Ministry of External Affairs
Government Of India

MONTHLY ECONOMIC REPORT

JANUARY 2022

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EXECUTIVE SUMMARY

The third wave induced by the Omicron variant of COVID-19 is subsiding in India. High-frequency indicators show that India's economy is well on its way to growing at above 9% as projected in the country's advance estimates for the current year. With the Monetary Policy Committee (MPC) retaining its inflation forecast for 2021-22 at 5.3%, the inflation for the current year is set to close within its tolerance band of 4±2%.

Agriculture continues to see a constant increase in net sown area and crop diversification will strengthen food buffers while benefiting farmers through generous volumes of procurement at remunerative minimum support prices and income transfers through PM Kisan

The real GDP growth estimated for 2021-22 is at 9.2% and it will serve as a launchpad for a near 8% growth projected in the Economic Survey, Budget 2021-22, and Reserve Bank of India's MPC meeting of February 2022

Rising consumption levels, support of public investment in infrastructure, and the production linked incentive (PLI) schemes in the 14 sectors will further incentivize private investment to achieve higher export growth and enable viable import substitution in the country.

COVID-19

- India continues its battle with the Omicron variant of the virus with its five-fold strategy of test, track, treat, vaccinate, and enforce COVID-19 appropriate behavior.

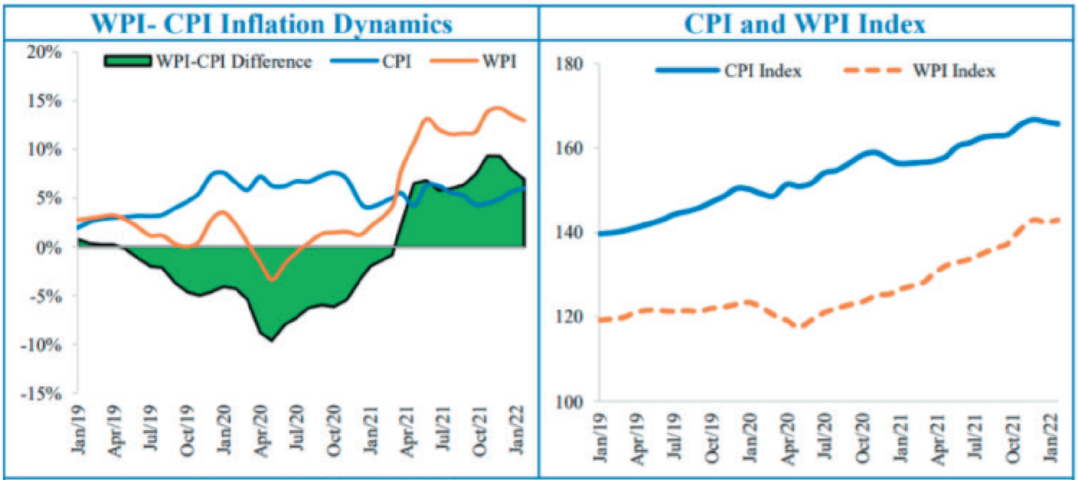
- As of 15th February 2022, more than 90 crore people (96 % of the adult population) have received at least one dose of which around 74 crore people (78 % of the adult population) stand fully vaccinated.

Economic Activity

- After six months, the headline inflation (CPI) has marginally crossed the RBI MPC's tolerance band of 4±2%. and has come in at 6.01% for January 2022 as compared to 5.66% in December 2021

- WPI Inflation for January 2022 came in at 12.96%, lower than 13.56% in December 2021, driven by a decline in the inflation of 'fuel and power' and manufactured products. While WPI inflation has been moderate for two consecutive months, it remains high primarily owing to high prices for imported commodities including and especially crude oil.

- The February MPC meeting retains inflation projection for 2021-22 at 5.3% and it will reduce further to 4.5% in 2022-23.

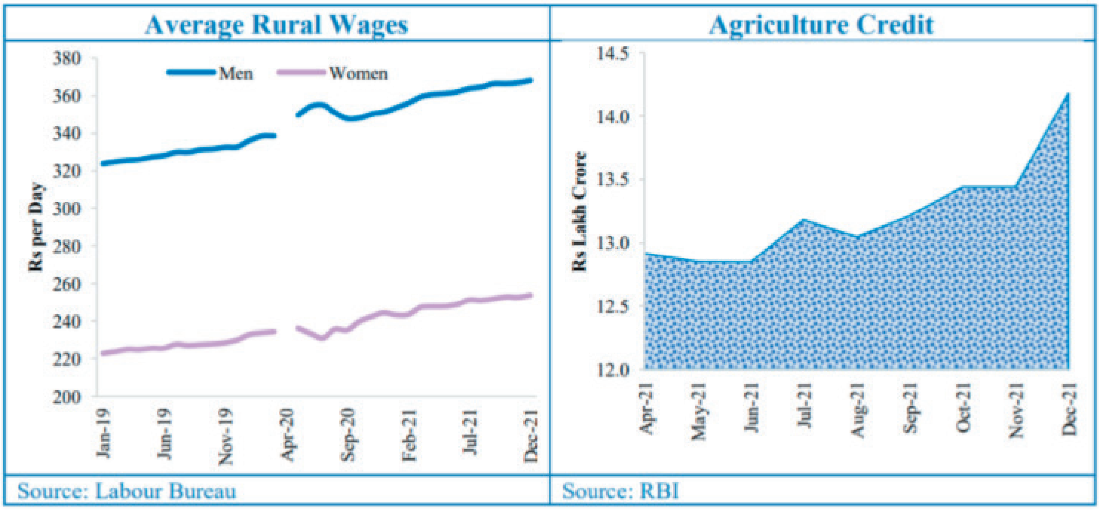


Source: Office of Economic Adviser, MoSPI

Agriculture Sector

- The agriculture sector has been the bright spot throughout the pandemic years. It continued its resilient march with area sown under rabi crops reaching a record high of 701 lakh hectares in 2021-22, 1.5% higher than last year and 15.4% over the normal acreage measured by the last 5-year average.

- Unwavering credit support to the agriculture sector continued in December 2021 also, registering a robust growth of 14.5% compared to the corresponding period last year as well as sequential expansion of 5.5% from November 2021.



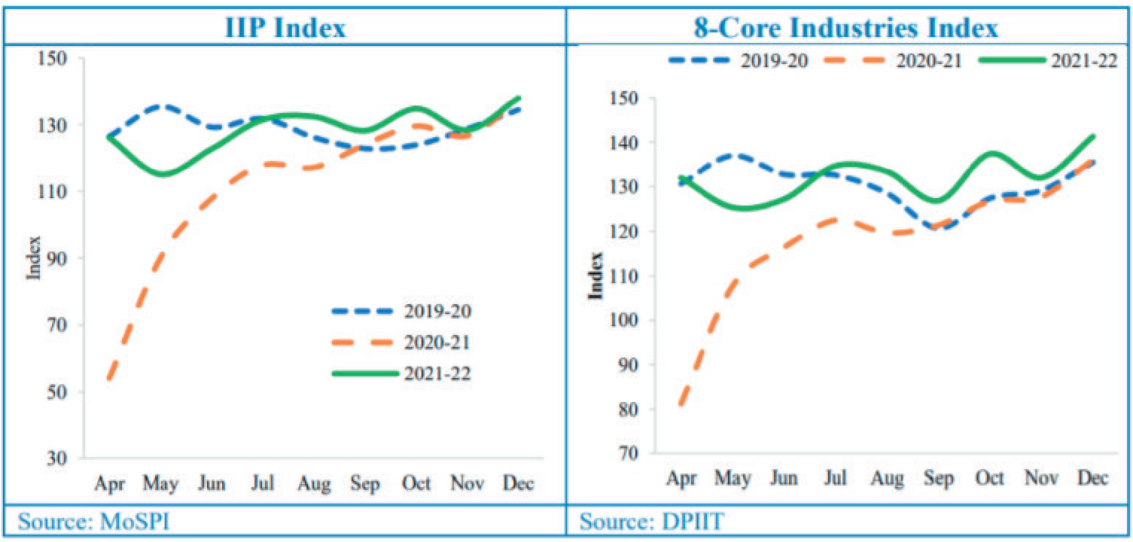
Industry & Services

- The third wave of COVID-19 has had a modest impact on the industry, as visible in PMI manufacturing which, despite dipping slightly in January 2022, remained comfortably in the expansionary zone at 54.0.

- The cumulative Industrial Production (IIP) growth for the period April-December 2021-22 stood at 15.2% as compared to (-)13.3% in April-December 2020-21, just about recovering the pre-pandemic index level of 2019-20. Sequentially, the IIP has accelerated in December 2021, growing 7.5% over the preceding month.

- With 40% weight, the eight-core industry has accounted for much of the growth in IIP. The Index for eight Core Industries (ICI) grew 3.8% year on year (YoY) in December 2021, compared to 3.4% growth in November 2021.

- Services activity was more impacted than the industrial sector by the rapid spread of the Omicron variant as curbs on mobility were put in place. PMI Services consequently settled to a six-month low of 51.5 in January 2022, down from 55.5 in December 2021, although remaining in the expansionary zone

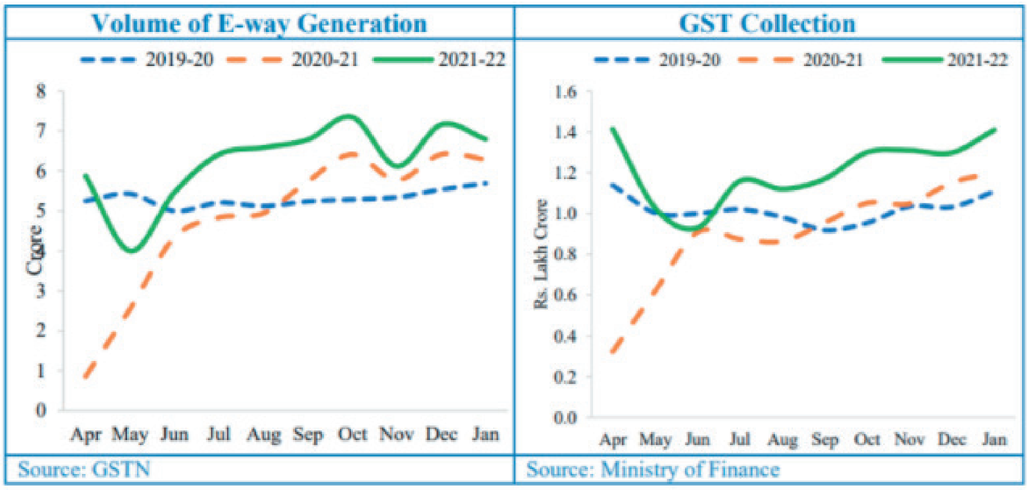


Power

Demand for energy remained resilient as power consumption in January grew 2.1% over the preceding month and 1.1% over the corresponding month of the previous year, also reflecting the weak impact of Omicron on economic activity

GST Collection

The robust e-way bill generation will most likely continue to garner monthly GST collections above INR one lakh crore. January 2022 (reflecting December transactions) recorded an all-time high GST collection of INR 1.41 lakh crore following administrative measures to enhance compliance and rate rationalization measures to correct inverted duty structure.



Consumption

- Indicators of consumption point towards resilience and steady growth. While the IIP Consumer Durables Index and IIP Consumer Non-Durables Index reduced by 2.7% and 0.6% respectively in December 2021, they grew by 13.9% and 6.6% respectively.

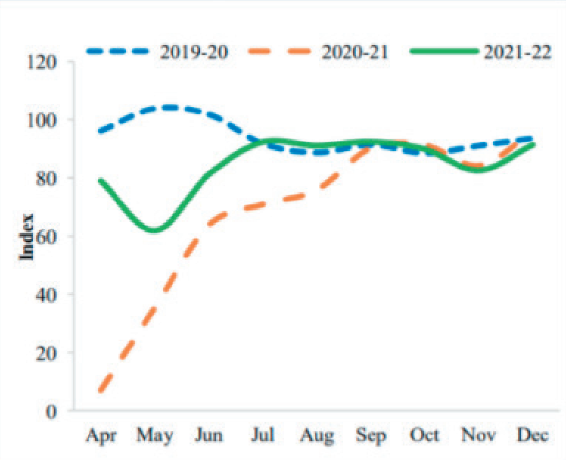
- The indices grew by 20.4% and 5.4% respectively in the period between April-December 2021 over April-December 2020.

Investments

- The capital goods index of IIP, an indicator of private investment, rose sequentially from 82.6 in November 2021 to 91.4 in December 2021, reverting to its October level. Capital goods imports expanded by double digits during December 2021 for the tenth consecutive month.

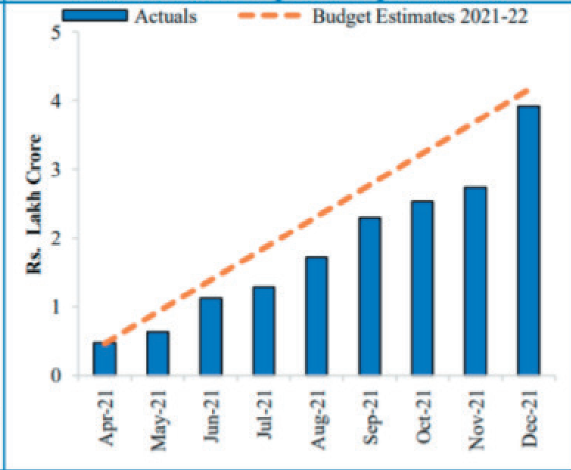
- In line with the 2021-22 Budget's increase of 34.5% in capital outlay, Central Government stepped up public capital expenditure in the first nine months of 2021-22 (April-December) by 26.8% over the corresponding period of the last year and 53.3% over the corresponding 2019-20 levels.

IIP Capital Goods Index



Source: MoSPI

Cumulative Capital Expenditure



Source: CGA

Surplus Liquidity

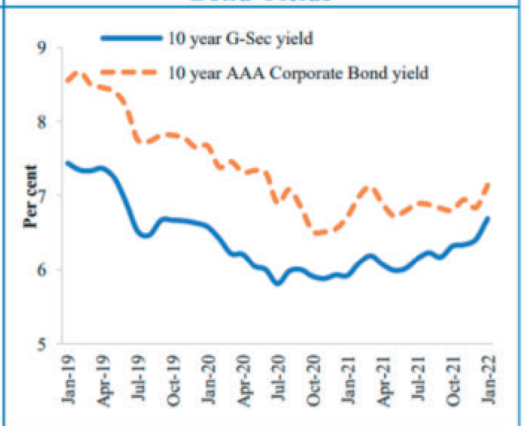
- Surplus systemic liquidity and forward guidance on the accommodative monetary policy stance has ensured that short-term rates remained anchored and soft relative to the policy rate, facilitating hastier monetary policy transmission to other segments of the market spectrum.

- Weighted average lending rate (WALR) on fresh rupee loans of scheduled commercial banks (SCBs) have softened by 223 bps between January 2019 and December 2021 indicating a complete pass-through of the policy rate cuts. As of December 2021, the WALR stands at 7.72%. This reduction in the overall cost of funds will provide reprieve to borrowers affected by the pandemic and boost credit in the economy.

WALR of SCB (on Fresh Rupee Loans)

Source: RBI

Bond Yields



Source: CCIL,RBI

Bank Credit

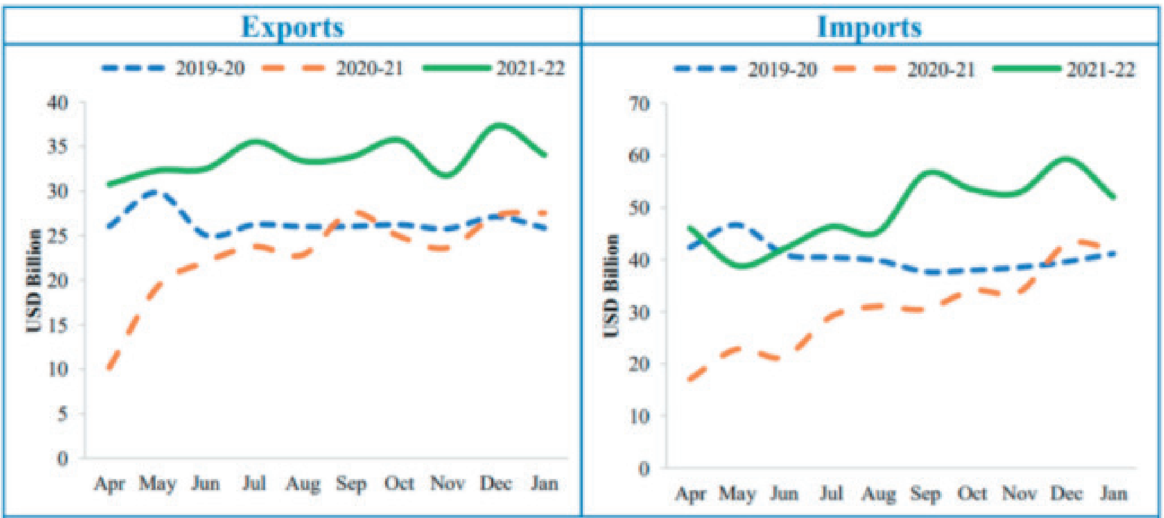
- Bank credit growth to the services sector made a simmering turnaround going past the bank credit growth to the industrial sector after three months, recording a healthy 10.8% YoY growth. Growth in credit to Non-Bank Financial Companies (accounting for one-third of Services credit) rose even more sharply to 13.4%.

- Credit growth to industry rose steeply by 7.6% YoY in December 2021 compared to 3.8% in the preceding month with a towering double-digit growth of 86.5% to medium industries and impressive 20.5% growth to micro and small industries

Merchandise Exports

- India recorded its highest yearly merchandise exports in the first ten months of FY 2021-22 crossing US$ 335 billion. This marks an increase of 46.7% and 27.2% over corresponding periods of 2020-21 and 2019-20 respectively. Merchandise exports in January 2022 stood at US$ 34.5 billion, an increase of 25.3% and 33.4% over January 2021 and January 2020 levels respectively.

- While India's robust export performance reflects resilient demand for Indian goods, imports also continued to surge on the back of improving domestic demand. India's merchandise imports in 2021-22 (April-January) stood at about US$ 496 billion, an increase of 62.7% and 22.3% over corresponding periods of 2020-21 and 2019-20 respectively. After reaching its highest level in December 2021, India's merchandise imports at US$ 52 billion in January 2022 crossed the US$ 50 billion mark for the fifth consecutive month, marking an increase of 23.6% and 26.2% over January 2021 and January 2020 levels respectively.



Source: Ministry of Commerce and Industry

Conclusion

Overall economic activity has continued to be resilient amid the third wave of COVID-19. This is reflected in the robust performance of several high-frequency indicators like power consumption, PMI manufacturing, exports, and e-way bill generation. Further, the Union Budget's commitment towards public infrastructure development will encourage private investment, augmenting inclusive and sustainable growth. It is a testament to the farsightedness of policymaking that the Indian economy that contracted by (-)6.6% in 2020-21, is now projected to grow the quickest among the group of large nations in 2022-23.

For more information:
Ministry of Finance, Department of Economic Affairs
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