Economic Division

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आर्थिक कार्य विभाग
DEPARTMENT OF
ECONOMIC AFFAIRS

सत्यमेव जयते

Table of Contents

India’s G -20 Presidency: Presidency of healing, harmony and hope

India commenced its G20 presidency on 1st December 2022 with the theme of one earth, one family, one future or *“Vasudhaiva Kutumbakam”*, which underscores global interconnectedness and reflects India’s pro-planet approach, which manifests the notion of a universal family. In India’s view, striving for our progress envisions global progress in a unified world and shaping a new paradigm-human-centric globalisation. India will host over 200 meetings in over 50 cities across 32 different workstreams that will offer G20 delegates and guests a glimpse of India’s rich cultural heritage and provide them with a unique Indian experience. India’s priorities focus on healing our ‘One Earth’, creating harmony within our 'One Family' and giving hope for our ‘One Future’. India will encourage sustainable and environment-friendly lifestyles based on India's tradition of trusteeship towards nature to heal our planet. To promote harmony within the human family, India will seek to depoliticise the global supply of food, fertilisers and medical products so that geo-political tensions do not lead to humanitarian crises.

Green Development, Climate Finance & LiFE	• LiFE (Lifestyle for Environment) -a behaviour-based movement that draws from our nation's rich, ancient sustainable traditions to nudge consumers, and in-turn markets, to adopt environmentally-conscious practices.
Accelerated, Inclusive & Resilient Growth	• Accelerate integration of MSMEs in global trade, bring in the spirit of trade for growth, promote labour rights and secure labour welfare, address global skills gap, and build inclusive agricultural value chains and food systems etc.
Digital Public Goods/Data for Development	• India to foreground its belief in a human-centric approach to technology, and facilitate greater knowledge-sharing in priority areas like digital public infrastructure, financial inclusion, and tech-enabled development in sectors ranging from agriculture to education
Accelerating progress on SDGs	• Achieving the targets laid out in the 2030 Agenda for Sustainable Development
Reformed Multilateralism	• Creating more accountable,inclusive just, equitable and representative multipolar international system that fit for addressing the challenges in the 21st century.
Women-led development	• G20 forum to highlight inclusive growth and development, with women empowerment and representation being at the core of India's G20 deliberations. This includes a focus on bringing women to the fore, and in leading positions, in order to boost socio-economic development and achievement of SDGs.

Abstract

India's commencement of its G-20 presidency on 1st December marks a significant step towards undertaking a leadership role on the global stage as the global economy sails through the storm of a unique set of economic challenges. India inherits the responsibility of steering collective action for restoring global economic and financial stability in the aftermath of the pandemic and the Russia-Ukraine conflict. India has identified several priorities for its G20 presidency—inclusive, equitable and sustainable growth; LiFE (lifestyle for environment); women's empowerment; digital public infrastructure and tech-enabled development in health, agriculture, education, commerce, skill-mapping, and culture and tourism; climate financing; circular economy; global food security; energy security; green hydrogen; disaster risk reduction and resilience; developmental cooperation; fight against economic crimes; and multilateral reforms.

The resilient growth of the Indian economy in H1: 2022-23, the fastest among major economies, bespeaks strengthening macroeconomic stability. India registered a broad-based expansion of 9.7 per cent in H1:2022-23, supported by robust domestic demand and upbeat investment activity. Sectoral analysis reveals that growth was driven by pent-up demand from the services sector, enhanced agriculture exports and robust construction activity aided by increased infrastructure investment. Private consumption, bolstered by pent-up demand, reached its highest among all second quarters during the past 11 years at 58.4 per cent of GDP. The investment rate also rose to be the highest among all the second quarters since 2012-13 at 34.6 per cent of GDP, hinting at the beginnings of an investment cycle.

As we move ahead in Q3, the momentum has been sustained well. There is cautious optimism as the slowdown in global economic activity is not mirrored in India's performance of various high-frequency indicators. An overall increase in Rabi coverage with adequately filled irrigation reservoirs bodes well for agricultural output growth in 2022-23. An increase in minimum support prices for both Kharif and Rabi crops in 2022-23 and progress in rice procurement have already been supplementing rural incomes in the country. Higher incomes, among others, have led to increased sales of passenger vehicles, two and three-wheelers and tractors by a good year-on-year margin in Oct-Nov. Industrial activity, as gauged by PMI Manufacturing, continued to remain in the expansionary zone during Q3:FY2022-23 (till November), driven by an improvement in operating conditions, expansion in new export orders, and a rise in production. Buoyant GST collection, robust e-way bill generation and increased e-toll collection reaffirm resilience of the economic activity. Steady growth momentum in service activity continues with expansion in PMI Services during Oct-Nov, attributed to the growth in output and accommodative demand conditions, leading to a

sustained upturn in sales. The growth impetus in rail freight and port traffic remains upbeat, with further improvement in the domestic aviation sector. Strong growth in fuel demand, domestic vehicle sales and high UPI transactions also reflect healthy demand conditions.

Inflationary pressures have been easing, with retail and wholesale inflation falling to eleven and twenty-one-month lows, respectively, in November. WPI inflation rate continues to decline, and CPI inflation rate came in below the RBI's upper tolerance limit of 6 per cent, primarily driven by the decline in food inflation. Core inflation, however, continues to remain sticky and persisted at an elevated level of 6 per cent in November 2022, partially reflecting increased pass-through of high manufacturing costs to consumer prices as demand continues to recover swiftly. Going ahead, as inflationary pressures decline in manufactured products, reflecting reduced input cost pressures and easing supply chain pressures, it may get reflected in CPI core inflation in the next few months. Furthermore, inflation expectations have also moderated in the November round of the RBI's Households' Inflation Expectations Survey. This augurs well for augmenting consumption in rural and urban regions in the upcoming months.

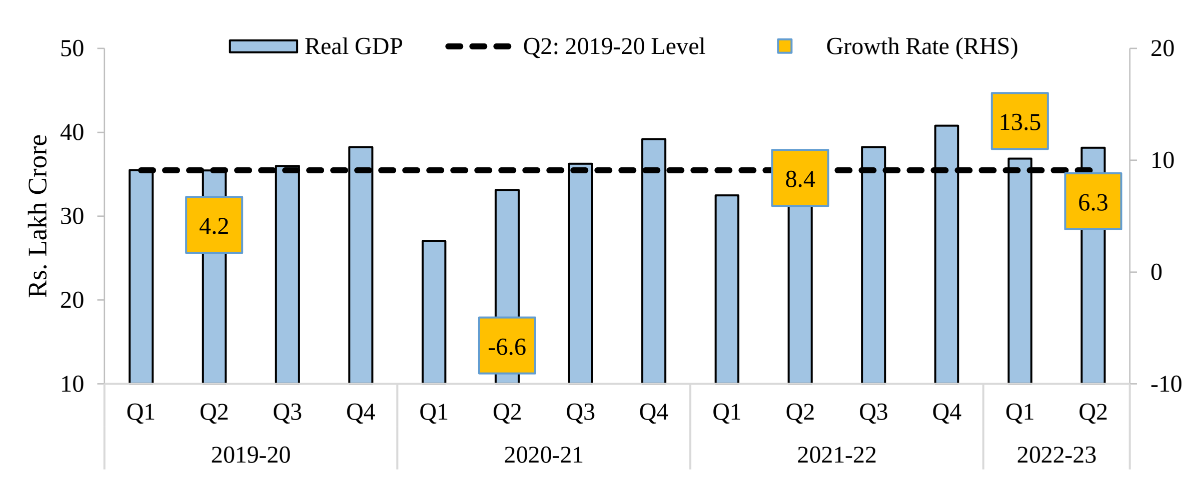
Indian external sector continues to face the headwinds emanating from the global slowdown. However, the downside to a widening current account deficit is expected to be limited by a robust services export performance through the rest of the year and by inward remittances, which are expected to touch USD 100 billion this fiscal year as per the World Bank. Stable foreign direct investment (FDI) flows, resurgent FPI flows, and foreign exchange holdings that provide an import cover of nine months cushion the external front. Altogether, India's strong economic performance is also asserted by the World Bank's recent upgradation of India's growth forecast from 6.5 per cent to 6.9 per cent for 2022-23.

As we head into 2023, global economic developments are expected to complicate the outlook further, and therefore continued vigilance is a critical aspect in maintaining India's external resilience. No country can afford to sit on its laurels, India included. Continued commitment to macroeconomic stability will underpin both economic performance and investor interest in India. The latter is very high, currently. It needs to be nurtured. Going forward, India needs to focus on medium-term challenges such as securing technology and resources for energy transition and skilling its youth for the 21st-century economy while staying the course on fiscal consolidation at the general government level. The good news is that much hard work has been done in the last several years and a strong platform has been erected on which the superstructure of a middle-income economy can be constructed.

Indian Economy: GDP growth sustains momentum in Q2: 2022-23

1. India's real GDP grew at 6.3 per cent YoY in Q2 of 2022-23, aided by robust domestic demand and steady investment activity. Having reached a level 8 per cent higher than the corresponding pre-pandemic level of 2019-20, Q2 of 2022-23 also marked a post-recovery growth for the Indian economy. Sequentially, India's real GDP grew by 3.6 per cent from Q1 to Q2, sustaining the growth momentum that emerged at the beginning of the year. This growth compares much favourably with the average sequential growth of -0.1 per cent of all the second quarters between 2013-14 and 2019-20. Sequential growth of such a large magnitude reflects the significant release of pent-up demand in India's economy.

GDP Growth



Source: National Statistical Office, MoSPI

2. On the supply side, the real GVA YoY growth in agriculture and allied sectors in Q1 was sustained in Q2, supported by growth in exports of agricultural products. Led by trade, hotels, transport, and communication, the real GVA in contact-intensive services comfortably stood above its corresponding pre-pandemic level in Q2 of 2019-20, driven by the release of pent-up demand, seen in a high sequential growth of 16 per cent from Q1 to Q2.

3. The GVA in the manufacturing sector contracted in Q2 on a high base reached in the previous year following the waning of the second wave. GVA of manufacturing may have also declined with output growth, turning tepid to absorb a large build-up of inventory accumulating over five quarters to more than 1.3 per cent of GDP. The Q-o-Q growth in GVA of the construction sector declined in Q2 as heavy monsoons in the second quarter slowed construction activity.

Table 1: Real Growth of GVA and its components on the Supply side (Per cent)			
Sectors	**YoY Growth in of Q1 2022-23**	**YoY Growth in Q2 2022-23**	**YoY Growth in H1: 2022-23**
Agriculture & Allied Sectors	**4.5**	**4.6**	**4.5**
Industry	**8.6**	**-0.8**	**3.7**
Mining and quarrying	6.5	-2.8	2.2
Manufacturing	4.8	-4.3	0.1
Electricity, gas, water supply and other utility services	14.7	5.6	10.0
Construction	16.8	6.6	11.5
Services	**17.6**	**9.3**	**13.1**
Trade, hotels, transport, communication and services related to broadcasting	25.7	14.7	19.5
Financial, real estate & professional services	9.2	7.2	8.2
Public administration, defence and Other Services	26.3	6.5	15.3
GVA at basic price	**12.7**	**5.6**	**9.0**
Source: National Statistical Office, MoSPI			

4. On the demand side, private consumption continued to draw support from the release of pent-up demand, rising to 58.4[1] per cent of GDP in Q2, a significant step-up from 56.6 per cent in the corresponding quarter of the previous year and the highest among all second quarters during the past 11 years. Gross Fixed Capital Formation (GFCF), at 34.6 per cent of GDP, also rose to be the highest among all the second quarters since 2012-13, hinting at the beginnings of an investment boom. Supporting reforms and measures taken by the government have led to the reinvigoration of the Capex cycle and the crowding-in of private investment. The capital expenditure of the central government has reached ₹4.1 lakh crore during H1 of 2022-23, which is 61.5 per cent higher than the corresponding period of last year.

Table 2: Real growth in demand side of GDP and its components (per cent)			
Components	**YoY Growth in of Q1 2022-23**	**YoY Growth in Q2 2022-23**	**YoY Growth in H1: 2022-23**
Government Consumption	1.3	-4.4	-1.3
Private Consumption	25.9	9.7	17.2
Gross Fixed Capital Formation	20.1	10.4	**15.0**
Exports	14.7	11.5	13.0
Imports	37.2	25.4	30.9
GDP	**13.5**	**6.3**	**9.7**
Source: National Statistical Office, MoSPI			

[1] Ratios to GDP have been calculated at constant 2011-12 prices

5. Despite the sustained supply chain disruptions and uncertain geopolitical environment, the share of exports in GDP increased from 22.9 per cent of GDP in Q1 of 2022-23 to 23.3 per cent in Q2, the highest in Q2 since 2014-15. This is suggestive of India's exports increasing their global market share. However, imports have been the highest among all second quarters since 2013-14 at 31.9 per cent of GDP. Elevated commodity prices, although declining, have raised the cost of imports, which has had a sobering impact on the GDP growth rate. Nonetheless, the Indian economy has seen the highest growth in the April-September period of 2022 among a few major advanced & emerging economies. This growth momentum has been sustained well in Q3, as evident in the performance of the various high-frequency indicators.

Real GDP Growth (Year-on-year)

	Q1:2022-23	Q2:2022:23	H1:2022-23
India	**13.5%**	**6.3%**	**9.7%**
Indonesia	5.4%	5.7%	5.6%
UK	4.4%	2.4%	3.4%
Mexico	2.3%	4.3%	3.3%
Euro Area	4.3%	2.1%	3.2%
France	4.2%	1.0%	2.5%
China	0.4%	3.9%	2.2%
USA	1.8%	1.8%	1.8%
Japan	1.6%	1.9%	1.7%

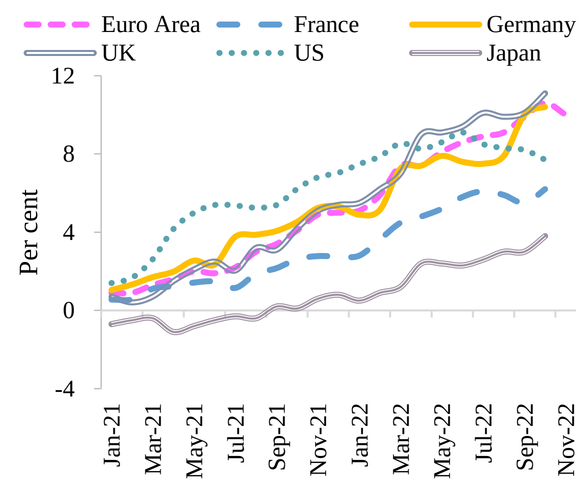
Source: Bloomberg, MoSPI

Global scenario: Economic activity weakens, inflation softens in some parts of the world

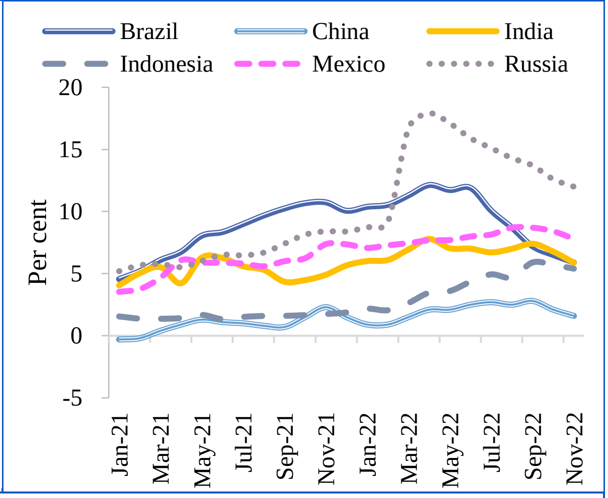
6. Global economic growth continued to be challenged by persistently high inflation, supply chain disruptions and heightened uncertainty lowering business and consumer confidence. A substantial rise in prices, especially food and energy prices, due to the Russia-Ukraine conflict is causing severe hardship for low-income households worldwide. Central banks worldwide have tightened their monetary policies to rein in inflation, leading to a contraction in overall financial conditions and a consequent dampening impact on growth.

7. Although global commodity prices have moderated in recent months, they remain above the pre-conflict levels. Inflation in advanced economies like the US, Euro Area and the UK continues to remain high owing to sustained cost-push pressures, including higher wage demand, elevated food and energy prices, and supply-chain bottlenecks. However, since the beginning of the October-December quarter of 2022, cooling off of inflation has been experienced by a few countries. The softening inflation coupled with slowing growth has led central banks to telegraph a slower pace of rate hikes going forward and adopt a wait-and-watch policy to see the full impact of the monetary transmission mechanism, going ahead.

Inflation in Advanced Economies



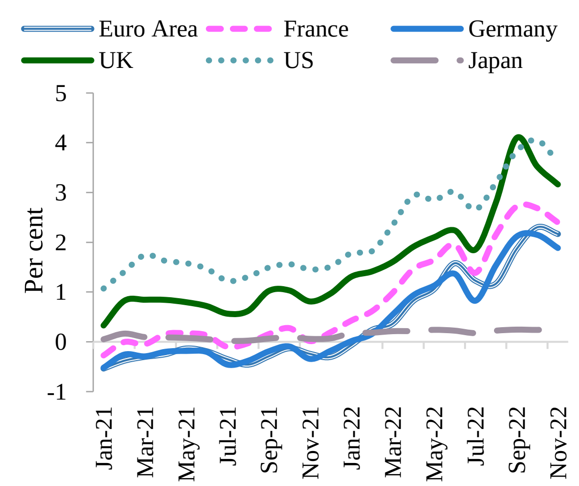
Inflation in Emerging Market Economies



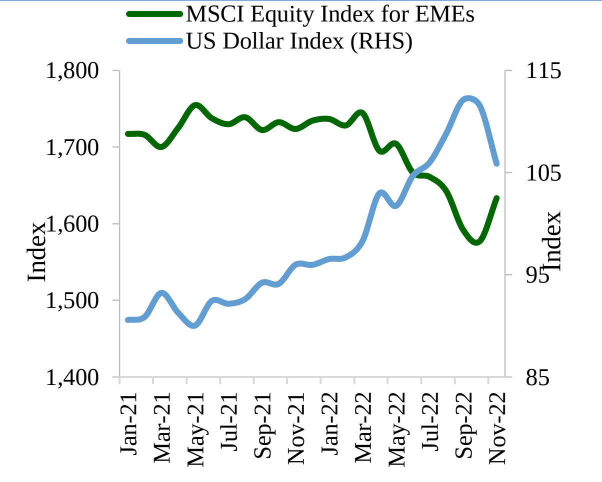
Source: Bloomberg

8. The less hawkish stance of the central banks has also been captured in moderating sovereign bond yields during November 2022. From October to November, the yields on 10-year Government bonds declined in Euro Area, UK, and USA, while a mixed trend was witnessed in emerging economies. Further, the US Dollar Index has also weakened since October 2022, leading to the strengthening of the MSCI Equity Index for EMEs in November, which was on a downward trajectory since the beginning of 2022 owing to capital flight from emerging economies.

10-year Bond Yield in AEs



MSCI Equity Index for EMEs and US Dollar Index

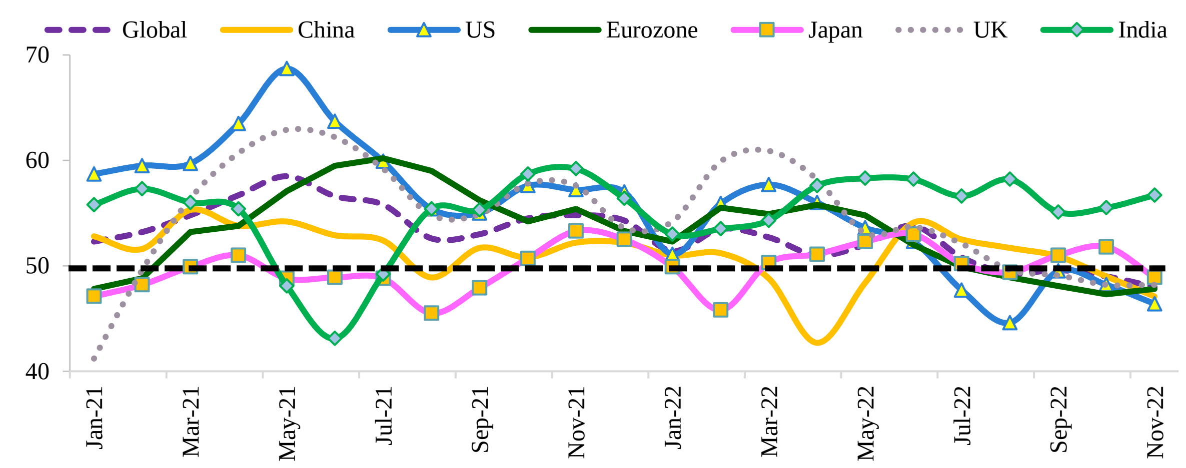


Source: Bloomberg

9. In the past few months, some PMI survey indicators have been signalling a slowdown in economic activity. Since August 2022, the global composite PMI has continued to remain in the contractionary zone, with a major decline in output in the developed market and a mixed

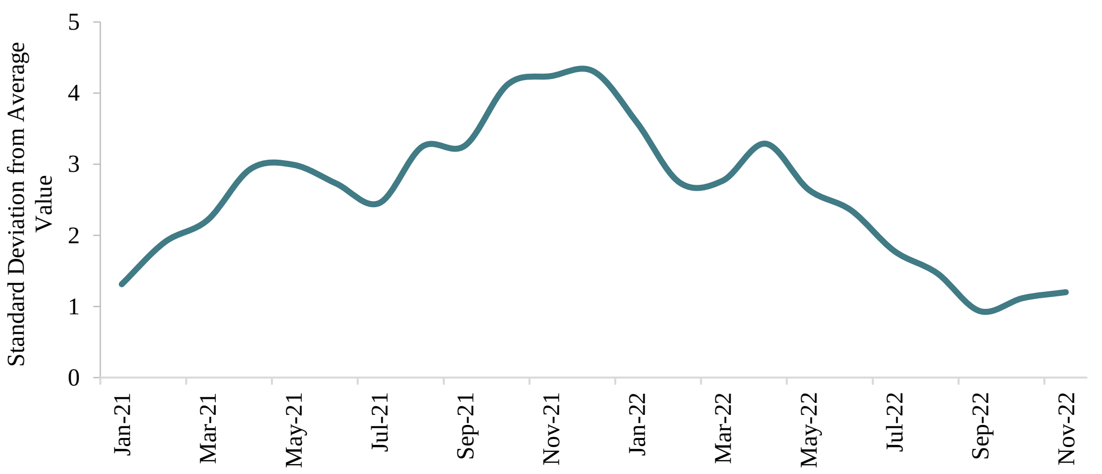
trend in emerging markets. During October-November of 2022, PMI Composite indices have indicated contractions in the overall economic activity in the US, UK, China, and Japan owing to a decline in service sector activity and a downturn in manufacturing production.

Global Composite PMI



Source: IHS Markit, Bloomberg

Global Supply Chain Pressure Index



Source: Federal Reserve Bank of New York

10. The impact of slowing global growth has been impacting global trade as well. World merchandise trade volume growth plateaued in the April-June quarter of 2022, with a 4.7 per cent year-on-year increase, slightly lower than 4.8 per cent growth in the previous quarter. The WTO goods trade barometer index stood at 96.2 in the quarter ending September 2022 (below the baseline value of 100), suggesting cooling business sentiment and weaker global import demand. Further, PMI Survey also indicated a weakening of international trade, with new export orders contracting for the ninth successive month in November. On a positive note, there has been a significant improvement in supply chain conditions, as indicated by the declining global supply chain pressure index compared to the peak experienced in December 2021,

although the pressure index has shown a slight uptick since October 2022 owing to increased delivery times from China.

11. According to the WTO's latest forecast, world trade is expected to remain subdued in 2023 because of several related shocks, including the conflict in Europe, high energy prices, inflation, and monetary tightening in major economies. Global merchandise trade volume is expected to grow by 3.5 per cent in 2022 and by 1.0 per cent in 2023 as compared to 9.7 per cent in 2021. OECD has also projected growth in world trade volumes to decline from 5.4 per cent in 2022 to 2.9 per cent in 2023. Taking into account the impact of geopolitical tensions on global economic activity and international trade, OECD, in its new Economic Outlook, has forecasted Global GDP growth to slow down to 3.1 per cent in 2022 and further to 2.2 per cent in 2023.

Indian Economy: Growth momentum built-up in Q2 carries into the first two months of Q3 of 2022-23

12. The growth momentum built up in Q2 has been sustained in Q3 of 2022-23 as well, as indicated in the performance of High-Frequency Indicators (HFIs) during October and November 2022. Domestic activity continues to strengthen despite global turmoil, as evident in buoyant GST collections crossing the Rs. 1.4 lakh crore benchmark for nine successive months, as seen after the release of November 2022 data. Sustained growth in volume and value of e-way bill generation during October-November of 2022 bespeaks increased spending and value addition in the manufacturing sector of the economy. Increasing electronic toll collection levels also reaffirms rising commercial activity, while robust energy demand despite fair weather in Oct-Nov provides yet another evidence of strengthening economic activity.

13. The growth in the agriculture sector continues to remain buoyant, with healthy progress in Rabi sowing, with the area sown being 14.6 per cent higher than the previous year. To further boost production and support farmers' income, higher Minimum Support Prices (MSPs) have been announced for the upcoming Rabi Marketing Season (RMS 2023-24) in the range of 2.0 to 9.1 per cent. Further, improvement in rural demand can be deduced from the robust domestic tractor, two and three-wheelers sales during October-November 2022.

14. Industrial activity, as gauged by PMI Manufacturing, continued to remain in the expansionary zone during Q3:FY2022-23 (till November), driven by an improvement in operating conditions, expansion in new export orders, and a rise in production. The performance of eight core industries experienced positive growth sequentially in October, barring electricity and cement which were influenced by seasonal factors. However, the index of industrial production declined in October owing to fewer working days in the festive month of October, subdued export growth arising from a build-up of recessionary pressures in advanced economies, an unfavourable base effect arising from a high base reached in the same

month of the previous year following the waning of the second wave, and build-up of inventory over the last five quarters that may have prompted lower levels of production.

15. Steady growth momentum in service activity continues with expansion in PMI Services during Oct-Nov, which can be attributed to the growth in output and accommodative demand conditions, leading to a sustained upturn in sales. The growth impetus in rail freight and port traffic remains upbeat, with further improvement in the domestic aviation sector. RBI Services and Infrastructure Outlook Survey indicates an improvement in demand conditions during upcoming quarters until Q1:2023-24, reflected in the optimistic sentiments on turnover, job landscape, and overall business situation. Firms also perceive ease in input cost pressures accompanied by lower selling price growth, which is likely to boost output growth.

16. Overall demand conditions remain conducive for sustaining growth momentum in the upcoming months. Demand for fuel has now risen to an eight-month high in November 2022, boosted by industrial activity and increased consumption both in urban and rural areas. Robust growth in domestic vehicle sales and high UPI transactions also reflect healthy demand conditions. RBI Consumer Confidence Survey has continued to grow in November 2022 based on better perceptions of the general economic situation, employment and household income. One year ahead outlook, as measured by the future expectations index (FEI), has also improved with the outlook on discretionary spending moving into the positive terrain for the first time since the onset of the pandemic. The table below analyses the year-on-year trend in the performance of High-Frequency Indicators (HFIs) in October / November 2022. Positive growth in most of the indicators on a YoY basis suggests that the growth momentum witnessed in Q2 is likely to be sustained in Q3 of 2022-23 as well.

Performance of key High-Frequency Indicators in Q3 of 2022-23

Indicators	Month	YoY growth
UPI (Volume)	November	74.9
Average ETC Collection	November	46.6
E-Way Bill Generation	November	31.9
Domestic Air Passenger Traffic	October	30.1
Domestic Passenger vehicles sales	October	28.1
Rabi Sowing	9th December 2022	14.6
Steel consumption	November	13.4
Power Consumption	November	12.3
Domestic Auto sales (Excluding Comm.)	October	11.7
Fuel Consumption	November	10.2
Merchandise Imports	October	9.9
Tractor sales	November	6.5
Rail Freight Traffic	November	6.1
Two & three-wheeler sales	October	3.8
Air Cargo Traffic	November	3.2
8-Core Industries	October	0.4

Index of Industrial Production	October	-4.0
Cement Production	October	-4.3
Fertilisers sales	October	-10.4
Merchandise Exports	October	-12.1

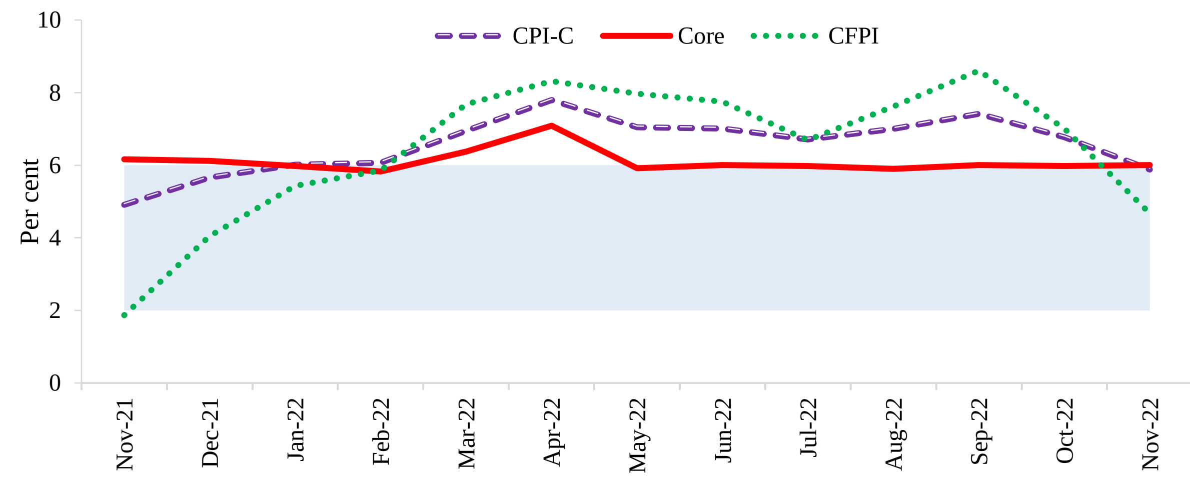
Source: Compiled from various sources

Inflationary pressures moderating, core inflation remains sticky

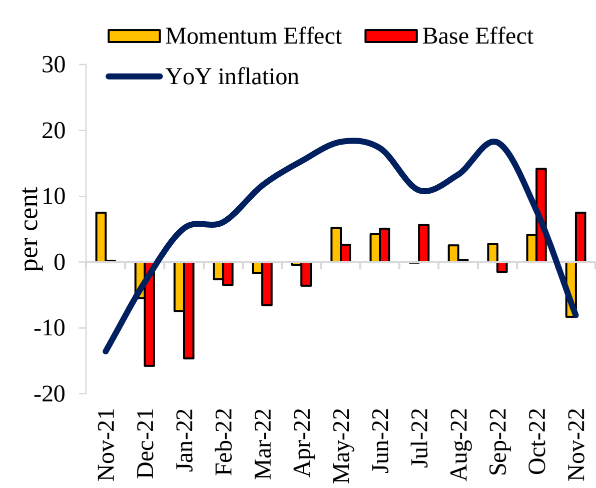
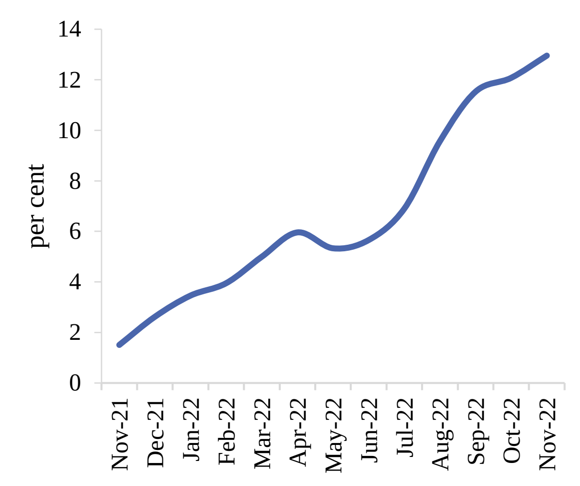
17. Inflation, as measured by the Consumer Price Index-Combined (CPI-C), fell sharply to 5.9 per cent (YoY basis) in November 2022 compared to 6.8 per cent in October 2022. The inflation rate has come inside the RBI's upper tolerance limit of 6 per cent after eleven months. The moderation in CPI-C inflation has been largely driven by the easing of inflationary pressures in three major subgroups- 'food and beverages', 'clothing and footwear' and housing inflation.

18. 'Food and beverages' component having the highest weight in the CPI-C basket, registered a sharper-than-expected decline mainly because of the subsiding of pressures in the fruits and vegetables subgroup. Vegetables sub-group inflation softened to (-) 8.1 per cent in November 2022 compared to 7.8 per cent in October 2022. The decline in vegetable inflation can be attributed to both a favourable base effect and sequential easing of prices with the new crop arrivals in the market leading to price correction. 'Cereals and products' remained a major contributor to food inflation, with inflation remaining elevated since June 2022 and recording 13 per cent in November 2022. The sequential uptick in cereals inflation points towards continued pressure on FCI rice and wheat stocks, though operational food grain stocks under Central Pool remains 1.5 times of the buffer norm, sufficient to meet the requirement of NFSA and other welfare schemes and for the additional allocation of PMGKAY.

CPI Inflation



Source: National Statistical Office, MoSPI

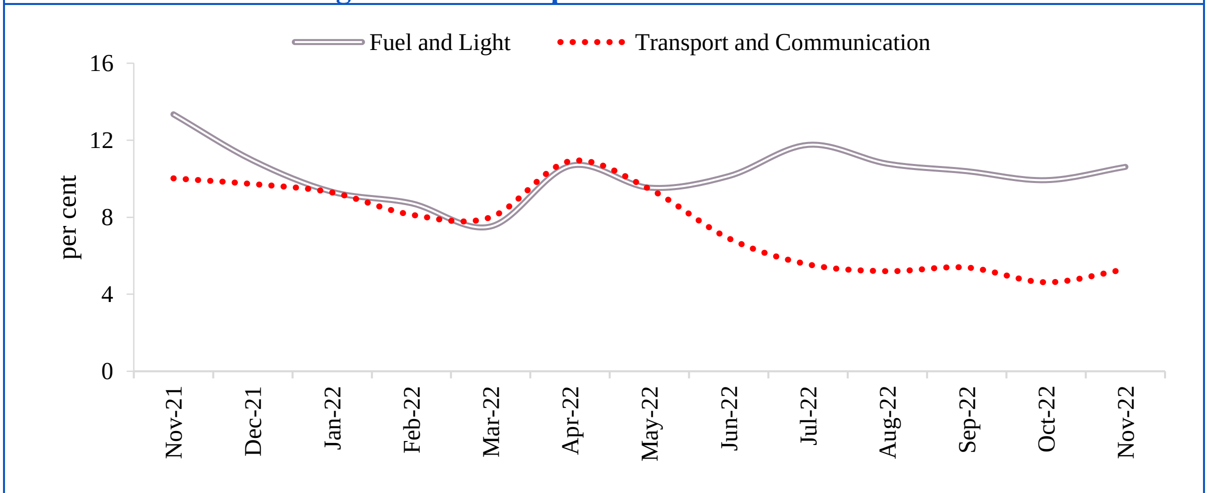
Vegetables Inflation	'Cereals and Products' Inflation
	

Source: National Statistical Office, MoSPI

19. 'Fuel and light inflation', after declining since August 2022, edged up in November 2022, jumping to double digits partially driven by an unfavourable base effect in electricity. 'Transport and communication' inflation also witnessed a sharp uptick and increased by 68 basis points in November 2022 compared to last month, solely because of the high base effect.

20. Despite the decline in headline inflation, core inflation continued to remain sticky and persisted at an elevated level of 6 per cent in November 2022, partially reflecting increased pass-through of high manufacturing costs to consumer prices as demand continues to recover swiftly.

'Fuel and light' and 'Transport and Communication' Inflation

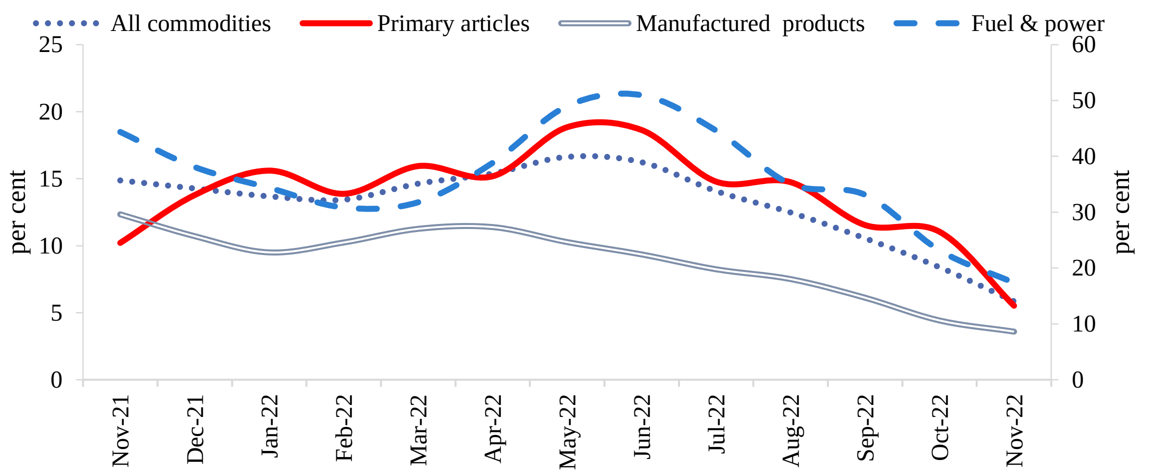


Source: National Statistical Office, MoSPI

21. In line with the decline in CPI-C inflation, WPI inflation also eased to a 21-month low, recording 5.8 per cent in November 2022, closing the gap with CPI-C inflation. The decline in WPI inflation has been led by a fall in food inflation. Declining inflationary pressure has also been witnessed in manufactured products reflecting reduced input costs and easing supply

chain pressure. Thereby raising hopes of it getting reflected in CPI core inflation in the coming months.

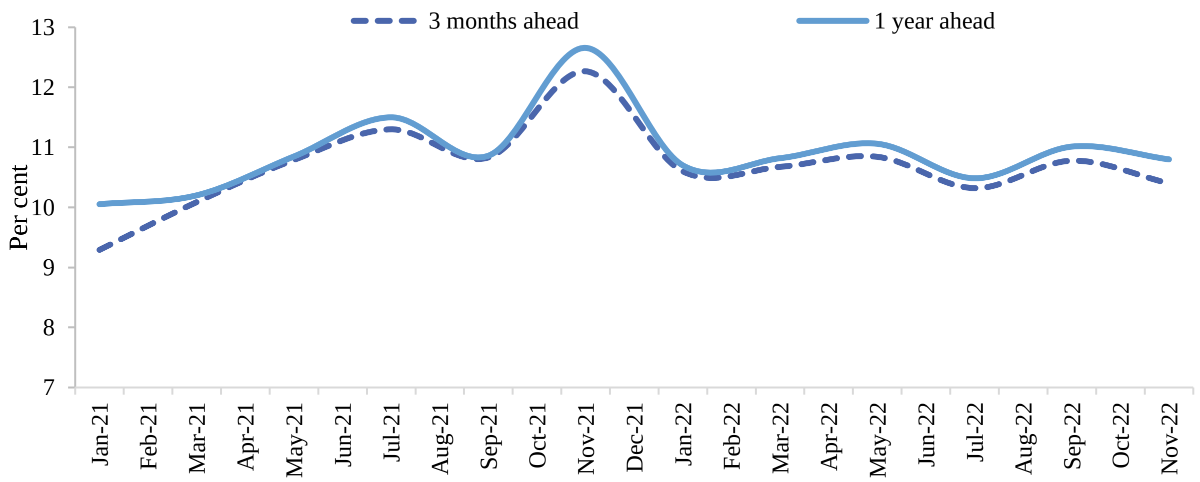
WPI Inflation



Source: OEA, DPIIT

22. Going ahead, volatile components of CPI inflation- 'Fuel and light' and food inflation are also likely to decline in the coming months. Fuel inflation is expected to moderate with the waning of the unfavourable base effect, and food inflation, especially vegetables inflation, is also likely to be fall as evident in the high-frequency food price data from Department of Consumer Affairs for the month of December 2022 (till 16th December 2022).

RBI's Inflation Expectation Survey



Source: RBI

23. In concordance with moderating price pressures, the RBI's Household Inflation Expectations Survey reveals that household inflation expectations for the three months and one year ahead reduced by 40 bps and 20 bps to 10.4 per cent and 10.8 per cent, respectively. The one-year ahead inflation expectations as per the IIM Ahmedabad's Business Inflation

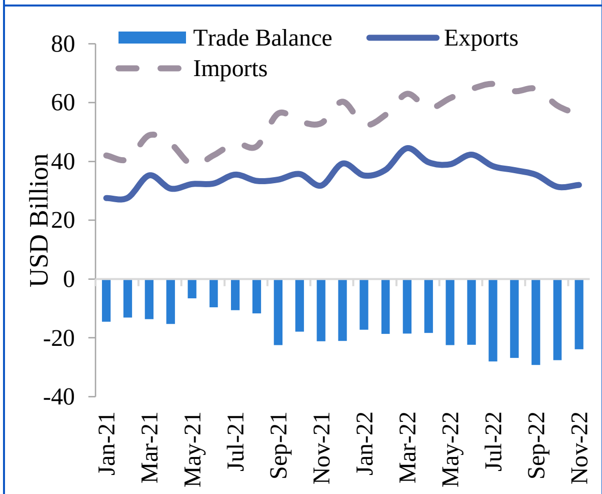
Expectations Survey remained unchanged in October 2022 after posting a decline in the previous month. These developments may have played a role in the RBI's Monetary Policy Committee (MPC) decision to raise rates by a lower magnitude compared to the pace of the rate hike cycle thus far – the repo rate was raised by 35 basis points (bps) in the December meeting of the MPC. The move is also aligned with the slower pace of rate hikes by other major central banks.

External sector: Maintaining resilience requires continued vigilance

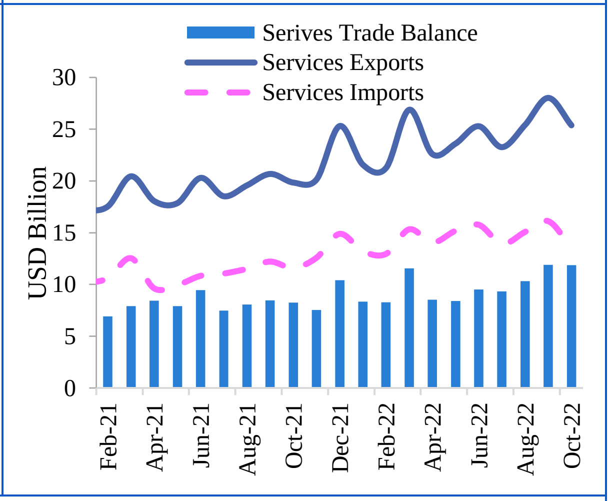
24. The World Bank's India Development Update, November 2022, analyses the global spillover of a slowdown in major trading partners on India and other EMEs, and finds that India is relatively insulated compared to its EME peers. A good export (of goods and services) performance by India in the July-September quarter compared to the previous quarter, even as global output growth has started to slow, vindicates the observation of the World Bank. The agency has also noted that India's large domestic market will provide sufficient stimulus to sustain reasonable growth even as the slowing world output growth eventually weakens the export channel. The momentum-sustaining GDP growth in the July-September quarter is another vindication of the bank's assessment. The World Bank has thus revised upward India's 2022-23 growth projection from 6.5 per cent to 6.9 per cent.

Spillover effects of a growth slowdown in US, EU and China on India and other EMEs			
		Leads to a decline in India's growth by (Percentage points)	Leads to a decline in other EMEs growth by (Percentage points)
A 1 percentage point decline in the growth of	USA	0.4	≥ 0.6
	EU	0.4	≥ 0.6
	China	0.2	≥ 0.3
Source: World Bank India Development Update (November 2022)			

Merchandise Trade



Services Trade

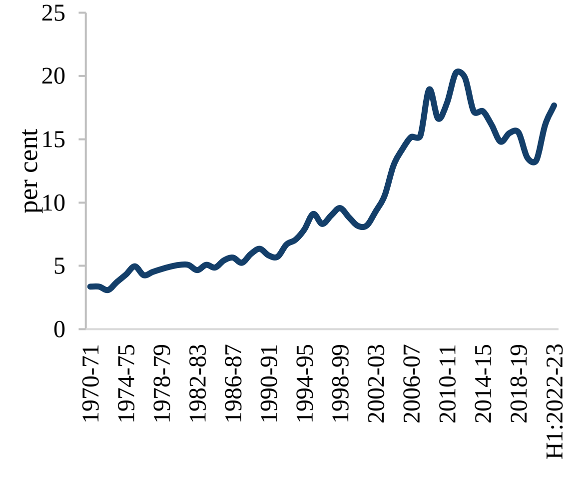


Source: DGCI&S, Ministry of Commerce, RBI

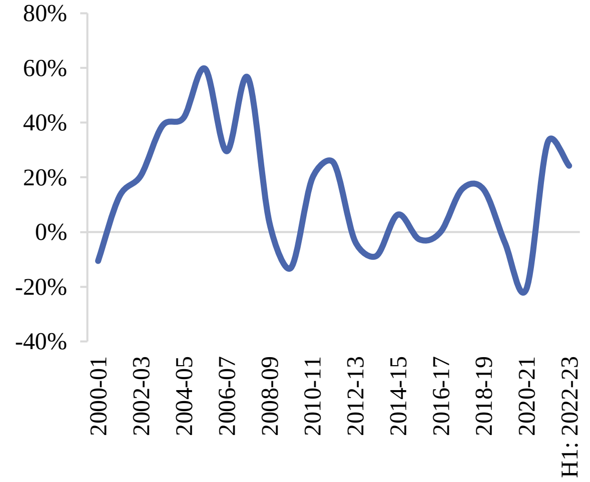
25. While a deteriorating global economic outlook and a waning favourable base effect have led to a plateauing of India's monthly merchandise export growth since July 2022, exports between April and November 2022 remain 11.1 per cent greater than in the corresponding period of the previous year. The growth in imports, particularly non-oil and non-gold imports, has also slowed, albeit from a higher level. This has led to a marginal improvement in the merchandise trade deficit in November. However, sustained import volumes combined with the still-elevated prices of certain commodities like crude oil implies that the trade deficit is expected to increase in the quarter ending December 2022 and FY 2022-23.

26. Further, as India's economy continues on its growth path, India's oil and non-oil imports will rise. Non-oil import share of private consumption and capital formation came down in the last decade, not because of the enhancement of domestic manufacturing capacity but because capital formation grew more slowly than in the first decade. It can be seen in the lower growth of capital goods imports. India's external dependence not just on oil but also on non-oil goods is a vulnerability that needs to be plugged, especially in light of the uncertain geopolitical environment. Supply chain security can no longer be taken for granted. That is why India's Production-Linked Incentive Scheme makes eminent sense. By the end of this coming decade, India will have plugged many of the domestic production gaps that currently exist.

Share of imports in private consumption and GFCF (current prices)



Growth in Capital Good Imports

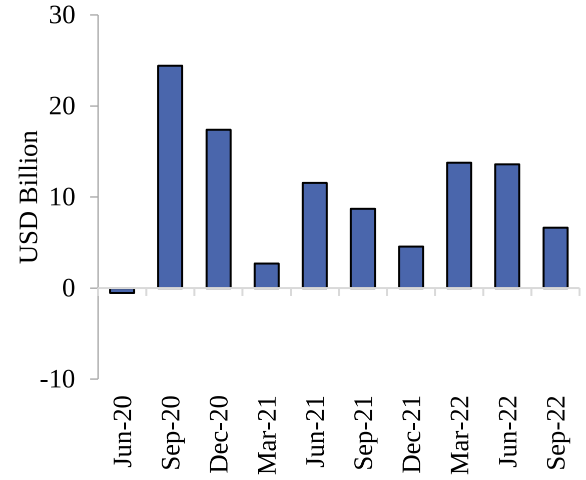


Source: Calculated using data from MoSPI, DGCIS

27. The current account deficit (CAD) is expected to widen this year. The IMF estimates the CAD as a per cent of GDP to widen to (-) 3.5 per cent in 2022-23 before improving to (-) 2.9 per cent in 2023-24, while the World Bank estimates a CAD at (-) 3.2 per cent and (-) 2.5 in FY 2022-23 and FY 2023-24 respectively. A services trade surplus on account of strong services exports is expected to limit the downside to the widening of the CAD. Services exports

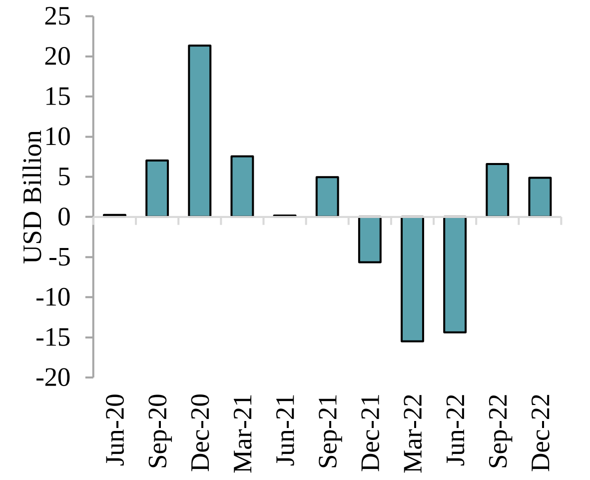
between April and October 2022 have grown by 28.7 per cent compared to the corresponding period of the previous year. Inward remittances are another set of inflows that may buffer the CAD this year. As per a World Bank report[2], India is projected to receive USD 100 billion in inward remittances by the end of FY 2022-23, up 12 per cent from USD 89.3 billion in 2021-22.

Quarterly Net FDI flows



Source: RBI

Quarterly Net FPI flows



Source: CDSL
Note: Data for dec quarter till 21st Dec

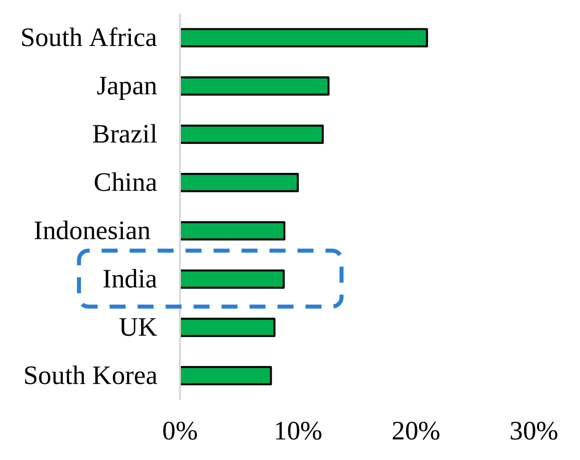
28. India's CAD has been financed by stable capital inflows, which reflect the confidence of international investors in the Indian economy. Net FDI inflow totalled 1.2 per cent of GDP in FY 2021-22 and remained firm at the same ratio in the first half of FY 2022-23. Between April 2022 and October 2022, India received net FDI inflows of USD 22.7 billion, higher than USD 21.3 billion received in the corresponding period of the previous year. Net foreign portfolio investment (FPI) flows, which were negative in Q1 2022-23, turned positive in the second quarter, and in the third, as of 21st December 2022, stood at USD 4.9 billion. Going forward, FPI flows are expected to be volatile as long as the rate hike cycle continues in advanced economies, and global uncertainty remains elevated.

29. Between April 1st and December 16th 2022, the Rupee depreciated by 8.8 per cent. However, after posting a sharp rise during this period, the Rupee seems to have broadly stabilised in the Rs 80/USD – Rs. 82.5/USD bracket, supported by FPI inflows and a pause in the strengthening of the US Dollar. The hiatus in the appreciation of the US Dollar against most currencies has resulted in an increase in India's foreign exchange reserves from USD 530 billion as on November 4 2022, to USD 564.1 billion as on 9th December 2022, on account of revaluation gains. India's external sector is cushioned by its foreign exchange reserves which provide an import cover of nine months.

[2] https://www.knomad.org/publication/migration-and-development-brief-37

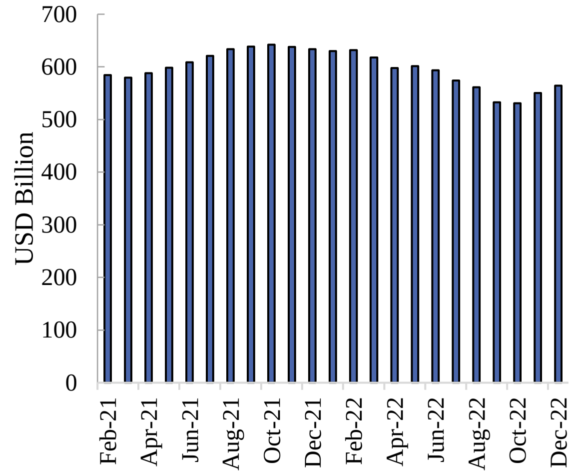
30. Going forward, the challenges from global developments may increase owing to, for example, a diverging rate hike cycle across major economies. However, adequate forex reserves and continued vigilance on India's macroeconomic fundamentals are expected to place the economy in a position of relative comfort.

Depreciation (+) / Appreciation (-) of major currencies between Apr and Dec



Source: Bloomberg, RBI (Exchange rates for December as on 16th Dec 2022)

Foreign exchange reserves



Source: RBI

Conclusion and Outlook

31. India's economy grew faster during H1: 2022-23 than other economies, driven by strong demand and investment. Inflationary pressures have been moderating since October, with CPI inflation tempering to an eleven-month low in November. On top of that, it has fallen below the RBI's upper target band for the first time in 2022, mainly driven by the decline in food inflation. Furthermore, inflation expectations have also moderated in the November round of the RBI's Households' Inflation Expectations Survey. This bodes well for augmenting consumption in rural and urban regions in the upcoming months. Improvement in business and consumer sentiment is also likely to bolster discretionary spending. The real investment rate during Q2:2022-23 prevailing at a high level of 34.6 per cent demonstrates the Government's continued commitment towards asset creation. The central government capital expenditure expanded by 61.5 per cent during the first seven months of 2022-23, reaching ₹4.1 trillion, which is 54.6 per cent of the available budget. Private investment has been gathering pace and is expected to remain upbeat, also apparent in the rising sectoral deployment of bank credit growth. The external front remains resilient, with stable foreign direct investment inflows, resurgent FPI inflows, and adequate foreign exchange reserves providing an import cover of 9 months. As a result, the Indian rupee has performed well compared to other EMEs. Despite the deterioration in global economic activity, exports have registered positive growth sequentially as well as yearly in Q2:FY2022-23 as per data released by NSO. Altogether, India's strong

economic resilience is also confirmed by the World Bank's recent upgradation of India's growth forecast from 6.5 per cent to 6.9 per cent for 2022-23.

32. However, given the state of the global economy and politics, no country can afford to sit on its laurels, India included. Continued commitment to macroeconomic stability will underpin both economic performance and investor interest in India. The latter is very high, currently. It needs to be nurtured. As the pandemic recedes more and more into the background, India needs to turn its attention towards medium-term challenges, such as securing technology and resources for energy transition and skilling its youth for the 21st-century economy while staying the course on fiscal consolidation at the general government level. The good news is that much hard work has been done in the last several years, and a strong platform has been erected on which the superstructure of a middle-income economy can be constructed.

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-Oct	32.3	41.6	39.4
Tractor Sales	Lakhs	7.1	8.4	Apr-Nov	5.2	6.2	6.8
Rabi Sowing	Mn Hectare	66.6	70.1	16th Dec	53.8	55.2	57.8
Kharif Production	Mn Tonnes	143.8	156.0	1st AE	140.6	150.5	149.9
Reservoir Level	Bn Cu. Metres	88.1	79.3	15th Dec	145.5	131.0	132.9
Wheat Procurement (RMS)	LMT	341.3	433.4	NA	NA	NA	187.9
Rice Procurement (KMS)	LMT	518.3	592.4	15th Dec	NA	NA	279.6
Rainfall	Millimetres	NA	NA	June-Sep	968	875	925
Industry							
8-Core Industries	Index	131.7	136.1	Apr-Oct	130.0	131.3	142.1
8-Core Industries (YoY)	Per cent	0.36	10.40	Apr-Oct	0.25	15.56	8.22
IIP	Index	129.0	131.6	Apr-Oct	128	127.5	134.3
IIP (YoY)	Per cent	-0.84	11.4	Apr-Oct	0.1	20.45	5.35
Domestic Auto sales	Lakh	208.3	168.0	Apr-Nov	183.1	148.4	173.9
PMI Manufacturing	Index	52.3	54.0	Apr-Nov	51.7	53.7	55.2
Power consumption	Billion kWh	1,284	1,374	Apr-Nov	875	917	1,012
Natural gas production	Bn Cu. Metres	31.2	34.0	Apr-Oct	18.6	19.9	20.1
Cement production	Index	131.7	136.1	Apr-Oct	141.7	149.2	162
Steel consumption	Mn Tonnes	100.2	105.8	Apr-Nov	67.6	67.3	75.3
E-way Bill Volume	Crore	62.9	77.2	Apr-Nov	41.8	48.5	61.1

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-Nov	144.6	162.5	173.8
CPI-C (YoY)	Per cent	4.77	5.51	Apr-Nov	3.73	5.17	6.94
WPI	Index	121.8	139.4	Apr-Nov	121.6	136.5	153.3
WPI (YoY)	Per cent	1.68	13.00	Apr-Nov	1.40	12.24	12.35
CFPI	Index	146.5	163.7	Apr-Nov	142.9	161.8	174.2
CFPI (YoY)	Per cent	6.71	3.76	Apr-Nov	4.2	2.78	7.31
CPI-Core	Index	145.7	162.9	Apr-Nov	144.62	161.52	171.38
CPI-Core (YoY)	Per cent	4.05	5.99	Apr-Nov	4.1	6.7	6.1
Services							
Average Daily ETC Collection	Rs. Crore	NA	104.5	Apr-Nov	NA	94.7	141.8
Domestic Air Passenger Traffic	Lakhs	2744.7	1669.2	Apr-Oct	1601.7	749.2	1469.7
Port Cargo Traffic	Million tonnes	704.9	720.1	Apr-Nov	462.3	466.2	507.1
Rail Freight Traffic	Million tonnes	1210.2	1418.3	Apr-Nov	781.8	903.2	978.7
PMI Services	Index	51.9	52.3	Apr-Nov	50.95	51.9	56.8
Fuel consumption	Million tonnes	214.1	204.7	Apr-Nov	143.4	130.1	145.2
UPI (Value)	Rs. Lakh crore	21.3	84.2	Apr-Nov	12.8	49.7	87.4
UPI (Volume)	Crore	1251.9	4592.3	Apr-Nov	733.3	2681.3	5147.1
Fiscal Indicators							
Gross tax revenue (Central Govt)	Rs. Lakh crore	20.1	27.1	Apr-Oct	10.5	13.6	16.1
Revenue Expenditure	Rs. Lakh crore	23.4	32.01	Apr-Oct	14.5	15.7	17.3
Capital Expenditure	Rs. Lakh crore	3.4	5.9	Apr-Oct	2.0	2.5	4.1

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	26.8	37.91	Apr-Oct	16.5	18.2	21.4
Fiscal Deficit	Rs. Lakh crore	9.3	15.9	Apr-Oct	7.2	5.5	7.6
Revenue Deficit	Rs. Lakh crore	6.7	10.3	Apr-Oct	5.4	3.1	3.8
Primary Deficit	Rs. Lakh crore	3.2	7.8	Apr-Oct	4.3	1.5	2.8
GST Collection	Rs. Lakh crore	12.2	14.8	Apr-Nov	8.1	9.4	11.9
External Sector							
Merchandise exports	USD Billion	313.2	422.2	Apr-Nov	211.2	265.8	295.3
Non-oil exports	USD Billion	271.9	354.6	Apr-Nov	182.7	226.3	232.6
Merchandise imports	USD Billion	474.2	613.2	Apr-Nov	324.6	281.2	493.6
Non-oil non-gold imports	USD Billion	315.5	404.9	Apr-Nov	200.9	230.9	293.8
Net FDI	USD Billion	43.0	38.6	Apr-Oct	24.0	21.3	22.7
Net FPI	USD Billion	-3.1	-16.0	Apr-Nov	11.0	2.7	-2.6
Exchange Rate	INR/USD	74.35	76.24	Nov	71.45	74.51	81.81
Foreign Exchange Reserves	USD Billion	475.6	617.6	9th Dec	454.5	635.8	564.1
Monetary and Financial							
Total Credit Growth (Y-o-Y)	Per cent	6.13	8.6	Nov	8.0	5.9	17.2
Non-Food Credit Growth (Y-o-Y)	Per cent	6.05	8.6	Nov	7.8	6.0	17.6
10-Year Bond Yields	Per cent	6.22	6.83	Nov	6.7	6.3	7.3
Repo Rate	Per cent	4.40	4.00	7th Dec	5.15	4.00	6.25

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-Oct	36.5	61.0	94.3
No of persons demanded employment under MGNREGA	Crore	30.1	40.2	Apr-Nov	19.7	28.0	22.5
PLFS Urban Unemployment Rate	Per cent	9.1	8.2	Sep	8.4	9.8	7.2
Subscriber Additions: National Pension Scheme (NPS)	Lakh	7.6	8.8	Apr-Sep	3.7	3.6	3.8

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