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Monthly Economic Report – August 2022

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What's in News?

Ministry of Finance have released the Monthly Economic Report for August 2022.

This report is compiled by the **Department of Economic Affairs** under the Ministry of Finance

Report Highlights:

(i) India's Progress in 75 Years of Independence:

- **GDP per capita** is at ?1.7 lakhs in the 75th year having **grown eight times since independence** at today's prices.
- Traditional economy becomes a modern one as the share of industry in gross value-added rises from 15.5 per cent at independence to 25.9 per cent in the 75th year while that of services increases from 34.1 per cent to 47.5 per cent.
- **Share of exports in GDP increased by more than three times since independence**, from 6.4 per cent in 1950-51 to 21.5 per cent in 2021-22
- Future generations of India are increasingly secure as infant mortality rate declines from 78.5 deaths per 1000 live births in 1992-93 (NFHS-1) to 35.2 in 2019 (NFHS-5)
- India's population is more educated as the literacy rate increased from 40.8 per cent in 1981 to 74.4 per cent in 2018.

(ii) Q1 of 2022-2023:

- The provisional estimates released by National Statistical Office (NSO) show real GDP in Q1 of 2022-23 going past by nearly 4 per cent the pre-pandemic real GDP level of Q1 of 2019-20.
- Q1 of 2022-23 launches the re-growth phase as India moves up to becoming the **5th largest economy in the world surpassing that of the UK.**
- The contact-intensive services sector which was the worst affected during the pandemic, sharply rebounded on a low base to grow 25.7 per cent

(iii) Surge in Private Consumption:

- The release of **pent-up demand and freer mobility** may not be the only reasons underlying a tremendous growth in private consumption which, having risen from 55.5 per cent of GDP in Q1 of 2021-22 to 61.1 per cent in Q1 of 2022-23.
- Surge in private consumption may also be a reflection of **increasing effectiveness of income support** and **targeted subsidies provided by the government, creation of jobs from elevated levels of public sector capex, and general rise in employment levels.**

(iv) Investments:

- Investment rate to sharply increase from 28.2 per cent of GDP in Q1 of 2021-22 to 29.2 per cent in Q1 of 2022-23, supported by **growth in the production and imports of capital goods**.

(v) Unemployment Rate:

- The expansion in economic activity along with a spurt in employment opportunities has led to a fall in the unemployment rate
- The **unemployment rate is now below pre-pandemic levels**
- The **rate of job creation in the service sector picked up to its strongest in over 14 years**, with improvement seen in each of the sub-sectors including transport, information & communication, finance & insurance and real estate & business services

(vi) Fall in MGNREGA:

- Work demanded under MGNREGS has been diminishing since May and was at its lowest in August 2022, compared to the corresponding period of the previous two years, **signalling a possible reduction in the unemployment rate in rural areas.**
- This fall can be attributed to a **pick-up in agricultural and non-agricultural activities coupled with the end of reverse migration resulting from increased employment opportunities in industrial/urban areas**.

(vii) Global Growth and Trade Outlook Weakens:

- Global composite PMI declined from 50.8 in July, 2022 to 49.3 in August, as manufacturing and services output, mainly in advanced economies contracted.
- The US witnessed a massive slowdown with its rate of decline the steepest since May 2020.
- Japan, Germany, the UK and Italy faced similar contraction of output
- However, manufacturing output and services activity both continued to rise across emerging markets, including that in India besides Brazil and China

(viii) External Sector:

- During Q1 of 2022, **India was the 5th largest recipient of foreign direct investment (FDI)** among the defined set of developed and developing economies
- India's strong forex reserves, which are 3rd largest as compared to other economies are boosted by capital inflows during the two pandemic years and are adequate to cover imports equivalent to 9 months as of July 2022, which is higher than most of the other economies.

(ix) Inflation:

- The post-pandemic inflation is a common to both advanced and developing economies, the phenomenon is more persistent in the former and pre-date the Russia-Ukraine conflict.
- The reason is that advanced economies infused liquidity injections to finance their fiscal measures, implemented in response to the pandemic.
- **The inflation in India is not liquidity driven but due to external factors such as high commodity prices**
- Further, as these external pressures ease, inflationary pressures in India are also likely to subside

(x) Recommendation:

- Vigorous pursuit of asset monetisation at all levels of government will help lower debt stock and hence debt servicing costs.
- That would cause risk premiums to drop and credit rating of India to improve and a virtuous circle would set in as the quality of public expenditure increases in its wake and the private sector enjoys a lower cost of capital

Way forward:

- There is a need for eternal macroeconomic vigilance to ensure sustained growth
- In times when slowing growth and high inflation are afflicting most of the major economies of the world, India's growth has been robust and inflation in control.
- A rapid coverage of vaccination and well-calibrated short-term policy measures have skilfully navigated the economy through turbulent times, preparing a strong foundation to build a prosperous nation in the years ahead.