सत्यमेव जयते

Economic Diplomacy Division

Ministry of External Affairs

MONTHLY
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JANUARY 2024

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INTRODUCTION

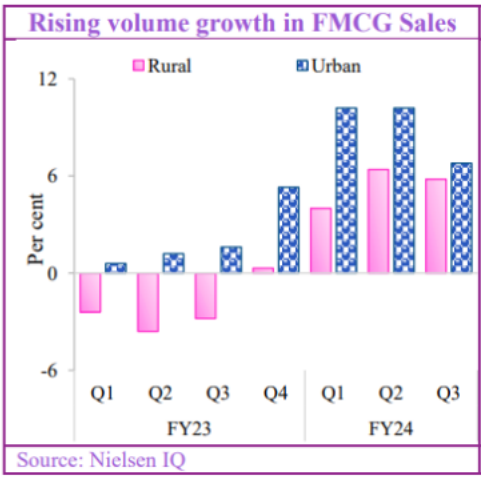
Buoyed by a robust performance in Q2 of FY24 and a growth projection above 7% for the fiscal year, global agencies have upwardly revised India's growth outlook. Despite increased government spending on capital expenditure, overall expenditure has been reprioritised, evidenced by an improved capital outlay to revenue expenditure ratio. The government's inclusive approach to economic growth is evident through initiatives for low-income people, women, youth, and farmers while maintaining fiscal consolidation commitments. The fiscal deficit estimate for FY24 has been lowered to 5.8% of nominal GDP, with a further reduction of 5.1% expected in FY25.

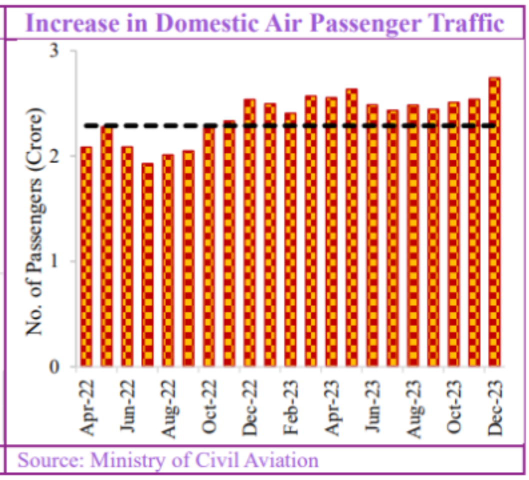
A global economic slowdown and fluctuations in commodity prices, influenced by geopolitical events like the Russia-Ukraine conflict, have impacted India's merchandise trade, leading to a narrowing trade deficit and an expected improvement in the current account deficit. India's strong macroeconomic fundamentals, high growth, and a stable business environment have attracted Foreign Portfolio Inflows (FPIs) in the capital account. The overall outlook for the Indian economy remains bright, with the RBI forecasting a 7% real GDP growth in FY25, supported by sustained manufacturing profitability and resilient services. Improvements in household consumption, prospects for fixed investment, and positive developments in global trade and supply chain integration are anticipated. However, vigilance is required for potential challenges arising from geopolitical tensions, financial market volatility, and geoeconomic fragmentation.

High growth is predicted for the Indian economy in FY24

- The National Statistics Office (NSO) estimates India's GDP to grow 7.3% in FY24.
- RBI's Survey of Professional Forecasters (SPF) upgrades India's real GDP growth from 6.4% to 7.0%.
- IMF's January 2024 World Economic Outlook (WEO) revises India's growth projections to 6.7% from 6.3%.
- IMF's medium-term growth forecasts for India remain strong, supported by improving macroeconomic fundamentals and resilient domestic demand.
- Major global agencies lift India's growth projections for FY24 due to remarkable Q2 performance.
- India is projected to become the third-largest economy in 2027, contributing 200 basis points to global growth, per IMF estimate.
- Strong Private Final Consumption Expenditure (PFCE) drives India's FY24 growth.
- Sustained growth in urban demand and recovery in rural demand support PFCE.
- Resilient urban demand is seen in rising passenger vehicle sales, increased card spending, domestic air travel surpassing pre-pandemic levels, and growing housing sales.
- Indicators like tractor and two-three-wheeler sales, FMCG volume growth, and Nielsen IQ data reflect improvement in rural demand.
- Nielsen IQ reports a 5.8% YoY increase in volume sales of FMCG in rural markets in Q3 of FY24.

- Increasing minimum support prices and prospects of healthy rabi harvesting are expected to strengthen rural demand.





- Robust investment growth (Gross Fixed Capital Formation) complements rising consumption.

- The government's significant capital expenditure drives the surge in investment, emphasising capital formation.

- Fitch Ratings notes that the government's continued capex emphasis will support growth in FY25, reduce infrastructure bottlenecks, and enhance medium-term growth potential.

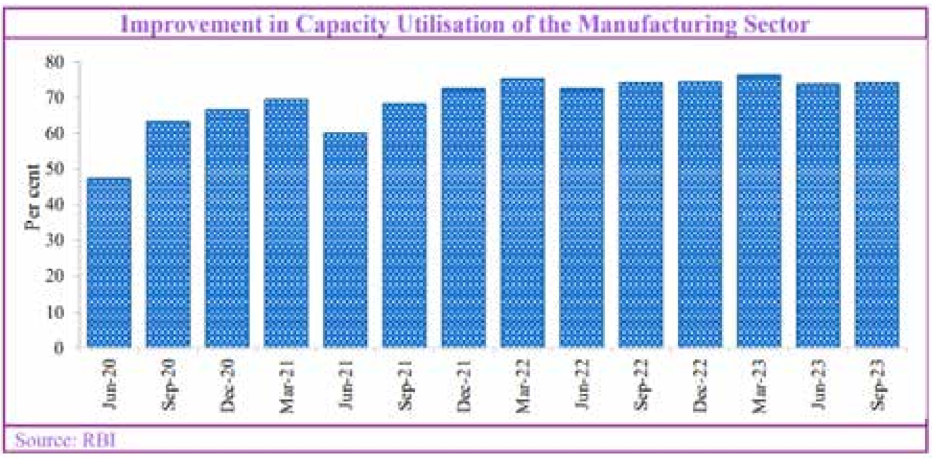
- The government's focus on capital expenditure guides the country through the early stages of an investment upcycle.

- Cleaner and deleveraged corporate balance sheets pave the way for fresh private investments, strengthening GFCF.

- The RBI's FY24 survey indicates that manufacturing sector capacity utilisation rose to 74% in Q2 from 73.6% in the previous quarter.

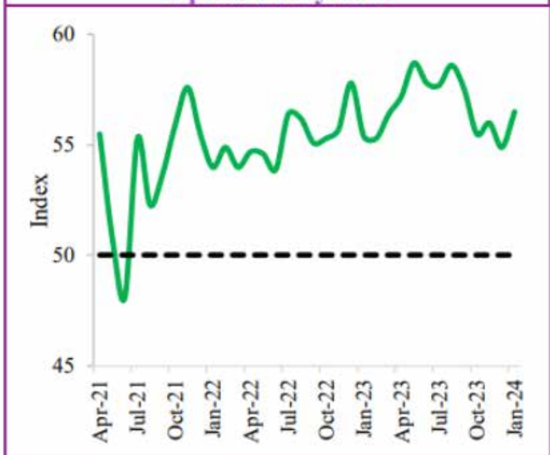
- Proxy indicators like the capital goods index of the Index of Industrial Production (IIP) and capital goods imports show healthy growth rates.

- Increasing capacity utilisation is expected to drive further growth in Gross Fixed Capital Formation as private investments rise with enhanced capacity.



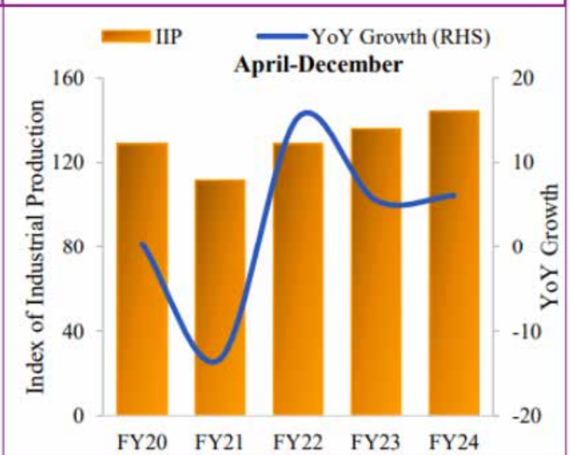
- Interim Union Budget FY25 emphasises the farming sector with measures to strengthen the electronic agricultural mandi network.
- Focus on promoting public and private investment in post-harvest infrastructure and increasing value addition under PM Kisan Sampada Yojana and PM Formalisation of Micro Food Processing Enterprises scheme.
- Expansion of nano-DAP across all climatic zones aimed at promoting new-age fertilisers to ease the burden on farmers.
- Increased allocation for the Production-Linked Incentive scheme for the food processing industry signals a focus on encouraging innovation in the sector.
- Robust manufacturing sector performance is evident in India's manufacturing purchasing manager index (PMI), which has remained in the expansionary zone for the past 31 months.
- Growth in the Index of Industrial Production and Index of Core Industries provides fresh evidence of sustained growth in manufacturing activity.
- Increased allocation for the Production Linked Incentive Scheme (PLI) in the Interim Union Budget FY25 is expected to further boost the manufacturing sector by encouraging domestic production.

PMI Manufacturing remains in an expansionary zone



Source: IHS Markit

Growth in Index of Industrial Production

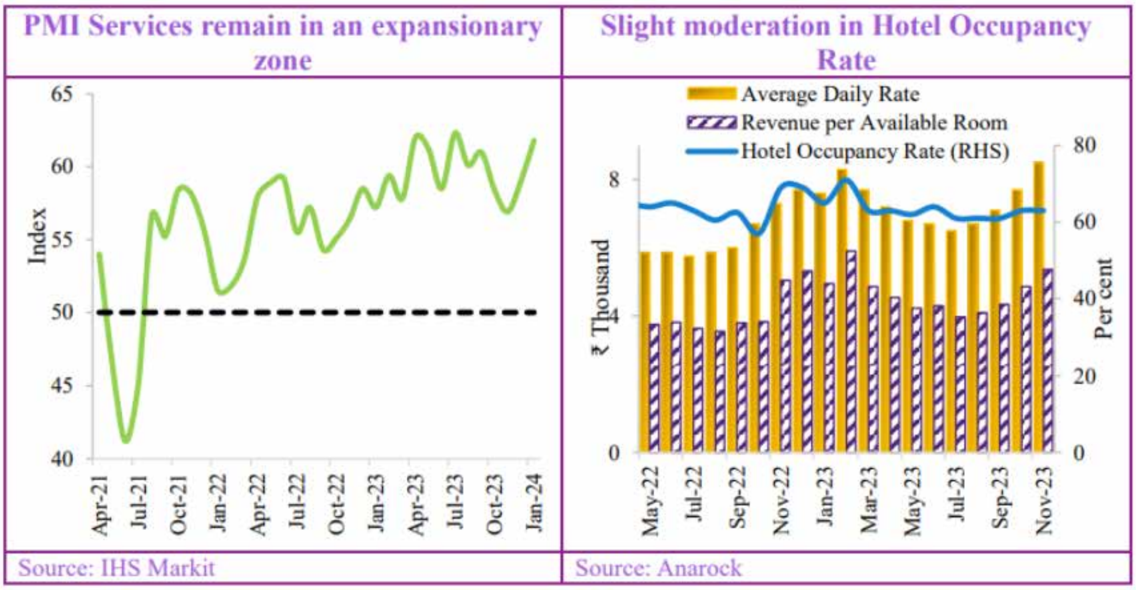


Source: MoSPI

- Services PMI reflects robust performance, expanding for the last 30 months, driven by demand, productivity gains, and new work.
- Upbeat sentiment in the services sector, propelled by an upswing in tourism, business travel, and social events.
- Tourism is vital in strengthening contact-intensive activities, benefiting the hotel industry and the broader hospitality sector.
- Foreign tourist arrivals in India are rising and expected to surpass pre-pandemic levels.
- Despite declining Hotel Occupancy Rate, there's a consistent rise in the average daily rate and revenue per available room.

- Budget proposals for tourism, infrastructure, ports, construction, and technology aim to create employment opportunities in these sectors.

- Measures include encouraging states to develop iconic tourist centres comprehensively and providing long-term interest-free loans for state development financing.



PMI Services remain in an expansionary zone

Source: IHS Markit

Slight moderation in Hotel Occupancy Rate

Source: Anarock

Initiatives to Boost the Green Energy Sector

- Interim Budget introduces a rooftop solarisation scheme, providing one crore households with up to 300 units of free electricity monthly.

- Budget proposals include Voluntary gap funding (VGF) for offshore wind energy, coal gasification and liquefaction capacity of 100 MT by 2030, mandatory blending of compressed biogas (CBG) in CNG and PNG, and financial assistance for biomass aggregation machinery.

- Initiatives aim to accelerate the transition to clean energy sources and promote green growth.

- A new scheme for bio-manufacture and bio-foundry was proposed, focusing on environment-friendly alternatives like biodegradable polymers, bioplastics, biopharmaceuticals, and bio-agri-inputs.

- Bio-manufacturing and bio-foundry schemes support the 'Waste to Wealth' mission and reflect a holistic approach to green growth.

- The government proposes greater adoption of e-buses for public transport, encouraging through a payment security mechanism.

- Emphasis on increasing support for charging infrastructure aims to improve the adoption of e-buses, with CRISIL Ratings expecting penetration to double to around 8% by FY25 from 4% in FY23.

External Sector Recovering

- During the first ten months of FY24, merchandise exports and imports contracted by 4.9% and 6.7%, respectively.

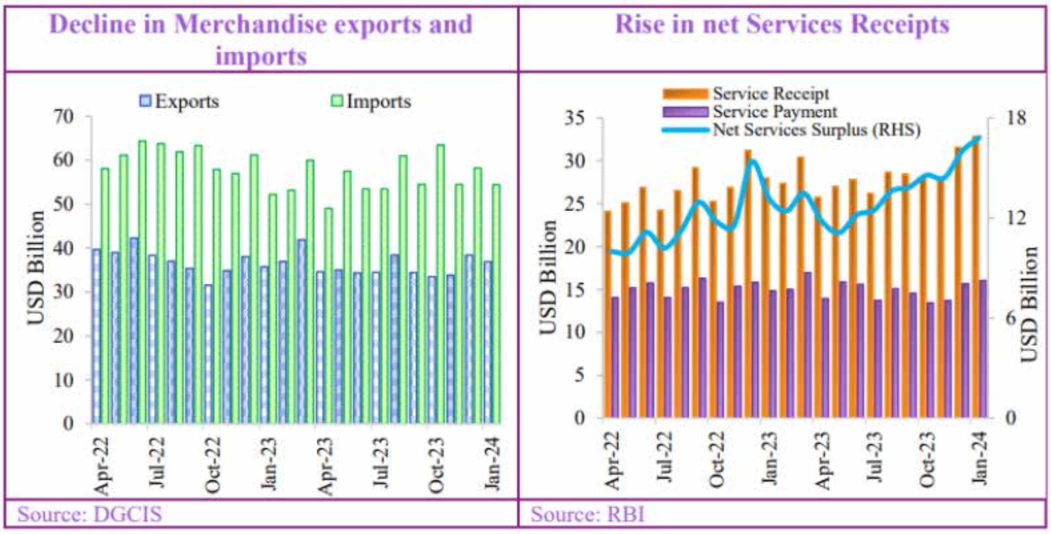
- Merchandise trade deficit narrowed from US$ 229.4 billion (April 22-January 23) to US$ 207.2 billion (April 23-January 24).

- Exports declined across all categories except electronic goods, leading to a broad-based contraction.

- Net service trade during April 23-January 24 increased by 16.5%, contributing to a decline in India's overall trade deficit (Merchandise and Services combined) from US$ 112 billion (first ten months of FY23) to US$ 70.4 billion (corresponding period of FY24).

- Trade facilitation efforts yield positive results, with import release time declining in 2023 by 47% to 71 hours at Inland Container Depots, 28% to 44 hours at air cargo complexes, and 27% to 85 hours at seaports since 2019.

- RBI Bulletin (January 2024) suggests brighter prospects for global capability centres (GCCs) and increased data centre capacity, potentially spurring service exports from India in the coming year.



- Latest RBI data shows a 26.5% moderation in direct investments to India during April-November 2023, driven by a 28.7% repatriation growth.

- Monthly FDI data indicates a 12.3% improvement in gross inflows and a 134.7% rise in net direct investments (excluding repatriation) in November 2023 compared to November 2022.

- Foreign Portfolio Investors (FPI) turned net buyers in Indian markets in FY24 (up to February 16, 2024), with inflows reaching US$ 33.3 billion, a reversal from the previous year's outflow of US$ (-)5.5 billion.

- Economic growth, strong macroeconomic fundamentals, positive business sentiments, and low volatility in the Indian rupee contribute to boosted portfolio inflows.

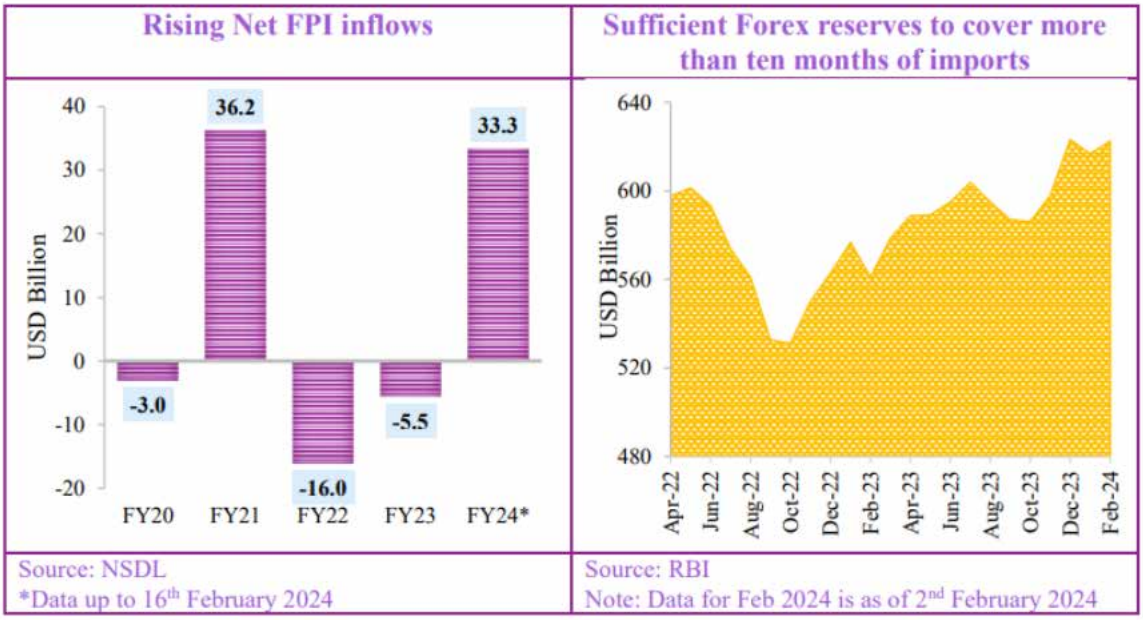
- Despite being net sellers of Indian equities in 2024, FPI inflows remain positive.

- The Indian rupee depreciates by 0.7% against the US$ between April 2023 and February 7, 2024, compared to an 8.6% depreciation in the corresponding period of the previous year.

- India's exchange rate performance against various currencies positions the rupee as one of the strongest during FY24 (up to February 2024).

- As of February 2, 2024, India's foreign exchange reserves stand at US$ 622.5 billion, covering 11 months of projected imports for 2023-24 and 97% of total external debt outstanding as of September 2023.

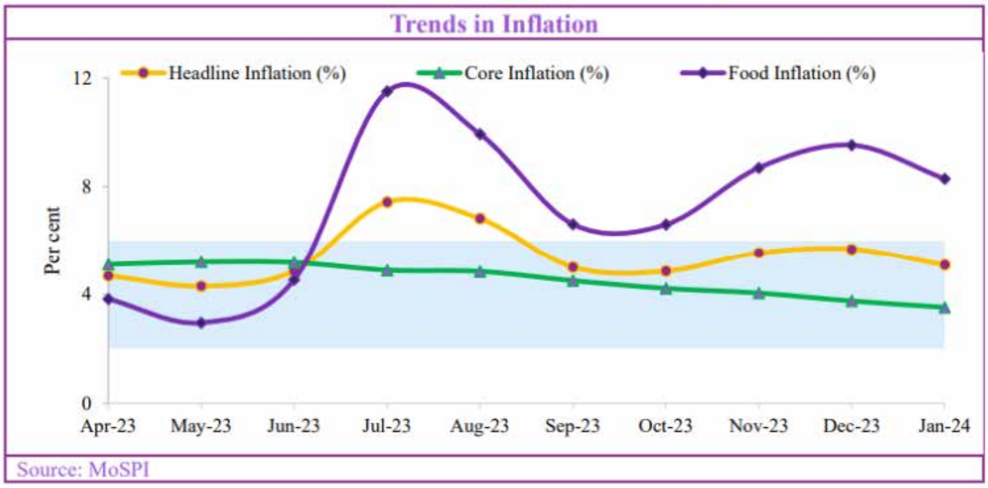
- The World Bank projects India to remain the largest recipient of remittances globally, with an estimated US$ 135 billion in inward remittances in 2024, reflecting an 8% increase. India's share in global inward remittances is approximately 15%.



Source: NSDL
*Data up to 16th February 2024
Source: RBI
Note: Data for Feb 2024 is as of 2nd February 2024

Retail inflation within the target band

- Retail inflation dropped to a three-month low of 5.1% in January 2024.
- The decline in inflation is attributed to both the food and core (non-food, non-fuel) components.
- Core inflation has declined for eight consecutive months, falling from 5.2% in May 2023 to 3.5% in January 2024.
- Food inflation, although reduced compared to the previous two months, requires further decrease.
- Most food items experienced a decline in inflation in January 2024.
- Overall, inflationary pressures moderated in the first ten months of FY24, with retail inflation easing to 5.4%, compared to 6.8% in FY23.



- The fiscal deficit for FY25 was budgeted at 5.1% of GDP, reduced from 5.8% in FY24 (RE).
- Reduction attributed to reprioritisation of expenditure and robust revenue collection.
- The government aims to decrease the fiscal deficit to 4.5% of GDP by FY26.
- Intention to reduce fiscal deficit enhances India's credibility in budgetary management.
- Expected positive impact on global investor confidence in the Indian economy.
- The central government's fiscal deficit during April-December 2023 is at 55% of the budget estimates (BE), lower than the 59.8% of BE during the same period in the previous year.
- Improvement attributed to higher-than-budgeted growth in tax collections and enhanced spending quality in the first three quarters of the year.
- Buoyant tax revenues allow for accommodating higher expenditure amidst supply-side volatilities.

- Direct tax collections grow by 23.2% (YoY) in April-December 2023, with income tax and corporate tax rising by 28.4% and 18.7%, respectively, indicating increased compliance, higher advance tax collections, and a broader tax base.

- Indirect tax collections increase by 4.2% (YoY), with GST collections to the Centre recording a growth of 9.2%.

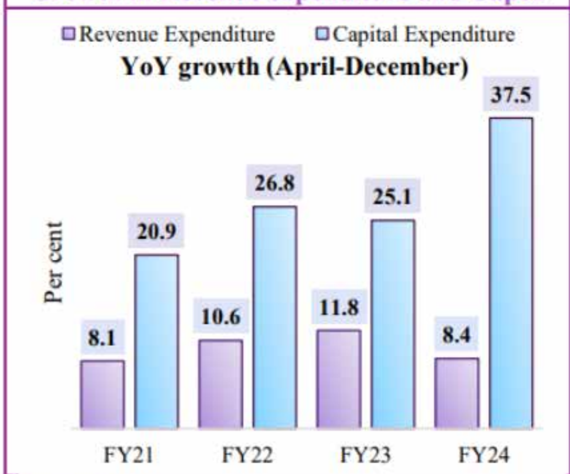
- Overall, gross tax revenue grew by 14.4% over a year ago.

- Non-tax revenue collection records a YoY growth of 45.8% during April-December 2023, driven by higher-than-budgeted surplus transfers from the RBI.

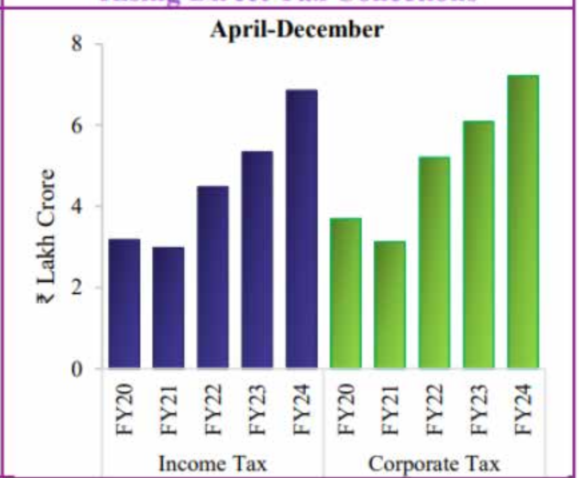
- Capital spending increased by 37.5% YoY in the same period, compared to 25.1% in the corresponding period of the previous year.

- The ratio of revenue expenditure to capital outlay falls from 8.6 in FY21 to 4.1 in FY24 (April-December), reflecting a marked improvement in the quality of government spending.

Growth in Revenue expenditure and Capex



Rising Direct Tax Collections



Source: CGA

- Capex budget allocation increases from INR 4.1 lakh crore in FY21 to INR 11.1 lakh crore in FY25, nearly tripling.

- Focused emphasis on capex-led growth expected to contribute to economic expansion in the upcoming years.

- Large budget allocation in the infrastructure sector is likely to attract private-sector partnerships for infrastructure development.

- Substantial increase in budget allocation for infrastructure sectors, including roadways, shipping, and railways.

- Infrastructure investments aimed at improving logistics efficiency and reducing overall economic costs.

- By November 2023, Union government disburses over INR 59,000 crore out of INR 1.3 lakh crore allocated for FY24.

- Central public sector enterprises (CPSEs) and other government agencies invest INR 5.5 lakh crore from April 2023 to December 2023 against their targeted capital expenditure of INR 7.3 lakh crore for FY24.

Rising employment driving growth prospects

- Quarterly Periodic Labour Force Survey (PLFS) shows a decline in the urban unemployment rate in Q3 of FY24 compared to the same period in the previous year.

- Urban unemployment rate drops from 7.2% in Q3 of FY23 to 6.5% in Q3 of FY24, indicating a shift towards inclusivity.

- The decline in unemployment is accompanied by an increase in the labour force participation rate (LFPR) and Worker to Population ratio (WPR).

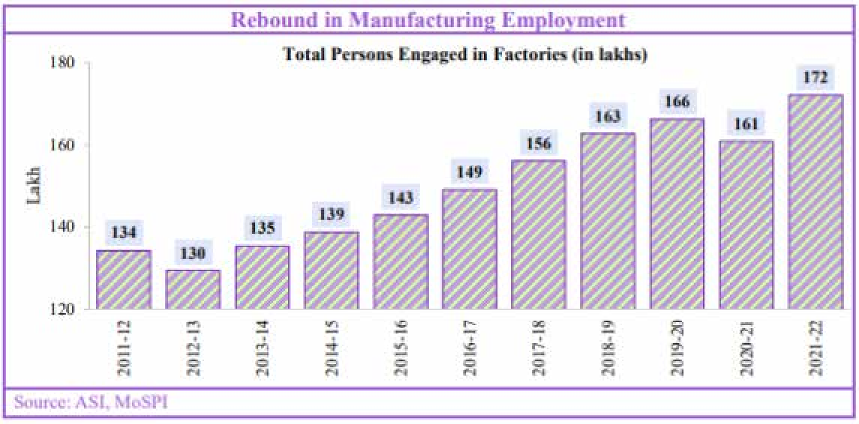
- LFPR rises from 37.9% to 39.2%, and WPR increases from 35.2% to 36.7% during the same period.

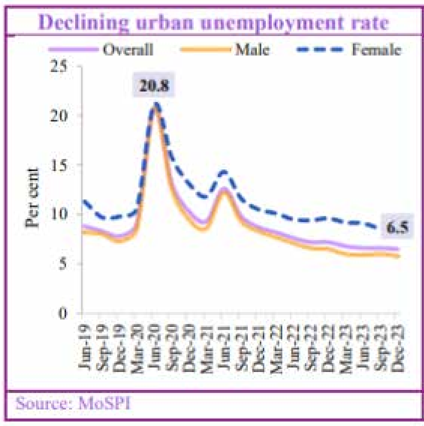
- Annual Survey of Industries results for 2021-22 highlights the resilience of the Indian manufacturing sector after the adverse effects of the pandemic in 2020-21.

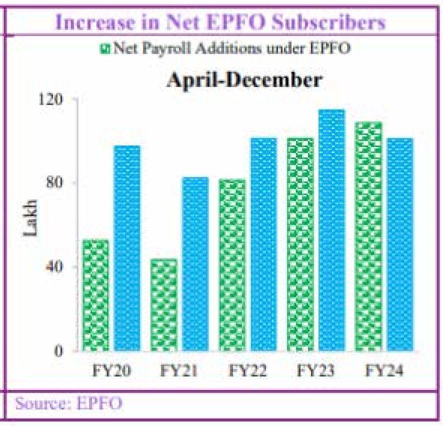
- Total estimated employment in the sector shows robust YoY growth of 7% in 2021-22, compensating for the marginal fall in employment in 2020-21.

- Estimated persons engaged in the sector in 2021-22 surpass the pre-pandemic level (2018-19) by more than 9.4 lakhs.

- Average emoluments register an increase, with the average salary per employee rising by 1.7% in 2020-21 and 8.3% in 2021-22 compared to previous years.







- High-frequency indicators show an improvement in overall employment across sectors in India.

- Robust growth was observed in formal sector jobs, reflected in a steep rise in the Employees Provident Fund Organisation (EPFO) subscription base in the first ten months of FY24.

- Expansion in EPFO subscription base accompanied by a decrease in exits, with net payroll addition under EPFO during April-December 2023 7.4% higher compared to the corresponding period of the previous year.

- Creation of digital identities like Aadhar, registration of unorganised workers on the e-ashram portal, and MSMEs on the Udyam portal promote formalisation of the economy.

- MSMEs registration on UDYAM Portal increased from 65 lakh in January 2021 to 2.3 crore as of February 9, 2024, a threefold increase.

- Job creation is evident in the manufacturing and services sector, with the PMI Manufacturing employment sub-index and PMI Services sub-index indicating increased opportunities.

- Government measures, including revising MSME definitions, Emergency Credit Link Guarantee Scheme (ECLGS), and Government e-marketplace (GeM), boost employment in the MSME sector.

- Total persons employed in MSMEs registered under the Udyam Registration Portal rose from 2.8 crore in July 2020 to 15.3 crore as of February 9, 2024, a 5.3 times increase.

- Naukri Job Speak Index for January 2024 shows a sequential expansion of 1%, with an 11% decline in YoY terms.

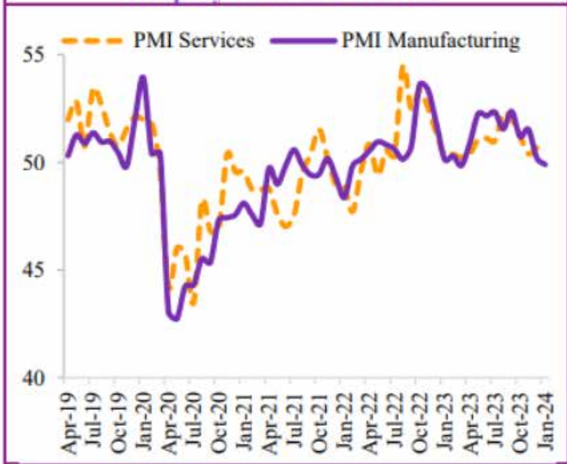
- High job growth was observed in the healthcare, hospitality, and FMCG sectors, while IT, BPO, and Telecom hiring declined.

- Increased demand for restaurant and service managers due to the ongoing domestic and international tourism boom.

- Positive hiring momentum in the FMCG sector driven by an uptick in demand in rural areas.

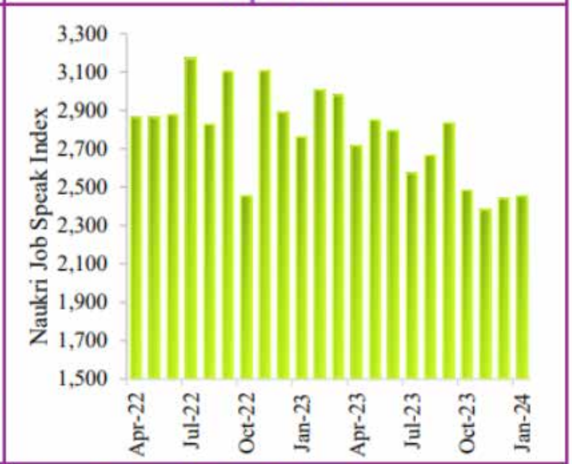
- Significant rise in AI-related jobs indicates changing skill requirements in the IT sector, with hiring for roles such as Machine Learning Engineer and Full Stack AI Scientist jumping YoY by 46% and 23%, respectively.

Continued expansion in PMI Employment sub-indices



Source: IHS Markit

Naukri Job Speak Index shows sequential expansion



Source: Naukri Job Speak Report

FUTURE OUTLOOK

The outlook for the Indian economy in FY25 appears promising, with the RBI forecasting a 7% growth in Real GDP and balanced risks. Factors such as prospects of healthy rabi harvesting, sustained manufacturing profitability, and service sector resilience are expected to bolster economic activity. On the demand side, anticipated improvements in household consumption and favourable prospects for capital formation, driven by a positive private capex cycle, improved business sentiments, and government emphasis on capital expenditure, contribute to the optimistic outlook. An improved global trade outlook and increased integration in the worldwide supply chain are also set to support net external demand. However, challenges from geopolitical tensions, supply chain disruptions, higher logistics costs, financial market volatility, and geoeconomic fragmentation pose potential risks. Notably, the average crude oil FOB price for the Indian basket remains lower than the previous fiscal year, and core inflation for FY24 is the weakest since FY21, factors that can positively influence output growth and export prospects amid lingering global uncertainties. Enhancing the competitiveness of India's exports remains a pressing and crucial consideration in the evolving economic landscape.

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