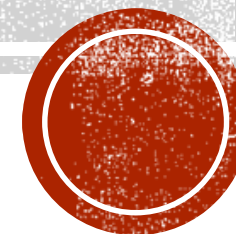


Monthly Review of the Economy

June 2022



This report has been prepared by Ayesha Ahmed and Jagannath Mallick, Research Associate and Consultant at NCAER, respectively. Comments are welcome at aahmed@ncaer.org and jmallick@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 Monetary Policy Committee of the Reserve Bank of India (RBI) decided to hike policy rates and increased the repo rate by 50 basis points from 4.4 to 4.9 percent. [Reserve Bank of India - Press Releases \(rbi.org.in\)](#)
- The Cabinet Committee on Economic Affairs (CCEA), chaired by the Prime Minister, approved the increase in minimum support prices (MSPs) for all 14 kharif (summer) crops including paddy for 2022-23 crop year. [Govt hikes MSP for paddy, other kharif crops as sowing season begins | Business Standard News \(business-standard.com\)](#)
- Ahead of five-years of goods and services tax (GST) implementation, the Centre has extended the 'compensation cess' till March 31, 2026. The Centre has already released Rs 8.22 trillion to the states as GST compensation till May 31 2022, including Rs 1.6 trillion in FY22, even as the collections of cesses for this purpose fell short of the target. [Centre extends GST cess till March 2026: Rs 8.22 trillion released to states so far | The Financial Express](#)
- The Board of Governors of the Federal Reserve System, USA hiked federal funds rate by 75 basis points, the largest rate increase since 1994, after official data showed inflation had unexpectedly risen. [Federal Reserve Board - Implementation Note issued June 15, 2022](#)
- World bank has recently lowered global growth for 2022 to 2.9 percent in June 2022 from 4.1 percent in its January 2022 projection.



RBI tightens monetary policy to tame inflation

- RBI's Monetary Policy Committee (MPC) in its June 2022 resolution decided to increase the repo rate by 50 basis points from 4.4 percent to 4.9 percent under the liquidity adjustment facility (LAF).
- The inflation projection for the year 2022-23 has been revised upward from 5.7 percent (in April 2022) to 6.7 percent (in June 2022). Inflation is expected to remain above 6 percent through the first three quarters of 2022-23.
- RBI has retained its growth projection at 7.2 percent for the year 2022-23.

Figure1: Key policy rates of RBI

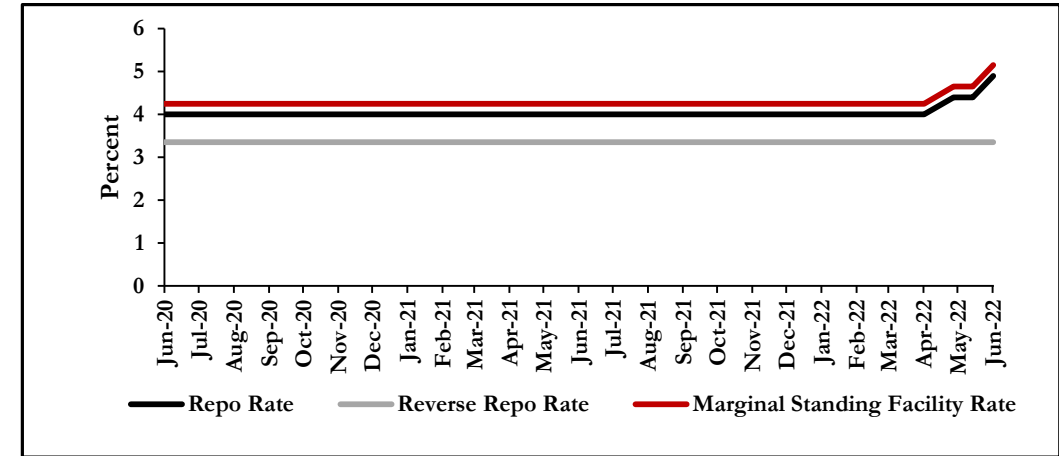
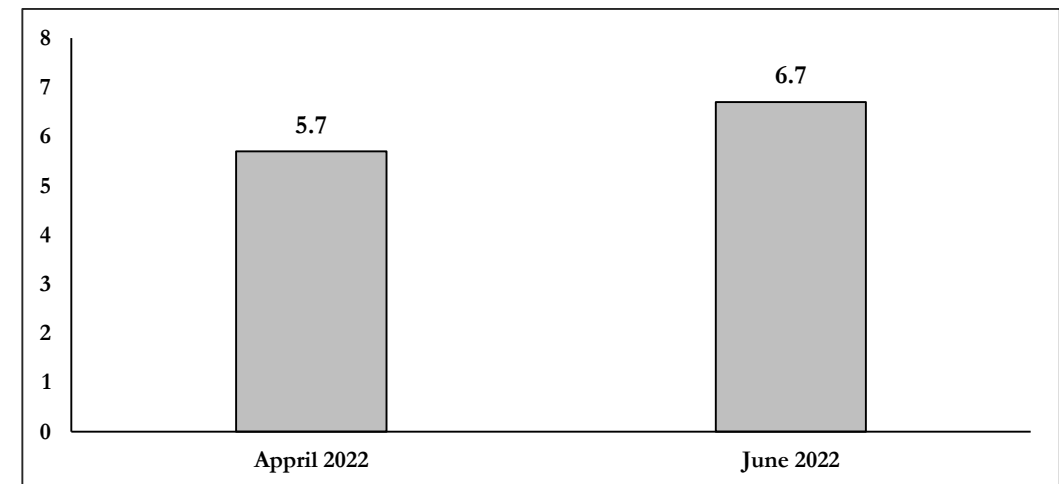


Figure 2: RBI's Projections of inflation for 2022-23



Source: RBI



GDP and GVA components surpassed pre-pandemic level in FY 2021-22

- NSO's advance estimates released on 31st May 2022 show that India's real GDP growth rate in 2021-22 was 8.7 percent compared to -6.6 percent in the previous fiscal year.
- The annual growth rate of private consumption expenditure for 2021-22 was 7.9 percent as compared to -6.0 percent in 2020-21.
- All GDP and GVA components have surpassed the pre-pandemic levels of 2019-20.
- Contact-intensive sectors have also recovered, however, consumption still remains troubled; supply-chain disruptions and rising input costs persist. ([Choppy waters: The Hindu Editorial on India's post-COVID economic recovery - The Hindu](#))

Figure 3: Growth of real GDP (%)

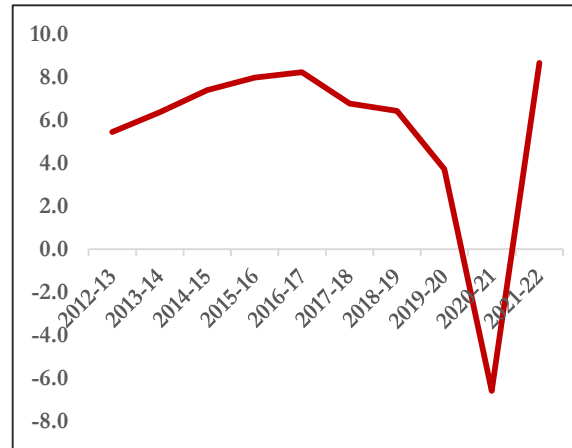


Figure 4: Growth of real private consumption (%)

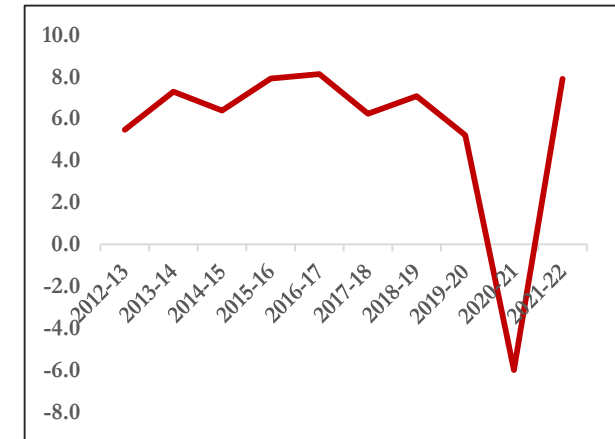


Figure 5: GVA and supply side components in FY'22 (FY'20=100)

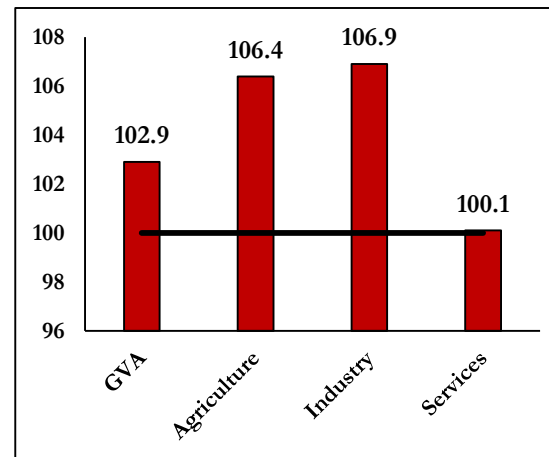
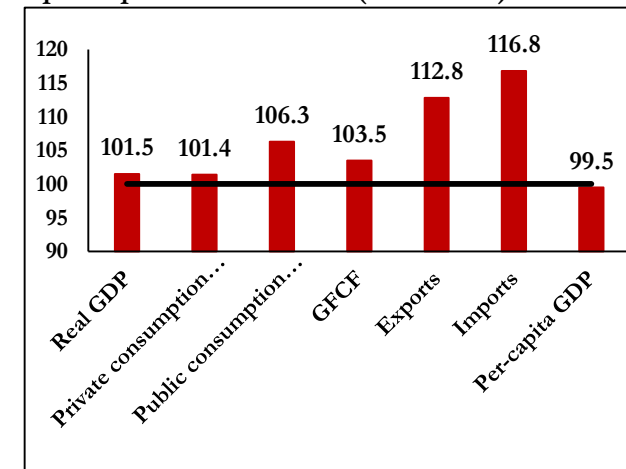


Figure 6: Demand-side components and per-capita GDP in FY'22 (FY'20=100)



Macro Monitor – Economic activity gained traction in May 2022

- The composite Purchasing Manager's Index (PMI) showed continued improvement in May 2022 led by services, which increased from 57.9 in April 2022 to 58.9 in May 2022. PMI for manufacturing has remained unchanged.
- Goods and Service Tax (GST) revenue collection increased by 44 percent in May 2022 and stood at Rs 1.40 lakh crores. E-way bill collection also increased to 7.4 crores in May 2022 after dipping to 7.2 crores in April 2022.
- Industrial output grew by 7.1 percent in April 2022 and was broad based. Consumer non-durables and infrastructure has shown the least expansion. The index for eight core industries expanded by 8.4 percent in April 2022 with significant increases in coal and electricity production.

Figure 7: PMI Indices

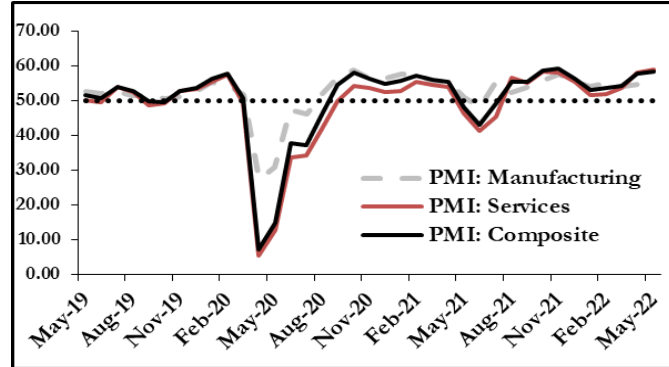


Figure 8: GST Revenue

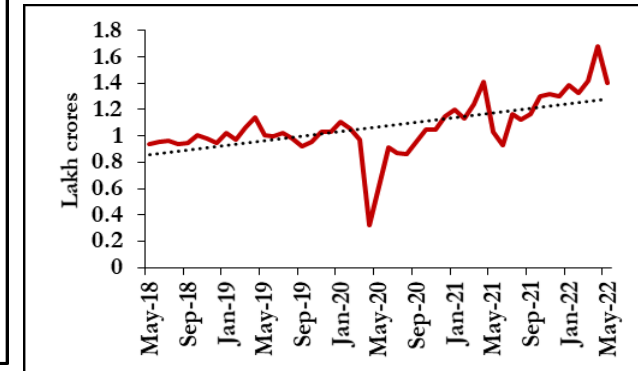


Figure 9: Index of Industrial Production

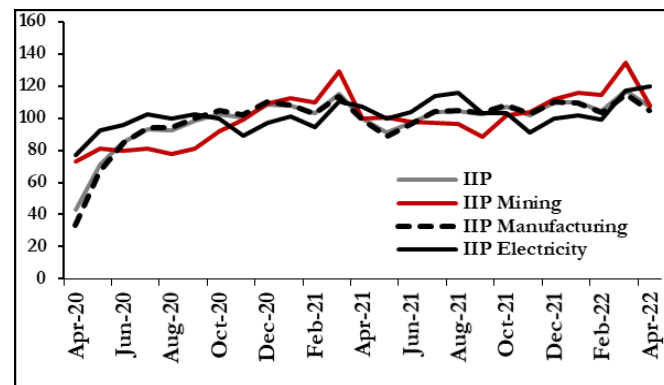
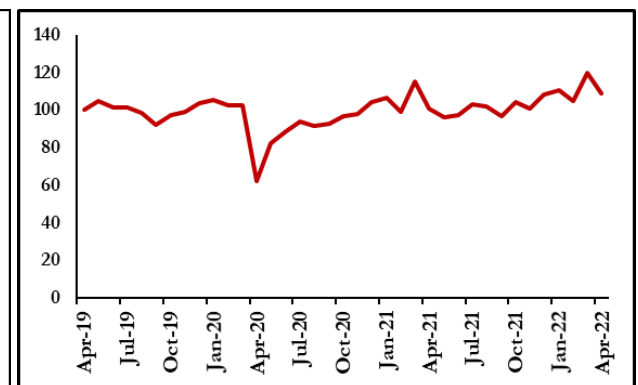


Figure 10: Index for Core Industries



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

Note: Figures 9 & 10 are indexed to April 2019 =100. All growth rates are on y-o-y basis unless mentioned otherwise.



Urban demand improved; normal monsoon expected to benefit rural demand

- Urban demand showed recovery reflecting in an increase in railway passenger traffic in May 2022. Petrol consumption has also marginally increased in May 2022 after dipping a notch in April 2022.
- Data on rainfall from the Indian Meteorological Department (IMD) showed cumulative rainfall in June 2022 (till June 26) is 7 percent deficient relative to normal rainfall.
- Better monsoon this year is expected to lift income in the hinterland, and drive consumer demand in the rural area. [fmcg: Improving monsoon lifts FMCG companies' hopes of rural consumption - The Economic Times \(indiatimes.com\)](#)

Figure 11: Rail Freight and Passenger

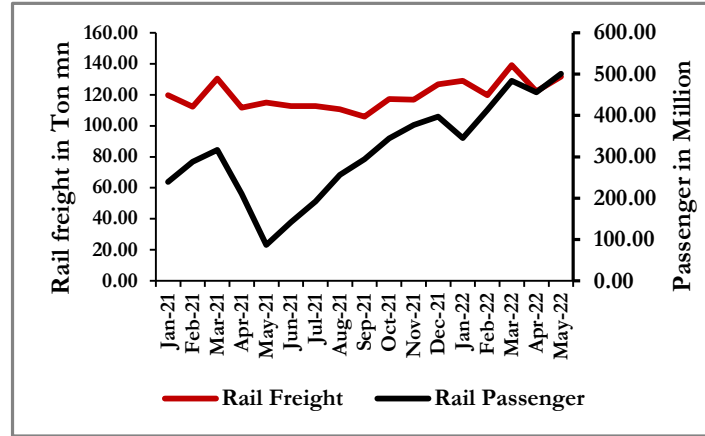


Figure 12: Petroleum consumption

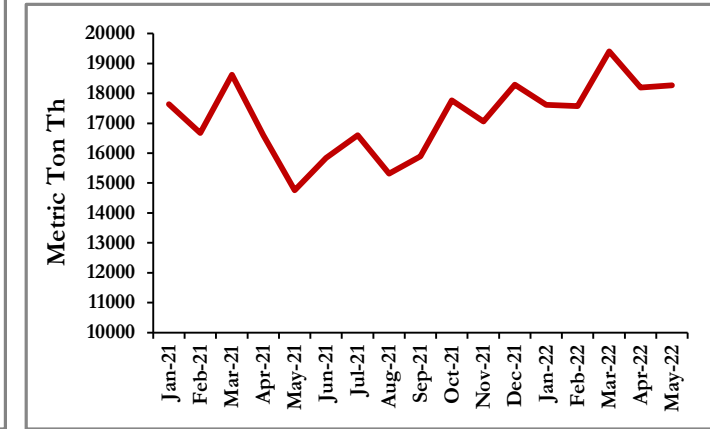


Figure 13: Daily rainfall in June 2022 (mm)

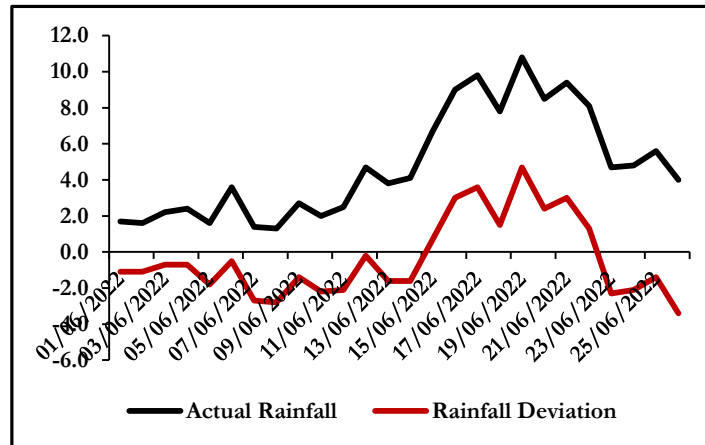
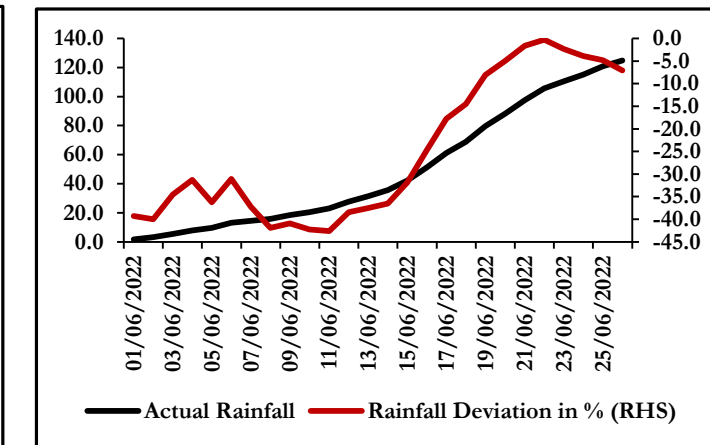


Figure 14: Cumulative rainfall in June 2022 (mm)



Source: Indian Railways; Petroleum Planning and Analysis Cell; Indian Meteorological Department



Ongoing strength in exports, and healthy growth in imports

- Merchandise exports grew by 20.5 percent in May 2022. Non-petroleum and non-gems and jewellery exports registered a growth of 13.1 percent. Non-oil, non-gold imports continued to expand pointing towards domestic demand recovery. Services exports and imports have also registered a healthy growth. Current account deficit reduced in the last quarter of FY'22 to -1.5 percent after continuously widening in the second and third quarters.
- Total remittances increased by 4.0 percent in Q4 of FY'22 vis-à-vis Q4 of FY'21.
- According to CRISIL Research, steel exports are expected to drop by 35-40% due to 15% duty on finished steel products. [India Steel Exports: India's steel exports to drop 35-40% this year after duty revision, prices are already down by Rs 5,000 | India Business News - Times of India \(indiatimes.com\)](#)

Figure 15: Merchandise Trade

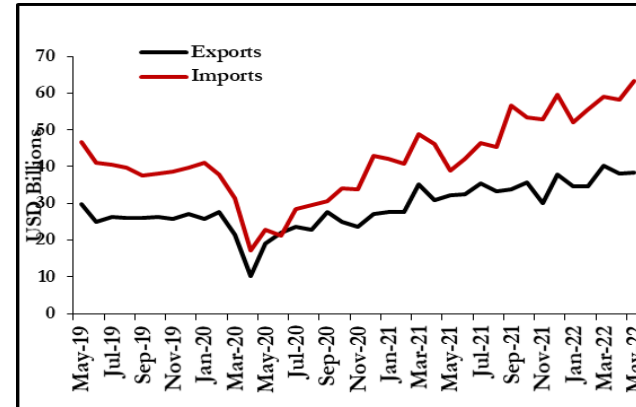


Figure 16: Services Trade

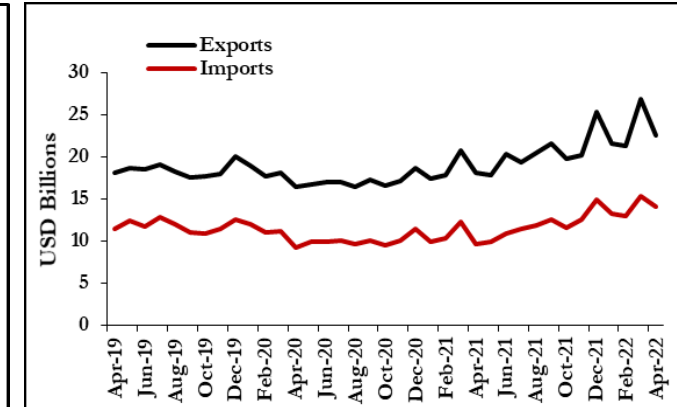


Figure 17: Current account balance

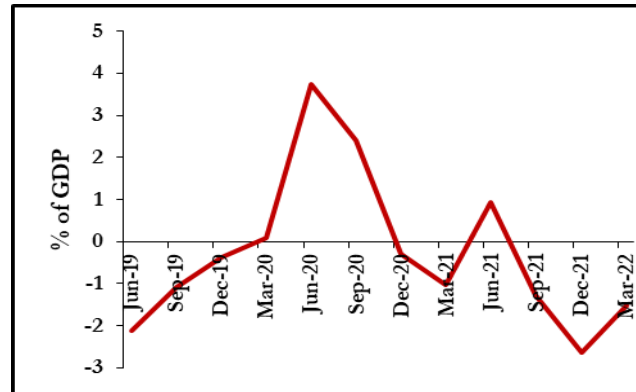
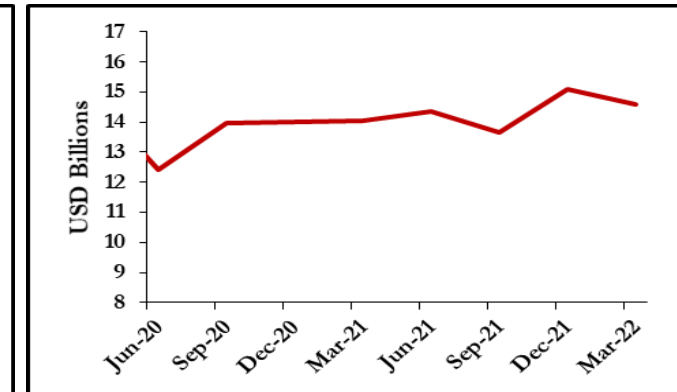


Figure 18: Total remittances inflow



Source: Ministry of Commerce and Industry; Reserve Bank of India.



Unemployment has declined; uptick in formal job creation

- According to the data released by Centre for Monitoring Indian Economy (CMIE), all India unemployment rate declined from 7.8 percent in April 2022 to 7.1 percent in May 2022. Urban unemployment rate declined to 8.2 (9.2) percent in May (April) 2022 and rural unemployment rate also fell significantly.
- Online hiring trends as seen by the Naukri Job Speak Index remained unchanged from April 2022 to May 2022.
- Work demand under Mahatma Gandhi Rural Employment Guarantee Act (MGNREGA) has increased by 11.0 percent in May 2022.
- Formal job creation has been recovering since May 2021. In April 2022, new subscribers increased by 14.5 percent to the National Pension Scheme and by 35.0 percent in March 2022 to the Employee's Provident Fund.

Figure 19: Unemployment rate

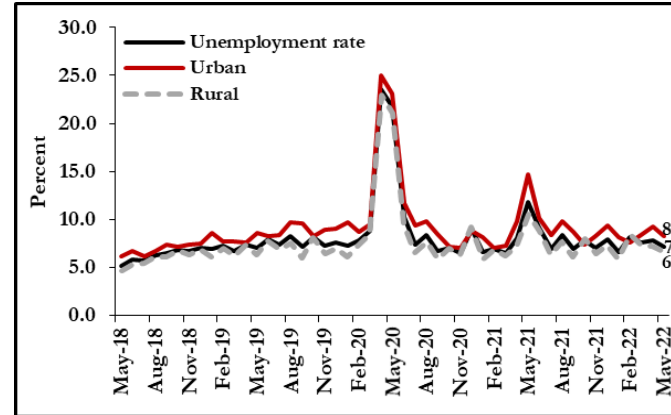


Figure 20: Work demand shot up under MGNREGA

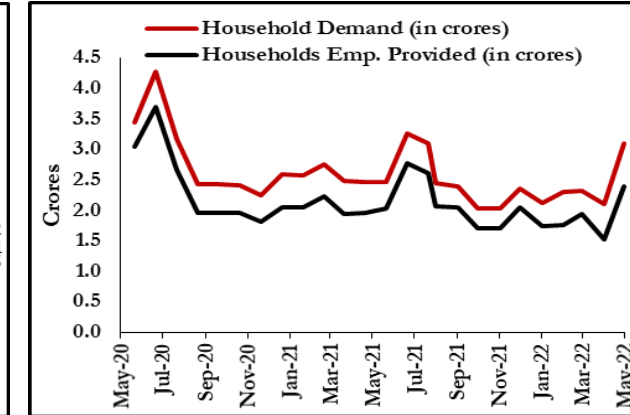
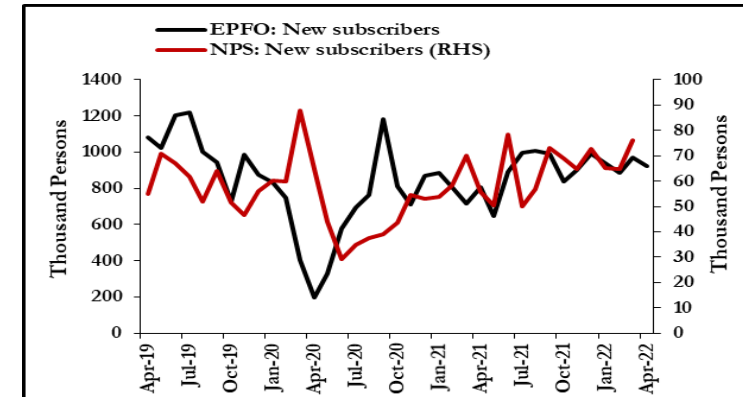


Figure 21: New subscribers added to the pension schemes



Source : Centre for Monitoring Indian Economy; Ministry of Rural Development; Employee's Provident Fund Organization and National Pension Scheme.



Retail inflation tapered slightly; wholesale inflation very high

- Consumer Price Index (CPI) inflation stood at 7.0 percent in May 2022 down from 7.8 percent in April 2022. CPI for food rose by 8.0 percent in May 2022, lower than the 8.4 percent print in April 2022. Barring vegetables, meat, and fish, inflation in most other food products moderated in May 2022. Core inflation declined sharply to 6.0 percent in May 2022. Rural inflation also moderated sharply.
- Wholesale Price Index (WPI), however, increased from 15.1 percent in April 2022 to 15.9 percent in May 2022. This was primarily due to rise in prices of mineral oils, crude petroleum and natural gas, food articles, basic metals, non-food articles, chemicals and chemical products and food products.
- High crude oil prices and a weak rupee could continue to accentuate inflationary pressures.

Figure 22: Consumer Price Indices inflation rates

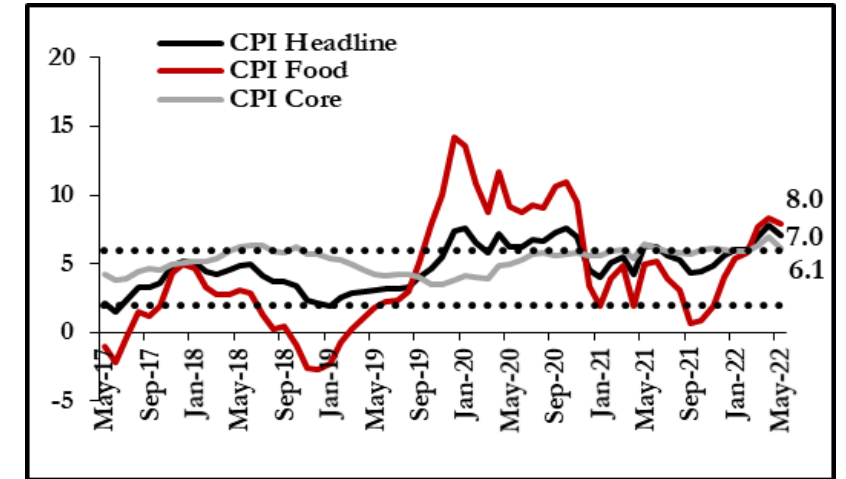
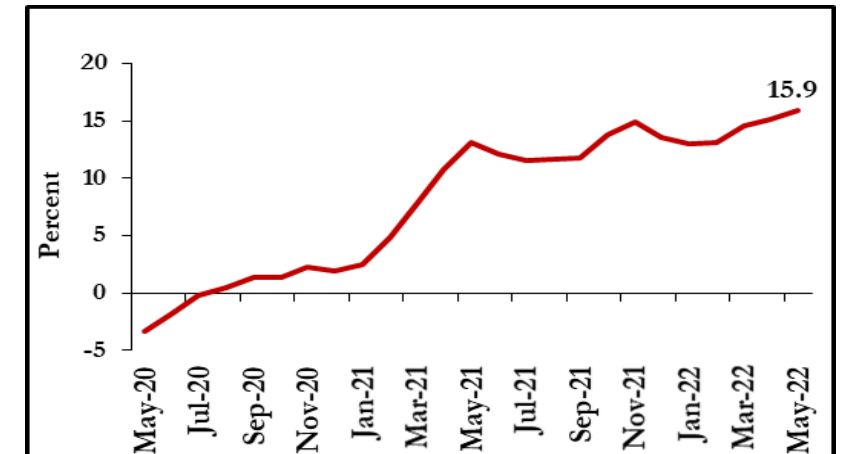


Figure 23: Wholesale Price Index inflation rate



Source: Central Statistics Office; Ministry of Commerce and Industry
Note: All growth rates are on a year-on-year basis unless mentioned otherwise.

Global financial conditions tighten; some moderation in oil prices

- High inflation and concerns over recession have left financial markets in a slump.
- With most countries advancing towards policy normalization, the demand for safer assets have increased. Consequentially, currencies of emerging economies have weakened against dollar. Rupee stood at 78 per dollar as of 22nd June, 2022.
- Brent crude oil price hovered above \$120 per barrel until mid-June 2022, due to supply side disruptions. However, recession concerns have led to some moderation in oil prices. As of 22nd June 2022, Brent crude oil stands at \$109.8 per barrel.
- The foreign exchange reserves of the Reserve Bank of India (RBI) remained below USD 600 billion for second consecutive month in June 2022.

Figure 24: Depreciation in emerging economies between 22nd May 2022 and 22nd June 2022

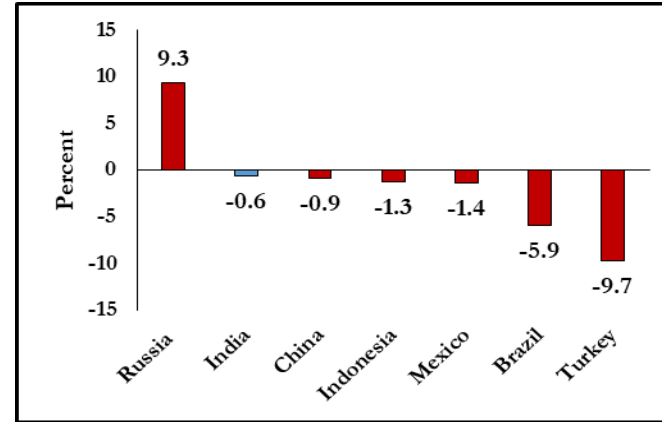


Figure 25: Brent crude-oil Price

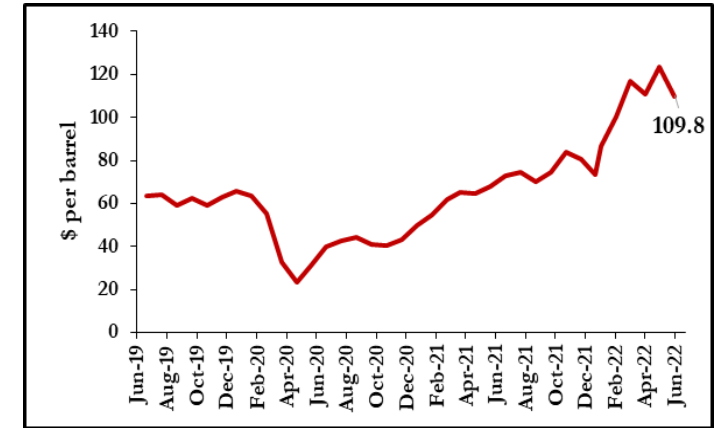
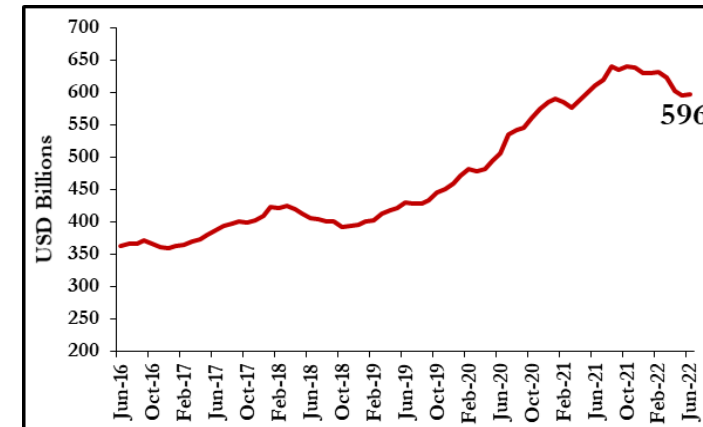


Figure 26: Foreign Exchange Reserves



Source: Global Markets Monitor, International Monetary Fund; Reserve Bank of India.
Note: The data in the panel is as of 22nd June, 2022 [Normal \(imfconnect.org\)](https://imfconnect.org).



Equity markets correct further; FPI withdrawal continues

- Indian stock markets corrected for yet another month 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. Foreign institutional inflows have also pulled back further from emerging economies.
- Yields on government securities have remained high. Concerns over growth have, however, kept yields in check. Yields on 10 year govt. securities were at 7.4 percent as of 22nd June 2022, with no change since end of May 2022.
- Globally, yields on US Treasury bills and gold have remained high. Stagflation concerns in the US economy have left investor sentiments soured.

Figure 27: Indian Equity Markets

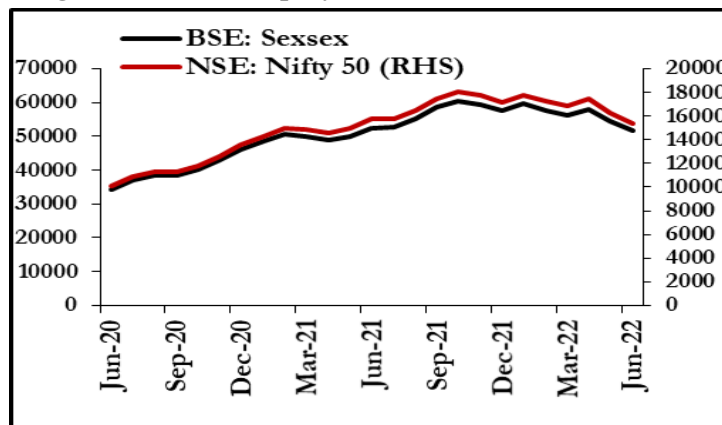


Figure 28: Change in equity market indices of emerging economies between 22nd May 2022 and 22nd June 2022

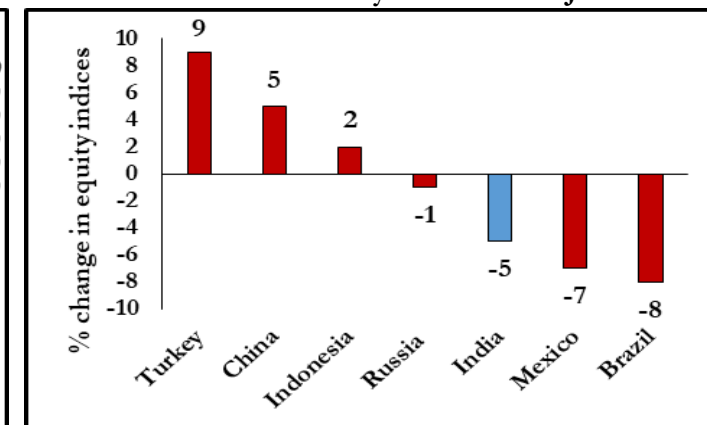


Figure 29: Net Foreign Institutional Inflows

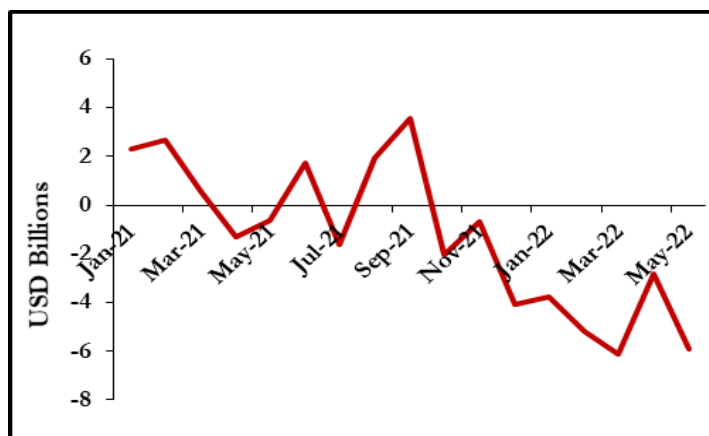
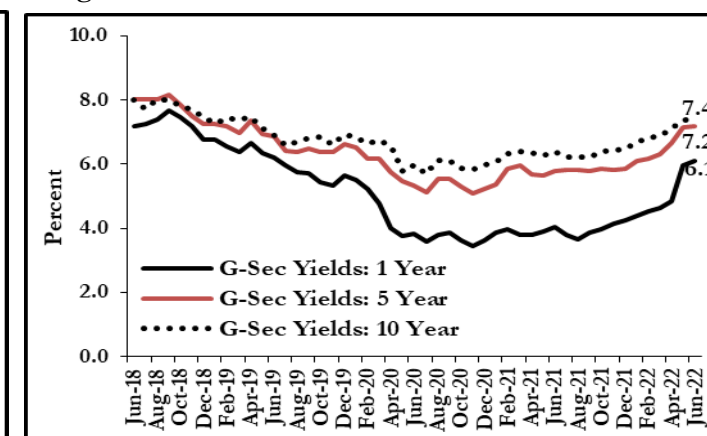


Figure 30: Yields on Domestic Government-securities



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

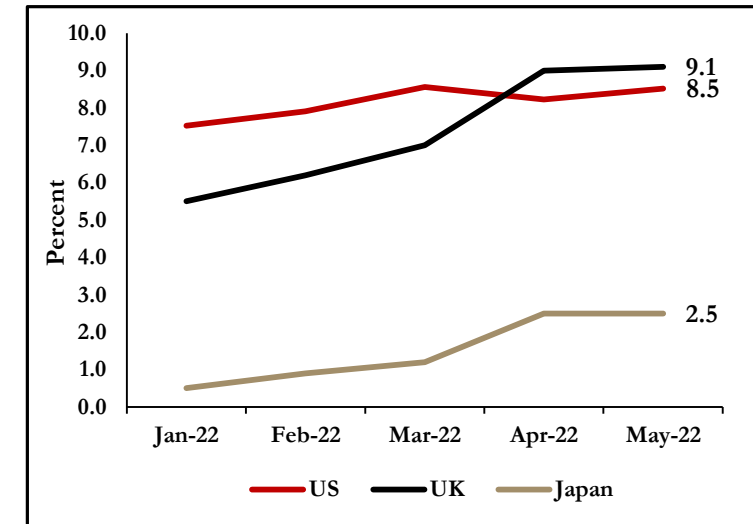
Note: The data for figures 27 and 30 is as of 22nd June 2022. Foreign Institutional Inflows includes debt and equity.



Geopolitical tensions fuel inflationary pressures

- Geopolitical tensions have led to persistent supply bottlenecks fueling inflationary pressures due to which commodity and energy prices have soared.
- British consumer price inflation hit a new 40-year high. The U.S. dollar is gaining ground against euro, Sterling, Yen, etc. [Euro, sterling knocked by growth worries and UK inflation at new 40-year high By Reuters \(investing.com\)](#)
- Central banks across Europe and that of USA have raised interest rates and warned of higher borrowing costs to tackle high inflation. [Europe's central banks jack up interest rates to fight inflation surge | Reuters](#)

Figure 31: Headline inflation in advanced economies



Source: US Bureau of Labor Statistics; Office for National Statistics; Statistics Bureau



Heatmap for high-frequency indicators

	Apr-18	Jul-18	Oct-18	Jan-19	Jul-19	Oct-19	Jan-20	Mar-20	Jun-20	Nov-20	Jan-21	Apr-21	Sep-21	Dec-21	Jan-22	Mar-22	Apr-22	May-22
Agriculture																		
Tractor sales (All)	21.84325	16.87191	23.60405	2.752556	-11.9545	-5.54567	3.268508	-50.1797	20.20862	48.34637	52.3431	15.74956	14.70787	9.469913	-27.7715	-11.6023	38.11999	47.71374
Fertilizer Sales (Urea)	59.28339	6.236934	7.506297	23.71357	-0.32798	23.10216	52.47237	-18.5343	4.749819	8	-0.95986	9.33584	-12.879	-38.2814	0.234949	50.41841	64.81375	17.29614
Industry																		
IIP (mining)	102.60	95.50	108.20	119.10	100.20	99.50	124.30	131.00	85.70	106.60	121.30	107.60	95.10	120.40	124.90	144.40	116.00	
IIP (electricity)	153.70	162.00	166.00	150.90	170.50	145.80	155.60	146.90	156.20	144.80	164.20	174.00	167.90	162.50	165.60	191.00	194.50	
IIP (manufacturing)	123.10	127.60	133.90	135.50	133.70	126.30	137.90	111.60	107.10	128.50	136.60	124.60	131.90	139.80	139.20	145.30	132.50	
(manufacturing)			0.00	0.00	52.50	50.60	55.30	51.80	47.20	56.30	57.70	55.50	53.70	55.50	54.00	54.00	54.70	
PMI (services)			0.00	0.00	53.80	49.20	55.50	49.30	33.70	53.70	52.80	54.00	55.20	55.50	51.50	53.60	57.90	
Auto sales (total)	18.39251	10.3611	16.25037	-3.85371	-15.6723	-11.1613	-10.4977	-42.0678	-42.1649	4.466128	3.798284	-25.4342	-10.1559	-4.78641	-12.0208	46.94562		
(domestic passenger vehicles)	7.498118	-2.72014	1.552825	-1.88323	-34.6529	-4.39303	-11.1574	-53.6779	-49.5915	4.645274	11.13728	5.692794	-25.5918	-1.48477	2.188957	106.7376		
Natural gas production	5.10333	-5.07953	-0.38313	5.431399	0.162151	-5.59791	-8.20391	-14.2236	-11.8467	-9.05555	-2.2106	-0.16454	13.01697	10.96813	9.690071	19.49135	30.7872	26.68043
Crude steel production	5.165289	10.08628	7.692308	2.533675	4.702506	-4.53869	-2.96111	-19.3985	-17.8758	7.567447	10.65864	5.87518	7.900137	11.96845	16.99796	37.44749	213.2442	69.65826
Production	1.427338	6.943016	11.7548	1.219707	6.664408	-12.7729	3.951127	-8.67796	-10.935	3.122971	4.382929	7.175877	4.576106	8.009418	6.323817	29.83871	56.15376	33.00943
production	-0.82979	-5.38563	-5.02712	-4.32536	-4.39465	-5.08596	-5.29874	-5.49588	-5.99273	-4.88733	-4.57547	-8.28714	-7.67801	-5.31343	-6.86414	-6.35192	-2.99232	-2.01311
Services																		
Air passenger traffic – all airports	21.74981	18.61564	11.35478	8.360125	0.967058	2.860032	1.269489	-37.78	-85.1655	-56.5352	-46.5674	-53.3224	-44.371	-21.139	-51.2326	39.31157	39248.65	
Cargo traffic	1.864956	4.163424	5.363665	3.155371	1.92703	0.395436	1.144177	0.833644	-19.6187	-10.4435	-7.38461	2.491429	-0.34833	1.049931	1.073529	2.145612	36.74062	40.76126
arrival	3.77964	3.488218	2.681389	6.31687	1.442294	6.155087	0.738947	-66.4392	-98.8175	-93.5029	-92.5109	-89.8383	-85.8014	-75.2284	-81.9928	4.265559	13833.69	
NPCI retail payments - volume	51.70605	57.99066	56.33012	60.76037	75.92857	59.73074	59.92456	23.63869	28.1984	47.03109	39.30194	100.0718	126.5151	139.8506	132.1	194.0542	220.2461	
Trade																		
Exports- non oil	6.483795	11.65117	13.02114	8.16603	3.802604	1.518685	-2.2849	-34.8192	-10.3131	0.612072	12.06548	20.63882	26.74108	38.56333	35.17126	82.77199	257.6684	73.86879
Import – non oil non gold		21.00666	14.18384	1.014125	-8.21588	-13.9486	-10.8283	-34.7295	-36.6042	0.846702	5.991154	8.544563	35.46837	47.36186	39.20386	99.73262	186.3563	86.64163
NEER (trade weighted 40 currencies)	-4.91601	-4.73671	-8.50645	-6.07386	1.301098	4.656983	0.034063	-3.52777	-6.38664	-4.39473	-3.30749	-6.78297	-3.9507	-4.59819	-3.068	-2.6345	-0.72006	-1.11804
Gross FDI (current account million)	45.96757	-32.6365	59.61735	55.78588	48.54462	-3.85169	27.75813	22.67057	-62.8035	84.25744	-40.0791	-8.22895	44.75698	-16.3585	18.73434	6.229143	84.88192	
	-166.963	-91.1617	-280.033	-122.5	-231.445	-142.809	-118.565	-326.423	82.29373	161.5705	1267.791	-149.26	303.5569	-1118.87	-2711.05	-58.7937	50.96626	386.3426
Fiscal																		
GST: E-way bills					18.00131	-1.19047	11.57482	-25.9511	-12.7062	8.12348	10.45712	11.87831	29.6366	29.31982	20.94093	92.24434	773.9781	188.7762
Monetary and Financial Markets																		
Non food credit	12.47398	12.47263	14.7847	14.70018	12.07262	8.818891	8.013727	6.053229	5.380765	5.927092	5.888188	13.11827	12.21274	16.30221	13.56746	14.70289	16.56449	18.16006
Non food credit outstanding – personal loans	19.0866	16.73623	16.84762	20.56877	20.80921	19.45484	18.9628	18.42742	8.821665	9.212357	8.66518	31.11157	21.47039	24.34185	21.2635	24.81446	28.55714	



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