सत्यमेव जयते

Economic Diplomacy Division

Ministry of External Affairs

MONTHLY ECONOMIC REPORT

FEBRUARY 2023

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Introduction

India's real GDP increased by 4.4% in the third quarter of FY23, driven by sustained sequential growth on both the supply and demand sides. The reopening of contact-intensive services and a rise in rabi sowing helped the supply-side grow, while pent-up demand boosted private consumption expenditure. Net payroll additions under EPFO showed YoY growth of 41.4% in December 2022, indicating formal sector employment growth, and the current account deficit is set to narrow due to India's increasing market share in net service exports. Despite global inflationary pressures and corporate debts from the Russia-Ukraine war, India's corporate debt as a percentage of GDP in Q3 2022 was lower than in Q3 2008 compared to other nations. Inflation is expected to moderate in FY24 to 5.0-6.0%, with balanced risks. India's economy has demonstrated newfound resilience in navigating pandemic and geopolitical challenges, with the highest growth rate among major economies in FY23. Furthermore, macroeconomic stability is expected to receive a boost thanks to a manageable current account deficit.

Indian Economy remains resilient despite global headwinds

- Despite rising borrowing costs and a gloomy global outlook, the real GDP in Q3 of 2022- 23 registered a YoY growth of 4.4%.

- The GDP growth figure for Q3 FY23 is lower than the previous quarter (6.3%), but it doesn't indicate a shallow growth.

Real GDP and growth rate

Source: NSO, MoSPI

- Growth momentum has also been supported by the contact-intensive services sector.

- From the supply side, agriculture and allied sectors significantly contributed to the sustenance of the growth momentum as rabi sowing has risen in the recent cropping season.

Contribution of Supply-side factors to Real GVA and growth			
Sectors	**Q2 of 2022-23**	**Q3 of 2022-23**	**YoY growth in Q3 of 2022-23**
Agriculture, forestry & fishing	**12.0**	**18.7**	**3.7**
Industry	**29.5**	**29.1**	**2.4**
Mining & quarrying	1.8	2.1	3.7
Manufacturing	17.7	16.5	-1.1
Electricity, gas, water supply, other utilities	2.5	2.2	8.2
Construction	7.6	8.2	8.4
Services	**58.5**	**52.3**	**6.2**
Trade, hotels, transport, communication etc	19.0	19.3	9.7
Financial, real estate & professional services	26.2	20.1	5.8
Public administration, defence services etc	13.3	12.9	2.0

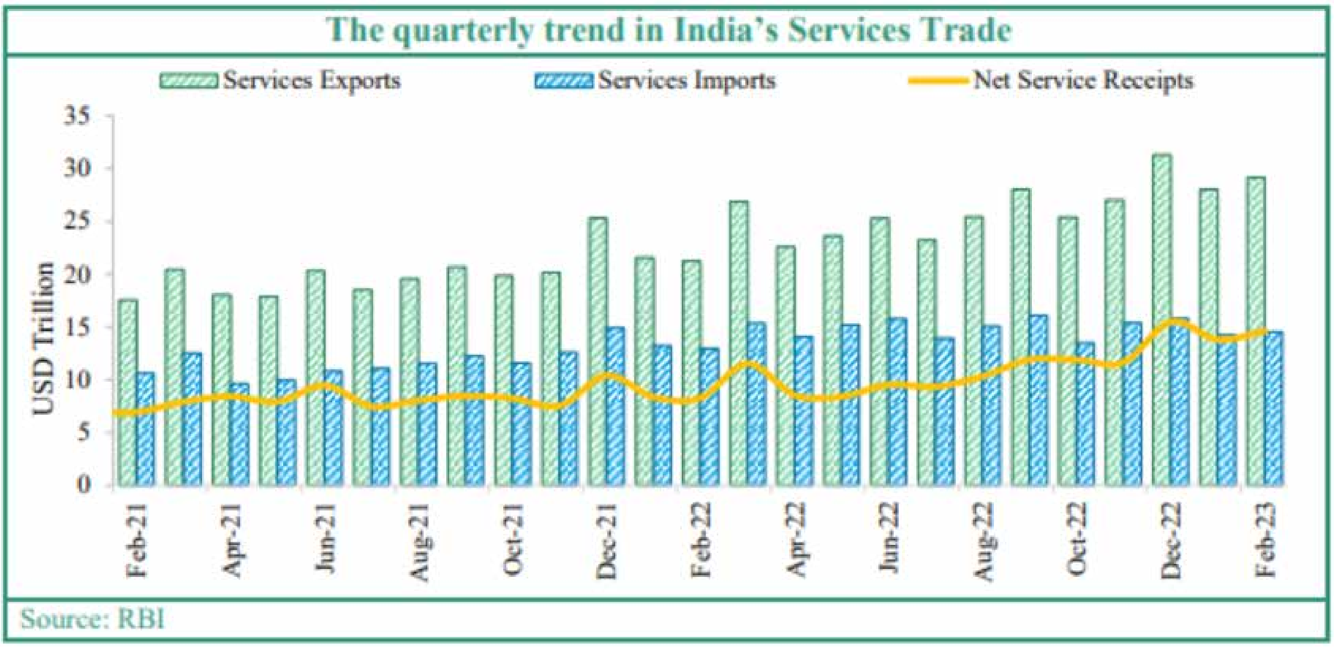
Source: NSO, MoSPI

- The overall foodgrain production in 2022-23 is estimated to be 2.5% higher.
- The contraction of manufacturing GVA appears to have been caused by a sharper rise in the cost of inputs than the value of output.
- Even as the cost of inputs has risen, the manufacturing output has not stagnated.
- The Index of Industrial Production (IIP) and the Index of Eight Core Industries have also observed positive YoY growth during April-Jan of 2022-23.
- The MSME sector remains a significant contributor to manufacturing growth with a share of 26.8% in the overall GVA and 38.5% in the manufacturing GVA (FY21). The MSME sector also substantially contributes to boosting export competitiveness by producing a diverse range of products at competitive rates.
- From the demand side, the growth momentum has been sustained by Private Final Consumption Expenditure (PFCE). Its share in real GDP rose from 59.5% in Q2 to 61.6 % in Q3.

Contribution of Demand-side factors to Real GDP and growth			
Sectors	**Q2 of 2022-23**	**Q3 of 2022-23**	**YoY growth in Q3 of 2022-23**
Government Final Consumption Expenditure (GFCE)	8.6	8.7	-0.8
Private Final Consumption Expenditure (PFCE)	59.5	61.6	2.1
Gross Fixed Capital Formation (GFCF)	34.2	31.8	8.3
Exports of goods and services	23.9	22.9	11.3
Imports of goods and services	28.3	25.3	10.9

Source: NSO, MoSPI

- Increased tractor and two-wheeler sales and rising rural wages reaffirm improvement in rural demand.
- The contribution of Gross Fixed Capital Formation (GFCF) to the growth momentum softened as its share in the real GDP moderated from 34.2% in Q2 to 31.8% in Q3.
- Overall capital expenditure by the Central Government cumulatively reached ₹5.7 lakh crore until January 2023, 29% higher than in the corresponding period of the previous year.
- Despite merchandise exports witnessing tepid growth in the second half of 2022, they have remained resilient, growing YoY at 7.6% in April-February 2022-23.
- India's service exports are estimated to register YoY growth of 30.5 % during April-February 2023.

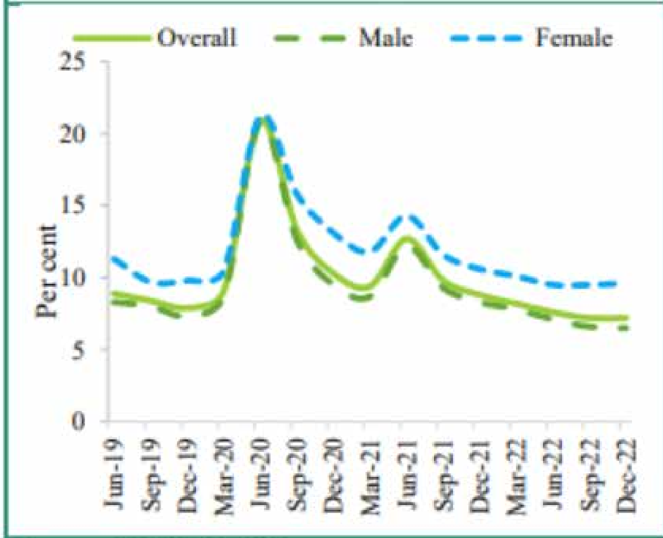


- Total FDI inflows to India stood at US$ 83.6 billion in 2021-22, the highest since 2000-01.
- Foreign investors announced 628 projects worth about US$ 60 billion between January and October 2022. India is by far the world's biggest recipient of R&D activities.
- The future growth of the economy heavily relies on the effectiveness of the Production Linked Incentive (PLI) initiative across 14 sectors. This scheme aims to increase manufacturing capacity, stimulate exports, lessen import reliance, and generate employment opportunities for both skilled and unskilled labor.
- The successful implementation of this scheme, together with the "Make in India" strategy and bilateral trade agreements with the UAE, Australia, the UK, and the EU, is anticipated to mirror the achievements of various East Asian nations.
- The slowdown in China will likely allow India to emerge as an alternative global manufacturing hub.

Decline in unemployment rate

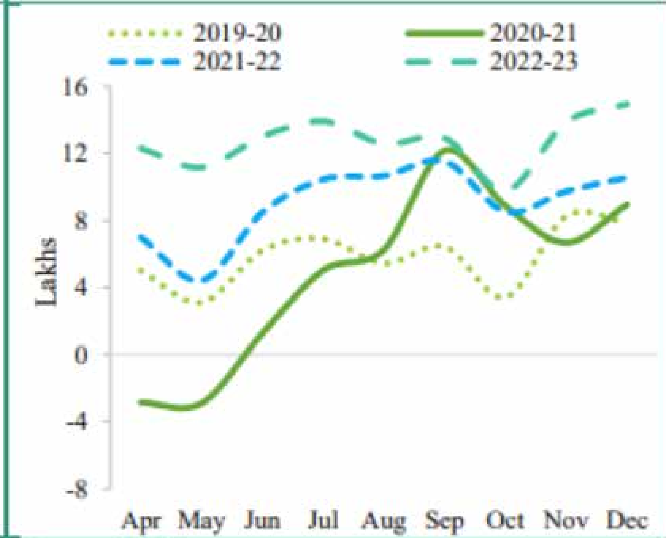
- As per the Periodic Labour Force Survey (PLFS), the overall urban unemployment rate for people aged 15 years and above declined to 7.2% one year later in the December quarter of 2022.

Urban Unemployment Rate as per Current Weekly Status



Source: PLFS, MoSPI

Net Payroll Additions under EPFO



Source: EPFO

- Employment indicators in the quarter ending December 2022 have gone beyond pre-pandemic levels.

- Net payroll additions under EPFO witnessed a year-on-year growth of 41.4% in December 2022, indicating that employment in the formal sector has passed the stage of recovery and is registering a growth surge.

- The creation of digital identities has played a significant role in promoting the formalization of the economy.

- Since inception, 28.6 crore unorganized workers have been registered on the e-shram portal, with 5.2 lakh registrations in February 2023.

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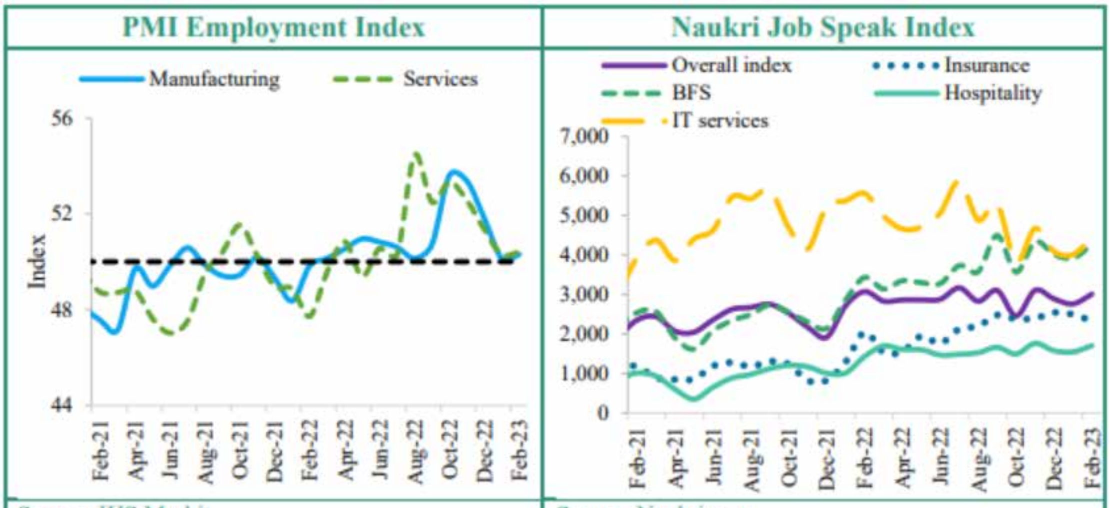
- The PMI indices for employment in manufacturing and services remained in an expansionary zone in February 2023, with manufacturers experiencing an increase in new work intakes.



Source: IHS Markit
Source: Naukri.com

- The rise in employment in services companies in February 2023 was supported by continuing growth in contact-intensive services.

- The TeamLease Employment Outlook Report states that the Intent to Hire for India has risen from 65% in Q3 of FY23 to 68% in Q4 of FY23, with the strongest hiring sentiment for the services sector.

- The IT sector, which has been experiencing negative trends in the past three months, witnessed a sequential growth of 10% in February 2023.

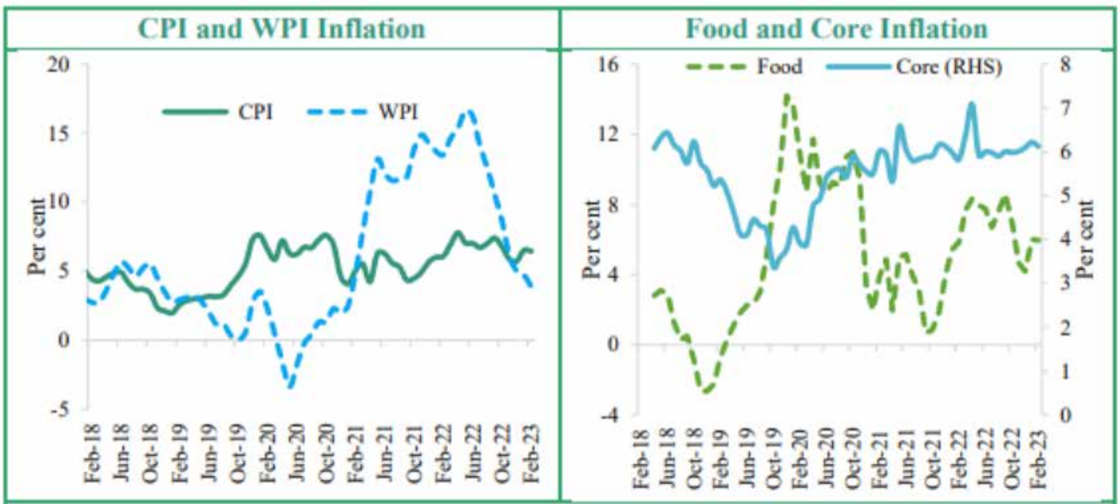
- The demand for work under the MGNREGA scheme has been declining since May 2022 and was 14.6% lower in February 2023 compared to the corresponding period of the previous year.

Inflation softens in February 2023

- CPI inflation eased slightly in February 2023 to 6.4% from 6.5% in January 2023.

- A decrease in food inflation is seen in 'pulses & products', 'oils & fats', 'meat & fish', egg, and spices, whereas cereals inflation has marginally increased while fruits inflation significantly.

- Core inflation eased to 6.1% in February 2023 from 6.2% in January 2023 but has now remained sticky around 6.0% for 12 months.



Source: MoSPI, Office of Economic Adviser

- Overall, during Apr-Feb 2022-23, CPI inflation stood at 6.7%, well above the RBI's target range.
- Inflation expectation of households measured by RBI's Households' Inflation Expectations Survey in January 2023 remained unchanged from the Nov 2022 round in one year ahead of the horizon.
- The Business Inflation Expectations Survey (BIES) conducted by IIM Ahmedabad shows that the one-year ahead 'business inflation' expectation based on the unit cost has increased from 4.2% in December 2022 to 4.8% in Jan 2023.
- Extreme weather conditions like the possibility of an El Nino year may impact food grain production.
- The analysis of forecasts by various agencies shows that inflation will moderate in FY24 compared to FY23 and is likely to remain in the range of 5.0-6.0%, with risks evenly balanced.

Trends in India's corporate core debt

- The quality of private sector debt has significantly improved.
- As per a study by IBBI6, financial stress in the manufacturing sector increased the most, followed by 'hotels and restaurants', real estate, construction and electricity.
- The core debt of the private non-financial sector declined since mid-2021, However, the debt ratio has witnessed a declining trend since mid-2021.
- The quality of private sector debt has significantly improved.
- As of the end of September 2022, India's corporate sector credit-GDP ratio is about 12.3 percentage points below its historical trend.
- The impact of adverse developments on the domestic private sector will remain limited on account of its strong debt profile.

Future Outlook

The Indian economy is projected to grow at 7% in 2022-23, despite external challenges. Real GDP estimates for Q3 of 2022-23 reaffirm the ability of the Indian economy to grow on the strength of its domestic demand even as a rise in global uncertainties slows global output.

In February, GST collections crossed the INR 1.4 lakh crore benchmark for 12 successive months. Increasing electronic toll collection levels reaffirms rising commercial activity, while robust energy demand is yet another evidence of strengthening economic activity. Overall, demand conditions have remained conducive to sustaining growth momentum as deduced from robust tractor sales, auto sales, high UPI transactions and double-digit credit growth. Inflationary pressures eased in February, with a slight moderation in CPI inflation and WPI inflation softening to a 25-month low. With WPI inflation easing, its transmission to CPI inflation is soon expected.

The Q3 2022-23 Real GDP projections reinforce India's capacity to sustain economic growth through its domestic demand, despite the global slowdown caused by heightened uncertainties. This growth is bolstered by the nation's robust services exports, the decline in oil prices, and the decrease in import-heavy consumption demand. As a result, India's current account deficit is expected to decrease in FY23 and FY24, serving as a buffer for the rupee during volatile periods.

Additionally, the corporate sector's credit-GDP ratio in India is currently lower than its historical trend, indicating that companies have room to obtain additional borrowing. The solid debt profile of Indian corporates is critical for ensuring the macroeconomic stability of the economy in the future.

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