Monthly Review of the Economy

October 2021

Executive Summary [1]

As the vaccination rates have increased, and the COVID infection rates have retreated further, the economic activity has continued to normalise in India. The economic news has been favourable on balance, on account of better than projected fiscal outcomes, a rebound in most high-frequency indicators, and another impetus to policy reform, including a hitherto inconceivable privatisation of Air India. With the economy expected to grow at 9.5 per cent (RBI) this year, most sectors seem to be on their way to reach the pre-pandemic level and then grow beyond those levels. The agriculture sector was mostly undented by COVID and continues to grow at its long-term average. The manufacturing sector seems on target to recoup most of the loss that it had suffered during COVID. Being the most contact-intensive, the service sector was the hardest hit by the pandemic, and is understandably the slowest to recover. The domestic policy imperatives include putting the fiscal policy on a more sustainable path, being watchful of the impact of the COVID-related economic stress on the asset quality of banks and Non-Banking Financial Institutions (NBFIs), better understanding and alleviating the constraints to private investment, and further leveraging the buoyancy in the global trade outlook.

Even as the domestic economic environment has been stabilising, the global economic environment seems to be facing specific headwinds, which may have implications for the Indian economy. These include rising inflation on account of the generous fiscal stimulus in some of the advanced economies such as the US, supply chain bottlenecks, and rising energy prices; an impending tightening of monetary policy in advanced economies; and the seemingly irrational exuberance in the capital markets. Navigating these headwinds would be important in coming months.

Contents

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1. Policy Announcements and Developments

The policy reform impetus continued during the last month, with a number of landmark announcements, including the privatisation of Air India, a national debt monetisation programme, and a further articulation of the contours of a Bad Bank. The Reserve Bank of India (RBI) announced the status quo on monetary policy. In its own outlook for the economy, it retained the growth projection for the current year at 9.5 per cent and lowered the inflation projection to 5.3 per cent.

Air India Privatisation

The Government has approved Tata Group's ₹18,000-crore bid for the State-owned carrier, Air India. The deal includes the sale of Air India Express and its ground handling arm, AISATS. The deal is expected to be completed by December-end. Air India had a total debt of ₹61,562 crore as on 31 August 2021. Of this, the Tata Sons holding company, Talace Pvt Ltd., will take over ₹15,300 crore and the remaining ₹46,262 crore will be transferred to a special purpose vehicle, Air India Assets Holding Ltd (AIAHL). The Government has infused around ₹1.1 lakh crore since 2009-10 to keep the airline up and running. In 2019-20 alone, the airline suffered operational losses to the tune of ₹8,743 crore.

This marks the first major outright privatisation of a public sector company in almost two decades.

National Monetisation Plan

The Government announced its asset monetisation plan on 23 August 2021, with the aim to "unlock value in brownfield projects by engaging the private sector, transferring to them revenue rights and using the funds generated for infrastructure creation across the country".[2] In other words, the government will part with its assets for a specified period in exchange for a lump sum payment. At the end of the stipulated period, the assets would return to the government. The National Monetisation Plan (NMP) estimates an aggregate monetisation potential of ₹6 lakh crores through core assets of the Central Government, over the four-year period of FY 2022-2025. Under the NMP, land will not be monetised and only brownfield assets shall be monetised. The top five sectors by value under the government's asset monetisation programme are roads (27 per cent), railways (25 per cent), power (15 per cent), oil and gas pipelines (8 per cent), and telecom (6 per cent).

Bad Bank (NARCL-IDRCL)

In order to speed up the resolution of Non-Performing Assets (NPAs), the Government has set up two new entities to acquire stressed assets from banks and sell them in the market. The National Asset Reconstruction Company (NARCL) has been incorporated under the Companies Act. It will acquire stressed assets worth about ₹2 lakh crore from various commercial banks in different phases. Public Sector Banks will maintain 51 per cent ownership in NARC, while the rest will be held by private sector banks. Another entity, India Debt Resolution Company Ltd (IDRCL), will sell the stressed assets in the market. Public Sector Banks and financial institutes will hold a maximum of 49 per cent stake in IDRCL. The remaining stake of 51 per cent will be with private-sector lenders. The two new entities, NARCL and IDRCL forms the new bad bank structure.

The NARCL will purchase bad loans from banks, by paying 15 per cent of the agreed price in cash and the remaining 85 per cent in the form of "Security Receipts". The banks will be paid back the rest when the assets are sold with the help of IDRCL. If the bad bank is unable to sell the assets, or has to sell it at a loss, the government guarantee will be used. The difference between what the commercial bank was supposed to get and what the bad bank was able to raise will be paid from the ₹30,600 crore that has been provided by the government.

[2] National Monetisation Pipeline, NITI Aayog.

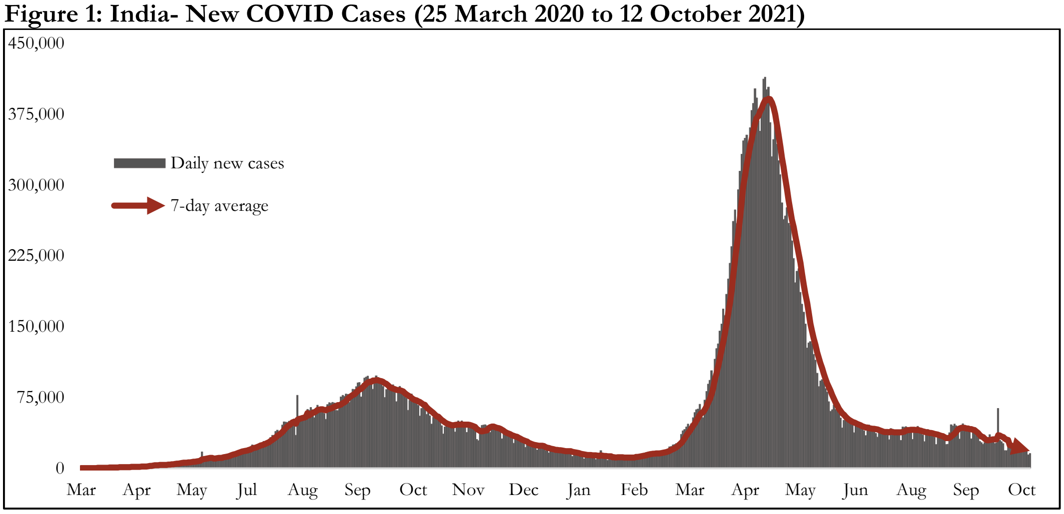
Monetary Policy (8 October 2021)

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 held on to its accommodative stance for "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". The RBI also announced additional measures toward more policy normalization, including doing away with the G-Sec Acquisition Programme (G-SAP).

2. The COVID Tracker

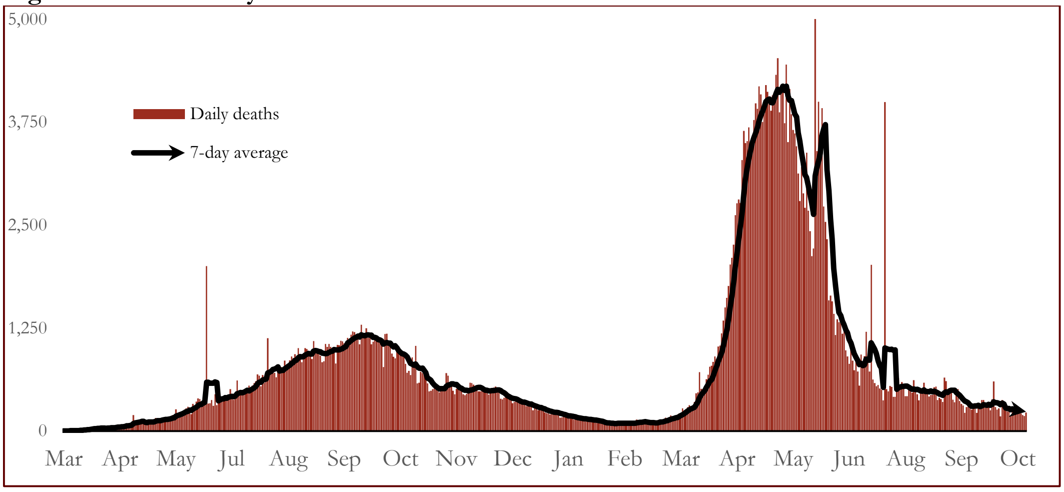
India's COVID cases have consistently declined, after the second wave peaked in May 2021. Daily deaths have also been on the decline (Figures 1 and 2). Vaccinations of both the first and second doses have been increasing (Figure 3), with 74 per cent of the eligible population having been vaccinated with the first dose and 29 per cent of the population being fully vaccinated (Figure 4). More recently, India has crossed the administration of 100 crore doses of vaccination.

Figure 1: India- New COVID Cases (25 March 2020 to 12 October 2021)



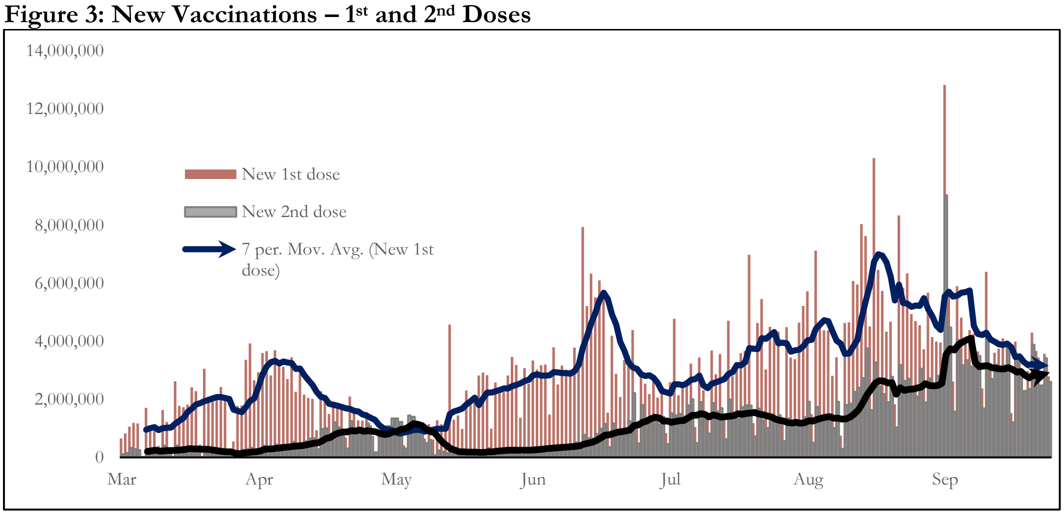
Source: Vaccination data, Ministry of Health and Family Welfare, population estimate for March 1, 2021–Report of the Technical Group on Population Projections (November 2019), National Commission on Population, Ministry of Health and Family Welfare (MoHFW).

Figure 2: India – Daily Deaths from COVID-19



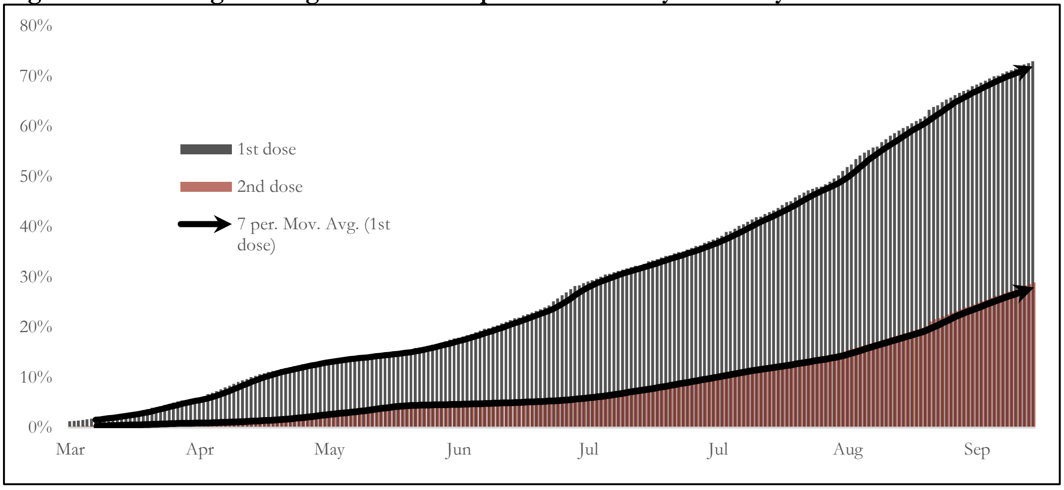
Source: Vaccination data, Ministry of Health and Family Welfare, population estimate for March 1, 2021–Report of the Technical Group on Population Projections (November 2019), National Commission on Population, Ministry of Health and Family Welfare (MoHFW).

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



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

3. The Real Sector

Quarterly national accounts data and high-frequency indicators all point to a healthy rebound in the economy. On the supply side, the growth in output during the first quarter of the current fiscal year (April 2021-June 2021) was broad-based across sectors. The growth in agriculture and allied sectors remained rather stable throughout the pandemic. It grew at 4.5 per cent year-on-year during the period April 2021-June 2021.[3] The industrial sector grew at 46.1 per cent, supported by a strong rebound in construction (68.3 per cent), manufacturing (49.6 per cent), the mining and quarrying sector (18.6 per cent), and electricity, gas, water and utility services (14.3 per cent). The services sector recorded a growth of 11.4 per cent, led by hotels, trade and transport sectors (34.3 per cent), public administration (5.8 per cent), and finance, real estate and professional service (3.7 per cent) (Figure 5 and 7).

On the demand side, consumption, investment, exports, and imports all grew rapidly during the period April-June 2021. As compared to the pre-pandemic level, recovery is most significant in exports and government consumption, which have already surpassed the corresponding pre-pandemic levels. While the key drivers of economic growth remained below the pre-pandemic levels, at end-June 2021, private consumption and investment stood at 88 per cent and 83 per cent of their respective levels in June 2019 (Figure 6 and 8).

At the end of June 2021, a few sectors had surpassed the level of activity seen in June 2019, including agriculture, and electricity, gas, and water supply. Financial, real estate and professional services had recovered almost to the pre-pandemic level in June 2019, followed by mining and quarrying at about 98 per cent, manufacturing at 96 per cent, and public administration, defence and other services at 95 per cent. Construction and contact-intensive services such as trade and transport remained substantially below their pre-pandemic levels. An implication being that as COVID retreats, these are the sectors likely to grow the fastest (Figure 7).

[3] All percentage changes reported here are year-on-year unless specified otherwise.

Figure 5: Contributions to GVA Growth (Supply Side)

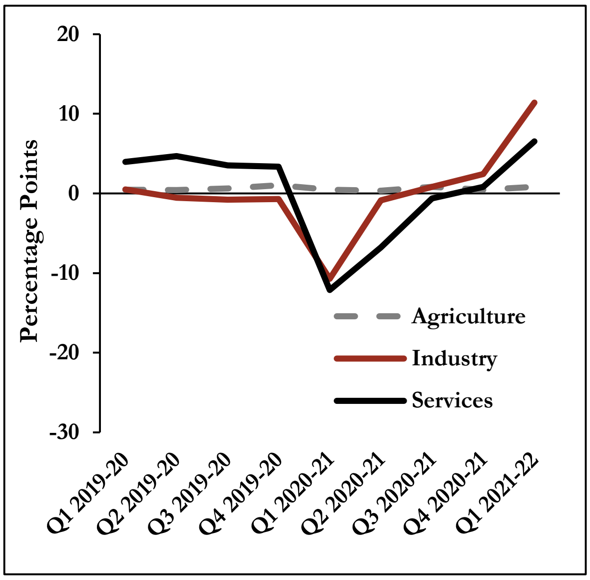
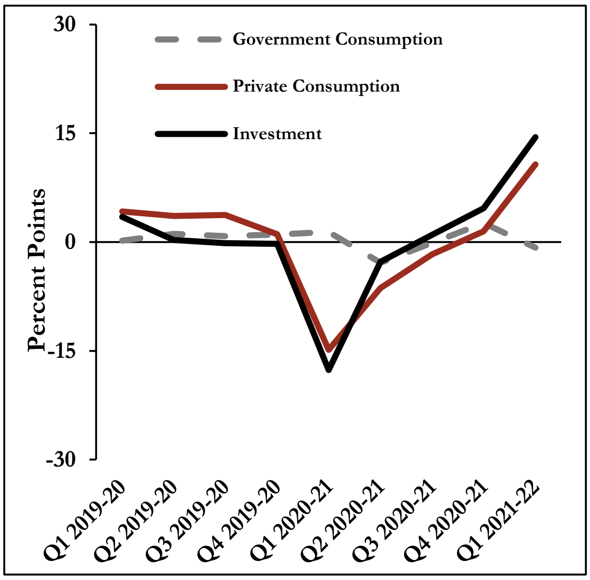


Figure 6: Contributions to GDP Growth (Demand Side)



Source: Ministry of Statistics and Programme Implementation (MoSPI).

Figure 7: GVA Components as of June 2021

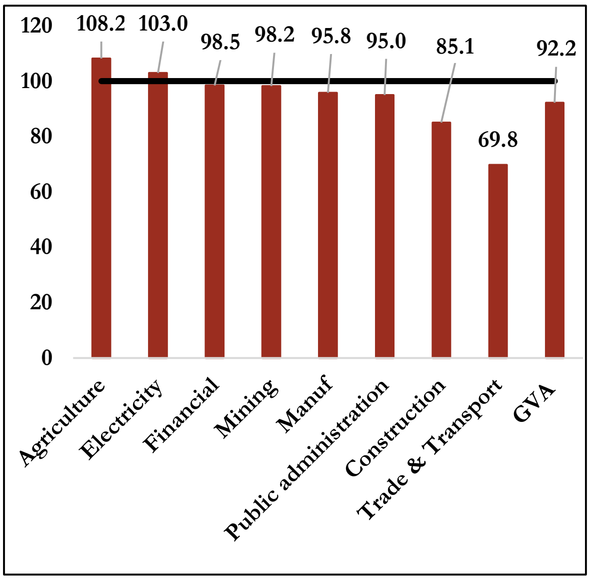
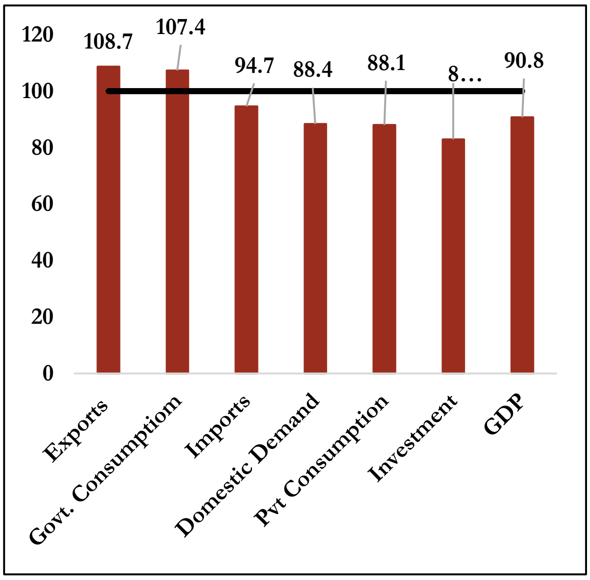


Figure 8: GDP Components as of June 2021



Source: MoSPI.
Note: Index- June 2019 = 100.

High-frequency Indicators

With the improved availability of data, there are now nearly a score of high-frequency indicators, which make it possible to track the economy on a real-time basis. Below we analyse a sub-set of these. These indicators uniformly point to the ongoing recovery in the economy. In terms of levels, most seem to have surpassed the levels seen at the onset of COVID.

The Index of Industrial Production (IIP) and its sub-components have improved in recent months, but still remain below the pre-pandemic level of July 2019. Among its sub-components, IIP electricity has improved distinctly, while manufacturing and mining remain relatively subdued (Figure 9).

The Purchasing Managers' Index (PMI) for manufacturing increased to 53.7 in September from 52.3 in August 2021, highlighting a stronger expansion in overall business conditions. PMI for services moderated to 55.2 in September from 56.7 in August, but remained well above the long-run average (Figure 10).

Figure 9: Index of Industrial Production

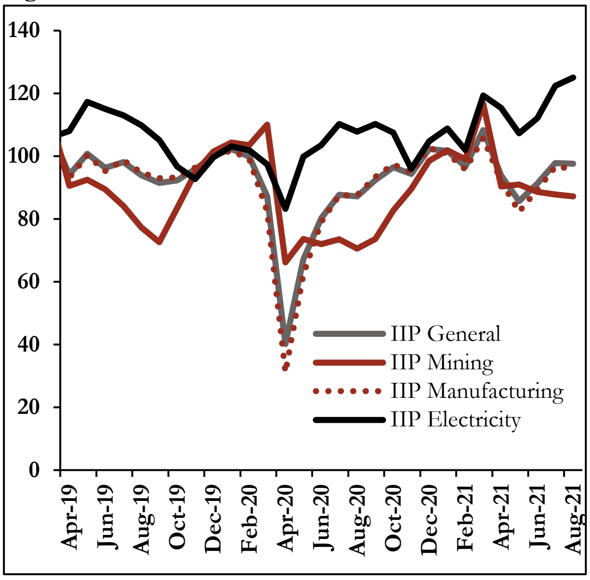
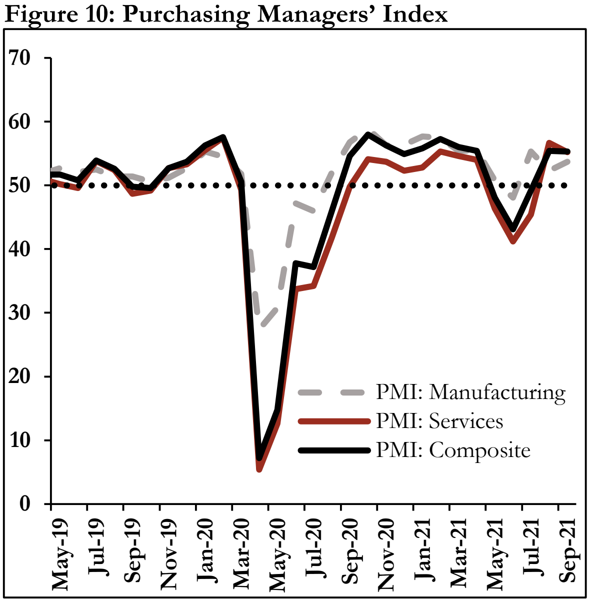


Figure 10: Purchasing Managers' Index



Source: MoSPI, IHS Markit.
Note: A PMI level greater than 50 indicates expansion in the respective sector(s).

E-Way bills, a strong indicator of GST collections, increased to 6.8 crore in September 2021, which is the highest number since the beginning of the present fiscal year. In September, the number pertaining to e-way bills was 70 per cent higher than in May and 3 per cent higher than in August (Figure 11 A). GST collections reached ₹1.17 lakh crore in September, up 23 per cent year-on-year and 4.5 per cent month-on-month (Figure 11 B). While these indicators point to economic recovery, they likely also indicate the success of better compliance, especially action against fake billers.

Figure 11 A: No. of E-Way Bills

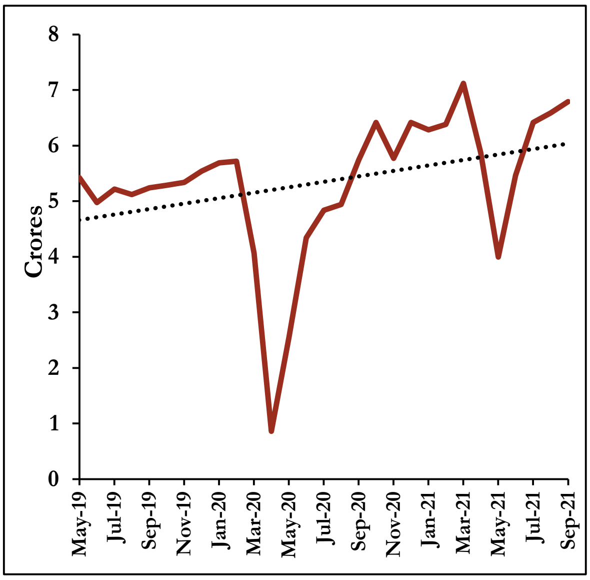
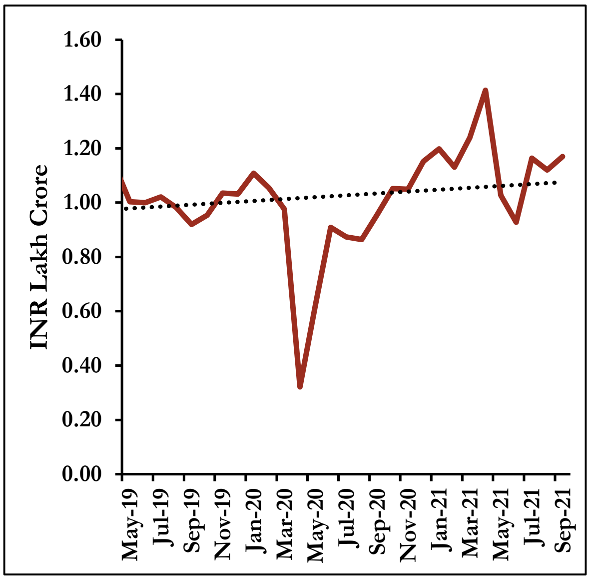


Figure 11 B: GST Revenue



Source: GSTN, Ministry of Finance

The sales and production of tractors, after dropping to a growth level of nearly 0 per cent during the pandemic in April 2020, have been increasing since, indicating the recovery of rural demand (Figure 11 C). However, automobile sales are yet to see a recovery, with monthly sales being only slightly higher than the pre-pandemic level in February 2020 (Figure 11 D).

Figure 11 C: Tractor Production and Sales

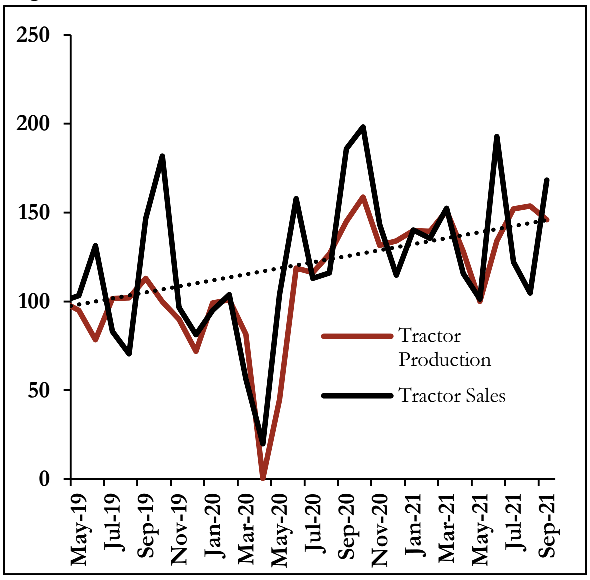
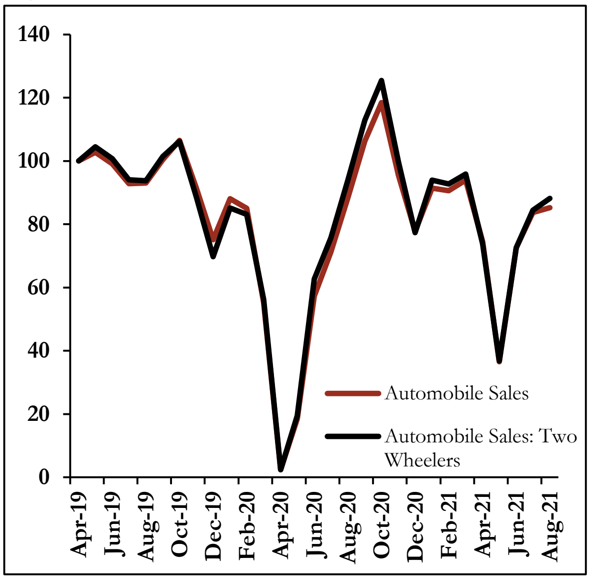


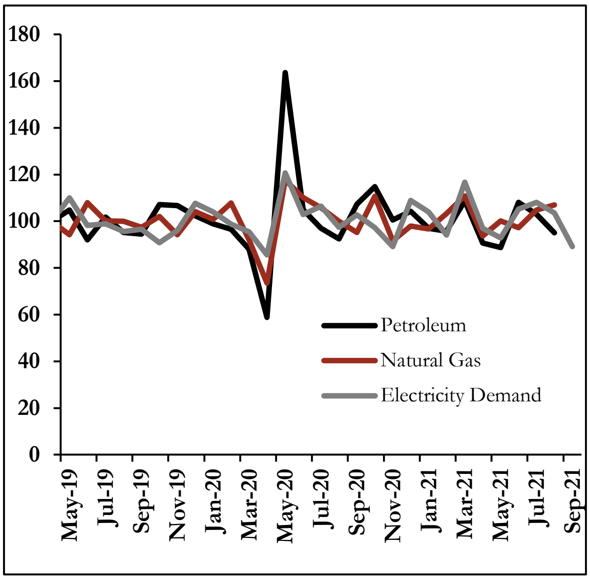
Figure 11 D: No. of Automobile Sales



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

Air and rail cargo traffic have been picking up since the pandemic. The number of air and rail passengers has also seen an increasing post-pandemic trend, which is, however, much below the pre-pandemic levels. Google mobility indicators too point to continued normalization of activity. Digital payments have been increasingly consistently, likely both due to a trend increase in the use of these modes of payments as well as due to the normalization of activity.

Figure 11 E: Energy Consumption and Electricity Demand



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

Figure 11 F: Freight and Passenger Traffic

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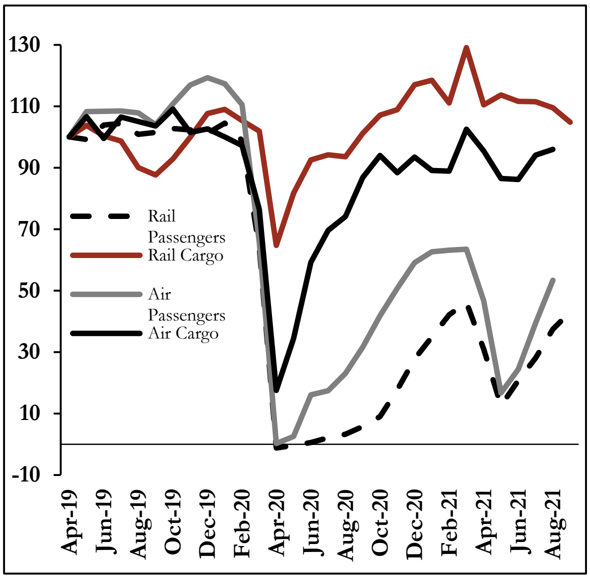
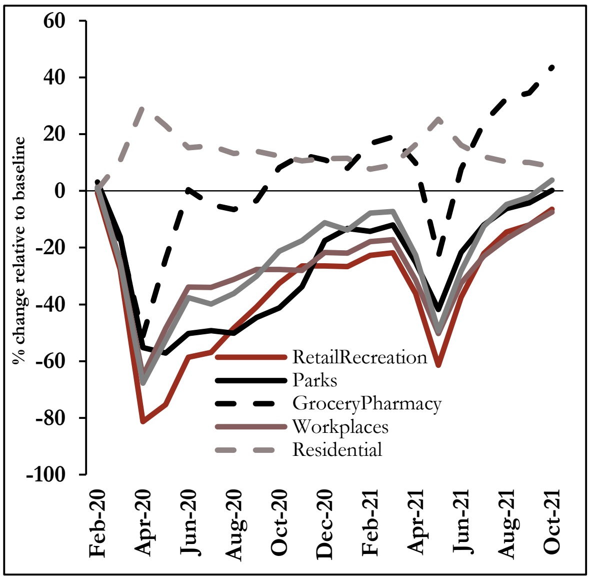


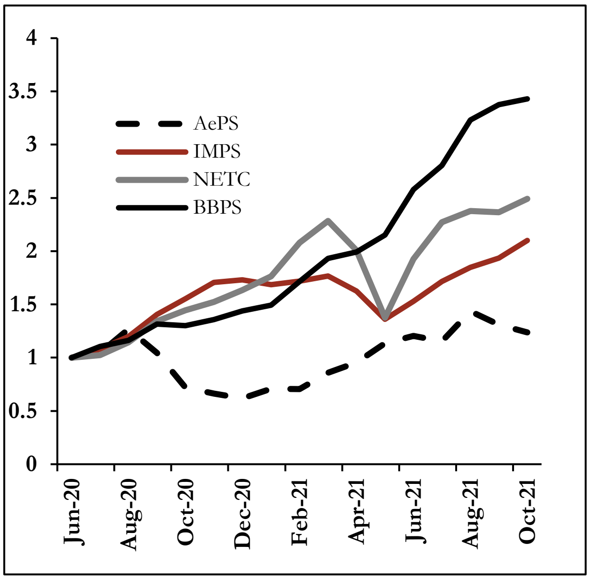
Source: CEIC database
Note: Rail passengers measured in unit million, rail cargo in tonnes million, air passengers in persons, air cargo in tonnes. Indexed at April 2019=100.

Figure 11 G: 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. Monthly percentage change has been calculated by averaging the daily percentage change.

Figure 11 H: Digital Payments



Source: CEIC.
Note: Daily data averaged to create monthly values, which are indexed at June 2020=1. 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

Heatmap for India's High Frequency Indicators[4]

	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21
Agriculture																											
Tractor sales	50.7	34.7	-16.2	4.8	-15.0	-14.9	0.0	4.0	-50.2	-80.1	0.5	20.2	35.9	64.8	26.7	9.0	48.3	41.2	47.5	30.4	34.7	15.7	-1.9	46.8	47.0	48.7	14.7
Foodgrains Stock	14.3	18.1	27.8	20.8	31.3	17.2	20.9	17.9	30.0	12.3	18.4	16.1	13.0	8.0	2.3	0.9	0.3	6.4	9.3	4.1	36.0	41.4	33.2	34.7	32.0	26.2	21.9
Industry																											
IIP (electricity)	156.7	159.9	162.9	150.4	160.1	173.6	158.7	150.3	146.9	125.6	150.6	156.2	166.3	162.7	166.4	162.2	144.8	158.0	164.2	153.9	180.0	174.0	161.9	169.1	184.7	188.7	
IIP (manufacturing)	140.2	128.6	131.6	135.8	144.6	129.0	126.0	135.4	111.6	42.1	84.4	107.1	118.5	118.7	126.5	132.0	128.5	139.0	136.6	129.7	143.3	124.6	111.5	121.0	130.9	130.2	
PMI (services)				53.2	52.0	49.6	48.7	53.3	49.3	5.4	12.6	33.7	34.2	41.8	49.8	54.1	53.7	52.3	52.8	55.3	54.6	54.0	46.4	41.2	45.4	56.7	55.2
PMI (manufacturing)				53.2	52.6	52.1	51.4	52.7	51.8	27.4	30.8	47.2	46.0	52.0	56.8	58.9	56.3	56.4	57.7	57.5	55.4	55.5	50.8	48.1	55.3	52.3	53.7
Auto sales	18.4	26.3	5.4	-2.0	-11.6	-11.0	-19.5	-9.6	-42.1	-97.6	-82.0	-42.2	-23.2	-5.0	6.1	11.2	4.5	3.5	3.8	6.5	-1.4	-25.4	-64.5	-26.7	-9.8	-8.4	-10.2
Natural gas prod.	1.2	-2.8	-1.4	4.2	1.2	-1.6	-4.3	-8.9	-14.2	-18.6	-16.0	-11.8	-10.1	-9.5	-10.7	-8.4	-9.1	-7.1	-2.2	-1.4	-4.7	-0.2	0.0	5.3	6.5	8.9	13.0
Crude steel prod.	8.5	10.3	5.7	3.2	5.6	4.6	-0.5	0.3	-19.4	-63.5	-33.9	-17.9	-8.4	2.7	1.5	4.9	5.7	8.8	10.1	-1.4	2.9	2.9	-4.4	0.1	3.0	11.1	8.8
Electricity prod.	7.3	9.2	7.1	4.5	2.7	8.5	-1.2	0.4	-8.7	-22.6	-14.9	-10.9	-3.7	-2.1	4.4	11.6	3.1	4.5	4.4	-0.3	11.3	7.2	-9.3	-3.0	6.2	14.7	6.4
Crude oil prod.	-1.6	-3.4	-4.2	-4.3	-6.2	-6.8	-5.4	-7.4	-5.5	-6.4	-7.1	-6.0	-4.9	-6.3	-6.0	-6.2	-4.9	-3.6	-4.6	-3.2	-8.5	-8.3	-12.9	-7.7	-8.0	-8.4	-7.7
Services																											
Air passenger	24.1	15.9	15.6	10.8	-1.1	4.2	0.2	1.9	-37.8	-99.8	-97.7	-85.2	-83.9	-78.6	-69.5	-62.2	-56.5	-50.4	-46.6	-42.9	-39.9	-53.3	-84.6	-77.5	-63.6	-50.5	-44.4
Air Cargo	3.9	6.8	4.1	4.8	2.3	-7.7	-5.4	-4.2	-31.9	-82.5	-67.7	-40.5	-34.7	-29.4	-16.2	-13.9	-12.9	-8.9	-11.0	-8.5	-8.6	-4.5	-18.9	-13.4	-11.7	-8.6	-3.7
National highways construction								3.5	-6.0	-73.5	-49.9	-15.4	-11.9	-9.1	-14.5	-3.3	4.2	11.9	15.2	26.8	22.4	7.7	-13.1	6.0	-2.9	-8.2	-17.3
Telecomm– number of subscribers	1.0	-3.5	-1.3	0.6	-1.9	1.5	0.3	-2.1	-0.5	-1.2	-1.6	-2.2	-2.1	-2.0	-2.2	-2.7	-0.1	0.1	0.2	0.6	1.5	1.7	1.3	1.3	1.7	1.5	
NPCI retail payments - volume	45.4	58.6	36.4	59.9	71.7	67.9	60.6	53.5	23.6	14.7	18.8	28.2	21.6	33.2	38.0	36.4	47.0	43.7	39.3	37.2	117.8	100.1	87.3	101.0	108.5	131.8	126.5
Trade																											
Exports	0.9	18.0	-2.5	0.1	12.2	-7.8	-6.6	-2.7	-34.3	-61.0	-35.7	-12.2	-9.9	-12.2	5.9	-4.9	-8.4	0.5	6.4	-0.5	6.1	18.1	8.2	29.9	35.0	28.0	29.9
Exports (non oil)	1.3	11.8	-5.8	-1.3	12.5	-3.9	-4.5	-1.4	-34.8	-60.3	-29.9	-10.3	-3.8	-8.1	6.1	2.6	0.4	6.0	12.0	3.5	6.9	20.7	8.3	27.5	30.0	25.6	26.3
Imports	7.1	20.9	12.8	0.8	2.1	-8.4	-12.0	-6.5	-28.0	-59.7	-51.0	-48.0	-29.6	-22.1	-19.0	-10.3	-12.2	8.4	2.0	7.0	10.8	7.7	-17.4	2.0	13.8	18.2	49.6
Gross FDI	17.3	-4.9	74.1	-1.8	8.9	107.2	-26.2	25.4	22.7	-34.0	-26.0	-62.8	-17.8	358.5	11.0	18.9	84.3	26.5	-40.1	-17.7	-8.2	-9.3	124.5	-53.0	-21.4	97.0	
Net FPI (USD million)	-95.2	-151.1	89.6	-305.3	1615.3	-181.3	-132.2	-65.8	-326.4	-181.5	-159.4	82.3	-204.0	-883.3	-116.7	31.6	161.6	2396.2	1267.8	159.0	-66.6	-149.3	-115.7	-5.5	128.7	-362.5	303.6
Net FPI (INR million)	-95.3	-153.9	109.4	-322.6	1731.6	-183.0	-131.3	-65.0	-342.5	-188.8	-164.7	98.4	-209.9	-949.5	-118.2	35.8	173.0	2471.9	1428.1	167.7	-65.1	-152.8	-117.2	-1.0	146.7	-382.0	321.7
Fiscal																											
GST: E-way bills						6.4	8.9	10.8	-26.0	-83.6	-53.0	-12.7	-7.3	-3.5	9.6	21.4	8.1	15.9	10.5	11.6	29.7	11.9	-26.3	9.9	23.0	28.6	29.6
Monetary and Financial Markets																											
Non food credit	10.2	10.9	12.6	13.8	13.4	11.9	8.7	6.9	6.1	6.7	5.5	5.4	6.3	5.5	5.1	5.6	5.9	6.2	5.9	6.6	11.9	13.1	11.7	11.8	12.9	12.6	12.2
Non food credit – personal loans	17.8	17.9	15.1	17.0	16.4	16.6	16.6	15.9	16.6	12.3	10.6	10.4	9.0	8.5	9.2	9.3	10.0	9.5	9.1	9.6	28.1	26.4	24.4	23.6	21.3	21.6	

[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, for which the actual values of these indices have been reported. Up till March 2020, data has been reported for every third month, or the month ending the respective quarter, and for every month from April 2020 onwards. For March 2021 and beyond, the corresponding 2019 months 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 has been sourced from the CEIC database

4. Inflation and Monetary Policy

The headline Consumer Price Index (CPI) inflation declined to 4.35 per cent in September from 5.3 per cent in August 2021. Inflation in food and beverages declined more sharply to 1.6 per cent from 3.8 per cent in August 2021, the lowest since April 2019. The drop in food and beverages inflation in September was the chief driver behind the moderation in CPI. Core inflation, that is, headline inflation excluding food, fuel and light, was stable at 5.8 per cent in September, as compared to August 2021 (Figure 12).

In its latest meeting on 8 October 2021, the MPC kept the policy rates unchanged (with the repo rate at 4 per cent and the reverse repo rate at 3.35 per cent) (Figure 13); and held on to its accommodative stance for "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". The RBI also announced additional measures toward more policy normalisation, including doing away with the G-Sec Acquisition Programme (G-SAP).

Figure 12: Inflation

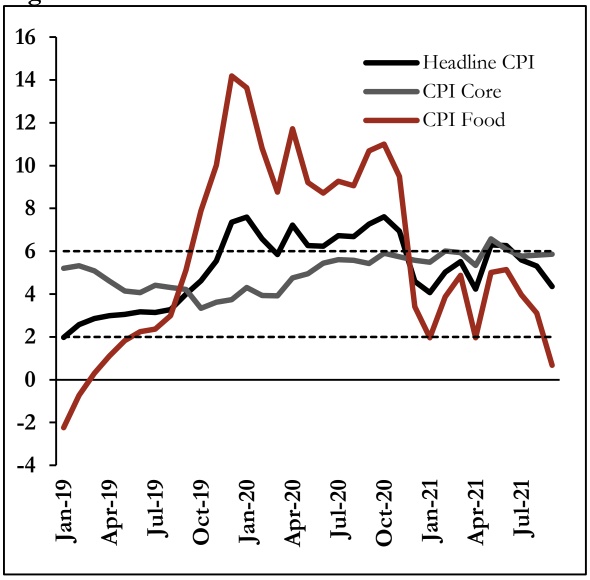
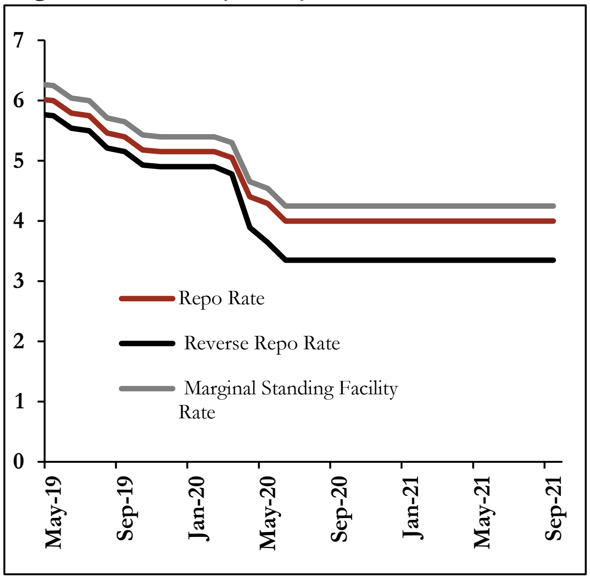


Figure 13: Monetary Policy Rates

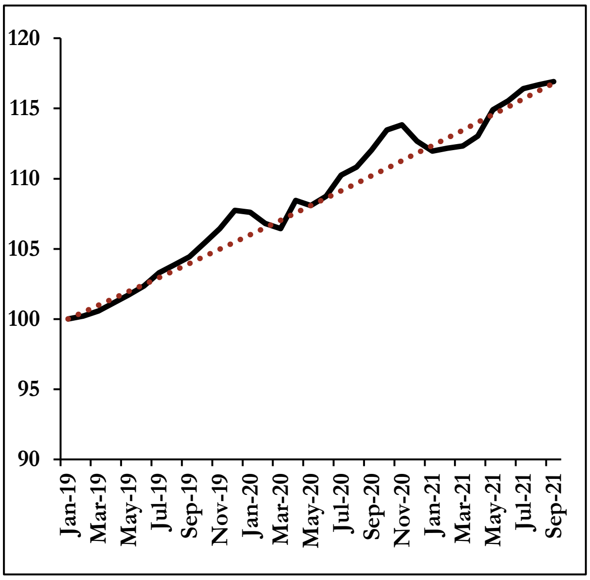


Source: MoSPI, RBI.

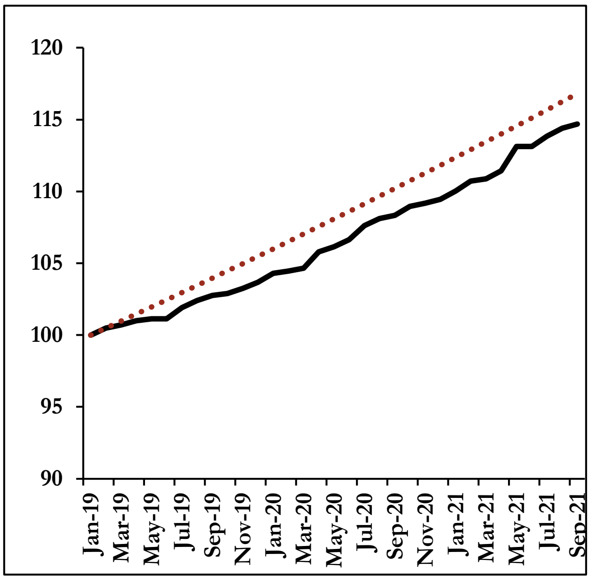
Inflation in India has averaged at 6 per cent in the last 18 months, falling within the inflation target band of 2 to 6 per cent. Core inflation has averaged at less than 6 per cent a year, while food prices have been a tad higher. Average inflation numbers in the last year-and-a-half, coinciding with COVID, have been quite similar to the average inflation attained in the two years prior to COVID, implying no structural break as yet in inflation post-COVID.

Figure 14: Price Indices and Inflation Rates (The dotted Line indicates 6 per cent annual growth)

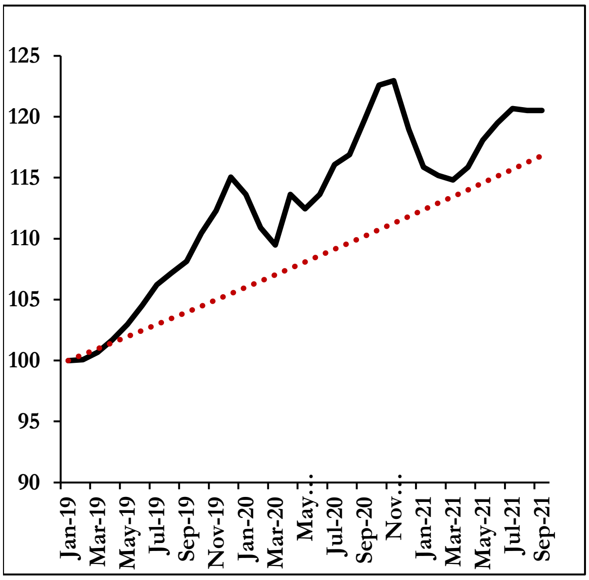
A. Headline Consumer Price Index (CPI)



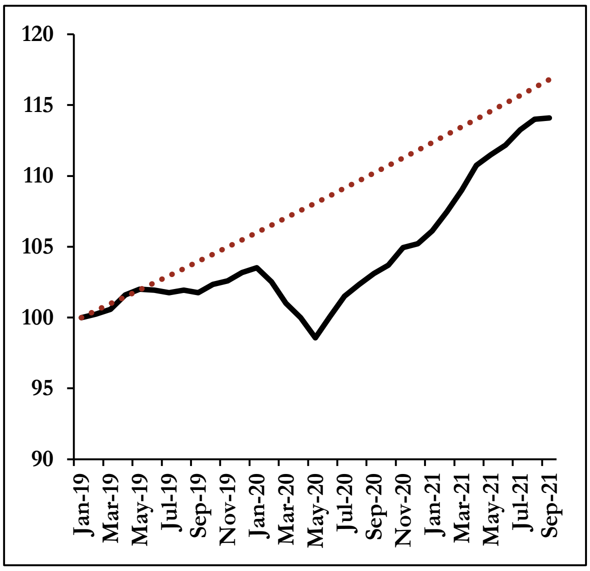
B. CPI Core



C. CPI Food



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.

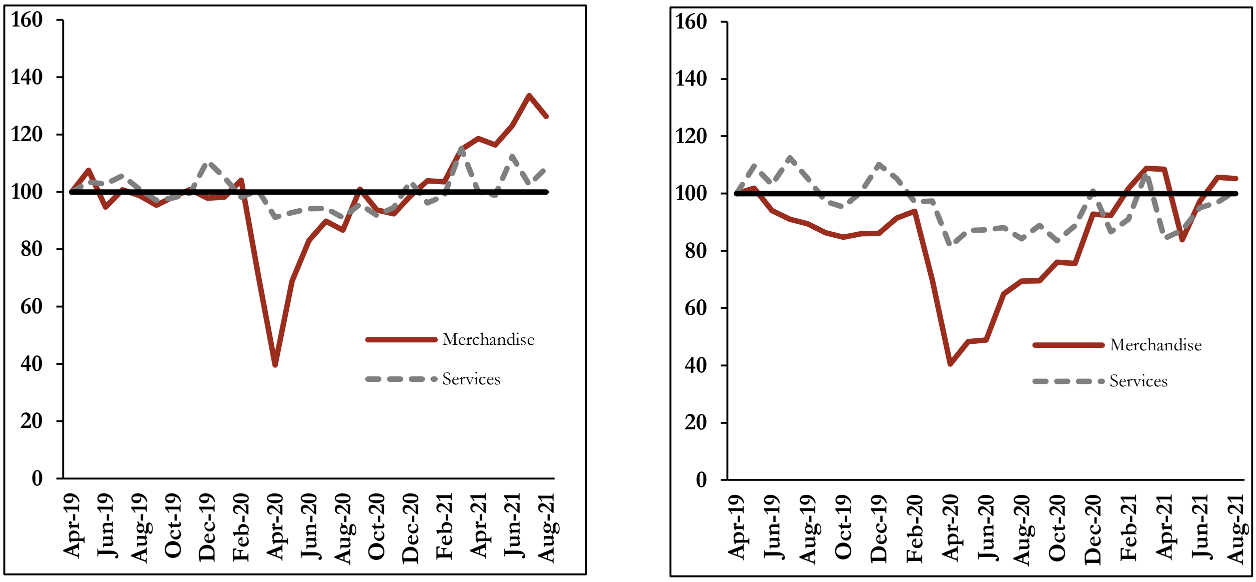
5. The External Sector

Both exports and imports have rebounded in recent months. The decline in merchandise trade was sharp during the pandemic and the recovery has been large as well. In comparison, services exports and imports were relatively stable throughout the pandemic (Figures 15 A and 15 B). India remained a net importer in August 2021, with a merchandise trade deficit at about US$ 13.9 billion, about the same level recorded in August 2019.

Remittances moderated during the early months of the pandemic and have started to recover now (Figure 16). Underpinned by the recovery in exports and invisibles such as remittances, the current account balance turned positive during the first quarter of the current fiscal year (Figure 17).

Figure 15: Exports and Imports of Merchandise and Services

A. Exports **B. Imports**



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

Figure 16: Remittances

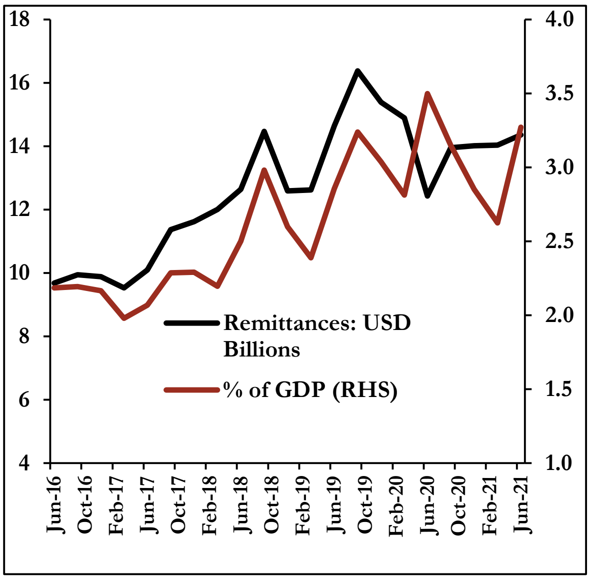
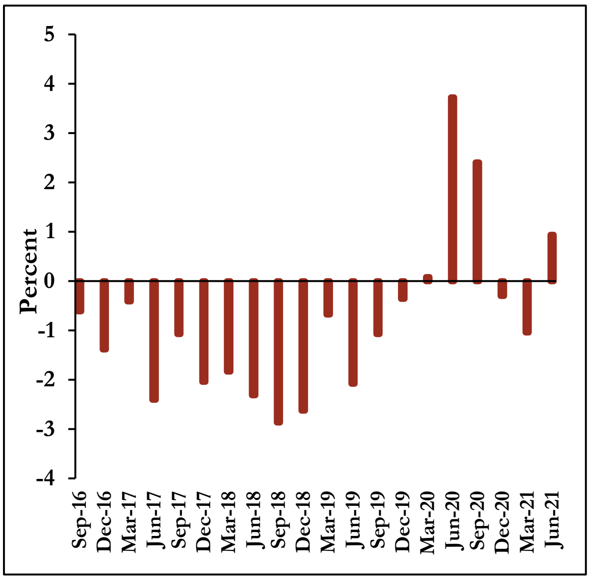


Figure 17: Current Account Balance: Percentage of Nominal GDP



Source: RBI.
Note: Quarterly values for remittances and % of GDP.

Gross Foreign Direct Investment (FDI) stood at USD 22.5 billion in Q1: FY 2021-22 as compared to USD 11.8 billion during Q1: FY 2020-21. There has been a trend increase in FDI inflows in absolute terms over the course of the last five years. The increase has been more modest when computed as a percentage of GDP. Among the portfolio inflows, net equity flows have moderated in recent months, and net debt flows, while continuing to remain small, have not showed any specific trend (Figures 18 and 19).

Figure 18: Gross FDI

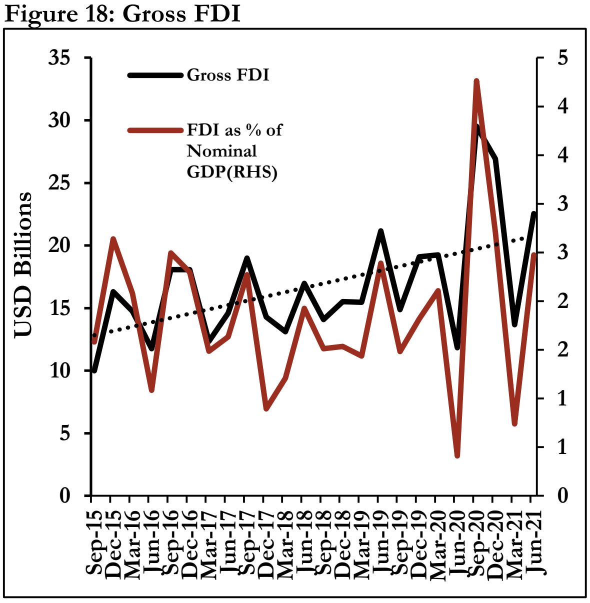
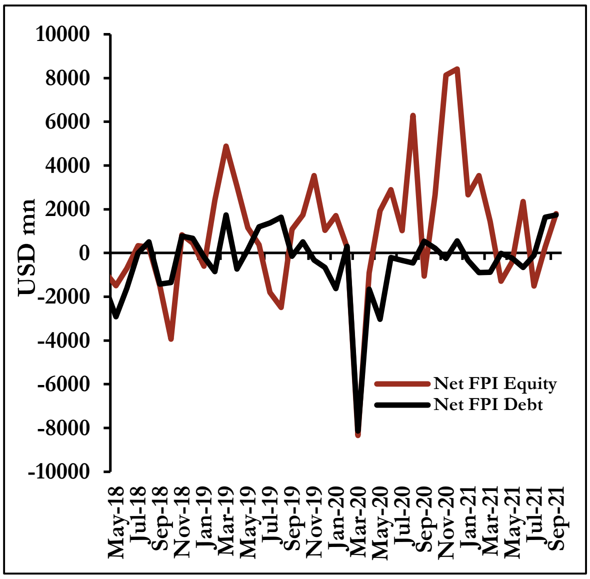


Figure 19: Net Foreign Portfolio Investment Flows



Source: CEIC database.
Note: FDI as a percentage of nominal GDP is presented for quarterly data.

India's foreign exchange reserves touched a record high of USD 640 billion in August 2021, equivalent to more than 18 months of 2020-21 (Figure 20). The Indian Rupee, after appreciating by nearly 4 percent against the USD between May 2020 and May 2021, has reversed its course, ending at 75.3 INR/USD as of 15 October 2021 (Figure 21). While it is hard to discern a specific trend in the real exchange rate, the latter has appreciated modestly in the last two months (Figure 22).

Figure 20: Foreign Exchange Reserves

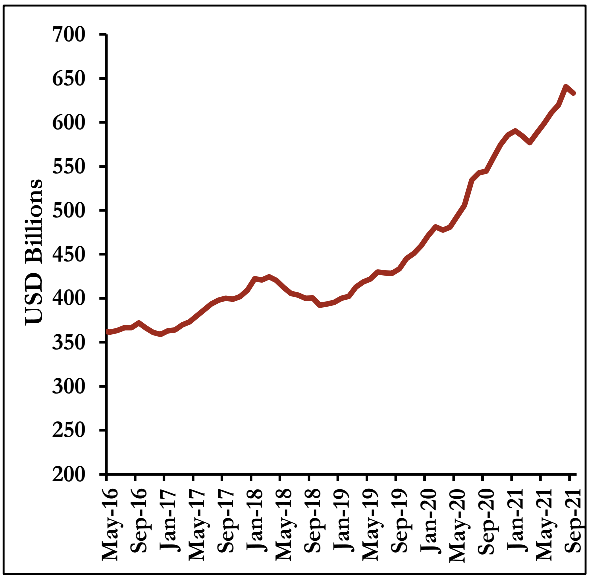
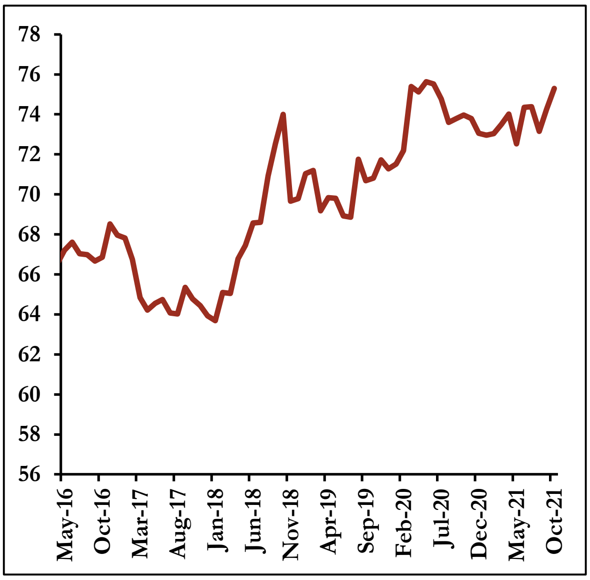
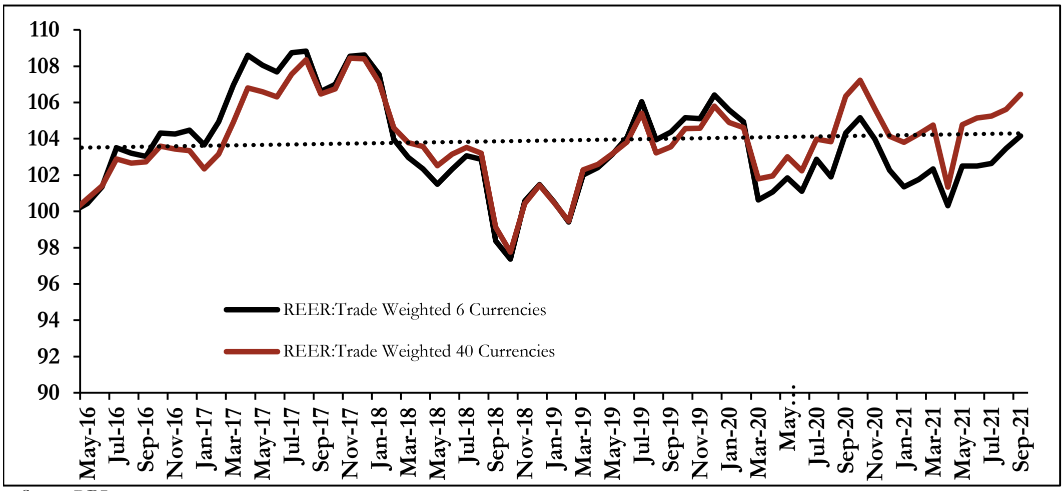


Figure 21: Exchange Rate (INR/USD)



Source: RBI.
Note: In Figure 21, the value for October 2021 is the exchange rate prevailing as on 15 October 2021.

Figure 22: Real Effective Exchange Rate



Source: RBI.
Note: The increase in the Real Effective Exchange Rate (REER) denotes appreciation in the exchange rate.

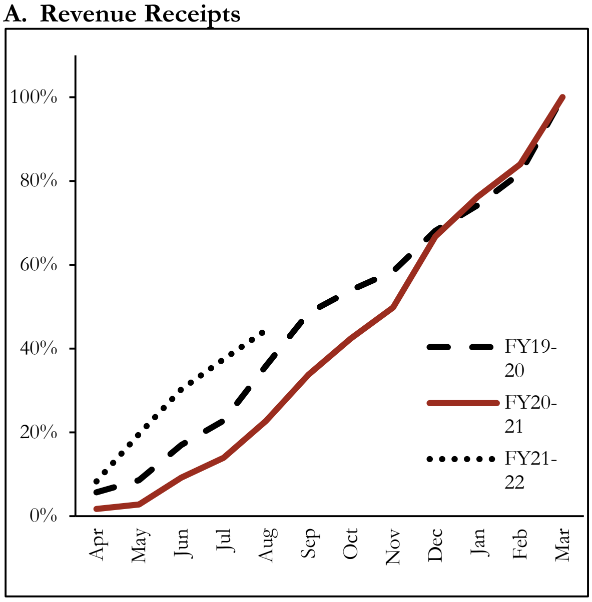
6. Fiscal Developments

Central Government finances improved during April to August 2021 relative to the corresponding period of the previous year. During April-August 2021, the Centre's fiscal deficit stood at ₹4.68 lakh crore, which is about 31 per cent of the Budget Estimate (BE), much lower than that in the previous years, (when it reached 109 per cent of BE during April-August 2020 and 79 per cent of BE during April-August 2019).

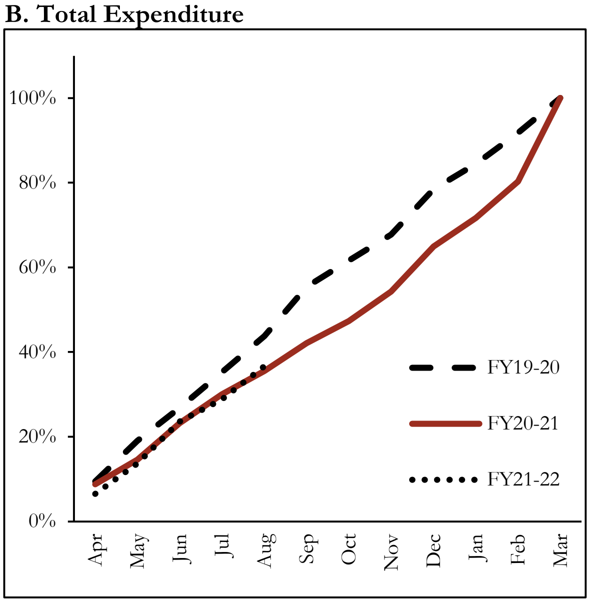
The net tax revenue to the Centre, at ₹6.45 lakh crore, has more than doubled during April-August 2021 relative to the corresponding period of the previous year. The major direct taxes have registered a growth of more than 100 per cent while the major indirect taxes have shown a growth of more than 50 per cent during the first five months of 2021-22. On the expenditure side, the total expenditure registered a restrained increase of 2.3 per cent during the first five months of 2021-22 (and equalled 36.7 per cent of the BE). The revenue expenditure during this period saw a decline of 0.7 per cent, while capital expenditure increased by nearly 28 per cent during April-August 2021.[5]

Figure 23: Fiscal Outcomes

A. Revenue Receipts

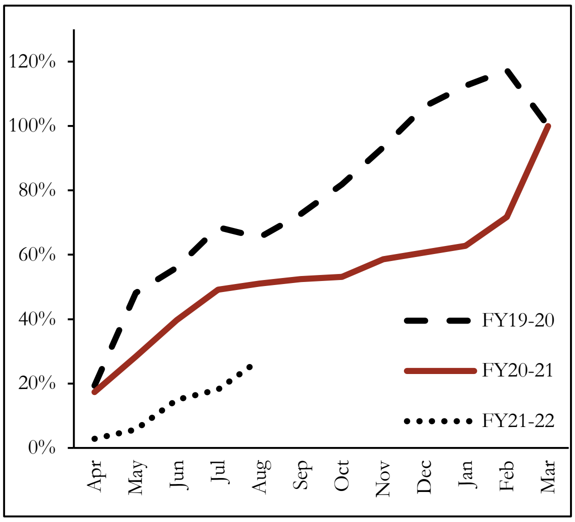


B. Total Expenditure

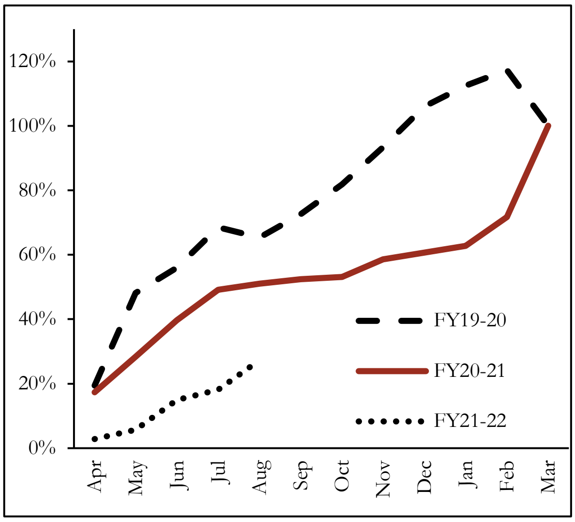


[5] *Source*: Controller General of Accounts and authors' calculations.

C. Revenue Deficit



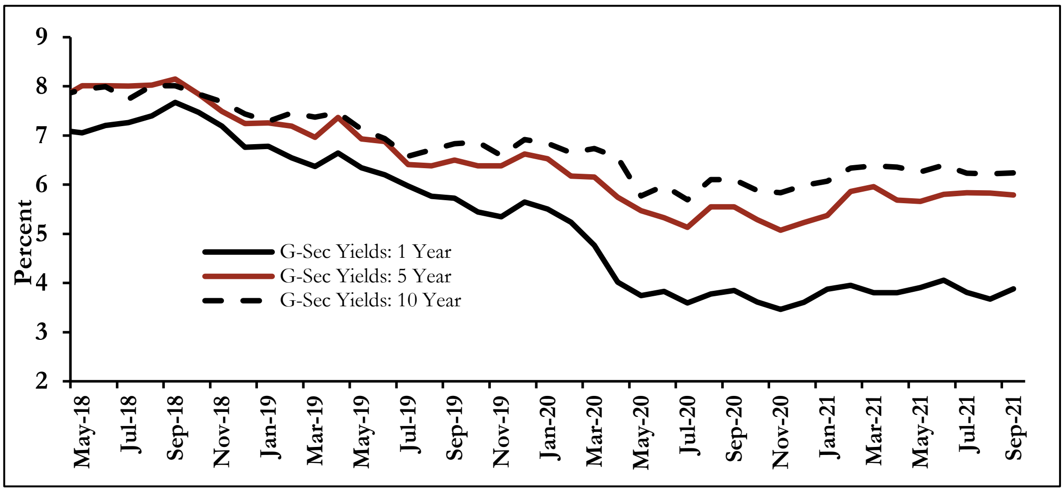
D. Fiscal Deficit



Sources: NSA, Union Budget, Haver Analytics, Authors' calculations.
Note: FY 2021-22 values have been calculated using Budget estimates as the basis. All other years use actual year-end values as the basis.

Government bond yields have declined by 150-300 basis points across tenors over the past three years, including a sharp decline during the early months of COVID. The yields for 10-year, 5-year and 1-year bonds have stabilized in recent months at 6.2, 5.8 and 3.9 percent respectively (Figure 24).

Figure 24: G-Sec Yields

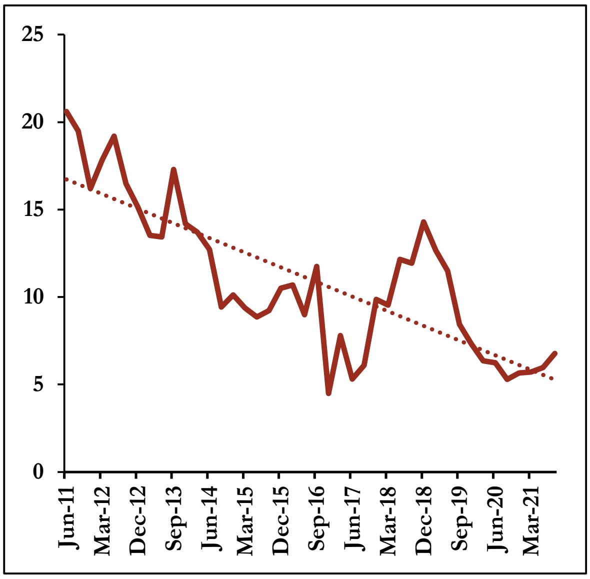


Source: RBI.

7. Macro Financial Developments

Bank credit and deposit growth have declined over the last decade and have not shown much improvement as yet (Figure 25 and 26). The decline in credit growth has been sharper, resulting in a decline in the credit-deposit ratio. Credit growth has been dampened across sectors, with industry experiencing the slowed growth (Figure 28). Household credit growth, including growth in personal loans has been muted. The decline in credit growth has been faster for public sector banks and its non performing loan ratio has been higher (Figure 31 and 32).

Figure 25: Bank Credit to Commercial Sector



Source: RBI.

Figure 26: Deposits Growth

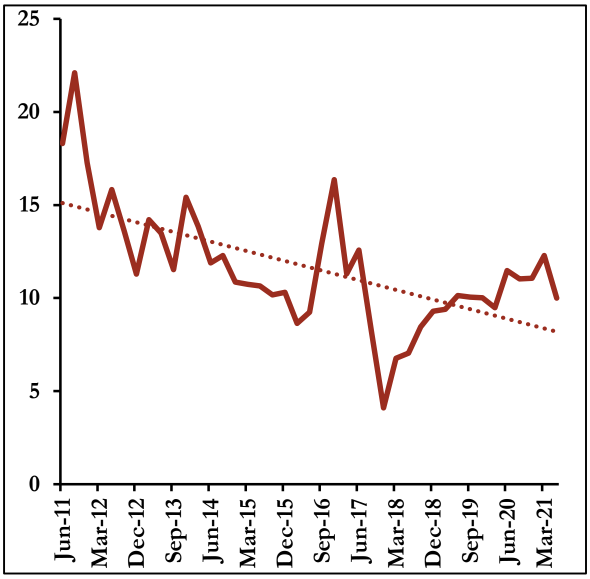
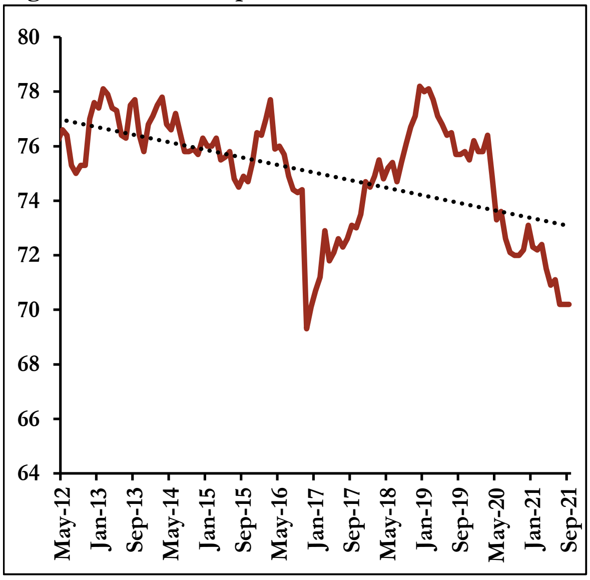
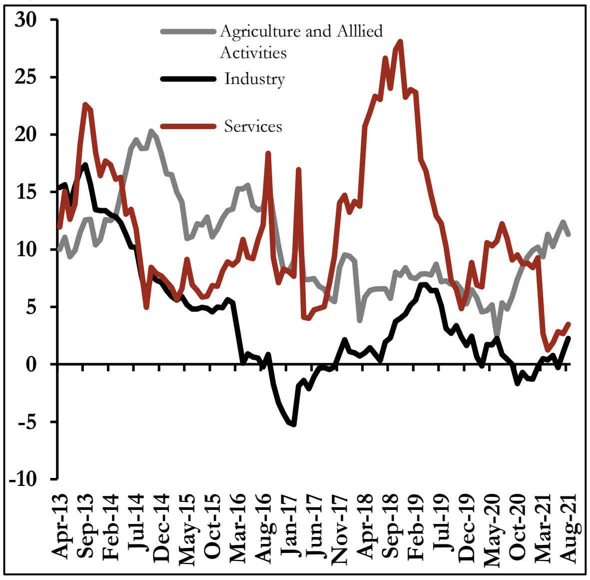


Figure 27: Credit-Deposit Ratio



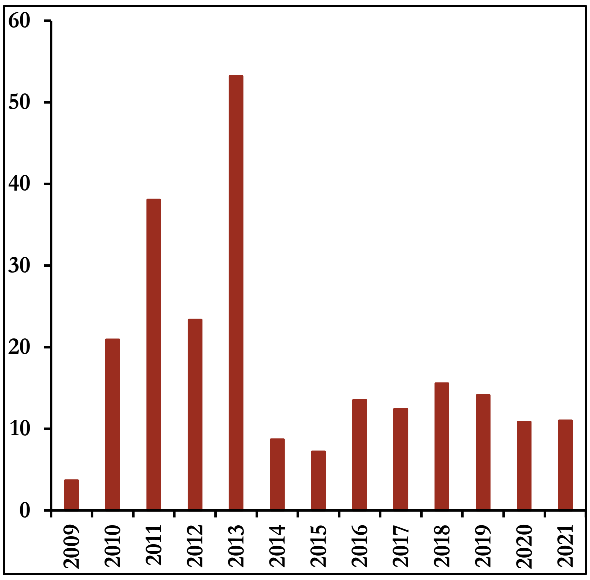
Source: RBI.

Figure 28: Credit Growth across Sectors



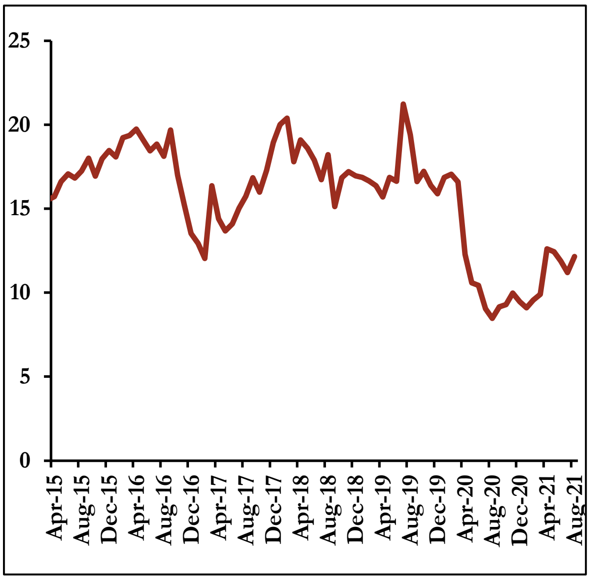
Source: RBI.

Figure 29: Household Credit Growth



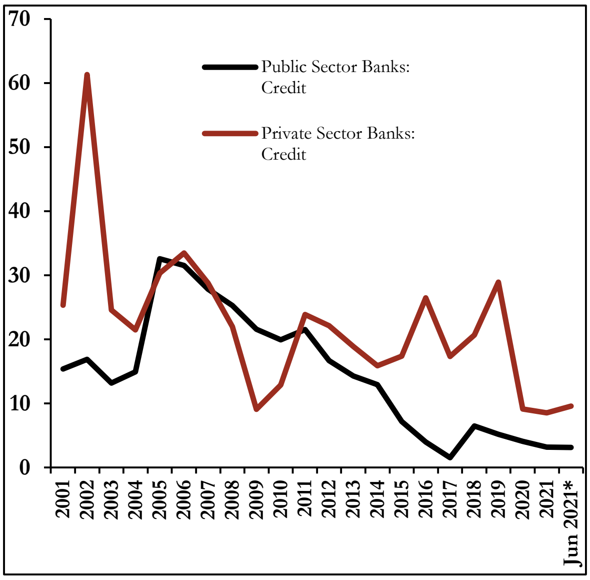
Source: RBI.

Figure 30: Personal Loans Growth



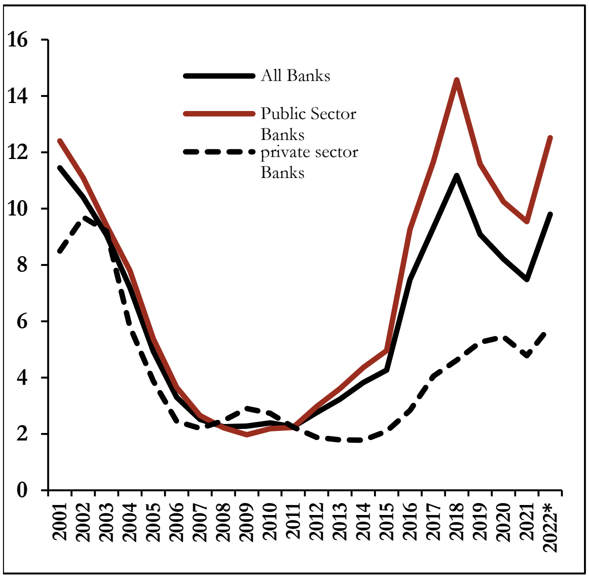
Source: RBI.

Figure 31: Public Sector and Private Sector Banks Credit



Source: RBI.
Note: Last point denote year over year growth for Q1 FY 2021-22.

Figure 32: Non-Performing Loans Ratio



Source: RBI and Financial Stability Report, July 2021.

The BSE Sensex and Nifty 50 scaled new record highs in September to close the month at 59126.4 (12.4 per cent higher) and 17618.2 (11.8 per cent higher), respectively, over the July-end levels. Increased retail participation, and growth in profitability of listed companies along with global fund inflows have possibly contributed to this surge in the Indian stock markets (Figure 33 A), resulting in an increase in the price-earnings ratio.

Figure 33A: BSE Sensex and NSE Nifty

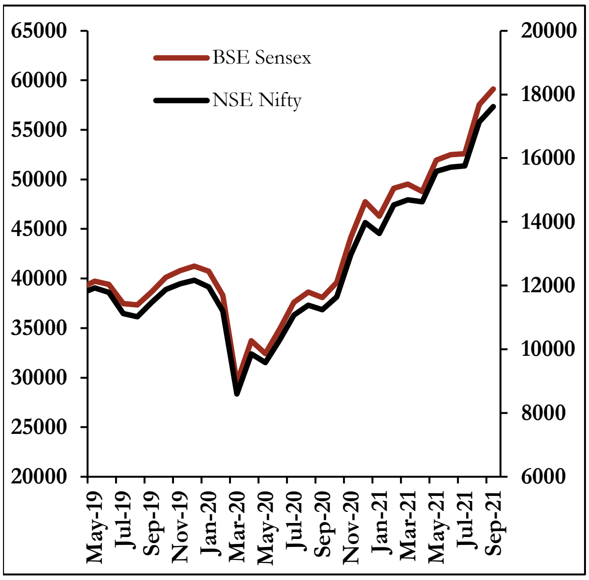
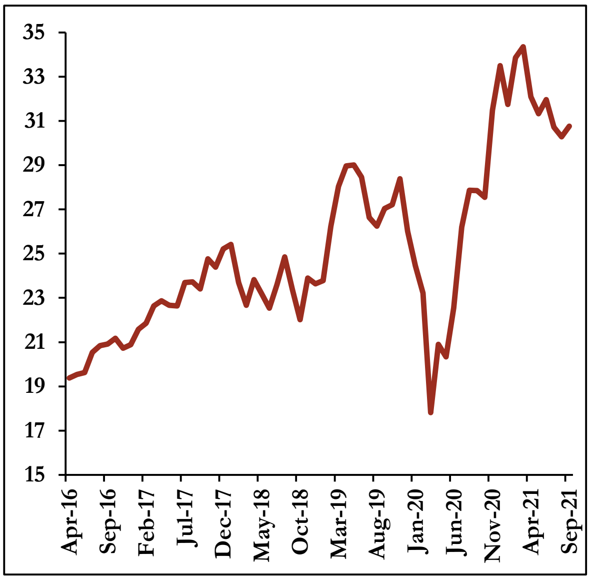


Figure 33B: P-E Ratio: S&P BSE Sensex



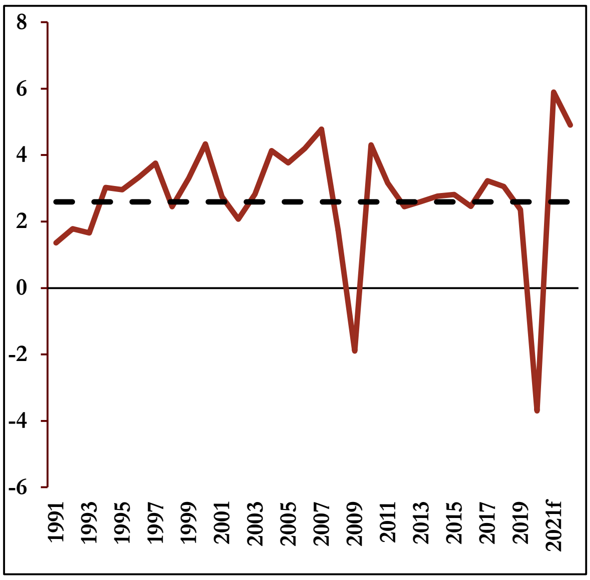
Source: RBI, data of CEIC (database).

8. Global Overview

Global economic recovery in the aftermath of COVID-19 is underway. The IMF has projected growth in 2021 to be 5.9 per cent, signifying a 0.1 per cent downgrade from the July 2021 forecast, due to supply disruptions in advanced economies and the after-effects of the resurgence in the pandemic in many countries. Growth in 2022 is projected to be a percentage point lower, at 4.9 per cent (Figure 34 A).

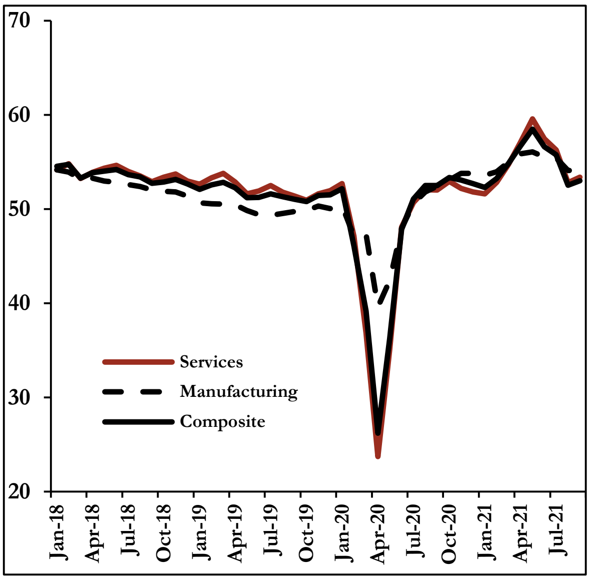
On an average, global growth since 1991 has been close to 2.6 per cent, dipping to -3.7 per cent in 2020 due to the pandemic. Recovery from the pandemic is evident across perception-based indicators as well, such as the Purchasing Managers' Index (PMI), which since July 2021, has been consistently higher than the pre-pandemic levels (Figure 34 B). World trade volumes, after dipping during the pandemic, have also started increasing to move above the pre-pandemic levels (Figure 34 C).

Figure 34 A: Global Growth



Source: Haver Analytics, WEO (2021f).
Note: Growth has been calculated using World GDP at the constant 2010 price and the exchange rate. The dotted line presents the average global growth rate from 1991 to 2020.

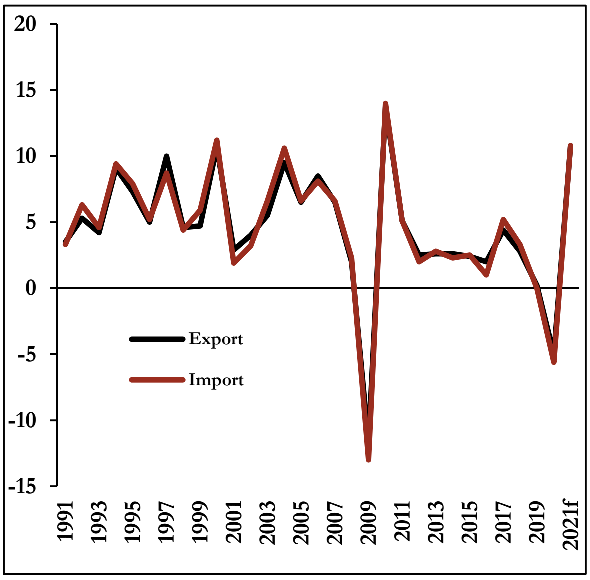
Figure 34 B: Global PMI



Source: Haver Analytics, JP Morgan/IHS Markit.
Note: Global PMI for Services Business Activity, Global Manufacturing PMI using Markit Mfg for US, Global PMI services composite output. Seasonally adjusted, 50+=Expansion

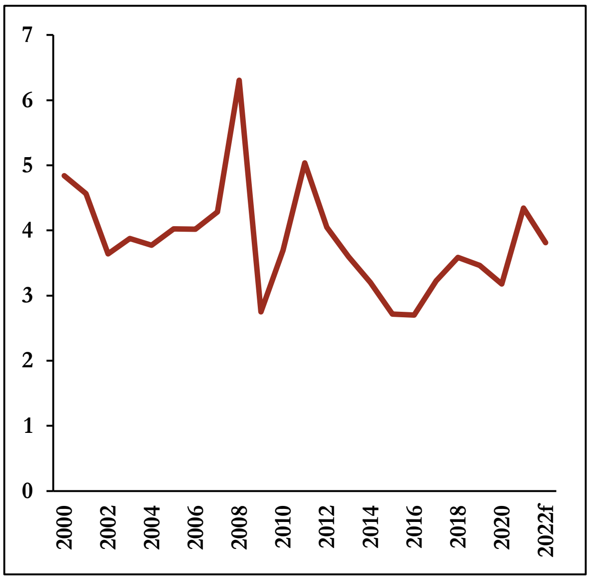
Global inflation declined by 0.3 percentage points between 2019 and 2020, due to a collapse in global demand and declining oil prices during the pandemic. The World Economic Outlook (WEO) projects inflation to rise to 4.3 in 2021, before moderating to 3.8 per cent in 2022 (Figure 34 D). Oil prices have been on the rise, touching 74.6 $/bbl in September 2021 and continuing its rise during October to 86$ as of October 26. The global energy index also follows a similar trajectory, with its value in September 2021, 106.03, being an all-time high since January 2018 (Figure 34 E).

Figure 34 C: Merchandise Trade Volume



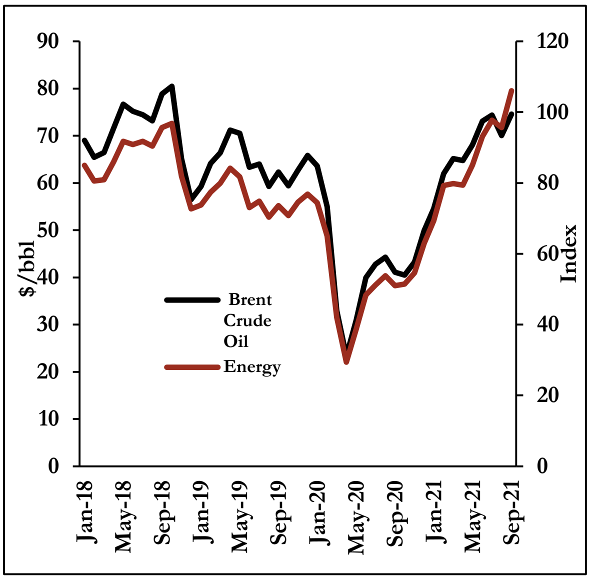
Source: World Trade Organization.
Note: % change over the previous year.

Figure 34 D: Global Inflation, Average Consumer Prices



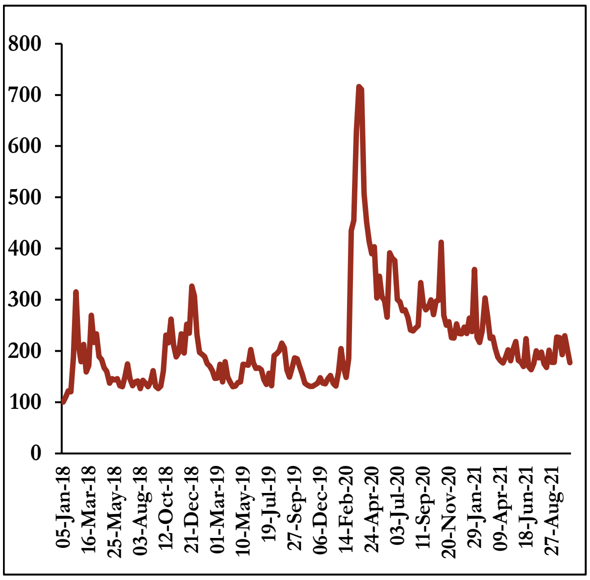
Source: World Economic Outlook.

Figure 34 E: Brent Crude Oil and Energy Index



Source: World Bank commodity prices.

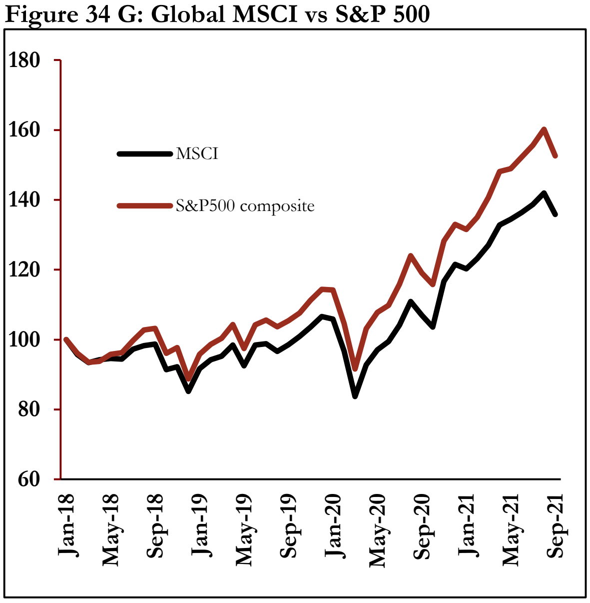
Figure 34 F: VIX Index



Source: Wall Street Journal.
Note: End of period, indexed at 5 January 2018=100.

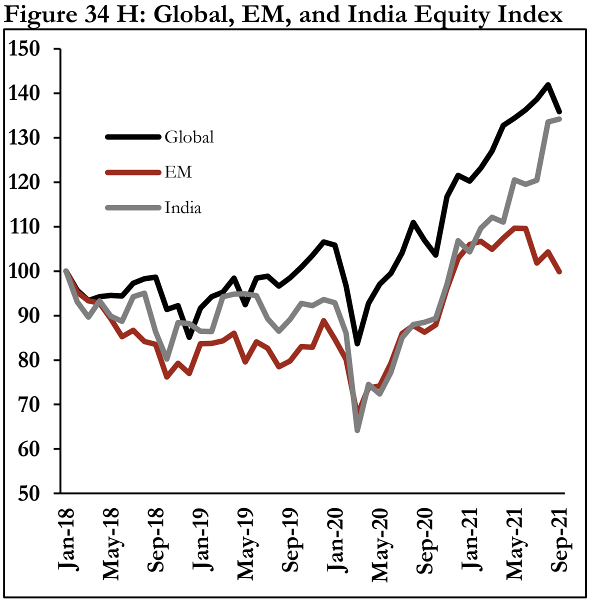
Global equity markets have been rising rapidly, with the MSCI Index at its highest since January 2018. Driven by reforms and high vaccination rates, Indian stock markets have been surging, outpacing emerging markets in the last few months. The Indian MSCI Index has been inching closer to the global index in September 2021 (Figures 34 G and 34 H). The VIX Index, after spiking in March 2020, has been declining and remains low, indicating low volatility in financial markets (Figure 34 F).

Figure 34 G: Global MSCI vs S&P 500



Source: Haver Analytics, *Wall Street Journal*, MSCI.
Note: Both are end of period, indexed at January 2018=100. MSCI is in USD.

Figure 34 H: Global, EM, and India Equity Index

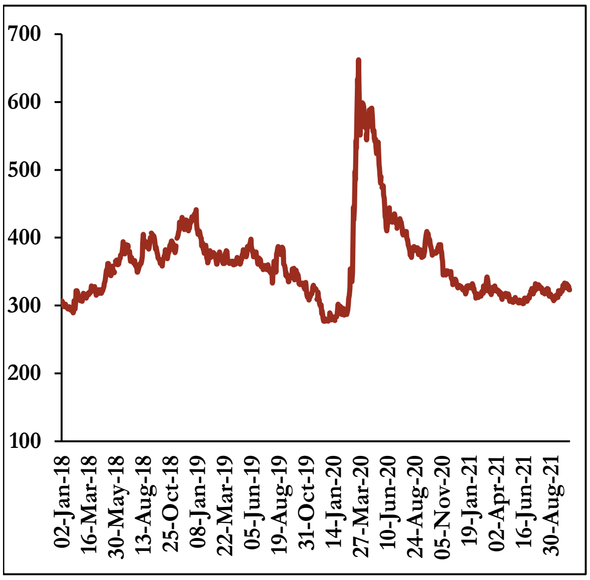


Source: Haver Analytics, MSCI.
Note: In USD, indexed at January 2018=100, end of period.

Figure 34 I: US 10-year T-bill Yield

Source: US Treasury.
Note: End of period.

Figure 34 J: EMBIG Sovereign Spread



Source: JP Morgan/Haver Analytics.
Note: Average basis points.

The 10-year US Treasury yields, after declining since late 2018, have been rising in the past few months, increasing by nearly 80 basis points in the last 12 months, settling at more than 1.6 per cent in end-October (Figure 34 I). EMBIG Sovereign spreads remain flat after peaking during the pandemic (Figure 34 J).

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