

Executive Summary¹

Inflation has continued to rise across countries, including in the United States, other advanced economies, and in a number of emerging and developing economies. In India, the headline CPI inflation remained range-bound, even though the WPI inflation rose to 14.2 per cent in December, due to both a low base and an increase in the global oil and commodity prices.

In its latest meeting, the Monetary Policy Committee (MPC) kept the policy rates unchanged (with the repo rate at 4 per cent and the reverse repo rate at 3.35 per cent); and maintained its accommodative stance for “as long as necessary to revive and sustain growth on a durable basis”. In its policy review, the RBI retained its projections for India’s real GDP growth at 9.5 per cent, and for headline CPI inflation at 5.3 per cent in 2021-22

The Federal Reserve Board doubled the pace of tapering of the purchase of government securities and brought forward the projected pace of policy tightening. Now it is projected to raise policy rates by a cumulative 75 basis points in 2022, and by an equivalent amount in 2023. Meanwhile, a number of advanced and emerging markets including New Zealand, the United Kingdom, Brazil, Chile, Mexico, and South Africa, have started raising their policy rates.

The global outlook was subdued this month in view of the surge in the new COVID variant, Omicron, and its spread around the world. Omicron is known to be more transmissible than the earlier variants, even though its virulency is perceived to be milder. Countries have responded to this surge, by imposing new mobility restrictions and widening their vaccine mandates.

Economic buoyancy continued for the most part in India in November 2021. Indicators pertaining to tax collection, international trade, core industry growth, and the Purchasing Managers’ Index (PMI) were especially robust during the month; while indicators related to electricity demand, mobility and digital payments, employment indicators, E-way bills, and automobile sales showed a softening momentum.

The major policy announcements during the month included approval by the Union Cabinet of a ₹76,000 crore PLI scheme to boost semi-conductor production over the next six years; and announcement by the RBI of a Prompt Corrective Action framework for Non-Banking Financial Companies.

¹ This report has been prepared by Kavya Singh and Abhinav Tyagi, both Research Associates at NCAER, under the guidance of Dr Poonam Gupta. Comments are welcome at ksingh@ncaer.org and abhinav@ncaer.org. Khushvinder Kaur has helped with formatting and Anupma Mehta has provided editorial guidance. The findings, interpretations, and conclusions expressed are those of the authors and do not necessarily reflect the views of the Governing Body or Management of NCAER.

1. Policy Announcements and Developments

A. Monetary Policy (8 December 2021)

In its latest meeting, the Monetary Policy Committee (MPC) kept the policy rates unchanged (with the repo rate at 4 per cent and the reverse repo rate at 3.35 per cent); and maintained its accommodative stance for “as long as necessary to revive and sustain growth on a durable basis”. In its policy review, the RBI retained its projections for India’s real GDP growth at 9.5 per cent in 2021-22 and for its headline at 5.3 per cent in 2021-22.

Use of the VRRR Tool for Normalisation: As a main liquidity operation tool, the RBI conducts 14-day variable rate repo/reverse repo auctions to coincide with the maintenance cycle for the cash reserve ratio for managing the frictional liquidity requirements of the banks. In its endeavour to restore the revised liquidity management framework instituted in February 2020, the Reserve Bank has been rebalancing the liquidity surplus by shifting it out of the fixed rate overnight reverse repo window into the variable rate reverse repo (VRRR) auctions of longer maturity. The objective is to re-establish the 14-day VRRR auction as the main liquidity management operation. In its recent policy review, for absorption of liquidity which currently runs in the system at ₹8 lakh crore, the central bank increased the quantum of the variable rate reverse repo (VRRR) of a 14-day tenor to ₹6.5 lakh crore by December 17 from the current ₹6 lakh crore and to ₹7.5 lakh crore by December 31. It has also announced that from January 2022 onwards, the liquidity absorption will be undertaken mainly through the auction route.

B. Production Linked Incentive (PLI) Scheme for Semi-conductors

On December 15, the Union Cabinet approved a ₹76,000 crore scheme to boost semi-conductor production over the next six years. The scheme is part of an effort to make India a global hub for the design and manufacturing of electronic systems. The total amount of incentives in the electronics sector now amount to ₹2.30 lakh crore.²

C. PCA Framework for Non Banking Financial Companies

In order to strengthen supervision and to ensure parity in terms of regulations with banks and non-banks, RBI has issued a Prompt Corrective Action (PCA) framework for NBFCs. This framework will come into effect from 1 October 2022, based on the prevalent financial position of NBFCs on or after 31 March 2022.

D. Cooperative Banks Deposit Insurance

The customers of 16 stressed cooperative banks are slated to receive a deposit insurance cover of up to ₹5 lakh from RBI’s subsidiary, the Deposit Insurance and Credit Guarantee Corporation (DICGC).³

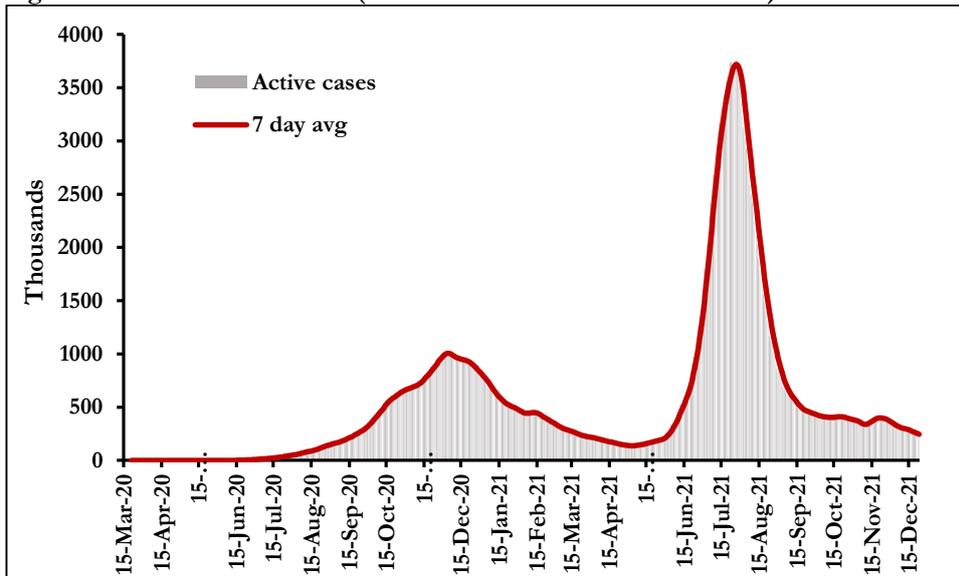
² [Union Cabinet approves ₹76,000-crore push for semi-conductor makers - The Hindu \(Dec 15, 2021\)](#)

³ [Customers of 16 stressed cooperative banks to receive Rs 5 lakh deposit insurance cover by RBI \(freepressjournal.in\)](#)

2. The COVID Tracker

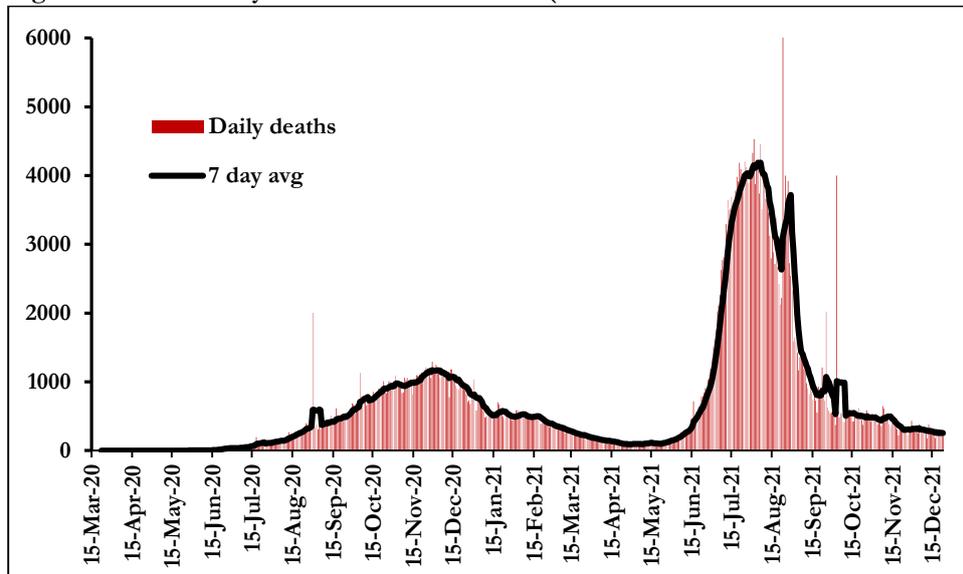
India's active COVID cases and deaths have been declining consistently, since the second wave peaked in May 2021 (Figures 1 and 2). However, the emergence of the Omicron variant may lead to higher rates of infection. Vaccinations of both the first and second doses have been increasing (Figure 3), with 89 per cent of the eligible population having been vaccinated with the first dose and 60 per cent of the population having been fully vaccinated (Figure 4).

Figure 1: Active COVID Cases (25 March 2020 to 15 December 2021)



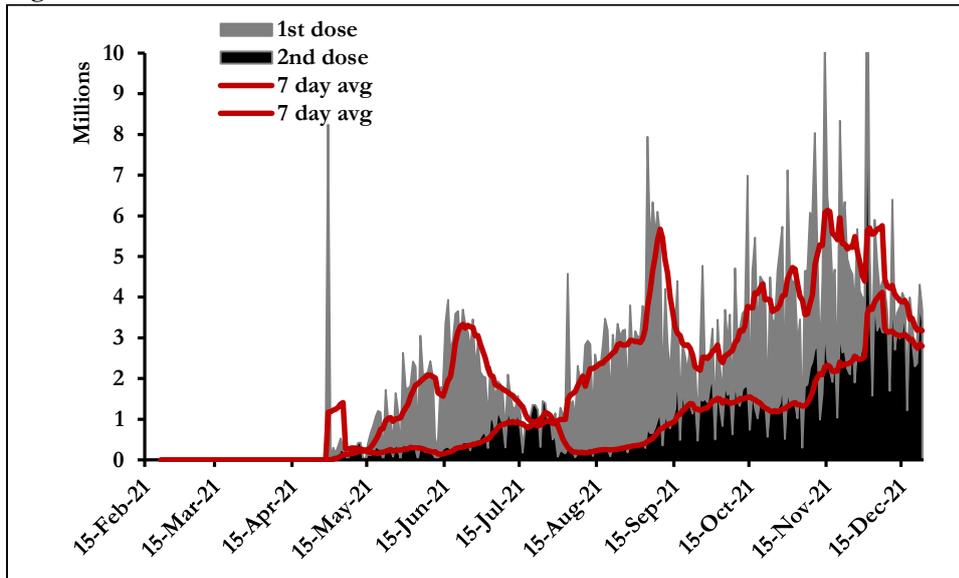
Source: Vaccination data, Ministry of Health and Family Welfare, population estimate for 1 March 2021—Report of the Technical Group on Population Projections (November 2019), National Commission on Population, Ministry of Health and Family Welfare (MoHFW).

Figure 2: India – Daily Deaths from COVID-19 (25 March 2020 to 15 December 2021)



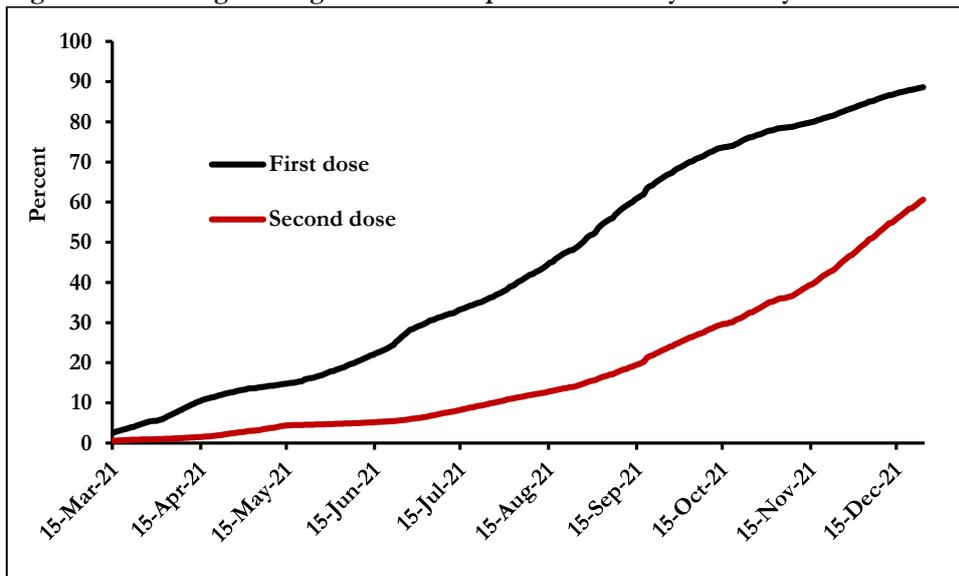
Source: Vaccination data, Ministry of Health and Family Welfare, population estimate for 2021—Report of the Technical Group on Population Projections (July 2020), National Commission on Population, Ministry of Health and Family Welfare (MoHFW).

Figure 3: New Vaccinations – 1st and 2nd Doses



Source: Vaccination data, Ministry of Health and Family Welfare, population estimate for 2021–Report of the Technical Group on Population Projections (July 2020), National Commission on Population, Ministry of Health and Family Welfare (MoHFW).

Figure 4: Percentage of Eligible Indian Population Partially and Fully Vaccinated

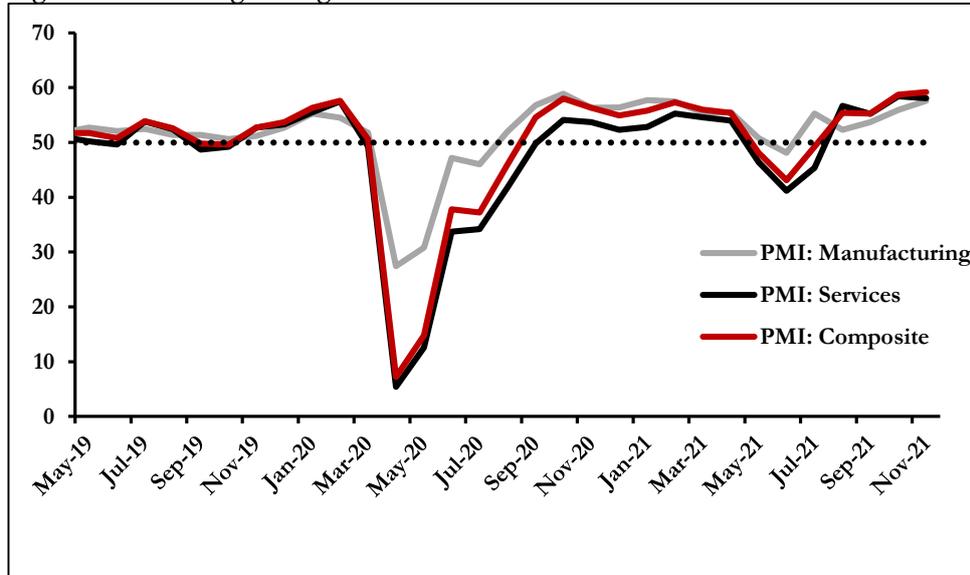


Source: Vaccination data, Ministry of Health and Family Welfare, population estimate for 2021–Report of the Technical Group on Population Projections (July 2020), National Commission on Population, Ministry of Health and Family Welfare (MoHFW). Data is available till 15 December 2021.

3. High-frequency Indicators

We analyse a sub-set of the economy’s high frequency indicator in order to discern the economic trends on a real-time basis. The indicators point to continuing recovery in the economy, with most variables surpassing pre-COVID levels. Manufacturing activity grew its fastest pace in 10 months as PMI Manufacturing increased to 57.6 in November 2021 from 55.9 in October 2021.

Figure 5: Purchasing Managers’ Index

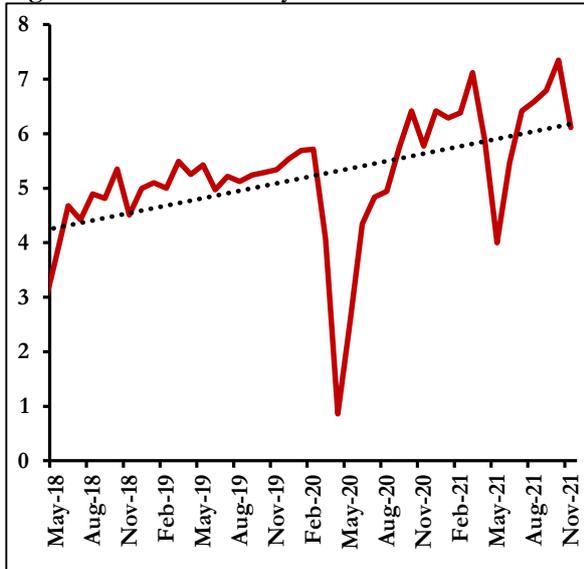


Source: IHS Markit.

Note: A PMI level greater than 50 indicates expansion in the respective sector(s).

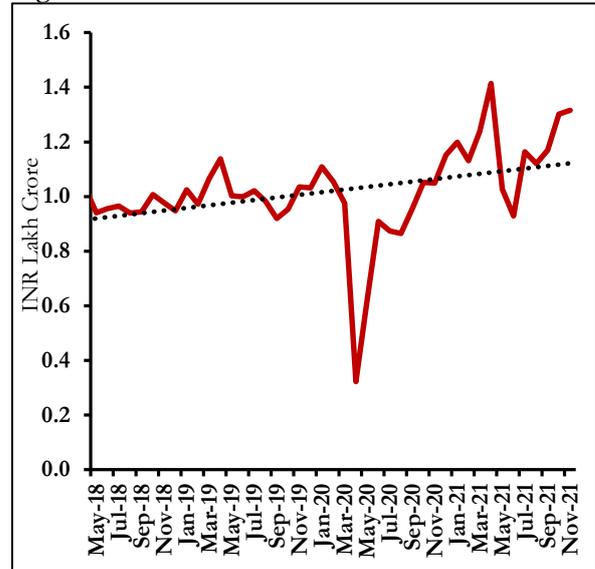
E-way bills, after rising steadily since June 2021, dipped to 6.1 crore in November from 7.4 crore in October 2021. This figure, which is the lowest in five months, reflects moderation in goods dispatched post the festive month (Figure 6 A). GST collections touched ₹1.32 lakh crore in November, up 26 per cent year-on-year and 2 per cent month-on-month (Figure 6 B).

Figure 6 A: No. of E-Way Bills



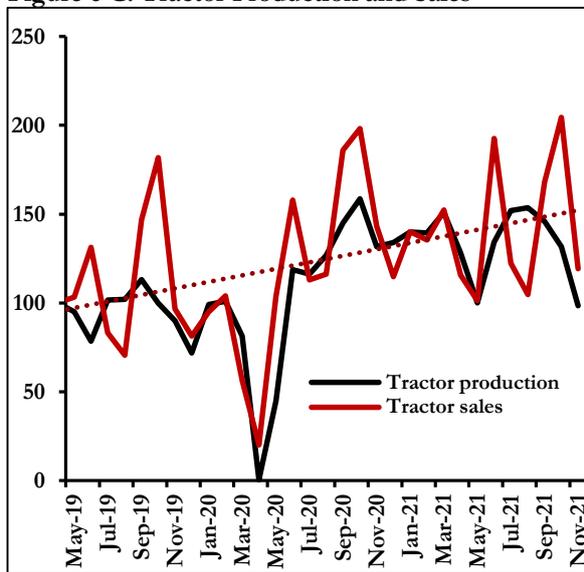
Source: GSTN, Ministry of Finance.

Figure 6 B: GST Revenue



Rural demand shows dampening recovery, with the sales and production of tractors decreasing in November as compared to October 2021 (Figure 6 C). Automobile sales also declined in November (Figure 6 D), and it is believed that factors such as semi-conductor shortages likely played a part in this decline. The growth of two-wheeler sales also remains subdued. However, the registrations of electric vehicles have been on the rise since July 2021 (Figures 7 A and 7 B).

Figure 6 C: Tractor Production and Sales



Source: CEIC database.

Note: Tractor sales and production measured in units. Indexed at April 2019=100.

Figure 6 D: Automobile Sales

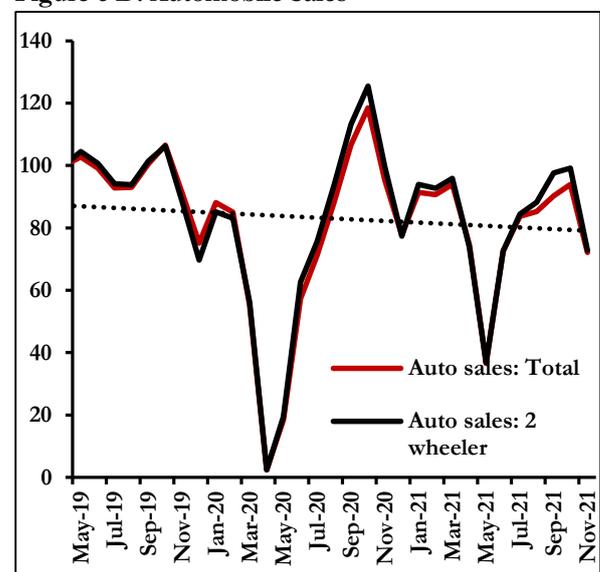


Figure 7 A: Registration of Electric Vehicles

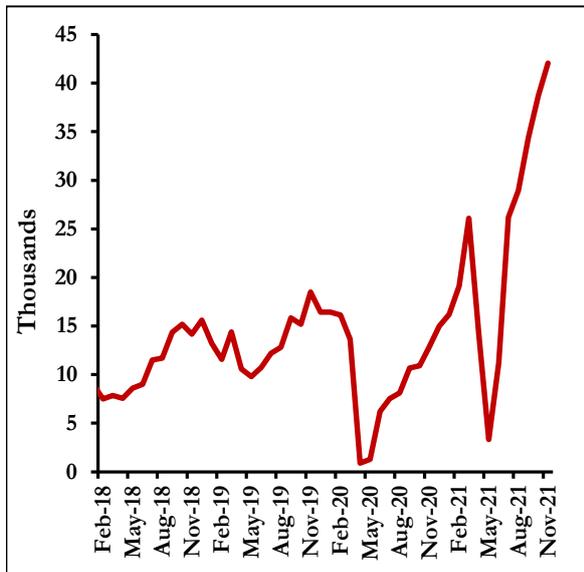
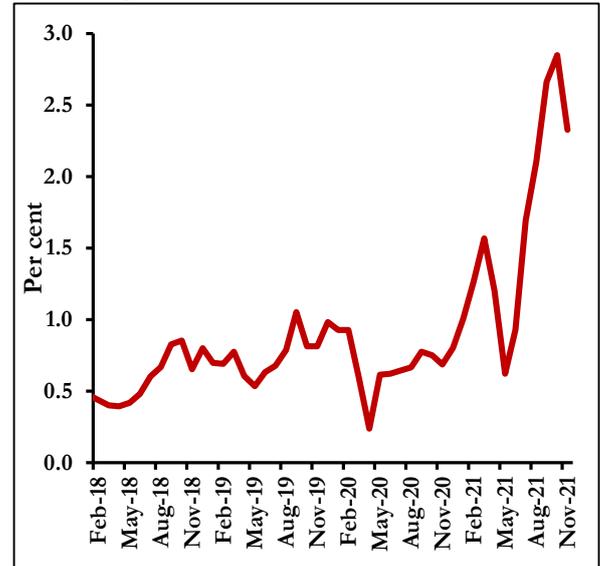


Figure 7 B: Percentage of Electric Vehicles as a Percentage of the Total Number of Vehicles

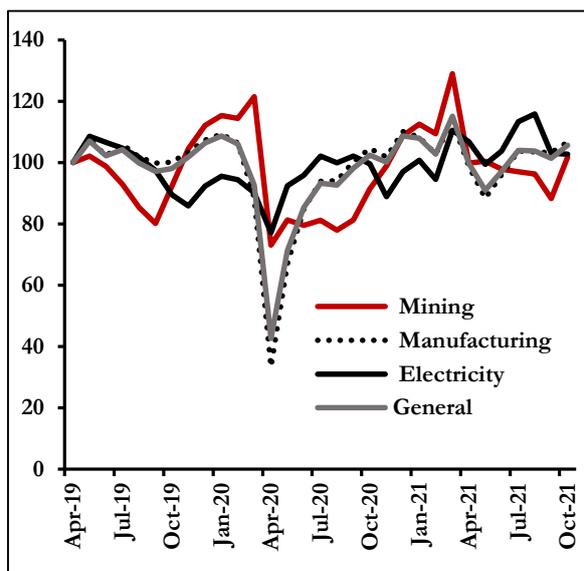


Source: Ministry of Road Transport and Highways.

The Index of Industrial Production (IIP) and most of its sub-components showed an improvement in October relative to their performance in September, with the improvement being the sharpest in mining and electricity (Figure 8).

The index for eight core industries grew at 7.5 per cent in October 2021 vis-à-vis October 2020 (Figure 9 A). The growth figures for the eight core industries, viz. crude oil, natural gas, petroleum refinery products, fertilisers, electricity, coal, steel, and cement, are depicted in Figures 9 B to 9 I, with 14 per cent growth being recorded for both coal and cement (Figures 9 G and 9 I), and a 25 per cent rise seen for natural gas (9 C). The pick-up in production in these eight core industries points to the possibility of a strong revival of industrial growth in the coming months.

Figure 8: Index of Industrial Production



Source : MoSPI/ Office of Economic Adviser.

Figure 9 A: Index for Eight Core Industries

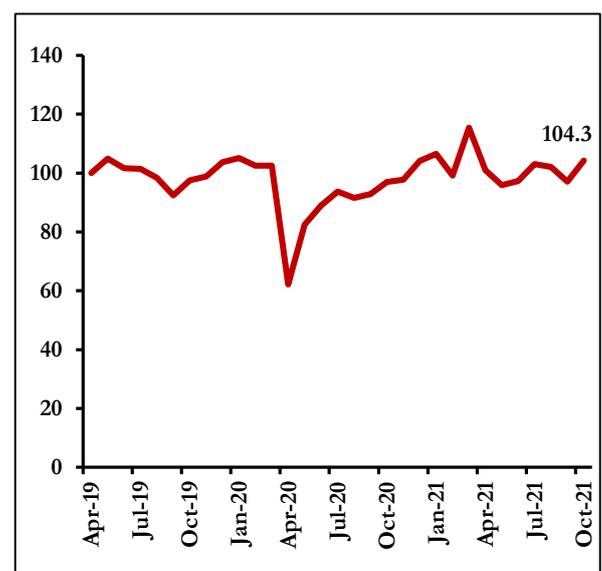


Figure 9 B: Crude Oil

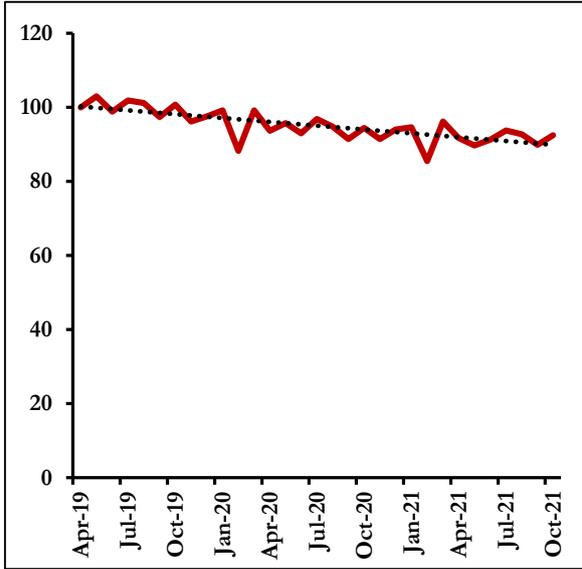


Figure 9 C: Natural Gas

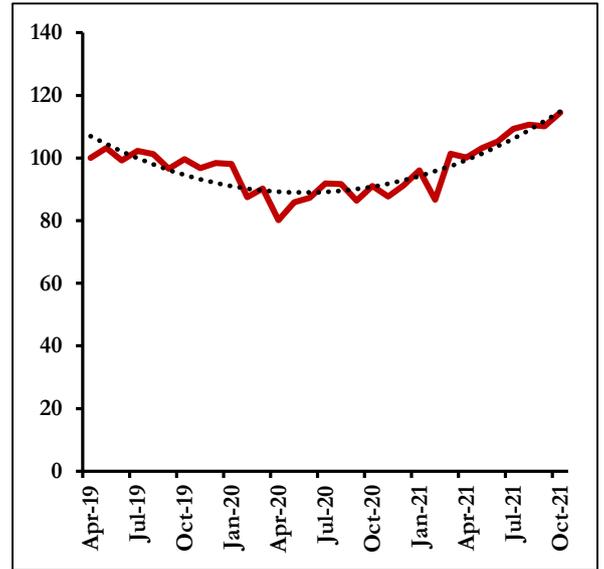


Figure 9 D Petroleum Refinery Products

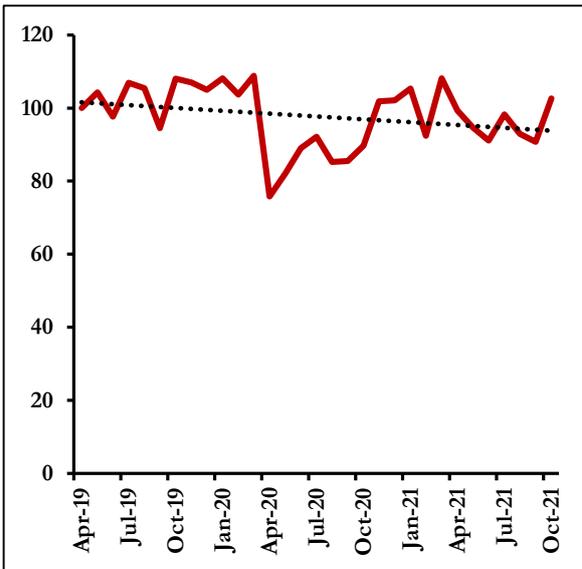


Figure 9 E: Fertilisers

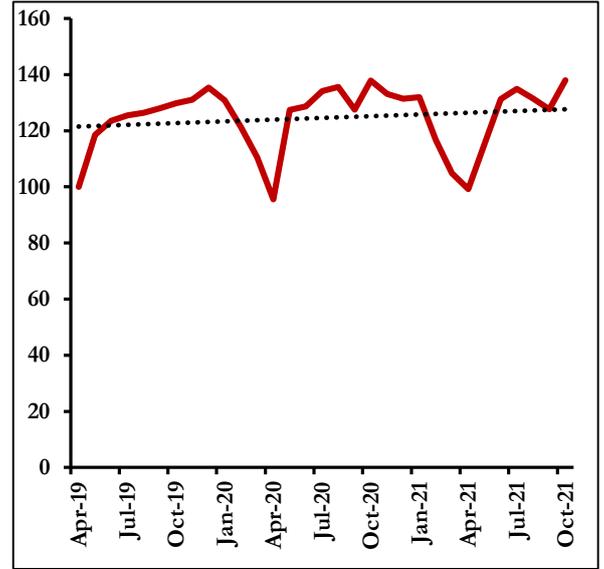


Figure 9 F: Electricity

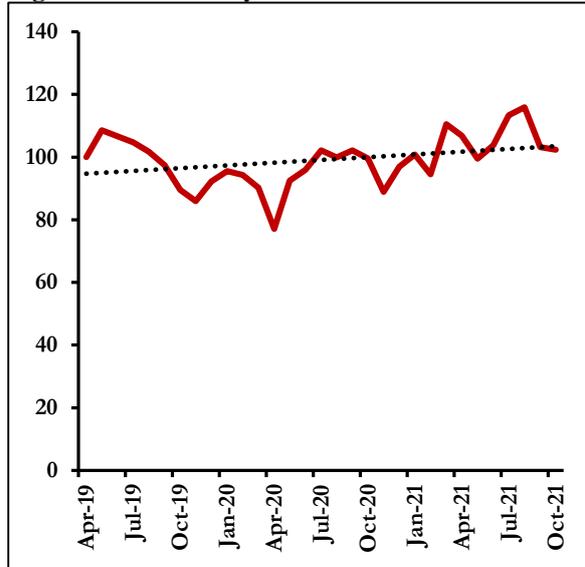


Figure 9 G: Coal

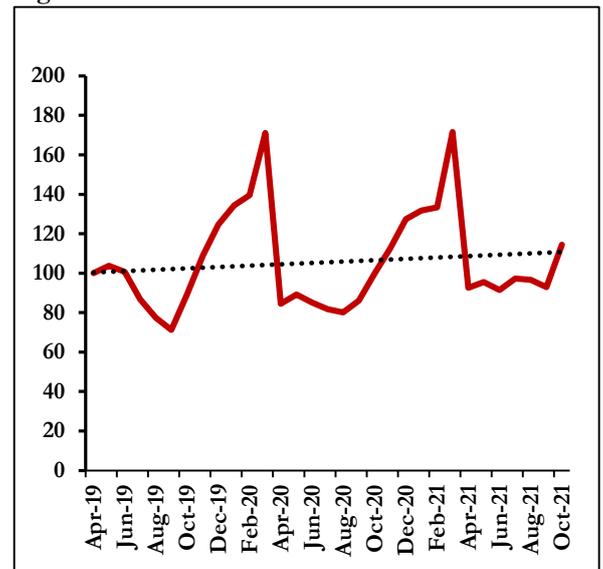


Figure 9 H: Steel

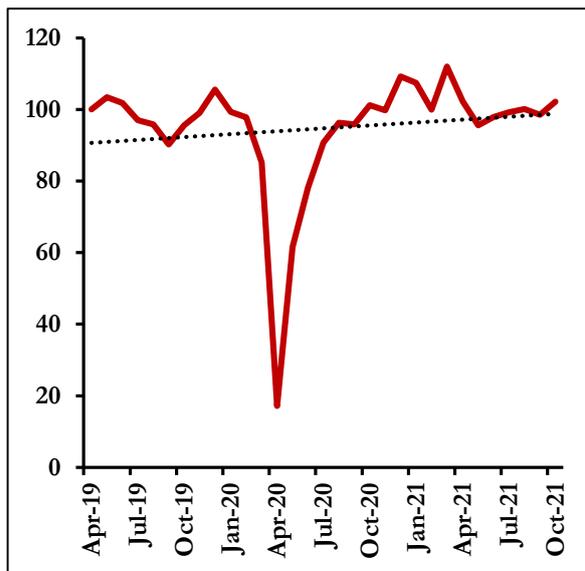
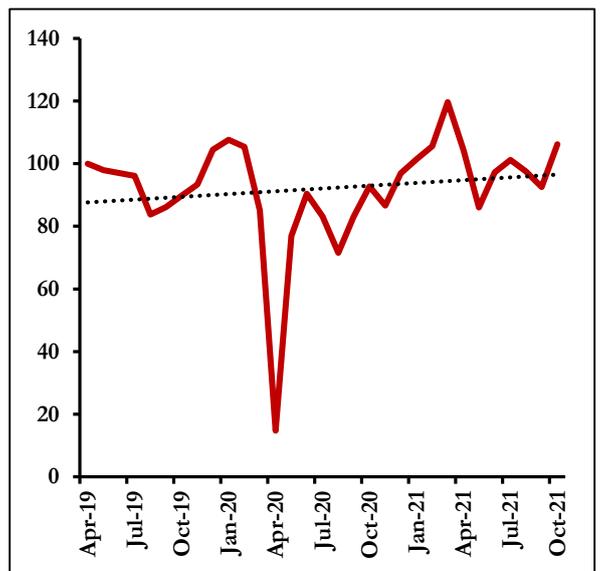


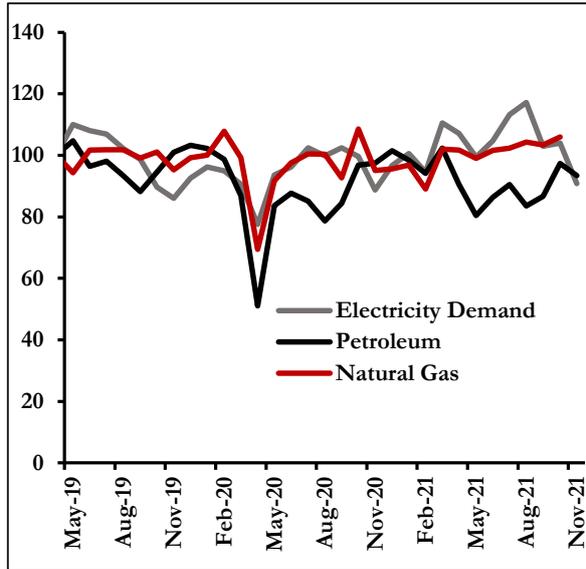
Figure 9 I: Cement



Source: Office of Economic Adviser and MoSPI.
Indexed at April 2019 = 100.

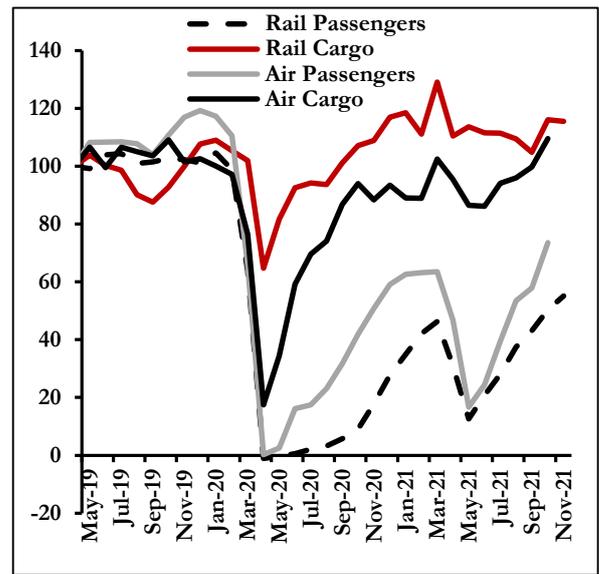
The figures for electricity demand and consumption of petroleum and natural gas showed some softening in November 2021 after registering a sharp fall in April-May 2020 (Figure 10). The figures for air and rail cargo traffic have been picking up. The numbers of air and rail passengers have also seen an increasing trend, which, however, still remain much below the pre-pandemic levels (Figure 11). On the other hand, Google mobility and digital payment indicators also point towards softened momentum. (Figure 12). The quantum of digital payments has been increasing consistently (Figure 13), due to both an increasing trend in the use of these modes of payments as well as the normalisation of activity.

Figure 10: Energy Consumption and Electricity Demand



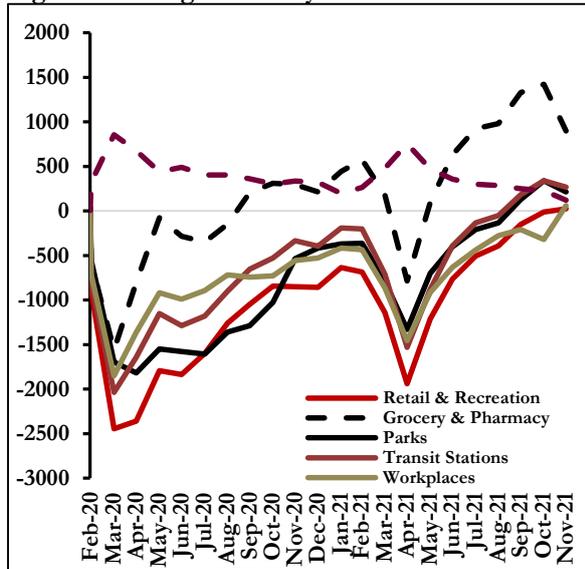
Source: CEIC database.
Note: Electricity is measured in gigawatt hour, petroleum in metric tonnes thousand, and natural gas in cub m million. Indexed at April 2019=100.

Figure 11: Freight and Passenger Traffic



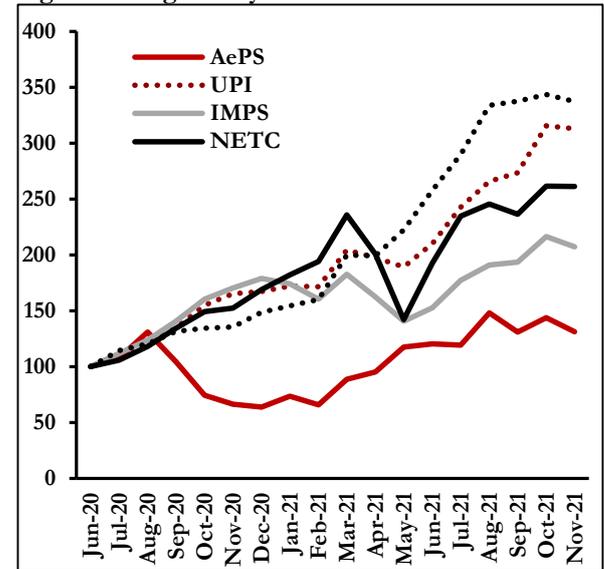
Source: CEIC database.
Note: Rail passengers are measured in unit million, rail cargo in tonnes million, air passengers in persons, and air cargo in tonnes. Indexed at April 2019=100.

Figure 12: Google Mobility



Source: Haver Analytics.
Note: The baseline is the median value for the corresponding day of the week, during the five-week period of January 3-February 6, 2020. The monthly percentage change has been calculated by averaging the daily percentage change. Data for November is till 19 November 2021.

Figure 13: Digital Payments

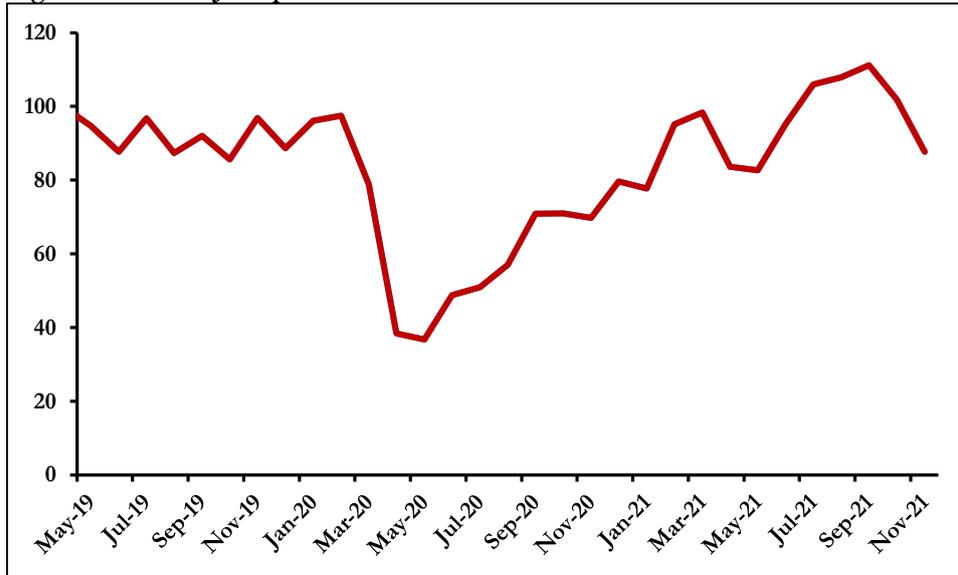


Source: CEIC.
Note: Daily data averaged to create monthly values, which are indexed at June 2020=100. Digital payments volume data has been measured in unit million. AePS: Aadhar Enabled Payment System, IMPS: Immediate Payment Service, NETC: National Electronic Toll Collection, BBPS: Bharat Bill Payment System.

4. Labour Statistics

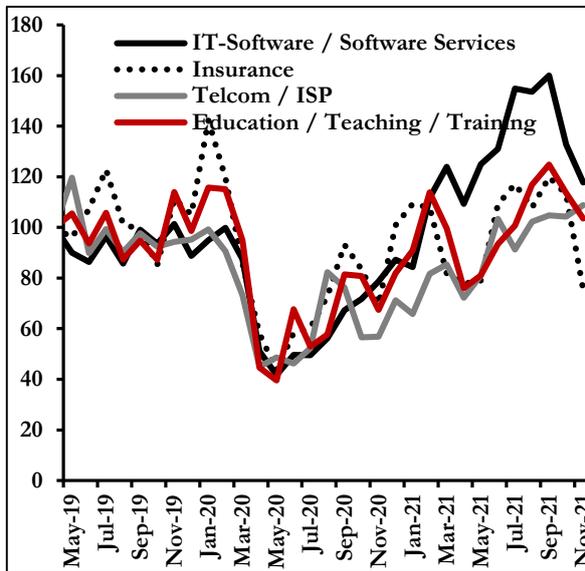
The Naukri Job Speak Index (Figure 14) shows signs of growth in India’s job market, with the index being 26 per cent higher in November 2021 than that in November 2020. The onset of the festive season marked a recovery in the retail and hospitality/travel sectors, which registered 47 and 58 per cent year on year growth figures, respectively, in November 2021. Another sector that continues to show slack is that of banking, financial services, and broking (Figure 15 B). The telecom sector continued its upward trajectory, registering 91 per cent growth in November 2021.

Figure 14: Naukri Job Speak Index



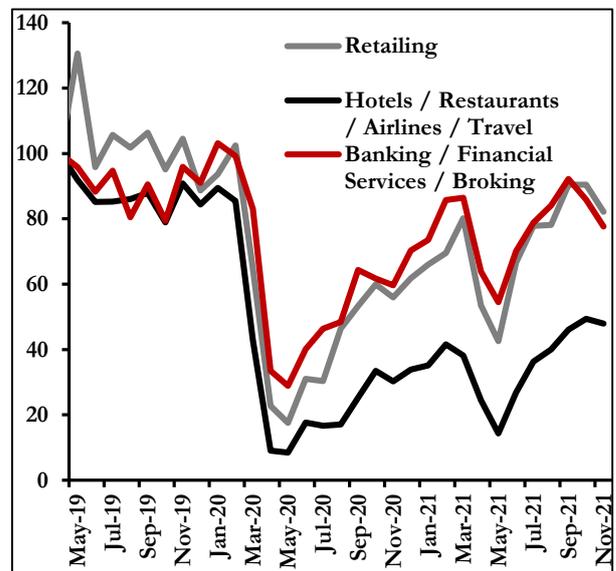
Source: CEIC/Naukri Job Speak Report (November 2021). April 2019= 100

Figure 15 A: Sectors That Have Caught Up Fully



Source: CEIC/Naukri Job Speak Report (November, 2021)
Note: Indexed at April 2019=100

Figure 15 B: Sectors That Still Have Slack



Heatmap for India's High-frequency Indicators⁴

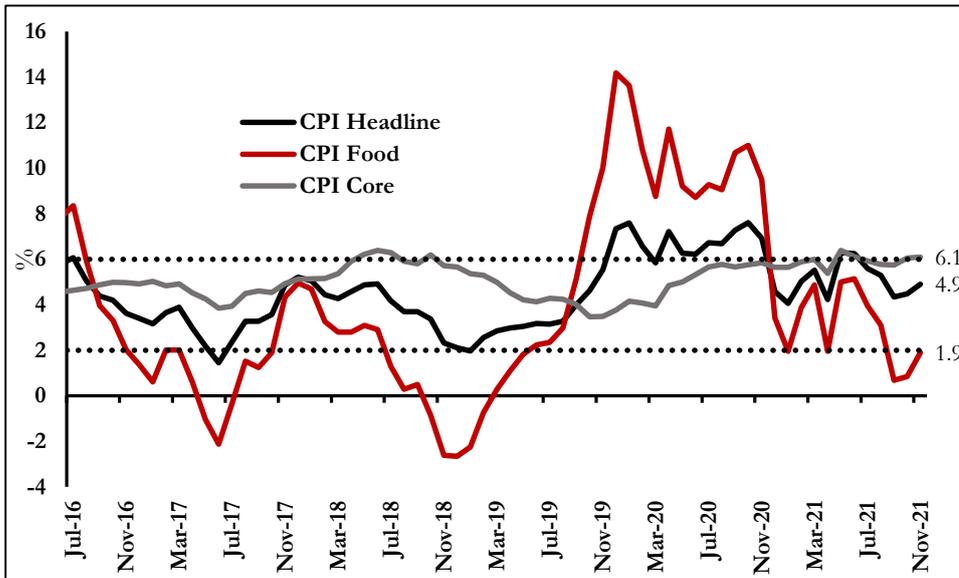
	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21
Agriculture																				
Tractor sales	34.7	-16.2	4.8	-15.0	-14.9	0.0	4.0	-50.2	20.2	26.7	41.2	34.7	15.7	-1.9	46.8	47.0	48.7	14.7	12.5	23.6
Foodgrains Stock	18.1	27.8	20.8	31.3	17.2	20.9	17.9	30.0	16.1	2.3	6.4	36.0	41.4	33.2	34.7	32.0	26.2	21.9	11.3	12.7
Industry																				
IIP (mining)	104.9	94.5	114.4	132.7	106.5	86.4	120.9	131.0	85.7	87.6	117.3	139.0	107.6	108.3	105.5	104.6	103.8	95.1	109.7	
IIP (electricity)	159.9	162.9	150.4	160.1	173.6	158.7	150.3	146.9	156.2	166.4	158.0	180.0	174.0	161.9	169.1	184.7	188.7	167.9	167.3	
IIP (manufacturing)	128.6	131.6	135.8	144.6	129.0	126.0	135.4	111.6	107.1	126.5	139.0	143.3	124.6	111.5	121.2	131.0	130.5	130.3	134.7	
PMI (manufacturing)			53.2	52.6	52.1	51.4	52.7	51.8	47.2	56.8	56.4	55.4	55.5	50.8	48.1	55.3	52.3	53.7	55.9	57.6
PMI (services)			53.2	52.0	49.6	48.7	53.3	49.3	33.7	49.8	52.3	54.6	54.0	46.4	41.2	45.4	56.7	55.2	58.4	58.1
Auto sales	26.3	5.4	-2.0	-11.6	-11.0	-19.5	-9.6	-42.1	-42.2	6.1	3.5	-1.4	-25.4	-64.5	-26.7	-9.8	-8.4	-10.2	-11.8	-21.0
Natural gas production	-2.8	-1.4	4.2	1.2	-1.6	-4.3	-8.9	-14.2	-11.8	-10.7	-7.1	-4.7	-0.2	0.0	5.3	6.5	8.9	13.0	14.2	11.9
Crude steel production	10.3	5.7	3.2	5.6	4.6	-0.5	0.3	-19.4	-17.9	1.5	8.8	2.9	2.9	-4.4	0.1	3.0	11.2	7.9	11.9	10.0
Electricity production	9.2	7.1	4.5	2.7	8.5	-1.2	0.4	-8.7	-10.9	4.4	4.5	11.3	7.2	-9.3	-3.0	6.2	14.7	4.6	15.3	5.8
Crude oil production	-3.4	-4.2	-4.3	-6.2	-6.8	-5.4	-7.4	-5.5	-6.0	-6.0	-3.6	-8.5	-8.3	-12.9	-7.7	-8.0	-8.4	-7.7	-8.3	-7.0
Services																				
Air passenger	15.9	15.6	10.8	-1.1	4.2	0.2	1.9	-37.8	-85.2	-69.5	-50.4	-39.9	-53.3	-84.6	-77.5	-63.6	-50.5	-44.4	-33.6	
Air Cargo	6.8	4.1	4.8	2.3	-7.7	-5.4	-4.2	-31.9	-40.5	-16.2	-8.9	-8.6	-4.5	-18.9	-13.4	-11.7	-8.6	-3.7	0.4	
National highways construction							3.5	-6.0	-15.4	-14.5	11.9	22.4	7.7	-13.1	6.0	-2.9	-8.2	-17.3	-13.2	-14.1
Telecomm-subscribers	-3.5	-1.3	0.6	-1.9	1.5	0.3	-2.1	-0.5	-2.2	-2.2	0.1	1.5	1.7	1.3	1.3	1.7	1.5	-0.5	-1.3	
NPCI retail payments - volume	58.6	36.4	59.9	71.7	67.9	60.6	53.5	23.6	28.2	38.0	43.7	117.8	100.1	87.3	101.0	108.5	131.8	126.5	133.6	137.0
Trade																				
Exports- total	18.0	-2.5	0.1	12.2	-7.8	-6.6	-2.7	-34.3	-12.2	6.0	0.4	7.7	18.1	8.2	29.8	35.5	28.6	30.0	36.0	16.6
Exports- non oil	11.8	-5.8	-1.3	12.5	-3.9	-4.5	-1.4	-34.8	-10.3	6.1	6.0	8.7	20.6	8.3	27.5	30.5	26.1	26.7	33.1	18.7
Imports	20.9	12.8	0.8	2.1	-8.4	-12.0	-6.5	-28.0	-48.0	-19.6	8.4	11.9	8.6	-16.8	2.5	13.9	13.1	48.1	45.8	37.4
Gross FDI	-4.9	74.1	-1.8	8.9	107.2	-26.2	25.4	22.7	-62.8	11.0	26.5	-8.2	-8.5	127.4	-49.4	-21.7	97.0	47.2		
Net FPI (USD million)	-151.1	89.6	-305.3	1615.3	-181.3	-132.2	-65.8	-326.4	82.3	-116.7	2396.2	-66.6	-149.3	-115.7	-5.5	128.7	-362.5	303.6	-173.3	-110.2
Net FPI (INR million)	-153.9	109.4	-322.6	1731.6	-183.0	-131.3	-65.0	-342.5	98.4	-118.2	2471.9	-65.1	-152.8	-117.2	-1.0	146.7	-382.0	321.7	-177.4	-111.0
Fiscal																				
GST: E-way bills				6.4	8.9	10.8	-26.0	-12.7	9.6	15.9	29.7	11.9	-26.3	9.9	23.0	28.6	29.6	39.0	14.5	
Monetary and Financial																				
Markets																				
Non food credit	10.9	12.6	13.8	13.4	11.9	8.7	6.9	6.1	5.4	5.1	6.2	11.9	13.1	11.7	11.8	12.9	12.6	12.2	13.0	13.1
Non food credit - personal loans	17.9	15.1	17.0	16.4	16.6	18.9	15.9	16.6	10.4	8.4	9.5	28.1	26.4	24.4	23.6	21.3	21.6	21.5	21.4	

⁴ Note: The heatmap for high-frequency indicators tracks the year-on-year growth from March 2018 onwards for all the listed indicators, except indices like IIP and PMI, wherein the actual values of these indices have been reported. Until March 2020, data has been reported for every third month, or the month ending the respective quarter, and from April 2020 onwards, for every month. For March 2021 and beyond, the corresponding months of 2019 have been used to calculate the growth rates. The scaling of colours has been done from red to yellow to green, where a particular month's colour shade represents the percentile rank of the value for the variable – red being the lowest, bright yellow representing the 50th percentile, and green being the highest. All data used for constructing the heatmap have been sourced from the CEIC database.

5. Inflation and Credit

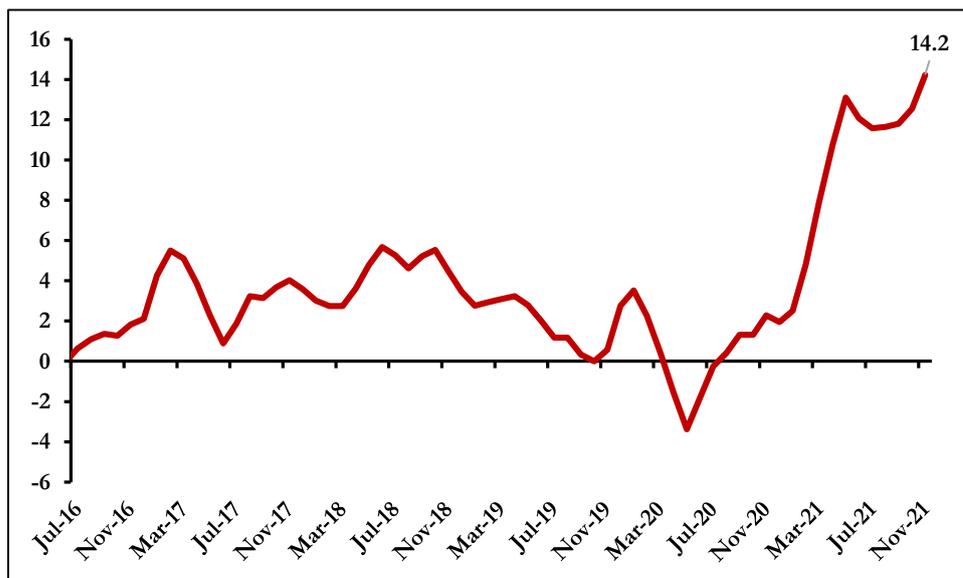
The CPI headline inflation increased by 4.9 per cent in November from 4.6 per cent in October. Food inflation saw the maximum acceleration to 1.9 per cent in November from 0.8 per cent in October, largely driven by high global palm oil prices. Core inflation continues to remain sticky at around 6 per cent (Figures 16 and 17). The WPI inflation increased to 14.2 per cent in November 2021 due to the low base and increased global oil and commodity prices. Figures 18 A to 18 D depict the price indices and inflation rates, with the dotted line in these figures indicating an overall growth of 6 per cent.

Figure 16: Inflation



Source: CSO/MoSPI.

Figure 17: Wholesale Price Index



Source: Ministry of Commerce and Industry

Figure 18 A: Headline Consumer Price Index (CPI)

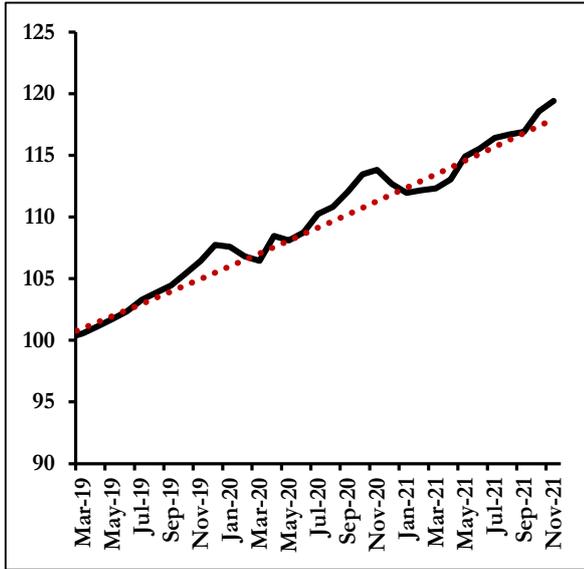


Figure 18 B: CPI Core

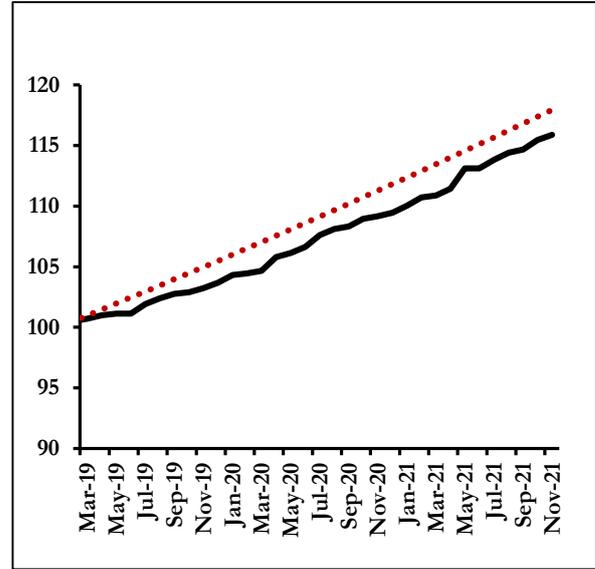


Figure 18 C: CPI Food

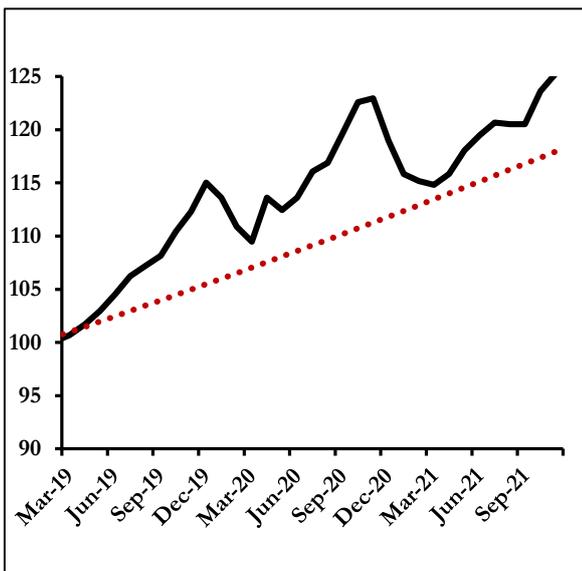
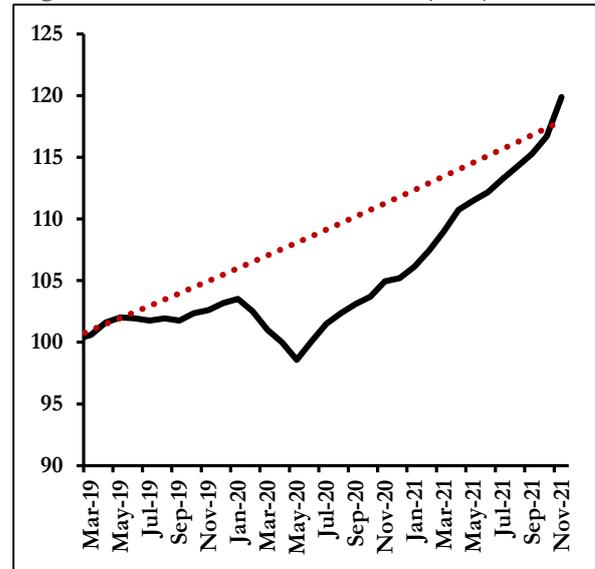


Figure 18 D: Wholesale Price Index (WPI)



Source: MoSPI/Ministry of Commerce and Industry.

Note: The dotted line indicates 6 per cent annual growth. January 2019 = 100.

A. The External Sector

Both exports and imports have continued to grow rapidly in recent months. Merchandise trade recorded a sharp decline during the pandemic but its recovery has been remarkable. In comparison, the exports and imports of merchandise and services were relatively stable throughout the pandemic (Figures 19 A and 19 B).

Figure 19 A: Exports of Merchandise and Services

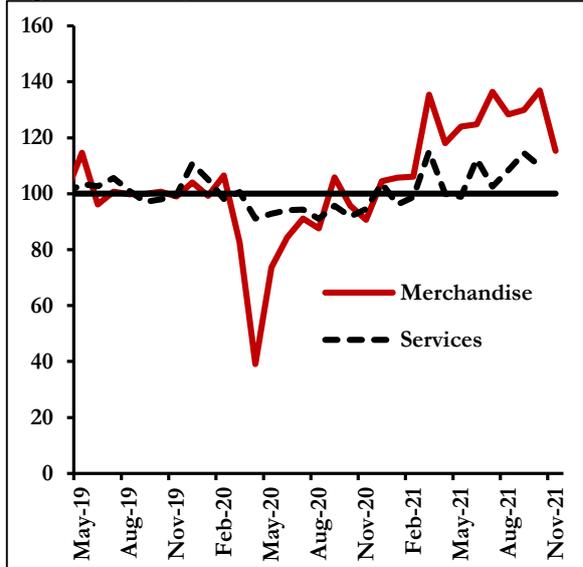
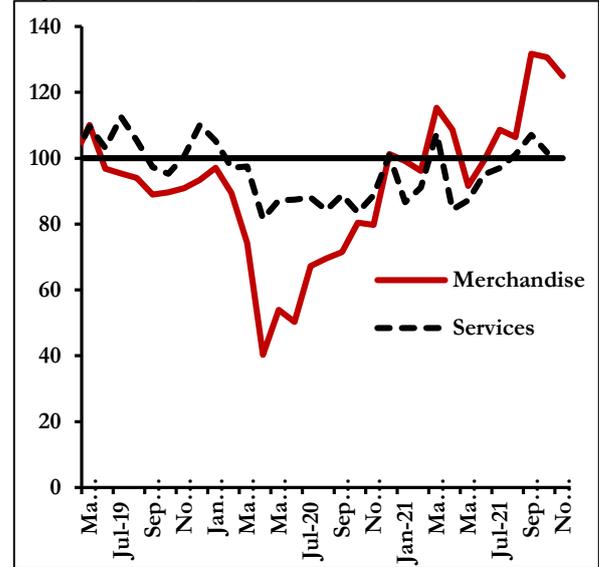


Figure 19 B: Imports of Merchandise and Services



Source: Ministry of Commerce and Industry.
 Note: Monthly values in USD billion indexed at April 2019=100.

India's foreign exchange reserves touched a record high of USD 640 billion in November 2021. The exchange rate depreciated 0.8 percent since October 2021 and reached to \$75.40 in December 2021.

Figure 20: Foreign Exchange Reserves

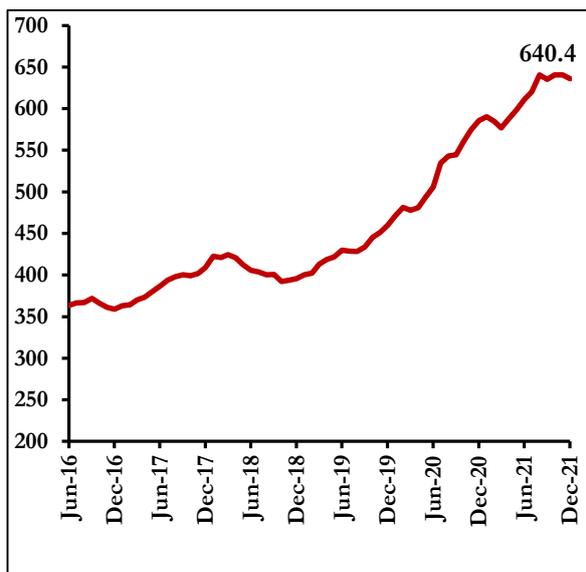
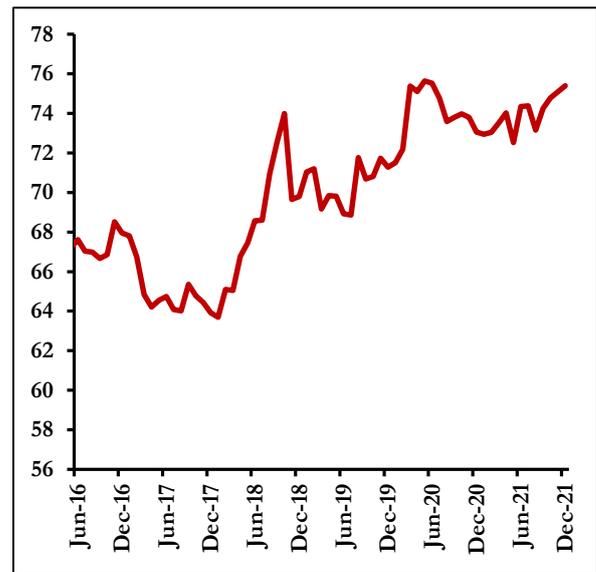


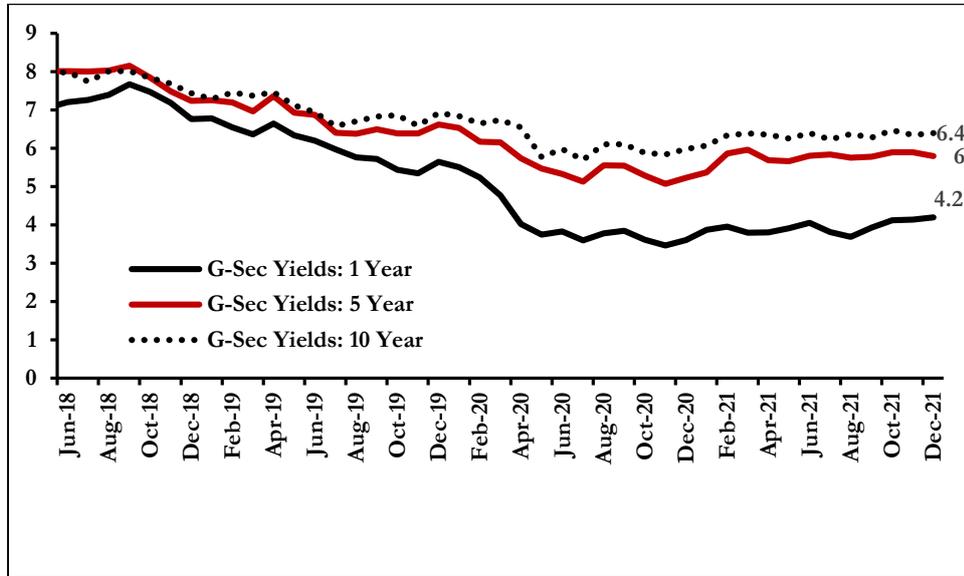
Figure 21: Exchange Rate (INR/USD)



Source: RBI.
 Note: Reserves are available till December 10, 2021 and exchange rate values are till December 15, 2021. (Averaged in December).

Government bond yields have declined by 150-300 basis points across tenors over the past three years, while showing a sharp decline during the early months of COVID. The yields for the 10 and 5-year bonds have stabilized in recent months at 6.4 and 6 per cent, while 1-year bond yields increased by almost 50 basis point in last 3 months to 4.2 per cent. (Figure 22).

Figure 22: G-Sec Yields

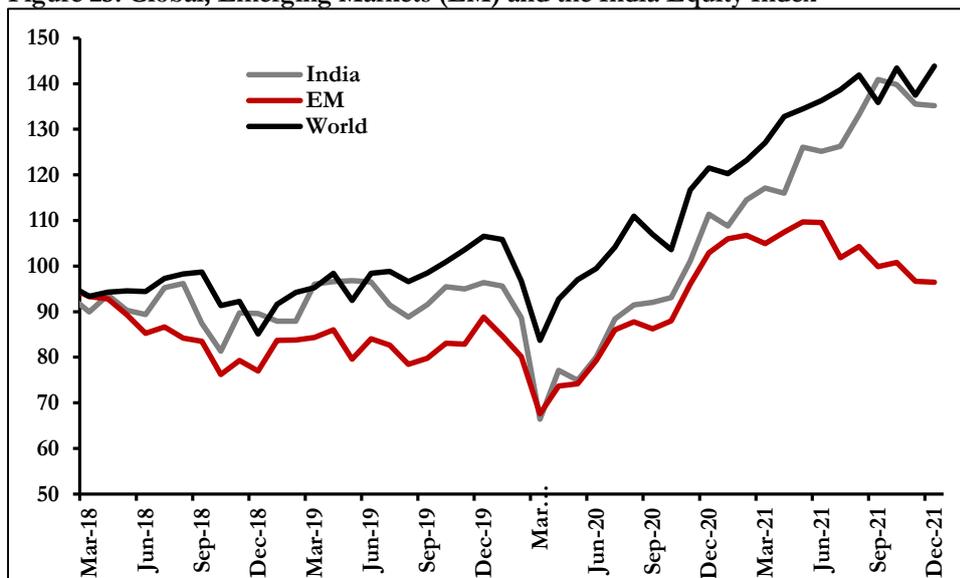


Source: RBI and Clearing Corporation of India Limited. Data is available till 23 December 2021.

B. Macro-financial Developments

Indian equity markets showed further correction in December 2021 in line with other emerging markets (Figure 23).

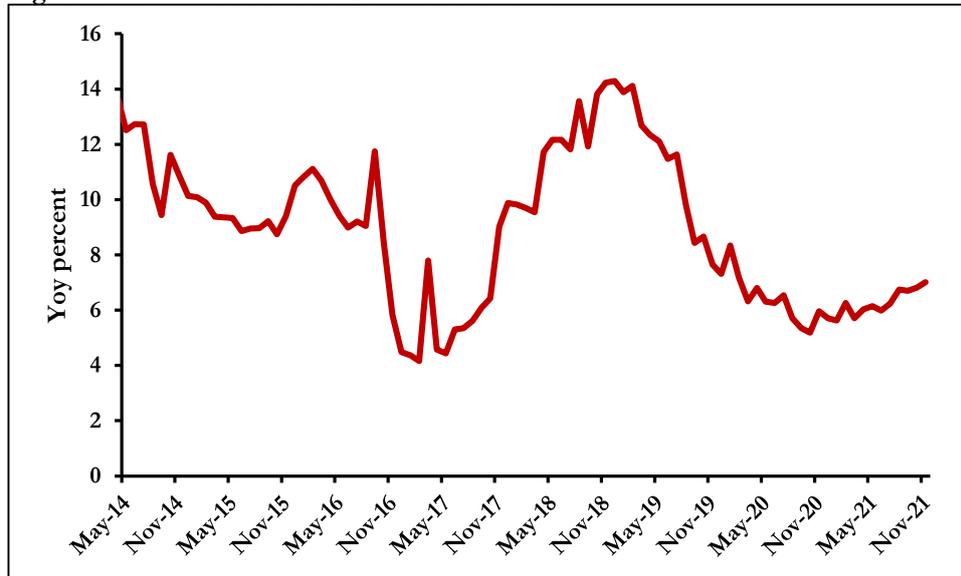
Figure 23: Global, Emerging Markets (EM) and the India Equity Index



Source: Investing.com. January 2018 = 100. Data goes on till 22 December 2021.

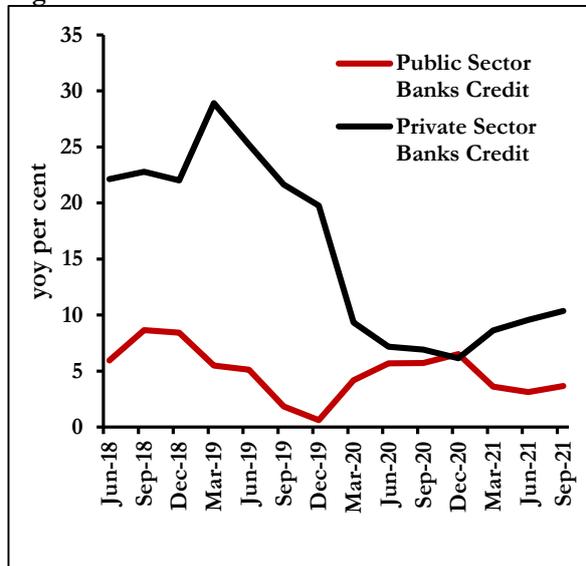
Bank credit to the commercial sector recorded a 7 per cent year on year growth in November 2021 and 13.4 per cent growth as compared to November 2019 (Figure 24). The growth in credit of private sector banks indicated consistently higher growth in disbursement of loans as compared to the corresponding figure for public sector banks (Figures 25 and 26).

Figure 24: Bank Credit to the Commercial Sector



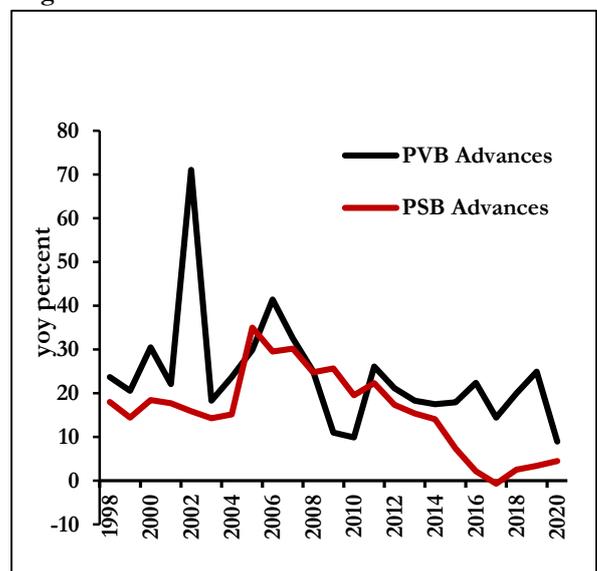
Source: RBI.

Figure 25: Public and Private Sector Bank Credit Growth



Source: RBI.

Figure 26 : Advances of Public and Private Banks



C. Global Overview

Rising inflation is associated with robust global demand on account of a generous fiscal stimulus, wage indexation, high energy prices, semi-conductor shortages, and other supply side bottlenecks. US inflation rose to 6.8 per cent in November 2021 from 5.3 per cent in September 2021 (Figure 28).

Figure 27: Brent Crude Oil and Energy Index

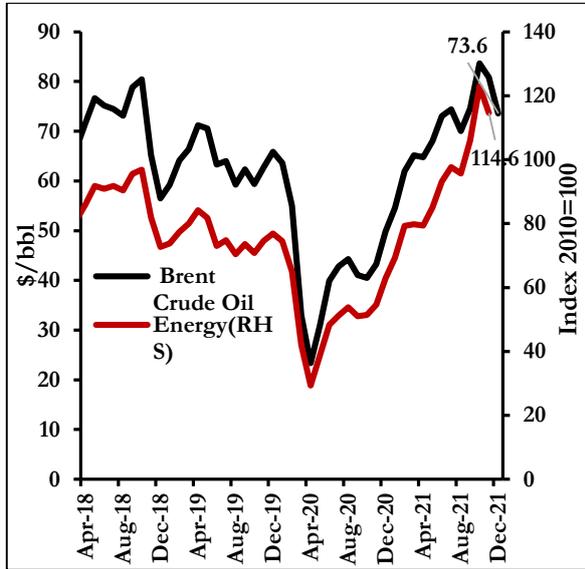
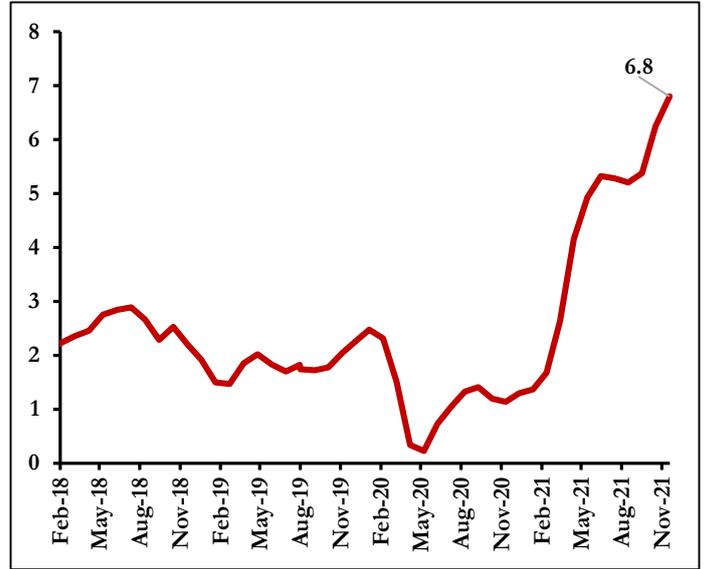


Figure 28: US Inflation



Source: World Bank commodity prices. GMM IMF, GEM database. Data for crude oil is available till 17 December 2021.

Note: Consumer Price Inflation, nominal, seasonally adjusted.



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