

**Economic
Division**



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आर्थिक कार्य विभाग
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ECONOMIC AFFAIRS

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Abstract

India's real GDP growth in Q3 of FY23, estimated on the Q3 base of FY22, has come in at 4.4 per cent. The estimate is still evolving and will reach finality when data sets used for both years are identical, complete and frozen. Yet even at this preliminary stage, the Q3 estimate of real GDP in FY 23 reflects the sustenance of sequential growth momentum in the economy, as further verified by high-frequency indicators. The sustenance of growth momentum is a reaffirmation of the ability of the Indian economy to grow on the strength of its domestic demand amid the slowing of global output. On the supply side, broad-based growth has been supported by a rise in rabi sowing in the recent cropping season and the continuous opening of the contact-intensive services sector. On the demand side, the buoyant growth has been sustained by private final consumption expenditure, which continues to benefit from the release of pent-up demand. At 2011-12 prices, the gross fixed capital formation has risen from ₹34 lakh crore in the first nine months of FY 22 to ₹39 lakh crore in the corresponding period of FY 23 following the government's increasing focus on capital expenditure.

The inclusiveness of resilient economic growth in the third quarter is also reflected in the improvement in employment indicators. As per the Periodic Labour Force Survey (PLFS), the overall urban unemployment rate for people aged 15 years and above declined from 8.7 per cent in the December quarter of 2021 to 7.2 per cent one year later in December of 2022. Net payroll additions under EPFO witnessed YoY growth of 41.4 per cent in December 2022, indicating that employment in the formal sector has passed the stage of recovery and is registering a growth surge. The Naukri Job Speak Index also reflects an uptick in overall hiring activity, observing a sequential monthly growth of 9 per cent in February 2023. The TeamLease Employment Outlook Report states that the Intent to Hire for India has risen from 65 per cent in Q3 of FY23 to 68 per cent in Q4 of FY23, with the strongest hiring sentiment for the services sector.

Falling international commodity prices and government measures have aided in easing inflationary pressures in February 2023. With WPI inflation declining to a 25-month low, its transmission to CPI inflation is soon expected. Household inflation expectations remained anchored, as seen in the January 2023 round of RBI's Households' Inflation Expectations Survey. A slight uptick in business inflation expectation, as surveyed by IIM Ahmedabad, is

observed in Q4 of FY23, though it remains lower than in the first two quarters of the current year. Going forward, the inflation trajectory will likely be determined by extreme weather conditions like heatwaves and the possibility of an El Nino year, volatility in international commodity prices and pass-through of input costs to output prices. Forecasts by various international agencies show that inflation in India will moderate in FY24 compared to FY23 and is likely to remain in the range of 5.0-6.0 per cent, with risks evenly balanced.

The Russia-Ukraine conflict and tightening of monetary policy have again brought the issue of corporate debt vulnerabilities to the fore. This is after the Covid-19 pandemic had directly impacted the balance sheets of the corporate sector globally, which were already highly leveraged. With back-to-back shocks, the risk of a spill over of the stressed balance sheets of the corporates to the balance sheets of financial institutions has risen. Analysis, however, reveals that India is one of the few countries that have a lower corporate debt as a percentage of the GDP in Q3 of 2022 as compared to the corresponding quarter in 2008. Apart from the lowering of debt coinciding with the deleveraging phase in the credit cycle, a declining trend observed since mid-2021 is a reflection of a relatively less debt-financed strong recovery of India's economy. Consequently, the quality of corporate debt has been showing steady improvement as assessed by an improvement in the CareEdge Debt Quality Index (CQDI) since November 2021. India's corporate sector credit-GDP ratio is also below its historical trend, indicating ample space for the corporate sector to enlarge its debt burden. The strong debt profile of the corporate sector has proven to be key in maintaining the macroeconomic stability of the economy.

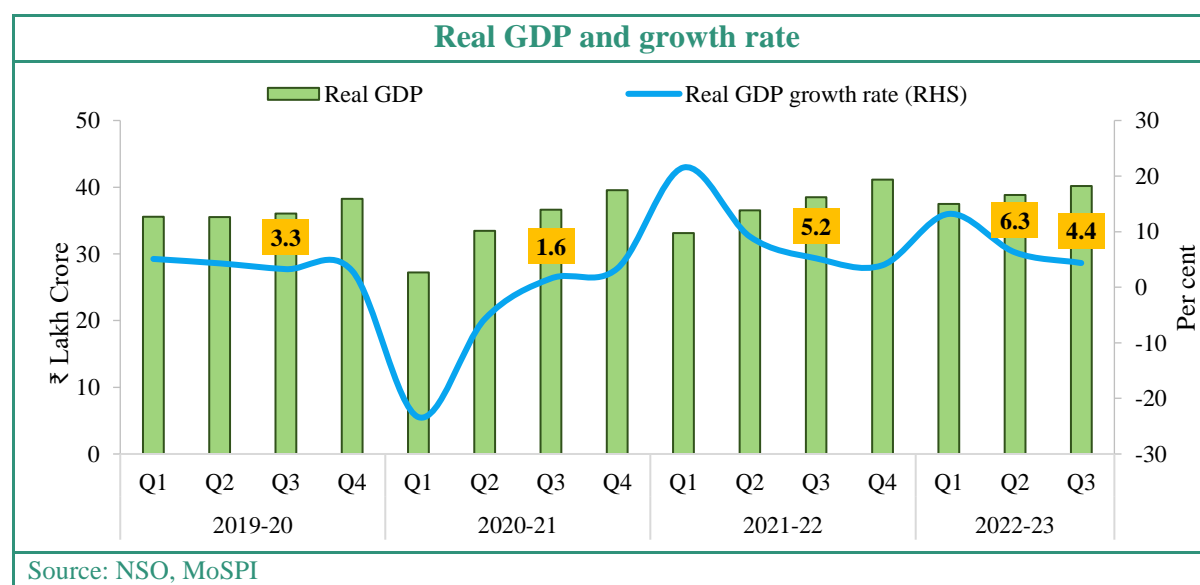
Macroeconomic stability is likely to receive a further boost in FY23 as the current account deficit is set to narrow from the year-beginning estimates. The jump in net service exports over the previous year is a critical development as India increases its market share in both IT and non-IT services, whose demand has been triggered by the pandemic. Imports are also less costly now with the easing of global commodity prices. With a manageable current account deficit and a growth rate highest among the major economies in FY23, the Indian economy has shown a new-found resilience in sailing through the turbulence caused by the pandemic and geopolitical stress.

Indian Economy

Indian economy remains resilient amidst global headwinds

1. Amid a gloomy global outlook and rising borrowing costs, the real GDP in Q3 of 2022-23 registered a YoY growth of 4.4 per cent. Sequentially, the growth in Q3 over Q2 at 3.6 per cent is the same as Q2 over Q1, indicating the sustenance of growth momentum in the first nine months of the year. These estimates reaffirm the ability of the Indian economy to grow on the strength of its domestic demand even as a rise in global uncertainties slows global output. India's Real GDP growth in 2022-23 is projected at 7 per cent by NSO, MoSPI in its 2nd Advance Estimates (AE), the same as in the 1st AE.

2. While the GDP growth figure for Q3 FY23 of 4.4 per cent is lower than the that of 6.3 per cent in Q2 FY23, it must be noted that growth has not gotten shallower. While the national accounts data for Q3 FY23 are provisional estimates, those of Q3 FY22, Q3 FY21, and Q3 FY20 have been revised upwards based on a larger information set, thereby inflating the base for estimating the growth in Q3 FY23. For further perspective, the data revision to the prior year(s) has made a 6 per cent growth (based on non-revised figures) in Private Final Consumption Expenditure (at 2011-12 prices) come down to 2 per cent in Q3 FY23. A similar effect is observed in manufacturing GVA (at 2011-12 prices) growth, with the estimate moving from 3.8 per cent to a contraction of 1.1 per cent.



3. From the supply side, agriculture and allied sectors significantly contributed to the sustenance of the growth momentum as rabi sowing has risen in the recent cropping season. The overall foodgrain production in 2022-23 is estimated to be 2.5 per cent higher, which would be a welcome addition to the buffer stock. Growth momentum has also been supported by the

contact-intensive services sector (trade, hotel, transport, communication and services related to broadcasting) as it continues to open up and expand post the waning of the pandemic. The contribution of the construction sector to overall GVA also increased in Q3, driven by a rise in the production of construction goods. Alongside this, a robust increase in cement production and steel consumption portends well for a sustained rise the construction activity.

4. The growth momentum could have been higher but for the contraction of GVA in the manufacturing sector. This is partly explained by an adverse impact on major export-oriented manufacturing industries of subdued export growth caused by the weakening of demand in advanced economies. However, in general, the contraction of manufacturing GVA appears to have been caused by a sharper rise in the cost of inputs than the value of output. The cost of inputs has risen as their imports are costlier, with global prices of many commodities continuing to be higher than the pre-pandemic level. This is reflected in India's wholesale inflation, which was in double digits in the first half of the current year before it started to decline.

5. However, even as the cost of inputs has risen, the manufacturing output has not stagnated. The Purchasing Manager Index of manufacturing has remained in the expansionary zone for 20 months since July 2021. The Index of Industrial Production (IIP) and the Index of Eight Core Industries have also observed positive YoY growth during April-Jan of 2022-23, indicating an increment in output volume. The MSME sector remains a significant contributor to manufacturing growth. One of the criticisms in the past has been that the MSME sector firms have been reluctant to grow into large firms owing to the incentive structure in the form of the support provided to smaller firms by the government. However, the recent reorientation of the government's initiatives has helped smaller firms to grow and reach their full potential (Box 1).

Table 1: Contribution of Supply-side factors to Real GVA and growth			
Sectors	Q2 of 2022-23	Q3 of 2022-23	YoY growth in Q3 of 2022-23
Agriculture, forestry & fishing	12.0	18.7	3.7
Industry	29.5	29.1	2.4
<i>Mining & quarrying</i>	1.8	2.1	3.7
<i>Manufacturing</i>	17.7	16.5	-1.1
<i>Electricity, gas, water supply, other utilities</i>	2.5	2.2	8.2
<i>Construction</i>	7.6	8.2	8.4
Services	58.5	52.3	6.2
<i>Trade, hotels, transport, communication etc</i>	19.0	19.3	9.7
<i>Financial, real estate & professional services</i>	26.2	20.1	5.8
<i>Public administration, defence services etc</i>	13.3	12.9	2.0

Source: NSO, MoSPI

Box 1: Growth of Micro, Small and Medium Enterprises (MSME) firms

The MSME sector plays a vital role in the Indian economy, with a share of 26.8 per cent in the overall GVA and 38.5 per cent in the manufacturing GVA (FY21). Their contribution to the economy is not just quantitatively significant but also qualitatively in terms of cultivating an entrepreneurial culture. The MSME sector also substantially contributes to boosting export competitiveness by producing a diverse range of products at competitive rates.

The MSME firms are classified based on their investment in plant and machinery or equipment and annual turnover. The Ministry of MSME launched the Udyam Portal in July 2020, where MSME firms can register themselves and, upon registration, are assigned a permanent identification number known as the ‘Udyam Registration Number’. The Udyam Registration portal fetches data from the portals of the Income Tax Department and Goods and Services Tax Network (GSTN) and then classifies the registered MSMEs based on data on investment and turnover.

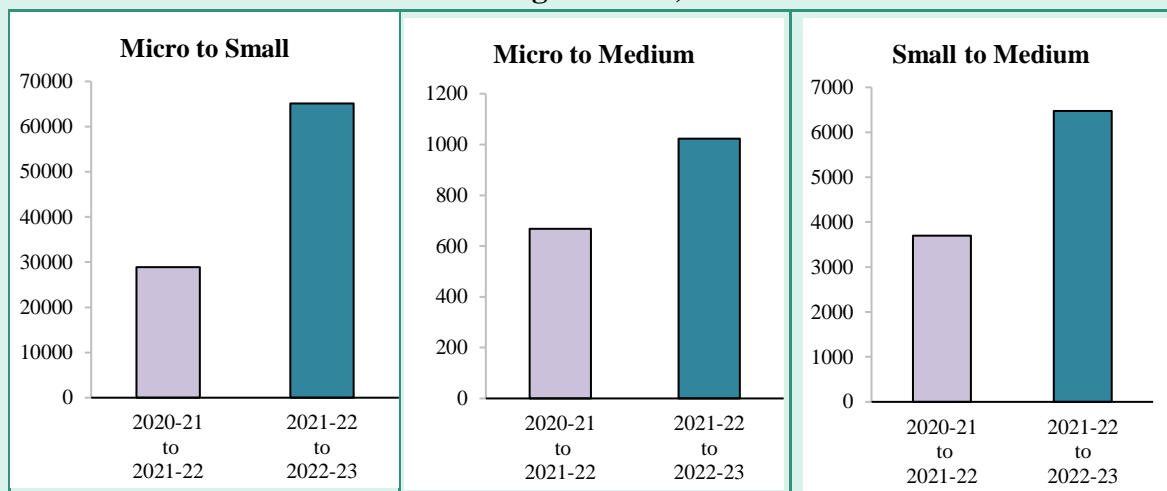
How are MSMEs classified?

	Micro	Small	Medium
Investment in plant and machinery or equipment	Not more than ₹1 crore	Not more than ₹10 crore	Not more than ₹50 crore
Annual Turnover	Not more than ₹5 crore	Not more than ₹50 crore	Not more than ₹250 crore

The data on MSMEs registered under the Udyam portal sheds light on the evolution of these firms. The number of micro units graduating to small units increased from 28,881 in FY22 to 65,140 in FY23¹, belying the narrative that MSME units suffer from the inertia of rest and are reluctant to be upwardly mobile. Among the major states, Bihar, Assam, Chhattisgarh, Uttar Pradesh, Jharkhand, Madhya Pradesh, Odisha etc., have displayed encouraging results, scoring way above the country average. The number of ‘small’ units elevating themselves to the ‘medium’ category has also increased significantly, by 75 per cent, from 3,699 in FY22 to 6,474 in FY23. These upwardly mobile units are from Maharashtra, Gujarat, Delhi, Tamil Nadu, Uttar Pradesh and Karnataka.

¹ Data for FY23 is as of 6th March, 2023

MSME firms are moving up the ladder (Number of firms graduating from smaller to larger categories as per Udyam portal registrations)

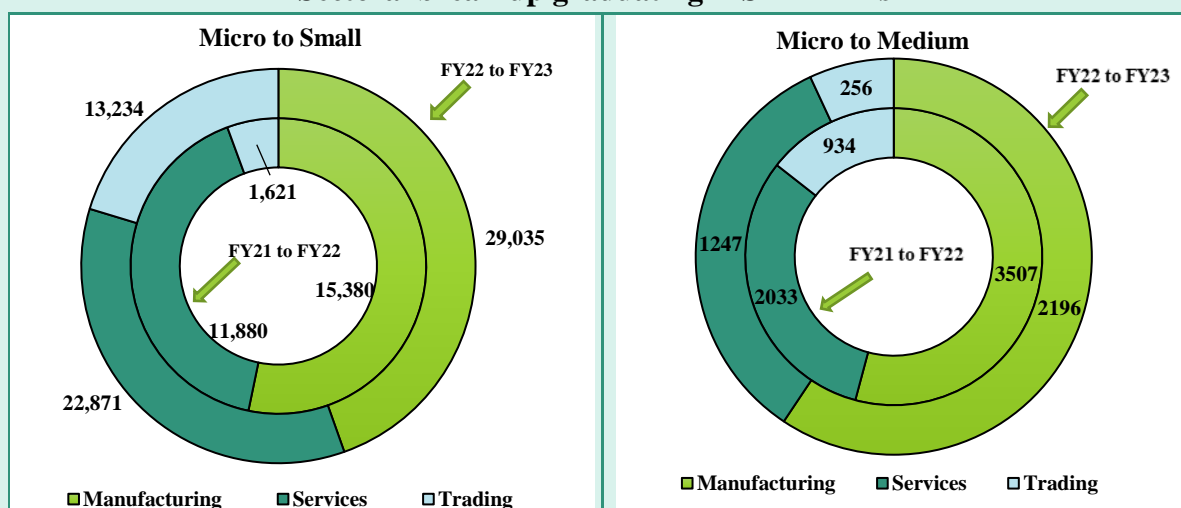


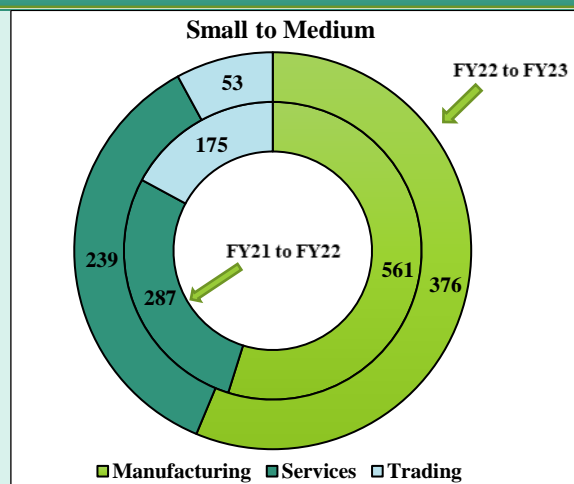
Source: Ministry of MSME

Note: Data as of 6 March 2023

There is evidence of upward inter-category mobility among manufacturing, service and trading units. The significant chunk comes from the manufacturing sector, which is reassuring, given the higher employment-generating potential of this sector. Of the total number of units graduating from “micro” to ‘small’, 53 per cent were accounted by manufacturing units in FY22 and 45 per cent in FY23. This trend has been evident in the case of ‘small’ to ‘medium’ and ‘micro’ to ‘medium’ movements as well, though to a lesser degree.

Sectoral break-up graduating MSME firms





Source: Ministry of MSME
Note: Data as of 6 March 2023

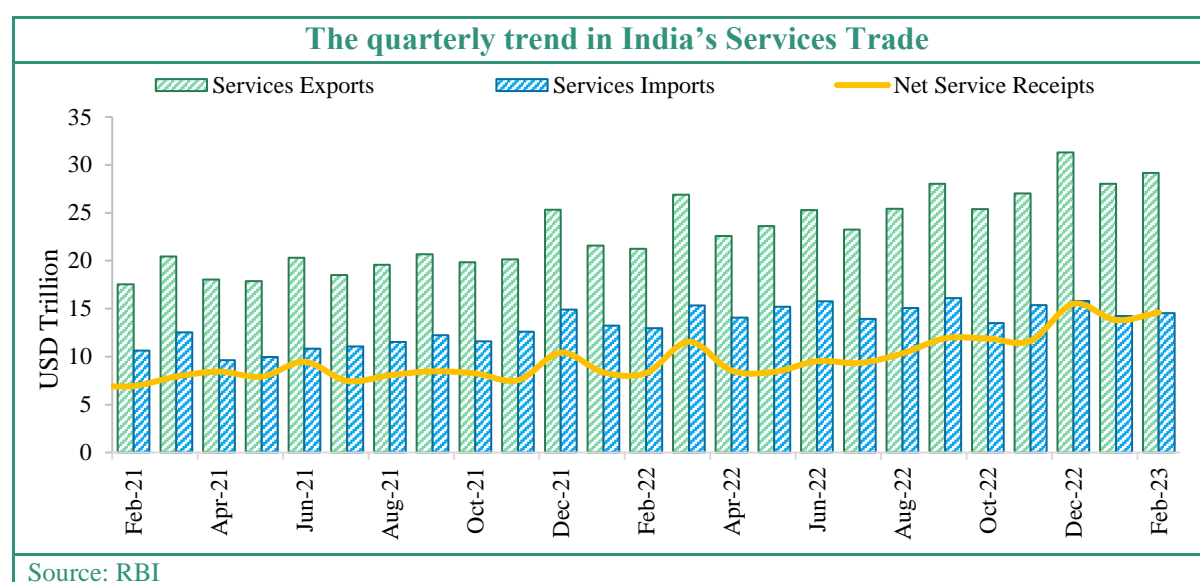
6. From the demand side, the growth momentum has been sustained by Private Final Consumption Expenditure (PFCE) which continues to benefit from the release of pent-up demand. Consequently, its share in real GDP rose from 59.5 per cent in Q2 to 61.6 per cent in Q3. High-frequency indicators further point towards rising urban demand, as witnessed in increased fuel consumption, steady growth in automobile sales, buoyant housing launches and sales and enlarged credit disbursal in Q3. Increased tractor and two-wheeler sales and rising rural wages reaffirm improvement in rural demand.

7. The contribution of Gross Fixed Capital Formation (GFCF) to the growth momentum softened as its share in the real GDP moderated from 34.2 per cent in Q2 to 31.8 per cent in Q3. It is usual for GFCF to fluctuate quarter to quarter as investment outlays are ‘lumpy’ outlays. Seen on the basis of first three quarters aggregate, GFCF at 2011-12 prices has risen from ₹34 lakh crore in 2021-22 to ₹39 lakh crore in 2022-23. This results from the Government’s focus on capital expenditure and improving intent of the private sector to invest. Overall capital expenditure by the Central Government cumulatively reached ₹5.7 lakh crore until January 2023, 29 per cent higher than in the corresponding period of the previous year.

Table 2: Contribution of Demand-side factors to Real GDP and growth			
Sectors	Q2 of 2022-23	Q3 of 2022-23	YoY growth in Q3 of 2022-23
Government Final Consumption Expenditure (GFCE)	8.6	8.7	-0.8
Private Final Consumption Expenditure (PFCE)	59.5	61.6	2.1
Gross Fixed Capital Formation (GFCF)	34.2	31.8	8.3
Exports of goods and services	23.9	22.9	11.3
Imports of goods and services	28.3	25.3	10.9

Source: NSO, MoSPI

8. Slowdown in external demand due to continuous rate hikes by major Central Banks around the World and fragmentation of global trade due to protectionist trade policies has led to a moderation in the contribution of merchandise exports to the growth momentum (Box 2). However, despite merchandise exports witnessing tepid growth in the second half of 2022, they have remained resilient, growing YoY at 7.6 per cent in April-February 2022-23. Since India offers low-cost knowledge-based services, the demand for Services exports has remained strong even amidst a global economic slowdown and a negative outlook for the near future. India's service exports are estimated to register YoY growth of 30.5 per cent during April-February 2023. While growth in services exports has contributed to the growth momentum, the increase in net services receipts will play a significant role in capping India's Current Account Deficit (CAD). With the easing of global commodity prices, the declining value of merchandise imports will further limit India's CAD.



9. Given India's investment needs for future growth, growing FDI inflows will be significant. It is reassuring that India's FDI inflows have been stable despite global headwinds. Total FDI inflows to India stood at US\$ 83.6 billion in 2021-22, the highest since 2000-01. Strong investment inflows and a solid macroeconomic cycle have propelled India to the top positions of the FDI Standouts Watchlist 2023, standing out in second place behind Qatar. Foreign investment has played a significant role in India's recent growth story. According to FDI Markets data², foreign investors announced 628 projects worth about US\$ 60 billion between January and October 2022. India is by far the world's biggest recipient of research and development (R&D) activities. The focus on 'Infrastructure and Investment' and 'Green Growth' in the Union Budget 2023-24 will likely attract more FDI.

² <https://www.fdiintelligence.com/content/data-trends/mena-countries-to-carry-the-strongest-investment-momentum-into-the-new-year-81805>

10. The success of the Production Linked Incentive (PLI) scheme in the 14 sectors will be critical for future growth. Production boosted by the PLI scheme is intended to make domestic manufacturers globally competitive, attract investment in cutting-edge technology and make India an integral part of the global value chain. The scheme is set to unlock manufacturing capacity, boost exports, reduce import dependence and create jobs for both skilled and unskilled labour. Bilateral trade deals with the UAE, Australia, the UK, and the EU, along with the “Make in India” strategy, are expected to replicate the success of multiple East Asian countries. Some green shoots of such an eco-system are even now evident, as seen in the production of iPhones in India, which is helping Apple to diversify its production capabilities outside China. The slowdown in China will likely allow India to emerge as an alternative global manufacturing hub by enabling it to attract more global investments.

Box 2: Implications of geopolitical headwinds for Global Trade

Greater risks are building up in the international environment for trade, commerce, financial, and technology flows. World trade is getting fragmented by forceful moves towards protectionism or friend-shoring, with each country seeking control over the production of strategic materials and industries through subsidies and other incentives. Over time, other sectors may follow the same trend. However, combined with the reopening of some parts of the world from pandemic restrictions, there are prospects for a milder slowdown than earlier anticipated.

In its latest World Economic Outlook (WEO), the IMF has warned that the global flow of goods and capital is levelling off, and a surge in restrictions is making the world a much smaller place. Financial regionalisation and a fragmented global payments system can amplify the losses from trade restrictions. With less international risk-sharing, macroeconomic volatility could get amplified, and more severe crises could impose more significant pressures on national buffers and weaken the global community's ability to support countries in crisis, including indebtedness.

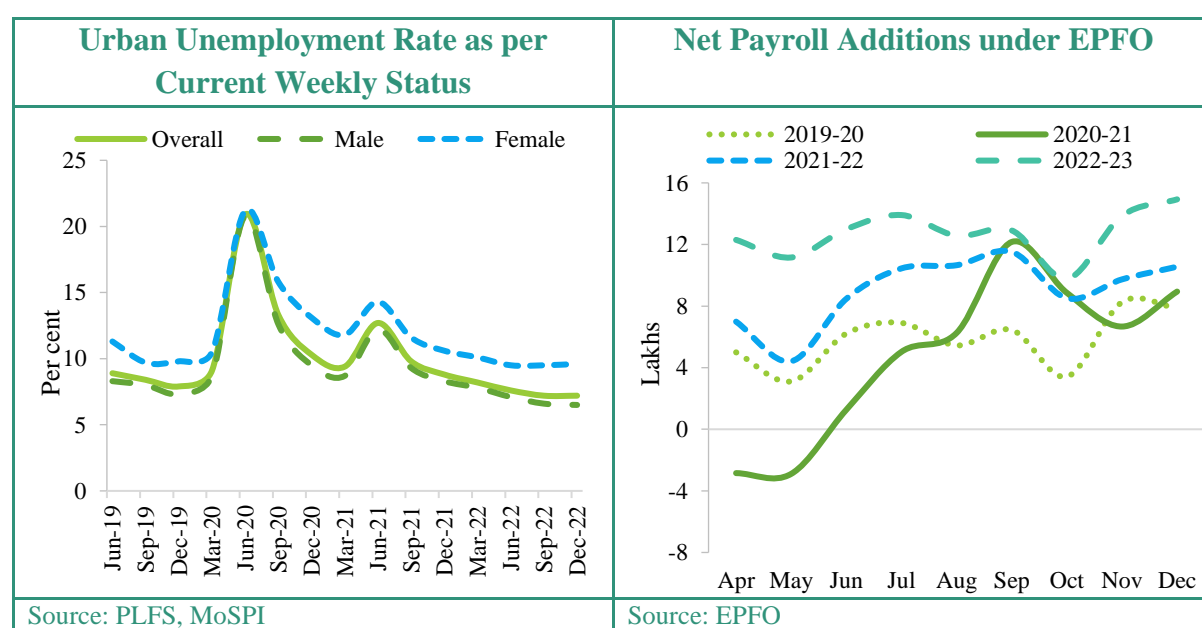
Global commodity prices exhibited volatility as the still-weak global economic outlook continues to weigh on demand. Crude oil prices traded at an average of US\$ 83 per barrel in January and February 2023 following the uncertainty lingering around evolving geopolitical concerns, supply shortages and the shutdown of a significant export terminal after the earthquake in Turkey. The Baltic Dry Index - a measure of shipping charges for dry bulk commodities - fell precipitously, shedding over 50 per cent of its value in January 2023 as capsize demand remained numb along with weak demand across all vessel segments.

Similarly, the ‘Goods Trade Barometer’ released by the World Trade Organisation (WTO) indicates a global world trade slowdown. The barometer index also finished below the merchandise trade volume index, which stood at 106.6 in the third quarter, mainly due to resilient exports from the United States and Europe. Preliminary data on trade-related indicators suggests that the merchandise trade index will follow the barometer index down once quarterly trade volume statistics for the fourth quarter are released.

As per the WTO, the volume of world merchandise trade was up 5.6 per cent in the third quarter of 2022 compared to the same quarter in the previous year. Meanwhile, cumulative year-on-year growth for the first three quarters of 2022 stood at 4.4 per cent, above the WTO's forecast released last October of 3.5 per cent for the whole year.

Broad-based economic growth in Q3 of FY23 has led to a decline in the unemployment rate

11. The inclusiveness of resilient economic growth in the third quarter is also reflected in the improvement in employment indicators. As per the Periodic Labour Force Survey (PLFS), the overall urban unemployment rate for people aged 15 years and above declined from 8.7 per cent in the December quarter of 2021 to 7.2 per cent one year later in the December quarter of 2022. The reduction in the unemployment rate is accompanied by improvements in the Labour Force Participation Rate (LFPR) and higher Worker to Population Ratio (WPR), reflecting an increasing synchronisation of the labour market with the growth process. The PLFS data further indicates that employment indicators in the quarter ending December 2022 have gone beyond pre-pandemic levels, indicating that the labour markets have recovered well from the impact of the Covid-19 pandemic. Recently there has been debate on the accuracy of PLFS estimates compared to estimates produced by various other agencies. In this regard, Box 3 discusses elaborates the methodology involved in estimation of employment indicators in PLFS survey.

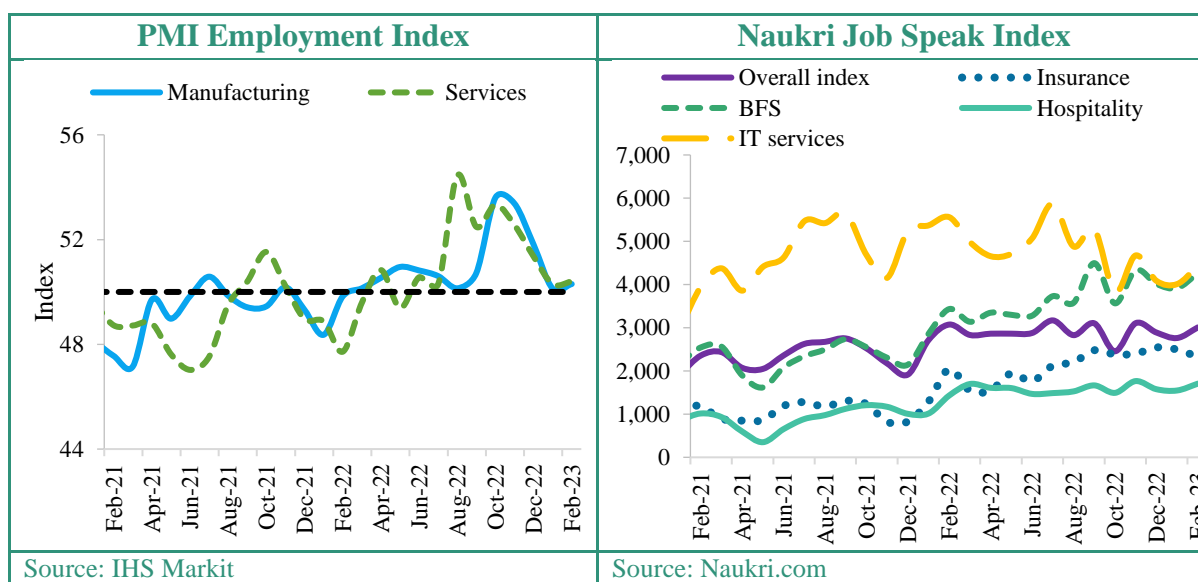


**Table 3: Trend in Quarterly Labour statistics for persons aged 15 years and above
(Current Weekly Status)**

	Labour Force Participation Rate	Worker Population Ratio	Unemployment Rate
Oct-Dec, 2018	46.8	42.2	9.7
Oct-Dec 2019	47.8	44.1	7.8
Oct-Dec, 2020	47.3	42.4	10.3
Oct-Dec 2021	47.3	43.2	8.7
Oct-Dec 2022	48.2	44.7	7.2

Source: Quarterly PLFS, MoSPI

12. High-Frequency Indicators further reflect an improvement in the overall employment situation across sectors. India's labour market is showing robust growth in formal sector jobs, as indicated by a steep rise in the subscription base of the Employees Provident Fund Organisation (EPFO). Net payroll additions under EPFO witnessed a year-on-year growth of 41.4 per cent in December 2022, indicating that employment in the formal sector has passed the stage of recovery and is registering a growth surge. The creation of digital identities like Aadhar, registration of unorganised workers on the e-shram portal, and registration of MSMEs on the Udyam portal has played a significant role in promoting the formalisation of the economy. Since inception, 28.6 crore unorganised workers have been registered on the e-shram portal, with 5.2 lakh registrations in February 2023.

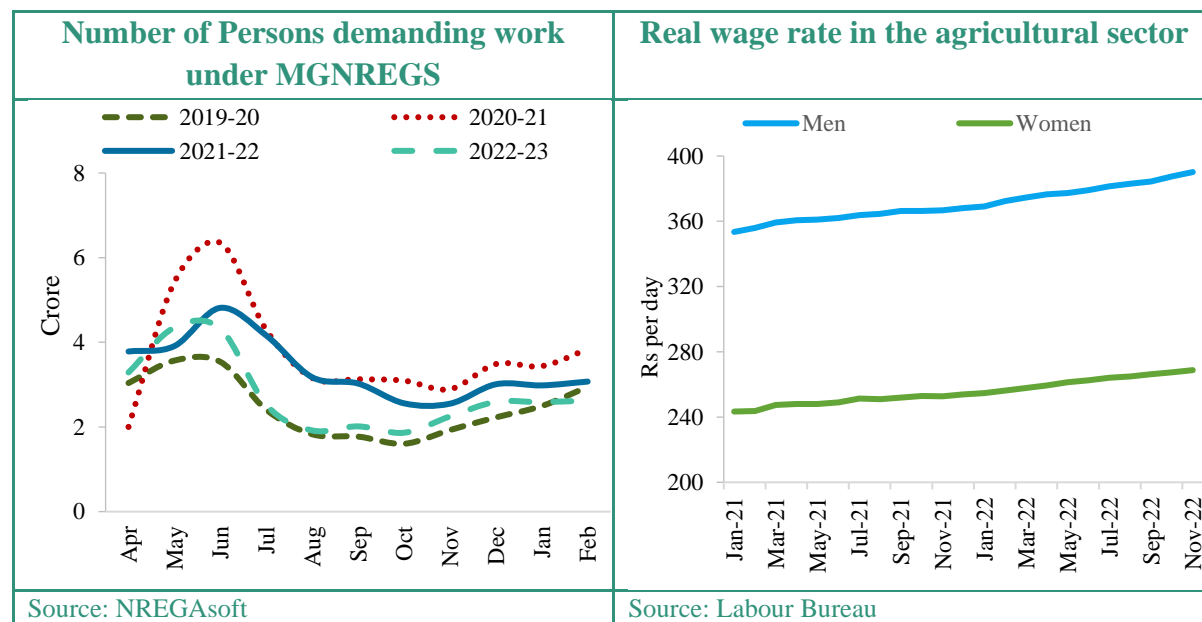


13. The PMI indices for employment in manufacturing and services remained in an expansionary zone in February 2023, with manufacturers experiencing an increase in new work intakes. The rise in employment in services companies in February 2023 was supported by

continuing growth in contact-intensive services. The Naukri Job Speak Index also reflects an uptick in overall hiring activity, registering a sequential monthly growth of 9 per cent in February 2023. The IT sector, which has been experiencing negative trends in the past three months, witnessed a sequential growth of 10 per cent in February 2023, indicating a change in hiring sentiment within the IT space. The number of new jobs in the Real Estate, Hospitality, and Healthcare sectors saw double-digit sequential growth in February 2023.

14. The Team Lease Employment Outlook Report states that the Intent to Hire for India has risen from 65 per cent in Q3 of FY23 to 68 per cent in Q4 of FY23, with the strongest hiring sentiment for the services sector. Government measures such as an increase in public investment in the services industry, the launch of the National Monetisation Pipeline, liberalisation of FDI through automatic route etc., are projected to stimulate employment growth in Q4 of FY23.

15. The demand for work under the MGNREGS scheme has been declining since May 2022 and was 14.6 per cent lower in February 2023 compared to the corresponding period of the previous year, signalling the availability of better employment opportunities in the rural sector. The agricultural labour market further shows a healthy recovery as real wages increased for both genders year-on-year in November 2022 despite the Consumer Price Index for Agricultural Labourers growing YoY at 6.9 per cent in November 2022.



Box 3: Estimating Employment/Unemployment in India

A wide range of methodologies is used to estimate unemployment/employment across different surveys conducted by some private entities and the Government. Often variances in such estimates are seen, which can be attributed to differences in the methodology of such

surveys. These revolve around sampling design, definitions, and questionnaires fielded to the respondents. Each of these needs to be examined before drawing inferences about the country's employment situation as a whole. For example, the framing of the questionnaire is crucial to measure the actual willingness of the individual to work outside the home. Further, the inclusion/exclusion of activities to be considered for measuring employment/unemployment also results in variation in estimates of the unemployment rate and LFPR across surveys.

The Ministry of Statistics and Programme Implementation, Government of India, conducts an annual PLFS for rural and urban areas and quarterly surveys for urban areas. It follows a stratified multi-stage design, with the annual survey covering more than one lakh households (of which nearly 55 per cent are in rural areas, and 45 per cent are in urban areas) and the quarterly survey covering about 45,000 urban households. The surveys present results on various aspects of the employment situation in the country and are the most official and authentic source of information. Since its launch in 2017-18, the lag of survey reports has substantially shortened, with the latest quarterly report released with a lag of less than two than months and the annual report with a lag of eight months.

Sampling Frame

Having a listing/frame of households is the primary requirement of sampling. In PLFS, rotational panel sampling design is used in urban areas where each household in urban areas is visited four times, at the beginning with a 'First Visit Schedule' and thrice periodically later with a 'Revisit Schedule'. The scheme of rotation ensures that 75 per cent of the first-stage sampling units (FSUs) are matched between two consecutive visits. For rural areas, samples for a stratum/sub-stratum are drawn randomly as two independent sub-samples. In each quarter of the survey period, 25 per cent FSUs of annual allocation is covered.

Sample Size for First Visit during July 2021- June 2022 in rural and urban areas

Out of the total number of 12,800 FSUs (7,024 villages and 5,776 UFS blocks) allotted for the survey at the all-India level during July 2021- June 2022, a total of 12,733 FSUs (6,988 villages and 5,745 urban blocks) were surveyed for canvassing the PLFS schedule. The number of households surveyed was 1,01,782 (55,895 in rural areas and 45,887 in urban areas), and the number of persons surveyed was 4,28,525 (2,49,175 in rural areas and 1,79,350 in urban areas).

Methodology

The surveys present results on unemployment calculated based on the: -

- (a) Usual Status (US): For a person to be categorised as employed as per usual status (principal status plus subsidiary status), he/she must have pursued an economic activity for at least 30 days during the 365 days preceding the date of the survey.

- (b) Current Weekly Status (CWS): For a person to be categorised as employed as per current weekly status, he/she must have pursued an economic activity for at least one hour during the seven days preceding the date of the survey. CWS is the internationally accepted standard and can capture temporary loss in employment more sensitively than usual status.

The one-hour criterion to measure unemployment as per CWS³

For measuring the number of persons employed, employment is broadly defined in the labour force framework. The 13th ICLS (ILO's International Conference of Labour Statisticians) Resolution stipulates that, for operational purposes, the notion of "some work" should be interpreted as work for at least one hour during a short reference period. This means that engagement in economic activity for as little as one hour is sufficient for a person to be classified as employed based on the labour force framework.

Reasons for the use of the one-hour criterion in the international definition of employment: -

- (a) To make the definition as broad as possible to cover all types of employment in a given country, including short-time and part-time work, casual and temporary employment, stand-by work, employment in the informal sector and other types of informal employment, etc.
- (b) To ensure that at an aggregate level, total labour inputs correspond to total production. Such correspondence is needed to make a joint employment and production statistics analysis possible.
- (c) The one-hour criterion results from the priority rules of the labour force framework, which precedes any employment activity over any other activity and defines unemployment as a situation of total lack of work (zero hours of work during the reference period). In that framework, situations of partial absence of work are covered by the definition of time-related underemployment, i.e., as a sub-category of employment. As the definitions of employment and unemployment are interrelated in the labour force framework, raising the minimum number of hours worked in the definition of employment would have the effect that unemployment would no longer refer only to situations of total lack of work.

Legacy of procedural rigour

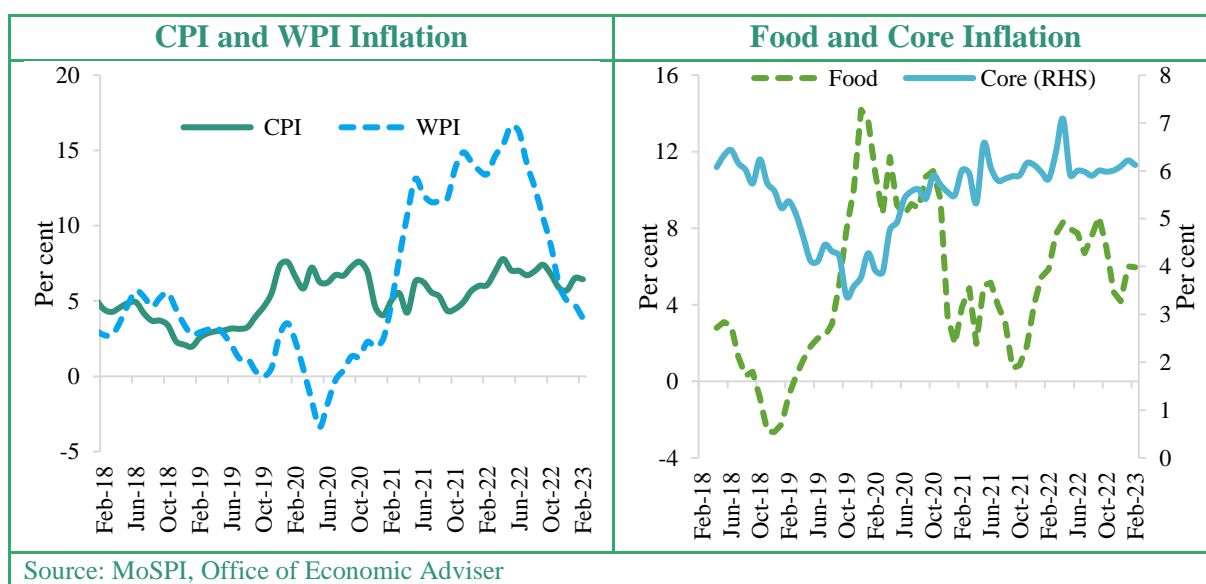
The estimates derived from official NSSO surveys are much more consistent with ILO norms compared to other non-official surveys. The statistical and operational aspects of the survey are overseen by a Standing Committee consisting of reputed survey statisticians and other

³ "Measurement of employment, unemployment and underemployment – Current international standards and issues in their application", Ralf Hussmanns, ILO Bureau of Statistics

experts. The large-scale sample survey procedures followed by NSSO have evolved gradually over more than six decades and are internationally reputed.

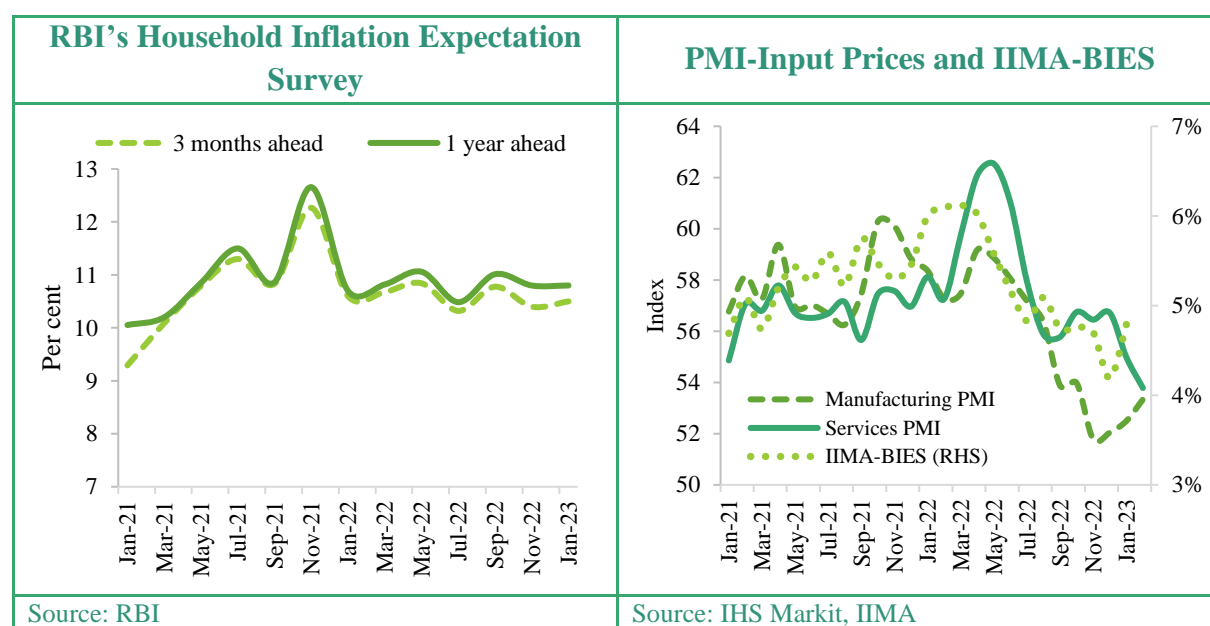
Inflation softens in February, aided by government measures; the outlook remains evenly balanced

16. CPI inflation eased slightly in February 2023 to 6.4 per cent from 6.5 per cent in January 2023, with a decline in both food and core inflation. Easing international prices and government measures to infuse additional wheat supplies into the market helped in cooling the prices. The impact is visible in reducing food inflation to 5.9 per cent in February 2023 from 6.0 per cent in January 2023. A decrease in food inflation is seen in ‘pulses & products’, ‘oils & fats’, ‘meat & fish’, egg, and spices, whereas cereals inflation has marginally increased while fruits inflation significantly. Inflation in fuel and light also declined. Core inflation eased to 6.1 per cent in February 2023 from 6.2 per cent in January 2023 but has now remained sticky around 6.0 per cent for 12 months. The decrease in core inflation has been mainly driven by transport & communication, recreation & amusement, education and personal care & effects. Overall, during Apr-Feb 2022-23, CPI inflation stood at 6.7 per cent, well above the RBI’s target range, reflecting the persistence of the inflation challenge. The WPI inflation, however, moderated in February 2023 to 25-month low of 3.8 per cent, driven by a decline in manufactured goods and primary articles. With WPI inflation easing, its transmission to CPI inflation is soon expected.



17. Inflation expectation of households measured by RBI’s Households’ Inflation Expectations Survey in January 2023 remained unchanged from the Nov 2022 round in one year ahead horizon. The expectation of manufacturing firms polled in the Reserve Bank’s Industrial Outlook Survey, however, reflects a softening of input and output prices in H1:FY24, continuing the trend from Q3:FY23. In contrast, the Business Inflation Expectations Survey

(BIES) conducted by IIM Ahmedabad, covering mainly manufacturing firms, show that the one-year ahead ‘business inflation’ expectation based on the unit cost has increased from 4.2 per cent in December 2022 to 4.8 per cent in Jan 2023. Manufacturing firms polled by PMI also indicate an increase in input and output prices in Q4:FY23 (Jan and Feb) compared to Q3:FY23 though it remains lower than Q1 and Q2 of FY23. However, services firms polled by PMI experienced moderation in input and output prices in Q4:FY23 (Jan and Feb).



18. Going forward, the inflation trajectory in 2023-24 is likely to be determined by several factors. First, prospects for the Rabi crop have improved this year, despite February 2023 being the hottest February since 1901. The Crop Weather Watch Group meeting held on 10 March 2023⁴ observed no adverse effects on the wheat crop across the major wheat-producing states of Punjab, Haryana, Uttar Pradesh and Rajasthan so far.

19. Extreme weather conditions like the possibility of an El Nino year⁵ may impact food grain production. The National Oceanic and Atmospheric Administration (NOAA) forecasts a 60 per cent probability of El-Nino conditions in the current year. This implies increased chances of deficient monsoon rainfall and the consequent impact on food grain production and inflation. The analyses of India-specific episodes of El Nino years since 1956 reveal that food grain production declined in 57 per cent of those episodes.

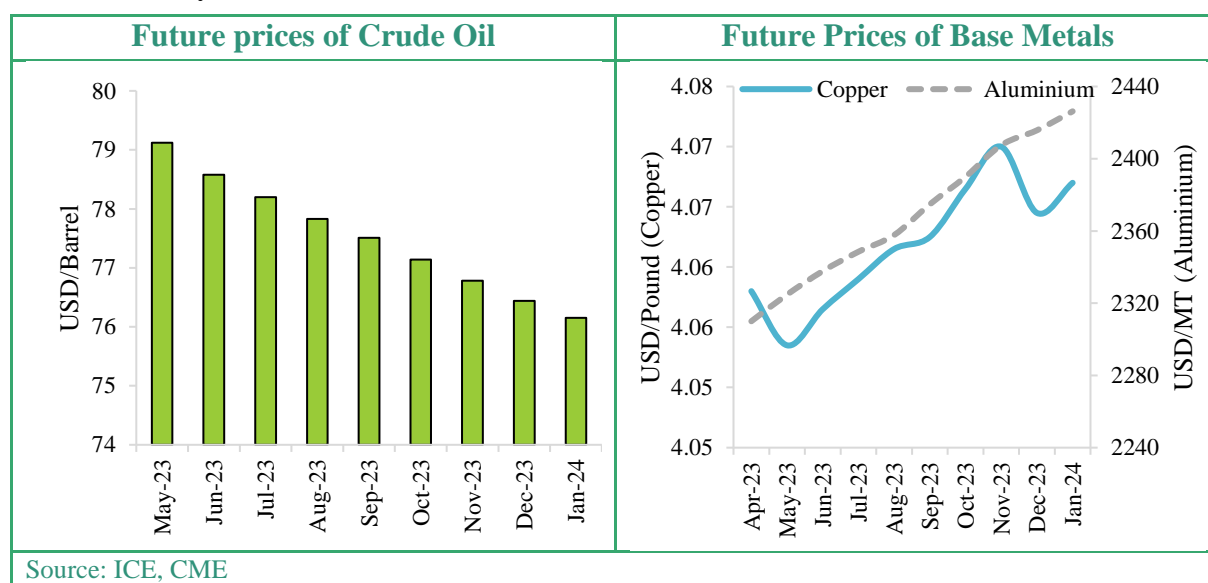
20. Further, learning from last years' experience, the government has taken proactive measures this year, including setting up a panel to protect wheat crops. Departments and ministries are coordinating with the states to ensure that sufficient water is supplied at reservoirs and dams for protective irrigation. In addition, they are ensuring the availability of cheap diesel

⁴ https://agricoop.nic.in/Documents/CWWGMINUTES/Minutes_of_CWWG_meeting_held_on_10032023_.pdf

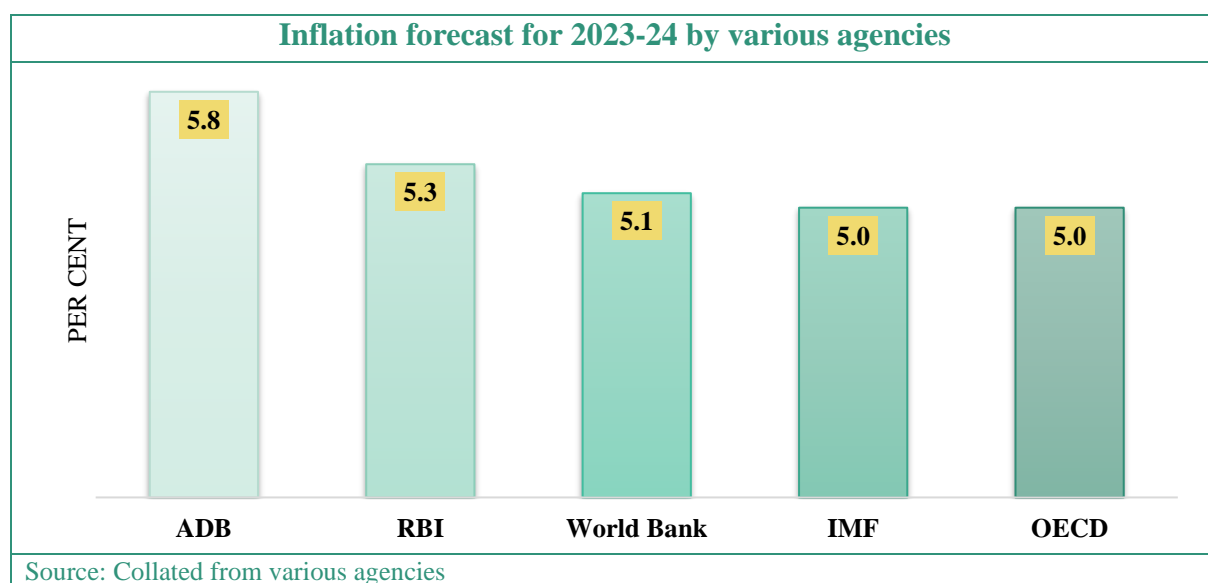
⁵ El Nino condition is associated with warmer climates and deficient rainfall.

and a steady power supply to farmers for the smooth functioning of water pumps. Government commitment towards food security will likely help keep food prices under check.

21. The second factor crucial for the domestic inflation outlook is the global outlook of key commodity prices, such as crude oil and base metals which may face upward and downward pressures. On the one side, weakening global demand conditions can lead to declining commodity prices. This is also evident in moderation in the prices of crude oil futures. However, on the other hand, easing COVID-related mobility restrictions in some parts of the world can also exert upward pressure as apparent in the increase in the future prices of base metal for next year.



22. Third, the ongoing pass-through of input costs to output prices, especially in services, could continue to exert pressures on core inflation. However, as WPI continues to soften with the easing of international commodity prices, input costs will gradually lower. The pass-through of softened input costs will help reduce retail inflation and anchor inflationary expectations.



23. The analysis of forecasts by various agencies shows that inflation will moderate in FY24 compared to FY23 and is likely to remain in the range of 5.0-6.0 per cent, with risks evenly balanced.

Moderating corporate sector core debt key to maintaining macroeconomic stability

24. In the aftermath of the Covid-19 pandemic, ensuring macroeconomic stability became a focal area of policy interventions by governments across economies. Since debt levels in an economy can play a vital role in either amplifying the impact of external shocks or undermining the economy's capacity to damp shocks, debt levels became a vital benchmark to gauge the stability and macroeconomic performance of an economy. In addition, unlike the past crisis, the pandemic directly impacted the balance sheets of corporates, which were already highly leveraged due to highly accommodative monetary policies pursued by major central banks since the global financial crisis, increasing the risk of potential spillover to the health of balance sheets of financial institutions.

25. More recently, the Russia-Ukraine conflict and tightening of monetary policy have again brought the issue of debt vulnerabilities to the fore. The tightening of monetary policy tends to create new vulnerabilities in economies where debt levels are low and exacerbate existing vulnerabilities where debt is already high, precipitating significant disruptions to the functioning of the financial system. Further, monitoring and mitigating private sector debt vulnerabilities came under the spotlight as they were already elevated compared to the household sector. As per the Bank for International Settlements (BIS), the core debt of the corporate sector increased in both advanced economies (AEs) and emerging market economies (EMEs), reaching 175 per cent of GDP in EMEs and 185 per cent of GDP in AEs at the end of 2020.

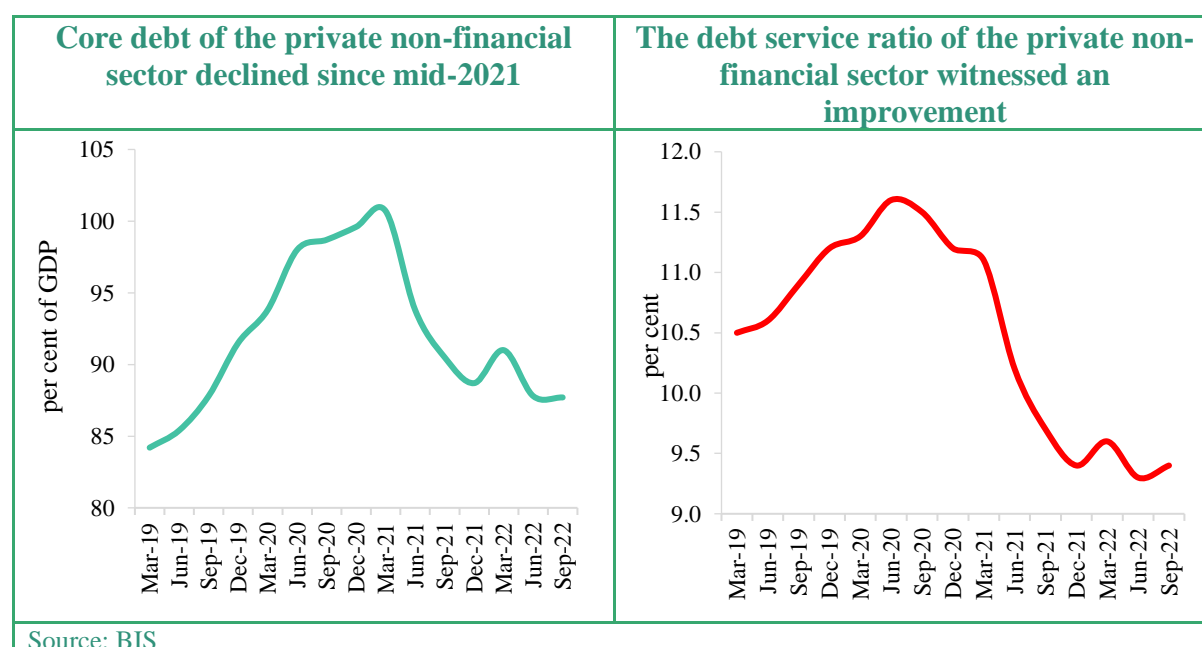
Corporate sector's core debt (as a per cent of GDP)			
Country	Q3 2008	Q3 2022	Change
India	107.3	87.7	↓
China	112.4	219.7	↑
Indonesia	29.1	40.6	↑
South Korea	164.6	224.5	↑
Mexico	28.7	40.8	↑
Brazil	53.3	87.0	↑
UK	178.7	154.0	↓
South Africa	79.3	67.3	↓
G20	139.4	153.0	↑
EME	82.3	149.0	↑
AE	162.4	157.3	↑

Source: BIS

26. The BIS data allows for an analysis of the core debt of the corporate sector across a large set of countries and country groupings. In the context of the current monetary tightening cycle, it is useful to compare the latest core debt as a percentage of the GDP of this sector across countries with their values in the quarter ending September 2008. This comparison reveals that India is amongst a small set of countries that have been able to reduce their debt burden over this period. This is a result of the banking sector's balance sheet clean-up and the corporate sector's deleveraging exercise undertaken over the last decade. India's relatively lower debt burdens will help limit the impact of financial contagion that may arise as rising borrowing costs trigger debt sustainability concerns.

Trends in India's corporate core debt since the pandemic indicate a healthy recovery from a one-off shock

27. India's corporate sector debt began increasing a year before the outbreak of the Covid-19 pandemic and reached its peak at the beginning of 2021. During the pandemic, corporates were forced to borrow more to keep operations running, and some businesses were compelled to invest in technology to support remote work, supplemented by the pandemic's economic response and loosening financial conditions further pushed the debt levels higher still. On a sectoral level, as per a study by IBBI⁶, financial stress in the manufacturing sector increased the most, followed by 'hotels and restaurants', real estate, construction and electricity.

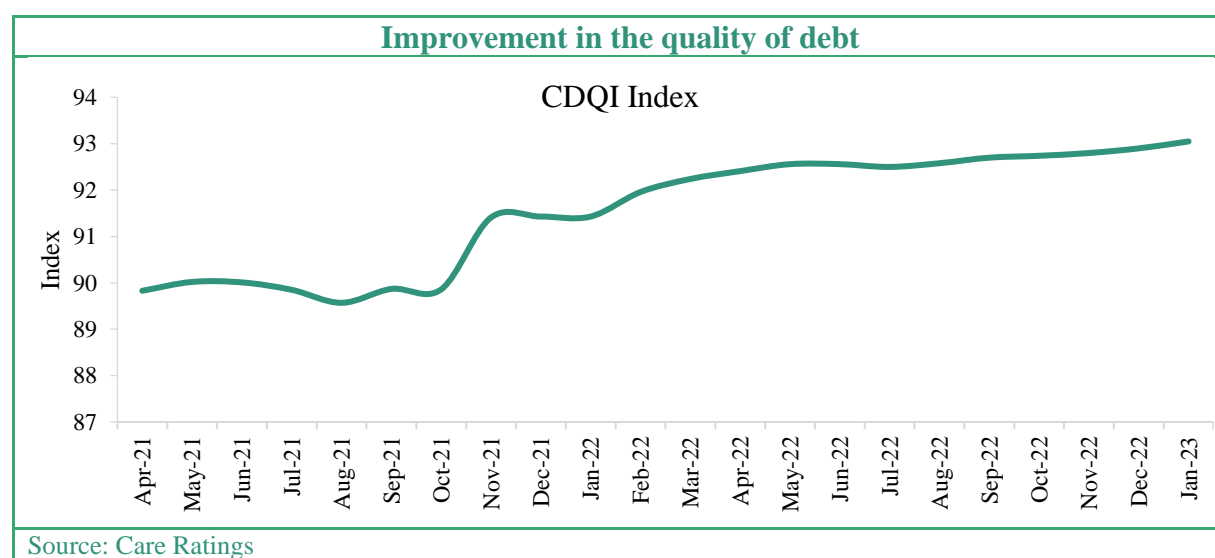


28. However, the debt ratio has witnessed a declining trend since mid-2021. The same is reflected in the improvement in the debt service ratio of the corporate sector⁷. The improvement

⁶ Financial Stress in Corporate Sector: A Study on India, IBBI Working Paper Series, 2021

⁷ The debt service ratio (DSR) is defined as the ratio of interest payments plus amortisations to income.

is mainly due to steady recovery from the economic effects of the pandemic-induced lockdowns. Companies catered to pent-up demand emanating in the course of the recovery and were able to service their debts.



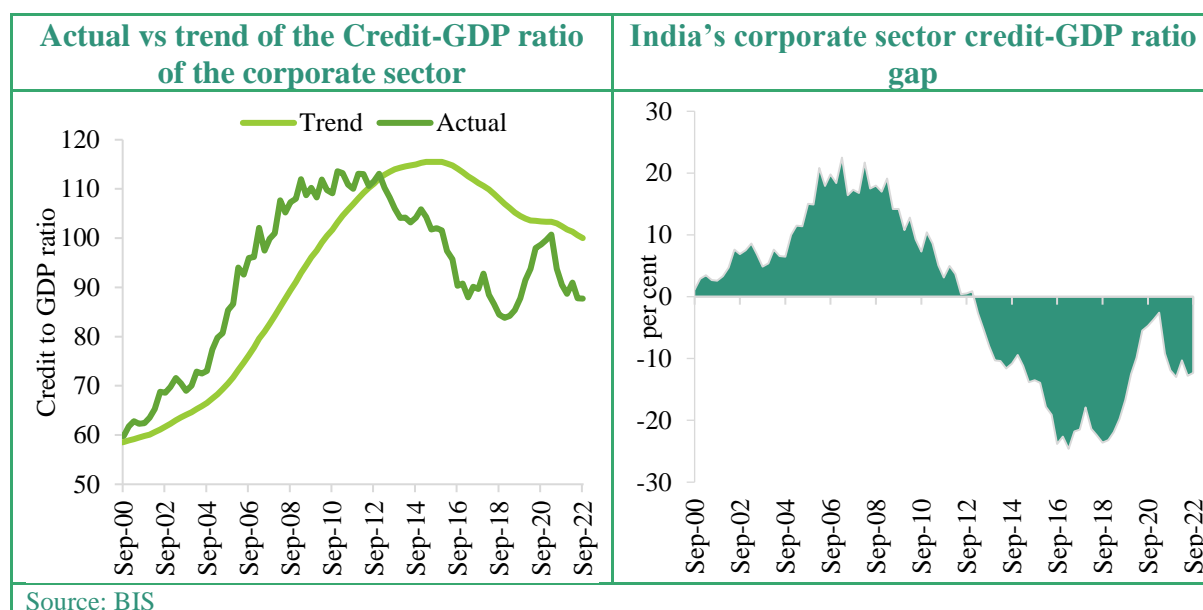
29. Further, reflecting consolidation in the credit profile, the quality of private sector debt has significantly improved. A measure to gauge the performance of quality of debt- CareEdge Debt Quality Index (CDQI)⁸ has been on a rising trend since November 2021. The upgrades in debt quality can be attributed to the easing of the pandemic restrictions, releasing pent-up demand, lower cost of capital, deleveraging by corporates and improvement in profitability measures.

30. Another gauge of debt stability is the credit-GDP ratio gap which measures the deviation of credit outstanding or core debt as a percentage of GDP from its historical trend. If core debt is significantly above its historical trend, it may indicate stress and vulnerabilities in the financial system. On the other hand, a deviation below the trend indicates ample space for the corporate sector to expand its debt.

31. As of end of September 2022, India's corporate sector credit-GDP ratio is about 12.3 percentage points below its historical trend, indicating that the corporate sector has sufficient space to borrow. The graph below plots India's corporate sector credit-GDP ratio gap since June 2000. The graph provides evidence of a credit cycle – a credit boom from June 2000, which peaked in December 2007, and the credit bust that ensued until September 2018. A sharp recovery began after September 2018 on account of the financial sector's greater ability to lend and the corporate sector's greater appetite for credit after the balance sheet clean-up and

⁸ CDQI captures, on a scale of 100 (index value for the base year FY12), whether the quality of debt is improving or declining. Intuitively an upward movement indicates an improvement in the quality of debt benchmarked against the base year.

deleveraging exercises. This recovery was interrupted as the pandemic struck, but recent trends are indicative of a resumption of the recovery. These trends are also supported by the upswing in the disbursal of credit by scheduled commercial banks (SCBs) since April 2022.



32. While the current rate hike cycle and monetary tightening continue to cause turbulence in global financial markets, the impact of adverse developments on the domestic private sector will remain limited on account of its strong debt profile, which has proven to be key in maintaining macroeconomic stability.

Conclusion and Outlook

33. Despite external headwinds, the Indian economy is estimated to grow at 7 per cent in 2022-23. Real GDP estimates for Q3 of 2022-23 reaffirm the ability of the Indian economy to grow on the strength of its domestic demand even as a rise in global uncertainties slows global output. Growth momentum gathered in Q3 of 2022-23 is likely to be sustained in Q4, as reflected in the performance of High-Frequency Indicators for January/February 2023. GST collections have now, in February 2023 crossed the ₹1.4 lakh crore benchmark for twelve successive months. Increasing electronic toll collection levels reaffirms rising commercial activity, while robust energy demand is yet another evidence of strengthening economic activity. Overall, demand conditions have remained conducive to sustaining growth momentum as deduced from robust tractor sales, auto sales, high UPI transactions and double-digit credit growth. Inflationary pressures eased in February, with a slight moderation in CPI inflation and WPI inflation softening to a 25-month low. With WPI inflation easing, its transmission to CPI inflation is soon expected. Forecasts by various international agencies show that inflation will moderate in FY24 compared to FY23 and is likely to remain in the range of 5.0-6.0 per cent, with risks evenly balanced.

34. Supported by the gains from high services exports, the moderation in oil prices, and the recent fall in import intensive consumption demand, India's current account deficit is estimated to fall in FY23 and FY24, providing a buffer to the rupee in uncertain times. This will provide a much-needed cushion to India's external sector at a time when the Fed is likely to raise rates further and ensure that India's external finances are not a major cause of concern.

35. Tightening of financial conditions by central banks to tame inflation has raised concerns regarding the exacerbation of corporate debt vulnerabilities, with corporates being already highly leveraged. However, in the case of India, the concern seems limited. India's private non-financial sector debt has witnessed a steady decline since mid-2021, along with an improvement in the quality of debt. India's corporate sector credit-GDP ratio is also below its historical trend, implying sufficient space for the corporate sector to borrow further. The strong debt profile portrayed by corporates will prove to be critical in maintaining the macroeconomic stability of the economy going forward.

For feedback and queries you may write to: mer-dea@gov.in

Performance of High-frequency Indicators

Data Title	Unit	FY 2019-20	FY 2021-22	YTD Period/As at the end of	Year to Date		
					2019-20	2021-22	2022-23
Agriculture							
Fertiliser Sales	Mn Tonnes	60.2	68.1	Apr-Jan	48.6	50.7	58.4
Domestic Tractor Sales	Lakh	7.1	8.4	Apr-Feb	6.7	7.7	8.6
Rabi Sowing	Mn Hectare	66.6	70.1	3rd Feb	66.6	69.8	72.1
Kharif Production	Mn Tonnes	143.8	155.4	2nd AE	142.4	153.5	153.4
Reservoir Level	Bn Cu. Metres	88.1	79.3	9th Mar	93.5	92.4	86.5
Wheat Procurement (RMS)	LMT	341.3	433.4	NA	NA	NA	187.9
Rice Procurement (KMS)	LMT	518.3	592.4	28th Feb	NA	NA	478.3
Rainfall	Millimetres	NA	NA	June-Sep	968	875	925
Industry							
8-Core Industries	Index	131.7	136.1	Apr-Jan	131.2	133.8	144.4
8-Core Industries (YoY)	Per cent	0.36	10.4	Apr-Jan	0.8	11.6	8.0
IIP	Index	129	131.6	Apr-Jan	129.7	129.9	136.9
IIP (YoY)	Per cent	-0.63	17.95	Apr-Jan	0.6	13.7	5.4
Domestic Auto sales	Lakh	207.1	164.2	Apr-Feb	196.8	149.5	180.2
PMI Manufacturing	Index	52.3	54	Apr-Feb	52.4	54.0	55.5
Power consumption	Billion kWh	1,284	1,374	Apr-Feb	1,192	1,251	1,383
Natural gas production	Bn Cu. Metres	31.2	34	Apr-Jan	26.4	28.5	28.8
Cement production	Index	145.7	156.95	Apr-Jan	145.8	151.7	166.8
Steel consumption	Mn Tonnes	100.53	105.84	Apr-Feb	94.0	96.1	107.2

Data Title	Unit	FY 2019-20	FY 2021-22	YTD Period/As at the end of	Year to Date		
					2019-20	2021-22	2022-23
Inflation							
CPI-C	Index	146.3	163.8	Apr-Feb	146.1	163.5	174.5
CPI-C (YoY)	Per cent	4.77	5.51	Apr-Feb	4.67	5.4	6.75
WPI	Index	121.8	139.4	Apr-Feb	121.9	138.5	152.7
WPI (YoY)	Per cent	1.68	13	Apr-Feb	1.79	12.84	10.18
CFPI	Index	146.5	163.7	Apr-Feb	145.4	163.5	174.5
CFPI (YoY)	Per cent	6.71	3.76	Apr-Feb	6.53	3.41	6.77
CPI-Core	Index	145.7	162.9	Apr-Feb	145.4	162.5	172.5
CPI-Core (YoY)	Per cent	4.05	5.99	Apr-Feb	4.07	5.95	6.12
Services							
Average Daily ETC Collection	₹ Crore	NA	104.5	Apr-Feb	NA	102	147.1
Domestic Air Passenger Traffic	Lakh	2745.1	1668.9	Apr-Jan	2354.4	1304.0	2206.1
Port Cargo Traffic	Million tonnes	704.9	720.1	Apr-Feb	642.1	650.2	712.35
Rail Freight Traffic	Million tonnes	1210.3	1418.0	Apr-Feb	1107.2	1278.8	1367.5
PMI Services	Index	51.9	52.3	Apr-Feb	52.2	52.2	57.2
Fuel consumption	Million tonnes	214.1	204.7	Apr-Feb	198.2	182.2	201.8
UPI (Value)	₹ Lakh crore	21.3	84.2	Apr-Feb	19.3	74.6	123.0
UPI (Volume)	Crore	1251.9	4596.7	Apr-Feb	1127.2	4056.2	7374.6
E-way Bill Volume	Crore	62.9	77.4	Apr-Feb	58.8	69.6	86.7
Fiscal Indicators							
Gross tax revenue (Central Govt)	₹ Lakh crore	20.1	27.1	Apr-Jan	15.3	20.9	23.6
Revenue Expenditure	₹ Lakh crore	23.5	32	Apr-Jan	20	23.7	26
Capital Expenditure	₹ Lakh crore	3.4	5.9	Apr-Jan	2.7	4.4	5.7
Total Expenditure	₹ Lakh crore	26.9	37.9	Apr-Jan	22.7	28.1	31.7
Fiscal Deficit	₹ Lakh crore	9.4	15.9	Apr-Jan	9.8	9.4	11.9
Revenue Deficit	₹ Lakh crore	6.7	10.3	Apr-Jan	7.5	5.3	6.8
Primary Deficit	₹ Lakh crore	3.2	7.8	Apr-Jan	5.1	3.2	4.5
GST Collection	₹ Lakh crore	12.2	14.8	Apr-Feb	11.2	13.5	16.5

Data Title	Unit	FY 2019-20	FY 2021-22	YTD Period/As at the end of	Year to Date		
					2019-20	2021-22	2022-23
External Sector							
Merchandise exports	USD Billion	313.2	422.2	Apr-Feb	291.9	377.4	405.9
Non-oil exports	USD Billion	271.9	354.6	Apr-Feb	253.1	319.8	319.7
Merchandise imports	USD Billion	474.2	613.2	Apr-Feb	443.2	550	653.5
Non-oil non-gold imports	USD Billion	315.9	405.1	Apr-Feb	268.4	333.4	395.4
Net FDI	USD Billion	43	38.6	Apr-Dec	31.1	24.8	22.3
Net FPI	USD Billion	-3.1	-16	Apr-Feb	12.1	-10.1	-6.1
Exchange Rate	INR/USD	74.35	76.24	Feb	71.5	75.0	82.6
Foreign Exchange Reserves	USD Billion	475.6	617.6	03rd Mar	487.2	631.9	562.4
Import Cover	Months	12.0	12.1	Feb	11.9	12.7	9.4
Monetary and Financial							
Total Credit Growth (Y-o-Y)	Per cent	6.13	8.6	Feb	6.1	8.1	15.5
Non-Food Credit Growth (Y-o-Y)	Per cent	6.05	8.71	Feb	6.1	8.2	15.9
10-Year Bond Yields	Per cent	6.70	6.33	Feb	6.74	6.28	7.32
Repo Rate	Per cent	4.4	4	28th Feb	5.15	4	6.5
Currency in Circulation	₹ Lakh crore	24.5	31.3	03rd Mar	23.7	30.1	33.5
M0	₹ Lakh crore	30.3	40.7	03rd Mar	30.2	39.1	43.1
Employment							
Net payroll additions under EPFO	Lakh	78.6	122.3	Apr-Dec	52.6	81.3	114.4
Number of Persons demanded employment under MGNREGA	Crore	30.1	40.2	Apr-Feb	24.8	29.9	30.3
Urban Unemployment Rate	Per cent	8.8	6.6	Dec	7.9	8.8	7.2
Subscriber Additions: National Pension Scheme (NPS)	Lakh	7.3	7.8	Apr-Dec	5.3	5.7	5.6