

**Economic
Division**

Monthly Economic Review

February 2022



आर्थिक कार्य विभाग
DEPARTMENT OF
ECONOMIC AFFAIRS

सत्यमेव जयते

Abstract

The second advance estimates of GDP released on 28th February, 2022, has reaffirmed full recovery of India's economy with real GDP of FY 2021-22 estimated to go past the output of the most recent pre-pandemic year of 2019-20. It further reaffirms the completion of the recovery as early as at the end of the third quarter itself, with real GDP in the first nine months of the current year nudging the corresponding output level of 2019-20. The fact that the implied real GDP in the fourth quarter of the current year is also ahead of the corresponding output level of 2019-20, shows that the Omicron variant of COVID-19, that peaked in the second half of January, 2022, has had a negligible impact on the activity levels in the economy.

The geopolitical tensions involving Russia and Ukraine triggered a massive turbulence in the global economy. Within days, international prices of crude oil and other commodities shot up escalating the cost of India's import basket. Its impact on India's activity level in March, if any, can be assessed only a month later, when high frequency data becomes available. However, with the activity levels in February not dampening, it is unlikely that actual GDP prints of 2021-22 will be different from the levels indicated in the second advance estimates. The geo-political crisis is still evolving and these are early days to make a plausible forecast of its impact on India's economy in the year ahead.

Yet India has braced well to meet the impact of rising commodity prices. Foreign exchange reserves continue to be at a record high and are large enough to finance more than 12 months of imports. Foreign investors have largely stayed invested in the economy as the exchange rate depreciates on a flatter trajectory shaped by exceptional growth of exports. External debt, with one-third of its value denominated in Indian currency, is considerably light at 20 per cent of GDP to accommodate deterioration of trade balance, if any. Wholesale inflation is set to decline in the year ahead on a large base effect while food inflation will be subdued with a record production of food grains estimated in the current year further building food buffers. Given the inherently unsustainable nature of high prices, international commodity prices are expected to level off early with increase in supplies outside the crisis zone. However, the impact on growth, inflation, current account and fiscal deficits will depend on the persistence of commodities prices at elevated levels.

Economic activity continues to recover with upswing in the mobility, resilient power demand, healthy toll collection and E-way bill generations. Sustained momentum in GST revenue collection with year-on-year growth of 18 per cent mobilizing Rs. 1.33 lakh crore in February 2022 also bespeaks growing business and trading turnover going beyond the festival season. To help nurture growth, systemic liquidity continues to be in surplus. Growth in non-food bank credit has accelerated with sectoral credit to agriculture, industry and services performing well. The PMI manufacturing remains in expansionary zone amid favourable demand conditions as seen in increase in new work orders along with improvement in business sentiments. Similarly, service activity has also strengthened owing to expansion in new orders, improved demand conditions and enhanced business confidence. Railway freight traffic continued to exhibit a sturdy performance.

Headline CPI inflation averaged 5.4 per cent for the period April-February 2021-22 as compared to 6.2 per cent in the corresponding period last year. Measures taken by government like imposition of stockholding limits on edible oils, open market sale and rationalisation of tariff and cess have aided stability in prices of essential commodities. For the coming fiscal year 2022-23, RBI has projected CPI inflation at 4.5 per cent with risk broadly balanced. On the wholesale side, WPI, after remaining benign at 0.4 per cent during the April-February period of 2020-21, saw a sharp uptick in the corresponding period of 2021-22 to 12.7 per cent, mainly driven by low base of last year. Going forward, as the base effect fades, WPI inflation is expected to moderate in the coming months.

The agriculture sector has witnessed continued growth momentum with Rabi sowing registering a YoY growth of 1.5 per cent in the current year, with record sowing achieved in case of oilseeds. The increase in acreage along with sufficient reservoir levels, normal rainfall and moisture conditions indicate reasonable prospects for Rabi crops. With higher output of Kharif crops and record acreage under Rabi crops, total food grains production in 2021-22 is estimated to reach a record high. Further, increase in MSPs for both kharif and rabi crops in 2021-22 and ongoing procurement under KMS benefitting 1 crore farmers so far, have also raised rural incomes.

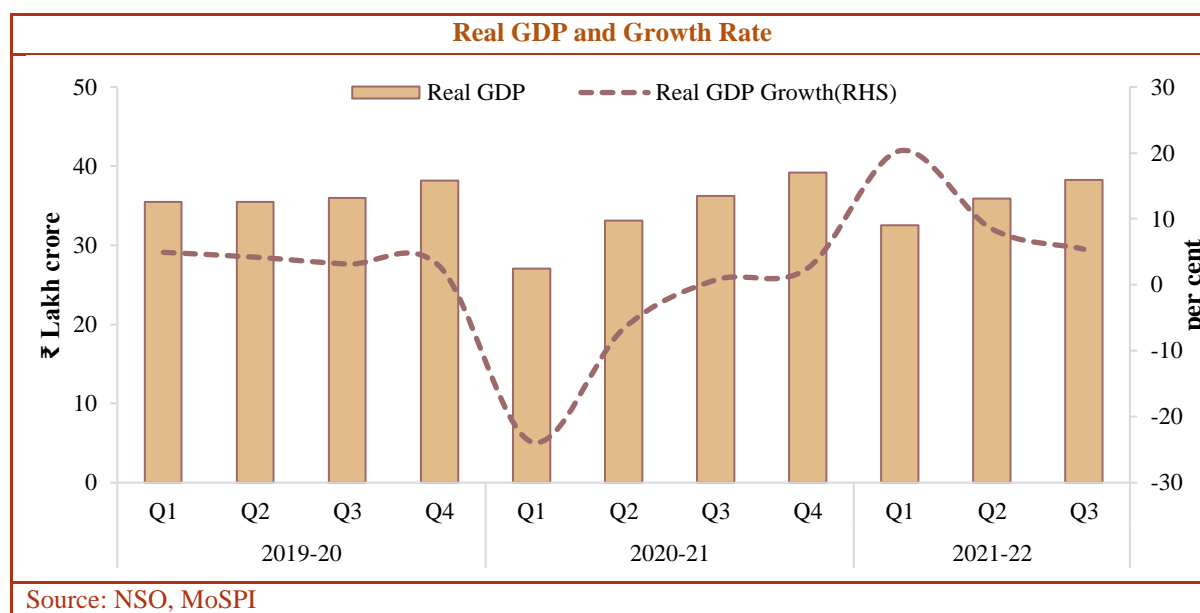
External sector exhibits sign of resilience with robust growth in merchandise exports increasing to USD 374.8 billion during April 2021 – February 2022, covering 93.7 per cent of the target set for 2021-22, in-part benefitting from a rebound in the world economy. Merchandise imports also grew by 36.1 per cent YoY in February on account of rising crude oil prices and recovery of domestic demand post Omicron wave of COVID-19.

The consumption component of aggregate demand remained robust in the month of January 2022 on the back of improved consumer sentiments amidst a recovering economy. Union Government's endeavour to enhance capital expenditure will further boost the growth and employment through the multiplier effect. Capital goods imports during January, stayed well above last year and pre-pandemic levels, implying upbeat investment activity in the economy. Bond yields have remained largely stable to support the investment climate. A more deliberate effort to reduce cost of borrowing is seen in complete pass-through of policy repo cuts as weighted average lending rate (WALR) on fresh rupee loans reduced by 140 basis points between February, 2020 and January, 2022.

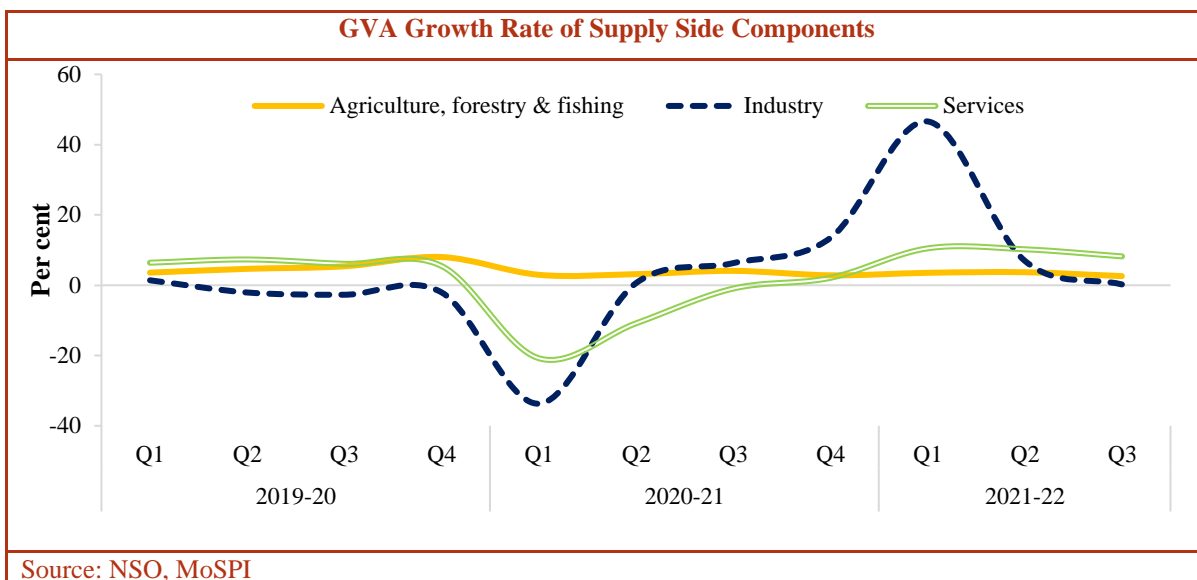
Real GDP estimates for Q3 of 2021-22, at YoY growth of 5.4 per cent, is reflective of a strong growth momentum, which has been aided by rapid vaccination coverage and accommodative monetary and fiscal policy support. Recent geopolitical developments have introduced an element of uncertainty into the economic growth and inflation outlooks in the new financial year. However, the budget with its capex orientation and prudent assumptions along with strong macroeconomic fundamentals will support growth and provides a floor to it amidst global political turmoil and likely higher volatility in financial markets.

Q3: FY 2021-22 data reasserts prospects for strong recovery

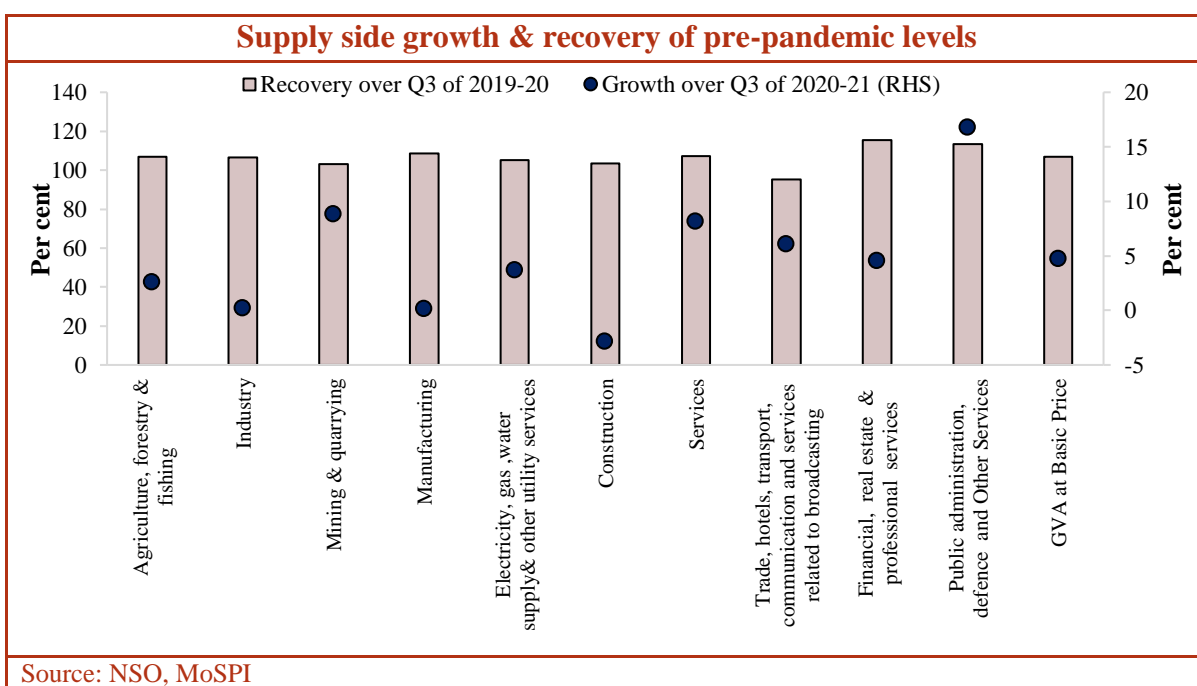
1. Year on year (YoY) growth in real GDP in Q3 of 2021-22 is estimated at 5.4 per cent as compared to 8.5 per in Q2 of 2021-22, mainly on account of erosion of favourable base effect. This is seen in the real GDP in Q3 of 2021-22 sequentially growing by 6.4 per cent over Q2 of 2021-22, which is indicative of a strong growth momentum. The momentum pushed the real GDP in Q3 of 2021-22 to 106.2 per cent of the pre pandemic Q3 output of 2019-20 and the combined output of first three quarters to 100 per cent of the pre-pandemic level. These estimates reaffirm India's prospects of a resilient and strong recovery and bear testimony to India's strong macroeconomic fundamentals.



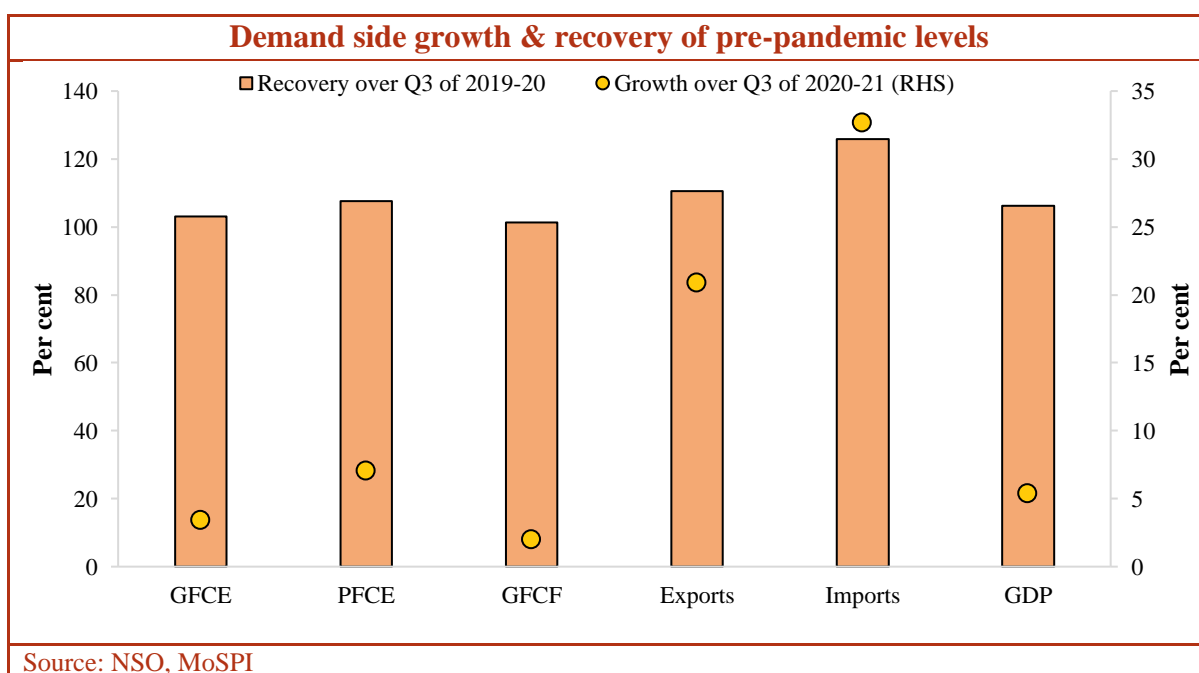
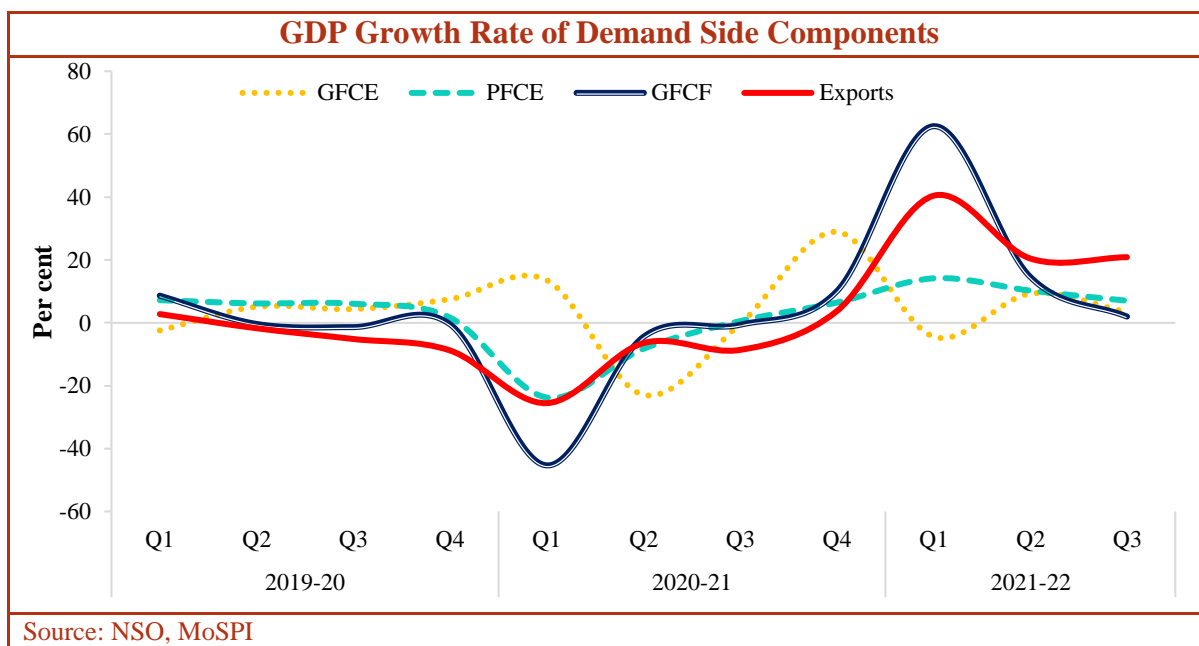
2. On the supply side, growth in output in Q3 FY:2021-22 was broad-based across sectors. Agriculture and allied sectors' GVA witnessed a robust 2.6 per cent YoY growth. The industrial sector's real GVA grew at 0.2 per cent aided by growth in mining and quarrying (8.8 per cent), manufacturing (0.2 per cent) and electricity, gas, water supply & other utility services (3.7 per cent). Construction sector posted a positive sequential growth of 9.7 per cent. The services sector also witnessed robust YoY real GVA growth of 8.2 per cent driven by public administration, defence and other services (16.8 per cent) financial, real estate & professional services (4.6 per cent) and the contact-intensive trade, hotels, transport, communication and services related to broadcasting (6.1 per cent).



3. Real GVA growth in Q3 of 2021-22 has been comprehensive and sufficient to drive almost all the sectors past their respective pre-pandemic levels of Q3 of 2019-20. The real GVA of manufacturing sector recovered 108.6 per cent of the pre-pandemic real GVA. Financial, real estate & professional services have recovered 115.3 per cent of the pre-pandemic real GVA followed by public administration, defence and other services at 113.4 per cent, electricity, gas, water supply & other utility services at 105.2 per cent, construction at 103.6 per cent and mining & quarrying at 103.1 per cent. The most impacted trade, hotels, transport, communication and services related to broadcasting sector showed gradual revival to reach 95.4 per cent of its pre-pandemic levels. Rapid progress in vaccination and targeted relief measures for the stressed sectors have shown positive results in driving economy out of the pandemic induced recession.

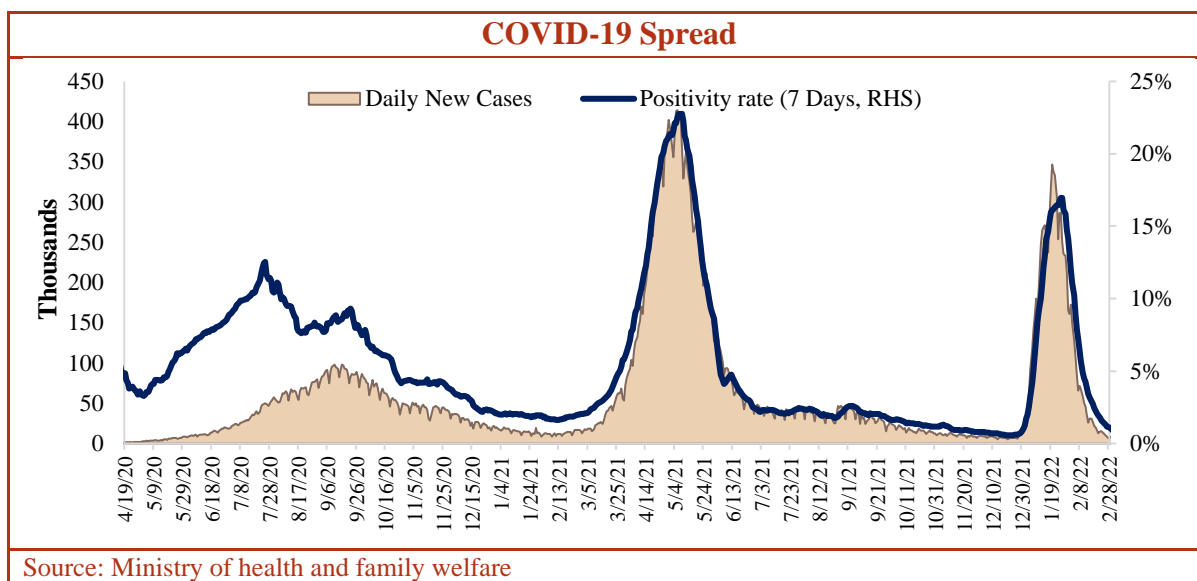


4. On the demand side, consumption, investment, exports and imports in Q3: FY 2021-22 grew at 6.5 per cent, 2.0 per cent, 20.9 per cent and 32.6 per cent respectively over the corresponding period last year. Consumption and imports witnessed strong growth momentum in Q3: FY 2021-22 posting an increase of 12.5 per cent and 4.9 per cent respectively over Q2: FY 2021-22. When compared to Q3: FY 2019-20 levels, all the components have crossed the corresponding pre-pandemic levels. Recovery in private consumption at 107.6 per cent and imports at 125.8 per cent compared to the pre-pandemic levels signal faster revival of demand and growth. GFCF at 101.4 per cent of the pre-pandemic level signals policy thrust on quickening virtuous cycle of growth via capex and infrastructure spending have achieved results.

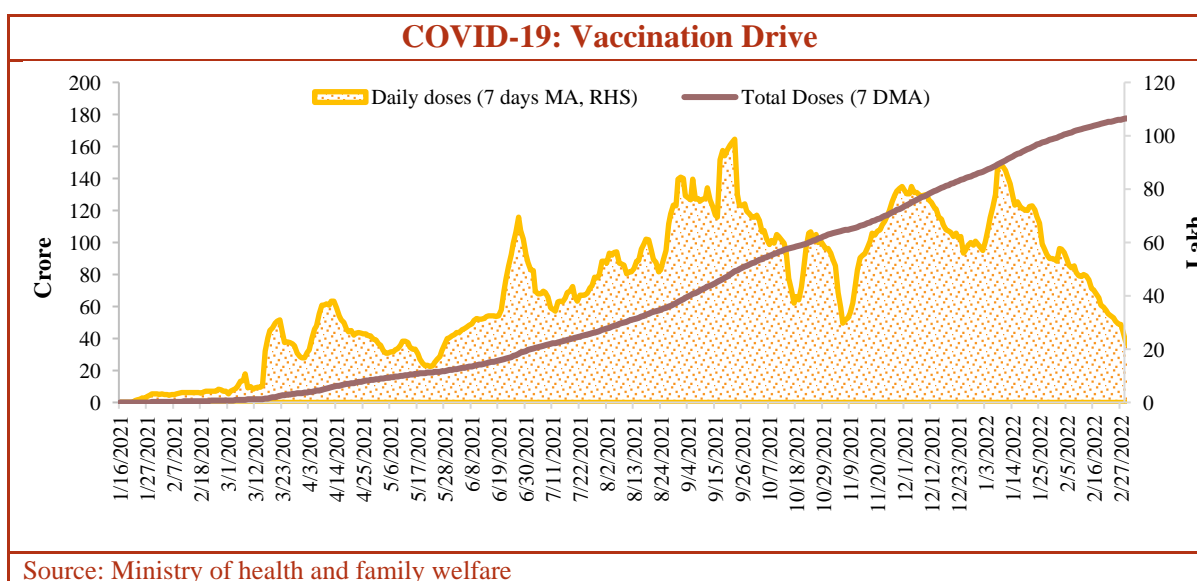


Economic Activity

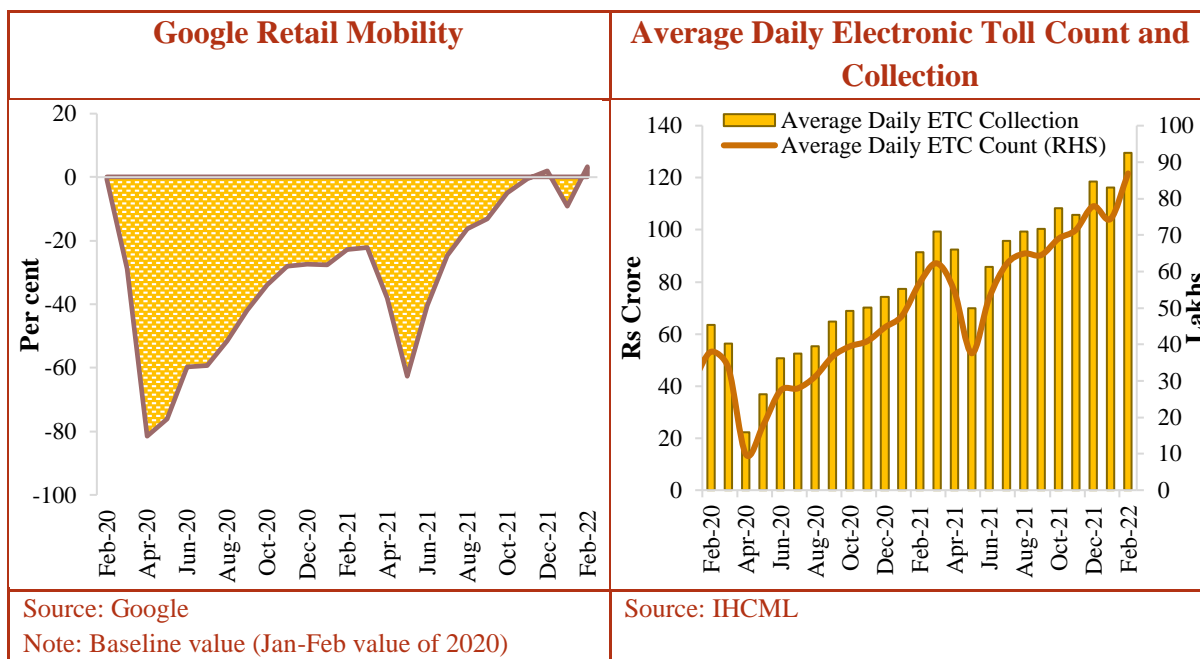
5. Third wave continues to wane swiftly in India with seven days moving average of daily cases falling to less than 12 thousand by February end from more than 2 lakh by January end. The weekly positivity rate has shrunk from 14.1 per cent in January end to 1.1 per cent by February end. The daily recoveries continue to outnumber daily new cases as the recovery rate rose to 98.6 per cent. As on 28th February, 2022 India had 1.35 lakh active cases – down from a peak of 22.0 lakh cases on 27th Jan 2022. The cumulative deaths, since the first wave, stand at less than 3800 per crore population.



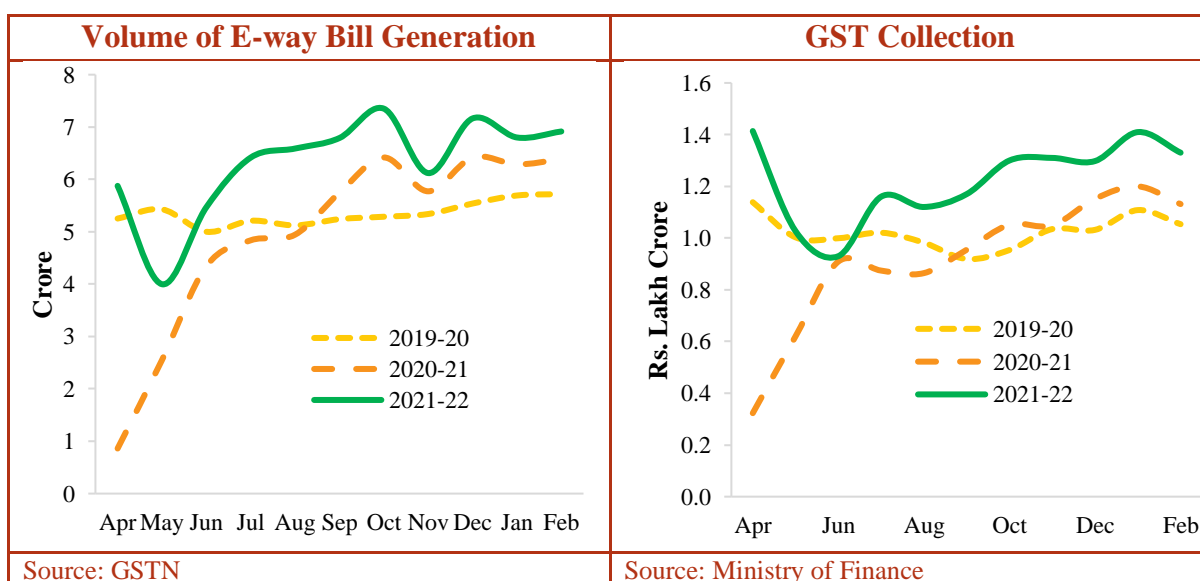
6. As on 28th February, India has administered more than 178 crore doses of vaccine, with around 91 crore people having received at least one dose, of which around 76 crore people stand fully vaccinated. More than 5.4 crore adolescents have received at least one dose, covering at least 74 percent of their population. About 2.0 crore precautionary doses have been administered to healthcare, front line workers and people aged above 60 years.



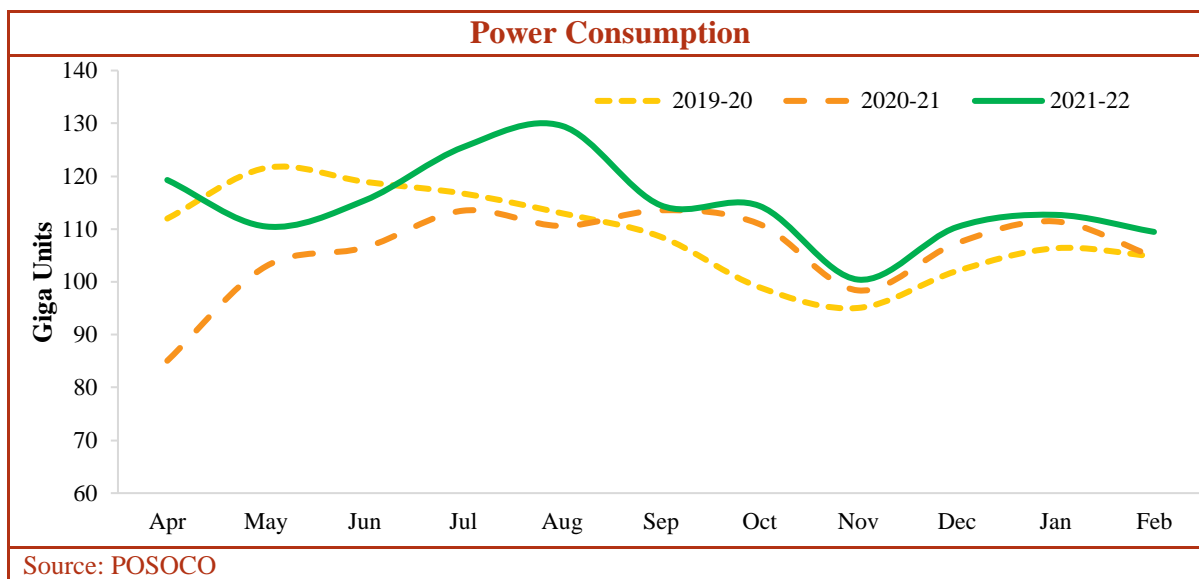
7. After slight moderation in economic activity during January, growth momentum picked up again in February amid withdrawal of COVID-19 induced restrictions across states. Local mobility as tracked by Google Retail Mobility exceeded pre-pandemic level by 3 per cent in February, after slackening by (-) 9.2 per cent in January 2022. Average daily electronic toll count and collection increased in February after witnessing slight moderation in January.



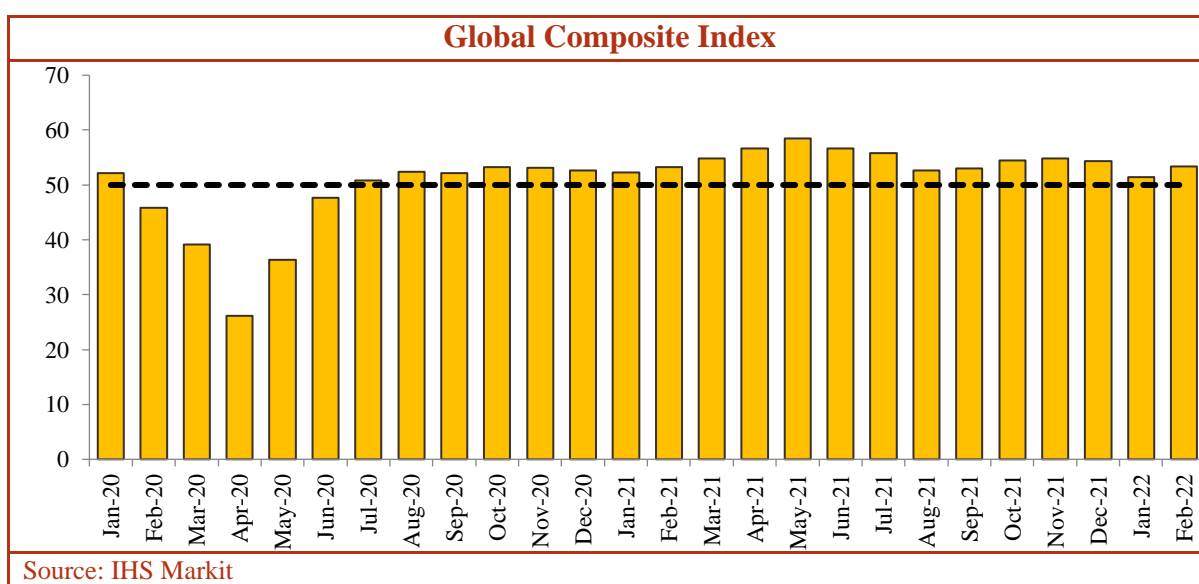
8. Robust GST collection during February 2022 (reflecting January transactions) crossed Rs. 1.30 lakh crore mark for the fifth time since implementation. It was Rs. 1.33 lakh crore, registering a double-digit growth of 18 per cent compared to corresponding period last year and 26 per cent higher than the corresponding pre pandemic level. Going forward, continuous revival in economic activity is expected to produce buoyant tax collection in the coming months.



9. Demand for energy continues to remain resilient. During February, power consumption further grew by 8.1 per cent compared to first 28 days of preceding month and 4.5 per cent over the corresponding month of the previous year.



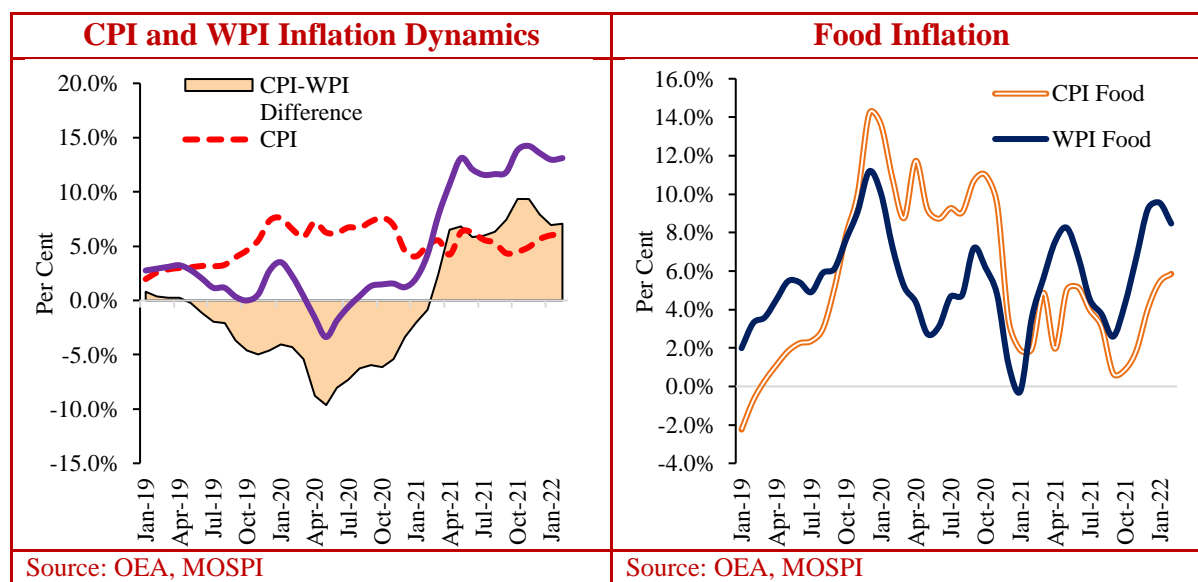
10. Global activity expanded during February as indicated by rise in Global PMI composite index to 53.4. Growth of new orders, employment acceleration and strengthening of business optimism contributed to this development. New export order volumes witnessed a modest recovery following a slight decrease in the previous month. However, energy prices have risen sharply amid heightened geo-political uncertainty, an improved demand outlook, and concerns about OPEC+ production capacity. Going forward, elevated energy prices and supply chain disruptions induced by Russia-Ukraine conflict pose a serious challenge to the ongoing recovery in global economic activity in the near future.



Prices

11. Consumer Price Index – Combined (CPI-C) inflation or retail inflation for the month of February 2022 rose to 6.1 per cent from 6 per cent in January 2022. However, for April-February period as a whole, retail inflation averaged 5.4 per cent, during 2021-22 (April-February), around 80 basis points lower than 6.2 per cent obtained in the corresponding period of last year. On the other hand, wholesale inflation, based on Wholesale Price Index (WPI), after remaining benign at 0.7 per cent during the April-February period of 2020-21, saw a sharp uptick in the corresponding period of 2021-22 to 12.7 per cent. WPI inflation stood at 13.1 per cent in February 2022, as compared to 13.0 per cent in January 2022. A part of the observed rise in wholesale inflation in 2021-22 (April-February) is attributed to the low base in the previous year. As the base effect fades, WPI inflation is expected to moderate, being limited to sequential growth of the index.

12. In February 2022, the increase in retail inflation was primarily driven by increase in inflation of ‘food and beverages’, housing and ‘clothing and footwear’ subgroups. Food inflation increased from 5.4 per cent in January 2022 to 5.9 per cent in February 2022 mainly driven by unfavourable base effect, partly offset by sequential MoM inflation declining by 0.2 per cent. Contributing to food inflation in February 2022 were ‘cereals and products’, eggs, ‘meat and fish’, and spices. On the other hand, inflation in ‘milk and products’, and ‘oils and fats’ moderated during the same period.

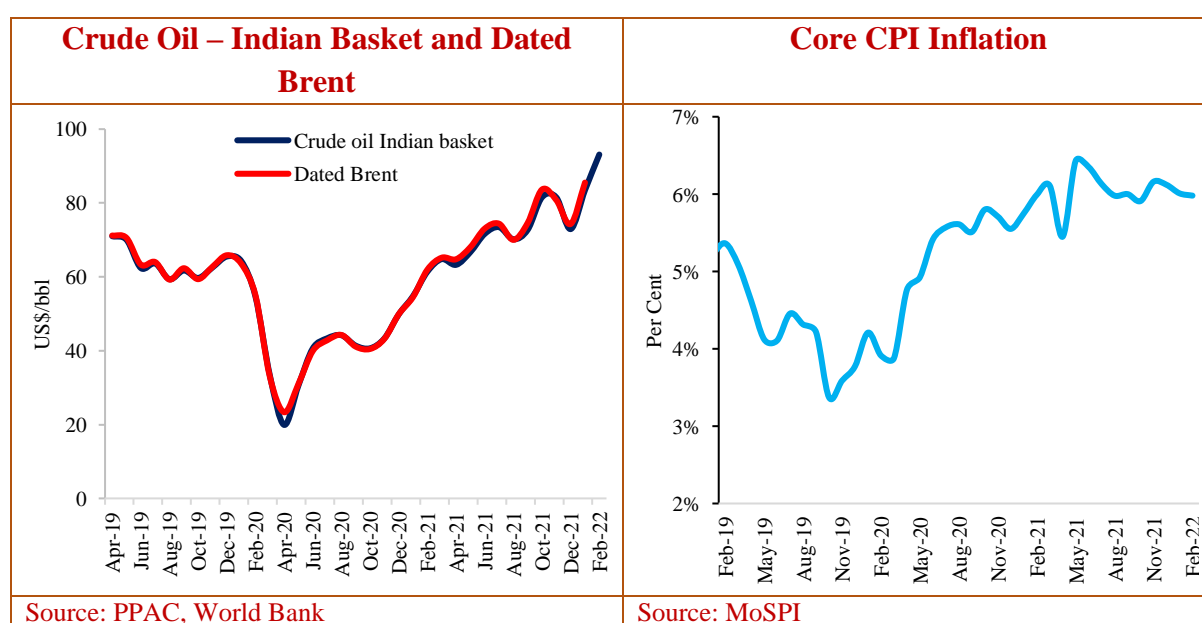


13. ‘Oils and fats’ subgroup inflation moderated from a peak of 34.8 per cent in June 2021 to 16.4 per cent in February 2022. However, daily data shows a slight uptick in prices of edible oils since mid-February 2022. India imports about 55 per cent of its domestic requirement of edible oils. Crude palm oil and Sunflower oil form about 62 per cent and 14 per cent of India’s edible oil imports respectively, and are thus vulnerable to international price rise. The current spike in prices of edible oils is mainly on account of high and increasing international prices

of edible oils. The FAO Vegetable Oil Price Index averaged 201.7 points in February, up 8.5 percent MoM, marking a new record high. International palm oil prices increased on account of rising global import demand and reduced exports from Indonesia. International sunflower oil prices also increased markedly, underpinned by concerns over the disruptions in the Black Sea region. Government has also extended the stockholding limits for edible oils and oilseeds till 30th June 2022. Additionally, agri-cess for crude palm oil has been reduced from 7.5 per cent to 5 per cent w.e.f. 13th February 2022.

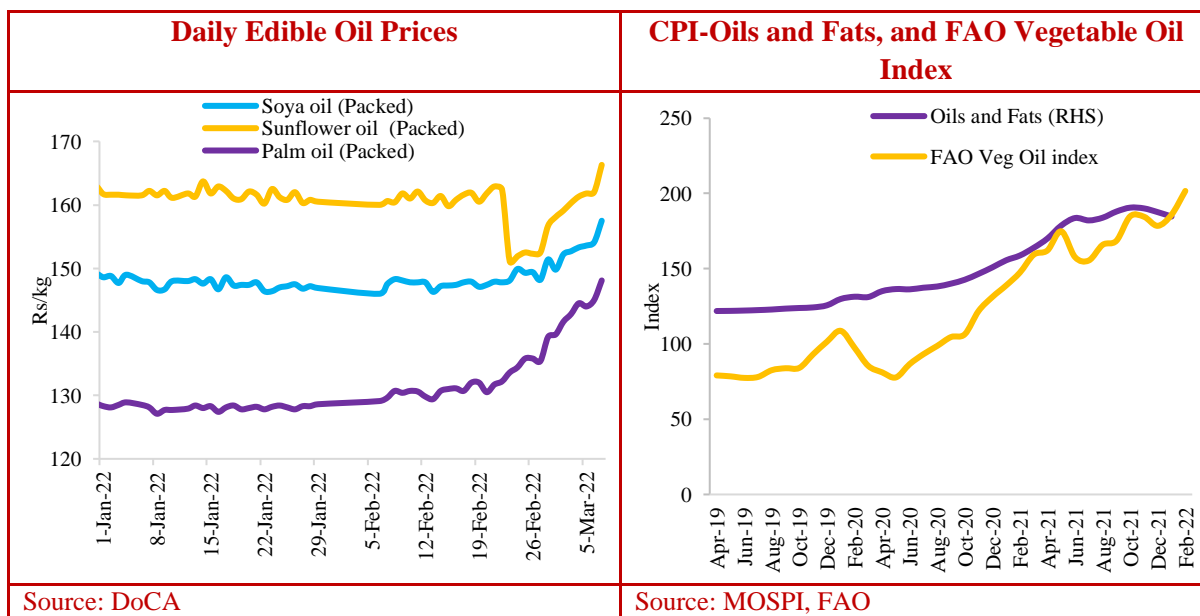
14. Inflation in the ‘fuel and light’ category moderated from 9.3 per cent in January 2022 to 8.7 per cent in February 2022. Consequently, core inflation (non-food, non-fuel inflation), a more stable measure of retail inflation remained unchanged at 6 per cent in February 2022 as compared to January 2022. Inflation in the all the subgroups of core inflation except ‘clothing and footwear’, and housing, declined in February 2022, as compared to the preceding month.

15. WPI inflation increased from 13.0 per cent in January 2022 to 13.1 per cent in February 2022. The increase in wholesale inflation is primarily on account of increase in inflation of Manufactured Products. Manufactured products inflation increased from 9.4 per cent in January 2022 to 9.8 per cent in February 2022, whereas ‘fuel and power’ inflation declined from 32.3 per cent in January 2022 to 31.5 per cent in February 2022. A significant reason for the high inflation in the ‘fuel and power’ group, and the ‘crude petroleum and natural gas’ subgroup is on account of the high and volatile prices of crude oil in the international market. Crude oil prices have witnessed a sharp uptick in February 2022 on account of demand-supply mismatch and geopolitical tensions between Russia and Ukraine. The price of India’s crude basket has increased by 43.8 per cent from April 2021 to February 2022. The average February price stands at USD 93.1/bbl.

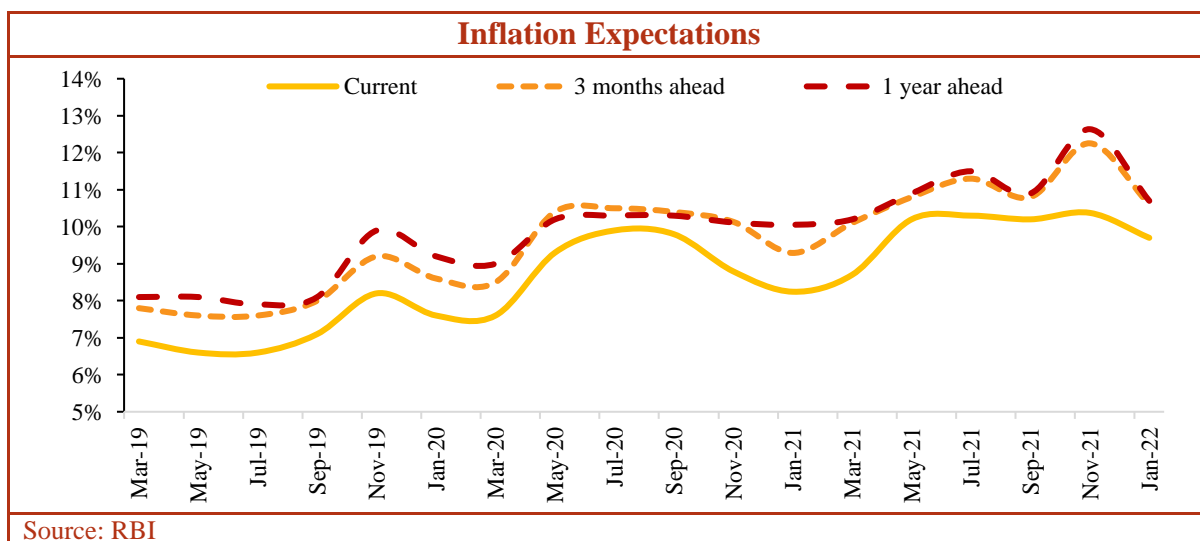


16. The movement of crude oil prices in the coming months is expected to dominate the inflation trend. As per the RBI’s estimates, a \$10/barrel increase in crude oil prices will add 24

basis points directly and 26 basis points indirectly to CPI inflation. Therefore, going forward, it becomes imperative to monitor the effects of this imported inflation and its multi-round effects on the domestic value chain as well as the transmission of input costs pressures to final prices. To mitigate such adverse effects, Government of India has been taking steps to diversify its import sources and energy sources beyond traditional hydrocarbons to emerging fuels such as ethanol and compressed bio-gas.



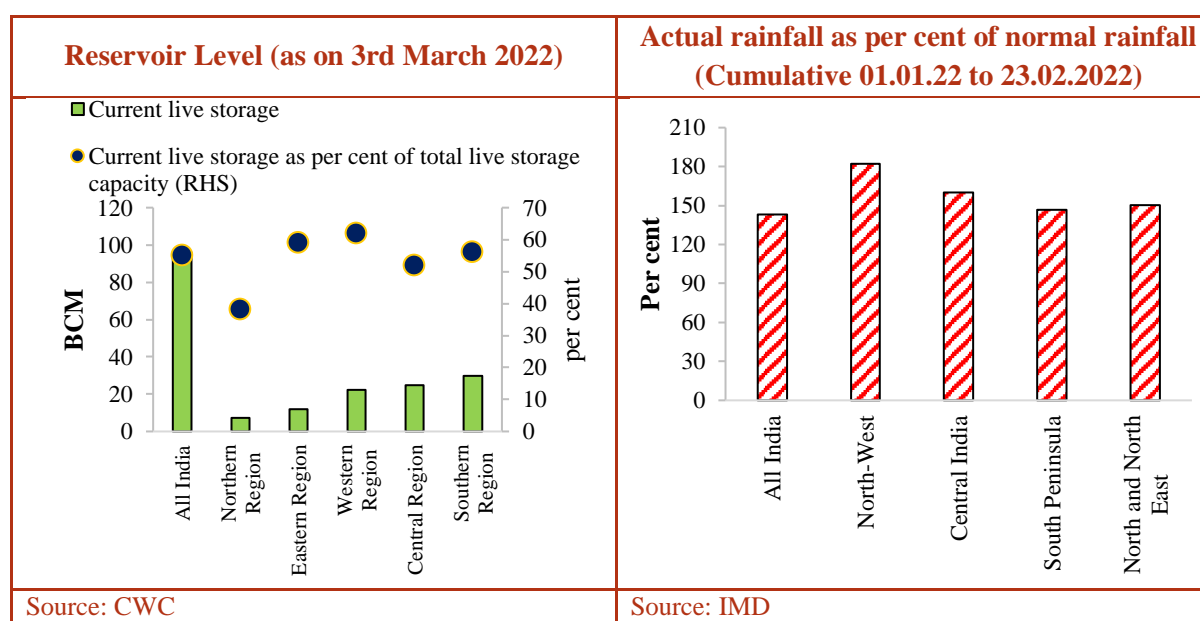
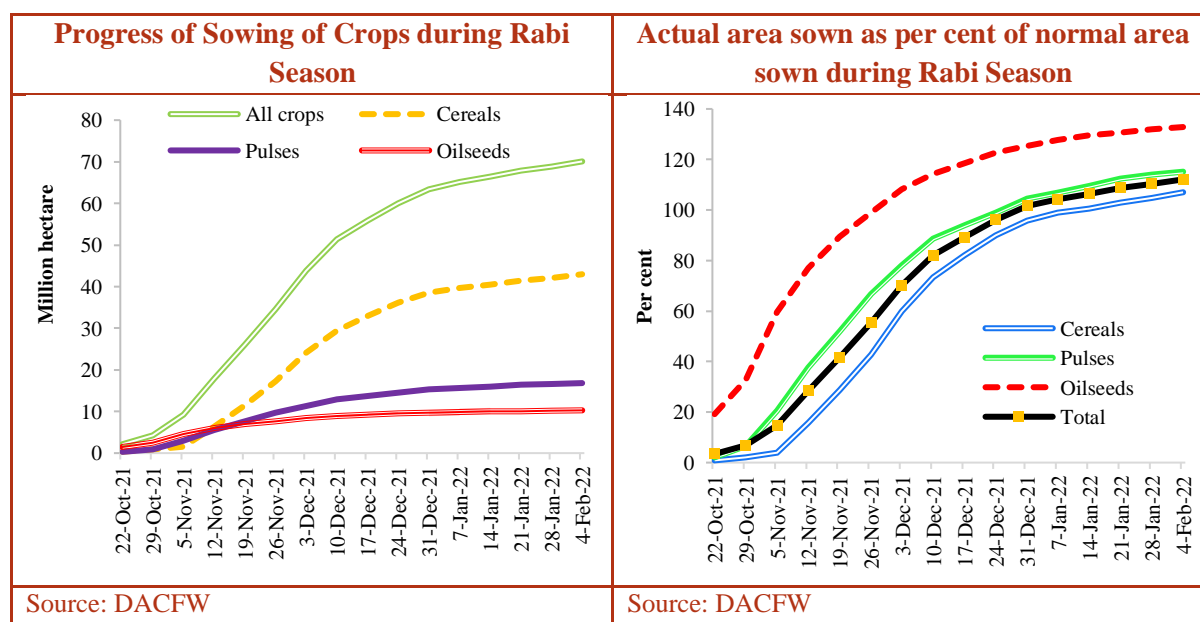
17. Prior to the rise in crude and edible oil prices in February, Inflation expectations in January 2022 for the three months ahead and one year ahead periods were reigned-in, as reflected in the RBI’s bi-monthly Inflation Expectation Survey of Households (IESH) moderating by 170 and 190 basis points respectively, from the November 2021 round. Households expect inflation to be less volatile in the near to medium term as reflected in the reduced gap between their current inflation perceptions and future inflation expectations. Additionally, the three months - ahead expectations for overall prices and inflation were generally aligned to those for food prices and cost of services thereby identifying the sources that could change expectations.



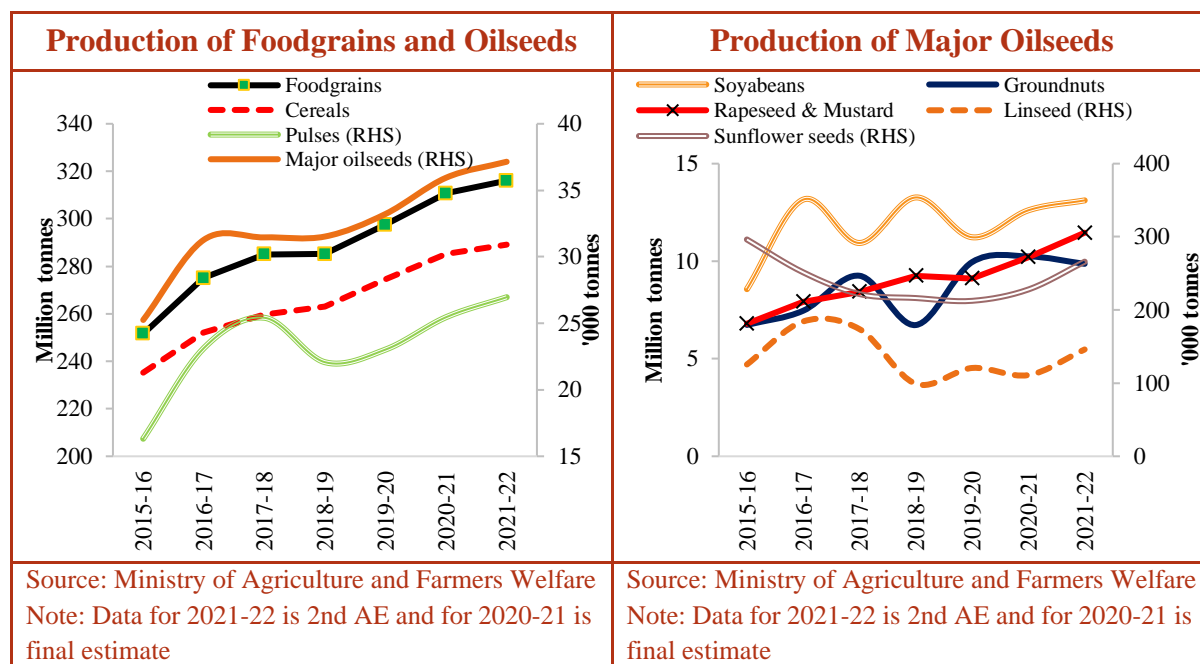
Aggregate Supply

Agriculture

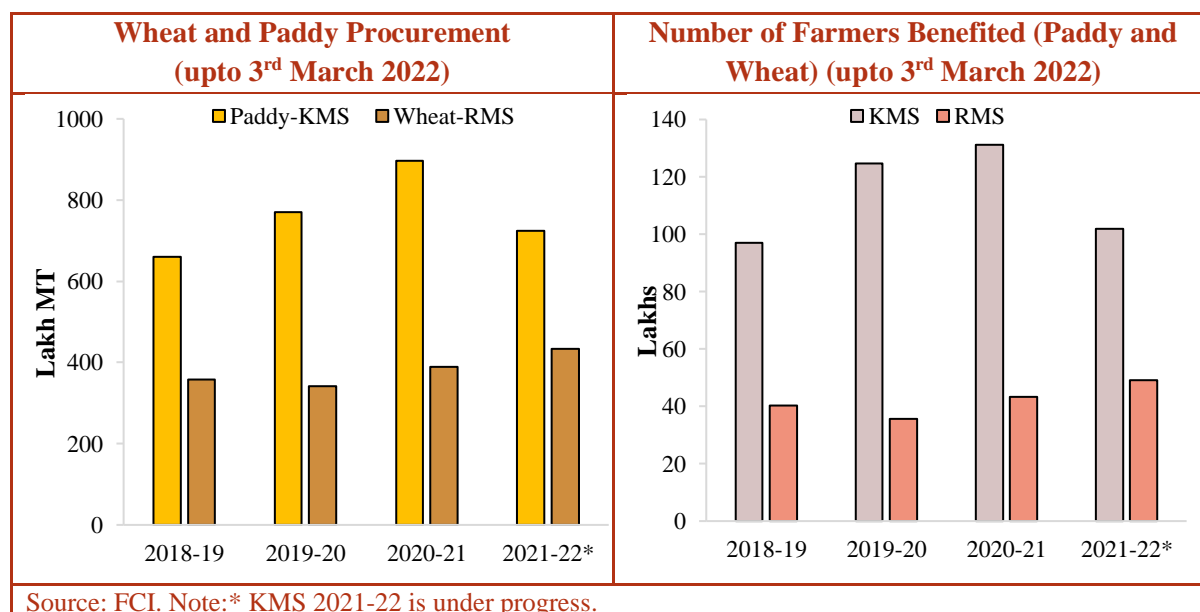
18. Sustained growth momentum in agriculture sector prevails, with real GDP growing at 2.6 per cent YoY in Q3 2021-22. As on 4th February 2022, total area sown during rabi season stood at 700.8 lakh hectare, registering a YoY growth of 1.5 per cent. Actual area sown as per cent of normal acreage stood at 112.1 per cent. Out of the total area sown, approximately 85 per cent was under foodgrains while remaining 15 per cent was under non-food crops. Notably, acreage under oilseeds witnessed an increase of 22.8 per cent over the previous year. Area sown for rapeseed and mustard stood at 149 per cent of the normal area sown. The increase in acreage under rapeseed and mustard could be partly on account of 8.6 per cent increase in MSP in 2021-22. The increase in acreage for major oilseeds can help reduce import dependence and improve self-sufficiency. The increase in acreage along with sufficient reservoir levels, normal rainfall and moisture conditions indicate reasonable prospects for Rabi crops.



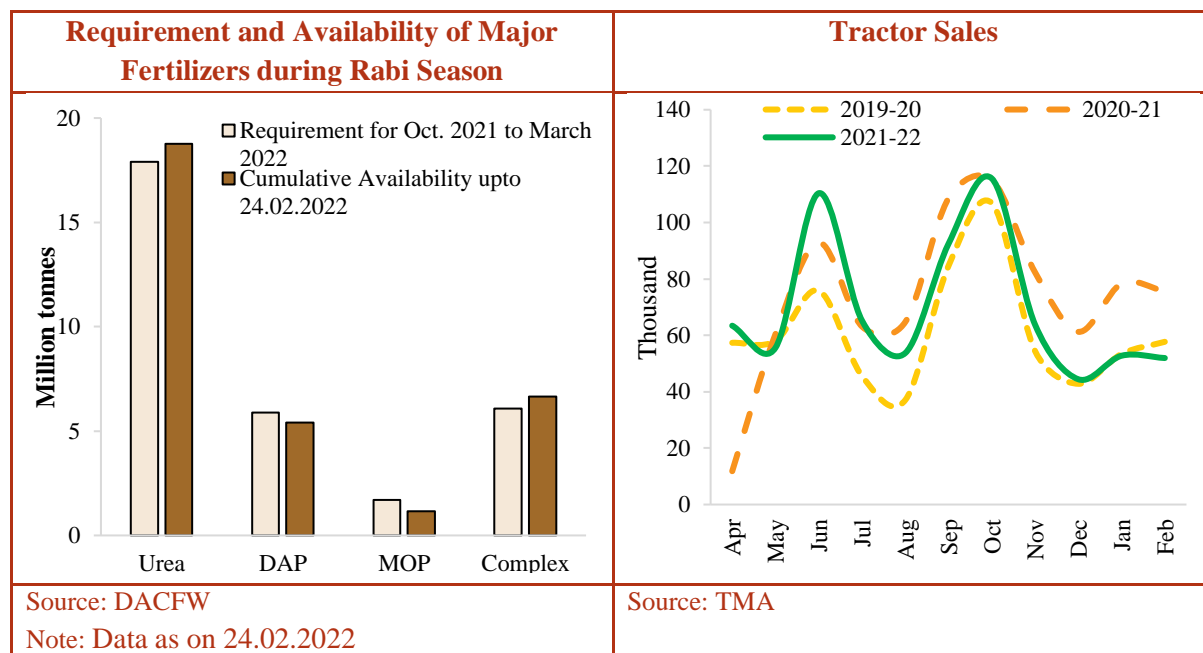
19. As per second advance estimates of production of foodgrains for 2021-22, with higher output of kharif crops and record acreage under rabi crops, total foodgrains production is estimated to reach record high of 316.1 million tonnes, 2.85 per cent higher than the target set. Production of major crops like rice, wheat, gram, maize is estimated at record levels. Even oilseeds production is estimated to increase 3.3 per cent over last year, among which rapeseed and mustard are set to reach record high and witness an YoY increase of 12.2 per cent. The increase in production could provide a big boost to the rural economy.



20. Under Rabi Marketing Season (RMS), record procurement of wheat took place at 433 LMT in 2021-22. Under the ongoing Kharif Marketing Season (KMS) as on 03.03.2022 cumulative procurement of 724 LMT of paddy has already taken place, which stands at 81 per cent of the total KMS procurement in 2020-21. So far, under the ongoing KMS, approximately 1 crore farmers have already benefitted from the procurement operations and around 49 lakh farmers benefitted under RMS 2021-22.

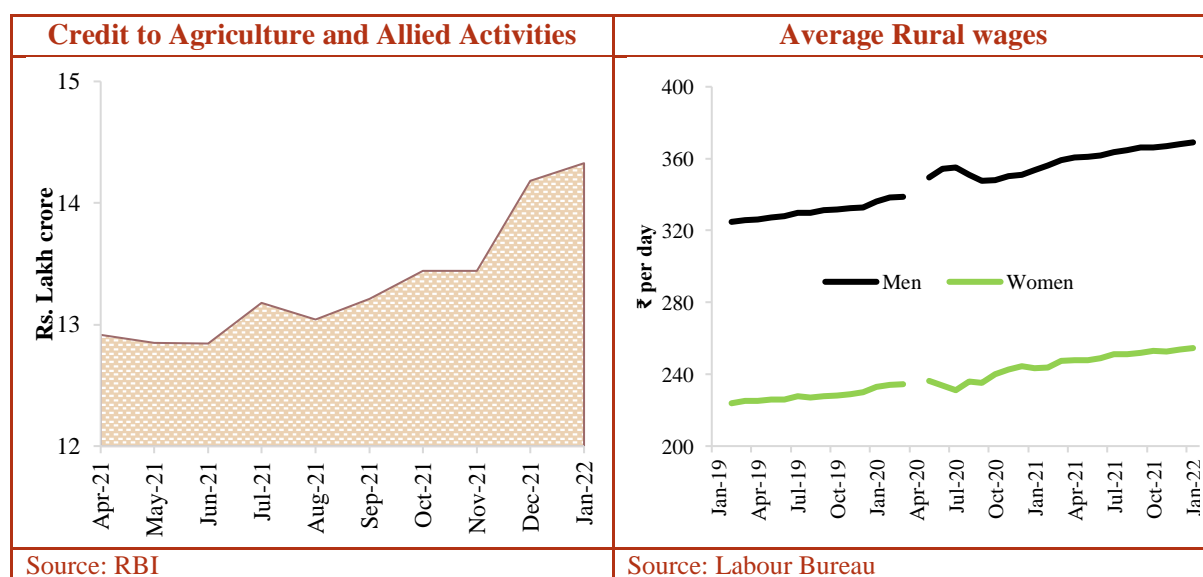


21. Fertilizer is a critical input to sowing and harvesting. As on 24th February 2022, the fertiliser availability is in a comfortable position. However, the ongoing geopolitical tensions can have an adverse impact on fertiliser availability as India is highly dependent on Russia and Belarus for fertiliser/raw material imports.



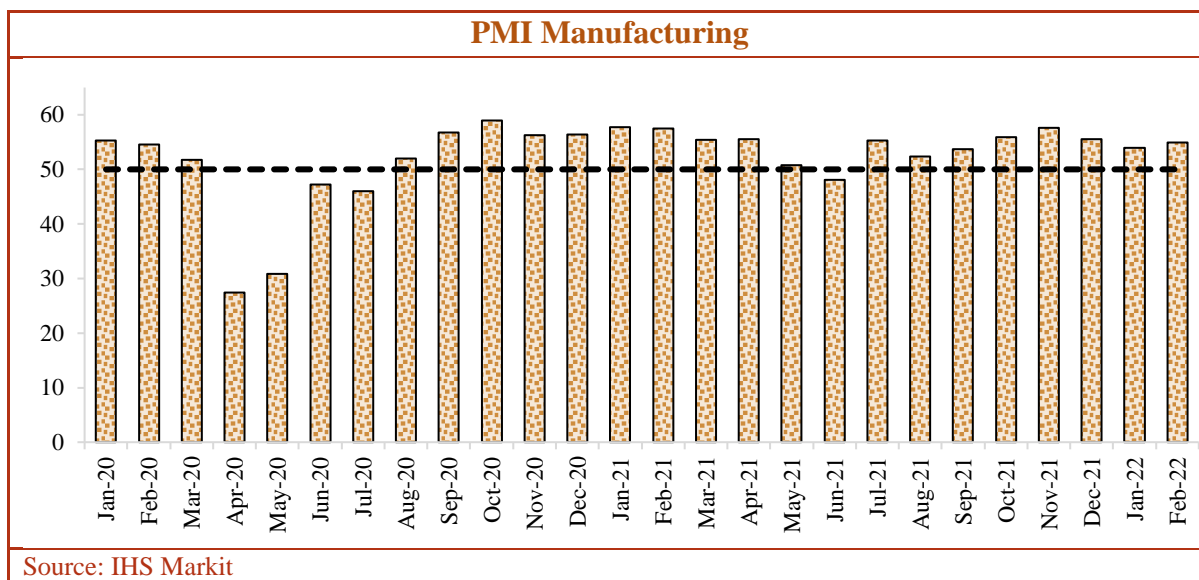
22. Rabi acreage has also not been impacted by tractor sales in 2021-22 (April-February) being 5.5 per cent lower over the corresponding period last year signalling sufficient supply of tractors.

23. In January 2022, average rural wages for men increased by 4.4 per cent on YoY basis and average rural wage for women increased by 4.6 per cent indicative of sustained demand for rural labourers engaged in agricultural and non-agricultural activities. Credit support to agriculture also witnessed an increase in January 2022, registering 10.4 per cent growth over the corresponding period last year and MoM increase of 1.0 per cent.

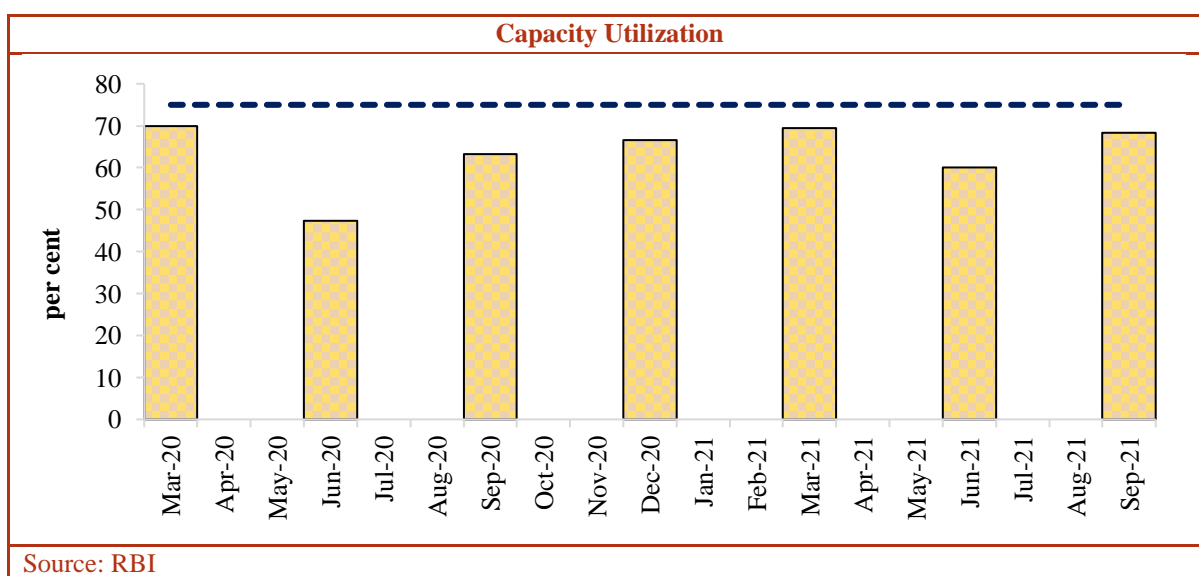


Industry

24. India's manufacturing activity as per PMI manufacturing recovered in February 2022 and stood at 54.9 after decelerating to a four-month low of 54 in the previous month, as new orders and production expanded at a stronger pace in conjunction with an increase in buying activity. Congenial demand conditions led to an uptick in business sentiment to the highest level since October.

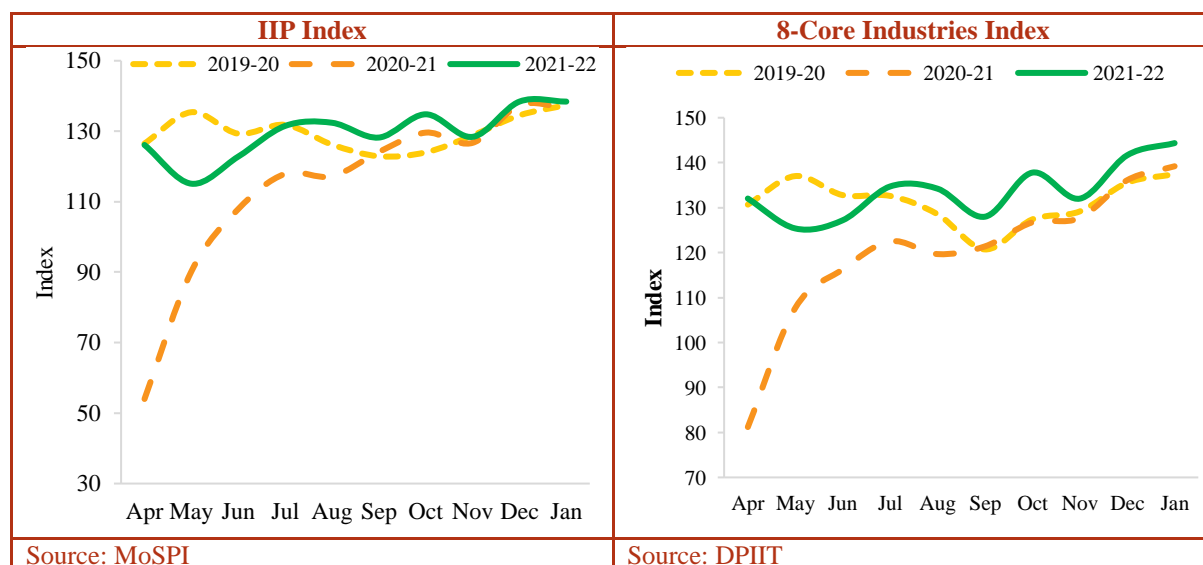


25. According to RBI's Industrial Outlook Survey for Q3: 2021-22, and Order Books, Inventories and Capacity Utilization Survey (OBICUS) for Q2: 2021-22, demand improved in terms of production, new orders, employment and capacity utilization, as pandemic-related uncertainties ebbed. Capacity utilization in the manufacturing sector rose to 68.3 per cent in Q2: 2021-22 from 60 per cent in the previous quarter. Moreover, sentiments on capacity utilization and availability of finance also improved. Though price pressure continues to persist, profit margin and business sentiments of manufacturers remain positive.



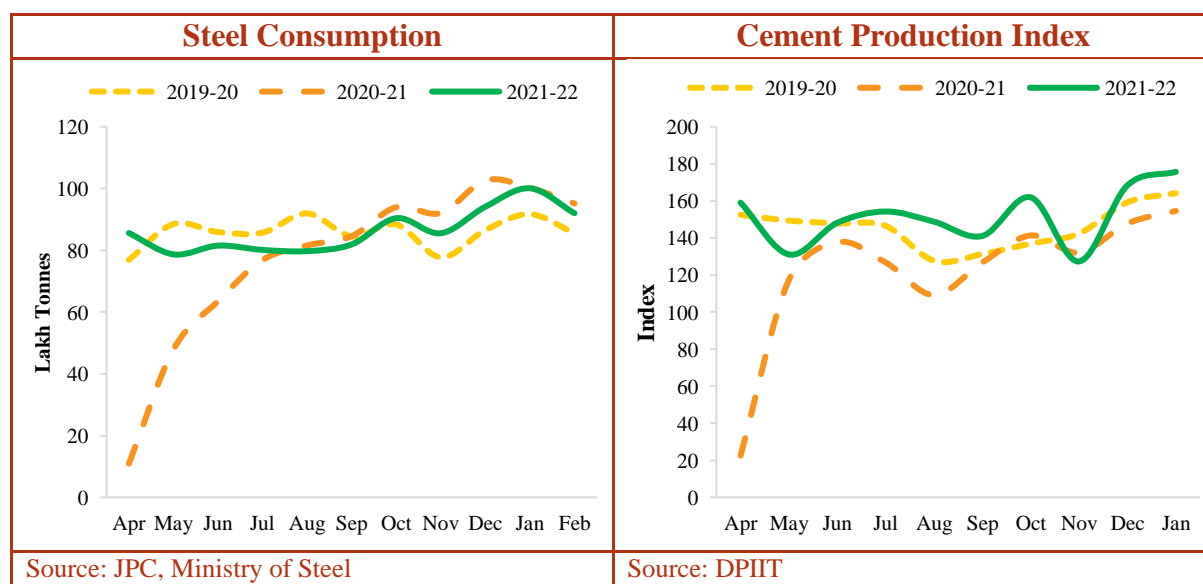
26. IIP recorded a growth of 1.3 per cent in January 2022, with 2.8 per cent recovery in the mining sector, 1.1 per cent in the manufacturing output and 0.9 per cent in the electricity

sector. The YoY growth of IIP for the period April-January 2021-22 stood at 13.7 per cent as compared to (-)12.0 per cent in April-January 2020-21. Industrial activity is expected to recover in the forthcoming months with Government's thrust on capital expenditure.



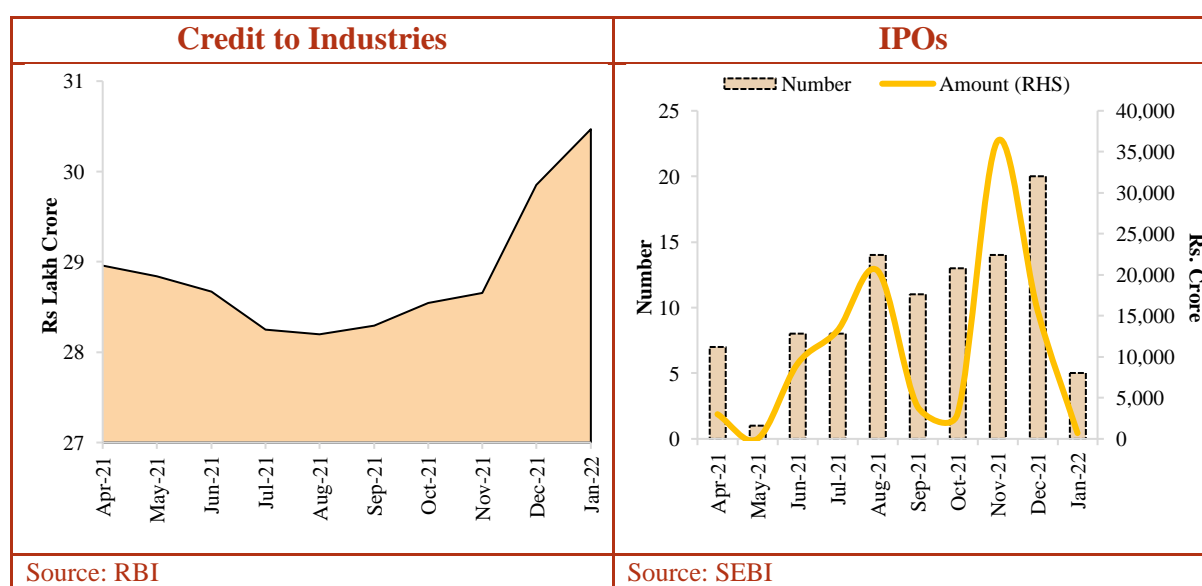
27. Eight Core Industries (ECI) comprise 40.3 per cent of the weight of items included in the IIP and accounted for much of the growth. The combined Index of ECI stood at 144.4 in January 2022, registering a growth of 3.7 per cent over January 2021 and 5.1 per cent over the pre-pandemic level (January 2020). Cement production reported the highest growth of 13.6 per cent in January 2022 indicating signs of revival in the construction sector. On the other hand, the production of petroleum refinery products, reported the lowest growth of 3.7 per cent.

28. Strong demand from the infrastructure and automobile sectors have induced growth in cement production and steel consumption over their respective pre-pandemic levels. However, domestic finished steel consumption moderated by 4.2 per cent YoY in February, 2022 as finished steel exports in February, 2022 increased by 76.6 per cent YoY, the highest level since September 2021.



29. Credit to industry witnessed YoY growth of 6.4 per cent in January, 2022 and MoM growth of 2.1 per cent. Medium industries registered high double-digit YoY credit growth of 74.7 per cent in January, 2022 followed by 19.7 per cent growth witnessed by micro and small industries.

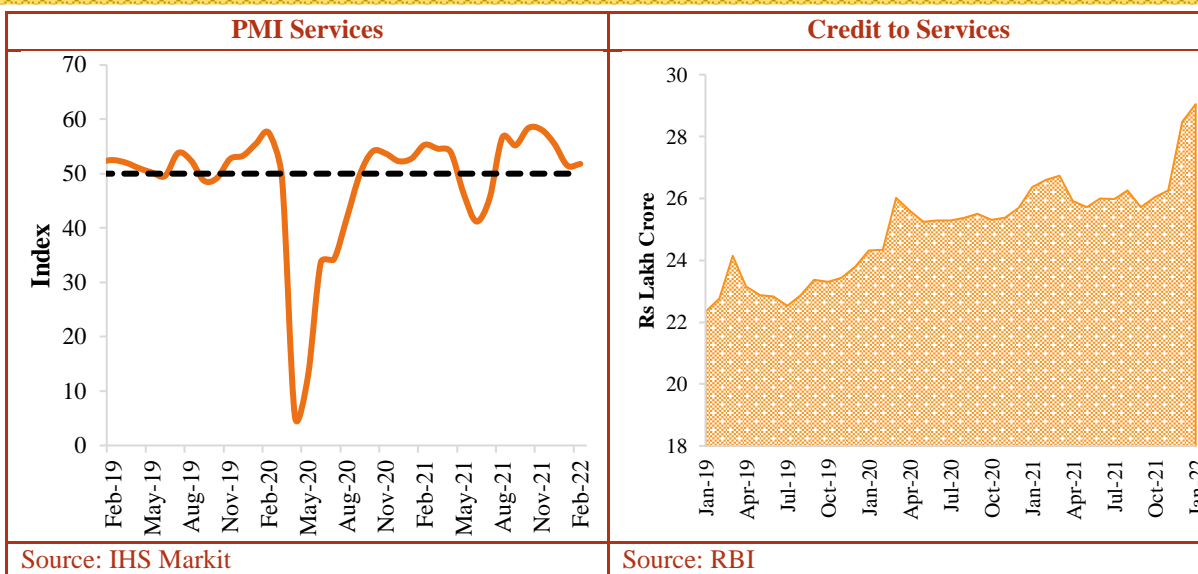
30. Within industry, credit growth to engineering, chemicals & chemical products, infrastructure, leather & leather products, petroleum, coal products & nuclear fuels, rubber plastic & their products and gems & jewellery accelerated in January, 2022 as compared to the corresponding period last year. However, credit growth to basic metal & metal products, beverage and tobacco, cement & cement products, construction, food processing, glass & glassware, mining & quarrying, paper & paper products, textile, vehicles, vehicles parts & transport equipment, and wood & wood products, contracted.



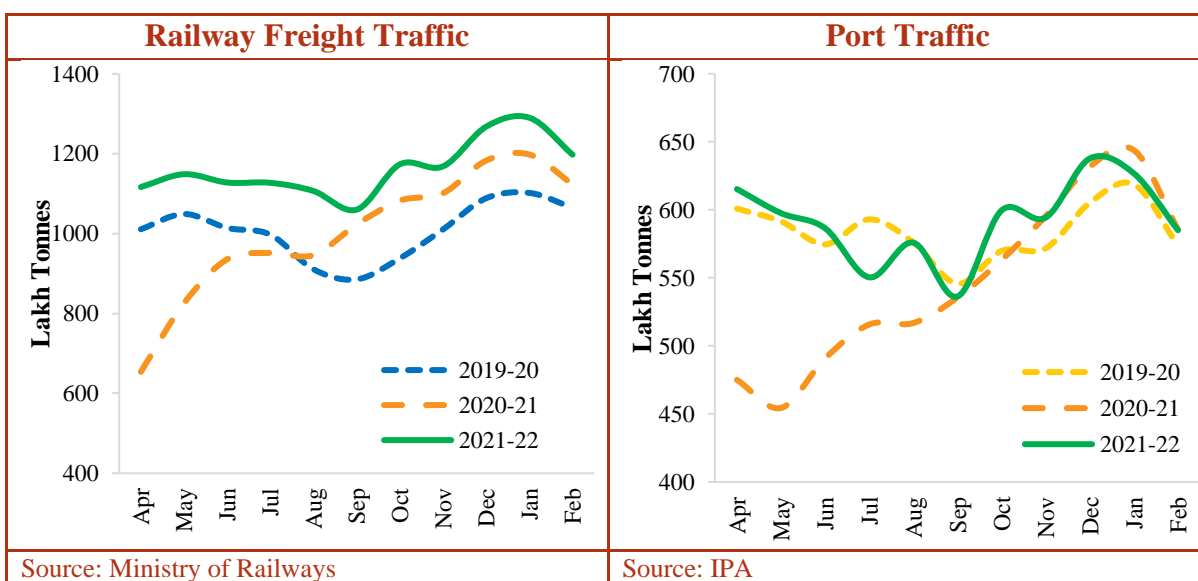
31. In January 2022 credit to large industries recorded a marginal YoY growth of 0.5 per cent and a MoM growth of 2.0 per cent, as large corporates resorted to deleveraging and accessing non-bank sources of funding, particularly equity financing. In the primary market, 5 IPOs were listed during the month of January mobilising ₹700 crore for the issuers, comprising ₹680 crore raised through one main board listing and ₹20 crore by four SME/startup listings. One listed SME raised ₹15 crore through FPO during the month.

Services

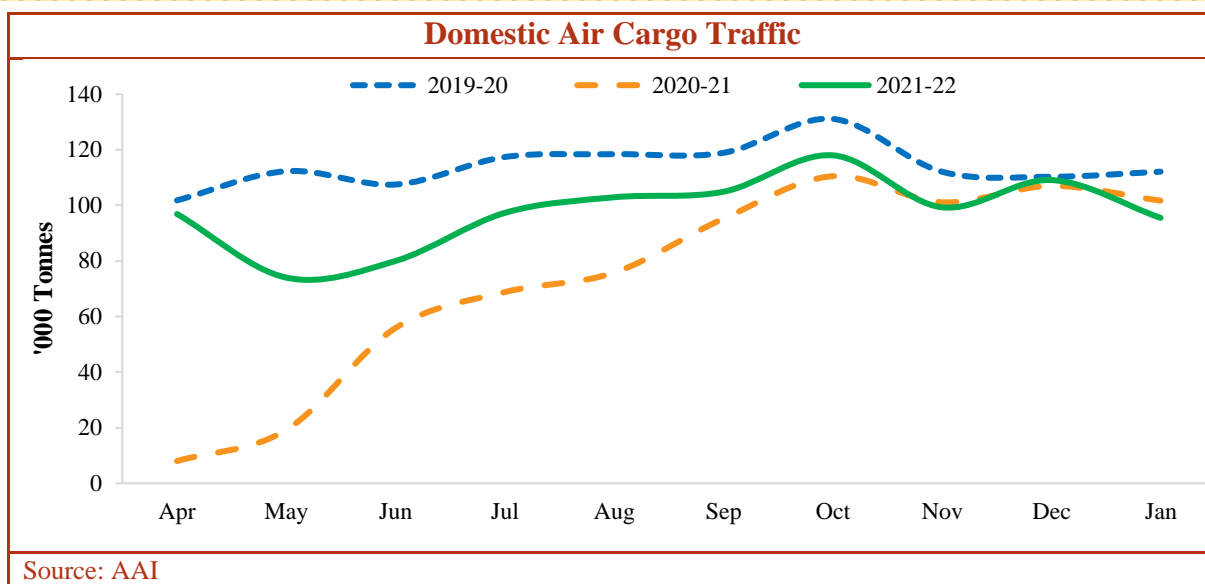
32. Services activity bolstered in February, 2022 with ebbing of new infections and easing of mobility restrictions. This is reflected in PMI Services, which marginally improved to 51.8 in February 2022 from 51.5 in January 2022. Strengthening of services is attributed to expansion in new orders, better demand conditions and enhanced business confidence. During Q3:2021-22, the NCAER-NSE Business Confidence Index (BCI) for services sectors increased by 8 per cent, on a quarter on quarter (Q-o-Q) basis and grew by 34 per cent on YoY basis.



33. Bank credit to the services sector continued to witness a strong momentum, registering a growth of 7.3 per cent on YoY basis and 2.0 per cent on MoM basis in January 2022. Further, the marked improvement in credit to Non-Bank Financial Companies (accounting for one-third of Services credit) continues to persist in January as well, with a double-digit YoY growth (10.7 per cent) for second consecutive month. Other service sector such as transport operators and tourism, hotels and restaurants also showed significant improvement in credit growth.



34. Railway freight traffic continued to exhibit a sturdy performance, growing by 6.6 per cent YoY in February 2022 as compared to 7.7 per cent during January 2022. On the other hand, year on year port traffic growth remained stationary during February, compared to contraction of 2.7 per cent in the previous month, while staying above the pre-pandemic levels. Air cargo traffic moderated in January amid rise in omicron induced restrictions and continued to remain below pre-pandemic level, after nudging it in December, 2021.

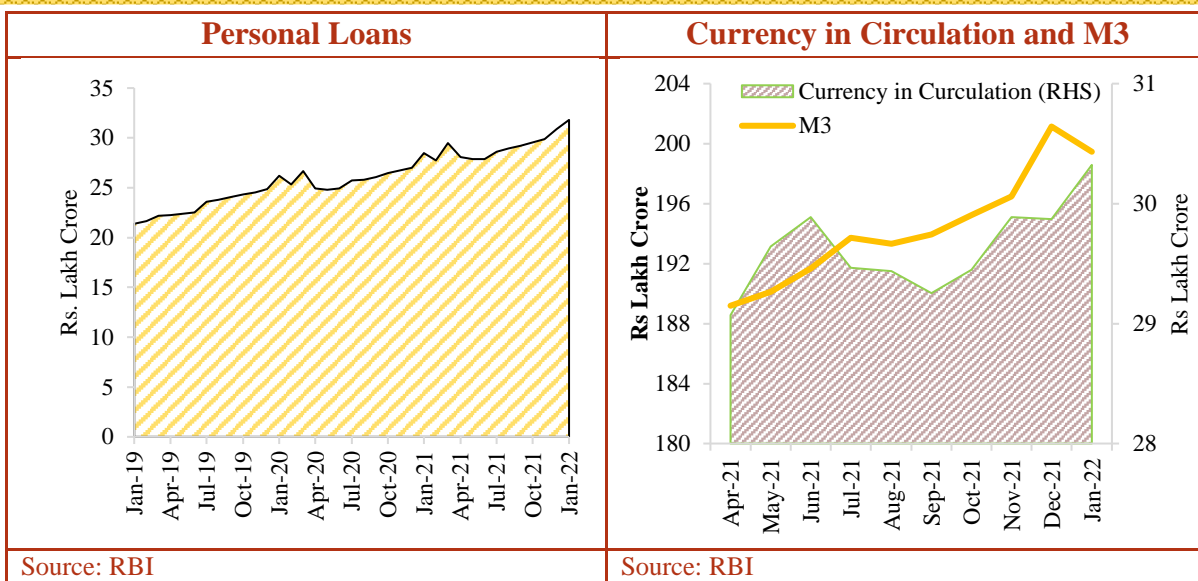


Aggregate Demand

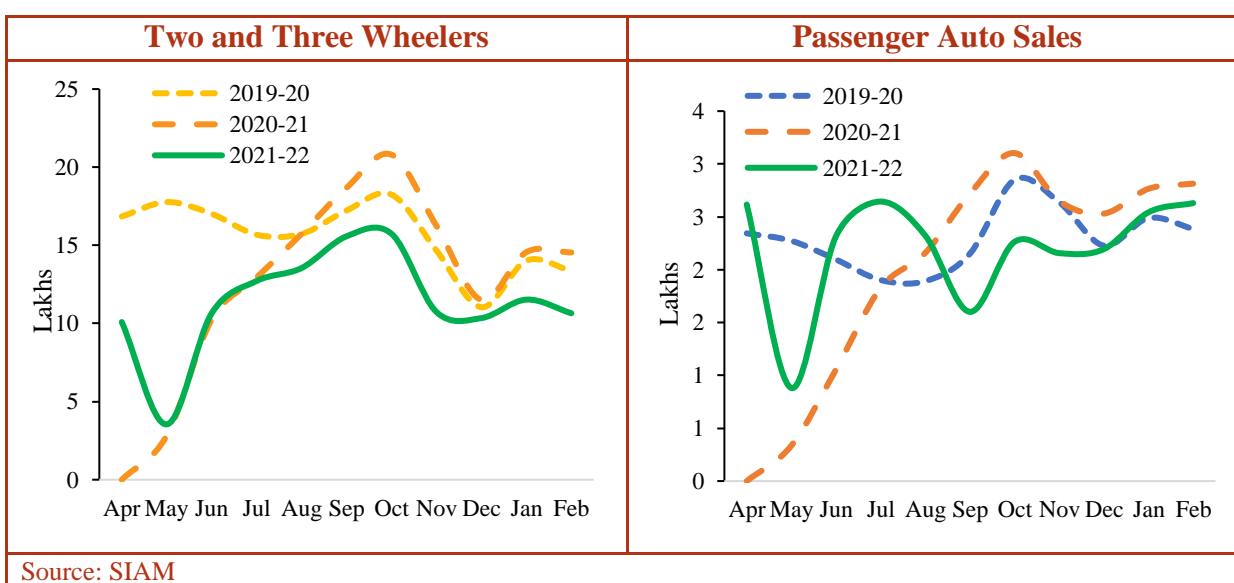
Consumption

35. The consumption component of aggregate demand continued to remain robust on the back of improved consumer sentiments amidst a recovering economy. The personal loan segment continued to exhibit strong growth in January 2022, with an increase of 11.6 per cent YoY, with this month being the eleventh consecutive month of double-digit growth in personal loans. The increase was driven by growth in loans for consumer durables, loans against jewellery, advances to individuals against shares/bonds, and advances against fixed deposits. Loans for consumer durables grew at an impressive rate of 53 per cent YoY in January 2022 as compared to 55.5 per cent in December 2021, indicating its strong and sustained demand. After twelve months of negative growth and two months of low growth, advances to individuals against shares/bonds recorded a significant jump of 24.4 per cent in January 2022, signalling that individual borrowers are now willing to utilise their assets in the capital markets as collateral for loans. Loans against gold/jewellery, while continuing to record high growth, has moderated to 32.9 per cent in January 2022 from 45 per cent in December 2021. This sub-set of personal loans indicate stress on individual incomes and cashflows, and therefore, moderation in growth rate may signal a decline in the strain on income of the individuals.

36. Currency in circulation increased YoY by 8 per cent in January 2022, slightly higher than 7.6 per cent in December 2021, even as YoY growth of M3 or broad money supply fell to 8.4 per cent in January 2022 from 11.4 per cent in December 2021. With the share of deposits in M3 declining from December 2021 to January 2022, the rise in the currency in circulation is suggestive of a slight increase in demand for the most liquid form of money, a phenomenon understandable in the Omicron month.

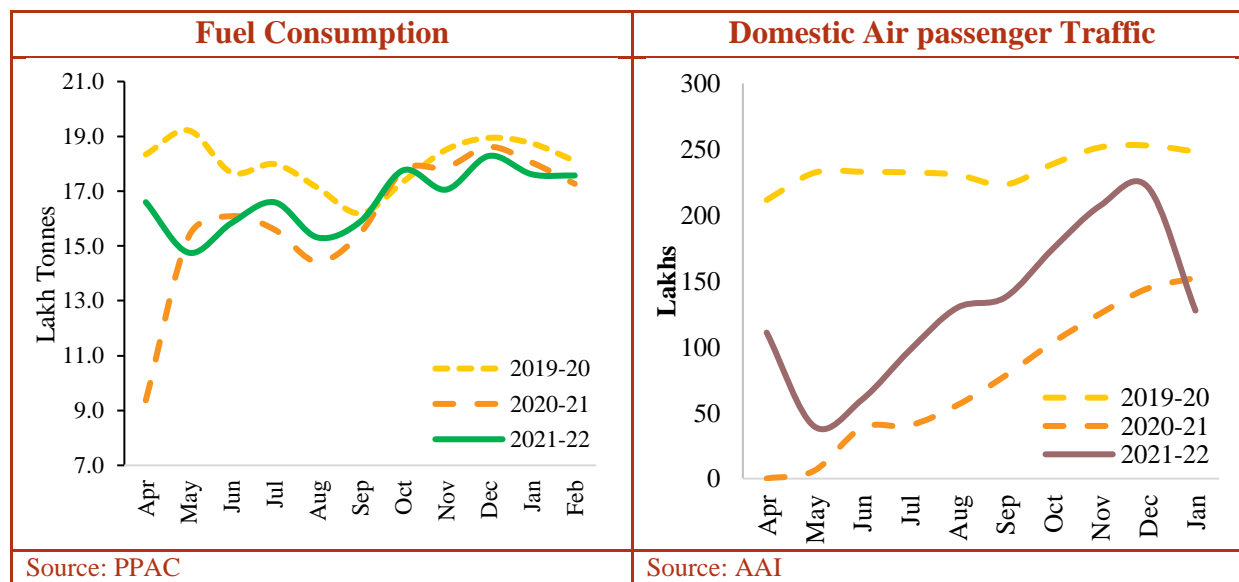


37. Momentum continues to build in passenger auto sales segment with the M-o-M growth for February 2022 estimated to be 3.4 per cent. The sales have now crossed their pre-pandemic levels in spite of the semiconductor shortage. Passenger auto sales for the period April – February FY 2021-22 was higher than the corresponding period in the last year by 10.1 per cent. Fuel consumption, another indicator of consumption, has also increased by 1.8 per cent YoY in February 2022. Fuel consumption during the period April-February FY 2021-22 was higher than consumption during the corresponding period in the previous year by 4.2 per cent, but is yet to regain pre-pandemic levels. Fuel consumption may also face some headwinds in the near term with rapidly increasing crude oil prices in the context of the Russia-Ukraine conflict posing a challenge.

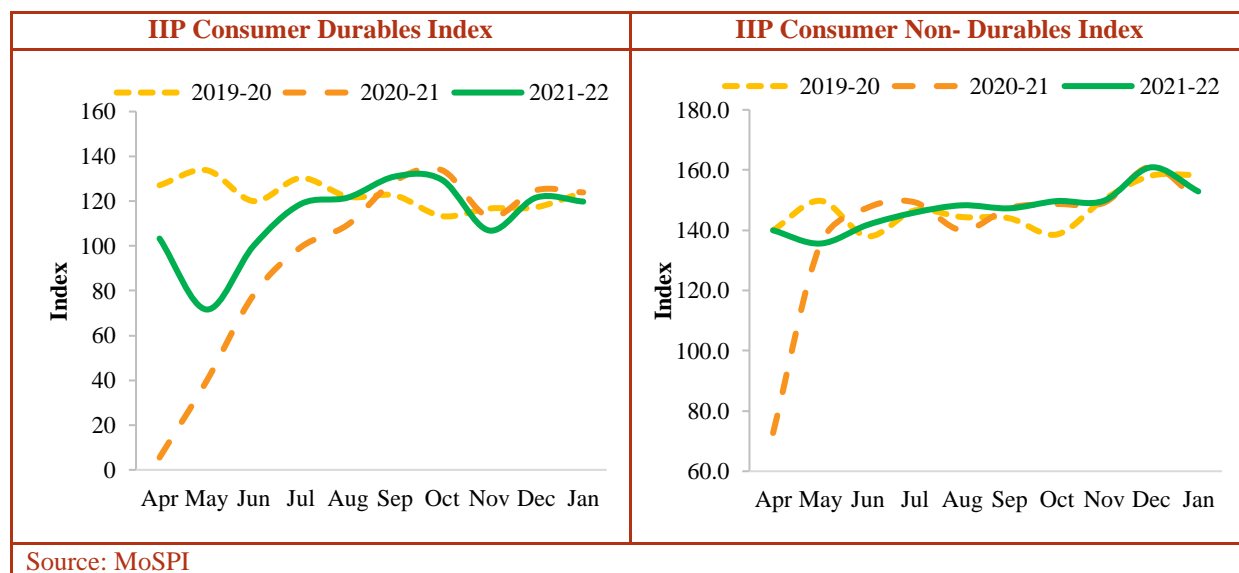


38. After recording an impressive growth of 53.3 per cent YoY in December 2021, air passenger traffic contracted by 16.2 per cent in January 2022. The moderation in growth rate is mainly on account of the restrictions imposed in light of the omicron variant. However, with

the easing of restrictions, air passenger traffic is expected to witness an uptick in the coming months. The Ministry of Civil Aviation has also allowed operations of scheduled international commercial flight services from 27th March 2022 which is expected to boost domestic air passenger traffic as well.



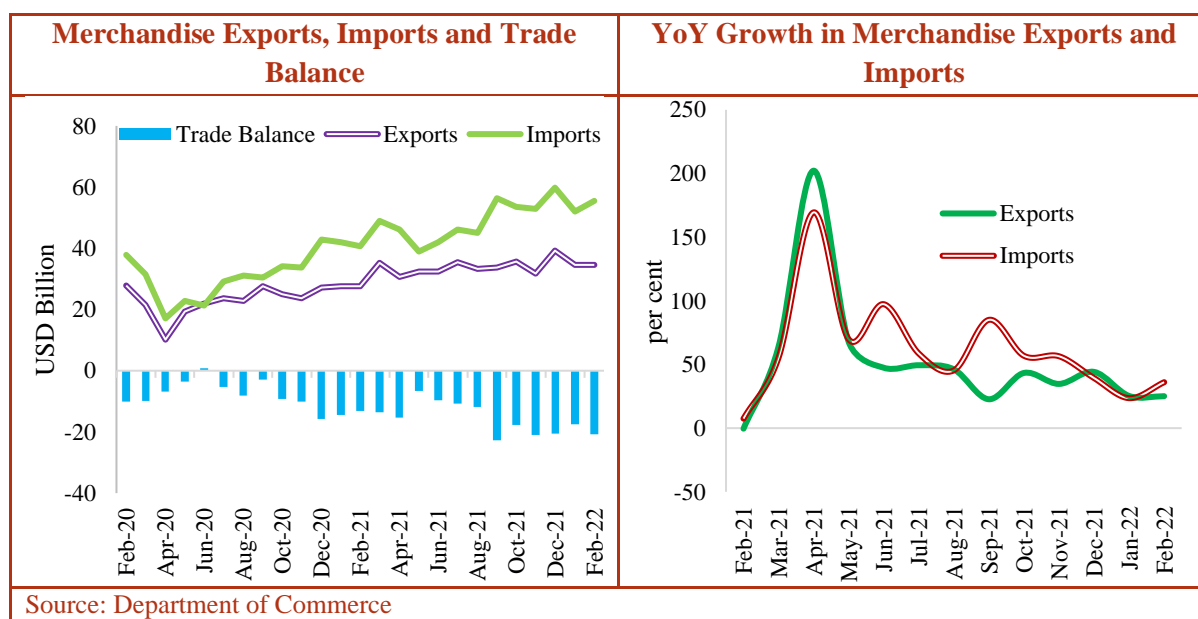
39. IIP consumer durables and consumer non-durables indices witnessed robust YoY growth of 17.5 per cent and 5.1 per cent respectively in April-January 2021-22 over the corresponding period last year. As growth continues and becomes broad-based, these indices are expected to increase beyond their pre-pandemic levels.



Trade

40. In February 2022, performance of merchandise exports continued to remain resilient growing YoY at 25.1 per cent as compared to 25.3 per cent in the previous month. In the 11

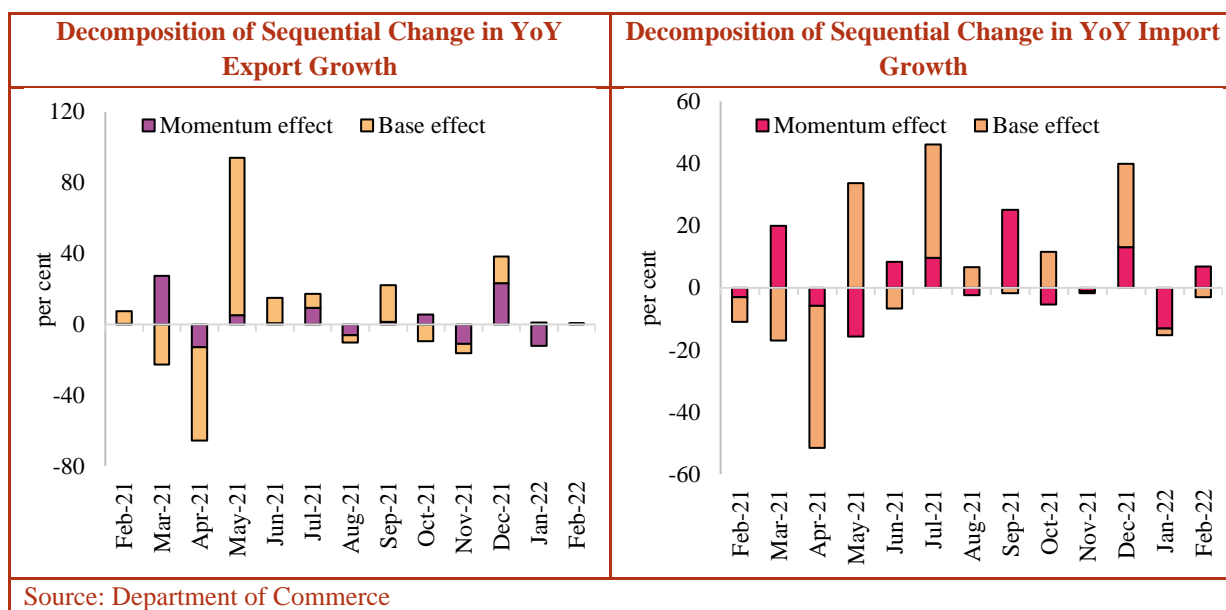
months of the current year so far, merchandise exports have been USD 374.8 billion, 46.1 per cent higher than in the corresponding period of the previous year, in-part benefitting from a rebound in the world economy. Merchandise imports on the other hand grew by 36.1 per cent YoY in February, as compared to 23.5 per cent in the previous month, as crude oil prices rose amid escalating geopolitical tensions while domestic demand recovered further post the Omicron wave of COVID-19. Consequently, merchandise trade deficit widened in February after touching a five-month low in January of 2022.



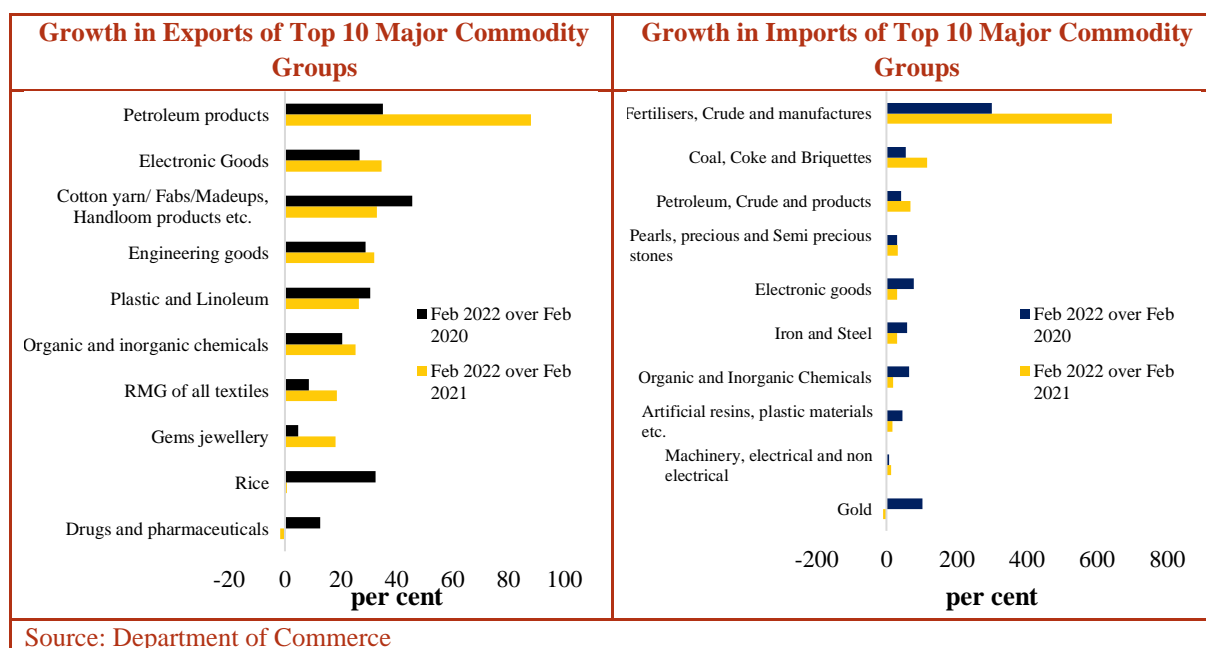
41. Though merchandise exports witnessed double digit YoY growth in February 2022, the growth was slightly lower compared to the previous months, mainly on account of unfavorable base effect and small momentum effect. The strong positive trend that was witnessed for international trade in 2021 owing to recovery in global demand on the back of easing of pandemic related restrictions and economic stimulus packages has now been tempered by a more uncertain outlook in 2022 arising from geopolitical factors, disruptions in logistic networks, rising shipping costs, and greater regionalization of trade flows among others. At the same time, a positive momentum effect for imports has emerged in February, 2022, with crude prices 10.8 per cent higher than in January leading to widening of trade deficit.

42. Rising crude prices have also translated into higher YoY growth of POL exports rising 88.2 per cent in February, 2022, as against 18.9 per cent in non-POL exports. All 10 major commodity groups witnessed growth over pre pandemic levels (February 2020). The export of wheat also recorded a huge surge at USD 1742 million during April-January 2021-22, growing 387 per cent over the corresponding period in 2020-21 when it touched USD 358 million, while other cereals registered a growth of 66 per cent by fetching USD 869 million during April-January 2021-22 over the corresponding period in 2020-21 when it touched USD 527 million.

43. Except for gold, the remaining 9 major commodity groups of imports also grew YoY in February. However, gold imports nearly doubled in February to USD 4.8 billion as compared to USD 2.4 billion in January as demand recovered.

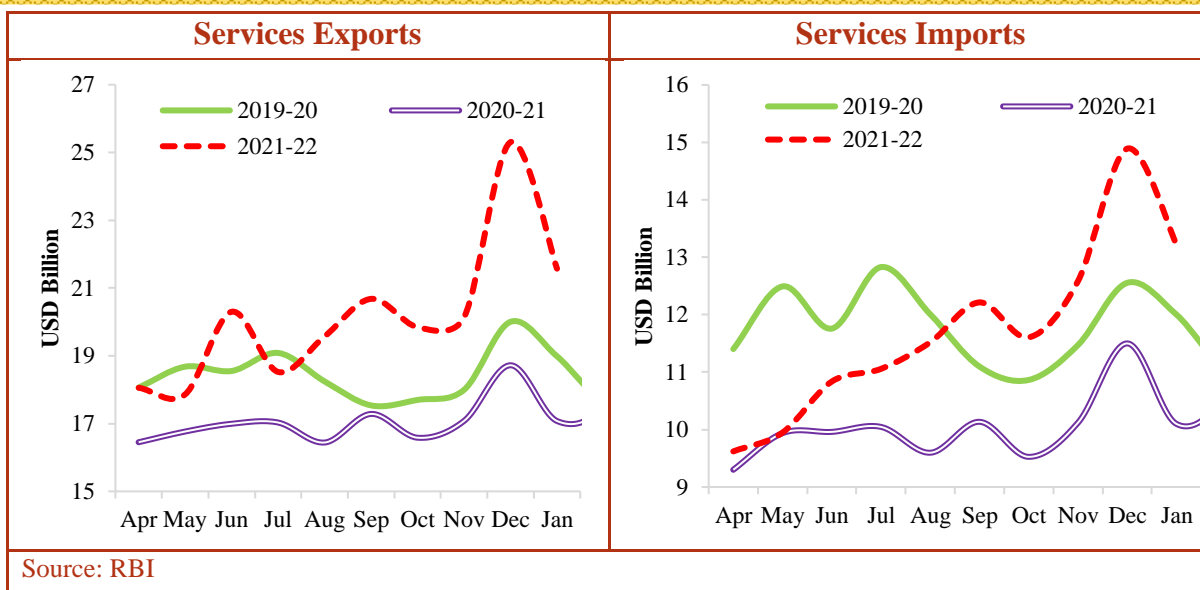


Source: Department of Commerce

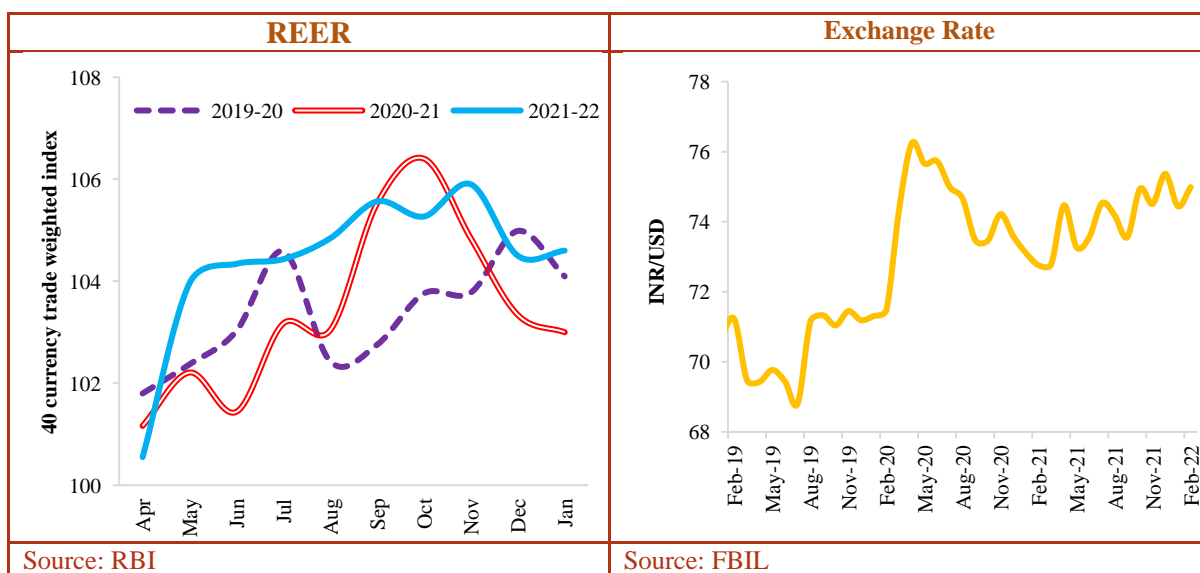


Source: Department of Commerce

44. Trade growth in Services continue to be buoyant as well. In January 2022, the services exports and imports are estimated to be 26.3 per cent and 30.9 per cent respectively higher as compared to January of 2021. A sequential dip was observed on account of COVID-19 induced restrictions across states, but growth momentum is expected to pick up again in February 2022. So far in the first 10 months of the current year, services exports stand at USD 201.8 billion, 18.4 per cent higher over the corresponding period last year.



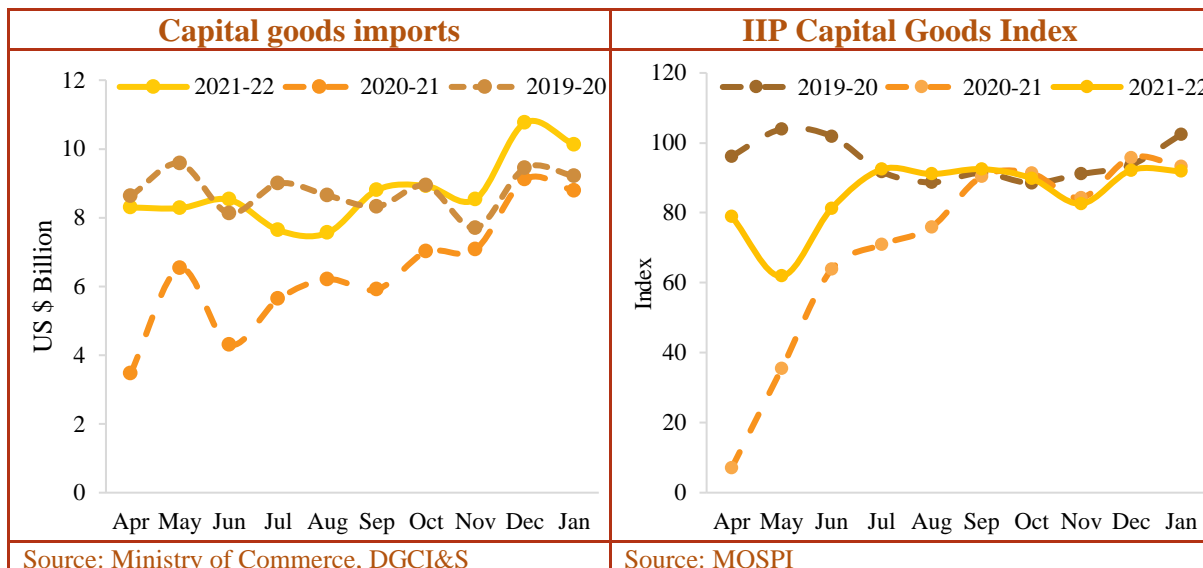
45. After touching a five-month low in January 2022, merchandise trade deficit widened in February 2022 owing to elevated crude oil prices amid escalating geopolitical tensions and recovery in domestic demand post omicron wave of COVID-19 pandemic. Widening trade deficit and an increase in net outgo of investment income led to widening of current account deficit. Current account balance recorded a deficit of 1.3 per cent of GDP in Q2:2021-22 against a surplus of 0.9 per cent of GDP in Q1:2021-22. The Indian rupee depreciated against the US dollar in February by 0.7 per cent over previous month.



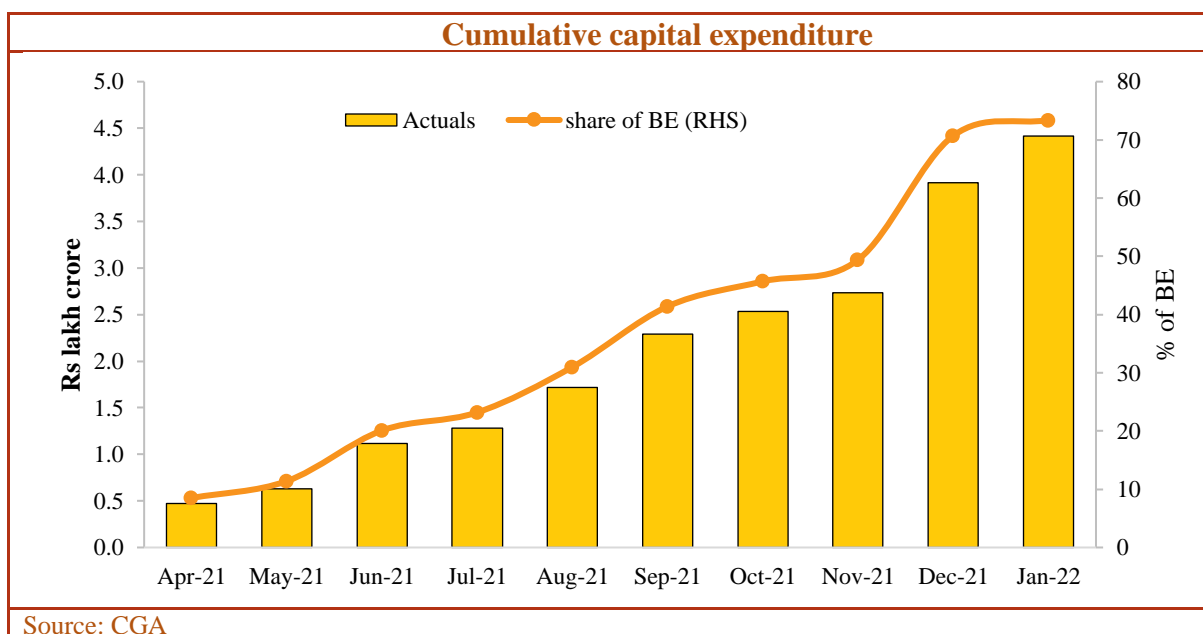
Investment

46. Notwithstanding global geopolitical headwinds, recovering consumption demand – as conveyed by the release of 2nd Advanced Estimates of GDP for 2021-22, whereby consumption is projected to surpass the level in pre-pandemic year of 2019-20 – has catalyzed a healthy investment scenario in the economy. Capital goods index of IIP, an indicator of

private investment, witnessed an YoY growth of 20.8 per cent in April- January 2021-22 as compared to the corresponding period last year. Capital goods imports, despite moderating in January 2022 on MoM basis, stayed well above the levels seen in January 2020 and 2021, implying upbeat investment activity in the economy.



47. Domestic policies to boost capital expenditure are well tailored. Capital expenditure increased by 22.0 per cent YoY during April 2021-January 2022 and stood at Rs. 4.4 lakh crore in April-January 2021-22 compared to Rs. 3.6 lakh crore in the corresponding period last year.

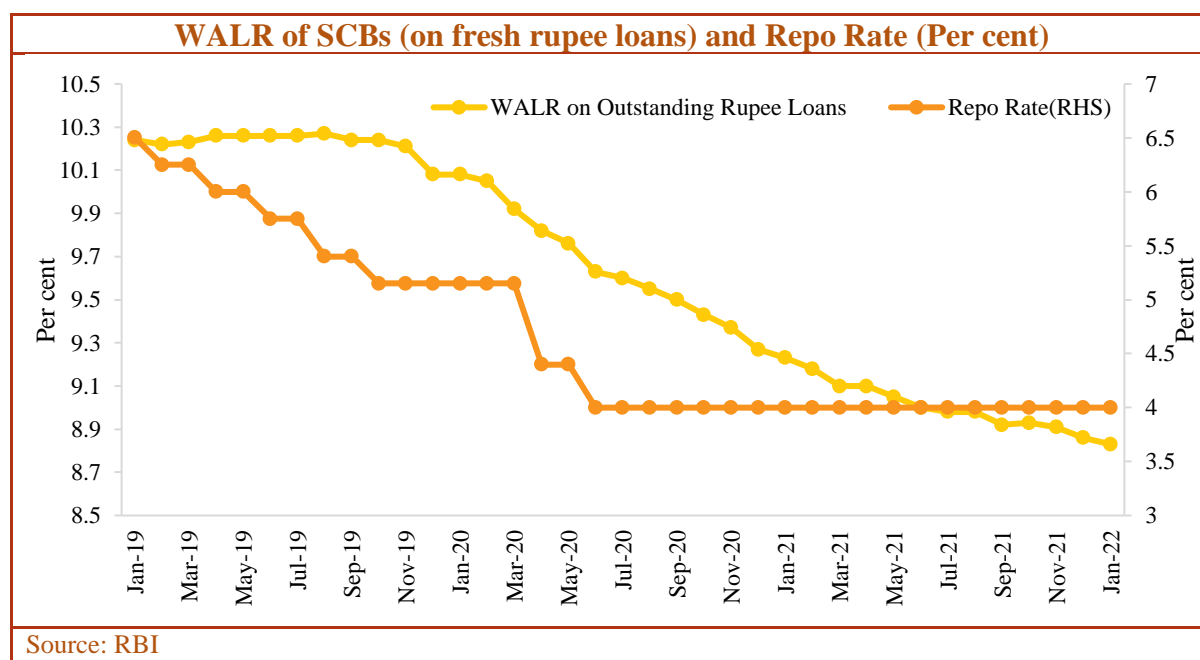


Source: CGA

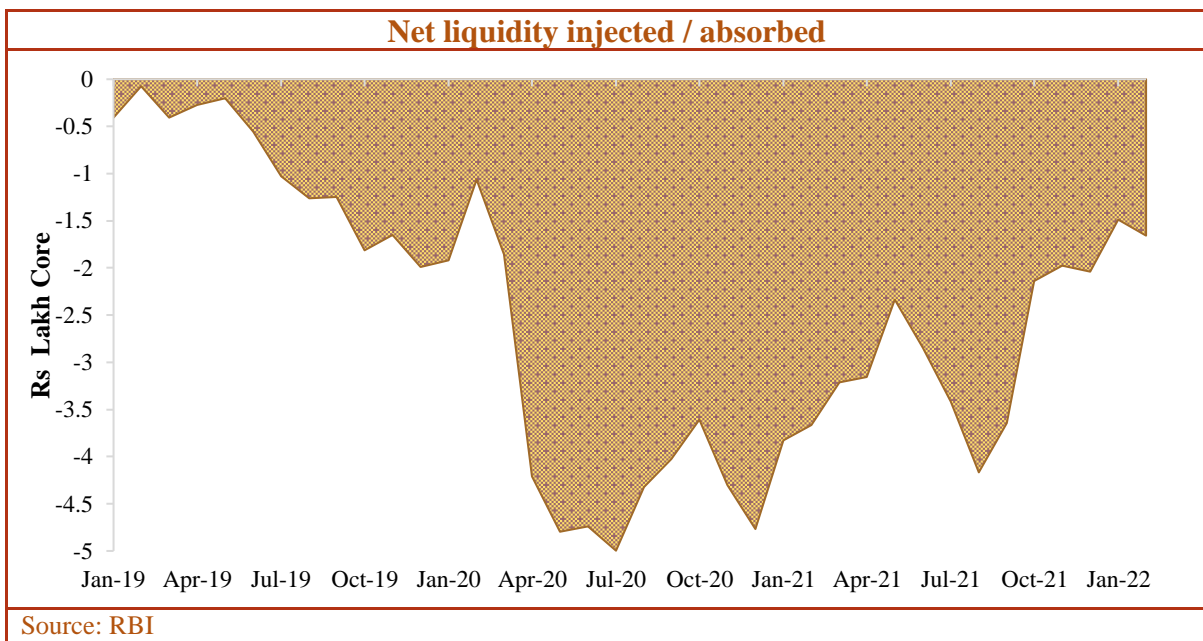
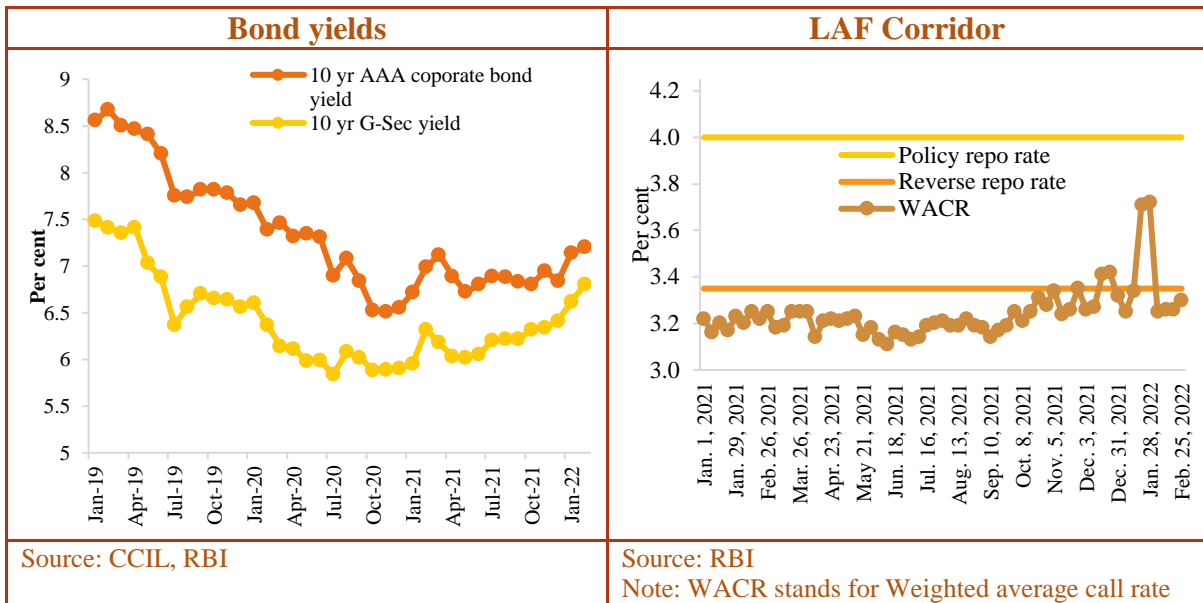
48. The flagship programme, PM GatiShakti, with the aim of ensuring a true PPP in infrastructure development is going ahead strongly, with Bhaskaracharya National Institute for Space Applications & Geo-informatics in coordination with DPIIT integrating data layers of Central Ministries on National Master Plan (NMP) portal. State-related layers are also being integrated in coordination with States.

49. The sustained rise in Capex is expected to pump prime private investment and demand. This is evident from capacity utilisation recovering to 68.3 per cent in Q2:2021-22, as compared to 60.0 per cent in the previous quarter. After waning of the second wave of COVID-19 pandemic, sequential QoQ growth in new orders and QoQ decline in ratio of finished goods inventory to sales was also witnessed during Q2:2021-22. Further, as per the Industrial Outlook Survey of the Manufacturing Sector for Q3:2021-22, respondents expressed optimism for Q4:2021-22 on demand parameters such as production volumes, new orders and job landscape. Even the Indian companies in the services and infrastructure sectors assessed improvement in overall business situation during Q3:2021-22 (Services and Infrastructure Outlook Survey).

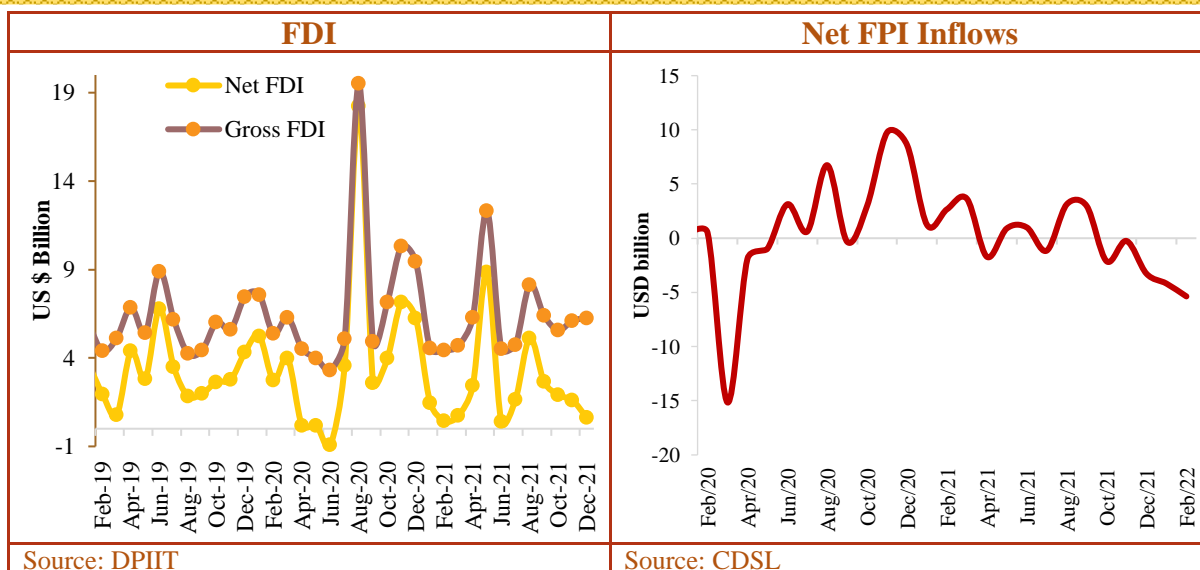
50. In addition, credit disbursement in the economy has been picking up, aided by complete pass through of policy rate cuts of 115 bps by Scheduled Commercial Banks (SCBs). Resultantly, weighted average lending rate (WALR) on fresh rupee loans have been reduced by 140 basis points between February, 2020 and January, 2022.



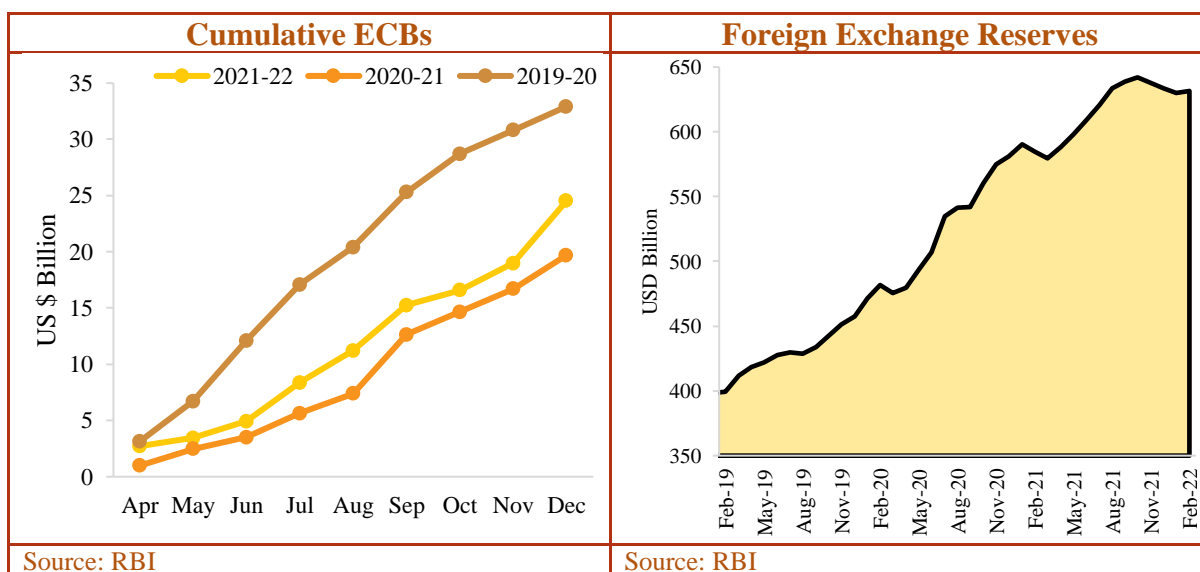
51. However, since Q3 of 2021-22, there has been perceived liquidity tightening due to variable rate reverse repo auctions as well with bond market participants pricing in more aggressive tightening by systemic central banks than previously anticipated. Yet yield on 10-year G-Sec hardened only minutely from 6.6 percent in January 2022 to 6.8 percent in February 2022. Yield on 10-year AAA corporate bond also rose marginally from 7.1 per cent to 7.2 per cent. Daily average liquidity absorption by RBI rose from Rs 1.4 lakh crore for the period February 14-20 to Rs 1.8 lakh crore for the period February 21-27, signalling comfortable liquidity position in the economy (which further shows in the rise in liquidity absorbed in February 2022 compared to that in January 2022). This is also reflected in the call money rate exiting the LAF corridor, and trending outside the corridor.



52. India received a total foreign direct investment (FDI) of USD 60.3 billion during April to December 2021, providing critical funding to investment activity in the country. The equity inflow component of FDI for this period has been pegged at USD 43.1 billion. Manufacturing, computer services, communication services, retail & wholesale trade and education, research & development attracted most of the investment. Computer software and hardware have been leading with the highest FDI equity inflows of USD 10.3 billion in the said time period.



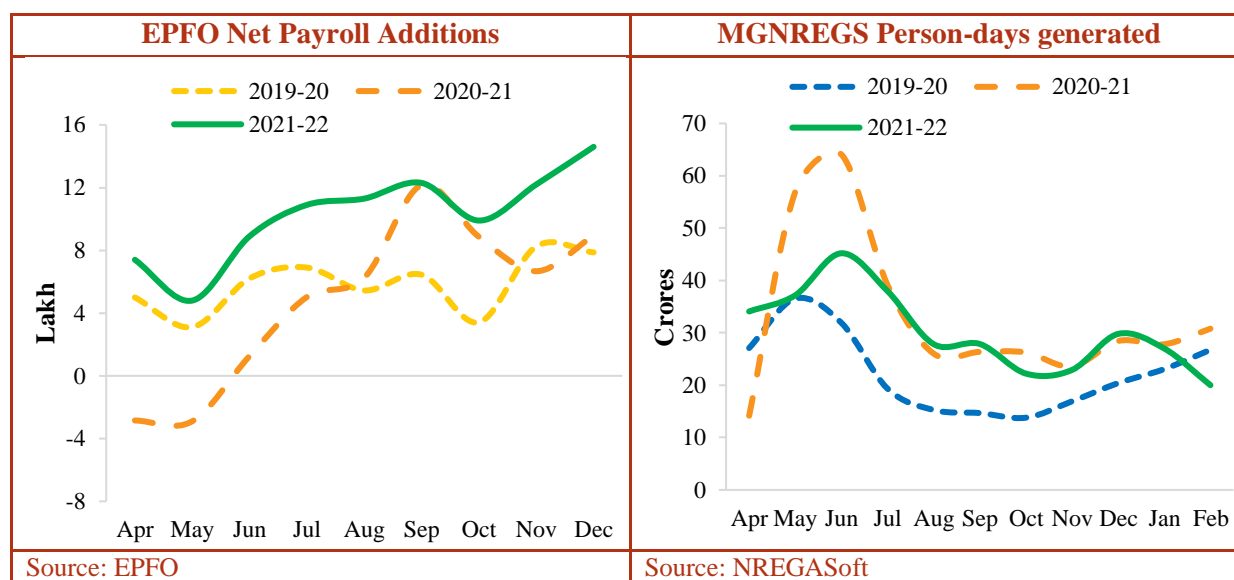
53. Investments funded through External Commercial Borrowings (ECBs) have continued to remain on an upswing as on December 2021. Notwithstanding global developments, India’s forex reserves also stood at record high and large enough to finance more than 12 months of import.



Employment

54. The latest payroll data of Employees’ Provident Fund Organisation (EPFO) – which covers the low paid workers in medium and large establishments of formal sector – continues to show an increase in employed workforce with the net EPF subscribers reaching 14.6 lakh in December 2021, 63.3 per cent higher than in the same month of 2020 while being 20 per cent ahead of the November, 2021 level. Consequently, cumulative net addition in EPF subscribers reached 92.4 lakh thus far in FY2021-22 (April 2021 to December 2021), higher than cumulative net addition of 77.1 lakh recorded for the corresponding period in FY2020-21. Age-wise comparison of payroll data shows that age-groups of 18-25 years have contributed around 46.9 per cent of total net subscriber additions in December 2021, which indicates that many

first-time job seekers are joining the organised sector workforce in large numbers. Similarly, the enrolment under the Employees’ State Insurance Corporation (ESIC) – which is for low-earning workers in specified industrial and commercial establishments employing more than 10 workers – has been 15.3 lakh in December 2021, compared with 10.4 lakh in November 2021. Apart from growth in employment, the surge in these subscriptions also reflect the ongoing process of formalization of jobs in the economy.



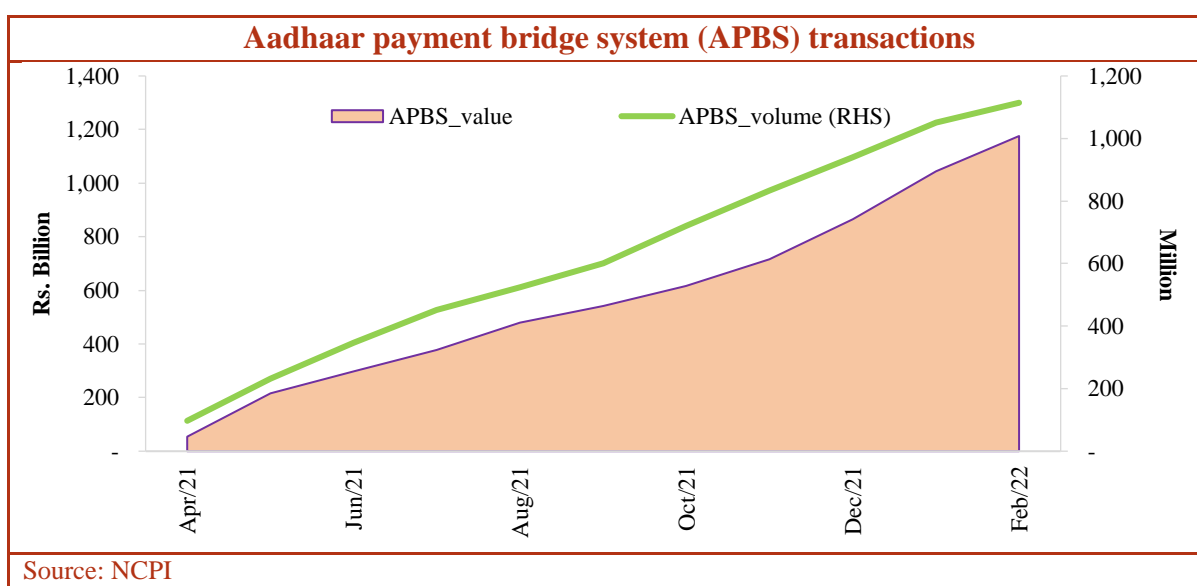
55. Job opportunities continue to grow in the rural areas as well, as demand for work under MGNREGS declines in the current year as compared to the FY 2020-21. In February 2022, 3.1 crore persons demanded work under MGNREGS, which is 20.2 per cent lower than in February 2021. The work so far demanded in the current year (April, 2021- February, 2022) stands at 37.0 crores, which is 10 per cent lower than the work demanded in the corresponding period of the previous year.

56. Naukri JobSpeak Index further indicates growth of hiring activity in India rising 31 per cent YoY in February 2022 as Omicron scare subdued and economic activities recovered. Insurance sector witnessed one of the highest y-o-y growth in hiring activity at 74 per cent followed by retail at 64 per cent. Jobs in sectors like information technology (IT) software and services and hospitality registered 41 per cent growth, while hiring activity in banking and financial services rose by 35 per cent. This was followed by rise in jobs in pharma by 34 per cent and telecom 23 per cent. The automobile sector also showed signs of recovery in February 2022 as it grew by over 12 per cent over February 2021.

57. Similarly, NASSCOM’s 2022 Tech CEO Survey, based on responses collected from approximately 130 CEOs including key stakeholders in the technology industry hailing from Large, Medium and Small-size IT firms, Global Capability Centers (GCCs) and Start-ups reveals that around 90 per cent CEOs expect to hire a similar or larger number of employees in 2022, as compared to in 2021.

Income Support

58. Aadhaar payment bridge system (APBS) is a unique payment system for electronically channelising the government subsidies and benefits in Aadhaar Enabled Bank Accounts (AEBA) of the intended beneficiaries. During February 2022, the value of APBS transactions rose 173.7 per cent over the corresponding month of the previous year. During the period April-February of FY 2021-22, total value of APBS transactions stood at ₹1.2 trillion, 17.7 per cent higher than in the corresponding period of the previous year. Cumulatively, for the April-February period, the volume of transactions in FY 2021-22 was 1.1 billion. The increase in value and volume of transactions reflects the government's growing support to offset the economic impairment caused by the COVID-19 pandemic to the vulnerable sections of the population.



Outlook

59. The second advance estimates of GDP released on 28th February, 2022, reaffirmed full recovery of India's economy with real GDP of FY 2021-22 estimated to go past the output of the most recent pre-pandemic year of 2019-20. Further, real GDP estimates for Q3 of 2021-22 indicates strong growth momentum, aided by rapid vaccination coverage along with accommodative monetary and fiscal policy support. High frequency indicators for the current quarter indicate sign of recovery in the economic activity as Omicron induced restrictions are eased with the decline in new cases. Union Government endeavours to enhance capital expenditure will further boost the growth and employment through multiplier effect. Resultantly, Moody's Investors Service has upgraded the India's GDP growth estimate to 8.4 percent for 2022-23, while Fitch Ratings has projected the growth at 10.3 percent for 2022-23. Recent sharp increase in the price of crude oil, if sustained well into the new financial year, will pose downside risk to these growth estimates.

60. External sector exhibits sign of resilience with robust growth in merchandise exports increasing to USD 374.8 billion during April 2021 – February 2022, covering 93.7 per cent of the target set for 2021-22. Further, the economy is well prepared with adequate forex reserves to absorb any upcoming external shock in terms of capital outflow induced by uncertain geopolitical environment.

61. Average CPI inflation till February 2022 stands at 5.4 per cent continuing to remain inside the range of RBI's Monetary Policy Committee target. Further, inflation expectations have been moderated as indicated by RBI's recent inflation expectation survey of households. Going forward, elevated energy and commodity prices may act as an upside risk to the inflation outlook in the near- medium term. Given the inherently unsustainable nature of high prices, international commodity prices are expected to level off early with increase in supplies outside the crisis zone. For the coming fiscal year 2022-23, RBI has projected CPI inflation at 4.5 per cent with risks broadly balanced. However, recent increase in prices of food and energy commodities and metals warrants continued vigil on the inflation front.

For feedback contact:

1. Mr. Rajiv Mishra, Economic Adviser (r.mishra67@nic.in)
2. Ms. Shreya Bajaj, Deputy Director (shreya.bajaj@gov.in)
3. Mr. Anshuman Kamila, Assistant Director (kamila.anshuman@gov.in)
4. Ms. Sonali Chowdhry, Consultant (sonali.chowdhry@nic.in)
5. Mr. Bharadwaja Sastry Adiraju, Young Professional (bharadwaj.adiraju@govcontractor.in)
6. Ms. Dipima Sengupta, Young Professional (dipimasengupta144@yahoo.in)