सत्यमेव जयते

Economic Diplomacy Division

Ministry of External Affairs

MONTHLY ECONOMIC REPORT

MARCH 2024

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Introduction

The global economy is showing signs of recovery, with significant economies rebounding from the fear of recession. Although regional disparities and geopolitical tensions remain, leading indicators suggest an overall increase in economic activity driven by growth in the manufacturing and service sectors. This softening of risk perceptions offers a potential upside for global growth.

Against this backdrop, India's economy remains resilient, driven by strong domestic demand, rural consumption, robust investment, and sustained growth in manufacturing. Projections by RBI and IMF indicate high growth rates, supported by record-breaking stock market performance, remarkable GST collections, and a substantial increase in the manufacturing and services sectors in March 2024. Improved consumer and investor sentiment further enhances India's ability to navigate global challenges successfully.

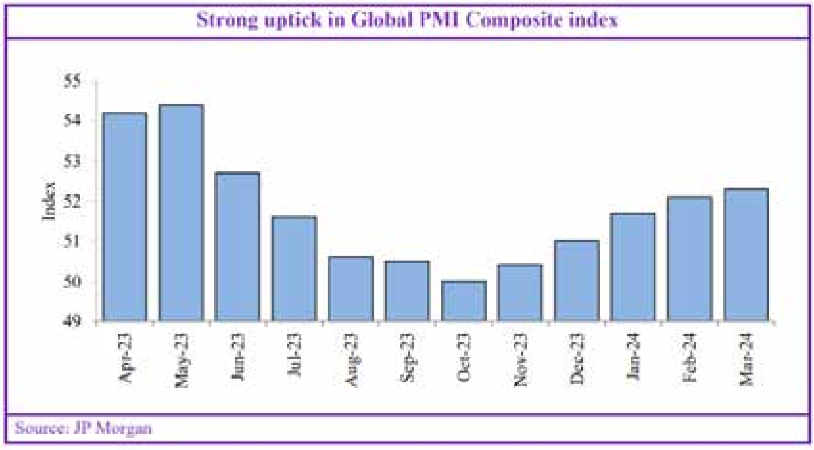
Inflation management is a global priority, and India has witnessed a significant decline in retail inflation in FY2023-24, reaching its lowest level since the pandemic. The RBI's Monetary Policy Committee has maintained policy rates, aiming to align inflation with its target of 4% on a durable basis. Geopolitical conflicts and potential domestic weather shocks pose risks, with CPI inflation projected at 4.5% for FY2024-25.

Global trade contracted in 2023, which impacted India's merchandise exports and imports. However, resilient non-petroleum and non-gems & jewellery merchandise exports and robust services exports contributed to a narrowing merchandise trade deficit in FY2023-24. India's current account deficit improved in the first nine months of FY2023-24 compared to the previous year.

India saw a significant turnaround in capital inflows in FY2023-24, leading to record-high foreign exchange reserves in March 2024, covering 11 months of projected imports and more than 100% of total external debt.

Global economy: Strong rebound, but uncertainties persist.

- The global composite PMI indicates an upturn in economic activity, with the manufacturing and service sectors showing quicker expansion in March 2024.
- Global manufacturing PMI reached a 21-month high in March 2024, reflecting broad-based growth across major economies.
- US GDP grew at a 3.4% annualised rate in Q4: 2023, while Japan's growth improved to 1.2% during the same period.
- The UK's monthly Real GDP grew by 0.1% in February 2024, driven by manufacturing expansion following January's 0.3% growth.
- Emerging Market Economies (EMEs) such as Indonesia, Russia, and Brazil experienced robust growth.
- Manufacturing PMI hit twenty-two and ten-month highs in the US and China, respectively.
- Global Services PMI spiked since July 2023, with financial service providers experiencing a significant upturn.
- Global composite PMI reached 52.3 in March 2024, the highest since June 2023, with increased new orders, new export orders, and business optimism at a nine-month high.



- Geopolitical Risk Indicator dropped in February 2024 after rising since March 2023, signalling reduced risk perceptions and potential growth upside.

- Pressure on global supply chains has eased, reducing logistical challenges.

- Forward-looking indicators indicate optimism and improving sentiments.

- Inflationary pressures have been contained, with recent months seeing lower-than-anticipated inflation in major economies such as the Eurozone, China, and Mexico.

- However, a slight uptick in inflation was registered in March 2024, particularly in the USA, the UK, Indonesia, and South Africa.

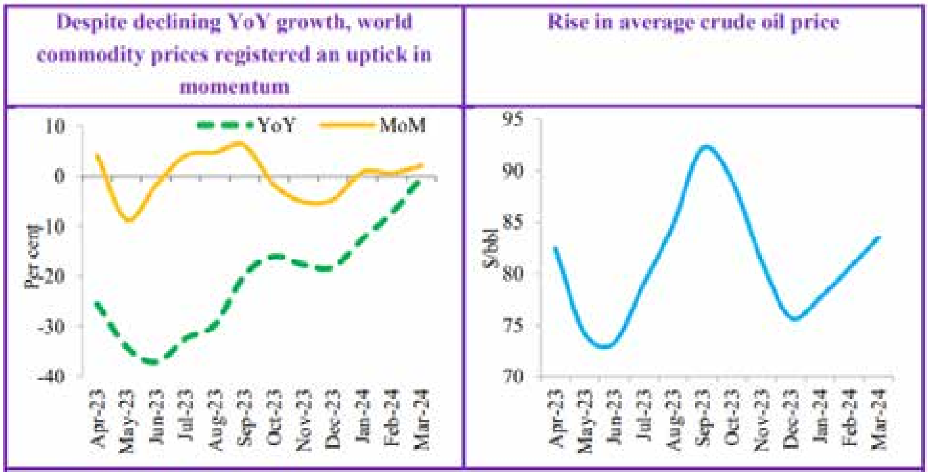
- US CPI inflation in March 2024 rose to 3.5% year over year, driven by increases in shelter and energy components.

- UK CPI inflation in February 2024 increased to 3.4% year-on-year, with upward pressure from housing and household services.

- Global commodity prices increased in March 2024, driven by both Energy and Non-Energy commodities.

- Crude oil prices have increased due to tensions in West Asia and OPEC+ supply constraints until mid-2024, alongside growth prospects in the USA and recovery signs in China.

- Food prices rose in March due to increasing vegetable oil prices, driven by seasonal drops in output and strong demand in Southeast Asia.



Source: World Bank, Pink Sheet Data.
Note: Crude oil price is the average of Brent Crude, WTI Crude and Dubai Crude

- IMF's World Economic Outlook (WEO) April 2024 report projects global growth to remain steady at 3.2% in 2024 and 2025, slightly up from 3.1% in January 2024.
- Slow expansion was attributed to high borrowing costs, withdrawal of fiscal support, and the ongoing impact of conflict in Europe.
- Weak productivity growth and increasing geoeconomic fragmentation contribute to the cautious outlook.

India remains a bright spot in the revival of the global economy.

- International organisations highlight India's pivotal role in Asia's growth trajectory.
- RBI projects real GDP growth for 2024-25 at 7%, driven by rural demand pickup and manufacturing sector momentum.
- WEO forecasts India's growth at 6.8% in 2024-25 and 6.5% in 2025-26, citing strength in domestic demand and rising working-age population.
- Consumer and investor perceptions reflect optimism about growth prospects.
- Consumer confidence survey shows notable improvements in sentiments regarding the general economic situation and employment prospects.
- The manufacturing sector is expected to maintain momentum due to sustained profitability and pickup of rural demand.

India's Business Renaissance: Sparking Growth and Optimism

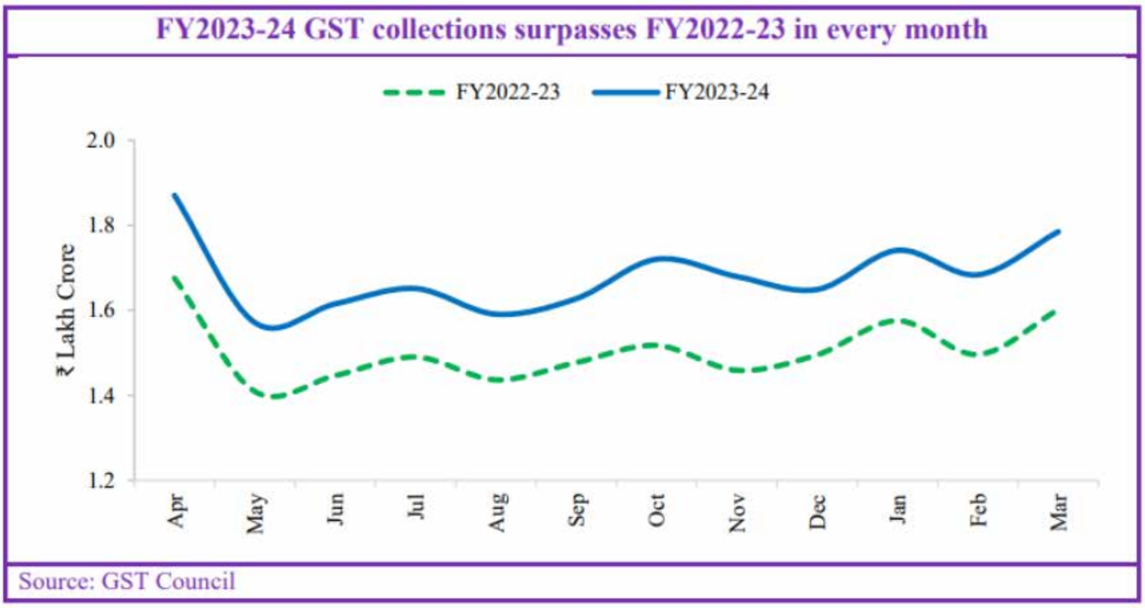
- March 2024 saw a surge in multiple economic indicators in India, reflecting robust business activity.
- Record-breaking performances observed in the stock market and remarkable advancements in tax revenue collection.
- Buoyancy extended to the manufacturing and services sectors, with soaring HSBC India Manufacturing PMI and Services PMI.

- Both sectors experienced substantial growth in output, new orders, and employment amidst solid demand and favourable market conditions.

- Gross GST collection for March 2024 hit a record high, driven by a surge in domestic transactions, indicating a buoyant domestic economic landscape.

- Steady rise in average monthly GST collections throughout the year underscores robust growth and economic recovery.

- The uptick in GST collections reflects robust compliance and signifies an expansion in GST's scope to cover a broader spectrum of economic activities.



- March 2024 marked a significant milestone in India's tax revenue landscape, especially in GST collections, reaching INR 1.78 lakh crore.

- This reflects an impressive 11.5% year-on-year growth, highlighting the economy's robust health.

- The surge in GST collection from domestic transactions, with a remarkable 17.6% increase, drove this growth momentum.

- GST revenue net of refunds for March 2024 amounted to INR 1.65 lakh crore, indicating an 18.4% expansion compared to the previous year.

- HSBC India Manufacturing PMI surged to 59.2 in March 2024, a notable increase from the previous month's final figure of 56.9.

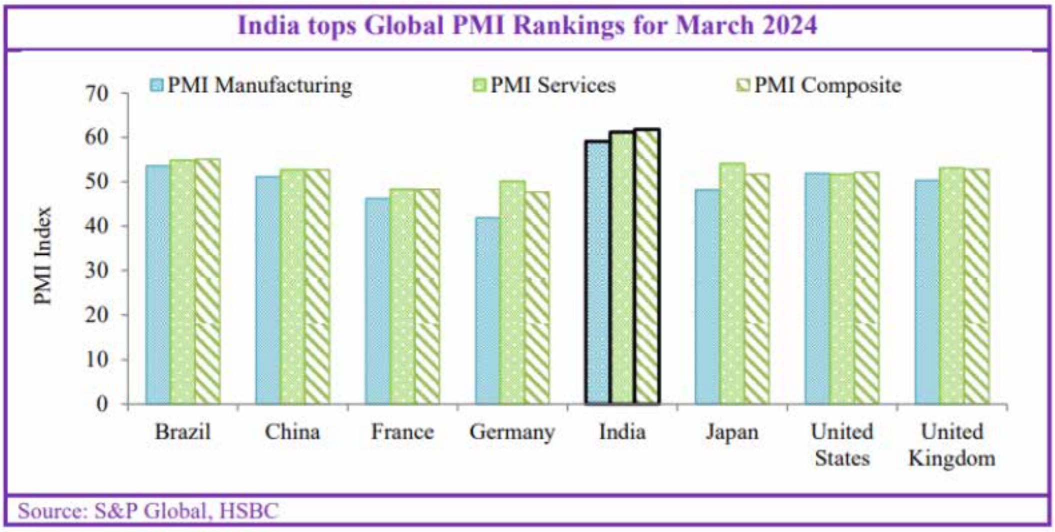
- Robust demand drove this upswing, marking the fastest growth in factory activity since February 2008.

- Output and new orders experienced substantial growth, reaching the highest levels in nearly three-and-a-half years.

- Buying levels surged significantly, reaching their most vital position in nine months, facilitating firms' restocking efforts.

- Input inventories expanded accelerated, and employment witnessed a moderate increase.

- Business sentiment improved, reflecting growing optimism among manufacturing firms regarding prospects.



- In March, India's services sector peaked, with exports surging to a fiscal year high.

- HSBC India Services PMI soared to 61.2, one of the sector's most significant sales and business activity expansions in nearly 14 years.

- Employment in the sector continued to grow for the twenty-second consecutive month, driven by strong demand and rising new orders.

- Service providers capitalised on export opportunities and new business intakes, propelled by favourable domestic and international demand trends.

- Combined with a 16-year high growth in India's manufacturing industry, the HSBC final India Composite PMI Index reached an eight-month high of 61.8, indicating bright economic growth prospects.

- The February 2024 Index of Industrial Production (IIP) provided encouraging insights into India's industrial landscape.

- Consumer durables emerged as a standout performer, registering an impressive growth rate of 12.3%, contrasting sharply with negative growth observed in the same period last year.

- Consumer non-durables declined 3.8% in the latest period due to fluctuations in consumer demand patterns.

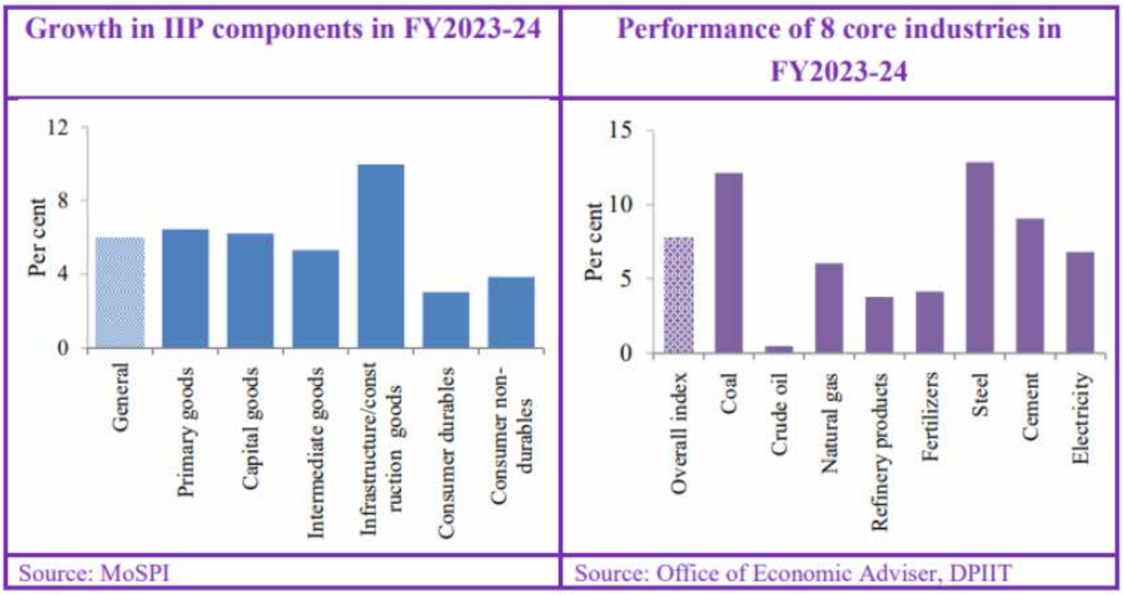
- Overall, the industrial landscape demonstrates resilience and adaptability, showcasing promising growth trends across various sectors.

- The latest IIP showcases a robust growth rate of 5.7%, marking an upward trend compared to previous periods.

- Within this, the mining sector surged by 8%, manufacturing exhibited resilience with a steady growth rate of 5%, and electricity generation witnessed a significant uptick of 7.5%.

- Primary goods sustained a growth rate of 5.9%, while infrastructure goods displayed moderate growth rates.

- Intermediate goods experienced a notable increase of 9.5%, indicating sustained demand in production processes.



Growth in IIP components in FY2023-24 — Source: MoSPI

Performance of 8 core industries in FY2023-24 — Source: Office of Economic Adviser, DPIIT

Retail Inflation has been at the lowest since the pandemic

- The government's efforts in managing retail inflation in FY2023-24 were highly successful.

- Consumer Price Index (CPI) inflation declined from 6.7% in FY2022-23 to 5.4% in FY2023-24, within the inflation-targeting framework's upper tolerance level.

- In March 2024, FY2023-24 ended with an inflation rate of 4.85%, the lowest in the last ten months.

- Core inflation, excluding food, fuel, and light, declined to 3.3% in March, the lowest level in the financial year.

- Miscellaneous group inflation, indicating price change for services, decreased to 3.5% in March, the lowest in the last ten months.

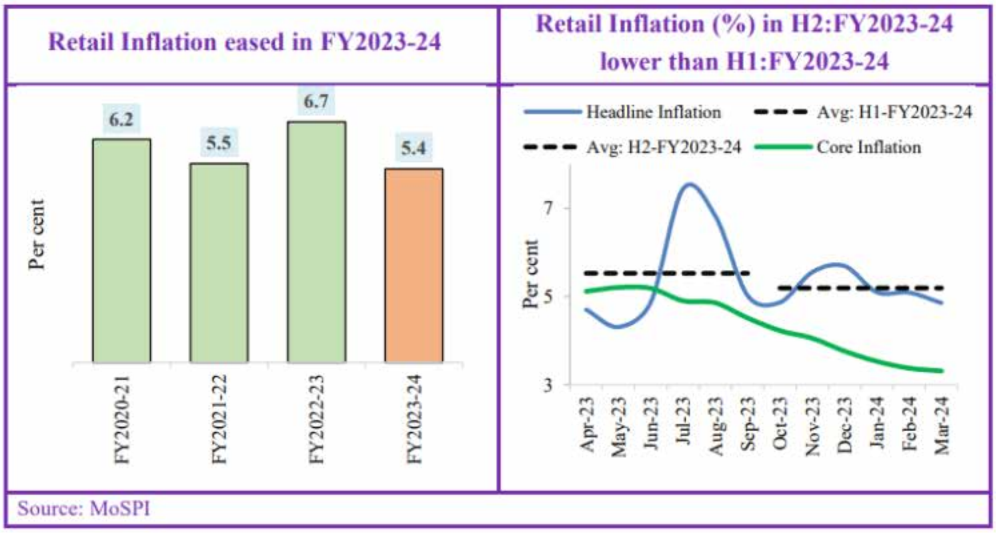
- The 'fuel and light' segment slipped into negative territory in March due to petrol, diesel, and LPG price reductions.

- The government's positive actions, including petrol, diesel, and LPG price reductions, contributed to inflation control.

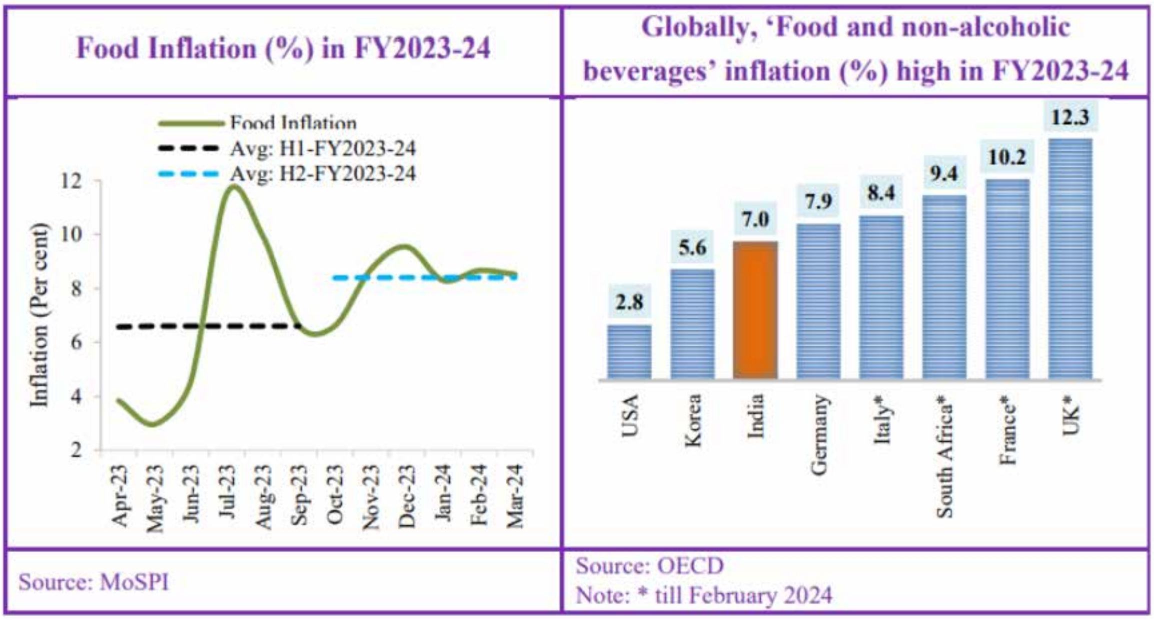
- Non-subsidized LPG prices were reduced by Rs. 100 per 14.2 kg cylinder, effective March 9, 2024.

- Central Government reduced petrol and diesel prices by INR 2 per litre nationwide, effective March 15, 2024.

- The full impact of the fuel price cuts may be reflected in the coming months.



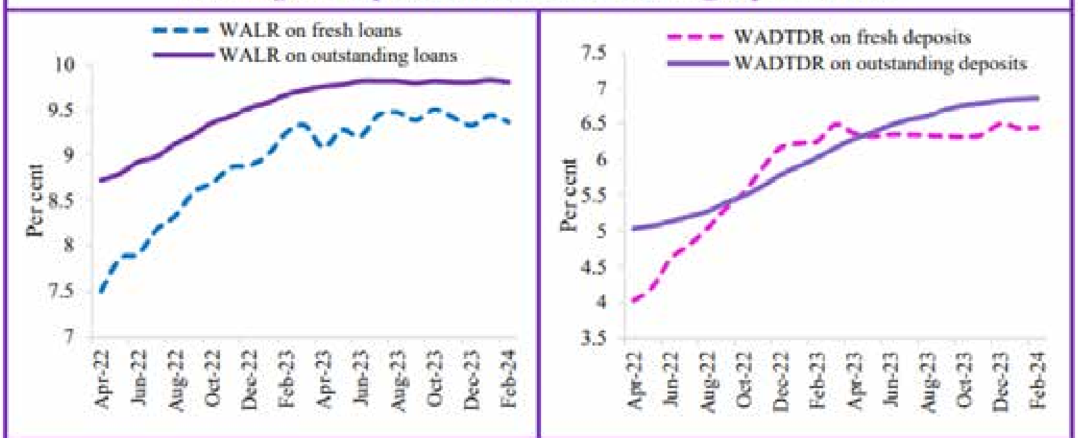
- Food inflation in India declined from 8.7% in February to 8.5% in March.
- Specific items like vegetables and pulses primarily cause food inflation.
- Food prices have been a critical challenge for the Government.
- Government actions include strengthening buffers of essential food items, periodic open market releases, easing imports of crucial items, preventing hoarding through stock limits, and channelling supplies through designated retail outlets.
- The Indian Meteorological Department's prediction of above-normal rainfall during the monsoon season is expected to further ease food prices.
- Higher rainfall will likely lead to higher production, assuming good spatial and temporal rainfall distribution.



RBI's MPC holds policy rates steady through the last mile of disinflation

- In its first meeting of FY2024-25, the Reserve Bank of India's Monetary Policy Committee (MPC) decided to hold policy rates at their current level.
- The focus remains on withdrawing accommodation to ensure inflation durably aligns with the target while supporting growth.
- MPC emphasises the need for monetary policy to remain actively disinflationary to anchor inflationary expectations and achieve fuller transmission of policy rates, setting a solid foundation for future high growth.
- Continued transmission of high policy rates is observed in lending and deposit rates of Scheduled Commercial Banks (SCBs) during FY2023-24.
- Strong credit demand has led banks to raise lending rates, while tighter liquidity conditions and credit-funding requirements have prompted banks to raise rates to attract fresh deposits.
- MPC views monetary policy transmission as an ongoing process and cites it as one of the reasons to hold policy rates steady.
- The policy repo rate remains unchanged at 6.5%, maintaining the Liquidity Adjustment Facility (LAF) corridor with the Standing Deposit Facility (SDF) and the Marginal Standing Facility (MSF) at 6.25% and 6.75%, respectively.
- So far in the tightening cycle (May 2022 - February 2023), compared to a cumulative policy repo rate increase of 250 basis points (bps), the weighted average lending rate (WALR) on fresh and outstanding rupee loans rose by 185 bps and 111 bps respectively.
- On the deposit side, the weighted average domestic term deposit rate (WADTDR) on fresh and outstanding term deposits increased by 241 bps and 183 bps, respectively.

Lending and deposit rates of SCBs rise along expected lines

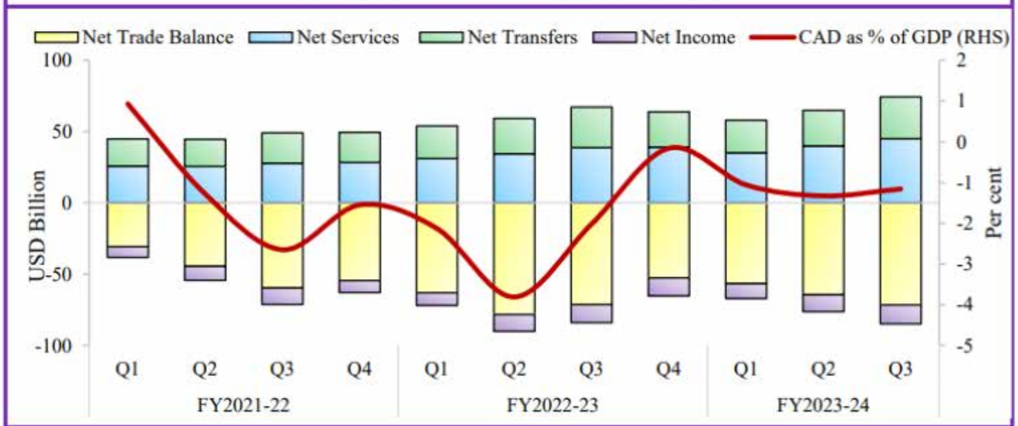


Source: RBI Monthly Bulletin

Improvement in India's Current Account Deficit

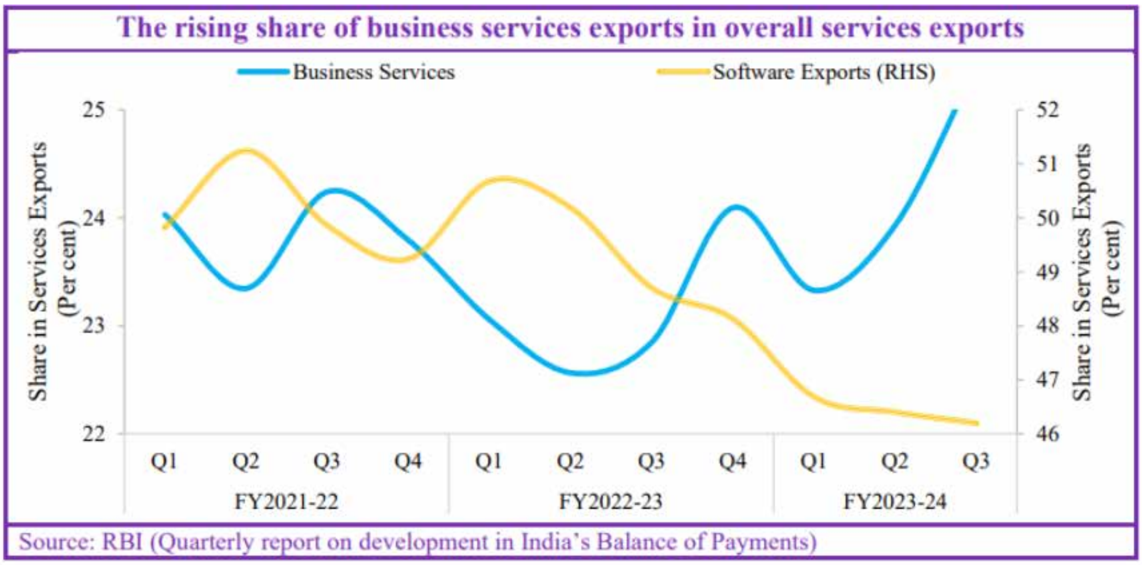
- India's merchandise exports contracted for four consecutive quarters due to ongoing geopolitical tensions.
- However, there's evidence of a trend reversal in Q3 of FY2023-24, with merchandise exports registering growth.
- Merchandise imports also witnessed marginal growth in Q3.
- Rising exports and a slight increase in imports improved the merchandise trade deficit in Q3 of FY2023-24 compared to the corresponding period of the previous year.
- Services exports saw further improvement in the third quarter, both sequentially and annually, driven by rising software, business, and travel services exports.
- The narrowing of the merchandise trade deficit, along with rising net services receipts and increasing remittances, improved the current account deficit (CAD) in Q3 of FY2023-24.

Snapshot of Current Account Deficit



Source: RBI, Developments in India's Balance of Payments during Q3 of FY2023-24

- CAD narrowed to 1.2% of GDP in Q3 of FY2023-24, down from 1.3% in the preceding quarter and 2% in the corresponding period of the previous year.
- In the trailing four quarters, the CAD to GDP ratio stood at 0.93% in Q3 of FY2023-24, compared to 2.4% in the corresponding period of the previous year.
- Services exports rose by 5.2% in Q3 of FY2023-24, compared to 4.2% growth in the previous quarter.
- Structural change in the composition of services exports contributed to the external sector's growth, with software exports growing and non-software exports led by business services also rising simultaneously.
- The share of business services in overall services exports increased to 25.4% in Q3 of FY2023-24 from 24.1% in the corresponding period of the previous year.
- During the same period, the share of software exports in overall services exports declined from 48.1% to 46.2%.



- India's trade deficit may decline as the PLI scheme deepens its coverage and extends to other sectors.

- The recently signed India-European Free Trade Agreement (EFTA) is expected to increase the global market share of India's exports and reduce import dependence.

- Various international agencies and RBI expect the CAD to GDP to moderate to below 1% for FY2023-24, driven by growing merchandise and services exports and resilient remittances.

- The 87th round of RBI's survey of Professional Forecasters on Macroeconomic Indicators projects the CAD to GDP ratio at 1.2% and 1.1% for FY2024-25 and FY2025-26, respectively, driven by rising services exports, remittances, and growing merchandise trade.

- Rising capital inflows, especially Foreign Portfolio Investments (FPIs), and an assumption of improvement in Foreign Direct Investment (FDI) support the forecast of narrowing CAD.

Moderation in merchandise trade in FY2023-24

- The growth trend observed in Q3 of FY2023-24 continued into Q4, with both exports and imports witnessing growth.

- Rising exports had a positive effect, outweighing the impact of rising imports, which narrowed the merchandise trade deficit in Q4.

- However, compared to FY2022-23, trade has slowed with contractions in exports and imports, influenced by a slowdown in India's major exporting partners due to the lagged impact of global monetary tightening.

- Despite the trade slowdown, the merchandise trade deficit narrowed in FY2023-24 as exports contracted less than imports.

- India's services exports grew fastest in FY2023-24, primarily driven by growth in software and business services exports.

- Merchandise exports in FY2023-24 fell by 3.1%, and imports decreased by 5.2%, with weaker oil prices affecting both categories.

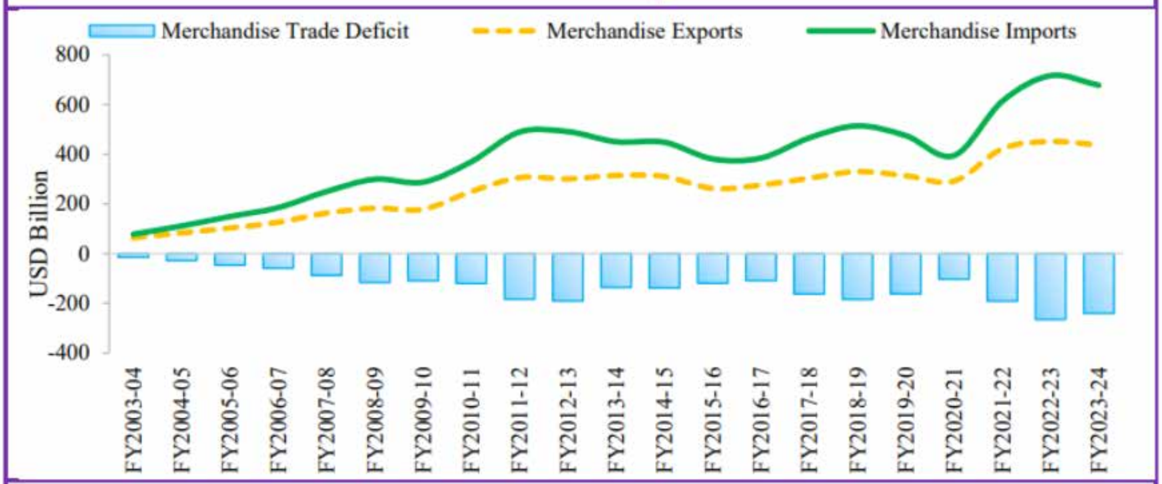
- Exports of gems and jewellery and organic and inorganic chemicals contributed to the overall export decline, while non-petroleum and non-gems and jewellery merchandise exports showed resilience.

- Engineering goods exports witnessed 2.1% growth, reaching USD 109.3 billion, with the share of engineering goods exports increasing to 25% in FY2023-24.

- Electronic goods emerged as a standout sector in India's export basket, accounting for 6.7% of total exports in FY2023-24.

- Mobile phone manufacturing in India saw significant growth, with the country now producing 97% of its total mobile phone demand locally.

- Net services receipts increased to USD 162.1 billion in FY2023-24, driven by an increase in export receipts and a decrease in import payments.



Source: DGCIS, M/o Commerce

Rising Capital Inflows

- India experienced a significant turnaround in FPI flows in FY2023-24, supported by rising economic growth, a favourable business environment, and strong macroeconomic fundamentals.

- Robust FPI inflows amounted to USD 41 billion during FY2023-24, marking the second-highest FPI inflow after FY2014-15, compared to net outflows in the preceding two years.

- India received the highest equity inflows among emerging market peers during FY2023-24.

- The imminent inclusion of India's sovereign bonds in global bond indices is expected to increase demand for exposure to India further.

- Net FDI moderated to USD 25.5 billion in the first ten months of FY2023-24 from USD 36.8 billion a year ago due to a rise in repatriation/disinvestment.

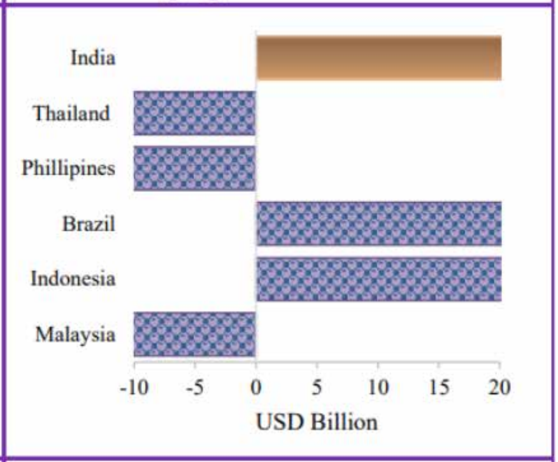
- Despite global FDI flows remaining weak in 2023, with only a modest increase of 3% over 2022, India fared better than its Asian peers.

- India's foreign exchange reserves reached an all-time high of USD 645.6 billion as of March 29, 2024, covering 11 months of projected imports and more than 100% of total external debt.

Second-highest FPI inflows in FY2023-24, after FY2014-15

Source: NSDL

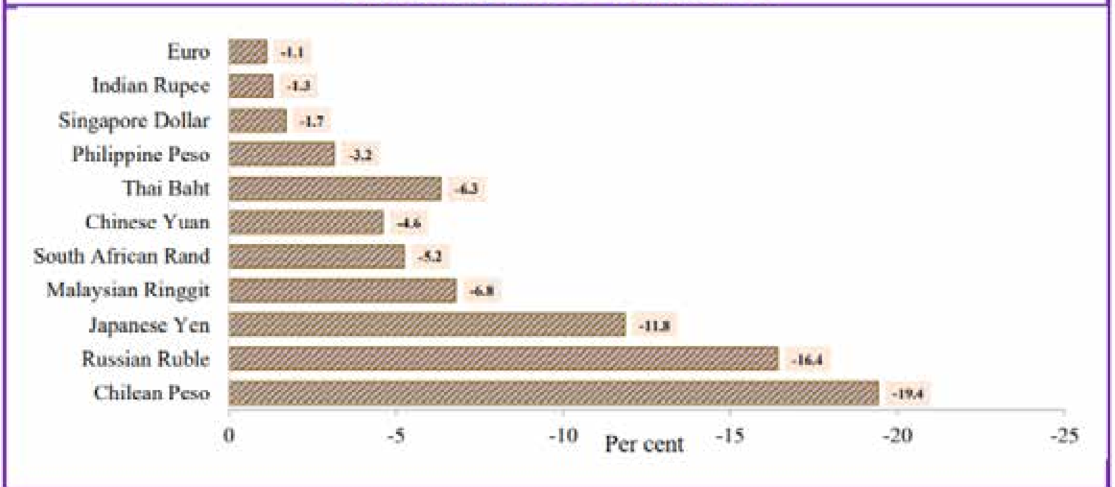
Highest FPI Equity Inflows across emerging market economies



Source: Bloomberg

- In FY2023-24, the ₹/USD exchange rate ranged between ₹82-83.5/USD, exhibiting low volatility compared to its emerging market peers and some advanced economies.
- It demonstrated the lowest volatility in FY2023-24 compared to the previous three years.
- The relative stability of the rupee, despite a stronger US dollar and elevated US treasury yields, reflects the strength of India's sound macroeconomic fundamentals, financial stability, and improvements in the external position.
- Robust foreign inflows and comfortable trade deficits are expected to maintain the rupee within a comfortable range in the future.

Movement of the Indian Rupee and major currencies against the US Dollar (31st March 2024 over 31st March 2023)



Source: Bloomberg

A slight moderation in the External Debt-to-GDP ratio

- As of end-December 2023, the external debt to GDP ratio was 18.7%, slightly lower than 18.8% as of end-September 2023.

- The share of long-term debt (with an original maturity of above one year) in total external debt increased slightly, while the share of short-term debt (with an original maturity of up to one year) declined.

- US dollar-denominated debt remained the most significant component of India's external debt, followed by Indian Rupee, Japanese Yen, SDR, and Euro.

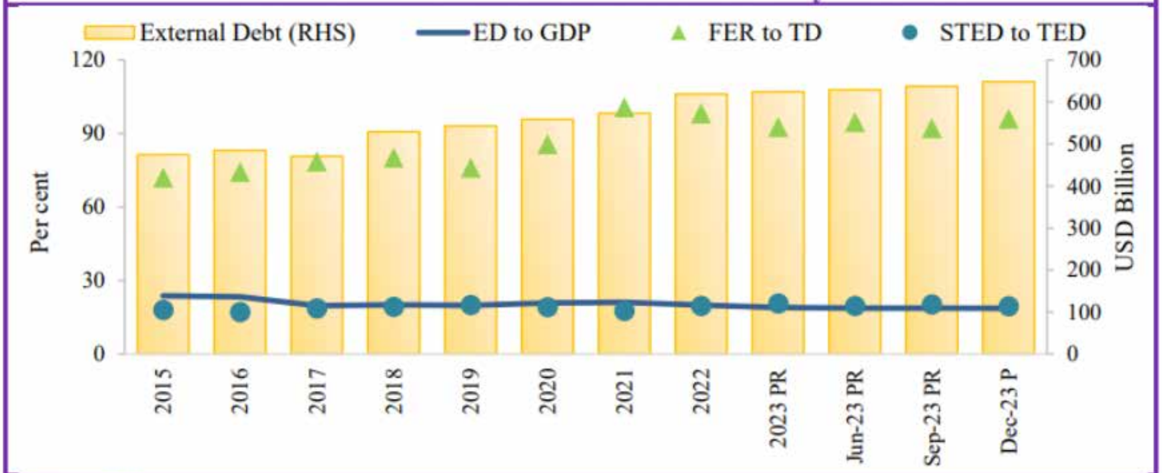
- India's external debt amounted to USD 648.2 billion at the end of December 2023, with long-term debt accounting for USD 521.9 billion and short-term debt accounting for USD 126.3 billion.

- The share of short-term debt in total external debt decreased to 19.5% at the end of December 2023 from 20.3% at the end of September 2023.

- Similarly, the short-term debt ratio (original maturity) to foreign exchange reserves decreased to 20.3% at the end of December 2023 from 22% at the end of September 2023.

- As of December 2023, the share of non-financial corporations' outstanding debt in total external debt was 38.8%, followed by deposit-taking corporations (except the central bank) (27.2%), general government (21.9%), and other financial corporations (7.2%).

India's External Debt Position and Vulnerability Indicators



Source: RBI

Note: PR - Partially Revised, P-Provisional; ED – External Debt, FER-Foreign Exchange Reserves, TED – Total External Debt, STED – Short Term External Debt

Conclusion

Global economic recovery is progressing with lingering disparities and geopolitical tensions easing slightly. India's robust financial performance stands out amidst global challenges, showcasing broad-based growth across sectors and reinforcing its role in supporting global growth.

Global inflation remains generally contained, although recent upticks in inflationary pressures call for attention. India's proactive measures, including calibrated policy rates and efforts to strengthen food buffers, have effectively managed inflation—predictions of an above-normal monsoon in 2024 offer further relief from inflation concerns.

Sluggish global trade poses challenges worldwide, yet India's trade deficit is expected to decrease with the expansion of schemes like PLI and strategic trade agreements like the India-EFTA TEPA. International agencies and the RBI anticipate India's CAD to GDP ratio to moderate below 1% in FY2023-24.

India maintains its position as the fastest-growing major economy, with optimistic growth forecasts by international organisations and the RBI. The IMF revised its estimate of India's real GDP growth for FY2023-24 to 7.8% upwards, signalling continued economic resilience and momentum.

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