ENTER

Economy Watch

Monitoring India's macro-fiscal performance

September 2021

Building a better working world

Contents

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Highlights

1. Real GDP grew by 20.1% in 1QFY22 owing to a favorable base effect, as compared to 1.6% in 4QFY21. However, the magnitude of real GDP in 1QFY22 was below the respective level in 1QFY20.

2. In August 2021, while PMI manufacturing posted a softer expansion at 52.3, PMI services recovered to an 18-month high of 56.7, ending a three-month sequence of contraction.

3. CPI inflation eased to 5.3% in August 2021 led by a faster pace of contraction in vegetable prices.

4. WPI inflation remained elevated at 11.4% in August 2021 largely due to high global commodity prices particularly crude prices.

5. As per the CGA, Center's gross taxes grew sharply by 83.1% during April-July FY22 over the corresponding period of FY21, and by 29.1% over the corresponding period of FY20.

6. While Center's revenue expenditure contracted by (-)7.0% during April-July FY22, capital expenditure showed a growth of 14.8% during this period.

7. During April-July FY22, Center's fiscal deficit and revenue deficit as a proportion of their corresponding BE stood respectively at 21.3% and 18.1%, their lowest levels since FY01.

8. Reflective of subdued demand, bank credit continued to grow at a slow pace of 6.1% in July 2021.

9. Merchandise exports and imports growth was elevated at 45.8% and 51.7% respectively in August 2021 due partly to favorable base effects. Compared to July 2019 levels, exports grew by 28.0% in August 2021, reflecting a pick-up in external demand.

10. Merchandise trade deficit increased to a four-month high of US$13.8 billion in August 2021.

11. The OECD has projected global growth to recover to 5.7% in 2021 with India's growth forecasted at 9.7% in FY22.

Foreword

Augmenting growth – Center's recent initiatives

The Ministry of Finance in collaboration with the NITI Aayog recently released guidelines and a detailed program relating to the National Monetization Pipeline (NMP) which is estimated to garner INR6 lakh crore over the period FY22 to FY25. For FY22, the estimated amount is INR0.88 lakh crore[1]. The NMP was launched with a view to finding resources for supporting the National Infrastructure Pipeline (NIP). The period for NMP has been kept co-terminus with the balance period of the NIP.

NMP aims to provide a medium-term roadmap for generating a flow of income from services provided by the core assets owned or operated by different government agencies. Volume I of the NMP report provides the conceptual basis and potential models for asset monetization. Volume II provides a detailed roadmap along with the timelines for the proposed monetization. In this pipeline, proceeds from disinvestment and monetization of non-core assets are not included. The emphasis is on the assets of the central line ministries and CPSEs in infrastructure sectors.

The aggregate estimated value of the NMP at INR6 lakh crore amounts to about 14% of the proposed outlay for Center under NIP (INR43 lakh crore). The NMP would cover more than 12 line ministries and more than 20 asset classes. The sectors included are roads, ports, airports, railways, warehousing, gas and product pipeline, power generation and transmission, mining, telecom, stadium, hospitality and housing. The top five sectors (by estimated value) namely, roads (27%), railways (25%), power (15%), oil and gas pipelines (8%) and telecom (6%) capture approximately 83% of the aggregate pipeline value.

In the context of disinvestment, some positive news pertains to Air India where financial bids have now been received[2], and the likely auction of 5G spectrum in February 2022. Another asset class, classified as non-core asset under the NMP, pertains to government ownership of large chunks of land for which also a suitable asset monetization strategy needs to be put in place. The present NMP focuses on generation of recurring non-tax revenues rather than one-time monetization of assets. Its success would largely depend on the efficiency and extent of participation of the line ministries.

Given these initiatives and the improved performance of central tax revenues in the first four months of the fiscal year, the government may be in a comfortable position to support the budgeted expenditures for FY22 and even to possibly supplement capital expenditures to levels higher than the budgeted amounts. For FY22, the budgeted fiscal deficit is at 6.8% of GDP, indicating that the central government realizes the need for keeping up the stimulus so as to support demand. The central government has also permitted the states to borrow more than their legislated fiscal deficit limit of 3% of their respective GSDPs subject to certain conditions. As per the recommendations of the 15th Finance Commission, the states have been allowed to borrow up to 4% of GSDP in FY22 of which 0.5% points of GSDP has been earmarked for additional capital expenditure. In fact, based on states' performance in terms of incurring additional capital expenditure in the first quarter of FY22, the central government has permitted 11 states to undertake an additional borrowing of 0.25% of their respective GSDPs, amounting to INR15,721 crore[3].

In regard to monetary policy, while the RBI has continued to maintain its accommodative stance, the repo rate has been kept constant at 4.0% since 22 May 2020. Given that CPI inflation has remained under pressure, the RBI may not go for any reduction in the repo rate in the near future. As such, monetary policy would only be playing a supportive role while the main impetus to growth may need to come from the fiscal side.

[1] https://pib.gov.in/PressReleasePage.aspx?PRID=1748297
[2] https://www.livemint.com/news/india/air-india-gets-financial-bids-for-disinvestment-11631707580326.html
[3] https://pib.gov.in/PressReleasePage.aspx?PRID=1754695

We estimate that as compared to RBI's quarterly growth projections for 2Q, 3Q and 4Q of FY22 at 7.3%, 6.3%, and 6.1% respectively, the economy would have to grow by an additional margin of 0.32% points in each of the remaining quarters on average to make up for the shortfall in the 1Q growth relative to the RBI's estimate at 21.4%, if its projected growth of 9.5% in FY22 is to be achieved. Further, care should be taken to contain the adverse economic impact of COVID's subsequent waves by continuing to invest in health infrastructure which would be facilitated by the improving revenue flows.

The latest available projections of growth prospects for India by the OECD (Interim Economic Outlook) released on 21 September 2021 assess India's real GDP growth at 9.7% in 2021 (FY22) and 7.9% in 2022 (FY23). These exceed the projections by the RBI and the IMF at 9.5% for FY22. India's growth projections surpass China's forecasted growth at 8.5% and 5.8% for 2021 and 2022 respectively. Clearly, India, amongst major economies, is well on its way to lead global growth in the post pandemic years.

In the meanwhile, high frequency indicators signal that economic recovery is gathering momentum. PMI manufacturing continued to expand for the second consecutive month although its pace of expansion was lower at 52.3 in August 2021 as compared to 55.3 in July 2021. PMI services recovered to an 18-month high of 56.7, ending a three-month sequence of contraction. Passenger vehicle sales was higher at 2.32 lakh units in August 2021 as compared to 2.15 lakh units in the corresponding month of 2020[4]. Growth in power consumption improved to a four-month high of 16.3% in August 2021 from 10.5% in July 2021, partly due to a favorable base effect. Merchandise exports growth (y-o-y) remained high at 45.8% in August 2021 due partly to a favorable base effect. Compared to August 2019 levels, exports grew by 28.0% reflecting a pick-up in external demand. GST collections remained above the benchmark target of INR1.0 lakh crore for the second consecutive month in August 2021 with a monthly collection of INR1.12 lakh crore[5], close to the July 2021 level of INR1.16 lakh crore. We also note that on the direction of the Kerala High Court, the GST Council[6] discussed the issue of bringing petroleum products within the ambit of GST and concluded that it may not be the best time for this initiative.

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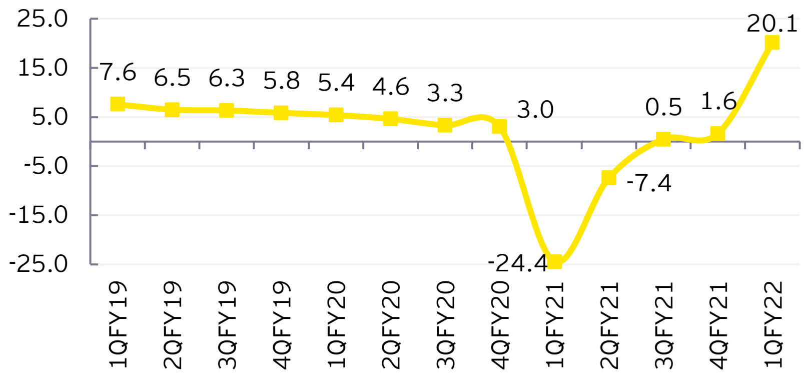
[4] https://www.timesnownews.com/auto/features/article/auto-sales-in-india-declined-by-11-per-cent-in-august-2021-siam/810359
[5] https://pib.gov.in/PressReleasePage.aspx?PRID=1751048
[6] https://pib.gov.in/PressReleasePage.aspx?PRID=1755925

1. Growth: led by favorable base effect, real GDP grew by 20.1% in 1QFY22

A. Growth: real GDP grew by 20.1% in 1QFY22 as compared to 1.6% in 4QFY21

- As per the GDP data released by the Ministry of Statistics and Programme Implementation (MoSPI) on 31 August 2021, real GDP grew by 20.1% (y-o-y) in 1QFY22 owing to a favorable base effect, as compared to 1.6% in 4QFY21 **(Chart 1)**. However, the magnitude of real GDP in 1QFY22 was below the respective level in 1QFY20 by INR3.3 lakh crore. This is indicative of the impact of COVID's second wave.

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



- Private final consumption expenditure (PFCE) grew by 19.3% in 1QFY22 while its magnitude was still below the corresponding level in 1QFY20 by INR2.4 lakh crore.
- Similarly, the magnitude of real investment demand as measured by gross fixed capital formation (GFCF) was also below its 1QFY20 level by INR2.1 lakh crore. This is in spite of a strong growth of 55.3% in 1QFY22 over the corresponding quarter of FY21.
- Pointing to a pick-up in external demand, exports of goods and services grew by a robust 39.1% in 1QFY22, surpassing its 1QFY20 magnitude by INR61,598 crore.
- Government final consumption expenditure (GFCE) showed a contraction of (-)4.8% in 1QFY22, indicative of a lower spending by both central and state governments.
- On the output side, real GVA grew by 18.8% in 1QFY22 as compared to 3.7% in 4QFY21. However, its magnitude in 1QFY22 was below its level in 1QFY20 by INR2.6 lakh crore. This can be largely attributable to the impact of COVID's second wave on one of the largest contact-intensive sector namely, trade, hotel, transport, et.al.

Table 1: Real GDP and GVA growth (%, y-o-y)

Agg. demand	1Q FY20	2Q FY20	3Q FY20	4Q FY20	1Q FY21	2Q FY21	3Q FY21	4Q FY21	1Q FY22
PFCE	6.8	6.5	6.4	2.0	-26.2	-11.2	-2.8	2.7	19.3
GFCE	6.2	9.6	8.9	12.1	12.7	-23.5	-1.0	28.3	-4.8
GFCF	13.0	3.9	2.4	2.5	-46.6	-8.6	2.6	10.9	55.3
EXP	9.5	-1.3	-5.4	-8.8	-21.8	-2.0	-3.5	8.8	39.1
IMP	5.0	-1.7	-7.5	-2.7	-40.9	-17.9	-5.0	12.3	60.2
GDP	**7.6**	**4.6**	**3.3**	**3.0**	**-24.4**	**-7.4**	**0.5**	**1.6**	**20.1**
Output sectors									
Agr.	5.2	3.5	3.4	6.8	3.5	3.0	4.5	3.1	4.5
Ming.	-0.1	-5.2	-3.5	-0.9	-17.2	-6.5	-4.4	-5.7	18.6
Mfg.	10.2	-3.0	-2.9	-4.2	-36.0	-1.5	1.7	6.9	49.6
Elec.	7.7	1.7	-3.1	2.6	-9.9	2.3	7.3	9.1	14.3
Cons.	6.6	1.0	-1.3	0.7	-49.5	-7.2	6.5	14.5	68.3
Trans.	8.0	6.8	7.0	5.7	-48.1	-16.1	-7.9	-2.3	34.3
Fin.	6.2	8.9	5.5	4.9	-5.0	-9.1	6.7	5.4	3.7
Publ.	7.7	8.8	8.9	9.6	-10.2	-9.2	-2.2	2.3	5.8
GVA	**7.2**	**4.6**	**3.4**	**3.7**	**-22.4**	**-7.3**	**1.0**	**3.7**	**18.8**

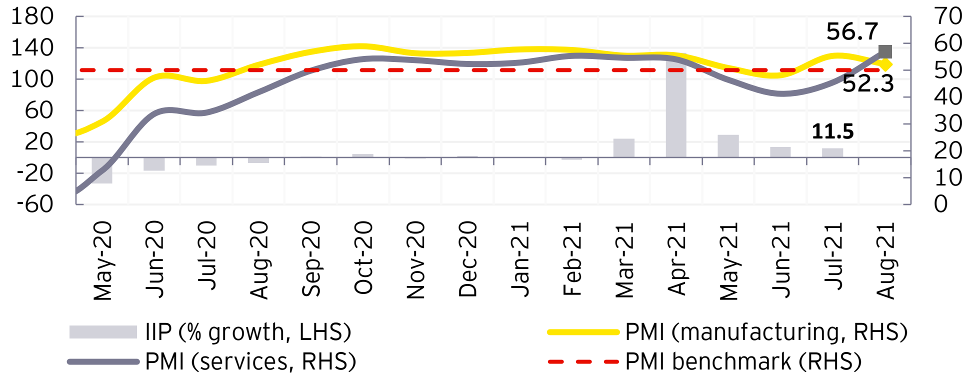
Source: MoSPI, GoI

- In fact, even after growing by 34.3% in 1QFY22, real GVA of trade, transport et.al sector in 1QFY22 was INR2.0 lakh crore below its level in 1QFY20.
- Two important services sectors namely, financial, real estate et.al and public administration, defence and other services posted a low but positive growth of 3.7% and 5.8% respectively in 1QFY22 but their magnitude in 1QFY22 was lower than their corresponding levels in 1QFY20. Similar was the case with the construction sector.
- The only sector which maintained its growth momentum in 1QFY22 was agriculture, posting a growth of 4.5%. Its level in 1QFY22 was higher than that in 1QFY20 by INR36,902 crore, indicating the limited impact of COVID's second wave on this sector.

B. PMI: signaled a strong recovery in services but a slower pace of expansion in manufacturing in August 2021

- Headline manufacturing PMI (seasonally adjusted (sa)) expanded for the second successive month in August 2021. However, its level fell to 52.3 in August 2021 from 55.3 in July 2021, pointing towards slowing growth momentum as demand showed some signs of weakness during the month (**Chart 2**).
- In August 2021, PMI services increased to an 18-month high of 56.7 from a contraction that persisted over the last three months. This was led by a reopening of several establishments in the services sector and improved confidence due to growing vaccine coverage.
- After contracting for three successive months, the composite PMI Output Index (sa) increased to 55.4 in August 2021 reflecting a sharp recovery in services and a continuing although softer expansion in manufacturing during the month.

Chart 2: PMI and IIP growth



In August 2021, while PMI manufacturing posted a softer expansion at 52.3, PMI services recovered to an 18-month high of 56.7, ending a three-month sequence of contraction.

Source: MoSPI and IHS Markit

C. IIP: As base effect waned, IIP growth moderated to 11.5% in July 2021 as compared to 13.6% in June 2021

- The quick estimates of IIP released by the MoSPI on 10 September 2021 show that IIP grew by 11.5% in July 2021 moderating from 13.6% in June 2021 **(Chart 2)**. However, the IIP contracted by (-)0.3% in July 2021 over its value in July 2019.
- Favorable base effect continued to impact the output growth of two key sectors namely, manufacturing and mining, which posted a double-digit growth of 10.5% and 19.5% respectively in July 2021. However, output of electricity sector increased by 11.1% in July 2021 as compared to 8.3% in June 2021. Growth in this sector was not characterized by base effect.
- As per the use-based classification of industries, output of capital goods, consumer durables, and infrastructure/construction goods continued to show a double-digit growth of 29.5%, 20.2% and 11.6% respectively in July 2021 led by favorable base effect.

IIP grew by 11.5% in July 2021, moderating from 13.6% in June 2021 led by waning base effect.

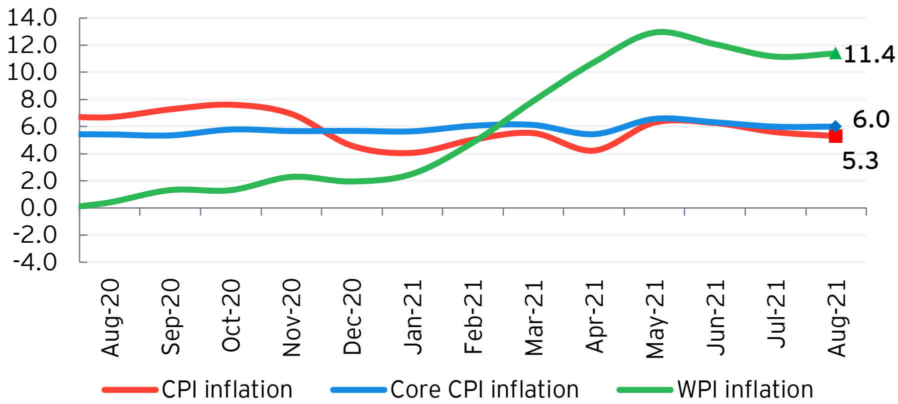
- According to provisional estimates, output of eight core infrastructure industries (core IIP) grew by 9.4% (y-o-y) in July 2021 as compared to 9.3% (revised) in June 2021. The base effect appears to be gradually waning as the overall core IIP grew by 1.1% in July 2021 over its value in July 2019 with six out of eight sub-industries showing a positive growth.

2. Inflation: CPI inflation eased to a four-month low of 5.3% in August 2021

CPI inflation moderated to 5.3% in August 2021 (Chart 3) led by a faster pace of contraction in vegetable prices, partly due to favorable base effect.

- Consumer food inflation fell to a four-month low of 3.1% in August 2021 from 4.0% in July 2021 as the pace of contraction in vegetable prices increased to (-)11.7% in August 2021 from (-)7.8% in July 2021. Contraction in prices of potatoes remained high at (-)39.6% in August 2021 partly due to favorable base effect.
- Fuel and light inflation was at an all-time high of 12.9% (2011-12 series) in August 2021.
- Inflation in miscellaneous goods and services eased to a four-month low of 6.4% in August 2021 mainly due to a fall in inflation in personal care and effects to 1.0% in August 2021 from 3.8% in July 2021.
- Inflation in transportation and communication services was elevated at 10.2% in August 2021, the seventh successive month where the inflation level was above 10%.
- Core CPI inflation[7] was sticky at 6.0% in August 2021, remaining above the overall CPI inflation for the ninth successive month.

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



CPI inflation eased for the second successive month to 5.3% in August 2021 led by a faster pace of contraction in vegetable prices. Core CPI inflation remained sticky at 6.0% in August 2021.

Source: MoSPI, Office of the Economic Adviser, Government of India (GoI)
Note: Headline CPI inflation and inflation in certain groups for the month of April 2020 and May 2020 have been imputed by the MoSPI[8]; Core CPI inflation has been estimated for April 2020 and May 2020 using this imputed data

WPI inflation remained elevated at 11.4% in August 2021 led by high global commodity prices particularly crude prices.

- Headline WPI inflation remained above 10% for the fifth successive month.
- Core WPI inflation was at a historic high (2011-12 series) of 11.2% in August 2021 led by continued broad based inflationary pressures particularly on manufactured basic metals, where inflation was elevated at 27.5% in August 2021, although marginally lower than 29.1% in July 2021.
- Fuel and power inflation was high at 26.1% in August 2021, close to 26.0% in July 2021, as inflation in mineral oils (including petrol and diesel) increased to 52.7% from 51.8% over the same period.
- WPI food index-based inflation eased to a seven-month low of 3.4% in August 2021 reflecting an increased pace of contraction in vegetables prices at (-)13.3% in August 2021 as compared to (-)8.7% in July 2021.
- Inflation in oilseeds was at an all-time high of 53.8% in August 2021 as compared to 40.8% in July 2021.

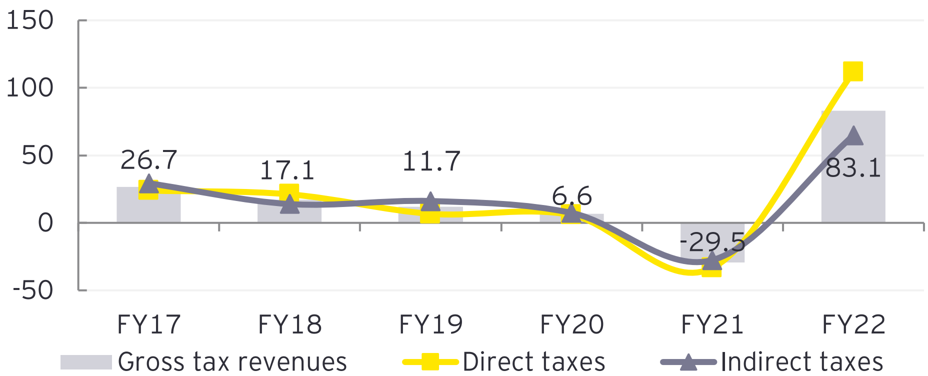
[7] Core CPI inflation is measured in different ways by different organizations/agencies. Here, it has been calculated by excluding food, and fuel and light from the overall index.
[8] http://www.mospi.gov.in/sites/default/files/press_release/CPI%20Technical%20Note%20on%20Imputation.pdf

3. Fiscal performance: Center's fiscal deficit during Apr-Jul 2021 stood at 21.3% of the BE

A. Tax and non-tax revenues

- As per the Comptroller General of Accounts (CGA)[9], Center's gross tax revenues (GTR) grew by 83.1% during April-July FY22 partly reflecting the continuing base effect due to a contraction of (-)29.5% during April-July FY21. Growth in Center's GTR, when calculated over the corresponding period of FY20, was at 29.1% (**Chart 4**).
- Direct and indirect taxes grew by 111.8% and 64.8% respectively during April-July FY22 as compared to a contraction of (-)33.2% and (-)27.5% respectively in the corresponding period of FY21. Growth in direct and indirect taxes when evaluated over the corresponding period of FY20 was at 41.4% and 19.5% respectively.
- Corporate income tax (CIT) showed a high growth of 171.5% during April-July FY22 as compared to a contraction of (-)39.2% in the corresponding period of FY21. CIT revenues grew by 65% during the first four months of FY22 over the corresponding period of FY20.
- Personal income tax (PIT) grew by 76.7% during April-July FY22 over the corresponding period of FY21, and by 25.2% over the corresponding period of FY20.
- Among indirect taxes, Center's GST revenues grew by 60.4% during April-July FY22 as compared to a contraction of (-)34.5% during the corresponding period of FY21. GST revenues during the first four months of FY22 grew by 5.1% over the corresponding period of FY20.
- Union excise duties grew by 47.9% during April-July FY22 as compared to 23.8% during the corresponding period of FY21.
- Center's customs duty revenues showed a growth of 144.1% during April-July FY22 as compared to a contraction of (-)54.1% during the corresponding period of FY21. Growth during April-July FY22 when calculated over the corresponding period of FY20 was at 12.1%.

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



As per the CGA, Center's gross taxes grew sharply by 83.1% during April-July FY22 over the corresponding period of FY21, and by 29.1% over the corresponding period of FY20.

Source: Monthly Accounts, Controller General of Accounts (CGA), Government of India
Notes: (a) Direct taxes include personal income tax and corporation tax, and indirect taxes include union excise duties, arrears of service tax, customs duty, 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 center's gross tax revenues along with direct and indirect taxes, (c) IGST revenues are subject to final settlement.

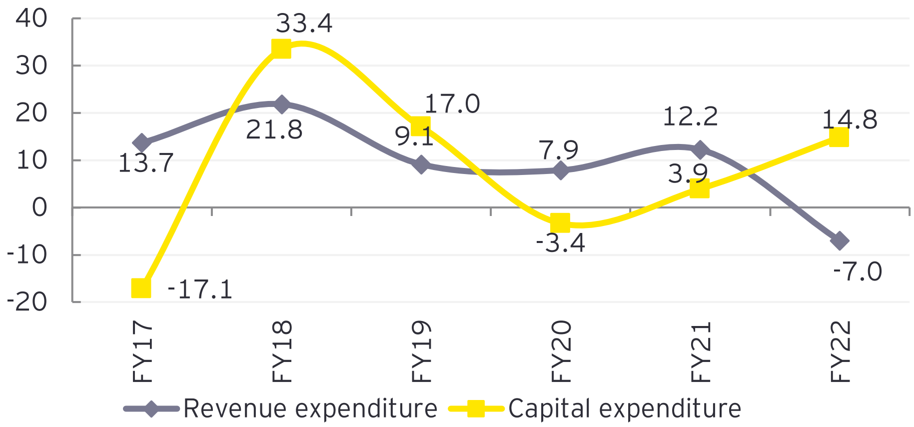
- Center's non-tax revenues posted a high growth of 468.6% during April-July FY22 as compared to a contraction of (-)43.9% during the corresponding period of FY21. Non-tax revenues during April-July FY22 stood at 57.6% of the annual BE as compared to just 6.4% last year.
- Non-debt capital receipts grew by 159.2% during April-July FY22 over the corresponding period of FY21 but showed a contraction of (-)17.1% over the corresponding period of FY20.
- As per information sourced from the Department of Investment and Public Asset Management[10], disinvestment receipts as of 27 September 2021 stood at INR9,110.56 crores, that is 5.2% of the FY22 BE.

[9] Monthly accounts for July 2021 released on 31 August 2021
[10] https://www.dipam.gov.in/dipam/home

B. Expenditures: revenue and capital

- Center's total expenditure contracted by (-)4.7% during April-July FY22 as compared to a growth of 11.3% during the corresponding period of FY21.
- Revenue expenditure contracted by (-)7.0% during April-July FY22 as compared to a growth of 12.2% during the corresponding period of FY21 (**Chart 5**).
- Center's capital expenditure showed a growth of 14.8% during the first four months of FY22 as compared to 3.9% during the corresponding period of FY21. However, as a proportion of the annual BE, capital expenditure during April-July FY22 stood at 23.2%, lower than the corresponding ratio of 27.1% for FY21.

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



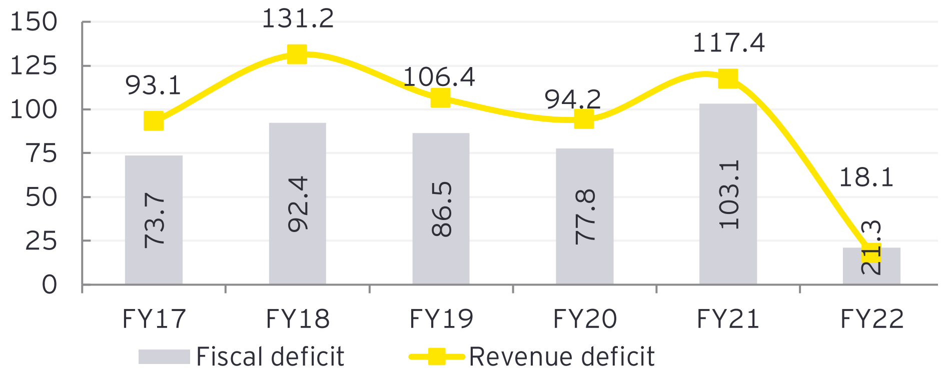
Source (basic data): Monthly Accounts, Controller General of Accounts (CGA), Government of India

While Center's revenue expenditure contracted by (-)7.0% during April-July FY22, capital expenditure showed a growth of 14.8% during this period.

C. Fiscal imbalance

- Center's fiscal deficit during April-July FY22 stood at 21.3% of the annual BE as compared to the corresponding average level of 90% over the last four years (**Chart 6**). This was its lowest level in recent history, at least since FY01.
- Center's revenue deficit during April-July FY22 as a proportion of the BE stood at 18.1% as compared to the corresponding average level of 112.3% over the last four years. This was its lowest level in recent history at least since FY01, matched by the same level only once in FY11.

Chart 6: Fiscal and revenue deficit during April-July as percentage of annual BE



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

During April-July FY22, Center's fiscal deficit and revenue deficit as a proportion of their corresponding BE stood respectively at 21.3% and 18.1%, their lowest levels since FY01.

4. Comparative global perspective: Composite Leading Indicator remains below trend for India

OECD's Composite Leading Indicators (CLIs): India's CLI remained below trend but signaled stable growth in August 2021

- For understanding short- and medium-term trends in economic activity, the OECD has developed the CLI series, which provides early signs of turning points in the business cycle, which can be defined as fluctuations in the economic activity around its long-term trend.
- The GDP series is used as the reference for identification of turning points in the growth cycle for all countries, except for China for which the OECD relies on the value added of industry at 1995 constant prices.
- The phases and patterns in CLIs are similar to those of the growth cycles but they anticipate turning points six to nine months before they occur. CLIs do not indicate the degree of growth in economic activity but only provides a strong signal of the '**phase**' a country is likely to be in its growth cycle in the near future.
- The CLI and the GDP series both have a long-term average of 100, and fluctuations around this represent **four phases** of the growth cycle, namely, (1) **Expansion:** series is above 100 and increasing, (2) **Downturn:** series is above 100 but decreasing, (3) **Slowdown:** series is below 100 and decreasing and (4) **Recovery:** series is below 100 but increasing.
- The components of CLIs are time series which show a leading relationship with the reference GDP series at turning points. Component series in CLIs generally include orders and inventory changes, financial market indicators such as share prices, business confidence surveys such as PMI, and in smaller open economies, data on major sectors and trends in key trading partners.

Table 2: CLIs: magnitudes and m-o-m and y-o-y changes (%)

Month	Germany	Japan	UK	US	Brazil	China	India	Russia
Index values								
Apr 21	101.1	100.6	99.8	100.3	102.9	101.5	98.2	101.1
May 21	101.5	100.7	100.2	100.4	102.7	101.6	98.2	101.5
Jun 21	101.7	100.9	100.5	100.5	102.5	101.7	98.2	102.0
Jul 21	101.9	100.9	100.8	100.6	102.3	101.9	98.3	102.4
Aug 21	102.0	101.0	100.9	100.6	102.0	102.0	98.4	102.8
Month-on-month changes (%)								
Apr 21	0.44	0.21	0.38	0.26	-0.24	0.10	0.01	0.45
May 21	0.37	0.16	0.41	0.12	-0.19	0.11	0.00	0.45
Jun 21	0.28	0.11	0.32	0.12	-0.16	0.12	0.02	0.42
Jul 21	0.18	0.08	0.25	0.03	-0.19	0.13	0.07	0.40
Aug 21	0.10	0.01	0.11	0.00	-0.25	0.14	0.07	0.38
Year-on-year changes (%)								
Apr 21	11.5	2.6	15.1	9.3	11.0	10.9	56.6	12.1
May 21	9.5	3.3	13.2	7.7	8.1	7.4	24.2	10.0
Jun 21	4.7	3.3	6.7	5.6	3.0	5.7	12.1	5.1
Jul 21	3.6	2.8	1.8	3.8	1.1	4.1	5.7	4.6
Aug 21	3.3	2.3	1.7	3.0	0.2	2.6	3.1	4.9

Source (basic data): OECD

- For most major economies, there was an unprecedented collapse in CLIs in April 2020 (February 2020 for China) due to severe impact of COVID's first wave. The high y-o-y growth in CLIs in April and May 2021 for most economies indicate a strong base effect due to a contraction witnessed during these months in 2020.
- Beginning May 2020, CLIs showed gradual recovery from the crisis. However, among advanced economies (AEs), the index values remained below the long-term trend until January 2021 for Germany and Japan, until February 2021 for the US and until April 2021 for the UK reflecting the impact of subsequent COVID waves.
- Among emerging market economies (EMEs), CLI crossed the long-term average of 100 in July 2020 for Brazil, in October 2020 for China and in February 2021 for Russia. In India's case, the CLI did not cross this threshold even until August 2021.
- As indicated by m-o-m growth in CLIs, in August 2021, the OECD has assessed a moderating growth outlook at above-trend levels for all AEs considered here. Among EMEs, CLIs for Russia and China pointed to a steady increase in growth above trend levels. The CLI for India remained below trend but signaled stable growth, whereas in Brazil, the CLI continued to anticipate slowing growth from above trend level.

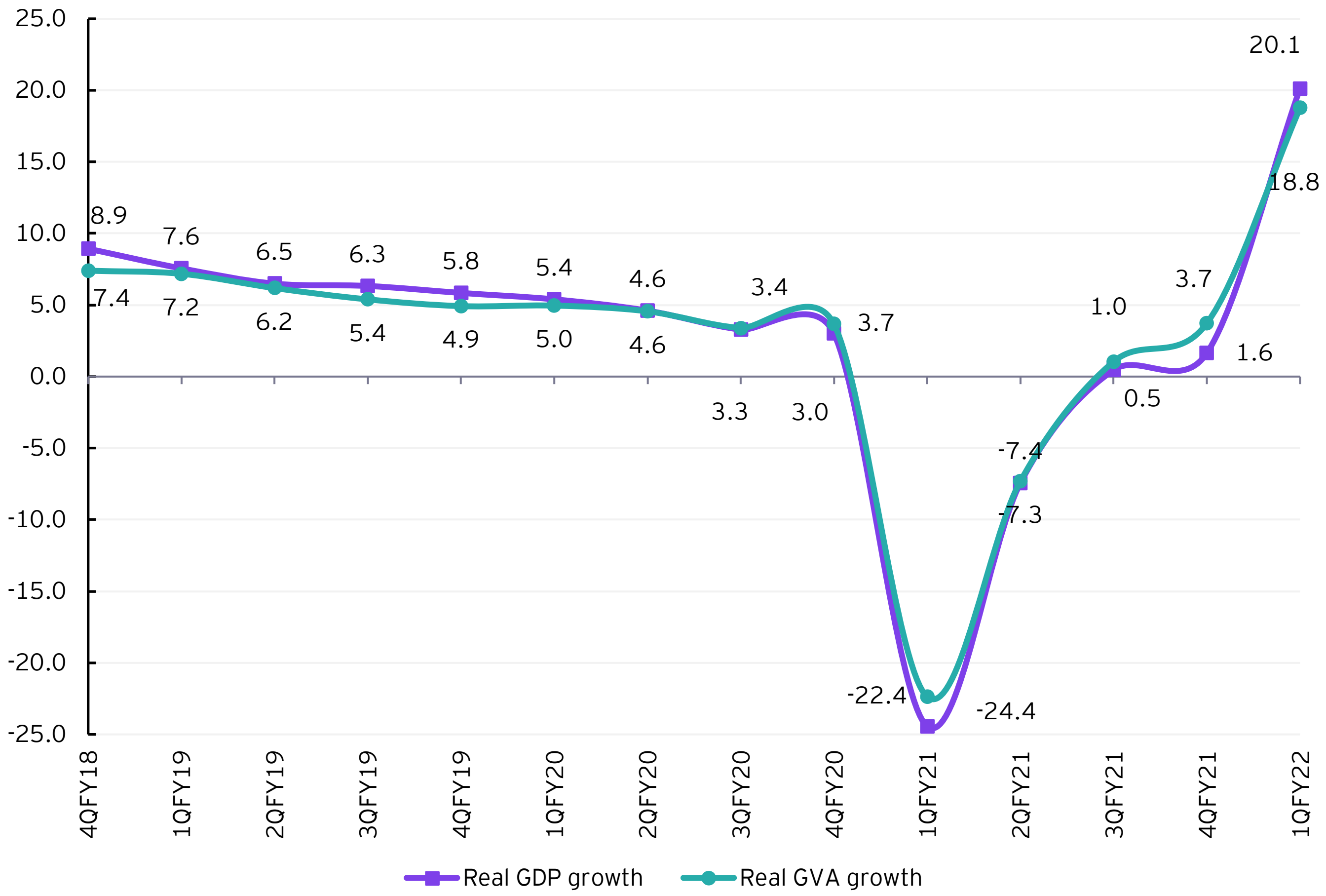
5. In focus: India's 1Q GDP growth - signals for annual growth prospects

1. Introduction

India's GDP data for 1QFY22 released by the National Statistical Office (NSO) on 31 August 2021 has signaled a robust recovery. Subject to limiting the adverse impact of COVID-19 in the remaining part of the fiscal year, the Indian economy may well be on course to show an annual growth of around 9.5% as forecasted both by the RBI and the IMF for FY22. It would be useful to examine the output and demand segments of the 1QFY22 GVA and GDP data so as to formulate a view on the sectors that have effectively recovered to the pre-pandemic levels while also highlighting the sectors that continue to lag behind.

We may note that the real GDP growth at 20.1% in 1Q of FY22 is largely because of the contraction of (-)24.4% in the corresponding quarter of the COVID year, that is, FY21. Even with this high growth, the magnitude of real GDP fell short of the corresponding level in FY20 by a margin of INR3.3 lakh crore. A growth rate of 32.3% was required in 1Q of FY22 for achieving the same level of real GDP as in 1Q of FY20. In **Chart 7,** we have depicted the quarterly year on year growth for GVA and GDP since 4QFY18. It is noticeable that even during the pre-pandemic period, both GDP and GVA growth steadily declined quarter after quarter since 4QFY18. Subsequently, growth fell to a trough in 1QFY21, the quarter that was the most affected during the pandemic year. Both GDP and GVA growth showed an unprecedented contraction at (-)24.4% and (-)22.4% respectively. Since 1QFY22 largely reflects this base effect, we may expect more moderate growth performance in the subsequent quarters of FY22.

Chart 7: Real GVA and GDP growth (quarterly, y-o-y)



Source (basic data): MoSPI

In this write-up, we consider the performance of the demand segments and the output sectors in 1QFY22 in greater detail so as to formulate a view on India's annual growth prospects for FY22 as a whole.

2. View from the demand side

Aggregate demand in the economy is usually divided into four broad components namely private and government final consumption expenditures (PFCE and GFCE), gross fixed capital formation (GFCF) which is part of the overall capital formation (GCF) and net exports. Net exports are exports (EXP) net of imports (IMP).

Table 3: Quarterly growth in demand components (%, y-o-y)

	PFCE	GFCE	GFCF	EXP	IMP	GDP	Net exports contribution to growth
Weight* (%)	56.5	10.8	31.9	20.1	22.6	100.0[11]	
% growth (y-o-y)							(% points)
1QFY19	6.8	6.2	13.0	9.5	5.0	7.6	0.7
2QFY19	9.1	7.6	11.4	12.5	17.8	6.5	-1.5
3QFY19	7.9	3.1	11.5	15.7	12.0	6.3	0.3
4QFY19	6.6	8.1	4.4	11.7	0.6	5.8	2.1
1QFY20	7.6	1.8	13.3	3.0	9.4	5.4	-1.6
2QFY20	6.5	9.6	3.9	-1.3	-1.7	4.6	0.2
3QFY20	6.4	8.9	2.4	-5.4	-7.5	3.3	0.7
4QFY20	2.0	12.1	2.5	-8.8	-2.7	3.0	-1.2
1QFY21	-26.2	12.7	-46.6	-21.8	-40.9	-24.4	5.7
2QFY21	-11.2	-23.5	-8.6	-2.0	-17.9	-7.4	3.8
3QFY21	-2.8	-1.0	2.6	-3.5	-5.0	0.5	0.4
4QFY21	2.7	28.3	10.9	8.8	12.3	1.6	-1.0
1QFY22	19.3	-4.8	55.3	39.1	60.2	20.1	-3.6
INR Crore							
1QFY20	*20,24,421*	*3,92,585*	*12,33,178*	*7,06,991*	*8,77,506*	*35,66,708*	*-1,70,515*
1QFY22	*17,83,611*	*4,21,471*	*10,22,335*	*7,68,589*	*8,30,673*	*32,38,020*	*-62,084*
1QFY22 minus 1QFY20	*-2,40,810*	*28,886*	*-2,10,843*	*61,598*	*-46,833*	*-3,28,688*	*1,08,431*

Source (basic data): MoSPI;
* weights of individual demand component are in real terms, averaged over the period FY19 to FY21
Note: the cells highlighted in pink indicate those demand segments where the magnitudes in real term in 1QFY22 are below the corresponding levels in 1QFY20.

The segment with the largest weight at 56.5% is PFCE. In the COVID year, it contracted for three successive quarters before showing a recovery in the last quarter of FY21. This component therefore showed the maximum contractionary persistence. Even though PFCE recovered to show a growth of 19.3% in 1QFY22, this mainly reflected base effect due to a contraction of (-)26.2% in the corresponding quarter of the previous year. Thus, in terms of magnitude of PFCE, its level was lower than that in 1QFY20, that is the pre-pandemic corresponding quarter, by a margin of INR2.41 lakh crore **(Table 3).** In the case of GFCE, which could have been subjected to policy intervention, a large contraction was still experienced in 2QFY21 at (-)23.5%. This was unexpected since government consumption expenditure could have been managed so as to support the overall demand in the COVID year. It was also the quarter where COVID's first wave peaked in terms of its health impact. It is also notable that in 1QFY22, it is the only demand segment that contracted with reference to 1QFY21 by (-)4.8%. The third component of demand namely GFCF, that is the investment demand, also contracted in the first two quarters of FY21. In 1QFY22, the base effect was quite large for this segment. Despite a growth of 55.3%, its magnitude in real terms compared to 1QFY20 was lower by a margin of INR2.11 lakh crore. For these three domestic demand segments, we may expect a robust growth in 2QFY22 due to base effects.

Exports and imports contracted in three consecutive quarters in FY21. However, positive outcomes were observed for these segments in 1QFY22 with exports showing a growth of 39.1% over a contraction of (-)21.8% in 1QFY21. In fact, exports showed a growth of 8.7% over its level in the corresponding quarter of FY20. We expect both exports and imports to show high positive growth in all the quarters of FY22 both because of base effect and recovery of global and domestic demand.

[11] Total share of the demand components adds to 100 only when we include the share of changes in stock (1.4%), valuables (1.2%) and discrepancy (0.7%) which are not shown in this table.

3. Output sectors

On the output side, COVID's maximum adverse impact, apart from construction, was on the transport and storage sector, which had contracted by (-)48.1% in 1QFY21 **(Table 4)**. This was one of the two sectors which contracted in all the four quarters of FY21. The other sector to show such persistent contraction was mining and quarrying. In the case of financial, real estate et.al sector, the contraction was confined to the first two quarters of FY21. Manufacturing contracted very sharply in 1QFY21 and after that, by only a small margin before showing a positive growth in 3Q and 4Q of FY21. Due to contraction and low growth characterizing the quarters of FY21, growth performance of these GVA sectors in the remaining quarters of FY22 are likely to be influenced by base effects.

Table 4: Quarterly growth in GVA sectors (%, y-o-y)

	Agr.	Ming.	Mfg.	Elec.	Cons.	Trans.	Fin.	Publ.	GVA
Weight* (%)	15.3	2.5	17.4	2.3	7.8	19.3	22.1	13.2	100.0
	% growth (y-o-y)								
1QFY19	5.2	-0.1	10.2	7.7	6.6	8.0	6.2	7.7	7.2
2QFY19	4.8	-1.8	5.2	9.8	5.3	7.1	6.9	7.4	6.2
3QFY19	1.9	0.9	4.7	9.3	6.8	7.2	6.9	6.1	5.4
4QFY19	-0.4	1.5	1.6	5.2	6.6	6.4	8.9	8.4	4.9
1QFY20	3.3	-1.3	0.6	6.9	3.7	6.2	8.8	5.6	5.0
2QFY20	3.5	-5.2	-3.0	1.7	1.0	6.8	8.9	8.8	4.6
3QFY20	3.4	-3.5	-2.9	-3.1	-1.3	7.0	5.5	8.9	3.4
4QFY20	6.8	-0.9	-4.2	2.6	0.7	5.7	4.9	9.6	3.7
1QFY21	3.5	-17.2	-36.0	-9.9	-49.5	-48.1	-5.0	-10.2	-22.4
2QFY21	3.0	-6.5	-1.5	2.3	-7.2	-16.1	-9.1	-9.2	-7.3
3QFY21	4.5	-4.4	1.7	7.3	6.5	-7.9	6.7	-2.2	1.0
4QFY21	3.1	-5.7	6.9	9.1	14.5	-2.3	5.4	2.3	3.7
1QFY22	4.5	18.6	49.6	14.3	68.3	34.3	3.7	5.8	18.8
INR Crore									
1QFY20	*4,49,390*	*82,914*	*5,67,516*	*79,654*	*2,60,099*	*6,64,311*	*8,02,241*	*3,99,148*	*33,05,273*
1QFY22	*4,86,292*	*81,444*	*5,43,821*	*82,042*	*2,21,256*	*4,63,525*	*7,89,929*	*3,79,205*	*30,47,516*
1QFY22 minus 1QFY20	*36,902*	*-1,470*	*-23,695*	*2,388*	*-38,843*	*-2,00,786*	*-12,312*	*-19,943*	*-2,57,757*

Source (basic data): MoSPI
* sectoral weights are in real terms, averaged over the period FY19 to FY21
Note: the cells highlighted in pink indicate those output segments where the magnitudes in real term in 1QFY22 are below the corresponding levels in 1QFY20.

Agriculture was the only sector which showed robust growth in all the four quarters in the COVID year. Agriculture's performance in 1QFY22 with a growth of 4.5% is also quite exemplary. In the case of mining and quarrying and manufacturing, although recovery has taken place in 1QFY22, it has not been adequate to surpass their absolute magnitudes in 1QFY20. These shortfalls have become visible in six out of eight major output sectors, the exception being agriculture and electricity, gas et.al sectors. The largest shortfall at INR2.00 lakh crore was seen in the case of trade, transport et.al sector.

4. Policy stimuli during and after COVID

The role of fiscal policy stimulus is reflected through the demand and output segments of the national income accounts. In the case of demand, its contribution is largely through the segment called GFCE and to some extent, through GFCF. With respect to GFCF, the national income data does not separately provide information on the contribution by the government. On the output side, government's contribution is largely reflected in the sector called public administration, defence and other services.

In both cases, as noted earlier, the growth in 1QFY22 was less than desirable in spite of an improvement in the center's tax revenue performance. CGA's fiscal data released recently showed that center's gross tax revenues (GTR) grew sharply by 83.1% during April-July FY22 over the corresponding period of FY21, and by 29.1% over the corresponding period of FY20. The center's fiscal deficit in the first four months of FY22 amounted to only 21.3% of the budgeted target as compared to the corresponding average level of 90% over the last four years.

A significant policy space is opening up for the government to raise its demand and its contribution to output in the remaining part of the current fiscal year. Attempts should be made either to bypass or at least to curb the adverse impact of COVID's likely third wave by increasing the coverage of vaccination and the pace of investment in health infrastructure within the strategy of expanding the overall infrastructure investment. As revenues improve, expenditures can be increased further without reducing the budgeted fiscal deficit level of 6.8% of GDP.

Table 5: Fiscal stimulus during COVID Wave 1 and Wave 2

#	Date of announcement	Type of initiative	Total amount	Part of Center's Budget	Additional to Center's Budget	Other than Central Budget
			INR Crore			
1	26 March 2020	PM Garib Kalyan Yojana	1,70,000	1,05,000	65,000	0
2	09 April 2020	COVID-19 Emergency Response and Health System Preparedness Package	15000	0	15000	0
3	13 to 17 May 2020	Atmanirbhar Bharat 1.0	11,02,650	500	1,22,400	9,79,750
4	30 June 2020	PM Garib Kalyan Anna Yojana/ Atmanirbhar Bharat 2.0	90,000	0	90,000	0
5	12 November 2020	Atmanirbhar Bharat 3.0	2,65,080	65,000	82,396	1,17,684
6	**Total fiscal stimulus for FY21 (COVID wave 1)**		**16,42,730**	**1,70,500**	**3,74,796**	**10,97,434**
7	As % to FY21 GDP		8.3	0.9	1.9	5.6
8	28 June 21	Relief measures for COVID's second wave	6,28,993	0	1,33,342	4,95,652
9	**Total fiscal stimulus for FY21 (COVID wave 2)**		**6,28,993**	**0**	**1,33,342**	**4,95,652**
10	As % to FY22 GDP		2.8	0.0	0.6	2.2
11	Total stimulus (FY21 and FY22 till date)		22,71,723	1,70,500	5,08,138	15,93,086
12	As % to FY22 GDP		10.2	0.8	2.3	7.1
Memo items:						
14	*FY21 nominal GDP*					*1,97,45,670*
15	*FY22 (budgeted) nominal GDP*					*2,22,87,379*

Source (basic data): Press Information Bureau (PIB), Government of India, MoSPI
Note: the highlighted rows indicate the magnitude of government's stimulus as a proportion of GDP

Both due to the injection of fiscal stimulus through several tranches **(Table 5)** and the lower denominator of nominal GDP resulting from the contraction of (-)3.0% in FY21, the fiscal deficit of the central government rose to 9.2% of GDP in FY21. For FY22, the budgeted fiscal deficit is at 6.8% of GDP, indicating that the central government realizes the need for keeping up the stimulus so as to support demand in FY22. The central government has also permitted the states to borrow more than their legislated fiscal deficit limit of 3% of their respective GSDPs subject to certain conditions[12]. As per the recommendations of the 15th Finance Commission, the states have been allowed to borrow up to 4% of GSDP in FY22 of which 0.5% points of GSDP has been earmarked for additional capital expenditure. In fact, based on states' performance in terms of incurring additional capital expenditure in the first quarter of FY22, the central government has permitted 11 states to undertake an additional borrowing of 0.25% of their respective GSDPs, amounting to INR15,721 crore[13].

In regard to monetary policy, while the RBI has continued to maintain its accommodative stance, the repo rate has been kept constant at 4.0% since 22 May 2020. Given that CPI inflation has remained under pressure, the RBI may not undertake any further reduction in the repo rate in the near future. As such, monetary policy would only be playing a supportive role while the main impetus to growth may need to come from the fiscal side.

[12] https://pib.gov.in/PressReleasePage.aspx?PRID=1693907
[13] https://pib.gov.in/PressReleasePage.aspx?PRID=1754695

5. Annual growth prospects and longer-term perspective

The Indian economy could have done better in 1QFY22 had its performance not been beset by the adverse impact of COVID's second wave which largely affected the months of April and May 2021. The 1QFY22 output and GDP growth data reflect a strong base effect since the corresponding levels in 1QFY21 were significantly adversely impacted by COVID's first wave which led to a country-wide lockdown during most of the first quarter of FY21. While the economic impact of the first wave was more severe, the health impact of the second wave was more serious. This occurred because of the difference in the nature and scope of lockdowns in the two waves.

An interesting aspect is to utilize the 1Q national income data to formulate views on how much additional growth would be required for the Indian economy in the remaining three quarters of the current year in order to clock the annual growth of 9.5% as forecasted by both, the RBI and the IMF. We estimate that an average growth of 6.8% in the remaining part of the year would enable the Indian economy to meet this target. This should easily be feasible in 2QFY22 since there would still be the benefit of a base effect, considering a contraction of (-)7.4% in 2QFY21. The task would become relatively more demanding in 3Q and 4Q considering that the real GDP growth was positive at 0.5% and 1.6% respectively in the corresponding quarters of FY21. We estimate that as compared to RBI's quarterly growth forecasts for 2Q, 3Q and 4Q of FY22 at 7.3%, 6.3%, and 6.1% respectively, the economy would have to grow by an additional margin of 0.32% points in each of the remaining quarters on average to make up for the shortfall in the 1Q growth relative to the RBI's estimate at 21.4%, if its projected growth of 9.5% in FY22 is to be achieved. Further, care should be taken to contain the adverse economic impact of COVID's subsequent waves by continuing to invest in health infrastructure which would be facilitated by the improving revenue flows.

6. Global growth prospects

After the projections by the RBI and the IMF of a real GDP growth of 9.5% in FY22, the latest available forecasts by the OECD (Interim Economic Outlook) have reassessed the potential recovery in India further upwards to 9.7% in 2021 (FY22) and 7.9% in 2022 (FY23). These surpass China's forecasted growth at 8.5% and 5.8% for 2021 and 2022 respectively. Clearly, India, amongst major economies, is well on its way to lead global growth in the post pandemic years.

The OECD has also projected a robust recovery in global growth to 5.7% in 2021 and 4.5% in 2022 helped by strong policy support, deployment of effective vaccines and resumption of economic activities, particularly in the services sector. In its assessment, global GDP has surpassed its pre-pandemic level, but output in mid-2021 was still 3.5% lower than projected before the pandemic. This represents a real income shortfall of over US$4.5 trillion (in 2015 PPP terms), and is broadly equivalent to one year of global output growth in normal times. Output and employment gaps remain in many countries, particularly in emerging market and developing economies (EMDEs) where vaccination rates are low. Among AEs, growth is projected to remain strong in the US and the Euro area at 6.0% and 5.3% respectively in 2021. A higher investment spending in the Euro area helped by the Next Generation EU funds, and an expected additional boost to infrastructure spending in the US are likely to aid growth in 2021 as well as in 2022. Downside challenges to global growth emanate from the possibility of a larger than anticipated impact of the Delta variant and inflationary pressures in the US, Canada, UK and some EMDEs.

7. Conclusion

India's GDP data for 1QFY22 has signaled a robust recovery although reflecting strong base effects. The real GDP growth at 20.1% in 1QFY22 is largely because of the contraction of (-)24.4% in the corresponding quarter of the COVID year, that is, FY21. In spite of this high growth, the magnitude of real GDP fell short of the corresponding level in FY20 by a margin of INR3.3 lakh crore.

Even a growth rate of 9.5% in the current year will mean that over a period of two years, the magnitude of India's real GDP would increase by a margin of 1.6% in FY22 as compared to the real GDP level of FY20. We should then consider FY23 to be a normal COVID-free year, both for purposes of targeting a potential growth of 7% plus and restoring efforts towards fiscal consolidation. It would then be time to lay the foundation for a higher and sustainable growth in the medium-term perspective.

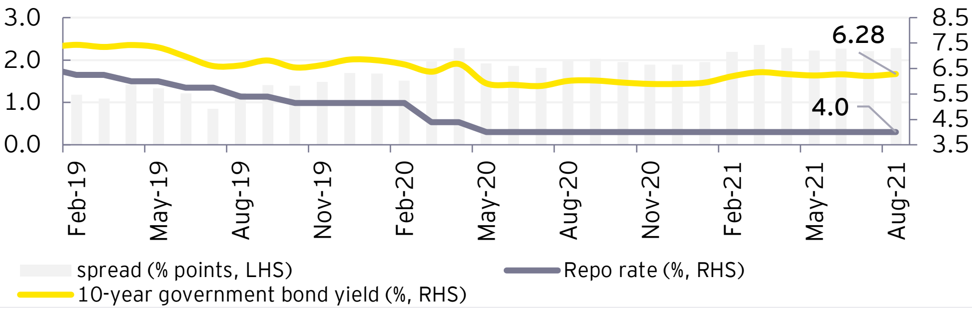
6. Money and finance: bank credit grew by 6.1% in July 2021

A. Monetary sector

Monetary policy

- In August 2021, the Monetary Policy Committee unanimously voted to retain the repo rate at 4.0% **(Chart 8)** for the seventh consecutive time. It also maintained an accommodative policy stance with an objective to revive and sustain the growth momentum.
- With increasing risks to CPI inflation emanating from (a) supply side constraints and (b) cost push pressures particularly led by surging global crude and commodity prices, the RBI had revised its CPI inflation forecasts upwards to 5.7% for FY22 as compared to its earlier projection of 5.1%. The RBI projected CPI inflation to remain elevated in 2QFY22 at 5.9%. However, in the first two months of 2QFY22, CPI inflation averaged 5.4%.

Chart 8: Movements in the repo rate and 10-year government bond yield



Source: Database on Indian Economy, RBI

Reflective of subdued demand, bank credit continued to grow at a slow pace of 6.1% in July 2021 although it was marginally higher than that in June 2021.

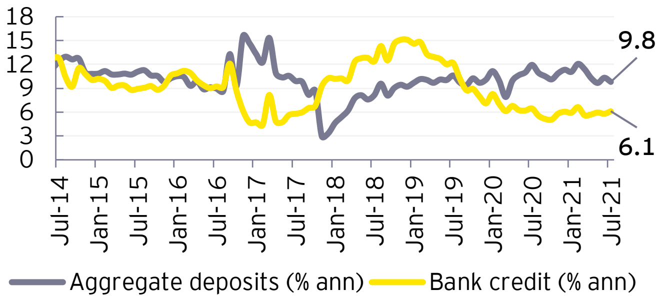
Money stock

- Growth in broad money stock (M3) fell to a 35-month low of 9.5% in August 2021. This was due to a fall in the growth of narrow money (M1). Growth in M1 moderated to 12.1% in August 2021 from 13.8% in July 2021 due to a fall in the growth of currency in circulation and demand deposits. Growth of currency in circulation fell to 9.8%, its lowest since October 2017 while growth in demand deposits fell to 15.8% in August 2021 from 19.4% in July 2021.
- Time deposits, accounting for about 76% of M3 on average (last three years), grew by 8.7% in August 2021, the same level as in July 2021, which was its lowest growth in the last 16 months.

Aggregate credit and deposits

- Growth in outstanding bank credit by scheduled commercial banks (SCBs) increased marginally to 6.1% in July 2021 from 5.8% in June 2021 (**Chart 9)**. Credit growth averaged 5.9% in the first four months of FY22, well below its growth of 12.5% during the corresponding period of FY20, suggesting that the domestic demand is still subdued.
- Growth in non-food credit was slightly higher at 5.8% in July 2021 as compared to 5.4% in June 2021.

Chart 9: Growth in credit and deposits



Source: Database on Indian Economy, RBI

- Sectoral deployment of bank credit[14] pointed to a modest recovery in industrial and services sector activities in July 2021. In fact, outstanding credit to industries grew by 0.1% in July 2021 as compared to a contraction of (-)0.3% in June 2021. Within the industrial sector, growth in credit to infrastructure improved marginally to 2.5% in July 2021 from 2.2% in June 2021. Credit to iron and steel and cement continued to show a double-digit contraction of (-)21.7% and (-)19.4% for the fifth successive month in July 2021.

[14] As per RBI, data on sectoral deployment of bank credit collected from select 33 scheduled commercial banks accounts for about 90% of the total non-food credit deployed by all scheduled commercial banks

- Growth in credit to services sector fell to 2.0% in July 2021 from 2.9% in June 2021. Credit to agricultural sector continued to post a double-digit growth for the sixth successive month, increasing to 12.7% in July 2021 from 11.4% in June 2021.
- Personal loans accounting for about 30% of total non-food credit grew by 12.9% in July 2021, increasing from 11.9% in June 2021.
- Growth in aggregate bank deposits was marginally lower at 9.8% in July 2021 as compared to 10.3% in June 2021.

B. Financial sector

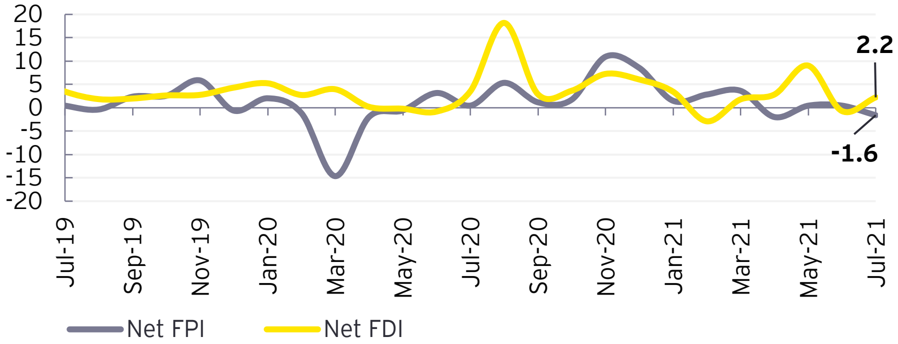
Interest rates

- As per the data released by the RBI on 3 August 2021, the average interest rate on term deposits with a maturity of more than one year was unchanged for the 11th consecutive month at 5.20% in August 2021, with the actual rate ranging from 4.90% to 5.50%.
- The MCLR averaged 6.78% for the second consecutive month in August 2021 with the actual rate ranging between 6.55% and 7.00%.
- The average yield on 10-year government bonds increased marginally to 6.28% in August 2021 from 6.21% in July 2021 **(Chart 8)**. Upward revision of CPI inflation projections for FY22 by the RBI in its August 2021 monetary policy review, and sustained uptick in international commodity and crude oil prices may have influenced the government bond yields in August 2021.
- After averaging at a historic low of 7.81% in May and June 2021, WALR on fresh rupee loans by SCBs increased to 7.99% in July 2021.

FDI and FPI

- As per the provisional data released by the RBI on 16 September 2021, overall foreign investments (FI)[15] inflows were low at US$0.6 billion in July 2021 as compared to outflows amounting to US$(-)0.2 billion (revised) in June 2021 led by higher net FDI inflows.

Chart 10: Net FDI and FPI inflows (US$ billion)



Source: Database on Indian Economy, RBI

Net FDI inflows were at US$2.2 billion in July 2021 as compared to outflows amounting to US$(-)0.7 billion in June 2021.

- Net FDI inflows amounted to US$2.2 billion in July 2021 as compared to outflows of US$(-)0.7 billion (revised) in June 2021 **(Chart 10)**. Gross FDI inflows increased to US$4.8 billion in July 2021 from US$4.2 billion in June 2021.
- FPIs registered net outflows amounting to US$(-)1.6 billion in July 2021 as compared to a net inflow of US$0.5 billion in June 2021.

[15] Foreign Investment (FI) = net FDI plus net FPI

7. Trade and CAB: merchandise trade deficit rose to a four-month high in August 2021

A. CAB: current account posted a deficit of (-)1.0% of GDP in 4QFY21

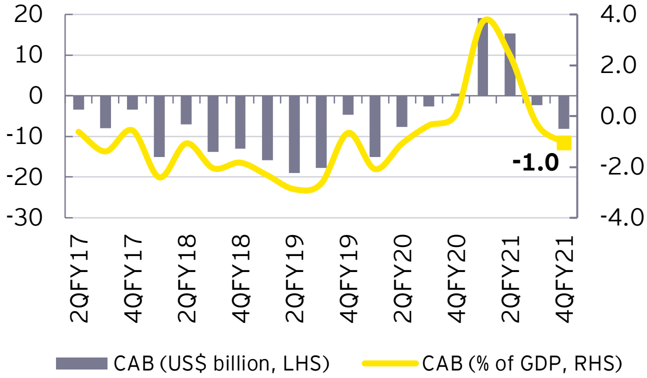
Current account recorded a deficit for the second successive quarter at (-)1.0% of GDP in 4QFY21, higher than (-)0.3% of GDP in 3QFY21 **(Chart 11, Table 6).** Net merchandise trade deficit deteriorated to (-)5.4% of GDP in 4QFY21 from (-)4.7% of GDP in 3QFY21. Merchandise exports relative to GDP increased to 11.7% in 4QFY21 from 10.4% in 3QFY21 reflecting revival in external demand. Merchandise imports rose to a seven-quarter high of 17.1% of GDP in 4QFY21. Net invisible receipts fell to a 12-quarter low of 4.3% of GDP in 4QFY21 partly reflecting the moderation in net transfers to 2.4% of GDP. In FY21, current account posted a surplus of 0.9% of GDP.

Table 6: Components of CAB in US$ billion

Fiscal year	CAB as % of nominal GDP	CAB	Goods account net	Invisibles* net
FY18	-48.7	-1.8	-160.0	111.3
FY19	-57.3	-2.1	-180.3	123.0
FY20	-24.7	-0.8	-157.5	132.8
FY21	32.1	0.9	-60.4	92.5
1QFY21	19.1	3.7	-11.0	30.0
2QFY21	15.3	2.4	-14.8	30.1
3QFY21	-2.2	-0.3	-34.6	32.4
4QFY21	-8.2	-1.0	-41.7	33.6

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

Chart 11: CAB



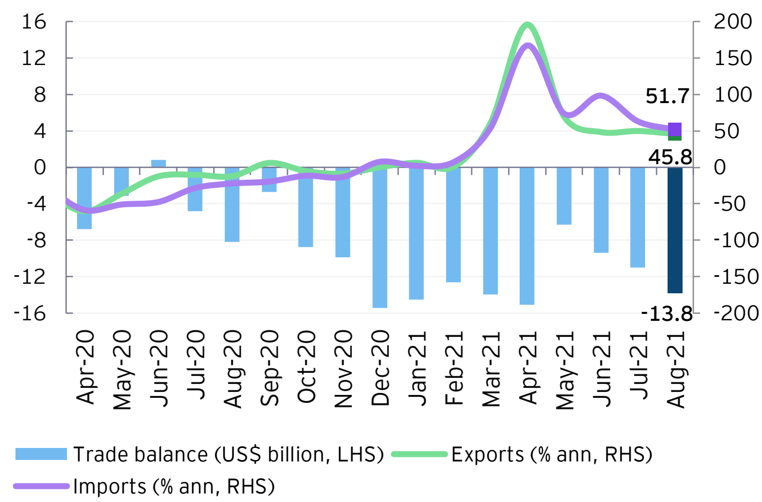
Source: Database on Indian Economy, RBI

B. Merchandise trade and exchange rate

Merchandise trade deficit increased to US$13.8 billion in August 2021 from US$11.0 billion in July 2021.

- Merchandise exports and imports growth (y-o-y) was elevated at 45.8% and 51.7% respectively in August 2021 due partly to favorable base effects **(Chart 12)**. Compared to July 2019 levels, exports grew by 28.0% in August 2021, reflecting a pick-up in external demand. Imports were 18.2% higher than their August 2019 levels.
- On a y-o-y basis, exports growth of engineering goods, petroleum products, and gems and jewelry were at 59.0%, 144.6% and 88.3% respectively in August 2021. However, as compared to August 2019 levels, these segments grew by 47.3%, 45.0% and 6.8% respectively.
- Similarly, imports of gold, oil and electronic goods experienced high y-o-y growth rates of 82.5%, 80.6% and 25.4% respectively in August 2021. Compared to August 2019 however, these segments grew by 395.0%, 6.0% and 10.7% respectively. The high growth in gold imports reflected pent up demand.
- Although the y-o-y growth in exports and imports excluding oil, gold and jewelry was high at 31.9% and 34.0% respectively in August 2021, compared to August 2019, imports growth was low at 1.8% whereas exports showed a high growth of 28.7%.
- The rupee marginally appreciated to INR74.2 per US$ (average) in August 2021 as compared to INR74.5 per US$ (average) in July 2021.

Chart 12: Developments in merchandise trade



Source: Ministry of Commerce and Industry, GoI

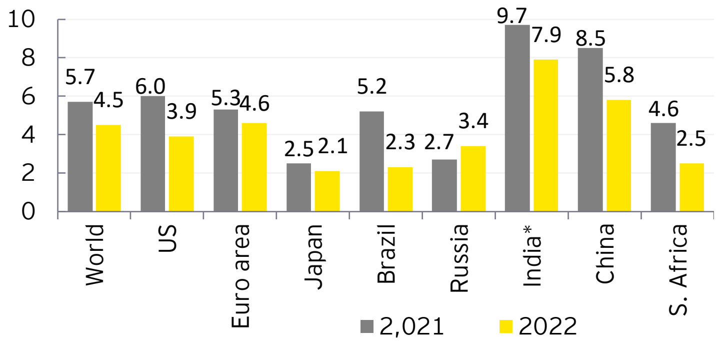
8. Global growth: OECD projected global growth at 5.7% in 2021

A. Growth outlook

The OECD has projected global growth to recover to 5.7% in 2021 with India's growth forecasted at 9.7% in FY22.

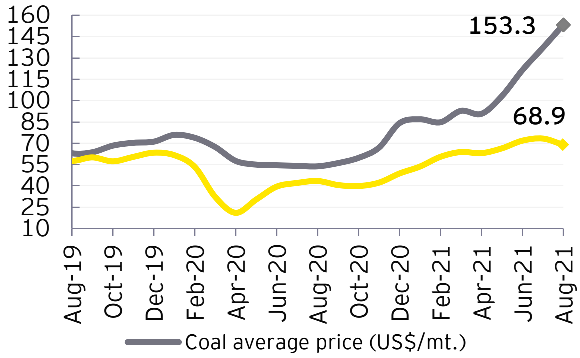
- The OECD (Economic Outlook, Interim Report, September 2021) projected a pick-up in global growth to 5.7% in 2021 helped by strong policy support, ongoing deployment of effective vaccines and gradual resumption of economic activities particularly in services sector **(Chart 13).**
- The OECD assessed that global GDP has surpassed its pre-pandemic level, but output and employment gaps remain in many countries, particularly in emerging market and developing economies (EMDEs) where vaccination rates are low.
- In the US and the Euro area, growth in 2021 is projected at 6.0% and 5.3% respectively. A higher investment spending in the Euro area helped by the Next Generation EU funds, and an expected additional boost to infrastructure spending in the US are likely to aid recovery in 2021 as well as in 2022.
- In Japan, growth is projected to recover to 2.5% in 2021 as infections abate and sanitary restrictions are lifted.
- Growth prospects in EMDEs are mixed. Growth in China is projected at 8.5% in 2021, close to its pre-pandemic path as commodity exporters benefit from high export prices and strong global demand for goods.
- India's growth is forecasted at 9.7% in 2021 (FY22), the highest amongst major advanced economies (AEs) and EMDEs. Growth is projected to remain robust at 7.9% in 2022 (FY23).
- In Brazil and South Africa, growth is projected to recover to 5.2% and 4.6% respectively in 2021. However, in 2022, it is expected to significantly slow down to 2.3% and 2.5% respectively.

Chart 13: Growth projections (%)



Source: OECD Economic Outlook, Interim Report (September 2021)
*data for India pertains to fiscal year

Chart 14: Global crude and coal prices



Source (basic data): World Bank, Pink Sheet, September 2021

B. Global energy prices: In August 2021, global crude price fell while global coal price peaked to a 13-year high

- Average global crude price[16] fell to US$68.9/bbl. in August 2021 from a recent peak of US$73.3/bbl. in July 2021 **(Chart 14).** This may be attributable to a weaker demand recovery due to an increase in the COVID cases in the US and China just as supply increased. On 18 July 2021, the OPEC+ members agreed to increase production by 400,000 barrels/day every month beginning August 2021. This is in addition to production increases in July 2021, including the full reversal of Saudi Arabia's voluntary production cut[17].
- Average global coal price[18] increased to a 13-year high of US$153.3/mt. in August 2021 owing to rebounding demand from emerging Asian markets and supply disruptions due to China's import ban on Australia as also disruptions in major producers such as Indonesia, South Africa and Russia.

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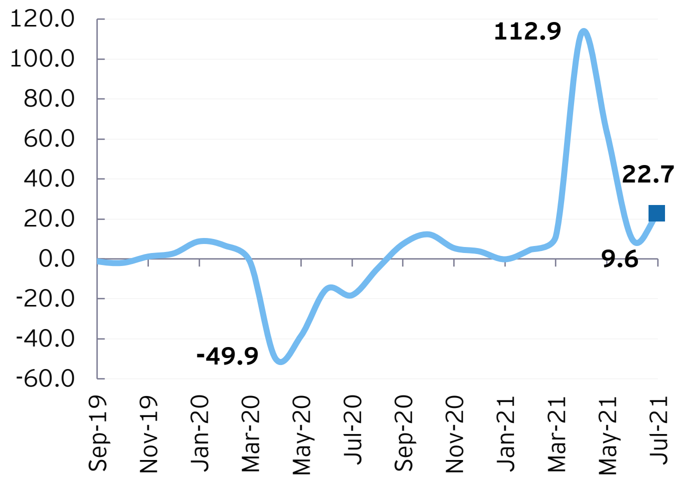
[16] Simple average of three spot prices, namely, Dated Brent, West Texas Intermediate and Dubai Fateh
[17] https://www.eia.gov/todayinenergy/detail.php?id=48956
[18] Simple average of Australian and South African coal prices

9. Index of Aggregate Demand (IAD): grew by 22.7% in July 2021

Growth in IAD increased to 22.7% in July 2021, owing partly to a continued favorable base effect

- EY has developed an 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 non-seasonally adjusted terms, tracing the demand conditions in these sectors. Demand conditions in the agricultural sector have been captured by movements in monthly agricultural credit off-take.
- Growth in IAD increased to 22.7% in July 2021 from 9.6% in June 2021 partly due to a favorable base effect and partly reflecting recovery in demand conditions (**Chart 15**).
- With the impact of COVID's second wave subsiding, demand conditions in manufacturing recovered in July 2021 as compared to the preceding two months. Demand conditions in agricultural sector continued to remain strong as reflected by a growth of 12.7% in agricultural credit off-take during July 2021 **(Table 7)**.
- Demand conditions in the services sector were somewhat better in July 2021 when compared to the previous month. However, PMI services continued to remain in contraction for the third successive month, pointing to the severity of the impact of COVID's second wave on this sector.

Chart 15: Growth in IAD (y-o-y)



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

Table 7: IAD

Month	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21
IAD	136.8	136.3	137.8	144.3	140.7	135.2	126.5	118.3	130.2
Growth (% y-o-y)	5.4	3.7	-0.2	4.6	11.5	112.9	63.1	9.6	22.7
Growth in agr. credit	8.5	9.4	9.9	10.2	12.3	12.2	12.1	11.4	12.7
Mfg. PMI**	6.5	6.9	7.8	8.0	5.5	5.0	-0.9	-3.5	5.5
Ser. PMI**	3.6	2.2	2.3	8.6	5.6	0.6	-4.1	-10.7	-5.9

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

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

10. Capturing macro-fiscal trends: data appendix

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

Fiscal year/ quarter/ month	IIP	Mining	Manufacturing	Electricity	Core IIP	Fiscal year/ quarter /month	PMI mfg.	PMI ser.
	% change y-o-y							
FY18	4.4	2.3	4.7	5.3	4.3	FY18	51.5	50.0
FY19	3.8	2.8	3.8	5.2	4.4	FY19	52.8	52.2
FY20	-0.8	1.6	-1.4	0.9	0.4	FY20	52.3	51.9
FY21	-8.6	-7.8	-9.8	-0.5	-7.0	FY21	50.2	41.7
2QFY21	-5.7	-7.0	-6.3	0.1	-4.8	2QFY21	51.6	41.9
3QFY21	1.7	-3.2	1.8	6.7	-0.4	3QFY21	57.2	53.4
4QFY21	6.0	-0.1	6.8	9.2	3.5	4QFY21	56.9	54.2
1QFY22	44.7	27.4	53.4	16.8	26.0	1QFY22	51.5	47.2
Apr-21	133.5	36.5	196.0	38.5	62.6	May-21	50.8	46.4
May-21	28.6	23.3	33.5	7.5	16.3	Jun-21	48.1	41.2
Jun-21	13.6	23.1	13.0	8.3	9.3	Jul-21	55.3	45.4
Jul-21	11.5	19.5	10.5	11.1	9.4	Aug-21	52.3	56.7

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

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

Fiscal year/ quarter/ month	CPI	Food Price Index	Fuel and light	Core CPI	WPI	Food Price Index	Mfg. products	Fuel and power	Core WPI
	% change y-o-y				% change y-o-y				
FY18	3.6	1.8	6.2	4.6	2.9	1.9	2.7	8.2	3.0
FY19	3.4	0.1	5.7	5.5	4.3	0.6	3.7	11.5	4.2
FY20	4.8	6.7	1.3	3.8	1.7	6.9	0.3	-1.8	-0.4
FY21	6.2	7.7	2.7	5.5	1.3	3.9	2.7	-8.0	2.2
2QFY21	6.9	9.7	2.9	5.4	0.5	5.5	1.3	-9.2	0.5
3QFY21	6.4	7.9	2.2	5.7	1.9	4.0	3.3	-8.1	3.0
4QFY21	4.9	3.5	3.9	5.9	5.1	2.9	6.5	2.5	6.3
1QFY22	5.6	4.0	10.8	6.1	12.0	7.5	10.5	28.8	9.9
May-21	6.3	5.0	11.9	6.6	13.1	8.2	11.3	36.7	10.4
Jun-21	6.3	5.1	12.6	6.3	12.1	6.7	11.0	29.3	10.5
Jul-21	5.6	4.0	12.4	6.0	11.2	4.5	11.2	26.0	10.8
Aug-21	5.3	3.1	12.9	6.0	11.4	3.4	11.4	26.1	11.2

Source: Office of the Economic Adviser, Ministry of Commerce and Industry and MoSPI
* The CPI for April and May 2020 has been imputed

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

Fiscal year/month	Gross tax revenue	Corporate tax	Income tax	Direct taxes*	Indirect taxes**	Fiscal deficit % of GDP	Revenue deficit % of GDP
FY 18 (CGA)	11.8	17.8	19.9	18.6	6.1	3.5	2.6
FY 19 (CGA)	8.4	16.2	13.1	14.9	3.0	3.4	2.4
FY20 (CGA)	-3.4	-16.1	4.0	-7.8	1.7	4.6	3.3
FY21 (CGA)	0.7	-17.9	-2.3	-10.7	12.7	9.2	7.4
FY 22 (BE over FY 21 RE)	16.7	22.6	22.2	22.4	11.4	6.8	5.1
Cumulated growth (%, y-o-y)						% of budgeted target	
Dec-20	-3.2	-15.4	-6.2	-11.2	4.2	62.7#	60.6#
Jan-21	-1.0	-14.9	-5.5	-10.5	7.5	66.8#	62.7#
Feb-21	-0.7	-16.2	-4.2	-10.4	7.8	76.0#	71.6#
Mar-21	0.7	-17.9	-2.3	-10.7	12.7	98.5#	99.9#
Apr-21	151.8	65.9	76.7	72.2	325.5	5.2	2.8
May-21	147.9	155.9	111.0	125.5	164.0	8.2	5.7
Jun-21	97.1	128.2	97.5	111.8	85.2	18.2	14.9
Jul-21	83.1	171.5	76.7	111.8	64.8	21.3	18.1

Source: Monthly Accounts, Controller General of Accounts, Government of India, Union Budget documents
* Includes corporation tax and income tax
** Includes customs duty, excise duty, service tax, CGST, UTGST, IGST and GST compensation cess.
#: as % of revised targets for FY21, fiscal and revenue deficits until November 2020 are as % of FY21 budget targets.

Fiscal year/month	CGST	UTGST	IGST	GST compensation cess	Total GST (Center)
	INR crore				
FY 2021 (RE)	4,31,000	-	-	84,100	5,15,100
FY 2022 (BE)	5,30,000	-	-	1,00,000	6,30,000
Monthly tax collection (INR crore)					
Dec-20	43,040	144	12,408	8,248	63,840
Jan-21	44,666	324	6,769	8,332	60,091
Feb-21	66,641	410	-37,308	9,349	39,092
Mar-21	56,818	322	-10,358	8,431	55,213
Apr-21	55,458	161	4,787	9,187	69,593
May-21	28,292	164	15,341	8,886	52,683
Jun-21	33,696	170	6,377	6,565	46,808
Jul-21	47,901	254	-3,733	7,530	51,952

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
Sep-20	4.00	FY18	7.5	7.5	30.3	22.1	FY18	21.8	9.2	7.05	424.4
Oct-20	4.00	FY19	13.7	8.9	30.7	-0.6	FY19	13.6	10.5	7.68	411.9
Nov-20	4.00	FY20	9.4	9.9	43.0	1.4	FY20	11.2	8.9	6.80	475.6
Dec-20	4.00	FY21	5.9	11.0	43.2	36.8	FY21	16.1	11.7	6.04	579.3
Jan-21	4.00	2QFY21	5.7	11.1	24.6	7.0	2QFY21	18.6	12.2	5.95	542.0
Feb-21	4.00	3QFY21	5.6	10.8	17.0	21.2	3QFY21	19.6	12.4	5.91	580.8
Mar-21	4.00	4QFY21	6.0	11.5	2.4	8.0	4QFY21	16.2	12.2	6.16	579.3
Apr-21	4.00	1QFY22	5.8	10.1	11.2	-1.1	1QFY22	15.4	10.7	6.26	609.0
May-21	4.00	Apr-21	5.7	10.3	2.8	-2.0	May-21	15.1	10.3	6.23	598.2
Jun-21	4.00	May-21	6.0	9.7	9.0	0.4	Jun-21	15.4	10.7	6.27	609.0
Jul-21	4.00	Jun-21	5.8	10.3	-0.7	0.5	Jul-21	13.8	9.9	6.21	620.6
Aug-21	4.00	Jul-21	6.1	9.8	2.2	-1.6	Aug-21	12.1	9.5	6.28	633.6

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		
FY18	10.6	20.9	-159.0	64.5	55.7	90.8	2011	4.3	1.8	6.4
FY19	8.6	10.6	-182.3	69.9	67.3	100.4	2012	3.5	1.2	5.4
FY20	-5.1	-8.2	-157.4	70.9	58.5	70.4	2013	3.5	1.4	5.1
FY21	-7.3	-17.4	-98.6	74.2	43.8	67.2	2014	3.5	2.1	4.7
2QFY21	-5.5	-23.4	-15.8	74.4	42.0	54.6	2015	3.4	2.4	4.3
3QFY21	-4.5	-5.6	-34.0	73.8	43.6	70.2	2016	3.3	1.8	4.5
4QFY21	19.6	18.4	-41.1	72.9	59.3	88.1	2017	3.8	2.5	4.8
1QFY22	85.9	108.7	-30.8	73.8	67.1	105.1	2018	3.5	2.2	4.5
May-21	69.4	73.6	-6.3	73.3	66.4	103.2	2019*	2.8	1.6	3.7
Jun-21	48.3	98.3	-9.4	73.6	71.8	121.4	2020*	-3.2	-4.6	-2.1
Jul-21	49.8	63.0	-11.0	74.5	73.3	137.2	2021*	6.0	5.6	6.3
Aug-21	45.8	51.7	-13.8	74.2	68.9	153.3	2022*	4.9	4.4	5.2

Source: Database on Indian Economy - RBI, Pink Sheet - World Bank and IMF World Economic Outlook April 2021 and World Economic Outlook Update July 2021.
* revised values as per July 2021 WEO; Note: forecasts for 2021 and 2022.

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
FY18 (3rd RE)	6.2	6.6	-5.6	7.5	10.6	5.2	10.3	1.8	8.3	4.5
FY19 (2nd RE)	5.9	2.6	0.3	5.3	8.0	6.3	7.1	7.2	7.4	4.5
FY20 (1st RE) $	4.1	4.3	-2.5	-2.4	2.1	1.0	6.4	7.3	8.3	3.3
FY21(PE)#	-6.2	3.6	-8.5	-7.2	1.9	-8.6	-18.2	-1.5	-4.6	3.4
1QFY20	5.0	3.3	-1.3	0.6	6.9	3.7	6.2	8.8	5.6	4.6
2QFY20	4.6	3.5	-5.2	-3.0	1.7	1.0	6.8	8.9	8.8	2.0
3QFY20	3.4	3.4	-3.5	-2.9	-3.1	-1.3	7.0	5.5	8.9	3.4
4QFY20	3.7	6.8	-0.9	-4.2	2.6	0.7	5.7	4.9	9.6	3.2
1QFY21	-22.4	3.5	-17.2	-36.0	-9.9	-49.5	-48.1	-5.0	-10.2	2.8
2QFY21	-7.3	3.0	-6.5	-1.5	2.3	-7.2	-16.1	-9.1	-9.2	2.2
3QFY21	1.0	4.5	-4.4	1.7	7.3	6.5	-7.9	6.7	-2.2	3.2
4QFY21	3.7	3.1	-5.7	6.9	9.1	14.5	-2.3	5.4	2.3	4.9
1QFY22	18.8	4.5	18.6	49.6	14.3	68.3	34.3	3.7	5.8	6.5

Source: National Accounts Statistics, MoSPI
$ Growth numbers for FY20 are based on the first revised estimates (RE) of NAS released by the MoSPI on 29 January 2021 over the second RE of NAS for FY19, #FY21 growth numbers are based on the provisional estimates released by MoSPI on 31 May 2021 over the second revised estimates for FY20 released on 26 February 2021.

Fiscal year/quarter	Expenditure components						IPD inflation
	GDP	PFCE	GFCE	GFCF	EX	IM	GDP
FY18 (3rd RE)	6.8	6.2	11.9	7.8	4.6	17.4	4.0
FY19 (2nd RE)	6.5	7.6	6.3	9.9	12.3	8.6	3.7
FY20 (1st RE) $	4.0	5.5	7.9	5.4	-3.3	-0.8	3.6
FY21(PE)#	-7.3	-9.1	2.9	-10.8	-4.7	-13.6	4.6
1QFY20	5.4	7.6	1.8	13.3	3.0	9.4	4.0
2QFY20	4.6	6.5	9.6	3.9	-1.3	-1.7	1.6
3QFY20	3.3	6.4	8.9	2.4	-5.4	-7.5	3.1
4QFY20	3.0	2.0	12.1	2.5	-8.8	-2.7	5.6
1QFY21	-24.4	-26.2	12.7	-46.6	-21.8	-40.9	2.8
2QFY21	-7.4	-11.2	-23.5	-8.6	-2.0	-17.9	3.3
3QFY21	0.5	-2.8	-1.0	2.6	-3.5	-5.0	4.8
4QFY21	1.6	2.7	28.3	10.9	8.8	12.3	7.0
1QFY22	20.1	19.3	-4.8	55.3	39.1	60.2	9.7

Source: National Accounts Statistics, MoSPI
$ Growth numbers for FY20 are based on the first revised estimates (RE) of NAS released by the MoSPI on 29 January 2021 over the second RE of NAS for FY19, #FY21 growth numbers are based on the provisional estimates released by MoSPI on 31 May 2021 over the second revised estimates for FY20 released on 26 February 2021

List of abbreviations

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

Sr. no.	Abbreviations	Description
37	GST	Goods and Services Tax
38	GVA	gross value added
39	IAD	Index of Aggregate Demand
40	IBE	interim budget estimates
41	ICRIER	Indian Council for Research on International Economic Relations
42	IEA	International Energy Agency
43	IGST	Integrated Goods and Services Tax
44	IIP	Index of Industrial Production
45	IMF	International Monetary Fund
46	IMI	Index of Macro Imbalance
47	IMP	imports
48	INR	Indian Rupee
49	IPD	implicit price deflator
50	J&K	Jammu and Kashmir
51	MCLR	marginal cost of funds-based lending rate
52	Ming.	mining and quarrying
53	Mfg.	manufacturing
54	m-o-m	month-on-month
55	Mt	metric ton
56	MoSPI	Ministry of Statistics and Programme Implementation
57	MPC	Monetary Policy Committee
58	NEXP	net exports (exports minus imports of goods and services)
59	NPA	non-performing assets
60	NCLT	National Company Law Tribunal
61	OECD	Organization for Economic Co-operation and Development
62	OPEC	Organization of the Petroleum Exporting Countries
63	PFCE	private final consumption expenditure
64	PIT	personal income tax
65	PMI	Purchasing Managers' Index (reference value = 50)
66	PoL	petroleum oil and lubricants
67	PSBR	public sector borrowing requirement
68	RE	revised estimates
69	PSU/PSE	public sector undertaking/public sector enterprises
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	WPI	Wholesale Price Index
77	y-o-y	year-on-year
78	1HFY20	first half of fiscal year 2019-20, i.e., April 2019-September 2019

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