



सत्यमेव जयते

Economic Diplomacy Division
Ministry of External Affairs

MONTHLY ECONOMIC REPORT

JUNE 2023



CONTENTS

Introduction	4
Restoring Macroeconomic Stability: India's Progress	4
Performance of the Industrial and Manufacturing Sectors	6
Services sector performance	7
Exports and Foreign Investment	8
Growth Outlook for FY24	10



Introduction

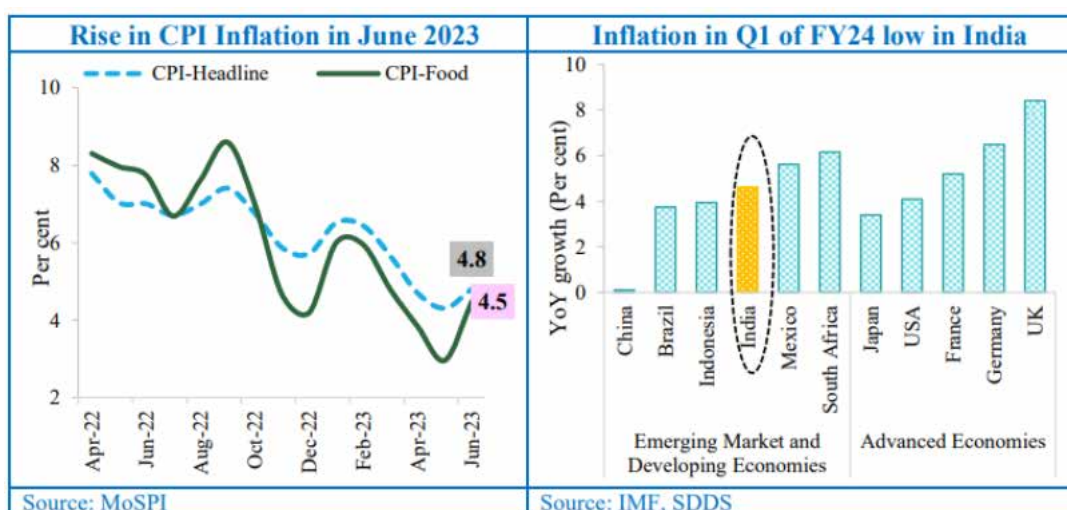
The overall economic situation has stabilized after a year characterized by worldwide uncertainties and fluctuations. Despite lingering uncertainties due to unfavorable geopolitical events, the strain on supply chains has eased, and indications suggest a reduction in inflationary pressures. Risks in the banking sector appear to be under control, and concerns about recessions in most advanced economies are gradually dissipating.

Nevertheless, the effects of the policy interventions introduced between 2022 and 2023 to counter the surge in commodity prices resulting from geopolitical developments, as well as the expansionary fiscal measures taken during the COVID-19 pandemic, are anticipated to influence global economic activity and the financial sector's performance in 2023-24 with a time lag. Future policy rate expectations have risen in response to persistent core inflation, causing significant fluctuations in equity markets and increased bond yields.

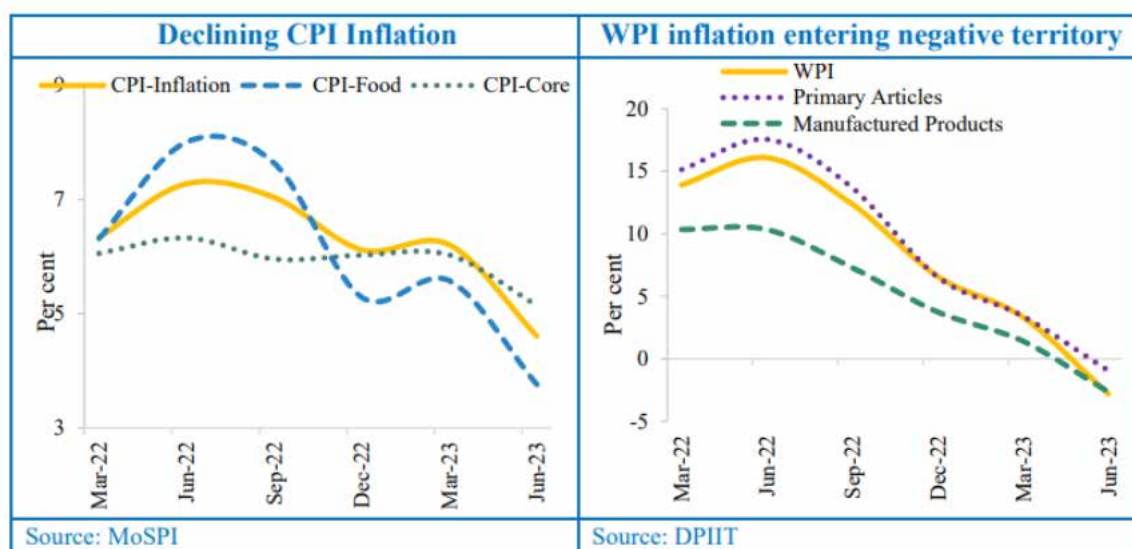
Against these worldwide economic developments, the Indian economy has displayed resilience and sustained robust macroeconomic fundamentals. Analyzing the performance of the Indian economy in the June 2023 quarter offers an opportunity to evaluate its progress and outline growth and stability prospects for the upcoming year.

Restoring Macroeconomic Stability: India's Progress

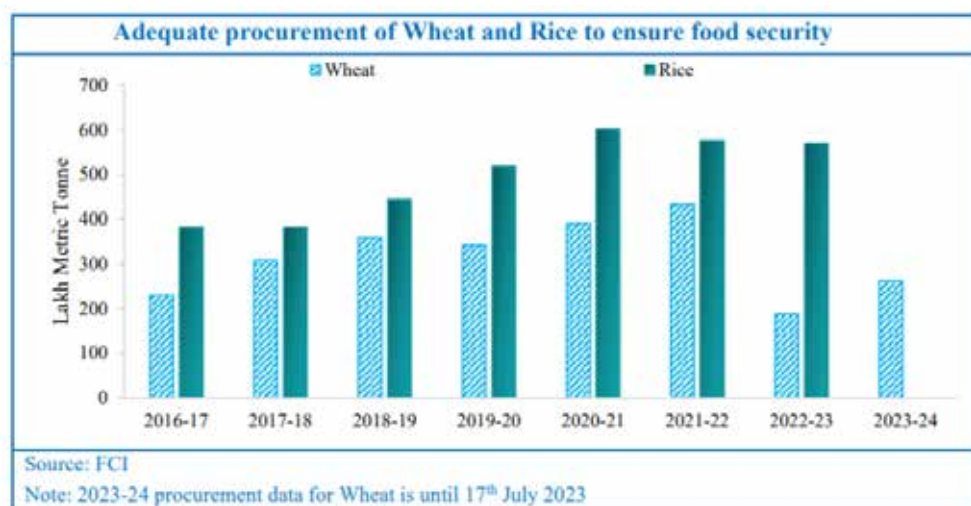
- The June 2023 quarter saw a significant decrease in inflation compared to last year's corresponding quarter, within RBI's tolerance band.
- Core inflation gradually declined since June 2023, reflecting restored price stability.
- However, price spikes in 'fruits,' 'vegetables,' and 'pulses' due to weather disruptions led to higher food inflation in June 2023.
- Despite recent inflation control, potential supply-side shocks like El Nino kept RBI and the government cautious about necessary policy actions.



- Commodity price decline initially impacted WPI inflation, reaching (-) 2.8% in June 2023.
- WPI entering negative territory took time to affect headline inflation, leading to persistent core inflation.
- Transmission accelerated, causing core inflation to decrease eventually.
- Core inflation hit a 12-quarter low in June 2023.



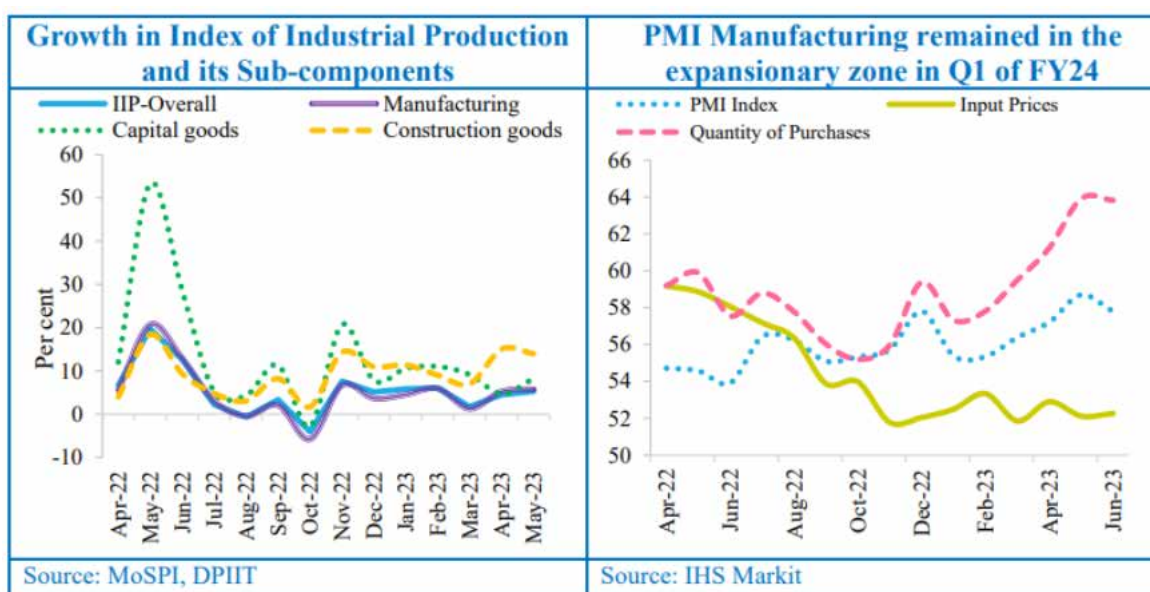
- The previous year saw reduced public wheat procurement due to weather and geopolitics.
- Government eased quality rules, leading to smooth wheat and rice procurement in 2023-24.
- Wheat procurement target: 341.5 LMT; achieved: 262.03 LMT by July 17, 2023.
- Rice procurement at 91.6% (568.6 LMT) of the target (Kharif Marketing Season 2022-23).
- Operations aided 21.3 lakh farmers; FCI foodgrain stocks at 1.7 times the buffer norm by July 2023.
- Current stock levels met Q2 food security needs.



- Private consumption (PFCE) as a proportion of GDP reached the highest in 17 years for FY23.
- Gross fixed capital formation (GFCF) recorded the highest proportion of GDP in 10 years for FY23, reaching a 10-year high of 35.3%.
- The increase in GFCF was supported by increased public sector investment, which attracted private sector investment.
- The share of total exports in GDP declined to 22.8% in Q4 of FY23, compared to 24.4% in Q1 of FY23.
- This decline was influenced by synchronized monetary tightening in major economies, resulting in reduced consumer spending and moderation in international trade.

Performance of the Industrial and Manufacturing Sectors

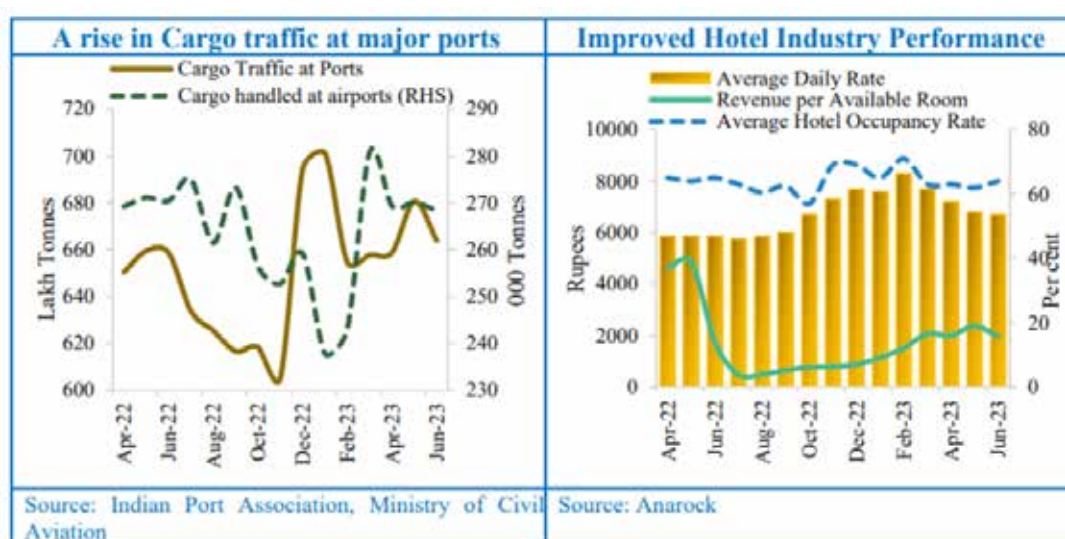
- Lower input prices in H2 FY23 spurred industrial growth in June 2023 quarter.
- PMI Manufacturing for India in an expansionary zone, backed by increased domestic production, new work, and sales.
- The Index of Industrial Production (IIP) grew 4.6% in Apr-May 2023; capital goods and infrastructure/construction sectors are prominent.
- Industrial growth balanced, encompassing manufacturing, mining, and electricity sectors.
- Strong domestic demand due to rising employment and pent-up demand; the government's increased capex contributed.
- Upscaled capex boosted employment and consumer demand and eased supply-side conditions for industrial production.



- Construction sector indicators (cement production, steel consumption) up in June 2023 quarter.
- Government focus on infrastructure and higher housing demand fuel construction sector growth.
- PropTiger data: Despite higher home loan rates and real estate prices, residential unit sales grew by 8% in June 2023 quarter.
- Real estate sector recovery due to pent-up demand post-pandemic, rising interest in homeownership, and demand for larger homes.

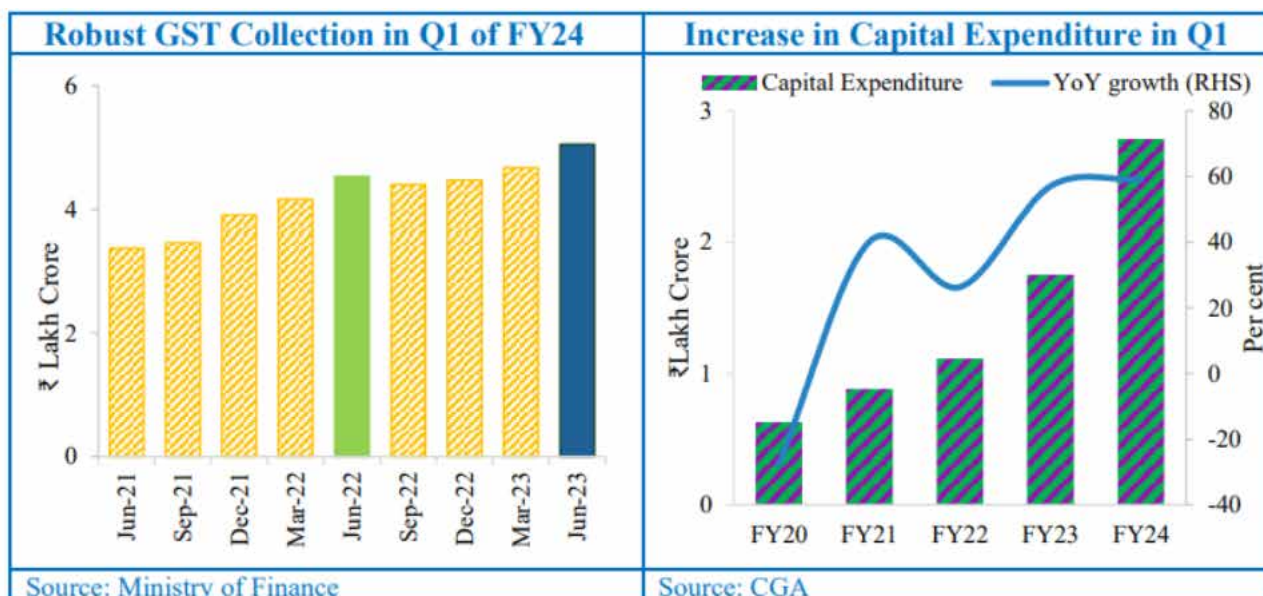
Services sector performance

- PMI Services stayed in the expansionary zone in June 2023, fueled by new business, job growth, and demand.
- Railways, waterways, and airways saw traffic growth, indicating buoyant transportation activity.
- Major ports' cargo traffic rose despite foreign trade shrinkage; the domestic economy's high activity sustained volumes.
- Hotel industry improved due to business and leisure travel surge; June 2023 occupancy rate, ADR, and RPAR increased YoY.
- Tourism rebounded globally, with 86% higher international tourist arrivals in March 2023 YoY, reaching 80% of pre-pandemic levels.
- Indian tourism is also rebounding; Jan-Apr 2023, Foreign Tourist Arrivals surged and are expected to regain pre-pandemic levels in 2023.



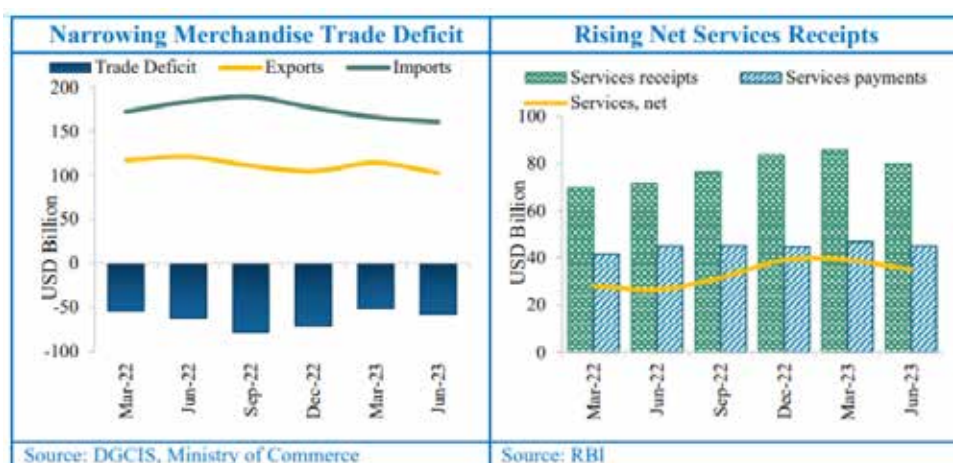
- Union Government's fiscal deficit in the first three months of 2023-24 at 25.3% of Budget Estimate.
- Effective balance between revenue buoyancy and expenditure management displayed.
- Significant rise in non-tax revenue due to increased RBI dividend limits fiscal deficit to a quarter of the budget.

- Gross direct tax collections up to July 9, 2023, grew by 14.6% YoY; net collections rose 15.9% net of refunds.
- Robust GST collection growth sustained in the first 3 months of 2024, aided by anti-evasion measures.
- Capital expenditure during Q1 2024 increased by 59.1% YoY.

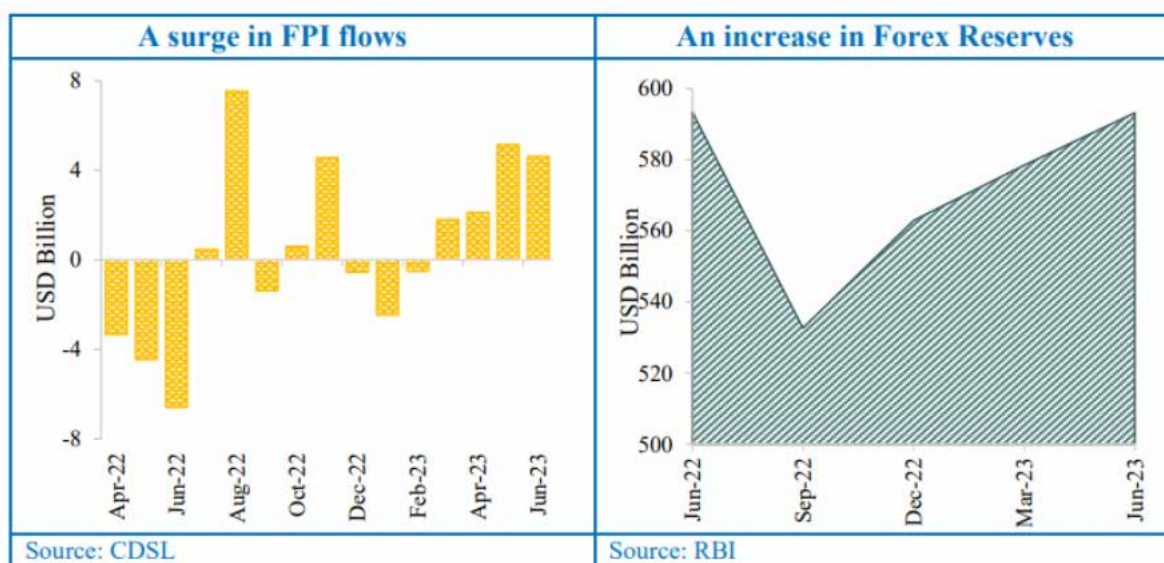


Exports and Foreign Investment

- Merchandise exports shrank by 15.1% in June 2023 quarter.
- Detailed analysis shows export contraction in leather products and engineering goods.
- However, electronic goods exports surged by 47.5% YoY.
- Merchandise imports also decreased by 12.7% in the same quarter.
- This narrowed the merchandise trade deficit from USD (-) 62.6 billion (June 2022) to USD (-) 57.6 billion (June 2023).
- Net services receipts experienced strong growth at 32.2% YoY.



- FPI turned net buyers with a USD 11.9 billion inflow in June 2023 quarter, reversing a USD 14.4 billion outflow from the same period last year.
- Sectors like financial services, automobiles, FMCG, and healthcare gained higher interest from foreign investors.
- FDI equity inflows during Jan-Mar 2023 were 40.4% lower YoY due to the global weakening of FDI flows.
- Sequentially, FDI inflows rose in April and May 2023.
- FDI growth comes with uncertainties due to active industrial policies and incentives for onshore business locations.
- India's solid macro fundamentals, large market, skilled workforce, and growth prospects enhance FDI attraction.
- India's foreign exchange reserves have recently strengthened, reaching USD 595.1 billion by June 2023 quarter.
- This level of reserves offers import coverage for over ten months.



Growth Outlook for FY24

- Indian economy's domestic dynamics are robust, supported by solid GDP growth, investments, and consumption despite global uncertainties.
- Government's capex focus boosts infrastructure investments, stimulating job creation and demand.
- Private consumption is set to improve due to declining inflationary pressures and CPI moderation.
- Exports are expected to perform well, driven by the services sector, digitization, and supply chain improvements.
- Domestic fundamentals strong; IMF revises India's growth projection 2023 to 6.1% and maintains FY25 projection at 6.3%.
- Global markets are optimistic, but excessive risk could affect sentiment, wealth, consumer spending, and potential cross-border spillovers.
- Commodity prices firming due to improved global growth prospects, potentially affecting monetary policies and capital flows in developing countries.
- India's robust monsoon, fiscal performance, manufacturing and services expansion, and capital expenditure bode well for FY24 macroeconomic stability and growth.
- Constant policy vigilance remains vital for maintaining stability and growth amid potential challenges.

For more information:

Ministry of Finance, Department of Economic Affairs
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