NOTE FOR THE
ECONOMIC ADVISORY COUNCIL
TO THE PRIME MINISTER (EAC–PM)

STATE OF THE ECONOMY

Quarterly Assessment and Outlook
January-March, 2023

National Institute of Public Finance and Policy
New Delhi

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Contents

List of Figures

List of Tables

1 MAJOR HIGHLIGHTS

Monetary policy developments

- The RBI's Monetary Policy Committee (MPC) voted to raise the policy rate by 25 basis points in its February meeting. The cumulative rate hike this year has been 250 basis points.
- Liquidity position in the banking system has been moderating. Particularly in February and early March, the RBI has been injecting liquidity. Liquidity position is seen to be tightening on account of scheduled redemption of large-scale long-term repo operations (LTRO) and targeted long-term repo operations (TLTRO) in March and April. Tax outflows have also caused a moderation in system-level liquidity.
- The liquidity deficit has distorted the wedge between short-term and long-term rates. The shorter-term bond yields rose faster because of the liquidity tightening and expectation of rate hikes. As a consequence, on multiple occasions, the yield curve flattened and also inched towards inversion.
- Demand for bank credit has remained strong, even though recent data shows some moderation in bank credit. Credit to large industries, after having registered an encouraging growth has seen some moderation in the recent two months.
- The December 2022 issue of RBI's Financial Stability Report shows that banks balance-sheet position is sound. The gross non-performing assets fell to a seven year low of 5 percent and net non-performing assets (NNPAs) dropped to ten-year low of 1.3 per cent in September 2022. On other metrics such as on provision-coverage ratio and profitability, banks are in a comfortable position.
- The recent banking crisis in the US and Europe underscored the need to have adequate countercyclical macroprudential tools in place to provide a buffer against losses on account of rising interest rates. In the context of Indian banking regulation, one such tool is the Investment Fluctuation Reserve (IRF). Timely review of banks' mark-to-market losses, concentration risks and enhanced supervision will ensure that Indian banks are shielded from the turmoil in the global financial system.

Fiscal policy developments

Union Government

- The gross tax revenue of the Union government during Apr-Jan of the FY23 is higher by 12.61 percent as compared to the same period in FY22. This increase is contributed by all central taxes except union excise duties, which were lower by about 19.27 percent.

- While robust direct tax collections can be attributed to improved economic activity and higher corporate profitability, duty cuts in petrol and diesel by the government to cool inflation resulted in lower collections under union excise.
- GST collections have remained buoyant throughout 2022-23 with monthly collections remaining over Rs. 1.4 lakh crore every month. Buoyancy in GST collections can be attributed to the combined effect of economic recovery post-pandemic, nationwide drive against GST evaders and fake bills along with many systemic changes introduced recently, and the rate rationalisation measures undertaken by the GST Council to correct inverted duty structure.
- Non-Tax revenues during Apr-Jan 2022-23 were lower by 20.77 percent vis-à-vis 2021-22 attributable to lower dividend from RBI and lower contribution by the telecom sector.
- The revenue expenditure of union government during Apr-Jan of the FY23 is higher by 9.27 percent as compared to the same period in FY22 on account of additional expenditure incurred by the government on food and fertilizer subsidy to cushion the impact of higher international prices due to ongoing Russia-Ukraine conflict.
- The revised estimate of capital expenditure for 2022-23 were lower than the budget estimates by about 2.93 percent, attributed to lower release of funds to states under "Special Assistance to States for Capital Investment 2022-23".
- With the objective of achieving fiscal deficit target of less than 4.5 percent of GDP by 2025-26, the government has budgeted the fiscal deficit to decline to 5.9 percent of GDP in 2023-24. Revenue deficit is also budgeted to decline to 2.9 percent of GDP in 2023-24.

States

- Own revenues aggregated across 26 states during April-December 2022 show an increase of around 22.06 percent as compared to that during the same period in 2021-22. The robust growth in own revenues is due to the growth in both own tax revenues (which increased by 23.52 percent) and own non-tax revenues (which were higher by about 17.1 percent).
- Central transfers to states also show an increase of about 20.94 percent during this period driven largely by tax devolution which increased by about 33.46 percent. Central grants to states, however show a marginal increase of about 7.32 percent.
- While revenue expenditures aggregated across states during April-December 2022 show an increase of about 13.05 percent over April-December 2021, capital expenditure was higher by only 6.15 percent.
- In the 2022-23 budget, the Union government provided a sum of Rs. 1,07,000 crore to states for capital expenditure under the scheme "Special Assistance to States for Capital Investment 2022-23". Till February 2023, Rs. 88,715.24 crore have been approved by the Union government of which only Rs. 47,898.61 crore (i.e., 55.9 percent of the approved amount) has been released to the eligible states. This could be one of the reason for tardy capital expenditure performance of states.
- Combined fiscal deficit aggregated across 26 states during April-December 2022, both as percent of 2022-23 budget estimates and as percent of Q1+Q2+Q3 GDP is lower

as compared to that during 2021. States are seen to be consolidating fiscally driven by robust own tax revenue growth and higher tax devolution as also by compression in capital expenditure.

- Market borrowings by states during April-December 2022 at Rs. 4.57 lakh crores was 69.83 percent of their indicative borrowing during this period. As compared to April-Dec 2021, market borrowings by states in the current fiscal is lower by about 1 percent.

External trade and domestic sector-specific policy developments: January-March, FY 2022-23

- During January-March FY 2022-23, India has taken various efforts related to trade and investment through consultations, negotiations, agreements & MoUs; and promotion and facilitation through amendments and launching e-catalogue. Some of the prominent bilateral trade agreements and negotiations taken place during this period are (i) India-US Trade Policy Forum (TPF), (ii) Global South Summit for Preferential Trade Agreements (PTAs), (iii) India-Canada Early Progress Trade Agreement (EPTA), (iv) India-UK FTA negotiations.
- A significant Memorandum of Understanding (MoU) took place between India and the US during the Commercial Dialogue held in New Delhi from March 7-10, 2023. The MoU aims to establish a semiconductor supply chain and innovation partnership within the framework of India-US Commercial Dialogue 2023. It seeks to capitalize on the respective strengths of both countries and facilitate commercial opportunities, as well as foster the development of semiconductor innovation ecosystems through discussions on various aspects of the semiconductor value chain. The MoU is focused on mutually beneficial research and development, talent and skill development.
- To capitalize on the export opportunities available in the UAE market and to promote the export of certain cereals such as millets and their value-added products to the United Arab Emirates (UAE) the Agriculture and Processed Food Products Export Development Authority (APEDA) arranged a virtual buyer-seller meet on February 2nd, 2023. As a part of the programme, an e-catalogue including information of active exporters, start-ups, FPOs, and importer/retail chain/hyper markets was launched.
- To promote the growth of micro, small, and medium enterprises (MSMEs) and support the development of indigenous products through the ODOP-DEH (One District One Product- Districts as export hubs) initiative the Ministry of Commerce & Industry organized a nationwide awareness campaign. Districts Export Action Plans have been developed for the products and services, including specific actions to support local exporters and manufacturers to produce in sufficient quantity and with proper quality for overseas markets. The goal is to help local producers to reach potential buyers outside of India.

Growth assessment and outlook

- **The GDP estimates for the quarter Q3 (January-March) 2022-23 as provided by the National Statistical Office (NSO) record an increase by 4.4 percent**

from the level in Q3 2021-22. The growth slowdown is attributable to global recession, high commodity inflation and fiscal consolidation in the states of India.

- All sectors, except for manufacturing and public administration and others services, recorded buoyant growth in the range of 3.7–9.7 percent. Resilience in (i) agricultural activities driven by rising wheat prices as a fallout of the Ukraine war; (ii) financial sector growth on the back of strong credit growth, rising interest rate and improving asset quality, (iii) overall revival in demand for utilities; infrastructure; and trade, transport and tourism services helped these sectors to register robust growth in this quarter.
- Manufactured output contracted in Q3 2022-23 compared to the same quarter previous year, although the rate of contraction was less compared to that in Q2 2022-23. Slowdown in pandemic -driven automobile demand; intermediate goods production and imports; exports; and high commodity inflation adversely affected this sector in this quarter.
- Among the expenditure side components of GDP, performance of Private and government consumption expenditure remained muted in Q3 2022-23. Growth in investment demand was robust in this quarter, while secular decline in growth of exports and imports was observed in the quarters of FY2022-23.
- Overall we expect sectors to show similar trends in Q4 2022-23. The slowdown of the economy is expected to continue in 2023-24 amid decline in IMF's projection for global growth to 2.9 percent in 2023 from 3.4 percent in 2022. RBI projected 6.4 percent growth for the FY 23-24, with 7.8 percent growth in Q1 FY23-24, at 6.2 percent in Q2FY23-24, at 6 percent in Q3 FY23-24 and 5.8 percent in Q4 FY23-24, with risks equally balanced.

Inflation assessment and outlook

- The average headline inflation remained elevated during April-February 2022-23 at 6.75 percent on account of high and sticky inflation in all its components, e.g, CPI food, CPI energy and CPI core inflation. However in November and December 2022, headline inflation went below the upper limit of RBI's tolerance band for the first time in FY 2022-23, before rebounding to 6 percent in January-February 2023.
- Cost-push factors such as agricultural wage inflation and MSP hike, adverse weather shocks and rising global edible oil and crude oil inflation have mainly driven wholesale and retail food inflation up during April-October 2022. Food inflation significantly moderated in November-December 2022 with the arrival of the winter crop. Rise in domestic price of wheat due to the Ukraine war has again inflicted upward pressure on food prices in India.
- A broad-based rise in inflation in core items is observed in the first half of FY 2022-23. High rate of oil inflation, along with demand revival in the face of pandemic-induced supply constraints caused core inflation to remain high.
- Overall, according to NIPFP's assessment, the headline inflation in March 2023 is expected to decline marginally to 6.3 percent and continue this trend for the first half of the FY 23-24. It is expected to be at 6.2 percent, higher than RBI's upper limit of the

tolerance range during the first half of FY 2023-24.

Balance of Payments Situation

- During April-February of FY 2022-23 India's overall trade (merchandise and services) deficit widened to USD 122.0 billion from USD 79.8 billion in the previous corresponding period.
- In the period of April-January FY 2022-23, the decline in gross FDI from US$ 70.5 billion a year ago level to US$ 61.5 billion was accompanied by a decrease in net FDI, which dropped from US$ 30.9 billion to US$ 26.5 billion, primarily due to a reduction in equity inflows.
- The majority of FDI equity inflows was received by manufacturing, financial services, computer services, retail and wholesale trade, and communication services. Singapore, Mauritius, the US, the UAE and the Netherlands were major source countries of FDI during this period.
- The FPIs have recently turned positive, marking a positive trend after a three-month hiatus since November 2022. The outflows in February 2023 were primarily from the equity segment. The major sectors which emerged as the leading recipient sectors of FPI in equities during the period of 2022-23 (April-February) are automobiles, consumer durables, and financial services.
- In February and early March, global commodity prices exhibited a downward trend as the anticipation of prolonged tightening of monetary policy in advanced economies. This led to crude oil being traded at an average price of US$ 82.7 per barrel in February due to concerns over demand. The outlook for commodity prices in the near future remains uncertain, primarily due to the tight balance between demand and supply.

2 MONETARY POLICY DEVELOPMENTS

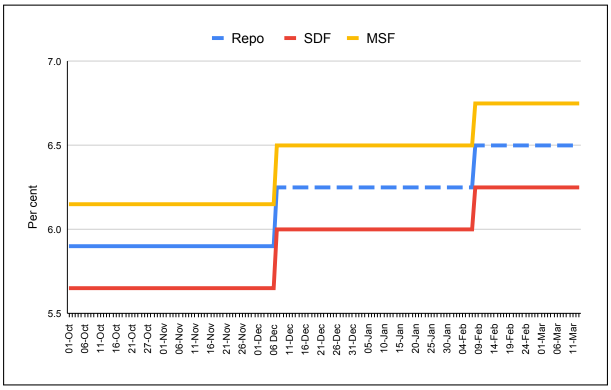
Radhika Pandey and Lekha Chakraborty

In the current financial year, the RBI has raised the policy repo rate by 250 basis points. In the meeting held on February, the RBI's Monetary Policy Committee (MPC) voted to raise the policy rate by 25 basis points. Liquidity position in the banking system has been moderating. Particularly in February and early March, the RBI has been injecting liquidity. Liquidity position is seen to be tightening on account of scheduled redemptions of large-scale long-term repo operations (LTRO) and targeted long-term repo operations (TLTRO) in March and April. Bank credit though strong is witnessing some initial signs of moderation, particularly credit to large industries has slowed since November 2022.

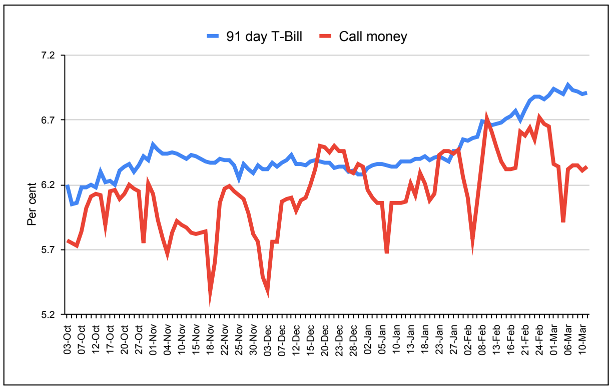
1 MPC Decisions

- In the MPC meeting held on 6th-8th of February 2023, the Committee decided to increase the repo rate by 25 basis points to 6.50 per cent. The corresponding upper-bound (MSF) and lower-bound rates (SDF) of the LAF corridor were increased to 6.75 per cent and 6.25 per cent, respectively. The MPC further decided to continue focusing on withdrawal of accommodation in order to ensure that inflation remains within the target going forward, while supporting growth. This decision was supported by four of the MPC members while two members voted against it.
- The softening of the inflation levels has prompted RBI to moderate the size and pace of rate hikes. However, MPC noted that there is still a risk of an upward pressure on global commodity prices due to uncertainties on demand prospects, supply-side disruptions due to geopolitical tensions, and easing of COVID-related mobility restrictions in some parts of the world. Further, core inflation continues to be a cause of concern, and it is expected that seasonal variations will impose an upward pressure on headline inflation. Taking into account these factors, the projections for inflation were revised downwards from 6.7 per cent to 6.5 per cent in 2022-23. For 2023-24, CPI inflation is projected at 5.3 per cent with Q1 at 5.0 per cent, Q2 at 5.4 per cent, Q3 at 5.4 per cent and Q4 at 5.6 per cent.
- MPC further noted that, strong prospects for agriculture and allied activities is expected to promote rural demand. The rebound in discretionary spending and contact-intensive sectors is expected to support urban consumption. Additionally, strong credit growth, resilient financial markets along with government's continued thrust on capital spending and infrastructure, have created a congenial environment for investment. However, exports are expected to be adversely impacted, on account of slowdown in global activity which is expected to hamper external demand. The real GDP growth for 2023-24 is projected at 6.4 per cent with Q1 at 7.8 per cent, Q2 at 6.2 per cent, Q3 at 6.0 per cent and Q4 at 5.8 per cent.

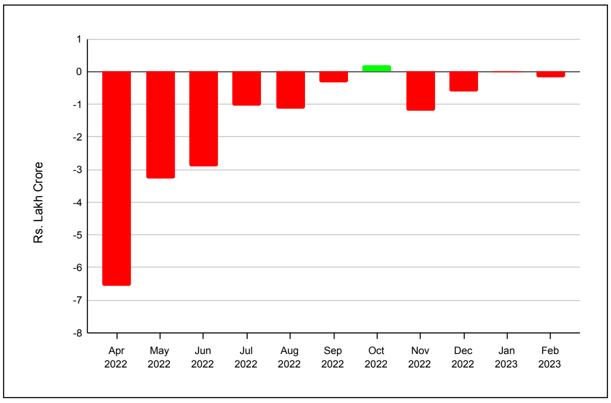
RBI LAF corridor, all rates in percent



91-day TBill yield & Call Rate, in percent



Net liquidity injection/absorption by the RBI



G-Sec yields (1, 5, and 10 year maturities)

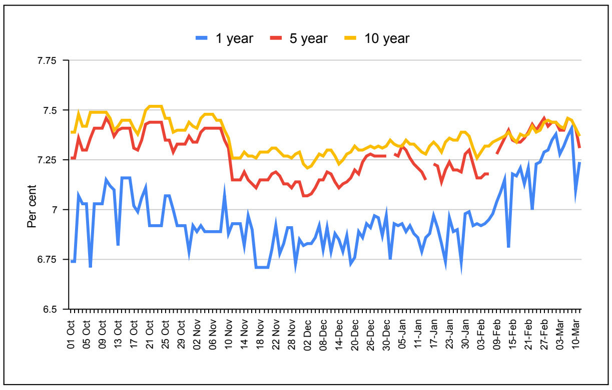


Figure 2.1: Interest rates and liquidity

2 Structure of Interest Rates

The RBI has undertaken a process of monetary policy normalisation since the beginning of FY 2022-23; increasing rates and withdrawing surplus liquidity through variable rate reverse repo auctions (VRRR). The first two months of the CY 2023 saw tightening of liquidity in the system. On multiple episodes, the RBI conducted Variable Repo Rate auctions (VRR) to inject liquidity into the system. The call rate has risen owing to the gradual tightening of liquidity. The redemption of Covid-time repo operations (Long Term Repo Operations and Targeted Long-Term Repo Operations) and outflows in the form of tax payments led to tightening of liquidity in February and early March.

- Call rate (Panel 2, Figure 2.1): The RBI raised the repo rate by 35 basis points on December 7 but the presence of adequate liquidity in money markets kept the call rate below the repo rate.

  In the middle of December, call rate surged past 6.4 percent as banks borrow funds to meet outflows towards advance tax payments. The call rate remained in the range of 6.4- 6.5 percent till the last week of December. Towards the end of December, banking liquidity returned to surplus causing call rates to fall towards the floor of the interest rate corridor. In January, the call rate moved within the liquidity adjustment facility corridor of 6-6.5% on account of fluctuating liquidity conditions. The net liquidity surplus fell during the last week of January, resulting in rise in the inter-bank call rate closer to the upper end of the LAF corridor.

  Barring the first few days of February, the interbank call rate hovered within the liquidity adjustment facility corridor of 6.25-6.75%.[1] The call money rate closed at 6.65% as on February 28, which is higher than 6.45% of the previous month. *During the last week of February, the call rate inched closer to the upper end of the LAF corridor, suggesting presence of tight liquidity conditions amidst strong demand for credit.*

- 91 day treasury bill rate (Panel 2, Figure 2.1): Overall, the 91-day t-bill yield was mostly range-bound between 6.34–6.38 percent in December. Tightening liquidity conditions led to an uptick in the yield on 91-day treasury bills. The yield was 6.3 percent at the beginning of January. It rose to 6.46 percent at end of January. In general, t-bill yields rose rapidly in February, based on two factors: tightening of banking-sector liquidity, and rise in the market-expectations for interest rates (with the latter affected by higher-than-expected inflation figure for January 2023). Two additional factors, (i) additional short-term borrowings announced in the budget (Rs. 50,000 crore for the month of March), and (ii) the maturity of the LTROs and TLTROs have led to hardening of yields in February.

  Broadly, the yield curve flattened (or inching towards flattening for some maturities) on multiple days in February as short-term yields rose faster than long-term yields.

- Liquidity position (Panel 3, Figure 2.1): Banking system liquidity surplus averaged above 1.5 trillion rupees on a daily basis from December 1 to December 14. The liquidity rose due to month-end spending by the government and rise in foreign inflows and RBI's purchase of dollars amidst appreciation pressure on the rupee. However, in the second

[1] On February 6-8, the RBI's MPC raised the policy rate by 25 basis points. The repo rate rose to 6.5%. The LAF corridor was between 6.25%- 6.75%.

half of December, the banking system liquidity turned into deficit and RBI had to inject funds. The key reason for the deficit was the outflows on account of advance tax payments which typically occur around the end of a quarter. In January, liquidity turned into surplus. The average daily absorption was Rs 1.6 lakh crore in January. Towards the end of January, the liquidity position turned into deficit, prompting RBI to inject liquidity.

Barring the initial days of February, from the second week onwards, RBI has been injecting liquidity into the system. Liquidity position is seen to be tightening on account of scheduled redemptions of large-scale long-term repo operations (LTRO) and targeted long-term repo operations (TLTRO) in March and April. These were conducted during COVID pandemic in India to ease access to liquidity and foster financial market confidence. On February 21, RBI injected liquidity worth more than Rs 71,000 crore. Quarterly tax outflows are also seen to have impacted the liquidity position.

- Yields on government bonds (Panel 4, Figure 2.1): Yields on government bonds hardened in the first week of December after the 35 basis points rate hike by the RBI. However softer inflation prints: both India and US led to easing of yields across all maturities. The hawkish commentary by the US Fed and rebound in oil prices led to uptick in bond yields, but overall in December, yields on government bonds were range-bound. In January, after initial hardening, (owing to the release of the December Federal Open Market Committee's meeting minutes) yields on government bonds in the second week inched southward owing to encouraging inflation data (both the US and the domestic retail inflation for December came in lower than expected).

  The third week of January saw a rise in bond yields owing to rise in global crude oil prices and excess supply of bonds with multiple auctions. Just before the budget, the ten year benchmark bond inched lower as the market expected that the government would keep its gross market borrowings below Rs 16 trillion. However, the shorter tenor bonds saw an uptick in yields. The rebound in inflation (January print) and expectation of further rate hikes caused a spike in the short-term bond yields in February. The shorter-term bond yields rose faster because of the liquidity tightening and expectation of rate hikes. The rise in the ten year bond yield was relatively muted. The liquidity deficit distorted the wedge between short-term and long-term rates and resulted in flattening or inversion of the yield curve. *Data shows that the yield on the five year bond exceeded that of the ten year bond during the last week of February.*

3 Credit Deployment and Money Supply

Credit Deployment

Despite RBI's rate hikes since May 2022, demand for credit has remained strong, even though recent data shows some moderation in bank credit. Credit to large industries, after having registered an encouraging growth has seen some moderation in the recent two months.

- Non food bank credit registered a growth of 15.29 percent in the December quarter (Q3). In January, non-food bank credit growth rebounded to 16.7 per cent. On an incremental basis, non-food bank credit grew by Rs 3.6 lakh crore in December. In January, the pace moderated sharply as the incremental credit grew by Rs 0.41 lakh crore.

- Credit to industry which grew by 12.56 percent in the September quarter (Q2) of FY 23, moderated to 8.7 percent in the December quarter (Q3). While credit to micro and small, and medium industries continued to register double digit growth, credit to large industries which jumped from 3.3 percent in Q1 to 7.93 percent in Q2, moderated to 7.0 percent in Q3. For the month of January as well, credit to large industries slowed to 6.5 percent from 7 percent in the previous month. Sectorally, credit to infrastructure has slowed over the last two months. This has caused a moderation in credit to industry. Moderation in credit to industry is also on account of lower profit margins of FMCG and discretionary product companies due to slowdown in demand in the post-festive period.
- Credit to services continued to grow at a robust pace. After registering a growth of 20 percent in the September quarter (Q2), credit to services grew by 19.5 percent in the December quarter (Q3). In January, credit to service grew by 21.5 percent. This was led by credit to NBFCs, trade and transport operators.
- Personal loans grew at a strong pace in the December quarter. They grew at 20.17 percent in Q3 after growing at 19.6 percent in the September quarter. The growth momentum continued in January as well as personal loans posted a growth of 20.4 percent.

Money Supply

Broad money (M3) was Rs 218.59 lakh crore at the end of the December quarter, registering a growth of 8.68 percent over the corresponding quarter of the last year. As per the latest data (available for February 24), M3 stood at Rs 221 lakh crore.[2]

Currency with public was Rs 31.22 lakh crore at the end of the December quarter, registering a growth of 8.3 percent over the corresponding quarter of the last year. As of February 24, currency with the public was Rs 32.3 lakh crore. The biggest component of M3 is time deposits with banks, amounting to Rs 165.1 lakh crore as on February 24. Time deposits with banks grew at 9 percent in December. In January and February, their growth has risen on average to more than 9.7 percent. The growth of broad money (M3) has also been above 9.5 percent in the first two months of the current calendar year. This is the highest year-on-year growth in M3 since December 2021. M1 (narrow money) registered a growth of 9.8 percent in January and 8.7 percent in February.

4 Foreign Portfolio Investment (FPI) and Foreign Direct Investment (FDI)

Foreign Portfolio Investors (FPIs) were net buyers in Q2 and Q3. On a monthly basis, FPIs were net sellers in October but turned net buyers in November and December. In January and February, also FPIs have been net sellers (Panel 1, Figure 2.2). The selling during January and February was on account of outflows in equity instruments. FPIs have been net buyers in the debt segment in this period. FPIs exit from the equity markets since January 2023 can be attributed to multiple reasons. Firstly, the US Fed is likely to continue with its aggressive stance on rate hike to tame the stubborn inflation. Another reason could be the rebalancing of the Indian markets, which had outperformed in the last few years as compared to the other

[2] See https://rbi.org.in/scripts/WSSView.aspx?Id=25958

Net Flows FPI (USD Billion) — Net FPI - Debt and Equity Breakdown (USD Billion)

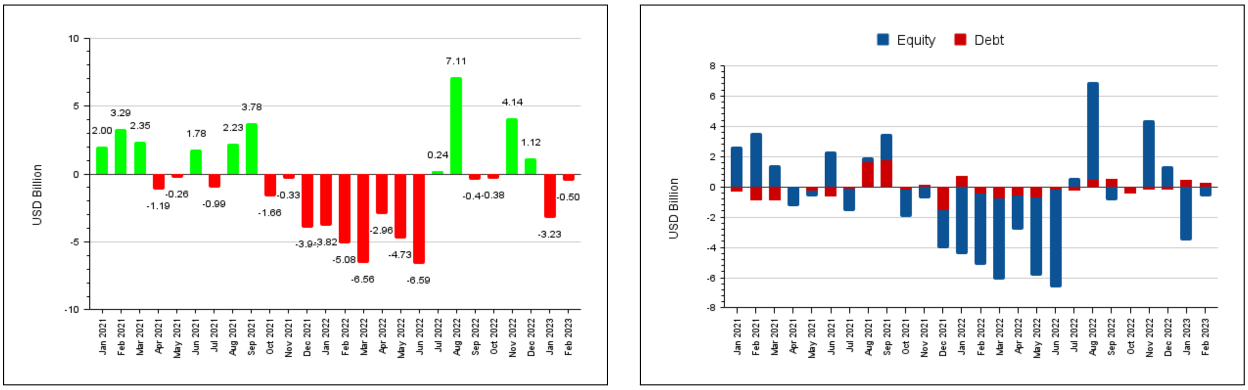


Figure 2.2: FPI - Net Investments

emerging markets. In the first half of March, FPIs have turned net buyers due to inflows in equity.[3]

The Foreign Direct Inflows during the second quarter FY 2022-23, were USD 16.6 billion. There was a slight moderation to USD 15.98 billion in the third quarter of FY 2022-23. FDI equity inflows amounted to USD 9.8 billion in the third quarter. The sectors attracting highest FDI equity inflows during April-December period were Services, computer software and hardware, telecommunications and trading.

5 Key highlights from the Financial Stability Report

The Reserve Bank released the 26th issue of the Financial Stability Report in December 2022. Some of the key highlights are as follows:

- The gross non-performing asset (GNPA) ratio of scheduled commercial banks (SCBs) fell to a seven-year low of 5.0 per cent and net non-performing assets (NNPAs) have dropped to ten-year low of 1.3 per cent in September 2022. The NNPAs of private banks dropped below 1 percent.
- Moving forward, the GNPA ratio is projected to fall further to 4.9 percent in September 2023 as per the baseline scenario of RBI's stress testing framework.
- The provisioning coverage ratio (PCR) has been increasing steadily since March 2021, and reached 71.5 per cent in September 2022.
- The NBFC sector also recovered strongly in the wake of the second wave of COVID-19, with asset quality showing a continuous improvement. The GNPA ratio of the sector (excluding core investment companies) fell from 7.2 per cent in June 2021 to 5.9 per cent in September 2022.
- The Capital to Risk Weighted Assets Ratio (CRAR) and Common Equity Tier 1 (CET1) ratio of SCBs stood at 16 and 13 per cent, respectively in September 2022. Both levels showed a moderation from March 2022 figures on account of the increase in risk weighted assets (RWAs), as lending activity picked up during H1:2022-23. However, capital levels

[3] See NSDL, https://www.fpi.nsdl.co.in/web/Reports/Yearwise.aspx?RptType=6

are well above the minimum capital requirements, including the Capital Conservation Buffer (CCB) requirements of 11.5 per cent.

- The recent banking crisis in the US and Europe underscored the need to have adequate countercyclical macroprudential tools in place to provide a buffer against losses on account of rising interest rates. In the context of Indian banking regulation, one such tool is the Investment Fluctuation Reserve (IRF). Timely review of banks' mark-to-market losses, concentration risks and enhanced supervision will ensure that Indian banks are shielded from the turmoil in the global financial system.

3 FISCAL POLICY DEVELOPMENTS

Manish Gupta

1 Fiscal Issues: Union Government

1.1 Revenues

- The revenue receipts of the Union government during April-Jan 2022-23 at Rs. 19.20 lakh crore was 87.08 percent of the budget estimates of 2022-23. On account of higher revenues from own taxes, the revised estimates for 2022-23 was higher that the budget estimates by 6.53 percent. In 2023-24, the revenue receipts are budgeted to grow at around 12.09 percent over 2022-23 RE on account of increase in non-tax revenue by 15.24 percent and tax revenue (net of states' share) by 11.69 percent.

- The gross tax revenue (GTR) of the Union government during the first 10 months of the fiscal 2022-23 was 12.6 percent higher than that during similar period in 2021-22 and was around 85.67 percent of the budget estimates of 2022-23. On account of buoyant tax collections during the fiscal, the revised estimates of GTR for 2022-23 were higher by about 10.34 percent over 2022-23 budget estimates. Given that the GTR during April-Jan 2022-23 was around 77.64 percent of the revised estimates for 2022-23, it is unlikely the revised estimate target could be achieved in the next two months (i.e., February and March). In 2023-24, the GTR is budgeted to grow by 10.44 percent over 2022-23RE and 21.87 percent over 2022-23BE (table 3.1).

- The increase in GTR is largely driven by the increase in direct taxes both personal income tax and corporation tax. During April-Jan 2022-23, income tax and corporation tax were higher by 18.89 percent and 14.84 percent respectively vis-à-vis similar period in 2021-22. As per the revised estimates for 2022-23, corporation tax and personal income tax were higher by 15.97 percent and 16.43 percent respectively over 2022-23 BE and are budgeted to grow by 10.5 percent in 2023-24BE (table 3.1). Direct taxes are budgeted to grow slower than CGST, customs duties and non-tax revenues in 2023-24.

- Among the indirect taxes, the revised estimates of Union Excise duty and Custom duty for 2022-23 were respectively lower by 4.48 percent and 1.4 percent over the budget estimates on account of the reduction in excise duty to control the pass-through of increasing global oil prices on the consumers and reduction in custom duties on edible oils, pulses, cotton, steel, etc. during FY23 to soften the impact of higher global prices on these commodities on inflation. As compared to Apr-Jan 2021-22, in the first 10 months of the current fiscal, Union Excise collection was lower by 19.3 percent while customs show an increase of 13.6 percent.

- GST collections has remained buoyant throughout 2022-23. GST collections were over Rs. 1.4 lakh crore every month during this fiscal. During April-Jan 2022-23 GST

[1]Note: * net of states' share in central taxes and collections under NCCD to be transferred to NDRF.

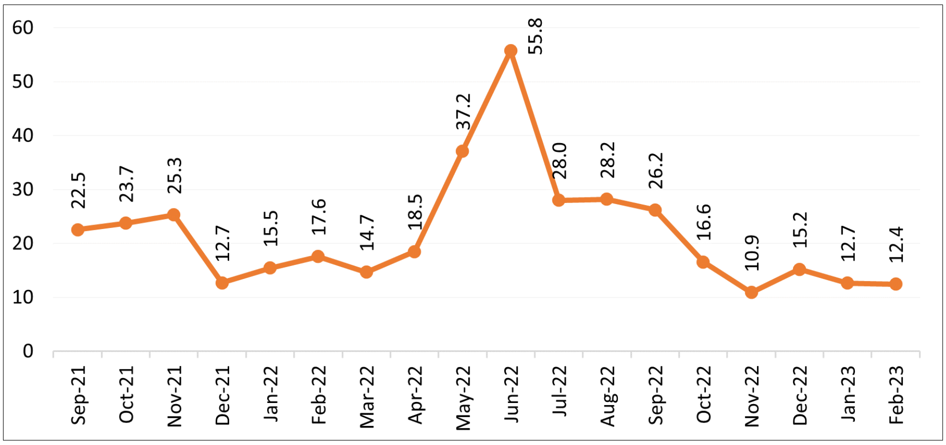
Table 3.1: **Overview of Revenues**

Indicators	**Apr-Jan 2022-23 *(Rs. Crore)***	**2022-23 RE *(Rs. Crore)***	**2023-24 BE *(Rs. Crore)***	**Apr-Jan 2022-23 *(% of 22-23RE)***	**% Change in 2022-23RE Over 2022-23BE**	**2023-24BE Over 2022-23RE**	**Apr-Jan 2022-23 Vs 2021-22**
Revenue Receipt*	1919649	2348413	2632281	81.74	6.53	12.09	4.39
Gross Tax Revenue	2362677	3043067	3360858	77.64	10.34	10.44	12.61
Corporation Tax	629013	835000	922675	75.33	15.97	10.50	14.84
Income tax	587615	815000	900575	72.10	16.43	10.50	18.89
Union Excise duties	243608	320000	339000	76.13	**-4.48**	5.94	**-19.27**
CGST	597365	724000	811600	82.51	9.70	12.10	24.52
Customs duty	173375	210000	233100	82.56	**-1.41**	11.00	13.61
Tax Revenue*	1688710	2086662	2330631	80.93	7.85	11.69	9.13
Non-Tax Revenue	230939	261751	301650	88.23	**-2.93**	15.24	**-20.77**

1

Source: CGA, Union Budget

revenues were higher by about 24.52 percent over similar period in 2021-22. The year-on-year growth in monthly GST collection continue to be in double digits for several months (fig 3.1). The improvement in GST collections can be attributed to the combined effect of economic recovery post-pandemic, nationwide drive against GST evaders and fake bills along with many systemic changes introduced recently, and the rate rationalisation measures undertaken by the GST Council to correct inverted duty structure.



Source: CMIE Economic Outlook

Figure 3.1: **GST Collections (Y-o-Y growth; %)**

- Non-Tax revenues of the Union government during Apr-Jan 2022-23 at Rs. 2.31 lakh crore were lower by 20.77 percent vis-à-vis 2021-22. Lower collections during 2022-23 was on account of lower dividend from RBI and lower contribution by the telecom sector[2].

1.2 Expenditure

- The revenue expenditure of the Union government during April- Jan 2022-23 at 25.98 lakh crore was 75.1 percent of 2022-23RE (and 81.32 percent of 2022-23BE). The esti-

[2] https://prsindia.org/budgets/parliament/demand-for-grants-2022-23-analysis-telecommunications

mates of revenue expenditure (i.e., revised estimates of 2022-23) were revised upwards by 8.27 percent over the budget estimates of 2022-23 (Table 3.2) due to the additional expenditure of around Rs. 80,000 crore towards food subsidy and additional allocation under Pradhan Mantri Garib Kalyan Anna Yojana (PMGKAY) and Rs. 1.09 lakh crore for fertiliser subsidy sought by the Union government in the supplementary demand for grants to cushion the impact of higher international prices due to ongoing Russia-Ukraine conflict.

- Capital expenditure during April-Jan 2022-23 was 29.03 percent higher vis-à-vis that during 2021-22 and was around 75.1 percent of the 2022-23BE. The revised estimates of capital expenditure for 2022-23 were lower than the 2022-23 budgeted estimates by about 2.93 percent. This could be attributed to lower release of funds to states under "Special Assistance to States for Capital Investment 2022-23". As of February only Rs. 47,898.61 crore could be released to states against the budgeted amount of Rs. 1,07,000 crores. The allocation under the scheme was revised to Rs.76,000 crore as per 2022-23RE.

Table 3.2: **Overview of Expenditures**

Indicators	**Apr-Jan 2022-23** ***(Rs. Crore)***	**2022-23 RE** ***(Rs. Crore)***	**2023-24 BE** ***(Rs. Crore)***	**Apr-Jan 2022-23** ***(% of 22 -23RE)***	**% Change in** **2022-23RE Over 2022 -23BE**	**% Change in** **2023-24BE Over 2022 -23RE**	**% Change in** **Apr-Jan 2022-23 Vs 2021-22**
Revenue Exp.	2597756	3458959	3502136	75.10	8.27	1.25	9.72
Int. Payment	738658	940651	1079971	78.53	0.00	14.81	19.90
Capital Exp.	569892	728274	1000961	78.25	-2.93	37.44	29.03
Total Exp.	3167648	4187233	4503097	75.65	6.14	7.54	12.75

Source: CGA, Union Budget

- Revenue deficit (RD) and fiscal deficit (FD) of the Union government during April-Jan 2022-23 were respectively 68.48 percent and 71.68 percent of 2022-23BE. The government has budgeted a RD of 3.8 percent of GDP and FD of 6.4 percent of GDP for 2022-23. However as per 2022-23RE, the Union government has revised upwards the RD-GDP ratio to 4.1 while the FD-GDP ratio was maintained at 6.4 percent (Table 3). The government, in order to support the vulnerable and for ensuring macroeconomic stability sought additional resources to the tune of Rs.3.6 trillion as supplementary demands for grants for 2022-23, primarily to fund a higher subsidy bill on items such as fertilizers, food and LPG. This resulted in an increase in RD-GDP ratio. To achieve the 6.4 percent FD-GDP target, given that RD-GDP ratio has increased to 4.1 percent in 2022-23RE from 3.9 percent in 2022-23BE, capital expenditure-to-GDP ratio has to decline. Furthermore, fiscal consolidation assumed in 2022-23RE is contingent upon realisation of revenues that has been assumed. The revenue (tax revenue) estimates of the government as per the revised estimates of 2022-23 seems to be on a higher side and may not materialise. This may put at risk achievement of fiscal consolidation targets for 2022-23RE thereby putting a question mark on the credibility of the RE numbers.

- With the objective of achieving FD target of less than 4.5 percent of GDP by 2025-26, the government has budgeted the fiscal deficit to decline to 5.9 percent of GDP in 2023-24. Revenue deficit is also budgeted to decline to 2.9 percent of GDP in 2023-24.

Table 3.3: **Debts and Deficits (Rs. crore)**

Indicators	**Apr-Jan FY22-23 (% of 22-23BE)**	**2022-23BE (% of GDP)**	**2022-23RE (% of GDP)**	**2023-24BE (% of GDP)**
Revenue Deficit	68.48	3.8	4.1	2.9
Fiscal Deficit	71.68	6.4	6.4	5.9

Source: CGA, Union Budget

- During H2-2022-23 the Union government plans to borrow Rs.5.92 trillion[3]. Thus, out of the total gross market borrowing of Rs. 14.31 trillion projected for 2022-23, the government now plans to borrow Rs. 14.21 trillion. Till February, 2023 the government has borrowed Rs.13.69 trillion (or about 96.6 percent of its planned borrowing) which is around 36.63 percent higher as compared to that during 2021-22.
- Although the government had kept the FD-GDP ratio unchanged to 6.4 percent in 2022-23RE, in absolute terms the FD in 2022-3RE has increased by about Rs.94,123 crore over 2022-23BE. It appears that short term borrowings in the form of Treasury bills has been used to bridge this gap.

1.3 Future Outlook

- Robust recovery in tax collections augurs well for the Government to provide the required budgeted support to the economy. The investment activity will get boost from government's capex push and improvement in bank credit which will contribute to the economic recovery process. However, geopolitical tensions, rise in prices of essential commodities including crude oil, volatile global financial markets continue to pose risks to the process of recovery.

2 Fiscal Issues: State Governments

- Own tax revenue aggregated across 26 states during April-December 2022 show an increase of around 23.52 percent as compared to that during the same period in 2021-22. It accounted for about 71.13 percent of the own-tax revenue budgeted by these states during 2022-23. While SGST show an increase of about 27.85 percent, Sales tax and State excise were higher by 12.2 percent and 18.26 percent respectively during April-Dec 2022 vis-à-vis 2021-22. Growth of own taxes aggregated across states has been robust even when compared to that during 2019-20 the last Pre-Covid normal year as shown in Table 3.4.
- Own non-tax revenues show an increase of about 17.09 percent during April-December 2022 as compared to April-December 2021. As a result, own revenue receipts comprising own tax and own non-tax revenues, aggregated across 26 states were higher by about 22.75 percent over April-December 2021. Own revenues were about 44.5 percent higher than that during April-December 2019.
- Central transfers aggregated across 26 states also show an increase of about 20.94 percent during April-December 2022 vis-à-vis 2021. As compared to the similar period in 2019,

[3] https://www.pib.gov.in/PressReleasePage.aspx?PRID=1863433

[4] Source: Comptroller and Auditor General of India

Table 3.4: **Percent change in key fiscal indicators of States (26 states)**

		***Apr-Dec* 2022 (as % of 2022-23 BE)**	**% change during April-Dec 2022 over**	
			2021-22	**2019-20**
1	Revenue Receipts	63.72	22.06	32.94
2	Own Revenue Receipts	68.66	22.75	44.49
3	Own tax Revenue	71.13	23.52	43.92
	a) GST	70.58	27.85	45.36
	b) Sales Tax	70.95	12.21	41.67
	c) State Excise	67.49	18.26	45.56
4	Non-tax Revenue	54.11	17.09	49.04
5	Central Transfers	57.49	20.94	17.49
6	Tax Devolution	69.99	33.46	25.94
7	Grants-in-aid	46.29	7.32	7.71
8	Revenue Expenditure	62.86	13.05	29.28
9	Capital Expenditure	43.72	6.15	32.01
10	Total Expenditure	59.82	12.20	29.58
	Of which,			
	a) General Services	64.61	14.16	33.25
	b) Social Services	59.60	10.89	33.35
	c) Economic Services	53.04	9.71	16.27

4

the increase in central transfers was around 17.49 percent. Growth in central transfers was mainly driven by the tax devolution which show an increase of about 33.46 percent during April-December 2022 as compared to that during 2021. Grants to states, however, show a marginal increase of about 7.32 percent during this period. Central grants to states during April-December 2022 was around 46.49 percent of what was budgeted by them during 2022-23 (Table 3.4).

- While revenue expenditures aggregated across states during April-December 2022 show an increase of about 13.05 percent over April-December 2021, capital expenditure increased by about 6.15 percent. Capital expenditure during the first nine months of the fiscal 2022-23 was around 43.72 percent of what the states has budgeted for the year (Table 3.4).

- In the 2022-23 budget, the Union government provided a sum of Rs. 1,07,000 crore to states for capital expenditure under the scheme "Special Assistance to States for Capital Investment 2022-23". Under this scheme financial assistance is provided to state governments in the form of 50 year interest free loan over and above their normal borrowing celling. As per the monthly summary report of Department of Expenditure till February 2023, Rs. 88,715.24 crore have been approved by the Union government of which only Rs. 47,898.61 crore (i.e., 55.9 percent of the approved amount) has been released to the eligible states. This could be one of the reason for tardy capital expenditure performance of states.

- Combined fiscal deficit aggregated across 26 states during April-December 2022, both as percent of 2022-23 budget estimates and as percent of Q1+Q2+Q3 GDP is lower as compared to that during 2021 (Table 3.5). States are seen to be consolidating fiscally. States' fiscal consolidation is driven by robust own tax revenue growth and higher tax devolution as also by compression in capital expenditure.

Table 3.5: **Fiscal Deficit (26 states)**

	April-October			
	2022	2021	2020	2019
FD (As % of Q1+Q2+Q3 GDP)	2.62	3.55	2.90	1.35
As % of 2022-23 BE	44.44	61.98	61.98	88.02

[5]

- As per the tentative borrowing calendar, the State Governments/Union Territories (UTs) were to raise Rs. 6.55 lakh crore during the first three quarters of 2022-23 (Rs. 1.90 lakh crore in Q1, Rs. 2.12 lakh crore in Q2 and Rs 2.53 lakh crore in Q3). States in Q1-2022-23 have borrowed 1.10 lakh crores (or 58 percent of the indicative borrowing), Rs. 1.66 lakh crore (or 78 percent of the indicative amount) in Q2 and Rs 1.81 lakh crore (or 70 percent of indicative amount) in Q3. The total market borrowings by states during April-December 2022 stood at Rs. 4.57 lakh crores (or 69.83 percent of the indicative borrowing during this period). In Q4, market borrowings by State governments/UTs is expected to be around Rs 3.4 lakh crore. Market borrowings by states during April-Dec 2022-23 was lower by about 1 percent as compared to that during April-Dec 2021-22.
- In March, the Union Government in order to bring in transparency in the finances of state governments informed the states that their off-budget borrowings are to be treated as their own debt and any such fund raised by them in 2020-21 and 2021-22 would need to be adjusted out of their borrowing ceiling in 2022-23. With many states facing difficulties due to the borrowing restriction in current fiscal year because of the magnitude of such loans, the Union government relaxed the norms. As per the new norms, off-budget borrowing done by states up to 2020-21 will not be adjusted and only those done in 2021-22 can be adjusted over up to 4 years till March 2026. Lower borrowings by states in Q1-2022 could be on account of the uncertainty associated with the inclusion of off-budget borrowings while fixing the annual borrowing limits of states. Relaxation of these norms in July resulted in relatively higher borrowing by states in Q2 and Q3 of 2022. States are expected to perform better in Q4.

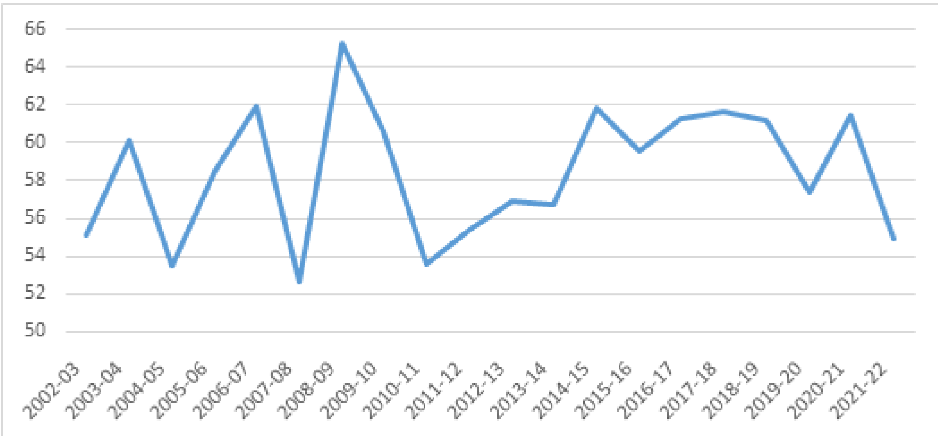
[5] Source: Comptroller and Auditor General of India; MoSPI.

4 TRENDS in CAPEX by STATE Governments

R. Kavita Rao

- The focus on raising capital formation in the country has meant an increase in capital formation by both the Union government and the state governments. Union budget for the last three years has placed a clear emphasis on raising the share of capital expenditure in total expenditure and sought to provide financial support for capex by the state governments in the form of zero-interest loans of 50 year maturity. In this context, performance of state governments in terms of capex too need to be studied.
- The RBI publication on State Finances for 2022-23 presents a chapter on trends in capex by states as well as the impact of the level and composition of capex on growth in the states. Some of the broad trends emerging from this chapter can be summarised as follows:

  1. States account for 55 to 60 percent of total capital formation by general government in India. Over the years, the ratio of state capex to GDP has risen from 1.9 percent to over 2.7 percent (Figure 4.1).
  2. On average, states succeed on spending about 65 percent of the total capital outlay budgeted for. There is considerable variation in the levels shortfall across states.
  3. The monthly distribution of expenditure suggests high concentration of expenditure in the month of March – about 25 percent of the total expenditure is booked in the month of March. In contrast, in the first quarter, only about 33 percent of the total expenditure is booked.



Source: RBI

Figure 4.1: **Share of states in Capital Outlay of General Government**

- During 2022-23, there were concerns raised on inadequate capex spending by states. In terms of financial and institutional factors, as discussed in the earlier section, there were both positive and negative effects. Examining the share of budgeted capital expenditure spent by December, we find that the while in 2019-20, the expenditure booked was 67 percent of budgeted amounts, it declined sharply to 44 percent in 2020-21. There is a sharp pickup in 2021-22 to 76 percent but a fall to 42 percent in 2022-23. In other words, there is evidence of a shortfall in spending in the current year. The performance however varies considerably across states. As table – shows, only eight states have booked expenditure in excess of 50 percent of the budgeted amounts while another eight states booked less than 30 percent of the budgeted amount as expenditure by December. Such variations are in evidence in the other years as well.

- Another variation evident from Table 4.1 is that there are seven states (shaded in blue) which demonstrate an improvement in performance in comparison to the preceding three years. These also happen to be states with relatively sluggish performance in the earlier years as well, which perhaps has left scope for improvement.

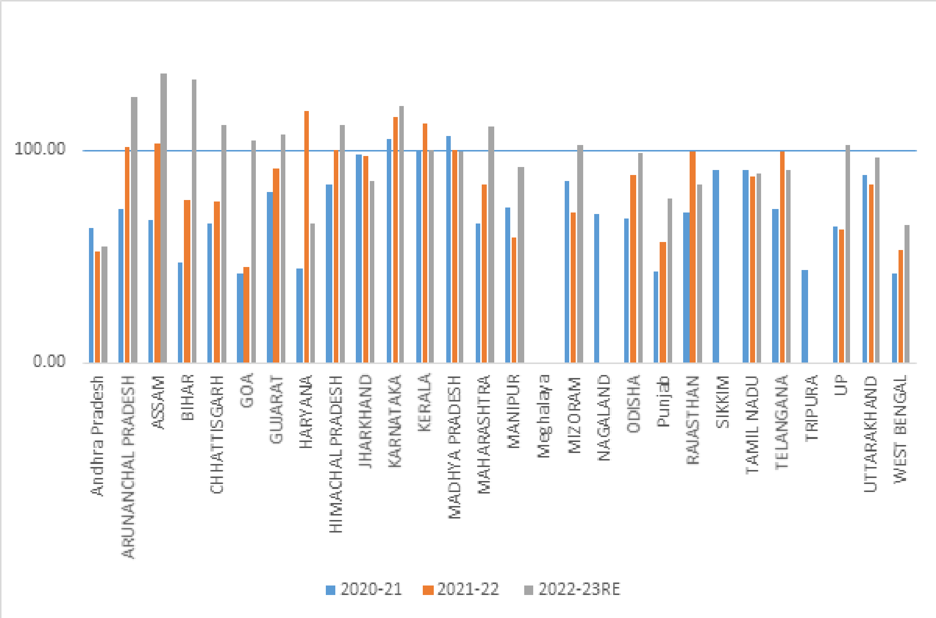
Table 4.1: Share of Budgeted Capex spent till December (percent)

	Dec-22	Dec-21	Dec-20	Dec-19
Andhra Pradesh	22.7	37.1	61.5	18.0
Arunachal Pradesh	34.8	22.5	28.9	6.4
Assam	41.8	39.7	36.3	25.9
Bihar	51.2	36.5	24.4	26.1
Chhattisgarh	49.1	47.7	31.8	39.3
Gujarat	60.1	53.8	40.9	63.8
Haryana	51.3	107.6	40.6	110.4
HP	56.8	50.9	34.3	61.9
Jharkhand	32.0	30.2	31.6	55.3
Karnataka	68.4	49.6	45.5	47.3
Kerala	59.5	66.6	61.3	41.5
MP	56.5	68.3	47.9	64.5
Maharashtra	38.2	33.6	23.5	42.9
Manipur	24.2	36.2	28.3	17.6
Meghalaya	42.5	52.0	37.7	39.3
Mizoram		18.7	17.8	24.6
Nagaland	34.5	79.6	275.8	9.9
Odisha	50.4	41.2	30.5	49.2
Punjab	29.3	42.7	15.3	6.1
Rajasthan	39.7	68.2	37.9	54.4
Sikkim	47.1	27.8	30.4	25.6
TN	49.9	59.8	41.9	44.5
Telengana	42.0	76.9	44.1	67.4
Tripura	20.6	24.9	17.1	20.6
UP	34.8	35.4	21.4	45.6
Uttarakhand	36.5	51.3	34.2	44.7
West Bengal	35.1	28.3	14.8	37.8

Note: States with Blue colour are those which have shown an improvement in the shares of expenditure, when compared to the last three years.
Source: Computed from Monthly Accounts, CAG

- An extension of the trends observed till December 2022 would suggest the possibility of a significant shortfall in capex by states when compared to the budgeted figures. To assess the possibility of significant rise in spending in the last quarter, Figure 4.2 presents utilisation of budgeted amounts of capital expenditure by state for the last three years. It is interesting to note that while the utilisation till December is less than in 2021-22, the revised estimates for 2022-23 suggest capital expenditure to exceed the budgeted amount for the year for 12 states including Arunachal Pradesh, Assam, Bihar, Chhattisgarh, Goa, Gujarat, Himachal Pradesh, Karnataka, Kerala, Maharashtra, Mizoram and Uttar

Pradesh. Of the states for which information is available, Andhra Pradesh, Haryana and West Bengal are the only three states which present utilisation of less than 70 percent. These figures suggest the possibility of a robust pickup in capex in the last quarter for 2022-23.



Source: CAG

Figure 4.2: **Utilisation of Budgeted Capex (percent)**

5 EXTERNAL TRADE AND DOMESTIC SECTOR SPECIFIC POLICIES: JANUARY–MARCH, 2023

Dinesh Kumar Nayak

External trade and domestic sector-specific policy developments: Q4 FY2022-23

- The fourth quarter of FY 2022-23 witnessed various trade promotion activities, which could be categorized broadly into (i) agreements and negotiations; (ii) Memorandum of Understandings (MoUs); (iii) facilitation and promotion; and (iv) investment and indigenization efforts.

1 Agreements and Negotiations

1.1 Preferential trade

- India hosted a special virtual Summit - "Voice of Global South Summit on 12-13 January 2023 with the intention to enter into Preferential Trade Agreements (PTAs) with interested countries in the South for driving trade and investment in the region.

1.2 Bi-lateral trades

- The sixth round of India-Canada Early Progress Trade Agreement (EPTA) negotiations was held from 24th January to 27th January 2023 in New Delhi.
- A meeting between the Hon'ble Commerce & Industry Minister (HCIM) and the UK Secretary of State (SoS) was held on 27th January 2023 to take stock of the progress in India-UK FTA negotiations and to discuss the way forward in negotiations.
- To facilitate a better understanding of various provisions for enhancement in bilateral trade taking benefits of the Australia-India Economic Cooperation and Trade Agreement (Ind-Aus ECTA), which came into effect on 29th Dec 2022, additional stakeholder consultations were held with exporters, industry associations, EPCs, service providers at different cities of India, including Type II & Type III cities.
- The Commerce & Industry Minister (HCIM) had an interaction with a group of German Parliamentarians headed by Mr. Tilman Kuban on 30th January 2023 wherein discussions were held on bilateral trade & investment and India-EU FTA.

2 MoUs

2.1 Agri-food processing

- **Millets:** The Agricultural and Processed Food Products Export Development Authority (APEDA) has also signed a Memorandum of Understanding (MoU) with IIMR to boost value addition and farmers' income. APEDA launched a variety of millet products for all age groups at a affordable price ranging from Rs 5 to Rs 15 during AAHAR food fair, which is Asia's biggest B2B international food and hospitality fair.

2.2 Semiconductors

- An important Memorandum of Understanding (MoU) on establishing semiconductor supply chain and innovation partnership under the framework of India US Commercial Dialogue 2023 was signed between the two countries following the Commercial Dialogue March 7-10, 2023 held in New Delhi. It aims to leverage complementary strengths of both countries and facilitate commercial opportunities and the development of semiconductor innovation ecosystems through discussions on various aspects of semiconductor value chain. The MoU envisages mutually beneficial R&D, talent and skill development.

3 Trade Facilitation

3.1 Visa, Movement of professionals and Supply chains

- The Ministerial level India-US Trade Policy Forum (TPF) held on 11th January 2023 decided to continue facilitating movement of professionals and launching a new working group on resilient trade.
- To broaden the US-India trade relationship, the Ministers launched a new TPF Working Group on Resilient Trade. The Working Group will work on deepening engagement on trade facilitation, which is particularly relevant to the construction of durable and sustainable supply chains.
- The Working Group will meet quarterly and identify specific trade outcomes and looking at larger bilateral footprints for trade and investments than mini trade deals. Restarting of exports of wild-caught shrimps, speeding up of issuance of business visas, resilient supply chains, data flows were some of the issues discussed in TPF.

3.2 Regulatory Reforms for Export Facilitation

- The DGFT has amended rules for the calculation of Composition Fee for extending Export Obligation under the Advance Authorization Scheme on 18th January 2023. This will automate the process with minimal human intervention, reducing errors and improving efficiency. This will benefit exporters by reducing the time and effort for Export Obligation extension.
- **Quality standards and import substitution:** The Ministry of Commerce & Industry addressed manufacturers of sports shoes on 20th January 2023 to focus on quality and reduce import dependence to increase international market share. Quality Control Orders for footwear will be implemented from 1 July 2023.

3.3 Export Promotion Initiatives

- With the commitment to promotion of exports, the Ministry of Commerce & Industry has taken steps towards implementation of simplified regulatory framework for gems & jewellery exports through e-commerce, reduction of duties for imports of diamonds, a new gold monetisation policy and hallmarking norms.
- To promote exports, the Gem & Jewellery Export Promotion Council (GJEPC) has organised India International Jewellery Show (IIJS Signature) and India Gem & Jewellery Machinery Expo (IGJME) at the Bombay Exhibition Centre, Mumbai, from 5th to 9th January 2023. In addition, the GJEPC is taking efforts to show greener in association with Sankalp Taru Foundation, as part of this initiative, the Council aims to plant 50,000 trees in a year.
- The APEDA organised a Virtual-Buyer Seller Meet on2nd February 2023 to harness export opportunities of millets in UAE.
- Further, the APEDA launched an e-Catalogue for the UAE which contains information on various Indian Millets and range of their value-added products available for export, list of active exporters, start-ups, FPOs and importer/retail chain/hyper markets. The millets market is set to grow from USD 9 billion to over USD 12 billion by 2025.
- The government is mobilizing start-ups for export promotion of value-added products of millets in the Ready to Eat (RTE) and Ready to Serve (RTS) category. India's major millet exporting countries are U.A.E, Nepal, Saudi Arabia, Libya, Oman, Egypt, Tunisia, Yemen, U.K and U.S.A.
- Regional Authorities of DGFT have issued 15,047 Authorizations/Scrips under various FTP Schemes viz., Importers/Exporters Code (IEC), Service Exports from India's (SEIS), Advance Authorizations and Export Promotion Capital Goods (EPCG) during January 2023.
- The Electronics and Computer Software Export Promotion Council (ESC) organized participation of India ICT companies at LEAP, Saudi Arabia during 6th-9th February 2023.

Promoting MSMEs

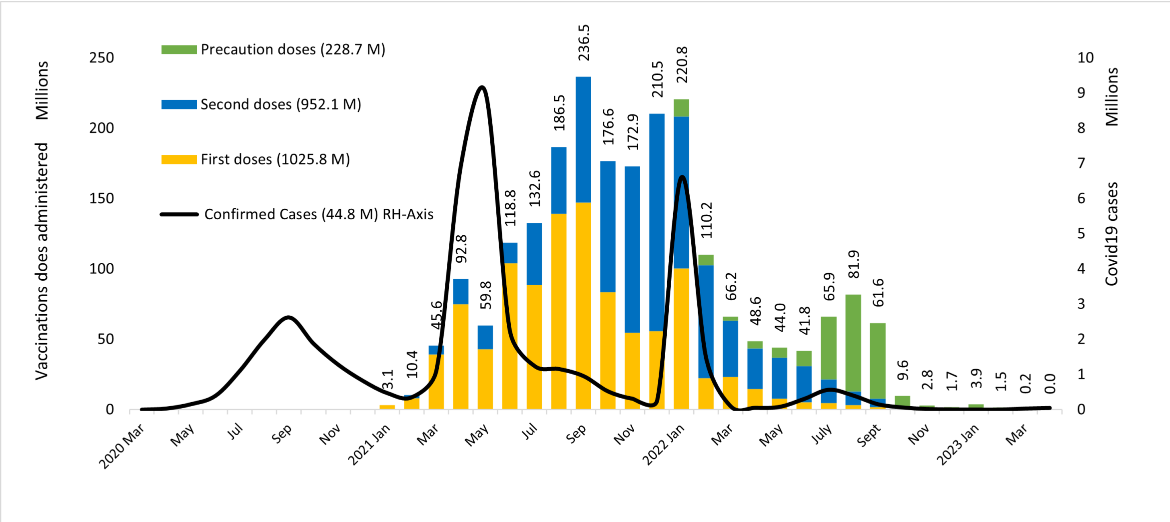
- To promote the growth of micro, small and medium enterprises (MSMEs) and to support the development of indigenous products, the ODOP-DEH (One District One Product Districts as export hubs) Invest India, DPIIT and Punjab government organized a campaign on 3rd February 2023. They interacted with manufacturers, artisans, state officials and media to promote the initiative.
- Under the ODOP- Districts as Export Hubs initiative, export potential products have been identified from 765 districts. District Export Action Plans have been prepared to support local exporters and manufacturers to produce and sell these products overseas.

4 Focus on Trade Investment and Indigenization efforts

- India addressed productivity and quality challenges at events in the last quarter of FY2022-23. The auto industry was asked to invest in R&D to support indigenization. Workshops are being organized to adopt the PM Gati Shakti NMP across states and UTs.

6 GROWTH OUTLOOK

Rudrani Bhattacharya



* Till dated March 19, 2023

Source: State bulletins, and Ministry of Health and Family Welfare (MoHFW), GoI

Figure 6.1: **Monthly Covid-19 cases and vaccinations doses administered in India**

- With the COVID-19 pandemic now reaching its third year, there has been a consistent downward trend in the numbers of deaths, and hospitalizations. As on 10th April 2023, the total number of confirmed cases of covid infections reported around 44.8 million and the number of registered deaths were 5.31 lakh. As of 10th April 2023, a total number of around 2.21 billion doses of vaccine had been administered in India (1025.8 million 1st dose and 952.1 million 2nd dose). In addition, around 228.7 million people were vaccinated for precaution doses (Figure 6.1). **However, a hike in Covid-19 cases has been reported from March 2023 (32,224 positive cases). This has surged significantly to 49,391 numbers of positive cases during the first ten days of April 2023, which is the highest in the last five months since November 2022**.

1 Recent Trends in Growth

- **The GDP estimates for the quarter Q3 (January-March) 2022-23 as provided by the National Statistical Office (NSO) record an increase by 4.4 percent from the level in Q3 2021-22 (Table 6.1).** The high growth rate of 13.5 percent recorded at Q1 2022-23 reflected the low base effect caused by slow down of economic activities in April-June 2021 due to the second wave of the pandemic.

- The slowdown of growth in Q2 2022-23 reflected base effect normalisation, along with contraction in mining and manufacturing. **In Q3 2022-23, Mining and quarrying grew at a rate of 3.7 percent compared to the same quarter previous year as**

Table 6.1: **Quarterly Growth Rates (%, constant prices) of GDP, 2011-12 Series**

Sectors	Annual 2021-22 YoY	Annual 2022-23 YoY	Q1 2022-23 Apr-Jun YoY	Q2 2022-23 Jul-Sep YoY	Q3 2022-23 Oct-Dec YoY
GDP	9.1	7.0	13.2	6.3	4.4
Agriculture, Fishing, etc.	3.5	3.3	2.5	2.4	3.7
Mining & Quarrying	7.1	3.4	9.3	-0.4	3.7
Manufacturing	11.1	0.6	6.4	-3.6	-1.1
Electricity, Gas, Water etc.	9.9	9.2	14.9	6.0	8.2
Construction	14.8	9.1	16.2	5.8	8.4
Trade, hotels, Trans., etc	13.8	14.2	25.7	15.6	9.7
Financial & Prof. Serv.	4.7	6.9	8.6	7.1	5.8
Public Admin, defence, et.	9.7	7.1	21.3	5.6	2.0

Source: National Statistical Office (NSO)

growth rate of production of both coal and crude oil improved in the later part of Q3 2022-23 (Table 6.3 and Figure 6.2).

- Manufacturing sector still recorded contraction in Q3 2022-23, compared to the same quarter previous year. **The contraction was on account of receding pandemic-induced domestic automobile demand as reflected in decline in production of two wheelers, and IIP consumer durables (Table 6.3 and Figure 6.2)).** However, manufacturing growth improved in the third quarter compared to the second quarter on the back of strong growth in commercial vehicles and passenger car sales and consumer non-durable goods. **Performance of manufacturing sector was also affected adversely by slowdown in production of intermediate inputs, exports, and high commodity inflation.**

- **Utilities, Construction, Trade, hotels and transports etc., and Financial services registered robust growth in a range of 5.8–9.7 percent reflecting the ongoing revival of economic activities.** The cold wave in the northern parts of the country during the end of December boosted demand for electricity, contributing to Utility sector's high growth (Table 6.3). The buoyant growth in the construction sector in Q3 2022-23 is reflected in strong growth in primary goods such as production of cements and use of finished steel.

- **The strong growth in Trade hotels and transport services in Q3 2022-23 was driven by strong growth in cargo trade via sea and rail, demand for transports via air and rail, and tourism activities (Table 6.4).** However a contraction in the demand for air freight was observed as a fall out of decline in export orders, as well as restoration of demand for sea freight with port activities coming back to normalcy in the post pandemic period.

- Despite volatile performance of stock market, overall **financial sector growth was resilient in Q3 2022-23 on the back of strong growth in credit, rising interest rate and improvement in asset quality.** Public administration and others recorded a mild 2 percent growth rate as a consequence of the fiscal consolidation process in the states (Chapter 3).

- Agriculture remained resilient through out the pandemic years owing to good monsoon, better availability of credit to farmers ensured via fiscal stimulus packages, and rise in income on account of increased MSPs. **In Q1 2022-23, agricultural growth was muted at 2.5 percent. The performance of this sector was adversely affected by volatile weather conditions in January and in March 2022.** In January 2022, the rainfall was 128 percent higher than the normal level, while it fell less by 70 percent from the normal level in March 2022. Wastage of vegetable crops due to volatile rainfall and damage in wheat production due to high temperature in North India in April-Sep, 2022-23 caused muted agricultural growth of 2.4 percent in Q2 2022-23.

- Agricultural sector growth improved in Q3 2022-23 at 3.7 percent. Minimum Support Prices (MSP) of Paddy, Jowar, Moong and Soyabean were increased by 1.3, 2, 6 and 5 times respectively in the beginning of 2022-23 compared to the level of 2021-22 contributing to rise in prices of paddy, wheat and pulses in the second half of the FY22-23. Domestic wheat price was also rising as a fall out of the Ukraine war. Consequently, as on 23rd December 2022, the actual area sown for foodgrains under Rabi crop was 3.6 percent higher compared to the area sown during the same period in 2021. Robust growth in domestic sales of tractors at 6.5 percent in October-November 2022 also reflected resilience in agricultural activities in the third quarter of 2022-23. During October-December 2022, the rainfall is merely 8 percent below the normal level on average. Consequently, **agricultural growth showed resilience in Q3 2022-23**.

Table 6.2: **Expenditure-side Growth Rates of GDP (%, constant prices), 2011-12 series**

Sectors	Annual 2021-22 YoY	Annual 2022-23 YoY	Q1 2022-23 Apr-Jun YoY	Q2 2022-23 Jul-Sep YoY	Q3 2022-23 Oct-Dec YoY
GDP	9.1	7.0	13.2	6.3	4.4
Private Final Consumption Exp. (PFCE)	11.0	7.0	20.1	8.8	2.1
Govt. Final Consumption Exp. (GFCE)	7.0	1.0	1.8	-4.1	-0.8
Gross Fixed Capital Formation (GFCF)	15.0	11.0	20.6	9.7	8.3
Exports of Goods and Services	29.0	12.0	19.7	12.3	11.3
Imports of Goods and Services	22.0	19.0	33.7	25.9	10.9

Source: National Statistical Office (NSO)

- Among the expenditure side components of GDP, performance of Private and government consumption expenditure remained muted in Q3 2022-23 (Table 6.2). Growth in investment demand was robust in this quarter, while secular decline in growth of exports and imports was observed in the quarters of FY2022-23.

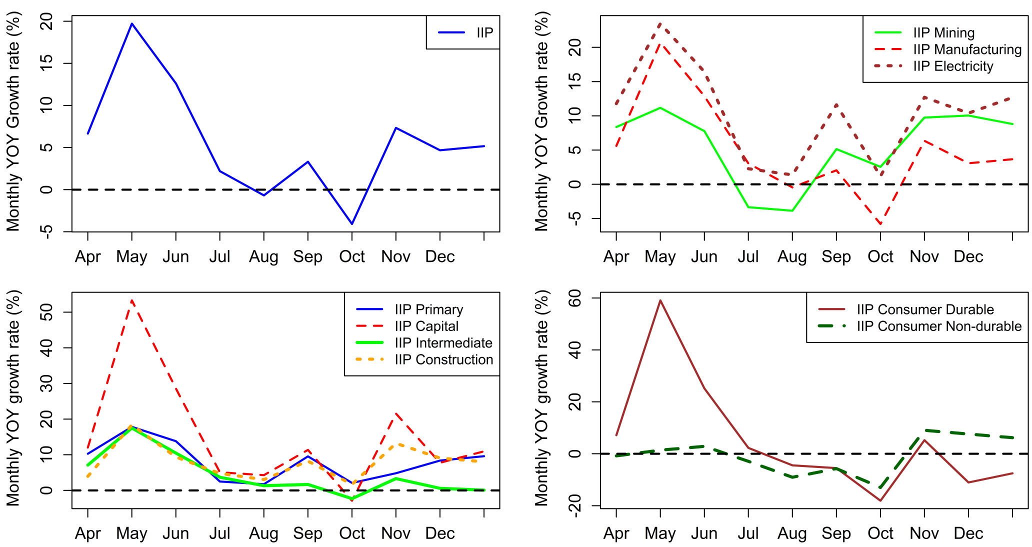
- According to CMIE's Capex data base, the value of outstanding investment projects in Q3 2022-23 was 4.4 percent higher than the value in Q3 2021-22. Among the total investment in non-financial firms in Q3 2022-23 with value of Rs Million 228247931.8, 31 percent of it was announced in that quarter. Implementation work was on progress for projects with 56.2 percent value of the outstanding, indicating an improvement in investment outlook.

2 Broad-based industrial sector growth expected, except for muted performance of the manufacturing sector in Q4 2022-23

2.1 Agriculture

- Domestic wheat price continues to rise as a fall out of the Ukraine war. The wheat price inflation was recorded at a high of 21.1 percent. Consequently, as on 3rd February 2023, the actual area sown for foodgrains under Rabi crop was 3.25 percent higher compared to the area sown during the same period in 2022. Strong growth in domestic sales of tractors at 22.2 percent in January–February 2023 also reflected resilience in agricultural activities in the last quarter of 2022-23. During January–February 2023, the rainfall was on average a moderate 40 percent below the normal level. Consequently, agriculture is expected to show robust performance in Q4 2022-23.

2.2 Industry



Source: NSO

Figure 6.2: **Recent trend in components of IIP**

- **Index of Industrial production (IIP) in the beginning of Q4 2022-23 recorded a 5.2 percent growth rate. Hence a broad-based industrial sector growth is expected (Figure 6.2) in this quarter, except for muted performance of the manufacturing sector.**

- With sustained strong growth in coal production and improving crude oil production in the beginning of Q4 2022-23 (Table 6.3 and Figure 6.2), the mining sector is expected to sustain its performance in this quarter. Resilience in the performance of primary goods sector and capital goods sector in the beginning of Q4 2022-23 is expected to reflect robust growth of the construction sector in this quarter (Table 6.3 and Figure 6.2)). Utilities sector will continue to perform strongly in Q4 of FY22-23 driven by the demand for electricity during the cold months of January-February 2023.

- **The manufacturing activities are expected to remain muted in Q4 2022-23 despite strong growth in commercial vehicle production and passenger car sales** recorded in January 2023. Passenger car sales growth showed moderation in February, 2023 (Table 6.3). Consumer durables sector continues to contract, and intermediate input production slows down in Q4 2022-23 (Figure 6.2), adversely affecting manufacturing activities. Manufacturing PMI also stagnated around 55 since September 2022.
- Strong growth in IIP capital goods sector in the months of Q3 and the beginning of Q4 of FY22-23 (7.8–21.6 percent) is recorded, mainly driven by demand from buoyant construction activities.

2.3 Services

- In Q4, 2022-23, the **Trade transport and hotel services are expected to remain resilient** as indicated by robust growth in freight movement via ships and rail, and passengers traveled via air and rail (Table 6.4).
- With continued strong credit growth (non-food credit growth of 16 percent in Jan-Feb 2023), high interest rate (call money rate around 6.65 percent in Jan 2023) and resilient financial market in the months of Q4, 2022-23 (Chapter 2), **financial services are expected to show robust growth** in this quarter.
- During November-December 2022, the telecom subscribers base recorded sharp decline at a rate of 30 percent (Table 6.4) on account to withdrawal of subscribers from Vodafone. Although new subscriptions are added to AirTel and Gio, the net impact on the subscriber's base remains negative. This trend is expected to continue in the months of Q4 2022-23 as well.
- Overall services sector had been buoyant in the second half of FY22-23 reflected in a steady rise of PMI Services from 55.1 in September 2022 to 59.4 in February 2023.

2.4 Demand

- On the demand side, CMIE's Index of Consumer Sentiments on current economic condition showed steady improvement from 83 in Q3 2022-23 to 85.52 in January 2023 and 88.24 in February 2023, **reflecting the sign of private consumption demand revival**. Index of Consumer Expectations on future economic situation also improved from 80 in Q3 2022-23 to 82.80 in January 2023 and 88.5 in February 2023, showing the sign of demand revival to continue in Q4 2022-23.
- RBI's Consumer Confidence Survey also indicated similar trend as the Current Situation Index improved from 83.5 in November 2022 to 84.8 in January 2023. Future Expectations Index also showed an improvement from 114.90 in November 2022 to 116.2 in January 2023.
- A steady rise in rural wages inflation was observed since March 2022. In November 2022, rural wages grew at 7.5 percent compared to the wage rate prevailing in November 2021. High rural wage growth spurred rural demand in 2022-23.

3 Growth outlook for near future

- **Overall, we expect mixed performance across sectors/sub-sectors in Q4 2022-23,** with agriculture and services showing resilience, while industrial activities except for manufacturing will improve in this quarter.
- According to the projections by IMF and World Bank, the Indian economy is expected to grow at 6.8-6.9 percent in 2022-23, while the first advance estimate pegged FY23 GDP growth at 7 percent.
- The slowdown of the economy is expected to continue in 2023-24 amid decline in IMF's projection for global growth to 2.9 percent in 2023 from 3.4 percent in 2022. RBI projected 6.4 percent growth for the FY 23-24, with 7.8 percent growth in Q1 FY23-24, at 6.2 percent in Q2FY23-24, at 6 percent in Q3 FY23-24 and 5.8 percent in Q4 FY23-24, with risks equally balanced.

Table 6.3: **Recent Trend in Growth (%) of Selected Indicators of Industrial Sector**

Indicator	Oct 2022 YoY growth	Nov 2022 YoY growth	Dec 2022 YoY growth	Jan 2023 YoY growth	Feb 2023 YoY growth	Mar 2023 YoY growth
Production of coal (million tonnes)	3.08	11.59	11.84	12.50		
Production of crude oil ('000 tonnes)	-2.19	-1.07	-1.08	-1.07		
Production of two wheelers ('000 numbers)	-5.80	18.58	-6.66	-1.89		
Production of commercial vehicle ('000 numbers)	27.53	17.08	7.96	18.86		
Passenger car sales (number)	27.35	27.05	10.56	19.85	7.71	
Production of cement ('000 tonnes)	-4.35	28.63	28.63	28.63		
Consumption of steel ('000 tonnes)	8.38	4.84	3.13	3.61	-6.16	4.03
Electricity generation (million Kwh)	-1.38	11.87	8.97	9.95	6.89	

Source: NSO, Office of Economic Adviser, CMIE

Table 6.4: **Recent Trend in Growth (%) of Selected Indicators of Services Sector**

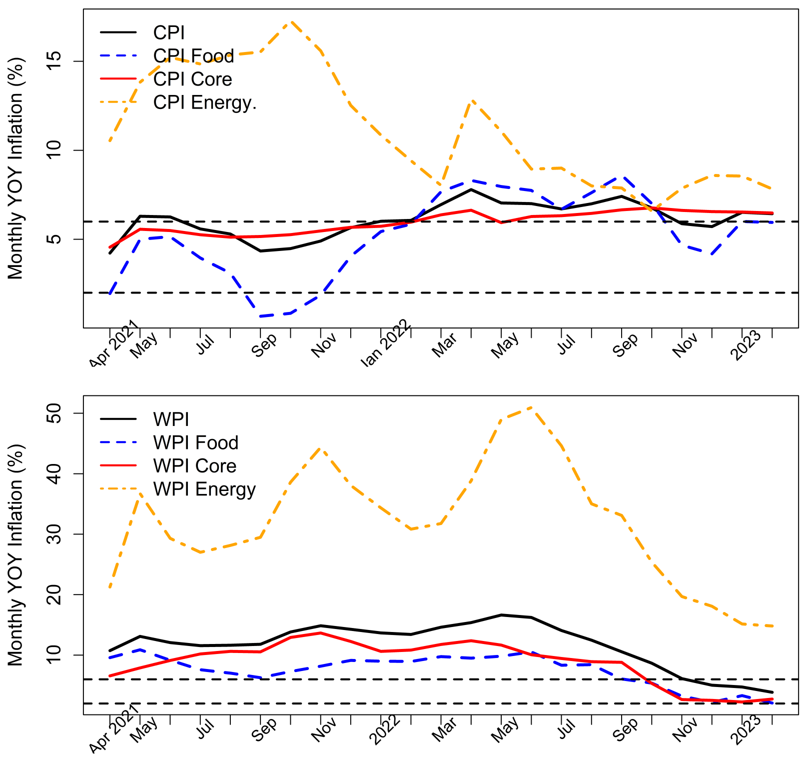
Indicator	**Oct 2022 YoY growth**	**Nov 2022 YoY growth**	**Dec 2022 YoY growth**	**Jan 2023 YoY growth**	**Feb 2023 YoY growth**	**Mar 2023 YoY growth**
Cargo Port ('000 tonnes)	3.64	1.95	10.38	12.21	12.03	
Cargo Air ('000 tonnes)	-15.04	-2.24	-5.92	-3.57		
Cargo Rail ('000 tonnes)	1.29	5.15	2.96	3.76		
Passenger Air ('000 numbers)	39.78	21.77	23.08	99.86		
Passenger Rail (million numbers)	62.24	51.10	40.71	64.47		
Tourists arrival	243.18	191.31	204.20			
Tele Subscribers (million numbers)	-1.61	-30.70	-29.38			

Source: Ministry of Ports, Shipping and Waterways, Ministry of Tourism Press Release, Telephone Regulatory Authority of India, NSE, CMIE

7 INFLATION ASSESSMENT AND OUTLOOK

Rudrani Bhattacharya

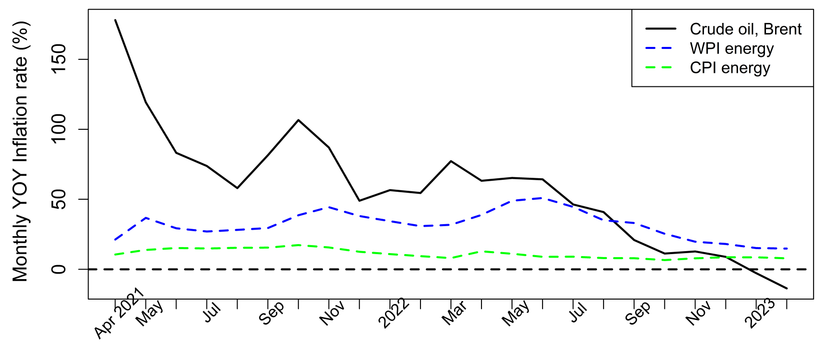
1 Recent trend in inflation



Source: NSO, Office of the Economic Adviser

Figure 7.1: **Recent Trends in CPI and WPI**

- **The average headline inflation remained elevated during April 2022–February 2023 at 6.75 percent** on account of high and sticky inflation in all its components, e.g, CPI food (6.8 percent), CPI energy (8.8 percent) and CPI core (6.5 percent, Figure 7.1). **However in November and December 2022, headline inflation was recorded at 5.9 and 5.7 percent respectively, below the upper limit of RBI's tolerance band for the first time in FY 2022-23.** However it showed a rebound to 6 percent in January and February 2023.
- **Inflation in CPI food** also remained elevated above 6 percent in FY 22-23. It exceeded **8 percent** on two occasions during this time, once in April 2022 and next in September 2022. Food inflation significantly moderated to **4.7 percent** in November 2022 and **4.1 percent** in December 2022 with arrival of the winter crops, before showing a **rebound to around 6 percent in January-February 2023.**



Source: Office of the Economic Adviser, World Bank

Figure 7.2: **Recent Trends in Crude oil and Energy Inflation**

- **CPI core inflation** remained sticky at a range of 5-6 percent during the covid years as health and transport services became expensive during that period. CPI core inflation had been continuously rising since October 2021 and remained **elevated over 6 percent in FY 22-23**. **With the revival of domestic demand (Chapter 6), a broad-based rise in core inflation is observed since the end of 2021.**

- CPI energy inflation had been rising continuously since January 2021 on account of the transmission of surging global crude oil prices (Figure 7.2). It surged to 17.3 percent in October, 2021. Since then **CPI energy inflation showing declining trend with some volatility, following the trend in global oil inflation at a lag.** The average inflation rate in CPI energy was at 8.8 percent during April 2022–February 2023.

- **Overall WPI inflation was elevated at 10.3 percent during April 2022–February 2023. It substantially moderated to 5.0 percent in December 2022 and further moderated to 3.85 percent by February 2023** on account of softening WPI food articles, WPI manufactured food products inflation, and WPI core inflation. WPI energy inflation also halved to 19.7 percent in November 2022 from the rate prevailing in April-October 2022 (39.6 percent). The lowering of WPI inflation rate was also on account of base effect normalisation.

- WPI food inflation became double digit in June 2022 at 10.5 percent. It reflected declining trend since then and registered a modest 2 percent inflation rate in February 2022, on account of low inflation rate in WPI manufactured food products.

- WPI food articles inflation remained elevated at 11 percent during the April-October 2022. **Cost-push factors such as agricultural wage inflation and MSP hike, and adverse weather shocks have contributed to raising WPI food articles inflation during this period.** WPI food articles inflation softened to 1.5 percent in November 2022 with arrival of the winter crops. However it showed rebound to 3.8 percent in February 2023.

- Manufactured food products inflation remained high during the FY 2021-22 on account of production and supply disruptions driven by the pandemic. **It showed a declining trend since the beginning of FY 2022-23 and substantially declined to 0.93 percent in February 2023.** Inflation in WPI manufactured food was 5.4 percent in

FY22-23.

2 Contributors to retail and wholesale inflation

- During April-October 2022-23, major drivers of CPI food inflation (7.7) were Cereals (2.0 percent); vegetables (2.2 percent); Milk (1.1 percent) and Spices (0.9 percent). During November 2022 to February 2023, inflation in cereals (3.7 percent), milk (1.5 percent), and spices (1.3 percent) emerged as major contributors to food inflation (5.2 percent).
- During April-October 2022-23, Fruits and Vegetables (5.5 percent), Foodgrains (1.8 percent), Milk (1.7 percent), Egg, Meat & Fish (0.8 percent) and Spices (0.7 percent) were the major contributors to WPI food articles inflation. Since then milk and foodgrains had been the major contributors to WPI food articles inflation.
- **During April-February 2022-23, CPI core inflation (6.5 percent) was driven by inflation in non-oil Miscellaneous items (4.0 percent), Clothing and Footware (1.5 percent), and Housing (1.0 percent).** Health, Non-oil transport and communication, Household goods and services, Education, and Personal care contributing in the range of 0.9–1.7 percent of the non-oil miscellaneous inflation, were the major drivers of this CPI component.

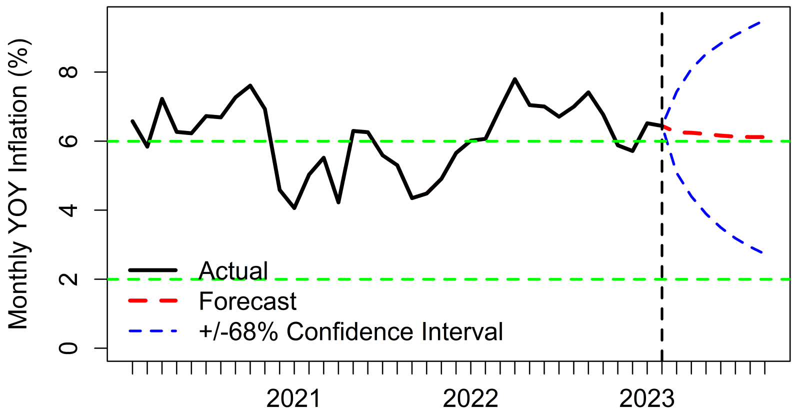
3 Supply shocks, MSP hike and demand revival contributed to persistent wholesale and retail inflation

- On the supply side **crop failure due to adverse weather condition, and sticky agricultural wages due to hike in MGNREGA wage rate was driving WPI vegetables and fruit prices up** since November, 2021. Minimum Support Prices (MSP) of Paddy, Jowar, Moong and Soyabean were increased by 1.3, 2, 6 and 5 times respectively in the beginning of 2022-23 compared to the level of 2021-22 contributing to cereals and pulses inflation. Rising cereals and vegetable prices in the wholesale market on the other hand, was transmitted to the retail market with a lag, causing high inflation rate in these food commodities in the first half of FY 2022-23. Rising transport costs were responsible for driving inflation rate in Milk and EMF.
- With the arrival of the winter crop, a sharp decline in WPI food articles was observed in November-December 2022, lowering CPI food and the headline inflation substantially in this month. **However, WPI food articles inflation showed a rebound in January-February 2023 on account of surging wheat, milk and spices price. Consequently, rebound in CPI food and headline inflation was also observed due to transmission of shocks from wholesale prices to retail prices of wheat and milk. Rising domestic price of wheat as a fall out of the Ukraine war boosted domestic agricultural activities, raising agricultural wages continuously from 4 percent in April 2022 to 7.5 percent in November 2022, further adding to cost of production of food commodities.**
- High and sticky oil price inflation, apart from adding to production cost of core items and to the transport cost of core and food items, also directly increased the inflation in

energy components of the CPI and WPI inflation. **Although global crude oil prices softened, domestic oil price inflation still remained high due to the lagged transmission effect.**

- Supply chain disruption, caused by the pandemic affecting transport and logistics as well as human mobility, was another supply side factor driving up the retail inflation. **The broad-based increase in inflation rate of the core CPI was a consequence of the demand revival observed in FY 2022-23 (Chapter 6).**

4 Headline Inflation is expected to remain slightly above the upper limit of RBI's tolerance band in the first half of FY 2023-24



Source: NIPFP

Figure 7.3: **Inflation Projections for March–September 2023**

- Headline inflation outlook is based on past trends and underlying drivers of inflation, including inflationary expectations, wholesale food inflation, demand conditions, interest rate and oil prices.
- Overall, the headline inflation in March 2023 is expected to decline marginally to 6.3 percent and continue this trend for the first half of the FY 23-24. It is expected to be at 6.2 percent, higher than RBI's upper limit of the tolerance range during the first half of FY 2023-24 (Figure 7.3).
- **Upward risks are as follows:**
  1. Increasing trend in rural wage inflation, including agricultural wage inflation as a consequence of wage-price spiral and robust agricultural activities, may induce upward pressure on food and overall inflation from both supply and demand side.
  2. High and sticky cereal inflation driven by domestic wheat price inflation as a consequence of the Ukraine war.
  3. Possibility of extreme weather condition due to El. Nino effect in 2023 and 2024 may drive up food inflation.

4. Core inflation is expected to rise in near future despite monetary tightening by RBI, as a consequence of lagged and weak transmission mechanism.
5. Sticky domestic retail energy inflation due to the lagged transmission process of softening global oil inflation.

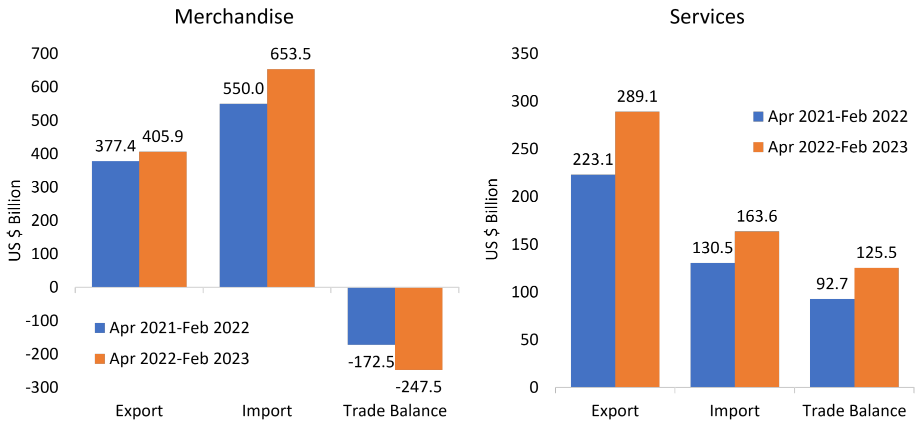
8 BALANCE OF PAYMENTS SITUATION

Dinesh Kumar Nayak and Rudrani Bhattacharya

1 External Sector

1.1 Performance of Merchandise Trade

- India's merchandise trade deficit widened to USD 247.5 billion during April to February of FY 2022-23, from USD 172.5 billion in comparison to the year-ago level (figure 8.1 Left Panel). Total exports during April to February of FY 2022-23 amounted to USD 405.9 billion, increased by 7.6 per cent as compared with 47.5 per cent increase during the same period of the previous year. This lower export growth was a fallout of the global recession and related supply disruptions and oil price shock.
- Total imports during April to February FY 2022-23 amounted to USD 653.5 billion, an increase of 18.8 per cent over the same period of last year. The rise in imports outweighed that in exports leading to merchandise trade deficit.



Source: DGCI&S, and Reserve Bank of India

Figure 8.1: **Merchandise Trade Performance [LEFT] and Services Trade Performance [RIGHT]**

- India's merchandise trade deficit during Q1, Q2 Q3 of FY 2022-23 were respectively, at USD 62.6 billion, USD 78.3 billion and USD 72.8 billion significantly higher (respectively, 50%, 43%, and 17%) than same quarters of FY 2021-22. For the first two months of Q4 FY 2022-23, the trade balance in merchandise is estimated at USD 33.8 billion which is 7% lower than the same months of a year ago level.
- Merchandise exports exhibited a positive growth for Q1, and Q2 of FY 22-23 over the same period of last year at 21 percent and 7 percent respectively. Imports exhibited a growth of 31 percent and 21 percent respectively for Q1, and Q2 FY 22-23, which

reflected steady revival of India's domestic demand amidst the global slump. However, in the Q3 of FY 22-23, the growth of imports although positive, moderated to 6 percent and declined to 5 percent in the first two months of Q4 FY 22-23. Likewise, the growth in exports declined to 2 percent in Q3 FY 22-23 and 4 percent in the first two months of FY 22-23.

- Oil import in April to February FY 2022-23 recorded positive YoY growth. The YoY growth in Non-Oil imports other than gold & silver had also increased from April to February FY 2022-23 compared to same period of FY 2021-22. The YoY growth in oil exports in February 2023 contracted by 28.8 percent (Table 8.1).

Table 8.1: **Merchandise Exports, Imports and Trade Balance (USD Billion)**

		Exports			**Imports**			
	Trade Balance	Total	POL	Non-POL	Total	Crude & POL	Gold & Silver	Non-POL & Non-Gold & Silver
Oct 21	-17.90	35.72	5.35	30.36	53.62	12.27	6.00	35.35
Nov 21	-21.23	31.79	5.49	26.30	53.02	14.24	4.47	34.30
Dec 21	-21.06	39.27	6.76	32.52	60.33	16.50	4.99	38.84
Jan 22	-17.33	35.23	4.58	30.65	52.57	12.36	3.02	37.19
Feb 22	-18.75	37.16	6.90	30.26	55.91	15.76	5.26	34.89
Oct 22	-27.35	31.58	6.29	25.29	58.94	18.14	4.28	36.51
Nov 22	-23.32	34.89	8.09	26.81	58.21	18.05	3.38	36.78
Dec 22	-22.10	38.07	8.34	29.73	60.17	19.45	1.35	39.38
Jan 23	-16.34	35.71	7.68	28.03	52.06	15.96	0.81	35.28
Feb 23	-17.43	33.88	4.91	28.96	51.31	15.08	2.64	33.58

Source: DGCI&S

Top 10 Commodity: Export and Import

- During April to February FY 2022-23, the highest export of USD 96.9 billion was recorded in Engineering goods which constitute the largest share of 23.9 percent in India's total exports (Table 8.2). Among the top ten commodities for export, the rate of growth of Petroleum crude and products; and electronic goods at 49.5 percent are the highest followed by Rice (15.9 per cent). Handloom products, Plastic & Linoleum, engineering goods, and gems & jewellery have contracted respectively, by 28.9 per cent, 14.7 per cent, 4.2 per cent and 0.3 per cent.
- On the imports side among the top ten commodities, petroleum and crude oil products with the highest share in total imports of 29.6 percent, grew at 37.5 percent during April-February FY 2022-23 (Table 8.3). Except for import of gold which contracted at 29.7 percent, all other items have recorded positive growth for April to February FY 2022-23 period.

1.2 Invisible Trade

- During April to February FY 2022-23, services exports stood at USD 289.1 billion registering a growth of 29.6 per cent over the same period of FY 2021-22 (Figure 8.1

Table 8.2: **Top 10 Major Commodity of Export (Value in US $ Billion)**

Rank	Commodity	Apr-Feb		Growth	%	%, Relative
		FY21-22	FY22-23	(%)	Share	Contribution
1	Engineering Goods	101.1	96.9	-4.2	23.9	-2.9
2	Petroleum Products	57.7	86.2	49.5	21.2	6.0
3	Gems & Jewellery	35.3	35.2	-0.3	8.7	-0.7
4	Chemicals	26.5	27.5	3.9	6.8	-0.2
5	Drugs & Pharmaceuticals	22.2	22.9	3.1	5.6	-0.2
6	Electronic Goods	13.8	20.7	49.5	5.1	1.4
7	RMG of all Textiles	14.3	14.7	3.3	3.6	-0.2
8	Rice	8.6	10.0	15.9	2.5	0.2
9	Handloom Products etc.	14.0	9.9	-28.9	2.4	-1.3
10	Plastic & Linoleum	9.0	7.7	-14.7	1.9	-0.5

Source: DGCI&S

Table 8.3: **Top 10 Major Commodity of Import (Value in US $ Billion)**

Rank	Commodity	Apr-Feb		Growth	%	%, Relative
		FY21-22	FY22-23	(%)	Share	Contribution
1	Petroleum products	140.7	193.5	37.5	29.6	4.0
2	Electronic goods	65.0	70.1	7.8	10.7	-1.1
3	Coal, Coke & Briquettes	27.1	46.3	70.7	7.1	2.2
4	Machinery	36.4	41.3	13.5	6.3	-0.3
5	Gold	45.1	31.7	-29.7	4.9	-3.4
6	Chemicals	27.5	30.8	12.0	4.7	-0.3
7	Stones	27.6	27.7	0.4	4.2	-0.8
8	Transport equipment	18.6	24.6	32.0	3.8	0.4
9	Artificial resins, plastic	18.3	21.3	16.5	3.3	-0.1
10	Iron & Steel	15.8	20.7	30.8	3.2	0.3

Source: DGCI&S

right panel). India's services imports stood at USD 163.6 billion in this period, showing an increase of 25.4 per cent compared to the same period of FY 2021-22.

- Net invisible receipts recorded higher in FY 2022-23 till February. Till the end of Q3 FY 2022-23, Telecommunications, computer and IT sectors alone registered the majority share in the net services exports. Among other business services the professional and management consulting services followed by research and development services had a greater share of impacting growth in net services inflows for the first three quarters of FY 2022-23. During this period, net inflows in Transport services, sea transport, and air transport substantially contracted. Further, around fifty percent of the services basket registered contraction in net inflows in this period (Figure 8.2).

1.3 Current Account Balance

- The current account balance (CAB) approached to deficit of 4.4 per cent of GDP in Q2 FY 2022-23 after a surplus of 0.9 per cent in Q1 2021-22 due to widening merchandise trade deficit (Figure 8.3). Trade in goods and primary income account experienced per-

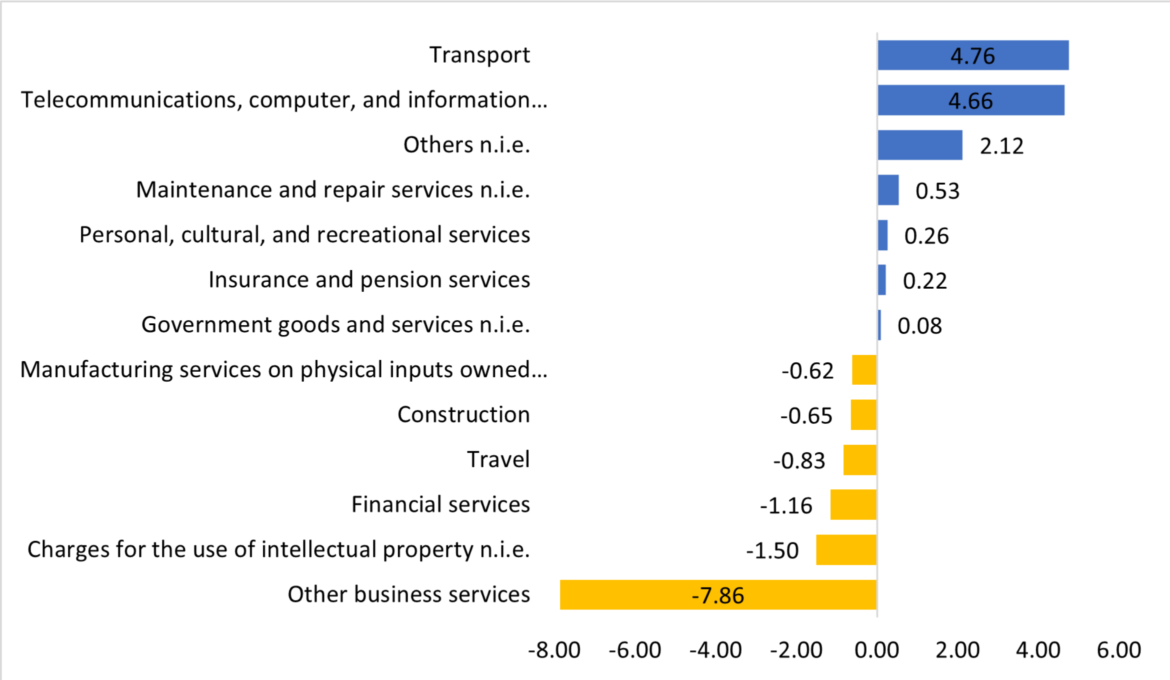


Figure 8.2: **Relative contribution to Net Services growth (percentage point)**

sistent deficit in all quarters, whereas the net services and secondary income registered surplus in these quarters. **However, the current account deficit is expected to moderate in second half of 2022-23 as imports showing sign of moderation in the last quarter of FA22-23.**

2 Financial Account

2.1 FDI and FPI

- In the period of April-January 2022-23, the total gross inward foreign direct investment (FDI) in India amounted to US$ 61.5 billion, representing a moderation from the US$ 70.5 billion recorded during the same period in the previous year. Similarly, net FDI declined from US$ 30.9 billion to US$ 26.5 billion, mainly due to a decrease in equity inflows.

- Among the sectors, manufacturing, financial services, computer services, retail and wholesale trade, and communication services received the majority of FDI equity inflows during this period. The major source countries for FDI in India during this period were Singapore, Mauritius, the US, the UAE, and the Netherlands. In contrast, the global trend showed an increase in FDI flows towards the oil sector in 2022.

- Foreign portfolio investments (FPIs) have recently turned positive, recording inflows of US$ 1.5 billion up to March 16, 2023, marking a positive trend after a three-month hiatus since November 2022. The outflows in February 2023 were primarily from the equity segment. Among the major sectors, automobiles, consumer durables, and financial services emerged as the leading recipient sectors of FPI in equities during the period

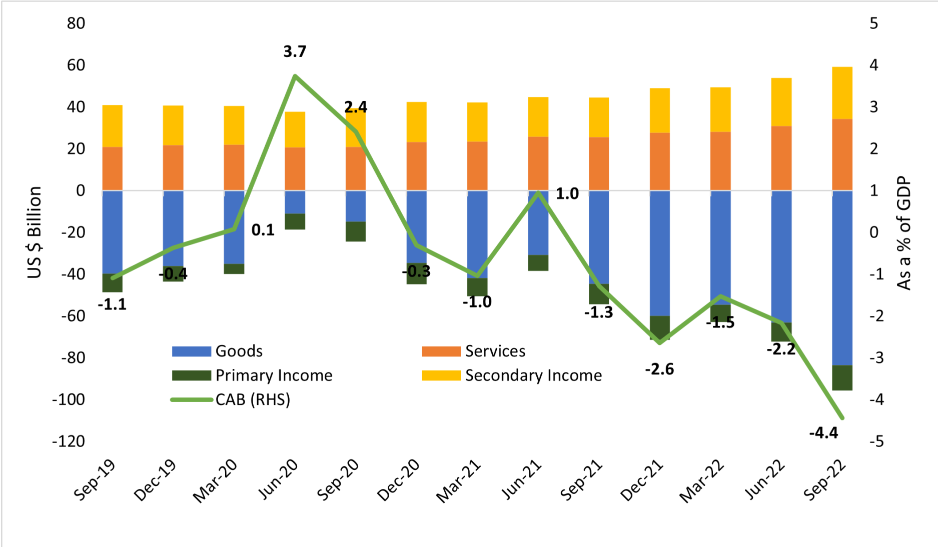


Figure 8.3: **Quarterly composition and trend of Current account balance (CAB)**

of 2022-23 (April-February). In contrast, the information technology, oil, gas, and consumable fuels, and metals and mining sectors observed the highest outflows during the same period.

- In the current financial year (2022-23), there has been a decrease in both the amount of external commercial borrowings (ECBs) registrations and disbursements by US$ 10.4 billion and US$ 11.2 billion, respectively, compared to the same period in the previous year. However, there has been an increase in principal repayments during the same period. As a result, there have been net ECB outflows during this financial year. A significant portion of the newly registered ECBs is intended for domestic on-lending/sub-lending purposes, followed by borrowings for new projects, import of capital goods, and refinancing of earlier ECBs.

- During April-January FY 2022-23, the global benchmark rates, namely the London interbank offer rate (LIBOR) and the secured overnight financing rate (SOFR), experienced a significant increase of 319 and 403 basis points, respectively, due to the tightening of monetary policy in major economies. As a result, the weighted average interest margin (WAIM) also changed, causing the overall cost of ECB loans to rise from 2.7 percent in March 2022 to 7.3 percent by January 2023.

3 Foreign Exchange Reserve

- As on March 10, 2023, the foreign exchange reserves of India amounted to US$ 560.0 billion, positioning it as the world's fifth-largest foreign exchange reserves holder, following China, Japan, Switzerland, and Russia. In February 2023, these reserves experienced a decline of US$ 11.7 billion. Despite this decline, India's foreign exchange reserves are still sufficient to cover more than nine months of projected imports.

4 Exchange rate

- During February 2023, the Indian rupee (INR) exhibited a depreciation of 0.86 percent (MoM) against the US dollar in the foreign exchange market. This trend was in line with that of many other emerging market economies (EMEs) and reserve currencies.
- The INR displayed a lower level of volatility in its movement, (measured by the estimated coefficient of variation) compared to most other currencies, with the exception of the Turkish lira during the same period.
- The Indian rupee (INR) experienced a 0.6 percent (MoM) depreciation in February 2023, based on the 40-currency real effective exchange rate (REER)

5 International trade outlook

- Despite facing significant challenges, global growth has exceeded expectations and proven to be stronger than anticipated, as per the revised forecast of OECD's interim outlook report.
- In February and early March, global commodity prices exhibited a downward trend as the anticipation of prolonged tightening of monetary policy in advanced economies subdued the demand outlook. This led to crude oil being traded at an average price of US$ 82.7 per barrel in February due to concerns over demand. The outlook for commodity prices in the near future remains uncertain, primarily due to the tight balance between demand and supply.
- Over time the increasingly pronounced geopolitical tensions seem to be altering the configuration of global value chains and relocating the production centers of critical and advanced products in a manner that may lead Asia to emerge as hub for manufacturing and global commerce.