No. A-45011/3/2022-Admn.III
Government of India
Ministry of Finance
(Department of Economic Affairs)
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New Delhi, 10th October 2022

OFFICE MEMORANDUM

The undersigned is directed to circulate herewith the unclassified portion of Monthly Summary on important policy decisions in respect of Department of Economic Affairs for the Month of August, 2022.

10/10/22
(Ravinder Kumar)
Director(Ad.IV & Coordination)
Tel No. 2309-5244

To

1. All Members of the Union Council of Ministers, Government of India, New Delhi.
2. Vice Chairman, Niti Aayog, Yojna Bhawan, New Delhi.
3. Cabinet Secretary, Cabinet Secretariat, Rashtrapati Bhavan, New Delhi.
4. Secretary to the President of India, Rashtrapati Bhavan, New Delhi.
5. Secretary to the Vice-President of India, 6, Maulana Azad Road, New Delhi.
6. Principal Secretary to the Prime Minister, PMO, South Block, New Delhi
7. Chairman, Union Public Service Commission, Dholpur House, New Delhi.
8. All Members of Niti Aayog, Yojna Bhawan, New Delhi.
9. Secretaries to all the Ministries/Departments, Government of India, New Delhi.
10. PS to MOS (F), PPS to Finance Secretary, PPS to Secretary (EA), PPS to Secretary (Revenue), PPS to Secretary (Expenditure), PPS to Secretary (DIPAM).
11. Shri V. Anantha Nageswaran, Chief Economic Adviser, DEA.
12. Additional Secretary, Cabinet Secretariat, Rashtrapati Bhavan, New Delhi.
13. Shri Manoj Sahay, AS&FA(Finance).
14. Ms. Manisha Sinha, AS(Admn., C&C and OMI)
15. All Heads of Divisions in Department of Economic Affairs. JS(IPP/JS(ISD)/JS(Inv)/JS(Budget)/All Advisers/CAAA
16. Shri Rajesh Malhotra, DG (M&C), M/o Finance, North Block, New Delhi.
17. Guard File – 2022.

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Ministry of Finance

Department of Economic Affairs

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Subject: **Monthly Summary on important policy decisions pertaining to Department of Economic Affairs (DEA| for the month of August, 2022**

I. Important policy decisions taken and major achievements during the month:

Macroeconomic Overview:

Upon recovery from COVID-19 and negative spill over of Russia-Ukraine conflict, a strong economic growth in Q1 of 2022-23 has helped India go past the UK to become the world's fifth-largest economy. The real GDP in Q1 of 2022-23 is now nearly 4 % ahead of its corresponding level of 2019-20, thus marking a strong beginning to India's growth revival in the post-pandemic phase.

The contact-intensive services sector is likely to drive growth in 2022-23 building on the release of pent-up demand and near universalization of vaccination. A sharply rebounding private consumption backed by soaring consumer sentiments and rising employment will sustain growth in the months ahead.

Increase in private consumption and higher capacity utilization in the current year has further reinvigorated the capex cycle to take the investment rate in Q1 of 2022-23 to one of its highest levels in the last decade. The crowding-in of private investment has also been assisted by rising capital expenditure of the government that until August 2022-23 has been 35 % higher than the corresponding level of last year. Government's spending on capital expenditure is likely to be sustained as buoyancy in revenue growth is expected to remain undiminished in the balance period of the current year.

Broad-based growth in economic activity during Q1 of 2022-23 is reflected in improvements in employment indicators. Net payroll additions in EPFO doubled in Q1:2022-23 compared to the corresponding period last year. The Periodic Labour Force Survey (PLFS) show the unemployment rate in urban areas shrink for the fourth consecutive quarter to be at 7.6 % in Q1 of 2022-23, lower than the corresponding pre-pandemic level. Work demanded under MGNREGS has been diminishing since May and was at its lowest in August 2022, compared to the corresponding period of the previous two years, signaling a possible reduction in the unemployment rate in rural areas.

The growth momentum of Q1 has sustained in Q2 of 2022-23 as well with robust performance of high-frequency indicators (HFIs) during July and August of 2022. The composite PMI for India rose to 58.2 in August 2022 signalling a sharp pace of expansion. However, in contrast, the Global composite PMI has entered the contractionary phase declining to 49.3 in August 2022 with slowdown mainly evident in advanced economies.

The relatively bright outlook on India's economic growth and its improving employment levels is also mirrored in the country's relatively strong position in the external sector. High foreign exchange reserves, sustained foreign direct investment, and strong export earnings have provided a reasonable buffer against the monetary policy normalization in advanced economies and widening of current account deficit arising from the geo-political conflict.

Inflation has been a common phenomenon across both advanced economies (AE) and emerging market economies (EME). However, the triggers for the two have been somewhat different, which also explains why inflationary pressures in AEs have been stubborn and pre-date the Russia-Ukraine conflict. The extraordinary measures adopted by AEs in response to the COVID-19 outbreak involved a significant injection of liquidity by the central banks of these countries which financed their massive fiscal package. Now, as the monetary authorities of the AEs rush to cap inflation and grapple with a liquidity overhang, they face an unenviable task of absorbing excess liquidity in a calibrated manner. India is in a better position to calibrate its liquidity levels without abruptly stalling growth.

While persistently high liquidity may partly explain the stubbornness of inflation in AEs, inflation in India, a net commodity-importing country, has been a by-product of externally situated exogenous pressures. Increase in international prices was reflected in an uptick in domestic prices, though increase in domestic prices was relatively modest on account of the timely interventions taken by the government. Further, as these external pressures ease, inflationary pressures in India are also likely to subside. Several indicators are already pointing to the easing of external pressures. Industrial metals and edible oil prices after peaking in March 2022, have softened, led by recessionary fears in AEs. Crude prices have dropped 19.1 % by August since the peak in the month of June 2022. Supply chains are getting restored with decline in port congestion. The impact is already reflected in the decline in CPI-C and WPI inflation since April 2022. CPI-C inflation stood at 7 % in August 2022 as compared to 7.8 % in April 2022. Similarly, WPI Inflation has dropped from 15.4 % in April to 12.4 % in August. Overall, inflationary pressures in India appear to be on a decline with a pre-emptive set of administrative measures by the government, agile monetary policy and easing of international commodity prices and supply-chain bottlenecks.

In times when slowing growth and high inflation are afflicting most of the major economies of the world, India's growth has been robust and inflation in control. A rapid coverage of vaccination and well-calibrated short-term policy measures have skilfully navigated the economy through turbulent times, preparing a strong foundation to build a prosperous nation in the years ahead.

Downside risks to growth will persist insofar as India is integrated with the rest of the world. Nor is there room for complacency on the inflation front as lower crops-sowing for the Kharif season calls for deft management of stocks of agricultural commodities and market prices without unduly jeopardising farm exports. Further as balance sheets of Fed starts shrinking, it may herald a new phase of risk aversion in capital markets, impeding global capital flows. In addition, India's imports are growing faster and, therefore, financing them comfortably will have to be accorded high priority. In winter months, heightened international focus on energy security in advanced nations could elevate geopolitical tensions, testing India's astute handling of its energy needs so far.

Watchful and prudent fiscal management and credible monetary policy will remain essential for India to fulfil its growth aspirations. Both these pillars of public policy will enable benchmark borrowing costs for the government and the private sector to decline, facilitating public and private sector capital formation. Vigorous pursuit of asset monetisation at all levels of government will help lower debt stock and hence debt servicing costs. That would cause risk premium to drop and credit rating of India to improve.

2. Important Developments:

(i) All cotton futures contracts on the Multi Commodity Exchange of India Ltd were suspended for a month to revisit and revise contract specifications w.e.f 29th August 2022.

(ii) Following loan/grant agreements were signed with multilateral and bilateral development agencies.

(a) Loan of USD 96.3 million from the Asian Development Bank for Himachal Pradesh Rural Drinking Water Improvement and Livelihood Project.

(b) Loan of USD 190 million from the World Bank for Second Tamil Nadu Housing Sector Strengthening-DPL

(c) Grant of Euro 20 million from KFW-German Development Bank for 'Municipal Infrastructure Development Project in Tamil Nadu

In addition, a loan agreement for USD 350 million was negotiated with the World Bank for a health sector project, Systems Reform Endeavours for Transformed Health Achievement in Gujarat (SRESTHA-G).

(iii) Following line of credit were approved during this month.

(a) USD 100 million to Government of Maldives for financing development projects.

(b) USD 100 million to Government of Armenia for Defence related projects and other purposes.

(iv) Following meetings at the official level were held or attended.

(a) 131st meeting of the Screening Committee for consideration of proposals seeking financing from Multilateral Development Banks/ Bilateral Agencies

(b) Meeting with the World Bank to review the pipeline projects preparation

(c) Meeting of Financial Stability Board (FSB)'s Working Group on Climate Risk (WGCR) to discuss draft final report on supervisory and regulatory approaches to climate-related risks

(d) 4th round of discussion between India and Saudi Arabia on Bilateral Investment Treaty (BIT)

(e) Preliminary discussion on Bilateral Investment Treaty (BIT) between India and Uruguay

(f) 6th Round of negotiations between India and UK on Bilateral Investment Treaty (BIT)/Investment Chapter

(g) Discussion with Canada on Bilateral Investment Promotion and Protection Agreement (BIPA)

(h) 42nd Empowered Committee (EC) meeting to consider proposal of Govt. of UP for setting up of medical college in the six districts of UP under PPP mode

(i) Asian Infrastructure Investment Bank (AIIB) Board of Directors meeting to consider investment operations & investment operations quarterly monitoring report/pipeline update.

3. Minimum Government, Maximum Governance

The use of ICT in submission of information is being encouraged.

4. Non-Compliance of ACC directions/orders

ACC appointment of Shri Ananth Narayan Gopalakrishnan as Whole Time Member, SEBI - Notification effecting the appointment is underway.

5. Details of FDI proposals cleared during the month and status of FDI proposals awaiting approval in the Department:

Number of proposals cleared	:	Nil
Awaiting Approval in the Department	:	07