ENTER

Economy Watch

Monitoring India's macro-fiscal performance

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EY
Building a better working world

Contents

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Highlights

1. In April 2022, PMI indicated a strong expansion in manufacturing and services with their respective levels at 54.7 and 57.9. This was accompanied by rising inflationary pressures.

2. IIP posted a growth of 1.9% in March 2022, marginally improving from 1.5% in February 2022. In FY22, led by a favourable base effect, IIP showed a strong growth of 11.3% as compared to a contraction of (-)8.4% in FY21.

3. CPI inflation increased for the seventh successive month to a 95-month high of 7.8% in April 2022 from 7.0% in March 2022 led by higher food and fuel based inflation.

4. WPI inflation surged to a historic high of 15.1% in April 2022 from 14.5% in March 2022, led by inflationary pressures stemming from higher global crude and primary commodity prices.

5. Owing to continued high inflation, the RBI increased the repo rate by 40 basis points to 4.4% in May 2022 after retaining the repo rate at 4.0% since May 2020.

6. According to the Ministry of Finance, Center's gross tax revenues (GTR) grew by 33.5% in FY22 after a subdued growth of 0.8% in FY21 and a contraction of (-)3.4% in FY20.

7. During April-February FY22, Center's total expenditure stood at 83.4% of the RE as compared to the corresponding average ratio at 88.9% during FY16 to FY20.

8. Despite a significant shortfall in Center's disinvestment receipts, the fiscal deficit target of 6.9% of GDP for FY22 may be achieved owing to a strong performance of GTR.

9. In April 2022, merchandise exports growth was at a four-month high of 30.7%. Merchandise imports also showed a strong growth of 31.0% during the month.

10. FPIs registered net outflows for the sixth consecutive month at US$(-)5.3 billion while net FDI inflows fell to US$2.7 billion in March 2022.

11. Global crude price remained elevated at US$103.4/bbl. in April 2022 although relatively lower than US$112.4/bbl. in March 2022. Global coal price increased to a historic high of US$302/mt. in April 2022.

12. The ADB has projected developing Asia to grow by 5.2% in 2022 with India's FY23 growth projected at 7.5%.

Foreword

Despite inflationary pressures, fiscal support may facilitate sustaining India's growth momentum

The RBI, in an out of schedule meeting of the Monetary Policy Committee (MPC) held on 4 May 2022, increased the repo rate by 40 basis points from 4.0% to 4.4%. The repo rate had been retained at 4% since May 2020. This change reflected RBI's current concern with rising inflation in India which is largely driven by global factors. Led by continued global crude price upsurge which impacts prices of food, fuel and light, and transport services in the CPI basket, India's April 2022 CPI inflation turned out at a 95-month high of 7.8%. It was way back in May 2014 that CPI inflation was at 8.3%.

Given these trends, the RBI may consider increasing the policy rate by increments of 25 basis points in one or more steps in the next few quarters. However, with higher interest rates, savers would be positively affected while investors may, to some extent, be adversely affected. This adverse investment effect may be overcome by utilizing the additional fiscal space which is linked to a higher growth in taxes due to a higher nominal GDP growth. In fact, the implicit price deflator (IPD)-based inflation, which is a weighted average of CPI and WPI inflation, may be in the range of 10-11% in the next few quarters. WPI inflation has tended to be even higher than the CPI inflation in recent months. It was at an unprecedented level of 15.1% in April 2022. It is notable that, the gross GST collections for this month were at a historic high of INR1.68 lakh crore. Direct taxes also showed a growth of 49% in FY22 as per available information from the Ministry of Finance. It is this additional fiscal capacity which has facilitated the recent reduction in the union excise duty on petroleum products. In addition, since there would still be significant additional resources available for the central government over and above the budgetary resources, these may partly be used to support growth by frontloading infrastructure investment in the initial months of FY23 and partly to further reduce tax rates on petroleum products with a view to containing inflation while avoiding any significant increase in the budgeted fiscal deficit. Alongside, the scope of production linked incentive schemes may also be expanded. The government, as per the FY23 budget announcements, is already committed to invest substantially in infrastructure for which National Infrastructure Pipeline (NIP) is already in place and has been integrated with the Gati Shakti masterplan so as to realise the benefits of intersectoral linkages.

High frequency indicators (HFIs) point to ongoing recovery in economic activity. In April 2022, PMI indicated a strong expansion in manufacturing and services with their respective levels at 54.7 and 57.9. In April 2022, total vehicle retail sales grew by 37.1% from a contraction of (-)2.9% in March 2022. Retail sales in the two key segments of two-wheelers and passenger vehicles showed strong growth of 38% and 25.5% respectively in April 2022 as compared to a contraction of (-)4.0% and (-)4.9% respectively in March 2022[1]. Growth in power consumption (y-o-y) increased to an eight-month high of 9.9% in April 2022 from 8.9% in March 2022. Merchandise exports growth surged to a four-month high of 30.7% in April 2022 led by higher exports of petroleum products, electronic goods, engineering goods and organic and inorganic chemicals. Merchandise imports grew by 31.0% in April 2022, higher than 24.2% in March 2022, partly due to higher growth in imports of oil, organic and inorganic chemicals, machinery and metals, and partly due to a lower pace of contraction in gold imports. Overall IIP posted a growth of 1.9% in March 2022, improving from 1.5% in February 2022. Growth in outstanding bank credit by scheduled commercial banks (SCBs) at 9.6% in March 2022 was the highest since August 2019.

On an annual basis, led by a favourable base effect, IIP has shown a strong growth of 11.3% in FY22 as compared to a contraction of (-)8.4% in FY21. Growth in bank credit also increased to 7.1% in FY22 as compared to 5.9% in FY21.

India's growth prospects in FY23 appear to be brighter than most of its peer countries. As per the Asian Development Bank (ADB), India's growth is forecasted at 7.5% in FY23. It is projected to increase to 8% in FY24 based on continued momentum of infrastructure investment. Many developed countries are currently struggling with high inflation levels which is forcing them to raise domestic interest rates. This may lead to a growth slowdown and in some cases, even a recession. According to a recent research report[2], the US economy is projected to be in recession by end 2023 due to unprecedented high levels of inflation that are expected to last longer than anticipated. In April 2022, consumer price inflation in the US increased to a 40-year high of 8.3% (y-o-y)[3]. Even though India currently appears to be a bright spot in the global economy, it may not remain unaffected by the subdued global growth prospects. India's foreign exchange reserves have depleted sharply over the period from end October 2021 up to 13 May 2022 by a margin of US$48.7 billion. India's exports to the US and the European economies may be adversely affected if these economies go into a recession.

In spite of these challenges, India may be able to sustain a reasonably high growth rate based on the strength of its domestic demand which can be facilitated by the additional fiscal capacity linked to the relatively high nominal growth prospects.

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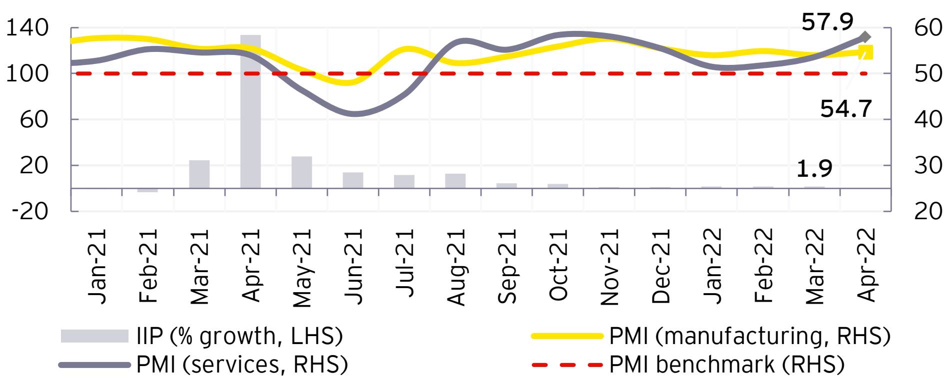
[1] https://fada.in/images/press-release/162735070afcdaFADA%20Releases%20April'22%20Vehicle%20Retail%20Data.pdf
[2] https://rb.gy/btkkqz
[3] https://www.bls.gov/news.release/cpi.nr0.htm

1. Growth: PMI signaled strong expansion in manufacturing and services in April 2022

A. PMI: signaled a strong expansion in manufacturing and services accompanied by rising inflationary pressures in April 2022

- Headline manufacturing PMI (seasonally adjusted (sa)) increased to 54.7 in April 2022 from 54.0 in March 2022 with a faster than trend growth in new orders and production (**Chart 1**). Growth gathered momentum in the intermediate and capital goods segments but there was a slowdown in consumer goods segment. There was an increase in input costs in April 2022 with chemicals, electronic components, energy, metals, plastic and textile costs reportedly higher than in March 2022.
- PMI services increased to 57.9 in April 2022, its highest level since November 2021 and up from 53.6 in March 2022. Mounting price pressures were reflected in the selling prices which increased at their fastest rate since July 2017.
- The composite PMI Output Index (sa) increased to a five-month high of 57.6 in April 2022 as compared to 54.3 in March 2022 indicating faster increases in both manufacturing and services PMI.

Chart 1: PMI and IIP growth



Source: MoSPI and IHS Markit

In April 2022, PMI indicated a strong expansion in manufacturing and services with their respective levels at 54.7 and 57.9. This was accompanied by rising inflationary pressures.

B. IIP: grew by 1.9% in March 2022

- The quick estimates of IIP released by the MoSPI on 12 May 2022 showed that IIP posted a growth of 1.9% in March 2022, increasing marginally from 1.5% (revised) in February 2022 **(Chart 2)**. This was largely attributable to an improvement in the growth of electricity and manufacturing sector output.
- Output of electricity sector showed a growth of 6.1% in March 2022 as compared to 4.5% in February 2022 while that of manufacturing improved only marginally to 0.9% in March 2022 from 0.5% in February 2022.
- Led by a favorable base effect, IIP grew by 11.3% in FY22 as compared to a contraction of (-)8.4% in FY21.

IIP posted a growth of 1.9% in March 2022, marginally improving from 1.5% in February 2022. In FY22, led by a favourable base effect, IIP showed a strong growth of 11.3% as compared to a contraction of (-)8.4% in FY21.

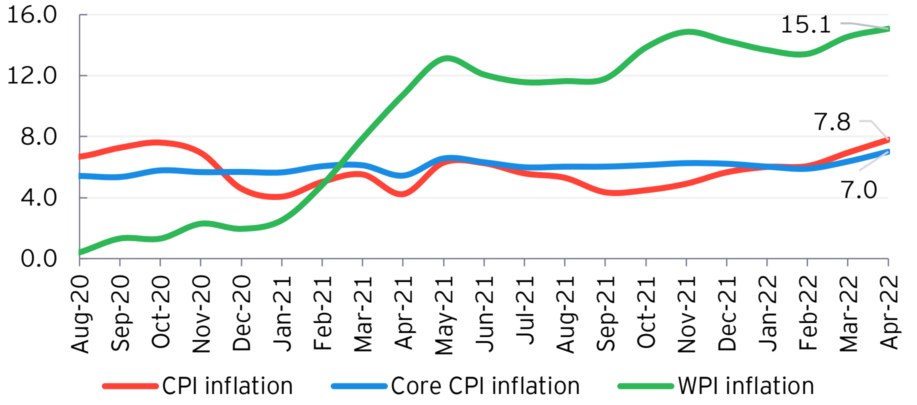
- As per the use-based classification of industries, output of infrastructure/construction goods showed a growth of 7.3% in March 2022, lower than 9.1% in February 2022. Growth in the output of capital goods, which is usually volatile, was low at 0.7% in March 2022 as compared to 2.0% in February 2022. Output of both consumer durables and non-durables continued to contract although at a slower pace of (-)3.2% and (-)5.0% respectively in March 2022 as compared to (-)8.7% and (-)5.8% respectively in February 2022.
- According to provisional estimates, growth in the output of eight core infrastructure industries (core IIP) moderated to 4.3% in March 2022 from 6.0% (revised) in February 2022. This may be attributable to a moderation in the growth of petroleum refinery products (6.2%), natural gas (7.6%) and steel (3.7%) and a contraction in output of coal ((-)0.1%) and crude oil ((-)3.4%). In FY22, core IIP showed a growth of 10.4% as compared to a contraction of (-)6.4% in FY21.

2. Inflation: CPI inflation accelerated to a 95-month high of 7.8% in April 2022

CPI inflation increased for the seventh successive month to 7.8% in April 2022 from 7.0% in March 2022 led by higher food and fuel based inflation (Chart 2).

- Consumer food inflation increased to a 17-month high of 8.4% in April 2022 from 7.7% in March 2022 led by higher inflation in vegetables which was at a 17-month high of 15.4%. The surge was partly attributable to unfavorable base effect and partly to the passthrough of higher fuel prices.
- Fuel and light-based inflation increased to a four-month high of 10.8% in April 2022 from 7.5% in March 2022 as inflation in kerosene hit an all-time high of 91.1% in April 2022. Inflation in LPG increased to 15.1% in April 2022 from 10.0% in March 2022.
- Inflation in transportation and communication services increased to a six-month high of 10.9% in April 2022 due to the surge in inflation in petrol used for transportation services to 20.9% reflecting the significant passthrough of rising global crude prices to retail fuel prices.
- Core CPI inflation[4] surged to a 95-month high of 7.0% in April 2022 from 6.4% in March 2022 driven by a) sharp increase in inflation in transportation services, and b) high levels of inflation in clothing and footwear and household goods and services. Inflation in the latter two segments was at its highest levels since June 2013 and December 2013 respectively.

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



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

In April 2022, CPI inflation reached a 95-month high of 7.8% led by food and fuel prices while WPI inflation accelerated to a record high 15.1% due to higher global crude and primary commodity prices.

WPI inflation surged to a historic high of 15.1% in April 2022, led by inflationary pressures stemming from higher global crude and primary commodity prices.

- Fuel and power inflation rose to a five-month high of 38.7% in April 2022 from 34.5% in March 2022 as inflation in mineral oils (including petrol and diesel) accelerated to 62.5% from 50.1% over the same period.
- Inflation in crude petroleum and natural gas remained elevated at 69.1% in April 2022, close to its level of 69.2% in the previous month.
- Inflation in non-food primary articles was high at 23.8% in April 2022 as compared to 25.4% in March 2022 led by higher inflation in fibres which surged to an all-time high (2011-12 series) of 61.4% in April 2022.
- WPI food index-based inflation reached a three-month high of 8.9% in April 2022 led by inflation in vegetables which increased to 23.2% in April 2022 from 19.9% in March 2022.
- Core WPI inflation increased to a five-month high of 11.1% in April 2022 from 10.9% in March 2022 due to higher broad-based inflation across manufactured products particularly manufactured metal products.
- Inflation in manufactured basic metals remained high at 24.8% in April 2022 as compared to 26.0% in March 2022.

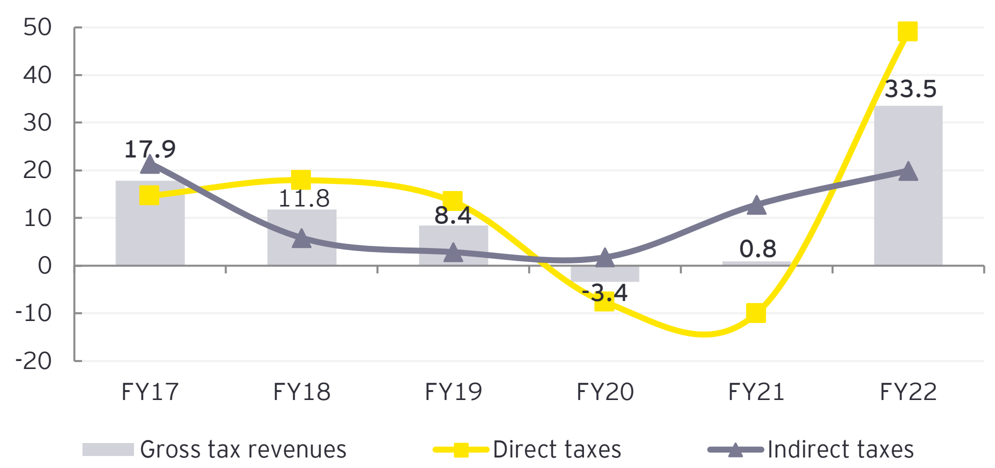
[4] Core CPI inflation is measured in different ways by different organizations/agencies. Here, it has been calculated by excluding food, and fuel and light from the overall index.

3. Fiscal performance: Center's gross tax revenues grew by 33.5% in FY22

A. Tax and non-tax revenues

- As per the Ministry of Finance[5], Center's gross tax revenues (GTR) for FY22 stood at INR27.07 lakh crore, higher than the RE at INR25.16 lakh crore by INR1.91 lakh crore. There was a robust growth of 33.5% in Center's GTR in FY22 as compared to a subdued growth of 0.8% in FY21 **(Chart 3).**
- Considering an annual growth of 33.5% in Center's GTR and a nominal GDP growth of 19.4%, the buoyancy of central tax revenues stood at 1.7 in FY22.
- Direct tax collections (comprising corporate income tax and personal income tax) at INR14.07 lakh crore, showed a growth of 49% in FY22 as compared to a contraction of (-)10.0% in FY21. Buoyancy of direct taxes in FY22 stood at 2.5.
- Indirect tax collections (comprising union excise duties, Center's GST collections*, customs duties and service tax) at INR12.92 lakh crore, showed a growth of 20% in FY22 as compared to 12.8% in FY21. The buoyancy of indirect taxes stood at 1.0 in FY22.
- On a quarterly basis, reflecting waning base effects, GTR growth is estimated to ease to 13.3% in 4QFY22 as compared to 97.1% in 1Q, 44.5% in 2Q, and 20.7% in 3Q of FY22. Consequently, buoyancy of GTR in 4QFY22 is estimated at 1.0 as compared to 3.0 in 1Q, 2.3 in 2Q, and 1.3 in 3Q of FY22.
- Combining the annual data from Ministry of Finance and monthly data during April-February FY22 from the CGA, indirect tax revenue collection for March 2022 has been estimated. Using this information, a contraction of (-)2.6% has been estimated for indirect taxes in 4QFY22.
- Considering the implied nominal GDP growth of 13.9% and a contraction in indirect tax revenues in 4QFY22, buoyancy for this quarter is estimated at (-)0.2.

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



Center's GTR grew by 33.5% in FY22 after a subdued growth of 0.8% in FY21 and a contraction of (-)3.4% in FY20.

Source: Union Budgets, various years and PIB
*IGST revenues are subject to final settlement

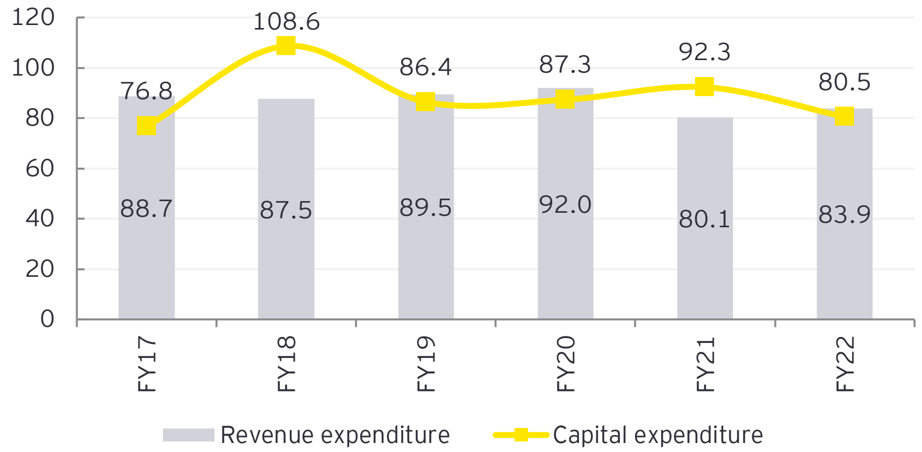
- As per the CGA, Center's non-tax revenues showed a growth of 101.1% during April-February FY22 as compared to a contraction of (-)41.4% during the corresponding period of FY21. Non-tax revenues at INR3.10 lakh crore during this period stood at 98.9% of the annual RE.
- According to the Department of Investment and Public Asset Management[6], disinvestment receipts for FY22 stood at INR13,530.67 crores, that is 17.3% of the RE at INR78,000 crore indicating a significant shortfall of INR64,469.3 crore.

[5] https://pib.gov.in/PressReleaseIframePage.aspx?PRID=1814822#:~:text=The%20tax%20revenue%20in%20the,with%20a%20growth%20of%2017%25.
[6] https://dipam.gov.in/

B. Expenditures: revenue and capital

- Center's total expenditure during April-February FY22 stood at 83.4% of the FY22 RE, higher as compared to 81.7% during April-February FY21. However, it was lower as compared to the corresponding average ratio at 88.9% during the period FY16 to FY20 (excluding the COVID-affected year of FY21).
- Revenue expenditure during April-February FY22 stood at 83.9% of the FY22 RE as compared to the corresponding ratio at 80.1% during FY21 **(Chart 4).** The corresponding average for the five-year period during FY16 to FY20 stood at 88.8%.
- Capital expenditure during the first eleven months of FY22 stood at 80.5% of the RE, lower than the corresponding ratio of 92.3% in FY21 as well as the average ratio at 90.2% during FY16 to FY20.

Chart 4: Central expenditures during April-February as a percentage of annual RE



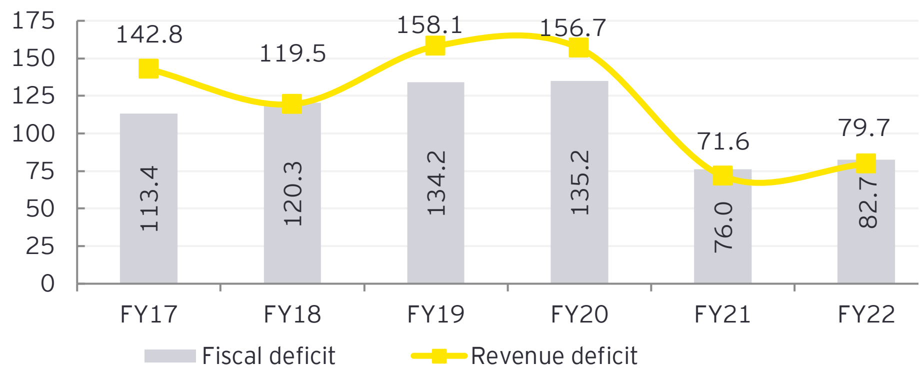
Source (basic data): Monthly Accounts, Controller General of Accounts (CGA), Government of India

During April-February FY22, Center's total expenditure stood at 83.4% of the FY22 RE as compared to the corresponding average ratio at 88.9% during FY16 to FY20.

C. Fiscal imbalance

- Center's fiscal deficit during April-February FY22 stood at 82.7% of the RE as compared to the corresponding average ratio of 122.0% during the period FY16 to FY20 (**Chart 5**).
- Center's revenue deficit during April-February FY22 as a proportion of the RE stood at 79.7% as compared to the corresponding average level of 138.3% during FY16 to FY20.

Chart 5: Fiscal and revenue deficit during April-February as percentage of annual RE



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

Despite a significant shortfall in Center's disinvestment receipts, the fiscal deficit target of 6.9% of GDP for FY22 may be achieved owing to a strong performance of GTR.

4. Comparative global perspective: India's government debt-GDP ratio projected to fall to 84% by FY28

General government net borrowing/lending (% of GDP)

- After a large increase at the onset of the pandemic in 2020, fiscal deficits and debts declined in 2021 as economies recovered and countries started to withdraw exceptional support.
- Fiscal deficit is forecasted to decline further in advanced economies (AEs) in the medium term mirroring the pace of recovery. In comparison, in emerging and developing market economies (EMDEs), deficits are expected to fall more gradually.
- In the Euro area, the fall in fiscal deficit in 2022 is projected to be lower than that projected before the geopolitical uncertainty as the current estimate at (-)4.3% of GDP reflects additional spending in response to the conflict and downward revision to economic growth.

Table 1: Fiscal balance (% of GDP): selected countries

Country	2021	2022	2023	2024	2025	2026	2027
AEs	**-7.3**	**-4.3**	**-2.9**	**-2.8**	**-3.0**	**-3.0**	**-3.0**
US	-10.2	-4.8	-4.0	-4.4	-5.2	-5.1	-5.2
UK	-8.0	-4.3	-2.3	-1.5	-1.4	-1.3	-1.0
Euro area	-5.5	-4.3	-2.5	-2.0	-1.8	-1.7	-1.7
Japan	-7.6	-7.8	-3.5	-2.5	-2.5	-2.6	-2.8
EMDEs	**-5.3**	**-5.7**	**-5.4**	**-5.3**	**-5.2**	**-5.2**	**-5.1**
Brazil	-4.4	-7.6	-7.4	-5.6	-4.9	-4.4	-4.5
Russia	0.7	-4.0	-5.3	-4.8	-4.1	-3.0	-1.9
India*	-10.4	-9.9	-9.1	-8.5	-8.0	-7.7	-7.5
China	-6.0	-7.7	-7.1	-7.0	-6.9	-6.9	-6.8
World	**-6.4**	**-4.9**	**-4.0**	**-3.9**	**-4.0**	**-4.0**	**-3.9**

Source: IMF World Economic Outlook, April 2022; *pertains to fiscal year
Note: (1) estimates for 2021 and forecasts from 2022 onwards, (2) -ve indicates a deficit and +ve indicates a surplus.

- Policies in AEs are also shifting from COVID support to promoting structural transformation. In the US, a medium-term infrastructure program of nearly 2% of GDP has been passed. In Japan, a new fiscal package amounting to 5% of GDP has been announced for 2022-23. UK's Plan for Growth program aims to raise public sector net investment of nearly 2.7% of GDP by 2024-25. This is expected to lead to relatively higher fiscal deficits in the medium term.
- Among EMDEs, fiscal outlook is expected to be derailed in Russia with deficits in all years during 2022 to 2027. In commodity importing countries such as Brazil and India, fiscal deficit relative to GDP is expected to remain elevated particularly in 2022 and 2023 due to increased spending pressures. Fiscal outlook in China is weighed down due to resurgence of COVID, adversely impacting recovery in output and revenues.

General government gross debt (% of GDP)

- Global government debt is projected to stabilize at close to 94% of GDP during 2022 to 2024, well above the pre-pandemic levels, raising concerns about debt vulnerabilities and financial stability and weighing on growth prospects.
- In AEs, after increasing by 19% points in 2020, general government debt relative to GDP is expected to decline gradually in the medium term. In the light of high debt levels, positive output gaps, and above average inflation rates, some countries like the UK have already started developing consolidation strategies.
- By 2027, Japan's government debt relative to GDP is projected at nearly 262%, followed by the US at 127.4% and Euro area at close to 89%.

Table 2: General government gross debt (% of GDP): selected countries

Country	2021	2022	2023	2024	2025	2026	2027
AEs	**119.8**	**115.5**	**113.7**	**113.1**	**113.0**	**112.9**	**112.7**
US	132.6	125.6	123.7	124.0	125.1	126.2	127.4
UK	95.3	87.8	82.7	79.6	76.3	73.4	70.7
Euro area	96.0	95.2	93.4	92.1	91.0	90.0	88.9
Japan	263.1	262.5	258.3	258.7	259.4	260.5	261.8
EMDEs	**65.1**	**66.3**	**68.5**	**70.5**	**72.4**	**73.8**	**75.0**
Brazil	93.0	91.9	92.8	93.4	94.2	94.9	94.3
Russia	17.0	16.8	18.9	20.0	20.9	21.4	21.2
India*	86.8	86.9	86.6	86.1	85.3	84.7	84.2
China	73.3	77.8	81.8	85.8	89.6	92.8	95.4
World	**97.0**	**94.4**	**94.1**	**94.5**	**95.0**	**95.4**	**95.5**

Source: IMF World Economic Outlook, April 2022; *data pertains to fiscal year
Note: estimates for 2021 and forecasts from 2022 onwards

- Among EMDEs, China's government debt-GDP ratio is expected to rise, year after year during the forecast period, reaching 95.4% by 2027. In Brazil, debt is forecasted to increase to 94.9% of GDP in 2026.
- In India, general government debt-GDP ratio is projected to peak at 86.9% in 2022 (FY23), gradually falling to 84.2% by 2027(FY28) although remaining well above the current FRBMA target of 70%.

5. In focus: Reflecting on India's post-COVID growth potential

1. Introduction

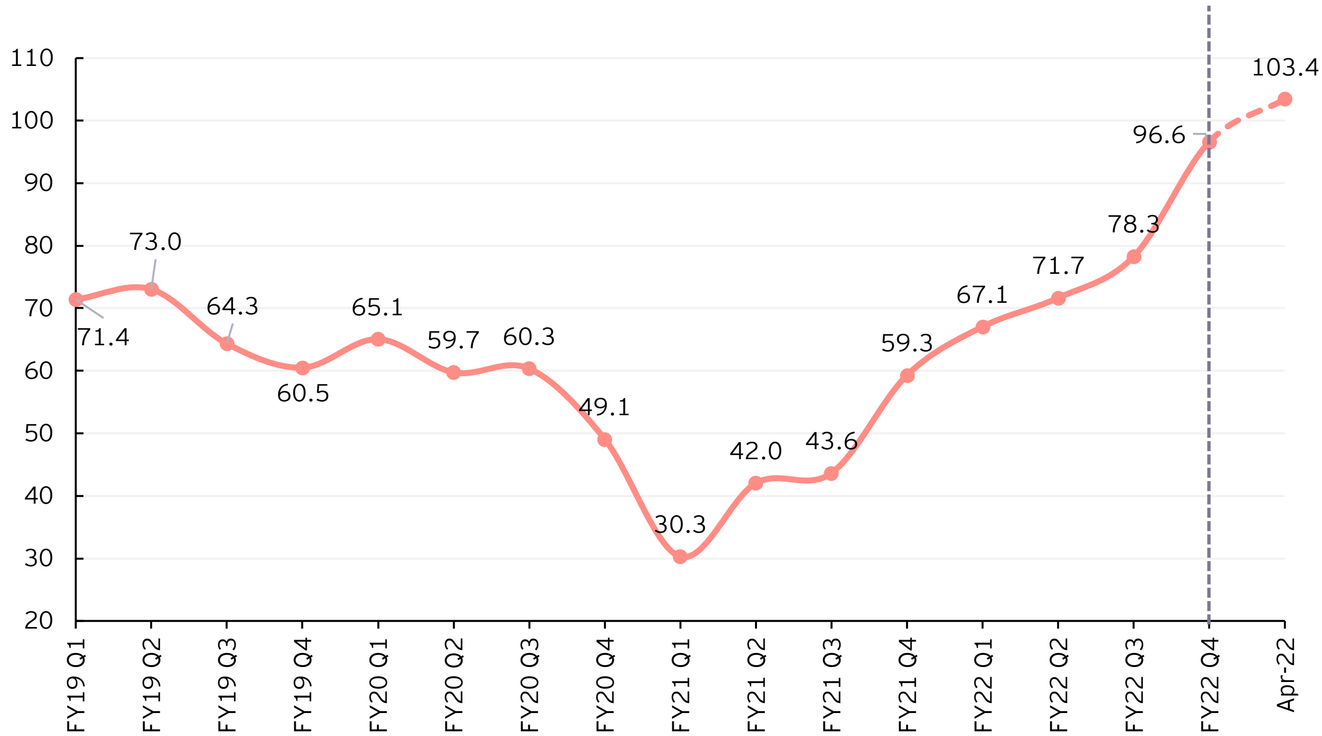
The Indian as well as the global economies are recovering from the COVID shock. Their pace of recovery is getting affected by not only the extent of the impact of COVID but also their capacities to deal with the challenges emanating from the economic fallout of the present geopolitical conflict. Given the pressure on global crude prices and supply side bottlenecks, all major countries are experiencing unprecedented domestic inflationary pressures coupled with erosion in growth.

India, like its peers has also suffered substantially due to COVID. As per a recent RBI estimate[7], the assessed output loss over the three years that are directly affected namely, FY21, FY22 and FY23 is INR52.6 lakh crore. This amounted to 7.5% of the nominal GDP of these three years. The RBI also estimates that India can fully recover from these losses by FY35 if it is able to maintain an average real GDP growth of 7.5% from FY23 onwards. Therefore, India not only has to deal with the immediate pressure on inflation but also reach and maintain a medium-term real growth of 7.5% plus for over 10 years. Since other major economies face similar or even more daunting challenges, India can take advantage of the current global situation by suitable policies to emerge well ahead of comparable countries.

2. Supply side shortages and pressure on global crude and other commodity prices

The foremost impact on the real economy as well as inflation is traceable to the sharp surge in global crude prices which have risen from an average of US$30.3/bbl in 1QFY21 to US$96.6/bbl. in 4QFY22 **(Chart 6).** This implies a steady upward push of US$9.5/bbl. per quarter on average over seven quarters. In fact, by April 2022, the global crude price had already risen to US$103.4/bbl. Alongside global crude, as was experienced in earlier episodes also, global food price index as well as prices of important primary metals and other critical inputs have also risen. Some of these trends are depicted in **Charts 7 to 10.**

Chart 6: Global crude prices (US$/bbl.)



Source (basic data): World Bank, Pink sheets

[7] RBI - Report on Currency and Finance 2021-22

Chart 7: Prices of edible oils (US$/mt.)

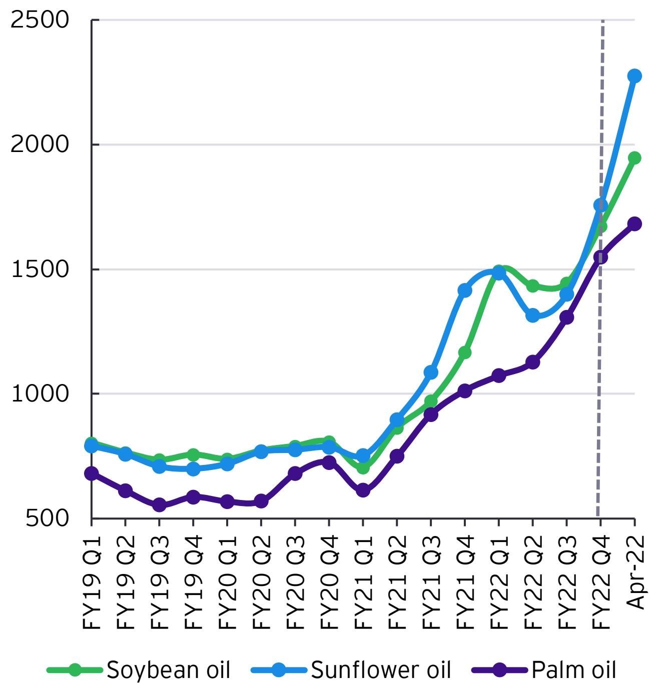


Chart 8: Fertilizer prices (US$/mt.)

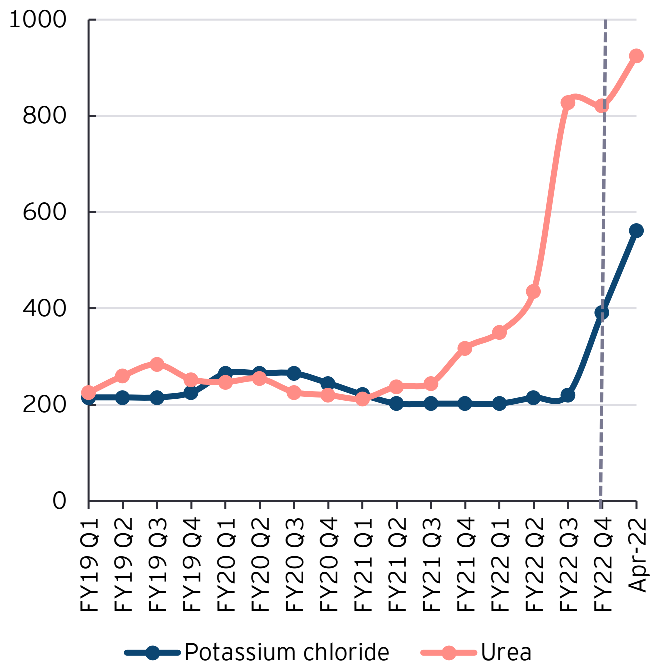


Chart 9: Global wheat prices (US$/mt.)

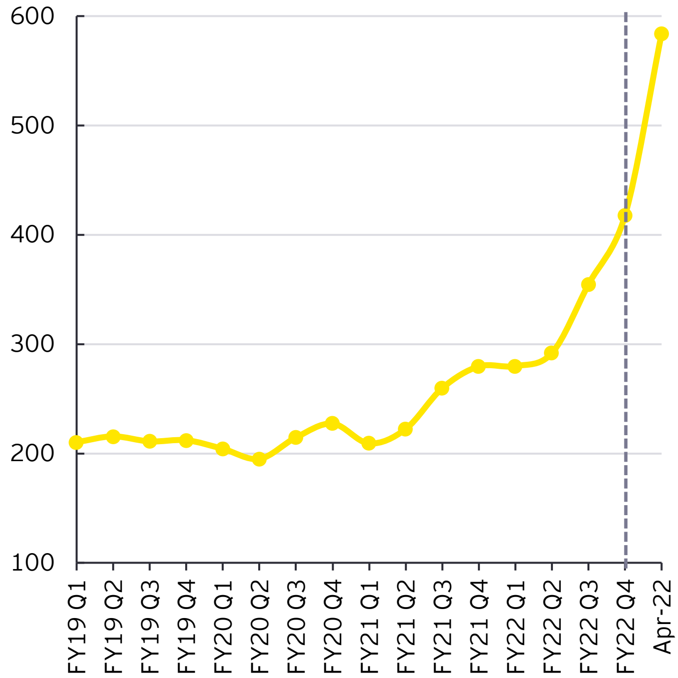
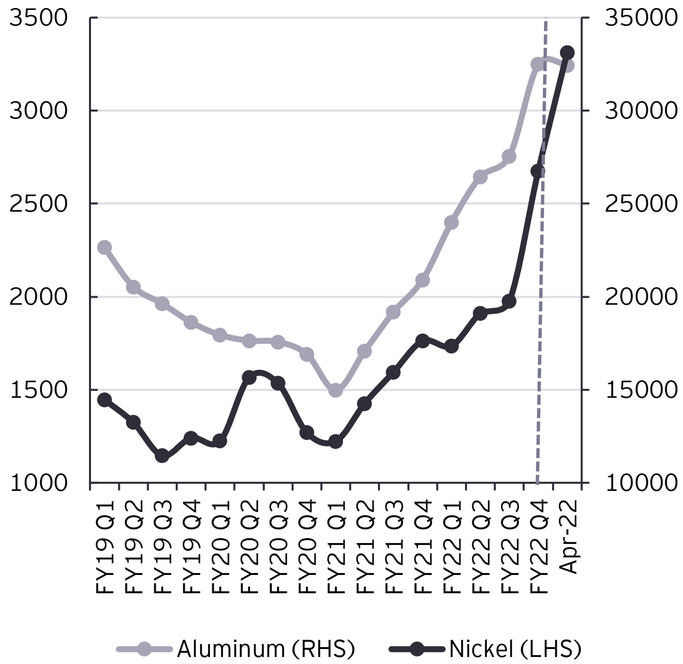


Chart 10: Global metal prices (US$/mt.)



Source (basic data): World Bank, Pink sheets

The global and Indian economies are getting affected by critical supply shortages of key commodities including semiconductors, food grains (rice, wheat, corn), edible oils (sunflower oil, palm oil), fertilizers (potassic, nitrogen fertilizers), pharmaceutical inputs (Active Pharmaceutical Ingredients), metals (nickel, palladium, aluminium and titanium) and solar cells.

3. India's growth and inflation prospects: short to medium term

In the short-term, India's growth is likely to be adversely affected by the increase in petroleum prices linked to which are the prices of other primary inputs. In the March 2022 issue of EY Economy Watch[8], the economic impact of global crude price surge was estimated as summarized in **Table 3**.

With reference to a baseline FY23 real GDP growth at 7% and CPI inflation at 5%, the revised levels of these variables may be put at 6.3% and 6% respectively after taking into account, the impact of increase in the price of Indian crude basket by a margin of US$25/bbl. as per scenario 1. The impact would be larger if other factors are also taken into account, or if the margin of increase is enhanced.

In view of the uncertainty associated with the level of global crude prices, the assessment of India's FY23 growth prospects vary significantly across institutions. For example, the IMF has projected a real GDP growth of 8.2%, while the ADB has forecasted it at 7.5%. The RBI has projected India's real GDP growth at an even lower level of 7.2%. The growth may eventually turn out to be lower if the average price of the Indian crude basket settles at US$100/bbl. or US$125/bbl. as indicated in **Table 3**.

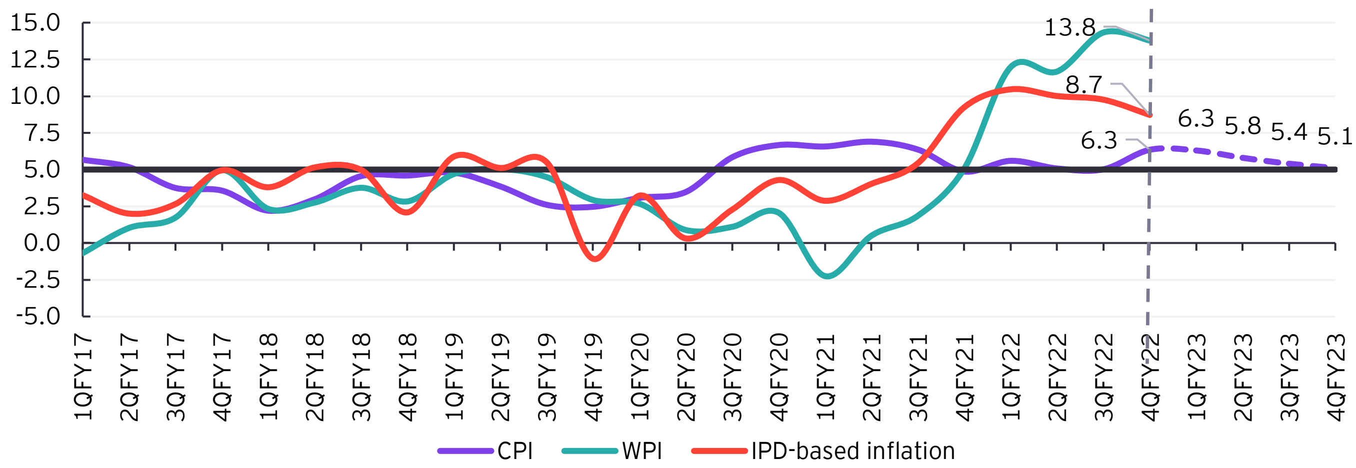
Table 3: Revision in selected FY23 estimates due to the impact of an increase in the price of Indian crude basket

Variable	Baseline estimates (FY23)	Revised estimates incorporating crude price effects[$]	
		Scenario 1 (US$100/bbl.)	Scenario 2 (US$125/bbl.)
Real GDP growth (%)	7.0	6.3	5.6
CPI inflation (%)	5.0	6.0	7.0
Current Account Deficit (% to GDP)	1.9*	3.0	4.1
Centre's fiscal deficit (% to GDP)	6.4**	7.5	8.6

Source: EY estimates; [$] incorporates the impact of US$25/bbl. and US$50/bbl. increase from a base price of US$75/bbl;
* RBI Professional Forecaster's Survey, Feb 2022; ** FY23 Union Budget;

Despite surging inflation, there is one silver lining for the Indian economy. With higher WPI and CPI inflation, expected IPD based inflation also tends to be higher. In 4QFY22, WPI inflation at 13.8% exceeded the CPI inflation at 6.3% by a margin of 7.5% points. Based on NAS data for 4QFY22, the IPD-based inflation was at 8.7% which is in between WPI and CPI inflation levels. A relatively high IPD-based inflation implies that there would be a tangible gap between nominal GDP growth and real GDP growth. This has already been seen for FY22 where growth in nominal GDP was at 19.4% and that in real GDP was at 8.9%. A similar pattern may emerge in FY23. Our current expectation is a nominal GDP growth in the range of 14.5-15.0% with IPD-based inflation at 7.5% for FY23. This relatively high nominal GDP growth for two years in succession, that is, FY22 and FY23 is likely to lead to significant additional fiscal space for the central and state governments compared to previous trends.

Chart 11: CPI, WPI and IPD-based inflation rate



Source: MoSPI, Office of the Economic Adviser, Government of India (GoI)
Note: CPI observations include quarterly projections by RBI for FY23

[8] https://go.ey.com/3MpNwOl

As shown in **Table 4**, there is a significant increase in growth and buoyancy of Center's GTR in FY22 as compared to FY21. The buoyancy in FY22 at 1.7 is linked to the high nominal GDP growth in this year. In line with this experience, with an expected nominal GDP growth of about 15%, we may expect a buoyancy of about 1.2 giving a GTR growth rate of 18% in FY23. This is a significant improvement upon the budgeted GTR growth of 9.6%. The excess GTR can be considered as available additional fiscal space.

Table 4: Center's tax revenue performance in recent quarters – growth and buoyancy

Fiscal Year	Gross taxes	Direct tax of which	CIT	PIT	Indirect taxes	of which UED	Nominal GDP growth
Quarterly growth (%, y-o-y)							
FY21	0.8	-10.0	-17.8	-1.1	12.8	62.8	-1.4
1QFY22	97.1	111.8	128.2	97.5	85.2	92.1	32.9
2QFY22	44.5	67.7	92.2	45.1	25.4	11.1	19.3
3QFY22	20.7	31.4	30.6	32.5	10.7	-6.6	15.7
4QFY22	13.3	--	--	--	-2.6	--	13.9
FY22	**33.5**	**49.0**	**--**	**--**	**20.0**	**--**	**19.4**
Buoyancy							
1QFY22	3.0	3.4	3.9	3.0	2.6	2.8	--
2QFY22	2.3	3.5	4.8	2.3	1.3	0.6	--
3QFY22	1.3	2.0	2.0	2.1	0.7	-0.4	--
4QFY22	1.0	--	--	--	-0.2	--	--
FY22	**1.7**	**2.5**	**--**	**--**	**1.0**	**--**	**--**

Source (basic data): Union budgets, CGA, PIB and MoSPI
Notes:

1. Annual data given in the table is consistent with union budget documents and PIB release[9]. Direct tax collections comprise corporate income tax and personal income tax.
2. Indirect tax collections include union excise duties, Center's GST collections (subject to final settlement of IGST revenues), customs duties and service tax.
3. For 4QFY22 growth and buoyancy estimates, we have used data from CGA for the period April-February FY22 along with the pre-actual revenue collection figures for FY22 released by the Ministry of Finance on 08 April 2022.
4. In FY21, nominal GDP showed a contraction of (-)1.4% and therefore, the buoyancy estimates cannot be correctly interpreted.

4. Monetary and fiscal policies: prospects and challenges

The inflationary pressure has recently forced the hands of the RBI to uplift the repo rate from 4.0% to 4.4% in an out of schedule meeting of the MPC held on 4 May 2022. It is expected that the policy rate may be further increased by increments of 25 basis points, in one or more steps, in the next few quarters, with a view to containing inflationary pressures. This may have some adverse impact on growth. However, with higher interest rates, savers would be positively affected while investors may to some extent, be adversely affected. This adverse investment effect may be overcome by utilizing additional fiscal space and expanding the scope of production linked incentive schemes. In fact, the government, as per the budget announcements, is already committed to invest substantially in infrastructure for which a NIP is already in place and has been integrated into the Gati Shakti masterplan so as to realise the benefits of intersectoral linkages. As discussed in section 3, with the possibility of garnering additional fiscal space over and above the budgeted amounts, it is the fiscal policy which can be cast in the role of the active growth driver while the monetary policy may focus relatively more on controlling inflation.

5. Emerging medium-term comparative global profile

Major developed and emerging market economies are facing largely common global constraints of high inflation and supply side disruptions. In this context, a comparative assessment of the growth prospects as per the IMF **(Table 5)** highlights the significant contribution that India may make to drive global growth in the medium-term. India is projected to show a growth of 8.2% in 2022 (FY23) which is the highest amongst peer countries. In the medium-term, India may maintain a growth rate close to 7% up to FY26 after which its growth may fall marginally but still remain above 6%. By 2024, the AEs would settle down to their long-term growth of about 1.7% while the EMDEs will be able to show a growth rate of 4.6%, marginally falling thereafter. In terms of growth, China will remain below that of India throughout the forecast period from 2022 to 2027.

[9] https://pib.gov.in/PressReleaseIframePage.aspx?PRID=1814822#:~:text=The%20tax%20revenue%20in%20the,with%20a%20growth%20of%2017%25

Table 5: Real GDP growth (%, y-o-y) selected countries

Country	2021	2022	2023	2024	2025	2026	2027
AEs	5.2	3.3	2.4	1.7	1.7	1.6	1.6
US	5.7	3.7	2.3	1.4	1.7	1.7	1.7
UK	7.4	3.7	1.2	1.5	2.2	1.8	1.5
Euro area	5.3	2.8	2.3	1.8	1.6	1.5	1.3
Japan	1.6	2.4	2.3	0.8	0.7	0.5	0.4
EMDEs	6.8	3.8	4.4	4.6	4.5	4.4	4.3
Brazil	4.6	0.8	1.4	2.2	2.0	2.0	2.0
Russia	4.7	-8.5	-2.3	1.5	1.0	0.8	0.7
India*	8.9	8.2	6.9	7.0	7.0	6.5	6.2
China	8.1	4.4	5.1	5.1	5.0	4.9	4.8
World	6.1	3.6	3.6	3.4	3.4	3.3	3.3

Note: estimates for 2021 and forecasts from 2022 onwards; *estimates pertain to fiscal year.
Source (basic data): IMF World Economic Outlook (April 2022)

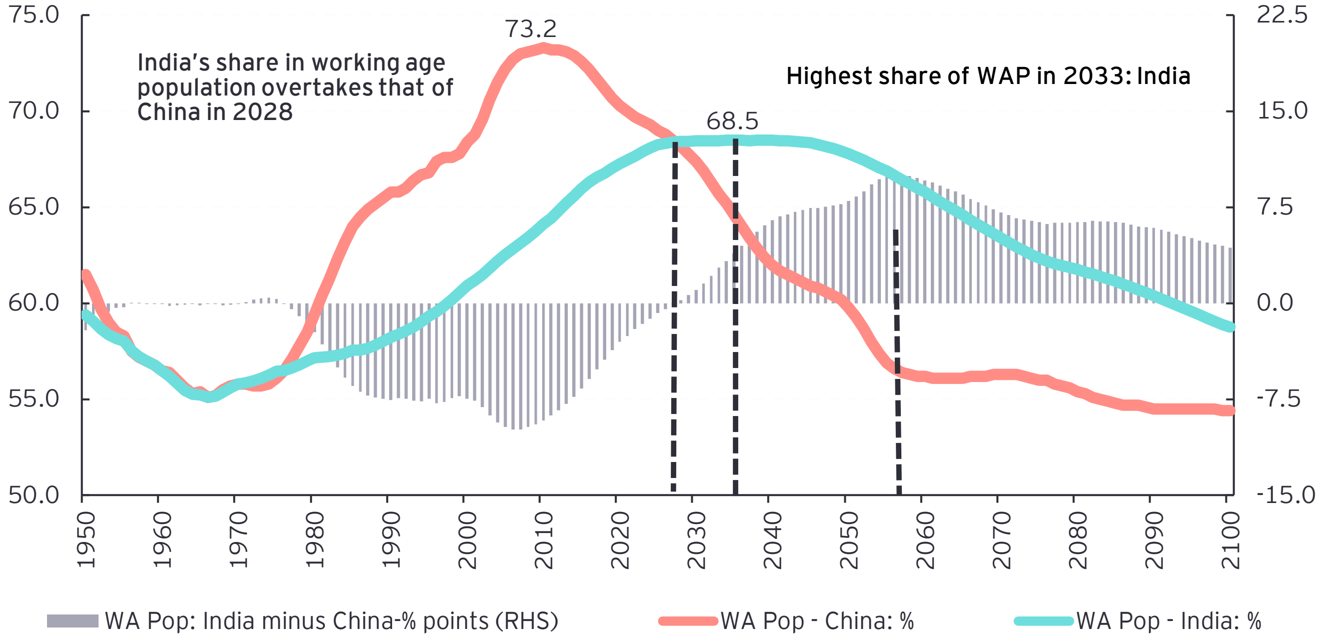
One additional challenge may arise for the Indian economy, particularly in the context of its exports prospects if the US and the European economies go into a recession in the next couple of years. This is an anticipated outcome of their policy response of raising interest rates to manage the unprecedented inflation levels they are currently experiencing. According to a recent research report[10], the US economy is projected to be in recession by end 2023 due to record high levels of inflation that are expected to last longer than anticipated. In April 2022, consumer price inflation in the US increased to a 40-year high of 8.3% (y-o-y)[11]. Inflation in the US is being driven due to several factors. First, the pandemic related stimulus package has had an inflationary impact. Second, rising input costs and supply chain disruptions amid rising demand and a tight labour market has led to an upward pressure on inflation. Third, there are broader structural factors such as demographics and a reversal in globalization contributing to the rising trend in inflation. The 'Fed's misery index'[12] indicates that the Fed is significantlybehind the curve in terms of inflation target and the non-accelerating inflation rate of unemployment. The aggressive policy action that is warranted to tame inflationary pressures is likely to cause a recession. It is estimated that the Federal Funds rate may have to be eventually increased to close to 6%, in order to achieve a real interest rate of 1-2%.

6. India's long-term growth prospects: demographic and democratic dividends – structural change

From these medium-term prospects for the Indian economy, we can now consider India's long-term growth potential focusing mainly on the unfolding demographic and democratic dividends. **Chart 12** shows that in terms of the share of the working age population in total population, India will overtake China around 2028 after which, throughout the remaining part of the century, India's share of working age population would be higher than that of China. In terms of absolute size of the working age population, the excess of India's population over that of China would peak in 2057. India would not only have a substantial size of working age population but it can potentially become the largest supplier of human resources to the rest of the world, especially the developed countries who would be experiencing a growing share of ageing population by this time. The important pre-condition for India to take advantage of this emerging demographic dividend window is to educate, train and upskill its growing labour force, particularly in the modern areas of IT, financial services and other advanced technologies. For this purpose, progressively higher resources for education and health need to be allocated by the central and state governments as well as the private sector.

[10] https://rb.gy/btkkqz
[11] https://www.bls.gov/news.release/cpi.nr0.htm
[12] Fed's misery index looks at how far the US economy has strayed from the Fed's mandates of price stability and maximum sustainable employment.

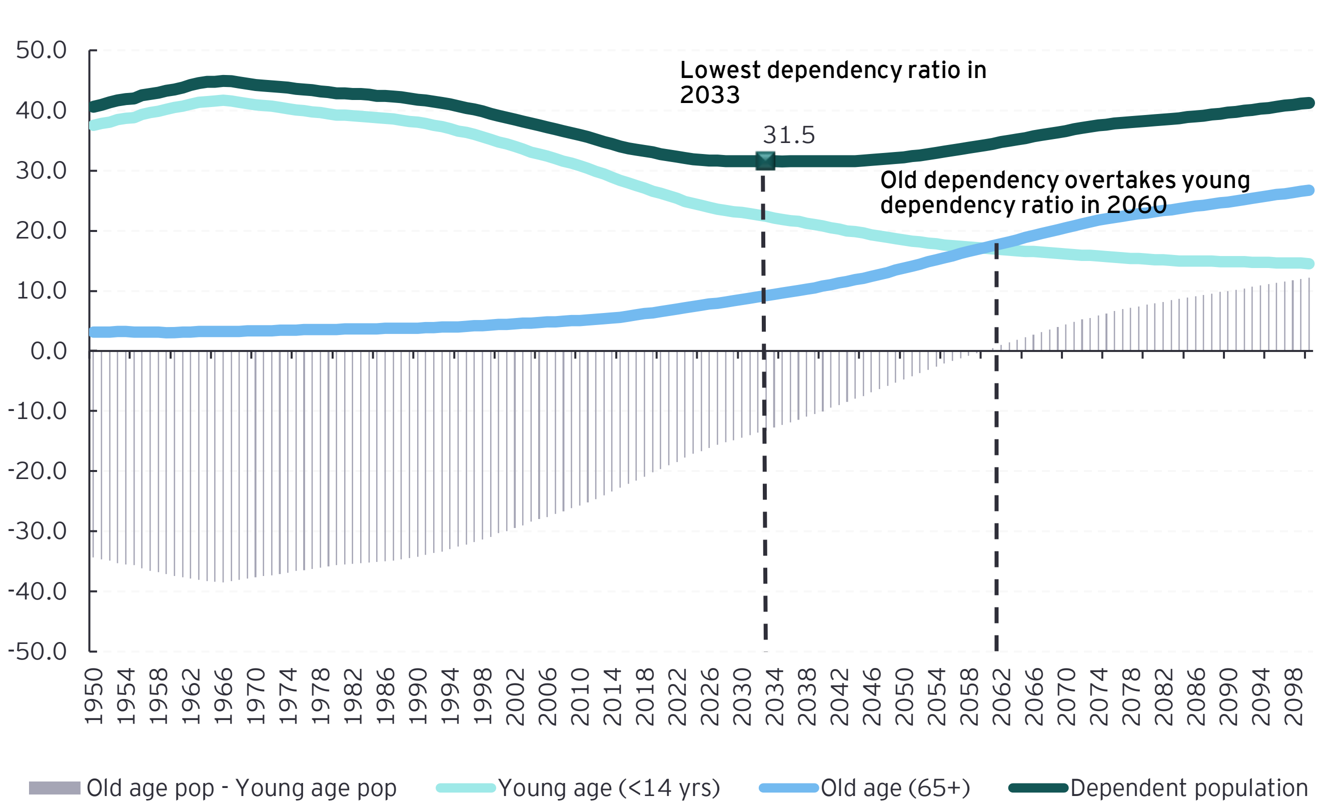
Chart 12: Share of working age population (WAP) in total population: India and China



Source (basic data): UN Population statistics 2019

Chart 13 shows an important feature of India's emerging demographic trends. It is shown that the young dependency ratio, which at present is much higher than the old dependency ratio, would be overtaken by the latter in 2060. It is clear that education should be prioritized in the years from now until 2060 while health would require allocation of relatively larger resources as compared to education, as we move towards the crossover point.

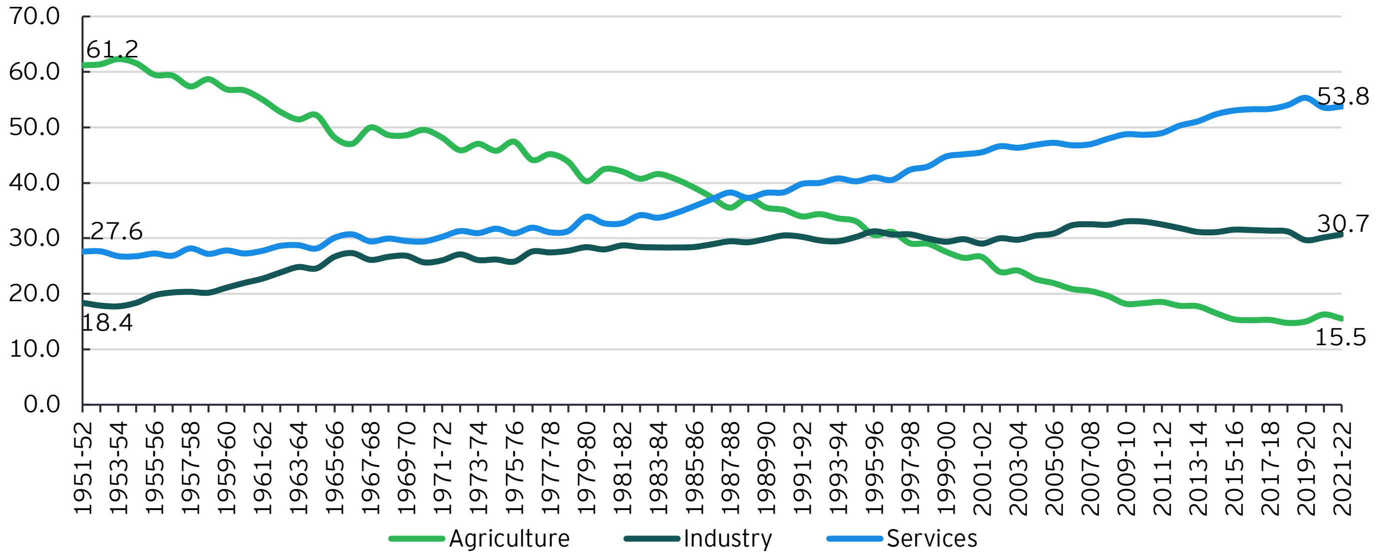
Chart 13: Share of old age vs young age population in total population



Source (basic data): UN Population statistics 2019

As we move farther into the remaining part of the century, another critical emerging trend needs to be recognized. This relates to the changing structure of output in the Indian economy. **Chart 14** shows that the long-term trend is such that the share of agriculture in real GVA has been steadily falling over time. Starting from a share of 62% way back in FY51, it has fallen to nearly 16% by FY22. The share of industry has risen from 18% in FY51 to 31% in FY22. In fact, it had peaked at 33% in FY10. Since then, it has fallen and stabilized at around 31%, a level it had reached in FY91. It is the share of services which has progressively and substantially increased over the years, rising from 28% in the early 50s to 54% by FY22.

Chart 14: Structure of output in India: sectoral shares in real GVA (%)



Source (basic data): MoSPI

It is notable that in most developed economies, the structure of output has changed in favour of services and the share of agriculture and industry have gradually fallen and stabilized. The share of agriculture has fallen in most developed countries to less than 2% **(Table 6)**. The share of industry has also stabilized to less than 20% except for Germany and Japan where it is close to 30%. The share of services on the other hand in advanced countries such as France, the UK and the US is close to 80% and in the case of Germany and Japan, it is close to 70%.

Table 6: Sectoral share in GVA: cross country comparison

Years	France	Germany	Japan	UK	US	China	India*
Agriculture							
2000	2.3	1.1	1.5	1.0	1.2	14.9	23.6
2010	1.8	0.9	1.1	0.7	1.1	9.6	18.4
2015	1.8	0.8	1.0	0.7	1.1	8.7	17.7
2019	1.7	0.9	1.0	0.7	1.0	7.4	18.4
Industry							
2000	23.7	30.7	32.5	25.8	23.3	45.7	29.8
2010	19.8	29.9	28.3	21.1	20.0	46.7	33.1
2015	19.8	30.1	28.8	20.7	19.2	41.0	30.0
2019	19.6	29.9	29.0	20.0	18.8	39.2	26.7
Services							
2000	73.9	68.2	66.0	73.2	75.5	39.4	46.6
2010	78.4	69.2	70.6	78.2	78.9	43.7	48.5
2015	78.5	69.1	70.2	78.6	79.7	50.3	52.3
2019	78.7	69.2	70.0	79.4	80.2	53.4	55.0

Source (basic data): IMF

For India, based on the decadal average rates of change in sectoral shares, we may project the likely structure of output by FY50 as shown in **Table 7**. Accordingly, the share of agriculture may fall to marginally above 5% and that of industry may fall to below 20%. The bulk of the output will then consist of services which will account for about 3/4th of the economy.

Table 7: Per year reduction in sectoral shares (% points)

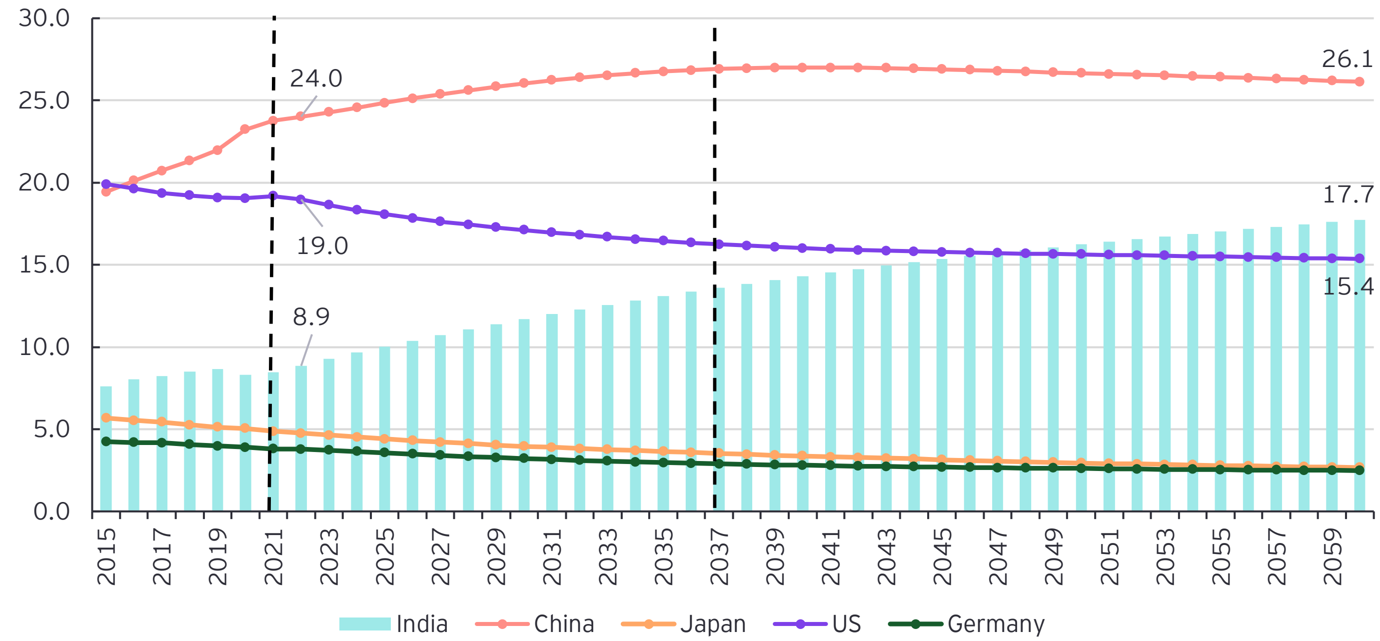
Year	Agriculture	Industry	Services
1951-60	-0.54	0.37	0.03
1961-70	-0.83	0.58	0.17
1971-80	-0.83	0.16	0.44
1981-90	-0.48	0.15	0.43
1991-00	-0.80	-0.05	0.65
2001-10	-0.94	0.37	0.40
2011-20	-0.32	-0.34	0.66
Projected share in total GVA in 2049-50			
2019-20	**15.0%**	**29.7%**	**55.3%**
2049-50	**5.2%**	**19.8%**	**75.0%**

Source (basic data): MoSPI and EY estimates

This persistent trend of sectoral change has two important beneficial effects linked to it. First, the services sector has a relatively lower incremental capital output ratio (ICOR) as compared to industry. At present, on average, the ICOR ratios may be considered at 4.0 for services and 6.0 for industry. Thus, given India's overall savings ratio which may currently be about 34% (in real terms), the potential growth rate at an average ICOR of 5.0 would be close to 7%. However, as the average ICOR falls gradually to say, 4.0 by FY50, the potential growth rate would increase to about 8.5%. In fact, as this process continues year after year, the average per capita incomes would increase, and the savings rate would also increase from 34% to 35%. Thus, there is a potential virtuous cycle of higher growth which is implicit in the unfolding demographic dividend for India.

The other beneficial dimension associated with the changing structure of output is its potential impact on climate change. Researches have indicated, for example, Srivastava and Kavikumar (2014)[13], that the services sector tends to be less carbon intensive than the industrial sector. As such, India's climate goals would be facilitated almost automatically by the changing structure of output apart from the effects of conscious policy initiatives to reduce the pollution intensity of output.

Chart 15: Share in trend global GDP (%)



Source (basic data): OECD

[13] Srivastava, D. K., & Kumar, K. K. (Eds.). (2014). Environment and fiscal reforms in India. SAGE Publications India.

As this future unfolds for India, a number of complementary factors may also help. First, in the short to medium term, given the unreliability of non-democratic countries as sources of critical inputs for power and other industries, India may slowly emerge as a more reliable source for the supply of critical industrial inputs since it has maintained a history of greater stability and transparency through its democratic credentials. Second, as output becomes service intensive, more and more Indian population would shift towards urban areas. This would lead to productive employment provided resources are allocated for educating and skilling this population. These trends are in line with the corresponding path traversed by many of the currently advanced economies and are confirmed by a longer-term projection of share in trend global GDP (PPP US$2010) as shown in **Chart 15**. In terms of the share in global GDP, India would overtake the US by 2047, becoming the second largest world economy. In the remaining part of the century, India's share will continue to rise while that of China, which would have peaked in 2040, will continue to fall.

7. Concluding observations

As India emerges out of the COVID shock, its immediate challenges relate to upsurge in global crude prices and significant supply side disruptions. These problems are shared with the major economies of the world. In comparative terms, India is expected to do well in the short-to medium term. Its projected growth in FY23 is 8.2% as per the IMF and at 7.2% according to the RBI. Even at this lower level, India would be a global growth leader among major economies of the world. One additional challenge may arise for the Indian economy, particularly in the context of its exports prospects if the US and the European economies go into a recession in the next couple of years. This is an anticipated outcome of their policy response of raising interest rates to manage the unprecedented inflation levels that they are currently experiencing.

In the medium term, India is projected to show the highest growth rate up to FY28. Its growth rate is expected to be well above the world average as well as that of China. In the long run also, India's economic prospects appear to be quite promising with a significant positive outcome of windows of demographic and democratic dividends. In 2028, the share of working age population in India at 68.4% would overtake that of China. In 2058, the excess of India's working age population over that of China would be at a maximum. In 2060, India's old dependency ratio would overtake the young dependency ratio. This indicates that in terms of policy priorities, India should emphasize investment in education in the next three to four decades and then shift to relatively higher health expenditures. Alongside this demographic dividend, India may also take advantage of being a preferred source of supply for vital inputs where countries that have been traditional suppliers have proved to be unreliable and non-transparent. In the long run, a virtuous cycle of higher savings and investment rates, higher absorption of available working force, higher productivity through education and technological developments and a focus on the services sector would ensure that India eventually emerges in the second or even the first position in terms of the size of the economy in comparative PPP terms.

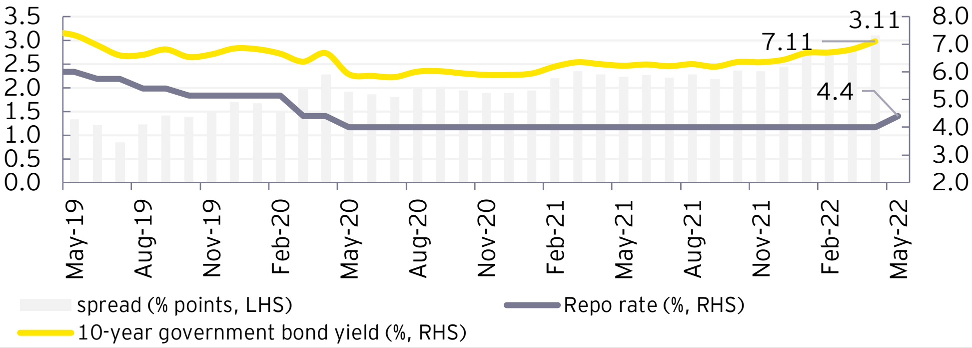
6. Money and finance: the RBI increased the repo rate by 40 basis points to 4.4% in May 2022

A. Monetary sector

Monetary policy

- In an off-cycle meeting held on 4 May 2022, the Monetary Policy Committee (MPC) increased the repo rate by 40 basis points to 4.4% **(Chart 16)**. Consequently, the Standing Deposit Facility and Marginal Standing Facility rates were also adjusted upwards to 4.15% and 4.65% respectively. Further, while maintaining the policy stance as accommodative, the MPC indicated that the RBI would focus on withdrawal of surplus liquidity from the system.
- The surprise meeting of the MPC was necessitated due to the fast-evolving inflation and growth dynamics driven by the ongoing geopolitical situation. In RBI's assessment, factors that may pose upside risks to the inflation trajectory include: (a) elevated and volatile global crude prices, (b) sharp surge in global food prices in recent months, (c) shortages in some of the inflation sensitive items in India including edible oils, and (d) spike in fertilizer prices and other input costs which have a direct bearing on food prices.

Chart 16: Movements in the repo rate and 10-year government bond yield



After retaining the repo rate at a historic low level of 4.0% since May 2020, the RBI, in a surprise move, increased the repo rate by 40 basis points to 4.4% in May 2022.

Source: Database on Indian Economy, RBI

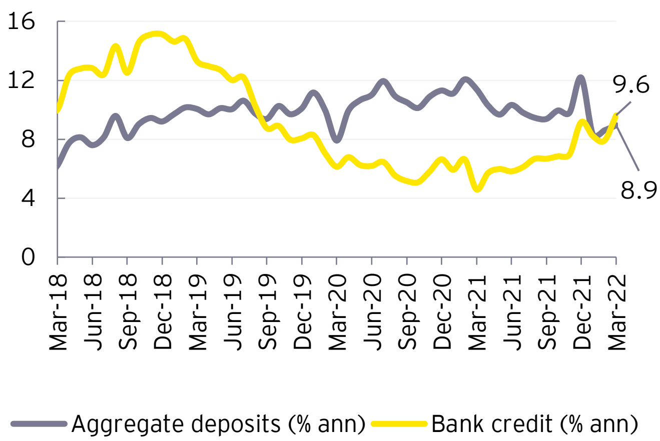
Money stock

- Growth in broad money stock (M3) increased to an 11-month high of 10.2% in April 2022 from 8.7% in March 2022. This was due to a higher growth in both narrow money (M1) and time deposits.
- Growth in M1 increased to 13.2% in April 2022 from 10.6% in March 2022 due to a higher growth in demand deposits and currency with the public. Growth in demand deposits and currency with the public increased to 16.3% and 11.0% resepectively in April 2022 from 10.9% and 10.4% respectively in March 2022.
- Time deposits, accounting for about 76% of M3 on average (last three years), also showed a higher growth of 9.2% in April 2022 as compared to 8.1% in March 2022.

Aggregate credit and deposits

- Growth in outstanding bank credit by scheduled commercial banks (SCBs) at 9.6% in March 2022 was the highest since August 2019 **(Chart 17)**. This was due to higher growth in credit to industry and services. In FY22, growth in bank credit averaged 7.2% as compared to 5.9% in FY21.
- Growth in non-food credit was also higher at 9.7% in March 2022 as compared to 8.0% in February 2022. Non-food credit averaged 7.2% in FY22, improving from 5.9% in FY21.
- Growth in outstanding credit to industries increased to 7.1% in March 2022 from 6.5% in February 2022. Growth in credit to industries averaged 3.5% in FY22, improving from 0.8% in FY21.

Chart 17: Growth in credit and deposits



Source: Database on Indian Economy, RBI

- Credit to services sector, accounting for about 27% of total non-food credit on average during the last four years, grew at a faster pace of 8.9% in March 2022 as compared to 5.6% in February 2022. Growth in credit to services averaged 4.4% in FY22, significantly lower than 9.0% in FY21.
- Personal loans, accounting for about 30% of total non-food credit, grew by 12.4% in March 2022, marginally higher than 12.3% in February 2022. In FY22, personal loans grew at a faster pace of 12.2% as compared to 9.5% in FY21.
- Growth in credit to agricultural sector moderated to 9.9% in March 2022 from 10.4% in February 2022. Agricultural credit growth averaged higher at 11.0% in FY22 as compared to 6.6% in FY21.
- Growth in aggregate bank deposits was marginally higher at 8.9% in March 2022 as compared to 8.6% in February 2022. In FY22, bank deposits grew by 9.7% on average, lower than that in FY21 at 11.0%.

B. Financial sector

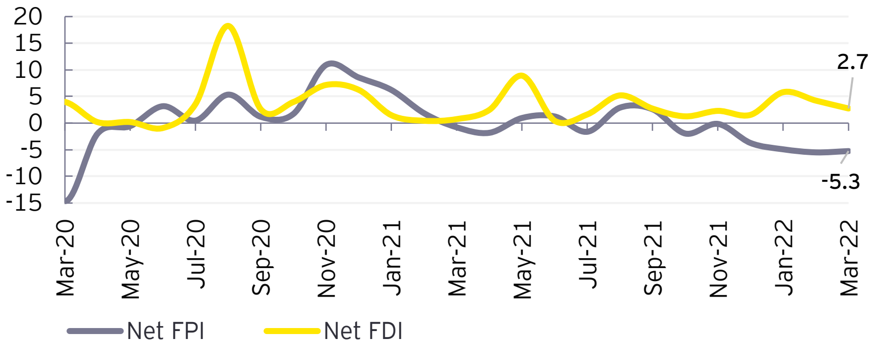
Interest rates

- As per the data released by the RBI on 6 May 2022, the average interest rate on term deposits with a maturity of more than one year was maintained at 5.30% for the third consecutive month in April 2022, with the actual rate ranging from 5.00% to 5.60%.
- The average MCLR remained at 6.74% in April 2022, close to its level of 6.73% in March 2022. In April 2022, actual MCLR ranged between 6.48% and 7.00%.
- The average yield on 10-year government bonds increased by about 28 basis points to 7.11% in April 2022, its highest level since May 2019 **(Chart 10)**. Consequently, the spread between benchmark bond yield and repo rate widened to a historic high of 3.1% points in April 2022 as compared to 2.82% points in March 2022.
- WALR on fresh rupee loans by SCBs fell to 7.66% in March 2022 from 7.82% in February 2022. In FY22, WALR averaged 7.87%, lower than its level of 8.25% in FY21.

FDI and FPI

- As per the provisional data released by the RBI on 17 May 2022, overall foreign investment[14] (FIs) outflows were at a 24-month high of US$(-)2.5 billion in March 2022 higher than US$(-)1.3 billion in February 2022. This was due to higher net FPI outflows. In FY22, foreign investment inflows were at US$22.1 billion, its lowest level since FY12, as compared to US$80.1 billion in FY21.

Chart 18: Net FDI and FPI inflows (US$ billion)



FPIs registered net outflows for the sixth consecutive month at US$(-)5.3 billion while net FDI inflows fell to US$2.7 billion in March 2022.

Source: Database on Indian Economy, RBI

- FPIs registered net outflows for the sixth consecutive month at US$(-)5.3 billion in March 2022, marginally lower than US$(-)5.5 billion in February 2022. In FY22, net FPI outflows amounted to US$(-)17.2 billion, its highest level since FY12, as compared to net inflows amounting to US$36.1 billion in FY21.
- Net FDI inflows were lower at US$2.7 billion in March 2022 as compared to US$4.2 billion in February 2022 **(Chart 18)**. In FY22, net FDI inflows at US$39.3 billion were lower as compared to US$44.0 billion in FY21.
- Gross FDI inflows were marginally higher at US$6.7 billion in March 2022 as compared to US$6.4 billion in February 2022. In FY22, gross FDI inflows amounted to US$83.6 billion, marginally higher than US$82.0 billion in FY21.

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

7. Trade and CAB: exports growth surged to a four-month high of 30.7% in April 2022

A. CAB: current account deficit widened to a 13-quarter high of (-)2.7% of GDP in 3QFY22

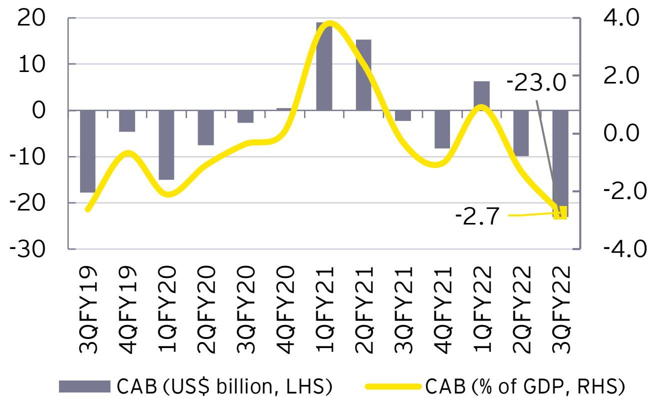
Current account posted a deficit at (-)2.7% of GDP in 3QFY22 as compared to (-)1.3% of GDP in 2QFY22 **(Chart 19, Table 8).** This deterioration was largely due to worsening net merchandise trade deficit relative to GDP which widened to a 12-quarter high of (-)7.2% in 3QFY22 from (-)5.9% in 2QFY22. Merchandise imports were at a 25-quarter high of 20.1% of GDP in 3QFY22 largely reflecting rising global crude and commodity prices. Merchandise exports relative to GDP were lower at 13.0% in 3QFY22 as compared to 13.8% in 2QFY22. Net service receipts, transfer receipts and income receipts at 3.3%, 2.5% and (-)1.3% of GDP respectively in 3QFY22 were relatively stable at close to their 2QFY22 levels.

Table 8: Components of CAB in US$ billion

Fiscal year	CAB as % of nominal GDP	CAB	Goods account net	Invisibles* net
FY18	-1.8	-48.7	-160.0	111.3
FY19	-2.1	-57.3	-180.3	123.0
FY20	-0.9	-24.7	-157.5	132.8
FY21	0.9	32.1	-60.4	92.5
4QFY21	-1.0	-8.2	-41.7	33.6
1QFY22	0.9	6.4	-30.7	37.1
2QFY22	-1.3	-9.9	-44.5	34.6
3QFY22	-2.7	-23.0	-60.4	37.4

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

Chart 19: CAB



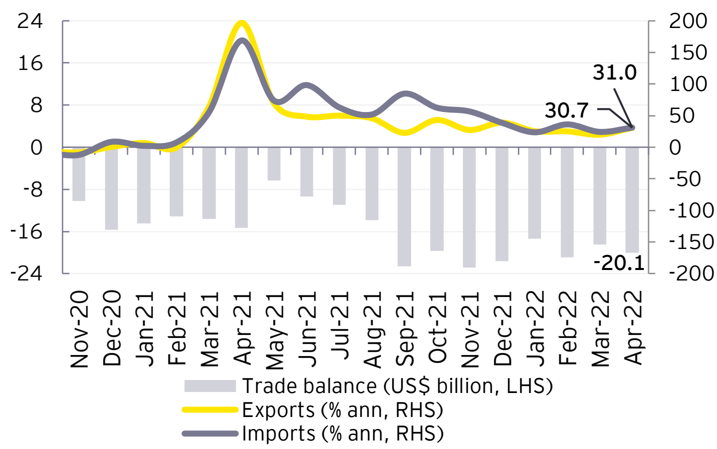
Source: Database on Indian Economy, RBI

B. Merchandise trade and exchange rate

Growth in the value of merchandise exports and imports increased to 30.7% and 31.0% respectively in April 2022 from 19.8% and 24.2% respectively in March 2022 partly led by higher crude and commodity prices.

- Merchandise exports growth surged to a four month high of 30.7% in April 2022 led by higher exports of petroleum products (127.7%), electronic goods (71.7%), engineering goods (22.0%), and organic and inorganic chemicals (32.3%).
- Merchandise imports growth increased to 31.0% in April 2022 partly due to higher growth in imports of oil (87.5%), organic and inorganic chemicals (52.4%), machinery (11.8%), non-ferrous metals (42.1%) and iron and steel (26.4%), and partly due to a lower pace of contraction in gold imports ((-)72.4%).
- Y-o-y growth in exports excluding oil, gold and jewelry increased to a three-month high of 19.9%. Growth in imports of this segment remained elevated at 34.7% in April 2022.
- Merchandise trade deficit increased to US$(-)20.1 billion in April 2022 from US$(-)18.5 billion in March 2022 **(Chart 20).**
- Services trade surplus increased to an unprecedented level of US$11.6 billion in March 2022.
- Goods and services trade deficit was at a three-year high of US$(-)97.8 billion in FY22.
- The rupee was at an all-time low level of INR76.2 per US$ (average) in April 2022, the same level as in March 2022.

Chart 20: Developments in merchandise trade



Source: Ministry of Commerce and Industry, GoI

8. Global growth: ADB projected developing Asia to grow by 5.2% in 2022 and 5.3% in 2023

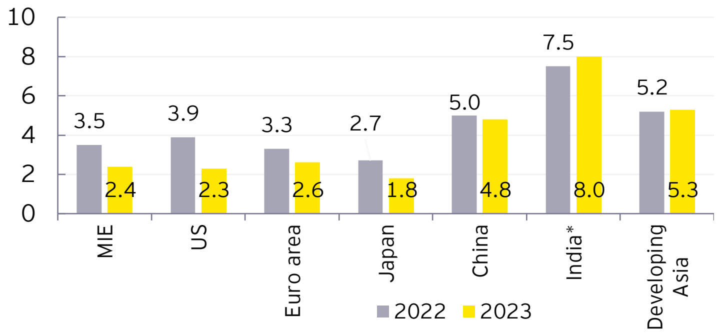
A.Global growth

- As per the ADB (Asian Development Outlook, April 2022), growth in developing Asia is forecasted at 5.2% in 2022 and 5.3% in 2023 supported by recovering domestic demand and robust exports (**Chart 21**). However, growth dynamics is expected to vary across economies.
- Growth in major industrial economies (MIA) is projected at 3.5% in 2022 before normalizing to 2.4% in 2023. With GDP levels converging to their pre-pandemic trends, the Euro area and the US will complete their recoveries by the end of this year. However, global geopolitical tensions are expected to push oil prices and inflation up, leading to a rise in interest rates with an adverse impact on growth.

The ADB has projected developing Asia to grow by 5.2% in 2022 with India's FY23 growth projected at 7.5%.

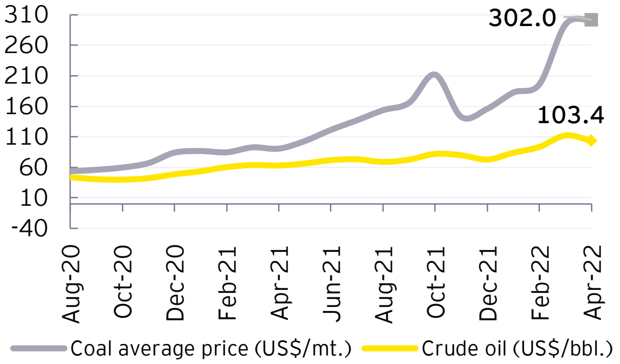
- Growth in the US is projected at 3.9% in 2022, moderating to 2.3% in 2023 with consumption being the main driver of growth. Growth in Euro area is projected at 3.3% in 2022 and 2.6% in 2023 but there are significant downside risks to outlook emanating from the geopolitical conflict. Growth in the region is projected to be mainly driven by private consumption with investment also picking up, supported by national recovery plans and the EU's recovery package.
- In Japan, growth is projected at 2.7% in 2022. The recovery would largely depend on private consumption and nonresidential investment. In 2023, growth is expected to moderate to 1.8% as recovering domestic demand would push up imports and public demand would gradually become neutral towards the end of the year.
- China's growth is projected to moderate to 5.0% in 2022 due to lackluster domestic demand as COVID-19 pandemic continues to weigh on consumer confidence. Growth in 2023 is expected to slow further to 4.8% as the labour force shrinks and investment declines.
- India's growth is forecasted at 7.5% in 2022 (FY23), increasing to 8% in 2023 (FY24) driven by strong public investment growth helping crowd-in private investment. This forecast assumes the severity of COVID-19 pandemic subsiding and vaccination rates rising.

Chart 21: Global growth projections (%)



Source: Asian Development Outlook (April 2022)
*Data pertains to fiscal years FY23 and FY24 respectively.

Chart 22: Global crude and coal prices



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

B. Global energy prices: Brent crude price is forecasted at US$100/bbl. in 2022 and US$92/bbl. in 2023

- Average global crude price[15] remained elevated at US$103.4/bbl. in April 2022 although relatively lower than US$112.4/bbl. in March 2022 **(Chart 22)**. The downward price movement in April 2022 was driven by an announcement of a major oil inventory release by International Energy Agency (IEA) members and renewed outbreaks of COVID in China. The World Bank has projected Brent crude price at US$100/bbl. in 2022, its highest level since 2013, before moderating to US$92/bbl. in 2023 as production increases.
- Average global coal price[16] increased to a historic high of US$302.0/mt. in April 2022, increasing from 294.4/mt. in March 2022. According to the World Bank, Australian coal is forecasted to average US$250/mt. in 2022 before falling to US$170/mt. in 2023.

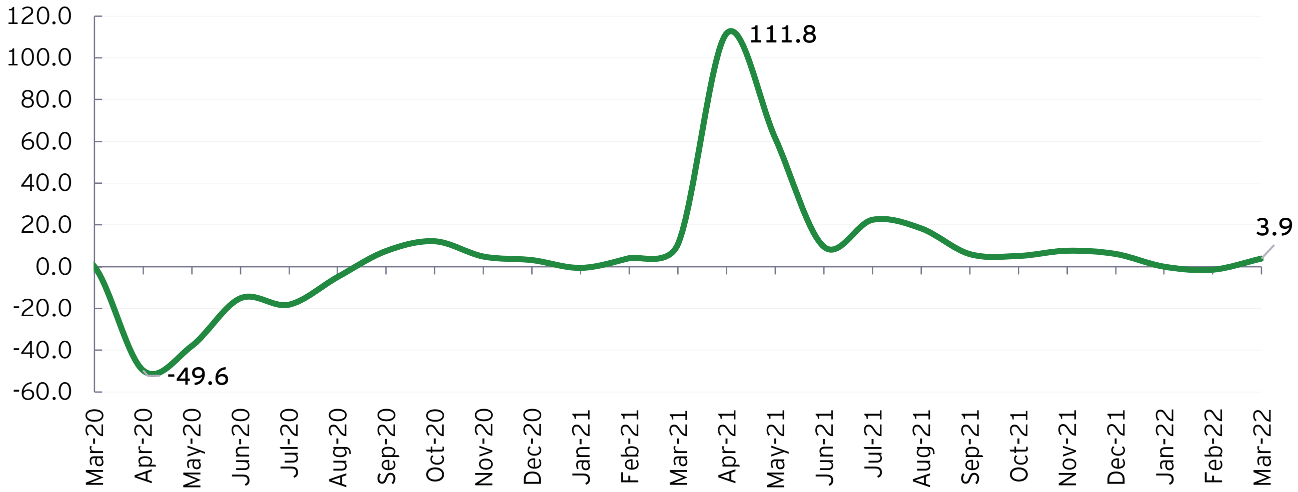
[15] Simple average of three spot prices, namely, Dated Brent, West Texas Intermediate and Dubai Fateh
[16] Simple average of Australian and South African coal prices

9. Index of Aggregate Demand (IAD): pointed to a modest recovery in domestic demand in March 2022

IAD grew by 3.9% in March 2022 from (-)1.4% in February 2022

- EY has developed an IAD to reflect the monthly combined demand conditions in the agriculture, manufacturing and services sectors. It considers the movements in PMI for manufacturing and services, both measured in non-seasonally adjusted terms, tracing the demand conditions in these sectors. Demand conditions in the agricultural sector have been captured by movements in monthly agricultural credit off-take.
- Growth in IAD recovered to 3.9% in March 2022 following a contraction of (-)1.4% in February 2022. **(Chart 23 and Table 9).** This may largely be attributable to a strong recovery in the demand conditions in services sector.
- However, demand conditions in the industrial sector worsened in March 2022. Demand conditions in the agricultural sector, as indicated by growth in credit offtake, also moderated marginally during the month.
- In FY22, owing to a strong favorable base effect in the first two quarters, growth in IAD averaged 14.7% as compared to a contraction of (-)6.8% in FY21.

Chart 23: Growth in IAD (y-o-y)



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

Table 9: IAD

Month	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22
IAD	130.2	140.5	141.8	149.1	146.7	144.3	139.0	143.7	147.6
Growth (% y-o-y)	22.5	18.4	6.1	5.2	7.7	6.1	0.0	-1.4	3.9
Growth in agr. credit	12.4	11.3	9.9	10.2	10.4	14.5	10.4	10.4	9.9
Mfg. PMI**	5.5	2.3	6.0	7.4	7.6	5.1	3.3	6.1	4.6
Ser. PMI**	-5.9	7.4	5.5	11.2	8.6	4.9	0.1	2.4	6.7

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

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

10. Capturing macro-fiscal trends: data appendix

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

Fiscal year/ quarter/ month	IIP	Mining	Manufacturing	Electricity	Core IIP	Fiscal year/ quarter /month	PMI mfg.	PMI ser.
	% change y-o-y							
FY19	3.8	2.9	3.9	5.2	4.4	FY19	52.8	52.2
FY20	-0.8	1.6	-1.4	1.0	0.4	FY20	52.3	51.9
FY21	-8.4	-7.8	-9.6	-0.5	-6.4	FY21	50.2	41.7
FY22	11.3	12.2	11.7	7.9	10.4	FY22	54.0	52.3
1QFY22	44.4	27.5	53.0	16.8	26.0	1QFY22	51.5	47.2
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	1.6	3.8	0.9	3.9	4.7	4QFY22	54.3	52.3
Dec-21	1.0	2.6	0.6	2.8	4.1	Jan-22	54.0	51.5
Jan-22	1.5	2.8	1.3	0.9	4.0	Feb-22	54.9	51.8
Feb-22	1.5	4.5	0.5	4.5	6.0	Mar-22	54.0	53.6
Mar-22	1.9	4.0	0.9	6.1	4.3	Apr-22	54.7	57.9

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				
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	6.7	11.0	32.9	10.9
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	11.7	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	9.0	10.2	33.2	10.4
Jan-22	6.0	5.4	9.3	6.0	13.7	9.6	9.5	34.4	9.8
Feb-22	6.1	5.9	8.7	5.9	13.4	8.7	10.2	30.8	10.4
Mar-22	7.0	7.7	7.5	6.4	14.5	8.7	10.7	34.5	10.9
Apr-22	7.8	8.4	10.8	7.0	15.1	8.9	10.9	38.7	11.1

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 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	4.7	3.3
FY21 (CGA)	0.7	-17.9	-2.3	-10.7	12.7	9.2	7.3
FY22 (RE over budget actuals)	24.1	38.7	26.2	32.3	17.0	6.9	4.7
FY 23 (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	
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
Sep-21	64.2	105.1	64.7	83.9	48.1	35.0	27.7
Oct-21	55.8	91.6	53.3	70.9	44.0	36.3	27.5
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$

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)				
Jul-21	47,901	254	-3,733	7,530	51,952
Aug-21	53,326	289	-16,195	8,474	45,894
Sep-21	47,379	222	-634	8,489	55,456
Oct-21	48,546	140	8,970	8,221	65,877
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

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
Jul-21	4.00	FY19	13.7	8.9	30.7	-0.6	FY19	13.6	10.5	7.69	411.9
Aug-21	4.00	FY20	9.5	9.9	43.0	1.4	FY20	11.2	8.9	6.83	475.6
Sep-21	4.00	FY21	5.9	11.0	44.0	36.1	FY21	16.2	12.2	6.05	579.3
Oct-21	4.00	FY22	7.2	9.7	39.3	-17.2	FY22	10.6	8.7	6.40	617.6
Nov-21	4.00	1QFY22	5.8	10.1	11.8	0.4	1QFY22	15.4	10.7	6.26	579.3
Dec-21	4.00	2QFY22	6.5	9.5	9.6	3.9	2QFY22	11.4	9.3	6.23	609.0
Jan-22	4.00	3QFY22	7.7	10.6	5.1	-5.8	3QFY22	11.5	9.3	6.38	638.6
Feb-22	4.00	4QFY22	8.6	8.6	12.8	-15.7	4QFY22	10.6	8.7	6.74	617.6
Mar-22	4.00	Dec-21	9.2	12.2	1.6	-3.7	Jan-22	10.1	8.4	6.69	629.8
Apr-22	4.00	Jan-22	8.2	8.3	5.8	-4.9	Feb-22	11.6	8.7	6.71	631.5
Apr-22	4.00	Feb-22	7.9	8.6	4.2	-5.5	Mar-22	10.6	8.7	6.82	617.6
May-22	4.40	Mar-22	9.6	8.9	2.7	-5.3	Apr-22	13.2	10.2	7.11	597.7

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
1QFY22	85.9	108.7	-30.8	73.8	67.1	105.1	2016	3.3	1.8	4.5
2QFY22	38.5	66.5	-47.4	74.1	71.7	152.3	2017	3.8	2.5	4.8
3QFY22	36.6	51.4	-64.3	74.9	78.3	170.3	2018	3.5	2.2	4.5
4QFY22	23.1	27.7	-56.8	75.2	96.6	224.5	2019	2.8	1.6	3.7
Jan-22	25.3	23.5	-17.4	74.4	83.9	182.7	2020	-3.1	-4.5	-2.0
Feb-22	25.1	36.1	-20.9	75.0	93.5	196.4	2021	6.1	5.2	6.8
Mar-22	19.8	24.2	-18.5	76.2	112.4	294.4	2022	3.6	3.3	3.8
Apr-22	30.7	31.0	-20.1	76.2	103.4	302.0	2023	3.6	2.4	4.4

Source: Database on Indian Economy - RBI, Pink Sheet - World Bank and IMF World Economic Outlook April 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(SAE)*	8.3	3.3	12.6	10.5	7.8	10.0	11.6	4.3	12.5	9.2
3QFY20	3.2	4.9	-3.5	-3.3	-3.1	-1.1	6.6	4.8	6.9	3.0
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	18.4	3.5	17.6	49.0	13.8	71.4	34.3	2.3	6.3	7.3
2QFY22	8.4	3.7	14.2	5.6	8.5	8.2	9.5	6.2	19.5	9.1
3QFY22	4.7	2.6	8.8	0.2	3.7	-2.8	6.1	4.6	16.8	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 SAE released on 28 February 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(FAE)*	8.8	4.1	11.0	17.4	23.0	29.5	7.7
3QFY20	3.1	5.6	4.8	-0.1	-5.5	-7.0	2.3
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	20.3	14.2	-4.4	62.5	40.4	60.7	10.5
2QFY22	8.5	10.2	9.3	14.6	20.5	40.7	10.0
3QFY22	5.4	7.0	3.4	2.0	20.9	32.6	9.8

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 SAE released on 28 February 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	NEXP	net exports (exports minus imports of goods and services)
58	NPA	non-performing assets
59	NCLT	National Company Law Tribunal
60	OECD	Organization for Economic Co-operation and Development
61	OPEC	Organization of the Petroleum Exporting Countries
62	PFCE	private final consumption expenditure
63	PIT	personal income tax
64	PMI	Purchasing Managers' Index (reference value = 50)
65	PoL	petroleum oil and lubricants
66	PSBR	public sector borrowing requirement
67	RE	revised estimates
68	PSU/PSE	public sector undertaking/public sector enterprises
69	RBI	Reserve Bank of India
70	SLR	Statutory Liquidity Ratio
71	Trans.	trade, hotels, transport, communication and services related to broadcasting
72	US$	US Dollar
73	UTGST	Union Territory Goods and Services Tax
74	WALR	weighted average lending rate
75	WHO	World Health Organization
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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