आज़ादी का अमृत महोत्सव

Economic Division

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आर्थिक कार्य विभाग
DEPARTMENT OF ECONOMIC AFFAIRS

सत्यमेव जयते

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Abstract

India, since independence, has grown its per capita GDP 8 times in real terms. During this period the nation has transitioned to a modern economy with the share of industry and services increasing from one-half to three-quarters of GVA. A globally integrated India now exports a fifth of its output as compared to one-sixteenth at the time of independence. As a much-improved infant mortality rate gives India its demographic dividend and a steady progress in literacy rate keeps knowledge level high, the per capita GDP of India in the next 25 years may amplify as much as it did during the last 75 years, with greater equality in income distribution, higher level of employment, and globally comparable provision of social amenities.

After recovering from multiple waves of COVID-19 and negative spill over of Russia-Ukraine conflict, a strong economic growth in Q1 of 2022-23 has helped India go past the UK to become the world's fifth-largest economy. The real GDP in Q1 of 2022-23 is now nearly 4 per cent ahead of its corresponding level of 2019-20, marking a strong beginning to India's growth revival in the post-pandemic phase. The contact-intensive services sector is likely to drive growth in 2022-23 building on the release of pent-up demand and near universalization of vaccination. A sharply rebounding private consumption backed by soaring consumer sentiments and rising employment will sustain growth in the months ahead.

Increase in private consumption and higher capacity utilization in the current year has further reinvigorated the capex cycle to take the investment rate in Q1 of 2022-23 to one of its highest levels in the last decade. The crowding-in of private investment has also been assisted by rising capital expenditure of the government that until August 2022-23 has been 35 per cent higher than the corresponding level of last year. Government's spending on capital expenditure is likely to be sustained as buoyancy in revenue growth is expected to remain undiminished in the balance period of the current year.

Broad-based growth in economic activity during Q1 of 2022-23 is reflected in improvements in employment indicators. Net payroll additions in EPFO doubled in this quarter compared to the corresponding period last year. The Periodic Labour Force Survey (PLFS) show the unemployment rate in urban areas shrink for the fourth consecutive quarter to be at 7.6 per cent in Q1 of 2022-23, lower than the corresponding pre-pandemic level. Work demanded under MGNREGS has been diminishing since May and was at its lowest in August 2022,

compared to the corresponding period of the previous two years, signalling a possible reduction in the unemployment rate in rural areas.

The growth momentum of Q1 has sustained in Q2 of 2022-23 as well with robust performance of high-frequency indicators (HFIs) during July and August of 2022. The composite PMI for India rose to 58.2 in August 2022 signalling a sharp pace of expansion. However, in contrast, the Global composite PMI has entered the contractionary phase declining to 49.3 in August 2022 with slowdown mainly evident in advanced economies.

The relatively bright outlook on India's economic growth and its improving employment levels is also mirrored in the country's relatively strong position in the external sector. Among a set of developed and developing economies defined in Monthly Economic Report (p. 14), India, during Q1 of 2022-23, was the 5th largest recipient of foreign direct investment. India's exports grew at the second highest rate in this quarter despite the ongoing global slowdown. India's forex reserves were the 3rd largest as compared to other economies, adequate to cover 9 months of imports, which is higher than most of the other economies. High foreign exchange reserves, sustained foreign direct investment, and strong export earnings have provided a reasonable buffer against the monetary policy normalization in advanced economies and widening of current account deficit arising from the geo-political conflict.

Inflation has been a common phenomenon across both advanced economies (AE) and emerging market economies (EME). However, the triggers for the two have been somewhat different, which also explains why inflationary pressures in AEs have been stubborn and pre-date the Russia-Ukraine conflict. The extraordinary measures adopted by AEs in response to the COVID-19 outbreak involved a significant injection of liquidity by the central banks of these countries which financed their massive fiscal package. The balance sheets of the Federal Reserve and the European Central Bank expanded by 109.7 per cent and 88.4 per cent respectively between January 2020 and December 2021, while that of the RBI by about 35.5 per cent. Now, as the monetary authorities of the AEs rush to cap inflation and grapple with a liquidity overhang, they face an unenviable task of absorbing excess liquidity in a calibrated manner. India is in a better position to calibrate its liquidity levels without abruptly stalling growth.

While persistently high liquidity may partly explain the stubbornness of inflation in AEs, inflation in India, a net commodity-importing country, has been a by-product of externally situated exogenous pressures. Increase in international prices was reflected in an uptick in domestic prices, though increase in domestic prices was relatively modest on account of the timely interventions taken by the government. Further, as these external pressures ease, inflationary pressures in India are also likely to subside. Several indicators are already pointing to the easing of external pressures. Industrial metals and edible oil prices after peaking in March 2022, have softened, led by recessionary fears in AEs. Crude prices have dropped 19.1 per cent by August since the peak in the month of June 2022. Supply chains are getting restored with decline in port congestion. The impact is already reflected in the decline in CPI-C and WPI inflation since April 2022. CPI-C inflation stood at 7 per cent in August 2022 as compared to 7.8 per cent in April 2022. Similarly, WPI Inflation has dropped from 15.4 per cent in April to 12.4 per cent in August. Overall, inflationary pressures in India appear to be on a decline with a pre-emptive set of administrative measures by the government, agile monetary policy and easing of international commodity prices and supply-chain bottlenecks.

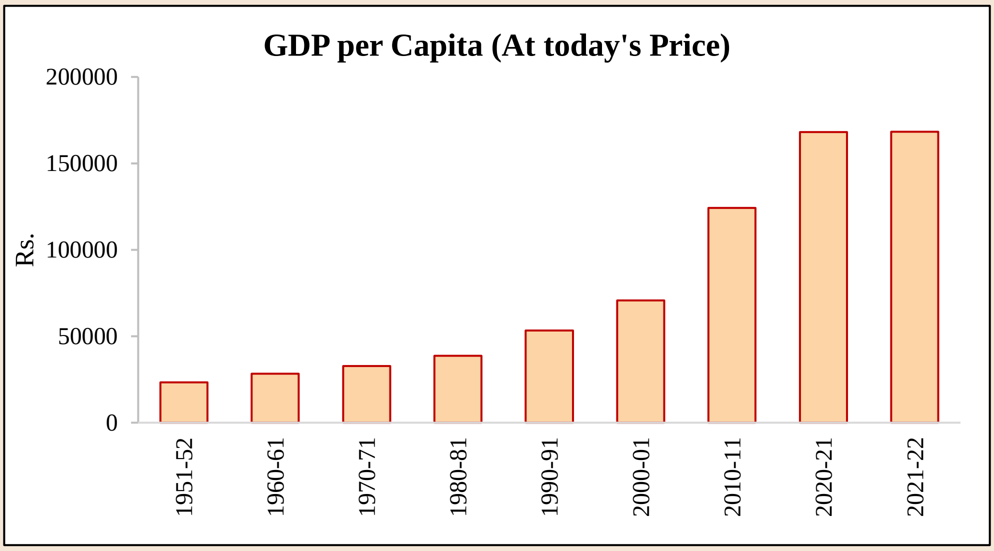
In times when slowing growth and high inflation are afflicting most of the major economies of the world, India's growth has been robust and inflation in control. A rapid coverage of vaccination and well-calibrated short-term policy measures have skilfully navigated the economy through turbulent times, preparing a strong foundation to build a prosperous nation in the years ahead.

Downside risks to growth will persist insofar as India is integrated with the rest of the world. Nor is there room for complacency on the inflation front as lower crops-sowing for the Kharif season calls for deft management of stocks of agricultural commodities and market prices without unduly jeopardising farm exports. For all the hawkish central bank rhetoric, the balance sheet of the Federal Reserve has yet to begin contracting. It is expanding more slowly. When it actually starts shrinking, it may herald a new phase of risk aversion in capital markets, impeding global capital flows. With its bright growth prospects, India's imports are growing faster and, therefore, financing them comfortably will have to be accorded high priority. In winter months, heightened international focus on energy security in advanced nations could elevate geopolitical tensions, testing India's astute handling of its energy needs so far. In these *uncertain times, it may not be possible to remain satisfied and sit back for long periods. Eternal macroeconomic vigilance is the price for stability and sustained growth.*

Notwithstanding the above, India has a lot going for it, especially compared to other nations because its government chose not to pay heed to expert advice for untrammelled fiscal and monetary expansion during the pandemic years of 2020 and 2021. Watchful and prudent fiscal management and credible monetary policy will remain essential for India to fulfil its growth aspirations. Both these pillars of public policy will enable benchmark borrowing costs for the government and the private sector to decline, facilitating public and private sector capital formation. Vigorous pursuit of asset monetisation at all levels of government will help lower debt stock and hence debt servicing costs. That would cause risk premium to drop and credit rating of India to improve. A virtuous circle would set in as the quality of public expenditure increases in its wake and the private sector enjoys a lower cost of capital. The current financial year thus has the potential to lay a strong foundation for sustained economic growth, improved resilience and enhanced competitiveness of 'Make in India' during the Amrit Kaal.

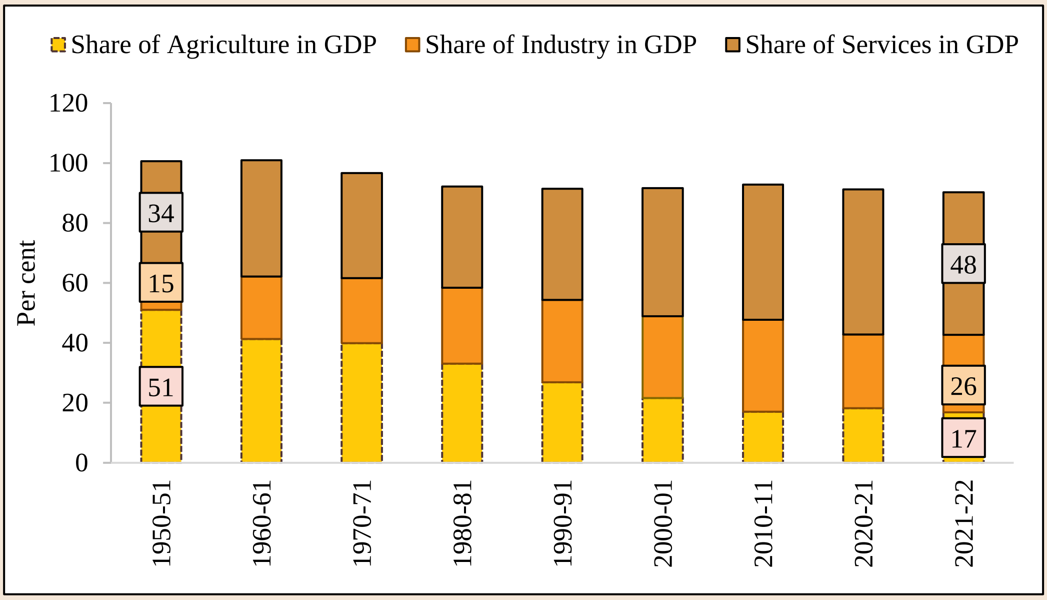
Box 1: India's Progress in 75 Years of Independence

GDP per capita is at ₹1.7 lakhs in the 75th year having grown eight times since independence at today's prices.



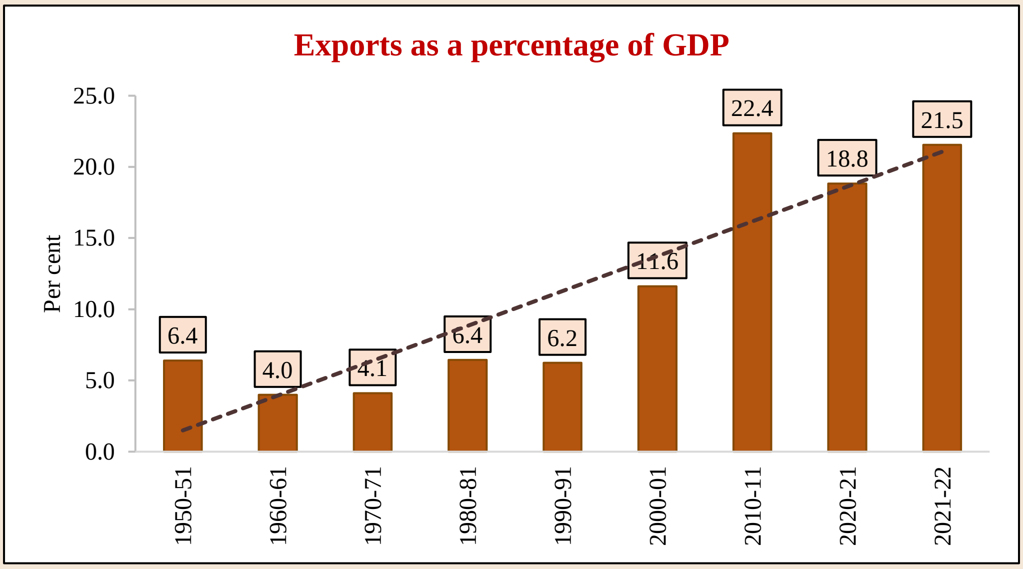
Source: NSO, MOSPI

Traditional economy becomes a modern one as the share of industry in gross value-added rises from 15.5 per cent at independence to 25.9 per cent in the 75th year while that of services increases from 34.1 per cent to 47.5 per cent.



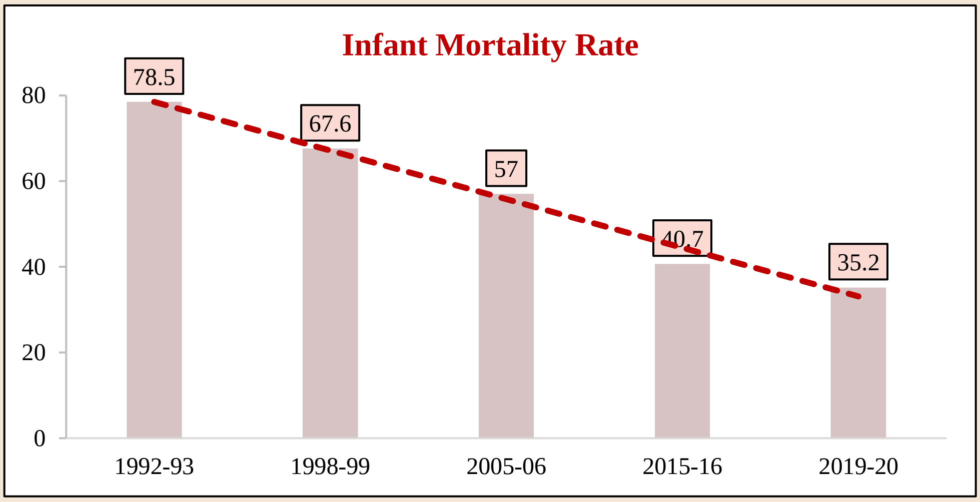
Source: NSO, MOSPI

Indian economy becomes a global one as the share of exports in GDP increased by more than three times since independence, from 6.4 per cent in 1950-51 to 21.5 per cent in 2021-22.



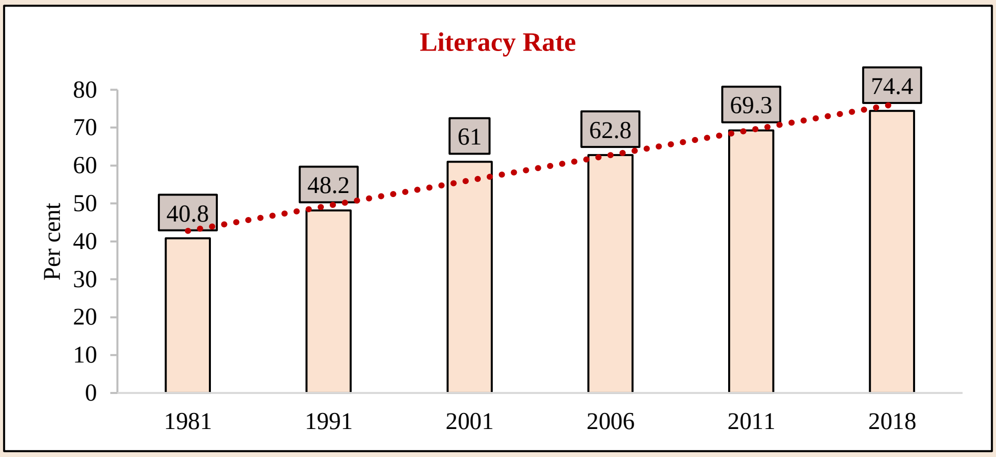
Source: NSO, MOSPI

Future generations of India are increasingly secure as infant mortality rate declines from 78.5 deaths per 1000 live births in 1992-93 (NFHS-1) to 35.2 in 2019 (NFHS-5).



Source: Various rounds of NFHS Survey

India's population is more educated as the literacy rate increased from 40.8 per cent in 1981 to 74.4 per cent in 2018.



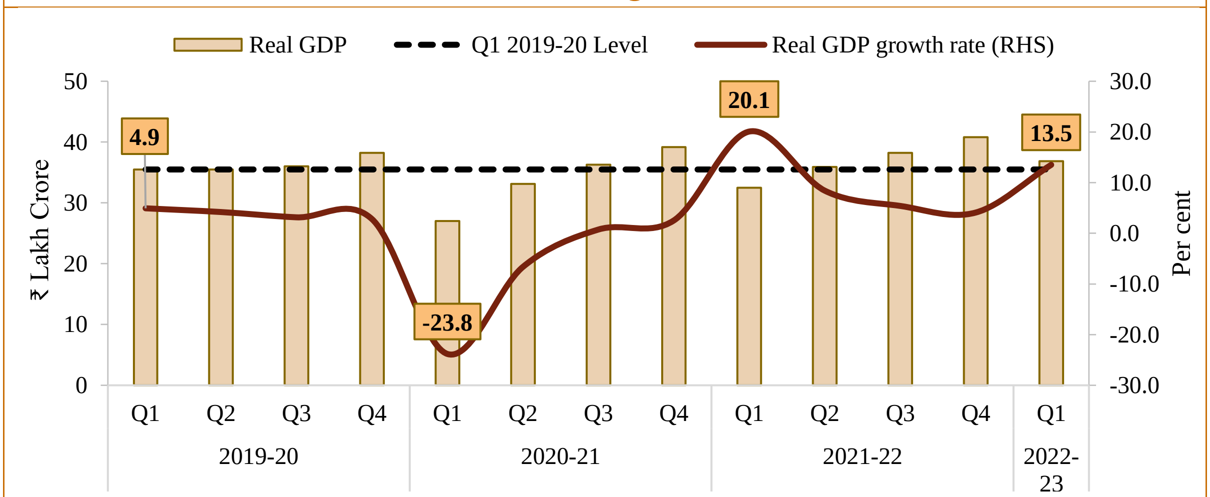
Source: Ministry of Education

Indian Economy

Indian economy remains resilient despite global headwinds

1. The provisional estimates released by National Statistical Office (NSO) show real GDP in Q1 of 2022-23 going past by nearly 4 per cent the pre-pandemic real GDP level of Q1 of 2019-20. This was despite the geopolitical conflict that has considerably slowed the growth of world economy and despite advanced economies opting to sacrifice growth in pursuit to rein in high inflation. Clearly marked by the absence of a pandemic wave that had challenged India's economy in the first quarter of the previous two years, Q1 of 2022-23 launches the re-growth phase as India moves up to becoming the 5th largest economy in the world (based on quarterly GDP results in the current dollars for the period ending December 2021) surpassing that of the UK. In the next three quarters of the current year, India's real GDP needs to grow by (only) 5.4 per cent on average every quarter to achieve the growth rate of 7.2 per cent in 2022-23 as projected by the RBI.

Real GDP and growth rate

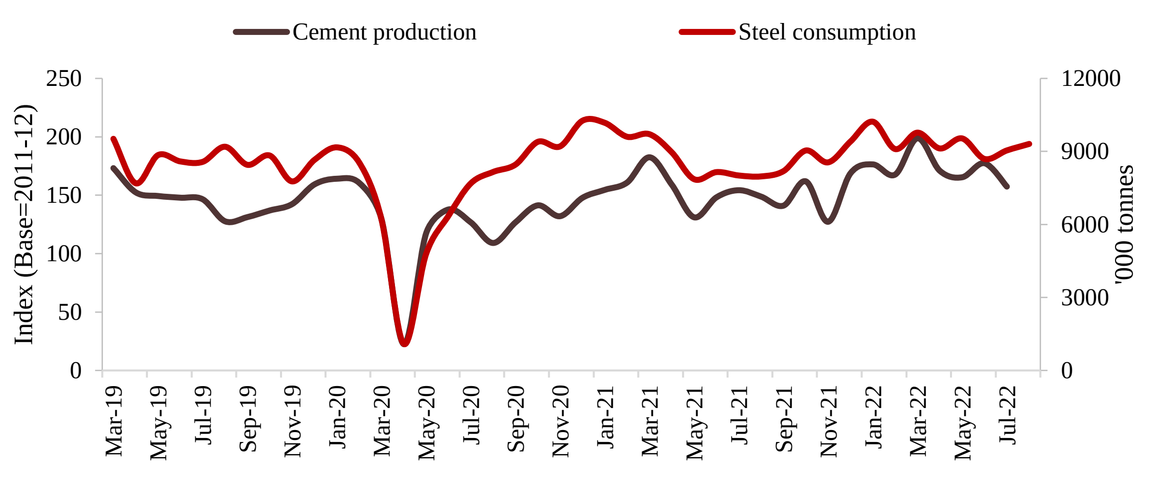


Source: NSO, MOSPI

2. The contact-intensive services sector is likely to drive growth in 2022-23 building on the pent-up demand released following the absence of a pandemic wave in the first quarter and near universalization of vaccination thus far. The contact-intensive services sector which was the worst affected during the pandemic, sharply rebounded on a low base to grow 25.7 per cent, YoY in Q1 of 2022-23 as resumption in corporate and leisure travel, spurt in domestic tourism and robust growth of cargo and railway freight traffic are playing a significant role in the revival of the economy.

3. Freer mobility has noticeably benefited the construction sector as well positioning it as yet another growth driver in the current year. The GVA of the construction sector grew 16.8 per cent YoY in Q1, to go past the corresponding output level of the pre-pandemic year, supported by a 9.8 per cent growth of construction goods. Robust growth in cement production and steel consumption are likely to sustain construction activity in the year ahead.

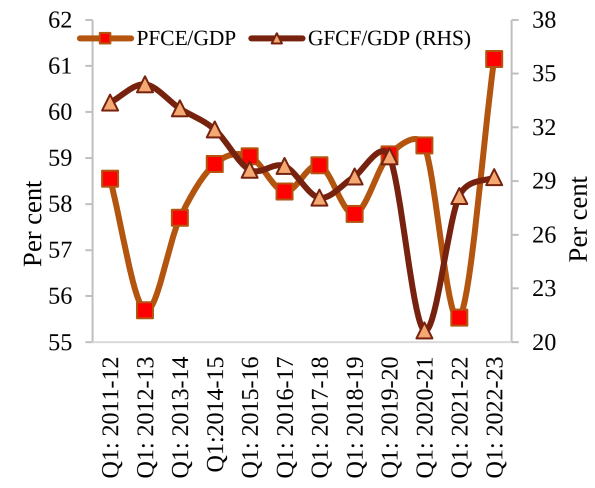
Cement Production and Steel Consumption



Source: Officer of the Economic Adviser, Ministry of Commerce and Industry and Joint Plant Committee

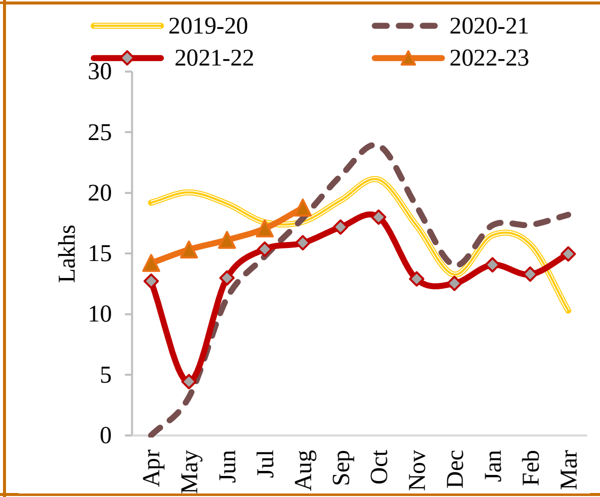
4. The release of pent-up demand and freer mobility may not be the only reasons underlying a tremendous growth in private consumption which, having risen from 55.5 per cent of GDP in Q1 of 2021-22 to 61.1 per cent in Q1 of 2022-23, lays the foundation for a sustainably high economic activity in the months ahead. The surge in private consumption may also be a reflection of increasing effectiveness of income support and targeted subsidies provided by the government, creation of jobs from elevated levels of public sector capex, and general rise in employment levels. The continuous uptick in consumer sentiment is also at play here as seen in the RBI's consumer confidence survey for August, 2022. Further, in flagging improved consumer sentiment, the survey also reflects people's perception of an accelerating growth of the economy in the near future matched with higher employment and spending levels. Growth in private consumption is also broadbased and not limited to contact intensive services sector. This is evidenced in the growth of domestic auto sales crossing the pre-pandemic level, despite a shortage, albeit improving, of semi-conductors.

GFCF and PFCE as percent of GDP (Q1)



Source: NSO, MOSPI

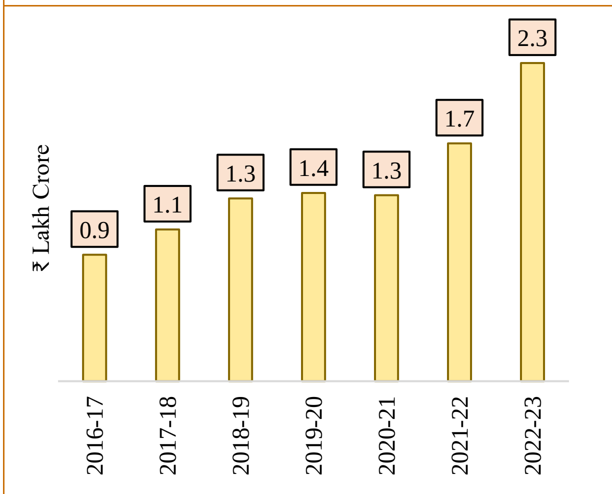
Auto Sales



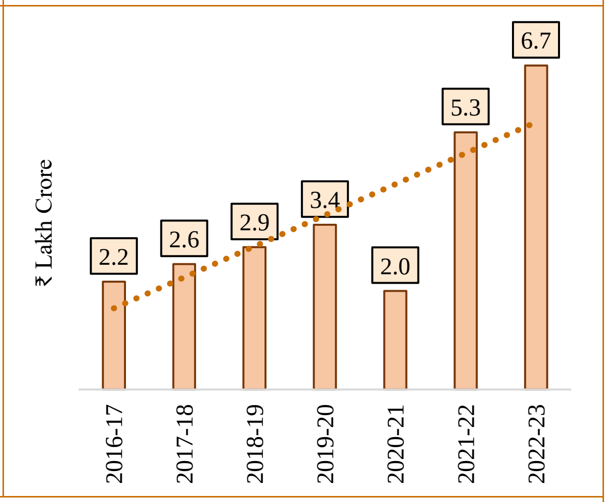
Source: SIAM

5. The rise in private consumption and consumer sentiments has enabled the investment rate to sharply increase from 28.2 per cent of GDP in Q1 of 2021-22 to 29.2 per cent in Q1 of 2022-23, supported by growth in the production and imports of capital goods. Further, the strengthening of the balance sheets of the corporate sector and public sector banks and crowding-in of private investment by public sector capex, have played no small part either. The high investment rate, which matches some of the peaks of earlier years, continues to be supported by capex of central government, which cumulatively in the current year has reached ₹2.3 lakh crore until August, 2022, 35 per cent higher than the level in the corresponding period of last year. The government's spending on capital expenditure is likely to be sustained with robust growth in revenues expected to continue in the months ahead.

Capital Expenditure (April-August)



Net Tax Revenue (April-July)



Source: CGA

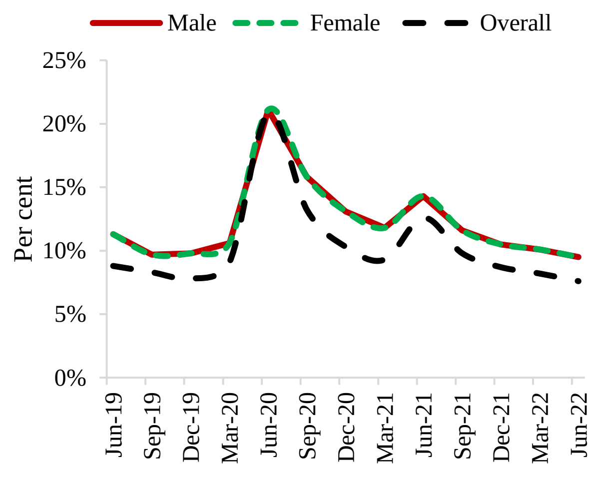
6. Until July, 2022 in the current year, net tax revenues have been 25.9 per cent higher than in the corresponding period of the previous year, in part support by greater effectiveness of tax administration. GST collections have also been robust, recording 28 per cent higher on a

YoY basis in August 2022, crossing the ₹1.4 lakh crore benchmark for the sixth successive month.

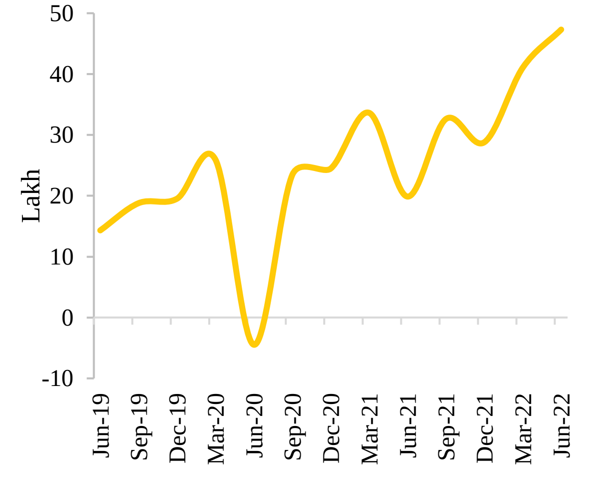
The expansion in economic activity along with a spurt in employment opportunities has led to a fall in the unemployment rate

7. Broad-based growth in economic activity during the first quarter is also reflected in an improvement in employment indicators. Based on EPFO records, net payroll additions doubled in June 2022 quarter compared to the corresponding period last year with broad-based enhancement across the industry. Complementing this development, the unemployment rate in urban areas as per "The Periodic Labour Force Survey" (PLFS) has shrunk for the fourth consecutive quarter ending at 7.6 per cent in the June quarter of 2022, as against 14.3 per cent in the June quarter of the previous year. The unemployment rate is now below pre-pandemic levels as measures taken earlier and later during the pandemic period, to raise employment levels, are coming to fruition.

Unemployment Rate in Urban area by Current Weekly Status (CWS)

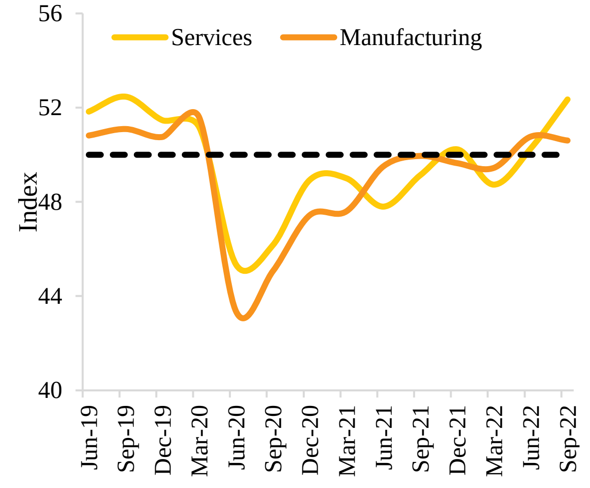
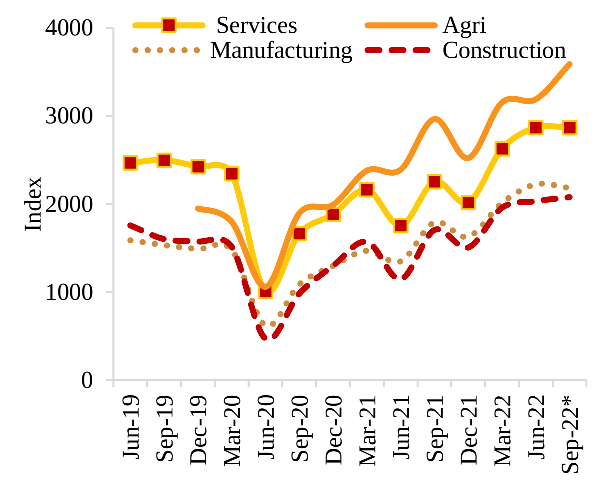


Net Payroll Additions Based on EPFO Records



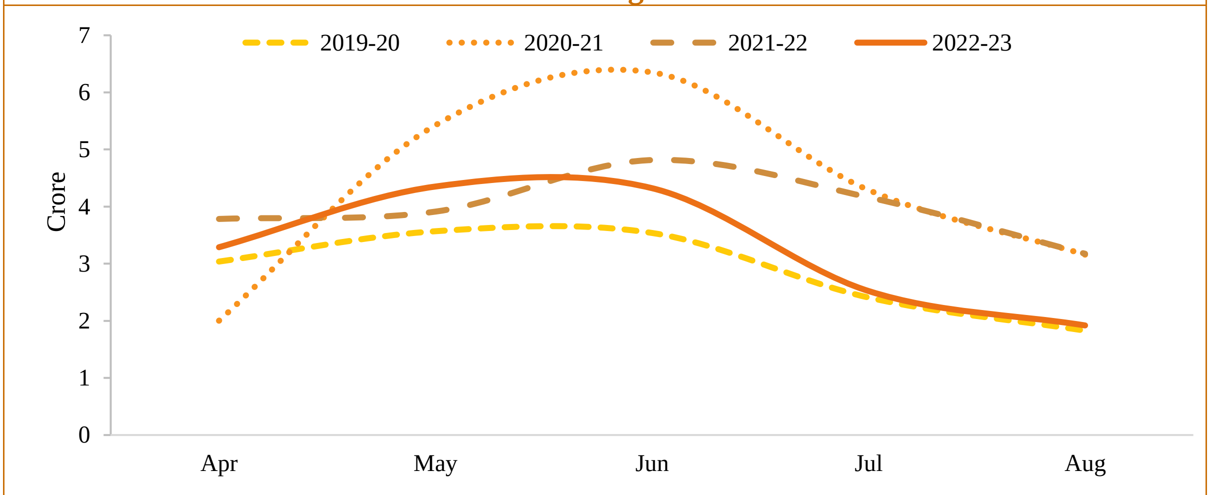
Source: MoSPI, EPFO

8. The growth in employment has continued in the two months after Q1 as well, reflected in the employment components of PMI Manufacturing and PMI Services, that have continued to be in the expansionary zone. The rate of job creation in the service sector picked up to its strongest in over 14 years, with improvement seen in each of the sub-sectors including transport, information & communication, finance & insurance and real estate & business services. Naukri Job Speak Index published by Naukri.com also depicts a similar upswing in the employment generation driven by agriculture, services and construction sector.

PMI Employment Index	Naukri Job Speak Index
	
Source: IHS Markit Note: For Sept quarter data is till August 2022	Source: Naukri.com Note: * data till August 2022

9. Work demanded under MGNREGS has been diminishing since May and was at its lowest in August 2022, compared to the corresponding period of the previous two years, signalling a possible reduction in the unemployment rate in rural areas. This fall can be attributed to a pick-up in agricultural and non-agricultural activities coupled with the end of reverse migration resulting from increased employment opportunities in industrial/urban areas.

Number of Persons Demanding Work under MGNREGS



Source: NREGAsoft

10. The growth momentum of Q1 has been sustained in Q2 of 2022-23 as indicated in the robust performance of high-frequency indicators (HFIs) during July and August 2022. E-way Bills in volume recorded a YoY growth of 7.52 per cent in August, 2022. PMI manufacturing remained in the expansionary zone at 56.2 in August 2022, the second highest since November 2021, supported by the growth of output and new orders and a fall in input cost inflation. PMI Services stood at 57.2 in August 2022, driven by stronger gains in new business, ongoing improvements in demand, job creation and overtime work. Higher output in manufacturing and services raised the composite PMI to 58.2 from 56.6 in July 2022 signalling a sharp pace of

expansion. According to RBI's Industrial outlook survey, more than 50 per cent of the respondents perceive an improvement in capacity utilization, increase in employment and enhancement in a financial situation in Q2 of 2022-23. The economy is poised to grow at a rate of 7.2 per cent in 2022-23, buoyed by a positive outlook on consumption, investment and employment. The growth outlook is however weak for trade and output for the world output in general, and advanced economies in particular.

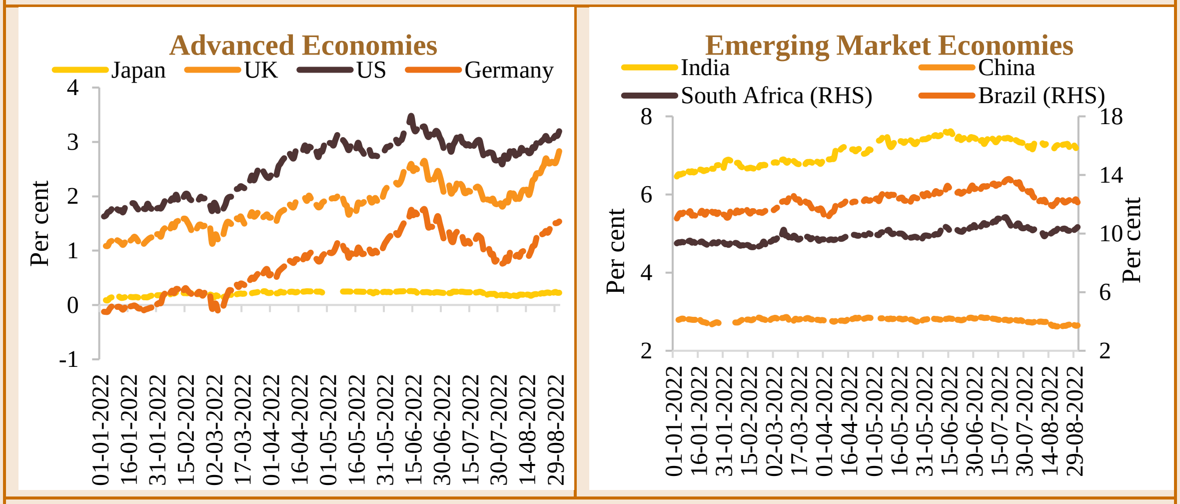
Box 2: Global Growth and Trade Outlook Weakens

Global composite PMI declined from 50.8 in July, 2022 to 49.3 in August, as manufacturing and services output, mainly in advanced economies contracted. The US witnessed a massive slowdown with its rate of decline the steepest since May 2020. Japan, Germany, the UK and Italy faced similar contraction of output. Five out of the six sub-sectors, namely business services, consumer goods, consumer services, intermediate goods and investment goods witnessed a contraction in output with upturn however continuing in financial services. Incoming new business including manufacturing new orders declined. International trade flows also continued to retrench with new export business falling for the sixth straight month However, manufacturing output and services activity both continued to rise across emerging markets, including that in India besides Brazil and China.

As per UNCTAD global trade update July 2022, while the value of global merchandise trade increased during April-June quarter of 2022, supported by year-on-year growth in international commercial flights and container throughput index, trade volume increased to a much lower extent as majority of the growth was nominal, owing to a rise in commodity prices and general inflation. Going forward, rising interest rates, volatility in commodity prices and geo-political disruptions are likely to have a negative impact on trade volumes. The impact of geo-political tensions on India's trade volumes is manifest in sequential decline in exports arising from a slowdown in advanced economies although on the import side, trade flows continue to be robust following an unabated level of economic activity in the country. However, a still elevated level of commodity prices has increased India's merchandise trade deficit to USD 27.9 billion in August 2022.

While slower growth and trade disruptions have reinforced each other into a downward spiral, high inflation and consequently, monetary tightening to mitigate inflation, has further squeezed growth. The impact and further anticipation of monetary tightening by Central bankers is visible in rising bond yields in AEs although not as much in EMEs. In India and Brazil, moderation in inflation following softening of international commodity prices contributed to fall in bond yields. Yield on 10-year Chinese Government bonds also declined after reduction in policy rate by Central bank to revive credit demand and support the economy affected by extended Covid lockdowns and property debt problems.

10-year Government bond yield



Source: Bloomberg

External Sector

Stronger external position owing to sustained foreign investment, adequate forex reserves and improving export earning

11. The relatively buoyant outlook on India's economic growth in the current year is matched by its relatively stronger position in the external sector as well showing the economy's resilience amid global turmoil and monetary tightening. During Q1 of 2022, India was the 5th largest recipient of foreign direct investment (FDI) among the defined set of developed and developing economies, as buoyant growth outlook coupled with steady improvement in ease of doing business and supportive government policies retained India as an attractive business destination. The momentum has sustained in Q2:2022 as well with FDI inflows of $ 16.1 billion. India's exports grew at the second highest rate in this quarter despite the ongoing global slowdown, indicative of strong demand for Indian goods.

12. India's strong forex reserves, which are 3rd largest as compared to other economies are boosted by capital inflows during the two pandemic years and are adequate to cover imports equivalent to 9 months as of July 2022, which is higher than most of the other economies. Further, the Indian currency has performed well, with the depreciation of the rupee vis-vis dollar being modest at a 7 per cent on a year-to-date basis compared to 23 per cent for the Japanese Yen, 18 per cent for the UK pound, 14 per cent for the Euro and 16 per cent for South African Rand.

13. The combination of high foreign exchange reserves, sustained foreign direct investment, and rising export earnings have provided an adequate buffer against the monetary policy normalisation in advanced economies and widening of current account deficit arising from the geo-political conflict.

Performance of External Sector Indicators

	FDI Inflows (USD Billion)	Import Cover (Month)	Forex Reserves (USD Billion)	Exchange Rate Depreciation vis-a-vis USD (%)	Merchandise Export (USD Billion)	
Latest Value	Q1: 2022 (March 2022)	Jul-22	Jul-22	YTD (9th Sept)	Q2: 2022	YoY Growth (%)
Advanced Economies						
France*	9.7	1	52.4	14	154	4
Germany*	17.2	0	37.1	14	415	1
Japan	6.5	16	1202.6	23	185	-2
Spain*	9.0	1	53.6	14	123	26
UK*	-0.3	1	108.2	18	125	10
Emerging and Developing Economies						
Argentina	3.6	5.4	29.9	37	23	16
Brazil	24.1	13.9	346.4	-10	92	14
China	101.9	13.4	3104.1	8	916	13
India	17.3	9.0	573.9	7	121	27
Indonesia	5.7	6.2	132.2	4	75	39
Russia	-10.2	NA	571.2	-19	NA	-
South Africa*	1.8	4.6	44.9	16	33	-4
Mexico	19.4	4.0	177.6	-3	146	17
Turkey	1.9	2.1	49.7	37	66	20

Source: RBI, OECD, Bloomberg
Note: * Data corresponds to June 2022 for import cover

Inflation

With easing of global supply chain disruptions, imported inflation set to decline in India

14. A relatively buoyant growth and a relatively stronger external sector is now set to converge with declining inflation to deliver for India a strengthened macroeconomic outlook for the balance period of the current year.

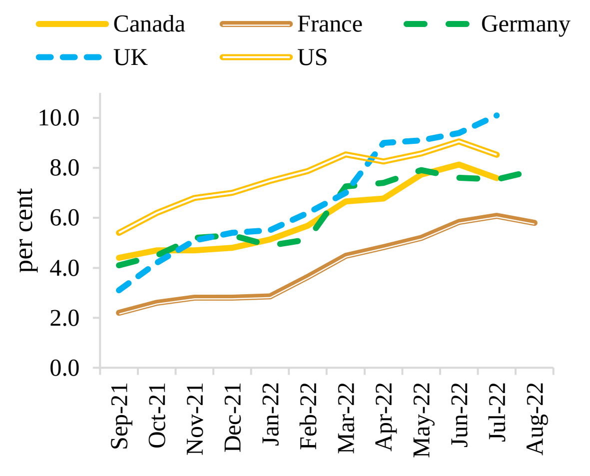
15. Inflation has been driven to a multi-decade high in many advanced and emerging market economies with the broadening of inflationary pressures extending beyond food and energy prices to core inflation. The pass-through of headline to core inflation can have a profound impact on the anchoring of inflation expectations to the upside. In general, since core inflation tends to be more persistent than headline inflation, it implies that even as food and energy prices decline, core inflation could nonetheless be somewhat sticky with its attendant implications for household purchasing power.

16. To deal with the challenge of persistent core inflation and to curb the demand led pressures, central banks across countries have pivoted towards normalisation of monetary

policy and policy rate hikes in a synchronised manner than ever before. The Federal Reserve has recently reiterated the importance of maintaining price stability and disabused financial market expectations of a slackening of its tightening resolve after two consecutive 75 basis points hike in policy rate. Similarly, the ECB lifted its deposit rate to 0.75 per cent from zero and raised the main refinancing rate to 1.25 per cent, their highest level since 2011 in September 2022 meeting.

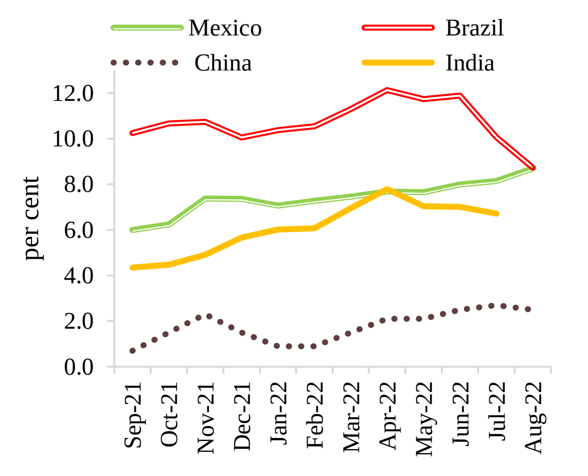
17. Though high inflationary pressures are common across both advanced and emerging market economies, the triggers for the two tend to differ, which also explains why inflationary pressures in AEs have been stubborn and pre-date the Russia-Ukraine conflict. During the pandemic, central banks especially in advanced nations took unprecedented measures to ease financial conditions and support the economic recovery, the impact of which is witnessed in sustained demand shock.

Inflation in Advanced Economies



Source: OECD

Inflation in Developing Economies



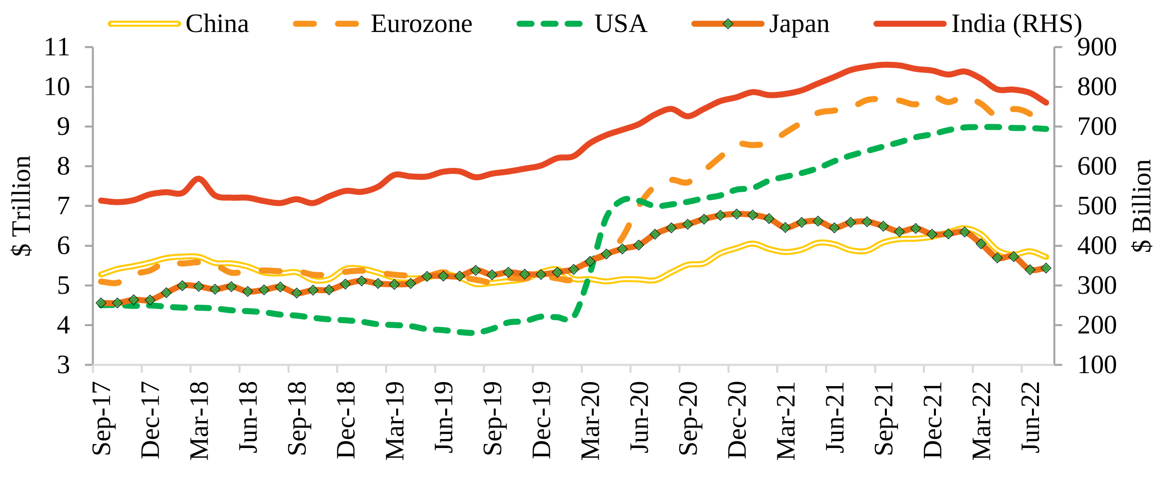
Source: OECD

18. The extraordinary measures adopted led to an expansion of central bank balance sheets and money supply, which augmented the fiscal support provided by governments around the world. The United States and the Eurozone in particular witnessed a massive bond-buying programme that caused their balance sheets to expand by 109.7 per cent and 88.4 per cent between January 2020 and December 2021, which is when inflationary pressures started to show up. In contrast, India and countries like Japan and China had a more moderate approach towards increasing liquidity. The RBI's balance sheet expanded by about 35.5 per cent in this period while the Bank of Japan's (BOJ) and People's Bank of China's (PBOC) balance sheet grew by 15.2 per cent and 18 per cent respectively.

19. Inflationary pressures, which were interpreted initially as being transient by monetary authorities in the advanced economies were further accentuated by outbreak of the Russia-Ukraine conflict. The excessive liquidity in advanced economies combined with the massive fiscal packages have caused inflation expectations to become anchored to the higher-than-average pressures. Now, even as central banks of the advanced economies focus on containing

inflation by reducing liquidity levels, the growth outlook continues to be revised downwards, thereby increasing the prospect of recessions in these economies.

Central Bank Balance Sheets



Source: RBI, Bloomberg

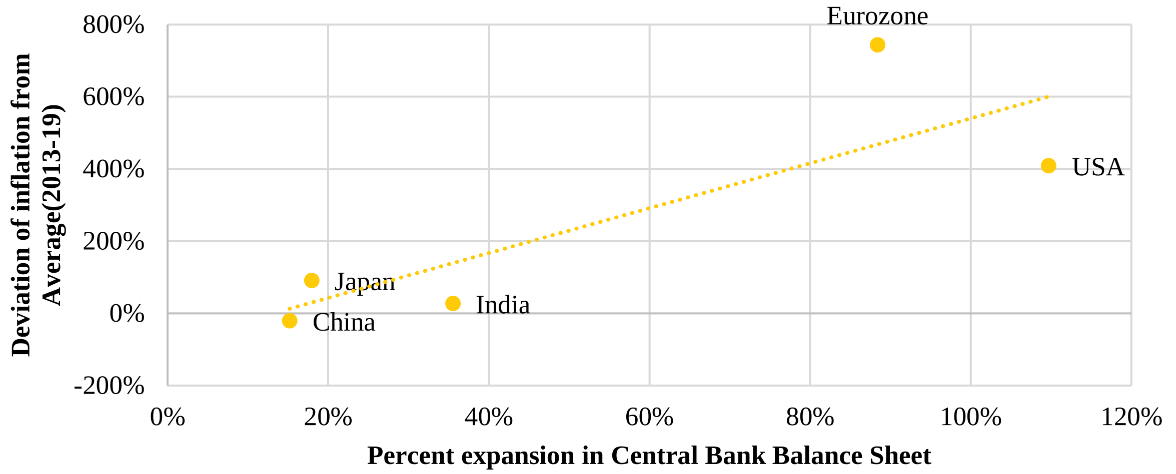
20. Balancing the mandate of price stability with that of ensuring growth not only involves finding a level of liquidity that will reduce price pressures but will also be adequate to support growth in economic activity. This is proving to be a difficult task in advanced economies on account of the excessively high liquidity conditions. Furthermore, the pace of quantitative tightening must also be calibrated, failing which the economy may witness a macroeconomic shock, which is unwarranted. In this context, India is placed in a better position to manage its liquidity levels.

21. Broad money supply was another indicator of liquidity that increased in response to the Covid-19 outbreak. Between March 2020 and December 2021, broad money supply in the US and the Eurozone increased by 34.4 per cent and 19.6 per cent respectively, while that in India it increased by 21 per cent. However, as central banks pursue quantitative tightening with a view to achieving price stability, the growth in money supply in developed countries has moderated and is expected to further decrease in the coming months. However, we must add that as of September first week, the balance sheet of the Federal Reserve has continued to expand, although at a much slower rate than before. Contraction of the central bank balance sheet in America is yet to begin. To that extent, the risk of further financial market risk aversion and further dollar strength near-term cannot be ruled out. In contrast, balance sheets of the European Central Bank and the Bank of Japan are down by 10.4 per cent and 25 per cent respectively (y/y).

22. The reduction of significantly higher liquidity conditions implies that money supply may witness a negative growth, which is already visible in the Eurozone wherein as of June 2022, broad money supply has witnessed a decline of 16 per cent. The M3-GDP ratio in the US and the Eurozone has also declined from 3.7 and 5.1 in March 2021 to 3.4 and 4.8 in June 2022 respectively, while that in India it has increased from 3.1 to 3.3 during this period. These

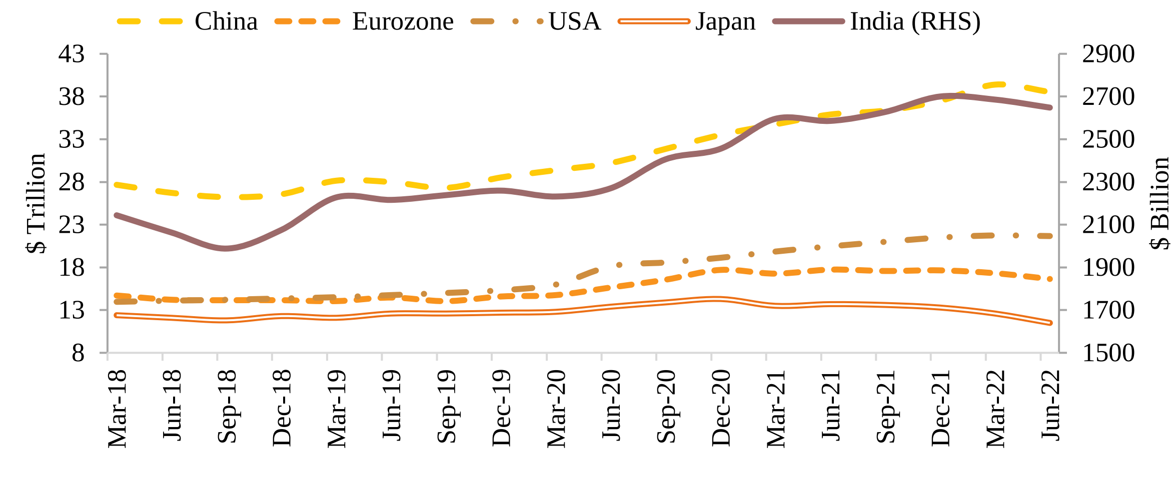
dynamics imply that advanced economies may not have adequate levels of money supply warranted to support economic growth.

Balance Sheet Expansion vs Deviation of inflation from Historical Average



Source: RBI, Bloomberg

Broad Money Supply



Source: RBI, Bloomberg.

23. While excessive liquidity conditions and the overhang from massive fiscal package drove inflation in the advanced economies, in major commodity-importing countries like India, inflation acceleration in 2022 compared to 2021 was due to rising prices of imported commodities, global supply side disruptions and revival of demand in advanced economies with the waning of the pandemic.

24. Supply disruptions arising out of the geopolitical conflict caused the international prices of multiple commodities for which India is a net importer to rise, with crude oil and edible oils being amongst the most impacted. The price of sunflower oil significantly rose as Russia and Ukraine, being its major suppliers saw the conflict disrupting its supply chain. As the supply of sunflower oil fell, the demand for its substitutes, namely palm oil and soybean oil also rose. The increase in demand of palm oil and soyabean oil led to an uptick in their international price

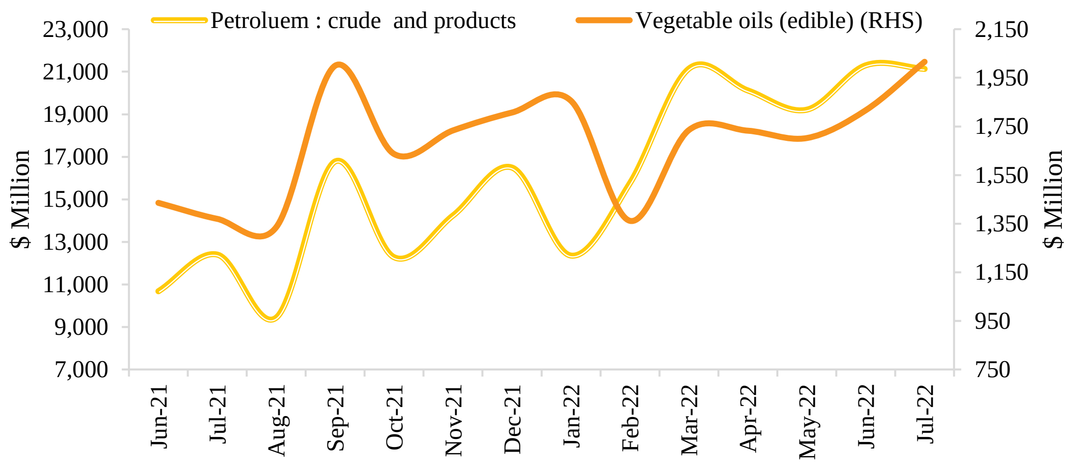
levels. Further, crude oil, whose imports meet 85 per cent of India's total requirements, also saw its international price rising by 35 per cent within a month of outbreak of the geopolitical conflict. The increase in international prices is also reflected in an uptick in domestic prices, though the increase in domestic prices has been relatively modest mainly on account of the timely interventions taken by the government. Government reduced the Agri-cess for Crude Palm Oil from 7.5 per cent to 5 per cent with effect from 12th February, 2022. Further, to ensure smooth availability of edible oils in the country, stock limits on edible oils and oil-seeds were imposed in a timely manner for a period up to 31st December 2022.

Major imported commodities and international and domestic price change (per cent)

	Share of imports of total requirement	International price change (Mar 2022 vs Jan 2022)	Domestic price change (Mar 2022 vs Jan 2022)
Palm oil	97	32.3	14.2
Soyabean oil	58	33.2	8.5
Sunflower oil	96	67.3	8.9
Crude oil	85.5	35.2	33.3

Source: PPAC, Bloomberg, World Bank, DFPD, DoCA

India's import of crude and petroleum and vegetable oils

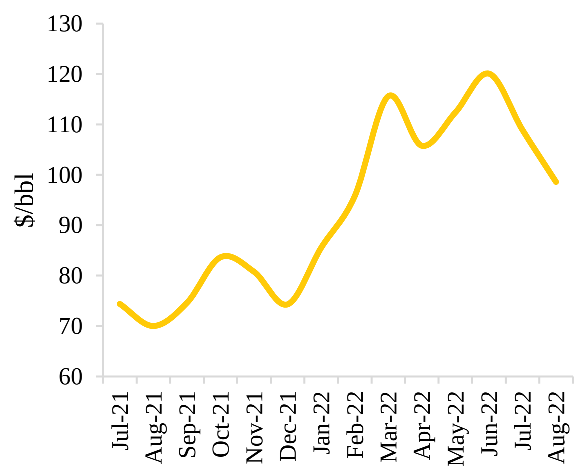


Source: DGCIS

25. The increase in price of imported commodities not only led to uptick in headline inflation but also widened the trade balance. However, with the easing of global supply-chain disruptions and decline in commodity prices, inflationary pressures are expected to soften and trade balance is anticipated to improve. Several indicators are pointing to the beginning of an easing of global commodity prices. S&P GSCI Industrial Metals index which increased by more than 15 per cent from January to March 2022, has moderated and declined by 26 per cent from March to August, 2022, on the back of worsening of energy crisis in Europe that has put brakes on the growth of their manufacturing and the economic slowdown in China caused by the implosion in their real estate sector and continuous lockdowns.

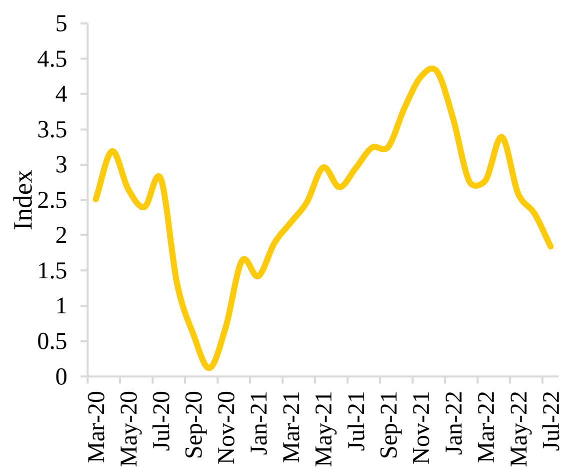
26. Further, the FAO Vegetable Oil Price index which was at an all-time high of 251.8 points in March 2022, has declined to 163.3 points in August 2022, reflecting the increased availability of palm oil from Indonesia, due to lower export taxes, and a gradual resumption of sunflower oil shipments from Ukraine's ports. International crude oil prices have also stabilized with crude oil Brent prices declining by approximately 15 per cent in August 2022 compared to March 2022. The outlook for international crude prices depends on pace of Chinese economic recovery and OPEC supply decisions. Supply chain pressures also seem to be unwinding as port congestion and other snags ease. The Federal Reserve Bank of New York Global Supply Chain Pressure Index[1] moderated to 1.84 in July 2022, lowest since January 2021. The suppliers' delivery times index, which captures the extent of supply chain delays in an economy, acting as a useful barometer of capacity constraints, also indicates an improvement in delivery time in August 2022.

International Crude Oil Brent Price



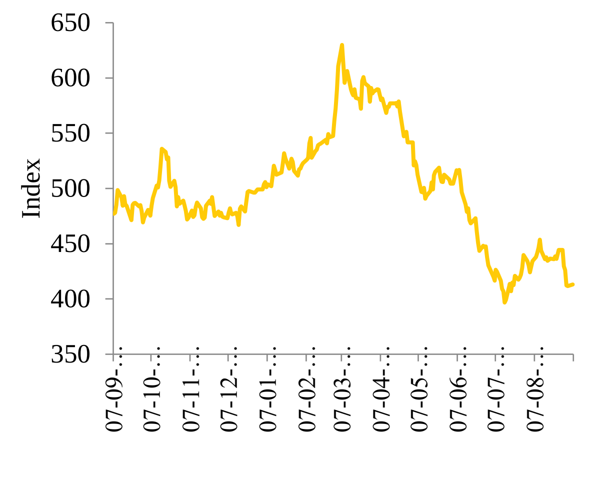
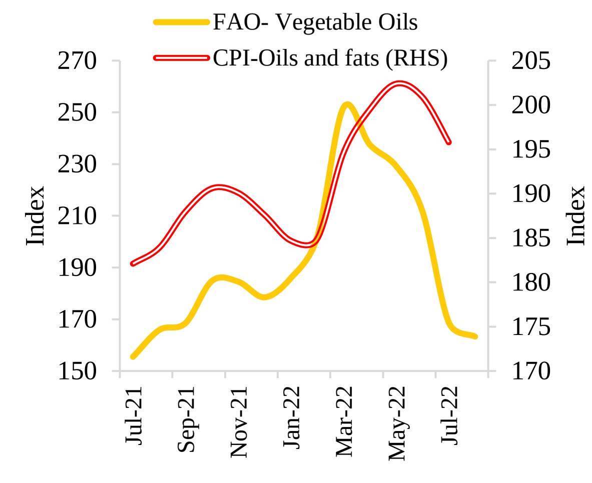
Source: World bank data

Federal Reserve Bank of New York Global Supply Chain Pressure Index



Source: Bloomberg

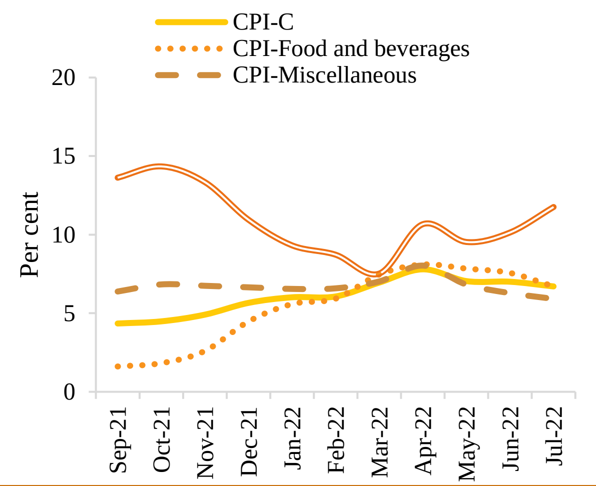
[1] Global Supply Chain Pressure Index (GSCPI) is computed on a monthly basis since 1997. The index is normalized such that a zero indicates that the index is at its average value with positive values representing how many standard deviations the index is above this average value (and negative values representing the opposite).

S&P GSCI Industrial Metals	Oil and fats price index
	
Source: Bloomberg	Source: FAO, MoSPI

27. Easing of global supply conditions is also reflected in moderation of India's CPI-C and WPI inflation figures. CPI inflation after having peaked in April 2022, moderated to 6.7 per cent in July, witnessing slight uptick in August 2022. The increase in inflation in August has been mainly driven by retail food inflation. Retail food inflation having declined from 8.3 per cent in April 2022 to 6.7 per cent in July, increased to 7.6 per cent in August as cereals prices increased on account of record heat wave. Though sustained decline in edible oil inflation has been observed from 18.7 per cent in March 2022 to 4.6 in August 2022. The contribution of edible oils to total retail inflation has eased to 2.7 per cent in August 2022 from 10 per cent in March 2022. Miscellaneous inflation also declined from near 8 per cent in April 2022 to 6.0 per cent in August 2022 driven by substantial reduction in 'Transport and Communication' and Health sub components. Further, with the decline in global prices of various industrial metals like iron, copper, lead, zinc, tin, WPI-Manufactured products inflation has also moderated to 7.5 per cent in August 2022 from double digit inflation till May 2022.

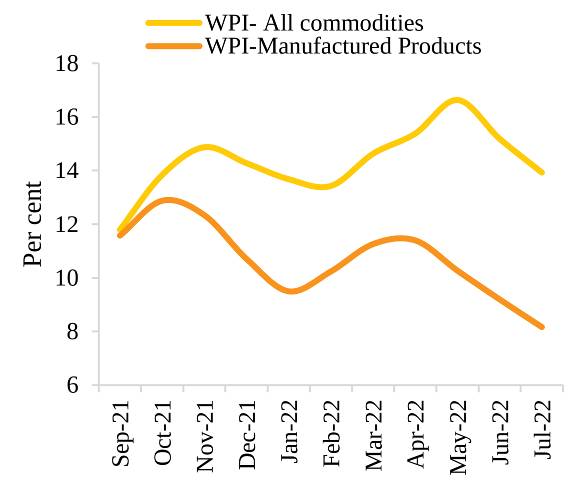
28. The sequential decline in CPI-C inflation in recent months has also helped moderate business inflation expectations further. Results from the July round of the IIM Ahmedabad's Business Inflation Expectations Survey (BIES) have shown that the one-year ahead business inflation expectations have further declined by 34 bps from 5.17 per cent in June to 4.83 per cent in July, dropping below 5 per cent first time in 17 months, after peaking to 6.12 per cent in March 2022. The recent decline in commodity prices and easing of supply chains are also reflected in the cost perceptions data indicating easing of cost pressures. Proportion of firms in the survey expecting significant cost increases has come down from June 2022 round. Overall, recent data bodes well for headline goods price inflation to slow in the months ahead.

Consumer Price Index Inflation



Source: NSO, MoSPI

Wholesale Price Index Inflation



Source: OEA, DPIIT

29. On the upside risk to inflation, CPI Core inflation may remain sticky in the months ahead with the pending pass-through of inputs costs to end consumer product. Pass through is likely to happen sooner than later as strong growth of private consumption, further confirmed by GDP estimates released for the first quarter of 2022-23, may just hold up even if inflationary pressures were to increase. Further, decline in kharif sowing may reduce kharif output, namely rice and pulses, and add to the upside risk to food inflation.

Outlook

30. In times when slowing growth and high inflation are afflicting most of the major economies of the world, India's growth has been robust and inflation in control. A rapid coverage of vaccination and well-calibrated short-term policy measures have skilfully navigated the economy through turbulent times, preparing a strong foundation to build a prosperous nation in the years ahead.

31. Downside risks to growth will persist insofar as India is integrated with the rest of the world. Nor is there room for complacency on the inflation front as lower crops-sowing for the Kharif season calls for deft management of stocks of agricultural commodities and market prices without unduly jeopardising farm exports. For all the hawkish central bank rhetoric, the balance sheet of the Federal Reserve has yet to begin contracting. It is expanding more slowly. When it actually starts shrinking, it may herald a new phase of risk aversion in capital markets, impeding global capital flows. With its bright growth prospects, India's imports are growing faster and, therefore, financing them comfortably will have to be accorded high priority. In winter months, heightened international focus on energy security in advanced nations could elevate geopolitical tensions, testing India's astute handling of its energy needs so far. In these uncertain times, it may not be possible to remain satisfied and sit back for long periods. Eternal macroeconomic vigilance is the price for stability and sustained growth.

32. Notwithstanding the above, India has a lot going for it, especially compared to other nations because its government chose not to pay heed to expert advice for untrammelled fiscal and monetary expansion during the pandemic years of 2020 and 2021. Watchful and prudent fiscal management and credible monetary policy will remain essential for India to fulfil its growth aspirations. Both these pillars of public policy will enable benchmark borrowing costs for the government and the private sector to decline, facilitating public and private sector capital formation. Vigorous pursuit of asset monetisation at all levels of government will help lower debt stock and hence debt servicing costs. That would cause risk premium to drop and credit rating of India to improve. A virtuous circle would set in as the quality of public expenditure increases in its wake and the private sector enjoys a lower cost of capital. The current financial year thus has the potential to lay a strong foundation for sustained economic growth, improved resilience and enhanced competitiveness of 'Made in India' during the Amrit Kaal.

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With an aim to track the progress of the Indian economy since the outbreak of the Russia-Ukraine conflict, the HFI table has been rebased to January 2022.

50.3 100 256.2

Performance of High Frequency Indicators
Base Month Jan 2022= 100

Indicator	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22
Agriculture							
Tractor sales	98.5	138.1	169.0	155.3	179.0	104.6	99.9
Fertilizer sales	84.8	80.4	91.2	102.4	110.5	120.1	
Industry							
8-Core Industries	94.8	109.3	99.7	103.2	99.0	97.2	
IIP-Consumer Durable goods	95.3	108.8	93.6	95.7	104.6	102.5	
IIP-Consumer Non-Durable goods	89.1	97.3	90.2	88.7	94.5	92.6	
Domestic Auto sales (Excluding Commercial vehicles)	94.4	106.3	101.0	108.8	114.5	121.6	131.3
Domestic Passenger vehicles sales	103.4	109.9	98.9	98.3	106.2	114.0	110.1
PMI Manufacturing	101.7	100.0	101.3	101.1	99.8	104.4	104.1
Power consumption	97.1	115.6	118.0	120.7	119.0	114.0	111.7
Natural Gas Production	91.0	100.9	98.8	101.8	98.3	100.7	
Cement production	95.1	112.7	96.9	93.8	100.2	89.2	
Steel consumption	89.0	95.6	89.2	93.3	84.7	88.4	91.1

Indicator	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22
Services							
ETC Collection	111.5	113.5	120.4	120.9	123.3	115.4	117.7
Domestic Air Passenger Traffic	119.7	165.5	163.2	178.3	163.4	151.0	
Port Cargo Traffic	93.7	111.2	103.9	105.4	105.4	101.4	100.1
Rail Freight Traffic	92.8	107.9	94.7	102.1	97.3	94.7	92.5
PMI Services	100.6	104.1	112.4	114.4	115.0	107.8	111.1
Fuel consumption	99.8	110.2	103.2	103.6	106.0	100.0	101.1
UPI (Value)	99.4	115.5	116.6	125.0	121.9	127.6	128.8
UPI (Volume)	98.1	117.1	116.8	128.8	127.0	136.2	142.5
Inflation							
WPI	101.7	104.2	106.3	107.8	107.8	107.6	107.1
CPI	100.2	101.2	102.7	103.6	104.2	104.6	105.2
CPI food	99.8	101.2	102.7	104.4	105.4	105.5	106.2
Crude price (Brent Dubai WTI)	111.4	134.0	123.2	131.2	139.2	125.3	114.4
Crude oil Indian basket	110.8	135.0	122.2	129.8	136.9	125.7	116.0
External Sector							
Merchandise Exports	105.5	126.2	113.0	111.0	120.4	103.1	93.7
Non-oil Exports	98.7	113.4	103.9	99.7	103.6	97.7	91.8
Non-oil Non-gold Imports	93.8	109.7	103.2	101.2	111.9	103.8	101.0

Indicator	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22
Baltic Dry Index	104.2	139.9	126.1	167.1	135.7	118.0	80.2
Exchange Rate	100.7	102.4	102.3	103.9	104.9	106.9	106.9
NEER	99.2	98.9	98.5	99.8	99.8	98.7	
Net FDI	76.8	50.3	81.8	81.1	61.3		
FPI	133.0	172.0	77.6	124.0	172.8		
Fiscal							
Gross tax revenue (Central Govt)	104.4	256.2	137.3	101.2	145.9	129.4	
Capital Expenditure	86.9	215.1	157.7	56.3	135.9	67.2	
GST	94.4	100.7	119.2	100.0	102.1	105.7	102.1
E-way Bill Volume	100.5	113.7	109.0	107.0	108.3	109.9	113.7
Monetary and Financial Markets							
Broad Money Supply (M3)	101.2	102.7	103.8	103.7	103.6	105.4	105.5
Non-food Credit	101.7	103.9	104.6	105.1	105.5	108.6	109.4
Sensex	97.0	101.0	98.4	95.8	91.4	99.2	102.6
Nifty	96.9	100.7	98.6	95.6	91.0	99.0	102.4