Economic Division

Monthly Economic Review

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DEPARTMENT OF ECONOMIC AFFAIRS

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Abstract

Stronger-than-expected growth in the fourth quarter of FY23, driven by robust domestic investment, drove the International Monetary Fund (IMF) to revise India's real GDP growth forecast for FY24 upward by 20 basis points in its July 2023 World Economic Outlook (WEO). The robustness of domestic investment is the result of the government's continued emphasis on capital expenditure, which is expected to drive growth in the coming years. The Union Government in FY24 Budget increased the capital outlay by 33.3 per cent, raising the share of capital expenditure in total expenditure from 12.3 per cent in FY18 to 22.4 per cent in FY24 (BE). Measures implemented by the Union Government have also incentivised States to increase their capex spending. States capital expenditure increased by 74.3 per cent YoY in Q1 of FY24 to complement Centre's Capex increase of 59.1 per cent in the same quarter. Enhanced provision for capital expenditure by the government is now leading to crowding in of private investment, as evident in the performance of various high-frequency indicators and industry reports which highlight the emergence of the green shoots of a private capex upcycle.

Though growth prospects have been strong, inflationary pressures have re-emerged, driven primarily by global disruptions, along with domestic factors. Headline CPI-C inflation spiked to 7.4 per cent in July 2023, with specific food commodities mainly driving the increase, while core inflation stayed at a 39-month low. Russia's decision to terminate the Black Sea Grain deal, along with dry conditions in major wheat-growing areas, caused the price spike in cereals. While domestic factors like white fly disease and uneven monsoon distribution exerted pressure on vegetable prices in India.

In response to the developments in retail inflation and prices, the RBI's Monetary Policy Committee (MPC) has cautioned that the spike in food prices may lead to an increase in retail headline inflation in the near term, emphasising that these prices are expected to correct in the coming months. In this context, the committee decided to keep policy rates unchanged and remained focused on the withdrawal of accommodation to ensure that inflation progressively aligns with the target while supporting growth. Additionally, the RBI has implemented a temporary Incremental in 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.

The price pressure in food items is expected to be transitory, as evident in the steady performance of the agriculture sector, along with fresh arrivals in the market. The agricultural sector is picking up momentum with significant advancement in monsoon and kharif sowing. The procurement of wheat and rice has been progressing well, increasing the buffer stock levels of food grains to ensure food security in the country. Rural demand has sustained sequential momentum in Q1 of FY24, as seen in Fast Moving Consumer Goods and two-three-wheeler

sales, as a good rabi harvest strengthens purchasing power. Going forward, increased minimum support prices and prospects of healthy kharif crops will further add strength to the rural demand.

Persistent geopolitical concerns continue to shadow the world trade growth which is expected to decline to 2 per cent in 2023 from 5.2 per cent in 2022. Yet, India's external sector has displayed resilience with strong services export growth and robust investment inflows highlighting investors' confidence in India's growth story.

The robustness of India's economic fundamentals is accompanied by strides made in human development. The recently released National Multidimensional Poverty Index Report by Niti Aayog demonstrates a remarkable decline in the prevalence of multidimensional poverty in India, attributable to the government's strategic focus on achieving universal access to basic amenities. With the national MPI nearly halving between 2015-16 and 2019-21, India is likely to achieve the SDG Target on multidimensional poverty much ahead of the stipulated timeline of 2030. The results are reinforced by India-related findings in the Global MPI report by UNDP and OPHI. From an economic growth perspective, the 13.5 crore Indians escaping poverty between 2015-16 and 2019-21 and graduating to the middle class will boost the engine of self-sustained growth through consumption, savings, and human capital accumulation.

Going forward, while domestic consumption and investment demand are expected to continue driving growth, global and regional uncertainties and domestic disruptions may keep inflationary pressures elevated for the coming months, warranting greater vigilance by Government and the RBI. Monsoon rains in August have been deficient at the time of writing. The government has already taken pre-emptive measures to restrain food inflation which, along with the arrival of fresh stock, is likely to subside price pressure in the market soon. The external sector requires a closer watch to strengthen merchandise export growth in the face of slowing global demand. Services exports continue to do well and are likely to continue doing so as the preference for remote working remains unabated, typically manifested in the proliferation of Global Capability Centres.

We wrote in the Monthly Economic Report for June 2023 that elevated asset prices in financial markets posed some risk. In August, stock prices began to correct as sovereign bond yields rose in much of the advanced world. Geopolitical and geo-economic concerns have not abated, and they may be an enduring reality for quite some time. Consequently, maintenance of macroeconomic stability is paramount to keep interest rates from rising too much, to underscore the relative attractiveness of India as a zone of performance and promise for domestic and international investors and to maintain steady economic growth, thus. In the given circumstances, policies that contribute to the maintenance of macroeconomic stability constitute macroeconomic stimulus.

Strong Investment activity to drive growth in the coming years

1. The International Monetary Fund (IMF), in its latest World Economic Outlook (WEO) of July 2023, has revised India's real GDP growth forecast for FY24 by 20 basis points (bps), raising it from 5.9 per cent (as per its April 2023 WEO) to 6.1 per cent. The positive revision is due to the momentum gained from stronger-than-expected growth in the fourth quarter of FY23, driven by robust domestic investment. The robustness of domestic investment is the result of the government's continued emphasis on capital expenditure that reflects the long-term strategy of investing in productive assets and improving the business sentiment in the economy. An increase in capital expenditure, investments in infrastructure and productive capacity have a large multiplier impact on growth and employment. Strong investment activity is expected to drive growth in the coming years.

2. A study by the National Institute of Public Finance and Policy highlights that every Rupee spent on capex leads to a cumulative multiplier effect of ₹4.8 in the economy, while for the revenue expenditure, every rupee of outlay leads to a cumulative multiplier of 0.96. Morgan Stanley, in its report, 'How India has transformed in Less than a Decade', featured that the steady increase in manufacturing and capex as a percentage of GDP is likely to result in a new cycle in manufacturing and capex. It has estimated the share of both in GDP to rise by approximately 5 per cent by 2031"[1].

The recent increase in capital expenditure of the Government is reflected in an increase in Gross Fixed Capital Formation (GFCF). GFCF as per cent of GDP (at Constant Prices) stood at 34 per cent in FY23, the highest since FY14. The increase in GFCF supported India's GDP growth even during the uncertain global economic scenario. Continuing its emphasis on capex, the share of the Union Government's capital expenditure in total expenditure has increased from 12.3 per cent in FY18 to 22.4 per cent in FY24 (BE). A study by CRISIL showcases that supported by an increase in Government spending; infrastructure capex is expected to register a compound annual growth rate (CAGR) of 11 per cent between FY23 and FY27, 67 per cent higher compared to CAGR between FY18 and FY22[2]. Union Government's capital expenditure rose by 59 per cent in Q1 of FY24, signifying a marked improvement in the quality of the Centre's overall spending.

Apart from Union Government, States and CPSEs also raising their capital expenditure

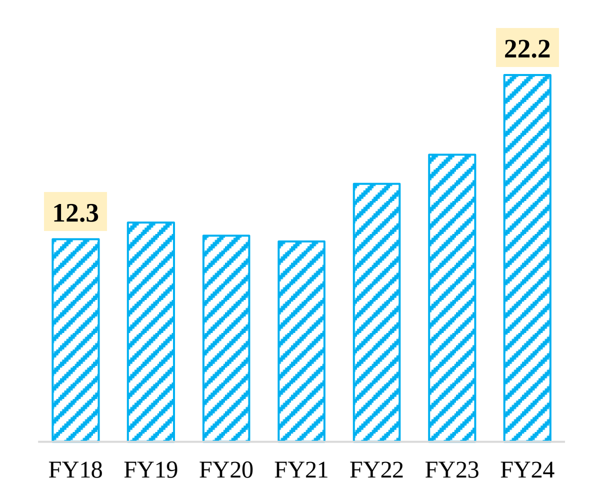
3. Measures implemented by the Union Government to incentivise States to increase their capex spending appear to bear fruit, as evident in their rising capital expenditure. The early release of funds by the Centre to State governments under 'The Scheme for Special Assistance to States for Capital Investment' ensures that investments by States are spread evenly throughout the

[1] https://static-ai.asianetnews.com/common/01h1rj9k9vhjggvtnwcbdhp42t/india-equity-strategy-and-economics30may23---ms.pdf
[2] https://www.crisil.com/en/home/our-analysis/reports/2023/03/rider-in-the-storm.html

year, contributing to a substantial growth multiplier[3]. Sustaining the capital expenditure growth by the States in the coming months, along with rationalisation of revenue expenditure, will help them in achieving the overall fiscal deficit target of 3.5 per cent of GDP for FY24. The focus of the central government on capex also pushed its departmental arms and Central Public Sector Enterprises (CPSEs) to accelerate their capital expenditure.

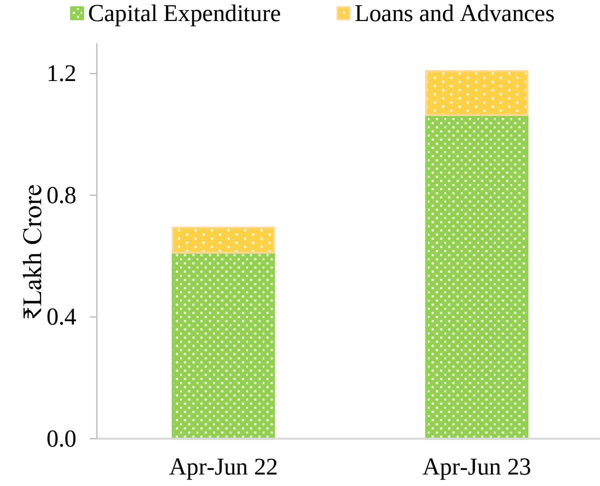
The data released by the Controller and Auditor General (CAG) for 23 States (which roughly account for 92 per cent of the Union Budget size of all the States) reflects that their capital expenditure has jumped by 74.3 per cent in Q1 of FY24, compared to the corresponding period of the previous year. Out of ₹1.3 lakh crore interest-free loans for States for FY24, a sum of ₹600 billion has been sanctioned so far. Of this, ₹300 billion has been disbursed. Further, 54 large CPSEs and five departmental arms have collectively met around 35 per cent of their annual capex target of ₹7.3 lakh crore in Apr-Jul 2023[4].

An increase in Union Government's share of capital expenditure in total expenditure



Source: Union Budget Documents

States witnessed a robust pick-up in capital expenditure in Q1 of FY24



Source: O/o CAG States' Monthly Fiscal Accounts data

Increase in Public Capex leading to crowding-in of Private Investment

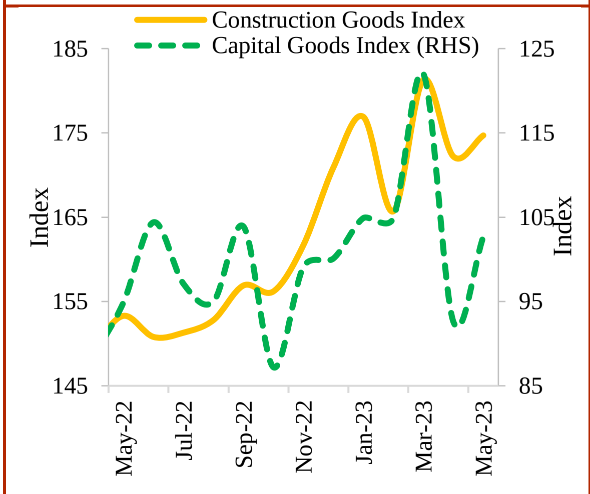
4. Realising the importance of private investment in accelerating economic growth, the Government has been making various attempts to raise investment by the private sector. The Production-Linked Incentive (PLI) scheme is providing capital expenditure-linked incentives to 14 key sectors. The PM Gatishakti scheme, coupled with the National Infrastructure Pipeline (NIP), is expected to encourage private-sector participation in creating new infrastructure and help in onboarding major private-sector infrastructure players. Research by CRISIL highlights that the industrial investment by the private sector between FY18 and FY22 registered a CAGR of 7 per cent. This augurs well for still higher growth in the upcoming years.

[3] https://www.financialexpress.com/economy/centre-expedites-rs-1-trillion-loan-to-states-nearly-half-of-capex-facility-to-reach-states-by-july-end/3173262/
[4] https://www.business-standard.com/economy/news/capex-by-cpses-touches-35-of-rs-7-33-trillion-target-in-apr-july-123080900725_1.html

5. Going forward, the PLI and new-age sectors (such as green hydrogen, semiconductors, wearables and solar modules) are expected to account for nearly 17 per cent of the capex between FY13 and FY27[5]. The healthy balance sheet of the private sector, with increased capex by the government, is anticipated to increase the opportunities for the private sector to participate in myriad infrastructure initiatives such as highways, construction of new roads, housing, and drinking water projects, among others. The capacity utilisation in the manufacturing sector is now above its long-run average, signalling the need for additional capacity creation as demand sustains the domestic economy. A pick-up in capex expenditure has ensured that infrastructure-linked sectors, such as roads, railways, telecom etc., have seen a jump in the disbursement of bank credit. Further, government has been opening up new avenues for private sector to participate and contribute further to growth. One such avenue is critical mineral sector (Box 1).

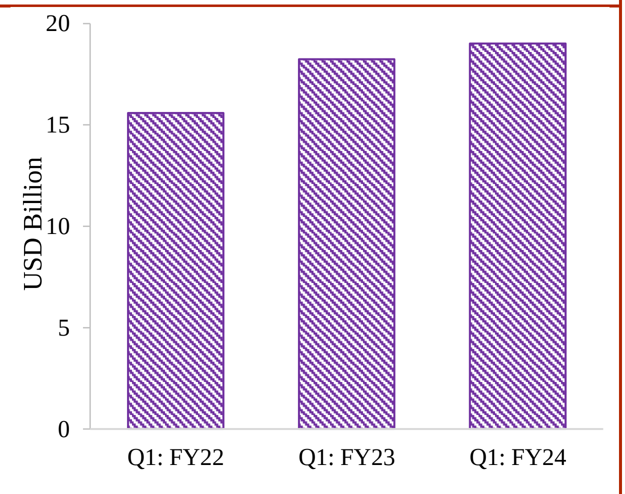
As per the data released in National Accounts Statistics 2021-22, GFCF by the Private sector rose from ₹17.4 lakh crore in FY18 to ₹23.7 lakh crore in FY22. Multiple high-frequency indicators and industry report point towards the emergence of the green shoots of a private capex upcycle. The IIP data shows that the capital goods index and infrastructure/construction goods index saw robust growth of 12.9 per cent and 8.4 per cent, respectively, in FY23. The indices have carried forward their momentum thus far into FY24 and have grown by 6.5 per cent and 14.5 per cent, respectively, on a cumulative basis till May 2023. Robust investment activity is also evident in the increasing imports of capital goods, which grew by 20.3 per cent in FY23 and are up by 4.2 per cent on a YoY basis in Q1 of FY24.

Growth in Capital Goods and Construction Goods Index



Source: Union Budget Documents

A Rise in Capital Goods Imports



Source: DGCIS, M/o Commerce

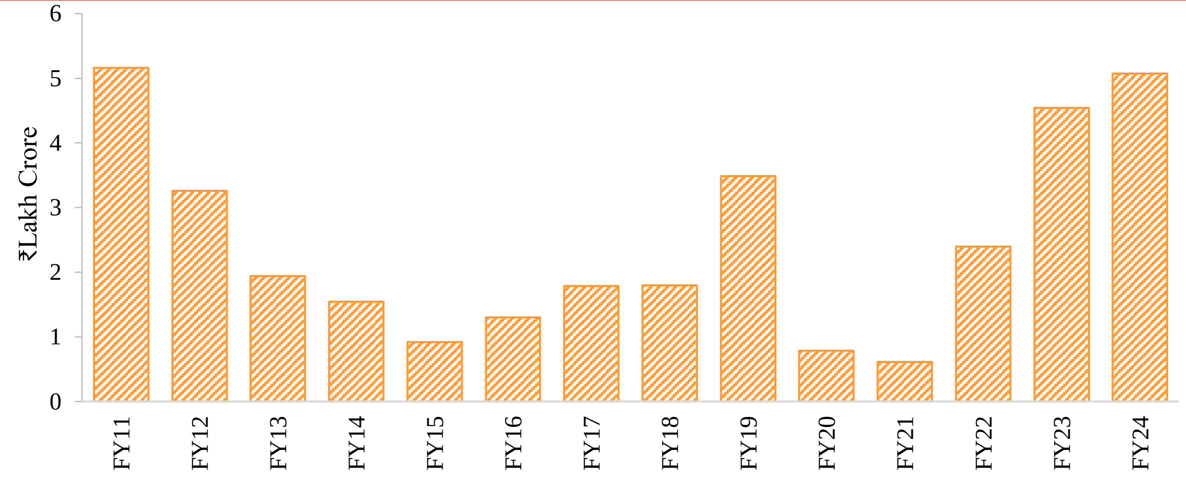
CMIE Capex database shows that new investment project announcements by the Private sector in Q1 of FY24 were 11.6 per cent higher than that in the corresponding period of the previous year and the highest in Q1 in 14 years. Of the new projects announced, the transport services industry saw huge project

[5] https://www.crisil.com/en/home/our-analysis/reports/2023/03/rider-in-the-storm.html

announcements accounting for 72 per cent of the total new investment projects announced, followed by electricity and chemicals.

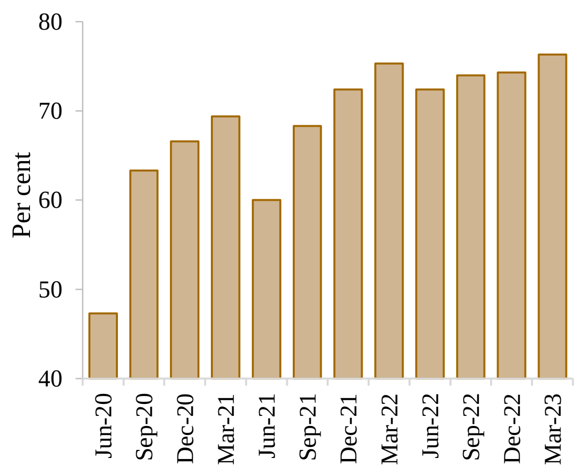
As per RBI's Order Books, Inventories and Capacity Utilisation Survey, capacity utilisation (CU) in the manufacturing sector increased for the third successive quarter to 76.3 per cent in Q4 of FY23 from 74.3 per cent recorded in the previous quarter. Bank credit to the infrastructure sector was 1.7 per cent higher in Q1 of FY24, compared to the corresponding period of the previous year, with the most remarkable increase in credit availability to cargo ports and airports. Higher capacity utilisation along with double-digit growth in non-food bank credit signals positive intent of the private sector to undertake fresh investment going forward.

New Investment projects announced by the Private Sector highest in Q1 of FY24 in 14 years

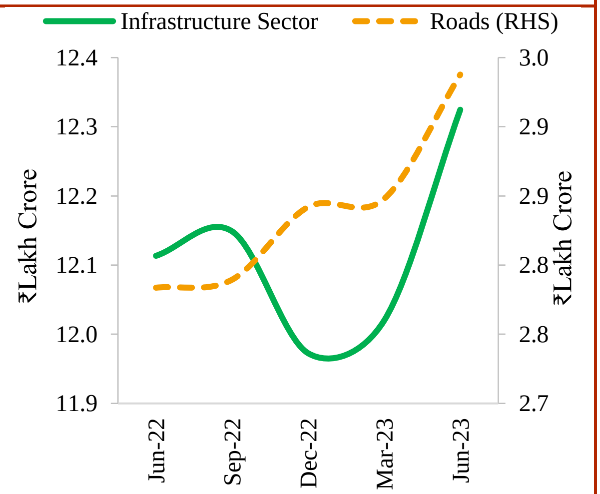


Source: CMIE Capex Database

Increasing capacity utilisation in the manufacturing sector



Rise in bank credit to the infrastructure sector

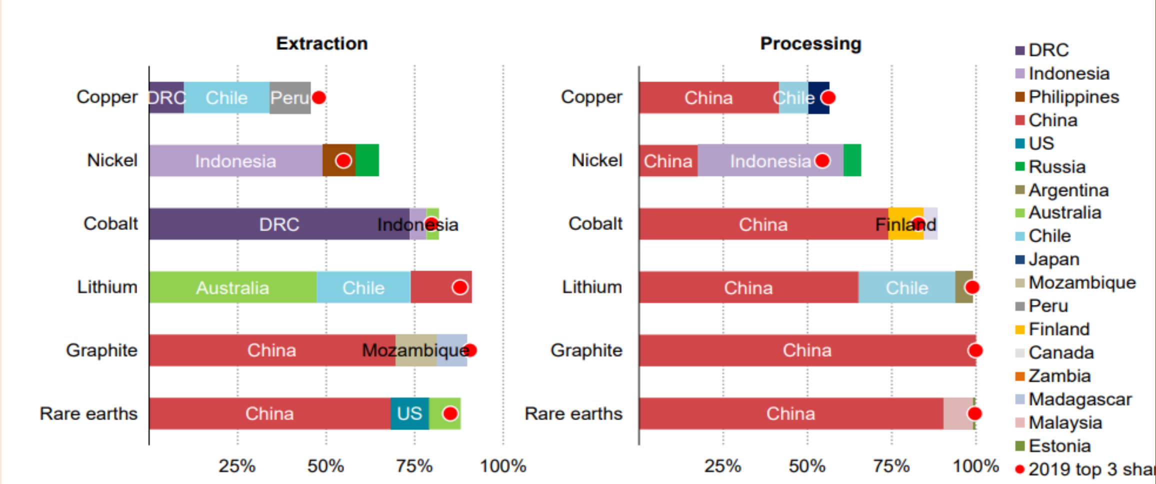


Source: RBI

Box 1: India's Critical Mineral sector reforms

- India produces around 95 minerals but has not been able to unearth its mineral capital completely. With our enhanced ambitions for Atmanirbhar Bharat and net zero emissions, the need for minerals would expand only exponentially in the coming decades. Many of the minerals that are crucial for clean energy technologies, defence and manufacturing sectors, are globally concentrated in a handful of countries, China being the predominant of all. The lack of availability of the critical minerals or the concentration of their extraction or processing in a few geographical locations may lead to supply chain vulnerabilities and even disruption of supplies.

Share of top three producing countries in total production for selected resources and minerals, 2022



Notes: DRC = Democratic Republic of the Congo. Graphite extraction is for natural flake graphite. Graphite processing is for spherical graphite for battery grade. Source: IEA analysis in Critical Minerals Market Review 2023

- The Economic Survey 2022-23 (Box VII.2) stressed the need for a carefully crafted multi-dimensional mineral policy to reduce India's dependence. Recently, in June 2023, the Ministry of Mines released the Report of the Committee on Identification of Critical Minerals. This report defines critical minerals for India as those 'minerals which are essential for economic development and national security; the lack of availability of these minerals or even the concentration of existence, extraction or processing of these minerals in a few geographical locations may lead to supply chain vulnerability and disruption'. The committee has identified a total of 30 minerals to be most critical for India, depending on our net import reliance and the resource/reserve position of the country. These are Antimony, Beryllium, Bismuth, Cobalt, Copper, Gallium, Germanium, Graphite, Hafnium, Indium, Lithium, Molybdenum, Niobium, Nickel, PGE, Phosphorous, Potash, REE, Rhenium, Silicon, Strontium, Tantalum, Tellurium, Tin, Titanium, Tungsten, Vanadium, Zirconium, Selenium and Cadmium. Further, the committee suggests that India needs to develop capacity at each stage of the mineral value chain, as exhibited below.

- Furthering these efforts, the Mines and Minerals (Development and Regulation) (MMDR) Act was amended in the Monsoon session of parliament in August 2023. Before this amendment, many of the critical minerals were a part of the list of atomic minerals, meaning that their mining and exploration were reserved for government entities. Now, these minerals have been removed from the list of atomic minerals and added to a new list of 'Critical minerals' (schedule 7 of the Act) along with other critical minerals. The new list contains 24 minerals, like cobalt, graphite, lithium, nickel etc. With this change in the act, the exploration and mining of these minerals will be opened up for the private sector as well through the issuance of a new exploration licence. An exploration licence granted through auction shall permit the private sector licensee to undertake reconnaissance and prospecting operations for critical minerals in India.

- The mines explored by the Exploration Licence holder can be directly auctioned for mining lease. The amendment in the MMDR now also empowers the Central Government to exclusively auction mining leases and composite licences for certain critical minerals while the responsibility of granting the mining lease and composite licence lies with the State Governments. Accordingly, the auction premium and other statutory payments will be received by the State Governments.

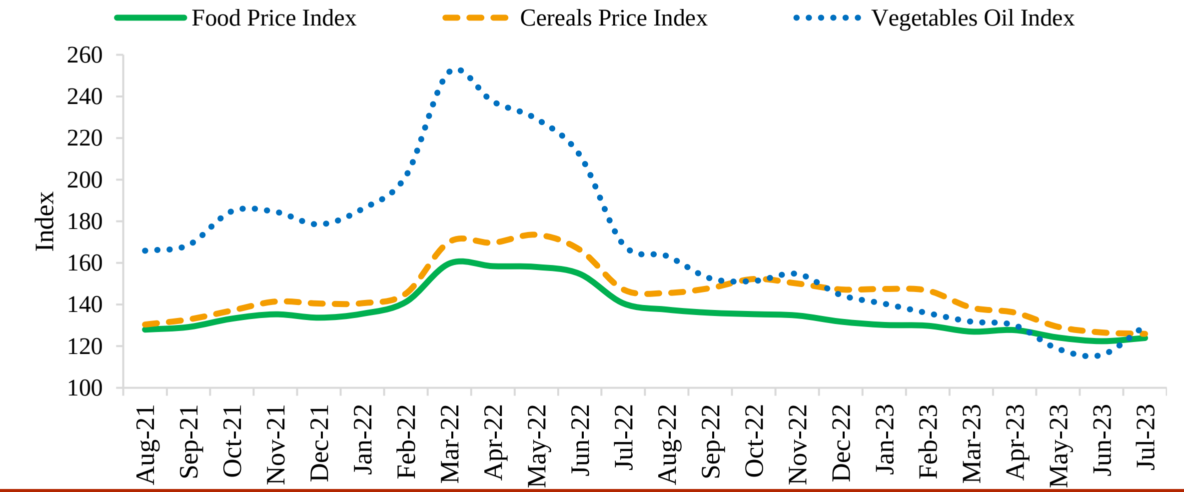
- With these amendments, the government expect to build a regime that would incentivise technological transfers from across the world into the exploration and mining sector, boosting India's participation in critical mineral supply chains.

Uneasiness in food inflation likely to subside aided by proactive Government interventions

6. Amidst global uncertainties, domestic economic activity is maintaining resilience with a healthy balance sheet of the private sector and increased capex spending of the government, crowding in private investment. However, global disruptions, along with domestic factors, may lead to elevated inflationary pressures, posing a challenge to the path of macroeconomic stability. On the global front, as per the latest 'FAO food price index', food inflation has shown an uptick in July 2023 after a continuous decline since April 2022 (except in April 2023). The rebound in the food price index in July is mainly been driven by a sharp rise in the prices of vegetable oils (sunflower, palm, soy, and rapeseed oils) and cereals (wheat and rice). With

global uncertainties continuing, the termination of the Black Sea Grain Initiative created disorderly conditions around the supply of wheat and sunflower oil. Continued dry conditions in Canada and the USA caused wheat prices to rise, while subdued production growth of oil palm in Malaysia and concern over the production outlook of soybeans and rape seed in the USA and Canada has led to a spike in vegetable oils price.

Sharp rise in FAO Vegetables Oil Index

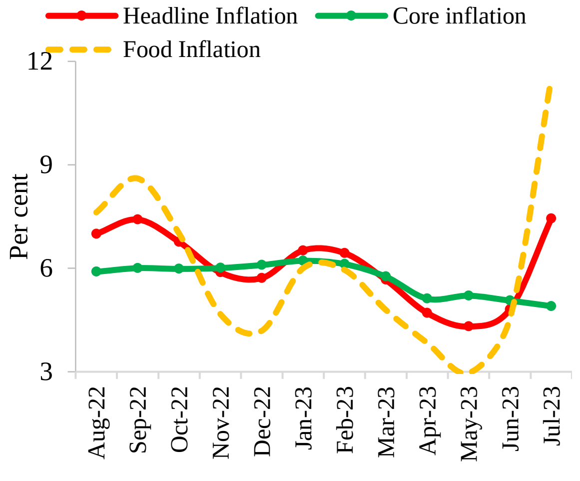
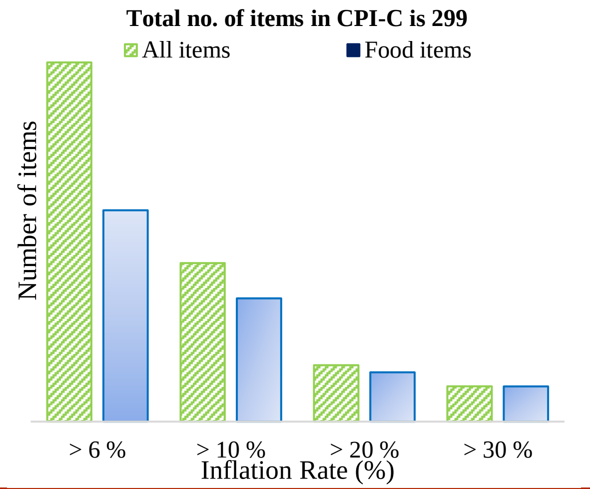


Source: FAO

7. The impact of the global disruptions was clearly evident in India's inflation numbers. Headline CPI-C inflation spiked to 7.4 per cent in July 2023, with specific food commodities mainly driving the increase, while core inflation stayed at a 39-month low of 4.9 per cent. Cereals, pulses and vegetables exhibited double-digit growth in July compared to the corresponding period last year. Disruption in domestic production also aggravated the inflationary pressures. Interruption in the supply chain of tomatoes due to white fly disease in Kolar district, Karnataka and the swift arrival of monsoon in northern India caused a surge in tomato prices. Tur dal price also inflated due to deficient production in Kharif season FY23.

Though food inflation in July is perhaps the third highest since the new CPI series began in 2014, only 48 per cent of food items have inflation of above 6 per cent, and this includes 14 food items with inflation in double digits. Items like tomato, green chilli, ginger and garlic witnessed inflation of more than 50 per cent. Hence, the abnormal increase in prices of certain specific items led to high food inflation in July 2023.

8. However, the recent price spike of certain food items is expected to be transitory. Tomato prices are likely to decline with the arrival of fresh stocks by the end of August or early September. Further enhanced imports of tur dal are expected to moderate pulses inflation. These factors, along with the recent Government efforts, can soon materialise moderation in food inflation in the coming months.

Retail headline inflation is driven by food Items (%)	Specific food items drive the current rate of high inflation
	

Source: MoSPI

Box 2: Recent measures to contain the prices of essential food commodities

- The Government directed NAFED and NCCF to procure tomatoes from the mandis in Andhra Pradesh, Karnataka and Maharashtra for disposal in major consumption centres.
- Under the Price Stabilization Fund (PSF), a dynamic buffer stock of pulses (tur, urad, moong, Masur and gram) and onion are being maintained to the calibrated release of stocks to ensure availability and affordability of pulses and onion to the consumers.
- To ensure continuous availability of onion to consumers at affordable prices, the Government raised the quantity of onion buffer to 5 lakh metric tonne in 2023-24, after achieving the initial procurement target of 3 lakh metric tonne. In this regard, NCCF and NAFED were entrusted to procure 1 lakh tonne each to achieve the additional procurement target alongside calibrated disposal of the procured stocks in major consumption centres. Further, the Government imposed a 40 per cent export duty on onion till 31st December 2023.
- To augment domestic availability and moderate the prices of pulses, the import of tur and urad has been kept under 'Free Category' till 31.03.2024, and import duty on masur has been reduced to zero till 31.03.2024.
- Import duty of 10 per cent on tur has been removed to facilitate smooth and seamless imports.
- To prevent hoarding, stock limits have been imposed on tur and urad under the Essential Commodities Act, 1955, on 2nd June 2023 for a period till 31st October 2023.
- Bharat Dal initiative: The Government introduced the mechanism to convert chana stock into chana dal for retail disposal under the brand name of “Bharat Dal” at a highly subsidized rate of Rs.60 per kg for 1 kg pack and Rs.55 per kg for 30 kg pack in order to

make pulses available to consumers at affordable prices by converting chana stock of the government into chana dal.

- To prevent hoarding and unscrupulous speculation, the Government of India has imposed stock limits on Wheat from 12th June 2023 for a period till 31st March 2024.
- The Government is also continuously offloading the wheat and rice from the central pool under Open Market Sale Scheme to augment availability in the market and control retail prices.
- Further, the export of non-basmati white rice is prohibited w.e.f. 20th July 2023 to check the prices.

Calibrated monetary policy to counter inflation while supporting growth

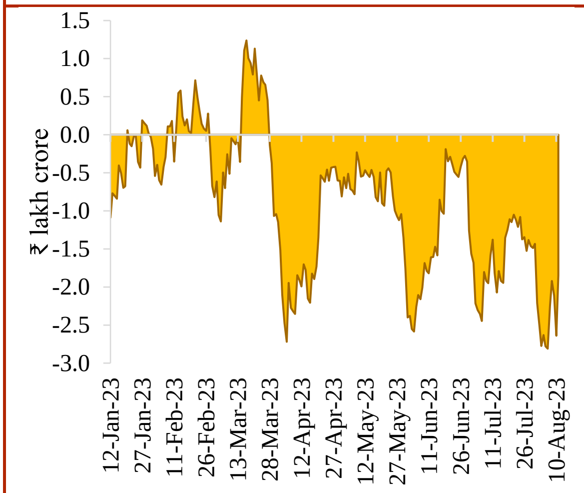
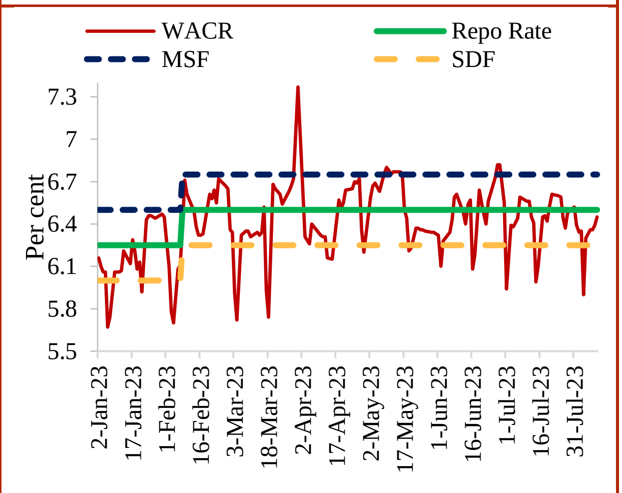
10. In response to the developments in retail inflation and prices, the RBI's Monetary Policy Committee (MPC) has cautioned that the spike in food prices may lead to an increase in retail headline inflation in the near term. The MPC noted that these prices are expected to correct in the coming months. In this context, the committee decided to keep policy rates unchanged and remained focused on the withdrawal of accommodation to ensure that inflation progressively aligns with the target while supporting growth.

At its bi-monthly meeting in August 2023, the RBI's MPC left the repo rate, the standing deposit facility (SDF) and the Marginal Standing Facility (MSF) unchanged at 6.5 per cent, 6.25 per cent and 6.75 per cent, respectively. The committee took note of the elevated prices of vegetables, cereals and pulses and expected them to contribute to higher headline retail inflation in August 2023. While it expected vegetable prices to correct in the coming months, the committee flagged the presence of uncertainties on the domestic food price outlook due to sudden weather events, possible El Nino conditions in August and beyond, and the firming up of global food prices. In this context, the MPC revised its inflation projection for FY24 from 5.1 per cent to 5.4 per cent, with inflation in Q2, Q3 and Q4 of FY24 projected at 6.2 per cent, 5.7 per cent, and 5.2 per cent, respectively, with risks evenly balanced. The committee also stated that frequent incidences of recurring food shocks pose a threat to the anchoring of inflation expectations. It advocated the role of continued and timely supply-side interventions in restraining the effects of such shocks and emphasized the need to be watchful of emerging trends and their effects on price stability.

11. Additionally, the RBI took note of the increased liquidity in the system and has implemented 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.

The level of surplus liquidity has increased since June 2023. The average daily net liquidity absorption, a measure of surplus liquidity, increased from ₹1.28 lakh crore in May 2023 to ₹2.46 lakh crore in the first ten days of August. The return of the ₹2000 banknotes to the banking system, sustained public capital expenditure, and transfer of the RBI's surplus to the government are factors that have contributed to this increase in surplus liquidity.

Despite the presence of such surplus liquidity, the RBI noted that banks' response to the 14-day Variable Reverse Repo (VRR) was lukewarm, and banks preferred to place their surplus liquidity in the less remunerative SDF. This risk-averse behaviour meant that the weighted average call rate (WACR), a measure of overnight borrowing cost, trended away from the repo rate and closer to the SDF. Therefore, if excessive liquidity were allowed to remain, it would hamper the interest rate transmission mechanism, thereby causing price and financial instability.

Increase in surplus liquidity since Jun'23	LAF Corridor
	
Source: RBI Note: Liquidity represented by Net liquidity injected (+)/ Absorbed (-) including outstanding operations	

Recognising this, the RBI has implemented the I-CRR to impound the element of excess liquidity. Effective 12th August 2023, the I-CRR will impound 10 per cent of banks' incremental net demand and time liabilities between 19th May 2023 and 28th July 2023. As per RBI's calculations, the I-CRR will remove excess liquidity of about ₹ 1 lakh crore from the system[6]. The RBI has stated that this is a temporary measure to address the liquidity overhang. It will be reviewed on 8th September 2023, with a view to returning the funds to the banking system before the festival season.

Price pressure in food commodities is likely to be transitory as the agriculture sector gains momentum with significant improvement in monsoon and kharif sowing

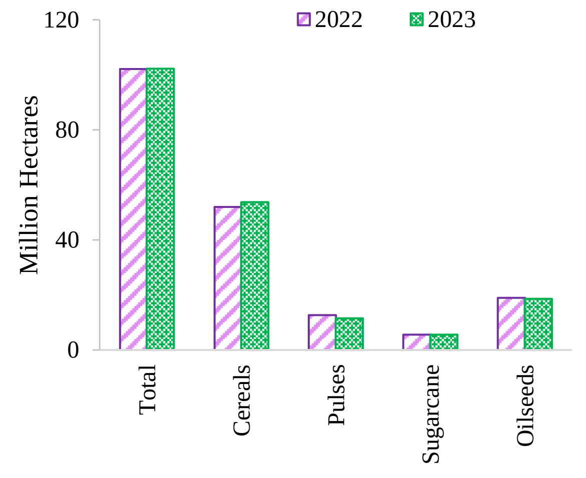
12. The steady performance of the agriculture sector, along with fresh arrivals in the market, would aid in curbing the inflationary pressures caused by supply disruptions and elevated international food prices. Despite the fear of El Niño, the progress of monsoon has been quite active so far, with uneven distribution. The agricultural sector is picking up momentum with the significant advancement in monsoon and kharif sowing. As of 18th August 2023, kharif crop sowing has been at similar levels corresponding period last year and was higher than the 'average of the previous five years. The procurement of wheat and rice has been progressing well, increasing the buffer stock levels of food grains. Hence, ensuring sufficient food

[6] https://rbi.org.in/Scripts/BS_SpeechesView.aspx?Id=1378

availability in the country. Reservoir levels above average decadal levels, adequate availability of fertiliser and seeds, and growing tractor sales augur well for the ongoing sowing activity.

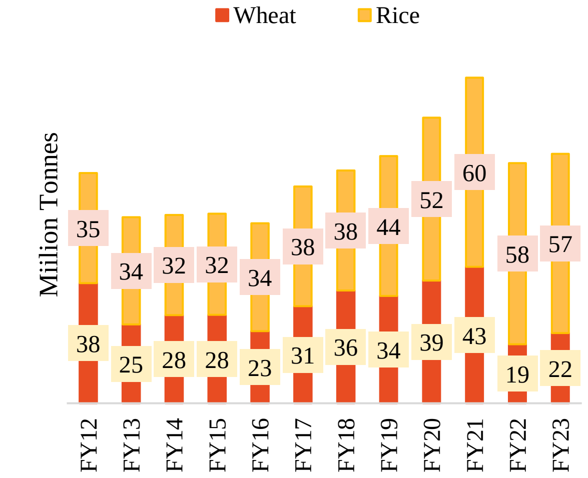
The Southwest Monsoon covered the entire country on July 2, according to India Meteorological Department, six days early from the normal date of July 8. For the country, cumulative rainfall during this year's Southwest Monsoon season till 18 August 2023 has been deficient by about 6 per cent compared to Long Period Average. Around 75 per cent of the country's area has received normal or excess rains. As on 18th August 2023, farmers have sown 102.3 million hectares, which is similar to the corresponding period last year's level and 1.1 per cent higher than the 'average of the last five years. The sowing of cereals has been 3.4 per cent higher compared to the previous year, while that of pulses has been 9.2 per cent lower compared to the previous year. The lower sowing of pulses can be attributed to uneven rainfall in three prime-producing States, viz., Madhya Pradesh, Maharashtra and Karnataka. Further, higher sowing of rice will ensure adequate availability of the harvested crop and alleviate price pressures in the upcoming months. As on 8^{th} August 2023, kharif onion sowing has been lower compared to last year by 32 per cent, while there has been an increase in tomato and potato sowing by 5 per cent and 12 per cent, respectively.

Progress of Kharif Sowing



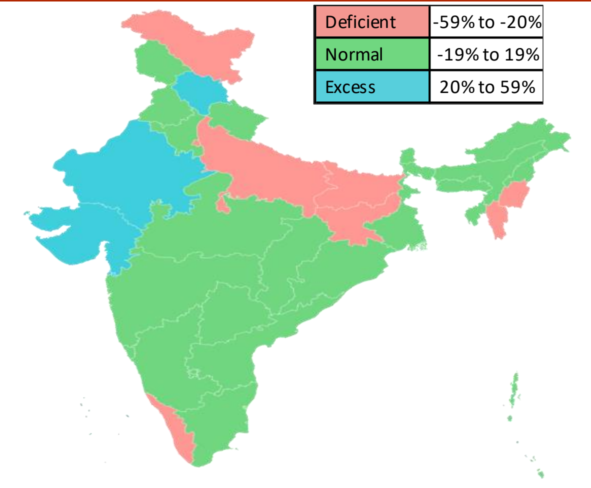
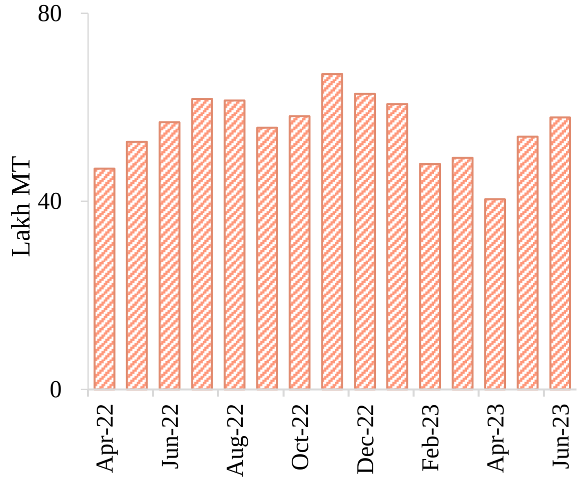
Source: Ministry of Agriculture and Farmers Welfare
Note: Kharif Sowing as of 18 Aug

Healthy Procurement of Wheat and Rice

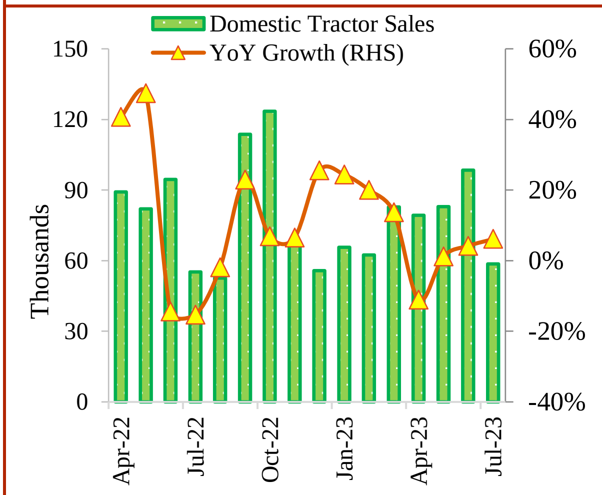
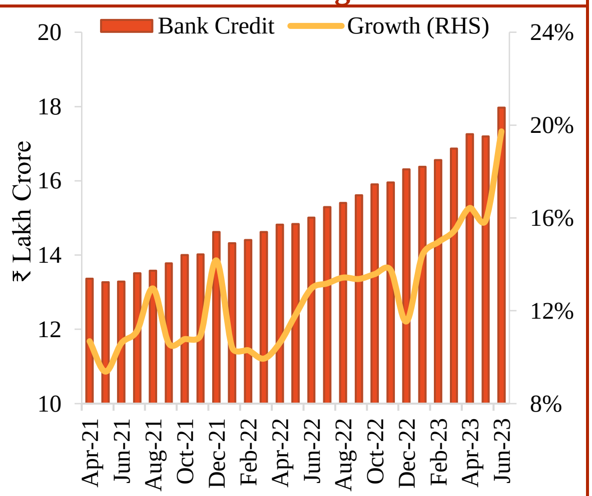


Source: FCI
Note: Procurement for FY23 as of 15 Aug 2023

As on 15 August, wheat procurement has passed the previous year's level by 39 per cent during Rabi Marketing Season (RMS) 2023-24. At the same time, rice procurement under Kharif Marketing Season (KMS) 2022-23 stood at 570.5 Lakh Metric Tons (LMT), expected to cross the previous year's level with one more month of procurement remaining. About 1.3 crore farmers have benefitted from the ongoing procurement operations. This augurs well for adding strength to rural demand in the coming months. Overall, total foodgrain stocks with Food Corporation of India are maintained at an adequate level of 1.6 times the buffer norm requirement for the July-Sept period, ensuring the food security requirements of the country. Central Government, through FCI, has been releasing wheat and rice from the stocks available through the Open Market Sale Scheme to enhance the availability and moderate the prices.

Monsoon Coverage up to 18th August	Robust growth in Fertiliser Sales
	
Source: IMD	Source: Dept of Fertilisers

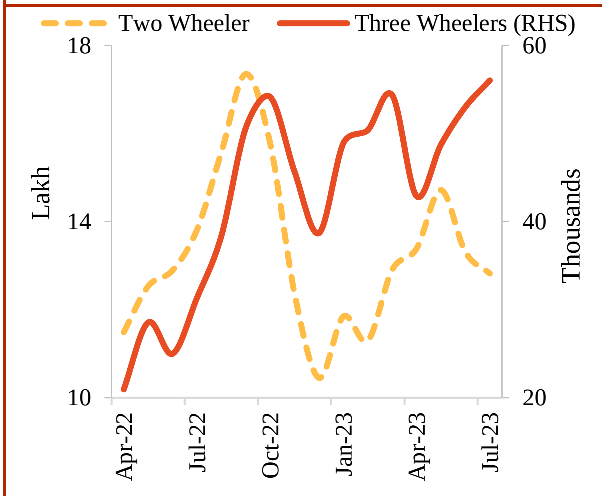
Current water levels in reservoirs are seen at comfortable levels sufficient to irrigate the rain-fed swathes of the agriculturally important regions. As on 17th August 2023, total live storage in 146 important reservoirs is nearly 82 per cent of the last year's storage and 99 per cent of the average of the last ten years. Surplus water availability in reservoirs spread across the Northern, Central and Western Region augurs well for ongoing sowing activity. Fertiliser sales are picking up both on a monthly and yearly basis in June 2023 by 7.5 per cent and 1.7 per cent, respectively. Availability of fertilisers is in a comfortable position, with closing stock up to 14th August 2023 being three times, on average, the requirement during August 2023. Additionally, a sufficient quantity of quality seed will continue to ensure the smooth sowing of the kharif crops. The seed availability stands at 180.1 lakh quintals against the requirement of 166.4 lakh quintals in the country for Kharif 2023. Further, tractor sales continue to grow in July 2023 by 6.1 per cent on a YoY basis. Credit support to agriculture also expanded further in June 2023, registering 19.7 per cent growth on a YoY basis and a month-on-month increase of 4.5 per cent.

Robust tractor sales	Growth of bank credit to agriculture in double-digit
	
Source: Tractor and Mechanisation Association	Source: RBI

13. Rural demand has sustained sequential momentum in Q1 of FY24 on the back of a good rabi harvest and moderation in inflation. Several indicators, such as fast-moving consumer goods (FMCG) sales, and two-three-wheelers sales, point towards improvement in rural demand. Going ahead, increased minimum support prices and prospects of healthy kharif crops will further add strength to the rural demand.

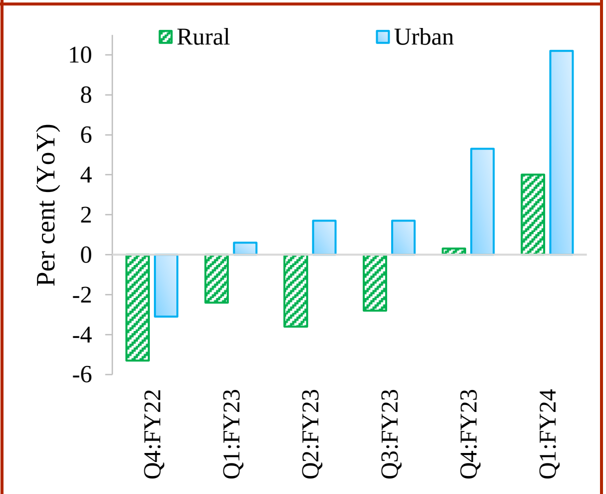
Volume sales of FMCG in rural areas increased to 4.0 per cent in Q1 of FY24, as per the NielsenIQ report[7]. Sales of two and three-wheelers grew by double-digits in Q1 of FY24 on year on year (YoY) basis. However, a mixed trend was observed during July 2023, with three-wheelers rising by 79 per cent on a YoY basis, while two-wheeler sales moderated by 7.2 per cent.

Two and Three-Wheeler Sales



Source: SIAM

FMCG Volume Sales



Source: NielsenIQ

Global trade growth slowing down

14. An analysis of external stability measures indicates that falling commodity prices, notably of crude oil, and signalling by major central banks of raising interest rates further to keep a check on inflation poses a concern for global trade numbers. Recent instances of monetary policy tightening by the United States, the United Kingdom and Russia confirm that inflation is yet to be tamed. Concerns about the prolonged ongoing geopolitical events, trade restrictions such as on critical minerals, etc., may also drive a slowdown in trade. Other developments, including the European Union's new regulations in the name of protecting the environment, need to be observed for their possible implications, if any, for global trade patterns.

According to the IMF, WEO of July 2023, the world trade growth is projected to decline from 5.2 per cent in 2022 to 2 per cent in 2023. Trade would, however, as per projections, rise to 3.7 per cent in 2024, but it will be well below the 2000–19 average of 4.9 per cent. The decline in world trade growth in 2023 follows the slowing of global demand resulting from higher interest rates slowing credit growth

[7] https://www.bqprime.com/business/fmcg-industry-grows-at-fastest-pace-in-18-months-on-higher-demand-nielseniq

and, consequently, slowing industrial activity as well. The Kiel Trade Indicator for July 2023 estimates the global trade to decline by 1.6 per cent (MoM), with the United States, the European Union, Germany and China reporting a decline in exports as well as imports.[8]

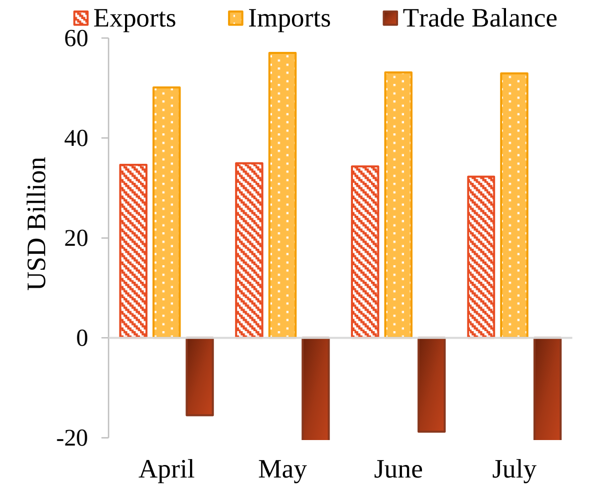
India's service exports remain robust

15. Amidst the weak global growth outlook, India's exports performed well during the current financial year (FY24 till July 23), mainly led by the services export growth, which is in line with the global trend of resilient services demand post-pandemic. The resulting increase in services trade surplus has significantly contributed to improving the overall trade balance during this period. During July 2023, India's trade deficit has almost halved compared to a year ago, reflecting the robustness of services exports and a greater decline in the value of merchandise imports than exports.

In July 2023, services exports performed spectacularly, growing by 12 per cent over July 2022, way above the growth of 0.7 per cent experienced in June 2023 (YoY). As a result, the services trade surplus improved by 20.8 per cent in July 2023 YoY.[9]

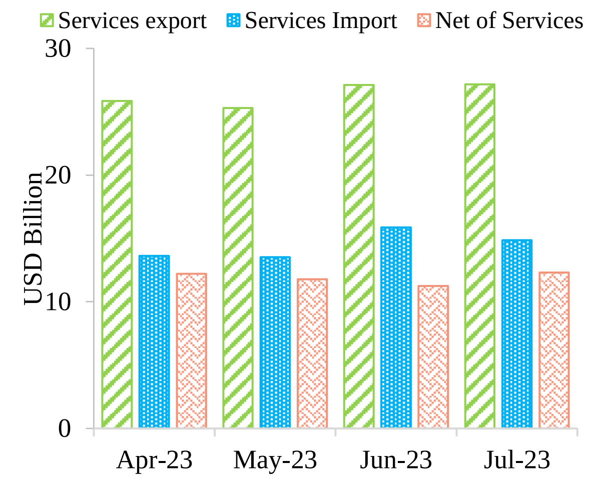
During the same month, India's merchandise exports and imports declined by 15.9 per cent and 17 per cent respectively on a YoY basis. Sectoral analysis reveals that 11 sectors out of 30 commodity groups contributed towards positive export growth during July 2023 (YoY), including iron ore (962.8 per cent), oil meals (34.2 per cent), oil seeds (32.8 per cent), and ceramic products (20.8 per cent). As regards merchandise imports, products like project goods, coal, coke & briquettes, fertilisers, crude & manufactured, petroleum crude & products witnessed a decline in July 2023 from their July 2022 levels.

Improvement in Merchandise Trade Deficit



Source: DGCIS, M/o Commerce

Services trade surplus contributing to an improvement in the overall trade balance



Source: RBI
Note: Data for July 2023 is provisional

[8] Keil Institute, https://www.ifw-kiel.de/topics/international-trade/kiel-trade-indicator/?cookieLevel=not-set
[9] The data for services trade for July 2023 is an estimation, which will be revised based on RBI's subsequent release.

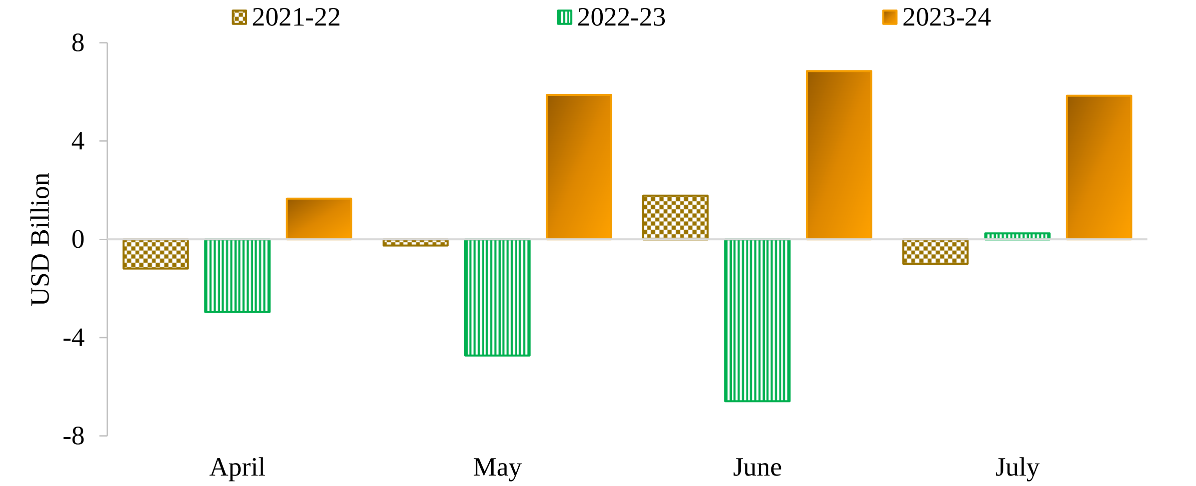
Foreign investors trust India's growth Potential

16. Improvement in external balance is further accompanied by relentless investor confidence in India, which is evident in strong foreign investment inflows. This augurs well for the economy as it allows for positive spillover effects associated with the incoming investment, especially in sectors crucial for exports. India is the top FDI host economy in the area of renewable energy in developing Asia and Oceania.

As per RBI data, India witnessed an increase of 4.7 per cent in FDI inflow during 2022 over the previous year. Further, India also showed strong growth in project announcements during the same period, as reported in World Investment Report, 2023. This is in contrast to the global FDI trend in 2022, which saw a decline of 12 per cent to USD 1.3 trillion due to multiple reasons, including ongoing geopolitical issues, high food and energy prices, lower volumes of financial flows and transactions in developed countries and debt pressures on account of recessionary tendencies. Insofar as Foreign Portfolio Investment (FPI) flows during FY24 (April 23-July 23) are concerned, net FPI inflows in India were recorded at USD 20.2 billion as compared to net outflows of USD 14 billion during the first four months of FY23.

17. As a result of robust foreign inflows and a decline in imports, India's foreign exchange reserves have strengthened over the past months and stood at USD 603.9 billion at the end of July 2023, sufficient to provide an import cover of more than 10 months.

An increase in Foreign Portfolio Investment (FPI) flows



Source: NSDL, SEBI

Despite the weak global growth forecast, new avenues for India to expand exports can open up

18. The WEO (July 2023) expressed optimism about inflation coming down faster than expected, allowing for more liquidity through accommodative monetary policy, thereby spurring world demand and, thus, trade. Continued recovery in supply chains can complement this trend. For India, on the supply side, the RBI's survey of the industrial outlook of the

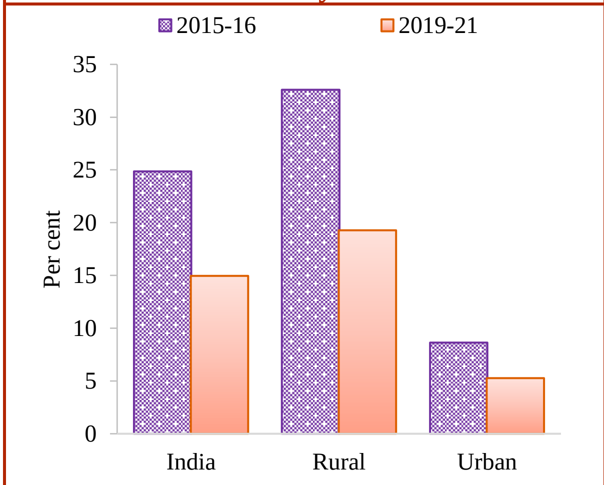
manufacturing sector suggests that it is expected that production, as well as exports, are likely to increase in Q2 of FY24. However, on the demand side, a review of the region-wise global growth forecasts for the year 2023 by the WEO, in light of India's destination-wise export shares in FY23, suggests that demand for India's exports is likely to be weaker during 2023 in line with the general forecast of a decline in global growth. However, the decoupling of trade between China and the United States can open up avenues for India to expand exports. (UNCTAD, Global Trade Update, June 2023).

India achieved a great feat in slashing multidimensional poverty: 2019-21 vs. 2015-16

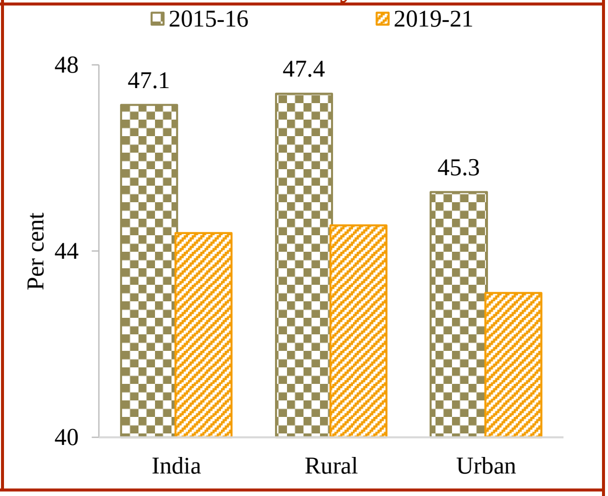
19. National Multidimensional Poverty Index Report, released recently by NITI Aayog, presents results indicating a remarkable decline in the prevalence of multidimensional poverty in India, majorly attributable to the government's strategic focus on achieving universal access to basic amenities. The national MPI has nearly halved from 0.117 in 2015-16 to 0.066 in 2019-21, thereby setting India on the path of achieving SDG Target 1.2 (of reducing multidimensional poverty by at least half), much ahead of the stipulated timeline of 2030. Resultantly, 13.5 crore Indians are estimated to have escaped multidimensional poverty between 2015-16 and 2019-21.

There has been a sharp decline in the headcount ratio of multidimensional poverty from 24.9 per cent in 2015-16 to 15.0 per cent in 2019-21, accompanied by a decline in the intensity of poverty from 47.1 per cent to 44.4 per cent over the same period, driven by declining deprivations in nutrition, sanitation facilities, cooking fuel, and housing. The largest improvements were reported in States like Bihar, MP, UP, Odisha, and Rajasthan, with rural areas steering the plunge in the incidence of poverty. Notably, the number of States with less than 10 per cent of people living in multidimensional poverty doubled from 7 in 2016 to 14 in 2021.

A sharp decline in the Headcount Ratio of MPI driven by Rural Areas

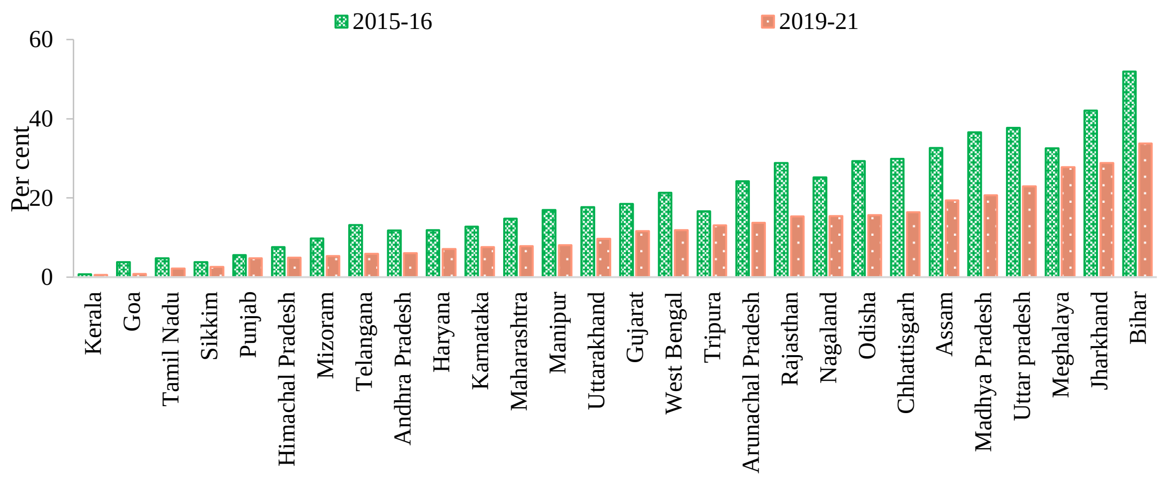


Deline in Intensity of Multidimensional Poverty



Source: NITI Aayog MPI Report 2023

A decline in MPI Headcount Ratio is broadbased across states



Source: NITI Aayog MPI Report 2023

Global MPI Report by UNDP[10] and OPHI[11] further endorses India's accomplishment in reducing multidimensional poverty

20. According to the Global MPI report[12] by UNDP, 25 countries successfully halved their global MPI values within 15 years, including Cambodia, China, Congo, Honduras, India, Indonesia, Morocco, Serbia, and Vietnam. Yet, across 110 developing countries, 18 per cent of the population is estimated to live in acute multidimensional poverty. Spatially, 47.8 per cent of all poor people live in Sub-Saharan Africa, while 34.9 per cent live in South Asia. With nearly two-thirds of all the poor people living in middle-income countries, digging deeper into sub-national levels becomes crucial to identify pockets of deprivation, exemplified by the National MPI report by NITI Aayog.

According to the Global MPI report, India has seen a remarkable reduction in poverty, with more than 139 million people exiting poverty between 2005-6 and 2019-21. The headcount ratio has declined from 27.7 per cent in 2015-16 to 16.4 per cent in 2019-21, while the intensity of deprivation has declined from 42.0 per cent to 44.0 per cent over the same period. Consequently, the MPI value has nearly halved from 0.069 in 2015-16 to 0.122 in 2019-21. India has outshone its South Asian peers in reducing multidimensional poverty, despite a relatively similar prevalence of income-based poverty[13].

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[10] United Nations Development Programme
[11] Oxford Poverty and Human Development Initiative
[12] Data is compiled from 110 developing countries-22 low-income countries, 85 middle-income countries and 3 high-income countries, covering 6.1 billion people, accounting for 92 per cent of the population in developing countries.
[13] Estimated using a monetary poverty line of 2017 PPP US$2.15 per day

Box 3: MPI Methodology & its Utility in Addition to Consumption Expenditure

To capture the true reality of expenditure and consumption disparities in the country, focusing solely on income is not enough, as it may conceal the exact deprivations. Here, the measurement of multidimensional poverty is valuable to gauge the incidence and intensity of poverty as it is lived by revealing who is deprived of a decent standard of living and the different disadvantages they experience.

The National Multidimensional Poverty Index (MPI) by Niti Aayog is prepared along the lines of the UNDP methodology[14], based on the globally-accepted Alkire-Foster methodology. The index has three equally weighted dimensions: health, education, and standard of living, split across 12 weighted indicators/deprivations. It is calculated as the product of the headcount ratio (i.e., the incidence of poverty) and deprivation score (i.e., the intensity of poverty, which is defined as the number of deprivations experienced). For a household to qualify as MPI-poor, a minimum weighted deprivation score of 0.33 is required. The index ranges from 0 to 1, with higher values implying higher poverty.

While the consumption expenditure is a telling statistic, poverty is more than having x amount of money. The deprivations covered in MPI are very basic and hence emblematic of real poverty, besides informing policymaking on the necessities that are lacking in the country. Santos and Alkire (2011)[15] give four main reasons for the inadequacy of relying solely on income poverty. Firstly, income is not always a good guide to whether people have access to bare necessities because of market imperfections. Secondly, different households (for example, households with low education attainment or remotely located) have different capacities to convert income into satisfaction of needs. Thirdly, income is merely a means to ends; hence it is crucial to measure the ends itself. Fourthly, while income poverty is unidimensional and only reveals the income/expenditure of individuals, multidimensional poverty takes the next step to see how an individual is poor and can thereby inform policymaking and public discourse. A mismatch between the two kinds of poverty is very much possible and varies across countries (Alkire and Santos, 2010).[16]

21. Looking forward, 13.5 crore Indians escaping multidimensional poverty and graduating to the middle class would provide a fillip to demand, generating self-sustained growth through

[14] This is largely same as Global MPI by UNDP & OPHI, with 2 additional indicators, i.e., maternal health and bank account, using the data from the National Family Health Survey.
[15] Maria Emma Santos and Sabina Alkire (2011), "Alkire Training Material for Producing National Human Development Reports: The Multidimensional Poverty Index (MPI)", OPHI
[16] Sabina Alkire and Maria Emma Santos (2010), "Acute Multidimensional Poverty: A New Index for Developing Countries." Background paper for the 2010 Human Development Report. UNDP (United Nations Development Programme).

consumption, savings, and human capital accumulation. As per estimates from PRICE[17], the share of middle-class (with an annual household income of between 5 to 30 lakhs) in the total population is expected to rise from 31 per cent currently to 61 per cent by 2046-47, indicating a broad-basing of domestic demand.

Outlook

22. Going forward, while domestic consumption and investment demand are expected to continue driving growth, global uncertainty and domestic disruptions may keep inflationary pressures elevated for the coming months, warranting greater vigilance by Government and the RBI. The government has already taken pre-emptive measures to restrain food inflation which, along with the arrival of fresh stock, is likely to subside price pressure in the market soon.

23. The external sector requires monitoring for further strengthening the prospects in the face of active pursuit of industrial policies globally. Services exports continue to do well and are likely to continue doing so as the preference for remote working remains unabated, typically manifested in the proliferation of Global Capability Centres. At the same time, from a medium-term perspective, it is important to monitor the impact of new technologies, such as Artificial Intelligence, on the external demand for Indian services exports and the consequent impact on employment.

24. As mentioned in our last MER, downside risks to global stock markets on account of rising bond yields and anticipation of further monetary tightening do affect stock markets in emerging economies. Maintenance of macroeconomic stability may be returning as an important policy objective after about a year of relative abatement of macroeconomic headwinds.

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

[17] People Research on India's Consumer Economy (PRICE) is a not-for-profit think tank on India's Macro Consumer Economy and Citizen's Environment. In the 2021 PRICE ICE360 pan-India survey, 40,000 households were selected out of a sample of 2,00,000.

Performance of High-Frequency Indicators

Data Title	Unit	YTD Period/As at the end of	Year to Date			Year to Date (YoY Growth, Per cent)		
			2021-22	2022-23	2023-24	2021-22	2022-23	2023-24
Agriculture								
Fertiliser Sales	Mn Tonnes	Apr-Jun	52.6	52.2	50.7	7.3	-0.8	-2.8
Domestic Tractor Sales	Lakhs	Apr-Jul	2.95	3.21	3.19	29.1	8.9	-0.5
Kharif Sowing	Mn Hectare	11th Aug	99.7	97.3	98.0	-0.6	-2.4	0.7
Kharif Production	Mn Tonnes	3rd AE	154.9	155.1	-	4.4	0.1	-
Reservoir Level	Bn Cu. Metres	17th Aug	104.8	135	111.3	-4.6	28.8	-17.6
Wheat Procurement (RMS)	LMT	NA	433.4	187.9	262.0	11.2	-56.6	39.4
Rice Procurement (KMS)	LMT	15-Aug-23	575.9	570.5	-	-4.4	-0.9	-
Rainfall (Monsoon)	Millimetres	16th Aug	559.3	652.9	554.7	-13.8	16.7	-15.0
Industry								
8-Core Industries	Index	Apr-Jun	128.2	146	154.5	26.1	13.9	5.8
IIP	Index	Apr-Jun	121.3	136.9	143.0	44.4	12.8	4.5
Domestic Auto sales	Lakh	Apr-Jul	45.5	62.5	69.7	55.5	37.5	11.5
PMI Manufacturing	Index	Apr-Jul	52.4	54.9	57.9	38.5	4.7	5.4
Power consumption	Billion kWh	Apr-Jul	465.7	532.1	545.3	14.8	14.3	2.5
Natural gas production	Bn Cu. Metres	Apr	2.7	2.8	2.7	22.7	6.6	-2.9
Cement production	Index	Apr-Jun	148.2	167.3	192.1	46.5	12.9	14.8
Steel consumption	Mn Tonnes	Apr-Jul	330.3	364.2	406.1	65.8	10.3	11.5

Data Title		YTD Period/As at the end of	Year to Date			Year to Date (YoY Growth, Per cent)		
			2021-22	2022-23	2023-24	2021-22	2022-23	2023-24
Inflation								
CPI-C	Index	Apr-July	160.5	172	181.1	5.6	7.1	5.3
WPI	Index	Apr-July	133.4	154.2	150.4	11.9	15.6	-2.5
CFPI	Index	Apr-July	160	172.3	182.2	4.0	7.7	5.7
CPI-Core	Index	Apr-July	159.9	169.9	178.5	5.9	6.2	5.1
Services								
Average Daily ETC Collection	₹ Crore	Apr-Jul	85.9	138.4	169.8	112.1	61.0	22.7
Domestic Air Passenger Traffic	Lakh	Apr-Jun	210.4	644.4	767.3	371.1	206.2	19.1
Port Cargo Traffic	Million tonnes	Apr-Jul	235.1	260.4	266.5	21.5	10.7	2.4
Rail Freight Traffic	Million tonnes	Apr-Jul	452.1	501.6	507.7	34.3	10.9	1.2
PMI Services	Index	Apr-Jul	46.8	57.9	61.0	117.7	23.8	5.4
Fuel Consumption	Million tonnes	Apr-Jul	62.9	73.1	76.8	11.6	16.2	5.1
UPI (Value)	₹ Lakh crore	Apr-Jul	21.4	41.0	59.1	131.9	91.9	44.2
UPI (Volume)	Crore	Apr-Jul	1123.6	2368.9	3761.3	121.7	110.8	58.8
E-Way Bill Volume	Crore	Apr-Jul	21.8	29.9	34.3	72.8	37.4	14.7
Fiscal Indicators								
Gross tax revenue (Central Govt)	₹ Lakh crore	Apr-Jun	5.3	6.5	6.7	97.1	22.4	3.3
Revenue Expenditure	₹ Lakh crore	Apr-Jun	7.1	7.7	7.7	-2.4	8.8	-0.1
Capital Expenditure	₹ Lakh crore	Apr-Jun	1.1	1.8	2.8	26.3	57.0	59.1
Total Expenditure	₹ Lakh crore	Apr-Jun	8.2	9.5	10.5	0.7	15.4	10.8
Fiscal Deficit	₹ Lakh crore	Apr-Jun	2.7	3.5	4.5	-58.6	28.3	28.3
Revenue Deficit	₹ Lakh crore	Apr-Jun	1.7	2.0	1.8	-70.5	20.4	-10.4
Primary Deficit	₹ Lakh crore	Apr-Jun	0.9	1.2	2.1	-82.1	37.0	68.5
GST Collection	₹ Lakh crore	Apr-Jul	4.5	6.0	6.7	63.7	33.8	11.3

Data Title		YTD Period/As at the end of	Year to Date			Year to Date (YoY Growth, Per cent)		
			2021-22	2022-23	2023-24	2021-22	2022-23	2023-24
External Sector								
Merchandise exports	USD Billion	Apr-Jul	131.1	159.3	136.2	74.2	21.6	-14.5
Non-oil exports	USD Billion	Apr-Jul	112.3	124.2	112.5	63.9	10.6	-9.4
Merchandise imports	USD Billion	Apr-Jul	173.1	247.3	213.2	91.5	42.9	-13.8
Non-oil non-gold imports	USD Billion	Apr-Jul	117.7	160.3	144.7	74.3	36.2	-9.7
Net FDI	USD Billion	Apr-June	11.6	13.4	5	-2288.3	15.9	-62.7
Net FPI	USD Billion	Apr-Jul	-0.7	-14.0	20.2	-	-	-
Exchange Rate	INR/USD	Apr-Jul	73.9	77.8	82.2	-2.2	5.2	5.7
Foreign Exchange Reserves	USD Billion	4 Aug	621.5	573.0	601.5	15.5	-7.8	5.0
Import Cover	Months	Aug	15.0	9.5	10.0	-	-	-
Monetary and Financial								
Total Bank Credit	₹ Lakh crore	28th July	109.1	123.7	148	6.1	13.4	19.6
Non-Food Credit	₹ Lakh crore	28th July	108.3	123.4	147.8	6.1	13.9	19.8
10-Year Bond Yields	Per cent	Apr-July	6.03	7.31	7.08	-0.06	1.28	-0.23
Repo Rate	Per cent	18th Aug 2023	4	5.4	6.5	0	1.4	1.1
Currency in Circulation	₹ Lakh crore	July	29.5	31.9	33.3	10.4	8.1	4.4
M0	₹ Lakh crore	July	37.2	41.3	43.6	17	11	5.6
Employment								
Net payroll additions under EPFO	Lakh	Apr-Jun	19.9	35	45.7	-544.2	75.9	30.8
Number of persons demanded employment under MGNREGA	Crore	July	4.2	2.5	2.3	-3	-39.4	-6.8
Urban Unemployment Rate	Per cent	Jan-Mar	9.4	8.2	6.8	0.3	-1.2	-1.4
Subscriber Additions: National Pension Scheme (NPS)	Lakh	Apr-May	1.1	1.3	1.3	-2	18.2	-0.2