सत्यमेव जयते

Economic Diplomacy Division

Ministry of External Affairs

MONTHLY ECONOMIC REPORT

NOVEMBER 2023

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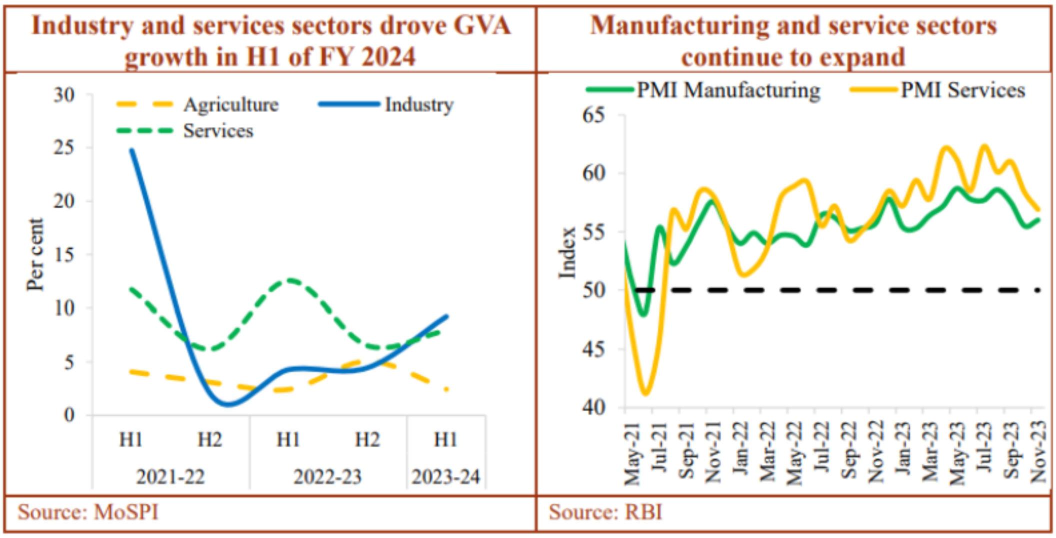
Introduction

India has emerged as the fastest-growing major economy in H1 of FY24 on the back of resilient consumption and investment. India's real GDP grew by 7.7% in H1 of FY24, following a 7.6% growth in Q2. The Reserve Bank of India has also raised its growth forecast to 7% for the full year. The strong domestic demand has consequently increased manufacturing and services value-add significantly. Globally, however, trends are slightly different. Geopolitical tensions persist, and a tightened monetary stance has weakened global economic activity. Increases in policy rates have tempered inflation but not enough to lower it to country targets.

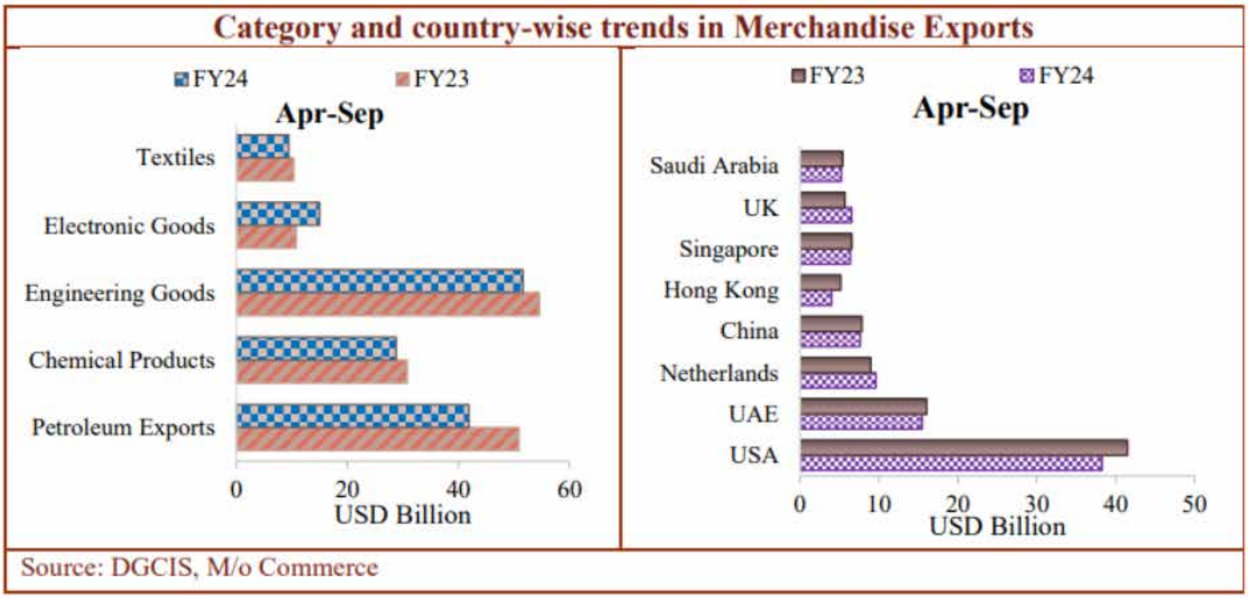
Inflationary pressures have moderated in the first half of FY24 mainly due to the stable and declining core inflation. However, food inflation remained volatile due to weather-driven supply chain disruption. On the employment front, labour markets have fully recovered their pre-pandemic levels. High-frequency indicators further reflect an improvement in the overall employment situation across sectors. Formal sector employment also showed robust growth, as indicated by a steep rise in the subscription base of the Employees Provident Fund Organisation (EPFO). The PMI Manufacturing and services employment sub-indices showcase a broad-based improvement in employment generation. The outlook for the employment sector appears bright, with employers intending to maintain or expand their workforce. Additionally, high Frequency Indicators (HFIs) in India for October and November 2023 reflect robust economic activity in Q3 of FY24, likely to continue in Q4.

Industry and services sectors were primary drivers of growth in HI FY24

- The industry segment grew by 9.3% in H1 of FY24, driven by solid growth of 7.6%, 9.3%, and 10.5% in the mining and quarrying, manufacturing, and construction sub-components, respectively.



- The strength of the manufacturing sector is also underscored by the India manufacturing PMI, which, as of November 2023, shows that the sector has expanded for 29 consecutive months, supported by new orders and favourable demand conditions.

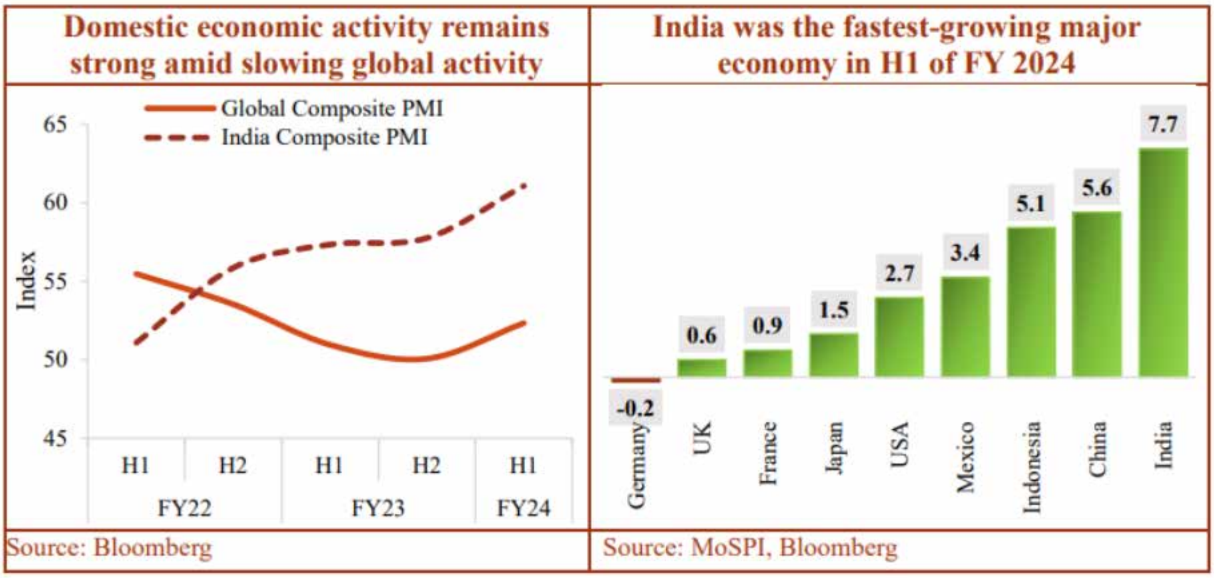


- The Index of Industrial Production (IIP) has also grown by 6.1% in H1 of FY24, with notable growth rates of 7% and 12.4% in the capital goods and construction and infrastructure goods sectors, respectively.

- The services sector has also performed well in H1 of FY24 and has grown by 8% on a YoY basis. The India services PMI indicates that the sector has been expanding for 29 consecutive months, led by new business orders improving services exports.

- In the hospitality sector, while the average hotel occupancy rate was lower for Apr-Sep 2023 compared to the corresponding period of the previous year, the average daily rate and the average revenue per room available are 16.6% and 14.1% higher, respectively.

- The tourism sector also displayed a trend towards revival, with foreign tourist arrivals inching up in the quarter ending September 2023, both on a sequential and YoY basis.

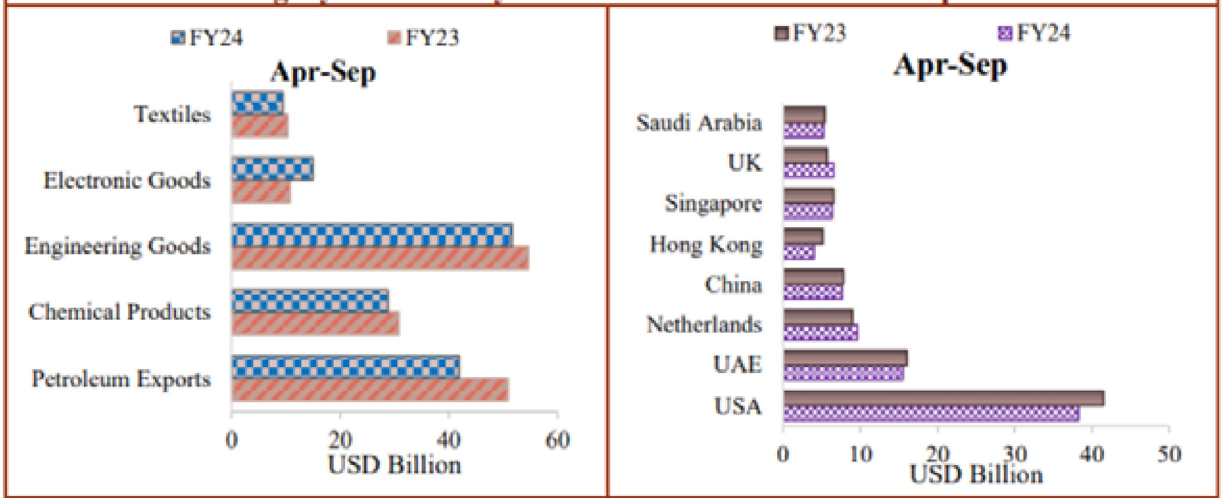


Geo-political conditions continue to impact India's external sector

- The impact of global trade moderation is also evident in India's external sector performance. India's merchandise exports contracted by 8.8% in H1 of FY24 compared to the corresponding period of the previous year amid an economic slowdown in India's major trade partners.

- Classification across major commodity groups showcases that exports have declined broad-based across all categories, except electronic goods. Across countries, India's exports to the USA, UAE, China, Hong Kong, Singapore and Saudi Arabia declined, whereas exports to the UK and the Netherlands increased.

Category and country-wise trends in Merchandise Exports

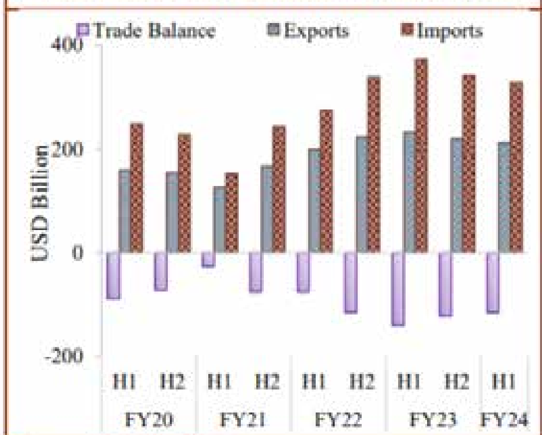


Source: DGCIS, M/o Commerce

- The net of service trade in H1 of FY24 increased by 15.5% (on a YoY basis). Accordingly, India's overall trade deficit (Merchandise and Services combined) reduced to almost half at USD 39.9 billion in H1 of FY24 as compared to USD 75.3 billion in H1 of FY23

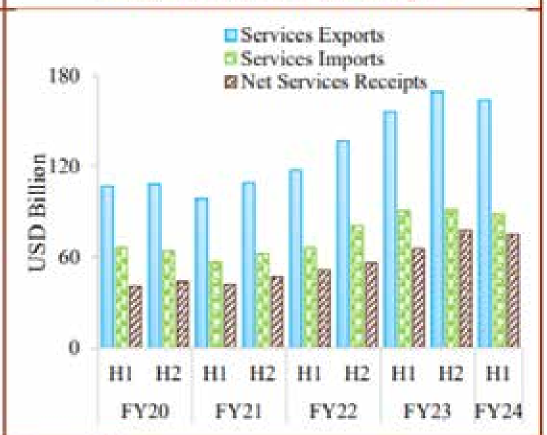
- India's services exports continued to perform well during H1 of FY24, growing positively over H1 of FY23. The growth is primarily driven by software and business services. With the global IT spending forecast to grow by 4.3% in 20235, the outlook for India's services exports remains encouraging. Narrowing merchandise trade deficit and rising net services receipts are expected to improve India's current account deficit in Q2 of FY24.

Moderation in Merchandise Trade Deficit



Source: DGCIS, M/o Commerce

Rise in Net Services Receipts

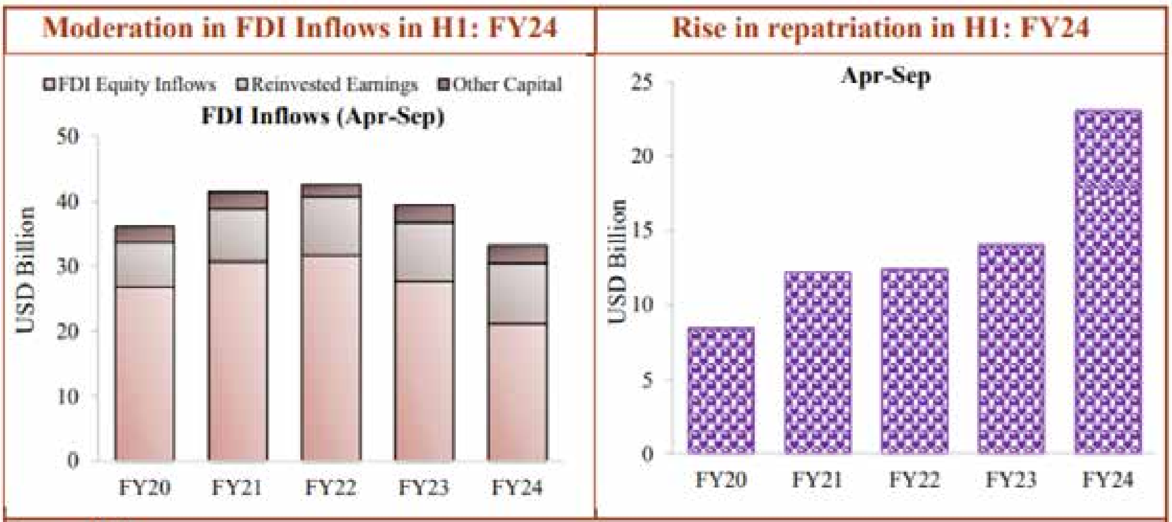


Source: RBI

Global Foreign Direct Investment (FDI) continue to decline

- Global FDI flows stood at USD 727 billion in the first half of 2023, 30% below the levels recorded in the first half of 2022. This drop was largely due to lower equity flows, which partly reflected a continuation of a slowdown in new investment activity. Lower reinvested earnings also contributed to the decline.

- Gross FDI inflows to India were 15.9% lower on a YoY basis in H1 of FY24.

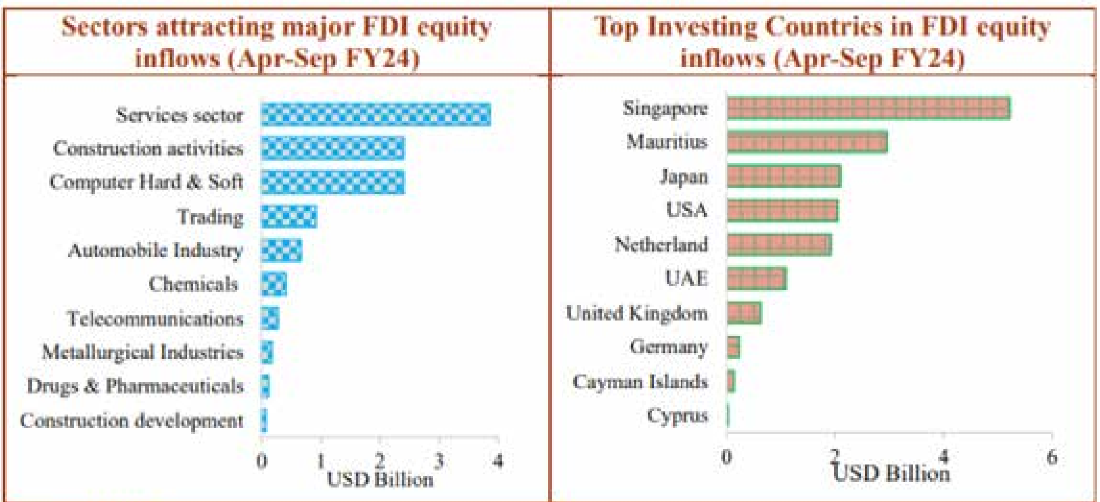


Source: RBI

- FDI equity inflows declined by 23.4% during the same period. A major surge was witnessed in repatriation, which increased by 64.6%.

- FDI inflows to India reached a 21-month high at USD 5.9 billion in October 2023. The surge is mainly attributed to rising gross inflows and a moderation in repatriation.

- Artificial intelligence (AI) has emerged as a major area of interest for FDI investors. Of the 778 projects (total worth USD 26.8 billion) related to research and development of AI applications announced globally since 2016, India received the maximum share (26.2%), followed by Canada, Singapore, Israel, and the USA.

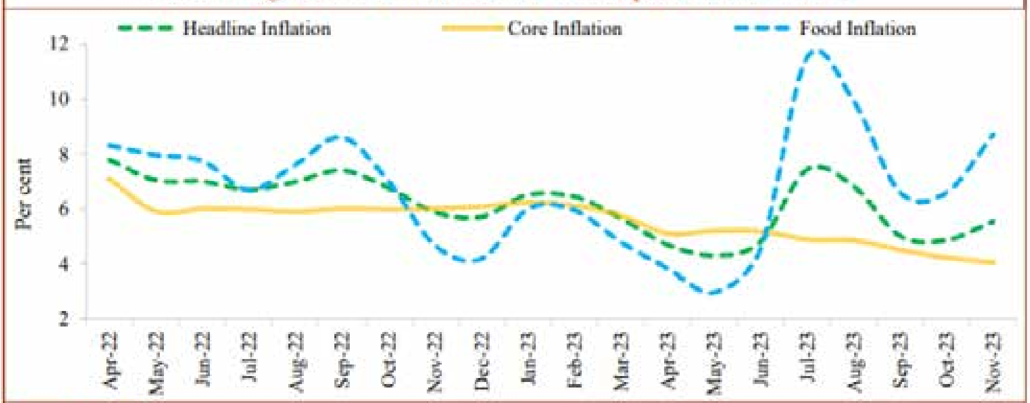


Source: DPIIT

Declining core inflation but fluctuating food inflation

- Inflationary pressures have moderated in the first half of FY24, with average retail inflation easing to 5.5% from 7.2% in H1 of FY23. The fall was majorly driven by stable core (non-food, non-fuel) inflation, which continuously declined from 5.1% in April to a 42-month low of 4.5% in September 2023.

- Food inflation remained volatile during H1 of FY24 and was elevated in July and August due to the abnormal increase in prices of specific food commodities caused by weather-driven supply chain disruption.



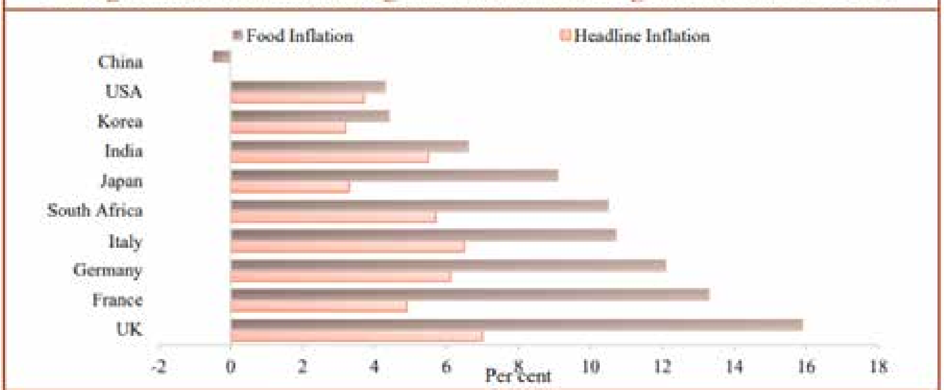
Source: MoSPI

- As per the latest release of the consumer price index, the inflation rate was recorded at 5.6% in November 2023, with stable core inflation at 4.1% but elevated food inflation at 8.7%. The core inflation continued to decline for the 6th consecutive month. This is the lowest core inflation recorded in the last 44 months.

- Fuel and light components have deflated since September, primarily reflecting the sharp fall in LPG prices due to Government intervention in the form of subsidised LPG prices.

- Higher food inflation was mainly due to inflation in some vegetables, pulses, spices and fruits.

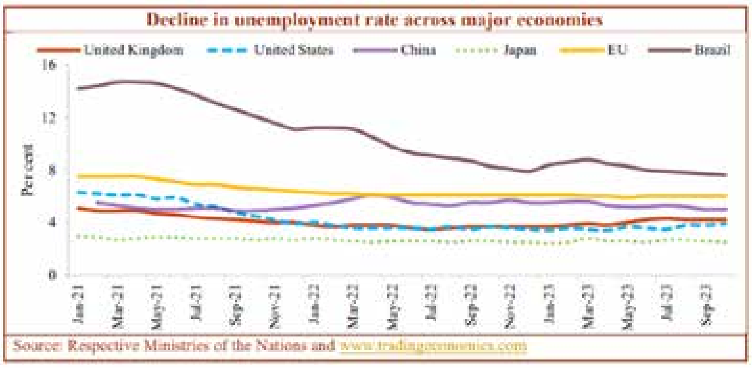
- While India recorded 6.6% food inflation in October 2023, the UK is still grappling with 10.1%, Japan at 9.8%, and South Africa at 9%



Source: OECD for other countries and MoSPI for India
Note: The inflation rate is the average of April to September months

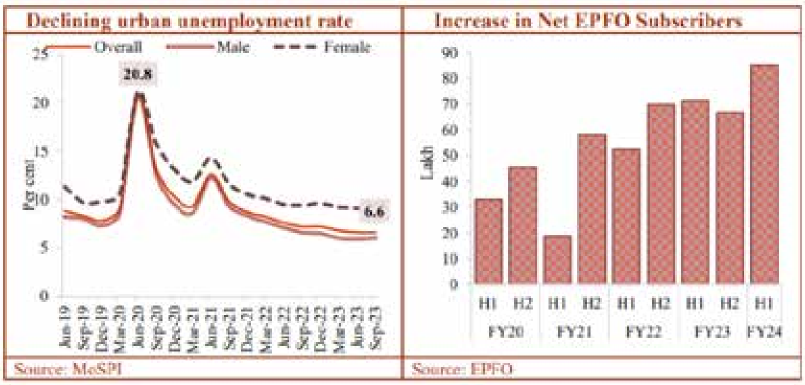
Strong fiscal health

- Buoyant revenue collections from April to October 2023 have supported the fiscal health of the economy.
- The net tax revenue of the Government in Apr-Oct 2023 rose by 11.2% year-on-year to reach INR 13 lakh crore.
- The direct taxes have registered a robust collection during the year, with a 17.4% YoY growth in corporate taxes and a more than 30% YoY growth in personal income taxes.
- Amongst the indirect taxes, GST collections have continued to reflect the momentum in economic activity. The monthly Gross GST collection for all the months of FY24 has been much higher than that recorded in the corresponding months of the last fiscal year. For November 2023, the gross GST collection at INR 1.68 lakh crore was 12% higher on a YoY basis.
- On the expenditure front, capital expenditure by the Government during the first seven months of the fiscal year increased by 33.7% on a YoY basis. In this period, the revenue expenditure registered a 6.5% YoY growth. This shows a continued re-balancing of expenditure components towards more productive use.



Employment rises in India

- Urban unemployment rate declined from 7.2% in Q2 of FY23 to 6.6% in Q2 of FY24. This brings the urban unemployment rate down from 7.4% in H1 of FY23 to 6.6% in H1 of FY24.
- India's labour market is showing robust growth in formal sector jobs, as indicated by a steep rise in the subscription base of the Employees Provident Fund Organisation (EPFO) in H1 of FY24.
- Net payroll additions under EPFO witnessed a year-on-year growth of 18.9% in H1 of FY24, with growth being broad-based across all age groups. Exit from the EPFO net was 72.6% lower in H1 of FY24 compared to the corresponding period of the previous year.



Future Outlook

- The better-than-expected growth in Q2 of FY24 and the emergence of India as the fastest-growing major economy in H1 of FY24 have improved the growth prospects and prompted various domestic and international agencies to upgrade GDP growth projections for FY24. The momentum gained in Q2 of FY24 is likely to be sustained in Q3 as well.

- Manufacturing and Services remained in the expansionary zone in October and November. October 2023 imprints of the IIP and Index of Eight Core Industries also highlight sustained growth in manufacturing activity.

- Sentiments in the services sector remain upbeat, driven, among others, by an upswing in the tourism cum hotel industry induced by leisure travel, business travel, and social events. Growth in consumption demand is expected to be sustained.

- Urban demand conditions remain resilient, with higher growth in auto sales, fuel consumption and UPI transactions. Rural demand is also catching up, as reflected in robust growth in two and three-wheelers sales

- The headline inflation outlook is on a declining trend, notwithstanding temporary disruptions in food prices. RBI has projected inflation to average at 5.4% in FY24.

- The outlook for India's external sector is promising, as seen in the November trade balance releases for services and merchandise. The relatively stable Indian rupee against the US dollar and other prominent currencies and adequate foreign exchange reserves add to the optimism.

- Foreign investment inflows are also helping the Indian stock market indices to climb new heights, reflecting broad-based optimism on growth among domestic and foreign investors on growth prospects. Risks to growth and stability outlook mainly emanate from outside the country. Nonetheless, the Indian economy is expected to achieve a growth rate of 6.5% in FY24 comfortably.

For more information:
Ministry of Finance, Department of Economic Affairs
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