

India Economic Pulse

Economic indicators and
policy measures

May 2021

ENTER



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Contents



1 [Executive summary](#)

2 [The COVID impact](#)

3 [Economic indicators](#)

4 [Government direction on key policy issues](#)

Executive summary

Dear Reader,

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

The pandemic's second wave is beginning to mar economic recovery indicators.

- ▶ Economic indicators as at end of March 2021 such as GST collections and credit creation, especially in the industrial sector, were pointing to an economic recovery. However, COVID's second wave has nipped the recovery.
- ▶ There has been a sharp decline in new automobile registrations across categories, with numbers in May 2021 estimated to be below June 2020 levels. There has also been a fall in both merchandise and service imports pointing to sluggish domestic demand.
- ▶ Similarly, mobility indicators tracked daily show a sharp decline, with visits to retail stores, restaurants and offices in May 2021 down to May 2020 levels. This may impact manufacturing and services sector. Inter-city travel too has declined, as evidenced by April 2021 numbers.
- ▶ Sharp fall in tractor registrations and fall in fertiliser sales point towards risks to the rural economy.

However, there are also signals of economic stability in some parts of the economy.

- ▶ The global economic growth is stronger, though regional uncertainties remain. Both services and merchandise exports were stable in April and May 2021. The health of global economy is also underscored by commodity prices that are at an all-time high.

- ▶ The financial markets as reflected by stock prices, interest rates and exchange rates have been stable.
- ▶ The lockdowns have been less severe with lower restrictions on manufacturing and wider definition of essential services.

Vaccinating the population is the best economic strategy, going forward

- ▶ While the aggregate daily infections at a national level have come down, there is a wide discrepancy between states.
- ▶ It is virtually impossible to forecast the growth of COVID. Based on our current knowledge, maximal population must be vaccinated in as short a period as possible.

In the meanwhile, government has to continue its support by way of policy reforms outlined to revive the economy.

Best regards,



Pankaj Dhandharia
Partner & Markets Leader
EY India

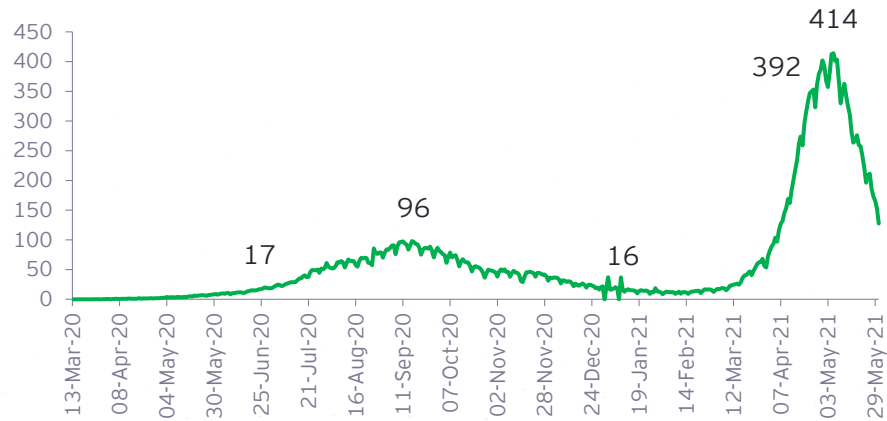


Rajnish Gupta
Associate Partner
EY India

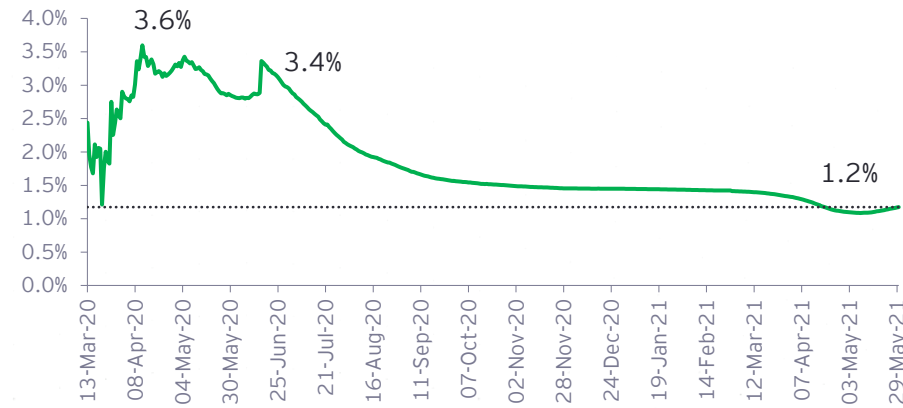
Tracking the spread of COVID-19 cases in India

COVID impact

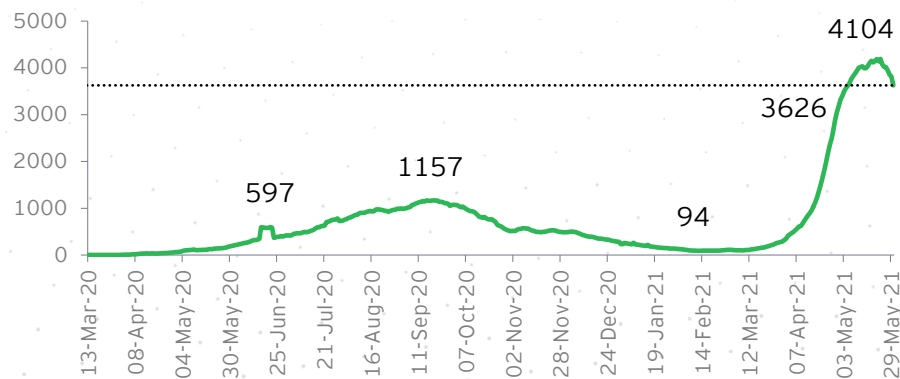
Daily new confirmed COVID-19 cases (in '000s)



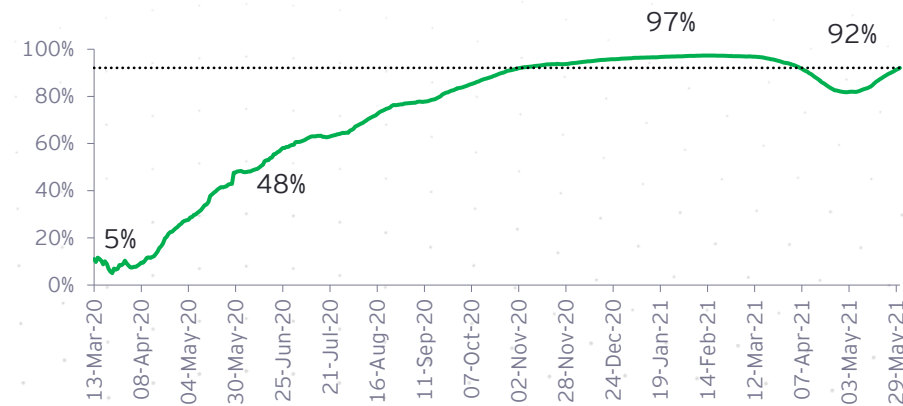
Fatality rate (%)



Daily new confirmed COVID-19 deaths (7-day rolling average)



Recovery rate (%)



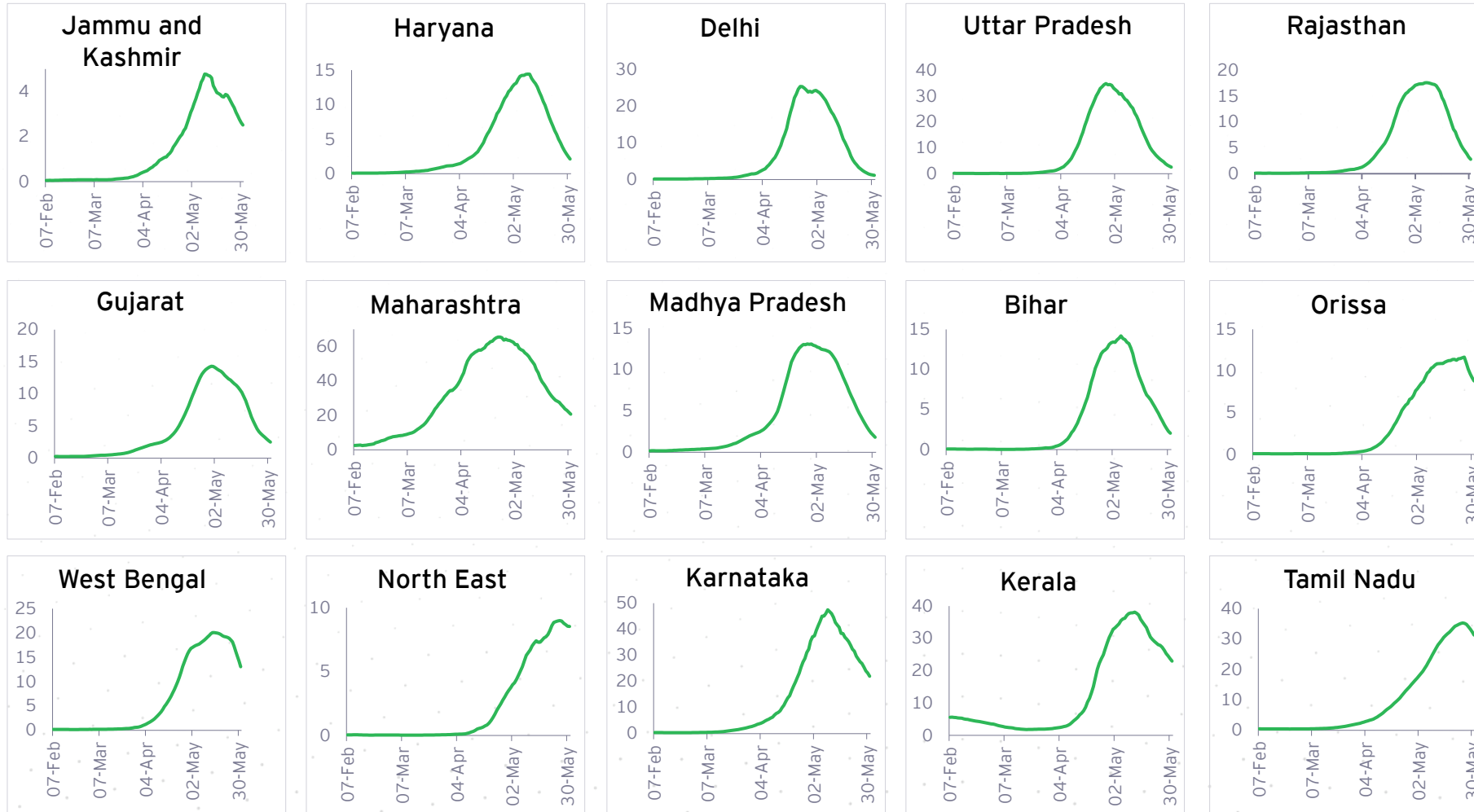
Note: Data as on 31st May 2021
Source: Our World in Data

Key findings

- ▶ The devastating second wave of COVID-19 infections in India is underway.
- ▶ Both recorded COVID cases and deaths, are declining. There is a sharper decline in number of cases, which could be due to a lag between cases and deaths.
- ▶ The second wave has disrupted business activity due to onset of Government mandated lockdowns and reduction in voluntary mobility and physical interactions.

State-wise cases in 2021 (in '000s) (7-days rolling average)

COVID impact

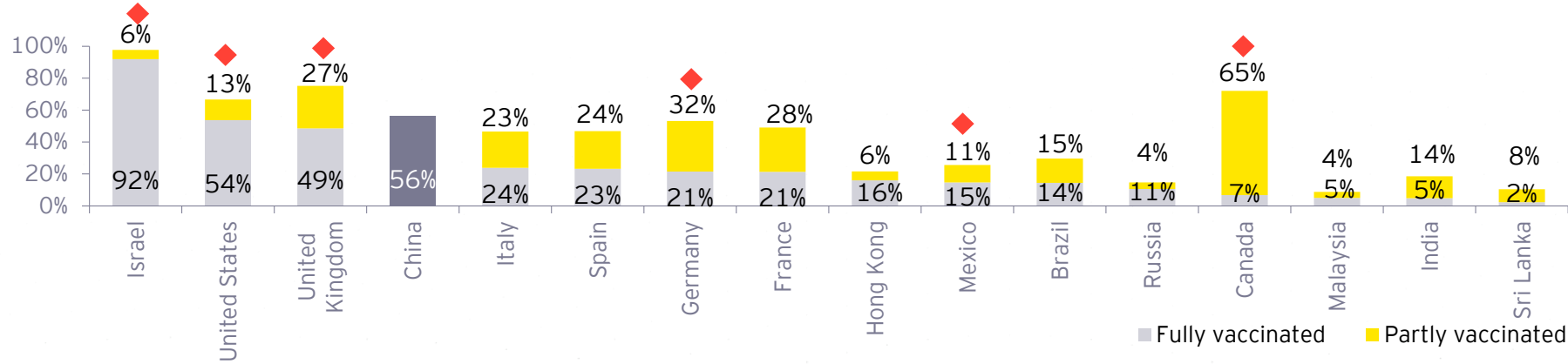


Note: Data as on 31st May 2021
Source: Covid19India

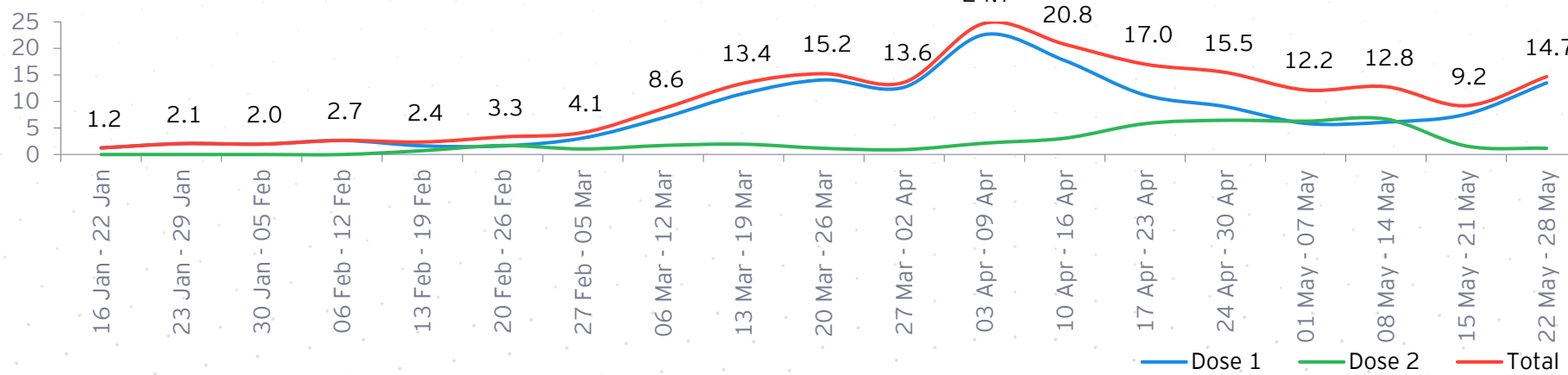
Key findings

- ▶ Different regions in India started experiencing the 2nd wave of COVID-19 at different times. However, in general, the cases have started to fall for all States.
- ▶ There is also trend of COVID-19 wave spreading to rural areas.

Vaccination Drive status (%age of 20+ year old population vaccinated)



India vaccination trends (in millions)

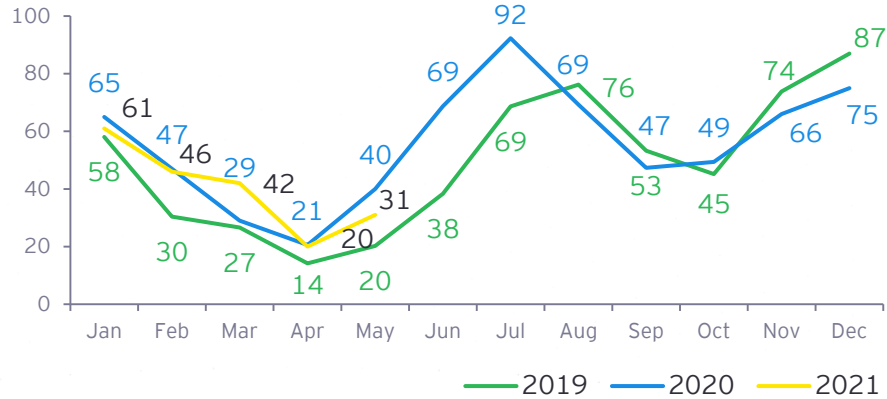


Note: 1. Global vaccine drive data is normalized for population above 20 years of age. 2. Vaccination rate bifurcation not available for China
Data as on 31st May 2021; Source: Our world in data, COWIN

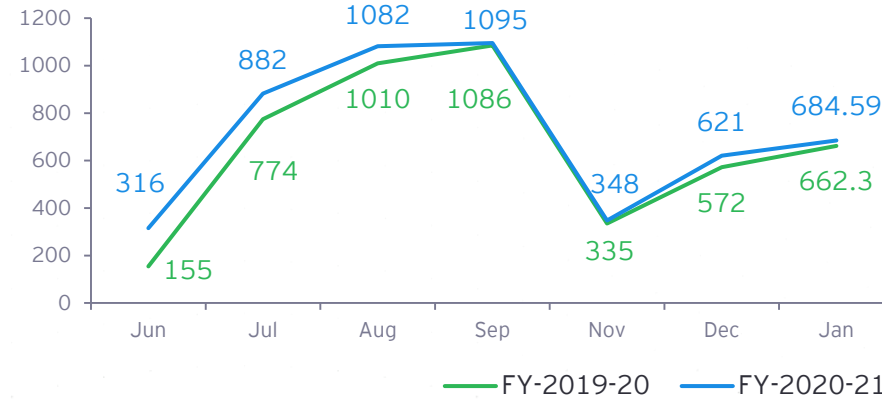
Key findings

- ▶ The prevalent thinking towards break the cycle of COVID outbreaks is to immunize large parts of the population.
- ▶ The vaccination numbers in India have slowed down due to supply constraints. With the new vaccination policy and easing of supply constraints, vaccination numbers are expected to pick up.
- ▶ Several countries leading the vaccination drive have done away with restrictions related to mask requirements and social distancing for fully vaccinated people. Also, EU countries have started easing international travel requirements for fully vaccinated people.

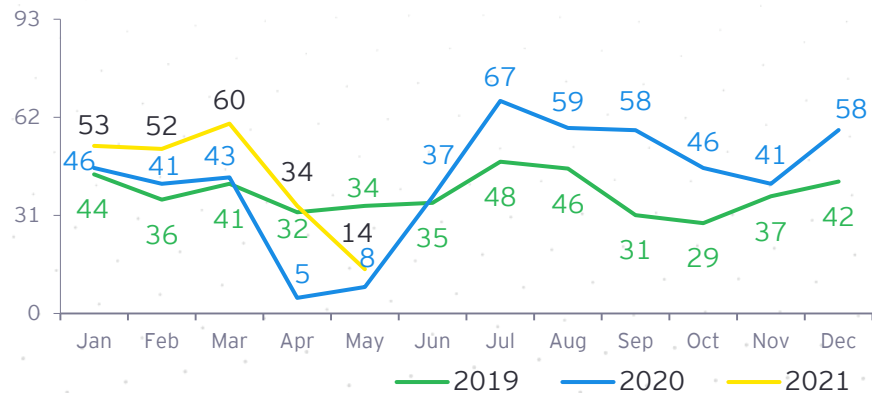
Fertilizer sales (lacs MT)



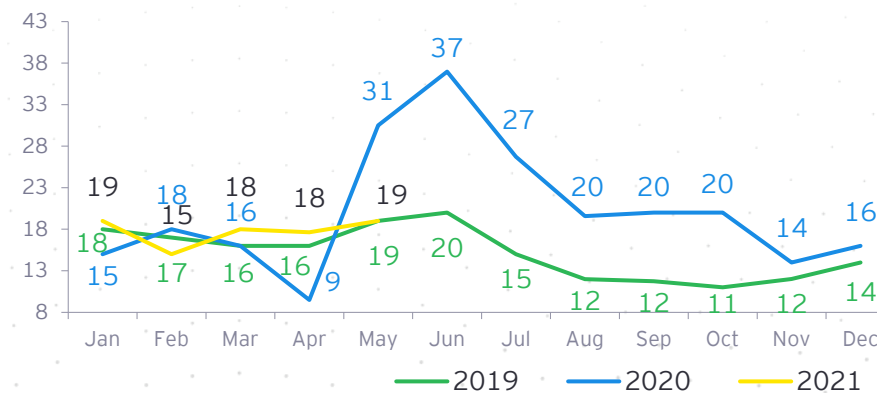
Net crop sown area (lac hectares)



Tractor sales (no. of units in '000)



Households worked under MNREGA (in millions)



Key findings

- ▶ In 2020-21, rural economy was robust as the COVID-19 spread was limited, there was good monsoon, and reverse migration temporarily boosted labour availability and demand.
- ▶ In April 2021, fertilizer sales have declined vis-a-vis April 2020. The tractor sales has fallen sharply in April and May 2021. These highlight risk of rural economy being impacted as COVID-19 cases spread.
- ▶ MNREGA works data indicates that the migration of labour from cities to rural areas has been fairly limited in the second wave.

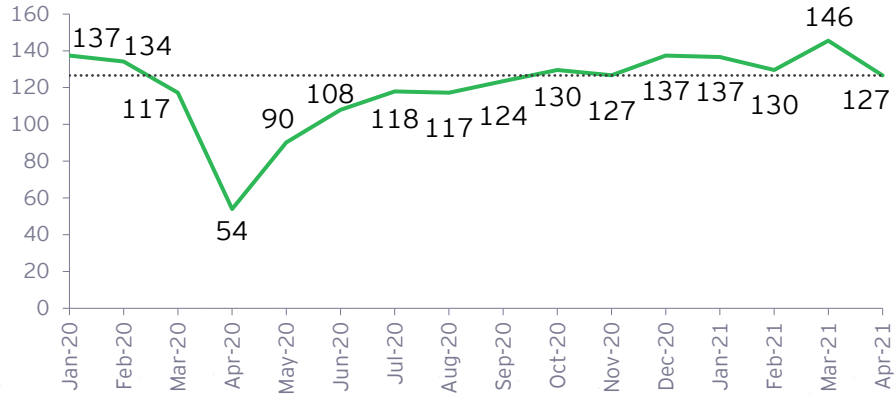
Note: Date as on 31st May 2021

Source: Ministry of Road Transport and Highways, Ministry of Agriculture & Department of Fertilizers, MNREGA

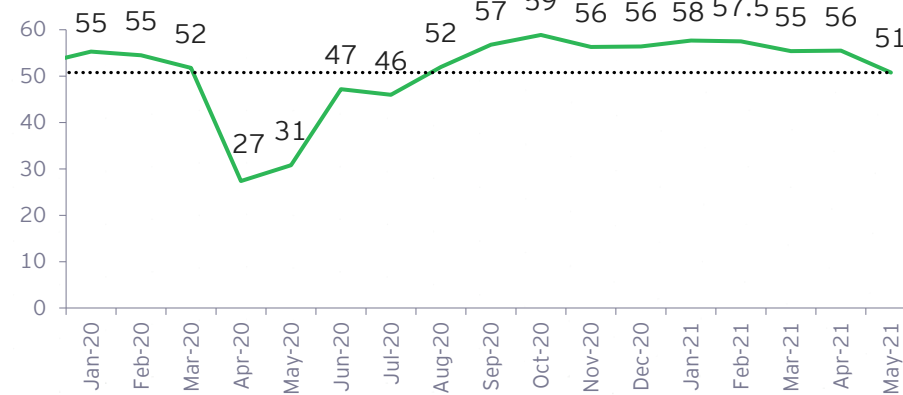
Overall manufacturing indicators

Manufacturing

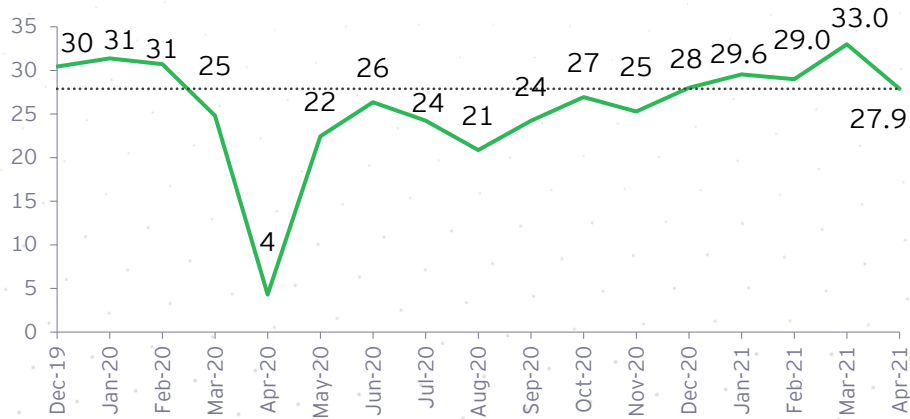
General index of industrial production



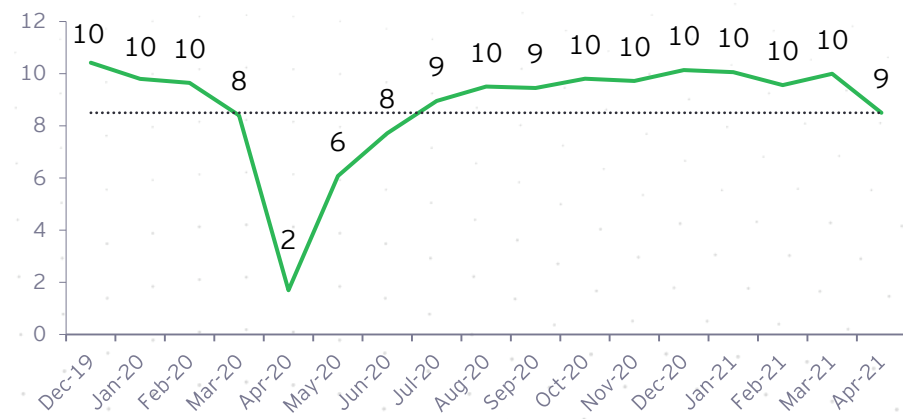
PMI manufacturing



Cement production (million tons)



Crude steel production (million tons)



Note: PMI >50 indicates expansion, <50 indicates contraction
Source: IHS Markit, DPIIT, RBI; IIP Base: 2011-12=100

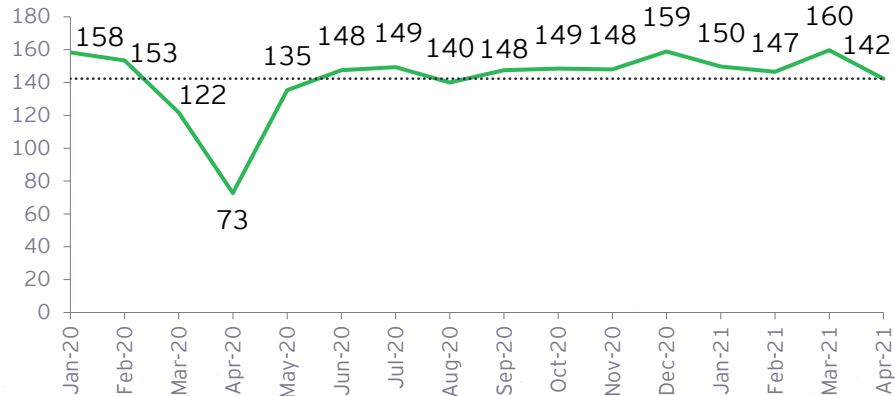
Key findings

- ▶ Manufacturing activity was showing signs of growth until March 2021. However, with the onset of COVID's 2nd wave, a decline of 13% in overall industrial production was observed in April 2021 vis-à-vis March 2021.
- ▶ Additionally, all recent indicators of manufacturing have shown a reduction on a sequential basis, showing the impact of lockdowns.
- ▶ The PMI indicator for May 2021 shows that some parts of the manufacturing sector are in positive growth territory, albeit with slower growth.

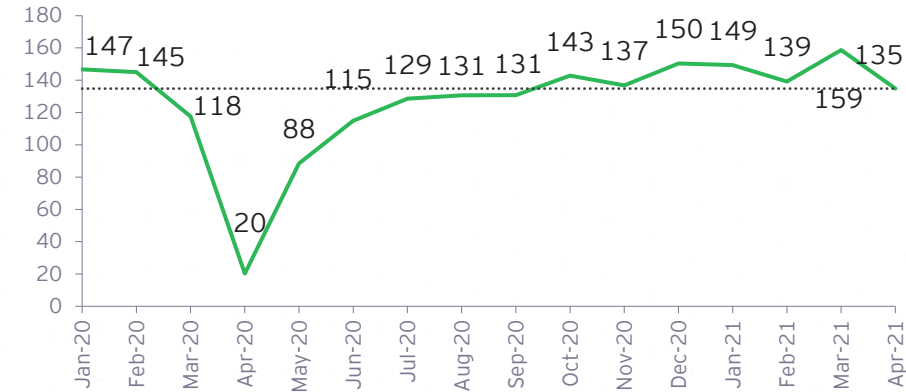
Manufacturing indices for consumer non-durables, consumer durables, infrastructure and capital goods

Manufacturing

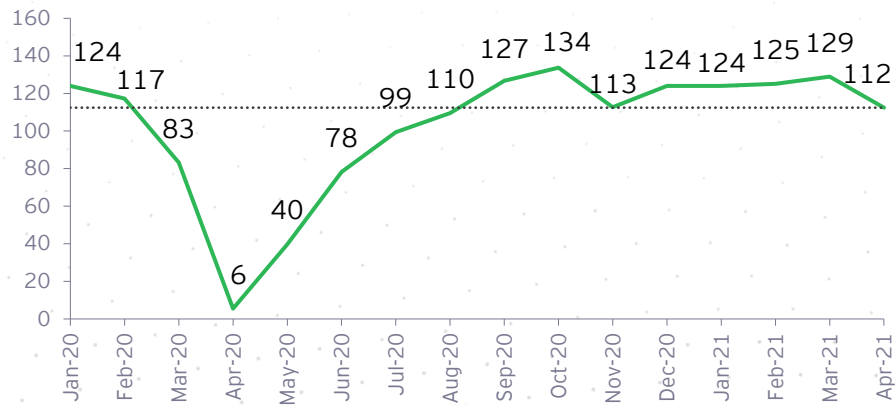
Consumer non-durables



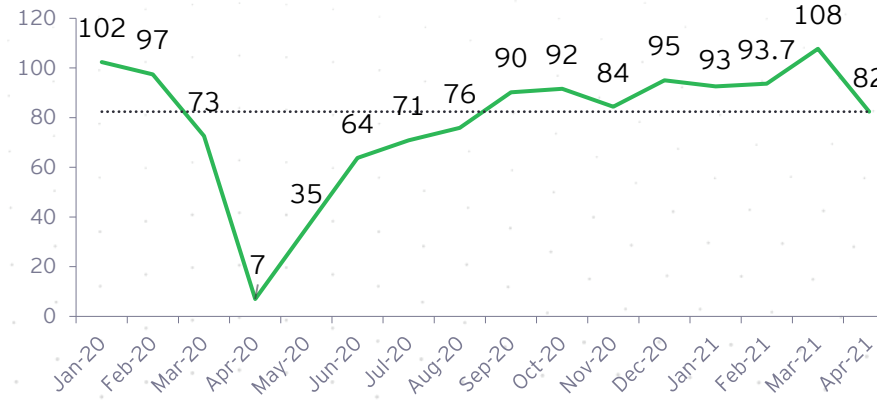
Infrastructure/construction goods



Consumer durables



Capital goods



Key findings

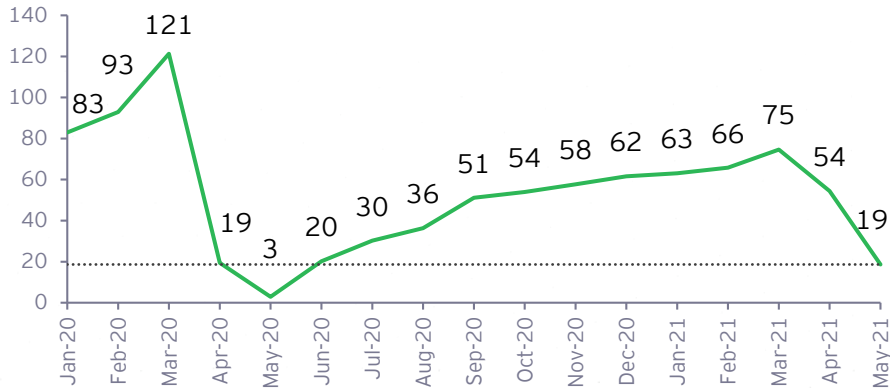
- ▶ Before the 2nd COVID wave, construction/infrastructure and capital goods were growing in March 2021 vis-à-vis February 2021 by 11% and 10% respectively.
- ▶ On the other hand, there was a relative stable output of consumer durable and non-durables output in March 2021 over February 2021.
- ▶ The impact of 2nd wave of COVID is already evident from the April 2021 data, with capital goods experiencing the highest decline of 24% in April 2021 vis-à-vis March 2021. Similarly, construction, consumer durables and non durables have also seen decline of 15%, 13% and 11% respectively.

Source: RBI
IIP Base: 2011-12=100

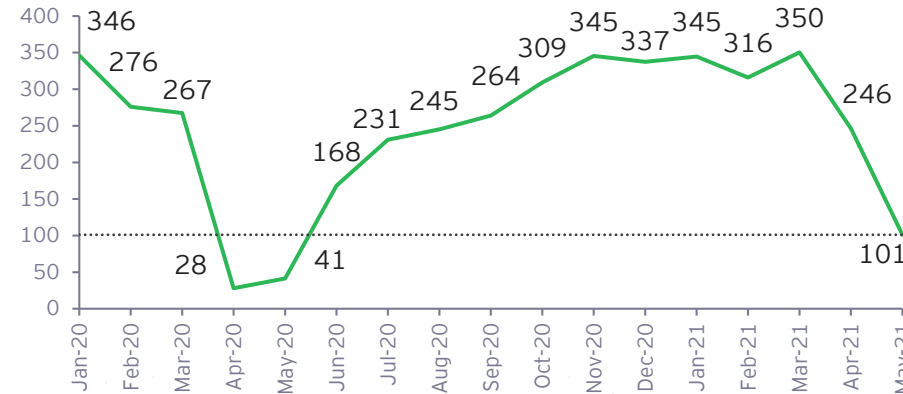
Vehicle registration trends

Manufacturing

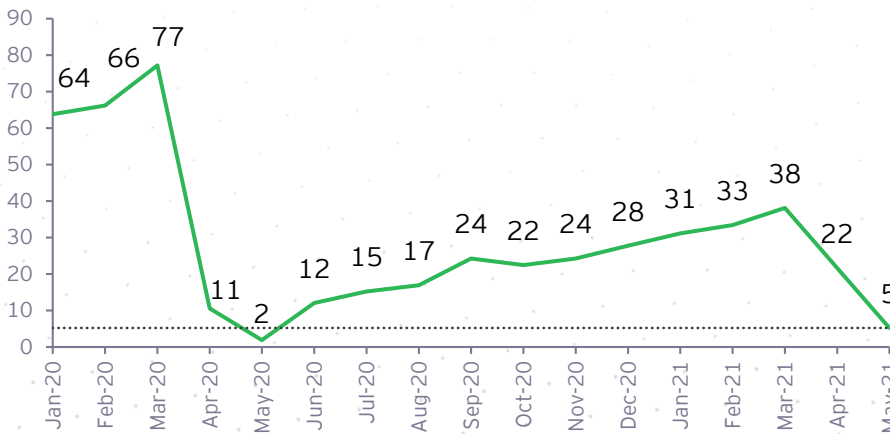
Commercial vehicles (in '000s)



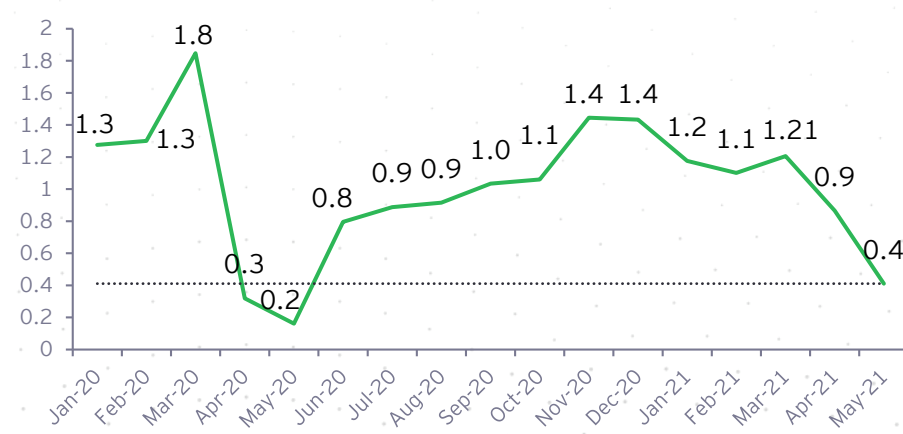
Passenger vehicles (in '000s)



Three wheelers (in '000s)



Two wheelers (in millions)



Key findings

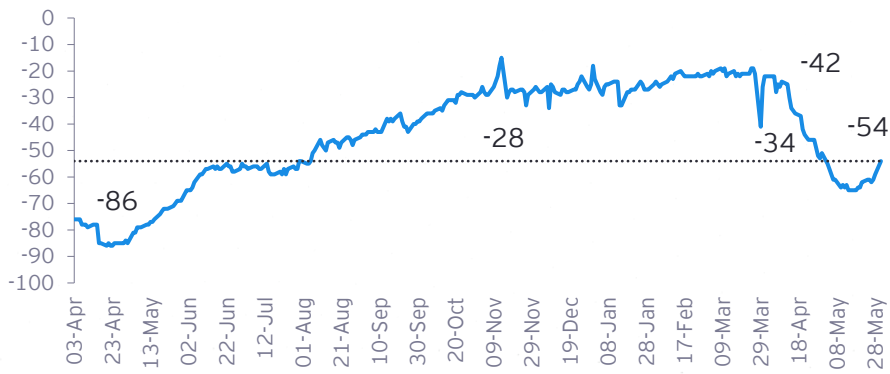
- ▶ There has been a very sharp decline in registrations for all categories of automobiles in May 2021. This has come back on the decline in April 2021.
- ▶ May 2021 registration levels are down to May/ June 2020 levels.
- ▶ State-wise numbers suggest different level of impact by geographies e.g., Delhi has witnessed a much sharper decline than Uttar Pradesh.

Note: CV include all Heavy, Medium vehicles and light goods vehicles. PV Include LMV and Light Passenger Vehicles. 2w and 3W include both transport and non-transport. Source: Vahan Database.

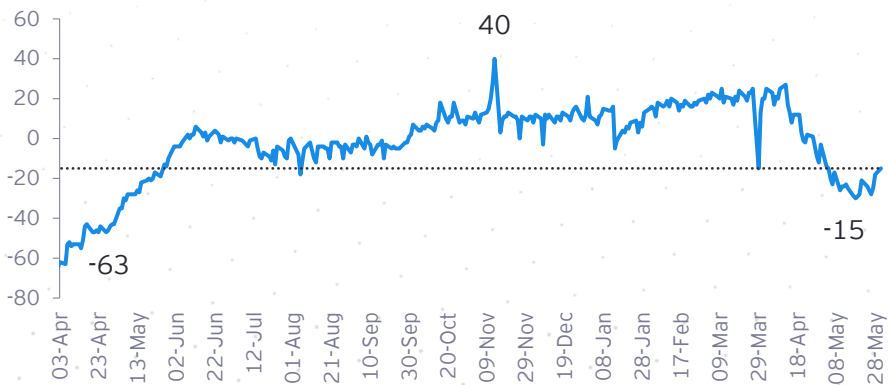
Service sector indicators based on movement of people

Services

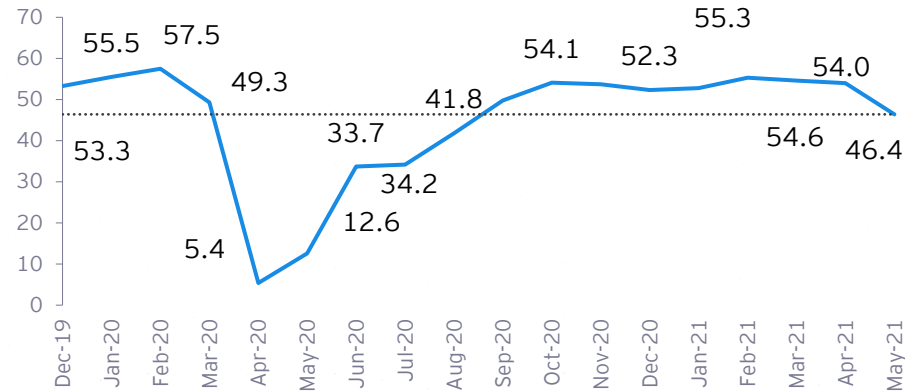
Retail and recreation: mobility change from baseline of Feb 2020



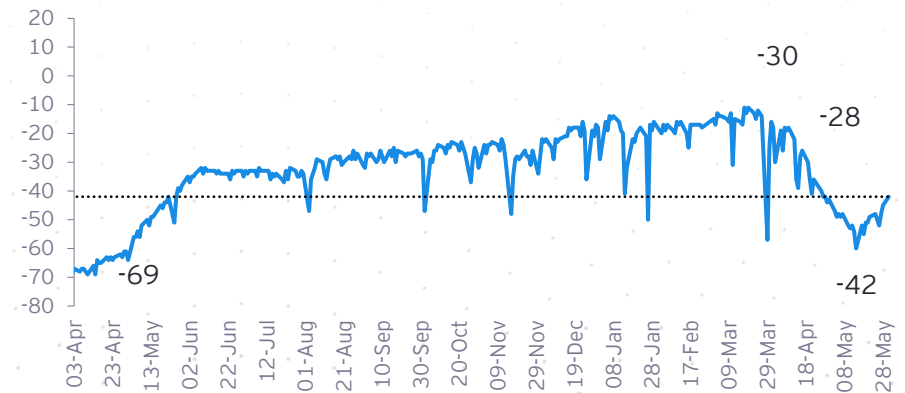
Groceries and pharmacies: mobility change from baseline of Feb 2020



PMI services



Workplace: mobility change from baseline of Feb 2020

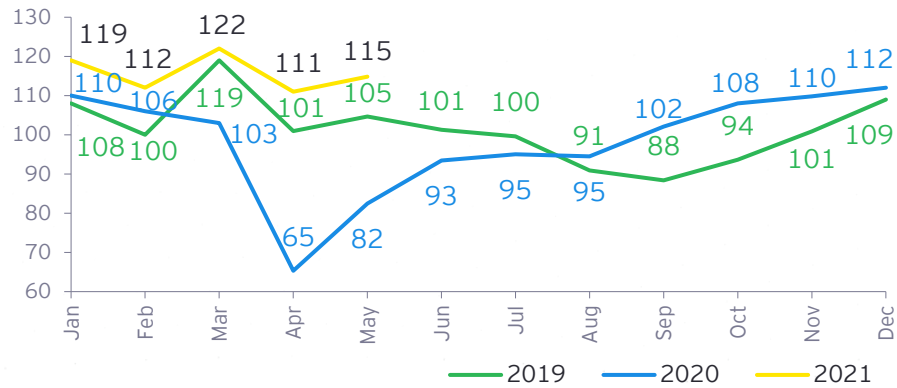


Note: PMI >50 indicates expansion, <50 indicates contraction
Source: IHS Markit, Google Mobility (Data as on 30th May 2021)

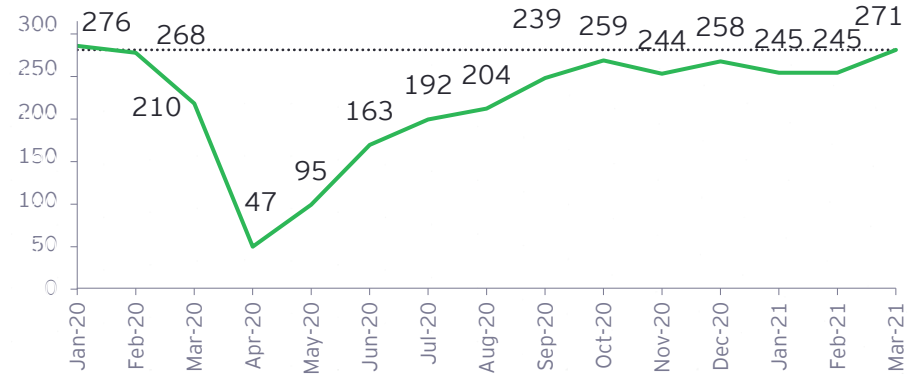
Key findings

- ▶ In line with experience of the previous COVID cycle, people's mobility has been affected due to the upsurge of infections and associated lockdowns and voluntary restrictions.
- ▶ The mobility for retail and recreation purposes has reduced to about -55% compared to baseline, which is comparable to a similar period last year.
- ▶ Similar trends can be seen for mobility for workplaces.
- ▶ Mobility for grocery and pharmacies has been affected relatively less, only declining by about 15% relative to the baseline.
- ▶ Overall, the mobility numbers are at the same level as May 2020, suggesting a significant economic impact

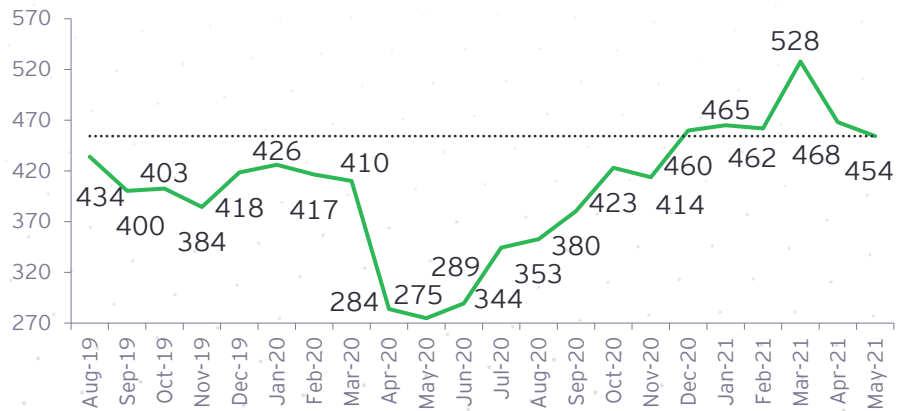
Railways freight (million tons)



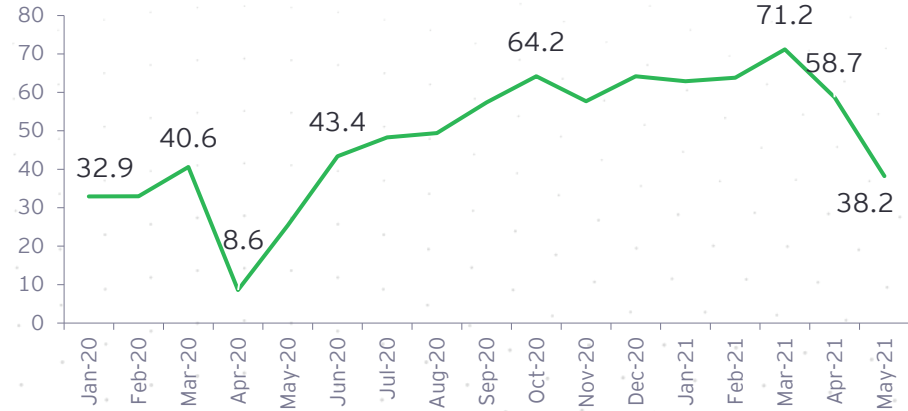
Air freight ('000 tons)



JNPT container traffic ('000 TEU's)



E-way bills generated (volume in million)

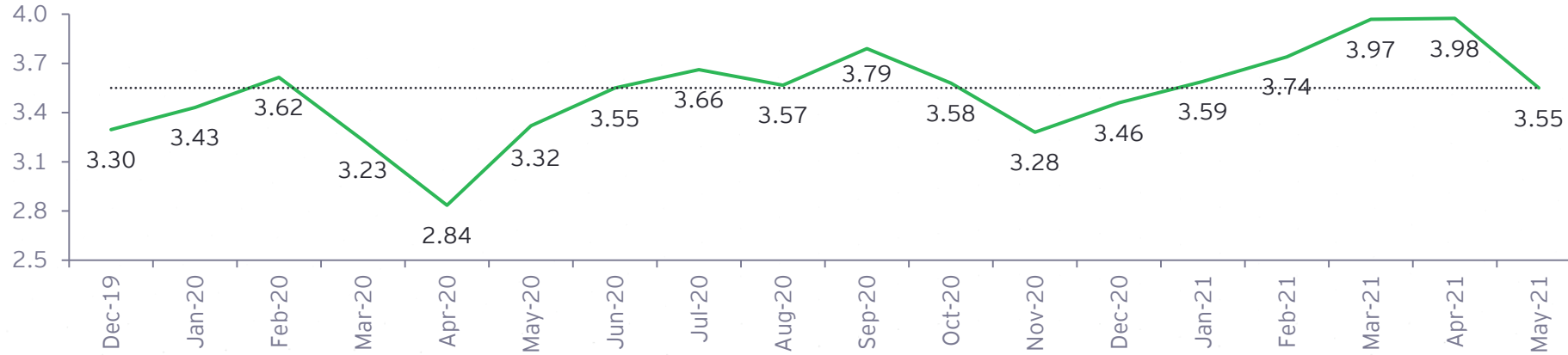


Source: Ministry of Civil Aviation, Railways, JNPT Terminal, GSTIN Network

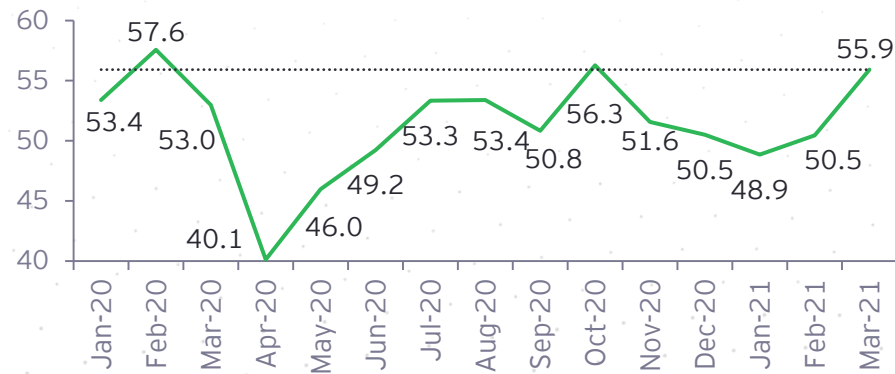
Key findings

- ▶ Railway freight in May 2021 is higher than April 2021 and also compared to April 2019, it is higher by 10% (April 2020 comparison is distorted by last year's lockdown).
- ▶ JNPT container traffic has remained broadly the same each month in 2021 except for a sharp increase in March. This indicates that the trade was stable in May 2021.
- ▶ However, the number of e-way bills generated has declined in April and then further in May, indicating the impact of lockdowns.

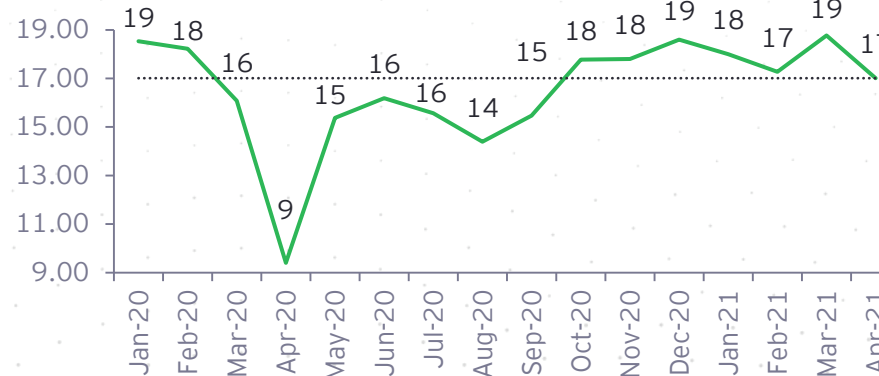
Power consumption (billion units)



Consumption of natural gas ('00 MMSCM)



Consumption of Petroleum Products ('000 metric tons)



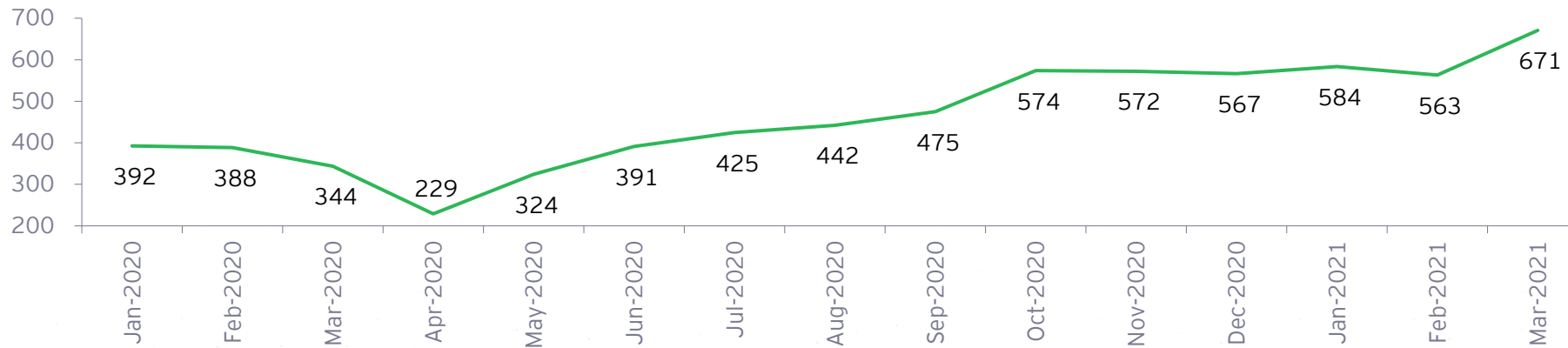
Note: May'21 data is average of latest daily data available as on 31st May 2021.

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

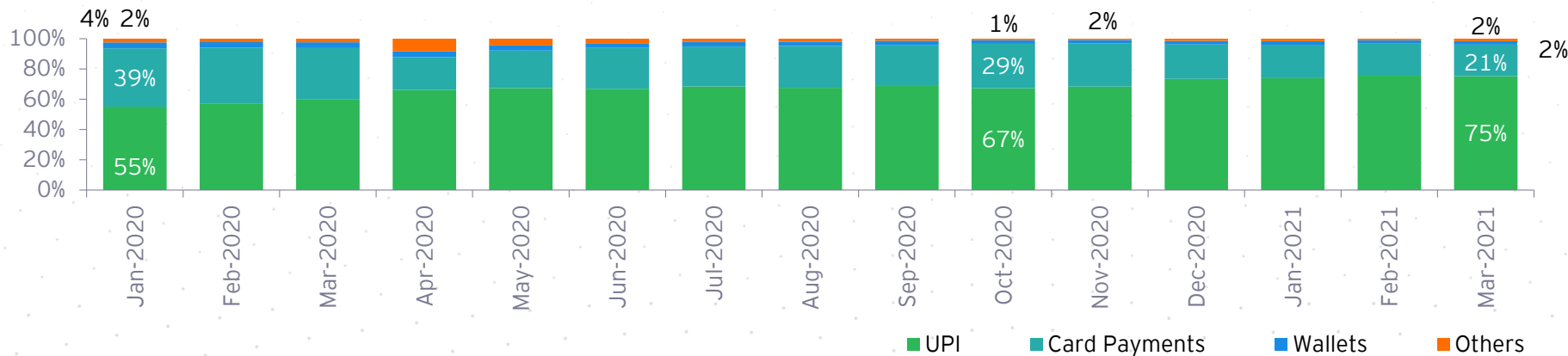
Key findings

- ▶ Power consumption in India was stagnant in April 2021 relative to March 2021. However, in May 2021, power consumption reduced by 11% relative to previous month.
- ▶ The petroleum consumption in April 2021 has come down, reflecting the reduction in mobility.

Total digital retail payments (in INR billion)



Share of different segments in total digital retail payments



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

Key findings

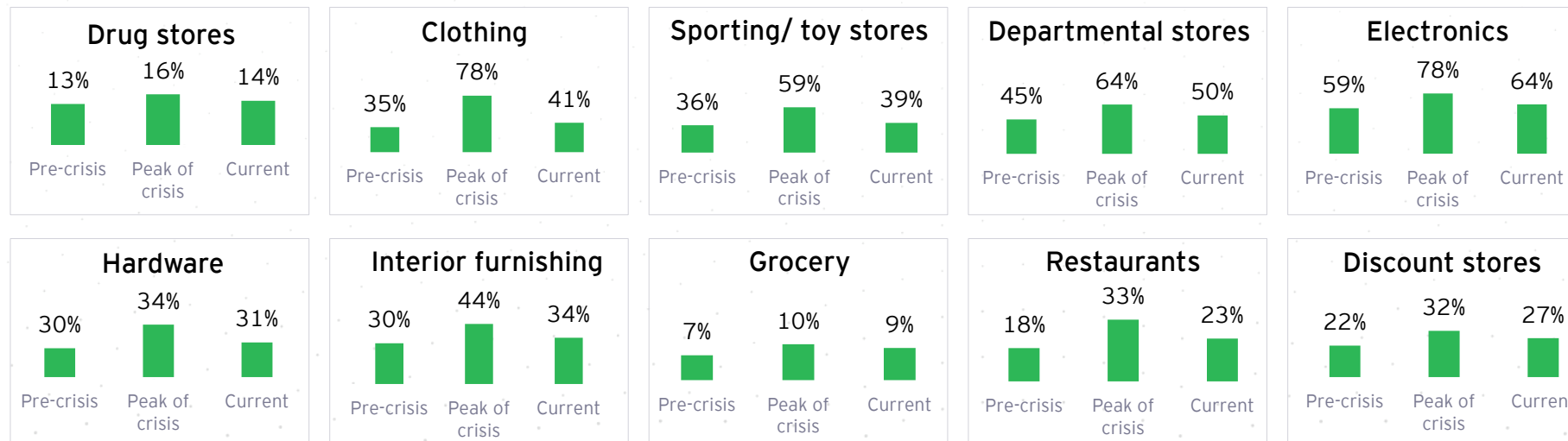
- ▶ Digital payments are continuing to increase in India.
- ▶ UPI has been gaining market share at the expense of other modes of payments

Longer term impact of COVID on e-commerce

Digitization

Evolution of e-commerce share	India	United Kingdom	France	Russia	Australia	United States	Brazil
Pre-crisis	3.7%	21.8%	9.2%	5.0%	6.3%	11.0%	6.0%
Peak of crisis	9.6%	31.3%	18.2%	14.1%	11.0%	22.0%	11.0%
As of January 2021	5.0%	24.1%	10.9%	7.0%	9.0%	17.0%	7.0%

Evolution of e-commerce share by sector globally



Key findings

- ▶ The onset of COVID has resulted in a sharp increase in e-commerce transactions across industries and geographies.
- ▶ However, all the gains were not sustained and the share of e-commerce declined (though much over the pre-COVID numbers) across industries and countries

Source: Mastercard Economics Institute Estimates

Government direction on key policy issues in the technology sector

Digitization

Policy	Description and Intent
<p>New rules under the Information Technology (Guidelines for Intermediaries and Digital Media Ethics Code) Rules, 2021</p>	<p>OTT video platforms:</p> <ul style="list-style-type: none"> ▶ Streaming services are required to have content rating to their titles. ▶ The rules mandated for a grievance redressal system ▶ Self regulation by platforms subject to Central Government oversight for grievance redressal <p>Social media:</p> <ul style="list-style-type: none"> ▶ Empowers appropriate authorities to direct social media platforms to take down content. ▶ Social media platforms are obligated to terminate access or usage rights of the users in case of any non-compliance and/or remove non-compliant information immediately. ▶ Firms have to appoint officers and contact people--who live in India--to coordinate with law enforcement agencies and address complaints. ▶ Obligation to help identify the "first originator" of some messages. <p>News platforms:</p> <ul style="list-style-type: none"> ▶ Publishers of news and current affairs content and of online curated content set up a three-tier grievance redress mechanism and publish monthly compliance reports
<p>Incentive to boost domestic IT hardware manufacturing</p>	<p>PLI for IT hardware through Make in India</p> <ul style="list-style-type: none"> ▶ Target Segment- Laptops, Tablets, All-in-One PCs and Servers ▶ Quantum of incentive- 4% to 2% / 1% on net incremental sales for a period of 4 years ▶ Government is offering more than \$1 billion in incentives to each semiconductor company that sets up manufacturing units in the country. Semi-conductor production will aid India as it builds up on its smartphone assembly industry and strengthen its electronics supply chain
<p>Starting of 5G Technology trials in India (1)</p>	<ul style="list-style-type: none"> ▶ TSPs who have gained permission for 5G trial runs from the Department of Telecommunications, will be working together with 5G tech providers such as Ericsson, Nokia, C-DOT and Samsung <ul style="list-style-type: none"> ▶ India wishes to develop it's own 5G standard as 5Gi as well

Comments

- ▶ Intermediary guidelines are at the heart of the success of internet. These guidelines and the ability to remove content has been commented upon around the world. These guidelines, reflect the Government's intent of making the platforms more accountable and responsible.
- ▶ Tech is seen as strategic and there has been an increased focus on self-reliance through both domestic manufacturing and by developing new technologies.

Government direction on key policy issues in the technology sector

Digitization

Policy	Description and Intent
Cryptocurrency	<ul style="list-style-type: none"> ▶ Government has said that it is ascertaining India's position on cryptocurrency (ban/ regulate, etc) ▶ Mandatory for all companies to disclose their dealings in virtual currency in their balance sheets ▶ NPCI has left it up to banks and their risk and compliance teams to judge whether to allow customers to make and receive payments from cryptocurrency exchanges
Digital payments -- new umbrella entities	<ul style="list-style-type: none"> ▶ RBI views the concentration of a large number of transactions on one platform (UPI) as a risk ▶ Entry of new payment entities will intensify competition and drive innovation ▶ Aim to set up new pan-India umbrella entity / entities focussing on retail payment systems ▶ Have received multiple proposals from a combination of fintech/ global technology companies/ banks/ Indian corporate houses
NPCI capping the market share of UPI platforms	<ul style="list-style-type: none"> ▶ NPCI came out new guidelines for digital payment apps limiting their share in the overall volume of transactions on the UPI at 30% starting January 2021 ▶ Done to enforce parity in the country's fast-growing digital payments industry and to ensure the industry does not become an oligopoly also preventing risks of overload of the UPI infrastructure
AI based lending to MSMEs - RBI's regulatory sandbox	<ul style="list-style-type: none"> ▶ RBI has decided on 'MSME Lending' as the theme for the third cohort, details of which will be announced - link it to India stack (i.e., leveraging data from Aadhar, Bank Accounts, GST and UPI)
Cyber security on digital payments	<ul style="list-style-type: none"> ▶ RBI has toughened digital payment security norms due to the proliferation of cyber-attacks and online frauds ▶ The 'Master Direction' lays down guidelines for internet banking, mobile payments, card payments, customer protection, and grievance redressal mechanism

Comments

Government has been actively promoting digitization of financial transactions in India. The announcements made by the Government, reflect its intent to:

Ensure innovation (stance on cryptocurrency)

Ensure greater competition (both between platforms and within platforms)

Address risks (Increasing levels of cyber crimes has the potential of slowing down digitisation)

Access to credit by MSMEs could drive economic growth. RBI hopes to use digital tax and payment records to aid in credit analysis and ensuring more lending to MSMEs.

Policy direction - RBI's plan to introduce a Central Bank Digital Currency (CBDC)

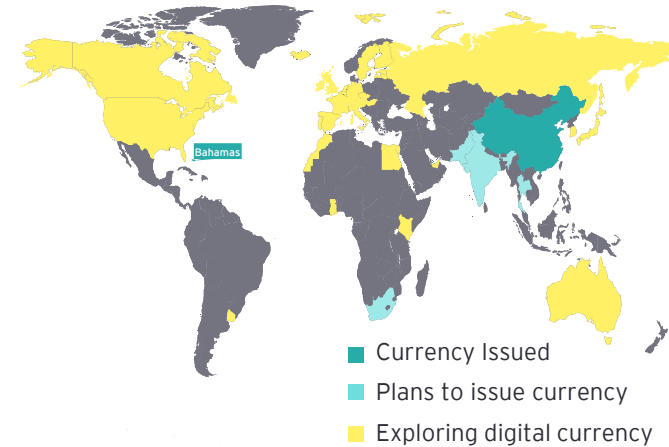
Policy Change

1 Drivers

- ▶ Competition from crypto currencies and impact on monetary policy and financial stability
- ▶ Growing share of digital payments and declining role of cash

2 What is a CBDC

- Digital bank note (using blockchain technology) for retail and wholesale transactions
- ▶ Issued by the Central Bank
 - ▶ Digital in nature
 - ▶ Universally accessible



3 Benefits of CBDC

- ▶ Safest form of money for the public
- ▶ Price stability
- ▶ Financial inclusion and tools for fiscal transfer like direct benefit transfer
- ▶ Strengthening the eco system for digital payments
- ▶ Other objectives like money laundering

4 Risks/ Impacts

- ▶ Cannot be anonymous like cash
- ▶ Impact on the banking and lending system
- ▶ Cyber security issues and attendant impact on wealth of people
- ▶ Privacy issues and Control of Governments

5 Adoption

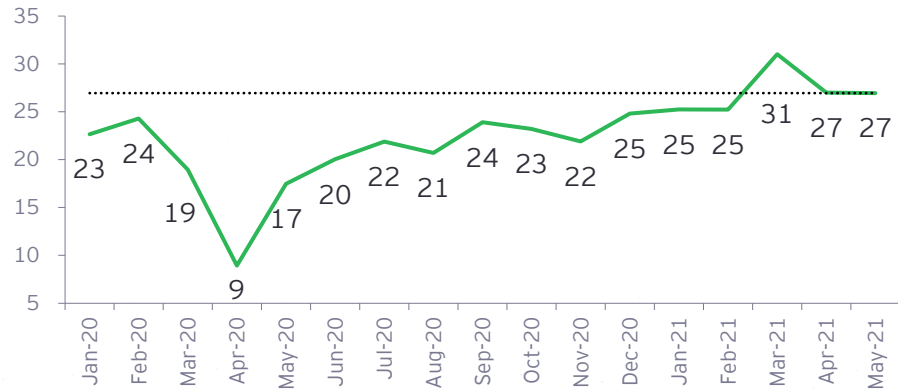
- ▶ All major Central Banks around the globe working on it - researching / experimenting technology/ deploying pilots
- ▶ Number of design issues e.g., role of the central bank and other players, technology choices, how is anonymity maintained, impact of an account being frozen, etc

Key findings

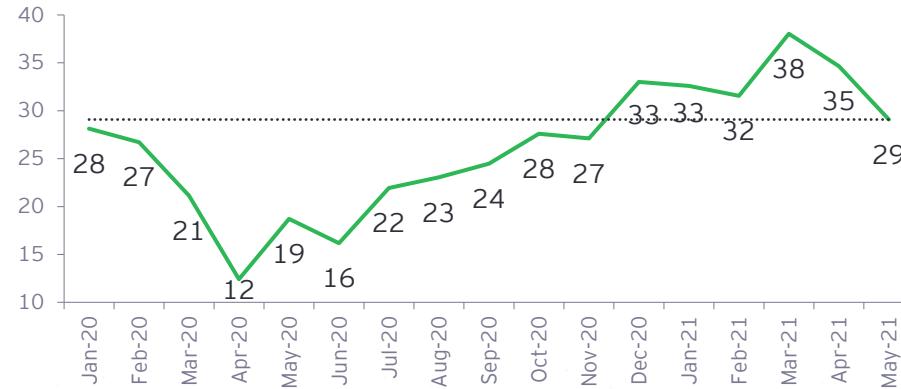
- ▶ India's is planning to introduce a CBDC (while continuing to be wary about private cryptocurrencies).
- ▶ Many countries like China are much ahead in terms of CBDC - they have begun issuing blockchain-powered digital currency to its citizens and are contemplating making the digital currency available to 2022 Beijing Winter Olympics' visitors.
- ▶ Due to the previous work done on Aadhar and UPI, India has the necessary infrastructure to quickly launch a CBDC.
- ▶ There are a number of design and regulatory issues to be addressed for launching a CBDC.

Source: <http://loksabhadocs.nic.in/bull2mk/2021/29012021.pdf>, Bank for International Settlements (BIS), Bloomberg, WSJ, Newspaper reports

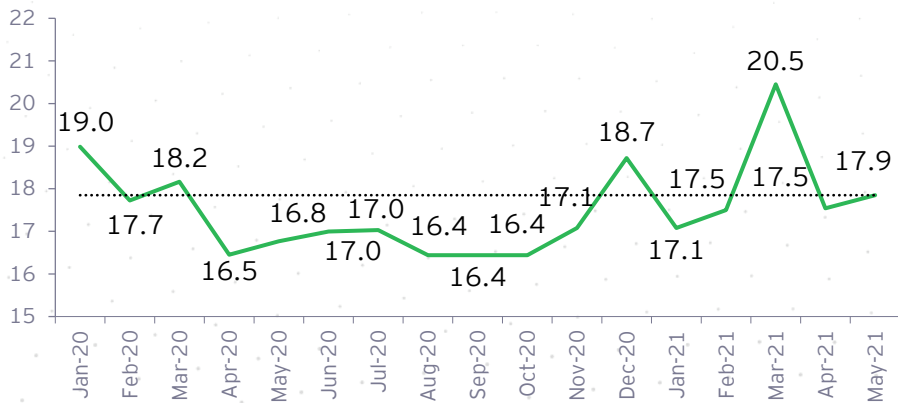
Non- oil merchandise exports (in USD billion)



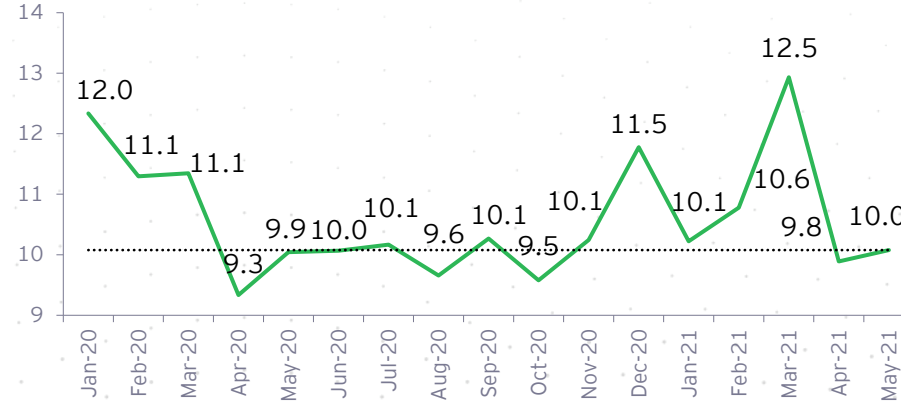
Non- oil merchandise imports (in USD billion)



Services exports (in USD billion)



Services imports (in USD billion)

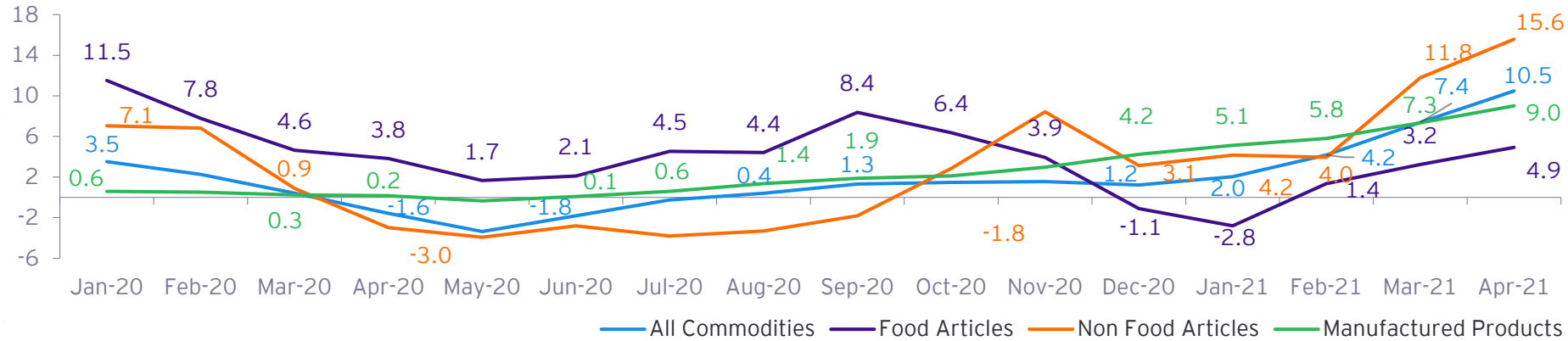


Note: May 2021 data is provisional
Source: RBI, Ministry of Commerce & Industry

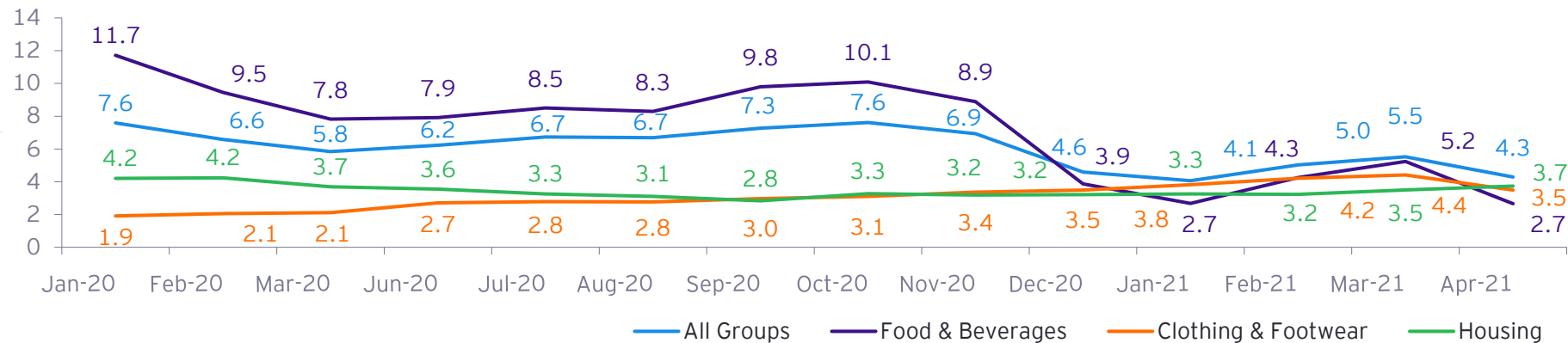
Key findings

- ▶ Despite challenges in the domestic environment, the global economic recovery is positive for the Indian economy.
- ▶ India's exports have continued to perform well. India's total exports of goods have grown 59% over May 2020 and remained stable compared to April 2020.
- ▶ Due to COVID's second wave services exports in India took a hit in April, and only a slight increase was accounted in May. However, the Services exports still grew 6% vis-à-vis May 2020.
- ▶ However, India's total imports of non-oil goods has come down by 17% in May over April 2021. This indicates sluggish demand in the domestic market.

WPI inflation (%)



CPI inflation (%)



Note: Data not available for April and May 2020
 Source: MoSPI, Ministry of Commerce and Industry, Office of Economic Advisor

Key findings

- ▶ Wholesale Prices Index, representing producer prices has been increasing rapidly, growing by 10.5% in April 2021 on a Y-o-Y basis.
- ▶ This has a positive impact on raw material and intermediate goods industries. On the other hand, final goods producers who use them as inputs may see their costs increasing.
- ▶ In contrast to wholesale price increase, consumer price inflation has been relatively lower. In India, composition of two indexes is very different, i.e. CPI (48% weightage to food and beverages) and WPI (64% weightage to manufactured goods).

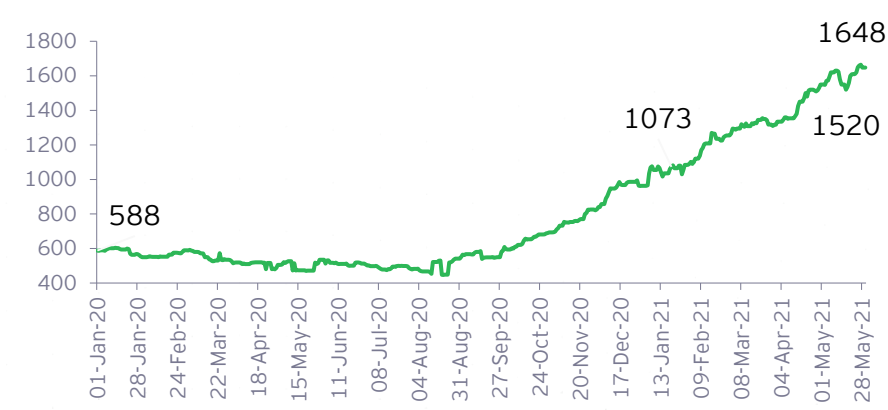
Trends in commodity prices (1/2)

Commodity and input price trends

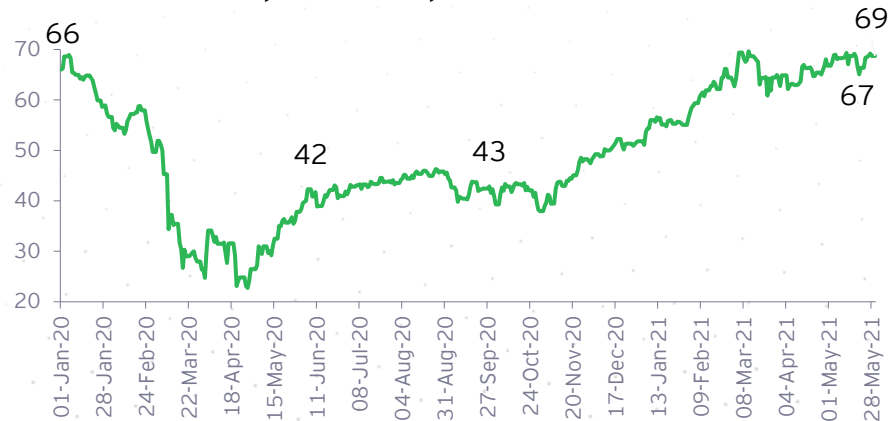
High grade copper prices (US\$ per lb)



Hot rolled coil steel prices (US\$ per tonne)



Crude oil - brent price (US\$ per bbl)



Gold price per 10 grams (in '000 INR)



Key findings

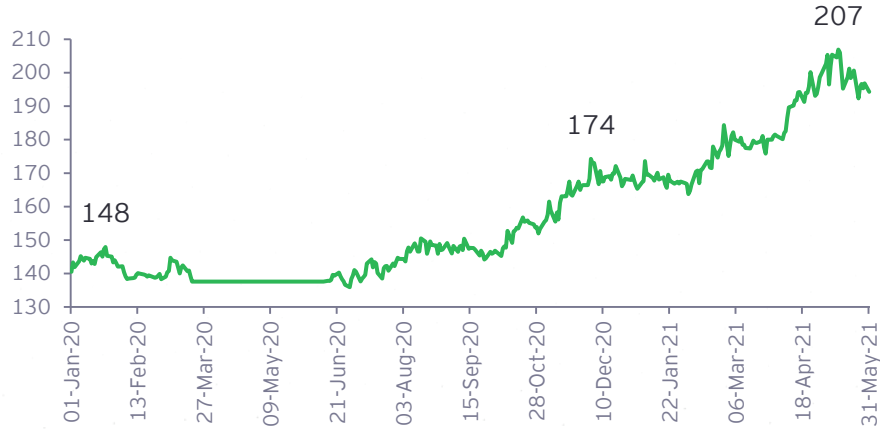
- ▶ Commodity prices, in general, continue to experience increasing trend, reflecting the strong demand from manufacturing activity and uptake of the global economy.
- ▶ Steel price increase is also due to an increase in iron ore prices.
- ▶ Crude oil prices are nearing \$70 per barrel and generally on the up.
- ▶ Gold prices have largely moved in line with the onset of COVID waves

Note: 1. Data as on 31st May 2021; 2. Copper Prices- High Grade, Chicago Mercantile Exchange , Steel Prices- Domestic Hot Rolled Coil, Source: CapitalIQ, MCX

Trends in commodity prices (2/2)

Commodity and input price trends

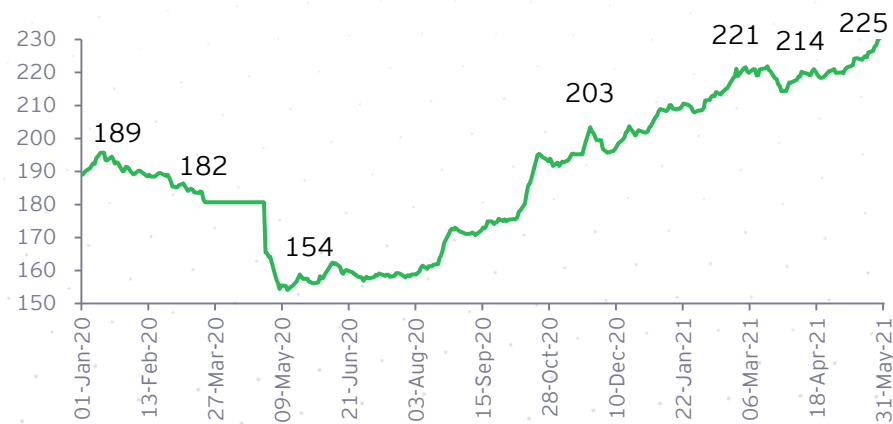
Aluminium per kg price (in INR)



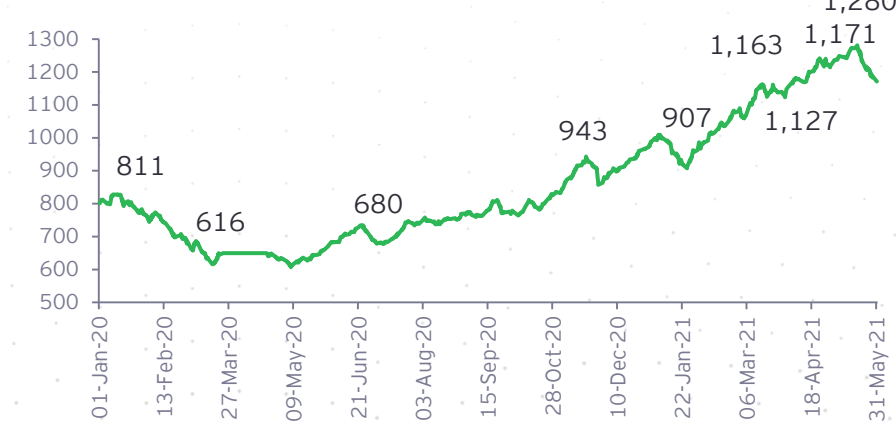
Rubber Price per 100 kg (in INR)



Cotton price per bale (in '000 INR)



Palm (CPO) oil per 10 kg (in INR)



Note: Data as on 31st May 2021

Source: MCX

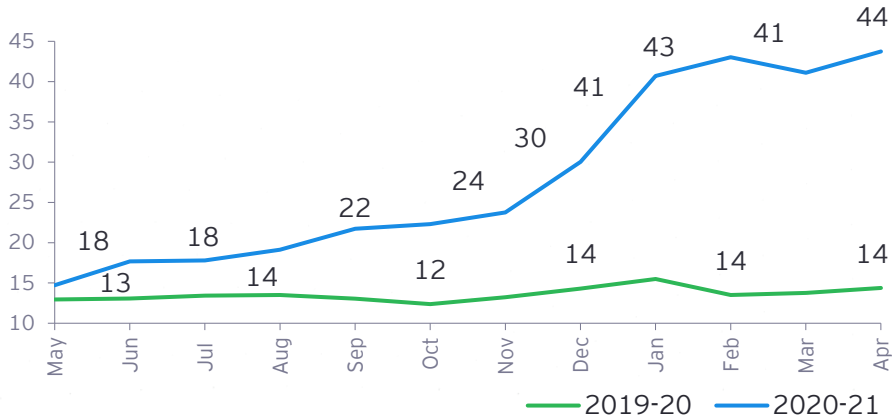
Key findings

- ▶ 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.

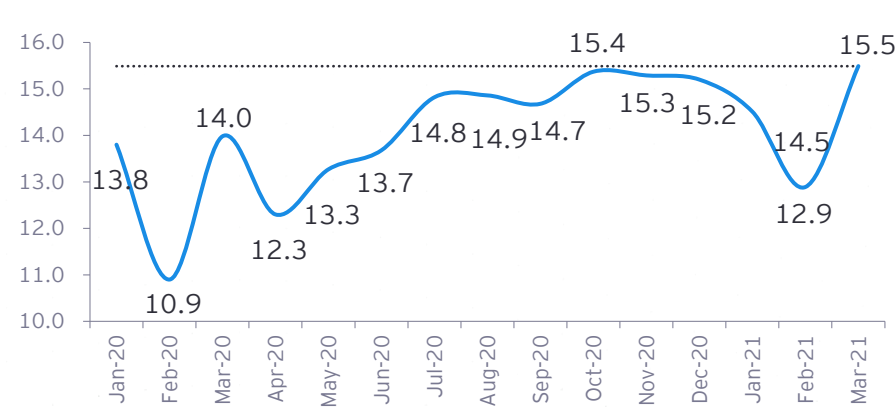
Global container freight transportation volumes and rates

Commodity and input price trends

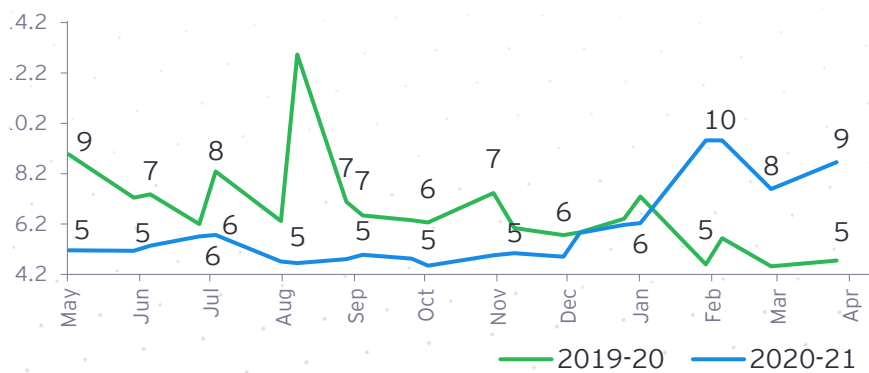
Global container freight index (in US\$)



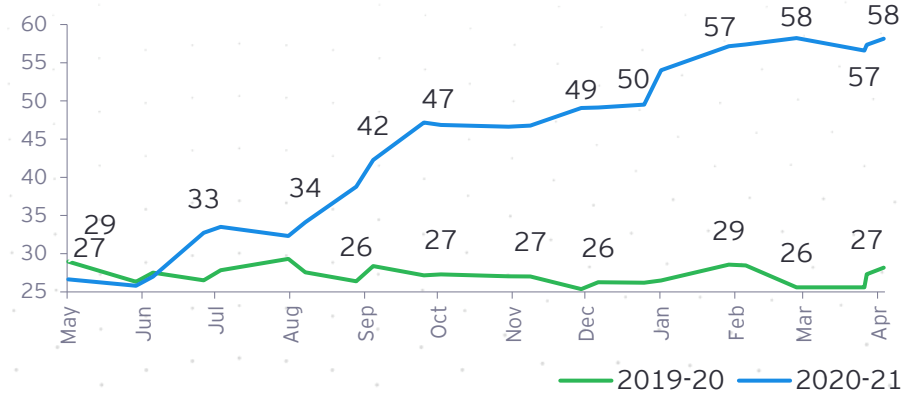
Global container traffic volume (million TEU's)



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

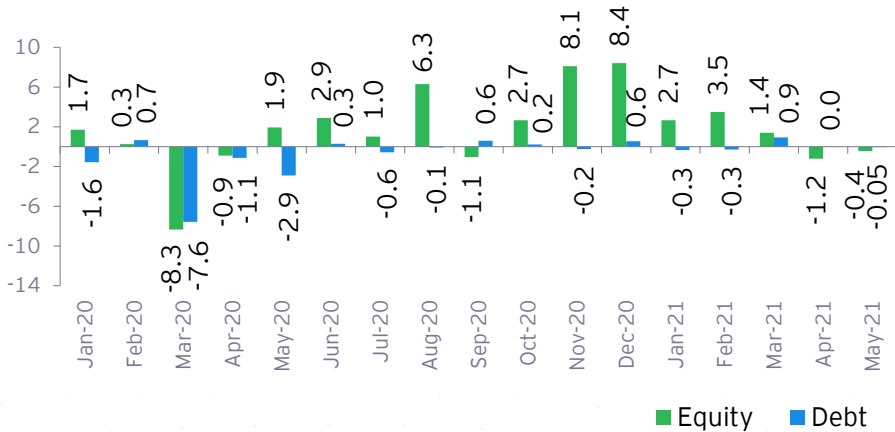
- ▶ The global container freight index after rising sharply till February 2021 has been stagnant.
- ▶ The cost difference between transporting containers from North America to Asia vis a vis from Asia to North America has increased very significantly since August 2020.
- ▶ There is an imbalance in the location of containers vis-a-vis the port of demand for these containers due to supply chain disruptions.

Source: FBX: Global Container Freight Index, Container Statistics

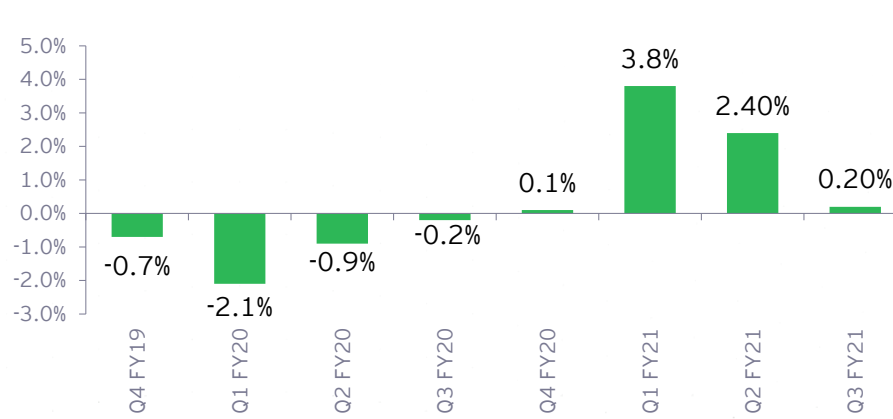
Foreign capital flows and exchange rate position

Foreign trade and external sector

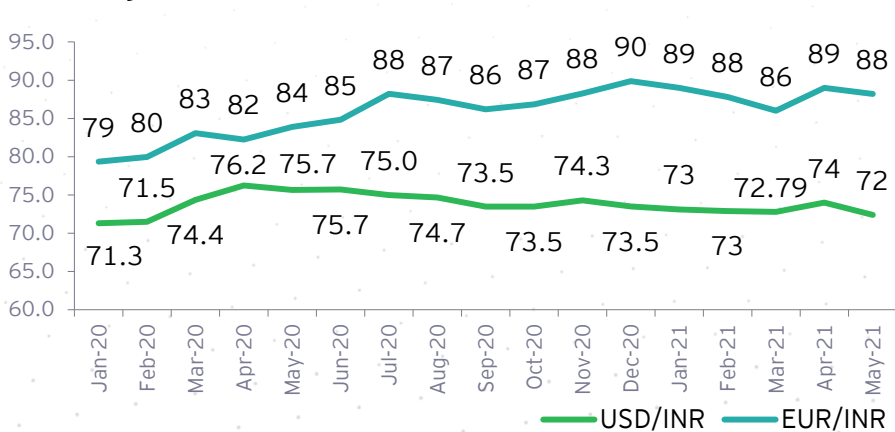
FPI investments (in US\$ billion)



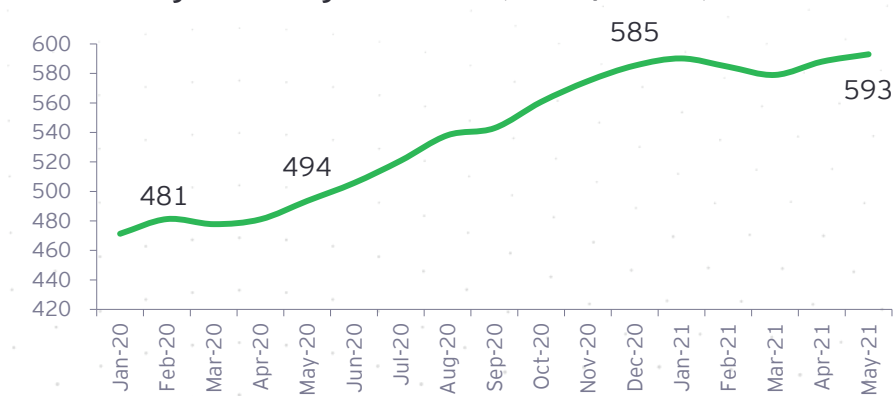
Current account deficit (as percentage of GDP)



Exchange rates



India foreign exchange reserves (in US\$ billion)



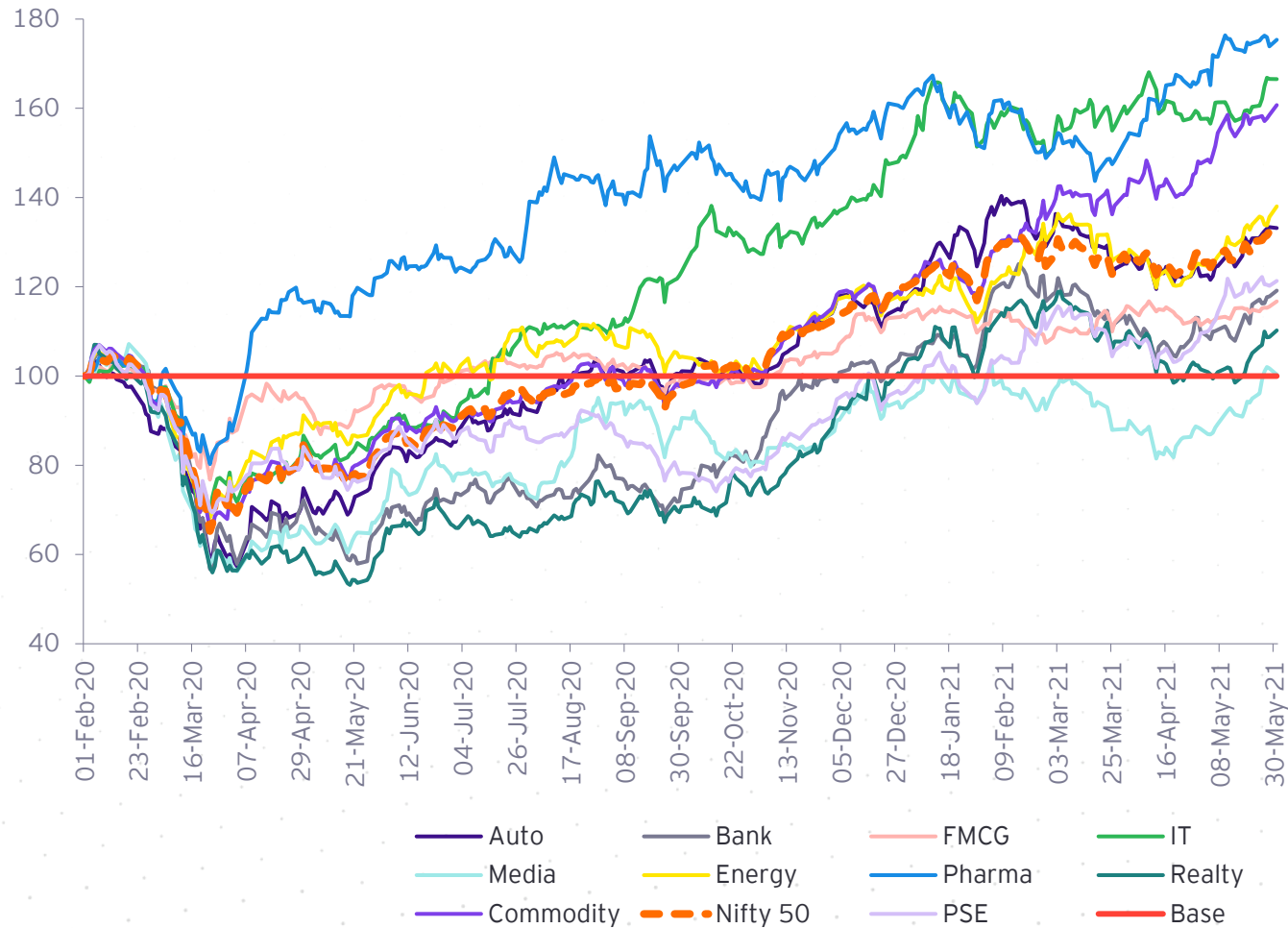
Key findings

- ▶ India's external position continues to remain strong with a stable exchange rate, high foreign exchange reserves and relatively benign trade account deficit.
- ▶ In addition, the foreign portfolio investments into India have remained largely strong until March, except in April and May in which there have been small outflows by FPIs in equity investments.

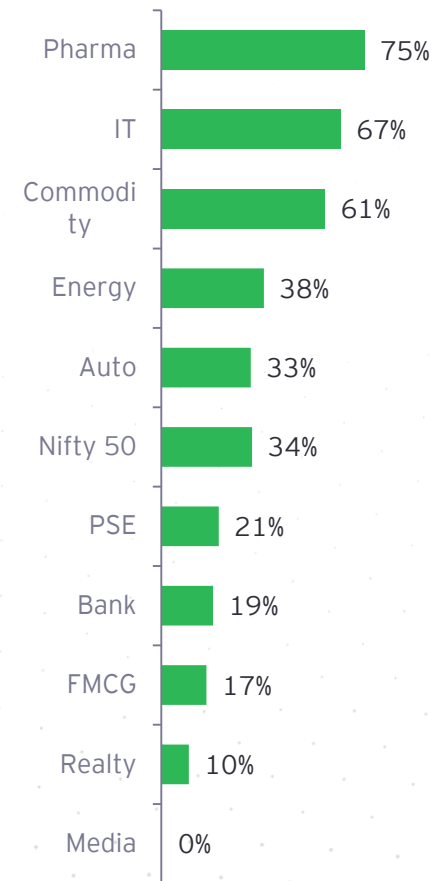
Source: DBIE, RBI, FBIL, NSDL
All date available as on 30th May 2021

NSE indices (% change YTD)

Financial markets



NSE indices (% change YTD)

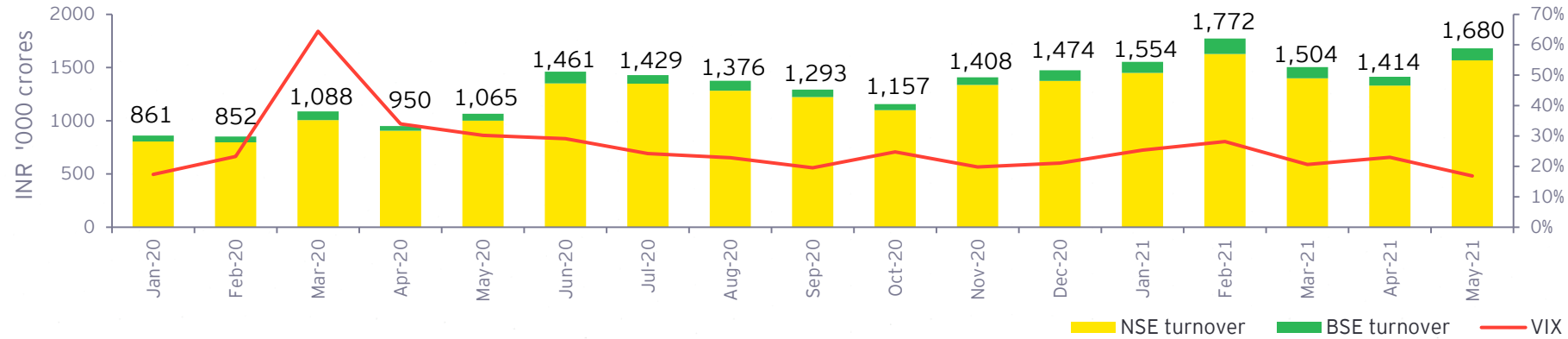


Key findings

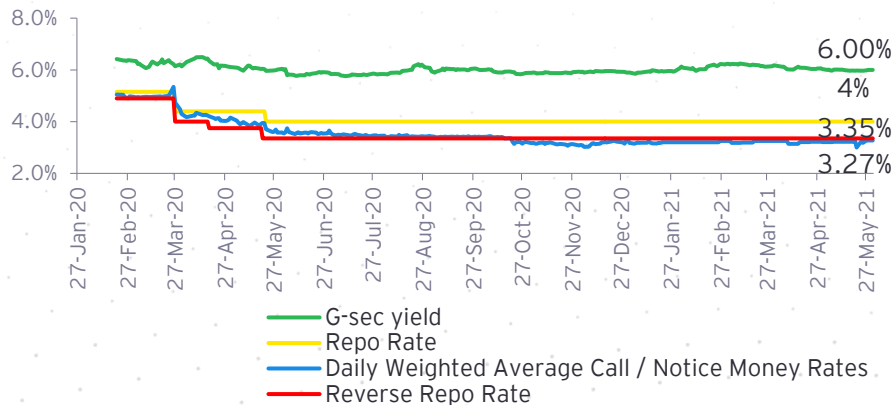
- ▶ The stock markets are in positive territory since February 2020. Except for Pharma which has not reached its February 2020 levels.
- ▶ Overall NIFTY 50 is up by 32% with pharma and IT recording highest increase.
- ▶ The stock market has seen stagnancy since the onset of second wave. This is in sharp contrast to the initial impact of COVID and the fact that the global markets are doing extremely well.

Source: NSE, Bloomberg Quint
Data available as on 31st May 2021

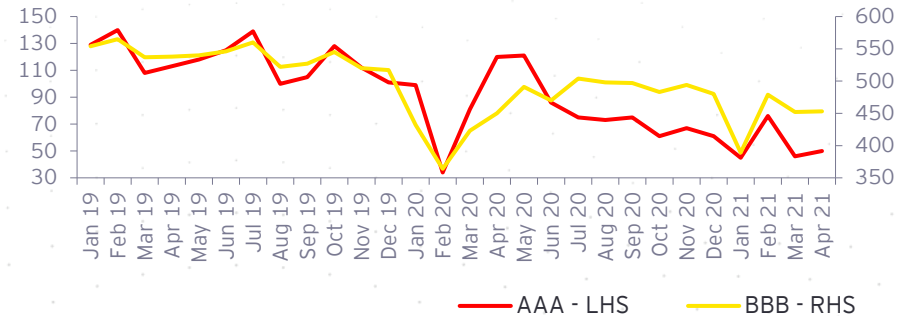
Stock market turnover and volatility



G-Sec yield, policy rate and spread



Corporate bond spreads over GSec: 10-year maturity



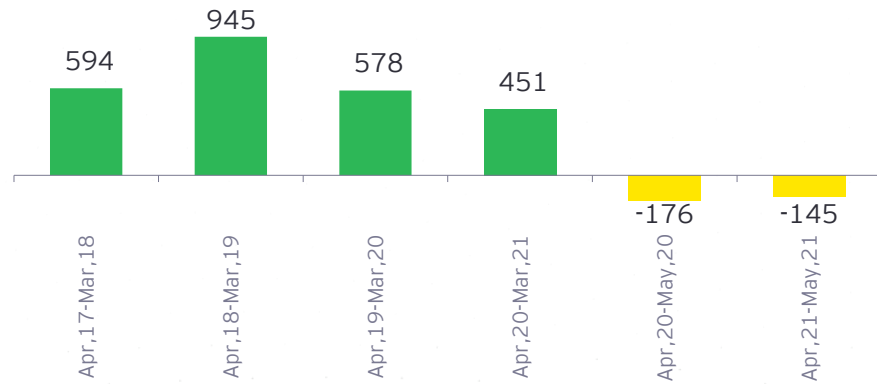
Key findings

- ▶ Stock market turnover has not been much impacted by the second wave.
- ▶ Major interest rates in the economy such as the Government security bonds, daily call rates have remained largely stable with status quo monetary policy and RBI's active interventions.
- ▶ In a positive news, corporate bond spreads have reduced, which will lower the borrowing costs for companies.

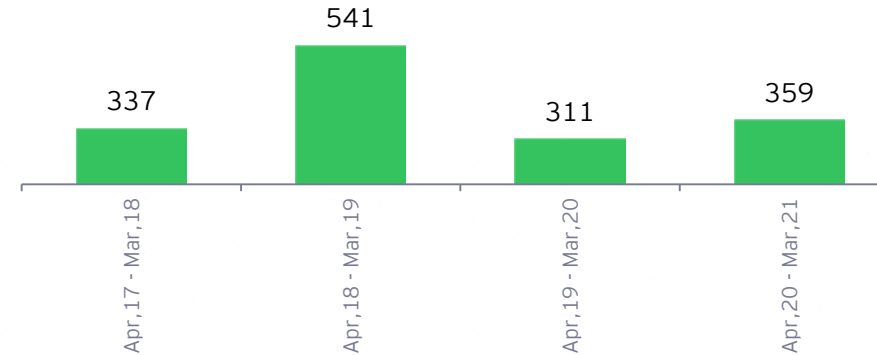
Source: NSE, BSE, Carè Ratings. Data available as on 31st May 2021

VIX is a volatility index based on the NIFTY Index Option prices. It indicates the expected market volatility over the next 30 calendar day

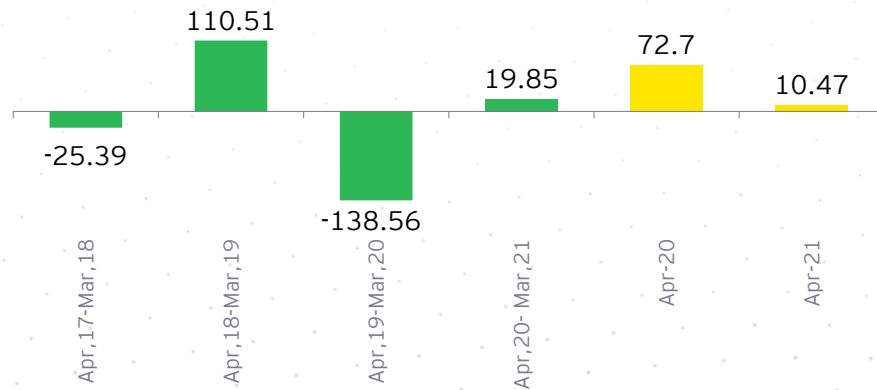
Flow of gross non food credit of scheduled commercial banks (Rs '000 crores)



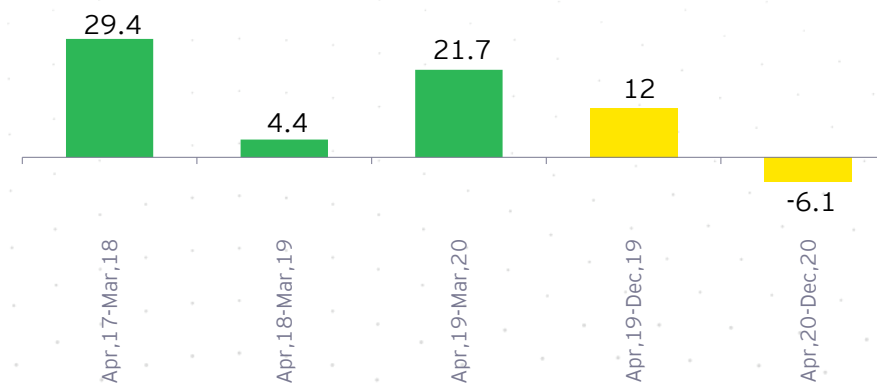
Change in outstanding corporate bonds listed on NSE & BSE (Rs '000 Crores)



Change in outstanding commercial paper (Rs '000 crores)



Outstanding external commercial borrowings (as on; in US\$ billions)

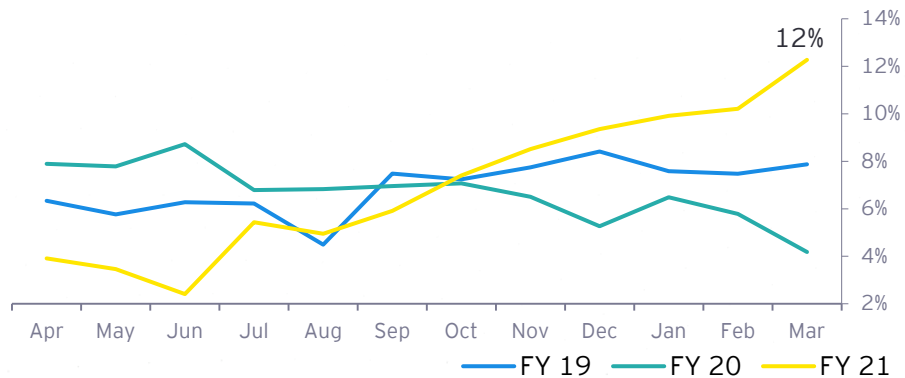


Source: RBI, SEBI

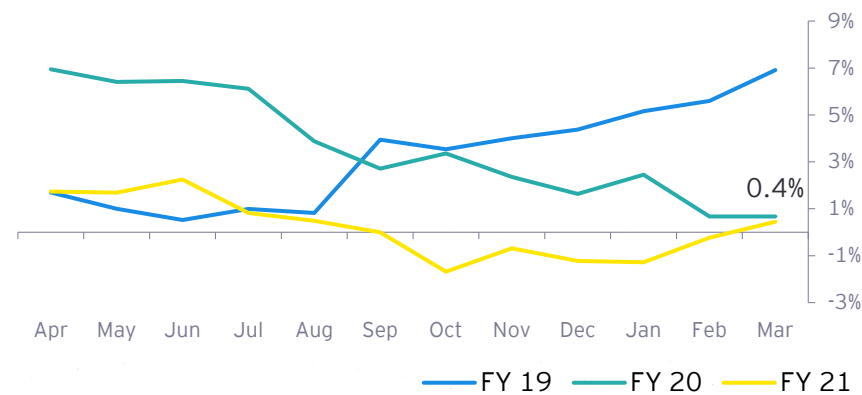
Key findings

- ▶ Despite initial lockdowns severely impacting flow of banking credit, the aggregate credit flow in FY2020-21 has been only lower by 20% compared to FY2019-20.
- ▶ Based on data available for other sources of flow of credit, commercial paper and corporate bond debt raised has also been high in FY2020-21 relative to previous year.
- ▶ In the initial months in FY2021-22, the credit has contracted again but not to the same extent as last year.

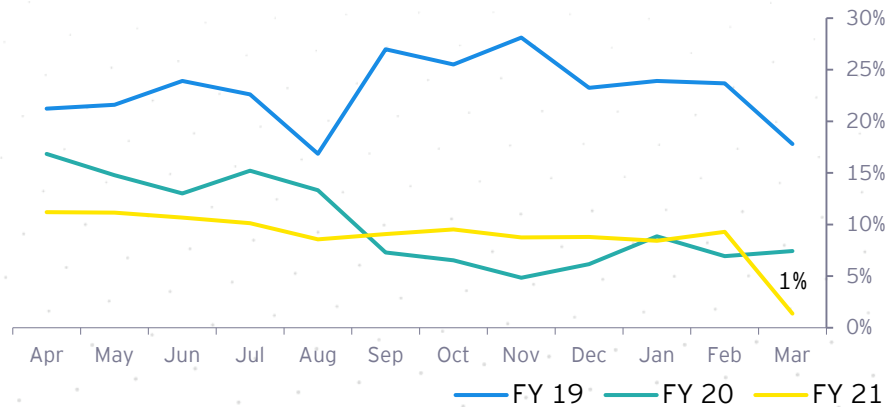
Growth rate of bank credit to agriculture and allied activities



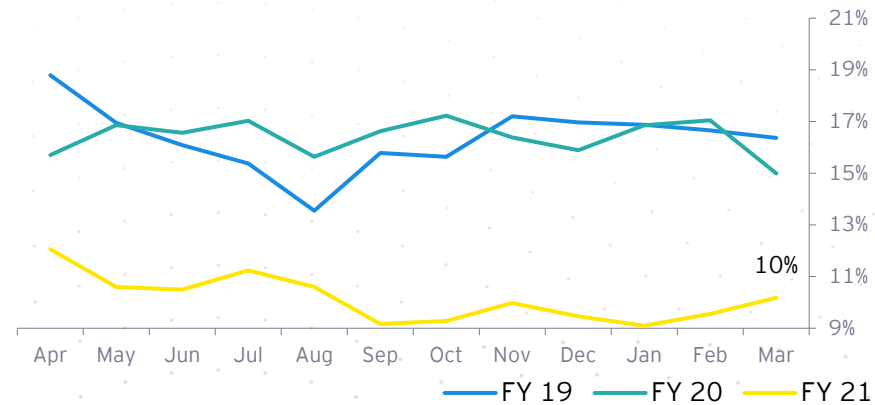
Growth rate of bank credit to industry



Growth of bank credit to service sector



Growth of bank credit to personal loans



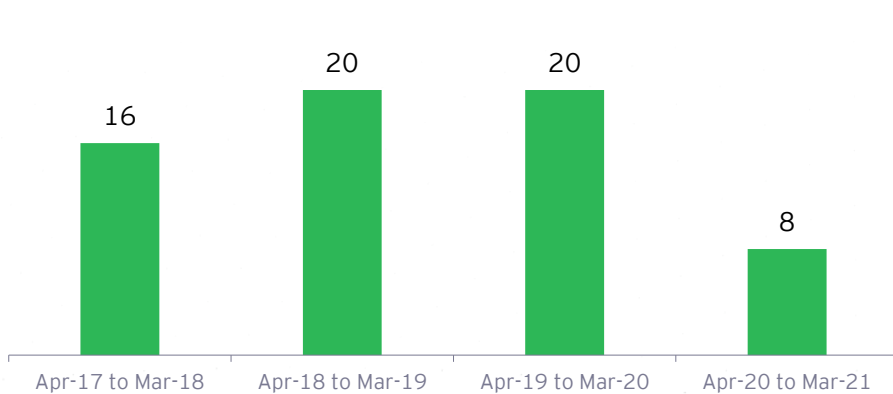
Key findings

- ▶ Bank credit flow has improved in the last quarter of FY2020-21 for agriculture, industry and personal loans category.
- ▶ In FY2020-21, bank credit to agriculture and allied activities has grown by 12%, credit for industry has been stagnant. However, given the initial challenges, this is an improvement.
- ▶ The sudden drop in services sector credit in March 2021 points to potential difficulties in the sector.

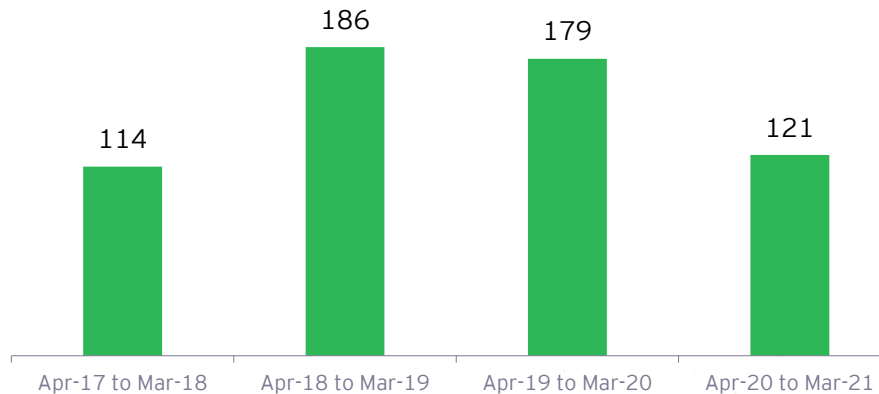
Source: RBI
Growth rates have been computed based on the change over 12 month period

Change in gross personal loans advanced by banks

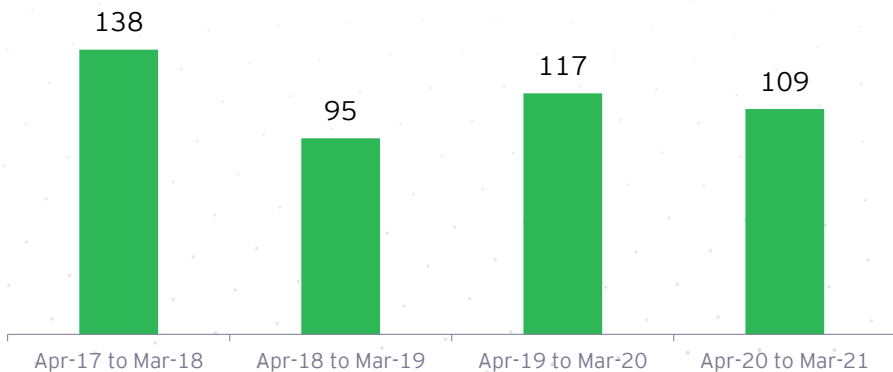
Credit card debt (in INR '000 crores)



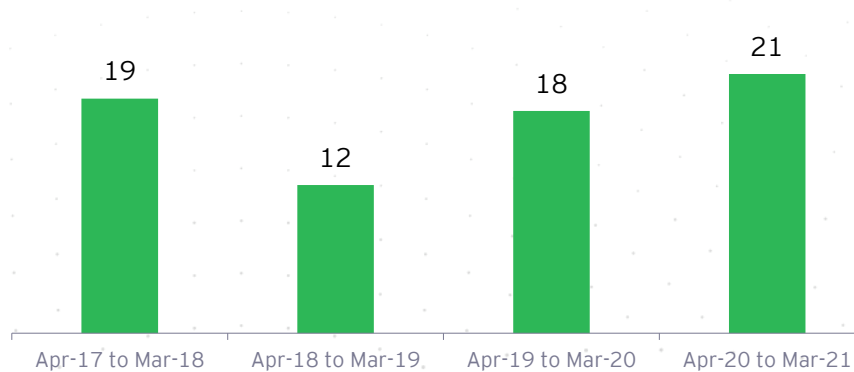
Housing loans (in INR '000 crores)



Other personal loans (in INR '000 crores)



Auto loans (in INR '000 crores)

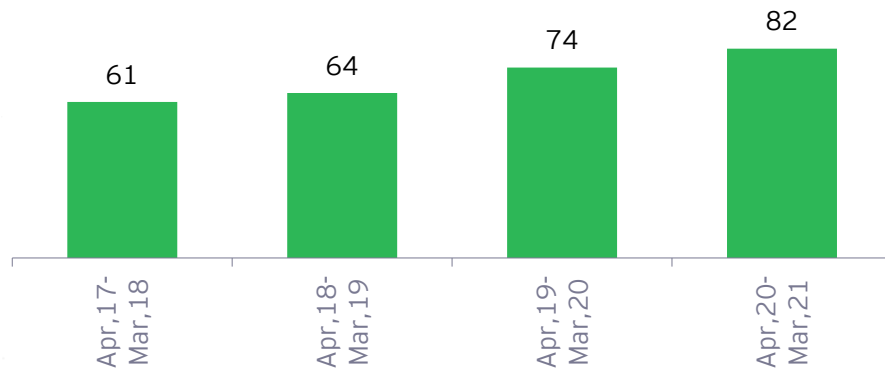


Key findings

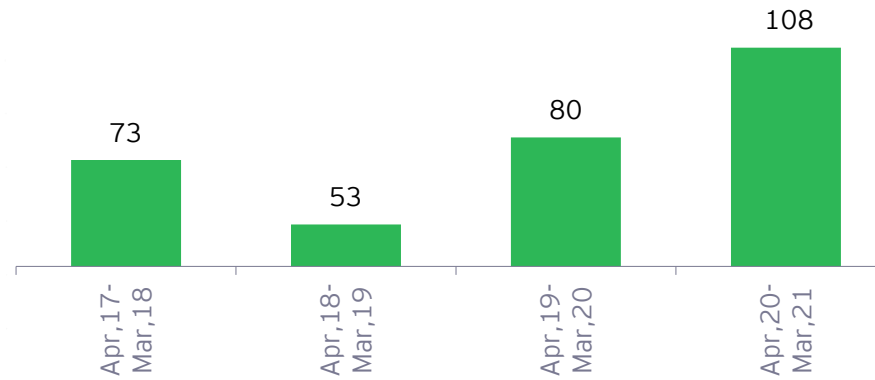
- ▶ Loans to individuals advanced by the banks and auto loans have grown by 17% in FY 2020-21.
- ▶ However, housing loans and credit card debt have been lower by 32% and 60% respectively in FY2020-21 over previous year.
- ▶ Other personal loans have also fallen by 20% in FY2020-21.

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

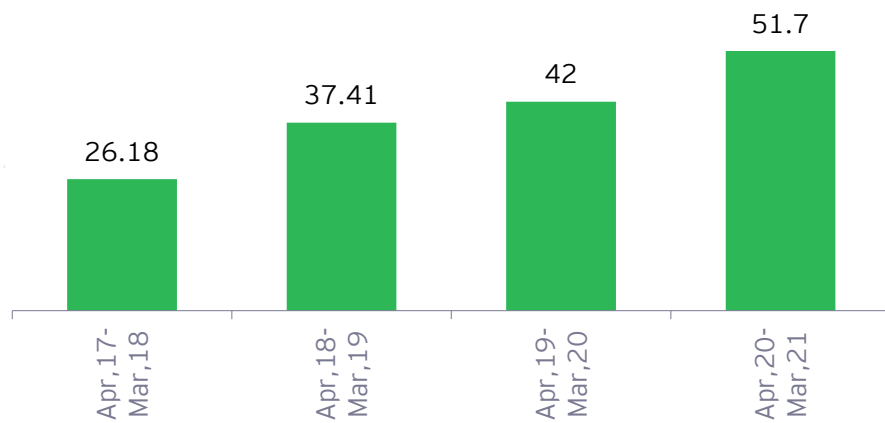
Gross FDI inflows in India (US\$ billions)



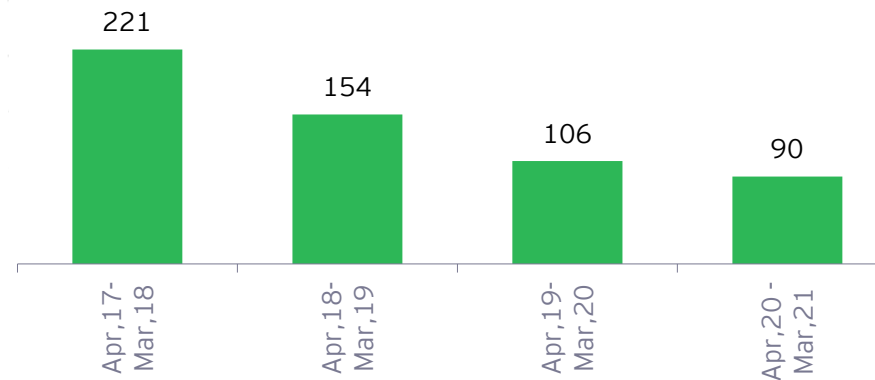
Money raised by Non Governmental companies ('000 crores)



PE/VC investments (US\$ billions)



No. of Issues to raise money by Non Governmental companies



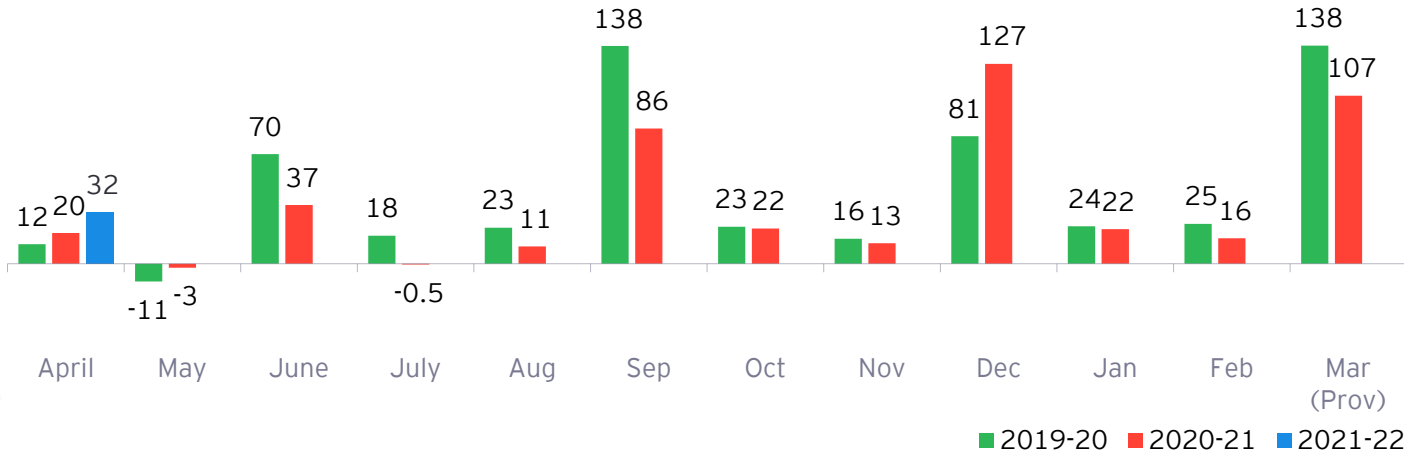
Source: RBI, EY Analysis

Key findings

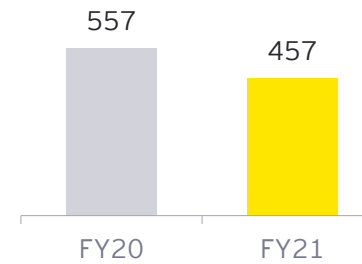
- ▶ As compared to debt, equity investments have continued strongly during this year.
- ▶ The gross FDI inflows have consistently risen, recording growth of 10% over FY2019-20. FY2020-21 has accounted for highest FDI inflows till date.
- ▶ The investments by PE/VC industry has grown by 23% during in FY2020-21.
- ▶ The money raised by non-governmental companies has also increased by 35% in FY2020-21, however with reduced number of issues.

Trends in Centre's tax collections

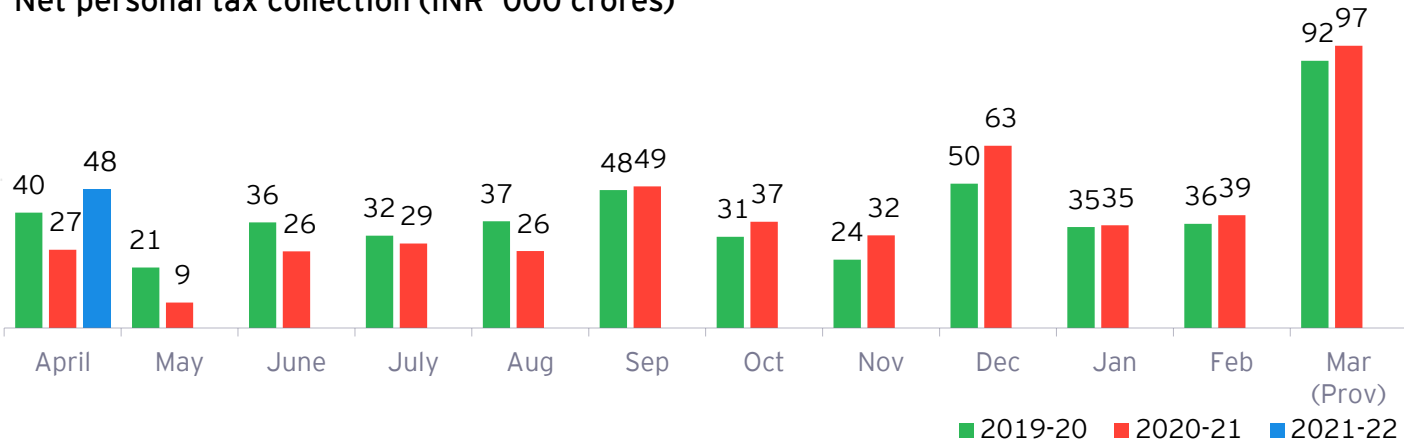
Net corporate tax collection (INR '000 crores)



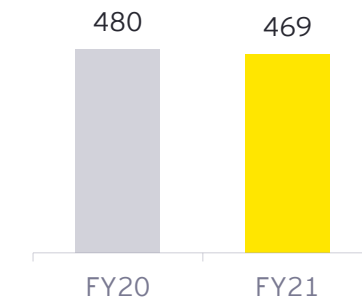
Corporation tax (INR '000 crores)



Net personal tax collection (INR '000 crores)



Personal tax (INR '000 crores)



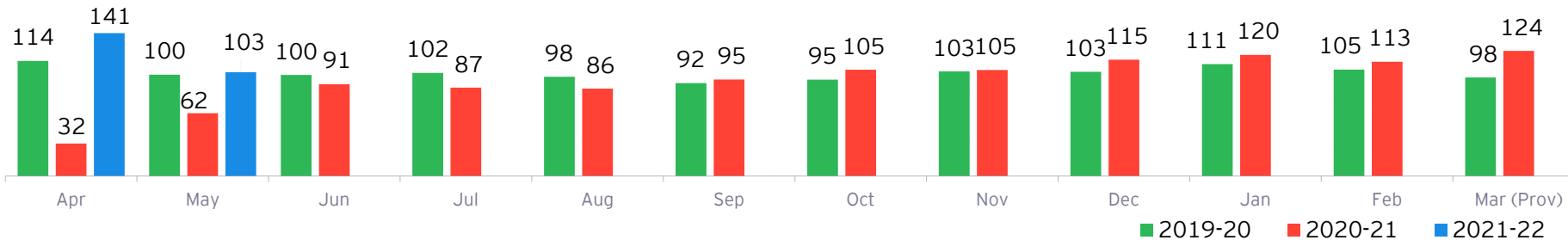
Key findings

- ▶ Corporate tax collections declined in FY21 vis a vis FY20 by INR 99,696 crore (growth of -17.9%). This is due to the combined impact of lower CIT rates and the pandemic induced lockdown
- ▶ PIT collections for FY21 declined as against last year, but by a small percentage of -2.3%, indicating robustness compared to CIT collections.
- ▶ The total direct tax collections for FY21 were 10% lower than that in the previous year.
- ▶ However, both income tax and corporate tax collections at Rs 9.45 lakh crore in FY 21 exceeded the revised target (Rs 9.05 lakh crores) by 5%.

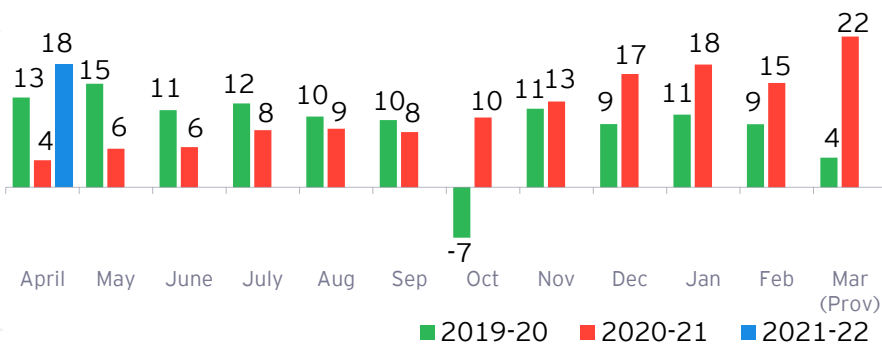
Source: Controller General of Accounts; GST Council/ PIB

Trends in Centre's tax collections

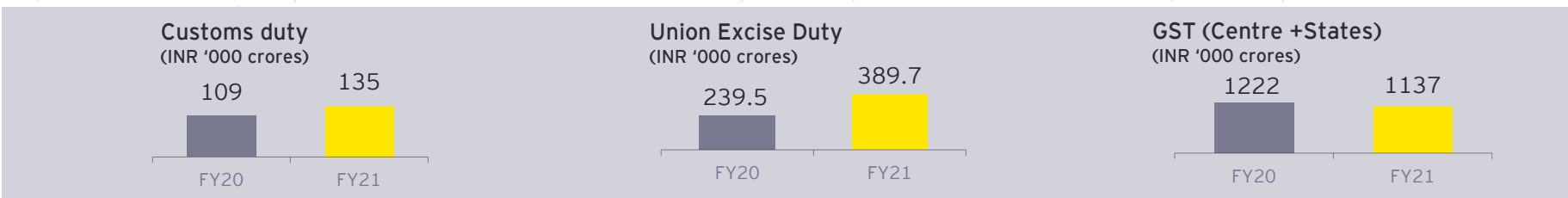
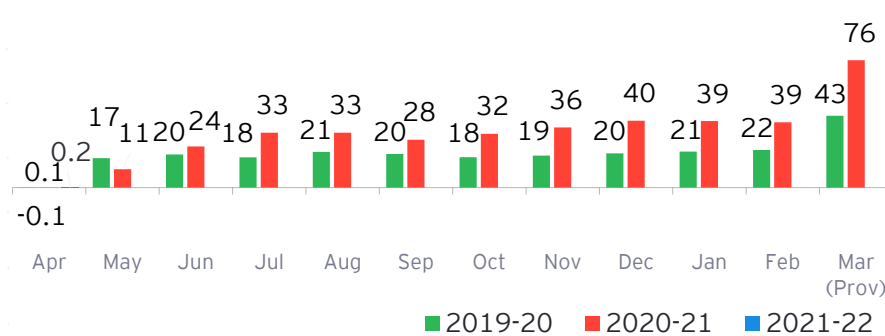
GST Collections (Centre + States) (INR '000 crores)



Customs (INR '000 crores)



Union excise duty (INR '000 crores)



Source: Controller General of Accounts; GST Council/ PIB

Key findings

India's Gross GST revenue fell to ₹1.03 lakh crore in May, from a record ₹1.41 lakh crore in April. The moderation in GST inflows was expected as evident in the sequential slowdown in e-way bills between March and April.

It may be noted that at ₹1.03 lakh crore, the GST collections for May 2021 are higher than that in May 2020 and even May 2019, thus reflecting the economic growth pattern.

Stricter tax administration/enforcement has also contributed to higher collections.

For FY21, Union excise duty (UED) and Customs duty collections registered an increase of 63% and 23% respectively. The UED increase is due to hike in tax rates on petroleum products. Customs duty collections increased due to the increase in customs duty rates in the last budget as also growth in imports of items like gold, chemicals and pharma products.

Tax collection trends in the last three years show a decline in corporate tax / GDP percentage and a greater share of indirect taxes in sources of tax

Public finance

Centre's Tax collections as a percentage of GDP (%)

	CIT	PIT	Total Direct Tax*	Customs	Union excise duties	Service Tax	Centre GST	Total Indirect Tax	Gross Total tax
FY15	3.40	2.10	5.60	1.50	1.50	1.30		4.40	10.00
FY16	3.30	2.10	5.40	1.50	2.10	1.50		5.20	10.60
FY17	3.20	2.40	5.50	1.50	2.50	1.70		5.60	11.20
FY18	3.30	2.50	5.90	0.80	1.50	0.50	4.60	5.40	11.20
FY19 (Actuals)	3.51	2.50	6.02	0.62	1.23	0.04	3.08	5.00	11.02
FY20 (Actuals)	2.74	2.42	5.16	0.54	1.18	0.03	2.94	4.72	9.88
FY21 (RE)	2.26	2.32	4.58	0.57	1.83	0.01	2.61	5.04	9.62
FY21 (Actuals)	2.32	2.38	4.80	0.68	1.97	0.01	2.78	5.46	10.25
FY22 (BE)	2.45	2.52	4.97	0.61	1.50	0.00	2.83	4.98	9.95

Key findings

- ▶ The gross tax collections as a percentage of GDP stagnated around FY18 and have been falling since then.
- ▶ The pandemic impact has further exacerbated the decline in the tax collections.
- ▶ Notably, the CIT collections as a percentage of GDP have been sharply declining after FY19, owing to the combined impact of economic slowdown as also the cut in the CIT rates.
- ▶ The FY21 tax collections indicate a shift in the tax composition in favour of indirect taxes. DT: IDT ratio is now at 46.8 : 53.2
- ▶ The second pandemic wave may affect the targets for the current fiscal as well.

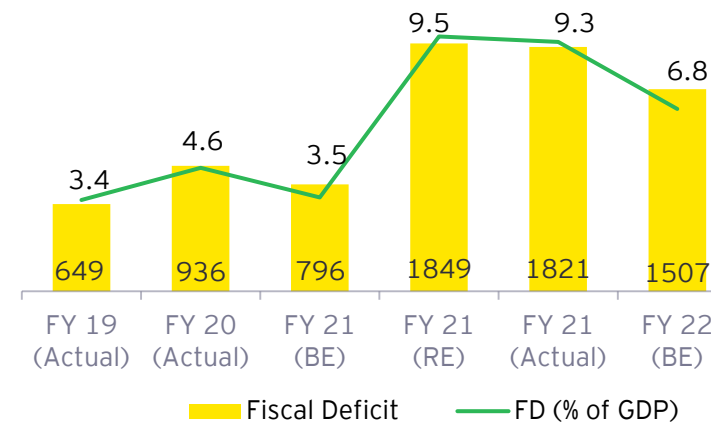
Source: Union Budget documents, Central Statistical Organization, MoSPI, CGA Accounts
*Total Direct Tax includes CIT, PIT and other taxes

Centre bridges the resource gap through unprecedented borrowings

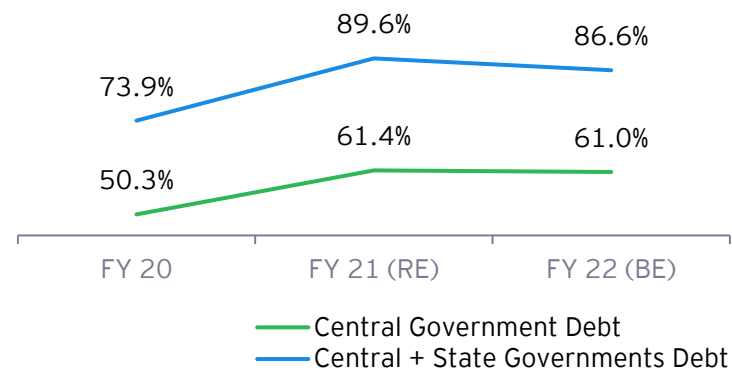
Public finance

#	Particulars	Revised estimate (2020-21) (INR crores)	Actuals (2020-21) (INR crores)	Actuals (2020-21) as % of FY 21 RE	FY22 (BE) (INR crores)
1	Tax Revenues (Net of States' share)	13,44,501	14,24,035	105.9%	15,45,396
2	Non tax revenues	2,10,653	2,08,059	98.8%	2,43,028
3	Revenue receipts (1+2)	15,55,153	16,32,094	104.9%	17,88,424
4	Other receipts	46,497	57,626	123.9%	1,88,000
5	Total non-debt receipts (3+4)	16,01,650	16,89,720	105.5%	19,76,424
6	Revenue expenditure other than interest	23,19,016	24,04,281	103.7%	21,19,427
7	Interest	6,92,900	6,82,079	98.4%	8,09,701
8	Capital Expenditure	4,38,389	4,24,821	96.9%	5,54,108
9	Total Expenditure (6+7+8)	34,50,305	35,11,181	101.8%	34,83,236
10	Fiscal Deficit (9-5)	18,48,655	18,21,461	98.5%	15,06,812

Fiscal deficit (INR '000 crores)



Debt as a percentage of GDP



Key findings

- ▶ The tax collections for FY21 have been higher than the revised estimates. As a result, the fiscal deficit for FY21 has improved to 9.3% of GDP as against 9.5% estimated earlier.
- ▶ Depending on the full impact of the second pandemic wave on revenues and expenditure, containing the fiscal deficit for FY22, estimated at 6.8% of GDP, may be a challenge.
- ▶ Due to various COVID relief measures, the combined government's debt to GDP ratio for FY 21 is well above the FRBM (2018) norm of 60%. Similarly, Centre's debt to GDP ratio for FY 21 is also above the FRBM norm of 40%.

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

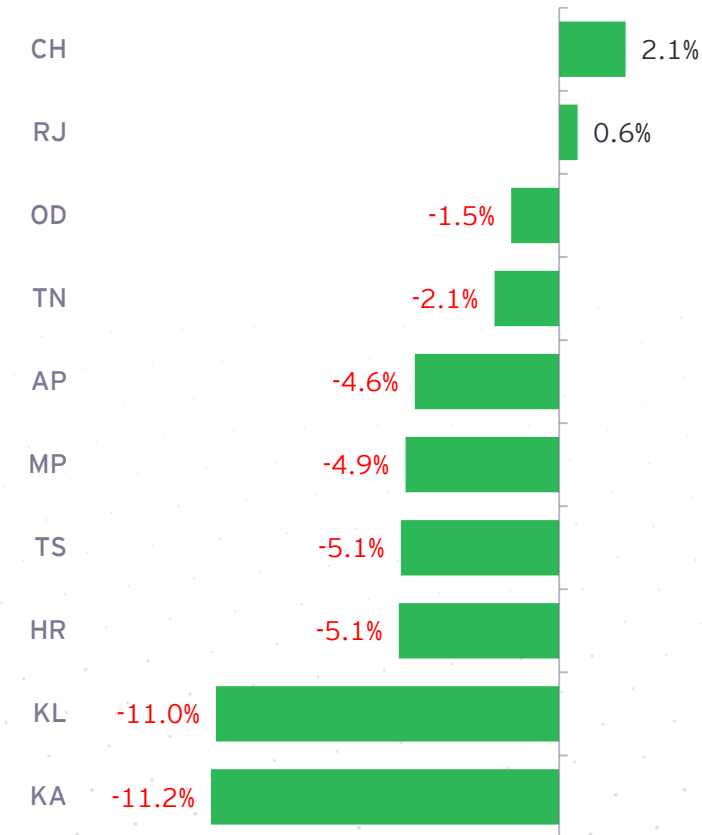
*Combined Debt is as per IMF April 2021 database

**For computing central government debt nominal GDP for FY21 has been taken as per provisional estimate released on 31st May 2021

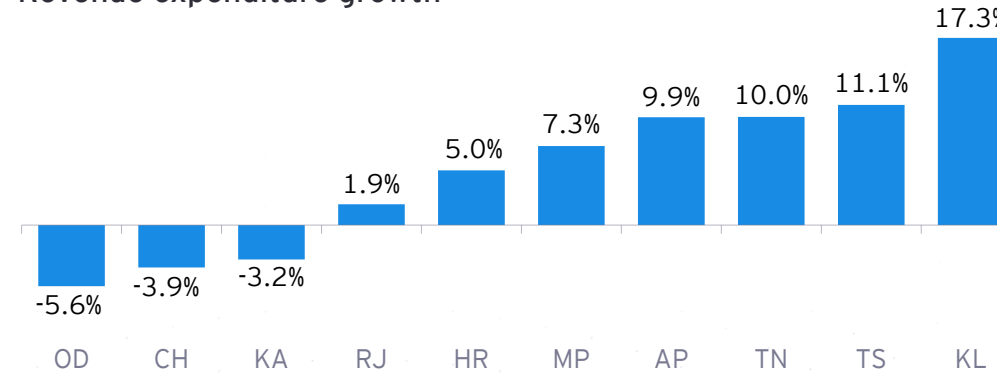
States' tax revenues are gradually recovering, but growth remains negative

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

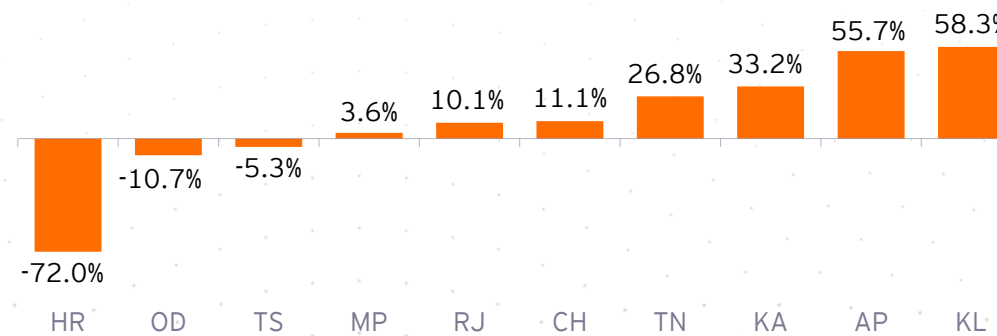
Tax revenue growth



Revenue expenditure growth



Capital expenditure growth



Key findings

- ▶ The States have seen an uptick in tax revenue collections in the last couple of months. However, the States' tax revenue growth (especially Kerala and Karnataka) has been negative due to the combined effects of prolonged lockdown and fall in the share of union taxes. Other revenues e.g. from stamps and registration, motor vehicle tax and other taxes also suffered.
- ▶ On the expenditure front, in most States, growth in capital expenditure has picked up and is indicative of improved fixed capital formation.
- ▶ The States' capex impacts the positive multiplier impact that it could have on economic growth.

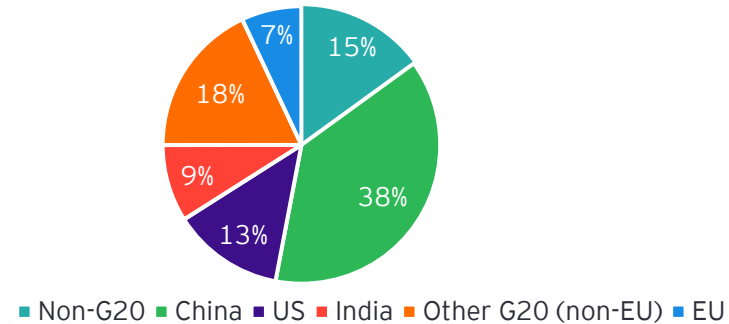
AP: Andhra Pradesh; CH: Chhattisgarh; HR: Haryana; KA: Karnataka; KL: Kerala; MP: Madhya Pradesh; OR: Odisha; RJ: Rajasthan; TN: Tamil Nadu; TS: Telangana; UP: Uttar Pradesh; Source: Controller and Auditor General; State Accounts

Carbon pricing is an important climate change mitigation strategy. However, current carbon prices are well below the levels needed to drive decarbonization: IMF

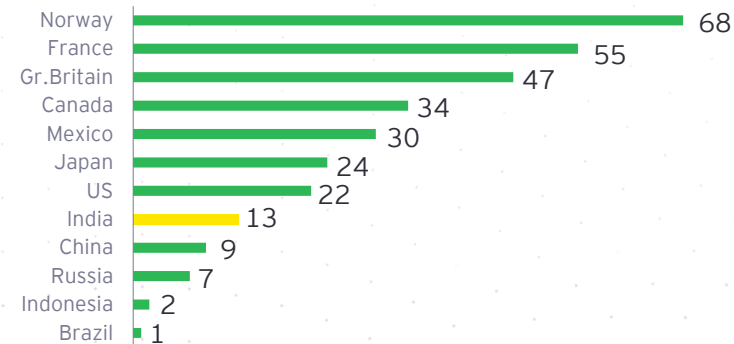
Decarbonization efforts by select countries

Country	Announcements made at Leadership Climate Summit 2021
Brazil	<ul style="list-style-type: none"> Achieve net zero by 2050 End illegal deforestation by 2030
China	<ul style="list-style-type: none"> Strengthen control of non-CO2 greenhouse gases Control coal-fired power generation, slowdown coal consumption
India	<ul style="list-style-type: none"> Reiterated its target of 450 GW of renewable energy by 2030 Launch of US-India 2030 Climate and Clean Energy Agenda 2030 to mobilise finance and speed clean energy innovation
Japan	<ul style="list-style-type: none"> Reduce emissions 46-50% below 2013 levels by 2030 - a significant improvement from its existing 26% reduction goal
Russia	<ul style="list-style-type: none"> Emphasis on carbon capture and storage, atmospheric carbon removals, international collaboration to address GHG
South Africa	<ul style="list-style-type: none"> Strengthen NDC and shift its intended emissions peak year ten years earlier to 2025
UK	<ul style="list-style-type: none"> Embed in law a 78% GHG reduction below 1990 levels by 2035
USA	<ul style="list-style-type: none"> Reduce greenhouse gas emissions by 50% by 2030

Country share in projected global CO2 emissions, 2030



Carbon price score (%) at EUR 60 per ton of CO2 (2018)



Carbon Price Score measures the extent to which countries have attained the goal of pricing all energy related carbon emissions.

Carbon pricing means charging for the carbon content of the fuel or their emissions. It includes carbon taxes, fuel excise taxes, Emission Trading System and other mechanisms.

EUR 60 per tonne of CO2 is a low-end 2030 benchmark according to the High-Level Commission on Carbon Pricing.

Source: OECD

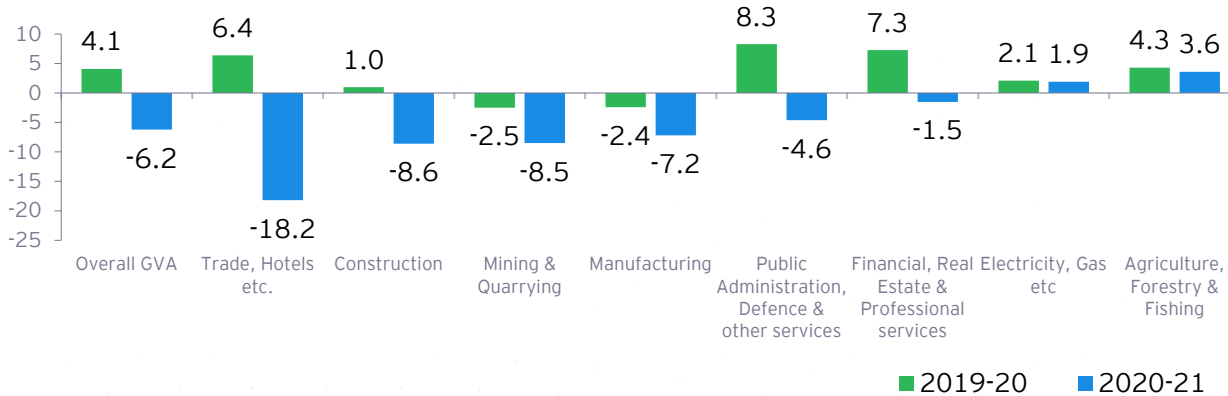
IMF-OECD Report on Tax Policy and Climate Change notes:

- ▶ Current carbon prices do not match policy ambitions.
- ▶ Effective carbon rates are low and poorly aligned with fuels' carbon content. More stringent carbon pricing / equivalent policies will be needed for countries to reach their nationally determined targets.
- ▶ There is a need for continued monitoring of greenhouse gas emissions pricing, energy taxation and related policies.
- ▶ Potential revenue gains from carbon pricing are significant. E.g., a US\$ 50 per ton of CO2 carbon price in 2030 would generate revenue increases of around 1% of GDP for many G20 countries and more in some cases

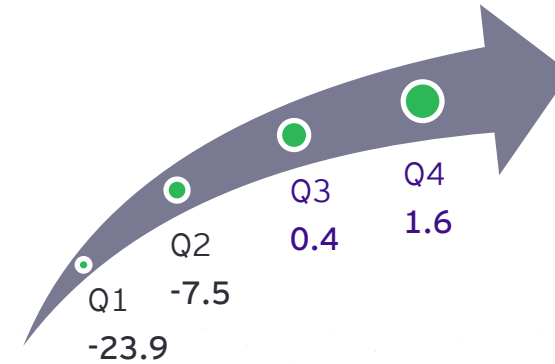
India's GDP for FY21 estimated at -7.3% as against 4% in FY20

Economic outlook

[Gross value added growth (%): major sectors] - yearly % change over previous year



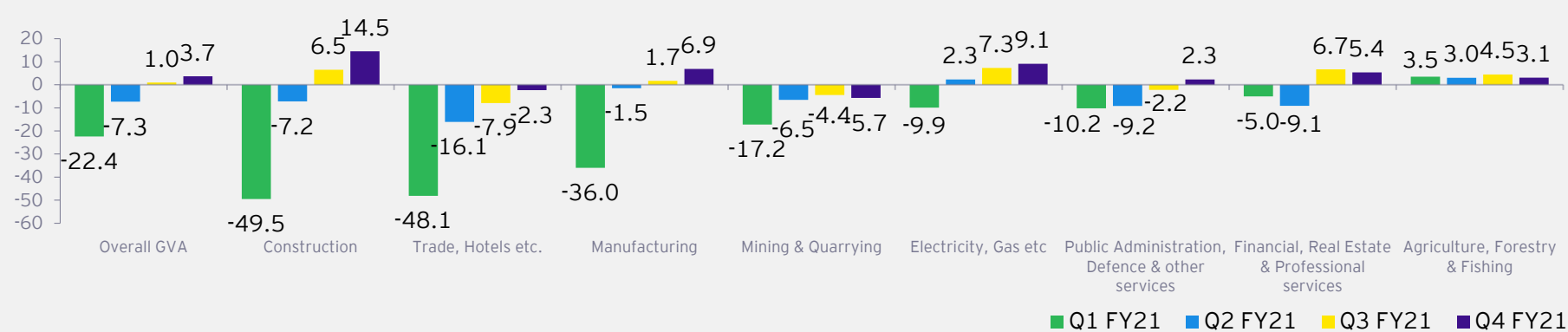
Quarterly GDP growth for FY21 (%)



Key findings

- FY21 real GDP growth, estimated at (-)7.3% as per MOSPI's latest data, is an improvement over the earlier estimate of (-)8.0%. The improved growth is due to the Q4 positive GDP growth at 1.6% as against the earlier estimate of (-)1.1%.
- The output sectors (GVA) showed an annual contraction of (-)6.2% in FY21 as against (-)6.5% estimated earlier.
- GVA in Q4 of FY21 grew by 3.7% as against the earlier estimated growth of 2.5%. Sectors which largely contributed to this improved growth are manufacturing (strong recovery at 6.9%) and construction (growth of 14.5%). However, growth in public administration, defence and other services was lower at 2.3% as compared to 3.2% estimated earlier.

Quarterly gross value added growth (%): major sectors

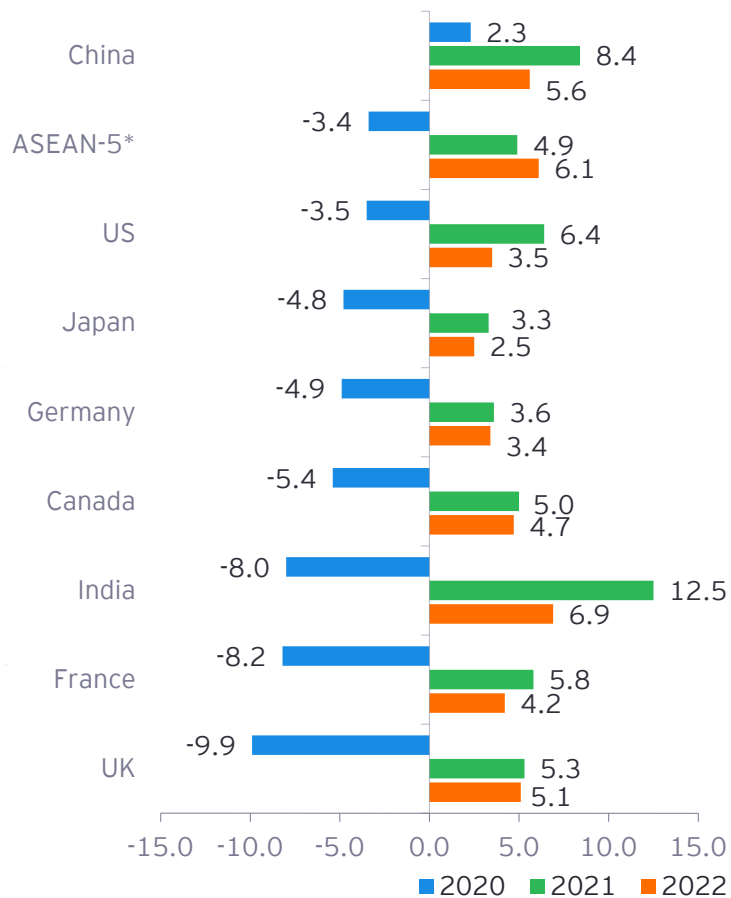


Source: EY analysis, MoSPI, GoI, RBI, OECD Economic Outlook, December 2020 (Preliminary)

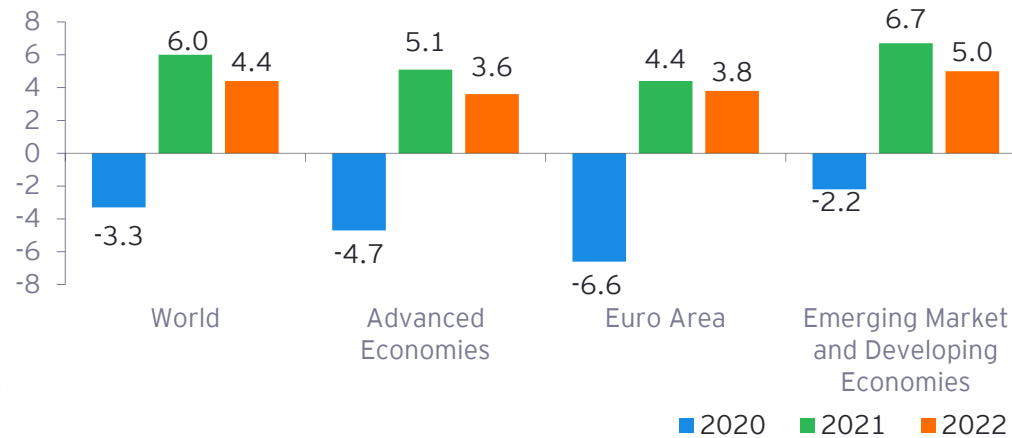
IMF's world economic outlook 2021: divergent recoveries amid high uncertainty

Economic outlook

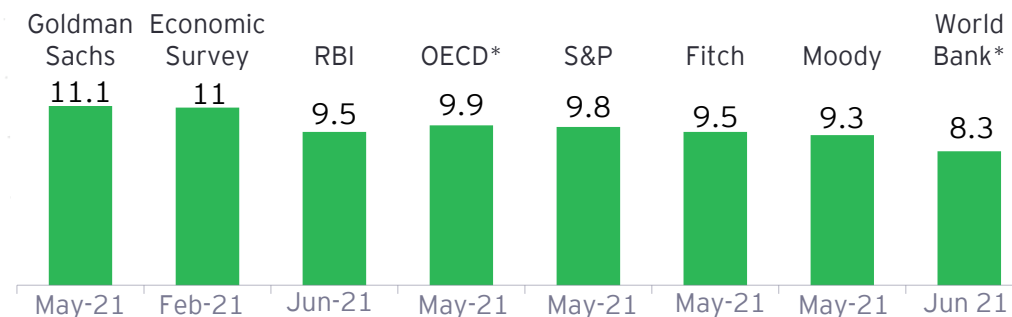
India and other regions



Global growth projections (%)



Forecast for India's GDP for FY22



Projections are for calendar year 2021

Key findings

- ▶ Despite the improved growth outlook, global prospects remain highly uncertain. New virus mutations and the accumulating human toll raise concerns, even as growing vaccine coverage lifts sentiment.
- ▶ Economic recoveries are divergent across countries and sectors, reflecting variation in pandemic-induced disruptions and the extent of policy support.
- ▶ Indian economic growth picked up in the fourth quarter of FY21. However, the second wave of the pandemic has impacted economic activity in the beginning of FY22.
- ▶ Since the onset of the second wave, the growth estimates for FY22 for India have been revised downwards from 11-12% to around 9-9.5%.

Source: International Monetary Fund, World Economic Outlook, April 2021, Media reports; *Indonesia, Malaysia, Philippines, Thailand and Vietnam

Key announcements on monetary policy - post 2nd wave

Overall economic policy

Monetary Policy	Description and Intent
Provide liquidity to targeted parts of the economy amid the second wave	<p>Term Liquidity Facility of ₹50,000 crore to Ease Access to Emergency Health</p> <ul style="list-style-type: none"> ▶ Liquidity window of ₹50,000 crore with tenor of up to 3 years at repo rate being opened till March 31, 2022 for ramping up COVID related healthcare infrastructure and services (covering vaccine manufactures/importers/suppliers, COVID related drugs and priority medical devices including oxygen and ventilators, hospitals/dispensaries, pathology labs, etc) <p>Special Long-Term Repo Operations (SLTRO) for Small Finance Banks (SFBs)</p> <ul style="list-style-type: none"> ▶ SFBs permitted fresh lending to smaller Micro Finance Institutions (asset size of up to ₹500 Cr) for on-lending to individual borrowers as priority sector lending up to March 31, 2022 <p>Credit to MSME Entrepreneurs</p> <ul style="list-style-type: none"> ▶ Provision to SCBs to deduct credit disbursed to new MSME borrowers from their Net Demand and Time Liabilities for calculation of the CRR extended till December 31, 2021.
Resolution Framework 2.0 for COVID Related Stressed Assets of Individuals, Small Businesses and MSMEs	<ul style="list-style-type: none"> ▶ Borrowers who did not avail restructuring under any of the earlier frameworks eligible to be considered under Resolution Framework 2.0 to be invoked up to September 30, 2021 ▶ Lending institutions permitted to modify earlier restructuring plans by increasing the period of moratorium and/or extending the residual tenor up to a total of 2 years ▶ For small businesses and MSMEs restructured earlier, lending institutions can review the working capital sanctioned limits, based on a reassessment of the working capital cycle, margins, etc ▶ The previous Resolution framework was applicable to all the sectors.
Relaxation in Overdraft (OD) facility for States Governments	<ul style="list-style-type: none"> ▶ Maximum number of days of OD in a quarter increased from 36 to 50 and the number of consecutive days of OD from 14 to 21. This facility will be available up to September 30, 2021 ▶ The Ways and Means Advance (WMA) limits of states have already been enhanced on April 23, 2021

Comments

- ▶ RBI's focus in the second wave has been on the most vulnerable category of borrowers- individual borrowers, small businesses and MSMEs
- ▶ Unlike the earlier measures, the focus of RBI this time is more on healthcare and shoring up livelihoods in the informal sector
- ▶ This is in contrast to the earlier wave, where it focussed on the economy covering many more stakeholders

Key announcements on fiscal policy - post 2nd wave

Overall economic policy

Fiscal Policy	Description and Intent
Measures amid the second wave of infections	Extended the food transfer scheme- 5kg of food grains per-person per-month given out to an estimated 800 million Indians free of cost in May and June. The transfers are expected to cost the government Rs 26,000 crore.

Comments

- ▶ The government is working on the new financial measures as the COVID-19 pandemic's second wave puts stress on the repayment of industrial and personal loans and cases of defaults rise.
- ▶ As per the earlier reforms, the new measures are expected with a time lag of 1.5 months since the government is assessing the economic impact of the current situation
- ▶ Given the impact of the ongoing surge in infections, the revenue and expenditure side numbers of the budget may need to be revised.

Glossary

S.No.	Abbreviation	Full Form
1	AEPS	Aadhaar Enabled Payment System
2	APBS	Aadhaar Payments Bridge System
3	ASEAN	Association of Southeast Asian Nations
4	BE	Budget Estimates
5	BHIM	Bharat Interface for Money
6	BSE	Bombay Stock Exchange
7	CGA	Controller General of Accounts
8	CIT	Corporation Income Tax
9	CPI	Consumer Price Index
10	CPO	Crude Palm oil
11	DBIE	Database on Indian Economy
12	DT	Direct Tax
13	ECS	Electronic clearing system
14	EU	European Union
15	FBIL	Financial Benchmarks India Pvt Ltd
16	FBX	Freightos Baltic Index
17	FD	Fiscal Deficit

S.No.	Abbreviation	Full Form
18	FDI	Foreign direct investment
19	FPI	Foreign portfolio investment
20	FRBM	Fiscal Responsibility and Budget Management
21	FY	Financial Year
22	GDP	Gross Domestic Product
23	GHG	Green House Gas
24	GoI	Government of India
25	GST	Goods and Service Tax
26	GVA	Gross Value Added
27	GW	Gigawatt
28	IDT	Indirect Tax
29	IMF	International Monetary Fund
30	JNPT	Jawaharlal Nehru Port Trust
31	MCX	Multi Commodity Exchange of India Limited
32	MMSCN	Multimedia Messaging Service Center
33	MNREGA	Mahatma Gandhi National Rural Employment Guarantee Act

Glossary

S.No.	Abbreviation	Full Form
34	MoSPI	Ministry of Statistics and Programme Implementation
35	NDC	Nationally Determined Contributions
36	Nifty	National Stock Exchange Fifty
37	NSDL	National Securities Depository Ltd
38	NSE	National Stock Exchange of India Ltd
39	OECD	Organization for Economic Cooperation and Development
40	PE	Private equity
41	PIB	Press Information Bureau
42	PIT	Personal Income Tax
43	PMI	Purchasing Managers' Index
44	RBI	Reserve Bank of India
45	RE	Revised Estimates
46	SEBI	Securities and Exchange Board of India
47	TEU	Twenty-foot Equivalent Unit

S.No.	Abbreviation	Full Form
48	TRAI	Telecom Regulatory Authority of India
49	UED	Union Excise Duty
50	UPI	Unified Payments Interface
51	VC	Venture capital
52	VIX	Volatility Index
53	WPI	Wholesale Price Index

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EYIN2106-008
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