RBI ANNUAL REPORT : 2022-2023

ECONOMIC REVIEW:

The global economy faced challenges in 2022 due to geopolitical tensions and tightening financial conditions. However, after the Omicron wave and successful vaccination efforts, the global economy showed resilience. The IMF revised global growth estimates to 3.4% for 2022. Global trade growth was revised down to 5.1%. Global inflation remained high at 8.7%. Capital flows to emerging markets were subdued. Domestically, the Indian economy recovered and grew by 7% in 2022-23. Headline CPI inflation exceeded projections, leading to the Reserve Bank raising the policy repo rate by 250 basis points. Financial conditions remained supportive, but the Indian rupee was impacted by the strengthening US dollar. The rest of the chapter analyzes the real economy, commodity prices, inflation drivers, monetary aggregates, financial markets, government finances, and the external sector.

Key pointers:

1) Geopolitical hostilities and tight financial conditions affected the global economy in 2022.
2) The global economy showed resilience after the Omicron wave and successful vaccination drive.
3) The IMF revised global growth estimate for 2022 to 3.4% in April 2023.
4) Global trade growth for 2022 was revised down to 5.1%.
5) Global inflation remained high at 8.7% in 2022.
6) Capital flows to emerging market economies were subdued and volatile.
7) The Indian economy grew by 7% in 2022-23, the highest among major economies.

8) Headline CPI inflation surged to 6.7% in 2022-23, leading to the Reserve Bank raising the policy repo rate by 250 basis points.

9) Financial conditions remained supportive, but the Indian rupee was impacted by the strengthening US dollar.
10) The chapter analyzes the real economy, commodity prices, inflation drivers, monetary aggregates, financial markets, government finances, and the external sector.

Table II.2.5: High Frequency Indicators - Growth Rate

(Per cent, y-o-y)

Indicators	2021-22				2022-23			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1	2	3	4	5	6	7	8	9
Urban Demand								
Automobiles Sales	108.5	-10.2	-23.2	-19.3	51.4	16.9	10.0	8.7
Passenger Vehicles Sales	317.7	-2.1	-20.2	-6.1	33.9	34.4	21.4	10.7
Agriculture / Rural demand								
Domestic Sales of Tractors	38.9	-10.6	-13.5	-25.7	15.8	4.8	10.5	18.7
Two-wheelers Sales	85.7	-12.3	-24.8	-22.4	54.4	13.6	7.2	6.7
Three-wheelers Sales	92.0	52.0	12.5	-4.0	210.9	71.2	68.2	84.4
Transport								
Vahan Total Registration	78.0	11.6	-9.5	-8.5	61.5	1.3	18.8	14.8
Domestic Air Passenger Traffic	371.1	108.5	61.5	6.7	206.2	64.1	18.5	52.2
International Air Passenger Traffic	328.0	110.4	138.5	80.8	403.3	263.9	98.1	93.6
Domestic Air Cargo	201.9	27.2	2.5	-4.4	32.1	9.9	-3	2.3
International Air Cargo	118.6	24.8	15.4	2.0	-1.7	-3.8	-11	-2.8
Freight Traffic Net Tonne Kilometre	52.8	16.6	14.1	11.1	19.4	14.5	3.7	4.7
Freight Traffic Freight Originating	40.5	12.8	7.3	7.0	11.8	8.4	3.2	3.7
Port Cargo*	26.8	6.1	1.8	-0.9	9.2	12.8	5.2	12.0
Domestic Trade								
GST E-way Bill	97.9	27.5	10.8	9.2	45.6	20.1	17.2	18.1
GST E-way Bill Intra-State	87.5	25.5	11.7	11.2	46.6	23.8	23.6	22.3
GST E-way Bill Inter-State	117.4	30.7	9.6	6.2	43.8	14.6	7.4	11.4
GST Revenue	81.9	28.2	20.3	15.9	34.5	27.5	14.2	12.6
Construction								
Steel Consumption	104.3	1.7	-6.4	-1.6	9.8	13.0	13.3	12.3
Cement Production	55.9	22.5	8.7	9.0	17.3	4.9	9.8	3.6
Tourism and Hospitality								
Hotel Occupancy Rate	71.9	118.4	56.0	0.3	140.0	21.1	13.5	32.2
Foreign Tourist Arrivals	786.7	363.6	280.7	131.7	895.4	496.5	209.5	222.4

← Contraction   Expansion →

*: For Q4: 2022-23, data are for January-February 2023 as per the availability.
Source: SIAM, Anarock, CMIE, Airports Authority of India, Joint Plant Committee, and CEIC.

Price Situation:

- Inflation surged to multi-decadal highs in 2022 across advanced economies (AEs) and emerging market and developing economies (EMDEs). This was driven by soaring food and energy prices, renewed supply disruptions following the war in Ukraine, tighter labor market conditions, firming up of growth momentum, and volatility in financial markets.

- ❖ Global commodity prices soared in the first half of 2022 due to lingering post-COVID supply constraints and the war in Ukraine. Energy prices increased by 54.4%, food prices by 24.9%, and metals and minerals by 21%. However, commodity prices underwent sharp corrections later on, with significant declines in energy, food, and metals and minerals prices.
- ❖ In India, headline inflation remained above the upper tolerance level of the inflation target for several months in 2022. It reached a peak in April 2022 at 7.8% due to supply disruptions, global commodity price increases, and currency depreciation. Inflation moderated temporarily but increased again in early 2023. Core inflation remained elevated and sticky throughout the year.
- ❖ Average inflation in 2022-23 increased sharply compared to the previous year, while inflation volatility was marginally lower. The distribution of inflation showed negative skewness, indicating higher-than-average inflation prints in many months.
- ❖ Global commodity prices spiked in the first quarter of 2022-23, driven by energy, food, and fertilizer prices due to the war in Ukraine and recovering global demand. Crude oil prices reached a peak in June 2022 but corrected sharply later on. Metal prices declined as global growth slowed, and food prices moderated but remained above pre-conflict levels due to adverse weather conditions and trade restrictions.
- ❖ CPI headline inflation in India remained above the upper tolerance level for 10 successive months before moderating in late 2022. It picked up again in early 2023 but eased to 5.7% in March 2023. The increase in inflation was broad-based, driven by higher global commodity prices and adverse domestic weather conditions. Various supply-side measures and monetary policy tightening aided in containing price pressures in the second half of 2022-23.

MONEY AND CREDIT:

The monetary and credit conditions in India evolved in line with the monetary policy stance and the changing state of the economy. Reserve money (RM), adjusted for the increase in cash reserve ratio (CRR), expanded at a slightly higher pace compared to the previous year. Money supply (M3) growth remained in line with aggregate deposits, while deposit growth did not keep pace with credit growth, leading banks to rely on the certificates of deposits (CDs) market for funding asset expansion. Currency with the public (CwP) growth moderated due to the rising opportunity cost of holding currency and the growing adoption of digital payment methods. The velocity of money returned to pre-pandemic levels, indicating improved consumer optimism and business sentiments.

Key Pointers:

1) Reserve money (RM) expanded at a slightly higher pace compared to the previous year.
2) Money supply (M3) growth remained in line with aggregate deposits.
3) Deposit growth did not keep pace with credit growth, leading banks to rely on the certificates of deposits (CDs) market for funding.
4) Currency with the public (CwP) growth moderated, falling below the growth of aggregate deposits for the first time since 2013-14.
5) The velocity of money returned to pre-pandemic levels.
6) RM constitutes more than 68% of the Reserve Bank's balance sheet size.
7) Liquidity measures taken by the Reserve Bank during the COVID-19 pandemic led to stable expansion in its balance sheet size
8) RM growth decelerated to 10.0% in 2022-23, reflecting the gradual and calibrated withdrawal of surplus liquidity.
9) Currency in circulation (CiC) increased by 7.8% in 2022-23, at a lower pace than the growth in RM.
10) The digital payments in India increased significantly, facilitated by initiatives of the Reserve Bank.
11) The demand for currency in India remains relatively elevated compared to other major economies, despite the growth of digital payments.
12) The demand for CiC follows a predictable intra-month and quarterly pattern.
13) CiC expands during the first fortnight, contracts in the second fortnight, and exhibits seasonal patterns driven by rabi procurement, kharif sowing, festivals, and harvest seasons.

FINANCIAL MARKETS:

1) Geopolitical conflict following the war in Ukraine led to a rise in food and energy prices globally.

2) Governments implemented measures like energy tax cuts, price subsidies, and cash transfers to mitigate the impact of the cost of living crisis.

3) Fiscal deficit and debt moderated in most G20 countries in 2022 as pandemic-related measures were unwound.

In India, targeted fiscal measures were undertaken to contain inflation while pursuing fiscal consolidation and increasing capital expenditure

The gross fiscal deficit of the Union government declined from 6.75% of GDP in 2021-22 to 6.45% of GDP in 2022-23 (revised estimates).

The central government implemented measures to shield domestic consumers from high prices, resulting in increased subsidy expenditure and higher revenue expenditure

Tax revenues remained robust, surpassing budget estimates, while non-tax receipts fell short due to lower dividend transfers.

The Union Budget for 2023-24 focuses on prioritizing capital expenditure for growth and maintaining fiscal prudence.

The government aims to reduce gross fiscal deficit below 4.5% of GDP by 2025-26 and has budgeted GFD at 5.9% of GDP in 2023-24.

Expenditure on subsidies is expected to decrease in 2023-24, while capital expenditure is budgeted to increase significantly.

Gross tax revenue and non-tax receipts are projected to increase, and market borrowings are restrained to create space for private investment.

State government finances in 2022-23 showed a lower gross fiscal deficit and higher revenue collections, primarily driven by robust tax collections.

The Centre has set a limit on state fiscal deficit at 3.5% of gross state domestic product (GSDP) for 2023-24, with increased transfers to the states.

The Centre will continue to provide interest-free loans to states for infrastructure investment, with allocations for various developmental projects.

General government deficit and debt moderated in 2022-23, signaling progress in fiscal consolidation.

The government aims to sustain fiscal consolidation, focus on digitization for a formalized economy, and generate resources for developmental expenditure.

EXTERNAL SECTOR:

India's external sector faced challenges due to deteriorating global macro-financial conditions following the war in Ukraine. The slowdown in global demand and adverse terms of trade shock impacted India's exports, leading to a widening merchandise trade deficit. The current account deficit (CAD) also widened, primarily due to a higher outgo on the primary income account. However, the robust growth in services exports and higher remittance receipts provided some support. The external sector remained resilient compared to other emerging market economies.

Global economic conditions deteriorated during the year, with the IMF revising down its global GDP and trade growth estimates. Global financial conditions tightened, leading to portfolio outflows from emerging market economies and a decline in foreign exchange reserves.

Merchandise exports grew by 6.7% in 2022-23, driven by robust growth in petroleum exports. However, non-oil exports declined slightly. Engineering exports, especially iron and steel, contracted, while electronic goods exports showed strong growth. Cotton yarn exports declined significantly due to subdued demand and higher import duties. India's trade agreements with the UAE and Australia came into effect, and guidelines were issued to facilitate international trade in the Indian Rupee.

Net receipts from invisibles, including services, income, and transfers, remained resilient. Software and business services exports showed strong growth, supporting the overall invisibles balance.

Key Pointers:

1) Deteriorating global conditions and the war in Ukraine impacted India's external sector.

2) India's exports were affected by the slowdown in global demand and adverse terms of trade shock.
3) Merchandise trade deficit widened, leading to a higher current account deficit.
4) Services exports and remittance receipts provided some support to the external sector.
5) Resilience in the face of global spillovers compared to other emerging market economies.
6) Global economic conditions deteriorated, leading to portfolio outflows and a decline in foreign exchange reserves.
7) Merchandise exports grew by 6.7%, driven by robust petroleum exports.
8) Engineering exports, especially iron and steel, contracted
9) Electronic goods exports showed strong growth due to the production-linked incentive (PLI) scheme.
10) Cotton yarn exports declined significantly, impacted by subdued demand and higher import duties.
11) India's trade agreements with the UAE and Australia came into effect, and guidelines were issued for international trade in the Indian Rupee.
12) Merchandise imports grew by 16.5%, led by petroleum and coal imports.
13) Gold imports declined, and import duties on gold were raised.
14) Fertiliser and vegetable oil imports increased.
15) Net receipts from invisibles remained resilient, with software and business services exports showing strong growth.