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

STATE OF THE ECONOMY

Quarterly Assessment and Outlook
July-September, 2022

National Institute of Public Finance and Policy
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1 MAJOR HIGHLIGHTS

1 Monetary policy developments

- Against the backdrop of mounting inflation and geo-political uncertainties, the RBI's Monetary Policy Committee (MPC) statements shifted its focus towards gradual normalisation of accommodative monetary policy. In the current financial year, till September, the RBI raised the policy rates by 190 basis points and embarked on a path of withdrawal of liquidity.
- Transmission of policy rate hike to short term market rate and lending yields is observed, with possibility of moderating the growth revival process in near future. With a slowing global economy, demand for exports is also expected to remain subdued. **As a result, the RBI will have to balance between managing inflation and supporting growth in the coming months.**

2 Fiscal policy developments

- The gross tax revenue of the Union government during April-July 2022 is higher by 24.94 percent as compared to the same period in 2021. All central taxes contributed to the increase in gross tax revenue with the exception of Union Excise Duties (declined by 15.2 percent), and customs duty (declined by 12 percent). The rise in direct tax collections can be attributed to the tightened enforcement and compliance using technology. The reduction in excise duty on petrol and diesel in May to control inflation might explain relatively lower collections under union excise duties.
- GST collections have continued to remain buoyant. High inflation rates, better reporting due to stringent enforcement actions against anti-evasion activities along with buoyant changes in consumption patterns due to economic recovery post-Covid-19 are the key drivers of higher GST revenues.
- On account of buoyant revenues, revenue deficit during the first four months 2022-23 was 16.39 percent of the 2022-23 budgeted estimates while fiscal deficit was 20.52 percent of 2022-23BE.
- The Union government planned to borrow 60 percent of its budgeted borrowings for 2022-23. By frontloading its borrowings the government intends to expedite its capital spending thereby supporting recovery of the economy.
- While own revenues (both own-tax and own non-tax) aggregated across 24 states show a much higher growth at 38.89 percent during April-July 2022 as compared to same period in 2021, the increase in transfers from the Union government was around 16.27 percent. However, as compared to the similar period in 2019 (i.e., prior to the covid

pandemic), the increase in transfers from the Union government is a mere 5.74 percent. In fact central grants to states were lower by about 2.27 percent as compared to that during April-July 2019.

- Capital expenditure during the first four months of 2022 was only 15.19 percent of the budgeted amount. In 2022-23, the Union government provided Rs. 1 lakh crore to states for capital expenditure under the scheme "Special Assistance to States for Capital Investment 2022-23". Low capital expenditure by states in the initial four months may indicate low offtake by states under this scheme. With Finance Ministry approval to 12 states under this scheme for capital spending, capital expenditure by states is expected to pick-up in the coming months.
- Till mid-September, states have borrowed only 59 percent of the total borrowings planned during H1. Lower market borrowings by states can be attributed to better tax collections by states and higher devolution by the union government.

3 External trade and domestic sector specific policy developments in the first half of FY 2022-23

- India is looking forward to building the nation as manufacturing hub by implementing and launching policies and public programs specific to external trade and domestic structural policies. Bi-lateral trade agreements such as between India and Australia Economic Cooperation and Trade Agreement (IndAus ECTA), and between India and UAE Comprehensive Economic Partnership Agreement (CEPA) can be viewed with major positive expectations.
- E-portals such as business portal, and the portal for National Import-Export for Yearly Analysis of Trade (NIRYAT) are launched to bring e-commerce marketplace which will provide real time data and help domestic stakeholders to access global visibility. The National Logistic Policy is also introduced as a measure to control the logistic cost in this regard.

4 Growth assessment outlook

- The GDP estimates for the quarter Q1 (April-June) 2022-23 as provided by the National Statistical Office (NSO) record an increase by 13.5 percent from the level in Q1 2021-22. At the sectoral level, Utilities; Construction; Trade, hotel and transport services; and Public administration and defense services record double digit growth, while Manufacturing recorded less than 5 percent growth. Agricultural activities showed resilience in this quarter.
- In Q1 2022-23, Agriculture, Manufacturing, Utilities, Financial Services, and Public Administration services registered robust rate of expansion compared to the level in Q1 of the pre-pandemic year 2019-20. Construction remained stagnant compared to the same quarter of the pre-pandemic year 2019-20, while Trade, hotel, and transport services are yet to catch up the level of the same quarter of 2019-20.
- All expenditure side components of GDP, except for Govt. Final Consumption Expenditure (GFCE), recorded double digit growth in Q1 2022-23 from their respective

levels in Q1 2021-22. Substantial revival in all the demand components relative to the pre-pandemic level is observed.

- Overall, we expect mixed performances across sectors/sub-sectors in Q2 2022-23, with agriculture and services showing resilience, while industrial activities may remain muted in this quarter. The YoY growth rate will be moderate also on account of normalisation of the base effect.
- According to the projections by RBI, IMF and World Bank, the Indian economy is expected to grow at 7-7.5 percent in 2022-23. **The growth prospect for the FY 2022-23 is subject to downward risk on account of rise in commodity inflation, and transmission of higher policy rate to market rate and lending rate, along with withdrawal of its accommodative stance by the Reserve Bank of India (RBI), and recession in China already affecting India's exports to this country, possibly to be aggravated by an expected global recession.**

5 Inflation assessment and outlook

- The average headline inflation remained elevated during April-August, 2022 at 7.1 percent on account of high and sticky food inflation. Cost-push factors such as agricultural wage inflation and MSP hike, adverse weather shocks and rising global edible oil inflation have mainly driven wholesale and retail food inflation up. A broad-based rise in inflation in core items is observed in the first half of FY 2022-23. High rate of oil inflation, along with demand revival in the face of pandemic-induced supply constraints caused core inflation to remain high.
- **Headline inflation is expected to be at 6.3 percent,** slightly higher than RBI's upper limit of the tolerance range during the second half of FY 2022-23. A few factors are expected to work in favor of moderating the pace of inflation in the later phase of FY 2022-23. These are: (i) moderation of global edible inflation reducing pressure from CPI food inflation; (ii) Withdrawal of accommodative monetary policy stance and interest rate hike by RBI moderating core inflation. With transmission of rising policy rate to lending rate, increase in cost of borrowing by firms and households would moderate aggregate demand and thereby moderate core inflation.

6 Balance of payments situation

- During April-July, the first five months of FY 2022-23, India's trade deficit widened to USD 124.5 billion from USD 53.8 billion in the previous year corresponding period. This widening trade deficit puts pressure on the balance of payments. The net foreign investment inflows amounted to USD 4.2 billion, with net FDI inflows of USD 18.9 billion and net FPI outflows of USD 14.7 billion.
- Manufacturing, services, and retail and wholesale trade sectors received the major share of the FDI equity inflows during April-August 2022. Financial services, power, and oil, gas and consumable fuels sectors were the biggest recipients of FPI equity inflows.
- India's foreign exchange reserves stands at USD 574.3 billion in July 2022, providing an import cover of 7.3 months for altogether merchandise goods and trade in services.

Pressure on commodity prices and the possibility of global recession can further affect India's current account position in 2022-23.

- Indian rupee is under continuous depreciating pressure since second half of the FY 2021-22, driven by uncertainties related to the third wave of the pandemic, interest rate hike by developed countries causing capital outflow due to rapid sale of short-term Indian equities by foreign investors, and the Russia-Ukraine war. t of macroeconomic policies (i) to allow the free fall of rupee and exercise independent monetary policy according to the need of the domestic economy (ii) to fix exchange rate by aligning domestic interest rate with interest rate in the U.S. Since neither free fall of rupee nor loosing independence on monetary policy is desirable, the government is considering alternative policy options to stabilise the exchange rate. Some of these are (a) curbs on imports of essential goods, (b) reduction in thresholds on aggregate overseas investments by resident Indians, (c) mandates for exporters to quicken their USD remittances, (d) opening a special window for oil importers and reducing hedging costs for foreign-currency depositors, (d) boosting bilateral trade settlement in rupees.

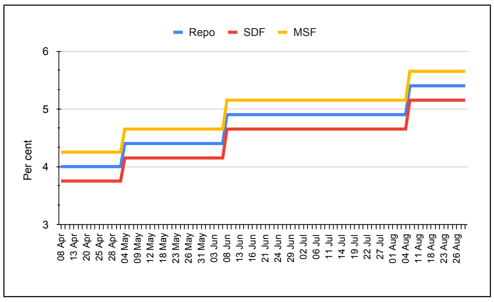
2 MONETARY POLICY DEVELOPMENTS

Radhika Pandey and Lekha Chakraborty

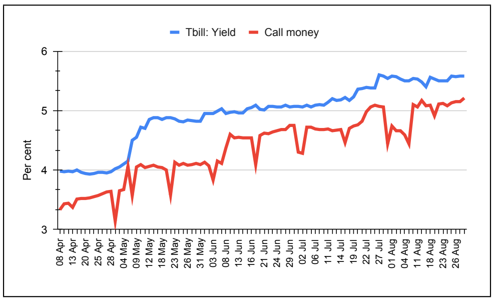
1 Monetary Policy Developments

- Against the backdrop of mounting inflation and geo-political uncertainties, the RBI's Monetary Policy Committee (MPC) statements shifted its focus towards gradual normalisation of accommodative monetary policy. In the current financial year, till September, the RBI raised the policy rates by 190 basis points and embarked on a path of withdrawal of liquidity. As a consequence, short-term rates inched up. During this period, long term yields also increased (albeit at a slower rate in comparison to short-term rates) on account of elevated inflation, high global crude oil prices and aggressive rate hikes by Advanced Economy (AE) central banks.
- The strengthening of the U.S dollar index, higher bond yields have lowered the interest differential between Indian and the U.S. bond yields. This resulted in FPIs turning net sellers in Q1 of 2022-23. With central banks around the world (especially the US Federal Reserve) continuing to remain hawkish in the face of sustained inflation, emerging markets currencies and markets are likely to witness volatility in the short-run.

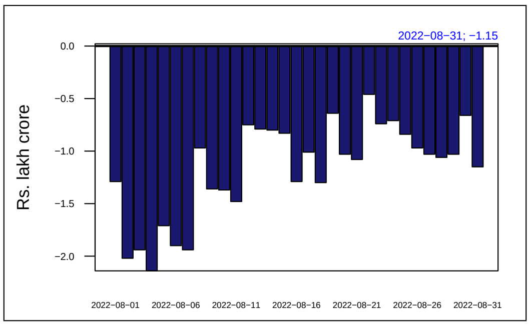
RBI LAF corridor, all rates in percent



91-day TBill yield & Call Rate, in percent



Net liquidity injection/absorption by the RBI



G-Sec yields (2, 5, and 10 year maturities)

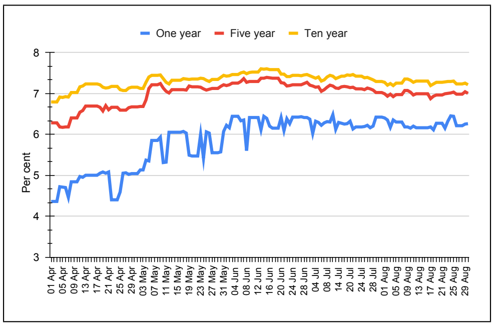


Figure 2.1: **Interest rates and liquidity**

2 MPC Decisions

- Since the April meeting, the RBI MPC decided to focus on the 'withdrawal of accommodation to ensure that inflation remains within the target going forward', while supporting growth. This was a change from the statement of the February meeting of the MPC, where it had placed priority on supporting growth. In April, though the repo rates were kept unchanged at 4 per cent, the RBI also introduced a new instrument, the Standing Deposit Facility (SDF), a collateral-free mechanism to absorb excess liquidity from markets. The SDF facility was set at 3.75 percent, thereby forming the new floor of the Liquidity Adjustment Facility (LAF) corridor. With Marginal Standing Facility (MSF) at 4.25 percent and the SDF at 3.75 percent, the width of LAF was restored to the pre-pandemic level of 50 basis points (compared to the pandemic-era LAF width of 90 basis points).

- In an unscheduled meeting in May, the RBI increased the policy rate by 40 basis points. The repo rate was therefore, raised from 4.0 percent to 4.4 percent. Consequently all corresponding rates of the LAF corridor (MSF, Bank rate, SDF) were also increased by 40 basis points. The RBI announcement came hours before the US Federal Reserve was scheduled to meet to announce a rate hike. In addition, the Cash Reserve Ratio (CRR) for banks was hiked by 50 basis to 4.5 percent, effective from May 21, 2022. This was done with the intention of withdrawal of surplus liquidity.

- In its scheduled meeting during the period 6th to 8th June 2022, the RBI MPC voted to increase the policy rate by 50 basis points, from 4.4 percent to 4.9 percent. Corresponding, rates of the LAF corridor were also increased by 50 basis points, with the MSF at 5.15 percent, and the SDF at 4.65 percent.

- In its scheduled meeting during 3rd to 5th August 2022, the RBI MPC decided to raise the policy rate by 50 basis points, from 4.90 percent to 5.40 percent. The corresponding upper-bound (MSF) and lower-bound (SDF) rates of the LAF were increased to 5.65 percent and 5.15 percent respectively. The RBI retained its FY 2022-23 projections for inflation and real GDP growth at 6.7 percent and 7.2 percent respectively from its previous meetings. Figure 2.1 depicts the trajectory of RBI's policy rate hikes and corresponding shifts in the LAF corridor in May, June and August, 2022.

- In the MPC meet during 28th to 30th September, 2022 RBI raised the repo rate by 50 bps to 5.9 percent as expected, aligning itself to aggressive monetary tightening globally. The standing deposit facility (SDF) rate stands adjusted to 5.65 per cent and the marginal standing facility (MSF) rate and the Bank Rate to 6.15 per cent. The committee decided to remain focused on withdrawal of accommodation to ensure that inflation remains within the target going forward, while supporting growth.

3 Structure of Interest Rates

- The RBI has undertaken a process of monetary policy normalisation since the beginning of FY 2022-23; increasing rates and withdrawing surplus liquidity through variable rate reverse repo auctions (VRRR). Consequently, the call rate has continued to inch up. The weighted average call rate has risen from around 3.35 percent in February to 5.2 percent by August end. Rising demand for credit and decline in liquidity surplus in the banking system has caused the call rate to inch up (see the second graph of Figure 2.1).

- Net liquidity absorption by the RBI was less than 1 lakh crore in the week ending August 26, down from more than 5 lakh crore in May and more than 7 lakh crore in February 2022, which indicates that liquidity surplus has fallen sharply in the past few months (see the third graph of Figure 2.1). Call rates are likely to inch up as banks will borrow from the call money market as credit demand picks up owing to the onset of the festive season. The call rate will likely align closer to the repo rate by the end of this year.
- Similar to the call rate, the 91-day Treasury bill yield has been increasing since April 2022 (see the second graph of Figure 2.1). Continued hikes of policy rates and increase in cut-off yields of VRRR auctions (i.e. investors demanding higher returns) have contributed to this increase observed over time. The 91-day t-bill rate shot up by 4-5 basis points after the announcement of a 50 basis points hike in the repo rate on August 5. Yields were in the range of 5.5 percent to 5.6 percent in August.
- Yields on government bonds spiked after the off-cycle RBI rate hike on the 4th of May. The yield on the one year bond saw a rise of 94 basis points, five year bond yield saw a jump of 53 basis points and the 10 year bond saw a modest rise of 32 basis points from the beginning to the end of May. After a period of volatility, August saw episodes of upsurge and moderation in bond yields. The announcement of a 50 basis points rate hike led to moderate increase in yields. Yield on the 10 year bond rose on concerns that the US Federal Reserve Bank will continue to tighten its monetary policy at an aggressive pace. Higher global crude oil prices also led to higher yields (fourth graph of Figure 2.1 depicts the trajectories of 2 5, and 10-year bond yields).
- The second half of August saw some moderation in yields as lower India CPI print led to optimism that rate hikes by RBI would be less aggressive. However, the 10 year bond yield inched up, tracking the rise in the 10 year U.S. bond as concerns over inflation continued to persist after the minutes of the July FOMC (US Federal Open Market Committee) meeting. The minutes indicated that higher interest rates are likely to remain for some time.

4 Credit Deployment

- Despite RBI's rate hikes since April 2022 (and their consequent transmission to lending rates); demand for credit has remained strong, indicating revival in the overall demand. Total Outstanding Bank Credit of Scheduled Commercial Banks (SCBs) increased by 13.16 percent (year-on-year) in the first quarter of FY 2022-23 (See the first figure of 2.2). Q1 FY 2022-23 marked the first quarter of a double-digit increase in the outstanding bank credit since Q4 FY 2019-20. In July, the outstanding bank credit grew at 14.5 percent, up from 5.0 percent in July 2021.
- Non-Food Credit increased by 13.67 percent in Q1 FY 2022-23 compared to 4.79 percent in the corresponding period of the previous year. This momentum picked up further in July, as the non-food credit registered a year-on-year growth of 15.1 percent, compared to 5.1 percent in July 2021.
- A noteworthy development has been a sharp turnaround in the credit to industry. Credit to industry increased by 9.47 percent in Q1 FY 23, after witnessing a contraction in the

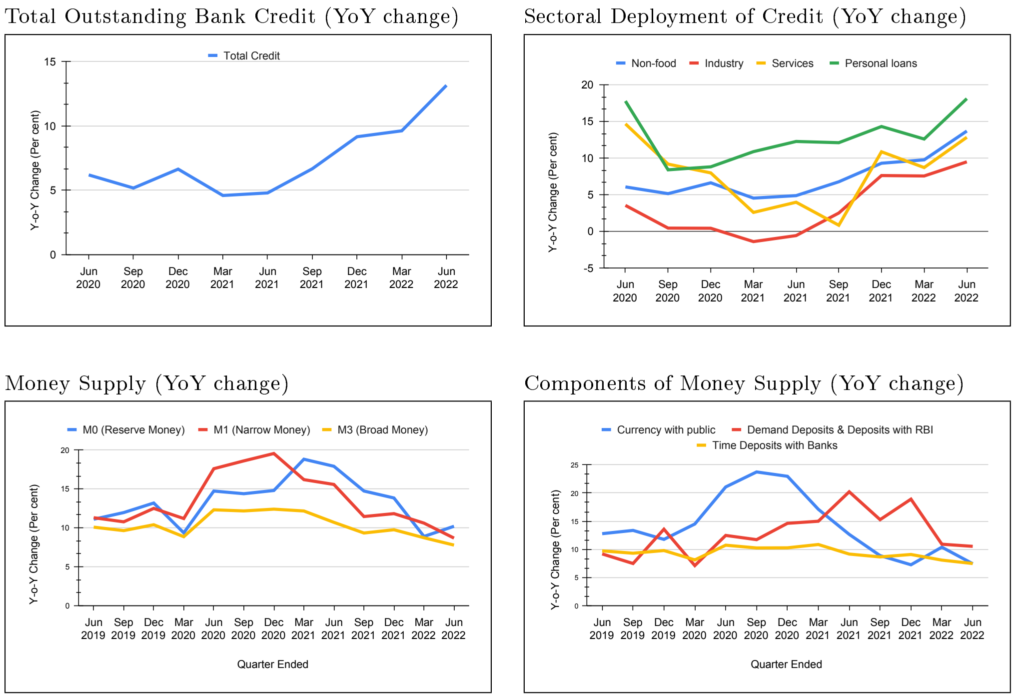


Figure 2.2: **Trends in credit growth and money supply**

same quarter of last year (-0.59 percent). Within industry, credit to Micro & Small units increased by 29.57 percent, whereas credit to the 'Medium' category increased by 47.55 percent in Q1 FY 2022-23. The corresponding changes in the previous period were 11.57 percent and 59.05 percent. Credit to large industries registered a growth of 3.30 percent. This is an encouraging development since credit to large industries had contracted in Q1 FY 2021-22. In July 2022, credit to industry increased by 10.5 percent year-on-year, a strong increase from the 0.4 percent growth observed in July 2021. The highest growth rate was seen in the medium category (36.8 percent), followed by micro & small (28.3 percent), and large industries (5.2 percent).

- Credit to Services grew at 12.82 percent in Q1 of FY 23, a strong increase from 3.96 percent in Q1 of FY 22. This was led by increase in credit to the sub-sectors of NBFCs (21.12 percent), Trade (16.69 percent) and Professional Services (10.07 percent). For July 2022, credit to services increased by 16.5 percent annually, significantly higher than 3.8 percent growth registered in July 2021. This was led by the categories: NBFCs (27.4 percent) and Trade (14.2 percent), followed by Transport Operators (9.6 percent).
- Credit towards personal loans remained strong at 18.09 percent, continuing a trend of double-digit growth in this category since Q4 FY 2020-21. Credit for consumer durables (77.32 percent), vehicles (17.67 percent), and credit card loans (30.72 percent) were the sub-categories that depicted the highest increases. In July, credit towards the personal loans category continued to grow strongly, increasing at 18.8 percent year-on-year, compared to 11.9 percent in July 2021. The sub-categories: consumer durables (69.8 percent), vehicle loans (19.2 percent), and credit card loans (28.3 percent) registered the largest increase. The second graph of Figure 2.2 shows the year-on-year growth rates for non-food credit and its major components, viz. industry, services, and personal loans.

5 Movements in Money Supply and Reserve Money

- Reserve money (M0) stood at Rs 41.4 lakh crore at the end of April-June quarter of 2022-23, registering a growth of 10.2 percent. Currency in circulation, constituting the largest component of Reserve Money (M0), increased by 7.97 percent in Q1 FY 2022-23 compared to an increase of 12.32 percent in Q1 FY 2021-22.
- Broad Money (M3) stood at Rs. 206.1 lakh crore as of Q1 FY 2022-23, up 7.79 percent from the same quarter of the previous financial year. Narrow Money (M1) stood at Rs. 52.4 lakh crore, registering a growth of 8.68 percent over the same quarter of the last year. The third graph of Figure 2.2 shows the year-on-year growth rates of M0, M1, and M3.
- Within M1, currency with the public grew by 7.45 percent in Q1 FY 2022-23, compared to 12.66 percent in Q1 of FY 2021-21 (See the fourth graph of Figure 2.2). Demand Deposits & Deposits with RBI increased by 10.53 percent percent during the same period, as compared to an increase of 20.22 percent seen in Q1 FY 2021-22. The largest component of M3, Time Deposits with Banks, grew by 7.48 percent, lower than the growth of 9.16 percent observed in Q1 FY 2021-22 (See the fourth graph of Figure 2.2).

6 Financial Stability

- According to the RBI's Financial Stability Report (June 2022)[1] the asset quality for Scheduled Commercial Banks (SCBs) registered an improvement as of March 2022, as compared to March 2021. Gross Non-Performing Assets (GNPAs) decreased from 7.4 percent to 5.9 percent, Net Non-Performing Assets (NNPAs) decreased from 2.4 percent to 1.7 percent, and the Provision Coverage Ratio (PCR) improved from 67.6 percent to 70.9 percent. The slippage ratio (the rate at which loans turn into NPAs) and write-off ratio decreased as well.
- The CRAR (Capital to Risk-weighted Assets Ratio) ratio of Scheduled Commercial Banks (SCBs) has continued to increase since March 2020, and stood at 16.7 percent in March 2022. The CRAR of PVBs and FBs remained above 18 percent (two times the regulator requirements). Profitability of banks also improved, as reflected in increases in banks' Net Interest Margins (NIM), Return on Equity (RoE) and Return on Assets (RoA).
- Stress tests conducted by the RBI demonstrate that even in the most 'adverse' scenarios (a shock of 1.25 to 2 standard deviations applied to various macro variables: inflation, GDP, CAD, etc.), neither the CRAR (Capital to Risk-weighted Assets Ratio) nor the CET1 (Common Equity Tier 1) ratio will breach their minimum regulatory values (of 9 percent and 5.5 percent respectively). These results have been obtained till H1:2022-23 (September 2022).
- Non-Banking Financial Companies (NBFCs): Similar to SCBs, NBFCs also saw improvement in asset quality and profitability. GNPAs decreased from 6.8 percent in September 2021 to 6.2 percent in March 2022. CRAR decreased slightly for the same

[1] https://rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=53939

period but remained high at 26.9 percent (well above the regulatory requirement of 15 percent).

- Stress tests conducted by the RBI indicate that the majority of NBFCs show resilience in the face of adverse economic (specifically credit and liquidity constraint-related) scenarios. Small Finance Banks and Urban Cooperative banks also saw improvement in asset quality as of March 2022.

7 Foreign Portfolio Investment (FPI) and Foreign Direct Investment (FDI)

- Foreign Portfolio Investors were net sellers in Q1 FY 23. Both the equity and debt segments remained in the red during this period. The sell-off moderated in July and net inflows turned marginally positive (0.2 USD billion), owing to hopes of slower-than-expected monetary tightening by the US Federal Reserve and other global central banks due to marginal moderation in the US CPI inflation.
- FPIs turned net buyers with positive net investment in August (USD 7.1 billion), led by the investment in the equity segment (USD 6.4 billion, which was the highest in 20 months). The debt segment also saw net inflows of USD 0.5 billion in August. In contrast to FPI inflows, FDI inflows have remained robust in the face of global macroeconomic uncertainty. Gross Foreign Direct Investment (FDI) for Q1 FY 2022-23 stood at USD 22.3 billion, of which 74.2 percent (USD 16.6 billion) was in equity.
- The sectoral composition of the FDI has remained similar in the Q1 FY 23 as compared to the same quarter previous year. Services[2] sector and the Computer Software & Hardware sector attracted the largest proportion in total FDI, 16 percent and 15 percent respectively in Q1 of FY 23[3]. The third largest share of approximately 7 percent of the total FDI went to the Telecommunications sector[4].

8 Looking forward

- As of September 2022, the global environment continues to look uncertain. Inflationary pressures in Advanced Economies (AEs) remain elevated: with CPI for (i) U.S. at 8.3 percent (YoY), (ii) UK at 9.9 percent (YoY), and (iii) Europe at 9.1 percent (YoY) for August 2022. In response, AE Central Banks have reiterated their committment to continue monetary tightening, despite the trade-offs, which include slowing down aggregate demand and inducing a probable recession.
- Inflation in India has continued to remain elevated, with the August 2022 CPI print coming in at around 7 percent (YoY). With a slowing global economy, demand for exports will similarly remain subdued. As a result, the RBI will have to balance between managing inflation and supporting growth in the coming months.

[2]Services sector includes Financial, Banking, Insurance, Non-Financial / Business, Outsourcing, R&D, Courier, Tech. Testing and Analysis, and Others.

[3]https://dpiit.gov.in/sites/default/files/FDI_Factsheet_June_2022.pdf

[4]https://dpiit.gov.in/sites/default/files/FDI_Factsheet_June2021.pdf

3 FISCAL POLICY DEVELOPMENTS

Manish Gupta

1 Fiscal Issues: Union Government

1.1 Revenues

- The gross tax revenue of the Union government during the first four months (i.e., April-July) of current fiscal is higher by 24.94 percent as compared to the same period in 2021 and it accounts for about 31.53 percent of the budget estimates for 2022-23. All central taxes contributed to the increase in gross tax revenue with the exception of Union Excise Duties (Table 3.1).
- While revenues from Personal Income tax during April-July 2022 was higher by about 50 percent, CGST by 42 percent, Corporation tax by 34.71 percent as compared to that during April-July 2021, Union Excise duties were lower by about 15.18 percent, collections from Union Excise duties were lower by about 15.18 percent and customs duty by about 12 percent. Collections from Union Excise duties and customs during April-July 2022 respectively account for about 25.42 percent and 23.95 percent of the budget estimates for 2022-23 (Table 3.1).
- The rise in direct tax collections can be attributed to the tightened enforcement and compliance using technology. The Union government on May 23 cut excise duty on petrol by Rs. 8 per litre and diesel by Rs. 6 per litre to cool record inflation. This might explain relatively lower collections under union excise duties during this period. As per government's estimates the reduction in excise duties is likely to result in a loss of Rs. 1 lakh crore annually to the exchequer.

Table 3.1: **Overview of Revenues**

Indicators	**April-July 2022** (Rs. Crore)	**2022-23 BE** (Rs. Crore)	**April-July 2022** (% of 22-23 BE)	**April-July 2021** (Rs. Crore)	**% change Apr-Jul 2022 & Apr-Jul 2021**
Revenue Receipt*	755795	2204422	34.29	669149	12.95
Gross Tax Revenue	869461	2757820	31.53	695888	24.94
Corporation Tax	196476	720000	27.29	145851	34.71
Income tax	241786	700000	34.54	161221	49.97
Union Excise duties	85147	335000	25.42	100387	-15.18
Customs	51010	213000	23.95	57964	-12.00
CGST	234749	660000	35.57	165347	41.97
Tax Revenue*	666212	1934771	34.43	529189	25.89
Non-Tax Revenue	89583	269651	33.22	139960	-35.99

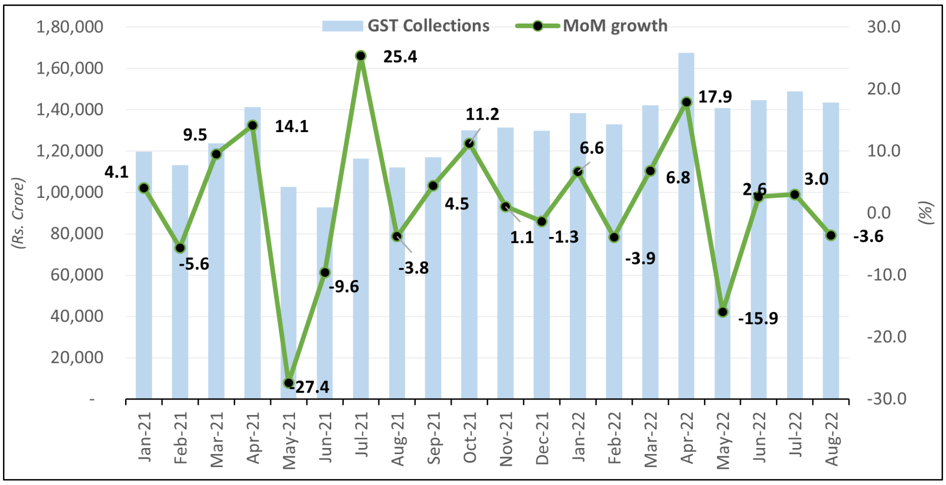
[1]

Source: CGA, Union Budget

[1]Note: Net of states' share in central taxes and collections under NCCD to be transferred to NDRF.

- The GST collections have continued to remain buoyant. For six months in a row starting from March 2022, monthly GST revenues have been more than Rs.1.4 lakh crore, depicting a steady increase (Figure 3.1). High inflation rates, better reporting due to stringent enforcement actions against anti-evasion activities along with buoyant changes in consumption patterns due to economic recovery post-Covid-19 are the key drivers of higher GST revenues. In August 2022, the GST collection was Rs.1.44 lakh crore.

- From July 1, 2022 India imposed tax on windfall gains accruing to oil companies from soaring energy prices due to the Russia-Ukraine conflict. It joined a select league of nations globally that have taxed windfall gains accruing to oil companies from rising energy prices. The government imposed Rs. 6 per litre tax on the export of petrol and jet fuel (ATF) and Rs. 13 per litre on the export of diesel. Additionally, Rs. 23,250 per tonne tax was levied on crude oil produced domestically. These rates are to be revised every fortnight. It is expected that the windfall tax on oil produced within India and fuel exported overseas will help recoup a sizeable proportion of central revenues lost due to the reduction in excise duty on fuel.



Source: PIB releases

Figure 3.1: **SGST collections and month-on-month growth**

- Non-tax revenues of the union government during April-July 2022 was 36 percent lower as compared to that during April-July 2021. As percent of the budget estimates of 2022-23, it was around 33.22 percent.

- The government auctioned the 5G spectrum during July-August and had budgeted a revenue of Rs. 52,806.36 crore. However, it is estimated by experts that collection from the 5G auction will fall short by about 25-27 percent of the budget estimates due to (a) government's decision to not charge fixed upfront payment from the operators for spectrum bought in the recently concluded auctions, (b) its decision not to levy spectrum usage charge (SUC) on the spectrum bought and (c) the 4 year moratorium for payment of deferred installments on spectrum bought in the previous auctions.

1.2 Expenditure

- On the expenditure side, during April-July 2022, the revenue expenditure was marginally higher by about 4.80 percent as compared to that during April-July 2021. As percent of the budget estimates of 2022-23, it was around 28.74 percent.
- The Union government in order to give push to capital spending had budgeted for a higher capital expenditure in 2022-23BE. During the first four months of the fiscal 2022-23 (i.e., April-July 2022) the government has spent 27.81 percent of its capex budget (Table 3.2). Overall, capital expenditure during April-July of 2022 was higher by about 62.48 percent vis-a-vis that during the same period in 2021-22.
- On account of buoyant revenues, revenue deficit during the first four months 2022-23 was 16.39 percent of the 2022-23 budgeted estimates while fiscal deficit was 20.52 percent of 2022-23BE.

Table 3.2: **Overview of Expenditures**

Indicators	**April-July 2022** (Rs. Crore)	**2022-23 BE** (Rs. Crore)	**April-July 2022** (% of 22-23 BE)	**April-July 2021** (Rs. Crore)	**% change Apr-Jul 2022 & Apr-Jul 2021**
Revenue Exp.	918075	3194663	28.74	876012	4.80
Capital Exp.	208670	750246	27.81	128428	62.48
Total Exp.	1126745	3944909	28.56	1004440	12.18
Revenue Deficit	162280	990241	16.39	206863	-21.55
Fiscal Deficit	340831	1661196	20.52	321143	6.13

Source: CGA, Union Budget

- Out of gross market borrowing of Rs. 14.31 lakh crore budgeted for 2022-23 by the Union government, Rs. 8.46 lakh crore (i.e., 60 percent) was planned to be borrowed in first half (H1) of the fiscal as per government's borrowing calendar[2]. By frontloading its borrowings (when the private demand for funds is low), the government intends to expedite its capital spending thereby supporting recovery of the economy. As per the latest available information, as on 16 September 2022, the government borrowed Rs.7.21 lakh crore (or 85 percent of its planned borrowing during H1).
- For the second half of the fiscal year 2022-23 (i.e., H2 of 2022-23), the union government in consultation with the Reserve Bank of India has finalised its borrowing plan. During H2-2022-23 it plans to borrow Rs.5.92 lakh crore.[3] Thus, for the entire fiscal year 2022-23, the government now plans to borrow Rs.14.21 lakh crore instead of Rs.14.31 lakh.

1.3 Future Outlook

- Robust recovery in tax collections augurs well for the Government to provide the required budgeted support to the economy. The investment activity will get boost from government's capex push and improvement in bank credit which will contribute to the

[2]As per Union Budget 2022-23, the budgeted gross market borrowing through dated securities for 2022-23 is Rs 14,95,000 crore. Taking into account the switch operations conducted on Jan 28, 2022, the gross market borrowing through dated securities for 2022-23 is expected at Rs 14,31,352 crore (https://pib.gov.in/PressReleaseIframePage.aspx?PRID=1812085#_ftn1)

[3]https://www.pib.gov.in/PressReleasePage.aspx?PRID=1863433

economic recovery process. However, geopolitical tensions, rise in prices of essential commodities including crude oil, volatile global financial markets continue to pose risks to the process of recovery.

2 Fiscal Issues: State Governments

- Own tax revenue aggregated across 24 states during April-July 2022 show an increase of around 37.82 percent as compared to that during the same period in 2020-21 and accounted for about 31 percent of the own-tax revenue budgeted by these states during 2022-23. SGST, Sales tax and State Excise which together account for about 80 percent of States' own tax revenues also show considerable increase during April-July 2022 as compared to that during 2021 (Table 3.3).
- The own non-tax revenues was also higher in April-July 2022 vis-à-vis April-July 2021. As a result, own revenue receipts comprising own tax and own non-tax revenues, aggregated across 24 states show an increase of about 38.89 percent over April-July 2021. Own revenues were much higher than the pre-covid levels.

Table 3.3: **Percent change in key fiscal indicators of States (24 states)**

		April-July 2022 (as % of 2022-23 BE)	**% change in Apr-Jul 2022 over Apr-Jul 2021**	**% change in Apr-Jul 2022 over Apr-Jul 2019**
1	Revenue Receipts	26.64	30.47	59.06
2	Own Revenue Receipts	30.4	38.89	124.91
3	Own tax Revenue	31.03	37.82	127.16
	a) GST	30.26	38.01	118.74
	b) Sales Tax	33.04	32.62	134.95
	c) State Excise	30.28	31.24	99.65
4	Non-tax Revenue	26.69	46.65	110.68 [4]
5	Central Transfers	21.81	16.27	5.74
6	Tax Devolution	22.57	19.34	14.82
7	Grants-in-aid	21.08	13.25	-2.27
8	Revenue Expenditure	25.6	15.18	28.71
9	Capital Expenditure	15.19	4.54	110.28
10	Total Expenditure	23.94	13.99	34.00
	Of which,			
	a) General Services	27.17	20.11	33.18
	b) Social Services	23.99	13.51	32.36
	c) Economic Services	20.32	8.99	38.00

- Central transfers aggregated across 24 states show an increase of about 16.27 percent during April-July 2022 vis-à-vis 2021. However, as compared to the similar period in 2019 (i.e., prior to the covid pandemic), the increase in transfers from the Union government is a mere 5.74 percent. In fact central grants to states were lower by about 2.27 percent as compared to that during April-July 2019 (Table 3.3).

[4]Source: Comptroller and Auditor General of India

- Revenue expenditures during April-July 2022 account for about 25.6 percent of the budget estimates and were around 15.18 higher than that during the same period in 2021. Capital expenditures were only 4.54 percent higher than that during 2021. In the first four months of this fiscal year, states' capital spending has been low at around 15.19 percent of the 2022-23 budget estimates. In 2022-23, the Union government provided Rs. 1 lakh crore to states for capital expenditure under the scheme "Special Assistance to States for Capital Investment 2022-23". Low capital expenditure by states in the initial four months may indicate low offtake by states under this scheme. However, as per the monthly Summary Report of the Department of Expenditure for August 2022, Capital Expenditure amounting to Rs. 34,086.88 crore has been approved for 12 states under this scheme. Capital expenditure by states is expected to pick-up in the coming months.

- As per the tentative borrowing calendar, the State Governments/Union Territories (UTs) were to raise Rs. 4.02 lakh crore during the first two quarters of 2022-23 (Rs. 1.90 lakh crore in Q1 and Rs. 2.12 lakh crore in Q2). States in Q1 of 2022-23 have borrowed 1.10 lakh crores (or 58 percent of the indicative borrowing) and Rs. 1.29 lakh crore (or 61 percent of the indicative amount) by mid-September. Odisha has not raised money through market borrowings so far.

- Market borrowings by states during Q1 2022-23 was lower by about 23.7 percent as compared to that during Q1 2021-22. Lower offtake in Q1 can be on account of comfortable cash flow position of the state governments due to a back-ended release of tax devolution to the states in 2021-22 and buoyant revenue (tax) collections.

- Till mid-September, we find that the states have borrowed only 59 percent of the total borrowings planned during H1 of 2022-23. The Union government in August released two installments of tax devolution to states to accelerate capital and developmental expenditure by states. Lower market borrowings by states can be attributed to better tax collections by states and higher devolution by the union government.

4 EXTERNAL TRADE AND DOMESTIC SECTOR SPECIFIC POLICIES: APRIL-AUGUST, 2022

Dinesh Kumar Nayak

- During the first half of FY 2022-23, India has been taken efforts to negotiate various important trade agreements. The India-Australia Economic Cooperation and Trade Agreement ("IndAus ECTA") was signed on 2nd April 2022 to remove trade barriers and opening a plethora of opportunities in both goods and services. Expected that with ECTA, the present bilateral trade for merchandise and services of USD 27.5 billion (2021), may reach a level of about USD 45 to USD 50 billion in next 5 years. This opend great potential for Indian exports in sectors like textiles & apparels, leather, hospitality, gems and jewellery, engg. goods & pharma, IT, Startups etc. It is expected to create new employment opportunities, raise living standards and enhance the overall welfare of the peoples of both the countries. Additional employment generation is expected to be 10 lakhs within the next 5 years.
- In services, Australia has offered 135 sub-sectors to India, while India offered 103 sub-sectors to Australia. Key areas of India's interest like Education, IT, Business, Professional Services, Health, Audio-visual have been committed by Australia under ECTA. Australia will also be providing Post-study work visas for students, quota for Chefs and Yoga instructors and Work and Holiday visa for young professionals. A clause is introduced for a special review mechanism which provides for compulsory review after 15 years in a time-bound manner.
- The historic India-UAE Comprehensive Economic Partnership Agreement (CEPA) which was signed between the two nations on 18th February 2022, officially entered into force on 1st May 2022. Gems & Jewellery sector contributes a substantial portion of India's exports to the UAE and is a sector that is expected to benefit significantly from the tariff concessions obtained for Indian products under the India-UAE CEPA.
- Overall, India will benefit from preferential market access provided by the UAE on over 97 per cent of its tariff lines which account for 99 percent of Indian exports to the UAE in value terms particularly from labour-intensive sectors such as Gems and Jewellery, Textiles, leather, footwear, sports goods, plastics, furniture, agricultural and wood products, engineering products, pharmaceuticals, medical devices, and Automobiles.
- As regards trade in services, Indian service providers will have enhanced access to around 111 sub-sectors from the 11 broad service sectors. CEPA is expected to increase the total value of bilateral trade in goods to over USD100 billion and trade in services to over USD 15 billion within five years.
- The Indian Business Portal - an international trade hub for Indian exporters and foreign buyers was launched on 27th May 2022. The portal is expected to provide e-commerce marketplace, and is to empower SMEs, artisans, and farmers, and support Indian exporters to get global visibility. Also, the Portal would focus on the promotion of GI products from India.

- On 23rd June 2022, the National Import-Export for Yearly Analysis of Trade (NIRYAT) portal was also launched with the inauguration Vanjiya Bhawan by the Prime Minister. This portal is expected to help in breaking silos by providing real time data to all stakeholders. The Prime Minister said, "from this portal, important information related to more than 30 commodity groups exported to more than 200 countries of the world will be available. In the coming time, information related to district-wise exports will also be available on this. This will also strengthen the efforts to develop the districts as important centers of exports."

- To provide potential market linkages, the Agricultural and Processed Food Products Development and Authority (APEDA), under the Ministry of Commerce and Industry, signed an MoU with Assam Agriculture University, Jorhat to conduct various training programmes on pre-harvest and post-harvest management and other research activities. It is expected to give a boost to the export of horticulture products grown in North-Eastern (NE) states, with a robust strategy to promote locally produced agricultural products to the international markets.

- In order to curb raising prices of wheat flour, the Cabinet Committee on Economic Affairs, has approved the proposal for amendment of the policy of exemption for Wheat or Meslin Flour (HS Code 1101) from export restrictions/ ban. Russia and Ukraine are the major exporters of wheat accounting for around 1/4th of the global wheat trade. The conflict between them led to the global wheat supply chain disruptions increasing demand of Indian wheat. As a result, the price of wheat in domestic market showed an increase. In order to ensure food security of 1.4 billion people of the country, the decision was taken to put a prohibition on export of wheat in May 2022. The approval will now allow to put a restriction on the export of Wheat Flour which will ensure a curb on rising prices of wheat flour and ensure food security of the most vulnerable sections of the society.

- India launched the National Logistics Policy on 17th September 2022 in order to bring the logistic cost from 13 percent to single digit. In this direction drone technology is expected to emerge as important aspect of transport and logistics sector, especially for remote areas; and supporting nation as an emerging manufacturing hub.

- In this context the Unified Logistics Interface Platform (ULIP) has been prepared as an integrated portal in which information about the location of goods can be obtained on a real-time basis with considerable ease.

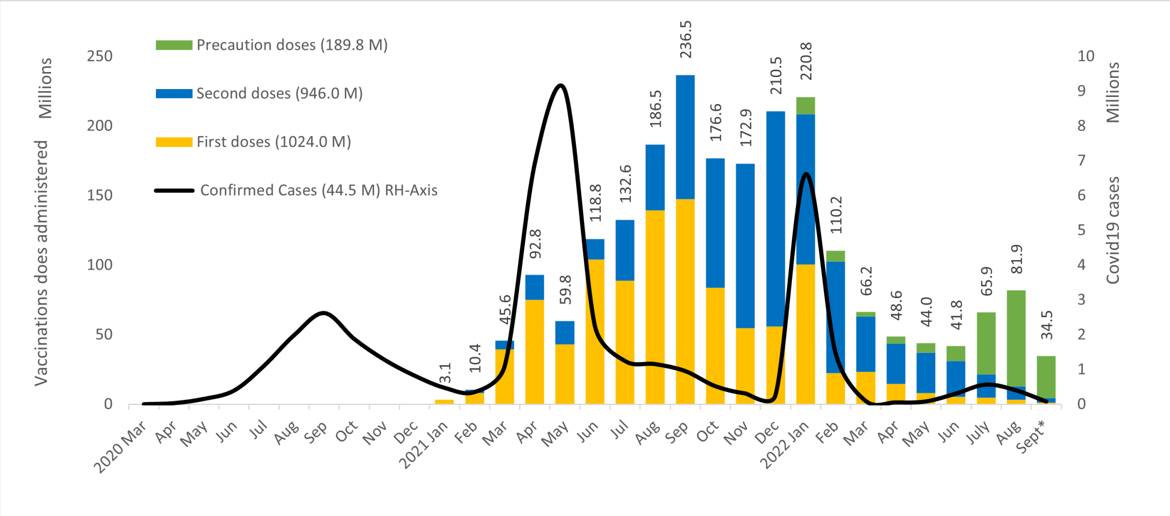
- Logistics efficiency is a function of infrastructure, services (digital systems / processes / regulatory framework) and human resource. PM GatiShakti National Master Plan (NMP) for multimodal connectivity infrastructure to various economic zones, has been launched. It is a transformative approach for improving logistics efficiency and reducing logistics cost, with focus on integrating existing and proposed infrastructure development initiatives of different agencies, to ensure first and last mile connectivity, for seamless movement of people and goods.

- The Policy is planned to be implemented through a Comprehensive Logistics Action Plan (CLAP). The interventions proposed under the CLAP are divided into eight key action areas:(i) Integrated Digital Logistics Systems (ii) Standardisation of physical assets and benchmarking service quality standards (iii) Logistics Human Resources Development and Capacity Building (iv) State Engagement (v) EXIM (Export-Import) Logistics (vi) Service Improvement framework (vii) Sectoral Plan for Efficient Logistics (viii) Facilitation of Development of Logistics Parks.

5 GROWTH OUTLOOK

Rudrani Bhattacharya

- As on 15th September 2022, the total number of confirmed cases of covid infections reported around 44.5 million and the number of registered deaths were around 5.28 lakh. As of 15th September 2022, a total number of around 2.16 billion doses of vaccine had been administered in India (1024 mn 1st dose and 946 mn 2nd dose). In addition, around 190 million people were vaccinated for precaution doses (Figure 5.1)



* Till dated September 15, 2022

Source: State bulletins, and Ministry of Health and Family Welfare (MoHFW), GoI

Figure 5.1: **Monthly Covid-19 cases and vaccinations doses administered in India**

1 Recent Trends in Growth

- **The GDP estimates for the quarter Q1 (April-June) 2022-23 as provided by the National Statistical Office (NSO) record an increase by 13.5 percent from the level in Q1 2021-22 (Table 5.1).** At the sectoral level, Utilities; Construction; Trade, hotel and transport services; and Public administration and defense services record double digit growth in a range of 14.7-26.3 percent. However, Manufacturing, one of the major drivers of recovery in Q1 2021-22 showed a relatively muted 4.8 percent YoY growth. On the other hand, **Agriculture in Q1 2022-23 recorded two-year high growth rate of 4.5 percent.**

- **The double digit growth recorded by the aggregate and some of the sectoral output are mainly on account of favourable base effect due to adverse impacts of second wave of the pandemic on economic activities in the first quarter of FY 2021-22.** A decomposition of the YoY growth rate into **(i) performance in Q1 2022-23 relative to Q1 of pre-pandemic year 2019-20** and **(ii) performance in**

Table 5.1: **Quarterly Growth Rates (%, constant prices) of GDP, 2011-12 Series**

Sectors	Annual 2020-21 YoY	Annual 2021-22 YoY	Q1 2020-21 Apr-Jun YoY	Q1 2021-22 Apr-Jun YoY	Q1 2022-23 Apr-Jun YoY
GDP	-6.6	8.7	-23.8	20.1	13.5
Agriculture, Fishing, etc.	3.3	3.0	3.0	2.2	4.5
Mining & Quarrying	-8.6	11.5	-17.8	18.0	6.5
Manufacturing	-0.6	9.9	-31.5	49.0	4.8
Electricity, Gas, Water etc.	-3.6	7.5	-14.8	13.8	14.7
Construction	-7.3	11.5	-49.4	71.3	16.8
Trade, hotels, Trans., etc	-20.2	11.1	-49.9	34.3	25.7
Financial & Prof. Serv.	2.2	4.2	-1.1	2.3	9.2
Public Admin, defence, et.	-5.5	12.6	-11.4	6.2	26.3

Source: National Statistical Office (NSO)

Q1 2021-22 relative to Q1 of pre-pandemic year 2019-20 (base effect) shows that the **level of economic activities in Q1 2022-23 is just 4.2 percent higher than the level in the pre-pandemic year of 2019-20 (Table A.1 in Appendix A).**[1] The rest of the 13.5 percent growth has been primarily driven by the negative base effect of Q1 2021-22, when economic activities further contracted as an impact of the second wave of the pandemic.

- In Q1 2022-23, Agriculture, Manufacturing, Utilities, Financial Services, and Public Administration services registered robust rate of expansion (by 6.8-20 percent) compared to the level in Q1 of the pre-pandemic year 2019-20 (Table A.1 in Appendix A). Construction expanded by only 1.4 percent compared to the same quarter of the pre-pandemic year 2019-20, while Trade, hotel, and transport services contracted severely relative to the same quarter of 2019-20. However, large negative base effect of Q1 2021-22 pushed up growth rate of Construction, and Trade and transport services to double digit numbers in Q1 2022-23.
- Agriculture remained resilient through out the pandemic years owing to good monsoon, better availability of credit to farmers ensured via fiscal stimulus packages, and rise in income on account of increased MSPs. The actual area sown for kharif foodgrain was more than the normal area sown till the beginning of February, 2022 and rainfall being at the normal level in April-May, 2022, agricultural activities remained resilient in Q1 2022-23 as well. Minimum Support Prices (MSP) of Paddy, Jowar, Moong and Soyabean were increased by 1.3, 2, 6 and 5 times respectively in the beginning of 2022-23 compared to the level of 2021-22 contributed to agricultural activities, too. Rise in demand for agricultural and processed food products from India also boosted this sector. India's exports of agricultural and processed food products increased by 31 percent in Q1 2022-23 compared to the same quarter of 2021-22. **Further, rice production, which is the sole production indicator of the Central Statistical Office to track quarterly YoY agricultural growth, recorded 4.3 percent growth in 2021-22 compared to 2020-21. Hence a relatively strong growth is estimated for agriculture in Q1 2022-23, despite downward adjustment of wheat production by the government on account of volatile rainfall and high temperature in North**

[1]The formula for decomposition is in Appendix A.

India.

- The high temperature in the states of North India during the months of April-June, 2022 caused power demand to grow at a rate of 18.2 percent in Q1 2022-23. The high demand for energy boosted thermal plant load factors (PLFs) and power purchase by discoms, although high international coal and gas prices led to continued elevated exchange power prices. **Responding to the high demand, power generation also grew at a rate of 17 percent, contributing to the impressive performance of the utilities section in this quarter.** Manufacturing maintained its robust performance driven by pandemic-induced automobile demand, registering a 6.8 percent increase in activities compared to that in 2019-20.[2]
- Data on new investments from CMIE Capex database showed 127.7 and 139.5 percent YoY growth respectively in non-financial sector in Q3 and Q4 of 2021-22. However, growth in investments under implementation remained moderate at 2-4 percent in these quarters. Cost of completed projects showed a contraction by 14 percent in Q4 2021-22 from the level in the same quarter of FY 2020-21. **The slow pace of project implementation possibly explained the muted performance of the construction sector in Q1 2022-23 relative to the pre-pandemic level.**

Table 5.2: **Expenditure-side Growth Rates of GDP (%, constant prices), 2011-12 series**

Sectors	Annual 2020-21 YoY	Annual 2021-22 YoY	Q1 2020-21 Apr-Jun YoY	Q1 2021-22 Apr-Jun YoY	Q1 2022-23 Apr-Jun YoY
GDP	-6.6	8.7	-23.8	20.1	13.5
Private Final Consumption Exp. (PFCE)	-6.0	7.9	-23.7	14.4	25.9
Govt. Final Consumption Exp. (GFCE)	3.6	2.6	13.6	-4.8	1.3
Gross Fixed Capital Formation (GFCF)	-10.4	15.8	-45.3	62.5	20.1
Exports of Goods and Services	-9.2	24.3	-25.5	40.8	14.7
Imports of Goods and Services	-13.8	35.5	-41.1	61.1	37.2

Source: National Statistical Office (NSO)

- All expenditure side components of GDP, except for Govt. Final Consumption Expenditure (GFCE), recorded double digit growth in Q1 2022-23 from their respective levels in Q1 2021-22 (Table 5.2). The decomposition of growth rates into the change in Q1 2022-23 relative to pre-pandemic level of 2019-20 and the base year's (2021-22) performance relative to 2019-20 for the same quarter indicate **sign of substantial revival in all the demand components relative to the pre-pandemic level (Table A.2, second column).** The negative base growth effects of 2021-22 further pushed up quarterly YoY growth rates of PFCE, GFCF and imports. Strong positive base effects of Q1 2021-22 moderate YoY growth of GFCE and exports in Q1 2022-23.

[2]Positive base effect of Q1 2021-22 reduces the growth estimate of Q1 2022-23.

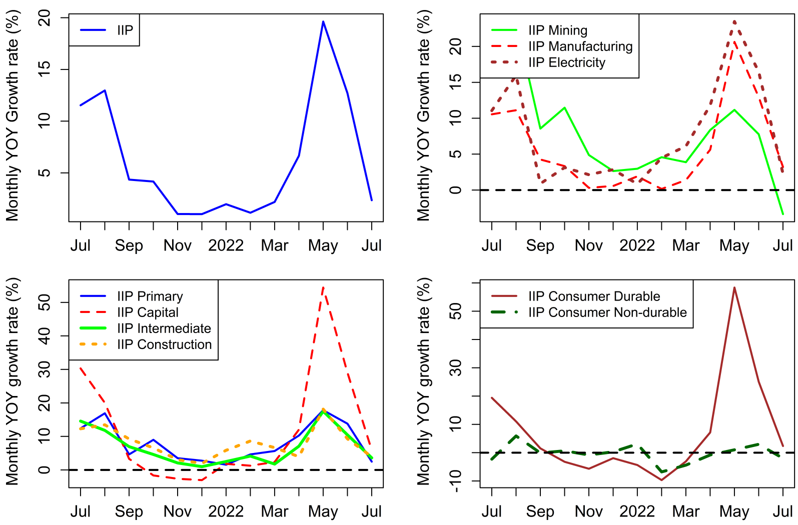
2 High frequency indicators predict mixed performance of sectors/sub-sectors in Q2 2022-23

2.1 Agriculture

- Agriculture remained resilient in Q1 2022-23 recording a 4.5 percent YoY growth. As on 16th September, 2022, the actual area sown for foodgrain is more than the normal area sown, and rainfall expected to be normal (99 percent of the long period average rainfall during June-September, 2022 according to the forecast of the Indian Meteorological Department), **agricultural activities are expected to remain resilient in Q2 2022-23 as well.**

- Increasing external demand for agricultural products may also act as a catalyst to boost agricultural activities in the country. India's agricultural and processed food products exports up by 30 percent to USD 9598 Million in first four months of current fiscal (2022-23) compared to the same period last year.[3] The historic India-UAE Comprehensive Economic Partnership Agreement (CEPA) which was signed between the two nations on 18 February 2022, officially entered into force on 1st May 2022, would provide preferential market access to agricultural products, among other products to the markets of UAE, one of the top ten trade partners of India (Chapter 4). This is expected to incentivise agricultural activities further in the country.

2.2 Industry



Source: NSO

Figure 5.2: **Recent trend in components of IIP**

- All components of IIP, except for IIP Consumer Nondurables recorded double digit growth rate during April-June, 2022-23. These double digit growth rates were partly driven by production responding to demand revival, while the rest was on account of favourable base effect (Table A.3 in Appendix A). **However industrial performance**

[3]https://pib.gov.in/PressReleasePage.aspx?PRID=1858735

in Q2 2022-23 begins in a muted mode. Overall IIP grows by on 2.4 percent in July 2022 compared to the level in the same month of 2021.

- All activity and use based components of IIP, except for IIP Mining and IIP Consumer non-durables, registered a muted YoY growth rate in a range of 2.4 to 3.9 percent, except for IIP capital goods recording a 5.8 percent gowth rate in July, 2022 (Figure 5.2). IIP mining and consumer non-durables record contraction in July 2022 compared to the level in the same month, 2021. The decomposition shows in July 2022, general IIP is only 2.1 per cent higher than the same month of 2019, along with normalisation of the base growth effect (Table A.3 in Appendix A).

Table 5.3: **Recent Trends in Selected Indicators of Industrial Sector**

Indicator	**Apr 2022 YoY growth**	**May 2022 YoY growth**	**Jun 2022 YoY growth**	**Jul 2022 YoY growth**	**Aug 2022 YoY growth**
Production of coal (million tonnes)	30.13	33.65	32.05	11.34	
Production of crude oil ('000 tonnes)	-0.95	4.55	-1.64	-3.74	
Production of two wheelers ('000 numbers)	0.81	154.96	26.07	3.94	
Production of commercial vehicle ('000 numbers)	37.80	232.69	77.39	34.20	
Passenger car sales (number)	-1.82	156.93	16.82	9.84	18.53
Production of cement ('000 tonnes)	7.45	26.18	19.73	2.03	
Consumption of steel ('000 tonnes)	1.79	21.33	6.39	12.46	13.14
Electricity generation (million Kwh)	10.01	20.60	16.87	2.55	0.42

Source: NSO, Office of Economic Adviser, CMIE

- High frequency indicators for industrial sector show mixed performance across sectors and across months of Q2 2022-23 (Table 5.3, columns 4 and 5). For instance, production of two wheelers and passenger car sales, two main indicators of the manufacturing and consumer durable goods sector record sober growth rate in July 2022 (3.9 percent and 9.8 percent respectively), while production of commercial vehicles record as high as 34.2 percent growth in the same month. Again, passenger car sales growth doubles to 18.5 percent in August, 2022, **indicating a sign of possible improvement in the performance of the manufacturing sector in the later parts of Q2 2022.**

- **Utilities sector indicates sign of further slow down** in the later parts of Q2 2022-23 as **electricity generation records 0.4 percent growth in August 2022, vis a vis 2.6 percent growth in July 2022.**

- Production of coal recorded 11.3 percent growth while production of crude oil contracted in July 2022, compared to the level in July 2021, **depicting mixed performance of the mining sub-sectors.** Similar **mixed performance is also observed for the indicators of infrastructure sector,** namely production of cement and consumption of finished steel.

- PMI for the manufacturing sector stagnating at 56 in July-August is also indicative of muted producer sentiments in this sector. However, **there is a strong possibility of rise in industrial activities during the later months of Q2 and the beginning of Q3 of the FY 2022-23 on account of festivities.** This is reflected in the robust YoY growth in industrial credit deployment in July, 2022, despite transmission of higher policy rate to market rate and the lending rate (Chapter 2).

2.3 Services

Table 5.4: **Recent Trends in Selected Indicators of Services Sector**

Indicator	**Apr 2022 YoY growth**	**May 2022 YoY growth**	**Jun 2022 YoY growth**	**Jul 2022 YoY growth**	**Aug 2022 YoY growth**
Cargo Port ('000 tonnes)	5.48	8.94	13.53	15.11	8.01
Cargo Air ('000 tonnes)	2.36	13.82	13.95	6.12	
Cargo Rail ('000 tonnes)	9.40	14.58	11.80	8.27	
Passenger Air ('000 numbers)	95.36	502.38	288.10	127.31	
Passenger Rail (million numbers)	116.21	478.15	237.59	168.57	
Tourists arrival	465.84	2043.69	1349.23	783.93	
Tele Subscribers (million numbers)	-2.96	-2.32	-2.46		
NSE Turnover (Rs Crore)	-2.89	-26.43	-36.88	-25.62	-7.90

Source: Ministry of Ports, Shipping and Waterways, Ministry of Tourism Press Release, Telephone Regulatory Authority of India, NSE, CMIE

- **Goods trade via all modes of transport seems to remain resilient** in the months of Q2 2022-23 (Table 5.4). **Transport sector is also expected to show strong growth** as negative base effects of 2021-22 are yet to normalise for tourist arrival and passengers traveled by rail and air in the months of Q2 2022-23. **Adverse market sentiment and lower liquidity, reflected in the negative growth in NSE turnover** since the beginning of FY 2022-23 **may adversely affect growth of the financial sector in Q2 2022-23.**

2.4 Demand

- On the demand side, **CMIE's Index of Consumer Sentiments growth recorded continuous decline in its YoY changes** from 43.86 in June 2022 to 37.80 and 34.88 in July and August 2022 respectively. **Employment rate also recorded contraction** during June-August, 2022 compared to the same months of 2021. **Stagnation in employment is a major factor behind stagnation of IIP consumer non-durables.**

3 Growth outlook for near future

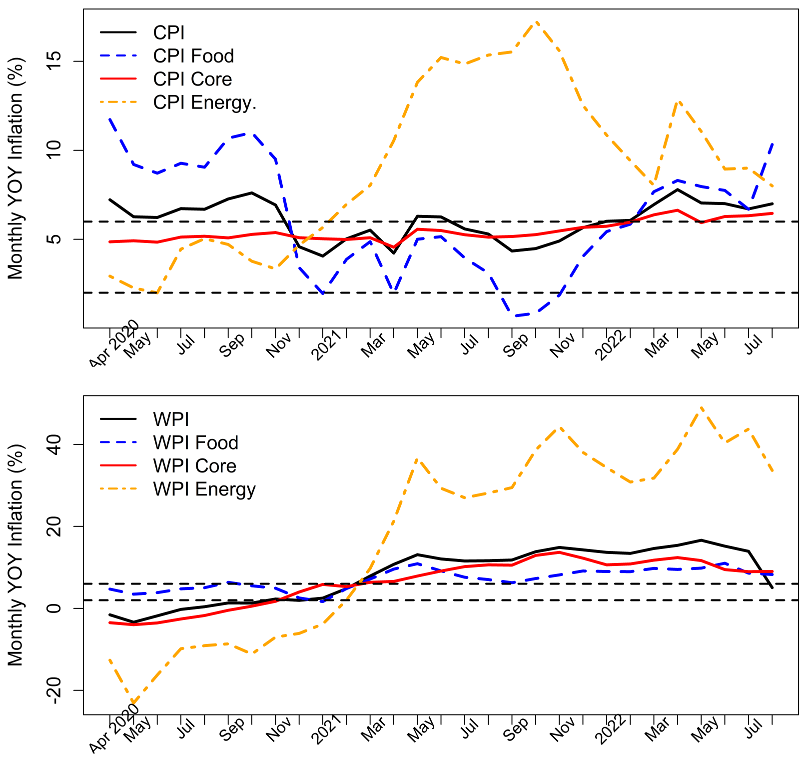
- **Overall, we expect mixed performance across sectors/sub-sectors in Q2 2022-23,** with agriculture and services showing resilience, while industrial activities may remain muted in this sector. There is a possibility of improvement in industrial activities in later months of Q2 2022-23 on account of festivities.

- According to the projections by IMF and World Bank, the Indian economy is expected to grow at 7.4-7.5 percent in 2022-23. The Reserve Bank of India maintains its projection of real GDP growth at 7 per cent 2022-23, with a growth of 6.3 percent in Q2; 4.6 per cent in Q3 and 4.6 per cent in Q4 2022-23. **The growth prospect for the FY 2022-23 is subject to downward risk on account of the (i) rise in commodity inflation, (ii) transmission of higher policy rate to market rate and lending rate, along with withdrawal of its accommodative stance by the Reserve Bank of India (RBI), (iii) recession in China already affecting India's exports to this country, with possibility to be further aggravated by the expected global recession.**

6 INFLATION ASSESSMENT AND OUTLOOK

Rudrani Bhattacharya

1 Recent trend in inflation

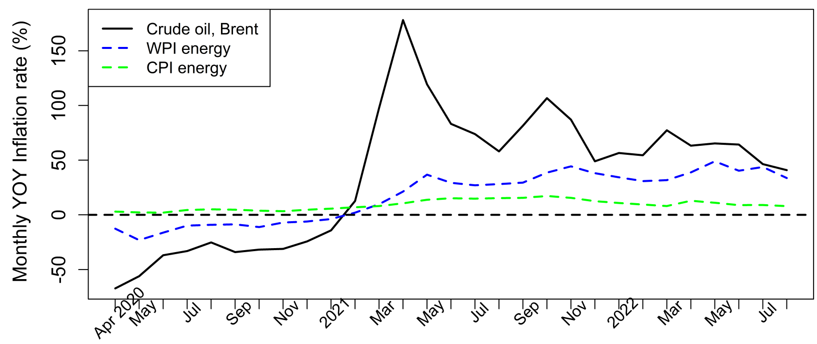


Source: NSO, Office of the Economic Adviser

Figure 6.1: **Recent Trends in CPI and WPI**

- **The average headline inflation remained elevated during April-August, 2022 at 7.1 percent on account of high and sticky food inflation (Figure 6.1).** Inflation in CPI food remained moderate at 3.8 percent during the FY 2021-22. However, it increased from 1.9 percent in November 2021 to 4.1 percent in December 2021. It continued to increase and reached at 8.3 percent in April, 2022, causing a 7.8 percent headline inflation in the same month. The food inflation had moderated marginally to 8 percent in May and 7.5 percent in June, 2022; and further to 6.7 percent in July, **before rebounding sharply to 10.3 percent in August, 2022. During April-August, 2022 average food inflation remained elevated at 8.2 percent.**

- **CPI core inflation remained sticky at 6.3 percent during April-August, 2022.** It was sticky at a range of 5-6 percent during the covid years as health and transport services became expensive during that period. CPI core inflation had been continuously



Source: Office of the Economic Adviser, World Bank

Figure 6.2: **Recent Trends in Crude oil and Energy Inflation**

rising since October 2021 and reached 6.6 percent in April 2022, and remained in the range of 6-6.4 percent in the subsequent months. CPI energy inflation had been rising continuously since January 2021 on account of the transmission of surging global crude oil prices (Figure 6.2). It surged to 17.3 percent in October, 2021. Since then CPI energy inflation showing declining trend with some volatility, following the trend in global oil inflation at a lag. **The average inflation rate in CPI energy was at 10 percent during April-August, 2022.**

- During FY 2020-21, overall WPI inflation was low at 1.3 percent due to deflation in world crude oil prices. During the FY 2021-22, the average WPI inflation went up to 13 percent on account of low base effects of 2020-21, high energy (32.5 percent), core (10.6 percent) and food inflation (8.6 percent).
- **Overall WPI inflation was elevated at 15.3 percent during April-July, 2022. However, it substantially moderated to 5.1 percent in August, 2022** on account of softening WPI food inflation since July, 2022 and core inflation since June, 2022. WPI energy inflation also reduced by 10 percent to 33 percent in August, 2022 from the rate prevailing in April-July, 2022 (43 percent). This lowering of WPI inflation rate is also on account of base effect normalisation.
- WPI food inflation became double digit in January 2022 at 10.3 percent. After moderating to around 8 percent during February-April, 2022, **it went up again to 11.2 percent in June 2022, before retreating to 8.6 and 8.3 in July and August, 2022 respectively.**
- WPI food articles inflation remained elevated at 8.3 percent during the last half of FY 2021-22. **Cost-push factors such as agricultural wage inflation and MSP hike, and adverse weather shocks have contributed to raising WPI food articles inflation during this period. The rising trend continues as it reached 14.4 percent in June, 2022 before marginally softening to 10.8-12.4 percent in July-August, 2022.**
- Manufactured food products inflation remained high at 11.8 percent during the FY 2021-22 on account of production and supply disruptions driven by the pandemic. **It is showing a declining trend since the beginning of FY 2022-23 (10.18) and**

halved to 5.6 percent in August, 2022.

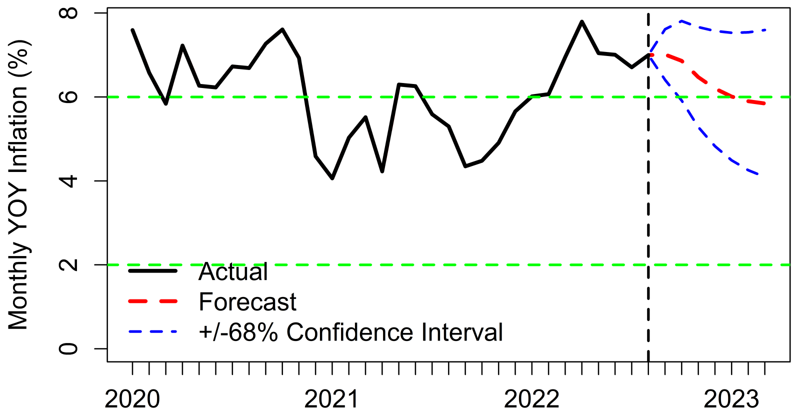
2 Contributors to retail and wholesale inflation

- Since January, 2022, major drivers of CPI food inflation are edible oil (15.6 percent); vegetables (12.3 percent); Egg, Meat & Fish (EMF, 7 percent); Milk (5 percent) and Cereals (4.9 percent). **While contributions of vegetables, EMF, Milk and Cereals are increasing, that of edible oil inflation is declining during July-August, 2022.**
- Since November 2022, high inflation in Fruits and Vegetables (23 percent), Egg, Meat & Fish (7.4 percent) and foodgrains (6.2 percent), particularly Cereals were the major contributors to WPI food articles inflation. **The cost push shocks pushing up inflation rates in the components of WPI food articles since November, 2022, are depicting transmission effects to the components of CPI food at a lag of two months.**
- **In the first half of FY 2022-23, CPI core inflation was mainly driven by inflation in Clothing and Footware, (9.4 percent) and non-oil Miscellaneous items (6.6 percent).** Household goods and services, Health, Non-oil transport and communication, Recreation, and Personal care, recording average inflation in the range of 6.3-7.5 percent, were the major drivers of Non-oil Miscellaneous component of CPI in this period.

3 Supply shocks, MSP hike and demand revival contributing to high and persistent wholesale and retail inflation

- In the supply side **crop failure due to adverse weather condition, and sticky agricultural wages due to hike in MGNREGA wage rate had been driving WPI vegetables and fruit prices up** since November, 2021. **Minimum Support Prices (MSP) of Paddy, Jowar, Moong and Soyabean were increased by 1.3, 2, 6 and 5 times respectively in the beginning of 2022-23 compared to the level of 2021-22 contributing to cereals and pulses inflation.** Rising cereals and vegetable prices in the **wholesale market on the other hand, was transmitted to the retail market, causing high inflation rate in these food commodities in the first half of FY 2022-23.** Supply shortage due to the war between Russia and Ukraine, as well as adverse weather condition raised global edible oil price driving the CPI edible oil price inflation in India. Rising transport costs are responsible for driving inflation rate in Milk and EMF.
- High and sticky oil price inflation, apart from adding to production cost of core items and to the transport cost of core and food items, also directly increased the inflation in energy components of the CPI and WPI inflation. Supply chain disruption, caused by the pandemic affecting transport and logistics as well as human mobility, is another supply side factor driving up the retail inflation. The broad-based increase in inflation rate of the core CPI is a consequence of the demand revival observed in Q1 2022-23 (Chapter 5).

4 Headline Inflation is expected to remain above upper limit of RBI's tolerance band in FY 2022-23



Source: NIPFP

Figure 6.3: **Inflation Projections for September 2022 to March 2023**

- Overall, the headline inflation in June 2022 is expected to remain at 7.0 percent in September 2022. It is expected to be at 6.3 percent, higher than RBI's upper limit of the tolerance range during the second half of FY 2022-23 (Figure 6.3).
- The high inflation is expected to be on account of the following upward risks: i) high and sticky crude oil inflation; (ii) increase in wholesale inflation in cereals, pulses, vegetables and fruits, milk and EMF on account of MSP hike, crop failure, and rise in transport prices (iii) broad based rise in core inflation on account of supply constraints in the face of demand revival.
- However, a few factors are expected to work in favor of moderating the pace of inflation in the later phase of FY 2022-23. These are: (i) moderation of global edible oil inflation reducing pressure from CPI food inflation; (ii) Withdrawal of accommodative monetary policy stance and interest rate hike by RBI moderating core inflation. With transmission of rising policy rate to lending rate (Chapter 2), increase in cost of borrowing by firms and households would moderate aggregate demand and thereby moderate core inflation.
- Since monetary policy is not effective in stabilising food inflation (a consequence of Engel's Law), structural/government policies are essential for reducing pressure from food prices. To reduce the price pressure on cereals, restrictions on wheat exports from India has come into force in May 2022, with possibility of further restrictions on exports of wheat flour (Chapter 4). Structural policies like training programmes on pre-harvest and post-harvest management and other research activities to reduce crop damages, and create potential market linkages for remote parts of the states (Chapter 4) would be useful in stabilising food inflation in the long run.
- National Logistics Policy for bringing the logistic cost from 13 percent to single digit (Chapter 4) would be useful in stabilising core inflation by increasing supply. This would provide an alternative policy tool to control inflation without moderating aggregate demand and growth.

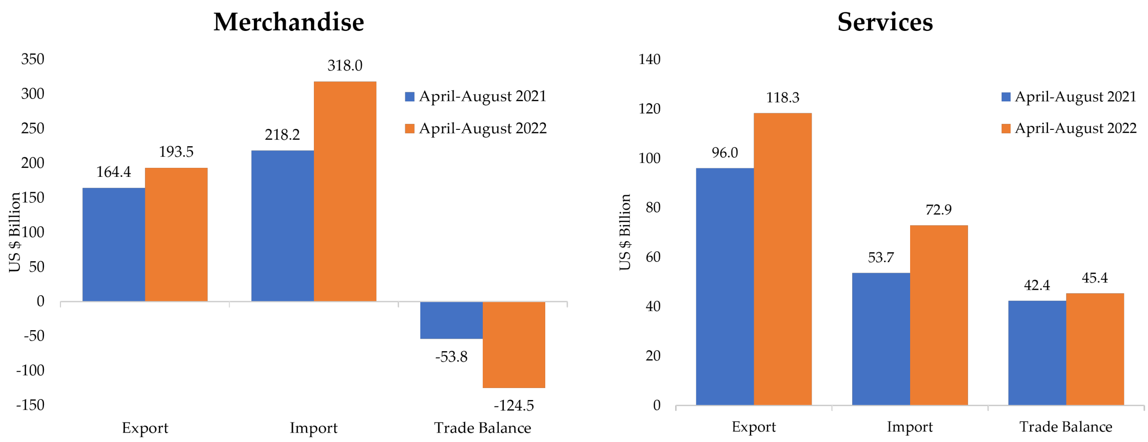
7 BALANCE OF PAYMENTS SITUATION

Dinesh Kumar Nayak and Rudrani Bhattacharya

1 External Sector

1.1 Performance of Merchandise Trade

- India's merchandise trade deficit widened to USD 124.5 billion during April to August 2022, from USD 53.8 billion in comparison to the year-ago level of April to August 2021 (Figure 7.1 Left Panel). Total exports during April to August 2022 amounted to USD 193.5 billion, increased by 17.7 per cent as compared with 67.8 per cent increase during the same period of the previous year. This fall in export growth may be possibly attributed due to Russia-Ukraine War.
- The rise in imports outweighed that in exports. Total imports during April to August 2022 amounted to USD 318.0 billion, an increase of 45.7 per cent over the same period of last year.



Source: DGCI&S, and Reserve Bank of India

Figure 7.1: **Merchandise Trade Performance [LEFT] and Services Trade Performance [RIGHT]**

- Oil import in April to August 2022 recorded positive YoY growth (Table 7.1). The high growth in oil imports in April to August 2022 are on account of normalisation of economic activities in 2022. The YoY growth in Non-Oil imports from April to August 2022 saw a steady rise.

[1] Source: DGCI&S

Table 7.1: **Merchandise Exports, Imports and Trade Balance (USD Billion)**

		Exports			Imports			
	Trade Balance	Total	POL	Non-POL	Total	Crude & POL	Gold & Silver	Non-POL & Non-Gold & Silver
Apr 21	-15.3	30.7	3.6	27.1	46.0	10.8	6.3	29.0
May 21	-6.5	32.3	5.3	27.0	38.8	9.5	0.7	28.7
Jun 21	-9.6	32.5	4.0	28.5	42.1	10.7	1.0	30.4
Jul 21	-10.6	35.5	5.8	29.7	46.1	12.4	4.2	29.5
Aug 21	-11.7	33.4	4.7	28.7	45.1	9.4	6.7	28.9
Apr 22	-20.6	39.7	7.9	31.9	60.3	20.1	1.8	38.3
May 22	-24.2	39.1	8.5	30.5	63.2	19.2	6.5	37.6
Jun 22	-24.0	42.4	10.7	31.7	66.3	21.3	3.5	41.5
Jul 22	-27.8	38.4	8.3	30.1	66.3	21.1	3.5	41.6
Aug 22	-28.0	33.9	5.7	28.2	61.9	17.7	4.3	39.9

[1]

Top 10 Commodity: Export and Import

- During April to August 2022, the highest export of USD 46.6 billion was recorded in Engineering goods which constitute the largest share of 24.1 percent in India's total exports (Table 7.2). Among the top ten commodities export, the rate of growth of Petroleum: crude and products at 75.8 percent has been the highest followed by electronic goods (54.7 per cent). Handloom products and Plastic & Linoleum which covers respectively at 2.6 per cent and 2.0 per cent share in total export during April to August 2022, have contracted by 16.6 per cent, and 6.2 per cent. On the imports side among the top 10 commodity groups, petroleum and crude oil products with the highest share in total imports of 31.3 percent, grew at 88.5 percent during April-August 2022 (Table 7.3).

Table 7.2: **Top 10 Major Commodity of Export (Value in US $ Billion)**

Rank	**Commodity**	**Apr-Aug 2021**	**Apr-Aug 2022**	**Growth(%)**	**% Share**
1	Engineering Goods	45.1	46.6	3.4	24.1
2	Petroleum Products	23.4	41.1	75.8	21.2
3	Gems & Jewellery	16.1	16.8	4.8	8.7
4	Chemicals	11.5	13.3	15.7	6.9
5	Drugs & Pharmaceuticals	9.9	10.5	5.9	5.4
6	Electronic Goods	5.4	8.3	54.7	4.3
7	RMG of all Textiles	6.0	7.1	17.8	3.7
8	Handloom Products etc.	6.0	5.0	-16.6	2.6
9	Rice	3.8	4.7	22.0	2.4
10	Plastic & Linoleum	4.2	3.9	-6.2	2.0

[2]

[2]Source: DGCI&S
[3]Source: DGCI&S

Table 7.3: **Top 10 Major Commodity of Import (Value in US $ Billion)**

Rank	Commodity	Apr-Aug 2021	Apr-Aug 2022	Growth(%)	% Share
1	Petroleum: crude and products	52.8	99.5	88.5	31.3
2	Electronic goods	25.1	32.7	30.0	10.3
3	Coal, Coke & Briquettes, etc.	9.8	26.8	174.4	8.4
4	Machinery, etc.	15.0	18.2	21.7	5.7
5	Gold	18.8	16.4	-12.5	5.2
6	Organic & In-organic Chemicals	11.5	16.3	41.3	5.1
7	Precious & semi-precious stones	12.2	13.9	14.7	4.4
8	Artificial resins, plastic, etc.	7.6	10.6	39.3	3.3
9	Vegetable Oil	6.9	9.2	33.4	2.9
10	Non-ferrous metals	6.5	8.7	33.6	2.7

3

1.2 Invisible Trade

- During April to August 2022, services exports stood at USD 118.3 billion registering a growth of 23.2 per cent over the same period of calendar year 2021 (Figure 7.1 Right Panel). India's services imports stood at USD 72.9 billion in this period, showing an increase of 35.8 per cent compared to the same period of 2021.

1.3 Current Account Balance

- India's trade deficit during the first five months of 2022-23 widened to USD 124.5 billion from USD 53.8 billion in the previous corresponding period. This widening trade deficit, or the gap between the value of imports and exports, puts pressure on the balance of payments. RBI's bulletin predicts that India's current account deficit (CAD) is likely to remain within 3 per cent of the GDP in 2022-23 as against 1.2 per cent during the last fiscal.

2 Financial Account

2.1 FDI and FPI

- India witnessed net foreign investment inflows of USD 5.6 billion in July 2022, as against net outflows of USD 2.9 billion in the preceding month. Net inflows of foreign direct investment (FDI) rose to USD 5.2 billion from USD 3.8 billion in June 2022. Foreign portfolio investments (FPI) witnessed net dollar inflows of USD 0.4 billion in July 2022, as against net outflows of USD 6.6 billion in June 2022. The rebound in capital flows to India is mainly owing to hopes of slower-than-expected monetary tightening by the US Federal Reserve and other global central banks due to marginal moderation in the US CPI inflation (Chapter 2).

- During April-July 2022, net foreign investment inflows amounted to USD 4.2 billion, with net FDI inflows of USD 18.9 billion and net FPI outflows of USD 14.7 billion. Net FDI increased to USD 18.9 billion during this period from USD 13.1 billion a year ago mainly on account of an increase in fresh equity inflows and a decline in outward FDI from India. Manufacturing, services, and retail and wholesale trade sectors received the major share of the FDI equity inflows during April-July 2022.

- Net purchases of USD 6.8 billion in equities by FPIs in August 2022 were the highest since December 2020, higher than emerging market peers.[4] The renewed portfolio interest in Indian equities may be attributed to strong corporate earnings and improvement in macro fundamentals. Financial services, power, and oil, gas and consumable fuels sectors were the biggest recipients of FPI equity inflows.

2.2 Foreign Exchange Reserve

- India's foreign exchange reserves stands at USD 574.3 billion in July 2022, while in April 2022 it was USD 596.7 billion, providing an import cover of 7.3 months. Of the components of foreign exchange reserves, share of Foreign Currency Assets (FCA) have declined from 89.9 percent in January 2022 to 89.0 percent in April 2022 while seen a marginal increase in share in July 2022 (89.1). Share of Gold recorded an increase from 6.3 percent to 7.1 percent from January to April 2022, and it is now 6.9 per cent in July 2022. The share of Special Drawing Rights (SDR) has increased from 3 percent to 3.1 percent from January to July 2022. Whereas the share of reserve tranche position (RTP) has marginally increased on July 2022 at 0.9 percent. There has been a secular decline in the growth rate of foreign currency reserves during the period April to July 2022 mainly driven by continuous decline in YoY growth rates in FCA and Reserve Tranche Position. The trade balance turning to deficits, along with outflows in foreign investments have weakened India's foreign exchange reserve position during the FY:2021-22, and continues for the FY 2022-23. India's foreign exchange reserves have declined by over USD 80 billion since the Russia-Ukraine war. Of these, USD 19 billion reserves were eroded in the month of July 2022 alone when the Indian rupee fell below Rs.80 per US dollar.

2.3 Exchange Rate

- Nominal exchange rate (Indian rupee vis-a-vis US dollar) which remained in the range of INR 73-77 per US dollar during January 2021 to May 2022, now depreciated to an average of INR 79.1 per US dollar during past three months from June to August 2022. The depreciating pressure remained on account of uncertainties related to the third wave of the pandemic, interest rate hike by developed countries, and the Russia-Ukraine war. The capital outflow due to rapid sale of short-term Indian equities by foreign investors since the second half of 2021-22 has also contributed to this depreciating pressure.

- In the backdrop of "impossible trinity" India is currently facing, where with an open capital account, the country is left with two alternative set of macroeconomic policies (i) to allow the free fall of rupee and exercise independent monetary policy according to the need of the domestic economy (ii) to fix exchange rate by aligning domestic interest rate with interest rate in the U.S. Since neither free fall of rupee nor loosing independence on monetary policy is desirable, the government is considering alternative policy options to stabilise the exchange rate. Some of these are (a) curbs on imports of essential goods, (b) reduction in thresholds on aggregate overseas investments by resident Indians, (c) mandates for exporters to quicken their USD remittances, (d) opening a special window

[4] RBI Bulletin, September 2022

for oil importers and reducing hedging costs for foreign-currency depositors, (d) boosting bilateral trade settlement in rupees.

2.4 India's trade outlook for 2022-23

- India's trading prospects in FY 2022-23 will depend on economic prospects of its major trading partners. During April-July 2022, India's top ten export destinations include USA as the largest market for India's export with 17.8 percent share in total exports followed by UAE (6.9 percent), Netherlands (3.9 percent), China (3.7 percent), Brazil (2.2 percent) as other major export destinations. These ten countries together are the home of 47.3 percent of India's exports. According to the data from Ministry of Industry and Commerce, Government of India, India's exports to all these major destinations except China and Singapore recorded significant and positive growth during April to July 2022, over the same period in 2021. In 2022, India's exports growth to its developing economy trade partners remained significantly higher compared to developed economy trade partners.
- Global economic activity experienced a loss of momentum in Q2:2022, with most economies exhibiting contraction or deceleration as the outlook deteriorated. This was reflected in a sequential fall in the composite lead indicator (CLI) for OECD countries for 13 months in a row up to August 2022. World Bank has cautioned that with central banks simultaneously hiking interest rates, the economy could go towards a global recession in 2023. According to the IMF's World Economic Outlook Update of July 2022, surging commodity prices and broadening price pressures may cause inflation to reach 6.6 percent in 2022 in advanced economies and 9.5 percent in emerging market and developing economies, posing a clear and present danger to macroeconomic stability. Pressure on commodity prices and the possibility of global recession can further affect India's current account position in 2022-23.

A Appendix A

Formula for decomposing Quarterly YoY growth rate into changes from the pre-pandemic level and the base year growth effect:

$$
\begin{aligned}
q_t &= \frac{(Q_t - Q_{t-4})}{Q_{t-4}} \times 100 \\
&= \frac{Q_t - Q_{t-12} + Q_{t-12} - Q_{t-4}}{Q_{t-4}} \times 100 \\
&= \left[\left(\frac{Q_{t-12}}{Q_{t-4}}\right)\left(\frac{Q_t - Q_{t-12}}{Q_{t-12}}\right) \times 100\right] \\
&= -\left[\left(\frac{Q_{t-12}}{Q_{t-4}}\right)\left(\frac{Q_{t-4} - Q_{t-12}}{Q_{t-12}}\right) \times 100\right] \\
&= A - B
\end{aligned}
\tag{A.1}
$$

Here Q_t denotes GDP of Q1 2022-23; Q_{t-4} is GDP of Q1 2021-22; and Q_{t-12} denotes GDP of Q1 2019-20. Again A captures change in Q1 2022-23 from Q1 2019-20; and B captures base year growth effect for Q1 2021-22.

Table A.1: **Decomposition of Q1 2022-23 growth rate into current changes and base growth effect: Aggregate and sectoral GDP**

Sectors	Q1 2022-23	Performance in Q1 2022-23 relative to Q1 of pre-pandemic year 2019-20	Performance in Q1 2021-22 relative to Q1 of pre-pandemic year 2019-20 (base effect)
GDP	13.5	4.2	-9.3
Agriculture, Fishing, etc.	4.5	9.5	5.0
Mining & Quarrying	6.5	3.4	-3.1
Manufacturing	4.8	6.8	2.0
Electricity, Gas, Water etc.	14.7	11.6	-3.1
Construction	16.8	1.4	-15.4
Trade, hotels, Trans., etc	25.7	-23.0	-48.7
Financial & Prof. Serv.	9.2	10.4	1.1
Public Admin, defence, et.	26.3	20.0	-6.3

Source: National Statistical Office (NSO) & NIPFP estimates

Table A.2: **Decomposing Annual growth rates into current changes and base growth effect: Expenditure-side components of GDP**

Sectors	Q1 2022-23	Performance in Q1 2022-23 relative to Q1 of pre-pandemic year 2019-20	Performance in Q1 2021-22 relative to Q1 of pre-pandemic year 2019-20 (base effect)
GDP	13.5	4.2	-9.3
Private Final Consumption Exp. (PFCE)	25.9	11.3	-14.6
Govt. Final Consumption Exp. (GFCE)	1.3	8.8	7.5
Gross Fixed Capital Formation (GFCF)	20.1	7.5	-12.6
Exports of Goods and Services	14.7	19.3	4.6
Imports of Goods and Services	37.2	31.9	-5.3

Source: National Statistical Office (NSO) & NIPFP estimates

Table A.3: **Decomposition of monthly YoY growth rate of IIP into current changes and base growth effect**

Months	YoY growth	Performance in month M, 2022-23 relative to same month of pre-pandemic year 2019-20	Performance in month M 2021-22 relative to same month of pre-pandemic year 2019-20 (base effect)
April 2022	6.66	6.34	-0.32
May 2022	19.63	2.00	-17.64
Jun 2022	12.70	7.41	-5.29
July 2022	2.36	2.13	-0.23

Source: National Statistical Office (NSO) & Author's estimates