



Ministry of External Affairs
Government Of India



ECONOMIC
DIPLOMACY
DIVISION

MONTHLY ECONOMIC REPORT

MAY 2022



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EXECUTIVE SUMMARY

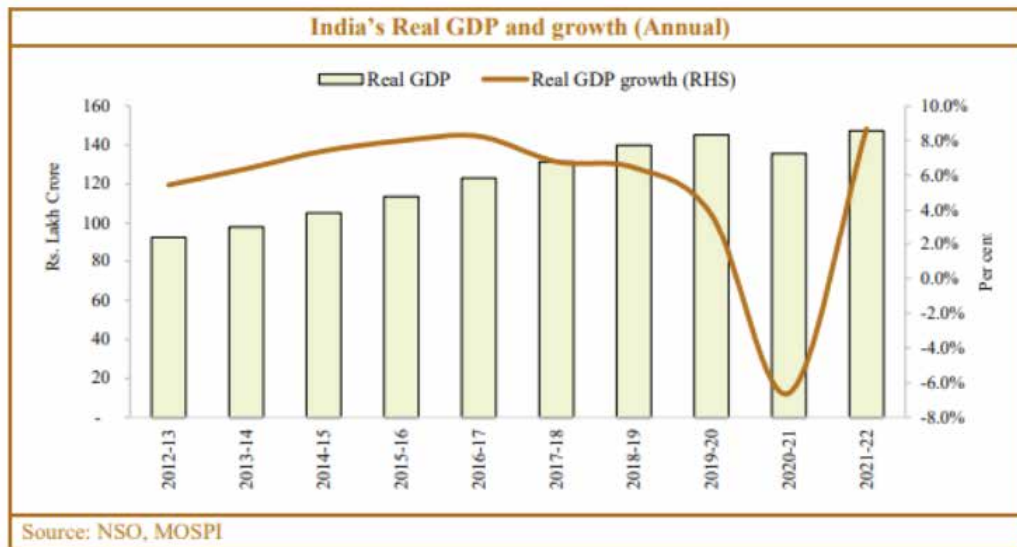
A stronger growth momentum is also accompanied by an increase in capacity utilization in the manufacturing sector from Q3 to Q4 reflecting a build-up of demand in the economy. Consistent with the demand build up, the investment rate in Q4 has risen to the highest in the last 9 quarters. The growth momentum of Q4 of 2021-22 has carried into the Q1 of 2022-23 as seen in several high frequency economic indicators for India. The composite PMI for India has risen to its highest level in the last 18 months. In contrast, the growth of world output appears to be stalling with composite PMI of the US, the UK and the Eurozone declining appreciably from April to May. This is consistent with agencies worldwide projecting a slowing of global economic growth from their earlier estimates. India's growth forecast for 2022-23 has also been revised downwards although it continues to be the highest among major countries.

It is observed that inflation in advanced economies (AEs) has been surging for over a year whereas in emerging market economies (EMEs) the surge has been a recent phenomenon. The effects of prolonged and extraordinarily accommodative fiscal and monetary policies in the developed world consequent to the outbreak of the pandemic have been a surge in asset price inflation and then in the cost of goods and services both for producers and consumers.

India faces near-term challenges in managing its fiscal deficit, sustaining economic growth, reining in inflation and containing the current account deficit while maintaining a fair value of the Indian currency. Many countries around the world, including and especially developed countries, face similar challenges. India is relatively better placed to weather these challenges because of its financial sector stability and its vaccination success in enabling the economy to open up



GDP growth



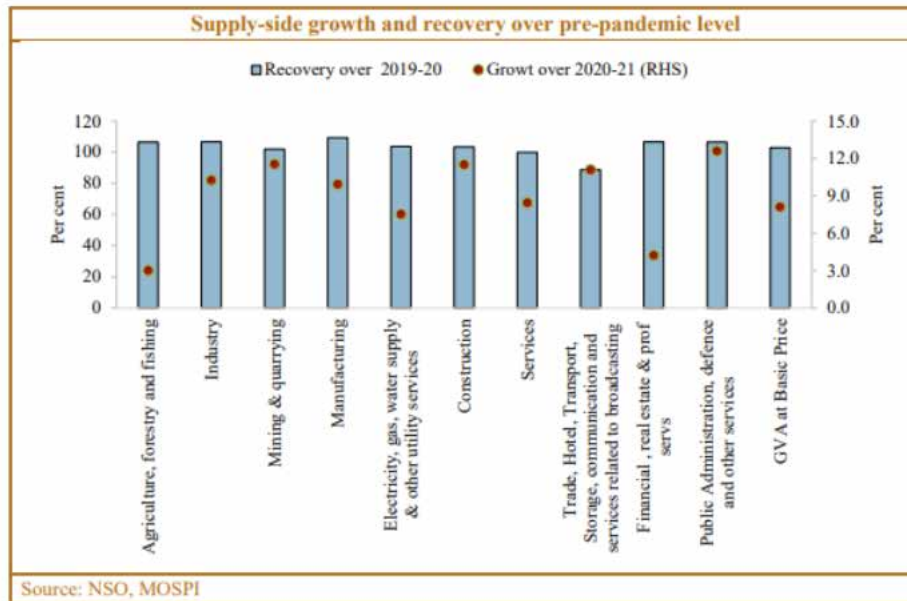
- The real GDP growth in 2021-22 stands at 8.7%, 1.5% higher than the real GDP of 2019-20. India's GDP in nominal terms is now Rs.236.65 lakh crore or US\$ 3.2 Trillion in 2021-22 as compared to the pre-pandemic nominal GDP of US\$ 2.8 Trillion in 2019-20.
- The recovery in 2021-22 could have been sharper but for the real GDP year-on-year growth for Q4 at 4.1%, declining from earlier estimates under the impact of Omicron and emergence of geopolitical tensions

Agricultural Activity

- Agriculture which had not contracted during the pandemic, posted a robust positive growth of over 3% in FY 2021-22. In FY 2022-23 as well, growth is evident with food grain production in the ongoing Rabi season estimated to grow at 1.2% over the previous year
- The projection of a normal monsoon and prospects of earning higher income will likely increase area under Kharif 2022-23 crops as well.
- Rural demand is expected to revive in the coming months on the back of higher agricultural output, elevated price expectations of a better monsoon and the government's supportive policy for rural India

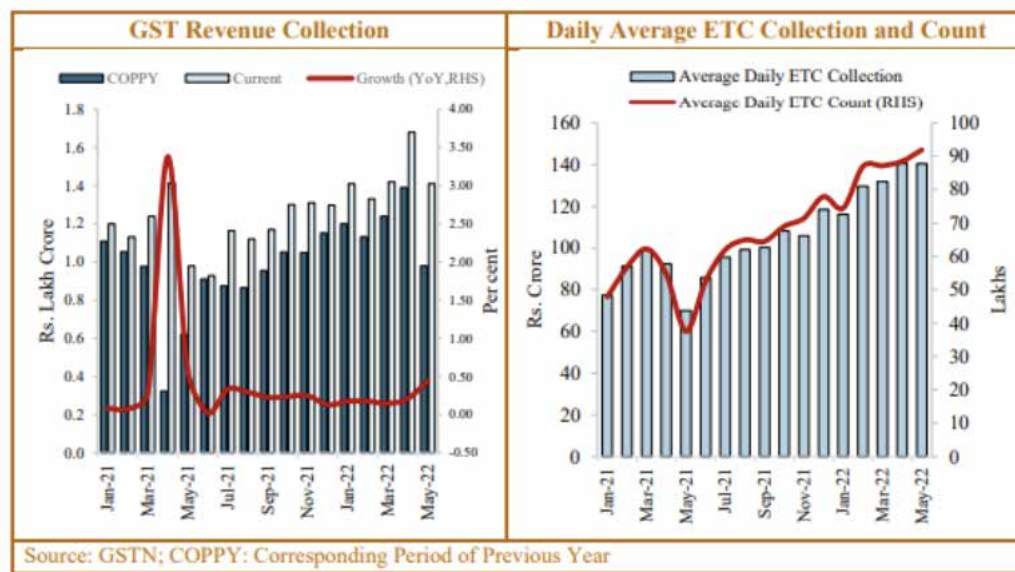


Industry Outlook



- PMI Manufacturing has been in the expansionary zone since July 2021. RBI's OBICUS Survey indicates capacity utilization in manufacturing recovering to 74.5% in quarter ending March 2022 quarter from 72.4% in the quarter ending December 2021.
- The Industrial Outlook survey of the RBI further indicates that 59% of the respondents see an increase in capacity utilization for quarter ending June 2022.
- Manufacturing appears to have responded to the PLI scheme recovering 109% of its pre-pandemic GVA level.
- A less than 100% recovery in contact-based services including trade, hotels, and transport, is work-in-progress. However, even in these sectors, the growth momentum is high as these have grown by 17% in Q4 over Q3 as compared to 11% in Q3 over Q2.
- The momentum in most likelihood has carried into 2022-23 with PMI services rising to 57.9 in April and further to 58.9 in May 2022.
- On the demand side, exports have led India's economic recovery achieving, in 2021-22, 113% of its pre-pandemic level.
- Spending also rose in India as imports grew to 117% of its pre-pandemic level.

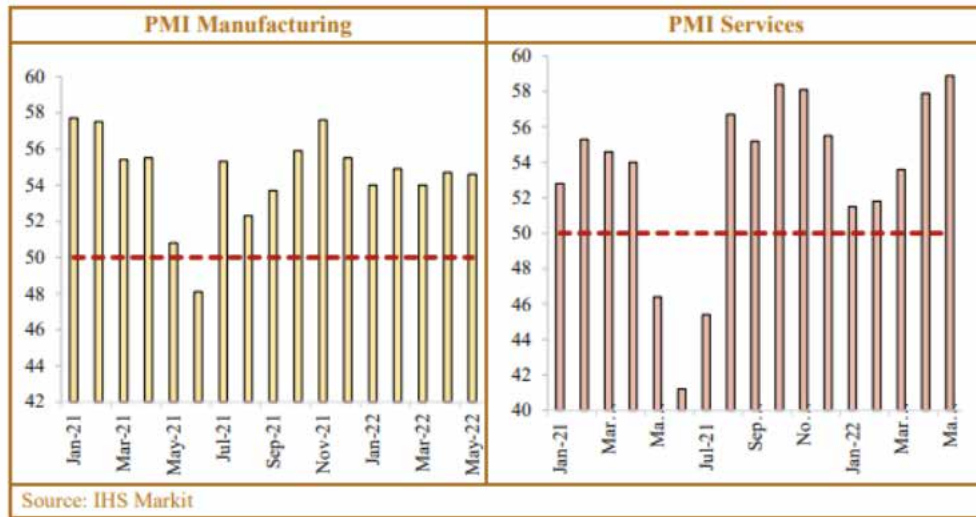
GST and e-way Bill Collection



High frequency indicators (HFIs) for April/May signal a pick-up in economic activity in 2022-23 sustaining the momentum gathered in Q4 of 2021-22. The collective impact of these HFIs registered in the GST revenues of May 2022, which is 44% higher than May collections of 2021

Industrial and services Index

- A 7.1% growth in the Index of Industrial Production (IIP) in April 2022 as compared to 2.2% in March is further evidence of momentum in industrial activity carrying forward from the previous year.
- The industrial growth momentum is also reflected in the Combined Index of Eight Core Industries growing at 8.5% in April 2022, the highest in the last 6 months.
- The pick-up in industrial activity has been further captured in rising levels of PMI Manufacturing, which together with similarly strongly placed PMI-Services has boosted the composite PMI to 58.3 in May 2022, the highest in the last 18 months.
- Growth in industrial and services activity has led to rising consumption of power and fuel in the economy. Increasing summer heat has also contributed to an increase in power consumption while the release of pent-up consumption demand, particularly in respect of contact-based services, has added to an increase in fuel consumption. Given the tight supply situation for domestically produced coal and high global energy prices, the import burden of the economy is becoming relentless as industrial and services activities increase in the economy
- Carrying forward the momentum in the services sector, railway freight load touched a 21-month high in May 2022, led by incremental loading of coal, cement and clinker and food grains.
- Port traffic also registered a double-digit year-on-year growth of 10.2% in May 2022 with an uptick in momentum compared to the last month. Air cargo traffic surpassed the pre-pandemic levels in April 2022 by 2.8% but with a slight moderation in momentum as compared to the previous month



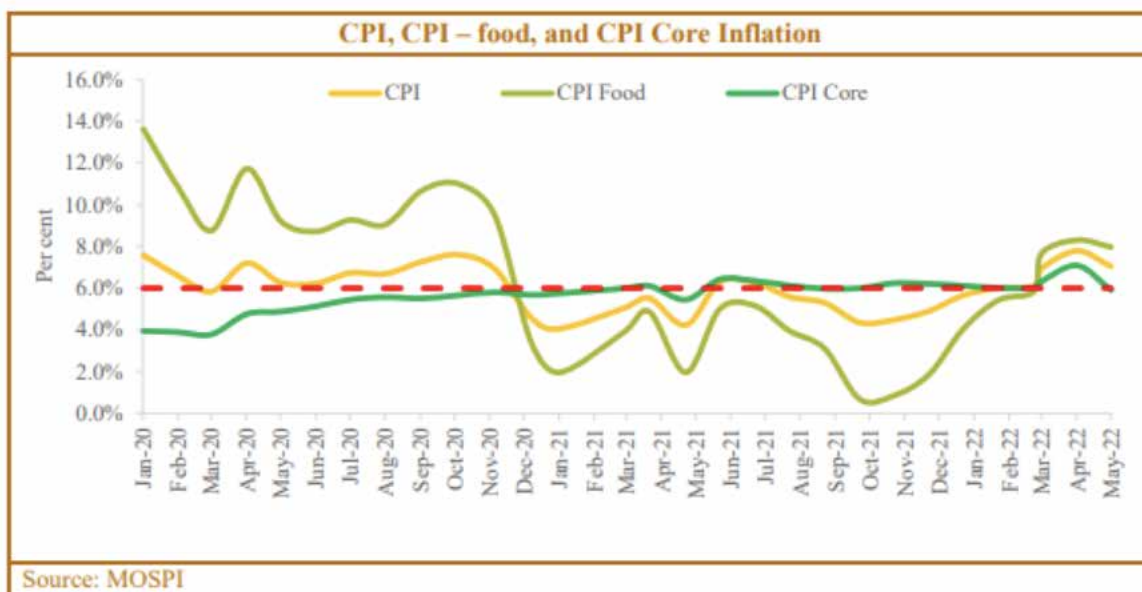
Repo Rates and Government Initiatives

Following a surprise off-cycle 40 basis point rate hike by RBI in May 2022, the repo rate was again hiked by 50 basis points in June taking the policy rate from 4.4% to 4.9%. Earlier, in May 2022, RBI had decided to increase the cash reserve ratio (CRR) by 50 bps to 4.5% (effective fortnight beginning May 21, 2022), withdrawing excess liquidity from the banking system.

The government of India has cut excise duty on diesel and petrol to bring down their retail prices. Additionally, over 90 million beneficiaries of the Pradhan Mantri Ujjwala Yojana will be given a subsidy of Rs 200 per LPG cylinder for up to 12 refills in a year.

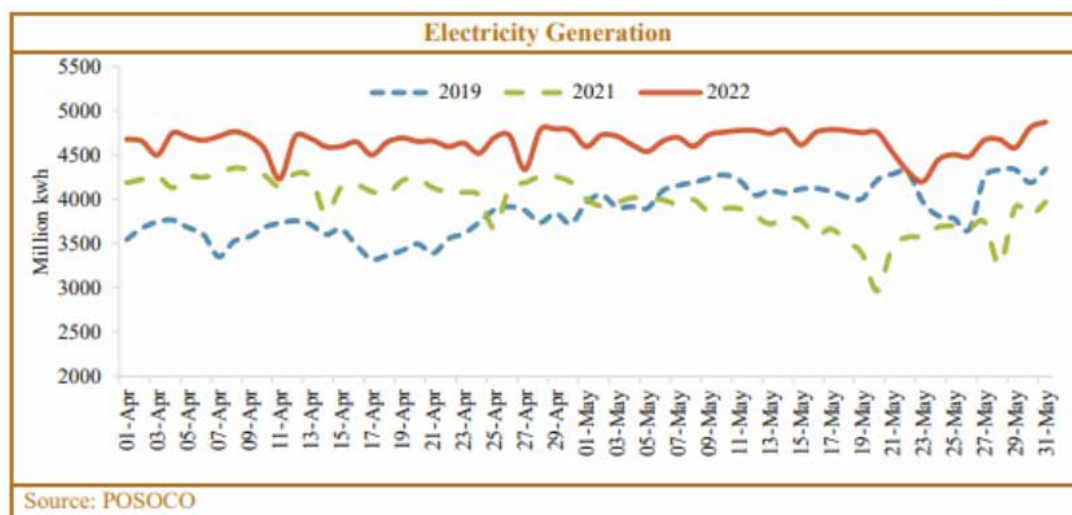
Successful launch of the Production Linked Incentive Scheme (PLIS) in 14 sectors, development of renewable sources of energy while diversifying import dependence on crude oil, and strengthening of financial sector as seen in the strengthening of financial metrics and an uptick in credit demand, have been key positive developments that will sustain economic growth.

CPI and WPI Indices



- Retail inflation in India moderated from 7.8% in April 2022 to 7.0% in May 2022, lower than many advanced and emerging market economies. Yet retail inflation in India has been above the tolerance limit of 6%, for now, for five successive months causing the monetary policy to drop its accommodative stance and fiscal policy to cut indirect taxes and administered prices
- Retail food inflation has been higher than non-food and the difference may be partly attributed to the onset of summer heat waves as retail vegetable inflation, with a weight of 6% in CPI basket, increased to 18.26% in May 2022.
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- The non-food inflation has been mainly fuelled by sharp volatility and uptick in global crude oil prices. The average price of dated Brent crude rose from USD 105.8 / barrel in April 2022 to USD 112.4 / barrel in May 2022, as the Chinese cities of Shanghai and Beijing eased Covid-19 norms and international markets priced in the European Union's plans to cut its Russian oil consumption by 90% by the end of 2022.

Power



- Rising economic activity and intense heatwaves enveloping the country's northwest and central regions have increased the demand for power in the country throwing up the challenge of coal availability for India's largely thermal-based power generation plants.
- Although electricity generation rose in May 2022, higher than its pre-pandemic level, with a somewhat larger share of hydro and renewables, the country's dependence on thermal power generation continues to be excessive underlying the importance of feeding it with adequate coal supplies.
- India produces enough coal to maintain coal stock equivalent to 30 days of demand. Yet if power generating plants have stock equivalent to 9 days of demand, it implies that there aren't enough railway racks available to move coal from the mines to the plants.

Consumption

- According to RBI's consumer confidence survey for May 2022, consumer confidence, measured by the current situation index (CSI) has been consistently improving since July 2021 as the sentiments on the key parameters like employment and household income improved further in the latest round of the survey, though they remained in the pessimistic zone. CSI improved to 75.9 in May, from 71.7 in the previous bi-monthly survey.

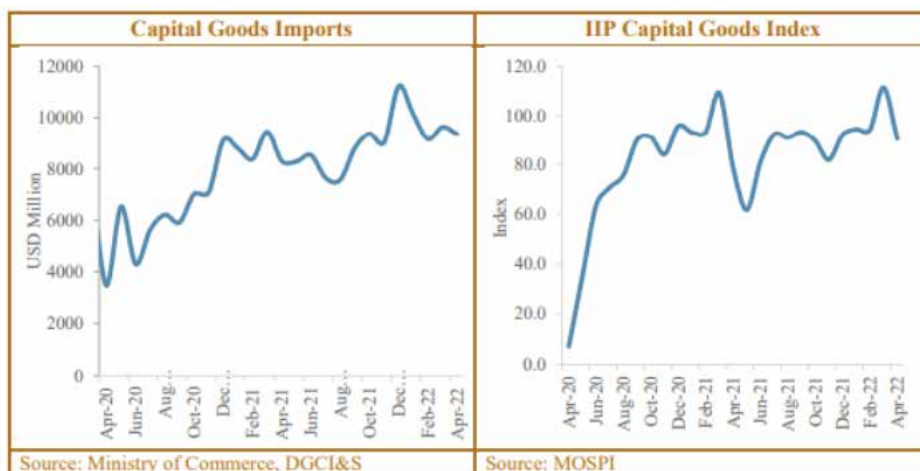
UPI

- Value of UPI transactions processed through the National Payment Corporation of India (NPCI) stood at Rs. 10.4 lakh crore during May 2022, highest since UPI was launched in 2016, registering MoM growth of 5.9% while the volume of UPI transactions stood at 599 crore growing MoM at 7.4%

Trade

- Following sustained growth, the value of merchandise exports in May 2022 reached USD 38.9 billion registering YoY growth of 20.6%. Engineering goods, petroleum products, electronic goods etc. are among the major drivers of export growth.
- Merchandise imports also witnessed a remarkable YoY growth of 62.8% and stood at USD 63.2 billion, driven mainly by a steep rise in POL and gold imports.

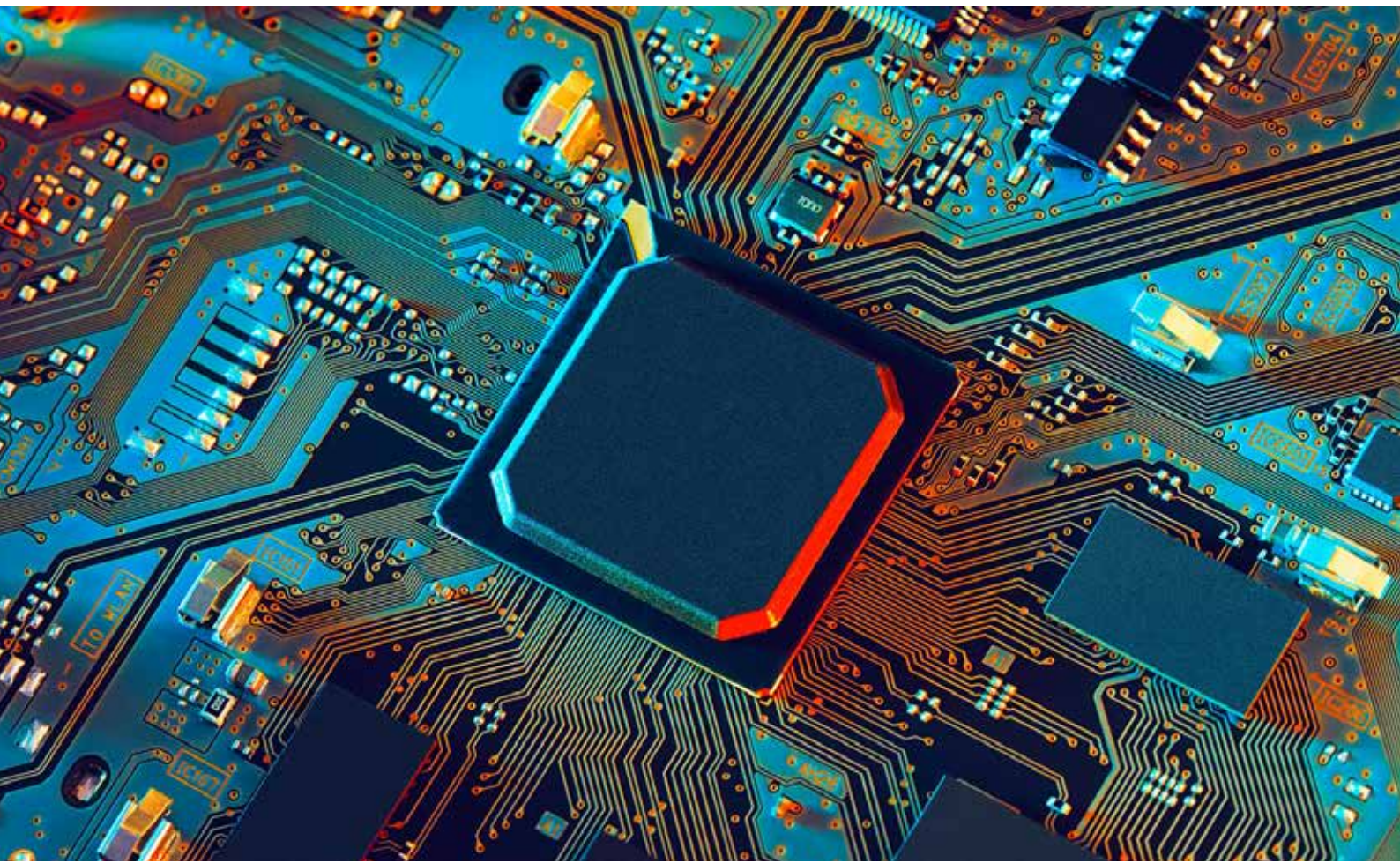
Investment



- India's macrofundamentals continue to foster a healthy investment environment. Capital goods imports in April 2022 have increased by 13% Y-o-Y, and are also higher than the levels in April 2019 by 8.3%.
- Capital expenditure incurred by the government in FY 2021-22 stood at Rs. 5.9 lakh crore or about 98.5% of revised estimates, and was higher than the capital expenditure in FY 2020-21 by 39.3%.

CONCLUSION

The high-wire balancing act between maintaining growth momentum, restraining inflation, keeping the fiscal deficit within budget and ensuring a gradual evolution of the exchange rate in line with underlying external fundamentals of the economy is the challenge for policymaking this financial year. Successfully pulling it off will require prioritising macroeconomic stability over near-term growth. The reward for such a policy discipline will be the availability of adequate domestic and foreign capital to finance India's investment needs and economic growth that fulfils the employment and quality of life aspirations of millions of Indians



For more information:

Ministry of Finance, Department of Economic Affairs
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