Economic Division

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सत्यमेव जयते

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Abstract

Building on the momentum from the previous two quarters, India's economic growth surged to a six-quarter high in Q3FY24, exceeding 8 per cent for the third consecutive time. The higher second advance estimate for economic growth in FY24, released after about eight weeks from the first estimate incorporating more updated information on the recent economic dynamics, has bolstered the optimism about the economy. Many non-governmental expert agencies have also upped their growth projections. While consumption remained steady, robust investment activity is driving growth. The continued focus on public investment seems to have crowded in private investment. Strong aggregate demand has stirred manufacturing and construction activities and accompanying professional, financial and real estate services.

India's external account is stable despite persistent geopolitical headwinds. Merchandise trade deficit is narrowing, fuelled by falling international commodity prices. Services exports remain strong, resulting in an increase in net services receipts. Supported by India's strong macroeconomic fundamentals, foreign portfolio investors have turned net buyers in February while foreign direct investment inflows are still awaiting momentum. The number of new project announcements remained stable, keeping India among the top 5 destinations for global greenfield projects.

Retail inflation remained stable and within the target range for the sixth consecutive month. Driven by strong domestic growth and benign global commodity prices, core inflation is declining continuously. Timely and multi-frontal supply-side measures by the Government have also helped the cause of price stability.

Three recent data releases portray reassuring trends in employment. The latest results of the Periodic Labour Force Survey indicate a decline in the unemployment rate coupled with rising labour force participation in 2023. RBI's KLEMS database updated up to 2021-22 points to a revival of the structural transformation of the Indian labour market, with the buoyant non-farm sector being able to absorb the labour force freed from farm operations. In the organised manufacturing sector, the results of Annual Survey of Industries for FY21 and FY22 showcased Indian manufacturing sector's resilience and its turn-around in employment post the pandemic.

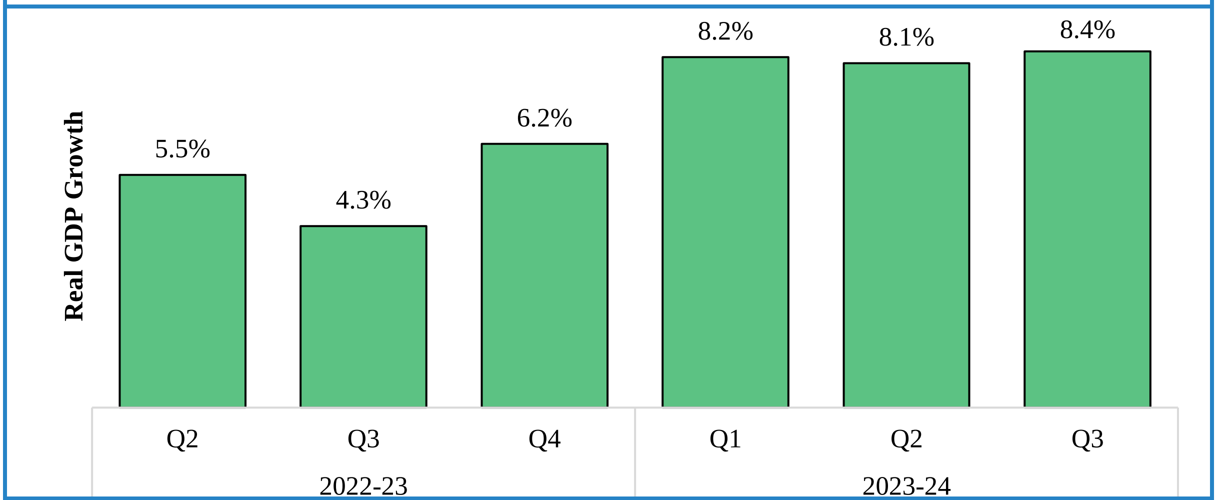
Strong growth accompanied by stable inflation and external account and progressive employment outlook help the Indian economy close the current financial year on a positive note. There are headwinds like indications of hardening crude oil prices and global supply chain bottlenecks to trade. Nonetheless, India, on the whole, looks forward to a bright outlook for FY25.

Continuing growth momentum

1. The GDP growth estimate for FY24 has been revised upwards from 7.3 per cent to 7.6 per cent in the second advance estimates, highlighting the enduring strength of the Indian economy. India grew above 8 per cent for three consecutive quarters, reaffirming her position as a standout performer amidst sluggish global growth trends. Various agencies echo a similar sentiment revising the growth estimates of India FY24 closer to 8 percent.

In line with the official statistics and the upward revision of various growth estimates, SBI Research and Moody's expect GDP growth for FY24 to be 8 per cent. Fitch and Barclays raised their growth forecast for FY24 to 7.8 per cent. The inclination towards 8 per cent growth for FY24 stems from the fact that the 7.6 per cent GDP growth for FY24, as estimated by the CSO, means an implied growth of 5.9 per cent growth for Q4 FY24, which is likely to be an understatement given the continuing momentum of the economy.

Indian economy witnesses strong growth momentum



Source: MoSPI

Growth backed by resilient investment

2. Driven by the Government's thrust on capex which has continued to crowd in private investment, Gross Fixed Capital Formation (GFCF) at constant prices registered a growth of 10.2 per cent in FY24 and 10.6 per cent in Q3 of FY24. There has been a broad-based pick-up in investment, as reflected in the rising share of GFCF, which increased from 29.6 per cent in FY22 to 31.3 per cent of GDP in FY24.

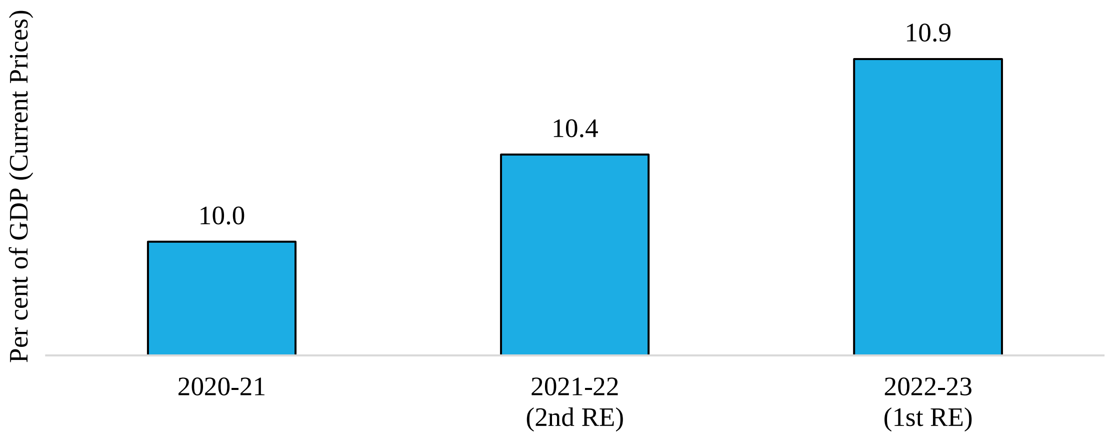
3. The Government's effective capex is expected to be 4.6 per cent of GDP in FY25, as per the interim budget, which is a substantial 200 basis point increase from 2.6 per cent of GDP in FY20. With the continued impetus to capex in the last few years, the crowding-in is evident from the increasing investment rate of the private corporate sector. Resonating the same, RBI's State of the Economy[1] report

[1] https://rbi.org.in/scripts/BS_ViewBulletin.aspx?Id=22393

states that the government's thrust on capex has started to crowd in private investment as high corporate profitability quarter after quarter has begun to induce the creation of fixed assets.

The Government's capex strategy is not limited to physical infrastructure; it also prioritizes the technological landscape. To catalyse AI innovation via a public-private partnership, the government has approved the "India AI Mission" with a budget outlay of ₹10,300 crore for building computing infrastructure, developing indigenous AI capabilities, attracting AI talent, and financing AI start-ups. Recognizing the importance of the technological ecosystem, the government's measures to address the challenges of high costs of chip manufacturing and Graphical Processing Units are expected to incentivize the private sector and start-ups to invest in AI innovation, semiconductors, and technology capabilities. The focus on infrastructure and technology is expected to propel India to stay on the curve of technological innovation and solidify its position in global supply chain.

Strengthening Investment by the Private Corporate Sector



Source: MoSPI

Private Consumption

4. The steady consumption demand is backed by resilient urban demand conditions. The recovery in rural consumption demand is expected to be strengthened by the forecast of a normal monsoon[2] in FY25. The latest Household Consumption Expenditure Survey (HCES) 2022-2023 results suggest inclusive growth in the past decade, also reiterating improved rural demand scenarios.

Box 1: Household Consumption Expenditure Survey 2022-23

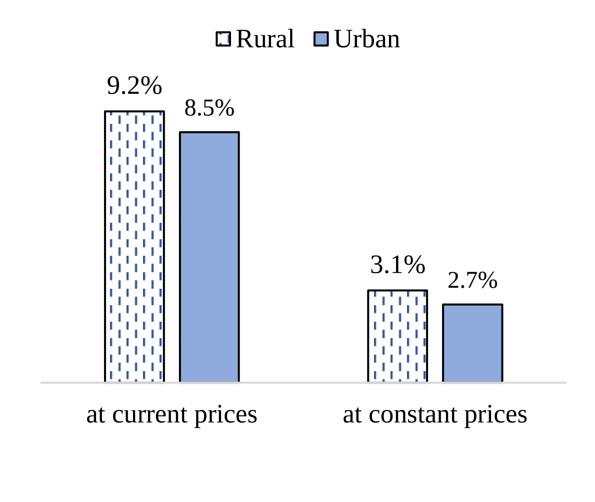
- The recent Household Consumption Expenditure Survey (HCES) 2022-23 results shed light on living standards in rural and urban India, estimated as the monthly per capita consumption expenditure (MPCE). The results broadly confirmed the substantial rise in non-income aspects of living standards, noted by the multidimensional poverty reports of the UN and NITI Aayog previously.

[2] https://internal.imd.gov.in/press_release/20240301_pr_2850.pdf

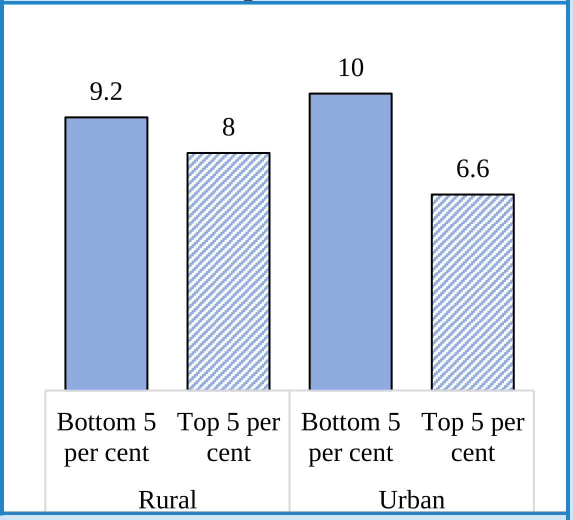
- The HCES offers many reassuring findings on inclusive growth in the past decade. The MPCE in 2022-23 increased in real terms by 40 per cent in rural and 33.5 per cent in urban areas over 2011-12.
- The rural-urban divide in MPCE has also declined considerably. Within rural and urban areas, the consumption of the lowest 5 per cent of the MPCE population grew at a faster rate than the top 5 per cent, pointing to a decline in economic inequality over the last decade.
- Imputation of free-of-cost items provided through government programmes leads to a progressive rise in MPCE. The benefit of welfare schemes as a proportion of MPCE was only 0.8 per cent for the top five per cent fractile in the rural areas, but was as high as 5.0 per cent for the corresponding bottom five per cent fractile. For urban areas, the corresponding figures were 0.1 per cent and 4.3 per cent respectively.
- Juxtaposing the MPCE numbers with the per capita gross national income (henceforth PCI) reveals an inclusive trend in economic growth. The MPCE/PCI ratio has increased for all consumption classes except the top 5 per cent in rural India and the top 10 per cent in urban India. This progress occurred despite the once-in-a-century Covid-19 pandemic.

CAGR in MPCE: 2011-12 to 2022-23

Positive yearly growth in both real and nominal terms



Bottom 5% fractile saw higher growth than top 5% fractile



Source: Factsheet of HCES 2022-23, MoSPI

Strengthening urban demand is evidenced by rising passenger vehicle sales, increased housing sales, higher domestic air passenger traffic, increased digital payments and improved consumer confidence. Domestic passenger vehicle sales have continued to increase, rising by 25.7 per cent YoY in FY24 (April-Feb) and by 25.8 per cent YoY in Q3 FY24, reassuring spending in consumer durables. Air passenger traffic increased by 9 per cent YoY in Q3 FY24. The volume of UPI transactions also witnessed a 54.4 per cent YoY increase in Q3 FY24, which can be attributed to convenience and better financial flexibility, thereby easing spending avenues for consumers.

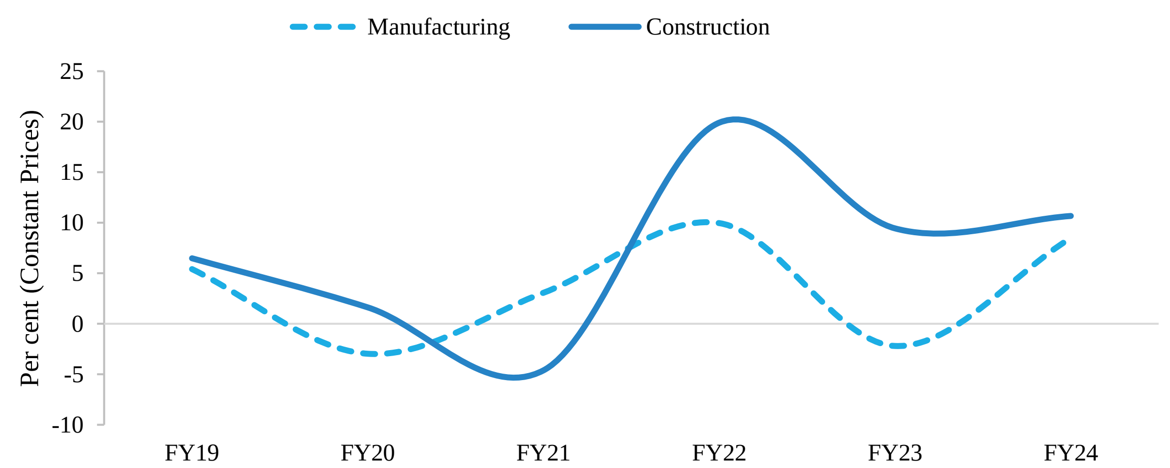
Strong Manufacturing and Construction sector Growth

5. Manufacturing sector registered double-digit growth in Q3 of FY24 driven by a surge in investment, improved investor confidence, and strong domestic demand conditions. The strength of the manufacturing sector is also underscored by the India manufacturing PMI, which, as of December 2023, stood at five months high of 56.9, supported by new orders and favourable demand conditions. This has been partially led by improved domestic demand and a decline in the inventory of finished goods. The volume indicators like the Index of Industrial Production and the Index of Eight Core Industries have also observed growth of 5.8 per cent and 8.4 per cent respectively during Q3 of FY24.

6. The contribution of the construction sector to overall GVA increased in Q3. A robust increase in cement and steel production portends well for a sustained rise in construction activity. Aided by government interventions and increased demand for residential properties in tier-2 and tier-3 cities, the construction sector is capturing new markets. The strong thrust to infrastructure investment through initiatives like GatiShakti and National Infrastructure pipeline have also raised the demand for construction.

The Indian housing market has witnessed significant growth in sales and new house launches in 2023, despite increasing home prices and a rise in interest rates on home loans. As per Anarock, housing sales have increased by 31 per cent in 2023 to record 4.77 Lakh Units in the top seven cities.

Construction and Manufacturing sectors continue to be major growth drivers



Source: MoSPI

Box 2: Key Takeaway from Annual Survey of Industries

- Recently, MoSPI released the results of the Annual Survey Industries for three pandemic-impacted years, i.e., FY20-FY22. The results exhibit the resilience shown by the Indian manufacturing sector after the adverse effects of the pandemic.

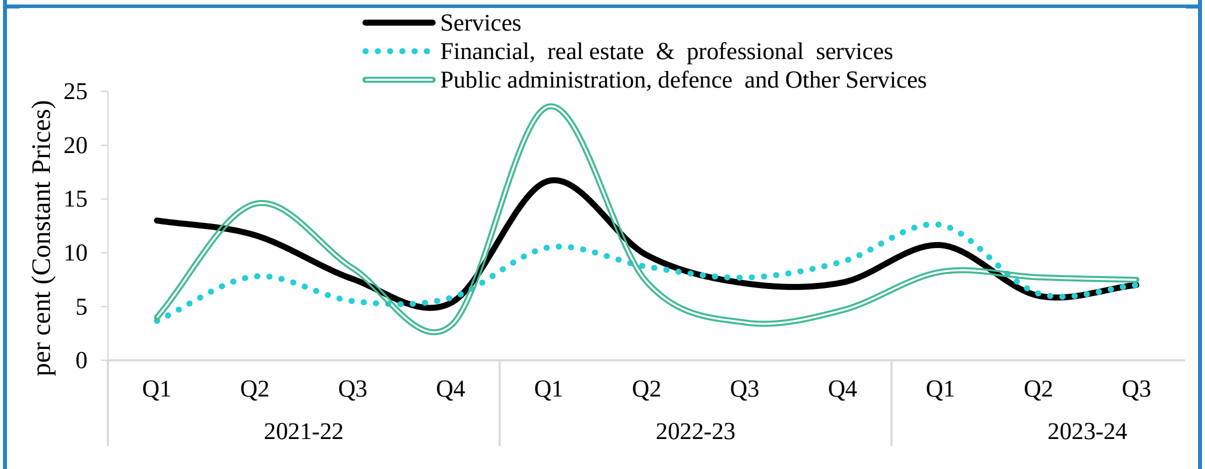
- FY22 witnessed a sharp rise in the level and the growth of the majority of the important economic parameters like invested capital, input, output, GVA, net income and net profit by the registered manufacturing sector, surpassing the pre-pandemic level in absolute terms.
- The main drivers of this growth in FY22 were industries like basic metals, coke & refined petroleum products, pharmaceutical products, motor vehicles, food products and chemical and chemical products. Taken together, these industries contributed about 56 per cent of the total GVA of the sector and showed a GVA growth of 34.4 per cent and output growth of 37.5 per cent compared to FY21.
- The five states with the highest share in gross value added in manufacturing -- Maharashtra, Gujarat, Tamil Nadu, Karnataka and Uttar Pradesh account for 53 per cent of the total manufacturing GVA in FY22.

Service Sector Growth Driven by non-Contact Intensive Services

7. FY24 saw continued strong growth in services, led by non-contact-intensive services sectors. The non-contact intensive services sector registered a growth of 7.2 per cent in the quarter ending December 2023.

The services sector has also supported growth momentum in Q3 of FY24 and has registered growth of 7 per cent on a YoY basis. In April-December 2023, the services sector grew at 7.8 per cent. In the non-contact intensive services, 'financial, real estate & professional services' and 'public administration, defence and other services' registered growth of 7 per cent and 7.5 per cent respectively in Q3 of FY24. High-frequency indicators underpin the strong growth momentum in the services sector. The PMI services stood at 60.6 and has been expanding for 31 consecutive months, led by new business orders and improvement in future activity prospects.

Non-contact intensive sectors registered strong growth



Source: MoSPI

India's capital markets stand out amidst difficulties

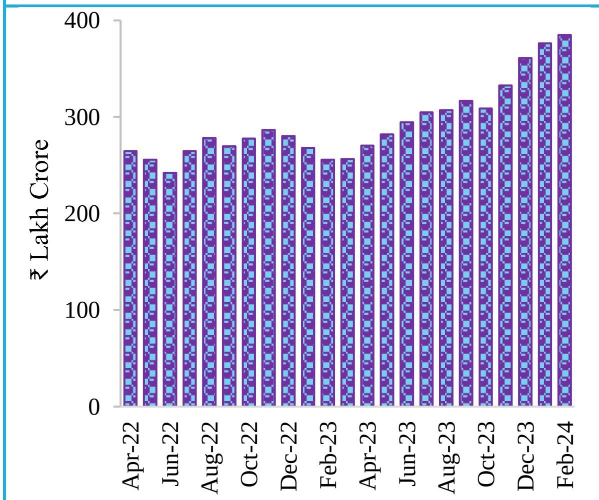
8. Despite geopolitical risks, rising interest rates, and volatile commodity prices, the Indian capital markets have remained one of the best performing among emerging markets in FY24, reflecting India's bright economic stature in the global economic landscape.

9. In the first eleven months of FY24, capital worth ₹98,112 crore (equity + debt) has been raised by the corporates from the primary market through public and rights issuances, higher than the entire previous financial year. During April 2023 to February 2024, 345 companies were listed on stock exchanges. Among these, 179 were SMEs that raised ₹5,381 crore, with 68 being main board companies. This represents a significant increase compared to the entire FY23, when 272 companies were listed on stock exchanges, of which 125 were SMEs accounting for ₹2,333 crore.

10. India's equity market has witnessed a considerable increase in the number of demat accounts in recent months, thanks to a robust investment climate and technology-anchored transparent trading system. As per the NSDL and CDSL data, the number of demat accounts in India opened in February 2024 soared to over 43.5 lakh, 38.6 per cent higher compared to the corresponding period of the previous year. The total demat accounts tally now stands at 14.8 crore, marking a 31.7 per cent increase from a year ago. This surge in demat accounts is particularly notable in tier II and III cities.

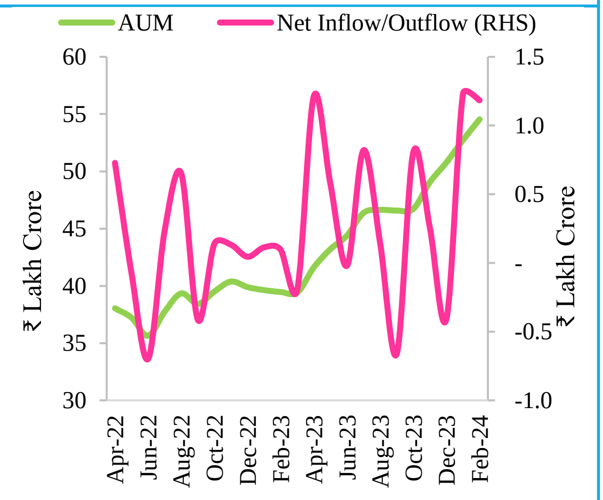
11. The assets under management of mutual funds were 38.2 per cent higher (Y-o-Y) in February 2024. The total number of folios increased from 14.6 crore at the beginning of FY24 to 17.4 crore at the end of February 2024. In the first eleven months of FY24, mutual funds witnessed net inflows of ₹5.1 lakh crore, as compared to net inflows of ₹0.95 lakh crore in the same period of the previous year. Encouraging investment flows through SIPs and rising investment from B30 cities contributed to the remarkable growth.

Rising Market Capitalisation



Source: NSE

Growth in Mutual Funds



Source: SEBI

12. According to a Bloomberg report, India became the fourth biggest equity market in January 2024 surpassing the stock market capitalisation of Hong Kong[3]. Strong corporate profitability, steadily expanding base of individual investors and solid domestic macroeconomic fundamentals have contributed to this.

Global trade continues to be impacted by supply chain disruptions

13. Global trade growth remains subdued, but some recent developments suggest signs of improvement. The Organisation of Economic Cooperation and Development (OECD), in its February 2024 Interim Economic Outlook, forecasts an improvement in global trade in the near future. **Asia's reviving production of semiconductors and electronics, coupled with a rise in car sales, is providing a much-needed lift to merchandise trade. Meanwhile, the return of** air passenger traffic to pre-pandemic levels **is fuelling growth in services trade.** However, survey measures of export orders generally remain modest, particularly in manufacturing, and new supply disruptions are appearing. Attacks on shipping in the Red Sea have resulted in trade flows being re-routed so that the shipping costs have risen sharply, and delivery times have lengthened, especially for trade from Asia to Europe. **Box 3** examines the impact of the Red Sea crisis on the global as well as the Indian economy.

Box 3: Impact of the Red Sea Crisis

The ongoing crisis in the Red Sea shipping route is having an impact on global food prices, with longer cargo travel distances and higher freight rates potentially leading to an increase in cost. UNCTAD report[4] highlights that the Suez canal experienced a drop in transits by 42 per cent and 49 per cent, respectively in January 2024 compared to their peak levels.

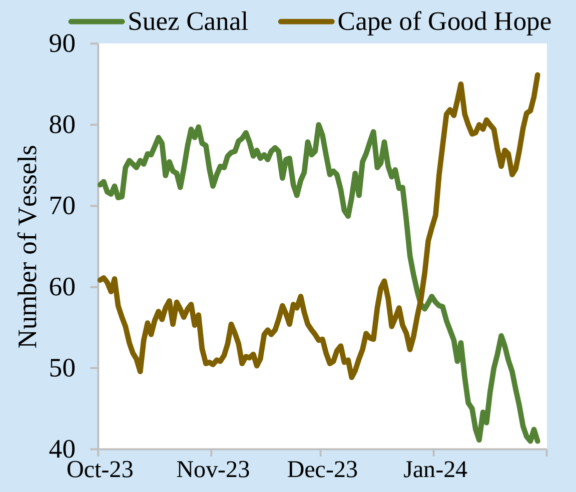
Impact on the Global Economy

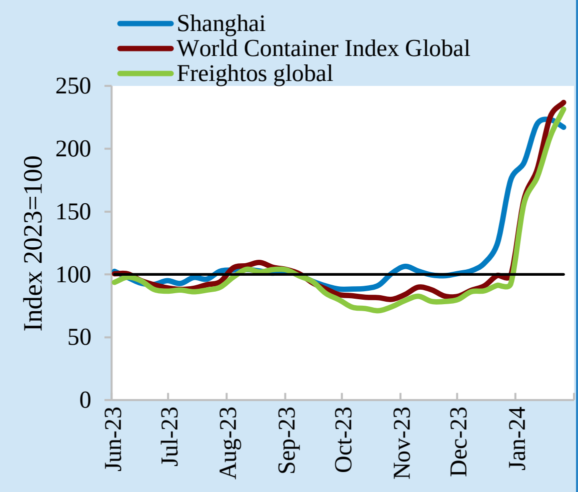
- **Change in trade route**: Container ships routing through the Suez Canal are shunning and rerouting around the Cape of Good Hope. By the first half of February 2024, container tonnage crossing the Canal fell by 82 per cent, and vessel tonnage passing through the Cape of Good Hope increased by 60 per cent.
- **Increase in the distance and operational shift due to rerouting of ships: The extra miles travelled and days lost due to trade diversion has** translated into additional costs such as fuel costs and lost value of time-sensitive cargo. The other additional costs are arising from the prevailing security considerations, including the risk of piracy, which generates a surge in insurance and legal claims.

[3] https://news.bloomberglaw.com/capital-markets/india-tops-hong-kong-as-worlds-fourth-largest-stock-market-3
[4] https://unctad.org/system/files/official-document/osginf2024d2_en.pdf

- **Signs of rising inflationary pressures:** The current container freight rates are approximately half the peaks recorded during the Covid crisis. Sustained increases in shipping costs due to disruption can drive up inflation. The crisis is also reverberating in global food prices. Disruptions in grain shipments from the Russian Federation, Ukraine, and Europe pose risks to global food security.

Decline in daily vessel transits	Increase in Shipping costs





Source: OECD

Impact on India

- 80 per cent of India's merchandise trade with Europe passes through the Red Sea, with key products such as crude oil, auto & auto ancillaries, chemicals, textiles, and iron & steel being affected. The combined impact of higher freight costs, insurance premiums, and longer transit times could make imported goods significantly more expensive.
- A CRISIL report[5] highlighted that a sustained disruption in trade routes holds the potential to impact the capital goods sector, with the ripple effects potentially leading to an undesirable inventory build-up. The conflict has impacted the Middle East's fertiliser exports to India as import of the Muriate of Potash from Jordan and Israel has been affected. BMI -a Fitch Solutions Company[6] shows that the crisis will impact economic growth and inflation across Asia.
- Asian economies such as China, Japan, India, and South Korea are among the largest net oil importers globally. Hence continued shipping disruptions could hit Asia. A rise in oil prices may pose upside risks to inflation and, consequently, to growth.

[5] https://www.crisil.com/content/dam/crisil/our-analysis/reports/Research/documents/2024/02/sectoral-impact-of-red-sea-trade-disruptions/sectoral-impact-of-red-sea-trade-disruptions.pdf

[6] https://www.fitchsolutions.com/bmi/country-risk/red-sea-attacks-monitor-south-asia-highly-vulnerable-disruptions-16-02-2024?fSWebArticleValidation=true&mkt_tok=NzMyLUNLSC03NjcAAAGRp59r0dhdV22rsM12ZNsFY4yXay98DNBKxlm-81tdYyIJkVVA94BJ7PMoDpVGIyWC3HooRRavHtKiNC9iUT-Y1Zm6bCBRVSkRH5htjTvRjLiebMf9KA-

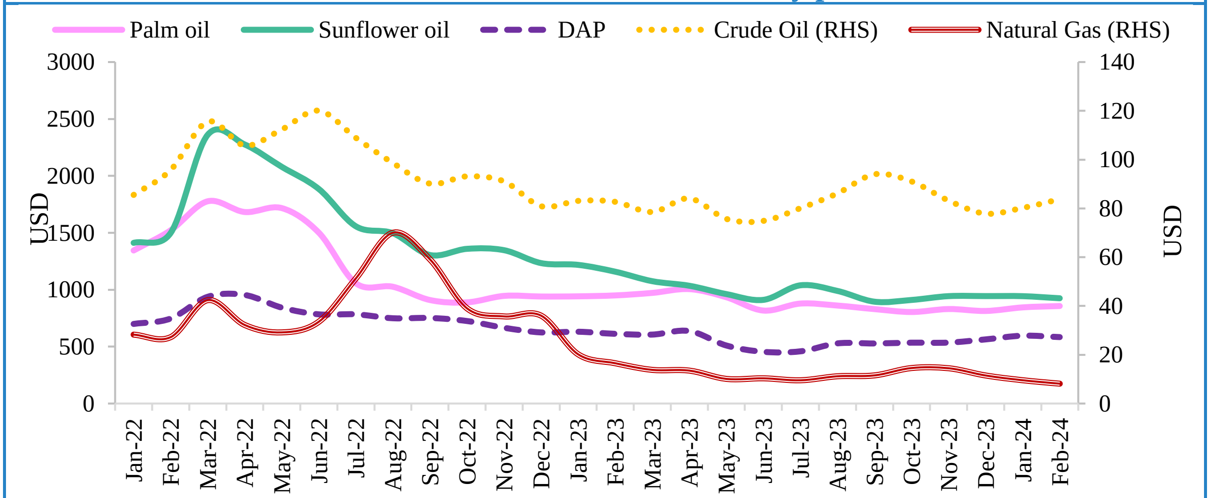
Rejuvenating demand scenarios in the advanced economies are expected to have a positive impact on India. However, India may face a sectoral impact on agricultural commodities, marine products, textiles and chemicals, capital goods, and petroleum products. To effectively address these challenges, there may be a need to diversify trade routes and transportation options. That would increase transit costs and affect the price competitiveness of Indian merchandise exports. We have to see if it impacts the value of merchandise exports in FY25.

Moderation in the value of imports led to an improvement in the trade deficit

14. The ongoing geopolitical headwinds have impacted India's external sector. Slower growth, particularly in key trading partners like Europe, is dampening the demand for India's exports. However, a welcome decline in global commodity prices from their post-Ukraine conflict highs offers some relief. While import volumes have increased substantially, a fall in international commodity prices has brought down the overall value of imports. The rise in the volume of imports reflects India's sustained domestic demand for imports driven by a rapidly growing and expanding economy. India's services exports have been consistently rising, leading to an increase in net services receipts. Going forward, narrowing merchandise trade deficit, coupled with rising net services receipts, is expected to result in an improvement in the current account deficit.

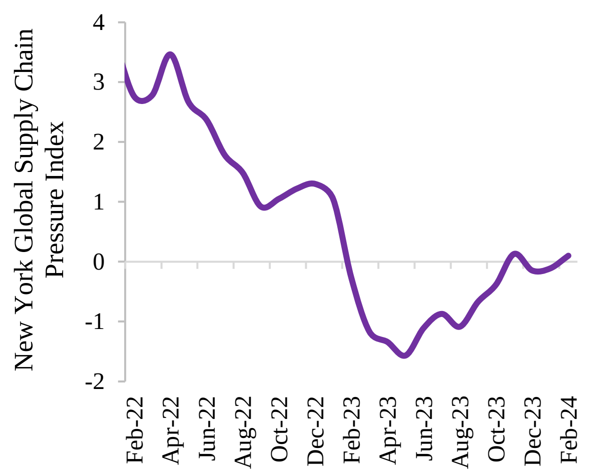
A close examination of the World Bank pink sheet database showcases a fall in prices of key international commodities, such as sunflower oil, palm oil, di-ammonium phosphate, crude oil, and natural gas, among others.

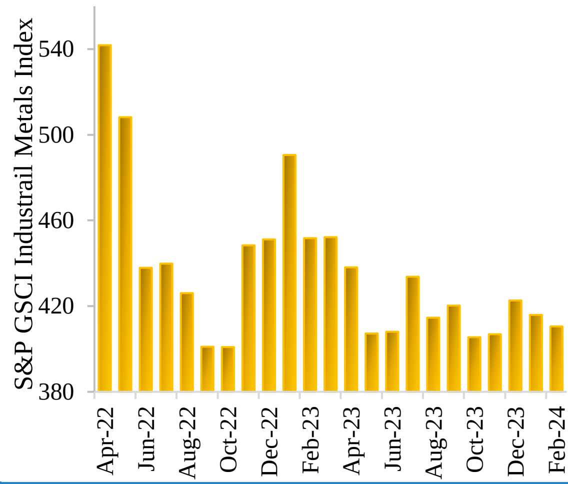
Decline in International Commodity prices



Source: World Bank Pink Sheet

New York Global Supply Chain Pressure Index	S&P GSCI Industrial Metals





Source: Bloomberg

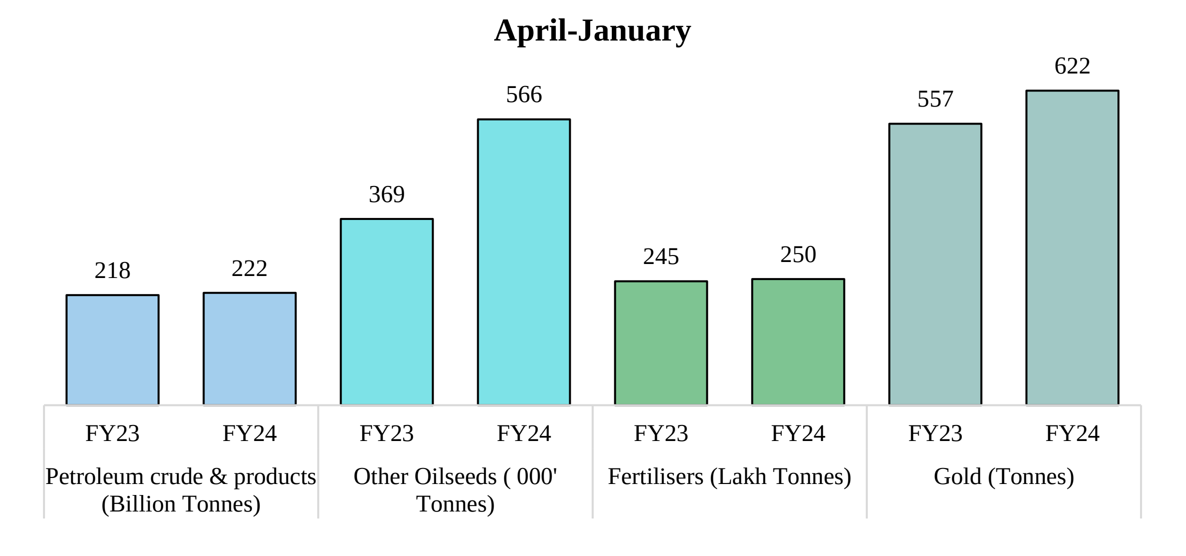
The New York Global Supply Chain Pressure Index[7] also highlights that supply chain pressures have declined significantly, suggesting a diminished contribution to inflation pressures. Supply chain pressures peaked in December 2021 when the index stood at a record 4.33 and have moved down fairly steadily since that point. However, supply chain pressures turned positive in February 2024 for the first time in over a year but remained near normal. Severe drought at the Panama Canal and attacks in the Red Sea might have exerted upward pressure on prices. The average value of the S&P GSCI Industrial Metal Index declined in April 23 to February 24, driven by a fall in prices of industrial metals. The impact of declining international commodity prices is also reflected in a moderation in core inflation, which majorly reflects imported inflation in India.

India's merchandise exports grew by 11.9 per cent in February 2024, the highest monthly export in the current fiscal so far, powered by sectors such as engineering goods, electronics, chemicals, pharmaceuticals and petroleum products despite aforementioned adversities. Sectors like engineering goods, electronics, chemicals, pharmaceuticals, and petroleum products fuelled this growth. Merchandise imports posted a growth of 12.2 per cent in February 2024, widening the trade deficit during the month to USD 18.7 billion in February 2024 compared to USD 16.6 billion in February 2023. However, during April-February 2024, the positive impact of the drop in the value of imports outweighs the negative impact of a decline in exports, thereby leading to a narrowing of the merchandise trade deficit.

[7] The GSCPI integrates a number of commonly used metrics with the aim of providing a comprehensive summary of potential supply chain disruptions. Global transportation costs are measured by employing data from the Baltic Dry Index (BDI) and the Harpex index, as well as airfreight cost indices from the U.S. Bureau of Labor Statistics. The GSCPI also uses several supply chain-related components from Purchasing Managers' Index (PMI) surveys, focusing on manufacturing firms across seven interconnected economies: China, the euro area, Japan, South Korea, Taiwan, the United Kingdom, and the United States.
The index is normalised such that zero indicates the index is at its average value, with positive values representing how many standard deviations are above this average (and negative values representing the opposite).

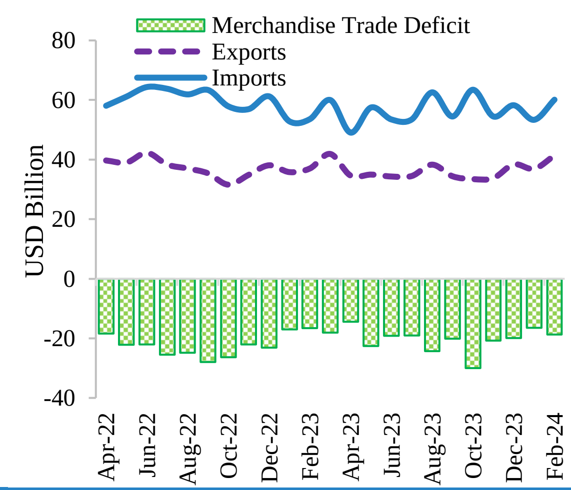
Merchandise exports were lower by 3.3 per cent from April 23-February 24, on year-on-year basis. The DGCIS data reflects a remarkable increase in the volume of key imports, such as petroleum products, oilseeds, fertilisers, and gold, among others, from April 23 to January 24 compared to the corresponding period of the previous year. However, due to a fall in global commodity prices, the overall value of merchandise imports was 5.2 per cent lower from April 23-February 24 compared to the first 11 months of FY23. Accordingly, India's merchandise trade deficit narrowed from USD (-)245.9 billion during the first 11 months of FY23 to USD (-)225.3 billion in the corresponding period of FY24.

Rise in Volume of Imports of key commodities



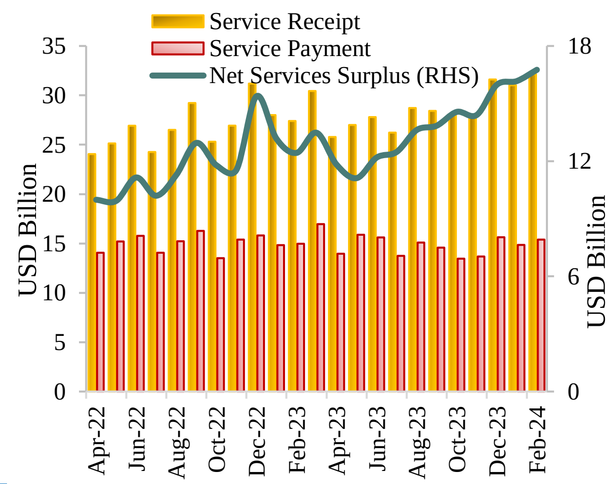
Source: DGCIS, M/o Commerce

Decline in Merchandise exports and imports



Source: DGCIS

Rise in net Services Receipts



Source: RBI

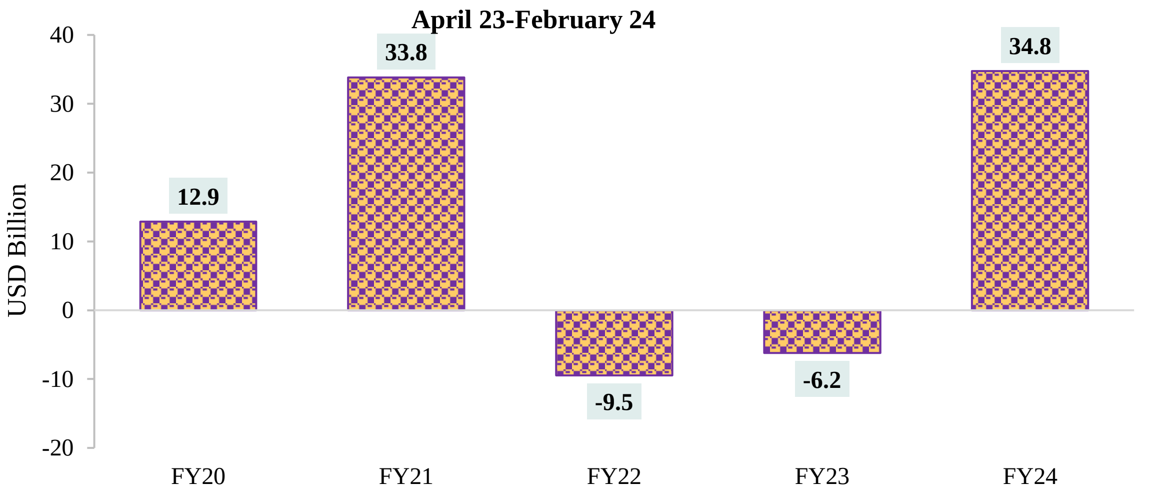
Services exports stood at USD 314.8 billion in the first 11 months of FY24, recording a growth of 6.8 per cent over the corresponding period of FY23. Software and business services together constitute around 75 per cent of India's total services exports and exhibited strong growth in FY24. Rising services exports, coupled with a fall in imports, have led to an increase in net services receipts, which rose from

USD 129.8 billion in the first 11 months of FY23 to USD 153 billion in the corresponding period of FY24.

Foreign portfolio investors became net buyers in February 2024

15. Foreign portfolio investors (FPIs) turned net buyers in February 2024 due to a rise in the USA treasury yields, recording USD 3.8 bn in inflows. In the past five years, India witnessed the highest cumulative FPI inflows in FY24 (April-February), with equity being the most preferred asset class followed by debt. Amongst sub-sectors, capital goods, automobiles and auto components, consumer services, financial services, and healthcare saw notable inflows. The rise in FPI inflows can be attributed to India's strong macroeconomic fundamentals, high economic growth and favourable business environment. Debt flows have come back strongly in FY24. Amounting to USD 14.2 bn as per NSDL data, it is the highest in the last seven years.

Rise in FPI Inflows in FY24



Source: NSDL

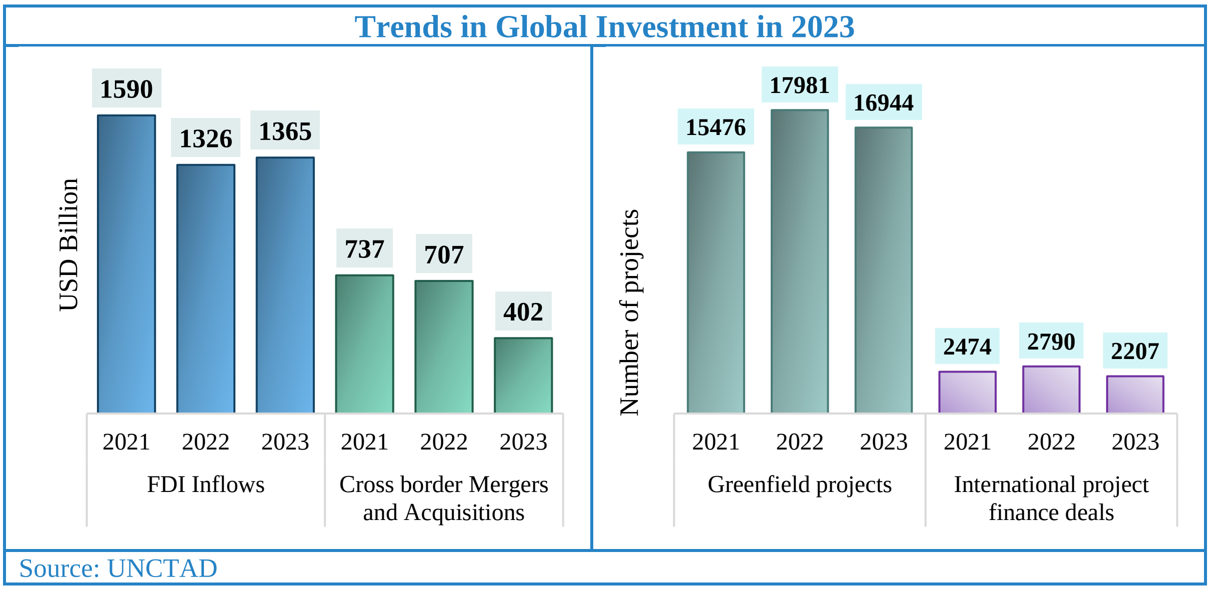
16. Rising FPI inflows, coupled with a declining current account deficit (CAD), have resulted in a rise in foreign exchange reserves. India's forex reserves stand at USD 636 billion as on 8th March 2024, sufficient to provide an import cover of 11 months and more than 95 per cent of the outstanding external debt. India currently holds the fourth-largest foreign exchange reserves in the world. Its reserves have increased by USD 40.6 billion in FY24 so far, the highest increase among major foreign exchange reserves-holding countries.

Geopolitical Disruptions Impacting India's Foreign Direct Investment

17. The latest report released by UNCTAD, "Investment Trends Monitor"[8], highlights that Global FDI in 2023, at an estimated USD 1.4 trillion, showed an increase (3 per cent) over

[8] https://unctad.org/system/files/official-document/diaeiainf2024d1_en.pdf

2022. However, economic uncertainty and higher interest rates did affect global investment, reflected in declining FDI flows to developing countries, which fell by 9 per cent in 2023.



18. International investment project announcements, including greenfield projects (mainly industry), project finance (mainly infrastructure) and cross-border mergers and acquisitions contracted in 2023. Higher financing costs in 2023 significantly impacted international project finance and M&As activity, with a decline of 21 per cent and 16 per cent in deals, respectively.

19. Global FDI in 2023 was largely driven by capital-intensive projects, especially in the renewable energy, batteries and metals sectors, underscoring the relevance of energy transition in driving a large proportion of cross-border investment[9]. Preliminary full-year figures from the greenfield foreign investment tracker indicate an all-time high of 174 FDI projects valued at USD 1 billion or more were announced worldwide, up from the previous high of 156 recorded in 2022. Energy companies, battery firms and semiconductors dominate the list of the top 10 largest greenfield FDI projects of 2023[10]. The rank of software & IT services slipped from 6th position in 2022 to 11th in 2023.

20. Mirroring the slowdown in FDI flows to developing countries, gross FDI inflows[11] to India also dipped but only slightly in the period April 2023- January 2024. During these ten months, gross FDI inflows were USD 59.5 billion compared to USD 61.7 billion in the same period last year. In net terms, the comparable figures were USD 25.5 bn vs. USD 36.8 billion. The contraction in net inflows was more due to an increase in repatriation of investment; the contraction in gross inflows is negligible.

[9] https://www.fdiintelligence.com/content/data-trends/the-2023-investment-matrix-83388
[10] https://www.fdiintelligence.com/content/data-trends/the-top-10-fdi-projects-of-2023-83436
[11] FDI to India=Gross Inflows-Repatriation/Disinvestment

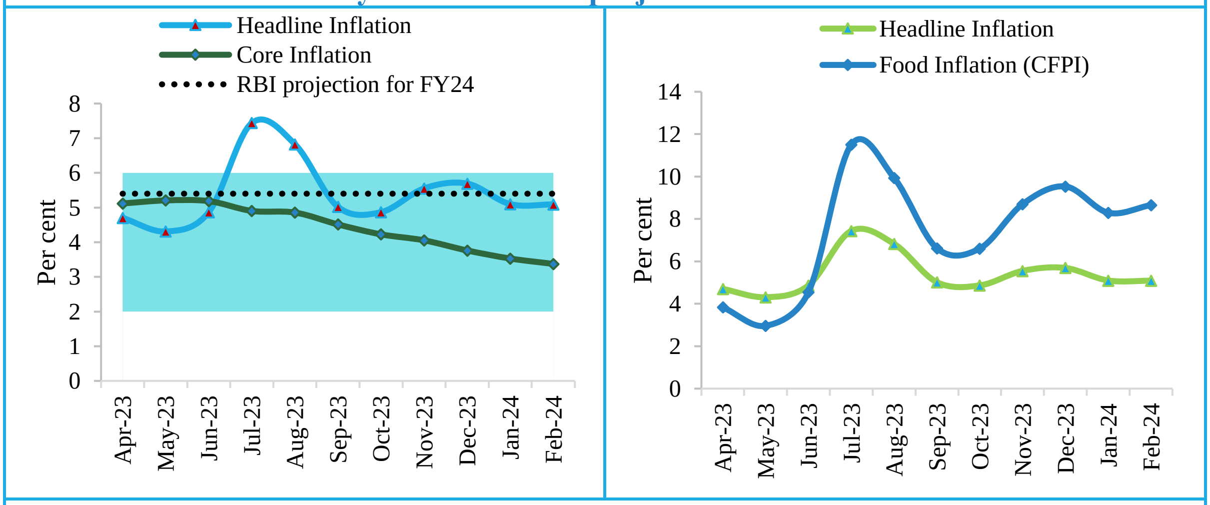
21. Around 65 per cent of the FDI equity inflows were received in the services, drugs and pharmaceuticals, construction (infrastructure activities) and non-conventional energy sectors. Country-wise analysis shows that the Netherlands, Singapore, Japan, the USA, and Mauritius account for around 70 per cent of the total FDI equity inflows. As per the UNCTAD report on "Investment Trends Monitor", though FDI inflows to India dropped in 2023, it witnessed a stable number of new project announcements, keeping it in the top 5 of global greenfield project destinations. The rising investment in greenfield projects in India is consistent with the global trend, where most of the economies are witnessing a surge in greenfield investment.

22. A modest increase in global FDI flows is likely in 2024. A decline in inflation and borrowing costs in major markets may stabilise financing conditions for international investment deals. However, there are significant risks, including geopolitical risks, high debt levels accumulated in many countries, and concerns about further global economic fracturing.

Retail Inflation in February remains range-bound

23. Retail inflation has extended its stay inside the RBI's tolerance range of 2 to 6 per cent for a sixth consecutive month. Headline inflation was largely unchanged at 5.1 per cent in February. Moderation in core inflation (non-food, non-fuel) continues to keep inflation under control. Overall, in FY24 (April-February), inflation averaged 5.4 per cent, lower than the 6.8 per cent recorded in the corresponding period of FY23. Despite price volatility in certain specific food items, headline inflation stayed below 6 per cent throughout this year except in July and August 2023.

Headline Inflation stayed below RBI's projection in most of the months in FY24



Source: MoSPI

Inflation moderated in the majority of items/groups in February

24. Inflation in February moderated mildly in all groups in the core CPI basket – clothing, footwear, housing, household goods & services, health, transport and communication,

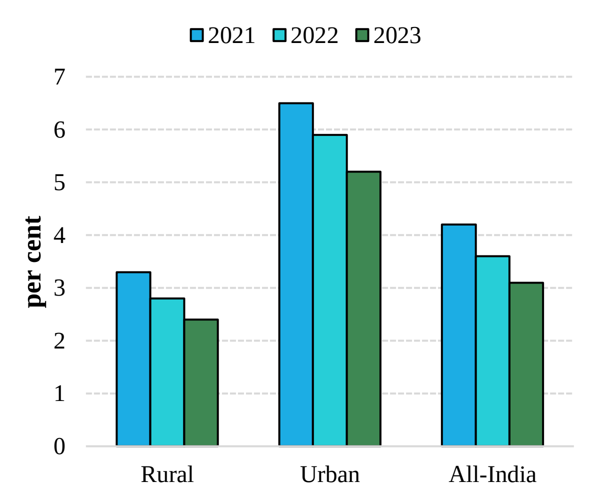
recreation and amusement, education, personal care and effects. Edible oils and fuel & light continued in the deflationary zone. The month also recorded a fall in inflation in cereals, milk, fruits, spices, pulses, non-alcoholic beverages and prepared meals, snacks and sweets as compared to January. Spices and cereals recorded the lowest inflation since August 2022. Inflation in some non-vegetarian items and some vegetables increased.

25. As elaborated in Para 14, declining global commodity prices are reflected in the moderation in domestic core inflation. The core inflation declined from 6.1 per cent in FY23 to 4.4 per cent in FY24 (April-Feb), and it continued to fall for the 9th consecutive month in February 2024. The outlook for food inflation has improved over the past couple of months. There is a modest increase in overall acreage in rabi sowing compared to the previous year. As per 2nd advance estimates of 2023-24, wheat production would increase by 1.3 per cent and kharif rice production by 0.9 per cent over the previous year. Tur production is estimated to increase by 0.8 per cent. This will help in reducing inflationary pressures in major food items. Besides, sowing under the summer crops is progressing well; the area sown at 39.4 lakh hectares as of 15th March 2024, registered a growth of 7.3 per cent compared to the previous year. The recent announcement of the fair and remunerative price of sugarcane for the sugar season 2024-25 at Rs.340 per quintal, which is 8 per cent higher than the previous year, is likely to incentivize sugarcane production.

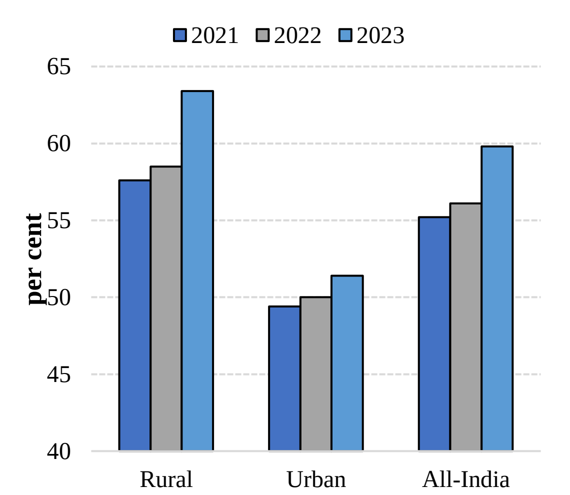
Survey results show rising employment trends in 2023

26. According to the Periodic Labour Force Survey (PLFS), calendar year wise unemployment rate has declined from 3.6 per cent in 2022 to 3.1 per cent in 2023. The labour force participation rate (LFPR) has also expanded from 56.1 per cent to 59.8 per cent over the same period. The expansion in LFPR was underlined by rise in rural female LFPR from 37.5 per cent in 2022 to 47.3 per cent in 2023, and urban female LFPR rising from 24.7 per cent to 27.2 per cent.

Declining Unemployment Rate



Rising Labour Force Participation Rate



Source: Key Employment Unemployment Indicators, PLFS, 2023
Note: Estimates for 15 years and above, usual status

Longer-term Employment Build-up seen from KLEMS and ASI results

KLEMS results

27. RBI's KLEMS[12] database updated up to 2021-22 points to a revival of the structural transformation of the Indian labour market after a brief reversal attributable to the Covid pandemic.

As per the KLEMS database, employment in the country increased by 8.2 crore in the five-year period from FY18 to FY22. Of this, 53 per cent of employment was created in non-agriculture sectors, primarily the services sector. The Covid pandemic had led to reversing of the declining trend of agricultural share in employment from 2013-14 to 2016-17 as reverse migration to rural areas pumped up agriculture employment, as well as rising female employment in agriculture, as noted by PLFS data. A recovery of non-farm employment and course correction in the sectoral shift in the labour market is apparent in 2021-22 data, as agriculture employment has resumed its downward trend, and there is an uptick in manufacturing employment, too.

Annual Survey of Industries

28. The Annual Survey of Industries[13] results for the years 2020-21 and 2021-22 showcased the Indian manufacturing sector's resilience, given its turn-around after a marginal fall in employment in the pandemic year of 2020-21. As per ASI 2021-22, employment in the organised manufacturing sector recovered to above pre-pandemic level, with the employment per factory continuing its pre-pandemic rise. The growth in wages per worker was reinstated after a brief hiatus.

29. Over 40 per cent of India's factory jobs are concentrated in Tamil Nadu, Gujarat, and Maharashtra. The fastest employment growth between FY18 and FY22 was seen in states with the upside of demographic transition, such as Chhattisgarh (31 per cent), Haryana (29 per cent) and Uttar Pradesh (22 per cent).

As per the latest ASI FY22, employment in the organised manufacturing sector, measured by the number of workers[14] and total persons engaged[15], has returned to its upward trend after the pandemic-induced fall, with the employment per factory also rising.

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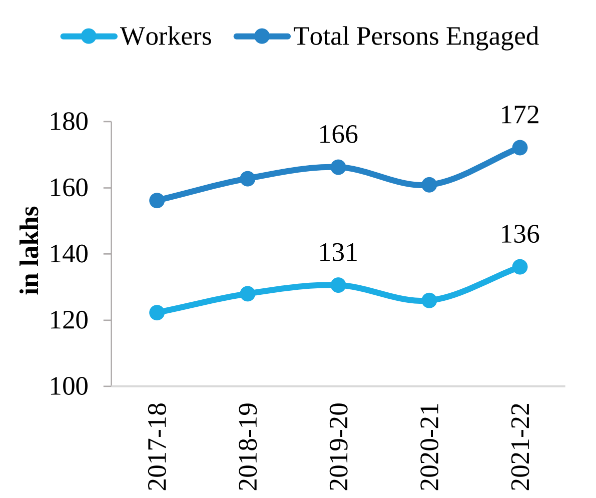
[12] The KLEMS database compiled by RBI covers 27 industries comprises the entire Indian economy. The labour data from 2017-18 onwards is updated using Periodic Labour Force Survey of NSO, MoSPI.

[13] The Annual Survey of Industries (ASI), conducted by the MoSPI, covers the organised manufacturing sector. Its coverage extends to the entire Factory Sector comprising industrial units (called factories) registered under the Sections 2(m)(i) and 2(m)(ii) of the Factories Act, 1948, with ten or more workers with electricity or twenty or more workers without electricity.

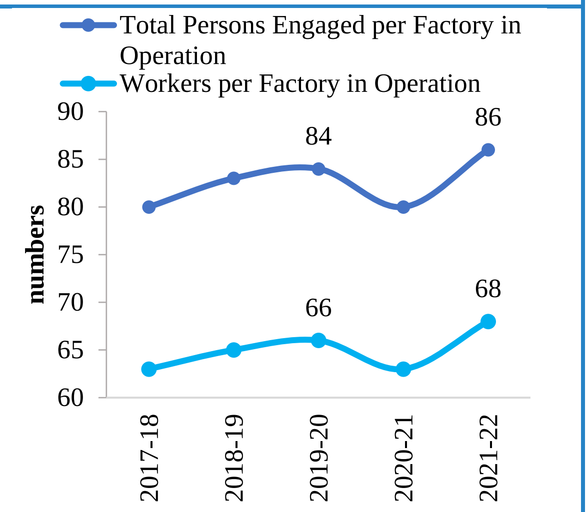
[14] Workers are directly involved in the manufacturing process or in activities incidental to manufacturing process, such as cleaning and repair. They can be employed directly or through an agency.

[15] Total Persons Engaged include the employees (which include workers and clerical/administrative staff) and all working proprietors and their family members who are actively engaged in the work of the factory even without

Trend in Employment in Organised Manufacturing Sector



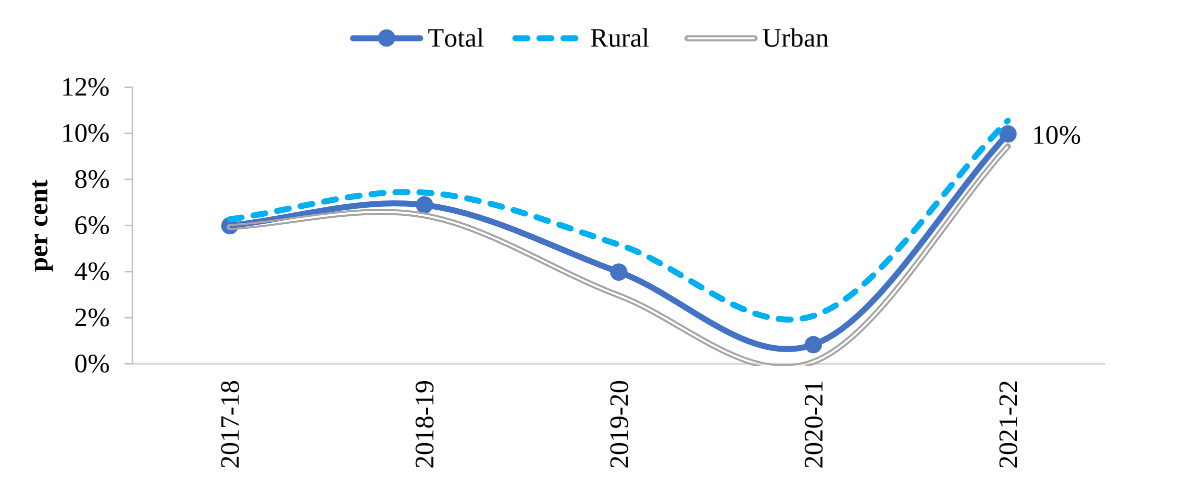
Employment per Factory



Source: Annual Survey of Industries reports, MoSPI

As of FY22, 42 per cent of factories and 45 per cent of workers are in rural areas. Between FY15 and FY22, the wages per worker in rural areas grew at 6.9 per cent CAGR and 6.1 per cent CAGR in urban areas.

YoY Growth in wages per worker



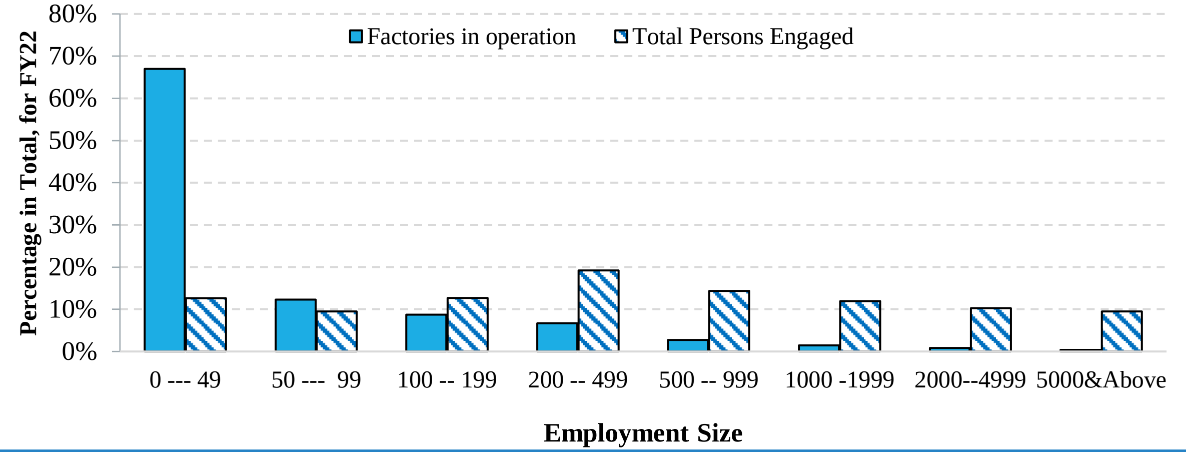
Source: Annual Survey of Industries reports, MoSPI

Over time, there is a visible trend towards rise in number of bigger factories, i.e., those employing more than 100 workers. The number of such factories saw a 11.8 per cent increase over the period FY18 to FY22, compared to a broadly constant number of smaller factories. Further, in terms of total persons engaged, employment in larger factories (employing more than 100 workers) has been rising faster than in smaller ones, suggesting a scaling up of manufacturing units. This is a positive development in terms

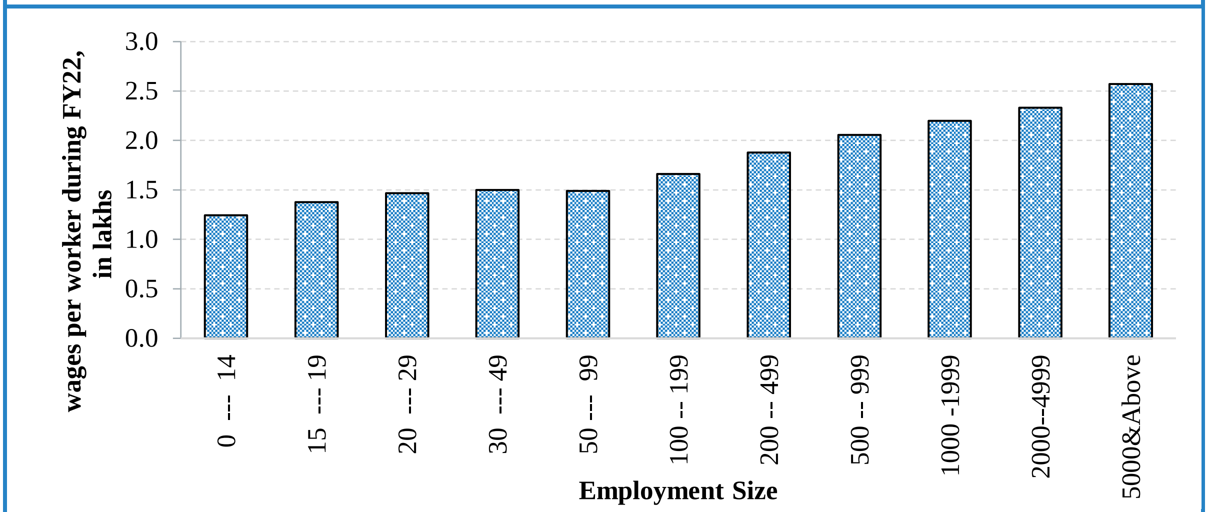
any pay, and the unpaid members of the co-operative societies who worked in or for the factory in any direct and productive capacity.

of quality of employment, as wages per worker tend to rise with the employment size of factories (refer to charts below).

Predominance of smaller factories while larger factories generate a bigger chunk of Employment



Larger Factories pay better Wages



Source: Annual Survey of Industries reports, MoSPI

In terms of share of employment (total persons engaged), the food products industry (11.1 per cent) remained the largest employer, followed by textiles, basic metals, wearing apparel and motor vehicles, trailers, and semi-trailers. However, in terms of growth in employment in the last five years, the rising heft of computers and electronics, rubber and plastic products, and chemicals indicates that Indian manufacturing is moving up the value chain.

Conclusion and Outlook

30. India's strong economic performance, borne out by recent data releases, stands out amidst the sluggish global growth. While robust investment activity is clearly underway, strengthening private consumption demand is evident from indicators like burgeoning air passenger traffic and sale of passenger vehicles, digital payments, improved consumer

confidence and expectations of a normal monsoon. Increased demand for residential properties in tier-2 and tier-3 cities augers well for furthering construction activity. Non-farm employment has revived, improving the capacity to absorb the labour leaving agriculture. The ascent of manufacturing sector employment is expected to be marked by upscaling of enterprises and sunrise sectors emerging as catalysts for generating quality employment.

31. India's inflation outlook for the upcoming months is positive. Core inflation is trending downwards, indicating a broad-based moderation in price pressures. The pick-up in summer sowing is likely to help reduce food prices. On the external front, the narrowing merchandise trade deficit and the rising net services receipts are expected to result in an improvement in the current account balance in FY24. In FY25, however, the current account deficit will bear watching. An increase in domestic household savings will be necessary to finance private sector capital formation in the economy. Improving global investor confidence on India has started reflecting in foreign portfolio investment flows. The announcement by Bloomberg that India would be included in its bond index from January 2025 should bolster inflows, buoyed by the fiscal prudence that the government has demonstrated over the years. Bond investors will base their investment decisions based on their perception of its persistence. On the whole, India looks positively towards the dawn of FY25.

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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-Jan	46.2	53.9	54.4	-8.6	16.6	1
Domestic Tractor Sales	Lakh	Apr-Feb	7.7	8.6	8.0	-5.5	12.1	-6.8
Kharif Production	Mn Tonnes	2nd AE	153.5	153.4	154.2	3.8	-0.1	0.5
Reservoir Level	Bn Cu.Metres	07-Mar	92.4	86.5	73.3	9.5	-6.4	-15.3
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	₹ Lakh crore	Jan	14.3	16.4	20.1	10.4	14.4	22.7
Industry								
IIP	Index	Apr-Jan	129.9	137.1	145.2	13.7	5.6	5.9
8-Core Industries	Index	Apr-Jan	133.8	144.8	156	11.6	8.3	7.7
Domestic Auto sales	Lakh	Apr-Feb	149.5	180.2	209.6	-6.6	20.6	16.3
PMI Manufacturing	Index	Apr-Feb	54	55.5	57	8.5	2.8	2.8
Power consumption	Billion kWh	Apr-Feb	1250.9	1383.6	1494.4	8.3	10.6	8
Natural gas production	Bn Cu.Metres	Apr-Jan	28.5	28.8	30.4	20.5	1.1	5.4
Cement production	Index	Apr-Jan	151.7	166.9	181.9	24.7	10	9
Steel consumption	Mn Tonnes	Apr-Feb	96.1	107.3	121.8	12.8	11.7	13.5

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-Feb	163.5	174.5	183.9	5.4	6.8	5.4
WPI	Index	Apr-Feb	138.5	152.7	151.4	12.8	10.2	-0.8
CFPI	Index	Apr-Feb	163.5	174.5	187.4	3.4	6.8	7.4
CPI-Core	Index	Apr-Feb	162.5	172.5	180.1	6	6.1	4.4
Services								
Average Daily ETC	₹ Crore	Apr-Feb	102	147.1	175.2	68.9	44.2	19.1
Domestic Air Passenger Traffic	Lakh	Apr-Jan	1304.9	2205.9	2544.4	75.2	69.1	15.3
Port Cargo Traffic	Mn tonnes	Apr-Feb	649.9	712.4	744.7	8.1	9.6	4.5
Rail Freight Traffic	Mn tonnes	Apr-Feb	1278.8	1367.5	1434	16.0	6.9	4.9
PMI Services	Index	Apr-Feb	52.2	57.2	60.2	28.8	9.6	5.1
Fuel Consumption	Mn tonnes	Apr-Feb	182.2	201.8	212.2	3.7	10.8	5.2
UPI (Volume)	Crore	Apr-Feb	4056.2	7506.6	11772.5	107.0	85.1	56.8
E-Way Bill Volume	Crore	Apr-Feb	69.6	86.7	100.8	27.5	24.6	16.3
Fiscal Indicators								
Gross tax revenue (Central Govt)	₹ Lakh crore	Apr-Jan	21	23.6	27.1	38.2	12.4	14.8
Revenue Expenditure	₹ Lakh crore	Apr-Jan	23.7	26.0	26.3	9.9	9.7	1.4
Capital Expenditure	₹ Lakh crore	Apr-Jan	4.4	5.7	7.2	22.0	29.0	26.5
Fiscal Deficit	₹ Lakh crore	Apr-Jan	9.4	11.9	11.0	-24.0	27.0	-7.4
Revenue Deficit	₹ Lakh crore	Apr-Jan	5.3	6.8	4.2	-42.0	28.2	-38.7
GST Collection	₹ Lakh crore	Apr-Feb	13.5	16.5	18.4	33.7	22.2	11.5

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-Feb	377.4	409.1	395	47.1	8.4	-3.4
Non-oil exports	USD Billion	Apr-Feb	319.8	320	316.6	36.4	0.1	-1.1
Merchandise imports	USD Billion	Apr-Feb	549.9	654.6	620.2	59.2	19	-5.3
Non-oil non-gold/silver imports	USD Billion	Apr-Feb	361	426.3	409	46.6	18.1	-4.1
Net FDI	USD Billion	Apr-Jan	45.9	36.8	25.5	-10.1	-20.0	-30.5
Net FPI	USD Billion	Apr-Feb	-9.5	-6.2	34.8	-128	-34.2	-658.6
Exchange Rate	INR/USD	Apr-Feb	74.3	80.2	82.8	0	7.9	3.2
Forex Reserves	USD Billion	8th March	622.3	560	636.1	6.9	-10.0	13.6
Import Cover	Months	Feb	12.7	9	10.9			
Monetary and Financial								
Non-Food Credit	₹ Lakh crore	23rd Feb	115.8	134.2	161.7	8.2	15.9	20.5
10-Year Bond Yields	Per cent	Apr-Feb	6.3	7.3	7.2	0.3	1.0	-0.2
Repo Rate	Per cent	19th Mar	4	6.5	6.5	0.0	2.5	0.0
Currency in Circulation	₹ Lakh crore	8th Mar	31.2	33.7	34.9	9.1	8.0	3.6
M0	₹ Lakh crore	8th Mar	38.8	43.1	45.4	14.0	11.1	5.3
Employment								
Net payroll additions under EPFO	Lakh	Apr-Dec	81.3	101.1	108.5	87.1	24.4	7.4
Employment demanded under MGNREGA	Person (Crore)	Apr-Feb	37	30.3	30.3	-9.8	-18.1	0.0
Urban Unemployment Rate	Per cent	Oct-Dec	8.7	7.2	6.5	-1.6	-1.5	-0.7
Subscriber Additions: NPS	Lakh	Apr-Dec	5.7	5.6	6.6	42.6	-1.6	17.1