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A K Bhattacharya
Distinguished Visiting Fellow, Ananta Centre
Editorial Director, Business Standard

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Govt comfortable with Q1 2023-24 revenues and fiscal targets

The Union government's fiscal performance in the first quarter of 2023-24 is on track. This provides some comfort to those responsible for keeping the fiscal deficit under check in an election year when there would be pressure for higher expenditure. On the revenue front, total direct tax collections after refunds were estimated at Rs 3.8 lakh crore from April to June 17 of 2023, posting a 11.2 per cent increase over the same period of 2022. The Budget had set a tax revenue growth target of 9.4 per cent for the full year of 2023-24. Indirect tax collections in the first three months of the current financial year were also growing at a pace faster than the annual required rate of 10.6 per cent. The average monthly collections of goods and services tax (GST) in the first quarter have stayed above

Rs 1.68 lakh crore, well above the target of Rs 1.5 lakh crore. Customs and excise collections also have done well. Non-tax revenues through dividends from public sector undertakings, state-owned banks and the Reserve Bank of India (RBI) would be much higher than the annual target of Rs 91,000 crore. The RBI declared in May a dividend of Rs 87,416 crore for 2023-24, which would help the government exceed the total dividend receipts target of Rs 91,000 crore. The excess in dividends would also help meet the shortfall in disinvestment receipts, whose target at Rs 51,000 crore for 2023-24 is set to be missed by a significant margin. On the expenditure front, the Union finance ministry has pushed all the central ministries to step up their spending. Traditionally, the first half of the financial year sees relatively slow growth in expenditure. Hence, the finance ministry has asked all the central ministries to spend at least half of the allocated budgets under both capital and revenue expenditure by the end of September 2023. This would mean raising the pace of expenditure significantly. In the first half of 2022-23, only about 46 per cent of total annual government expenditure was incurred. Speeding up government expenditure, particularly on capital projects, would not only help the ruling party electorally in the run up to the state Assembly elections, but also keep the economic growth momentum intact in the current financial year.

Multidimensional poverty down, rural-urban divide continues

NITI Aayog, the apex public policy think tank of the Union government, has released a report on the National Multidimensional Poverty Index (NMPI), which showed a 10 percentage point decline in India's overall poverty level. The NMPI is derived from a measurement of as many as 12 parameters aligned to sustainable development goals that capture overlapping deprivations in health, education and living standards. The overall poverty level or the share of multidimensional poor in the Indian population declined to 14.96 per cent in 2019-21, down from 24.85 per cent in 2015-16. This implied that an estimated 135 million people in the country moved out of multidimensional poverty during this period. The NMPI calculations were based on data provided in the National Family Health Survey-V. Earlier in July, the United Nations Development Programme (UNDP) and the Oxford Poverty and Human Development Initiative (OPHI) had come out with a similar estimate on India's multidimensional poverty, which according to their report had declined from 55.1 per cent in 2005-06 to 16.4 per cent in 2019-21. This report had also

estimated that the number of people escaping multidimensional poverty was 415 million. But the NITI Aayog report was slightly different in that it also provided state-level and regional estimates on poverty reduction. Thus, the poverty decline in a few of India’s large states during this period was shown to be quite rapid, beginning with Bihar, where the poverty level was down from 51.89 per cent to 33.76 per cent. The NMPI decline for other states was also quite steep, with the multidimensional poverty declining to 22.93 per cent for Uttar Pradesh (down from 37.68 per cent), 20.63 per cent for Madhya Pradesh (down from 36.57 per cent), 15.31 per cent for Rajasthan (down from 28.86 per cent) and to 11.98 per cent for West Bengal (down from 21.29 per cent). Worryingly, however, rural areas continued to suffer from substantially higher levels of multidimensional poverty compared to that in urban areas, even though the pace of decline of poverty in rural areas was sharper. Thus, poverty slipped to 5.27 per cent in urban areas, compared to 8.65 per cent earlier, while rural areas saw its poverty fall to 19.28 per cent from a much higher level of 32.59 per cent. However, since almost two-thirds of India’s population resides in rural areas, a multidimensional poverty level of over 19 per cent for such a large number of Indians (over 900 million) should be a cause for concern.

Govt releases Annual Economic Review, outlines pros and cons

The Union finance ministry has launched a new initiative to present an annual review of the Indian economy, in addition to the Economic Survey that is usually presented a day or two before the unveiling of the Union Budget. The Annual Economic Review, released in July, listed out many pluses for the economy, but also noted many areas of concerns. Significantly, it stayed away from projecting a new number for economic growth in 2023-24, although many other forecasts including that from the Reserve Bank of India, place it between 6 and 6.5 per cent. Citing the 6.1 per cent growth for India in the January-March 2023 quarter, the Annual Economic Review noted that this momentum, signifying the near-return to the pre-Covid levels of growth, could be nurtured to good effect during 2023-24. With consumption and investment levels having already crossed their pre-pandemic paths and the high-frequency indicators painting a healthy picture, the Annual Economic Review expressed the optimism that the rising tide could lift all boats. The positive factors at play, according to it, were resilient urban demand conditions,

growth in automotive sales, higher fuel consumption and rising Unified Payments Interface transactions. Other positive signs of the economy were: Healthy collections of goods and services taxes, rising inward remittances, strong corporate balance sheets and a vibrant financial sector. There are, however, many areas of concerns as well, according to the Annual Economic Review. These were: Risks of an escalating geopolitical stress, increased volatility in global financial systems, sharp price correction in global stock markets, adverse monsoon conditions, modest trade activity and slowing foreign direct investment inflows. In sum, the Review sounded optimistic that the Indian economy was poised for durable growth during the coming years in spite of many adverse factors like geopolitical stress and global economic slowdown.

Exports decline continues, signs of weakness in service exports

India's merchandise exports continue to face headwinds because of falling external demand for goods. In June 2023, merchandise exports fell 22 per cent to $33 billion, which was the sharpest decline since May 2020, when exports had fallen by 35 per cent (remember, this was the month when Covid had impacted global trade). Merchandise imports in June also fell – by over 17 per cent to $53 billion, which was the sharpest fall since September 2020. Consequently, India's merchandise trade deficit fell to $20 billion, compared to $22 billion in June 2022. But this was no comfort as merchandise exports, which also sustain domestic jobs growth and economic activity, fell in as many as 21 of the 30 key sectors in June. The contraction was as high as 47 per cent for petroleum products, 36 per cent for gems and jewellery, 27 per cent for organic and inorganic chemicals, 11 per cent for engineering goods and 1.2 per cent for cotton yarn. Electronic goods exports with an increase of 45 per cent, pharmaceuticals (5 per cent increase) and handicrafts with a rise of 5 per cent were among the few sectors that saw an improvement in their shipments. With this, the first quarter of 2023-24 saw a cumulative merchandise exports decline of 15 per cent at $103 billion, while imports saw a decline of 13 per cent at $160 billion. A worrying aspect of India's foreign trade in the first quarter of the current financial year is that its services exports grew at less than a per cent (0.74 per cent) in June at $27 billion, for the second month running. In May also, exports grew by only 0.67 per cent, a sharp deceleration from a 26 per cent increase in April. Cumulatively, the first quarter of 2023-24 saw services

exports grow by only 5.5 per cent to $80 billion, while services imports in the same period remained flat at $45 billion. With global economic growth expected to decelerate to 2.1 per cent in 2023, down from 3.1 per cent in 2022, India will face a bigger challenge in boosting its exports, particularly when it may not enjoy the cushion, which the trade account used to have from a substantial service trade surplus.

Retail prices higher, IIP growth also up with wholesale deflation

Key macroeconomic numbers for June offered a mixed picture. Causing concern was the latest print of retail inflation for June. The concern was for both New Delhi's North Block, headquarters of the finance ministry, and Mumbai's Mint Road, where the Reserve Bank of India (RBI) is headquartered. Rising retail inflation is no good news for the ruling party at the Centre, as it prepares for a few important state assembly elections in December 2023 and later for the general elections in May 2024. Similarly, the Reserve Bank of India's Monetary Policy Committee will be troubled by the June 2023 print for retail inflation as it heads for its August monetary policy review amidst rising prices and the RBI Governor Shaktikanta Das' recent reiteration of his commitment to meet the mandated retail inflation target of 4 per cent. Reversing the decelerating trend witnessed for four consecutive months, the Consumer Price Index for June 2023 rose to 4.81 per cent, which was a three-month high. In May 2023, retail inflation was 4.31 per cent. The increase was caused by a surge in prices of food, beverages and services. But the biggest contributor to higher retail inflation was the food category, which inched up to 4.49 per cent in June, compared to 2.96 per cent in May. Prices of cereals, fruits, meat, egg, pulses and sugar rose sharply in the month under review. The retail inflation trajectory has given rise to the possibility of the RBI extending its pause on interest rate increases once again in August. That wholesale prices contracted yet again in June – for the third consecutive month – was no solace for the RBI, as its inflation mandate is to rein in retail prices. The Wholesale Price Index in June reached an eight-year low level of -4.12 per cent, compared to -3.48 per cent in May. Continuing deflation in wholesale prices was driven by a fall in prices of mineral oils, food products, basic metals, textiles, crude petroleum and natural gas. Also responsible was the high base of wholesale inflation in June 2022. Bringing some cheer was the industrial output growth of 5.2 per cent in May 2023. This was a

three-month high and was helped by robust performance of manufacturing at 5.7 per cent (which has a weight of 77.6 per cent in the Index of Industrial Production or IIP) and mining at 6.4. The electricity sector's growth stayed muted at 0.9 per cent. Going by the IIP's use-based classification, infrastructure and constructions goods turned in a robust growth performance of 14 per cent and capital goods recorded an 8.2 per cent growth rate.

Kharif sowing picks up, but monsoon and its spread hold the key

Even as parts of India have been ravaged by excessive rainfall, floods and landslides, the sowing of kharif crops has at last picked up pace, even though the deficit has not been fully wiped out for all the crops. By the end of July 7, the acreage under kharif crops was about 9 per cent less than that in the same period of 2022. The acreage was substantially less for rice (down by 24 per cent), pulses (*arhar* or *tur* and *urad*; down by 26 per cent), soybean (down by 26 per cent) and cotton (by 11 per cent). The total area sown for kharif crops is around 101 million hectares and till July 7, the sowing had got over only in about 35 million hectares. But a week later, by the end of July 14, the sowing deficit declined significantly to about 4 per cent. The sowing deficit was brought down to 10 per cent for rice, 16 per cent for pulses, 15 per cent for soybean and 5 per cent for cotton. In terms of sowing, an area of around 54 million hectares was sown, which though was 4 per cent less than that in 2022. This underlined the critical importance of the monsoon to be more widespread and dispersed over the remaining few weeks. Without that dispersion, the sowing of kharif crops this year would suffer from significant shortfalls compared to the past year. A cause for concern is that the cumulative seasonal shortfall in monsoon rains still remains high in several districts of Maharashtra, Karnataka, Telangana, Andhra Pradesh and Bihar. Till July 14, rainfall had been deficit in around 40 per cent of the 717 districts in the country, while the remaining 60 per cent of districts had normal to excess rainfall. The key to maintaining kharif crop output growth, reining in inflation and to ensuring rural demand to sustain the Indian economy lies in how the rains fare in the remaining few weeks of July and August, in particular. The south-west monsoon starts receding from the middle of September.

GST collections gain pace, focus on new rate for online bets

The month of July was witness to two developments pertaining to the goods and services tax or GST. One development was routine by nature – the monthly release of GST collections data, which once again augured well for the pace of economic activity in the country. The second development arose out of a slightly disconcerting decision taken at the 50th meeting of the GST Council, the apex body for setting tax rates and deciding on all other issues, held at New Delhi on July 11. GST collections in June were estimated at Rs 1.61 lakh crore, prompting Finance Minister Nirmala Sitharaman to comment that the new normal for monthly GST collections was perhaps nearing the mark of Rs 1.6 lakh crore. With Rs 1.87 lakh crore in April and Rs 1.58 lakh crore in May, the first quarter of 2023-24 saw GST collections rise to Rs 5.05 lakh crore, up 11.5 per cent over Rs 4.53 lakh crore in the same quarter of 2022-23. The month of June 2023 also marked the completion of six years of the GST regime, which was launched on July 1, 2017, subsuming in it a plethora of different indirect taxes levied by the Centre and the states. Even though multiplicity of rates and exclusion of key raw materials like petrol and diesel continue to undermine the GST regime's inherent potential, the use of technology like e-invoicing has helped boost overall collections, apart from increasing the number of GST-registered tax payers from 7.2 million in July 2017 to 13.6 million by the end of April 2023. Even though the average monthly GST collections in the post-pandemic years have risen smartly by 30 per cent to Rs 1.23 lakh crore in 2021-22 and by 22 per cent to Rs 1.5 lakh crore in 2022-23, the potential is much more. Annual GST collections' share in gross domestic product or GDP has gone up from 6.23 per cent in the pre-pandemic year of 2018-19 to 6.27 per cent and 6.64 per cent in the post-pandemic years of 2021-22 and 2022-23, respectively. What, however, caused some consternation among the online betting industry was the decision of the GST Council to levy a tax rate of 28 per cent on the total face value of the bets. Even as the Council took a few important steps like facilitating the setting up of the appellate body, the decision on online gaming hogged the limelight. Whether the Council reviews its decision or not, only time will tell.

Rising unemployment, new manufacturing projects dipping

The unemployment rate, measured by the Centre for Monitoring the Indian Economy (CMIE), rose to 8.45 per cent in June. This was the third month this calendar year that the unemployment rate exceeded the 8 per cent mark. In May, the unemployment rate was 7.68 per cent. Reflecting the lean season for jobs, particularly in the agricultural sector as the harvesting time ends in May, rural unemployment was higher at 8.73 per cent, while urban unemployment eased to 7.87 per cent. Another set of data that brought no cheer for those watching the Indian economy was the slowing rate of new investment projects in the manufacturing sector. In the three months ended June 2023, the value of new projects in the manufacturing sector saw a 48 per cent decline to Rs 85,000 crore, compared to Rs 1.6 lakh crore in the quarter ended March 2023. The decline compared with the June-end quarter of 2022 was even higher at 66 per cent. However, on a rolling basis in the last four quarters, the number of new projects in the manufacturing sector has been rising to an estimated Rs 10 lakh crore. The areas, which received new investments, included chemical and chemical products, machinery, transport equipment, metals and metal products. The Purchasing Managers' Index (PMI) for manufacturing, maintained by S&P Global, however, continued to be in expansion mode at 57.8 in June (any number above 50 indicates expansion). This was attributed to robust demand for goods in domestic and international markets. The June level of PMI was the second highest reached in 2023, even though it was a shade below 58.7 reached in May.

Flip-flop over Budget move on TCS on remittances under LRS

A flip-flop leading to a roll back along with the possibility of yet another change marked the way the government managed the implementation of a decision announced in the Budget on February 1, 2023. In the Budget, the finance minister had announced that the annual threshold of Rs 7 lakh for triggering the levy of tax collected at source (TCS) on remittances under the Liberalised Remittance Scheme (LRS) would be removed from July 1, 2023. This meant that the TCS would be applied on all LRS remittances from that specified date. There was yet another change. The rate of TCS was raised from 5 per cent to 20 per cent for both remittances under the LRS and for purchase of overseas tour packages, again with

effect from July 1, 2023. But on May 16, the government tightened the TCS regime under the LRS by removing the differential treatment for credit cards vis-à-vis other modes of drawing foreign exchange under the LRS. This effectively brought credit card payments of foreign exchange bills under the LRS norms and thereby subjected them to the levy of TCS at the rate of 20 per cent with effect from July 1, 2023. But a couple of days before this new regime was to take effect, the government changed its mind again, apparently based on feedback it received from stakeholders. This announcement, made on June 28, was effectively a rollback. It exempted from TCS all remittances under the LRS up to Rs 7 lakh per individual and per annum, regardless of the mode of payment. TCS, however, was to be levied at 0.5 per cent for remittances for education financed through education loans, at 5 per cent for remittances for education or medical treatment and at 20 per cent for other remittances, if the threshold of Rs 7 lakh was breached. The new rates were to be enforced from October 1, 2023. There was yet another rollback. The changes introduced on May 16 to bring all credit card payments for international transactions under the LRS and, therefore, a TCS levy of 20 per cent were annulled. The TCS saga over credit card payments and other remittances under the LRS may not yet be over, as there is a likelihood of yet another change before the new regime kicks in on October 1, 2023. Questions over why the TCS rate needed to be raised to 20 per cent for a move aimed at tracking transactions have remained unanswered.

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