सत्यमेव जयते

Economic Diplomacy Division

Ministry of External Affairs

MONTHLY ECONOMIC REPORT

FEBRUARY 2024

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Introduction

Building on the momentum of the previous two quarters, India's economic growth surged to a six-quarter high in Q3FY24, exceeding 8% for the third consecutive time. Incorporating updated information, the higher second advance estimate for FY24 economic growth has fueled optimism about the economy. Non-governmental expert agencies have also revised their growth projections upwards. Steady consumption and robust investment activity drive growth, with public investment crowding in private investment. Strong aggregate demand stimulates manufacturing, construction, and related professional, financial, and real estate services.

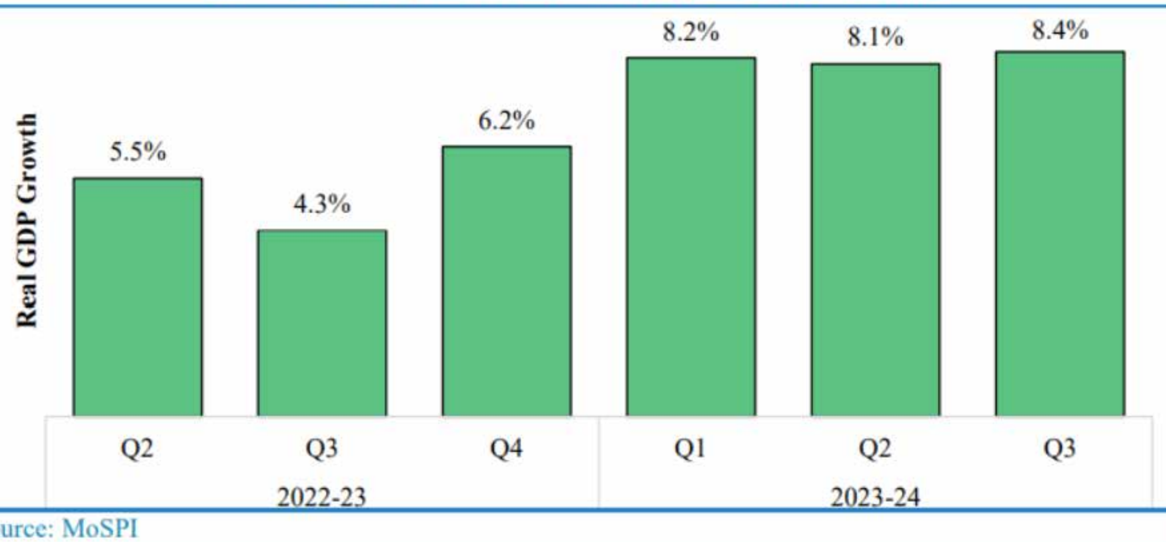
India's external account remains stable despite persistent geopolitical challenges. The narrowing merchandise trade deficit, fueled by declining international commodity prices, is notable. Services exports are robust, contributing to increased net services receipts. Foreign portfolio investors turned net buyers in February, reflecting confidence in India's strong macroeconomic fundamentals, although foreign direct investment inflows are awaiting momentum. India remains among the top 5 destinations for global greenfield projects, with a stable number of new project announcements.

Retail inflation has remained stable within the target range for the sixth month. Core inflation continues to decline due to strong domestic growth and favourable global commodity prices. Government-led supply-side measures have also contributed to price stability.

Continuing growth momentum

- FY24 GDP growth estimate revised from 7.3% to 7.6% in second advance estimates.
- India sustained growth above 8% for three consecutive quarters, showcasing resilience amid the global slowdown.
- Multiple agencies align growth estimates for FY24 closer to 8%, echoing positive sentiment.
- SBI Research and Moody's expect FY24 GDP growth at 8%, while Fitch and Barclays predict 7.8%.
- CSO's 7.6% GDP estimate implies 5.9% growth for Q4 FY24, likely an understatement considering ongoing economic momentum.

Indian economy witnesses strong growth momentum



Source: MoSPI

Growth backed by resilient investment

- Gross Fixed Capital Formation (GFCF) grew by 10.2% in FY24 and 10.6% in Q3 FY24, driven by the government's capex thrust crowding in private investment.

- Share of GFCF in GDP rose from 29.6% in FY22 to 31.3% in FY24, indicating broad-based investment growth.

- The government's effective capex is expected to reach 4.6% of GDP in FY25, a significant increase from 2.6% in FY20, fostering private sector investment.

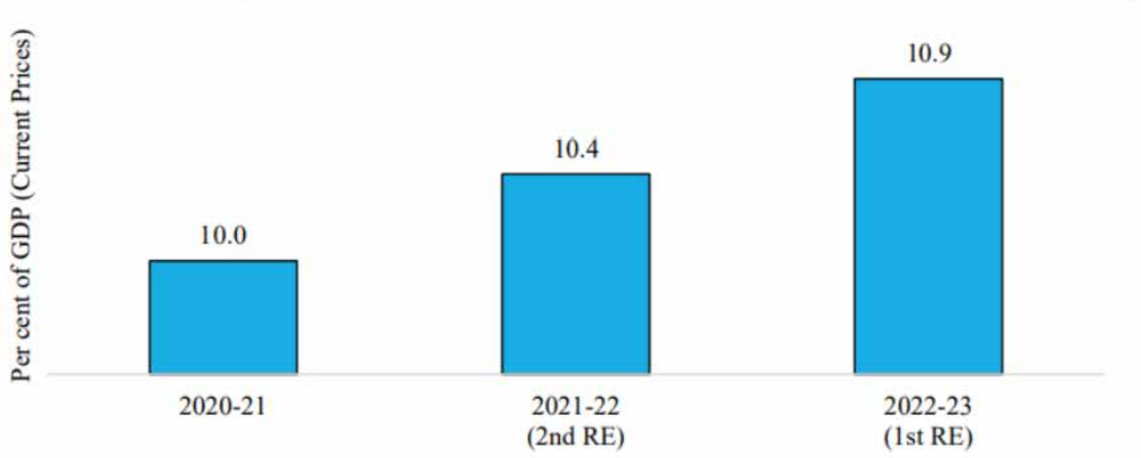
- RBI's State of the Economy report highlights the government's capex crowding in private investment, driven by high corporate profitability and fixed asset creation.

- The government approves the "India AI Mission" with an INR 10,300 crore budget to catalyse AI innovation through public-private partnerships. The mission will focus on computing infrastructure, indigenous capabilities, talent attraction, and start-up financing.

- Emphasis on addressing chip manufacturing and GPU costs to incentivise private sector and start-up investments in AI, semiconductors, and technology capabilities.

- The government's focus on infrastructure and technology is expected to propel India's technological innovation and strengthen its global supply chain position.

Strengthening Investment by the Private Corporate Sector



Source: MoSPI

Private Consumption

- Steady consumption demand supported by resilient urban demand conditions.

- Forecast of a normal monsoon in FY25 expected to strengthen recovery in rural consumption demand.

    0 Urban demand strengthening evident through rising:
    0 Passenger vehicle sales
    0 Housing sales
    0 Domestic air passenger traffic
    0 Digital payments
    0 Consumer confidence

- Domestic passenger vehicle sales increased by 25.7% YoY in FY24 (April-Feb) and 25.8% YoY in Q3 FY24, reflecting consumer spending on durables.

- Air passenger traffic grew by 9% YoY in Q3 FY24.

- UPI transactions volume surged by 54.4% YoY in Q3 FY24, enhancing financial flexibility for consumers and easing spending avenues.

Strong Manufacturing and Construction sector Growth

- The manufacturing sector saw double-digit growth in Q3 FY24, driven by increased investment, improved investor confidence, and strong domestic demand.

- India's manufacturing PMI hit a five-month high of 56.9 in December 2023, supported by new orders and favourable demand conditions.

- Volume indicators like the Index of Industrial Production and Index of Eight Core Industries grew by 5.8% and 8.4% in Q3 FY24.

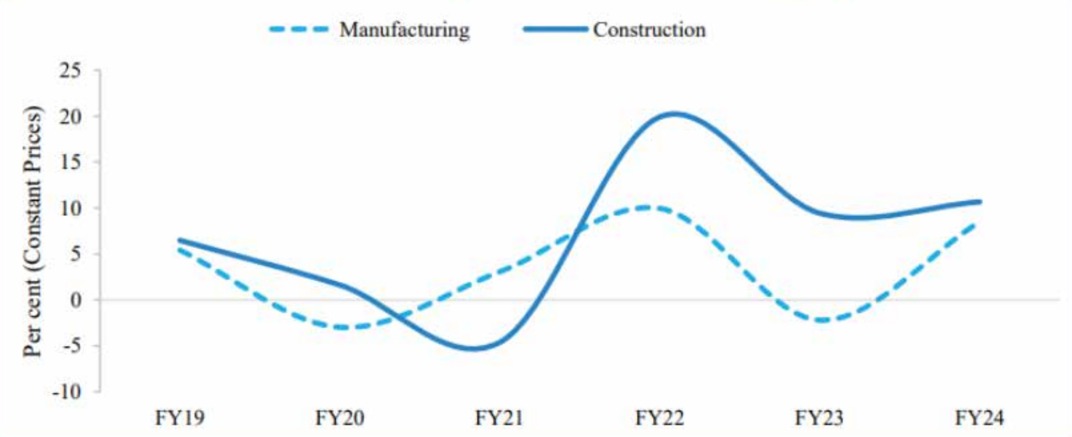
- The construction sector's contribution to overall GVA increased in Q3, with robust cement and steel production growth indicating sustained construction activity.

- Government interventions and increased demand for residential properties in tier-2 and tier-3 cities are expanding the construction sector's market.

- Infrastructure investment initiatives like GatiShakti and the National Infrastructure Pipeline are boosting demand for construction.

- The Indian housing market witnessed significant growth in sales and new house launches in 2023 despite rising home prices and interest rates, with housing sales up by 31% to 4.77 Lakh Units in the top seven cities, according to Anarock.

Construction and Manufacturing sectors continue to be major growth drivers

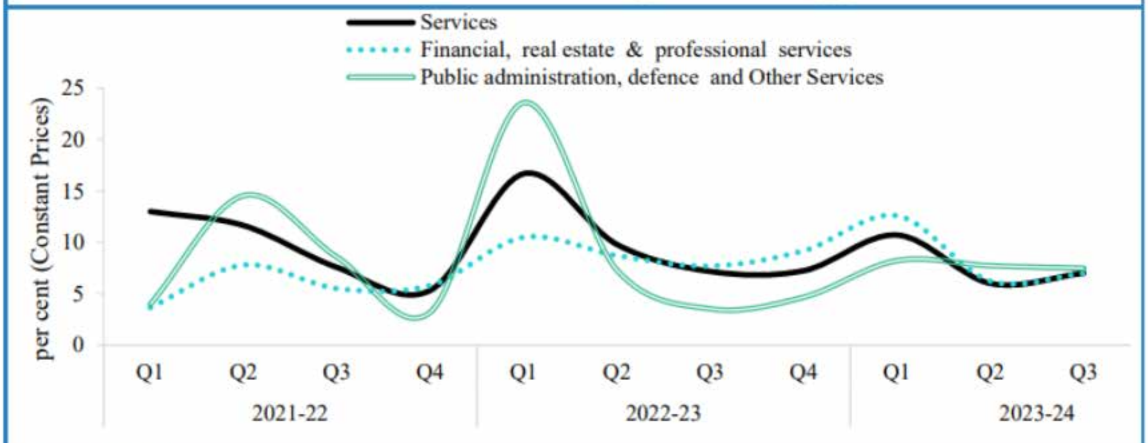


Source: MoSPI

Service Sector Growth Driven by non-Contact Intensive Services

- FY24 witnessed robust growth in services, primarily driven by non-contact-intensive sectors.
- The Non-contact-intensive services sector grew by 7.2% in the quarter ending December 2023.
- The services sector maintained growth momentum in Q3 FY24, with a 7% YoY growth and 7.8% growth from April to December 2023.
- In non-contact intensive services, 'financial, real estate & professional services' and 'public administration, defence and other services' grew by 7% and 7.5% in Q3 FY24.
- High-frequency indicators like PMI services stood at 60.6, expanding for 31 consecutive months, driven by new business orders and improved future activity prospects.

Non-contact intensive sectors registered strong growth

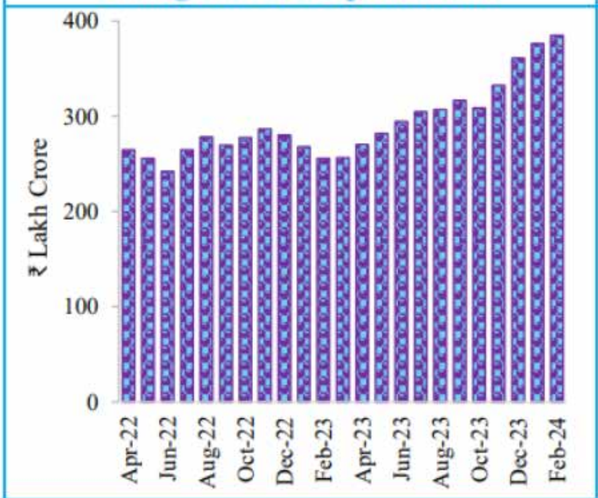


Source: MoSPI

India's capital markets stand out amidst difficulties.

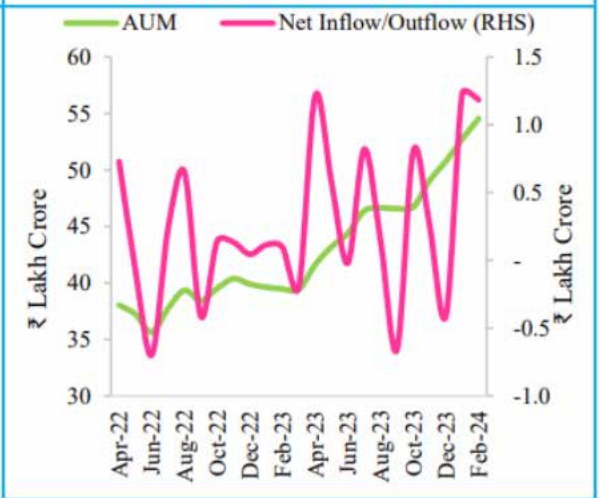
- Indian capital markets have remained strong in FY24 despite geopolitical risks, rising interest rates, and volatile commodity prices.
- Corporates raised INR 98,112 crore (equity + debt) in the primary market in the first eleven months of FY24, surpassing the previous financial year.
- 345 companies were listed on stock exchanges from April 2023 to February 2024, 179 of which were SMEs raising INR 5,381 crore.
- Surge in demat accounts with over 43.5 lakh opened in February 2024, a 38.6% increase from the previous year, especially notable in tier II and III cities.
- Total demat accounts now stand at 14.8 crore, a 31.7% increase from a year ago.
- Mutual funds' assets under management grew by 38.2% YoY in February 2024, with the total number of folios reaching 17.4 crore.
- Mutual funds witnessed net inflows of INR 5.1 lakh crore in the first eleven months of FY24, compared to INR 0.95 lakh crore in the previous year, driven by SIPs and increased investment from B30 cities.
- According to Bloomberg, India became the fourth largest equity market in January 2024, surpassing Hong Kong's stock market capitalisation.
- Strong corporate profitability, a steadily expanding base of individual investors, and solid domestic macroeconomic fundamentals are contributing factors.

Rising Market Capitalisation



Source: NSE

Growth in Mutual Funds



Source: SEBI

Moderation in the value of imports led to an improvement in the trade deficit.

- Geopolitical challenges have impacted India's external sector, with slower growth in key trading partners like Europe reducing demand for Indian exports.
- Global commodity prices have declined from post-Ukraine conflict highs, offering some relief.

- Import volumes have increased significantly, driven by sustained domestic demand fueled by India's growing economy, despite the overall value of imports decreasing due to falling international commodity prices.

- India's services exports have steadily increased, leading to a rise in net services receipts.

- Expectation of a narrowing merchandise trade deficit, along with rising net services receipts, is anticipated to improve the current account deficit in the future.

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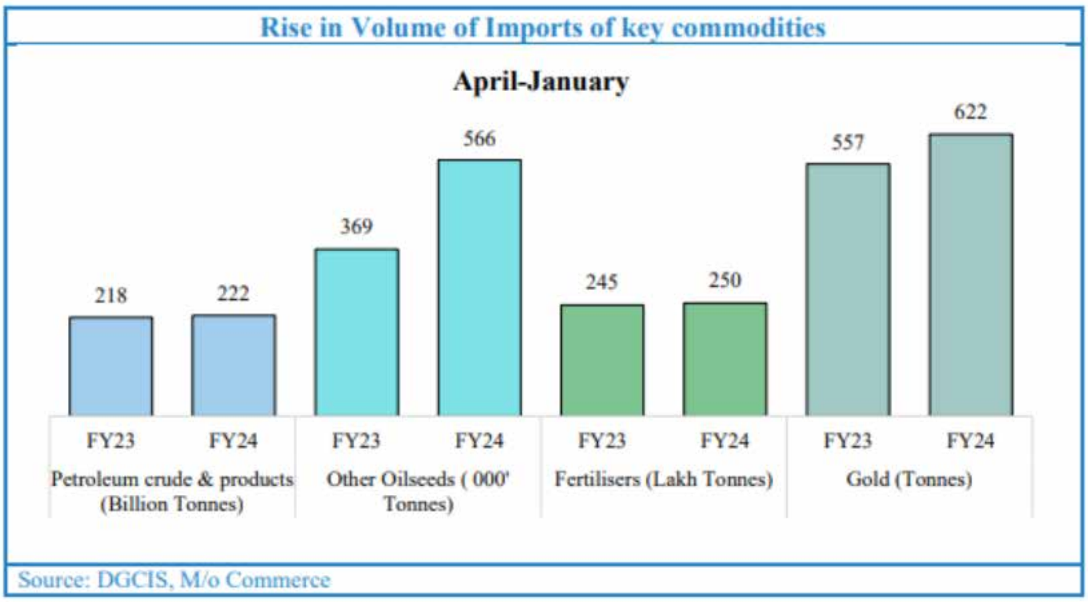
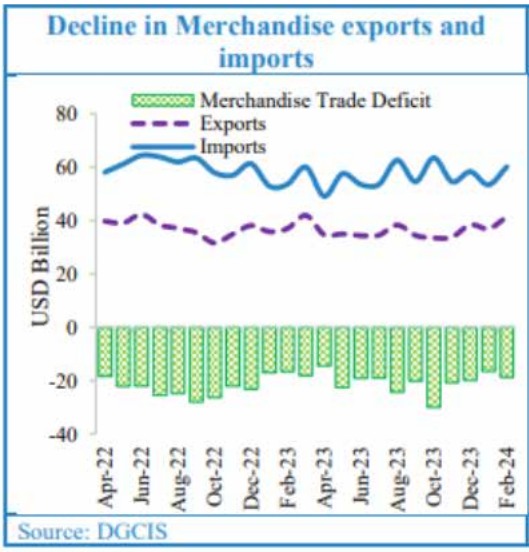
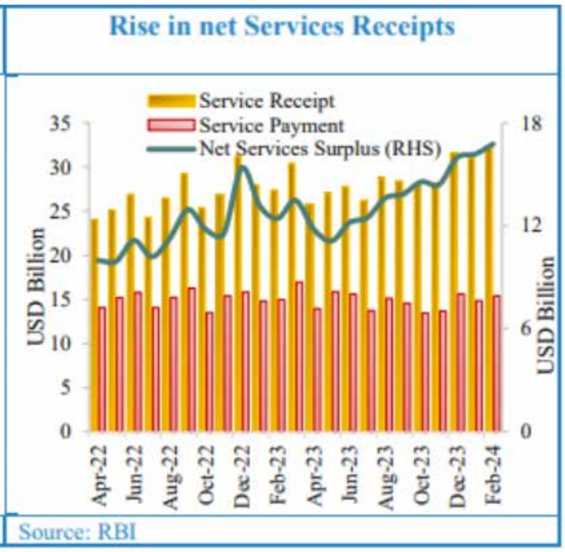
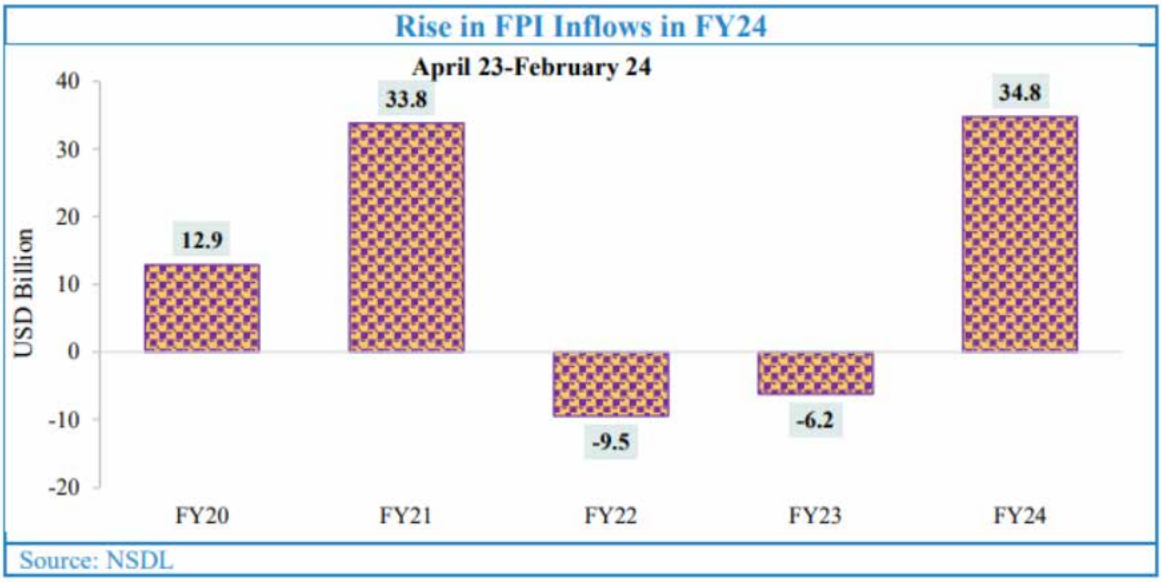






Foreign portfolio investors became net buyers in February 2024

- Foreign portfolio investors (FPIs) became net buyers in February 2024, driven by increased US Treasury yields, resulting in US$ 3.8 billion in inflows.
- FY24 (April- February) saw the highest cumulative FPI inflows in the past five years, with equity being the most preferred asset class, followed by debt.
- Notable inflows were observed in sub-sectors such as capital goods, automobiles and auto components, consumer services, financial services, and healthcare.
- The surge in FPI inflows can be attributed to India's strong macroeconomic fundamentals, high economic growth, and favourable business environment.
- Debt flows made a strong comeback in FY24, reaching US$14.2 billion, according to NSDL data, the highest level in seven years.



- Rising FPI inflows and a declining current account deficit (CAD) have increased India's foreign exchange reserves.

- As of 8th March 2024, India's forex reserves stand at US$ 636 billion, providing an import cover of 11 months and over 95% of the outstanding external debt.

- India now holds the fourth-largest foreign exchange reserves globally.

- Forex reserves have increased by US$40.6 billion in FY24 so far, marking the highest increase among major foreign exchange reserve-holding countries.

Geopolitical Disruptions Impacting India's Foreign Direct Investment

- Global FDI in 2023 reached approximately US$ 1.4 trillion, marking a 3% increase over 2022. However, economic uncertainty and higher interest rates affected global investment, with FDI flows to developing countries declining by 9%.

- International investment project announcements, including greenfield projects and cross-border mergers and acquisitions, contracted in 2023 due to higher financing costs.

- Capital-intensive projects, especially in renewable energy, batteries, and metals sectors, drove global FDI in 2023, highlighting the importance of energy transition.

- The Greenfield foreign investment tracker recorded an all-time high of 174 FDI projects valued at US$1 billion or more in 2023, dominated by energy companies, battery firms, and semiconductor industries.

- FDI inflows to India dipped slightly from April 2023 to January 2024, with gross FDI inflows totalling US$59.5 billion compared to US$61.7 billion in the same period last year.

- Around 65% of FDI equity inflows in India were received in the services, drugs and pharmaceuticals, construction, and non-conventional energy sectors, with the Netherlands, Singapore, Japan, the USA, and Mauritius accounting for around 70% of total FDI equity inflows.

- Despite the drop in FDI inflows, India maintained its position in the top 5 global greenfield project destinations, reflecting stable new project announcements.

- Global FDI flows are expected to modestly increase in 2024, supported by a decline in inflation and borrowing costs. However, geopolitical risks, high debt levels, and economic concerns pose significant risks.

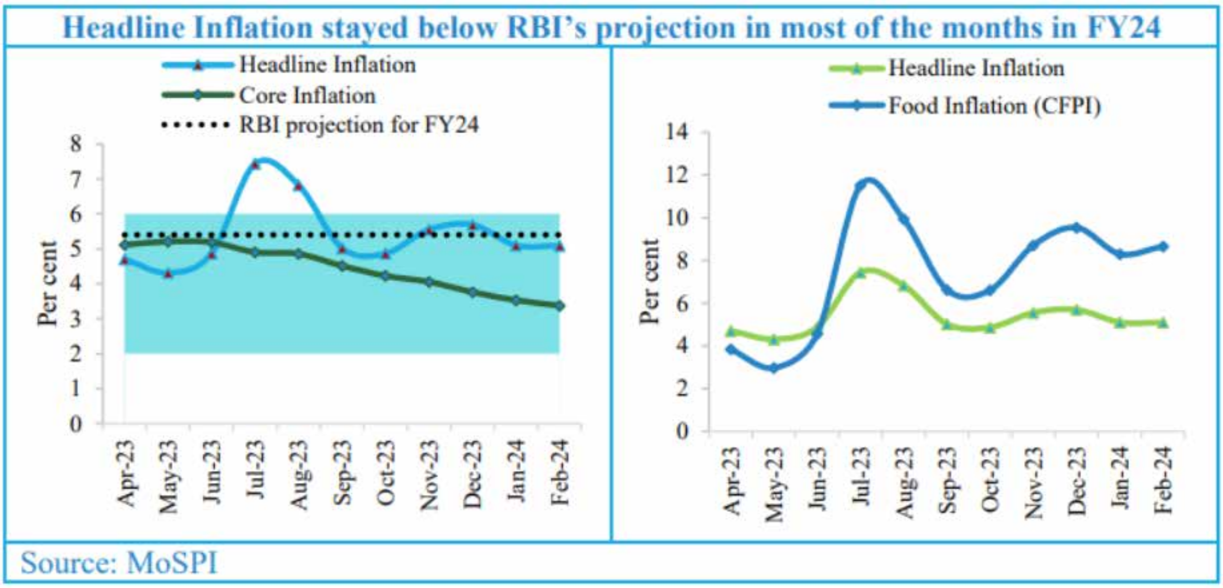
Retail Inflation in February remains range-bound

- Retail inflation has remained within the RBI's 2 to 6% tolerance range for the sixth consecutive month.

- Headline inflation remained essentially unchanged at 5.1% in February.

- Moderation in core inflation (non-food, non-fuel) continues to contribute to inflation control.

- Throughout FY24 (April-February), inflation averaged 5.4%, lower than the 6.8% recorded in the corresponding period of FY23.



- Despite price volatility in specific food items, headline inflation remained below 6% throughout the year, except in July and August 2023.

- Inflation moderated mildly across all groups in the core CPI basket in February, including clothing, footwear, housing, household goods & services, health, transport and communication, recreation and amusement, education, personal care and effects.

- Edible oils and fuel & light continued in the deflationary zone. At the same time, cereals, milk, fruits, spices, pulses, non-alcoholic beverages, prepared meals, snacks, and sweets recorded a fall in inflation compared to January.

- Spices and cereals experienced the lowest inflation since August 2022. However, inflation in some non-vegetarian items and vegetables increased.

- Declining global commodity prices contributed to the moderation in domestic core inflation, which declined from 6.1% in FY23 to 4.4% in FY24 (April-Feb) and continued to fall for the 9th consecutive month in February 2024.

Future Outlook

India's robust economic performance shines amidst sluggish global growth. Recent data indicates vigorous investment activity alongside strengthening private consumption demand, which is evident from indicators like rising air passenger traffic, increased sales of passenger vehicles, digital payments, and enhanced consumer confidence. Expectations of a normal monsoon further boost confidence.

Increased demand for residential properties in tier-2 and tier-3 cities signals promising prospects for construction activity. The revival of non-farm employment indicates an improved capacity to absorb labour transitioning from agriculture. The manufacturing sector's employment growth is anticipated to be significant, driven by enterprise upscaling and emerging sunrise sectors creating quality jobs.

The inflation outlook for India is positive, with core inflation showing a downward trend, reflecting broad-based moderation in price pressures. Summer sowing is expected to alleviate food prices. The narrowing merchandise trade deficit and rising net services receipts bode well for the current account balance in FY24. However, FY25 will warrant monitoring the current account deficit, requiring an increase in domestic household savings to finance private sector capital formation.

Improving global investor confidence in India is reflected in foreign portfolio investment flows. Bloomberg's announcement of India's inclusion in its bond index from January 2025 is expected to boost inflows further, supported by the government's demonstrated fiscal prudence. Bond investors will assess investment decisions based on perceived persistence. Overall, India looks optimistically towards FY25.

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