# STATE OF THE ECONOMY

*Quarterly Assessment and Growth Outlook:*
*October-December, 2021*
*January-March, 2022*

MARCH, 2022

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

NATIONAL INSTITUTE OF PUBLIC FINANCE
AND POLICY | NEW DELHI

## MAJOR HIGHLIGHTS

- So far India has experienced three waves of the Covid-19 pandemic. The first wave peaked sometimes in September 2020, the second wave during April-May of 2021, while the third wave fuelled by the Omicron variant peaked in the month of January 2022. As on 17th March 2022, the total number of confirmed cases of covid infections stood at around 43 million and the number of registered deaths were over 5.16 lakh.
- India crossed one year milestone of vaccination drive on 16th January 2022. Up till 15th March 2022, more than 1.8 billion vaccine in total, including first, second and precaution doses were administered.
- The GDP growth (YoY) estimates for the quarter October-December 2021 as provided by the National Statistical Office (NSO) at 5.4 percent is substantially lower than the GDP growth of 8.5 percent and 20.1 percent during July-September, 2021 and April-June, 2021 respectively. Q3 of 2021-22 saw mixed performance by various sectors. The slowdown in the pace of growth in this quarter is on account of the decline of base effect on account of recovery during Q2 and Q3 of 2020-21 and also due to the muted performance of Agriculture and Industry.
- On the inflation front, CPI headline inflation crossed the 6 percent mark in January and February 2022 on account of rising food inflation along with sticky core and energy inflation. A broad-based rise in inflation in core items can be observed since the beginning of FY 2021-22. High rate of oil inflation, along with demand revival in the face of pandemic-induced supply disruptions is causing the core inflation to remain high. Headline inflation is expected to exceed the upper limit of RBI's band in 2022-23.
- India's current account turned to deficit in Q2, 2021-22 mainly driven by deficit in trade balance. The deficit is expected to be moderated on account of imports in January 2022 slowing at a higher rate than the than the exports. India experienced a slowdown of FDI inflows as well as rise in outflow of foreign financial investments in an environment of uncertainty caused by the spread of Omicron along with anticipation of less accommodative monetary policy stance to be adopted by the U.S. central bank. Consequently, INR remained under depreciating pressure in the second half of 2021-22, leading to further outflow of foreign investments and slowdown in foreign exchange reserve growth.
- Monetary Policy Committee (MPC) of the Reserve Bank of India, in its meeting on February 8-10, 2022, retained the status quo on Repo Rate at 4 percent in its meetings on February 8-10, 2022. The MPC had decided to retain the 'accommodative stance' into the next financial year – to revive economic growth on a sustained manner and mitigate the impact of COVID-19 on the macro economy.
- The non-food credit growth increased in the beginning of Q4 2021-22 as compared to the same period in 2020-21, with credit flows to medium industries growing at a much higher rate, followed by micro and small industries as compared to the large industries.
- According to the estimates of RBI's December 2021 Financial Stability Report indicate that the gross non-performing asset (GNPA) ratio of Scheduled Commercial Banks (SCBs) may increase from 6.9 per cent in September 2021 to 8.1 per cent by September 2022 under the baseline scenario and to 9.5 per cent under a severe stress scenario. However, the SCBs would have sufficient capital, both at the aggregate and individual levels, even under stress conditions.
- The revenue receipts of the Union Government till end January 2022 is Rs.18.39 lakh crore (i.e., around 88.5 percent of revised estimates for 2021-22). However, the non-debt capital receipts were at 32.6 percent of the revised estimate. With the current volatility in financial market on account the on-going geo-political tension between Russia and Ukraine, there is a possibility that

the revised target for disinvestment might not be met thereby posing a downward risk to the overall revenue receipts and deficits of the Union.

- Tax revenues (net of states' share) for the first 10 month of FY22 stood at Rs. 15.47 lakh crore and were 87.7 percent of RE. In 2021-22RE tax revenues of the Union were 14.22 percent higher than the 2020-21BE on account of buoyant taxes. Among the direct taxes, corporation tax increased by 16.09 percent in 2021-22RE over 2021-22BE and income tax by 9.63 percent. These two taxes are budgeted to increase by around 13.4 and 13.8 percent respectively in 2022-23BE.
- Among the indirect taxes, GST collections have remained buoyant throughout FY22. The collections were over Rs. 1 lakh crore during the year except in the months of May and June 2021 on account of the second wave of the pandemic. The economic impact of the third wave appears to be much more muted as compared to the previous waves.
- There has been a re-prioritisation of expenditure in favour of capital expenditure and this trend is likely to continue in the next fiscal as well. The capital expenditure during 2022-23 is budgeted to be around 25 percent higher than the 2021-22RE. Capital expenditure budgeted for 2022-23 includes Rs. 1 lakh crore provided to states as financial assistance for capital investment. Under this scheme, the states are provided fifty-year interest free loans are over and above their normal borrowings.
- In 2021-22 the Union government had budgeted a revenue deficit of 5.1 percent of GDP. It improved to 4.7 percent of GDP as per the revised estimates and is budgeted further improve to 3.8 percent of GDP in 2022-23BE. The fiscal deficit for 2022-23 is budgeted to improve to 6.4 percent of the GSDP from 6.9 percent in 2021-22RE.
- Own tax revenue aggregated across 24 states during April-December 2021 (i.e., Q1+2+3 of 2021-22) show an increase of around 33.41 percent as compared to that during the same period in 2020-21. This growth can be attributed to the low base effect. However, own tax revenues were higher by about 15.86 percent when compared to that during Q1+2+3 of 2019-20. In other words, own tax revenues of states were higher than the pre-covid levels.
- SGST, Sales tax and State Excise which together account for about 80 percent of States' own tax revenues also show considerable increase during April-Dec 2021 as compared to the pre-pandemic level during April-Dec 2019.
- Central transfers aggregated across 24 states show an increase of about 4.19 percent in Q1+2+3 of 2021-22 over Q1+2+3 of 2020-21. However, when compared to similar period during 2019-20 (i.e., pre-pandemic period), they were lower by 2.64 percent.
- Fiscal year 2020-21 saw a sharp contraction in capital expenditure by the state governments as compared to that during 2019-20. In the first three quarter of 2020-21 only 40.7 percent of the budgeted amount could be spent. During April-Dec 2021 (i.e., first three questers of 2021-22) capital expenditure show an increase of about 51.3 percent as compared to the same period during 2020-21. Capital expenditures aggregated across 24 states in Q1+2+3 of 2021-22 is also higher when compared with that during the same period in 2019-20.
- The revenue and fiscal deficit as percent of GDP aggregated across 24 states for the period April-December 2021 stood at 1.00 percent and 2.66 percent respectively. The market borrowings of state governments at the aggregate level during 8th April 2021 – 28th February 2022 has been lower by 13.4 percent as compared to the corresponding period in 2020-21. The lower market borrowing can be attributed to higher/better tax (revenue) collections in the current fiscal.

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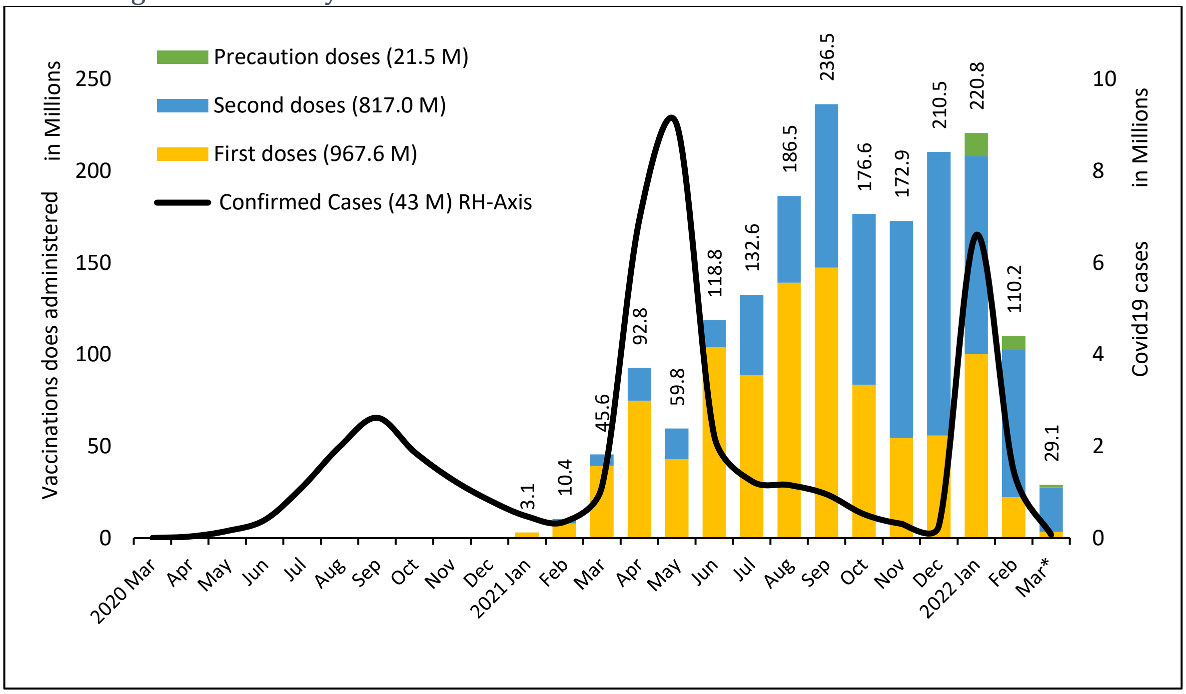
## I GROWTH OUTLOOK

- So far India has experienced three waves of the Covid-19 pandemic. The first wave peaked sometime in September 2020, the second wave during April-May of 2021, while the third wave fuelled by the Omicron variant peaked in the month of January 2022. As on 17th March 2022, the total number of confirmed cases of covid infections were around 43 million and the number of registered deaths were over 5.16 lakh.

- India crossed one year milestone of vaccination drive on 16th January 2022. As of 15th March 2022, a total of 1.8 billion doses of vaccine had been administered in the country (967.6 mn 1st dose and 817.0 mn 2nd dose). In addition, more than 21.4 million people received the precaution dose (Figure 1.1).

**Figure 1.1 Monthly Covid-19 cases and vaccinations doses administered in India**




* Mid of March 2022

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

### Recent Trends in Growth

- The GDP growth (YoY) estimates for the quarter October-December 2021 as provided by the National Statistical Office (NSO) at 5.4 percent is substantially lower than the GDP growth of 8.5 percent and 20.1 percent during July-September, 2021 and April-June, 2021 respectively (Table 1.1). The double-digit growth in Q1 2021-22 is on account of the low base in the same quarter in 2020-21 when real GDP growth contracted by about 24.4 percent.

- **Agriculture, Manufacturing slow down, while trade and transport services pace up in Q3 2021-22 compared to Q3 2020-21:** In Q3, 2021-22, Agriculture, Manufacturing and Financial services sectors have grown at rates lower than those recorded in Q3 2020-21, indicating a slowdown of activities in these sectors in the last quarter. While the Construction sector contracted in Q3 2021-22 as compared to Q3 2020-21, Mining, Utilities, Trade and transport services, and Public administration and other services have grown at a faster rate in Q3 2021-22 vis-à-vis Q3 2020-21.

- **Sign of moderate demand revival in Q3 2021-22 led by imports, however investment growth was muted:** In Q3 2021-22, all major components of the expenditure side of GDP recorded positive growth rate (YoY) with imports of goods and services recording the highest growth, followed by exports (Table 1.2). Both the components show double digit growth in this quarter. However, growth in Gross Fixed Capital Formation (i.e., investment) was somewhat muted at 2 percent in Q3 2021-22.

**Table 1.1 Quarterly Growth Rates (%, constant prices) of GDP, 2011-12 Series**

| Sectors | Annual 2020-21 | Q1 2021-22 Apr-Jun YoY | Q2 2021-22 Jul-Sep YoY | Q3 2021-22 Oct-Dec YoY |
|---|---|---|---|---|
| GDP | -6.6 | 20.3 | 8.5 | 5.4 |
| Agriculture, Fishing, etc. | 3.3 | 3.5 | 3.7 | 2.6 |
| Mining & Quarrying | -8.6 | 17.6 | 18.2 | 8.8 |
| Manufacturing | -0.6 | 49.0 | 5.6 | 0.2 |
| Electricity, Gas, Water etc. | -3.6 | 13.8 | 8.5 | 3.7 |
| Construction | -7.3 | 71.4 | 8.2 | -2.8 |
| Trade, hotels, Trans., etc | -20.2 | 34.3 | 9.5 | 6.1 |
| Financial & Prof. Serv. | 2.2 | 2.3 | 6.2 | 4.6 |
| Public Admin, defence, etc | -5.5 | 6.3 | 19.5 | 16.8 |

Source: National Statistical Office (NSO)

- While all the demand side components, except for private consumption, recorded negative growth in Q3 of FY 2020-21 in a range of (-)8.4 to (-)0.3 percent, Q3 of the current FY 2021-22 shows sign of demand revival continuing since Q2: 2021-22. However, with the base effects declining with the recovery process, growth rates in Q3 2021-22 will taper off as compared to the growth rates in Q2:2021-22.

**Table 1.2 Expenditure-side Growth Rates of GDP (%, constant prices), 2011-12 series**

| Components | Annual 2020-21 | Q1 2021-22 Apr-Jun YoY | Q2 2021-22 Jul-Sep YoY | Q3 2021-22 Oct-Dec YoY |
|---|---|---|---|---|
| GDP | -6.6 | 20.3 | 8.5 | 5.4 |
| Private Final Consumption Exp. (PFCE) | -6.0 | 14.2 | 10.0 | 7.0 |
| Govt. Final Consumption Exp. (GFCE) | 3.6 | -4.4 | 9.3 | 3.4 |
| Gross Fixed Capital Formation (GFCF) | -10.4 | 62.5 | 14.6 | 2.0 |
| Exports of Goods and Services | -9.2 | 40.4 | 20.5 | 20.9 |
| Imports of Goods and Services | -13.8 | 60.7 | 40.7 | 32.6 |

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

## High Frequency Indicators Depict Mixed Picture during the Spread of Omicron

### Agriculture

- **Agricultural slowdown in the third quarter of FY 2021-22 likely to continue in the fourth quarter:** Agricultural performance during 2020-21 has remained insulated from a negative shock on account of a good monsoon that kept rabi and kharif activities unaffected. Agricultural sector grew at 4.5 percent in Q1 and Q2 of 2021-22. However, its growth declined to 2.6 percent in Q3, 2021-22, lower than the growth rate of 4 percent recorded in Q3, 2020-21.

- **The muted performance of Agriculture in Q3 2021-22 was on account of loss of kharif crops due to excessive rainfall.** In October-November 2021, the combined rainfall in the country was 118 percent higher than the normal on account of heavy rains (137-330 percent higher than the normal) in Rayalseema, Tamil Nadu and Pondicherry, Karnataka and Kerala, causing damage to kharif crops and affecting production of vegetables and fruits.

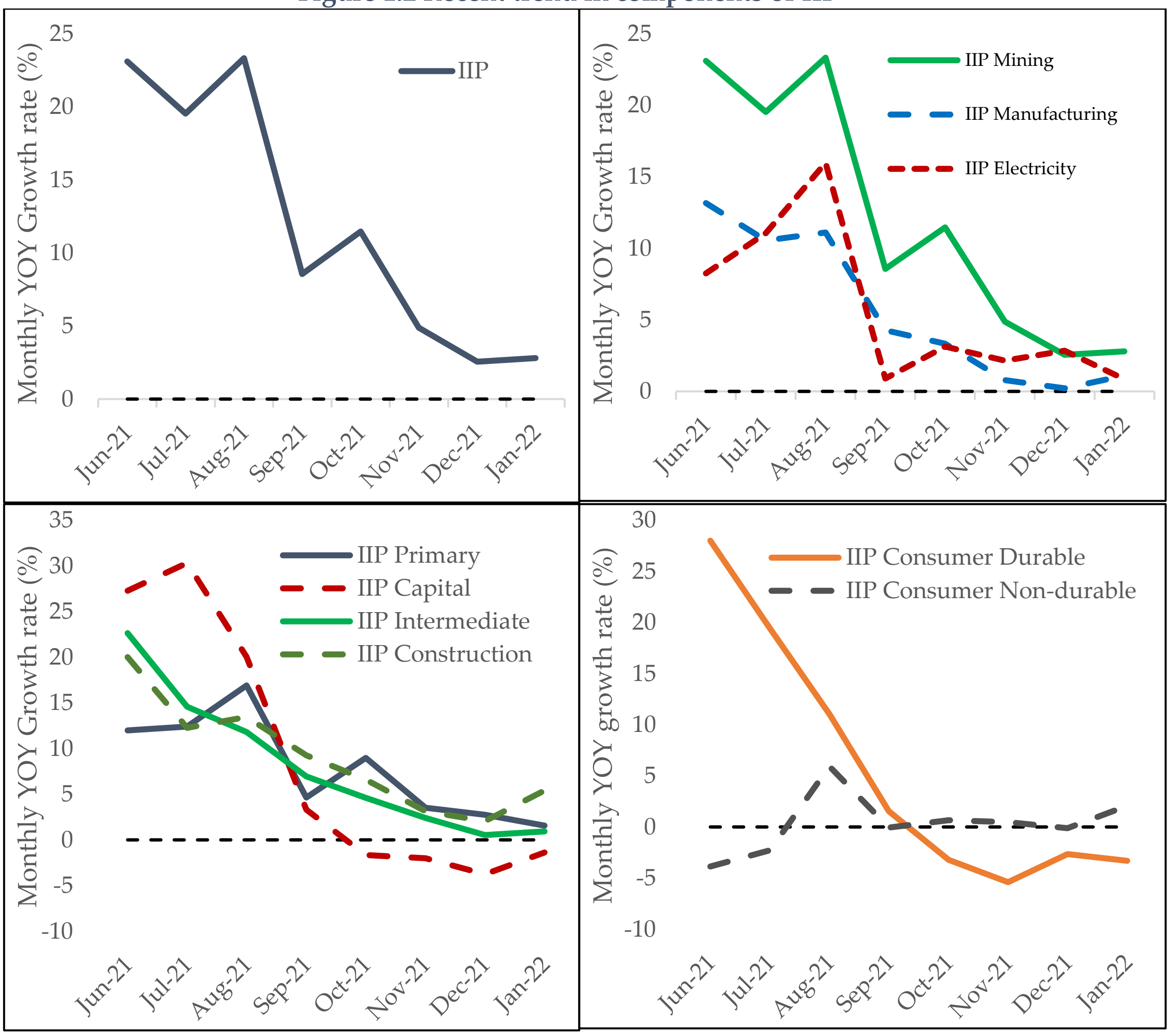
- In January 2021, rainfall continued to exceed by 128 percent from the normal thereby damaging the rabi crops in the beginning of Q4: 2021-22. The excess rainfall also affected agricultural activities in the country. The slowdown of agricultural activities was also reflected in the negative growth in the domestic sales of tractors in Q3: 2021-22 (-16.5 percent). In the beginning of Q4: 2021-22 i.e., in January 2022, tractor sales contracted by 32.6 percent as compared to that in 2020-21. As a result, agricultural growth is expected to be moderate in Q4: 2021-22.

## Industry

- **Slowdown in manufacturing, consumer durables, and construction in Q3 2021-22 likely to continue in Q4 2021-22:** IIP growth was muted at 1.9 percent in Q3, 2021-22. In January 2022 also, it continued to remain low at 1.3 percent. (Figure 1.2).

- **In the months of Q3, 2021-22 (i.e., October-December 2021), IIP capital goods, and consumer durables record contraction as compared to that during the same period in the 2020-21, and the trend continues in January, 2022 also.** Rest of the components in IIP, both activity and use based, also show a declining in growth during the months of October-December 2021, but a rebound is visible in January, 2022.

**Figure 1.2 Recent trend in components of IIP**




Source: NSO

- **Contraction in manufacturing and consumer durable goods industries in Q3:2021-22 was driven by contraction in production of two wheelers (-22.25 percent), and commercial vehicles (-6.32 percent). Sales of passenger cars also recorded negative growth (-16.69 percent) in this period (Table 1.3).** During the pandemic year 2020-21, restrictions on public transport services induced sharp rise in the production and sale of private vehicles. However, this pandemic driven growth in the automobile sector has subsided, and eventually we see a contraction in Q3 2021-22 as compared to that in Q3, 2020-21. This trend continued in January 2022 with passenger car sales recording (-) 6 percent growth.

- **The contraction in the capital goods sector is reflecting the effects of the second wave with a lag as production plan of capital goods are planned ahead and cannot be changed immediately as soon as a pandemic wave hits the economy.** Since capital goods such as plant, machinery, and equipment are important inputs in production of manufacturing, the performance of this industry is strongly correlated with that of manufacturing industry. Consequently, manufacturing recorded a muted growth in Q3, 2021-22. In fact a negative the growth is seen in December 2021 (Figure 1.2).

**Table 1.3 Recent Trends in Selected Indicators of Industrial Sector**

| Indicator | Oct 2021 YoY growth | Nov 2021 YoY growth | Dec 2021 YoY growth | Jan 2022 YoY growth |
|---|---|---|---|---|
| Production of coal (million tonnes) | 14.74 | 8.20 | 5.14 | |
| Production of crude oil ('000 tonnes) | -2.17 | -2.21 | -1.81 | |
| Production of two wheelers ('000 numbers) | -22.12 | -29.44 | -15.18 | |
| Production of commercial vehicle ('000 numbers) | -12.57 | -1.48 | -4.90 | |
| Passenger car sales | -24.26 | -14.28 | -11.54 | -5.95 |
| Production of cement ('000 tonnes) | 14.54 | -3.60 | 12.89 | |
| Consumption of steel ('000 tonnes) | -3.78 | -7.14 | -9.48 | -5.14 |
| Electricity generation (million Kwh) | 3.07 | 1.83 | 2.22 | -0.39 |

Source: NSO, CMIE

- The **performance of mining sector presents a mixed** picture in Q3: 2021-22, with double digit growth in coal production but negative growth in crude oil production (Table 1.3). **In Q3 2021-22, the construction sector contracted by 2.8 percent.** This contraction is also reflected in the input use in this sector as the consumption of finished steel recorded negative growth in this quarter. This indicator shows a negative growth in January 2022, indicating a muted performance of the construction sector in Q4 2021-22 as well. **However, the thrust on infrastructure development in the announcement of budget for 2022-23 in February 2022 may reverse the declining trend in construction sector growth in 2022-23.**

### Services

- **Spread of the Omicron variant slowed down trade in Q3 and in January 2022**, while transport sector recorded high growth on account of base effect: Trade services via all modes of transport (cargo movement via sea, air and rail) show a declining trend over the months of Q3: 2021-22. The spread of omicron variant primarily affected international trade via sea which contracted in November and December 2021 (Table 1.4).

- Transport services via rail and air show high growth in the months of Q3: 2021-22 on account of low base effect. Anticipating the negative impact on the economic activities due to the spread of the Omicron variant, financial services indicator records negative growth in December 2021.

**Table 1.4 Recent Trends in Selected Indicators of Services Sector**

| Indicator | Oct 2021 YoY growth | Nov 2021 YoY growth | Dec 2021 YoY growth | Jan 2022 YoY growth |
|---|---|---|---|---|
| Cargo Port ('000 tonnes) | 6.48 | -0.17 | -0.61 | -2.78 |
| Cargo Air ('000 tonnes) | 16.53 | 6.14 | 6.96 | |
| Cargo Rail ('000 tonnes) (SA) | 8.43 | 6.19 | | |
| Passenger Air ('000 numbers) | 75.83 | 71.305 | 59.08 | |
| Passenger Rail (million numbers) | 452.81 | 201.29 | | |
| Tele Subscribers (million numbers) | 1.52 | 1.34 | 0.39 | |
| NSE Turnover (Rs Crore) | 55.48 | 0.18 | -14.22 | -11.44 |

Source: CMIE

### Demand

- Muted revival of demand in Q3 2021-22 on account of slowdown in investment: On the demand side, we find that the growth of CMIE's Index of Consumer Sentiments halved from 16.8 percent in December 2021 to 8.3 percent in January 2022 due to the spread of the Omicron variant. However, an uptick in consumer sentiment is seen in February 2022.

- The Third wave of the pandemic affected the performance of the external sector with exports growing at 27.6 percent in January 2022 as compared to 38.6 percent in Q3: 2021-22. Growth in Imports halved in January 2022 (25.8 percent) vis-à-vis 55 percent in Q3 2021-22.

### Growth Outlook for Near Future

- **Overall, in Q4 2021-22, the economy is expected to record a moderate growth rate** on account of spread on omicron variant, along with adverse weather condition in the beginning of this quarter. According to **the projections by IMF and World Bank, the Indian economy is expected to grow at 8.7-9 percent in 2022-23. The Reserve Bank of India has projected the real GDP to grow of 7.8 per cent 2022-23 at 7.8 per cent** with a growth of 17.2 per cent in Q1:2022-23; 7.0 percent in Q2; 4.3 per cent in Q3 and 4.5 per cent in Q4 2022-23. **The growth prospect for the FY 2022-23 may further moderate on account of the rise in oil price due to Russia-Ukraine face off and fresh spread of Covid-19 infections which is visible in US and European counties.**

## II INFLATION ASSESSMENT AND OUTLOOK

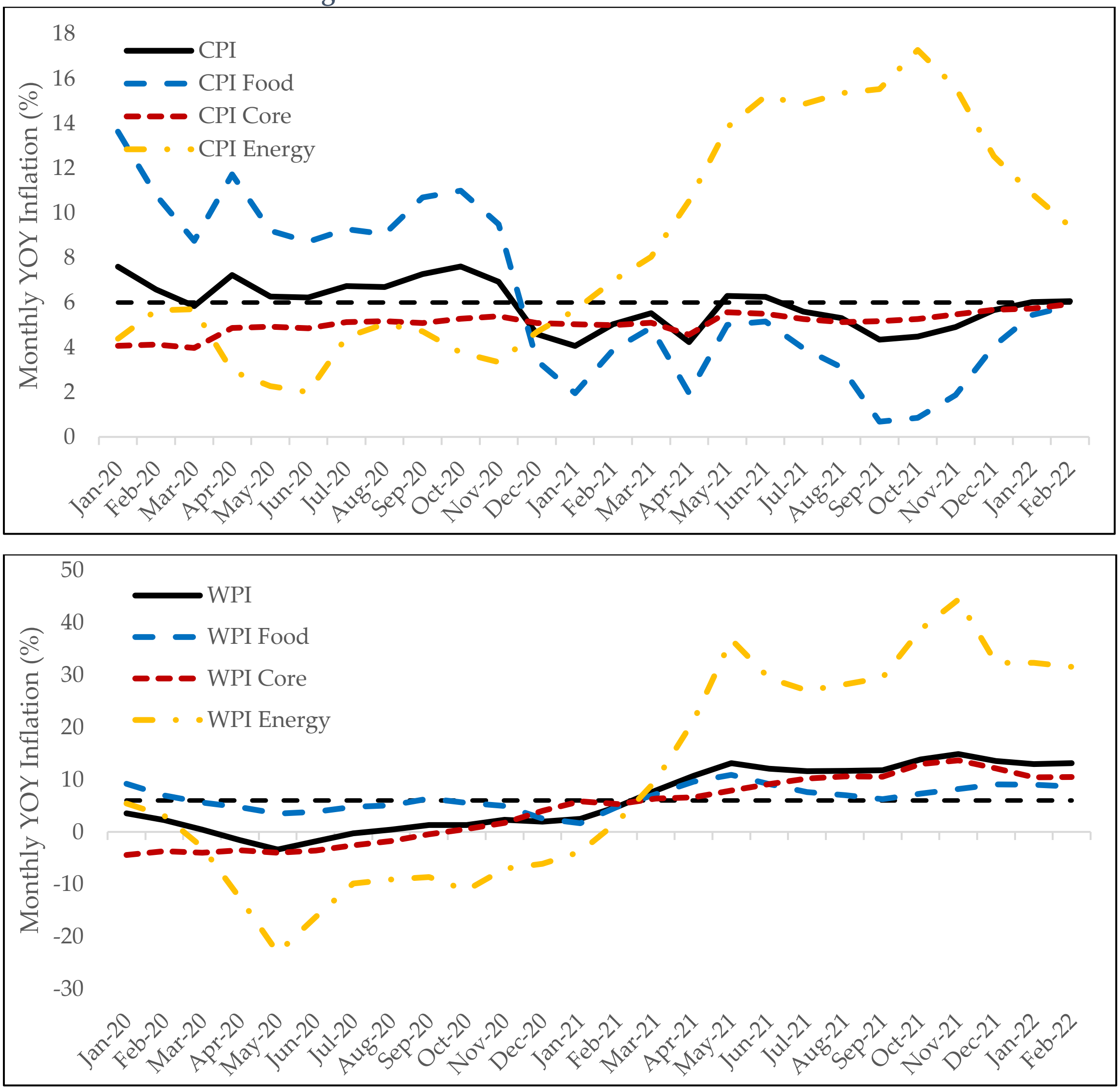
### Recent Trend in Inflation

- During Q1-Q3 2021-22 (April-December 2021), the average Consumer Price Index (CPI) inflation (monthly Year-on-Year) was 5.2 percent, which is within the RBI's tolerance band of 2–6 percent. The moderate headline inflation (YoY) was on account of easing of food inflation from July 2021. However, food inflation show a rebound since October 2021 and the headline inflation crossed the 6 percent mark in January 2022 (See Figure 2.1).

- The average inflation in CPI food remained moderate at 3 percent during the first three quarters of 2021-22. However, it increased from 1.9 percent in November 2021 to 4.1 percent in December 2021. Food inflation continued to show an increasing trend in January and February 2022 at 5.6 percent and 5.9 percent respectively.

- CPI core inflation remained sticky at 5.2 percent during the first three quarters of FY 2021-22, while CPI energy inflation has been rising continuously since January 2021 on account of the transmission of surging global crude prices (Figure 2.2). During this period, CPI energy inflation remained high at 14.5 percent. It is seen to be declining since November 2021 and was 8.7 percent in February 2022.
- During FY 2020-21, overall WPI inflation was low at 1.3 percent due to deflation in world crude oil prices. During the first three quarters of FY 2021-22, the average WPI inflation shot up to 12.6 percent on account of low base effects of 2020-21, high energy (32 percent), core (10.4 percent) and food (8.3 percent) inflation.

**Figure 2.1 Recent Trends in CPI and WPI**

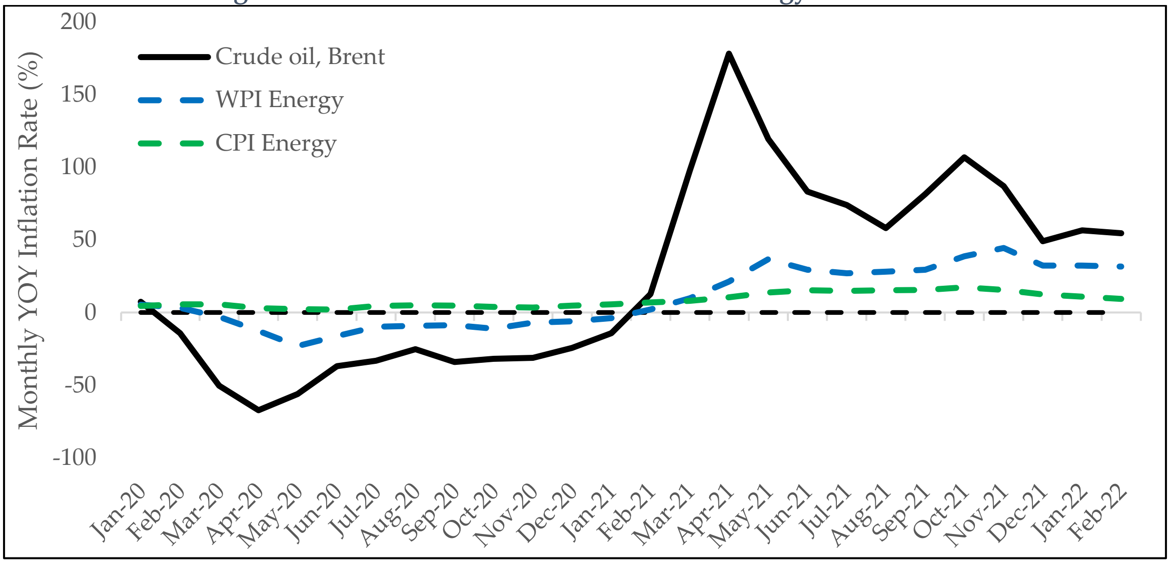



Source: NSO, Office of the Economic Adviser, Department for Promotion of Industry and Internal Trade

- WPI food articles inflation has been moderate at 2.6 percent during the first three quarters of FY 2021-22. However, it increased from 0.1 percent in October 2021 to 4.8 percent in November 2021 and further to 9.6 percent in January 2021. Although the WPI food inflation increase to double digit in January 2022 at 10.3 percent, it moderated to 8.2 percent in February 2022. Crop wastage due to excessive rainfall in October-November 2021 and high rate of agricultural wage growth is driving up the WPI cereals and vegetables prices which is now being transmitting to the retail prices.

- Manufactured food products inflation remained high at 12.5 percent during the first three quarters of FY 2021-22 on account of production and supply disruptions driven by the pandemic. However, we observe a declining trend since October 2021. In January 2022, the manufactured food products inflation stood at 8.1 percent, but increased to 9 percent in February 2022.

**Figure 2.2 Recent Trends in Crude oil and Energy Inflation**




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

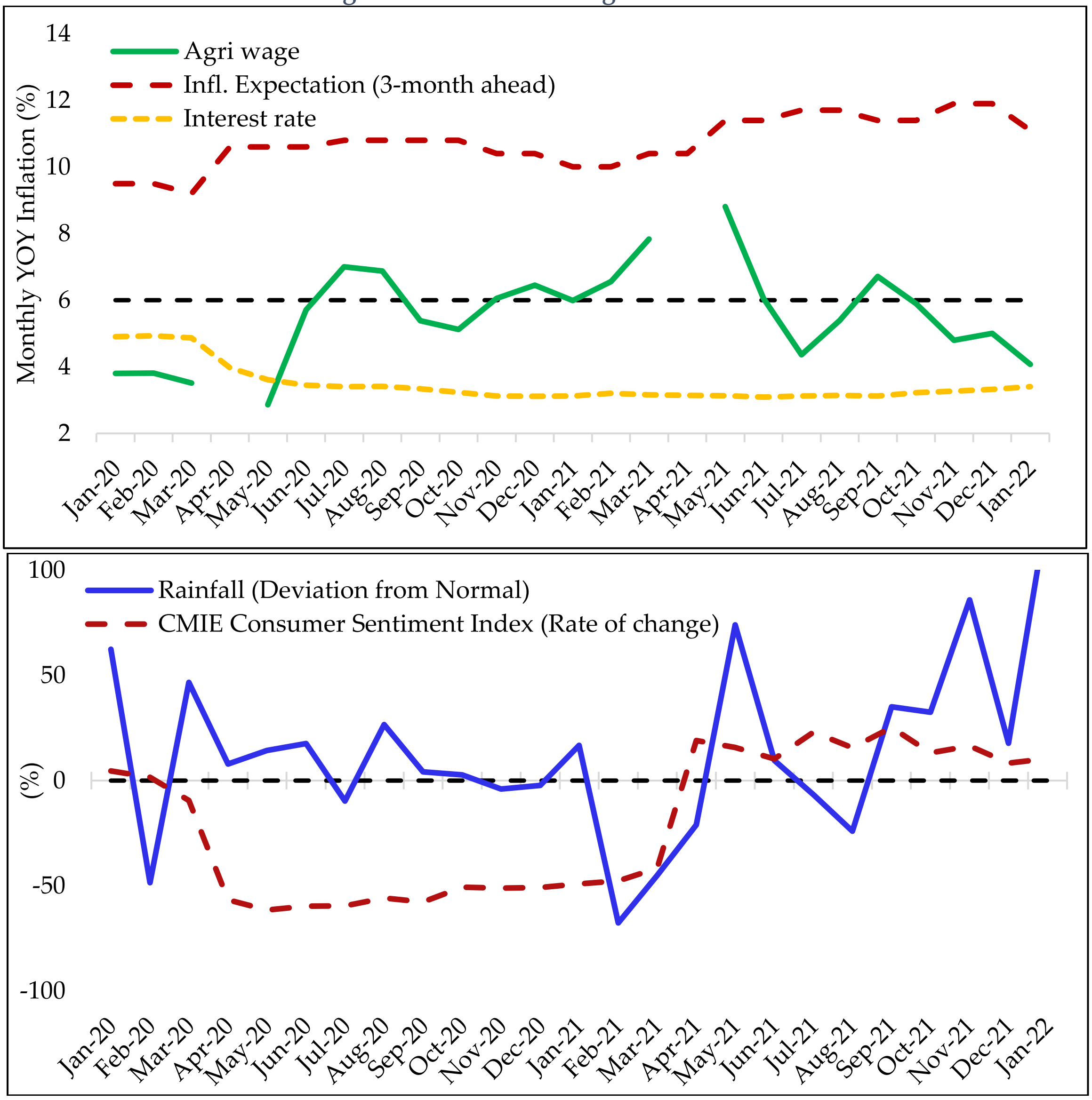
## Supply and Demand Shocks Contributing to Rising Headline Inflation

- On the supply side, crop wastage due to excessive rainfall in October-November 2021 and high and sticky agricultural wage rate during Q3, 2021-22 caused upward pressure on WPI cereals and vegetables prices since November 2021. The rainfall in October 2021 was highest for this month in 120 years, while the rainfall in November 2021 was the highest for this month in the last five years. The combined rainfall in these two months has been 118.36 percent above the normal level for these months (Figure 2.3, lower panel). The excessive rainfall led to crop damages, thereby resulting in an increase in WPI food inflation.

- The average agricultural wage growth was sticky at 5.6 percent during September-December, 2021, adding to the production cost of food commodities. Consequently, WPI food inflation is showing an upward trend since November 2021. Rising cereals and vegetable prices in the wholesale market, is transmitting to the retail market, causing high inflation rate in these food commodities in the CPI basket in January and February, 2022. High and sticky oil price inflation, apart from adding to production cost of core items and to the transport cost of core and food items, also directly increases the energy component of the CPI inflation. Supply chain disruption, caused by the pandemic, is another supply side factor driving up the retail inflation.

- On the demand side, the economy shows sign of demand revival post the third wave. This is captured by a rise in the YoY change in the consumer sentiments in January 2022 from December 2021 (Figure 2.3, lower panel). Further, substantial liquidity in the economy via accommodative monetary policy reflected in low market rate of interest (3.2 percent in FY 2021-22) is conducive for boosting aggregate demand.

Figure 2.3 Factors Driving Inflation



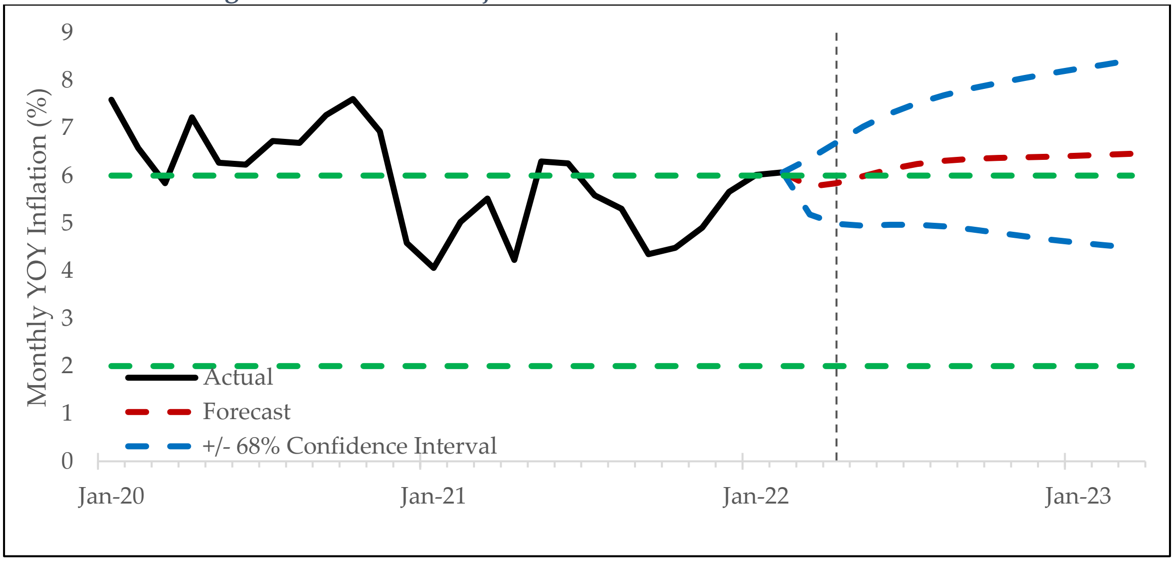

Source: CMIE

### Headline inflation is expected to exceed RBI's upper Band in FY 2022-23

- Headline inflation outlook is based on past trends and underlying drivers of inflation, including inflationary expectations, wholesale food inflation, demand conditions, money supply and oil prices. **Overall, the headline inflation in March 2022 is expected to marginally moderate to 5.8 percent, but will show a rebound in April, and will exceed 6 percent mark in June 2022 (Figure 2.4). Further, it is expected to be at 6.3 percent, slightly higher than the RBI's band in the FY 2022-23.**

- The high inflation is expected to be on account of: i) further rise in crude oil inflation due to Russia-Ukraine face off; and (ii) sticky core inflation near the upper level of the band, which is a **direct fallout of the pandemic** (for example, supply chain disruptions in the face of demand revival). However, a **few factors can work towards moderating** the pace of inflation. These include: (i) moderation of food inflation with the harvest of Rabi crops in March; (ii) according to RBI's households' inflation expectation survey, households expect headline inflation to moderate in April 2022 (Figure 2.3, upper panel), this can have a moderating effect on the realised inflation rate.

**Figure 2.4 Inflation Projections for March 2022 to March 2023**




## III EXTERNAL SECTOR

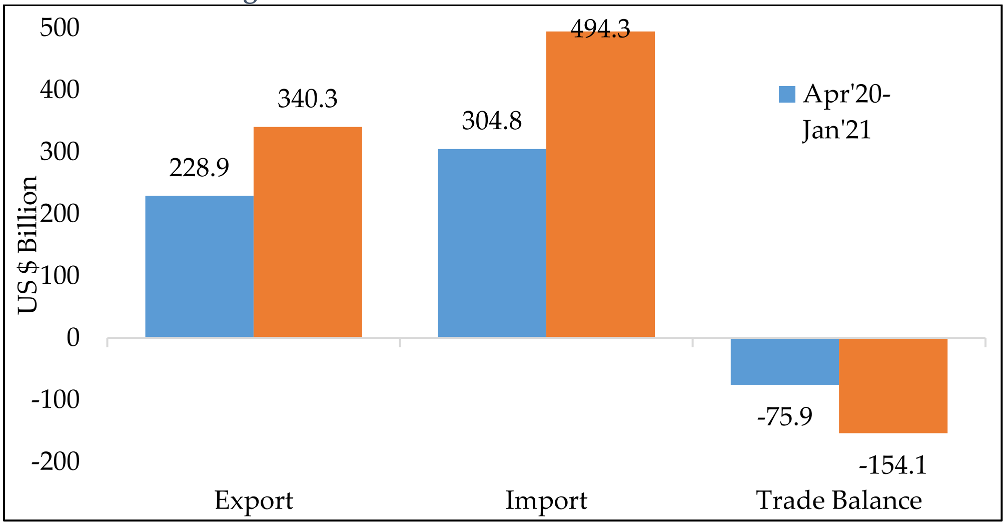
### Performance of Merchandise Trade

- Total exports during April-January, 2021-22 amounted to US $ 340.3 billion, increased by 48.6 per cent as compared to that during the same period in 2020-21. India's merchandise exports crossed the US $ 30 billion mark in January 2022 for the nine consecutive month in FY 2021-22, despite a rise in trade costs arising from global supply constraints such as fewer operational shipping vessels, exogenous events such as blockage of Suez canal and Covid-19 outbreak in the port cities of China. The trade deficit during the April 2021 to January 2022 stood at US $ 154.1 billion as compared to US $ 75.9 billion in the corresponding period last year (Figure 3.1).

- Total imports during April-January, 2021-22 amounted to US $ 493.3 billion, an increase of 62.2 per cent as compared to that during the same period last year. The increase in value of the imports is due to (a) an increase in domestic demand and (b) continuous increase in the price of crude oil and metals during 2020-21.

- During April 2021 to January 2022, the highest export of USD 50.8 billion was recorded in Petroleum Products which constitute the largest share of 14.9 percent in India's total exports (Table 3.1). Among the top ten principal commodities which together accounted for about 46 percent of India's total exports during this period, the rate of growth of petroleum products at 158 percent has been the highest followed by iron and steel (Table3.1).

Figure 3.1 Merchandise Trade Performances




Source: DGCI&S

**Table 3.1 Top 10 Commodities of Export (Value in US $ Billion)**

| Rank | Commodity | Apr'20-Jan'21 | Apr'21-Jan'22 | Growth (%) | % Share |
|---|---|---|---|---|---|
| 1 | Petroleum products | 19.7 | 50.8 | 157.8 | 14.9 |
| 2 | Pearl, precs, semiprecs stones | 13.8 | 22.5 | 63.5 | 6.6 |
| 3 | Iron and steel | 9.4 | 19.2 | 104.4 | 5.7 |
| 4 | Drug formulations, biologicals | 15.7 | 15.7 | 0.0 | 4.6 |
| 5 | Gold and oth precs metl jwlery | 5.0 | 9.3 | 86.0 | 2.7 |
| 6 | Organic chemicals | 6.1 | 9.1 | 49.4 | 2.7 |
| 7 | Aluminium, products of aluminm | 4.6 | 8.4 | 80.5 | 2.5 |
| 8 | Electric machinery and equipme | 6.6 | 8.2 | 25.2 | 2.4 |
| 9 | RMG cotton incl accessories | 5.4 | 7.1 | 32.1 | 2.1 |
| 10 | Products of iron and steel | 5.2 | 7.1 | 36.7 | 2.1 |

Source: DGCI&S

- On the imports side, during April 2021 to January 2022, among the top 10 commodities which accounted for about 58.6 percent of India's total imports in 2021-22, import of crude oil grew at 108 percent followed by Gold, Coal, coke and briquittes etc (Table 3.2)

**Table 3.2 Top 10 Commodities of Import (Value in US $ Billion)**

| Rank | Commodity | Apr'20-Jan'21 | Apr'21-Jan'22 | Growth(%) | % Share |
|---|---|---|---|---|---|
| 1 | Petroleum: crude | 45.6 | 94.7 | 107.6 | 19.1 |
| 2 | Gold | 20.8 | 40.3 | 93.8 | 8.1 |
| 3 | Petroleum products | 17.8 | 31.7 | 78.6 | 6.4 |
| 4 | Pearl, precs, semiprecs stones | 13.9 | 24.4 | 75.2 | 4.9 |
| 5 | Coal,coke and briquittes etc | 13.2 | 24.3 | 83.5 | 4.9 |
| 6 | Electronics components | 11.8 | 19.1 | 62.8 | 3.9 |
| 7 | Vegetable oils | 9.1 | 15.9 | 74.0 | 3.2 |
| 8 | Organic chemicals | 8.6 | 14.9 | 72.7 | 3.0 |
| 9 | Telecom instruments | 12.4 | 12.7 | 2.9 | 2.6 |
| 10 | Computer hardware, peripherals | 8.5 | 12.5 | 46.8 | 2.5 |

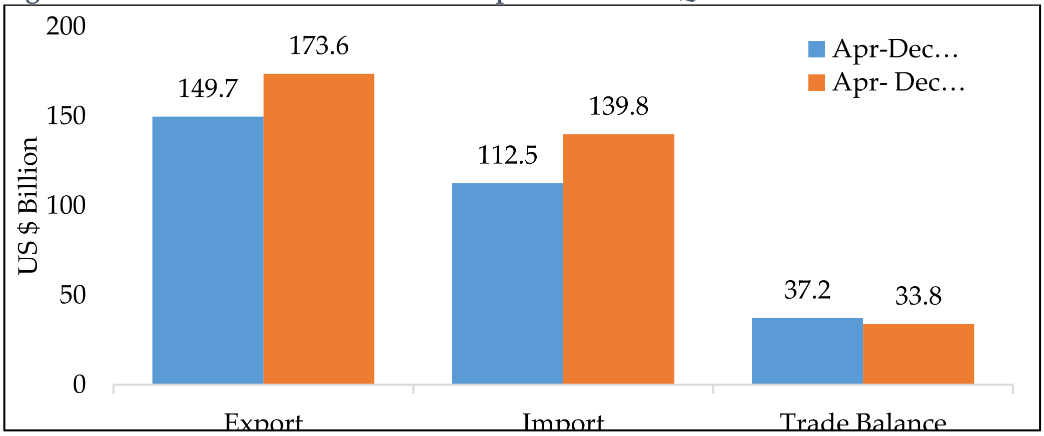
Source: DGCI&S

- Oil import in Q3: 2021-22 saw positive Y-O-Y growth as compared to contractions in the months of Q3, 2020-21. Hence the high growth in oil imports in Q3, 2021-22 are partly on account of low base effects of the same quarter in 2020-21. On the other hand, non-oil imports have grown at a higher rate in the months of Q3, 2021-22, compared to the same months in 2020-21. However, in the beginning of Q4 2021-22, the rate of growth in non-POL imports are muted, compared to the similar period of the previous financial year. This shows that imports have been adversely affected due to the spread on Omicron variant since December 2021.

### Invisible Trade

- During the first three quarters of FY 2021-22 services exports stood at USD 173.6 billion, registering a growth of 16 per cent over the same period during FY 2020-21 (Figure 3.2). India's services imports at USD 139.8 billion during this period, was higher by 24.3 per cent vis-à-vis 2020-21.

Figure 3.2 Services Trade Performance: up to first three Quarters (2020-21 and 2021-22)




Source: United Nation Conference on Trade and Development (UNCTAD)

- In Q3 2020-21, exports in Travel, Financial Services, Construction, and Government goods and services, constituting 7 percent of total services export basket recorded double digit negative YoY growth. In Q3, 2021-22, exports of all services categories record positive growth rate, except for personal, cultural and recreational services. **Exports of travel in this quarter just managed to recover to the same level of Q3 2020-21. Imports in all the services categories, except for government goods and services has fully recovered and recorded expansion in Q3 2021-22, compared to Q3 2020-21.**

### Current Account Balance

- Overall, the Current account balance turned into deficit amounted to -9.58 US $ billion in Q2: FY 2021-22 after a surplus of 6.57 USD billion in Q1:2021-22. There has been a persistent outgo from the primary income account (93 per cent of the account is attributable to investment income payments/ receivables--dividends, interest), with highest outflow experienced in Q2 2021-22. Secondary income mainly represents cross-border transfers (remittances) by expatriates. It increased in Q2:2021-22 compared to Q1:2021-22

## Financial Account

### FDI and FPI

- During April-December, 2021-22, total capital flows in India at 24.2 USD billion was three times lower than that during the same period in 2020-21 (Table 3.3). This decline is mainly on account of decline in FII, and FDI inflows during November-December 2021 on account of uncertainty caused by the spread of Omicron variant and anticipation of an interest rate hike by the Federal Reserve Bank of U.S.

**Table 3.3 Foreign Investment Inflow-Outflow (US $ Billion)**

| | | 2020-21 Apr-Dec | 2021-22 Apr-Dec | 2020 Dec | 2021 Nov | 2021 Dec |
|---|---|---|---|---|---|---|
| I | Net foreign direct investment (1-2) | 41.3 | 26.0 | 6.2 | 1.6 | 0.6 |
| 1 | Foreign direct investment to India | 49.2 | 38.2 | 7.1 | 2.7 | 1.8 |
| 2 | Foreign direct investment by India | 7.9 | 12.2 | 0.9 | 1.1 | 1.2 |
| II | Net portfolio investment (a-b) | 28.9 | -1.9 | 8.6 | 0.0 | -3.6 |
| a | Foreign institutional investments (FIIs) | 30.5 | -0.3 | 8.7 | -0.3 | -3.3 |
| b | Portfolio investment by India | 1.7 | 1.5 | 0.2 | -0.2 | 0.3 |
| III | Total Foreign Investment Inflows (I+II) | 70.1 | 24.2 | 14.8 | 1.6 | -3.0 |

Source: RBI

- India faced persistent selling of equities by foreign investors since October 2021. During October-December 2021, foreign investors sold equities worth Rs 33,805 crore. Of this, Rs 14,300 crore, or 42 per cent, was sold in December alone. With Sensex hitting an all-time high in October 2021, coupled with the concern that the monetary policy would become less accommodative in the U.S., selling of Indian equities heightened in this period. The weakening of rupee with trade balance turning form surplus in Q1 2021-22 to deficit in Q2 2021-22 also added to the adverse sentiments of global investors against Indian equity.

### Foreign Exchange Reserve

- India's foreign exchange reserves stood at USD 631.5 billion in February 2022, as compared to USD 629.8 billion in January 2022, providing an import cover of about 10.9 months. Of the components of foreign exchange reserves, share of Foreign Currency Assets (FCA) have declined from 93 percent in April 2021 to 89.4 percent in February 2022, while that of Gold increased from 6 percent to 6.7 percent. The share of Special Drawing Rights (SDR) also increased during this period from 0.3 percent to 3 percent.

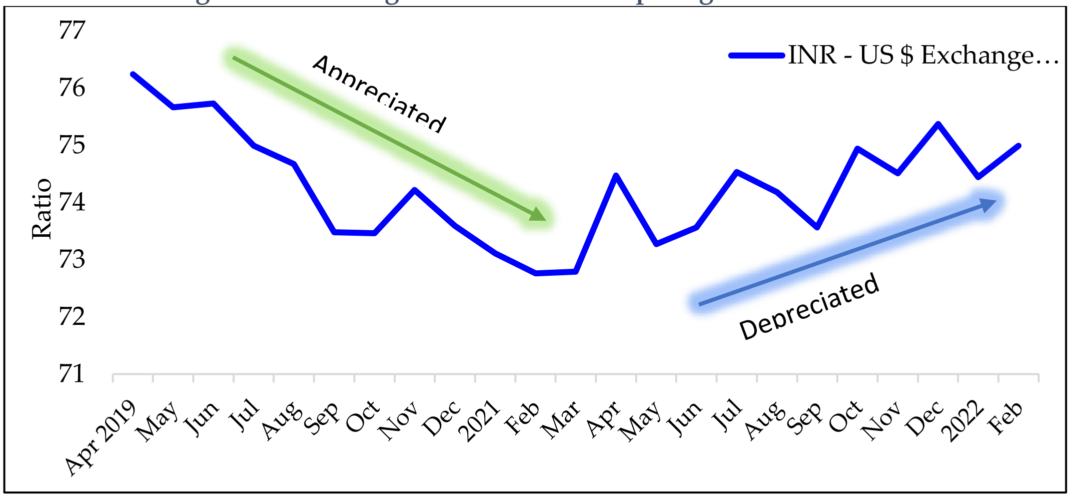
- There has been a secular decline in the growth rate of foreign currency reserves during this period, driven mainly by the continuous decline in the growth rates in FCA and Reserve Tranche Position (RTP). The trade balance turning into deficits in Q2, 2021-22, along with outflows in foreign investments have weakened India's foreign exchange reserve position during the second half of the FY 2021-22.

- Since August 2021, the component Special Drawing Rights (SDR) in India's foreign exchange reserves experience a surge to USD 19.4 billion from USD 1.5 billion during April-July, 2021. This surge in SDR was following IMF's allocation of about SDR 456 billion on August 2, 2021 (effective from August 23, 2021) of which the share of India was SDR 12.5 billion equivalent to 19.4 billion at the prevailing exchange rate.

### Exchange Rate

- Nominal exchange rate (INR vis a vis US dollar) remained in the range of INR 73-75 per US dollar during April-February, 2021-22 (Figure 3.3). The INR remained under pressure on account of uncertainties related to the second wave of the pandemic, capital out flow due to rapid sale off of Indian equities by foreign investors.

**Figure 3.3 Exchange Rate of Indian Rupee against US Dollar**




Source: RBI

## IV MONETARY POLICY

### MPC Decisions

- The thirty third meeting of the Monetary Policy Committee (MPC), constituted under section 45ZB of the Reserve Bank of India Act, 1934, was held during February 8-10, 2022. The MPC retained the status quo on Repo Rate at 4 percent[1]. The reverse repo rate under the Liquidity Adjustment Facility (LAF) also remained at its status quo rate of 3.35 percent. The marginal standing facility (MSF) rate and the Bank Rate stood at 4.25 percent.

- The MPC had decided to retain the 'accommodative stance' into the next financial year – to revive economic growth on a sustained manner and mitigate the impact of COVID-19 on the macro economy. These decisions are in consonance with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4 percent within a band of +/- 2 percent, while supporting the growth momentum.

### Credit

- The non-food bank credit growth stood at 8.3 percent in January 2022 as compared to 5.9 percent in January 2021, on a year-on-year (YoY) basis. The credit growth to agriculture and allied activities grew to 10.4 percent in January 2022 as compared to 8.5 percent in January 2021.

- The credit to industry improved to 6.4 per cent in January 2022 from 0.7 per cent in January 2021. The credit to medium industries showed an impressive growth of of 74.7 per cent in January 2022 as compared to 21.8 per cent in January 2021. However, credit to large industries grew at 0.5 per

[1] RBI (2022a) Monetary Policy Committee Statement, Minutes published on February 24,2022 https://rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=53319

cent in January 2022 against a contraction of 0.2 per cent in January 2021. Credit growth to micro and small industries accelerated to 19.7 per cent in January 2022 from 0.5 per cent in January 2021.

- The credit growth to services sector registered 7.3 per cent in January 2022 as compared to 8.1 per cent in January 2021. Within the services sector, credit growth is registered in 'NBFCs', 'transport operators' and 'tourism, hotels and restaurants. The "Personal loans" has noted a robust growth rate by 11.6 per cent in January 2022 from 8.7 per cent in January 2021.

- The composition of outstanding credit showed that credit deployment to agriculture (12.4 per cent) was relatively smaller than the credit to industrial sector (26.3 per cent) and service sector (25.1 per cent) as per the outstanding credit figures in January 2022. The large industries received 20.4 per cent of total credit deployment, while micro industries and medium industries received 4 per cent and 1.9 per cent of total credit respectively.

### Money Supply and FOREX

- Money supply (M3) and bank credit by commercial banks rose (YoY) by 8.4 per cent and 8.2 per cent, respectively, as on January 28, 2022. India's foreign exchange reserves increased by US$ 55 billion in 2021-22 (up to February 4, 2022) to US$ 632 billion[2]. Reserve money (adjusted for the first-round impact of the change in the cash reserve ratio) expanded by 8.4 per cent (YoY) on February 4, 2022. In February 2022, the growth rate of reserve money was 13.7 per cent. The major sources of reserve money are net RBI credit to government (34.77 per cent), Net Foreign Exchange Reserves of RBI (66.80 per cent) and government's currency liabilities with the public (0.22 per cent)[3].

### Financial Stability - Gross Non-Performing Assets (NPA)

- The estimates from RBI's December 2021 Financial Stability Report shows that macro stress tests for credit risk indicate that the gross non-performing asset (GNPA) ratio of Scheduled Commercial Banks may increase from 6.9 per cent in September 2021 to 8.1 per cent by September 2022 under the baseline scenario and to 9.5 per cent under a severe stress scenario. The Report further stated that the SCBs would, however, have sufficient capital, both at the aggregate and individual levels, even under stress conditions[4].

- The capital to risk-weighted assets ratio (CRAR) of scheduled commercial banks (SCBs) rose to a new peak of 16.6 per cent in September 2021. As per Basel III stipulated the norm of CRAR at 8 per cent. CRAR is also called Capital Adequacy Ratio (CAR), which is bank's capital by its risk-weighted assets. The provisioning coverage ratio (PCR) (the percentage of funds that a bank sets aside for losses due to bad debts) was 68.1 per cent in September 2021.

### Interest rates

- The Treasury-Bill cut off price of 91 days, 182 days and 364 days was 3.70 per cent, 4.19 per cent and 4.52 per cent respectively, as per March 4th, 2022. The average yield on 10-year government bond increased to 6.76 percent in March 4th, 2022[5]. As per March 4th, 2022 data, the weighted average call money rate is 3.53 percent, which is below the repo rate. The rate of interest provided

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[2] RBI (2022): MPC Resolution, February 24, 2022

[3] RBI (2022): Data Release on Reserve Money and Money Supply. Dated February 23, 2022. https://www.rbi.org.in/scripts/FS_PressRelease.aspx?prid=53312&fn=2759

[4] RBI (2021): Financial Stability Report, Reserve Bank of India, December 2021. https://www.rbi.org.in/Scripts/PublicationReportDetails.aspx?UrlPage=&ID=1190

[5] RBI Press Release: 2021-2022/504

by commercial banks on 'term deposits' with a maturity of more than one year is 5.0/5.6 percent, as per the data released by the RBI on March 4th, 2022[6].

## V FISCAL ISSUES

### Union government

#### Revenues

- The revenue receipts of the Union Government till January end 2022 were Rs.18.39 lakh crore (i.e., around 88.5 percent of revised estimates for 2021-22). In the Union Budget 2022-23, the 2021-22RE of revenue receipts is 16.24 percent higher than the budgeted estimates for 2021-22. In 2022-23, the revenue receipts are budgeted to grow at around 6 percent over 2021-22RE numbers largely on account of increase in tax revenues.

- Tax revenues (net of states' share) for the first 10 month of FY22 stood at Rs. 15.47 lakh crore and were 87.7 percent of RE. In 2021-22RE tax revenues of the Union were 14.22 percent higher than the 2020-21BE on account of buoyant taxes. Among the direct taxes, corporation tax increased by 16.09 percent in 2021-22RE over 2021-22BE and income tax by 9.63 percent. These two taxes are budgeted to increase by around 13.4 and 13.8 percent respectively in 2022-23BE. (Table 5.1).

- For 2021-22RE, non-debt capital receipts have been revised downwards – a reduction of around 47 percent from the budgeted number. Of this, the major revision has occurred in the disinvestment target which has been revised from Rs. 1.75 lakh crore to Rs. 78 thousand crores in 2021-22RE (a fall of around 55.4 percent from the budgeted number). As on January 2022, non-debt capital receipts are 32.6 percent of the revised estimate. With the current volatility in financial market on account the on-going geo-political tension between Russia and Ukraine, there is a possibility that the revised target for disinvestment might not be met thereby posing a downward risk to the overall revenue receipts and deficits of the Union.

**Table 5.1 Overview of Revenues**

| Indicators (Rs. Crore) | Actuals till Jan'22 | 2021-22 RE | 2022-23 BE | Actuals till Jan'22 as % of RE | % Change in 2021-22RE over 2021-22BE | % Change in 2022-23BE over 2021-22RE |
|---|---|---|---|---|---|---|
| Revenue Receipt | 18,38,921 | 20,78,936 | 22,04,422 | 88.45 | 16.24 | 6.04 |
| Tax Revenue Of which: | 15,47,436 | 17,65,145 | 19,34,771 | 87.67 | 14.22 | 9.61 |
| Corporation Tax | 5,47,725 | 6,35,000 | 7,20,000 | 86.26 | 16.09 | 13.39 |
| Income Tax | 4,94,254 | 6,15,000 | 7,00,000 | 80.37 | 9.63 | 13.82 |
| Non-tax Revenue | 2,91,485 | 3,13,791 | 2,69,651 | 92.89 | 29.12 | -14.07 |
| Non-Debt Capital Receipts | 32,595 | 99,975 | 79,291 | 32.60 | -46.82 | -20.69 |
| Total Receipts | 18,71,516 | 21,78,911 | 22,83,713 | 85.89 | 10.25 | 4.81 |

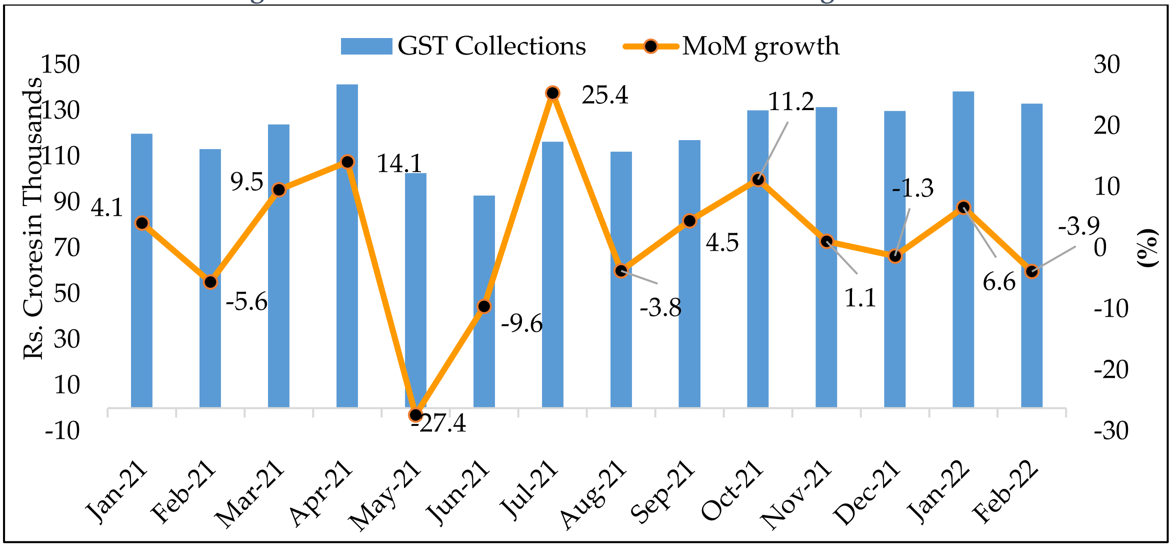
Source: CGA and Union Budget

- Among the indirect taxes, GST collections have remained buoyant throughout FY22. The collections were over Rs. 1 lakh crore during the year except in the months of May and June 2021 on account of the second wave of the pandemic. The economic impact of the third wave appears to be much more muted as compared to the previous waves. GST collection for January 2022 was

[6] RBI Ratios and Rates as per March 4, 2022. https://rbi.org.in/scripts/WSSView.aspx?Id=25162

around Rs. 1.38 lac crore, second highest monthly collection since its implementation. In February 2022, GST collections registered a marginal fall of around 4 percent and stood at around Rs. 1.33 lakh crore (Figure 5.1).

**Figure 5.1 GST collections and month-on-month growth**




Source: CMIE economic Outlook

## Expenditure

- There has been a re-prioritisation of expenditure in favour of capital expenditure and this trend is likely to continue in the next fiscal as well. The 2020-21 revised estimate of total expenditure is higher by about 8.2 percent over the BE number on account of increase in both the revenue and capital expenditure. The capital expenditure during 2022-23 is budgeted to be around 25 percent higher than the 2021-22RE while revenue expenditure is budgeted to increase by about 0.84 percent in 2022-23 over 2021-22RE.

- The budgeted Capital expenditure for 2022-23 includes Rs. 1 lakh crore provided to states as financial assistance for capital investment. Under this scheme, the states are provided fifty-year interest free loans are over and above their normal borrowings. Excluding this amount given to states for capital investment, the increase in capital expenditure in 2022-23BE would be around 8 percent than 2021-22RE.

**Table 5.2 Overview of Expenditure**

| Indicators (Rs. Crore) | Actuals till Jan'22 | 2021-22 RE | 2022-23 BE | Actuals till Jan'22 as % of RE | % Change in 2021-22RE over 2021-22BE | % Change in 2022-23BE over 2021-22RE |
|---|---|---|---|---|---|---|
| Revenue expenditure | 23,67,698 | 31,68,067 | 31,94,663 | 74.74 | 8.16 | 0.84 |
| Of which: | | | | | | |
| Interest Payments | 6,14,626 | 8,13,791 | 9,40,651 | 75.53 | 0.51 | 15.59 |
| Capital expenditure | 4,41,686 | 6,01,933 | 7,50,246 | 73.38 | 8.61 | 24.64 |
| Total expenditure | 28,09,384 | 37,70,000 | 39,44,909 | 74.52 | 8.23 | 4.64 |

Source: CGA and Union Budget

### Debt and deficit

- In 2021-22 the Union government had budgeted a revenue deficit of 5.1 percent of GDP. It improved to 4.7 percent of GDP as per the revised estimates. In 2022-23 the revenue deficit is budgeted to improve to 3.8 percent of GDP.

- As on January 2022, the fiscal deficit stood at around Rs 9.37 lakh crore, or 58.9 percent of 2021-22RE. The revised estimate for fiscal deficit in 2021-22 is marginally higher than the budgeted numbers in 2021-22 (Table 5.3). The fiscal deficit for 2022-23 is budgeted to improve to 6.4 percent of GDP.

**Table 5.3 Debt and Deficit (in Rs. crore)**

| Indicators | 2021-22BE | Actuals Till Jan'22 | 2021-22RE | 2022-23BE |
|---|---|---|---|---|
| Revenue Deficit | 11,40,576 | 5,28,777 | 10,89,131 | 9,90,241 |
| Fiscal Deficit | 15,06,812 | 9,37,868 | 15,91,089 | 16,61,196 |
| RD as a % of GSDP | 5.1 | - | 4.7 | 3.8 |
| FD as % of GSDP | 6.8 | - | 6.9 | 6.4 |

Source: CGA and Union Budget

- As per the budget 2022-23, the revised estimate for market borrowings stands at around Rs. 8.76 lakh crore, 10 percent lower than the budgeted number for 2021-22. As per the CGA monthly accounts, the Centre has raised around Rs. 7.5 lakh crore (86 percent of the RE). For 2022-23, market borrowings are budgeted at Rs. 11.59 lakh crore, 32.3 percent higher than 2021-22RE.

### State governments

- Own tax revenue aggregated across 24 states during April-December 2021 (i.e., Q1+2+3 of 2021-22) show an increase of around 33.41 percent as compared to that during the same period in 2020-21. This growth can be attributed to the low base effect. However, own tax revenues were higher by about 15.86 percent when compared to that during Q1+2+3 of 2019-20 (Table 5.4). The own non-tax revenues during April-Dec 2021 were higher by 55.13 percent vis-à-vis April-Dec 2020 and by 29.34 percent as compared to that during April-Dec 2019.

- Own revenue receipts comprising own tax and own non-tax revenues, aggregated across 24 states show an increase of about 35.73 percent in Q1+2+3 of 2021-22 as compared to similar period in 2020-21. The own revenues are higher by about 17.35 percent as compared to that during Q1+2+3 of 2019-20. Thus we see that as far as own revenues are concerned, states' own revenues are higher than the pre-covid levels.

- SGST, Sales tax and State Excise which together account for about 80 percent of States' own tax revenues also show considerable increase during April-Dec 2021 as compared to the pre-pandemic level during April-Dec 2019.

- Central transfers aggregated across 24 states show an increase of about 4.19 percent in Q1+2+3 of 2021-22 over Q1+2+3 of 2020-21. However, when compared to similar period during 2019-20, they were lower by 2.64 percent. While tax devolution to states was higher by 20.79 percent during April-Dec 2021 as compared to that during April-Dec 2020, central grants to states were lower by about 9 percent. However, when compared to April-Dec 2019, both tax devolution and grants were lower by 4.93 percent and 0.11 percent respectively during April-Dec 2021. Thus, we see that transfers from the union government to states are still below the pre-pandemic level.

**Table 5.4 Percent change in key fiscal indicators of States (24 states)**

| 24 States | % Change during April-Dec 2021-22 over | | % of Budget Estimate during April-Dec | | |
|---|---|---|---|---|---|
| | 2020-21 | 2019-20 | 2021-22 | 2020-21 | 2019-20 |
| 1. Total revenue receipt | 22.13 | 9.11 | 59.56 | 51.98 | 59.98 |
| 2. Own revenue receipt | 35.73 | 17.35 | 63.34 | 50.82 | 60.13 |
| 3. Own tax revenue | 33.41 | 15.86 | 64.69 | 52.46 | 61.96 |
| a) SGST | 36.17 | 13.14 | 61.66 | 47.71 | 56.80 |
| b) Sales tax | 34.66 | 24.13 | 71.71 | 57.81 | 63.74 |
| c) State excise | 20.62 | 22.37 | 64.88 | 63.05 | 66.44 |
| 4. Non-tax revenue | 55.13 | 29.34 | 55.07 | 40.29 | 48.59 |
| 5. Central transfer | 4.19 | -2.64 | 54.02 | 53.59 | 59.78 |
| 6. Tax devolution | 20.79 | -4.93 | 62.68 | 46.20 | 57.11 |
| 7. Grants-in-aid | -8.97 | -0.11 | 47.17 | 61.37 | 63.05 |
| 8. Revenue expenditure | 13.05 | 13.87 | 62.47 | 60.11 | 62.16 |
| 9. Capital expenditure | 51.32 | 23.59 | 48.26 | 40.67 | 45.91 |
| 10. Total expenditure | 16.66 | 14.97 | 60.23 | 57.45 | 59.75 |
| a) General services | 13.04 | 15.61 | 62.26 | 60.76 | 63.99 |
| b) Social services | 18.61 | 19.99 | 62.31 | 58.48 | 61.90 |
| c) Economic services | 18.36 | 6.11 | 52.30 | 49.53 | 55.08 |

Source: Comptroller and Auditor General of India

- The revenue expenditure during Q1+2+3 of 2021-22, show an improvement of around 13.05 percent vis-à-vis 2020-21 and 13.87 percent as compared to the same period in 2019-20. In 2020-21, the state governments' revenue expenditure did not fall as much as the fall in its revenues as they were on the forefront in meeting the challenges that Covid-19 has thrown. This is evident from the fact that during April-Dec revenue expenditures accounted for about 60 to 62 percent of the budgeted estimates for 2019-20, 2020-21 and 2021-22.

- Fiscal year 2020-21 saw a sharp contraction in capital expenditure by the state governments as compared to that during 2019-20. In the first three quarter of 2020-21 only 40.7 percent of the budgeted amount could be spent. During April-Dec 2021 (i.e., first three questers of 2021-22) capital expenditure show an increase of about 51.3 percent as compared to the same period during 2020-21. Capital expenditures aggregated across 24 states in Q1+2+3 of 2021-22 is also higher when compared with that during the same period in 2019-20.

- Service-wise break-up of expenditure shows that the expenditures on general, social and economic services are higher by about 13 percent, 18.6 percent and 18.4 percent in Q1+2+3 of 2021-22 vis-à-vis Q1+2+3 of 2020-21. In fact, they are also higher that of the same period during 2019-20 as evident from Table 5.4.

- The revenue and fiscal deficit as percent of GDP aggregated across 24 states for the period April-December 2021 stood at 1.00 percent and 2.66 percent respectively.

- As per the tentative borrowing calendar, twenty-eight states and two UTs were to raise Rs.8.74 lakh crore during 2021-22. However, twenty-seven states and two UTs have raised Rs. 6.19 lakh crore in aggregate during 8 April-2021 to 28 February 2022 (70.8 percent of the borrowings indicated as per the borrowing calendar for this period). As compared to the borrowings so far in the current year states had raised Rs. 7.15 lakh crore in the corresponding period during 2020-21 (twenty-eight states and two UTs). In other words, the market borrowings of state governments at the aggregate level in fiscal year 2021-22 (i.e., during 8th April 2021 – 28th February 2022) has been lower by 13.4 percent when compared with that in the corresponding period last year.

- Twenty-four states have undertaken lower borrowing in the current financial year relative to 2020-21; and Odisha, which borrowed Rs. 3000 crores in 2020-21, has not raised money through market borrowings so far. The lower market borrowings by states in the current financial year can be attributed to higher/better tax (revenue) collections in the current year.

### Future Outlook

- The Union budget 2022-23 has focused on the economic recovery through boosting capital spending both at Union as well as the state level. The Monetary Policy Committee in its bi-monthly meeting held after the Union Budget maintained an accommodative stance to support the growth recovery. However, rising crude prices due to geo-political tension between Russia and Ukraine would add to the existing inflationary pressure. The Union may choose to reduce excise duties on petrol and petroleum products to mitigate the impact of rising oil prices on the end-consumer which might disturb the fiscal math for the next fiscal year.

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