



Ministry of External Affairs
Government Of India



ECONOMIC
DIPLOMACY
DIVISION

MONTHLY ECONOMIC REPORT

JUNE 2022



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EXECUTIVE SUMMARY

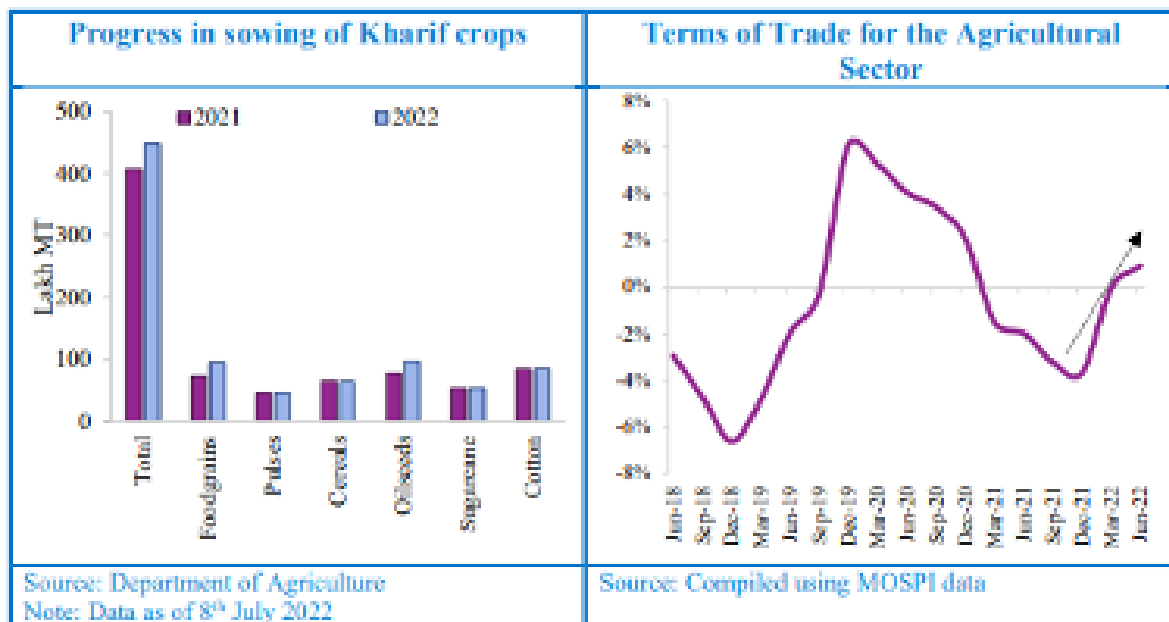
Agriculture is picking up momentum with the revival in monsoon and Kharif sowing. As of 11th July 2022, the South-west monsoon has covered the entire country with actual rainfall 7 per cent higher than the normal level. Momentum in the manufacturing and services is sustained in Q1 of 2022-23, as evident in the expansion of the PMI manufacturing and services indices. Indices of core industries production, Industrial production and freight traffic have also shown sequential and year-on-year improvement in Q1 of 2022-23. The Indian banking sector embarked upon a consolidation phase during H2 of 2021-22 as the gross non-performing assets (GNPA) ratio declined to its lowest level in six years,

bolstering its lending capacity. Support measures provided by the RBI during the COVID-19 pandemic aided in arresting the rise in GNPA ratios, although even with the winding down of regulatory reliefs, the newly acquired financial strength has not weakened as capital and liquidity buffers have been built well above regulatory requirements.

Prices of industrial metals are at their lowest in sixteen months and prices of some food commodities have come off their peaks. The momentum in the economy is holding up better than expected, despite commodity price shocks in the last four months.

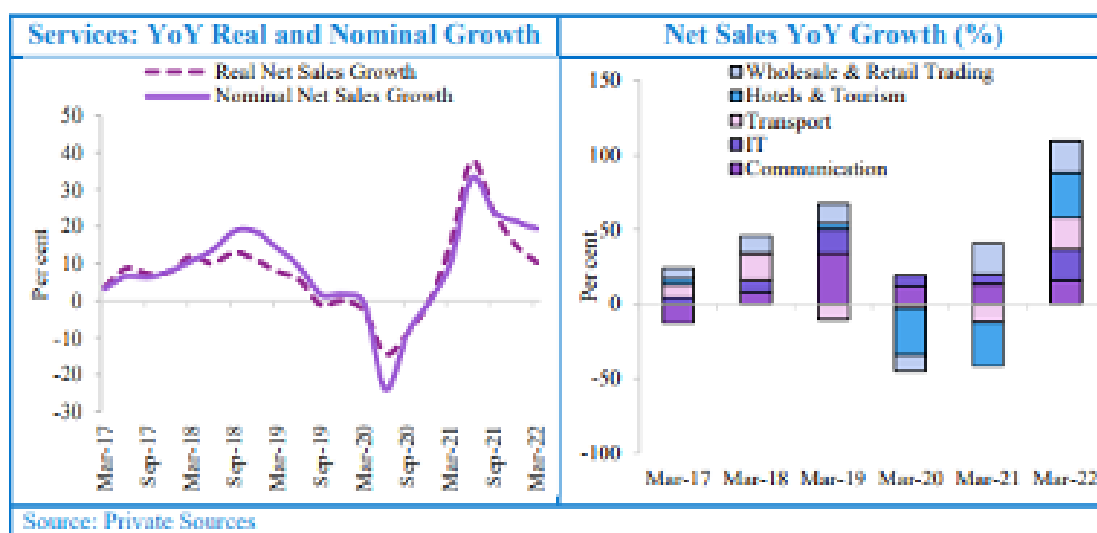


Agriculture Sector



- Area sown under food grains, oilseeds, sugarcane, and cotton has moderated
- Sowing under pulses and coarse cereals registered YoY growth of 0.98 per cent and 1.5 per cent respectively
- Fertilizer and domestic tractor sales during May 2022 rose by 4.9 per cent and 47.3 per cent respectively

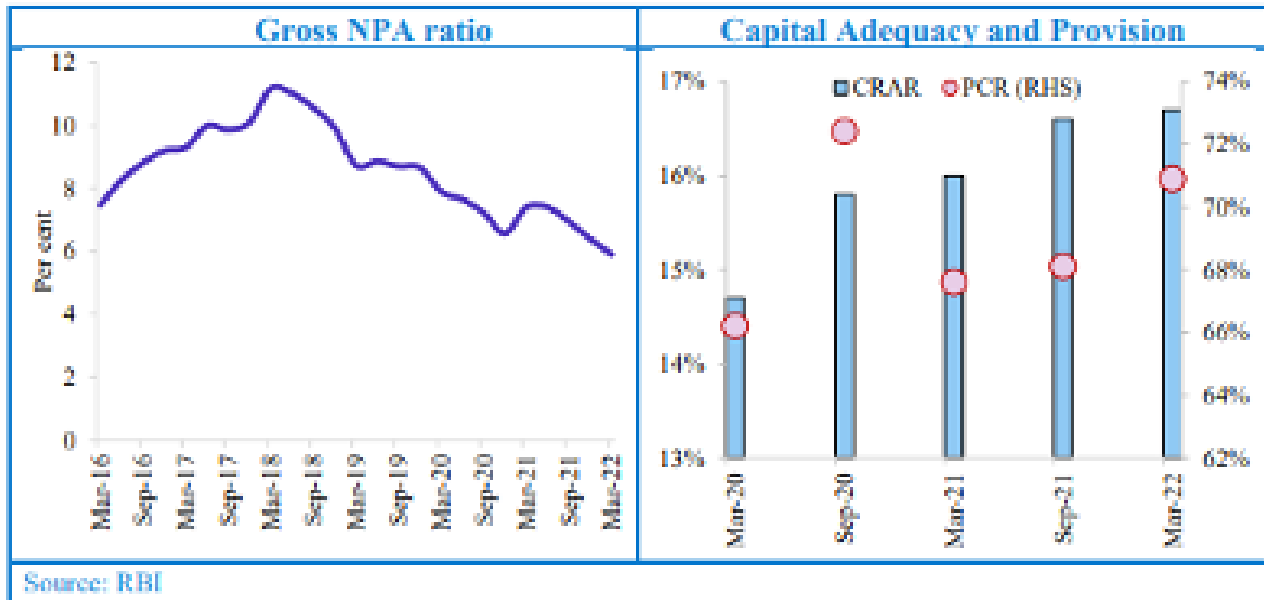
Corporate Sector



- During the quarter ending March 2022, the corporate sector experienced robust year-on-year growth in net sales, both in nominal and real terms, reflecting a sustained recovery in demand conditions
- The manufacturing PMI continued to be in the expansionary zone clocking at 53.9 in June, slightly lower than 54.6 in May. The slight dip may be attributed to the moderation in new export orders with the weakening in the growth of world output

- Broad-based recovery in service activity continued in the first quarter of 2022-23, with PMI services rising further to 59.2 in June from 58.9 in May. The expansion can be attributed to improvements in demand following the retreat of pandemic restrictions, capacity expansion, and a favourable economic environment

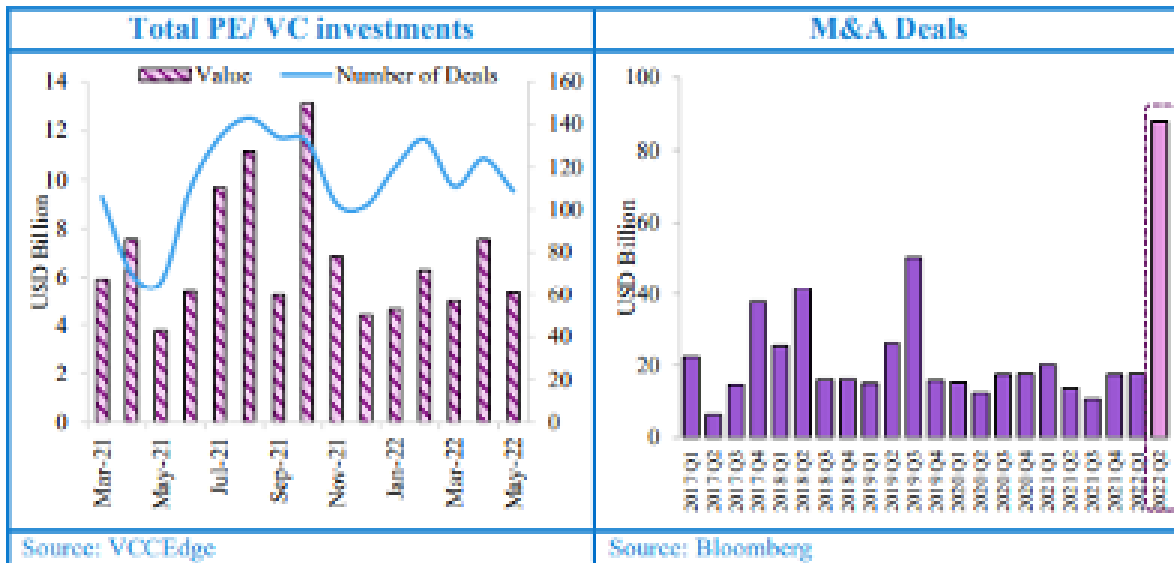
Financial Sector



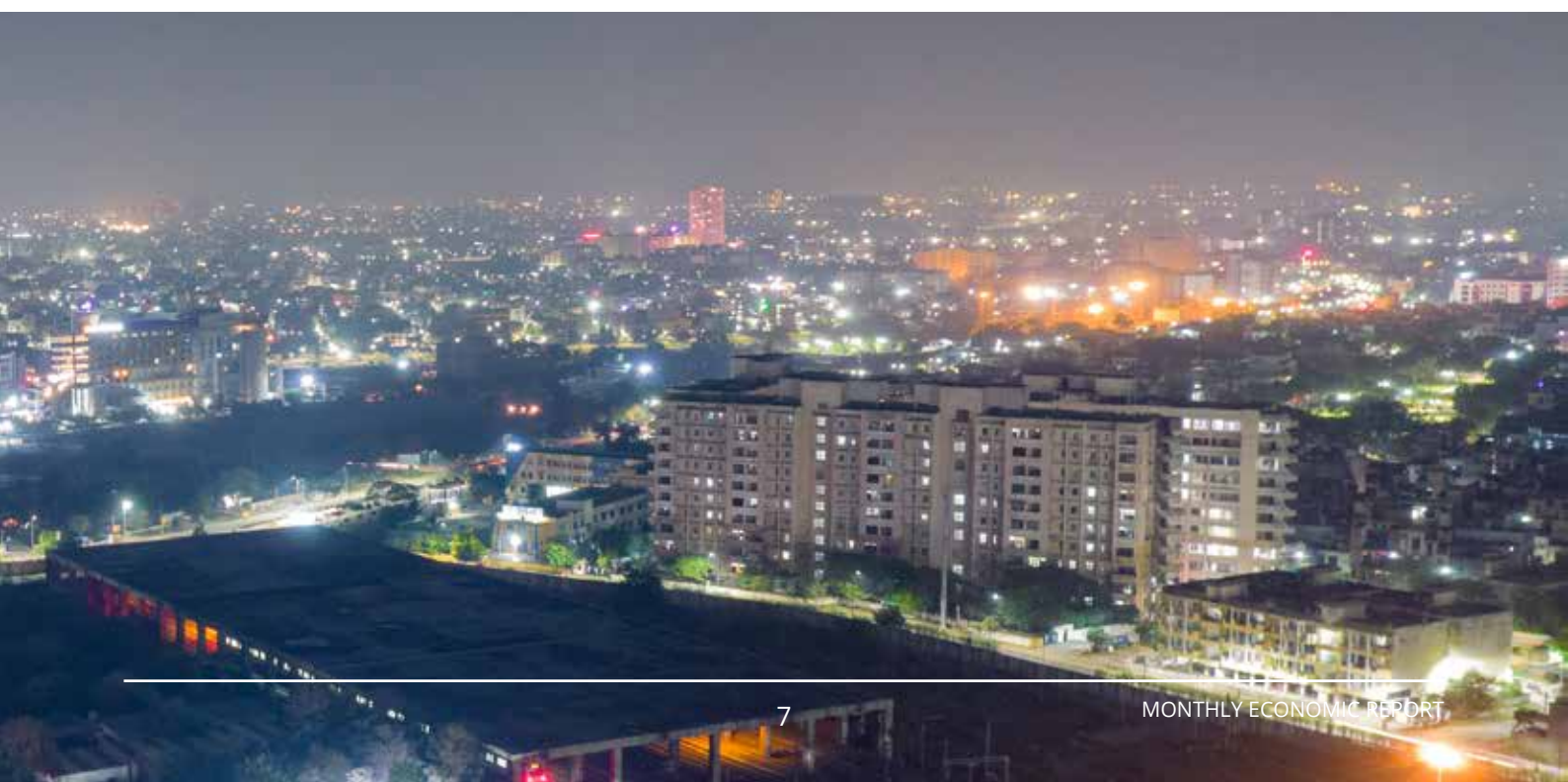
- The Credit risk-weighted average ratio (CRAR) has been on the rise since March 2020, improving further to 16.7 per cent in March 2022. The CRAR of PVBs and Foreign Banks remained above 18 per cent.
- Stress tests indicate that the GNPA ratio of all SCBs may improve from 5.9 per cent in March 2022 to 5.3 per cent by March 2023



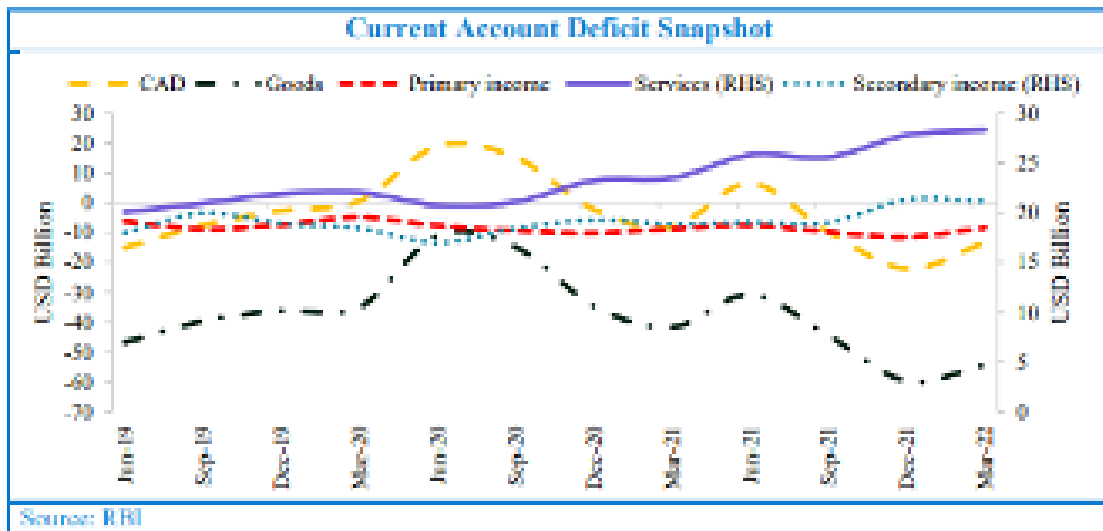
Investments



- PE/VC investments in the first two months of Q1 2022-23 stood at USD 12.9 billion, 14 per cent higher than the value recorded in the corresponding period of the last year.
- The share of the Indian private sector in total investment proposals shot up to 85 per cent in Q1 of 2022-23, compared to the average of 63 per cent in the preceding four quarters.
- The cement and Steel index in the Eight Industries Core Index saw double-digit YoY growth in May 2022.
- S&P BSE Manufacturing Index fell by 8.3 per cent, while the Nifty Service sector erased gains by 12.7 per cent during H1 2022. The value of both manufacturing and services indices in June was 1.3 times higher than June 2019 levels.
- Industrial Outlook Survey of the Manufacturing Sector is expected to witness improvements in demand conditions, capacity utilization and overall business situation in Q2 and Q3:2022-23.



External Sector

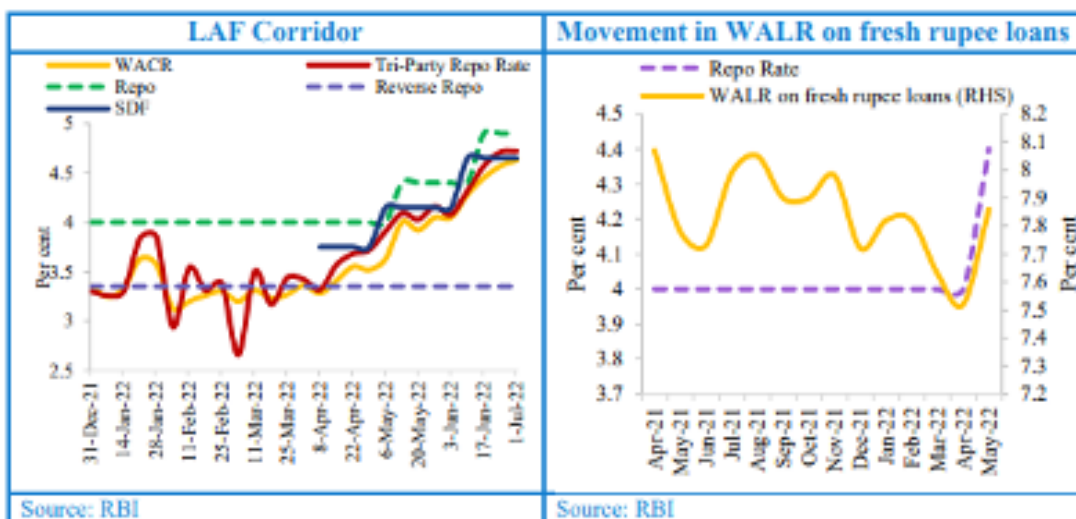


- The current account deficit (CAD) in 2021-22 would have been also larger but for a sequential moderation from 22.2 billion (2.6 per cent of GDP) in Q3:2021-22 to USD 13.4 billion (1.5 per cent of GDP) in Q4:2021-22
- Global trade slowed in Q1 2022-23 as compared to Q4 2021-22 largely affected by disruption in supply chains, broad-based inflationary pressures, increased uncertainty and the resulting slowdown in global growth, leading to a moderation in India's exports in the current quarter (Q1 2022-23) compared to the previous quarter (Q4 2021-22)

Inflation

- Retail inflation in India marginally eased from 7.04 per cent in May 2022 to 7.01 per cent in June 2022, causing the average retail inflation in Q1 FY 2022-23 to reach 7.3 per cent.
- Since metal prices feed into WPI inflation, the decline in global prices of industrial metals will also help lower India's wholesale price inflation rate in the coming months.

Policy Implication



- To rein in inflation, RBI in its June Monetary Policy Committee meeting hiked the repo rate by another 50 basis points in June on top of the earlier hike of 40 basis points in May 2022.
- The Weighted Average Lending Rate (WALR) on fresh rupee loans increased by 35 basis points in May 2022 on a month-on-month basis.
- GST collections in Q1: 2022-23 registered a growth of 36.4 per cent compared to the corresponding period of the previous year indicating a stronger revenue position of the Government. A recent revision in GST rates is expected to boost Government's revenue collections.



Conclusion

Economic activity is holding up better than expected despite the ongoing geopolitical tensions; rise in interest rates in America and India and the elevated price of crude oil and few other commodities. The services sector recovery is continuing, and manufacturing strength is steady. There is an apparent keenness to invest on the part of the private sector. Banks are willing to lend and their financial health, as the central bank's stress tests reveal, is quite strong. Brisk GST receipts monthly confirm the momentum in the economic activity.



For more information:

Ministry of Finance, Department of Economic Affairs
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