# MACRO-ECONOMIC FRAMEWORK STATEMENT 2021-22

## Overview of the Economy

The Indian economy was negatively impacted by an unprecedented health crisis in 2020-21 with the highly contagious corona virus (Covid-19) spreading across the country. In response to the pandemic, Government has taken several proactive preventive and mitigating measures starting with progressive tightening of international travel, issue of advisories for the members of the public, setting up quarantine facilities, contact tracing of persons infected by the virus and various social distancing measures. Government imposed a strict 21 days nationwide lockdown from 25th March, 2020, under the Disaster Management Act, 2005, with subsequent extensions and relaxations, to contain the spread of Covid-19 while ramping up the health infrastructure in the country. The lockdown measures, imposed to contain the spread of Covid-19 pandemic in India, ubiquitously affected employment, business, trade, manufacturing, and services activities. The real Gross Domestic Product (GDP) growth is projected to contract by 7.7 percent in 2020-21 as compared to a growth of 4.2 percent in 2019-20. GDP growth, however, is expected to rebound strongly in 2021-22 owing to the reform measures undertaken by the Government.

The Government announced a special economic and comprehensive package under Atmanirbhar Bharat of ₹ 20 lakh crore - equivalent to 10 percent of India’s GDP – to fight the Covid-19 pandemic in India. Several structural reforms announced as part of the package, *inter alia*, include deregulation of the agricultural sector, change in definition of MSMEs, new PSU policy, commercialization of coal mining, higher FDI limits in defence and space sector, development of Industrial Land/ Land Bank and Industrial Information System, Production Linked Incentive Schemes, revamp of Viability Gap Funding scheme for social infrastructure, new power tariff policy and incentivizing States to undertake sector reforms. Apart from this, various steps were taken to boost consumption which, inter alia, includes cash payment in lieu of the Leave Travel Concessions (LTC) scheme, One-time special Festival advance of ₹ 10,000 (interest-free) for central Government employees. Other steps such as Interest-free 50-year loan to states, additional capital expenditure budget for the central Government, launch of Emergency Credit Line Guarantee Scheme (ECLGS) 2.0, ₹ 1.46 lakh crore boost for manufacturing through Production-linked incentives for ten Champion Sectors, ₹ 18,000 crores additional outlay for PM Awaas Yojana (PMAY) –Urban, Equity infusion in National Investment and Infrastructure Fund (NIIF) Debt Platform, Demand booster for Residential Real Estate Income Tax relief for Developers & Home Buyers, Boost for Project Exports, Capital and Industrial Stimulus has been initiated to support economic growth.

## Economic growth

As per the first Advance Estimates of annual national income released by the National Statistical Office (NSO), Real GDP is estimated to contract by 7.7 percent in

2020-21, as compared to a growth of 4.2 percent in 2019-20. This contraction in GDP growth is mainly attributed to the contraction in industry and services sector. The growth of Gross Value Added (GVA) at constant (2011-12) basic prices is estimated to contract by 7.2 percent in 2020-21, as compared to a growth of 3.9 percent achieved in 2019-20. Positive growth in real GVA in agriculture & allied sectors at 3.4 percent in 2020-21 against 4.0 percent in PE of 2019-20 indicates resilience of rural economic activity to the Covid-19 pandemic. From the demand side, private consumption expenditure is estimated to contract at 9.5 percent in 2020-21 as against a growth of 5.3 percent in 2019-20 and fixed investment is estimated to decline by 14.5 percent in 2020-21 as against 2.8 percent in 2019-20. Government consumption final expenditure is estimated to grow at 5.8 percent in 2020-21 as against 11.8 percent in 2019-20. Exports and imports of goods and services are estimated to contract at 8.3 percent and 20.5 percent (at constant prices) respectively in 2020-21.

**Prices**

Inflation based on Consumer Price Index-Combined (CPI-C) has moderated from 5.9 percent in 2014-15 to 3.4 percent in 2018-19 and 4.8 percent in 2019-20. It averaged 6.6 percent in 2020-21 (Apr-Dec) and stood at 4.6 percent in December 2020. Food inflation based on Consumer Food Price Index (CFPI) declined from 6.4 percent in 2014-15 to 0.1 percent in 2018-19 and recorded 6.7 percent in 2019-20. It averaged 9.1 percent in 2020-21 (Apr-Dec) and stood at 9.5 percent in November 2020 but drastically declined to 3.4 percent in December 2020. Inflation measured in terms of Wholesale Price Index (WPI) declined from 4.3 percent in 2018-19 to 1.7 percent in 2019-20. It averaged (-) 0.1 percent in 2020-21 (Apr-Dec) and stood at 1.2 percent in December 2020.

The Government constantly monitors the prices situation and has taken number of measures from time to time to stabilize prices of essential food items. These include appropriately utilizing trade and fiscal policy instruments like import duty, Minimum Export Price, export restrictions, etc., to regulate domestic availability and moderate prices; imposition of stock limits and advising States for effective action against hoarders and black marketers; and, provision of higher Minimum Support Prices to incentivize farmers for increasing production. Government also implements Price Stabilization Fund (PSF) to help moderate the volatility in prices of agri-horticultural commodities like pulses, onion, and potato. In the wake of rising prices of pulses, onion and potato, the Government has taken several steps to improve the availability of these commodities and make them available to consumers at affordable prices. These include: (i) Banning the export of onions with effect from 14.09.2020, subsequently, revoked w.e.f 1.01.2021; (ii) Imposition of stock limits on onion under the Essential Commodities Act, 2020 w.e.f 23.10.2020 to 31.12.2020 to prevent hoarding; (iii) Easing of restrictions on imports, issuance of licenses for imports and reduction in import duties of pulses. These measures have resulted in increased imports of onion, Tur dal and Masur dal in the country and resultant cooling of prices.

For long term price stabilization, the Government has announced a series of measures under the Atma Nirbhar Package viz; Operation Greens project extended from TOP (Tomato, Onion and Potato) to all fruits and vegetables (TOTAL) for better price realization of farmers, reduced wastage and affordability of products for consumers; establishing storage facilities in PPP mode to use irradiation technology for food preservation to assist farmers; Essential Commodities Act, 1955 amended to attract investments in storage and warehousing.

**Central Government Finances**

The fiscal deficit and revenue deficit for 2020-21 were budgeted at 3.5 percent of GDP and 2.7 percent of GDP respectively. The BE 2020-21 envisaged a tax to GDP ratio of 10.8 percent and total expenditure to GDP ratio of 13.5 percent. The envisaged growth for Gross Tax Revenue was 12 percent over 2019-20 Revised Estimates (RE). The total expenditure in BE 2020-21 was estimated to increase by 12.7 percent over 2019-20 RE. However, the Covid-19 pandemic severely affected the Government revenues, while exerting pressure to increase Government Expenditure.

As per the data on Union Government Finances released by Controller General of Accounts for April-November 2020, the Gross Tax Revenue decreased by 12.6 percent over the corresponding period of the previous year achieving 42.4 percent of the budget estimate. The non-tax revenue declined by 46.6 percent during April- November 2020, over the corresponding period of the previous year achieving 32.3 percent of the budget estimate. At the end of November 2020, the non-debt capital receipts stood at 8.1 percent of the budget estimate.

During April- November 2020, fiscal deficit reached 135.1 percent of the budgeted amount in 2020-21 higher relative to 114.8 percent of the budget estimate during the corresponding period of the previous year. The revenue deficit for April-November 2020 is 139.9 percent of the budget estimate and is higher than the corresponding figure of 128.4 percent in the previous year. The Revised Estimates place fiscal and revenue deficits at 9.5 percent of GDP and 7.5 percent of GDP respectively in 2020-21.

**Monetary Management and Financial Intermediation**

Monetary policy remained accommodative during 2020. The Monetary Policy Committee (MPC) of the Reserve Bank met five times since March 2020. In view of the Covid-19 pandemic, the MPC advanced its first two meetings of 2020-21 from first week of April to end March and from first week of June to 20$^{th}$ May-22$^{nd}$ May. The repo rate has been cut by 115 bps since March 2020, with 75 bps cut in first MPC meeting in March 2020 and 40 bps cut in second meeting in May 2020. The policy rates were kept unchanged in further meetings, but the liquidity support was significantly enhanced.

During 2020-21, the growth of monetary aggregates witnessed higher growth as compared to previous few years on account of higher liquidity in the economy. In 2020-21 so far, Reserve money (M0) recorded a Year on Year (YoY) growth of 15.1 percent as on January 1, 2021 as compared to 12.3 percent a year ago. Expansion in M0 during 2020-21 so far was driven by currency in circulation (CIC) from the component side. The growth of Broad Money (M3) stood at 12.4 percent as on December 18, 2020, as compared to 10.4 percent in the corresponding period a year ago. Aggregate deposits contributed the most in the growth of M3.

**External Sector**

Merchandise exports (customs basis) during 2020-21 (April-December), were US$ 200.8 billion, which declined by 15.7 percent over the level of US$ 238.3 billion in the corresponding period of the previous year. During 2020-21 (April-December), merchandise imports were US$ 258.3 billion, registering a decline of 29.1 percent over the level of US$ 364.2 billion in corresponding period of the previous year. Oil imports declined from US$ 96.7 billion in 2019-20 (April-December) to US$ 53.7 billion in 2020-21 (April-December). Merchandise trade deficit improved from US$ 125.9 billion in 2019-20 (April-December) to US$ 57.5 billion in 2020-21 (April-December).

Amidst the uncertain and shaky global economic environment affected by Covid-19, India’s external sector has emerged as a key cushion for resilience. In H1: FY 2020-21, steep contraction in merchandise imports and stable net service receipts led to a current account surplus of US$ 34.7 billion (3.1 percent of GDP). Balance on the capital account, on the other hand, has been buttressed by robust FDI and FPI inflows. These developments have led to an accretion of foreign exchange reserves that rose to US$ 580.8 billion as on December 25, 2020.

The net FDI inflows at US$ 23.8 billion in H1of 2020-21 were higher than US$ 21.3 billion in corresponding period of previous year, an endorsement of India’s status as a preferred investment destination amongst global investors. After unprecedented sell-offs in March 2020 reflecting recessionary fears among global investors at the onset of the pandemic, foreign portfolio investment (FPI) witnessed strong rebound and recorded a net inflow of US$ 7.6 billion in H1of 2020-21, more than the level recorded in H1: 2019-20.

The average monthly exchange rate of rupee (RBI's reference rate) was ₹ 74.66 per US dollar in 2020-21 (April-December), as compared to ₹ 70.11 per US dollar during 2019-20. As compared to end-March 2020, there was a decrease in external debt of US$ 2.0 billion, which stands at US$ 556.2 billion as at end-September, 2020. However, the external debt to GDP ratio stands at 21.6 percent as at end-Sept, 2020, as against 20.6 percent as at end-March, 2020.

**Banking and Non-Banking Sector**

Bank credit growth was 6.1 percent as on December 18, 2020 as compared to 7.1 percent in the corresponding period of the previous year. The non-food credit growth (YoY) was 5.6 percent in October 2020, as compared with a growth of 8.3 percent in October 2019. The moderation in credit growth in 2020-21 was witnessed in mostly all the sectors, barring services.

Gross Non-Performing Advances (GNPA) ratio (i.e. GNPAs as a percentage of Gross Advances) of Scheduled Commercial Banks decreased from 8.2 percent at the end-March 2020 to 7.5 percent at end-September 2020. Restructured Standard Advances (RSA) ratio of Scheduled Commercial Banks (SCBs) increased from 0.36 percent to 0.41 percent during the same period. Overall, the Stressed Advances ratio of SCBs decreased from 8.6 percent at the end of March 2020 to 7.9 percent at end- September 2020. GNPA ratio of Public Sector Banks (PSBs) decreased from 10.25 percent at the end-March 2020 to 9.4 percent at the end-September 2020 and the Stressed Advances ratios decreased from 10.75 percent at end-March 2020 to 9.96 percent at end-September 2020. However, this has to be seen in conjunction with the asset classification relief provided to borrowers on account of Covid-19.

**Non-Banking Financial Sector**

Total assets of NBFCs had increased from ₹23.41 lakh crore in March 2018 to ₹29.23 lakh crore in March 2019, and further to ₹33.91 lakh crore in March 2020, resulting in an annual growth of 16.01 percent during 2019-20 as compared with 24.86 percent in 2018-19. There is an observable shift in the sources of funding of NBFCs. Banks' total exposure to NBFCs increased from ₹7.01 lakh crores in March 2019 to ₹8.04 lakh crores in March 2020, and further to ₹8.17 lakh crores in June 2020.

**Agriculture**

In 2019-20 (as per Fourth Advance Estimates), total food grain production in the country is estimated at 296.65 million tonnes which is higher by 11.44 million tonnes than the production of food grain of 285.21 million tonnes during 2018-19. Rice production during 2019-20 is estimated at 118.4 million tonnes as compared to 116.5 million tonnes in 2018-19. Wheat production during 2019-20 is estimated at 107.6 million tonnes as compared to 103.6million tonnes during 2018-19. Government has increased Minimum Support Prices (MSP) for all mandated kharif, rabi and other commercial crops. The enhanced MSP ensures a return of 1.5 times overall India weighted average cost of production for the season 2020-21.

Milk production in the country has increased from 146.3 million tonnes (2014-15) to 198.4 million tonnes (2019-20). The per capita availability of milk is at 412 grams per day in (2019-20). The egg production in the country also increased from 103318 million in 2018-19 to 114419 million in 2019-20. The fish production in India has reached an all-time high of 14.07 million metric tons during 2019-20. Overall, the Fisheries sector of India has sustained an impressive average annual growth rate of over 10 percent from 2014-15 to 2018-19.The agricultural credit flow target for the year 2019-20 was fixed at ₹13,50,000 crore and against this target the achievement was ₹13,92,469.81 crore. The agriculture credit flow target for 2020-21 has been fixed at ₹15,00,000 crore and till 21st October, 2020 against this target a sum of ₹6,95,360.82 crore has been disbursed.

**Industry**

The performance of the industrial sectors based on the Index of Industrial Production (IIP) comprising mining, manufacturing and electricity registered a growth of (-) 0.8 percent in 2019- 20 as compared to 3.8 percent in 2018-19. As per the sectoral classification, mining, manufacturing and electricity sectors registered 1.6 percent, (-) 1.4 percent and 1.0 percent growth during 2019-20 respectively. Among the use-based categories, primary goods, capital goods, intermediate goods, infrastructure/construction goods, consumer durables goods and consumer non-durables goods have attained 0.7 percent, (-) 13.9 percent, 9.1 percent, (-) 3.6 percent, (-) 8.7 percent and (-) 0.1 percent growth respectively in 2019-20. The cumulative growth of IIP during April-November 2020-21 is (-) 15.5 percent as compared to 0.3 percent during April- November 2019-20.

The eight core infrastructure supportive industries, viz. coal, crude oil, natural gas, refinery products, fertilizers, steel, cement and electricity that have a total weight of nearly 40 percent in the Index of Industrial Production (IIP) grew by 0.4 percent in 2019-20 as compared to 4.4 percent in 2018-19. The production of refinery products, fertilizers, steel and electricity increased by 0.2 percent, 2.7 percent, 3.4 percent and 0.9 percent respectively during 2019-20while the production of coal, crude oil, natural gas and cement fell by 0.4 percent, 5.9 percent, 5.6 percent and 0.9 percent respectively during the same period. The cumulative growth of eight core industries during April-November 2020-21 is (-) 11.4 percent as compared to 0.3 percent during April- November 2019-20.

**Prospects**

The stimulus measures and reforms initiated by the Government and liquidity measures by the RBI are expected to support industrial activity and demand. The movement of various high frequency indicators in recent months, points towards broad based resurgence of economic activity. The launch of Covid-19 vaccination programme in the country will further add momentum to the economic recovery. In line with the projections for strengthening of India’s growth by multi-lateral institutions, the nominal growth of the economy is expected to be 14.4 percent in the financial year 2021-22.

| MACROECONOMIC FRAMEWORK STATEMENT (ECONOMIC PERFORMANCE AT A GLANCE) | | | | | |
|---|---|---|---|---|---|
| Sl. | Item | Absolute value | | Percentage change | |
| | | April-December | | April-December | |
| | | 2019-20 | 2020-21 | 2019-20 | 2020-21 |
| **Real Sector** | | | | | |
| 1 | GDP at market prices (₹thousand crore) @ | | | | |
| | a)at current prices | 20340 | 19482 | 7.2 | -4.2 |
| | b)at 2011-12 prices | 14566 | 13440 | 4.2 | -7.7 |
| 2 | Index of Industrial Production(2011-12=100)@@ | 128.1 | 108.3 | 0.3 | -15.5 |
| 3 | Wholesale Price Index (2011-12=100)^ | 121.7 | 121.6 | 1.5 | -0.1 |
| 4 | Consumer Price Index: Combined (2012=100)^ | 145.3 | 154.9 | 4.1 | 6.6 |
| 5 | Money Supply (M3) (₹thousand crore)$ | 16061.6 | 18059.1 | 10.4 | 12.4 |
| 6 | Imports at current prices * | | | | |
| | a)In ₹Crore | 2562540 | 1922790 | -6.4 | -25.0 |
| | b)In US $ million | 364184 | 258272 | -7.2 | -29.1 |
| 7 | Exports at current prices * | | | | |
| | a)In ₹Crore | 1677371 | 1495706 | -1.5 | -10.8 |
| | b)In US $ million | 238274 | 200802 | -2.4 | -15.7 |
| 8 | Trade Balance (US$ million) * | -125910 | -57470 | -15.1 | -54.4 |
| 9 | Foreign Exchange Reserves (at end March) | | | | |
| | a) In ₹Crore | 3264729 | 4272332 | 18.62 | 30.86 |
| | b) In US $ million | 457468 | 580841 | 16.28 | 26.97 |
| 10 | Current Account Balance (US$ Billion)# | -22.5 | 34.8 | | |
| **Government Finances (₹Crore)##** | | | | | |
| | | **April-November** | | | |
| 1. Revenue Receipts | | 983214 | 812710 | 13.0 | -17.3 |
| Gross tax revenue | | 1174143 | 1026055 | 0.8 | -12.6 |
| Tax (net to Centre) | | 750614 | 688430 | 2.6 | -8.3 |
| Non Tax | | 232600 | 124280 | 67.8 | -46.6 |
| 2. Capital Receipts, of which | | 836843 | 1093648 | 12.6 | 30.7 |
| Recovery of loans | | 10910 | 11962 | 4.2 | 9.6 |
| Other Receipts | | 18099 | 6179 | 14.5 | -65.9 |
| Borrowings and other liabilities | | 807834 | 1075507 | 12.7 | 33.1 |
| 3. Total Receipts (1+2) | | 1820057 | 1906358 | 12.8 | 4.7 |
| 4.Total Expenditure | | 1820057 | 1906358 | 12.8 | 4.7 |
| (a)Revenue Expenditure | | 1606215 | 1665200 | 13.0 | 3.7 |
| (b)Capital Expenditure | | 213842 | 241158 | 11.7 | 12.8 |
| 5. Revenue Deficit | | 623001 | 852490 | 13.0 | 36.8 |
| 7. Fiscal Deficit | | 807834 | 1075507 | 12.7 | 33.1 |
| 8. Primary Deficit | | 466022 | 692082 | 26.5 | 48.5 |

*@: GDP is from April to March and 2019-20 is provisional estimate and 2020-21 is the first advance estimate.*
*@@: April to November*
*^: Provisional for 2020-21 and CPI-C for the months of April-May, 2020 are imputed, which are based on limited set of observations due to Covid-19 pandemic*
**: On Customs basis.*
*$: as on December 18, 2020*
*#: April – September.*
*##: Based on data on monthly accounts for April to November 2020 released by Controller General of Accounts, Ministry of Finance.*