ENTER

Economy Watch

Monitoring India's macro-fiscal performance

August 2022

Building a better working world

Contents

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Highlights

1. In July 2022, the PMI indicated a strengthening growth momentum in manufacturing and a continued expansion in services with their respective levels at 56.4 and 55.5.

2. IIP continued to post a double-digit growth of 12.3% in June 2022 although easing from 19.6% in May 2022, indicating waning base effects. On a quarterly basis, IIP grew by 12.9% in 1QFY23 as compared to 1.8% in 4QFY22.

3. The RBI increased the repo rate by 50 basis points to 5.4% in its monetary policy review held on 5 August 2022.

4. CPI inflation eased to a five-month low of 6.7% in July 2022. WPI inflation remained elevated at 13.9% in July 2022, falling from 15.2% in June 2022.

5. Center's gross tax revenues (GTR) grew by 22.4% during 1QFY23 with growth in direct taxes at 35.4% and that in indirect taxes at 11.0%.

6. During 1QFY23, center's total expenditure grew by 15.4% with growth in revenue expenditure at 8.8% and that in capital expenditure at 57%.

7. During 1QFY23, center's fiscal and revenue deficits relative to BE stood at 21.2% and 20.7% respectively, their lowest levels considering the corresponding period from FY12 to FY21.

8. Bank credit grew by 13.2% in June 2022, its fastest pace since March 2019.

9. Merchandise exports growth fell to a 17-month low of 2.1% in July 2022 whereas merchandise imports growth remained elevated at 43.6% in July 2022 easing slightly from its June 2022 growth of 57.5%.

10. Merchandise trade deficit widened to an unprecedented high of US$(-)30.0 billion in July 2022.

11. Net FDI inflows fell to US$3.7 billion in June 2022 from US$4.9 billion in May 2022. Net FPI outflows were at US$(-)6.7 billion in June 2022, the highest level of outflows since March 2020.

12. In July 2022, while global crude price eased to US$105.1/bbl., global coal price increased to an all-time high of US$306.4/mt.

13. The IMF has projected global growth at 3.2% in 2022, with India's FY23 growth forecasted at 7.4%.

Foreword

Indian economy: entering recovery phase and looking beyond

In response to inflationary pressures and the continuing depreciation of the Indian rupee vis-à-vis the USD, the RBI, in its August 2022 monetary policy review, increased the repo rate by 50 basis points to 5.4%. In a span of four months starting May 2022, the RBI has increased the repo rate by 140 basis points. The US Fed, in July 2022, increased the federal funds rate by 75 basis points, raising it to a range of 2.25% to 2.5%. On a cumulated basis, the federal funds rate was increased by 225 basis points during March to July 2022. In India, there may be one or two more increments in the policy rate depending on the movement of the US Fed rate and India's inflation and growth trends[1]. This change has not, however, affected RBI's real GDP growth and CPI inflation forecasts for FY23, which remain unchanged at 7.2% and 6.7%, respectively. With this move, the pressure on the Indian rupee vis-à-vis the USD may ease and the real interest rate may move upward in India. This may also stem the capital flight out of India and may encourage domestic savings in the household sector. Thus, the RBI has prepared ground for taming CPI inflation at least by the next fiscal year. If savings and investment rates increase, even real GDP growth may improve in the current and the ensuing year. Capacity utilization has improved to 75.3 in 4QFY22, its highest level since 4QFY19. This should auger well for new investment as reflected in PMI manufacturing trends which have been driven by new investment. RBI's August 2022 monthly bulletin also highlights that the announcement of new infrastructure projects increased significantly[2].

High frequency indicators for June and July 2022 point to continuing economic recovery. Headline manufacturing PMI increased to an eight-month high of 56.4 in July 2022, improving from 53.9 in June 2022. PMI services expanded for the twelfth successive month in July 2022, with its level at 55.5. Gross GST collections increased to INR1.49 lakh crore in July 2022, its second highest level since July 2017. IIP continued to post a double-digit growth of 12.3% in June 2022, although easing from 19.6% in May 2022, indicating waning base effects. On a quarterly basis, IIP grew by 12.7% in 1QFY23 as compared to 1.8% in 4QFY22. Outstanding bank credit by SCBs grew by 13.2% in June 2022, its fastest pace since March 2019.

As per the CGA, the center's GTR grew by 22.4% during 1QFY23. Direct taxes grew by 35.4% while indirect taxes showed a growth of 11.0% during this period. On the expenditure side, capital expenditures were front-loaded during 1QFY23, showing a growth of 57.0%, significantly higher than 26.3% during the corresponding period of FY22. Led by buoyant revenue performance, center's fiscal deficit during 1QFY23 stood at 21.2% of the annual budget estimate (BE), the lowest level considering the corresponding period from FY12 to FY21. However, for FY23, there may be a marginal slippage from the budgeted fiscal deficit of 6.4% of GDP due to unavoidable expenditure side pressures. Continuing high crude oil prices would require additional subsidies for fertilizers. The price of Indian crude basket has averaged US$105.5/bbl. in July 2022 as compared to US$116.0/bbl. in June 2022. The windfall tax on upstream oil production and export tax on petrol, diesel, and aviation turbine fuel (ATF) imposed as on 1 July 2022 may cushion the revenue side of the Budget to a certain extent. Given its current performance, this tax, if continued for the remaining part of the year, may help collect about INR20,000 crore.

In India, policymakers may have to contend with the ongoing inflationary pressures while maintaining a robust growth of 7% plus. A recent Bloomberg Survey[3] has highlighted that many advanced economies may suffer a recession in the next 12 months. However, the Survey rules out such a possibility for India. With revenue performance well above the BE, there may be scope for additional concessions on excise duty and VAT on petroleum products, providing a handle to the government for mitigating pressure on domestic food and transport costs.

In the context of India at 75 and 100 years post-independence, there has been considerable interest in examining the growth performance so far and potential for the next 25 years and beyond. The *In-focus* section of this issue discusses at length, India's growth potential and size of its GDP in purchasing power parity (PPP) and market exchange rate terms. We argue that post becoming the largest population economy in 2023, India may also become the largest GDP economy in PPP terms during the 2050s if it accords adequate policy priorities to the expansion of health, education, and infrastructure and focuses on significantly improving the employment elasticity of output.

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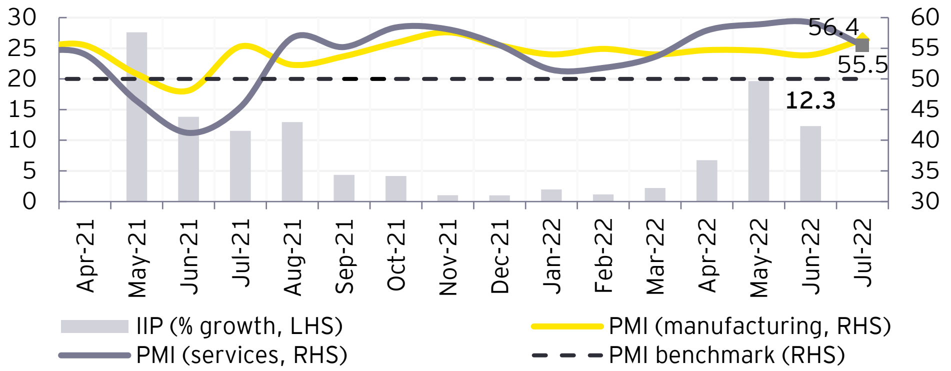
1 https://www.business-standard.com/article/finance/rbi-aims-to-bring-down-inflation-to-4-in-two-years-shaktikanta-das-122082301116_1.html
2 https://rbidocs.rbi.org.in/rdocs/Bulletin/PDFs/05_PCIG1808202225506D257434449CBC572C36BF13F073.PDF
3 shorturl.at/dyDOR

1. Growth: PMI signaled a strengthening expansion in manufacturing in July 2022

A. PMI: signaled strengthening growth momentum in manufacturing and a continuing expansion in services in July 2022

- Headline manufacturing PMI (seasonally adjusted (sa)) increased to an eight-month high of 56.4 in July 2022 from 53.9 in June 2022 **(Chart 1)**. The upturn was broad-based across sub-sectors, primarily led by investment goods.
- PMI services expanded for the twelfth successive month in July 2022, although its level fell to 55.5 from an over 11-year high of 59.2 in June 2022. Demand was curtailed by competitive pressures, elevated inflation, and unfavorable weather.
- Owing to the easing pace of expansion in services, the composite PMI Output Index (sa) eased to 56.6 in July 2022 from 58.2 in June 2022.

Chart 1: PMI and IIP growth



In July 2022, PMI indicated a strengthening growth momentum in manufacturing and a continued expansion in services with their respective levels at 56.4 and 55.5.

Source: MoSPI and S&P Global.
Note: IIP growth for April 2021 is not shown in the chart as it was inordinately high at 133.5% due to a favorable base effect.

B. IIP: grew by 12.3% in June 2022

- As per the quick estimates of IIP released by the MoSPI on 12 August 2022, IIP showed a growth of 12.3% in June 2022, falling from 19.6% in May 2022 **(Chart 1)** largely due to waning base effect. In 1QFY23, IIP showed a growth of 12.7% as compared to 1.8% in 4QFY22.
- Among the sub industries, output of electricity showed the highest growth at 16.4% in June 2022 as compared to 23.5% in May 2022. This was followed by manufacturing output showing a growth of 12.5% in June 2022 as compared to 20.6% in May 2022.
- Output of mining sector grew by 7.5% in June 2022, significantly lower than 11.2% in May 2022.
- As per the use-based classification of industries, output of capital goods and consumer durables showed a strong growth of 26.1% and 23.8% respectively in June 2022, supported by a continued but waning base effect. Growth in the output of infrastructure/ construction at 8.0% in June 2022 was significantly lower than 18.1% in May 2022. Growth in the output of consumer non-durables continued to be low at 2.9% in June 2022, although rising from 1.0% in May 2022.
- According to provisional estimates, growth in the output of eight core infrastructure industries (core IIP) moderated to 12.7% in June 2022 from 19.3% (revised) in May 2022, reflecting a normalizing base effect. When compared to its pre-COVID-19 level in June 2019, core IIP showed a growth of 8.0% in June 2022. The output of coal (31.1%), cement (19.4%) and petroleum refinery products (15.1%) continued to show double-digit growth rates in June 2022. However, growth in the output of steel was significantly lower at 3.3% while the output of crude oil contracted by (-)1.7% in June 2022. In 1QFY23, core IIP showed a growth of 13.7% due to favorable base effect.

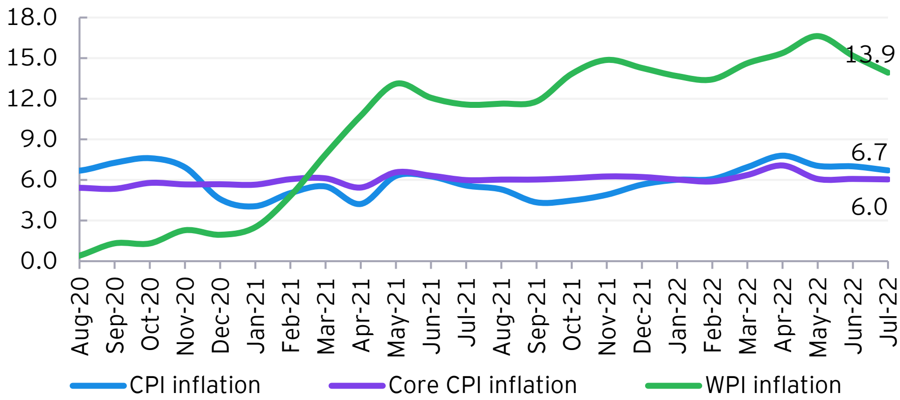
Led by a favorable base effect, IIP grew by 12.7% in 1QFY23 as compared to a meager growth of 1.8% in 4QFY22.

2. Inflation: CPI inflation eased to a five-month low of 6.7% in July 2022

CPI inflation moderated to 6.7% in July 2022 from 7.0% in June 2022 mainly due to falling inflation in vegetables (Chart 2).

- Consumer food inflation eased to a five-month low of 6.8% in July 2022 led by lower inflation in tomatoes, which fell to 44.2% in July 2022 from 158.4% in June 2022. Inflation in meat and fish moderated to a 46-month low of 3.0% in July 2022.
- Inflation in transportation and communication services eased to a 28-month low of 5.6% in July 2022. Inflation in petrol used for conveyance eased to a 32-month low level of 0.3% and that in diesel turned negative for the first time since November 2019 at (-)2.4% in July 2022.
- Fuel and light-based inflation increased to an eight-month high of 11.8% in July 2022 as inflation in LPG increased to a six-month high of 23.0% and that in kerosene to an unprecedented high (2012 series) of 108.8% owing to high global crude prices.
- Inflation in clothing and footwear increased to a 109-month high of 9.9% in July 2022 with adverse implications for low-income consumer budgets.
- Core CPI inflation[4] moderated to a five-month low of 6.0% in July 2022.

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



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

CPI inflation eased to 6.7% in July 2022 due to moderation in vegetable prices. However, it remained above the RBI's upper tolerance limit of 6% for the seventh successive month.

WPI inflation remained elevated at 13.9% in July 2022, falling from 15.2% in June 2022, led by easing inflationary pressures from tomatoes, non-food articles, crude and manufactured products.

- Inflation in wholesale food prices eased to 9.4% in July 2022 from a 103-month high (2011-12 series) of 12.4% in June 2022 led by a fall in inflation in vegetables to an eight-month low of 18.3%. Inflation in tomatoes dropped to a four-month low of 32.1% in July 2022 from a historic high of 281.1% in June 2022.
- Inflation in crude was at a five-month low of 58.8% in July 2022.
- Inflation in non-food articles fell to a 16-month low of 12.8% in July 2022 as inflation in *fibres* moderated to a five-month low of 42.6% and that in oilseeds turned negative for the first time since December 2017 at (-)4.1%.
- Inflation in manufactured products eased to 8.2% in July 2022 from 9.2% in June 2022, reflecting broad-based moderation in inflationary pressures.
- Core WPI inflation eased to a 16-month low of 8.4% in July 2022.
- Fuel and power inflation increased marginally to 43.8% in July 2022 from 40.4% in June 2022.

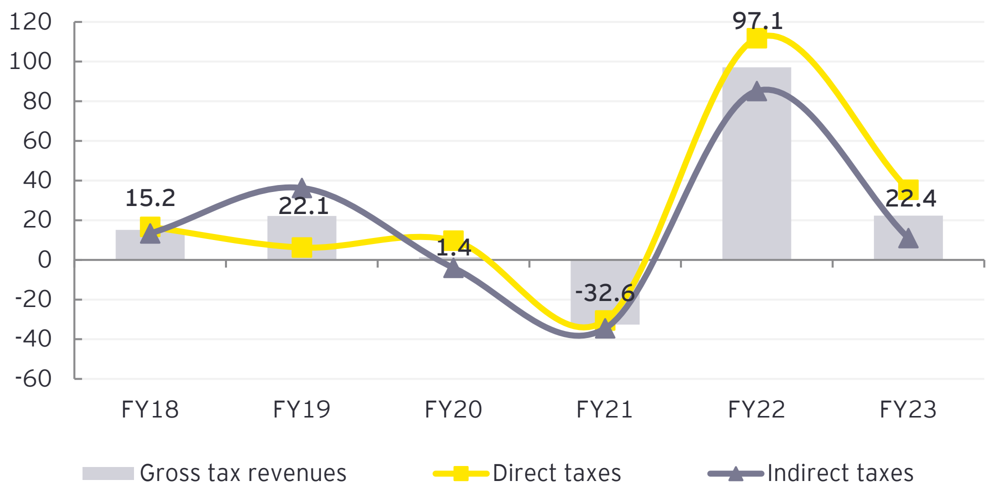
[4] Core CPI inflation is measured in different ways by different organizations/agencies. Here, it has been calculated by excluding food, and fuel and light from the overall index.

3. Fiscal: center's gross tax revenues grew by 22.4% during 1QFY23

A. Tax and non-tax revenues

- As per the CGA, the center's GTR[b] grew by 22.4% during the first quarter of FY23. GTR had shown a high growth of 97.1% during 1QFY22 due to a favorable base effect, as there was a sharp contraction of (-)32.6% during 1QFY21 **(Chart 3)**.
- Center's GTR during 1QFY23 stood at 23.6% of the annual budget estimate (BE), close to the corresponding ratio at 24.0% in FY22. During FY01 to FY21, this ratio has averaged relatively lower at 15.2%.
- During 1QFY23, direct taxes[a] showed a growth of 35.4% while indirect taxes[a] grew by 11.0%. Owing to considerable base effects, growth in direct and indirect taxes during the corresponding period of FY22 was high at 111.8% and 85.2%, respectively.
- Both corporate income tax (CIT) and personal income tax (PIT) revenues showed strong growth rates of 30.0% and 40.7%, respectively during 1QFY23. In comparison, these taxes showed a growth of 128.2% and 97.5% during 1QFY22.
- Among indirect taxes, center's GST revenues[c] showed a growth of 24.9% during 1QFY23 as compared to 71.0% during 1QFY22.
- Both customs duties and union excise duties (UED) showed a contraction during 1QFY23. Customs duties contracted by (-)11.8% and UED revenues by (-)9.8% reflecting the impact of reduction in customs duties on certain raw materials and UED rates on petroleum products.

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



Center's GTR grew by 22.4% during 1QFY23 with growth in direct taxes at 35.4% and that in indirect taxes at 11.0%.

Source: Monthly Accounts, CGA, Government of India

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

- Center's non-tax revenues showed a contraction of (-)51.2% during 1QFY23. Non-tax revenues during 1QFY23 stood at 23.1% of the annual BE as compared to the corresponding ratio at 52.4% in 1QFY22. Non-tax revenues may pick up in the coming months on account of 5G auctions that concluded on 1 August 2022 with a provisional sale amount of nearly INR1.5 lakh crore[5].
- Non-debt capital receipts of the center during 1QFY23 stood at 35.3% of the annual BE.
- As per DIPAM[6], disinvestment receipts up to 24 August 2022 stood at INR24,543.7 crore, that is 37.7% of the FY23 BE at INR65,000 crore.

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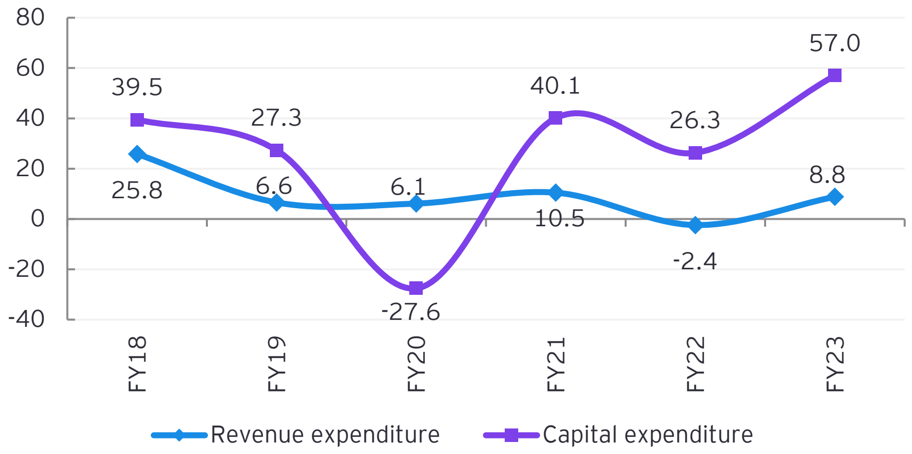
[5] http://surl.li/corsh
[6] https://dipam.gov.in/

B. Expenditures: revenue and capital

- Center's total expenditure grew by 15.4% during 1QFY23 as compared to a meagre growth of 0.7% during the corresponding period of FY22.
- Revenue expenditure grew by 8.8% during April-June FY23 as compared to a contraction of (-)2.4% during April-June FY22 **(Chart 4)**.
- Capital expenditures were frontloaded during 1QFY23, showing a growth of 57.0% during this period, significantly higher than 26.3% during the corresponding period of FY22.

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



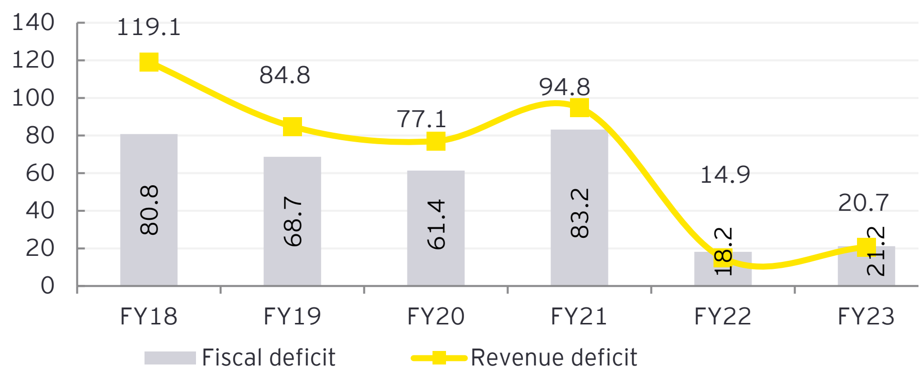
During 1QFY23, center's total expenditure grew by 15.4% with growth in revenue expenditure at 8.8% and that in capital expenditure at 57%.

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

C. Fiscal imbalance

- Center's fiscal deficit during 1QFY23 stood at 21.2% of the annual BE, the lowest level considering the corresponding period FY12 to FY21. Strong revenue performance of the center largely enabled a low level of fiscal deficit relative to BE during 1QFY23 (**Chart 5**).
- Center's revenue deficit during 1QFY23 at 20.7% of the annual BE also stood at the lowest level considering the corresponding ratios during 1Q of FY12 to FY21.

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



During 1QFY23, center's fiscal and revenue deficits relative to BE stood at 21.2% and 20.7% respectively, their lowest levels considering the corresponding period from FY12 to FY21.

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

4. Comparative trends: India's FY23 export and import volumes projected to grow by 4.2% and 10%

Export volumes of goods and services

- In 2020, owing to the adverse impact of the pandemic, there was a contraction in the volume of exports of goods and services for all major advanced and emerging economies except China **(Table 1)**.
- With a recovery in global demand in 2021, growth in export volumes rebounded in all selected countries barring the UK, where the contraction continued due to uncertainty on account of Brexit.
- With disruptions in global supply chains due to the ongoing geopolitical conflict, growth in export volumes is projected to be modest in 2022.
- Amongst advanced economies, growth in export volumes in the UK is expected to remain subdued at 0.9% in 2022, recovering slightly to 1.5% in 2023. This is lower than the average growth of 3.8% during the pre-COVID-19 period of 2015 to 2019.
- In Germany, growth in export volumes is expected to fall sharply to 1.4% in 2022 from 9.5% in 2021. Heightened uncertainty, surge in energy prices and additional material shortages due to lockdowns in China are expected to adversely impact exports despite a large order backlog.
- Amongst emerging economies, Brazil is expected to face a contraction in its export volumes in 2022. The ongoing geopolitical conflict is expected to continue to lead to an increase in the cost of farming inputs such as fertilizers, severely constraining agriculture production and their exports.
- In India, growth in export volumes is expected to moderate to 4.2% in 2022 from 23% in 2021. In 2023, growth in export volumes is projected to ease further to 1.8%. Export-restrictive measures, particularly for agricultural products, were put in place in May 2022.
- Growth in China's volume of exports is projected to fall to 7.3% in 2022 from 16.2% in 2021. In China, automobile supply chains have experienced disruptions, contributing to weaker export growth.

Table 1: Export volumes of goods and services (% change)

Country	2020	2021	2022	2023
US	-13.6	4.5	3.6	3.9
UK	-13.0	-1.3	0.9	1.5
Germany	-10.1	9.5	1.4	4.9
France	-17.0	8.6	7.7	5.7
Japan	-11.7	11.8	1.9	3.2
Brazil	-2.2	6.3	-1.9	2.6
India*	-9.2	23.0	4.2	1.8
China	3.0	16.2	7.3	5.5
South Africa	-12.0	9.9	6.3	3.1

Source: OECD Economic Outlook Database, June 2022
Note: (1) Actuals for 2020 and 2021 for forecasts for 2022 and 2023
*data pertains to fiscal year

Import volumes of goods and services

- The growth in volume of imports of goods and services across countries also depict a similar pattern as that in export volumes. After a contraction in 2020, import volumes picked up sharply in 2021 largely due to base effect. Growth is expected to ease in 2022 for all selected economies except UK.
- In the UK, growth in import volumes is expected to increase to 15.7% in 2022 from 3.8% in 2021. This is expected to ease to 3.6% in 2023, closer to the economy's longer term historical trends **(Table 2)**.
- In Brazil, import volume is expected to show a contraction of (-)1.6% in 2022, possibly due to a significant reduction in fertilizer imports from Russia given the ongoing geopolitical conflict.
- Similarly, China significantly depends on Russia and Ukraine for imports of barley, maize and vegetable oils. Since the scope for substitution is limited in the short term, import volumes are expected to be adversely impacted at least in 2022, where a contraction of (-)0.3% is projected.
- In 2023, while Brazil and China are projected to emerge from the contraction in import volumes, for other selected economies, growth in import volumes is expected to moderate from their levels in 2022.

Table 2: Import volumes of goods and services (% change)

Country	2020	2021	2022	2023
US	-8.9	14.0	9.6	3.2
UK	-15.8	3.8	15.7	3.6
Germany	-9.2	9.0	5.4	4.7
France	-13.0	7.8	5.9	4.4
Japan	-6.9	5.1	3.0	2.6
Brazil	-10.2	12.9	-1.6	1.7
India*	-13.8	34.7	10.0	2.9
China	-0.3	7.7	-0.3	5.3
South Africa	-17.4	9.4	8.6	6.6

Source: OECD Economic Outlook Database, June 2022
Note: (1) Actuals for 2020 and 2021 for forecasts for 2022 and 2023
*data pertains to fiscal year

5. In focus: India's growth potential: the next 25 years and beyond

Home

1. Introduction

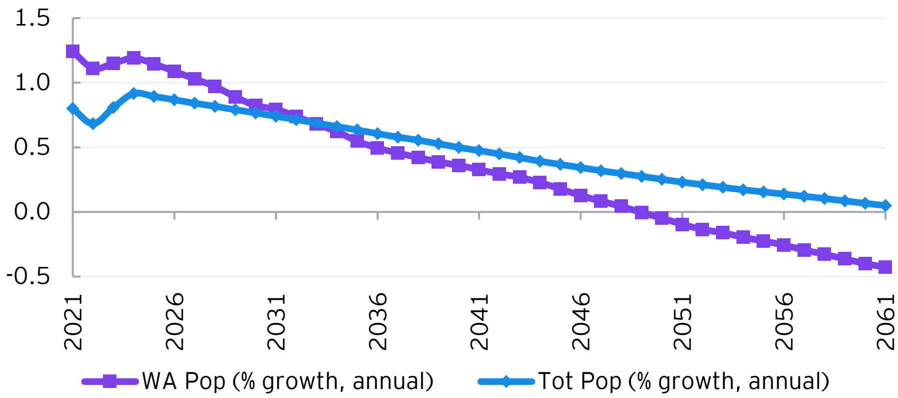
As per the UN World Population Prospects 2022, India is projected to become the largest-sized population economy by 2023, that is next year. This projection is based on their medium variant forecast. In the next 25 years, India will keep increasing the size of its GDP relative to other major economies. This thrust can be analyzed by using OECD's recent methodology and forecasts regarding long-term trends in the size and growth of GDP. Juxtaposing OECD's October 2021 global GDP forecasts that are in terms of constant 2015 Purchasing Power Parities (PPP), it is worthwhile examining the size of India's potential output by the middle of the current century. This can be done both in PPP and in market exchange rate terms.

As per OECD's baseline projections, India would overtake the US in terms of size of GDP (PPP terms) in 2047, becoming the second largest economy by the late 2040s. However, in view of the deleterious impact of COVID-19 and disruptions emanating from the ongoing geopolitical conflict, considerable changes are happening in the growth performance and potential of the Indian economy. These changes would affect both the base numbers in 2022 (FY23 for India) and the relevant parameters determining growth thereafter. As such, it is useful to work on suitable simulations, which are variations on the OECD baseline projections.

2. Revisiting demographic dividend

In the assessment of India's growth potential, one key determinant as well as an important objective variable is the availability of human resources. This pertains to the size and growth in the working age population in India in an international context. According to the medium forecast variant of the UN World Population Prospects (2022), India is projected to have the largest population in 2023. The potential contribution of the growing population to India's GDP growth would depend, among other factors, on the rate of growth and size of total population and its contribution to the size of working age population who may be absorbed in productive employment (Chart 6). It would also depend on increase in labor productivity and the impact of rising per-capita income on savings and capital formation. The working age population is estimated to decline at a rate lower than that of total population. Even as working age population declines over time, its adverse impact on potential growth rate can be overcome by its higher rate of absorption in productive employment and an increase in productivity. Absorption in productive employment and increase in labor productivity would depend, in turn, on increase in the employment elasticity of output, and higher investment in human capital requiring significant augmentation of education and health expenditures.

Chart 6: Growth (%) of India's total and working age population (15 to 64 years)



Source (basic data): UN World Population Prospects 2022

As discussed in detail in the In-focus section of the July 2022 issue of the EY Economy Watch[7], some important markers for India are noted below:

1. Share of working age population is projected to peak at 68.9% in 2030. At this level, India is expected to provide 104.3 crore working age persons.
2. India's overall dependency ratio[8] is expected to be the lowest in its history by 2030 at 31.2%.
3. India's old dependency ratio is predicted to overtake the young dependency ratio by 2056.

India would thus become the largest provider of human resources in the world when populations in many advanced countries would be aging. The critical policy question is how to ensure productive employment in India and abroad, of this large population.

[7] https://assets.ey.com/content/dam/ey-sites/ey-com/en_in/topics/tax/economy-watch/2022/07/ey-economy-watch-july-2022.pdf?download

[8] Dependency ratio is defined as the ratio of population aged between 0 to 14 years and above 65 years to total population.

3. Projecting the size and share of the Indian economy

The OECD focuses on projecting the potential or trend output growth based on a long-term model in which the main determinants of growth include growth of capital stock and its productivity, growth of labor force and its productivity and the pace of technological progress (Guillemette and Turner, 2018; Johansson A. et al., 2013; OECD, 2014)[9].

Table 3 gives the estimated growth rates for a selected group of countries in the OECD baseline scenario. In the case of world, China, India and US, average growth rates progressively fall, decade after decade although the rate of this decline eases after the 2030s. The main reason for the falling growth rates is the declining marginal productivity of capital and reduced contribution of technological progress.

Table 3: Period average growth rates (%) for OECD baseline scenario: 2022 to 2060

Period	China	Germany	Japan	US	India	World
2022 to 2025	4.9	2.0	1.1	2.2	8.2	3.7
2026 to 2030	3.7	0.7	0.6	1.6	5.9	2.7
2031 to 2035	2.9	0.7	0.5	1.5	4.7	2.3
2036 to 2040	2.1	0.8	0.4	1.4	3.8	1.9
2041 to 2045	1.6	0.9	0.3	1.4	3.1	1.7
2046 to 2050	1.3	0.9	0.2	1.3	2.7	1.5
2051 to 2055	1.3	0.9	0.4	1.3	2.4	1.5
2056 to 2060	1.2	1.0	0.5	1.3	2.3	1.5

Source (basic data): OECD
Note: For India, data is on fiscal year bases. 2022 implies FY23 and so on.

As compared to the average growth rates given in Table 3 for India, we work on alternative growth paths for India, leaving projections for other countries as per the OECD baseline scenario (Table 4). However, the world growth and India's share in world output changes with each simulation as the share of India in world output increases. In the initial period covering 2022 to 2025 (FY23 to FY26 for India), we have taken a lower average growth for India as compared to the OECD projections based on more recent information (RBI Monetary Policy Review, August 2022 and IMF World Economic Outlook, April 2022).

However, 2026 (FY27) onwards, in each of the three simulations/scenarios (S1, S2, and S3), India's average growth is increased slightly as compared to the OECD baseline scenario. This is dependent on India taking fuller advantage of the population growth trends, which results in both increased rate of accumulation of capital stock and increased employment. If India is able to follow suitable growth-supporting policies, its average five-year growth rates would turn out to be higher than those projected by the OECD, especially in the latter decades. However, in each scenario, average five-year growth rates continue to fall, similar to the trend in the OECD baseline scenario. Thus, in the most optimistic scenario (S3), the average growth rates in the 2050s is 4.9% each in the two five-year blocks as compared to the OECD projections of 2.4% and 2.3%, respectively.

Table 4: Period average growth rates (%) for alternative scenarios: 2022 to 2060

Period	S1	S2	S3	S1	S2	S3
	India			World		
2022 to 2025	7.0	7.0	7.0	3.6	3.6	3.6
2026 to 2030	6.6	7.0	7.3	2.8	2.8	2.9
2031 to 2035	5.7	6.2	6.7	2.4	2.5	2.6
2036 to 2040	4.8	5.3	5.8	2.1	2.2	2.3
2041 to 2045	4.2	4.8	5.3	1.9	2.0	2.1
2046 to 2050	3.8	4.4	5.0	1.8	1.9	2.1
2051 to 2055	3.6	4.3	4.9	1.8	2.0	2.2
2056 to 2060	3.5	4.3	4.9	1.8	2.0	2.3

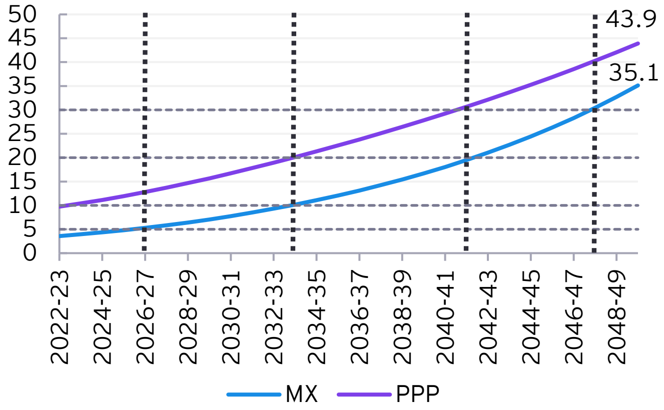
Source (basic data): OECD, IMF, RBI and EY preliminary estimates
Note: (1) S1, S2 and S3 indicate three alternative scenarios.
(2) For India, data is on fiscal year bases. 2022 implies FY23 and so on.

Based on these projections, the size of the Indian economy in market exchange rate and PPP terms, as well as the share of the Indian economy in global GDP, can be worked out. Chart 7 shows the evolving size of the Indian economy in both market exchange rate and PPP terms. In terms of market exchange rates, the Indian economy is projected to cross the thresholds of US$5, 10, 20 and 30 trillion in FY27, FY34, FY43 and FY48, respectively. By FY48, in PPP terms, India's GDP is projected to be about US$40 trillion.

Consistent with this scenario (S2), the share of India in world GDP is shown in Chart 8. By 2047, (FY48 for India), India's share is expected to increase to 19.6%.

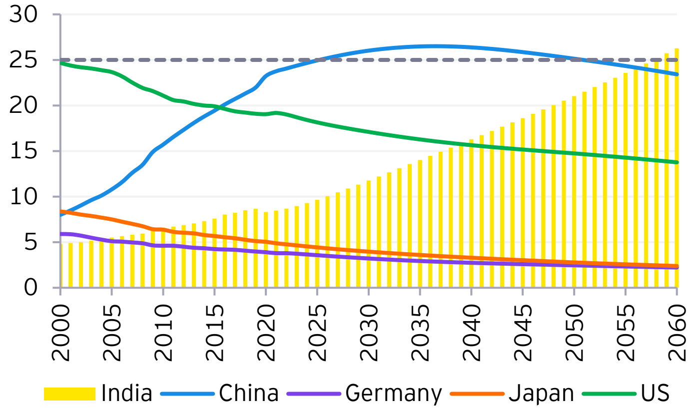
[9] Guillemette, Y. and D. Turner (2018), "The Long View: Scenarios for the World Economy to 2060", *OECD Economic Policy Papers*, No. 22, OECD Publishing, Paris; OECD (2014), "Growth Prospects and Fiscal Requirements over the Long Term", in *OECD Economic Outlook, Volume 2014 Issue 1*, OECD Publishing, Paris; Johansson Å. et al. (2013), "Long-Term Growth Scenarios", *OECD Economics Department Working Papers*, No. 1000, OECD Publishing, Paris

Chart 7: Size of Indian economy (USD trillion) in market exchange rate and PPP terms: Scenario 2



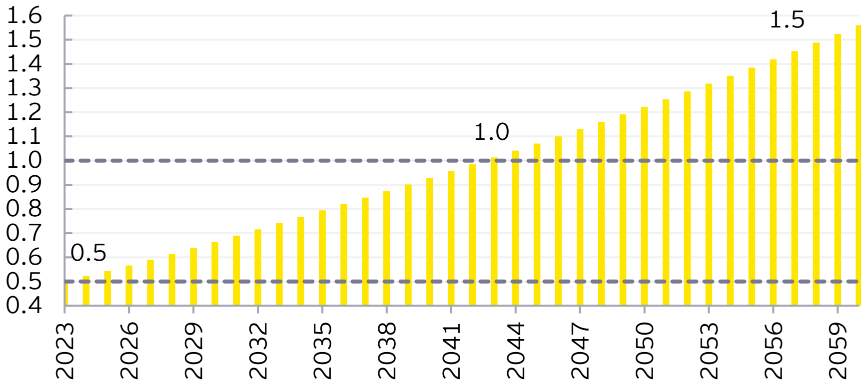
Source (basic data): OECD, IMF, RBI and EY preliminary estimates

Chart 8: Share in global GDP (%) - S2



Source (basic data): OECD, IMF, RBI and EY preliminary estimates
Note: For India, data is on fiscal year bases. 2022 implies FY23 etc.

Chart 9: India's per capita GDP relative to world per capita GDP - S2



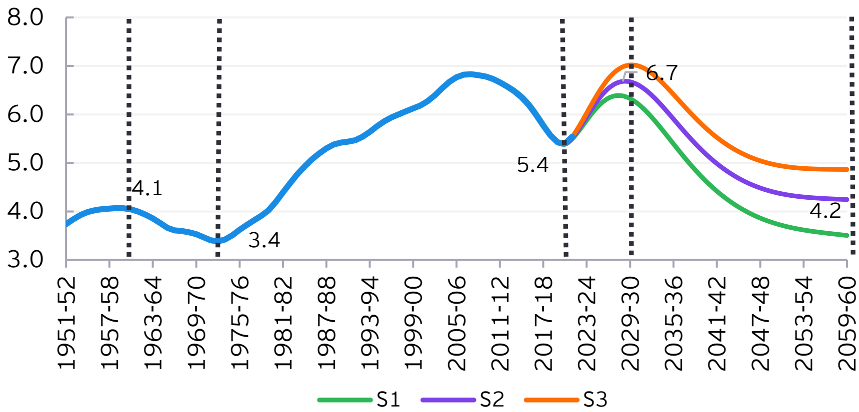
Source (basic data): OECD, UN World Population Prospects 2022 and EY preliminary estimates

Accordingly, India's per capita GDP, which is almost 50% of the world per capita GDP in PPP terms currently (FY22 and FY23), would catch up to the world level by the early 2040s, and is projected to become 1.5 times the world per capita GDP by 2057 (FY58) in S2.

4. Indian economy: the long picture

In this section, we take a long-term view of India's trend growth rate based on actual growth and estimated potential growth covering a period of more than 100 years from 1951-52 to 2059-60. Growth numbers 2022-23 onwards are based on simulations under alternative assumptions, referred to as S1, S2 and S3. In this long history, two major dips are observed in 1972-73 and more recently, in 2020-21 pertaining to the year affected by the COVID-19 shock. In the historical period, a peak in trend growth was observed early on in 1958-59 and then in 2008-09. In the projection period, in all simulations, a peak in the trend growth rate of close to 7% is reached by 2029-30 after which there is a steady decline just as in the case of OECD projections where, the growth rate falls for most countries in the long run due to a fall in the contribution of capital stock to growth, among other factors.

Chart 10: India's trend GDP growth: historical and projected



Source (basic data): OECD, MoSPI, and EY preliminary estimates
Note: trend growth has been estimated for alternative scenarios by using HP filter.

5. Short-term and mid-way pitfalls

The OECD projections are based on many assumptions. The global economy is currently undergoing major structural upheavals. COVID-19 has not only disturbed the relative position of countries in 2020 and 2021 (FY21 and FY22 for India) but it continues to adversely impact major economies. In the short run, the ongoing geopolitical conflict has had a major impact on global supply chains, leading to various shortages and upsurges in prices of global crude and primary products. These challenges are forcing countries to undertake structural reforms, which include responses to supply chain disruptions. These responses are likely to have long-lasting effects and the global economy is not likely to fully revert to the earlier sources of supplies of raw materials and outputs. In fact, supply chain disruptions may be considered as consisting of five major dimensions as detailed below.

i. **Sources of raw materials:** Important raw materials, such as crude, primary metals, and urea, have been facing critical shortages on account of the global geopolitical conflict. As a result, there have been major disruptions in supply chains relying on these inputs, such as automobiles, aeronautics, electronics, and fertilizers.

ii. **Sources of intermediate products:** There have also been major shortages of intermediate products, particularly energy (crude, coal, and natural gas) and semiconductors. Given that energy is a critical input across several industries, the short-run impact on output could be amplified by cascading effects propagating along international and domestic input-output linkages. Alongside, sharp rises in energy prices may have an adverse impact on household incomes and demand.

iii. **Sources of final outputs:** Supply disruptions and trade sanctions have led to historically higher prices for a number of final goods, including wheat, oilseeds, cereals, rice, maize, edible oils, and milk.

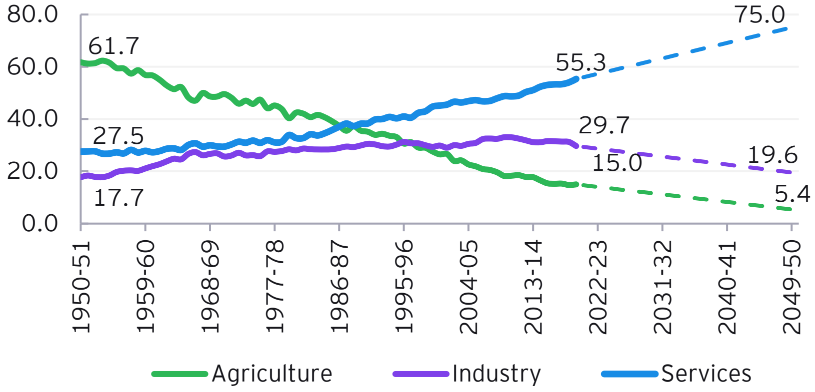
iv. **Disruption in trade and transport routes:** Trade channels and transportation routes have been adversely affected. With parts of the Black Sea and Sea of Azov becoming nearly unpassable, maritime companies have closed lanes and suspended shipping services. European firms relying on manufacturing goods produced and assembled in Asia are particularly under pressure. Bypassing airspace or ports that are vulnerable to the conflict has increased costs and the time taken for deliveries.

v. **Disruption of financial settlement infrastructure:** There has also been a disruption linked to financial and business-related sanctions, including a bar on the use of the SWIFT platform for selected countries. Selective export bans and delays and difficulties in making international payments have disrupted trade as well.

In addition to these short-term challenges, India also faces some medium-term challenges emanating from its various socio-economic fault lines, which may easily adversely affect economic activities if a large segment of potential workers remains unemployed. As the number of workers in the economy keeps increasing, it is important to ensure that the employment intensity of output increases. This process can be facilitated by increasing government expenditure on health, education, and infrastructure. This process would also be helped by the changing structure of output in favor of services that are less capital-intensive and more employment intensive. We expect such a structural change to happen spontaneously.

6. Changing structure of economy

Chart 11: India's structure of GVA (%)



Source (basic data): MoSPI
Note: Dotted lines indicate estimates.

Another long-term trend that policymakers in India need to take into account relates to the likely change in the structure of output. If present sectoral growth trends are projected forward, the share of agriculture in output is expected to continue to fall and that of the services sector may continue to increase. By the early 2050s, the bulk of the output may consist of services, accounting for nearly 3/4th of the economy. Such a structure of output would also be environment friendly. Many studies [Srivastava and Kumar, K. K. (2014)] show that the services sector is relatively less carbon and greenhouse gas (GHG) emission intensive. This provides a built-in advantage to India in achieving its climate and environmental targets through the spontaneous shift in the structure of output. Further, to some extent, an increase in the tax-GDP ratio would also be facilitated as the share of non-agricultural output in GVA increases to about 95%.

Table 5: Structure of output: selected countries

Period/Sectors	Agr.	Ind.	Ser.	Agr.	Ind.	Ser.
	European Union			United Kingdom		
1997-00 - (b)	2.6	28.6	68.8	1.0	25.7	73.3
2001-05	2.2	27.3	70.4	0.9	23.2	75.9
2006-10	1.8	26.5	71.7	0.7	21.6	77.7
2011-15	1.9	25.3	72.8	0.7	20.7	78.6
2016-20 - (a)	1.8	25.3	72.8	0.7	19.8	79.6
Change (a minus b)	-0.8	-3.2	4.0	-0.4	-5.9	6.3
	India			United States		
1997-00 - (b)	25.4	29.8	44.8	1.3	23.6	75.2
2001-05	21.0	30.6	48.4	1.2	21.8	77.1
2006-10	18.1	33.4	48.5	1.1	21.2	77.7
2011-15	18.2	31.0	50.8	1.2	19.9	78.9
2016-20 - (a)	18.4	28.3	53.3	1.0	18.9	80.1
Change (a minus b)	-7.0	-1.5	8.5	-0.3	-4.6	4.9

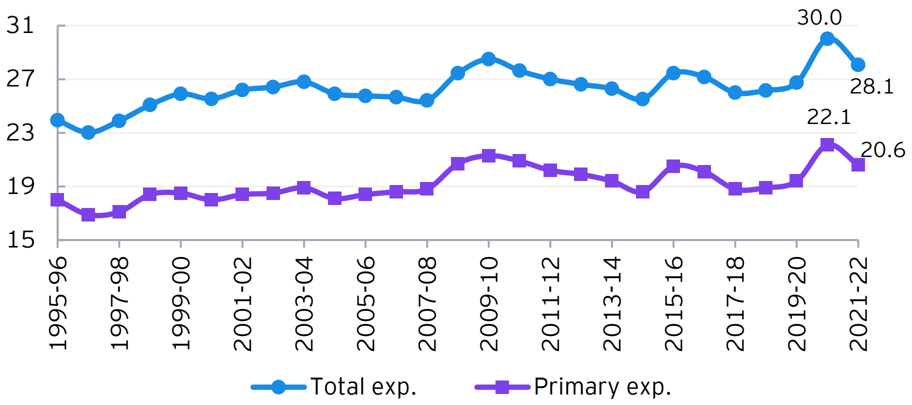
Source (Basic data): World Bank (WDI database)
Notes: Since these are output sectors, sectoral shares add to GVA. Here the shares are given as % of GDP after normalizing these to 100%.

Table 5 shows a comparative picture of the sectoral structure of output in selected countries, highlighting that the present-day developed countries are characterized by a relatively large share of services and a small share of agriculture. This trend is likely to be followed for India also as it becomes a developed economy.

It is also worth noting that the structure of output is likely to become progressively more complex, in which it might be difficult to distinguish outputs that pertain strictly to industry vis-à-vis. services. Many manufacturing outputs will have a significant share of services, and many services will utilize manufactured products to a significant degree. In fact, economists are linking a country's export prospects and export competitiveness to the degree of complexity of its outputs. [See, for example, Hidalgo and Hausmann (2009)[10]]. In more recent literature, two indices of economic complexity based on the methodology by Hidalgo and Hausmann (2009), have gained prominence. MIT (Observatory of Economic Complexity - OEC)[11] and Harvard (Harvard Growth Lab -HGL)[12] have developed these indices. Both of these have indices pertaining to product complexity and country complexity. The HGL has also developed a complexity outlook index (COI) which indicates how close a country is to producing more complex products given its current capabilities. According to HGL, India's country complexity ranking improved to 46 in 2020 from 54 in 2010. Further, India ranked first in the COI. As per the OEC, India's country complexity rank was at 40 in 2020, showing a marked improvement from 50 in 2010.

7. Re-calibrating government intervention

Chart 12: India's total expenditure and expenditure net of interest payments and pensions relative to GDP (%)



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

In order to take full advantage of India's evolving population trends so as to accelerate trend GDP growth rate well above the OECD projections, several supporting government policies would be required to ensure growth in employment which is faster than output growth. For this purpose, government intervention is critical. This would be facilitated by increasing the size of government expenditure relative to GDP and prioritizing government expenditure on education, health, and physical infrastructure. Chart 12 shows that the combined total and primary expenditure of the central and state governments considered together have been stagnating around an average of 27% and 20%, respectively during FY11 to FY22.

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[10] Hidalgo, C. A., & Hausmann, R. (2009). The building blocks of economic complexity. *Proceedings of the national academy of sciences*, *106*(26), 10570-10575.
[11] https://oec.world/en/rankings/eci/hs6/hs96
[12] https://atlas.cid.harvard.edu/rankings

Table 6: General government expenditure relative to GDP (%): selected countries

Countries	2001	2010	2019	2027 (p)
France	51.7	56.9	55.3	54.0
Germany	47.4	48.1	45.0	47.0
Brazil	36.2	39.9	37.4	34.1
UK	34.7	44.6	38.2	37.5
Japan	35.2	37.7	37.2	37.7
US	32.8	39.8	35.8	37.4
India*	27.8	27.4	27.4	27.6

Source (basic data): IMF
*For India, data is with reference to fiscal year; (p) projection

Such a relatively small size of government in India is exceptional in the context of major economies as depicted in Table 6.

For increasing the size of government, augmenting the combined tax-GDP ratio is a pre-requisite. The In-focus section of the July 2022 issue of the EY Economy Watch[13] contains an extended analysis of India's stagnating revenue-GDP ratio, methods by which it can be uplifted, and how the increase in government expenditure should be allocated for education, health, and capital spending. Analysis of determinants of trend growth rate also highlights that the contribution of India's workforce to growth can be further increased by emphasizing female education and participation in economic activities as well as by increasing the working age of male and female population by provision of better health facilities.

8. Conclusions

As India looks forward to the next 25 years and beyond, suitable policy intervention may enable its economy to not only lead global growth but also increase its share in the world GDP. We estimate that India may potentially account for nearly 25% of world GDP by 2058-59 with its per capita GDP overtaking the world level in the early 2040s and becoming one and a half times of world per capita GDP by the late 2050s. India may do even better under more optimistic scenarios (such as S3 discussed above). Among other policy measures, the following may be considered critical:

1. The share of combined expenditure on education and health should be increased respectively to 6% and 3% of GDP by the mid-2030s. The share of expenditure on health may further be increased to about 5% of GDP in the next two decades as India's old age dependency keeps increasing.

2. Alongside, higher emphasis on infrastructure investment may be facilitated by adherence to fiscal responsibility, ensuring that the revenue accounts of the central and state governments are kept in balance if not in surplus, so that the entire capital receipts including fiscal deficit are allocated to investment in physical infrastructure. A successful increase in the revenue receipts to GDP ratio would ensure that revenue expenditure requirements are met from out of the revenue account. To some extent, an increase in the tax-GDP ratio would also be facilitated as the share of non-agricultural output in GVA increases to about 95%.

3. Female workforce participation rate in India is still comparatively low. As per International Labour Organization (ILO) data, India's female labor force participation rate has been declining in recent years and was estimated to be as low as 18.6% in 2020. With an emphasis on female education and health, their participation in productive activities can be tangibly increased.

4. Emphasis on better health provisions may enable an increase in the number of working years for India's gradually rising old age population.

5. Investment in education and technological skills would accelerate adoption of global technologies in India, thereby augmenting the contribution of technological progress to growth.

6. A virtuous cycle of higher per capita income, lower dependency ratio, and higher female earnings in the family may facilitate higher savings and investment, and thereby growth.

7. Overall, employment intensity of output needs to be increased. To some extent, the relatively higher growth of the services sector, which tends to be more employment intensive, would facilitate this change.

[13] https://assets.ey.com/content/dam/ey-sites/ey-com/en_in/topics/tax/economy-watch/2022/07/ey-economy-watch-july-2022.pdf?download

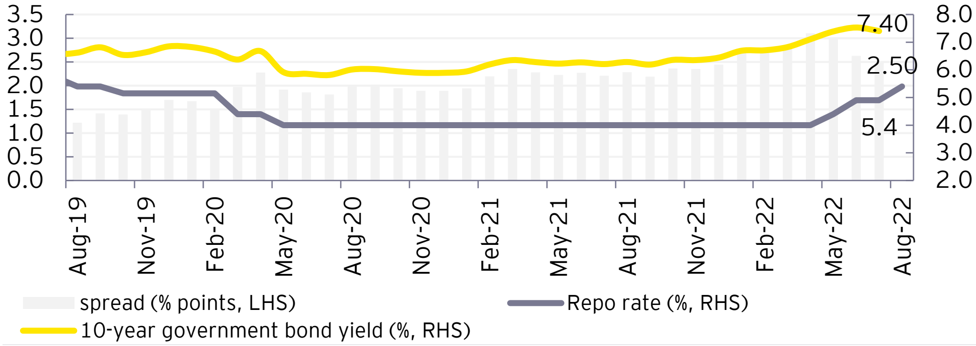
6. Money and finance: RBI increased the repo rate by 50 basis points in August 2022

A. Monetary sector

Monetary policy

- The RBI increased the repo rate by another 50 basis points to 5.4% in its monetary policy review held on 5 August 2022 **(Chart 13)**. Consequently, both the standing deposit facility and marginal standing facility rates have been revised upwards to 5.15% and 5.65%, respectively. Further, the Monetary Policy Committee decided to remain focused on a calibrated withdrawal of accommodation with the objective of taming inflation. In RBI's assessment, CPI inflation is expected to remain above the upper tolerance level of 6% in 2Q and 3Q of FY23.
- The RBI observed that inflationary pressures were broad-based and core inflation continued to remain elevated. Additionally, volatility in global financial markets has destabilized both domestic financial and currency markets, leading to higher imported inflation.

Chart 13: Movements in the repo rate and 10-year government bond



The RBI increased the repo rate by 50 basis points to 5.4% in its August 2022 monetary policy review.

Source: Database on Indian Economy, RBI

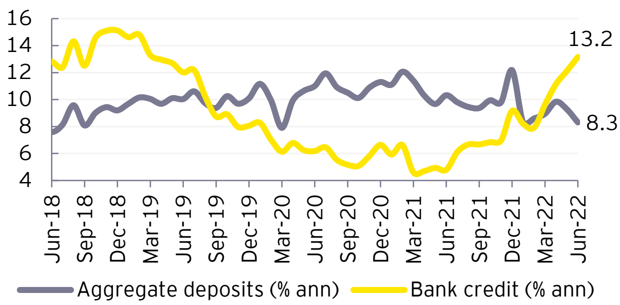
Money stock

- Broad money stock (M3) grew by 8.6% in July 2022 as compared to 7.8% in June 2022 due to a marginally higher growth in both narrow money (M1) and time deposits.
- Growth in M1 increased to 9.3% in July 2022 from 8.7% in June 2022, led by a marginal improvement in the growth of currency with the public and demand deposits. Growth in currency with the public was at 7.9% in July 2022 as compared to 7.5% in June 2022, while growth in demand deposits was at 10.9% in July 2022 as compared to 10.6% in June 2022.
- Time deposits, accounting for about 76% of M3 on average (last three years) grew by 8.3% in July 2022, improving from 7.5% in June 2022.

Aggregate credit and deposits

- Outstanding bank credit by SCBs grew by 13.2% in June 2022 **(Chart 14)**, its fastest pace since March 2019, led by higher credit growth across all the key sectors of the economy. In 1QFY23, bank credit grew by 12.1%, its highest since 1QFY19.
- Growth in non-food credit also accelerated to 13.7% in June 2022 from 12.6% in May 2022. Non-food credit grew by 12.5% on average in 1QFY23, increasing from 8.7% in 4QFY22.
- Sectoral bank credit data indicate that growth in credit to agriculture was the highest at 13.0% in June 2022, increasing from 11.8% in May 2022. In 1QFY23, agricultural credit grew by 11.8% on average, increasing from 10.1% in 4QFY22.

Chart 14: Growth in credit and deposits



Source: Database on Indian Economy, RBI

- Credit to services was marginally lower at 12.8% in June 2022 as compared to 12.9% in May 2022. In 1QFY23, credit to services showed a strong growth of 12.3% on average as compared to 7.0% in 4QFY22, reflecting recovering demand conditions in the services sector.
- Growth in outstanding credit to industries increased for the third consecutive month to 9.5% in June 2022, its highest level since July 2014. Within the industrial sector, credit to drugs and pharmaceuticals showed the highest growth at 20.0% in June 2022, as compared to 17.5% in May 2022. Growth in credit to infrastructure was stable at 9.5% in May and June 2022. In 1QFY23, growth in credit to industries improved to 8.8% from 6.4% on average in 4QFY22.
- Personal loans showed a strong growth of 18.1% in June 2022 as compared to 16.4% in May 2022. In 1QFY23, growth in personal loans increased to 16.4% on average from 12.2% in 4QFY22.
- Growth in aggregate deposits of residents eased to 8.3% in June 2022 from 9.3% in May 2022. In 1QFY23, aggregate deposits grew by 9.1% as compared to 8.6% in 4QFY22.

B. Financial sector

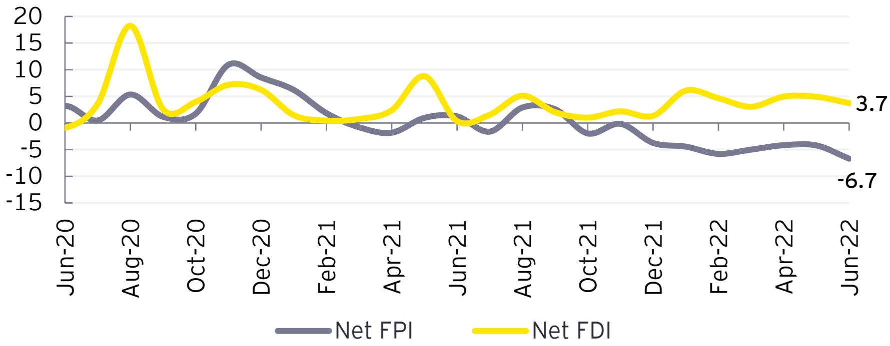
Interest rates

- As per the data released by the RBI on 5 August 2022, the average interest rate on term deposits with a maturity period of more than one year was increased for the third successive month to 5.41% in July 2022 from 5.38% in June 2022, with the actual rate ranging from 5.06% to 5.75%.
- The average MCLR was increased for the fourth straight month to 7.10% in July 2022, from 6.98% in June 2022. In July 2022, actual MCLR ranged between 6.70% and 7.50%.
- The average yield on 10-year government bonds fell for the first time since November 2021, by about 13 basis points to 7.40% in July 2022 from 7.53% in June 2022 **(Chart 13)**.
- WALR on fresh rupee loans by SCBs increased by 8 basis points from 7.86% in May 2022 to 7.94% in June 2022, its highest level since August 2021.

FDI and FPI

- As per the provisional data released by the RBI on 17 August 2022, overall foreign investments[14] (FIs) registered outflows amounting to US$(-)3.0 billion in June 2022, its highest level since March 2020. This was due to a sharp increase in net FPI outflows. In 1QFY23, FI outflows were at US$(-)1.4 billion, similar to its level in 4QFY22.

Chart 15: Net FDI and FPI inflows (US$ billion)



Net FDI inflows fell to US$3.7 billion in June 2022 from US$4.9 billion in May 2022. Net FPI outflows were at US$(-)6.7 billion in June 2022, the highest level of outflows since March 2020.

Source: Database on Indian Economy, RBI

- Net FDI inflows fell to US$3.7 billion in June 2022 from US$4.9 billion in May 2022 **(Chart 15)** as gross FDI inflows dipped sharply to US$5.9 billion in June 2022 from US$8.1 billion in May 2022. In 1QFY23, net FDI inflows at US$13.6 billion were close to its level of US$13.8 billion in 4QFY22.
- Net FPIs registered outflows for nine consecutive months with its level in June 2022 at US$(-)6.7 billion. This was the highest level of outflows since March 2020. With this, the cumulative net FPI outflows amounted to US$(-)36.1 billion during October 2021 to June 2022.

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

7. Trade and CAB: merchandise trade deficit widened to a historic high of US$(-)30.0 billion in July 2022

A. CAB: current account deficit eased to (-)1.5% of GDP in 4QFY22

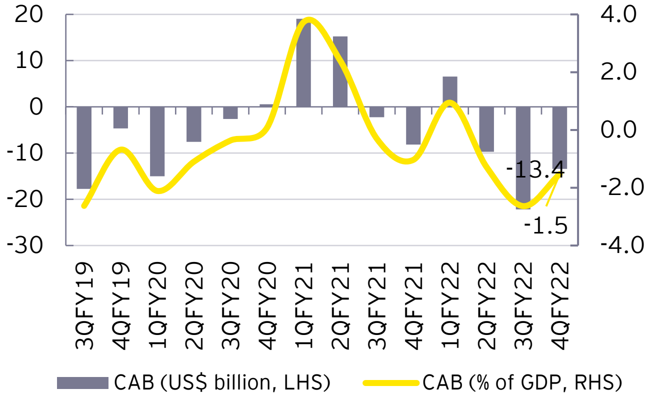
- Current account deficit narrowed to (-)1.5% of GDP in 4QFY22 from (-)2.6% of GDP in 3QFY22 **(Chart 16, Table 7)** reflecting an improvement in exports to 13.4% of GDP from 13.0% and a decline in imports to 19.6% of GDP from 20.1% over this period.
- On an annual basis, current account posted a deficit of (-)1.2% relative to GDP in FY22 as compared to a surplus of 0.9% in FY21. Merchandise trade deficit increased to a three-year high of (-)6.0% of GDP in FY22 largely reflecting rising global crude and commodity prices. Net transfer receipts fell to a four-year low of 2.5% of GDP in FY22, although net service receipts surged to a seven-year high of 3.4% of GDP.

Table 7: Components of CAB in US$ billion

Fiscal year	CAB as % of nominal GDP	CAB	Goods account net	Invisibles* net
FY19	-2.1	-57.3	-180.3	123.0
FY20	-0.9	-24.7	-157.5	132.8
FY21	0.9	23.9	-102.2	126.1
FY22	-1.2	-38.8	-189.5	150.7
1QFY22	0.9	6.6	-30.7	37.3
2QFY22	-1.3	-9.7	-44.5	34.8
3QFY22	-2.6	-22.2	-59.7	37.6
4QFY22	-1.5	-13.4	-54.5	41.1

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

Chart 16: CAB



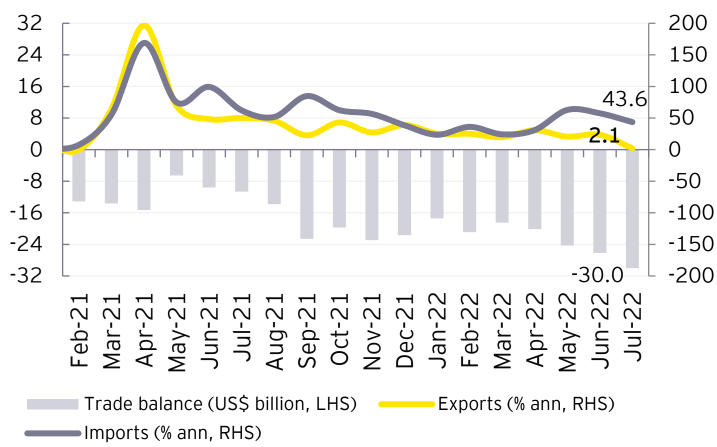
Source: Database on Indian Economy, RBI

B. Merchandise trade and exchange rate

Merchandise exports growth fell to a 17-month low of 2.1% in July 2022 whereas merchandise imports growth remained elevated at 43.6% in July 2022 easing slightly from its June 2022 growth of 57.5%.

- The sharp decline in merchandise exports growth was led by a fall in growth in oil exports to 9.2% in July 2022 from 119.0% in June 2022. Engineering goods and readymade garments exports contracted for the first time in 17 months at (-)2.1% and (-)0.6%, respectively, in July 2022.
- Growth in imports of oil and coal eased to five-month lows of 70.4% and 164.4%, respectively in July 2022 partly due to easing global crude and commodity prices. Gold imports fell by (-)43.6% in July 2022 as compared to a growth of 182.8% in June 2022. Effective 1 July 2022, the import duty on gold increased to 12.5% from 7.5%.
- Y-o-y growth in exports excluding oil, gold and jewelry fell to a 20-month low of 1.5% in July 2022 whereas growth in imports of this segment rose to a 14-month high of 47.0% taking the trade deficit of this category to a record high level of US$(-)12.9 billion in July 2022.
- Merchandise trade deficit widened to a historic high of US$(-)30.0 billion in July 2022 **(Chart 17).**
- Services trade surplus increased to US$9.5 billion in June 2022 from US$8.4 billion in May 2022.
- The rupee fell to an unprecedented low level of INR79.6 per US$ (average) in July 2022 from INR78.1 per US$ (average) in June 2022 on account of pressures arising from a) geopolitical uncertainties, b) FPI outflows, c) elevated crude prices, d) widening trade deficit, and e) faster pace of monetary policy tightening in the US.

Chart 17: Developments in merchandise trade



Source: Ministry of Commerce and Industry, GoI

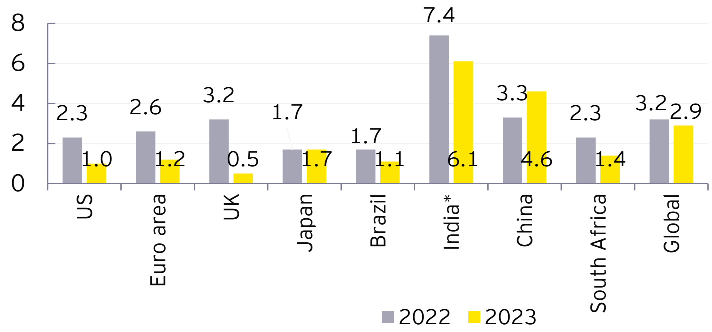
8. Global growth: IMF projected global growth at 3.2% in 2022 and 2.9% in 2023

A. Global growth

> The IMF has projected global growth at 3.2% in 2022, with India's FY23 growth forecasted at 7.4%.

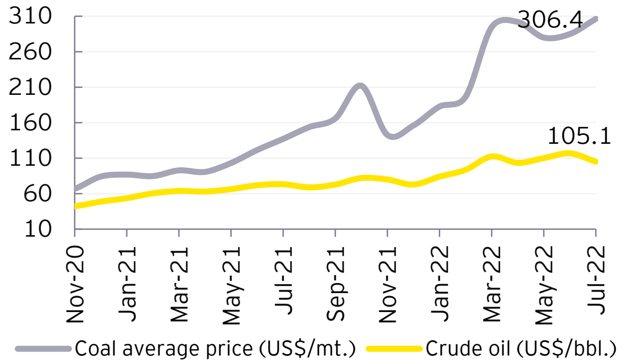
- As per the IMF, global growth is forecasted at 3.2% in 2022, moderating to 2.9% in 2023, lower than the April 2022 projections by 0.4 and 0.7% points respectively, largely driven by growth downgrades in the US, China, and Europe **(Chart 18)**.
- Growth in the US has been revised down by 1.4 and 1.3% points to 2.3% and 1% in 2022 and 2023 respectively, reflecting weaker than expected growth in the first two quarters of 2022, with significantly less momentum in private consumption partly reflecting the erosion of household purchasing power and the expected impact of a steeper monetary policy tightening.
- Growth in the euro area has also been revised downwards to 2.6% in 2022 and 1.2% in 2023, reflecting spillovers from the global geopolitical conflict as well as the expectation of a tighter monetary policy. Improved prospects for tourism and industrial activity in Italy are expected to be more than offset by significant downgrades in France, Germany, and Spain.
- Growth in Japan is projected at 1.7% both in 2022 and 2023, a downward revision of 0.7 and 0.6% points respectively from the April 2022 forecasts.
- Among emerging market and developing economies (EMDEs), China's growth has been revised down by 1.1% points to 3.3% in 2022 due to COVID-19 related lockdowns and deepening real estate crisis.
- India's growth projection has also been revised down by 0.8% points to 7.4% in 2022, reflecting less favorable external conditions and more rapid monetary policy tightening. India's growth in 2022 and 2023 is expected to be higher than that in major advanced and emerging economies.
- Brazil's growth at 1.7% in 2022 has been revised upwards by 0.5% points as a result of more robust recovery in the first quarter of the year. Similarly, growth in South Africa has also been revised up to 2.3% in 2022. In both cases, growth is expected to moderate in 2023.

Chart 18: Global growth projections (%)



Source: IMF World Economic Outlook Update (July 2022)
*Data pertains to fiscal years FY23 and FY24 respectively.

Chart 19: Global crude and coal prices



Source (basic data): World Bank, Pink Sheet, August 2022

B. Global energy prices: Global crude price eased to US$105.1/bbl. in July 2022

- Average global crude price[15] eased to US$105.1/bbl. in July 2022 from US$116.8/bbl. in June 2022 after the OPEC+ countries decided to revise upward the monthly production for August 2022 by 0.648mb/day in the OPEC and non-OPEC Ministerial Meeting held on 30 June 2022[16] **(Chart 19)**. Prices were also affected by the possibility of recession in major economies of the world[17].
- Average global coal price[18] continued its upward trajectory, increasing to an all-time high of US$306.4/mt. in July 2022 from US$284.9/mt. in June 2022.

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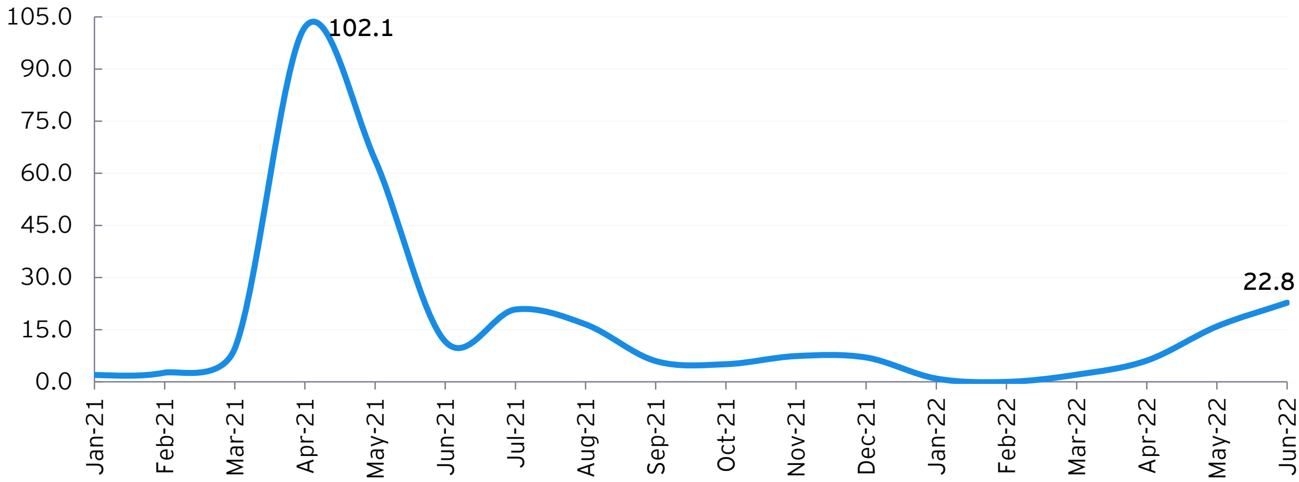
[15] Simple average of three spot prices, namely, Dated Brent, West Texas Intermediate and Dubai Fateh
[16] https://www.opec.org/opec_web/en/press_room/6948.htm
[17] shorturl.at/chtv4
[18] Simple average of Australian and South African coal prices

9. Index of Aggregate Demand (IAD): showed a growth of 22.8% in June 2022

IAD showed a double-digit growth of 22.8% in June 2022, partly due to 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 seasonally adjusted (sa) terms, tracing the demand conditions in these sectors. Movements in the monthly agricultural credit off-take (sa)[19] capture the demand conditions in the agricultural sector.
- Growth in IAD accelerated to 22.8% in June 2022 as compared to 16.0% in May 2022, partly reflecting a favorable base effect and partly a pickup in demand conditions in the services and agricultural sectors **(Chart 20 and Table 8).**
- Demand conditions in the services sector remained robust for the third successive month while those in the agricultural sector also showed a gradual pickup.
- Demand conditions in the manufacturing sector deteriorated marginally in June 2022 relative to May 2022.

Chart 20: Growth in IAD (y-o-y)



Source (Basic data): IHS Markit PMI, RBI and EY estimates
Note: From this issue onwards, we will be using seasonally adjusted data for constructing the IAD.

Table 8: IAD

Month	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22
IAD	146.0	147.3	145.8	140.4	141.2	142.7	148.1	149.7	150.5
Growth (% y-o-y)	5.1	7.4	7.0	0.9	0.0	2.1	6.1	16.0	22.8
Growth in agr. credit	10.2	10.6	14.6	10.1	10.3	9.5	10.5	11.8	13.0
Mfg. PMI**	5.9	7.6	5.5	4.0	4.9	4.0	4.7	4.6	3.9
Ser. PMI**	8.4	8.1	5.5	1.5	1.8	3.6	7.9	8.9	9.2

**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 seasonally adjusted.

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

[19] We have constructed a seasonally adjusted series for agricultural credit using Census X-13 technique in E-views (version 12).

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							
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	-8.5	-7.8	-9.6	-0.5	-6.4	FY21	50.2	41.7
FY22	11.4	12.2	11.7	8.0	10.4	FY22	54.0	52.3
2QFY22	9.5	17.1	8.6	9.3	9.2	2QFY22	53.8	52.4
3QFY22	2.1	6.1	1.4	2.7	5.3	3QFY22	56.3	57.3
4QFY22	1.8	3.8	1.2	3.9	4.9	4QFY22	54.3	52.3
1QFY23	12.7	8.9	12.7	17.1	13.7	1QFY23	54.4	58.7
Mar-22	2.2	3.9	1.4	6.1	4.8	Apr-22	54.7	57.9
Apr-22	6.7	8.0	5.8	11.8	9.3	May-22	54.6	58.9
May-22	19.6	11.2	20.6	23.5	19.3	Jun-22	53.9	59.2
Jun-22	12.3	7.5	12.5	16.4	12.7	Jul-22	56.4	55.5

Source: MoSPI, Office of the Economic Adviser, Ministry of Commerce and Industry and S&P Global

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

Fiscal year/ quarter/ month	CPI	Food Price Index	Fuel and light	Core CPI	WPI	Food Price Index	Mfg. products	Fuel and power	Core WPI
	% change y-o-y				% change y-o-y				
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	4.0	2.8	-8.0	2.2
FY22	5.5	3.8	11.3	6.1	13.0	6.8	11.1	32.5	11.0
2QFY22	5.1	2.6	13.0	6.0	11.7	3.6	11.5	28.2	11.3
3QFY22	5.0	2.2	12.9	6.2	14.3	6.8	12.0	40.4	12.2
4QFY22	6.3	6.3	8.5	6.1	13.9	9.2	10.3	32.3	10.5
1QFY23	7.3	8.0	10.1	6.4	15.7	10.7	10.3	42.7	10.5
Apr-22	7.8	8.3	10.7	7.1	15.4	9.1	11.4	38.8	11.6
May-22	7.0	8.0	9.5	6.1	16.6	10.6	10.3	49.0	10.6
Jun-22	7.0	7.7	10.1	6.1	15.2	12.4	9.2	40.4	9.3
Jul-22	6.7	6.8	11.8	6.0	13.9	9.4	8.2	43.8	8.4

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
FY19 (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	4.7	3.3
FY21 (CGA)	0.7	-17.9	-2.3	-10.7	12.7	9.2	7.3
FY22 (CGA)	33.8	55.7	43.5	49.6	20.0	6.7	4.4
FY23 (BE over FY 22 RE)	9.6	13.4	13.8	13.6	5.7	6.4	3.8
	Cumulated growth (%, y-o-y)					% of budgeted target	
Nov-21	50.3	90.4	47.2	66.3	38.6	46.2	38.8
Dec-21	44.2	66.5	50.5	58.7	31.5	47.7	36.4$
Jan-22	38.5	63.8	48.3	56.1	24.1	58.9	48.6$
Feb-22	36.6	61.3	45.7	53.3	23.3	82.7	79.7$
Mar-22	33.8	55.7	43.5	49.6	20.0	99.7	94.9$
Apr-22	36.5	75.2	59.6	65.9	10.1	4.5	-0.1
May-22	29.1	80.7	49.9	61.2	9.0	12.3	12.3
Jun-22	22.4	30.0	40.7	35.4	11.0	21.2	20.7

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 a proportion of revised estimate

Fiscal year/month	CGST	UTGST	IGST	GST compensation cess	Total GST (Center)
	INR crore				
FY 2022 (RE)	5,70,000	-	-	1,05,000	6,75,000
FY 2023 (BE)	6,60,000	-	-	1,20,000	7,80,000
	Monthly tax collection (INR crore)				
Nov-21	49,238	118	7,238	9,442	66,036
Dec-21	46,227	254	14,635	9,141	70,257
Jan-22	69,662	432	-27,918	9,456	51,632
Feb-22	48,169	159	7,903	10,100	66,331
Mar-22	63,330	1,230	-14,480	9,092	59,172
Apr-22	64,093	162	11,345	10,435	86,035
May-22	49,876	244	4,741	10,199	65,060
Jun-22	65,423	259	-16,396	10,749	60,035

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
Oct-21	4.00	FY19	13.7	8.9	30.7	-0.6	FY19	13.6	10.5	7.69	411.9
Nov-21	4.00	FY20	9.5	9.9	43.0	1.4	FY20	11.2	8.9	6.83	475.6
Dec-21	4.00	FY21	5.9	11.0	44.0	36.1	FY21	16.2	12.2	6.05	579.3
Jan-22	4.00	FY22	7.0	9.7	38.6	-16.8	FY22	10.6	8.7	6.40	617.6
Feb-22	4.00	2QFY22	6.5	9.5	8.7	3.9	2QFY22	11.4	9.3	6.23	638.6
Mar-22	4.00	3QFY22	7.7	10.6	4.6	-5.8	3QFY22	11.5	9.3	6.38	633.6
Apr-22	4.00	4QFY22	8.6	8.6	13.8	-15.2	4QFY22	10.6	8.7	6.74	617.6
Apr-22	4.00	1QFY23	12.1	9.1	13.6	-15.1	1QFY23	8.7	7.8	7.34	593.3
May-22	4.40	Mar-22	9.6	8.9	3.1	-5.0	Apr-22	13.2	10.2	7.11	597.7
Jun-22	4.90	Apr-22	11.1	9.8	5.0	-4.2	May-22	11.7	8.8	7.39	601.4
Jul-22	4.90	May-22	12.1	9.3	4.9	-4.2	Jun-22	8.7	7.8	7.53	593.3
Aug-22	5.40	Jun-22	13.2	8.3	3.7	-6.7	Jul-22	9.3	8.6	7.40	573.9

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		
FY19	8.7	10.4	-182.3	69.9	67.3	100.4	2012	3.5	1.2	5.4
FY20	-5.1	-7.7	-161.4	70.9	58.5	70.4	2013	3.5	1.4	5.1
FY21	-6.9	-16.9	-102.6	74.2	43.8	67.2	2014	3.5	2.1	4.7
FY22	43.8	55.1	-192.2	74.5	78.4	163.0	2015	3.4	2.4	4.3
2QFY22	38.6	66.2	-47.0	74.1	71.7	152.3	2016	3.3	1.8	4.5
3QFY22	36.6	51.4	-64.3	74.9	78.3	170.3	2017	3.8	2.5	4.8
4QFY22	23.1	27.7	-56.8	75.2	96.6	224.5	2018	3.5	2.2	4.5
1QFY23	24.8	49.5	-70.6	77.2	110.1	289.0	2019	2.8	1.6	3.7
Apr-22	30.7	31.0	-20.1	76.2	103.4	302.0	2020	-3.1	-4.5	-2.0
May-22	20.6	62.8	-24.3	77.3	110.1	280.0	2021	6.1	5.2	6.8
Jun-22	23.5	57.5	-26.2	78.1	116.8	284.9	2022*	3.2	2.5	3.6
Jul-22	2.1	43.6	-30.0	79.6	105.1	306.4	2023*	2.9	1.4	3.9

Source: Database on Indian Economy - RBI, Pink Sheet - World Bank and IMF World Economic Outlook April 2022 and July 2022 (Update)
*as per IMF World Economic Outlook Update (July 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
FY19 (3rd RE)	5.8	2.1	-0.8	5.4	7.9	6.5	7.2	7.0	7.5	4.7
FY20 (2nd RE) $	3.8	5.5	-1.5	-2.9	2.2	1.2	5.9	6.7	6.3	2.9
FY21(1st RE) $	-4.8	3.3	-8.6	-0.6	-3.6	-7.3	-20.2	2.2	-5.5	3.3
FY22(PE)*	8.1	3.0	11.6	9.9	7.5	11.5	11.1	4.2	12.6	9.4
4QFY20	3.3	7.5	-1.3	-4.6	2.7	1.8	5.1	4.2	7.6	3.0
1QFY21	-21.4	3.0	-17.8	-31.5	-14.8	-49.4	-49.9	-1.1	-11.4	2.3
2QFY21	-5.9	3.2	-7.9	5.2	-3.2	-6.6	-18.8	-5.2	-10.2	1.7
3QFY21	2.1	4.1	-5.3	8.4	1.5	6.6	-10.1	10.3	-2.9	3.4
4QFY21	5.7	2.8	-3.9	15.2	3.2	18.3	-3.4	8.8	1.7	5.2
1QFY22	18.1	2.2	18.0	49.0	13.8	71.3	34.3	2.3	6.2	7.0
2QFY22	8.3	3.2	14.5	5.6	8.5	8.1	9.6	6.1	19.4	8.8
3QFY22	4.7	2.5	9.2	0.3	3.7	-2.8	6.3	4.2	16.7	10.4
4QFY22	3.9	4.1	6.7	-0.2	4.5	2.0	5.3	4.3	7.7	10.9

Source: National Accounts Statistics, MoSPI
$ Growth numbers for FY21 are based on the first revised estimates (RE) of NAS released by the MoSPI on 31 January 2022 over the second RE of NAS for FY20, *FY22 growth numbers are based on the Provisional Estimates (PE) of National Accounts released on 31 May 2022 over the first revised estimates for 2021 released on 31 January 2022.

Fiscal year/quarter	Expenditure components						IPD inflation
	GDP	PFCE	GFCE	GFCF	EX	IM	GDP
FY19 (3rd RE)	6.5	7.1	6.7	11.2	11.9	8.8	3.9
FY20 (2nd RE) $	3.7	5.2	3.4	1.6	-3.4	-0.8	2.4
FY21(1st RE) $	-6.6	-6.0	3.6	-10.4	-9.2	-13.8	5.6
FY22(PE)*	8.7	7.9	2.6	15.8	24.3	35.5	10.0
4QFY20	2.7	1.2	8.0	0.6	-9.1	-2.4	4.3
1QFY21	-23.8	-23.7	13.6	-45.3	-25.5	-41.1	2.9
2QFY21	-6.6	-8.3	-22.9	-4.5	-6.4	-17.9	4.0
3QFY21	0.7	0.6	-0.3	-0.6	-8.6	-5.2	5.4
4QFY21	2.5	6.5	29.0	10.1	3.7	11.7	9.2
1QFY22	20.1	14.4	-4.8	62.5	40.8	61.1	10.2
2QFY22	8.4	10.5	8.9	14.6	20.7	41.0	9.8
3QFY22	5.4	7.4	3.0	2.1	23.1	33.6	9.8
4QFY22	4.1	1.8	4.8	5.1	16.9	18.0	10.4

Source: National Accounts Statistics, MoSPI
$ Growth numbers for FY21 are based on the first revised estimates (RE) of NAS released by the MoSPI on 31 January 2022 over the second RE of NAS for FY20, *FY22 growth numbers are based on the Provisional Estimates (PE) of National Accounts released on 31 May 2022 over the first revised estimates for 2021 released on 31 January 2022.

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 advance 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
37	GST	Goods and Services Tax
38	GVA	gross value added
39	IAD	Index of Aggregate Demand

Sr. no.	Abbreviations	Description
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	MCLR	marginal cost of funds-based lending rate
51	Ming.	mining and quarrying
52	Mfg.	manufacturing
53	m-o-m	month-on-month
54	Mt	metric ton
55	MoSPI	Ministry of Statistics and Programme Implementation
56	MPC	Monetary Policy Committee
57	MPF	Monetary Policy Framework
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	PPP	Purchasing power parity
68	PSBR	public sector borrowing requirement
69	PSU/PSE	public sector undertaking/public sector enterprises
70	RE	revised estimates
71	RBI	Reserve Bank of India
72	SLR	Statutory Liquidity Ratio
73	Trans.	trade, hotels, transport, communication and services related to broadcasting
74	US$	US Dollar
75	UTGST	Union Territory Goods and Services Tax
76	WALR	weighted average lending rate
77	WHO	World Health Organization
78	WPI	Wholesale Price Index
79	y-o-y	year-on-year
80	1HFY20	first half of fiscal year 2019-20, i.e., April 2019-September 2019

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Sector 42, Sector Road
Gurgaon - 122 002
Tel: + 91 124 443 4000

3rd & 6th Floor, Worldmark-1
IGI Airport Hospitality District
Aerocity, New Delhi - 110 037
Tel: + 91 11 4731 8000

4th & 5th Floor, Plot No 2B
Tower 2, Sector 126
NOIDA - 201 304
Gautam Budh Nagar, U.P.
Tel: + 91 120 671 7000

Hyderabad
THE SKYVIEW 10
18th Floor, "SOUTH LOBBY"
Survey No 83/1, Raidurgam
Hyderabad - 500 032
Tel: + 91 40 6736 2000

Jamshedpur
1st Floor, Shantiniketan Building
Holding No. 1, SB Shop Area
Bistupur, Jamshedpur – 831 001
Tel: + 91 657 663 1000

Kochi
9th Floor, ABAD Nucleus
NH-49, Maradu PO
Kochi - 682 304
Tel: + 91 484 433 4000

Kolkata
22 Camac Street
3rd Floor, Block 'C'
Kolkata - 700 016
Tel: + 91 33 6615 3400

Mumbai
14th Floor, The Ruby
29 Senapati Bapat Marg
Dadar (W), Mumbai - 400 028
Tel: + 91 22 6192 0000

5th Floor, Block B-2
Nirlon Knowledge Park
Off. Western Express Highway
Goregaon (E)
Mumbai - 400 063
Tel: + 91 22 6192 0000

Pune
C-401, 4th floor
Panchshil Tech Park
Yerwada
(Near Don Bosco School)
Pune - 411 006
Tel: + 91 20 4912 6000

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