

Economic Division

Monthly Economic Review

May 2022



सत्यमेव जयते

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DEPARTMENT OF
ECONOMIC AFFAIRS

Abstract

The provisional estimate of GDP released on 31st May 2022 has now established that the Indian economy in 2021-22 has fully recovered the pre-pandemic real GDP level of 2019-20. The real GDP growth in 2021-22 stands at 8.7 per cent, 1.5 per cent higher than the real GDP of 2019-20. With real GDP growth in Q4 over Q3 also higher than in Q3 over Q2, a strengthening of growth momentum is evident in the fourth quarter of 2021-22. A stronger growth momentum is also accompanied by an increase in capacity utilization in the manufacturing sector from Q3 to Q4 reflecting a build-up of demand in the economy. Consistent with the demand build up, the investment rate in Q4 has risen to the highest in the last 9 quarters.

The growth momentum of Q4 of 2021-22 has carried into the Q1 of 2022-23 as seen in several high frequency economic indicators for India. The composite PMI for India has risen to its highest level in the last 18 months. In contrast, the growth of world output appears to be stalling with composite PMI of the US, the UK and the Eurozone declining appreciably from April to May. This is consistent with agencies worldwide projecting a slowing of global economic growth from their earlier estimates. India's growth forecast for 2022-23 has also been revised downwards although it continues to be the highest among major countries.

As forecasts of real GDP growth across economies drop at regular intervals during the course of the year, it will be the outcome of elevated inflation and the tightening of monetary and fiscal policies undertaken to rein-in inflation. The tightening of these stabilization policies can however address inflation only from the demand side, insofar as they are able to smother pent up demand and roll-back stimuli announced as part of the COVID-19 relief package. From the supply side, trade disruptions, export bans and the resulting surge in global commodity prices will continue to stoke inflation as long as Russia-Ukraine conflict persists and global supply chains remain un-repaired. The World is looking at a distinct possibility of widespread stagflation. India, however, is at low risk of stagflation, owing to its prudent stabilization policies.

RBI's monetary policy is now fully dedicated to reining in inflation pressures in the economy. It is raising repo rates and withdrawing excess liquidity from the banking system after inflation has remained persistently above 6 per cent for four consecutive months. Around the same time, government also shared the heavy lifting for inflation control by effecting duty cuts and targeting subsidies to protect the needy against the price rise. The impact of these measures and subsequent ones, if any, on growth and inflation will manifest in the data in the coming months. However, the momentum of economic activities sustained in the first two months of the current financial year augurs well for India continuing to be the quickest growing economy among major countries in 2022-23.

The capex budget for 2022-23 is expected to underpin growth. However, as government revenues take a hit following cuts in excise duties on diesel and petrol, an upside risk to the budgeted level of gross fiscal deficit has emerged. Increase in the fiscal deficit may cause the current account deficit to widen, compounding the effect of costlier imports, and weaken the value of the rupee thereby further aggravating external imbalances, creating the risk (admittedly low, at this time) of a cycle of wider deficits and a weaker currency. Rationalizing non-capex expenditure has thus become critical, not only for protecting growth supportive capex but also for avoiding fiscal slippages. Depreciation risk to INR however still remains as long as net Foreign Portfolio Investor (FPI) outflows continue in response to

increase in policy rates and quantitative tightening in advanced economies as they wage a prolonged battle to calm inflation.

It is observed that inflation in advanced economies (AEs) has been surging for over a year whereas in emerging market economies (EMEs) the surge has been a recent phenomenon. The effects of prolonged and extraordinarily accommodative fiscal and monetary policies in the developed world consequent to the outbreak of the pandemic have been a surge in asset price inflation and then in the cost of goods and services both for producers and consumers. Understandably, monetary tightening in AEs is expected to be deeper than in EMEs. In EMEs, for reasons of limited fiscal space and worries that inflation will hit the poor, stabilization policies have throughout been calibrated. The recent surge in inflation in EMEs is therefore mainly attributable to the supply-side shock arising from the Russian-Ukraine conflict. In AEs, liberal stabilization policies therein have impacted the prices of the entire consumption basket. Whereas, in EMEs, imported inflation is in respect of only a few commodities on which these economies are net import dependent. However, with time, imported inflation in EMEs may also spread to other commodities through interlinkages in the consumption basket making retail inflation therein more broad-based.

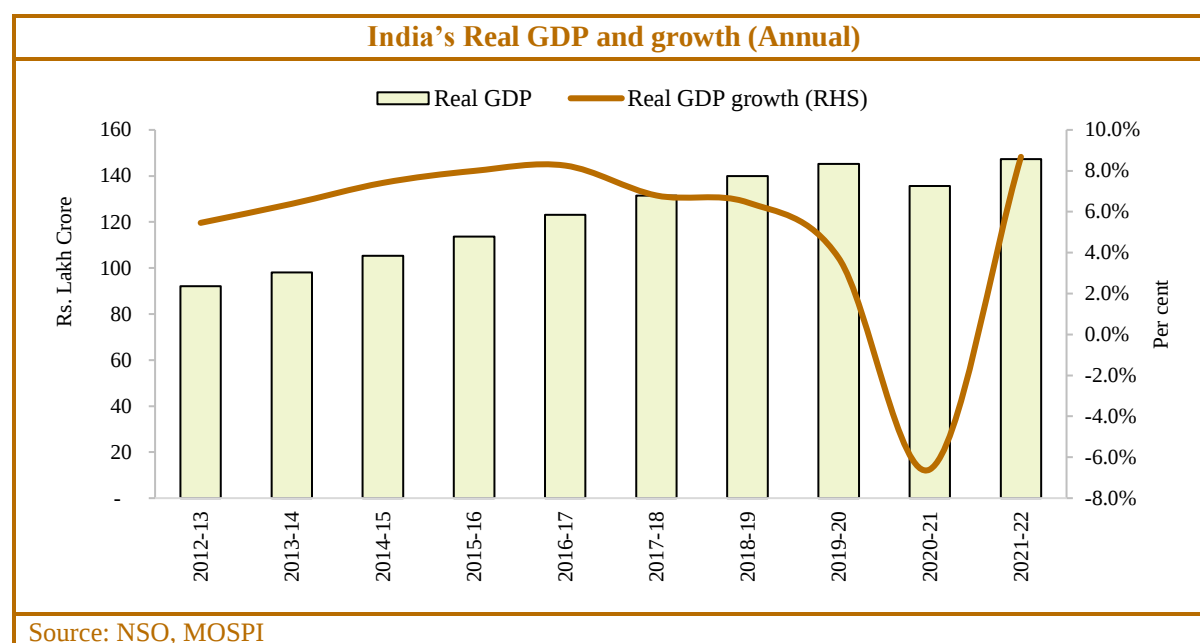
The imported components of high retail inflation in India have mainly been elevated global prices of crude and edible oil. Locally, the onset of the summer heat wave has also contributed to the rise in food prices. However, going forward, international crude prices may be tempered as global growth weakens and the Organisation of Petroleum Exporting Countries (OPEC) increases supply. But, the timing of this remains uncertain and there are also upside risks to oil prices as OPEC supply will not be enough to match the shortfall caused by potential withdrawal of Russian crude from the market. International edible oil prices may also decline with Indonesia withdrawing the export ban on crude palm oil exports and further committing to lowering export taxes for encouraging shipments. Finally, as summer heat wave gradually gives in to expected timely arrival of southwest monsoons sending newer crops to the Mandi, food prices and consequently headline retail inflation are expected to decline. Early evidence of that was seen in May with retail inflation easing from 7.79 per cent in April to 7.04 per cent in May and food inflation dropping from 8.31 per cent to 7.97 per cent.

India faces near-term challenges in managing its fiscal deficit, sustaining economic growth, reining in inflation and containing the current account deficit while maintaining a fair value of the Indian currency. Many countries around the world, including and especially developed countries, face similar challenges. India is relatively better placed to weather these challenges because of its financial sector stability and its vaccination success in enabling the economy to open up. Further, its medium-term growth prospects remain bright as pent-up capacity expansion in the private sector is expected to drive capital formation and employment generation in the rest of this decade. Near-term challenges need to be managed carefully without sacrificing the hard-earned macroeconomic stability.

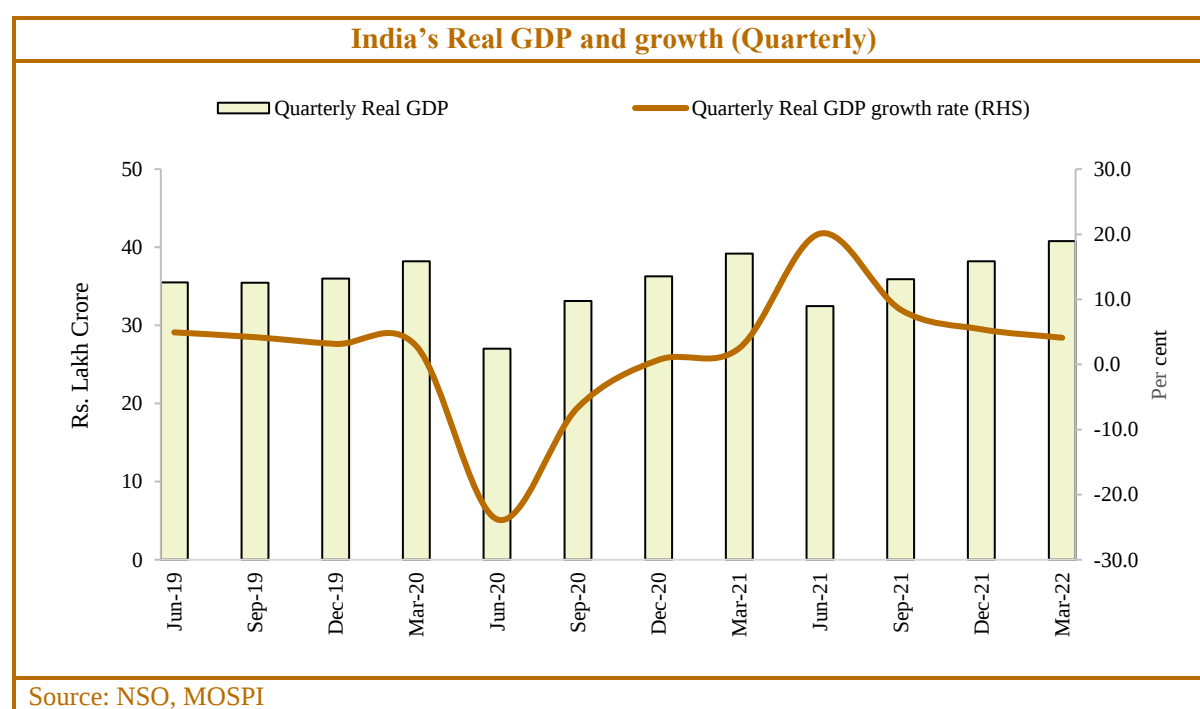
Real GDP growth in 2021-22 fully recovers the pre-pandemic real GDP levels of 2019-20

1. As predicted in the first and second estimates released earlier this calendar year, provisional estimates have now established that the Indian economy in 2021-22 has indeed fully recovered the pre-pandemic real GDP level of 2019-20. The real GDP growth in 2021-22 stands at 8.7 per cent, 1.5 per cent higher than the real GDP of 2019-20. India's GDP in nominal terms is now Rs.236.65 lakh crore

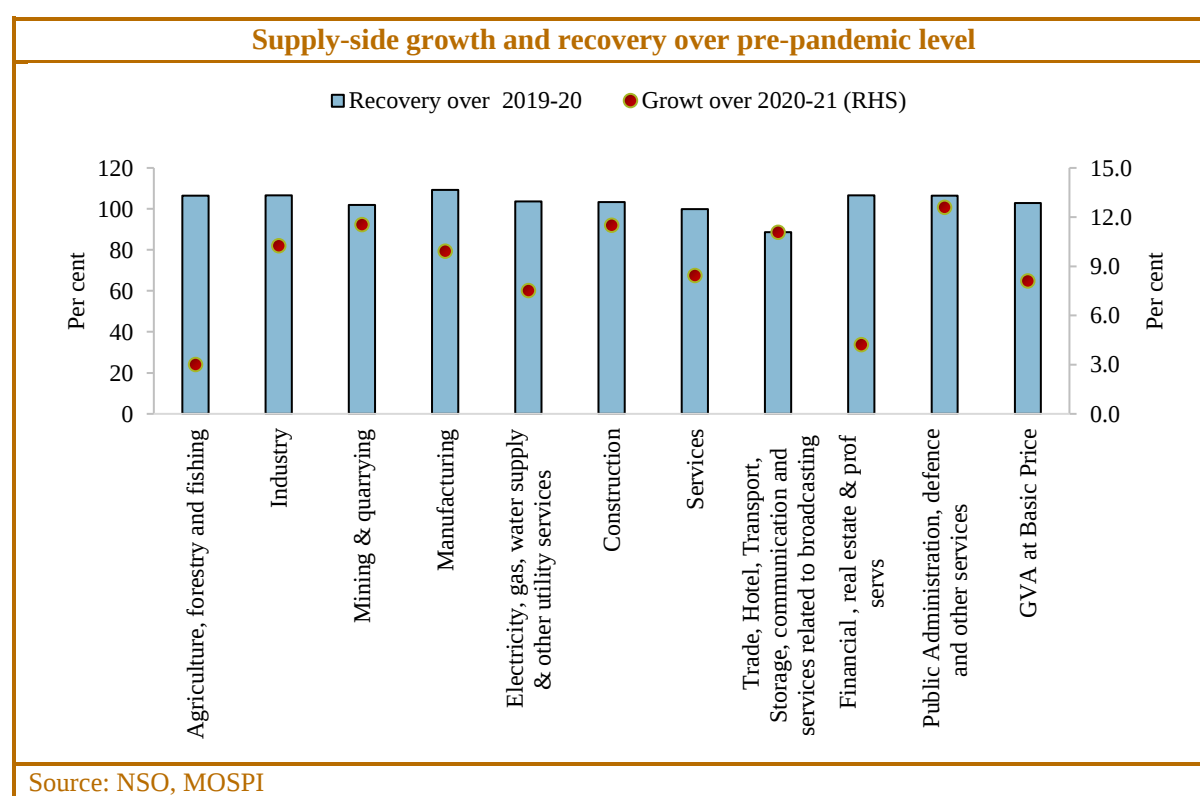
or US\$ 3.2 Trillion in 2021-22 as compared to the pre-pandemic nominal GDP of US\$ 2.8 Trillion in 2019-20.



2. The recovery in 2021-22 could have been sharper but for the real GDP year-on-year growth for Q4 at 4.1 per cent, declining from earlier estimates under the impact of Omicron and emergence of geo-Political tensions. The decline is sharper when seen in relation to Q3 growth of 5.4 per cent. Yet, the growth momentum has not weakened as sequential real GDP growth in Q4 over Q3 stood at 6.7 per cent, higher than that of Q3 over Q2 at 6.5 per cent, reflecting the robustness and resilience of Indian economy.



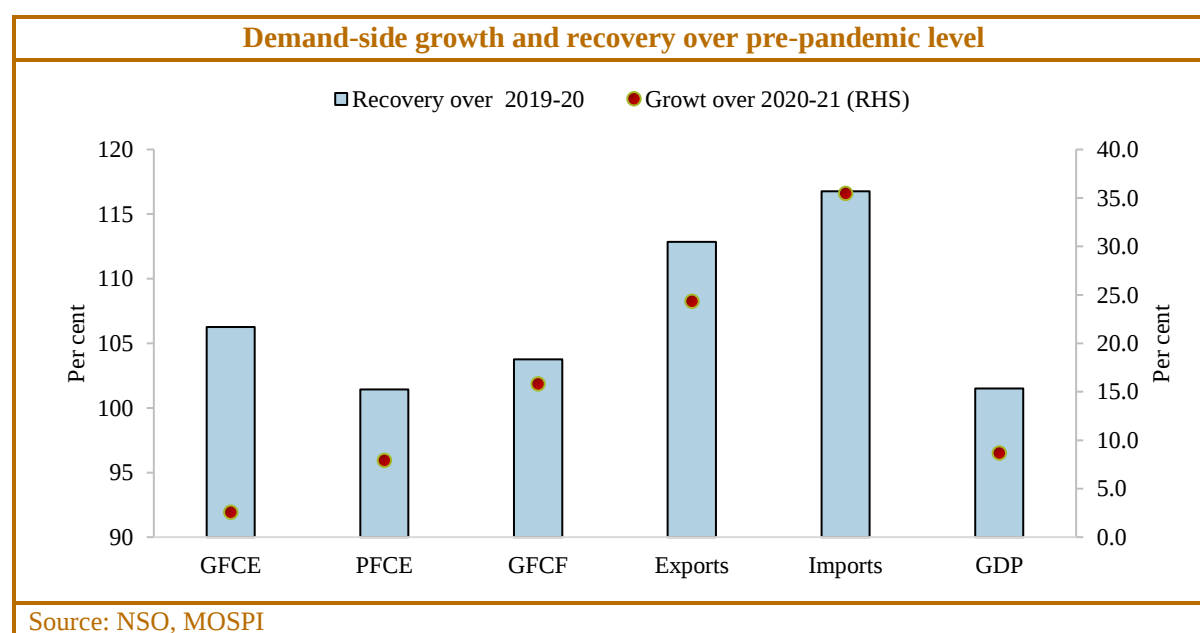
3. On the supply side, agriculture, which had not contracted during the pandemic, posted a robust positive growth of over 3 per cent in FY 2021-22. In FY 2022-23 as well, growth is evident with food grain production in the ongoing Rabi season estimated to grow at 1.2 per cent over the previous year. With wholesale prices of Rabi crops like wheat, jowar, maize and rapeseed also ruling well above their previous year levels, earnings of farmers are likely to be higher in FY 2022-23. Earnings will also get augmented under Kharif crops on the back of normal monsoons projected for FY 2022-23. Agricultural exports now provide a strong channel for increasing the earnings of farmers as they touched a record high of USD 50 billion in FY 2021-22, posting a growth of almost 20 percent over the previous year. However, unbridled agriculture exports may create domestic shortages as has been the case with wheat whose ongoing procurement has significantly dropped in the current Rabi season following aggressive buying by private players for exports. The projection of a normal monsoon and prospects of earning higher income will likely increase area under Kharif 2022-23 crops as well. Rural demand is expected to revive in the coming months on the back of higher agricultural output, elevated price expectations of a better monsoon and the government's supportive policy for rural India.



4. Industry, in general, has also recovered in 2021-22, led by manufacturing. PMI Manufacturing has been in the expansionary zone since July 2021. RBI's OBICUS Survey indicates capacity utilization in manufacturing recovering to 74.5 per cent in quarter ending March 2022 quarter from 72.4 per cent in the quarter ending December 2021. The Industrial Outlook survey of the RBI further indicates that 59 per cent of the respondents see an increase in capacity utilization for quarter ending June 2022. Manufacturing appears to have responded to the PLI scheme recovering 109 per cent of its pre-pandemic GVA level. Growth momentum is on the side of manufacturing whose real GVA is higher than in the three preceding quarters.

5. A less than 100 per cent recovery in contact-based services including trade, hotels, and transport, is work-in-progress. However, even in these sectors, the growth momentum is high as these have grown by 17 per cent in Q4 over Q3 as compared to 11 per cent in Q3 over Q2. The momentum in most likelihood has carried into 2022-23 with PMI services rising to 57.9 in April and further to 58.9 in May 2022. It is a eleven-year high.

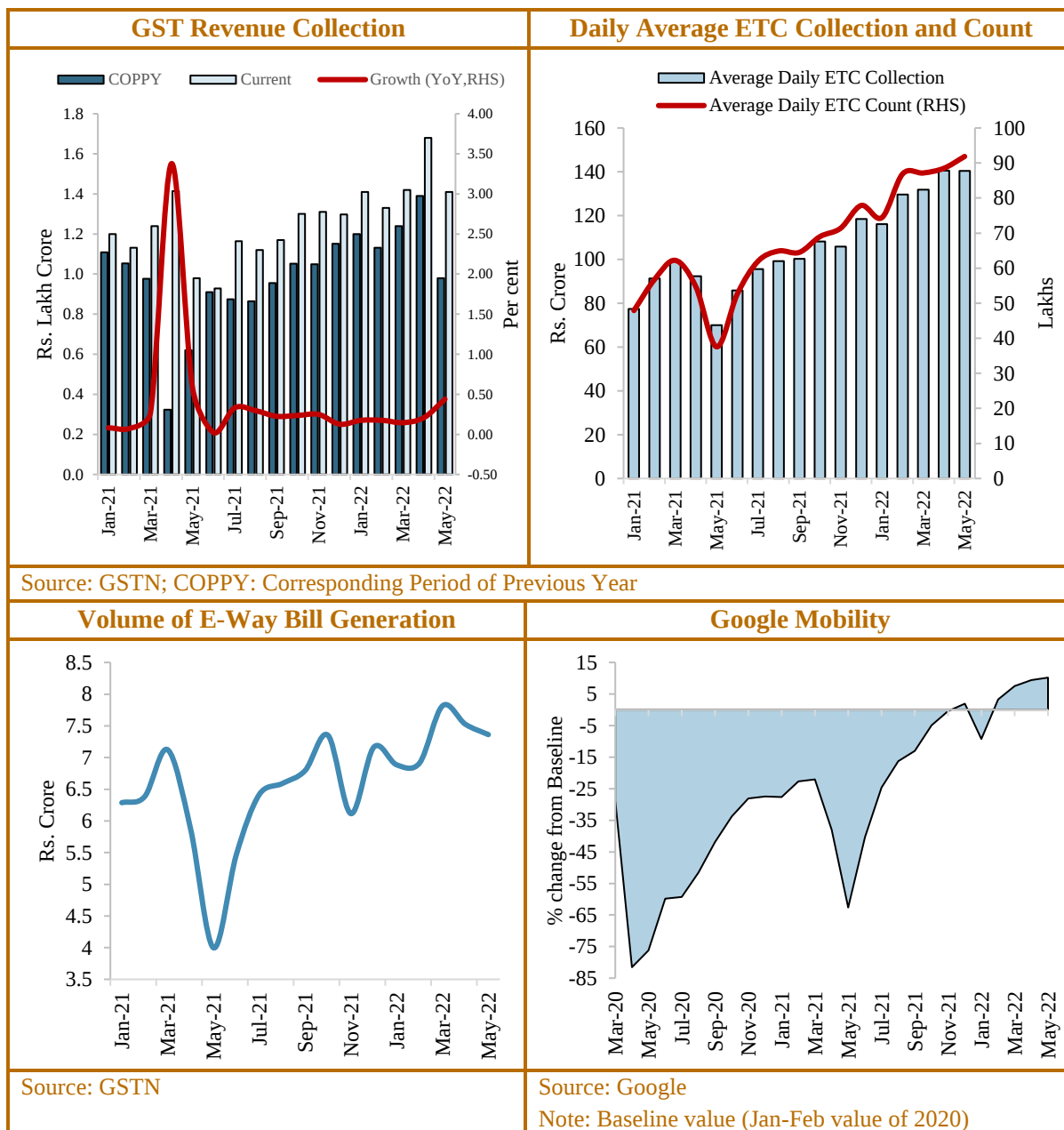
6. On the demand side, exports have led India's economic recovery achieving, in 2021-22, 113 per cent of its pre-pandemic level. Besides India's own initiative, the surge in global spending following improved management of the pandemic the world over contributed to India's impressive performance in exports. Spending also rose in India as imports grew to 117 per cent of its pre-pandemic level.



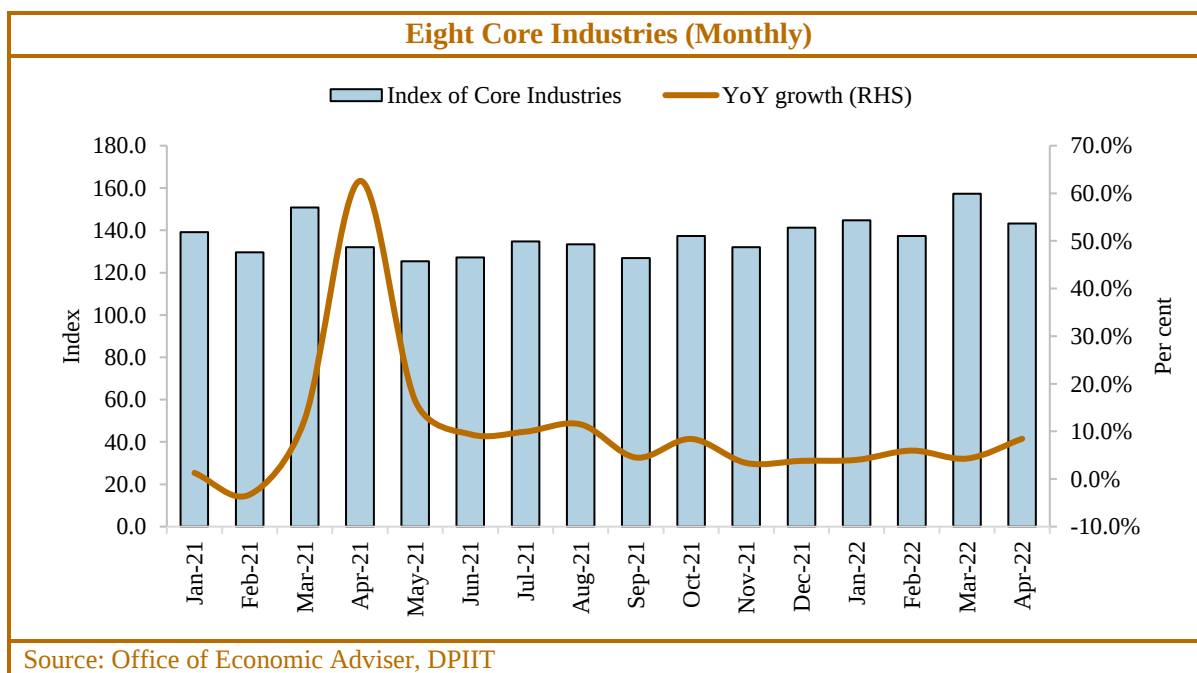
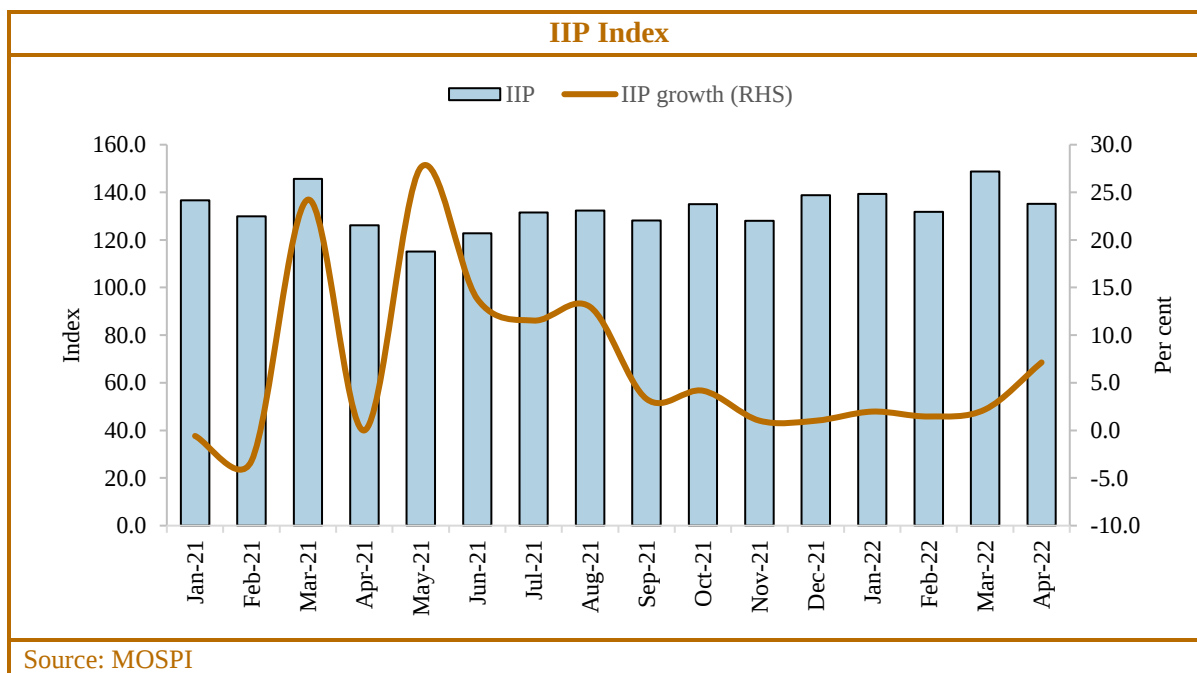
7. Growth momentum is particularly high for investment as the investment rate (Gross Fixed Capital Formation/GDP) in Q4 is estimated at 33.6 per cent, the highest in last 9 quarters. Private consumption, however is yet to pick up momentum but may do so soon enough if surge in PMI-Services for April and May is any indication of contact-based services further opening up to absorb pent-up demand.

Growth momentum built up in Q4 of 2021-22 carries into the first two months of 2022-23

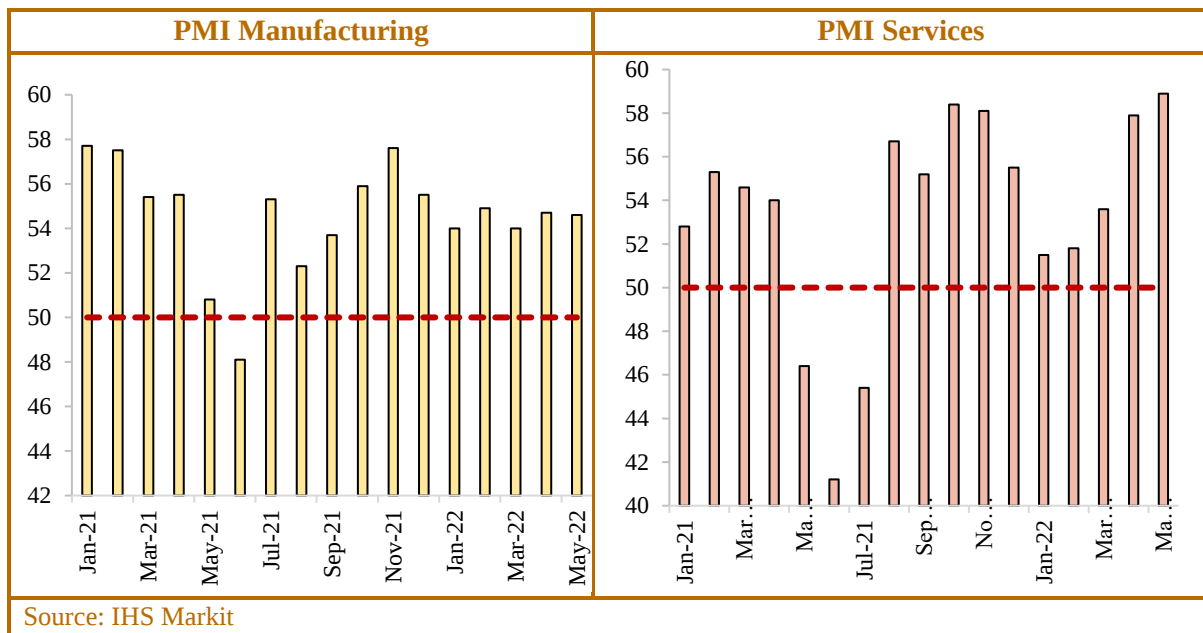
8. Going forward, high frequency indicators (HFIs) for April/May signal a pick-up in economic activity in 2022-23 sustaining the momentum gathered in Q4 of 2021-22. The collective impact of these HFIs registered in the GST revenues of May 2022, which is 44 per cent higher than May collections of 2021. Individually, HFIs including average daily e-toll, e-way bill generation and google mobility index have shown robust performance in May 2022.



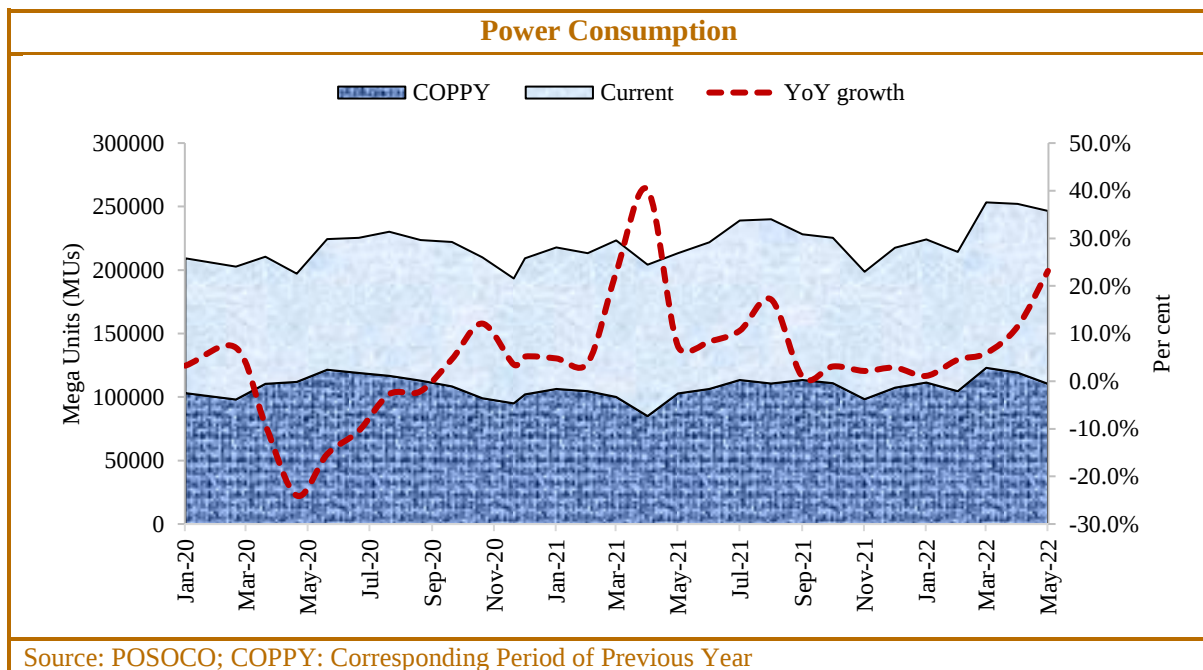
9. A 7.1 per cent growth in the Index of Industrial Production (IIP) in April 2022 as compared to 2.2 per cent in March is further evidence of momentum in industrial activity carrying forward from the previous year. The industrial growth momentum is also reflected in the Combined Index of Eight Core Industries growing at 8.5 per cent in April 2022, the highest in the last 6 months.

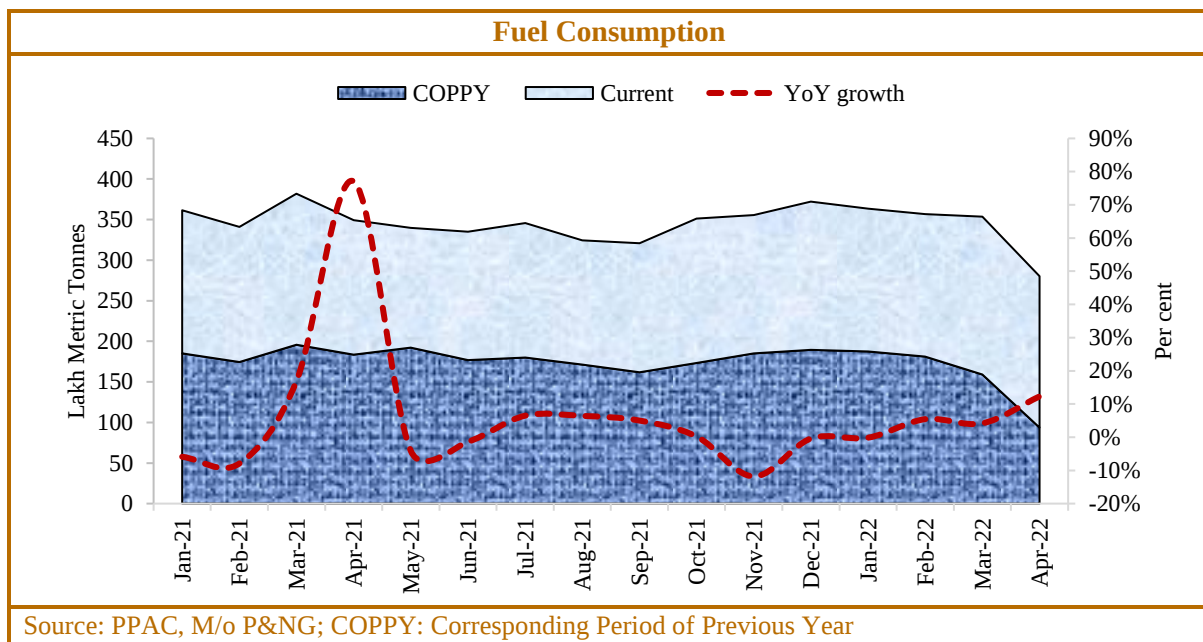


10. The pick-up in industrial activity has been further captured in rising levels of PMI-Manufacturing, which together with similarly strongly placed PMI-Services has boosted the composite PMI to 58.3 in May 2022, the highest in the last 18 months.



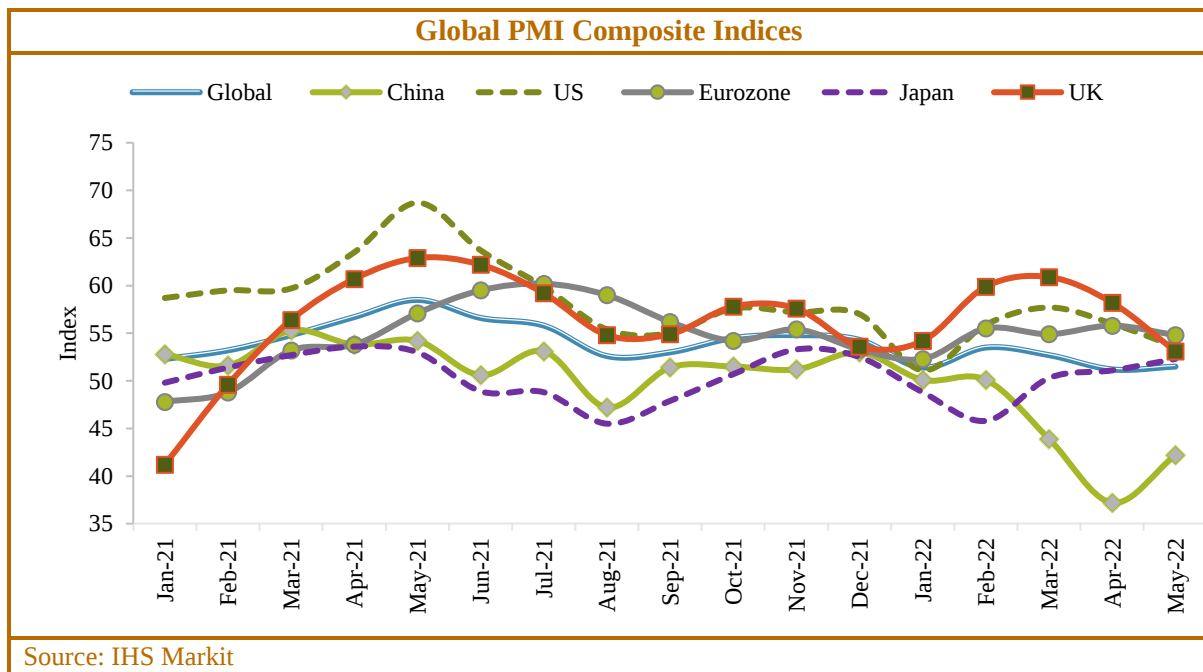
11. Growth in industrial and services activity has led to rising consumption of power and fuel in the economy. Increasing summer heat has also contributed to an increase in power consumption while the release of pent-up consumption demand, particularly in respect of contact-based services, has added to an increase in fuel consumption. Given the tight supply situation for domestically produced coal and high global energy prices, the import burden of the economy is becoming relentless as industrial and services activities increase in the economy.



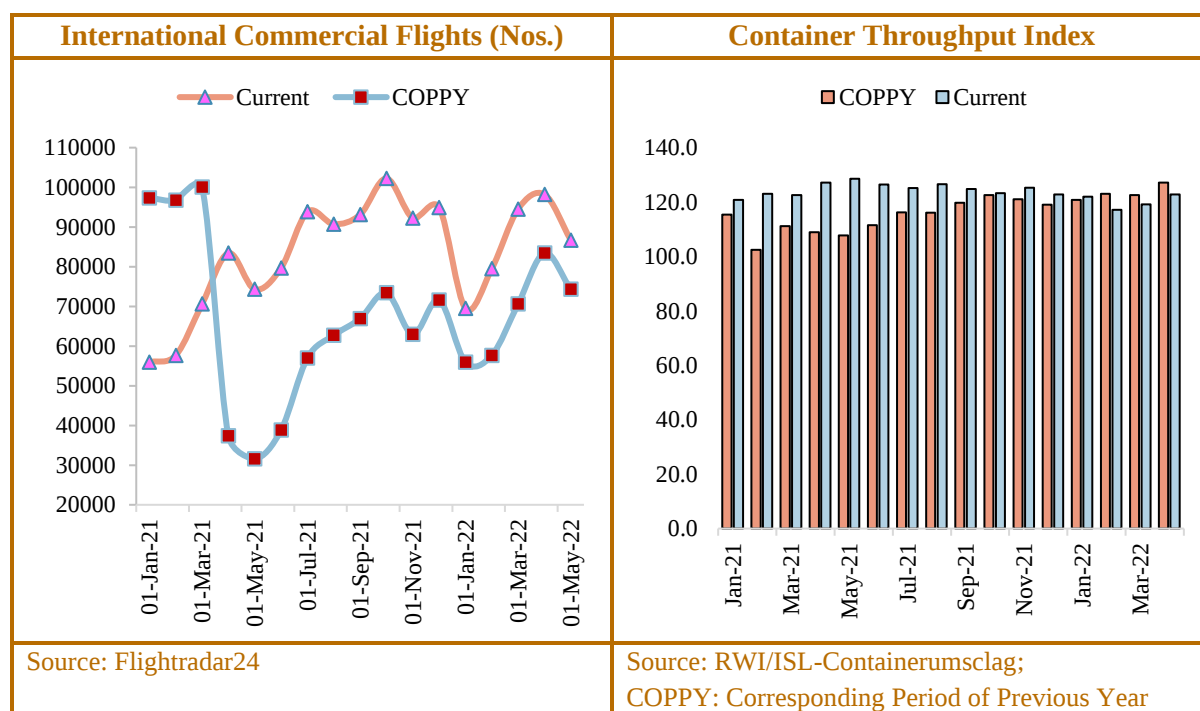


Global growth showing signs of stalling as the Russian-Ukraine conflict extends into the fourth month

12. Global activity expanded as seen in Composite PMI Index rising from 51.2 in April to 51.5 in May 2022. The expansion however is not broad-based and could be mainly attributed to the easing of lockdown driven downturn in China. Most of the advanced economies saw their Composite PMI declining from April to May. It fell from 56.0 to 53.6 for the US, 58.2 to 53.1 for the UK and 55.8 to 54.8 for the Eurozone. Japan defied the global activity dampening arising from the Russia-Ukraine conflict with its composite PMI index rising from 51.1 in April to 52.3 in May 2022 driven by growth in the services sector.



13. Below baseline reading of WTO's Goods Trade Barometer for March 2022, lower year on year growth of Container Throughput Index in April and sequential decline in International Commercial flights in May, were precursors to the subsequent decline in Composite PMI of advanced economies. The Russia-Ukraine conflict and pandemic-related lockdowns in China thus caused a slowdown in global trade, which in turn caused a dip in global economic activity. Weaker global growth cues may lead to weaker export growth for India taking away a growth stimulus that contributed substantially to India's economic recovery in 2021-22.



14. The COVID-19 infection rate has risen since mid of April, with average daily cases rising to 2,637 during May 2022 compared to 1,735 in April 2022 with the positivity rate remaining at 0.7 per cent in April as well as May. Consequently, active cases have increased to more than 35 thousand in May from 31 thousand during April, with Kerala, Maharashtra, Karnataka and Delhi accounting for 70 per cent of the active caseload. On the Vaccination front, India has administered around 194 crore doses as on 31st May 2022. More than 82 crore adult population stands fully vaccinated, along with an adolescent population of 4.6 crore in the age-group of 15-18 and 1.7 crore in the age group of 12-14, having received both doses. More than 3.5 crore precautionary doses have also been administered as on 31st May 2022.

Global growth forecast for 2022-23, including that of India, declines from earlier estimates

15. Agencies worldwide have already projected a slowing of global economic growth. The World Bank projects global economic growth to decline from 5.7 per cent in 2021 to 2.9 per cent in 2022 with growth in advanced economies slowing from 5.1 per cent to 2.6 per cent and that of emerging market economies from 6.6 per cent to 3.4 per cent. The World Bank also projects the global trade growth to decline from 10.3 per cent in 2021 to 4 per cent in 2022, which could be a precursor to their projected slowing of global economic growth.

16. Although the World Bank has also lowered India's real GDP growth projection to 7.5 per cent in 2022-23 from its earlier estimates, it is still higher than major advanced and emerging market economies by a considerable distance.

World Bank Real GDP growth projections (per cent)

Countries / Regions	2022 (revised estimates)	2022 (previous estimates)	2023
World	2.9	4.1	3.0
Advanced Economies	2.6	3.8	2.2
United States of America	2.5	3.7	2.4
Euro Area	2.5	4.2	1.9
Japan	1.7	2.9	1.3
Emerging Market and Developing Economies	3.4	4.6	4.2
China	4.3	5.1	5.2
India	7.5	8.7	7.1
Russia	-8.9	-20.2	-2.0
Brazil	1.5	1.4	0.8
Mexico	1.7	3.0	1.9
South Africa	2.1	2.1	1.5

17. Similarly, OECD has also lowered real GDP growth forecast for India to 6.9 per cent in 2022-23, but it is still the highest among the same set of peer nations.

OECD Real GDP growth projections (per cent)

Countries / Regions	2022 (revised estimates)	2022 (previous estimates)	2023
World	3.0	4.5	2.75
Advanced Economies			
United States of America	2.5	3.7	1.2
United Kingdom	3.6	4.7	0.0
Euro Area	2.6	4.3	1.6
Japan	1.7	3.4	1.8
Emerging Market and Developing Economies			
China	4.4	5.1	4.9
India	6.9	8.1	6.2
Brazil	0.6	1.4	1.2
Mexico	1.9	3.3	2.1
South Africa	1.8	1.9	1.3

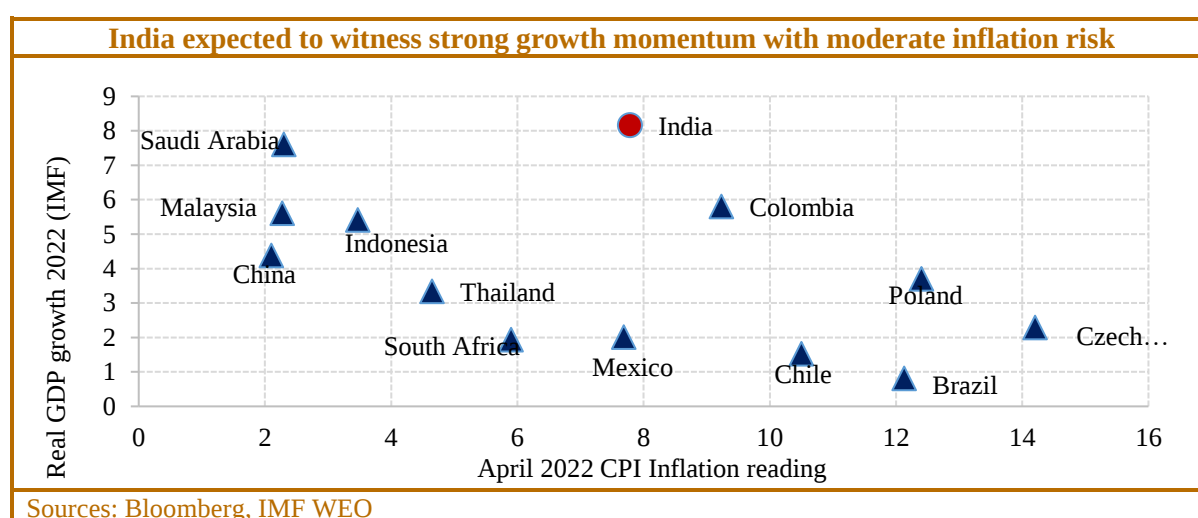
18. A high enough real GDP growth forecast for India in 2022-23 as compared to peer nations bespeaks India's underlying economic strength as was in evidence when the economy swiftly rebounded from the pandemic. However, the fact that growth rates projected for India have also declined from earlier estimates underscores the global nature of the commodity price shocks from which India cannot be and is not exempt. The table below shows the lowering of the growth forecast for India in 2022-23 by some important agencies.

India's Real GDP growth projections by various agencies (per cent)

Agencies	2022 (Revised estimates)	2022 (Previous estimates)
IMF	8.2	9.0
World Bank	7.5	8.0
Asian Development Bank (ADB)	7.5	NA
Reserve Bank of India (RBI)	7.2	7.5
Moody's Investor Service	8.8	9.1
S&P Global Ratings	7.3	7.8
Fitch Ratings	8.5	10.3

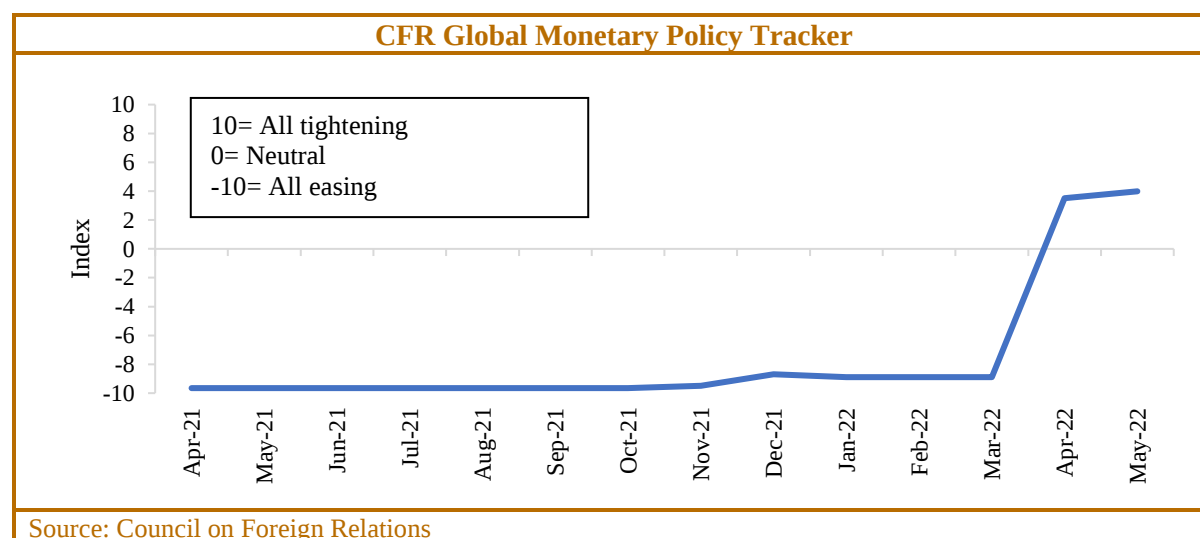
Stabilization Policies

19. As forecasts of real GDP growth across economies drop at regular intervals, it will be the consequence of rising input costs, higher cost of living and tightening stabilization policies pursued by central banks the world over to rein-in inflation. Tightening fiscal and monetary policies can however address inflation only from the demand side, insofar as they are able to smother pent up demand and roll-back stimuli announced as part of the COVID-19 relief package. Simultaneously, from the supply side, trade disruptions, export bans and the resulting surge in global commodity prices will continue to stoke inflation as long as Russia-Ukraine conflict persists and global supply chains remain un-repaired. The World is looking at a distinct possibility of widespread stagflation. For now, the risk is lower for India than other countries.



20. To control inflationary pressure, central banks in advanced and emerging market economies have been tightening their monetary policies through hikes in policy rates and quantitative tightening.

CFR Global Monetary Policy Tracker¹ tracks the monetary policy stance of large countries, mainly those that target inflation in some manner. Till March 2022, most of the economies were in the phase of quantitative easing. However, since April 2022, monetary policy tightening in major economies is being observed.



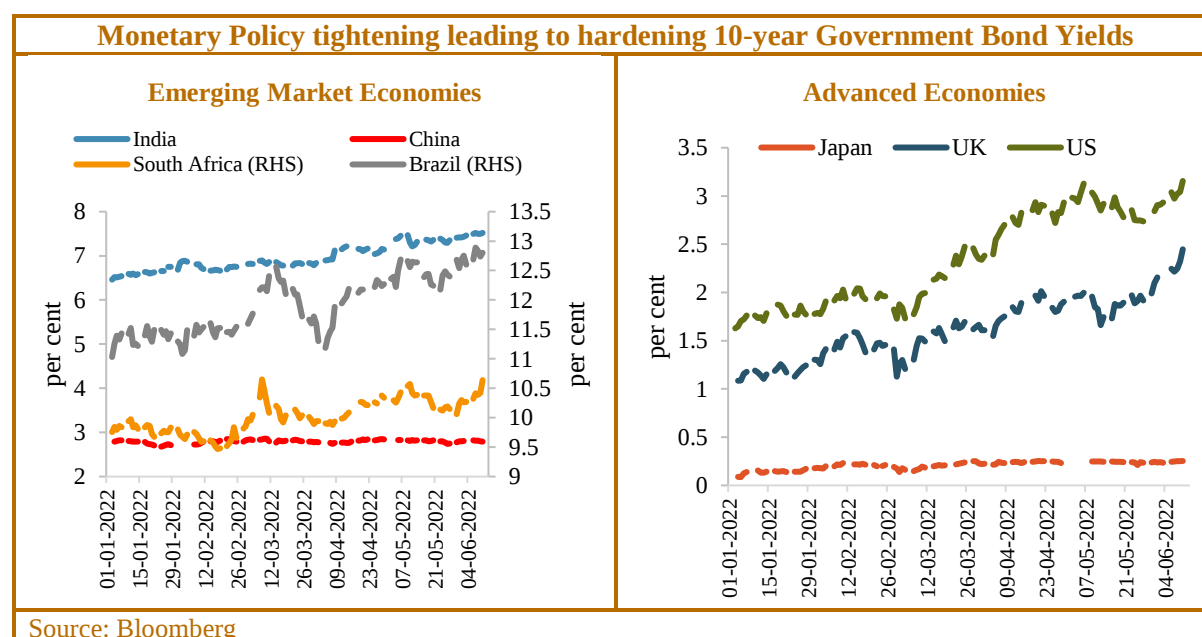
21. US Fed in its most recent meeting in June 2022, increased its benchmark interest rate by 75 basis points (0.75%) on top of the 50 basis point (0.5%) increase in May, the largest single rate increase since 1994. It has also indicated further rate hikes in the coming months. In June, the Federal Reserve sharply reduced its growth forecast for 2022 and increased the inflation forecast. It has embarked on aggressive quantitative tightening as well. European Central Bank (ECB), given the steep upward revision in its most recent inflation forecast to 6.1 per cent, as compared to 5.1 per cent in the earlier forecasts, has also announced the ending of net purchases under the Asset Purchase Programme (APP) and a possible rate hike sometime in July 2022. Bank of England too, following its latest meeting in June 2022, increased the Bank Rate by 0.25 percentage points, to 1.25 per cent. However, in sharp contrast, the Bank of Japan (BoJ), in its latest meeting held in April 2022, kept its policy rate unchanged at minus 0.10 per cent. BoJ has stated that inflation in Japan is driven largely by transient cost-push factors and not by demand-side reasons. Even looking ahead, BoJ has maintained an overall dovish stance.

22. In the case of Emerging Market Economies, most central banks have opted for monetary policy tightening. The central bank of Brazil is among the forerunners, embracing monetary tightening as early as March 2021. Brazil's Central Bank Monetary Policy Committee in its latest May 2022 meeting increased country's benchmark interest rate by one percentage point to 12.75 per cent. It was the tenth consecutive increase beginning March 2021. In a similar move, Central bank of South Africa hiked the policy rates by 50 basis points in May 2022, to 4.75 per cent. This is the fourth consecutive hike since November 2021. In contrast to other EMEs, Central Bank of Russia in May 2022 cut the key interest

¹ CFR's Global Monetary Policy Tracker compiles data from 54 countries around the world to highlight significant global trends in monetary policy. In generating the index value at any point in time, each country's monetary policy stance is weighted by its currency's share of global foreign exchange reserves. (The United States, therefore, receives a 61 percent weighting.) A country is said to be easing (tightening) policy if it has cut (raised) rates in the past three months, or is expected to do so in the next three months. A country is also said to be easing if it is engaged in QE.

rate by 300 basis point to 11 per cent citing reduced inflationary concerns. This is the third rate cut since the key rate was hiked from 9.5 per cent to 20 per cent in the immediate aftermath of the Russia-Ukraine conflict and heightened stability concerns. The People's Bank of China (PBoC) has also opted for a series of policy rate cuts since late last year, stepping up support for the slowing economy. Due to its strict Covid lockdown policies and a series of regulatory measures taken in the last two years, China's economy is combating a severe slowdown. Hence, its monetary policy is in an accommodative mode compared to that of developed nations. However, higher rates in the United States restrict the scope for China to support the economy with easier monetary policy as it may lead to capital flight, re-igniting fears of a sharp drop in foreign exchange reserves as happened in 2015.

Following a surprise off-cycle 40 basis point rate hike by RBI in May 2022, the repo rate was again hiked by 50 basis points in June taking the policy rate from 4.4 per cent to 4.9 per cent. Earlier, in May 2022, RBI had decided to increase the cash reserve ratio (CRR) by 50 bps to 4.5 per cent (effective fortnight beginning May 21, 2022), withdrawing excess liquidity from the banking system. Acknowledging the same, in June 2022 meeting, MPC dropped the word "accommodative" from the forward guidance.



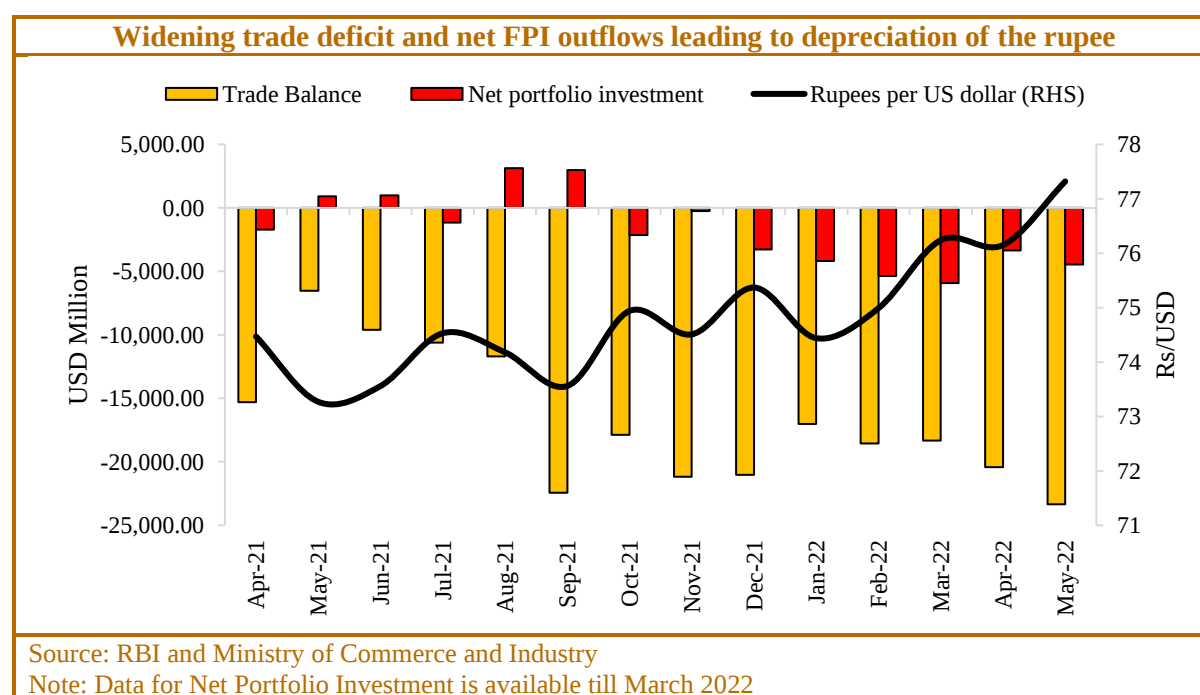
23. Across nations, fiscal policy has varied more than monetary policy, depending on the degree of integration of financial and trade linkages with Russia and Ukraine, pre-existing inflation surge and import dependence on commodities witnessing high inflationary pressure. For example, Europe, being dependent on natural gas imports from Russia, is experiencing high energy price inflation. To counter this, Germany has introduced a lumpsum energy allowance, a one-off child benefit bonus and a temporary fuel tax reduction. Further, to give a boost to renewable sources of energy, Renewable Energy Levy has been eliminated. Similarly, the UK, in May, 2022, announced the imposition of a 25 per cent levy on the profits of oil and gas companies to finance costlier energy bills of households. Earlier in March 2022, fuel duty was also temporarily reduced by 5 pence per litre until March 2023.

24. In some countries, fiscal policy has taken on a pre-emptive role, particularly in response to rising food security concerns. For instance, Egypt, Algeria, Morocco and Turkey have reduced or banned key food exports like wheat, cooking oil, corn and tomato, even as rising food prices along with

supply-side disruptions are hitting hard countries in the Middle East and Africa, which are heavily dependent on food imports from Russia and Ukraine. In the case of India, trade links with Russia and Ukraine are limited and the major spillover effects from the conflict have been through the commodity price channel and indirect impacts via weaker export demand from key trading partners.

25. To complement RBI's efforts to reduce inflation, the Government of India has cut excise duty on diesel and petrol to bring down their retail prices. Additionally, over 90 million beneficiaries of the Pradhan Mantri Ujjwala Yojana will be given a subsidy of Rs 200 per LPG cylinder for up to 12 refills in a year. The price for a commercial LPG cylinder has also been reduced w.e.f. 1st June 2022. Export duty on steel has been levied and exports of wheat have been restricted to increase their domestic supply in order to ease price levels in the country. Further, to combat soaring edible oil prices, the government has allowed duty free imports of four million tonnes each of crude soyabean oil and crude sunflower oil till March 2024. The government has also decided to allow export of sugar up to a ceiling of 100 LMT with a view to maintaining its domestic availability and price stability. To shield farmers from a steep rise in fertiliser prices, the government announced doubling of fertiliser subsidy to Rs.2.15 trillion from the budgeted level for the financial year 2022-23.

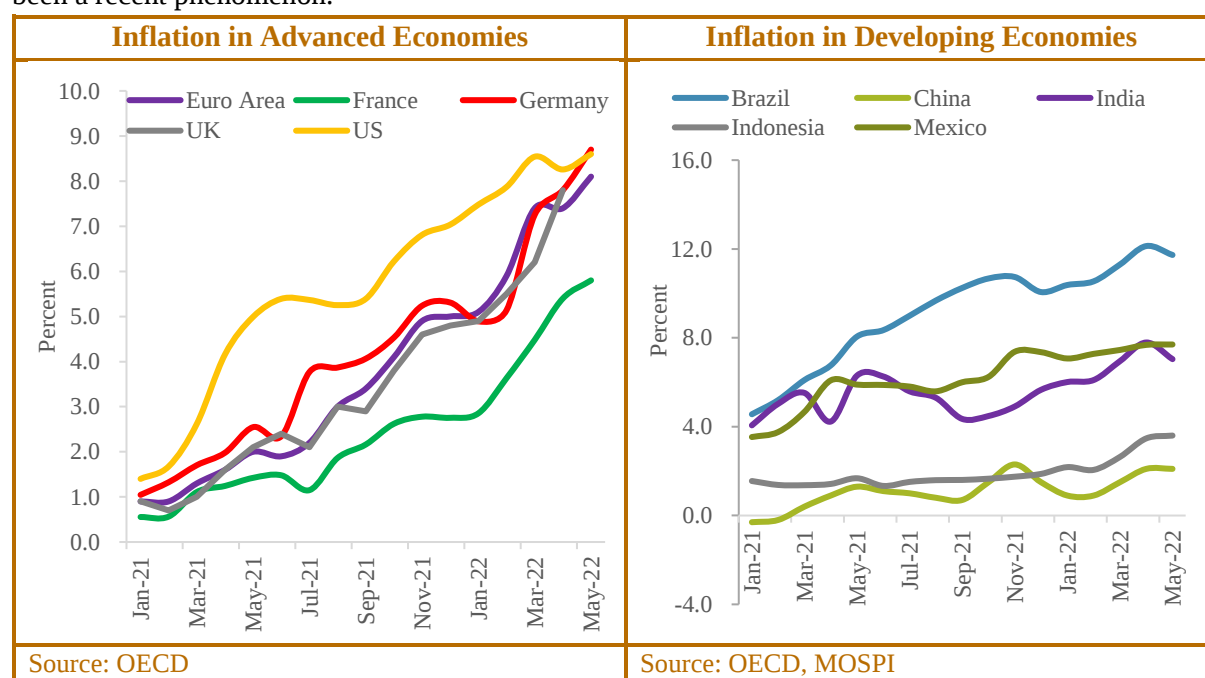
26. Government of India has also taken initiatives to protect growth while pursuing inflation management. Successful launch of the Production Linked Incentive Scheme (PLIS) in 14 sectors, development of renewable sources of energy while diversifying import dependence on crude oil, and strengthening of financial sector as seen in the strengthening of financial metrics and an uptick in credit demand, have been key positive developments that will sustain economic growth. The capex budget for 2022-23 will throughout provide a strong stimulus to growth. However, as government revenues take a hit following cuts in excise duties on diesel and petrol, an upside risk to the budgeted level of gross fiscal deficit has emerged. Rationalizing of non-capex expenditure has thus become critical for avoiding fiscal slippages.



Prices

Inflation a global phenomenon and is expected to become broad-based over time

27. As the Russian-Ukraine conflict broke out in late February 2022 resulting in escalation of global commodities prices, the IMF in its World Economic Outlook of April 2022 revised its inflation projections for 2022 in advanced economies from 3.9 per cent to 5.9 per cent and in emerging market economies from 5.7 per cent to 8.7 per cent. Expectedly, global inflation rose in the months of April and May 2022 pushed up by the geopolitical tension and economic recovery and the lagged effects of accommodative monetary and fiscal policies around the world. Interestingly, inflation in advanced economies has been surging for over one year whereas in emerging market economies the surge has been a recent phenomenon.

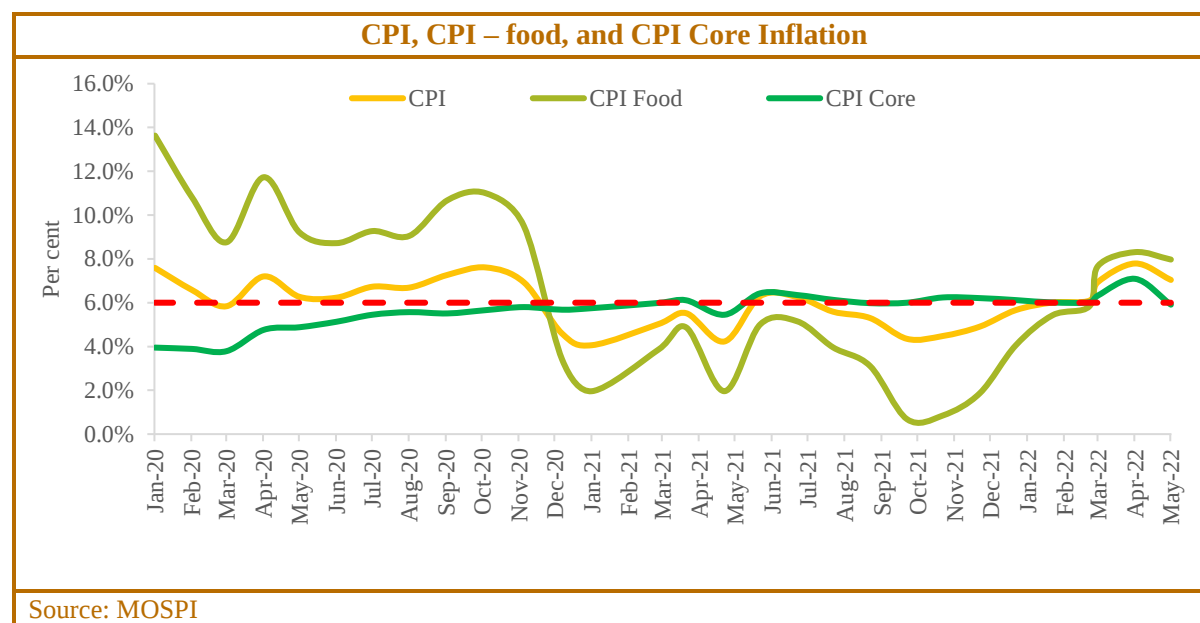


28. Clearly, the effects of massively accommodative stabilization policies post the outbreak of the pandemic have been showing in inflation prints of advanced economies since the beginning of their economic recovery. In emerging market economies, for reasons of limited fiscal space and worries that inflation will hit the poor, stabilization policies have been more conservative. Their recent surge in inflation, therefore, is mainly attributed to the outbreak of the Russian-Ukraine conflict. The inflation surge in emerging market economies has been on account of import of inflation in respect of only a few commodities on which these economies are net import dependent. With time, however, through interlinkages inflation will become more broad-based. On the other hand, the inflation in advanced economies is due to a combination of generous stabilization policies which have impacted the prices of the entire consumption basket, as well as the recent surge in commodity prices.

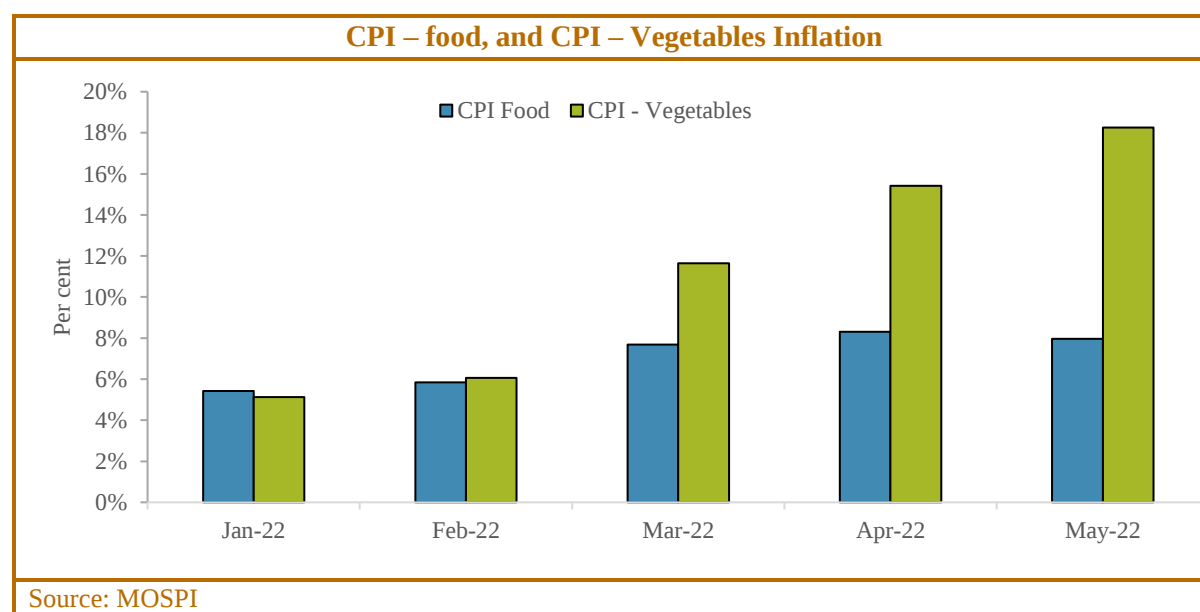
Small moderation in domestic retail inflation in May 2022, but is expected to be over 6% in the medium term

29. Retail inflation in India moderated from 7.8 per cent in April 2022 to 7.0 per cent in May 2022, lower than many advanced and emerging market economies. Yet retail inflation in India has been above the tolerance limit of 6 per cent, for now, for five successive months causing the monetary policy to drop its accommodative stance and fiscal policy to cut indirect taxes and administered prices. The RBI's inflation projections state that inflation in Q1, Q2, Q3, and Q4 of FY 2022-23 is expected to be 7.5 per

cent, 7.4 per cent, 6.2 per cent, and 5.8 per cent. The imported components of high retail inflation in India have mainly been elevated global prices of crude and edible oil while locally, the onset of summer heat waves have led to a rise in vegetable prices.



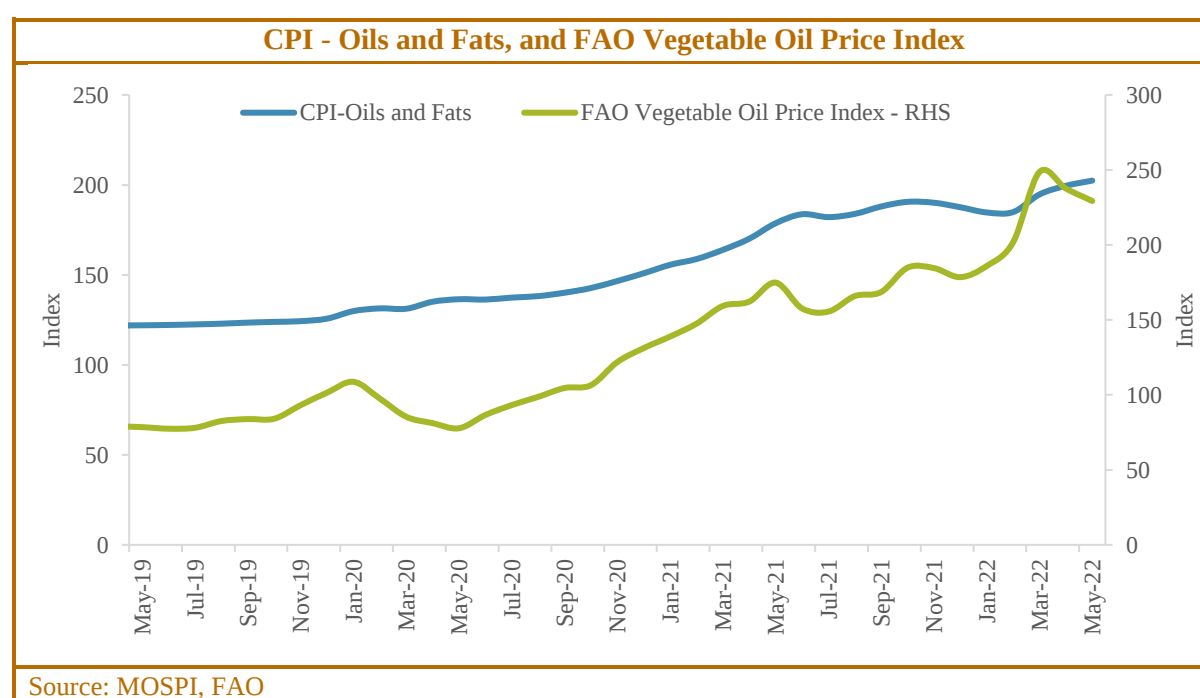
30. Retail food inflation has been higher than non-food and the difference may be partly attributed to the onset of summer heat waves as retail vegetable inflation, with a weight of 6 per cent in CPI basket, increased to 18.26 per cent in May 2022. As summer heat waves gradually makes way for the south-west monsoons sending newer crops at the Mandi, food prices and consequently headline retail inflation are expected to decline.



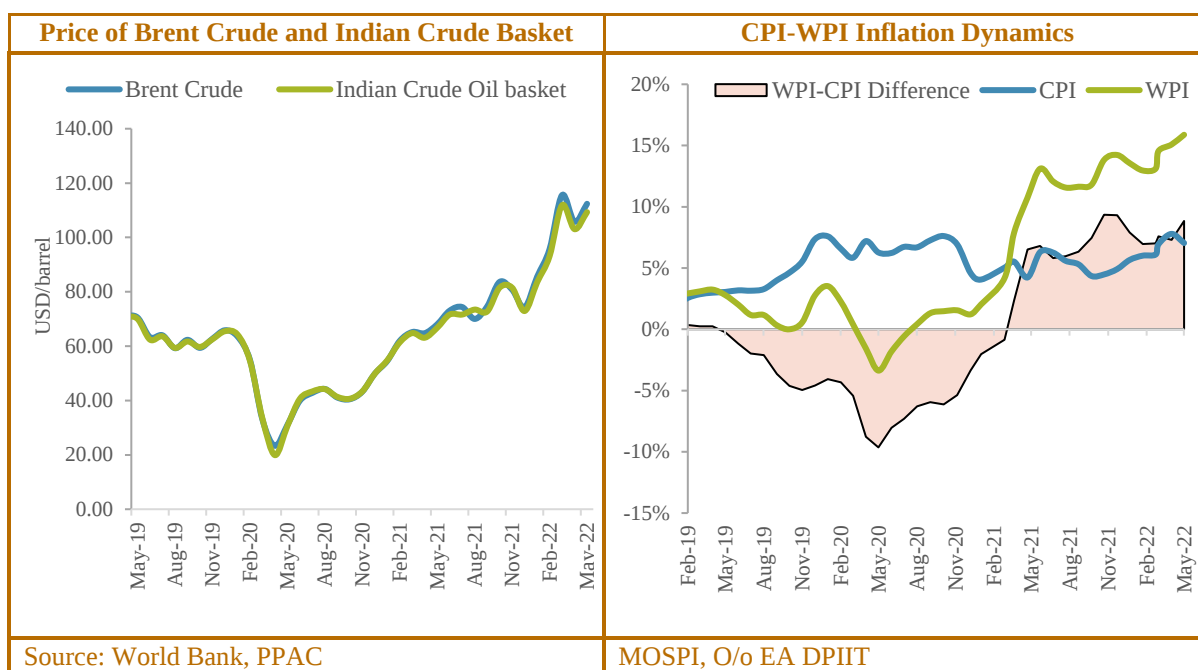
Edible oils and crude oil are the imported components driving domestic inflation

31. The subcategory of ‘oils and fats’ is yet another significant contributor to food inflation. Since India imports about 60 per cent of its edible oil needs, domestic prices of edible oils are vulnerable to

changes and volatility in global edible oil prices. The vulnerability showed up in March 2022 when the inflation in ‘oils and fats’ stood at 18.7 per cent, as global edible oil prices rose following a breakdown in the production and supply chains of sunflower oil in the Black Sea region, which also caused the prices of alternatives such as soyabean oil and palm oil to sharply increase. In April 2022, inflation in “oils and fats” slightly declined to 17.3 per cent and moderated further to 13.3 per cent in May 2022 as Indonesia withdrew an export ban on crude palm oil and refined palm oil exports. Additionally, the Indonesian government has stated that it will bring down the combined export taxes to USD 488 / tonne from USD 575 / tonne to encourage shipments. This measure is expected to further ease edible oil prices in the global and domestic markets.



32. The non-food inflation has been mainly fuelled by sharp volatility and uptick in global crude oil prices. The average price of dated Brent crude rose from USD 105.8 / barrel in April 2022 to USD 112.4 / barrel in May 2022, as the Chinese cities of Shanghai and Beijing eased Covid-19 norms and international markets priced in the European Union’s plans to cut its Russian oil consumption by 90 per cent by the end of 2022. Consequently, the average price of the Indian crude basket increased from USD 103 / barrel in April 2022 to USD 109.3 / barrel in May 2022. Since India imports about 80 per cent of its crude oil needs, the increase in global crude oil prices have translated into a higher cost of imports widening the country’s trade deficit. International crude prices may be tempered in the medium run as global growth prospects weaken and the Organisation of Petroleum Exporting Countries (OPEC) increases supply. However, on the other hand, global crude supply may tighten as western nations wean themselves off Russian energy. Whether the price of India’s crude basket stays elevated in the next six months also depends on how successful India is in sourcing crude oil imports from countries willing to sell crude at lower prices.



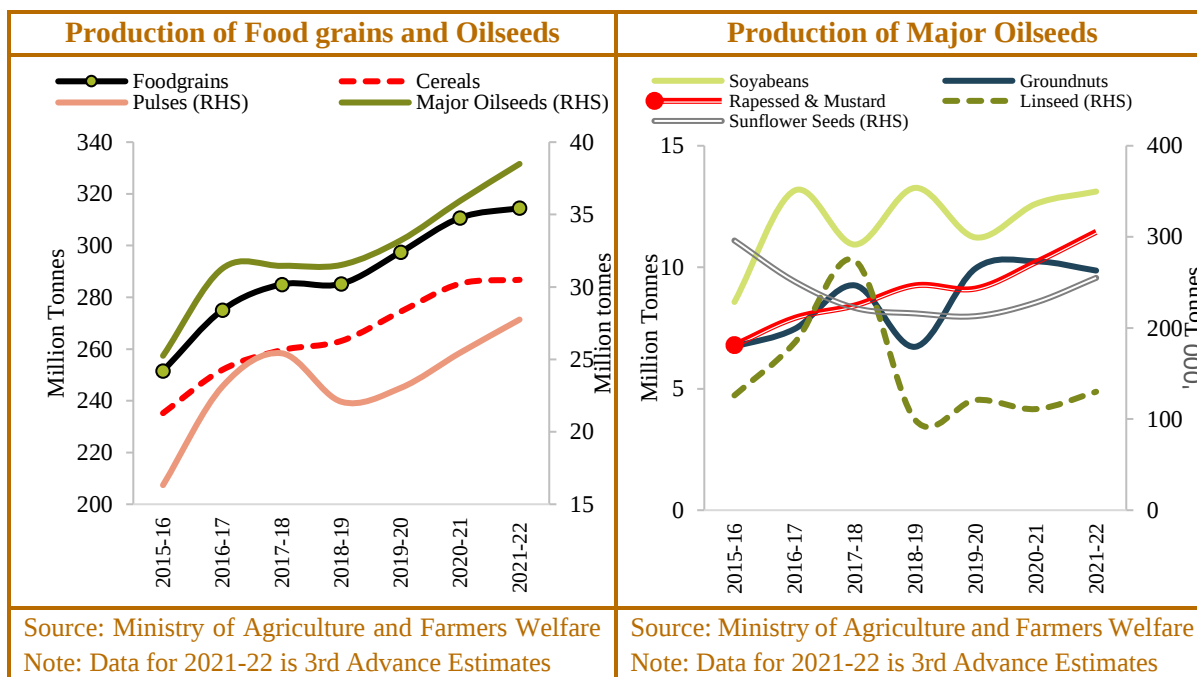
Pass-through of rising input costs expected to keep core inflation sticky

33. Besides costlier imports and local weather conditions, the eventual pass-through of input cost from wholesalers/manufacturers to retailers may also keep retail inflation high. The possibility has emerged since March 2021 when WPI inflation started to rise more rapidly than CPI inflation as wholesalers/manufacturers absorbed the rising input costs to keep prices for final consumers low thereby helping in economic recovery. Now that a large gap between the two has emerged and wholesalers are disinclined to book further losses, the pass-through of input cost may commence leading to a rise in retail inflation. The pass-through may have already commenced as core inflation (non-food, non-fuel) continued to remain sticky at 7.1 per cent in April 2022 and 5.9 per cent in May 2022.

Domestic Macro-economic overview

Agriculture and allied sectors poised to perform well

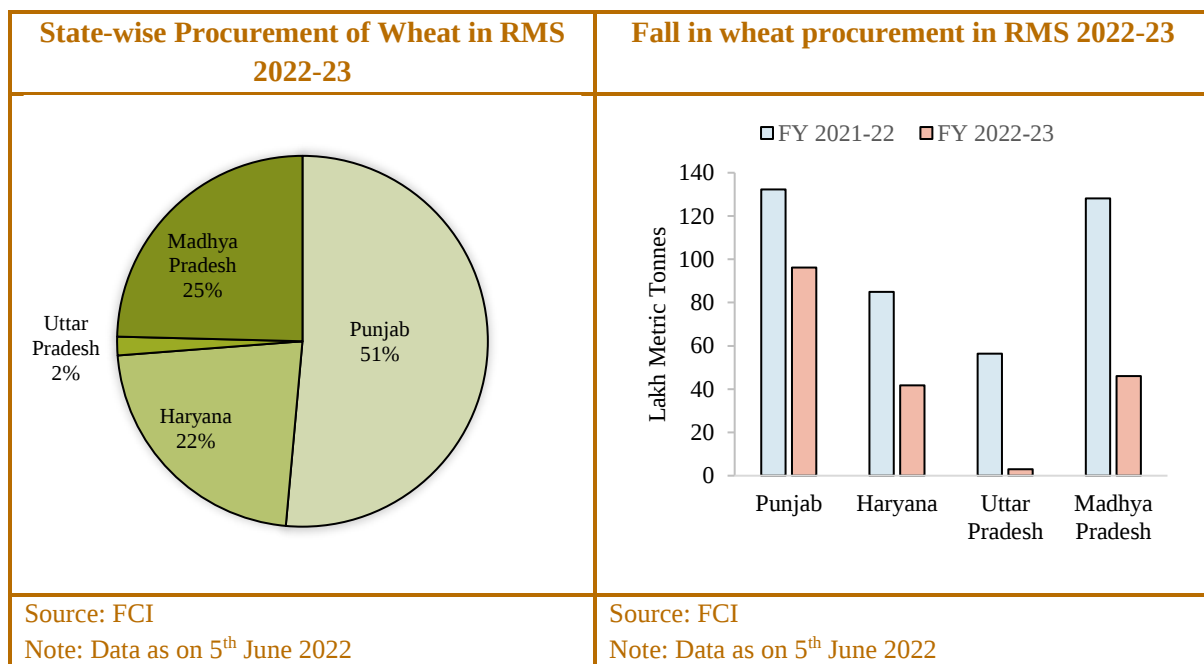
34. The third advance estimates of production of food grains for FY 2021-22 place it at a new high of 314.5 million tonnes, 1.2 per cent higher than the previous year. Production of major crops like rice, gram, and maize are also estimated at record levels with pulses production increasing by 8.9 per cent over last year. Government has set a target to raise food grain production further to 328 million tonnes. In the non-food category, driven by increased production of groundnut and rapeseed & mustard, total oilseeds production touched 38.5 million tonnes-15.1 per cent increase over last year. First rush of monsoonal rains arrived at normal times in Southern India. Although actual rainfall during first two weeks of June has been lower than the normal rainfall, it is expected that the deficit would be overcome in the months ahead going by the past performance of rainfall.



Heatwave having a ripple effect on Wheat production

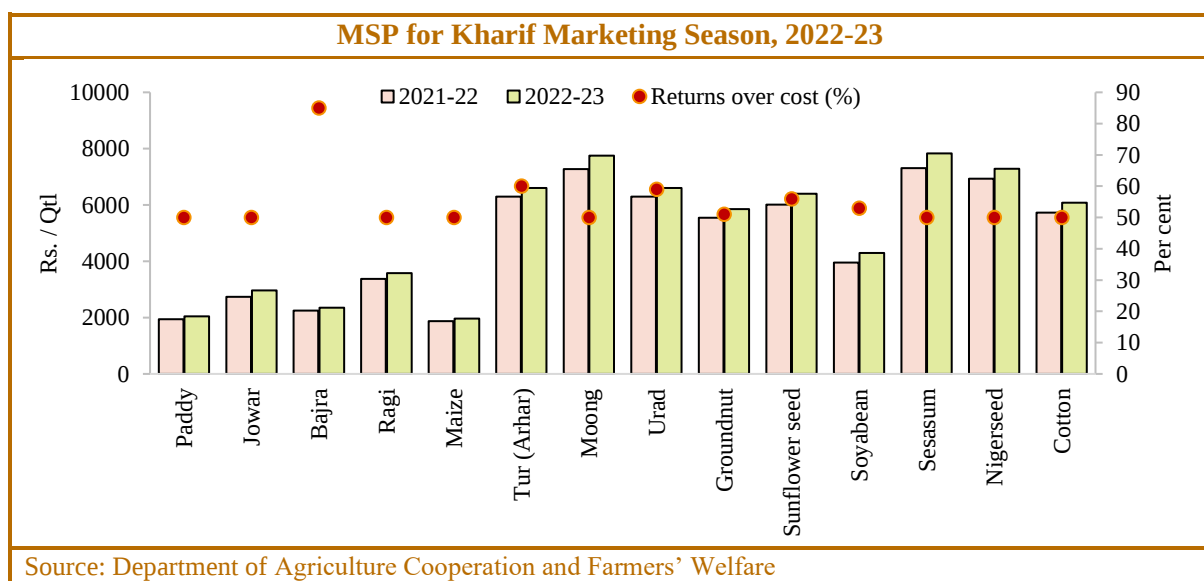
35. Ukraine is one of the world's major wheat producers and together with Russia accounts for 20-30 per cent share in the global wheat market. Expectedly, the Russia-Ukraine conflict created a wheat shortage in the global market resulting in international wheat prices rising from 250.5 GBP/Tonne in end February to 322 GBP/Tonne in end May 2022.

36. At the same time, domestic wheat production also declined in 2021-22 due to a decline in yield following unusually high temperatures in North West and Central parts of India during March and April 2022. Wheat production is estimated to decline to 106.41 million tonnes during FY 2021-22, 2.9 per cent less than the previous year. However, shortage has arisen from a 58.2 per cent decline in public procurement of wheat during 2021-22 due to aggressive buying by private players for export purposes. Wheat procurement declined in major wheat producing states of Punjab (27.2 per cent), Haryana (50.7 per cent), Madhya Pradesh (64.1 per cent) and Uttar Pradesh (94.6 per cent). Due to a surge in global wheat prices and a decline in domestic production, the Government imposed a ban on wheat exports on 13th May 2022 to control rise in domestic wheat prices and to manage the overall food security situation in the country. However, on 17th May 2022, the Government allowed some relaxations on wheat exports by permitting exports of wheat consortiums which were already registered with customs prior to the ban.



Hike in the Minimum Support Price (MSP) of Kharif crops likely to increase farmer's income

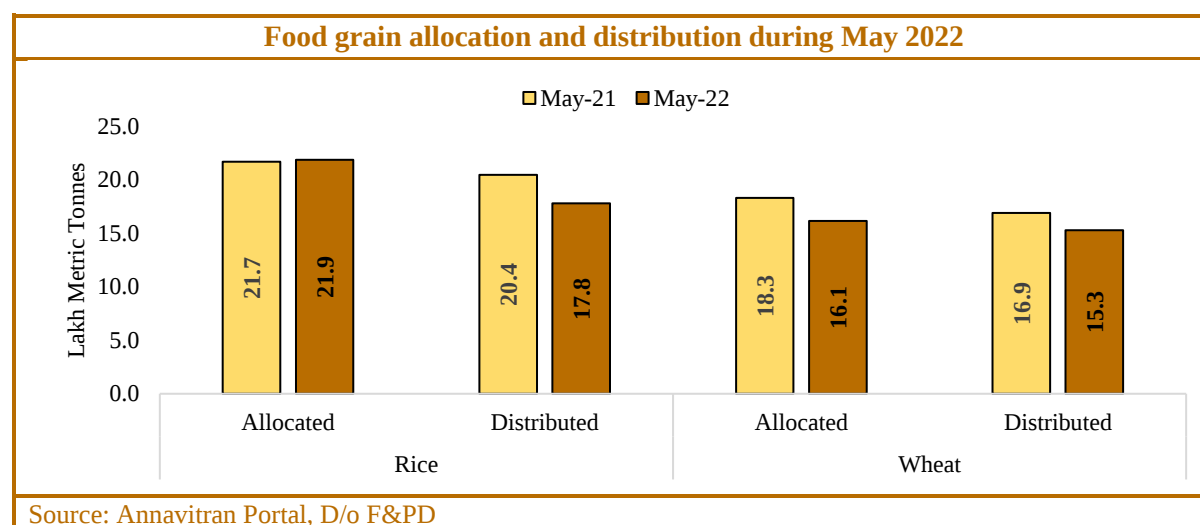
37. The Government has hiked the Minimum Support Price (MSP) of Kharif Crops for Marketing Season 2022-23, with the view to ensure remunerative prices to the farmers for their produce and to encourage crop diversification. The increase in MSP is in line with the Union Budget 2018-19 announcement of fixing the MSP at a level of at least 50 percent over the All-India weighted average Cost of Production (CoP). Concerted efforts have been made over the last few years to realign the MSP in favour of oilseeds, pulses and coarse cereals to encourage farmers to shift larger area under these crops and adopt the best technologies and farm practices, to correct demand supply imbalance.



35.3 LMT of food grains distributed to NFSA beneficiaries during May 2022

40. During May 2022, 40.4 LMT of food grains was allocated to Fair Price Shops (FPS), out of which 87.4 per cent (35.3 LMT) was successfully distributed to National Food Security Act (NFSA)

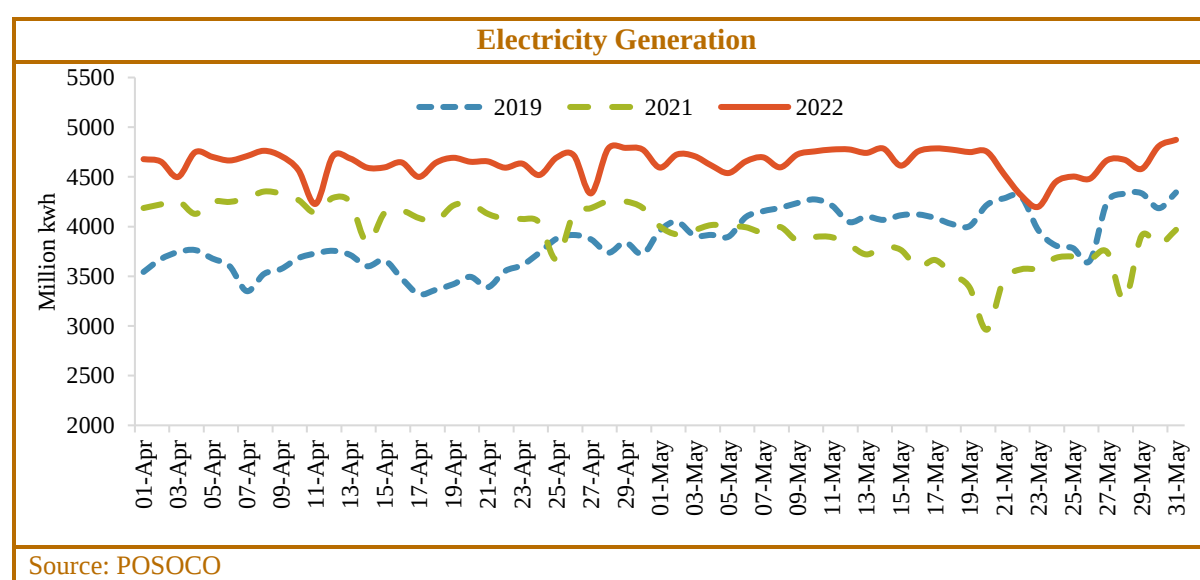
beneficiaries through automated e-POS devices and 1.3 LMT outside e-POS devices. In addition, 21.3 LMT of food grains was distributed under Pradhan Mantri Garib Kalyan Anna Yojana (PMGKAY), comprising 5.5 LMT of wheat and 15.8 LMT of rice.



Industry

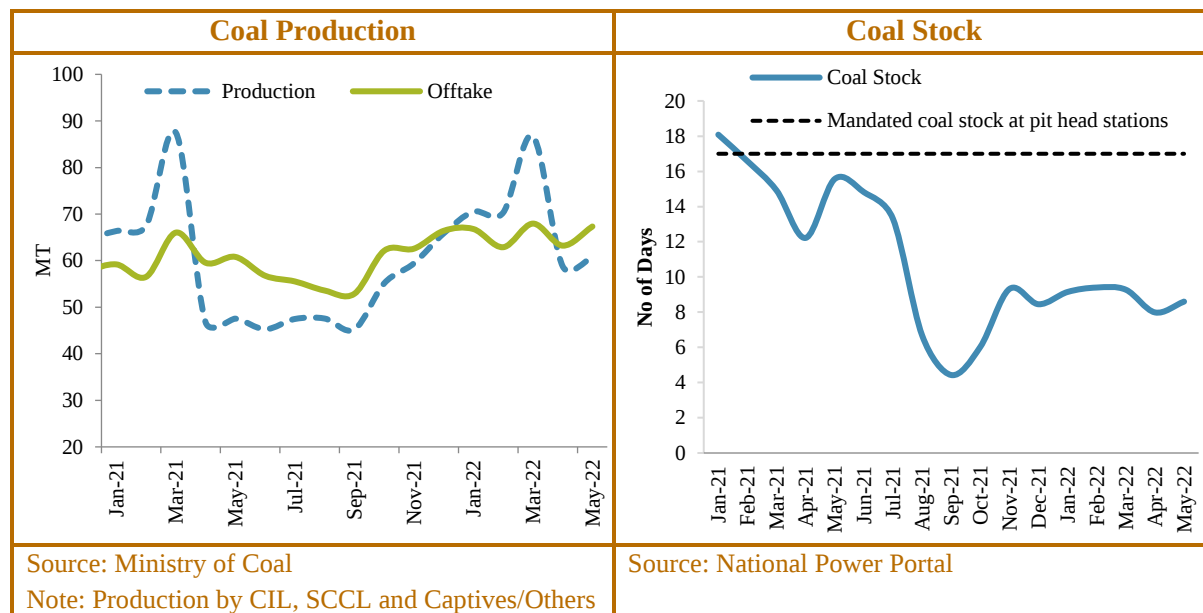
Rise in Electricity Demand and Generation – Issue of Coal Availability

41. Rising economic activity and intense heatwaves enveloping the country's northwest and central regions have increased the demand for power in the country throwing up the challenge of coal availability for India's largely thermal-based power generation plants. Although electricity generation rose in May 2022, higher than its pre-pandemic level, with a somewhat larger share of hydro and renewables, the country's dependence on thermal power generation continues to be excessive underlying the importance of feeding it with adequate coal supplies.



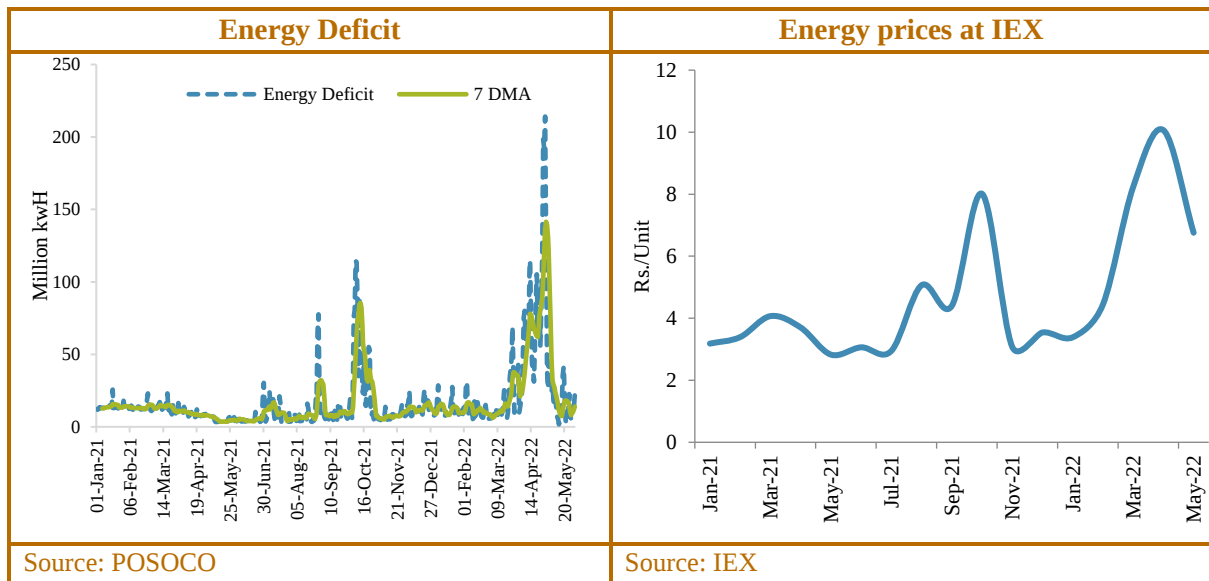
42. Coal adequacy is threatened as an increase in domestic production of coal has not been able to keep pace with increase in demand for coal by power generating plants. In May 2022, even as coal offtake rose to meet higher demand, coal stock with power plants as on 31st May 2022, fell to 9 days,

from 16 days a year ago. Measured on an aggregate basis, India produces enough coal to maintain coal stock equivalent to 30 days of demand. Yet if power generating plants have stock equivalent to 9 days of demand, it implies that there aren't enough railway racks available to move coal from the mines to the plants.



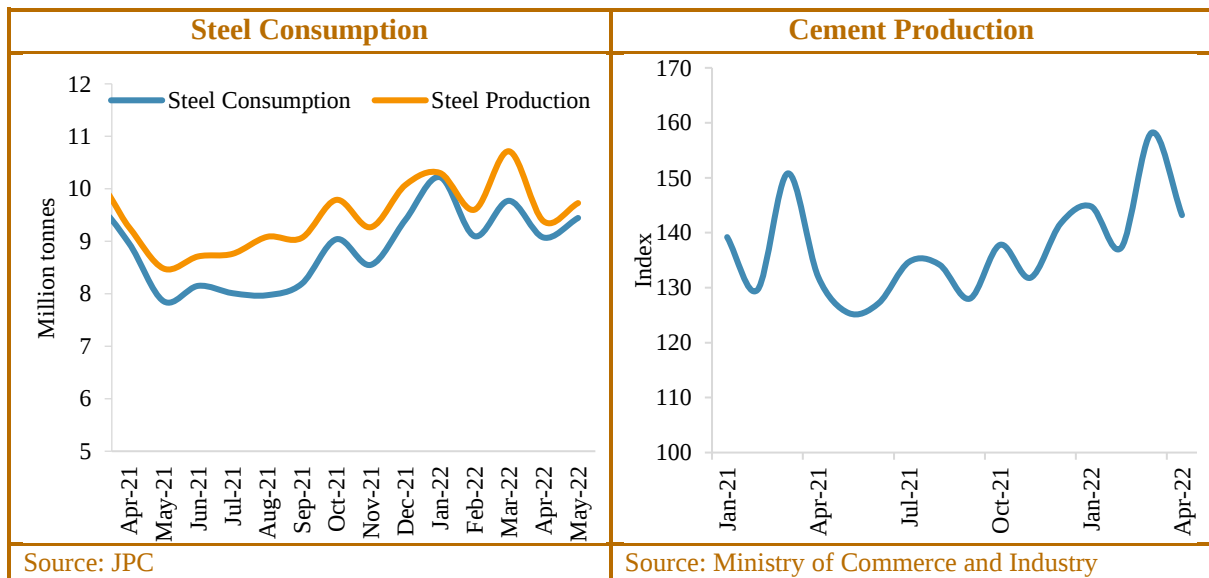
43. Government has taken several steps through April and May to address the supply constraints of coal. First, all generators have been asked to import coal to the extent of 10 per cent of their requirements (as against 4 per cent earlier), half of which should be physically available by the end of June. This would involve importing about 38 million tonnes of coal by October end. Penalties, including curtailment of domestic coal entitlements, have been announced if power plants fail to import coal. Second, Section 11 of the Electricity Act 2003 (Act) has been invoked to direct imported coal-based plants to run at full capacity with the assurance that their enhanced cost of operation would be compensated. Third, concept of tolling has been enabled, which allows states to transfer their allotted coal to private generators located near the mines instead of transporting it too far away from state generators. This move would ease the burden on the availability of railway rakes. Fourth, regulations of the Central Electricity Regulatory Commission (CERC) have been overridden that made it mandatory to seek beneficiaries' consent if the tariff goes up by more than 30 per cent in the event some alternate fuel is used. Fifth, a committee of officials has been set up to rework the energy charge for imported coal-based generators. Sixth, REC/PFC along with commercial banks have advised to ease the availability of additional working capital to power generating plants.

44. Owing to measures undertaken by the Government to address the supply side constraints of thermal power generation and increase renewable (44% YoY increase) along with hydropower generation (8%YoY increase), energy prices in the day-ahead power market at the Indian Energy Exchange (IEX) declined from Rs 10.06 per unit in April'22 to Rs 6.76 per unit in May'22. Further, the energy deficit also reduced from a peak of 4.7 per cent in April 2022 to 0.5 per cent by end-May.



Pick up in Construction Activity

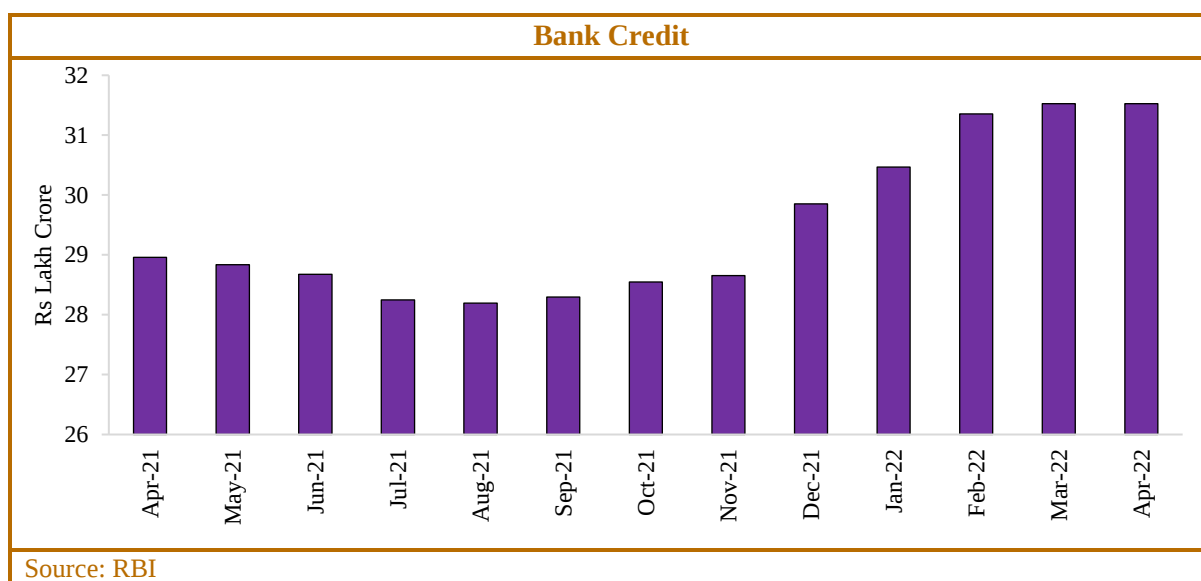
45. Construction activity picked up in May, with steel consumption rising after slackening in April. Government measures to waive customs duty on the import of raw materials, including coking coal and ferronickel, which are crucial for the steel industry, will lead to reduction in the cost of production. This will further benefit manufacturing industries like auto, construction and heavy equipment. In addition, import duty cut on naphtha, propylene oxide and polymers of vinyl chloride (PVC) used as raw material in various sectors will augment the domestic industrial production and boost export competitiveness.



Sustained uptick in credit growth to Industry

46. Credit growth to the industry has accelerated to 8.1 per cent in April 2022 from a contraction of 0.4 per cent in April 2021. Size-wise, credit to medium industries registered a growth of 53.5 per cent in April 2022 compared to 44.8 per cent last year. Credit growth to micro and small industries rose

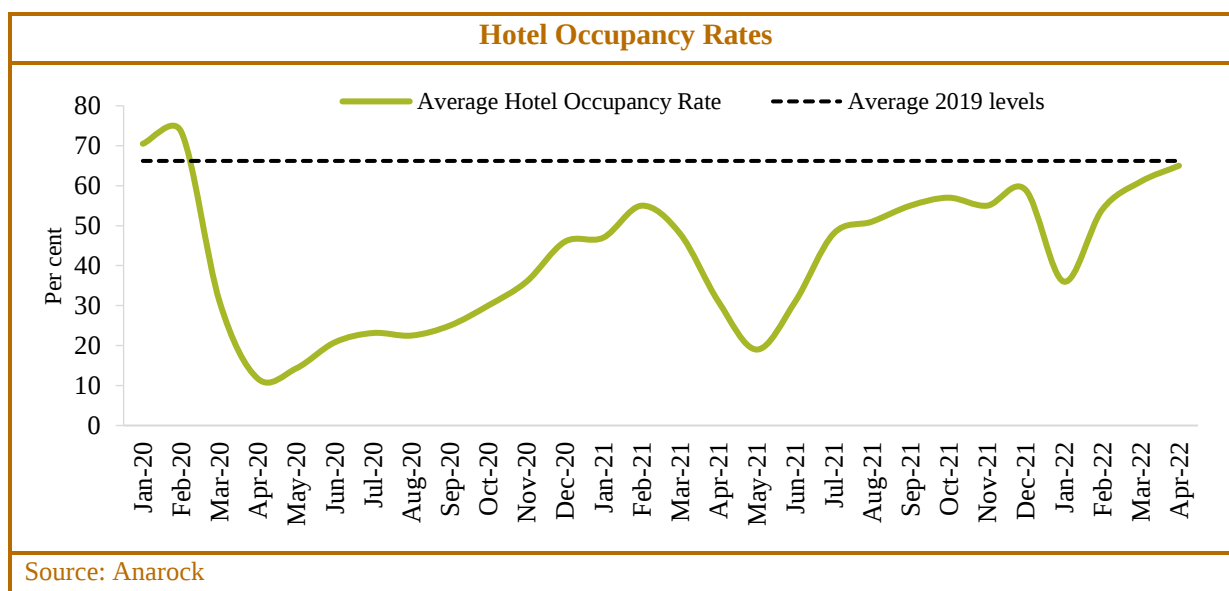
to 29.0 per cent from 8.7 per cent, while credit to large industries recorded a growth of 1.6 per cent against a contraction of 3.6 per cent during the same period last year.



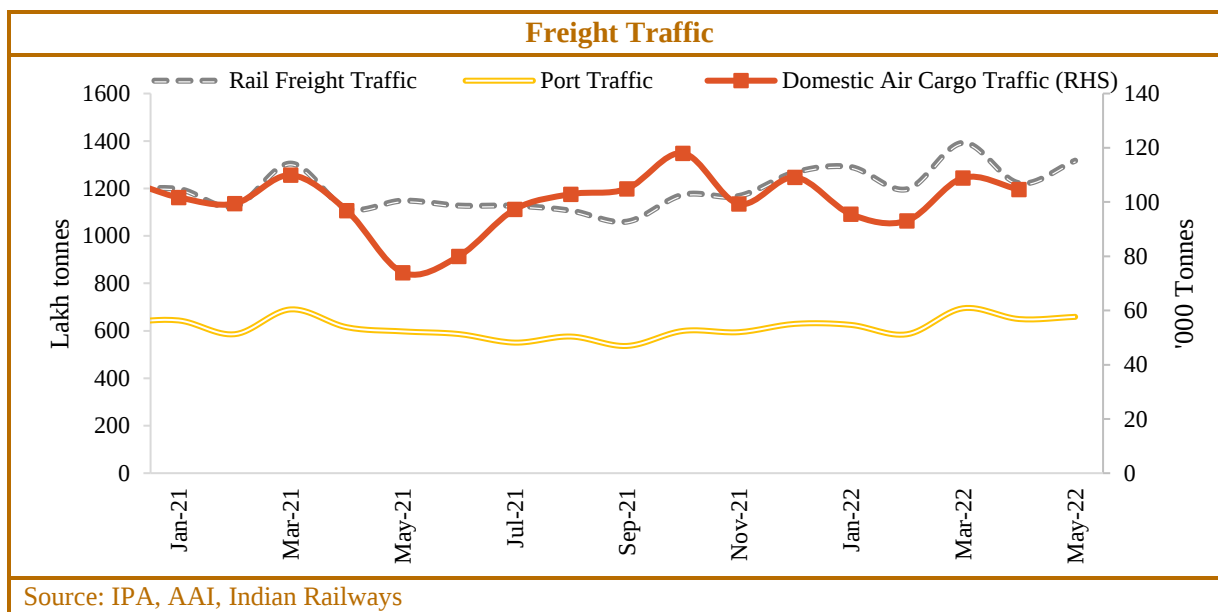
Services

Services activity continues to gain momentum in May

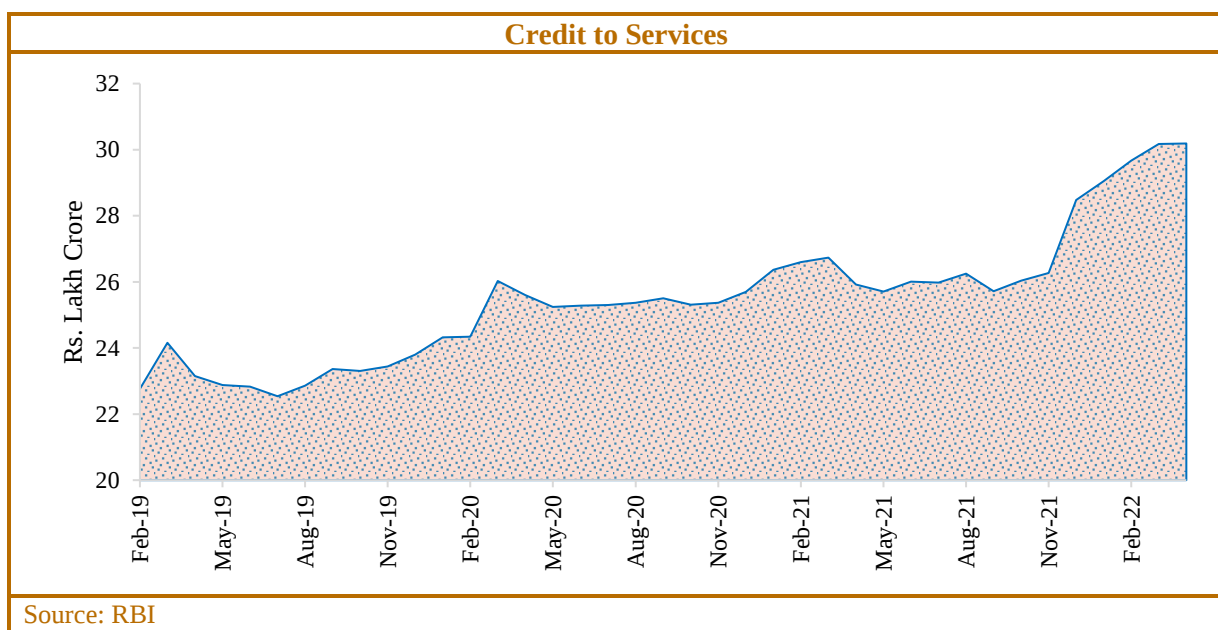
47. Post third wave of the pandemic, and with wedding season kicking in, recovery in the services sector continues to gain momentum. Hotel occupancy rates in April 2022 have now reached the average pre-pandemic levels of 2019 accompanied by an increase in the average room rate and revenue per available room over 2019 levels.



48. Carrying forward the momentum in the services sector, railway freight load touched a 21-month high in May 2022, led by incremental loading of coal, cement and clinker and food grains. Port traffic also registered a double-digit year-on-year growth of 10.2 per cent in May 2022 with an uptick in momentum compared to the last month. Air cargo traffic surpassed the pre-pandemic levels in April 2022 by 2.8 per cent but with a slight moderation in momentum as compared to the previous month.



49. As service sector activities rise, credit growth to the services sector has also increased to 11.1 per cent in April 2022, as compared to 2.4 per cent a year ago, driven by improvement in credit to 'NBFCs', 'trade', 'tourism, hotels & restaurants and 'transport operators. This signals a broad-based recovery of the service sector.

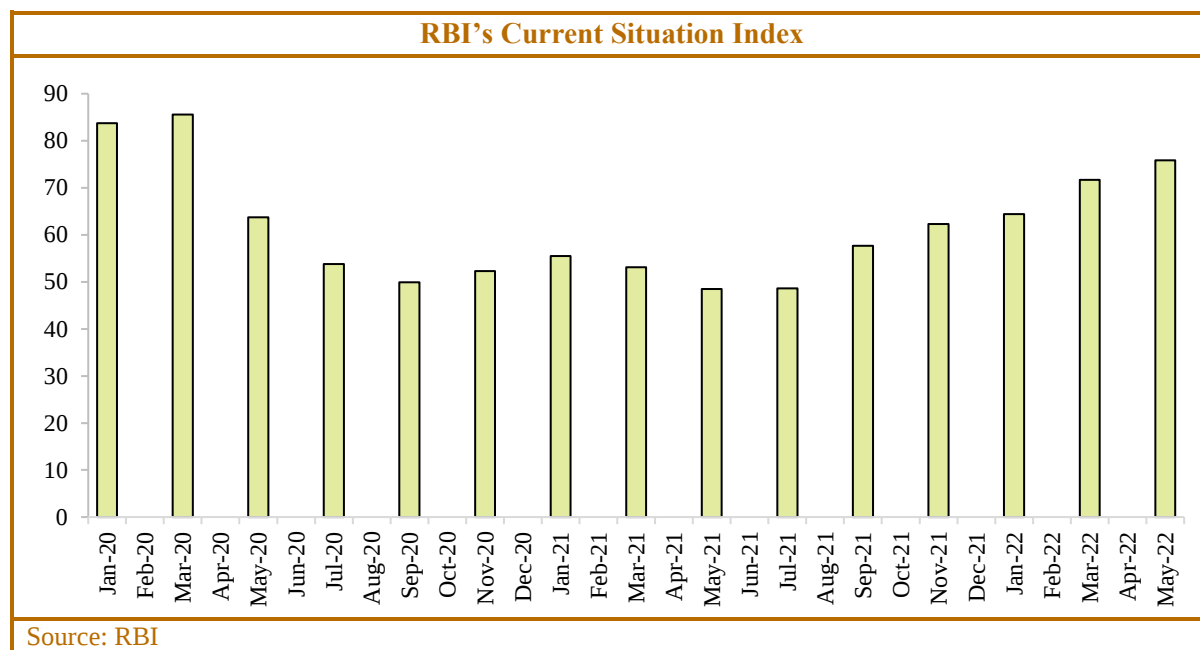


Consumption

Consumer confidence in the economy shows gradual improvement

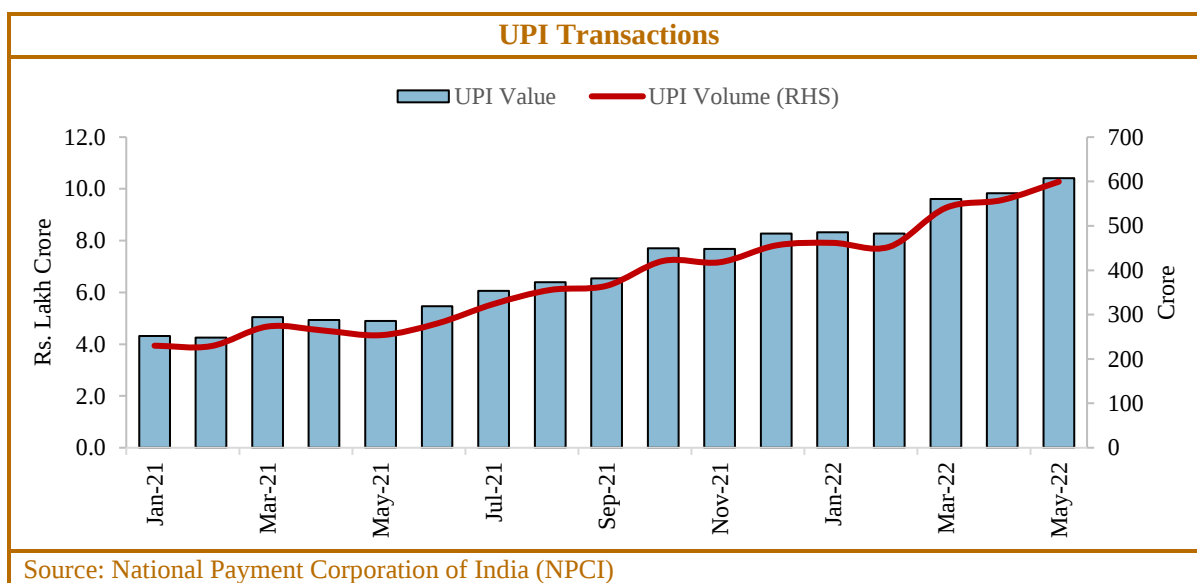
50. According to RBI's consumer confidence survey for May 2022, consumer confidence, measured by the current situation index (CSI) has been consistently improving since July 2021 as the sentiments on the key parameters like employment and household income improved further in the latest round of the survey, though they remained in the pessimistic zone. CSI improved to 75.9 in May, from 71.7 in the previous bi-monthly survey. One year ahead outlook of households remained in growth

terrain despite marginal moderation in sentiment in the latest survey round. Households asserted a rise in their current spending and expected it to increase further over the next one year; they expected higher essential spending whereas the sentiments on non-essential spending remained downbeat.



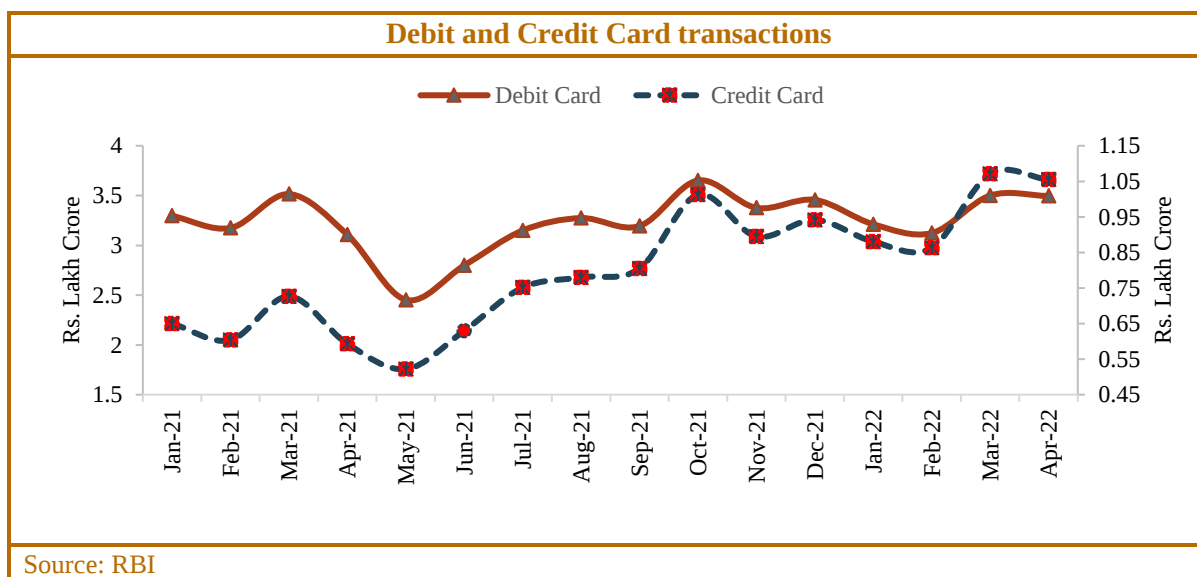
UPI crosses Rs. 10 lakh crore payment mark in May 2022 marking a permanent behavioural reset with the waning of the pandemic

51. Value of UPI transactions processed through the National Payment Corporation of India (NPCI) stood at Rs. 10.4 lakh crore during May 2022, highest since UPI was launched in 2016, registering MoM growth of 5.9 per cent while the volume of UPI transactions stood at 599 crore growing MoM at 7.4 per cent. The upward trend in value and volume of UPI transactions followed the outbreak of the pandemic as people became more accustomed to the online payment mechanism. Further, recent initiatives under taken by RBI such as the launch of UPI123Pay for 400 million feature phones (which allows all transactions to be processed without internet connections), UPI Lite (for processing low value transactions) and UPI AutoPay (which allows customers to facilitate recurring e-mandate using any UPI application for recurring payments such as mobile bills, electricity bills, EMI payments etc.) have also helped NPCI in achieving record transactions and will further facilitate in achieving the target of processing a billion transactions a day on its platform. This marks a permanent behavioural reset with the waning of the pandemic. Presently, UPI is linked through the debit card of customers to their savings accounts or current accounts. On 8th June 2022, RBI also allowed linking of UPI with credit cards to provide more avenues and convenience to the customers in making payments through UPI.



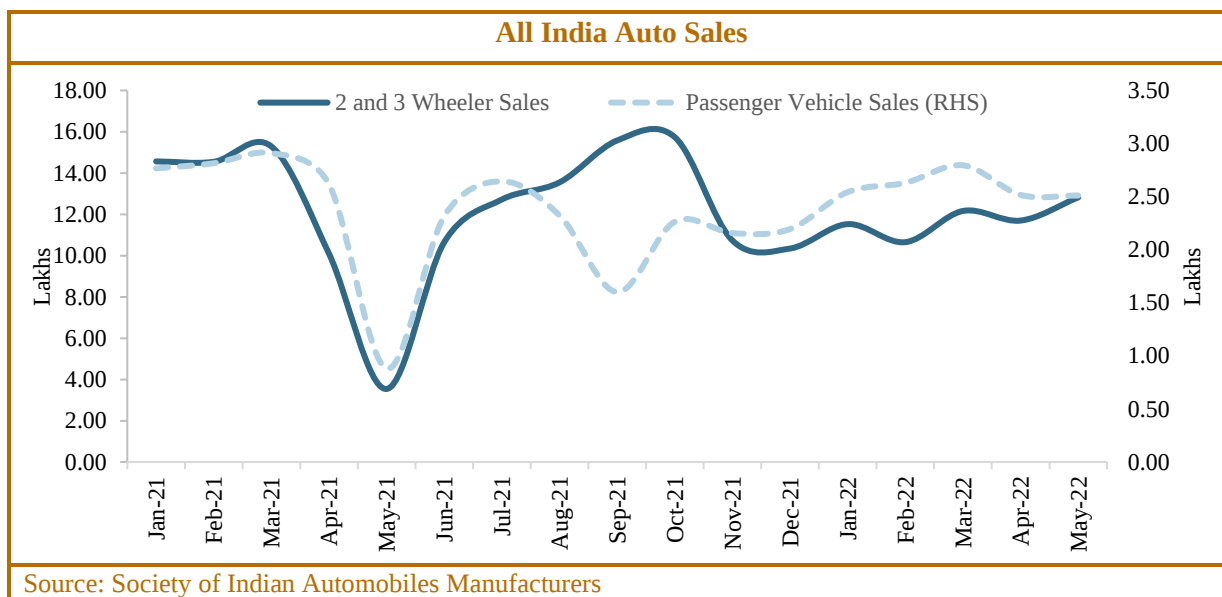
Credit and Debit card spending also witnessed continued growth momentum and together with rising UPI payments, is also reflective of strengthening consumption

52. Spending through credit cards and debit cards in April 2022 stood at Rs. 1.05 lakh crore and 3.49 lakh crore respectively, registering YoY growth of 77.8 per cent and 12.5 per cent. The increase in spending indicates a pickup in consumption as the pandemic-induced restrictions recede and uncertainty reduces. This is yet another behavioural reset of the post-pandemic times, and together with rising UPI-based payments, is also reflective of strengthening consumption.



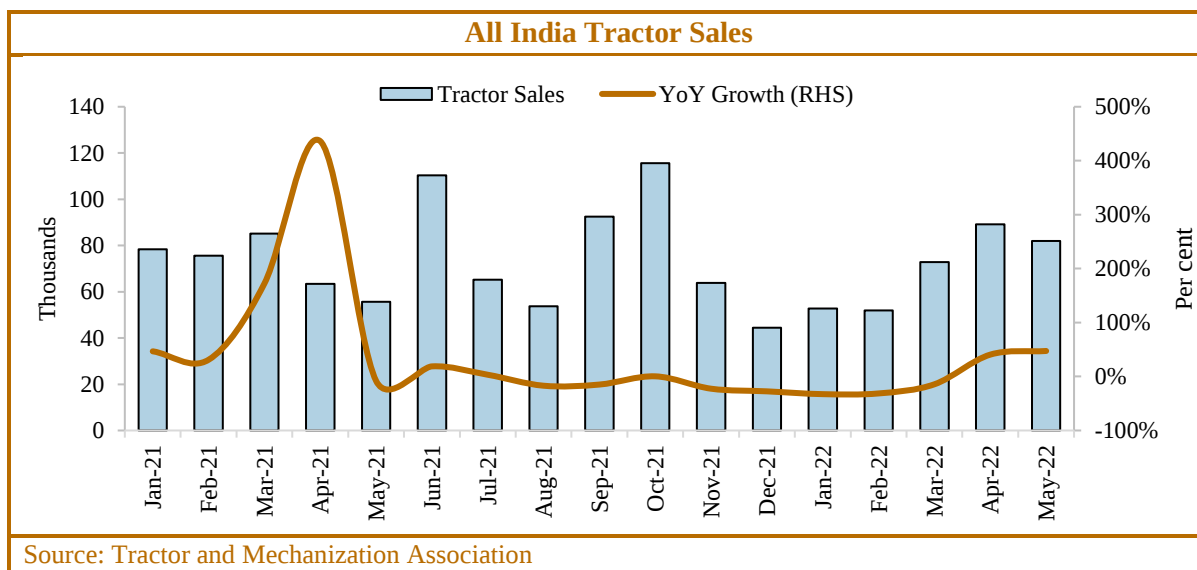
Chip shortage continue to diminish auto sales in May 2022

53. 2 and 3-wheeler sales increased to 12.8 lakh in May 2022 from 11.7 lakh in April 2022 while passenger vehicle sales moderated to 2.51 lakh during May 2022 from 2.52 lakh in April 2022. The persistence of the shortage of semiconductors continues to disrupt production of four-wheeler passenger vehicles.



Rising tractor sales offers boost to rural growth

54. Better crop price realisation against the minimum support price (MSP) had a favourable impact on tractor sales which stood at 0.82 lakh in May 2022, registering YoY growth of 47 per cent, the highest growth in the past 12 years. Other reasons which supported the tractor sales include higher domestic market prices for oilseeds and a forecast of normal monsoon which bodes well for the upcoming Kharif season.

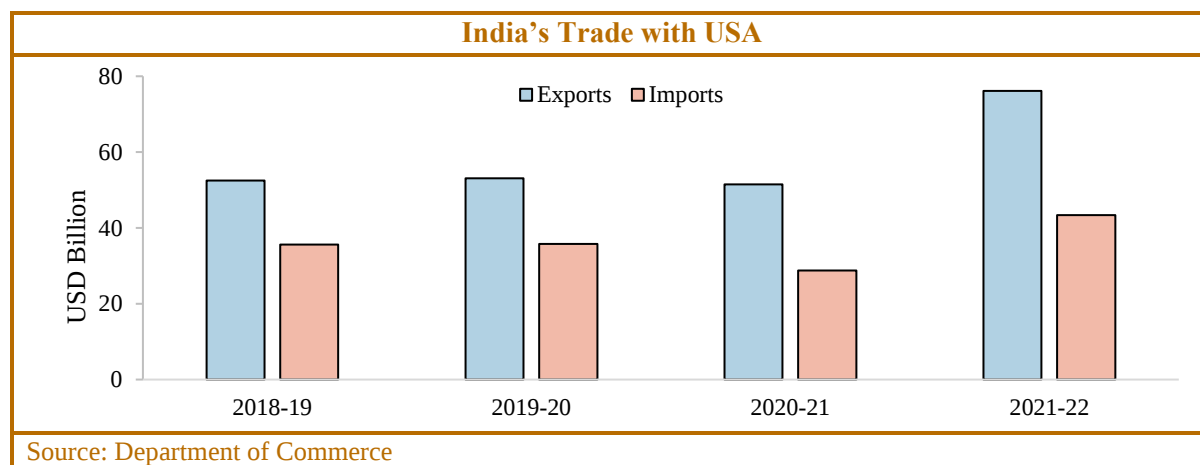


Trade

As economic ties strengthen, USA becomes India's largest trading partner

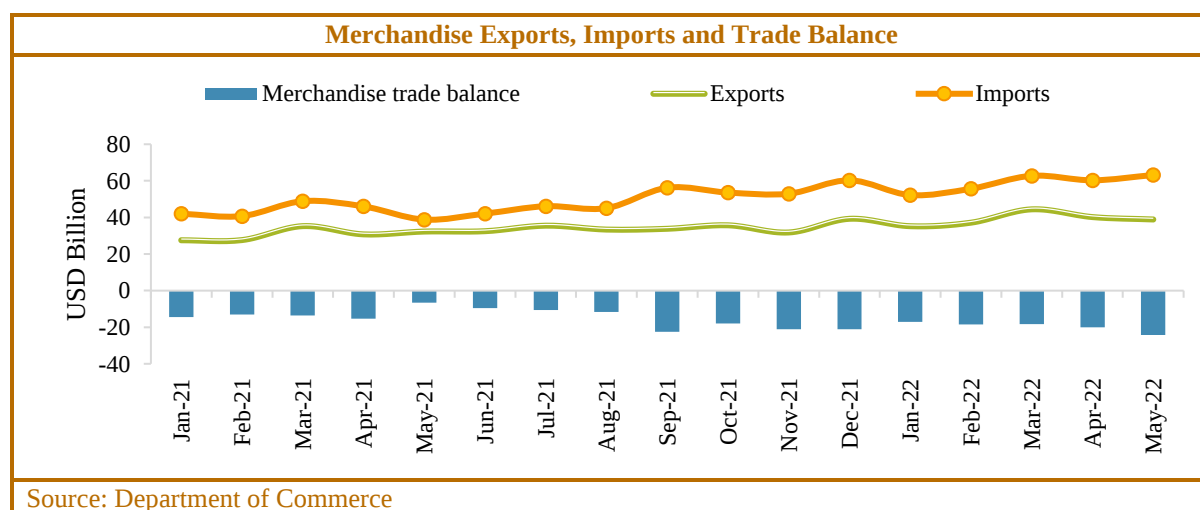
55. USA has surpassed China as India's largest trading partner. Bilateral trade between USA and India stood at USD 119.4 billion in 2021-22 compared to USD 80.5 billion in 2020-21. India's exports to USA witnessed a 47.5 per cent YoY growth in 2021-22, while imports increased by 49.3 per cent. A key reason for the increase in Indian exports to the USA was the expansion in overall demand in the US market along with a shift in demand for goods away from pandemic-constrained services. The increase in India's imports from the US was also a result of rising demand in India. The supply chain

disruption and lockdown in China have also helped increase India's exports to the US following US companies diversifying their supply chains to reduce dependence on China. As India joins a US-led initiative to set up the Indo-Pacific Economic Framework (IPEF), it could lead to a further boosting of trade between the two countries.



Trade deficit widens driven by increase in POL and gold imports in May 2022

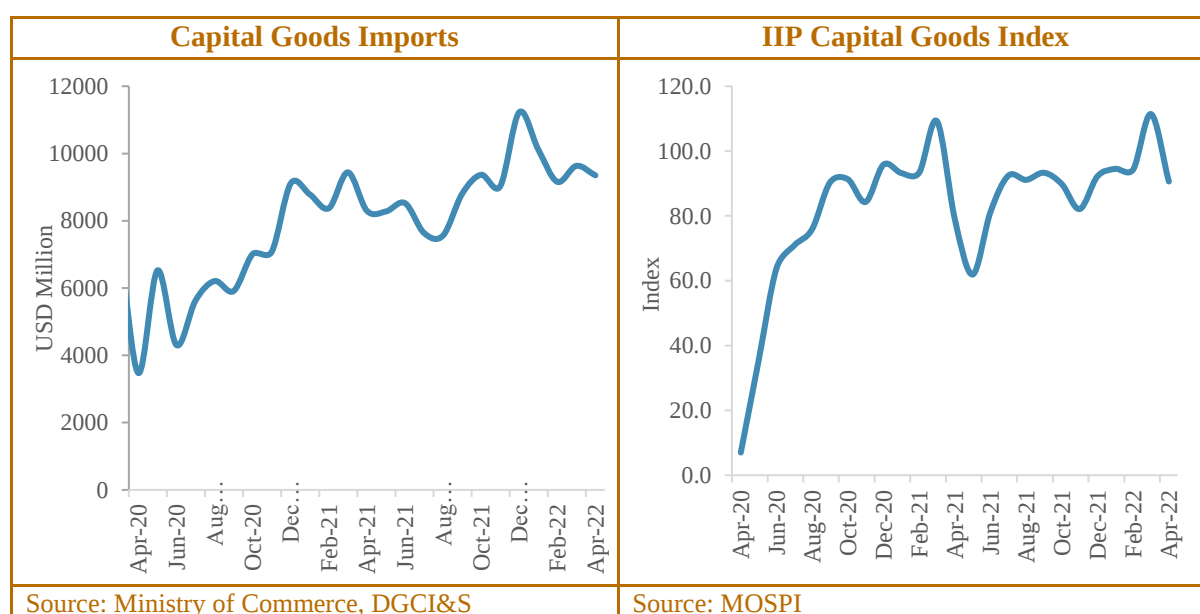
56. Following sustained growth, the value of merchandise exports in May 2022 reached USD 38.9 billion registering YoY growth of 20.6 per cent. Engineering goods, petroleum products, electronic goods etc. are among the major drivers of export growth. Merchandise imports also witnessed a remarkable YoY growth of 62.8 per cent and stood at USD 63.2 billion, driven mainly by a steep rise in POL and gold imports. POL imports rose with a 63.2 per cent YoY jump in the price of crude oil in May 2022. The rise in import of gold is mainly on account of increased demand due to the wedding season, as many weddings were postponed to 2022 from 2021 due to pandemic-induced restrictions. In a situation of a slow rise in domestic production of coal, coal imports have also risen steeply (172.1 per cent YoY) to heed government's directive to power generation companies to blend domestically produced coal with 10 per cent imported coal. Merchandise Non-POL Non-Gems and Jewellery imports witnessed a more modest YoY increase of 31.7 per cent. As a result of higher growth in imports than in exports, the merchandise trade balance increased to USD (-)24.3 billion in May 2022 compared to USD (-) 6.5 billion in May 2021.



Investment

Capital goods momentum moderates slightly in April 2022 even as the government remains firm on committed capital expenditure

57. Economies around the globe have begun to tighten financial conditions in their bids to rein in inflation amidst an uncertain geopolitical scenario. Despite this uncertainty, India's macro-fundamentals continue to foster a healthy investment environment. Capital goods imports in April 2022 have increased by 13 per cent Y-o-Y, and are also higher than the levels in April 2019 by 8.3 per cent. Further, the IIP capital goods index increased by 2 per cent in March Y-o-Y. The index for April 2022 was higher Y-o-Y by 14.6 per cent due to a low base effect. These indicators point towards continued productive capacity creation in the economy. However, the coming months may witness moderation in both these indicators as rising inflation and interest rates may affect investment demand.



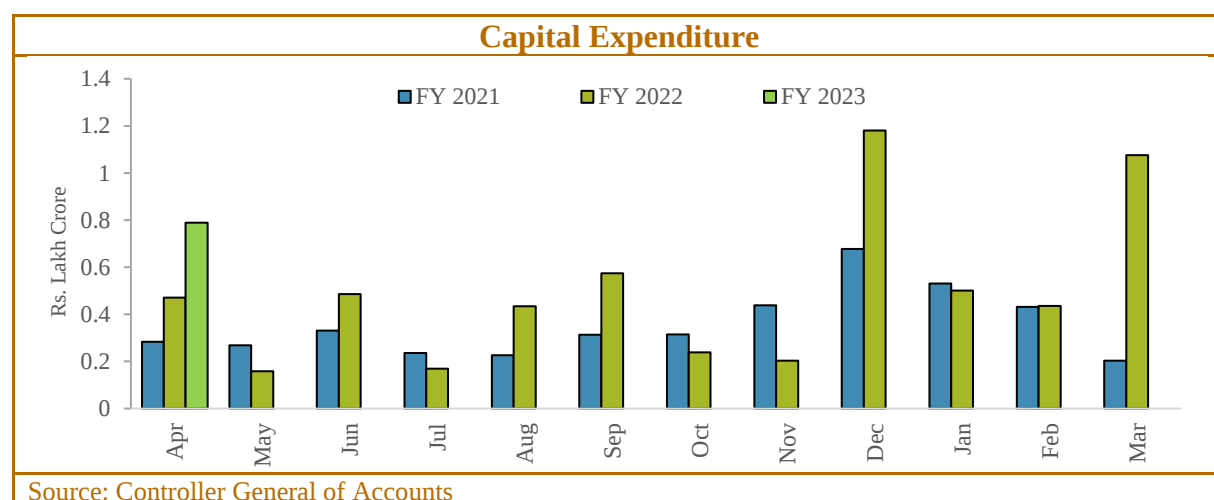
58. Capital expenditure incurred by the government in FY 2021-22 stood at Rs. 5.9 lakh crore or about 98.5 per cent of revised estimates, and was higher than the capital expenditure in FY 2020-21 by 39.3 per cent. The government has said that despite elevated inflationary pressures in the economy, it will not trim its capital expenditure plans and will continue to build productive capacity for the long run.

Q4 FY 2021-22 displayed increasing signs of an uptick in investment; Headwinds from monetary tightening and inflation are concerns

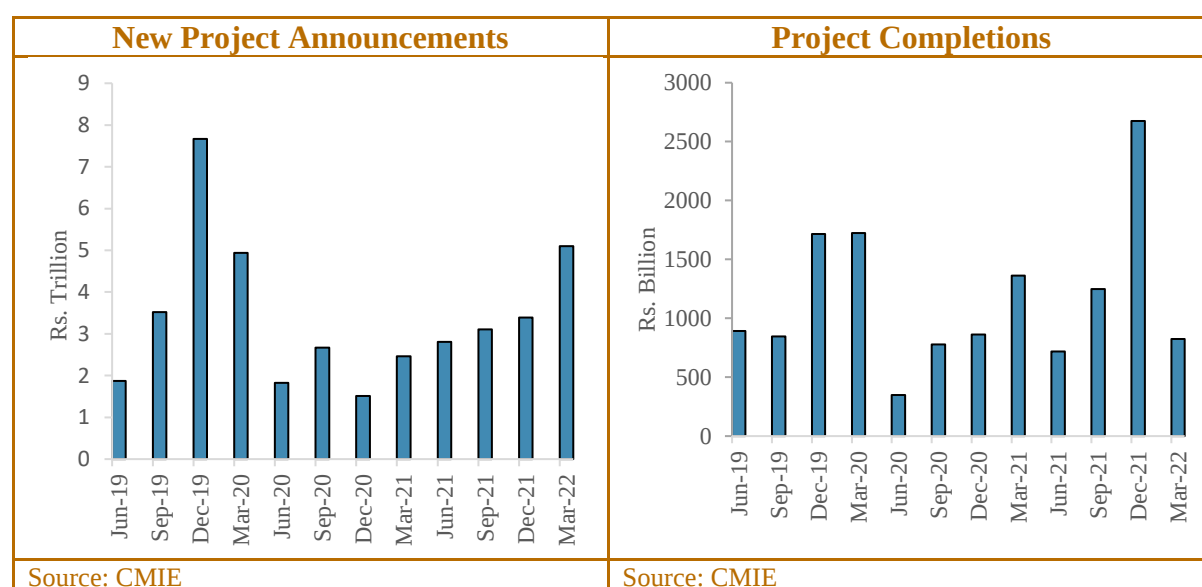
59. Q4 of FY 2021-22 witnessed the formation of favourable conditions for the crowding-in of private capital expenditure. The RBI's quarterly Order Books, Inventories and Capacity Utilisation Survey (OBICUS) stated that capacity utilisation in the manufacturing sector increased from 72.4 per cent in Q3 FY 2021-22 to 74.5 per cent in Q4 FY 2021-22. As capacity utilisation moves closer to the 75 per cent threshold and surpasses its pre-pandemic level, a durable recovery in demand will be critical for a continued recovery of the investment cycle.

60. Investment data from CMIE shows that new investment proposals in Q4 FY 2021-22 witnessed a significant uptick to Rs. 5.1 trillion from Rs. 3.5 trillion in Q3. The figure was higher than the average

new investment proposals of Rs. 3.1 trillion over the preceding three quarter of FY 2021-22. The average new investment proposals per quarter in FY 2021-22 were higher at Rs 3.6 trillion as compared to Rs. 2.1 trillion in FY 2020-21, but lower than the 2019-20 figure of Rs. 4.5 trillion per quarter. Therefore, while investment proposals have picked up from the pandemic-hit year of FY 2020-21, they are still below the pre-pandemic levels.

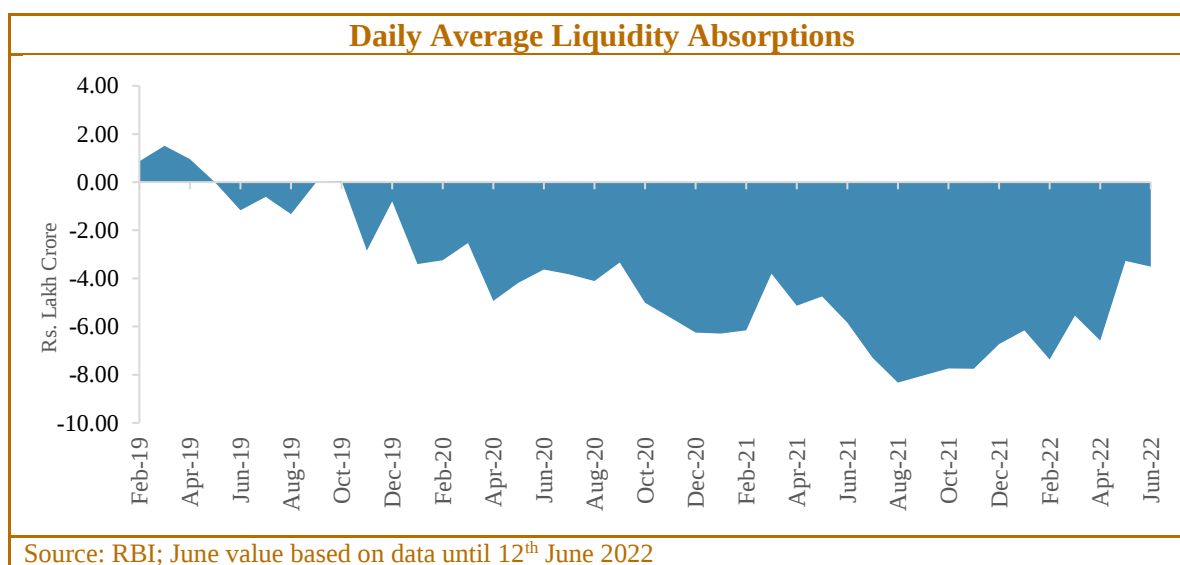


61. According to CMIE data, investment project completion witnessed a rebound in FY 2021-22, with projects worth Rs 5.5 achieving completion, up from Rs. 3.4 trillion in FY 2020-21. On a quarterly basis, Q3 FY 2021-22 witnessed a record value of project completions worth Rs. 2.7 trillion partly on account of the cumulative effect of numerous delayed projects being completed. While project completions in Q4 FY 2021-22 dropped to Rs. 0.8 trillion, CMIE expects a further commissioning of projects worth Rs. 0.92 trillion during this quarter, taking the revised value of completed projects to Rs 1.74 trillion.



Lending Rates trended downwards in April 2022 but are expected to increase in May and June 2022 as RBI hikes interest rates to fight inflation

62. Prior to the hike in policy rates by the RBI in May 2022, credit disbursement was aided by a pass-through of the earlier policy rate cuts. The Weighted Average Lending Rates (WALR) on Outstanding Rupee Loans as well on Fresh Rupee Loans trended downward in April 2022 and were lower than the figures in April 2020 by 110 basis points and 94 basis points. However, in a bid to strengthen its fight against rising inflation, the RBI in its off-cycle MPC meeting in May 2022 increased the policy repo rate to 4.40 per cent, and by a further 50 basis points to 4.9 per cent in June 2022. The SDF was also adjusted from 4.15 per cent to 4.65 per cent. This is expected to increase the WALR in the coming months as banks adjust their lending rates in response to the hike in policy rates.

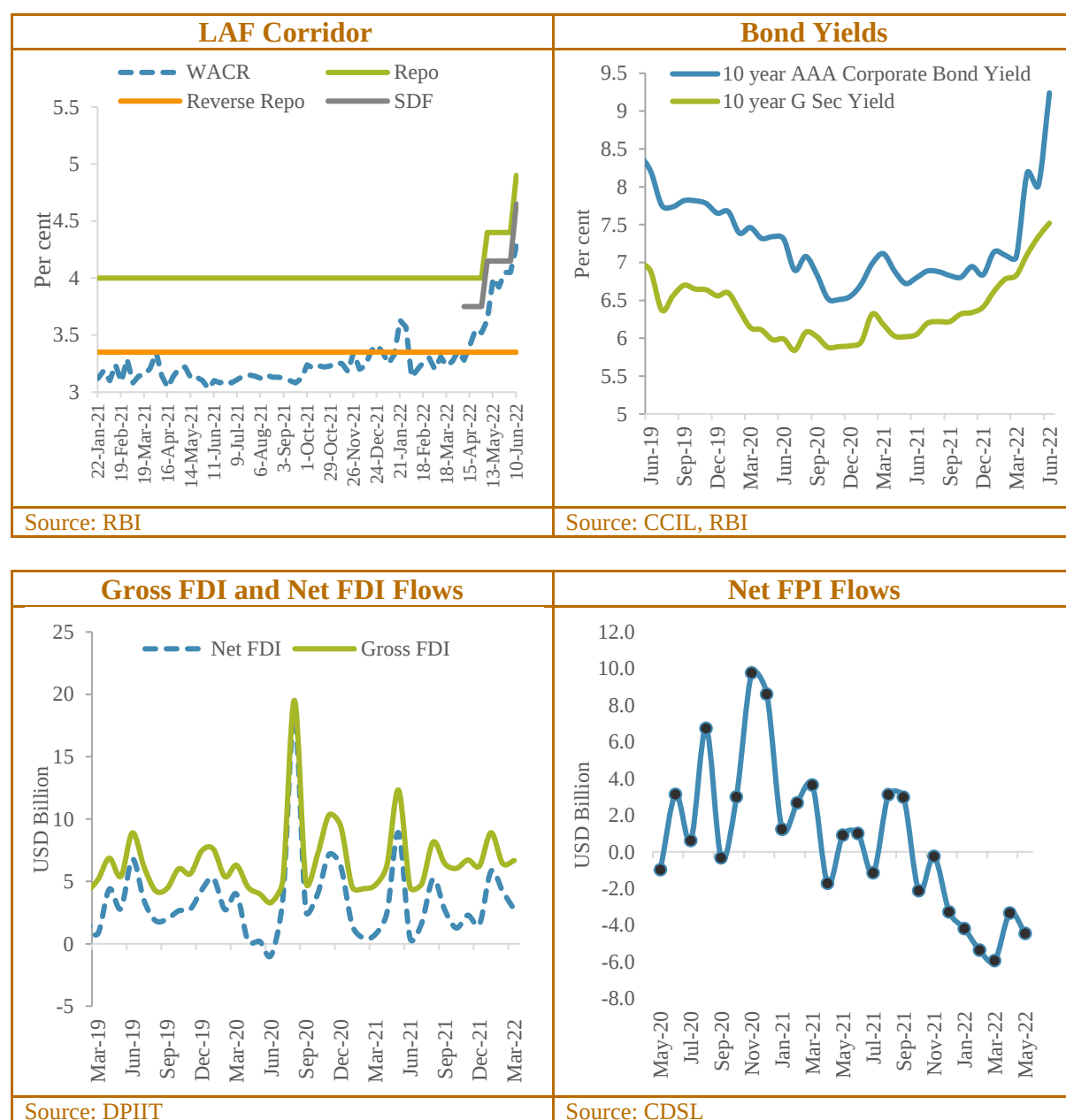


63. As a result of excess liquidity continuing to be absorbed, the Weighted Average Call Rate (WACR) has started trending inside the broader LAF corridor, and is expected to enter the narrower LAF corridor as the RBI pursues withdrawal of accommodation. The rate hikes delivered by the US Federal Reserve and anticipation of further hikes combined with the perception of reduced fiscal space have hardened bond yields. The 10-year G-sec yield in May 2022 rose by 23 basis points over April 2022, and as of 10th June 2022, stands at 7.52 per cent. The spread between the India 10-year G-sec yield and the US 10-year treasury yield at 418 basis points was lower than April's spread of 421 basis points. This is significantly lower than the average spread of 536 basis points since the beginning of the last decade, as well as the average spread of 468 basis points since the beginning of 2021. While the yield on AAA-rated corporate bonds softened in May 2022 by 17 basis points, it has increased sharply since then and stands at 9.24 per cent as on 10th June 2022.

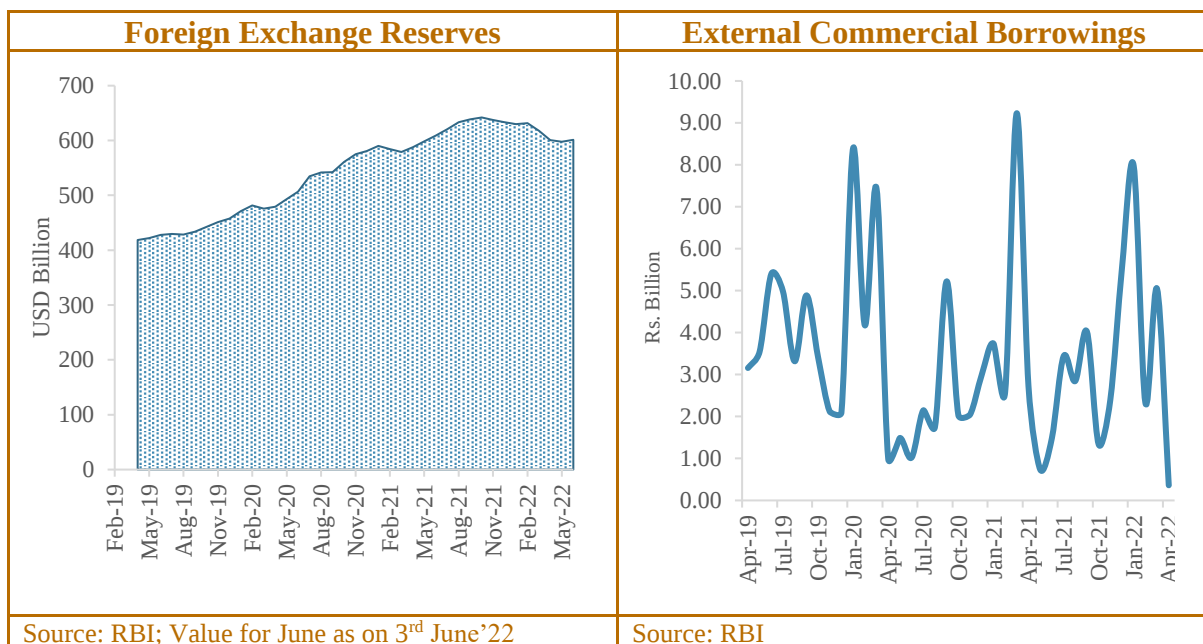
FPI outflows led to the utilisation of forex reserves to counter volatility; ECB inflows declined sharply in April 2022 as monetary conditions tightened globally

64. The tightening of liquidity conditions also explains the dip in forex reserves since January 2022, as net selling by FPIs in Q3 and Q4 of FY 2021-22 has led to the RBI utilizing India's forex reserves to counter volatility in the foreign exchange market. As investors look to move to 'safe-haven' economies amidst an uncertain economic environment, net FPI outflows increased to USD 4.5 billion in May 2022 from USD 3.35 billion in April 2022. India's forex reserves stand at USD 601 billion as on 3rd June 2022. The impact of this uncertainty is also visible in a weakening of Net FDI inflows as well which decreased from USD 4.2 billion in February 2022 to USD 2.7 billion in March 2022. Net

FDI inflows for the year FY 2021-22 as a whole were USD 39.3 billion while FPI inflows were negative (i.e., outflows) at around USD17bn.



65. The financing of investment via foreign savings was also affected in April 2022. Tightened monetary conditions coupled with the depreciation of the Rupee have caused a moderation on External commercial borrowing (ECB) inflows. ECBs which were an attractive source of funding for large Indian companies over the last few years on account of relatively lower interest rates, witnessed a sharp decline from USD 5 billion in March 2022 to USD 361.7 million in April 2022.



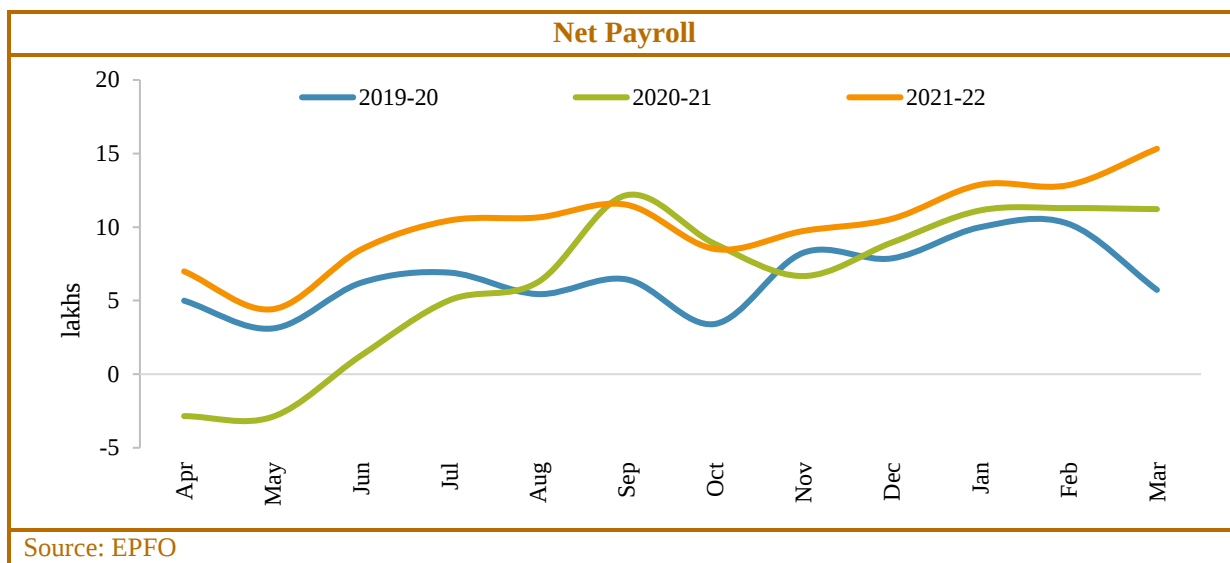
Employment

Formalisation of the economy gaining momentum with record net payroll addition in 2021-22

66. The formalisation of the economy gained further momentum in 2021-22 with cumulative net addition in EPF subscribers reaching a record high of 1.2 crore, 58.7 per cent higher than in 2020-21 and 55.7 per cent higher than in the most recent pre pandemic year (2019-20). The net payroll addition has witnessed a continued growing trend post easing of pandemic-induced restrictions on account of both new job creation and formalisation of existing jobs. Net increase in payroll subscription in March 2022 reached a new peak and recorded a YoY increase of 36.6 per cent and a sequential increase of 19.2 per cent.

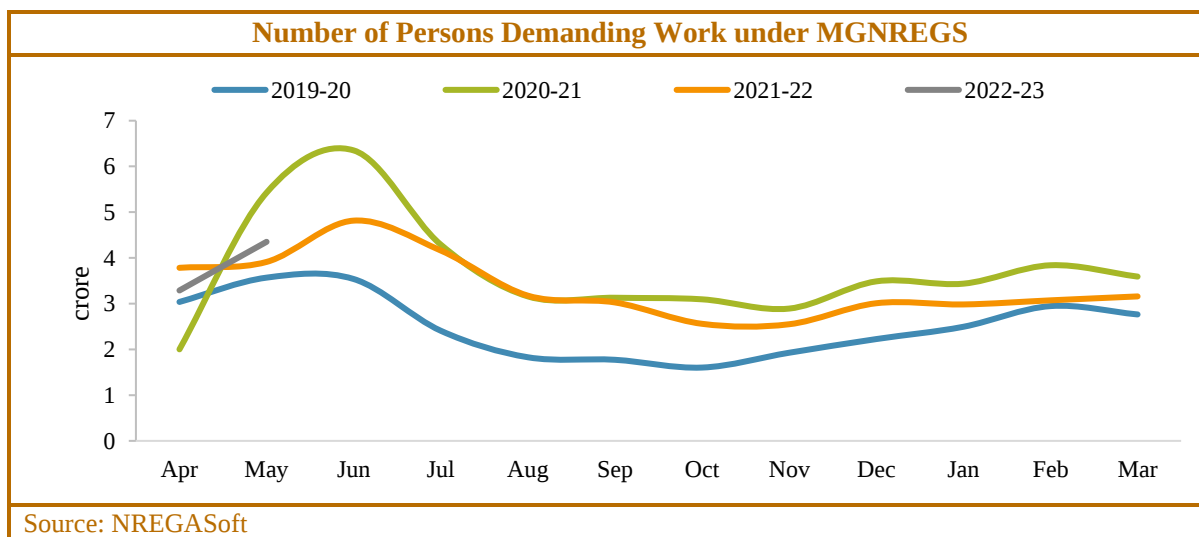
67. Age-wise comparison of payroll data indicates that the age group of 22-25 years has registered the highest number of net enrolments with 4.1 lakh additions during March 2022 indicating that many first-time job seekers are joining the organised sector workforce in large numbers. This is followed by age group of 29-35 with an addition of 3.2 lakh net subscribers that mostly reflect job seekers who have re-joined after having exited the sector earlier. Payroll addition is however concentrated only in a few states like Maharashtra, Karnataka, Tamil Nadu, Gujarat, Haryana and Delhi added approximately 10.1 lakh net subscribers in March 2022, which constituted 66.2 percent of total net subscribers.

68. It is further seen that net payroll additions in 2021-22 have throughout been higher than 2019-20, and going still higher in March, suggesting that after the churning caused by the pandemic in 2020-21, employment creation has picked up space subsequently.



Instability in the labour market despite an uptick in economic activity

69. Demand for work under the Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) after witnessing a sharp decline in April 2022 has witnessed a sudden rebound in May 2022. In May 2022, the total persons demanding work under MGNREGS stood at 4.3 crore, which is 11.2 per cent higher than in May 2021 and 22 per cent higher than the most recent pre-pandemic level (May 2019). The YoY decline in demand for work since May 2021 was mainly on account of a dip in new COVID-19 cases and reduction in uncertainty leading to improvement in urban labour markets conditions. However, the recent rise in work demanded can be attributed to slack in farm activities, heat wave and resulting crop damage and rising inflation compelling people to search for complementary jobs.



Outlook

70. The provisional estimates of GDP released on 31st May 2022 have reaffirmed Indian economy's complete recovery over the pre-pandemic level, although contact intensive sectors are yet to recover. The recovery is driven by sustained growth in agriculture, higher investment and rise in exports. High-

frequency indicators (HFIs) for the April-May period signal a strong pick-up in economic activity in 2022-23, sustaining the momentum gathered in Q4 of 2021-22. Along with ensuring sustainable growth path, the government has been focussed on keeping the fiscal deficit under balance. The fiscal deficit for 2021-22 stood at 6.7 per cent of the GDP, lower than revised estimates of 6.9 per cent.

71. However, going forward, global growth is expected to witness headwinds with rising commodity prices, supply chain bottlenecks and faster than the projected withdrawal of monetary accommodation. Various international agencies have projected a slowing of global economic growth. India's economy is also expected to witness slowing growth, though still higher than the other emerging market economies.

72. Recent 50 basis point repo rate hike by RBI taking the repo rate to 4.9 per cent and counteractive policy action by Government in form of excise duty cuts, rationalisation of custom duties, enhanced subsidy to targeted sections, trade policy changes and government's continued committed to enhance capex are expected to restrain inflation while underpinning economic growth in the ongoing fiscal year. In the medium term, the successful launch of the Production Linked Incentive Scheme, development of renewable sources of energy while diversifying import dependence on crude oil and strengthening of financial sector are expected to drive economic growth.

73. The high-wire balancing act between maintaining growth momentum, restraining inflation, keeping the fiscal deficit within budget and ensuring a gradual evolution of the exchange rate in line with underlying external fundamentals of the economy is the challenge for policymaking this financial year. Successfully pulling it off will require prioritising macroeconomic stability over near-term growth. The reward for such a policy discipline will be the availability of adequate domestic and foreign capital to finance India's investment needs and economic growth that fulfils the employment and quality of life aspirations of millions of Indians.

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	YoY over 2019<0%		YoY over 2019=0%		YoY over 2019>0%
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Movement in India's high frequency indicators							
Indicator	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Apr-22	May-22
Agriculture							
Tractor sales (Numbers)	85076	110399	92465	44428	72888	89201	81940
Fertilisers sales (Lakh MT)	41.6	65.9	47.0	70.3	33.3	20.1	
Industry							
8-Core Industries (Index)	150.8	127.2	126.9	141.3	158.2	143.2	
IIP-Consumer Durable goods	133.0	100.1	131.0	121.5	129.5	149.9	
IIP-Consumer Non-Durable goods	157.2	141.8	147.3	161.6	112.1	140.4	
Domestic Auto sales [#] (Lakh)	18.2	13.0	17.2	12.5	15.0	14.2	15.3
Passenger vehicles sales (Lakh)	2.9	2.3	1.6	2.2	2.8	2.5	2.5
PMI Manufacturing (Index)	55.4	48.1	53.7	55.5	54.0	54.7	54.6
Power supply (Mega Units)	123.0	115.4	114.5	110.3	130.3	133.0	136.1
Natural gas production (Mn. Cu. Mt)	2685.8	2777.0	2902.4	2896.7	2886.2	2826.7	
Cement production ('000 Tonnes)	182.5	148.2	141.1	168.8	198.8	171.7	
Steel consumption ('000 Tonnes)	9708	8151	8190	9408	9772	9072	9445
Services							
Domestic air passenger traffic (Lakh)	153.4	59.9	137.5	221.3	211.2	208.3	
Port cargo traffic (Million Tonnes)	69.0	58.6	53.6	62.9	69.5	65.0	65.9
Rail freight traffic (Tonnes)	130490	112780	106000	126780	139240	122200	131700
PMI Services (Index)	54.6	41.2	55.2	55.5	53.6	57.9	58.9
Fuel consumption (Thousand MT)	18628	15842	15889	18287	19410	18200	18269
UPI Digital Payments (Rs Lakh Crore)	5.0	5.5	6.5	8.3	9.6	9.7	10.4

UPI Digital Payments (Crore)	273.2	280.0	365.0	456.0	540.6	539.1	594.6
Indicator	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Apr-22	May-22
Inflation							
WPI (Base 2012=100)	129.9	133.7	137.4	142.4	148.9	151.9	154
CPI (Base 2012=100)	156.8	161.3	163.2	166.2	167.7	170.1	171.7
CPI food (Base 2012=100)	155	161.3	162.7	167.1	166.9	169.4	172.1
Crude price Brent Dubai WTI (USD/ Barrel)	63.8	71.8	72.8	72.9	112.4	103.4	110.1
Crude oil Indian basket (USD/ Barrel)	64.7	71.6	73.0	73.3	113.7	102.9	109.3
External Sector							
Merch Exports (USD Billion)	35.3	32.5	33.8	39.3	44.4	38.2	37.3
Non-oil exports (USD Billion)	30.8	28.5	28.6	32.5	34.7	31.9	29.2
Non-oil non gold imports (USD Bn)	30.1	30.4	33.8	38.8	40.5	38.2	37.5
Baltic Dry Index	2018	2932	4288	2832	2464	2220	2943
Exchange Rate (INR/USD)	72.8	73.6	73.6	75.4	76.2	76.2	77.3
NEER (40 currency, trade based, 2015-16=100)	95.0	93.6	94.5	93.5	92.7	93.3	93.3
Net FDI (USD Billion)	0.8	0.4	2.7	1.6	2.7	5.03	
Fiscal							
Gross tax revenue (Rs. Lakh crore)	3.6	2.2	3.2	3.9	4.3	2.3	
Capital Expenditure (Rs. Crore)	19553	48535	57483	118014	107617	78925	
GST collection (Rs. Lakh Crore)	1.2	0.9	1.2	1.3	1.4	1.7	1.4
Monetary and Financial Markets							
M3 (Rs. Lakh crore)	187.7	191.7	193.9	201.1	204.9	207.1	206.8
Non-food credit (Rs. Lakh crore)	107.3	107.5	108.9	114.9	118.4	119.1	
Sensex (Index)	49509	52483	59126	58254	58569	57061	55566
Nifty 50 (Index)	14691	15722	17618	17354	17465	17103	16585