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Economy Watch

Monitoring India's macro-fiscal performance

December 2022

Building a better working world

Contents

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Highlights

1. In 2QFY23, real GDP and GVA showed a normalizing growth of 6.3% and 5.6%, respectively.

2. In November 2022, PMI indicated a strong expansion in both manufacturing and services with their respective levels at 55.7 and 56.4.

3. IIP contracted by (-)4.0% in October 2022, led by a sharp decline in the manufacturing output.

4. CPI inflation moderated to 5.9% in November 2022 from 6.8% in October 2022, led by a sharp fall in consumer food inflation.

5. WPI inflation fell to a 21-month low of 5.8% in November 2022, led by a high base effect and a broad-based easing of price pressures.

6. The RBI increased the repo rate by 35 basis points to 6.25% in its December 2022 monetary policy review.

7. GoI's gross tax revenues (GTR) grew by 18% during April-October FY23, with growth in direct taxes at 25.9% and that in indirect taxes at 11%.

8. During April-October FY23, GoI's total expenditure grew by 17.4%, with growth in revenue expenditure at 10.2% and that in capital expenditure at 61.5%.

9. During April-October FY23, GoI's fiscal and revenue deficits relative to BE stood at 45.6% and 38.9%, respectively.

10. Gross bank credit by SCBs grew by 16.7% in October 2022, its highest level since September 2013.

11. Growth in merchandise exports turned positive at 0.6% in November 2022 whereas growth in merchandise imports moderated for the sixth straight month to 5.4%.

12. Merchandise trade deficit improved to US$(-)23.9 billion in November 2022 from US$(-)26.9 billion in October 2022.

13. Net FDI inflows increased to a three-month high of US$2.8 billion in October 2022 from US$0.9 billion in September 2022.

14. Average global crude price fell to US$87.4/bbl. in November 2022, its lowest level since January 2022.

15. The OECD projected global growth at 3.1% in 2022, with India's FY23 growth at 6.6%.

Foreword

India's economic growth at near post-COVID-19 normalization

NSO's 2QFY23 GDP data signal that all output sectors have now normalized on a quarterly basis after the COVID-19 shock. Comparing real GDP level of INR75 lakh crore in 1HFY23 with the corresponding level of INR70.9 lakh crore in the pre-COVID-19 year of FY20, a growth of 5.7% is shown. Annual growth of 7% appears to be on course since the 1HFY23 growth amounts to 9.7% over the corresponding period of FY22, requiring a growth of 4.6% in 2HFY23. With RBI's expectation of an average growth of 4.3% in the last two quarters of FY23, achieving a 6% plus growth in FY24 would call for strong policy support.

From the output side, there are three critical data points. First, the 'trade, hotels, et al.' sector has shown a growth of 14.7% in 2QFY23 with its magnitude at INR6.5 lakh crore at constant prices. This contains significant base effects. Comparing it with the corresponding pre-COVID-19 level of INR6.4 lakh crore in 2QFY20, a growth of only 2.1% is visible in this sector. The second notable feature of the 2QFY23 data is the contraction of (-)4.3% in the manufacturing sector. Comparing the level of real manufacturing output in this quarter with the corresponding quarter of FY20, there is a growth of 6.3%. Therefore, the growth of 14.7% in trade, hotels, et al. in 2QFY23 may not be considered as unduly positive and a contraction in the manufacturing sector in this quarter may not be viewed as unduly subdued. Third, the 'public administration, defence and other services' sector has shown a robust growth of 6.5% in 2QFY23, which is 14.3% higher than its corresponding level in the pre-COVID-19 quarter of 2QFY20. This highlights the critical role that fiscal policy and government's continued emphasis on infrastructure expansion has played during the difficult COVID-19 period and beyond. This becomes clearer by an examination of the growth in the demand segments of GDP. While government final consumption expenditure (GFCE) has contracted by nearly (-)20% in 2QFY23 over 2QFY20, gross fixed capital formation (GFCF) has increased by nearly 21% during this period. Both overall investment and private final consumption show a robust growth in demand. Private final consumption expenditure (PFCE) has increased by 11.2% in 2QFY23 as compared to its corresponding level in 2QFY20. In regard to the external sector, exports have grown at nearly 26% in 2QFY23 over 2QFY20, which is much less than the growth in imports at 45% during this period. The latter reflects, to a significant extent, the impact of global supply rigidities, including the movement of global crude prices.

High frequency indicators continue to signal the ongoing economic recovery in the Indian economy. Headline manufacturing PMI increased to 55.7 in November 2022, exceeding its long run average at 53.7. PMI services also expanded for the sixteenth consecutive month, with its level increasing to 56.4 in November 2022. Outstanding credit grew by 17.2% (y-o-y) during the week ending 18 November 2022. Growth in power consumption accelerated to a five-month high of 15.5% in November 2022. As per the data released by Federation of Automobile Dealers Associations (FADA), all-India retail sales of vehicles showed a y-o-y growth of 25.7% in November 2022.

The RBI, in its 7 December 2022 monetary policy review, announced a hike of 35 basis points in the repo rate, taking it to 6.25%. Thus, during May to December 2022, the RBI has increased the repo rate by a cumulated 225 basis points. This was largely driven by a) persistently high CPI and WPI inflation in India in the context of high inflation levels in many advanced countries, b) US Fed actions from time to time raising the Fed rate by a margin of 375 basis points during March to December 2022, and c) continued pressure on the Indian Rupee vis-a-viz the US dollar. The RBI revised its FY23 growth forecast marginally downwards to 6.8% while retaining its CPI inflation outlook for FY23 at 6.7%. The RBI acknowledged that core CPI has remained sticky at an elevated level of close to 6%. In the first eight months of FY23, core CPI has averaged 6.2%.

Global recession in the context of the ongoing geopolitical conflict has been captured in the OECD's November 2022 issue of the Global Economic Outlook. The OECD has projected global growth at 3.1% in 2022, which is nearly half the pace witnessed in 2021. It is expected to fall further to 2.2% in 2023. Majority of the projected slowdown is accounted for by moderating growth rates in the OECD economies that as a group are projected to grow by 2.8% in 2022 and only by 0.8% in 2023. Amid these darkening economic clouds, India is shining as a bright spot, with its growth projected to be higher than that of other major economies. The OECD has projected India's growth to average 6.4% during the three-year period from FY23 to FY25.

CGA's data on GoI's finances highlight a healthy growth in GoI's gross tax revenues (GTR) at 18% during the first seven months of FY23, well above the budgeted full year growth of 9.6% over FY22 RE and of only 1.8% over the CGA actuals. The growth in GTR during April to October FY23 was largely driven by growth in direct taxes at nearly 26% while the indirect taxes grew by 11%. We expect the FY23 GTR growth to be close to 15% given the high nominal GDP growth of 21.2% in 1HFY23. This implies that the magnitude of GTR may exceed its budgeted level by a margin of nearly INR3.6 lakh crore. This gives ample fiscal space to the government for expanding capital expenditure, which has shown a healthy growth of 61.5% in the first seven months of FY23. In fact, the Ministry of Finance has already come up with the first batch of 'Supplementary Demands' involving a net additional cash outgo of INR3.26 lakh crore, of which additional capital expenditure is expected to account for INR31,052 crore. Notwithstanding these supplementary demands, the GoI is in a position to achieve its budgeted fiscal deficit target of 6.4% of GDP if not improve upon it. The high level of FY23 GTR would provide a much higher base of revenues for the FY24 Budget, enabling the GoI to spell out a credible glide path of fiscal consolidation while continuing to maintain an emphasis on infrastructure expansion and supporting growth.

The major risk to India's growth trajectory arises from the continuing global supply side uncertainties, including pressures on global crude prices. If these continue unabated, there would be additional pressure on inflation and policymakers would be forced to increase interest rates, which may have a dampening effect on investment. Another consideration emanates from global economic slowdown, which has dampened India's export demand. If the advanced countries suffer from excessive de-growth, India's export sector and the related domestic subsectors would face some pressure.

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1. Growth: real GDP grew by 6.3% in 2QFY23

A. GDP and GVA: showed a normalizing growth of 6.3% and 5.6% respectively in 2QFY23

- According to the quarterly national accounts data released by the National Statistical Office (NSO) on 30 November 2022, real GDP grew by 6.3% in 2QFY23, reflecting normalizing growth **(Chart 1)**. In 1HFY23, real GDP showed a strong growth of 9.7%, partly reflecting a favorable but waning base effect.
- Among the domestic demand components, growth in gross fixed capital formation (GFCF) was the highest at 10.4%, followed by 9.7% in private final consumption expenditure (PFCE) in 2QFY23 over their corresponding levels in 2QFY22 **(Table 1)**. Government final consumption expenditure (GFCE) showed a contraction of (-)4.4% in 2QFY23, reflective of a significantly lower growth in GoI's revenue expenditure.
- In 1HFY23, both PFCE and GFCF showed strong growth rates of 17.2% and 15% respectively, while GFCE contracted by (-)1.3%.
- Contribution of net exports to real GDP growth remained negative for the eighth successive quarter at (-)4.3% points in 2QFY23.
- On the output side, real GVA grew by 5.6% in 2QFY23 over its corresponding quarter in FY22. In 1HFY23, real GVA growth at 9.0% continued to partly reflect the effect of a favorable base.
- Among the eight GVA sectors, trade, hotels, transport et.al showed the highest growth of 14.7% (y-o-y) in 2QFY23 marking a recovery from the pandemic. In 2QFY23, this sector's GVA, for the first time, exceeded its corresponding level in 2QFY20, showing a growth of 2.1%.
- The second highest y-o-y growth in 2QFY23 was witnessed in the financial, professional et. al. sector at 7.2% followed by the construction sector at 6.6%.

Chart 1: Real GDP growth (%, y-o-y)

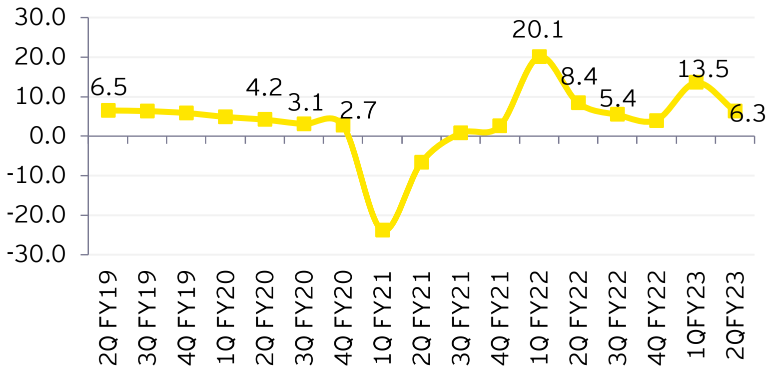


Table 1: Real GDP and GVA growth (%, y-o-y)

Agg. demand	4Q FY21	1Q FY22	2Q FY22	3Q FY22	4Q FY22	1Q FY23	2Q FY23	*2QFY23 over 2QFY20*
PFCE	6.5	14.4	10.5	7.4	1.8	25.9	9.7	*11.2*
GFCE	29.0	-4.8	8.9	3.0	4.8	1.3	-4.4	*-19.7*
GFCF	10.1	62.5	14.6	2.1	5.1	20.1	10.4	*20.8*
EXP	3.7	40.8	20.7	23.1	16.9	14.7	11.5	*25.9*
IMP	11.7	61.1	41.0	33.6	18.0	37.2	25.4	*45.1*
GDP	**2.5**	**20.1**	**8.4**	**5.4**	**4.1**	**13.5**	**6.3**	*7.6*
Output sectors								
Agr.	2.8	2.2	3.2	2.5	4.1	4.5	4.6	*11.3*
Ming.	-3.9	18.0	14.5	9.2	6.7	6.5	-2.8	*2.5*
Mfg.	15.2	49.0	5.6	0.3	-0.2	4.8	-4.3	*6.3*
Elec.	3.2	13.8	8.5	3.7	4.5	14.7	5.6	*10.9*
Cons.	18.3	71.3	8.1	-2.8	2.0	16.8	6.6	*7.6*
Trade.	-3.4	34.3	9.6	6.3	5.3	25.7	14.7	*2.1*
Fin.	8.8	2.3	6.1	4.2	4.3	9.2	7.2	*7.8*
Publ.	1.7	6.2	19.4	16.7	7.7	26.3	6.5	*14.3*
GVA	**5.7**	**18.1**	**8.3**	**4.7**	**3.9**	**12.7**	5.6	*7.6*

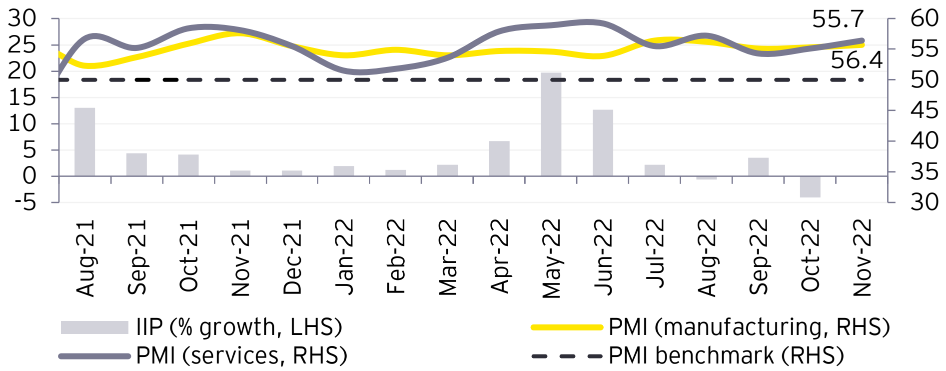
Source: MoSPI, GoI

- Strong growth of 6.5% in public administration, defence et al. sector in 2QFY23, was reflective of sustained high growth in GoI's capital expenditure.
- Agriculture and allied sectors maintained its growth momentum by posting a growth of 4.6% in 2QFY23, marginally improving from 4.5% in 1QFY23.
- GVA in manufacturing, and mining and quarrying sectors showed a y-o-y contraction of (-)4.3% and (-)2.8% respectively in 2QFY23. However, when compared to their respective levels in 2QFY20 (the pre-COVID-19 quarter), both manufacturing and mining output showed a growth of 6.3% and 2.5% respectively.
- Nominal GDP grew by 16.2% in 2QFY23 with an implicit price deflator (IPD)-based inflation of 9.3%. In 1HFY23, nominal GDP growth remained high at 21.2% due to the elevated level of IPD based inflation at 10.4%.

B. PMI: signaled a strong expansion in both manufacturing and services in November 2022

- Headline manufacturing PMI (seasonally adjusted (sa)) increased to 55.7 in November 2022 from 55.3 in October 2022 **(Chart 2)**. The November 2022 level was higher than its long run average at 53.7, reflecting a strong expansion in production. This was accompanied by a notable slowdown in inflation.
- PMI services at 56.4 in November 2022 remained above the threshold of 50 for the sixteenth consecutive month. The November 2022 level was higher than its October 2022 level of 55.1 as also its long run average of 53.4.
- Indicating a stronger growth in private sector output, the composite PMI Output Index (sa) increased to 56.7 in November 2022 from 55.5 in October 2022.

Chart 2: PMI and IIP growth



In November 2022, PMI indicated a strong expansion in both manufacturing and services with their respective levels at 55.7 and 56.4.

Source: MoSPI and S&P Global.

C. IIP: contracted by (-)4.0% in October 2022

- The quick estimates of IIP, released by the MoSPI on 12 December 2022, showed that IIP contracted by (-)4.0% in October 2022 **(Chart 2)**. This was its sharpest contraction since August 2020.
- Among the sub-industries, manufacturing output, with a share of 77.6% in the overall IIP, contracted sharply by (-)5.6% in October 2022 as compared to a growth of 2.2% in September 2022.
- There was a broad-based decline in the output across manufacturing sub industries, including a double-digit contraction in the output of wearing apparel ((-)37.1%), electrical equipment ((-)33.2%), and pharmaceuticals, medicinal, chemical, and botanical products ((-)21.4%).

IIP contracted by (-)4.0% in October 2022, led by a sharp decline in the manufacturing output during the month.

- Among other major sub-industries, growth in the output of electricity fell to 1.2% in October 2022 from 11.6% in September 2022. Mining output also showed a lower growth of 2.5% in October 2022 as compared to 5.2% in September 2022.
- As per the ‘Use-based’ classification of industries, output of both consumer durables and non-durables, together accounting for 28.2% of overall IIP, declined sharply by (-)15.3% and (-)13.4% respectively in October 2022 following a contraction of (-)3.2% and (-)6.3% respectively in September 2022. Output of capital goods also contracted for the first time in ten months by (-)2.3% in October 2022.
- According to provisional estimates, growth in the output of eight core infrastructure industries (core IIP) fell sharply to 0.1% in October 2022 from 7.8% (revised) in September 2022 largely due to unfavorable base effect. Among the sub industries, the output of four industries, namely cement ((-)4.3%), natural gas ((-4.2%), petroleum refineries ((-)3.1%), and crude oil ((-2.2%), contracted while electricity (0.4%) and coal (3.6%) output showed low growth rates.

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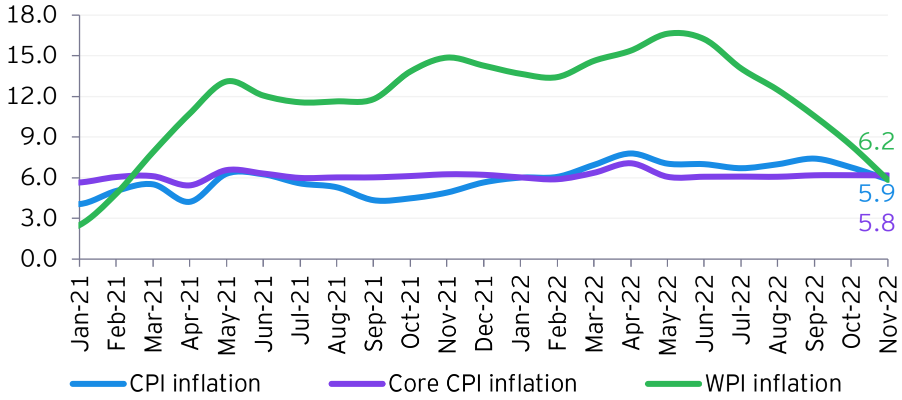
2. Inflation: CPI inflation eased to an 11-month low of 5.9% in November 2022

CPI inflation moderated to 5.9% in November 2022 from 6.8% in October 2022, led by a sharp fall in consumer food inflation (Chart 3).

- Consumer food inflation fell to an 11-month low of 4.7% in November 2022 as prices of vegetables (including tomato and onion) contracted for the first time in eleven months by (-)8.1%. This contraction partly reflected a favorable base effect and partly a correction in vegetable prices.
- Inflation in cereals and products, and milk and products remained elevated at 105-month and 30-month high levels of 13.0% and 8.2% respectively in November 2022.
- Inflation in transportation and communication services increased to 5.6% in November 2022 from a 31-month low of 4.6% in October 2022 as the y-o-y contraction in petrol and diesel prices moderated to (-)1.2% and 0.0%, respectively from (-)3.7% and (-)6.9% in October 2022.
- Fuel and light-based inflation increased to 10.6% in November 2022 as compared to 9.9% in October 2022 led by inflation in electricity that turned positive at 3.1% after contracting for 12 successive months.
- Inflation in clothing and footwear remained elevated at 9.8% in November 2022, although marginally declining from its level of 10.2% in October 2022.
- Core CPI inflation[1] remained stable for the third successive month at a six-month high of 6.2% in November 2022.

Chart 3: Inflation (y-o-y, in %)



Source: MoSPI, Office of the Economic Adviser, Government of India (GoI)

In November 2022, CPI inflation at 5.9% was below the RBI's 6% upper tolerance limit for the first time in 11 months. However, core CPI inflation at 6.2%, remained at or above 6% for the 19th successive month.

WPI inflation fell to a 21-month low of 5.8% in November 2022, led by a high base effect and a broad-based easing of price pressures.

- WPI food index-based inflation eased to a 22-month low of 2.2% in November 2022, as vegetable prices contracted for the first time in 13 months by (-)20.1%, mainly due to favorable base effect.
- Inflation in manufactured products eased to a 24-month low of 3.6% in November 2022, mainly reflecting broad-based moderation in inflation across categories, partly due to a higher base. Inflation in manufactured textiles moderated to a 24-month low of 1.6% in November 2022.
- Fuel and power-based inflation fell to a 20-month low of 17.4% in November 2022, reflecting lower inflation in mineral oils, which eased to 23.8%, its lowest level since April 2021. Within mineral oils, inflation in petrol was at 14.1% in November 2022, its lowest level since April 2021, reflecting some moderation in the global crude prices.
- Core WPI inflation moderated to a 24-month low of 3.4% in November 2022, led by lower inflation in manufactured textiles and basic metals.

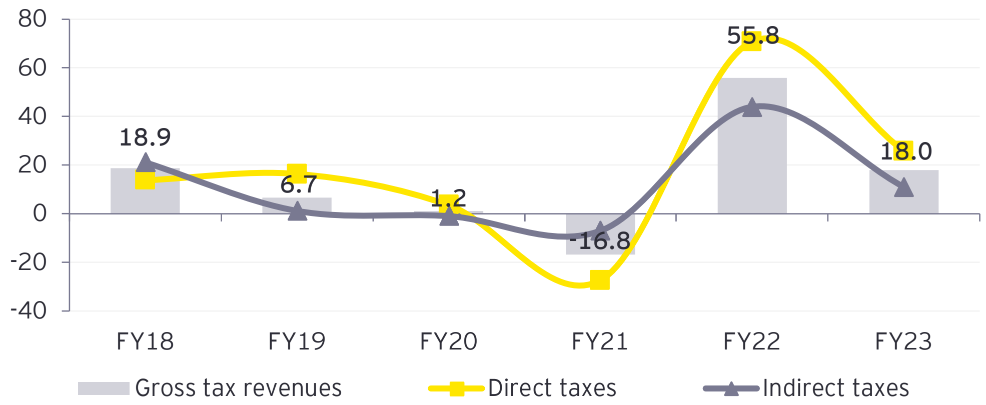
[1] Core CPI inflation is measured in different ways by different organizations/agencies. Here, it has been calculated by excluding food, and fuel and light from the overall index.

3. Fiscal: union government's capital expenditure grew by 61.5% during April-October FY23

A. Tax and non-tax revenues

- As per the CGA, the central government's GTR[b] grew by 18% during April-October FY23. GTR had shown a high growth of 55.8% during the corresponding period of FY22 partly due to a favorable base effect **(Chart 4).**
- GoI's GTR during April-October FY23 stood at 58.4% of the annual budget estimate (BE), close to the corresponding ratio at 61.5% in FY22. During FY01 to FY21, this ratio had averaged relatively lower at 45.3%.
- During April-October FY23, direct taxes[a] showed a growth of 25.9% while indirect taxes[a] grew by 11%. Owing to considerable base effects, growth in direct and indirect taxes during the corresponding period of FY22 was high at 70.9% and 44% respectively.
- Both corporate income tax (CIT) and personal income tax (PIT) revenues showed strong growth rates of 24.1% and 27.7% respectively during April-October FY23. In comparison, these taxes showed a growth of 91.6% and 53.3% respectively during the corresponding period of FY22.
- Among indirect taxes, central government's GST revenues[c] showed a growth of 27.2% during April-October FY23 as compared to 40% during the corresponding period of FY22.
- Union excise duties (UED) showed a contraction of (-)18.8% during April-October FY23 as compared to a growth of 27% during the corresponding period of the previous year.
- Customs duties, which showed a contraction of (-)6.9% up to September 2022, grew by 9.5% considering the period April-October FY23. In comparison, growth during April-October FY22 was at 122.3% reflecting strong base effects.
- In 1HFY23, with a nominal growth of 21.2% and GTR growth of 17.6%, GTR buoyancy stood at 0.8.

Chart 4: Growth in central gross tax revenues during April-October (%, y-o-y)



Central government's GTR grew by 18% during April-October FY23, with growth in direct taxes at 25.9% and that in indirect taxes at 11%.

Source: Monthly Accounts, CGA, Government of India
Notes: (a) Direct taxes include personal income tax and corporation tax, and indirect taxes include union excise duties, arrears of service tax, customs duty, and GST (comprising CGST, UTGST, IGST and GST compensation cess) (b) Other taxes (securities transaction tax, wealth tax, fringe benefit tax, banking cash transaction tax, etc.) are included in the GoI's GTR along with direct and indirect taxes, (c) IGST revenues are subject to final settlement.

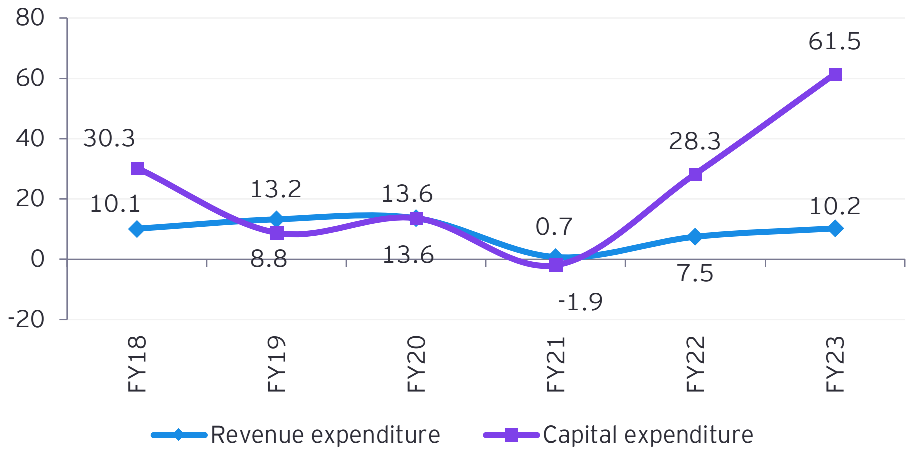
- GoI's non-tax revenues showed a contraction of (-)13.6% during April-October FY23. Non-tax revenues during this period stood at 66.3% of the annual BE as compared to the corresponding ratio at 85.1% during April-October FY22.
- Non-debt capital receipts of the GoI during April-October FY23 stood at 45% of the annual BE as compared to the corresponding ratio of 10.5% during FY22.
- As per DIPAM[2], disinvestment receipts up to 21 December 2022 stood at INR31,106.4 crore, that is 47.9% of the FY23 BE at INR65,000 crore.

[2] https://dipam.gov.in/

B. Expenditures: revenue and capital

- GoI's total expenditure grew by 17.4% during April-October FY23 as compared to 9.9% during the corresponding period of FY22.
- Revenue expenditure grew by 10.2% during April-October FY23 as compared to 7.5% during April-October FY22.
- Supported by strong revenue performance, GoI's capital expenditures showed a high growth of 61.5% during April-October FY23. This was significantly higher than the corresponding growth rates in recent years **(Chart 5)**.

Chart 5: Growth in central expenditures during April-October (%, y-o-y)



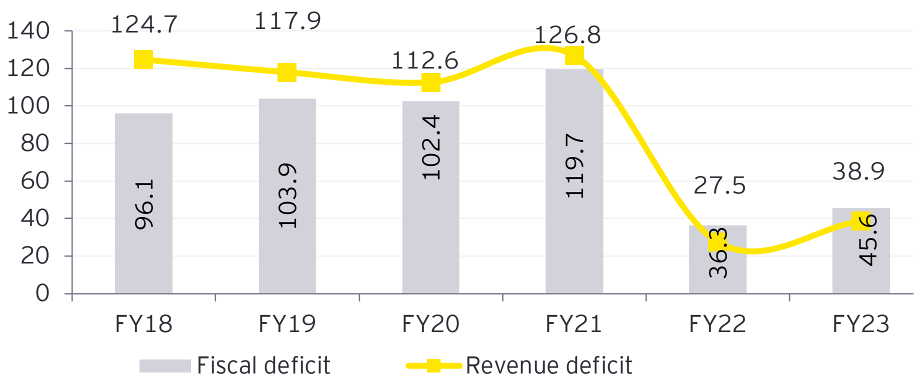
During April-October FY23, GoI's total expenditure grew by 17.4%, with growth in revenue expenditure at 10.2% and that in capital expenditure at 61.5%.

Source (basic data): Monthly Accounts, CGA, Government of India

C. Fiscal imbalance

- GoI's fiscal deficit during April-October FY23 stood at 45.6% of the annual BE, higher than the corresponding ratio at 36.3% in FY22. However, this remains much lower than the corresponding ratios in recent years (**Chart 6**).
- GoI's revenue deficit during April-October FY23 was at 38.9% of the annual BE as compared to 27.5% during the corresponding period of FY22. Revenue deficit during the first seven months as a proportion of BE in FY23 was at its lowest since FY11 (excluding FY22).

Chart 6: Fiscal and revenue deficit during April-October as percentage of BE



Source: Monthly Accounts, CGA, Government of India and MoSPI.

During April-October FY23, GoI's fiscal and revenue deficits relative to BE stood at 45.6% and 38.9% respectively.

4. Comparative trends: OECD projected India's growth at 6.6% in FY23 with CPI inflation at 6.8%

Real GDP growth

- The OECD has projected global growth at 3.1% in 2022, nearly half the pace seen in 2021. This is projected to slow further to 2.2% in 2023 **(Table 2)**. In 2024, global growth is projected to slightly recover to 2.7%, supported by the anticipated lowering of policy interest rates in several countries.
- The projected slowdown is largely accounted for by moderating growth rates in the OECD economies that, as a group, is forecasted to grow by 2.8% in 2022 and only 0.8% in 2023. Non-OECD economies are projected to grow by 3.4% and 3.3% in 2022 and 2023, respectively.
- In the US, real GDP is projected to grow by 1.8% in 2022, moderating to 0.5% in 2023 and 1% in 2024. Continued tightening of monetary policy may serve as a downside risk to near-term growth prospects.

Table 2: Real GDP growth (% annual)

Country	2020	2021	2022	2023	2024
OECD	**-4.4**	**5.6**	**2.8**	**0.8**	**1.4**
US	-2.8	5.9	1.8	0.5	1.0
UK	-11.0	7.5	4.4	-0.4	0.2
Euro area	-6.3	5.3	3.3	0.5	1.4
Japan	-4.6	1.6	1.6	1.8	0.9
Non-OECD	**-2.1**	**6.2**	**3.4**	**3.3**	**3.8**
Brazil	-4.2	4.9	2.8	1.2	1.4
Russia	-2.6	4.7	-3.9	-5.6	-0.2
India*	-6.6	8.7	6.6	5.7	6.9
China	2.2	8.1	3.3	4.6	4.1
South Africa	-6.3	4.9	1.7	1.1	1.6
World	**-3.2**	**5.9**	**3.1**	**2.2**	**2.7**

Source: OECD Economic Outlook, November 2022
*data pertains to fiscal year

- In the Euro area and the UK, growth is expected to sharply fall in 2023 to 0.5% and (-)0.4% respectively owing to the impact of the geopolitical conflict and the resultant supply bottlenecks, monetary policy tightening and the global slowdown.
- Russia is expected to face continued contraction during 2022 to 2024. During this period, India's growth is expected to average 6.4%, making it the second fastest growing economy among the G20 economies.
- China's growth is expected at 3.3% in 2022 due to the adverse impact of recurrence of COVID-19 and resultant lockdowns. Growth is expected to rebound to 4.6% in 2023 and 4.1% in 2024, supported by infrastructure investment and supportive measures that would moderate the correction in the real estate sector.
- In Brazil, growth is projected to ease from 2.8% in 2022 to 1.2% in 2023 due to deteriorating global outlook, tighter fiscal policy, and the effects of higher interest rates. South Africa's growth is projected to be below 2% during 2022 to 2024.

CPI inflation

- In the OECD countries as a group, CPI inflation is forecasted to shoot up to 9.4% in 2022, from 3.8% in 2021 as a result of the Russia-Ukraine conflict **(Table 3)**. Inflation is projected to moderate in 2023 and 2024 as tighter monetary policy takes effect, demand pressures wane, and transport costs and delivery times normalize.
- CPI inflation in the US, UK and Germany is expected to remain above 8% in 2022, with a moderation forecasted in 2023 and 2024.
- Due to rising food and energy prices, Brazil's CPI inflation is forecasted at 8.9% in 2022. As supply bottlenecks fade and the gradual effects of higher policy rates materialize, inflation is projected to decrease to 4.2% in 2023, but edge up to 4.5% in 2024 as growth picks up.

Table 3: CPI inflation (% annual)

Country	2020	2021	2022	2023	2024
OECD	**1.3**	**3.8**	**9.4**	**6.5**	**5.1**
US	1.2	4.7	8.0	3.9	2.6
UK	0.9	2.6	8.9	6.6	3.3
Germany	0.4	3.2	8.5	8.0	3.3
Japan	0.0	-0.2	2.3	2.0	1.7
Brazil	3.2	8.3	8.9	4.2	4.5
Russia	3.4	6.7	13.9	6.7	6.1
India*	6.2	5.5	6.8	5.0	4.3
China	2.5	0.8	2.0	2.2	2.0
South Africa	3.3	4.6	6.6	5.9	4.9

Source: OECD Economic Outlook, November 2022
*data pertains to fiscal year

- In China, despite recent fresh food price rises, CPI inflation is projected to remain benign due to the current measures to manage energy and food prices. These include replacing part of crude oil imports by discounted oil from Russia and refilling of LNG reserves from Russian sources.
- India's CPI inflation is projected at 6.8% for FY23, close to the RBI's estimate at 6.7%. CPI inflation is expected to moderate to levels below the RBI's upper tolerance limit of 6% in 2023 and 2024.

5. In focus: budgeting for normalizing growth and restoring fiscal consolidation

Introduction

India's FY24 Union Budget would be the first budget after full recovery from COVID-19. With no base effects, India is likely to experience a normal real GDP growth between 6.5% to 7% in FY24. CPI inflation is likely to be between 5% to 5.5%. While the adverse impact of COVID-19 has almost subsided, both growth and inflation numbers may be affected by the post-COVID-19 global upheavals, including the Russia-Ukraine conflict which has been accompanied by a global slowdown and significant supply side bottlenecks. In terms of growth performance in FY23 as well as in FY24, India would remain an exception, as recognized by the IMF and the OECD. The forthcoming Union Budget may aim at laying down a solid foundation for a stable medium-term growth accompanied by a credible redefined fiscal consolidation glide path.

1. Growth prospects FY23 and beyond

The global economy is currently beset by high inflation and falling growth. Advanced countries have already entered a significant economic slowdown. As per the November 2022 OECD projections, global growth is forecasted at 3.1% in 2022, which is nearly half the pace witnessed in 2021. It is expected to fall further to 2.2% in 2023. Majority of the projected slowdown is accounted for by moderating growth rates in the OECD economies that as a group are projected to grow by 2.8% in 2022 and only 0.8% in 2023. This gloomy global growth outlook was also confirmed by the IMF's World Economic Outlook released in October 2022. The IMF had projected global growth to ease from 6% in 2021 to 3.2% in 2022 and 2.7% in 2023. As per its projections, three major country/country groups, namely China, the Euro area and the US, are expected to slow sharply in 2022 and 2023 **(Table 4).** Amid these darkening economic clouds, India is shining as a bright spot, with its growth projected to be higher than that of other major economies. While the OECD projected India's growth to average 6.4% during the three-year period from FY23 to FY25, the IMF projected its average growth at 6.5% during FY23 to FY28.

Table 4: Real GDP growth (%, annual) – IMF projections

Country	2022	2023	2024	2025	2026	2027
World	**3.2**	**2.7**	**3.2**	**3.4**	**3.3**	**3.2**
AEs	**2.4**	**1.1**	**1.6**	**1.9**	**1.9**	**1.7**
US	1.6	1.0	1.2	1.8	2.1	1.9
UK	3.6	0.3	0.6	2.3	2.2	1.5
Euro area	3.1	0.5	1.8	1.9	1.7	1.5
Japan	1.7	1.6	1.3	0.9	0.5	0.4
EMDEs	**3.7**	**3.7**	**4.3**	**4.3**	**4.3**	**4.3**
Brazil	2.8	1.0	1.9	2.0	2.0	2.0
Russia	-3.4	-2.3	1.5	1.0	0.8	0.7
India*	6.8	6.1	6.8	6.8	6.5	6.2
China	3.2	4.4	4.5	4.6	4.6	4.6
South Africa	2.1	1.1	1.3	1.4	1.4	1.4

Source: IMF World Economic Outlook, October 2022; *data pertains to fiscal year

A distinguishing feature of India's growth experience of FY22 and potentially the full year of FY23 has been the large excess of nominal growth over real GDP growth, reflecting the high implicit price deflator (IPD)-based inflation. In FY22, real and nominal GDP growth were 8.7% and 19.5% respectively, implying that the nominal growth exceeded the real GDP growth by 10.8% points. In 1HFY23, the real GDP growth was 9% while the nominal growth was 21.2%, indicating an excess of 12.2% points. For the full year of FY23, these trends are likely to continue, although they may moderate in 2HFY23. The RBI expects the full year FY23 growth to be 6.8%[3]. Although the RBI does not provide a projection for nominal GDP growth, our expectation, based on current inflationary trends, is that it may be close to 17% in the current year. In FY24, we expect that the real and nominal GDP growth may be close to 6.5% and 14%, respectively.

[3] Monetary Policy Statement, RBI (5-7 December 2022)

2. Tax revenues: performance and prospects

Table 5 shows that after losing significant ground in terms of growth in FY20 and FY21, GoI's GTR grew by nearly 34% in FY22, reflecting a large base effect. A strong growth in GoI's tax revenues is also visible in FY23, at least during the first seven months for which data are available from the CGA. CIT, PIT and GoI's GST collections have shown a robust growth during April-October FY23 respectively at 24.1%, 27.7%, and 27.2%.

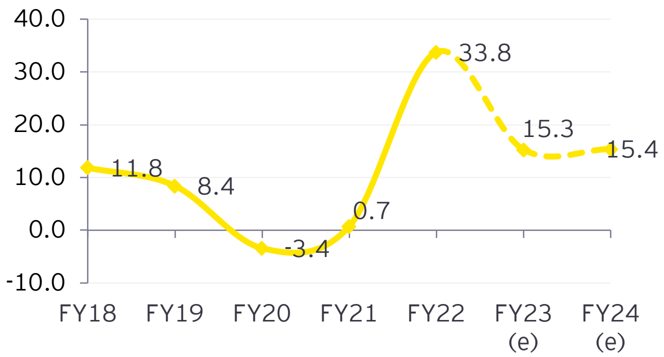
Table 5: Tax-wise growth and buoyancy

Year	GTR	DT	CIT	PIT	IDT *of which*	GST	UED	Customs
Growth (%)								
FY18	11.8	18.6	17.8	19.9	6.1	--	-32.0	-42.7
FY19	8.4	14.9	16.2	13.1	3.0	31.5	-10.7	-8.7
FY20	-3.4	-7.8	-16.1	4.0	1.7	2.9	3.7	-7.3
FY21	0.7	-10.7	-17.9	-2.3	12.7	-8.4	62.6	23.4
FY22	33.8	49.6	55.7	43.5	20.0	27.3	0.3	47.8
FY23 (e)	15.3	--	--	--	--	--	--	--
Memo								
Apr-Oct FY23	18.0	25.9	24.1	27.7	11.0	27.2	-18.8	9.5
Buoyancy*								
FY18	1.1	1.7	1.6	1.8	0.6	--	-2.9	(-)3.9
FY19	0.8	1.4	1.5	1.2	0.3	3.0	(-)1.0	(-)0.8
FY20	(-)0.5	(-)1.3	(-)2.6	0.7	0.3	0.5	0.6	(-)1.2
FY21	(-)0.5	7.8	13.1	1.7	(-)9.3	6.1	(-)45.9	(-)17.2
FY22	1.7	2.5	2.9	2.2	1.0	1.4	0.02	2.4
FY23 (e)	0.9	--	--	--	--	--	--	--
1HFY23	0.8	1.1	1.0	1.2	0.6	1.6	(-)0.9	(-)0.5

Source (basic data): CGA (data from FY18 to FY22) and FY23 Union Budget (data for FY22 RE and FY23 BE)
*negative buoyancy should not be interpreted

Even if these revenue trends are slightly moderated in the latter part of the fiscal year, we expect the GoI's GTR to show a growth of 15.3% assuming a buoyancy of 0.9 and an estimated nominal GDP growth of 17% **(Chart 7)**. This level of GTR growth may be consistent with a normalizing GDP growth, although even this reflects, to some extent, the effect of the excess of the nominal over real GDP growth. The estimated magnitude of GTR in FY23 amounts to INR31.2 lakh crore. This would exceed the budgeted GTR of INR27.6 lakh crore by nearly INR3.6 lakh crore, providing a much higher base of GTR for projecting FY24 tax revenues **(Table 6)**. In FY24, assuming a buoyancy of about 1.1 and an estimated nominal growth of 14%, GoI's GTR would grow by 15.4%, reaching a level of about INR36 lakh crore.

Chart 7: Growth in GoI's GTR (%)



Source (basic data): CGA and EY estimates

Table 6: GoI's GTR to GDP ratio (%)

Year	GTR (INR lakh crore)	GTR/GDP (%)
FY18	19.2	11.2
FY19	20.8	11.0
FY20	20.1	10.0
FY21	20.2	10.2
FY22	27.1	11.4
FY23 (e)	31.2	11.3
FY24 (e)	36.0	11.4

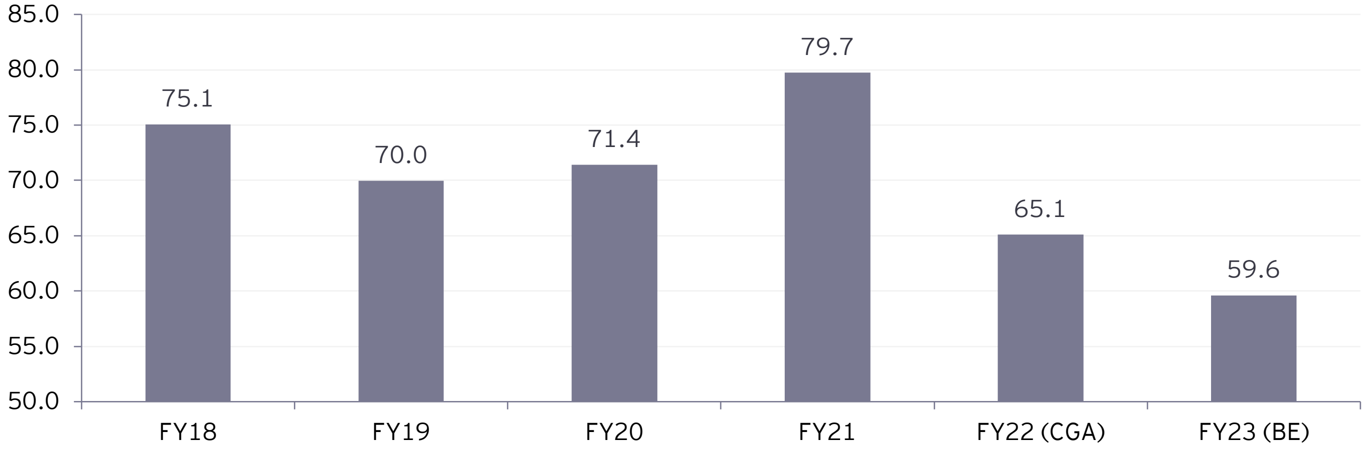
Source (basic data): CGA and EY estimates

3. Expenditure prioritization

GoI's expenditures should be re-prioritized over the medium term to ensure that the use of borrowing for revenue expenditures is minimized with a view to eliminating it in the medium term. This will imply that the entire fiscal deficit, which is liability creating, will be used for capital expenditures, which will create corresponding assets. In the recent past, a significant portion of fiscal deficit was accounted for by revenue deficit as shown in **Chart 8**.

It peaked at close to 80% in FY21 but showed an improvement in FY22. It is expected to further improve in FY23 (BE). In fact, in the first seven months of FY23, this ratio was at 50.8%. Although the level of fiscal deficit has remained high in FY22 and FY23, the improvement in the RD/FD ratio also reflects a falling share of revenue expenditures in GoI's total expenditures **(Table 7).**

Chart 8: Revenue deficit as a proportion of fiscal deficit: recent trends



Source (basic data): Union Budgets, and CGA

Within revenue expenditures, the share of health and education require to be increased while that of interest payments may be incrementally brought down. It is notable that the share of capital expenditure in total expenditure has progressively increased from 11.8% in FY15 to 19% in FY23 (BE). Recent trends in regard to major components of revenue and capital expenditures are shown in **Table 7**.

Table 7: Composition of GoI's expenditure: recent trends

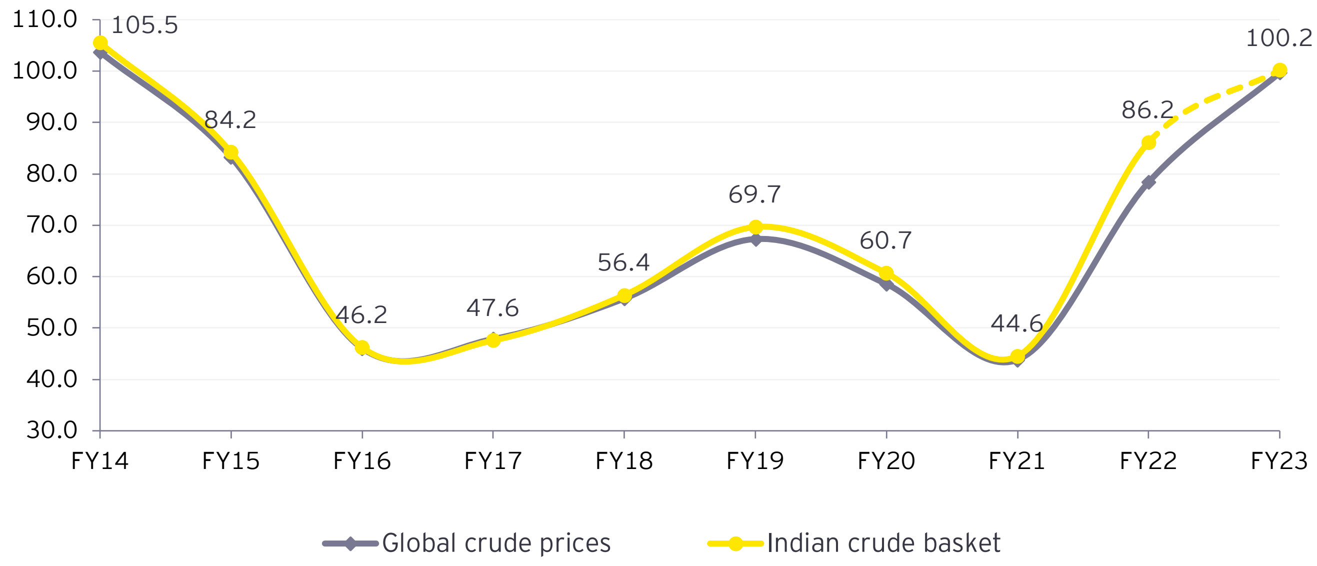
Expenditure items as % of Total expenditure	FY11	FY15	FY19	FY20	FY21	FY22 (RE)	FY23 (BE)
Revenue Expenditure	86.9	88.2	86.7	87.5	87.9	84.0	81.0
Interest Payments	19.5	24.2	25.2	22.6	19.1	21.4	23.8
Pensions and other Retirement Benefits	4.8	5.6	6.9	6.8	5.9	5.3	5.3
Defence Services	7.7	8.2	8.4	7.7	5.9	6.1	5.9
Education	4.0	1.6	1.6	1.6	1.2	1.3	1.4
Medical, Public health, family welfare, water supply and sanitation	2.4	0.6	0.9	1.1	1.0	2.8	2.5
MGNREGA	0.0	0.0	2.7	2.7	3.2	2.6	1.9
Capital expenditure (Outlay + Loans)	13.1	11.8	13.3	12.5	12.1	16.0	19.0
Capital Outlay	11.0	10.1	12.1	11.6	9.0	14.5	15.5
Capital outlay on non-defence	5.8	5.1	8.0	7.5	5.2	10.8	11.6
Capital outlay on defence	5.2	4.9	4.1	4.1	3.8	3.7	3.9
Memo item							
Total expenditure as % of GDP	15.7	13.3	12.2	13.4	17.7	15.9*	15.3

Source (basic data): Union Budget, various issues, and MoSPI; *using the latest available data for FY22 GDP

4. Oil prices and major subsidies

Chart 9 shows the movement of global crude prices, which is closely mirrored in the price of the Indian crude basket. These have risen back to near historical peaks of FY14 at close to US$100/bbl. in the first eight months of FY23. The corresponding increase in the price of the Indian crude basket has also led to major upward revisions in the budgeted subsidies in FY23, particularly fertilizer subsidies.

Chart 9: Global crude oil prices and price of Indian crude basket (US$/bbl.)



Source (basic data): World Bank, RBI, PPAC and EY estimates
Note: (1) The price of Indian crude basket for FY23 is as per the RBI estimate. The Indian basket of Crude Oil represents a derived basket comprising of Sour grade (Oman & Dubai average) and Sweet grade (Brent Dated) of Crude oil. It does not include lower purchase price of the Russian crude.
(2) Global crude price for FY23 reflects the average price during April to November 2022.

Major subsidies which had peaked at 3.57% of GDP in the COVID-19 year of FY21 have since fallen but have remained higher than their pre-pandemic average level of 1.1% of GDP during FY18 to FY20 **(Table 8)**. In FY23, the level of major subsidies as a percentage of GDP is expected to be higher than what was budgeted. Already, as per the first batch of Supplementary Grants, additional fertilizer subsidies amounted to INR1.09 lakh crore, which implies that the total fertilizer subsidy outgo would be nearly double the budgeted amount at INR1.05 lakh crore. In the case of food subsidies, an additional expenditure of INR60,110 crore has now been included in the Supplementary Demand, over and above the budgeted amount of INR2.07 lakh crore. This is largely attributable to the extension of the GoI's free food distribution scheme under PMGKAY.

Table 8: GoI's major subsidies as % to GDP

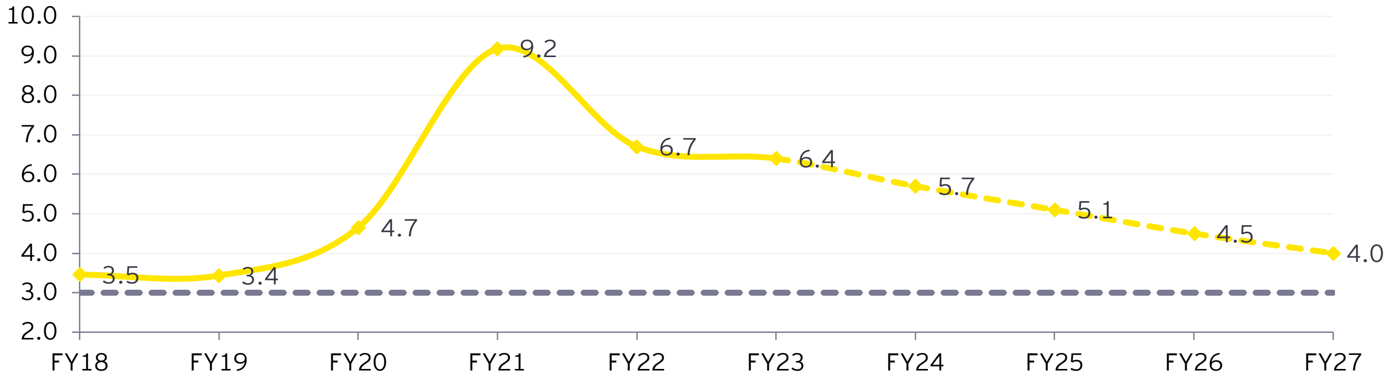
Year	Total major subsidies *of which*	Fertilizer	Food	Petroleum
FY18	1.12	0.39	0.59	0.14
FY19	1.04	0.37	0.54	0.13
FY20	1.14	0.40	0.54	0.19
FY21	3.57	0.65	2.73	0.19
FY22 (CGA)	1.88	0.65	1.22	0.01
FY23 (BE)	1.23	0.41	0.80	0.02
Memo: Subsidies during April-October as a % of FY23 BE				
FY23	75.2	97.6	65.3	19.1

Source (basic data): Union Budget documents, CGA, and MoSPI

5. Recasting fiscal consolidation glide path

In recent years, there has been a considerable slippage in GoI's fiscal deficit to GDP ratio from its norm, as specified in the 2018 FRBMA. Having peaked at 9.2% in the COVID-19 year of FY21, GoI's fiscal deficit to GDP ratio fell to 6.7% in FY22 and is likely to fall further to 6.4% in FY23, maintaining the budgeted target **(Chart 10)**. A further graduated reduction will take it to a level of 4.5% by FY26 as envisaged by the Fifteenth Finance Commission and endorsed in the FY23 Union Budget. We expect that by FY27, it would reach a level of 4%.

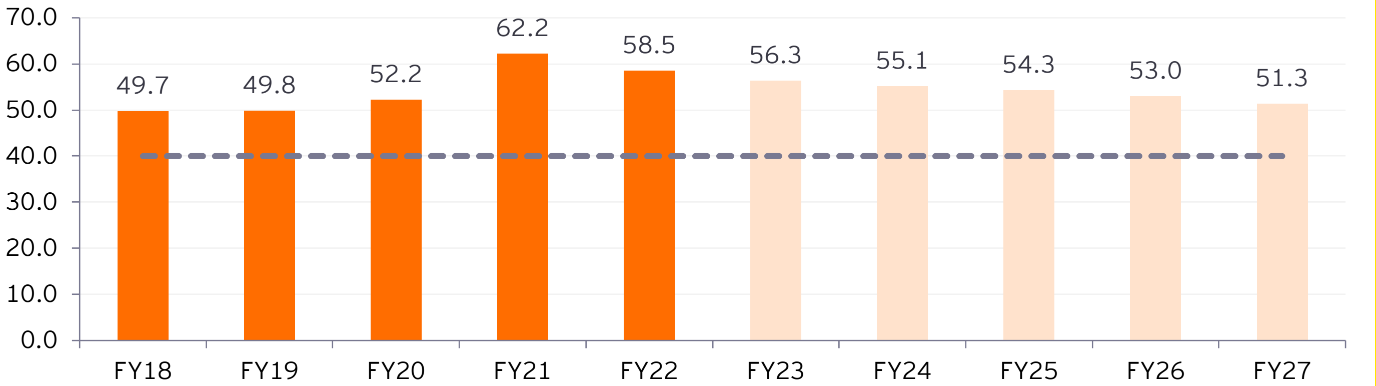
Chart 10: GoI's fiscal deficit to GDP ratio (%): suggested glide path



Source: Union Budgets, MoSPI
Note: EY estimates beginning FY23 onwards

As the fiscal deficit to GDP ratio is reduced along the glide path, as indicated in **Chart 10**, the debt-GDP ratio would also start falling **(Chart 11)**. Along with that, the interest payment to revenue receipts ratio for the GoI would also fall, facilitating adherence to the fiscal deficit target. Under certain assumptions regarding growth, it may be shown that the GoI's debt-GDP ratio would eventually stabilize at 40% if a fiscal deficit to GDP ratio of 4% is maintained for a number of years. It is arguable whether there is a case for the GoI to recast the 2018 FRBMA and revise the debt-deficit combinations for the central and state governments [see, for example, Srivastava (2022)][4].

Chart 11: GoI's debt to GDP ratio (%): history and projections



Source: Union Budgets, RBI, and MoSPI
Note: EY estimates beginning FY23 onwards

Conclusion

GoI's FY24 Budget is to be drawn up as the first normal budget after the economic and fiscal shock suffered due to COVID-19 and in the presence of continuing global geopolitical tensions. The priority for the Budget should be to maintain a reasonably high but stable growth in FY24 and in the medium term. Alongside, to establish fiscal credibility, suitable incremental reduction in the fiscal deficit to GDP ratio is required, taking the GoI toward the FRBM target. Meanwhile, the case for recasting the fiscal deficit target to 4% of GDP should also be examined by an Expert Committee (High-Powered Intergovernmental Group) as recommended by the 15th FC.

The real and nominal GDP growth prospects for FY24 may be close to 6.5% and 14% respectively. With a buoyancy of about 1.1, we expect the GoI's GTR to reach a level of about INR36 lakh crore in FY24. In view of the impending global recession, international crude prices may average at or slightly less than US$80/bbl. in FY24 as compared to an average of nearly US$100/bbl. during the first seven months of FY23. If this happens, it would be to the benefit of the Indian economy. Thus, a combination of relatively low global crude prices and high tax buoyancy may enable India to achieve a reduction in its fiscal deficit relative to GDP while maintaining reasonably high levels of government capital expenditures, thereby driving growth.

[4] Srivastava, D.K. 'The Future of Fiscal Consolidation in India'. Economic and Political Weekly. Vol. 57, Issue no. 13.

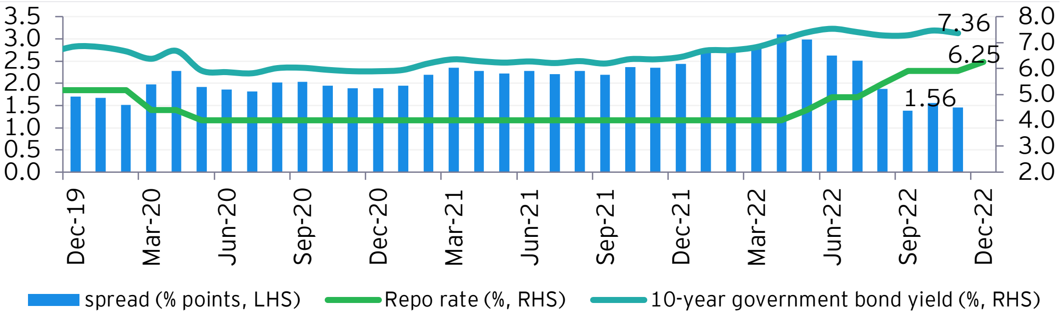
6. Money and finance: the RBI increased the repo rate to 6.25% in December 2022

A. Monetary sector

Monetary policy

- The RBI increased the repo rate by another 35 basis points to 6.25% in its December 2022 monetary policy review **(Chart 12)**. Thus, on a cumulated basis, the repo rate has been increased by 225 basis points between April and December 2022. Further, the RBI also indicated that the monetary policy stance would remain focused on withdrawal of liquidity.
- In RBI's assessment, the fifth successive rate hike was warranted because CPI inflation remained above the 6% upper tolerance limit for ten successive months till October 2022. Further, inflation is likely to remain above or close to the upper threshold in 2HFY23. It is expected to moderate in 1HFY24, although remaining above the average target of 4%.

Chart 12: Movements in the repo rate and 10-year government bond yield



The RBI increased the repo rate by 35 basis points to 6.25% in its December 2022 monetary policy review.

Source: Database on Indian Economy, RBI

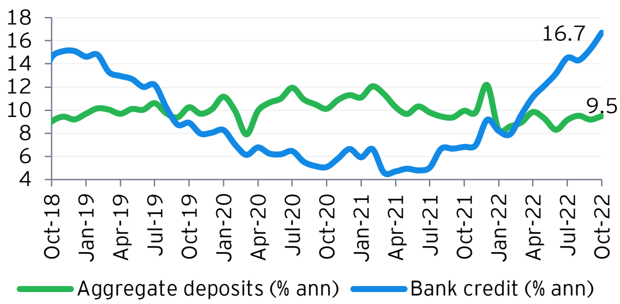
Money stock

- Growth in broad money stock (M3) moderated to 8.9% in November 2022 from 9.1% in October 2022. This was due to a fall in the growth in narrow money (M1).
- Growth in M1 moderated to 9.7% in November 2022 from 10.6% in October 2022 led by a fall in the growth of currency with the public from 9.3% in October 2022 to 7.5% in November 2022. However, demand deposits, accounting for about 40% of M1 on average in the last five years, showed a robust growth of 12% in November 2022, improving from 11.5% in October 2022.
- Time deposits, accounting for slightly over 75% of M3 on average in the last three years, grew at a stable rate of 8.6% for the second successive month in November 2022. Time deposits growth had averaged 8.6% during the last four months.

Aggregate credit and deposits

- Gross bank credit by SCBs grew by 16.7%[5] in October 2022, its highest level since September 2013 **(Chart 13)**.
- In October 2022, non-food credit growth increased to 17.1% from 15.7% in September 2022. Sustained high growth in non-food credit is reflective of the improving domestic demand conditions.
- Sectoral bank credit data indicate that credit to services showed a double-digit growth for the seventh consecutive month, increasing by 22.5% in October 2022 as compared to 20% in September 2022.

Chart 13: Growth in credit and deposits



Source: Database on Indian Economy, RBI

[5] As per the RBI's press release dated 30 November 2022 (https://bit.ly/3W1Si9e), gross bank credit amounted to INR128.9 trillion as on 21 October 2022 as compared to INR110.4 trillion as on 22 October 2021. Similarly, non-food credit amounted to INR128.6 trillion in October 2022 as compared to INR109.8 trillion in October 2021. Using these magnitudes, the calculated y-o-y growth rates of gross bank credit and non-food credit are 16.7% and 17.1% respectively. However, RBI's press release gives these growth rates at 17.9% and 18.3% respectively.

- Credit to the agricultural sector posted a robust growth of 13.6% in October 2022, improving marginally from 13.4% in September 2022. Agricultural credit has been growing over 13% on average since June 2022.
- Outstanding credit to industries also showed a strong growth of 13.6% in October 2022, its fastest pace since October 2013. Within the industrial sector, growth in credit to chemicals and chemical products was the highest at 25.1% in October 2022, increasing from 22.5% in September 2022. Credit to iron and steel grew by 16.1% in October 2022 as compared to 10.2% in September 2022. Credit to infrastructure showed a stable growth of 10.9% in October 2022, similar to that in September 2022.
- Continuing its growth momentum, personal loans, a key component of retail loans, grew by 20.2% in October 2022, its highest level since April 2020.
- Growth in aggregate deposits of residents increased marginally to 9.5% in October 2022 from 9.2% in September 2022.

B. Financial sector

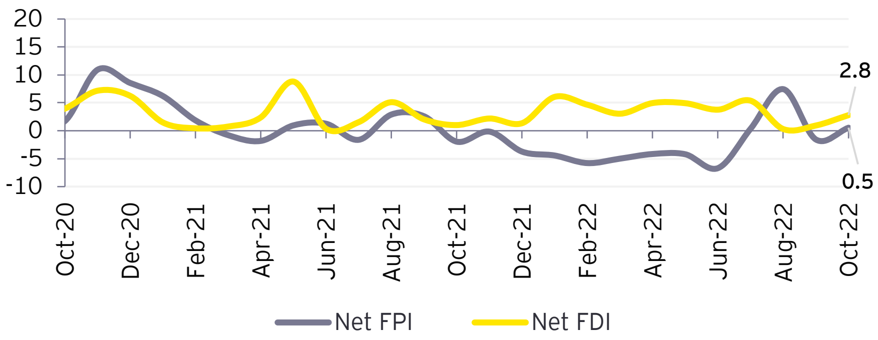
Interest rates

- As per the data released by the RBI on 2 December 2022, the average interest rate on term deposits with a maturity period of more than one year was increased to 6.53% in November 2022 from 5.95% in October 2022, with the actual rate ranging between 5.80% and 7.25%.
- The average MCLR was also increased to 7.55% in November 2022 from 7.4% in October 2022 and the actual MCLR ranged between 7.05% and 8.05% during the month.
- The average yield on 10-year government bonds moderated by 10 basis points to 7.36% in November 2022 from 7.46% in October 2022 **(Chart 12).**
- WALR on fresh rupee loans by SCBs increased to 8.68% in October 2022 from 8.59% in September 2022. During April to October 2022, on a cumulated basis, WALR on fresh rupee loans rose by 117 basis points while the repo rate was hiked by 190 basis points.

FDI and FPI

- As per the provisional data released by the RBI on 20 December 2022, overall foreign investments[6] (FIs) turned positive with inflows amounting to US$3.3 billion in October 2022 as compared to outflows amounting to US$(-)0.6 billion in September 2022.

Chart 14: Net FDI and FPI inflows (US$ billion)



Net FDI inflows increased to a three-month high of US$2.8 billion in October 2022 from US$0.9 billion in September 2022.

Source: Database on Indian Economy, RBI

- Net FDI inflows increased to a three-month high of US$2.8 billion in October 2022 from US$0.9 billion in September 2022 **(Chart 14)**. Gross FDI inflows amounted to US$5.1 billion in October 2022, close to its level of US$5.0 billion in September 2022.
- Net FPI inflows amounted to US$0.5 billion in October 2022 as compared to net outflows of US$(-)1.6 billion in September 2022.

[6] Foreign Investment (FI) = net FDI plus net FPI

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7. Trade and CAB: growth in merchandise exports turned positive at 0.6% in November 2022

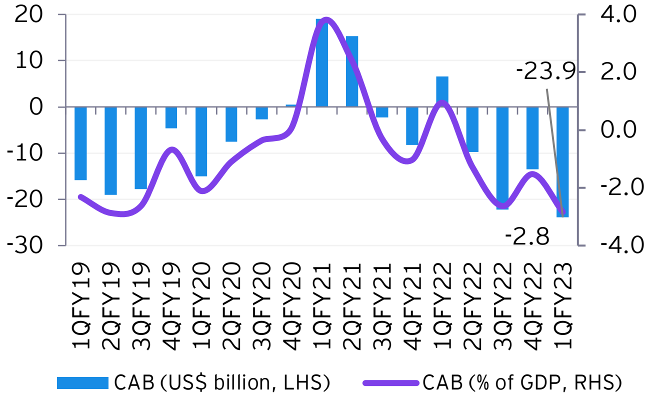
A. CAB: current account deficit widened to (-)2.8% of GDP in 1QFY23

- Current account deficit widened to (-)2.8% of GDP in 1QFY23 from (-)1.5% of GDP in 4QFY22 **(Chart 15, Table 9)**, reflecting an expansion in net merchandise trade deficit to a 36-quarter high of (-)8.1% of GDP. This was due to a surge in imports to 22.8% of GDP in 1QFY23 from 19.6% in 4QFY22. In comparison, there was a milder improvement in exports relative to GDP to 14.6% from 13.4% over the same period, largely reflecting rising global crude and commodity prices.
- Net invisibles relative to GDP increased to an eight-quarter high of 5.3% in 1QFY23, as net services exports improved to 3.7% of GDP from 3.2% in 4QFY22.

Table 9: Components of CAB in US$ billion

Fiscal year	CAB as % of nominal GDP	CAB	Goods account net	Invisibles* net
FY19	-2.1	-57.3	-180.3	123.0
FY20	-0.9	-24.7	-157.5	132.8
FY21	0.9	23.9	-102.2	126.1
FY22	-1.2	-38.8	-189.5	150.7
2QFY22	-1.3	-9.7	-44.5	34.8
3QFY22	-2.6	-22.2	-59.7	37.6
4QFY22	-1.5	-13.4	-54.5	41.1
1QFY23	-2.8	-23.9	-68.6	44.7

Chart 15: CAB



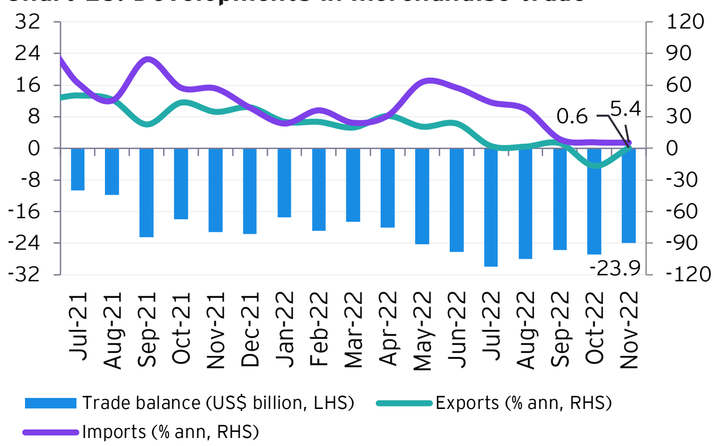
Source: Database on Indian Economy, RBI; Note: (-) deficit; (+) surplus; *invisibles include services, current transfers and income components

B. Merchandise trade and exchange rate

Growth in merchandise exports turned positive at 0.6% in November 2022 whereas growth in merchandise imports moderated for the sixth straight month to 5.4%.

- As compared to a contraction of (-)16.6% in October 2022, merchandise exports posted a growth of 0.6% in November 2022. Besides being partly aided by a favourable base effect, this growth was led by a) a slowdown in the pace of contraction in oil, engineering goods and organic and inorganic chemicals exports to (-)1.8%, (-)0.3%, and (-)1.2% respectively in November 2022, and b) an increase in the growth of electronic goods exports to 54.5% in November 2022 from 37.6% in October 2022.
- Imports growth was slightly lower at 5.4% in November 2022 as compared to 5.7% in October 2022 reflecting slowing growth of oil imports mainly due to lower global crude prices. Growth in chemicals, electronic goods and pearls and precious stones imports turned positive at 3.0%, 2.7%, and 15.8% respectively in November 2022. Growth in imports of machinery improved to 17.8% in November 2022 from 2.7% in October 2022.
- Growth in exports excluding oil, gold and jewelry turned positive at 0.8% in November 2022, whereas that in imports of this category increased to 6.2% from a 23-month low of 3.6% in October 2022, reflecting some improvement in domestic demand.
- Merchandise trade deficit narrowed to US$(-)23.9 billion in November 2022 from US$(-)26.9 billion in October 2022 **(Chart 16)**.
- Services trade surplus increased to an all-time high of US$12.3 billion in October 2022 and is estimated to be higher than this level in November 2022.
- Aided by a lower than expected inflation in the US, and the anticipation of milder rate hikes, the rupee appreciated to INR81.8 per US$ in November 2022 from INR82.3 per US$ in October 2022.

Chart 16: Developments in merchandise trade



Source: Ministry of Commerce and Industry, GoI

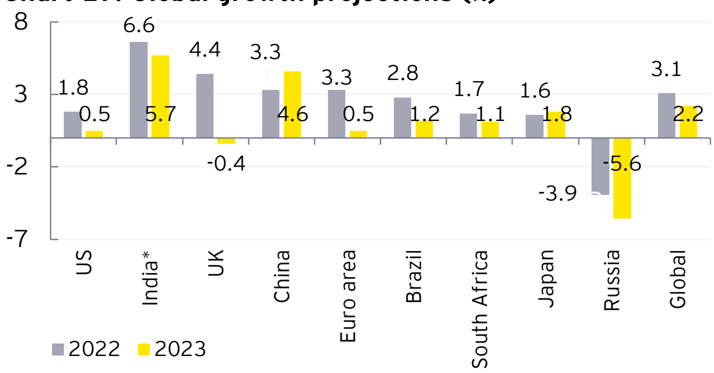
8. Global growth: OECD projected global growth at 3.1% in 2022, falling to 2.2% in 2023

A. Global growth

The OECD projected global growth at 3.1% in 2022, with India's FY23 growth at 6.6%.

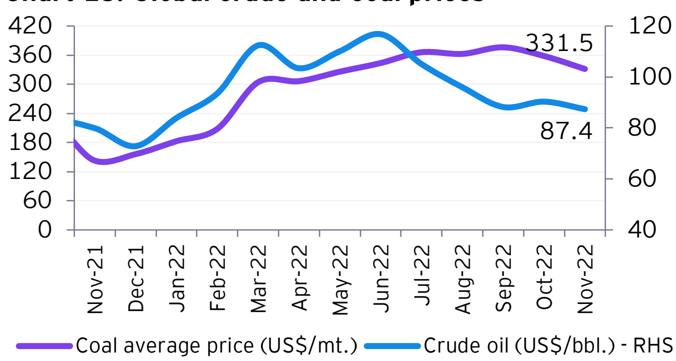
- As per the OECD (Economic Outlook, November 2022), global growth is projected at 3.1% in 2022, slowing to 2.2% in 2023 **(Chart 17).** In OECD's assessment, global growth prospects have become increasingly imbalanced. Major Asian EMEs are expected to account for close to three-quarters of global GDP growth in 2023, reflecting their steady expansion while major AEs such as the US and Europe are projected to experience sharp slowdowns.
- In the US, real wages have fallen, and the tightening of monetary policy has pushed up interest rates, weakening investment, especially in the housing market. Higher interest rates have resulted in a strengthening of the dollar, adversely affecting export activity. Growth in the US is projected at 1.8% in 2022, falling to only 0.5% in 2023.
- In the Euro area, growth is projected at 3.3% in 2022, falling to 0.5% in 2023. Challenges to growth in the Euro area emanate from high energy and food prices, weak confidence, continuing supply bottlenecks and tighter monetary policy. For similar reasons, the UK is expected to witness a contraction of (-)0.4% in 2023.
- Growth in Japan is projected at low levels of 1.6% in 2022 and 1.8% in 2023 as higher energy prices are expected to hinder real household income growth and dent confidence and business investment. Alongside, the loss in growth momentum in key trading partners is also expected to keep export growth subdued.
- In China, recurring waves of lockdowns have disrupted economic activity in 2022. Growth in 2022 is projected at 3.3%. Growth in 2023 is projected to show a modest recovery to 4.6% with weaker housing investment remaining a significant challenge.
- In India, growth is projected at 6.6% in FY23, moderating to 5.7% in FY24. High inflation would adversely impact households' purchasing power and delay investment, along with expected weakness of external demand in FY24.
- Russia is projected to contract by (-)3.9% in 2022 and (-)5.6% in 2023. In Brazil, slowing export momentum, tight credit conditions and a less expansionary fiscal policy are projected to lead to a moderation of growth in 2023.

Chart 17: Global growth projections (%)



Source: OECD Economic Outlook, (November 2022)
*Data pertains to fiscal years FY23 and FY24 respectively.

Chart 18: Global crude and coal prices



Source (basic data): World Bank Pink Sheets, December 2022

B. Global energy prices: average global crude price fell to US$87.4/bbl. in November 2022, its lowest level since January 2022

- Average global crude price[7] fell to US$87.4/bbl. in November 2022, its lowest level since January 2022 **(Chart 18).** Concerns about weakening of demand in China on account of rising COVID-19 cases and resultant lockdowns largely triggered this fall.
- Average global coal price[8] remained high at US$331.5/mt. in November 2022, although falling from US$358.2/mt. in October 2022.

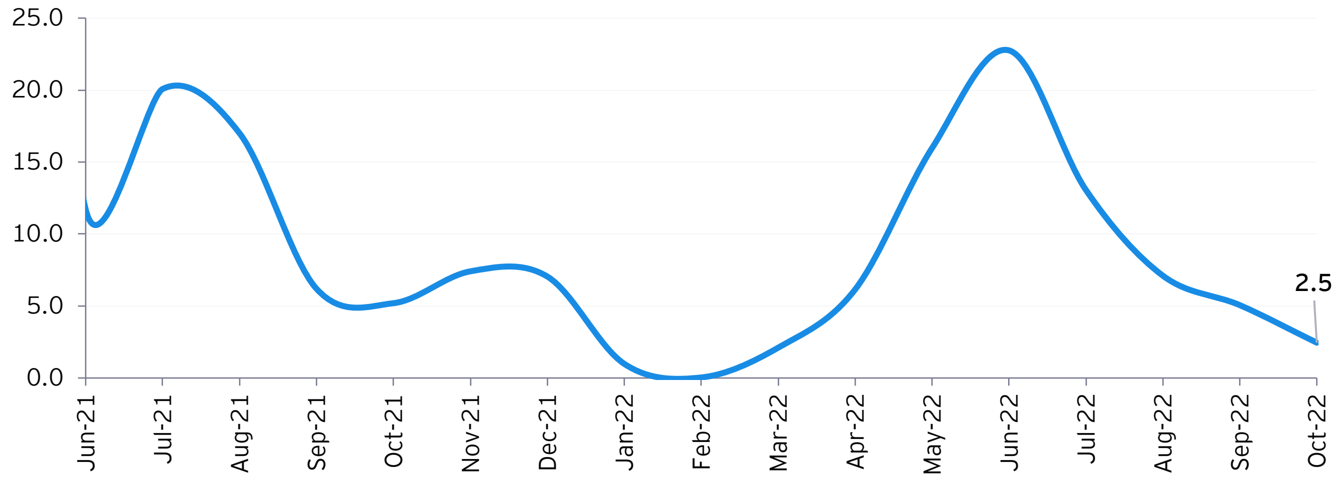
[7] Simple average of three spot prices, namely, Dated Brent, West Texas Intermediate and Dubai Fateh
[8] Simple average of Australian and South African coal prices.

9. Index of Aggregate Demand (IAD): grew by 2.5% in October 2022

Led by unfavorable base effect, growth in IAD fell to 2.5% in October 2022 from 5.1% in September 2022

- EY has developed an Index of Aggregate Demand (IAD) to reflect the monthly combined demand conditions in the agriculture, manufacturing, and services sectors. It considers the movements in PMI for manufacturing and services, both measured in seasonally adjusted (sa) terms, tracing the demand conditions in these sectors. Movements in the monthly agricultural credit off-take (sa)[9] capture the demand conditions in the agricultural sector.
- Growth in IAD was lower at 2.5% in October 2022 due to unfavorable base effect. In comparison, in September 2022, IAD had grown by 5.1% **(Chart 19 and Table 10).**
- Demand conditions in the services sector improved significantly in October 2022 as compared to those in September 2022. In the case of manufacturing sector also, there was a marginal improvement in demand conditions in October 2022.
- Demand conditions in the agricultural sector, as measured by growth in agricultural credit off-take, remained strong during the month.

Chart 19: Growth in IAD (y-o-y)



Source (Basic data): S&P - IHS Markit PMI, RBI and EY estimates
Note: From this issue onwards, we will be using seasonally adjusted data for constructing the IAD.

Table 10: IAD

Month	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22
IAD	141.7	143.2	148.7	150.4	151.3	150.2	152.4	149.4	151.1
Growth (% y-o-y)	0.0	2.1	6.1	16.0	22.8	13.1	7.1	5.1	2.5
Growth in agr. Credit	10.4	9.6	10.5	11.9	13.1	13.1	13.4	13.5	13.4
Mfg. PMI**	4.9	4.0	4.7	4.6	3.9	6.4	6.2	5.1	5.3
Ser. PMI**	1.8	3.6	7.9	8.9	9.2	5.5	7.2	4.3	5.1

**Values here indicate deviation from the benchmark value of 50. A positive value indicates expansion in demand while a negative value implies contraction in demand; PMI for Mfg. and Serv. are seasonally adjusted.

Source (basic data): IHS Markit PMI, RBI and EY estimates

[9] We have constructed a seasonally adjusted series for agricultural credit using Census X-13 technique in E-views (version 12) and the growth of this SA agricultural credit series is used in the IAD series.

10. Capturing macro-fiscal trends: data appendix

Table A1: Industrial growth indicators (annual, quarterly, and monthly growth rates, y-o-y)

Fiscal year/ quarter/ month	IIP	Mining	Manufacturing	Electricity	Core IIP	Fiscal year/ quarter /month	PMI mfg.	PMI ser.
	% change y-o-y							
FY19	3.8	2.8	3.8	5.2	4.4	FY19	52.8	52.2
FY20	-0.8	1.6	-1.4	0.9	0.4	FY20	52.3	51.9
FY21	-8.5	-7.8	-9.6	-0.5	-6.4	FY21	50.2	41.7
FY22	11.4	12.2	11.7	8.0	10.4	FY22	54.0	52.3
3QFY22	2.1	6.1	1.4	2.7	5.3	3QFY22	56.3	57.3
4QFY22	1.8	3.8	1.2	3.9	4.9	4QFY22	54.3	52.3
1QFY23	12.8	9.1	12.8	17.1	13.9	1QFY23	54.4	58.7
2QFY23	1.7	-0.9	1.6	4.9	5.5	2QFY23	55.9	55.7
Jul-22	2.2	-3.3	3.1	2.3	4.8	Aug-22	56.2	57.2
Aug-22	-0.7	-3.9	-0.5	1.4	4.1	Sep-22	55.1	54.3
Sep-22	3.5	5.2	2.2	11.6	7.8	Oct-22	55.3	55.1
Oct-22	-4.0	2.5	-5.6	1.2	0.1	Nov-22	55.7	56.4

Source: MoSPI, Office of the Economic Adviser, Ministry of Commerce and Industry and S&P Global

Table A2: Inflation indicators (annual, quarterly, and monthly growth rates, y-o-y)

Fiscal year/ quarter/ month	CPI	Food Price Index	Fuel and light	Core CPI	WPI	Food Price Index	Mfg. products	Fuel and power	Core WPI
	% change y-o-y				% change y-o-y				
FY19	3.4	0.1	5.7	5.5	4.3	0.6	3.7	11.5	4.2
FY20	4.8	6.7	1.3	3.8	1.7	6.9	0.3	-1.8	-0.4
FY21	6.2	7.7	2.7	5.5	1.3	4.0	2.8	-8.0	2.2
FY22	5.5	3.8	11.3	6.1	13.0	6.8	11.1	32.5	11.0
3QFY22	5.0	2.2	12.9	6.2	14.3	6.8	12.0	40.4	12.2
4QFY22	6.3	6.3	8.5	6.1	13.9	9.2	10.3	32.3	10.5
1QFY23	7.3	8.0	10.1	6.4	16.1	10.5	10.3	46.3	10.6
2QFY23	7.0	7.6	11.0	6.1	12.4	9.1	7.3	37.5	7.7
Aug-22	7.0	7.6	10.8	6.1	12.5	10.1	7.5	35.0	7.9
Sep-22	7.4	8.6	10.4	6.2	10.6	8.0	6.1	33.1	6.8
Oct-22	6.8	7.0	9.9	6.2	8.4	6.5	4.4	23.2	4.7
Nov-22	5.9	4.7	10.6	6.2	5.8	2.2	3.6	17.4	3.4

Source: Office of the Economic Adviser, Ministry of Commerce and Industry and MoSPI
* The CPI for April and May 2020 has been imputed

Table A3: Fiscal indicators (annual growth rates, cumulated monthly growth rates, y-o-y)

Fiscal year/month	Gross tax revenue	Corporate tax	Income tax	Direct taxes*	Indirect taxes**	Fiscal deficit % of GDP	Revenue deficit % of GDP
FY19 (CGA)	8.4	16.2	13.1	14.9	3.0	3.4	2.4
FY20 (CGA)	-3.4	-16.1	4.0	-7.8	1.7	4.7	3.3
FY21 (CGA)	0.7	-17.9	-2.3	-10.7	12.7	9.2	7.3
FY22 (CGA)	33.8	55.7	43.5	49.6	20.0	6.7	4.4
FY23 (BE over FY 22 RE)	9.6	13.4	13.8	13.6	5.7	6.4	3.8
	Cumulated growth (%, y-o-y)					% of budgeted target	
Mar-22	33.8	55.7	43.5	49.6	20.0	99.7$	94.9$
Apr-22	36.5	75.2	59.6	65.9	10.1	4.5	-0.1
May-22	29.1	80.7	49.9	61.2	9.0	12.3	12.3
Jun-22	22.4	30.0	40.7	35.4	11.0	21.2	20.7
Jul-22	24.9	34.7	50.0	42.7	10.8	20.5	16.4
Aug-22	18.7	23.6	33.2	28.8	11.2	32.6	32.4
Sep-22	17.6	21.6	25.7	23.5	11.8	37.3	31.4
Oct-22	18.0	24.1	27.7	25.9	11.0	45.6	38.9

Source: Monthly Accounts, Controller General of Accounts, Government of India, Union Budget documents
* Includes corporation tax and income tax
** Includes customs duty, excise duty, service tax, CGST, UTGST, IGST and GST compensation cess.
$as a proportion of revised estimate

Fiscal year/month	CGST	UTGST	IGST	GST compensation cess	Total GST (GoI)
	INR crore				
FY 2022 (RE)	5,70,000	-	-	1,05,000	6,75,000
FY 2023 (BE)	6,60,000	-	-	1,20,000	7,80,000
	Monthly tax collection (INR crore)				
Mar-22	63,330	1,230	-14,480	9,092	59,172
Apr-22	64,093	162	11,345	10,435	86,035
May-22	49,876	244	4,741	10,199	65,060
Jun-22	65,423	259	-16,396	10,749	60,035
Jul-22	55,357	155	6,898	10,654	73,064
Aug-22	51,911	149	8,938	9,889	70,887
Sep-22	54,689	406	9,964	9,967	75,026
Oct-22	72,219	595	-19,374	10,281	63,721

Source: Monthly Accounts, Controller General of Accounts, Government of India, Union Budget documents
Note: IGST revenues are subject to final settlement.

Table A4: Monetary and financial indicators (annual, quarterly, and monthly growth rates, y-o-y)

Fiscal year/ month	Repo rate (end of period)	Fiscal year/ quarter/ month	Bank credit	Agg. deposits	Net FDI	Net FPI	Fiscal year/ quarter/ month	M1	M3	10-year govt. bond yield	FX reserves
	%		% change y-o-y		US$ billion			% change y-o-y		%	US$ billion
Feb-22	4.00	FY19	13.7	8.9	30.7	-0.6	FY19	13.6	10.5	7.69	411.9
Mar-22	4.00	FY20	9.5	9.9	43.0	1.4	FY20	11.2	8.9	6.83	475.6
Apr-22	4.00	FY21	5.9	11.0	44.0	36.1	FY21	16.2	12.2	6.05	579.3
Apr-22	4.00	FY22	7.0	9.7	38.6	-16.8	FY22	10.6	8.7	6.40	617.6
May-22	4.40	3QFY22	7.7	10.6	4.6	-5.8	3QFY22	11.5	9.3	6.38	633.6
Jun-22	4.90	4QFY22	8.6	8.6	13.8	-15.2	4QFY22	10.6	8.7	6.74	617.6
Jul-22	4.90	1QFY23	12.1	9.1	13.6	-14.6	1QFY23	8.7	7.8	7.34	593.3
Aug-22	5.40	2QFY23	14.7	9.3	6.6	6.2	2QFY23	8.5	8.6	7.32	532.7
Sep-22	5.90	Jul-22	14.5	9.2	5.4	0.4	Aug-22	10.0	8.9	7.28	561.0
Oct-22	5.90	Aug-22	14.3	9.5	0.3	7.4	Sep-22	8.5	8.6	7.28	532.7
Nov-22	5.90	Sep-22	15.3	9.2	0.9	-1.6	Oct-22	10.6	9.1	7.46	531.1
Dec-22	6.25	Oct-22	16.7	9.5	2.8	0.5	Nov-22	9.7	8.9	7.36	550.1

Source: Database on Indian Economy - RBI

Table A5: External trade and global growth

External trade indicators (annual, quarterly and monthly growth rates)							Global growth (annual)			
Fiscal year/ quarter/ month	Exports	Imports	Trade balance	Ex. rate (avg.)	Crude prices (avg.)	Coal prices (avg.)	Calendar year	World GDP	Adv. econ.	Emer. econ.
	% change y-o-y		US$ billion	INR/US$	US$/bbl.	US$/mt		% change y-o-y		
FY19	8.6	10.6	-182.3	69.9	67.3	100.4	2012	3.5	1.2	5.4
FY20	-5.1	-8.2	-157.4	70.9	58.5	70.4	2013	3.5	1.4	5.1
FY21	-7.0	-16.6	-101.4	74.2	43.8	67.2	2014	3.5	2.1	4.7
FY22	41.7	54.9	-195.6	74.5	78.4	164.8	2015	3.4	2.4	4.3
3QFY22	36.7	49.9	-62.5	74.9	78.3	170.3	2016	3.3	1.8	4.5
4QFY22	23.1	27.7	-56.8	75.2	96.6	231.7	2017	3.8	2.5	4.8
1QFY23	24.8	49.5	-70.6	77.2	110.1	325.4	2018	3.5	2.2	4.5
2QFY23	2.9	28.3	-83.7	79.8	96.4	368.3	2019	2.8	1.6	3.7
Aug-22	1.6	37.3	-28.0	79.6	96.0	362.6	2020	-3.1	-4.5	-2.0
Sep-22	4.9	8.7	-25.7	80.2	88.2	376.1	2021	6.0	5.2	6.6
Oct-22	-16.6	5.7	-26.9	82.3	90.3	358.2	2022	3.2	2.4	3.7
Nov-22	0.6	5.4	-23.9	81.8	87.4	331.5	2023	2.7	1.1	3.7

Source: Database on Indian Economy - RBI, Pink Sheet - World Bank and IMF World Economic Outlook October 2022

Table A6: Macroeconomic aggregates (annual and quarterly real growth rates, % change y-o-y)

Fiscal year/quarter	Output: major sectors									IPD inflation
	GVA	Agr.	Ming.	Mfg.	Elec.	Cons.	Trans.	Fin.	Publ.	GVA
FY19 (3rd RE)	5.8	2.1	-0.8	5.4	7.9	6.5	7.2	7.0	7.5	4.7
FY20 (2nd RE) $	3.8	5.5	-1.5	-2.9	2.2	1.2	5.9	6.7	6.3	2.9
FY21(1st RE) $	-4.8	3.3	-8.6	-0.6	-3.6	-7.3	-20.2	2.2	-5.5	3.3
FY22(PE)*	8.1	3.0	11.6	9.9	7.5	11.5	11.1	4.2	12.6	9.4
2QFY21	-5.9	3.2	-7.9	5.2	-3.2	-6.6	-18.8	-5.2	-10.2	1.7
3QFY21	2.1	4.1	-5.3	8.4	1.5	6.6	-10.1	10.3	-2.9	3.4
4QFY21	5.7	2.8	-3.9	15.2	3.2	18.3	-3.4	8.8	1.7	5.2
1QFY22	18.1	2.2	18.0	49.0	13.8	71.3	34.3	2.3	6.2	7.0
2QFY22	8.3	3.2	14.5	5.6	8.5	8.1	9.6	6.1	19.4	8.8
3QFY22	4.7	2.5	9.2	0.3	3.7	-2.8	6.3	4.2	16.7	10.4
4QFY22	3.9	4.1	6.7	-0.2	4.5	2.0	5.3	4.3	7.7	10.9
1QFY23	12.7	4.5	6.5	4.8	14.7	16.8	25.7	9.2	26.3	12.2
2QFY23	5.6	4.6	-2.8	-4.3	5.6	6.6	14.7	7.2	6.5	10.0

Source: National Accounts Statistics, MoSPI
$ Growth numbers for FY21 are based on the first revised estimates (RE) of NAS released by the MoSPI on 31 January 2022 over the second RE of NAS for FY20, *FY22 growth numbers are based on the Provisional Estimates (PE) of National Accounts released on 31 May 2022 over the first revised estimates for 2021 released on 31 January 2022.

Fiscal year/quarter	Expenditure components						IPD inflation
	GDP	PFCE	GFCE	GFCF	EX	IM	GDP
FY19 (3rd RE)	6.5	7.1	6.7	11.2	11.9	8.8	3.9
FY20 (2nd RE) $	3.7	5.2	3.4	1.6	-3.4	-0.8	2.4
FY21(1st RE) $	-6.6	-6.0	3.6	-10.4	-9.2	-13.8	5.6
FY22(PE)*	8.7	7.9	2.6	15.8	24.3	35.5	10.0
2QFY21	-6.6	-8.3	-22.9	-4.5	-6.4	-17.9	4.0
3QFY21	0.7	0.6	-0.3	-0.6	-8.6	-5.2	5.4
4QFY21	2.5	6.5	29.0	10.1	3.7	11.7	9.2
1QFY22	20.1	14.4	-4.8	62.5	40.8	61.1	10.2
2QFY22	8.4	10.5	8.9	14.6	20.7	41.0	9.8
3QFY22	5.4	7.4	3.0	2.1	23.1	33.6	9.8
4QFY22	4.1	1.8	4.8	5.1	16.9	18.0	10.4
1QFY23	13.5	25.9	1.3	20.1	14.7	37.2	11.6
2QFY23	6.3	9.7	-4.4	10.4	11.5	25.4	9.3

Source: National Accounts Statistics, MoSPI
$ Growth numbers for FY21 are based on the first revised estimates (RE) of NAS released by the MoSPI on 31 January 2022 over the second RE of NAS for FY20, *FY22 growth numbers are based on the Provisional Estimates (PE) of National Accounts released on 31 May 2022 over the first revised estimates for 2021 released on 31 January 2022.

List of abbreviations

Sr. no.	Abbreviations	Description
1	AD	aggregate demand
2	AEs	advanced economies
3	Agr.	agriculture, forestry and fishing
4	AY	assessment year
5	Bcm	billion cubic meters
6	bbl.	barrel
7	BE	budget estimate
8	CAB	current account balance
9	CGA	Comptroller General of Accounts
10	CGST	Central Goods and Services Tax
11	CIT	corporate income tax
12	Cons.	construction
13	CPI	Consumer Price Index
14	COVID-19	Coronavirus disease 2019
15	CPSE	central public-sector enterprise
16	CRAR	Credit to Risk- weighted Assets Ratio
17	CSO	Central Statistical Organization
18	Disc.	discrepancies
19	ECBs	external commercial borrowings
20	EIA	US Energy Information Administration
21	Elec.	electricity, gas, water supply and other utility services
22	EMDEs	Emerging Market and Developing Economies
23	EXP	exports
24	FAE	first advance estimates
25	FC	Finance Commission
26	FII	foreign investment inflows
27	Fin.	financial, real estate and professional services
28	FPI	foreign portfolio investment
29	FRBMA	Fiscal Responsibility and Budget Management Act
30	FRL	Fiscal Responsibility Legislation
31	FY	fiscal year (April–March)
32	GDP	Gross Domestic Product
33	GFCE	government final consumption expenditure
34	GFCF	gross fixed capital formation
35	GoI	Government of India
36	G-secs	government securities
37	GST	Goods and Services Tax
38	GVA	gross value added
39	IAD	Index of Aggregate Demand

Sr. no.	Abbreviations	Description
40	IBE	interim budget estimates
41	ICRIER	Indian Council for Research on International Economic Relations
42	IEA	International Energy Agency
43	IGST	Integrated Goods and Services Tax
44	IIP	Index of Industrial Production
45	IMF	International Monetary Fund
46	IMI	Index of Macro Imbalance
47	IMP	imports
48	INR	Indian Rupee
49	IPD	implicit price deflator
50	MCLR	marginal cost of funds-based lending rate
51	Ming.	mining and quarrying
52	Mfg.	manufacturing
53	m-o-m	month-on-month
54	Mt	metric ton
55	MoSPI	Ministry of Statistics and Programme Implementation
56	MPC	Monetary Policy Committee
57	MPF	Monetary Policy Framework
58	NEXP	net exports (exports minus imports of goods and services)
59	NSO	National Statistical Office
60	NPA	non-performing assets
61	OECD	Organization for Economic Co-operation and Development
62	OPEC	Organization of the Petroleum Exporting Countries
63	PFCE	private final consumption expenditure
64	PIT	personal income tax
65	PMI	Purchasing Managers' Index (reference value = 50)
66	PoL	petroleum oil and lubricants
67	PPP	Purchasing power parity
68	PSBR	public sector borrowing requirement
69	PSU/PSE	public sector undertaking/public sector enterprises
70	RE	revised estimates
71	RBI	Reserve Bank of India
72	SLR	Statutory Liquidity Ratio
73	Trans.	trade, hotels, transport, communication and services related to broadcasting
74	US$	US Dollar
75	UTGST	Union Territory Goods and Services Tax
76	WALR	weighted average lending rate
77	WHO	World Health Organization
78	WPI	Wholesale Price Index
79	y-o-y	year-on-year
80	1HFY20	first half of fiscal year 2019-20, i.e., April 2019-September 2019

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