

India Economic Pulse

Economic indicators and
policy measures

October 2021

ENTER

EY

Building a better
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Executive summary

Dear Reader,

We are pleased to present the October 2021 edition of India Economic Pulse, analyzing high frequency economic indicators. This issue highlights the following:

Indian economy entering another growth phase

- ▶ The Indian economy has picked up stronger momentum across different sectors indicating a broad-based growth recovery.
- ▶ Most encouraging growth was seen in the goods sector reflected by numbers around manufacturing, exports, and goods movement. The growth has picked up in the last few months over corresponding pre-COVID period in 2019. This has increased confidence in the durability of the growth going forward.
- ▶ However, consumption demand has been affected by high price inflation and it still needs to pick up across some sectors.
- ▶ Social mobility is at an all time high since the outbreak of COVID-19. Therefore in the last two months, there are signs of services growth also returning. This is an important trend as services sector form the bulk of the Indian economy.
- ▶ Exports have been doing very well and as per current trends would be well in excess of its previous high in 2018-19.

Robust tax collections provide support to public finance

- ▶ After a severe impact of COVID-19 on Government's revenue collections in FY 21, India's tax collections in April- September FY22 have been robust and exceed the pre-COVID-19 FY20 tax collection under all heads i.e., income taxes, GST, customs duty and excise duty.

Fund raising tilts towards equity against debt, investments remain strong

- ▶ Equity investments continued to show a strong trend. However, bank credit growth remained subdued. Corporate bond issuances on the other hand have shown higher flows.

Potential challenges for growth

- ▶ Supply chain bottlenecks have led to global commodity prices increasing rapidly. This has caused some concern and in future it can affect growth as high prices affect profitability, hit the consumer demand and lead to increased inflation.
- ▶ While the COVID-19 crisis led the fiscal and monetary policies to be expansionary, the RBI has indicated it would likely look to normalize the monetary policy especially with inflation continuing to remain relatively high. Potential tightening of liquidity and increase in interest rates, if implemented, could be a short-term challenge for the economy.

The Government's focus on vaccinations is welcome. With continuing push from the Government on attracting investments and also strengthening the existing businesses, we hope that the economy manages to hit a rapid growth trajectory in coming quarters.

Best regards,



Pankaj Dhandharia
Partner & Markets Leader
EY India

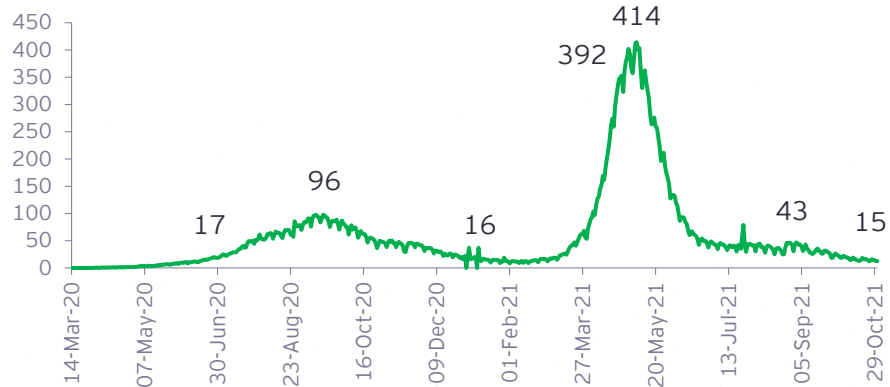


Rajnish Gupta
Associate Partner
EY India

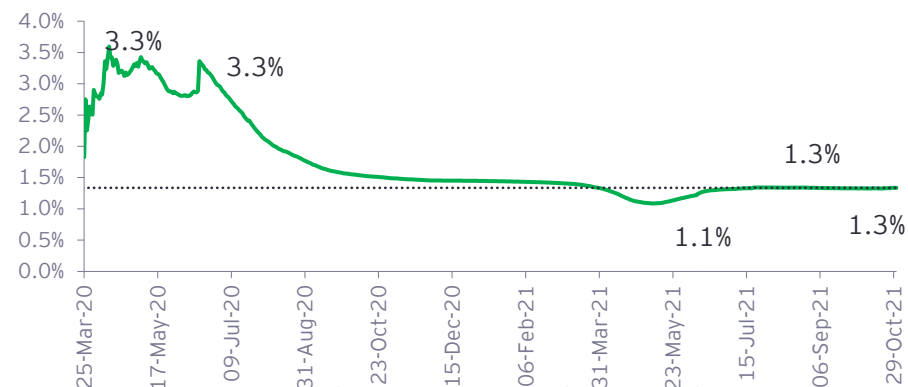
Tracking the spread of COVID-19 in India

COVID-19 impact

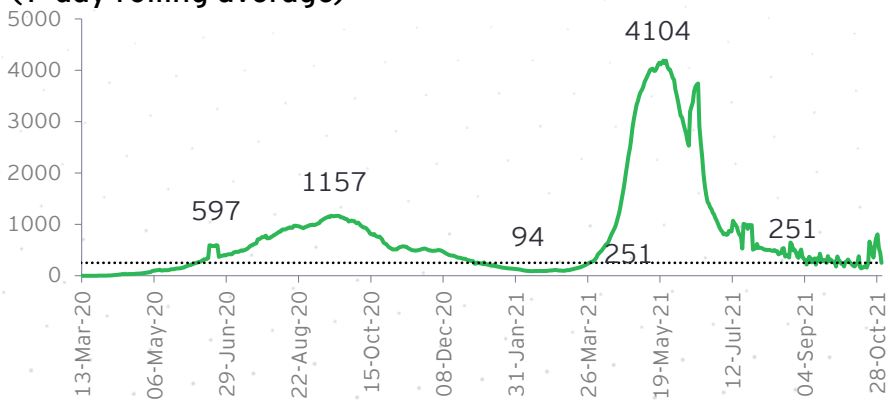
Daily new confirmed COVID-19 cases (in '000s)



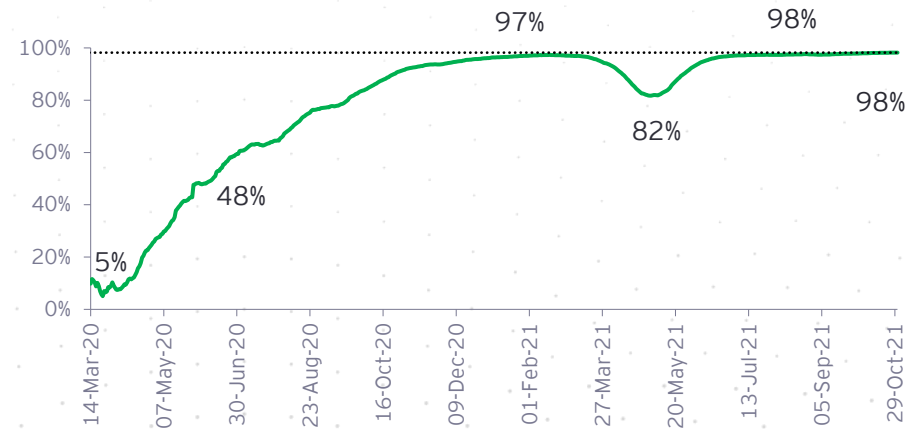
Fatality rate (%)



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



Recovery rate (%)

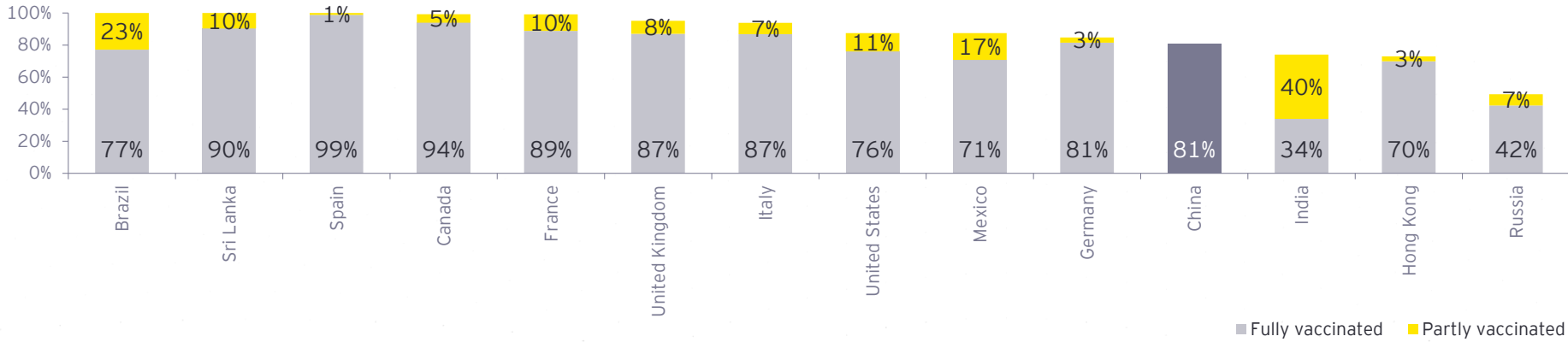


Note: Data as on 31st October 2021
Source: Our World in Data

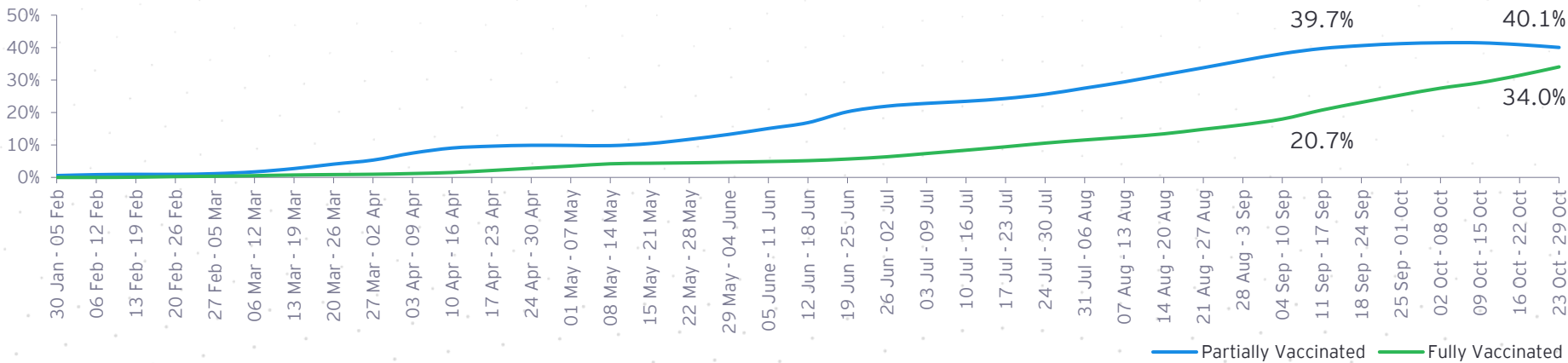
Key findings

- ▶ India's COVID-19 cases have continued to come down steadily along with decline in mortality
- ▶ Number of cases and deaths have also been consistently falling, which partly could be a result of widespread vaccination drive
- ▶ Despite the record vaccination levels, caution may need to be exercised to quell the possibility of a third wave

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



India vaccination trends (for adult (18+) population)



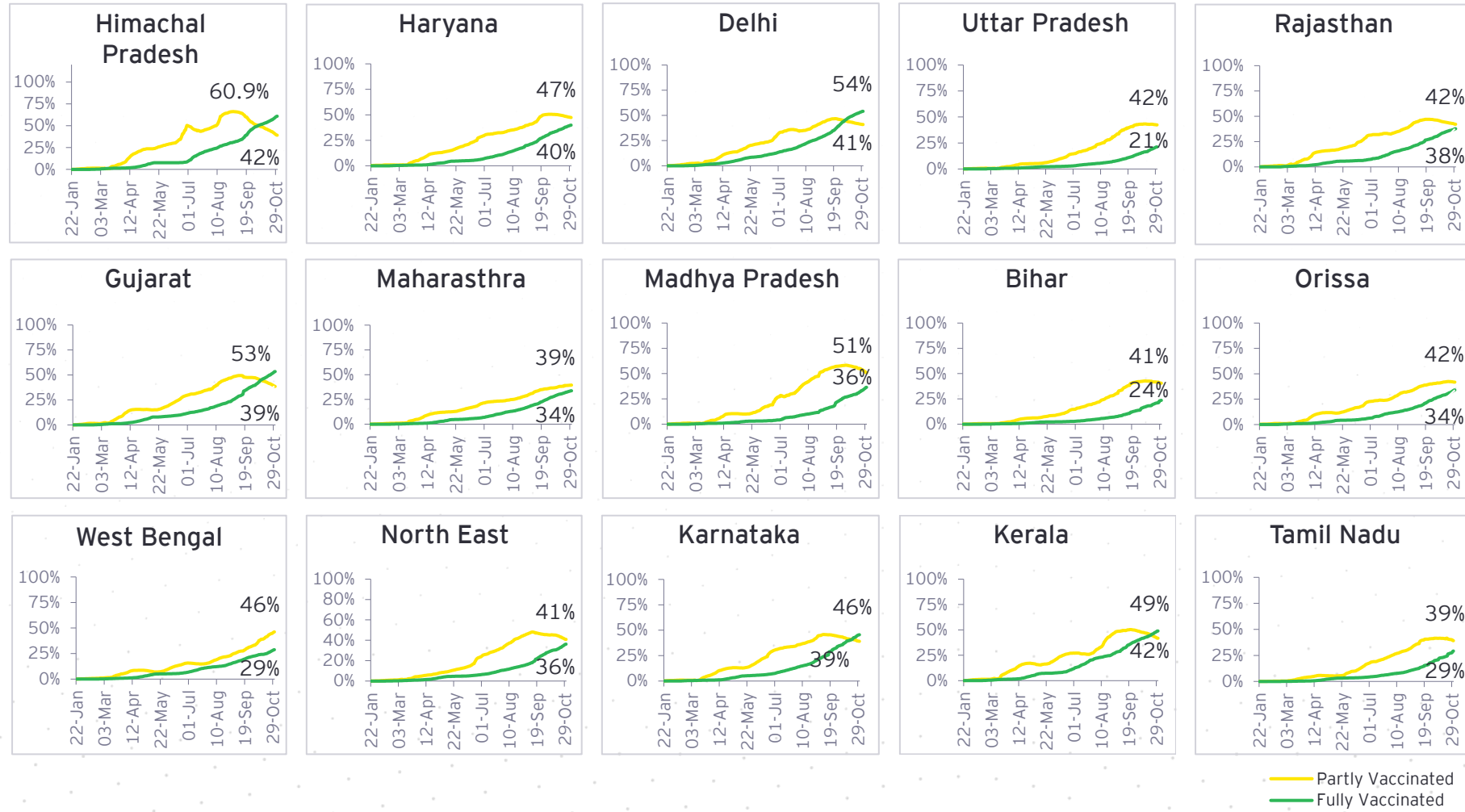
Note: 1. Global vaccine drive data is normalized for population above 20 years of age. 2. Vaccination rate bifurcation not available for China
3. Calculation for India is done for 18+ population; Data as on 31st October 2021; Source: Our world in data, COWIN

Key findings

- ▶ The prevalent thinking towards breaking the cycle of COVID-19 outbreaks is to vaccinate large parts of the population
- ▶ India has ramped up its vaccination drive since June 2021 with availability of more doses and centralized procurement
- ▶ India administered 41 million doses in the last week of October 2021

State-wise vaccination status 2021 (% of adult population)

COVID-19 impact

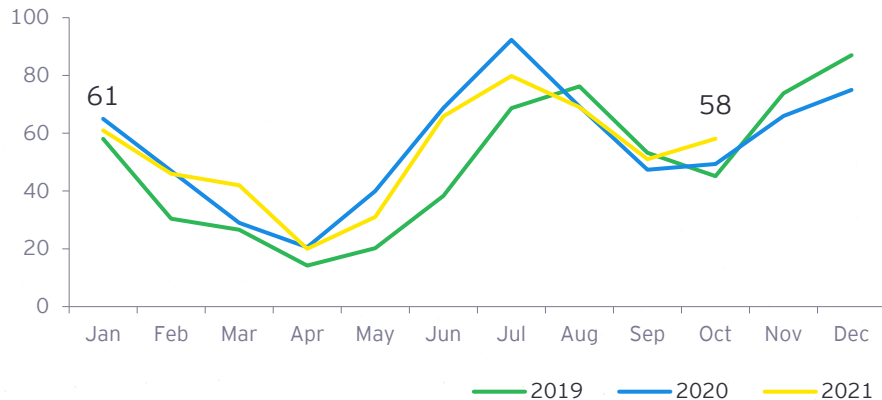


Key findings

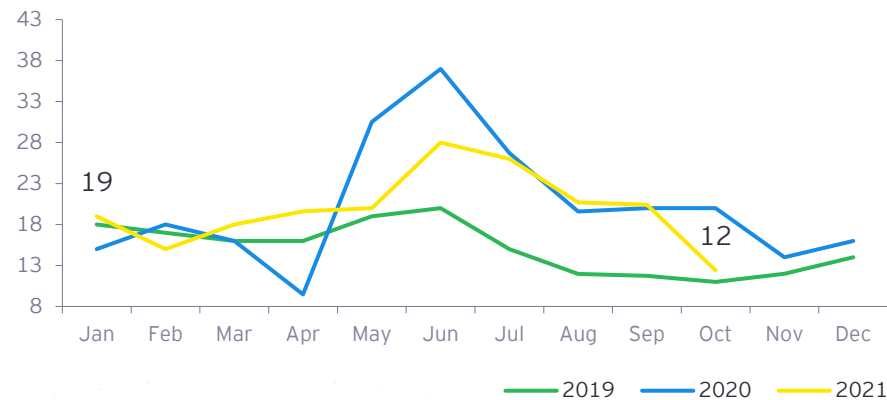
- ▶ There is a wide variance in the vaccination rates across different states. Vaccination rates range between 64% to 100%.
- ▶ Himachal Pradesh is leading the drive having partially vaccinated over 60% of its population, and with 100% of its adult population having received at least one dose.

Note: Data as on 31st October 2021; Adult Population: 18+ population
Source: COWIN

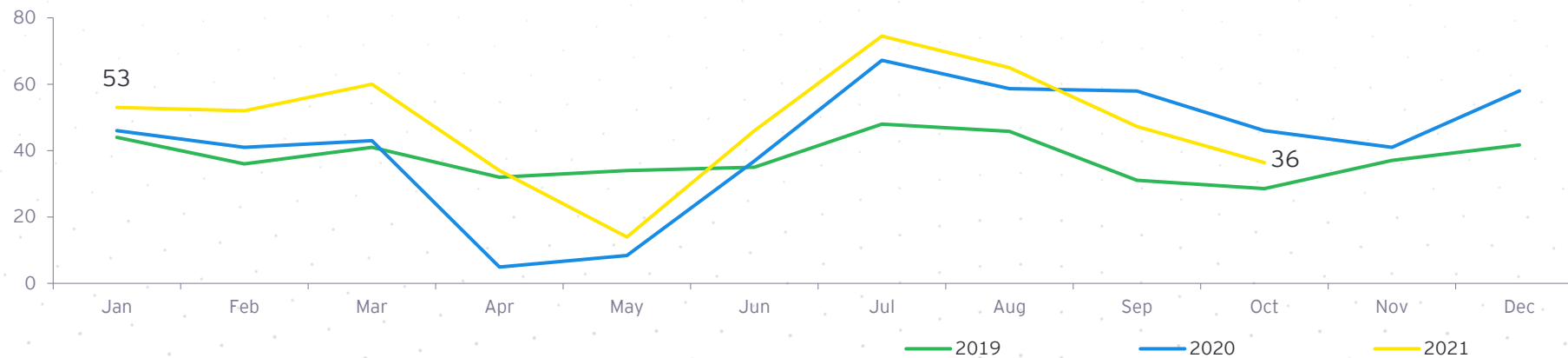
Fertilizer sales (lacs MT)



Households worked under MNREGA (in millions)



Tractor sales (no. of units in '000)



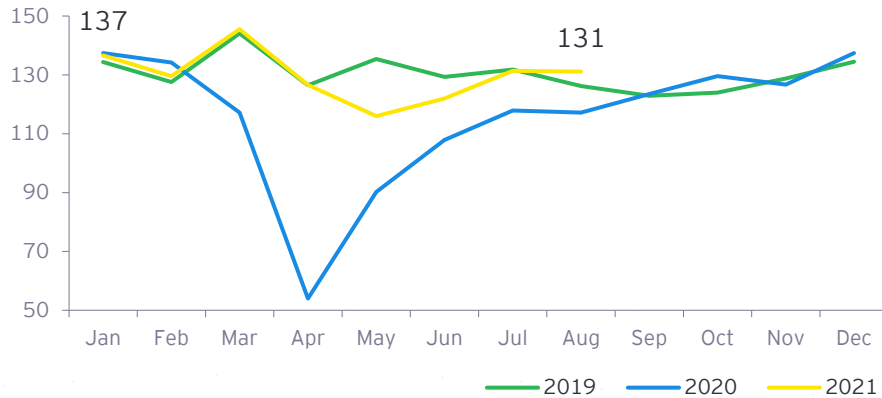
Note: Date as on 31st October 2021

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

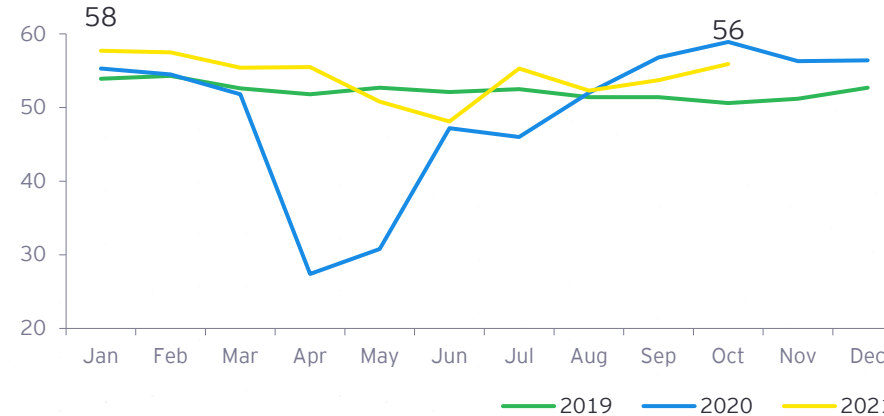
Key findings

- ▶ Rural economy has shown resilience and continues to perform well.
- ▶ Fertilizer sales have been growing over 2019 levels with October growth at 18%.
- ▶ Similarly tractor sales in October were higher by 26% relative to October 2019, although they were lower than 2020 which had shown exceptional growth.
- ▶ MNREGA demand is coming down relative to 2020 indicating other labour opportunities growing in agriculture and in other sectors of the economy.
- ▶ These indicators are in line with by the strong Q1 FY22 GDP performance of agriculture sector.

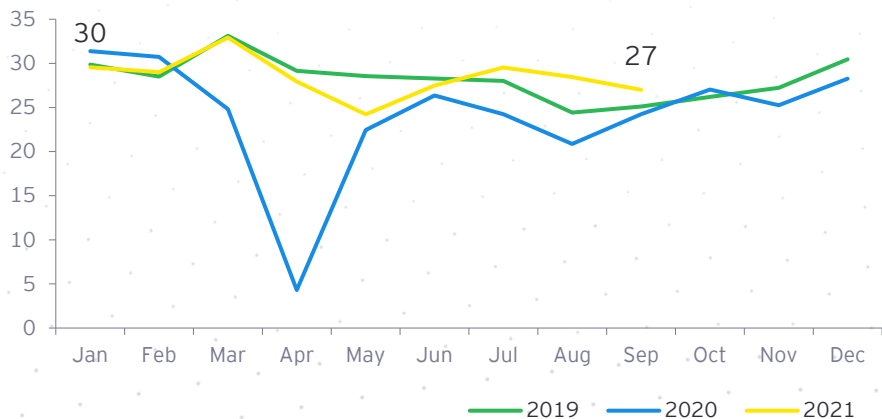
General index of industrial production



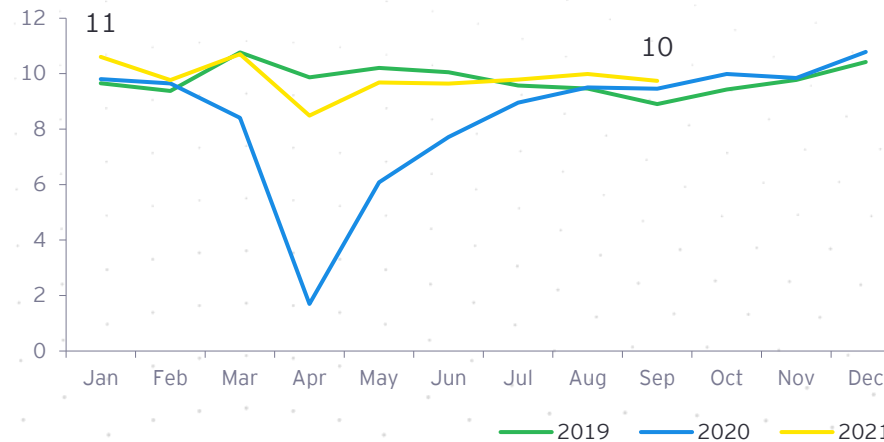
PMI manufacturing



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

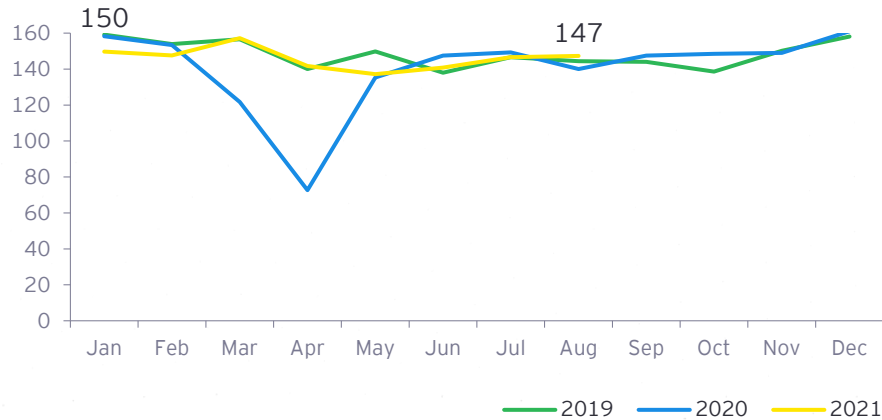
Key findings

- ▶ The manufacturing sector has fully recovered from the impact of the second COVID-19 wave.
- ▶ At an overall level, manufacturing was up by 4% in August 2021 over August 2019.
- ▶ Other indicators show further pickup of growth in September and October - for example Manufacturing PMI growing upto 56 indicating rapid expansion on a monthly level.
- ▶ The cement and steel production were also up by 13% and 11% respectively in September 2021 over 2019.

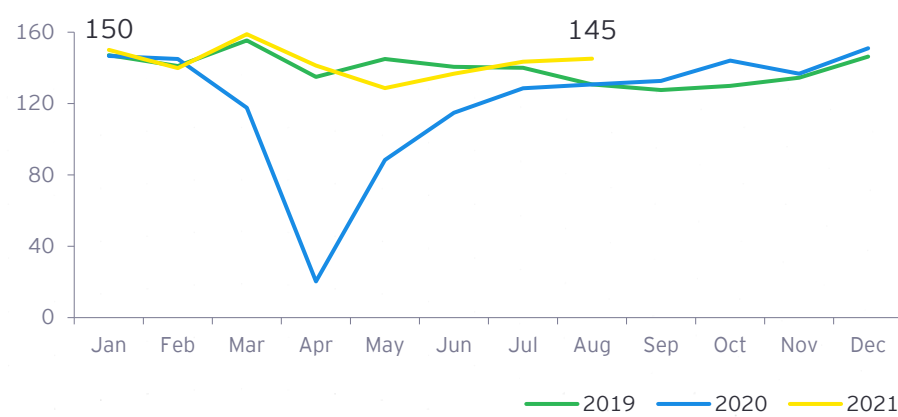
Manufacturing indices for consumer non-durables, consumer durables, infrastructure and capital goods

Manufacturing

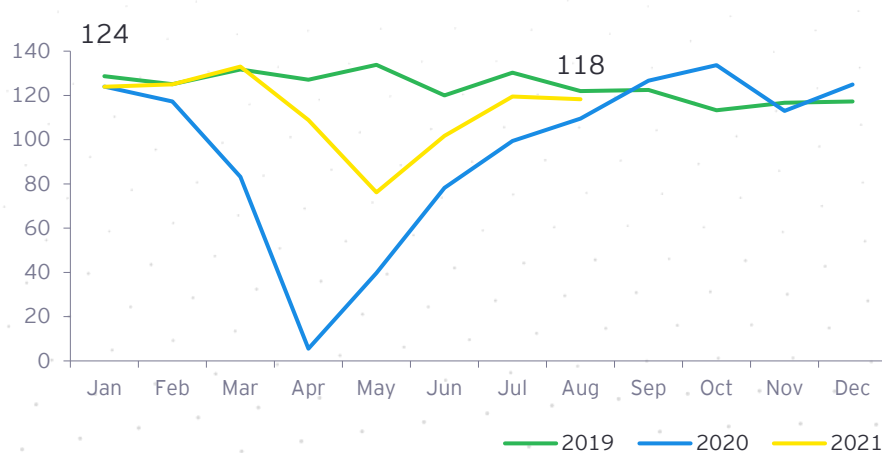
IIP consumer non-durables



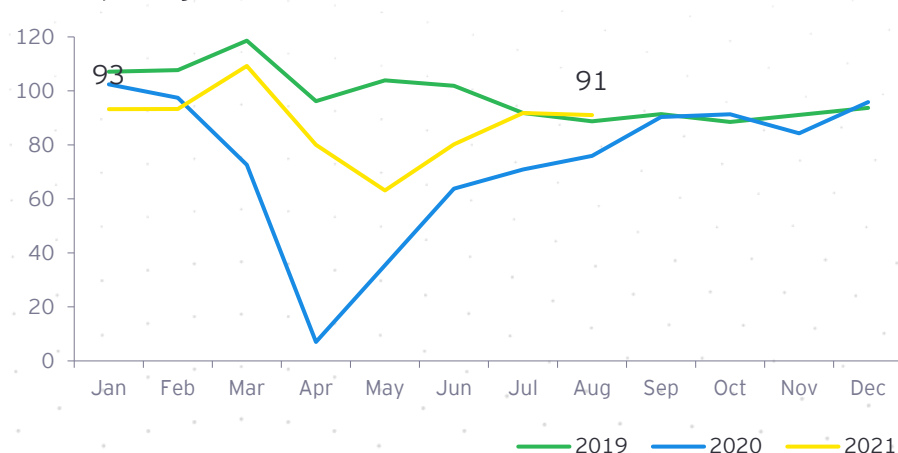
IIP infrastructure/ construction goods



IIP consumer durables



IIP capital goods



Key findings

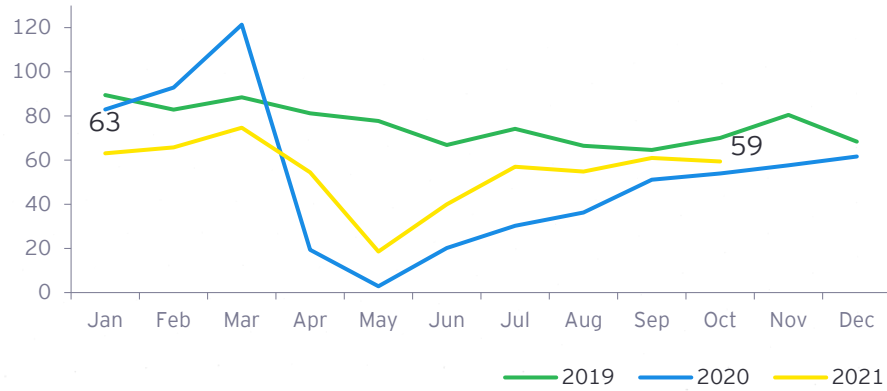
- ▶ Within sub-sectors of manufacturing, capital goods including infrastructure are driving the growth relative to the consumer goods. This is a reversal of the growth trends in the past where consumption had driven manufacturing growth.
- ▶ Infrastructure/construction goods were growing by 11% in August 2021 over 2019.
- ▶ On the other hand consumer goods, both non-durable and durable, are generally around similar levels as at 2019. Thus, broad consumption recovery has not yet taken place.

Source: MOSPI
IIP Base: 2011-12=100

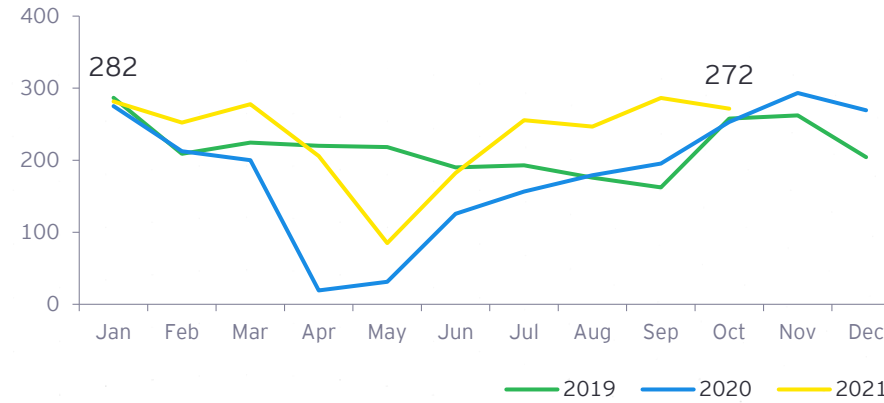
Vehicle registration trends

Manufacturing

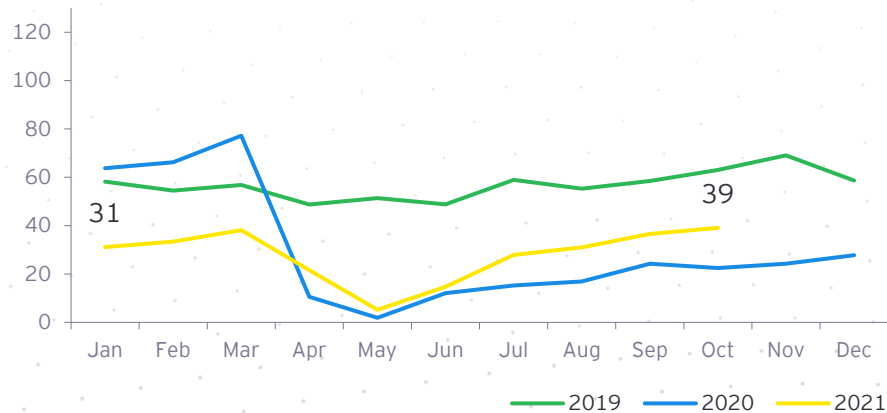
Commercial Vehicles (in '000s)



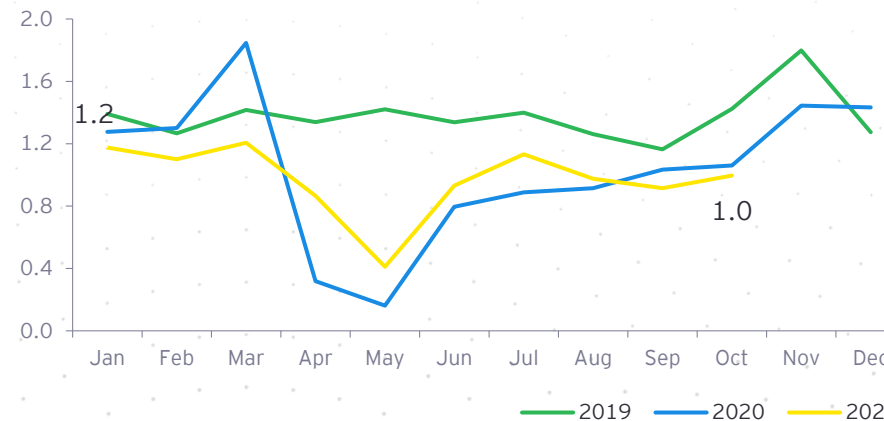
Passenger Vehicles (in '000s)



Three wheelers (in '000s)



Two wheelers (in millions)

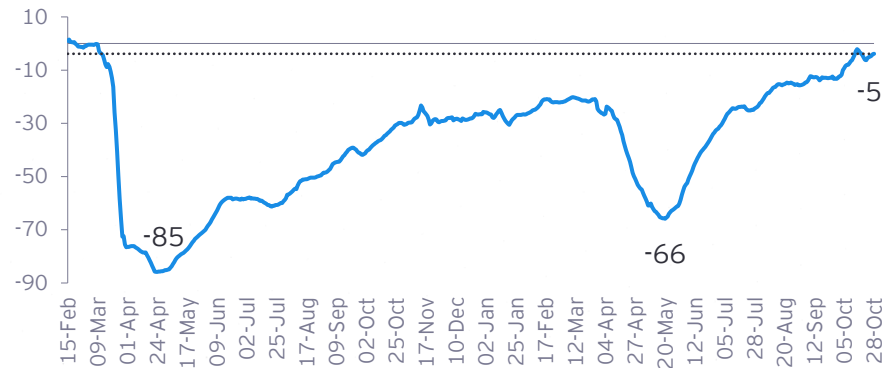


Note: CV include all Heavy, Medium vehicles and light goods vehicles. PV represents Motors Cars data. 2w and 3W include both transport and non-transport.
Source: Vahan Database.

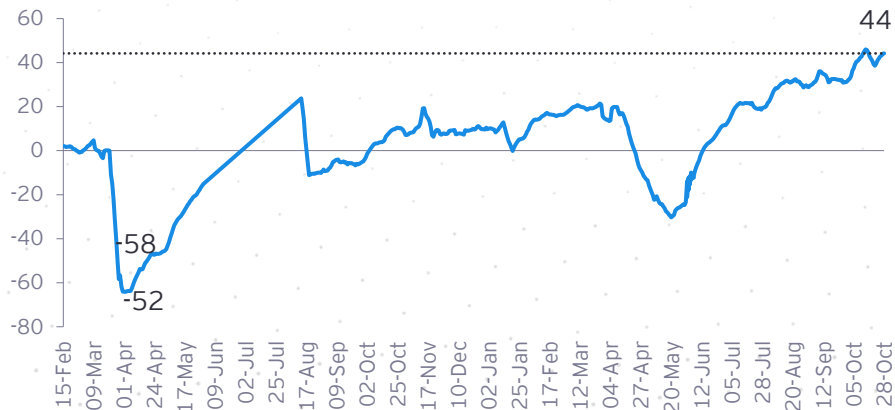
Key findings

- ▶ In the aftermath of second wave of COVID-19, registrations were affected in the automobiles sector.
- ▶ Passenger vehicle sales have more than doubled between May and August 2021. This may be on account of pent-up demand.
- ▶ The sales have moderated in October but is still higher by 8% relative to October 2019.
- ▶ The other segments of the automobile sector are showing recovery but are below the 2019 levels.
- ▶ Global semiconductor shortages have been a key factor in moderation of automobile sales globally, including in India.

Retail and recreation: mobility change from baseline of Feb 2020

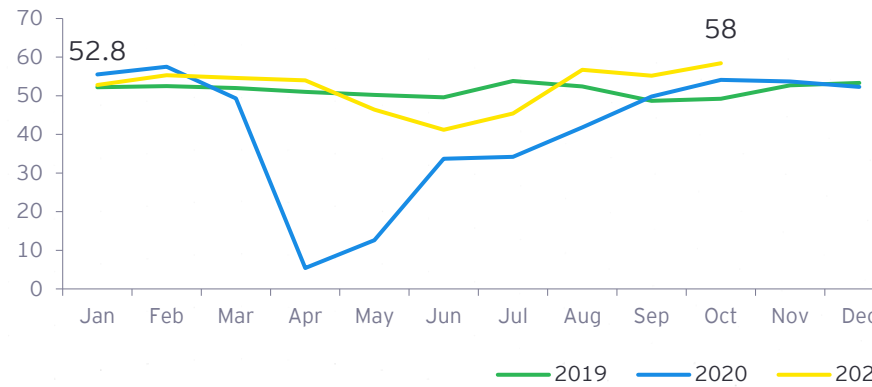


Groceries and pharmacies: mobility change from baseline of Feb 2020

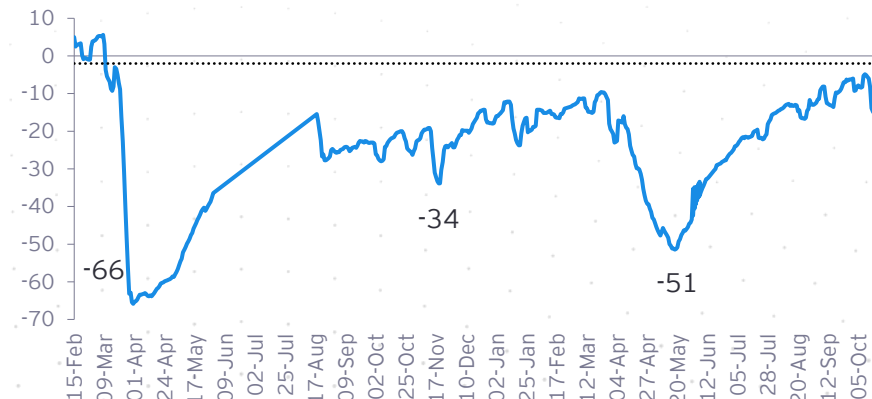


Note: PMI >50 indicates expansion; <50 indicates contraction
Source: IHS Markit, Google Mobility (Data as on 31st October 2021)

PMI services



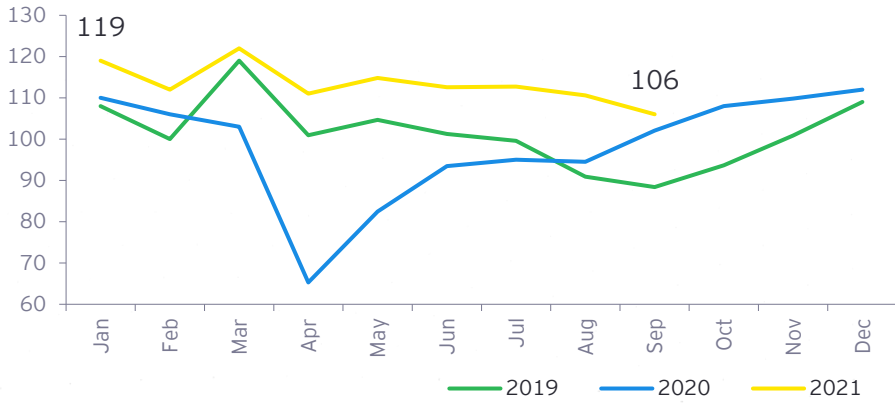
Workplace: mobility change from baseline of Feb 2020



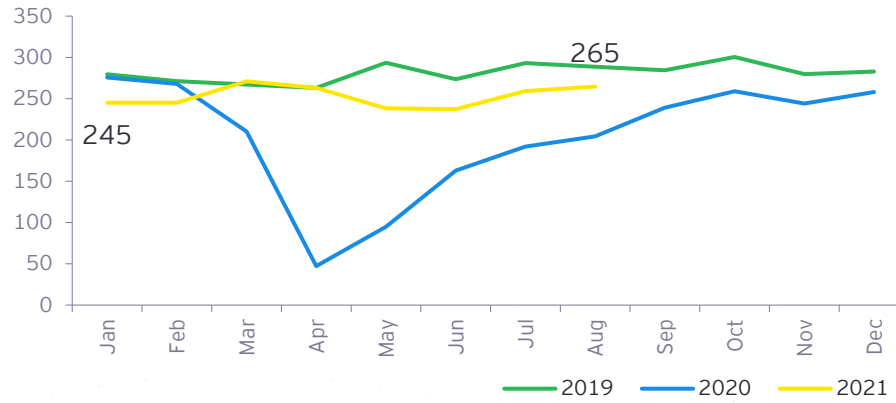
Key findings

- ▶ In line with experience of the previous COVID-19 cycle, mobility indicators have picked up with lifting of lockdowns and lower voluntary restrictions.
- ▶ Mobility indicators generally show that level of movement of people is at the highest level since the onset of COVID-19.
- ▶ Mobility for retail and recreation as well as workplace have both largely recovered to the pre-COVID benchmark. This reflects both the fact that economic activity is growing and also that social distancing norms have been relaxing.
- ▶ PMI Services levels in October suggest start of a recovery in services sector growth as the PMI is showing the highest monthly growth in October 2021 in the last 10 years.

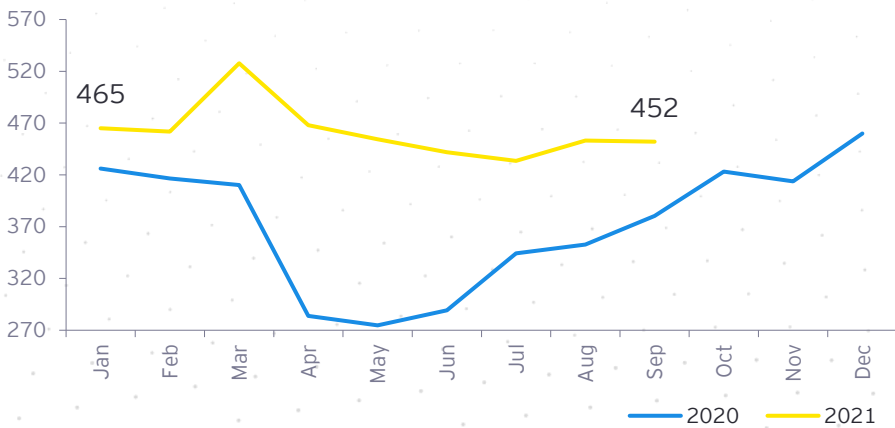
Railways freight (million tons)



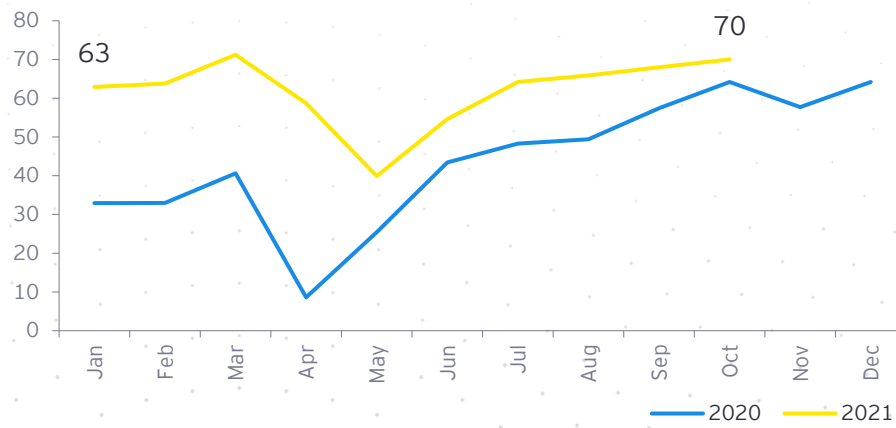
Air Freight ('000 tonnes)



JNPT container traffic ('000 TEU's)



E-way bills generated (volume in million)

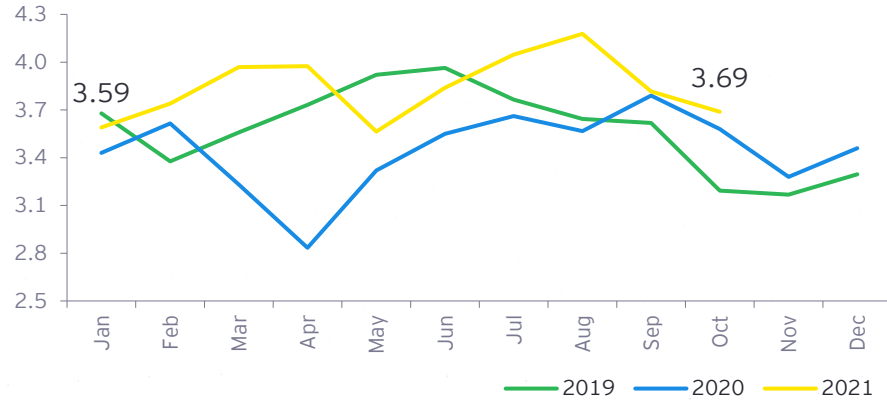


Key findings

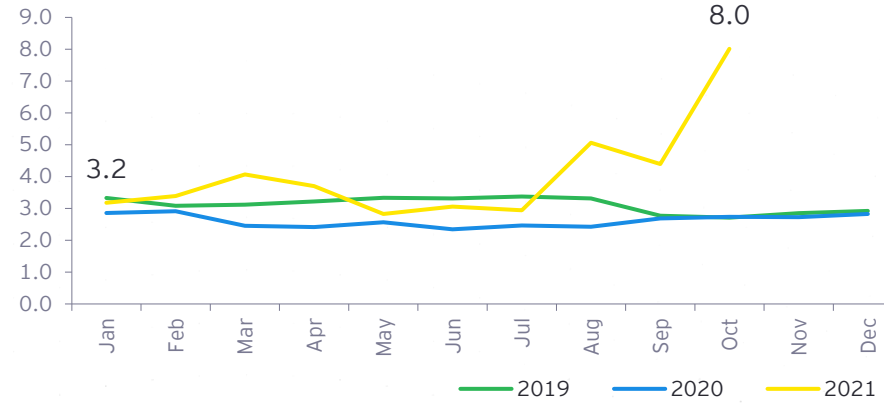
- ▶ Railway freight has been consistently higher than both 2019 and 2020 levels, even after considering the impact of the second wave. September 2021 freight level is 20% higher than the 2019 levels.
- ▶ Similarly, the JNPT container traffic has shown growth of 19% in September 2021 over 2020.
- ▶ The E-way bills generated have grown by 9% in October 2021 over 2020. This is in line with the overall manufacturing growth witnessed.
- ▶ Only the air freight is still below the levels of 2019.

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

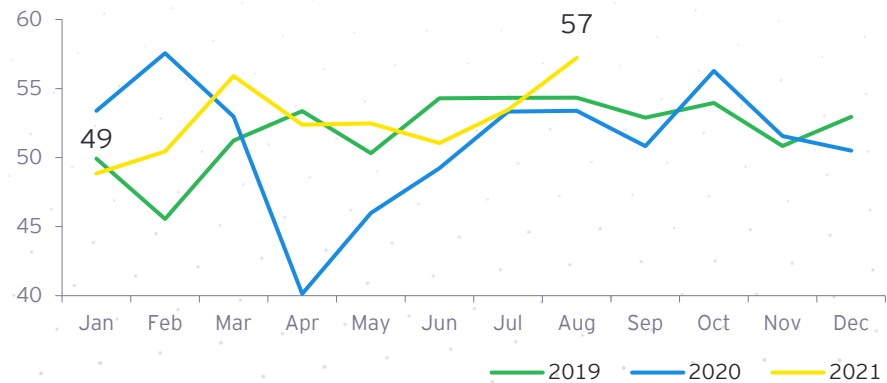
Power consumption (billion units)



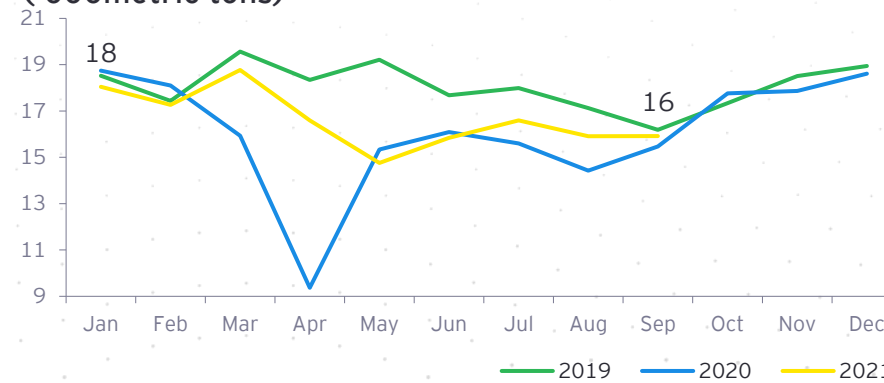
Power Market Clearing Price (Rs '000/MWh)



Consumption of natural gas ('00 MMSCM)



Consumption of Petroleum Products ('000metric tons)



Key findings

- ▶ Power consumption continues to grow rapidly over the 2019 levels. In October, power consumption grew by 16% over 2019 levels and is generally on an increasing trend.
- ▶ Gas consumption grew sharply in August, potentially reflecting the growing shortages of coal.
- ▶ Electricity market prices have jumped sharply since August, particularly in October reflecting increased global coal prices.
- ▶ On the other hand, the petroleum consumption in September 2021 is lower by 1% relative to the consumption levels in 2019.

Note: Power consumption for August'21 data is average of daily data available as on 31st October 2021. Market Clearing Monthly Prices are simple average of non-zero prices in (No of days in a month*24*4) no of 15 minutes time block of respective month.

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

Methane Strategy

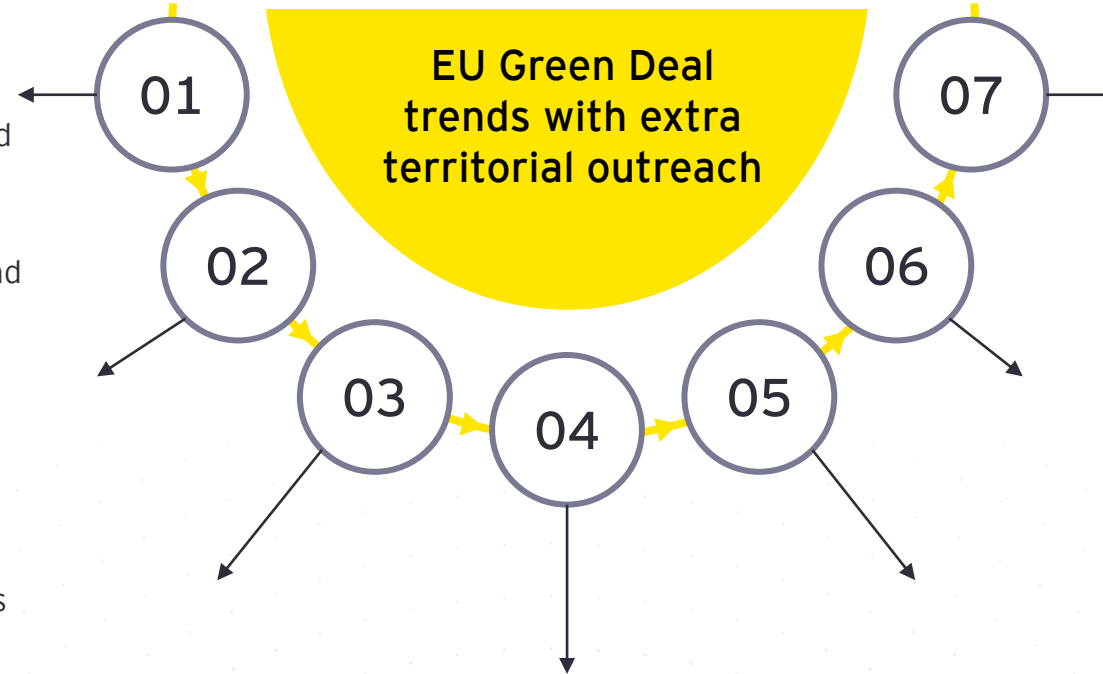
- ▶ Aimed at reduction of methane emissions both in the EU and associated supply chains linked to the EU.
- ▶ Presents actions to achieve emission reductions in the energy, agriculture and waste sectors.

Biodiversity and forest strategies

- ▶ Covers the whole forest cycle and its contribution to biodiversity and climate goals.
- ▶ Includes conservation of non-EU forests with regard to placing of illegal timber on the European market from third-country imports.

Carbon Border Adjustment Mechanism (CBAM)

- ▶ Carbon price charged on certain goods imported to the EU with a goal to prevent carbon leakage.



Methane Strategy

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The Industrial Strategy and Circular Economy Action Plan

- ▶ Aims to promote resource efficiency and waste reduction in the EU and on a global scale.
- ▶ Will require the EU to develop sustainability standards for products sourced from third countries.

Carbon Border Adjustment Mechanism (CBAM)

- ▶ Carbon price charged on certain goods imported to the EU with a goal to prevent carbon leakage.

Carbon Border Adjustment Mechanism can trigger carbon pricing around the globe...

Objectives

- ▶ To address the risk of carbon leakage
- ▶ To contribute to decarbonization goals of the EU
- ▶ To encourage producers in third countries who export to the EU to adopt low carbon technologies
- ▶ To ensure that the price of imports reflects more accurately their carbon content

Transition

- ▶ CBAM will be calculated based on embedded direct emissions
- ▶ Indirect emissions may be included in the future
- ▶ These values shall be set at the average emission intensity of each exporting country and for each of the goods listed
- ▶ CBAM can be reduced if there is a carbon price paid in the country of origin

Legislative roadmap

- ▶ The presented proposal will have to go through the ordinary legislative procedure in the Parliament and Council.
- ▶ This process is likely to take at least one year (on average, it takes over 18 months)
- ▶ Once adopted at the EU level, the new law will become directly binding on the Member States

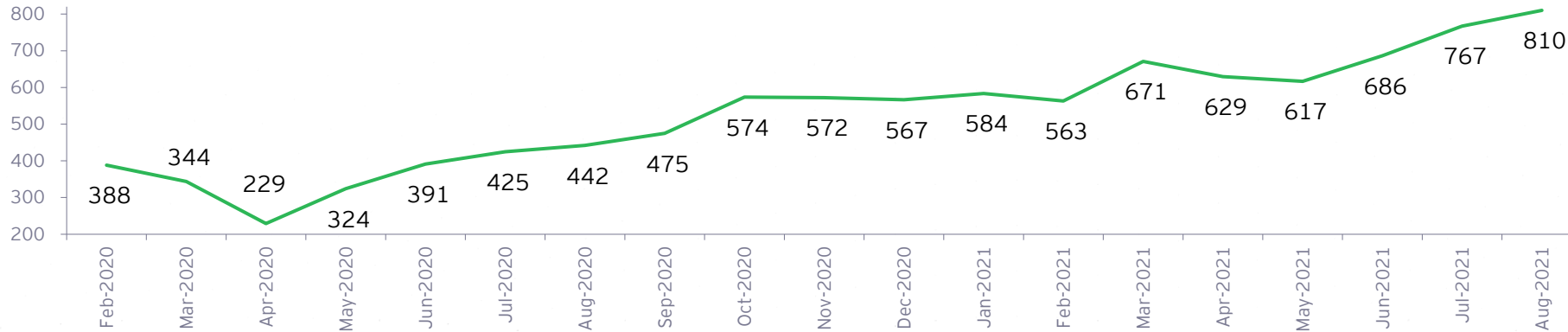
Long term implications

- ▶ Starting with a few sectors - but could cover many more sectors in the future
- ▶ Could be adopted by other countries too
- ▶ Could force countries around the world to adopt carbon pricing
- ▶ No current announcements in the US of having any Carbon Pricing

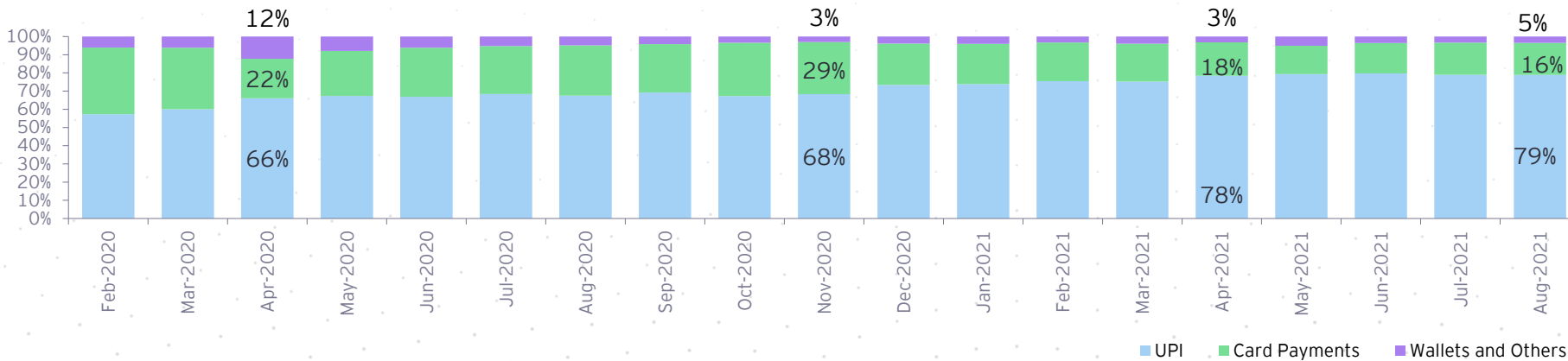
Digital payments trends

Digitization

Total digital retail payments (in INR billion)



Share of different segments in total digital retail payments

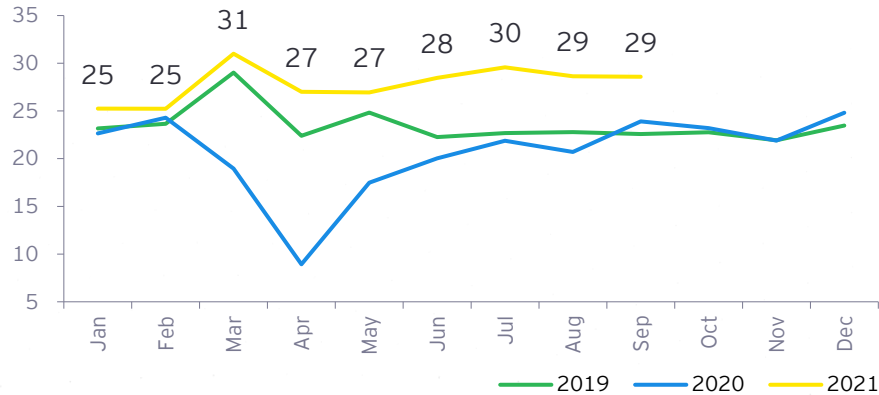


Note: Others include ECS, AEPS, APBS and BHIM
Source: TRAI, RBI

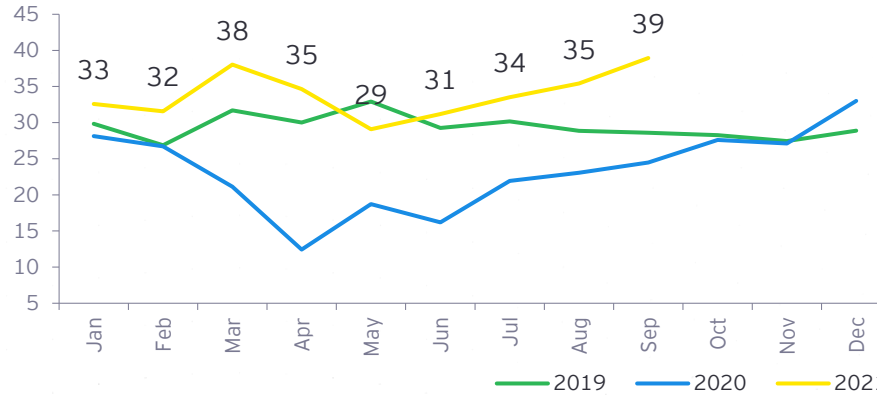
Key findings

- ▶ Digital payments are continuing to increase in India. The monthly digital retail payments are now 2.1x of the pre-COVID digital payments.
- ▶ UPI has been gaining market share at the expense of other modes of digital payments - although the growth in share has now slowed down.
- ▶ Given the shift towards UPI, the cyber security implication might need to be taken into consideration, as Credit Cards have long known to be a safer mode of transacting.

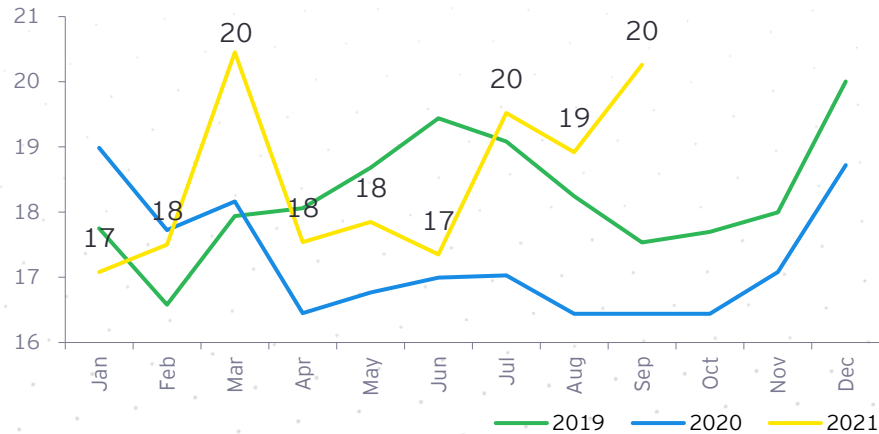
Non- oil merchandise exports (in US\$ billion)



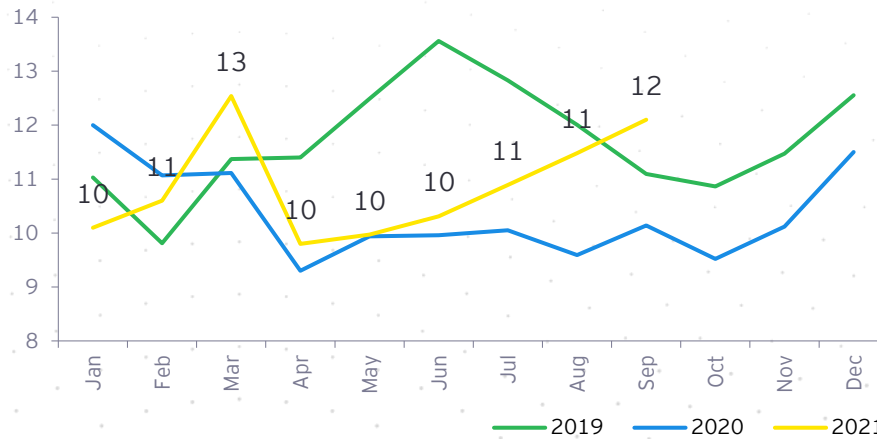
Non- oil merchandise imports (in US\$ billion)



Services exports (in US\$ billion)



Services imports (in US\$ billion)

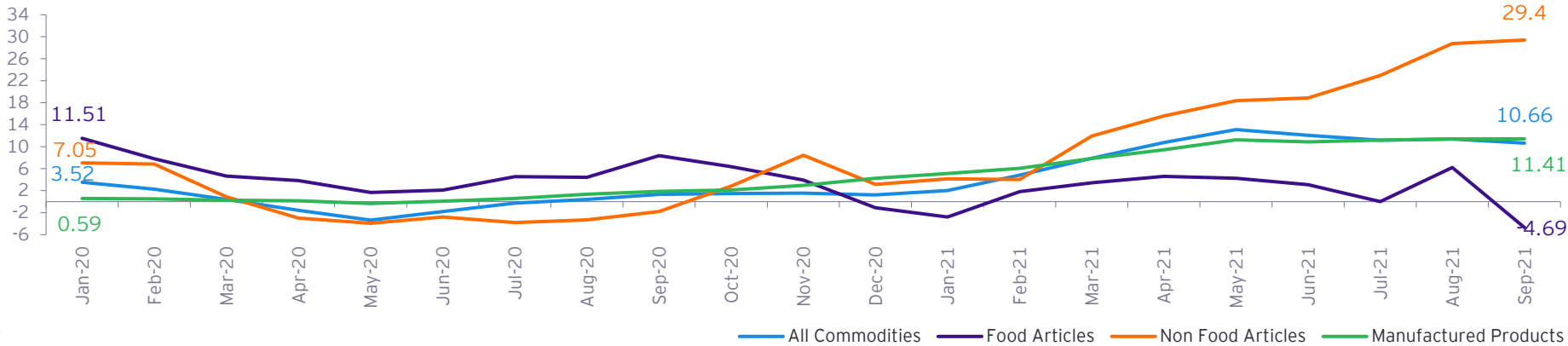


Note: September 2021 data is provisional
Source: RBI, Ministry of Commerce & Industry

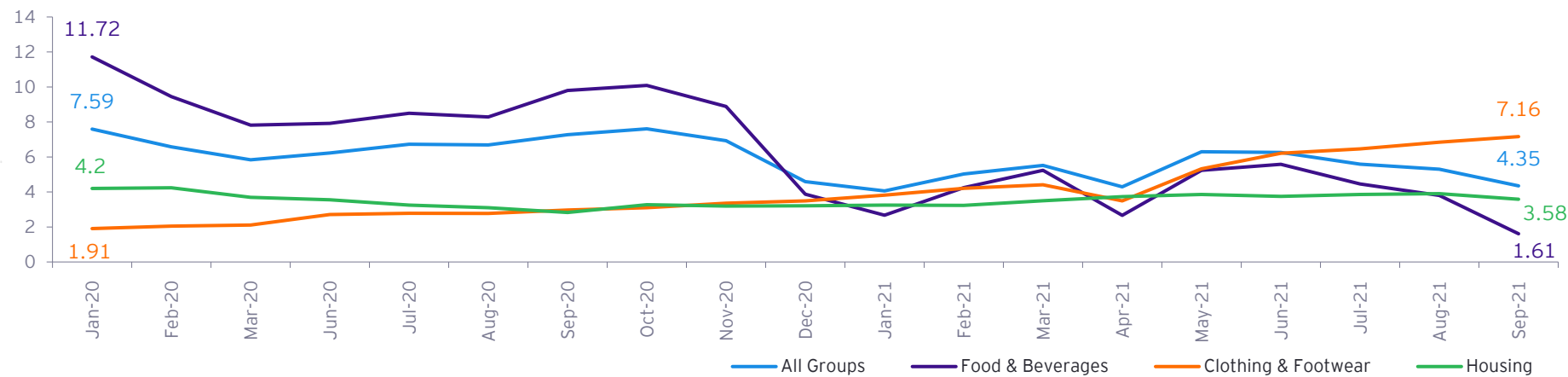
Key findings

- ▶ In the first half of the year (April-October) the total exports are valued at US\$233 billion. If this trend continues, exports in 2021-22 would be significantly higher than previous record of US\$330 billion in 2018-19.
- ▶ The cumulative non-petroleum exports in 2021-22 are up 25% over 2019-20. While the commodity price increases have been a factor in growth in sectors like gems & jewellery, engineering goods, the high growth in exports is across most sectors indicating a broad recovery.
- ▶ Services exports have also increased rapidly in September 2021, growing by 11% over 2019.
- ▶ Non-oil imports have been increasing as well. Gold, precious stones, electronic goods, machinery and chemicals have been key sectors where growth has been observed.

WPI inflation (%)



CPI inflation (%)



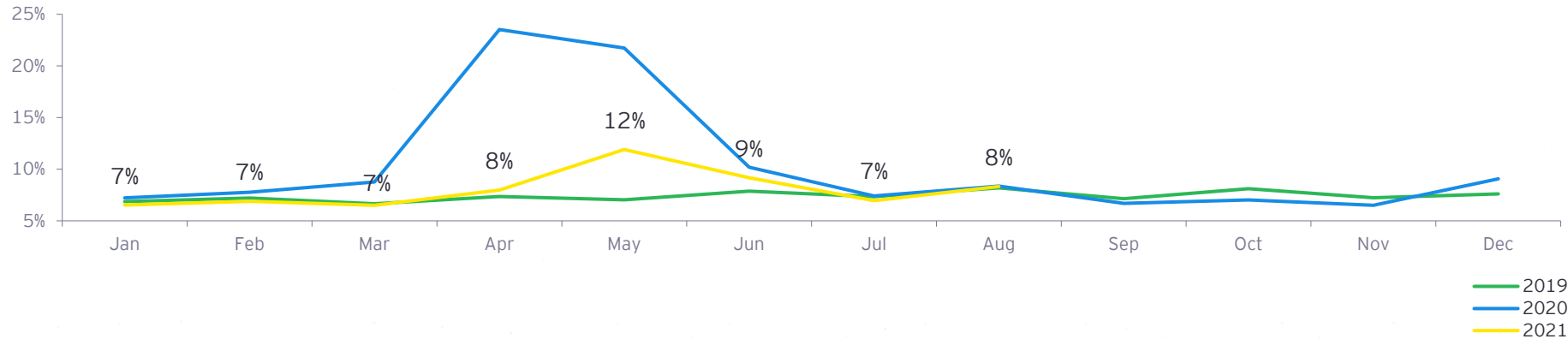
Note: Data not available for April and May 2020

Source: MoSPI, Ministry of Commerce and Industry, Office of Economic Advisor

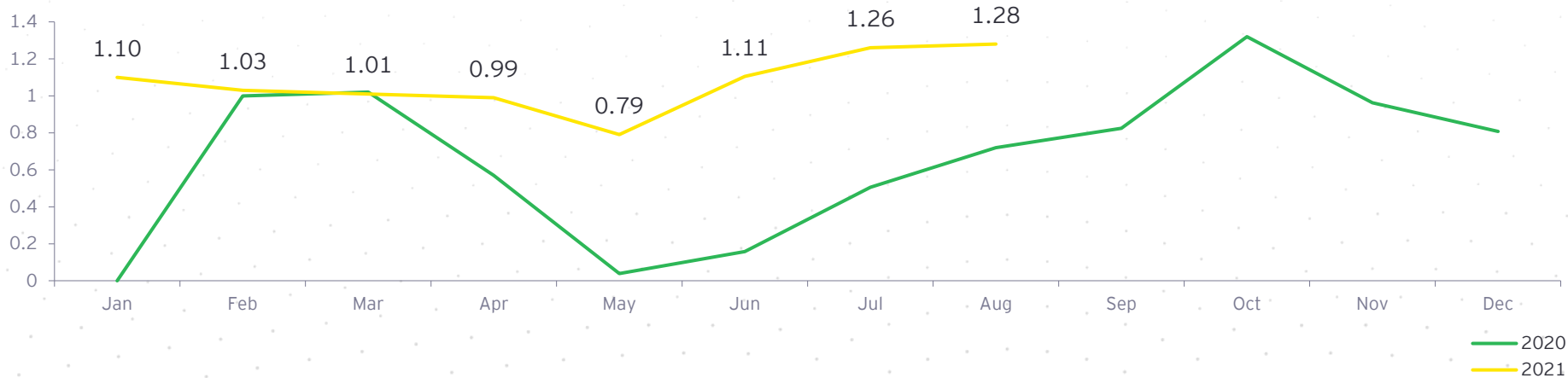
Key findings

- ▶ Wholesale Prices Index, representing producer prices has been increasing rapidly, growing by 11.3% in August.
- ▶ This reflects a consistent increase in raw material and intermediate goods prices for the industry.
- ▶ Consumer prices have been high but in September, there was some moderation at 4.35%.
- ▶ The increase in prices is driven by supply disruptions in the international market, higher energy and food prices and the demand for consumer durables in developed countries.
- ▶ An important objective for the Government would be to maintain price stability and anchor inflation expectations.

Indian Unemployment Rate (%)



Net new EPF subscribers (in millions)



Source: CMIE, EPFO

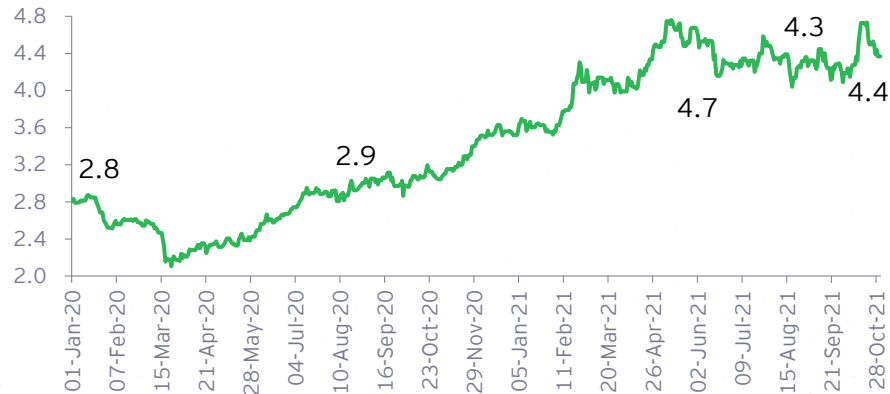
Key findings

- ▶ The unemployment rate had seen a temporary spike during the first and second COVID waves but it has normalized thereafter to the 2019 levels.
- ▶ Net EPF subscribers have been growing in the last two years, pointing towards the increasing formalization of the Indian economy and usage of safety nets.

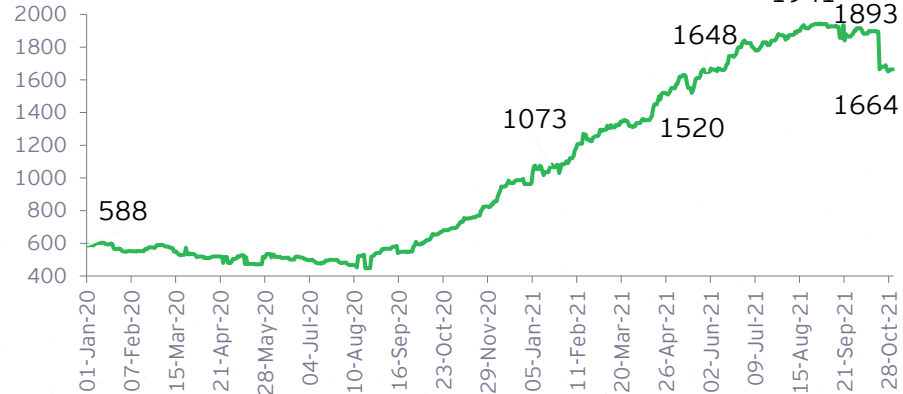
Trends in commodity prices (1/2)

Commodity and input price trends

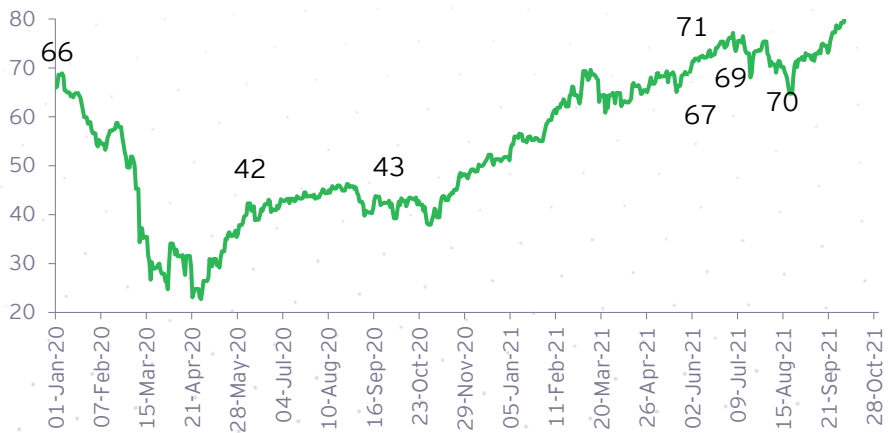
High grade copper prices (US\$ per lb)



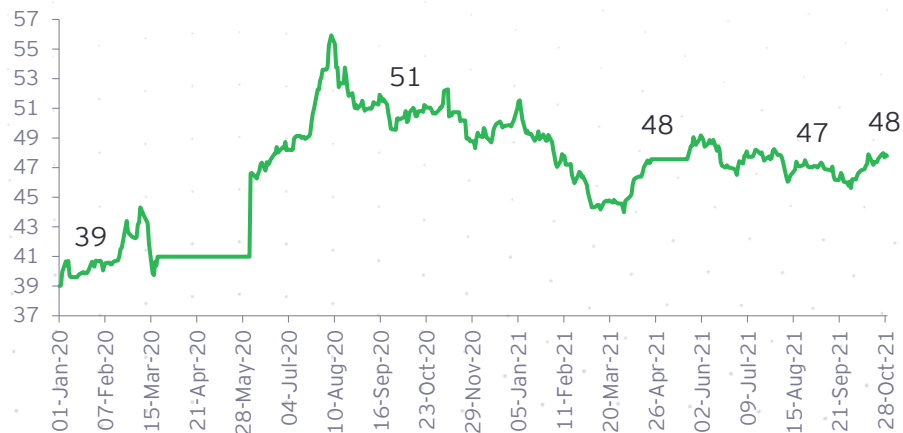
Hot rolled coil steel prices (US\$ per tonne)



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



Gold price per 10 grams (in '000 INR)



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

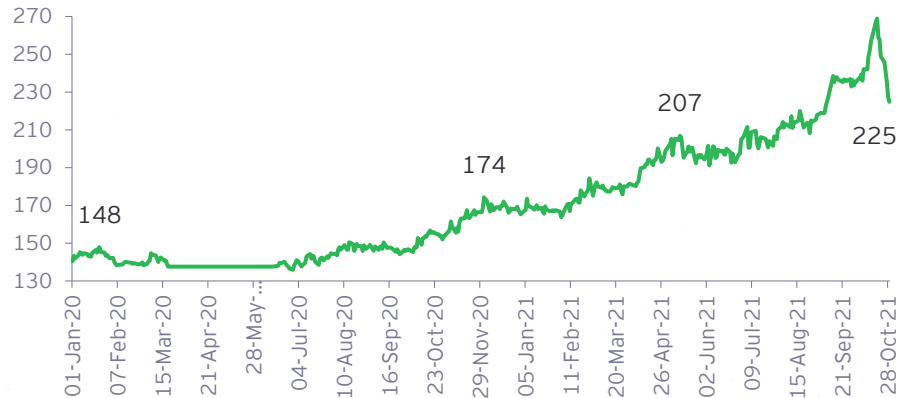
Key findings

- ▶ Non-precious metals and petroleum prices continue to experience increasing trend, reflecting the strong demand from manufacturing activity and uptake of the global economy. However recently there has been moderation in metal prices.
- ▶ Crude oil prices are nearing US\$80 per barrel and generally on the up.
- ▶ Gold prices have largely remain subdued, indicating that the investors do not expect the inflation levels to go up in the developed countries.

Trends in commodity prices (2/2)

Commodity and input price trends

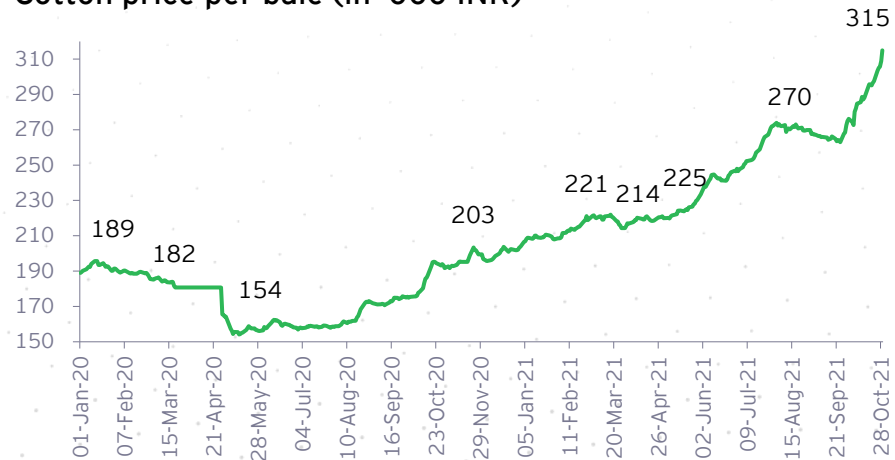
Aluminium per kg price (in INR)



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 October 2021
Source: MCX

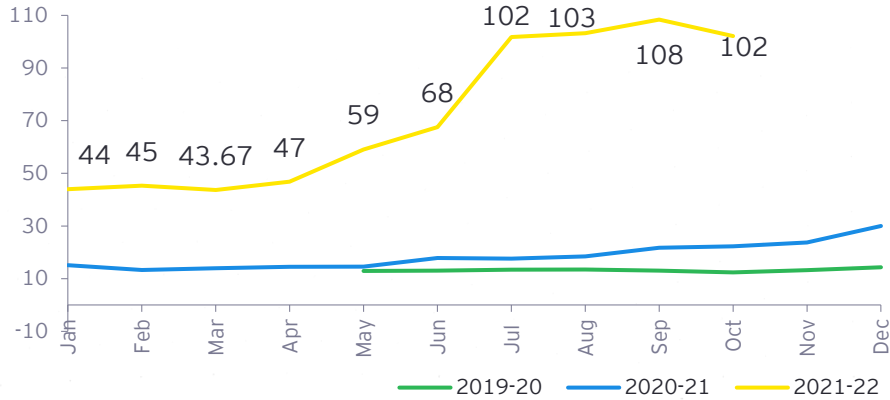
Key findings

- ▶ Increase in commodity prices is widespread as seen in diverse products such as Aluminium, Cotton, 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 led to a rally in commodity prices.
- ▶ Increase of metal prices will put cost pressure on downstream industry such as automobiles.

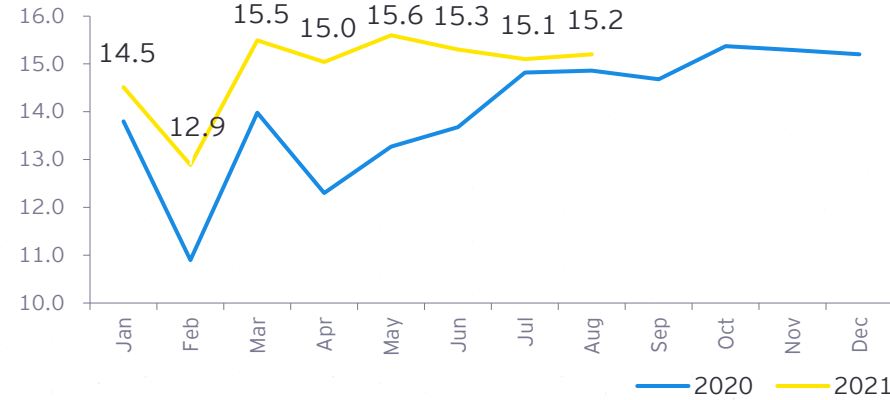
Global container freight transportation volumes and rates

Commodity and input price trends

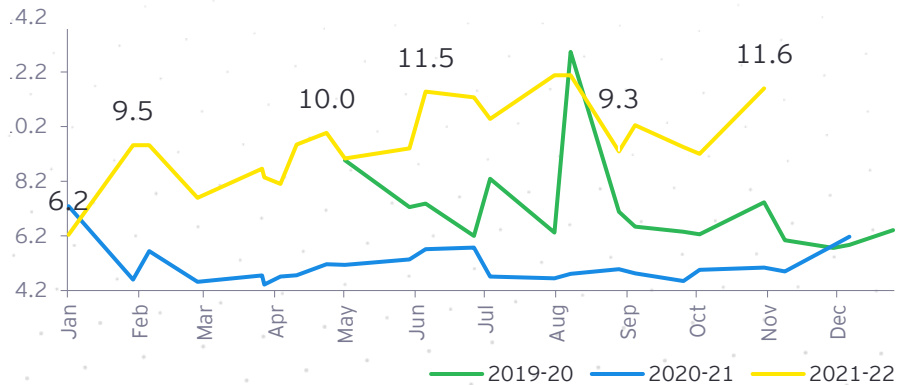
Global container freight index (in '00 US\$)



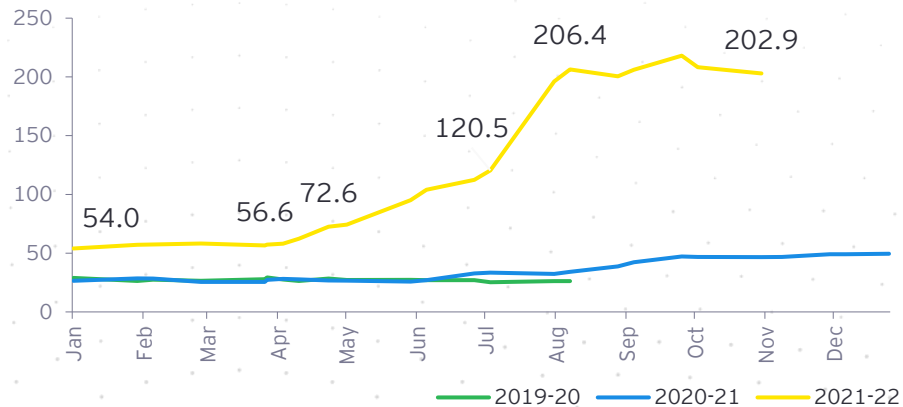
Global container traffic volume (million TEU's)



Container freight prices – North America East Coast to China/East Asia (in '00s US\$)



Container Freight prices – China/East Asia to North America East Coast (in '00s US\$)



Source: FBX: Global Container Freight Index, Container Statistics

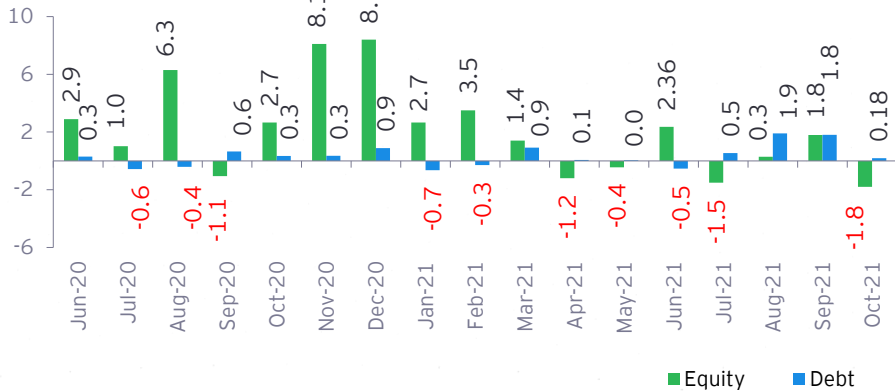
Key findings

- ▶ 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 and continues to rise.
- ▶ There is an imbalance in the location of containers vis-a-vis the port of demand for these containers due to supply chain disruptions.
- ▶ The acceleration in Delta-variant of COVID-19 outbreaks in several countries may have impacted global container turnaround rates.
- ▶ If the trend continues then it can negatively impact India's exports.

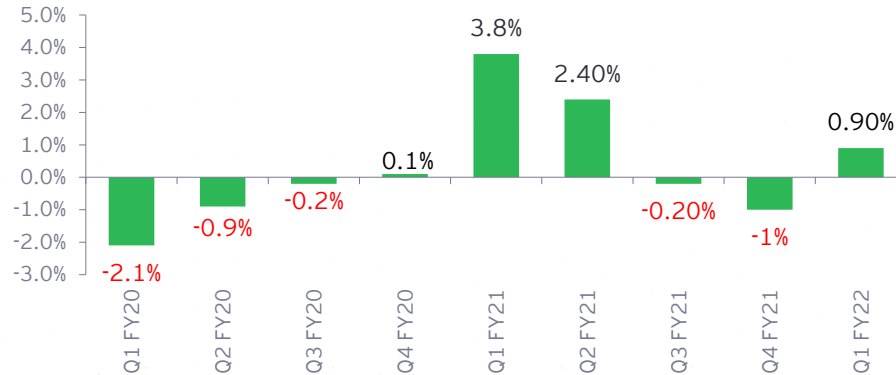
Foreign capital flows and exchange rate position

Foreign trade and external sector

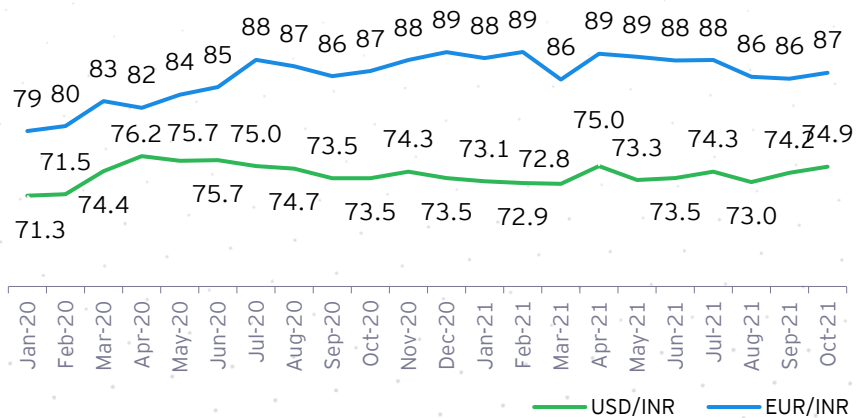
FPI investments (in US\$ billion)



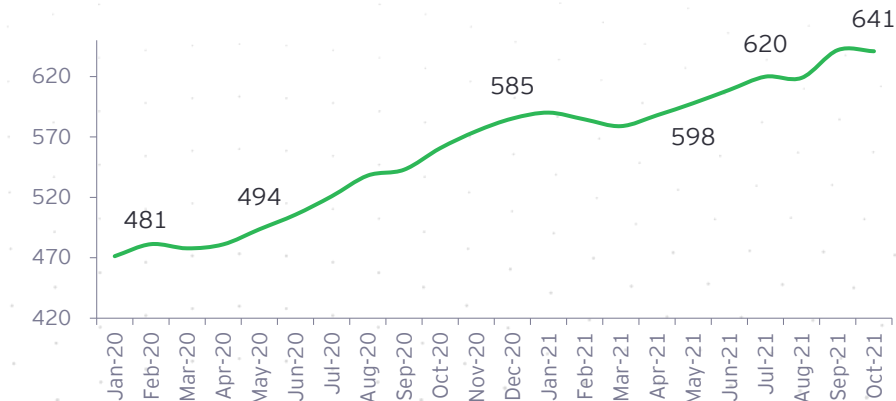
Current account deficit (as percentage of GDP)



Exchange rates



India foreign exchange reserves (in US\$ billion)



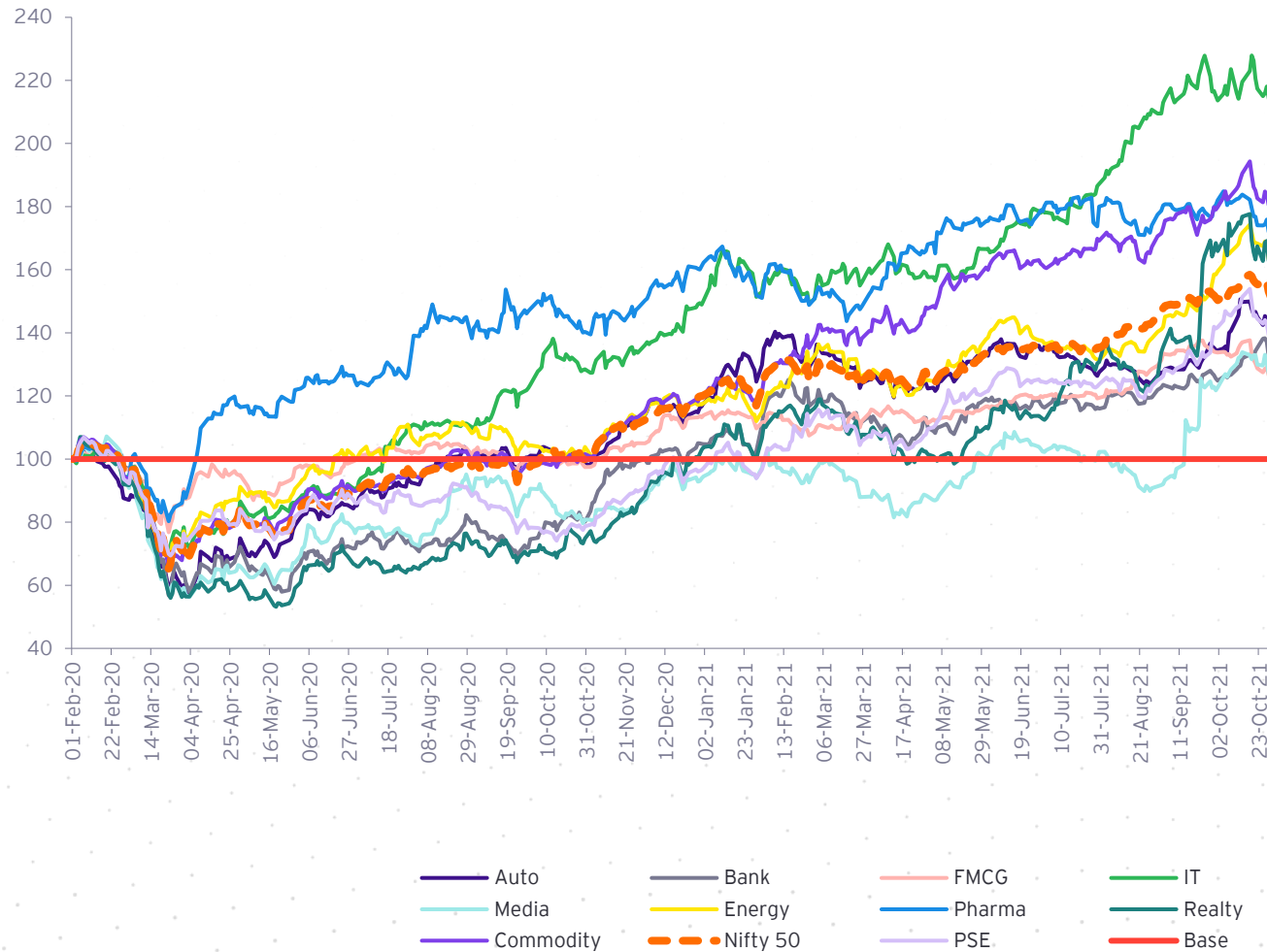
Source: DBIE, RBI, FBIL, NSDL
All data available as on 31st October 2021

Key findings

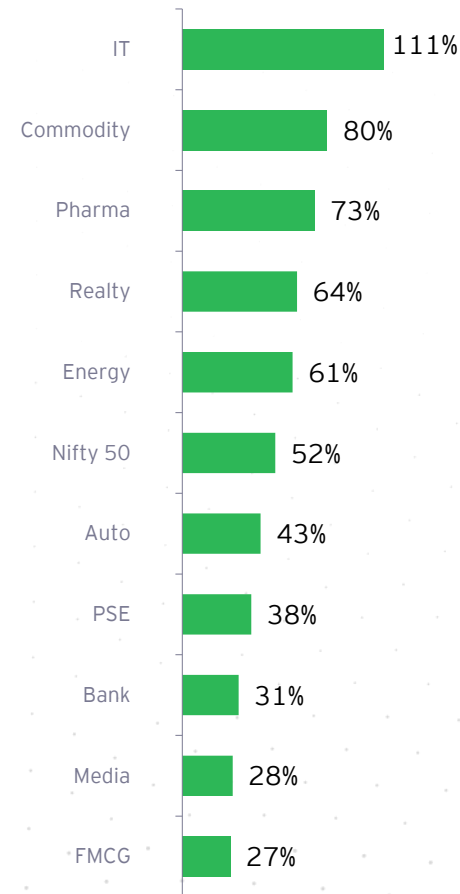
- ▶ India's external position continues to remain strong with a stable exchange rate, high foreign exchange reserves and relatively benign trade account deficit.
- ▶ In addition, the foreign portfolio investments into India have not been consistent since the outbreak of the COVID-19's second wave.
- ▶ After many months of positive equity FPI flows, October saw negative flows.

NSE indices (% change YTD)

Financial markets



NSE indices (% change YTD)



Key findings

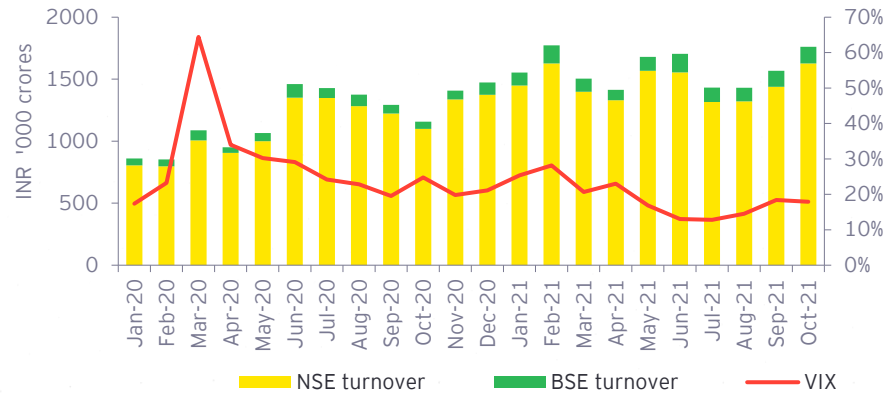
- ▶ The stock markets have continued their rapid growth across sectors. Recently realty, media sectors have seen a rapid growth apart from commodity based sectors.
- ▶ Overall NIFTY 50 is up by 52% with IT index now surpassing February 2020 levels by over 100%.

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

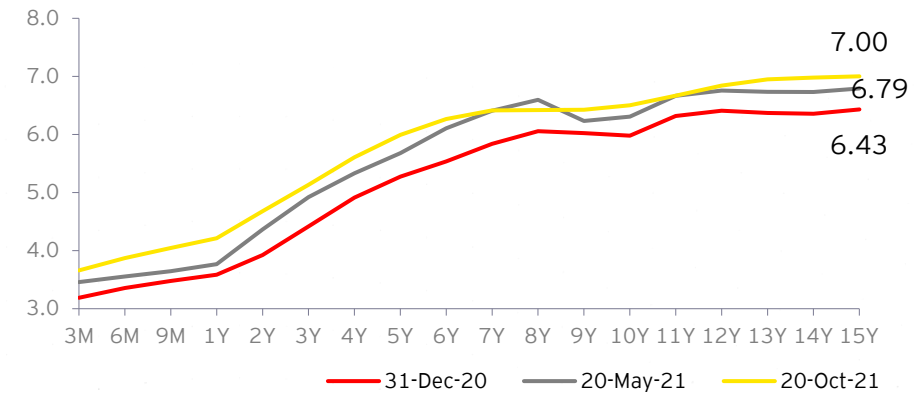
Stock market turnover and interest yields

Financial markets

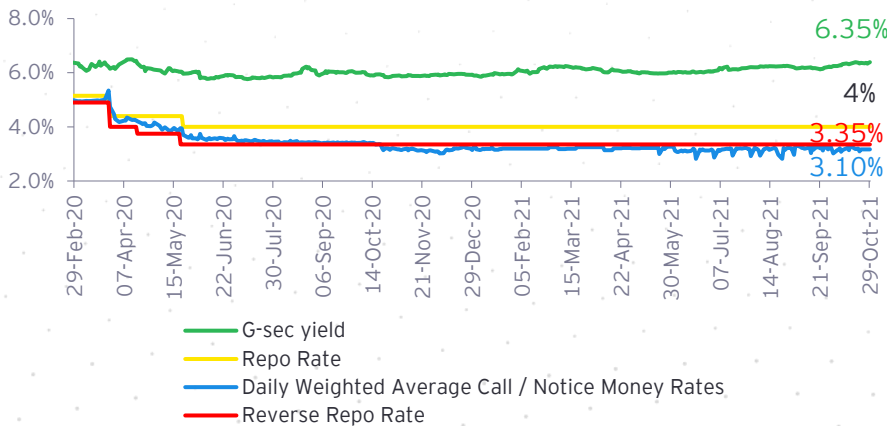
Stock market turnover and volatility



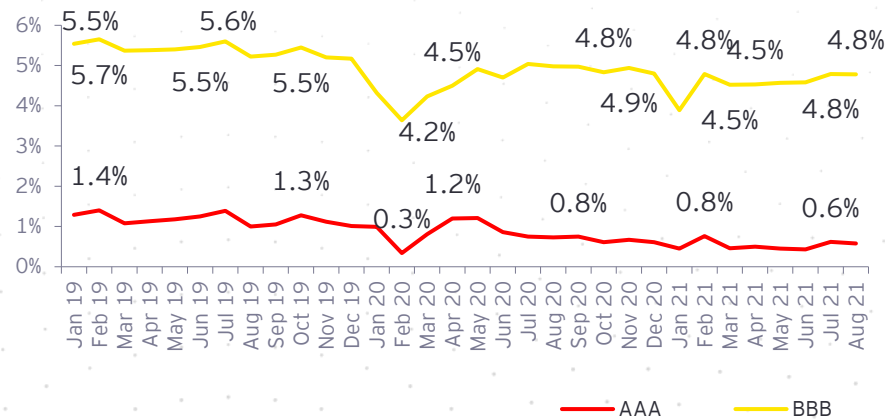
India sovereign yield curve



G-Sec yield and policy rates



Corporate Bond Spreads over GSec: 10-year maturity



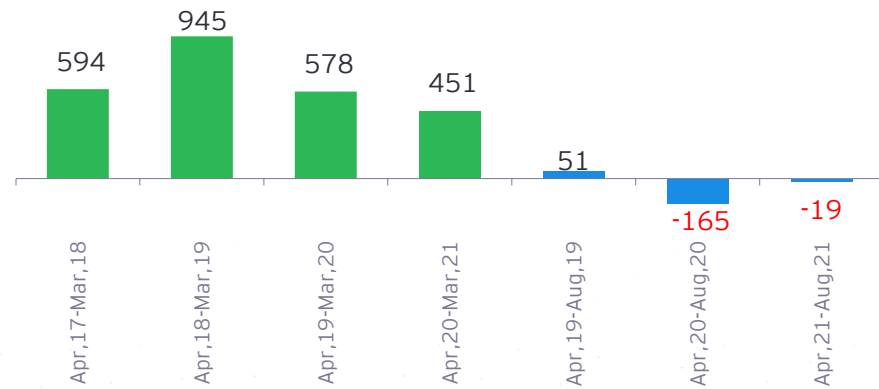
Key findings

- ▶ Stock market turnover remains fairly stable, with not much impact being observed post the second COVID-19 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.

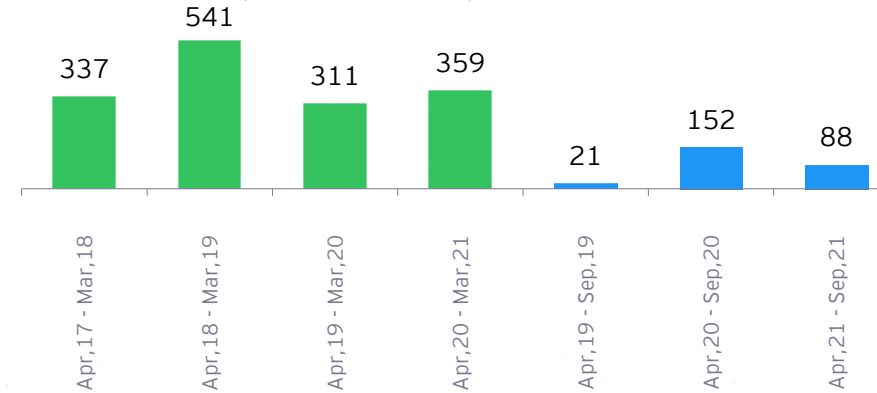
Source: NSE, BSE, Care Ratings and FBIL. Data available as on 31st October 2021

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

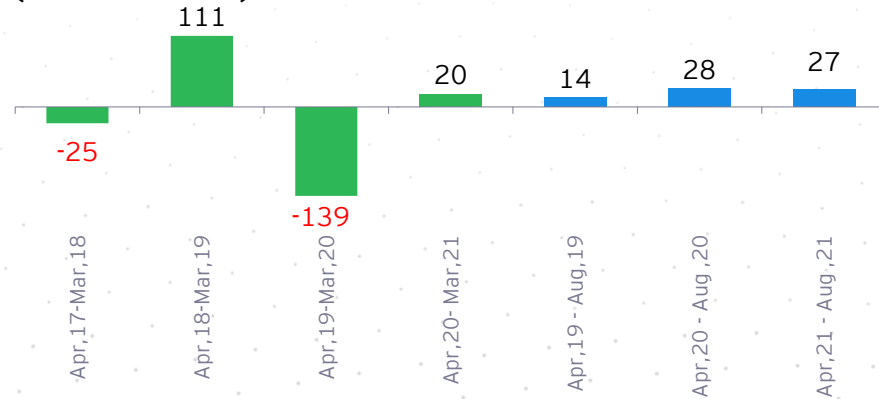
Flow of gross non food credit of scheduled commercial banks (Rs '000 crores)



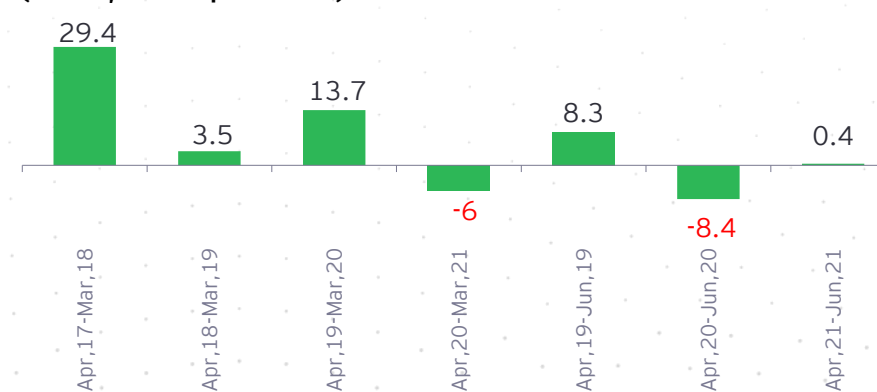
Change in outstanding corporate bonds listed on NSE & BSE (Rs '000 Crores)



Change in outstanding commercial paper (Rs '000 crores)



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

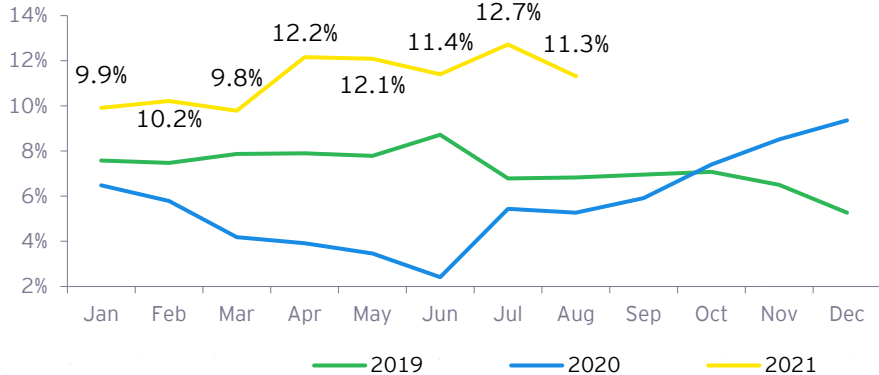


Source: RBI, SEBI

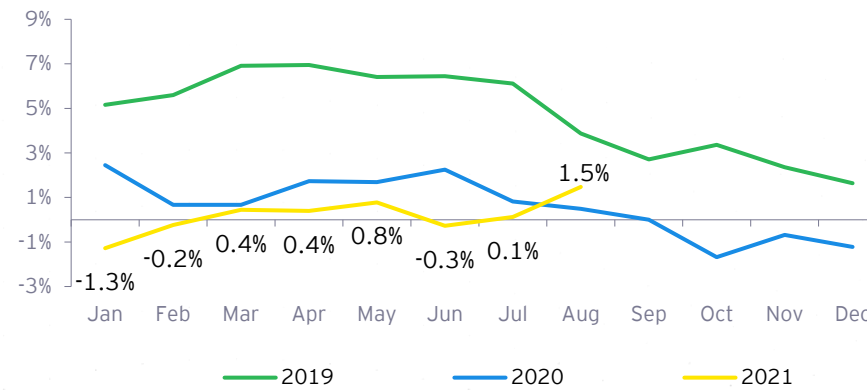
Key findings

- ▶ The credit flow from banks has remained negative in April to August 2021, however the extent of reduction is lower than that of last year.
- ▶ Credit creation has happened through other instruments, especially Corporate bonds. This could reflect a structural change underway where corporate bonds share is increasing in overall debt flows.

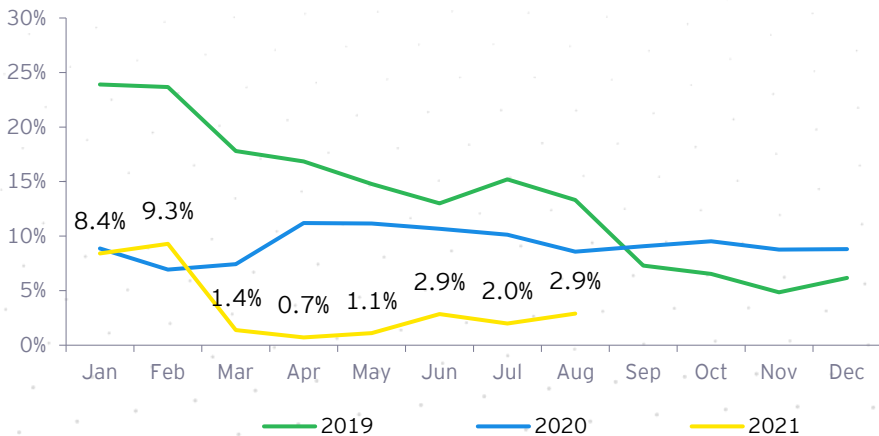
Growth rate of bank credit to agriculture and allied activities



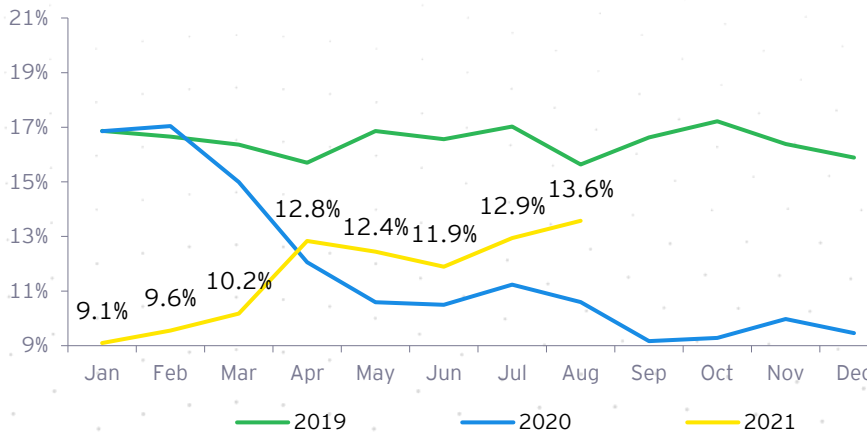
Growth rate of bank credit to industry



Growth of bank credit to service sector



Growth of bank credit to personal loans



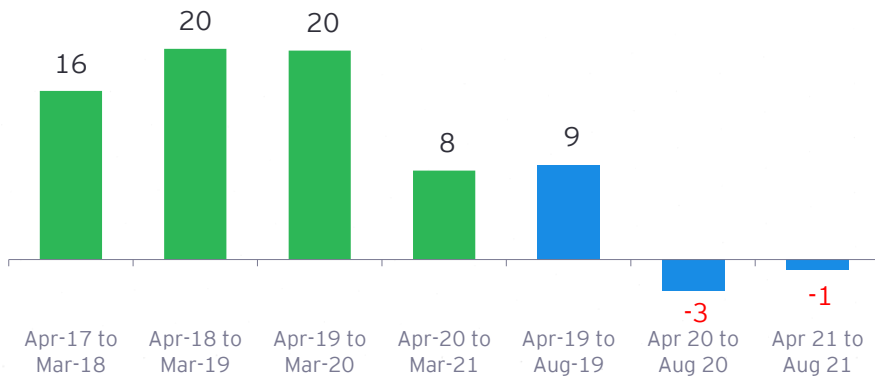
Source: RBI
Growth rates have been computed based on the change over 12 month period

Key findings

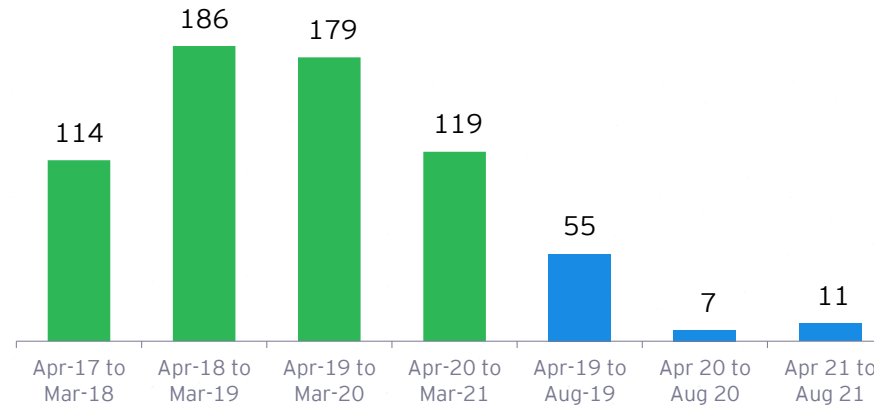
- ▶ Bank credit growth to agriculture sector continues to be high but the credit growth to industry and services sector has been low.
- ▶ Given the broad pickup in manufacturing activity and more recently in the services activity, the muted bank credit growth may reverse as corporate deaveraging process is completed.
- ▶ Personal loans bank credit growth has been picking but it is still below 2019 trends. This is largely in line with the consumption trends seen.

Change in gross personal loans advanced by banks

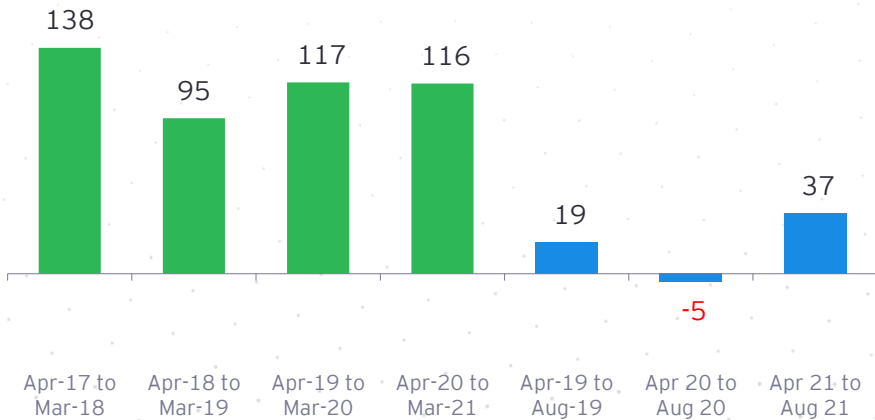
Credit card debt (in INR '000 crores)



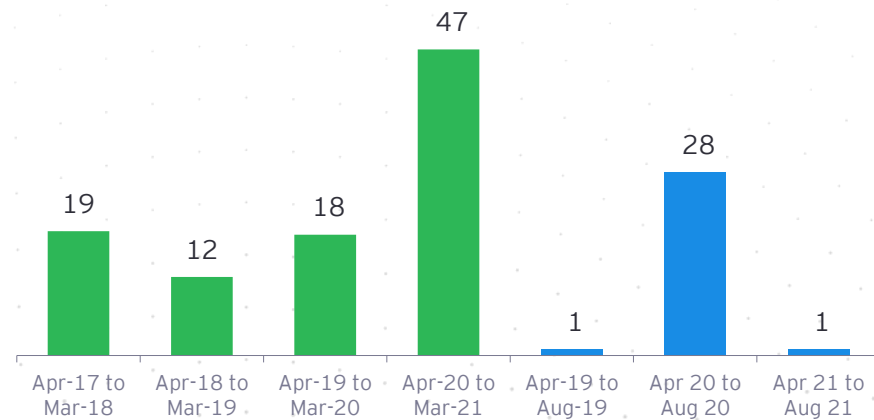
Housing loans (in INR '000 crores)



Other personal loans (in INR '000 crores)



Auto loans (in INR '000 crores)

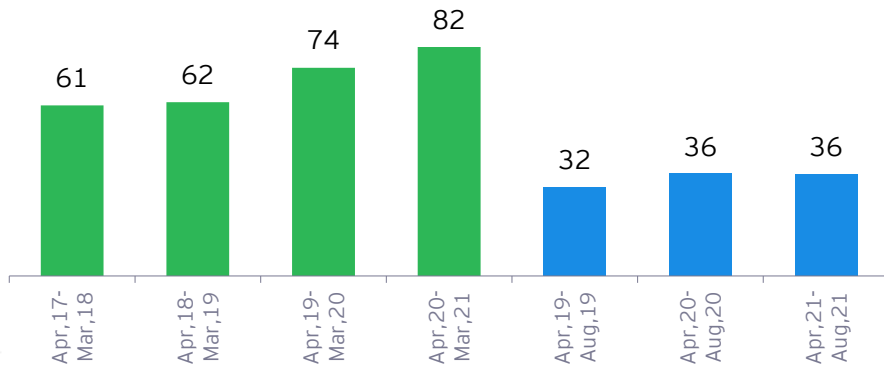


Key findings

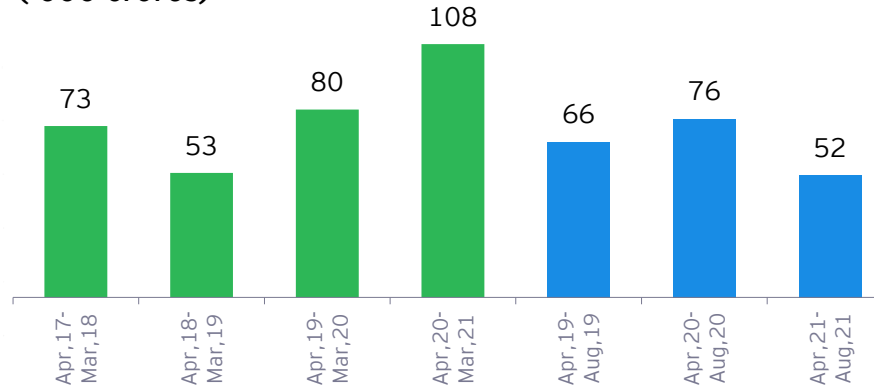
- ▶ Housing loans by commercial banks have witnessed a positive growth During April-August 2021 over 2020 but they are still below 2019 levels.
- ▶ Debt for credit card and auto loans has been stagnant. However, other personal loans have seen strong flows till now in 2021-22.

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

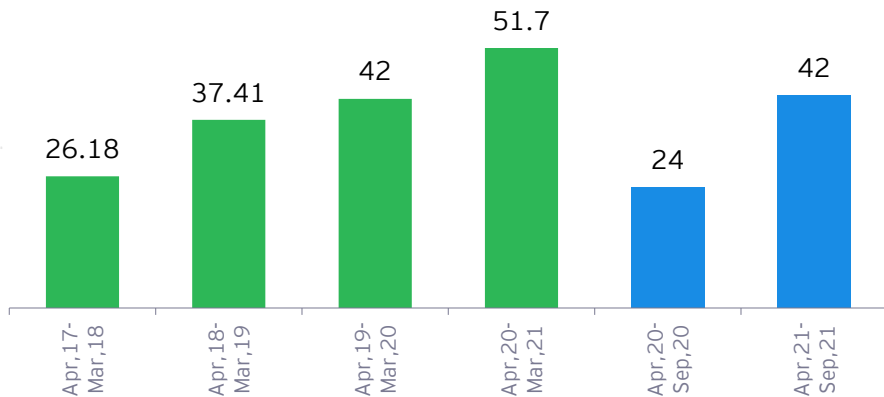
Gross FDI inflows in India (US\$ billions)



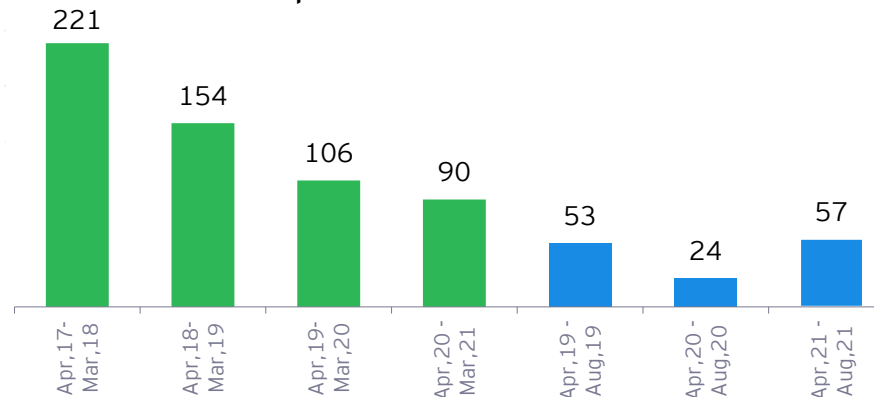
Money raised by Non Governmental companies ('000 crores)



PE/VC investments (US\$ billions)



No. of Issues to raise money by Non Governmental companies



Source: RBI, EY Analysis

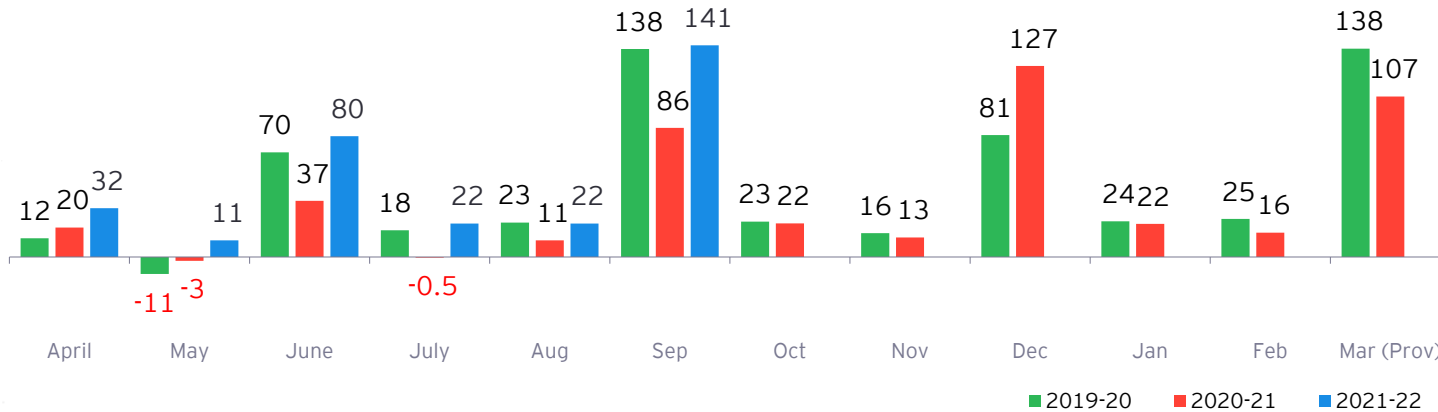
Key findings

- ▶ Equity investments have continued to grow strongly during the current financial year.
- ▶ The gross FDI inflows have consistently risen, despite the second wave and have matched the last year's record flows despite last year's base increasing due to several large deals. The number of issuances have increased considerably in 2021-22 despite the money raised being lower than last two year's corresponding period.
- ▶ In line with the above, PE/VC investments have grown by during the first quarter vis-à-vis the corresponding period in the previous financial year.

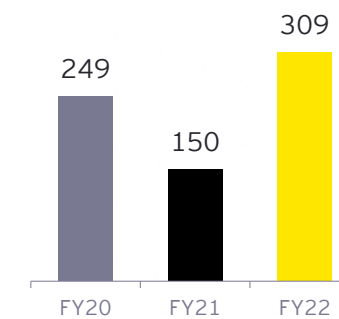
Trends in Centre's tax collections

Public finance

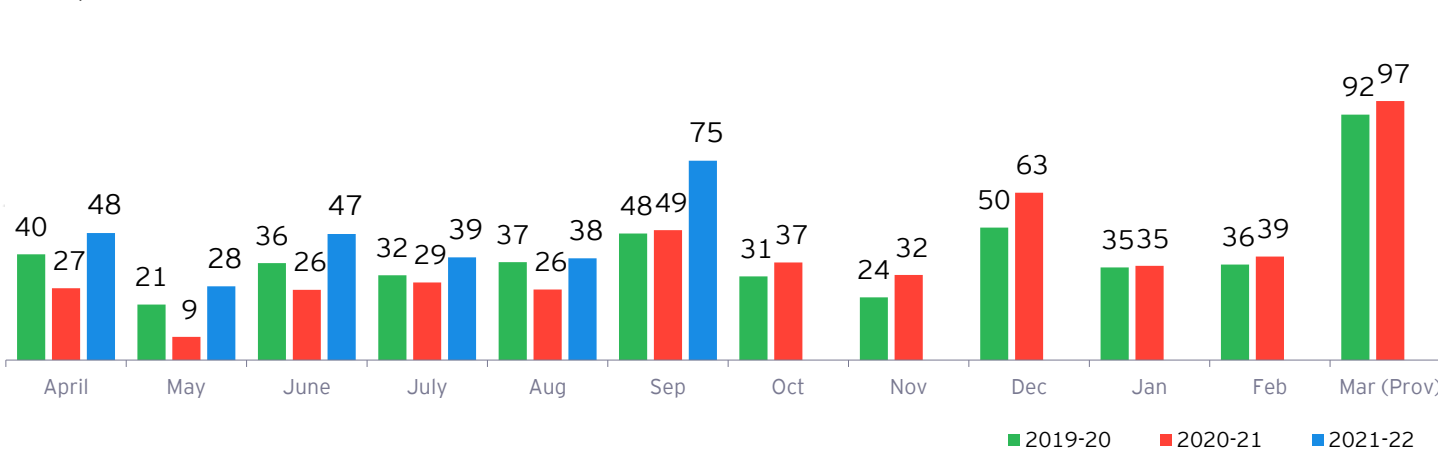
Net corporate tax collection (INR '000 crores)



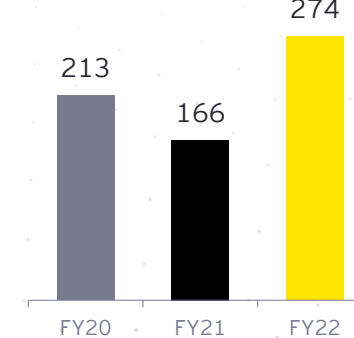
Corporation tax (INR '000 crores) (Apr - Sep)



Net personal tax collection (INR '000 crores)



Personal tax (INR '000 crores) (Apr-Sep)



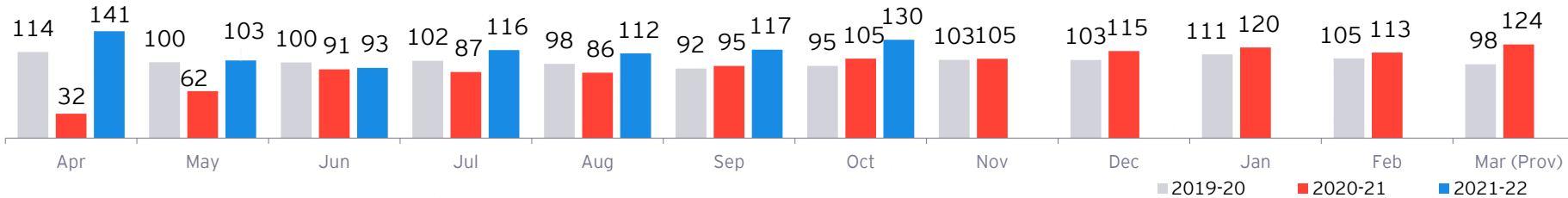
Key findings

- ▶ India's direct tax collections in the first six months of FY 2021-22 stand almost double the collections over the same period of last year that was affected by the national lockdown.
- ▶ The FY22 tax collection till September surpasses even the FY20 tax collection by 26% for CIT and 29% for PIT.
- ▶ The robust tax collection is a result of the reviving economic activities and positive sentiments among taxpayers during this financial year leading to increased income estimates and higher advance tax payments.
- ▶ Other factors for higher tax collection in FY22 may be increased scope of withholding taxes and higher earnings from interest and capital gains. Greater formalization of the economy in the last two years has also contributed to tax base and collection.

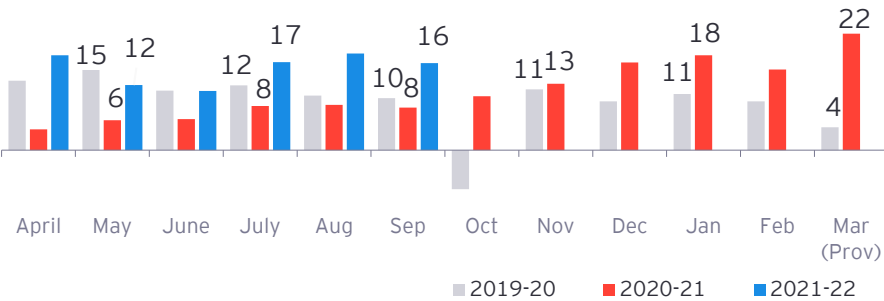
Source: Controller General of Accounts; GST Council/ PIB

Trends in Centre's tax collections

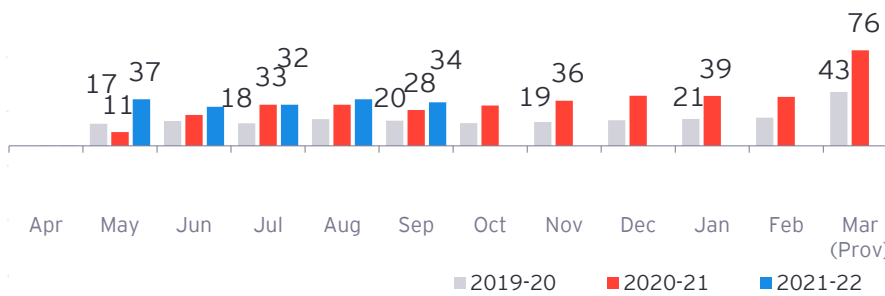
GST Collections (Centre + States) (INR '000 crores)



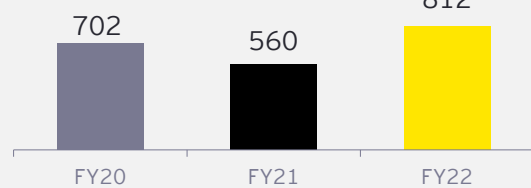
Customs (INR '000 crores)



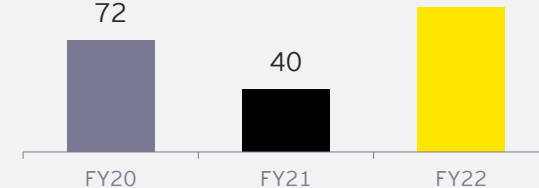
Union excise duty (INR '000 crores)



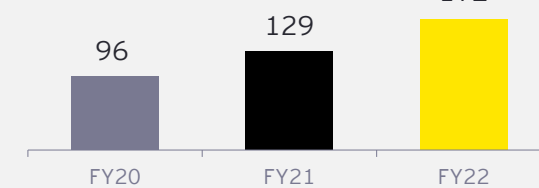
GST (Centre + States) (INR '000 crores) (Apr-Oct)



Customs duty (INR '000 crores) (Apr-Sep)



Union Excise Duty (INR '000 crores) (Apr-Sep)



Source: Controller General of Accounts; GST Council/ PIB

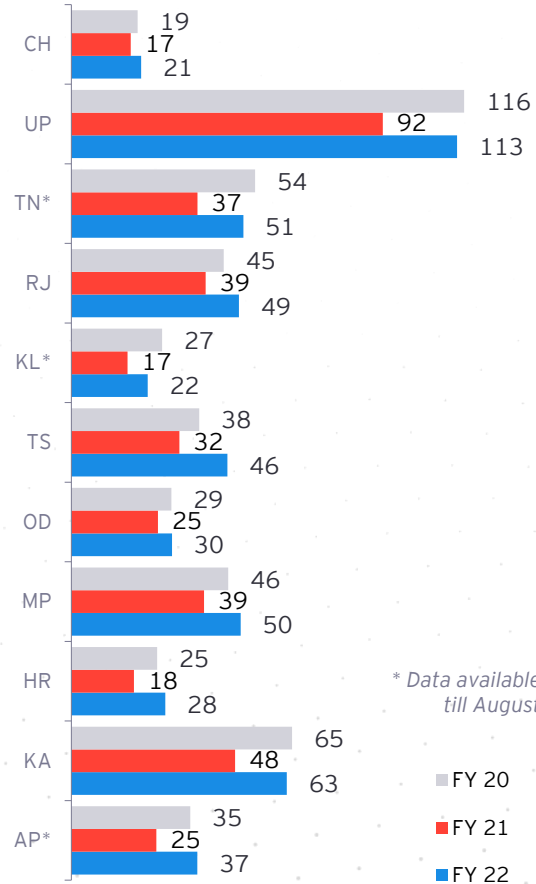
Key findings

- ▶ GST collections have been fairly robust for several months in a row. The exception was June 2021 when the collection dropped below INR 1 lakh crore mark on account of lockdowns in May 2021.
- ▶ GST collections for October 2021 have been second highest since introduction of GST. This is very much in line with the trend in economic recovery. The revenues would have been higher if sales of cars and other products had not been affected due to disruption in supply of semi-conductors.
- ▶ Imports in FY22 have revived after witnessing a sudden decline in FY21, resulting in higher custom duty collection in April-Sep FY22 vis-à-vis the same period in FY21. Gems & jewellery, petrol & crude products, coal, coke & briquettes, electrical & non-electrical machinery in particular, witnessed major import growth.
- ▶ The past few months have seen a substantial increase in Excise Duty on petrol and diesel, resulting in higher excise collection in first six months of FY22 compared to same period last year.

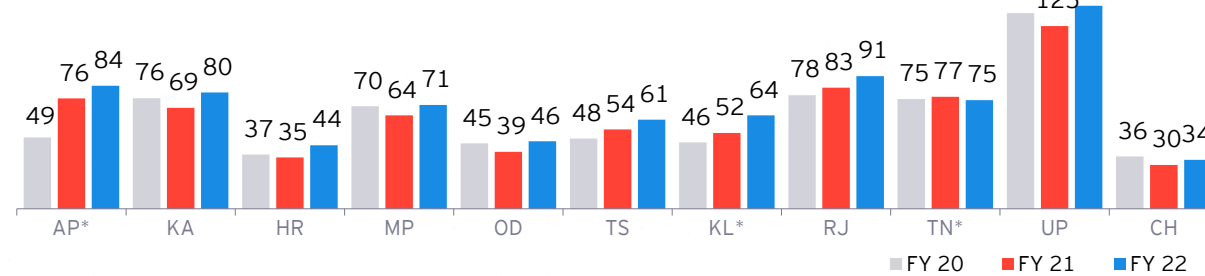
States' tax revenues recover, give more space for capex spend

Tax revenue and expenditure for major States for the period (April'21 - September'21)

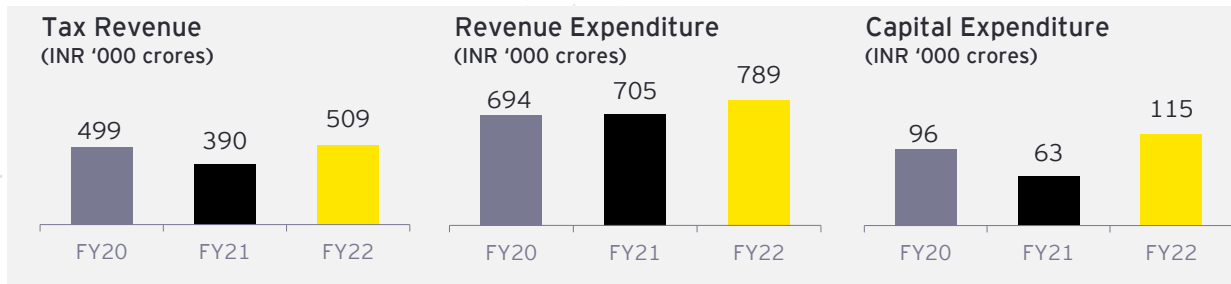
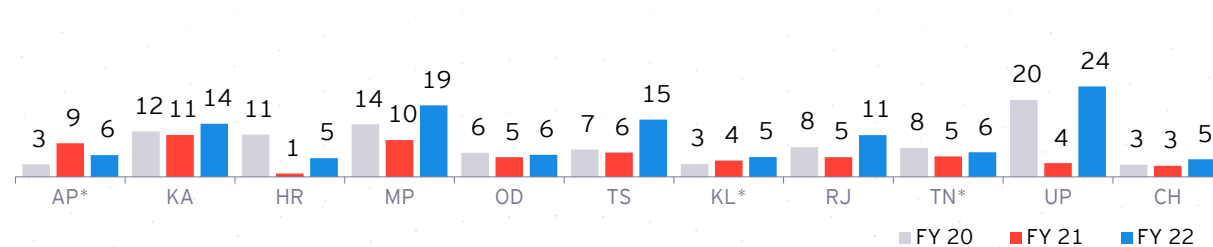
Tax revenue (INR '000 crores)



Revenue expenditure (INR '000 crores)



Capital expenditure (INR '000 crores)



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

- ▶ States' tax revenues witnessed a sharp growth in FY22 vis-à-vis FY21, indicating that the impact of the second COVID-19 wave was less than the first one.
- ▶ The revenues in the first six months of this fiscal year have surpassed the pre-COVID-19 levels.
- ▶ Notably, the States' earnings have improved despite the fact that assignment to states from Centre's gross tax revenue has been lower at 22% FY 22 compared to 36% FY 21 and 34% in FY20 for the period April - September.
- ▶ Higher tax collection has given the States more space for revenue and capital expenditure. Uttar Pradesh and Madhya Pradesh have in particular focused on higher capex spend.

Fiscal data shows improved revenues and better quality of expenditure

Public finance

# Particulars	Budgeted estimate (2021-22) (INR crores)	Actuals (April - Sep 2021) (INR crores)	Actuals (April - Sep 2020) (INR crores)	Actuals as % of Budget FY22	Actuals as % of Budget FY21	Average Actuals as % of Budget (FY17 - FY21)
1 Tax Revenues (Net of States' share)	15,45,396	9,20,692	4,58,508	59.6%	28.0%	38.2%
2 Non tax revenues	2,43,028	1,60,356	92,274	66.0%	24.0%	40.0%
3 Revenue receipts (1+2)	17,88,424	10,81,048	5,50,782	60.4%	27.3%	38.3%
4 Other receipts	1,88,000	18,118	14,635	9.6%	6.5%	18.8%
5 Total non-debt receipts (3+4)	19,76,424	10,99,166	5,65,417	55.6%	25.2%	37.0%
6 Revenue expenditure other than interest	21,19,427	10,32,909	10,07,922	48.7%	52.4%	55.6%
7 Interest	8,09,701	3,63,757	3,05,652	44.9%	43.2%	43.0%
8 Capital Expenditure	5,54,108	2,29,351	1,65,836	41.4%	40.3%	50.4%
9 Total Expenditure (6+7+8)	34,83,236	16,26,017	14,79,410	46.7%	48.6%	52.2%
10 Fiscal Deficit (9-5)	15,06,812	5,26,851	9,13,993	35.0%	114.8%	95.6%

Key findings

- ▶ Both tax and non-tax revenues have been notably higher in the first six months of FY22 compared to the same period in the previous year.
- ▶ Capital expenditure in the first six months of FY22 recorded a growth of 38% over the same period last year while revenue expenditure grew by 6%. This is indicative of improved quality of expenditure.
- ▶ Fiscal deficit for H1 FY22 stood at 35% of the full fiscal target.
 - ▶ In Budget for 2021-22, the government had estimated the fiscal deficit at 6.8%. With the improving tax collection, this target seems achievable.

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

The Twin Pillars of BEPS 2.0 will reshape the tax policy architecture

Corporate tax avoidance costs countries US\$ 100-240 billion annually, which is equivalent to 4-10% of global corporate income tax revenues

On 9 July 2021, 132 countries representing more than 90% of global GDP joined the new two-pillar plan to reform international taxation

Consensus Agreement between 136 of 140 member countries reached on October 8, 2021 for the BEPS Inclusive Framework.

Pillar One - Re-allocation of taxing rights

Objective To ensure a fairer distribution of profits and taxing rights among countries (market jurisdictions) with respect to the largest MNEs

Scope Companies with global revenue of €20 billion and profitability above 10%. Threshold may reduce to €10 billion over 7 years. Certain exclusions provided.

Nexus New nexus rule to determine whether a market jurisdiction qualifies for taxing rights. Tax allocation allowed when the in-scope MNE derives revenue of at least €1 million from the jurisdiction. For smaller jurisdictions (GDP < €40 billion), nexus will be set at €250,000

Tax certainty Mandatory and binding dispute prevention and resolution mechanisms will be available to avoid double taxation. Elective for certain developing countries

Unilateral measures Coordination between application of new international tax rules and removal of all Digital Services Tax (DST) / similar measures as per Multilateral Convention (MLC),

Pillar Two - Global minimum corporate tax

Objective To ensure that global business income is subject to an agreed minimum rate of tax, regardless of where they are headquartered or the jurisdictions they operate in

Scope MNEs with total consolidated group revenue of at least €750 million, Carve-out for certain entities and activities.

Minimum rate The minimum tax rate used will be 15%

Digital Economy transactions

- ▶ No newly enacted DST / other relevant similar measures to be imposed on any company from 8 October 2021 until the earlier of 31 December 2023 or the coming into force of MLC.
- ▶ Political compromise reached among US, Austria, France, Italy, Spain, and UK, on a transitional approach to existing unilateral measures while implementing Pillar One
- ▶ European Commission is assessing whether an EU directive is needed, depending on what the MLC will look like
- ▶ Clarity awaited on India's decision on Equalisation levy

BEPS 2.0 to significantly impact MNEs' business models and investment decisions

Significant increase in global tax revenues and redistribution of taxing rights to market jurisdictions

OECD estimates global minimum tax to generate **additional revenue of around US\$150 b** annually

25% of profits of the most profitable MNEs above a set profit margin to be reallocated to market jurisdictions

Taxing rights on more than US\$100 billion of profit per year expected to be reallocated to market jurisdictions

Consensus approach expected to **prevent tax and trade disputes** which could reduce global GDP by more than 1%

India has a huge customer base and may seek a higher allocation. It may also ask for Pillar One to apply to top 300 MNCs originally proposed by OECD

Level playing field and efficient investment decisions

Level playing field between digitalised /intangible intensive MNEs and other 'brick and mortar' firms by offering new taxing rights to market jurisdictions, whether or not there is a physical presence.

Minimum tax increases the importance of non-tax, productive factors such as infrastructure, education levels or labour costs, in the investment location decisions

Low-tax jurisdictions / investment hubs expected to lose their attractiveness

Jurisdictions with **tax rates above the minimum rate** unlikely to face investment loss and may even benefit

Only a few India HQ MNEs have a consolidated revenue > €750 million that may be impacted by the minimum tax decision

Rethink on future tax rates and incentives

End of race to bottom: Global minimum tax may limit harmful tax competition.

Minimum tax may reduce governments' ability to use income tax incentives to pursue specific policy objectives, e.g. promoting innovation, R&D, economic development or investments

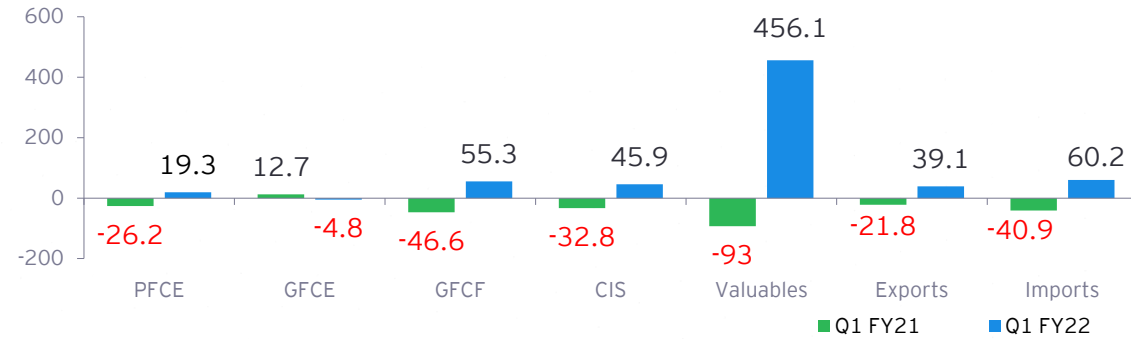
India already working towards the sunset of many incentives in lieu of a low corporate tax

Future of current targeted income and investment-linked incentives remains uncertain at this juncture.

Indian economy recovers post second COVID wave

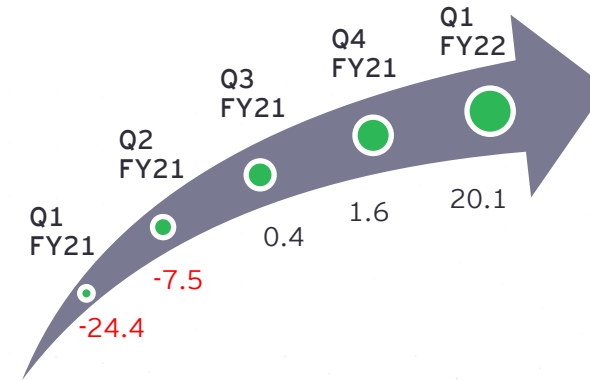
Economic outlook

Quarterly Estimates of Expenditure on GDP growth (%)

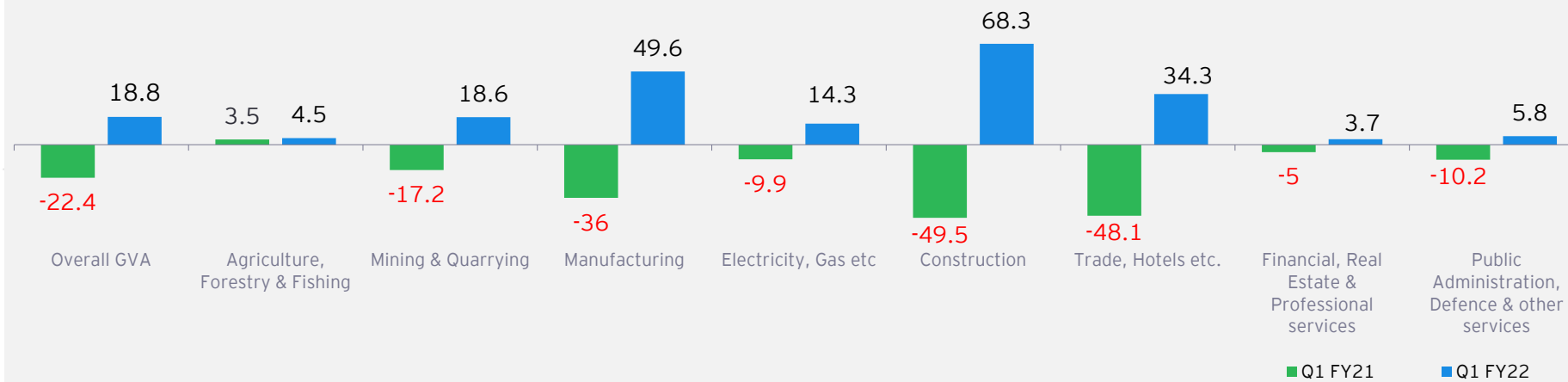


PFCE: Private Final Consumption Expenditure; GFCE: Government Final Consumption Expenditure; GFCF: Gross Fixed Capital Formation; CIS: Change in Stocks

Quarterly GDP growth FY21 and FY 22 (%)



Quarterly gross value added (GVA) growth (%): major sectors



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

Key findings

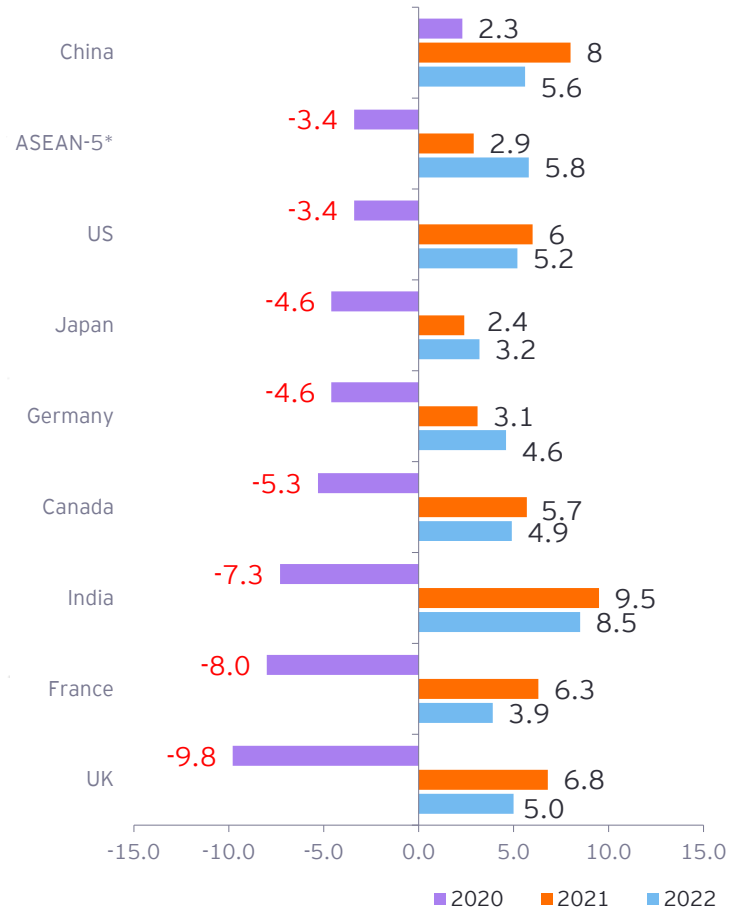
- ▶ The first quarter of the current fiscal recorded a growth of 20.1%, primarily due to the low base effect.
- ▶ Growth in Q1 FY22 does not fully reflect the disruption caused by the second pandemic wave.
- ▶ The GVA growth of 18.8% is led by the growth in manufacturing sector, construction and Trade, Hotels, Transport, Communication & Broadcasting Services. Agriculture and allied activities have maintained a steady growth.
- ▶ The easing of lockdown restrictions and pick up in pace of vaccination may further revive consumer and business sentiments.

IMF's world economic outlook October 2021

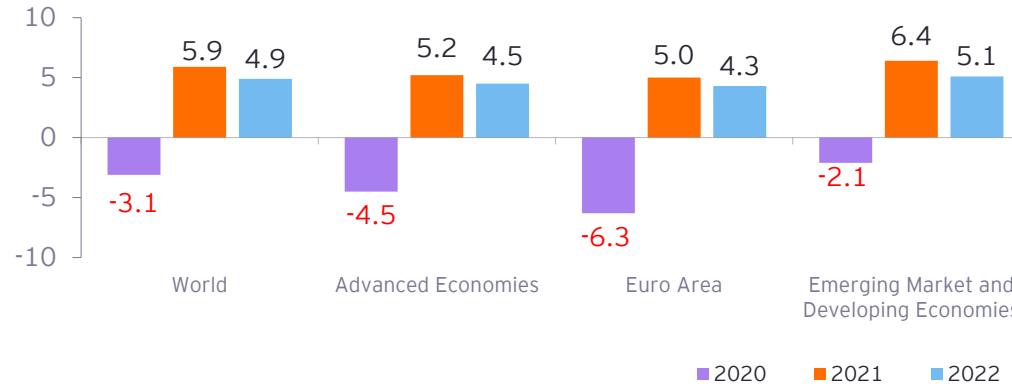
Economic prospects have diverged further across countries, mainly depending on vaccine access

Economic outlook

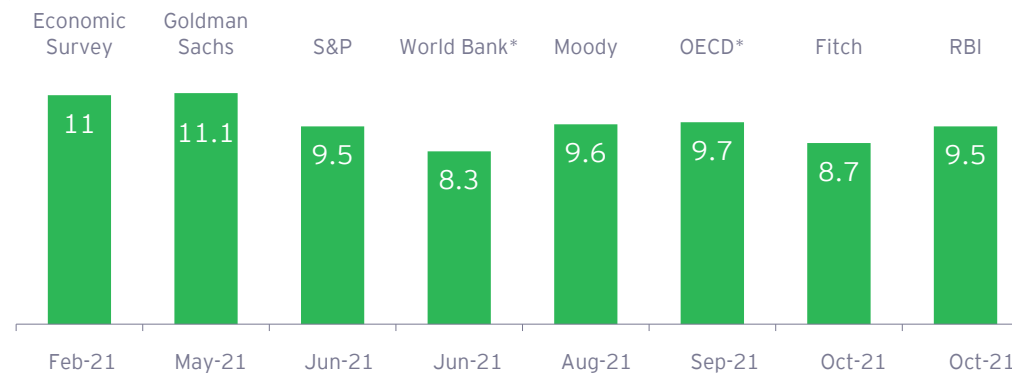
India and other regions



Global growth projections (%)



Forecast for India's GDP for FY22



Projections are for calendar year 2021

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

Key findings

- ▶ The global economy is projected to grow at 5.9% in 2021, downgraded by 0.1% as compared to IMF's July 2021 outlook.
- ▶ Aggregate output for the advanced economy group is expected to regain its pre-pandemic trend path in 2022 and exceed it by 0.9 percent in 2024.
- ▶ Aggregate output for the emerging market and developing economy group (excluding China) is expected to remain 5.5 percent below the pre-pandemic forecast in 2024.
- ▶ Growth prospects in India have remained same at 9.5% from the July 2021 WEO.

Monetary Policy	Description and Intent
Key Details	<ul style="list-style-type: none"> ▶ CPI down to a 4-month low at 4.35% in September 2021 as compared to 5.3% in August & 5.6% in July 2021 ▶ Repo rate and Reverse Repo rate remains unchanged at 4% & 3.35% respectively ▶ MSF and Bank rate remains unchanged at 4.25%
Liquidity and Financial Market Conditions	<ul style="list-style-type: none"> ▶ Surplus liquidity rose to a daily average of INR9.5 lakh crore in early October compared to INR7.0 lakh crore during June-Aug 2021 with potential liquidity overhang amounting to more than INR13.0 lakh crore ▶ Reduced need for GSAP operations given existing liquidity, increased govt spending, absence of a need for additional borrowing for GST compensation ▶ RBI to undertake VRRR 14 day auctions on 3rd Nov (INR5 lakh crore), 18th Nov (INR5.5 lakh crore), 6th Dec (INR6 lakh cr)
On Tap SLTRO for Small Finance Banks	<ul style="list-style-type: none"> ▶ Introduced a 3 year long-term repo operation of ₹10,000 crore for SFBs in May 2021. ▶ Facility extended till December 31, 2021 for continued support to small business units, micro and small industries, and other unorganised sector entities
Ways & Means Advances Limits and Overdraft Facility for the States/UTs	<ul style="list-style-type: none"> ▶ Review of Ways & Means Advances and relaxation of Overdraft facility to help States/UTs manage their cash flows amidst continued uncertainties on account of the pandemic ▶ Interim enhanced WMA limits of INR51,560 crore for States/UTs to continue up to March 31, 2022
Priority Sector Lending-Permitting Banks to On-lend through NBFCs	<ul style="list-style-type: none"> ▶ Facility further extended for another six months up to March 31, 2022 ▶ Done to promote delivery of credit by NBFCs to the underserved/unserved segments of the economy
Internal Ombudsman for NBFCs	<ul style="list-style-type: none"> ▶ Given the increased strength and reach of NBFCs and to strengthen the internal grievance redress mechanism, Internal Ombudsman for certain categories of NBFCs having higher customer interface to be introduced
Other Initiatives	<ul style="list-style-type: none"> ▶ Proposed to introduce a framework for retail digital payments in offline mode across the country ▶ Transaction Limit in IMPS enhanced from INR2 lakh to INR5 lakh

Comments

- ▶ RBI will be maintaining an accommodative stance as long as necessary to revive and sustain growth on a durable basis and continue to mitigate the impact of COVID-19 on the economy, while ensuring that inflation remains within the target going forward.

Source: RBI (October 2021)

Area	Description and Intent
Scale based regulations for NBFCs	<ul style="list-style-type: none"> ▶ NBFC sector has strong linkages with financial sector and would be a major source of providing credit ▶ Objective to improve oversight and mitigate any systemic risk due to potential NPAs post the pandemic ▶ NBFCs would be classified into Top layer, upper layer, middle layer and base layer based on asset size, whether they take deposits and nature of business ▶ Norms on minimum net owned funds, NPA classification, Board constitution and IPO funding
Gati Shakti	<ul style="list-style-type: none"> ▶ Multi- departmental initiative of the Government with the objective of integrated infrastructure development (multi modal) and lowering the logistics costs ▶ Use geo-mapping and real-time data in a centralized portal to ensure that key departments and states have visibility over major projects being planned ▶ 16 departments, including Railways, Roads & Highways, Petroleum & Gas, Power, Telecom, Shipping, Aviation and others will be part of this initiative ▶ Aggressive targets ▶ Expected to ensure maximum utilization of resources/ capacities, enhancing efficiency and reducing wastage
PLI schemes	<ul style="list-style-type: none"> ▶ PLI schemes continue to be an important policy instrument to drive manufacturing in India ▶ Addition PLI schemes announced for Automobiles, Drones, textiles and ACC batteries ▶ Focus on technologies of the future and employment generation
Telecom package	<ul style="list-style-type: none"> ▶ Telecom sector's financial health important given the focus on digitisation and introduction of 5G services ▶ AGR definition explicitly excludes non-telecom revenues ▶ Term of Spectrum allocated increased from 20 to 30 years ▶ Reduction in BG requirements against License Fee and interest rate on delayed payments ▶ Removal of spectrum usage and spectrum sharing charges ▶ 100% Foreign Direct Investment under automatic route permitted ▶ Moratorium/ deferment of AGR dues and spectrum purchased in past auctions to improve liquidity

Comments

- ▶ The Government continues its momentum of announcing significant policy changes across sectors.
- ▶ Policy changes target attracting fresh investments, improving the financial health of distressed sectors and reducing the risks to the economy.

Source: RBI (October 2021)

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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