KIRTANE & PANDIT

May
2024

The Ecoknowmic™

A Quarterly Economic Review

01.
KEY INSIGHTS

- The global economic growth, estimated at 3.2% in 2023, is expected to continue at the same pace in 2024 and 2025, with advanced economies expected to perform better than developing economies.
- GDP for FY 2023-24 grew at 8.2 % y/y as compared to 7.0% in FY 2022-23, mainly driven by robust growth in the manufacturing and services sector. Quarter 4 of 2023-24 saw growth of 7.8% with Manufacturing & Construction leading the way.
- Growth in Industrial Production declined to 4.9% y-o-y in March 2024 as compared to 5.6% in February, with contraction in the mining sector, bringing down growth of robust growth in manufacturing and power generation.
- The PMI index for both manufacturing and services is above the 50.0 thresholds, coming in at 58.8 and 60.8 respectively, in April, depicting a positive trend in recent months.
- Inflationary pressures have seen a downward trajectory in recent months, with CPI coming in at 4.83% in April a dip from 4.85% in March. However, inflation levels are still above the 4% CPI target set by the RBI, with Food inflation remaining sticky.
- The RBI has been watchful of the movement in price levels. In its efforts to mitigate higher price levels and simultaneously not hinder the growth trajectory, it has maintained its policy rate at 6.5% since February 2023.
- The CAD to GDP declined to 1.2% in Q3 of 2023-24 as compared to 1.3% in Q2 of 2023-24, with increase in services exports driving the same.
- Merchandise trade deficit increased to US$ 19.1bn in April as compared to US$ 15.6bn. in March, leading to an increase in total trade deficit at US$ 6.5bn as compared to US$ 2.87bn in the previous month. Services trade, too has slowed down marginally, albeit having net surplus of US$ 12.6bn in April 2024.
- Total foreign investments declined to $US 2.7bn in March as compared to $US 4.15 bn in February, mainly due to contraction in FDI inflows.
- There has been a healthy rise in forex reserves since October 2023, reaching US$ 648.7 bn as of mid-May 2024, covering more than 9 months of imports.
- Fiscal deficit has been a challenge in recent years, which was exacerbated due to the increased spending and sharp decline in revenue during the pandemic. Revised estimates for 2023-24 for fiscal deficit as % of GDP stand at 5.9%, with budget estimate for 2024-25 being 5.1% of GDP.
- Overall, the Indian economy is poised for a robust run in the medium term provided the inflationary pressures remain ranged and the government is effective in its efforts to achieve greater fiscal prudence.

02.
GLOBAL SCENARIO

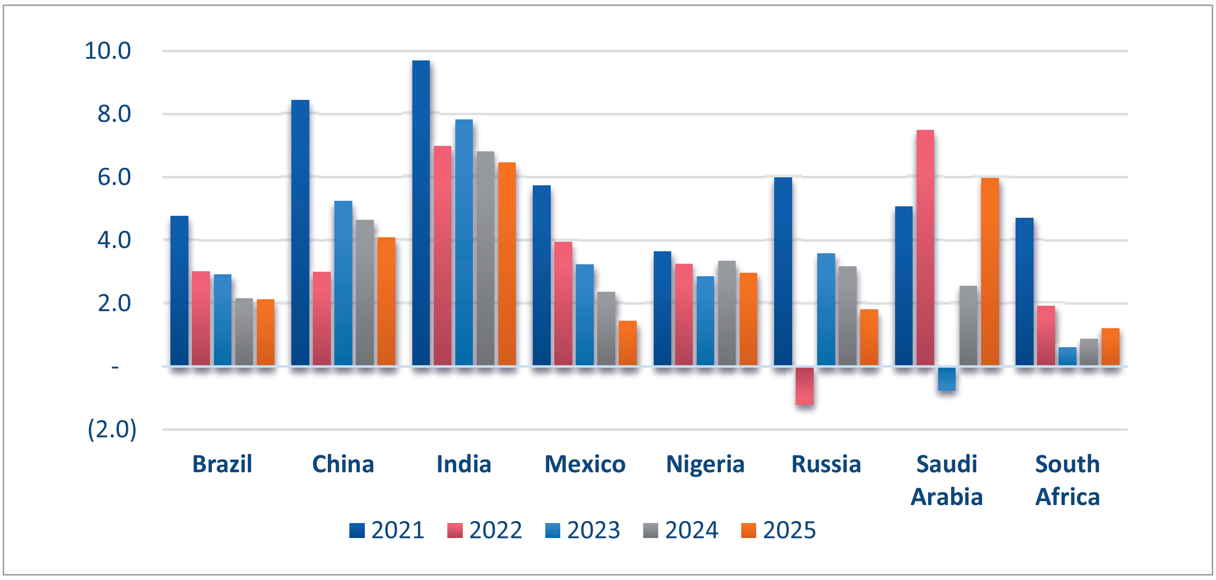
The global economy has shown credible restraint in the face of adversities pertaining to supply side bottlenecks, stringent monetary policies across the globe, uncertainties due to upcoming elections in major economies as well geopolitical tensions. As we look ahead, many of these headwinds can be expected to dissipate, as the central banks across the globe are expected to ease a little on monetary tightening as they try to stay on course in achieving their inflationary targets. The global markets seem to have reacted well to the proposed easing of the monetary policies around the globe. This has led to an easing in financial conditions and capital flows to developing economies are showing signs of improvement. These trends, however, are not uniform across the globe.

While the geopolitical issues continue to remain a possible threat to the overall economic progression, the recent growth numbers / estimates indicate that the global economy may have found a way around it, at least partially. Even the supply side bottlenecks have already shown signs of easing. The US has experienced remarkable performance in recent terms with strong growth in demand and employment.

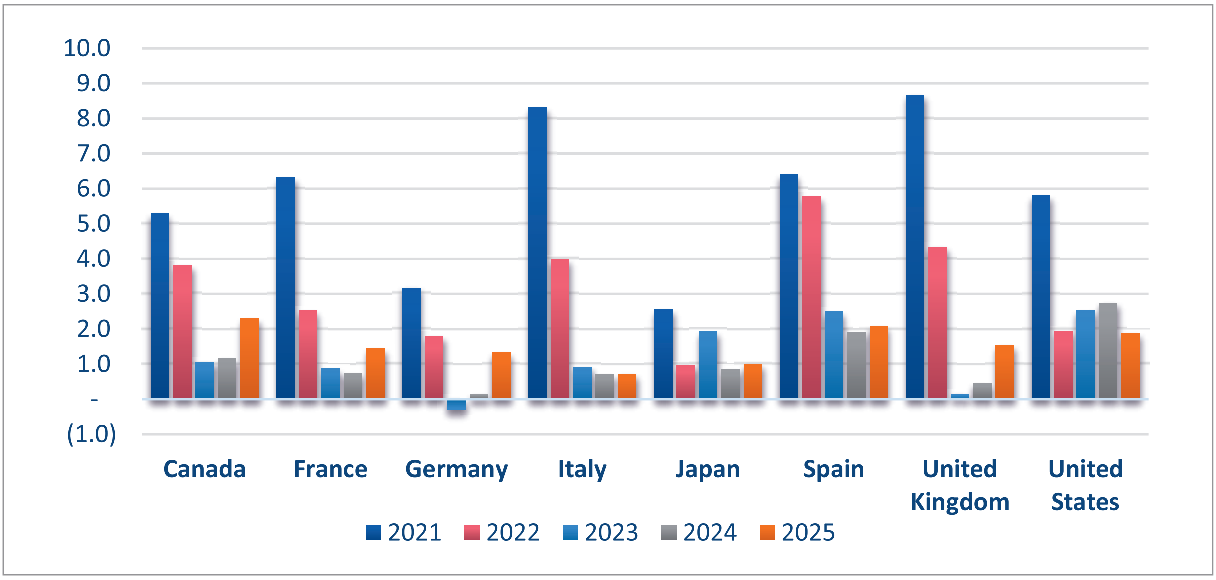
The Euro Area on the other hand is expected to grow at a much slower pace weighed down by the second-round effects of the tight monetary policies as well as the governments' focus on fiscal consolidation. China still seems to be recovering from the recent collapse of the property market, which may strain the Chinese economy in the coming months. The other large emerging economies have shown great resilience and are expected to outperform others in the medium term. There is, however, the risk that many of the low-income developing economies are left behind with the gap between the low income developing and the developed world widening further. As these economies have not really recovered from the pandemic, they run the risk of experiencing the double blow of slowing growth and rising inflation.

As per the World Economic Outlook, the IMF's latest publication, the global growth, estimated at 3.2 percent in 2023, is projected to continue at the same pace in 2024 and 2025. As per the said publication, a slight acceleration for advanced economies is expected to offset a modest slowdown in emerging market and developing economies in the coming years. The forecast for global growth five years from now, at 3.1 percent, is at its lowest in decades.

Emerging Economies - GDP Growth (%)



Advanced Economies - GDP Growth (%)



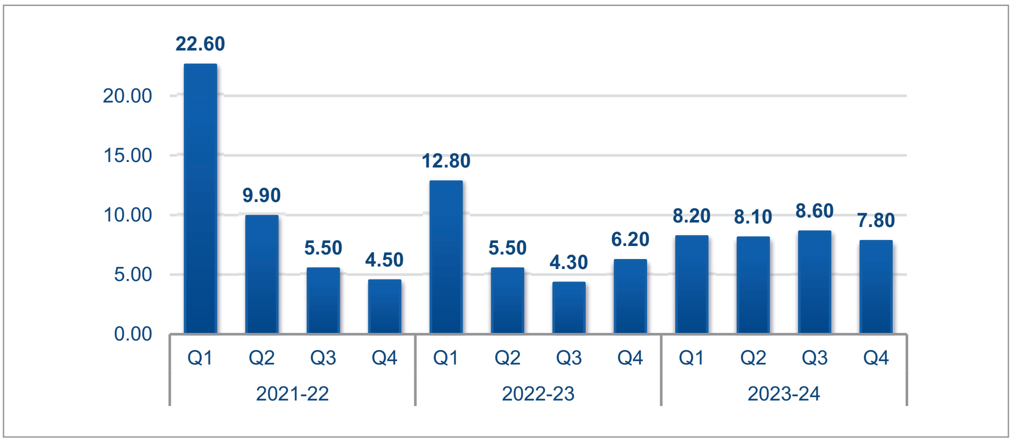
The above graphs depict a mixed bag of the GDP growth rate for various economies around the globe. The general theme has been that most of these economies did experience healthy growth rates in 2021 (perhaps because of base effect of 2020 covid lockdowns), with 2022 and 2023 being all about battling covid through supportive measures by governments.

As can be seen in the basket, India has experienced higher sustained annual growth throughout the last three years. While most of the advanced economies expect recovery in 2024 or 2025, only a few of the developing countries like Saudi Arabia or South Africa expect increase in the GDP growth in coming years.

03. INDIA GDP

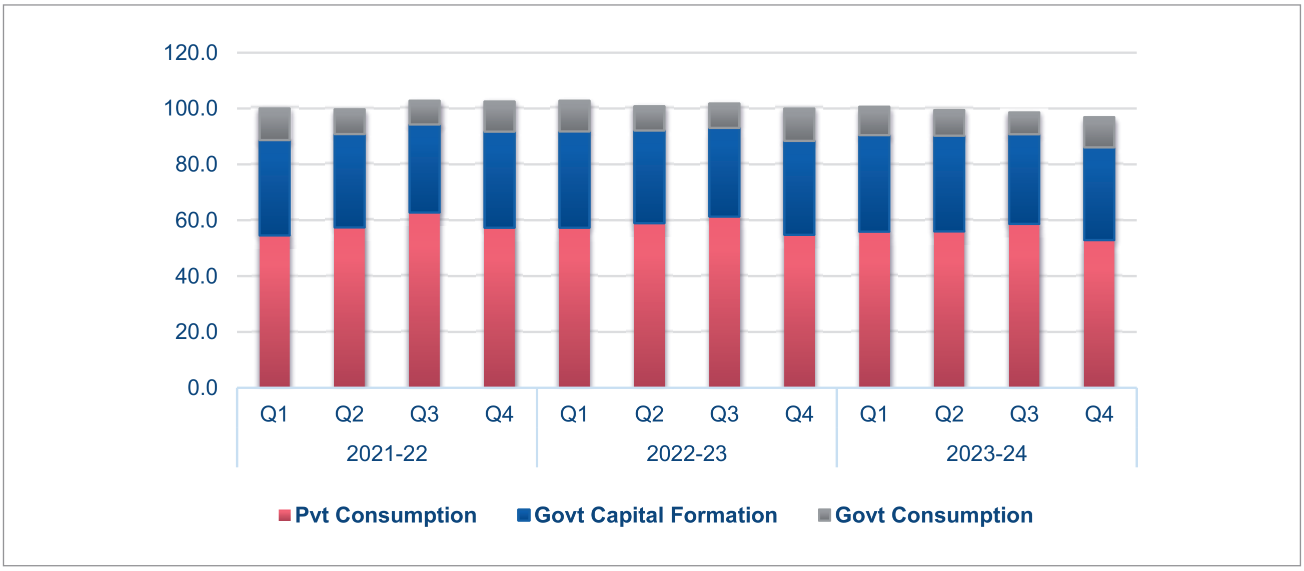
As discussed earlier, despite emerging economies' growth under pressure, India continues to lead the global GDP charts with consistently high growth rates. The Indian economy in recent years has been a story of resilience, strength, and healthy growth. The annualised GDP data is a reflection of this with the latest projections by the NSO indicating an annualised growth of 8.2% in 2023-24 as compared to 7.0% in 2022-23. The quarterly GDP numbers however did decline slightly with GDP growth for Q4 of 2023-24 coming in at 7.8%, slightly lower than Q3 growth rate of 8.6%. A quick look at the annualised data for the three segments of the economy indicates a decline in the agricultural segment coming in at 2.1% y/y in 2023-24 as compared to 4.4% y/y in 2022-23. Uncertain monsoons leading to poor harvest have greatly affected the growth of the primary sector. The biggest positive for the year was the growth in the manufacturing sector, printing at 9.7% y/y in 2023-24 as compared to contraction of 2.2% in 2022-23.

Quarterly GDP Growth Rates (%)



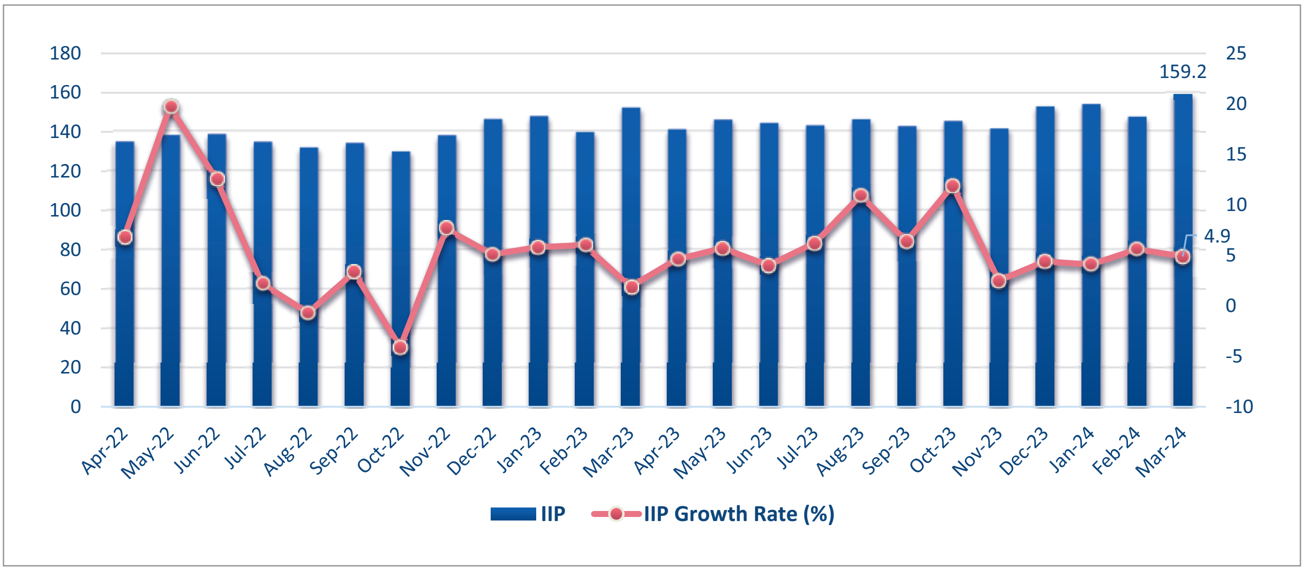
Shifting our focus to the expenditure side, there is a noticeable dip in private consumption with the % share to GDP declining to 52.9% in Q4 of 2023-24 as compared to 58.7% in Q3 of 2023-24. Government consumption and Government Capital Formation seem to be the factors that drove GDP in Q4 of 2023-24. Rising export & declining import contribution in GDP components have supported the overall GDP performance in the fourth quarter. Strong performance for the gross fixed capital formation along with continued growth in the manufacturing and services sector have greatly contributed to the recent uptick in growth numbers. With a good rabi crop expected and better prospects of a good Kharif crop as a result normal south-west monsoons would spruce up the rural demand in coming months. Further, improving income levels within the informal sector along with the sustained rise in urban consumption would support the overall growth of private consumption.

Share of Expenditure Components in GDP (%)



In March 2024, India's industrial production (IIP) grew by 4.9% year-on-year, down from 5.6% in February but up from 1.9% in March 2023. The decrease was mainly due to a contraction in the mining sector, which grew by only 1.2%, compared to 6.8% a year earlier. However, manufacturing growth surged to 5.2% from 1.5%, and power generation rose by 8.6% compared to a 1.6% decline in March 2023. The IIP has maintained an average growth rate of 5.7% since April 2022, indicating stable industrial performance with consistent growth, reflecting sustained demand and production efficiency.

Index of Industrial Production (IIP)



The HSBC India Manufacturing PMI data indicates a strong start to the fiscal quarter for the Indian manufacturing sector, with operating conditions improving at the second-fastest pace in over three-and-a-half years due to high demand and increased new business orders. Despite a slight decline from March to April 2024, from 59.1 to 58.8, the PMI remained well above the neutral mark of 50.0, and long-run average of 53.9, with input stocks at their highest in 19 years. The HSBC India Services PMI data also shows robust growth, with new business and output expansion among the fastest in 14 years. Slight drop from 61.2 in March to 60.8 in April 2024, still indicates strong growth, especially in Finance & Insurance sectors. Export business rose significantly, with gains from multiple regions. Service providers remain optimistic about future business activity due to strong demand and strategic initiatives.

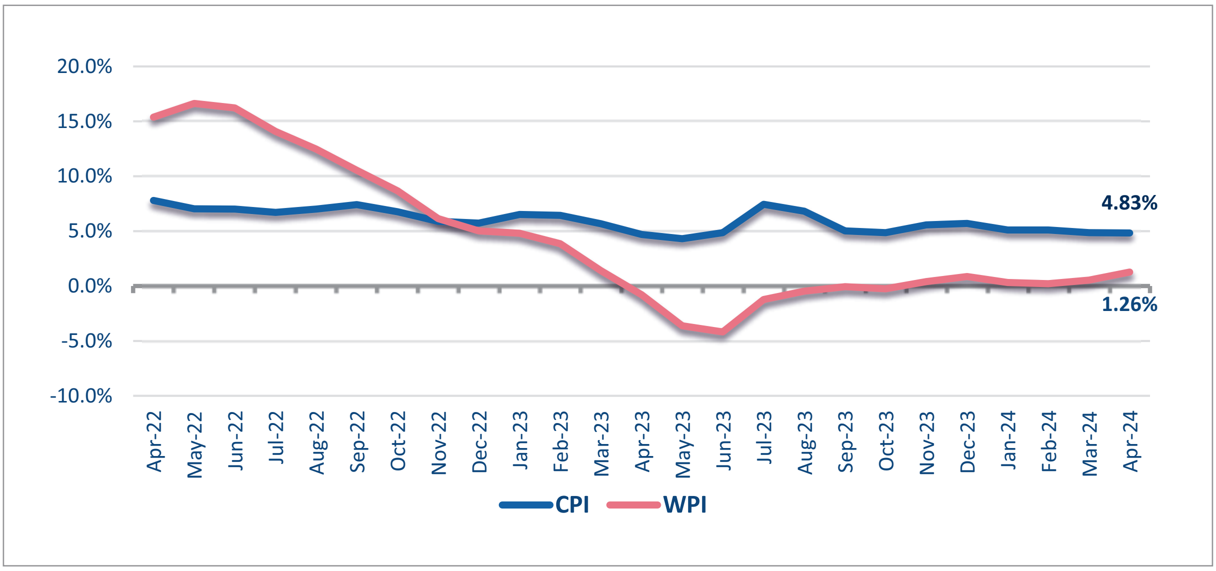
Further, according to the RBI, the prospects for further improvement in investment activities are bright owing to an upturn in the private capex cycle becoming steadily broad-based; persisting and robust government capital expenditure; healthy balance sheets of banks and corporates; rising capacity utilization; and strengthening business optimism.

04.

INFLATION & MONETARY POLICY

Along with the strong performance of the Indian economy in terms of income / GDP, the country has also witnessed a steady decline in inflationary pressures. From the peak of 7.44% in July 2023, CPI, or Retail Inflation, has steadily been declining in recent months, coming in at 4.83% in April 2024. WPI, on the other hand, after remaining in the negative territory from April 2023 to October 2023, rose to 1.26% in April 2024. A variety of factor such as lower costs in industrial raw materials and farm inputs, easing of international commodity prices as well as subdued pricing in the high-speed diesel, aviation turbine fuel and bitumen and petroleum coke market have all contributed to WPI being in the negative territory in 2023.

Inflation (%)



The interplay between the very recent surge in consumer demand, especially in the luxury segment, and the ability of supply of these goods to keep up, will play a critical role in inflationary pressures in the coming months. Further, as the agricultural sector reels under low growth underpinned by a poor kharif season, persistent food inflation in the near term is a possibility.

Although consumer spending hasn't quite picked up after the pandemic, inflation remains high. This could indicate that supply-side bottlenecks are one of the major factors contributing to the overall increase in inflationary pressures.

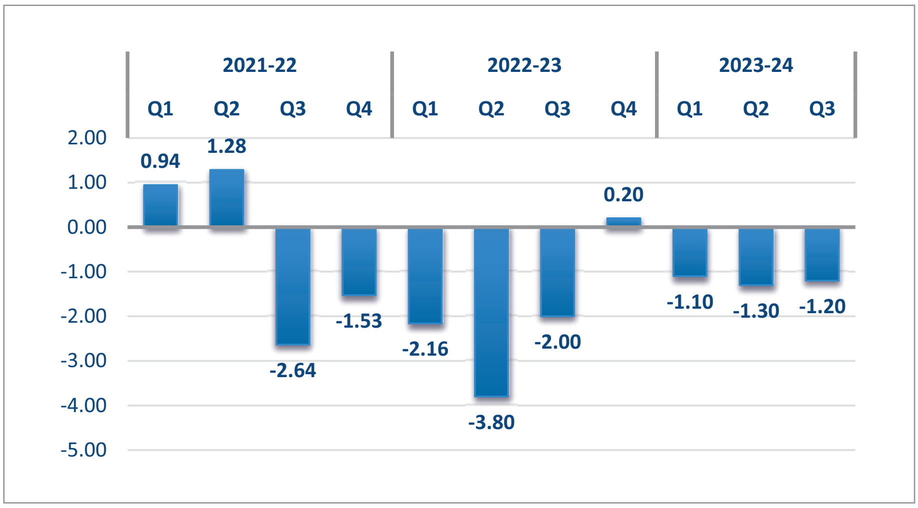
A granular look at the CPI figures indicates that core inflation has been steadily declining in recent months with the fuel component of CPI also experiencing deflation. The demand and supply play for pulses and key vegetables are expected to shape the overall inflationary pressures in the coming months. Food inflation hit both the rural and the urban sector with the latest figures for urban CPI printing at 8.2% and that for rural CPI coming in at 7.5%. The government has made a considerable push in infrastructure investment in recent years and private investment is also expected to pick up in the coming quarters. Hence, we expect the supply side bottlenecks to ease in the coming months, easing inflationary pressure a little. That said, CPI is expected to remain higher than 4%, target level set by the RBI, in the coming months.

The Bank Rate (6.75%) and Policy Repo Rate (6.5%) have remained the same since February 2023. In its meeting on February 8, 2024, the Monetary Policy Committee (MPC) maintained its focus on controlling inflation to achieve a medium-term CPI target of 4%, within a tolerance range of (±2%). Despite robust domestic economic activity, food price shocks and geopolitical events continue to pose inflationary risks. The MPC decided to retain the Cash Reserve Ratio (CRR) at 4.5% and Statutory Liquidity Ratio (SLR) at 18% to manage liquidity, ensure financial stability, and support the disinflation process.

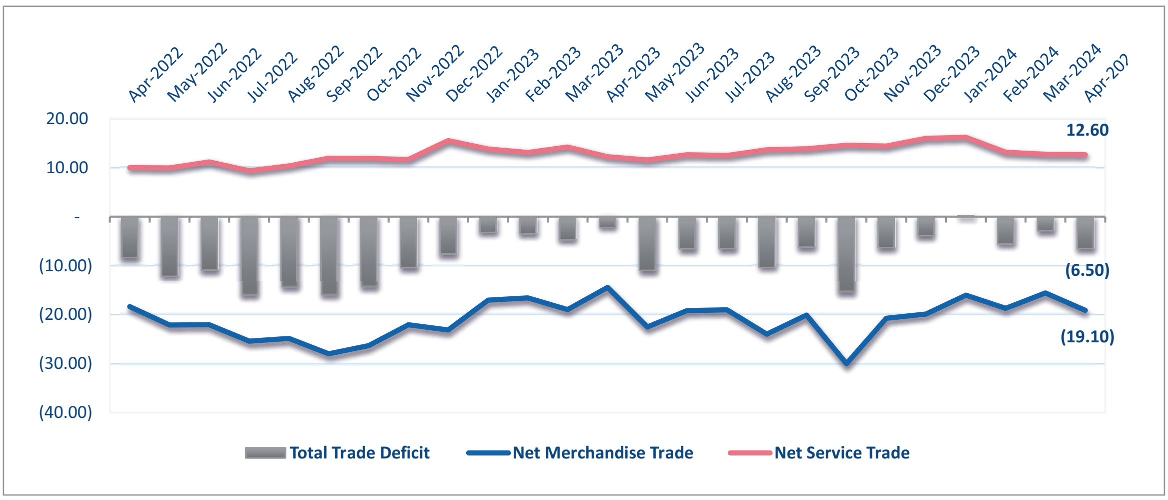
05.
THE EXTERNAL SECTOR

Global economic slowdown during Covid, supply chain disruption due to ongoing geo-political tensions as well as the overall subdued demand in the global market have all weighted on the external sector. This is reflected in the first graph with the CAD to GDP reaching its highest point of 3.8% in Q2 of 2022-23. There has been a consistent improvement in the CAD post that with the latest ratio at 1.2% of GDP in Q3 of 2023-24. This decline in Q3 was mainly driven by increase in services exports, favourable capital inflows and steady remittances by Indians employed overseas.
The second graph indicates the difference between the export and the imports. As can

CAD as % of GDP



India's Foreign Trade - Merchandise & Services (US $ Bn)

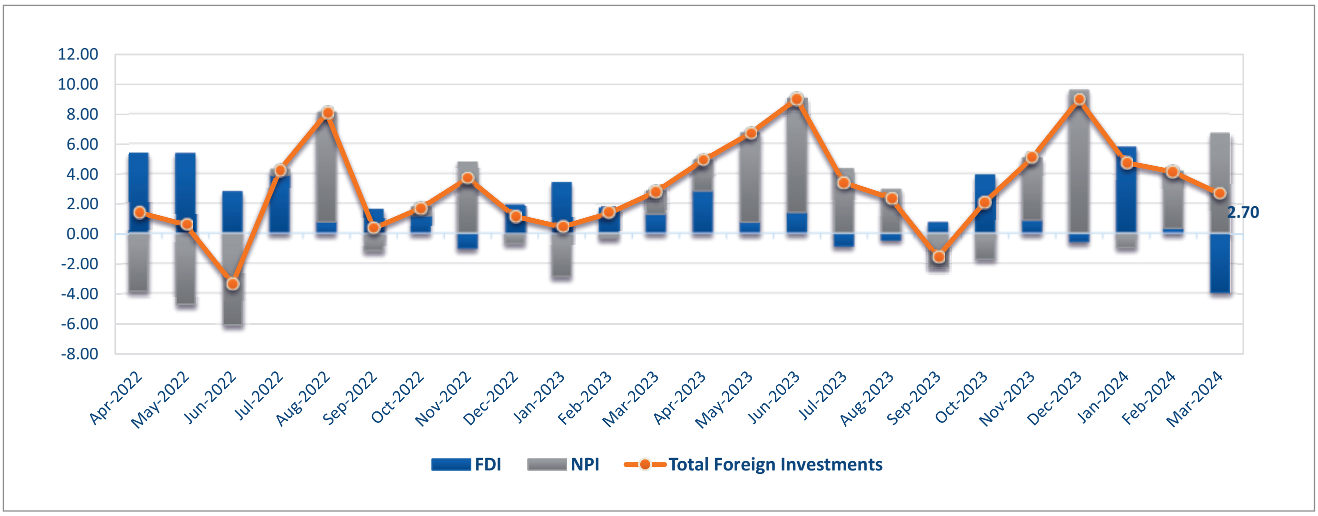


be seen in the graph, the merchandise trade has largely been negative with sluggish exports. Overall, the services trade still managed to perform consistently even during Covid times. There was a slight reversal in these trends in recent months, especially after November 2023, which saw growth in merchandise exports along with a slight increase in imports. Improved merchandise exports and slight increase in merchandise imports, along with further improvement in services exports, underpinned by rising exports of software, business and travel services, led to better terms of trade in Q3 & Q4.

The month of April saw merchandise trade deficit worsen to US$ 19.1bn as compared to US$ 15.6bn in the previous month. However, looking at Y-o-Y data, exports rose marginally, by 1.06% as compared to April last year. This was mainly driven by growth in export of petroleum products, electronic goods and chemicals. However, a higher surge in imports, mainly led by gold, precious metal and crude oil, further widened the trade gap. Services trade surplus was stable coming in at $US 12.6 bn in April as compared to $US 12.7bn in March. Services exports for the month of April came in at US$ 29.57 bn. as compared to US$28.54 bn in March.

The overall narrowing of trade deficit in recent months, continued growth in net service receipts and increased remittances have had an positive impact on CAD. Overall, the CAD to GDP ratio has been better in 2023-24 as compared to the previous two years which is a positive sign.

Foreign Investments in India (US $ Bn)

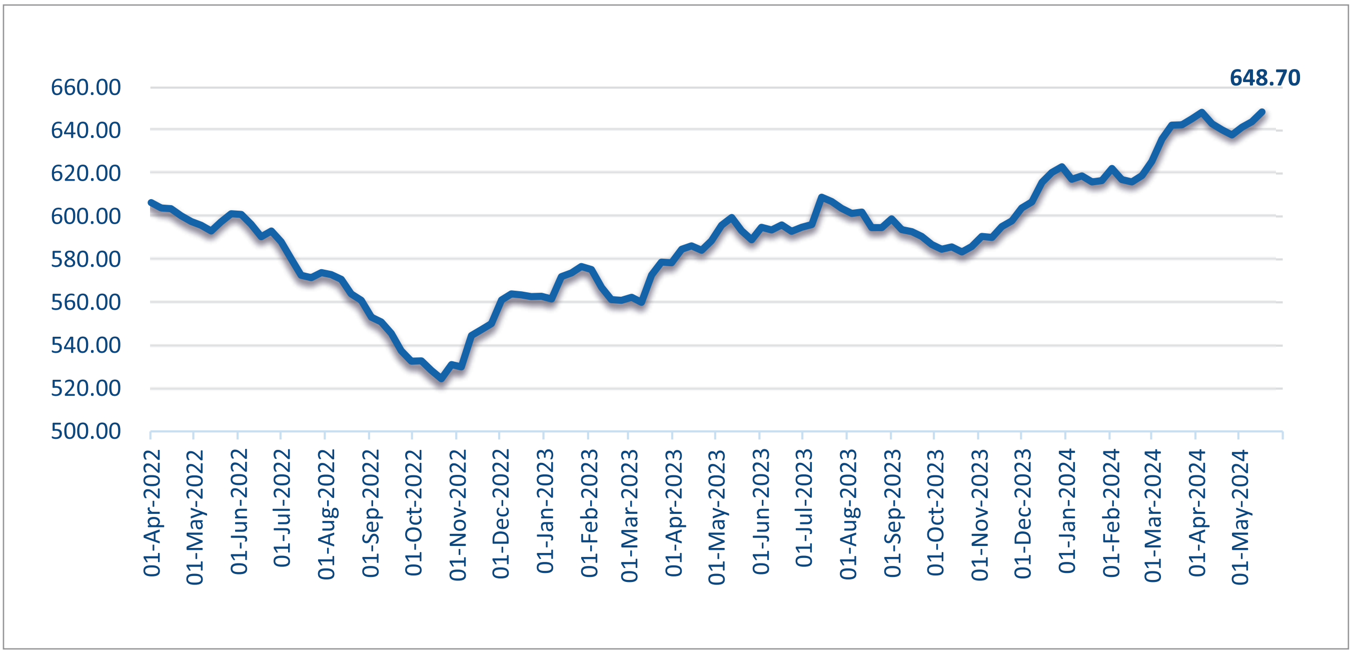


India experienced a considerable turnaround in foreign investments inflows in 2023-24 as compared to the previous year. Due to better-than-expected economic growth, a largely favourable business environment, and overall strong macroeconomic fundamentals, India has been a preferred destination for global investors in recent years. The recent uptick in FPI is a reflection of these parameters. Net FPI in March 2024 was at $6.66 bn. FDI has however contracted by $US 3.96 bn in March. FDI has remained subdued in recent months largely due to repatriation/disinvestment by those who made direct investments in India. FDI contracted in July and August of 2023 and largely remained subdued through the remainder of the year. It however did experience an uptick in January 2024 at $5.74bn.

Even with factors such as geopolitical tensions, supply chain disruptions as well as tighter monetary policy negatively impacting the appetite of the global investor, India has fared better than its Asian counterparts in terms of total capital inflows.

According to the Indian Government data, India received the highest equity inflows among emerging market peers during FY2023-24. According to the RBI, the inclusion of sovereign bonds in global bond indices would further help India's cause.

Foreign Exchange Reserves (US $ Bn.)



Even through the recent ups and downs of the global economy the overall health of the forex reserves has been robust. After a considerable dip to $524.5 bn in Oct 2022, forex reserves have shown significant and consistent growth. As of 17th May 2024, the reserves stand at an impressive $648.7bn. The current reserves are sufficient to cover more than 9 months of projected imports and almost 100% of the external debt.

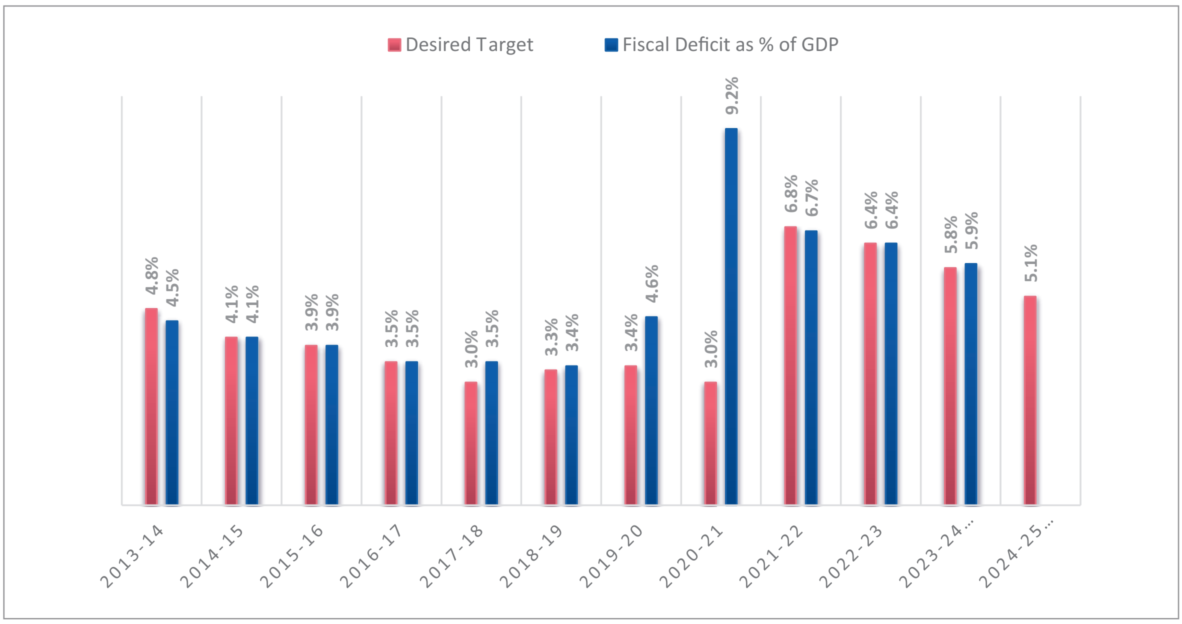
06.
FISCAL SCENARIO

The fiscal deficit as a percentage of India's GDP showed a declining trend till FY 2020-21. It then surged to 9.2% due to COVID-19 pandemic, driven by increased government spending and a sharp revenue decline. However, post-pandemic, the deficit dropped down to 5.9% in FY 2023-24. The budget estimate for 2024-25 is 5.1%.

From 2013-14 to 2016-17, the fiscal deficit remained largely within the target range with FY 2017-18 and 2018-19, slightly exceeding the targets. The fiscal condition worsened significantly in 2020-21 due to COVID-19, with the deficit soaring to 9.2% against a 3% target. This spike was driven by increased spending and a sharp revenue decline amid the pandemic.

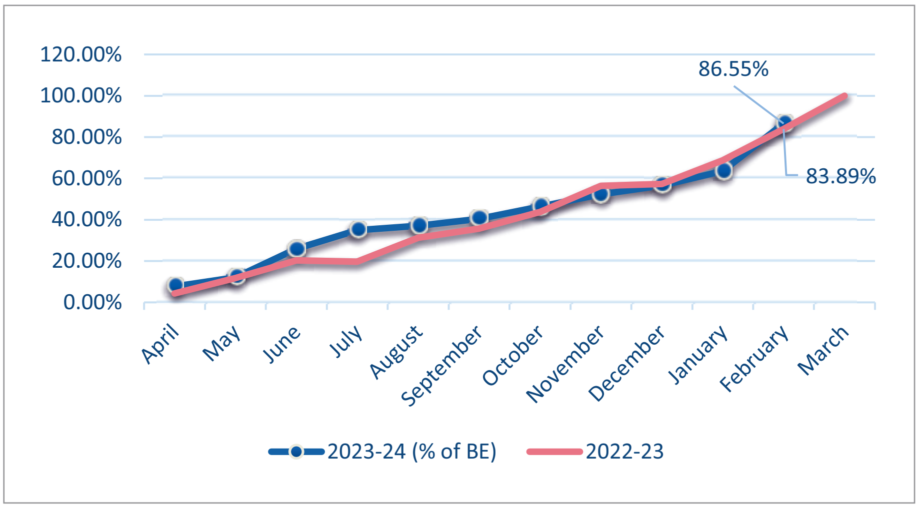
Finance Minister Nirmala Sitharaman aims to reduce the fiscal deficit below 4.5% by 2025-26 to improve India's global standing and credit ratings after the huge deficit in 2020-21. The government suspended FRBM Act limits and plans to cut the deficit by 1.4 points from the revised 5.8% target through moderated spending and realistic GDP and tax growth assumptions. This gradual reduction is essential for restoring economic stability and global credibility, leveraging robust tax revenue expectations. Since then, the government appears to inch toward its target with successive reduction in the deficit levels.

Targeted vs Actual Fiscal Deficit%

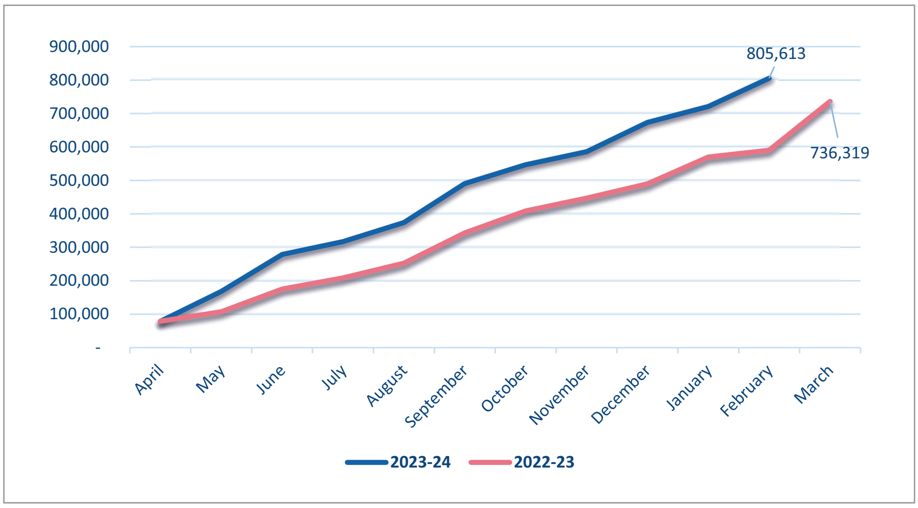


The fiscal deficit as a percentage of budget estimates and the absolute deficit amounts rose consistently throughout 2023-24, surpassing those of 2022-23.In the earlier months till September, fiscal deficit in FY 2023-24 had a higher cumulative value compared to the previous year and by February, fiscal deficit's cumulative value reached 86.55%, which is 3% more than the previous year's value at approximately 84%. This trend highlights the need for careful fiscal management and policy adjustments to maintain economic stability.

Cumulative Trend of Fiscal Deficit (%)



Cumulative Trend of Capital Expenditure (Rs. Crs)

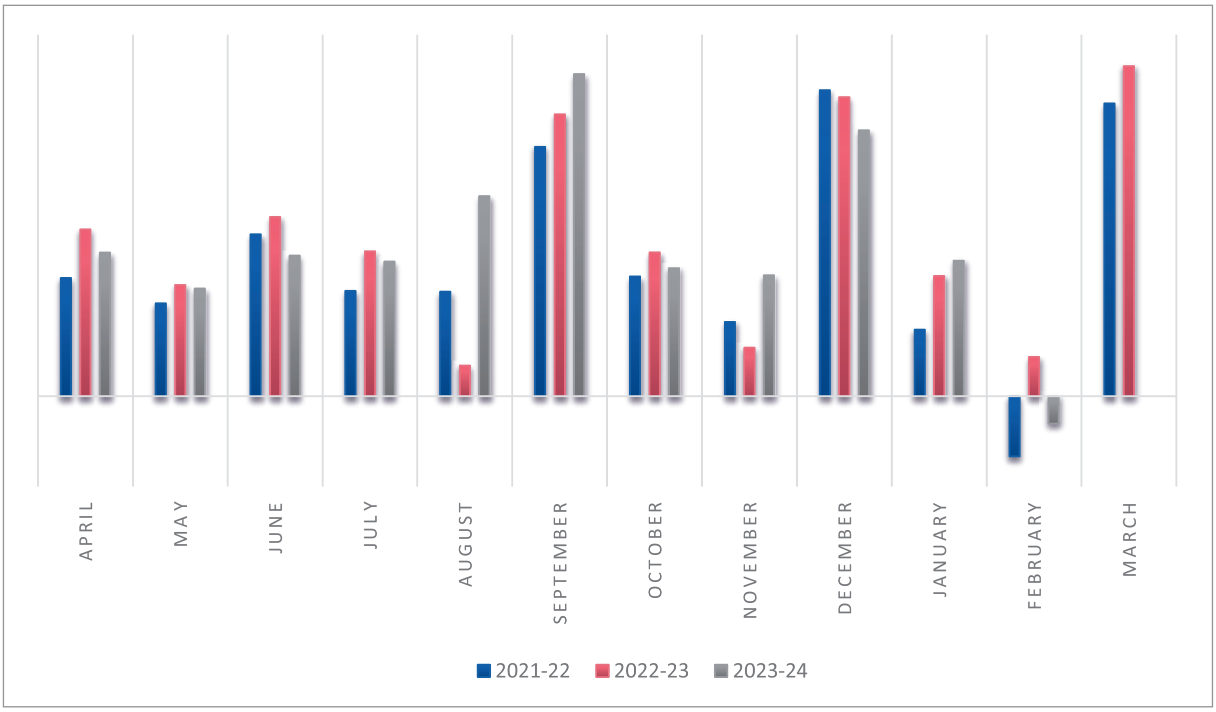


The year-to-date capital expenditure for 2023-24 consistently showed higher values compared to the corresponding months in 2022-23. In the month of February 2024, capital expenditure of FY 2023-24 has already surpassed capital expenditure incurred in whole of the previous year.

This indicates an overall increase in capital investment or infrastructure spending during the current fiscal year and depicts a proactive approach towards enhancing infrastructure and capital assets, potentially aimed at stimulating economic activity and fostering sustainable development.

Below is an analysis of the tax net revenue data provided for the months across three fiscal years (2021-22, 2022-23 and 2023-24) as shown in the graph above. The data shows varying trends in tax net revenue across months, with some months experiencing significant increases or decreases compared to the previous fiscal years. September 2023 recorded highest tax collection in comparison with the corresponding months of previous years.

Monthly Tax Collection revenue (in INR Crore)



In FY 2022-23 February, tax collection was positive compared to the months of other fiscal years. This was majorly due to a negative dip in the collection of corporation tax. Overall, these fluctuations can be influenced by various economic, seasonal, and policy-related factors, highlighting the importance of monitoring revenue trends for effective fiscal planning and decision-making.

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