सत्यमेव जयते
Economic Diplomacy Division
Ministry of External Affairs

MONTHLY ECONOMIC REPORT

MARCH 2023

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Introduction

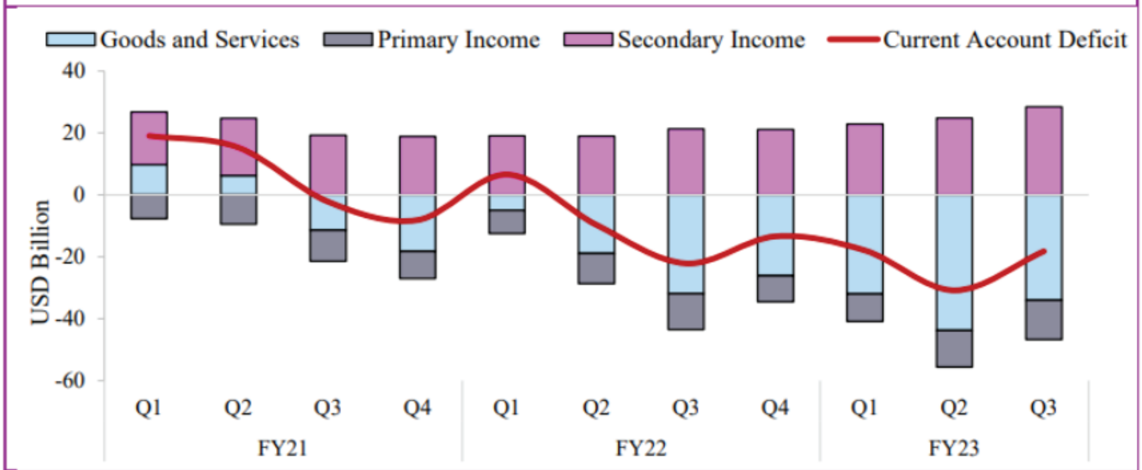
In March 2023, internal macroeconomic stability in India further strengthened due to the easing of inflationary pressures, driven by softening food and core inflation, which reached a 16-month low. The growth of CPI-core in March 2023 is the weakest since June 2022 and can be attributed to the beginning of the pass-through of declining WPI inflation in consumer goods prices. While India's merchandise exports declined in Q3 of FY23, merchandise imports fell more sharply, leading to a smaller merchandise trade deficit and significantly narrowing India's current account deficit from 3.7% of GDP in Q2 to 2.2% in Q3 of FY23. Moreover, fiscal parameters for the centre and the states in FY23 have been robust, as seen in solid revenue generation and improvement in the quality of expenditure, driven by significant capex by the centre and rationalisation of revenue expenditure. Both the Economic Survey 2022-23 and RBI project the Indian economy to register a real GDP growth rate of 6.5% in 2023-24, which is in line with the World Bank estimate of 6.3% and ADB estimate of 6.4% for 2023-24.

External Sector

- International Monetary Fund's (IMF) April 2023 update of the World Economic Outlook (WEO) forecasts a slowdown in world output growth from 3.4% in 2022 to 2.8% in 2023.

- Growth is expected to marginally improve to 3.0% in 2024 but still lower than that of 2022 and significantly below the 6.4% in 2021.

Current Account Deficit snapshot

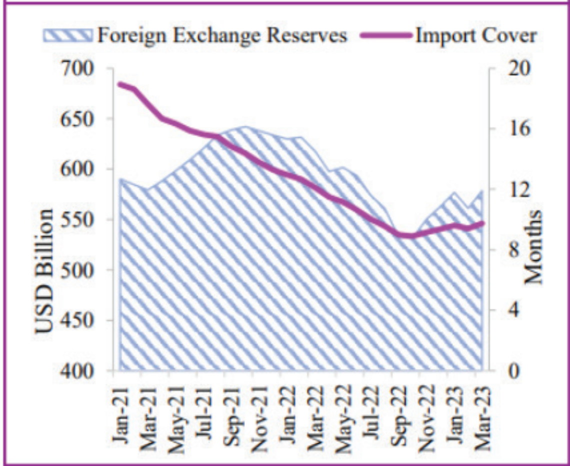


Source: RBI

- The Reserve Bank of India (RBI) reports a decrease in current account deficit (CAD) to 2.2% of gross domestic product (GDP) in Q3 of FY23 from 3.7% in Q2 and 2.7% in the same quarter of the previous year.

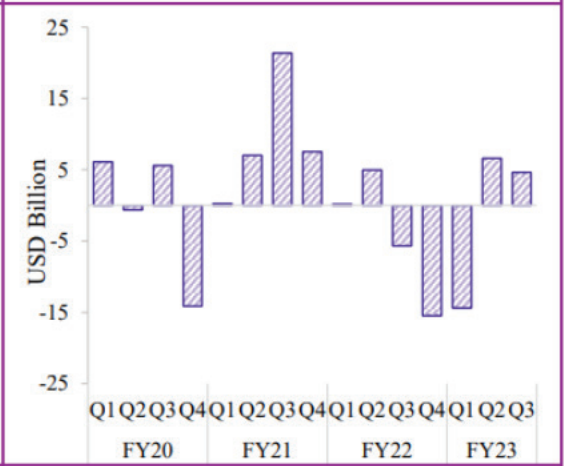
- With the narrowing of the CAD in Q3, forex reserves started rising from their lowest level on 21st October 2022, growing 7.3% by the end of December 2022.

Foreign Exchange Reserves and Import Cover



Source: RBI

Net FPI inflows



Source: CDSL

- Despite Foreign Portfolio Investors (FPI) outflows in Q4 of FY23, forex reserves grew by 2.8% by the end of March 2023 compared to December 2022.

- Merchandise exports in Q4 of FY23 were lower than the corresponding quarter in the previous year, but merchandise imports contracted by 4.7%, resulting in an improvement in the merchandise trade account.

- Net services exports are estimated to increase by 19.4% in the last quarter of FY23, further improving the overall trade account.

- India's trade deficit is expected to decrease in the future due to the impact of PLI schemes reducing import dependence.

- Recent engagements with the United Arab Emirates (UAE), the UK, and Australia and the launch of a new Foreign Trade Policy are likely to increase India's global market share of exports.

Fiscal Sector

- Despite rising inflation, fiscal measures such as fuel tax cuts and food subsidy program extensions have been announced.

- The central government is expected to meet its fiscal deficit target of 6.4% of GDP in FY23.

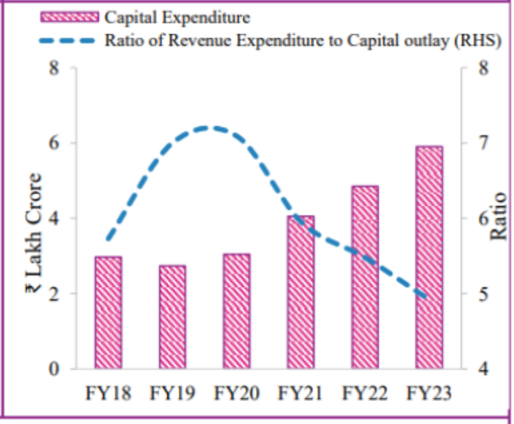
- Gross Fiscal Deficit for April-February 2023 is at 82.8% of revised estimates.

- Strong revenue growth has supported improvements in budgetary indicators.

- Gross Tax Revenues increased by 12% during Apr-Feb 2023 compared to the same period last year.

Centre's Direct Tax Collection (Apr-Feb)

Centre's Capital Expenditure (Apr-Feb)

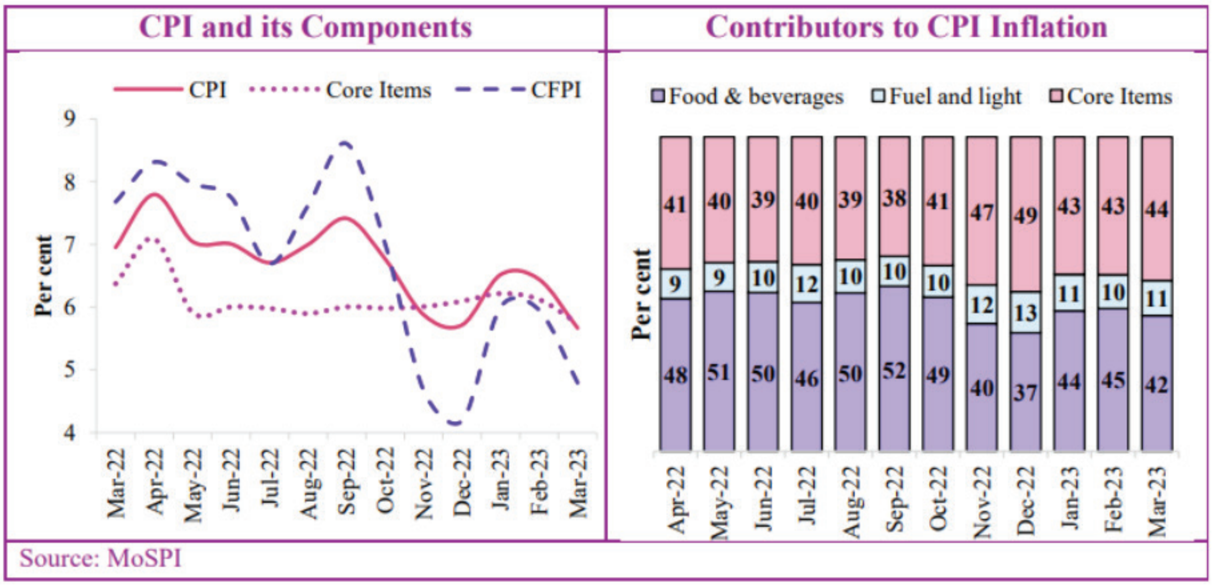


Source: CGA

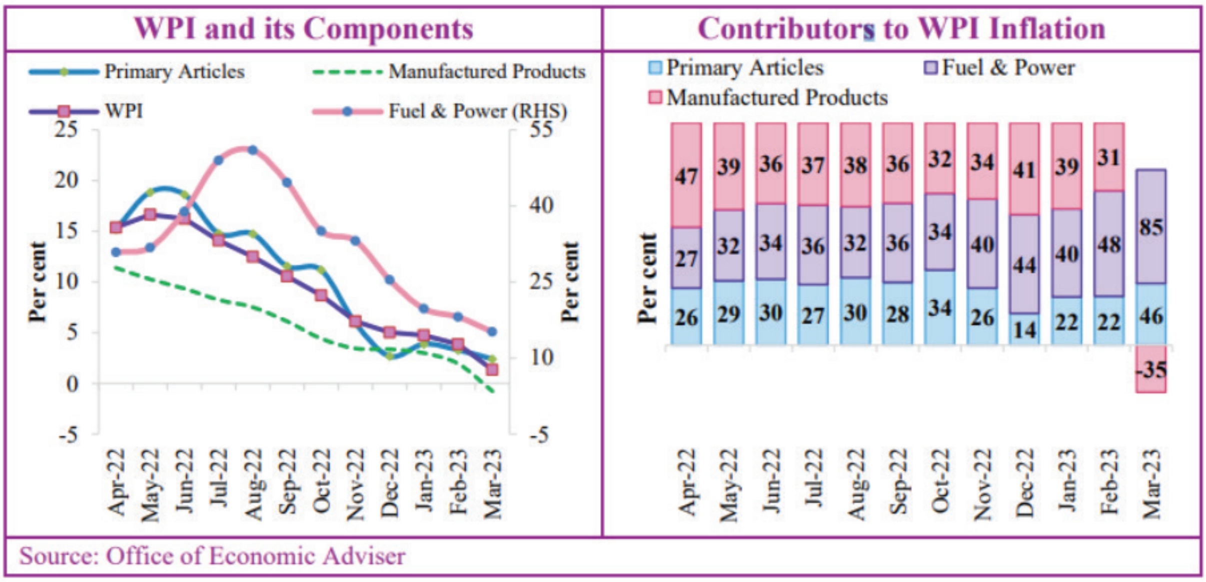
- Capital expenditure during Apr-Feb 2023 increased by 21.7% compared to the previous year.
- This increase has led to an improvement in spending quality, reflected in the declining Revenue Expenditure to Capital Outlay ratio over the past years.
- The Central Government plans to maintain momentum in capital expenditure in FY24 to sustain economic growth amid global economic challenges such as monetary policy tightening, rising inflation, and supply chain disruption.
- The budgeted capital expenditure for FY24 is 33% higher than the previous year and amounts to 3.3% of GDP.

Inflation

- Consumer Price Index (CPI) inflation in March 2023 declined to a 15-month low of 5.7%.
- Softening of food and core inflation contributed to the moderation in inflation.
- Food inflation decreased from 5.9% in February to 4.8% in March, due to lower prices of vegetables, oil and fats, and cereal and products.
- Core inflation also dipped to a 23-month low of 5.7%.
- The weak sequential growth of CPI-core in March 2023 can be attributed to the beginning of the pass-through of declining WPI inflation in consumer goods prices.



- Wholesale Price Index (WPI) inflation in March 2023 has eased to 1.3%.
- Lower prices of manufactured goods, fuel, and power contributed to this decline.
- The decrease in manufactured goods inflation is due to basic metals, food products, and chemical and chemical products.
- Declining prices of mineral oils and electricity have eased fuel and power inflation.
- For the full year, WPI inflation has fallen from 13.0% in FY22 to 9.4% in FY23.

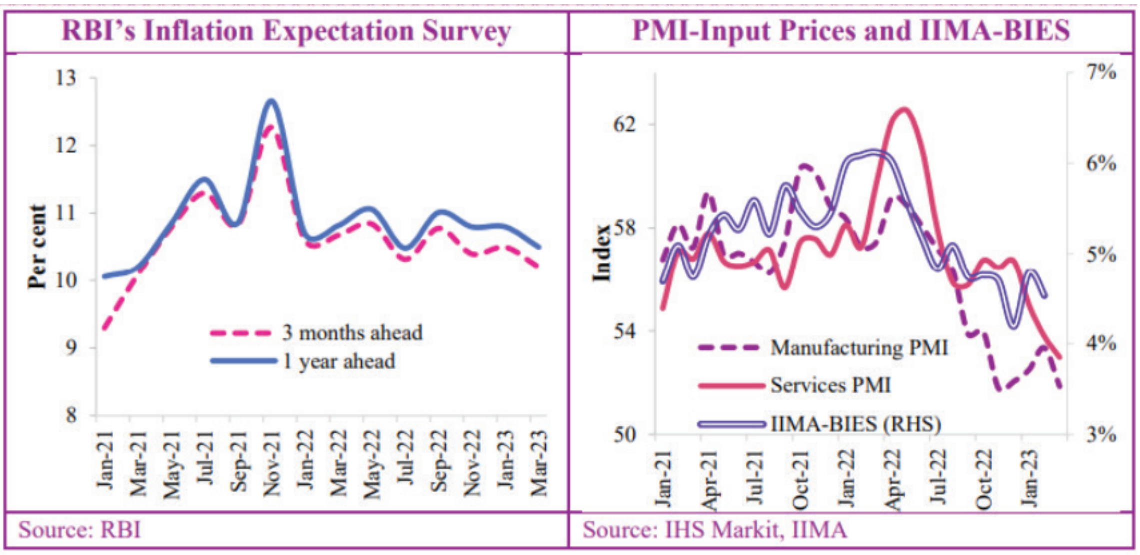


- Inflation expectations have decreased by 30 basis points for both three months and one year ahead in the March 2023 round of RBI's survey of households.

- The input price inflation for manufacturing firms polled by Purchasing Managers' Index (PMI) has softened in March 2023, at its second-lowest mark in two and a half years.

- Services firms have also experienced a decline in the rate of input price inflation, which is at its lowest since September 2020.

- There are additional factors that may influence the inflation trajectory in India's economy, including the volatile international crude oil market and constrained supplies of milk and wheat.



Financial Stability

- Indian banks are well-positioned to manage any stress arising from the current tightening cycle.

- The focus on system-wide financial stability was established after the 2007-08 global financial crisis.

- Recent macro- and micro-prudential measures by RBI and the government have increased risk absorption capacity and improved the stability of the banking system.

- Measures taken include the creation of an investment fluctuation reserve (IFR), the application of uniform capital and liquidity requirements to all banks, and the provision of guidelines on governance in commercial banks.

- The RBI's Financial Stability Report (FSR) of December 2022 shows that the system-wide IFR of scheduled commercial banks stood at 2.2% of the available-for-sale (AFS) plus held-for-trading (HFT) investment portfolio.

- The IFR helped banks absorb losses associated with the rise in G-sec yields in Q1 FY23 and treasury losses of 4.9% of their operating profit.

Outlook

India's economy has shown strength in FY23, and it is estimated to grow at 7%, higher than the trend rate and the growth of other major economies. The growth is supported by improving macroeconomic stability, such as an improved current account deficit, easing inflation pressure, and a strong banking system that can withstand policy rate increases. The April 2023 update of the WEO predicts India to be the fastest-growing economy in FY24, with even more robust stability in macroeconomic variables.

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