Economic Division

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आर्थिक कार्य विभाग
DEPARTMENT OF ECONOMIC AFFAIRS

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Abstract

The last three years have seen the global economy endure a health crisis and a debilitating (ongoing) conflict in Europe. Governments and central banks of advanced and emerging market economies responded to the consequent economic challenges, first with stimulus and later with restrictive policies. The rise in economic uncertainties is reflected in the unevenness of performance of the global economy in 2022. On the one hand, the output growth in the Q1 and Q3 of 2022 exceeded expectations showing resilience against the headwinds. On the other hand, during Q2, the economic activity weakened with the economic downturn in Russia and the re-emerging pandemic in China. During Q4:2022, various High-Frequency Indicators (HFIs) pointed towards a slowdown in general, as monetary tightening appeared to have started weakening global demand. This may continue in 2023 as various agencies have forecasted a decline in global growth. Apart from the lagged impact of monetary tightening, the uncertainties emanating from the lingering pandemic and relentless conflict in Europe may further dampen global growth. Even as global output is expected to slow, the IMF and the World Bank project India to be the fastest-growing major economy in 2023.

With a slowdown in global growth giving rise to concerns about global recession, most commodity prices have been easing since June 2022. Overall, global headline inflation peaked in the third quarter of 2022. As we advance, global inflation is likely to moderate gradually over the year, although it will remain higher than pre-pandemic levels. The easing of global inflation has had a varying impact on global trade from the first to the second half of 2022. Global trade continued to grow in the first half as high growth of output in Q1 kept trade volumes high while elevated prices did not allow trade value to fall. In the second half, while trade volumes continued to grow with high growth of global output in Q3, trade value fell as energy prices eased. For the full year, growth of global trade fell in 2022 and is expected to be still lower in 2023 with a further decline in volume and value of trade on the back of slowing global output. There is a likelihood of India's exports showing tepid growth as the major export markets of India are forecast to decline sharply in 2023. For now, however, Kiel Trade Indicator shows global trade to be picking up speed at the beginning of 2023 with the easing of congestion in the ports.

In this uncertain global environment, India's Union Budget FY24 has ensured macroeconomic stability by budgeting a fiscal deficit of less than 6 per cent of GDP. The budget has also announced key interventions to support the high growth of the Indian economy and bring weaker sections of society into the mainstream. Measures towards spreading education to all sections of society, reinvigoration of the skill-development ecosystem with a focus on new-age courses for Industry such as AI, Robotics, drones, and skilling of the health sector, among others, are likely to provide impetus to growth and support job creation. Measures announced for the MSME sector are expected to reduce the cost of funds and aid the small enterprises sector. The strategies announced for sustaining Green Growth, which includes promoting green hydrogen and biofuel use, will play a critical role in promoting a circular economy and enhancing biodiversity.

The Budget FY24 has yet again provided a Capex stimulus to growth by increasing the Centre's Capex budget to ₹10 lakh crore, 33 per cent higher than the previous year. By doing this, the Government is continuing its push towards investment-driven growth amid global headwinds. An important focus in the Capex budget is the enhanced outlay for the Indian Railways at ₹2.4 lakh crore. This will provide employment opportunities and deepen the logistics network, besides bolstering construction activities. Measures have also been announced to increase spending and consumer demand. These include rationalisation of tax slabs and an increase in the basic exemption limit from ₹2.5 lakh to ₹3 lakh under the New Personal Income Tax Regime (NPITR). The Union Budget has further introduced important process measures such as the setting up of the National Financial Information Registry, the Implementation of a single window system, and reforms in property-tax governance, among others. These will improve processes in the financial market and, in turn, enable regulators to create a more effective feedback mechanism to review regulations.

The measures announced in the Union Budget FY24 will sustain the growth momentum that has characterised the Indian economy in the current year while aiding in addressing inflationary pressures. Even though the Consumer Price Index (CPI) inflation rose to 6.5 per cent in January 2023, headline inflation in India has been showing a downward trend in the second half of FY22. This is the outcome of the measures taken by the Government and the RBI and downward-trending global commodity prices. Record production of wheat, rice, and pulses, as projected by the Second Advance Estimates of foodgrain production, will also help keep food prices in check. Over the *last few months, softening global commodity prices have led to a decrease in Wholesale Price Index (WPI) inflation. WPI inflation declined to a 24-month low of 4.74 per cent in January 2022, which going forward should also soften headline inflation. Accordingly, the Monetary Policy Committee of the RBI has raised the policy rates by a softer 25 basis points (bps) in its February 2023 meeting, compared to higher increases earlier in the tightening cycle.*

Despite high inflation, HFIs in December 2022/ January 2023 indicate that the economy is on track to achieve 7 per cent GDP growth in 2022-23. This is seen in sustained growth in GST collections, electronic toll collections and the volume of E-way bills generated. Indices of manufacturing activity such as the PMI-manufacturing, the Index of Industrial Production and the Index of Core Industries (ICI) indicate that manufacturing activity continues to grow steadily. At the same time, the RBI's Industrial Outlook Survey and Order Books, Inventories and Capacity Utilisation Survey (OBICUS) reflect optimism about the upcoming quarter and the new fiscal year. Indicators of the services sector also point towards sustained expansion, aided by an expansion of contact-intensive services. HFIs such as domestic automobile sales, UPI transactions and credit disbursals indicate that overall demand conditions remain conducive to supporting economic activity.

The Economic Survey for FY23 has pencilled in a growth rate of 6.5 per cent for FY24 but with more downside than upside risks. Inflation risks are likely to be lower for India in FY24. Still, they will not have vanished as global conditions such as geopolitical conflicts, and consequent supply disruptions that contributed to higher inflation in 2022 are still present. Predictions of a return of El Nino conditions in the Pacific could presage a weaker monsoon in India, resulting in lower output and higher prices. Similarly, as with prices, external deficits may be a lesser challenge in FY24 than in FY23, but close attention to trends in international trade and capital flows will be warranted. As in FY23, India faces the coming financial year with confidence imparted by underlying and overall macroeconomic stability while being on the alert against geo-political and geo-economic risks.

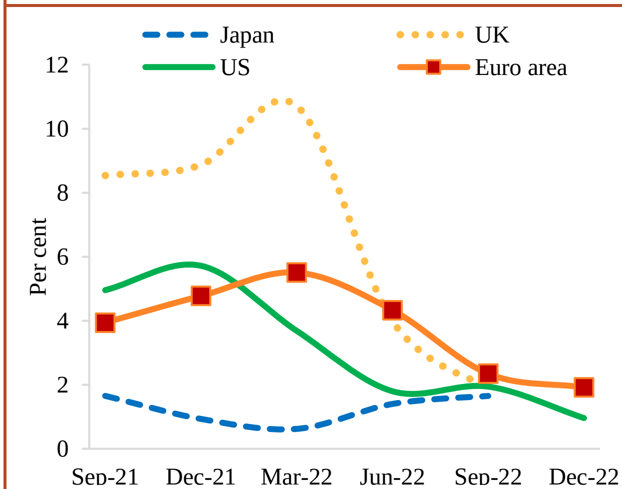
Global Economy

Growth momentum in economic activity slows towards the end of the fourth quarter of 2022

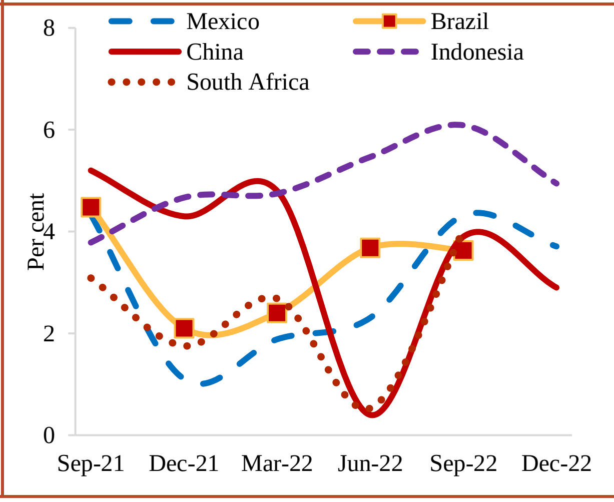
1. The last three years have seen the global economy endure a health crisis and a debilitating conflict in Europe. Governments and central banks of advanced and emerging market economies responded with stimulus measures in 2020 followed by restrictive monetary policies in 2022. Broadly, 2020 was about fiscal and monetary expansion to limit/recover the loss of output induced by the pandemic. The following year, 2021, was about the fiscal/monetary expansion of the previous year, powering demand and recovering loss of output as governments showed lesser restraint on cross-border trade. The year 2022 witnessed a reversal of policies as the monetary/fiscal policies tightened to rein in prices that had spiked up with the outbreak of the European war. The rapidity with which monetary policy changed direction and sharply turned restrictive compounded global economic uncertainties already rife with anxieties about the European conflict and the persistence of the pandemic in some countries.

A slowdown in GDP Growth

Advanced Economies



Emerging Economies



Source: OECD Stat

2. The rise in economic uncertainties is reflected in the unevenness of performance of the global economy across quarters in 2022. The output growth in the January-March quarter exceeded expectations as fiscally strengthened global demand continued to induce supply. Output growth in the April-June quarter slowed as the war caused an economic downturn in Russia, and zero tolerance for the re-emerging pandemic slowed output in China. Despite these headwinds, the July-September quarter witnessed resilience in economic activity. The United States, Japan, and major emerging markets and developing economies (EMDEs) registered higher-than-expected growth. In these countries, private consumption was continuing to rise with the release of pent-up demand, particularly for services. This rising consumption demand has sufficiently induced businesses to

increase their investment activity amid tight labour markets. Further, easing supply chain bottlenecks and lower transportation costs reduced the pressures on input prices. Also, energy markets adjusted faster than expected to the shock triggered by the conflict. In the October-December quarter of 2022, economic activity again slowed due to ongoing monetary tightening efforts. Most high-frequency activity indicators (such as business and consumer sentiment, purchasing manager surveys, and mobility indicators) point towards a slowdown in general. As per IMF's estimates, growth in global output fell from 6.2 per cent in 2021 to 3.4 per cent in 2022.

3. Going ahead, global growth is forecasted to decline in 2023. This is mainly on account of the continued uncertainties emanating from the lingering pandemic and relentless conflict in Europe. Further, the likelihood of a delayed impact of monetary tightening by major central banks is also expected to impact global economic activity. In its January 2023 update of the World Economic Outlook (WEO), the IMF forecasts global output growth to decline from 3.4 per cent in 2022 to 2.9 per cent in 2023. The World Bank, in its January 2023 edition of Global Economic Prospects (GEP), estimates global growth to decelerate from 2.9 per cent in 2022 to 1.7 per cent in 2023. The anticipated slowdown in Advanced Economies drives the decline in growth in 2023. IMF estimates that about 90 per cent of advanced economies are projected to see a decline in growth in 2023. Economic growth in AE is projected to decline sharply from 2.7 per cent in 2022 to 1.2 per cent.

4. In EMDEs, growth is estimated to have bottomed out in 2022. EMDEs growth is projected to increase from 3.9 per cent in 2022 to 4.0 per cent in 2023 aided by the reopening of the Chinese economy. About half of the EMDEs have been estimated to grow faster in 2023 than in 2022. The IMF and the World Bank project India to be the fastest-growing major economy in 2023. This is despite the likelihood of India's exports showing tepid growth as the output of advanced economies - the major export markets of India - are forecast to decline sharply in 2023.

Global GDP Forecast for 2023

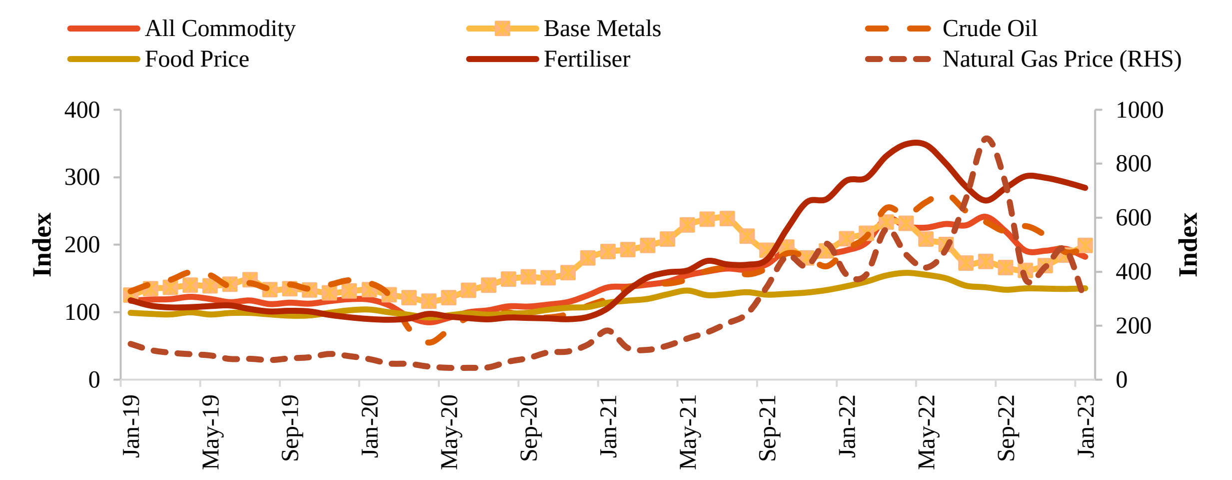
	IMF January 2023-WEO		**World Bank January 2023-GEP**	
Region	**2022 Estimates**	**2023 Forecasts**	**2022 Estimates**	**2023 Forecasts**
Global	3.4	2.9	2.9	1.7
Advanced Economies	2.7	1.2	2.5	0.5
EMDEs	3.9	4.0	3.4	3.4
China	3.0	5.2	2.7	4.3
India	6.8	6.1	6.9	6.6

Source: IMF and World Bank

Headline inflation cools down, and core inflation remains sticky

5. With a slowdown in global growth giving rise to concerns about global recession, most commodity prices have been easing since June 2022. In January 2023, however, they remained elevated compared to pre-pandemic levels, prolonging energy and food insecurity challenges. Crude oil prices have steadily declined from their mid-2022 peak but remain higher than pre-pandemic level. However, natural gas prices in Europe which soared to an all-time high in August, have since fallen back to pre-war levels. Non-energy prices, particularly metal prices, have declined alongside weak demand but remain elevated. Food prices have eased from earlier peaks, but inflation remains high in some EMDEs. Overall, global headline inflation peaked in the third quarter of 2022 and has been declining since then, notably in the United States, the euro area, and Latin America. Headline inflation has also been consistently declining in India.

International Commodity Prices eased but remain elevated compared to pre-pandemic levels

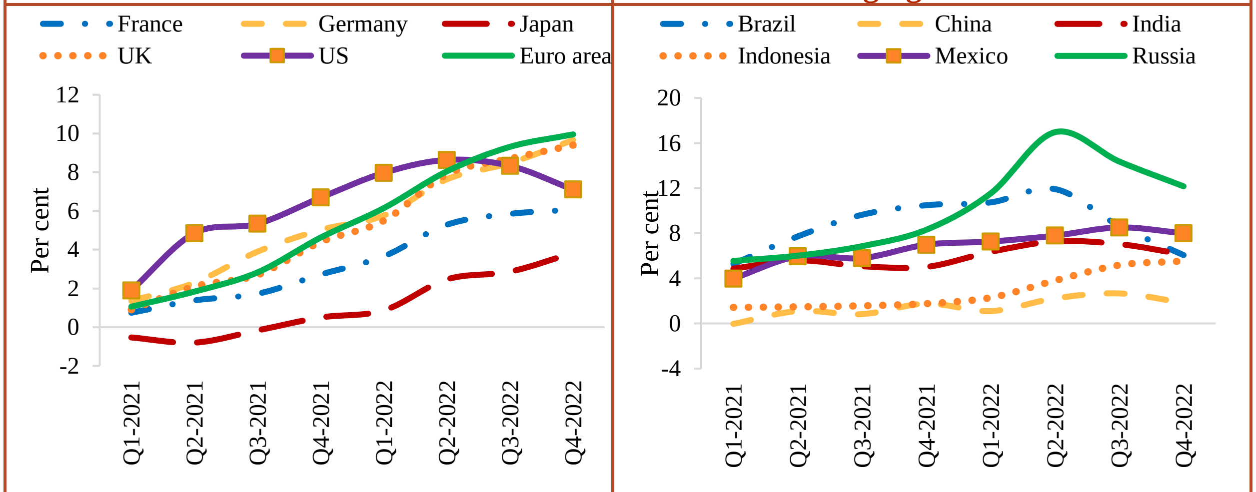


Source: IMF

6. Although signs are emerging that monetary policy tightening is beginning to cool demand and inflation, inflation remains above central bank targets in most inflation-targeting economies. The full impact of the tightening is unlikely to be realised before 2024. The softening of inflation has been gradual because the underlying (core) inflation has not yet peaked in most economies and remains well above pre-pandemic levels. It has persisted because of second-round effects from earlier shocks, robust wage growth in tight labour markets, and resilient consumption demand.

Inflationary pressures easing since Q3:2022

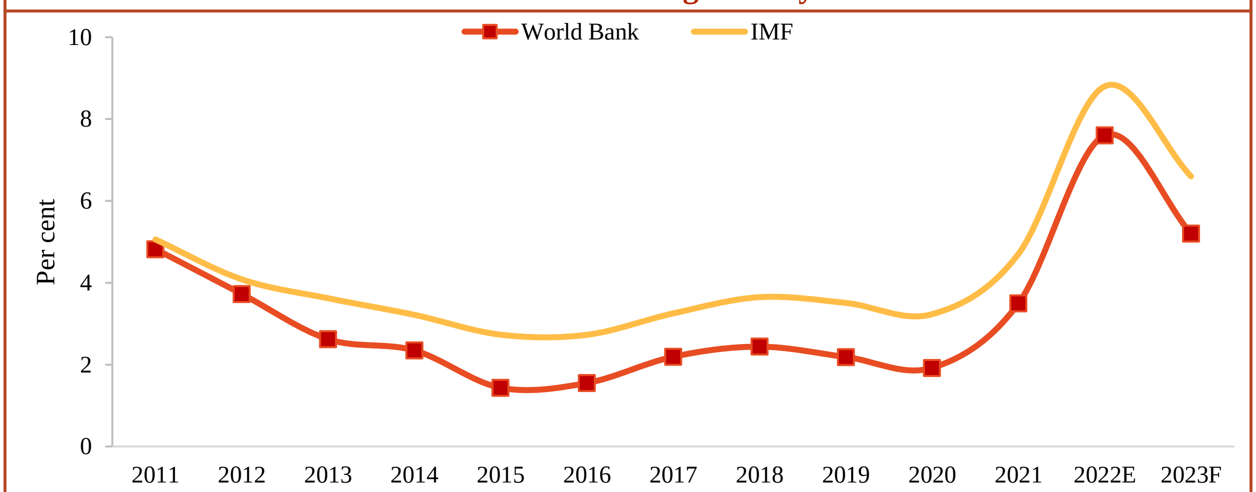
Advanced Economies	Emerging Economies



Source: OECD Stat

7. As we advance, global inflation will likely moderate only gradually over the year, although it will remain higher than pre-pandemic levels. As per the IMF estimates, global inflation is expected to fall from 8.8 per cent in 2022 to 6.6 per cent in 2023, still above the pre-pandemic (2017–19) levels of about 3.5 per cent. On its part, the World Bank projects global headline CPI inflation at 5.2 per cent in 2023, above its 2015-19 average of 2.3 per cent.

Global inflation to soften gradually in 2023



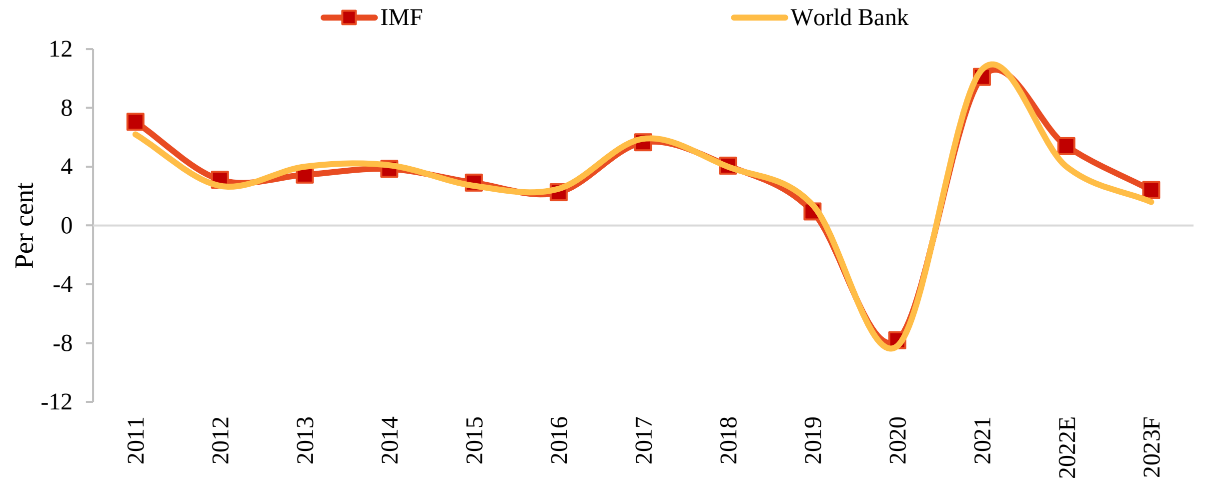
Source: IMF, World Bank
Note: E stands for Estimate, and F stands for forecast

Global trade value slowed down while volume continued to remain resilient in H2:2022

8. Global trade rose sharply in 2021 before slowing down in 2022. The two halves of 2022, however, present contrasting features. Global trade continued to be high in the first half as both

trade volumes (because of demand recovery) and trade value (because of high commodity prices) remained high. In the second half, while trade volumes continued to grow (even as monetary tightening was well advanced), reflecting resilient global demand, trade value fell as energy prices eased (as generally, commodity prices declined). Besides, trade composition has also shifted in favour of services as supply chain rigidities across borders, although easing, and high prices of intermediate goods continue to impact industrial output.

Growth of the World's trade volume to slow down in 2023



Source: IMF, World Bank
Note: E stands for Estimate, and F stands for forecast

9. Global trade is expected to worsen in 2023. Monetary tightening will entail a twin impact- it will reduce demand and, consequently, the volume of trade and, at the same time, lower prices and, accordingly, the value of trade. Trade is particularly subdued in EMDEs as they have strong trade linkages with major economies where demand is expected to slow sharply. As per World Bank, global trade growth is expected to decelerate further to 1.6 per cent in 2023 from 4.0 per cent in 2022. At the same time, IMF projected it to decline to 2.4 per cent in 2023 from 5.4 per cent in 2022.

10. On the other hand, as per the Kiel Trade Indicator[1], global trade activity improved in the beginning of 2023. In its latest update it shows a 2.1 percent increase in exchange of goods in January 2023 compared with the December 2022. Whether this improvement will be sustained is the big, open question.

[1] The Kiel Trade Indicator estimates trade flows (imports and exports) of 75 countries and regions worldwide, the EU and world trade as a whole. Available at: https://www.ifw-kiel.de/topics/international-trade/kiel-trade-indicator/

Union Budget 2023-24

11. The FY23 will close with India further strengthening its economic recovery from the output contraction induced by the pandemic. As global headwinds are likely to persist in FY24, India's policy regime must continue to be effective to ensure that the country's economic growth stays on course with macroeconomic stability. The Union Budget FY24 has ensured macroeconomic stability by budgeting a fiscal deficit of less than 6 per cent of GDP. The budget has also announced key interventions to support the high growth of the Indian economy and bring weaker sections of society into the mainstream.

12. The Budget FY24 focuses on four key areas: (i) **Sustaining Growth** in agriculture, industry, and services besides the green economy; (ii) **Inclusive Growth** of women, children, and deprived and disadvantaged sections of the society for broad-based development of the economy; (iii) **Stimulating Growth** through capital expenditure, employment generation, and exports; and (iv) **Financing Growth** by strengthening the banking and in general, the financial sector.

Sustaining Growth

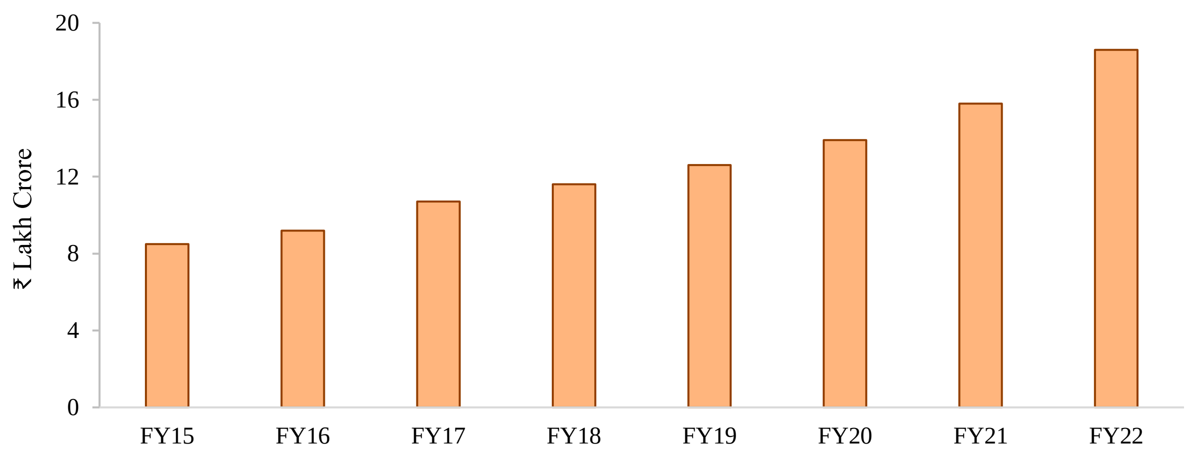
Big boost for the agriculture sector with a focus on cooperatives

13. The gross value added (GVA) in India's agriculture sector grew at a rate of 3 per cent in FY22 and is set to register a growth of 3.5 per cent in FY23. This real growth in the agriculture income is also reflected in the area sown under Rabi crops, which increased by 3.3 per cent in February 2023 over the corresponding month of the previous year. Rising sales of fertilisers and tractors have supported the growth of agricultural output. The measures announced in the Union Budget FY24 will further sustain the growth of agriculture. In particular, the overarching measure to enhance the agricultural credit target to ₹20 lakh crore in FY 24 builds on the consistent increase in the agriculture credit flow over the years. The credit flow has been supported by initiatives such as Kisan Credit Cards and the modified Interest Subvention Scheme (MIIS). Short-term credit is provided to farmers at subsidised interest rates.

14. The budget has also announced additional institutional support in the form of Digital Public Infrastructure for Agriculture and an Agriculture Accelerator Fund. These will be set up to assist the agri-tech industry and startups. Yet another measure will increase the production of extra-long staple (ELS) cotton through PPP. ELS is a high-demand cotton variety, and an increase in its domestic production will reduce India's import dependency on this variety. India is the largest producer and exporter of millets in the World. In keeping with India's status, the country will share best practices, research and technologies with other countries, making India a global hub for millets. To this end, the Indian Institute of Millet Research, Hyderabad, will be supported as a Centre of Excellence. To support agricultural cooperatives, the per-member limit for cash deposits

and loans has been increased to ₹2 lakh in Primary Agricultural Credit Societies (PACS) and Primary Cooperative Agriculture and Rural Development Banks (PCARDBs). Plans are on the anvil to use the cooperatives' infrastructure to develop massive decentralised storage capacity. This will help the farmers to store their produce and realise remunerative prices through sales at appropriate times.

Continued Increase in Institutional Credit to Agriculture Sector



Source: Based on data from DAFW and Agricultural Statistics at a Glance 2021

An allocation of ₹8,083 crore earmarked for PLIs, maximum share for electronics

15. The first half of the current year, FY23, has seen a spurt in the growth of GVA in the industrial sector. The GVA grew by 3.7 per cent in HI of 2022-23, much higher than the pre-pandemic growth in H1 of 2019-20. Industrial activity in FY 23 has been supported by an upswing in bank credit and the Emergency Credit Linked Guarantee Scheme (ECLGS), mostly availed of by the MSMEs. The Union Budget FY24 seeks to sustain the growth momentum by earmarking ₹8,083 crore for Production Linked Incentive (PLI) schemes. This is a three-fold jump over the revised budget of FY23. Most of the allocation is for large-scale electronics manufacturing, pharma, auto and auto components. Several measures to benefit the MSME sector have been announced, such as (i) relief to MSME suppliers of the government whose projects were struck during the Covid phase; (ii) the enhanced credit guarantee scheme through the infusion of ₹9,000 crore to the corpus; (iii) increase in the limits on presumptive taxation for micro-enterprises, and; (iv) the deduction for expenditure incurred on payments etc. towards determining of tax liability. These measures are expected to reduce the cost of funds and aid the small enterprises sector.

16. Over the years, the government has been laying a great deal of emphasis on increasing mobile phone production in the country. The efforts have paid off, with mobile phone production in India increasing from 5.8 crore units in FY15 to 31 crore units in FY23. Taking this initiative forward, the government has reduced customs duty on importing certain parts like camera lenses.

Concessional duty on lithium-ion cells for batteries has been extended for another year as well. These measures will further deepen domestic value addition in the manufacturing sector. To promote value addition in the manufacture of televisions, basic customs duty on parts of open cell TV panels has been reduced to 2.5 per cent. A reduction of duty on Lab-Grown Diamond (LGD) seeds is expected to reduce the cost of the domestic production of LGD and make its exports globally competitive.

Boosting the services sector: promotion of tourism, research in AI & 5G implementation

17. India's services sector witnessed a swift rebound in FY22 driven by growth in the contact-intensive services sub-sector, which bore the maximum burden of the pandemic. This subsector completely recovered from the pre-pandemic level in Q2 of FY23, driven by the release of pent-up demand, ease of mobility restriction, and near-universal vaccination coverage. The domestic tourism sector, for example, suffered a significant setback during the pandemic. The sector is poised to get a push from the initiatives announced in the Union Budget, such as the integrated development of 50 destinations with a focus on both domestic and foreign tourists. Additionally, the States will be encouraged to set up a Unity Mall to promote and sell Geographical Indication (GI) and other handicraft products. The digital services will also be boosted by setting up three centres of excellence for Artificial Intelligence (AI) in top educational institutions. In addition, 100 labs in engineering institutions will be established for developing applications using 5G services.

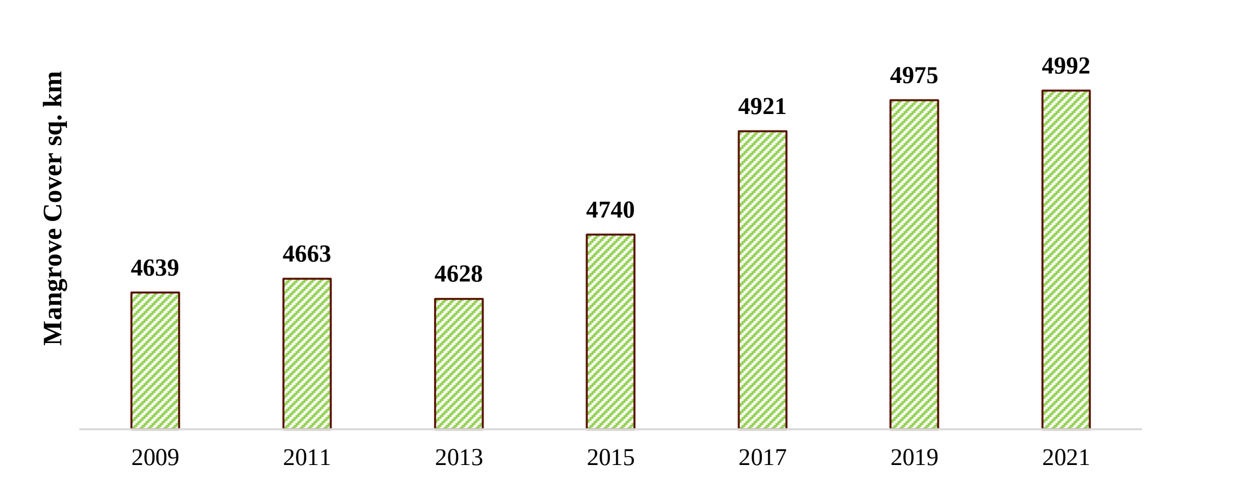
Green Growth Push-New Initiatives having long-term potential

18. Sustaining future growth or "Green Growth" also emerges as a high priority in the budget. The strategies announced for this purpose include: (i) incentivising the use of green hydrogen and biofuel; (ii) conserving natural ecological safeguards like mangroves and wetlands; (iii) replacing polluting vehicles with non-polluting ones, and (iv) promoting the use of organic manures in place of chemical fertiliser. The Budget further envisages a green credit system under the Environment (Protection) Act to meet the financial needs of the transition to green energy. Adequate funds have also been provided for developing battery storage systems with a capacity of 4,000 MwH through Viability Gap Funding and for the evacuation and inter-state transmission of non-conventional energy. These measures will help advance battery projects in India and support higher renewable adoptions for the grid. To impart impetus to green mobility, customs duty exemption has been extended on importing capital goods and machinery required for manufacturing lithium-ion cells or batteries used in electric vehicles.

19. Conservation of natural ecology has been addressed explicitly in the budget through programs like GOBARdhan (Galvanising Organic Bio-Agro Resources Dhan), MISHTI (Mangrove Initiative for Shoreline Habitats and Tangible Incomes), Amrit Dharohar (for

preserving wetlands and other vital biodiversity sustaining ecosystems), and PM-PRAMAN (PM Programme for Restoration, Awareness, Nourishment and Amelioration of Mother Earth). These programs will play a critical role in promoting a circular economy, encouraging afforestation and enhancing biodiversity.

Increasing Mangrove Cover in India



Source: ISFR 2021

Inclusive Growth

Taking education to all sections of society

20. The Union Budget 2023 has announced measures to take traditional degree education closer to the skill development ecosystem. It has proposed to develop the District Institutes of Education and Training to facilitate a re-formulation of teachers' training. The re-formulation will involve innovative pedagogy, curriculum transaction, and Information and Communication Technology (ICT) implementation. Setting up the National Digital library will help take education to remote villages. As part of other educational initiatives, the Central Government will recruit 38,800 teachers and support staff for the 740 Eklavya Model Residential Schools over the next three years. The plan to boost Eklavya schools is also in sync with the Government's aim to improve the socio-economic conditions of the Particularly Vulnerable Tribal Groups (PVTGs). Under PVTG Mission, ₹15,000 crore has been allocated to develop safe housing, clean drinking water, and sustainable livelihood opportunities.

A step towards vocalisation of education

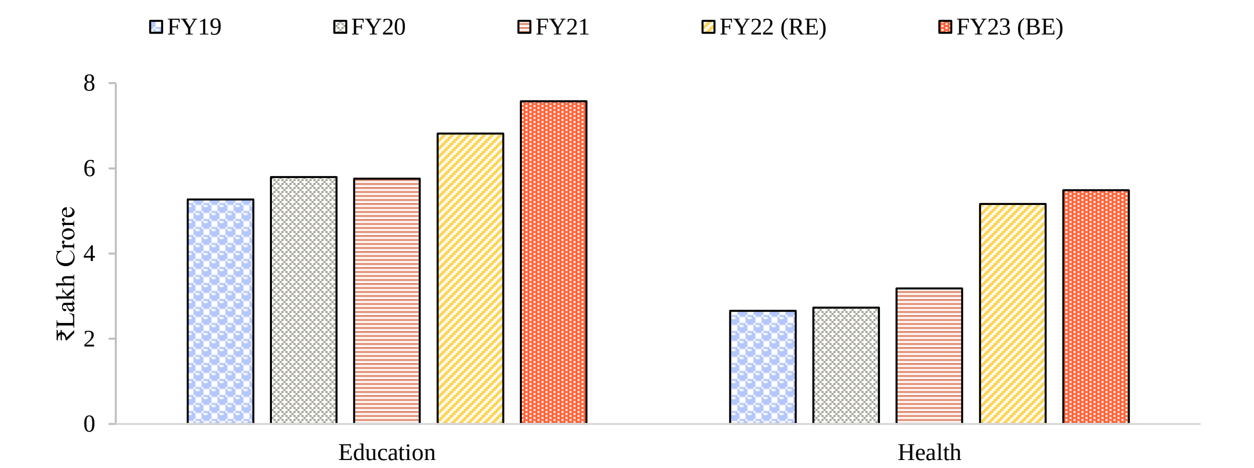
21. With a focus on reinvigorating the skill-development ecosystem, stipend support will be provided to 47 lakh youth in the next three years under National Apprenticeship Promotion Scheme (NAPS). The revamped Pradhan Mantri Kaushal Vikas Yojana (PMKVY) 4.0 also focuses on new-age courses for Industry 4.0 like coding, Artificial Intelligence (AI), Robotics,

Internet of Things (IoT), Drones, among others. To provide impetus to growth and job creation, the Government has also announced the PM Vishwakarma Kaushal Samman (PM-VIKAS) scheme for artisans and craft workers. The scheme is expected to improve the quality, scale and reach of their products and integrate them with the MSME value chain.

Move towards skill enhancement in the health sector

22. To push skilling in the health sector, 157 new nursing colleges will be established. The Indian Council of Medical Research (ICMR) labs will be made available for research by public and private medical college faculty and private sector research and development teams. This will ensure the availability of a skilled workforce for futuristic medical technologies and high-end manufacturing and research. A mission to eliminate sickle cell anaemia by 2047 will also be launched. The new Centres of Excellence programme will support R&D and promote innovation in the pharma sector.

The trend in General Government Expenditure on Education & Health



Source: Budget Documents of Union and State Governments

Thrust on small savings and greater inclusivity of the North Eastern Region

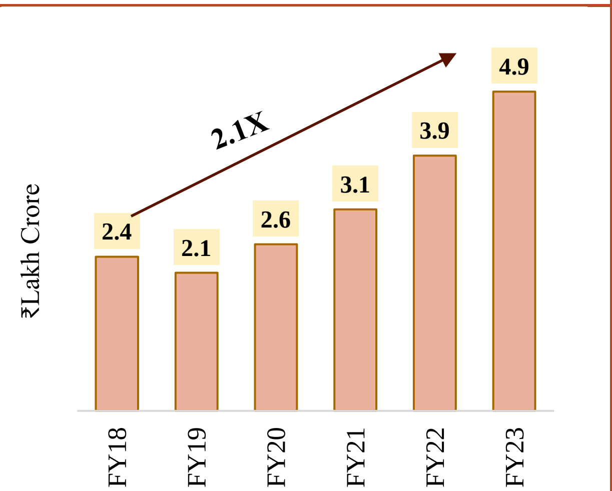
23. The Government has doubled the maximum investment limit under the Senior Citizens Savings Scheme (SCSS) and Monthly Income Account Scheme. This will help in promoting inclusive growth across all income groups. Growth inclusivity across regions will also be boosted, with the Ministry of development of the North Eastern Region seeing the highest increase in the budgetary allocation in the current year (113 per cent). Of this, 69.5 per cent is to be spent on capital expenditure. This is in line with the Government's vision of developing the Northeast as a development gateway to Southeast Asian countries.

Stimulating Growth

Capital investment to promote growth and enhance job creation

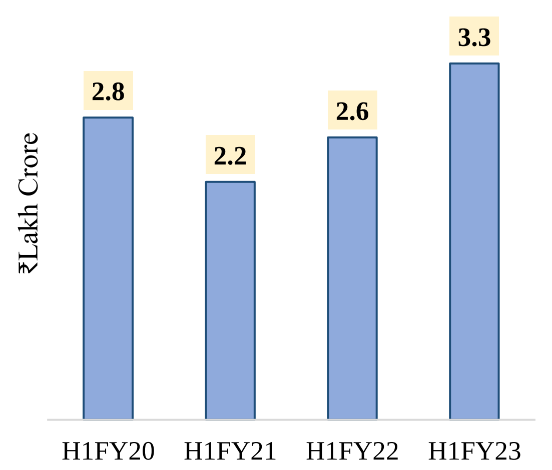
24. An increase in investment demand triggered by the government's capital expenditure (Capex) in the last two years has emerged as a powerful stimulus to economic growth. In the current year, the central government has already spent 65.4 per cent of its Capex allocation for FY23 till December 2022, reflecting a sense of urgency in accelerating growth. The increase in public capex has also resulted in the crowding-in of private investment with an additional push provided by strengthening the corporate balance sheets. There is evidence of an increasing trend in announced projects and capex spending by the private players. As per Axis Bank Business and Economic Research, Capex by the corporate sector increased to ₹3.3 lakh crore in H1 of FY23. Significant proportion of the increase in Capex is driven by heavy investments in electricity, steel, chemicals, auto and pharmaceuticals sectors.

Central Government Capital Expenditure (Apr-Dec)



Source: CGA

Capital Expenditure by the Corporate sector



Source: Capitaline, Axis Bank Research

25. The Union Budget FY24 has yet again provided a Capex stimulus to growth by increasing the Centre's Capex budget over the previous year by 33 per cent. The Capex budget of ₹10 lakh crore in FY 24 will continue to push investment-driven growth amid global headwinds. The Capex budget includes an allocation of ₹ 1.3 lakh crore for 50 years of interest-free loans to States, higher than the allocation of ₹ 1 lakh crore in the last year's budget. The interest-free loans were launched in the previous year. These are aimed at spurring States to increase investment in infrastructure while incentivising them to undertake important reform measures. The Capex budget of the Centre has been complemented with the provision of Grants-in-Aid to States for creating capital assets.

The Effective Capital Expenditure[2] of the Centre amounts to ₹13.7 lakh crore, compared to ₹10.5 lakh crore in the previous year.

26. The Capex budget has an enhanced capital outlay of ₹2.4 lakh crore for the Indian Railways. Besides bolstering construction activities, it will provide employment opportunities and improve the logistics network by providing last-mile connectivity. One hundred critical transport infrastructure projects for last-and first-mile connectivity for ports, coal, steel, fertiliser, and foodgrain sectors have been identified. These projects will be prioritised with an investment of ₹75,000 crore. Like the Rural Infrastructure Development Fund, the Budget has also announced an Urban Infrastructure Development Fund (UIDF) to create urban infrastructure in Tier-2 and Tier-3 cities.

Tax-driven stimulus to boost consumption and growth

27. Various measures have been announced in the Union Budget FY24 to increase spending and spur consumption. These include: (i) rationalisation of tax slabs; (ii) increase in the basic exemption limit from ₹2.5 lakh to ₹3 lakh under the New Personal Tax regime (NPTR); (iii) reduction in the highest surcharge from 37 per cent to 25 per cent in the new tax regime (which brings down the maximum tax rate to 39 per cent) (iv) making the Concessional Tax Regime (CTR) the default option; (v) ₹10 crore cap on capital gains savings from investment in residential properties, and (vi) extension in income tax benefits for startups until March 2024. These initiatives will leave more cash in the hands of citizens and will further increase consumption.

Increased allocation to schemes for boosting exports

28. The Union Budget increased the allocation for some of the key export-boosting schemes, such as the Remission of Duties and Taxes on Export Products (RoDTEP), Rebate of State and Central Taxes and Levies (RoSCTL), and interest equalisation scheme, at a time when tepid external demand can weigh on outbound shipments from India. The move will help promote exports, especially by MSMEs and may also increase the subvention support demanded by the exporters, given rising interest rates.

Financing Growth

Budget measures will strengthen financial markets

29. A national financial information registry will be set up to serve as a central repository of financial and ancillary information. This will facilitate the efficient flow of credit, promote

[2] Effective Capital Expenditure of the Centre combines the Centre's Capex budget with Grants-in-Aid to States budgeted for creating capital assets

financial inclusion, and foster financial stability. Credit flow will be further boosted by establishing a subsidiary of EXIM bank for trade refinancing.

30. To improve the ease of doing business, a single-window system will be introduced to enable combined registration with and approval from different authorities, such as the IFSCA, the Goods and Services Tax Network, the RBI, and SEBI. It takes time for investors to reclaim unclaimed shares and unpaid dividends. Measures are being taken to ease and accelerate this process with an integrated IT portal to be established at the Investor Education and Protection Fund Authority.

31. Measures will be taken to make Gujarat International Finance Tec-City (GIFT) a more attractive destination. These include delegating powers under the Special Economic Zones (SEZ) Act to the International Financial Services Centres Authority (IFSCA). The IFSCA Act amendments will also bring in statutory provisions for arbitration, ancillary services, and the avoidance of dual regulation under the SEZ Act. Acquisition financing by the IFSC units of foreign banks will be further permitted.

32. The Budget advocates reforms in property-tax governance and ring-fencing user charges on urban infrastructure to enable the issue of municipal bonds. A new legislative framework will be created to govern public infrastructure in consultation with the RBI. This will help bond-market activity by enabling a more transparent information flow to potential debt investors. There is also a focus in the budget on skilling professionals in financial markets. To this end, SEBI will be empowered to develop, regulate, maintain, and enforce norms and standards for education in the National Institute of Securities Markets and to recognise awarding degrees, diplomas, and certificates.

33. The measures announced in the Union budget will improve processes in financial markets, enabling regulators to create a more effective feedback mechanism to review regulations. Such actions would lead to greater financial inclusion and higher participation, including overseas participation in the markets. They would also enable household savings to be deployed more efficiently for faster economic growth.

Focus on Bank Governance

34. With a view to improving banking governance, the Budget has proposed to allow accumulated losses and unabsorbed depreciation allowance to be carried forward when a banking company is being amalgamated with any other banking institution or company in the event of a strategic disinvestment. Further, changes have been proposed to the Banking Regulation Act, the Banking Companies Act and the RBI Act, which are expected to improve investor protection.

Simplification of the KYC process and adopting a 'risk-based' instead of a 'one size fits all' approach will enhance credit disbursal by banks.

Domestic Economic Developments

Amidst a mixed inflation outlook, RBI hikes policy rates

35. Consumer Price Index (CPI) based inflation in January 2023 rose to 6.5 per cent, driven by increased price pressures in food items and sticky core inflation. Consumer Food Price Index (CFPI) inflation increased from 4.2 per cent in December 2022 to 5.9 per cent in January 2023. The inflation in 'clothing and footwear' and 'fuel and light' subsegments remained elevated at 9.1 per cent and 10.8 per cent, respectively. Within food items, the inflation in the 'cereals and products' and 'milk and products' segments increased, while the vegetable segment recorded disinflation. The prices of 'oils and fats' and fruits remained broadly stable on a year-on-year (YoY) basis. Wholesale Price Index (WPI) inflation decreased to a 24-month low of 4.7 per cent in January 2023 on the back of easing prices of mineral oils, chemicals & chemical products, textiles, crude petroleum & natural gas, textiles, and food products.

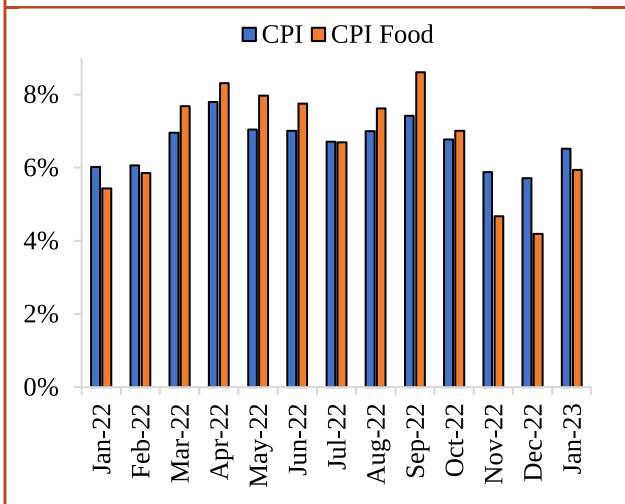
36. In the second half of the current year, headline inflation in India has been showing a downward trend. This is the outcome of the measures taken by the Government and the RBI and downward-trending global commodity prices, although at less than desired pace for some commodities. There have been some instances of inflation stiffening above the downward trending line. Inflation decline does not often happen in a straight line as prices are usually downward sticky. Indeed, the adjustment may prolong if global commodity prices do not gravitate to pre-pandemic levels. This could happen with consumption demand staying robust in the US, and reopening of the Chinese economy refuelling global demand.

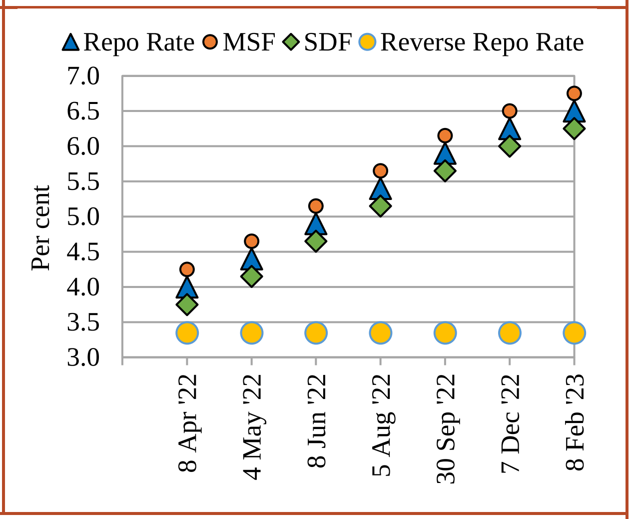
37. Even as inflation is adjusting to the downward trend, the government has taken multiple steps to arrest the rise in wheat prices. On 25th January 2023, it decided to release 30 lakh metric tonnes (LMT) from the Food Corporation India (FCI) stock, remove freight charges and sell the grain in the open market at a reserve price of ₹2,350/ quintal to bulk users across India via e-auction. Additionally, it has reduced the price of FCI wheat offered to institutions like Kendriya Bhandar, the National Agricultural Cooperative Marketing Federation of India (NAFED) and the National Consumer Cooperatives Federation of India (NCCF) at concessional rates of ₹2,350 per quintal, subject to the stipulation that the buyer will convert wheat to atta and offer it to the public at an MRP of Rs. 29.50/kg. While these measures will help address retail food inflation in the near term, a record food grain produce of 3235.54 lakh metric tonnes (LMT), as estimated by the Second Advance Estimates of food grain production released by the Ministry of Agriculture and Farmers' Welfare, is expected to curb volatility in food prices and ensure food security in the

coming year. As per these estimates, record volumes of rice and wheat are expected at 1308.4 LMT and 1121.8 LMT, respectively.

38. The Monetary Policy Committee (MPC) of the Reserve Bank of India (RBI) has also been adjusting liquidity conditions appropriately to address inflationary pressures. It raised the policy repo rate by 25 basis points (bps) to 6.50 per cent at its February 2022 meeting. The Standing Deposit Facility (SDF) and the Marginal Standing Facility (MSF) rates were also increased by 25 bps each. The decision stems from a mixed inflation outlook and resilient domestic economic activity. The MPC's hike in policy rates was smaller than the increases implemented earlier in the tightening cycle, suggesting the understanding that inflation is beginning to soften. The committee believes that the policy rate increases that were undertaken since May 2022 are making their way through the system. However, it also stated that further calibrated action is warranted to keep inflation expectations anchored, break the persistence of core inflation and thereby strengthen medium-term growth prospects. The MPC also decided to remain focused on withdrawing accommodation while supporting growth. The committee expects retail inflation to average 5.7 per cent in Q4 FY23. Assuming a normal monsoon and an average price of US$ 95/barrel for India's basket of crude oil, the committee has projected inflation in FY24 to average 5.3 per cent, with inflation in Q1, Q2, Q3, and Q4 of the next fiscal year to be 5.0 per cent, 5.4 per cent, 5.4 per cent, and 5.6 per cent, respectively.

CPI and CPI-food inflation	Change in policy rates





Source: RBI

High-frequency indicators indicate strong economic activity

39. The Indian economy is estimated to post healthy growth in FY23, as projected by the first advanced estimates (FAE). The FAE state that India's GDP will grow by 7.0 per cent YoY in real terms, driven by private consumption and investment, while real Gross Value Added (GVA) is

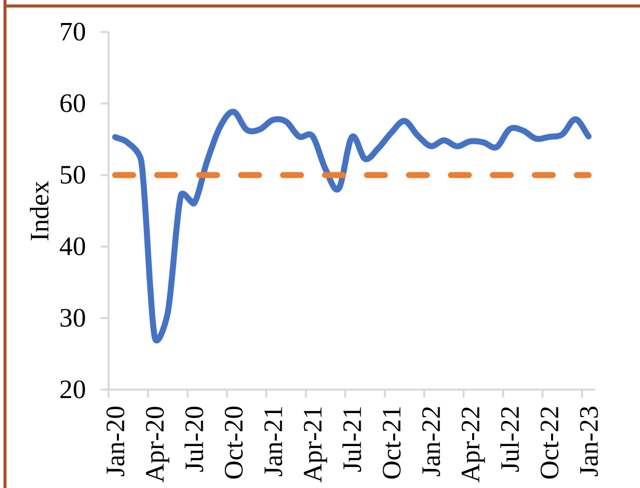
estimated to grow by 6.7 per cent YoY. The movement in high-frequency indicators across sectors affirms these estimates.

40. Domestic economic activity remains robust even as a global economic slowdown materialises, as evident in the second-highest ever GST collections of ₹1.6 lakh crore in January 2023. GST collections have now remained above the ₹1.4 lakh crore mark for 11 successive months. While increasing electronic toll collection reflects steadily rising commercial activity, the sustained growth in the volume of e-way bill generation points to increased spending and value addition in the manufacturing sector.

41. As indicated by the PMI manufacturing, manufacturing activity remained firmly in the expansionary zone in January 2023. The index estimates that manufacturing has been expanding for 19 consecutive months. However, sub-indices of the PMI reveal that international sales growth weakened to a 10-month low on the back of a global economic slowdown. Corroborating the evidence of PMI Manufacturing activity, the Index of Industrial Production (IIP) and the Index of Eight Core Industries (ICI) have also displayed healthy growth in December 2022. The IIP grew by 5.4 per cent YoY in the period Apr-Dec 2022, and its manufacturing sub-index grew by 4.8 per cent YoY over this period. Most sub-indices of the IIP in the period Apr-Dec 2022 are also well above their pre-pandemic levels of Apr-Dec 2019.

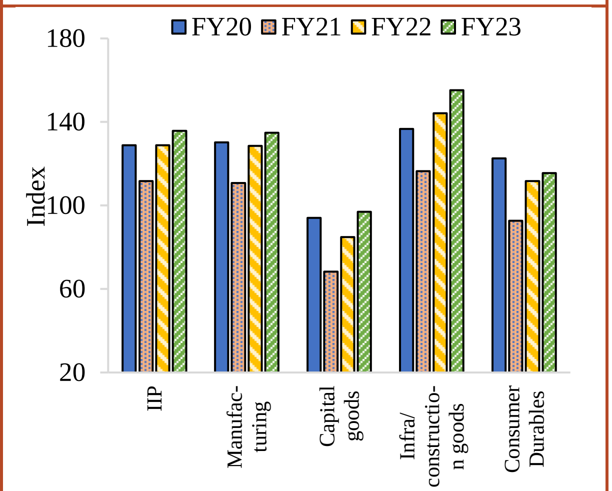
Manufacturing Indicators faring well

PMI Manufacturing



Source: IHS Markit

IIP and its sub-indices

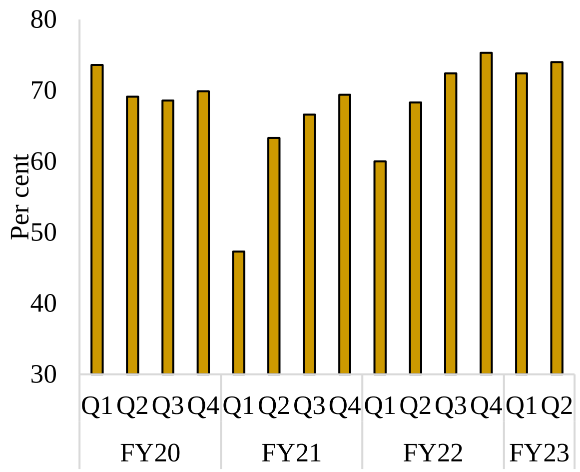
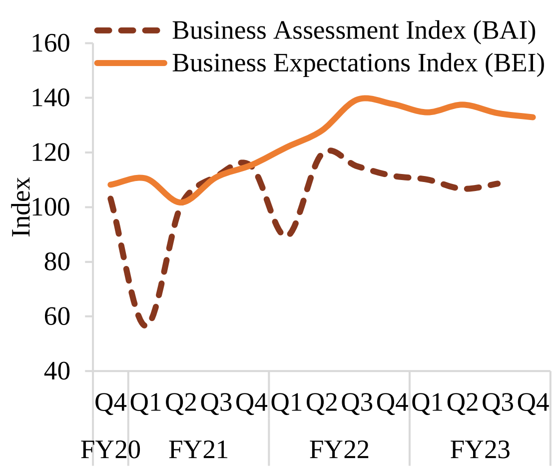


Source: MoSPI

42. In keeping with the consistent level of manufacturing activity, capacity utilisation has also risen. The RBI's Order Books and Inventories and Capacity Utilisation Survey (OBICUS) for Q2 FY23 reveals that capacity utilisation (CU) for the manufacturing sector further improved to 74 per cent from 72.4 per cent in the previous quarter. The seasonally adjusted capacity utilisation increased as well to 74.5 per cent. The results of the CII's Business Outlook Survey for Q3 FY23

indicate a high level of capacity utilisation in Q3 FY23, with 50 per cent of the respondents expecting CU between 75 per cent and 100 per cent. The continued improvement in CU augurs well for private capex as firms are expected to invest in additional manufacturing capacity as CU levels reach the 75 per cent mark.

RBI surveys reflect buoyancy in manufacturing

Capacity Utilisation	Business Assessment and Business Expectations Indices
	

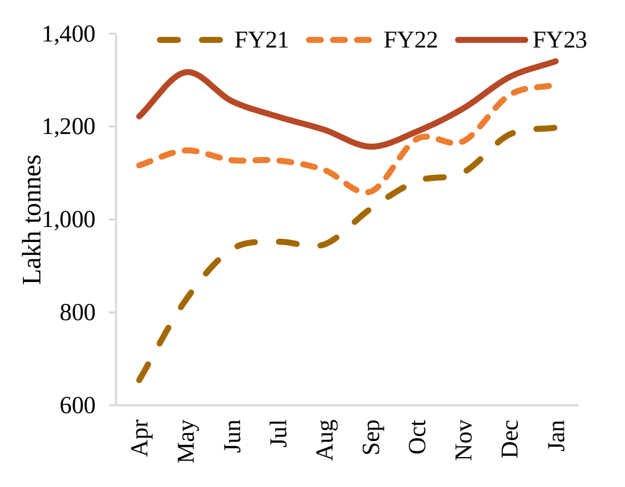
Source: RBI

43. As the results of the RBI's Industrial Outlook Survey indicate, the buoyant manufacturing activity is expected to continue. The manufacturers have polled for demand expansion in Q3 FY23 in terms of improved assessment for production, order books, capacity utilisation and employment situation. The Business Assessment Index (BAI) indicated that overall business sentiment remained healthy at 108.6 in Q3, against 106.7 for the previous quarter. Additionally, manufacturers have retained an optimistic outlook on demand conditions for the final quarter of FY23, albeit with marginally decreased expectations on orders books and foreign trade. The Business Expectations Index (BEI) for Q4 FY23 decreased marginally from a value of 134.4 in the previous quarter but remained elevated at 132.9.

44. The services sector is also expanding and driving economic activity. As per the FAE, the GVA in the services sector is estimated to grow by 9.1 per cent YoY compared to 8.4 per cent in FY22. Growth in the sector is estimated to be driven by a 13.7 per cent YoY growth in the contact-intensive services sector, which grew by 11.1 per cent in FY22. Furthermore, the share of the services sector in overall GVA is the second-highest since 2012-13. The performance of high-frequency indicators of the service sector validates these estimates.

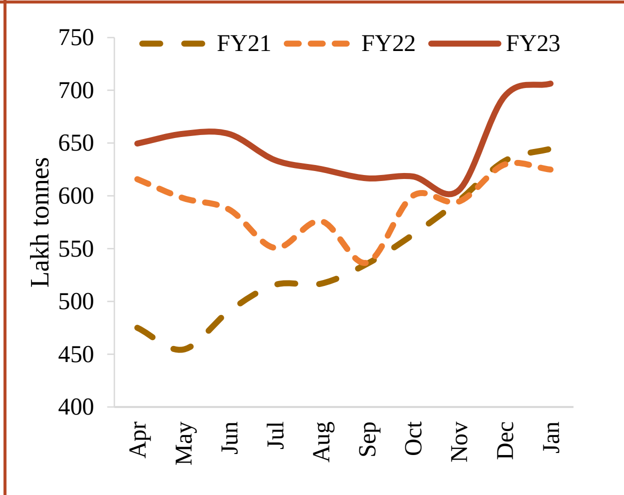
45. As of January 2023, PMI Services has remained in the expansionary zone for 18 consecutive months. Favourable demand conditions and ongoing increases in new work supported the growth in activity. The PMI Services sub-indices indicate that while new business and business expectations have increased, international business contracted marginally on account of an uncertain global economic environment. The sub-indices also indicated a moderation in input and output price inflation.

Railway freight traffic



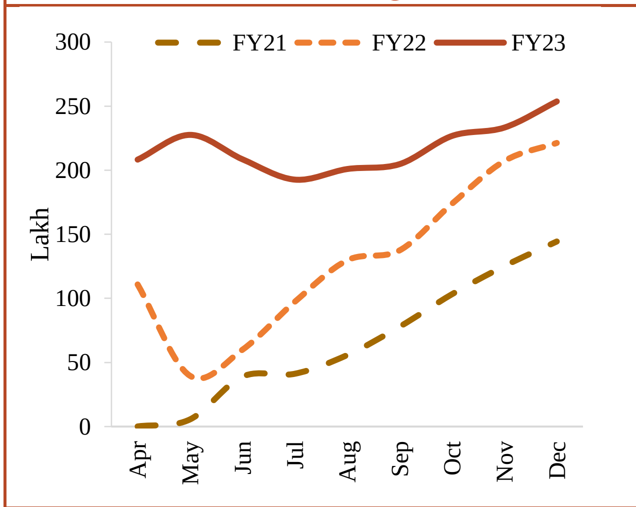
Source: Indian Railways

Port cargo traffic



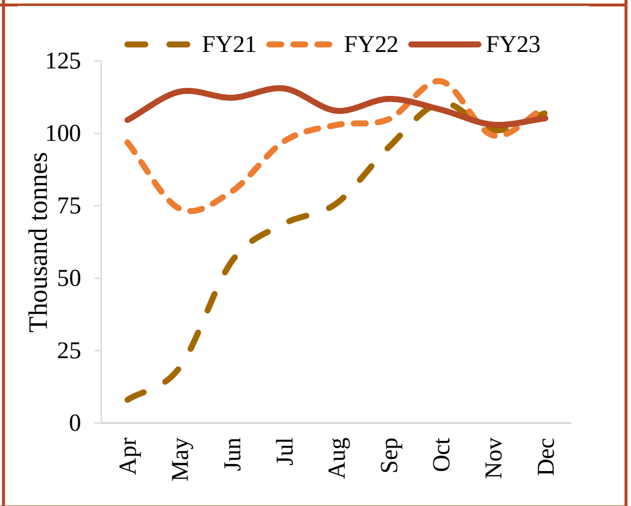
Source: Indian Ports Association

Domestic Air Passenger Traffic



Source: Airports Authority of India

Domestic Air Cargo Traffic



Source: Airports Authority of India

46. Transport services activity over the April-January FY23 period (Apr-Dec in the case of air passenger and cargo traffic) across rail, freight and air modes remained significantly above the corresponding levels of the previous two years. While port and railway freight traffic are above pre-pandemic levels, air passenger traffic is on track to recover to pre-pandemic levels, aided by the ongoing recovery in the contact-intensive sectors.

47. The results of the RBI's Services and Infrastructure Outlook Survey for Q3 FY23 reflect the strength of services activity. Respondents assessed an improvement in the overall business situation and were optimistic about employment and the availability of finance in the current quarter. The results indicated larger cost pressures from rising costs of finance and higher salary outgo. However, an improvement in pricing power in terms of selling prices and profit margins is estimated to outweigh these pressures. The results indicated similar optimism regarding overall business conditions and employment in Q4 FY23 and the first half of FY24.

48. Overall demand conditions remain conducive to carrying forward the momentum built up in the economy. Fuel consumption, the demand for fuel in January 2023 was the second-highest in FY23. Steady growth in automobile sales and UPI transaction value and volumes also reflect healthy demand conditions. Credit disbursals by scheduled commercial banks also remained in double-digit territory. The results of the RBI's consumer confidence survey reveal that consumer confidence improved further both for the current period and the year ahead. The current situation index (CSI) continued on its recovery path since the historic low recorded in mid-2021 and increased by 1.3 points in January 2023 on the back of improved sentiments on the general economic situation and household income. The Future Expectations Index (FEI) also rose by 1.3 points to its two-year high on the back of improved optimism on the general economic situation, employment and income over the next year. The table below indicates the YoY growth of a few key HFIs.

49. The resilience of private demand is also underscored in the performance of leading private consumer non-durables corporations, which posted healthy revenue growth in 2022. As per industry reports[3], the strong top line growth was on account of strong demand conditions which helped in volume growth. While some companies flagged inflationary pressures, they exhibited optimism regarding demand conditions in the coming year.

Indicator	Month	YoY Growth
UPI (Volume)	Jan-23	74.0%
Average ETC Collection	Jan-23	33.4%
Tractor Sales	Jan-23	30.3%
E-Way Bill Generation	Jan-23	20.0%
Domestic Passenger Vehicle Sales	Jan-23	17.2%
Non-food Credit	Jan-23	16.7%
Domestic Air Passenger Traffic	Dec-22	14.6%
GST Collections	Jan-23	12.7%
Power Consumption	Jan-23	12.2%

[3] https://www.thehindubusinessline.com/companies/global-consumer-product-firms-bet-big-on-indias-growth-story/article66528573.ece

8 Core Industries	Dec-22	7.4%
Two and Three-Wheeler Sales	Jan-23	7.0%
Index of Industrial Production	Dec-22	4.2%
Rail Freight Traffic	Jan-23	3.9%
Fuel Consumption	Jan-23	3.6%
Merchandise Imports	Jan-23	-10.5%
Merchandise Exports	Jan-23	-6.6%

Outlook

50. The year 2022 witnessed the global economy operating under an extremely challenging macroeconomic environment. The geopolitical tensions in Europe, spiralling energy, food and fertiliser prices, monetary tightening and inflationary trends have elevated the downside risks to the global economic outlook. Despite these headwinds, the Indian economy is estimated to grow by 7.0 per cent YoY in FY23, as per the FAE. The performance of HFIs in December 2022/January 2023 indicates that the economy is well on track to achieve this growth.

51. The Economic Survey 2022-23 projects a baseline growth of 6.5% for FY24 but acknowledges that risks are more skewed to the downside than the upside. The geopolitical environment remains fraught. In turn, it could cause further economic dislocation through disruptions to the supply chain channels and more. Some meteorological agencies predict the return of El Nino conditions in India this year. If these predictions are accurate, then monsoon rains could be deficient, leading to lower agricultural output and higher prices. The most recent consumer confidence survey for January 2023 suggests a tentative recovery in consumer confidence as the survey assesses the prospects for prices and employment in the year ahead.

52. The measures announced in the Union Budget FY24, such as a rise in capital expenditure, increased focus on infrastructure development, boost to the green economy, and initiatives for strengthening financial markets etc., are expected to promote job creation and spur economic growth. Measures announced for the MSME sector will likely reduce the cost of funds and aid small enterprises. Revision in tax slabs under the New Personal Income Tax Regime is expected to boost consumption, thus providing more impetus to economic growth. Easier KYC norms, expansion of DigiLocker services, and overall impetus on digitisation and last-mile connectivity are predicted to strengthen financial markets.

53. Thanks to the emphasis on macroeconomic stability in the last several years, the Indian economy faces the year ahead with confidence while being mindful of the risks.

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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-Dec	43.7	54.5	52.4
Domestic Tractor Sales	Lakhs	7.1	8.4	Apr-Jan	6.2	7.2	8.00
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 Feb	110.5	109.3	107.0
Wheat Procurement (RMS)	LMT	341.3	433.4	NA	NA	NA	187.9
Rice Procurement (KMS)	LMT	518.3	592.4	31st Jan	NA	NA	434.8
Rainfall	Millimetres	NA	NA	June-Sep	968	875	925
Industry							
8-Core Industries	Index	131.7	136.1	Apr-Dec	130.5	132.5	143.1
8-Core Industries (YoY)	Per cent	0.36	10.4	Apr-Dec	0.6	12.6	8.0
IIP	Index	129	131.6	Apr-Dec	128.8	128.8	135.7
IIP (YoY)	Per cent	-0.63	17.95	Apr-Dec	0.4	15.3	5.4
Domestic Auto sales	Lakh	207.13	164.23	Apr-Jan	181.8	136.0	166.1
PMI Manufacturing	Index	52.3	54	Apr-Jan	52.2	53.9	55.5
Power consumption	Billion kWh	1,284	1,374	Apr-Jan	1,088	1,143	1,264
Natural gas production	Bn Cu. Metres	31.2	34	Apr-Dec	23.8	25.7	25.9
Cement production	Index	145.7	156.95	Apr-Dec	143.8	148.9	164.8
Steel consumption	Mn Tonnes	100.53	105.84	Apr-Jan	85.4	87.0	96.4

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-Jan	145.8	163.2	174.3
CPI-C (YoY)	Per cent	4.77	5.51	Apr-Jan	4.48	5.3	6.78
WPI	Index	121.8	139.4	Apr-Jan	121.9	137.9	152.8
WPI (YoY)	Per cent	1.68	13	Apr-Jan	1.7	12.8	10.8
CFPI	Index	146.5	163.7	Apr-Jan	146.1	163.3	174.5
CFPI (YoY)	Per cent	6.71	3.76	Apr-Jan	6.11	3.17	6.85
CPI-Core	Index	145.7	162.9	Apr-Jan	145.2	162.2	172.1
CPI-Core (YoY)	Per cent	4.05	5.99	Apr-Jan	4.08	5.97	6.12
Services							
Average Daily ETC Collection	Rs. Crore	NA	104.5	Apr-Jan	NA	99.2	145.2
Domestic Air Passenger Traffic	Lakhs	2745.1	1668.9	Apr-Dec	2106.1	1177.3	1956.4
Port Cargo Traffic	Million tonnes	704.9	720.1	Apr-Jan	535.5	591.6	646.7
Rail Freight Traffic	Million tonnes	1210.3	1418.0	Apr-Jan	1000.7	1159.1	1243.3
PMI Services	Index	51.9	52.3	Apr-Jan	51.64	52.24	57.02
Fuel consumption	Million tonnes	214.1	204.7	Apr-Jan	180.1	167.2	183.6
UPI (Value)	Rs. Lakh crore	21.3	84.2	Apr-Jan	17.03	66.3	112.74
UPI (Volume)	Crore	1251.86	4596.75	Apr-Jan	994.61	3603.44	6753.11
E-way Bill Volume	Crore	62.9	77.4	Apr-Jan	53.1	62.7	78.8
Fiscal Indicators							
Gross tax revenue (Central Govt)	Rs. Lakh crore	20.1	27.1	Apr-Dec	13.8	19.3	21.7
Revenue Expenditure	Rs. Lakh crore	23.5	32	Apr-Dec	18.5	21.3	23.3
Capital Expenditure	Rs. Lakh crore	3.4	5.9	Apr-Dec	2.6	3.9	4.9

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
Total Expenditure	Rs. Lakh crore	26.9	37.9	Apr-Dec	21.1	25.2	28.2
Fiscal Deficit	Rs. Lakh crore	9.4	15.9	Apr-Dec	9.3	7.6	9.9
Revenue Deficit	Rs. Lakh crore	6.7	10.3	Apr-Dec	7.1	3.9	5.6
Primary Deficit	Rs. Lakh crore	3.2	7.8	Apr-Dec	5.1	1.9	3.1
GST Collection	Rs. Lakh crore	12.2	14.8	Apr-Jan	10.19	12.1	14.9
External Sector							
Merchandise exports	USD Billion	313.2	422.2	Apr-Jan	264.1	340.2	369.3
Non-oil exports	USD Billion	271.9	354.6	Apr-Jan	228.8	289.5	290.7
Merchandise imports	USD Billion	474.2	613.2	Apr-Jan	405.3	494.0	602.2
Non-oil non-gold imports	USD Billion	315.9	405.1	Apr-Jan	271.0	328.8	394.7
Net FDI	USD Billion	43	38.6	Apr-Nov	26.7	23.5	20.4
Net FPI	USD Billion	-3.1	-16	Apr-Jan	11.6	-4.7	-5.6
Exchange Rate	INR/USD	74.35	76.24	Jan	71.31	74.44	81.9
Foreign Exchange Reserves	USD Billion	475.6	617.6	27th Jan 2023	471.3	629.7	576.8
Monetary and Financial							
Total Credit Growth (Y-o-Y)	Per cent	6.13	8.6	Jan	8.06	7.15	16.3
Non-Food Credit Growth (Y-o-Y)	Per cent	6.05	8.71	Jan	8.01	7.25	16.7
10-Year Bond Yields	Per cent	6.70	6.33	Jan	6.77	6.23	7.32
Repo Rate	Per cent	4.4	4	8th Feb 2023	5.15	4	6.5

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
Employment							
Net payroll additions under EPFO	Lakh	78.6	122.3	Apr-Dec	52.6	81.3	114.4
Persondays of employment demanded under MGNREGA	Crore	30.1	40.2	Apr-Jan	24.4	33.9	27.7
Urban Unemployment Rate	Per cent	9.1	8.2	Sep	8.4	9.8	7.2
Subscriber Additions: National Pension Scheme (NPS)	Lakh	7.3	7.8	Apr-Nov	5	4.98	5.03

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