Economic Division

Monthly Economic Review

August 2023

G20

भारत 2023 INDIA

आर्थिक कार्य विभाग

DEPARTMENT OF ECONOMIC AFFAIRS

सत्यमेव जयते

Table of Contents

Abstract

The estimates of national income released by the National Statistical Office (NSO) show real GDP growing at 7.8 per cent in Q1 of FY24. Strong domestic demand for consumption and investment drove the GDP growth in this quarter. A steady decline in the urban unemployment rate has contributed to keeping private consumption strong in the economy. As strengthening consumption led to a rise in demand for goods and services, both the manufacturing and the services sectors saw their output and value-added grow robustly in Q1 of FY24. The strength of domestic investment is the result of the government's continued emphasis on capital expenditure. Measures implemented by the Union Government have also incentivised States to increase their capex spending. The external demand has further complemented the domestic growth stimulus. The contribution of net exports to GDP growth has increased in Q1 of FY24, as services exports have performed well. HFIs for July/August 2023 reflects the sustenance of growth momentum in Q2 of FY24.

As regards the banking sector of the economy, a variety of indicators suggest increasing resilience of the sector through declining Non-Performing Assets (NPA), improving Capital Risk-weighted Asset Ratio (CRAR), rising Return on Assets (RoA) and Return on Equity (RoE) as of March 2023. Similarly, as of March 2023, data for Non-Banking Finance Companies (NBFCs) indicated improvements in their profitability and risk-taking behaviour. Further, as per the July 2023 estimates by the RBI, there has been consistent and broad-based growth in the non-food bank credit of Scheduled Commercial Banks (SCBs) since April 2022.

Robust health of the banking system can be attributed to the deleveraging process undertaken by the corporate sector over the previous decade. During the pandemic years, the fall in sectors' earnings resulted in debt levels rising again. With easing restrictions, steady economic recovery led to gradual improvement and strengthening of the balance sheets of corporates, as evident in the decline in core debt of the private non-financial sector and an improvement in various leverage ratios. The restructuring of the balance sheet has placed the companies in a sound position to expand their investment and become more resilient to economic shocks. Growth momentum for the private non-financial companies continued from the last quarter of FY23 into the first quarter of FY24. The business sentiments remain upbeat, as indicated by RBI's Quarterly Enterprise Surveys.

The healthy performance of the corporate sector has vindicated and strengthened investors' confidence in the Indian growth story. This confidence is reflected in the impressive performance of the Indian capital markets which outperformed some of the emerging market and advanced economies. Foreign Portfolio Investors (FPIs) and Domestic Institutional Investors (DIIs) supported the buoyancy in the markets. In the bonds segment, while there was

a marginal uptick in G-sec yields, these are expected to fall as inflationary pressures abate. Government commitment to fiscal prudence will also aid in keeping G-sec yields in check.

The retail inflation decreased in August, with both core inflation and food inflation easing from the July figure. The calibrated measures taken by the Government, including adjustments in the duties of many critical inputs and monetary policy tightening, helped to reduce core inflation to a 40-month low level. Globally, food inflation remains high in many major economies. In India, consumer food price inflation eased to 9.9 per cent in August due to the Government intervention with targeted measures for specific crops, including build-up of buffer, procurement from producing centres and subsidised distribution.

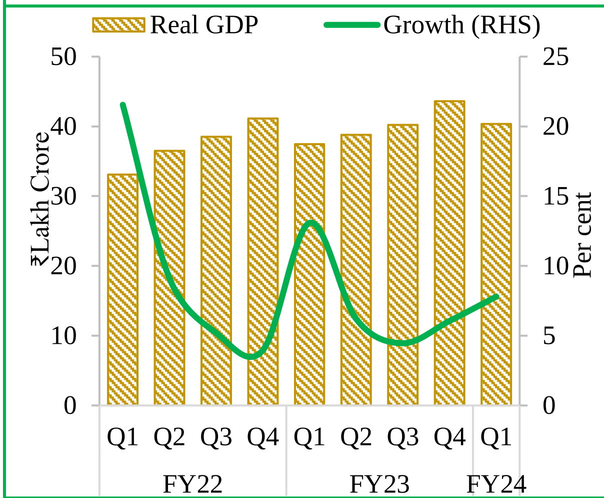
Complementing the robust economic growth in the first quarter of FY24, the organised sector employment also indicated healthy growth, including a rise in new members joining Employee Provident Fund Organization (EPFO) and more members rejoining than exiting the social security net. Besides facilitating the formalisation of labour, the Government has also taken major steps to secure the future of unorganised workers through minimum guaranteed pension under Atal Pension Yojana, PM-SYM etc., forming an expansive social security net woven in recent years. The two-pronged approach of formalisation and social security for informal workers exemplifies a sustainable approach to long-term inclusive growth.

As always, risks remain. Crude oil prices are steadily climbing. The monsoon deficit in August could impact both Kharif and Rabi crops. That needs to be assessed. However, it is heartening that rains in September have erased a portion of the rainfall deficit at the end of August. A stock market correction, in the wake of an overdue global stock market correction, is an ever-present risk. Offsetting these risks are the bright spots of corporate profitability, private sector capital formation, bank credit growth and activity in the construction sector. In sum, we remain comfortable with our 6.5 per cent real GDP growth estimate for FY24 with symmetric risks.

Real GDP grew at 7.8 per cent in Q1 of FY24, sustaining the growth momentum of the previous quarter.

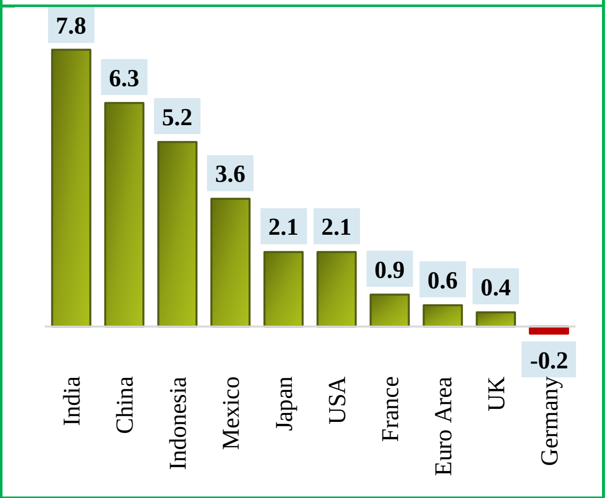
1. The estimates of national income released by the NSO show real GDP growing at 7.8 per cent in Q1 of FY24. The strength of the Q1 GDP growth of the Indian economy is evident in cross-country comparisons. It is the highest among major advanced and emerging market economies for the corresponding period, reflecting the resilience of the Indian economy in the face of global headwinds.

Real GDP and Growth



Source: NSO, MoSPI

India emerged as one of the fastest-growing economies in April-June 2023



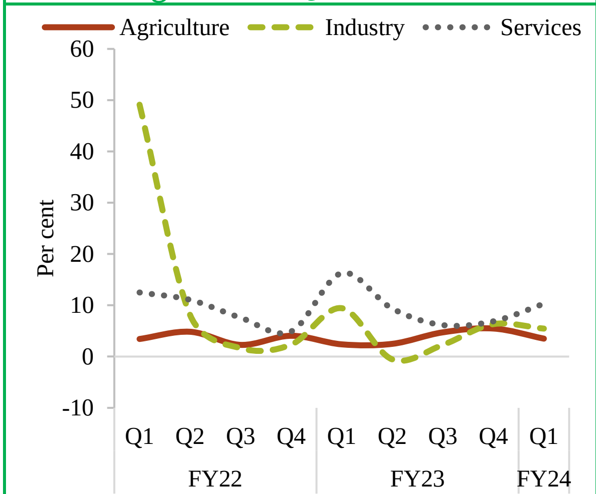
Source: OECD, MoSPI for India

2. Strong domestic demand for consumption and investment drove the GDP growth in Q1. The share of Private Final Consumption Expenditure (PFCE) in GDP (Current Prices) rose from 59.2 per cent in Q1 of FY23 to 59.7 per cent in Q1 of FY24. A steady decline in the urban unemployment rate has contributed to keeping private consumption strong in the economy. As strengthening consumption led to a rise in demand for goods and services, both the manufacturing and the services sectors saw their output and value-added grow robustly in Q1 of FY24.

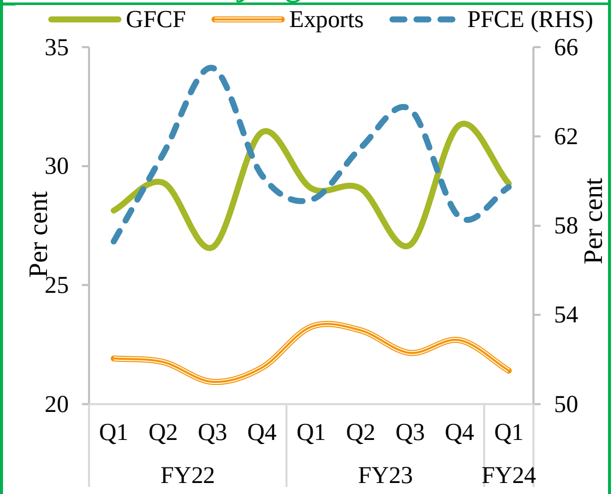
As measured by the Periodic Labour Force Survey (PLFS), urban unemployment rose partially during the COVID-19 pandemic but has been declining since the first quarter of FY22. Urban demand conditions remained resilient in Q1 of FY24, as reflected in the performance of various HFIs. Despite the monsoon, passenger vehicle sales were 27.4 per cent higher in Q1 of FY24. Personal loan growth continues to be impressive in an environment of higher interest rates, growing at 20.9 per cent in Q1 of FY24, driven by strong consumption. Despite relatively high airfares, domestic Air Passenger Traffic growth was 19.1 per cent in Q1 of FY24, reflecting the strength of demand. Along with the strengthening of urban demand, rural demand has also revived. An increase in real rural wages, backed by a decline in inflation, has strengthened rural consumption. Fast Moving Consumer Goods (FMCG) volume sales saw the highest growth in the last eight quarters in Q1 of FY24, induced by a pick-up in rural demand. Two and three-wheeler sales continue to be on a rising trajectory.

CVoters' latest Quarterly Consumer Optimism Report, based on the survey conducted between August 10 and 13, among 12800 respondents well distributed across age, gender, education, rural and urban, highlights signs of strengthening consumer sentiments in rural India in 2023. Rural consumers, who were relatively more impacted by the pandemic, have displayed more optimism across key parameters than urban consumers in 2023. While 18 per cent of urban respondents stated they had purchased a gadget in the previous three months, 29 per cent of rural respondents stated the same. Just about 6 per cent of respondents living in urban India say they purchased a two-wheeler or car in the previous three months. The corresponding figure for rural respondents is double that at about 12 per cen. While 8 per cent of urban respondents say they have gone on a family holiday, more than 17 per cent of rural respondents have done the same.

Industry and Services sectors driving growth in Q1 of FY24



Private Consumption and Investment were major growth drivers



Source: NSO, MoSPI

Monthly indices of Industrial Production (IIP), Eight Core Industries and PMI-Manufacturing individually show robust growth in Q1 of FY24 to underscore the unrelenting strength of private consumption of goods. IIP grew by 4.5 per cent in Q1 of FY24, with the most notable growth in the production of Capital goods and Infrastructure/construction goods, signifying a pick-up in capital formation in the economy. PMI Manufacturing remained in an expansionary zone during April-June 2023, supported by an upturn in new orders, a healthy demand environment and favourable market conditions.

The services sector displayed remarkable performance in Q1 of FY24, with contact-intensive services being the major growth driver of this sector. Growth in PMI services has been even quicker as the consumption pattern in India, following the global trend, shifts more to services in the absence of mobility curbs. Driven by domestic leisure travel growth and increasing business travel activity in the country, the hotel industry has displayed remarkable performance. Despite a moderation in the Hotel Occupancy Rate, the Average Daily Rate and Revenue Available Per Room grew in double digits in

Q1 of FY24. The tourism sector also showed signs of revival, with Foreign Tourist Arrivals in India close to the average pre-pandemic level in Q1 of FY24. As both domestic and foreign travel surge, growth in tourism further drives up consumption.

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 Q1 of FY23 to 29.3 per cent in Q1 of FY24. The strength of domestic investment is the result of the government's continued emphasis on capital expenditure. Measures implemented by the Union Government have also incentivised States to increase their capex spending. Incipient signs of a new private sector formation cycle are already visible in various HFIs.

The Centre's capex grew year-on-year (YoY) by 59.1 per cent in Q1 of FY24. States capex also grew at 74.3 per cent YoY in the same quarter. An uptick in public capital investment has begun to crowd in private investment. Import of capital goods witnessed YoY growth of 4.2 per cent during April-June 2023. CMIE Capex database shows that new investment project announcements by the private sector in Q1 of FY24 were 11.6 per cent higher than that in the corresponding period of the previous year and the highest in Q1 in 14 years. RBI's paper on 'Private Corporate Investment: Performance and Near-Term outlook' highlights, that the envisaged capital investments of private corporates, based on the projects sanctioned by banks/Financial Institutions, increased for the second consecutive year after remaining subdued during FY20 and FY21. Overall, investment plans of 982 projects were made during 2022-23, with record capital outlay of ₹3.5 lakh crore – higher than the level seen since FY15, as against 791 projects in FY22 with investment intentions of ₹1.9 lakh crore. The infrastructure sector continued to attract maximum capex projects, led by the 'Road & Bridges' and 'Power' sectors, reflecting the Government's push towards infrastructure development. Several structural reforms implemented over the past few years, such as Goods and Services Tax (GST), Insolvency and Bankruptcy Code (IBC), digitisation, corporate tax rationalisation and labour laws, are expected to further support the investment growth trajectory.

4. The external demand has further complemented the domestic growth stimulus. The contribution of net exports to GDP growth increased in Q1 of FY24 compared to the corresponding period of the previous year, as services exports have performed well. The rising trend in India's services exports can be attributed to the country's promising IT sector, coupled with the expansion of Global Capability Centres (GCCs) set up by MNCs for providing tech, engineering support, research, and development services, among others. However, a decline in consumer demand across major advanced economies due to slowing growth and high inflation has led to a moderation in merchandise exports. Yet the contribution of net exports to GDP has improved from (-) 3.8 per cent in Q1 of FY23 to (-) 2.3 per cent in Q1 of FY24.

5. High-frequency indicators like GST collection, E-way bills, PMI manufacturing, and PMI services are carrying forward the growth momentum in July-August 2023.

The momentum of economic activity in Q1 of FY24 has been carried forward into Q2 of FY24. Gross GST collection rose by 11 per cent over the last year to ₹1.59 lakh crore in August 2023. E-Way bills hit a record high of 9.3 crore, in August 2023, suggesting prospects of strong growth in GST collection in the following months. Increasing electronic toll collection levels reaffirm rising commercial activity.

Average PMI Manufacturing was 58.1 during Jul-Aug 2023 compared to 56.3 during the corresponding period of the previous year. Similarly, the Index of Eight Core Industries grew by 8 per cent in July 2023, continuing the broad-based expansion across the eight core sectors. Healthy growth in the output of these industries, which serves as critical inputs to downstream economic activity, augurs well for overall economic growth. The outlook for the manufacturing sector is positive, as highlighted in RBI's Industrial Outlook Survey. As per the survey, most of the respondents were positive about the demand conditions in terms of improved assessment for the overall business situation, production, order books, employment and capacity utilisation in the next two-quarters of FY24 as well.

The services sector continues to display healthy growth, with the Average PMI services being 61.2 during Jul-Aug 2023 compared to 56.3 during the corresponding period of the previous year. The robust performance of the services sector is supported by a substantial improvement in demand conditions, inducing the strongest increases in new business and output. The outlook for the services sectors also remains bright, as indicated in the RBI's Services and Infrastructure Outlook Survey. The survey respondents were upbeat about the overall business situation, turnover and overall business situation during Q2 of FY24. Strong growth in economic activity has imparted buoyancy to revenue collections.

6. Along with the physical economy, the digital economy is also playing a major role in promoting India's economic growth. The increasing adoption of online payment systems and expanding use of smartphones for making payments, enabled by the Jan-Dhan Aadhaar (JAM) trinity, has boosted the digital economy. Compared to developed countries, India's pace of digitalisation has been very high in recent years. Ernst and Young's paper 'How Digital Transformation Will Help India Accelerate Its Economic Growth in the Coming Years'[1] highlights that the pace of digitalisation, as measured by the Compound Annual Growth Rate (CAGR) in the Information and Communication Technology (ICT) sector, during 2011 to 2019 has been as high as 10.6 per cent. Digitalisation is expected to serve as a critical and distinguishing feature in unfolding India's growth story in the 21st century. Box 1 highlights the contribution of digital infrastructure in boosting India's formalization and economic growth prospects.

[1]https://www.ey.com/en_in/tax/economy-watch/how-digital-transformation-will-help-india-accelerate-its-growth-in-the-coming-years

Box 1: Role of Digital Infrastructure in Boosting India's Economic Growth

India has made significant progress in developing its Digital Public Infrastructure (DPI). Some notable achievements of India's digital public infrastructure include the creation of Aadhaar, a unique biometric-based identification system, and the launch of the Unified Payment Interface (UPI). This real-time digital payment system has revolutionised digital payments in India. As per the report published by ACI Worldwide in 2023[2], India leads globally in real-time payment transactions, with 89.5 billion transactions processed in 2022.

Monetary savings from UPI: A study by the World Economic Forum (WEO)[3] to estimate the monetary savings by using UPI over other prominent methods highlights that up to February 2023, approximately ₹300 lakh crore has been transacted through UPI since its inception in April 2016. If this amount had not been transacted through UPI and rather through cash, credit/debit cards or other modes of payment, it would have costed the economy approximately ₹5.5 lakh crore, which could go as high as ₹7.2 lakh crore depending on the alternatives people opted for in the absence of UPI.

India's digital transformation: India's robust DPI has played a pivotal role in enabling the country's digital transformation, providing citizen-centric and transparent governance services. Furthermore, the digital infrastructure played a significant role in allowing the country's response to the COVID-19 pandemic, with the Aarogya Setu and CoWin apps helping to track and contain the spread of the virus and facilitate the vaccination of a large number of people in a short period. Several service delivery platforms, such as Ayushman Bharat, DigiLocker, DIKSHA for education and teacher training, GSTN, GeM for Public Procurement, and UMANG for delivery of Government services electronically, have been implemented successfully. In his speech, the Hon'ble Union Minister for Electronics and IT stated that the digital economy's contribution to India's GDP has increased from 4-4.5 per cent in 2014 to 11 per cent. It is expected to contribute more than 20 per cent to the country's GDP by 2026[4].

Emphasis on DPI in G20 Presidency: A paper on 'G20 Presidency: Taking financial inclusion to the next level'[5] highlights that against the backdrop of India's remarkable success in digital inclusion and in line with its focus on human centricity in the G20 outcomes, the financial inclusion agenda was positioned prominently in G20 and has been steered to leave a mark for many years to come. In G20, the Indian Presidency introduced

[2]https://www.aciworldwide.com/real-time-payments-report
[3]https://www.weforum.org/agenda/2023/06/india-unified-payment-interface-impact/
[4]https://www.thehindubusinessline.com/economy/indias-digital-economy-expected-to-contribute-20-to-gdp-by-2026-rajeev-chandrasekhar/article67205568.ece
[5]https://www.g20.org/content/dam/gtwenty/gtwenty_new/document/G20_POLICY_RECOMMENDATIONS.pdf

the DPI as a robust approach for accelerating the financial inclusion of individuals and Micro, Small and Medium Enterprises (MSMEs) and realising productivity gains. According to the latest UNDP study, Low or Middle-Income Countries (LMICs) can speed their economic growth by up to 33 per cent by implementing payment and credit-related DPI in the financial sector. DPI can plug the credit gap for 16-19 million additional MSMEs in 2030 alone, representing nearly 7 per cent of total formal MSMEs. In the future, a DPI approach can drive exponential outcomes across sectors and societies to accelerate the attainment of the Sustainable Development Goals. By combining the right technology, governance frameworks and robust public and private innovation, DPI can bend the curve of development growth upwards.

Boost to Start-ups: India's DPI and growing economy have helped to make the country a hotbed for startups. These tailwinds allowed the startup ecosystem to weather a global tech slowdown in 2022. According to research by S&P Global Market Intelligence[6], India emerged as the fourth-most popular destination for startups in the world in 2022, attracting 4.2 per cent of global venture capital. India's digital commerce and on-demand services space attracted more than USD 10 billion of Venture Capital investments over the last two years, primarily driven by a cohort of startups attracting millions of middle-class Indians to their apps. In the future, India's open APIs and public digital stack are expected to act as enablers for new startups. The country's positive macro story will also drive demand.

The DPI digital network is a mechanism for inclusive growth as it facilitates the delivery of economic opportunities and social services to all citizens in a safe, transparent and efficient manner.

India's banking sector rides on healthy indicators

7. India's banking sector has been playing a key role in making India a digitally-enabled economy. An examination of indicators of the health of India's banking sector reflects consistent improvement. The Gross NPA ratio of the SCBs reached its lowest in ten years in March 2023, with improvement being broad-based across major sectors as well as all types of banks. The provisioning coverage ratio (PCR) also improved as of March 2023, continuing the increase in recent years.[7] A number of measures have contributed to improvements in NPA levels, including the enactment of the IBC, 2016 and its effect on changes in credit culture; improvements in the effectiveness of the Securitisation and Reconstruction of Financial Assets

[6]https://www.spglobal.com/en/research-insights/featured/special-editorial/look-forward/startups-riding-digital-infrastructure-could-transform-indian-economy#:~:text=India's%20public%20digital%20infrastructure%20and,popular%20destination%20for%20startups%20worldwide

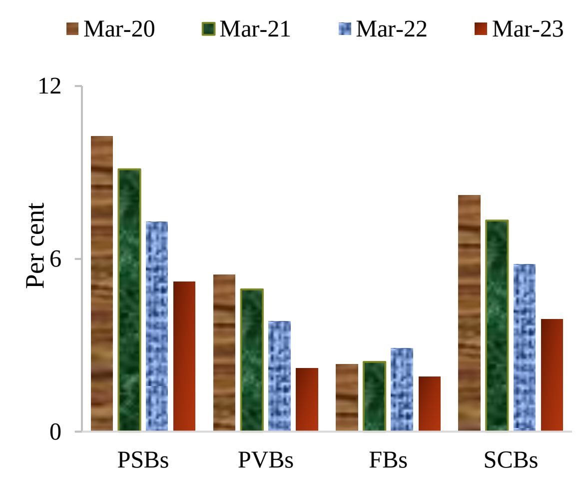
[7] Provisioning coverage ratio is the ratio of provisioning to gross non-performing assets and indicates the extent of funds a bank has kept aside to cover loan losses.

and Enforcement of Security Interest Act, 2002; stringent provisions around wilful defaulters and RBI's Prudential Framework for Resolution of Stressed Assets etc.

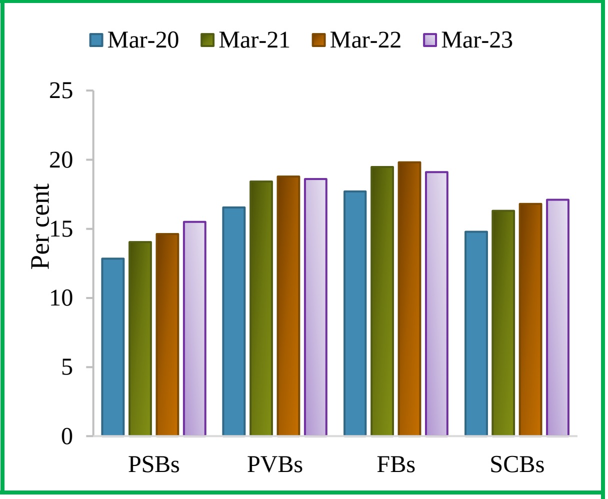
8. The CRAR, i.e., the ratio of the bank's capital to its risk-weighted assets, also remained in a comfortable position as of March 2023 and was well above the stipulated norms. Increased profits and raising of fresh capital during H2 of FY23 enabled banks to improve their CRAR. Overall, the SCBs are performing well as the RoE and RoA improved, driven by the numbers for Public Sector Banks and Foreign Banks.

The GNPA ratio of SCBs has fallen to a ten-year low of 3.9 per cent in March 2023, recording improvements for agriculture, industry, services, and the personal loans segments. A higher PCR of 74 per cent in March 2023, compared to 71.4 per cent in March 2022, indicates lesser vulnerability to bad assets and better preparedness of banks. The CRAR remains healthy at 17.1 in March 2023, as compared to 16.8 in March 2022. As far as the profitability of the SCBs is concerned, on average, the RoE rose to 12.3 per cent and RoA to 1.1 per cent in March 2023 over 11.2 per cent and 1.0 per cent in September 2022, respectively.

Declining SCB's GNPA Ratio



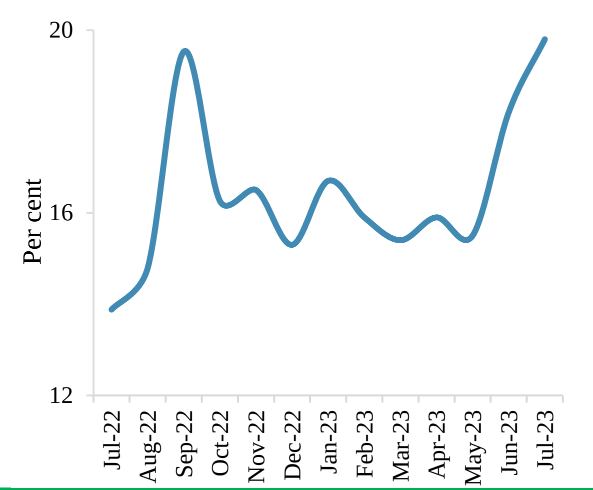
Capital Adequacy Ratio well above the requirement norms



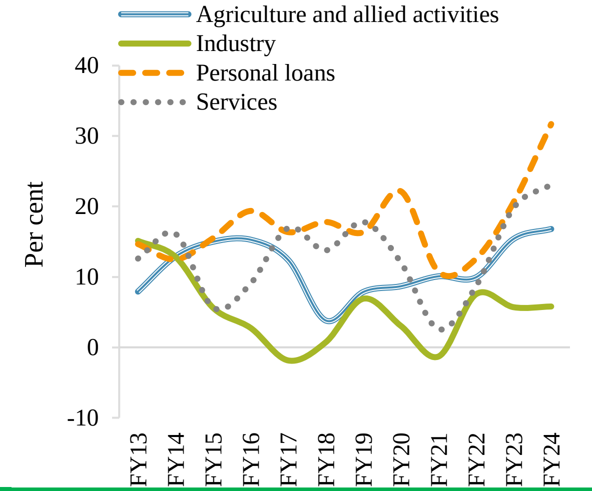
Source: RBI

9. With regards to the credit situation, the non-food bank credit offtake of SCBs has been growing in double digits since April 2022, with the increase being broad-based. In July 2023, the YoY credit growth has picked up generally in all sectors, driven prominently by the services sector and personal loans category. The growth in the personal loan segment is driven by housing loans, which comprise more than half of the personal loans outstanding as of July 2023, another sign of optimism owing to its implications for increasing demand in the construction material sector.

Non-food bank credit Growth (YoY)



Broad-based growth in sectoral non-food Bank credit (YoY)



Source: RBI; Note: FY24 data is up to 28 July 2023

In July 2023, major sectoral deployment of gross bank credit increased by 19.7 per cent (YoY). Growth in non-food bank credit was 19.8 per cent (YoY) in July 2023, while it was 13.9 per cent in July 2022. An assessment of specific sectors suggests that the level of economic activity is promising, with a double-digit YoY growth in gross bank credit observed in July 2023 for beverage and tobacco, wood and wood products, glass, cement, basic metal, engineering, vehicles, gems and jewellery and ports (under infrastructure).

The availability of deposits facilitates the growth of credit while keeping banks well-capitalized. Total deposits available with the SCBs as of June 2023 amounted to ₹ 1.85 lakh crore, an increase of 2.1 per cent over ₹ 1.81 lakh crore as of the end of March 2023.

Non-banking Financial Companies (NBFCs) performing well

10. In addition to banks, NBFCs play a significant role in credit disbursement in the economy. Credit disbursed by the NBFCs in terms of gross advances has also been on the rise with marked uptake for the industry and personal loan segment. There has been a significant improvement in the performance of NBFCs. CRAR and RoA of NBFCs increased as of March 2023 compared to March 2022, signifying improvements in their risk-taking behaviour as well as profitability.

Growth of outstanding credit by the NBFCs was recorded at 16.1 per cent in March 2023 (YoY), more than double the growth of 6.9 per cent in March 2022. Credit to industry grew by 12.7 per cent and personal loan segment by 31.3 per cent in March 2023 (YoY). While the former can be seen as an indicator of increasing investment in the economy, a pick-up in credit growth for personal loans in recent years could be a signal of rise in discretionary spending. Growth in credit disbursement by NBFCs to the agriculture sector moderated to 13.4 per cent in March 2023 (YoY), which was compensated by the growth witnessed in credit to agriculture by the banks.

Outlook

11. A recent Bank Lending Survey by the RBI for Q1 of FY24 suggest that, loan demand has been optimistic. This is despite the elevated cost of finance owing to tightening monetary policy measures to contain inflation during this period, as noted under the Industrial Outlook Survey (August 2023). With easing loan terms and conditions, the loan demand is also expected to increase in Q2 of FY24. Similar conditions are expected to prevail over the remaining quarters of the FY24 for major borrower sectors like manufacturing, services, retail, and agriculture.[8]

12. Cost of credit and the ease with which such credit is available figure among the important factors determining credit growth. The RBI's recent initiative to develop a "Public Tech Platform for Frictionless Credit" is a step towards enriching the digital public infrastructure in the economy as it encourages the financial institutions to create and provide innovative solutions in the area of credit, payments, and other financial activities. In a similar vein, the Indian banking sector and the economy have been reaping the benefits from the continuous efforts of the RBI in harnessing technology and introducing innovations in the financial architecture.

13. RBI's decision (8 September 2023) to discontinue the Incremental Cash Reserve Ratio requirement (I-CRR) in a phased manner, introduced last month, with the aim to absorb the surplus liquidity, is expected to aid banks with better liquidity in the coming months.[9] As reported in RBI's Financial Stability Report of June 2023, macro-stress tests for credit risk reveal that SCBs would be able to comply with the minimum capital requirements even under severe stress scenarios, such as very high average inflation or negative average growth in GDP for four months, among others. This bodes well for the health of India's banking sector.

Performance of Corporate Sector

Deleveraging by the corporate sector

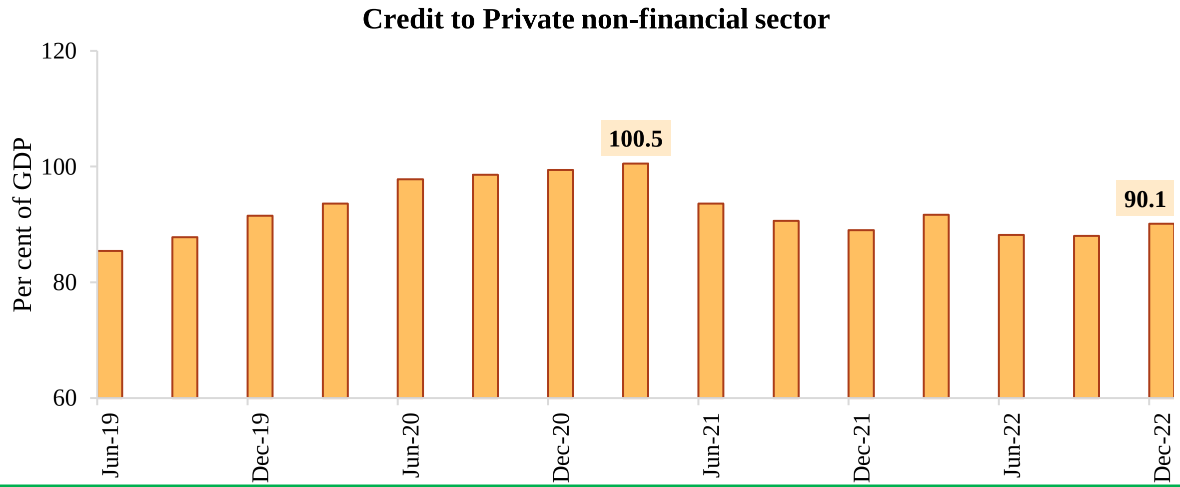
14. One factor contributing to the banking system's robust health has been the corporate sector's undertaking of a deleveraging process in the previous decade. During the pandemic period, the debt level of the corporate sector witnessed a rise to finance their working capital requirements amid a general fall in earnings. With a steady recovery in economic growth, the sector's balance sheet has improved gradually and strengthened over the past three years, as

[8] RBI's Industrial Outlook Survey of the Manufacturing Sector for Q1:2023-24, released on 10 August 2023 and Bank Lending Survey by the RBI, released on 10 August 2023
[9] "A temporary Incremental Cash Reserve Ratio (I-CRR) of 10 per cent on banks' incremental net demand and time liabilities between 19th May 2023 and 28th July 2023 to ensure that liquidity levels do not hamper the policy rate transmission mechanism." (MER, July 2023)

evident in the decline in core debt of the private non-financial sector and an improvement in various leverage ratios such as debt to capital employed, debt to asset, debt to Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA). Further, reduced debt levels have led to an increase in the interest coverage ratio indicative of improvement in the credit health of most industries.

15. The restructuring of the balance sheet has placed the companies in a sound position to expand their investment and become more resilient to economic shocks. This is apparent in the buoyant performance of the corporate sector over the past three years post-pandemic, with the momentum carried into the first quarter of FY24 as well. Further, reflecting consolidation in the credit profile, the quality of private sector debt has significantly improved post-pandemic.

Lower Core Debt of Private Non-Financial Sector post pandemic



Source: BIS

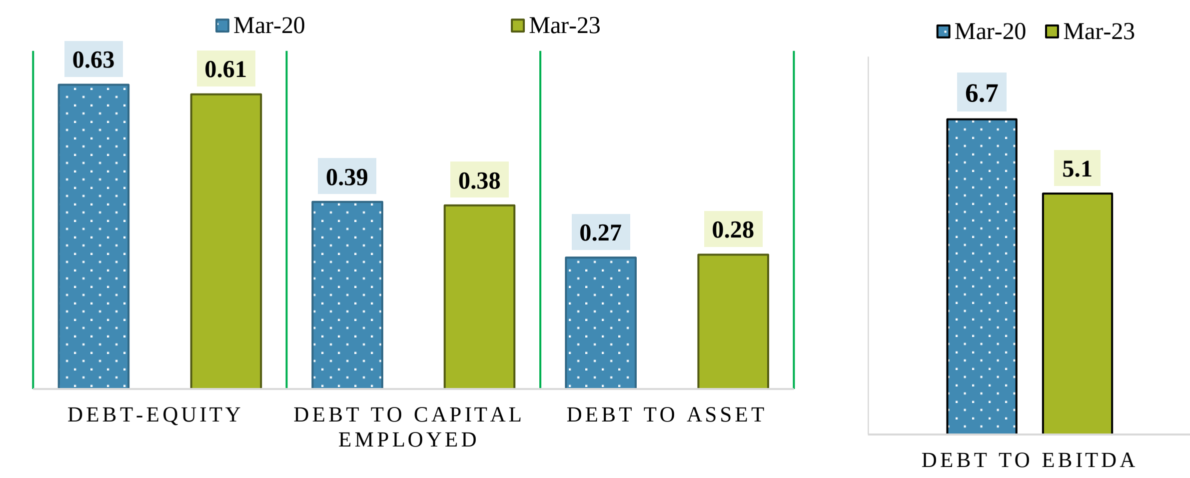
Credit to the private non-financial sector as a percentage of GDP in India has come down from 100.5 per cent in March 2020 to 90.1 per cent of GDP in the Dec 2022 quarter on the back of improved corporate performance. The data of non-financial corporations for four leverage ratios, available till the March 2023 quarter, also shows improvement over March 2020. For instance, the debt-to-equity ratio has slightly improved from 0.63 per cent in March 2020 to 0.61 per cent in March 2023 and debt-to-EBIDTA has reduced from 6.7 per cent in March 2020 to 5.1 per cent in March 2023. Further, debt to capital employed and debt to asset ratio remained at similar levels.

Reduction in debt levels has significantly enhanced the corporate sector's ability to meet their interest obligations in the quarter ending March 2023 compared to March 2020. Further, there has been an upgrade in the debt quality of the sector as measured by the CareEdge Debt Quality Index[10] (CDQI). The index value has been rising since November 2021 and rose by 4.4 percentage points in July 2023

[10] CDQI captures, on a scale of 100 (index value for the base year FY12), whether the quality of debt is improving or declining. Intuitively, an upward movement indicates an improvement in the quality of debt benchmarked against the base year.

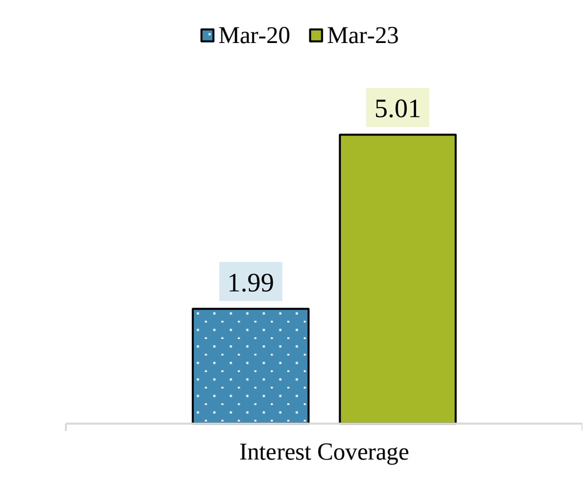
over April 2021. This betterment may be attributed to strong economic growth and accommodative corporate balance sheets.

Improvement in Leverage Ratios



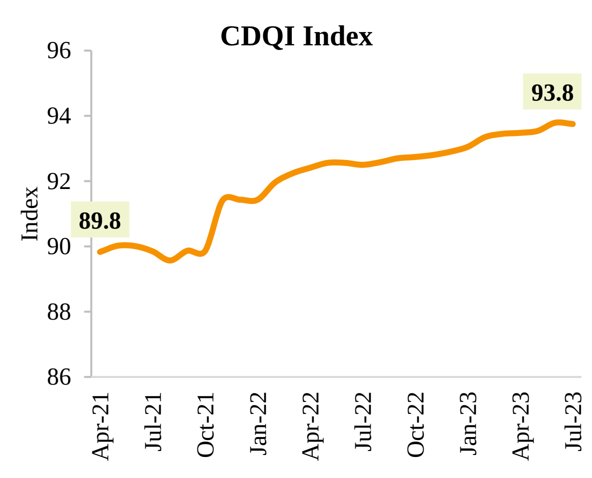
Source: CMIE Database

Increase in Interest Coverage Ratio



Source: CMIE Database

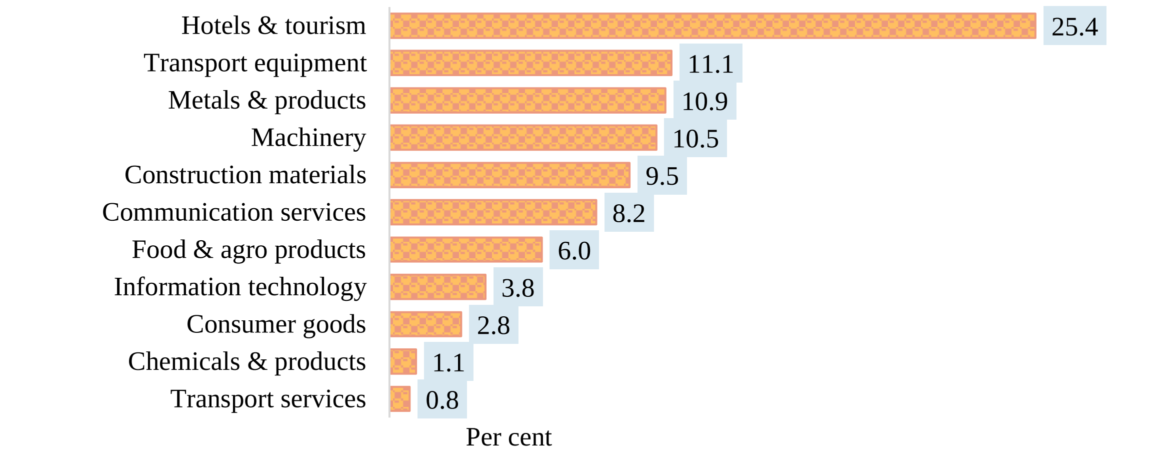
Improvement in Quality of Debt



Source: Care Ratings

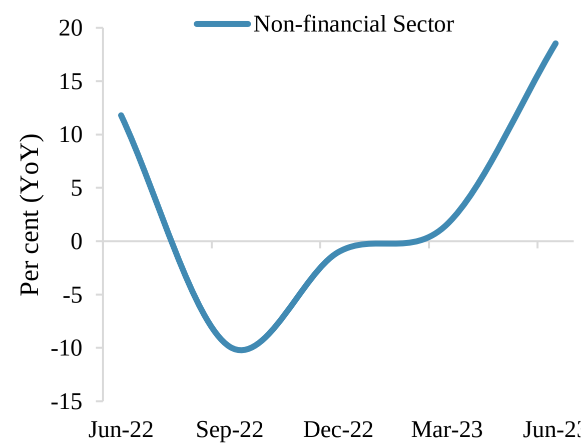
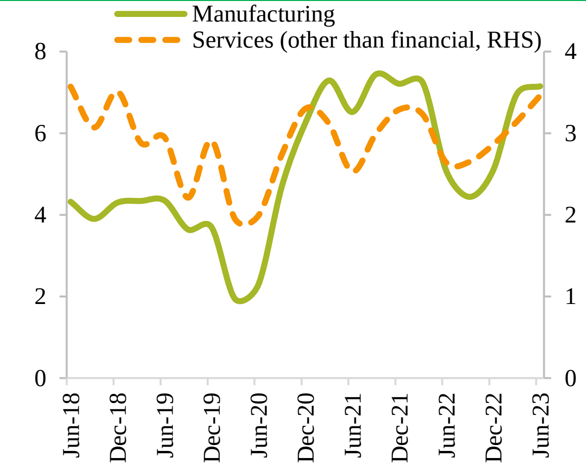
16. The resilient and healthier state of the corporate sector has boosted overall performance by enhancing sales and profitability across segments, notwithstanding challenging global economic conditions including supply chain disruption, elevated international commodity prices and higher policy rates. Private non-financial companies continued their growth momentum from the last quarter of FY23 into the first quarter of FY24. Business sentiments remain upbeat, as indicated by RBI's Quarterly Enterprise Surveys. The poll result reveals improved investment sentiment, demand and employment conditions likely to be sustained over the next three quarters.

Major drivers of Real Sales growth in Jun-23



Source: CMIE Database
Note: Data for the June-2023 quarter consist of 3,326 companies

Real sales growth in the non-financial sector improved on a YoY basis from Q4 of FY23 to Q1 of FY24, mainly driven by the manufacturing sector. The manufacturing sector's performance has remained steady, witnessing real sales growth of 4.7 on a YoY basis in Q1 of FY24 compared to 2.0 per cent in Q4 of FY23. The increase in volume of sales was broad-based across sectors, barring “textiles”.

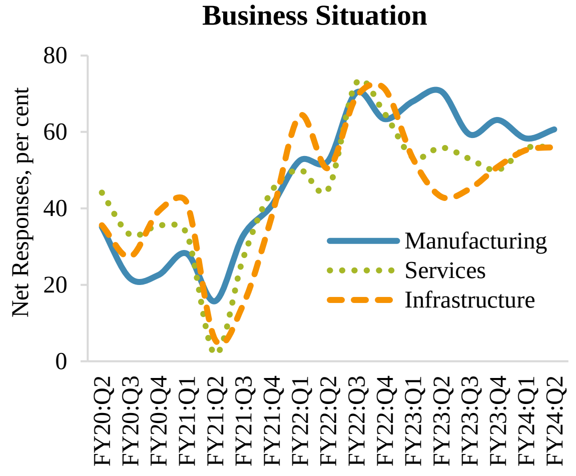
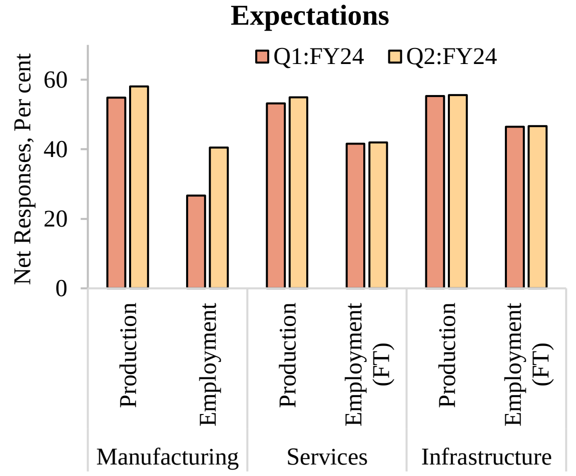
Steady Operating Profit	**Increment in interest Coverage Ratio**
	

Source: CMIE Database

Operating profit of the non-financial sector continued to expand, driven by expansion in sales volume and easing commodity prices. Operating profit in the manufacturing sector was majorly driven by the petroleum product industry. Sectors such as “hotel & tourism” and “transport services” industries were the major contributors towards steady operating profit in the services sector.

The enhancement in operating profit has led to further improvement in the interest coverage ratio (ICR) of the non-financial sector. The manufacturing companies' ICR increased to 7.1 during Q1 of FY24 compared to 6.9 in the previous quarter and 5.1 a year ago. At the same time, the ICR of services (other than financial) companies rose to 3.5 in the quarter ending on June 2023, the highest since March 2019. The healthy ICR ratio also augers well for the financial stability of the banking system.

Business Sentiments on the rise

RBI's Enterprise Surveys	Optimistic expectations on production and employment parameters
	

Source: RBI

The business situation is expected to strengthen across sectors, as indicated by RBI's Industrial Outlook Survey and Services and Infrastructure Outlook Survey conducted during Q1of FY24. The survey results show an improvement in investment sentiment, demand conditions and job creation, as reflected in their improved expectations on production, order book, capacity utilisation, employment and foreign trade.

Healthy capital markets underscore strong macro fundamentals

17. The corporate sector's cleaner balance sheets and healthy performance have vindicated investor confidence in the Indian growth story. This translated into a healthy performance of the Indian equity markets. This market performance has also been complemented by lower volatility in the Indian markets, which has also come down significantly from the levels of March 2022. Indian equity markets have also mostly outperformed their global peers.

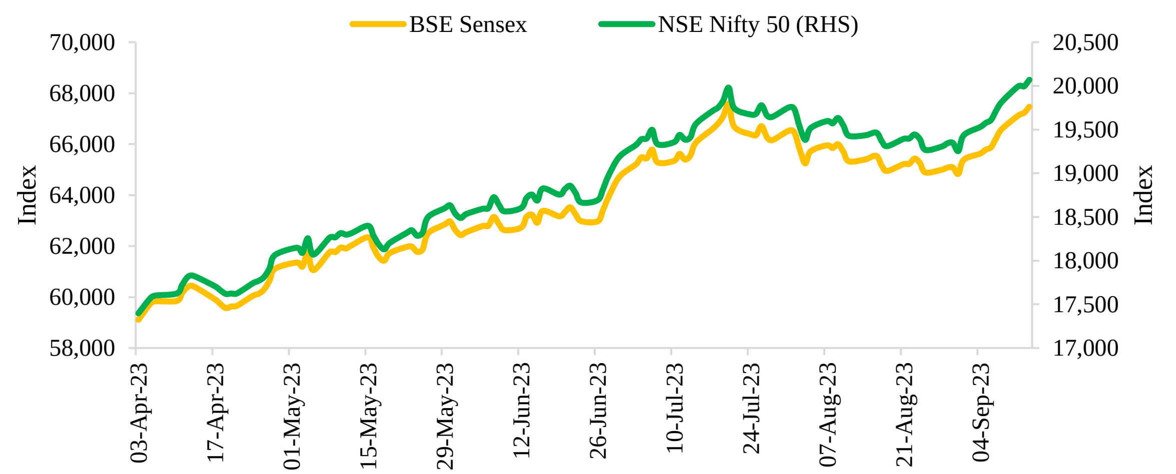
Table 1: Comparative performances of Indian and major global equity indices

Indices	As on 3rd April 2023	As on 14th September 2023	% change in FY24 (03rd Apr – 14th Sep)
S&P BSE Sensex	59,106.4	67,519.0	14.2%
NSE Nifty 50	17,398.0	20,103.1	15.5%
Emerging Market Economies			
Shanghai Composite, China	3,296.4	3,126.6	-5.2%
Ibovespa, Brazil	1,01,506.2	1,19,391.6	17.6%
KOSPI, Korea	2,472.4	2,572.9	4.1%
IDX, Indonesia	6,827.2	6,959.3	1.9%

Advanced Economies			
Nasdaq, USA	12,189.5	13,926.1	14.2%
S&P 500, USA	4,124.5	4,505.1	9.2%
CAC France	7,346.0	7,308.7	-0.5%
DAX, Germany	15,580.9	15,805.3	1.4%
FTSE 100, UK	7,673.0	7,673.1	0.0%
Hang Seng, Hong Kong	20,409.2	18,053.0	-11.5%
Nikkei, Japan	28,287.4	32,706.5	15.6%

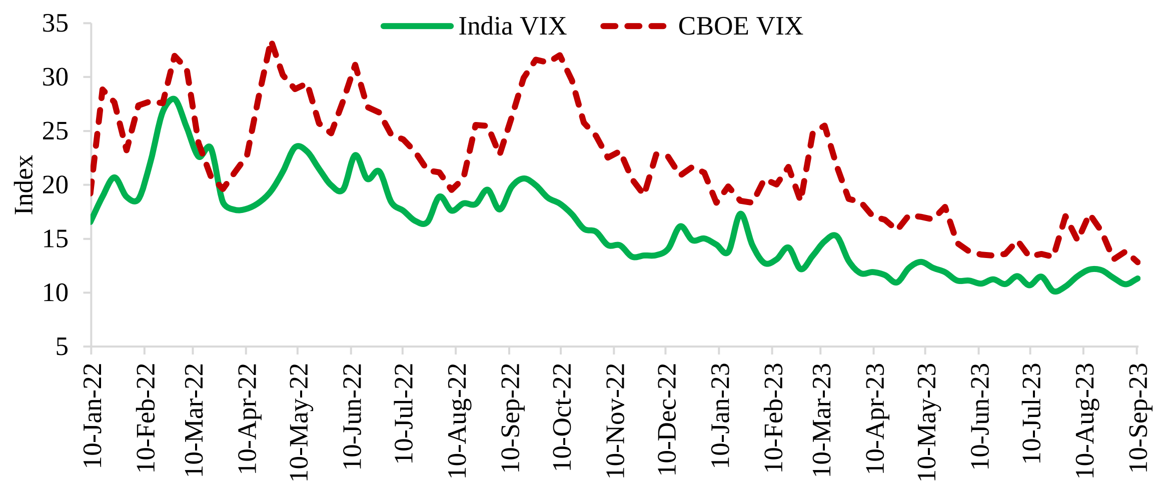
Source: Bloomberg, NSE, BSE

Strong performance of Indian equity markets



Source: BSE, NSE

Volatility in Indian markets on a declining trend

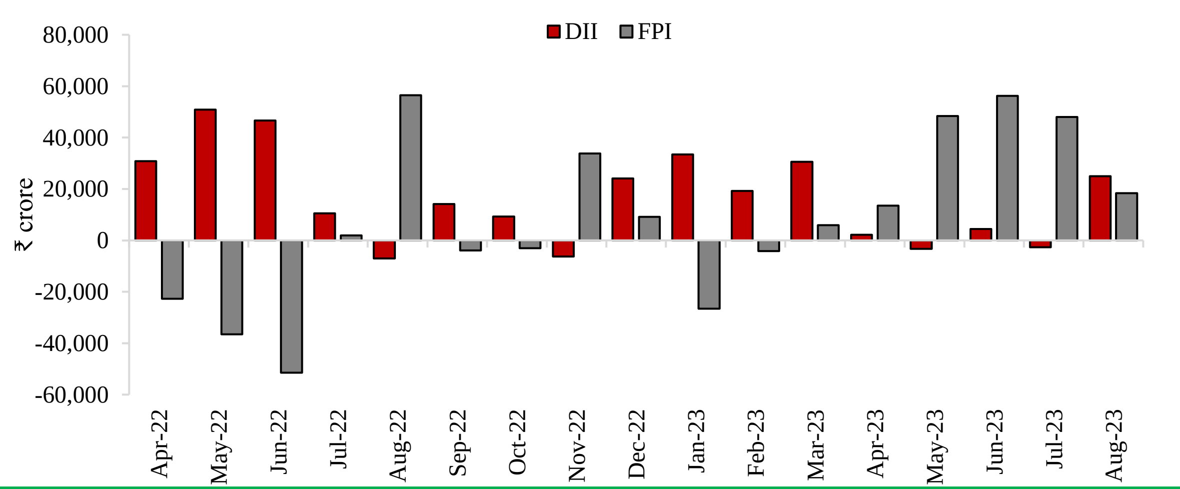


Source: NSE, Chicago Board Options Exchange

Strong fundamentals of the corporates continue to underline the impressive equity market performance in India. While the S&P BSE Sensex was up by 14.2 per cent between 03 April 2023 and 14 September 2023, the NSE Nifty 50 was up by 15.5 per cent over the same period. Strong returns in the equity markets were aided by lower volatility. The India VIX[11] has been consistently declining since March 2022. Stability in the Indian markets is on account of steady monetary and fiscal policies and strong macroeconomic fundamentals. India's equity markets have not only outperformed developed markets but most emerging markets. The MSCI indices allow for meaningful global views and cross-regional comparisons across market capitalisation sizes. The MSCI – India index is up 16.7 per cent between 03 April 2023 and 14 Sep 2023 as compared to a -0.7 per cent decline in the MSCI – EM index and a rise of 6.4 per cent in the MSCI – World index.

18. Fundraising activity in the primary markets continued in the form of Initial Public Offerings (IPOs). While the number of IPO issuances was greater in April-July 2023 than in the corresponding period of 2022, the amount raised saw some decline. This can be attributed to the exceptionally large Life Insurance Corporation (LIC) IPO listing last year. The equity markets continue to attract small and medium enterprises (SMEs). While the number of IPOs issued by the SME segment in Apr-Jul 2023 has risen by 62 per cent on a YoY basis, the funds raised in this period are 2.5 times the value of funds raised in the corresponding period of the previous year.

Strong FPI participation underlines the attractiveness of Indian markets



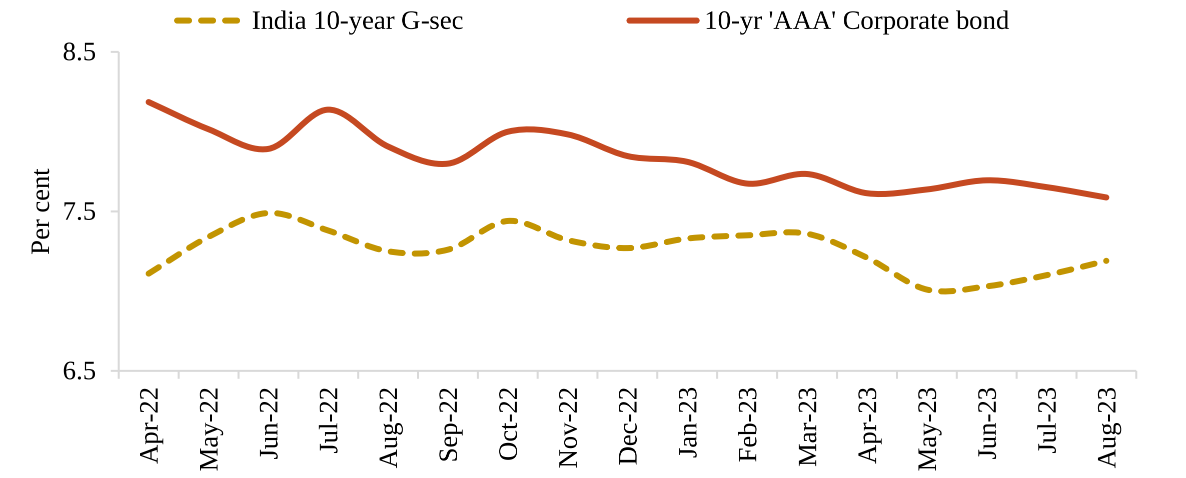
Source: BSE, CDSL

19. Indian capital markets remained attractive to foreign portfolio investors (FPIs). Analyst reports indicate that FPIs expect domestic inflation to be under control and India's growth to be resilient. FPIs turned net purchasers in Q1 FY23 and have remained so until August 2023. On the other hand, domestic institutional investors (DIIs) displayed cautious behaviour between April and July 2023 as the markets reached new highs. However, that trend seems to have reversed in August and the early weeks of September 2023.

[11] India VIX is a volatility index based on the NIFTY Index Option prices.

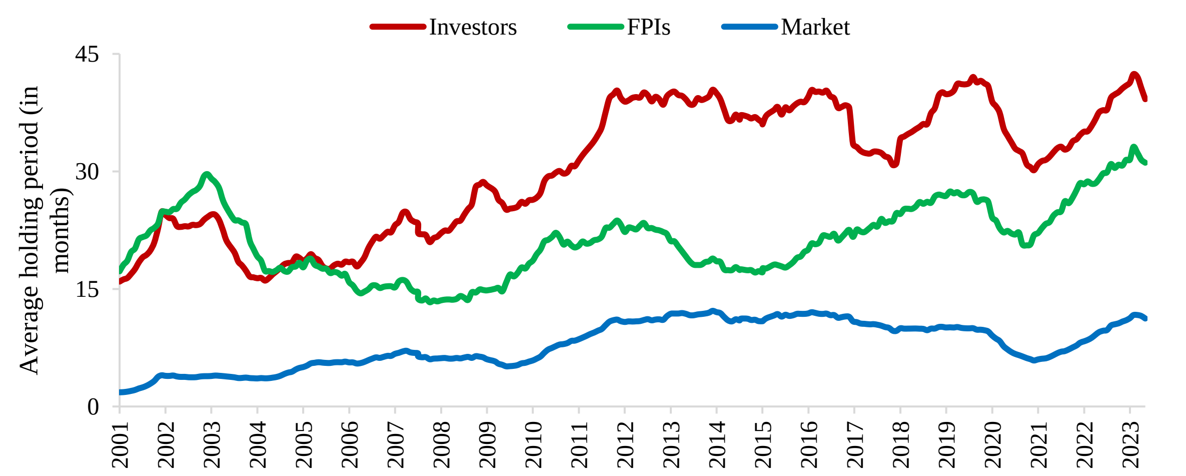
20. In the bonds segment, the 10-year Government securities (G-sec) yield trended downward after March 2023 but has witnessed an uptick in recent months. While an increase in domestic inflation can partly explain this, the increase in US Treasury bond yields in the recent months may also have added upward pressure on Indian G-sec yields. With vegetable prices correcting and government and monetary measures in place, inflation is expected to trend downward in the coming months. This is expected to help G-sec yields come down. Additionally, the government's commitment to the fiscal deficit target will also aid in keeping G-sec yields stable. Corporate bond yields have consistently trended downward since April 2022, signalling strong revenue generation and interest payment capabilities of corporates.

Steady G-sec and corporate bond yields



Source: RBI, CMIE

Increasing the holding period of stocks by investors a sign of confidence



Source: BSE, SEBI, NSDL, Morgan Stanley Research

21. Going forward, capital market performance will depend on developments in inflation and, to an extent, policy rate decisions in advanced economies. However, with corporate fundamentals robust amid a stable domestic macro environment, Indian capital markets are

expected to remain an attractive destination for both domestic and global investors. An indication of the same is reflected in the holding period of stocks by institutional investors. According to a private sector research, the average holding period of domestic and foreign institutional investors in Indian stocks has gone up between 2000 and 2023. This is a sign of confidence in the Indian stock market.

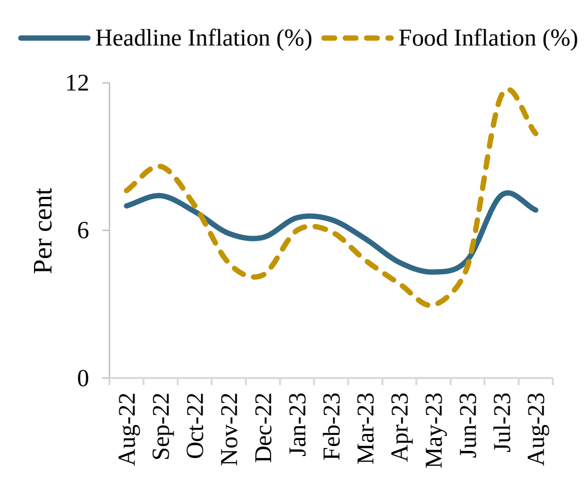
Retail inflation eases from July, and core inflation is the lowest since May 2020

22. The headline inflation rate based on the consumer price index declined to 6.8 per cent in August, compared to 7.4 per cent in July. During April-August 2023, the average inflation was 5.6 per cent, which is within the RBI tolerance limit. Core (non-food, non-fuel) inflation moderated to 4.86 per cent in August, which is the lowest in the last 40 months. Also, it has declined for the last three consecutive months. The calibrated measures taken by the Government, including adjustments in the duties of many critical inputs and monetary policy tightening, helped to reduce core inflation. Inflation in major components of the consumer budget, including clothing and footwear, housing, household services, recreation and amusement, education and personal care and effects, has declined in August compared to July.

Food inflation also eases

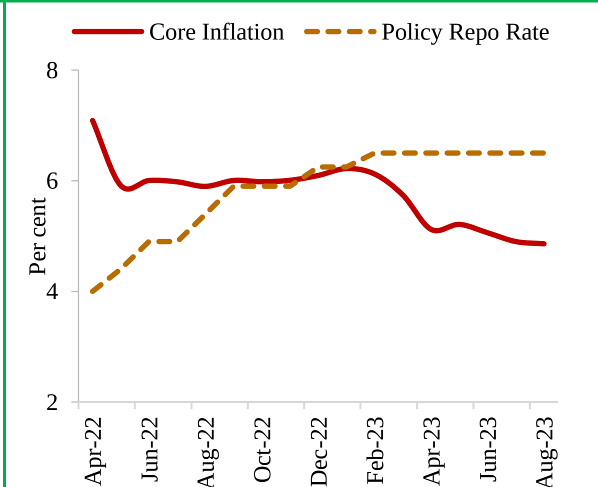
23. Globally, food inflation remains high in many major economies like France, Germany, Japan, South Africa, and the United Kingdom. In India, consumer food price inflation eased to 9.9 per cent in August from 11.5 per cent in July. Vegetable inflation increased in July and August due to a sudden increase in the prices of tomatoes and other food items due to crop-specific and weather-related factors. The Government intervened with targeted measures for specific crops, including build-up of buffer, procurement from producing centres and subsidized distribution.

Movement of food and headline inflation



Source: MoSPI

Policy rate and core inflation

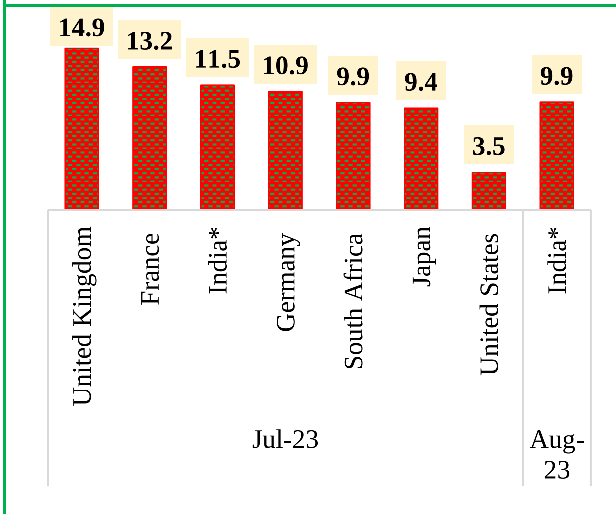


Source: MoSPI and RBI

The Government already increased the quantity of onion buffer from 3 lakh metric tonnes to 5 lakh metric tonnes in 2023-24 for calibrated disposal in major consumption centres. Tur prices are likely to ease in the coming months when imported tur reaches the Indian market. In the case of Gram, the Government has introduced a mechanism to convert chana stock into chana dal for retail disposal under the brand name of "Bharat Dal" at a highly subsidised rate. In addition, the Government has reduced the price of a 14.2 kg LPG cylinder by Rs 200 in all markets across the country *w.e.f* 30.08.2023. This helps to 33 crore LPG connections in the country. Hence, PM Ujjwala Yojana consumers will get a subsidy of Rs.400 per cylinder.

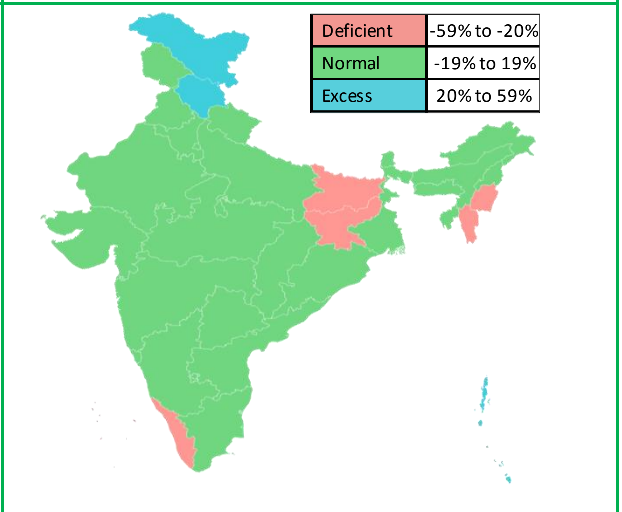
24. As of 15 Sep 2023, kharif sowing (excluding cotton) is 0.8 per cent higher than the corresponding period last year, despite a 10 per cent deficient monsoon this year (June-Sep). Further, around 83 per cent of the country's area has received normal or excess rains. The sowing of kharif rice has largely contributed to the progress and is 2.7 per cent higher than the previous year, while the area sown under pulses and oilseeds is lower than in 2022.

Food inflation in some major economies



Source: OECD and *MoSPI

Monsoon Coverage up to 13th Sept



Source: IMD

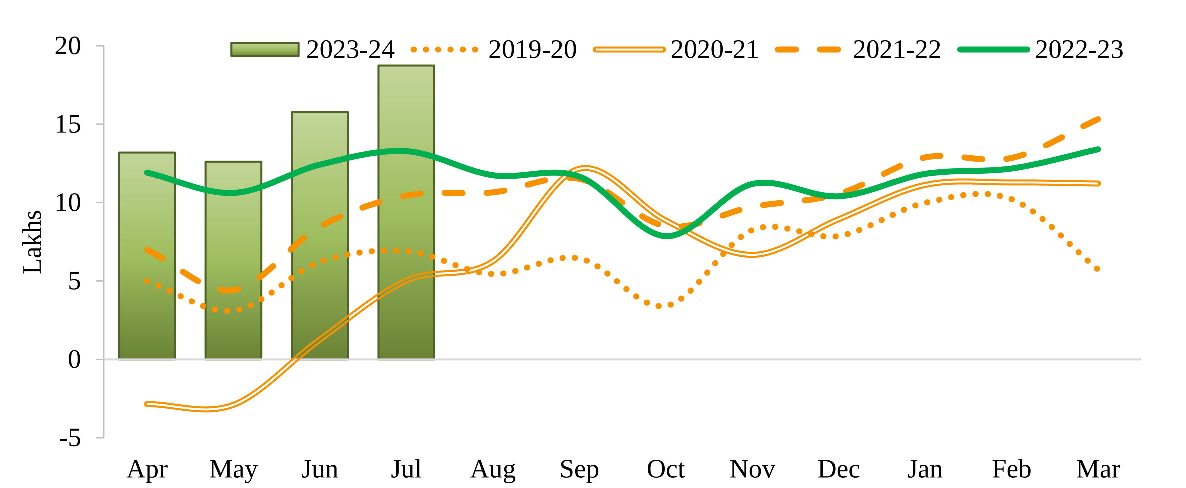
Expanding Organized Sector Employment and Widening Social Security Net of Unorganised Workforce

Rising employment in the organised sector

25. The trend in organised sector employment indicates healthy growth, including a rise in new members joining EPFO and more members rejoining than exiting the social security net. The monthly EPFO net payroll addition has witnessed healthy growth in July 2023, with 58.5 per cent of the newly joined members aged 18-25 years, indicating healthy hiring for youth. The relatively high number of members rejoining EPFO signifies a churning labour market opting to extend its social security protection.

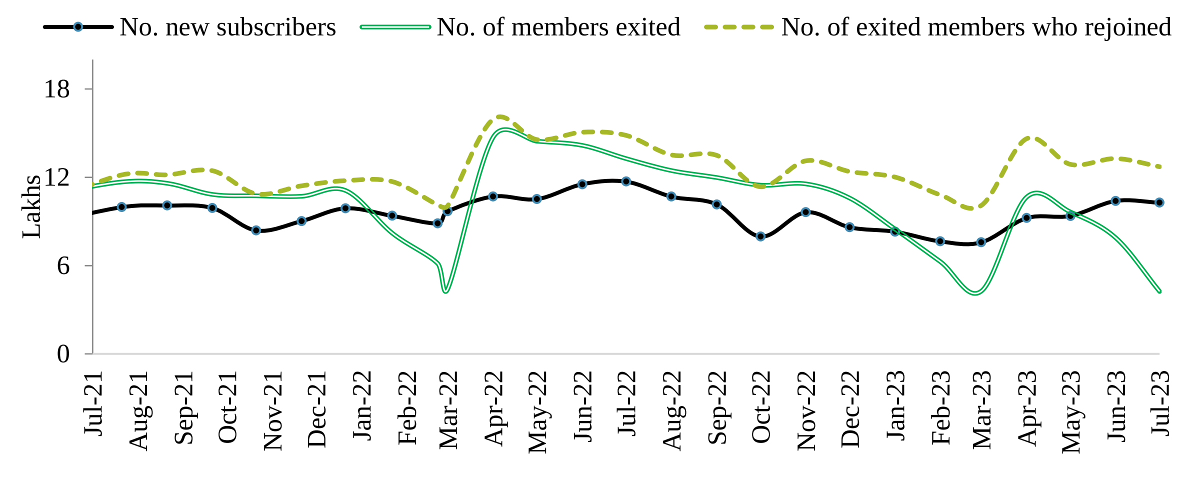
The EPFO net payroll addition[12] stood at 18.5 lakh members in July 2023, amounting to a YoY rise of 41.1 per cent and a M-o-M rise of 18.8 per cent. However, the numbers are subject to substantial revision. Around 10.3 lakh new members[13] were enrolled during July 2023, the highest since July 2022. Maharashtra, Tamil Nadu, Karnataka, Gujarat, and Haryana contributed 60.4 per cent of the net increase in EPFO subscriptions.

Rising EPFO net payroll addition indicates growth in new formal employment and formalisation of existing employment



Source: EPFO

Rising new subscribers and rejoining members accompanied by falling exits from EPFO net



Source: EPFO

Across months, the number of subscribers rejoining EPFO has been higher than new subscribers or existing subscribers. In July 2023 alone, 12.72 lakh members rejoined after exiting previously. According to EPFO, these members switched their jobs and rejoined the establishments covered under EPFO and opted to transfer their accumulations instead of applying for final settlement, thus extending

[12] Net Payroll addition = New subscribers – Exited members + Rejoinee subscribers
[13] A new member is reflected in the EPFO payroll numbers when the first non-zero contribution is received for the member's Aadhaar-linked Universal Account Number through Electronic Challan cum Return.

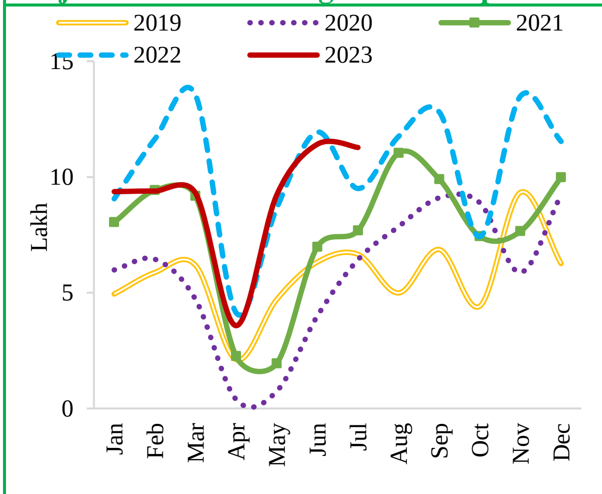
their social security protection.

According to a recently released Ecowrap report by the State Bank of India, net new EPF subscriber addition during FY20 to FY23 was 4.86 crore, and first jobs accounted for 47 per cent of the total net new payroll. Adding this to the 31 lakh new subscribers joining the NPS, the total payroll generation of EPFO and NPS stood at more than 5.2 crore from FY20 to FY23. Of the net new subscribers of EPFO, SBI calculates the increase in formalisation (i.e., establishments submitting their first Electronic Challan cum Return) to be 42 lakh in the past four years.

Widening social security net for unorganised workers

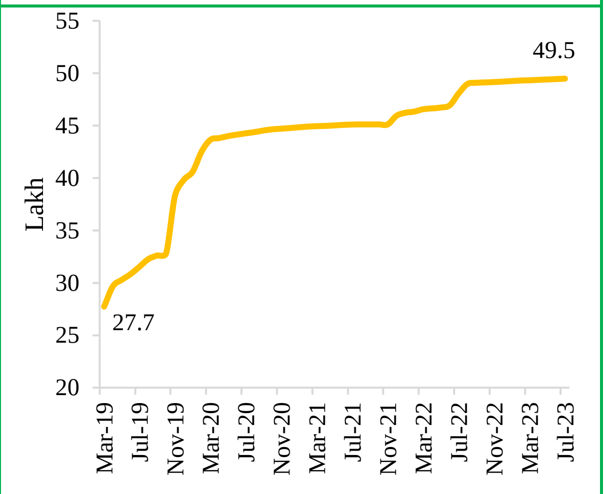
26. Besides facilitating the formalisation of labour, the Government has also taken major steps to secure the future of unorganised workers through minimum guaranteed pension with small contributions, an attractive option for the vast majority of informal workers. For instance, the Atal Pension Yojana (launched in 2015) and the Pradhan Mantri Shram Yogi Maan-Dhan Yojana (PM-SYM) (launched in 2019) cover nearly six crore workers as of July 2023, hinting at an expansive social security net woven in the recent years.

Rising new subscriptions in Atal Pension Yojana for minimum guaranteed pension



Source: Department of Financial Services

50 lakh cumulative enrolments under PM-SYM



Source: Ministry of Labour and Employment

As per the latest data, monthly subscriber additions under Atal Pension Yojana[14] saw an upturn in YoY terms, clocking 18.6 per cent growth in July 2023 while declining slightly by 1.2 per cent in M-o-M terms. The subscriber additions in 2023 have caught up to 2022 levels after trailing in the January-April stretch while having significantly upscaled from 2019 levels. Moreover, nearly 50 lakh unorganised workers have been registered under the Pradhan Mantri Shram Yogi Maan-Dhan (PM-SYM) pension scheme[15] till July 2023.

[14] Atal Pension Yojana (APY), launched in 2015, is a contributory pension scheme providing minimum guaranteed pension ranging from Rs 1000 to Rs 5000 on attaining 60 years of age, depending on the contribution. The age limit of joining APY is 18 to 40 years.

[15] PM-SYM scheme provides a monthly pension of Rs. 3000/- after attaining the age of 60 years to the workers in the age group of 18-40 years whose monthly income is Rs. 15000/- or less, and is not a member of

27. Looking forward, the bouquet of structural reforms taken for promoting ease of doing business, logistical efficiency, and infrastructure creation are accelerating job creation and formalisation of the economy. At the same time, the issues that unorganised workers face resulted in the creation of a comprehensive database of e-Shram Portal (with more than 29 crore registrations) and a host of customised social security schemes. This two-pronged approach to labour welfare exemplifies a sustainable approach to long-term inclusive growth.

Outlook

28. India's economic outlook for FY24 remains bright. Economic activity maintained its momentum. HFIs suggest that the second quarter of FY24 is shaping up well too. The monsoon deficit of August has been partially plugged in September and that is good news. Prices of selected food items that drove the inflation rate above 7 per cent in July are on the retreat. Private sector is in good health as data on advance tax payments for second quarter confirm. They are investing. Recent run-up in oil prices is an emerging concern. But, no alarms yet. The US 10-year bond yield has crossed 4.3 per cent, and the S&P 500 index is not too far from its all-time high. The risks of a stock market correction and geopolitical developments could potentially hurt investment sentiment in the second half of the financial year. But, the impact of these developments on underlying economic activity in India should be relatively contained. Therefore, in sum, the baseline estimate for India's economic growth in FY24 is 6.5 per cent, at 2011-12 prices.

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

EPFO/ESIC/NPS (Govt. funded). 50 per cent of the monthly contribution is payable by the beneficiary and an equal matching contribution is paid by the Central Government.

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-Jul	23	21.8	21.7	29.8	-5	-0.8
Domestic Tractor Sales	Lakhs	Apr-Aug	3.5	3.7	3.7	18.9	7.2	-0.3
Kharif Sowing	Mn Hectare	15th Sep	110.5	109.2	109.5	-0.84	-1.21	0.33
Kharif Production	Mn Tonnes	3rd AE	154.9	155.1	-	4.4	0.1	-
Reservoir Level	Bn Cu. Metres	14th Sep	127	153	117.7	-12.9	20.5	-23.1
Wheat Procurement (RMS)	LMT	NA	433.4	187.9	262	11.2	-56.6	39.4
Rice Procurement (KMS)	LMT	4th Sep 23	575.9	569.5	-	-4.4	-1.1	-
Rainfall	Millimetres	Up to 16th Sep	781.4	859.7	732.8	-10	10	-14.8
Industry								
8-Core Industries	Index	Apr-Jul	129.8	144.8	154	21.4	11.5	6.4
IIP	Index	Apr-Jul	123.9	136.3	142.8	33.9	10	4.8
Domestic Auto sales	Lakh	Apr-Aug	61.3	81.3	89.5	30.1	32.6	10.2
PMI Manufacturing	Index	Apr-Aug	52.4	55.2	58	28.8	5.3	5.1
Power consumption	Billion kWh	Apr-Aug	594.2	662.9	696.3	15.3	11.6	5
Natural gas production	Bn Cu. Metres	Apr	2.7	2.8	2.7	22.7	6.6	-2.9
Cement production	Index	Apr-Jul	148.2	167.3	185.9	46.5	12.9	11.1
Steel consumption	Mn Tonnes	Apr-Aug	412.6	458.3	521.8	46.9	11.1	13.9

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
Inflation								
CPI-C	Index	Apr-Aug	161	172.4	182.1	5.5	7.1	5.6
WPI	Index	Apr-Aug	134	154	150.7	11.8	14.9	-2.1
CFPI	Index	Apr-Aug	160.5	172.8	184.2	3.8	7.7	6.6
CPI-Core	Index	Apr-Aug	160.4	170.3	178.8	5.9	6.2	5
Services								
Average Daily ETC Collection	₹ Crore	Apr-Aug	88.6	138	169.1	103.8	55.8	22.5
Domestic Air Passenger Traffic	Lakh	Apr-Jul	30.8	83.7	101.1	258.5	172	20.7
Port Cargo Traffic	Million tonnes	Apr-Aug	321.4	323	331.8	2.5	0.5	2.7
Rail Freight Traffic	Million tonnes	Apr-Aug	562.7	620.9	634.7	30.4	10.3	2.2
PMI Services	Index	Apr-Aug	48.7	57.7	60.8	90.8	18.5	5.3
Fuel Consumption	Million tonnes	Apr-Aug	79.3	90.8	95.6	12	14.5	5.3
UPI (Value)	₹ Lakh crore	Apr-Aug	27.8	51.7	74.3	127.6	86.3	43.6
UPI (Volume)	Crore	Apr-Aug	1,479.2	3,026.9	4,785.4	121.2	104.6	58.1
E-Way Bill Volume	Crore	Apr-Aug	28.3	37.7	44	61.7	33	16.7
Fiscal Indicators								
Gross tax revenue (Central Govt)	₹ Lakh crore	Apr-Jul	7	8.7	8.9	83.1	24.9	2.8
Revenue Expenditure	₹ Lakh crore	Apr-Jul	8.8	9.2	10.6	-7	4.8	15.9
Capital Expenditure	₹ Lakh crore	Apr-Jul	1.3	2.1	3.2	14.8	62.5	52
Total Expenditure	₹ Lakh crore	Apr-Jul	0.8	11.3	13.8	-92.2	1271.3	22.5
Fiscal Deficit	₹ Lakh crore	Apr-Jul	3.2	3.4	6.1	-60.9	6.1	77.7
Revenue Deficit	₹ Lakh crore	Apr-Jul	2.1	1.6	3	-71.1	-21.6	86.2
Primary Deficit	₹ Lakh crore	Apr-Jul	1	0.6	3.1	-84.7	-40.2	436.7
GST Collection	₹ Lakh crore	Apr-Aug	5.6	7.5	8.3	55.5	33.6	11.1

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
External Sector								
Merchandise exports	USD Billion	Apr-Aug	164.5	196.2	173	67.9	19.3	11.8
Non-oil exports	USD Billion	Apr-Aug	141.1	152.6	141.3	57.8	8.2	-7.4
Merchandise imports	USD Billion	Apr-Aug	218.3	309.3	271.8	80	41.7	-12.1
Non-oil non-gold imports	USD Billion	Apr-Aug	146.7	203.8	185	64.8	38.9	-9.2
Net FDI	USD Billion	Apr-Jul	13.1	17.3	5.7	-70.2	32.1	-67.1
Net FPI	USD Billion	Apr-Aug	1.6	-6.9	22.4	-78.9	-531.3	424.6
Exchange Rate	INR/USD	Apr-Aug	74	78.2	82.3	-1.3	5.7	5.2
Foreign Exchange Reserves	USD Billion	08th -Sep	641.1	550.9	593.9	18.3	-14.1	7.8
Import Cover	Months	Aug	15.5	9.6	10.5	-	-	-
Monetary and Financial								
Total Bank Credit	₹ Lakh crore	25th Aug	109	124.6	149.2	6.7	14.3	19.7
Non-Food Credit	₹ Lakh crore	25th Aug	108.3	124.3	149	6.7	14.8	91.9
10-Year Bond Yields	Per cent	Apr-Aug	6.1	7.3	7.1	0.1	1.2	-0.2
Repo Rate	Per cent	Aug	4	5.9	6.5	0	1.9	0.6
Currency in Circulation	₹ Lakh crore	Aug	29.4	31.8	33.1	9.7	8.2	4.1
M0	₹ Lakh crore	Aug	36.8	40.6	44.6	15.4	10.3	9.9
Employment								
Net payroll additions under EPFO	Lakh	Apr-Jul	30.3	48.2	60.3	5739.1	59.1	25.1
Number of persons demanded employment under MGNREGA	Crore	Apr-Aug	19.8	16.4	17.1	-6.5	-17.4	4
Urban Unemployment Rate	Per cent	Mar	9.4	8.2	6.8	0.3	-1.2	-1.4
Subscriber Additions: National Pension Scheme (NPS)	Lakh	Apr-Jun	1.85	1.84	1.8	34.1	-0.4	-2.2