Economy Watch

Monitoring India's macro-fiscal performance

April 2021

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Highlights

1. IIP contracted by (-)3.6% in February 2021, its second successive contraction in the final quarter of FY21.

2. Reflecting the adverse impact of the second COVID wave, PMI manufacturing and services fell to 55.4 and 54.6 respectively in March 2021 from 57.5 and 55.3 respectively in February 2021.

3. CPI inflation in March 2021 reached a level of 5.5% while WPI inflation shot up to a 96-month high of 7.4%.

4. Contraction in Center's gross tax revenues was at (-)0.7% during April-February FY21. Direct tax revenues continued to contract while indirect tax revenues showed a positive y-o-y growth during this period.

5. During April-February FY21, Center's capital expenditure posted a strong growth of 33.0% while revenue expenditure grew by 11.7%.

6. Center's fiscal deficit stood at 76.0% of the annual revised estimate while the corresponding ratio for revenue deficit was at 71.6% during April-February FY21.

7. Current account recorded a deficit for the first time in four quarters at (-)0.2% of GDP in 3QFY21 as compared to a surplus of 2.4% of GDP in 2QFY21.

8. Growth in merchandise exports increased to 60.3% whereas imports growth rose to 53.7% in March 2021 mainly due to favorable base effects.

9. The IMF estimated a global contraction of (-)3.3% in 2020, followed by a recovery to 6.0% in 2021. India is projected to grow by 12.5% in 2021 (FY22) due to a strong base effect. This may have to be revised downwards due to the impact of COVID's second wave in India.

Foreword

Multipronged economic pressures in the midst of a severe second COVID wave

In the first week of April 2021, both the RBI and the IMF provided their latest assessments on India's growth prospects for FY22. The RBI has pegged India's real GDP growth at 10.5% whereas the IMF has revised upwards its earlier forecast, pegging India's growth at 12.5%, which is 2% points higher than the RBI's forecast. Much would depend on the economic impact of COVID's second wave currently sweeping the Indian economy. At least the projected growth at 26.2% in 1QFY22 by the RBI would be significantly adversely impacted. As per the IMF, India's projected growth of 12.5% in FY22 is noticeably higher than other major economies of the world, with China at the second position estimated to show a growth rate of 8.4%. The UK is projected to grow at 5.3% while the Euro area's growth is forecasted at 4.4%. The US is also projected to grow at a healthy rate of 6.4% recognizing its recent stimulus packages.

One of the major developments in the Indian economy relates to the review of the Monetary Policy Framework that was operational over the last five years. The Monetary Policy Committee concluded that it would be desirable to continue with the same framework for another five years until 31 March 2026, thereby indicating that the focus would be on containing CPI inflation in the range of 2-6% with an average target of 4%. The RBI, in its April 2021 monetary policy review, kept the key policy rate unchanged. Its main concern was with liquidity and it has come up with what many observers call 'the Indian version' of quantitative easing. For FY22, the RBI has put in place a secondary market G-sec acquisition program (G-SAP) 1.0. Under the program, the RBI will commit upfront to a specific amount of open market purchases of government securities. For 1QFY22, it has announced a G-SAP of INR1 lakh crore. The RBI's projection for CPI inflation for FY22 is at 5% which is 1% point higher than the target average level of 4%. This is in view of the requirement to keep liquidity comfortable so as to facilitate any growth push that may come from the fiscal side. CPI inflation in March 2021 reached a level of 5.5% while WPI inflation shot up to a 96-month high of 7.4%. The upsurge in WPI inflation is mainly due to an increase in global crude prices which translated into a rise in WPI inflation in fuel and food. There is also a cost-push pressure on prices of basic metals.

An immediate threat to India's FY22 growth prospects would arise if the current but sharp upsurge in the incidence of COVID due to the second wave is not brought under control quickly. The longer the second wave lasts, the more severe would be the adverse impact on the economy. There would be a race between the pace of COVID vaccination vis-à-vis. the speed at which COVID-19 including its new mutants spread. As per the revised vaccination policy announced on 19 April 2021* (vaccination 3.0), universal vaccination above the age of 18 years is to be allowed from 1 May 2021. In addition to the central government, state governments and private players have also been allowed to directly access the vaccines from the domestic or foreign suppliers and then according to their own policy, vaccination may be implemented in the respective state. Private firms have also been allowed the same facility. Domestic suppliers will have to pre-announce their prices before 1 May 2021. Prices for imported vaccines may have to be individually negotiated. These changes will be implemented along with the central government pre-empting 50% of the domestic supply, which will be distributed to the population above 45 years of age as per the existing policy. Thus, the supply situation may improve with better financial returns for the domestic suppliers and more investment can also take place. There is a lot of ambiguity in relation to the prices that may prevail. With a fragmentation of the market, the possibility of black marketing etc. may also increase. For the 50% of the central distribution across states, the issue of inter-state distribution would remain and would call for an objective and transparent formula-based distribution mechanism. Currently, the inter-state allocation mechanism of vaccines appears to be ad-hoc and non-transparent.

It may be useful to consider constituting a High-Powered body of experts for determining a transparent and objective formula for the inter-state allocation of vaccines. This may lead to a more optimal solution for the distribution of vaccines which may be a longer-term problem for India if booster shots continue to be required periodically and as the age of eligibility is progressively increased towards universal coverage.

On the external front, the US has announced a major stimulus program** which includes a long-term plan intended to last until the end of the decade primarily for infrastructure expansion and clean energy worth US$2 trillion which may be financed partially by an increase in the US corporate tax rate from 21% to 28%. If India continues with its current CIT regime, this may have major implications for incentivizing relocation of US investment towards India. India has also embarked upon its own infrastructure expansion plan in the form of the National Infrastructure Pipeline (NIP), investment in which will continue until FY26. In India's plan, both the central and state governments including their public sector enterprises and the private sector are to participate. If required, for financing the NIP, the central government may keep its fiscal deficit well above the current FRBM norm of 3% of GDP up to FY26. According to the RBI, the combined fiscal deficit of central and state governments is projected at 10.8% of GDP for FY22. Indications are that the central government may improve upon its tax collections in FY21 as compared to the revised estimate. Given the improved revenue performance prospects***, the central government may do well to frontload its budgeted FY22 capital expenditure in 1QFY22 so as to partially mitigate the adverse economic impact of COVID's second wave.

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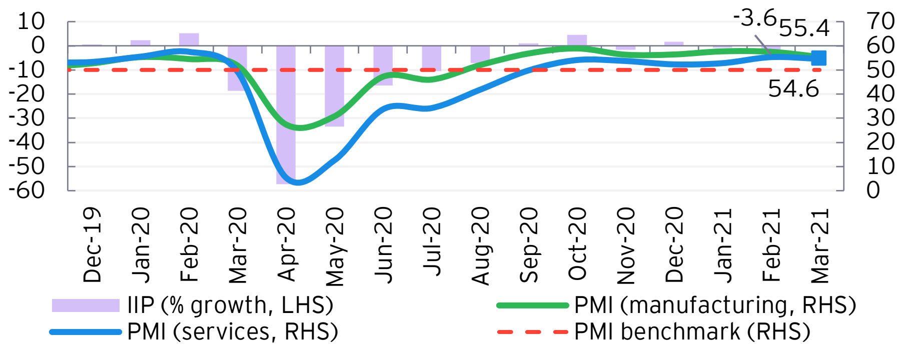
* *https://pib.gov.in/PressReleseDetail.aspx?PRID=1712710*
** *https://www.nytimes.com/2021/03/31/business/economy/biden-infrastructure-plan.html*
*** *https://pib.gov.in/PressReleasePage.aspx?PRID=1711352*;
https://pib.gov.in/PressReleasePage.aspx?PRID=1710598

1. Growth: IIP contracted sharply by (-)3.6% in February 2021

A. IIP: contracted by (-)3.6% in February 2021, its worst performance since August 2020

- As per the quick estimates of IIP for February 2021, released by the MoSPI on 12 April 2021, IIP contracted at a faster pace of (-)3.6% in February 2021 as compared to (-)0.9% (revised) in January 2021 (**Chart 1**). This was led by a sharper contraction in both manufacturing and mining sector outputs. (Table A1 in data appendix).
- The manufacturing output contracted by (-)3.7% in February 2021 as compared to (-)1.3% (revised) in January 2021. Mining output contracted for the fifth consecutive month by (-)5.5% in February 2021. Growth in the output of electricity fell to a six-month low of 0.1% in February 2021 as compared to 5.5% in January 2021.
- Among the 'use based' classification of industries, output of capital goods contracted by (-)4.2% while that of consumer non-durables contracted by (-)3.8% in February 2021. The corresponding rates of contraction in January 2021 for these two categories were (-)9.0% and (-)5.4%. Output of infrastructure/construction goods contracted for the first time since July 2020 by (-)4.1% in February 2021. Aided by a favorable base effect, consumer durables sector posted a growth of 6.3% in February 2021 as compared to a contraction of (-)0.2% in January 2021.
- Provisional estimates of output of eight core infrastructure industries (core IIP) contracted sharply by (-) 4.6% in February 2021 as compared to a growth of 0.9% (revised) in January 2021 led by a contraction in the output of all eight sub-industries. The sectors which showed large contractions include petroleum refinery products ((-)10.9%), cement ((-)5.5%), coal ((-)4.4%), fertilizers ((-)3.7%) and crude oil ((-)3.2%).

Chart 1: IIP growth and PMI



Source: MoSPI and IHS Markit

IIP contracted by (-)3.6% in February 2021, its second successive contraction in the final quarter of FY21.

B. PMI: signaled a fall in the pace of expansion in both manufacturing and services in March 2021

- Headline manufacturing PMI (seasonally adjusted (sa)) fell from 57.5 in February 2021 to a seven-month low of 55.4 in March 2021. On an annual basis, PMI manufacturing averaged 50.2 in FY21, the lowest since the inception of the series (**Chart 1**). The corresponding average for FY20 stood at 52.3.
- PMI services also showed a fall in growth momentum with its level falling to 54.6 in March 2021 from 55.3 in February 2021. On an annual basis, PMI services averaged 41.7 in FY21, its lowest level since FY06. In comparison, the index averaged 51.9 in FY20.
- Reflecting a fall in the pace of expansion in both PMI manufacturing and services, the composite PMI Output Index (sa) fell to 56.0 in March 2021 from 57.3 in February 2021. On an annual basis, composite PMI Output Index averaged 44.7 in FY21 as compared to 52.6 in FY20.

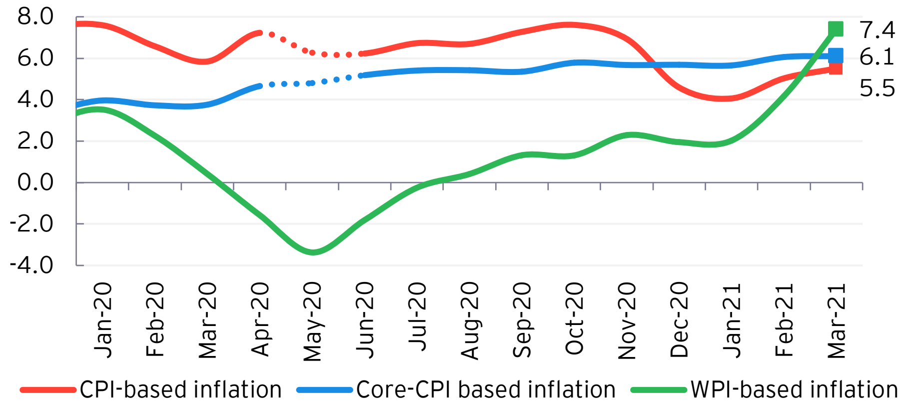
Reflecting the adverse impact of the second COVID wave, PMI manufacturing and services fell to 55.4 and 54.6 respectively in March 2021.

2. Inflation: CPI inflation increased to 5.5% in March 2021

CPI inflation increased to 5.5% in March 2021 from 5.0% in February 2021 (Chart 2) led by higher food inflation.

- Consumer food inflation increased to 4.9% in March 2021 from 3.9% in February 2021 mainly due to base effect.
- Inflation in meat and eggs increased to 15.1% in March 2021 from 11.5% in February 2021. Contraction in vegetable prices reduced to (-)4.8% from (-)6.3% over the same period.
- Inflation in fuel and light increased to a 12-month high of 4.5% in March 2021 from 3.5% in February 2021.
- Core CPI inflation[1] remained elevated at a 79-month high of 6.1% in March 2021.
- Inflation in transportation and communication services climbed to an all-time high of 12.5% in March 2021 reflecting higher global crude prices and higher taxation of petrol and diesel.

Chart 2: Inflation (y-o-y, in %)



CPI inflation in March 2021 reached a level of 5.5% while WPI inflation shot up to 7.4% which is a 96-month high.

Source: MoSPI, Office of the Economic Adviser, Government of India (GoI)
Note: Headline CPI inflation and inflation in certain groups for the month of April 2020 and May 2020 have been imputed by the MoSPI[2]; Core CPI inflation has been estimated for April 2020 and May 2020 using this imputed data

WPI inflation increased to a 96-month high of 7.4% in March 2021 from 4.2% in February 2021 mainly due to increase in global crude prices which translated into a rise in WPI inflation in fuel and food.

- Inflation in crude petroleum increased to an all-time high of 73.7% in March 2021 due to higher crude price and an unfavorable base effect.
- Fuel and power inflation increased to a 28-month high of 10.3% in March 2021, reflecting higher prices of petrol and diesel.
- Core WPI inflation increased to a historic high of 7.0% in March 2021 from 5.6% in February 2021 primarily due to higher inflation in manufactured basic metals which increased to a 33-month high of 16.6% reflecting cost push pressures.
- WPI food index-based inflation was at a five-month high of 5.3% in March 2021. Inflation in eggs, meat and fish increased to a five-month high of 5.4% in March 2021. Inflation in fruits reached 16.3% in March 2021, which was a 19-month high.

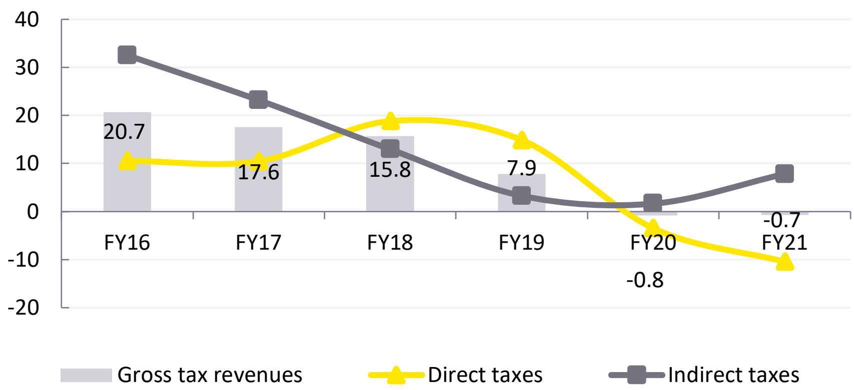
[1] Core CPI inflation is measured in different ways by different organizations/agencies. Here, it has been calculated by excluding food, and fuel and light from the overall index.
[2] http://www.mospi.gov.in/sites/default/files/press_release/CPI%20Technical%20Note%20on%20Imputation.pdf

3. Fiscal performance: Center's gross tax revenues contracted by (-)0.7% during Apr-Feb FY21

A. Tax and non-tax revenues

- As per the Comptroller General of Accounts (CGA)[3], Center's gross tax revenues (GTR) during the April-February FY21 period contracted by (-)0.7% as compared to (-)0.8% in the corresponding period of FY20 (**Chart 3**). As a proportion of the annual revised estimate (RE), gross central taxes during April-February FY21 stood at 87.6%.
- Direct tax revenues contracted by (-)10.4% during April-February FY21 as compared to (-)3.5% in the corresponding period of FY20.
- Corporate income tax (CIT) revenues contracted sharply by (-)16.2% during April-February FY21 as compared to (-)12.0% in the corresponding period of FY20.
- There was a relatively lower contraction of (-)4.2% in personal income tax (PIT) revenues during April-February FY21 as compared to a growth of 7.7% during the corresponding period of the previous year.
- Indirect taxes (comprising CGST, UTGST, IGST[4] and GST compensation cess, union excise duties, arrears of service tax and customs duty) showed a growth of 7.8% during April-February FY21 as compared to 1.6% during April-February FY20.
- While Center's GST revenues contracted by (-)9.9%, there was a positive growth of 59.6% in revenues from union excise duties and of 7.4% in customs duty revenues during April-February FY21.

Chart 3: Growth in central gross tax revenues during April-February (y-o-y, in %)



As per the CGA, contraction in Center's gross taxes was at (-)0.7% during April-February FY21. Direct tax revenues continued to contract while indirect tax revenues showed a positive y-o-y growth during this period.

Source: Monthly Accounts, Controller General of Accounts (CGA), Government of India
Notes: (a) Direct taxes include personal income tax and corporation tax, and indirect taxes include union excise duties, arrears of service tax, customs duty, CGST, UTGST, IGST and GST compensation cess; (b) Other taxes (securities transaction tax, wealth tax, fringe benefit tax, banking cash transaction tax, etc.) are included in the center's gross tax revenues along with direct and indirect taxes.

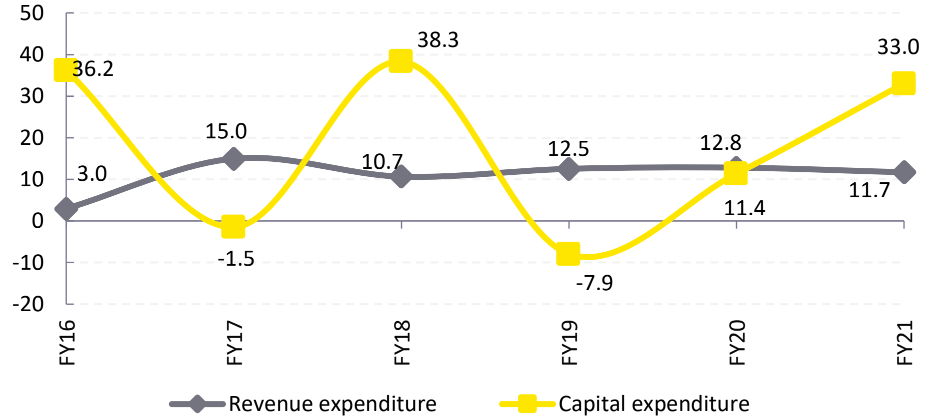
- Center's non-tax revenues showed a contraction of (-)41.4% during April-February FY21 as compared to a growth of 53.2% during the corresponding period of FY20.
- As a proportion of the annual revised estimate (RE), center's non-tax revenues during April-February FY21 stood at 73.2%.
- As per information sourced from the Department of Investment and Public Asset Management[5] on 08 April 2021, disinvestment receipts stood at INR32,835.45 crores indicating that the FY21 revised target at INR32,000 crores has been achieved.

[3] Monthly accounts for February 2021 released on 31 March 2021
[4] IGST revenues are subject to final settlement
[5] https://www.dipam.gov.in/dipam/home

B. Expenditures: revenue and capital

- Center's total expenditure during April-February FY21 grew by 14.3% as compared to 12.6% during the corresponding period of FY20. As a proportion of the annual RE, center's total expenditure during April-February FY21 stood at 81.7%.
- Revenue expenditure grew by 11.7% during April-February FY21 as compared to 12.8% during the corresponding period of FY20 (**Chart 4**).
- Center's capital expenditure showed a strong growth of 33.0% during April-February FY21 as compared to 11.4% in the corresponding period of the previous year.

Chart 4: Growth in central expenditures during April-February (y-o-y, in %)



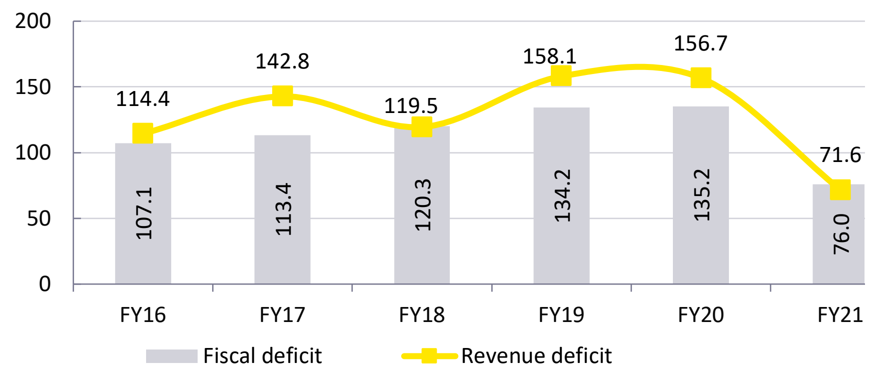
During April-February FY21, Center's capital expenditure posted a strong growth of 33.0% while revenue expenditure grew by 11.7%.

Source (basic data): Monthly Accounts, Controller General of Accounts (CGA), Government of India

C. Fiscal imbalance

- Center's fiscal deficit during April-February FY21 stood at 76.0% of the annual revised target as compared to 135.2% during the corresponding period of FY20 (**Chart 5**). As per the Union Budget for FY22, Center's fiscal deficit has been estimated at an unprecedented level of 9.5% of GDP for FY21 (RE).
- Center's revenue deficit during April-February FY21 stood at 71.6% of the annual revised target as compared to 156.7% in the corresponding period of FY20. Center's revenue deficit has been estimated at 5.9% of GDP for FY21 (RE).

Chart 5: Fiscal and revenue deficit during April-February as percentage of annual revised target



During April-February FY21, Center's fiscal deficit stood at 76.0% of the annual RE while the corresponding ratio for revenue deficit was at 71.6%.

Source: Monthly Accounts, Controller General of Accounts (CGA), Government of India.

4. Comparative global perspective: IMF estimated India's growth at 12.5% in FY22

Real GDP growth

Table 1: Real GDP growth (%, annual)

Country	2020	2021	2022	2023	2024	2025	2026
AEs	**-4.7**	**5.1**	**3.6**	**1.8**	**1.6**	**1.5**	**1.5**
USA	-3.5	6.4	3.5	1.4	1.5	1.6	1.6
UK	-9.9	5.3	5.1	2.0	1.8	1.5	1.4
Euro area	-6.6	4.4	3.8	1.9	1.6	1.4	1.3
Japan	-4.8	3.3	2.5	1.1	0.7	0.6	0.5
EMDEs	**-2.2**	**6.7**	**5.0**	**4.7**	**4.6**	**4.5**	**4.4**
Brazil	-4.1	3.7	2.6	2.1	2.0	2.0	2.0
Russia	-3.1	3.8	3.8	2.1	1.8	1.8	1.8
India*	-8.0	12.5	6.9	6.8	6.7	6.6	6.5
China	2.3	8.4	5.6	5.4	5.3	5.1	4.9
S. Africa	-7.0	3.1	2.0	1.4	1.3	1.3	1.3
Global	**-3.3**	**6.0**	**4.4**	**3.5**	**3.4**	**3.3**	**3.3**

Source: IMF World Economic Outlook (April 2021)
*fiscal year basis; Note: forecasts from 2021 onwards

- After a contraction of (-)3.3% in 2020, the global economy is projected to grow by 6% in 2021, moderating to 4.4% in 2022.
- Beyond 2022, global growth is projected to moderate to 3.3% by 2026. Persistent damage to supply potential across both AEs and EMDEs, slower labor force growth because of population aging in AEs, and rebalancing to a sustainable growth path in China are expected to weigh on the growth outlook for the global economy in the medium term.
- Growth in AEs is projected at 5.1% in 2021, slowing gradually thereafter and reaching a level of 1.5% in the medium-term. In EMDEs, growth is expected to recover to a healthy 6.7% in 2021 and remain in the range of 4.4%-5% during 2022 to 2026.
- Among AEs, while growth in 2021 has been revised up for Japan and the US reflecting the impact of the fiscal stimulus announced in end-2020, forecasts have been revised down for the UK and the Euro area. Growth in all major AEs except Japan is projected to gradually fall and stabilize in the range of 1.3%-1.6% in 2026. Growth in Japan is forecasted to fall below 1% in 2024 and reach 0.5% by 2026.
- Among EMDEs, the sharpest contraction in 2020 is estimated for India at (-)8.0% (FY21), followed by South Africa at (-)7.0%. In 2021 however, growth in India is expected to recover to 12.5% (FY22), higher than that in China at 8.4%. In the medium term, India is expected to lead the global growth, showing an average growth of 6.7% during 2022 (FY23) to 2026 (FY27).

CPI inflation

- In IMF's assessment, inflation pressures are expected to remain contained in most countries.
- Baseline projections indicate a return of CPI inflation to its long-term average as the remaining slack subsides only gradually and commodity-driven base effects fade away.
- In AEs excluding Japan, inflation is projected to hover around the long-term target of 2% in the medium term.
- For EMDEs as a group, inflation is projected to fall each year from 5.1% in 2020 to 3.8% in 2025 and 2026.
- India's CPI inflation, which had breached the upper tolerance limit of 6% in 2020 (FY21) is estimated to fall to 4.9% in 2021 (FY22) and remain at or close to the mean target of 4% during 2022 (FY23) to 2026 (FY27).

Table 2: Average CPI inflation (%, annual)

Country	2020	2021	2022	2023	2024	2025	2026
AEs	**0.7**	**1.6**	**1.7**	**1.8**	**1.9**	**1.9**	**1.9**
USA	1.2	2.3	2.4	2.5	2.5	2.4	2.2
UK	0.9	1.5	1.9	2.0	2.0	2.0	2.0
Euro area	0.3	1.4	1.2	1.4	1.6	1.7	1.8
Japan	-0.02	0.1	0.7	0.7	0.9	1.0	1.0
EMDEs	**5.1**	**4.9**	**4.4**	**4.0**	**3.9**	**3.8**	**3.8**
Brazil	3.2	4.6	4.0	3.1	3.3	3.2	3.3
Russia	3.4	4.5	3.4	3.8	4.0	4.0	4.0
India*	6.2	4.9	4.1	3.9	4.0	4.0	4.0
China	2.4	1.2	1.9	1.9	2.0	2.0	2.0
S. Africa	3.3	4.3	4.5	4.5	4.5	4.5	4.5
Global	**3.2**	**3.5**	**3.2**	**3.1**	**3.1**	**3.1**	**3.0**

Source: IMF World Economic Outlook (April 2021)
*fiscal year basis; Note: forecasts from 2021 onwards

5. In focus: reflecting on the COVID year: losses and lessons

1. Introduction

In India's case, a nation-wide lockdown was announced in the last week of March 2020. One full year, affected by the pandemic, has elapsed since then. It may be useful to examine the relative losses suffered by different output sectors and demand segments of the economy. It would be helpful for the future if suitable lessons can be drawn from this calamitous experience so as to deal better with potential pandemic type challenges. COVID-19's impact is by no means over. India is dangerously sliding into the second wave of the pandemic, the duration of which remains unpredictable. Critical lessons may be drawn from the COVID's first year's experience so as to minimize its impact in future years if it does continue for a few years. Internationally too, no country has fully recovered from the pandemic. In many countries, even a third or fourth wave of the pandemic has hit. Global trade continues to be vulnerable due not only to the impact of the pandemic but also due to other strategic and geopolitical developments including a concerted move to shift supply chains away from China and the recent upsurge in global crude prices based on supply side actions on the part of OPEC+[6] countries. Most countries are looking inward to formulate their long-term strategies in the changing global economic scenario. India has also moved towards an '*Atmanirbhar*' strategy. Most analysts agree that the post-COVID global economy would be significantly different from that during the pre-COVID years.

2. Index of relative shock

In order to study quantitatively, the differential vulnerability of countries and within a country, of the output sectors and demand segments of the economy, it may be useful to define an 'Index of Relative Shock' (IRS) in the context of the losses suffered during the pandemic year. For this purpose, with a view to bringing different sectors and segments as also economies, it may be relevant to measure the losses in the COVID year not in absolute magnitudes but instead, in relative terms. For many developed countries, COVID had arrived somewhat earlier as compared to India and for them, the calendar year 2020 would be relevant whereas for India, the fiscal year FY21 would be relevant. The actual performance in this reference year should be measured relative to a relevant long-term average. For this purpose, we may consider the entire decade preceding the COVID year as providing the comparable longer-term performance. Thus, in terms of growth loss, we may define an index of relative shock as

$$Index\ of\ relative\ shock\ (IRS) = \frac{decadal\ average\ growth - covid\ year\ growth}{decadal\ average\ growth}$$

This index would indicate the performance of a country/sector/segment relative to its longer-term average.

Since this index may have values ranging from negative to positive and sometimes of high magnitudes, it is useful to convert this index within a given category of observation covering sectors, countries, and segments into a relative ranking or an index taking values between 0 and 100. This is defined as below

$$Index\ of\ intra\ group\ relative\ shock = \frac{magnitude\ of\ the\ actual\ IRS - magnitude\ of\ the\ lowest\ IRS}{magnitude\ of\ the\ highest\ IRS - magnitude\ of\ the\ lowest\ IRS}$$

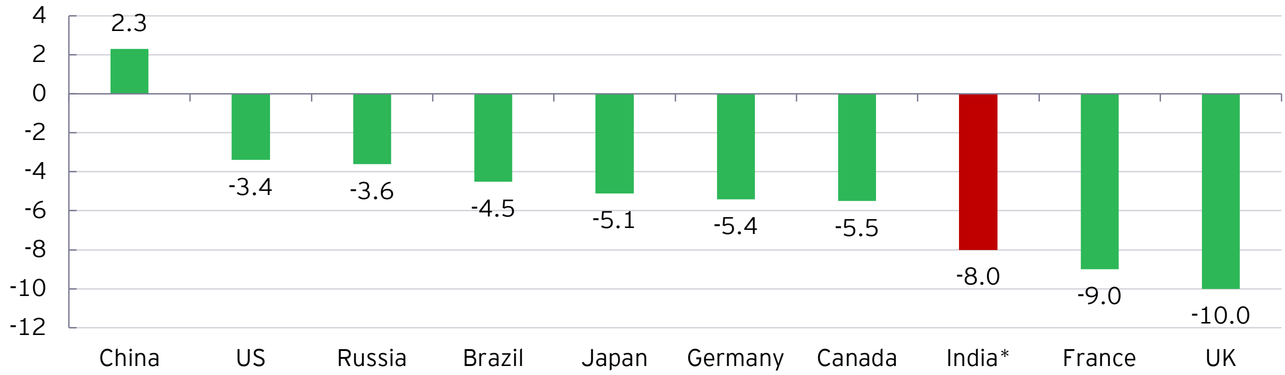
3. Inter country growth performance: a comparative view

Looking at the growth performance in absolute magnitudes, the picture that emerges is summarized in **Chart 6**. For this purpose, we have selected a group of major economies with representation from advanced and emerging market economies. These include the US, UK, Japan, Germany, France, Canada, Brazil, Russia, India and China.

Chart 6 shows that, measured in terms of loss in growth, UK appears to be the worst performer while US and China appear to be the least affected. India suffered the third largest erosion in its growth rate. However, in order to make the relative shock more comparable, it is important to place this in the perspective of the differential growth performance of the countries over a longer period. This is shown in **Table 3** and **Chart 7**.

[6] Organisation of petroleum exporting countries (OPEC); members include 14 OPEC countries and 10 non-OPEC countries including Russia, the largest non-OPEC member.

Chart 6: Real GDP growth (% annual) of selected economies in 2020



Source (basic data): IMF World Economic Outlook April 2021; *For India data pertains to FY21

In **Table 3**, in terms of the relative position within the group of countries selected for comparison, India has the least relative shock at 21.2% as compared to a value of 100% for Canada which suffered the maximum shock in terms of relative impact of COVID on GDP growth.

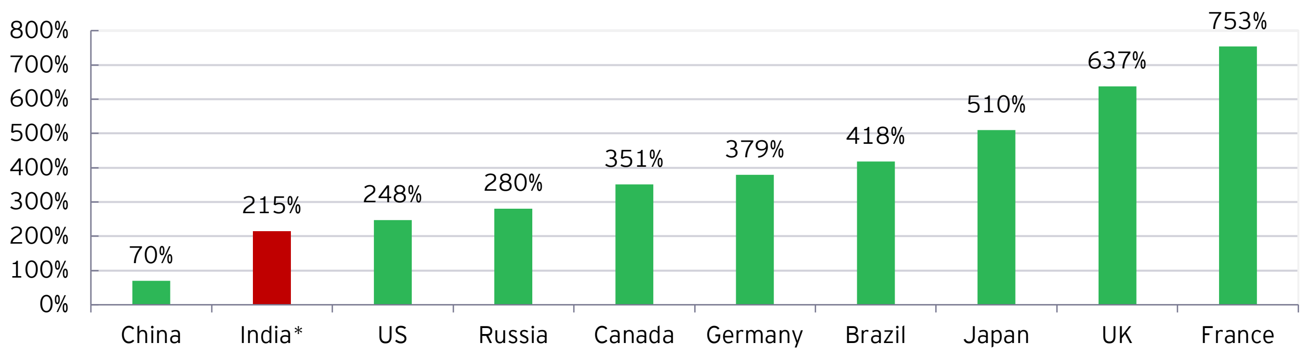
Table 3: Country wise actual and average growth

Country	Growth in 2020	Average growth during 2010-2019	Decadal avg *minus* 2020 growth	Index of relative shock (%)	Relative intra group position
China	2.3	7.7	5.4	70	0.0%
India*	-8.0	7.0	15.0	215	21.2%
United States	-3.4	2.3	5.7	248	26.1%
Russia	-3.6	2.0	5.6	280	30.7%
Canada	-5.5	2.2	7.7	351	41.1%
Germany	-5.4	1.9	7.3	379	45.2%
Brazil	-4.5	1.4	5.9	418	51.0%
Japan	-5.1	1.2	6.3	510	64.4%
United Kingdom	-10.0	1.9	11.9	637	83.0%
France	-9.0	1.4	10.4	753	100.0%

Source (basic data): IMF; *For India data pertains to FY21

Table 3 indicates that for countries that were growing at much lower rates over a longer time, the extent of shock would be much larger to the economy in relative terms. Thus, for example, for a country like France, which was growing at only 1.4% in the longer run, an erosion of growth to the extent of (-)9.0% is quite massive as compared to say, Russia which was growing at 2.0% in the longer run and the erosion in the growth rate in 2020 is (-)3.6%, or US where the longer-term growth rate is 2.3% and the erosion of growth in the COVID year is at (-)3.4%. Viewed in these terms, India's index of relative shock improves to the second lowest position as compared to that shown in **Chart 6** where it was the third worst performing country in terms of actual real GDP contraction in 2020 (FY21). Countries like UK and France appear to have suffered a far larger relative shock **(Chart 7)**.

Chart 7: Country wise index of relative shock



Source (basic data): IMF; *For India data pertains to FY21

4. India's GVA: relative vulnerability of output sectors

In **Table 4**, we analyze in greater detail the index of relative shock of different output sectors in India. In terms of erosion in the growth rate in absolute terms, the worst performing sector was trade, hotels, et. al., followed by construction, mining and quarrying and manufacturing. However, when we examine this growth performance in the COVID year in the light of the longer-term growth history of these sectors, their relative rankings change. The last column in **Table 4** shows the relative intragroup position of the GVA sectors in terms of their vulnerability.

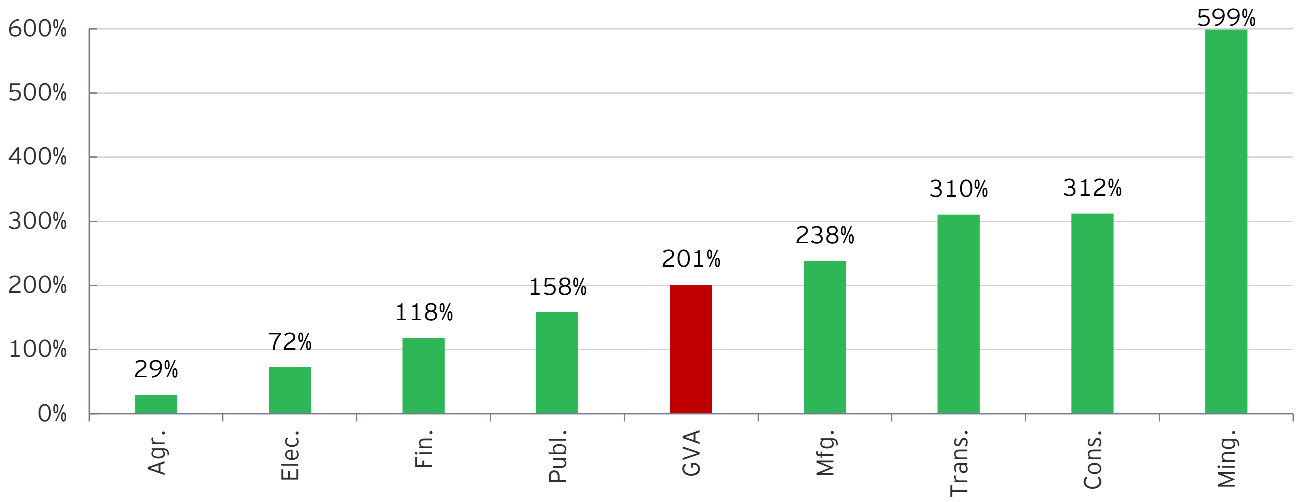
Table 4: Sector wise actual and average growth

	Growth in FY21	Average growth during FY11 to FY20	Decadal average *minus* FY21 growth	Index of Relative shock (%)	Relative intra group position
Agr.	3.0	4.3	1.3	29	0%
Ming.	-9.2	1.9	11.1	599	100%
Mfg.	-8.4	6.0	14.4	238	37%
Elec.	1.8	6.5	4.7	72	8%
Cons.	-10.3	4.9	15.1	312	50%
Trans.	-18.0	8.6	26.6	310	49%
Fin.	-1.4	7.7	9.1	118	16%
Publ.	-4.1	7.1	11.2	158	23%
GVA	-6.5	6.4	12.9	201	--

Source (basic data): MoSPI

As **Chart 8** shows, agriculture has proved to be the least vulnerable or the most resilient sector with respect to the COVID shock. It is followed by the electricity, gas and water supply sector and the financial, real estate and professional services sector. The vulnerability of public administration, defence and other services appears to be the fourth lowest. This comes as a surprise because most of this sector's performance depends on expenditures undertaken by central and state governments. This sector could have been made to perform better in the COVID year by ensuring large fiscal stimulus by the central government and evenly spread out fiscal stimuli by the state governments. The most vulnerable sectors are mining and quarrying and construction. These sectors also could have potentially performed better because they respond to government policy decisions and infrastructure expenditure respectively. The trade, hotels and transport sector which showed the worst growth in absolute terms appears to have the third rank in terms of vulnerability in relative terms.

Chart 8: Sector wise estimates of index of relative shock



Source (basic data): MoSPI

5. India's GDP: relative vulnerability of demand segments

Similarly, the relative vulnerability of segments of demand that make up India's GDP can be studied. In terms of relative long-term growth, while net exports showed an average growth of 21.4% during FY11 to FY20, within the domestic demand segments, the highest average growth was for private final consumption expenditure (PFCE) at 6.9% followed by 6.4% for gross capital formation (GCF). Government final consumption expenditure (GFCE) showed a relatively lower average growth of 6.0% (**Table 5**).

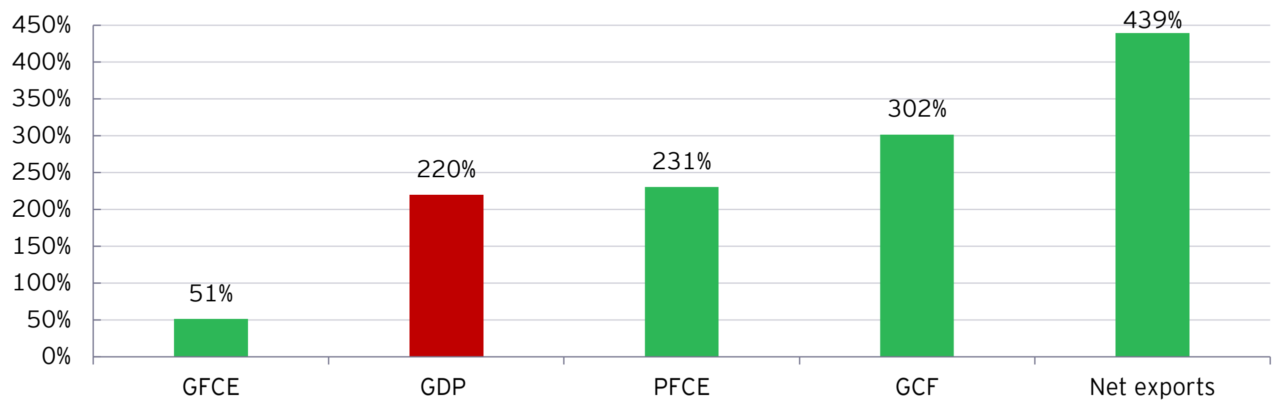
Table 5: Actual and average growth of aggregate demand components (domestic)

	Growth in FY21	Average growth during FY11 to FY20	Decadal avg *minus* FY21 growth	Index of Relative shock (%)	Relative intra group position
PFCE	-9.0	6.9	15.8	231	46%
GFCE	2.9	6.0	3.1	51	0%
GCF	-12.9	6.4	19.4	302	65%
GDP	-8.0	6.7	14.6	220	44%
Net exports	-72.5	21.4	93.8	439	100%

Source (basic data): MoSPI

However, in terms of the index of relative shock, the least shock was suffered by the GFCE and the maximum shock, after net exports, was suffered by investment expenditure, that is, GCF. This is shown in in **Chart 9** in terms of their relative vulnerability.

Chart 9: Index of relative shock – components of aggregate demand



Source (basic data): MoSPI

6. India's external sector: relative shock of imports vis-à-vis exports

Since net exports are derived as exports minus imports, it may be useful to consider their vulnerability separately. In terms of the erosion of growth in the COVID year, both exports and imports of goods and services suffered but imports suffered far more. This is reflected also in the index of relative shock which is 207.0% for exports as compared to 389.6% for imports (**Table 6**).

Table 6: Actual and average growth of exports and imports of goods and services

Items	Growth in FY21	Average growth during FY11 to FY20	Decadal avg *minus* FY21 growth	Index of Relative shock
Export of goods and services	6.7	-7.2	13.9	207.0%
Import of goods and services	6.2	-17.9	24.1	389.6%

Source (basic data): MoSPI

We can examine the relative vulnerability of principal contributors to merchandise exports and imports in terms of individual commodities.

Table 7 shows that growth in exports of drugs and pharmaceuticals in the COVID year was not only high at 18.1% but it was significantly higher than the long-term average growth of 9.1%. This is not unexpected since India became a major supplier of COVID related drugs and subsequently vaccines to the rest of the world. As a result, index of relative shock is negative, indicating relative advantage resulting from higher exports of drugs and pharma products in the COVID year. The residual category of other exports including oil meals and iron ore, is the only other category showing positive growth in the COVID year. But this growth is lower than the corresponding long-term average. As such, the index of relative shock is quite low for this category as compared to other merchandise export categories. The highest shock in relative terms is suffered by oil exports followed by gems and jewellery and readymade garments (RMG).

Table 7: Index of relative shock: major merchandise exports

Sector	Growth in FY21	Average growth FY11 to FY20	Decadal average *minus* FY21 growth	Index of relative shock	Relative intragroup position
Gems & Jewellery	-27.5	3.3	30.9	921.9	100.0%
Drugs & Pharmaceuticals	18.1	9.1	-9.0	-99.1	0.0%
Engineering Goods	-2.6	10.1	12.7	126.1	22.1%
RMG of all Textiles	-20.8	4.1	24.9	608.7	69.3%
Petroleum Products	-37.1	7.3	44.4	608.5	69.3%
Others	3.4	6.7	3.3	49.0	14.5%
Total Exports	**-7.2**	**6.7**	**13.9**	**207.0**	**--**

Source (basic data): Ministry of Commerce and Industry and RBI

In the case of merchandise imports, noticeably gold imports in the COVID year showed a growth rate at 22.6% which was higher than its corresponding long-term average growth at 3.4% (**Table 8**). As such, this import category witnessed a relative advantage rather than a relative shock. In terms of the shock, the highest shock is suffered by the category referred to as petroleum, crude and products followed by machinery including electrical and non-electrical goods. Pearls including precious and semi-precious stones also showed a high degree of relative shock.

Table 8: Index of relative shock: major merchandise imports

Sector	Growth in FY21	Average growth FY11 to FY20	Decadal average minus FY21 growth	Index of relative shock	Relative intragroup position
Petroleum, Crude & products	-36.9	7.0	43.9	626.0	100.0%
Pearls, precious & Semi-precious stones	-15.9	9.0	24.9	277.8	70.7%
Machinery, electrical & non-electrical	-24.0	7.1	31.1	435.8	84.0%
Electronic goods	3.4	9.5	6.1	64.0	52.7%
Gold	22.6	3.4	-19.2	-563.1	0.0%
Others	-15.8	6.7	22.5	337.8	75.8%
Total merchandise Imports	**-17.9**	**6.2**	**24.1**	**389.6**	**--**

Source (basic data): Ministry of Commerce and Industry and RBI

7. Nature of policy interventions

Different countries responded to the COVID challenge through varying degrees of policy responses designed to stimulate demand and economic activities in the economy. These policies are referred to as stimulus policies. Different countries showed different degrees of aggressiveness in responding to the crisis. Corresponding to the index of relative vulnerability, we may define an index of relative aggressiveness in mounting policy response initiatives. Two major categories of policy responses relate to fiscal and monetary policies. While the stimuli measures may be introduced through a variety of channels, two major instruments used for interventions relate to fiscal deficit and monetary policy rate. We consider that the higher is the increase in the COVID year fiscal deficit to GDP ratio relative to the long-term average in a country, the more aggressive would be its fiscal policy. Similarly, the higher is the reduction in policy rate relative to its long-term average, the more aggressive would be the monetary policy response. The index of relative aggressiveness of policy response may be defined as follows:

$$\textbf{Index of relative aggressiveness of policy response } (\boldsymbol{fiscal})$$

$$= \frac{\text{Fiscal deficit relative to GDP in Covid year} - \text{long term fiscal deficit relative to GDP}}{\text{long term fiscal deficit relative to GDP}}$$

$$\textbf{Index of relative aggressiveness of policy response } (\boldsymbol{monetary})$$

$$= \frac{\text{Long term average policy rate} - \text{Covid year policy rate}}{\text{long term average policy rate}}$$

Table 9 shows the index of relative aggressiveness of fiscal policy in the group of countries where we had compared the growth performance in **Table 3**. India does not appear to be particularly aggressive in terms of its fiscal policy response as compared to many other countries. The most aggressive response was that for Canada followed by Russia and China. India's relative position is the second lowest, just above Germany.

Table 9: Relative aggressiveness of fiscal intervention in the COVID year: a cross country comparison

Country	Fiscal balance 2020 (as % of GDP)	Average fiscal balance 2010 to 2020 (as % of GDP)	Decadal average minus 2020 fiscal balance	Index of fiscal response aggressiveness	Relative intra group position (index)
Canada	20.0	1.2	21.2	1802.0	100%
Russia	4.6	0.7	5.3	727.4	73%
China	11.8	2.4	14.2	595.6	70%
United Kingdom	14.5	5.0	19.5	387.2	64%
United States	17.5	6.1	23.6	385.5	64%
France	10.6	4.0	14.6	361.8	64%
Brazil	14.5	5.7	20.2	355.8	64%
Japan	13.8	5.8	19.6	338.9	63%
India*	13.6	7.3	20.9	286.4	62%
Germany	5.1	-0.2	4.9	-2183.0	0%

Source (basic data): IMF; *For India data pertains to FY21

This relative position does not change much in the case of monetary policy. As shown in **Table 10**, the most aggressive monetary policy response to the crisis was in the Euro area followed by Brazil and the UK. Japan was the least aggressive followed by China and India. India's position in terms of relative monetary policy aggressiveness is the third lowest in the country/country groups under consideration. We note that in India's case, the scope for further reducing the repo rate in the COVID year was quite limited since it had been reduced to a historical low even before COVID had hit the Indian economy.

Table 10: Monetary policy rates: estimated index of relative shock

Country	2020	2010 to 2019 average	Decadal average minus 2020	Index of monetary response aggressiveness	Relative intra group position
Euro area	0.0	0.4	0.4	100.0	100%
Brazil	2.8	10.0	7.2	71.8	96%
United Kingdom	0.2	0.5	0.3	58.7	95%
Canada	0.5	1.0	0.5	48.1	93%
Russia	4.9	8.7	3.7	43.0	93%
United States	0.4	0.6	0.2	38.8	92%
India*	6.9	4.0	2.8	41.2	92%
China	3.9	5.2	1.3	25.1	90%
Japan	-0.1	0.0	0.1	-674.2	0%

Source (basic data): BIS; *For India data pertains to FY21

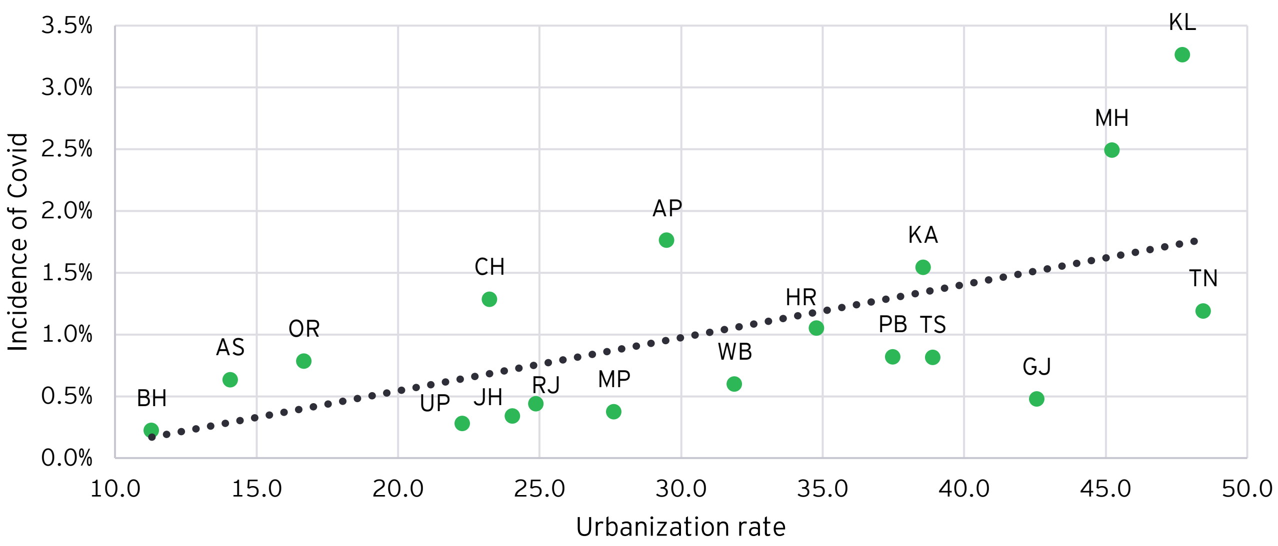
8. Lessons from COVID

Prefer decentralized development

COVID-19 is by no means over as evidenced by COVID's second wave that is currently sweeping India. It may have made a permanent entry into human affairs from now on. Many countries are experiencing third or fourth COVID wave after suffering from it for one full year. India is also witnessing its second wave and a full control seems well out of reach as yet. A number of lessons can be drawn from the suffering and losses of the experience both within the country and in terms of inter country comparison so as to formulate a robust strategy for minimizing COVID's health impact as also its economic impact.

Looking at India's experience, one broad correlation needs to be highlighted. There is a clear positive and high correlation between the level of urbanization and the incidence of COVID[7]. This is shown in **Chart 10** for medium and large states (ML states). The implication is that if economic activities are dispersed away from urbanized centres, as part of future economic strategy, it may help India cope with pandemic type calamities much better. This would call for setting up industries at the periphery of urban areas or corridors connecting to urban centres rather than letting them concentrate within urban areas.

Chart 10: Urbanization rate and incidence of COVID-19



Source (basic data): Census 2011 and Government of India[8]

Emphasize Atmanirbhar Bharat as future growth strategy

From the sectoral growth profile of impact of COVID, it can be seen that states that have a relatively higher share of agriculture are likely to have suffered less damage to their overall GSVA growth as well as employment. Sectors which depend more on exports have proved to be relatively vulnerable providing for a strong argument for the Atmanirbhar Bharat strategy which should inform India's future growth strategy. In the post-COVID geopolitical world economic order, India may be well served by the Atmanirbhar Strategy which should also characterize the production of the COVID vaccines. Without a reliable and adequate supply mechanism for the COVID vaccines, the Indian population and the economy may remain vulnerable in the medium to long-term to periodic COVID surges based on new strains.

Expand health services capacity

Hospital bed availability in India is deficient as compared to international norms[9]. Both the first and second COVID waves have exposed India's vulnerability to pandemic type of attacks, which go through sudden upsurges, testing the capacity of health services. India appears to have missed out in the first COVID year in building permanent additional capacity for hospitals and beds so as to cope with pandemic surges in future years. As part of future strategy, significant additional investment in health infrastructure is needed. This is part of the already announced

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[7] Data for number of COVID cases was accessed from mygov.in website as on 9 April 2021.
[8] https://www.mygov.in/corona-data/covid19-statewise-status/
[9] https://www.financialexpress.com/economy/bringing-indian-healthcare-up-to-global-standards-suneeta-reddy-tells-how-much-investment-is-needed/1746034/

National Infrastructure Pipeline (NIP). New specialty hospitals to fight the COVID-19 cases should be built on an urgent basis.

9. Concluding observations

India, like all other countries, suffered an erosion of growth as a result of the impact of COVID-19 in FY21. When the extent of this erosion is viewed relative to a country's long-term growth performance, India's position does not appear to be as bad as revealed by a simple comparison of the magnitude of actual contraction in the GDP. In fact, India's position is only the second lowest after China (**Table 3**). Looking at intra-sectoral impact on output growth in India, the worst performing sectors are indicated to be mining and quarrying, construction and trade, transport et.al. In terms of demand segments of GDP, apart from exports, the most vulnerable segments proved to be gross capital formation (investment) followed by private final consumption expenditure.

In terms of policy interventions, in a comparison with major global economies, India's fiscal and monetary interventions appear to be relatively less aggressive. India's relative position was second weakest after Germany in the case of fiscal policy interventions and third lowest after Japan and China in the case of monetary policy interventions.

Drawing lessons for future economic strategy, the following may be highlighted.

a) A decentralized and diffused growth strategy where industrial activities are encouraged to settle away from major urbanized centres such as in smaller sized towns, peripheries of major urban centres and corridors connecting two or more major urban centres may provide a more robust development profile in coping with pandemic type challenges.

b) Atmanirbhar Bharat strategy appears to be well timed since in pandemic type situations, less dependence on global supply chains may be beneficial for minimizing economic damage.

c) Going forward, expansion of capacity of providing health services as part of overall infrastructure expansion should be taken up on an urgent basis to improve India's capacity to deal with COVID-type health shocks.

d) Considering that the adverse impact of COVID's second wave will mainly affect the economic performance in 1QFY22, it would be useful to frontload budgeted capital expenditures for FY22 in this quarter.

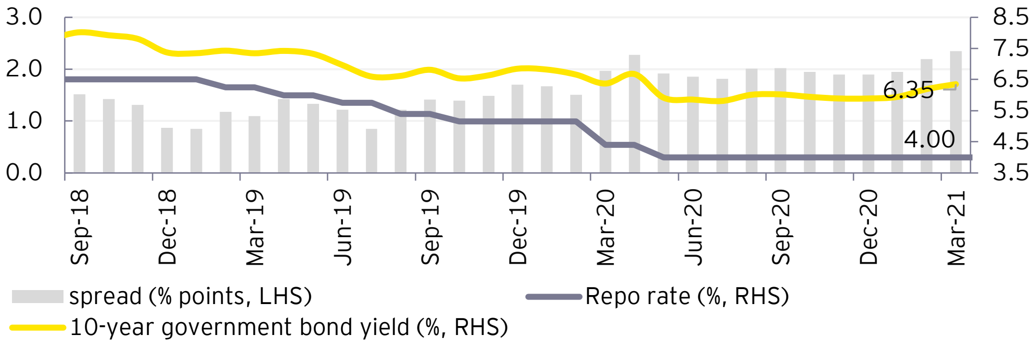
6. Money and finance: the RBI retained the repo rate at 4.0% in April 2021

A. Monetary sector

Monetary policy

- The RBI, in its first monetary policy review for FY22 held on 7 April 2021, retained the repo rate at 4.0% while continuing with an accommodative policy stance (**Chart 11**). The RBI's decision was influenced by persistent inflationary pressures in the economy, particularly the cost-push pressures, as indicated by higher CPI and core-CPI inflation.
- In order to support the economic recovery, the RBI announced certain additional liquidity enhancing measures including (i) a secondary market G-Sec acquisition program 1.0 (G-SAP 1.0), under which it has committed to purchase government securities amounting to INR1 lakh crore during 1QFY22, (ii) extension of TLTRO scheme[10] up to 30 September 2021 and (iii) extension of special refinance facility to All India Financial Institutions (AFIs) through additional liquidity support amounting to INR 50,000 crore[11] for fresh lending during FY22.

Chart 11: Movements in the repo rate and 10-year government bond yield



The RBI retained the repo rate at 4.0% in its April 2021 monetary policy review as inflationary pressures persisted.

Source: Database on Indian Economy, RBI

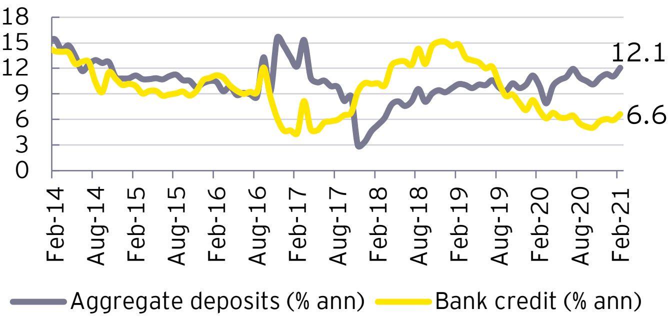
Money stock

- Growth in broad money stock (M3) fell to 11.7% in March 2021 from 12.8% in February 2021. This was due to a lower growth in both narrow money (M1) and time deposits. Growth in time deposits fell to 10.3% in March 2021 from 10.9% in February 2021.
- Growth in M1 was lower at 16.1% in March 2021 as compared to 19.0% in February 2021 as growth in both currency in circulation and demand deposits moderated during the month. Growth in demand deposits fell to 14.2% in March 2021 from 15.6% in February 2021 while that of currency in circulation fell to 16.8% in March 2021 from 20.8% in February 2021.

Aggregate credit and deposits

- Bank credit grew by 6.6% in February 2021 improving from 5.9% in January 2021 led by higher growth in credit to services and agricultural sectors (**Chart 12**).
- Growth in non-food credit increased to 6.5% in February 2021 from 5.7% in January 2021.
- Sectoral deployment of bank credit[12] indicates that the outstanding credit to industry contracted for the fifth successive month in February 2021, although at a slower pace of (-

Chart 12: Growth in credit and deposits



Source: Database on Indian Economy, RBI

[10] Targeted Long-Term Repo Operations (TLTRO) scheme introduced on 9 October 2020 was available up to 31 March 2021 (https://rbidocs.rbi.org.in/rdocs/PressRelease/PDFs/PR4549545265F1CB74304A99F879D7C2074B4.PDF)
[11] Among the AFIs, INR 25,000 crore is allocated to NABARD, INR10,000 crore to NHB and INR15,000 crore to SIDBI. (https://rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=51380)
[12] As per RBI, data on sectoral deployment of bank credit collected from select 33 scheduled commercial banks accounts for about 90% of the total non-food credit deployed by all scheduled commercial banks

)0.2% as compared to (-)1.3% in January 2021. Within the industrial sector, credit to infrastructure declined at a slower pace of (-)1.5% in February 2021 as compared to (-)3.9% in January 2021.

- Credit to iron and steel sector contracted for the eighth successive month by (-)4.1% in February 2021 as compared to (-)4.7% in January 2021. Credit to cement sector grew by 1.8% in February 2021 after contracting for six consecutive months.
- Growth in credit to services sector increased to 9.3% in February 2021 from 8.4% in January 2021 while credit growth to agricultural sector was at a four-year high of 10.2% in February 2021.
- Growth in personal loans, a key driver of retail loans, improved to 9.6% in February 2021 from 9.1% in January 2021.
- Growth in aggregate bank deposits increased to 12.1% in February 2021 from 11.1% in January 2021 led by higher growth of time deposits at 11.5% in February 2021 as compared to 10.2% in January 2021. Growth in demand deposits fell to 16.7% in February 2021 from 18.2% in January 2021.

B. Financial sector

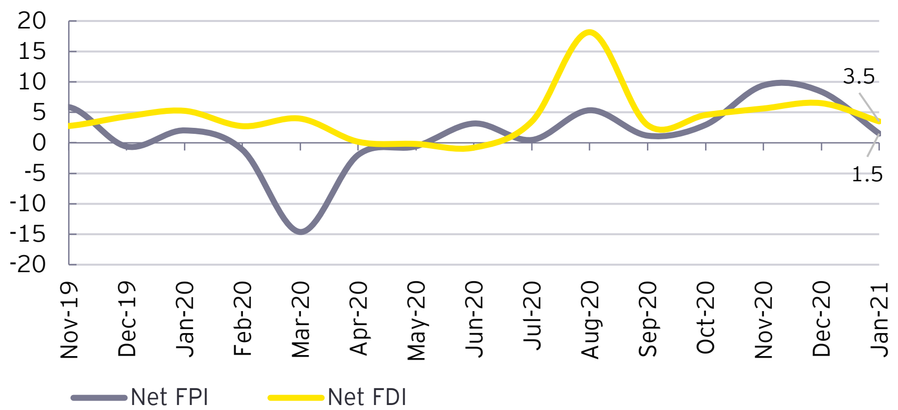
Interest rates

- As per the data released by the RBI on 9 April 2021, commercial banks retained the average interest rate on term deposits with a maturity of more than one year unchanged at 5.20% for the fifth consecutive month in March 2021, with the actual rate ranging from 4.90% to 5.50%.
- The average MCLR remained at 6.80% in March 2021, ranging between 6.55% and 7.05%, for the third consecutive month.
- The average yield on 10-year government bond increased further to 6.35% in March 2021 from 6.20% in February 2021 **(Chart 11)**. The spread between benchmark bond yield and repo rate widened to 235 basis points in March 2021, its highest since December 2011.
- WALR on fresh rupee loans by SCBs increased marginally to 8.19% in February 2021 as compared to 8.14% in January 2021.

FDI and FPI

- As per the provisional data released by the RBI on 19 March 2021, the overall foreign investment inflows (FIIs = net FDIs plus net FPIs) fell sharply to US$5.0 billion in January 2021 from US$14.9 billion in December 2020 led by lower net FDI and FPI inflows.

Chart 13: Net FDI and FPI inflows (US$ billion)



Net FDI inflows at US$3.5 billion and net FPI inflows at US$1.5 billion in January 2021 were significantly lower as compared to the net inflows under these two categories in December 2020.

Source: Database on Indian Economy, RBI

- Net FDI inflows fell to US$3.5 billion in January 2021 from US$6.5 billion in December 2020 (**Chart 13**). Gross FDI inflows fell sharply to US$4.6 billion in January 2021 from US$9.2 billion in December 2020.
- Net foreign portfolio investment (FPI) inflows were significantly low at US$1.5 billion in January 2021 as compared to US$8.4 billion in December 2020.

7. Trade and CAB: current account witnessed a deficit of (-)0.2% of GDP in 3QFY21

A. CAB: current account posted a deficit of (-)0.2% of GDP in 3QFY21

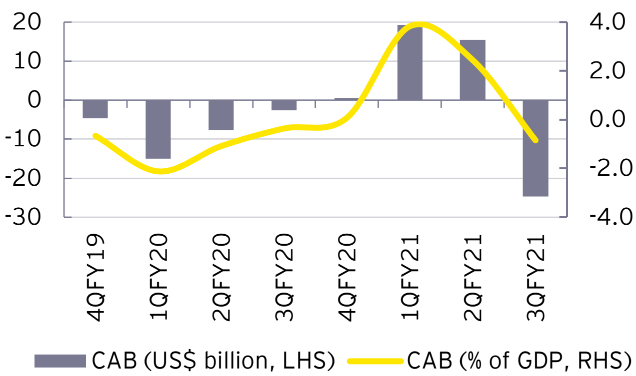
- Current account recorded a deficit for the first time in four quarters at (-)0.2% of GDP in 3QFY21 as compared to a surplus of 2.4% in 2QFY21 **(Chart 14, Table 11).** Net merchandise trade deficit was at (-)4.7% of GDP in 3QFY21, as compared to (-)2.3% in 2QFY21. Merchandise exports relative to GDP dipped to 10.4% in 3QFY21 from 11.9% in 2QFY21. Merchandise imports relative to GDP were at 15.1% in 3QFY21 as compared to 14.2% in 2QFY21. Net invisible receipts fell to 4.4% of GDP in 3QFY21 from 4.7% of GDP in 2QFY21 reflecting the moderation in net transfers to 2.6% of GDP.

Table 11: Components of CAB in US$ billion

Fiscal year	CAB as % of nominal GDP	CAB	Goods account net	Invisibles* net
FY17	-0.7	-15.3	-112.4	97.1
FY18	-1.8	-48.7	-160.0	111.3
FY19	-2.1	-57.3	-180.3	123.0
FY20	-0.8	-24.7	-157.5	132.8
4QFY20	0.1	0.6	-35.0	35.6
1QFY21	3.7	19.0	-10.8	29.8
2QFY21	2.4	15.1	-14.8	29.9
3QFY21	-0.2	-1.7	-34.5	32.8

Source: Database on Indian Economy, RBI
Note: (-) deficit; (+) surplus; *invisibles include services, current transfers and income components

Chart 14: CAB



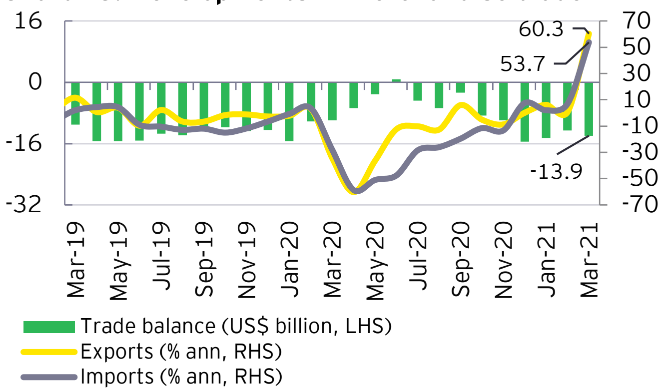
Source: Database on Indian Economy, RBI

B. Merchandise trade and exchange rate

Growth in merchandise exports increased to 60.3% whereas imports growth rose to 53.7% in March 2021 mainly due to favorable base effects (Chart 15).

- Growth in exports of gems and jewelry, engineering goods and petroleum products increased to multi year highs of 78.9%, 71.3% and 35.5% respectively in March 2021 from a contraction of (-)11.2%, (-)2.4% and (-)20.9% respectively in February 2021.
- Non-oil non-jewelry exports grew by 61.8% in March 2021 from 5.8% in February 2021.
- Growth in merchandise imports increased to 53.7% in March 2021 from 7.0% in February 2021.
- Growth in gold, machinery and electronic goods imports was at multi-year highs of 591.7%, 60.1% and 77.0% respectively in March 2021 partly due to base effect.
- Imports excluding oil, gold and jewelry grew by 44.1% in March 2021 as compared to 6.9% in February 2021.

Chart 15: Developments in merchandise trade



Source: Ministry of Commerce and Industry, GoI

- Out of the 30 sectors for which exports and imports data is provided, 2 and 6 sectors respectively experienced a contraction in March 2021 as compared to 13 and 17 sectors respectively in February 2021.
- Merchandise trade deficit increased to US$13.9 billion in March 2021 from US$12.6 billion in February 2021.
- The rupee remained stable at INR72.8 per US$ (average) in March 2021, the same level as in February 2021.

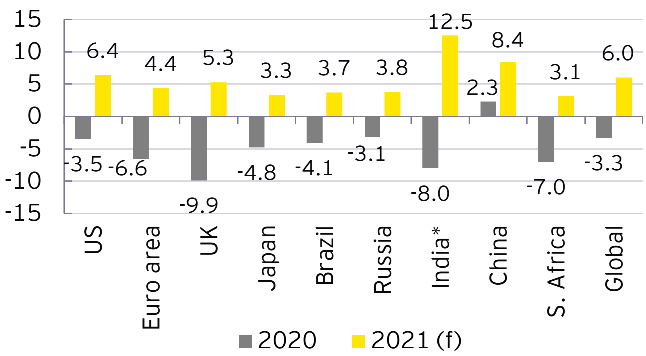
8. Global growth: projected to recover to 6.0% in 2021 after a contraction of (-)3.3% in 2020

A. Global growth outlook

The IMF estimated a global contraction of (-)3.3% in 2020, followed by a recovery to 6.0% in 2021.

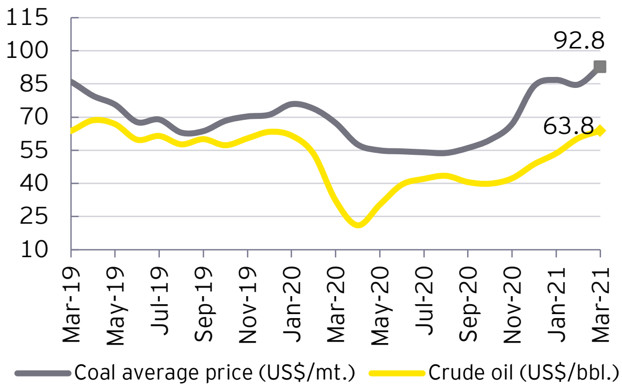
- The IMF (World Economic Outlook, April 2021) has estimated a global contraction of (-)3.3% in 2020, 1.1% points lower than their estimate in October 2020 reflecting higher than expected growth outcomes in the second half of the year after lockdowns were eased **(Chart 16).**
- Global growth is projected to recover to 6.0% in 2021, 0.8% points higher than IMF's October 2020 forecast reflecting additional fiscal support in few large economies and the anticipated vaccine-supported recovery in the second half of the year.
- A contraction of (-)4.7% in 2020 is estimated for AEs while a milder contraction of (-)2.2% is estimated for EMDEs. Projected growth in 2021 is at 5.1% for AEs and 6.7% for EMDEs.
- The US is forecasted to recover to a healthy growth of 6.4% in 2021 with its output returning to end-2019 level in the first half of 2021. Similarly, in Japan, growth in 2021 has been revised up to 3.3% and output would reach end-2019 level in second half of 2021. Growth forecasts in both countries reflect the impact of the additional fiscal support legislated at the end of 2020.
- In the UK and the Euro area, activity is expected to remain below end-2019 levels into 2022. In the Euro area, a surge in infections forced lockdowns again in end-2020, carrying over to 2021. Growth is projected at 5.3% for the UK and 4.4% for the Euro area in 2021.
- Among the major EMDEs, only China showed a positive growth of 2.3% in 2020. In 2021, the highest growth at 12.5% (FY21) is projected for India, followed by China at 8.4%, Russia at 3.8%, and Brazil at 3.7%. While growth prospects for Russia critically depends of the movement of the global crude prices, a global manufacturing rebound in the second half of 2020 shaped the 2021 forecast for exporting countries like Brazil.

Chart 16: Global growth projections (%)



Source: IMF World Economic Outlook (April 2021)
(f): forecasted; *data for India pertains to fiscal year

Chart 17: Global crude and coal prices



Source (basic data): World Bank, Pink Sheet, April 2021

B. Global energy prices: IMF projected average global crude price at US$58.5/bbl. in 2021

- Average global crude price[13] increased for the fifth consecutive month to a 22-month high of US$63.8/bbl. in March 2021 (**Chart 17**). On an annual basis, global crude prices averaged US$43.8/bbl. in FY21, the lowest since FY05 when it averaged US$41.3/bbl. The IMF, in its April 2021 WEO has projected average global crude price at US$58.5/bbl. in 2021 and US$54.8/bbl. in 2022[14].
- Average global coal price[15] increased from US$84.8/mt. in February 2021 to US$92.8/mt. in March 2021, its highest level since January 2019. On an annual basis, global coal price averaged US$67.2/mt. in FY21, down from US$70.4/mt. in FY20.

[13] Simple average of three spot prices, namely, Dated Brent, West Texas Intermediate and Dubai Fateh
[14] IMF's projections are based on futures markets
[15] Simple average of Australian and South African coal prices

9. Index of macro imbalance (IMI): pointed to an improvement in macro balance in 3QFY21

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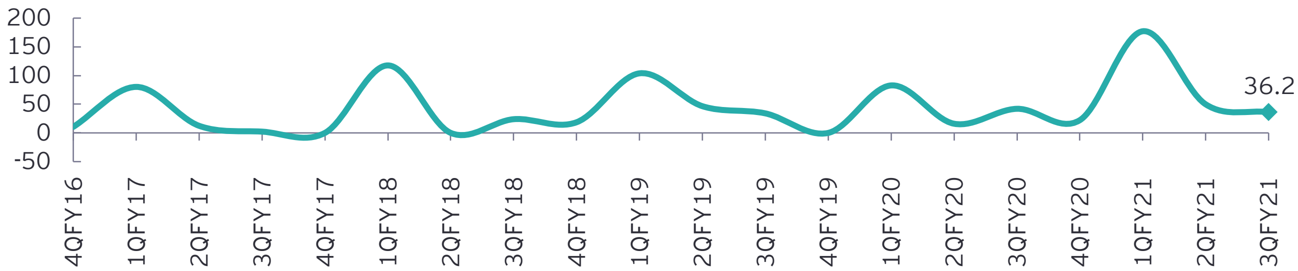
IMI fell to 36.2 in 3QFY21 from 49.8 in 2QFY21

- The IMI is obtained by adding the percentage deviation of inflation rate (based on new CPI 2012 = 100), fiscal deficit (as a percentage of GDP) and current account deficit (as a percentage of GDP) from their respective benchmarks of 4%, 3% of GDP and (-)1.3%[16] of GDP. All three components of IMI have been given equal weightage (33.33%). The state of *balance* is judged by a value of 0.
- An index value greater than zero indicates the presence of an imbalance in the economy. While considering the percentage deviation of each of the indicators from its selected norm, only the positive deviations are taken. Negative deviations are equated to zero to ensure that the negative and positive deviations across indices are not canceled out.
- IMI pointed to an improvement in the macro balance for the second consecutive quarter with the index value falling to 36.2 in 3QFY21 from 49.8 in 2QFY21 (**Chart 18**). This may be attributable to a lower fiscal deficit in 3QFY21 at 4.5% as compared to 5.3% of GDP in 2QFY21, and a fall in CPI inflation to 6.4% in 3QFY21 as compared to 6.9% in 2QFY21. While both fiscal deficit to GDP ratio and inflation rate were above their respective benchmarks, CAD at (-)0.2% of GDP in 3QFY21 was below its benchmark level.

Chart 18: IMI (quarterly)



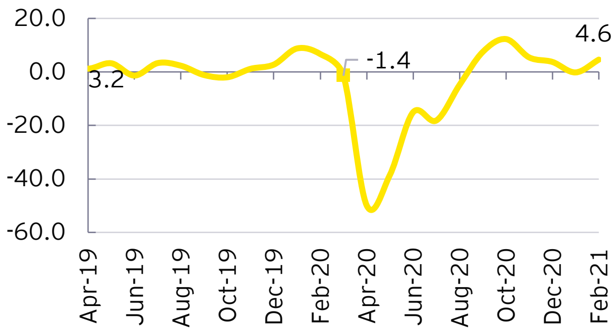
Source (Basic data): RBI, MoSPI and EY estimate

10. Index of Aggregate Demand (IAD): grew by 4.6% in February 2021

Led by a favorable base effect, IAD grew by 4.6% in February 2021

- IAD grew by 4.6% in February 2021 as compared to a contraction of (-)0.2% in January 2021 partly due to favorable base effect (**Chart 19**).
- During February 2021, demand conditions showed improvement across all the three broad sectors of the economy namely agriculture, industry and services.

Chart 19: growth in IAD (y-o-y)



Source (Basic data): IHS Markit PMI, RBI and EY estimates

[16] Rangarajan, C (2016): "Can India grow at 8 to 9 per cent?" The Hindu, http://www.thehindu.com/opinion/lead/can-india-grow-at-8-to-9-per-cent/article8596824.ece, Accessed on 17 May 2016.

11. Capturing macro-fiscal trends: data appendix

Table A1: Industrial growth indicators (annual, quarterly and monthly growth rates, y-o-y)

Fiscal year/ quarter/ month	IIP	Mining	Manufacturing	Electricity	Core IIP	Fiscal year/ quarter /month	PMI mfg.	PMI ser.
	% change y-o-y							
FY17	4.6	5.3	4.3	5.8	4.8	FY18	51.5	50.0
FY18	4.4	2.3	4.7	5.3	4.3	FY19	52.8	52.2
FY19	3.8	2.8	3.8	5.2	4.4	FY20	52.3	51.9
FY20	-0.8	1.6	-1.4	0.9	0.4	FY21	50.2	41.7
4QFY20	-4.3	3.9	-6.3	1.6	-0.4	1QFY21	35.1	17.2
1QFY21	-35.6	-22.3	-40.3	-15.8	-23.8	2QFY21	51.6	41.9
2QFY21	-5.7	-7.0	-6.3	0.1	-4.8	3QFY21	57.2	53.4
3QFY21	1.4	-3.7	1.7	6.7	-0.5	4QFY21	56.9	54.2
Nov-20	-1.6	-5.4	-1.6	3.5	-1.1	Dec-20	56.4	52.3
Dec-20	1.6	-4.2	2.1	5.1	0.2	Jan-21	57.7	52.8
Jan-21	-0.9	-2.5	-1.3	5.5	0.9	Feb-21	57.5	55.3
Feb-21	-3.6	-5.5	-3.7	0.1	-4.6	Mar-21	55.4	54.6

Source: MoSPI, Office of the Economic Adviser, Ministry of Commerce and Industry and IHS Markit Economics

Table A2: Inflation indicators (annual, quarterly and monthly growth rates, y-o-y)

Fiscal year/ quarter/ month	CPI	Food Price Index	Fuel and light	Core CPI	WPI	Food Price Index	Mfg. products	Fuel and power	Core WPI
	% change y-o-y				% change y-o-y				
FY18	3.6	1.8	6.2	4.6	2.9	1.9	2.7	8.2	3.0
FY19	3.4	0.1	5.7	5.5	4.3	0.6	3.7	11.5	4.2
FY20	4.8	6.7	1.3	3.8	1.7	6.9	0.3	-1.8	-0.4
FY21	6.2	7.7	2.7	5.5	1.2	3.9	2.7	-8.1	2.1
1QFY21	6.6	9.9	1.7	4.9	-2.3	3.4	0.0	-17.4	-1.0
2QFY21	6.9	9.7	2.9	5.4	0.5	5.5	1.3	-9.2	0.5
3QFY21	6.4	7.9	2.2	5.7	1.9	4.0	3.3	-8.1	3.0
4QFY21	4.9	3.6	4.0	5.9	4.7	2.7	6.2	2.2	6.0
Dec-20	4.6	3.4	2.9	5.7	2.0	1.1	4.5	-6.1	4.4
Jan-21	4.1	2.0	3.9	5.7	2.5	-0.3	5.5	-3.8	5.6
Feb-21	5.0	3.9	3.5	6.1	4.2	3.3	5.8	0.6	5.6
Mar-21	5.5	4.9	4.5	6.1	7.4	5.3	7.3	10.3	7.0

Source: Office of the Economic Adviser, Ministry of Commerce and Industry and MoSPI
* The CPI for April and May 2020 has been imputed

Table A3: Fiscal indicators (annual growth rates, cumulated monthly growth rates, y-o-y)

Fiscal year/month	Gross tax revenue	Corporate tax	Income tax	Direct taxes*	Indirect taxes**	Fiscal deficit % of GDP	Revenue deficit % of GDP
FY 18 (CGA)	11.8	17.8	19.9	18.6	6.0	3.5	2.6
FY 19 (CGA)	8.4	16.2	13.1	14.9	2.9	3.4	2.4
FY20 (CGA)	-3.4	-16.1	4.0	-7.8	1.7	4.6	3.3
FY21 over FY20 (RE over budget actuals)	-5.5	-19.9	-6.8	-13.8	3.6	9.5	7.5
FY 22 (BE over FY 21 RE)	16.7	22.6	22.2	22.4	11.4	6.8	5.1
	Cumulated growth (%, y-o-y)					% of budgeted target	
Jul-20	-29.5	-39.2	-29.1	-33.2	-27.5	103.1	117.4
Aug-20	-23.7	-41.8	-28.9	-34.1	-16.5	109.3	121.9
Sep-20	-21.6	-39.7	-21.8	-31.4	-12.0	114.8	125.2
Oct-20	-16.8	-36.7	-16.9	-27.3	-7.0	119.7	126.8
Nov-20	-12.6	-35.7	-12.3	-24.4	-2.4	135.1	139.9
Dec-20	-3.2	-15.4	-6.2	-11.2	4.2	62.7#	60.6#
Jan-21	-1.0	-14.9	-5.5	-10.5	7.5	66.8#	62.7#
Feb-21	-0.7	-16.2	-4.2	-10.4	7.8	76.0#	71.6#

Source: Monthly Accounts, Controller General of Accounts, Government of India, Union Budget documents
* Includes corporation tax and income tax
** Includes customs duty, excise duty, service tax, CGST, UTGST, IGST and GST compensation cess.
#: as % of revised targets for FY21, fiscal and revenue deficits until November 2020 are as % of FY21 budget targets.

Fiscal year/month	CGST	UTGST	IGST	GST compensation cess	Total GST (Center)
	INR crore				
FY 2021 (RE)	4,31,000	-	-	84,100	5,15,100
FY 2022 (BE)	5,30,000	-	-	1,00,000	6,30,000
Monthly tax collection (INR crore)					
Jul-20	37,902	224	-6,026	6,816	38,916
Aug-20	32,359	191	5,198	6,856	44,604
Sep-20	37,171	243	-290	6,810	43,934
Oct-20	42,901	136	192	7,840	51,069
Nov-20	39,803	132	7,612	8,029	55,576
Dec-20	43,040	144	12,408	8,248	63,840
Jan-21	44,666	324	6,769	8,332	60,091
Feb-21	66,641	410	-37,308	9,349	39,092

Source: Monthly Accounts, Controller General of Accounts, Government of India, Union Budget documents
Note: IGST revenues are subject to final settlement.

Table A4: Monetary and financial indicators (annual, quarterly and monthly growth rates, y-o-y)

Fiscal year/ month	Repo rate (end of period)	Fiscal year/ quarter/ month	Bank credit	Agg. deposits	Net FDI	Net FPI	Fiscal year/ quarter/ month	M1	M3	10-year govt. bond yield	FX reserves
	%		% change y-o-y		US$ billion			% change y-o-y		%	US$ billion
May-20	4.00	FY17	7.9	11.6	35.6	7.6	FY18	21.8	9.2	7.05	424.4
Jun-20	4.00	FY18	7.5	7.5	30.3	22.1	FY19	13.6	10.5	7.68	411.9
Jul-20	4.00	FY19	13.7	8.9	30.7	-0.6	FY20	11.2	8.9	6.80	475.6
Aug-20	4.00	FY20	9.4	9.9	43.0	1.4	FY21	16.1	11.7	6.04	579.3
Sep-20	4.00	4QFY20	7.1	9.6	12.0	-13.7	1QFY21	17.7	12.3	6.15	475.6
Oct-20	4.00	1QFY21	6.4	10.5	-0.8	0.6	2QFY21	18.6	12.2	5.95	506.8
Nov-20	4.00	2QFY21	5.7	11.1	24.6	7.0	3QFY21	19.6	12.4	5.91	542.0
Dec-20	4.00	3QFY21	5.6	10.8	16.7	20.8	4QFY21	16.1	11.7	6.16	579.3
Jan-21	4.00	Nov-20	5.8	10.9	5.6	9.4	Dec-20	19.6	12.4	5.89	580.8
Feb-21	4.00	Dec-20	6.0	11.3	6.5	8.4	Jan-21	19.9	12.1	5.94	590.2
Mar-21	4.00	Jan-21	5.9	11.1	3.5	1.5	Feb-21	19.0	12.8	6.20	584.6
Apr-21	4.00	Feb-21	6.6	12.1	--	--	Mar-21	16.1	11.7	6.35	579.3

Source: Database on Indian Economy - RBI

Table A5: External trade and global growth

External trade indicators (annual, quarterly and monthly growth rates)							Global growth (annual)			
Fiscal year/ quarter/ month	Exports	Imports	Trade balance	Ex. rate (avg.)	Crude prices (avg.)	Coal prices (avg.)	Calendar year	World GDP	Adv. econ.	Emer. econ.
	% change y-o-y		US$ billion	INR/US$	US$/bbl.	US$/mt		% change y-o-y		
FY18	10.6	20.9	-159.0	64.5	55.7	90.8	2011	4.3	1.8	6.4
FY19	8.6	10.6	-182.3	69.9	67.3	100.4	2012	3.5	1.2	5.4
FY20	-5.1	-8.2	-157.4	70.9	58.5	70.4	2013	3.5	1.4	5.1
FY21	-7.3	-17.4	-98.6	74.2	43.8	67.2	2014	3.5	2.1	4.7
1QFY21	-36.7	-52.4	-9.1	75.9	30.3	55.7	2015	3.4	2.4	4.3
2QFY21	-5.6	-24.8	-14.3	74.4	42.0	54.6	2016	3.3	1.8	4.5
3QFY21	-4.5	-5.6	-34.0	73.8	43.6	70.2	2017	3.8	2.5	4.8
4QFY21	19.6	18.4	-41.1	72.9	59.3	88.1	2018	3.5	2.2	4.5
Dec-20	0.1	7.6	-15.4	73.6	48.7	84.1	2019	2.8	1.6	3.6
Jan-21	6.2	2.0	-14.5	73.1	53.6	86.8	2020	-3.3	-4.7	-2.2
Feb-21	0.7	7.0	-12.6	72.8	60.5	84.8	2021*	6.0	5.1	6.7
Mar-21	60.3	53.7	-13.9	72.8	63.8	92.8	2022*	4.4	3.6	5.0

Source: Database on Indian Economy - RBI, Pink Sheet - World Bank and IMF World Economic Outlook April 2021.
* Indicates projections.

Table A6: Macroeconomic aggregates (annual and quarterly real growth rates, % change y-o-y)

Fiscal year/quarter	Output: Major sectors									IPD inflation
	GVA	Agr.	Ming.	Mfg.	Elec.	Cons.	Trans.	Fin.	Publ.	GVA
FY18 (3rd RE)	6.2	6.6	-5.6	7.5	10.6	5.2	10.3	1.8	8.3	4.5
FY19 (2nd RE)	5.9	2.6	0.3	5.3	8.0	6.3	7.1	7.2	7.4	4.5
FY20 (1st RE) $	4.1	4.3	-2.5	-2.4	2.1	1.0	6.4	7.3	8.3	3.3
FY21(AE) #	-6.5	3.0	-9.2	-8.4	1.8	-10.3	-18.0	-1.4	-4.1	3.0
3QFY19	5.3	2.6	-7.3	5.6	8.7	7.0	9.7	4.5	4.7	4.5
4QFY19	4.7	0.2	-10.5	2.5	4.6	6.9	8.9	6.6	6.9	4.2
1QFY20	5.0	3.3	-1.3	0.6	6.9	3.7	6.2	8.8	5.6	4.6
2QFY20	4.6	3.5	-5.2	-3.0	1.7	1.0	6.8	8.9	8.8	2.0
3QFY20	3.4	3.4	-3.6	-2.9	-3.1	-1.3	7.0	5.5	8.9	3.4
4QFY20	3.7	6.8	-0.9	-4.2	2.6	0.7	5.7	4.9	9.6	3.2
1QFY21	-22.4	3.3	-18.0	-35.9	-9.9	-49.4	-47.6	-5.4	-9.7	2.9
2QFY21	-7.3	3.0	-7.6	-1.5	2.3	-7.2	-15.3	-9.5	-9.3	2.4
3QFY21	1.0	3.9	-5.9	1.6	7.3	6.2	-7.7	6.6	-1.5	3.3

Source: National Accounts Statistics, MoSPI
$ Growth numbers for FY20 are based on the first revised estimates (RE) of NAS released by the MoSPI on 29 January 2021 over the second RE of NAS for FY19, #FY21 growth numbers are based on second advance estimates released by MoSPI on 26 February 2021 over the second revised estimates for FY20 released on 26 February 2021.

Fiscal year/quarter	Expenditure components						IPD inflation
	GDP	PFCE	GFCE	GFCF	EX	IM	GDP
FY18 (3rd RE)	6.8	6.2	11.9	7.8	4.6	17.4	4.0
FY19 (2nd RE)	6.5	7.6	6.3	9.9	12.3	8.6	3.7
FY20 (1st RE) $	4.0	5.5	7.9	5.4	-3.3	-0.8	3.6
FY21(AE) #	-8.0	-9.0	2.9	-12.4	-8.1	-17.6	4.6
3QFY19	5.4	6.8	3.2	12.1	15.7	12.0	6.8
4QFY19	6.6	5.9	8.2	5.0	11.7	0.6	-1.9
1QFY20	5.4	7.6	1.8	13.3	3.0	9.4	4.0
2QFY20	4.6	6.5	9.6	3.9	-1.3	-1.7	1.6
3QFY20	3.3	6.4	8.9	2.4	-5.4	-7.5	3.1
4QFY20	3.0	2.0	12.1	2.5	-8.8	-2.7	5.6
1QFY21	-24.4	-26.3	12.8	-46.4	-22.0	-41.1	2.9
2QFY21	-7.3	-11.3	-24.0	-6.8	-2.1	-18.2	3.4
3QFY21	0.4	-2.4	-1.1	2.6	-4.6	-4.6	4.8

Source: National Accounts Statistics, MoSPI
$ Growth numbers for FY20 are based on the first revised estimates (RE) of NAS released by the MoSPI on 29 January 2021 over the second RE of NAS for FY19, #FY21 growth numbers are based on second advance estimates released by MoSPI on 26 February 2021 over the second revised estimates for FY20 released on 26 February 2021.

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List of abbreviations

Sr. no.	Abbreviations	Description
1	AD	aggregate demand
2	AEs	advanced economies
3	Agr.	agriculture, forestry and fishing
4	AY	assessment year
5	Bcm	billion cubic meters
6	bbl.	barrel
7	BE	budget estimate
8	CAB	current account balance
9	CGA	Comptroller General of Accounts
10	CGST	Central Goods and Services Tax
11	CIT	corporate income tax
12	Cons.	construction
13	CPI	Consumer Price Index
14	COVID-19	Coronavirus disease 2019
15	CPSE	central public-sector enterprise
16	CRAR	Credit to Risk- weighted Assets Ratio
17	CSO	Central Statistical Organization
18	Disc.	discrepancies
19	ECBs	external commercial borrowings
20	EIA	US Energy Information Administration
21	Elec.	electricity, gas, water supply and other utility services
22	EMDEs	Emerging Market and Developing Economies
23	EXP	exports
24	FAE	first advanced estimates
25	FC	Finance Commission
26	FII	foreign investment inflows
27	Fin.	financial, real estate and professional services
28	FPI	foreign portfolio investment
29	FRBMA	Fiscal Responsibility and Budget Management Act
30	FY	fiscal year (April–March)
31	GDP	Gross Domestic Product
32	GFCE	government final consumption expenditure
33	GFCF	gross fixed capital formation
34	GoI	Government of India
35	G-secs	government securities

Sr. no.	Abbreviations	Description
36	GST	Goods and Services Tax
37	GVA	gross value added
38	IAD	Index of Aggregate Demand
39	IBE	interim budget estimates
40	ICRIER	Indian Council for Research on International Economic Relations
41	IEA	International Energy Agency
42	IGST	Integrated Goods and Services Tax
43	IIP	Index of Industrial Production
44	IMF	International Monetary Fund
45	IMI	Index of Macro Imbalance
46	IMP	imports
47	INR	Indian Rupee
48	IPD	implicit price deflator
49	J&K	Jammu and Kashmir
50	MCLR	marginal cost of funds-based lending rate
51	Ming.	mining and quarrying
52	Mfg.	manufacturing
53	m-o-m	month-on-month
54	Mt	metric ton
55	MoSPI	Ministry of Statistics and Programme Implementation
56	MPC	Monetary Policy Committee
57	NEXP	net exports (exports minus imports of goods and services)
58	NPA	non-performing assets
59	NCLT	National Company Law Tribunal
60	OECD	Organization for Economic Co-operation and Development
61	OPEC	Organization of the Petroleum Exporting Countries
62	PFCE	private final consumption expenditure
63	PIT	personal income tax
64	PMI	Purchasing Managers' Index (reference value = 50)
65	PoL	petroleum oil and lubricants
66	PSBR	public sector borrowing requirement
67	RE	revised estimates
68	PSU/PSE	public sector undertaking/public sector enterprises
69	RBI	Reserve Bank of India
70	SLR	Statutory Liquidity Ratio
71	Trans.	trade, hotels, transport, communication and services related to broadcasting
72	US$	US Dollar
73	UTGST	Union Territory Goods and Services Tax
74	WALR	weighted average lending rate
75	WPI	Wholesale Price Index
76	y-o-y	year-on-year
77	1HFY20	first half of fiscal year 2019-20, i.e., April 2019-September 2019

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Tel: + 91 80 6727 5000

Chandigarh
Elante offices,
Unit No. B-613 & 614
6th Floor, Plot No- 178-178A,
Industrial & Business Park,
Phase-I, Chandigarh - 160002
Tel: + 91 172 671 7800

Chennai
Tidel Park, 6th & 7th Floor
A Block, No.4, Rajiv Gandhi
Salai
Taramani, Chennai - 600 113
Tel: + 91 44 6654 8100

Delhi NCR
Golf View Corporate Tower B
Sector 42, Sector Road
Gurgaon - 122 002
Tel: + 91 124 443 4000

3rd & 6th Floor, Worldmark-1
IGI Airport Hospitality District
Aerocity, New Delhi - 110 037
Tel: + 91 11 4731 8000

4th & 5th Floor, Plot No 2B
Tower 2, Sector 126
NOIDA - 201 304
Gautam Budh Nagar, U.P.
Tel: + 91 120 671 7000

Hyderabad
THE SKYVIEW 10
18th Floor, "SOUTH LOBBY"
Survey No 83/1, Raidurgam
Hyderabad - 500 032
Tel: + 91 40 6736 2000

Jamshedpur
1st Floor, Shantiniketan Building
Holding No. 1, SB Shop Area
Bistupur, Jamshedpur – 831 001
Tel: + 91 657 663 1000

Kochi
9th Floor, ABAD Nucleus
NH-49, Maradu PO
Kochi - 682 304
Tel: + 91 484 433 4000

Kolkata
22 Camac Street
3rd Floor, Block 'C'
Kolkata - 700 016
Tel: + 91 33 6615 3400

Mumbai
14th Floor, The Ruby
29 Senapati Bapat Marg
Dadar (W), Mumbai - 400 028
Tel: + 91 22 6192 0000

5th Floor, Block B-2
Nirlon Knowledge Park
Off. Western Express Highway
Goregaon (E)
Mumbai - 400 063
Tel: + 91 22 6192 0000

Pune
C-401, 4th floor
Panchshil Tech Park
Yerwada
(Near Don Bosco School)
Pune - 411 006
Tel: + 91 20 4912 6000

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