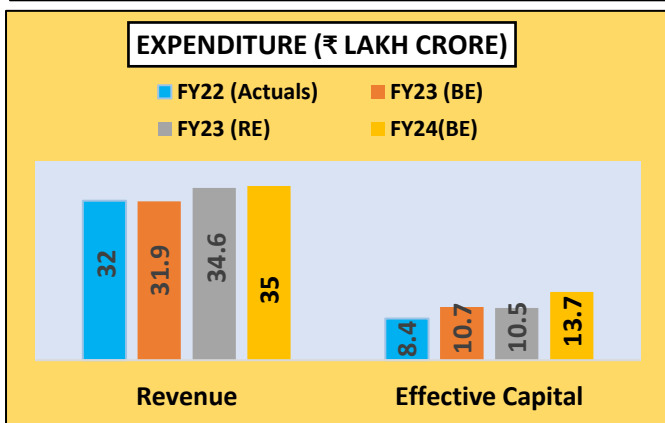
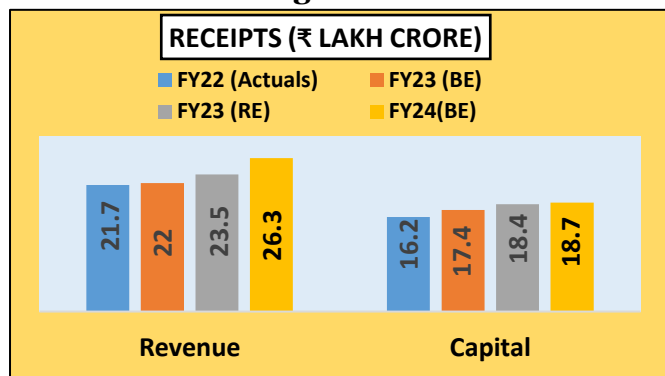


ECONOMY

State of the Economy–Budget 2023-24

- According to the Fiscal Policy statements the Nominal GDP is projected to grow at 15.4% year-on-year (Y-o-Y) in FY2022-23 as against 19.5% in 2021-22. The real GDP is projected to grow by 7% (Y-o-Y) relative to 8.7% in 2021-22.
- **Seven priorities of the budget ‘Saptarishi’** are inclusive development, reaching the last mile, infrastructure and investment, unleashing the potential, green growth, youth power and financial sector.

Budget at Glance



- The 2023-24 budget, reaffirms the path of fiscal consolidation. Fiscal deficit for 2023-24 is estimated to be 5.9% of GDP, down from 6.4% (RE) for 2022-23 of GDP.
- Capital investment outlay was increased by 33% to ₹ 10 lakh crore in the budget, standing now at 3.3% of GDP. The capital outlay for this fiscal stands almost three times the capital outlay in 2019-20.
- **India set to post-BoP deficit in FY23, FY24:** Standard Chartered Bank expects India to post a balance of payment (BoP) deficit of USD 24 billion in 2022-23 and USD 5.5 billion in 2023-24. This would be the first such instance in two decades

when the country would log a BoP deficit for two years in a row.

Announcements related to Agriculture and Allied Sectors

- The **agriculture credit target** will be increased to ₹ 20 lakh crore with focus on animal husbandry, dairy and fisheries.
- A new **sub-scheme of PM Matsya Sampada Yojana** was announced with targeted investment of ₹6,000 crore to further enable activities of fishermen, fish vendors, and micro & small enterprises, improve value chain efficiencies, and expand the market.
- **Atmanirbhar Clean Plant Programme** to boost availability of disease-free, quality planting material for high value horticultural crops at an outlay of ₹2,200 crore.
- **An Agriculture Accelerator Fund (AAF)** will be set-up to encourage agri-startups by young entrepreneurs in rural areas. The AAF will aim at bringing innovative and affordable solutions for challenges faced by farmers.
- **Digital public infrastructure for agriculture** to be built as an open source, open standard and inter operable public good to enable inclusive farmer centric solutions and support for growth of agri-tech industry and start-ups.

Inflation outlook

- **Inflation cools in December 2022-** Consumer Price Index (CPI), which measures the inflation at retail level, fell to 5.7% in December 2022 from 5.9% in November 2022. This is the lowest retail inflation recorded in the last 12 months.
- On the wholesale front, inflation fell to 5% in Dec 2022 from 5.8% in Nov 2022. Inflation in food & beverages, manufactured and primary article group witnessed a decrease. However, inflation in power and fuel prices saw an increase both at wholesale and retail level.
- Service sector demand continued through December 2022. The rising cost of healthcare, education, and personal care made the core inflation remained sticky over 6% in Dec 2022.
- **RBI has projected headline inflation at 6.5% in FY23**, which is outside its target range. However, the economic survey points that the projection for the current fiscal is neither too high



to deter private consumption, nor so low as to weaken inducement to invest. Further, the entrenched inflation may prolong the tightening cycle, and therefore, borrowing costs may stay 'higher for longer, it added.

Interest Rate Outlook

- **US Federal Reserve slowed its pace of policy rate hike to 25bps-** At the FOMC meeting (31 Jan- 1 Feb 2023), the Federal Reserve raised its benchmark interest rate by quarter (0.25) percentage point, as compared to its 50- basis points (bps) hike in December 2022 and earlier four hikes of 75 bps between June 2022- Nov 2022.

- In its post meeting statement, Fed noted that inflation has eased somewhat but remains elevated and also signalled the need for further rate hikes in near future. Bank of Japan in January 2023, despite the high inflation forecast, left its ultralow rate policy unchanged.

- During its February 2023 meeting, both the **European Central Bank (ECB) and Bank of England raised their key interest rate by 50 bps** to 2.5% and 4%, respectively. Further, the ECB pledged to "stay the course in raising interest rates significantly at a steady pace" and, in unusually firm language, said it intended to hike by another 50bps in March 2023.

- **First ever Sovereign Green Bonds auction-** The government sold its first sovereign green bonds viz. NEW GOI SGrB 2028 and NEW GOI SGrB 2033 worth ₹ 80 billion on 25 January 2023, at yields below comparable government bonds (The cut-off yield was at 7.10% and 7.29%, respectively.). The proceeds will be deployed in public sector projects seeking to reduce carbon intensity of the economy.

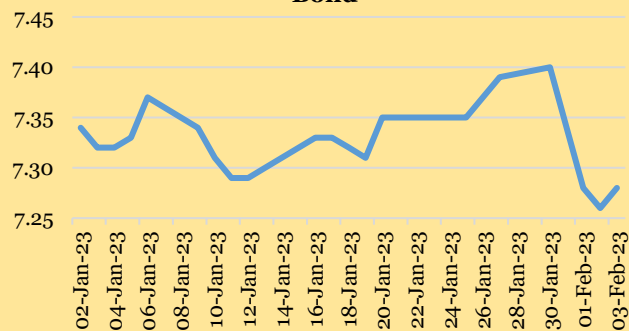
- **FPIs remain net seller for 2022-** Foreign Portfolio Investors settled the last month of 2022 as net buyers. The capital flows from FPIs in 2022 reflect two distinct trends. While the first half of 2022 witnessed an aggressive selling, the other half of the year experienced more months of FPIs returning to the Indian capital market. Yet, the net withdrawal stood at USD 16,501 million for the calendar year 2022.

- **Movement of the 10-year bond yield for January 2023-** The yield on the benchmark 10 year bond traded in the range 7.29% to 7.40%, it

rose high on the expectation of high gross borrowing by centre in FY 2023-24. However, with a fiscally prudent budget and with a proposal to limit the government's gross borrowing to ₹ 15.4 lakh crore, lower than the market expectation, improved the sentiments and led to a rally in government bond prices.

- Further, **RBI auctioned the new 10-year G-sec (New GS 2023)** at the weekly bond auction held on 03 February 2023. The new benchmark 10-year bond saw good response compared to other two securities in the auction. The weighted average cut-off yield for the GS 2023 stood at 7.26%.

Yield Movement of Government 10-Year Bond



Source: CMIE

Monetary Policy Committee Meeting (6-8 February 2023)

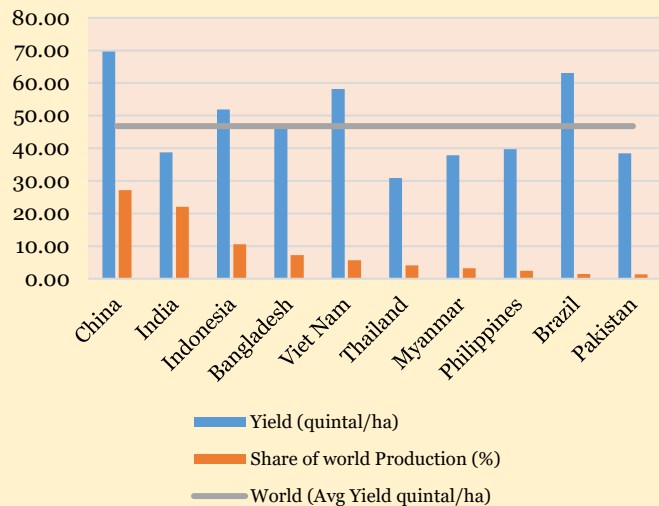
On the basis of an assessment of the current and evolving macroeconomic situation, the Monetary Policy Committee (MPC) decided by a 4:2 majority to hike repo rate by 25 bps to 6.50%. This is the sixth time interest rate has been hiked by the Reserve Bank of India (RBI) since May 2022. Taking the total quantum of hike to 250 basis points. Other key announcements include:

- Standing Deposit Facility (SDF) rate has been adjusted to 6.25%. Marginal Standing Facility and bank rate revised to 6.75%.
- The MPC has maintained its stance of 'withdrawal of accommodation'.
- Current account deficit to moderate in second half of 2022-23 and remain eminently manageable.
- Inflation is expected to moderate in 2023-2024 and it is likely to roll above the 4% target. RBI projects retail inflation at 6.5% for FY23; 5.3% for the FY 24. Core inflation remains elevated, and further calibrated policy action warranted.
- Real GDP growth is projected at 6.4% for FY24. Real GDP growth for Q1, Q2, Q3 and Q4 of FY 24 is seen at 7.8%, 6.2%, 6%, and 5.8%, respectively.

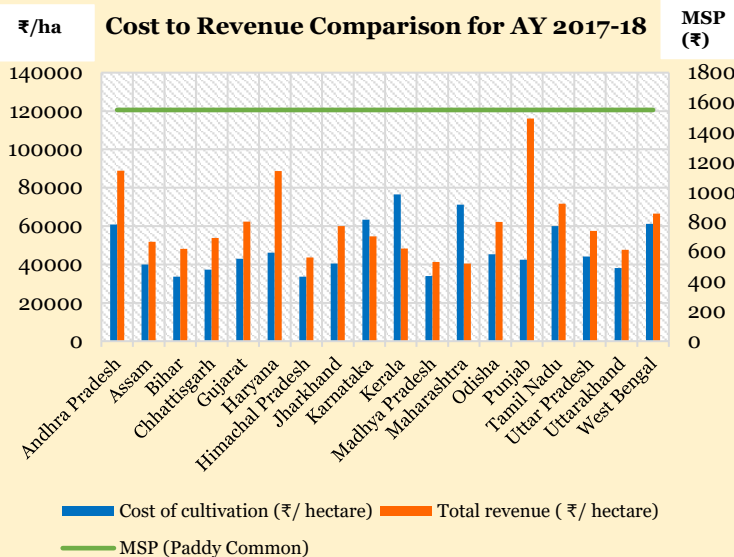


Dashboard on Paddy

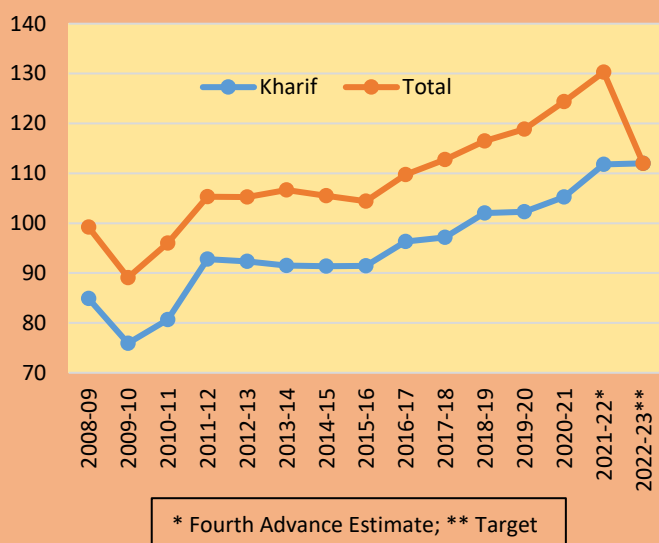
Comparison of Paddy Yield (quintal/ha) 2018



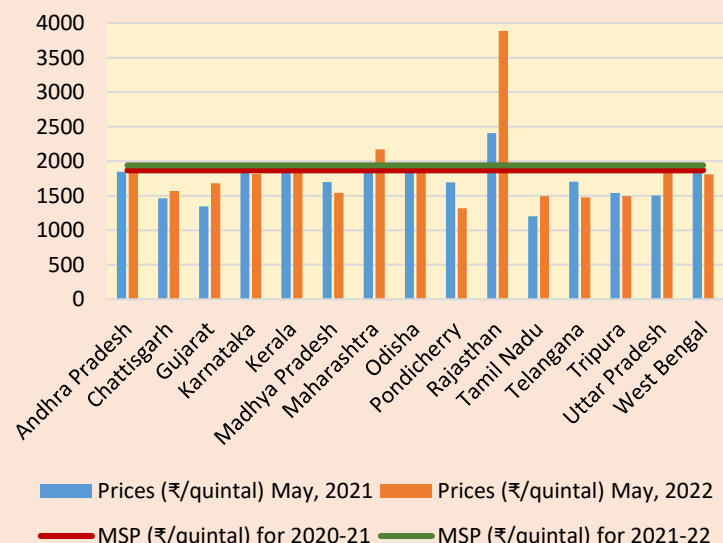
Cost to Revenue Comparison for AY 2017-18



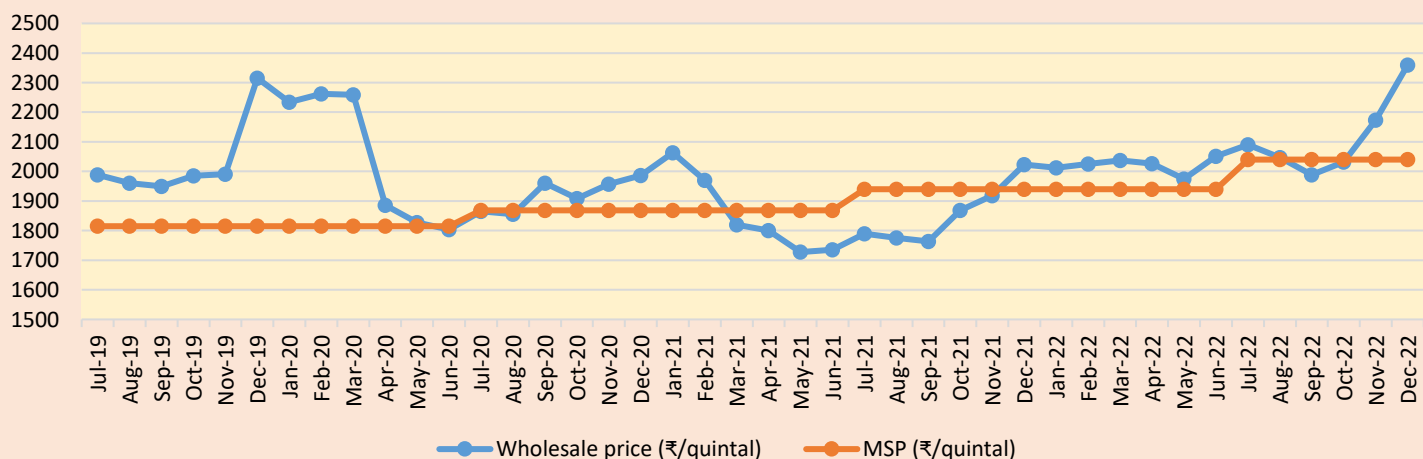
Production of Rice (In Million Tonnes)



Wholesale Prices vis-a-vis MSP for Paddy



Movement of Wholesale Prices vis-a-vis MSP





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ECOTHINK

Issue No.65/ February 2023

Report THINK

Measuring India's AatmaNirbharta Index (AI)

Over the last decade India registered the second highest GDP growth among the top ten countries and became the world's fifth largest economy. India is also likely to be the fastest growing economy for the next five years and is projected to attain the status of the third largest economy by 2027. To attain this goal of building a healthy economy, it is necessary that along with better economic indicators, an economy should also have social progress, prosperity for populace, investments in physical and social infrastructure and improvement in human development indicators. This report by CII and PwC has developed an AatmaNirbharta Index (AI) as a simple measure to assess the level of self-sufficiency in a sector like footwear and accessories, food products, textile and clothing, etc. with a view that achieving AatmaNirbharta can help the country manage its balance of payments and give a boost to investor confidence thereby furthering the economic growth. Out of the 20 sectors described, the report has showcased China's success story in electronics sector. **India has an AI value of 0.69 in FY22.**

Findings & Recommendations:

AatmaNirbharta (Self-Reliance) suggests building a strong domestic economy, where the country will generate enough surpluses to quench the global demand for goods and services. India's current account deficit largely driven by a mercantile trade deficit, has widened (*India's imports stood at \$612 Bn as against merchandise exports at \$420 Bn in FY 22*). In the evolving geo-political situation, it is critical for a developing nation to attain self-reliance. As per the report, AatmaNirbhar Bharat strives to build and transform Indian capacities through the following:

- ✓ Producing products and services that are world class and globally competitive for both domestic consumption and exports thereby benefitting consumers globally
- ✓ Having ownership over crucial technology, process and raw material leading to creation of India's Intellectual Property Rights (IPR)
- ✓ Achieving energy self-sufficiency, enhancing domestic value-addition, rationalizing external dependency, and boosting value-added exports
- ✓ Promoting domestic and foreign investment and plugging into global supply chains
- ✓ Building national competitiveness through appropriate & stable policy ecosystem.

For India to move towards AatmaNirbharta, the report has developed the AI for stock taking based on where the country stands in terms of self-reliance across various sectors. The AI has been defined as the ratio of India's total exports to the world to India's imports from the world by adopting three key principles – Simplicity, Measurability and Monitorability. The simplicity of the AI enables us to measure performance across sectors. The report also proposes a sample dashboard that could monitor across sectors, products, or geographies.

Based on HSN codes, the report classifies India into 20 sectors and presents a detailed analysis for 10 sample sectors highlighting the top importers, exporters with market shares. Eight out of 20 sectors in India in FY22 have an AI greater than or equal to 1. Exports for these sectors were higher than imports, not only in 2021-22 but also in 2016-17. In fact, trade surplus has increased for six out of these eight sectors in the last five years,

exceptions being Animals & Animals Product and Textiles & Clothing sectors. Twelve out of 20 sectors in India have an AI less than 1. Eight of these 12 sectors have registered a greater net trade surplus in the last five years. These sectors are Electronics (HS 85), Gold (HS 71), Machinery (HS 84), Plastics & Rubber (HS 39 – 40), Minerals (HS 25 – 26), Wood & Wood Products (HS 44 – 45), and Vegetables and Vegetable Products (HS 6 – 15). Hence, even if these sectors have an AI value less than 1, many of these sectors are exhibiting steady progress towards AatmaNirbharta as provided in Table 1.

Table 1: Sector-wise AI scores in FY 2022

HS Code	Description	FY22
50-63	Textile & Clothing	5.21
64-67	Footwear and Accessories	4.44
41-43	Hides Products (e.g., Leather)	3.89
16-24	Food Products	3.33
72-73	Iron & Steel	1.83
1-5	Animal Products (e.g., dairy)	43.33
76	Aluminium	1.74
86-89	Transport	1.55
6-15	Vegetables and Vegetable Products	0.90
71	Diamonds & Other Prec. Stones	0.89
28-38	Chemicals	0.85
25-26	Minerals	0.60
39-40	Plastics & Rubber	0.57
44-49	Wood & Wood Products	0.54
84	Machinery	0.50
85	Electricals	0.47
27	Fuels	0.36
74	Copper	0.33
71	Gold & Other Prec. Metals	0.22
85	Electronics	0.19

AatmaNirbhar Bharat would build domestic resilience to the global uncertainties be it supply disruptions, economic recessions, financial crisis, wars and conflicts. AI can be an important metric to track the extent of India's self-reliance. Since it is not practical to expect all sectors achieve an AI value of 1, differentiated targets may be created by sector to help achieve this over a pre defined time frame. (Source: <https://www.cii.in/publications.aspx>)