सत्यमेव जयते

Economic Diplomacy Division

Ministry of External Affairs

MONTHLY ECONOMIC REPORT

JULY 2024

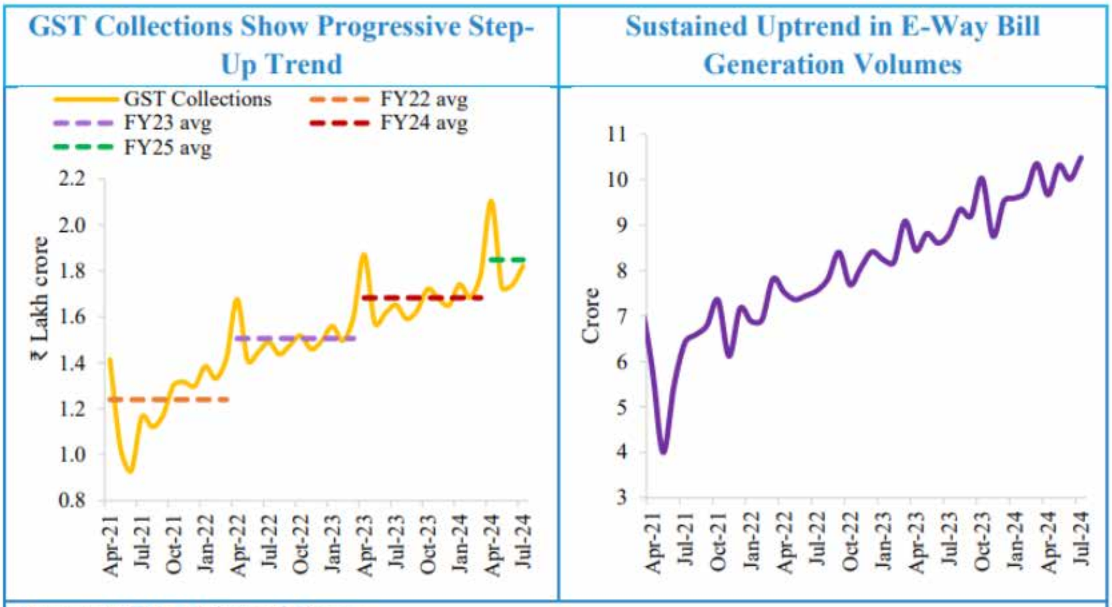
CONTENTS

INTRODUCTION

- The Indian economy sustained momentum in the first four months of FY25, with GST collections boosted by a widened tax base and heightened economic activity.
- Double-digit growth in e-way bill generation and strong manufacturing and services sector PMIs reflect sustained economic activity, with higher GST collections expected in the coming months.
- Manufacturing growth is driven by rising demand, new export orders, and growth in output prices, supported by increased capacity utilization and expansion in the services sector.
- The tourism and hotel industry led the robust performance of contact-intensive services, while Union Budget FY25 measures are expected to further boost MSMEs, manufacturing, and services.
- Fiscal consolidation in Union Budget FY25 is supported by strong revenue collection, disciplined expenditure, and high capital expenditure, contributing to a projected decline in the fiscal deficit.
- Merchandise exports and imports in FY25 have surpassed previous levels due to global demand recovery and strong domestic demand, resulting in a widening trade deficit.
- Services exports are on a rising trajectory, boosting net services receipts, while FPIs became net buyers from June 2024, and FDI inflows increased, leading to record foreign exchange reserves of USD 675 billion.
- Retail inflation decreased to 3.5% in July 2024, the lowest since September 2019, aided by a moderation in food inflation and steady progress in the southwest monsoon supporting Kharif sowing.
- Labour market indicators show stability, with the urban unemployment rate at 6.6% in Q1 FY25 and positive trends in EPFO payroll additions and PMI employment sub-indices, despite weakening sentiments in RBI surveys.
- India's economic momentum remains intact, with expanding manufacturing and services sectors, healthy tax collections, moderating inflation, and improving exports; FDI inflows are rising, supporting a GDP growth projection of 6.5-7.0% for FY25.

India's Economic Resurgence: Key Highlights

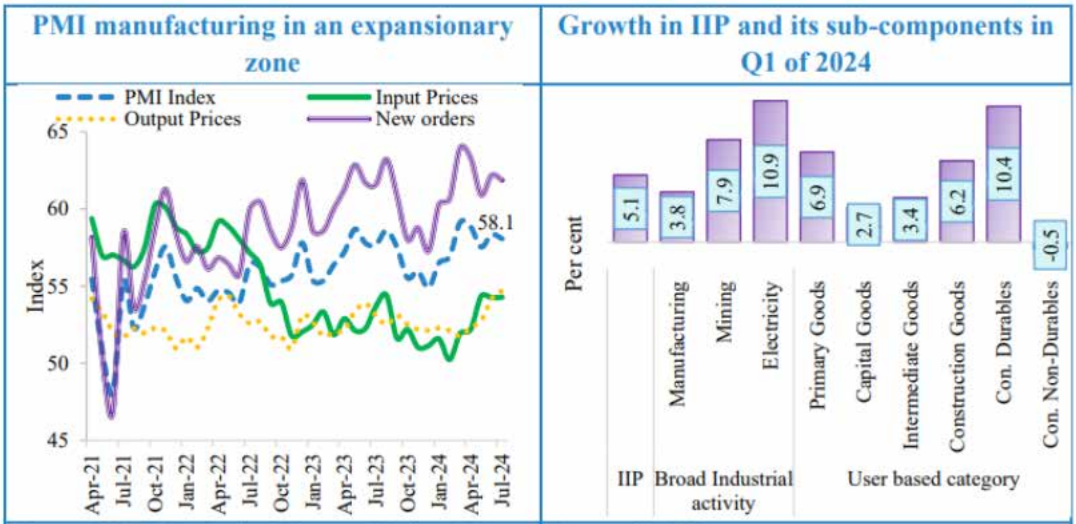
- Economic Upswing in July 2024: Strong business activity marked by record stock market highs, substantial growth in GST collections, and a 19.2% YoY increase in e-way bill generation, indicating an overall increase in economic activity.
- GST Collections: July 2024 recorded the second-highest GST collection since May 2023, rising 10.3% YoY, with total FY24 collections reaching ₹7.4 lakh crore. The average monthly GST collections increased from ₹1.68 lakh crore in FY24 to ₹1.85 lakh crore in FY25, reflecting robust compliance and a widened tax base.



Source: GSTN, Ministry of Finance

- **Stock Market Gains:** The Nifty 50 and BSE Sensex indices reached record highs in July 2024, with Nifty 50 peaking at 24,999.8 and BSE Sensex at 81,908.4, driven by strong investor sentiment.

- **Manufacturing Sector Performance:** The PMI Manufacturing stood at 58.1 in July 2024, well above the long-run average, indicating robust growth. However, input cost inflation hit a two-year high due to rising prices of key materials, prompting a surge in output prices to an 11-year high.



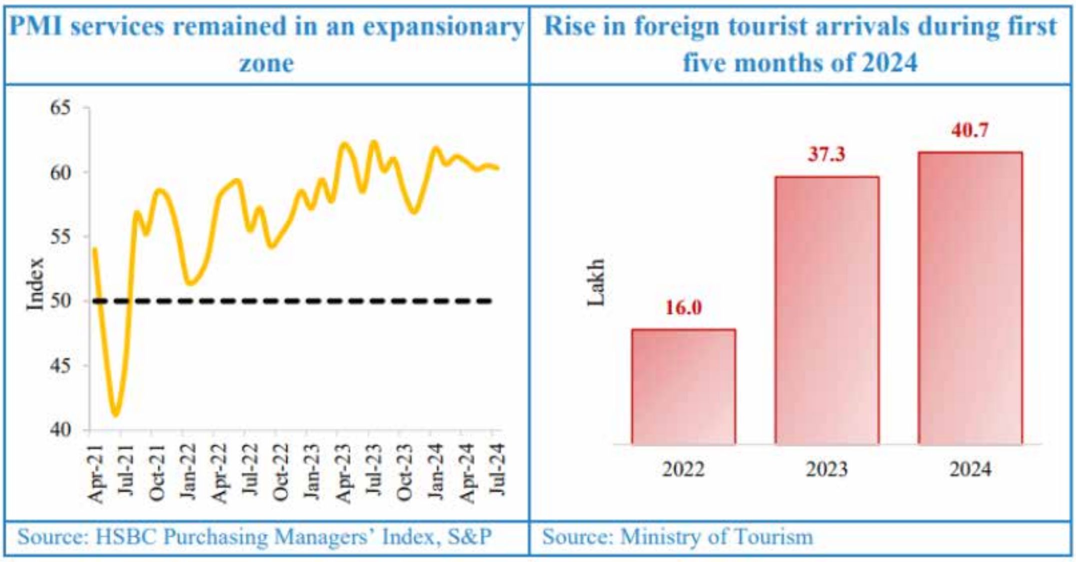
Source: HSBC Purchasing Managers' Index, S&P
Source: MoSPI

- **Industrial Growth:** The Index of Industrial Production (IIP) showed a 5.2% YoY growth in Q1 FY25, with strong performance in primary, intermediate, and consumer durable goods. Core industries grew by 5.7% YoY in Q1 FY25.

- **Capacity Utilisation:** RBI survey indicated capacity utilisation in manufacturing rose to 76.8% in Q4 FY24, though overall business sentiment moderated in Q1 FY25 due to rising input costs and salary expenses.

- **Construction Demand:** Increased steel consumption and cement production driven by strong housing demand; housing sales in 8 major cities grew by 41.8% YoY in Q1 FY25, reflecting positive consumer sentiment.

- **Services Sector Growth:** PMI Services remained strong at 60.3 in July 2024, with growth in international sales, new orders, and tourism. Positive outlooks for business conditions and easing cost pressures support the sector's expansion.



- **Tourism Sector Revival:** Foreign Tourist Arrivals reached 40.7 lakh (January-May 2024), with foreign exchange earnings of ₹1.1 lakh crore, up 22.5% YoY. Domestic and international air travel increased significantly in Q1 FY24.

- **Travel and Tourism Recovery:** The sector's GDP contribution reached ₹19.3 lakh crore in 2023, a 10% increase over pre-pandemic levels, and is projected to become the fourth-largest domestic travel market by 2030.

- **Hospitality Sector Trends:** Hotel occupancy rates surpassed pre-pandemic levels but slightly moderated to 61.3% in Q1 FY25, affected by fewer weddings, high temperatures, and the absence of major events. Average room rates were 2-3% higher than in Q1 FY24.

- **Easing Retail Inflation**: Retail inflation, measured by the Consumer Price Index-Combined (CPI-C), eased significantly from 5.1% in June 2024 to 3.5% in July 2024, the lowest since September 2019. This decline was primarily driven by a substantial drop in food inflation, which fell to 5.4% in July 2024 from 9.4% in June 2024. The reduction in food inflation was largely due to a sharp decline in vegetable inflation (from 29.3% in June to 6.8% in July 2024) and mild deflation in categories such as 'oils and fats' and spices.

- **Moderate Core Inflation:** Core inflation (excluding food and fuel) remained moderate at 3.3% in July 2024. Overall, retail inflation averaged 4.6% during the first four months of FY25, compared to 5.3% during the same period in FY24.

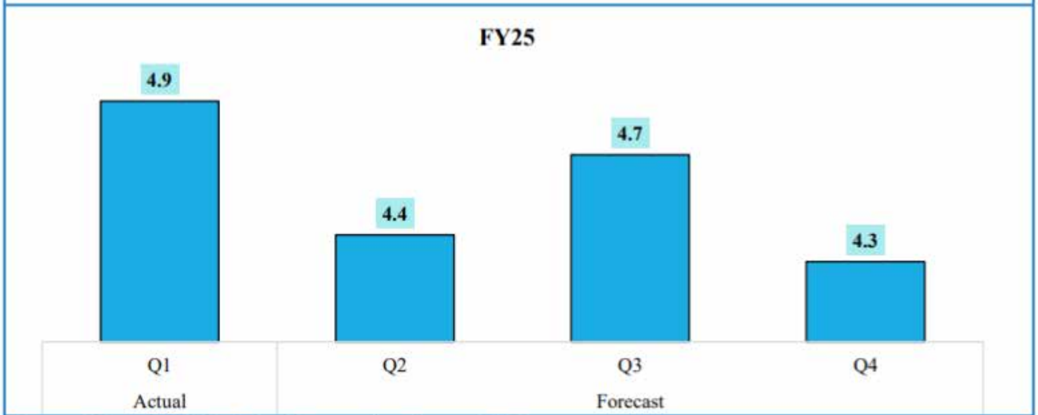
- **Positive Monsoon Impact on Agriculture:** The southwest monsoon showed steady progress, with cumulative rainfall 3% above the long-period average as of August 19, 2024. Improved spatial distribution saw 84% of sub-divisions receiving normal or excess rainfall, supporting healthy Kharif sowing. As of August 16, 2024, the total foodgrain sowing area was 4.8% higher than the same period last year, with cereals and pulses sowing up by 4.6% and 5.7%, respectively.

Budget Measures to enhance productivity and resilience in agriculture

Transforming agriculture research	• A comprehensive review of the agriculture research set-up to bring the focus on raising productivity.
Release of new varieties	• **New 109 high-yielding and climate-resilient** varieties of **32 field and horticulture crops** will be released for cultivation by farmers.
Natural Farming	• Initate one crore farmers into natural farming supported by certification and branding in the next 2 years • Establishment of **10,000 bio-input resource** centres.
Missions for pulses and oilseeds	• Strengthen production, storage and marketing of pulses and oilseeds • Strategy to achieve *'atmanirbharta'* for oil seeds such as mustard, groundnut, sesame, soybean, and sunflower.
Vegetable production & Supply Chains	• Development of large-scale clusters for vegetable production closer to consumption centres. • Promotion of Farmer-Producer Organizations, cooperatives and start-ups for vegetable supply chains
Digital Public Infrastructure for Agriculture	• Implementation of the **Digital Public Infrastructure** in agriculture for coverage of farmers and their lands in 3 years.

- **Inflation Outlook and Monetary Policy:** The inflation outlook remains positive with moderate core inflation and favourable monsoon conditions. Assuming a normal monsoon, the Reserve Bank of India (RBI) projects CPI inflation for FY25 at 4.5%, with Q2 inflation estimated at 4.4%. The RBI's Monetary Policy Committee, in its August 2024 meeting, decided to maintain the policy repo rate at 6.5%, continuing its disinflationary stance initiated in April 2022 to align inflation with the target while supporting growth.

RBI's Inflation forecast for FY25



Source: Households' Inflation Expectations Survey, RBI

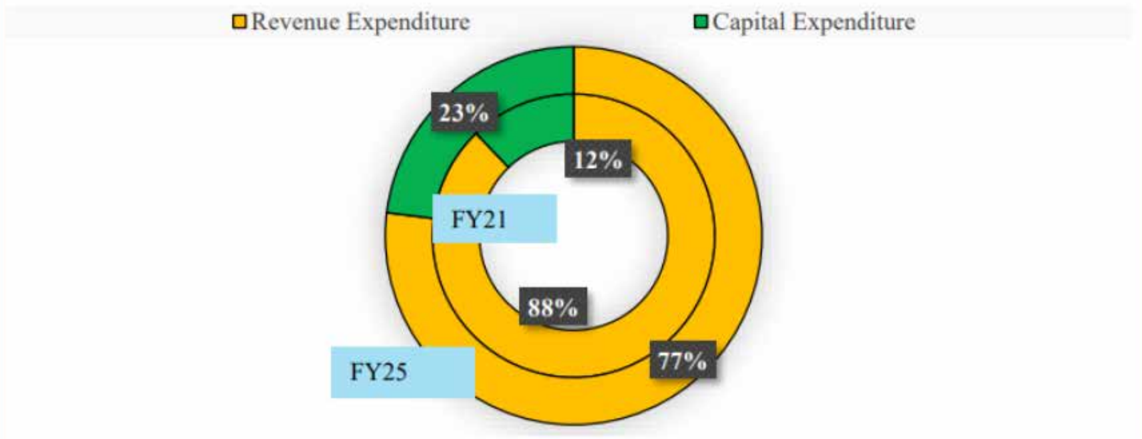
Union Budget FY25 prioritises fiscal prudence

- **Continued Fiscal Consolidation:** The Union Budget FY25 emphasizes fiscal consolidation, with the fiscal deficit projected to decline from 5.6% of GDP in FY24 to 4.9% in FY25. This is supported by buoyant revenue generation, restrained revenue expenditure growth, and healthy economic activity. The commitment to fiscal discipline is expected to help keep bond yields stable and lower borrowing costs across the economy.

- **Growth in Tax Revenue:** Gross tax revenue is projected to increase by 10.8% in FY25, driven by a 12% rise in corporate income tax and a 14% increase in taxes on income other than corporate tax. The Central Goods and Services Tax (CGST) is expected to grow by 11%, fueled by compliance gains and resilient economic activity. After transfers to state governments and the National Disaster Response Fund (NDRF), the Union Government's net tax revenue is budgeted to increase by 10.9% year-on-year (YoY). A significant 56.8% increase in non-tax revenue is expected to provide fiscal room to achieve the deficit target.

- **Improved Quality of Expenditure:** The quality of government expenditure is set to improve, with a 17.1% increase in capital expenditure to ₹11.1 lakh crore, which represents 3.4% of GDP in FY25. A larger proportion of the fiscal deficit is now allocated to capital outlays, reflecting a shift towards investment-oriented deficit financing. Lower commodity prices have reduced budgeted allocations for subsidies on fertilizers and fuel, helping to restrain the growth in revenue expenditure, which is estimated to rise by 6.2% YoY.

Raising share of capital expenditure in total expenditure



Source: Various Union Budget documents

- **Debt Trajectory and Fiscal Prudence:** The fiscal deficit improvement is expected to help the Union Government's debt continue declining, with total outstanding liabilities budgeted to decrease from 57.1% of GDP in FY24 to 55.7% in FY25. The Union Budget FY25 reiterates the government's commitment to fiscal prudence, managing the fiscal deficit to ensure that the debt-to-GDP ratio continues to decline.

- **Healthy Revenue Generation in Q1 FY25:** The first quarter of FY25 saw strong revenue growth, with corporate income tax and personal income tax increasing by 39.9% YoY by the end of June 2024. Gross GST collections also grew by 10.2% YoY during April-July 2024, driven by steady economic activity.

- **Lower Expenditure in Early FY25 Due to Election Period:** Total and capital expenditures were lower by 7.7% and 35% YoY, respectively, during April-June 2024. However, this YoY comparison is affected by the general election period, and expenditures are expected to pick up in the remainder of the year.

Key Highlights on India's External Sector and Investments in FY25

- **Growth in Merchandise Exports:** India's merchandise exports grew by 4.1% in the first four months of FY25, driven by a recovery in global demand, particularly from major exporting partners, and a slowdown in inflationary pressures. Non-petroleum and non-gems & jewellery exports showed robust growth of 6.1%. Key export commodities, such as engineering goods, petroleum products, electronic goods, drugs & pharmaceuticals, and organic & inorganic chemicals, accounted for around 65% of total exports. Major export destinations included the Netherlands, USA, UAE, Malaysia, and Singapore.

- **Increase in Merchandise Imports:** Due to rising domestic demand and a positive base effect, merchandise imports grew by 7.6% in the first four months of FY25. Key import commodities, including petroleum products, electronic goods, machinery & electrical, gold, and coke, coal & briquettes, accounted for about 60% of total imports. The main import partners were UAE, Russia, China, Iraq, and Indonesia. The merchandise trade deficit widened from USD 75.2 billion in April-July 2023 to USD 85.6 billion during the corresponding period of FY25 due to the larger increase in imports than exports.

- **Strong Services Exports Performance:** India's services exports grew by 9.9% in the first four months of FY25, increasing net services receipts from USD 47.6 billion in the same period of FY24 to USD 54.4 billion.

- **Rising Foreign Portfolio Investment (FPI) Inflows:** Supported by strong macroeconomic fundamentals, high economic growth, and positive investor sentiment, Foreign Portfolio Investors (FPIs) became net buyers in Indian financial markets, with net inflows reaching USD 10.8 billion in June and July 2024, following outflows in the first two months of FY25. Net equity FPI also saw a positive trend, with USD 7.1 billion inflows. Sectors attracting the highest FPI equity inflows included capital goods, telecommunications, and consumer services during April-July 2024. Additionally, FPI inflows in the debt segment are expected to grow between USD 20-40 billion over the next 18-21 months, following the inclusion of Indian Government Bonds in JP Morgan's Emerging Markets global bond index.

- **Growth in Foreign Direct Investment (FDI) Inflows:** Foreign direct investment (FDI) flows increased significantly, with net FDI inflows rising by 42.7% in Q1 FY25. This was mainly due to a rise in gross FDI inflows, which increased from USD 17.8 billion in April-June 2024 to USD 22.5 billion in the first three months of FY25.

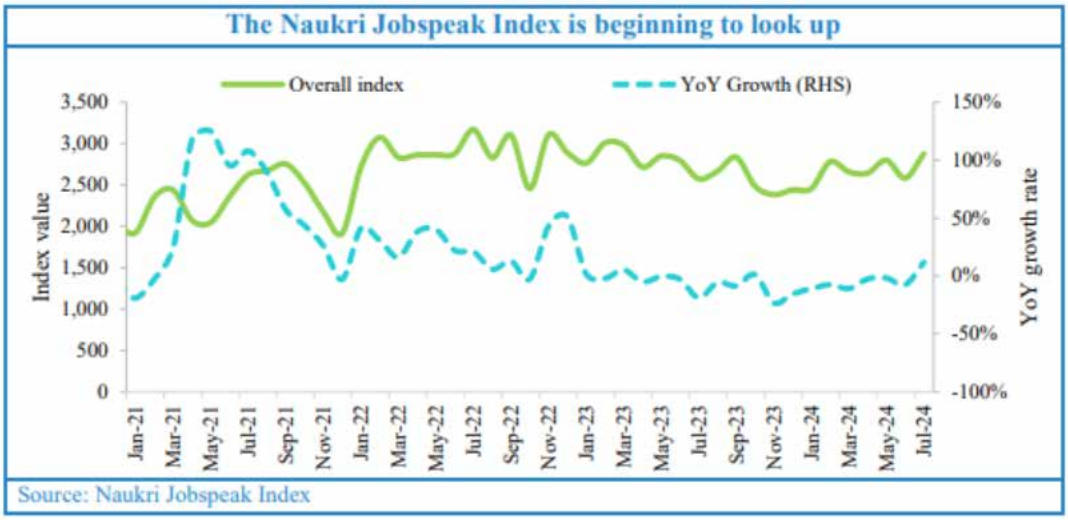
- **Moderation in External Commercial Borrowings (ECB):** External commercial borrowings moderated to USD 1.8 billion during April-June FY25, compared to USD 5.7 billion a year ago. However, non-resident deposits showed higher net inflows, reaching USD 2.7 billion during April-May FY25 compared to USD 0.6 billion in the previous year.

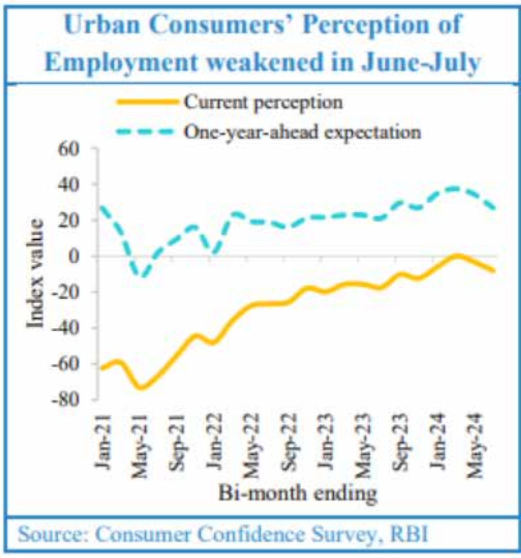
- **Strengthened Foreign Exchange Reserves:** Backed by robust capital inflows, India's foreign exchange reserves reached a historic high of USD 675 billion as of 2 August 2024, sufficient to cover 11.6 months of imports and 101.7% of external debt as of March 2024. These indicators suggest that India's external sector is expected to remain resilient.

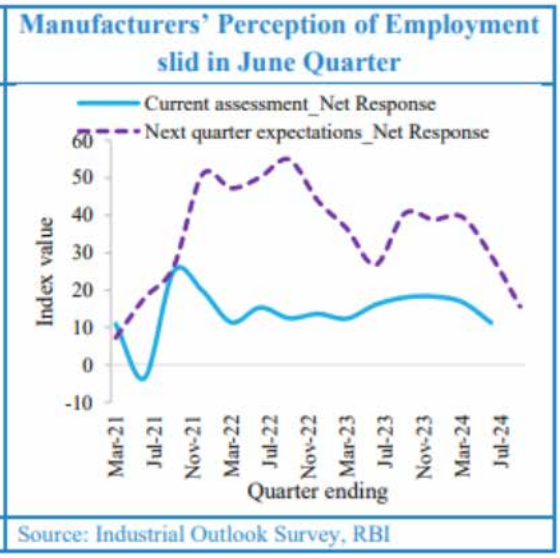
Labour Market Trends and Employment Initiatives in FY25

- **Positive Labour Market Indicators:** Recent labour market indicators have shown positive signs despite a few RBI perception surveys indicating weakening sentiments. According to the Periodic Labour Force Survey (PLFS) data for Q1 FY25 (April - June 2024), the urban Labour Force Participation Rate (LFPR) increased to 50.1% from 48.4% in the corresponding quarter last year, while the unemployment rate remained stable at 6.6%. Formal job creation has also rebounded, with the Employee Provident Fund Organisation (EPFO) recording an increase of 51.0 lakh net payroll additions in the quarter ending June 2024, including 19.3 lakh additions in June alone. Notably, 59.1% of new members added in June 2024 were in the 18-25 age group, suggesting that the majority of individuals entering the organised workforce are young, first-time job seekers.

- **Strong Employment Sub-Index and Job Market Recovery:** The Purchasing Managers' Employment Sub-Index remained robust, staying in the expansionary zone for the fifth consecutive month in July 2024, driven by strong demand conditions and increased sales volumes. Additionally, after nine months of contraction, the Naukri JobSpeak index registered an 11.8% year-on-year growth in July and an 11.4% month-on-month growth, reaching its highest value since March 2023. While this growth is partly due to a base effect from a dip in IT sector hiring in July 2023, it indicates a potential upturn in India's white-collar job market.







- Mixed Sentiments from Perception Surveys: The RBI's Consumer Confidence Survey and Industrial Outlook Survey present a more cautious perspective, showing a dip in urban consumers' perception of employment conditions and manufacturers' hiring sentiments. These findings align with the moderation in the overall consumer confidence and business expectations indices.

Key Employment and Skilling Schemes in Budget 2024-25

The Union Budget 2024-25 has prioritised job creation through a package of five key schemes designed to promote employment and skilling opportunities for 4.1 crore youth over the next five years. These initiatives are aimed at fostering long-term, quality job creation, contributing to a more developed India (Viksit Bharat).

- **Scheme A -** Support for First-Time Employees: This scheme provides a one-month salary of up to ₹15,000, paid in three instalments, to first-time employees registered with the EPFO. With a salary cap of ₹1 lakh per month, it aims to support 210 lakh youth entering the workforce for the first time.

- **Scheme B -** Incentives for Job Creation in Manufacturing: This initiative offers incentives related to EPFO contributions for employees and employers during the first four years of employment, specifically targeting job creation in the manufacturing sector for first-time employees.

- **Scheme C -** Support for Employers: Under this scheme, the government reimburses up to ₹3,000 per month for two years towards the EPFO contribution of employers for each additional employee hired. This is expected to benefit 30 lakh youth and foster additional employment across all sectors.

- **New Centrally Sponsored Scheme for Skilling:** This initiative aims to skill 20 lakh youth over five years. It includes upgrading 1,000 Industrial Training Institutes (ITIs) in a hub-and-spoke arrangement to enhance skilled human capital and support quality employment generation.

- **New Internship Scheme for Youth:** This program provides internships for 1 crore youth over five years in 500 top companies, offering 12 months of real-life business exposure, an internship allowance of ₹5,000 per month, and one-time assistance of ₹6,000. The scheme aims to bridge the gap between academic knowledge and industry requirements, improve employability, stimulate economic growth, and promote sustainable development.

Outlook

India's economic momentum remains strong despite some headwinds. The country's growth is supported by expanding manufacturing and services sectors, healthy tax collections, moderating inflation, and robust exports. However, consumer and business confidence show signs of caution, reflecting concerns about the economic environment.

Key Positive Indicators

- **Resilient Economic Activity:** Despite an erratic monsoon, reservoirs have been replenished, ensuring adequate water supply for agriculture and other sectors. Manufacturing and services continue to expand, as evidenced by the strong performance of the Purchasing Managers' Indices (PMI).

- **Healthy Tax Collections:** There has been a notable increase in tax collections, especially indirect taxes, which indicates strong transactional activity across the economy. Bank credit is also growing, further supporting economic expansion.

- **Moderating Inflation:** Inflation rates are showing signs of moderation, providing a conducive environment for consumption and investment.

- **Improving Exports and FDI:** Both merchandise and services exports have outperformed last year's levels, reflecting strong global demand for Indian goods and services. Foreign direct investment (FDI) is also on the rise, with gross inflows increasing, indicating renewed investor confidence in the Indian market.

- **Stable Financial Markets:** Stock markets have maintained their levels, and investor sentiment remains largely positive, supported by India's strong macroeconomic fundamentals.

Areas of Concern

- **Declining Consumer Confidence:** The RBI's Consumer Confidence Survey reveals a decline in consumer confidence regarding the current economic situation, employment, price levels, and income. The Current Situation Index reflects lower household optimism about economic conditions, and the Future Expectations Index has moderated, indicating less optimism about the year ahead.

- **Cautious Business Sentiments:** The RBI's Industrial Outlook Survey for the manufacturing sector shows a decline in both the current assessment and expectations indices of business sentiment in August 2024. Key indicators such as production, order books, employment, and export sentiments have also moderated, suggesting caution among manufacturers.

Real GDP Growth Projection

Given these mixed signals, the projection of real GDP growth in the 6.5-7.0% range for FY25, as estimated in the Economic Survey 2023-24, appears appropriate. While strong fundamentals sustain the overall economic momentum, monitoring consumer and industrial confidence surveys will be crucial for identifying potential risks to growth.

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