

Monthly Economic Update: Strong momentum maintained in May 2022

- **Robust tax collections led by direct taxes. Centre continues capex momentum. Fiscal deficit now at 12% of BE at INR 2tn (8.3% of BE last year). We see fiscal deficit to be higher than BE by INR 1tn.**
- **Core output accelerated by 18.1% YoY in May. Increase is quite broad-based with cement at 26.3%, coal at 25.1%, fertilizer at 22.9% and electricity at 22%. It bodes well for Q1 GDP**
- **Credit offtake accelerated to 12.1% YoY in May 2022 from 11.1% in April 2022 led by retail loans at 16.4%. Credit to services sector expanded by 12.9%**

Government finances: Buoyant direct tax collections, focus on capex continues

Gross tax revenue collections for May 2022 stood at INR 1.7tn, an increase of 20% YoY. For the period April-May 2022, gross tax revenues increased by 29% YoY to INR 4.0tn (14% of BE). While direct taxes have increased by 61% YoY (to INR 1.9tn) during April-May 2022, indirect taxes have increased by 9.3% YoY (to INR 2.1tn) during the same period. Within direct taxes, income tax collections rose by 50% and corporate tax by 81% during April-May 2022.

During May 2022, customs collections reported an increase of 15%, while excise collections were lower by 16.5% on the back of cut in excise duty on petrol and diesel. During April-May 2022, customs and excise collections are lower by 19% and 17% respectively. GST collections continued to show momentum and increased by 24% during April-May 2022. Non-tax revenues fell 58% to INR 0.5tn (18% of the BE) during April-May 2022.

Total Expenditure increased by 22% YoY during April-May 2022 to reach INR 5.9tn (15% of BE in FY23) and in May 2022, expenditure increased by 23% YoY. Government remains committed on capex with a 78% YoY increase in May to INR 0.28tn. During April-May 2022, it has increased by 70% to reach INR 1.1tn (14% of BE). During April-May 2022, revenue expenditure is higher by 15% YoY (at INR 4.8tn). We expect revenue expenditure in FY23 to overshoot the BE on account of higher subsidies on food and fertilizer.

Given the underlying buoyancy in tax collections, central government's fiscal deficit now stands at INR 2.0tn (12% of BE). However, during the corresponding period of previous year, fiscal deficit stood at 8.3% of BE. **For FY23, we expect fiscal deficit to be higher by around INR 1tn from BE.**

Core Output: Broad-based increase in May 2022

Core sector accelerated at a whopping 18.1% YoY in May 2022 vs. 16.4% in May 2021. Sequentially core sector accelerated at 2.6% in May 2022 vs. 8.7% contraction in April 2022. There was an all-round acceleration. Output of coal, petroleum refinery products, fertilisers, steel, cement and electricity registered double digit growth during May 2022. Crude oil production also registered positive growth of 4.6% YoY in May 2022, a first after several years. Sequentially, all the sectors of core industries barring cement registered positive growth. The higher core output bodes well for the overall IIP growth.

Sectoral credit: Credit growth accelerates in May 2022

Non-food credit increased by 12.6% YoY in May 2022 (11.3% in April 2022) vs. 4.9% in May 2021. Credit to agriculture grew by 11.8% YoY in May 2022 (10.6% in April 2022) vs. 9.4% in May 2021. Industrial credit picked up to 8.7% YoY (8.1% in April 2022) vs. muted growth of 0.2% in May 2021. Size wise, credit to medium industries continued its robust streak to grow by 49.3% YoY (53.5% in April 2022) vs. 47.9% May 2021. Credit offtake to micro and small industries also maintained momentum at 33% YoY in May 2022 (29% in April 2022) vs. 8.9% in May 2021 while credit to large industries recorded muted growth of 1.9% in May 2022 (1.6% in April 2022) vs. a contraction of 3.1% in May 2021.

Within industry, credit growth was led by engineering (9%), chemicals and chemical products (15.6%), infrastructure (9.5%), mining and quarrying (8.2%), petroleum & coal products (23.9%), rubber and plastic products (24.2%), vehicles, vehicle parts & transport equipment (9%). On the other hand, credit to basic metal & metal products (-2.3%), cement (-11.4%), construction (-6.5%), gems & jewellery (5.3%), glass & glassware (-5.4%), leather & leather products (5%), paper & paper products (5.5%), textiles (5.1%) and wood & wood products (8.4%) decelerated/contracted.

Credit to services sector grew by 12.9% YoY in May 2022 (11.1% in April 2022) vs. 3.4% in May 2021, mainly due to improved offtake by NBFCs (20.6%), professional services (8.5%) and transport operators (7.2%). Personal loans segment maintained its uptrend and grew by 16.4% in May 2022 (14.7% in April 2022) vis-a-vis 12.8% in May 2021, primarily driven by housing (13.7%) and vehicle loans (14.1%) segments.

Table 1: Government Fiscal (April-May) 2022:

(All figures in INR tn)	FY21 (A)	FY22 (PA)	FY22 PA (%YoY)	FY23 (BE)	FYTD23 (April-May)	FYTD23 (% YoY)
Revenue						
Direct Tax	9.4	13.9	46.6	14.2	1.9	61.2
Indirect Tax	10.8	13.2	22.8	13.3	2.1	9.3
Gross Tax Revenue	20.2	27.1	34.0	27.6	4.0	29.1
Transfer to states	5.9	8.8	48.2	8.2	1.0	21.5
Net tax revenue	14.3	18.2	27.6	19.3	3.1	32.0
Non-tax revenue	2.1	3.5	67.6	2.7	0.5	-57.7
Revenue receipts	16.3	21.7	32.7	22.0	3.6	2.2
Non-debt capital receipts	0.6	0.4	0.4	0.8	0.3	
<i>Disinvestments</i>	0.38	0.1	0.1	0.7	0.3	
Total receipts	16.9	22.1	30.5	22.8	3.8	7.8
Expenditure						
Revenue expenditure	30.8	32.0	3.8	31.9	4.8	15.3
Capital expenditure	4.3	5.9	39.1	7.5	1.1	70.1
Total expenditure	35.1	37.9	8.1	39.4	5.9	22.6
Gross fiscal deficit (GFD)	18.2	15.9	-12.7	16.6	2.0	64.9
GFD (% of GDP)	9.2	6.7		6.4		

Source: CGA, CEIC, ICICI Bank Research

Table 2: Core Output (May 2022):

Eight core infrastructure industries index (% YoY)	May-21	Apr-22	May-22	3-year growth	Apr-May 2021	Apr-May 2022
Core index (100 %)	16.4	9.3	18.1	8.1	36.3	13.6
Coal (10.33 %)	7.0	28.8	25.1	15.1	8.2	26.9
Crude oil (8.98 %)	-6.3	-1.0	4.5	-9.0	-4.2	1.8
Natural Gas (6.87 %)	20.1	6.3	7.0	7.0	22.5	6.7
Petroleum refinery products (28.03 %)	15.3	9.2	16.7	5.9	22.8	12.8
Fertilizer (2.62 %)	-9.6	8.7	22.9	19.3	-3.8	16.3
Steel (17.91 %)	55.1	2.2	15.0	6.2	151.0	8.4
Cement (5.37 %)	11.7	7.5	26.3	10.8	107.4	15.9
Electricity (19.85 %)	7.5	11.8	22.0	11.7	21.6	16.7

Source: CEIC, ICICI Bank Research

Table 3: Sectoral Deployment of Bank Credit (May 2022):

Sectoral deployment of bank credit (% YoY)	May-21	Apr-22	May-22
Bank credit	4.9	11.1	12.1
Non-food credit	4.9	11.3	12.6
Agricultural credit	9.4	10.6	11.8
Credit to industry	0.2	8.1	8.7
<i>Credit to micro and small industry</i>	8.9	29.0	33.0
<i>Credit to medium industry</i>	47.9	53.5	49.3
<i>Credit to large industry</i>	-3.1	1.6	1.9
Credit to services	3.4	11.1	12.9
Personal loan	12.8	14.7	16.4

Source: RBI, CEIC, ICICI Bank Research

Economics Research Group		
Economics Research		
Sameer Narang	Head - Economic Research Group	sameer.narang@icicibank.com
Shivom Chakravarti	Senior Economist - Global Markets	shivom.chakravarti@icicibank.com
Dr. Sudarshan Bhattacharjee	Senior Economist - Domestic Markets	sudarshan.bhattacharjee@icicibank.com
Debomitra Sen	Research analyst	debomitra.sen@icicibank.com
Kaushalkumar Aryan	Research Analyst	kaushalkumar.aryan@icicibank.com
Aniket Gaikwad	Research Analyst	aniket.gaikwad@icicibank.com
Asha Sasikumar	Research Analyst	asha.sasikumar@icicibank.com
Jyoti Sharma	Research Analyst	sharma.jyoti@icicibank.com
Tanisha Ladha	Research Analyst	tanisha.ladha@icicibank.com
Nihal Kumar	Research Analyst	nihal.kumar@icicibank.com
Aditya Sharma	Research Analyst	sharma.adi@icicibank.com
Dhairya Modi	Research Analyst	dhairya.modi@icicibank.com

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