



Economic Diplomacy Division
Ministry of External Affairs

MONTHLY ECONOMIC REPORT

JANUARY 2023



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Introduction

- Over the past three years, the global economy has faced significant challenges including a health crisis and an ongoing conflict in Europe. In response, governments and central banks of both advanced and emerging market economies implemented various policies to address the resulting economic challenges, including stimulus and later, restrictive measures. This has resulted in increased economic uncertainties and uneven performance across the global economy in 2022. While output growth in the first and third quarter exceeded expectations, economic activity weakened in the second quarter due to the economic downturn in Russia and the re-emergence of the pandemic in China. In the fourth quarter of 2022, High-Frequency Indicators suggested a general slowdown, likely due to the impact of monetary tightening on global demand. These trends are expected to continue into 2023, with various agencies forecasting a decline in global growth. The lingering pandemic and conflict in Europe will dampen global growth further. Despite this, the IMF and the World Bank project India to be the fastest-growing major economy in 2023.

Global Economy

- Global growth is predicted to decline in 2023 due to ongoing pandemic uncertainties and conflicts in Europe.
- Major central banks tightening monetary policies is expected to also impact global economic activity.
- The IMF forecasts global output growth to decrease from 3.4% in 2022 to 2.9% in 2023, while the World Bank predicts a deceleration from 2.9% to 1.7% in the same period.
- The slowdown in advanced economies (AE) is driving the decline in growth in 2023, with 90% of AE projected to experience a decline in growth.
- Economic growth in AE is projected to decline sharply from 2.7% in 2022 to 1.2% in 2023.
- Growth in emerging market and developing economies (EMDEs) is estimated to increase from 3.9% in 2022 to 4.0% in 2023, with about half of EMDEs projected to grow faster in 2023 than in 2022.
- India is expected to be the fastest-growing major economy in 2023, despite the likelihood of tepid growth in exports due to the decline in output of major export markets (advanced economies).

Global GDP Forecast for 2023

Region	IMF January 2023-WEO		World Bank January 2023-GEP	
	2022 Estimates	2023 Forecasts	2022 Estimates	2023 Forecasts
Global	3.4	2.9	2.9	1.7
Advanced Economies	2.7	1.2	2.5	0.5
EMDEs	3.9	4.0	3.4	3.4
China	3.0	5.2	2.7	4.3
India	6.8	6.1	6.9	6.6

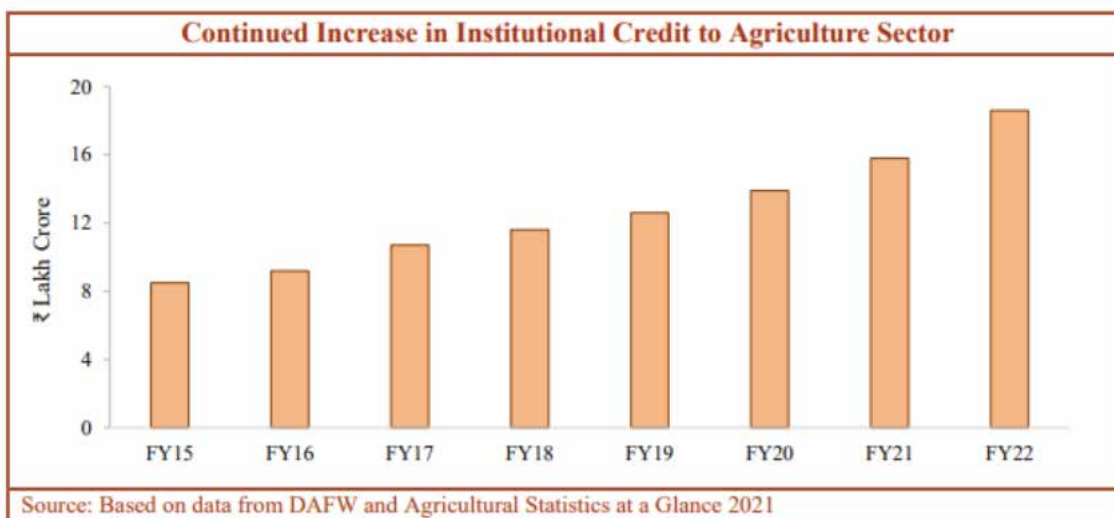
Source: IMF and World Bank

Budget 2023-24

- Union Budget FY24 aims for macroeconomic stability with a fiscal deficit of less than 6% of GDP
- Focus on supporting high growth of Indian economy and bringing weaker sections of society into mainstream
- Measures to spread education, reinvigorate skill development, and increase spending and consumer demand
- Capex stimulus to growth with increased Centre's Capex budget to INR 10 lakh crore
- Sustained expansion of manufacturing and services sectors aided by expansion of contact-intensive services
- Economic Survey predicts 6.5% growth rate for FY24 with more downside than upside risks

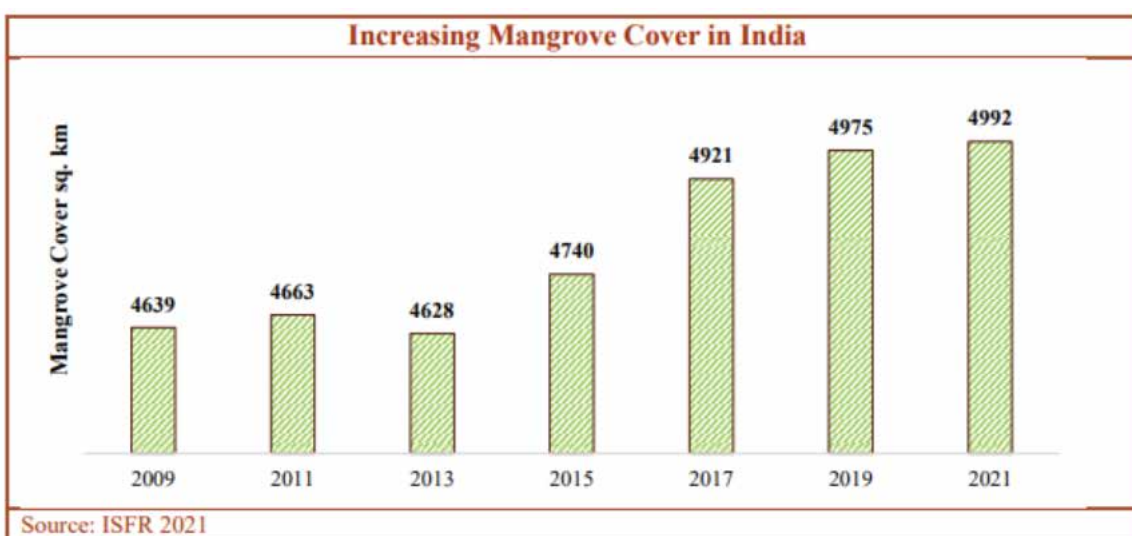
Sustaining Growth

- Gross value added (GVA) in India's agriculture sector grew 3% in FY22 and is expected to grow 3.5% in FY23.
- Area sown under Rabi crops increased by 3.3% in February 2023 compared to the previous year.
- Sales of fertilisers and tractors have supported the growth of agricultural output.
- The Union Budget FY24 announced measures to sustain the growth of agriculture, including enhancing the agricultural credit target to Rs. 20 lakh crore, creating an Agriculture Accelerator Fund, and increasing production of extra-long staple cotton through PPP.
- The per-member limit for cash deposits and loans in agricultural cooperatives has been increased to INR 2 lakh, and there are plans to use cooperative infrastructure to develop massive, decentralized storage capacity.
- GVA in the industrial sector grew 3.7% in H1 of FY23, supported by bank credit and the Emergency Credit Linked Guarantee Scheme (ECLGS).
- The Union Budget FY24 allocated INR 8,083 crore for the Production Linked Incentive (PLI) scheme to sustain industrial growth momentum, with most of the allocation for large-scale electronics manufacturing, pharma, auto, and auto components.
- Measures to benefit the MSME sector have been announced, including relief to MSME suppliers of the government, an enhanced credit guarantee scheme, and an increase in the limits on presumptive taxation for micro-enterprises.
- The government has reduced customs duty on certain parts for mobile phone production, extended concessional duty on lithium-ion cells, reduced basic customs duty on parts of open cell TV panels, and reduced duty on Lab-Grown Diamond (LGD) seeds to promote value addition in manufacturing.



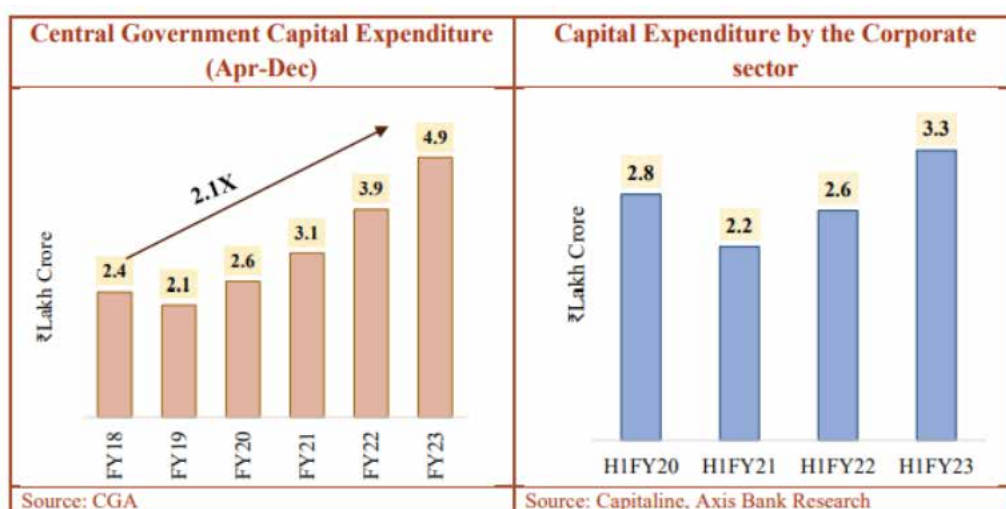
Green Growth Push

- Strategies announced include incentivizing use of green hydrogen and biofuel, conserving natural ecological safeguards like mangroves and wetlands, replacing polluting vehicles with non-polluting ones, and promoting the use of organic manures.
- A green credit system will be introduced under the Environment (Protection) Act to finance the transition to green energy.
- Adequate funds provided for developing battery storage systems and inter-state transmission of non-conventional energy to support higher renewable adoption for the grid.
- Customs duty exemption extended on importing capital goods and machinery required for manufacturing lithium-ion cells or batteries used in electric vehicles.
- Programs like GOBARdhan, MISHTI, Amrit Dharohar, and PM-PRAMAN have been launched to promote a circular economy, encourage afforestation, and enhance biodiversity.



Stimulating Growth

- Government's capital expenditure (Capex) in the last two years stimulated economic growth by increasing investment demand.
- The central government has already spent 65.4% of its Capex allocation for FY23 until December 2022.
- Public Capex has led to crowding-in of private investment and strengthened corporate balance sheets.
- There is an increasing trend in announced projects and Capex spending by private players.
- According to Axis Bank Business and Economic Research, corporate sector Capex increased to ₹3.3 lakh crore in H1 of FY23.
- Heavy investments in electricity, steel, chemicals, auto, and pharmaceuticals sectors are driving the increase in Capex.
- The FY24 Union Budget has increased the Centre's Capex budget by 33% from the previous year, to drive investment-driven growth amid global challenges.
- The Capex budget includes an allocation of ₹1.3 lakh crore for interest-free loans to States for 50 years, aimed at incentivizing infrastructure investment and reform measures.
- Grants-in-Aid will be provided to States for creating capital assets, while the Indian Railways will receive an enhanced capital outlay of ₹2.4 lakh crore, creating employment opportunities and improving logistics networks.
- One hundred critical transport infrastructure projects have been identified for last-and first-mile connectivity for key sectors, with a prioritized investment of ₹75,000 crore.
- An Urban Infrastructure Development Fund (UIDF) has been announced to develop urban infrastructure in Tier-2 and Tier-3 cities, similar to the Rural Infrastructure Development Fund.

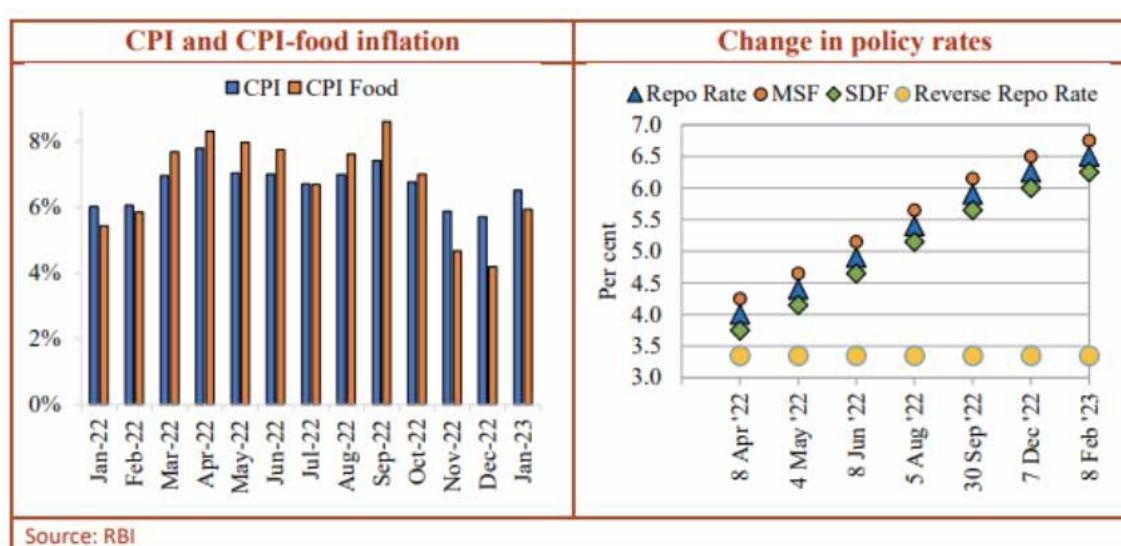


Financing Growth

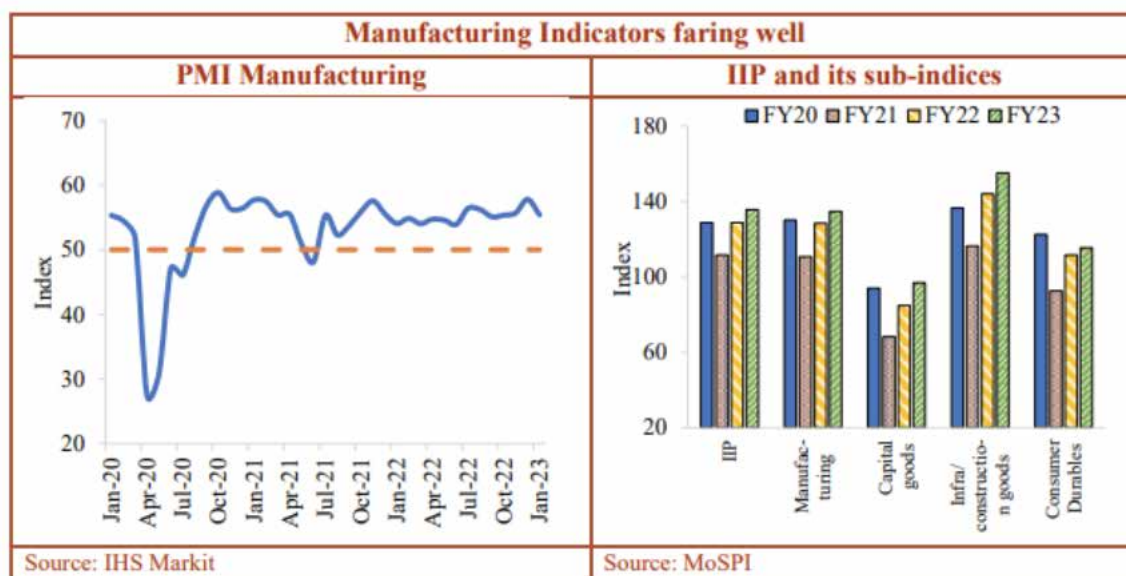
- The Union Budget has introduced the following measures:
- National financial information registry will be established to improve credit flow and promote financial inclusion.
- A single-window system will be introduced to improve ease of doing business.
- Measures will be taken to expedite the process of reclaiming unclaimed shares and unpaid dividends.
- GIFT will be made a more attractive destination for foreign investment.
- Reforms in property-tax governance and ring-fencing user charges on urban infrastructure will enable the issue of municipal bonds.
- A new legislative framework will be created to govern public infrastructure in consultation with the RBI.

Domestic Economic Developments

- CPI inflation in India in January 2023 was at 6.5%, largely due to higher food prices and sticky core inflation. CPI inflation also rose to 5.9%.
- 'Clothing and footwear' and 'fuel and light' sub-segments saw inflation of 9.1% and 10.8% respectively. Cereals and milk prices increased, while vegetable prices fell. Oils, fats and fruits prices remained stable YoY.
- WPI inflation decreased to 4.7% in January 2023, the lowest in 24 months, due to lower prices of mineral oils, chemicals & chemical products, textiles, crude petroleum & natural gas, and food products.



- The Indian government has taken steps to address rising wheat prices, including releasing 30 lakh metric tonnes (LMT) from the Food Corporation India (FCI) stock, reducing prices of FCI wheat, and estimating a record food grain produce of 3235.54 LMT.
- The RBI MPC raised the policy repo rate by 25 basis points (bps) to 6.50% in February 2022 to address inflationary pressures. The committee expects inflation to average 5.7% in Q4 FY23 and 5.3% in FY24.
- India's GDP is estimated to grow by 7.0% YoY in real terms in FY23, driven by private consumption and investment, while real Gross Value Added (GVA) is estimated to grow by 6.7% YoY.



- Despite a global economic slowdown, domestic economic activity remains robust, as indicated by the second-highest ever GST collections of ₹1.6 lakh crore in January 2023.

Indicator	Month	YoY Growth
UPI (Volume)	Jan-23	74.0%
Average ETC Collection	Jan-23	33.4%
Tractor Sales	Jan-23	30.3%
E-Way Bill Generation	Jan-23	20.0%
Domestic Passenger Vehicle Sales	Jan-23	17.2%
Non-food Credit	Jan-23	16.7%
Domestic Air Passenger Traffic	Dec-22	14.6%
GST Collections	Jan-23	12.7%
Power Consumption	Jan-23	12.2%
8 Core Industries	Dec-22	7.4%
Two and Three-Wheeler Sales	Jan-23	7.0%
Index of Industrial Production	Dec-22	4.2%
Rail Freight Traffic	Jan-23	3.9%
Fuel Consumption	Jan-23	3.6%
Merchandise Imports	Jan-23	-10.5%
Merchandise Exports	Jan-23	-6.6%

Outlook

- Global economy faced challenges in 2022 due to geopolitical tensions, high prices, monetary tightening, and inflationary trends.
- Despite this, Indian economy is expected to grow by 7.0% YoY in FY23, as per FAE.
- Economic Survey projects 6.5% baseline growth for FY24, but downside risks exist due to geopolitical tensions and potential El Nino conditions.
- Recent consumer confidence survey suggests tentative recovery.

The Union Budget FY24 includes measures such as increased capital expenditure, infrastructure development, green economy initiatives, and strengthening of financial markets, expected to promote job creation and spur economic growth. Additionally, measures for the MSME sector are expected to aid small enterprises by reducing the cost of funds. The revision of tax slabs under the New Personal Income Tax Regime is predicted to boost consumption, providing impetus to economic growth. Easier KYC norms, expansion of DigiLocker services, and a focus on digitisation and last-mile connectivity are also expected to strengthen financial markets. Despite potential risks, the Indian economy is confident thanks to a history of macroeconomic stability.

Source: Monthly Economic Report, January 2023



For more information:

Ministry of Finance, Department of Economic Affairs
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