



सत्यमेव जयते

Economic Diplomacy Division
Ministry of External Affairs

MONTHLY ECONOMIC REPORT

DECEMBER 2022



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Introduction

India's economy has fully recovered post-pandemic, ahead of other nations, and is on track to reach pre-pandemic growth in FY23. Despite this progress, India still faces challenges such as inflation caused by the European war and a depreciating rupee. The government and RBI have brought retail inflation under control with measures and the easing of global commodity prices.

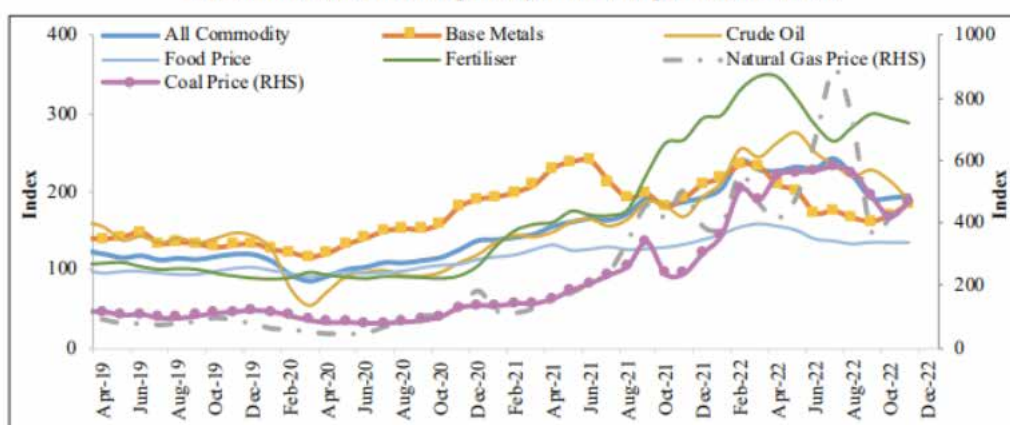
However, the rupee's depreciation remains a challenge and may worsen with potential rate hikes by the US Fed. The slowing global growth and trade may also lead to a loss of export stimulus. The loss of export stimulus is further possible as the slowing world growth and trade shrinks the global market size in the second half of the current year.

Despite the challenges, India is still projected as the fastest-growing major economy, with a growth rate of 6.5-7% in FY23, according to global agencies. This optimistic forecast is due to the resilience of the Indian economy, where private consumption has emerged as the primary driver of growth, replacing export stimuli. The increase in private consumption has also boosted production and capacity utilization across sectors.

Global economic challenges

- Global economic recovery was on track until the Russia-Ukraine conflict broke out in Feb 2022.
- Conflict has disrupted the restoration of supply chains disrupted by earlier lockdowns.
- Inflation in Advanced Economies (AEs) breached historical highs and Emerging Market Economies (EMEs) faced higher inflation due to rising commodity prices.
- Global PMI composite index has been in the contractionary zone since August 2022.
- Yearly growth rates of global trade, retail sales, and industrial production declined in H2 2022.
- Slowdown in China's economic activity due to zero Covid policy, contracting real estate sector, and tepid fiscal expansion.

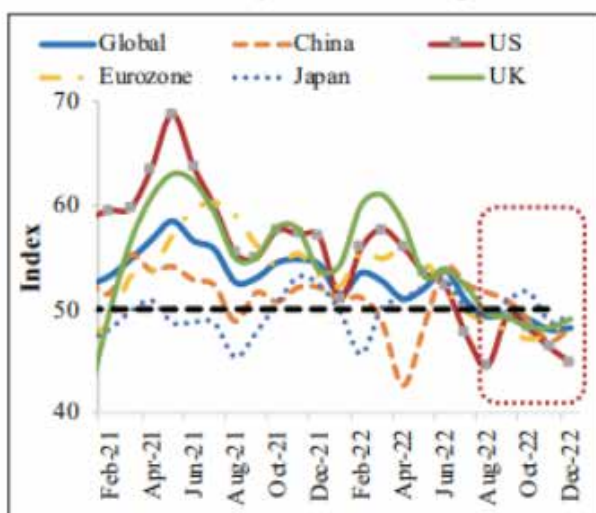
Figure I.1: Sharp rise in commodity prices due to the Russia-Ukraine conflict; prices yet to reach pre-conflict levels



Source: IMF

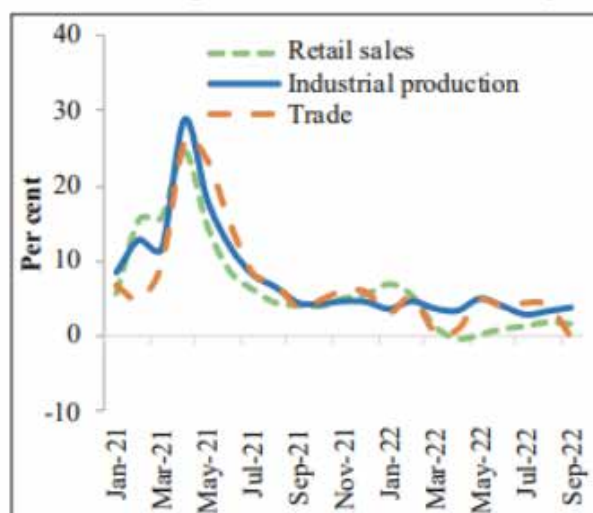
- Global PMI composite index has been in contraction since August 2022.
- Yearly growth rates of trade, retail sales, and industrial production significantly declined.
- International Monetary Fund downgraded growth forecasts in October 2022 World Economic Outlook update.

Figure I.6: Global Composite PMI in the contractionary zone since August 2022



Source: IHS Markit

Figure I.7: YoY growth in retail sales, industrial production and trade falling

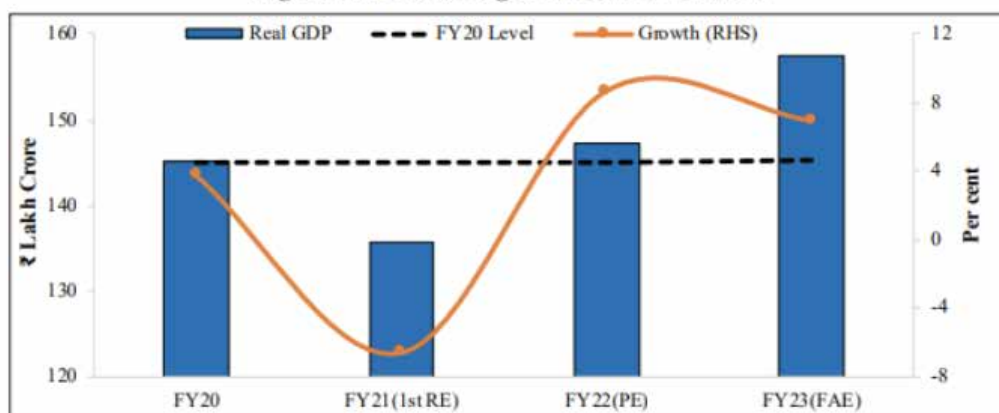


Source: OECD, November 2022

Macroeconomic and Growth Challenges in the Indian Economy

- India's retail inflation rose above RBI's tolerance range in January 2022 and remained there for 10 months.
- Monetary tightening led to the appreciation of the US dollar against several currencies, including the rupee.

Figure I.9: Economic growth remains resilient

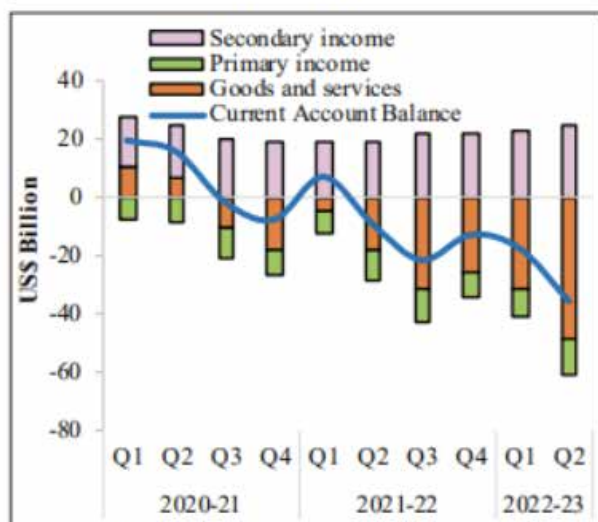


Source: NSO, MoSPI

Note: AE stands for Advanced Estimates, PE stands for Provisional Estimates, RE stands for Revised Estimates

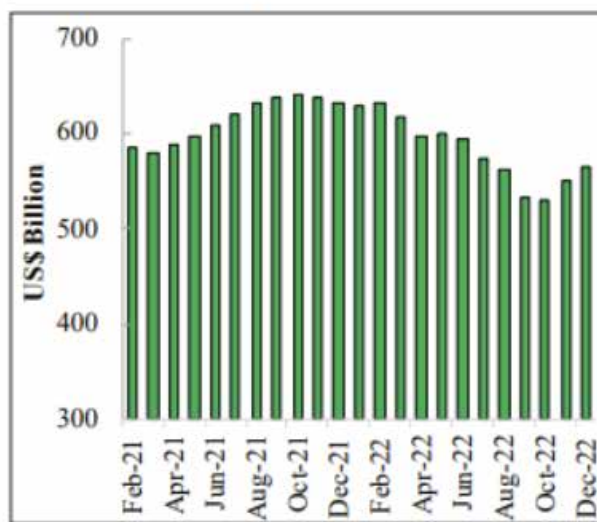
- Despite modest depreciation, the rupee remained one of the better-performing currencies worldwide.
- Modest depreciation of the rupee added to domestic inflationary pressures and widened the current account deficit.

Figure I.13: Widened Current Account Deficit



Source: RBI

Figure I.14: Adequate foreign exchange reserves to finance CAD

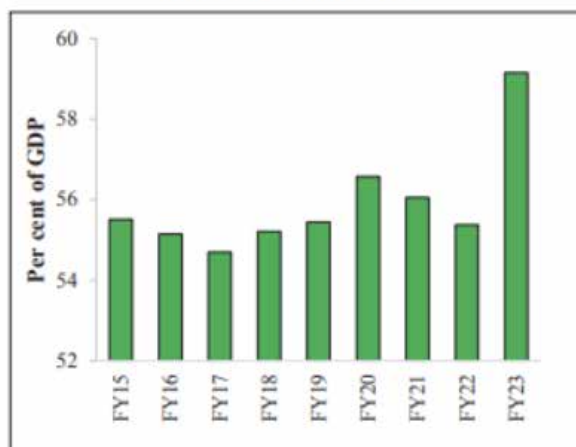


Source: RBI

India's Economic Resilience and Growth Drivers

- FY23 growth estimate is higher than major economies and slightly above average growth of the Indian economy before the pandemic.
- India's expected growth of 6.5-7.0% reflects underlying economic resilience despite global headwinds and tighter monetary policy.
- Impressive rebound of domestic consumption in India, contributing to rising in capacity utilization.
- High share of consumption in disposable income in India resulted in a greater rebound force after suppression due to the pandemic.
- Accelerating growth in personal loans indicates a lasting release of pent-up demand for consumption.
- Improving sentiment in consumer confidence in December 2022, according to the RBI survey on current and future employment and income conditions.

Figure I.19A: Private consumption highest since FY15 across H1



Source: NSO, MoSPI

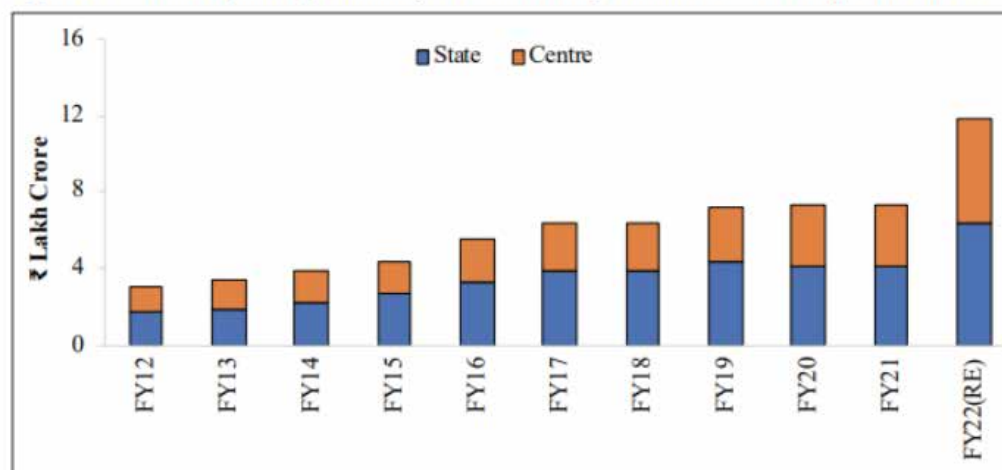
Figure I.19B: Improving consumer confidence



Source: RBI

- Economic output to increase by at least 4 times the amount of Capex, according to the estimated Capex multiplier.
- States also performing well in their Capex plans.
- Direct tax revenue and GST collections are highly buoyant, allowing full spending of the Capex budget within the budgeted fiscal deficit.
- Growth in revenue expenditure limited to prioritize higher growth in Capex.

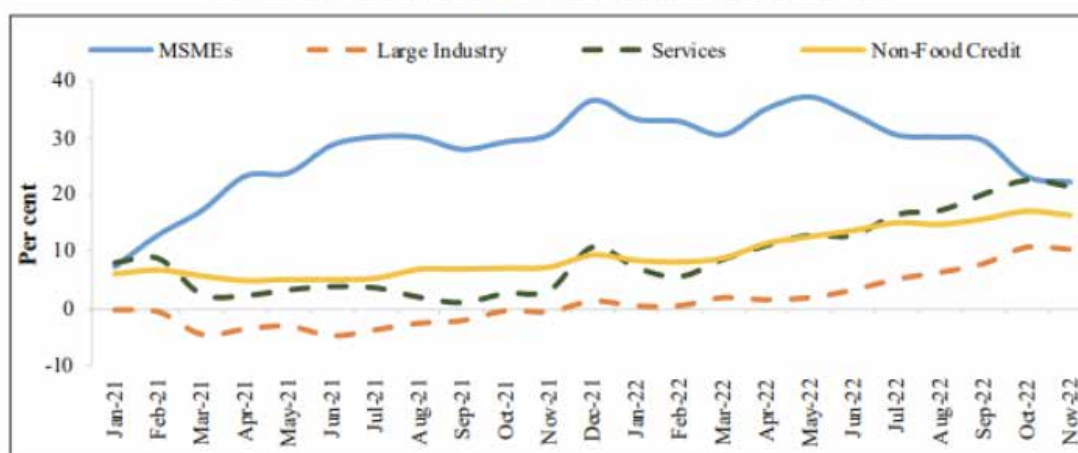
Figure I.21: Total capital expenditure grew at an average rate of 13.0% during FY12 and FY22



Source: Union Budget, States Budgets, RBI

- Banking sector in India responding to demand for credit with YoY growth in credit reaching double-digits.
- Remarkably high credit growth to the MSME sector (30.5%) from Jan-Nov 2022 due to Emergency Credit Line Guarantee Scheme.
- Government providing budgetary support to keep PSBs well-capitalized with CRAR remaining above adequacy threshold levels.

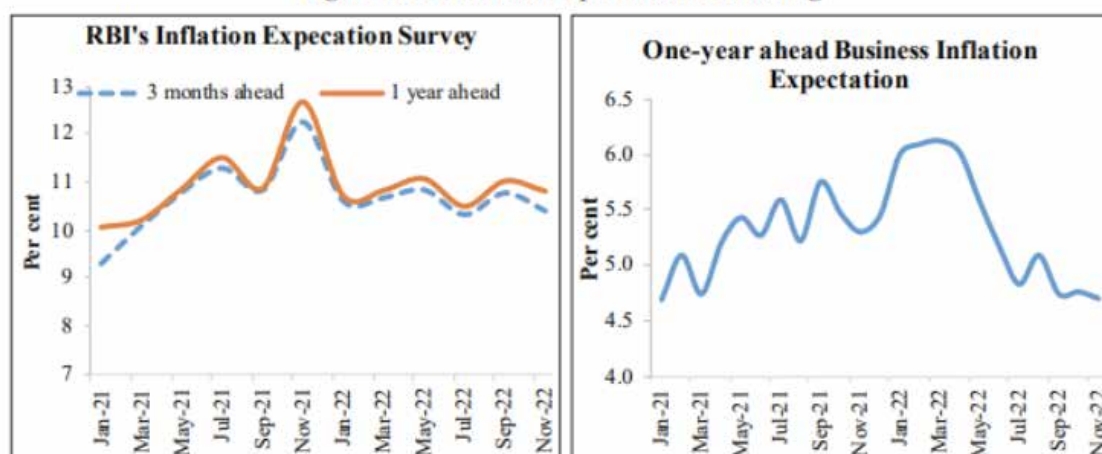
Figure I.26: Double-digit growth in Bank Credit to MSMEs



Source: RBI

- RBI projecting headline inflation at 6.8% in FY23, not high enough to deter private consumption or low enough to weaken investment incentives.
- Declining inflation may lead to a decrease in the interest cost of domestic credit, increasing demand for credit by corporates and retail borrowers.

Figure I.32: Inflation Expectations Anchoring



Source: RBI

Source: IIMA

India's Inclusive Growth

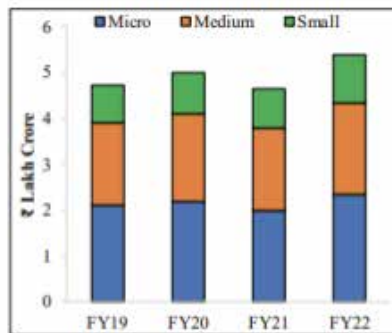
- According to the Periodic Labour Force Survey (PLFS), the urban unemployment rate for individuals aged 15 and above declined from 9.8% in the quarter ending September 2021 to 7.2% a year later.
- This decrease was accompanied by a rise in the labour force participation rate (LFPR), signifying that the economy is recovering from the pandemic-induced slowdown in early FY23.
- The creation of jobs has accelerated due to a surge in exports, a robust release of pent-up demand, and an efficient rollout of capital expenditures.
- In FY21, the government introduced the Emergency Credit Line Guarantee Scheme, which has effectively protected micro, small, and medium enterprises from financial hardship.

Figure L33: Urban Unemployment Rate at four-year low



Source: NSO, MoSPI

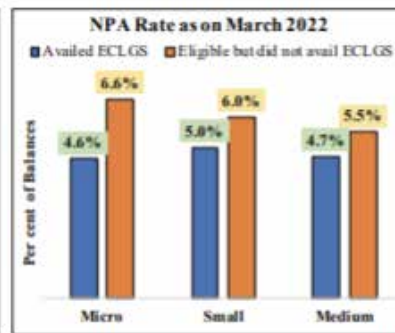
Figure L34: GST paid by MSMEs in FY22 crossed the pre-pandemic level



Source: Ministry of Finance

Note: Includes firms with turnover up to ₹1000 crore.
Micro – <= 25cr; Small <= 25 to 100 Cr.; Medium 100 to 1000 Cr.

Figure L35: ECLGS aided MSMEs in improving their asset quality



Source: ECLGS Insights Report*, TransUnion CIBIL, August 2022



Outlook

- India's economy is recovering quickly from the pandemic, driven by strong domestic demand and increased capital investment. This growth is being supported by multiple structural changes that have been implemented in recent years.
- The private sector, including both financial and non-financial companies, had previously been repairing their balance sheets, leading to a slowdown in capital formation.
- The financial stress that the country experienced in the previous decade, characterized by rising nonperforming assets and declining credit growth, has now been overcome.
- The improvement in the financial sector has resulted in the early signs of a new private sector capital formation cycle. Meanwhile, the government has increased capital expenditure to compensate for the private sector's caution in this area.
- Capital expenditure has risen by 2.7 times over the last seven years, from FY16 to FY23, revitalizing the Capex cycle.
- Structural reforms such as the implementation of the Goods and Services Tax and the Insolvency and Bankruptcy Code have improved the efficiency and transparency of the economy, promoting financial discipline and better compliance.

Despite India's positive outlook, the global economy faces several challenges that may result in downside risks. High inflation rates have prompted central banks worldwide to tighten financial conditions, causing a slowdown in economic activity, particularly in advanced economies. The strain in supply chains and increased uncertainty due to geopolitical conflicts have also worsened the global outlook. As per the IMF's World Economic Outlook October 2022, global growth is expected to decrease from 3.2% in 2022 to 2.7% in 2023.

Despite global challenges, international agencies are still forecasting India as the fastest-growing major economy, with a projected growth rate of 6.5-7.0% in FY23. This positive outlook is due to the resilience of the Indian economy, particularly with the rebound of private consumption replacing exports as the main driver of growth. The increase in private consumption has led to a boost in production activity, resulting in a rise in capacity utilization across industries.

Source: Monthly Economic Report, December 2022

For more information:

Ministry of Finance, Department of Economic Affairs

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