Ministry of External Affairs
Government Of India

ECONOMIC
DIPLOMACY
DIVISION

MONTHLY ECONOMIC REPORT

SEPTEMBER 2022

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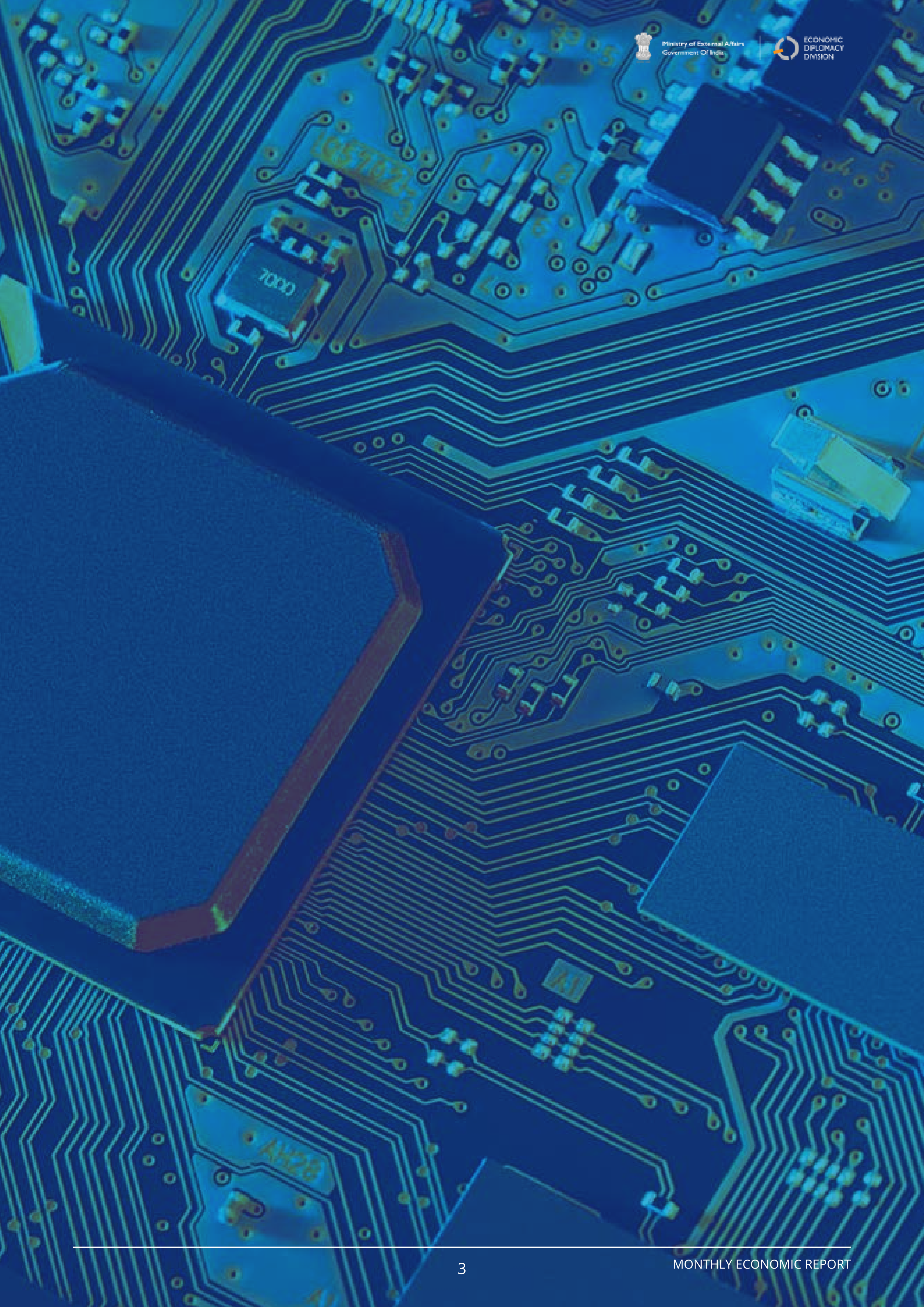
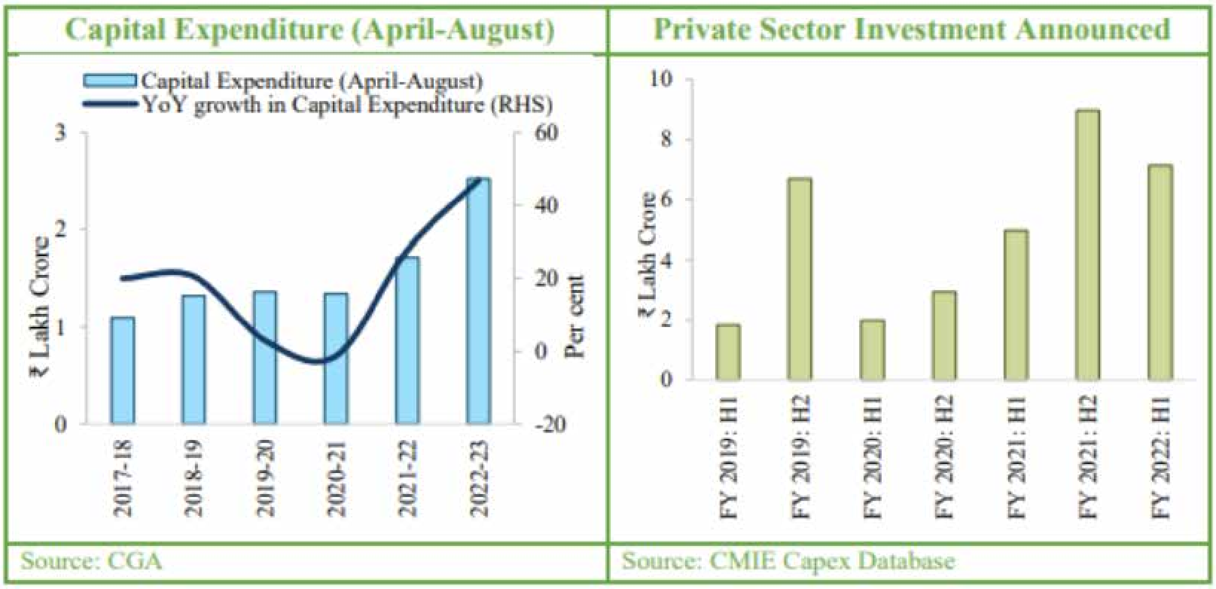


Introduction

India’s growth narrative in the first six months of the current financial year featured the uninterrupted thrust government provided to its capital expenditure that, until August of FY 2022-23, stood 46.8 per cent higher than the corresponding period of the previous year. Rising capital expenditure levels were also supported by stronger revenue generation following an improvement in tax compliance, higher corporate profitability, and growing economic activity. Increasing revenue generation has further kept the fiscal deficit until August aligned with its budgeted level, which otherwise could have gone awry with high capital expenditure, higher fertilizer and food subsidies and excise tax cuts to rein in inflation.

For much of the April-September period, the contact-based services sector has shown considerable promise to support growth by ventilating the pent-up demand. The green shoots of revival are already visible in the form of robust performance of various HFI capturing the sector’s performance.

Fiscal Position



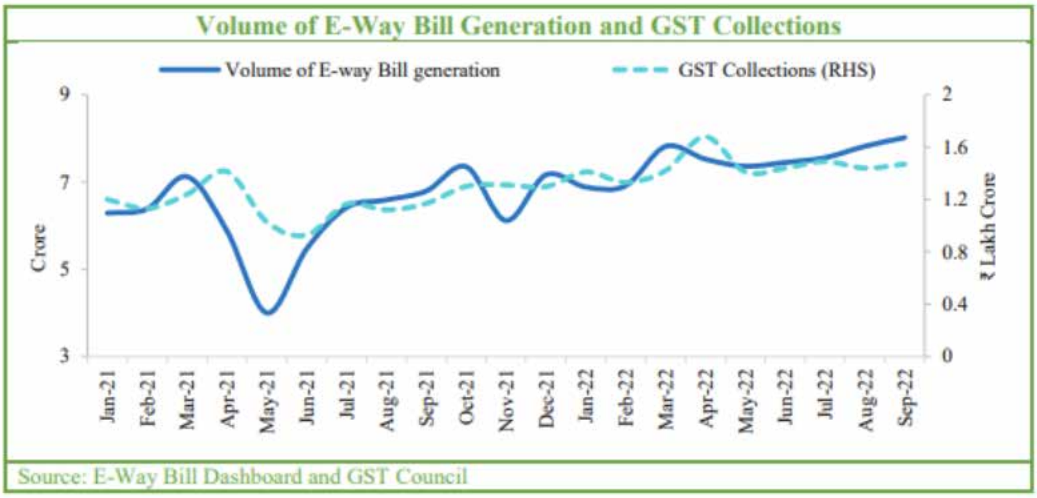
- The government’s capital expenditure during April-August 2022 is 46.8 per cent higher than the corresponding period of the previous year, with a majority of the spending witnessed in roads, railways, and defence

- Complementing the higher level of capital expenditure in the Central Government is a significant increase in private investment, with new projects announced by the private sector growing at 44 per cent in the H1 of 2022-23 over the corresponding period of the previous year

- Capital expenditure by 21 States picked up in July 2022-23, with large States such as Uttar Pradesh, Madhya Pradesh, Karnataka, Maharashtra, and Gujarat accounting for nearly 54 percent of the spending in April-July 2022

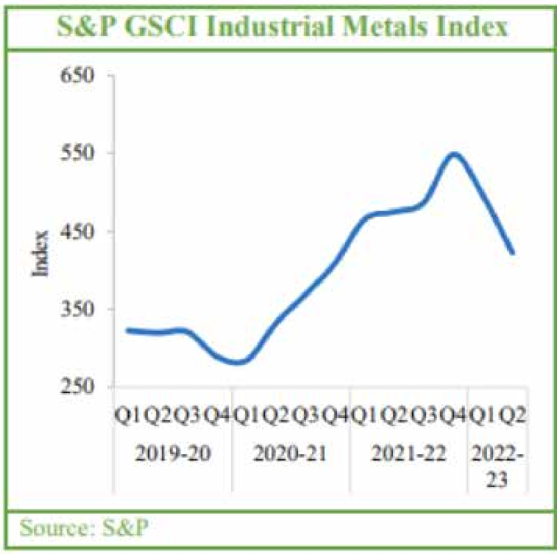
- GST collections have also been robust, registering a year-on-year growth of 25.6 per cent in September 2022 and reflecting the effectiveness of various measures undertaken by the Government to reduce anti-evasion activities

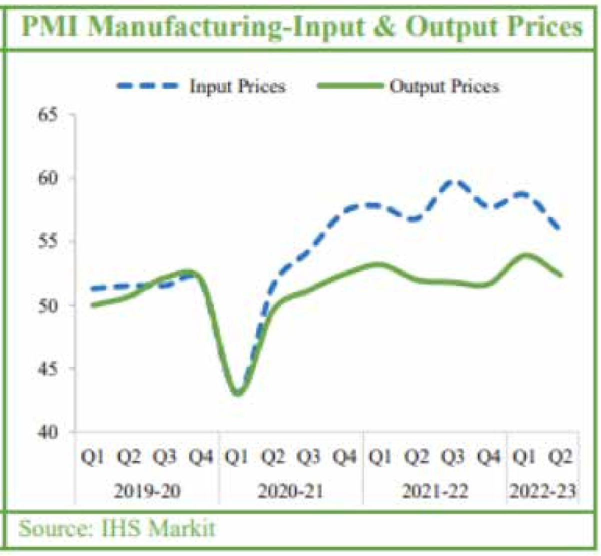
Economy



- Elevated geopolitical tensions have led to disruptions in global supply chains that, in turn, have raised international prices of several commodities. One of the commodities is fertilizers whose international price, after a modest slowdown, started spiking again in August 2022 as a shortage of natural gas arose in Europe

Industry





- PMI Manufacturing remained in the expansionary zone at 55.1 in September 2022, driven by new business growth, demand resilience, and expanded operating capacities. In addition, business sentiment also rose as input cost inflation, as mentioned in the PMI manufacturing report of September 2022, fell to a 23- months low on the back of declining prices of industrial metals.

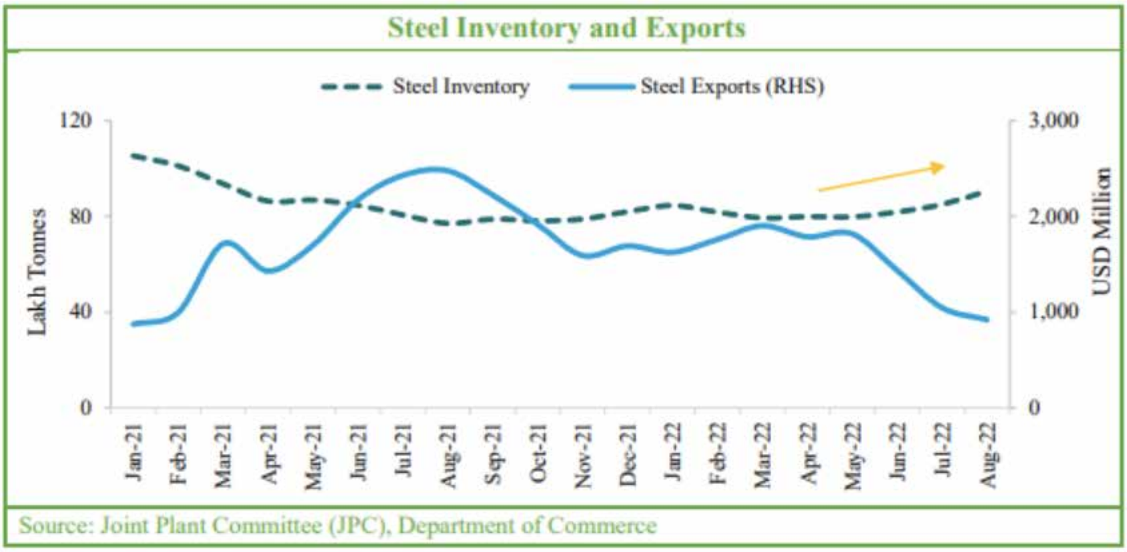
- During April-August 2022, the Index of Industrial Production (IIP) witnessed a year-on-year growth of 7.7 per cent, with the most robust growth seen in the production of capital goods and consumer durables, indicative of rising consumption levels inducing investment.

- During the same period, the Index of Eight Core Industries registered a growth of 9.8 per cent, with a significant increase in the production of coal and fertilizer, meeting the requirements of increasing the production of consumables

- An improved business sentiment and a positive outlook on manufacturing output are seeded in improvement in the profitability of manufacturing companies in the private corporate sector. These firms witnessed rise in output with sales registering YoY growth of 41.6 per cent in Q1 of 2022-23 compared to 24.6 per cent in Q4 of 2021-22 (both volume and price components contributing to higher growth) on account of improvement in demand.

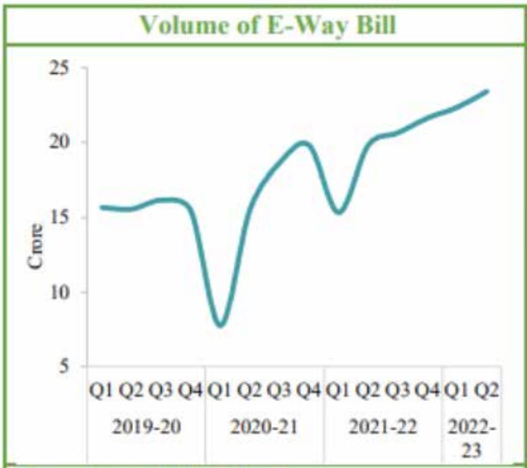
- Consumer goods firms witnessed an increase in net sales and an improvement in interest coverage ratio in Q1 of 2022-23 due to price increases by consumer goods manufacturers and strong demand for beverages and branded products such as edible oil, rice, spices, and wheat flour

- Textile firms witnessed robust sales in Q1 of 2022-23; however, high input prices took a toll on their profitability. While net sales increased from 28.7 per cent in Q4 of 2021-22 to 47.9 in Q1 of 2022-23, the interest coverage ratio remained unchanged during the same period.

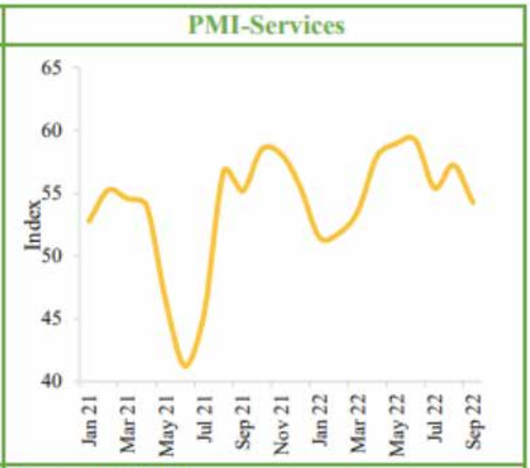


- The slowdown in the global economy and duty imposition on steel exports in May 2022 is leading to higher domestic inventory. Due to rising interest rates and a decline in demand from China following a real estate crisis and the COVID-19 lockdown, steel demand and prices are likely to be under pressure in the upcoming months.

Services



Source: E-way Bill dashboard



Source: IHS Markit

- High-Frequency Indicators (HFIs) suggest a continued broadening of traction in services activity. E-way bills in particular point to the overall growth of inter-state wholesale and retail trade. Their YoY growth of 30 per cent in H1:2022-23 and 46 per cent over the H1 of 2019-20 reflect the new-found robustness of economic activity.

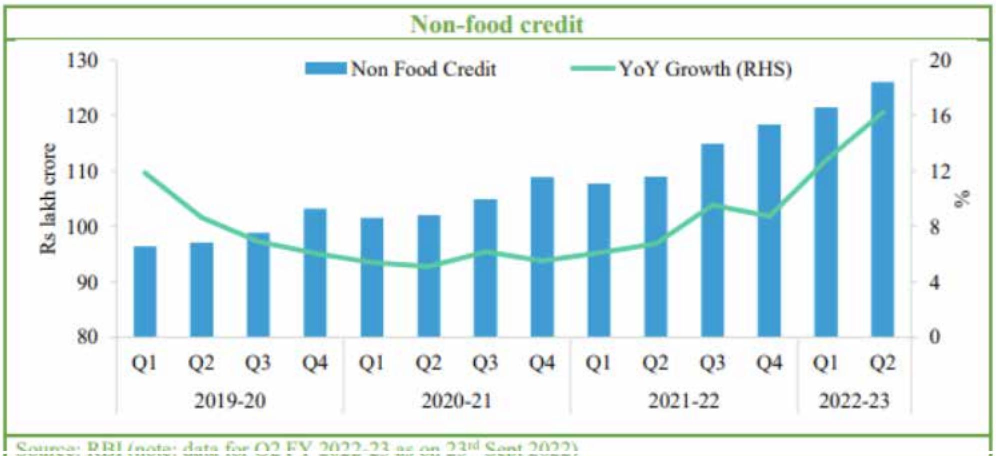
- As per the latest RBI Services and Infrastructure Outlook Survey, services sector enterprises report a sharp uptick in the overall business situation, employment, and turnover during Q2:2022-23. The upturn has stemmed from ongoing improvements in demand, leading to an acceleration in new orders and output

- Air passenger traffic and foreign tourist arrivals in India also witnessed sequential growth in April-July/August 2022, indicative of a fast-paced resumption of tourism activity. Profitability ratios of the tourism industry further point towards a strong rebound in the June 2022 quarter.

- India has also attempted to improve its attractiveness as a destination for specialized tourism. Recent initiatives like the Ayush visa and Heal in India can assist in capturing a larger share of the global medical tourism market.

- During April-August 2022, air cargo handled also saw an increase of 4 per cent over the corresponding period last year despite a challenging operating backdrop and inflationary pressures.

Credit Demand



Source: RBI (note: data for Q2 FY 2022-23 as on 23rd Sept 2022)

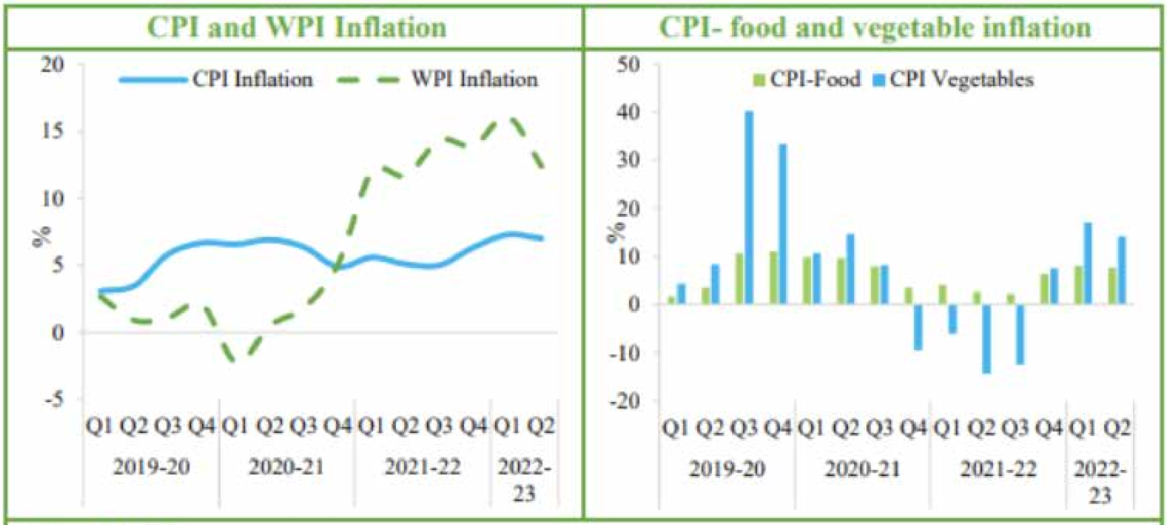
- In the week ending September 23, 2022 YoY credit growth has been estimated at 16.4 per cent as against 8.7 per cent in the week ending March 25, 2022.

- Non-food credit grew from 8.7 per cent at the end of FY 2021-22, to 12.8 per cent in end-Q1 and 16.2 per cent in end-Q2 of the current fiscal year on the back of sustained growth in retail credit and improving levels of wholesale credit.

- Demand for retail credit has now seen 7 consecutive quarters of double-digit YoY growth, primarily on account of rising demand for loans for vehicles, housing, and consumer durables

- The weighted average lending rate (WALR) of scheduled commercial banks (SCBs) on fresh rupee loans has risen by 82 basis points (bps) between April 2022 and August 2022 on account of banks transmitting higher repo rates to their lending rates

Inflation



Source: MoSPI

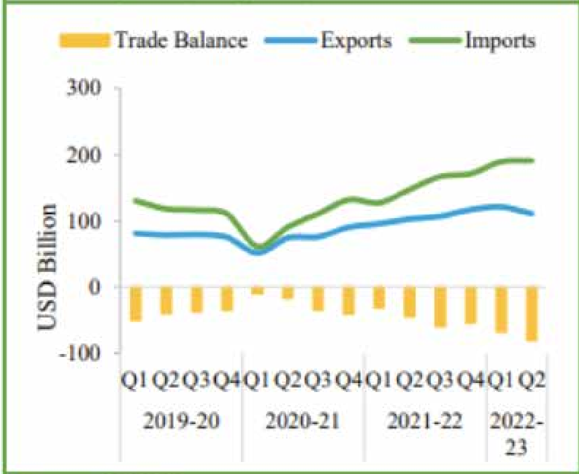
- WPI inflation in India, which had averaged 5.1 per cent in the Jan-March quarter of 2021, rose to 13.9 per cent in the same quarter of 2022.

- The marginal uptick in headline retail inflation from 7 per cent in August 2022 to 7.4 per cent in September 2022 is on account of an increase in food inflation to 8.6 per cent. In the three months ending September 2022, domestic retail inflation averaged 7 per cent.

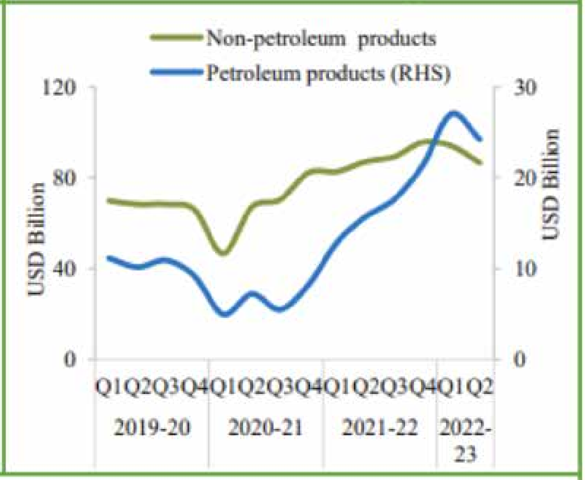
- Core inflation continues to remain sticky at 6.0 per cent in September 2022 and its trajectory will depend on the extent of pending pass-through of rising input costs to the final consumer

External Sector

Exports, Imports, Trade Balance



POL and Non-POL Exports



Source: DGCIS

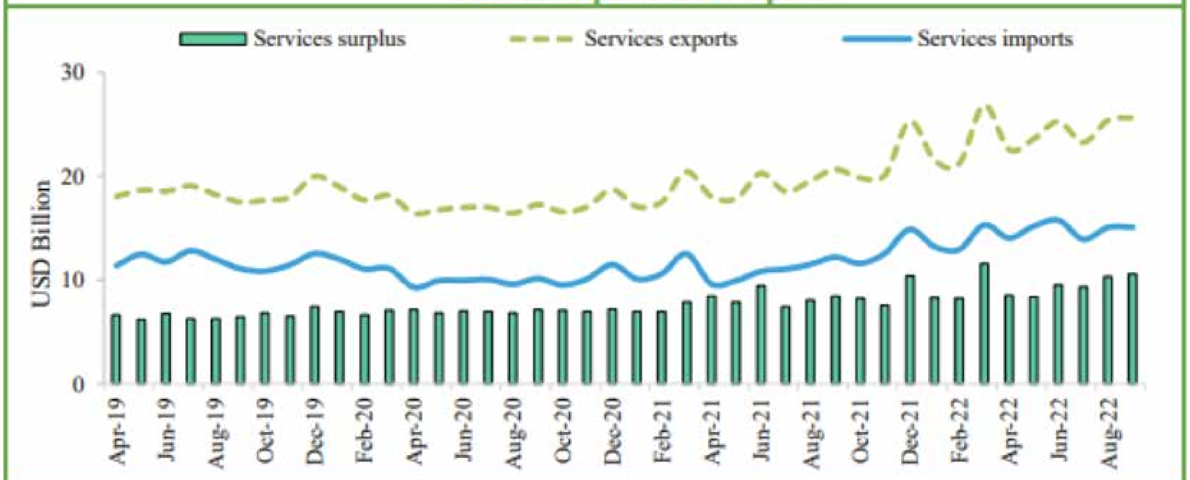
- India's trade, after witnessing a strong recovery in 2021-22 post the pandemic-induced slump of the previous year, continued to grow in Q1:2022-23 with merchandise exports touching a record high of $121.1 billion.

- In its September update of the Interim Economic Outlook, the OECD has projected a pervasive global economic slowdown trimming the global growth forecast to 3 per cent for 2022 and 2.2 per cent for 2023.

- Stabilised exports and sustained imports have almost doubled the merchandised trade deficit from $ 76.3 billion in H1: 2021-22 to $148.5 billion in H1: 2022-23. The overall trade deficit has, however, widened to a lesser extent as it combines an increase in net service exports with a deterioration in the merchandise trade deficit.

- Net service exports during April-August 2022 rose 11.7 per cent over the corresponding period last year. Service exports continue to be driven by computer and business services

Service Exports and Imports



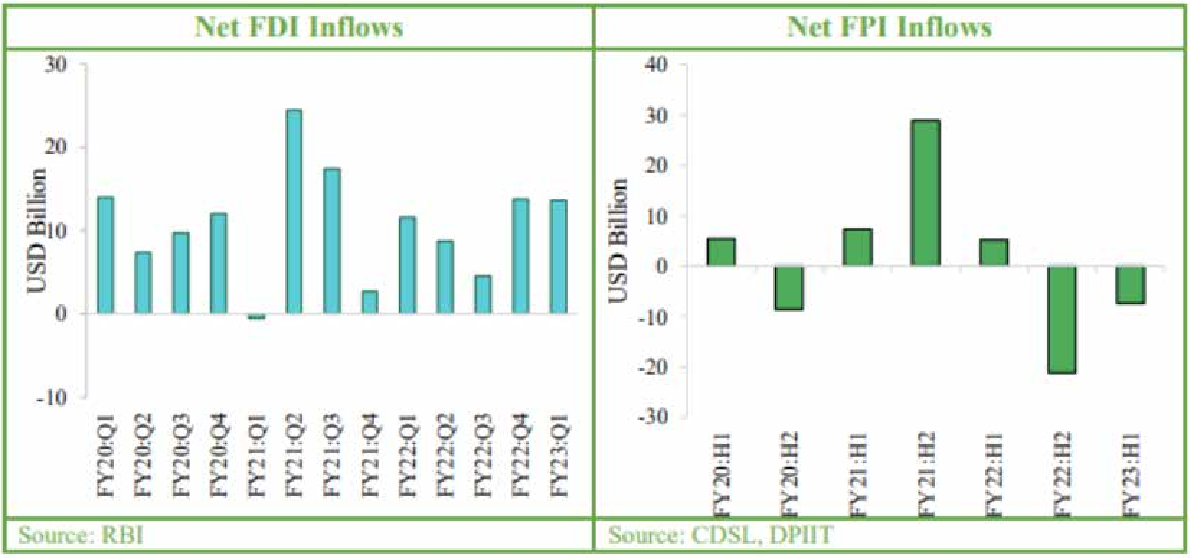
Source: RBI

- The rising trade deficit has resulted in the widening of the Current Account Deficit (CAD) from 1.5 per cent of GDP in Q4:2021-22 to 2.8 per cent of GDP in Q1:2022-23. The sequential increase in CAD is, however, not only driven by a widening of merchandise trade deficit but also by an increase in net outgo of investment income payments

- The foreign direct investment (FDI) inflows were stable during April-July, rising from US$ 13.1 billion in 2021-22 to US$ 18.8 billion in the current year.

- The computer software & hardware industry has attracted the highest FDI equity inflow, followed by the services sector, trading, chemicals, and automobile industry and construction (infrastructure) activities.

- The foreign portfolio investment (FPI) inflows have been less stable. Persistently high inflation in the US and the hikes in interest rates by the Federal Reserve has resulted in capital flight to the US, not only from India but from several other countries as well.



Source: RBI
Source: CDSL, DPIIT

Outlook

As measured by PMI composite index, the economic activity level was higher for India at 56.7 compared to 51.0 for the World level during April-Sept 2022. On the external front, the rupee has performed relatively well in H1:2022-23 compared to other major economies, reflecting the strong fundamentals of the Indian economy. High-Frequency Indicators (HFIs) suggest a continued broadening of traction in services activity. E-way bills, in particular, point to the overall growth of inter-state wholesale and retail trade. Prudent macroeconomic policies that have served the country well since 2014 continue to remain essential. As is the case with batting in swinging conditions, policy errors avoided will be as important as policy decisions taken.

For more information:
Ministry of Finance, Department of Economic Affairs
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