Ministry of External Affairs
Government Of India

ECONOMIC
DIPLOMACY
DIVISION

MONTHLY ECONOMIC REPORT

NOVEMBER 2022

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Introduction

On 1st December 2022, India launched its G20 presidency with the theme of "Vasudhaiva Kutumbakam" ("One Earth, One Family, One Future"), which stresses global interconnectedness and displays India's commitment to protecting the environment. India's perspective on striving for progress is to bring global advancement in a unified world and form a new paradigm of human-centric globalisation. At G20 meetings held in more than 50 cities in the country, participants will be able to witness India's colourful culture and have a one-of-a-kind Indian experience. India's main objectives are to mend our 'One Earth', construct a unity within our 'One Family' and provide optimism for our 'One Future'. India will motivate sustainable and eco-friendly lifestyles based on India's traditional stewardship of nature. To reinforce solidarity within the human family, India will strive to make global supplies of food, fertilisers and medical items apolitical so that political conflicts do not lead to humanitarian crises.

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

- India registered a broad-based expansion of 9.7 per cent in H1:2022-23, supported by robust domestic demand and upbeat investment activity.

- Sectoral analysis reveals that growth was driven by pent-up demand from the services sector, enhanced agriculture exports and robust construction activity aided by increased infrastructure investment.

- Private consumption, bolstered by pent-up demand, reached its highest among all second quarters during the past 11 years at 58.4 per cent of GDP.

- The investment rate also rose to be the highest among all the second quarters since 2012-13 at 34.6 per cent of GDP, hinting at the beginnings of an investment cycle.

- Industrial activity, as gauged by PMI Manufacturing, continued to remain in the expansionary zone during Q3:FY2022-23 (till November), driven by an improvement in operating conditions, expansion in new export orders, and a rise in production.

- Buoyant GST collection, robust e-way bill generation and increased e-toll collection reaffirm resilience of the economic activity.

- Steady growth momentum in service activity continues with expansion in PMI Services during Oct-Nov, attributed to the growth in output and accommodative demand conditions, leading to a sustained upturn in sales.

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

- Indian external sector continues to face the headwinds emanating from the global slowdown.

- Stable foreign direct investment (FDI) flows, resurgent FPI flows, and foreign exchange holdings that provide an import cover of nine months cushion the external front.

- Altogether, India's strong economic performance is also asserted by the World Bank's recent upgradation of India's growth forecast from 6.5 per cent to 6.9 per cent for 2022-23.

Economy

- India's real GDP grew at 6.3 per cent YoY in Q2 of 2022-23, aided by robust domestic demand and steady investment activity. Having reached a level 8 per cent higher than the corresponding pre-pandemic level of 2019-20, Q2 of 2022-23 also marked a post-recovery growth for the Indian economy.

- Sequentially, India's real GDP grew by 3.6 per cent from Q1 to Q2, sustaining the growth momentum that emerged at the beginning of the year.

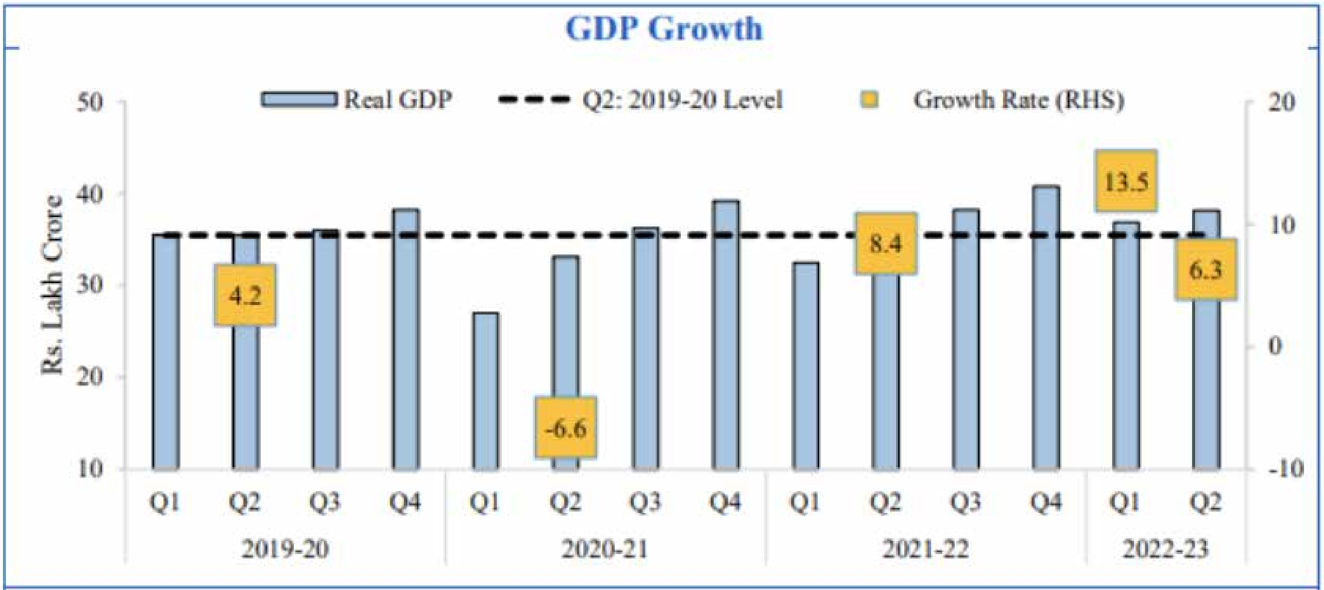
- This growth compares much favourably with the average sequential growth of -0.1 per cent of all the second quarters between 2013-14 and 2019-20. Sequential growth of such a large magnitude reflects the significant release of pent-up demand in India's economy

- On the supply side, the real GVA YoY growth in agriculture and allied sectors in Q1 was sustained in Q2, supported by growth in exports of agricultural products.

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

- On the demand side, private consumption continued to draw support from the release of pent-up demand, rising to 58.41 per cent of GDP in Q2, a significant step-up from 56.6 per cent in the corresponding quarter of the previous year and the highest among all second quarters during the past 11 years.

- Gross Fixed Capital Formation (GFCF), at 34.6 per cent of GDP, also rose to be the highest among all the second quarters since 2012-13, hinting at the beginnings of an investment boom.



Source: National Statistical Office, MoSPI

- Despite the sustained supply chain disruptions and uncertain geopolitical environment, the share of exports in GDP increased from 22.9 per cent of GDP in Q1 of 2022-23 to 23.3 per cent in Q2, the highest in Q2 since 2014-15. This is suggestive of India's exports increasing their global market share.

- Domestic activity continues to strengthen despite global turmoil, as evident in buoyant GST collections crossing the Rs. 1.4 lakh crore benchmark for nine successive months, as seen after the release of November 2022 data.

- Sustained growth in volume and value of e-way bill generation during October-November of 2022 bespeaks increased spending and value addition in the manufacturing sector of the economy.

- Increasing electronic toll collection levels also reaffirms rising commercial activity, while robust energy demand despite fair weather in Oct-Nov provides yet another evidence of strengthening economic activity.

- Industrial activity, as gauged by PMI Manufacturing, continued to remain in the expansionary zone during Q3:FY2022-23 (till November), driven by an improvement in operating conditions, expansion in new export orders, and a rise in production.

- The performance of eight core industries experienced positive growth sequentially in October, barring electricity and cement which were influenced by seasonal factors.

- Steady growth momentum in service activity continues with expansion in PMI Services during Oct-Nov, which can be attributed to the growth in output and accommodative demand conditions, leading to a sustained upturn in sales

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

- Demand for fuel has now risen to an eight-month high in November 2022, boosted by industrial activity and increased consumption both in urban and rural areas.

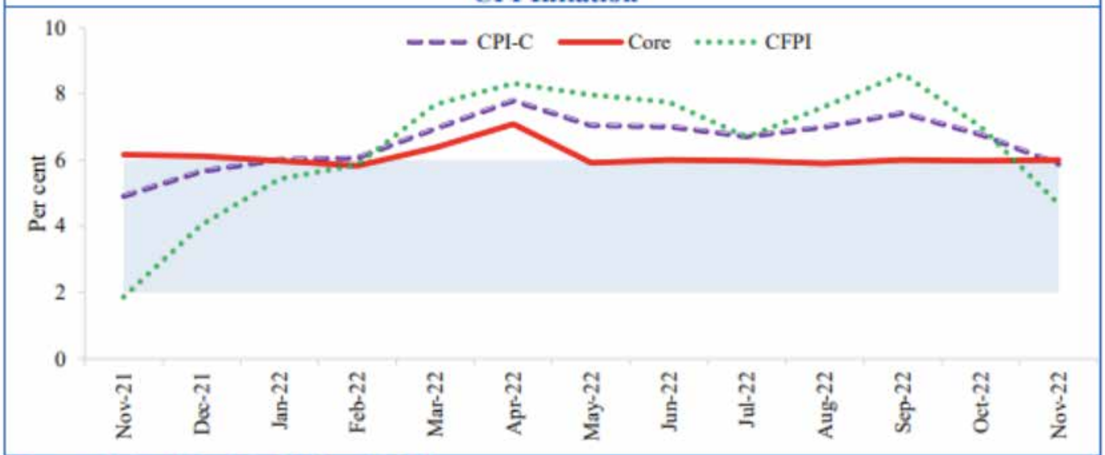
- Robust growth in domestic vehicle sales and high UPI transactions also reflect healthy demand conditions.

Inflation

- Inflation, as measured by the Consumer Price Index-Combined (CPI-C), fell sharply to 5.9 per cent (YoY basis) in November 2022 compared to 6.8 per cent in October 2022.

- Food and beverages' component having the highest weight in the CPI-C basket, registered a sharper-than-expected decline mainly because of the subsiding of pressures in the fruits and vegetables subgroup. Vegetables sub-group inflation softened to (-) 8.1 per cent in November 2022 compared to 7.8 per cent in October 2022.

CPI Inflation

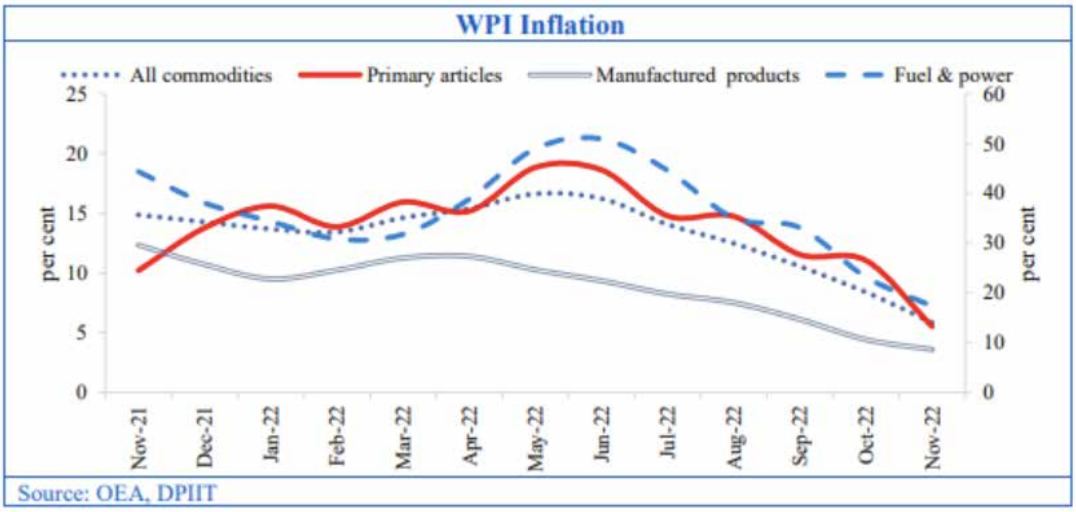


Source: National Statistical Office, MoSPI

- 'Fuel and light inflation', after declining since August 2022, edged up in November 2022, jumping to double digits partially driven by an unfavourable base effect in electricity.

- 'Transport and communication' inflation also witnessed a sharp uptick and increased by 68 basis points in November 2022 compared to last month, solely because of the high base effect. 20.

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



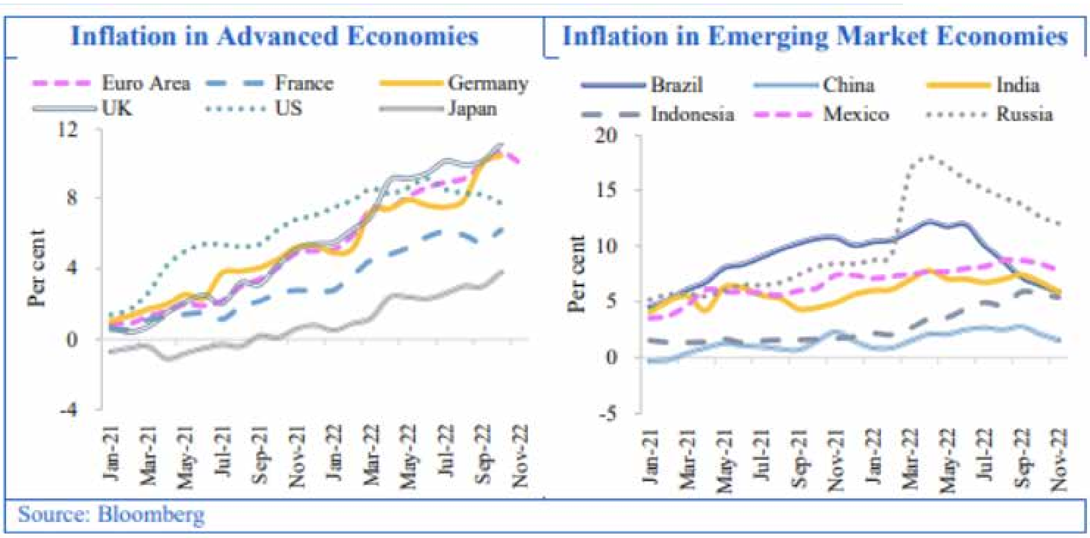
Global economy

- Although global commodity prices have moderated in recent months, they remain above the pre-conflict levels.

- Inflation in advanced economies like the US, Euro Area and the UK continues to remain high owing to sustained cost-push pressures, including higher wage demand, elevated food and energy prices, and supply-chain bottlenecks.

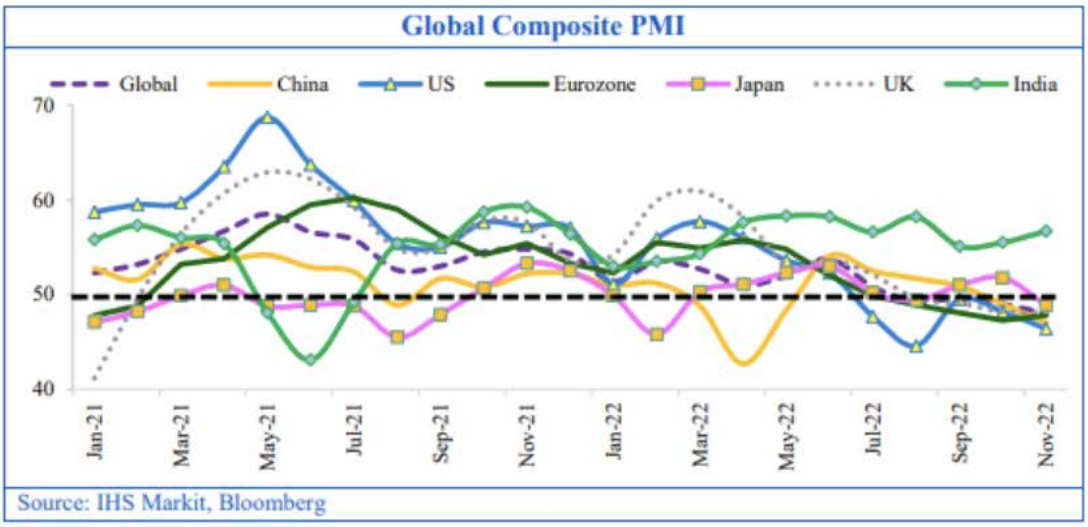
- However, since the beginning of the October-December quarter of 2022, cooling off of inflation has been experienced by a few countries.

- The softening inflation coupled with slowing growth has led central banks to telegraph a slower pace of rate hikes going forward and adopt a wait-and-watch policy to see the full impact of the monetary transmission mechanism, going ahead.



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

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



- World merchandise trade volume growth plateaued in the April-June quarter of 2022, with a 4.7 per cent year-on-year increase, slightly lower than 4.8 per cent growth in the previous quarter.

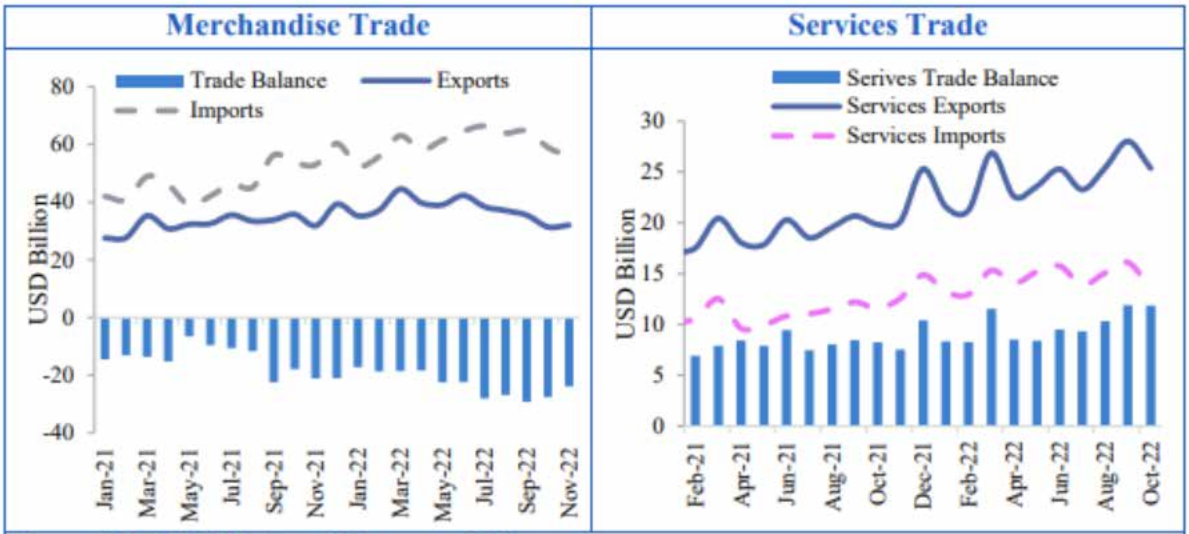
- The WTO goods trade barometer index stood at 96.2 in the quarter ending September 2022 (below the baseline value of 100), suggesting cooling business sentiment and weaker global import demand

External sector

- A good export (of goods and services) performance by India in the July-September quarter compared to the previous quarter, even as global output growth has started to slow, vindicates the observation of the World Bank.

- The agency has also noted that India's large domestic market will provide sufficient stimulus to sustain reasonable growth even as the slowing world output growth eventually weakens the export channel.

- The momentum-sustaining GDP growth in the July-September quarter is another vindication of the bank's assessment. The World Bank has thus revised upward India's 2022-23 growth projection from 6.5 per cent to 6.9 per cent.



Source: DGCI&S, Ministry of Commerce, RBI

- While a deteriorating global economic outlook and a waning favourable base effect have led to a plateauing of India's monthly merchandise export growth since July 2022, exports between April and November 2022 remain 11.1 per cent greater than in the corresponding period of the previous year.

- The growth in imports, particularly non-oil and non-gold imports, has also slowed, albeit from a higher level. This has led to a marginal improvement in the merchandise trade deficit in November

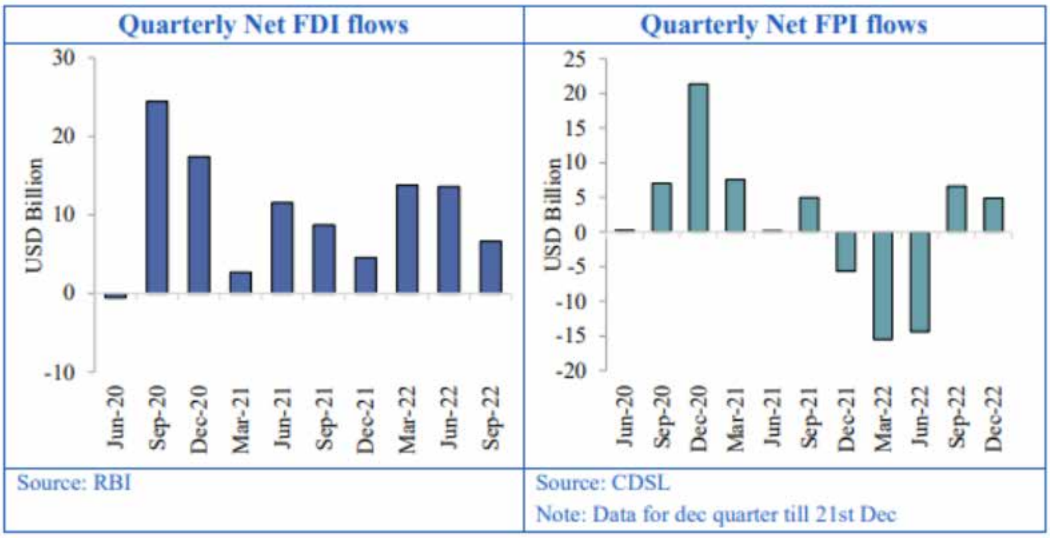
- Further, as India's economy continues on its growth path, India's oil and non-oil imports will rise. Non-oil import share of private consumption and capital formation came down in the last decade, not because of the enhancement of domestic manufacturing capacity but because capital formation grew more slowly than in the first decade.

Source: Calculated using data from MoSPI, DGCIS

- Net FDI inflow totalled 1.2 per cent of GDP in FY 2021-22 and remained firm at the same ratio in the first half of FY 2022-23.

- Between April 2022 and October 2022, India received net FDI inflows of USD 22.7 billion, higher than USD 21.3 billion received in the corresponding period of the previous year.

- Net foreign portfolio investment (FPI) flows, which were negative in Q1 2022-23, turned positive in the second quarter, and in the third, as of 21st December 2022, stood at USD 4.9 billion



Conclusion

India's economy grew at a quicker rate than other economies in the first half of 2022-23, attributable to the increase in demand and investments. The inflation rate has been declining since October, with the Consumer Price Index (CPI) inflation reaching its lowest point in eleven months in November, and it was beneath the Reserve Bank of India's (RBI) upper target band for the first time in 2022, mainly due to the decrease in food inflation.

To maintain economic growth and attract investors, it is essential to continue to prioritize macroeconomic stability. At present, there is a high level of investor interest in India, which must be sustained. As the pandemic subsides, India ought to focus on long-term issues such as finding technology and resources to transition to alternative energy sources, equipping the young with the necessary skills for the 21st-century economy, and keeping up with fiscal consolidation at the government level.

Fortunately, plenty of effort has been put in over the past years, laying the foundations for India to become a middle-income economy.

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