सत्यमेव जयते
Economic Diplomacy Division
Ministry of External Affairs

# MONTHLY ECONOMIC REPORT

SEPTEMBER 2023

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# Introduction

- India's recent economic growth has been primarily driven by robust private consumption demand. Additionally, two other growth drivers have emerged. Firstly, investment demand is gradually strengthening, driven not only by the Union Government's capital spending but also by rising demand for residential properties supported by housing loan financing. This has boosted construction activity and property markets. Secondly, industrial activity is firming up, supported by improving corporate balance sheets and increased investment activity, aided by a robust banking system and financial markets.

- Macroeconomic indicators related to growth have also remained strong. Inflationary pressures, which had temporarily spiked in the previous two months due to seasonal and weather-related supply constraints in a few food items, have now eased significantly. While there are potential downside risks, such as rainfall fluctuations and global economic conditions, core inflation's smooth downward trajectory is expected to keep headline inflation within the target range.

- The Union Government's fiscal position remains solid, with steady revenue growth, particularly in direct taxes, and prudent management of revenue expenditure. This has allowed for front-loading of capital expenditure while adhering to the budgeted market borrowing program.

- Encouragingly, employment trends are positive, with an improving labour force participation rate and a declining unemployment rate. Female participation in the labour force has seen a noteworthy uptick, with the Nari Shakti Vandana Adhiniyam 2023 serving as landmark legislation to promote women-led development further.

- India's external account remains resilient despite a global demand slowdown. In Q1FY24, the current account balance, merchandise trade, and invisibles all performed well. Imports decreased sharply than exports in September 2023, significantly improving the overall trade balance year-on-year. Net foreign portfolio investment inflows remained positive in H1 FY24, compared to outflows in H1 FY23, and the forex position remains comfortable.

- While India's domestic macro fundamentals are improving, there are potential risks from global economic headwinds and weather-related uncertainties. Nevertheless, the RBI's forward-looking surveys have shown optimism regarding demand conditions, employment opportunities, and industrial output, affirming India's growth prospects for FY24.

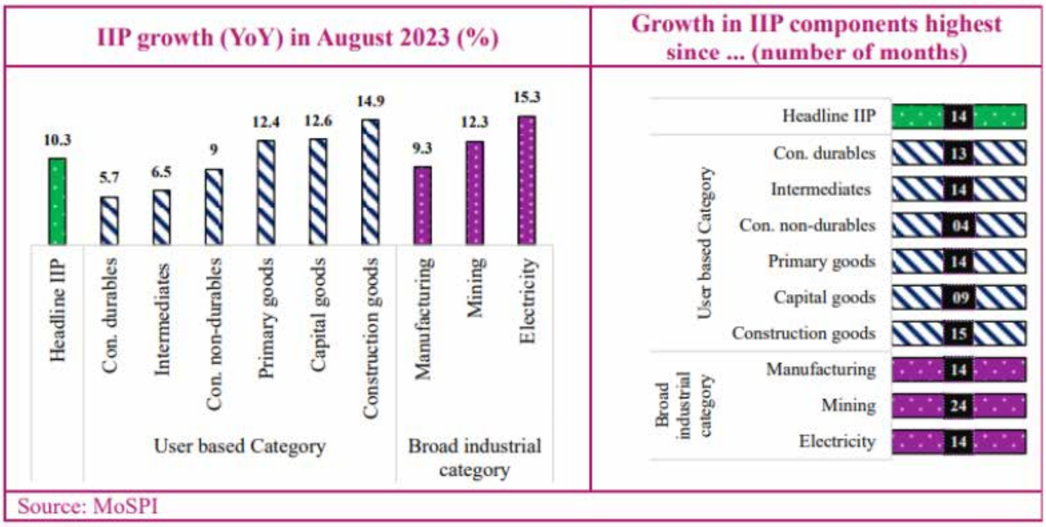
# Strong Domestic Growth Amidst Fragile Global Context

- The International Monetary Fund (IMF) revised India's FY24 growth projection to 6.3% in October 2023, up from 6.1% in July 2023, reflecting stronger-than-expected consumption growth in April-June 2023. The IMF had already revised India's growth projection for FY24 from 5.9% in April 2023.

- Global economic activity remained resilient in H1 2023, with emerging and developing economies (excluding China) and some advanced economies, particularly the United States, growing faster than expected. The global composite PMI has been in the expansionary zone since February 2023. However, the pace of expansion has slowed since its peak in April, primarily due to weakening momentum in the services sector.

# Emerging Domestic Growth Drivers

- In August 2023, the Index of Industrial Production (IIP) showed a significant and widespread acceleration in major industrial sub-sectors.
- The IIP recorded a remarkable double-digit growth of 10.3%, the highest in the past 14 months.
- Most sub-sectors experienced their highest growth rates over a year, as shown in the table below.
- The construction goods segments achieved an impressive growth of 13.3% in FY24, driven by robust public infrastructure spending and a thriving property market.
- This growth, along with the recent increase in capital goods production, reflects a strengthening investment climate in the country.
- The rise in intermediate goods production signifies improved order book positions.
- Manufacturing activity remained in the expansionary zone during September, as indicated by the PMI survey, driven by favourable demand trends and market dynamics.




- The Reserve Bank of India (RBI) recently published survey results that align with the optimistic trends in the Index of Industrial Production (IIP) data.
- According to RBI's latest Order Books, Inventories, and Capacity Utilization Survey (OBICUS), the seasonally adjusted capacity utilisation in the manufacturing sector for Q1 FY24 improved from the previous quarter, reaching 75.4%.
- Looking forward, the business climate conditions, as measured by RBI's Quarterly Industrial Outlook Survey, also indicate optimism, with the business expectations index for Q3 FY24 showing improvement compared to the previous quarter.
- Manufacturing firms are displaying increased optimism for Q3 FY24, evident in their improved assessments of production, order books, and capacity utilisation.

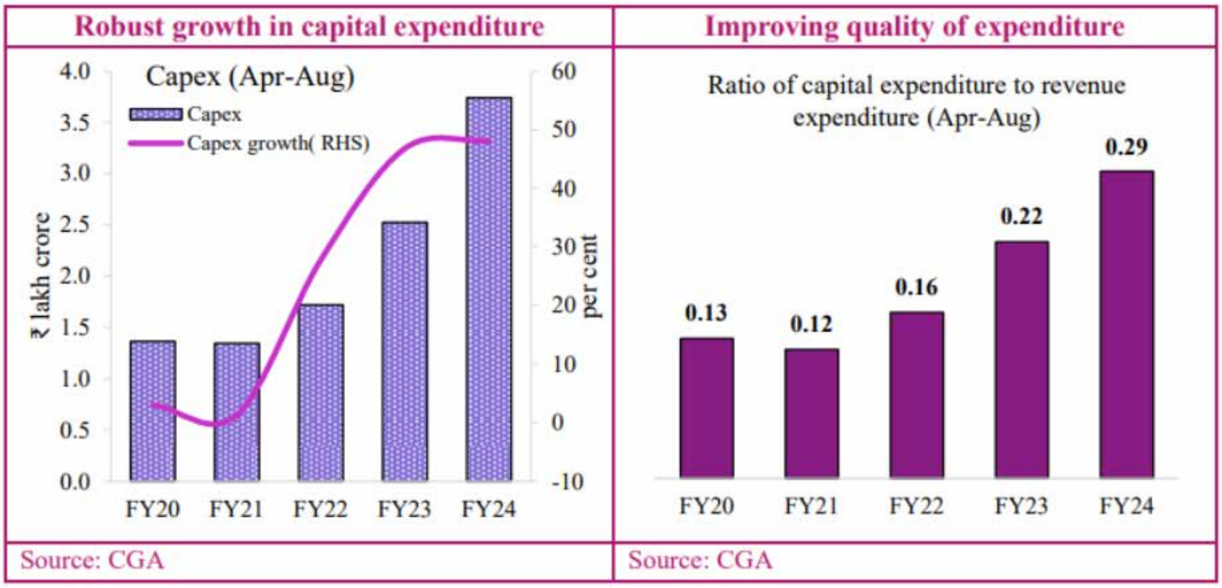
## Macroeconomic Balance

- As of August 2023, the government's financial developments suggest that it is progressing in containing the budgeted fiscal deficit to 5.9% of GDP by the end of FY24.

- The government's market borrowing plan for the second half of FY24, announced on September 26, 2023, indicates that the total market borrowing for the entire fiscal year FY24 will remain in line with the budgeted levels.

- Both direct and indirect tax revenues have shown consistent growth, reflecting the underlying strength of economic activity and the expansion of the tax base.

- The government's strategy of prioritising capital expenditure while streamlining revenue expenditure has contributed to an improvement in the overall quality of government spending.




## Inflationary pressures ease

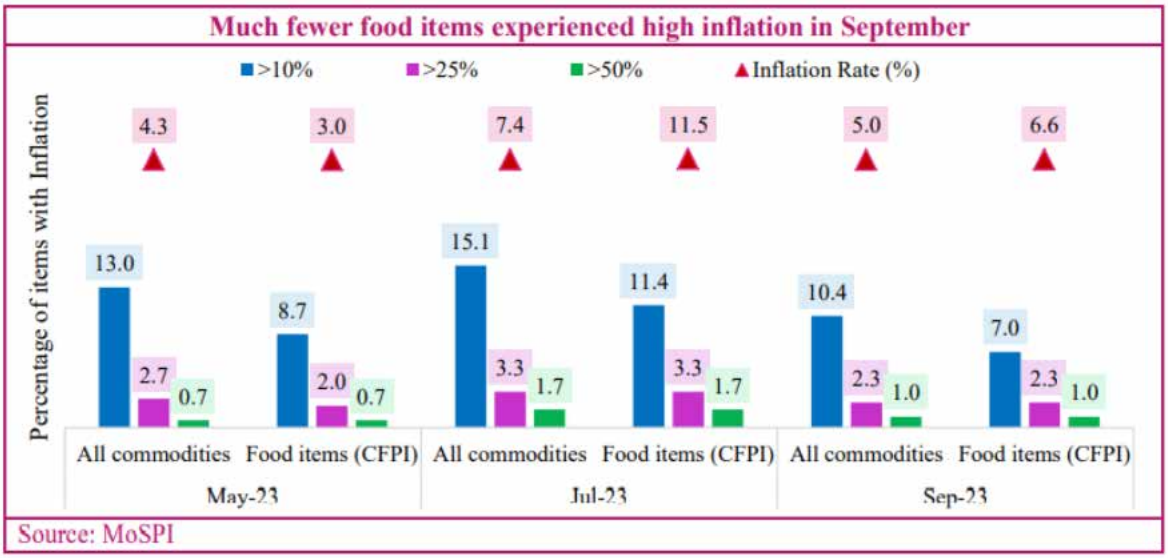
- Despite GDP growth remaining on track in FY24, there was a brief interruption in the declining trend of headline inflation during the second quarter, primarily due to a surge in the prices of certain food items.

- However, headline inflation has since returned to a more stable trajectory, driven by corrections in vegetable prices and a recent reduction in LPG prices.

- According to the latest release of the consumer price index, headline inflation stood at 5% in September, falling within the upper tolerance limit of the inflation target. This suggests that the inflation increase observed in July and August was a temporary occurrence driven by seasonal and weather-related supply constraints in select food items.

- Core inflation, which excludes food and fuel, further softened to 4.5% in September, down from 4.9% in August. This marks the lowest core inflation rate recorded in the past 42 months.

- Notably, August marked the seventh consecutive month in which core inflation remained within the Reserve Bank of India's (RBI) upper tolerance band of 6%




- Recent price trends support the monetary policy approach adopted by the Reserve Bank of India (RBI) over the past 18 months.

- Starting from May 2022, the RBI's monetary policy actions mainly involved gradually increasing the policy repo rate by 250 basis points and shifting the policy stance to withdrawing accommodation. This strategy aimed to address the persistence of core inflation and control headline inflation.

- The RBI's monetary measures, combined with proactive supply-side interventions by the government to enhance the availability of essential food items and reduce input costs, have effectively complemented each other.

- Due to these coordinated efforts, headline inflation has moderated to 5.5% in H1FY24, a significant improvement compared to 7.2% in H1FY23 and 6.2% in H2FY23.

## Employment trends confirm India's economic resilience.

- The annual PLFS for 2022-23 (July- June) and quarterly urban PLFS for April- June 2023 indicate a robust labour market with increased labour force participation and decreased unemployment.

- The quarterly urban unemployment rate dropped from 7.6% in April-June 2022 to 6.6% in April-June 2023, marking the lowest rate since April-June 2018.

- This decrease in urban unemployment coincided with a rise in the urban labour participation rate, increasing from 47.5% in April-June 2022 to 48.8% in April-June 2023.

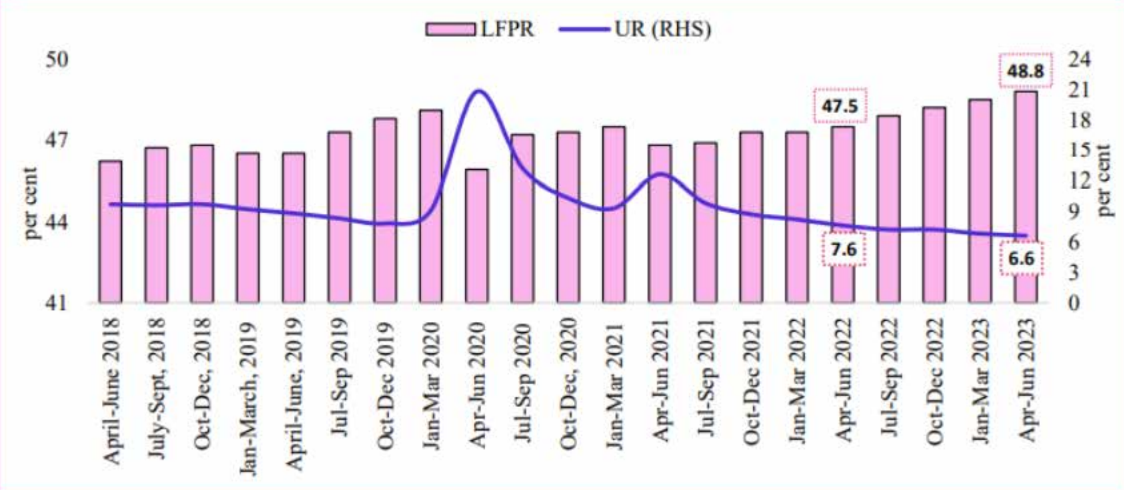
- Youth urban unemployment declined from 18.9% in April-June 2022 to 17.6% in April-June 2023.

- A significant uptick in female LFPR drives overall labour force participation (LFPR) improvement, witnessed over the past six years.

- The all-India female LFPR (usual status) increased from 23.3% in 2017-18 to 37.0% in 2022-23, primarily propelled by rising rural female labour participation.

- 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.

Quarterly labour market indicators for urban areas

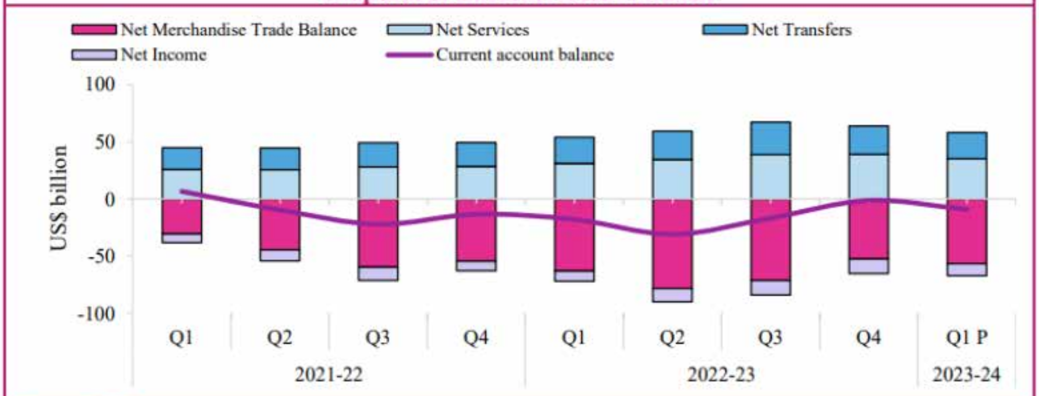



Source: Quarterly PLFS, MoSPI
Note: Figures for Current Weekly Status, 15 years and above

## External sector developments

- Persistent global demand weakness results from elevated inflation levels in major economies, affecting real incomes, and a sustained contraction in the manufacturing PMI headline index for 12 months, lasting until August 2023 (although it slightly improved in August 2023).
- The World Trade Organisation (WTO) recently estimated world merchandise trade volume growth for 2023 at 0.8%, nearly half its April 2023 estimate of 1.7%.
- These pressures are expected to impact India's external sector performance.
- According to recent RBI estimates, India's Current Account Deficit (CAD) in Q1FY24 was higher than in Q4FY23 but lower than in Q1FY23.
- The CAD increased to 1.1% of GDP in Q1FY24 from 0.2% in Q4FY23 but was lower than the 2.1% recorded in Q1FY23.
- The quarter-on-quarter rise in CAD, from US$ 1.4 billion in Q4FY23 to US$ 9.2 billion in Q1FY24, was primarily due to an expanding trade deficit and a reduced surplus on the invisible account.

Snapshot of Current Account Deficit




Source: RBI
Note: P stands for Provisional

## Initiatives in India's G-20 Presidency Generate Global Hope

- The Indian G20 Presidency established the G20 Independent Expert Group (IEG) to strengthen Multilateral Development Banks (MDBs) to address the increasing demand for development financing and evolving global challenges.

- Efforts were made during the Presidency year to provide momentum to MDBs' implementation of Capital Adequacy Frameworks (CAF) panel recommendations, allowing MDBs to enhance their balance sheets and resource utilisation.

- The Indian Presidency broadened the policy framework to consider the macro-financial implications of crypto assets, resulting in a Synthesis Paper by the IMF and Financial Stability Board to support coordinated policy approaches.

- The G20 discussions under the Indian Presidency prioritised Digital Public Infrastructure (DPI) and formulated G20 Policy Recommendations for Advancing Financial Inclusion and Productivity Gains through DPI, unanimously endorsed by the G20.

- India's G20 Presidency emphasised addressing global debt vulnerabilities, advocating for the interests of the Global South on debt, and launching the Global Sovereign Debt Roundtable to facilitate coordinated debt treatment for debt-distressed countries.

- The G20 reaffirmed its commitment to implementing a two-pillar international tax package to address tax challenges from the digitisation of the economy, with India launching the South Asia Academy for tax and financial crime investigation.

- To support Sustainable Development Goals (SDGs) and promote just and affordable transitions, Finance Ministers and Central Bank Governors committed to enabling SDG financing and scaling up social impact investment instruments.

- The G20 Sustainable Finance Technical Assistance Action Plan (TAAP) was developed to enhance capacity-building services and support sustainable finance, especially for Emerging Market and Developing Economies (EMDEs) and Small and Medium Enterprises (SMEs).

- The G20 addressed recent food and energy crises, acknowledging the potential for volatility in food and energy markets due to global supply chain disruptions, and released a report on the macroeconomic impacts of food and energy insecurity, with shared policy experiences and analysis from international organisations.

## Outlook

- India's macroeconomic outlook for FY24 is optimistic and supported by strong domestic fundamentals.
- Investment demand is rising, and additional growth drivers include broad-based industrial growth and a thriving residential property market.
- Industrial capacity utilisation has improved, and increased demand for residential properties, combined with public sector capex, strengthens investment.
- Favorable progress in Kharif sowing and improved reservoir levels bode well for the upcoming Rabi season.
- Core inflation is steadily decreasing, and food inflation has eased, though notable challenges exist.
- 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
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