सत्यमेव जयते
Economic Diplomacy Division
Ministry of External Affairs

MONTHLY
ECONOMIC REPORT

OCTOBER 2023

Economic Diplomacy Division
Ministry of External Affairs

CONTENTS

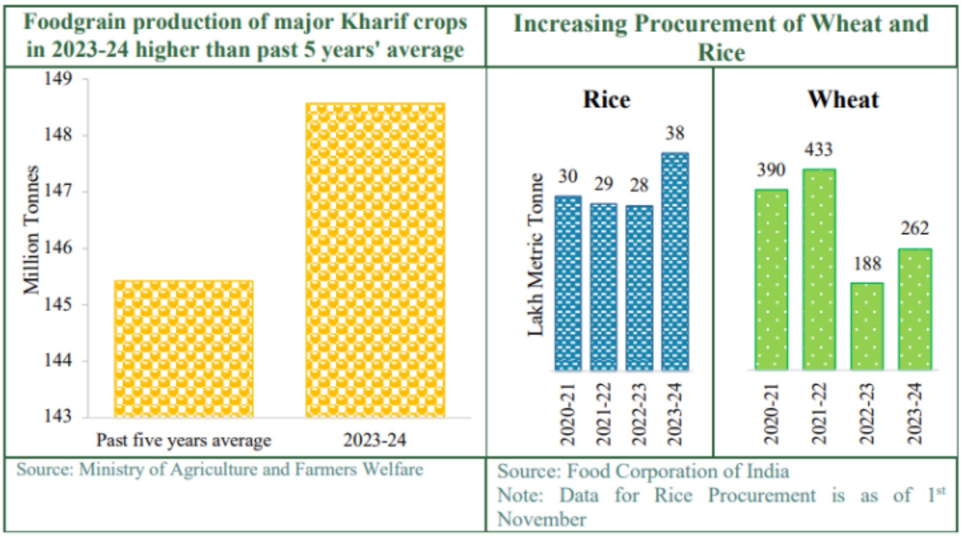
Introduction

India's economy remains resilient amidst the global slowdown, supported by robust domestic demand. Major rating agencies express confidence, maintaining a 6.7% growth projection for FY24 and raising the medium-term estimate by 70 basis points to 6.2%. Agriculture sees progress, ensuring food buffer growth, while manufacturing and services sectors expand. Private consumption, especially during the festive season, drives growth, bolstered by savings, low unemployment, and a wealth effect from rising real estate and equity markets—digital transactions surge, indicating a shift towards a cashless economy. Merchandise and services exports perform strongly, and Foreign Portfolio Investors turn net buyers. The government's fiscal management keeps the deficit on track, focusing on capital expenditure and a favourable decline in global crude oil prices.

Inflationary pressures have eased, with October 2023 witnessing a decline in Consumer Price Inflation (CPI), particularly in core inflation. Both overall CPI and its core component reached multi-month lows. The Wholesale Price Index (WPI) trend indicates decreased production input costs. Monitoring external financial flows is crucial for the currency's value and balance of payments. The impact of global factors, such as the reversal of the US rate hike and declining oil prices, benefits emerging markets, including India. Although the US stock market poses a potential risk, India's growth in FY24 stands out positively compared to other major economies. They sustained public investment in infrastructure and digital public infrastructure advancements, positioning India for an extended economic and financial cycle in the medium term.

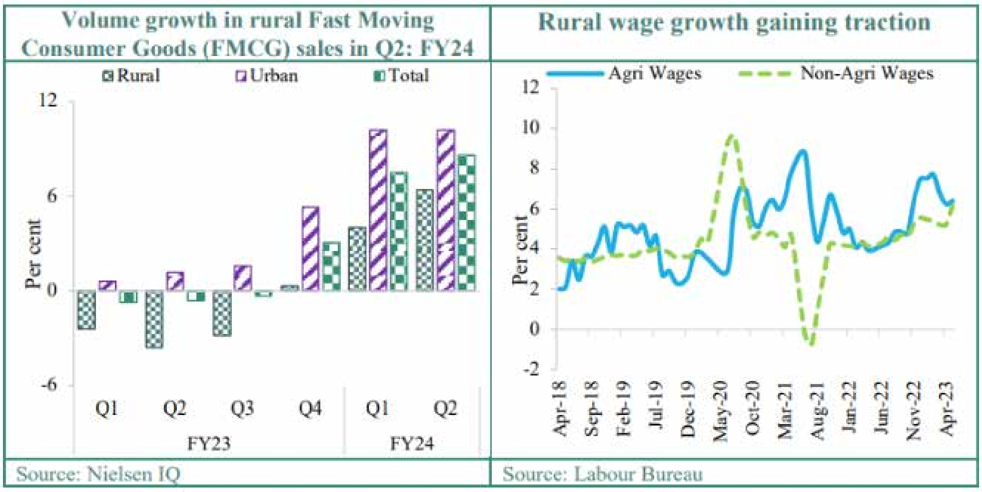
Upbeat agricultural output

- Agriculture sees increased Kharif crop sowing for 2023-24 compared to the previous year and the past five years' average.
- First advance estimates for 2023-24 project robust output for major Kharif crops.
- Rabi sowing shows healthy progress, reinforcing expectations of a strong Rabi output.
- Factors such as high reservoir levels, ample fertiliser and seed availability, and increased tractor sales contribute to improved sowing acreage and output.
- Rapid progress in wheat and rice procurement results in a continuous rise in food buffers.
- Growing buffer stock helps mitigate inflationary pressures due to uneven rainfall and enhances food security.



Rural Demand Strengthening

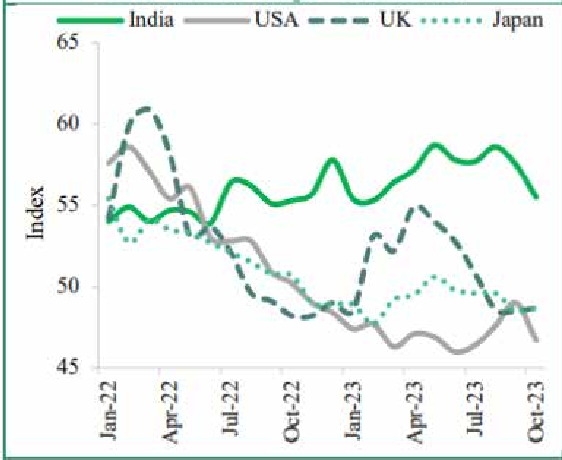
- Rural FMCG sales surged by 6.4% in Q2 FY24.
- The FMCG industry benefited from increased rural wage growth and reduced price growth.
- Two and three-wheeler sales experienced double-digit growth in October 2023.
- Factors such as cooling inflation, declining unemployment, and lower LPG prices boosted consumer spending.
- Anticipated moderation in inflation and the festive season in October to November 2023 is expected to enhance rural consumption in the October to December 2023 quarter.



Industrial activity on an expansionary path

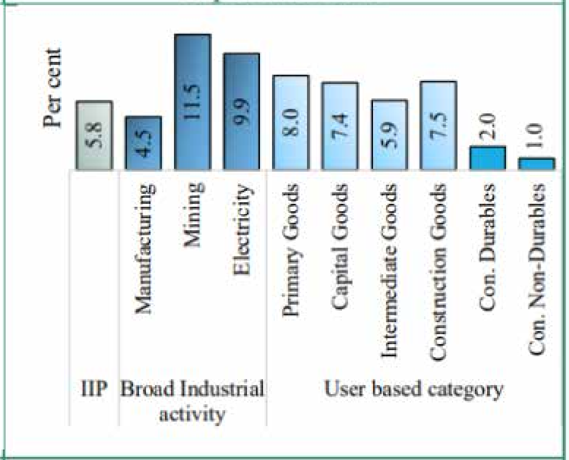
- PMI Manufacturing in India has expanded for 28 consecutive months, signalling a sustained recovery from the pandemic.
- Increased production, sales, and positive market dynamics drive manufacturing activity.
- Robust September prints of the Index of Industrial Production (IIP) and Index of Eight Core Industries (ICI) provide evidence of continued growth.
- Manufacturing activity remains strong enough to endure rising input costs and adapt to changing consumer preferences.
- IIP expanded by 5.8% in September 2023, up from 3.3% in September 2022.
- Infrastructure and capital goods witnessed substantial growth, indicating ongoing economic capital formation.
- Intermediate goods growth in September 2023 suggests inventory buildup for October 2023 production.
- ICI grew by 8.1% in September 2023, driven by coal, steel, and electricity sub-sectors, reflecting construction and capital formation momentum.

India's PMI Manufacturing was higher than that in major economies



Source: Bloomberg, IHS Markit

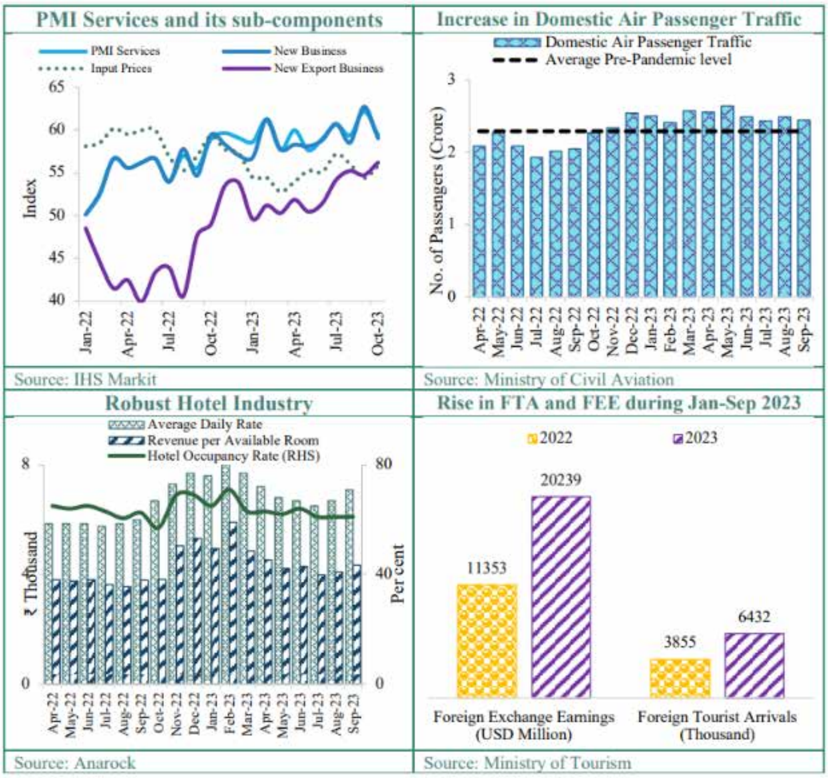
Growth in IIP and its sub-components in September 2023



Source: MoSPI

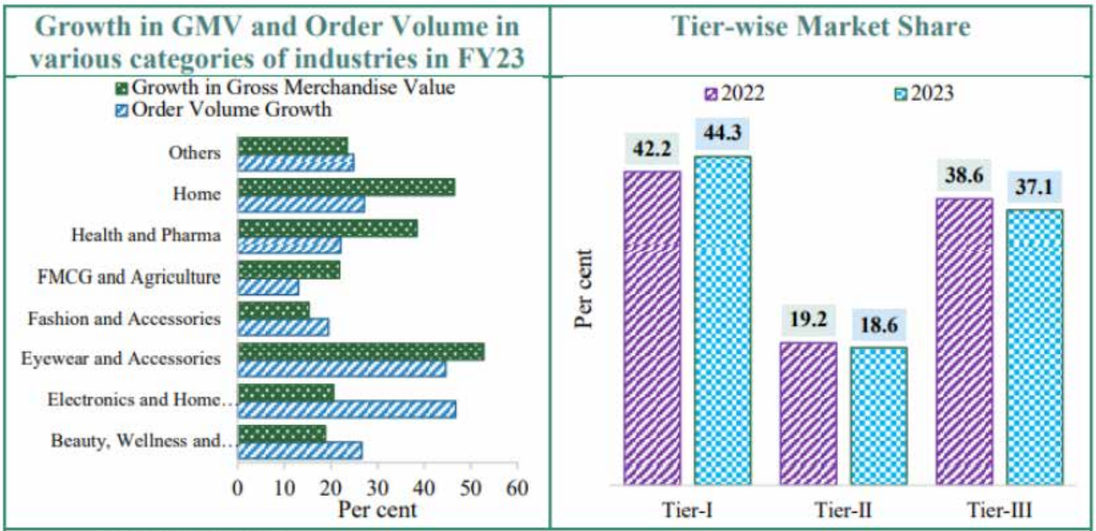
Services match the strong performance of the manufacturing.

- PMI Services has been in expansion for 27 consecutive months, driven by favourable demand, new businesses, and supportive market conditions.
- Despite rising input costs, the services sector remains optimistic, particularly in the tourism and hotel industry, boosted by leisure travel, business travel, and social events.
- Competitive conditions and cost pressures led to a slight moderation in PMI services, from 61 in September 2023 to 58.4 in October 2023.
- Production activity remained strong, and exports rose in October, reflecting resilience despite challenges.
- According to the RBI Services and Infrastructure Outlook Survey, respondents express optimism about business situations, turnover, and employment conditions in Q3 FY24, expecting easing pressures on wage bills, input costs, and finance.
- Tourism, a key driver of contact-intensive activity, has significantly contributed to the hotel industry's growth.
- Domestic air traffic in India surpassed pre-Covid levels for the seventh consecutive month in September, indicating a robust recovery.
- Despite declining revenge travel, the leisure segment remains strong, and the MICE and corporate travel segments show recovery.
- The recovery in the tourism sector has led to increased domestic air passenger traffic, surpassing pre-pandemic levels.



India's Booming E-Commerce Industry

- India's e-commerce industry is a robust pillar of the services sector, extending convenience to households in tier 2 and tier 3 cities.
- Government initiatives like Digital India, Make in India, Start-up India, and the Innovation Fund fuel the sector's growth.
- Expected to reach USD 163 billion by 2026, with over 25% of sales in major non-grocery categories happening online.
- Phenomenal growth driven by the expanding middle class, widespread high-speed internet access in Tier-II and Tier-III+ regions, and technology adoption for seamless shopping.
- Omnichannel growth is rapid, with brands using physical stores for online order fulfilment, reflected in a 58.4% increase in omnichannel operations in FY23.
- Emerging e-commerce categories like Home Decor, Health and Pharma, and established segments like Fashion, Beauty, and Personal Care contribute to overall industry growth.
- Global and domestic brands are actively expanding into Tier-II and Tier-III cities, leveraging high-speed internet accessibility and prompting warehousing and distribution establishment in these areas.
- Tier-I cities with higher population density remain primary generators of e-commerce order volume in the country.



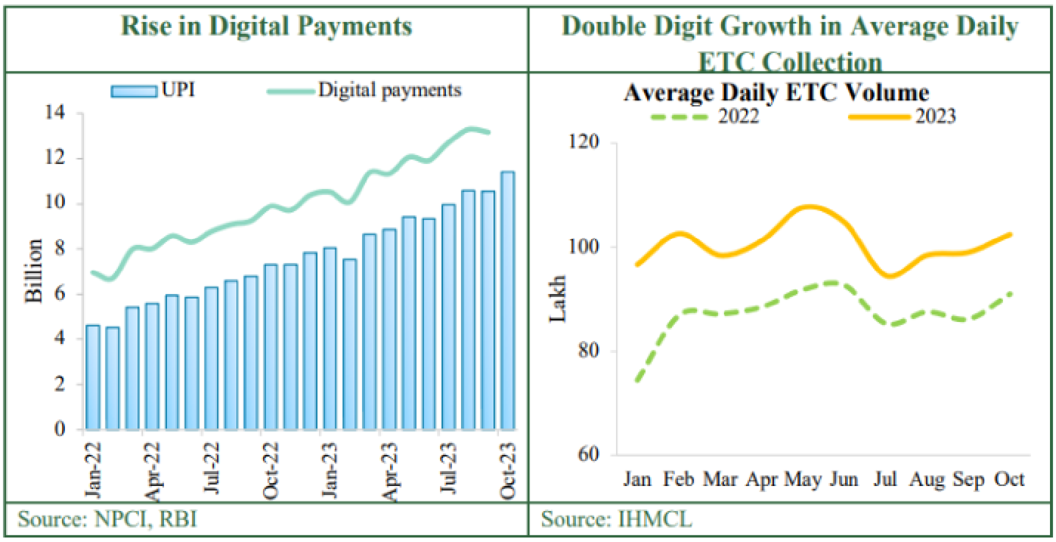
Source: UNICOMMERCE

Private Final Consumption Expenditure (PFCE) attains Traction.

- Key, high-frequency indicators show robust consumption growth in April-September 2023 compared to last year.
- Reports highlight a surge in consumer spending during the festive season, indicating strong demand.
- Unfolding latent demand, suppressed during the pandemic lockdown, is crucial to boosting consumption.
- Improvement in leading service sector variables is evident, with rising trajectories in all service sector indicators in the September 2023 quarter.
- Decline in urban unemployment rates contributes to private solid consumption by increasing disposable income.
- Buoyant labour markets with historically low unemployment rates support economic activity, and real wages are rising.

Strong Consumption Boosts Robust Growth in Digital Payments

- UPI transactions hit a record-breaking 11 billion in October 2023, driven by strong festive demand.
- UPI is increasingly used for microtransactions, showcasing deeper penetration and acceptance in digital payments by both buyers and sellers.
- Average ticket size for person-to-merchant UPI transactions decreased from INR 731 in October 2022 to INR 658 in October 2023.
- The average daily Electronic Toll Collection (ETC) volume increased by 13% in October 2023, which is attributed to higher industrial and commercial activity supported by favourable demand conditions.
- Leveraging the growing female willingness and ability to participate in the labour market holds the promise of women-led development, supported by the recent women's reservation Bill in Parliament.



External sector witnessing signs of revival.

- Despite concerns about weak global demand, India's merchandise exports and imports grew by 6.3% and 12.4% YoY in October 2023.

- Merchandise trade balance widened both YoY and MoM during the month.

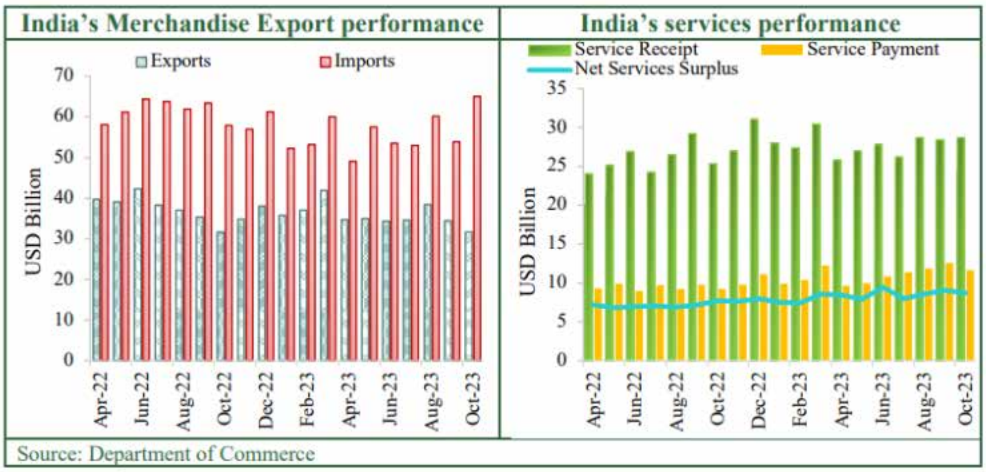
- Key export commodities in October 2023 included iron ore, ceramic products, glassware, tobacco, and cereal preparations.

- Engineering goods exports increased by 7.3% in October 2023 compared to the previous year's period.

- Import drivers included pulses, gold, silver, and other commodities.

- For April-October 2023, the merchandise trade balance improved by 12% due to a significant decline in the value of imports, especially in petroleum, oil, and lubricants (POL), dropping from USD 123 billion in April-October 2022 to USD 99.9 billion in the corresponding period in 2023.

- On the services front, continued demand for India's services exports led to a YoY increase in services trade surplus by 22% in October 2023 and 6.2% during April-October 2023.



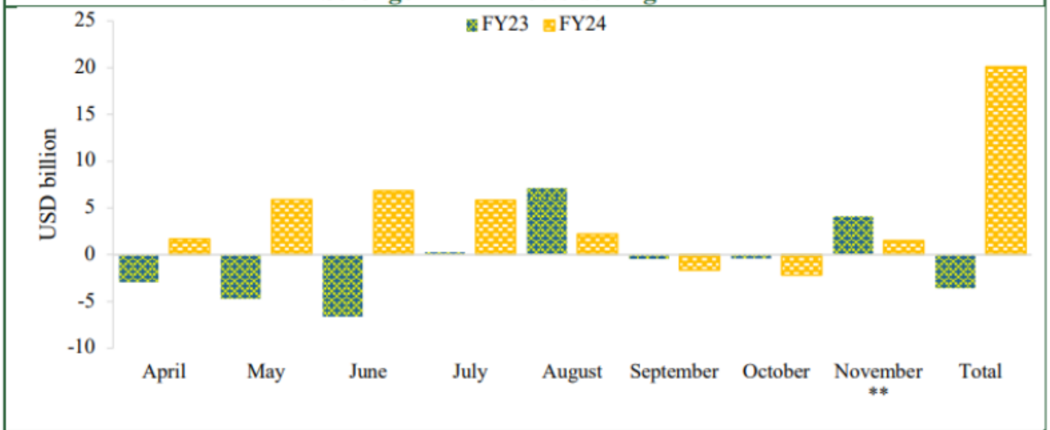
- Monthly FPI inflows experienced an outflow of USD 2.1 billion in October 2023, followed by a recovery in November with a net inflow of USD 1.5 billion as of the 16th.

- Debt instruments consistently attract investor interest, showing a net inflow of USD 5.2 billion during FY24 (till November 16, 2023), contrasting to FY23 when all months witnessed an outflow.

- While FPI in debt instruments may be more volatile, equity-based FPI remains steady, driven by the large volume and strength of Indian equity markets.

- The equity-based FPI inflow during FY24 (till November 16, 2023) was three times that of debt-based FPI, amounting to USD 15 billion, substantially recovering from the outflow of USD 3.3 billion recorded in April-November 2022.

Stronger FPI inflows during FY24



Source: NSDL; **: November data for FY24 is till 16 November 2023

Prudent Fiscal Performance of the Union Government

- Buoyant revenue collections in Apr-Sep 2023 supported the government's fiscal situation.

- Net tax revenue rose 14.7% YoY to INR 11.6 lakh crore in Apr-Sep 2023.

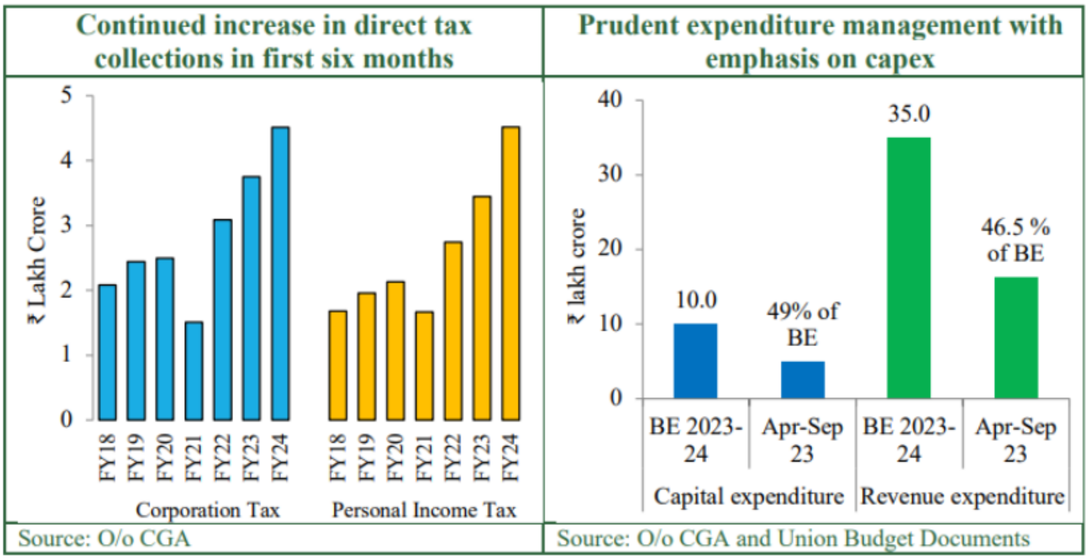
- Corporate tax collections grew by 20%, and personal income tax collections increased by 31% in the first half of the fiscal year, exceeding the YoY growth budgeted for the full year 2023-24.

- Gross GST collections for October 2023 reached INR 1.72 lakh crore, the second-highest monthly collection ever for the Centre and States combined.

- Centre's GST revenue for Apr-Sep 2023 increased by nearly 9% YoY, reflecting the robust performance of economic activity.

- Government capital expenditure in the first six months of the fiscal year was INR 4.9 lakh crore, almost 50% of the budgeted target, marking a 43% YoY increase.

- Revenue expenditure from Apr-Sep 2023 was below half (46.5%) of the annual target.

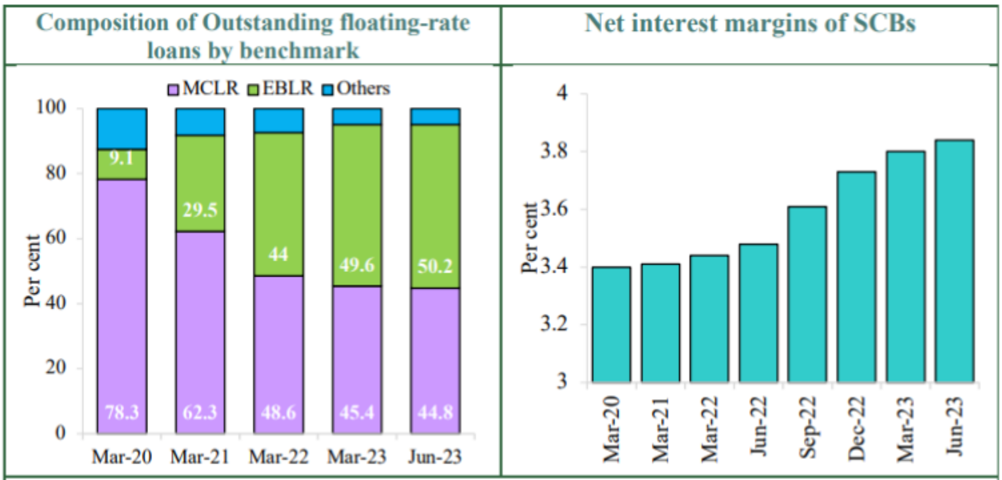


Core Inflation lowest since April 2020

- CPI food inflation in October 2023 remained steady at 6.6%, the same as in September 2023.
- CPI core inflation declined to 4.3% in October from 4.5% a month ago.
- WPI-based inflation rate was (-) 0.5% in October 2023, compared to (-) 0.3% in September 2023.
- Food inflation (raw food articles plus manufactured food) decreased from 1.5% in September to 1.1% in October.
- Inflation in manufactured products increased from (-) 1.3% in September to (-) 1.1% in October 2023 but remained in the deflationary zone.

Monetary Policy Transmission

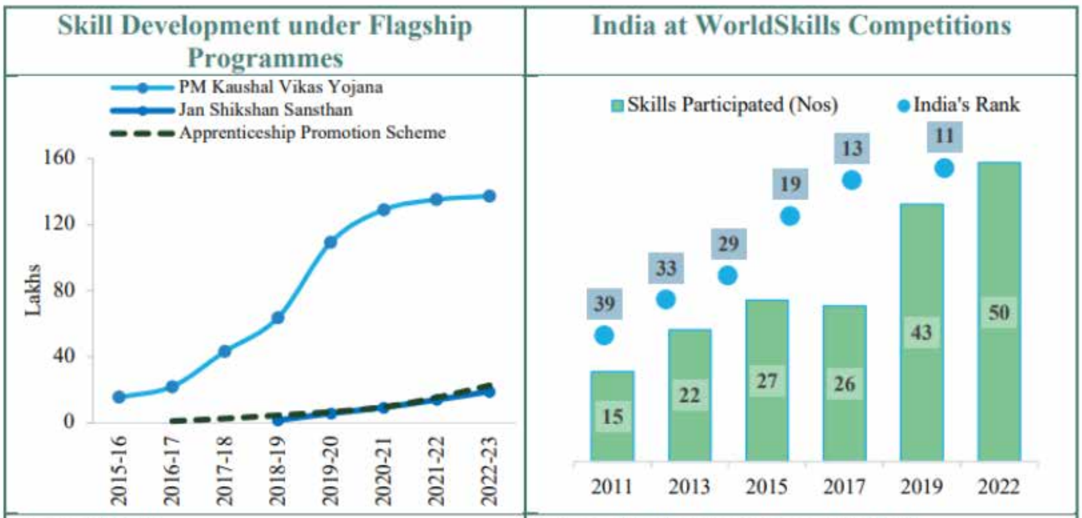
- Since the start of the current rate hike cycle in April 2022, the policy repo rate has increased by 250 basis points, reaching 6.5% by the end of October 2023.
- The Weighted Average Lending Rate (WALR) on outstanding rupee loans rose by 105 basis points over this period.
- The WALR on fresh rupee loans increased by 187 basis points.
- In the outstanding floating-rate loans segment, monetary policy transmission has been facilitated by the rise in the share of loans directly tied to the policy repo rate.
- External benchmark-based lending rate (EBLR) loans, characterised by a full pass-through of policy rate changes, account for over 50% of outstanding floating-rate loans as of June 2023, up from 9.1% in March 2020.
- Loans priced off the Marginal Cost-based Lending Rate (MCLR), representing 78.3% of this segment in March 2020, have seen their share decline to 44.8% in June 2023.
- Despite these changes, the persistence of the difference in WALRs and the policy repo rate indicates that monetary policy transmission remains partial.



Source: RBI
Note: MCLR – Marginal cost of funds-based lending rate; EBLR – External benchmark-based lending rate; The 'Others' category comprises of base rate, benchmark prime lending rate and other internal benchmarks.

Youth and Female Employment: Insights from the PLFS Report 2022-23

- According to PLFS, the youth (age 15-29 years) unemployment rate decreased from 17.8% in 2017-18 to 10% in 2022-23.
- The Youth Labor Force Participation Rate (LFPR) expanded from 38.2% to 44.5% over the same period.
- The proportion of employed youth increased from 31% to 40.1% in the six years.
- Annual new EPF subscribers aged 18-28 grew by 7.7% from 71.0 lakhs in 2019-20 to 76.5 lakhs in 2022-23, rebounding from the COVID-19 shock in 2020-21.
- Two-thirds of new EPFO payroll subscribers were in the 18-28 age group, and first jobs accounted for 47% of the total net new payroll of 2.27 crore from FY20 to FY23.
- Skill development programs under the government's flagship initiatives, particularly "Skill India," have contributed to the rise in youth employment.
- The Skill India Digital portal integrates various training programs, showcasing progress in skilling and India's improved position in WorldSkills Competitions held every two years.



Source: MSDE
Source: MSDE Annual Report 2022-23

- The female labour force participation rate (FLFPR) has been rising for six years, increasing from 23.3% in 2017-18 to 37% in 2022-23, as noted in the Economic Survey 2022-23.
- Both urban and rural FLFPR have been increasing, with a significant 16.9 percentage points rise in rural FLFPR over the same period.
- The steep increase in rural FLFPR suggests a growing contribution of females to rural production, potentially influenced by factors such as sustained high growth in agriculture output and improved access to basic amenities like piped drinking water, clean cooking fuel, and sanitation.
- Contrary to a perception of distress-driven FLFPR rise, the continuous increase since 2017-18 indicates that it is not solely due to distress, especially as distress-driven FLFPR should have peaked during COVID-19 and declined rather than consistently rising.

Rise in Female LFPR driven by rural India

Source: PLFS reports, NSO
Note: for usual status, 15 years and above

Outlook

- Government's sustained investment, healthy corporate profits, and reduced bank non-performing loans are expected to keep investment buoyant despite elevated input costs.
- Strong performance in services exports is anticipated to drive India's exports.
- The decline in international crude oil prices and ongoing moderation in core inflation will likely control inflationary pressures.
- RBI has indicated any further tightening of monetary policy will occur when transmission is closer to completion and if warranted.
- Positive economic developments during more than half of the current financial year are expected to lead to solid growth performance and macroeconomic stability by the end of the financial year.
- Risks on the downside persist, with inflation being a significant concern for the government and the RBI.
- Financial flows in the external sector need constant monitoring as they impact the value of the currency and the balance of payments.
- A fuller transmission of monetary policy may temper domestic demand, but India's growth experience in FY24 is projected to be a positive outlier compared to other major economies.
- In the medium term, sustained focus on public investment in infrastructure and advances in digital public infrastructure could lead to a more prolonged economic and financial cycle, subject to global factors.
- Global inflation in 2023 was expected to decline due to the central bank's tight monetary policies, but challenges arose from geopolitical uncertainties and volatile crude oil prices.
- Sluggish global demand impacts India's trade, but recovery is projected in H2FY24.
- With a lower trade deficit and a comfortable forex reserve position, India's external account appears robust.
- RBI's forward-looking surveys on manufacturing, consumer confidence, employment, and inflation expectations yield optimistic results.
- Overall, in line with IMF projections, India is poised to remain the fastest-growing major economy in the world in FY24.

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

सत्यमेव जयते
Economic Diplomacy Division
Ministry of External Affairs