सत्यमेव जयते
Economic Diplomacy Division
Ministry of External Affairs

MONTHLY ECONOMIC REPORT

AUGUST 2023

CONTENTS

Introduction

The National Statistical Office (NSO) estimates indicate a robust 7.8% real GDP growth in Q1 FY24, driven by strong domestic demand for consumption and investment. Urban unemployment rates have decreased, boosting private consumption, and stimulating growth in the manufacturing and services sectors. Government emphasis on capital expenditure and measures to incentivise state spending has bolstered domestic investment, with external demand also contributing positively.

Non-Banking Finance Companies (NBFCs) have also shown improved profitability and risk management behaviour in the banking sector. Non-food bank credit by Scheduled Commercial Banks (SCBs) has consistently grown since April 2022.

Over the past decade, corporate sector health has improved due to deleveraging efforts, leading to stronger balance sheets. The restructuring has positioned companies for investment and greater resilience. Business sentiments are positive, according to RBI's Quarterly Enterprise Surveys.

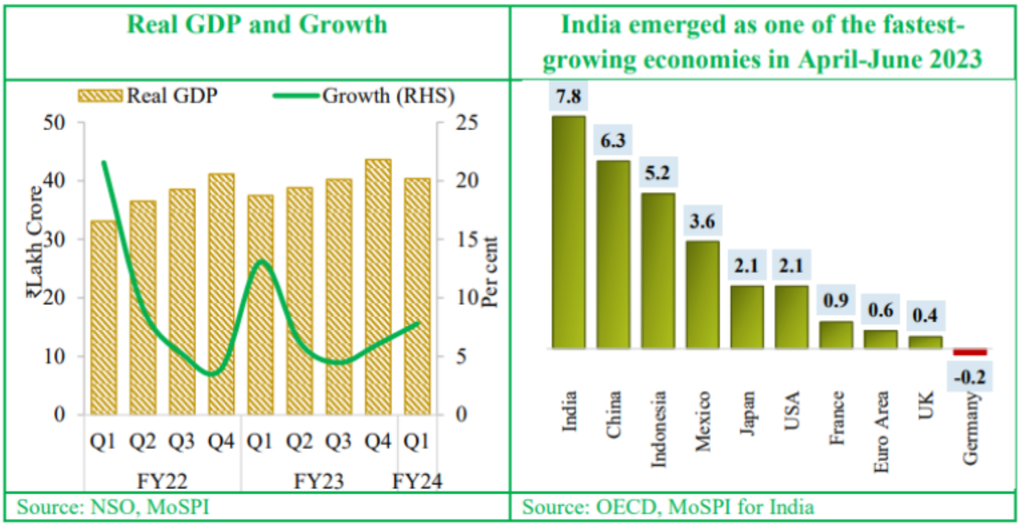
Retail inflation decreased in August thanks to targeted government measures. Globally, food inflation remains high, but India's consumer food price inflation eased due to government interventions.

Organised sector employment has shown healthy growth, with more members joining the Employee Provident Fund Organization (EPFO) than exiting, aided by social security initiatives.

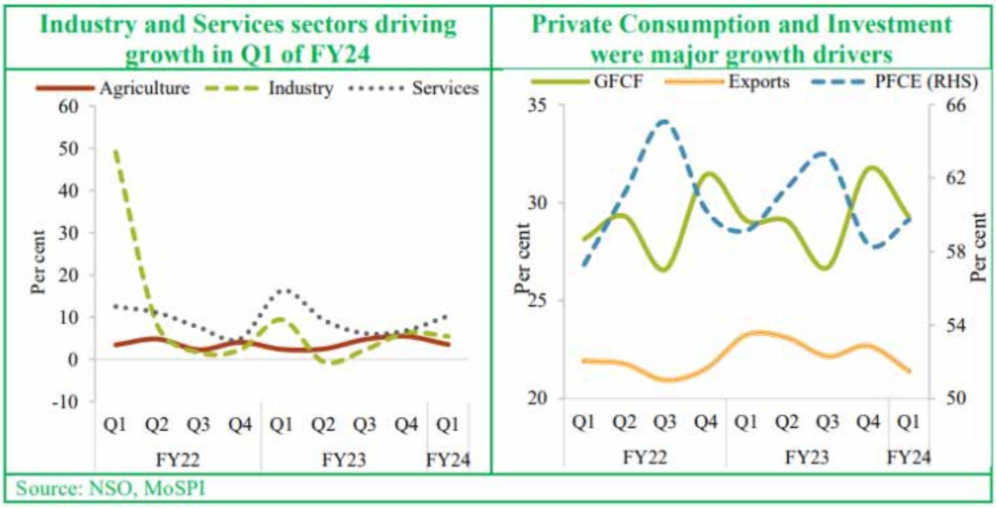
Despite risks like rising crude oil prices, monsoon deficits, and potential stock market corrections, positive factors such as corporate profitability, private sector investment, bank credit growth, and construction sector activity support a 6.5% real GDP growth estimate for FY24, with symmetric risks.

GDP

- NSO's national income estimates show real GDP growth at 7.8% in Q1 of FY24.
- India's Q1 GDP growth surpasses major advanced and emerging market economies, demonstrating the economy's resilience.
- Strong domestic demand for consumption and investment fuelled the Q1 GDP growth.
- Private Final Consumption Expenditure (PFCE) share in GDP (Current Prices) increased from 59.2% in Q1 FY23 to 59.7% in Q1 FY24.
- A decline in urban unemployment rates contributed to robust private consumption, and strengthened consumption led to increased demand for goods and services.
- Both manufacturing and services sectors experienced robust growth in output and value-added in Q1 FY24.



- In Q1 of FY24, the following indicators highlight the strong private consumption of goods:
- Industrial Production (IIP) grew by 4.5%, with notable growth in Capital goods and Infrastructure/ construction goods production.
- PMI-Manufacturing remained in an expansionary zone from April to June 2023, driven by increased new orders, a healthy demand environment, and favourable market conditions.
- Eight Core Industries also demonstrated robust growth in Q1 of FY24, reinforcing the strength of private consumption.



In Q1 of FY24, various indicators highlight the robustness of private consumption and the strong performance of the services sector:

Industrial Production (IIP)

- IIP increased by 4.5% in Q1 FY24, with notable growth in Capital goods and Infrastructure/ construction goods production.
- This indicates a resurgence in capital formation within the economy.

PMI-Manufacturing

PMI Manufacturing remained in an expansionary zone from April to June 2023, driven by increased new orders, a healthy demand environment, and favourable market conditions.

Services Sector

- The services sector delivered exceptional performance in Q1 FY24, with contact-intensive services playing a pivotal role in its growth.
- PMI services also witnessed rapid growth as consumer preferences shifted toward services, aligning with global trends due to reduced mobility restrictions.
- The tourism sector displayed signs of revival, with Foreign Tourist Arrivals in India nearing pre-pandemic levels in Q1 FY24.
- Both domestic and foreign travel contributed to increased consumption, further stimulating growth in the tourism sector.

Capex

- Centre's capex grew YoY by 59.1% in Q1 FY24.
- States' capex also increased significantly, with a YoY growth of 74.3% in the same quarter.
- Public capital investment has started to attract private investment.
- Capital goods imports saw a YoY growth of 4.2% from April to June 2023.

Infrastructure

- In 2022-23, 982 investment projects were planned with a record capital outlay of INR 3.5 lakh crore, surpassing levels seen since FY15. In contrast, there were 791 projects in FY22 with INR 1.9 lakh crore intentions.
- Infrastructure remained a primary focus, particularly in the 'Road & Bridges' and 'Power' sectors, reflecting government efforts in infrastructure development.
- Structural reforms such as GST, IBC, digitisation, corporate tax rationalisation, and labour law reforms are expected to boost investment growth further.

Economic momentum

- Gross GST collection in August 2023 increased by 11% YoY, reaching INR 1.59 lakh crore.
- E-Way bills hit a record high of 9.3 crore in August 2023, indicating the potential for substantial GST collection in the coming months. Rising electronic toll collections further confirm increased commercial activity.
- Average PMI Manufacturing during July-August 2023 was 58.1, compared to 56.3 in the same period the previous year.
- The Index of Eight Core Industries grew by 8% in July 2023, maintaining broad-based expansion in these critical sectors.

- Healthy growth in these industries, which provide essential inputs to downstream economic activities, bodes well for overall economic growth.

- The manufacturing sector's outlook is positive, supported by RBI's Industrial Outlook Survey, which indicates positive sentiment among respondents regarding demand conditions, production, order books, employment, and capacity utilisation in the next two-quarters of FY24.

- The services sector continues to demonstrate strong growth, with an Average PMI services score of 61.2 from July-August 2023, compared to 56.3 in the same period the previous year. This performance is driven by improved demand conditions, leading to substantial increases in new business and output.

- The outlook for the services sector remains positive, as indicated by RBI's Services and Infrastructure Outlook Survey, with respondents expressing optimism about the overall business situation, turnover, and business conditions in Q2 of FY24.

India's banking sector rides on healthy indicators

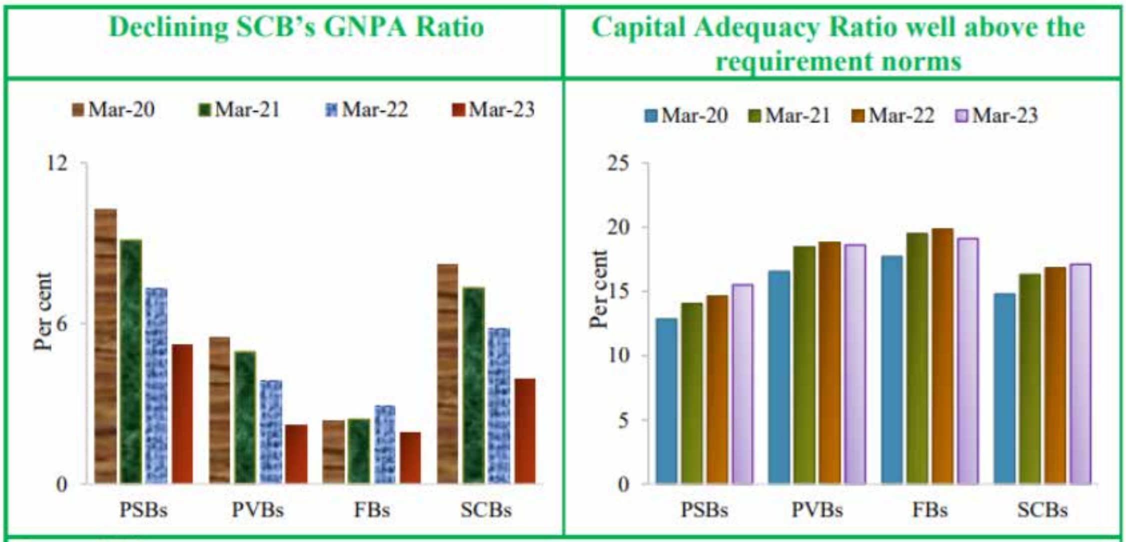
The GNPA (Gross Non-Performing Assets) ratio of Scheduled Commercial Banks (SCBs) reached a ten-year low of 3.9% in March 2023.

This improvement is observed across various segments, including agriculture, industry, services, and personal loans.

The PCR (Provision Coverage Ratio) increased to 74% in March 2023, up from 71.4% in March 2022, indicating reduced vulnerability to bad loans and enhanced banks' preparedness.

The CRAR (Capital to Risk-Weighted Assets Ratio) remains robust at 17.1% in March 2023, compared to 16.8% in March 2022.

In terms of profitability, SCBs have shown positive trends, with the Return on Equity (RoE) rising to 12.3% and the Return on Assets (RoA) increasing to 1.1% in March 2023, up from 11.2% and 1.0% in September 2022, respectively.



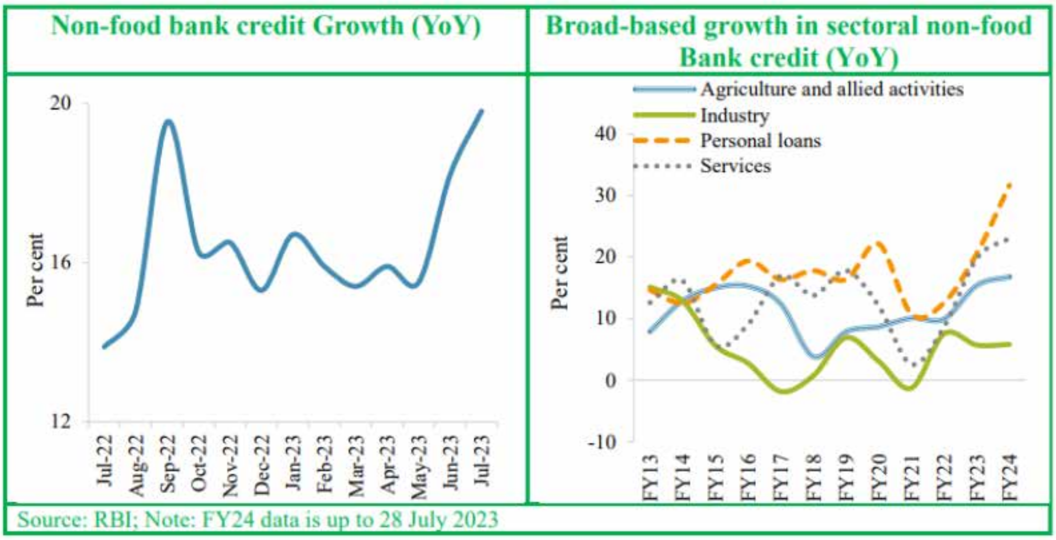
Source: RBI

- Non-food bank credit offtake by Scheduled Commercial Banks (SCBs) has consistently shown double-digit growth since April 2022.

- This growth has been widespread across various sectors.

- In July 2023, year-on-year credit growth accelerated in nearly all sectors, with significant contributions from the services sector and the personal loans category.

- The personal loan segment's growth is mainly driven by housing loans, which account for over half of the outstanding personal loans as of July 2023.



- In July 2023, major sectoral deployment of gross bank credit surged by 19.7% compared to the previous year.

- Non-food bank credit also showed strong growth at 19.8% YoY in July 2023, up from 13.9% in July 2022.

- A closer look at specific sectors reveals a promising level of economic activity, with double-digit YoY growth in gross bank credit observed in July 2023 for sectors including beverage and tobacco, wood and wood products, glass, cement, basic metal, engineering, vehicles, gems and jewellery, and ports (under infrastructure).

- The availability of deposits has supported this credit growth while ensuring that banks remain well-capitalized.

- As of June 2023, the total deposits held by Scheduled Commercial Banks (SCBs) amounted to INR 1.85 lakh crore, representing a 2.1% increase compared to INR 1.81 lakh crore at the end of March 2023.

Non-banking Financial Companies (NBFCs) performing well

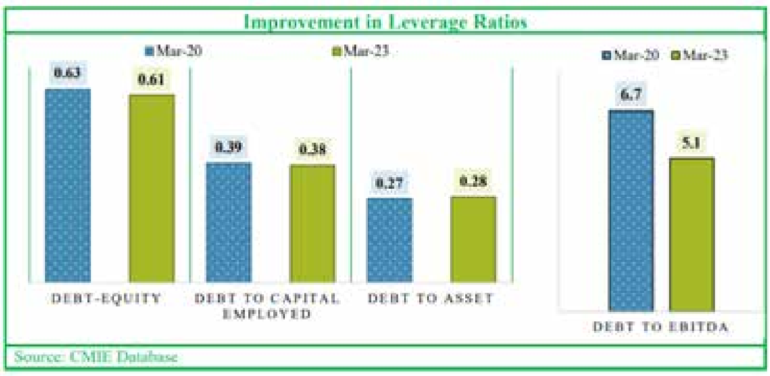
- NBFCs experienced a notable growth in outstanding credit, registering a 16.1% increase in March 2023 compared to the previous year. This growth is more than double the 6.9% recorded in March 2022.

- Credit to the industrial sector expanded by 12.7% YoY, indicating increased economic investment activity.

- The personal loan segment saw robust growth at 31.3% in March 2023 YoY, possibly signalling a rise in discretionary spending.
- Credit disbursement by NBFCs to the agriculture sector moderated to 13.4% YoY in March 2023, but this was offset by growth in agriculture credit provided by banks.
- The cost of credit and its accessibility are key factors influencing credit growth.
- The RBI's recent introduction of a "Public Tech Platform for Frictionless Credit" represents a significant move towards enhancing the digital public infrastructure in the economy.
- This initiative encourages financial institutions to develop and offer innovative solutions for credit, payments, and other economic activities.
- The Indian banking sector and the broader economy have been reaping the rewards of the RBI's ongoing efforts to leverage technology and introduce innovations in the financial landscape.

Performance of the Corporate Sector

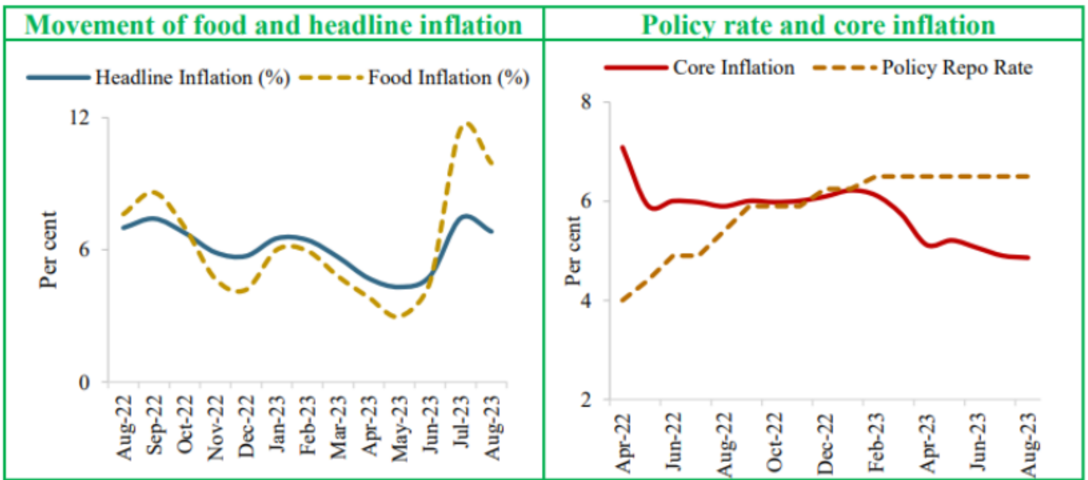
- Credit extended to the private non-financial sector as a percentage of India's GDP decreased from 100.5% in March 2020 to 90.1% in the December 2022 quarter. This reduction is attributed to improved corporate performance.
- Data for non-financial corporations' leverage ratios up to the March 2023 quarter also demonstrates positive changes compared to March 2020. For example, the debt-to-equity ratio improved slightly, declining from 0.63% in March 2020 to 0.61% in March 2023.
- The debt-to-EBIDTA ratio decreased from 6.7% in March 2020 to 5.1% in March 2023.
- The debt-to-capital employed and debt-to-asset ratios remained relatively stable during this period.
- The corporate sector has demonstrated resilience and improved health, and this trend has persisted despite challenging global economic conditions such as supply chain disruptions, elevated international commodity prices, and higher policy interest rates.
- Private non-financial companies have carried forward their growth momentum from the last quarter of FY23 into the first quarter of FY24.
- Business sentiments are optimistic, as indicated by the RBI's Quarterly Enterprise Surveys, which show improved investment sentiment, increased demand, and favourable employment conditions expected to continue for the next three quarters.



- Across various sectors, the business environment is anticipated to improve, as revealed by the RBI's Industrial Outlook Survey and Services and Infrastructure Outlook Survey conducted in Q1 of FY24.
- Survey findings indicate enhanced investment sentiment, improved demand conditions, and increased job opportunities. These positive expectations are reflected in improved outlooks for production, order book, capacity utilisation, employment, and foreign trade.
- Retail inflation eases from July, and core inflation is the lowest since May 2020
- The consumer price index-based headline inflation rate decreased to 6.8% in August, down from 7.4% in July.
- From April to August 2023, the average inflation rate was 5.6%, within the RBI's tolerance limits.
- Core inflation, which excludes food and fuel, reached 4.86% in August, marking its lowest level in the past 40 months. It has also seen a decline for the past three consecutive months.
- Government actions, including adjustments in the duties of critical inputs and monetary policy tightening, have played a role in reducing core inflation.
- Inflation in various significant consumer budget components, such as clothing and footwear, housing, household services, recreation and amusement, education, and personal care and effects, decreased in August compared to July.

Food inflation

- In India, consumer food price inflation decreased from 11.5% in July to 9.9% in August.
- This reduction was partly due to increased vegetable prices in July and August, primarily driven by crop-specific and weather-related issues.
- The Indian Government responded to these challenges with targeted measures, including building food buffers, procuring from production centres, and subsidising distribution to address specific crop-related issues.

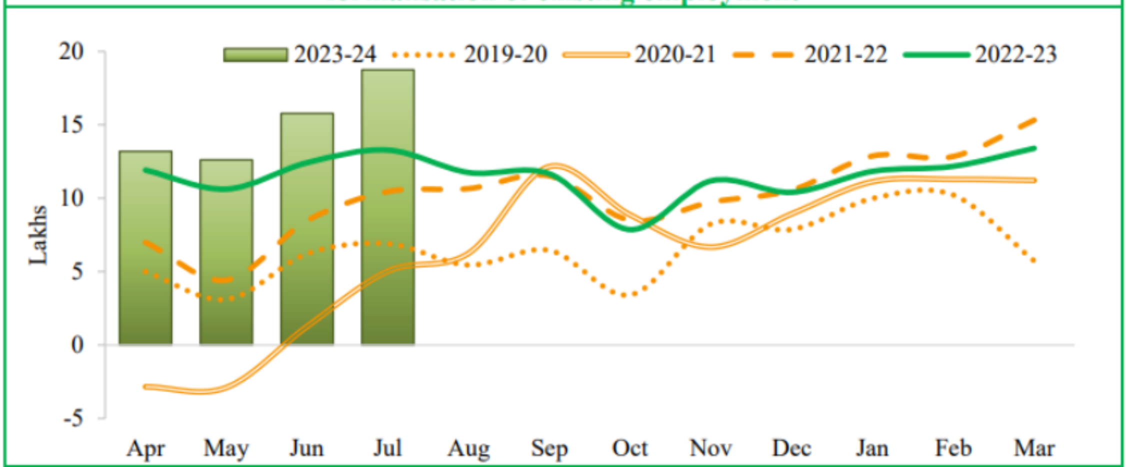


Source: MoSPI
Source: MoSPI and RBI

Rising employment in the organised sector

- In July 2023, the EPFO (Employees' Provident Fund Organization) reported a net payroll addition of 18.5 lakh members, marking a year-on-year increase of 41.1% and a month-on-month rise of 18.8%.
- During July 2023, approximately 10.3 lakh new members were enrolled, the highest number since July 2022.
- The states of Maharashtra, Tamil Nadu, Karnataka, Gujarat, and Haryana contributed 60.4% of the net increaVse in EPFO subscriptions.
- In July 2023, a substantial 12.72 lakh members rejoined EPFO after exiting the system.
- According to EPFO, these individuals changed jobs and rejoined establishments covered by EPFO. They chose to transfer their accumulated funds instead of opting for a final settlement, thus extending their social security coverage.

Rising EPFO net payroll addition indicates growth in new formal employment and formalisation of existing employment



Source: EPFO

Outlook

India's economic prospects for FY24 remain promising as economic activity maintains momentum. High-frequency indicators suggest that the second quarter of FY24 also shows positive signs. While there was a monsoon deficit in August, it was partially addressed in September, a positive development. The prices of specific food items that contributed to the inflation rate exceeding 7% in July are declining.

The private sector is in good shape, as indicated by data on advance tax payments for the second quarter, showing that they are actively investing. Although there is a concern about the recent increase in oil prices, it is not yet causing alarm.

In summary, the baseline projection for India's economic growth in FY24 is 6.5% at 2011-12 prices.

For more information:
Ministry of Finance, Department of Economic Affairs
MONTHLY ECONOMIC REPORT AUGUST 2023

सत्यमेव जयते
Economic Diplomacy Division
Ministry of External Affairs