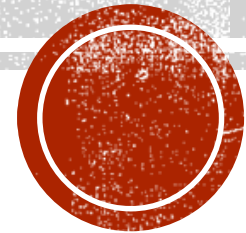


# Monthly Review of the Economy

July 2022



This report has been prepared by Jagannath Mallick and Ayesha Ahmed. Comments are welcome at [aahmed@ncaer.org](mailto:aahmed@ncaer.org). Khushvinder Kaur has helped with formatting. The findings, interpretations, and conclusions expressed are those of the author and do not necessarily reflect the views of the Governing Body or Management of NCAER.

# Monthly Highlights

- The IMF has lowered its projected global growth for 2022 by 0.4 percentage points to 3.2 percent and for 2023 by 0.7 percentage points to 2.9 percent. [World Economic Outlook Update, July 2022: Gloomy and More Uncertain \(imf.org\)](#)
- Reserve Bank of India (RBI) has announced various measures to boost capital inflows by relaxing norms for foreign portfolio investments. It has also raised the investment limit from USD 750 million to USD 1.5 billion per financial year under the automatic route for external commercial borrowings (ECBs) to encourage companies to raise money. [RBI steps in to boost forex inflows, stem rupee weakness - The Hindu BusinessLine](#)
- Goods and Services Tax (GST) Council approved withdrawal of some exemptions from and an increase in rates to deal with inverted tax structures. [New GST Rates: Changes in GST rates to take effect from July 18 - The Economic Times \(indiatimes.com\)](#)
- Indian states have budgeted 36 per cent higher capital expenditure in FY'23 compared to FY'22, which may lead to a significant rise in states' fiscal deficit to Rs 8.4 lakh crore in FY'23. [States' capex seen soaring 36 pc in FY23, fiscal deficit at Rs 8.4 lakh crore: Icra | The Financial Express](#)
- The states are expected to borrow Rs 2.12 lakh crore via bonds in July-September which is around 29 percent higher than the actual borrowing of Rs. 1.6 lakh crore in the same quarter of FY'22 and is nearly two times higher than the amount raised in previous quarter of FY'23. [RBI estimates Rs 2.12 lakh crore borrowing by states through bonds in July-September \(moneycontrol.com\)](#)



# Macro Monitor – Economy remained resilient in June 2022

- Purchasing Manager's Index (PMI) for services continued to show pick-up in activity increasing from an index of 58.9 in May 2022 to 59.2 in June 2022. PMI for manufacturing moderated from 54.7 in May 2022 to 53.9 in June 2022 following global suit driven by fears of recession (Figure 1).
- Goods and Service Tax (GST) revenue collection stood at a robust figure of INR 1.44 lakh crores in June 2022 reflecting a 55 percent increase compared to June 2021 (Figure 2).
- The government slashed the newly-introduced windfall tax on petrol, diesel, aviation fuel, and crude oil as global crude oil prices drop.
- Industrial output registered a broad-based recovery increasing by 19.6 percent in May 2022 with electricity production being the largest contributor (Figure 3). Core industries grew by 18.1 percent in May 2022 aided by coal, cement, electricity, and fertilizers (Figure 4).

Figure 1: PMI Indices

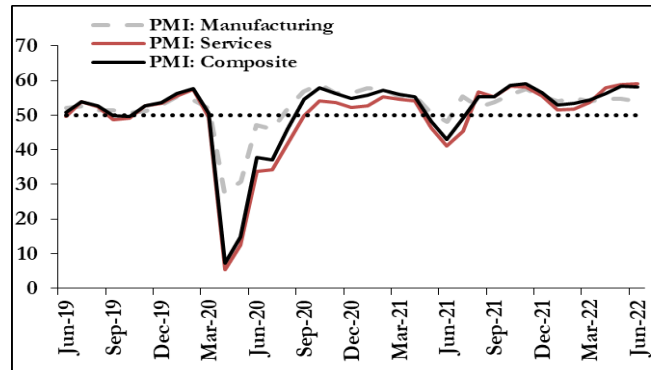


Figure 2: GST Revenue

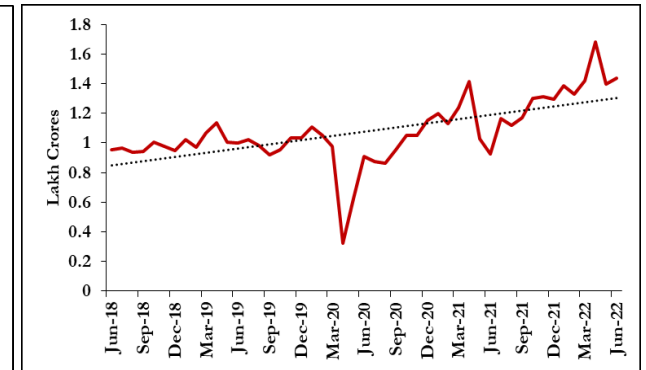


Figure 3: Index of Industrial Production

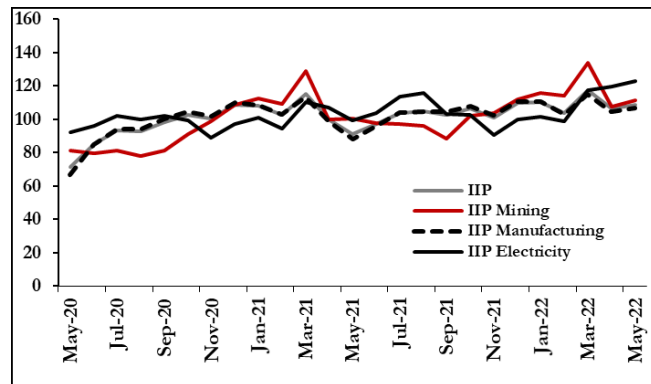
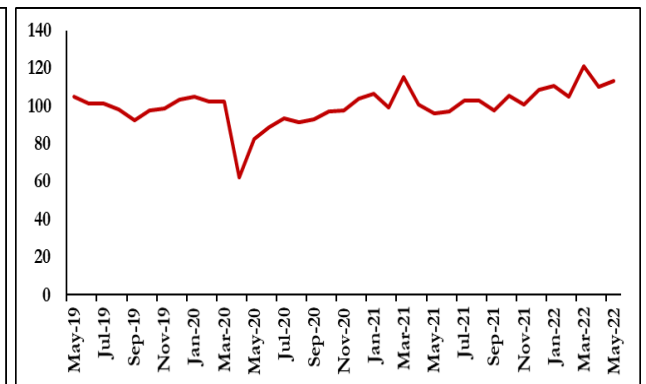


Figure 4: Index for Core Industries



Source: IHS Markit; GSTN, Ministry of Finance; MoSPI; Ministry of Commerce and Industry.

Note: Figures 3 & 4 are indexed to April 2019 = 100. All growth rates are on y-o-y basis unless mentioned otherwise.





# Trade deficit widens as import growth accelerates

- Merchandise exports stood at a value of USD 37.94 billion in June 2022 registering a growth rate of 16.8 percent. This was led by petroleum products, electronic goods, and textiles. Imports of merchandise also increased in June 2022 by 51 percent. Merchandise trade deficit was USD 25.6 billion in June 2022 while for the April-June quarter of FY'23, it was USD 70.3 billion (Figure 9).
- Trade in services increased in May 2022. Exports registered a growth of 32.1 percent while imports increased by 52.7 percent (Figure 10).
- The share of Chinese imports in the country's total imports has declined from 16.5 per cent in FY'21 to 15.4 per cent in FY'22. Moreover, the major items imported from China are used as inputs of sectors like telecom and power.  
[China India imports: China's share in India's total imports falls to 15.4 pc in 2021-22 - The Economic Times](#)
- In FY'22, India's defense exports registered a record growth of 54.1 percent.  
[India defence exports at record ₹13,000 crore, US biggest importer | Mint \(livemint.com\)](#)

Figure 9: Merchandise Trade

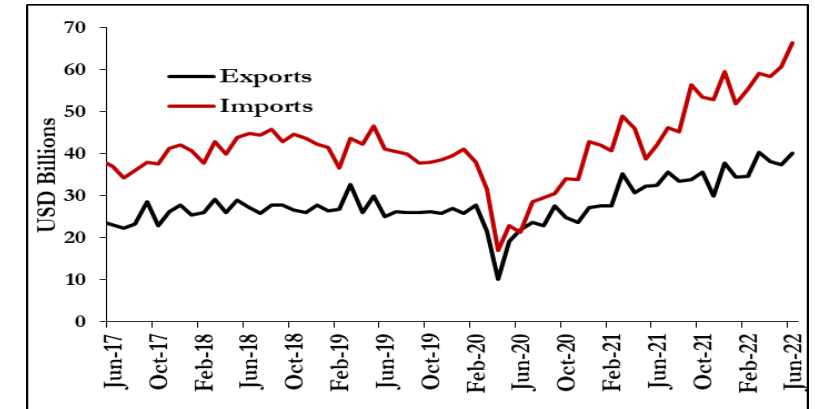
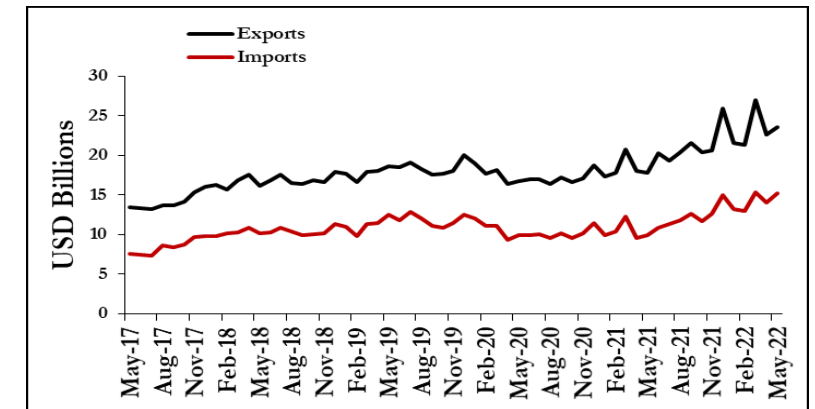


Figure 10: Services Trade



Source: Ministry of Commerce and Industry.



# Slight moderation in inflationary pressures

- There was some easing in inflation in June 2022 (Figure 11). Headline Consumer Price Index (CPI) inflation declined marginally from 7.0 percent in May 2022 to 7.01 percent in June 2022. The decline has largely been due to some moderation in food inflation. Food inflation eased to 7.7 percent in June 2022 from 7.9 percent in May 2022. This is due to a sharp decline in oil and fat inflation. Core inflation dropped to 6.0 percent in June 2022.
- Wholesale Price Index (WPI) eased slightly from 15.8 percent in May 2022 to 15.2 percent in June 2022 (Figure 12). WPI inflation cooled off on account of lower prices of manufactured and fuel items even though food articles remain costly. WPI inflation for food was 14.9 percent due to a sharp spike in prices of vegetables.
- During June, the European Central Bank (ECB) delivered its first rate hike in 11-years raising its main refinancing rate from zero to 50 bps. The US Fed hiked its target federal funds rate by 75 bps to the range of 2.25-2.50 percent at its meeting on July 26-27, 2022. RBI monetary policy decision is due on August 5, 2022.

Figure 11: Consumer Price Indices inflation rates

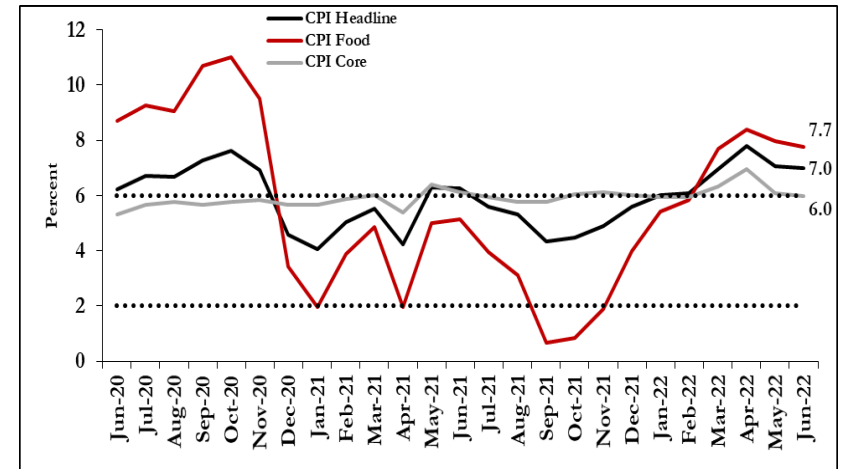
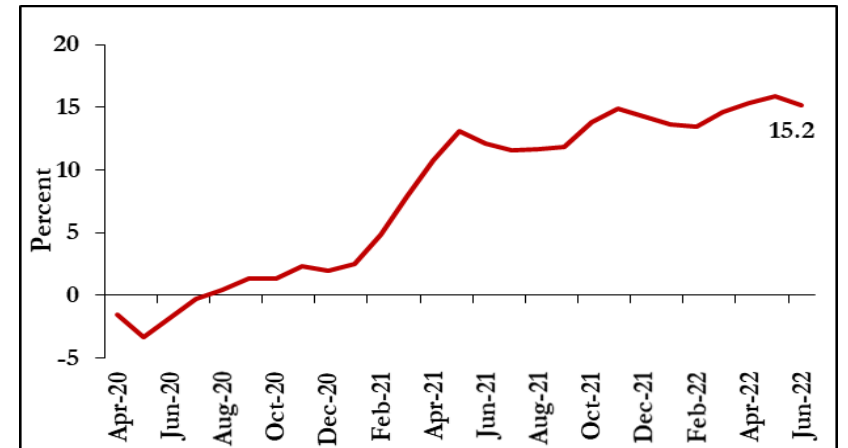


Figure 12: Wholesale Price Index inflation rate





# Urban unemployment declines; rural employment shows moderate stress

- Data from Centre for Monitoring Indian Economy (CMIE) showed a continued decline in urban unemployment rate from 8.2 percent in May 2022 to 7.3 percent in June 2022 (Figure 13). There has also been an increase in formal job creation reflected in the uptick in addition of new subscribers to the Employee's Provident Fund pension scheme.
- Employment in the rural sector deteriorated in June 2022. Rural unemployment rate has increased from 6.6 percent in May 2022 to 8.0 percent in June 2022 (Figure 13). Demand for work under Mahatma Gandhi Rural Employment Guarantee Act (MGNREGA) continued to increase in June 2022. The gap between work creation and work demand also widened in June 2022 (Figure 14).
- Online hiring trend as seen by the Naukri Job Speak Index is elevated but hiring has plateaued since April 2022. IT sector remained the largest contributor in online hiring in June 2022 (Figure 15).

Figure 13: Unemployment rate

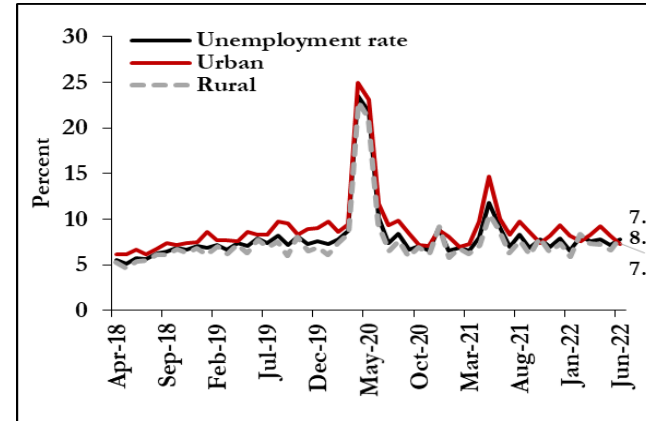


Figure 14: Work shortfall under MGNREGA

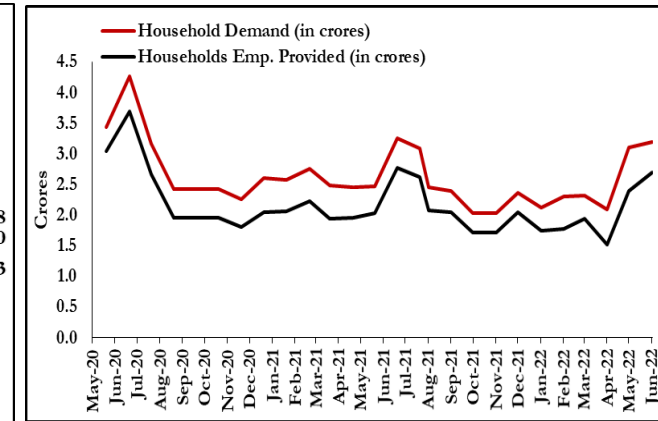
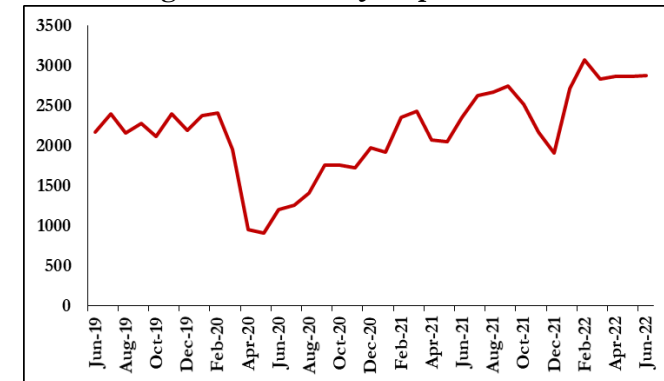


Figure 15: Naukri JobSpeak Index



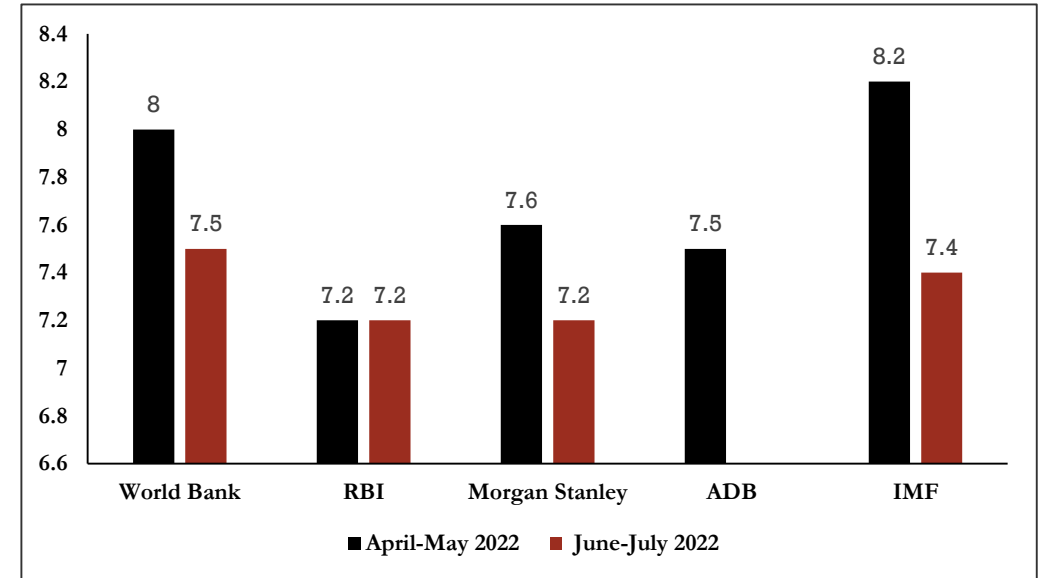
Source : Centre for Monitoring Indian Economy; Ministry of Rural Development; Naukri Job Speak Report (July 2022)



# Agencies revise growth forecasts due to global economic uncertainties

- Several shocks in the global economy and continued geopolitical tensions have led various agencies to revise their projections of GDP growth rate for India (Figure 16).
- The International Monetary Fund (IMF) lowered India's GDP growth forecast by 80 basis points to 7.4 per cent for FY'23.  
[India to remain among fastest growing economies even as IMF cuts growth forecast - Hindustan Times](#)
- World Bank has trimmed GDP growth projections to 7.5 percent for FY'23 from its earlier projection 8.0 percent.
- Similarly, Morgan Stanley cut GDP growth forecasts by 0.40 basis points from its earlier estimates on the ground that slower global growth, adverse terms of trade shock, and impact on business confidence from geopolitical tensions will lower growth for India. [India gdp growth: Morgan Stanley cuts FY23 GDP estimate by 0.40%; expects FY24 growth to slow down to 6.4% - The Economic Times \(indiatimes.com\)](#)

Figure 16: Multiagencies' projections of real GDP growth for FY23 (YoY, %)



Source : RBI, ADB, IMF and others





# Looming global economic recession; rupee depreciation continues

- Global shocks including aggressive monetary policy tightening by various central banks have led to depreciation of several emerging market currencies. The depreciation of the rupee against the USD is lower than other currencies (Figure 17).
- Brent crude oil prices dropped to below US\$100 per barrel in mid-July on recessionary fears before recovering part of the monthly loss due to tight supplies and was at \$109 per barrel on 28<sup>th</sup> July (Figure 18).
- Energy experts believe that, it gives indication that fuel sales may be slowing in the United States, which is supporting the narrative that the economy is slowing.  
[Global Oil Prices Dip Below \\$100 as Recession Fears Spread - The New York Times \(nytimes.com\)](#)
- The foreign exchange reserves of RBI declined for the fourth successive week from US\$593.3 billion on June 24, 2022 to US\$571.6 billion on July 22, 2022. The changes in reserves reflect a combination of RBI's foreign exchange interventions and the valuation effects.

Figure 17: Depreciation in emerging economies between 22<sup>nd</sup> June 2022 and 22<sup>nd</sup> July 2022

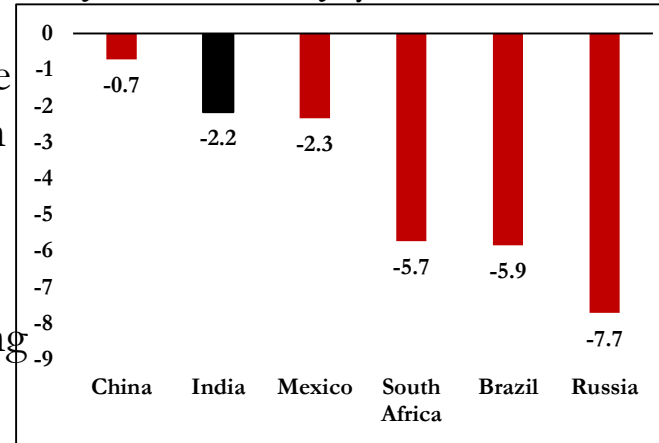


Figure 18: Brent crude-oil Price

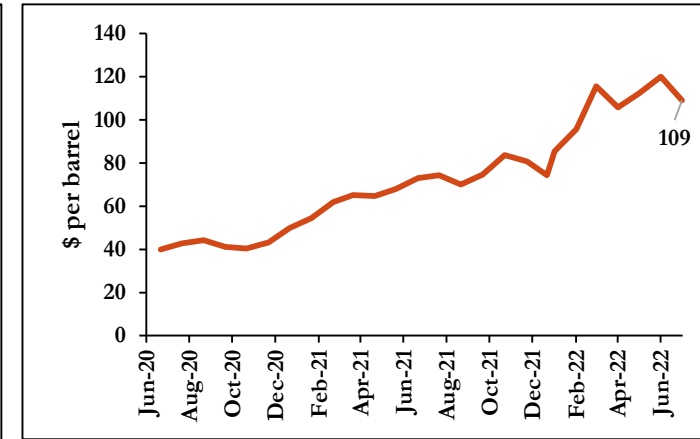
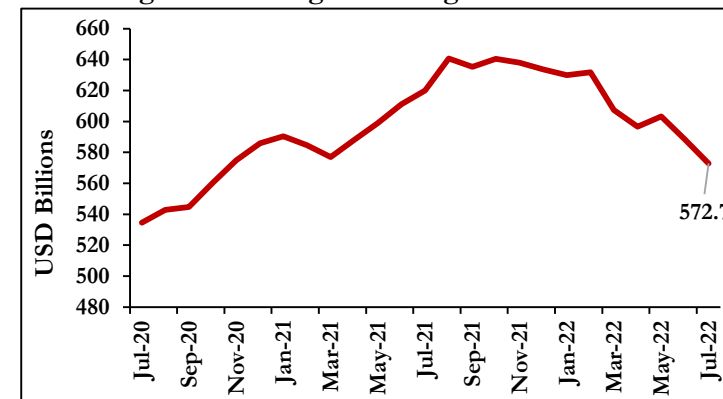


Figure 19: Foreign Exchange Reserves



Source: Global Markets Monitor, International Monetary Fund; Reserve Bank of India.

Note: The data for figures 17 & 19 are as of 22<sup>nd</sup> July 2022, and the data for figure 18 are as of 28<sup>th</sup> July



# Equity markets recover; slight moderation in FPI outflows

- Indian stock markets recovered in July 2022 after dip in June 2022. With investor sentiments remaining bearish, a sell-off in risky assets has led investors to dump equity and purchase safer government bonds (Figure 20 & 21).
- Foreign institutional inflows continue to pull back from emerging economies (Figure 22). But rate of outflow of FPI has been slowing in India. **FPI selloff remains slow in July with ₹7,432 cr outflow from equities. Is this a sign of revival? | Mint (livemint.com)**
- Yields on 10-year government securities were at 7.36 percent as of 28th July 2022, compared to 7.47 percent on 28th June 2022. The benchmark yield had risen last month on inflation fears and expected fiscal slippage but moderated somewhat in second half of July on growth concerns, fiscal measures and expectations that inflation may moderate in the second half of the fiscal year (Figure 23).

Figure 20: Indian Equity Markets

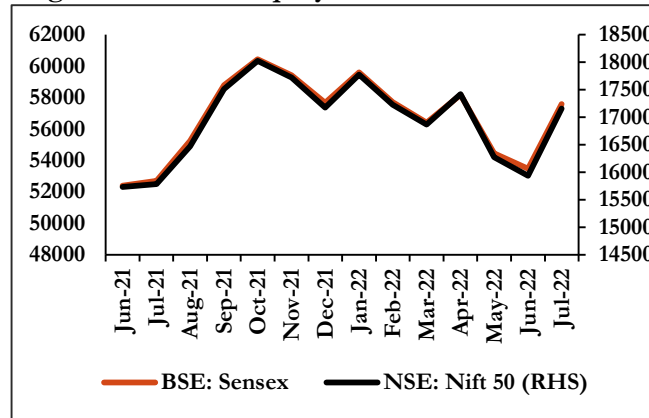


Figure 21: Change in equity market indices of emerging economies between 22nd June 2022 and 22nd July 2022

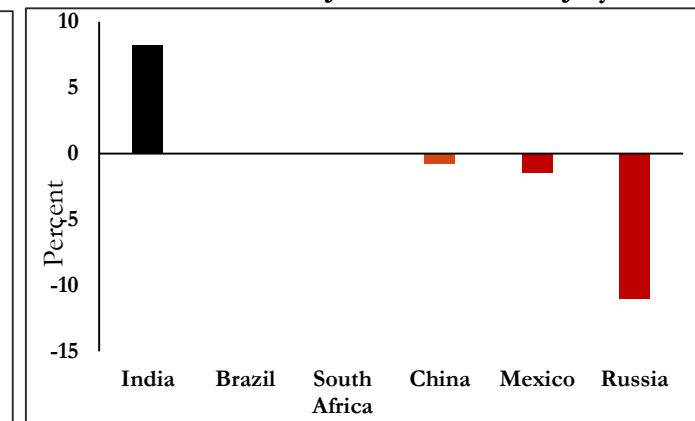


Figure 22: Net Foreign Institutional Inflows

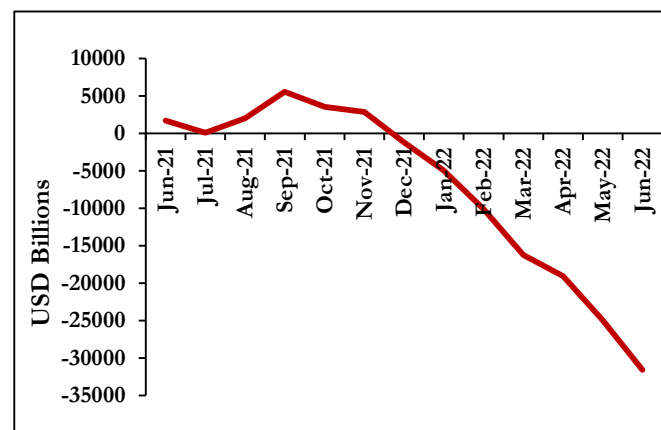
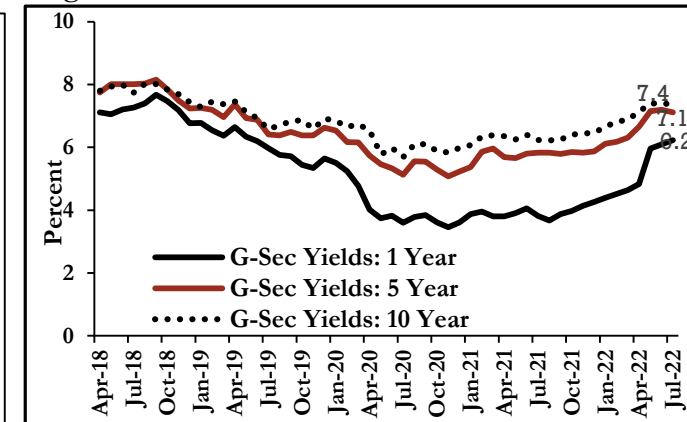


Figure 23: Yields on Domestic Government-securities



Source: BSE Ltd, NSE Ltd; Global Markets Monitor, IMF; National Securities Depository; Clearing Corporation of India Ltd.

Note: The data for figures 20 and 23 are as of 28th July 2022. Foreign Institutional Inflows includes debt and



# Global economy faced with inflation and unemployment concerns

Table 1: Movements in global economic indicators

	GDP growth (%)		Industrial production growth (%)	Consumer price inflation (%)		Unemployment rate (%)	Current-account balance in GDP (%)	Currency units <i>per</i> \$		Budget balance (% of GDP)
	<i>Q1</i>	<i>2022P</i>	<i>May 2022</i>	<i>May 2022</i>	<i>2022P</i>	<i>May 2022</i>	<i>2022P</i>	<i>19 July</i>	<i>year ago</i>	<i>2022P</i>
<b>India</b>	4.1	6.9	19.6	7.0	7.3	7.1	-1.5	74.45	74	-6.6
<b>United States</b>	3.5	2.3	4.8	8.6	7.8	3.6	-4.3	-	-	-5.9
<b>Euro area</b>	5.4	2.3	1.06	8.1	7.1	6.6	2.3	0.98	0.85	-4.4
<b>Britain</b>	8.7	3.6	1.4	9.1	7.2	3.8	-2.7	0.83	0.73	-5.5
<b>Japan</b>	0.4	2.1	-3.1	2.5	2.2	2.6	1.4	138	109	-6.1
<b>China</b>	4.8	4	0.7	2.1	2.1	5.9	2.5	6.75	6.48	-6.2
<b>Brazil</b>	1.7	1.3	0.5	11.7	10.4	9.8	0	5.41	5.2	-6.7

Sources: The economist and Trading economics;

Note: Calendar year. P indicates the projection

- Several shocks such as worldwide higher inflation ; tighter financial conditions; a slowdown in China due to recent COVID-19 outbreaks and lockdowns. [Global Economic Growth Slows Amid Gloomy and More Uncertain Outlook – IMF Blog](#)
- The high inflationary pressure is experienced across the globe. The CPI inflation in May 2022 was 11.7 percent in Brazil, 9.1 percent in UK, 8.6 percent in US and 8.1 percent in Euro area (Table 1).
- The unemployment problem seems to be more severe in the emerging countries like Brazil, India and China than the advanced economies (Table 1).
- The world may soon be on the brink of a global economic recession as growth is slowing more sharply in the major economies. [recession: IMF warns that global recession could soon be at hand - The Economic Times \(indiatimes.com\)](#)



# Heatmap for high-frequency indicators

	Apr-19	Jul-19	Nov-19	Feb-20	May-20	Aug-20	Nov-20	Feb-21	May-21	Aug-21	Nov-21	Feb-22	May-22	Jun-22
<b>Agriculture</b>														
Tractor sales (Excluding Exports)	-13.2	-13.1	-13.2	21.3	4.0	74.7	51.3	59.1	-4.3	45.0	17.2	-31.3	47.4	-14.4
Farm Tractor Production	-11.2	-4.6	-11.9	16.2	-52.8	24.2	46.2	60.5	5.4	50.5	9.4	-35.5	40.8	12.5
Fertilizer Sales (Urea)	8.8	-0.3	26.1	8.5	20.5	3.3	8.0	-5.4	8.8	0.1	-15.8	22.5	17.3	5.5
<b>Industry</b>														
IIP (mining)	107.8	100.2	112.7	123.3	87.6	84.0	106.6	117.9	108.3	103.6	111.8	123.3	120.1	
IIP (electricity)	162.9	170.5	139.9	153.7	150.6	162.7	144.8	153.9	161.9	188.7	147.9	160.8	199.9	
IIP (manufacturing)	126.2	133.7	130.6	134.2	84.4	118.7	128.5	129.7	111.5	131.9	128.9	129.9	134.5	
PMI (manufacturing)	0.0	52.5	51.2	54.5	30.8	52.0	56.3	57.5	50.8	52.3	57.6	54.9	54.6	53.90
PMI (services)	0.0	53.8	52.7	57.5	12.6	41.8	53.7	55.3	46.4	56.7	58.1	51.8	58.9	59.20
Auto production	-10.7	-11.5	-1.8	-18.9	-86.4	-5.4	-1.3	12.2	-67.7	-13.2	-27.1	-10.6	479.0	90.1
Natural gas production	-0.3	0.2	-6.2	-8.8	-16.0	-9.5	-9.1	-1.4	0.0	8.9	11.9	11.2	26.7	21.0
Natural gas consumption	5.5	5.3	4.1	26.4	-2.7	-1.4	-0.2	-17.4	5.0	6.2	3.6	-21.2	9.9	
LNG import	12.0	11.3	16.7	70.0	13.2	6.0	8.6	-28.0	10.7	3.4	-4.6	-42.2	-5.5	
Crude steel production	4.3	4.7	-2.8	0.2	-33.9	2.7	7.6	-1.0	-4.3	11.2	10.7	6.8	70.2	29.3
Electricity demand	5.5	6.7	-4.5	11.8	-14.9	-2.4	3.2	-0.4	-9.6	14.6	5.5	4.0	32.3	27.2
Electricity production	5.7	6.7	-4.4	11.7	-14.9	-2.1	3.1	-0.3	-9.3	14.7	5.7	4.3	32.4	27.0
Crude oil production	-6.7	-4.4	-6.0	-6.4	-7.1	-6.3	-4.9	-3.2	-12.9	-8.4	-7.0	-5.3	-2.0	-3.5
<b>Services</b>														
Air passenger traffic – all airports	-5.4	1.0	9.2	7.2	-97.7	-78.6	-56.5	-42.9	-84.6	-50.5	-25.6	-40.2	3902.2	
Cargo traffic -all airports	-3.1	-3.0	-3.7	-1.2	-67.7	-29.4	-12.9	-8.5	-18.9	-8.6	-7.6	-11.1	185.5	
Cargo traffic	5.7	1.9	0.3	1.4	-22.0	-16.5	-10.4	-6.1	2.4	-0.2	0.7	1.2	40.8	
Foreign tourist arrival	4.0	1.4	7.9	-6.6	-99.4	-97.5	-93.5	-90.2	-96.8	-89.4	-76.9	-76.3	11156.7	
Telecommunications – number of subscribers	3.1	0.8	-1.5	-2.0	-1.6	-2.0	-0.1	0.6	1.3	1.5	1.3	-1.3	0.6	
NPCI retail payments - volume	67.7	75.9	55.5	54.8	18.8	33.2	47.0	37.2	87.3	131.8	137.0	129.8		
<b>Trade</b>														
Exports- non oil	-2.9	3.8	2.6	2.2	-29.9	-8.3	0.6	3.5	8.3	26.1	19.9	24.5	73.9	56.8
Import – non oil non gold	-8.1	-8.2	-18.0	-9.7	-31.6	-18.7	0.8	8.1	-3.0	11.6	41.8	42.7	86.6	147.5
NEER (trade weighted 40 currencies)	-1.1	1.3	1.2	1.6	-4.9	-4.5	-4.4	-3.4	-6.1	-4.8	-3.9	-4.5	-1.1	-0.6
Net FPI (USD million)	-202.3	-231.4	100.9	-25.1	-159.4	-883.3	161.6	159.0	-115.7	-362.5	-110.2	-499.2	386.3	-291.6
<b>Fiscal</b>														
GST: E-way bills	87.6	18.0	18.5	14.3	-53.0	-3.5	8.1	11.6	-26.3	28.6	14.5	20.9	188.8	71.5
<b>Monetary and Financial Markets</b>														
Non food credit	13.1	12.1	7.2	6.9	5.5	5.5	5.9	6.6	11.7	12.6	13.4	15.3	18.4	19.2



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