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Summary of RBI Annual Report

2022-23

Contents

1 - What is RBI's Annual Report?

The RBI's Annual Report is a comprehensive document that provides a detailed account of the central bank's activities, policies, and performance over the course of a financial year. The Annual Report serves as a key source of information for policymakers, economists, researchers, and the general public, offering insights into the RBI's policies, operations, and overall assessment of the economic and financial landscape of the country.

Legal Obligation - Section 53(2) of the RBI Act, 1934.

2 – Assessment of the Economy.

2.1 Global Economy

- Volatility has ebbed in global financial markets and risks to financial stability from the failure of banks in some advanced economies (AEs) in March 2023 have eased.
- Available projections suggest a weaker outlook for the global economy in 2023 and 2024 after the resilience it exhibited to multiple and often overlapping shocks in 2022-
  - the war in Ukraine;
  - the persistent elevation in food and energy inflation; and
  - the tightening of financial conditions in response to aggressive and synchronised monetary policy tightening across the world.
- India has remained among the fastest growing major economies of the world, contributing more than **12 per cent to global growth** on average during the last five years.
- A generalised surge in global inflation triggered monetary policy actions by central banks in the form of successive interest rate increases and the pulling back of liquidity, leading to tightening of financial conditions and together with other factors, a toll on growth which slowed **from 6.2 per cent in 2021 to 3.4 per cent in 2022, according to the International Monetary Fund (IMF).**

2.2 Domestic Economy

Real GDP Growth - Amidst strong global headwinds, the Indian economy is expected to have recorded a growth **of 7.0% in real GDP in 2022-23**. The reason highlighted in the documents are –

- A sustained recovery in discretionary spending.
- Restoration of consumer confidence.
- High festival season spending after two consecutive years of COVID-19 induced isolation.
- The government's thrust on capex provided impetus to the growth momentum.
- In the second half of the year, however, the pace of year-on-year growth moderated because of unfavourable base effects, weakening private consumption demand caused by high inflation, slowdown in export growth and sustained input cost pressures.

Inflation - India also experienced a surge in inflation during 2022-23, primarily reflecting the impact of overlapping global supply shocks and pass-through of higher input costs.

- The sharp increase in global prices of crude oil, food, fertilizers and metals, along with renewed supply disruptions in the aftermath of the war, exerted broad-based price pressures during the first half of the year and after following of gradual normalization of global supply chains, softening global commodity prices, targeted supply management measures by the government and successive hikes in the policy repo rate by the Reserve Bank, inflation moderated in the second half of the year.

- Overall, **headline inflation increased to 6.7% in 2022-23 from 5.5% in 2021-22** to tackle this Monetary Policy committee changed its stance in April 2022 **to remain focused on withdrawal of accommodation to ensure that inflation remains within the target going forward**, while supporting growth.

Fiscal Deficit - The gross fiscal deficit (GFD) of the central government declined from 6.75% of GDP in 2021-22 to 6.45% of GDP in 2022-23 (RE), reflecting the drawdown of pandemic-related stimulus, even as targeted fiscal measures were undertaken to shield domestic consumers from high food and energy prices emanating from the war in Ukraine while State governments had budgeted a gross fiscal deficit (GFD) at 3.4% of GDP for 2022-23.

Export - India's merchandise exports touched US$ 450.4 billion during 2022- 23, which is 6.7% above the previous year's record level.

Foreign Direct Investment - Net inflows under foreign direct investment (FDI), albeit strong, were lower during 2022-23 at US$ 28.0 billion than US$ 38.6 billion a year ago.

Digitization - Taking forward digitization efforts announced in the Union Budget 2022-23, the Reserve Bank introduced its Central Bank Digital Currency (CBDC) in phases during the year,

- with the launch of pilots for Digital Rupee (e₹) in the wholesale and retail segments on November 1, 2022, and December 1, 2022, respectively.
- India has emerged stronger and more resilient from the pandemic, partly due to the wave of digital transformation.
- In 2022-23, total digital payments recorded growth of 57.8% and 19.2% in volume and value terms, respectively, on top of growth of 63.8% and 23.1%, respectively, in the previous year.
- The Reserve Bank also released the Payments Vision 2025 during the year with the theme E-Payments for Everyone, Everywhere, Every time promising to further elevate India's payment systems to empower every user with safe, secure, reliable, accessible, affordable and efficient payment options.
- UPI Lite was introduced to facilitate small value transactions in offline mode using UPI through an on-device wallet. Linking of RuPay credit cards to UPI was permitted to deepen usage by broadening the financial products linked for payment processing.
- The UPI was also extended to non-resident Indians (NRIs) and foreign nationals for undertaking merchant payments in India.
- Sharp upticks witnessed in the Aadhaar Payments Bridge System (APBS) and the National Automated Clearing House (NACH) in 2022-23 attested to the diffusion of digital payments in the rural and semi-urban areas of the country, in part owing to the positive nudge provided through government cash transfers going digital.

Financial Inclusion Index - All these initiatives in Banking system led to improvement in the Reserve Bank's Financial Inclusion Index (FI-Index), a quantifiable metric to evaluate the efficacy of efforts towards financial inclusion, based on 97 indicators (reflecting ease of access, availability and usage of services, and quality of services), it improved from 53.9 in March 2021 to 56.4 in March 2022 (latest available), with growth witnessed across all sub-indices.

3 – Prospect of the Economy.

Here we will look into the prospect of global and domestic economy

3.1 Global Economy

- Global growth is expected to slow down in 2023 and may remain subdued in the medium run. As per the IMF's World Economic Outlook (WEO) released in April 2023, global growth for 2023 at 2.8 per cent is likely to be followed by the medium-term growth plateauing at 3.0 per cent.
- The urgent need for multilateral cooperation against this backdrop makes the G20 an effective forum for addressing the global challenges under India's Presidency, with the theme 'Vasudhaiva Kutumbakam' – 'One Earth · One Family · One Future'.
- The Ministry of Finance (MoF), Government of India and the Reserve Bank together are steering the G20 discussions to bring in the perspective of EMDEs in the global south under the ambit of the Finance track.

3.2 Domestic Economy

Domestic economic activity does face challenges from an uninspiring global outlook going forward, but resilient domestic macroeconomic and financial conditions, expected dividends from past reforms and new growth opportunities from global geo-economic shifts place India at an advantageous position.

- **Risks to inflation** have moderated with downward corrections in global commodity and food prices and easing of the pass-through from high input cost pressures of last year. The cumulative increase in policy repo rate by 250 bps last year would steer the disinflationary process, along with supply side measures to address transient demand-supply mismatch due to food and energy shocks.
- **Robust balance sheets of corporates and banks**, coupled with high-capacity utilization, would aid in strengthening the momentum in private investment. Burgeoning credit growth, especially housing and personal loans, reflects steady domestic household demand.
- **Robust agriculture production** buoyed by expectation of a bountiful rabi harvest and resilience in allied sector activity are also brightening the outlook for rural demand.
- **Capex -** The crowding-in effects of sustained increase in government capex over recent years is expected to spur higher private investment in 2023-24. In the Union Budget 2023-24, budgeted capital expenditure has increased by 37.4%, with the railways receiving the highest ever capital outlay of 2.4 lakh crore.
- **Private investment growth** is also expected to strengthen with the production-linked incentive (PLI) scheme providing additional fillip. Various other steps to enhance logistics efficiencies and cost competitiveness under the Prime Minister's Gati Shakti and the National Logistics Policy (NLP) are expected to bring down logistics costs.
- **The outlook for the services sector** remains positive in 2023-24. Real estate and construction have witnessed a revival post-pandemic and are expected to perform well in this year also as both demand for and supply of housing remain buoyant.

- **In the external sector**, the current account deficit (CAD) is expected to remain moderate, drawing strength from robust services exports and the salubrious impact of moderation in commodity prices of imports.
- Further the Foreign Trade Policy (FTP), 2023 announced on March 31, 2023, endeavours to promote an export-friendly environment to nurture comparative advantage; harness the opportunities in bilateral trade agreements to help India participate in global value chains (GVCs) and expand access to markets; and explore more trade in the Indian rupee (INR).

Conclusion - To sum up, several shocks tested the resilience of the Indian economy in 2022-23. On the back of sound macroeconomic policies, softer commodity prices, a robust financial sector, a healthy corporate sector, continued fiscal policy thrust on quality of government expenditure, and new growth opportunities stemming from global realignment of supply chains, India's growth momentum is likely to be sustained in 2023-24 in an atmosphere of easing inflationary pressures. Slowing global growth, protracted geopolitical tensions and a possible upsurge in financial market volatility following new stress events in the global financial system, however, could pose downside risks to growth. It is important, therefore, to sustain structural reforms to improve India's medium-term growth potential.

4 – Economic Review

4.1 Real Economy

The Indian economy exhibited robust resilience in 2022-23 amidst a global turmoil following the war in Ukraine, and recorded a growth of 7.0%, the highest among major economies in the world.

Now let's move to component-wise analysis in different heads below -

4.1 Aggregate Demand

- The second advance estimates (SAE) of national income that were released by the National Statistical Office (NSO) on February 28, 2023 indicated that aggregate demand, measured by real GDP, registered a growth of 7.0 per cent in 2022-23.
- For the previous three years, GDP growth numbers were revised up by 20 bps (2019-20), 80 bps (2020-21) and 40 bps (2021-22) indicating that the growth momentum was stronger than what early estimates suggested
- Private final consumption expenditure (PFCE) registered a steady growth of 7.3 per cent, buoyed by an uptick in the contact intensive activity including travel and tourism and an upbeat festival time demand in 2022-23.

Table II.2.1. Real GDP Growth

Component	Growth (per cent)				
	2018-19	2019-20	2020-21	2021-22	2022-23
1	2	3	4	5	6
I. Total Consumption Expenditure	**7.0**	**5.0**	**-4.6**	**10.5**	**6.4**
Private	7.1	5.2	-5.2	11.2	7.3
Government	6.7	3.9	-0.9	6.6	1.2
II. Gross Capital Formation	**6.2**	**-6.0**	**-11.6**	**22.2**	**9.6**
Gross Fixed Capital Formation	11.2	1.1	-7.3	14.6	11.2
Change in Stocks	27.3	-58.7	-85.5	687.8	1.9
Valuables	-9.7	-14.2	26.4	34.0	-14.8
III. Net Exports					
Exports	11.9	-3.4	-9.1	29.3	11.5
Imports	8.8	-0.8	-13.7	21.8	18.8
IV. GDP	**6.5**	**3.9**	**-5.8**	**9.1**	**7.0**

Source: NSO.

- Government final consumption expenditure (GFCE) growth at 1.2 per cent remained muted as the government continued on a consolidation path to restore fiscal health while stepping up capital expenditure to support growth and investment.
- Rural demand, which was deeply scathed by the second wave of COVID-19 a year ago recovered, albeit at a slower pace, vis-à-vis urban demand. Real rural wage growth virtually stagnated in 2022-23 despite a visible uptick in economic activity.
- The rate of gross domestic investment in the Indian economy, measured by the ratio of gross capital formation (GCF) to GDP at current prices, surged to 31.4 per cent in 2021-22 from the COVID induced slump to 27.9 per cent in the preceding year.
- As of March 2023, the non-food credit growth (year-on-year) was robust at 15.4 per cent, same as that of the nominal GDP for 2022-23. The broad-based expansion in bank credit has been facilitated by healthier balance sheets of banks.

4.2 Aggregate Supply

Aggregate supply, measured by gross value added (GVA) at basic prices, expanded by 6.6% in 2022-23, as compared with a growth of 8.8% a year ago. GVA growth was driven by a resilient agriculture sector and broad-based recovery in the services.

- **Agriculture and Allied Activities** - The GVA of the sector grew by 3.3% during

2022-23 on record production of foodgrains (including rice, wheat, maize, barley and pulses), sugarcane and rapeseed and mustard. The sector's buoyancy during the year was generally supported by normal cumulative south-west monsoon (SWM) rainfall and normal north-east monsoon rains. Consequently, total foodgrains production in 2022-23 is estimated at 3,305.3 lakh tonne, as per the third advance estimates (3rd AE), 4.7% higher than the final estimates (FE) for 2021-22.

- **Industrial Sector -** Industrial output measured by the index of industrial production (IIP) expanded by 5.1% during 2022-23 as compared to 11.4% last year.
- **The manufacturing sector**, which accounts for three-fourths of the industrial sector largely shaped the industrial sector recovery.
- **MSME** - The micro, small and medium enterprises (MSMEs) segment, which contributes about 29% of India's GDP and employs over 11 crore workers, recorded a modest recovery. The revenue for the MSME sector is projected to exceed the pre-COVID level in 2022-23 by 25%.
- **Services sector** - Services sector, which being contact- intensive faced the major brunt of COVID-19 pandemic, revived strongly in 2022-23. Among sectors, construction, domestic trade and transport surpassed their pre-pandemic levels, while aviation, tourism and hospitality sectors, though recovering, are yet to reach the respective pre-pandemic levels.
- **Employment -** As per the quarterly (Periodic Labour Force Surveys) PLFS, the labour market conditions in urban areas have shown consistent improvement during 2022-23. Labour force participation during Q3:2022-23 surpassed the pre-pandemic January-March 2020 level. The worker to population ratio peaked during October- December 2022 and the unemployment rate stood at its lowest since the start of the survey in 2017-18.

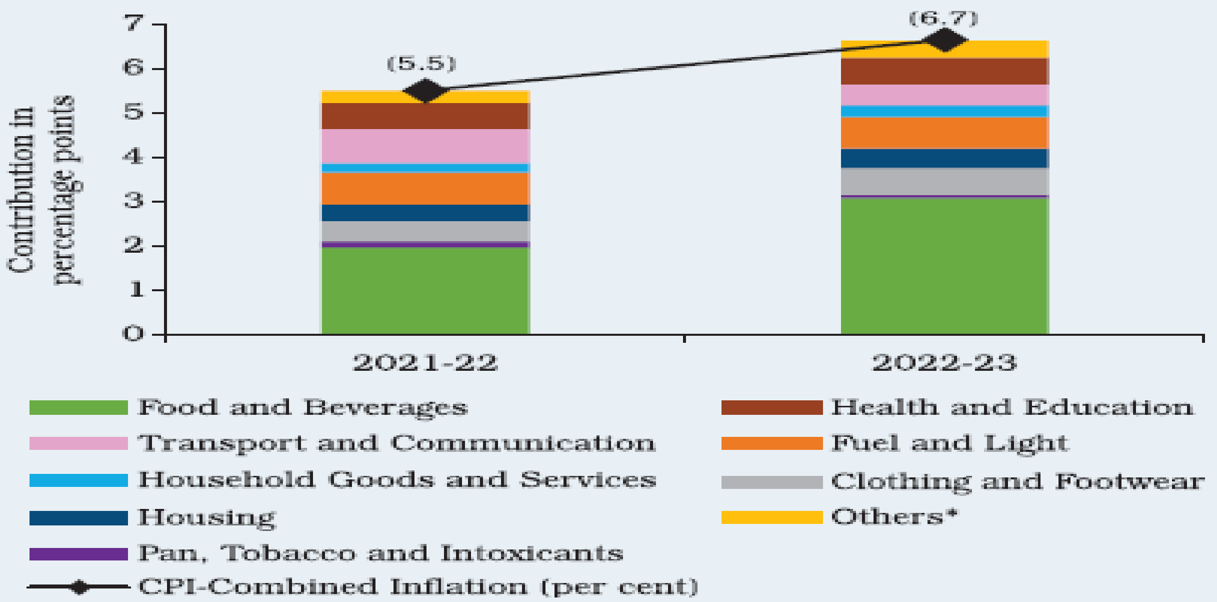
Conclusion - India exhibited robust growth in 2022-23 amidst prevailing global headwinds. Sound domestic macro-fundamentals, fiscal policy thrust on capex, healthy balance sheets of the corporate sector and the financial sector, and structural reforms announced and implemented over the recent years by the government have strengthened resilience of the economy, besides stepping up the growth momentum. Subdued external demand conditions operated as a drag. Labour market conditions normalised, and unorganised sector activity returned to expansion zone in 2022-23. The universal vaccination programme of the government - one of the largest mass vaccination drives in the world, involving more than two billion doses - helped in improving consumer and business confidence.

4.3 Price Situation

- **Global Economy** - Inflation surged across advanced economies (AEs) and emerging market and developing economies (EMDEs) to multi-decadal highs in 2022, primarily driven by the soaring food and energy prices amidst renewed supply disruptions following the war in Ukraine, tighter labour market conditions in AEs, firming up of growth momentum from pandemic time lows and volatility of financial markets in EMDEs resulting from spillovers from the aggressive tightening of monetary policy by the US Fed.

- **Domestic Economy** - Average inflation in 2022-23 increased sharply from its level in 2021-22, driven by a sharp increase in inflation in all the three major groups - food, fuel and core (i.e., excluding food and fuel) inflation - on continued supply disruptions, rise in global commodity prices and currency depreciation, the common adverse global shocks for EMDEs associated with the war in Ukraine.
- **Headline Inflation -** During 2022-23, headline inflation averaged 6.7%, 115 bps higher than a year ago and Core inflation (Excluding Food and Fuel), remained persistently elevated at around 6% during the year.

Chart II.3.5: Drivers of Inflation (Y-o-Y)



*: Includes recreation and amusement, and personal care and effects.
Note: April and May 2020 data were imputed by the NSO.
Source: NSO and RBI staff estimates.

Conclusion - Common shocks emanating from the war in Ukraine – high food, energy, and other commodity prices – and the globalisation of inflation to multi-decadal high levels exerted sustained upside price pressures in India, leading to inflation remaining above the upper tolerance level of 6 per cent over 10 consecutive months (January- October 2022). Inflation eased somewhat during November-December 2022 on seasonal easing in food prices, before rising again during January- February 2023 and moderating to 5.7 per cent in March 2023.

4.4 Money and Credit

Monetary and credit conditions evolved in sync with the monetary policy stance and the changing state of the economy during the course of the year.

Reserve money (RM), adjusted for the first-round effects of the increase in cash reserve ratio (CRR), expanded at a marginally higher pace as compared with the previous year.

Money supply (M3) growth during the year broadly remained in sync with its largest component - aggregate deposits - partly in response to higher deposit rates following the cumulative increase in policy repo rate by 250 basis points (bps) and gradual withdrawal of surplus liquidity.

- **Reserve Money -** Reserve money (RM) depicts the stock of monetary liabilities in the central bank's balance sheet. As on March 24, 2023, RM constituted more than 68% of the Reserve Bank's balance sheet size.
- **On the component side (liabilities**), RM comprises currency in circulation, bankers' deposits with the Reserve Bank, and other deposits with the Reserve Bank. Among the components of RM, currency in circulation (CiC) - the major constituent (share: 78.4%) - increased by 7.8% during 2022-23, at a lower pace than the growth in RM.
- **Money Supply -** Money supply, commonly proxied by broad money (M3), largely consists of currency with the public (CwP) and aggregate deposits (AD) on the components side (liabilities). During the year, broad money recorded a growth of 9.0% as on March 24, 2023 (8.7% a year ago) driven mainly by time deposits, partly supported by the rise in deposit interest rates in response to a cumulative 250 bps increase in the policy rate, in line with the stance of withdrawal of accommodation.
- **Credit -** During 2022-23, amidst buoyant demand for credit growth, the issuances of certificates of deposits (CDs) by banks have risen significantly as compared to the previous year, reflecting additional demand for liquidity by banks to bridge the funding gap between buoyant credit offtake and modest deposit growth.
    - The pickup in credit offtake during the year was broad based, with SCBs' credit growth at 15.0% as on March 24, 2023 (9.6% a year ago).
    - The y-o-y credit growth of PSBs at 16.4% (5.6% a year ago) as on March 24, 2023, was lower than that of PVBs at 17.8% (12.8% a year ago), leading to a marginal increase in the share of PVBs in total SCBs' credit over last year. However, the share of PSBs in total SCBs' credit remains the largest among bank-groups.

Conclusion - Key monetary and credit aggregates moved in line with the Reserve Bank's monetary policy stance and the state of aggregate demand in the economy.

4.5 Financial Market

The global financial markets witnessed bouts of turbulence for most part of the year as uncertainties amplified following the geopolitical tensions, deterioration of global growth and trade outlook, global surge in inflation and synchronised tightening of monetary policy. The Indian financial markets remained resilient notwithstanding persistent impact of global spillovers. India's stock market outperformed most of its EME peers in 2022-23 on the strength of macroeconomic fundamentals and favourable growth prospects.

- **Money Market -** The money market trends during 2022-23 reflected the ebbing surplus liquidity in the system, buoyancy in credit demand and tightening financial market conditions following the cumulative increase in policy repo rate by 250 basis points (bps).
- **G-Sec -** The yields softened by end of 2022-23 tracking global yields and fall in Brent crude oil prices. The 10-year generic yield closed 2022-23 at 7.31%.

- **Corporate Debt Market -** Corporate bond yields hardened during 2022-23 tracking the rise in benchmark G-sec yields and widening of credit spreads. Primary corporate bond issuances rose in the domestic market, while overseas bond issuances moderated in 2022-23. Domestic corporate bond issuances increased to ₹7.6 lakh crore during 2022-23 from ₹6.0 lakh crore during the previous financial year. Investments by FPIs in outstanding stock of corporate bonds decreased to 1.04 lakh crore at end-March 2023 from ₹1.21 lakh crore at end-March 2022.
- **Equity Market -** The Indian equity market exhibited resilience during 2022-23 despite an environment characterised by heightened global uncertainties. Outperforming most of the EME peers during 2022- 23, the BSE Sensex increased by 0.7% to close at 58,992 and the Nifty 50 decreased by 0.6% to close at 17,360.
- **Foreign Exchange Market -** In the foreign exchange market, turnover increased across both interbank and merchant segments as compared to the previous year.

Conclusion - Domestic financial market movements remained orderly, notwithstanding persisting impact of global spillovers during the year Relentless strengthening of the US dollar and aggressive tightening of monetary policy by the US Fed impacted portfolio flows, as in other emerging Market Economies (EMEs).

4.6 Government Finances

The escalation of geopolitical conflict following the war in Ukraine led to a sharp rise in food and energy prices, prompting governments across the world to implement targeted measures, including energy tax cuts, price subsidies and cash transfers, to mitigate the impact of the cost-of-living crisis on households and businesses. Fiscal deficit and debt, however, moderated in most of the G20 countries in 2022, reflecting the unwinding of pandemic-related measures.

Central Government Finances in 2022-23.

- The gross fiscal deficit (GFD) of the Union government declined from 6.75% of GDP in 2021-22 to 6.45% of GDP in 2022-23 revised estimates (RE), in line with the budgeted target of 6.44%. On the back of soaring crude oil and commodity prices, the central government announced several measures to shield domestic consumers from high prices.
- As a result, subsidy expenditure overshot budget estimates (BE) by ₹2.1 lakh crore (food subsidy increased by ₹0.8 lakh crore and fertiliser subsidy increased by ₹1.2 lakh crore), leading to an increase in revenue expenditure by 1.0% of GDP (₹2.6 lakh crore) in 2022-23 (RE)34 over BE.
- Meanwhile, the government remained committed to capital spending, and as a result capital outlay (capital expenditure less loans and advances) exceeded budget estimates by around 10,000 crores.
- On the receipts side, tax revenues remained robust, surpassing BE by 0.6% of GDP (₹1.5 lakh crore) as an increase in corporation tax, income tax and goods and services tax (GST) revenues outweighed lower excise and customs collections.
- Non-tax receipts fell short of budgeted targets in 2022-23 (RE) due to lower dividend transfers by the Reserve Bank, but the shortfall was capped at 0.03% of GDP

(₹7,900 crore) on the back of higher interest receipts, spectrum revenues and dividend transfers from public sector enterprises.

- Disinvestment receipts are estimated at ₹50,000 crore in 2022-23 (RE) vis-à-vis the budgeted target of ₹65,000 crore.
- On the expenditure front, a rollback of spending on subsidies is envisaged in 2023-24, on expectations of softening urea prices and scaling down of pandemic related food subsidies. Food and fertilizer subsidies are budgeted to contract by 31.3 % and 22.3%, respectively, in 2023-24 (BE), thereby capping revenue spending growth at 1.2%.
- On the other hand, capital expenditure is budgeted to increase by 37.4% with the Ministries of Road and Railways accounting for almost half of the budgeted capex. Under capital expenditure, the scheme for providing financial assistance to states for capital investment has been extended to 2023-24 (BE) with an enhanced allocation of ₹1.3 lakh crore.
- Capital expenditure excluding loans and advances, i.e., capital outlay is budgeted to rise to 2.8% of GDP in 2023-24 (BE), the highest ever in the post-liberalization period, reflecting a sustained improvement in the quality of spending.
- For 2023-24, the Union Budget has prioritized capital expenditure to accelerate growth while maintaining fiscal prudence to strengthen macroeconomic stability. Reiterating its commitment to reduce gross fiscal deficit (GFD) below 4.5% of GDP by 2025-26, the government has budgeted GFD at 5.9% of GDP35 in 2023-24, a consolidation of 53 basis points over 2022-23 (RE).
- On the receipts side, gross tax revenue is budgeted to increase by 10.4%, with a budgeted buoyancy of 0.96 that is close to the trend level (proxied by the average from 2010-11 to 2018-19). GST collections have been steadily improving on the back of efforts to improve compliance and have been budgeted at 3.2% of GDP in 2023-24, the highest since the inception of GST.
- Non- tax receipts are budgeted to increase by 15.2%, while the disinvestment target has been set at ₹51,000 crore. The Union Budget 2023-24 envisages restrained market borrowings, which will open up space for private investment.
- Gross market borrowings for 2023-24 are pegged at ₹15.43 lakh crore (5.1% of GDP) as against 14.21 lakh crore in 2022-23 RE (5.2% of GDP). Market borrowings (net) are the main source of financing GFD (66.1%) in 2023- 24 (BE) followed by small savings (26.4%).

Table II.6.1: Central Government's Fiscal Performance

(Per cent of GDP)

Item	2004-08	2008-10	2010-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23 (BE)	2022-23 (RE)	2023-24 (BE)
1	2	3	4	5	6	7	8	9	10	11	12	13	14
I. Non-debt Receipts	11.0	9.7	9.5	9.1	9.4	9.1	8.8	8.7	8.5	9.4	8.9	8.9	9.0
II. Gross Tax Revenue (a+b)	10.7	10.4	10.2	10.6	11.1	11.2	11.0	10.0	10.2	11.5	10.7	11.2	11.1
a) Direct Tax	5.1	6.0	5.7	5.4	5.5	5.9	6.0	5.2	4.8	6.0	5.5	6.1	6.0
b) Indirect Tax	5.6	4.4	4.5	5.2	5.6	5.4	5.0	4.8	5.5	5.5	5.2	5.1	5.1
III. Net Tax Revenue	7.9	7.6	7.3	6.9	7.2	7.3	7.0	6.7	7.2	7.7	7.5	7.7	7.7
IV. Non-tax Revenue	2.2	1.8	1.8	1.8	1.8	1.1	1.2	1.6	1.0	1.6	1.0	1.0	1.0
V. Non-debt Capital Receipts	0.9	0.3	0.4	0.5	0.4	0.7	0.6	0.3	0.3	0.2	0.3	0.3	0.3
VI. Total Expenditure	14.5	16.1	14.4	13.0	12.8	12.5	12.2	13.4	17.7	16.2	15.3	15.4	14.9
VII. Revenue Expenditure	12.1	14.4	12.6	11.2	11.0	11.0	10.6	11.7	15.5	13.6	12.4	12.7	11.6
VIII. Capital Expenditure	2.4	1.7	1.8	1.8	1.8	1.5	1.6	1.7	2.1	2.5	2.9	2.7	3.3
IX. Revenue Deficit	2.0	5.0	3.5	2.5	2.1	2.6	2.4	3.3	7.3	4.4	3.8	4.1	2.9
X. Gross Fiscal Deficit	3.5	6.3	4.9	3.9	3.5	3.5	3.4	4.6	9.2	6.8	6.4	6.5	5.9

BE: Budget Estimates. RE: Revised Estimates.
Note: Going by the principle of using latest available GDP data for any year, the nominal GDP for 2022-23 (RE) is as per the SAE released on February 28, 2023. In view of this, the fiscal indicators as per cent of GDP given in this section, may vary from those reported in the Union Budget documents. Also refer to footnote 1 of Chapter I of this Report.
Source: Union Budget documents.

State Finance in 2022-23

States and Union Territories (UTs) have budgeted for a consolidated GFD of 3.4 per cent of GDP for 2022-23 (Table II.6.3). The ratio is lower than that in 2021-22 (RE) and is within the indicative target of 4 per cent set by the Centre.

- As per the data available till February 2023, states' GFD during April-February 2022-23 was marginally higher than the corresponding period of the previous year. States' revenue receipts posted a strong y-o-y growth of 14.1 per cent, primarily driven by robust tax collections.
- The Centre has put limit to state's fiscal deficit at 3.5 per cent of gross state domestic product (GSDP) for 2023-24, of which 0.5 per cent is tied to power sector reforms. As per information available for 26 states/UTs, the gross fiscal deficit for 2023-24 is estimated to be 3.2 per cent of GSDP, well within the Centre's target.
- Finance Commission grants are expected to decline in 2023-24, primarily due to lower transfers under post devolution revenue deficit grants, while the budgeted transfers to agencies to create urban infrastructure in tier 2 and tier 3 cities.

Table II.6.4: State Government Finances 2023-24*: Key Indicators

(Per cent of GSDP)

Item	2021-22	2022-23 (RE)	2023-24 (BE)
1	2	3	4
Revenue Deficit	0.4	0.6	0.2
Gross Fiscal Deficit	2.7	3.5	3.2
Primary Deficit	0.5	1.4	1.1

*: Data pertain to twenty-six states/UTs that have presented their final budgets for 2023-24.
Source: Budget documents of state governments.

Conclusion – While committing to credible fiscal consolidation, the government has led the revival in investment cycle through augmented capital expenditure, recognising its multiplier effects by crowding-in private investment and lifting the economy's growth potential. Going forward, fiscal consolidation will need to be sustained to rebuild policy buffers and ensure debt sustainability. Continued thrust on digitisation could aid in greater formalisation of the economy and thereby higher tax base, generating the necessary resources to undertake developmental expenditure.

4.7 External Sector

India's external sector was buffeted by deteriorating global macro-financial conditions following the war in Ukraine that impacted trade and capital flows. Even as domestic economic recovery kept import demand high, a slowdown in global demand weighed on India's exports. These, together with the adverse net terms of trade shock associated with record high global commodity prices, expanded India's merchandise trade deficit during the year

- **Global Economic Conditions** - With the war in Ukraine continuing longer than initially thought and entering its second year, the global macroeconomic conditions deteriorated during 2022-23. As a result, the IMF revised down its global GDP and trade growth estimates for 2022 in successive rounds between October 2021 and October 2022. Notwithstanding initial fears of an imminent global recession, and possibility of a hard landing, the global economy exhibited resilience, prompting the IMF to revise its global growth estimate upward to 3.4% in January 2023, which remained unchanged thereafter.
- **Export -** The global slowdown has dampened India's merchandise exports. Nevertheless, merchandise exports at US$450.4 billion in 2022- 23 grew by 6.7% as compared with 44.6% in the previous year. Merchandise imports at US$ 714.0 billion grew at a higher pace of 16.5% during the same period. Petroleum products were the major driver of export growth as non-oil exports declined marginally in 2022-23.
- **Import -** India's merchandise imports at US$ 714.0 billion recorded a growth of 16.5% in 2022-23, witnessing a deceleration in the second half of the year on the back of moderation in commodity prices. At the disaggregated level, petroleum, oil and lubricants (POL) were the major drivers of imports, followed by coal, transport equipment, machinery, and iron and steel.
- **Invisibles** - Net receipts from invisibles, reflecting cross-border transactions in services, income and transfers, displayed resilience during April- December 2022. While demand for software and business services exports, which account for around 70.0% of India's services exports, surged sequentially during the year as well as over the previous year, remittance receipts also remained strong.
- **Remittance -** In 2022, India's inward remittance receipts increased to US$ 107.5 billion from US$86.3 billion in 2021, the rise in India's remittances was driven by a host of factors, including elevated crude oil prices, fiscal stimulus packages benefitting Indian migrants in the advanced economies (AEs) and post-pandemic wage hikes.

All the above reasons led to Current account deficit (CAD) at 2.7%, higher than 1.1% a year ago during April- December 2022.

- **FDI -** Within capital flows, net FDI (i.e., net inward minus net outward) remained strong during 2022-23 at US$ 28.0 billion (US$38.6 billion a year ago).
- **According to the UNCTAD's World Investment Report** (June 2022), India was the 7th largest recipient of FDI in 2021 (8th in 2020). Various government initiatives, viz., PM Gati Shakti, further enhancement of PLI scheme and a strong push for a transition to green energy, are expected to attract more FDI from foreign companies.
- During 2022-23, **the top FDI source countries** were Singapore, Mauritius, the US, the UAE and the Netherlands, contributing 76.5% of total FDI equity.
- **Outward FDI from India** - recorded a decline of 22.9% during 2022-23 on a y-o-y basis. The UK, Singapore, the US, the UAE, and Mauritius were the major destinations of outward FDI from India.
- **ECBs -** ECBs recorded a fall in terms of the number of ECB agreements as well as amount during 2022-23 as compared with a year ago. Moreover, net external commercial borrowings to India recorded an outflow of US$ 5.0 billion in 2022-23 as against an inflow of US$ 7.4 billion a year ago.
- **Vulnerability Indicator -** India's external debt recorded a decline of US$ 6.0 billion (i.e., 1.0 per cent) at end- December 2022 over end-March 2022; as a ratio to GDP, it moderated to 19.1 per cent from 20.0 per cent during the same period (Table II.7.4). India's external debt (as a ratio to GDP) also remained lower than most emerging market peers.
    - Commercial borrowings remained the largest component of external debt, with a share of 35.4%, followed by non-resident deposits (21.9%) and short-term trade credit (20.5%).
    - Sector-wise composition of external debt indicates that non-financial corporations were the largest category of borrowers with a share of 41.1%, followed by deposit-taking corporations, except the central bank (25.1%) and general government (21.0%).
    - Foreign exchange reserves in India also provided a buffer for mitigating external risks and spillovers.

Conclusion - Notwithstanding the market concerns in the first half of the year about a widening CAD in an environment of risk-off sentiment depressing capital inflows, India's CAD remained within sustainable level after peaking in Q2, and the exchange rate movement was orderly. External vulnerability indicators exhibited resilience and strengthening domestic macroeconomic fundamentals helped the economy withstand spillovers from adverse global macro-financial shocks.

NOTE

The Part Two of the annual report consist of last years (2022-23) agenda and implementation Status by RBI and its departments.

All these are already covered through various RBI NEWS throughout the year and anything important is covered through MCQ in two parts in our course.