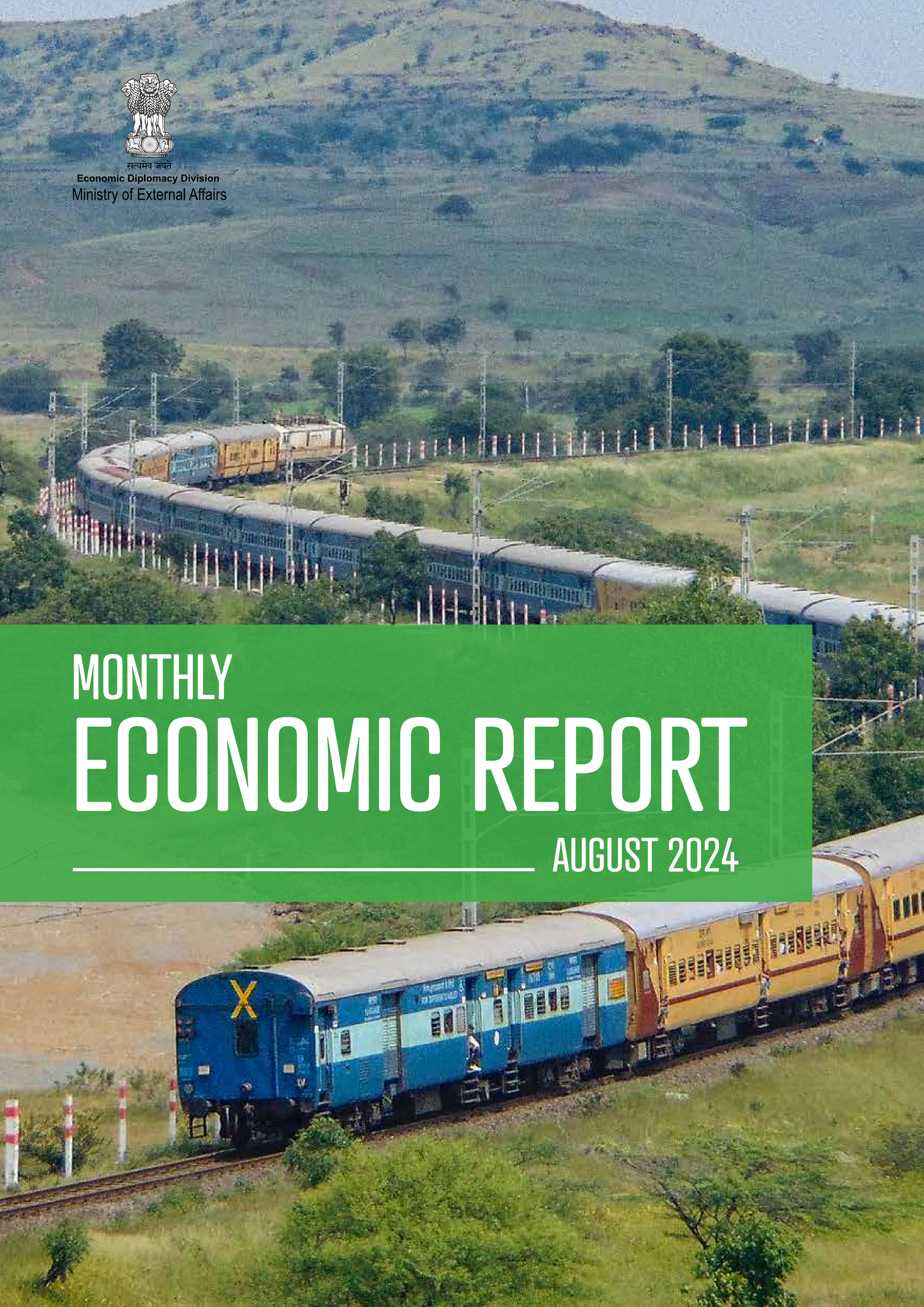


सत्यमेव जयते

Economic Diplomacy Division

Ministry of External Affairs

MONTHLY ECONOMIC REPORT

AUGUST 2024

CONTENTS

Introduction

- India maintained strong economic momentum in Q1 FY25, with GDP growing at 6.7%. This builds upon a robust cumulative growth of 27% since FY21, demonstrating not just recovery from pandemic losses but transformational changes across productive sectors. All major non-agricultural sectors expanded beyond 5%, indicating broad-based growth, while advancing monsoon and increased kharif sowing brighten agricultural prospects.

- Key economic indicators paint a positive picture. Private consumption, fixed investment, and exports have gained momentum. Despite slower government spending due to general elections, overall investment grew by 7.5%, signalling a strengthening private investment cycle. High-frequency indicators suggest continued economic vitality, including GST collections, purchasing managers' indices, and cargo volumes.

- The global trade landscape is evolving amid geopolitical conflicts, trade disputes, and technological disruptions. While the WTO projects gradual trade growth for 2024-25, India's goods exports remained flat in the first five months, reflecting weak global demand and domestic competitiveness challenges. However, strong domestic demand drove merchandise imports higher. Foreign exchange reserves reached historic levels, supported by steady capital flows and continued foreign portfolio investments.

- Domestic markets show mixed signals. Urban consumption displays some weakness, evidenced by declining automobile sales. However, labour market conditions are improving, with increased EPFO payroll additions indicating stronger formal job creation. Inflation remained benign at 3.7% in August 2024, with softening food prices and steady core inflation.

- The outlook remains positive as public expenditures pick up and the rural economy strengthens. At the same time, replenished reservoirs and higher kharif sowing suggest stable food prices. However, the uneven monsoon distribution warrants careful monitoring.

Indian economy demonstrates resilience amid global challenges.

- The IMF's July 2024 World Economic Outlook projected global growth at 3.2% for 2024, slightly below the pre-pandemic decade average.

- Despite global challenges like geopolitical tensions, supply chain disruptions, and slower growth in advanced economies, Q1 exceeded expectations in many countries.

- Global trade has slowed, but services trade showed resilience, helping offset the decline in goods trade. Recovery is expected in FY25 to align with global GDP growth.

- India's GDP grew by 6.7% in Q1 FY25, surpassing major advanced and emerging economies despite global headwinds.

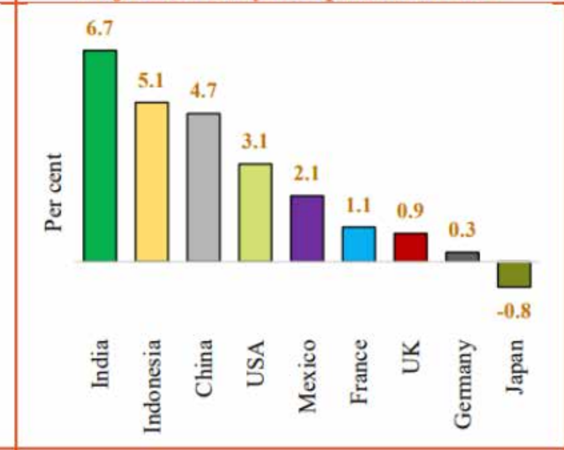
- Post-Covid economic recovery in India has been driven by pent-up consumption and investment demand, with growth averaging 8.3% from FY22 to FY24.

- The gap between the current GDP and its pre-pandemic trend is closing, and the Q1FY25 growth on a high base reflects the underlying strength of the Indian economy.

India grew by 6.7 per cent in Q1 of FY25

Source: NSO, MoSPI

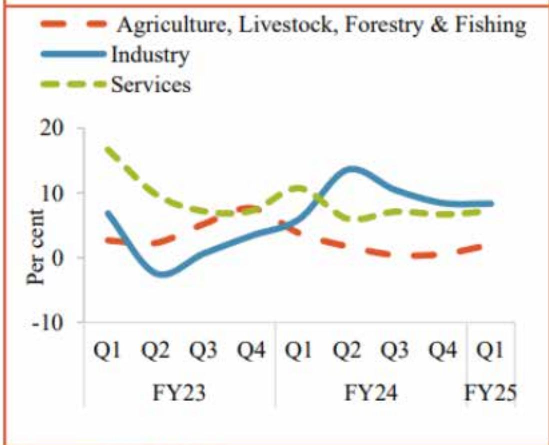
India emerged as the fastest-growing major economy in April-June 2024



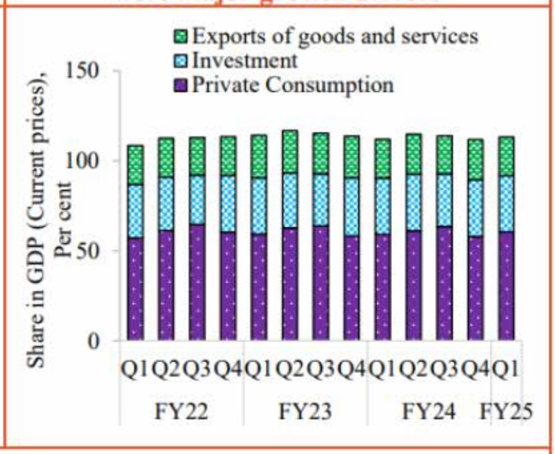
Source: OECD, MoSPI for India

- Domestic consumption and investment were crucial drivers of GDP growth in Q1 FY25.
  - o Private final consumption expenditure (PFCE) grew by 7.4%, while gross fixed capital formation (GFCF) increased by 7.5%.
  - o Exports of goods and non-factor services rose by 8.7%.
  - o The share of PFCE in GDP rose to 60.4%, with steady shares for GFCF and exports.
- Urban unemployment declined, and rural incomes improved, boosting consumption.
  - o Vehicle retail sales in rural areas grew by 4.8% year-on-year in August 2024.
  - o Household and private investment drove GFCF growth, as government capital expenditures were lower due to elections but are expected to pick up.
- On the supply side, real gross value added (GVA) grew by 6.8% in Q1 FY25.
  - o Agricultural GVA increased by 2.0% despite adverse weather; future quarters may see stronger output due to better monsoon conditions.
  - o The industrial sector grew by 8.3%, manufacturing up by 7%, and the construction sector achieved 10% growth.

Industry pushes ahead in Q1 of FY25



Private Consumption and Investment were major growth drivers

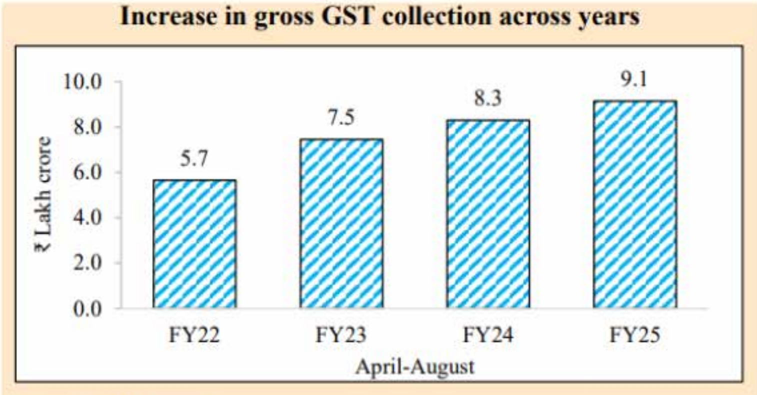


Source: NSO, MoSPI

- The services sector grew by 7.2% in Q1 FY25.
  - Growth was driven by robust PMI readings, increased digital transactions, rising foreign tourism, and higher cargo traffic.
  - India's real estate sector is thriving. Thanks to improved data coverage, streamlined regulations, and digitised land records, tier-I markets are entering the 'transparent' zone in the JLL Global Real Estate Transparency Index 2024.
- Greater transparency and institutional participation enhance India's commercial real estate market.
  - Four listed Real Estate Investment Trusts (REITs) have driven growth, supported by standardised valuation processes and improved investor protection through the Real Estate Regulation Act and the Insolvency and Bankruptcy Code.

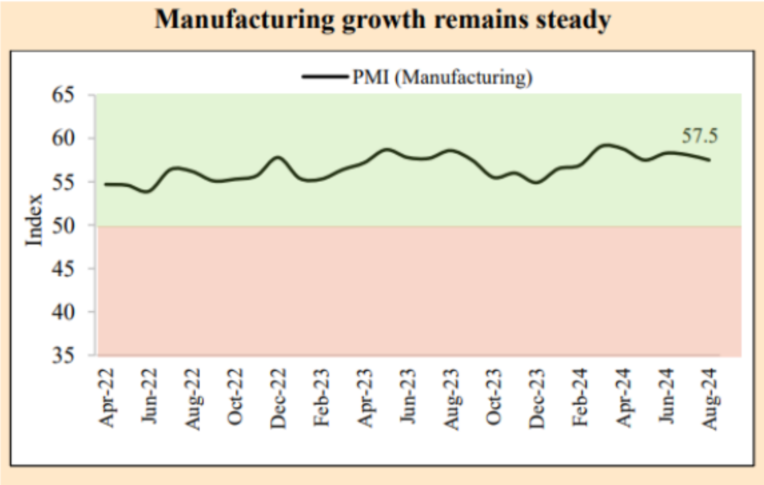
Growth momentum continues into Q2 FY25

- **GST Collection:** Gross Goods and Services Tax (GST) collections rose by 10.1% in August 2024 compared to last year, reflecting sustained economic activity.



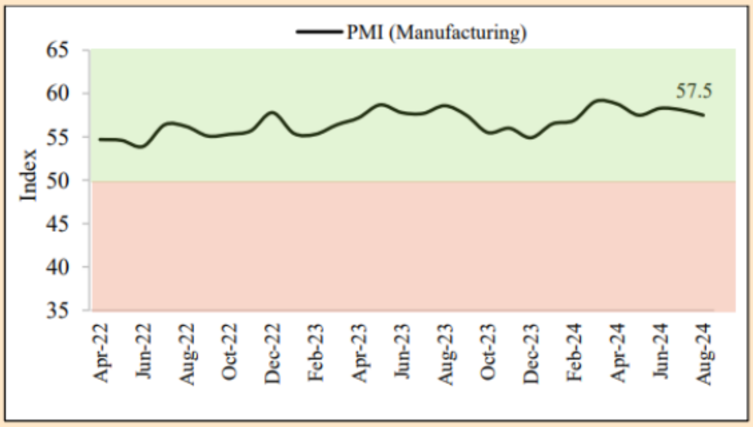
Source: GST Council

- **Manufacturing Growth:** The PMI Manufacturing index remained above the long-run average in August 2024, indicating strong operating conditions, with moderate rises in new business and output.



Source: HSBC India Manufacturing PMI Reports

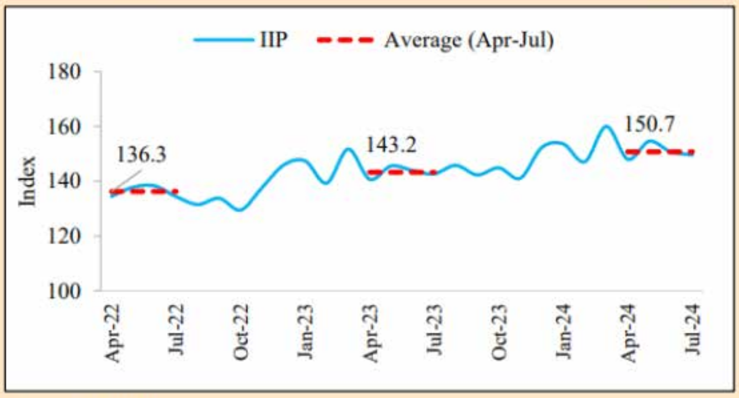
Manufacturing growth remains steady



Source: HSBC India Manufacturing PMI Reports

- **Index of Industrial Production (IIP):** IIP grew by 5.2% year-on-year in April-July 2024. Sub-indices for mining, manufacturing, and electricity sectors grew by 6.9%, 4.2%, and 10.1% YoY, respectively.

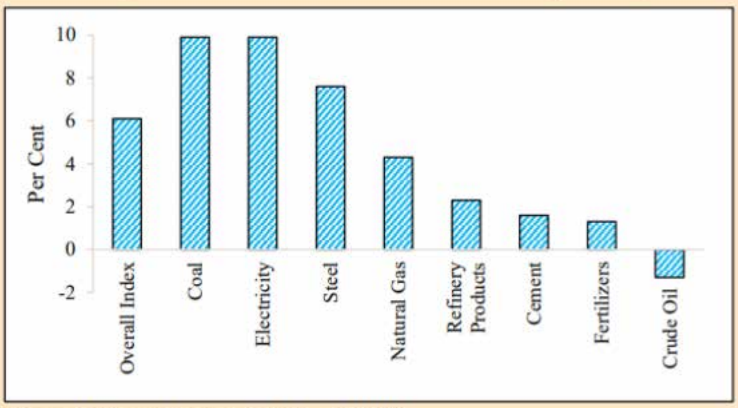
Increasing trend in the Index of Industrial Production (IIP)



Source: MoSPI

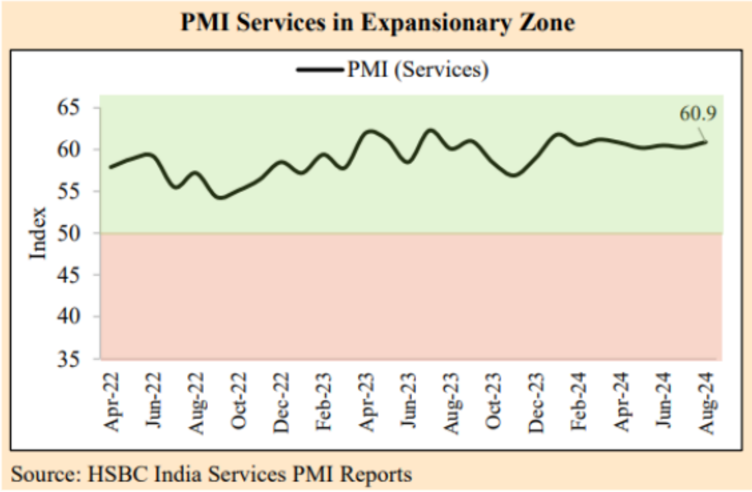
- **Core Industries Growth:** The index of eight core industries increased by 6.1% in July 2024 YoY, with strong growth in steel, electricity, coal, refinery products, cement, and fertilisers.

Growth performance of 8 core industries in April-July 2024



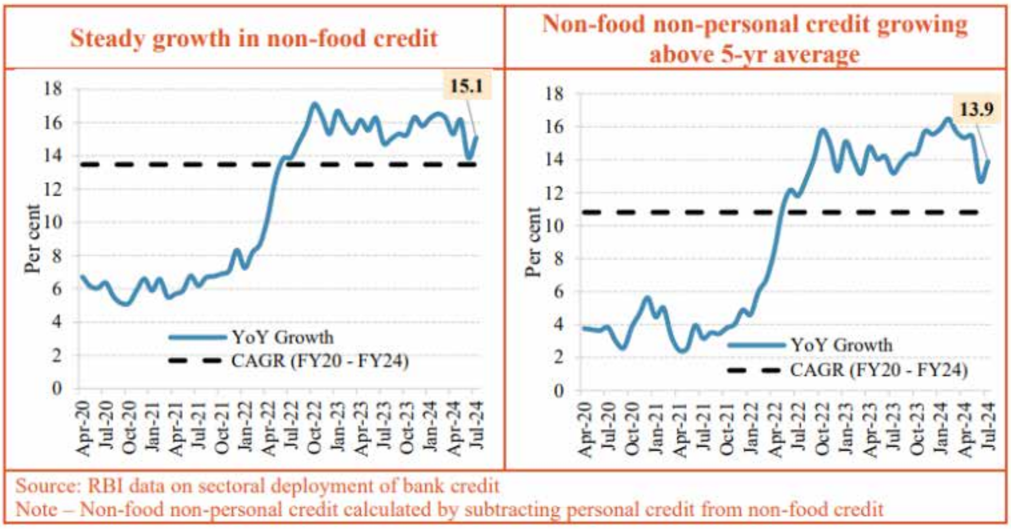
Source: Office of Economic Adviser, DPIIT

- **Services Sector Expansion:** The services sector maintained its momentum in August, driven by growth in new business, especially in finance and insurance, which were the best-performing sub-sectors.



Steady growth in bank credit

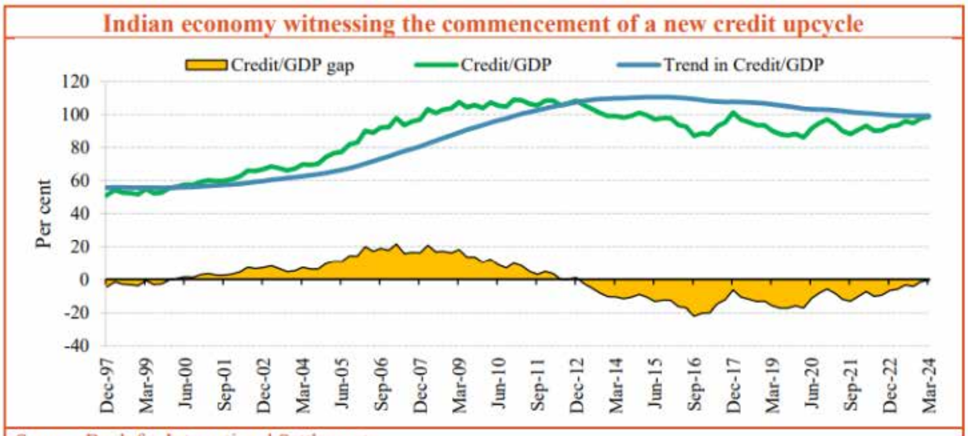
Credit Disbursal Growth: Credit disbursal by scheduled commercial banks continues to grow steadily in the first four months of FY25, indicating a healthy banking system supporting growth opportunities. Non-food credit grew over 15% year-on-year (YoY) in FY23 and FY24 and maintained this expansion as of July 2024 despite tighter regulations on unsecured loans.



- **Sectoral Credit Trends:**
    - Credit to the agriculture sector grew robustly by 18.1% YoY as of July 2024, driven by efforts to address regional credit imbalances and interest subvention schemes.
    - NABARD highlights the need to redirect bank credit from crop production to technology, farm machinery, and post-harvest infrastructure.
    - Loans to services, micro, small, and medium enterprises (MSMEs) continued to grow at their five-year compounded annual growth rate (CAGR).
    - Credit to industry, particularly for industrial MSMEs and large industries, has grown faster over the last eight months than its five-year CAGR, signalling increasing credit appetite in the sector.

- **Personal Loan Growth:** Growth in personal loans has moderated due to stricter lending norms, as banks focus on managing risks in this category.

- **Credit/GDP Ratio:** India's credit/GDP ratio has shown an upward trend post-pandemic, narrowing the gap between the current ratio and its long-term trend. This indicates a recovery from the credit cycle bust of the 2010s, which was marked by high non-performing assets. Data from the Bank for International Settlements suggests room for further growth in lending.

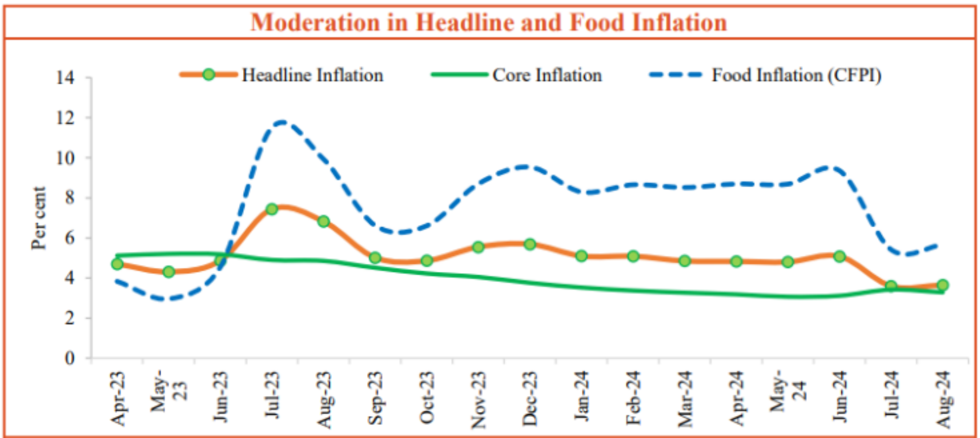


Source: Bank for International Settlements

Inflation remains benign in August 2024

- Retail Inflation: Inflation remained benign at 3.7% in August 2024, driven by softer food and core inflation. Essential food items like cereals, meat & fish, milk, sugar, and spices experienced a decline in inflation.

- Food Inflation: Food inflation rose modestly to 5.7% in August, up from July but much lower than the 8.9% in Q1 FY25. The increase was primarily due to higher prices for potatoes and onions.



Source: Consumer Price Index, MoSPI

- **Fuel & Light Inflation:** Inflation in the fuel and light group remained in the deflationary zone for the 12th consecutive month.

- **Core Inflation:** Core inflation (excluding food and fuel) remained low at 3.3% in August.

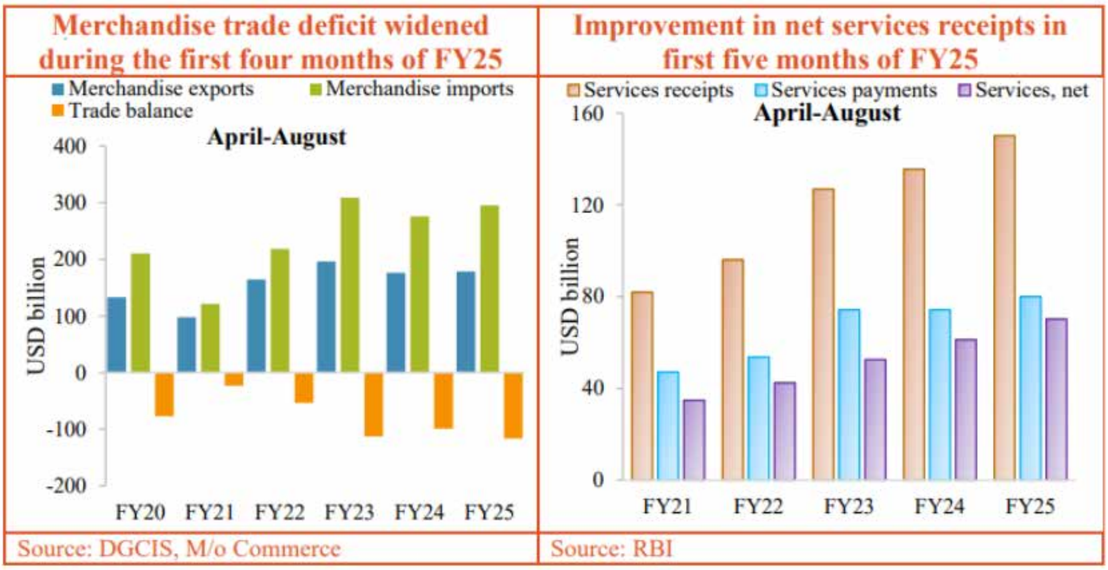
- Overall Inflation Trend: Retail inflation for April-August 2024 dropped to 4.4%, down from 5.6% in the same period last year. Core inflation also eased to 3.2%, compared to 5.1% during FY23.

India's merchandise exports and imports are on a rising trajectory.

- **Merchandise Exports:** India's merchandise exports grew by 1.1% YoY in the first five months of FY25. Non-petroleum and non-gems and jewellery exports thrived by 5.3%. Significant contributors to exports included engineering goods, petroleum products, electronic goods, drugs and pharmaceuticals, and chemicals, accounting for 65% of total exports. The Netherlands, USA, UAE, Malaysia, and Singapore were vital export destinations.

- **Merchandise Imports:** Driven by domestic demand and a favourable base effect, merchandise imports grew by 7.1% in the same period. Essential import items included petroleum, electronic goods, machinery, gold, and coal. UAE, Russia, China, Switzerland, and Taiwan were significant import partners. The merchandise trade deficit widened from USD 99.2 billion in April-August 2023 to USD 116.7 billion in FY25.

- **Services Exports:** India's services exports rose by 10.8%, increasing net services receipts from USD 61.2 billion in FY24 to USD 70.2 billion in FY25 (April-August).



Robust capital flows

- **Global FDI Trends:** FDI flows have globally declined due to economic uncertainty, geopolitical tensions, and rising borrowing costs. According to the UNCTAD World Investment Report 2024, emerging economies saw a 15% drop in FDI in 2023.

- **India's FDI Performance:** Although FDI in India was slightly lower in FY24, it was primarily due to a 51.5% rise in repatriations as international companies realised investment returns. Many multinationals capitalised on India's strong stock market through secondary sales and IPOs, showcasing investor confidence.

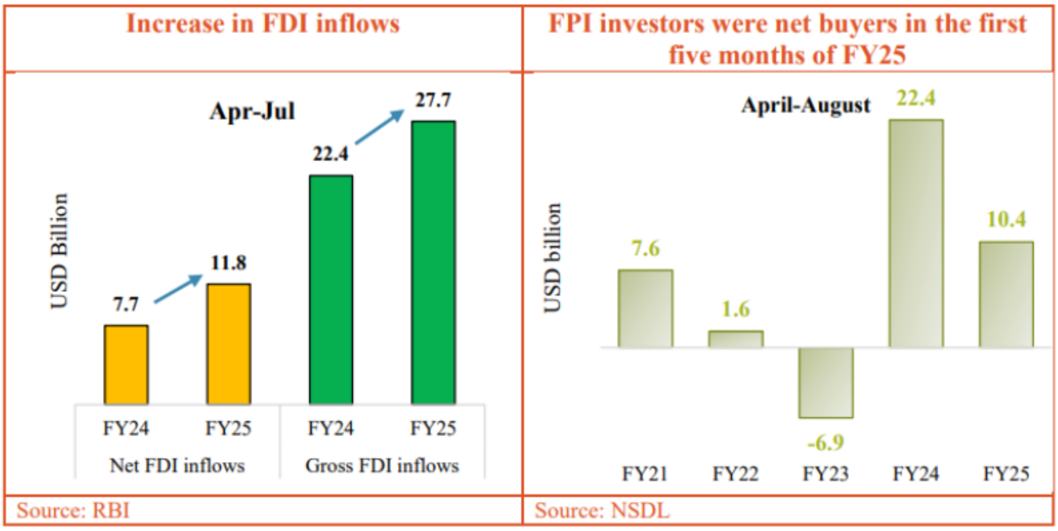
- **Positive FDI Outlook:** Despite the slight dip in net FDI, India's ability to facilitate profitable exits for investors indicates future investment growth. Private equity-backed exits surged in 2023, backed by India's stable macroeconomic environment and investor-friendly policies.

- **Greenfield Projects & Future Focus:** India continues to attract high-profile greenfield project announcements and international project finance deals. The government simplifies regulations and encourages investment in emerging sectors such as renewables and semiconductors. Key priorities include improving workforce skills, fostering R&D, and boosting state-level investment attractiveness.

- **FY25 FDI Growth:** Net FDI inflows rose by 52.4% in the first four months of FY25, with gross FDI inflows increasing by 23.7%, from USD 22.4 billion in FY24 to USD 27.7 billion in FY25. The sectors driving these inflows include manufacturing, finance, communication, computer, and energy.

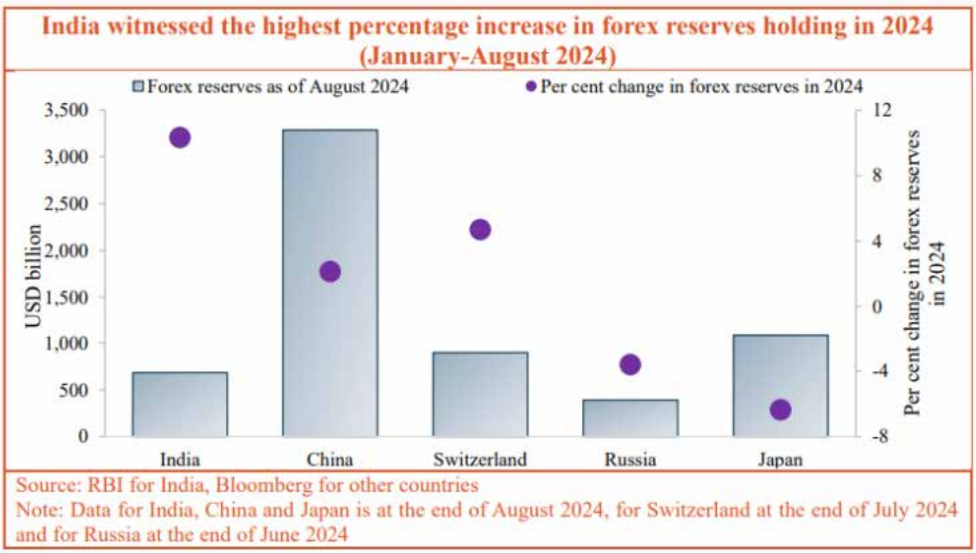
Rising Foreign Portfolio Investment flows

- **Foreign Portfolio Investment (FPI) Inflows:** Supported by strong macroeconomic fundamentals, a favourable business environment, high economic growth, and expectations of a rate cut by the US Federal Reserve, foreign portfolio investors remained net buyers in India in the first five months of FY25. FPI inflows totalled USD 10.4 billion, with key sectors such as telecommunications, capital goods, consumer services, and healthcare receiving the most investments.



- **Forex Reserves Peak**: As of 30 August 2024, India's foreign exchange reserves reached a record high of USD 684 billion. The reserves increased by USD 64 billion between January and August 2024, marking the highest percentage growth among major reserve-holding countries. These reserves are sufficient to cover over 11 months of imports and more than 100% of India's external debt as of March 2024.

- **External Sector Strength:** Rising merchandise and services exports, along with stable foreign capital inflows, underscore India's robust external sector, reflecting the country's resilient economic position.



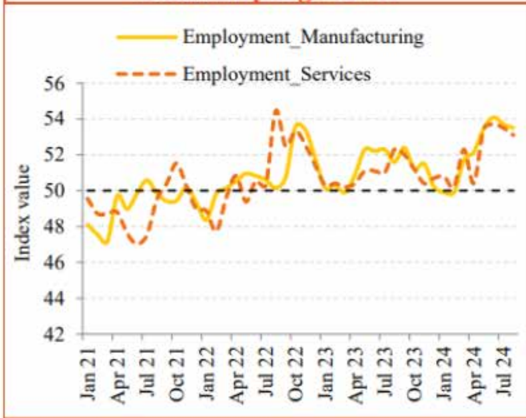
Labour market at robust levels with a positive outlook

- **Formal Job Creation Rebound:** Labour market indicators signal a positive outlook for the next quarter. The Employees' Provident Fund Organisation (EPFO) reported adding 10.5 lakh new members in July 2024. Of these new members, 59.4% were in the 18-25 age group, highlighting the influx of youth and first-time job seekers into the formal workforce.

- **Employment Trends:** While the Purchasing Managers' Index (PMI) employment sub-index softened slightly, it remained in the expansionary zone for the sixth consecutive month, reflecting continued optimism and a positive employment outlook, supported by rising backlogs.

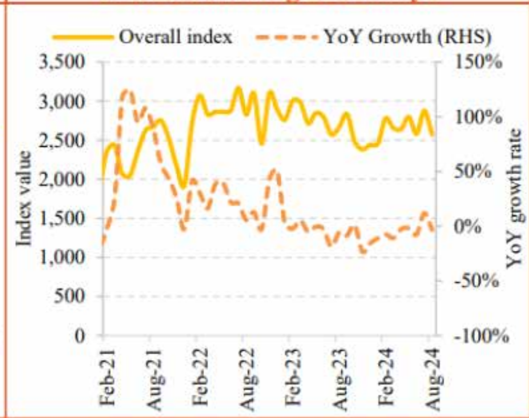
- **Sectoral Job Market Performance:** The Naukri JobSpeak index showed a 3.4% year-on-year contraction in August, driven primarily by a cluster of holidays in the month's latter half. However, specific sectors like AI-ML, FMCG, Pharma/Biotech, and Auto experienced notable growth, indicating strong demand in these industries despite the overall dip.

Employment sub-indices in PMI at historically high levels



Source: HSBC Purchasing Managers' Index, S&P

Naukri Jobspeak Index declined due to festive clustering of holidays



Source: Naukri Jobspeak Index

- **Hiring Sentiment:** According to the ManpowerGroup Employment Outlook Survey, India leads globally in hiring sentiment, with a net employment outlook of 37% for the December 2024 quarter. This is 12 percentage points higher than the global average and represents a 7-point increase from the previous quarter, with over half of the surveyed firms planning to increase hiring.

- **Welfare Progress:** An academic study recently highlighted the transformative impact of the Swachh Bharat Abhiyan on child health and mortality, underscoring its critical role in improving welfare and public health.

Outlook

- **Macroeconomic Stability:** Recent developments underscore India's robust macroeconomic stability, characterised by steady growth, investment, employment, and inflation trends, alongside a strong financial sector and resilient external accounts with comfortable foreign exchange reserves.

- **Global Economic Challenges:** Navigating ongoing uncertainty in global economic prospects remains challenging. A cycle of policy rate cuts is anticipated amid recession fears in advanced economies and persistent geopolitical conflicts.

- **Public Expenditure Outlook:** For the remainder of the financial year, expectations suggest an increase in public expenditure, contributing to growth and investment.

- **Agricultural Sector Insights:** Higher kharif acreage is evident, and replenished reservoir levels may boost upcoming Rabi crop yields. While uneven rainfall may impact farm output in certain regions, absent significant climate shocks, rural incomes and demand are expected to strengthen, leading to milder food inflation.

- **Sector-Specific Concerns:** Signs of strain are emerging in specific sectors. The Federation of Automobile Dealers Association (FADA) has noted moderating passenger vehicle sales and rising inventory levels. Nielsen IQ data indicates a slowdown in fast-moving consumer goods sales in urban areas during Q1 FY25, though these trends may be temporary due to the festival season.

- **Capital Spending Decline:** Indian states have been declining in capital spending this financial year, which may affect overall economic momentum.

- **Global Stock Market Dynamics:** While global stock markets are booming, driven by recent policy announcements in various countries, this raises the risk of an eventual market correction, which could have international repercussions.

- **Positive Economic Indicator:** Despite the challenges, low oil prices positively affect the economy.

- **Growth Projections:** The GDP growth of 6.7% in Q1 FY25 aligns well with the Economic Survey 2023-24's real GDP growth projection of 6.5-7% for FY25, as indicated by high-frequency indicators up to August.

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