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आर्थिक कार्य विभाग
DEPARTMENT OF ECONOMIC AFFAIRS

सत्यमेव जयते

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Abstract

While keeping the global growth projection for FY24 unchanged at 3 per cent, the IMF has revised its growth projection for India upwards by 20 basis points to 6.3 per cent in October 2023. This shows the growing confidence of global analysts as well in India's economic strength, amidst global uncertainties and fresh geopolitical challenges.

Strong private consumption demand has been a major driver of India's economic growth in the recent period. In addition, at least two additional drivers of growth have emerged. The first is the gradual strengthening of investment demand. Investment has hitherto been propelled mainly by the capital spending of the Union Government and the crowding-in it induced for private corporate investment. While this continues unabated, increasing demand for residential properties, supported by responsive housing loan financing, has given a fillip to construction activity and the property markets. The second is the firming of industrial activity, substantiated by recent data and credible perception surveys. Improving corporate balance sheets and their fledgling investment activity, supported by a strong and emerging banking system and financial market makes this outlook brighter.

The major macroeconomic concomitants of growth have also generally remained robust. Inflationary pressures have eased significantly in September, confirming that the spikes in the previous two months were temporary, caused by seasonal and weather-driven supply constraints in a few food items. Downside risks, especially emerging out of the vagaries of rainfall and global headwinds are however non-negligible. Yet, the smooth downward trajectory observed in core inflation is likely to keep the headline inflation within the target band. The fiscal position of the Union Government remains solid with steady revenue growth, especially in direct taxes, and prudent rationalisation of revenue expenditure which has enabled the front-loading of capital expenditure while keeping the market borrowing programme tied to the budgeted target.

Employment trends are encouraging. While the labour force participation rate is improving steadily, the unemployment rate is declining. The results for Q1FY24 for the urban segment signalled the continuation of the salutary trends in FY23. Underlining the improvement in the overall labour force participation lies the uptick in female participation, a phenomenon continuously at work in the past six years. The Nari Shakti Vandana Adhiniyam 2023 is a landmark legislation that can even further catalyse women-led development.

India's external account remains robust despite a slowdown in global demand. On a YoY basis, the current account balance and its components, viz, merchandise trade and invisibles have performed better in Q1FY24. In September 2023, imports moderated much sharper than exports, improving the overall trade balance significantly on a YoY basis. In H1 FY24, net foreign portfolio investment inflows remained substantially positive as against net outflows in H1 FY23. The forex position also remains comfortable.

While domestic macro fundamentals are strong and improving, downside risks arise from global headwinds and uncertainties in weather conditions. Be that as it may, the RBI's forward-looking surveys which show optimism about demand conditions, employment opportunities and industrial output, have attested to India's growth prospects for FY24.

Strong Domestic Growth Amidst Fragile Global Context

1. International Monetary Fund (IMF), in its World Economic Outlook (WEO), October 2023, revised its growth projection for India for FY24 upwards to 6.3 per cent from 6.1 per cent projected in July 2023. According to the IMF, this reflected stronger-than-expected consumption growth during April-June 2023. In July 2023, IMF had already revised its projection of India's growth for FY24 upwards from 5.9 per cent announced in April 2023. IMF has kept its global growth projection for 2023 unchanged at 3.0 per cent in the WEO October 2023, as in the WEO Update of July 2023. This reflects increasing global confidence in India's economic strength.

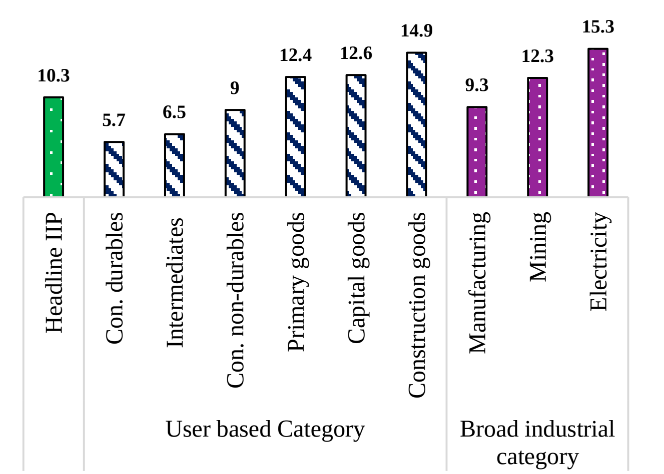
2. Global economic activity was resilient during the first half of 2023, driven by emerging and developing economies excluding China and some advanced economies, mainly the United States, growing faster than expected. Global composite PMI has been in the expansionary zone since February 2023. However, the pace of expansion has slowed from its peak in April as activity in the services sector lost momentum. Going ahead, risks to the near-term global outlook remain tilted to the downside. Persistent cost pressures or upward drift in inflation expectations can compel central banks to keep policy rates higher for longer than expected, exposing banks to financial vulnerabilities. This, in turn, can trigger an abrupt reassessment of liquidity and credit risks. The risk of recurrence of adverse supply shocks in global commodity markets also cannot be ruled out. A continued spike in energy prices can affect global inflation and hurt growth, especially in commodity-importing economies.

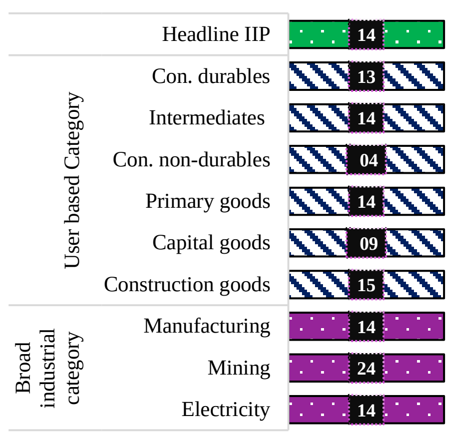
Emerging Domestic Growth Drivers

Industrial activity gains momentum

3. The Index of Industrial Production (IIP) for August 2023 indicated broad-based acceleration in major industrial sub-sectors. IIP recorded double-digit growth of 10.3 per cent in August 2023, the highest in the last 14 months. The growth in most of the sub-sectors in August 2023 was the highest in more than a year, as seen in the following table. Riding primarily on the strength of public infrastructure spending and booming property market, the construction goods segments achieved a growth of 13.3 per cent in FY24 so far. This, coupled with the recent pick-up in the production of capital goods, reflects strengthening investment activity in the country. The pick-up in the growth of intermediate goods is an indication of strengthening order book positions. Manufacturing activity during September continues to remain in the expansionary zone as indicated by the PMI survey, driven by favourable demand trends and positive market dynamics.

IIP growth (YoY) in August 2023 (%)	Growth in IIP components highest since ... (number of months)





Source: MoSPI

4. The recent survey results published by the Reserve Bank of India (RBI) go in tandem with the optimistic patterns emerging from IIP data. As per RBI's latest Order Books, Inventories and Capacity Utilisation Survey (OBICUS), seasonally adjusted capacity utilisation in the manufacturing sector during Q1 of FY24 improved from the previous quarter and stood at 75.4 per cent. Going ahead, business climate conditions as gauged by RBI's Quarterly Industrial Outlook Survey also appear buoyant with the business expectations index for Q3FY24 improving from the previous quarter. Manufacturing firms are more optimistic about Q3FY24 as reflected in their improved assessment of production, order books and capacity utilization.

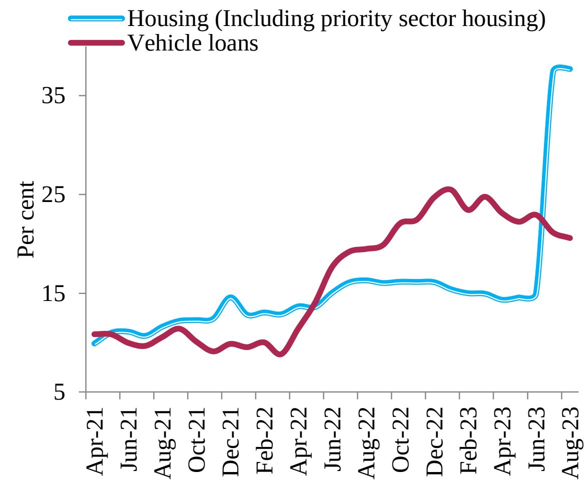
Property market revives, backed by strong household investment

5. Private consumption demand remains strong and continues to drive growth. The magnitude of vehicle loans, an important indicator of growth in private consumption, has been growing at double-digits since April 2022. Outstanding NBFC retail loans witnessed a growth of 29.6 per cent in FY23, with 36 per cent of NBFC's retail loans being used for the purchase of vehicles. Lending by NBFCs to the household sector rose from ₹0.2 lakh crore in FY22 to ₹2.4 lakh crore in FY23, a jump of nearly 11.2 times.

Growth is also being driven by increasing investment rate in the post-pandemic period. The investment rate increased from 28.9 per cent in FY22 to 29.2 per cent in FY23 and further to 29.3 per cent in Q1 of FY24. Out of the total gross fixed capital formation (GFCF or fixed investment), households held the highest share of 40.4 per cent in FY22 acquired majorly through ownership of residential properties, followed by the private corporate sector at 34.9 per cent, and the public sector at 24.7 per cent. While the Union Government's relentless focus on capital spending has been propelling aggregate investment since FY22, there are strong indications that households' increased propensity to invest in residential properties will drive investment further.

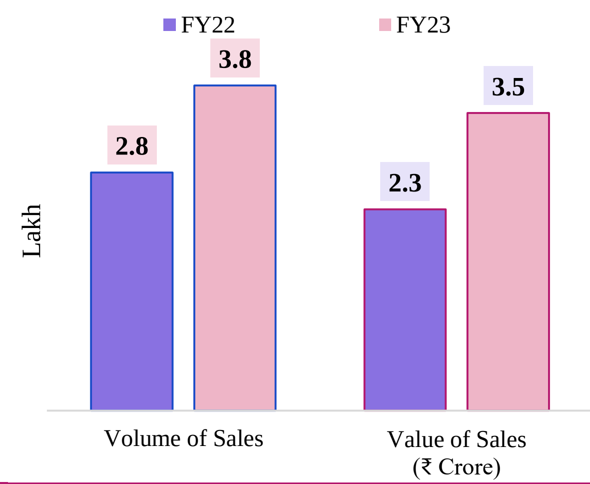
Thanks to the release of pent-up demand, household investment in physical assets grew much faster in FY22 compared to the pre-pandemic decade (FY12 to FY20). There has been a steady double-digit growth in housing loans since May 2021 till present. Data from Anarock shows housing volume growth of 36.5 per cent and value growth of 47.7 per cent during FY23. International media has acknowledged that the reforms and changes effected during the middle of the last decade have started yielding rich dividends in the property market[1].

Growth in Personal Loans to Housing



Source: RBI

Double-digit growth in value and volume of Housing Sales



Source: Anarock

Households are making a smart investment choice of acquiring physical assets, taking advantage of larger credit availability from banks and after a long period of elevated returns in financial assets. Given that the real estate sector has a vast network of forward and backward linkages (such as cement and steel, among others, besides various services), the increase in demand for housing is inducing broad-based growth and job creation.

Increased demand for housing and vehicle loans reflects the confidence of the households in their future employment and income prospects signalling strong consumer sentiments. This is further supported by the Future Expectations Index of the Consumer Confidence Survey of RBI which reached a four-year high in the latest survey round. The general economic outlook as well as the prospects for employment, income and spending are expected to improve further over the next year. Households remain highly optimistic about future earnings even though their sentiment on current earnings remained around its July 2023 level.

[1] https://www.economist.com/finance-and-economics/2023/09/14/indias-property-market-is-ready-for-take-off

Macroeconomic Balance

Central government finances are on track

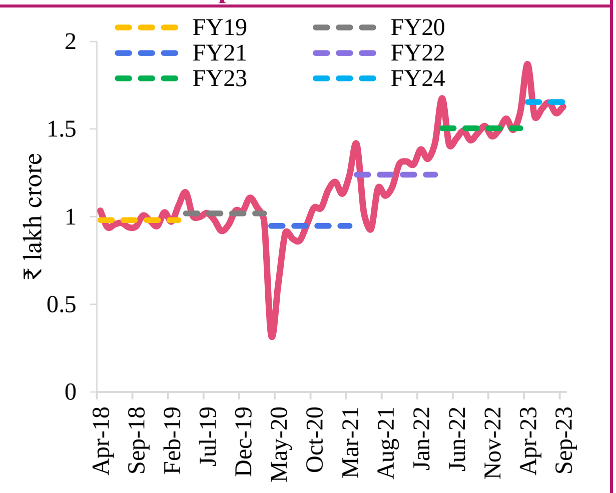
6. Developments in the government's finances at the end of August 2023 indicate that the government is on track to contain the budgeted fiscal deficit to 5.9 per cent of GDP by the end of FY24. The Government's market borrowing plan for the second half of FY24, published on 26 September 2023, reveals that the market borrowing for the full FY24 is kept at the budgeted level. Further, revenues generated from direct and indirect taxes have exhibited steady growth and are indicative of the strength of underlying economic activity and a broadening tax base. The focus on capital expenditure while rationalising revenue expenditure has led to an improvement in the quality of expenditure.

Direct tax revenue in April-August 2023 grew by 26.6 per cent on a YoY basis, with revenues from personal income tax and corporate tax growing by 35.7 per cent and 15.1 per cent, respectively. As per the information released by the Central Board of Direct Taxes, net direct tax collections in FY24 till 16 September 2023 grew by 23.5 per cent. The largest component of indirect tax revenue, Goods and services tax (GST), has continued its level shift upward. The average monthly GST collection in FY24 (until September 2023) is ₹1.65 lakh crore which is 9.9 per cent higher than the average monthly GST collection for the corresponding period in FY23.

Buoyant direct taxes (Apr-Aug)

Source: CGA

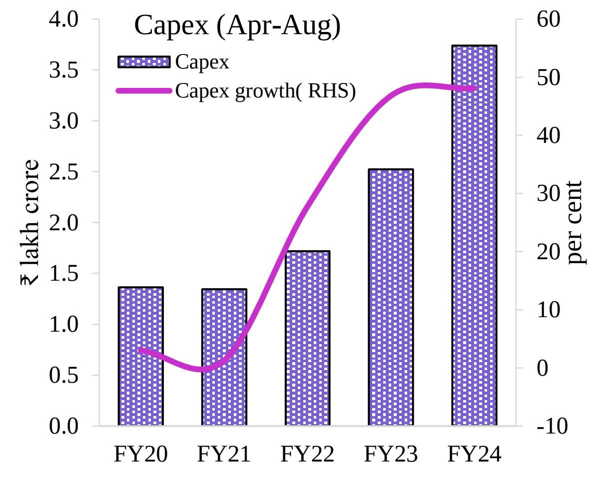
Level shift upwards in GST collections



Source: GST Council

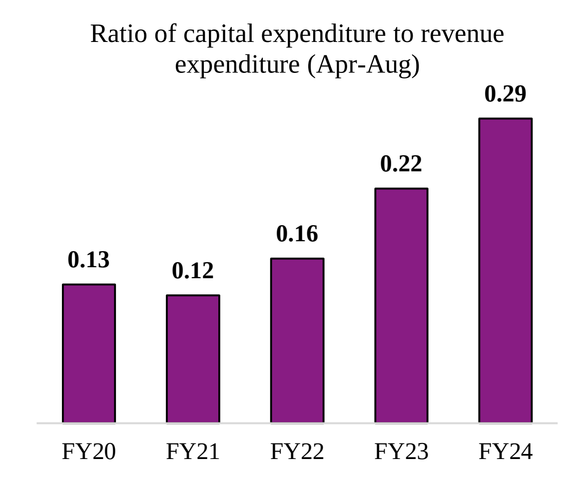
On the expenditure front, the focus on capital expenditure continued in August 2023. Capital expenditure in April-August 2023 was 48.1 per cent higher on a YoY basis. Calibrated fiscal management along with a thrust on capital expenditure has meant that the quality of expenditure, as measured by the ratio of capital expenditure to revenue expenditure, has improved. The ratio has increased progressively over the years – for the period April-August 2023, the ratio stands at 0.29, a massive improvement over 0.13 in the corresponding period of 2019.

Robust growth in capital expenditure



Source: CGA

Improving quality of expenditure



Source: CGA

Inflationary pressures ease

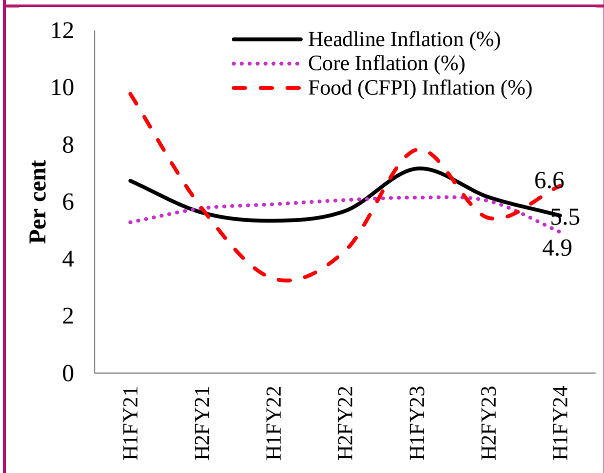
7. While GDP growth remains on track in FY24, the declining trend in headline inflation was briefly interrupted in the second quarter due to a spike in the prices of certain food items. Headline inflation has moved to track on the back of vegetable price correction and the recent reduction in LPG prices. As per the latest release of the consumer price index, headline inflation was 5 per cent in September, within the upper tolerance limit of inflation targeting. This indicates that the increase in inflation during July-August was only temporary, caused by the seasonal and weather-driven supply constraints in a few food items.

Among the 299 items in the CPI basket, only 11.4 per cent of food items with double-digit inflation in July caused a spike in headline inflation. However, this declined significantly to 7 per cent in September. Alongside softening food inflation, the fuel & and light group witnessed a deflation in September. As a result of the cut in prices of domestic LPG by ₹200 per cylinder, inflation in LPG declined to (-) 12.7 per cent in September compared to 4.2 per cent in August.

8. Core (non-food, non-fuel) inflation further softened to 4.5 per cent in September from 4.9 per cent in August. This is the lowest core inflation recorded in the last 42 months. Besides, August was the seventh consecutive month that core inflation has remained within the RBI's upper tolerance band of 6 per cent.

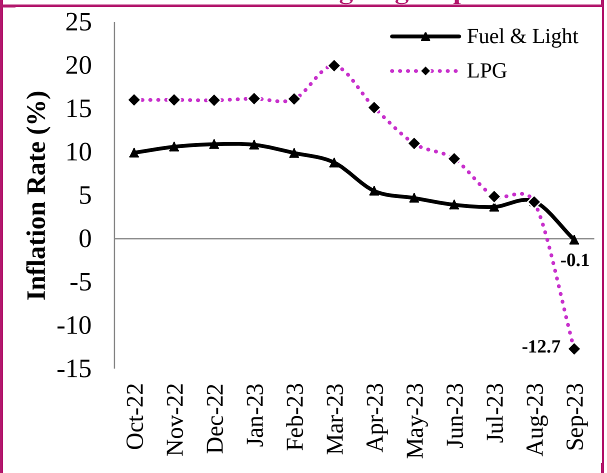
9. To check inflation, the Government has taken various measures from time to time to augment domestic availability. These steps, *inter-alia*, include the release of pulses and onion from the buffer stock, procurement and distribution of tomato and onion, imposition of stock limits on pulses and wheat, monitoring of stocks declared by entities to prevent hoarding and changes in import quota and restrictions on exports of specific commodities.

Retail inflation in H1FY24 is lower than H1FY23 and H2FY23



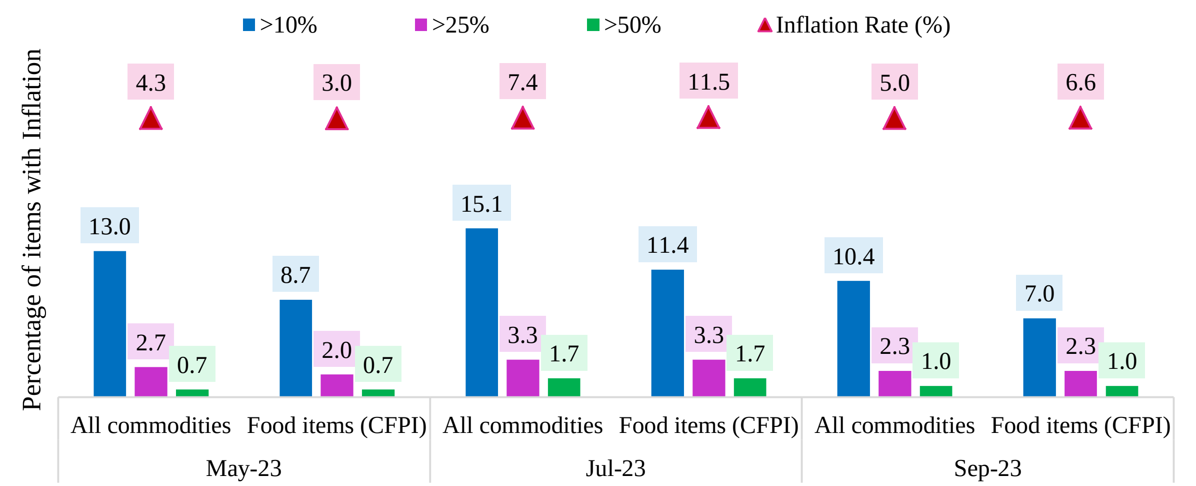
Source: MoSPI

Impact of LPG subsidy on inflation in LPG and 'fuel and light' group



Source: MoSPI

Much fewer food items experienced high inflation in September



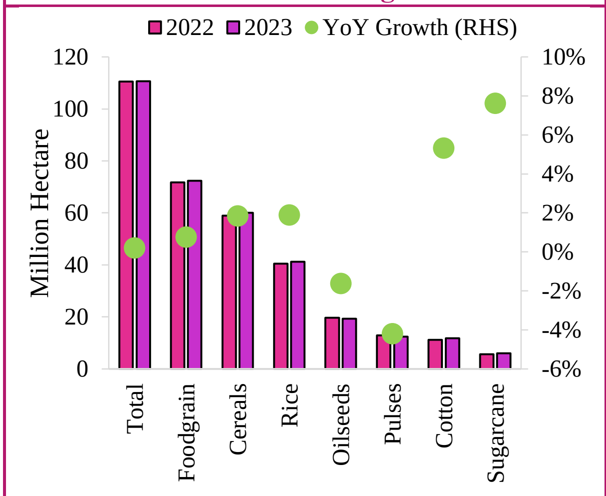
Source: MoSPI

10. The recent price trends also vindicate the monetary policy stance of the RBI for the last one and a half years. Since May 2022, the monetary policy actions broadly included absorbing excess liquidity in the system by gradually increasing the policy repo rate by 250 basis points and changing the policy stance to the withdrawal of accommodation, to break the stickiness of core inflation and to keep the headline inflation at check. The monetary measures of the RBI and the proactive supply-side interventions by the Government to improve domestic availability of key food items and reduce input costs complemented each other well. Consequently, headline inflation moderated to 5.5 per cent in H1FY24 as compared to 7.2 per cent in H1FY23 and 6.2 per cent in H2FY23. Further, inflation expectations of households have also declined by 90 bps and 40 bps for three months and one-year ahead periods in the September round of RBI's Inflation Expectation survey. However, the monetary transmission is still incomplete. The RBI in its MPC of October decided to remain focused on the withdrawal of accommodation to ensure that inflation progressively aligns with the target while supporting growth, and hence, kept the policy repo rate unchanged at 6.5 per cent.

Kharif sowing progresses despite challenges

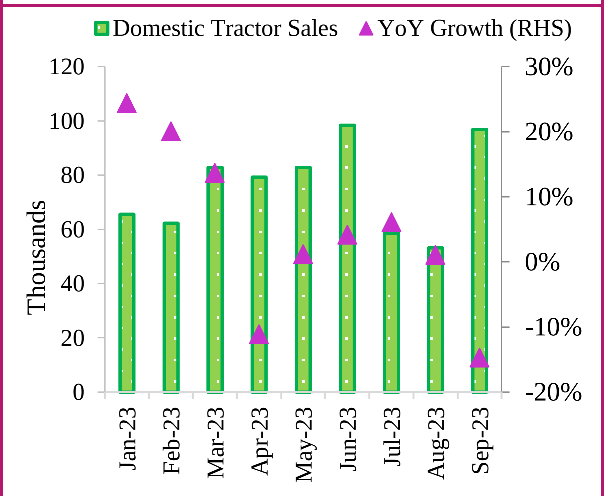
11. Healthy sowing of kharif crops is likely to ease inflationary pressure on food items. Area sown under Kharif crops was 0.2 per cent higher than last year and 3.4 per cent higher than the last five-year average. The whole country experienced normal monsoon at 94 per cent rainfall of the Long Period Average (LPA), despite the El Nino risk. About 81 per cent of the sub-divisions received normal and above-normal rainfall. Essentially, the monsoon core zone comprising rain-fed agriculture regions received 101 per cent of LPA. There is an adequate level of moisture content in the soil which bodes well for the upcoming Rabi season.

Kharif sowing



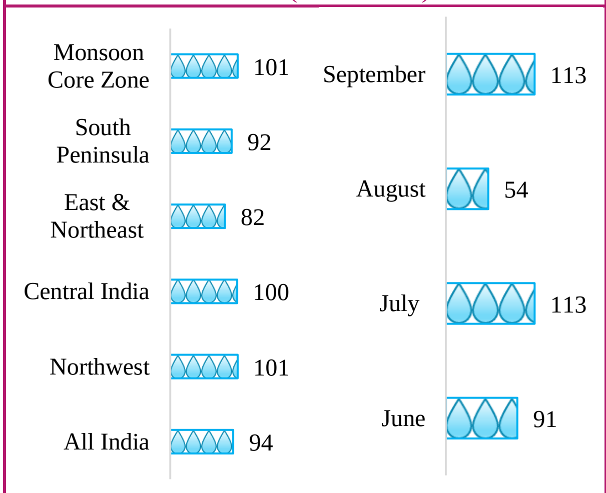
Source: MoA&FW

Tractor sales



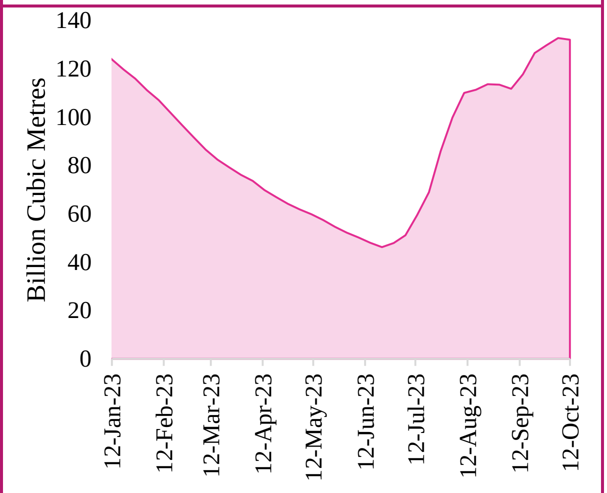
Source: TMA

Rainfall (% of LPA)



Source: IMD

Reservoir level



Source: CWC

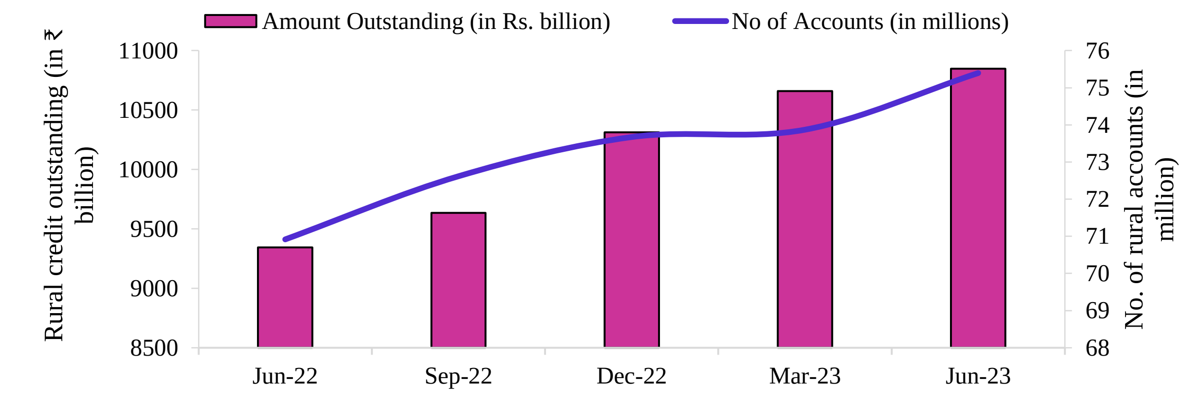
12. As of 12th October, reservoir levels in all regions are higher than the 10-year average barring the southern region. As we move ahead, the North East Monsoon Season (October-December) 2023 rainfall over south peninsular India is estimated to be normal (88-112 per

cent of LPA). This is likely to improve the reservoir levels of the southern region in the next three months. Higher tractor sales in September on a sequential basis along with adequate availability of fertilisers augurs well for upcoming Rabi sowing. Further, an increase in Minimum Support Prices for Rabi marketing season 2024-25 in the range of 2-7 per cent is likely to incentivise greater area sowing under rabi crops.

Credit growth supports the farm sector and rural demand

13. Credit has a critical role in the development of the rural economy. Thanks to the measures taken by the government to foster financial inclusion and continued focus on the uptake of fintech innovations for improving access to finance, especially in rural areas, rural credit received a fillip in recent years. As of end of June 2023, rural credit grew by 16.1 per cent YoY, higher than the growth in total outstanding credit of scheduled commercial banks. The share of rural credit in the total credit by SCBs was 7.7 per cent at the end of June 2023 and this remained consistently over 7 per cent since June 2017. Credit to agriculture and allied activities recorded a robust 16.6 per cent growth, YoY, as at the end of August 2023.

Rural credit in India by SCBs



Source: Basic Statistical Returns, RBI

Employment trends confirm India's economic resilience

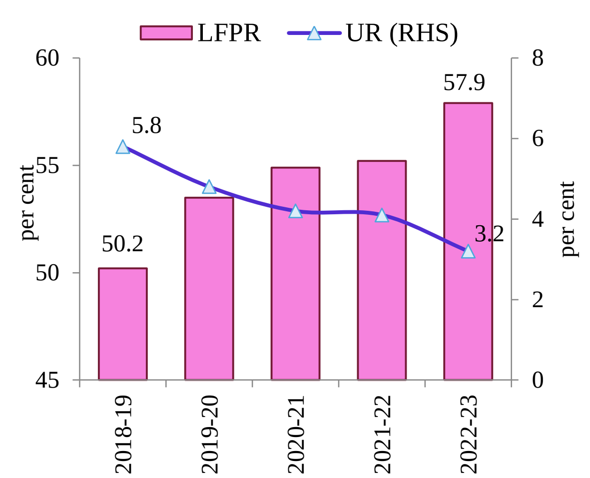
14. The recently released annual PLFS for 2022-23 (July- June) and quarterly PLFS (urban) for April- June 2023 point towards strengthening labour markets, reflected in greater labour force participation and lower unemployment.

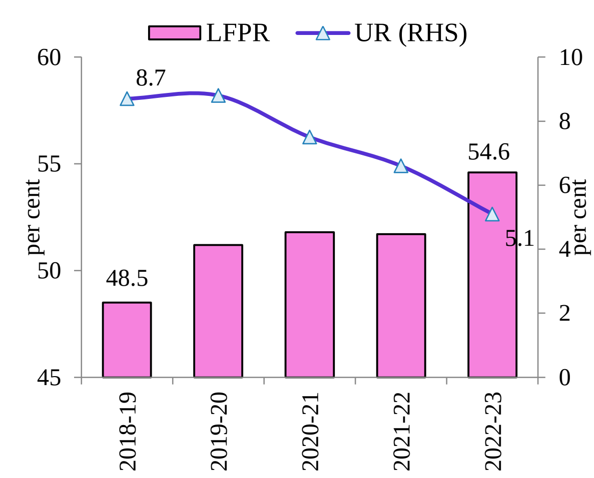
The all-India annual unemployment rate (UR) (persons age 15 years and above, as per usual status) declined from 4.1 per cent in 2021-22 to 3.2 per cent in 2022-23, accompanied also by a rise in labour force participation rate (LFPR) from 55.2 per cent to 57.9 per cent. The unemployment rate for youth (15-29 years) continued to decline from 17.3 per cent in 2018-19 to 10.0 per cent in 2022-23.

Even by the relatively strict standards of current weekly status (CWS), the employment situation has recovered from the pandemic in both urban and rural areas. The unemployment rate has declined from 6.6 per cent in 2021-22 to 5.1 per cent in 2022-23. Notably, this has been accompanied by a rise in the labour force participation rate from 51.7 per cent in 2021-22 to 54.6 per cent in 2022-23.

Improving annual labour market indicators

Usual Status	Current Weekly Status



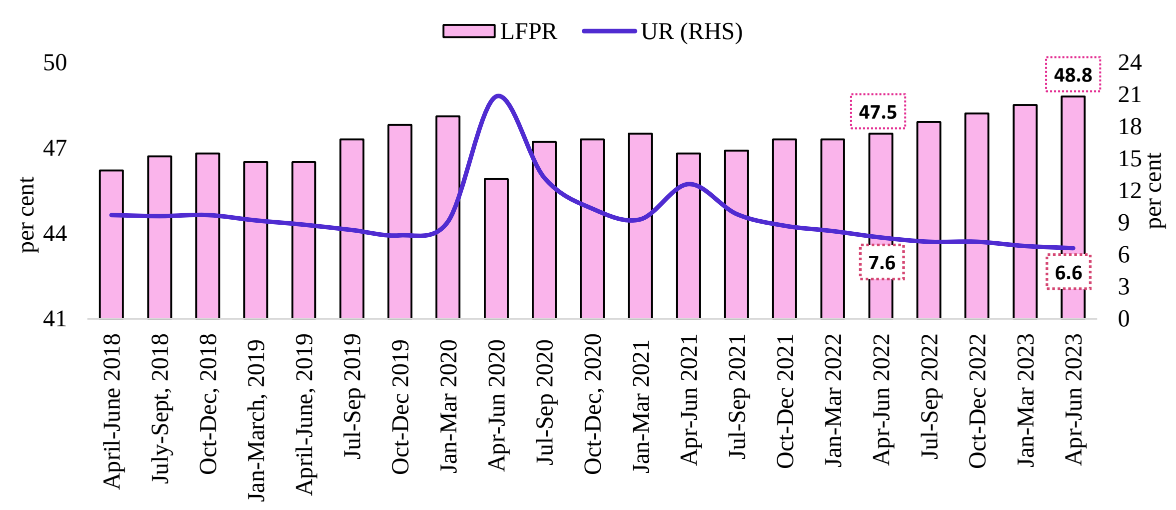


Source: PLFS

Note: Figures for ages 15 years and above

The quarterly urban unemployment rate declined from 7.6 per cent in April-June 2022 to 6.6 per cent in April-June 2023, the lowest since April-June 2018, when the first round of the survey was conducted. This was accompanied by an increase in urban labour participation rate from 47.5 per cent in April-June 2022 to 48.8 per cent in April-June 2023. Youth urban unemployment rate declined from 18.9 per cent in April-June 2022 to 17.6 per cent in April-June 2023.

Quarterly labour market indicators for urban areas

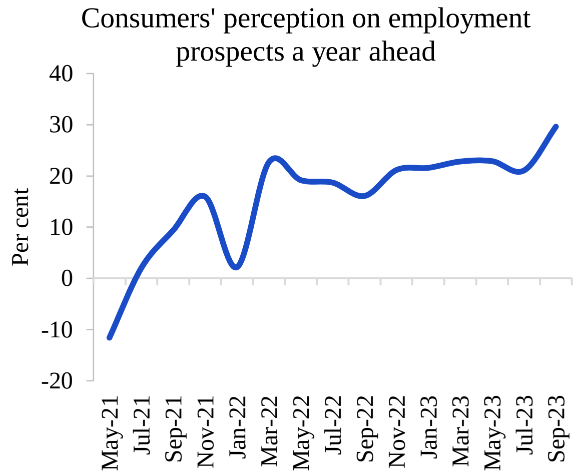
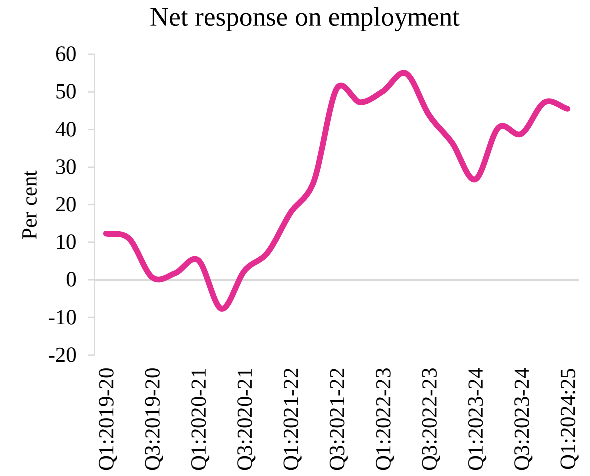


Source: Quarterly PLFS, MoSPI

Note: Figures for Current Weekly Status, 15 years and above

Going ahead, the employment outlook exudes optimism. According to the RBI's Industrial Outlook Survey, the industrial sector's intent to hire is higher in the next couple of quarters. As per the Consumer Confidence Survey, similar sentiments were expressed by households on employment prospects.

Optimism among households and businesses on employment outlook

Consumer confidence survey	Industrial outlook survey
	

Source: RBI

15. Underlying the improvement in overall LFPR lies a sharp uptick in female LFPR, a phenomenon at work for the past six years. The female LFPR (all-India, usual status) rose from 23.3 per cent in 2017-18 to 37.0 per cent in 2022-23, driven by rural female labour participation. In utilising the increasing willingness and ability of females to participate in the labour market lies the promise of women-led development, attested to by the recent women's reservation Bill in Parliament.

Box 1: Women-led development: Tapping the gender dividend for India @ 100

The recent passage of the women's reservation bill - Nari Shakti Vandan Adhiniyam (henceforth NSVA) - has come at an opportune moment, with India's G20 Presidency listing "women-led development" as one of its six priorities. Further, there is rising global attention towards women's workforce participation and outcomes following the award of the Nobel Prize in Economics to Prof. Claudia Goldin for her work on key drivers of gender differences in the labour market.

For women-led development to be actualised in its true sense, the prerequisites of equal opportunity and basic needs must be fulfilled. This has inspired multifarious initiatives by the Government to improve the quality of lives of women, enabling their economically productive participation in the workforce.

Financial inclusion: Access to financial services is known to improve women's control over household resources, and is a gateway to accessing credit and insurance. The PM Jan Dhan Yojana has facilitated the opening of 50 crore bank accounts, out of which 56 per cent of accountholders are women as of August 2023. This is accompanied by a rise in average deposits by nearly four times, from ₹1,065 in March 2015 to ₹4,087 in March 2023.

Rural microfinance: The Deendayal Antyodaya Yojana-National Rural Livelihood Mission (DAY-NRLM), the Government's SHG programme, has covered nearly 9 crore women through 83 lakh

SHGs. Recently, the Government has targeted the creation of 2 crore 'Lakhpati Didis' (women with annual earnings of ₹1 lakh and more) through skilling SHG members with marketable skills such as plumbing, LED bulb making, and operation of drones and repair, *etc*.

Skill development and entrepreneurship: Female participation has been quite encouraging in the wave of human capital formation through Skill India Mission and Start-up and Stand-Up India. Under the PM Kaushal Vikas Yojana, over 40 lakh women have been certified, which constitutes more than 40 per cent of the total certified as of FY22. Around 70 per cent of the loans have been sanctioned to women entrepreneurs under PM Mudra Yojana and 80 per cent of the beneficiaries under Stand-Up India are women. Realising the vision of Digital India, more than 53 per cent of the beneficiaries of the Prime Minister's Rural Digital Literacy Campaign (PMGDISHA) are women (as of July 2023).

Access to basic necessities: Construction of over 11 crore toilets under 'Swachchh Bharat Mission', clean cooking gas connections to nearly 9.6 crore women below the poverty line under 'Ujjawala Yojana' and connecting over 12.6 crores out of 19.5 crores rural household with tap drinking water connections under 'Jal Jeevan Mission' have transformed the lives of women by reducing the drudgery and care burden. These initiatives have a disproportionately positive impact on women, addressing concerns of safety and dignity, besides freeing up time and energy for productive work.

Property rights in rural housing: Under PM AWAS Yojana (Gramin), 26.6 per cent of the 2.41 crore completed houses are solely in the name of women and 69 per cent are jointly in the name of wife and husband. As asset ownership is associated with greater participation of women in household decision-making, improved health outcomes for young children, and reduced incidence of domestic violence, PM-AWAS Yojana has proved to be a doubly effective instrument for equitable prosperity.

Social change as a pathway to economic progress: Women-led development begins with ensuring the health and education of the girl child. The emphasis on "Beti Bachao, Beti Padhao" has sensitised collective consciousness towards saving, educating, and saving for the girl child (*via* Sukanya Samriddhi Yojana, a flagship small deposits scheme for financial planning for the girl child. The scheme has more than 3.1 crore accounts to its credit). Concurrently, the gross enrolment ratio of girls in the schools at the secondary level has increased from 75.5 per cent in (2014-15) to 79.4 per cent in 2021-22. The focus on reaping the gender dividend makes profound economic sense in terms of utilising the best talent and is crucial for India to become a developed country by 2047.

The abovementioned initiatives have already begun paying dividend, with the female LFPR rising to 37 per cent in 2022-23 from 23.3 per cent in 2017-18, improvement in the sex ratio at birth from 918 in 2014-15 to 933 in 2022-23, and reduction in maternal mortality rate from 130 per lakh live births in 2014-16 to 97 per lakh live births in 2018-20. These underline the tectonic shift towards women-led development in India.

External sector developments

Global trade to recover in H2 of 2023

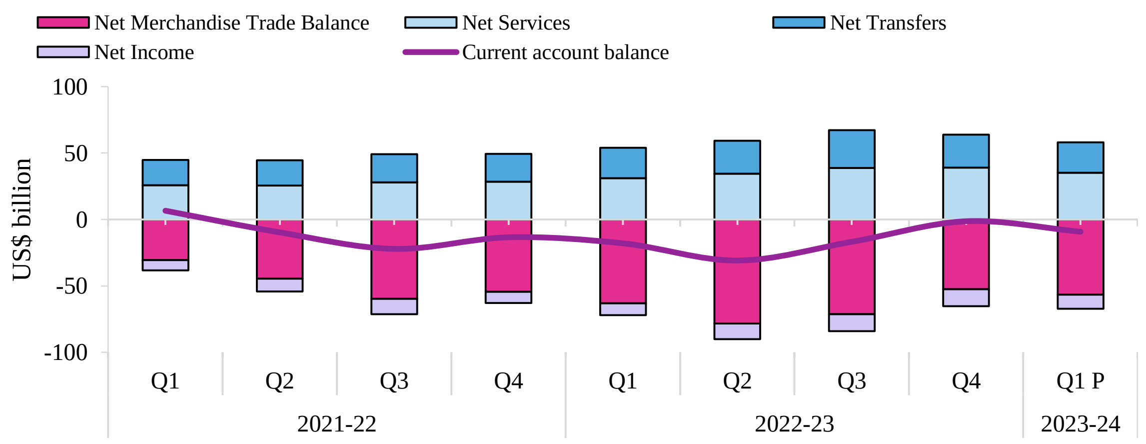
16. There is continuing weakness in global demand flowing from higher inflation levels in major economies affecting real incomes, and continuing contraction of the manufacturing PMI headline index for 12 months till August 2023 (though slightly up in August 2023). The latest estimate by the World Trade Organisation (WTO) for world merchandise trade volume growth for 2023 is 0.8 per cent, which is almost half of its estimate made in April 2023, i.e., 1.7 per cent. However, the WTO is optimistic about a revival in global trade growth in 2024. The WTO Outlook notes that the signs of recovery could begin in the second half of 2023 itself in comparison to the first half when merchandise trade volume was down by 0.5 per cent (YoY).

Steady growth in non-oil exports improves India's trade balance in September

17. The pressures outlined above are bound to have implications for India's external sector performance. According to the recent RBI estimates, the Current Account Deficit (CAD) of India was higher in Q1FY24 as compared to Q4FY23, however, it was lower than that in Q1FY23. The CAD increased to 1.1 per cent of GDP in Q1FY24 from 0.2 per cent in Q4FY23, but was lower than the 2.1 per cent recorded in Q1FY23. The Q-o-Q rise in CAD from US$ 1.4 billion in Q4FY23 to US$ 9.2 billion in Q1FY24 was mainly on account of the increasing trade deficit and lower surplus on the invisibles account. Weaker global demand and tighter monetary policies have, inter alia, led to moderating export demand.

On a YoY basis, the CAD and its components viz., merchandise trade, and invisibles, performed better in Q1FY24. CAD declined by half from US$ 18.0 billion to US$ 9.2 billion in Q1FY24. Major factors driving this were a decline in merchandise trade deficit by 10.2 per cent and an increase in service exports surplus by 13.1 per cent in Q1FY24. The narrowing of CAD in Q1FY 24 (YoY) resulted in accretion of foreign exchange reserves worth US$ 24.4 billion in Q1FY24, supported by strong net FPI inflows during the period.

Snapshot of Current Account Deficit



Source: RBI
Note: P stands for Provisional

Monthly trade data shows that, in September 2023, exports (merchandise and services) moderated slightly by 1.2 per cent while imports declined 13.7 per cent improving India's overall trade balance by 67.3 per cent, on a YoY basis. Merchandise non-petroleum non-gems and jewellery exports expanded by 1.8 per cent.

Services exports expanded by 0.5 per cent in September 2023. Remarkable improvements have been witnessed in growth in net exports of business services and financial services. In software services exports, which accounted for 47.4 per cent of total service exports in Q1FY24, the surplus grew by 10.5 per cent (YoY). Recently published Survey on Computer Software and Information Technology Enabled Services Exports: 2022-23 by the RBI informs that the US, Canada, followed by the EU imported 86.8 per cent of India's total software services exports, with a YoY growth of 18-20 per cent in exports to these countries in FY23.

18. There are imminent fears of rising crude oil prices in H2 FY24, given that the average price during Q2FY24 (US$ 86.8/bbl.) was higher than Q1FY24 (US$ 77.9/bbl.) and ongoing speculation and wait-and-watch situation emerging from the recent geopolitical situation in the middle-East. However, these averages are way lower than the average prices during Q1FY23 (US$ 109.5/bbl.) and Q2FY23 (US$ 97.9/bbl.).

FPI investors remain invested in the Indian economy during H1 of FY24

19. In H1 FY24, net foreign portfolio investment inflows were US$ 16.5 billion as against net outflows of US$ 7.8 billion in H1 FY23. This along with consistent surpluses on account of remittances (though moderating by 8 per cent Q-o-Q in Q1FY24) and services exports provide resilience to India's external sector. Further, India's foreign exchange reserves have been consistently cushioning the external financing needs and were at US$ 584.7 billion as of 6th October 2023.

20. Despite continuing global headwinds, India's external sector is poised for better growth prospects following improving trade prospects in 2024. India's lower vulnerability in external debt indicators, compared with its emerging market economy peers lends further strength to a robust external sector.[2]

Initiatives in India's G-20 Presidency Generate Global Hope

21. Amidst global uncertainty, India's G20 presidency has led to many new initiatives and achievements which can be utilised for tackling global economic challenges, including those related to food and energy insecurity.

22. The increasing demand for development financing, coupled with hardening global challenges has highlighted the need for Multilateral Development Banks (MDBs) to

[2] https://rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=56501#F5

strengthen and evolve. Against this background, the Indian G20 Presidency established the G20 Independent Expert Group (IEG) on strengthening MDBs. During this Presidency year, efforts were also made to provide momentum to the MDBs' implementation of the recommendations of the Capital Adequacy Frameworks (CAF) panel which can enable MDBs to stretch their balance sheets and use their existing resources more efficiently.

23. One major highlight of the Indian presidency was widening the scope of the policy framework to consider the macro-financial implications of crypto assets. This was necessitated to address the full range of risks posed by crypto assets, including risks specific to Emerging Markets and Developing Economies. Consequently, the IMF and the Financial Stability Board have developed a Synthesis Paper to support a coordinated policy approach to crypto-assets, detailing macroeconomic and regulatory perspectives and the full range of risks posed by crypto assets. Thus, the Indian Presidency has been able to push towards clearer policies on crypto assets by bringing consensus around the need to broaden the scope of ongoing work on crypto assets.

24. Digital Public Infrastructure (DPI) has been seamlessly integrated into the G20 discussions as a key priority under the Indian Presidency. Taking lessons from India's success story of leveraging DPI to advance financial inclusion, the G20 Policy Recommendations for Advancing Financial Inclusion and Productivity Gains through DPI were formulated and unanimously endorsed by the G20. The Financial Inclusion Action Plan has also acknowledged the significant role of DPI in advancing financial inclusion in G20 and beyond.

25. India's G20 Presidency has also emphasised the need to address the global challenges posed by debt vulnerabilities, both in low-income and middle-income countries. The Indian Presidency has been diligently advocating the interests of the Global South on debt. G20 members are actively engaged in discussions aimed at strengthening multilateral coordination to effectively address the deteriorating debt situation and facilitate coordinated debt treatment for debt-distressed countries. To accelerate debt restructuring, the Global Sovereign Debt Roundtable, a joint initiative of the IMF, World Bank and the Presidency was launched to strengthen communication and foster a common understanding among key stakeholders.

26. G20 also reaffirmed its commitment to strengthening multilateral efforts for swift implementation of a two-pillar international tax package to address the tax challenges arising from the digitisation of the economy. A package of deliverables on the two-pillar international tax package has been developed by the members of the OECD/G20 Inclusive Framework on Base Erosion and Profit Sharing. During the G20 Presidency, India also launched the pilot programme of the South Asia Academy in India for tax and financial crime investigation in collaboration with the OECD. Efforts have also been made to identify approaches toward

streamlining the wider use of treaty-exchanged information between interested jurisdictions on a bilateral and voluntary basis. These efforts are vital in influencing the future tax transparency agenda at the global level.

27. Recommendations on the mechanisms to support the timely and adequate mobilisation of resources for climate finance have also been prepared. Focus has been placed on public finance, mechanisms and risk-sharing facilities, to address both adaptation and mitigation efforts in a balanced manner to reach the ambitious Nationally Determined Contributions (NDCs), carbon neutrality and net-zero considering different national circumstances. The Presidency also focused on financial solutions, policies, and incentives to encourage greater private flows for rapid development, demonstration, and deployment of green and low-carbon technologies.

28. G20 also took note of the report prepared by OECD on 'Towards orderly green transition-Investment requirements and managing risks to capital flows' based on an analysis of data on investment funds from selected Advanced Economies (AEs) and Emerging Markets (EMs), including India. The report points to the structural issues in global capital markets acting as barriers to higher flows to EMs, including in green sectors and highlights the importance of foundational capital market reforms and sound macroeconomic policies to support green investment.

29. A report on Macroeconomic Risks Stemming from Climate Change and Transition Pathways was also prepared based on the policy experiences of G20 members in dealing with the macroeconomic impacts of climate change and transition pathways. The report identifies that the macroeconomic impacts of the transition to a low-carbon economy will depend on the composition of a country's transition policies, but can be manageable if the appropriate policy mix is implemented. Policymakers have a range of tools at their disposal to address climate change risks. The optimal choice of these instruments and their applicability for specific sectors is dependent on country circumstances. The report also emphasises the importance of international dialogue and cooperation, including in the areas of finance and technology.

30. Towards achieving the Sustainable Development Goals (SDGs), and promoting orderly, just, and affordable transitions, the Finance Ministers and Central Bank Governors have committed to take action to enable financing for SDGs, including and beyond climate, in line with the G20 Sustainable Finance Roadmap. The Sustainable Finance Working Group developed an analytical framework for SDG-aligned finance for scaling up the adoption of social impact investment instruments and improving nature-related data and reporting. In this regard, the G20 Sustainable Finance Technical Assistance Action Plan (TAAP), a multi-year document, has been prepared, highlighting the recommendations for creating an enabling

environment for enhancing capacity-building services and tailoring them according to local needs. TAAP aims to scale up capacity building and technical assistance in sustainable finance, especially for EMDEs and Small and Medium Enterprises (SMEs).

31. G20 also took note of the recent food and energy crisis faced by many economies because of supply chain disruptions. While global food and energy prices have fallen from their peak levels, the potential for high levels of volatility in food and energy markets remains, given the uncertainties in the global economy. In this context, the G20 report on the macroeconomic impacts of food and energy insecurity and their implications for the global economy provides a comprehensive overview of policy experiences shared by members in dealing with this issue and is supported by analysis from international organisations.

Outlook

32. Global uncertainties have been compounded by recent developments in the Persian Gulf. Depending on how the situation develops, crude oil prices may push higher. Further, the relentless supply of US Treasuries and continued restrictive monetary policy in the US (with further monetary policy tightening not ruled out) could cause financial conditions to be restrictive. At current levels, US stock markets have greater downside risk than upside. If the downside materialises, it will have spillover effects on other markets. Fraught geopolitical conditions can cause a general increase in global risk aversion. If these risks worsen and are sustained, they can affect economic activity in other countries, including India.

33. However, India's macroeconomic outlook for FY24 is bright and is solidly underpinned by strong domestic fundamentals. Alongside private consumption, investment demand is also firming up. There are additional growth levers in broad-based industrial growth and buoyant residential property markets. Industrial capacity utilisation has improved. An increase in household demand for residential properties combines with strong public sector capex to reinforce investment. Kharif sowing has progressed well despite challenges. Improved reservoir levels augur well for the upcoming Rabi season. Core inflation is declining steadily, while food inflation has eased. Yet, there are significant headwinds. Global inflation in 2023 was estimated to decline steadily due to the tight monetary policies of central banks. But fresh challenges have cropped up in adverse geo-political turns and volatile crude prices. Sluggish global demand is affecting India's trade, but this is projected to recover from H2FY24. Nonetheless, with a lower trade deficit and a comfortable forex reserve position, India's external account looks robust. Echoing all this, RBI's forwarding-looking surveys on manufacturing, consumer confidence, employment and inflation expectations have optimistic findings. In sum, as IMF projections also confirm, India will remain the fastest-growing major economy in the world in FY24.

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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-Aug	29.3	28	28	6.4	-4.4	0
Domestic Tractor Sales	Lakhs	Apr-Sept	4.4	4.9	4.7	9.8	10.5	-3.7
Kharif Sowing	Mn Hectare	29th Sep	111.2	110.5	110.7	-0.3	-0.7	0.2
Kharif Production	Mn Tonnes	Final	155.4	155.7	-	3.2	0.2	-
Reservoir Level	Bn Cu.Metres	12-Oct	142.2	159.3	132	-4.4	12.0	-17.1
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 Agri & allied activities	₹ Lakh crore	Aug	13.6	15.4	18.0	13.0	13.4	16.6
Industry								
8-Core Industries	Index	Apr-Aug	130.7	143.8	154.8	19.4	10	7.7
IIP	Index	Apr-Aug	125.6	135.3	143.5	28.9	7.7	6.1
Domestic Auto sales	Lakh	Apr-Sep	78.5	102.2	108.0	14.5	30.2	5.7
PMI Manufacturing	Index	Apr-Sep	52.6	55.2	57.9	21.3	4.8	5
Power consumption	Billion kWh	Apr-Aug	707.2	790.2	846.5	12.7	117.7	7.1
Natural gas production	Bn Cu.Metres	Apr-Aug	11.1	11.4	11.7	19.9	3.4	2.2
Cement production	Index	Apr-Aug	148.3	164.2	185.1	44.4	10.7	12.7
Steel consumption	Mn Tonnes	Apr-Sep	497.1	552.8	633.4	36.1	11.2	14.6

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-Sept	161.4	172.9	182.5	5.3	7.2	5.5
WPI	Index	Apr-Sept	134.5	153.6	150.9	11.8	14.2	-1.8
CFPI	Index	Apr-Sept	160.9	173.5	184.9	3.3	7.8	6.6
CPI-Core	Index	Apr-Sept	160.7	170.6	179	5.9	6.1	4.9
Services								
Average Daily ETC Collection	₹ Crore	Apr-Sep	90.6	140.9	169.1	92.6	55.6	20
Domestic Air Passenger Traffic	Lakh	Apr-Aug	437.5	1038	1259	208.9	137.3	21.3
Port Cargo Traffic	Million tonnes	Apr-Sep	346.4	384.8	393.7	15.9	11.1	2.3
Rail Freight Traffic	Million tonnes	Apr-Sep	668.8	736.7	758.2	25.3	10.1	2.9
PMI Services	Index	Apr-Sep	49.8	57.2	60.9	68.4	14.8	6.4
Fuel Consumption	Million tonnes	Apr-Sep	93.7	107.4	113.7	9.1	14.6	5.9
UPI (Value)	₹ Lakh crore	Apr-Sep	34.3	62.9	90.6	121.5	83.3	44
UPI (Volume)	Crore	Apr-Sep	1844.6	3705	5875.5	117.3	100.9	58.6
E-Way Bill Volume	Crore	Apr-Sep	35.1	46.1	54.2	51	31.2	17.6
Fiscal Indicators								
Gross tax revenue (Central Govt)	₹ Lakh crore	Apr-Aug	8.6	10.2	11.9	70.5	18.7	16.5
Revenue Expenditure	₹ Lakh crore	Apr-Aug	11.1	11.4	13	-0.8	3	14.1
Capital Expenditure	₹ Lakh crore	Apr-Aug	1.7	2.5	3.7	27.8	46.8	48.1
Fiscal Deficit	₹ Lakh crore	Apr-Aug	4.7	5.4	6.4	-46.3	15.7	18.8
GST Collection	₹ Lakh crore	Apr-Aug	6.8	8.9	9.9	50.1	30.9	11.1

Data Title	Unit	YTD Period/As at the end of	Year to Date			Year to Date (YoY Growth)		
			2021-22	2022-23	2023-24	2021-22	2022-23	2023-24
External Sector								
Merchandise exports	USD Billion	Apr-Sep	198.3	231.5	211.4	58.1	16.7	-8.7
Non-oil exports	USD Billion	Apr-Sep	169.7	180.7	169.5	49.8	6.5	-6.2
Merchandise imports	USD Billion	Apr-Sep	274.6	372.6	327	81.0	35.7	-12.2
Non-oil non-gold imports	USD Billion	Apr-Sep	180.4	241.5	221.9	60.8	33.9	-8.1
Net FDI	USD Billion	Apr-Jul	13.1	17.3	5.7	322.6	32.1	-67.1
Net FPI	USD Billion	Apr-Sep	5.4	-7.4	20.8	-28.0	-237.0	381.1
Exchange Rate	INR/USD	Apr-Sep	73.9	78.5	82.4	-1.6	6.2	5
Foreign Exchange Reserves	USD Billion	06th -Oct	639.5	532.9	584.7	16	-16.7	9.7
Import Cover	Months	Sep	15	9	10	-	-	-
Monetary and Financial								
Non-Food Credit	₹ Lakh crore	22nd Sep	108.9	126.1	151.3	5.1	15.8	20.0
10-Year Bond Yields	Per cent	Apr-Sep	6.1	7.3	7.1	-0.8	1.2	-0.2
Repo Rate	Per cent	13th Oct	4	5.9	6.5	0	1.9	0.6
Currency in Circulation	₹ Lakh crore	6th Oct	29.4	31.9	32.9	8.9	8.5	3.1
M0	₹ Lakh crore	6th Oct	36.8	41.0	43.9	14.3	11.3	7.2
Employment								
Net payroll additions under EPFO	Lakh	Apr-Jul	30.3	48.2	60.3	5379.1	59.1	25.1
Number of persons demanded employment under MGNREGA	Crore	Apr-Sep	22.9	18.4	19.3	-6.1	-19.5	4.6
Urban Unemployment Rate	Per cent	Jun	12.6	7.6	6.6	-39.4	-39.7	-13.2
Subscriber Additions: NPS	Lakh	Apr-Jul	2.35	2.5	2.56	36.1	6.4	2.4