STATE OF THE ECONOMY

Quarterly Assessment and Growth Outlook:
July –August, 2021

SEPTEMBER, 2021

NOTE FOR THE
ECONOMIC ADVISORY COUNCIL
TO THE PRIME MINISTER (EAC–PM)

NATIONAL INSTITUTE OF PUBLIC FINANCE
AND POLICY | NEW DELHI

MAJOR HIGHLIGHTS

- The Q4 estimate of GDP, in the backdrop of a recovery from the second Covid wave, shows a moderate revival of the real GDP growth at a rate of 1.6 percent. As of July, 2021, the economy has transited through two waves of Covid and a series of policy measures aimed at controlling the pandemic and restoring the economy on a high growth trajectory.

- The intra-year period of two quarters (June – December) shows a pick up as economic activity had resumed due to the gradual opening of the economy. The pace of recovery was however moderated as overall quarter – on – quarter growth was decelerating in the backdrop of state wide implementation of containment measures and restrictions. The sharp drop occurred during April – June 2021 after the surge of the second wave, which lead to a major contraction in economic activity.

- The coverage of vaccination will play an important role in limiting the socio-economic damage of the pandemic. As of July, 2021, the trend of Covid infections suggests that spread of infections has substantially reduced in comparison to peak in the second wave. Data till July, 2021 indicates that on average, close to 30% of the eligible population across states is estimated to have received full vaccination, i.e. first and second dose. Overall, as of September 20th, over 60 Crore have been vaccinated with the first dose and 20 Crore with the second dose.

- A broad based contraction was observed across all subsectors in the industries during the peak months of the second wave (April-May, 2021) of the pandemic. Auto-mobile and construction sectors are most affected in this period. Particularly, the second wave of the pandemic halted trade and transport services during the months of Q1 2021-22. Telecommunication services remained largely insulated by the second wave of the pandemic.

- In Q1 2021-22, both tax and non-tax revenues were considerably higher as compared to Q1-2020-21. The revenue position of the Union government indicates a recovery, but is partly on account of a low base in previous quarters. The total expenditure for Q1 2021-22 remained close to last year's level with a marginal growth of 0.7%. Revenue expenditure during this period saw a year-on-year decline of 2.4% whereas the capital expenditure increased by over 26%. As a result the total expenditure shows a marginal increase of 0.70%

- Fiscal deficit for the first 3 month of current fiscal year stood at Rs. 2.74 lakh crore, i.e., 18.2% of the budget estimates for 2021-22. During the first half of 2021-22 (i.e., H1 2021-22), the central government intends to raise Rs. 7.24 lakh crore which is 60.06% of the full-year gross borrowing target of Rs 12.05 lakh crore.

- Central transfers aggregate across 25 states show an increase in Q1 2021-22 over Q1 2020-21 and Q1 2019-20. Central grants were higher by 19.56% as compared to Q1 2020-21 and 69.8% as compared to 2019-20. However, tax devolution to states in Q1 2021-22 was lower by 9.19% and 9.06% as compared to 2020-21 and 2019-20 respectively.

- Robust recovery in tax collections augurs well for the Government to provide the required budgeted support to the economy. The recovery is likely to be sustained, provided market sentiments are not adversely affected with fears of possible waves of infections and re-imposition of containment measures.

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MACROECONOMIC ASSESSMENT AND GROWTH OUTLOOK

I. Trends in Growth

- As of July, 2021, the economy has transited through two waves of Covid and a series of policy measures aimed at controlling the pandemic and restoring the economy on a high growth trajectory. The Q4 estimate, in the backdrop of a recovery from the second Covid wave, shows a moderate revival of the real GDP growth at a rate of 1.6 percent. Except for agriculture, financial services, and public services, all subsectors showed a growth, partly as sign of recovery and partly due to low base in the previous year. (Table 1).

Table 1: Quarterly Growth Rates (%, constant prices) of GDP, 2011-12 Series

Sectors	Annual 2020-21	Q1 2020-21 Apr – Jun	Q2 2020-21 Jul – Sep	Q3 2020-21 Oct - Dec	Q4 2020-21 Jan-Mar	Q1 2021-22 Apr-Jun
		YoY	YoY	YoY	YoY	YoY
GDP	**-7.3**	**-24.4**	**-7.4**	**0.5**	**1.6**	**20.1**
Agriculture, Fishing, etc.	3.6	3.3	3.0	3.9	3.1	4.5
Mining & Quarrying	-8.5	-18	-7.6	-5.9	-5.7	18.6
Manufacturing	-7.2	-35.9	-1.5	1.6	6.9	49.6
Electricity, Gas, Water etc.	1.9	-9.9	2.3	7.3	9.1	14.3
Construction	-8.6	-49.4	-7.2	6.2	14.5	68.3
Trade, hotels, Trans., etc	-18.2	-47.6	-15.3	-7.7	-2.3	34.3
Financial & Prof. Serv.	-1.5	-5.4	-9.5	6.6	5.4	3.7
Public Admin, defence, etc	-4.6	-9.7	-9.3	-1.5	2.3	5.8

Source: National Statistical Office (NSO)

Economic recovery and the Second Covid Wave – March-May 2021

- The onset of the second wave of Covid-19 in March-May 2021 led to a moderation in the recent growth momentum of the economy. Geographically, states of Maharashtra, Andhra Pradesh, Kerala, Uttar Pradesh, West Bengal and Delhi experienced a severe impact during the second wave. Most states had implemented a graded or partial lockdown between March and May and a gradual re-opening was announced in the beginning June.

- To capture the transition effect of the growth momentum within the year, Table 2 reports the seasonally adjusted quarter-on-quarter (QoQ) growth rate of aggregate GDP and the subsectors. This approach helps to understand the pattern of recovery and growth which is free of the base effect on account of sharp contractions in the previous quarters.

Table 2: Seasonally Adjusted Quarterly Growth Rates (%, constant prices) of GDP, 2011-12 Series

Sectors	Q4 2019-20 Jan-Mar	Q1 2020-21 Apr – Jun	Q2 2020-21 Jul – Sep	Q3 2020-21 Oct - Dec	Q4 2020-21 Jan-Mar	Q1 2021-22 Apr-Jun
	QoQ	QoQ	QoQ	QoQ	QoQ	QoQ
GDP (SA)	**1.11**	**-30.25**	**21.02**	**8.55**	**2.33**	**-13.58**
Agriculture, etc. (SA)	2.51	-0.25	0.84	1.38	1.09	1.04
Mining & Quarrying(SA)	1.56	-20.31	10.87	3.23	0.25	2.54
Manufacturing	-1.59	-40.60	41.18	1.68	3.76	-6.83
Electricity, Gas, etc. (SA)	2.92	-9.92	11.46	2.73	4.23	-5.08
Construction	7.58	-74.63	53.21	20.13	14.86	-36.12
Trade, hotels, Trans., (SA)	0.75	-69.31	49.29	10.91	6.80	-37.42
Financial & Prof.Serv. (SA)	1.92	-2.44	-1.12	6.98	1.14	-2.79
Public Admin, defence, (SA)	2.35	-15.12	4.14	5.83	6.99	-10.84

Source: National Statistical Office (NSO) & Authors' estimates

- Aggregate GDP and all the subsectors recorded massive contraction in Q1 2020-21 compared to Q4 2019-20 as a consequence of nation-wide lockdown in March-May, 2020 (Table 2). The intra-year period of two quarters (June – December) shows a pick up as economic activity had resumed on account of a gradual opening of the economy. The pace of recovery was however moderated as overall quarter–on–quarter growth was decelerating in the backdrop of state wide implementation of restrictions on economic activity. The sharp drop occurred during April – June 2021 after the surge of the second wave, which lead to a major contraction in economic activity.

- In Q1 of 2021-22, all major components of the expenditure side GDP, except of government expenditure, recorded double digit growth compared to Q1, 2020-21, partly on account of the low base in the past year. Government expenditure growth shows contraction in Q1 2020-21 compared to the same quarter previous year, which was on account of the large expenditure undertaken in that period under the fiscal stimulus package.

- Similarly, on the expenditure side, the seasonally adjusted QoQ growth rate suggests a stalling in the pace of recovery in all components of GDP in Q1 2021-22 due to the second wave of the pandemic, except for exports of goods and services (Table 3).

Table 3: Expenditure-side Growth Rates of GDP (%, constant prices), 2011-12 series
Seasonally Adjusted

Sectors	Q4 2019-20 Jan-Mar QoQ	Q1 2020-21 Apr – Jun	Q2 2020-21 Jul – Sep	Q3 2020-21 Oct - Dec	Q4 2020-21 Jan-Mar	Q1 2021-22 Apr-Jun
		QoQ	QoQ	QoQ	QoQ	QoQ
GDP (SA)	**1.11**	**-30.25**	**21.02**	**8.55**	**2.33**	**-13.58**
Private Final Consumption Exp. (PFCE) (SA)	-1.63	-27.10	18.56	6.50	4.62	-11.60

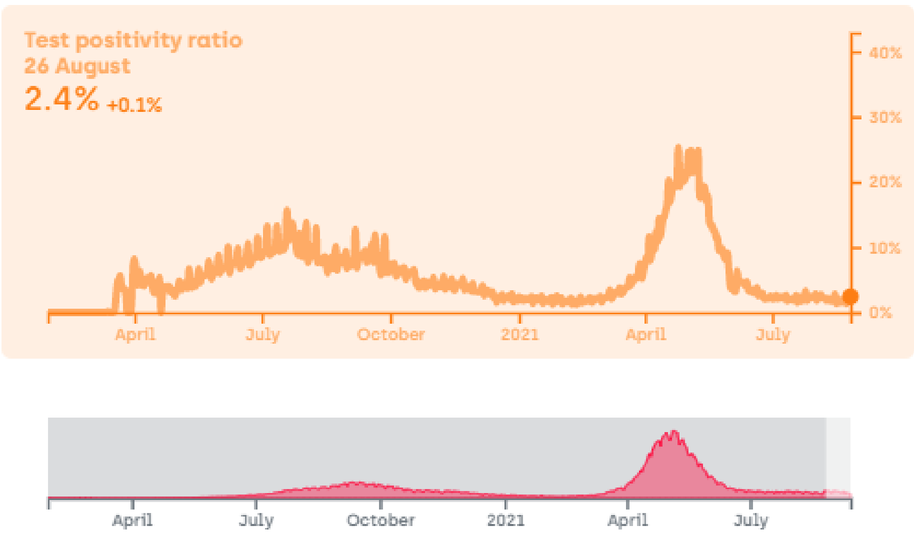
Govt. Final Consumption Exp. (GFCE) (SA)	1.81	1.45	-24.68	20.13	27.09	-27.43
Gross Fixed Capital Formation (GFCF)	3.63	-60.62	44.70	14.84	11.83	-26.93
Exports of Goods and Services	-0.92	-23.84	23.11	-1.92	11.05	0.76
Imports of Goods and Services	-0.82	-42.94	28.54	10.13	15.86	-7.40

Source: National Statistical Office (NSO) & Authors' estimates

II Growth outlook for the near future

- The experience of the second Covid wave has indicated that the severity and spread of infections has a major economic consequence and can potentially derail economic recovery. Thus, in parallel, the coverage of vaccination will play an important role in limiting the socio-economic damage of the pandemic and at the same time aid in continuing economic activity. As of July, 2021, the trend of Covid infections suggests that the spread of infections has substantially reduced in comparison to peak in the second wave.

Figure 1: Trend of Test Positivity Rate and Covid Infections

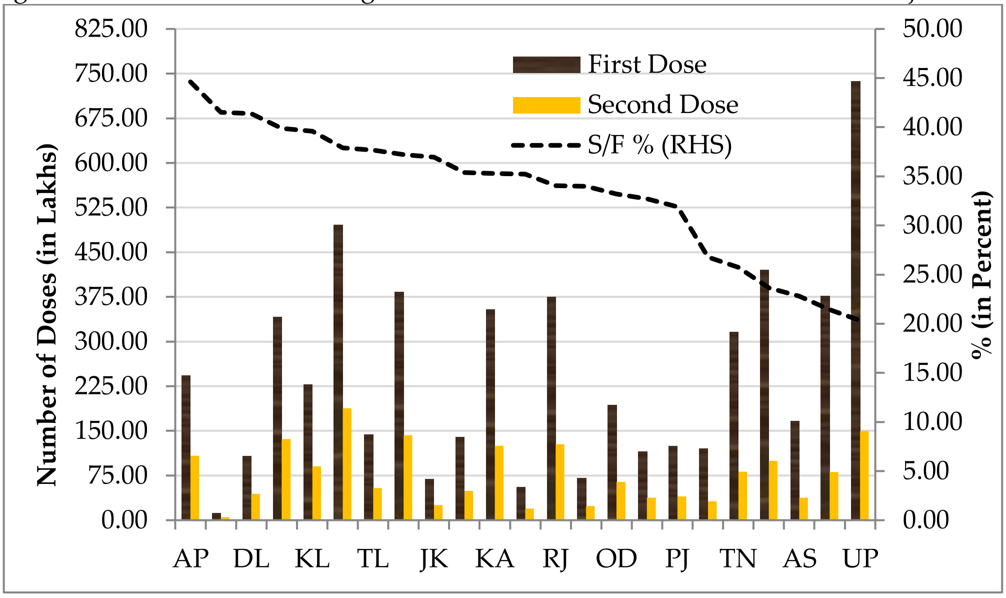


Source: Covid19india.org

- Figure 1 describes the test-positivity rate since the last year. In comparison to the peak of the second wave (26), average test positivity rate at the end of August was as low as 2.4%. However, given past experience, fears of a spike in Covid infections in the near future also cannot be ruled out.

- The coverage of vaccination across states in terms of first and second doses will eventually determine the pace of recovery and resumption of economic activity to pre-pandemic levels. Figure 2 describes the number of first and second doses administered across major states and the proportion of second to first dose to capture the extent of coverage. As of July, 2021, on average, close to 30% of the eligible population across states is estimated to have received full vaccination, i.e. first and second dose. Overall, as of September 20th, over 60 Crore have been vaccinated with the first dose and 20 Crore with the second dose. (data from MoHFW)

Figure 2: Number and Percentage of First and Second Vaccine Dose across major states



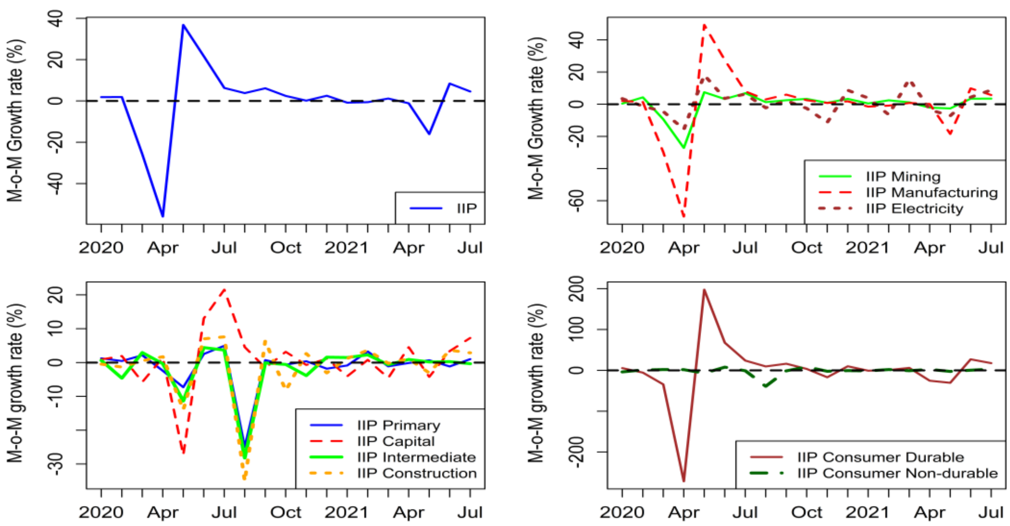
- A fast coverage of vaccination also has implications for resumption of economic activities in rural areas. With the arrival of festival seasons (October – November), a fast pace for full coverage of vaccination is likely to limit the impact of further waves of Covid infections and also limit containment measures.

1. Agriculture

- Agricultural performance during 2020-21 has remained insulated from a negative shock on account of a good monsoon that kept rabi and kharif activities unaffected. However, there is a possibility of an unfavourable impact on agriculture in Q2 of FY 2021-22 on account of delayed monsoon during June-July and the spread of Covid infections to the rural areas. Consequently we observe a 1.78 percent decline in the area sown under kharif crop till mid-August in 2021 compared to 2020, while it was 8.49 percent higher in 2020 compared to 2019. The stalling of agricultural activities was further reflected by a contraction in domestic sales of tractors during the second wave of the pandemic.

2. Industry

Figure 3: Recent Trend in Components of IIP



Source: Data from NSO

- Aggregate IIP and most of its components show significant contraction during the peak period of second wave of the pandemic, that is April-May, 2021 (Figure 3). All components registered a rebound to positive growth in June and July, 2021.

Table 4: Trend of High Frequency Indicators for Industrial Sector

Indicator	March 2021	April 2021	May 2021	June 2021	July 2021	August 2021
	MoM	**MoM**	**MoM**	**MoM**	**MoM**	**MoM**
Production of coal (million tonnes) (SA)	8.76	**-17.38**	**-1.46**	-1.48	14.56	
Production of crude oil ('000 tonnes) (SA)	0.70	-0.02	**-5.89**	5.73	-0.76	
Production of two wheelers ('000 numbers) (SA)	1.13	-2.27	**-9.41**	7.33	1.09	
Production of commercial vehicle ('000 numbers) (SA)	-4.03	5.18	**-71.22**	57.79	18.09	
Passenger car sales	2.51	**-9.73**	**-99.74**	93.70	5.47	**-15.90**
Production of cement ('000 tonnes)	12.57	**-13.75**	**-22.41**	15.34	4.10	
Consumption of steel ('000 tonnes)	1.84	0.60	-2.77	1.14	2.11	**-12.85**
Electricity generation (million Kwh)	15.80	**-2.81**	**-10.63**	2.50	8.57	4.05

Source: NSO, CMIE, MoM is Month on Month change, SA is Seasonally Adjusted

- A broad based contraction was observed across all subsectors during the peak months of the second wave (April-May, 2021). Automobile and construction sectors were the most affected in this period (Table 5). Although a broad-based quick recovery was visible, the recovery was not sustained in the months of Q2 2021-22.

- **Services:** The second wave of the pandemic halted trade and transport services during the months of Q1 2021-22 and partially recovered in the subsequent months (Table 5). Telecommunication services remained largely insulated by the second wave of the pandemic.

Table 5: Effect of the Second Wave of the Pandemic on Services: Evidence from Selected High Frequency Indicators for Services Sector

Indicator	March 2021	April 2021	May 2021	June 2021	July 2021	August 2021
	MoM	**MoM**	**MoM**	**MoM**	**MoM**	**MoM**
Passenger Air ('000 numbers) (SA)	-3.18	**-25.16**	**-113.76**	51.24	36.85	
Passenger Rail (million numbers)	9.34	**-40.15**	**-89.97**	**50.10**	30.04	

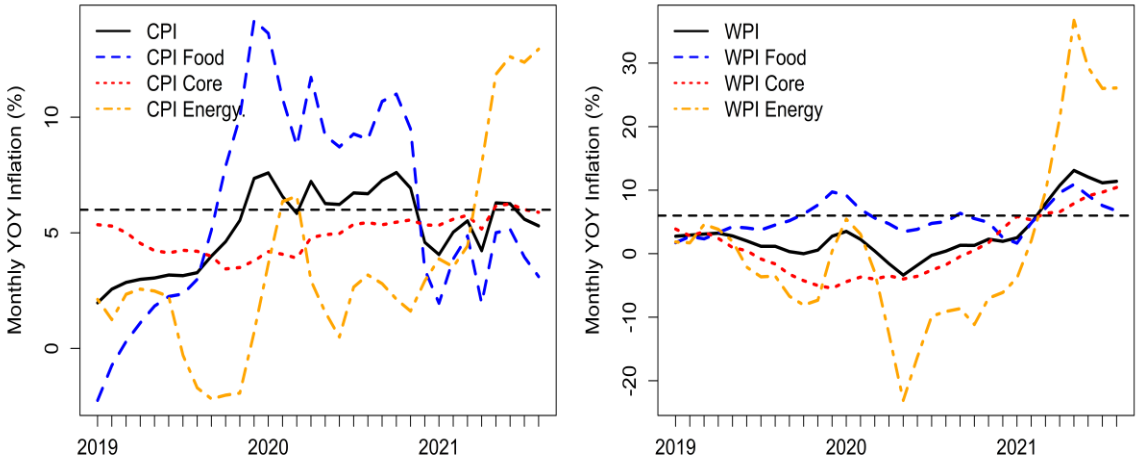
Cargo Air ('000 tonnes)	14.21	**-7.12**	**-9.90**	-0.38	8.83	
Cargo Rail ('000 tonnes) (SA)	-0.55	0.11	0.86	**-32.06**	20.07	
Cargo Port ('000 tonnes) (SA)	7.68	**-7.33**	**-2.32**	-0.66	-7.05	**7.73**
Tele Subscribers (million numbers)	1.11	0.19	-0.41	0.34		

Source: CMIE, TRI& Authors' estimates

INFLATION ASSESSMENT AND OUTLOOK

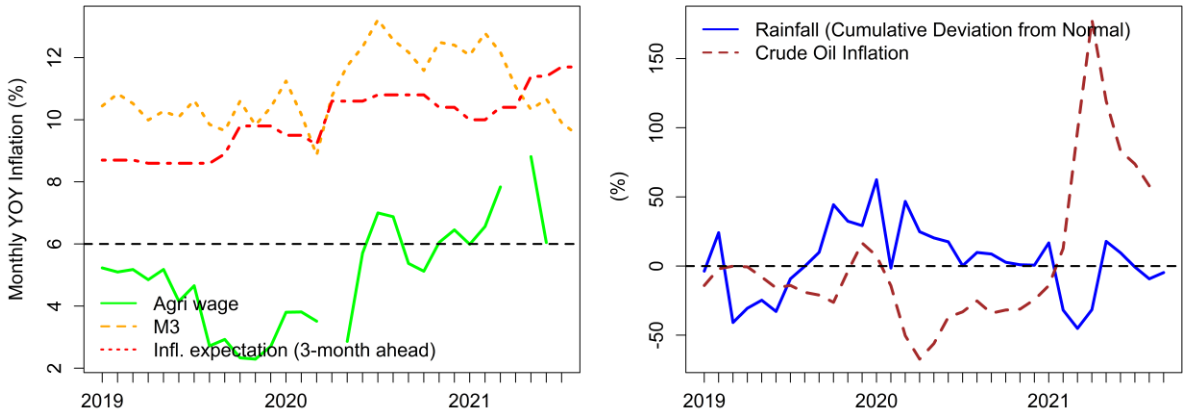
- **During FY 2020-21, the average consumer price index (CPI) inflation was 6.2 percent,** which breached the Reserve Bank of India's (RBI) tolerance band of 2–6 percent**.** In the months of **Q1 2021-22 (Apr-Jun, 2021),** the headline inflation remained above the **6 percent** mark driven by rising inflation rate primarily in energy prices, along with food and core group. While CPI energy and core inflation rates were sticky at 11-12 percent and 6 percent respectively since May, 2021 (Figure 4), food inflation has shown some moderation to 3 percent in August, 2021 from more than 5 percent in June, 2021.

Figure 4: Recent Trends in CPI and WPI



Source: NSO, Office of the Economic Adviser, Department for Promotion of Industry and Internal Trade

Figure 5: Factors Driving Inflation



Source: CMIE, World Bank

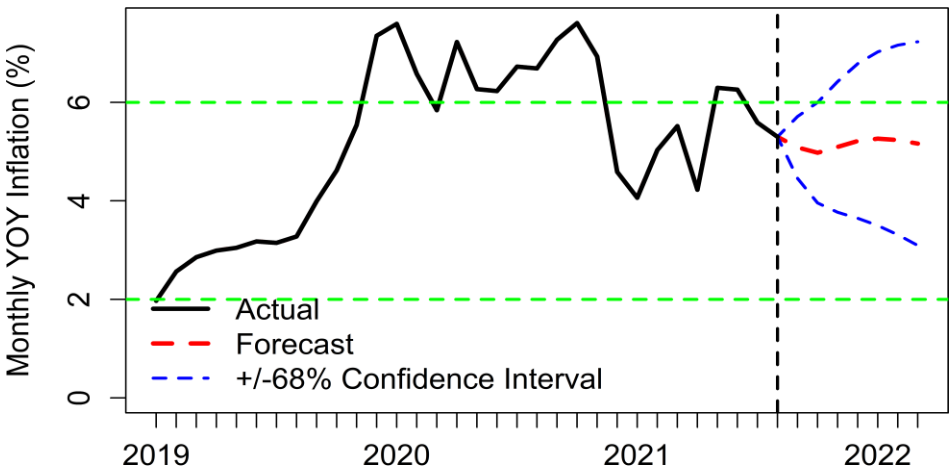
- In the first half of FY 2021-22, WPI energy inflation was nearly 28 percent on account of 102.5 percent inflation in the international crude oil prices. WPI core and WPI manufactured food items exhibit 8.7 percent and 13.5 percent inflation as a result of the pass-through effect of energy inflation during the second wave of the pandemic. Consequently WPI food inflation registered 8.8 percent inflation in this period.

Inflation outlook for the future

- Overall, the headline inflation in FY 2021-22 is expected to moderate further to 5 percent in September, 2021 and will remain within the RBI's band in the second half of FY 2021-22 (Oct, 2021-Mar, 2022). This moderation is on account of slow pacing of agricultural wage growth and crude oil inflation and normalization of rainfall (Figure 5).

- However, there are a few upward risks that can pull up inflation. These are: (i) further rise in crude oil inflation; and (ii) sticky core inflation near the upper level of the band, which is a **direct fallout of the pandemic** (for example, supply chain disruptions in the face of demand revival); and (iii) rise in inflation expectation (Figures 5 & 6).

Figure 6: Inflation Projection for June-December 2021



Source: NIPFP

FISCAL ISSUES: UNION GOVERNMENT

I Revenues

- In Q1 2021-22, both tax and non-tax revenues were considerably higher as compared to Q1-2020-21. The revenue position of the Union government indicates a recovery, but is partly on account of a low base in previous quarters. They were also higher when we compare it with the Q1 of 2019-20 and 2018-19 (Table 6). Overall, the revenue receipts of the Union government in Q1 2021-22 were 30.2% of its budget estimates for 2021-22.

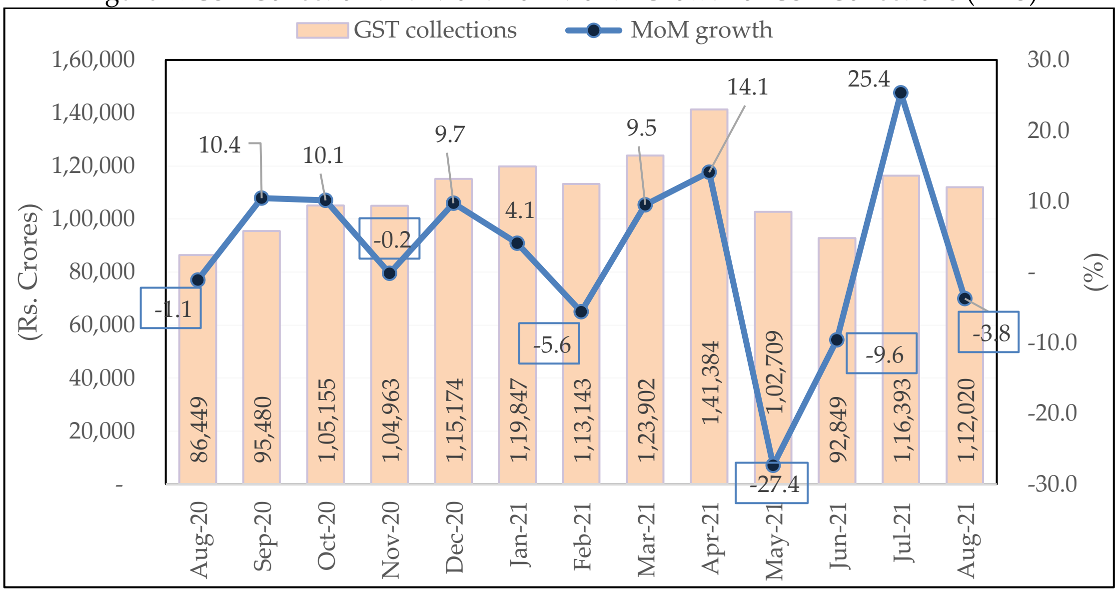
Table 6: Overview of Revenues – April-June 2021-22

Indicators	Q1-2021-22		Q1-2020-21		Q1-2019-20		Q1-2018-19	
	Rs. Cr.	% of BE	Rs. Cr.	% of BE	Rs. Cr.	% of BE	Rs. Cr.	% of BE
Revenue Receipts	5,39,997	30.2	1,50,008	7.4	2,84,886	14.4	2,67,771	15.5
Tax revenue	4,12,680	26.7	1,34,822	8.2	2,51,411	14.7	2,37,170	16.0
Non-tax revenue	1,27,317	52.4	15,186	3.9	33,475	12.3	30,601	12.5
Non-Debt capital receipts	7,402	3.9	3,573	1.6	4,764	4.6	10,843	11.8
Total receipts	5,47,399	27.7	1,53,581	6.8	2,89,650	13.9	2,78,614	15.3

Source: CGA monthly accounts

- Both direct and indirect taxes in Q1 2021-22 have shown a significant growth for the corresponding period over the last two years. Direct taxes such as personal income and corporation tax collections have doubled relative to the 2020-21Q1. Income tax and corporate tax witnessed a CAGR of 12.5% and 32.3% over Q1 2019-20. Among the indirect taxes, GST collections have been over Rs.1 lakh crore since Oct'20 barring Jun'21 where it fell due to partial lockdowns imposed to contain the second wave of the pandemic. GST collections during April-August 2021-22, at Rs.5,65,355 Crore were 57.44% higher as compared to that in 2020-21. Figure 7 presents the monthly GST collections and month-on-month growth in GST collections.

Figure 7: GST Collection and Month-on-Month Growth of GST Collections (RHS)



Source: CMIE Economic Outlook, Growth Rate on RHS

II Expenditure

- The total expenditure for Q1 2021-22 remained close to last year's level with a marginal growth of 0.7%. Revenue expenditure during this period saw a year-on-year decline of 2.4% whereas the capital expenditure increased by over 26%. As a result the total expenditure shows a marginal increase of 0.70% (Table 7). The total expenditure of the union government in Q1 2021-22 was 23.6% of its budget estimates for 2021-22.

Table 7: Overview of Expenditure – April-June 2021-22

Indicators	2021-22		2020-21		2019-20		% change between 2021-22 and	
	Rs. Cr.	% of BE	Rs. Cr.	% of BE	Rs. Cr.	% of BE	2020-21	2019-20
Revenue expenditure	7,10,148	24.2	7,27,671	27.7	6,58,705	26.9	-2.41	7.81
Capital expenditure	1,11,496	20.1	88,273	21.4	63,000	18.8	26.31	76.98
Total expenditure	8,21,644	23.6	8,15,944	26.8	7,21,705	25.9	0.70	13.85

Source: CGA monthly accounts

- Fiscal deficit for the first 3 month of current fiscal year stood at Rs. 2.74 lakh crore, i.e., 18.2% of the budget estimates for 2021-22. In Q1 2020-21 the fiscal deficit was 83.2% of budget estimates for 2020-21 and in Q1 2019-20 it was 61.4% of budget estimates for that year. Revenue deficit for Q1 2021-22 stood at Rs.1.70 lakh crore (or 14.9% of BE). The revenue deficit in Q1 2020-21 was 94.8% of the budget estimates in 2020-21 and in Q1 2019-20 it was 79.4% of the budget estimates.

III Debt

- During the first half of 2021-22 (i.e., H1 2021-22), the Government of India intends to raise Rs. 7.24 lakh crore which is 60.06% of the full-year gross borrowing target of Rs 12.05 lakh crore. As on 21 August 2021, gross market borrowings stood at Rs.5.26 lakh crore (or about 72.65% of its target for H1) and are around 9.8% lower as compared to 2020-21.

IV Outlook

- Robust recovery in tax collections augurs well for the Government to provide the required budgeted support to the economy. The recovery is likely to be sustained, provided market sentiments are not adversely affected with fears of possible waves of infections and re-imposition of containment measures.

FISCAL ISSUES: STATE GOVERNMENTS

- Own tax revenue aggregated across 25 states in Q1 2021-22 show an increase of 65.7% as compared to that in Q1 2020-21. This growth can be attributed to the low base effect. However, own tax revenues are lower by 1.73% and 34.34% when compared to that in Q1 2019-20 and Q4 2020-21 respectively (Table 8). The own non-tax revenues in Q1 2021-22 are lower by 6.96% vis-à-vis Q1 2020-21 and by 4.35% as compared to that in Q1 2019-20.
- Own revenue receipts comprising own tax and own non-tax revenues, aggregated across 25 states in Q1 2021-22 show an increase of about 53.57% in Q1 2021-22 as compared to similar period in 2020-21. This increase largely due to the increase in own tax revenues of states. However, when compared with Q1 2021-222 or Q4 2020-21, own revenues were lower by 1.73% and 34.34% respectively.
- Although we see a considerable increase in own revenues in Q1 2021-22 as compared to Q1 2020-21, States seems to be still below the pre-covid levels of revenues when we compare Q1 2021-22 with Q1 2019-20. Thus to get a more realistic assessment of revenues one should compare Q1 2021-22 with Q1 2019-20 and not Q1 2020-21.

Table 8: Per cent change in key fiscal indicators of States (25 states)

		% Change in Q1 2021-22 over		
		Q1 2020-21	Q1 2019-20	Q4 2020-21
Revenues				
1	Total Revenue Receipt (2+5)	29.27	7.52	-36.62
2	Own Revenue Receipt (3+4)	53.57	-1.73	-34.34
3	Own Tax Revenue, *of which*	65.69	-1.43	-31.77
	(a) SGST	61.13	3.53	-24.16
	(b) Sales Tax	79.63	9.01	-26.18
	(c) State Excise	46.22	-3.82	-29.46
4	Non-tax Revenue	-6.96	-4.35	-50.81
5	Central Transfers (6+7)	5.44	24.23	-39.63
6	Tax Devolution	-9.19	-9.06	-51.65
7	Grants	19.56	69.80	-26.17
Expenditure				
8	Revenue expenditure	8.70	24.70	-32.24
9	Capital expenditure	92.48	16.30	-65.15
10	Total expenditure (8+9)	13.70	23.81	-38.12
	Of which			
	(i) General Services	5.67	16.86	-21.69
	(ii) Social Services	10.72	36.41	-34.55
	(iii) Economic Services	28.31	13.61	-55.76

Notes: Negative values indicate decrease and positive values increase
Source: Comptroller and Auditor General of India (CAG)

- SGST and Sales tax, which together account for about two-thirds of States' own tax revenues increased by 3.53% and 9.01% respectively in Q1 as compared to 2019-20, while States excise show a decline of 3.82%. However, as compared to Q4 2020-21 we see a sharp decline in revenues from SGST, Sales tax and State Excise.
- Central transfers aggregate across 25 states show an increase in Q1 2021-22 over Q1 2020-21 and Q1 2019-20. Central grants were higher by 19.56% as compared to Q1 2020-21 and 69.8% as compared to 2019-20. However, tax devolution to states in Q1 2021-22 was lower by 9.19% and 9.06% as compared to 2020-21 and 2019-20 respectively.
- The revenue expenditure in Q1 of 2021-22 show an improvement of 8.7% vis-à-vis 2020-21 and 24.7% as compared to that in 2019-20. In 2020-21, the state governments' revenue expenditure did not fall as much as the fall in its revenues as they were on the forefront in meeting the challenges of the pandemic. Although there was a reprioritisation in the expenditure as capital expenditures of state governments saw a sharp decline in 2020-21. In the last quarter, Q1 2021-22, capital expenditure aggregated across 25 states show an increase of 92.48% vis-à-vis 2020-21.
- Service-wise break-up of expenditure show that the expenditures on general, social and economic services were higher by 5.67%, 10.72% and 28.31% in Q1 2021-22 vis-à-vis Q1 2020-21.
- The revenue and fiscal deficit as percent of GDP aggregated across 25 states for the period April-June 2021 stood at 1.82% and 3.29% respectively.
- The quantum of market borrowing of the state governments during H1 of 2021-22 (i.e., during April-September 2021) is expected to be around Rs. 3.70 lakh crore as per the indicative calendar of market borrowings of states. Between 8 April and 14 September, states' market borrowing at Rs. 2.83 lakh crore is around 23.58% lower than the borrowings as per the indicative calendar. As compared to the corresponding period in 2020-21, the market borrowings by states in 2021-22

have been lower by about 9%. In 2020-21, the market borrowings of state governments during the comparable period stood at Rs. 3.12 lakh crore.

- Subsequent to the 43rd GST Council Meeting, it was decided that the Central Government would borrow Rs. 1.59 lakh crore and release it to States and UTs with Legislature on a back-to-back basis to meet the resource gap due to the short release of Compensation on account of inadequate amount in the Compensation Fund. This amount is as per the principles adopted for a similar facility in FY 2020-21, where an amount of Rs. 1.10 lakh crore was released to States under a similar arrangement. On 15 July 2021, Rs. 75,000 crore was released to states and UTs with legislature by the Finance Ministry, as back-to-back loan.

MONETARY POLICY

MPC Decisions

- The Monetary Policy Committee of RBI retained the status quo on Repo Rate at 4 percent in its meetings on August 4, 2021[1]. The reverse repo rate under the Liquidity Adjustment Facility (LAF) also remained at its status quo rate of 3.35 percent. The marginal standing facility (MSF) rate and the Bank Rate stood at 4.25 percent.

- The MPC had decided to retain the 'accommodative stance' into the next financial year – to revive economic growth on a sustained manner and mitigate the impact of COVID-19 on the macro economy. These decisions are in consonance with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4 percent within a band of +/- 2 percent, while supporting the growth momentum. The real GDP growth projected by MPC is retained at 9.5 percent for FY 2021-22, but has highlighted that domestic economic activity is starting to recover with the ebbing of the second wave. The vaccination process is expected to gather momentum and should lead to normalization of economic activity.

Credit

- The non-food bank credit growth stood at 6.2 percent in July 2021 as compared to 6.4 percent in July 2020, on a year-on-year (YoY) basis. The credit growth to agriculture and allied activities grew to 12.4 percent in July 2021 as compared to 5.4 percent in July 2020.

- The credit to industry remained at 1.0 percent in July 2021 as compared to 0.9 percent growth in July 2020. The credit to medium industries showed an impressive growth rate of 71.6 per cent in July 2021, as compared to a contraction of 1.8 per cent in July 2020.

- The acceleration in growth of bank credit to industry in July 2021 compared to the growth in July 2020 was registered for all engineering, beverages and tobacco, chemicals and chemical products, gems and jewellery, infrastructure, paper and paper products, petroleum coal products & nuclear fuels, rubber, plastic and their products and textiles. The deceleration in growth of credit was noted for basic metal and metal products, cement and cement products, construction, food processing, glass and glassware, leather and leather products, mining and quarrying, vehicles, vehicles parts and transport equipment and wood and wood products.

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[1]https://rbi.org.in/scripts/BS_PressReleaseDisplay.aspx?prid=52088
RBI (2021)Monetary Policy Committee Statement, August 4-6, 2021 published on August 20th 2021

- The credit growth to services sector decelerated to 2.7 per cent in July 2021, as compared to 12.2 per cent in July 2020, mainly due to the decrease in credit growth to commercial real estate and NBFCs. . The personal loans registered an increase in growth of 11.2 per cent in July 2021, as compared to 9.0 in July 2020.

Money Supply and FOREX

- The growth of money supply (M3) was 9.5 per cent in August 2021 as compared to 12.6 in August 2020. Within M3, the net RBI credit to the government was 8.2 percent in August 2021 as compared to 18.2 per cent in August 2020. The bank credit to commercial sector was 6.7 per cent in August 2021 as compared to 5.7 percent. Reserve money was 14.9 per cent (y-o-y) as on September 3, 2021, as compared to 15.7 per cent in 2020[2].

- India's foreign exchange reserve increased to a new record high of $642.453 billion as per the RBI data shared in the week ended September 3, 2021. Foreign currency assets (FCA) is the significant component of the FOREX, which is $579.813 billion[3].

Financial Stability - Gross Non-Performing Assets (NPA)

- The estimates from RBI's July 2021 Financial Stability Report shows that scheduled commercial banks' Gross Non-Performing Assets (GNPA) would increase from7.48 percent in March 2021 to 9.80 per cent by March 2022 under the 'base case scenario' and to 11.22 percent under the 'severe stress scenario'[4].

- The capital to risk-weighted assets ratio (CRAR) has increased to 16.03 per cent in scheduled commercial banks (as per Basel III stipulated the norm of CRAR at 8 per cent. CRAR is also called Capital Adequacy Ratio (CAR) , which is bank's capital by its risk-weighted assets.

- The provisioning coverage ratio (PCR) (the percentage of funds that a bank sets aside for losses due to bad debts) was 68.86 per cent in March 2021.

Interest rates

- The Treasury-Bill cut off price of 91days , 182 days and 364 days was 3.29 per cent, 3.42 per cent and 3.62 per cent respectively, as per the data released on September 10, 2021. The average yield on 10-year government bond increased to 6.71 percent in September 2021[5]. As per September 2021 data, the weighted average call money rate is 3.18 percent[6], which is below the repo rate. The rate of interest provided by commercial banks on 'term deposits' with a maturity of more than one year is 4.90/5.50percent, as per the data released by the RBI on September 10, 2021.

- The Cash Reserve Ratio is 4 per cent in September 2021 as compared to 3 percent in September 2020. The Statutory Liquidity Ratio (SLR) is retained at 18 per cent throughout. The cash-deposit ratio is 4.79 as per August 27, 2021. The credit-deposit ratio is 70.23 per cent as per August 27, 2021.

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[2]RBI (2021) Press Release on Reserve Money, September 8th 2021
https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=52195
[3]RBI (2021): Press release on Forex , September 10, 2021.
https://www.rbi.org.in/scripts/BS_PressReleaseDisplay.aspx?prid=52211
[4]RBI (2021): Financial Stability Report, Reserve Bank of India, July 2021.
[5]RBI (2021) : Ratios and Rates, September 10, 2021 , https://rbi.org.in/scripts/WSSView.aspx?Id=24787
[6]RBI Press Release: 2021-2022/495

EXTERNAL SECTOR OUTLOOK

- India's current account recorded a surplus of 0.9 per cent of GDP in 2020-21, as against a deficit of 0.9 per cent a year ago
- A sharp contraction in the trade deficit was the major driver, even as net services receipts, especially software, remained resilient.
- Foreign exchange reserves reached an all-time high of US$ 621 billion in July, 2021, equivalent to 18.4 months of 2020-21 imports
- UNCTAD World Investment Report 2021 (WIR) revealed that India became the fifth largest recipient of foreign direct investment (FDI) inflows in the world in 2020.
- On 9th September 2021, Government announced a release of Rs. 56,027 crore under various Export Promotion Schemes. Benefits would be disbursed to more than 45,000 exporters, out of which about 98% are small exporters in the MSME category.

Merchandise Trade

- India's merchandise import in April-August of 2021-22 was USD 219.5 Bn, an increase of 81.7% over April-August 2020-21, reflecting improved domestic demand. The trade deficit in August 2021 was USD 13.87 billion in compared to the trade deficit of USD 8.2 billion in August 2020, while it is USD 55.9 billion during April-August 2021 as compared to USD 22.7 billion during the same period of the previous year. In May-June 2021, there was a sharp decline in gold imports because of which total imports declined and trade balance saw an improvement.

Table 9: Merchandise Exports, Imports and Trade Balance (USD Billion)

		Exports			Imports			
	Trade Balance	Total	POL	Non-POL	Total	Crude & POL	Gold	Non-POL & Non-Gold
Mar-21	-13.7	34.5	3.4	31.0	48.4	10.3	8.5	29.6
Apr-21	-14.9	30.6	3.6	27.0	45.7	10.9	6.2	28.6
May-21	-6.3	32.3	5.3	26.9	38.5	9.5	0.7	28.4
Jun-21	-9.3	32.5	3.9	28.5	41.8	10.6	0.9	30.2
Jul-21	-10.5	35.4	5.8	29.5	45.9	12.5	4.2	29.2
Aug-21	-13.8	33.1	4.5	28.6	47.0	11.6		

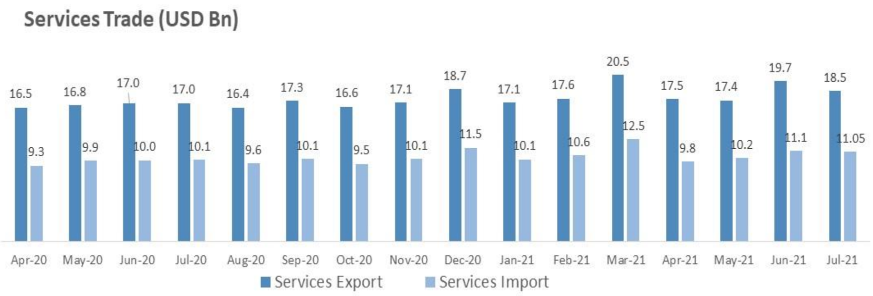
Source: DGCI&S

Services Trade

- India's services exports remained relatively resilient and showed signs of gradual recovery, primarily on the back of robust software exports earnings. Despite global headwinds, software services, accounting for more than 40 per cent of India's total services exports, witnessed steady growth as major IT companies capitalised on growing global demand for business transformation initiatives to enhance digital presence and migrate to cloud services in the aftermath of the world-wide lockdown.

- Figure 8 gives the value of import and export of services and month on month growth rate of the two series. In July 2021, there is decline in services export and a marginal decline in imports as well. However, the estimated value of services export for July2021is USD 18.5Bn, exhibiting a positive growth of 16.86 per cent vis-a-vis July 2020 and value of services import for July2021 is USD 10.89Bn exhibiting a positive growth of 12.42 per cent vis-à-vis July 2020.

Figure 8: Services Trade: Export and Import M-o-M growth rate



	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21
Export M-o-M Growth	-9.6	1.9	1.4	0.2	-3.5	5.2	-4.1	3.0	9.6	-8.8	2.8	16.5	-14.4	-0.8	13.6	-6.2
Import M-o-M Growth	-16.2	6.8	0.2	0.9	-4.5	5.6	-6.0	6.2	13.6	-12.2	5.0	18.2	-21.9	4.4	8.9	-0.9

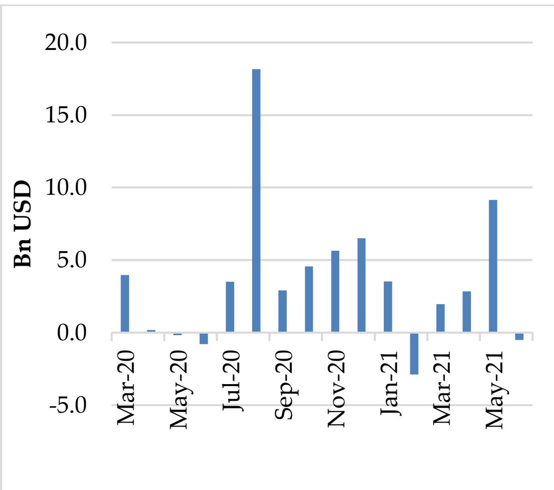
Source: DGCI&S

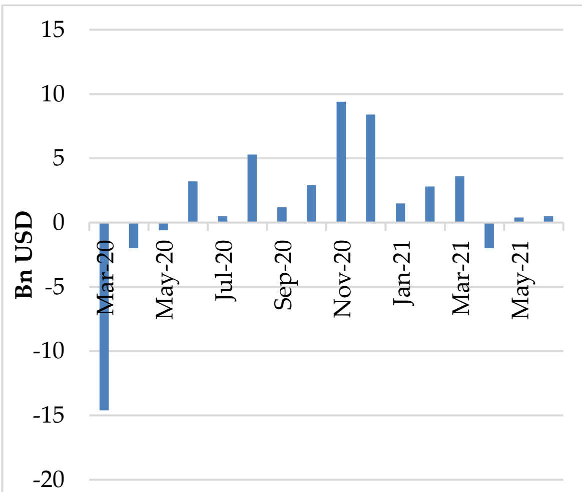
Foreign Investment

- UNCTAD World Investment Report 2021 (WIR) revealed that India became the fifth largest recipient of foreign direct investment (FDI) inflows in the world in 2020.

- The market value of Indian equity holdings of FPIs touched a record US$ 592 billion in July 2021 up 14.4 per cent over end-December 2020 and 71.9 per cent from its level a year ago. FPI equity valuations have risen in financial services, software and computer services, oil and gas, metals and mining, consumer durables, chemicals and capital goods sectors, which together account for 64 per cent of the total increase in these valuations during 2021. Steps taken to revive the sector like simplification and rationalisation of the FPI regulatory regime, operationalisation of the online Common Application Form (CAF) for the purpose of registration with SEBI, allotment of PAN and opening of bank and Demat accounts etc, acted like the pull factors for the investment.

Figure 9: Net FDI (Bn USD) Figure 3: Net FPI (Bn USD)



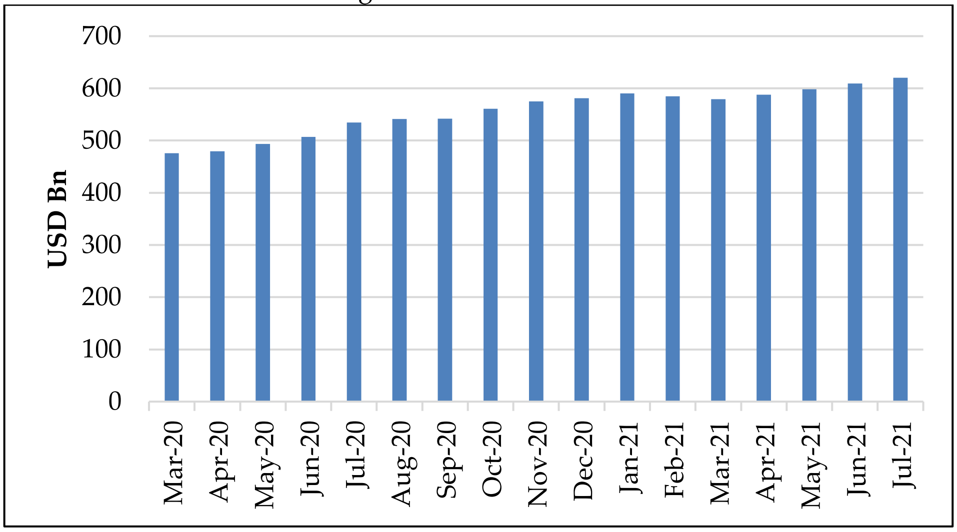


Source: RBI

Foreign Exchange rate and reserves

- All the above-mentioned developments in the external sectors were reflected in the foreign exchange market. The Indian rupee (INR) depreciated against the US dollar during April-May 2021 on the back of strengthening of US dollar and rising crude oil prices.

Figure 10: Forex Reserve



Source: RBI

- Going forward, the outlook for India's external sector will continue to be determined by pandemic's impact on demand and supply side dynamics, globally and in India. However, adequate level of foreign exchange reserves, boost from the government have the potential to keep the external sector sustainable. Global financial conditions remain comfortable, but can alter rapidly.

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