ENTER

Economy Watch

Monitoring India's macro-fiscal performance

October 2021

Building a better working world

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Highlights

1. In September 2021, both PMI manufacturing and services reflected sustained output expansion with their respective levels at 53.7 and 55.2.

2. IIP growth was marginally higher at 11.9% in August 2021 as compared to 11.5% in July 2021.

3. CPI inflation moderated to a five-month low of 4.3% in September 2021 led by a faster pace of contraction in vegetable prices.

4. WPI inflation remained elevated at 10.7% in September 2021 largely due to high global commodity prices particularly crude prices.

5. The RBI retained the repo rate at 4.0% for the eighth consecutive time in its monetary policy review held on 8 October 2021.

6. As per the CGA, Center's gross taxes grew by 70.5% during April-August FY22 over the corresponding period of FY21, and by 30.1% over the corresponding period of FY20.

7. Center's total expenditure grew by 2.3% during April-August FY22 with revenue expenditure contracting by (-)0.8% and capital expenditure showing a growth of 27.8%.

8. During April-August FY22, Center's fiscal and revenue deficits as a proportion of their corresponding BE stood respectively at 31.1% and 27.3%, their lowest levels since FY01.

9. Current account recorded a surplus at 0.9% of GDP in 1QFY22 as compared to a deficit of (-)1.0% of GDP in 4QFY21.

10. Merchandise exports growth was elevated at 22.6% in September 2021. Compared to September 2019 levels, exports grew by 29.9% in September 2021, reflecting robust external demand.

11. Merchandise trade deficit increased to a historic high of US$22.6 billion in September 2021 due to a surge in imports growth particularly of gold and oil.

12. As of 18 October 2021, both brent and WTI crude reached multi-year highs of US$84.13/bbl. and US$82.62/bbl. respectively reflecting growing demand amid supply disruptions.

13. The IMF has marginally lowered its global growth forecast to 5.9% for 2021 in its October 2021 issue of World Economic Outlook while retaining India's growth at 9.5% for FY22.

Foreword

With growth prospects at 9.5% or more, India is expected to show robust recovery in FY22

RBI's October 2021 monetary policy review confirmed its earlier projection of an annual real GDP growth for India at 9.5% in FY22. This growth projection matches that of the IMF and is only marginally lower than that of the OECD at 9.7%. As per the October 2021 issue of IMF's World Economic Outlook, the Indian economy is poised to become the global growth leader FY22 onwards. Not only does it overtake China amongst major economies in FY22 but it is projected to retain this position for the next five years. A real growth of 9.5% in FY22 implies that India will emerge, after a lapse of two years, with a net GDP growth of 1.6% over the FY20 level. Correspondingly, GDP at 2011-12 prices is estimated at about INR148 lakh crore in FY22. This would translate to an estimated nominal GDP magnitude of INR225 lakh crore, which is close to the magnitude indicated in FY22 Union Budget at INR223 lakh crore. This would also be consistent with RBI's projected CPI inflation rate of 5.3% for FY22. The latest data indicates that the CPI inflation moderated to a five-month low of 4.3% in September 2021 led by a faster pace of contraction in vegetable prices. However, as recognized in RBI's monetary policy statement, there are significant risk factors in relation to recovery and growth arising from the ongoing global energy crisis particularly affecting crude and coal supplies and prices. If these supply side risks are suitably contained, India may be able to show the highest growth among major economies in FY22 and beyond, in line with the IMF's projections. By maintaining the repo and reverse repo rates as well as the policy stance at their current levels, the RBI has signaled that the active policy management may have to come from the Ministry of Finance in the remaining part of the fiscal year.

Data from the CGA on monthly central finances showed that the Center's gross tax revenues (GTR) grew by 70.5% during April-August FY22 over the corresponding period of FY21, and by 30.1% over the corresponding period of FY20. Non-tax revenues of the Center also showed a high growth of 72.6% during April-August FY22. As a proportion of the budgeted magnitude, non-tax revenues during the first five months stood at 61.2% as compared to just 22.4% last year. Further, the sale of Air India by the central government has reinvigorated government's disinvestment agenda. This sale is at an enterprise value of INR18,000 crore, out of which INR15,300 crore is the debt to be retained by Tata Sons. The balance of INR2,700 crore would accrue to the government. As per available information[1], the government plans to privatize a number of PSUs this year including BEML, Shipping Corp, NINL, Pawan Hans, CEL and BPCL and is hopeful to meet its ambitious disinvestment target of INR1.75 lakh crore.

The Center's fiscal deficit in the first five months of FY22 amounted to only 31.1% of the budgeted target as compared to the corresponding average level of 94.7% over the last four years. In fact, fiscal deficit relative to GDP during April-August FY22 was at its lowest level since FY01. With such an improved tax revenue growth performance, government may have the option to reduce the magnitude of the budgeted fiscal deficit although there would be some pressure due to the enhanced global crude prices on fertilizer and food subsidies. There may also be some slippage in non-tax and non-debt capital receipts as compared to the budget estimates. However, it may still be advisable to prioritize growth with a view to consolidating the ongoing growth momentum rather than looking at any possible reduction in the fiscal deficit as compared to the budgeted magnitude. Thus, the government could stimulate public sector demand while retaining the budgeted fiscal deficit level of 6.8% of GDP for FY22 while raising capital expenditure above budgeted levels in the remaining part of the current fiscal year. Given that the National Infrastructure Pipeline (NIP) targets have not been met fully so far, government should take advantage of the improved tax buoyancy as also the recently launched National Monetisation Pipeline (NMP) to make up for some of the shortfalls relative to the original NIP targets.

With respect to COVID vaccination, India crossed the milestone of 100 crore doses on 21 October 2021. As on 25 October 2021, 102.3 crore vaccination doses have been administered of which 71.8 crore persons have received one dose and 15.3 crore persons have received both the doses. This implies that nearly 93% of the estimated eligible population[2], that is, population aged 18 years and above, has been administered with at least one dose. Efforts should be made now to complete the coverage of vaccination by the required two doses for the eligible

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[1] https://www.moneycontrol.com/news/business/companies/interview-had-govt-retained-air-india-aviation-sector-growth-would-have-been-constrained-dipam-secretary-7566981.html

[2] Eligible population is estimated at 93.96 crore. This estimate is based on data sourced from the Report of the Technical Group on Population Projections 2019, Ministry of Health and Family Welfare, Government of India.

population before considering expanding the program to cover population aged above 12 years, booster shots to vulnerable population segments, and vaccine exports. Investment in health infrastructure should continue to be the focus area.

High frequency indicators confirm that economic recovery is gathering momentum. PMI manufacturing expanded for the third successive month to 53.7 in September 2021, increasing from 52.3 in August 2021. PMI services at 55.2 in September 2021 remained well above its long-run average although down from an 18-month high of 56.7 in August 2021. Retail sales of passenger vehicles was higher at 2.33 lakh units in September 2021 as compared to 2.00 lakh units in the corresponding month of 2020, implying an y-o-y growth of 16.3%[3]. GST collections remained above the benchmark level of INR1.0 lakh crore for the third consecutive month in September 2021 with a monthly collection of INR1.17 lakh crore, rising from the August 2021 level of INR1.12 lakh crore. Growth in outstanding bank credit by scheduled commercial banks (SCBs) increased to a 16-month high of 6.7% in August 2021. Merchandise exports growth was elevated at 22.6% in September 2021 over the corresponding month of 2020 and at 29.9% over September 2019, reflecting robust external demand. Although growth in power consumption improved to 2.8% during the first 24 days of October 2021 compared to a zero growth in September 2021 largely owing to the festive season, it continued to remain subdued reflecting the impact of supply constraints. With economic recovery gathering momentum, it is important to ensure that any power shortage does not develop due to supply side bottlenecks particularly that of coal.

Moody's on 6 October 2021 upgraded India's outlook to 'stable' from 'negative' owing to receding downside risks to the economy and financial system. Further, it assessed that economic recovery is underway with activity picking-up and broadening across sectors and downside risks to growth from subsequent COVID waves were mitigated by rising vaccination rates and more selective use of restrictions on economic activity during the second wave[4].

India is now making effort to play an active role in participating in the global supply chain pertaining to semiconductors. According to recent media reports, the Center is in talks with a Taiwanese semiconductor manufacturer to set up a factory in India with an investment of up to US$7.5 billion[5]. Contacts have already been established at the highest level with Qualcomm for potential investment in India's telecom and electronics sectors including semiconductors. Over 20 semiconductor manufacturing and designing companies in high-end mobile display and specialty fabrication have expressed interest in setting up manufacturing plants in India[6]. The government is expected to come out with an incentive scheme specifically for display and semiconductor fabrication units[7].

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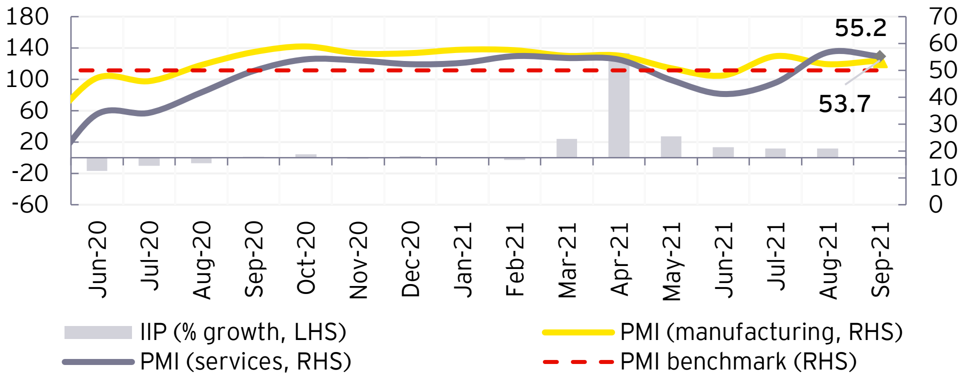
[3] https://fada.in/images/press-release/1615e8d102e816FADA%20Press%20Release%20-%20FADA%20releases%20September%2721%20Vehicle%20Retail%20Data.pdf
[4] https://www.livemint.com/economy/moodys-upgrades-india-s-sovereign-outlook-to-stable-11633447893197.html
[5] https://www.livemint.com/news/india/why-modi-govt-shouldn-t-replicate-china-while-fancying-semiconductor-manufacturing-in-india-11633313811275.html
[6] https://www.thehindubusinessline.com/companies/over-20-semiconductor-cos-submit-eois-for-pli-scheme/article34869112.ece
[7] https://www.financialexpress.com/industry/govt-to-come-out-with-incentive-schemes-for-semiconductor-and-display-fabs-in-6-months/2255932/

1. Growth: PMI indicated sustained recovery in manufacturing and services output in 2QFY22

A. PMI: signaled sustained output expansion in both manufacturing and services in September 2021

- Headline manufacturing PMI (seasonally adjusted (sa)) expanded for the third successive month in September 2021, with its level increasing to 53.7 from 52.3 in August 2021 (**Chart 1**). On a quarterly basis, PMI manufacturing averaged 53.8 in 2QFY22, up from 51.5 in 1QFY22.
- PMI services continued to show strong pace of expansion at 55.2 in September 2021, well above its long-run average. However, it showed a marginal decline from an 18-month high of 56.7 in August 2021. On a quarterly basis, PMI services averaged 52.4 in 2QFY22 as compared to 47.2 in 1QFY22.
- The composite PMI Output Index (sa) at 55.3 in September 2021 was almost unchanged from 55.4 in August 2021. The September 2021 level reflected a sustained output expansion in both manufacturing and services sectors. On a quarterly basis, composite PMI averaged 53.3 in 2QFY22 as compared to 48.9 in 1QFY22.

Chart 1: PMI and IIP growth



In September 2021, both PMI manufacturing and services reflected sustained output expansion with their respective levels at 53.7 and 55.2.

Source: MoSPI and IHS Markit

B. IIP: grew by 11.9% in August 2021, pointing to a sustained recovery in industrial activity

- The quick estimates of IIP released by the MoSPI on 12 October 2021 show that IIP grew by 11.9% in August 2021, marginally higher than 11.5% in July 2021 **(Chart 1)**. IIP growth, when evaluated over August 2019, turned positive for the first time since March 2021 at 3.9% in August 2021. This indicates that industrial activity has surpassed its pre-pandemic levels.
- Output of all the three sub-industries namely mining, electricity and manufacturing posted a strong y-o-y growth of 23.6%, 16.0% and 9.7% respectively in August 2021.
- As per the use-based classification of industries, output of capital goods, and infrastructure/construction goods continued to show a double-digit growth of 19.9% and 11.1% respectively in August 2021. Output growth of consumer durables was lower at 8.0% in August 2021 as compared to 19.4% in July 2021 while that of consumer non-durables was positive at 5.2% in August 2021 as compared to a contraction of (-)2.1% in July 2021.
- According to provisional estimates, output of eight core infrastructure industries (core IIP) grew by 11.6% (y-o-y) in August 2021, improving from 9.9% (revised) in July 2021 largely reflecting a pick-up in industrial activity. Core IIP grew by 3.9% in August 2021 over its value in August 2019 with six out of eight sub-industries showing a positive growth.
- When compared to the corresponding values in August 2020, among sub-industries, growth in the output of six out of eight industries namely, cement (36.3%), coal (20.6%), natural gas (20.6%), electricity (15.3%), petroleum refinery products (9.1%) and steel (5.1%) was positive in August 2021.

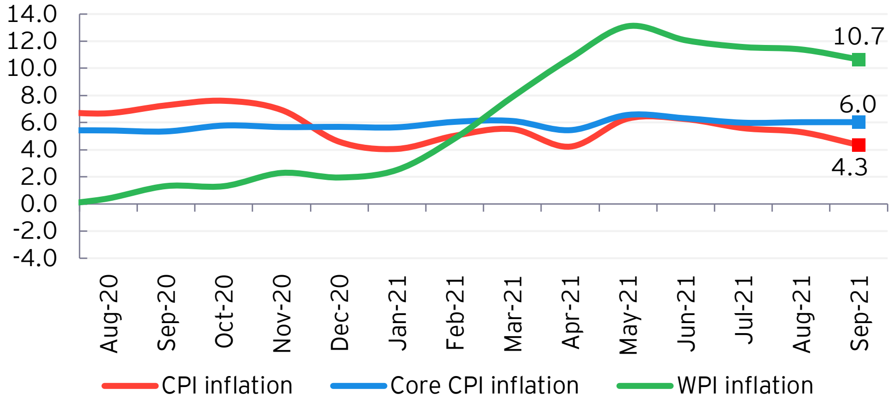
IIP growth was marginally higher at 11.9% in August 2021 as compared to 11.5% in July 2021.

2. Inflation: CPI inflation eased to a five-month low of 4.3% in September 2021

CPI inflation moderated to 4.3% in September 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 30-month low of 0.7% in September 2021 as the pace of contraction in vegetable prices nearly doubled to (-)22.5% in September 2021 from (-)11.7% in August 2021. Contraction in prices of potatoes, tomatoes and onions was high at (-)47.5%, (-)45.7% and (-)9.6% respectively in September 2021.
- Fuel and light inflation was at an all-time high of 13.6% (2011-12 series) in September 2021 due to high inflation in LPG.
- Inflation in miscellaneous goods and services remained stable at 6.4% in September 2021, the same level as in August 2021.
- Inflation in transportation and communication services remained high at 9.5%, although falling below 10.0% for the first time since January 2021.
- Core CPI inflation[8] remained stable for the third successive month at an elevated level of 6.0% in September 2021.

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



CPI inflation eased to a five-month low of 4.3% in September 2021 even as core CPI inflation remained stable for the third successive month at an elevated level of 6.0%.

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[9]; Core CPI inflation has been estimated for April 2020 and May 2020 using this imputed data

WPI inflation remained elevated at 10.7% in September 2021 led by high global commodity prices particularly crude prices.

- Headline WPI inflation remained above 10% for the sixth successive month in September 2021.
- Core WPI inflation remained at a historic high (2011-12 series) of 11.2% in September 2021 led by continued broad based inflationary pressures particularly on manufactured basic metals where inflation was elevated at 26.7% in September 2021, although marginally lower than 27.5% in August 2021.
- Fuel and power inflation was high at 24.8% in September 2021, although slightly lower than 26.1% in August 2021, as inflation in mineral oils (including petrol and diesel) remained elevated at 51.7% in September 2021.
- WPI food index-based inflation eased to an eight-month low of 1.1% in September 2021 reflecting a sharper pace of contraction in vegetables prices at (-)32.4% in September 2021 as compared to (-)13.3% in August 2021.

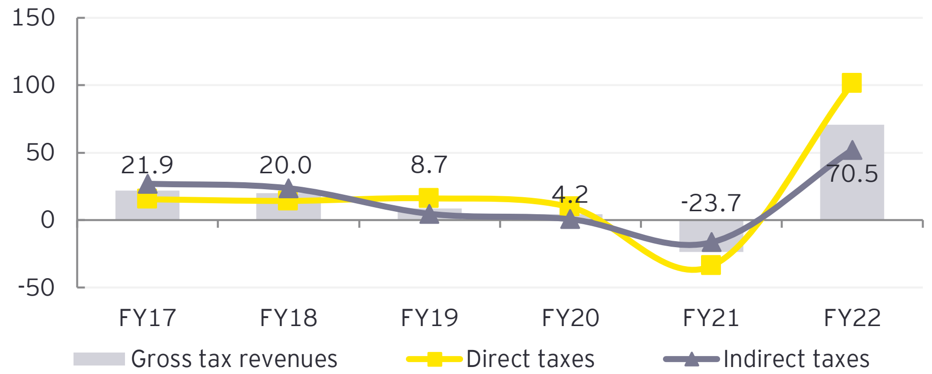
[8] Core CPI inflation is measured in different ways by different organizations/agencies. Here, it has been calculated by excluding food, and fuel and light from the overall index.
[9] http://www.mospi.gov.in/sites/default/files/press_release/CPI%20Technical%20Note%20on%20Imputation.pdf

3. Fiscal performance: Center's fiscal deficit during Apr-Aug 2021 stood at 31.1% of the BE

A. Tax and non-tax revenues

- As per the Comptroller General of Accounts (CGA)[10], Center's gross tax revenues (GTR) grew by 70.5% during April-August FY22 partly reflecting the continuing base effect due to a contraction of (-)23.7% during April-August FY21. Growth in Center's GTR, when calculated over the corresponding period of FY20, was at 30.1% (**Chart 3**).
- Direct and indirect taxes grew by 101.4% and 52.1% respectively during April-August FY22 as compared to a contraction of (-)34.1% and (-)16.5% respectively in the corresponding period of FY21. Growth in direct and indirect taxes when evaluated over the corresponding period of FY20 was at 32.8% and 27.0% respectively.
- Corporate income tax (CIT) showed a high growth of 159.7% during April-August FY22 as compared to a contraction of (-)41.8% in the corresponding period of FY21. CIT revenues grew by 51.2% during the first five months of FY22 over the corresponding period of FY20.
- Personal income tax (PIT) grew by 69.3% during April-August FY22 over the corresponding period of FY21, and by 20.5% over the corresponding period of FY20.
- Among indirect taxes, Center's GST revenues[(a)] grew by 46.3% during April-August FY22 as compared to a contraction of (-)23.9% during the corresponding period of FY21. GST revenues during the first five months of FY22 grew by 11.4% over the corresponding period of FY20.
- Union excise duties grew by 36.7% during April-August FY22 as compared to 31.0% during the corresponding period of FY21. Revenues from union excise duties have remained buoyant owing to the high tax rates on petroleum products.
- Center's customs duty revenues showed a growth of 136.0% during April-August FY22 as compared to a contraction of (-)47.9% during April-August FY21. Growth during April-August FY22 when calculated over the corresponding period of FY20 was at 22.9%.

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



As per the CGA, Center's gross taxes grew by 70.5% during April-August FY22 over the corresponding period of FY21, and by 30.1% 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, and GST (comprising CGST, UTGST, IGST and GST compensation cess) (b) Other taxes (securities transaction tax, wealth tax, fringe benefit tax, banking cash transaction tax, etc.) are included in the center's gross tax revenues along with direct and indirect taxes, (c) IGST revenues are subject to

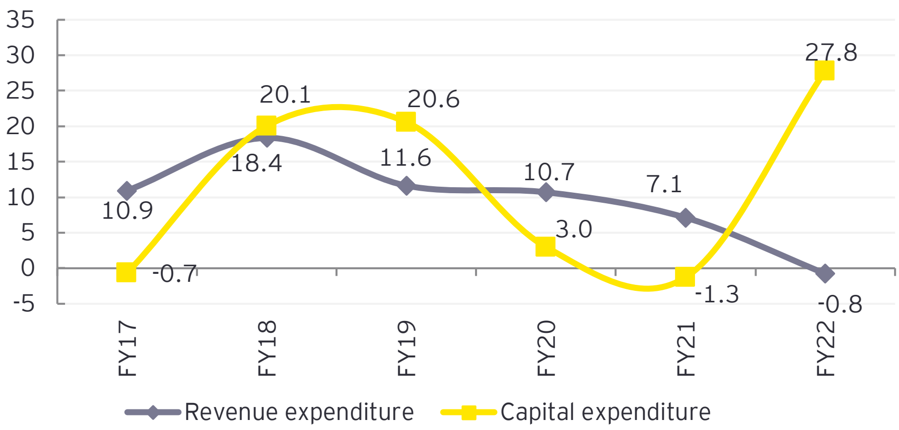
- Reflecting the impact of dividends from the RBI, Center's non-tax revenues posted a growth of 72.6% during April-August FY22 as compared to a contraction of (-)56.6% during the corresponding period of FY21. Non-tax revenues during April-August FY22 stood at 61.2% of the annual BE as compared to just 22.4% last year.
- Non-debt capital receipts grew by 127.8% during April-August FY22 over the corresponding period of FY21 but showed a contraction of (-)16.9% over the corresponding period of FY20.
- As per information sourced from the Department of Investment and Public Asset Management[11], disinvestment receipts as of 27 October 2021 stood at INR9,110.56 crores, that is 5.2% of the FY22 BE.

[10] Monthly accounts for August 2021 released on 30 September 2021
[11] https://www.dipam.gov.in/dipam/home

B. Expenditures: revenue and capital

- Center's total expenditure grew by 2.3% during April-August FY22 as compared to 6.2% during the corresponding period of FY21.
- Revenue expenditure contracted by (-)0.8% during April-August FY22 as compared to a growth of 7.1% during the corresponding period of FY21 (**Chart 4**).
- Center's capital expenditure showed a growth of 27.8% during the first five months of FY22 as compared to a contraction of (-)1.3% during the corresponding period of FY21. However, as a proportion of the annual BE, capital expenditure during April-August FY22 stood at 31.0%, lower than the corresponding average ratio of 39.0% over the last three years.

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



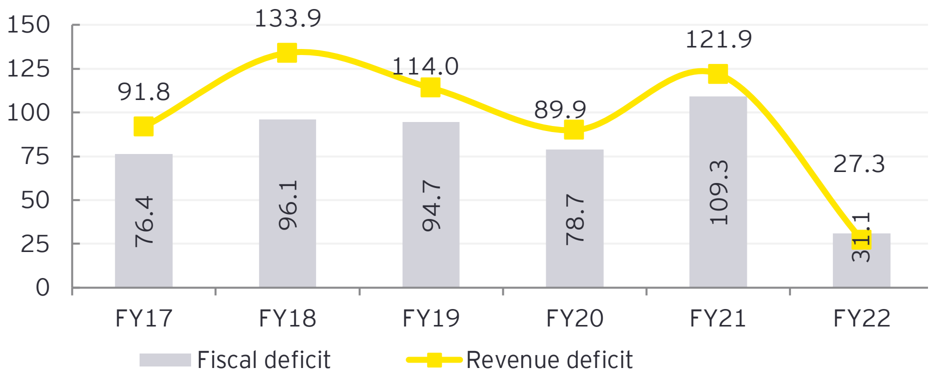
Source (basic data): Monthly Accounts, Controller General of Accounts (CGA), Government of India

Center's total expenditure grew by 2.3% during April-August FY22 with revenue expenditure contracting by (-)0.8% and capital expenditure showing a growth of 27.8%.

C. Fiscal imbalance

- Center's fiscal deficit during April-August FY22 stood at 31.1% of the annual BE as compared to the corresponding average level of 94.7% over the last four years (**Chart 5**). This was its lowest level in recent history, at least since FY01.
- Center's revenue deficit during April-August FY22 as a proportion of the BE stood at 27.3% as compared to the corresponding average level of 114.9% over the last four years. This was its lowest level in recent history, at least since FY01.

Chart 5: Fiscal and revenue deficit during April-August as percentage of annual BE



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

During April-August FY22, Center's fiscal and revenue deficits as a proportion of their corresponding BE stood respectively at 31.1% and 27.3%, their lowest levels since FY01.

4. Comparative global perspective: India to be the global growth leader during 2021 to 2026

Real GDP growth

- As per the IMF, global growth is projected to recover to 5.9% in 2021 after a contraction of (-)3.1% in 2020. Growth is projected to moderate to 4.9% in 2022 and further to 3.3% in the medium term.
- Growth in advanced economies (AEs) as a group is projected at 5.2% in 2021 and 4.5% in 2022 and then ease to about 1.6% by 2025.
- In emerging market and developing economies (EMDEs), growth is projected to taper from 6.4% in 2021 to 4.4% in the medium term. It is notable that the extent of projected fall in the growth rate for EMDEs is much lower than that for the AEs.
- In the US, growth has been revised down by 1% point to 6.0% in 2021 as compared to the July 2021 projections due to large inventory drawdowns in the second quarter, partly reflecting supply disruptions, and softening consumption in the third quarter. The US growth outlook incorporates the infrastructure bill recently passed by the Senate and anticipated legislation to strengthen the social safety net, equivalent to about US$4 trillion in spending over the next 10 years.
- Among EMDEs, China's growth projection for 2021 has been marginally revised down to 8.0%. Growth is forecasted to fall by 3.1% points to 4.9% by 2026.
- India's growth forecast has remained unchanged at 9.5% in 2021 (FY22) and 8.5% in 2022 (FY23). India is projected to be the global growth leader not just in FY22 but also in the next five years.

Table 1: Real GDP growth (%, y-o-y) selected countries

Country	2020	2021	2022	2023	2024	2025	2026
AEs	**-4.5**	**5.2**	**4.5**	**2.2**	**1.7**	**1.6**	**1.6**
US	-3.4	6.0	5.2	2.2	1.7	1.7	1.7
UK	-9.8	6.8	5.0	1.9	1.6	1.5	1.5
Euro area	-6.3	5.0	4.3	2.0	1.6	1.4	1.4
Japan	-4.6	2.4	3.2	1.4	0.8	0.6	0.5
EMDEs	**-2.1**	**6.4**	**5.1**	**4.6**	**4.5**	**4.4**	**4.4**
Brazil	-4.1	5.2	1.5	2.0	2.1	2.1	2.1
Russia	-3.0	4.7	2.9	2.0	1.8	1.7	1.6
India*	-7.3	9.5	8.5	6.6	6.3	6.2	6.1
China	2.3	8.0	5.6	5.3	5.2	5.1	4.9
World	**-3.1**	**5.9**	**4.9**	**3.6**	**3.4**	**3.3**	**3.3**

Source: IMF World Economic Outlook, October 2021; *data pertains to fiscal year

CPI Inflation

- Headline CPI inflation is projected to increase sharply in the US and some EMDEs.
- In most cases, rising inflation reflects pandemic-related supply-demand mismatches, higher commodity prices and policy-related developments (such as the expiration of last year's temporary VAT cut in Germany and the increase in the shelter component of US consumer prices as rent and mortgage moratoriums expire in some jurisdictions).
- CPI inflation is broadly expected to come down to its pre-pandemic range across most countries once supply-demand mismatches are resolved.
- Among AEs, except for the US, CPI inflation is expected to reach or remain below the long-term target of 2% by 2026.
- In India, CPI inflation is forecasted at 5.9% in 2021 (FY22) while the RBI's projection is slightly lower at 5.3% (October 2021). Inflation is forecasted to gradually fall and reach the target level of 4.0% by 2024 (FY25).

Table 2: CPI inflation (%): selected countries

Country	2020	2021	2022	2023	2024	2025	2026
AEs	**0.7**	**2.8**	**2.3**	**1.9**	**2.0**	**2.0**	**1.9**
US	1.2	4.3	3.5	2.7	2.6	2.5	2.3
UK	0.9	2.2	2.6	2.0	2.0	2.0	2.0
Euro area	0.3	2.2	1.7	1.4	1.5	1.6	1.7
Japan	0.4	2.9	1.5	1.3	1.6	1.8	2.0
EMDEs	**0.0**	**-0.2**	**0.5**	**0.7**	**0.8**	**1.0**	**1.0**
Brazil	5.1	5.5	4.9	4.3	4.1	4.0	3.9
Russia	3.2	7.7	5.3	3.5	3.3	3.1	3.1
India*	3.4	5.9	4.8	4.5	4.0	4.0	4.0
China	6.2	5.6	4.9	4.3	4.1	4.0	4.0
World	**2.4**	**1.1**	**1.8**	**1.9**	**2.0**	**2.0**	**2.0**

Source: IMF World Economic Outlook, October 2021; *data pertains to fiscal year

5. In focus: evolving contours of post-COVID recovery - India and the global economy

1. Introduction

With COVID vaccination gathering pace, a substantial part of the Indian economy has been opened up resulting in rapid recovery of economic activities to levels above the pre-COVID times. India crossed the milestone of 100 crore doses on 21 October 2021. As on 25 October 2021, 102.3 crore vaccination doses have been administered of which 71.8 crore persons have received one dose and 15.3 crore persons have received both the doses. This implies that nearly 93% of the estimated eligible population[12], that is, population aged 18 years and above, has been administered with at least one dose.

New COVID cases per day have considerably fallen, averaging slightly more than 15,000 between 11 to 25 October 2021 as compared to average daily COVID cases of 3.8 lakh during the first ten days of May 2021 when COVID's second wave had peaked. Out of the total average per day cases in October 2021, Kerala accounted for about 56%, followed by Maharashtra at 13% and Tamil Nadu at 7%.

State-wise lockdowns have been eased although some localized restrictions such as those in West Bengal during the festivities were put in place to curb the spread of COVID due to crowding[13]. Similarly, other states like Karnataka had also imposed partial restrictions on selected tourist destinations starting 7 October 2021[14].

2. India to emerge higher than its FY20 real GDP magnitude by the end of FY22

Amongst major economies, India would be one of the few countries to emerge on the positive side of real GDP by the end of 2021 (end FY22 for India) after the COVID shock forced most economies to contract in 2020 (FY21 for India). Countries like France, Germany, UK and Japan are likely to remain in the negative in terms of the magnitude of real GDP as per IMF's World Economic Outlook, October 2021. Among the larger economies, the US economy is slated to show some excess in its 2021 GDP over that of the 2019 level.

Table 3: Real GDP (National currency, in billion): selected countries

Country	Currency	2019	2020	2021	Excess of 2021 over 2019 (% change)
US	USD	19,033	18,385	19,483	2.4
France	EUR	2,333	2,147	2,282	-2.2
Germany	EUR	3,245	3,097	3,191	-1.6
UK	GBP	2,173	1,959	2,091	-3.8
Japan	JPY	5,54,382	5,28,961	5,41,433	-2.3
India*	INR	1,45,693	1,35,127	1,47,960	1.6
China	CNY	89,451	91,546	98,884	10.5
Russia	RUB	91,449	88,750	92,912	1.6
Brazil	BRL	1,206	1,157	1,218	1.0

Source: IMF World Economic Outlook, October 2021
*data pertains to fiscal year. For example, 2019 refers to FY20, 2020 refers to FY21 and so on.

Table 4 gives forecasts for India's real GDP growth for FY22 and FY23 by the RBI, major multilateral institutions and rating agencies. For FY22, GDP growth as per these forecasts range from 8.3% (World Bank) to 10% (ADB). These exceptionally high levels of growth do partly reflect a base effect since India's GDP had contracted by (-)7.3% in FY21. The FY23 growth forecasts therefore indicate a more normal level of growth in the narrower range of 7.5% to 7.9%. If India could maintain such growth levels in the medium-term, it would emerge as a global growth leader.

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[12] Eligible population is estimated at 93.96 crore. This estimate is based on data sourced from the Report of the Technical Group on Population Projections 2019, Ministry of Health and Family Welfare, Government of India.
[13] https://www.thehindu.com/news/national/coronavirus-october-2-2021-live-updates/article36787535.ece
[14] Stakeholders upset over tourism curbs in Kodagu - The Hindu

Table 4: Forecasts for India's real GDP growth (%) in FY22 and FY23

Institution	FY22	FY23
IMF	9.5	8.5
World Bank	8.3	7.5
RBI	9.5	7.8
S&P	9.5	NA
ICRA	9.0	NA
FICCI	9.1	NA
OECD	9.7	7.9
ADB	10.0	7.5
Fitch Ratings*	8.7	NA

Source (basic data): IMF, World Bank, RBI, OECD, ADB, https://bit.ly/2YxCEcQ

3. Messages from fiscal data

Data from the CGA on monthly central finances showed that Center's gross tax revenues (GTR) grew by 70.5% during April-August FY22 over the corresponding period of FY21, and by 30.1% over the corresponding period of FY20. The Center's fiscal deficit in the first five months of FY22 amounted to only 31.1% of the budgeted target as compared to the corresponding average level of 94.7% over the last four years. In fact, fiscal deficit relative to GDP during April-August FY20 was at its lowest level since FY01. With such an improved tax revenue growth performance, government may have the option to reduce the magnitude of the budgeted fiscal deficit although there would be some pressure due to the enhanced global crude prices on fertilizer and food subsidies. There may also be some slippage in non-tax and non-debt capital receipts as compared to the budget estimates. However, it may still be advisable to prioritize growth with a view to consolidating the ongoing growth momentum rather than looking at any possible reduction in the fiscal deficit as compared to the budgeted magnitude. Thus, the government could stimulate public sector demand while retaining the budgeted fiscal deficit level of 6.8% of GDP for FY22 while raising capital expenditure above budgeted levels in the remaining part of the current fiscal year. The Center's capital expenditure during the first five months of this year stood at 31.0% of the annual budgeted amount, lower than the average corresponding ratio for the last three years at 39.0%. In fact, given that the NIP targets have not been met fully so far, government should take advantage of the improved tax buoyancy as also the recently launched NMP to make up for some of the shortfalls relative to the NIP targets.

Efforts should be made now to complete the coverage of vaccination by the required two doses for the eligible population before considering expanding the program to cover population aged above 12 years, booster shots to vulnerable population segments, and vaccine exports. Investment in health infrastructure should continue to be the focus area.

4. Signals from high frequency indicators

High frequency indicators confirm that economic recovery is gathering momentum. PMI manufacturing expanded for the third successive month to 53.7 in September 2021, increasing from 52.3 in August 2021. PMI services at 55.2 in September 2021 remained well above its long-run average although down from an 18-month high of 56.7 in August 2021. Retail sales of passenger vehicles was higher at 2.33 lakh units in September 2021 as compared to 2.00 lakh units in the corresponding month of 2020, implying an y-o-y growth of 16.3%[15]. GST collections remained above the benchmark level of INR1.0 lakh crore for the third consecutive month in September 2021 with a monthly collection of INR1.17 lakh crore, rising from the August 2021 level of INR1.12 lakh crore. Growth in outstanding bank credit by scheduled commercial banks (SCBs) increased to a 16-month high of 6.7% in August 2021. Merchandise exports growth was elevated at 22.6% in September 2021 over the corresponding month of 2020 and at 29.9% over September 2019, reflecting robust external demand. Although growth in power consumption improved to 2.8% during the first 24 days of October 2021 compared to a zero growth in September 2021 largely owing to the festive season, it continued to remain subdued reflecting the impact of supply constraints. With economic recovery gathering momentum, it is important to ensure that any power shortage does not develop due to supply side bottlenecks particularly that of coal.

[15] https://fada.in/images/press-release/1615e8d102e816FADA%20Press%20Release%20-%20FADA%20releases%20September%2721%20Vehicle%20Retail%20Data.pdf

5. Critical global developments

The IMF in its October 2021 issue of the World Economic Outlook projected global growth at 5.9% in 2021 and 4.9% in 2022. The 2021 forecast is revised down by 0.1% point relative to the July 2021 projection reflecting forecast downgrades for the AEs and low-income developing countries. Beyond 2022, global growth is projected to moderate to about 3.3% over the medium term.

For the AEs, growth projection for 2021 is revised down to 5.2% largely reflecting downgrades to the growth projections of the US, Germany and Japan. The growth downgrade in low income developing countries is largely due to the slow roll out of vaccines. Growth in EMDEs has been marginally revised upward to 6.4% in 2021 reflecting improved assessments for some commodity exporting economies.

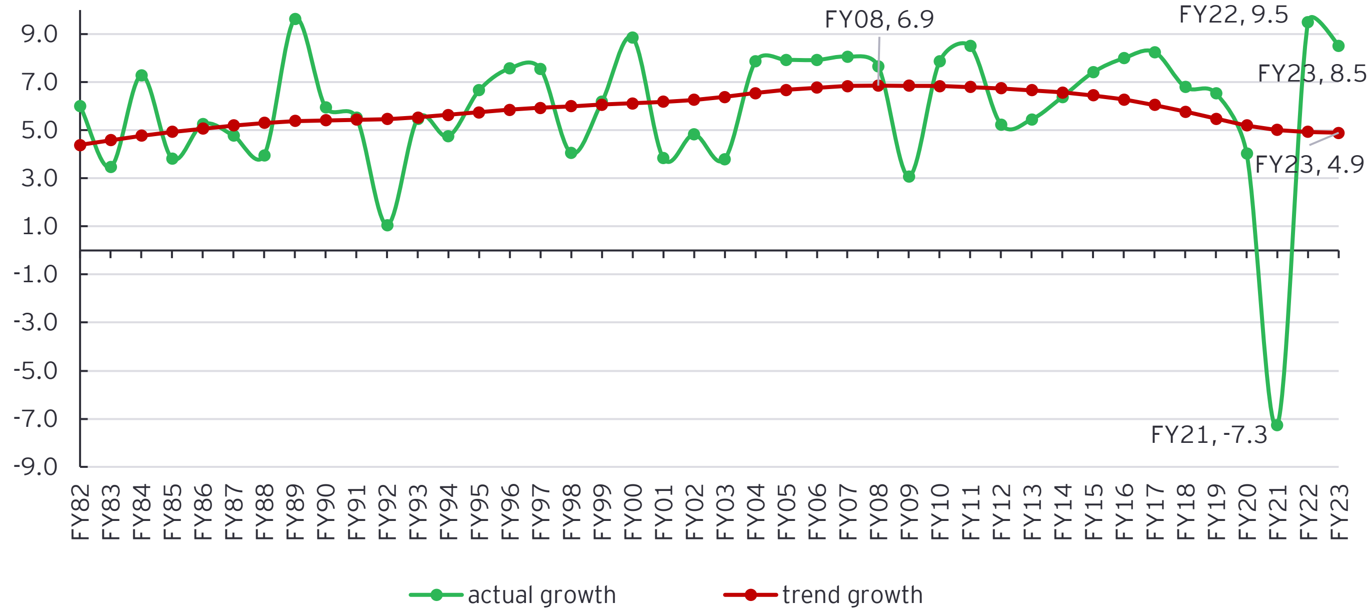
Among EMDEs, China's growth prospects have been marginally revised down to 8.0% in 2021 due to stronger than anticipated scaling back of public investment. The IMF assessed that large-scale disorderly corporate debt defaults and restructuring in China's property sector could reverberate widely as this sector accounts for about a quarter of the Chinese economy. In China, highly indebted companies in the property sector may pose systemic risk to the financial system.

As per the IMF, supply disruptions pose another major policy challenge. Pandemic outbreaks and weather disruptions have resulted in shortages of key inputs and dragged manufacturing activity lower in several countries. As per the October 2021 issue of the World Bank's Commodity Markets Outlook, global production of coal fell by 5% in 2020 and has been slower to pick up than its consumption. In recent months, there has been a substantial coal supply disruption largely reflecting the impact of China's import ban on Australian coal, and adverse weather events in Indonesia and China. As a result, global coal prices have soared to multi-year highs.

6. India's actual and potential growth: a medium-term perspective

India's medium-term growth prospects, as per the IMF forecasts up to FY23, indicate a convergence of real GDP growth towards 6%. This is still lower than the previous peak of trend growth rate of close to 7.0% during the four years from FY08 to FY11. In fact, if we include the forecasted growth of 9.5% for FY22 and 8.5% for FY23, the trend growth rate is uplifted to only 4.9% by FY23 **(Chart 6)**. These trends indicate that more policy initiatives are needed to uplift the trend growth rate to 7% or above in the medium-term. In particular, the public sector as a whole led by the central government may do well to substantially increase its investment from the recent level of 7.2% of GDP in FY20, in nominal terms. Increased public sector investment is expected to crowd in an increase in private sector investment also. It is the falling trend in the overall investment rate from a peak of 39.8% of GDP in FY11 to an estimated 29.3% in FY21 that requires to be reversed.

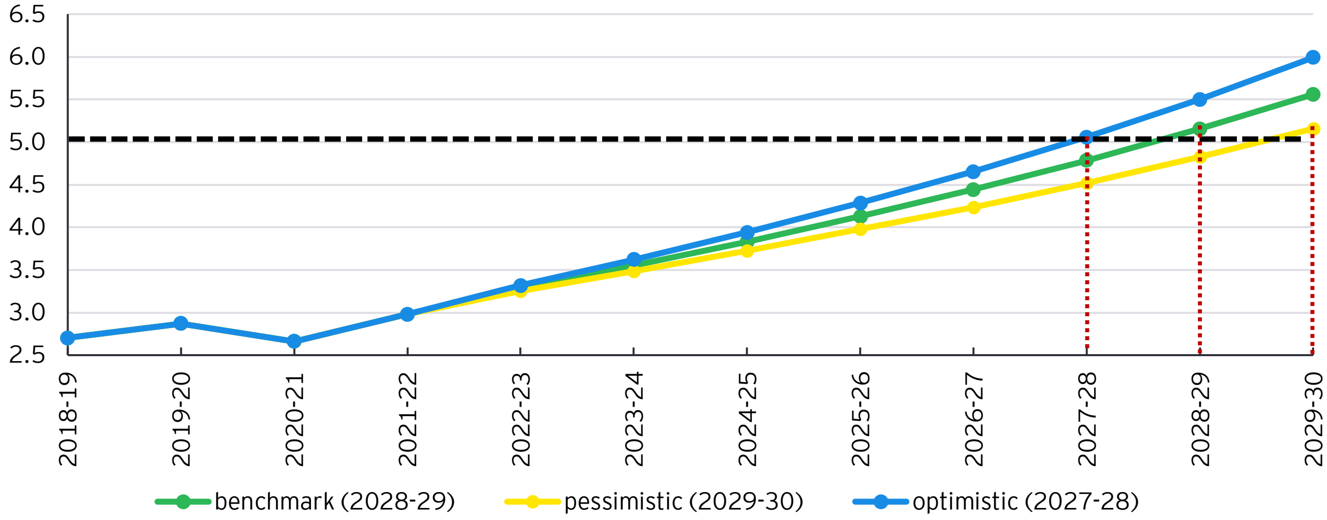
Chart 6: India's actual and trend growth (%)



Source (basic data): MoSPI, IMF

As a point of reference, we consider the likely year by which the Indian economy would reach or just cross the US$5 trillion mark in three alternative scenarios. In our benchmark solution, we utilize the IMF projections for real and nominal GDP growth up to FY27. The exchange rate projections are also taken from the IMF. In this benchmark case, the Indian economy crosses the US$5 trillion mark by FY29. In the pessimistic scenario, the real GDP growth is reduced by 1% point starting FY23 as compared to the benchmark solution. Other parameters namely IPD based inflation and exchange rate depreciation are kept at the same levels as in the benchmark solution. In this case, the crossover point shifts one year forward to FY30. In the optimistic scenario, real GDP growth is increased by 1% point beginning FY23 as compared to the benchmark solution. In this case, India reaches the US$5 trillion mark by FY28.

Chart 7: India's US$5 trillion target



Source (basic data): IMF, MoSPI
Notes: (1) Exchange rate is kept as per IMF forecasts from FY22 to FY27. After that, depreciation rate is kept at 3.2% per annum
(2) Variables are at their actual values up to FY21.

7. Conclusion

The Indian economy is poised to become the global growth leader FY22 onwards as per the October 2021 issue of the IMF World Economic Outlook. Not only does it overtake China amongst major economies in FY22 but retains this position for the next five years. In order to further improve India's growth prospects as compared to the IMF forecasts, it is imperative that the overall investment rate is pushed above the investment rate profile assumed in the IMF forecasts which ranges from 29.7% to 31.3% during FY22 to FY27. For this purpose, both public and private investment rates will have to be increased. In fact, it is the public investment that can take the lead and serve to crowd in the increase in the private investment rate. This would require increase in government capital expenditure which can be financed by augmenting the tax and non-tax revenues relative to GDP and containing the revenue account deficit to progressively lower levels. The path of fiscal consolidation may be restored FY23 onwards after redefining its sustainable debt and fiscal deficit levels relative to GDP. In the light of the contemporary empirical realities, the Fifteenth Finance Commission had recommended in its final report, the setting up of a High-Powered Intergovernmental Group to re-examine India's FRBM. We have recently suggested that the combined debt-GDP target can be raised to 70% divided as 40% for the Center and 30% for the aggregate of states[16]. This would translate to a sustainable combination of annual fiscal deficit to GDP targets of 4% and 3% for the Center and the states respectively. Such a change, while retaining the interest payment to revenue receipts ratio broadly at 4.2% in view of the falling effective interest rate on government debt, would permit the central and state governments to increase their respective capital expenditure to GDP ratios enabling the fulfilment of the NIP targets which would also be helped by the recently launched NMP.

[16] Srivastava, D. K. (2021). Fiscal consolidation and FRBM in the COVID-19 context: Fifteenth finance commission and beyond. *Economic and Political Weekly*, 48-55.

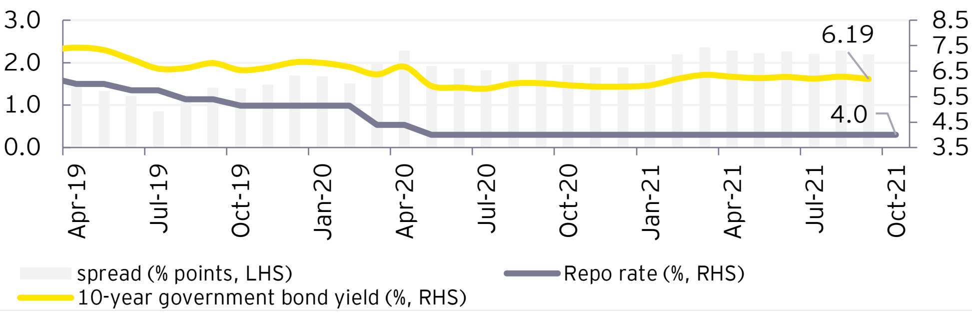
6. Money and finance: repo rate retained at 4.0% for the eighth consecutive time

A. Monetary sector

Monetary policy

- The RBI's Monetary Policy Committee (MPC) retained the repo rate at 4.0% in its policy review held on 8 October 2021 **(Chart 8)**. The MPC while maintaining the reverse repo rate at 3.35%, also retained the accommodative policy stance with an objective to sustain the growth momentum.
- In RBI's assessment, economic recovery has gained momentum supported by robust pace of vaccination, receding COVID infections, record kharif food grains production, strong growth in government's capital expenditure and buoyant growth in exports. With respect to inflation, the RBI expects core inflation to remain sticky. Further, pressure on food prices may remain muted but cost-push pressures may persist due to elevated global crude oil and commodity prices combined with high logistics costs and shortage of key industrial components. However, these cost pressures may be restrained by weak demand conditions.

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



Source: Database on Indian Economy, RBI

The RBI retained the repo rate at 4.0% for the eighth consecutive time in its monetary policy review held on 8 October 2021.

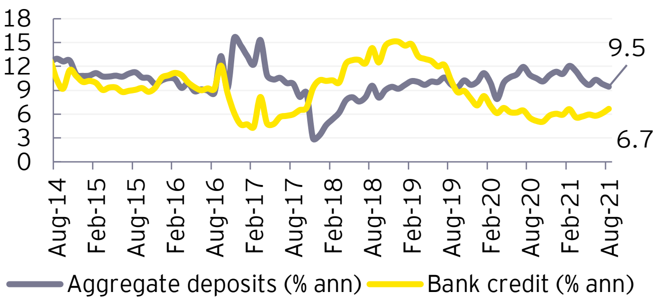
Money stock

- Growth in broad money stock (M3) fell for the third consecutive month to 9.3% in September 2021 from 9.5% in August 2021. This was due to a fall in the growth of narrow money (M1) and a modest growth in time deposits.
- Growth in M1 moderated to 11.4% in September 2021 from 12.1% in August 2021 due to a sharp fall in the growth of currency in circulation and a moderation in the growth of demand deposits. Growth of currency in circulation fell to 9.0%, its lowest level since October 2017 while growth in demand deposits fell to 15.4% in September 2021 from 15.8% in August 2021.
- Time deposits, accounting for about 76% of M3 on average (last three years), grew at a modest pace of 8.6% in September 2021, marginally lower than 8.7% in July and August 2021.

Aggregate credit and deposits

- Growth in outstanding bank credit by scheduled commercial banks (SCBs) increased to 6.7% in August 2021 from 6.1% in July 2021 (**Chart 9**). Credit growth averaged 6.1% during the first five months of FY22, well below its growth of 12.0% during the corresponding period of FY20, pointing to subdued growth in domestic demand.
- Non-food credit grew by 6.6% in August 2021, increasing from 5.8% in July 2021.
- Credit to agricultural sector continued to post a double-digit growth for the seventh successive month at 11.7% in August 2021, although marginally lower than 12.7% in July 2021. Bank credit to services sector grew by 2.9% in August 2021 as compared to 2.0% in July 2021.
- Personal loans accounting for about 30% of total non-food credit grew by 13.6% in August 2021 from 12.9% in July 2021.

Chart 9: Growth in credit and deposits



Source: Database on Indian Economy, RBI

- Sectoral deployment of bank credit[17] showed that outstanding credit to industries grew by 1.5% in August 2021, its fastest growth since June 2020. Within the industrial sector, growth in credit to infrastructure increased to a 21-month high of 6.0% in August 2021. However, credit to iron and steel and cement continued to show a double-digit contraction of (-)21.4% and (-)17.8% for the sixth successive month in August 2021.
- Growth in aggregate bank deposits fell to a three-month low of 9.5% in August 2021 from 9.8% in July 2021. Deposit growth averaged 9.9% during April to August 2021 as compared to 10.9% during the corresponding period of the previous fiscal year.

B. Financial sector

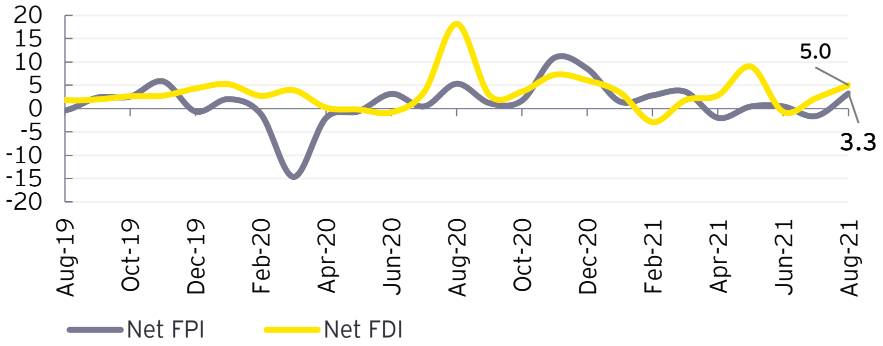
Interest rates

- As per the data released by the RBI on 1 October 2021, the average interest rate on term deposits with a maturity of more than one year was unchanged at 5.20% in September 2021, with the actual rate ranging from 4.90% to 5.50%. The term deposit rate has remained unchanged at this low level for 12 consecutive months.
- The MCLR averaged 6.78% for the third consecutive month in September 2021 with the actual rate ranging between 6.55% and 7.00%. In the first half (1H) of FY22, MCLR averaged 6.79% as compared to 7.04% during the corresponding period of FY21.
- The average yield on 10-year government bonds fell marginally to 6.19% in September 2021 from 6.28% in August 2021 **(Chart 8)**. The average benchmark bond yield at 6.24% in 1HFY22 was marginally higher than that in 1HFY21 at 6.07%.
- WALR on fresh rupee loans by SCBs increased for the second successive month to 8.05% in August 2021 from 7.99% in July 2021.

FDI and FPI

- As per the provisional data released by the RBI on 18 October 2021, overall foreign investment[18] (FI) inflows increased to a three-month high of US$8.3 billion in August 2021 from US$0.6 billion in July 2021 led by higher net FDI and FPI inflows.

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



Source: Database on Indian Economy, RBI

Both net FDI and FPI inflows increased to US$5.0 billion and US$3.3 billion respectively in August 2021.

- Net FDI inflows amounted to US$5.0 billion in August 2021 increasing from US$2.2 billion in July 2021 **(Chart 10)**. Gross FDI inflows increased to US$8.4 billion in August 2021 from US$4.9 billion (revised) in July 2021.
- Net FPI inflows increased to a five-month high of US$3.3 billion in August 2021 as compared to net outflows amounting to US$(-)1.6 billion in July 2021.

[17] 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
[18] Foreign Investment (FI) = net FDI plus net FPI

7. Trade and CAB: current account posted a surplus of 0.9% of GDP in 1QFY22

A. CAB: current account posted a surplus of 0.9% of GDP in 1QFY22

Current account recorded a surplus at 0.9% of GDP in 1QFY22 as compared to a deficit of (-)1.0% of GDP in 4QFY21 **(Chart 11, Table 5).** Net merchandise trade deficit improved to (-)4.4% of GDP in 1QFY22 from (-)5.4% of GDP in 4QFY21 as merchandise exports increased to a 26-quarter high of 14.0% of GDP in 1QFY22 reflecting revival in external demand. Merchandise imports rose to 18.5% of GDP in 1QFY22 from 17.1% in 4QFY21. Net service receipts and net transfer receipts relative to GDP increased to 3.7% and 2.7% respectively in 1QFY22 from 3.0% and 2.4% respectively in 4QFY21.

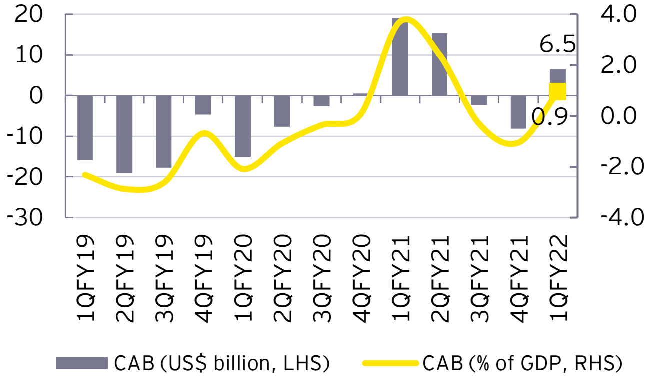
Table 5: Components of CAB in US$ billion

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
2QFY21	2.4	15.3	-14.8	30.1
3QFY21	-0.3	-2.2	-34.6	32.4
4QFY21	-1.0	-8.2	-41.7	33.6
1QFY22	0.9	6.5	-30.7	37.2

Source: Database on Indian Economy, RBI

Note: (-) deficit; (+) surplus; *invisibles include services, current transfers and income components

Chart 11: CAB



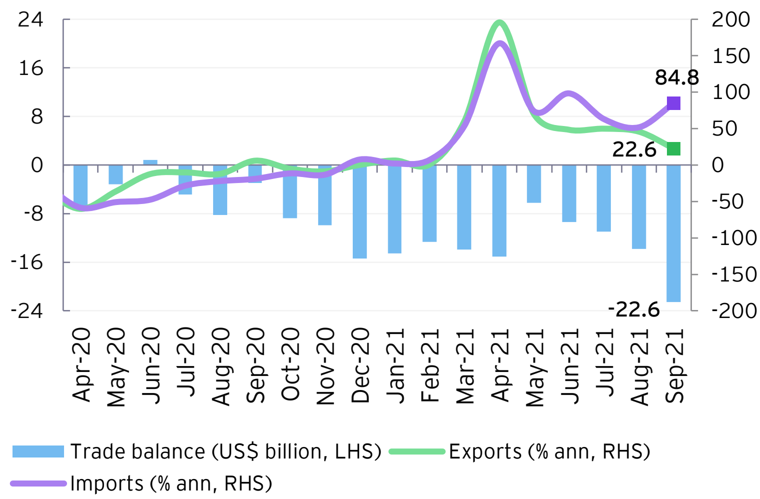
Source: Database on Indian Economy, RBI

B. Merchandise trade and exchange rate

Merchandise trade deficit increased to a historic high of US$(-)22.6 billion in September 2021.

- Merchandise exports and imports growth (y-o-y) was elevated at 22.6% and 84.8% respectively in September 2021 **(Chart 12)**. Compared to September 2019 levels, exports grew by 29.9% in September 2021, reflecting robust external demand. Imports were 49.6% higher than their September 2019 levels.
- On a y-o-y basis, exports growth of engineering goods, petroleum products, and organic and inorganic chemicals was at 36.8%, 47.9% and 29.7% respectively in September 2021. As compared to September 2019 levels, these segments grew by 44.3%, 51.7% and 33.0% respectively.
- Imports of oil and gold rose sharply by 199.3% and 750.6% respectively in September 2021 from 80.6% and 82.5% respectively in August 2021. Compared to August 2019 levels also, growth in these segments was high at 91.9% and 301.1% respectively. The high growth in gold imports was mainly due to base effect.
- Although the y-o-y growth in imports and exports excluding oil, gold and jewelry was high at 42.1% and 18.8% respectively in September 2021, compared to September 2019, imports growth was low at 24.4% whereas exports showed a higher growth of 33.4%.
- The rupee appreciated to INR73.6 per US$ (average) in September 2021 from INR74.2 per US$ (average) in August 2021.

Chart 12: Developments in merchandise trade



Source: Ministry of Commerce and Industry, GoI

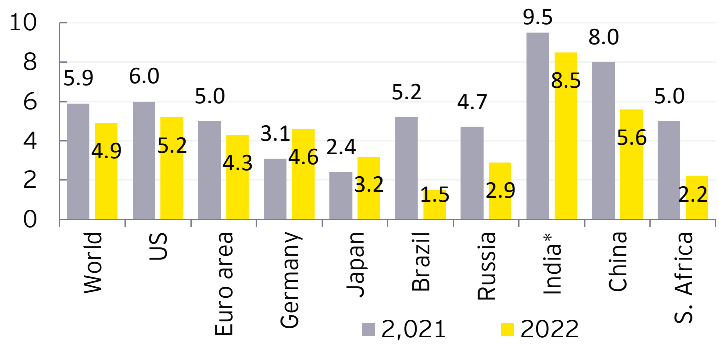
8. Global growth: IMF projected global growth at 5.9% in 2021

A. Growth outlook

The IMF has projected global growth at 5.9% in 2021 with India's growth forecasted at 9.5% in FY22.

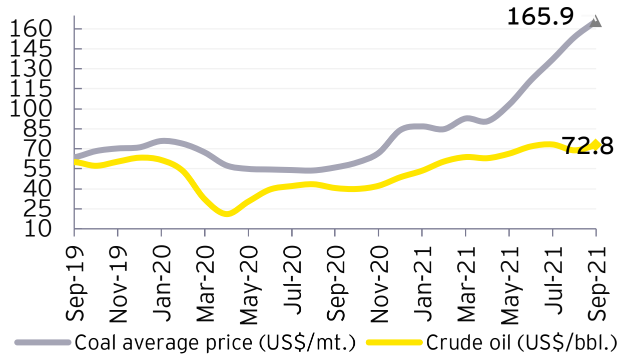
- The IMF (World Economic Outlook, October 2021) projected global growth at 5.9% in 2021 and 4.9% in 2022 **(Chart 13).** The 2021 forecast is revised down by 0.1% point relative to the July 2021 projection reflecting downward revisions to the growth forecasts of AEs and low-income developing countries.
- Growth for AEs has been revised down by 0.4% points to 5.2% in 2021 largely reflecting downgrades in the US, Germany and Japan. Growth in EMDEs has been marginally revised up to 6.4% in 2021. In 2022, AEs are projected to grow by 4.5% and EMDEs by 5.1%.
- Growth forecast has been revised down for the US to 6.0% in 2021 due to large inventory drawdowns in the second quarter, in part reflecting supply disruptions, and softening consumption in the third quarter. Growth is projected at 5.2% in 2022. The US outlook incorporates the infrastructure bill recently passed by the Senate and anticipated legislation to strengthen the social safety net, equivalent to about US$4 trillion in spending over the next 10 years.
- Downward revisions to growth projection for Germany partly reflects shortages of key inputs weighing on manufacturing output while the downgrade in Japan is due to the effect of the fourth State of Emergency from July to September 2021 as infections hit a record level in the current wave.
- Among EMDEs, China's growth forecast has been revised down to 8.0% in 2020 due to stronger than anticipated scaling back of public investment. In 2022, growth is expected to slow to 5.6%.
- India's growth forecast stands unchanged at 9.5% in 2021 (FY22) and 8.5% in 2022 (FY23), the highest amongst major economies of the world.

Chart 13: Growth projections (%)



Source: IMF World Economic Outlook (October 2021)
*data for India pertains to fiscal year

Chart 14: Global crude and coal prices



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

B. Global energy prices: in September 2021, global crude price increased to US$72.8/bbl.

- After falling to US$68.9/bbl. in August 2021, average global crude price[19] picked up to US$72.8/bbl. in September 2021 **(Chart 14).** This may be primarily attributable to a growing demand amid supply disruptions. On a daily basis, as of 18 October 2021[20], both brent and WTI crude reached multi-year highs of US$84.13/bbl. and US$82.62/bbl. respectively. The World Bank, in its October 2021 issue of the Commodity Market Outlook projected global crude price to average US$74/bbl. in 2022.
- Average global coal price[21] at US$165.9/mt. in September 2021 increased to its highest level since July 2008 when it was at US$173.9/mt. owing to rebounding demand particularly from India and China amid short-term supply disruptions in major coal exporting countries as also China's import ban on Australian coal.

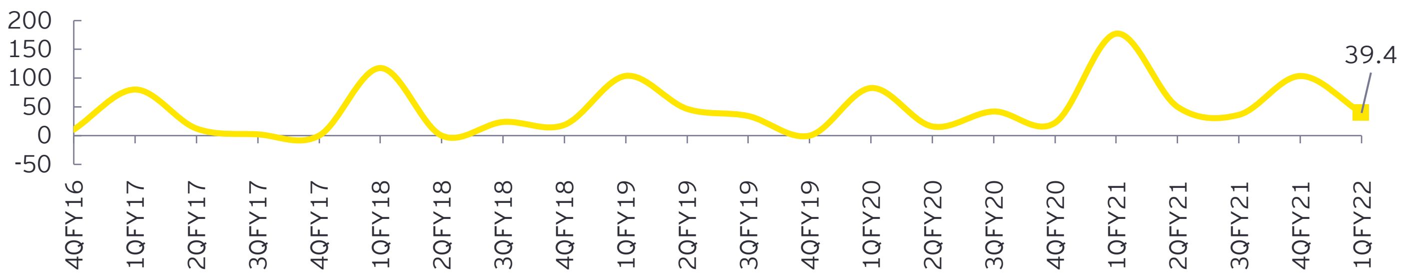
[19] Simple average of three spot prices, namely, Dated Brent, West Texas Intermediate and Dubai Fateh
[20] https://www.eia.gov/dnav/pet/pet_pri_spt_s1_d.htm
[21] Simple average of Australian and South African coal prices

9. Index of Macro Imbalance (IMI): pointed to an improved macro balance in 1QFY22

IMI fell to 39.4 in 1QFY22 from 103.7 in 4QFY21

- The IMI is obtained by adding the percentage deviation of inflation rate (based on new CPI 2012 = 100), fiscal deficit (as a percentage of GDP) and current account deficit (as a percentage of GDP) from their respective benchmarks of 4%, 3% of GDP and (-)1.3%[22] of GDP. All three components of IMI have been given equal weightage (33.33%). The state of *balance* is judged by a value of 0.
- An index value greater than zero indicates the presence of an imbalance in the economy. While considering the percentage deviation of each of the indicators from its selected norm, only the positive deviations are taken. Negative deviations are equated to zero to ensure that the negative and positive deviations across indices are not canceled out.
- IMI pointed to significant improvement in macro balance in 1QFY22 with the index value falling sharply to 39.4 from 103.7 in 4QFY21 **(Chart 15)** led by a lower fiscal deficit. Even while CPI inflation increased from 4.9% in 4QFY21 to 5.6% in 1QFY22 implying a higher contribution to the IMI, its impact was more than offset by a significantly lower contribution from fiscal deficit to GDP ratio at 5.4% in 1QFY22 as compared to 11.7% in 4QFY21. Meanwhile, a surplus on the current account in 1QFY22 at 0.9% of GDP did not contribute to an increase in the IMI.

Chart 15: IMI (quarterly)



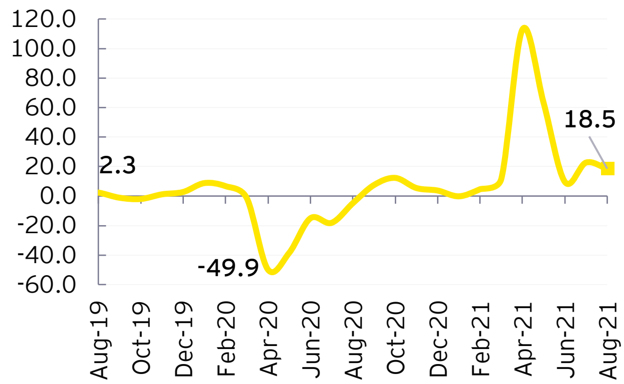
Source (Basic data): RBI, MoSPI and EY estimates

10. Index of Aggregate Demand (IAD): posted a strong growth of 18.5% in August 2021

Led by a pickup in services sector demand, IAD grew by 18.5% in August 2021

- Pointing to an improving overall demand condition, IAD continued to post a strong growth of 18.5% in August 2021 **(Chart 16)**. However, it was lower than 22.7% in July 2021 due to a deterioration in the demand conditions in the manufacturing sector in August 2021.
- Demand conditions in the services sector which had remained subdued since May 2021, improved for the first time in August 2021 with expanding vaccination coverage and falling COVID incidence. Demand conditions in the agricultural sector remained robust as reflected by a continued double-digit growth in agricultural credit off-take.

Chart 16: growth in IAD (y-o-y)



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

[22] Rangarajan, C (2016): "Can India grow at 8 to 9 per cent?" The Hindu, http://www.thehindu.com/opinion/lead/can-india-grow-at-8-to-9-per-cent/article8596824.ece, Accessed on 17 May 2016.

11. Capturing macro-fiscal trends: data appendix

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

Fiscal year/ quarter/ month	IIP	Mining	Manufacturing	Electricity	Core IIP	Fiscal year/ quarter /month	PMI mfg.	PMI ser.
	% 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	3QFY21	57.2	53.4
3QFY21	1.7	-3.2	1.8	6.7	-0.4	4QFY21	56.9	54.2
4QFY21	6.0	-0.1	6.8	9.2	3.5	1QFY22	51.5	47.2
1QFY22	44.3	27.5	52.9	16.8	26.0	2QFY22	53.8	52.4
May-21	27.6	23.6	32.1	7.5	16.4	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	9.9	Aug-21	52.3	56.7
Aug-21	11.9	23.6	9.7	16.0	11.6	Sep-21	53.7	55.2

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
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
2QFY22	5.1	2.6	13.0	6.0	11.2	3.0	11.4	26.0	11.2
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	11.6	4.5	11.5	27.0	11.1
Aug-21	5.3	3.1	12.9	6.0	11.4	3.4	11.4	26.1	11.2
Sep-21	4.3	0.7	13.6	6.0	10.7	1.1	11.4	24.8	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	
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
Aug-21	70.5	159.7	69.3	101.4	52.1	31.1	27.3

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)					
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
Aug-21	53,326	289	-16,195	8,474	45,894

Source: Monthly Accounts, Controller General of Accounts, Government of India, Union Budget documents
Note: IGST revenues are subject to final settlement.

Table A4: Monetary and financial indicators (annual, quarterly and monthly growth rates, y-o-y)

Fiscal year/ month	Repo rate (end of period)	Fiscal year/ quarter/ month	Bank credit	Agg. deposits	Net FDI	Net FPI	Fiscal year/ quarter/ month	M1	M3	10-year govt. bond yield	FX reserves
	%		% change y-o-y		US$ billion			% change y-o-y		%	US$ billion
Nov-20	4.00	FY18	7.5	7.5	30.3	22.1	FY18	21.8	9.2	7.05	424.4
Dec-20	4.00	FY19	13.7	8.9	30.7	-0.6	FY19	13.6	10.5	7.68	411.9
Jan-21	4.00	FY20	9.4	9.9	43.0	1.4	FY20	11.2	8.9	6.80	475.6
Feb-21	4.00	FY21	5.9	11.0	43.2	36.8	FY21	16.1	11.7	6.04	579.3
sMar-21	4.00	2QFY21	5.7	11.1	24.6	7.0	3QFY21	19.6	12.4	5.91	542.0
Apr-21	4.00	3QFY21	5.6	10.8	17.0	21.2	4QFY21	16.2	12.2	6.16	580.8
May-21	4.00	4QFY21	6.0	11.5	2.4	8.0	1QFY22	15.4	10.7	6.26	579.3
Jun-21	4.00	1QFY22	5.8	10.1	11.2	-1.1	2QFY22	11.4	9.3	6.23	638.6
Jul-21	4.00	May-21	6.0	9.7	9.0	0.4	Jun-21	15.4	10.7	6.27	609.0
Aug-21	4.00	Jun-21	5.8	10.3	-0.7	0.5	Jul-21	13.8	9.9	6.21	620.6
Sep-21	4.00	Jul-21	6.1	9.8	2.2	-1.6	Aug-21	12.1	9.5	6.28	633.6
Oct-21	4.00	Aug-21	6.7	9.5	5.0	3.3	Sep-21	11.4	9.3	6.19	638.6

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
3QFY21	-4.5	-5.6	-34.0	73.8	43.6	70.2	2015	3.4	2.4	4.3
4QFY21	19.6	18.4	-41.1	72.9	59.3	88.1	2016	3.3	1.8	4.5
1QFY22	85.9	108.7	-30.8	73.8	67.1	105.1	2017	3.8	2.5	4.8
2QFY22	38.5	66.5	-47.4	74.1	71.7	152.3	2018	3.5	2.2	4.5
Jun-21	48.3	98.3	-9.4	73.6	71.8	121.4	2019	2.8	1.6	3.7
Jul-21	49.8	63.0	-11.0	74.5	73.3	137.2	2020	-3.1	-4.5	-2.1
Aug-21	45.8	51.7	-13.8	74.2	68.9	153.8	2021*	5.9	5.2	6.4
Sep-21	22.6	84.8	-22.6	73.6	72.8	165.9	2022*	4.9	4.5	5.1

Source: Database on Indian Economy - RBI, Pink Sheet - World Bank and IMF World Economic Outlook October 2021.
* 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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