India Economic Pulse

Economic indicators and policy measures

February 2021

ENTER

Building a better working world

Contents

Executive summary

Dear Reader,

We are pleased to present the February 2021 edition of India Economic Pulse, analyzing recent high frequency economic indicators. The highlights are as follows:

The overall economy has recovered, though some sectors are challenged

- Economic growth is back in the positive territory with the latest GDP growth numbers for Q3 at 0.4% as per Government of India.
- Most broad-based economic indicators (like GST collections, manufacturing, electricity consumption, trade) are seeing moderate growth over the last year.
- Short-term consumption recovery has been underway as consumer durables sales have remained relatively strong, except in the month of January.

Long term growth requires pick-up in investments and credit growth

- Fund raising through FDI and stock markets continues and are at higher levels than in 2019-20. Credit creation however, continues to be muted, despite low short term interest rates. However, corporate bond issuance has seen a growth given the low interest rates and flexibility in pre-payments.
- While Bank credit for agriculture has increased, credit to manufacturing has declined, suggesting a more consumption driven rather than an investment driven recovery in line with the growth trends as seen in the past few years.

Budget signals policy certainty and path for investments to pick-up

- Post-Budget 2021-22, there is greater policy certainty especially due to Government not imposing any additional taxes. Policy measures (such as GST rationalization measures, details of the PLI schemes in various sectors) in the coming months would increase confidence.
- Both fiscal and monetary policy are pushing for recovery in growth.
- Through focus on manufacturing, infrastructure creation, privatization and asset monetization, Government has laid out a clear agenda for investment driven long-term growth. Now implementation of these measures will be key.

But mind the possible risks emerging over the horizon

- Rising commodity and higher input prices (e.g., crude oil, steel) and supply bottlenecks (e.g., containers, semi-conductors)
- Increase in interest rates and bond yields in the US and OECD economies could impact funds flow to emerging markets

Best regards,

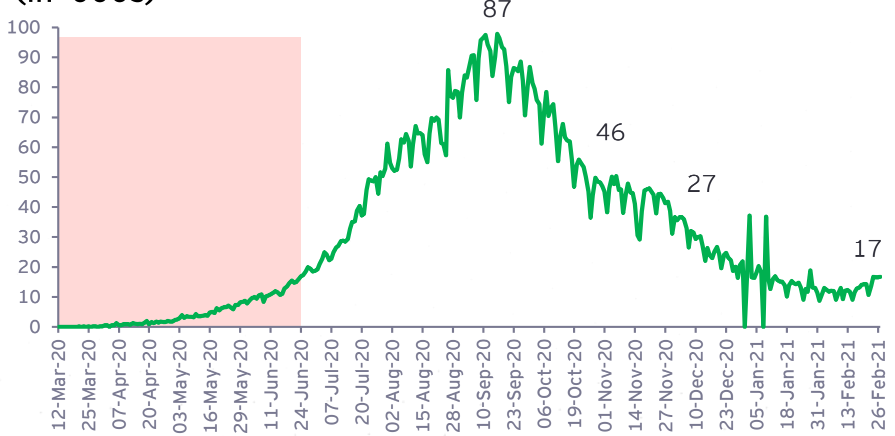
Pankaj Dhandharia
Partner & Markets Leader
EY India

Rajnish Gupta
Associate Partner
EY India

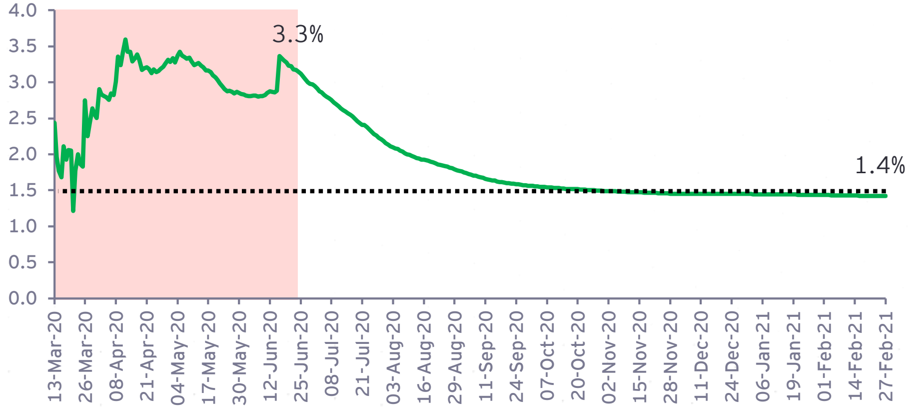
Tracking the spread of COVID-19 cases in India

COVID impact

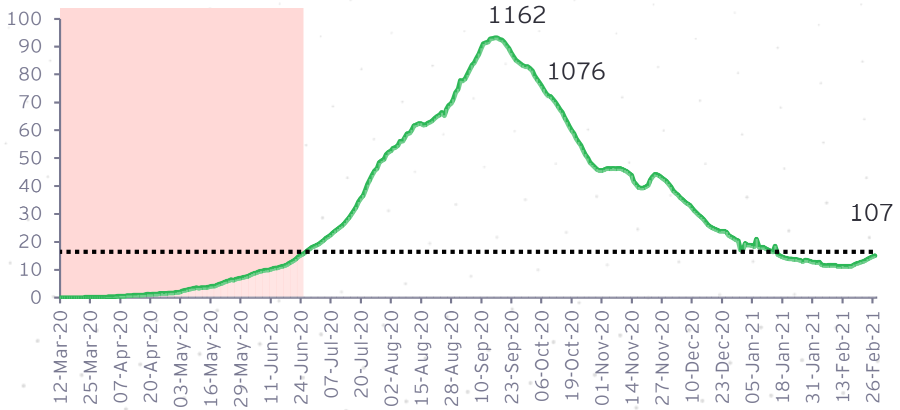
Daily New Confirmed COVID-19 Cases (in '000s)



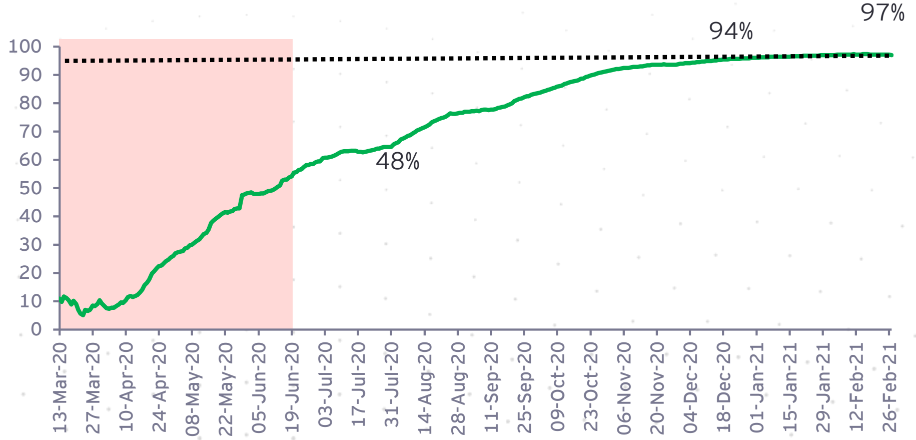
Fatality Rate (%)



Daily New Confirmed COVID-19 Deaths (7-day rolling average) (in '000s)



Recovery Rate (%)



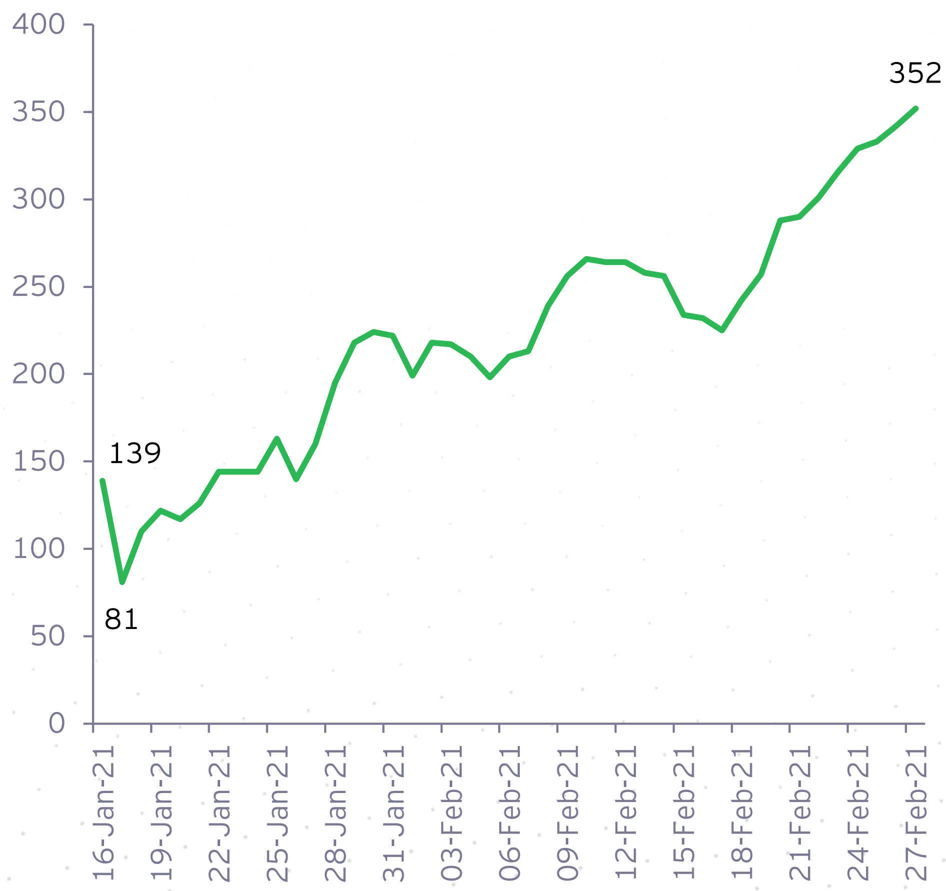
Note: Data as on 28th February 2021
Source: Our World in Data

Key findings

- Last three quarters have broadly established the falling trajectory of COVID cases. However, in the last week of February, overall cases have started increasing again.
- The risk of a second wave is present particularly with significant mutations of the virus.
- Government mandated restrictions have emerged again in hotspots, which presents a renewed risk for businesses requiring physical interactions.

Vaccination drive

Daily COVID-19 Vaccine Doses Administered Per Million in India



Note: Data as on 28th February 2021
Source: Our World in Data

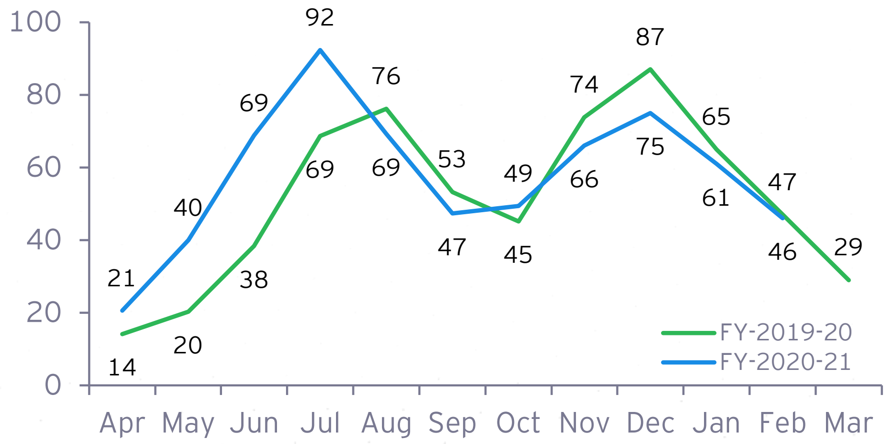
Country	Vaccination Given Per Capita
Israel	53.9%
United Arab Emirates	35.2%
United Kingdom	28.2%
United States	14.3%
Spain	5.1%
Germany	4.6%
Italy	4.5%
Singapore	4.4%
France	4.3%
Brazil	3.0%
China	2.8%
Argentina	1.4%
India	0.8%
Indonesia	0.6%

Key findings

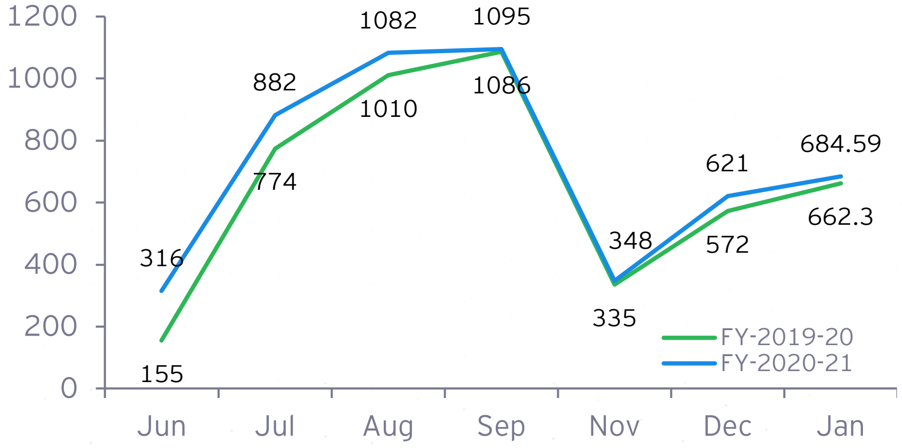
- The economic recovery would depend to a large extent on coverage of vaccination in the population.
- India’s vaccination drive is getting scaled up gradually and should get a leg up with the involvement of private sector.
- Globally, Israel, UAE, UK and USA are the leaders in terms of vaccination of the population.

Rural economy indicators

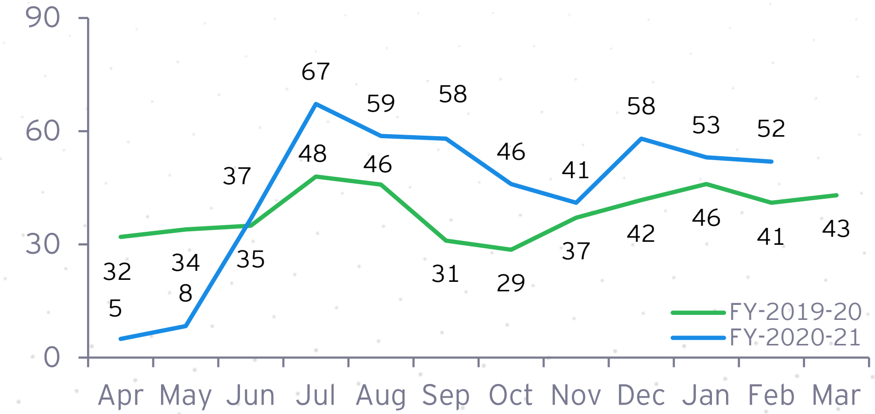
Fertilizer Sales (lacs MT)



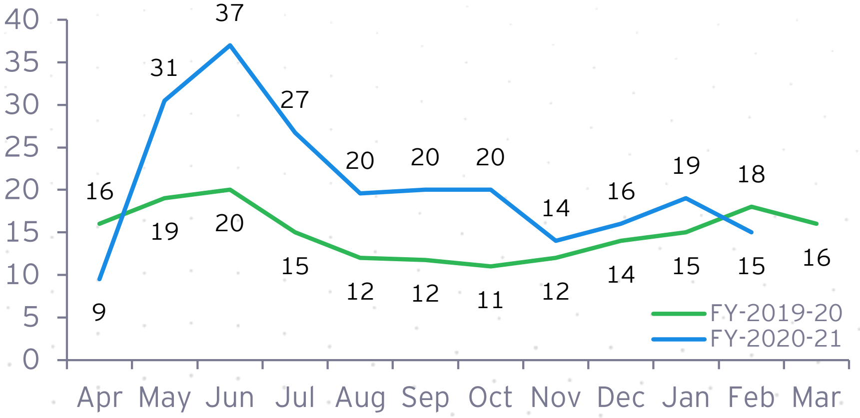
Net Crop Sown Area (lac hectares)



Tractor Sales (No. of units in '000)



Households Worked under MNREGA (in millions)



Key findings

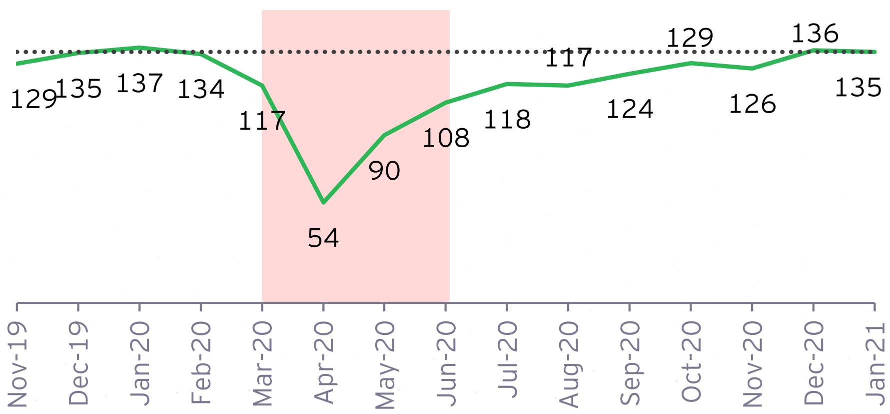
- After a strong Kharif season, the sowing patterns in the Rabi season continues to show strong growth of about 3-4%. One factor for growth are good monsoons this year.
- Recent growth in tractor sales has compensated for the lull in the lockdown period. Combined tractor sales during April-February in 2020-21 have grown by 11% over last year. This shows increasing confidence of farmers.
- After an initial push in rural works programme (MNREGA) from May, demand is going down as people may be going back to their original jobs.

Note: Date as on 28th February 2021
Source: Ministry of Road Transport and Highways, Ministry of Agriculture & Department of Fertilizers, MNREGA

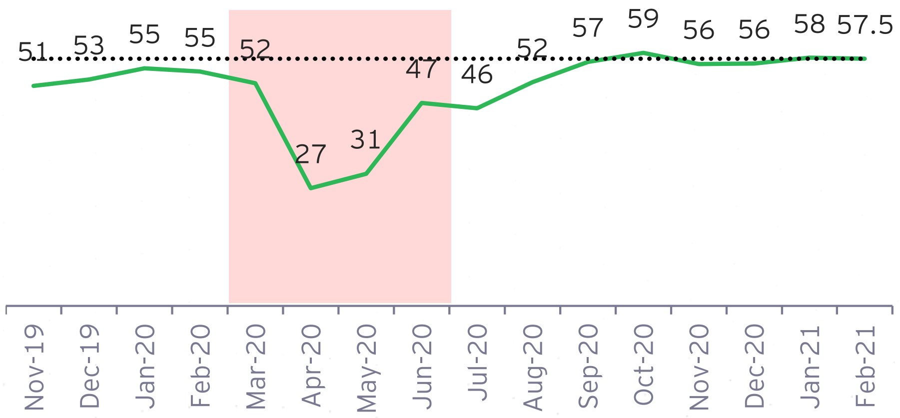
Overall manufacturing indicators

Manufacturing

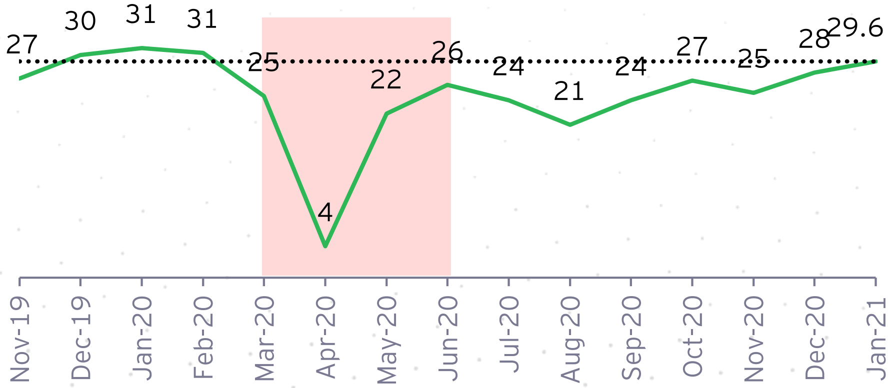
General Index of Industrial Production



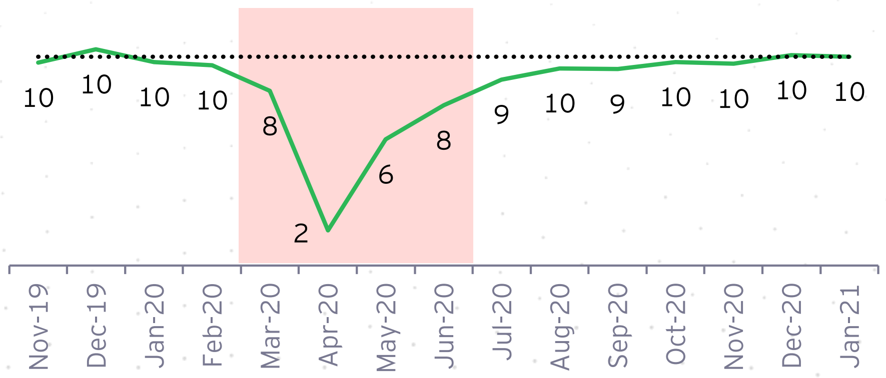
PMI Manufacturing



Cement Production (million tonnes)



Crude Steel Production (million tonnes)



Note: PMI >50 indicates expansion, <50 indicates contraction

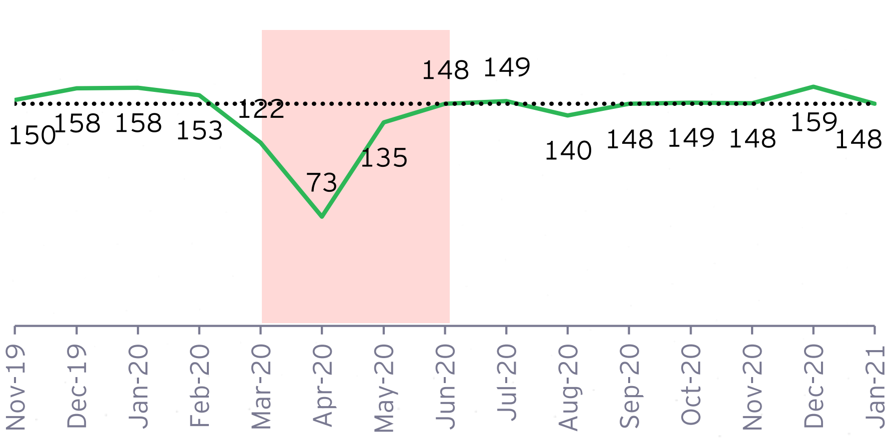
Source: IHS Markit, DPIIT, RBI;   IIP Base: 2011-12=100

Key findings

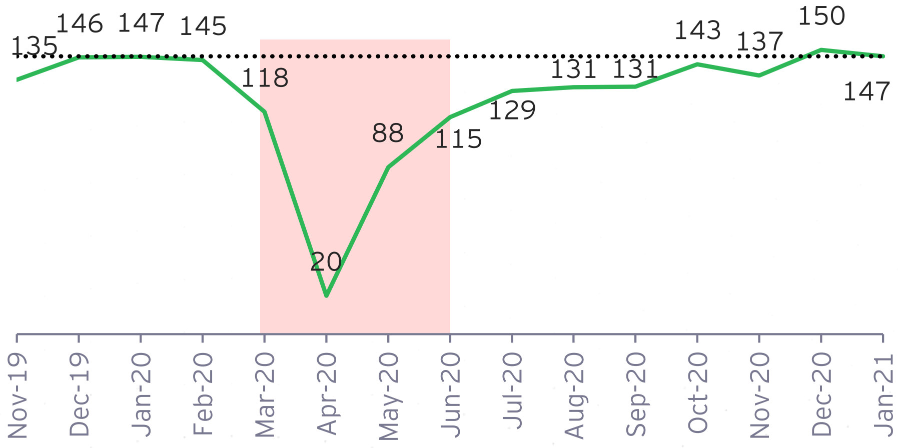
- Overall manufacturing index is stagnant at the levels of corresponding period with y-o-y growth in overall industrial production index of -1.6% in January 2021.
- However, as per the purchasing manufacturers Index (PMI), manufacturing activity continues to be on a strong upward trajectory of future growth.

Manufacturing indices for consumer non-durables, consumer durables, infrastructure and capital goods

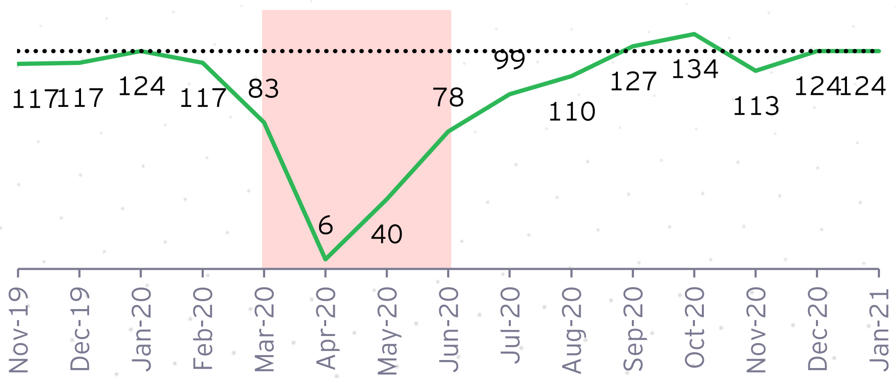
Consumer Non-durables



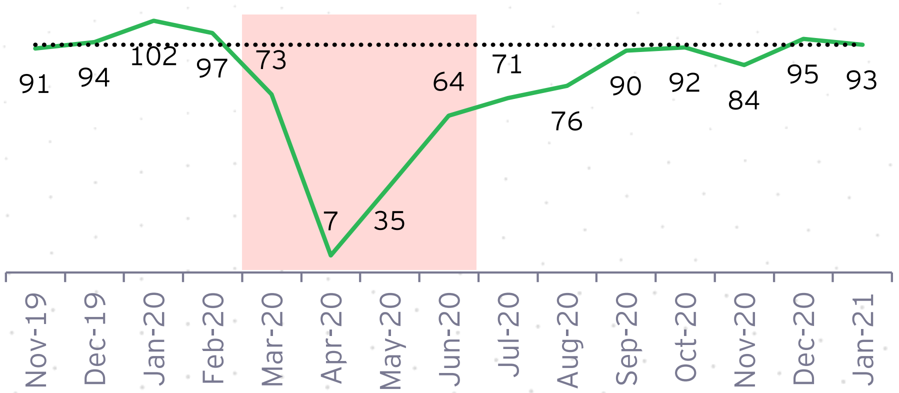
Infrastructure/Construction goods



Consumer Durables



Capital Goods



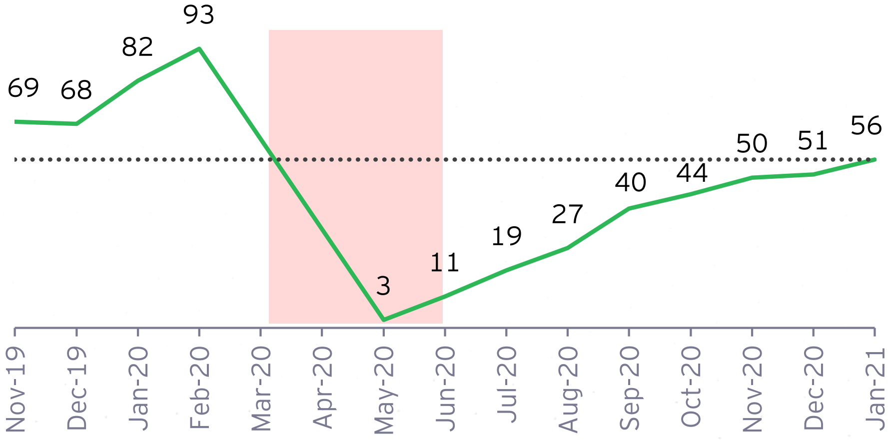
Source: RBI
IIP Base: 2011-12=100

Key findings

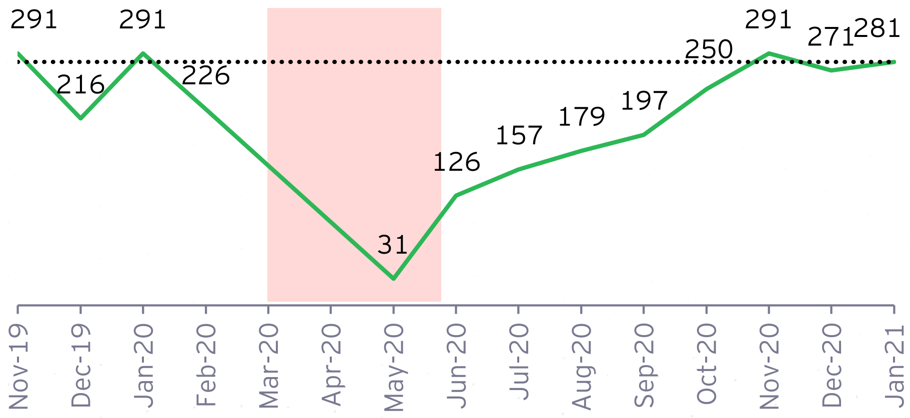
- Consumer durables manufacturing has remained largely stagnant in January 2021, with y-o-y growth at -0.6%.
- The non-durables consumer category saw a sharp de-growth in January 2021. This reverses the positive signs of expansion in December 2020.
- Capital goods and infrastructure/ construction goods sectors are showing stagnancy after some growth in last few months, with capital goods production down by over 8% over corresponding period last year.

Vehicle registration trends

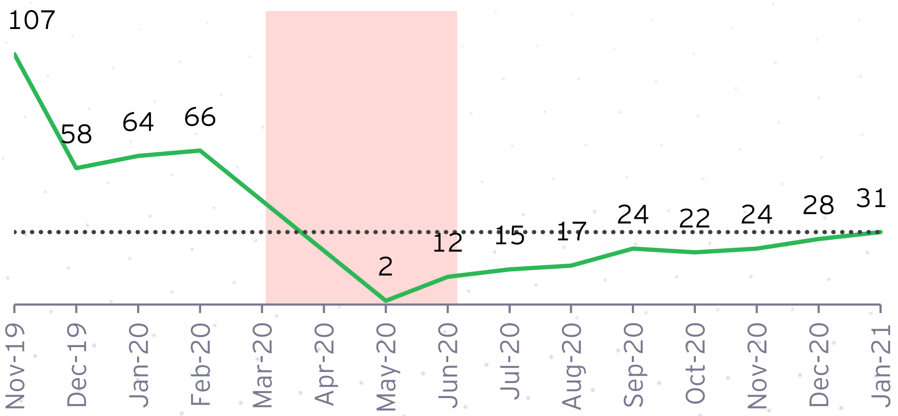
Commercial Vehicles (in '000s)



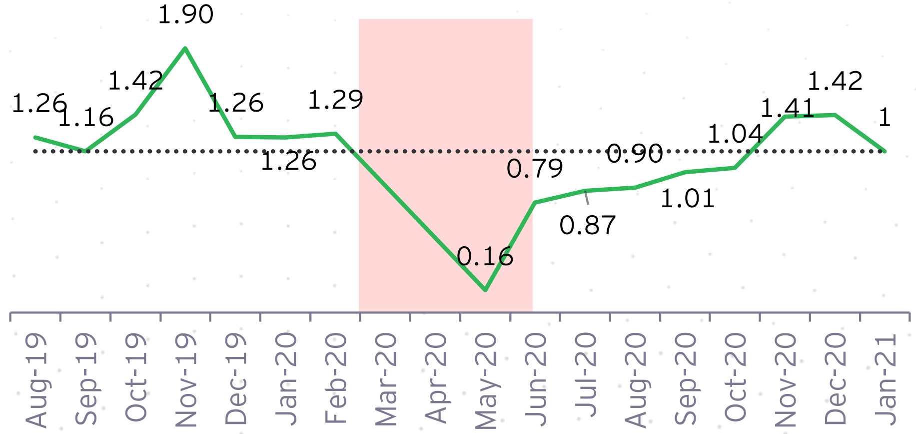
Passenger Vehicles (in '000s)



Three Wheelers (in '000s)



Two Wheelers (in millions)



Note: FADA has not released sales data for March and April 2020
Source: FADA. (The vehicles data has been compiled by FADA in collaboration with Ministry of Road Transport and Highways (excludes data for MP, AP, LD and TS))

Key findings

- In November 2020, passenger vehicles sales got a boost from Diwali related sales and pent up demand. December sales have moderated somewhat, but in y-o-y comparison, they are higher by 25% vis-a-vis the previous year
- Commercial vehicles and three-wheelers are two segments which are well below the levels in the previous year. Perhaps this indicates continued impact of COVID-19 on ridesharing services.
- Two wheeler registration was up 12.7% in December 2020 over last year's corresponding period, reflecting strong economic sentiments in the rural economy and growth in online delivery services in urban areas.

Policy direction: Government's strategy to finance infrastructure investments

Policy Change

Stretched Government finances and lower level of private debt in India	▶ Government debt to GDP ratio is approximately 90%, against 125% for advanced economies (with low to negative interest rates) and 19% to 100% for other BRICS* ▶ Private debt to GDP ratio is 55% for India vis-à-vis BRICS (75% to 190%) and advanced economies (100% to 250%)* ▶ For the year 2021-22, interest payments projected at Rs 8 Lakh Crores i.e., above 40% on revenues (other than borrowing) of approx. 19 lakh crores ▶ Larger role (including debt raising and risk taking for private sector) is imperative
India has ambitious investment plans	▶ National infrastructure pipeline projects investment requirement of US$ 1.8 trillion over the next 5 years (approximately 70% of the current GDP) i.e., approximately 14% per annum ▶ In addition, capital would be required related for construction/ urban development (not fully captured by NIP) ▶ Historically investment in infrastructure in India has been less than 10% of GDP
Government's capacity to make investments is limited	▶ Limited state capacity to execute infrastructure projects within strict budgets and timelines ▶ Only a handful of institutions that can make such investments e.g., NHAI. As an example in the power generation capacity additions made by private players in addition to NTPC
The 2021 budget has made landmark announcements	▶ Restructuring of PSUs -- few PSUs to be retained in identified strategic sectors. Balance proposed to be privatized/ closed ▶ Infrastructure asset monetization – operational/ under construction infrastructure projects to be monetised including a future plan for dedicated rail freight corridors ▶ Monetization of surplus assets – land (create economic value and strengthen Government finances)
Role for the private sector	▶ Government is planning to set-up a Development Financial Institution, but would mobilize private capital from pension funds, institutional investors, etc. ▶ Given the above, there is an opportunity for private players to deploy capital in a vast variety of assets

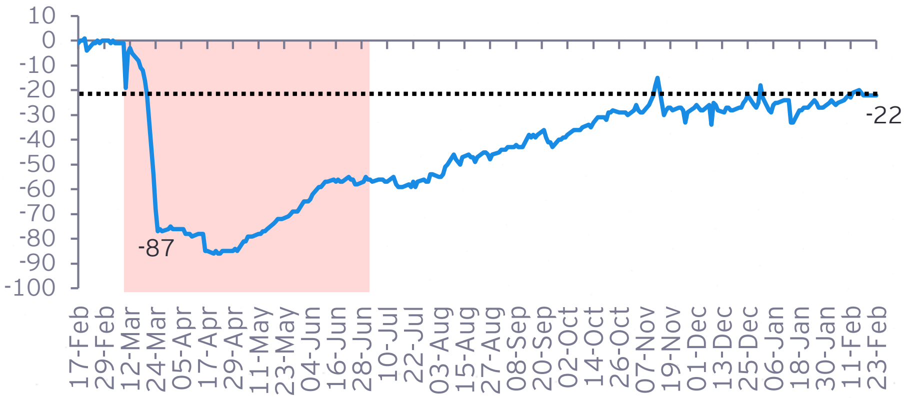
*Source: IMF

Key findings

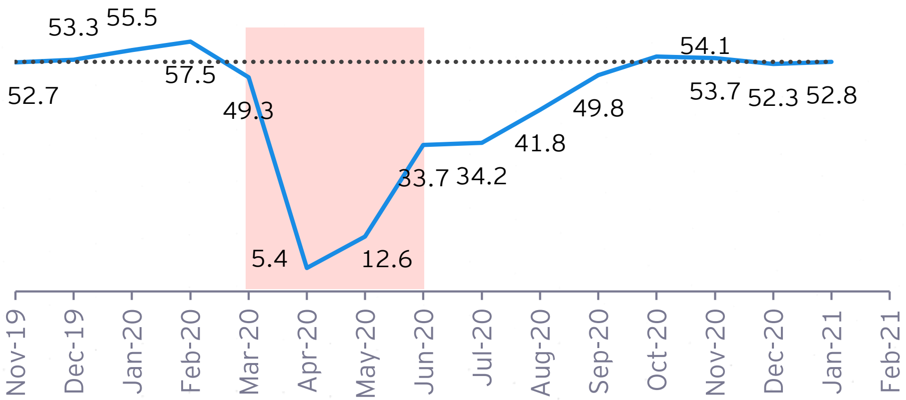
- Onset of COVID has had a negative impact on the finances of the Government.
- However, the aspirations for high economic growth underpinned by infrastructure creation remains undiminished.
- Government announcements suggest a more aggressive approach in attracting private investments for infrastructure.

Service sector indicators based on movement of people

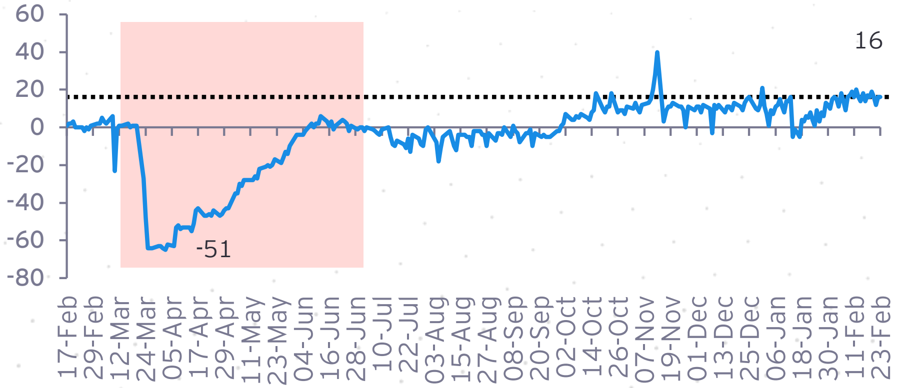
Mobility Change from Baseline of Feb,20 for Retail and Recreation



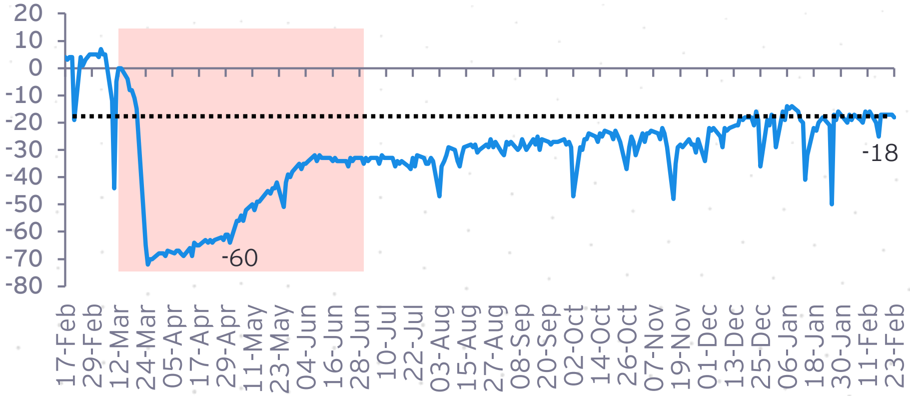
PMI Services



Mobility Change from Baseline of Feb,20 for Groceries and Pharmacies



Mobility Change from Baseline of Feb,20 for Workplace



Note: PMI >50 indicates expansion, <50 indicates contraction
Source: IHS Markit, Google Mobility (Updated to date February 23, 2021)

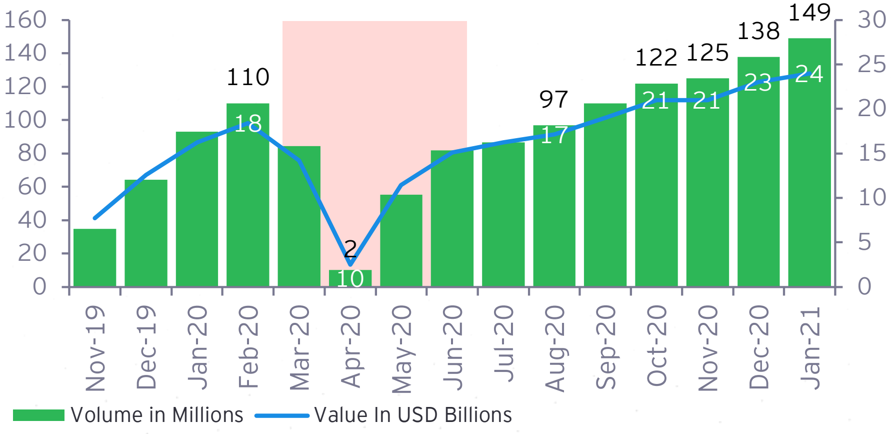
Key findings

- The PMI numbers reflect overall recovery in the services sector. However, it is not as strong as the manufacturing sector.
- The mobility indicators for retail and recreation and office spaces have stabilized at 20-30% lower then pre-COVID levels. These may not improve till things normalize. This could also be giving an early indication of the new post-COVID normal for retail, hotels and restaurants sectors.
- Visits to grocery stores and pharmacies are back to pre-COVID levels.

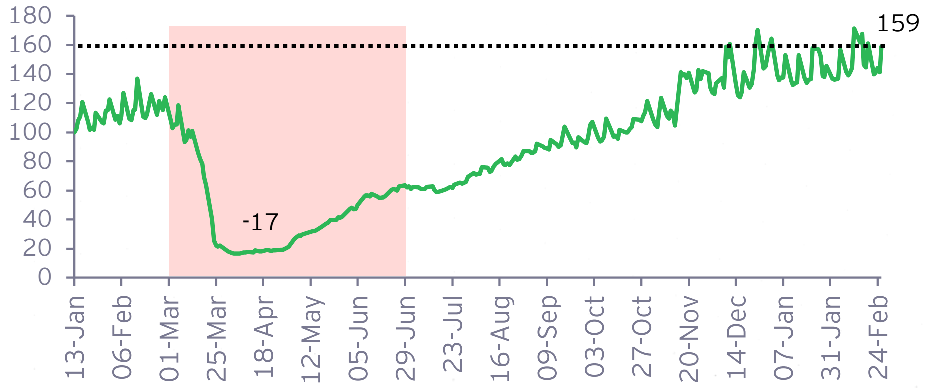
Transport: passenger transportation

Services

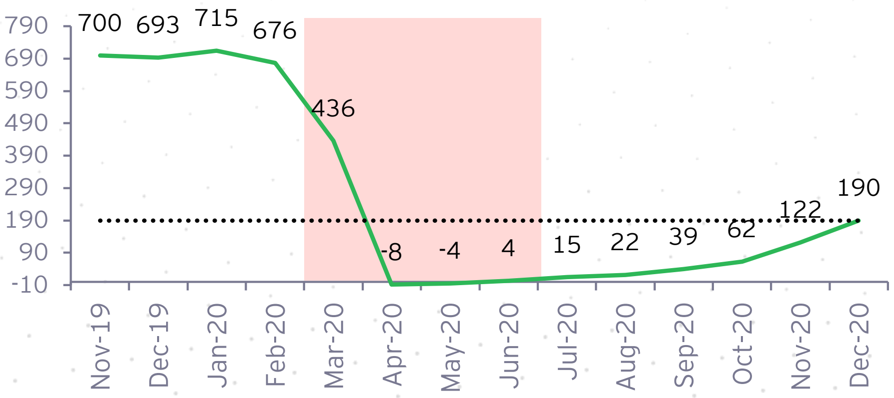
FASTag Transactions



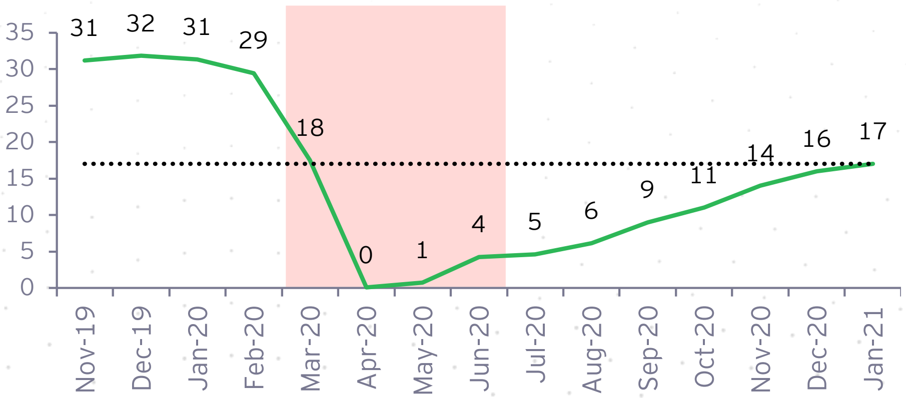
Mobility/Driving Trends for India from Baseline of Jan, 20



Railway Passengers Traffic*(millions)



Air Passengers Traffic (Intn'l + Domestic in millions)



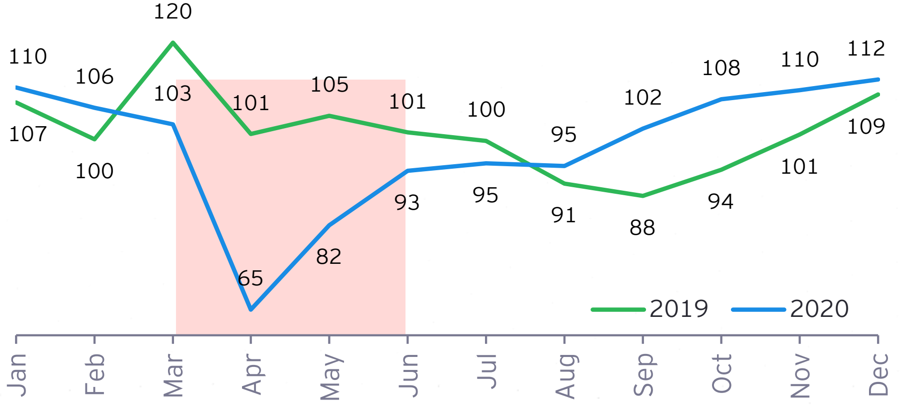
Source: NPCI , Ministry of Railways, Ministry of Civil Aviation, Apple Mobility Data (Updated till 27 February, 2021)
** the negative railway passenger traffic for April & May 2020 is a result of refunds provided by the Railways*

Key findings

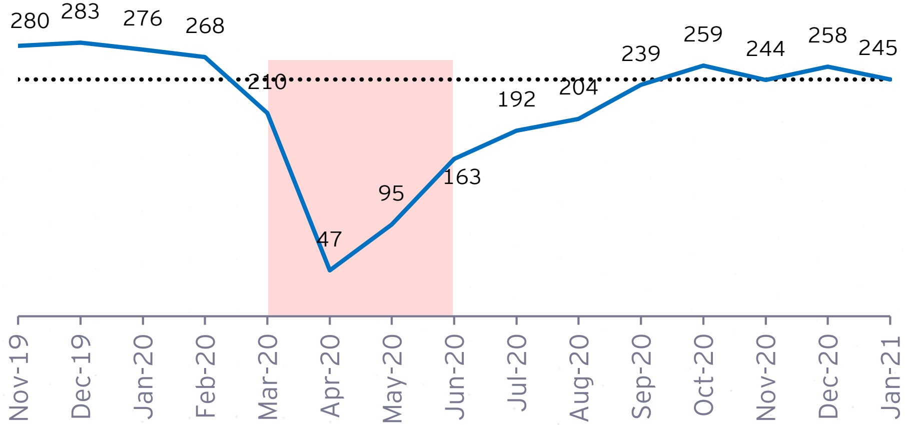
- Personal travel is still severely affected – particularly for mass transport systems as compared to individual driving.
- FASTag transactions show over 60% y-o-y growth. However, this is also due to greater usage of FASTag mode of transactions on road tolls.
- Overall driving indicators as per the Apple Mobility data show that the individual driving has somewhat reduced during the last month.
- Cross country passenger travel through rail and air is still severely affected with a very slow recovery.

Transport: freight transportation

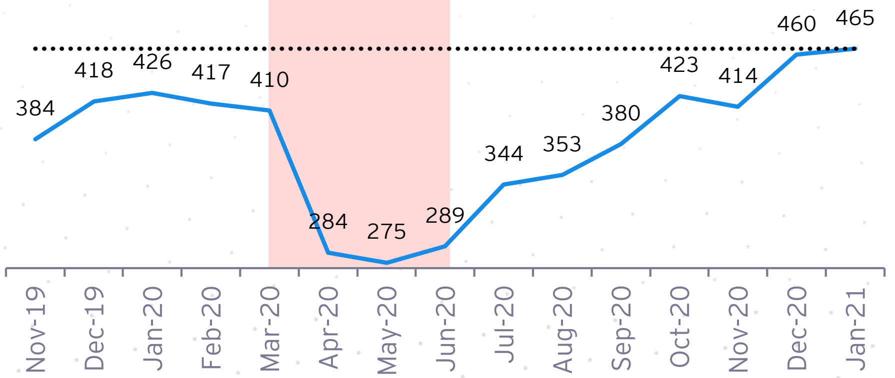
Railway Freight (Million tonnes)



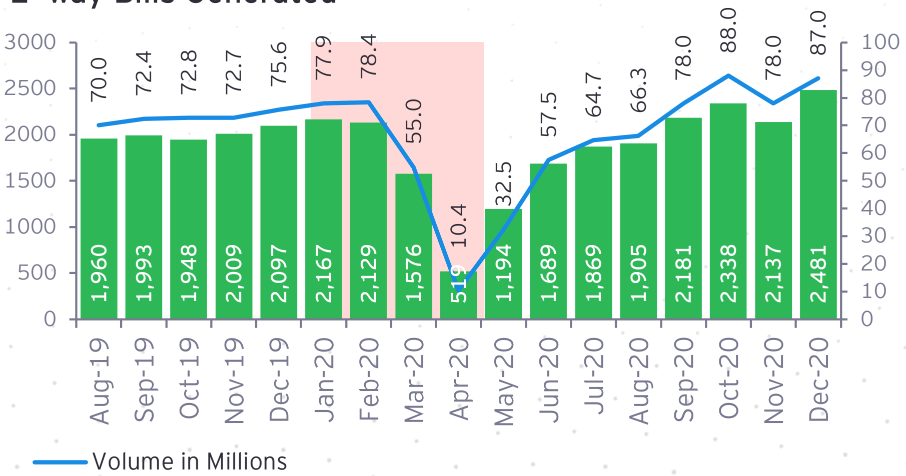
Air Freight ('000 tonnes)



JNPT Container Traffic ('000 TEU's)



E- way Bills Generated



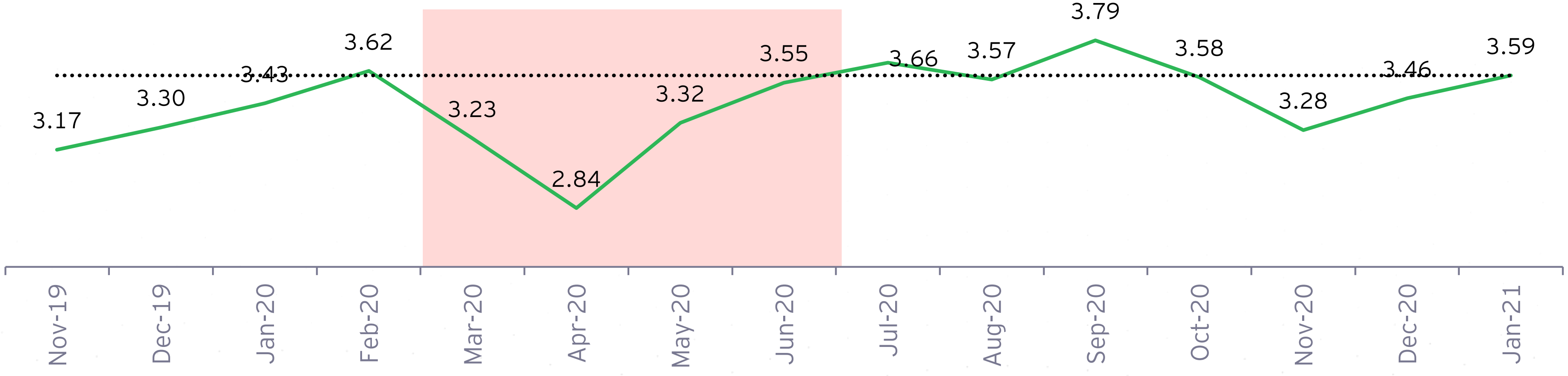
Source: Ministry of Civil Aviation, Railways, JNPT Terminal, GSTIN Network

Key findings

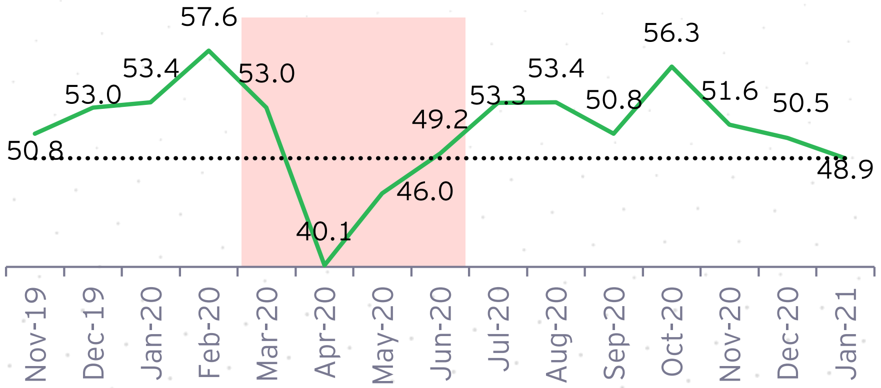
- In comparison to passenger transport, the freight transport has recovered significantly across most modes of transport.
- Rail freight in December 2020 was higher by 2.8% than the levels in December 2019.
- Volumes of e-way bills generated is up 15.1% in December 2020 on y-o-y basis.
- Container traffic at JNPT has also increased by 9.2% in January 2021 over last year's corresponding period.
- However, Air freight is lower by 8.8% vis-a-vis the corresponding period last year.

Energy consumption

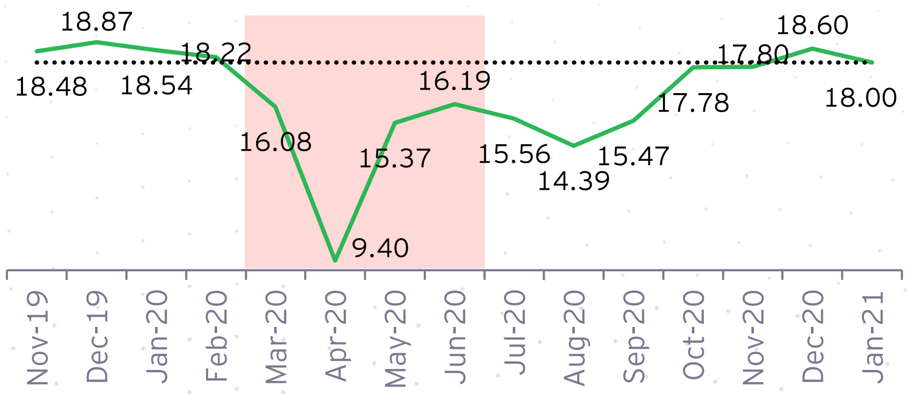
Power Consumption (Billion units)



Consumption of Natural gas ('00 MMSCM)



Consumption of Petroleum Products ('000 Metric Tonnes)

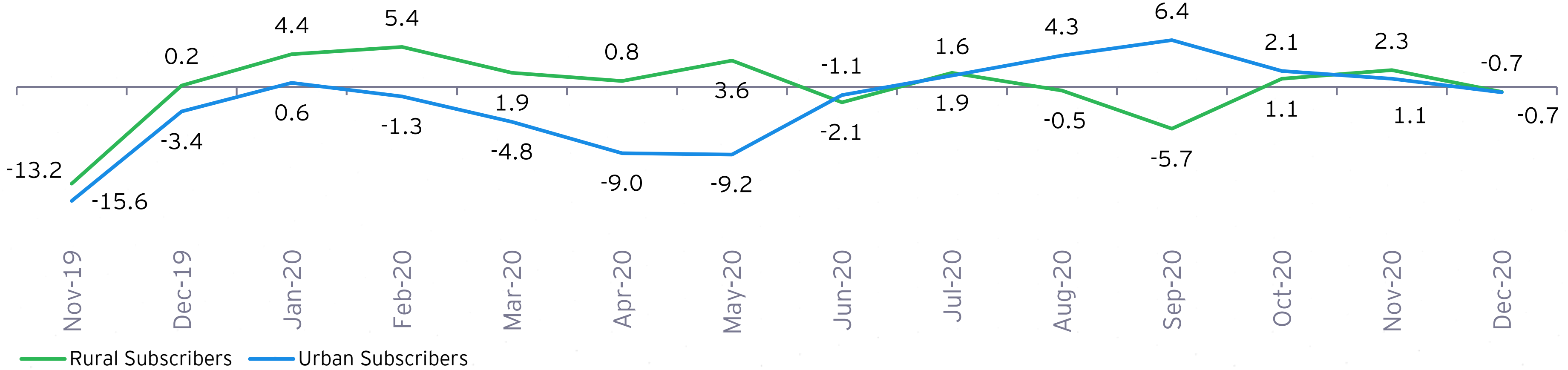


Source: Ministry of Petroleum, Coal & Power.
MMSCM stand for Million Standard Cubic Metre

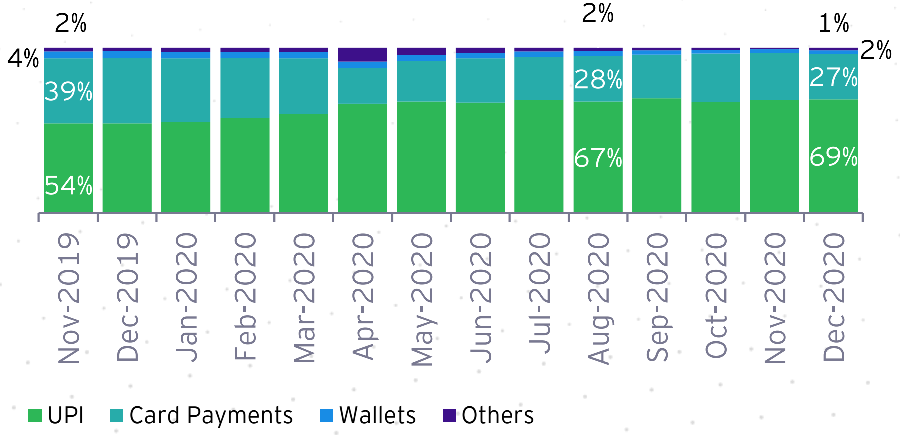
Key findings

- Daily average power consumption in January 2020 was 4.7% higher than December 2019. This reflects greater overall economic activity.
- Consumption of petroleum products In January 2021 was lower by 2.9% than corresponding period last year.

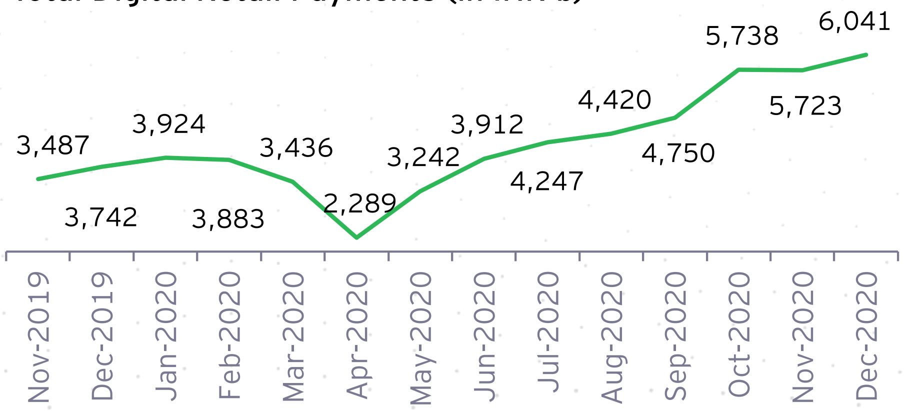
Wireless Subscribers Addition (in millions)



Share of Different Segments in Total Digital Retail Payments



Total Digital Retail Payments (in INR b)



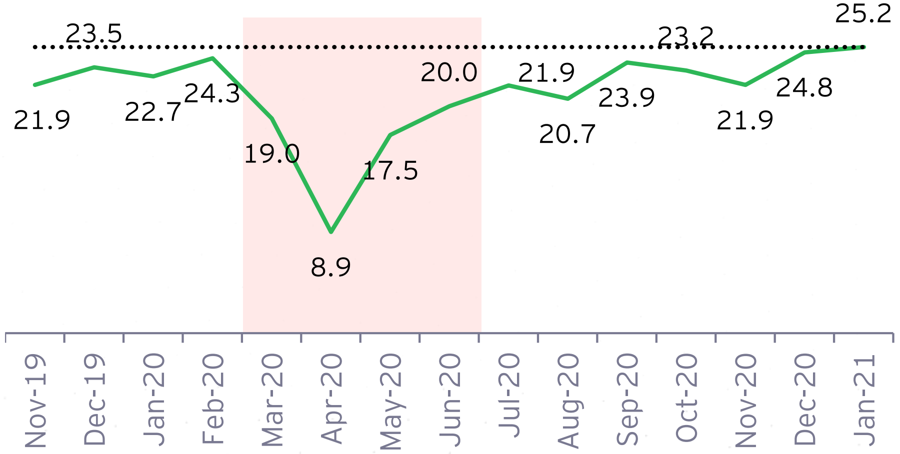
Note: Others include ECS, AEPS, APBS and BHIM
Source: TRAI, RBI

Key findings

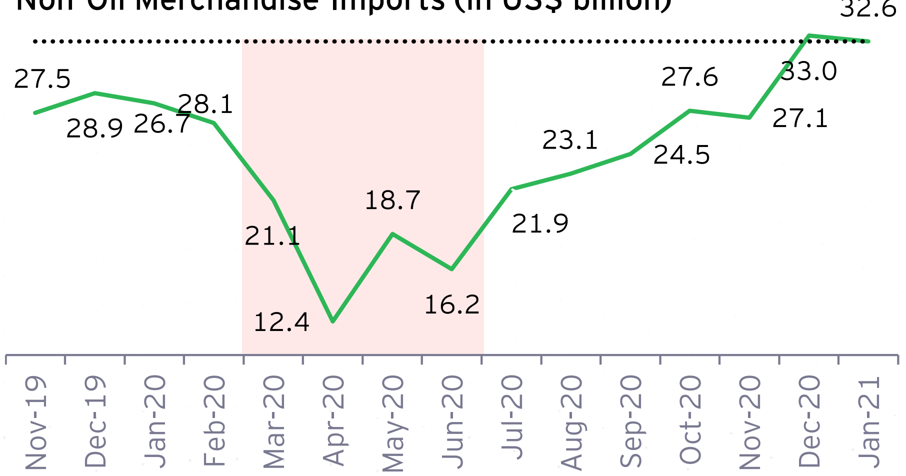
- Telecom market is relatively saturated in the urban areas while the rural areas continue to offer growth.
- Wireless subscriptions have continued to grow rapidly in the rural areas but have shown significant reduction in urban areas in recent months.
- Total retail digital payments are again growing rapidly and have crossed the levels achieved in same period last year.
- UPI transactions are driving the overall growth in digital retail payments at the expense of debit and credit cards.

Foreign trade trends

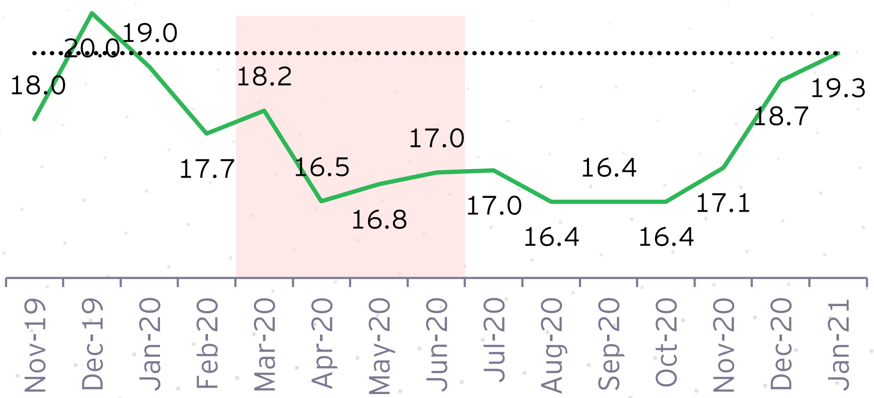
Non-Oil Merchandise Exports (in US$ billion)



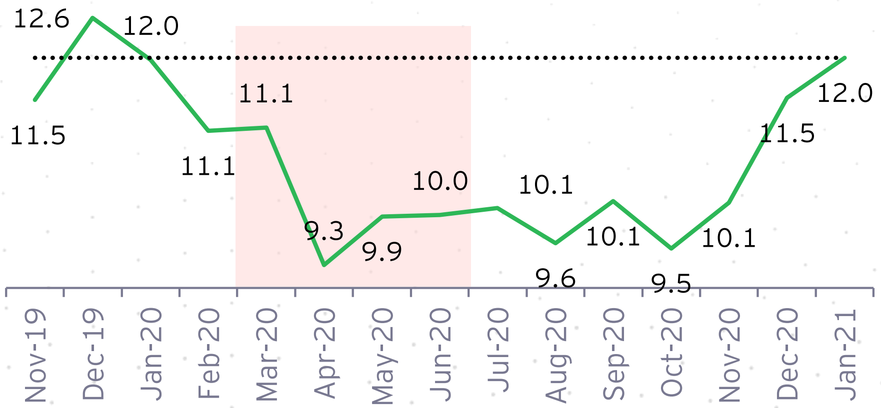
Non-Oil Merchandise Imports (in US$ billion)



Services Exports (in US$ billion)



Services Imports (in US$ billion)

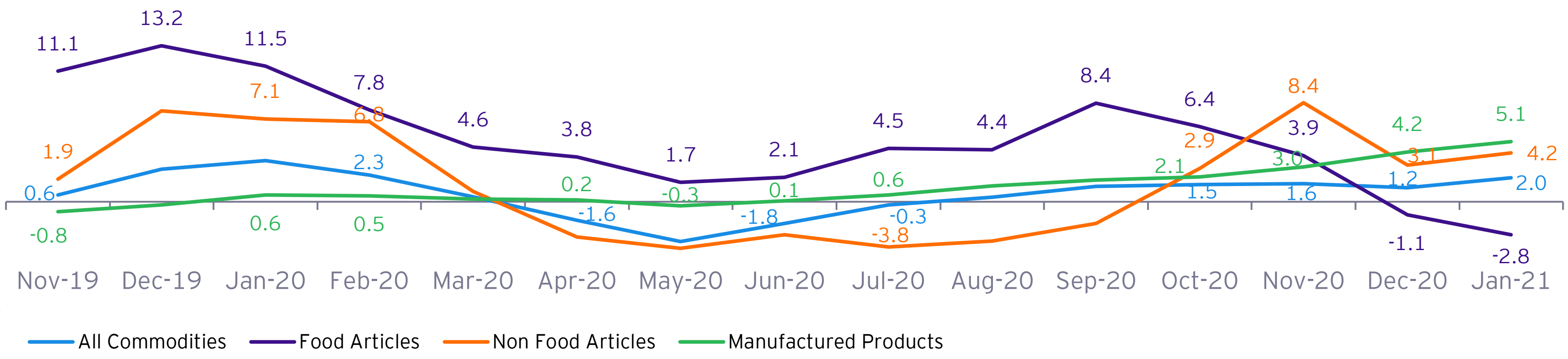


Note: Jan 2021 data is provisional
Source: RBI, Ministry of Commerce & Industry

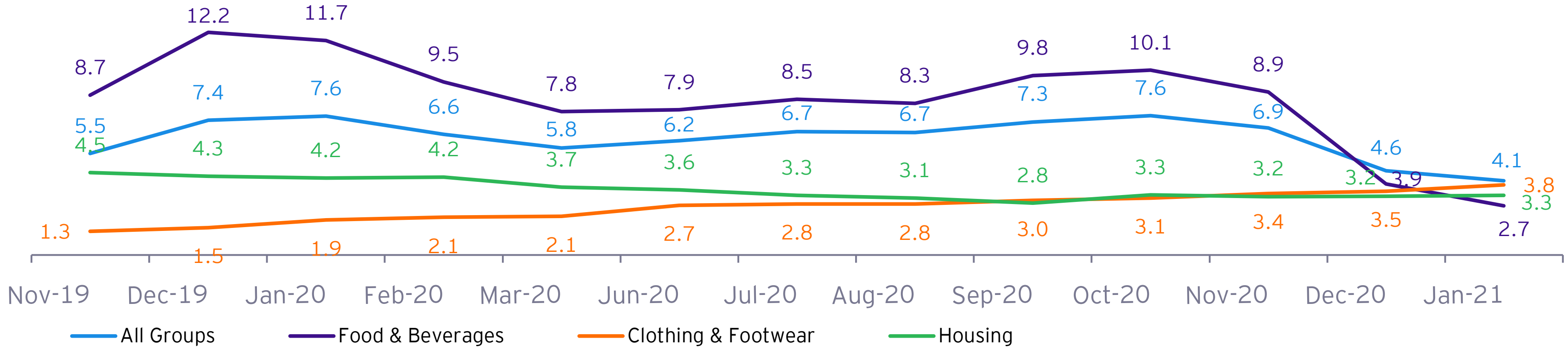
Key findings

- India's exports are exhibiting strong growth trends. Non-petroleum goods exports (petroleum exports are excluded to remove the impact of fluctuations in oil prices) are up at 11% in January 2021.
- Non-oil imports are up by 16.4%, showing normalization of domestic demand. However, it could lead to expansion in current account deficit.
- Services exports and imports in Jan 2021 are both at close to the levels in January 2020.

WPI Inflation (%)



CPI Inflation (%)



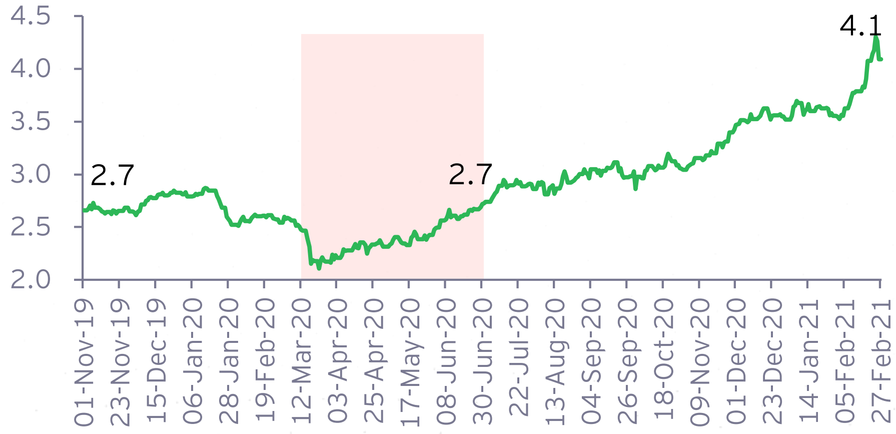
Note: Data not available for April and May 2020 , Updated data for WPI and CPI as updated based on numbers available on February 27, 2021
Source: MoSPI, Ministry of Commerce and Industry, Office of Economic Advisor

Key findings

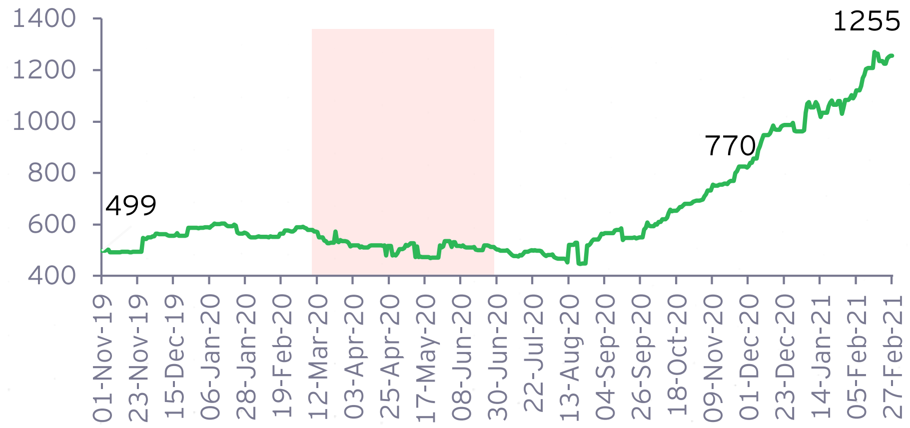
- Even as consumer inflation has moderated from 6.9% in November 2020 to 4.1% in January 2021, inflation is generally picking up general categories other than food.
- This is corroborated by the increase in WPI index for goods, from 3% in November 2020 from 4.2% in December 2020 and again to 5.1% in January 2021.

Trends in commodity prices (1/2)

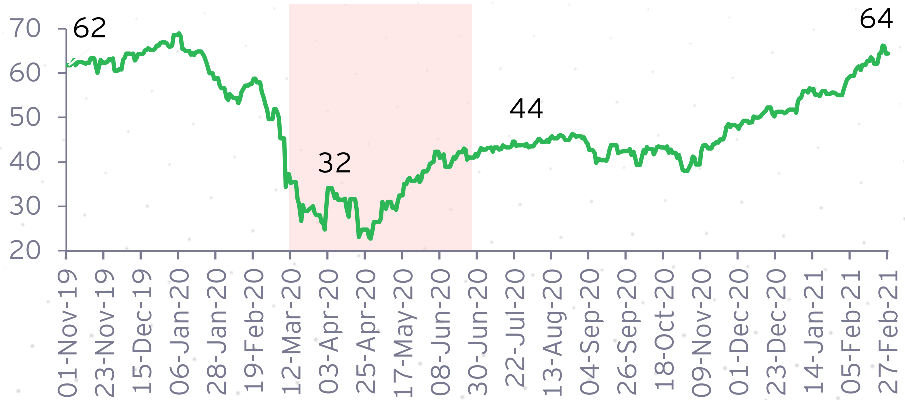
High Grade Copper Prices (USD per lb)



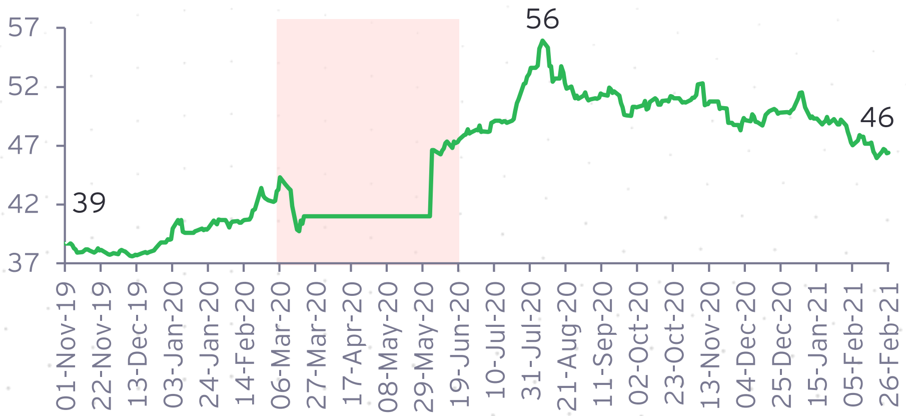
Hot Rolled Coil Steel prices (USD per tonne)



Crude Oil - Brent Price (USD per bbl)



Gold Price per 10 grams (in '000 INR)



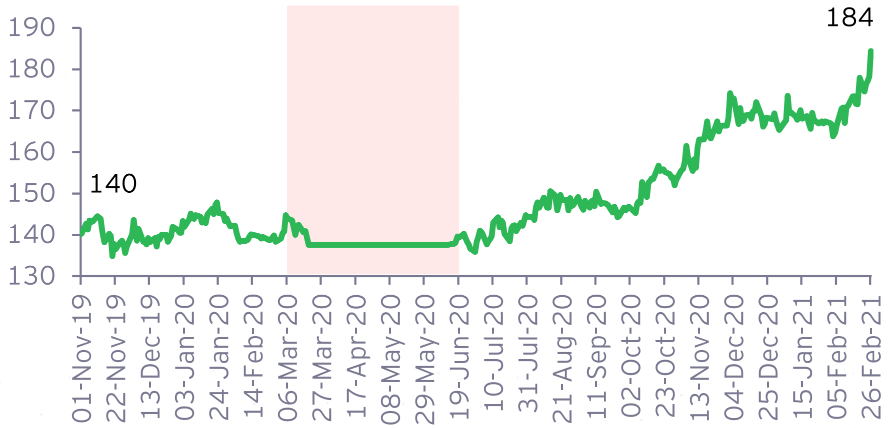
Key findings

- Commodity prices, in general, continue to experience increasing trend, reflecting the strong demand from manufacturing activity.
- Steel price increase is also due to an increase in iron ore prices.
- Crude oil prices have crossed $60 per barrel and generally on the up.
- Gold prices rallied sharply with the onset of COVID, but have moderated thereafter with greater confidence and rally in other asset classes

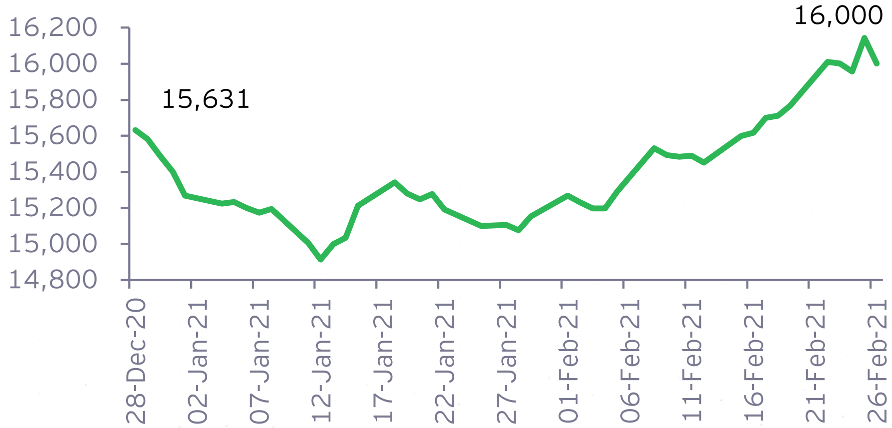
Note: 1. All data as on 28th February 2021; 2. Copper Prices- High Grade, Chicago Mercantile Exchange , Steel Prices- Domestic Hot Rolled Coil,
Source: CapitalIQ, MCX

Trends in commodity prices (2/2)

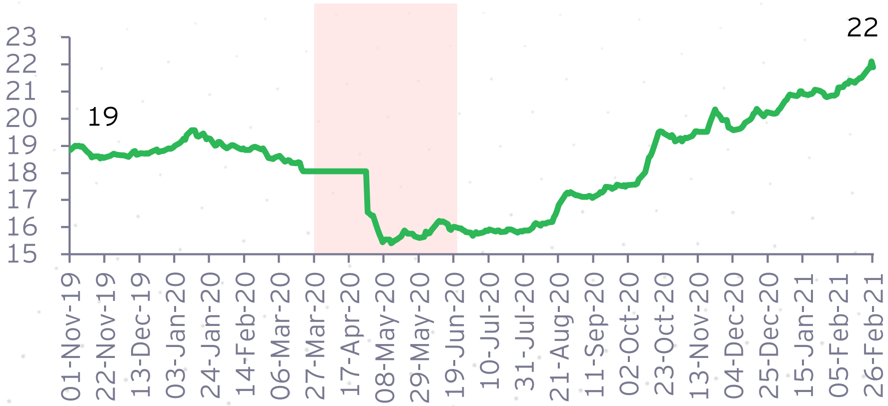
Aluminium per kg price (in INR)



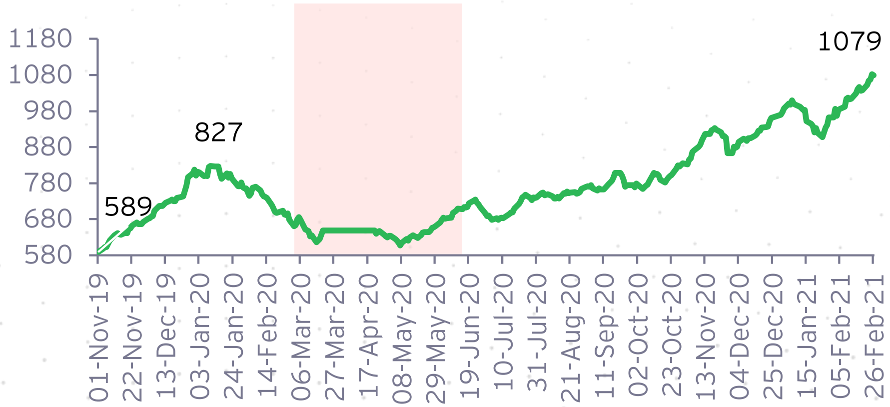
Rubber Price per 100 kg (in INR)



Cotton Price per 1 Bales (in '000 INR)



Crude Palm Oil Price per 10 kg (in INR)



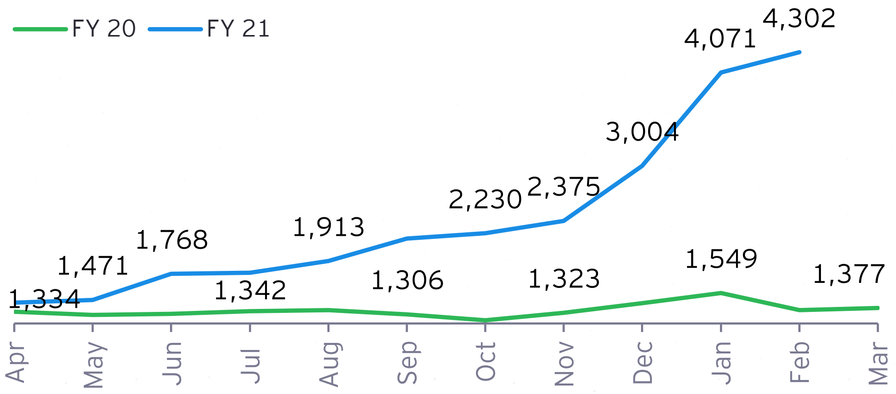
Source: MCX

Key findings

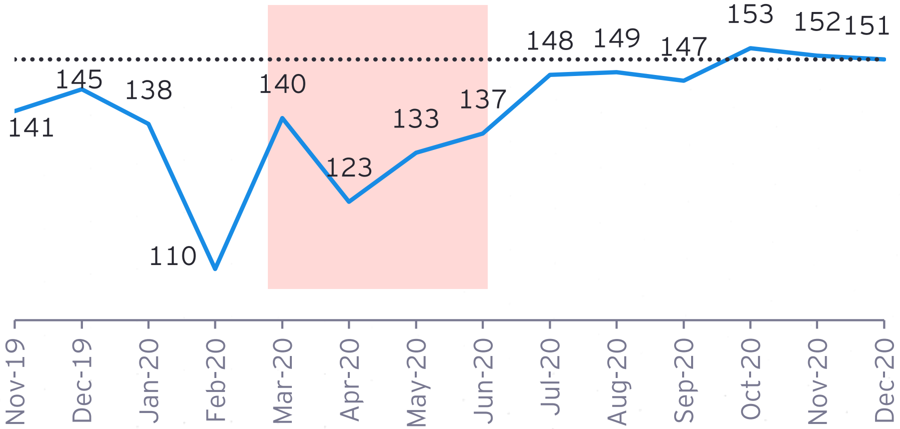
- Increase in commodity prices is widespread as seen in diverse products such as Aluminium, Cotton and Rubber and Palm Oil, even though increases vary.
- Global recovery (on the back of the fiscal and monetary stimulus globally) has driven demand. This together with supply bottlenecks (due to a combination of lockdowns, supply disruptions and transportation issues) has helped rally commodity prices.

Global container freight transportation volumes and rates

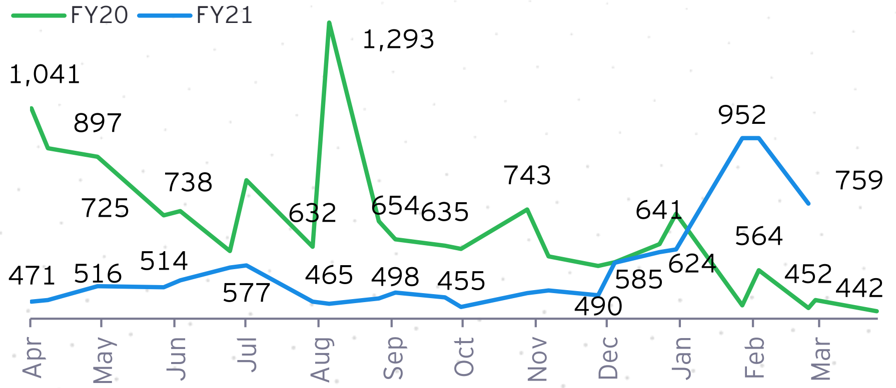
Global container freight index (in US$)



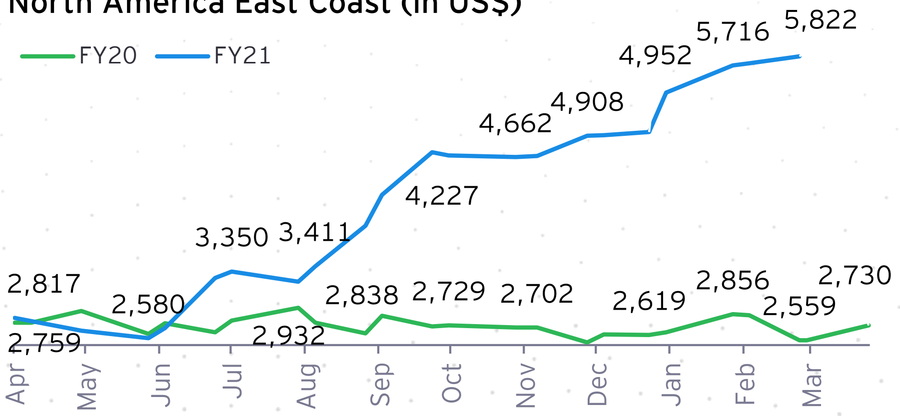
Global Container Traffic Volume (Million TEU's)



Container freight prices -- North America East Coast to China/East Asia (in US$)



Container Freight prices -- China/East Asia to North America East Coast (in US$)



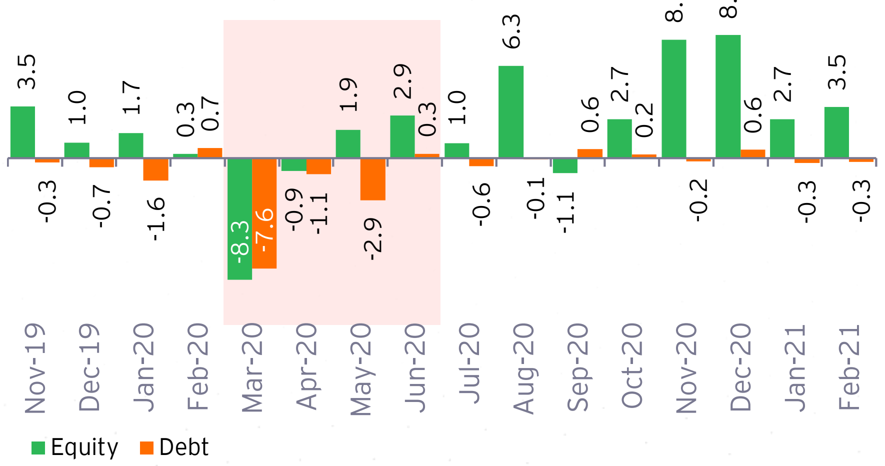
Key findings

- The cost difference between transporting containers from North America to Asia vis a vis from Asia to North America has increased very significantly since August 2020.
- There is an imbalance in the location of containers vis-s-vis the port of demand for these containers due to supply chain disruptions.

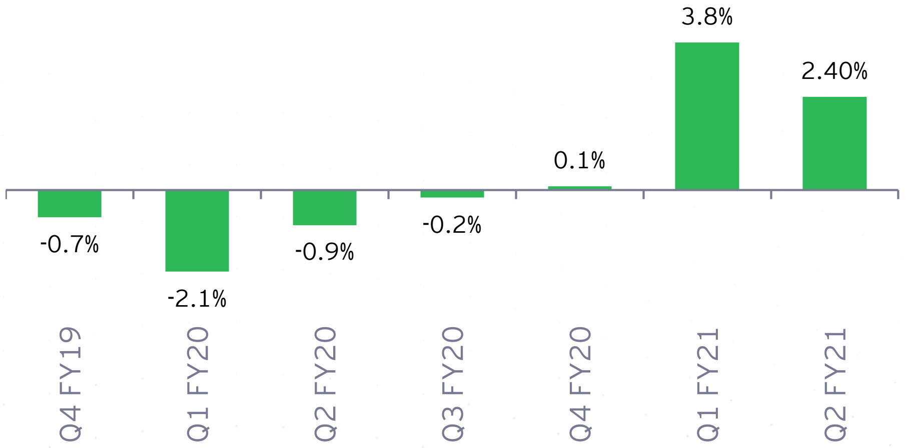
Source: FBX: Global Container Freight Index, Container Traffic Database

Foreign capital flows and exchange rate position

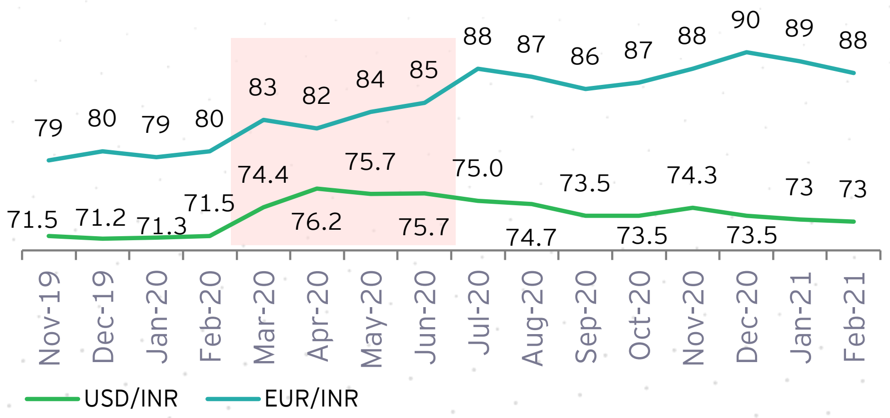
FPI Investments (in US$ billion)



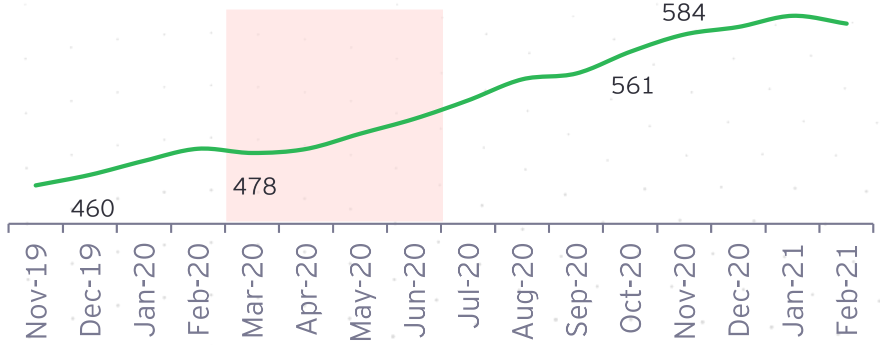
Current Account Deficit (as percentage of GDP)



Exchange Rates



India Foreign Exchange Reserves (in US$ billion)



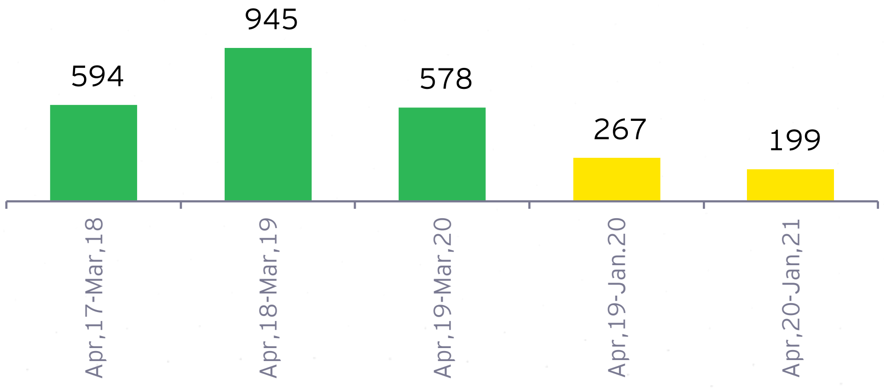
Source: DBIE, RBI, FBIL, NSDL
All date available as on 28th February 2021

Key findings

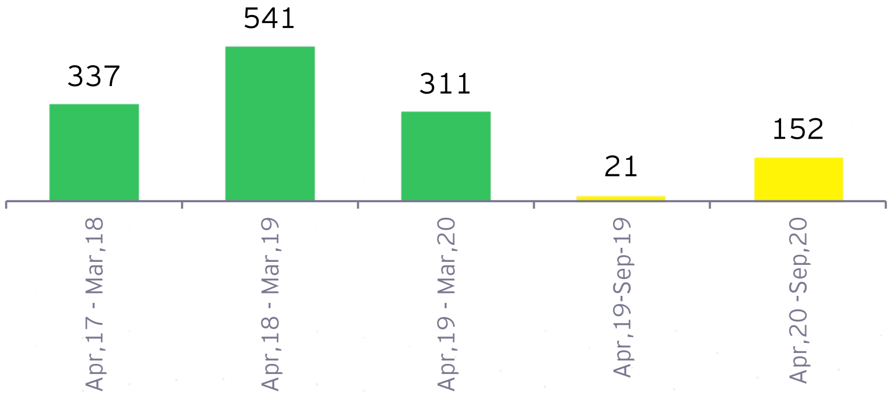
- The current account may turn to deficit again from a temporary surplus caused due to trade disruption from COVID-19. This could further be expanded if global crude oil prices continue to increase.
- India has been receiving large foreign portfolio inflows. Due to strong capital account flows, India's foreign exchange reserves have been growing.
- Risk of interest rates increasing in the US have increased, which can have negative impact on India's capital inflows.
- Due to RBI's interventions, INR has undergone appreciation against both Dollar and Euro. This is partly to stabilize macroeconomic situation after announcement of record high fiscal deficit in Budget 2021-22.

Credit flow trends

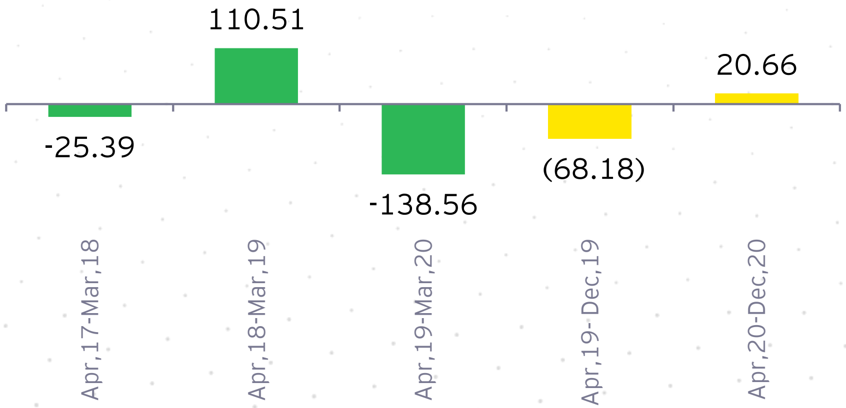
Flow of Gross Non Food Credit of Scheduled Commercial Banks (Rs '000 crores)



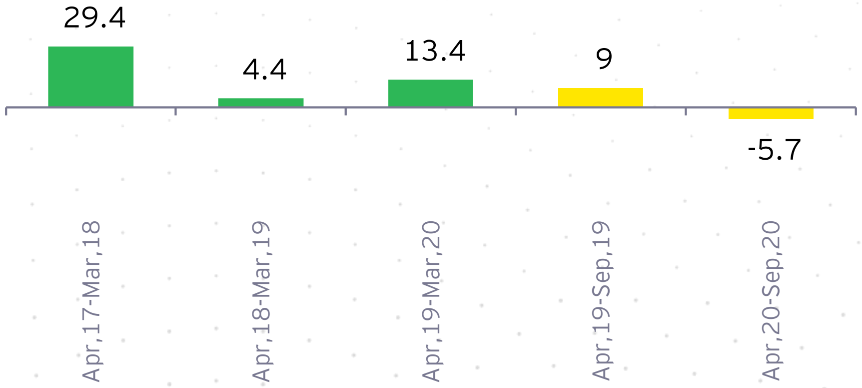
Change in Outstanding Corporate Bonds listed on NSE and BSE (Rs '000 Crores)



Change in Outstanding Commercial Paper (Rs '000 Crores)



Outstanding External Commercial Borrowings (as on; in US$ billions)



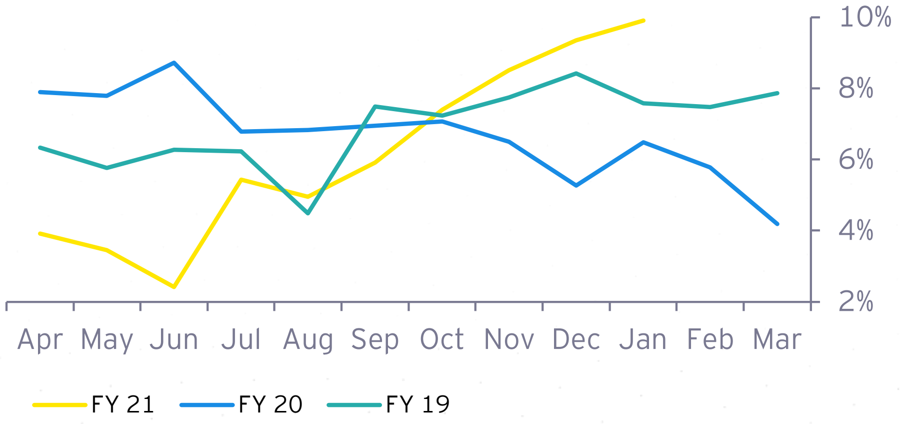
Source: RBI, SEBI

Key findings

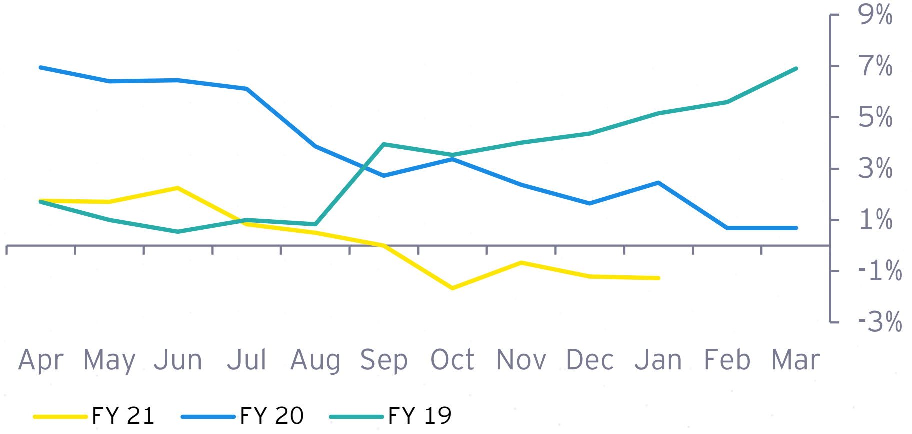
- The overall flow of credit continues to be anaemic this fiscal year.
- The corporate bonds offtake has been higher by over 4 times during April to September 2020 compared to the corresponding period last year. This may be on account of low interest rates and greater flexibility in pre-payments. However, it is still lower than the historical flow of funds during the same period.
- Flow of funds from other sources of debt like commercial paper and ECB have also been relatively dry.

Bank credit growth by sectors

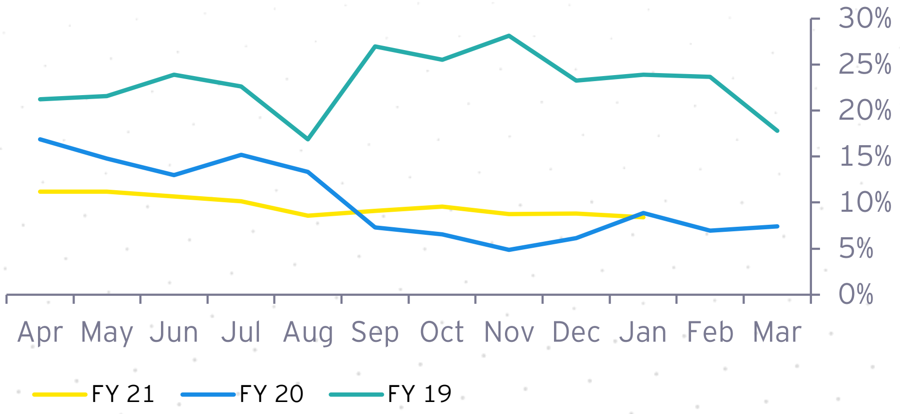
Growth Rate of Bank Credit to Agriculture & Allied Activities



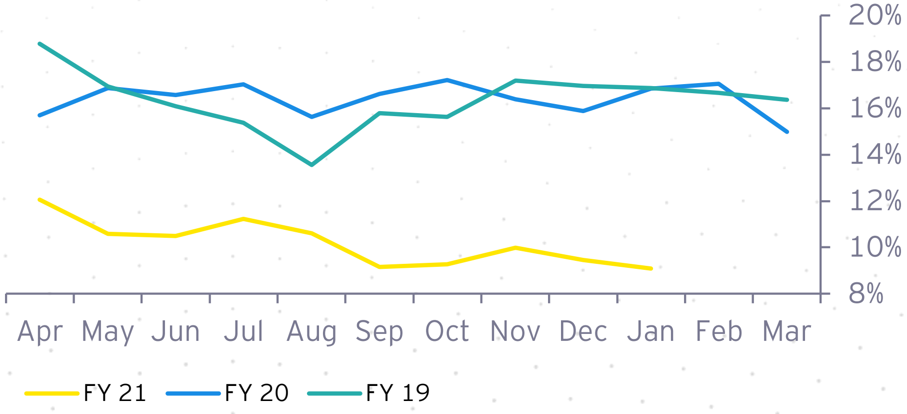
Growth Rate of Bank Credit to Industry



Growth of Bank Credit to Service Sector



Growth of Bank Credit to Personal Loans



Key findings

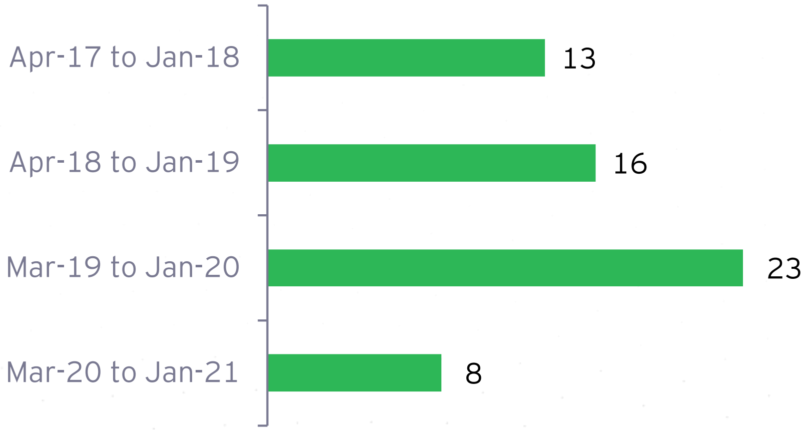
- Agriculture credit is growing at a faster rate than in previous years.
- Credit to manufacturing has declined over the last 12 months and is well below the trend in the previous years.
- Similarly, personal credit, even though its is growing, is much below the growth rates in previous years.
- Growth in credit to the services sector is in line with the previous year, but well below the growth rates in FY19.

Source: RBI
Data available as on 28th February 2021, Growth rates have been computed based on the change over 12 month period

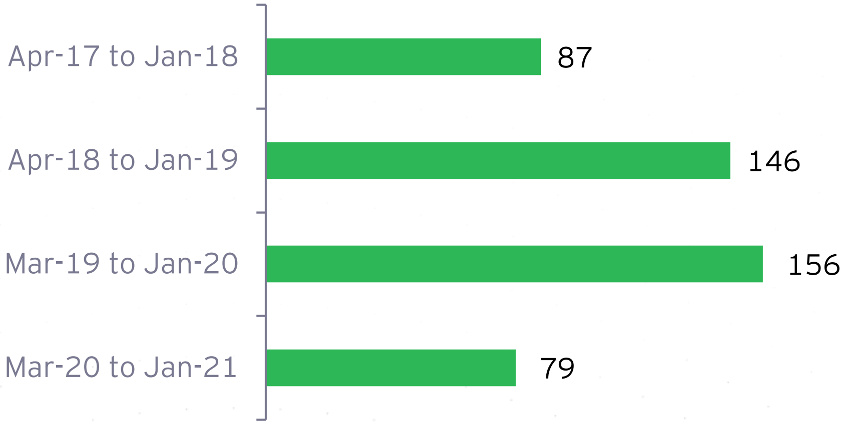
Change in gross personal loans advanced by banks

Financial markets

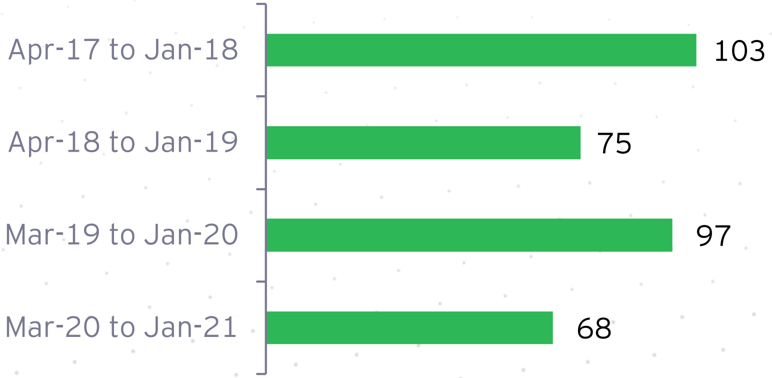
Credit Card Debt (in INR '000 crores)



Housing Loans (in INR '000 crores)



Other Personal Loans (in INR '000 crores)



Auto Loans (in INR '000 crores)

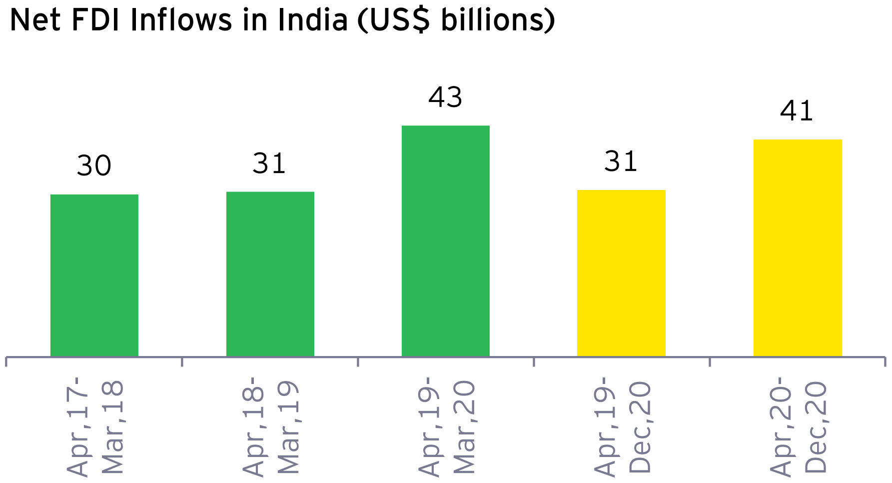
Source: RBI

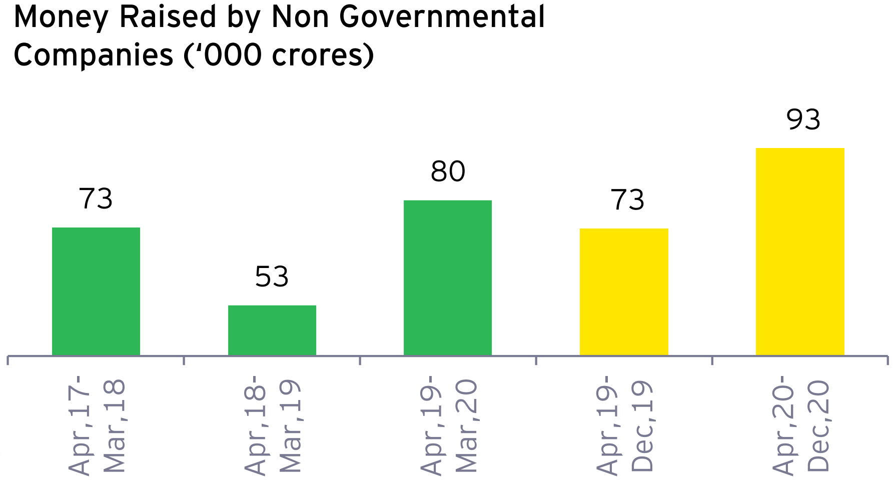
Other personal loans include consumer durables, advances to individuals and FDs, education, other personal loans

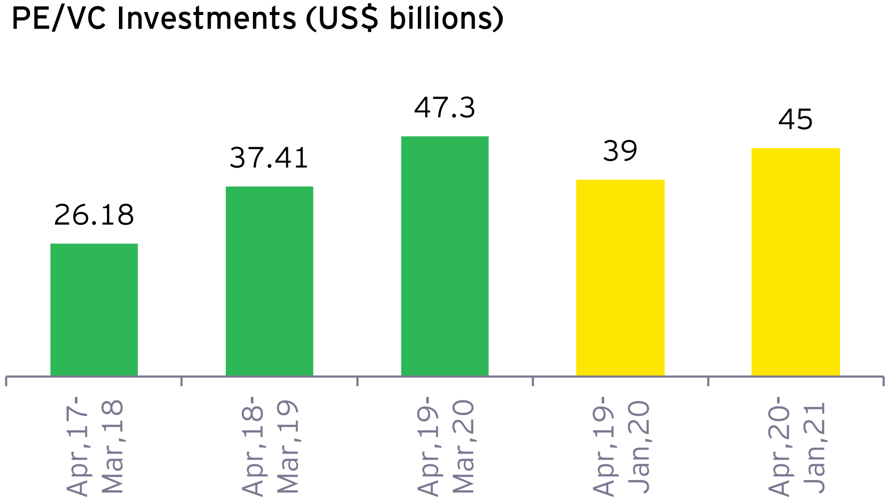
Key findings

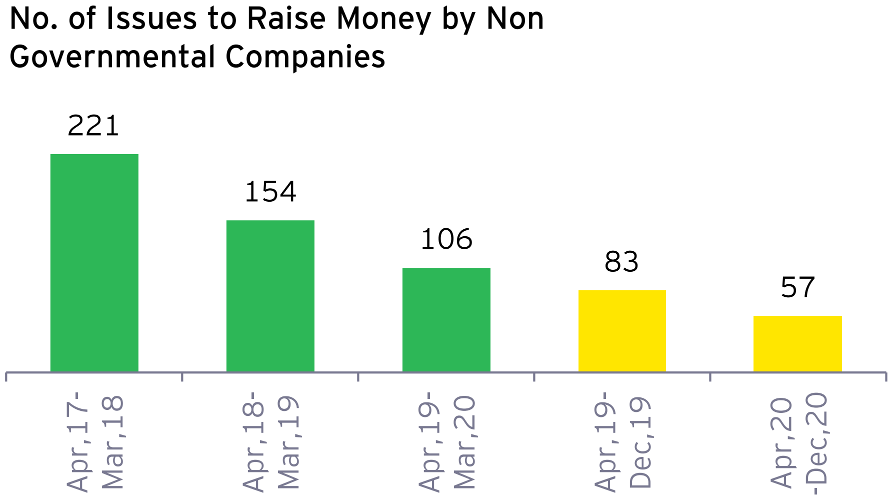
- Credit driven consumption has fallen significantly compared to corresponding period in the previous years. However, other personal loans have been relatively better-off than credit card loans.

Fund raising trends









Source: RBI, EY Analysis

Key findings

- As compared to debt, equity investments have continued strongly during this year.
- Net FDI inflow in India has grown by 32% in April to December 2020 compared to the same period last year.
- Similarly, the investments by PE/VC industry has grown by 15.4% during April to January period of FY2020-21.
- The fewer number of issues but greater value of money raised shows that the ticket size of issues has increased.

Economic Survey focuses on Ease of Doing Business and makes a case for simpler regulations through systemic reforms

Ease of Doing Business / Process reforms

Comparison of Regulatory Standards and Regulatory Enforcement in 2020

Rank	US	UK	Singapore	Canada	Brazil	Russia	China	South Africa	India
Regulatory Enforcement	20	13	3	11	60	73	67	45	74
Government regulations are effectively enforced	20	11	5	12	62	47	63	92	104
Government regulations are applied and enforced without improper influence	16	9	4	8	64	83	63	59	107
Administrative proceedings are conducted without unreasonable delay	33	13	1	17	124	24	23	48	89
Due process is respected in administrative proceedings	18	12	7	5	55	97	98	25	45

Source: World Justice Project (2020)

- UK, US, Singapore and Canada are placed much better than India of both, following due process and regulatory effectiveness.
- However, the gap between India and these counties is much wider in regulatory effectiveness
- Similarly, India is placed better than other BRICS countries (barring South Africa) in terms of respecting due process, but, worse than them in the effectiveness of those standard

As per the World Bank' Ease of Doing Business report (2020), despite making huge strides in the overall EoDB rank, India still lags behind in certain sub-categories. Out of 190 countries, India ranks as:

Contract enforcement: 163rd

Registering property: 154th

Starting Business: 136th

Paying taxes: 115th

It takes 1445 days to resolve a commercial contract in India as compared to 589.6 days in OECD high income countries and 120 days in Singapore.

Economic Survey notes

- The root cause of over-regulation is possibly the approach to account for every possible outcome, favouring prescriptive regulation over supervision and questioning discretion, if any.
- There is a need for reforming the legal structure to have an efficient ex-post mechanism for dispute resolution and contract enforcement in India.

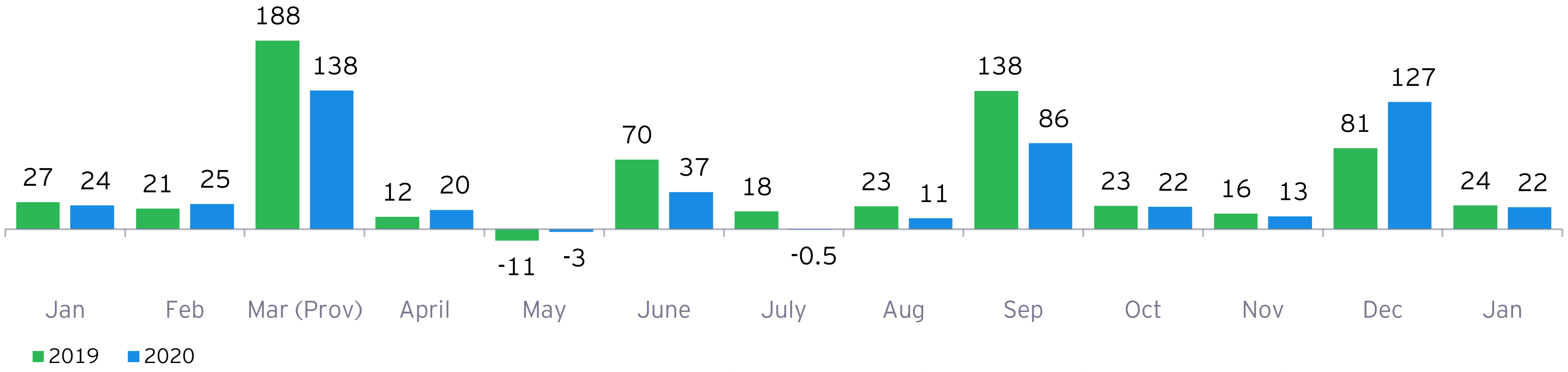
Possible solutions proposed in Economic Survey

- Simplify regulations
- Strengthen ex-ante accountability of boards of institutions
- Bring transparency in decision making process to build trust in institutions and balance discretion
- Build resilient ex-post resolution mechanisms for dispute resolution and contract enforcement, e.g., IBC and Debt Recovery Tribunals
- Enact Transparency of Rules Act to end any asymmetry of information regarding rules and regulations faced by a citizen.

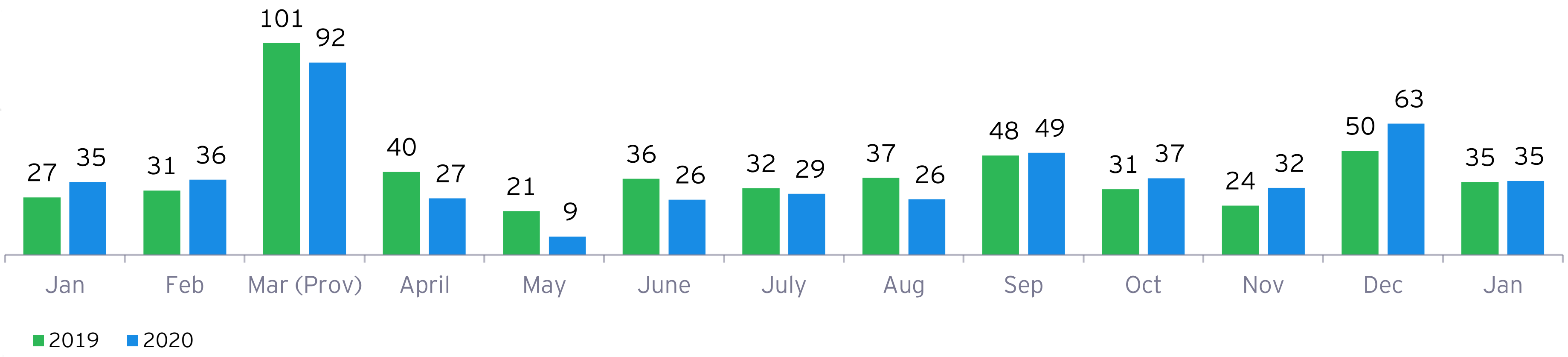
EY

Trends in Centre's tax collections

Net Corporate Tax Collection (INR '000 crores)



Net Personal Tax Collection (INR '000 crores)



Source: Controller General of Accounts; GST Council/ PIB

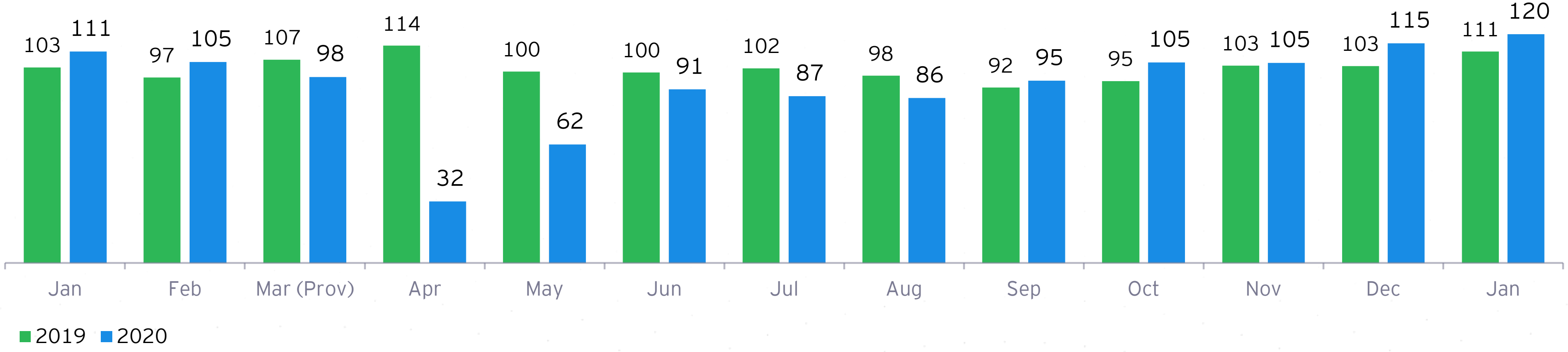
Key findings

- Corporate tax collections for December 2020 improved vis-à-vis the same period in the previous year. This is on account of the surge in advance tax collections, attributed to the low-base last year when the CIT rates were reduced.
- Personal tax collection also increased compared to the same month last year on account of advance tax collections and greater return filing.

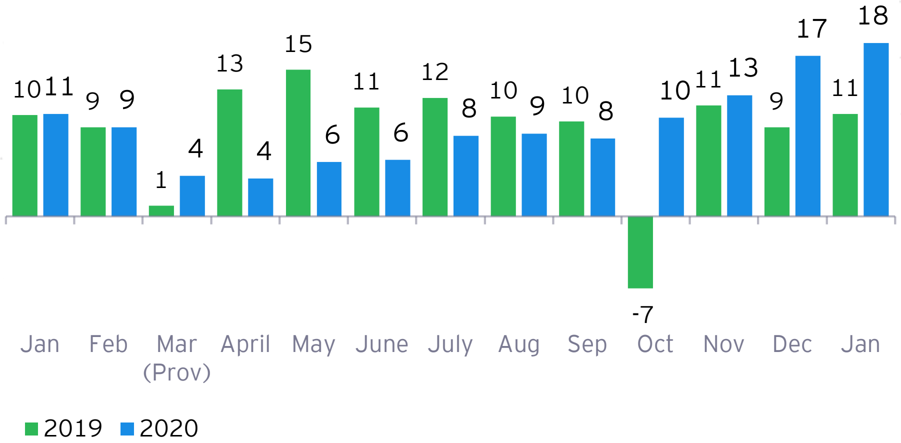
Trends in Centre's tax collections

Public finance

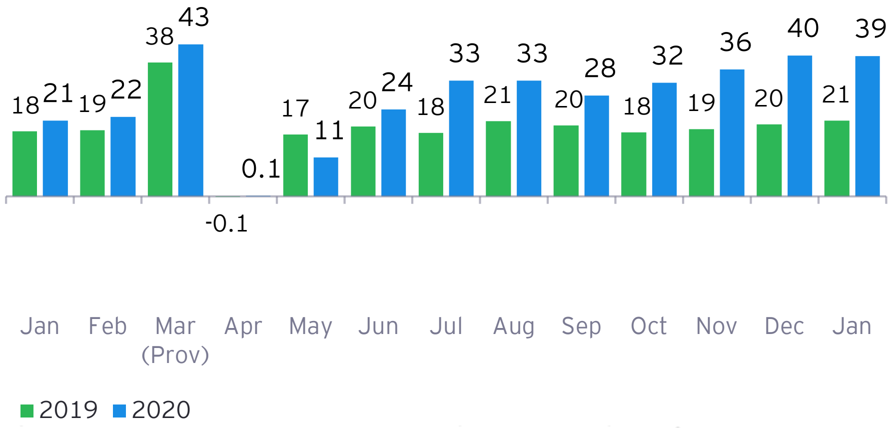
GST Collections (Centre + States) (INR ‘000 crores)



Customs (INR ‘000 crores)



Union Excise Duty (INR ‘000 crores)



Source: Controller General of Accounts; GST Council/ PIB

Key findings

- The GST revenues during January 2021 at Rs 1.2 lakh crores were the highest since the introduction of GST. The robust collections reflect both an economic recovery (post lockdown) and improved compliance, as reflected by the record number of returns at approximately 90 lakhs.
- Customs duty collections recovered in the third quarter (Oct-Dec), compared to same period last year due to increase in petroleum products and gold imports.
- Increase in taxes on petrol and diesel have led to increase in excise revenues.

Centre's tax revenues and buoyancy

Tax revenue collection									
Fiscal Year	CIT	PIT	Total Direct Taxes	GST	Customs	Union Excise Duty	Total Indirect Taxes	Gross tax revenues	Nominal GDP
	INR lakh crore								Growth (%, y-o-y)
FY19	6.6	4.7	11.4	5.8	1.2	2.3	9.3	**20.8**	10.5
FY20	5.6	4.9	10.5	6.0	1.1	2.4	9.5	**20.1**	7.8
FY21 (RE)	4.5	4.6	9.1	5.2	1.1	3.6	9.9	**19.0**	-4.3
FY22 (BE)	5.5	5.6	11.1	6.3	1.4	3.4	11.0	**22.2**	14.4

Buoyancy					
Fiscal Year	CIT	PIT	Direct tax	Indirect taxes	Gross taxes
FY19	1.5	0.9	1.3	0.3	0.8
FY20	-2.1	0.5	-1.0	0.2	-0.4
FY21 (RE)	4.7	1.6	3.2	-0.8	1.3
FY22 (BE)	1.6	1.5	1.6	0.8	1.2

Source (basic data): Union budgets, MoSPI

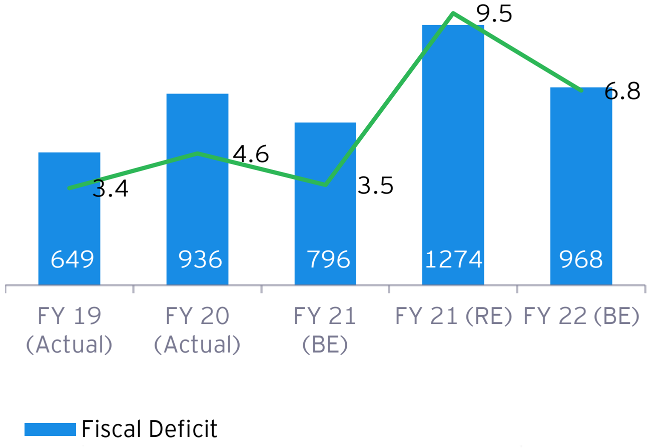
Key findings

- Centre's gross tax revenues contracted for two successive years by (-)3.4% and (-)5.5% in FY20 and FY21 (RE). In absolute terms, the tax revenues declined by INR1.8 lakh crores.
- Assumed buoyancy for FY22 is at 1.2.
- Notably, the Union excise duty collection for FY22 is estimated to be lower than the current year which may be indicative of rationalization of tax rates.

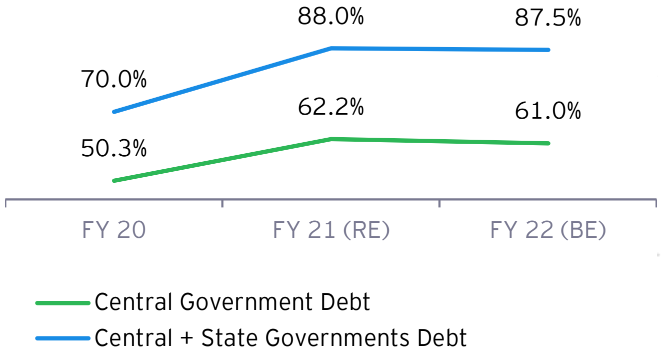
Centre bridges the resource gap through unprecedented borrowings

#	Particulars	Revised Estimate (2020-21) (INR crores)	Actuals (Apr to Dec FY21) (INR crores)	% of RE FY 21	Actuals (Apr to Dec FY20) as a % of total FY20 Actuals
1	Tax Revenues (Net of states share)	13,44,501	9,62,399	71.6%	66.7%
2	Non tax revenues	2,10,653	1,26,181	59.9%	74.0%
3	Revenue receipts (1+2)	15,55,153	10,88,580	70.0%	68.1%
4	Other receipts	46,497	33,098	71.2%	45.2%
5	**Total non-debt receipts (3+4)**	**16,01,650**	**11,21,678**	**70.0%**	**67.2%**
6	Revenue expenditure other than interest	23,18,242	14,99,002	64.7%	82.2%
7	Interest	6,92,900	4,72,171	68.1%	69.4%
8	Capital Expenditure	4,39,163	3,08,974	70.4%	76.1%
9	**Total Expenditure (6+7+8)**	**34,50,305**	**22,80,147**	**66.1%**	**78.5%**
10	**Fiscal Deficit (9-5)**	**18,48,655**	**11,58,469**	**62.7%**	**99.8%**

Fiscal Deficit (INR '000 crores)



Debt as a Percentage of GDP



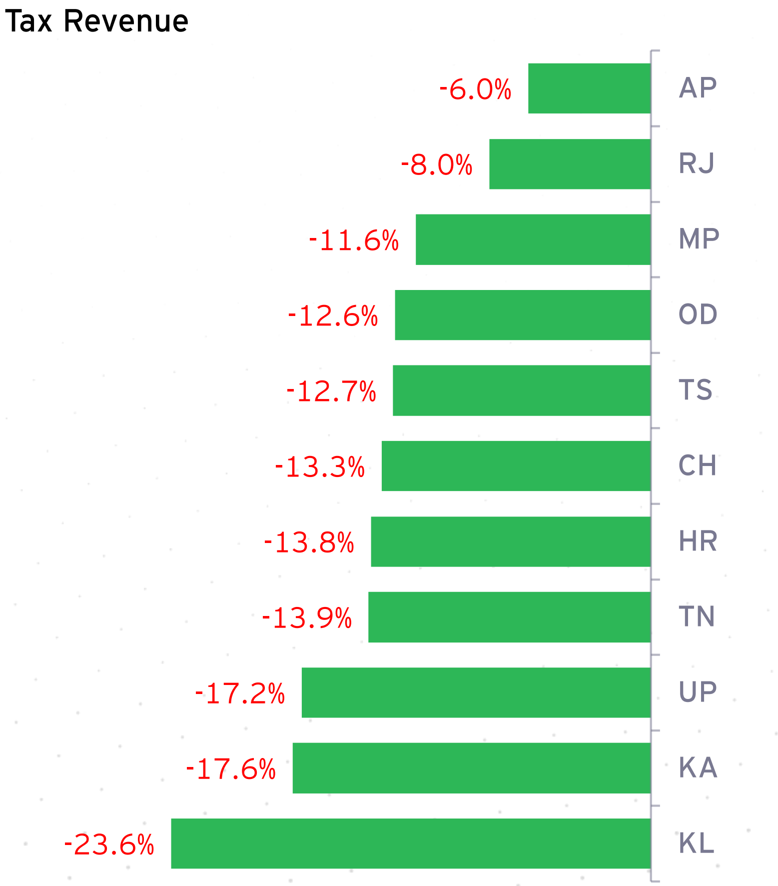
Key findings

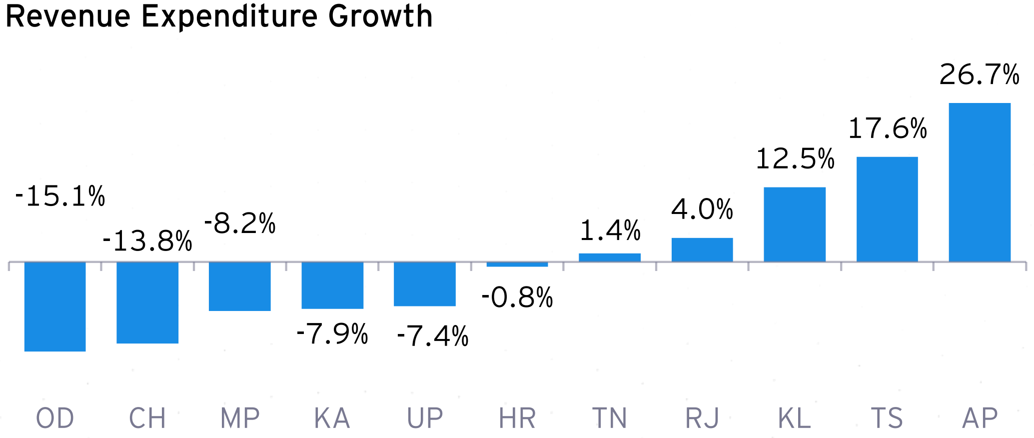
- Based on the trends till December, it is likely that the Government would meet its revenue targets as presented in the revised estimates for 20-21.
- Compared to 2020-21 Budget estimates for Fiscal Deficit of 3.5%, at RE it is anticipated that Fiscal Deficit would be 9.5%. In BE 2021-22, the fiscal deficit has been estimated to be 6.8% of GDP.
- The simultaneous increase in expenditure by the Government on health, livelihood and economic stimulus and the reduction in receipts is the reason for the increase in fiscal deficit.
- The Government's debt is also likely to remain significantly high in the coming year, to manage which, India needs to grow at a fast rate.

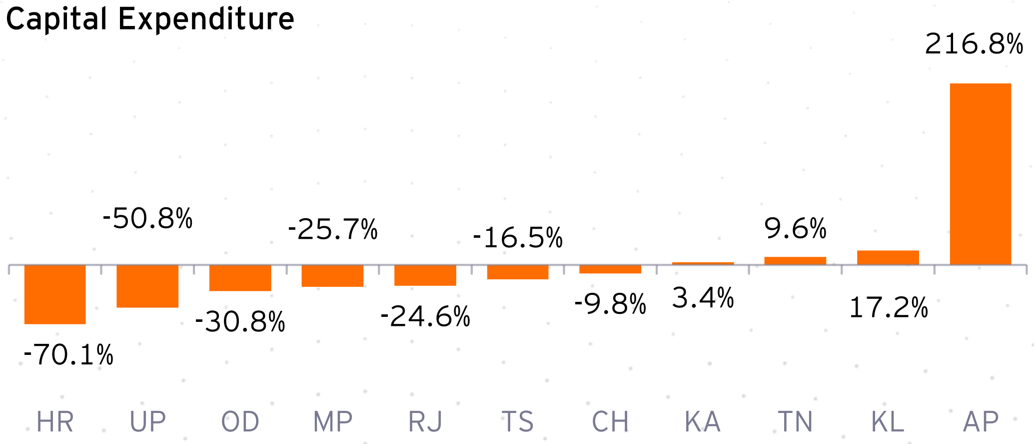
Source: Budget 2021-22, 2020-21, Ministry of Finance, Controller General of Accounts, RBI Annual Report 2020, EY Economy Watch

States' tax revenues are gradually recovering, but growth remains negative

States' tax revenue and expenditure growth (%) in FY21 (April – December) as compared to same period last year





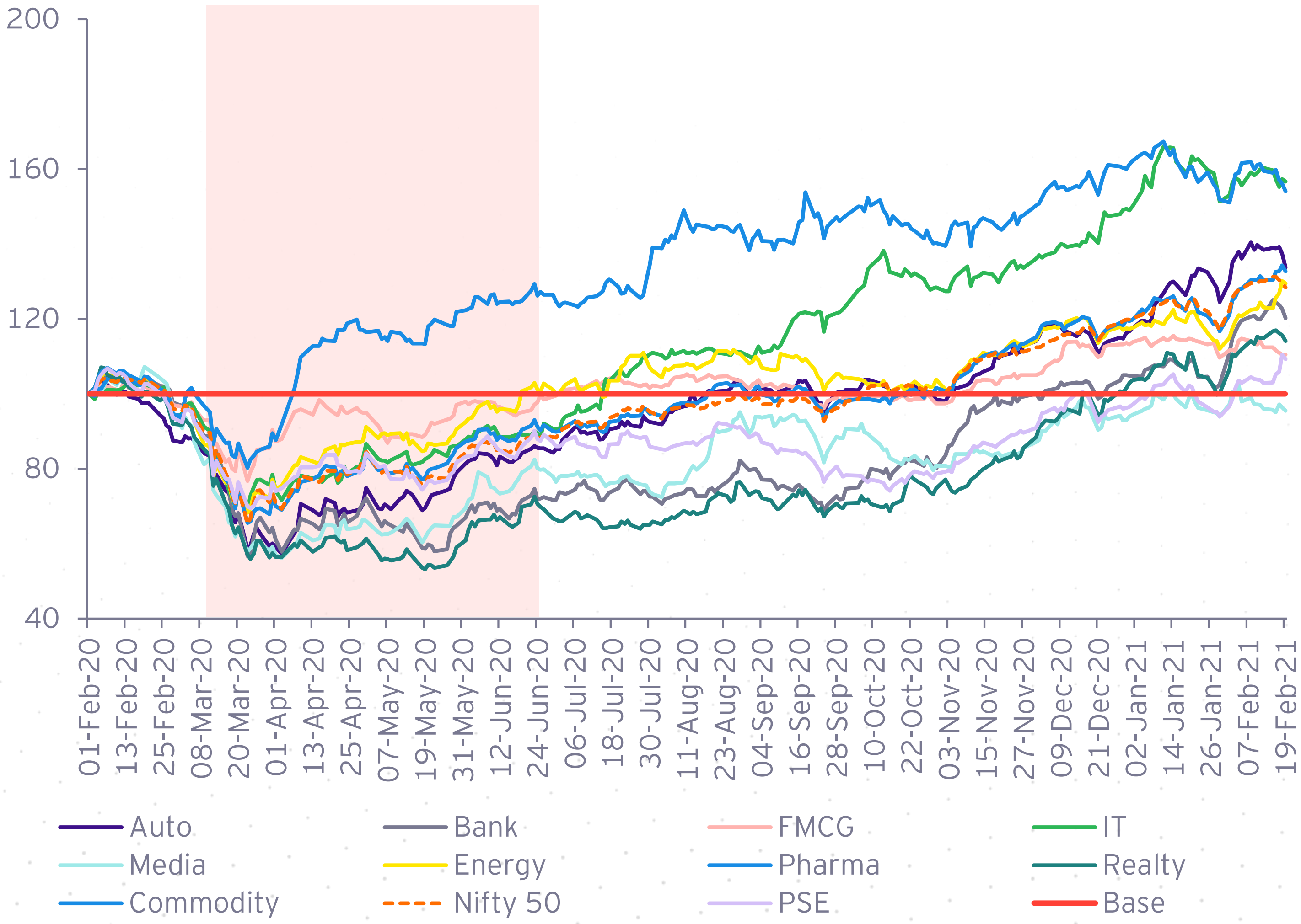


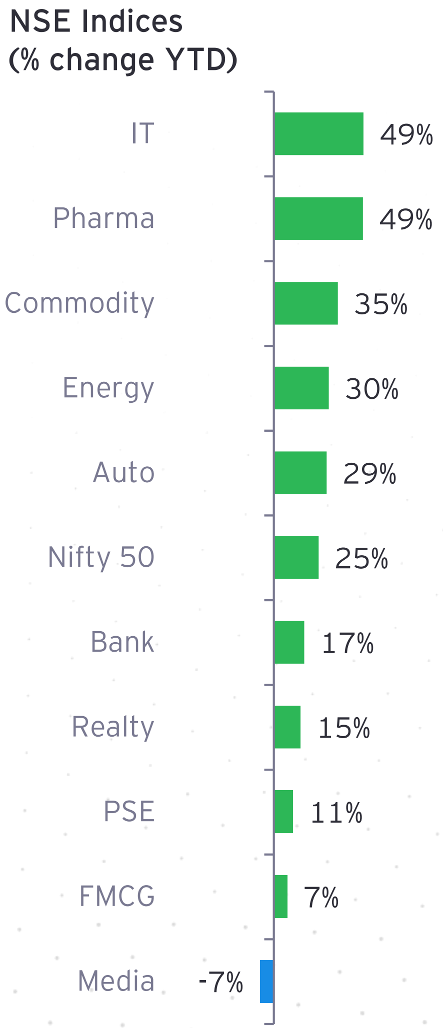
AP: Andhra Pradesh; CH: Chhattisgarh; : HR: Haryana; KA: Karnataka; KL: Kerala; MP: Madhya Pradesh; OR: Odisha; RJ: Rajasthan; TN: Tamil Nadu; TS: Telangana; UP: Uttar Pradesh;
Source: Controller and Auditor General; State Accounts

Key findings

- Like the Centre, the States' fiscal position is also stressed.
- The revenues of States have also improved in the past couple of months. However, compared to previous year, growth in tax revenues of most top states is down by -6% to -23%.

NSE Indices (% change YTD)





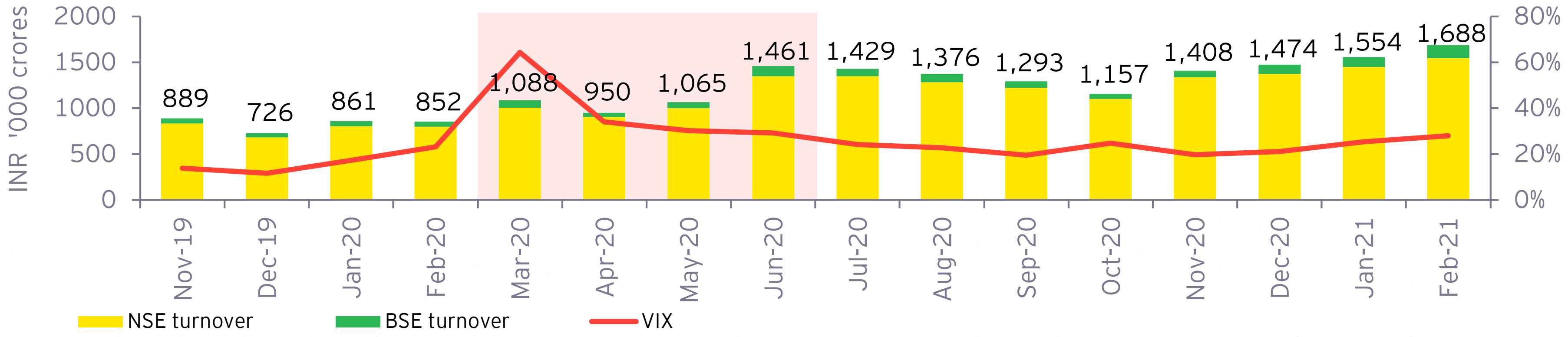
Source: NSE, Bloomberg Quint
Data available as on 28th February 2021

Key findings

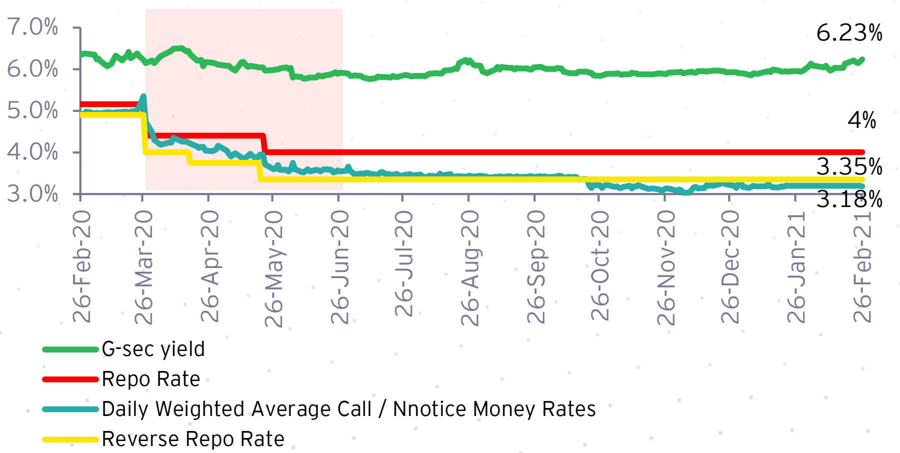
- With the exception of the Media sector, the stock markets are in positive territory in 2021.
- Overall NIFTY 50 is up by 25% with pharma and IT recording highest increase YTD.

Stock market turnover and interest yields

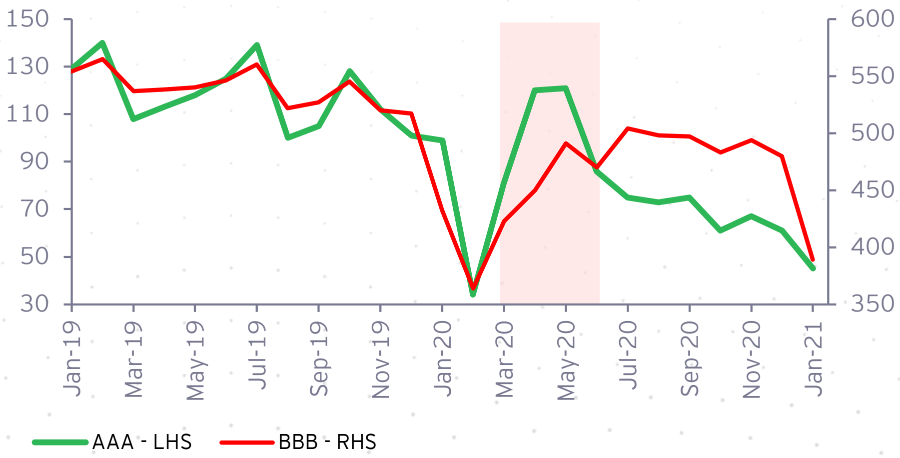
Stock market turnover and volatility



G-Sec yield, policy rate and spread



Corporate Bond Spreads



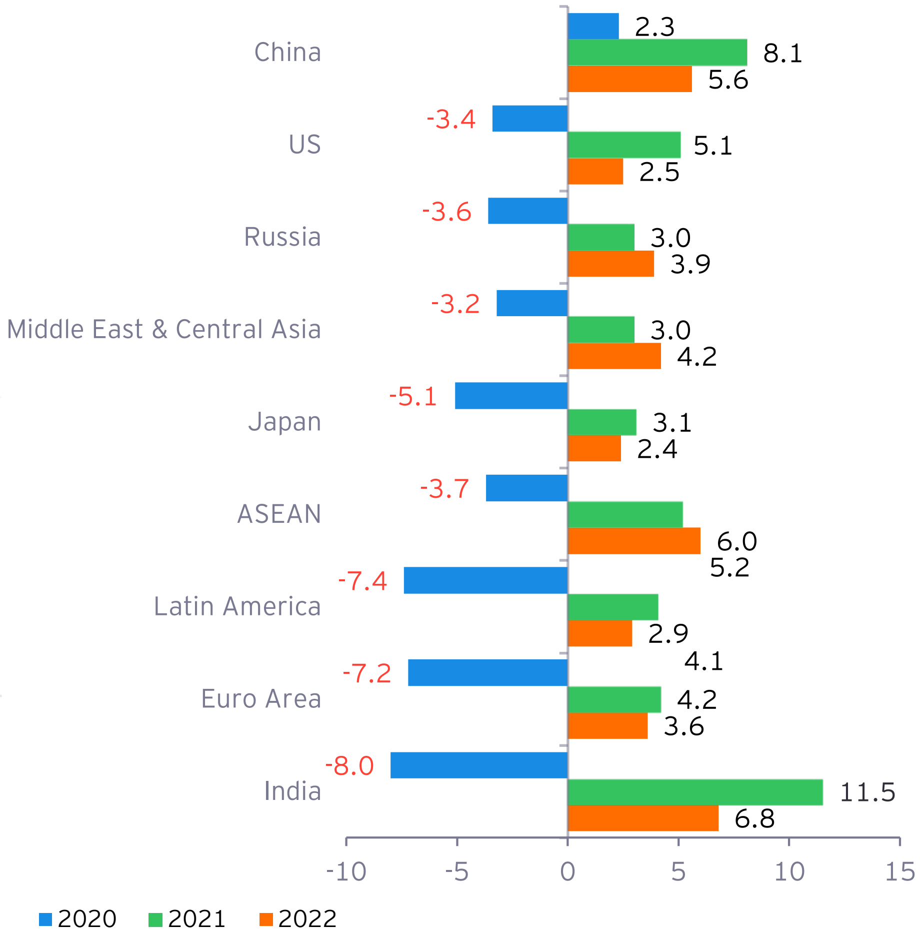
Source: NSE, BSE, Care Ratings. Data available as on 28th February 2021
VIX is a volatility index based on the NIFTY Index Option prices. It indicates the expected market volatility over the next 30 calendar day

Key findings

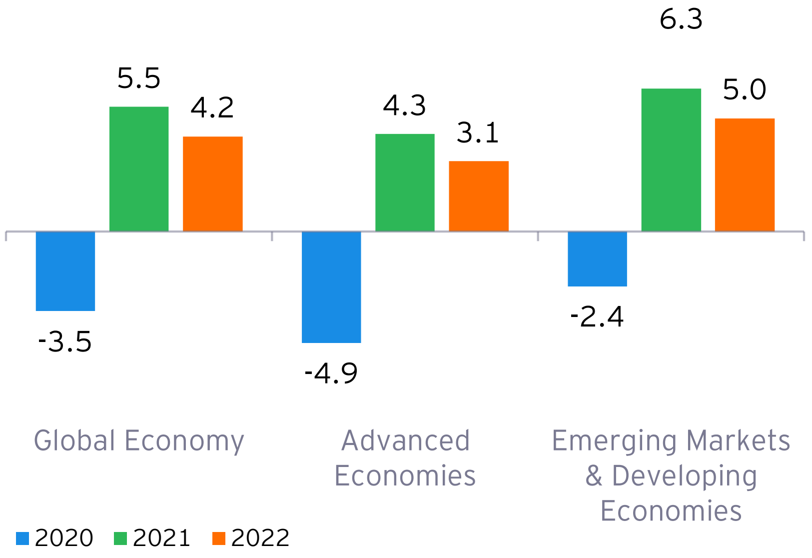
- Stock market turnover has not been much impacted by COVID. Even though there was a marked decline in March 2020, the market picked up from April 2020 onwards.
- Bond yields increased with the higher fiscal deficit and market borrowings plan announced by the Government, along with expectations of higher inflation. However, the extent of increase has been limited by RBI interventions.
- The daily call money rates have fallen below reverse repo rates, indicating large liquidity available in the system.

IMF's world economic outlook for 2021

India and Other Regions



Global Growth Projections (%)



"Global growth is expected to revive to about **5.5%** in 2021 after facing a significant decline in 2020"

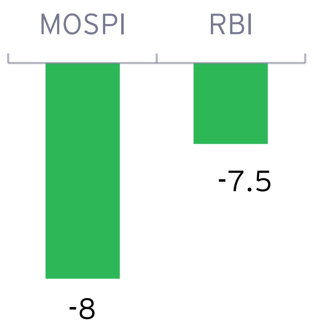
Source: International Monetary Fund, World Economic Outlook, January 2021
**Indonesia, Malaysia, Philippines, Thailand and Vietnam*

Key findings

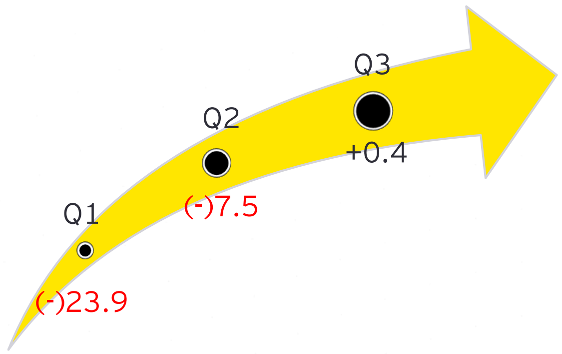
- Amid exceptional uncertainty, the global economy is projected to grow 5.5% in 2021 and 4.2% in 2022.
- The 2021 forecast is revised up 0.3 percentage point relative to the previous forecast, reflecting expectations of a vaccine-powered strengthening of activity later in the year and additional policy support in a few large economies.
- The strength of the recovery is projected to vary significantly across countries, depending on access to medical interventions, effectiveness of policy support, exposure to cross-country spill-overs, and structural characteristics entering the crisis.

India's GDP for Q3 FY21 moves into a positive territory

Forecast for India's GDP for FY21



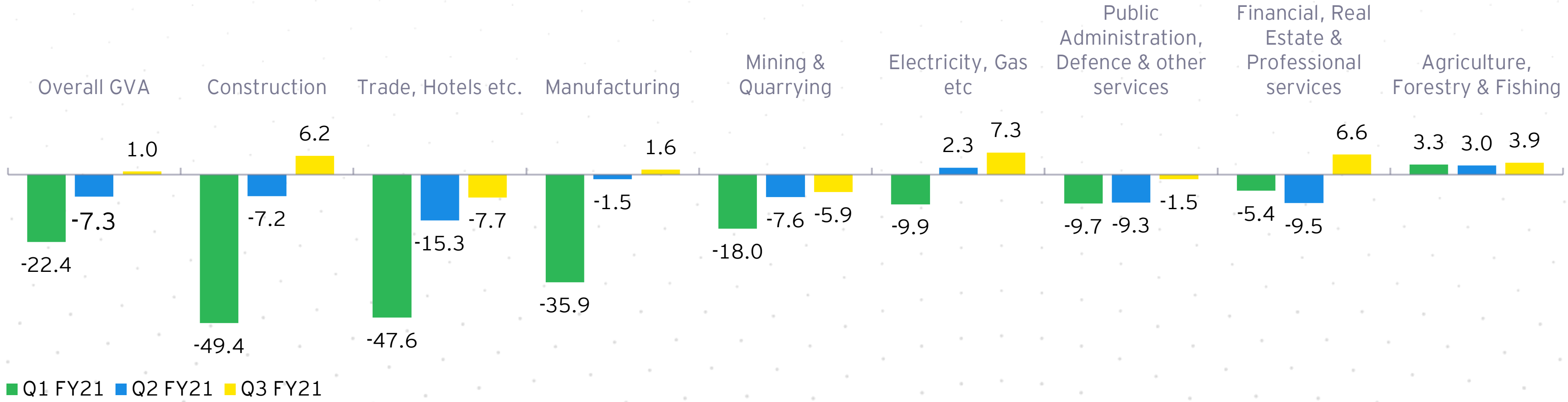
Quarterly GDP Growth for FY21



Scenarios for Q4 & FY21 GDP Growth

Scenarios	Q4 GDP Growth	Implied FY2020-21 GDP growth
1	-2.0%	-8.2%
2	-1.0%	-7.9%
3	0.0%	-7.7%
4	1.0%	-7.4%
5	2.0%	-7.1%
6	3.0%	-6.9%
7	4.0%	-6.6%

Gross Value Added Growth (%): Major Sectors



Source: EY analysis, MoSPI, GoI, RBI, OECD Economic Outlook, December 2020 (Preliminary)

Key findings

- In the third quarter, GDP growth entered the positive zone after two quarters of negative growth.
- Q4 GDP growth is likely to be affected by a statistical issue of large increase in subsidy expenditure in the Budget.
- Farm, services and construction sectors helped achieve positive growth.
- Trade and hotel industry contracted by 7.7% due to the COVID impact.
- Manufacturing along with electricity, gas and other utilities now shows a positive growth – a sign of pick up in economic activity.

Government direction on key policy issues

Monetary Policy	Description and Intent
Interest rate policy	▶ Inflation has declined over the past 2 months- Dec (4.59%), Jan (4.06%) ▶ However, there has been no further interest rate reduction, though stance remains accommodative ▶ CPI Inflation expected to be 5.2% in Q4FY21, 5% in H1FY22, 4.3% in Q3FY22 ▶ Future interest rates will be determined by the government borrowing plans and the likely inflation trajectory
Provide liquidity to targeted parts of the economy and at the same time absorb excess liquidity	▶ Banks to provide funds to NBFCs under Targeted Long Term Repo Operations ▶ SCBs allowed to deduct credit disbursed to new MSME borrowers from their Net Demand and Time Liabilities (essentially deposits) for the calculation of CRR ▶ Implementation of last tranche of Capital Conservation Buffer (CCB) deferred by six months (Part of the Basel III norms) ▶ CRR to be restored to 4% in two phases beginning March 2021 from 3.5% currently ▶ Extension of relaxation by six months for banks to avail funds under MSF
Deepening the debt markets	▶ Retail investors allowed to invest in Government securities ▶ FPI investment in defaulted corporate bonds to be exempted from the short-term limit and the minimum residual maturity
Aid Central and State governments in their debt management and market borrowings	▶ Dispensation of enhanced Held to Maturity (HTM) of 22% of Net Demand and Time Liabilities (essentially deposits) extended till March 31, 2023. This will help banks absorb higher government debt ▶ RBI managing the interest cost for Government debt by purchasing long tenor securities (approx. 6% interest) and selling short term securities (approx. 4.6%)
Supporting Indian Rupee by intervening in forex markets	▶ Regular intervention in the forex markets by purchasing dollars to arrest the appreciation of Rupee as reflected in increased foreign exchange reserves.

Comments

- RBI's focus is shifting towards absorbing the excess liquidity in the system, slowly withdrawing the regulatory forbearance given to banks and targeting liquidity to the sectors which may continue to need it.
- RBI is trying to manage the interest cost for the Central Government through operation twist. Going forward, this is going to be a key focus area. Interest as a percentage of Central Government revenues projected at 40% for 2021-22.
- India may be at the trough of the nominal interest rates cycle and the future interest rates may harden further.

Government direction on key policy issues

Overall economic policy

Fiscal Policy	Description and Intent
Continuous focus on Structural and Supply side reforms	▶ Setting up of a Asset Reconstruction Company for clearing the bad assets of the banking sector and recapitalising the public sector banks ▶ Setting up of a Development Finance Institution (DFI) for the financing needs of the infrastructure along with expansion of National Infrastructure pipeline ▶ Initiating power distribution sector reforms to improve the health of the discoms, upstream value chain, financial sector and the state governments ▶ Aggressive privatization of PSBs and CPSEs with a target of INR 1,75,000 for FY22 ▶ Monetizing public infrastructure assets using National Monetisation Pipeline ▶ Ease of doing Business Reforms and decriminalisation of economic laws ▶ Focus on high Capital Expenditure to increase multiplier benefits for the economy
Helping stressed sectors and the vulnerable sections of the society	▶ Focus on hard hit sectors (Textiles, automobiles) with sector specific schemes (scrappage policy, textile parks) ▶ Increase in the public health expenditure along with building human capital with focus on– nutrition, clean water & sanitation, education and skill development
Government finances related measures	▶ Bringing transparency to the government finances by bringing the off balance sheet expenditure of the CPSE to the government fiscal account e.g., FCI ▶ Increase the fiscal deficit to 9.5% of GDP in FY21 and consolidate it by FY26 to below 4.5% ▶ Increased the excise duty on petroleum products to shore up revenue ▶ Reduction in basic custom duties with commensurate increase in cesses to increase the share of central government in tax revenues collected

Comments

- Government focused on supply side measures. In contrast, the developed countries are focussing on the demand side.
- Government is hoping that the supply side reforms may revive GDP growth.
- There are early signs of shifting in strategy for financing and executing Infrastructure projects. DFI, not banks, may debt finance infrastructure going forward.
- Focus also shifting on increasing spending on Human Capital through focus on healthcare, clean water and sanitation.

Our team

D.K. Srivastava
Chief Policy Advisor
Tax and Economic Policy Group
EY India

Shalini Mathur
Director
Tax and Economic Policy Group
EY India

Chinmaya Goyal
Senior Manager
Tax and Economic Policy Group
EY India

Navneeraj Sharma
Senior Manager
Tax and Economic Policy Group
EY India

Are today's businesses prepared for what doesn't exist yet?
Navigate the Transformative Age. Discover how we're building a better working world.
EY
Building a better working world
The better the question. The better the answer. The better the world works.

Our Offices

Ahmedabad
22nd Floor, B Wing, Privilon,
Ambli BRT Road, Behind Iskcon
Temple, Off SG Highway,
Ahmedabad - 380 015
Tel: + 91 79 6608 3800

Bengaluru
6th, 12th & 13th floor
"UB City", Canberra Block
No.24 Vittal Mallya Road
Bengaluru - 560 001
Tel: + 91 80 6727 5000

Ground Floor, 'A' wing
Divyasree Chambers
11, O'Shaughnessy Road
Langford Gardens
Bengaluru - 560 025
Tel: + 91 80 6727 5000

Chandigarh
Elante offices, Unit No. B-613 & 614
6th Floor, Plot No- 178-178A,
Industrial & Business Park, Phase-I,
Chandigarh - 160002
Tel: + 91 172 671 7800

Chennai
Tidel Park, 6th & 7th Floor
A Block, No.4, Rajiv Gandhi Salai
Taramani, Chennai - 600 113
Tel: + 91 44 6654 8100

Delhi NCR
Golf View Corporate Tower B
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, "Zone A"
Survey No 83/1, Raidurgam
Hyderabad - 500032
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

Ernst & Young LLP

EY | Building a better working world

EY exists to build a better working world, helping to create long-term value for clients, people and society and build trust in the capital markets.

Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.

Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via ey.com/privacy. EYG member firms do not practice law where prohibited by local laws. For more information about our organization, please visit ey.com.

Ernst & Young LLP is one of the Indian client serving member firms of EYGM Limited. For more information about our organization, please visit www.ey.com/en_in.

Ernst & Young LLP is a Limited Liability Partnership, registered under the Limited Liability Partnership Act, 2008 in India, having its registered office at 22 Camac Street, 3rd Floor, Block C, Kolkata - 700016

EYIN2103-018
ED None

AGK

ey.com/en_in

@EY_India EY EY India EY Careers India @ey_indiacareers