The RBI Bulletin

Economic Update| 27th December 2022

Key Highlights:

1. **State of the Economy:** The balance of risks is increasingly tilted towards a darkening global outlook and emerging market economies (EMEs) appear to be more vulnerable. Waning input cost pressures, still buoyant corporate sales and turn-up in investments in fixed assets are heralding the beginning of an upturn in the capex cycle in India which will contribute to a speeding up of growth momentum in the Indian economy.

2. **An Anatomy of Inflation's Ascent in India:** The initial inflationary pressure was delivered by successive supply shocks but as their impact waned, a revenge rebound in spending and especially a swing from goods to contact-intensive services is generalising price pressures and making them persistent. Transitory shocks, particularly in vegetables, however, imparted some volatility in headline numbers.

3. **Government Finances 2022-23: A Half-Yearly Review:** The finances of the Central government as well as the States improved significantly in H1:2022-23 with receding negative spillover effects induced by the pandemic, even as the war in Europe has led to targeted fiscal measures.

4. **A Composite Coincident Index for Unorganised Sector Activity in India:** Since the cyclical pattern and seasonal variation in agriculture and non-agriculture activity differ substantially, separate UNCCIs are developed for agricultural and non-agricultural activity. An overall UNCCI is then generated by taking a weighted average of the two, where respective sectoral share in overall GVA are used as weights.

5. **Agriculture in 2022-23: Kharif Performance and Rabi Outlook:** In 2022-23, though the cumulative southwest monsoon rainfall was above normal, its uneven temporal and spatial distribution and heavy rains towards the end of the season could have an adverse impact on the standing Kharif crop production. As regards the Rabi outlook, the prospects for wheat production are good with higher MSP, adequate reservoir levels and soil moisture conditions, and climatic factors supporting higher acreage and yield.

6. **Financial Inclusion through Microfinance – An Assessment of the North-eastern Region of India:** Microfinance, which took roots in the southern region, has over time spread to the historically under-banked eastern and north-eastern regions, thus, partly bridging the regional banking divide. However, there are state-level differences in the access and usage of microfinance within the north-eastern region. Going forward, the focus on the north-east needs to be sustained, while giving greater attention to States that are relatively underserved within this region to further the cause of financial inclusion.

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State of the Economy—Global:

With every passing day, the balance of risks gets increasingly tilted towards a darkening global outlook for 2023, the year that will bear the brunt of monetary policy actions of this year. Emerging market economies (EMEs) appear even more vulnerable, having battled currency depreciations and capital outflows in addition to slowing growth and high inflation.

The outlook is overcast for 2023 with indications of weaker global growth, fraught with downside risks. Inflation is likely to moderate in 2023 from current levels, but it would remain well above targets in most economies. In its latest Economic Outlook released on November 22, 2022 the Organization for Economic Co-operation and Development (OECD) has pegged global growth for 2023 at 90 basis points below the forecast for 2022.

Among high frequency indicators, the global composite purchasing managers' index (PMI) signalled a downturn for the fourth consecutive month in November, hitting a 29-month low. On YoY basis, world merchandise trade volume growth improved in September 2022 due to a favourable base effect. Global commodity prices remained range-bound in November and early December. Crude oil prices traded at an average of US$ 91.1 per barrel in November and at around US$ 80 in early December over demand concerns.

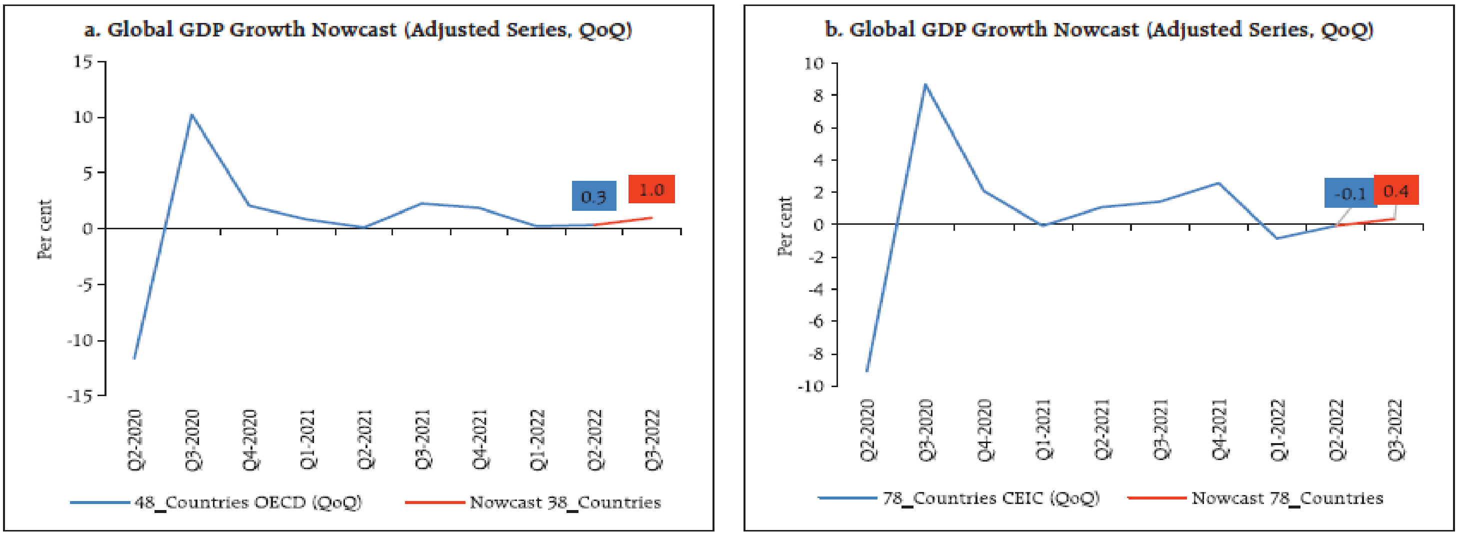
Fig 1: GDP Growth Projections – Select AEs and EMEs

	2022		2023	
Month of projection → Country / Region ↓	November 2022	September 2022	November 2023	September 2023
World	3.1	3.0	2.2	2.2
Advanced Economies				
US	1.8	1.5	0.5	0.5
UK	4.4	3.4	-0.4	0.0
Euro area	3.3	3.1	0.5	0.3
Japan	1.6	1.6	1.8	1.4
Emerging Market Economies				
Brazil	2.8	2.5	1.2	0.8
Russia	-3.9	-5.5	-5.6	-4.5
India	6.6	6.9	5.7	5.7
China	3.3	3.2	4.6	4.7
South Africa	1.7	1.7	1.1	1.1

Sources: OECD

Looking beyond, a mild recovery is projected to get underway in most countries in 2024. Emerging Asia will likely become the world's engine of growth, collectively accounting for close to three-quarters of global growth in 2023 and around three-fifths in 2024.

Fig 2: Global GDP Nowcasts



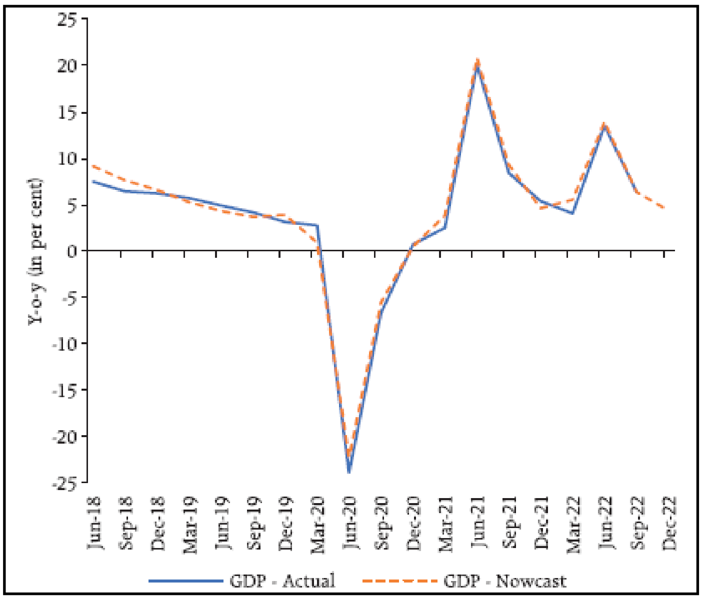
Sources: OECD; CEIC; and RBI staff estimates

State of the Economy—Domestic:

On the domestic front high frequency indicators suggest that domestic economic activity remained resilient in November and early December. The outlook for private consumption and investment is looking up, although relatively higher inflation in rural areas is muting spending in those regions. Net exports are restrained by the global slowdown. Agricultural and allied activities and contact-intensive services are leading the supply response, with industry on an uneven recovery. In response, capital flows to India are strengthening. Business and consumer confidence is turning up, and expectations of a better second half of 2022-23 relative to the first half are being reflected in forward-looking surveys.

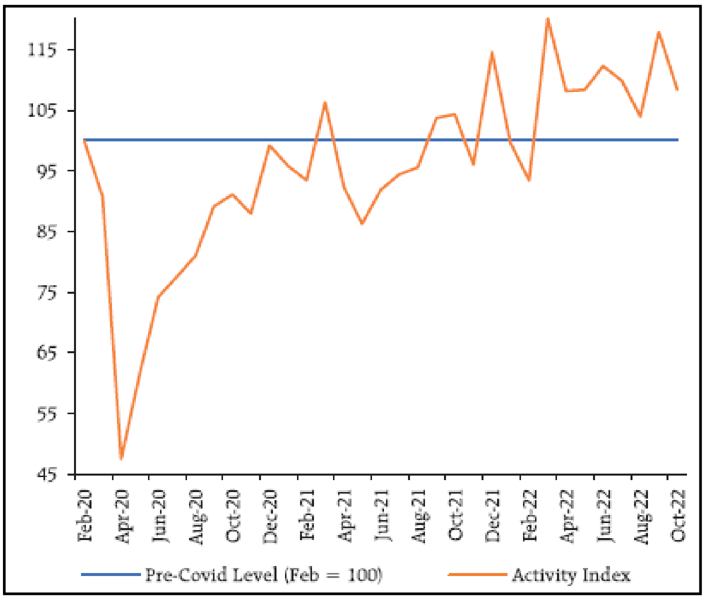
OECD's economic outlook released in November 2022 has noted that India is the only major economy that is likely to grow in excess of 5.5% during 2023 and 2024.

Fig 3: GDP Actual and Nowcasts



Source: RBI staff estimates

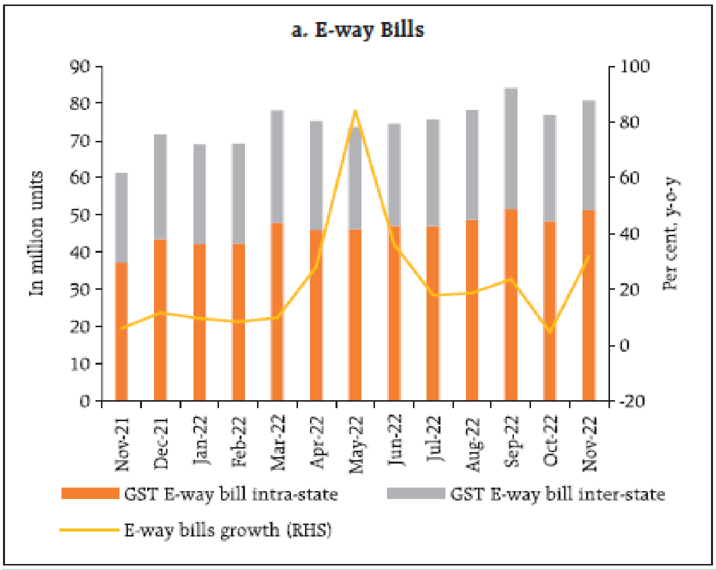
Fig 4: Domestic Activity Index

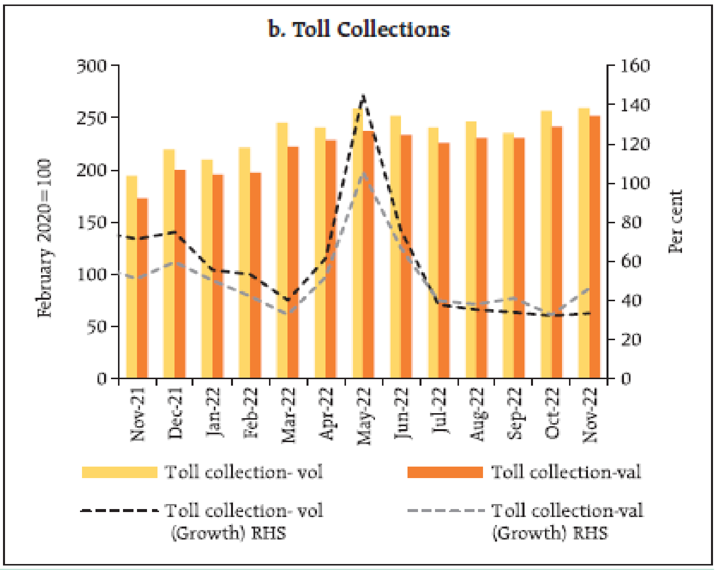


Source: RBI staff estimates

E-way bills generation breached the 80 million mark in November, led by an increase in movement of goods within states . Toll collections strengthened both in volume and value terms, recording a series high of 4645.6 crore in November 2022. Fuel consumption accelerated in November on a low base of contraction a year ago. The eightmonth peak in fuel consumption was led by increase in consumption of diesel as demand from the agriculture sector resumed post monsoon along with a pick-up in demand for transport. Sales of automobiles registered growth in November on a low base of contraction a year ago. The momentum of sales eased, particularly for entry level segments, even as total sales volumes breached levels recorded in pre-pandemic February 2020. In the trade, hotels and transport sector, hotel occupancy rates declined to an eight month low of 57.2% in October as the end of the festival season reduced corporate demand even as the revenue per available room and average room rates remained above 2019 levels for the seventh straight month. Sales of fast-moving consumer goods (FMCG) products declined in November over the previous month by 16.3 per cent as festival fatigue reduced demand. On a YoY basis too, demand contracted by 2.7%. The decline in rural sales was steeper at (-) 17%, while urban sales contracted by (-) 10.1% over October 2022.

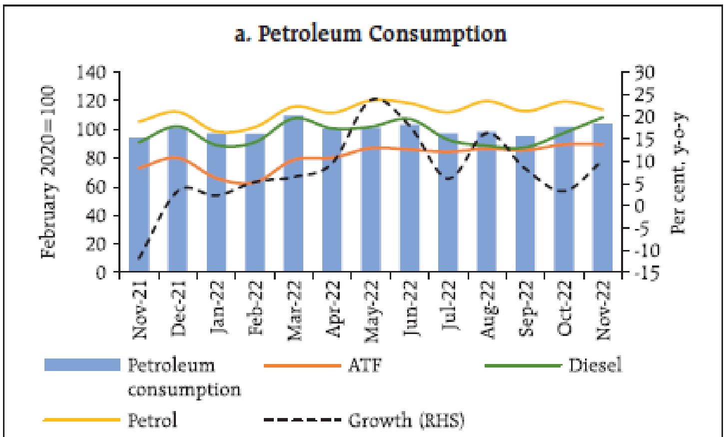
Fig 5: E-way Bills & Toll Collection



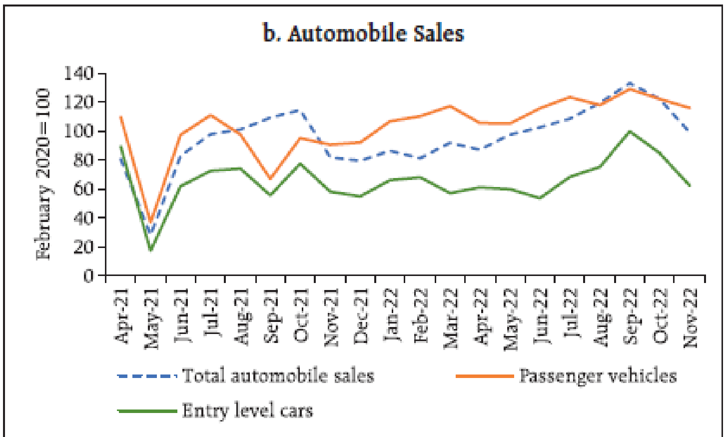


Source: GSTN; RBI; and RBI staff estimates

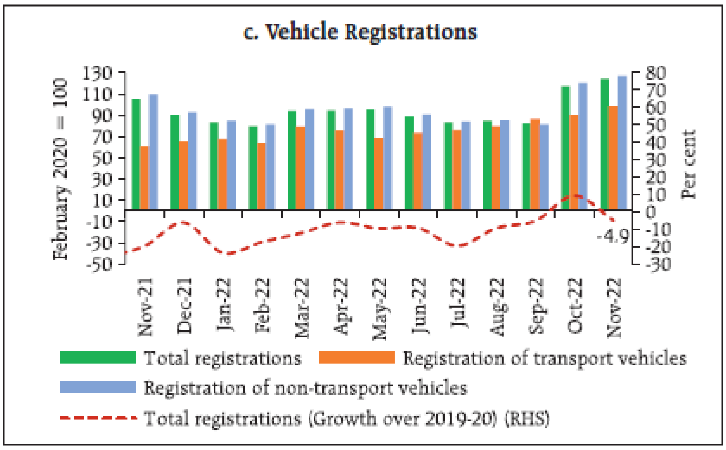
Fig 6: Auto Mobile Sector Indicatrs

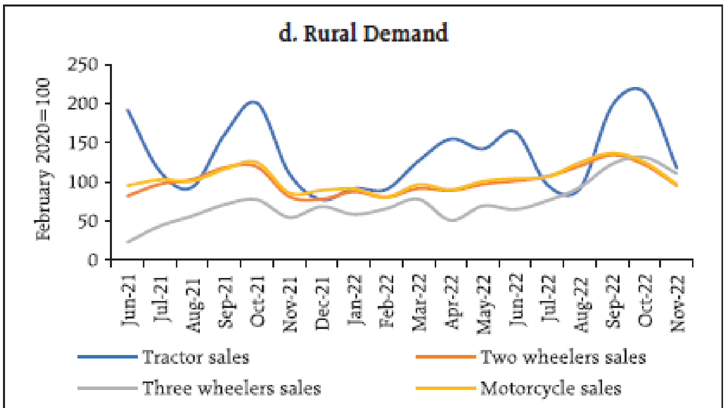


Sources: Petroleum Planning and Analysis Cell; and RBI staff estimates.



Sources: SIAM; and RBI staff estimates.





Sources: ISIAM; TMA; and RBI staff estimates.

Sources: ISIAM, TMA and RBI staff estimates

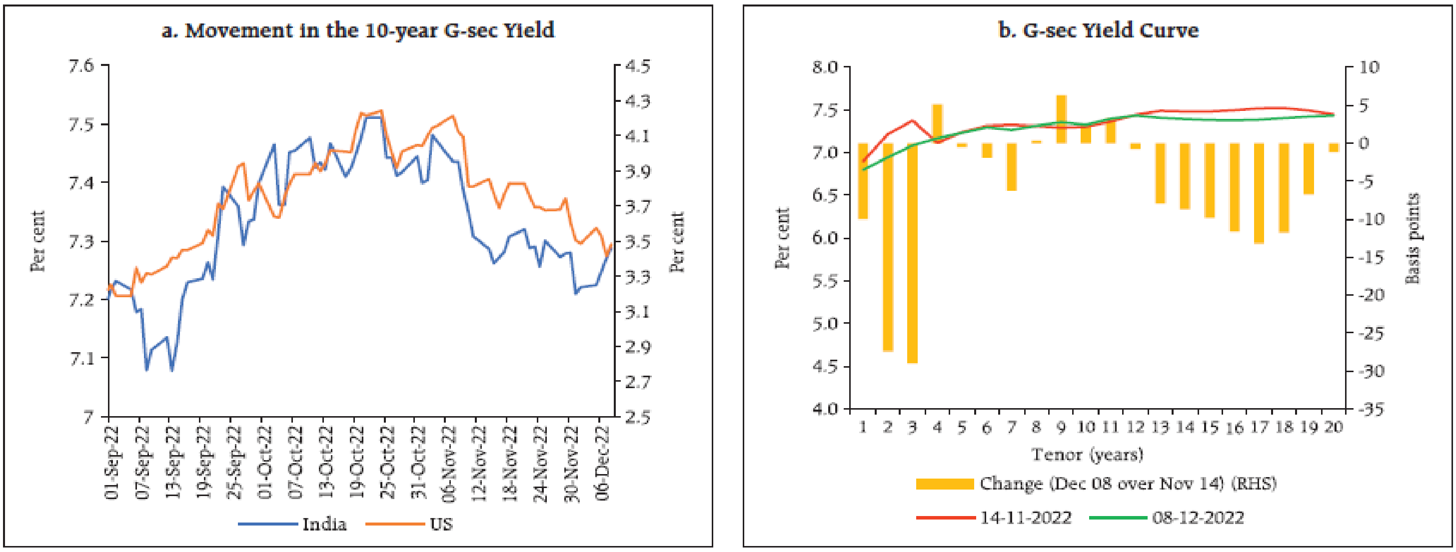
Higher government spending and the return of foreign portfolio investor (FPI) inflows eased liquidity conditions in the banking system in the second half of November through December 11, 2022. Consequently, average daily absorption under the liquidity adjustment facility (LAF) increased to `1.9 lakh crore during November 15 through December 11, 2022 from `1.3 lakh crore during mid-October to November 14. Of the daily average surplus liquidity during November 15 to December 9 2022, `1.5 lakh crore has been absorbed through the overnight standing deposit facility (SDF), while the remaining was mopped up through variable rate reverse repo (VRRR) auctions. On a net basis (adjusted for repo and marginal standing facility (MSF)), liquidity absorption averaged `1.0 lakh crore during the period under review, increasing from `0.25 lakh crore in the preceding period. As liquidity conditions improved, banks' recourse to the MSF moderated to an average of `0.03 lakh crore during the second half of November through December 11, 2022 from `0.18 lakh crore during mid-October to November 14. The two fortnightly VRRR auctions of `1.5 lakh crore each on November 18 and December 2 received a lukewarm response of `52,065 and `31,234 crore, respectively. Banks tended to avoid locking in large amounts before the policy announcement in anticipation of rate hikes.

Reflecting the improvement in systemic liquidity, the weighted average call rate (WACR) eased to 5.96% (on an average) during mid-November to December 11 as compared to 6.03% during late October to mid-November 2022. In tandem, rates in the collateralized segment also softened, with trip arty and market repo rates trading on average 10 bps each, respectively, below the policy repo rate. Across the term money segment, rate on 3-month treasury bill (T-bill), 3-month certificates of deposit (CDs) and 3-month commercial paper (CPs) traded 17 bps, 64 bps and 102 bps, respectively, above the MSF rate. The average risk premia in the money market (measured as the spread of 3-month CP rate minus 91-day treasury bill rate) at 84 bps during November 15-December 9 was similar to 88 bps during the period October 15-November 14, 2022 reflecting stable funding conditions in the money market. In the primary market, fund mobilisation through CD issuances has been robust at `3.96 lakh crore during the year so far (up to December 2), higher than `0.78 lakh crore for the corresponding period a year ago. This reflects banks' additional demand for funds to meet the funding gap between buoyant credit offtake and relatively modest deposit growth. On the other hand, CP issuances have declined to `9.3 lakh crore during the year so far (up to November 30) from `14.1 lakh crore for the corresponding period a year ago, as the appetite for bank credit improved.

In the fixed income market, bond yields extended a softening bias in tandem with the easing of US treasury yields and the decline in international crude oil prices. The rally in the bond market was fuelled by the moderation of inflation in India and the US, coupled with a growing consensus over a slower pace of rate hikes. The Indian benchmark yield on the 10-year G-sec softened from a high of 7.51% at the close on October 21 to 7.30% on December 9, 2022 . In response to the monetary policy announcement on December 7, the yield on the 10-year G-sec hardened intermittently before closing only 2 bps higher than the previous day's close at 7.27%. The muted reaction in the bond market suggests that the action was largely priced in by market participants. Across the curve, G-sec yields declined sharply, particularly for the short and long-end segment, even as the mid-segment registered a more modest decline. While long-term yields have been infl uenced by global factors during the current policy tightening cycle, domestic policy measures seem to have a larger bearing on short-term rates.

Reserve money (RM) excluding the first-round impact of change in cash reserve ratio (CRR) rose by 7.7% on a YoY basis as on December 2, 2022 (7.9% a year ago). Currency in circulation (CiC) – the largest component of RM – recorded a growth of 8.0% (7.6% a year ago). Money supply (M3) grew by 8.9% as on November 18, 2022 (9.5% a year ago), primarily driven by its largest component – aggregate deposits with banks, which grew by 9.1% (9.8% a year ago). Scheduled commercial banks' (SCBs') credit has registered double digit growth since April 2022 and stood at 17.2%as on November 18, 2022 (7.0% a year ago).

Fig 7: Developments in the G-sec Market



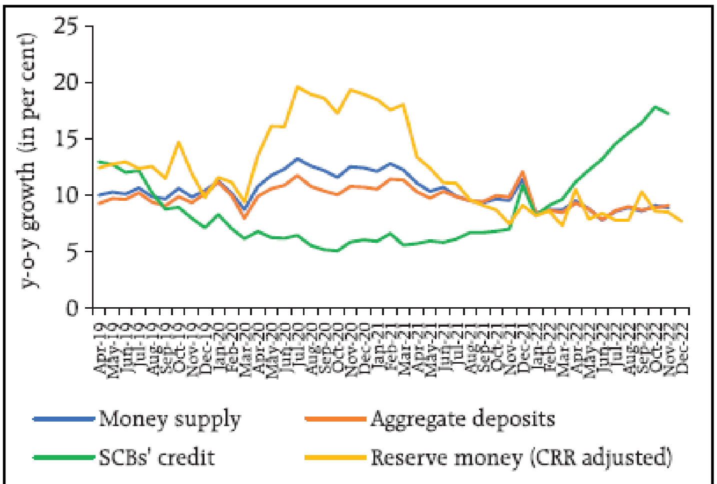
Source: Bloomberg; CCIL; and RBI staff estimates.

Fig 8: Financial Markets - Rates and Spread

Instrument	Interest Rates (per cent)			Spread (bps) (Over Corresponding Risk-free Rate)		
	Oct 14, 2022 – Nov 14, 2022	Nov 15, 2022 – Dec 08, 2022	Variation (in bps)	Oct 14, 2022 – Nov 14, 2022	Nov 15, 2022 – Dec 08, 2022	Variation (in bps)
1	2	3	(4 = 3-2)	5	6	(7 = 6-5)
Corporate Bonds						
(i) AAA (1-year)	7.77	7.81	4	82	87	5
(ii) AAA (3-year)	7.87	7.69	-18	45	43	-2
(iii) AAA (5-year)	7.93	7.79	-14	42	49	7
(iv) AA (3-year)	8.60	8.40	-20	119	114	-5
(v) BBB-(3-year)	12.25	12.06	-19	484	480	-4

Source: Bloomberg

Fig 9: Monetary and Credit Aggregates



Note: 1. Data pertain to last reporting Friday of every month for money supply, aggregate deposits and bank credit; and last Friday of every month for reserve money.
2. Latest data for reserve money pertain to December 2, 2022; whereas for money supply as on November 18, 2022.

Source: RBI

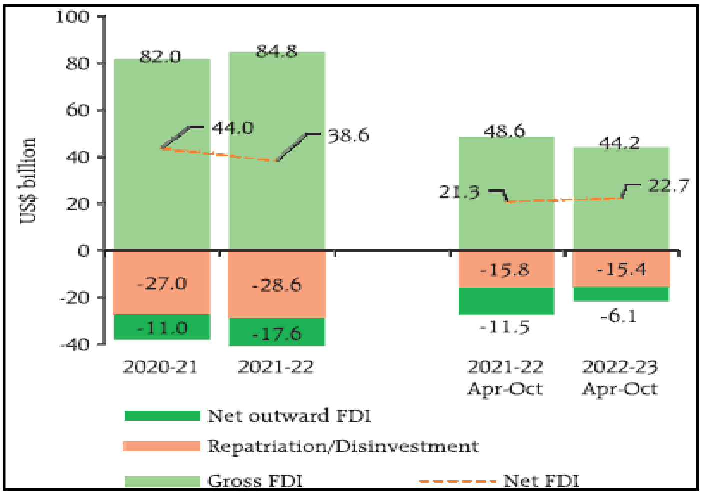
Amidst bouts of volatility, domestic equity markets touched a string of new highs during November, supported by rising expectations that domestic infl tion may have peaked. Higher foreign portfolio investor (FPI) flows amidst improved risk sentiments and a less hawkish US Fed also helped the markets. During the first half of December, markets have moderated amid increased uncertainty regarding future Fed policy path following stronger-than expected US payrolls data. Overall, the BSE Sensex increased by 2.4 per cent since the start of November to close at 62,182 on December 09, 2022.

Gross inward foreign direct investment (FDI) moderated to US$ 44.2 billion during April-October 2022 from US$ 48.6 billion a year ago. Net FDI, however, increased to US$ 22.7 billion during this period from US$ 21.3 billion a year ago, mainly due to a decline in outward FDI by India. The majority of FDI equity inflows was received by manufacturing, retail and wholesale trade, financial services, computer services and communication services during April October 2022. Singapore, Mauritius, and the US were major source countries of FDI during this period.

FPIs remained net purchasers in the Indian markets for the second month in succession amidst expectations of slowdown in the pace of rate hikes by the US Fed, softening crude oil prices, and steady macroeconomic performance of the domestic economy. Net FPI flows to India were to the tune of US$ 4.7 billion in November 2022, mainly in the equity market. However, in December 2022 (up to 13th), Indian markets witnessed FPI outflow of US$ 0.3 billion. During November 2022, financial services, oil, gas and consumable fuels, and information technology sectors attracted the bulk of FPI investment in equity market. According to Institute of International Finance (IIF), Indian markets received more FPI investment than other emerging market economies (EMEs), except China and Taiwan, in November 2022.

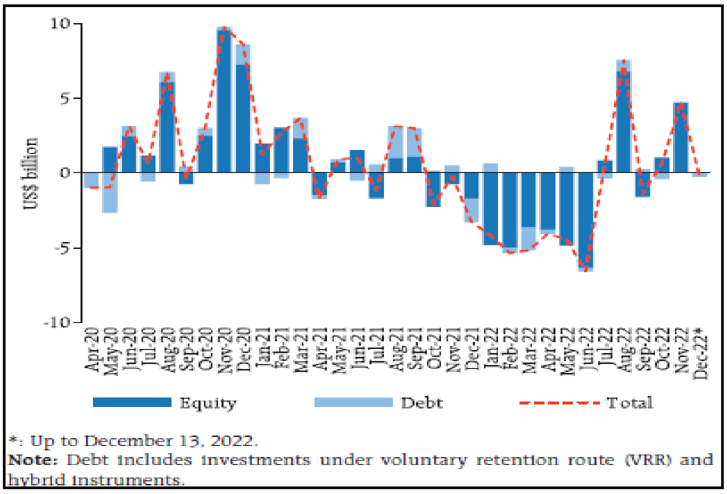
External commercial borrowing (ECBs) registrations during April-October 2022 stood at US$ 12.4 billion. Net ECB inflows, however, were negative as principal repayments (US$ 14.3 billion) exceeded gross disbursements (US$ 12.3 billion). The end use pattern of the ECBs revealed more funds intended for on-lending/sub-lending, followed by funds raised for refinancing of earlier ECBs and for new projects.

Fig 10: Foreign Direct Investment



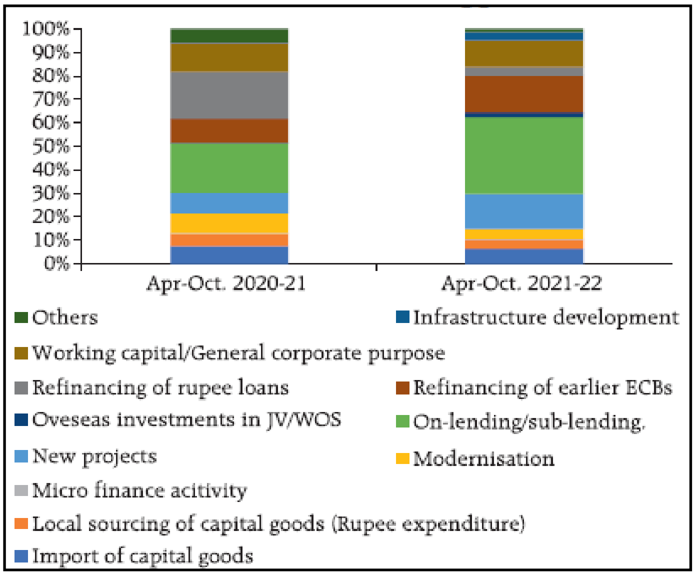
Sources: RBI

Fig 11: Net Foreign Portfolio Investment



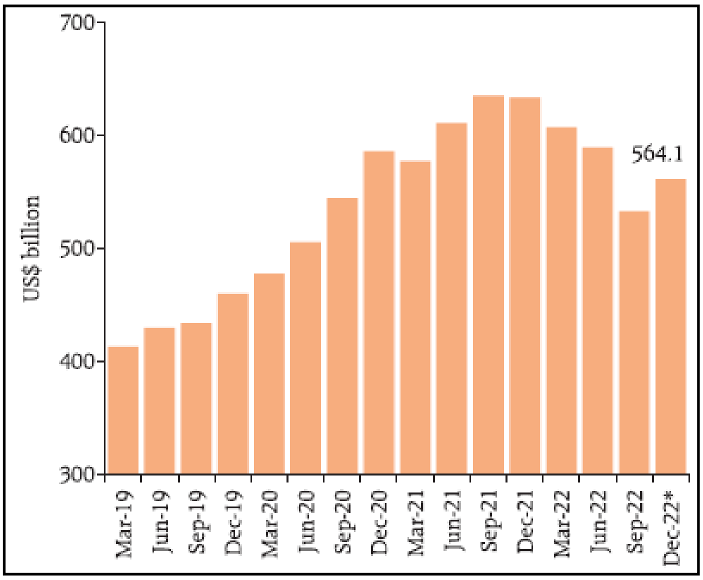
Sources: National Securities Depository Limited

Fig 12: ECB Fund Use Approvals



Source: RBI

Fig 13: Overall Cost of ECBs



Source: National Securities Depository Limited

An Anatomy of Inflation’s Ascent in India:

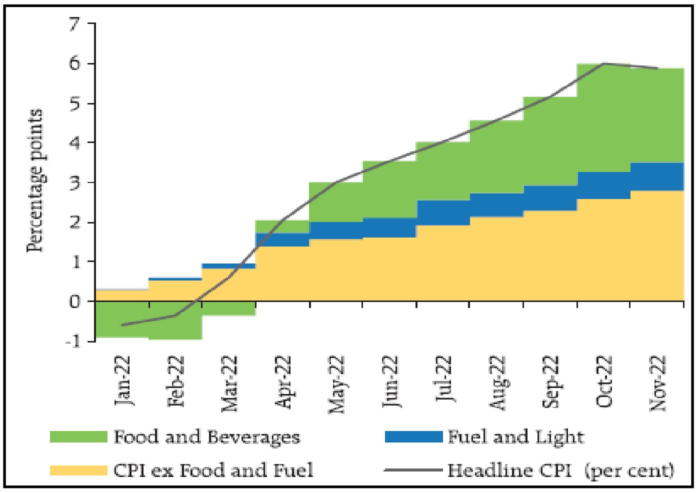
With the worst of the pandemic’s two devastating waves having been weathered and unfavourable base effects being up to January 2022, the Monetary Policy Committee (MPC) in its meeting in February 2022 projected average inflation at 4.5% during 2022-23 on ebbing COVID-19 infections, easing supply chain pressures, normal monsoons and global commodity prices moving in a range-bound manner.

Important characteristic of this unique inflation experience is that momentum remained persistently positive for all the three major groups, viz., food, fuel and core (excluding food and fuel) during February-October 2022. By August, food became the dominant driver of headline price movements. In contrast, the momentum of fuel price changes ebbed and base effects remained favourable. The momentum of core price changes remained positive and volatile, overwhelming generally favourable base effects. In October, the core component registered a sharp pick-up in momentum, the largest since April 2022. These shifts are unusual in the history of inflation in India. In November, for the first time since January 2022, headline inflation fell below 6% due to a sharp drop in vegetables prices, even as momentum in the fuel and core categories remained positive.

Although the accumulation of price pressures has been sustained across all the major groups, the pressure points turned out to be food and core. In fact, CPI core, where prices tend to be sticky, contributed substantially to the price buildup since March.

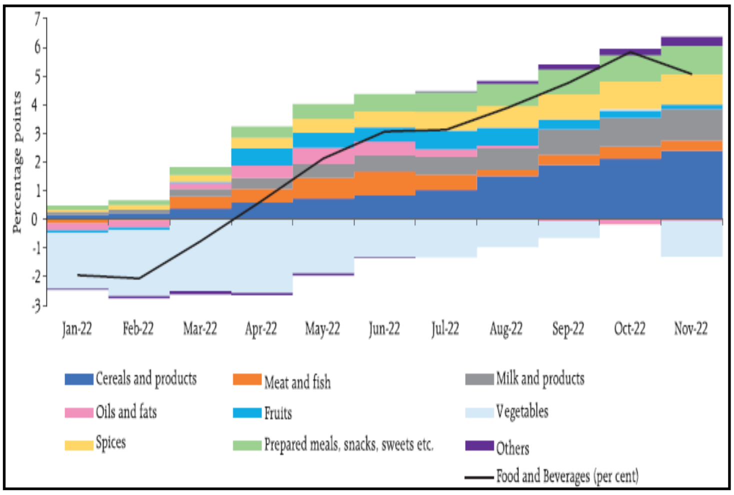
The initial contributors to the food price buildup were cereals, edible oils, meat and fi sh. By May, milk and products joined these drivers, along with spices and prepared meals. Upside pressures were amplified by the waning of the effect of the usual seasonal moderation in vegetables prices. By August, there was a shift in drivers. Global edible oil prices registered a plunge, but the sustained price build-up in cereals, vegetables, milk and spices offset it. In November, a sharp drop in vegetables prices pulled the cumulative food price momentum downwards, even though almost all other major sub-groups registered further price increases.

Fig 14: Cumulative Price Build Up



Source: NSO

Fig 15: CPI Food and Beverages - Cumulative Price Build Up

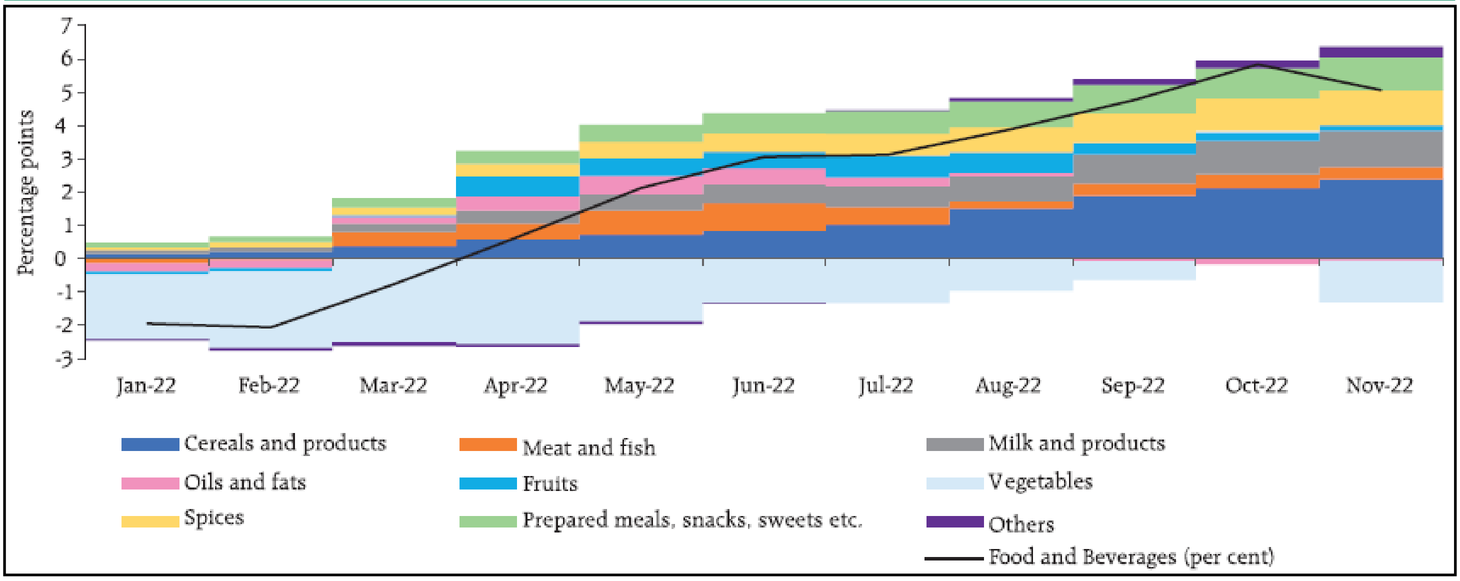


Source: NSO

In the case of fuel, the price build-up occurred predominantly through a sharp rise in kerosene prices along with a pick-up in LPG prices. From August, kerosene prices started to edge down in response to falling international prices.

The price build-up in the core category has been persistent across sub-constituents. In the initial months, the largest contributors were clothing, transportation and communication, and personal care and effects. Under transportation, the main driver was the increase in pump prices during March-April following the spike in crude oil prices since the start of the conflict. Between March 22 and April 6, 2022, petrol and diesel retail selling prices were increased by around `10 per litre in 14 revisions. By June, the impact of transportation waned as pump prices fell on a reduction in excise duties. Nevertheless, the second-round impact on transportation costs and fares sustained the price momentum in this category. Progressively, price pressures started to get broad-based covering clothing, household goods and services, personal care and effects, health, education and housing, i.e., 73% of core CPI.

Fig 16: CPI Excluding Food and Fuel - Cumulative Price Build-up

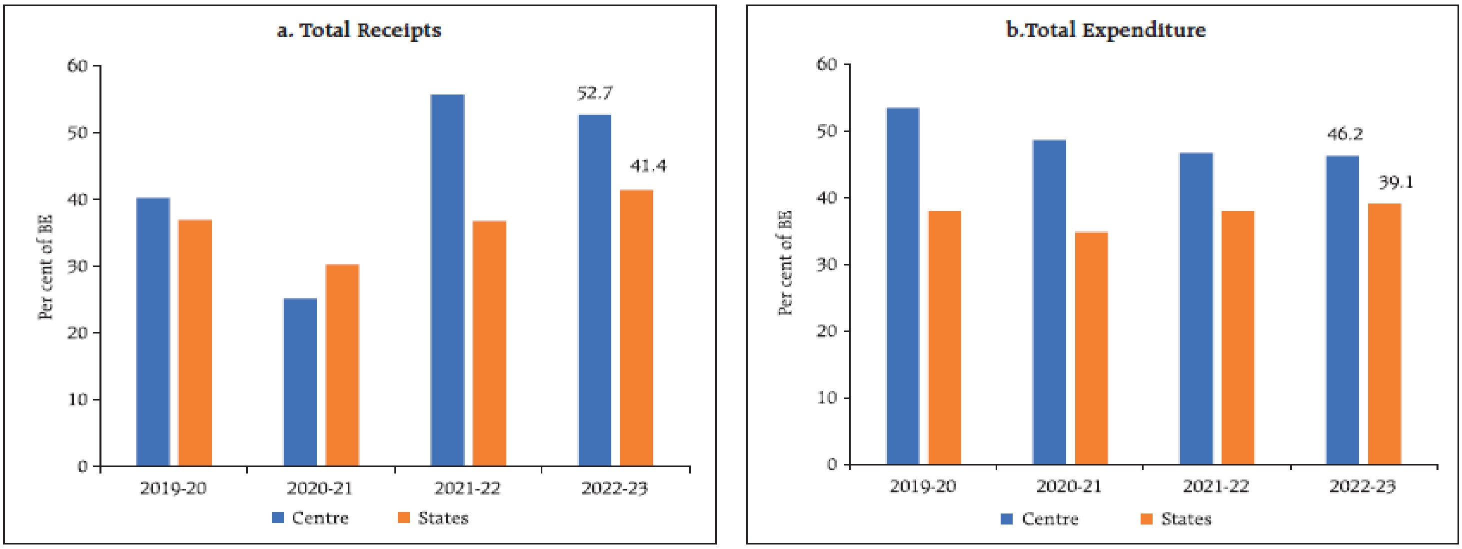


Source: NSO

Government Finances 2022-23: A Half-Yearly Review:

In line with the previous year, more than 50 per cent of the budgeted total receipts of the Central government were realized during H1:2022-23. On the other hand, the total expenditure of the Central government remained contained at 46.2% of budget estimates (BE), as against an average of 53.5% of BE during 2017-18 to 2019-20, despite the challenges posed by the war in Europe on macroeconomic outcomes. The fiscal performance of the States has been robust, with an improvement in their budgetary deficits in H1:2022-23. The States' total receipts have been strong, as reflected in a higher proportion of budgeted total receipts collected in H1:2022-23, compared to those collected in the previous years. On the expenditure side, the States have expended 39.1% of their budgeted total expenditure during H1:2022-23, broadly in line with their past spending patterns.

Fig 17: Total Receipts and Expenditure in H1

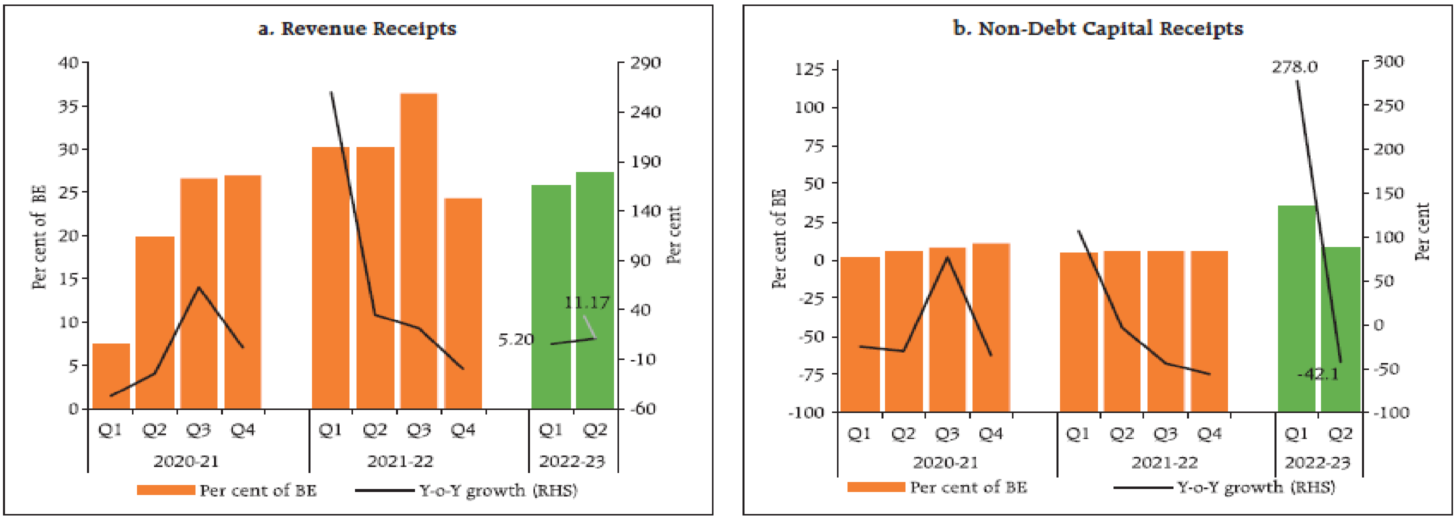


Source: Controller General of Accounts (CGA); and Comptroller and Auditor General (CAG)

Revenue receipts: Revenue receipts of the Central government registered a growth of 5.2% in Q1:2022-23, as robust growth in tax revenues was partly offset by a contraction in non-tax revenues on the back of lower dividend transfer from the Reserve Bank. With a pick-up in non-tax revenues in Q2:2022-23, the growth in revenue receipts improved to 11.2%. Non-debt capital receipts increased by 278.0% in Q1:2022-23, led by the successful initial public offer (IPO) of Life Insurance Corporation of the Central government registered a growth of 5.2% in Q1:2022-23, as robust growth in tax revenues was partly offset by a contraction in non-tax revenues on the back of lower dividend transfer from the Reserve Bank. With a pick-up in non-tax revenues in Q2:2022-23, the growth in revenue receipts improved to 11.2%. Non-debt capital receipts increased by 278.0% in Q1:2022-23, led by the successful initial public offer (IPO) of Life Insurance Corporation (LIC), but remained lackluster in Q2:2022-23.

The Centre's direct tax collections registered a YoY growth of 23.2% in H1:2022-23, led by the growth in income tax and corporation tax by 25.7% and 21.6%, respectively. On the other hand, while the Centre's indirect tax collections increased by 11.9% during H1, there was a contraction in customs and union excise duty collections on account of (i) cuts in excise duty on petrol and diesel in May 2022, and (ii) reduction in customs duty on key raw materials and inputs for the steel and plastic industry as well as commodities such as cotton and vegetable oil, which were aimed at taming inflation.

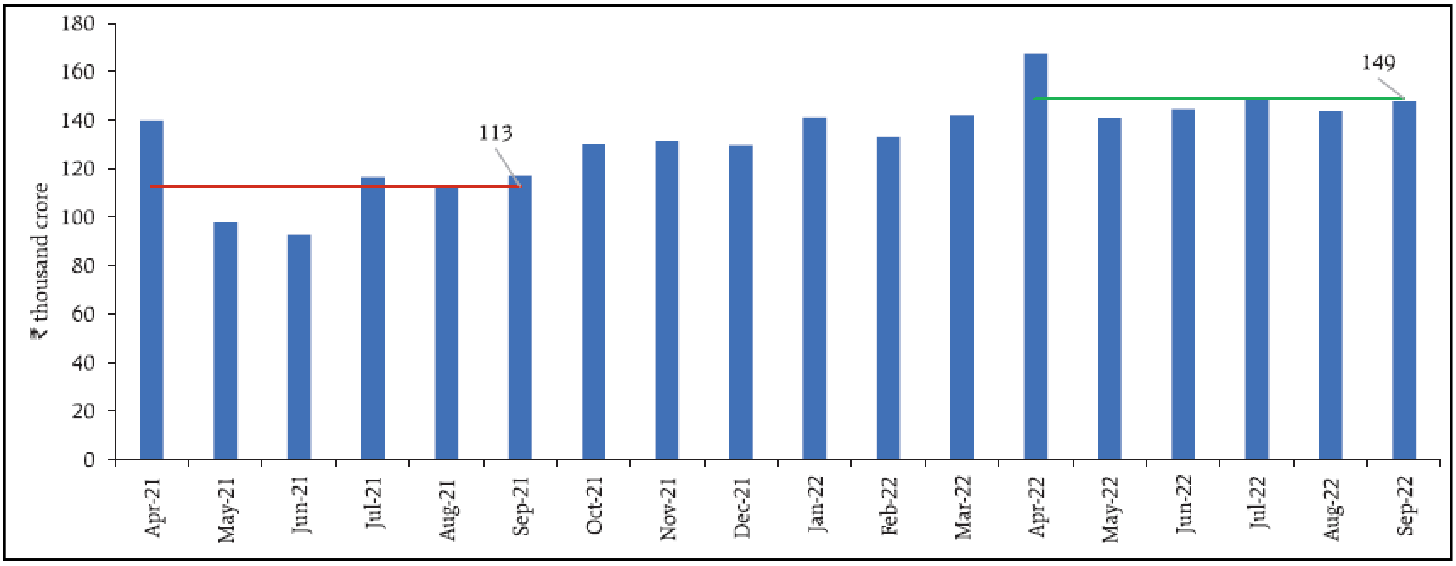
Fig 18: Quarterly Breakup of the Centre's Receipts



Source: Controller General of Accounts (CGA); and Budget documents of Union government

The GST collections (Centre plus States) have remained buoyant, recording a YoY growth of 32.2% and averaging `1.5 lakh crore during H1:2022-23, as against an average of `1.1 lakh crore during H1:2021-22. In Q1:2022-23, the GST collections recorded a growth of 37.1% whereas in Q2:2022-23 it registered a growth of 27.5% on a YoY basis.

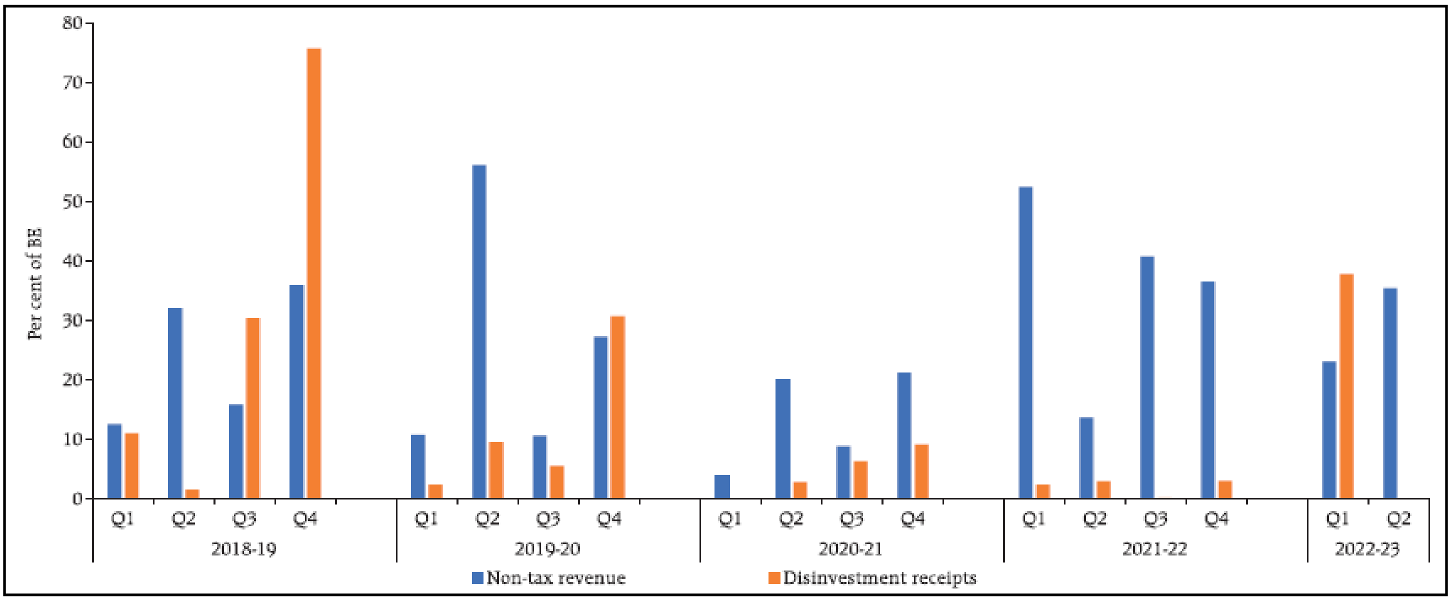
Fig 19: GST Collections



Source: Press Information Bureau (PIB) releases

Centre's non-tax revenues contracted in Q1:2022- 23 due to lower surplus transfer from the Reserve Bank but witnessed a sharp up-tick in Q2, primarily owing to an increase in non-tax collections from economic services. However, on the disinvestment front, 37.8% of the budgeted disinvestment target of `65,000 crore has been raised in H1, primarily owing to the LIC IPO.

Fig 20: Non-tax Revenue and Disinvestment Receipts of the Central Government



Source: CGA

Expenditure: In 2022-23 (BE), the total expenditure of the central government was budgeted to grow by a modest 4.6%, on top of 7.4% growth in 2021-22 (RE), with revenue expenditure growth budgeted at 0.9 per cent and capital expenditure growth at 24.5%. However, in March 2022 the Union government announced Phase VI of the Pradhan Mantri Garib Kalyan Anna Yojana for the period April to September 2022, with an estimated additional cost of `80,000 crore.8 Subsequently, Phase VII of the scheme was also announced for the period October-December 2022, with an estimated additional cost of `44,762 crore.

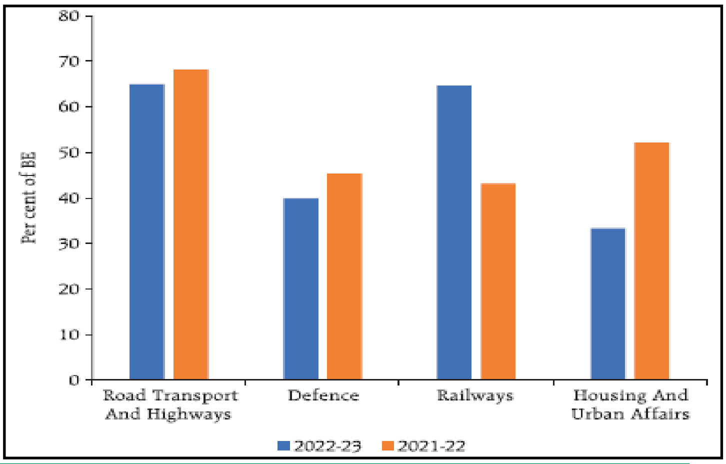
Further, the Union government has approved additional fertiliser subsidy of `1.13 lakh crore over and above the budget estimates, to insulate the farmers from rising international fertilizer prices. The Union government also placed before the Parliament the fi rst batch of supplementary demand for grants for 2022-23 during the winter session of the parliament which involved additional cash outgo. Owing to these developments, the growth in total expenditure and revenue expenditure is expected to exceed the budget estimates.

During H1:2022-23, total expenditure recorded a YoY growth of 12.2%, with revenue expenditure and capital expenditure increasing by 6.0% and 49.5%, respectively. Even though in H1:2022- 23 around half of the budgeted capital expenditure has been spent, it has recorded a high YoY growth of 49.5% attributable to the frontloading of capital expenditure vis-à-vis previous years. In this period, key ministries such as the Ministry of Road Transport and Highways, the Ministry of Defence and the Ministry of Railways have accounted for more than 80% of the total capital expenditure.

Going forward, in H2:2022-23, after accounting for the impact of major post-budget announcements, total expenditure growth is likely to spike to 14.9%, with revenue expenditure growth picking up to 13.8% and capital expenditure slowing down to 20.6%.

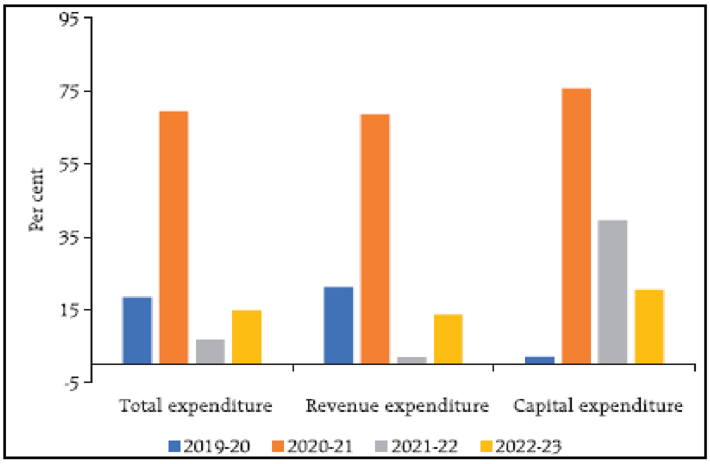
The trend in quarterly expenditure indicates a decline in expenditure growth from Q1:2022-23 to Q2:2022-23. In the case of revenue expenditure as well as capital expenditure, the expenditure growth in Q2:2022-23 turned out to be lower vis-à -vis the corresponding period of the previous year viz., Q2:2021-22. This is primarily due to the base effect, as Q2:2021-22 recorded high expenditure growth when expenditure had to be frontloaded and expanded to deal with the second wave of the pandemic.

Fig 21: Capital Expenditure in H1:2021-22 and H1:2022-23



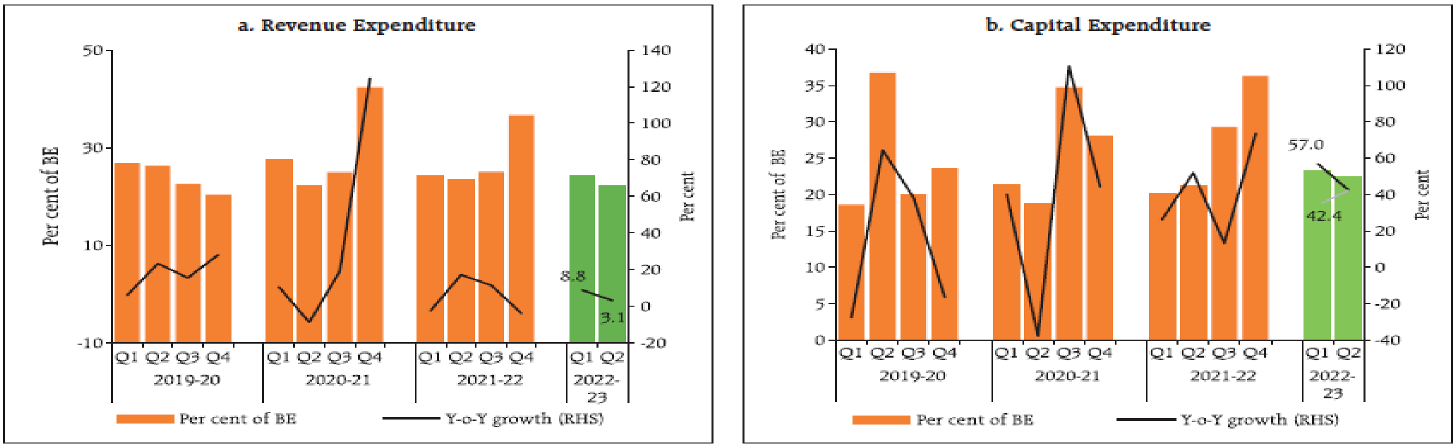
Source: CGA

Fig 22: Capital Expenditure in H1:2021-22 and H1:2022-23



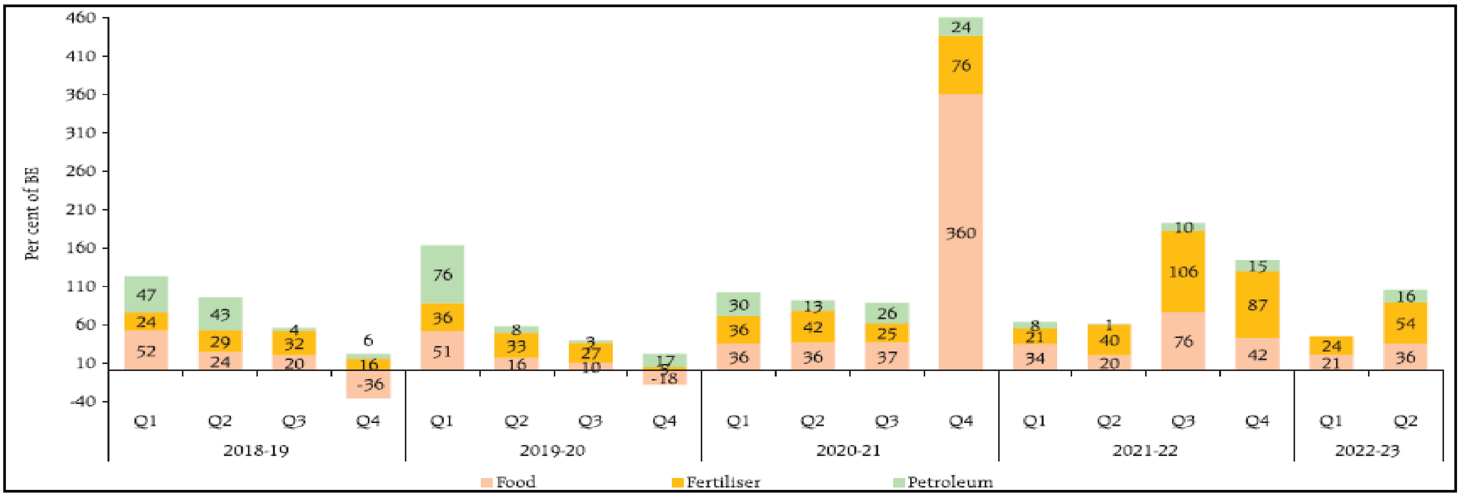
Source: CGA

Fig 23: Quarterly Expenditure of the Central Government



Source: CGA

Fig 24: Quarterly Expenditure on Major Subsidies by the Central Government



Source: CGA and budget

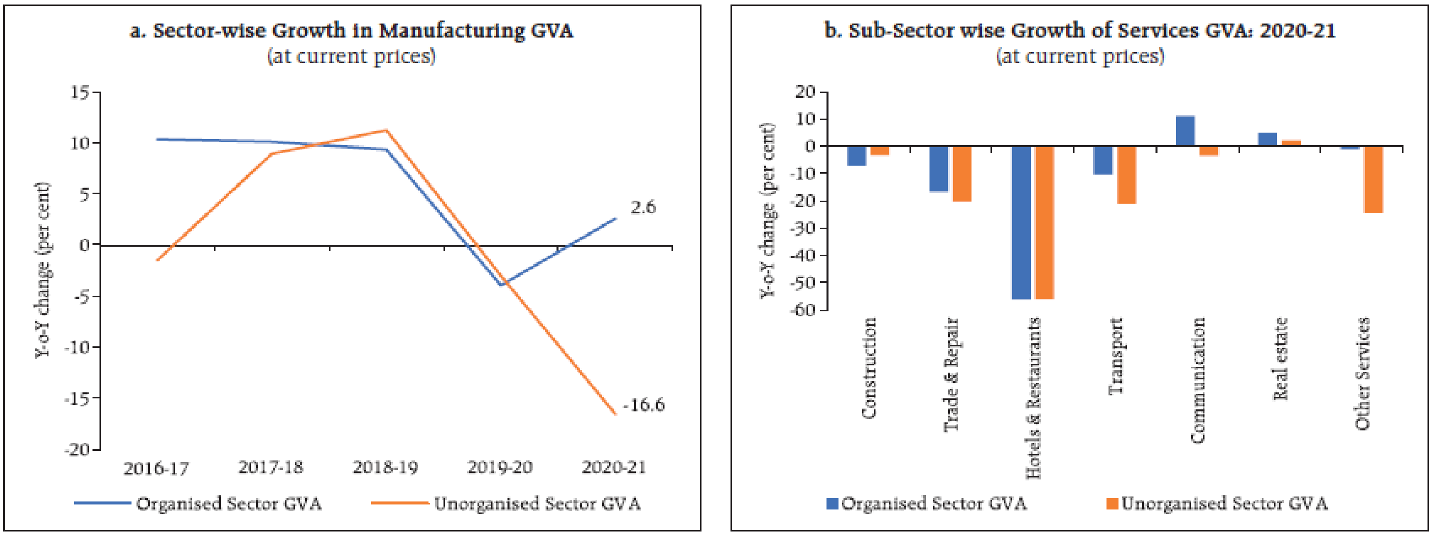
A Composite Coincident Index for Unorganised Sector Activity in India:

Nearly half of the measured economic activity in India takes place in the unorganised or informal sector, measurement of which remains a major challenge. The share of the unorganised sector in overall GVA reduced from 45.5% in 2011-12 to 43.5% in 2020-21 - a meagre drop of 2 percentage points over a decade. While the organised segment registered an average nominal growth of 9.8%, the unorganised counterpart clocked in 8.9% growth in the last decade. As has been widely conjectured, the lop-sided impact of the pandemic on the informal sector during 2020-21 is corroborated by the contraction of 3.9% in the unorganised sector GVA vis-à-vis the marginal expansion of 0.2% in organised sector GVA in 2020-21.

At the sectoral level, the unorganised activity is largely concentrated in four sectors – agriculture, forestry and fi shing; construction; trade, repair, hotels and restaurants; and real estate, ownership of dwellings and professional services. Compared to their decadal average, the informal segment in all sector except agriculture, mining and quarrying, electricity and construction suffered loss of share in 2020-21. T

he pandemic-induced asymmetric impact is visible in both manufacturing and services. Within manufacturing, while organised sector nominal GVA grew by 2.6% the unorganised component contracted by 16.6% in 2020-21. Similarly, within services, though both organised and unorganised constituents of hotels and restaurants; other services; transport; trade and repair; and construction registered a contraction, the contraction was more entrenched in the latter.

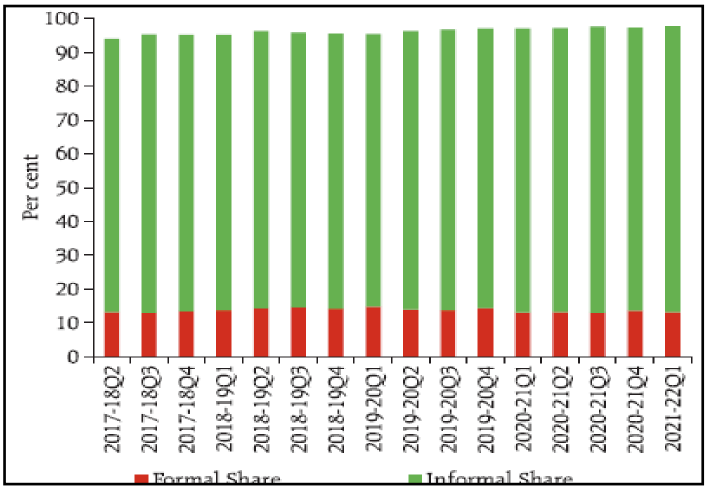
Fig 25: Sectoral Growth in GVA



Source: NSO

From the employment perspective, informal worker in India comprises – (i) home-based worker, self-employed worker, or a wage worker in the unorganised sector; and (ii) worker in the organised sector. As per the Economic Survey 2021-22, roughly 98% were in the unorganised sector and 90% were engaged in informal employment. As on 2019-20, 89% of the workforce was in the informal sector while 82.2% worked in unorganised sector. Nevertheless, as 98% of unorganised workers also fall under informal sector category, both the terms may be used interchangeably irrespective of the conceptual difference.

Fig 26: Share in Formal and Informal Sector Employment



Source: RBI

Formal sector employment registered deeper contraction as compared with informal sector employment during the COVID period. This could be due to large share of informal employment in the agriculture sector which was exempted from lockdowns and other restrictive measures.

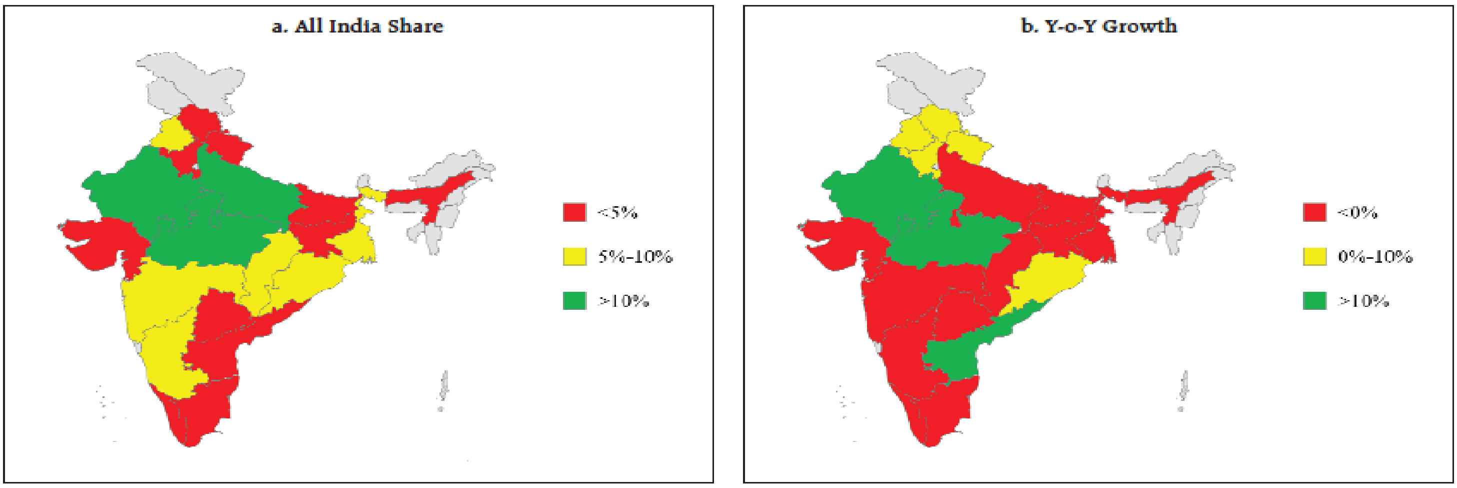
Informal employment growth displayed a downward trend since the second half of 2019-20. However, informal sector employment did not exhibit strong coherence with unorganised GVA growth, a key reason being the small sample size and disguised unemployment. In contrast to large scale output loss on account of COVID-19, informal sector employment showed resilience during the first wave of COVID-19.

Agriculture in 2022-23: Kharif Performance and Rabi Outlook:

The key factors driving agricultural production in India include; (a) the cumulative amount of rainfall during both SWM and NEM and its temporal and spatial distribution; (b) access to irrigation; (c) timely availability of quality seeds (d) timely and adequate supply of chemical fertilisers and pesticides; (e) labour availability; (f) price expectations; and (g) MSP and procurement policies announced by the government. As in other South Asian economies, Indian agriculture is fraught with risks arising from any of these factors.

Kharif Production: The production of kharif foodgrains in 2022-23, as per the First Advance Estimates (AE), is estimated at 149.9 million tonnes, 3.9% lower than kharif foodgrains production of 156.0 million tonnes in 2021-22 (4th AE). Despite deficient rains, Uttar Pradesh recorded highest share in the overall food grain production followed by Madhya Pradesh. While Rajasthan (25.5%), followed by Telangana (13.6%), recorded highest growth in the foodgrain production mainly on account of adequate rainfall However, the YoY growth was negative in Bihar, Uttar Pradesh, Jharkhand and Tamil Nadu. The share of area under the kharif crops has been highest in Rajasthan, followed by Uttar Pradesh and Madhya Pradesh . In terms of productivity of foodgrains, Punjab is at the top followed by Tamil Nadu and Haryana.

Fig 27: Production of Kharif Foodgrains (2022-23)



Source: MOAFW

Rabi Outlook: The harvesting of kharif crops is generally followed by the sowing of rabi (winter) crops from October. On average, wheat (48%, gram (chana) [23.7%, and rapeseed & mustard (10%) comprise the major share in overall rabi acreage. As regards the price, wheat had highest inflation owing to the production loss due to the occurrence of prolonged heat waves during the harvesting stage as well as the reduction in global wheat supply in the wake of geopolitical conflict. With domestic open market prices prevailing above MSP, the public procurement of wheat was lower by 56.6% as compared to the previous year. Being exclusively a rabi crop, the new harvest of wheat would be available from April 2023. Hence, wheat stock with the government continues to fall with offloading under various food support schemes and is thus, pulling up the prices throughout the ongoing rabi marketing season.

Financial Inclusion through Microfinance – An Assessment of the North-eastern Region of India:

Financial inclusion has been a key priority for India. Since finance serves as a catalyst for economic development, the relevance of fi nancial inclusion stretches beyond the realm of finance to socioeconomic development.

The financial inclusion policy, as espoused by the RBI and the Government of India as part of the financial inclusion plans (FIPs) and Pradhan Mantri Jan Dhan Yojana (PMJDY) is associated with meeting bankspecific targets of (a) opening bank branches/outlets; (b) opening basic savings bank deposit accounts (BSBDAs) for savings, payments and credit (overdraft); and (c) Kisan Credit Cards (KCCs) and General Credit Cards (GCCs). Even though the introduction of microfinance in India predates the formal adoption of financial inclusion as a policy objective, it fi ts into the policy on financial inclusion in many ways.

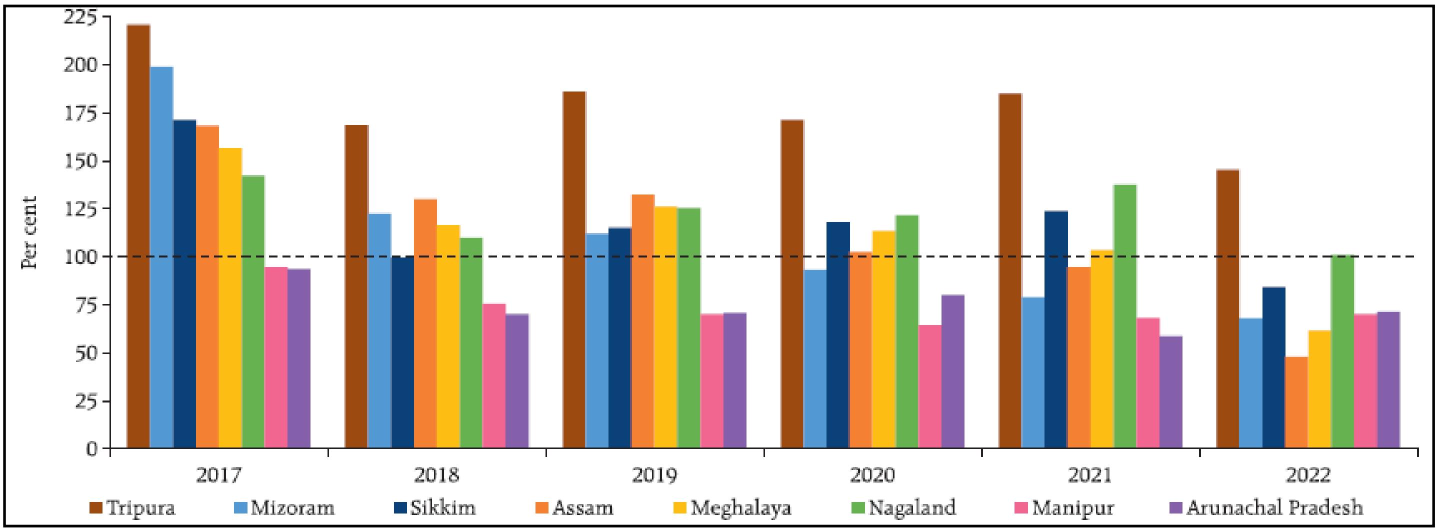
Among SHGs, women's groups have been the most dominant. Moreover, the penetration of microfinance has been more in rural than in urban areas. About 67% of the total SHGs were financed under the National Rural Livelihood Mission (NRLM) as compared to only about 5 per cent under the National Urban Livelihood Mission (NULM) in 2021-22.

Concentration of Microfinance in Eastern and Southern Regions: The microfinance portfolio is skewed with the eastern and southern regions together accounting for close to 60% of the total amount of microfinance disbursed and number of active microfinance loans in 2021-22. Earlier studies had identified the southern region as having the highest concentration of microfinance However, going by the striking ascent of microfinance in the eastern region in recent years, it can be concluded that this region has emerged as another hub of microfinance. Despite its proximity to the eastern region, the share of the north-east has been in single digits and the lowest among all regions; the region has, in fact, been seen losing its share in recent years. The usage of microfinance too was the most widespread in the eastern and southern regions. There were two loans reported per every unique borrower in these two regions, indicating higher intensity of microfinance.

Reasonable Spread of Microfinance in North-east: Based on the indicators of access and usage of microfinance, the penetration of microfinance seemed reasonable in the north-east; it was, of course, much less compared to the eastern and southern regions. Although only about three-fourth of the districts from the north-east were covered by microfinance in 2020- 21, on most indicators of access and usage, the northeast scored reasonably well. To illustrate, per 1000 women, there were 27 saving-linked SHGs as compared to the national average of 18. Furthermore, the region had four credit-linked SHGs per 1000 women, again closer to the national average. On an average, every unique borrower reported two microfinance loans, which was also comparable with the national average. The penetration of microfinance in the central, northern and western regions was relatively weak. The national average for most indicators of access and usage of microfinance was pulled down by these three regions.

The north-east as a whole scores well on most indicators of access and usage of microfinance. However, the development of microfinance is not uniform within the region. Tripura and Assam score high on most indicators of microfinance. By contrast Arunachal Pradesh, the far-eastern state of India, is on the other extreme in penetration of microfinance. The remaining north-eastern states are positioned between these two ends with varying degrees of microfinance access and usage.

Fig 28: Microfinance Availability per Borrower in the North-eastern States compared with All-India



Source: MFIN

Conclusion:

As we come to the end of yet another turbulent year, the global economy is still marred by profound shocks and unprecedented uncertainty. Mixed signals are emanating from the geopolitical situation and financial market volatility. In the beginning of this year (2022), just as the COVID-19 pandemic was receding, the war in Ukraine overwhelmed the world in a black swan moment and fundamentally altered the global economic outlook. Surges in food and energy prices and shortages in key staples have severely affected the poorer sections across the world. Though international food, energy and other commodity prices have eased moderately in recent times, infl ation remains high and broad-based. The IMF has projected that more than one-third of the global economy will contract this year or next year. While no country is spared the ill-effects of such large shocks, emerging market economies (EMEs), especially the ones dependent on food, energy and commodity imports, have been the worst affected.

In this hostile international environment, the Indian economy remains resilient, drawing strength from its macroeconomic fundamentals. Our financial system remains robust and stable. Banks and corporate are healthier than before the crisis. Bank credit is growing in double digits for 8 months now. India is widely seen as a bright spot in an otherwise gloomy world. Yet, our inflation remains elevated, as in most parts of the world. Global spillovers continue to impart high volatility and uncertainty.

As we enter 2023, India's G20 presidency provides us a historic opportunity to play a bigger role in the international arena.

Some Important Domestic Statistics:

Fig 29: Deployment of Gross Bank Credit by Major Sectors

(₹ Crore)

Sector	Outstanding as on				Growth (%)	
	Mar.25, 2022	2021	2022		Financial year so far	Y-o-Y
		Oct.22	Sep.23	Oct.21	2022-23	2022
	1	2	3	4	%	%
I. Gross Bank Credit (II+III)	11891314	11044619	12630051	12889117	8.4	17.9
II. Food Credit	55011	63697	21788	25655	-53.4	-59.7
III. Non-food Credit	11836304	10980922	12608263	12863462	8.7	18.3
1. Agriculture & Allied Activities	1461719	1400032	1561537	1590138	8.8	13.6
2. Industry (Micro and Small, Medium and Large)	3156067	2897434	3240817	3290584	4.3	13.6
2.1 Micro and Small [1]	532792	458263	572958	551961	3.6	20.4
2.2 Medium	213996	168815	225083	221072	3.3	31.0
2.3 Large	2409279	2270356	2442775	2517551	4.5	10.9
3. Services	3017258	2712122	3222163	3321383	10.1	22.5
3.1 Transport Operators	155352	141959	157763	160819	3.5	13.3
3.2 Computer Software	20899	20923	21519	22337	6.9	6.8
3.3 Tourism, Hotels & Restaurants	64378	60625	66098	63753	-1.0	5.2
3.4 Shipping	8436	7574	7245	8690	3.0	14.7
3.5 Aviation	23979	29114	23409	23955	-0.1	-17.7
3.6 Professional Services	116742	108668	120581	124531	6.7	14.6
3.7 Trade	696301	637971	745734	746578	7.2	17.0
3.7.1 Wholesale Trade	351213	326520	377709	372358	6.0	14.0
3.7.2 Retail Trade	345088	311451	368025	374220	8.4	20.2
3.8 Commercial Real Estate	291168	276817	297707	305139	4.8	10.2
3.9 Non-Banking Financial Companies (NBFCs)[2] *of which,*	1078447	910287	1171658	1255742	16.4	38.0
3.9.1 Housing Finance Companies (HFCs)	278979	253950	302864	305430	9.5	20.3
3.9.2 Public Financial Institutions (PFIs)	144121	90734	152802	168466	16.9	85.7
3.10 Other Services [3]	561556	518185	610451	609839	8.6	17.7
4. Personal Loans	3381699	3136729	3702006	3770285	11.5	20.2
4.1 Consumer Durables	27628	22102	33506	34727	25.7	57.1
4.2 Housing	1684424	1571738	1805808	1825900	8.4	16.2
4.3 Advances against Fixed Deposits	78730	68529	96332	98302	24.9	43.4
4.4 Advances to Individuals against share & bonds	6161	5760	6636	6806	10.5	18.2
4.5 Credit Card Outstanding	147789	139493	167179	179178	21.2	28.4
4.6 Education	82723	80480	89537	90410	9.3	12.3
4.7 Vehicle Loans	402689	377920	449531	461375	14.6	22.1
4.8 Loan against gold jewellery	75311	72420	80617	83620	11.0	15.5
4.9 Other Personal Loans	876244	798287	972861	989967	13.0	24.0
5. Priority Sector *(Memo)*						
5.1 Agriculture & Allied Activities [4]	1484923	1412497	1601293	1623409	9.3	14.9
5.2 Micro & Small Enterprises [5]	1377848	1234124	1483856	1430352	3.8	15.9
5.3 Medium Enterprises [6]	351900	261845	371997	369542	5.0	41.1
5.4 Housing	616814	579082	625520	631708	2.4	9.1
5.5 Education Loans	58118	59497	58881	59415	2.2	-0.1
5.6 Renewable Energy	3538	2073	3750	4191	18.5	102.1
5.7 Social Infrastructure	2483	2778	2412	2402	-3.3	-13.6
5.8 Export Credit	23330	22584	15577	16909	-27.5	-25.1
5.9 Others	37159	38287	46305	43969	18.3	14.8
5.10 Weaker Sections including net PSLC- SF/MF	1180928	1046402	1317533	1337739	13.3	27.8

Source: RBI

Some Important Domestic Statistics:

Fig 30: Industry-wise Deployment of Gross Bank Credit

(₹ Crore)

Industry	Outstanding as on				Growth (%)	
	Mar. 25, 2022	2021	2022		Financial year so far	Y-o-Y
		Oct. 22	Sep.23	Oct. 21	2022-23	2022
	1	2	3	4	%	%
2 Industries (2.1 to 2.19)	3156067	2897434	3240817	3290584	4.3	13.6
2.1 Mining & Quarrying (incl. Coal)	49135	46832	50180	51904	5.6	10.8
2.2 Food Processing	173246	147467	160107	157632	-9.0	6.9
2.2.1 Sugar	26307	18154	18968	17878	-32.0	-1.5
2.2.2 Edible Oils & Vanaspati	18246	16456	15919	15581	-14.6	-5.3
2.2.3 Tea	5728	5909	6112	6124	6.9	3.7
2.2.4 Others	122965	106948	119108	118049	-4.0	10.4
2.3 Beverage & Tobacco	18176	16664	17776	19403	6.7	16.4
2.4 Textiles	224026	204270	213404	213205	-4.8	4.4
2.4.1 Cotton Textiles	90384	80309	81299	81801	-9.5	1.9
2.4.2 Jute Textiles	3509	2614	3719	3698	5.4	41.5
2.4.3 Man-Made Textiles	38371	37576	38917	39173	2.1	4.3
2.4.4 Other Textiles	91761	83771	89470	88533	-3.5	5.7
2.5 Leather & Leather Products	11573	10897	11551	11556	-0.1	6.1
2.6 Wood & Wood Products	16294	15374	17441	17587	7.9	14.4
2.7 Paper & Paper Products	40565	38968	41428	41959	3.4	7.7
2.8 Petroleum, Coal Products & Nuclear Fuels	107333	86619	151473	157974	47.2	82.4
2.9 Chemicals & Chemical Products	196363	177808	215149	222461	13.3	25.1
2.9.1 Fertiliser	33160	28119	36852	36990	11.5	31.5
2.9.2 Drugs & Pharmaceuticals	61093	54628	64211	66725	9.2	22.1
2.9.3 Petro Chemicals	19622	22236	21860	21986	12.0	-1.1
2.9.4 Others	82486	72826	92225	96761	17.3	32.9
2.10 Rubber, Plastic & their Products	72013	64197	75487	76543	6.3	19.2
2.11 Glass & Glassware	5952	5942	6502	6547	10.0	10.2
2.12 Cement & Cement Products	47910	47801	50308	51558	7.6	7.9
2.13 Basic Metal & Metal Product	288531	272153	306675	310563	7.6	14.1
2.13.1 Iron & Steel	187584	180943	205442	210102	12.0	16.1
2.13.2 Other Metal & Metal Product	100946	91210	101233	100460	-0.5	10.1
2.14 All Engineering	167966	151305	173176	172239	2.5	13.8
2.14.1 Electronics	38179	37039	40124	40596	6.3	9.6
2.14.2 Others	129787	114266	133053	131643	1.4	15.2
2.15 Vehicles, Vehicle Parts & Transport Equipment	89896	83829	91973	94684	5.3	12.9
2.16 Gems & Jewellery	80512	74278	78021	77970	-3.2	5.0
2.17 Construction	117724	115821	120041	118452	0.6	2.3
2.18 Infrastructure	1195027	1117055	1214880	1238260	3.6	10.9
2.18.1 Power	611410	584608	620963	628330	2.8	7.5
2.18.2 Telecommunications	130318	110957	131526	131426	0.9	18.4
2.18.3 Roads	270395	245186	278943	279031	3.2	13.8
2.18.4 Airports	6646	7605	8572	8987	35.2	18.2
2.18.5 Ports	8886	9987	8556	8360	-5.9	-16.3
2.18.6 Railways	10512	14075	11825	11844	12.7	-15.9
2.18.7 Other Infrastructure	156860	144636	154494	170283	8.6	17.7
2.19 Other Industries	253823	220156	245244	250088	-1.5	13.6

Source: RBI

Some Important Domestic Statistics:

Fig 31: Union Government Accounts at a Glance

Industry	Weight	2020-21	2021-22	April-September		September	
				2021-22	2022-23	2021	2022
	1	2	3	4	5	6	7
General Index	100.00	118.1	131.6	126.2	135.0	129.5	133.5
1 Sectoral Classification							
1.1 Mining	14.37	101.0	113.3	104.1	108.5	95.1	99.5
1.2 Manufacturing	77.63	117.2	131.0	125.4	133.9	131.9	134.3
1.3 Electricity	7.99	157.6	170.1	174.4	193.2	167.9	187.4
2 Use-Based Classification							
2.1 Primary Goods	34.05	118.1	129.5	124.1	135.5	117.3	128.2
2.2 Capital Goods	8.22	75.9	88.7	83.2	97.2	93.3	102.9
2.3 Intermediate Goods	17.22	124.7	143.9	138.8	148.2	142.9	145.8
2.4 Infrastructure/ Construction Goods	12.34	124.7	148.2	141.5	151.8	145.0	155.8
2.5 Consumer Durables	12.84	101.2	113.8	107.7	119.2	131.0	125.1
2.6 Consumer Non-Durables	15.33	142.1	146.7	143.2	139.2	147.3	136.9

Source: Controller General of Accounts (CGA), Ministry of Finance, Government of India and Union Budget 2022-23.

Fig 32: Average Daily Turnover in Select Financial Markets

(₹ Crore)

Item	2021-22	2021	2022					
		Oct. 29	Sep. 23	Sep. 30	Oct. 7	Oct. 14	Oct. 21	Oct. 28
	1	2	3	4	5	6	7	8
1 Call Money	14515	14570	21730	21491	18551	17643	18469	15386
2 Notice Money	2122	2904	586	3219	287	4069	285	8931
3 Term Money	515	373	777	717	533	336	683	1675
4 Triparty Repo	618526	774300	698269	886850	650315	872635	759630	911559
5 Market Repo	383844	388328	465877	604797	465195	574839	478069	638020
6 Repo in Corporate Bond	4373	5351	1095	232	3408	5250	316	3253
7 Forex (US $ million)	67793	92929	95271	121050	86602	87594	89923	97414
8 Govt. of India Dated Securities	51300	56616	62243	73979	70154	61647	64851	49563
9 State Govt. Securities	5570	5087	3304	3860	5257	2698	3283	7884
10 Treasury Bills								
10.1 91-Day	4690	3487	2553	5663	6285	4560	1909	1155
10.2 182-Day	3440	2329	5379	5473	9509	2618	2391	3203
10.3 364-Day	3530	1685	3659	2884	2355	2732	2022	1846
10.4 Cash Management Bills								
11 Total Govt. Securities (8+9+10)	68530	69203	77138	91858	93559	74254	74456	63652
11.1 RBI	–	38	1446	479	188	7	128	4

Source: Controller General of Accounts (CGA), Ministry of Finance, Government of India and Union Budget 2022-23.

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