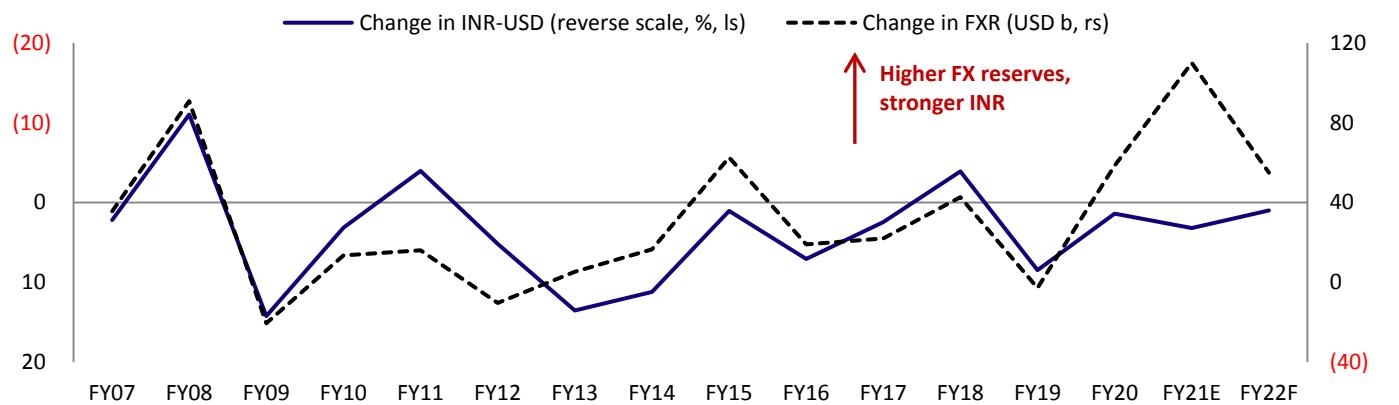


* As of December 15, 2020

Source: CEIC, MOFSL

Going into CY21, as India's real GDP growth improves, its current account surplus would also disappear. We expect the current balance to move from a surplus of 1.3% of GDP in FY21 to a deficit of 0.2% of GDP next year. With almost unchanged foreign capital inflows, however, this implies further accretion of USD55b in India's FX reserves, to reach about USD650b next year. The INR's movements are closely linked with the changes in FX reserves, rather than the current account balance (*Exhibit 5*). Accordingly, while a weaker INR was surprising in CY20, we expect it to strengthen 1.3% and average 73.5 against the USD in FY22, v/s an average level of 74.4 in FY21.

Exhibit 5: Strong correlation between FX reserve buildup and INR-USD movement



E= Estimate, F= Forecasts

Source: CEIC, MOFSL

While the USD broad index has weakened just 2% in CY20, there is a wide divergence in USD movement vis-à-vis the currencies of AEs and EMs.

Movement in the USD index also tends to have an impact on EM currencies, including the INR. It is widely believed that due to the massive monetary easing by the US Fed and larger fiscal deficit, the USD index would continue to weaken. However, we do not agree with this. While the USD broad index has weakened just 2% in CY20 (to the lowest level in 31 months), there is a wide divergence in USD movement vis-à-vis the currencies of advanced economies (AEs) and emerging markets (EMs). The USD strengthened sharply by 5% against AE currencies and as much as 10% against EM currencies in the peak of COVID-19 over Mar-Jun'20. Thereafter, it has weakened considerably to reach year-beginning levels against EM currencies and weakened ~5% against the group of AE currencies (*Exhibit 6 on the following page*).

Exhibit 6: USD has weakened against AE currencies (v/s Jan'20), while it is unchanged vis-à-vis EM currencies

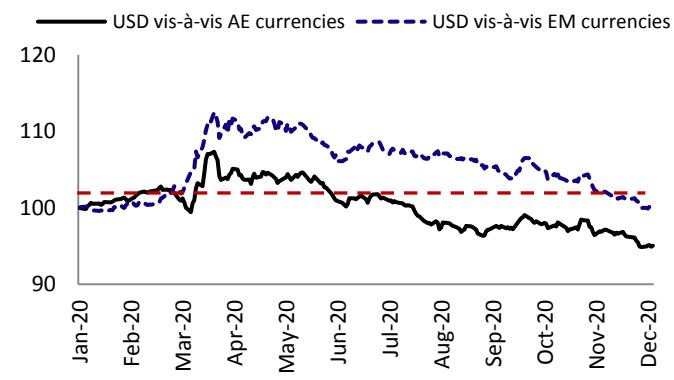
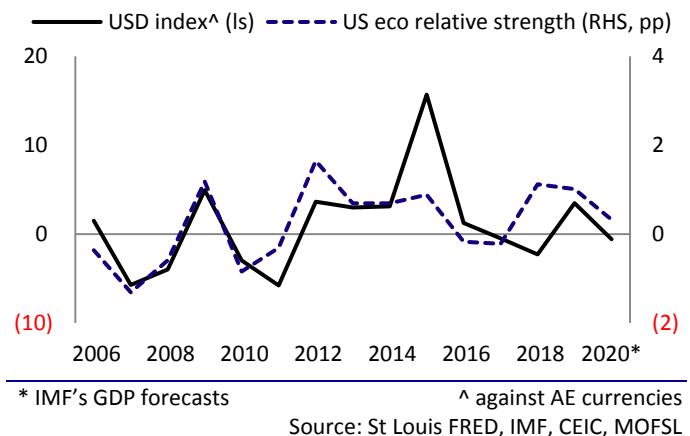


Exhibit 7: USD index[^] has a very strong positive correlation with the US economy's relative strength



We strongly believe the USD is most strongly correlated with the strength of the US economy vis-à-vis other advanced economies (US eco relative strength) – compared with any other traditional indicator, such as the US twin deficit. When the US economy fares better than other developed nations, the USD tends to strengthen and vice-versa (*Exhibit 7*). If so, with the beginning of the end of COVID-19, we believe the widening gap between the US and other AEs' growth would start to narrow from next year. Accordingly, there is a strong case for the USD reversing its losses (seen in the past six months) against AE currencies and strengthening in CY21. Nevertheless, we do not expect this to have any serious headwinds for the INR.

II. Elevated inflation means no rate action next year; rate hike likely in FY23

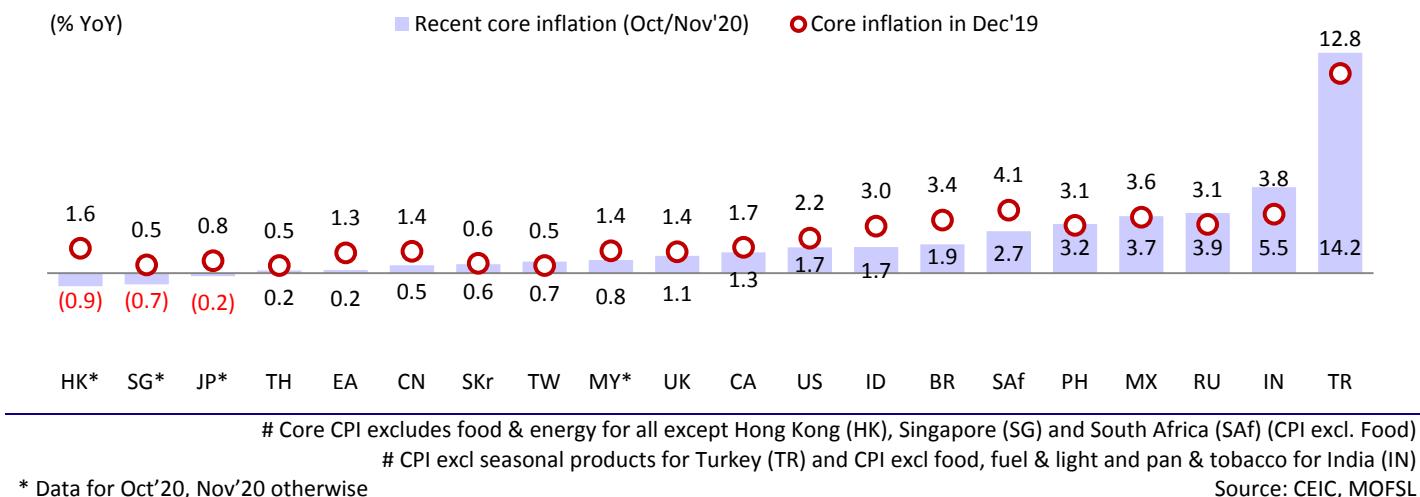
Considering that the Indian economy entered its first technical recession in the past four decades (quarterly data available since the mid-1990s) in 1HFY21, inflation concerns may seem surprising and unwarranted. Equally surprising, however, is the average 7.3% headline inflation over the past three months (Sep–Nov'20) and 23-month high core inflation amid the recession. We have discussed inflation in detail in a separate [report](#) and believe this would be one area to monitor closely in CY21.

India was among the very few major nations in the world to post higher core inflation in Nov'20 v/s Dec'19.

We find it irresistible to comment on this development on account of two factors. *First*, India was among the very few major nations in the world to report higher core inflation in Nov'20 – against Dec'19 (pre-COVID levels), which was also among the highest vis-à-vis other major economies in the world. While core inflation in AEs and EMs has converged for the first time in 25 years, India (along with Turkey) remains an exception.

Core inflation in India (defined as the summation of CPI-Housing, CPI-Clothing & Footwear, and CPI-Miscellaneous) stood at 5.5% in Oct'20 and Nov'20 (v/s 3.8% YoY in Dec'19), marking the highest level in 23 months. In fact, only 6 of 20 nations have seen a rise in core inflation post-COVID in CY20 – India has seen the highest rise (by 1.7 percentage points) in core inflation (*Exhibit 8*).

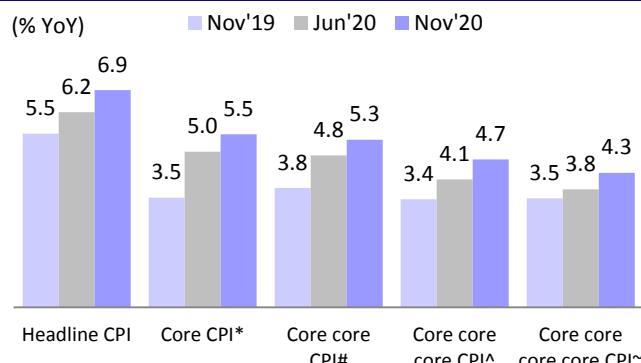
Exhibit 8: Comparison of core CPI inflation with the world's major economies for Dec'19 and Oct/Nov'20



No matter which measure we look at or what we exclude, inflation has risen considerably everywhere in India.

Second, while we continue to blame supply or logistic constraints for higher food inflation, we need to ponder over the validity of this reason amid growing economic activity and with the mobility index higher than pre-COVID levels. If supply constraints are responsible for higher food inflation, it is surprising to note that higher inflation is actually missing in certain food items, weak in other food items, and very strong in some. One of the ways we always try to explain higher headline inflation is by looking at various exclusion-based indices. However, no matter which measure we look at or what we exclude, inflation has risen considerably everywhere (Exhibit 9). Standard 'core inflation' (summation of CPI-Housing, CPI-Clothing & Footwear, and CPI-Miscellaneous, with weightage of 44.9%) rose to 5.5% in Nov'20 from 3.5% YoY in Dec'19. Furthermore, excluding retail fuel items within Miscellaneous (called core-core CPI), which have weightage of 42.5%, the inflation came in at a 21-month high of 5.3% YoY last month. Further excluding Gold (called core-core-core CPI), which has weightage of 41.5%, it stood at a 16-month high of 4.7%. Additionally, excluding telecom charges (called core-core-core-core CPI), which has weightage of 39.6%, the inflation stood at a 14-month high of 4.2% YoY in Nov'20.

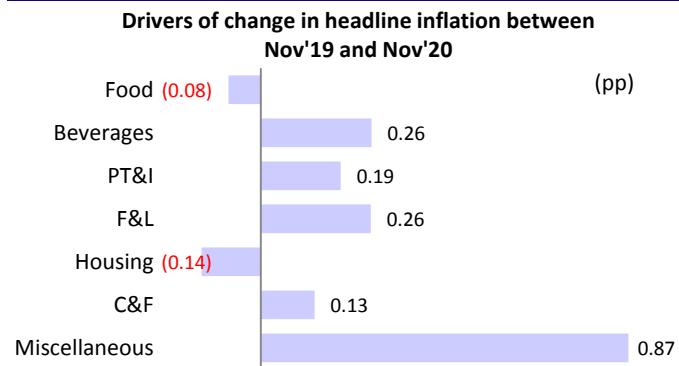
Exhibit 9: Inflation in India has risen irrespective of which measure we look at



* CPI less Food and Beverages, Fuel and Light, Pan and Tobacco
Core CPI less fuel items

^ Core core CPI less gold
~ Core core core CPI less telecom charges

Exhibit 10: What has contributed to India's higher headline in CY20? No, it is not food...



Core CPI = Housing + Clothing & Footwear + Miscellaneous
Source: CSO, CEIC, MOFSL

A point-to-point comparison between Nov'19 and Nov'20 suggests that while headline CPI inflation has risen by 150bp to 6.9%, food inflation has actually deducted 8bps.

Finally, a look at the contributors to higher headline inflation confirms that it is misleading to attribute higher headline inflation to food prices. A point-to-point comparison between Nov'19 and Nov'20 suggests that while headline CPI inflation has risen by 150bp to 6.9%, food inflation has actually deducted 8bps. On the other hand, 'core inflation' (and inflation in 'Miscellaneous' items) added 87bp (*Exhibit 10*). This surge in core inflation vis-à-vis other nations, and against pre-COVID trends, is surprising.

Exhibit 11: Inflation forecasts have been revised up significantly in the past six months

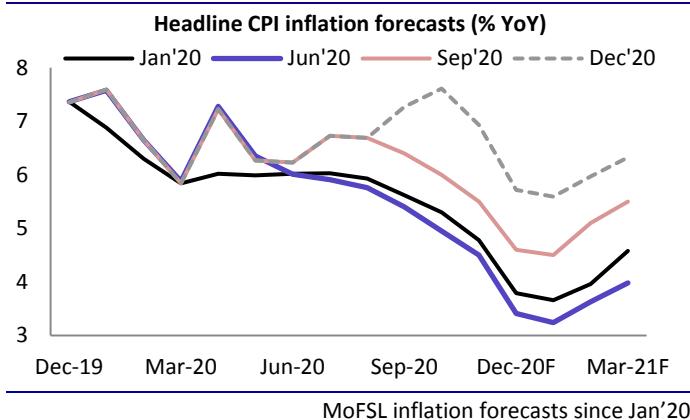
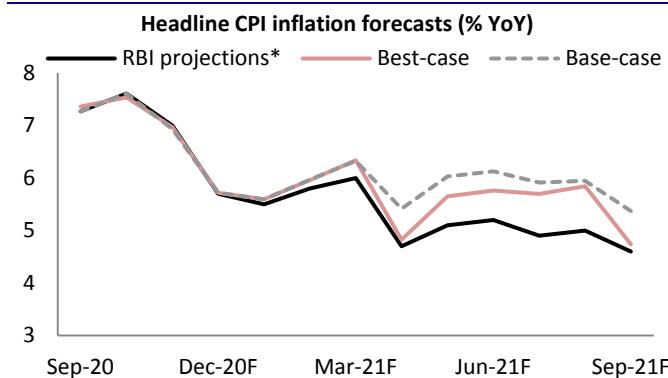


Exhibit 12: Our best-case scenario is also higher than the RBI's projections for 1HFY22



* Monthly projections arrived at via quarterly forecast/fan chart
Source: RBI, CEIC, MoFSL

It is not surprising that inflation forecasts have been revised significantly upward in the past six months (*Exhibit 11*). We had expected FY21 headline inflation to average 5.1% in Jan'20 (pre-COVID). This was revised down marginally to 5% in Jun'20 (peak COVID-19), only to be revised up to 5.9% in Sep'20 and further to 6.6% currently. We expect inflation to move down sharply toward 5.5% YoY by Jan'21 (from ~7% in Nov'20), before climbing back up to 6.3% by Mar'21. The comparable year-ending inflation forecast was 4.6% in Jan'20 and 4% in Jun'20.

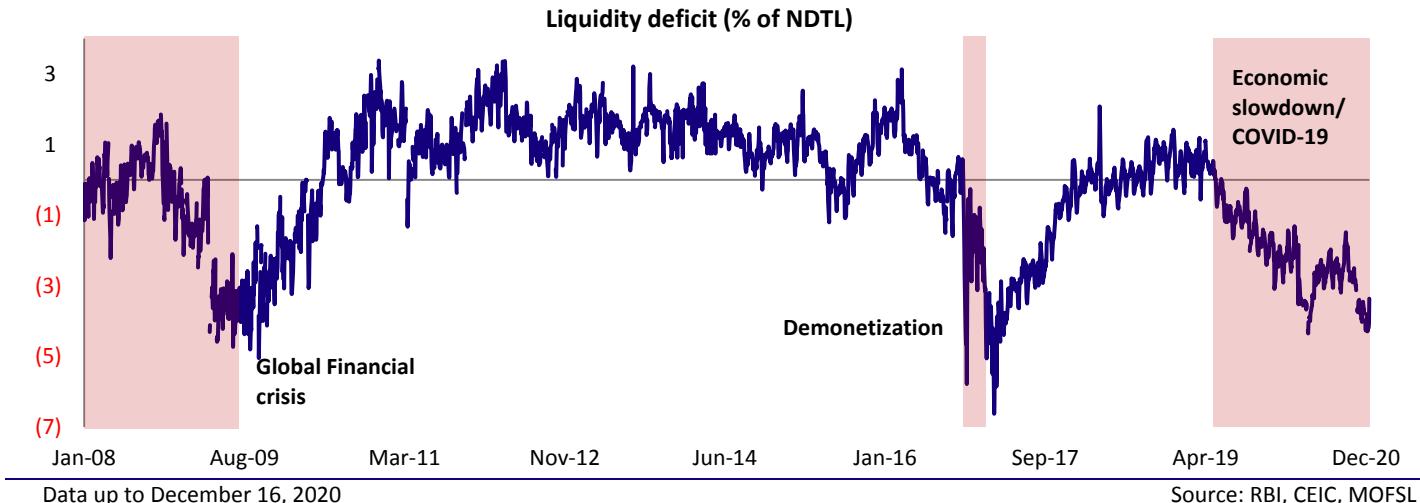
We are convinced that there will be no rate action next year. And if inflation does not ease toward 4% in FY23 (not our base case), we could see rate hikes.

Additionally, we believe inflation would remain above 5% and average ~5.5% in FY22 – which is in stark contrast to the market consensus and the RBI's projection. We forecast headline inflation to average 5.8% in 1HFY22 (and 5.4% as per the best case scenario), much higher than ~5% projected by the RBI (*Exhibit 12*). Therefore, we are convinced that there would be no rate action next year. And, if inflation does not ease toward 4% in FY23 (not our base case), we could see rate hikes.

III. Interest rates bottom out; debt growth to improve only gradually

Lastly, it is important to note that while economic activity has picked up more strongly than anticipated in the past few months, liquidity surplus – based on the liquidity adjustment facility (LAF) window – in the banking system has widened toward 4% of net demand and time liabilities (NDTL). In fact, historical data suggests the liquidity balance has been in surplus only three times in the past 13 years – over 2008–09 (due to the Global Financial Crisis), over 2016–17 (due to the demonetization), and the current period since June 2019 (*Exhibit 13*). Notably, while COVID-19 has pushed the liquidity surplus higher in CY20, economic slowdown had already moved the liquidity balance into surplus in mid-CY19.

Exhibit 13: Historical trends in India's Banking liquidity deficit (% of NDTL)



Source: RBI, CEIC, MOFSL

One of the most important implications of higher liquidity surplus is weak bank credit growth, and the two indicators have shared a correlation of ~80% in the past decade.

One of the most important implications of higher liquidity surplus is weak bank credit growth. The two indicators are highly correlated with each other, with a simple correlation of ~80% seen in the past decade (Exhibit 14). Since economic growth was weakening before the COVID-19 outbreak, the injection of massive liquidity by the RBI helped avoid a crash in bank credit. However, it failed to reverse the weakening trend. Also, the previous two episodes suggest it may take almost a year for the liquidity surplus to move into deficit mode after reaching its peak. If so, the liquidity balance is likely to remain in surplus mode for the whole of CY21.

Exhibit 14: Banking sector liquidity balance is highly correlated with bank credit growth

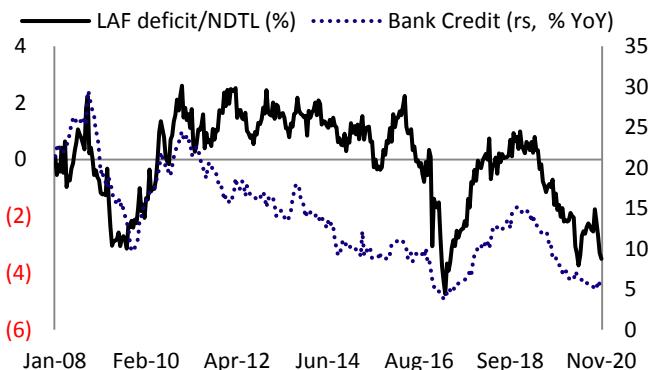
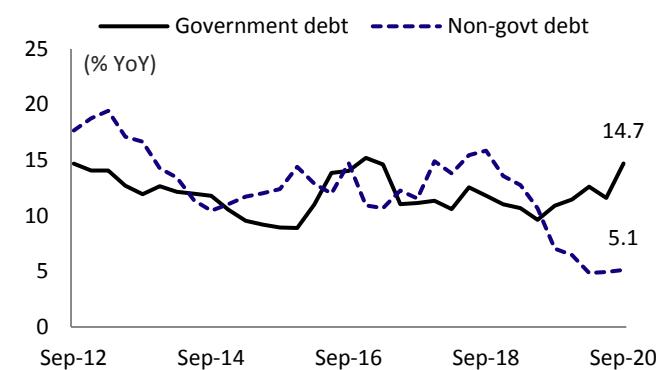


Exhibit 15: India's debt growth has been extremely weak in CY20 and is likely to improve only gradually next year



Source: RBI, SEBI, Various national sources, CEIC, MOFSL

With market interest rates bottoming out in CY20, we expect debt growth in India to improve only gradually, but remain subdued next year.

As the economic activity normalizes, the liquidity surplus would reduce gradually with improvement in bank credit growth. Also, since banks account for only about 55% of all debt in the country, it is important to note that [total debt growth](#) was extremely weak in the single digits in CY20 (Exhibit 15). With market interest rates bottoming out in CY20, we expect debt growth in India to improve only gradually, but remain subdued next year. More importantly, we hope non-government debt growth remains in the single digits, although better than CY20 levels.

Detailed economic projections

Exhibit 16: Detailed projections of economic growth

Macro indicators	Unit	FY17	FY18	FY19	FY20	FY21F	FY22F	FY23F
Nominal variables								
Gross domestic product at market prices (GDP _{MP})	USD b	2,290	2,655	2,712	2,869	2,608	2,979	3,150
GDP_{MP}	% YoY	11.5	11.3	11.0	7.2	(4.6)	12.8	7.4
Private consumption expenditure (PCE)	% of GDP	59.3	59.0	59.3	60.3	59.5	60.0	60.5
Government consumption expenditure (GCE)	% of GDP	10.3	11.0	11.1	12.0	12.9	12.8	13.2
Gross capital formation (GCF)	% of GDP	30.2	30.9	31.7	29.7	26.8	28.2	28.6
GFCF + change in stocks	% of GDP	29.1	29.7	30.6	28.6	26.2	27.3	27.6
Exports of goods & services	% of GDP	19.2	18.8	19.9	18.4	18.8	19.0	19.1
Less: Imports of goods & services	% of GDP	21.0	22.0	23.6	21.1	18.8	20.6	21.2
Gross Value Added at basic prices (GVA_{BP})	% YoY	10.8	11.1	10.7	7.0	(4.3)	12.3	7.3
Agriculture & allied activities	% of GVA	17.9	17.2	17.1	17.8	20.1	19.7	20.3
Industry ¹	% of GVA	29.4	29.3	28.9	27.5	26.2	26.1	25.6
Manufacturing	% of GVA	16.8	16.4	16.1	15.1	15.0	14.9	14.6
Construction	% of GVA	7.8	7.8	7.8	7.5	6.8	7.0	7.0
Services	% of GVA	52.7	53.5	54.0	54.8	53.7	54.2	54.0
Real variables								
Real GDP_{MP}	% YoY	8.3	7.0	6.1	4.2	(6.9)	9.5	4.2
PCE	% YoY	8.1	7.0	7.2	5.3	(9.4)	8.9	4.0
GCE	% YoY	6.1	11.8	10.1	11.8	(1.9)	7.0	6.0
GCF	% YoY	3.7	10.0	9.5	(2.0)	(14.4)	15.7	6.4
Gross fixed capital formation (GFCF)	% YoY	4.8	9.4	10.5	(2.6)	(13.1)	14.8	6.3
Exports of goods & services	% YoY	5.0	4.6	12.3	(3.6)	(4.9)	10.4	5.2
Less: Imports of goods & services	% YoY	4.4	17.4	8.6	(6.8)	(17.6)	20.3	7.6
Real GVA_{BP}	% YoY	7.9	6.9	5.8	3.9	(6.7)	9.3	4.1
Agriculture & allied activities	% YoY	6.3	5.0	3.8	4.0	4.0	4.0	3.9
Industry ¹	% YoY	7.7	5.9	5.3	0.9	(8.0)	10.0	4.2
Manufacturing	% YoY	7.9	5.9	6.4	0.0	(6.3)	9.1	3.9
Construction	% YoY	6.1	5.6	5.3	1.3	(14.4)	13.2	4.3
Services	% YoY	8.4	8.1	6.6	5.5	(8.8)	10.6	4.0
Community services, etc.	% YoY	9.2	11.9	7.5	10.0	(5.9)	6.5	5.2
Non-agriculture GVA_{BP}	% YoY	8.2	7.3	6.1	3.9	(8.5)	10.4	4.1
Non-agriculture non-community GVA _{BP}	% YoY	8.0	6.5	5.9	2.8	(9.0)	11.1	3.9
Other real sector								
Index of industrial production (IIP)	% YoY	4.6	4.4	3.8	(0.8)	(8.6)	9.5	4.0
Nominal personal disposable income (PDI)	% YoY	11.0	10.4	12.6	7.0	(7.2)	9.5	7.4
Real PDI²	% YoY	6.9	6.8	8.2	3.4	(10.7)	4.9	3.0
Incremental capital-output ratio (ICOR) ³	unit	4.13	4.67	5.63	8.13	(4.56)	3.29	7.70

¹ Industry includes mining & quarrying Manufacturing, electricity and construction;

² Nominal PDI deflated by PCE deflator;

³ The ratio of last two years' investments (as a percentage of GDP) and GDP growth - it is calculated using real-term data

Source: RBI, CSO, CEIC, MOFSL

Exhibit 17: Detailed projections of prices, rates, and money & banking

Macro indicators	Unit	FY17	FY18	FY19	FY20	FY21F	FY22F	FY23F
Price measures								
GVA _{BP} deflator	% YoY	2.9	4.1	4.2	3.0	2.4	2.8	3.1
GDP_{MP} deflator	% YoY	3.0	4.0	4.6	2.9	2.4	3.1	3.1
PCE deflator	% YoY	3.8	3.4	4.1	3.5	3.7	4.5	4.2
Consumer price index (CPI)	% YoY	4.5	3.6	3.4	4.8	6.6	5.5	6.0
Food & beverages	% YoY	4.4	2.2	0.7	6.0	8.4	6.5	7.7
Fuel & light	% YoY	3.3	6.2	5.7	1.3	1.2	1.7	1.5
Core CPI¹	% YoY	4.7	4.5	5.8	4.0	5.3	4.9	4.8
Wholesale price index (WPI)	% YoY	1.7	2.9	4.3	1.7	0.0	3.1	2.2
Primary articles	% YoY	3.4	1.4	2.7	6.8	1.5	5.1	5.3
Fuel & power	% YoY	(0.3)	8.1	11.5	(1.8)	(12.3)	0.1	(3.5)
Manufactured products	% YoY	1.4	2.7	3.7	0.3	1.6	2.7	1.6
Non-food manufactured products	% YoY	(0.1)	2.9	4.2	(0.4)	1.1	2.4	1.1
Food items (raw + processed)	% YoY	5.9	1.9	0.6	6.9	4.0	4.7	5.6
Money & Banking (end-period)								
Reserve money (M0)	% YoY	(12.9)	27.3	14.5	9.4	13.9	9.6	8.0
Broad money supply (M3)	% YoY	10.1	9.2	10.5	8.9	9.7	8.0	8.1
Bank deposit	% YoY	15.3	6.2	10.0	7.9	10.2	7.8	8.2
Bank credit	% YoY	8.2	10.0	13.3	6.1	4.0	8.0	8.5
Credit-deposit ratio	%	72.9	75.5	77.7	76.4	72.1	72.3	72.5
Incremental credit-deposit ratio	%	41.4	117.3	99.9	60.3	30.0	74.0	74.9
Key rates								
Policy repo rate (end-period)	% pa	6.25	6.00	6.25	4.40	4.00	4.00	4.50
INRUSD (period-average)	unit	67.1	64.4	69.9	70.9	74.4	73.5	74.6
Crude oil price (period-average)	USD/bbl	48.0	56.4	69.6	60.7	40.0	50.0	50.0
Gold price (period-average)	USD/ounce	1,259	1,286	1,263	1,462	1,822	1,608	1,600

¹ CPI excluding 'Food & beverages', 'pan, tobacco and intoxicants' and 'Fuel & light'

Source: RBI, CSO, CEIC, MOFSL

Exhibit 18: Detailed projections for external sector

Macro indicators	Unit	FY17	FY18	FY19	FY20F	FY21F	FY22F	FY23F
Current account balance	USD b	(14.4)	(48.7)	(57.2)	(24.6)	35.2	(6.6)	(19.6)
Merchandise	USD b	(112.4)	(160.0)	(180.3)	(157.5)	(81.0)	(136.3)	(156.9)
Invisibles	USD b	98.1	111.4	123.1	133.0	116.2	129.7	137.3
Total credit	USD b	522.2	592.4	643.7	642.1	580.7	654.4	684.6
Merchandise	USD b	280.1	309.0	337.2	320.4	281.1	328.7	344.1
Petroleum products	USD b	25.1	38.5	47.0	42.2	20.6	37.1	38.6
Valuables ¹	USD b	43.3	41.5	40.2	35.8	26.5	35.6	37.6
Invisibles	USD b	242.0	283.4	306.5	321.7	299.6	325.7	340.5
Services	USD b	164.2	195.1	208.0	213.2	209.8	224.1	232.0
Total debit	USD b	536.6	641.0	700.9	666.7	545.5	661.0	704.2
Merchandise	USD b	392.6	469.0	517.5	477.9	362.2	465.0	501.0
Petroleum products	USD b	86.8	109.2	140.8	129.8	71.2	104.2	115.1
Valuables ¹	USD b	27.5	33.6	32.9	53.4	44.3	56.0	61.3
Invisibles	USD b	144.0	172.0	183.4	188.8	183.4	196.0	203.2
Services	USD b	95.9	117.5	126.1	128.3	124.3	133.7	139.0
Capital and Financial account	USD b	36.2	91.4	54.5	84.2	65.1	62.1	70.0
Foreign direct investment (FDI)	USD b	35.6	30.3	30.7	43.0	39.4	33.0	35.0
Foreign portfolio investment (FPI)	USD b	7.6	22.1	(2.4)	1.4	11.4	7.5	10.0
Financial derivatives	USD b	9.8	(2.9)	1.0	4.1	(0.1)	0.0	0.0
Other investment	USD b	(16.8)	41.8	25.2	35.7	14.4	21.6	25.0
Non-resident Indians (NRI) deposits	USD b	(12.4)	9.7	10.4	8.6	8.5	8.0	10.0
Change in forex reserves²	USD b	(21.9)	(42.7)	2.7	(59.6)	(100.3)	(55.4)	(50.4)
Current account balance (CAB)	% of GDP	(0.6)	(1.8)	(2.1)	(0.9)	1.4	(0.2)	(0.6)
Non-oil	% of GDP	2.1	0.8	1.3	2.2	3.3	2.0	1.8
Non-oil non-valuables	% of GDP	3.3	2.1	2.6	4.1	5.0	3.9	3.8
Forex reserves	% of GDP	(1.0)	(1.6)	0.1	(2.1)	(3.9)	(1.9)	(1.6)
Savings-Investments								
National savings	% of GDP	31.3	32.4	30.1	30.5	29.3	29.3	29.0
Households	% of GDP	18.1	19.2	18.2	18.0	16.7	18.2	17.7
Net financial savings	% of GDP	7.4	7.7	6.5	7.6	10.0	8.8	8.8
Physical savings	% of GDP	10.7	11.4	11.7	10.4	6.8	9.4	9.0
Corporate sector	% of GDP	14.0	14.4	12.7	13.7	14.9	12.5	12.3
General government	% of GDP	(0.8)	(1.1)	(0.8)	(1.2)	(2.3)	(1.4)	(1.1)
Domestic investments	% of GDP	32.0	34.2	32.2	31.3	28.0	29.5	29.6
Households	% of GDP	10.4	11.2	11.5	10.3	6.6	9.2	8.8
Corporate sector	% of GDP	15.0	14.7	15.3	15.1	16.0	14.8	15.6
General government	% of GDP	3.8	3.6	3.9	3.2	3.5	3.3	3.2

¹ Valuables include items related to gold or any other precious metal
Source: RBI, CSO, CMIE, MOFSL

Exhibit 19: Detailed projections for central government finances

Macro indicators	Unit	FY17	FY18	FY19	FY20P	FY21F	FY22F	FY23F
Total receipts	INR b	14,398	15,556	16,657	17,507	14,574	17,324	19,297
	% YoY	14.4	8.0	7.1	5.1	(16.8)	18.9	11.4
	% of GDP	9.4	9.1	8.8	8.6	7.5	7.9	8.2
Revenue receipts	INR b	13,744	14,352	15,530	16,821	14,274	16,124	17,797
	% YoY	15.0	4.4	8.2	8.3	(15.1)	13.0	10.4
Gross taxes	INR b	17,160	19,190	20,805	20,099	18,813	21,345	23,572
Net tax collection	INR b	11,016	12,425	13,172	13,559	12,174	13,814	15,256
	% YoY	16.7	12.8	6.0	2.9	(10.2)	13.5	10.4
Direct tax receipts	INR b	8,497	10,027	11,252	10,372	9,099	10,238	11,262
	% YoY	14.5	18.0	12.2	(7.8)	(12.3)	12.5	10.0
Indirect tax receipts	INR b	8,663	9,163	9,552	9,727	9,714	11,106	12,310
	% YoY	21.2	5.8	4.3	1.8	(0.1)	14.3	10.8
Non-tax collection	INR b	3,382	3,131	3,485	3,948	2,400	3,510	4,041
Non-tax receipts	INR b	2,728	1,927	2,358	3,262	2,100	2,310	2,541
Non-debt capital receipts	INR b	654	1,204	1,127	686	300	1,200	1,500
Disinvestment	INR b	477	1,000	947	503	200	1,000	1,300
Total expenditure	INR b	19,752	21,418	23,151	26,864	28,148	29,410	30,733
	% YoY	10.3	8.4	8.1	16.0	4.8	4.5	4.5
	% of GDP	12.9	12.5	12.2	13.2	14.5	13.4	13.1
Revenue spending	INR b	16,906	18,793	20,080	23,496	24,748	25,738	26,767
	% YoY	9.9	11.2	6.8	17.0	5.3	4.0	4.0
Core revenue spending	INR b	12,099	13,504	14,254	17,386	17,948	18,258	18,539
	% YoY	10.4	11.6	5.6	22.0	3.2	1.7	1.5
Interest payments	INR b	4,807	5,290	5,826	6,110	6,800	7,480	8,228
Subsidies	INR b	2,348	2,386	2,433	2,595	2,500	2,800	3,100
Defense	INR b	1,722	1,821	1,925	2,075	2,075	2,117	2,180
Pensions	INR b	1,314	1,332	1,465	1,679	1,896	1,991	2,090
Capital spending	INR b	2,846	2,625	3,071	3,367	3,400	3,672	3,966
	% YoY	12.5	(7.8)	17.0	9.7	1.0	8.0	8.0
Defense	INR b	864	904	949	1,111	1,056	1,130	1,220
Railways	INR b	452	434	528	678	644	709	758
Roads & Highways	INR b	438	535	698	673	706	777	855
Fiscal balance	INR b	(5,354)	(5,863)	(6,494)	(9,356)	(13,574)	(12,086)	(11,436)
	% of GDP	(3.5)	(3.4)	(3.4)	(4.6)	(7.0)	(5.5)	(4.9)
Gross market borrowings¹	INR b	5,820	5,880	5,710	7,100	12,000	11,000	12,050
	% of GDP	3.8	3.4	3.0	3.5	6.2	5.0	5.1
Net market borrowings¹	INR b	4,082	4,484	4,227	4,740	8,981	8,263	7,816
	% of GDP	2.7	2.6	2.2	2.3	4.6	3.8	3.3
Combined fiscal deficit²	INR b	(10,698)	(9,968)	(11,122)	(14,445)	(22,266)	(19,578)	(18,229)
	% of GDP	(7.0)	(5.8)	(5.9)	(7.1)	(11.5)	(8.9)	(7.8)
Combined gross borrowings^{1,2}	INR b	9,640	10,071	10,493	13,445	20,960	19,600	20,250
	% of GDP	6.3	5.9	5.5	6.6	10.8	9.0	8.6
Combined net borrowings^{1,2}	INR b	7,508	7,887	7,714	9,614	16,588	14,998	13,920
	% of GDP	4.9	4.6	4.1	4.7	8.6	6.9	5.9

¹ Dated securities only
P = Provisional, F= forecasts

² Central + States' fiscal deficit and market borrowings
Source: Union Budgets documents, CSO, MOFSL

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