Half-Yearly Economic Review 2023-24

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Economic Division

आर्थिक कार्य विभाग
DEPARTMENT OF ECONOMIC AFFAIRS

सत्यमेव जयते

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Abstract

The real GDP grew by a healthy 7.7 per cent in H1 of FY24, following a 7.6 per cent growth in Q2. On the back of strong performance in Q2, the RBI has raised its growth forecast to 7 per cent for the full year. Resilient consumption and investment have driven up the growth rate in H1. The urban component has strengthened consumption while rural demand is beginning to pick up. The government capex has increased the investment rate while private investment is showing promise. The strong domestic demand has consequently induced a significant increase in manufacturing and services value-add. Globally, however, trends are different. A tightened monetary stance has weakened global economic activity. Increases in policy rates have tempered inflation but not enough to lower it to country targets. This may prolong monetary tightening and cause a still lower growth of the global output.

Geopolitical tensions persist and have exacerbated the weakness in global trade emerging from the slowing of the global output. Merchandise exports and imports of India have thus contracted in H1 of FY24 but in a manner that has improved the merchandise trade deficit. Seen with a growing surplus on the services trade account, the current account deficit is expected to narrow in H1 of FY24. The Foreign Portfolio Investments (FPIs) further fuelled optimism as they became net buyers during H1 of FY24, in contrast to being net sellers during H1 of FY23.

The Foreign Direct Investment (FDI) inflow into India net of repatriation has declined in H1 in line with the global pattern of FDI flows. It was the surge in repatriation that lowered net FDI inflows. Repatriations had been rising in view of global uncertainty. However, at the same time FPI inflows have become brisker. Notwithstanding these short-term developments, FDI inflows are expected to resurrect in the medium term as strong government support, a stable macroeconomic environment and rising growth in India are enabling conditions for boosting FDI inflows. Evidence to this effect is seen in a sharp rebound in FDI in October 2023.

Amidst the fiscal risks prevailing globally, the government has been carefully monitoring public spending to achieve fiscal consolidation. To this end, expenditures have been re-prioritised towards the immediate requirement of safeguarding the vulnerable. Re-prioritisation, however, has not compromised the government's longer-term objective of strengthening productive

capital spending. Such a prudent fiscal policy is expected to support the country's economic growth prospects.

Inflationary pressures have moderated in the first half of FY24 mainly due to the stable and declining core inflation. However, food inflation remained volatile during this period due to weather-driven supply chain disruption. Globally, food inflation is at an elevated level despite easing headline inflation.

On the employment front, labour markets have fully recovered their pre-pandemic levels. High-frequency indicators further reflect an improvement in the overall employment situation across sectors. Formal sector employment also showed robust growth, as indicated by a steep rise in the subscription base of the Employees Provident Fund Organisation (EPFO). The PMI Manufacturing and services employment sub-indices showcase a broad-based improvement in employment generation. The outlook for the employment sector appears bright, with employers intending to maintain or expand their workforce.

High Frequency Indicators (HFIs) in India for October and November 2023 reflect robust economic activity in Q3 of FY24, which is likely to continue in Q4 as well. Downside risks to growth arise from smouldering inflationary pressures in advanced countries and supply-chain disruptions re-emerging from persistent geopolitical stress, while geopolitics is an independent source of risk in itself. However, India's domestic economic momentum and stability, low-to-moderate input cost pressures and anticipated policy continuity are significant buffers against those risks.

Strong domestic demand keeps India's real GDP growth resilient amid continued deceleration in global economic activity

1. India's real GDP grew by a healthy 7.6 per cent on a YoY basis in Q2 of FY 2024. This growth is not only higher than the median projections of 6.8 per cent by professional forecasters but also their highest projection of 7.4 per cent. The resilient performance has led to a real GDP growth of 7.7 per cent in H1 of FY24, prompting RBI to revise the full-year growth projection from 6.5 per cent to 7.0 per cent.

2. Strong domestic demand for consumption and investment drove the GDP growth in H1 of FY24. Private Final Consumption Expenditure (PFCE) registered a growth of 4.5 per cent, with its share in GDP (Current Prices) increasing to 60.4 per cent, the highest in H1 since FY12, barring the pandemic year FY21. While urban consumption continues to be the key driver of consumption growth, rural demand has also shown a strong pick-up. These trends signal continued momentum in the coming months.

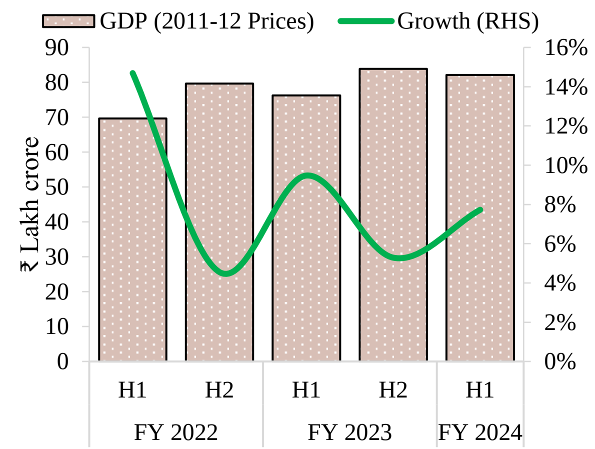
Robust growth in domestic vehicle sales and an uptick in loan demand reflect healthy demand conditions. Passenger vehicle sales were YoY 25.1 per cent higher in the April-November period of FY24. Personal loan growth continues to be impressive, growing at 26.2 per cent in April-October of FY24. While the RBI Consumer Confidence Survey remained stable in November 2023, the year ahead outlook, as measured by the future expectations index (FEI), improved, reflecting an optimistic outlook on the general economic situation, employment, income, and spending. A steady decline in the urban unemployment rate, as per the Periodic Labour Force Survey (PLFS), has also contributed to sustaining strong private consumption growth. The unemployment rate[1] dropped to 6.6 per cent in H1 of FY24 from 7 per cent in H2 of FY23. At the same time, signs of strengthened rural demand are evident in the growth of Fast-Moving Consumer Goods (FMCG), two-wheelers, and tractor sales. An increase in real rural wages, backed by a decline in inflation, has further contributed to the strengthening of rural consumption. Moreover, higher kharif production and enhanced Minimum Support Price (MSP) have augmented rural income, strengthening rural consumption.

CVoters' latest Quarterly Consumer Optimism Report, based on the survey conducted in November 2023 among 12,800 respondents representing all socio-economic, age and ethnic categories in the country, highlights that rural India has become more optimistic than urban India. There is a steady and consistent rise in the proportion of respondents who say their standard of living has improved over the last year. Further, a big majority of consumers have experienced a rise in income or stability in family incomes. Most of the respondents (both rural and urban) expect their family income to increase in the next three months. Challenges perceived by urban and rural India are equal. Consumers from rural India do not perceive any incremental distress over urban India.

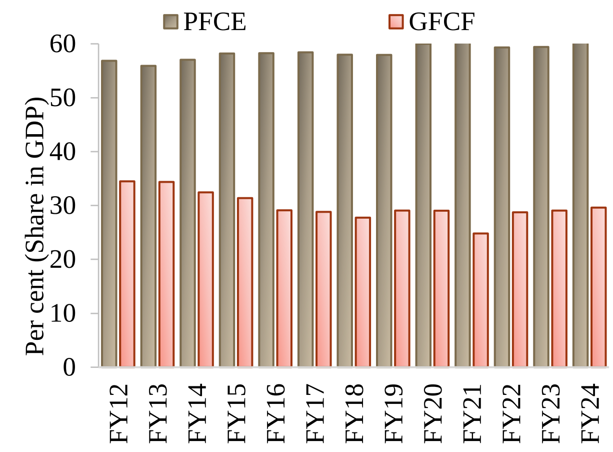
[1] As per Current Weekly Status in urban areas for persons of age 15 years and above

3. Like consumption, investment has also stayed strong. The share of Gross Fixed Capital Formation (GFCF) in GDP (Current Prices) rose from 29.1 per cent in H1 of FY23 to 29.6 per cent in H1 of FY24. The strength of domestic investment is the result of the government's continued emphasis on capital expenditure, which has also incentivised states to increase their capex. Enhanced provision for capital expenditure by the government is now leading to crowding in of private investment, as evident in several High-Frequency Indicators (HFIs) like import of capital goods, bank credit to the infrastructure sector and new projects announcements reported by private agencies. Rising investment is further reflected in the growth of construction activity, as seen in increasing steel consumption and cement production.

Sustained momentum in Real GDP growth



Strong growth reflected in the rise in share in GDP (H1 of all years)



Source: MoSPI

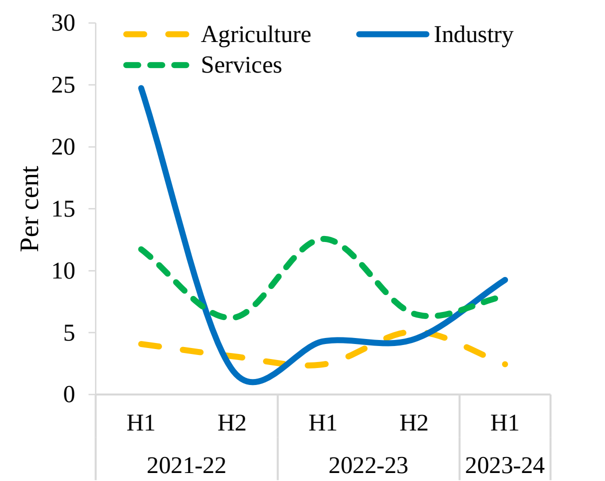
The Centre's capex grew by 33.7 per cent in April-October FY24 over the corresponding period last year. Capex spending by states also grew strongly at 49.8 per cent YoY in H1 of FY24. Import of capital goods witnessed YoY growth of 2.9 per cent during April-October 2023. Axis Bank corporate capex data shows a 15 per cent YoY increase in corporate capex in H1 of FY24. The growth was primarily driven by trading, gas distribution, auto and electricity sectors.

4. Responding to strong domestic demand, the gross value added (GVA) increased by 7.4 per cent YoY in Q2 FY24, registering the H1 growth of 7.6 per cent in FY24. The industry and services sectors were the primary drivers of growth in the first half of FY24.

Amongst the components of GVA, the industry segment grew by 9.3 per cent in H1 of FY24. This was driven by solid growth of 7.6 per cent, 9.3 per cent, and 10.5 per cent in the sub-components mining and quarrying, manufacturing, and construction, respectively. The strength of the manufacturing sector is also underscored by the India manufacturing PMI, which, as of November 2023, shows that the sector has expanded for 29 consecutive months, supported by new orders and favourable demand conditions. The Index of Industrial Production (IIP) has also grown by 6.1 per cent in H1 of FY24, with notable growth rates of 7 per cent and 12.4 per cent in the capital goods sector and construction and infrastructure goods sector, respectively. The construction sector continued to receive a fillip from the focus on the development of physical infrastructure. This is reflected in the healthy growth rates of cement and steel production of 11.5 per cent and 15.1 per cent, respectively.

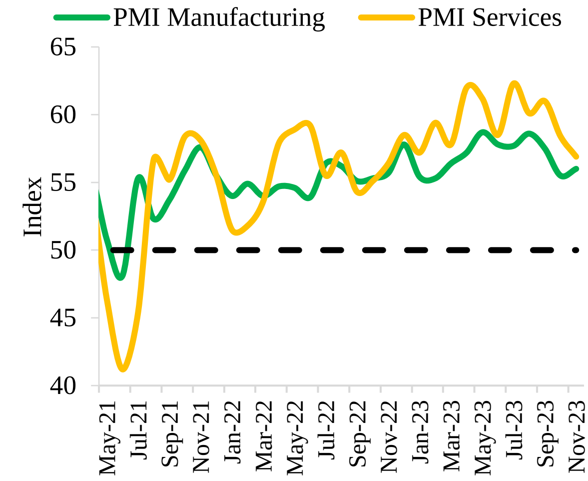
The services sector has also performed well in H1 of FY24 and has grown by 8 per cent on a YoY basis over this period. The India services PMI indicates that the sector has been expanding for 29 consecutive months, led by new business orders improving services exports. In the hospitality sector, while the average hotel occupancy rate was lower for the period Apr-Sep 2023 compared to the corresponding period of the previous year, the average daily rate and the average revenue per room available are 16.6 per cent and 14.1 per cent higher over this period. The tourism sector also displayed a trend towards revival, with foreign tourist arrivals inching up in the quarter ending September 2023, both on a sequential and YoY basis.

Industry and services sectors drove GVA growth in H1 of FY 2024



Source: MoSPI

Manufacturing and service sectors continue to expand

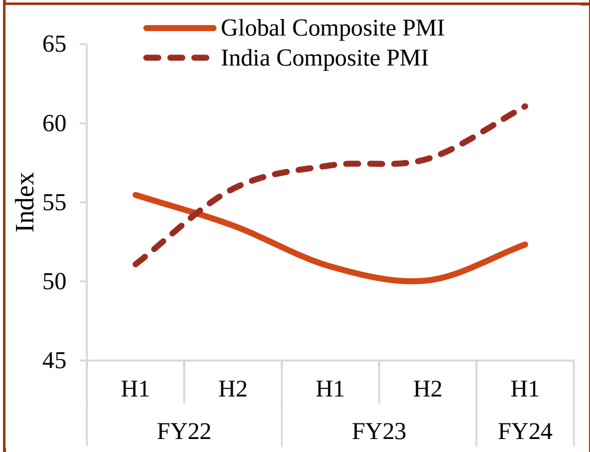


Source: RBI

5. The growth acceleration of the Indian economy in H1 of FY24 contrasts with the growth deceleration of the world economy, as seen in composite PMI indices. India was also the fastest-growing economy among major economies in H1 of FY24. According to the IMF, India is expected to contribute more than 16 per cent to the global growth in 2023. Growth deceleration in the world economy is largely a consequence of monetary tightening by central banks for tempering inflation. Yet inflation rates remain well above individual targets of several economies. This may keep the monetary policy restrictive, resulting in still lower growth. The Federal Reserve, in its December 2023 meeting, has, however, indicated a 75-basis points reduction in policy rates by the end of next year. This increases the likelihood of a soft landing in the US economy.

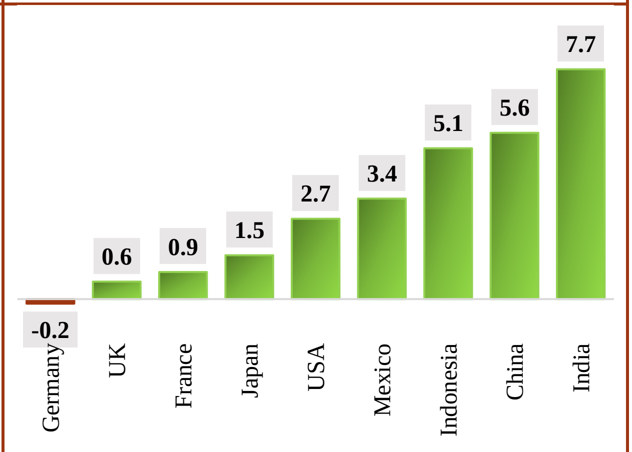
The composite PMI readings indicate that global economic activity decisively slowed but unevenly so. Economic activity expanded in countries such as China, Japan, and the US but at a slower rate as compared to the previous quarter. On the other hand, economic activity in the countries of Brazil, France, Germany, and the UK contracted in this quarter. GDP growth rates in the first half of FY 2024 also diverged across economies, with those in advanced economies remaining weak while those in developing economies were relatively healthier. The US economy expanded at a YoY rate of 2.7 per cent in H1 of FY24, higher than the corresponding period last year. However, the headline figure mask diverging trends; growth in private consumption and government spending surged, but this was partly offset by a decline in interest rate-sensitive sectors such as residential fixed investment. UK GDP also registered a modest YoY growth rate of 0.6 per cent in H1 of FY24, lower than the growth in the corresponding period last year. China, on the other hand, grew at a faster-than-expected rate and registered 5.6 per cent growth in H1. Consumption and industrial activity have shown an uptick, signalling the positive impact of policy measures to bolster a tentative recovery.

Domestic economic activity remains strong amid slowing global activity



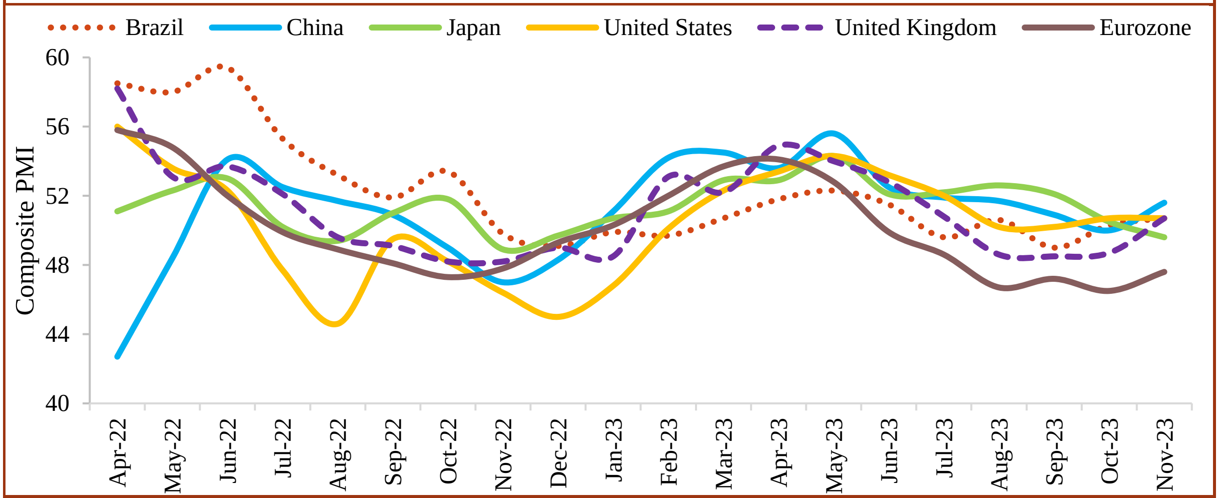
Source: Bloomberg

India was the fastest-growing major economy in H1 of FY 2024



Source: MoSPI, Bloomberg

The uneven deceleration in global economic activity



Source: Bloomberg

Geo-political conditions continue to impact India's external sector

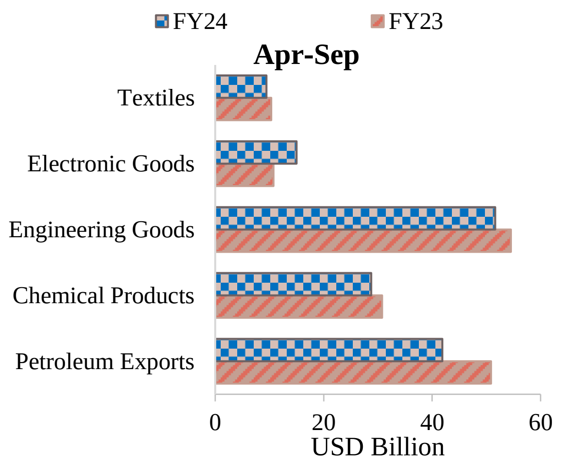
Robust services export likely to narrow Current Account Deficit in Q2 of FY24

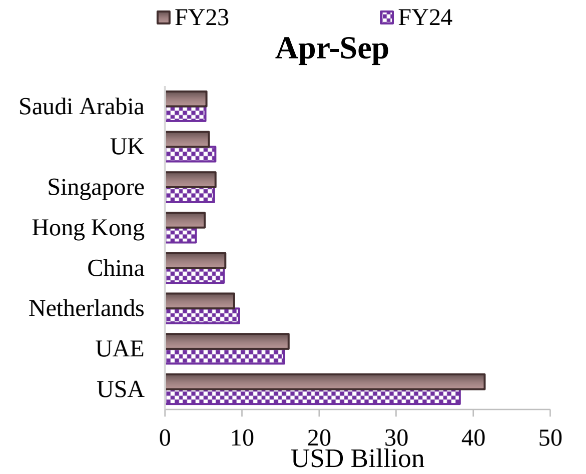
6. Along with slowing global output, restructuring of global supply chains and rising trade restrictions have also impacted global trade adversely. The Organisation of Economic Cooperation and Development (OECD) Economic Outlook (November 2023) highlights a

general post-pandemic decline in trade relative to GDP, especially merchandise trade, and thus weak trade is not a new development in 2023. The World Trade Organisation (WTO) further suggests that a better outlook for global trade growth cannot be promised, given the persistent geopolitical uncertainties.[2][3] As per the United Nations Conference on Trade and Development (UNCTAD) Global Trade Update (December 2023)[4], global trade is projected to drop in 2023, continuing its contraction since mid-2022.

7. The impact of global trade moderation is also evident in India's external sector performance. India's merchandise exports contracted in H1 of FY24 compared to the corresponding period of the previous year amid an economic slowdown in India's major trade partners.

Category and country-wise trends in Merchandise Exports





Source: DGCIS, M/o Commerce

8. At the same time, merchandise import value also registered a sharp contraction with the fall in international commodity prices even as overall import volume grew on the back of strong domestic demand. Consequently, the merchandise trade deficit narrowed in H1 of FY24 compared to the corresponding period of the previous year.

9. India's services exports continued to perform well during H1 of FY24, growing positively over H1 of FY23. The growth is primarily driven by software and business services. With the global IT spending forecast to grow by 4.3 per cent in 2023[5], the outlook for India's services exports remains encouraging. Narrowing merchandise trade deficit and rising net services receipts are expected to improve India's current account deficit in Q2 of FY24.

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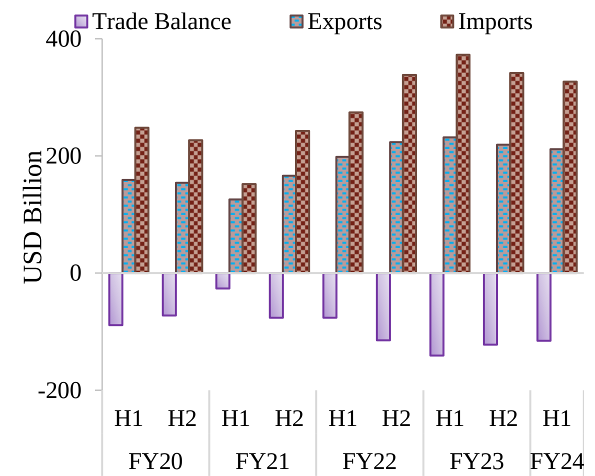
[2] https://www.wto.org/english/news_e/news23_e/wtoi_27nov23_e.pdf (Published on 27 November 2023)
[3] World Trade Report, 2023 (September 2023), WTO
[4] https://unctad.org/system/files/official-document/ditcinf2023d3.pdf
[5] https://www.gartner.com/en/newsroom/press-releases/2023-07-19-gartner-forecasts-worldwide-it-spending-to-grow-4-percent-in-2023

During H1 of FY24, merchandise exports contracted by 8.8 per cent. Classification across major commodity groups showcases that exports have declined broad-based across all categories, except electronic goods. Across countries, India's exports to the USA, UAE, China, Hong Kong, Singapore and Saudi Arabia declined, whereas exports to the UK and the Netherlands increased. The net of service trade in H1 of FY24 increased by 15.5 per cent (on a YoY basis). Accordingly, India's overall trade deficit (Merchandise and Services combined) reduced to almost half at USD 39.9 billion in H1 of FY24 as compared to USD 75.3 billion in H1 of FY23.

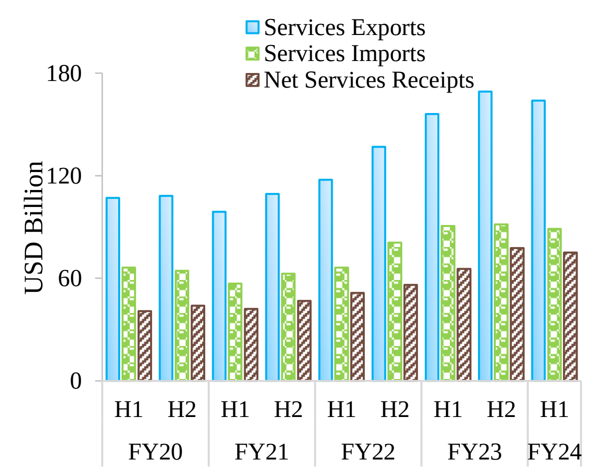
Latest estimates for November 2023 suggest an improvement in overall exports (merchandise plus services) by 1.23 per cent (YoY). Though merchandise exports moderated in November 2023 on a YoY basis, they are above the previous month's exports. A decline of 6.2 per cent in overall imports during November 2023 as compared to November 2022 resulted in a marked improvement in the trade deficit from USD (-)10.5 billion in November 2022 to USD (-)5.3 billion in November 2023.

Moderation in Merchandise Trade Deficit



Source: DGCIS, M/o Commerce

Rise in Net Services Receipts



Source: RBI

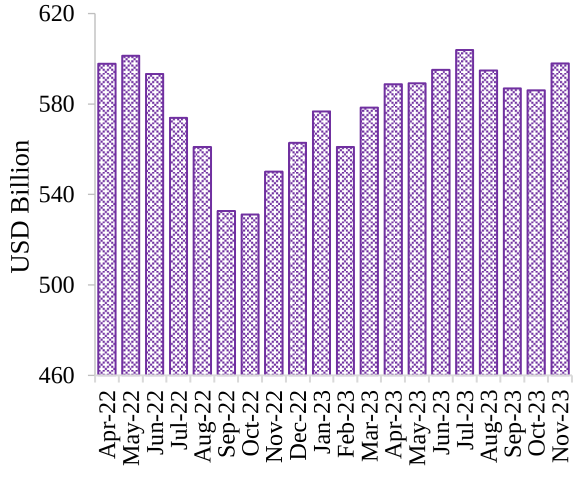
10. The World Bank's India Development Update (October 2023) estimates India's current account deficit to improve from 1.4 per cent of GDP in FY24 to 1.2 per cent in FY25 owing to an improvement in merchandise trade balance[6]. India's policy regime will be contributing to this improvement through the Remission of Duties and Taxes on Exported Products (RoDTEP), easing trade processes through digital platforms, and negotiating free trade agreements (FTAs). Regular monitoring of export performance with Commercial Missions abroad, Export Promotion Councils, Commodity Boards and Industry Associations is leading to corrective measures for promoting exports. The new Foreign Trade Policy launched with effect from 1st April 2023 lays down the blueprint for improving India's trade performance.

[6] https://www.worldbank.org/en/news/press-release/2023/10/03/india-s-growth-to-remain-resilient-despite-global-challenges

Capital investors remain confident about the Indian economy during H1 of FY24

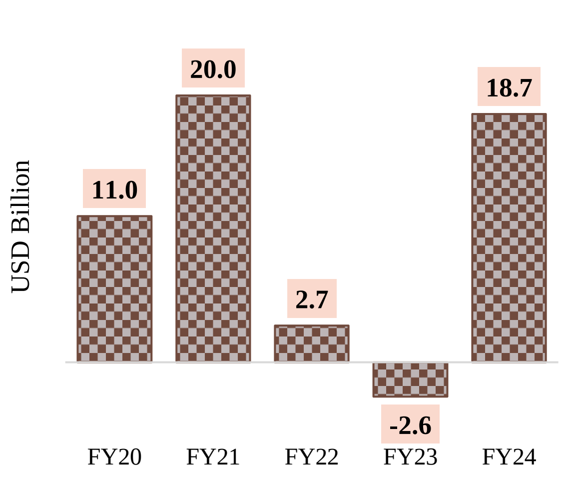
11. A decline in inflation in advanced economies has led to a pause in rate hikes. This has contributed to spurring capital inflows back into emerging market economies, including India. Foreign portfolio investors in India thus became net buyers in H1 of FY24, compared to their net seller position in H1 of FY23. Rising economic growth, strong macroeconomic fundamentals, positive business sentiments and low volatility in the Indian rupee have played a pivotal role in boosting India's portfolio inflows.

Forex reserves sufficient to cover 10.7 months of imports



Source: RBI

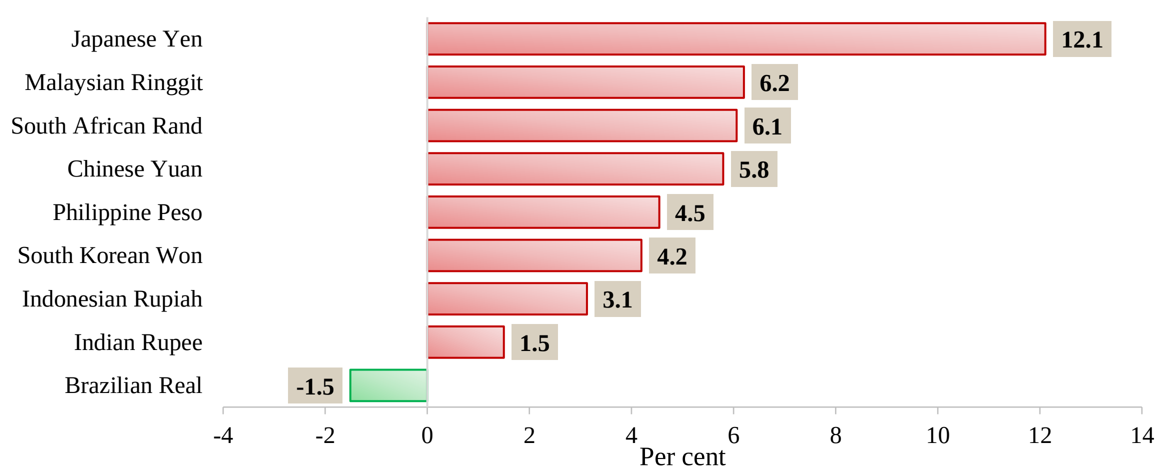
Positive FPI flows in the first 8 months of FY24



Source: CDSL

12. Improvement in overall trade balance during the current year coupled with net positive FPI flows have contributed to an increase in foreign exchange reserves, which stood at USD 597.9 billion in November 2023, sufficient enough to provide an import cover of 10.7 months.

Percentage appreciation (-)/depreciation (+) against US Dollar



Source: Bloomberg

13. Owing to the expectation of a continuation of a pause in rate hikes by the US Federal Reserve, emerging market currencies did not witness much depreciation of their currency. Though the Indian Rupee, Chinese Yuan, Philippine Peso, Chinese Yuan, Malaysian Ringgit, and Japanese yen, among others, depreciated in H1 of FY24, the Indian rupee has been relatively stable compared to many emerging market economies, undergoing a modest depreciation of 1.5 per cent.

Global Foreign Direct Investment (FDI) continue to decline

14. The UNCTAD's latest World Investment Report (WIR) 2023[7] highlights a moderation in Global Foreign Direct Investment (FDI) flows in 2022. The decline in Global FDI flows continued in H1 of 2023 (January-July) also. The OECD's latest report also highlights[8] a continuation of a declining trend in global FDI flows in HI of 2023 in the midst of a weakening economic activity impacted by high prices, increasing interest rates, and ongoing geopolitical uncertainty.

Global FDI flows stood at USD 727 billion in the first half of 2023, 30 per cent below the levels recorded in the first half of 2022. This drop was largely due to lower equity flows, which partly reflected a continuation of a slowdown in new investment activity. Lower reinvested earnings also contributed to the decline. Completed cross-border Merger and Acquisition activity continued on a downward trend, declining by 28 per cent in H1 of 2023. The OECD report, however, highlights that the capital expenditure on announced greenfield investment projects remained strong in Emerging Markets and Developing Economies, partly driven by a large project in renewable energy, but the number of announced projects slowed down.

India's FDI flows impacted by geo-political Headwinds

15. India's net FDI flows have been negatively impacted by external factors such as the economic crisis due to the Russia-Ukraine conflict, the rise in global protectionist measures, a spike in interest rates and the decline of real GDP growth rates of Singapore, the USA and the UK (which are the major source countries for FDI). The decline in overall FDI flows in H1 of FY24 compared to H1 of FY23 is not on account of a moderation in FDI equity inflows; rather, it is due to a rise in repatriation/disinvestment. The surge in repatriation in 2023 is not specific to India. A similar trend is visible in other emerging market economies, such as China as well[9]. This is likely due to hikes in interest rates in the developed economies, monetary tightening and general uncertainties prevailing in these economies due to geopolitical conflicts. Despite these short-term developments, FDI inflows to India are expected to rebound on account of strong

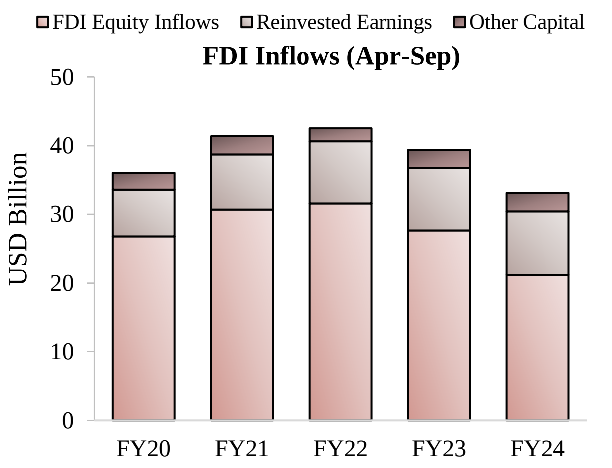
[7] https://unctad.org/system/files/official-document/wir2023_en.pdf
[8] https://www.oecd.org//daf/inv/FDI-in-Figures-October-2023.pdf
[9] https://www.piie.com/blogs/realtime-economics/foreign-direct-investment-exiting-china-new-data-show

macroeconomic fundamentals, favourable business environment and rising growth. Evidence to this effect is seen in a sharp rebound in FDI in October 2023.

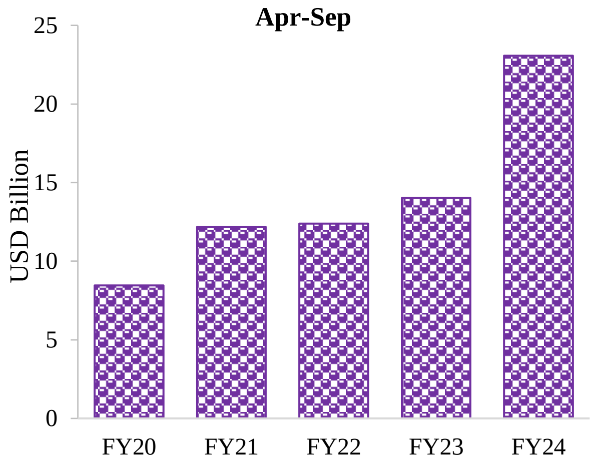
Gross FDI inflows to India were 15.9 per cent lower on a YoY basis in H1 of FY24. FDI equity inflows declined by 23.4 per cent during the same period. A major surge was witnessed in repatriation, which increased by 64.6 per cent. More than half of the FDI equity flows into India were directed towards manufacturing, financial services, transport and computer services in H1 of FY24. The moderation in FDI flows was majorly witnessed in communication services, retail and wholesale trade and manufacturing sectors. Singapore, Mauritius, Japan, the USA, and the Netherlands were the major source countries, contributing more than two-thirds of the FDI equity flows.

FDI inflows to India reached a 21-month high at USD 5.9 billion in October 2023. The surge is mainly attributed to rising gross inflows and a moderation in repatriation.

Moderation in FDI Inflows in H1: FY24

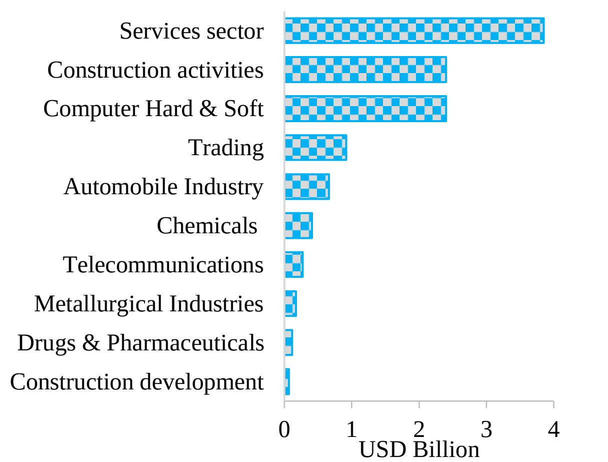


Rise in repatriation in H1: FY24

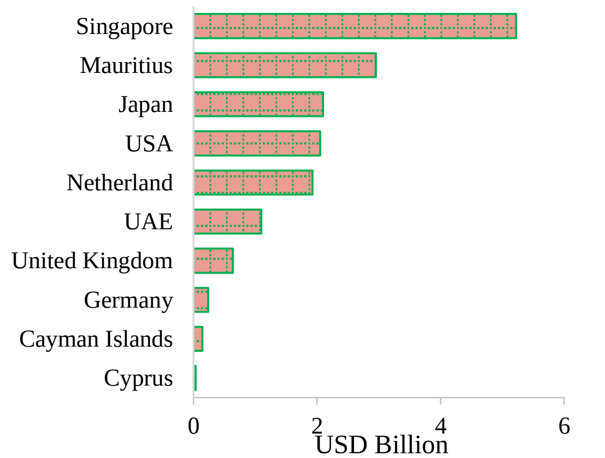


Source: RBI

Sectors attracting major FDI equity inflows (Apr-Sep FY24)



Top Investing Countries in FDI equity inflows (Apr-Sep FY24)



Source: DPIIT

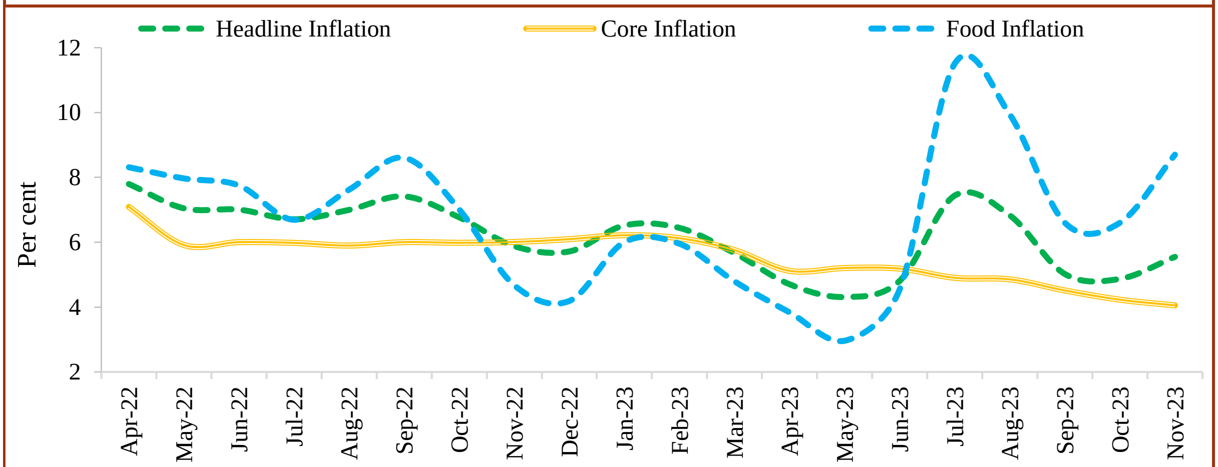
Artificial intelligence (AI) has emerged as a major area of interest for FDI investors. Of the 778 projects (total worth USD 26.8 billion) related to research and development of Al applications announced globally since 2016, India received the maximum share (26.2 per cent), followed by Canada, Singapore, Israel, and the USA[10].

16. To attract more FDI, the Government has put in place an investor-friendly FDI policy, wherein most sectors, except certain strategically important sectors, are open for 100 per cent FDI under the automatic route. Several measures have been undertaken to simplify the approval process and to promote ease of doing business. A new FDI regime has been put in place, under which the process for granting FDI approvals has been simplified. A revamped portal, "Foreign Investment Facilitation Portal (FIF Portal)", has been launched as the online single-point interface of the Government of India for investors to facilitate Foreign Direct Investment. The FIF Portal has been integrated with the National Single Window System.

Declining core inflation but fluctuating food inflation in H1 of FY24

17. Inflationary pressures have moderated in the first half of FY24, with average retail inflation easing to 5.5 per cent from 7.2 per cent in H1 of FY23. The fall was majorly driven by stable core (non-food, non-fuel) inflation, which continuously declined from 5.1 per cent in April to a 42-month low of 4.5 per cent in September 2023. On the other hand, food inflation remained volatile during H1 of FY24 and was elevated in July and August due to the abnormal increase in prices of specific food commodities caused by weather-driven supply chain disruption. However, timely government intervention (Box 1) led to an easing of food inflation by September. As per the RBI Monetary Policy Report in December 2023, uncertainties in food prices, along with unfavourable base effects, are likely to lead to a pick-up in headline inflation in November-December 2023.

Fluctuating headline inflation due to food price in H1 of FY24



Source: MoSPI

[10] https://www.fdiintelligence.com/content/opinion/ai-and-fdi-two-perspectives-to-consider-83019

As per the latest release of the consumer price index, the inflation rate was recorded at 5.6 per cent in November 2023, with stable core inflation at 4.1 per cent but elevated food inflation at 8.7 per cent. The core inflation continued to decline for the 6^{th} consecutive month. This is the lowest core inflation recorded in the last 44 months. Fuel and light components have been in deflation since September, primarily reflecting the sharp fall in LPG prices as a result of Government intervention in the form of subsidised LPG prices. Higher food inflation was mainly due to inflation in some vegetables, pulses, spices and fruits.

Box 1: Measures taken to control inflationary pressure in H1 of FY24

Onion

- To ensure continuous availability of onion to consumers at affordable prices, the Government raised the quantity of onion buffer to 7 lakh MT in 2023-24. Onion has been disposed of continuously from the buffer from the second week of August in major consumption centres and supplied to retail consumers at Rs.25 per kg.
- The Government placed a Minimum Export Price of USD 800 per tonne on Onion (all varieties except Bangalore Rose onions and Krishnapuram onions) w.e.f 29th October 2023 till 31st December 2023.
- Further, w.e.f. 8th December 2023, an export policy of onions (under HS Code 0703 10 19) is amended from the 'Free' to 'Prohibited' category, till March 31, 2024.

Pulses

- The Government of India launched **'Bharat Dal'** initiatives on 17th July 2023. It is the mechanism to convert chana stock into chana dal for retail disposal at the highly subsidised rate of ₹60/kg for a 1 kg pack and ₹55/kg for a 30 kg pack.
- To prevent hoarding, stock limits have been imposed on tur and urad under the Essential Commodities Act, 1955, for a period till 31st December 2023.

Rice

- The export of broken rice was prohibited and an export duty of 20 per cent was placed on non-basmati white rice on 9th September 2022. Subsequently, the export of non-basmati white rice was also prohibited on 20th July 2023.
- W.e.f 25th August 2023, the export duty of 20 per cent has been placed on the export of parboiled rice. This was later extended up to 31st March 2024.

Wheat/Atta

- To prevent hoarding and unscrupulous speculation, the Government of India imposed stock limits on wheat from 12th June 2023 for a period till 31st March 2024. In a continued effort to moderate the prices, stock limits have been revised on 8th December 2023.
- On 6th November 2023, the Government flagged off 100 mobile vans for the sale of wheat flour (Atta) under the 'Bharat' brand at an MRP not exceeding ₹27.5/kg.

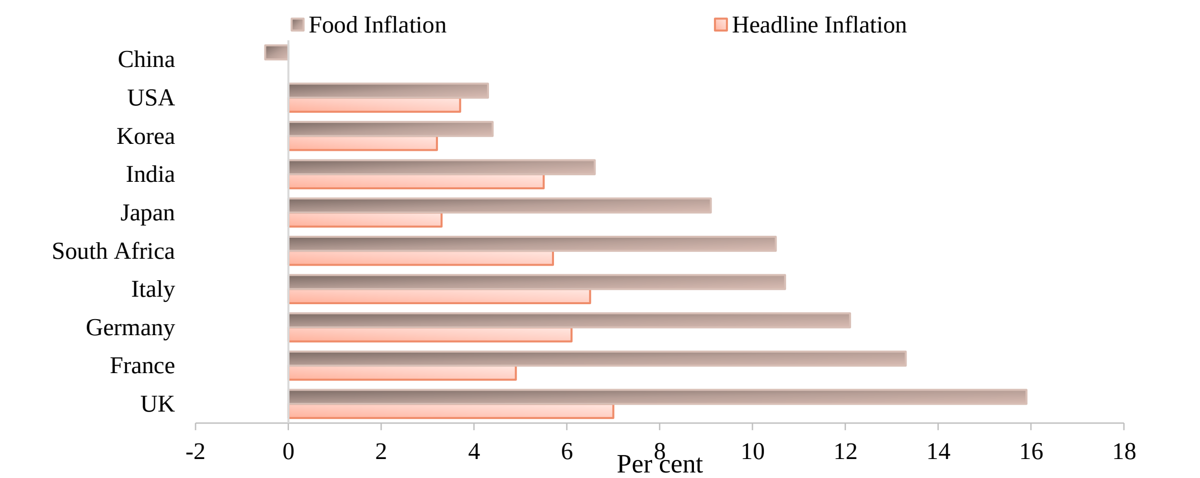
Sugar: On 18th Oct 2023, the Government of India extended the restrictions on the export of Sugar (Raw Sugar, White Sugar, Refined Sugar and Organic sugar) beyond 31st October 2023 till further orders.

LPG Subsidy: In October 2023, the Government increased the targeted subsidy under Pradhan Mantri Ujjwala Yojana (PMUY) from ₹200 to ₹300 per 14.2 kg cylinder.

High food inflation is a global phenomenon

18. While the relatively high food inflation rate in India is a matter of concern, it is important to mention that the present rate of increase in prices is a worldwide phenomenon. Globally, headline inflation is easing gradually, but compared to India, food inflation remained in major economies like the UK, France, Germany, Italy, South Africa and Japan in H1 of FY24. While India recorded 6.6 per cent food inflation in October 2023, the UK is still grappling with 10.1 per cent, Japan at 9.8 per cent, and South Africa at 9 per cent food inflation.

Easing headline inflation and high food inflation at the global level in H1 of FY24



Source: OECD for other countries and MoSPI for India
Note: The inflation rate is the average of April to September months

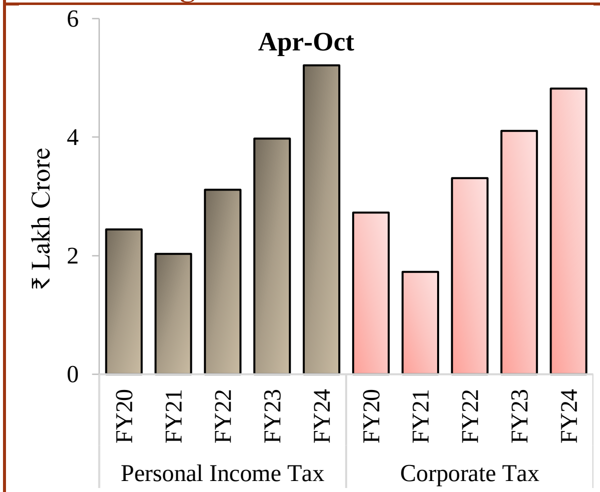
Prudent fiscal policy supports the prospects for the country's economic growth

19. In its recently released International Debt Report-2023, the World Bank has stated that while global growth is expected to slow in 2023, the growth outlook is weaker for countries with elevated fiscal vulnerabilities. The back-to-back global shocks have exacerbated the fiscal risks seen in elevated debt levels, high interest rates, and moderating GDP growth. The increasing demand for public spending to curb the impact of twin global shocks has further constrained global economies from rebuilding their fiscal space.

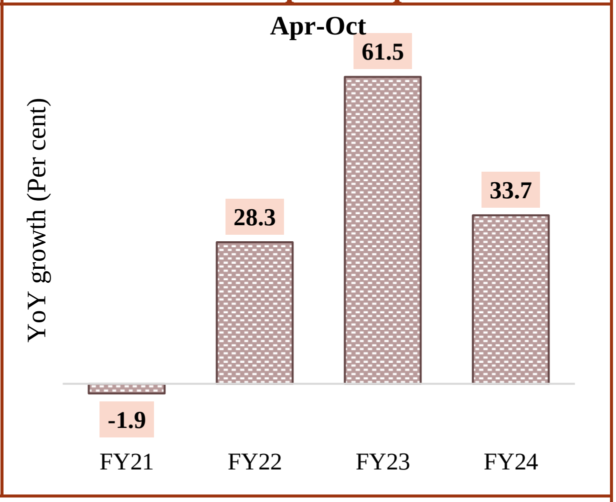
20. Amidst the fiscal risks prevailing globally, the Government has been carefully monitoring public spending, considering its medium-term goal of fiscal consolidation. Consequently, the fiscal deficit in the first seven months of FY24 was controlled at 45 per cent of the Budget estimate. While the expenditures have been re-prioritised towards the immediate requirement of safeguarding the vulnerable through the committed food subsidy, continued fertiliser subsidy and enhanced cooking gas subsidy, India's fiscal policy has not compromised on its longer-term objective of strengthening productive capital spending. Moreover, the Central Government has frontloaded the tax devolution payments to the States during FY24 to enable them to speed up capital spending, finance their development-related expenditure and make available resources for their priority projects.

Buoyant revenue collections from April to October 2023 have supported the fiscal health of the economy. The net tax revenue of the Government in Apr-Oct 2023 rose by 11.2 per cent year-on-year to reach ₹13 lakh crore. The direct taxes have registered a robust collection during the year, with a 17.4 per cent YoY growth in corporate taxes and a more than 30 per cent YoY growth in personal income taxes.

Rising Direct tax Collections



Increase in Capital Expenditure



Source: O/o CGA

Amongst the indirect taxes, GST collections have continued to reflect the momentum in economic activity. The monthly Gross GST collection for all the months of FY24 has been much higher than that recorded in the corresponding months of the last fiscal year. For November 2023, the gross GST collection at ₹1.68 lakh crore was 12 per cent higher on a YoY basis.

On the expenditure front, capital expenditure by the Government during the first seven months of the fiscal year increased by 33.7 per cent on a YoY basis. In this period, the revenue expenditure registered a 6.5 per cent YoY growth. This shows a continued re-balancing of expenditure components towards more productive use.

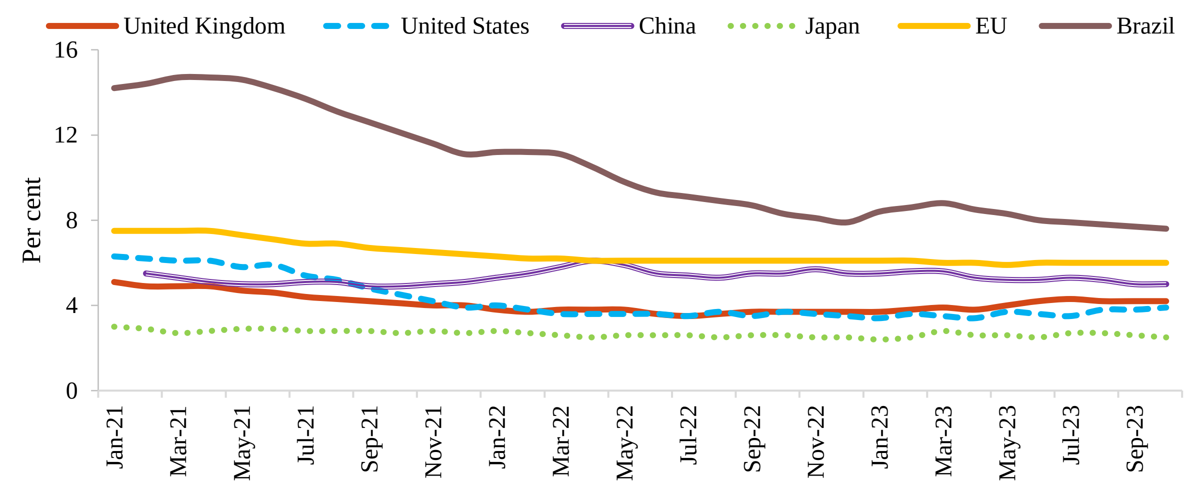
The thrust on capital spending by States has continued, with a 47.4 per cent growth in capital expenditure during H1 of FY24 on the back of the Union Government's Scheme for 'Special Assistance to States for Capital Investment'. As of end-October 2023, the Union government had approved expenditure amounting to ₹96,206 crore (accounting for 74 per cent of the ₹1.3 lakh crore budgeted for 2023-24), out of which ₹58,494 crore has already been disbursed to the States.

The Central Public Sector Enterprises (CPSEs) and large government agencies present in the infrastructure sector, like the National Highways Authority of India (NHAI) and the Railways, have invested ₹4.3 lakh crore, 58.4 per cent of their combined annual capital expenditure target in April-October of FY24, supporting the public capex-led economic growth revival. On an annual basis, these entities' capex grew by 22 per cent year-on-year in the first seven months of the current financial year compared with ₹3.5 lakh crore in the year-ago period.

The global employment situation continues to improve

21. The IMF's latest WEO highlights a divergence in labour market performance across regions. Unemployment rates in Advanced Economies (AEs) have declined to historically low levels. There is also a reduction in labour market tightness shown by decreasing vacancy-to-unemployment ratios across advanced economy markets. In contrast, in Emerging Market and Developing Economies (EMDEs) employment and labour force participation rates are expected to remain significantly below pre-pandemic trends due to severe output losses and much weaker social protection. Though labour markets in AEs remain buoyant, there is scant evidence of a 'wage-price spiral' with real wages below the pre-pandemic levels. With the projected slowdown in advanced economies, their annual unemployment is projected to rise in 2023 and 2024 by an average of 0.1 per cent over 2022–24.

Decline in unemployment rate across major economies



Source: Respective Ministries of the Nations and www.tradingeconomics.com

Rising employment opportunities highlight better growth prospects for India

22. The employment situation in India is much different compared to EMDEs and AEs, with evidence of labour markets completely recovering the pre-pandemic levels and remaining

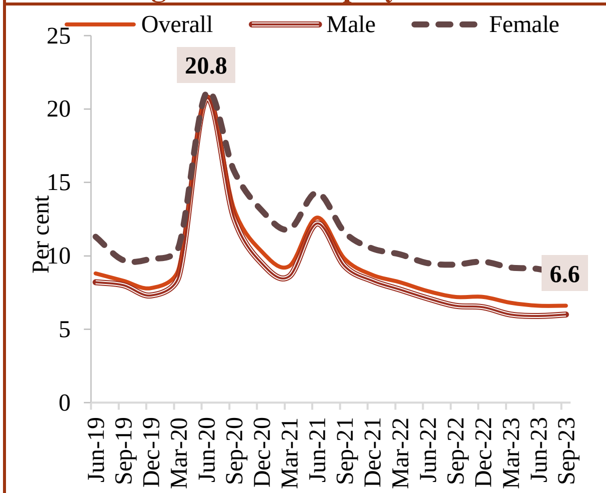
insulated from the impact of ongoing geopolitical headwinds. The recent Periodic Labour Force Survey (PLFS) reflects a decline in the urban unemployment rate in Q2 as well as in H1 of FY24 compared to the corresponding periods of the previous years, tilting growth more towards inclusivity. The fall in the unemployment rate has been accompanied with a rise in the labour force participation rate and Worker to Population ratio.

Urban unemployment rate declined from 7.2 per cent in Q2 of FY23 to 6.6 per cent in Q2 of FY24. This brings the urban unemployment rate down from 7.4 per cent in H1 of FY23 to 6.6 per cent in H1 of FY24.

23. High-frequency indicators further reflect an improvement in the overall employment situation across sectors. India's labour market is showing robust growth in formal sector jobs, as indicated by a steep rise in the subscription base of the Employees Provident Fund Organisation (EPFO) in H1 of FY24. Expansion in the EPFO subscription base has been accompanied by falling exits from the EPFO net. On a sequential basis, new EPFO subscribers and rejoined subscribers were much higher in H1 of FY24 compared to H2 of FY23. The creation of digital identities like Aadhar, registration of unorganised workers on the e-shram portal, and registration of MSMEs on the Udyam portal has played a significant role in promoting the formalisation of the economy.

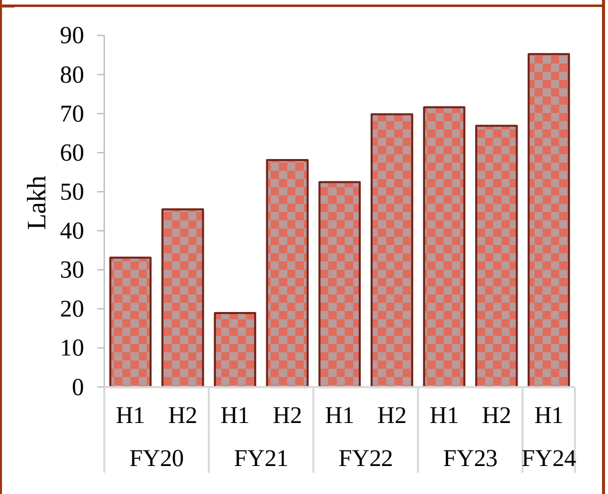
Net payroll additions under EPFO witnessed a year-on-year growth of 18.9 per cent in H1 of FY24, with growth being broad-based across all age groups. Exit from the EPFO net was 72.6 per cent lower in H1 of FY24 compared to the corresponding period of the previous year.

Declining urban unemployment rate



Source: MoSPI

Increase in Net EPFO Subscribers



Source: EPFO

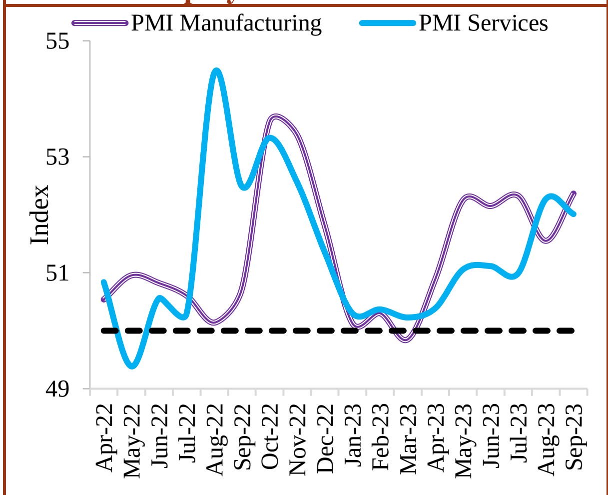
24. At a broader level of the manufacturing and services sector as well, rising job creation is evident. The PMI Manufacturing employment sub-index suggests the generation of more employment opportunities in the manufacturing sector supported by rising growth in sales, increase in new orders and stable business confidence. Similarly, the PMI Services sub-index

shows a step up in employment generation in the services sector from a combination of new business wins and upbeat forecasts for demand.

25. The Naukri Job Speak Index signals a moderation in hiring activity in white-collar jobs in H1 of FY24, majorly due to a contraction in employment generation in the IT sector. With a large part of India's IT revenue sourced from clients in developed markets like the US and EU, their growth deceleration, coupled with geopolitical tensions in regions like Ukraine and the Middle East, is impacting spending. However, Banking and financial services, construction, healthcare, hospitality, pharma and biotech sectors continue to witness a spree in hiring activity in H1 of FY24.

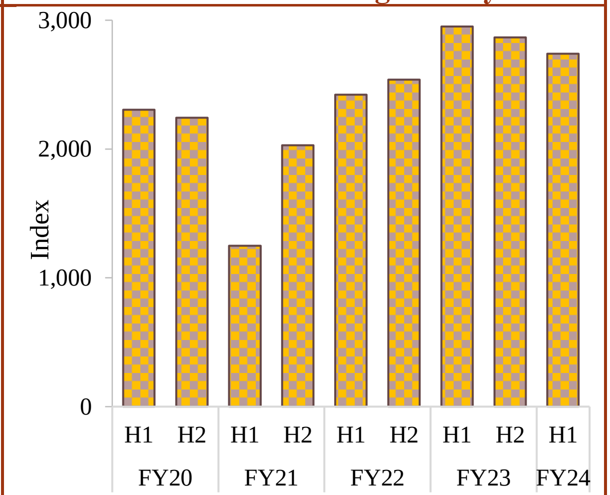
26. The Teamlease employment outlook report highlights that the employment outlook for India in H2 of FY24 appears bright, with 79 per cent of the employers intending to maintain or expand their workforce in H2. Indicative positive incremental hiring, including workforce expansion and replacement hiring, and the surge in workforce expansion are attributed to the Government policies aimed at fortifying employment opportunities and cultivating a business-friendly environment. As a result of the government and private sector encouragement of entrepreneurship, India is poised to witness an increase in employment opportunities.[11]

Continued expansion in PMI Employment sub-indices



Source: IHS Markit

Naukri Job Speak Index signals a moderation in hiring activity



Source: Naukri Job Speak Report

Outlook

27. The better-than-expected growth in Q2 of FY24 and the emergence of India as the fastest-growing major economy in H1 of FY24 have improved the growth prospects and prompted various domestic and international agencies to upgrade GDP growth projections for FY24. The momentum gained in Q2 of FY24 is likely to be sustained in Q3 as well. HFIs in

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[11] https://group.teamlease.com/insights/employment-outlook-report-h2-fy24/

India for October and November 2023 reflect robust economic activity. PMI Manufacturing and Services remained in the expansionary zone in October and November. October 2023 imprints of the IIP and Index of Eight Core Industries also highlight sustained growth in manufacturing activity. Sentiments in the services sector remain upbeat, driven, among others, by an upswing in the tourism cum hotel industry induced by leisure travel, business travel, and social events. Growth in consumption demand is expected to be sustained. Urban demand conditions remain resilient, with higher growth in auto sales, fuel consumption and UPI transactions. Rural demand is also catching up, as reflected in robust growth in two and three-wheelers sales.

28. On the inflation front, with the stable downward movement in core inflation and continuing deflation in fuel inflation, the headline inflation outlook is on a declining trend, notwithstanding temporary disruptions from food prices. RBI has projected inflation to average at 5.4 per cent in FY24.

29. The outlook for India's external sector is promising, as seen in the November releases of trade balances for both services and merchandise. The relatively stable Indian rupee against the US dollar and other prominent currencies and adequate foreign exchange reserves add to the optimism. This sanguinity is visible in the resurgence of foreign portfolio investments since November 2023 and in FY24 in general, compared to FY23. Foreign investment inflows are also helping the Indian stock market indices to climb new heights, reflecting broad-based optimism on growth among domestic and foreign investors on growth prospects. Risks to growth and stability outlook mainly emanate from outside the country. Nonetheless, the Indian economy is expected to comfortably achieve a growth rate upwards of 6.5 per cent in FY24.

For feedback and queries, one may write to: mer-dea@gov.in

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Performance of High-Frequency Indicators

Data Title	Unit	YTD Period/As at the end of	Year to Date			Year to Date (YoY Growth)		
			2021-22	2022-23	2023-24	2021-22	2022-23	2023-24
Agriculture								
Fertiliser Sales	Mn Tonnes	Apr-Nov	40	46	46.6	-14.3	15.2	1.2
Domestic Tractor Sales	Lakhs	Apr-Nov	6.2	6.8	6.6	3.5	9.4	-2.8
Rabi Sowing	Mn Hectare	22-Dec	59.5	62.4	60.7	-2.99	4.95	-2.75
Kharif Production	Mn Tonnes	1st AE	149.9	150.5	148.6	4.1	-0.4	-0.9
Reservoir Level	Bn Cu. Metres	21-Dec	128.5	129.6	110.9	0.6	0.8	-14.4
Wheat Procurement (RMS)	LMT	NA	433.4	187.9	262	11.2	-56.6	39.4
Rice Procurement (KMS)	LMT	30-Sep-23	575.9	569.5	-	-4.4	-1.1	-
Rainfall	Millimetres	June-Sep	874.5	925	820	-9	5.8	-11.4
Credit to Agriculture and allied activities	₹ Lakh crore	Oct	14	15.9	19.1	10.8	13.6	20.1
Industry								
8-Core Industries	Index	Apr-Oct	131.3	142.4	154.5	15.6	8.4	8.6
IIP	Index	Apr-Oct	127.5	134.3	143.5	20.4	5.3	6.9
Domestic Auto sales	Lakh	Apr-Nov	109.4	137	155.2	-1.8	25.3	13.3
PMI Manufacturing	Index	Apr-Nov	53.7	55.2	57.4	14.3	3	3.9
Power consumption	Billion kWh	Apr-Nov	920.8	1014.7	1107	10.4	10.2	9.1
Natural gas production	Bn Cu. Metres	Apr-Sep	16.9	17.2	17.9	21.1	1.7	4
Cement production	Index	Apr-Oct	149.2	162.1	182	33.6	8.7	12.2
Steel consumption	Mn Tonnes	Apr-Nov	67.3	75	86.3	22.1	11.4	15.1

Data Title	Unit	YTD Period/As at the end of	Year to Date			Year to Date (YoY Growth)		
			2021-22	2022-23	2023-24	2021-22	2022-23	2023-24
Inflation								
CPI-C	Index	Apr-Nov	162.5	173.8	183.3	5.2	6.9	5.5
WPI	Index	Apr-Nov	136.5	153.4	151.4	12.5	12.4	-1.3
CFPI	Index	Apr-Nov	162.7	174.6	186.5	2.8	7.3	6.9
CPI-Core	Index	Apr-Nov	161.5	171.4	179.5	5.9	6.1	4.8
Services								
Average Daily ETC Collection	₹ Crore	Apr-Nov	94.7	142.3	171.2	79.9	50.3	20.3
Domestic Air Passenger Traffic	Lakh	Apr-Nov	956	1702.9	2008.2	113.4	78.1	17.9
Port Cargo Traffic	Million tonnes	Apr-Nov	465.9	507.1	535.1	12.3	8.9	5.5
Rail Freight Traffic	Million tonnes	Apr-Oct	786.2	855.6	887.2	22.5	8.8	3.7
PMI Services	Index	Apr-Nov	51.9	56.8	60.1	45.6	9.4	5.7
Fuel Consumption	Million tonnes	Apr-Nov	128	145.1	151.9	4.1	13.3	4.6
UPI (Value)	₹ Lakh crore	Apr-Nov	49.7	86.9	125.2	113.7	74.9	44
UPI (Volume)	Crore	Apr-Nov	2685.1	5166.5	8139.9	110.3	92.4	57.6
E-Way Bill Volume	Crore	Apr-Nov	48.6	61.9	73	37	27.3	18
Fiscal Indicators								
Gross tax revenue (Central Govt)	₹ Lakh crore	Apr-Oct	13.6	16.1	18.3	55.8	18	14
Revenue Expenditure	₹ Lakh crore	Apr-Oct	15.7	17.3	18.5	7.5	10.2	6.5
Capital Expenditure	₹ Lakh crore	Apr-Oct	2.5	4.1	5.5	28.3	61.5	33.7
Total Expenditure	₹ Lakh crore	Apr-Oct	18.3	21.4	23.9	9.9	17.4	11.7
Fiscal Deficit	₹ Lakh crore	Apr-Oct	5.5	7.6	8	-42.6	38.6	6
Revenue Deficit	₹ Lakh crore	Apr-Oct	3.1	3.8	2.8	-59.4	22.8	-27.3
Primary Deficit	₹ Lakh crore	Apr-Oct	1.5	2.8	2.6	-76.5	89.9	-6.6
GST Collection	₹ Lakh crore	Apr-Nov	9.4	11.9	13.3	42	26.2	11.9

Data Title	Unit	YTD Period/As at the end of	Year to Date			Year to Date (YoY Growth)		
			2021-22	2022-23	2023-24	2021-22	2022-23	2023-24
External Sector								
Merchandise exports	USD Billion	Apr-Nov	265.8	298.2	278.8	52.6	12.2	-6.5
Non-oil exports	USD Billion	Apr-Nov	226.4	232.6	223.4	42.8	2.7	-4
Merchandise imports	USD Billion	Apr-Nov	381.3	487.3	445.3	73.8	27.8	-8.6
Non-Oil Non-Gold/Silver Imports	USD Billion	Apr-Nov	250.1	315.9	296.3	54	26.3	-6.2
Net FDI	USD Billion	Apr-Oct	21.3	20.8	8.4	-23.7	-2.4	-59.3
Net FPI	USD Billion	Apr-Nov	3.4	-3.6	21.6	-82.2	-207.2	-697.3
Exchange Rate	INR/USD	Apr-Nov	74.12	79.39	82.64	-0.9	7.1	4.1
Foreign Exchange Reserves	USD Billion	01st -Dec	635.9	561.2	604	9.8	-11.8	7.6
Import Cover	Months	Nov	14	8.6	10.7	-	-	-
Monetary and Financial								
Total Bank Credit	₹ Lakh crore	1st Dec	111.6	131.1	158.3	6.3	17.5	20.7
Non-Food Credit	₹ Lakh crore	1st Dec	110.7	130.5	157.9	6.4	17.9	21
10-Year Bond Yields	Per cent	Apr-Nov	6.2	7.3	7.2	0.2	1.1	-0.1
Repo Rate	Per cent	15th Dec	4	6.25	6.5	0	2.25	0.25
Currency in Circulation	₹ Lakh crore	8th Dec	30	32.5	33.7	7.5	8.3	3.7
M0	₹ Lakh crore	8th Dec	37.4	41.4	44	13	10.7	6.3
Employment								
Net payroll additions under EPFO	Lakh	Apr-Oct	61	79.5	94.6	119.2	30.3	19
Number of persons demanded employment under MGNREGA	Crore	Apr-Nov	28	22.5	23.5	-7.8	-19.5	4.5
Urban Unemployment Rate	Per cent	Jul-Sep	9.8	7.2	6.6	-3.4	-2.6	-0.6
Subscriber Additions: National Pension Scheme (NPS)	Lakh	Apr-Sep	3.7	3.82	4.01	46.3	4.7	5