ECONOMY

State of the Economy

• **Q2 2021-22 GVA Growth at 8.5%**: As per the quarterly estimates of Gross Value Added (GVA) released by National Statistics Office (NSO), during Q2 2021-22, quarterly GVA at Basic Prices at Constant (2011-12) Prices is estimated at ₹32.89 lakh crore, as against ₹30.32 lakh crore in Q2 2020-21, showing a growth of 8.5% (Fig. 1). GDP at Constant (2011-12) Prices is estimated at ₹35.73 lakh crore, as against ₹32.97 lakh crore in Q2 2020-21, showing a growth of 8.4%.

• **H1 2021-22 GDP Growth at 13.7%**: As per the estimates released by NSO, during April-September 2021-22 (H1 2021-22), GDP at Constant (2011-12) Prices is estimated at ₹68.11 lakh crore (as against ₹59.92 lakh crores during the corresponding period of previous year), showing a growth of 13.7%.

![Fig.1: Growth in GVA: Q2 2021-22 (YoY) (in %)](image)

Source-MoSPI


• **Monthly Trade Deficit widens to $23.27 billion**: India’s merchandise exports rose 26.49% year-on-year to $29.88 billion in November-2021, on account of healthy growth in sectors such as engineering, petroleum, chemicals and marine products. The imports witnessed a higher proportionate growth at 57.18%, to $33.81 billion, taking the monthly trade deficit to record high of $23.27 billion.

• **Unemployment declines at all-India level, but urban unemployment rises**: The unemployment rate at all-India level declined marginally to 7% in November-2021, from 7.75% in October-2021, on account of decline in unemployment rate for rural areas from 7.91% to 6.44%. However, the urban unemployment rate rose from 7.38% in October 2021 to 8.21% in November 2021.

• **IIP expands by 3.1%**: As per the latest data on Index of Industrial Production (IIP) released by the Ministry of Statistics & Programme Implementation (MoSPI), the industrial production for the month of September grew (YoY) by 3.1% (up from 1% growth observed in the same month last year). IIP had increased by 11.9% in the month of August.

Inflation – Recent Developments & Outlook

• **CPI-Inflation rises 4.48% in October**: As per the data released by the NSO, retail inflation based on Consumer Price Index (Combined) rose to 4.48% (YoY) in October (Fig. 2), rising slightly from 4.35% a month ago, on account of rising food prices, fuel prices, commodity prices, etc. Inflation from the food and beverages segment remained low at 1.82%, while that from the fuel and light category stayed elevated at 14.35%. Within the food prices, vegetables prices declined at 19.43% in October.

![Fig. 2: Change in CPI-Inflation in India (in %)](image)

Source-MoSPI

• **Increase in WPI Inflation to 12.54%**: India’s WPI inflation increased to 12.54% in October (up from 10.66% during September and 11.64% during August). The fuel & power sub-sector registered a rise in prices of 37.18%, while the prices of ‘manufactured articles’ grew at 12.04%.

• **Release of strategic reserves of crude oil by various countries such as U.S.A., Japan, China, etc. in the market has allowed the price of crude to decline in international market, raising hopes of a more benign inflation outlook for near future.**

• **RBI Projects Q3 CPI-Inflation at 5.1% and Q4 Inflation at 5.7%**: Based on an assessment of the macroeconomic situation and outlook, RBI has projected the CPI-inflation to remain at 5.1% in Q3 2021-22 and 5.7% in Q4 2021-22.
Economic Outlook

- **Economic growth rate for FY22 expected to be high:** The economic outlook for the Indian economy remains positive, with various organisations predicting the economy to register a high rate of economic growth. For instance, Nomura has kept India’s real GDP growth projection for 2021-22 unchanged at 9.2%, while revising GDP growth forecast for calendar year 2021 to 8.2% from 7.7% estimated earlier. Similarly, the State Bank of India (SBI) has projected 10% GDP growth for India in FY22.

- **‘Fitch’ retains India’s sovereign rating:** The ratings agency ‘Fitch’ has kept India’s long-term foreign-currency issuer default rating at 'BBB-' with the outlook being negative. According to the report, India's rating is the result of a balance between still-strong medium-term growth outlook, external resilience from solid foreign reserve buffers, against high public debt and weak financial sector. India’s negative outlook on rating reflects lingering uncertainty around medium-term debt trajectory.

- **Barclays projects India’s CAD to be 1.9% of GDP:** According to a report by the British brokerage 'Barclays', the current account deficit (CAD) has been predicted to rise to 1.9% of GDP at $60 billion for 2021-22, as compared to $45 billion forecasted earlier.

- **Increase in Capex by State Govts.:** According to a recent report, the capital expenditure incurred by 20 state governments has increased by 79% in the first half of the present financial year, compared to a decline of 31% in the corresponding period of FY21. Rising public investment is an encouraging sign, since it can lead to other positive developments such as benevolent climate for private investments and thereby spur economic growth in the medium term.

- **Acreage under rabi crops impressive:** Acreage under rabi crops has been expanding at an impressive rate. For instance, as on November 19, 2021 it increased (YoY) by 8.9% to 26.1 million hectares, a positive signal for the macro-economic environment of the upcoming year.

- **Consumer survey shows optimism about future:** According to a survey by Deloitte Touche Tohmatsu India, 77% of Indian respondents are optimistic about their financial situation within the next three years, a positive sign regarding consumer sentiments.

Interest Rate Outlook

- **The Federal Reserve (Fed) announced on 03.11.2021 that it will begin the ‘tapering’ process, that is, the process of slowly pulling back the stimulus being provided since March 2020, originally initiated with the objective of reducing the adverse impact of the COVID-19 pandemic on the economy. Earlier, the Fed was buying $80 billion in Treasuries and $40 billion in housing-backed securities each month. Experts believe that the Indian markets are unlikely to be affected significantly due to the ‘taper’ plan announced by the Fed.**

- **Due to rising inflation in India as well as in other major countries of the world, market participants continue to speculate about the timing of hike in interest rates by the major Central Banks around the world. Many experts believe that some of the major Central Banks may raise the benchmark interest rates earlier than expected.**

**Decisions during Meeting of the Monetary Policy Committee: 06-08 Dec**

On the basis of assessment of the current macroeconomic situation, the MPC has decided as under:

- To keep the policy repo rate under liquidity adjustment facility (LAF) unchanged at 4.0 percent. The reverse repo rate under LAF remains unchanged at 3.35% and marginal standing facility (MSP) rate and Bank Rate at 4.25%.

- Continue with accommodative stance to revive & sustain growth on a durable basis and continue to mitigate the impact of COVID-19 on the economy

- The projection for real GDP growth is retained at 9.5 per cent in 2021-22, consisting of 6.6 per cent in Q3 and 6.0 per cent in Q4 of 2021-22.

- The recovery of aggregate demand hinges on private investment, which is still lagging. The MPC regarded the accentuation of headwinds emanating from global developments as the main risk to the domestic outlook, which is now somewhat clouded by the Omicron variant of novel Coronavirus (COVID-19).
Dashboard of Situation Assessment of Livestock Holding of Households in Rural India 2019

**Percentage of rural households reporting owning of livestock/poultry**

<table>
<thead>
<tr>
<th></th>
<th>In Milk Stock</th>
<th>Young Stock</th>
<th>Others</th>
<th>In Milk Stock</th>
<th>Young Stock</th>
<th>Others</th>
<th>Ovine and others</th>
<th>Poultry or others</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cattle</td>
<td>16.4</td>
<td>10.7</td>
<td>21.9</td>
<td>10.7</td>
<td>5.4</td>
<td>0.2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Buffalo</td>
<td>19.6</td>
<td>12.5</td>
<td></td>
<td>11.7</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Average number of livestock/poultry per 100 rural households**

<table>
<thead>
<tr>
<th></th>
<th>In Milk Stock</th>
<th>Young Others</th>
<th>Other Sizes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cattle</td>
<td>21.9</td>
<td>31.1</td>
<td>14.8</td>
</tr>
<tr>
<td>Buffalo</td>
<td>29.5</td>
<td>18.5</td>
<td>8.1</td>
</tr>
<tr>
<td>Ovine</td>
<td>188.8</td>
<td>133.9</td>
<td>2.1</td>
</tr>
</tbody>
</table>

**Average monthly paid out expenditure for farming of animals**

```
<table>
<thead>
<tr>
<th>₹ total expenses</th>
<th>0 - 0.01</th>
<th>0.01 - 0.40</th>
<th>0.40 - 1.00</th>
<th>1.01 - 2.00</th>
<th>2.01 - 4.00</th>
<th>4.01 - 10.00</th>
<th>&gt; 10.00</th>
</tr>
</thead>
<tbody>
<tr>
<td>Size of landholding (ha.)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
```

**Percentage distribution of average monthly paid out expenditure**

```
<table>
<thead>
<tr>
<th>₹ total expenses</th>
<th>&lt; 0.01</th>
<th>0.01 - 0.40</th>
<th>0.40 - 1.00</th>
<th>1.01 - 2.00</th>
<th>2.01 - 4.00</th>
<th>4.01 - 10.00</th>
<th>&gt; 10.00</th>
</tr>
</thead>
<tbody>
<tr>
<td>Size of landholding (ha.)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
```

**Per Household Monthly Income**

```
<table>
<thead>
<tr>
<th>In Milk Stock</th>
<th>Young Stock</th>
<th>Others</th>
<th>Other Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cattle</td>
<td>9168</td>
<td>5087</td>
<td>1666</td>
</tr>
<tr>
<td>Buffalo</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ovine</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Poultry</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
```

**Per Household Monthly Expenditure**

```
<table>
<thead>
<tr>
<th>In Milk Stock</th>
<th>Young Others</th>
<th>Other Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cattle</td>
<td>6550</td>
<td>5088</td>
</tr>
<tr>
<td>Buffalo</td>
<td></td>
<td>526</td>
</tr>
</tbody>
</table>
```

**Key Findings of Situation Assessment Survey of Livestock Holding of Households in Rural India (2019)**

- Dairy and fisheries contributes maximum in the income from farming of animals, while cost of animal feeds holds the maximum share in total expenditure in farming of animal.
- At all India level, monthly income per household from farming of animal is ₹3,704 while the expenditure is ₹3,018. However, the distribution of income and expenditure is not similar in all the states.
- Income in NE states are significantly higher from animal farming in comparison to other states. Monthly net income generated by households in Arunachal Pradesh is ₹5,668, which is maximum in the country.
- Monthly receipt from animal farming in Haryana and Punjab are very high in comparison to other states but net income in Haryana is negative while in Punjab it is just ₹1,064. This is mainly due to high expenditure in animal feed/fodder.
- Eastern states have lots of potential to generate revenue from animal farming, as both income and expenditure are low in eastern region.
State Finances: A Study of Budgets of 2021-22

This edition of Report Think covers the captioned report released by the Reserve Bank of India (RBI) covering the analysis & assessment of states finances for the FY22 against the backdrop of FY 20 & FY 21. Acknowledging the important role played by Local Governments in fight against COVID-19 the theme of this year’s Report is kept as “Coping with the Pandemic: A Third-Tier Dimension”.

Findings

1. Fiscal Performance of the States: Large deviation was seen between the Budget Estimates (BE) and the Revised Estimates (RE) for the year 2020-21, as most of the states released their budgets for 2020-21 before the outbreak of the first wave of COVID-19. For 2021-22, States have budgeted the Gross Fiscal Deficit (GFD)-GDP ratio at 3.7%, with most of them breaching the 3.0 % threshold set under FRBM Act. The improvement over 2020-21 is expected to be achieved through improved tax collection.

2. Expenditure plans of States- In spite of twin impact of a contraction in economic activity and increase in fiscal deficit to accommodate the fiscal stimulus, the BE reveal a continuation of robust expenditure growth. Compared to revised estimates (RE) of 2020-21, deceleration in expenditure on social safety nets and on Medical and Public Health is seen in 2021-22 (BE). The 2021-22 (BE) reveal, states have budgeted significantly higher capital expenditure in 2020-21 than in preceding years.

3. Evolving Pattern of Financing and Market Borrowings- The dependence of states on market borrowing for financing GFD has been increasing on back of pandemic related uncertainty around revenue collection and higher government expenditure. Considering the additional expenditure, center has allowed states for additional borrowing of 2% of GSDP for the year 2020-21. Within this additional borrowing limit, 0.5% was kept unconditional; 1% was linked to four citizen-centric areas of reforms: (i) implementation of One Nation One Ration Card System, (ii) ease of doing business reform, (iii) urban local body/ utility reforms and (iv) power sector reforms; and the remaining 0.5% was linked to the completion of at least 3 reforms mentioned above.

4. Increasing Outstanding Liabilities- The debt to GDP ratio for states has increased from 22.6% in 2013 to 31.2% in 2022 (BE). Also the ratio of interest payment to revenue receipts have increased, indicating erosion of debt sustainability.

5. Role of Third-Tier in fight against pandemic- The core functions of local governments was scaled-up to meet multiple objectives viz., emergency healthcare need of the people, implementation and enforcement of lockdown restrictions, and uninterrupted delivery of essential services during the pandemic. Local governments also took extensive support from private sector and NGOs to bridge the gap between the steep rise in demand for health and quarantine facilities and the existing infrastructure.

6. Impact of Pandemic on Local Government finances: Budgetary data of Municipal Corporations reveals that the tax revenue increased by 7.2% during 2020-21(RE) over 2019-20 levels but remained much lower than the BE. The only components which overshot the BE were Revenue grants, contributions and subsidies from the Central and the State governments, indicating higher transfers from the upper tiers of the governments to support municipal finances during the first wave of the pandemic. On expenditure side, all the major components of revenue expenditure witnessed an increase in 2020-21 (RE) over 2019-20, however most of the components fell short of BE.

Way Forward

1. Steps to Improve Debt Sustainability: With combined debt to GDP ratio of states reaching 31% by the end of March-2021, and expected to remain at the same level by the end of March-2022, it becomes important for states to take credible steps to address debt sustainability concerns.

2. Power Sector Reforms: As recommended by 15thFC, the improvement in state fiscal position in medium term will largely depend on power sector reforms. This will not only facilitate additional borrowings by the state but also will reduce its contingent liabilities due to improvement in financial health of DISCOMs.

3. Strengthening the Local Government’s: Local institutions can be critical for effective interventions and building strong resilience against a once-in-a lifetime health crisis like Covid-19 pandemic. Increasing the functional autonomy, strengthening their governance structure and financial empowerment via higher resource allocation can help to build strong local institutions at grass root level.

Source:https://rbidocs.rbi.org.in/rdocs/Publications/PDFs/STATEFINANCE2021227C651261RODD46C306E448E1D6528D88.PDF