KIRTANE & PANDIT

August
2024

The Ecoknowmic™

A Quarterly Economic Review

01.
KEY INSIGHTS

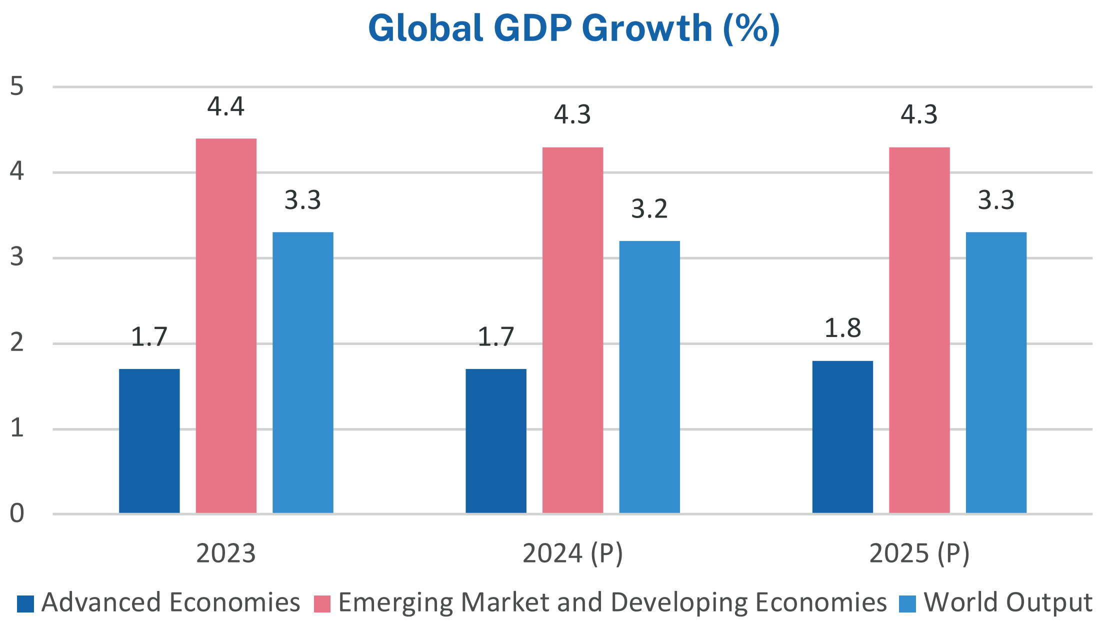
- The global economy is expected to grow by 3.2% in 2024. These expectations have remained the same in this quarter as inflationary pressures are expected to cool off in the near future and economic activity is expected to pick up later on.
- GDP growth in Q1 of 2024-25 came in at 6.7% y/y as compared to 8.2% y/y in Q1 of 2023-24, with lower-than-expected agricultural output. Manufacturing sectors witnessed a robust growth of 7% in Q1 of 2024-25, along with private consumption, which grew at a seven quarter high of 7.4%.
- After a subdued performance in April, IIP index grew by 6.18% y/y in the month of May on the back of improved performance in all three major industries-mining, manufacturing and electricity. IIP growth for June was slightly lower at 4.2%y/y.
- The PMI index for both manufacturing and services reflected a positive sentiment as Manufacturing PMI remained above the historical average of 54.0 with services PMI remained above 60 in all three months of this quarter.
- Inflationary pressures largely continued on its downward trajectory in the last three months mainly due to the cooling off of food prices. With normal monsoons this year, prices of cereals, fruits, vegetable and pulses declined. CPI came in at 3.54% in July, which is the lowest in five years.
- Even with the recent cooling off of food inflation, the RBI kept its Bank Rate and Policy Repo Rate unchanged at 6.75% and 6.5% respectively, looking to stay the course and monitor inflationary pressures in the coming months.
- CAD-to-GDP ratio for the last quarter of 2024-25, recorded a surplus 0.6% y/y underpinned by robust growth in net receipts in services exports and a slight narrowing of merchandise trade deficit
- The external sector still continues to face challenging months as trade deficit increased to a seven-month high of US$ 10.9bn in May. Sluggish merchandise exports and high petroleum and gold imports continue to expand the overall trade deficit
- Total foreign investments remained subdued in April and May, however FDI inflow showed signs of recovery in first two months of 2024-25. There was a large influx of NPIs in July, amounting to US$ 5.04bn. with global investment returning to Indian equity. Overall, Forex reserves remain healthy hitting a recent high of US$ 674.9 bn as of 2nd August.
- The India government has done a credible job in reigning in the fiscal deficit post Covid with the budget estimates for 2024-25 set at 4.9%. In first four months of 2024-25, the fiscal deficit stands at 17% of the total budgeted target which is much lower than the previous year. Healthy tax and non-tax revenues, particularly dividend from RBI have contributed to the recent fiscal prudence.
- Normal monsoons are expected to improve agricultural output and lower inflationary pressures. Further, domestic consumptions should pick up especially in the rural economy. With a fairly robust domestic economy and stable macroeconomic parameters, the Indian economy looks well positioned for a decent year ahead.

02.
GLOBAL SCENARIO

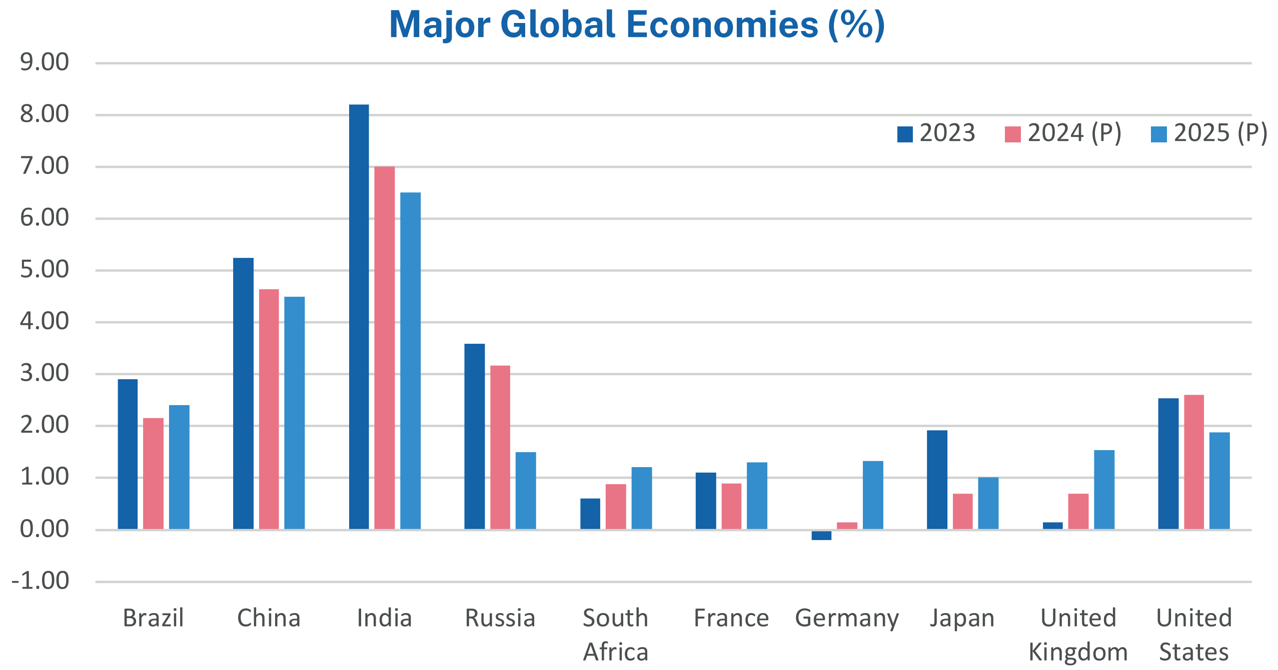
As we head towards the later part of the current calendar year, the global economy continues to show signs of relative stability and sustained recovery in the short run. After three consecutive years of decline, the global economy is expected to hold steady, as inflationary pressures are expected to cool off slightly and the global financial markets are expected to recover.

Having said that, there are still major headwinds to encounter. A worrying trend in global recovery post Covid has been the increasing vulnerability of the low income and developing economies. Low-income and developing economies are still expected to face challenges as they try to regain momentum post Covid. According to the World Bank, *by the end of this* year*, one in four developing economies will be poorer than it was on the eve of the pandemic. By 2026, countries that are home to more than 80 percent of the world's population would still be growing more slowly, on average, than they were in the decade before COVID-19.*

Along with this divergence, the global economy also faces challenges due to various geo-political conflicts coupled with trade restrictive measures taken up governments as well as trade policy uncertainty. Further, although inflationary pressures are expected to cool off a little, inflation is still expected to be sticky which would lead most of the central banks across the globe to hold their monetary easing policies in the coming months.



The above graph represents global GDP growth projections based on the World Economic Outlook published by the IMF. As can be seen in the graph, global GDP growth is expected to stabilise for the next couple of years. Growth rate for advanced economies is expected to remain stagnant with GDP growth for 2024 projected at 1.7% y/y but projected to rise in 2025 at 1.8% y/y. As for the emerging / developing economies, growth rate is expected to take a slight dip to 4.3% y/y in 2024 and 2025.



Among the developed economies, after a slow start to the year, economic activity in the US is expected recover in the near future backed by government spending and robust consumptions. However, with fiscal deficit inching ever higher and inflationary pressure still above comfort levels, the US might face a situation of a tightening fiscal policy and a delay in the easing of monetary policy. The IMF in its latest World Economic Outlook publication, projected growth for US was revised downward to 2.6% y/y (0.1% lower than April publication) reflecting slower than expected start to the year. The GDP projection for Japan for 2024 is revised downward to 0.7%, 0.2% lower than April publication, due to supply disruptions and weak private investment. As for the Euro Area, activity seems to have bottomed out. Considering recovery in services sector and higher than expected exports, IMF has revised GDP growth for 2024 to 0.9% y/y (0.1% higher than April publication).

In respect of the emerging economies, China is expected to recover but at a slower pace as the real estate sector still weighs down on the economy. A rebound in private consumption and strong exports is expected to drive China's growth. The IMF has revised the GDP growth projections upward to 5.0% and 4.5% in 2024 and 2025 respectively (0.4% higher than April publication for both year). For India, IMF has upgraded its growth projection for 2024 to 7% from April's projection of 6.8% underpinned by improvement in private consumption. Growth in both Brazil and Mexico is expected to cool off as Brazil witnessed a weaker agricultural harvest in the current year with Mexico witnessing decline in domestic demand.

While the current quarter has not seen any significant change in the expected global GDP growth rates in the next couple of years, there are certain notable economies where the expectations about GDP growth in next 2 years have changed recently. These primarily include China, Spain & UK with a positive change while Saudi Arabia, Russia & Japan expected to grow at lower rate as compared to expectation in the last quarter. Below table summarises the change in expectations -

	Y/Y Growth Projections in July 2024 (%)		Difference from April 2024 Projections (%)	
	2024	2025	2024	2025
World Output	3.2	3.3	0	0.1
Spain	2.4	2.1	0.5	0
China	5	4.5	0.4	0.4
United Kingdom	0.7	1.5	0.2	0
India	7	6.5	0.2	0
Japan	0.7	1	-0.2	0
Russia	3.2	1.5	0	-0.3
Saudi Arabia	3.2	1.5	0	-0.3

As we witness a credible improvement in the overall global activity post Covid, the global economy still has hurdles to overcome to reach growth rates of pre-pandemic levels. With persistent global uncertainties in the sphere of geopolitics, trade and monetary policies as well as commodity prices, the smooth transition towards normalcy is still some distance away.

Data Sources

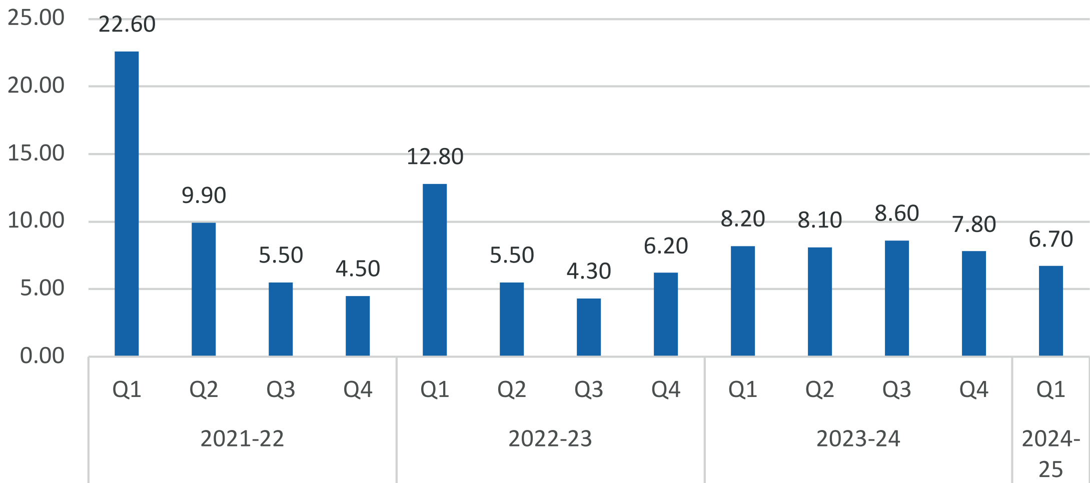
World Economic Forum, International Monetary Fund | Global Economic Prospects, World Bank

03. INDIA GDP

The Indian economy has been resilient throughout the previous financial year and as seen in the above section, with strong macroeconomic fundamentals in place, it has emerged as one the fastest growing large economies in the world.

According to the latest data released by the Ministry of Statistics and Program Implementation (MOSPI), the Indian economy grew at 6.7% y/y in Q1 of 2024-25, its lowest in the last five quarters. This has been the most sluggish start to financial year (2024-25) as compared to the Q1 growth rates of previous three years as shown in the graph below.

Quarterly GDP Growth Rates (%)

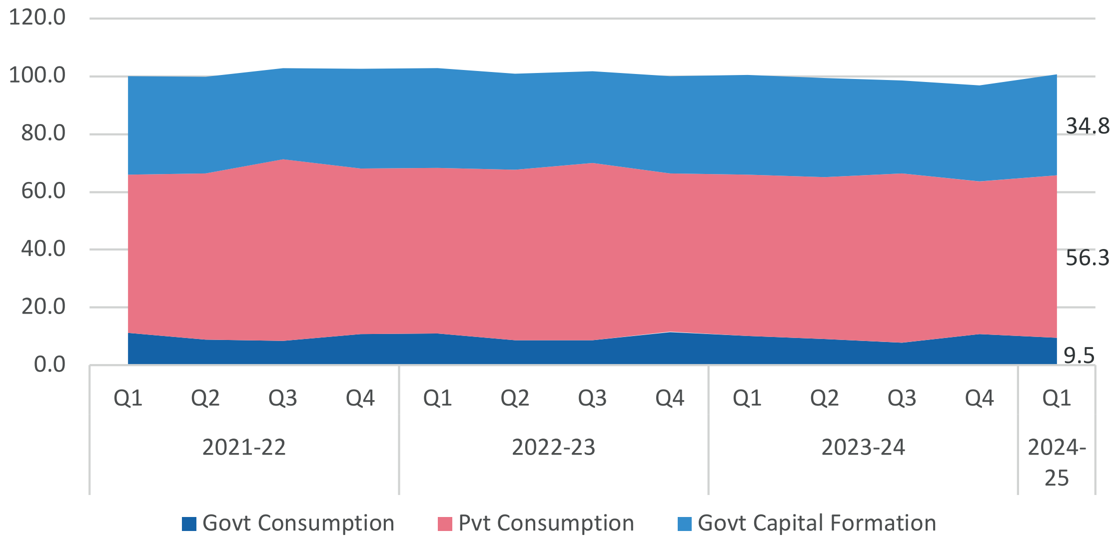


The decline in growth rate was mainly undermined by the subdued performance of the primary sector, mainly the agricultural sector. Unpredictable monsoon season coupled with less than expected monsoon rains in the initial months of this financial year significantly affected the crop output. The primary sector grew by meagre 2.7% y/y in Q1 of 2024-25 as compared to 4.2% y/y in Q1 of 2023-24. With normal monsoons expected during the remainder of the year, agricultural output is expected to pick up which should also support rural spending in the coming quarters. The secondary sector on the other hand, reflects a robust performance in Q1 of 2024-25 growing at 8.4% y/y as compared to 5.9% y/y growth in Q1 of 2023-24. Manufacturing sector grew at 7% in Q1 of 2024-25 as compared to 5% in Q1 of 2023-24 with Electricity & Construction segments' respective growth rates coming in at 10.4% & 10.5% y/y in Q1 of 2024-25 as compared to 3.2% & 8.6% y/y in Q1 of the previous year. These factors bode well for remainder of the year as the indicate robust economic activity in the domestic market. The tertiary sector also experienced subdued growth of 7.2% y/y in Q1 of 2024-25 as compared to 10.7% in Q1 of the previous year. The decline was mainly in the financial, real estate and professional service and trade, hotels and transport services segment, seemingly a result of subdued demand in the global economy affecting the services exports in recent months.

On the expenditure side, there was a downturn in government consumption, with the % share to GDP declining to 9.5% in Q1 of 2024-25 as compared to 10.2% in Q1 of 2023-24. The reduction in the government expenditure may also be attributed to the recently concluded general elections, restricting the budgeted funds in various schemes & programs till the new government takes charge. In terms of growth rates, gross fixed capital formation remained strong at 7.5% y/y in Q1 of 2024-25 despite uncertainties in the global and domestic market while private consumption was resilient, growing at 7.4% y/y in Q1 of 2024-25, a seven quarter high. This increase in the private consumption growth numbers certainly presents an optimistic view for the economy in the near term.

Normal monsoons expected this year will greatly help agricultural output which is expected to decline food inflationary pressures as well as improve the overall consumption appetite, especially in the rural economy. With manufacturing sector largely holding firm and services exports expected to remain strong, the Indian economy is poised to have yet another fruitful year.

Share of Expenditure Components in GDP (%)

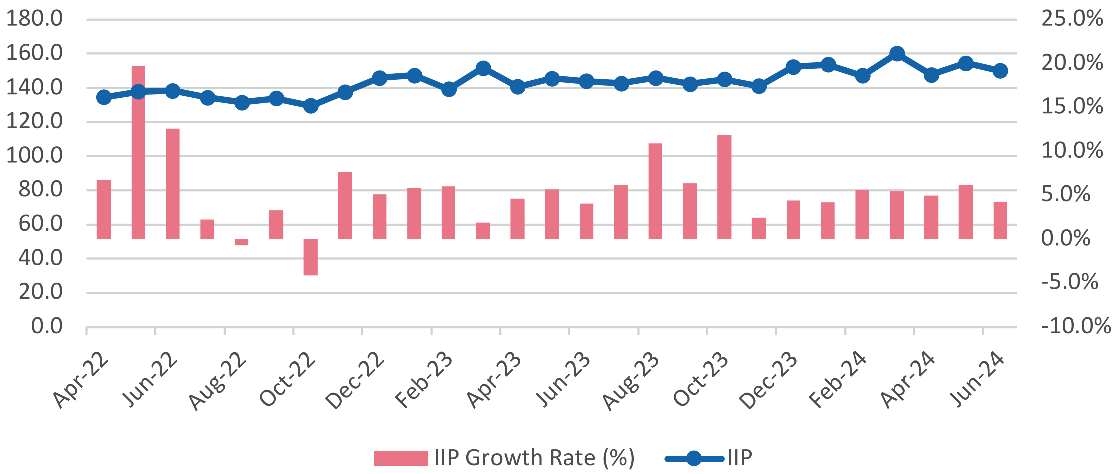


Looking at the manufacturing sector, growth in the Index of Industrial Production (IIP) in first quarter of 2024-25 fared similar to for the performance last year. Year-on-year growth rates of April, May & June 2024 were 4.98%, 6.18% & 4.24% respectively, are very similar to growth rates of 4.61%, 5.66% & 4.05% in the same months of 2023.

The fairly consistent performance in IIP has been underpinned by a robust performance by the three main sectors-mining, manufacturing and electricity. Electricity production has been the cornerstone for IIP in recent months with double digit growths of 10.24% y/y and 13.74% y/y in April 2024 and May 2024 respectively. Mining has been largely consistent since January 2024 recording double digit growth of 10.3% y/y in June 2024. The Manufacturing sector has largely remained ranged with y/y growth rates of 3.89%, 4.96% and 2.61% in April 2024, May 2024 and June 2024 respectively. Within the manufacturing sector, manufacturing of electric equipment has been the strongest performer growing at 14.77%y/y in May 2024 and 28.4% y/y in June. The electric equipment has experienced a V-shaped recovery post Covid with robust growth in the exports as well as pivotal role in renewable energy segment.

Looking at the use-based parameters, primary goods growing at 7+% rate in April & May 2024 and consumer durables with a double-digit growth of 12.3% in May 2024, have been the consistent contributors. Backed by demand for premium products and improved consumer sentiment, the consumer durable segment is expected to grow further in the coming months. Overall IIP in the last three months have depicted a healthy side of the manufacturing sector.

Index of Industrial Production



The Purchasing Managers Index (PMI) for manufacturing and services continue to reflect positive sentiment. The HSBC Indian Manufacturing PMI for the month of June and July came in at 58.3 and 58.1 respectively. There was a slight dip in August manufacturing PMI at 57.5. The index figures for the said months of last year were 58.3, 58.5 and 57.7 respectively - fairly similar to the figures this year. The rise in manufacturing PMI in June and July was mainly underlined by a surge in the consumer sector along with intermediate and investment goods, spurred by underlying demand and higher export volumes. The slight decline in August manufacturing PMI, a three-month low, was mainly due to slightly sluggish exports during the month, largely due to lacklustre global demand leading to decline in new orders.

Services PMI for June, July and August 2024 came in at 60.5, 60.3 and 60.4 respectively. The services sector has benefitted from strong orders in both the domestic as well as international market primarily because of diversity in regions. This has also been reflected in the overall rise in payrolls in the services sector.

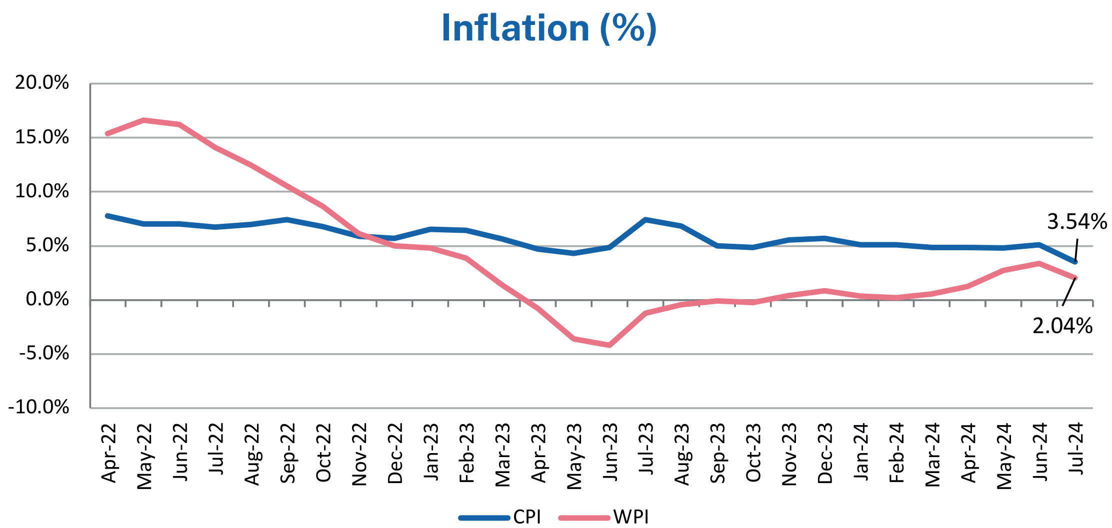
Data Sources

Ministry of Statistics and Programme Implementation | S&P Global Purchasing Managers Index | Ministry of Commerce & Industry

04.

INFLATION & MONETARY POLICY

Considering the inflationary pressures that the central banks across the globe have had to deal with, India's inflation has largely been ranged. Since reaching the highs of 7.44% y/y in July 2023, Consumer Price Index (CPI) has been on consistently downward trend and has averaged below 5% from January to July this year. CPI for the month of May came in 4.80%, predominantly led by cooling off of prices for pulses, along with decline in prices of clothing and footwear as well as housing. June saw an uptick in CPI coming in at 5.08%, a 4-month high, mainly driven by higher food inflation rising to 9.55% y/y in June as compared to 4.55% y/y in May. The latest figures for July indicate CPI easing to 3.54% y/y which is the lowest in nearly five years. This is also the first time in long period wherein the CPI is actually below the 4% medium-term CPI target set by the RBI – primarily on account of deceleration in prices of Fuel & Light.



Food inflation has been sticky in initial months and this has been the main contributor to CPI growth in these months. Within this parameter, vegetable inflation has been a major cause of worry in recent months reaching peaks of 27.4% in May 2024 and 29.3% in June 2024. Price for tomatoes, onions and potatoes have remained elevated. Even with headline CPI dipping in first quarter, food inflation remained high with urban household facing the pinch in earlier months of this quarter and then receding to 5.42% y/y in July 2023, a 13-month low. The south-west monsoon rains have been on expected lines this year, providing relief to agricultural output. The prices of cereals, fruits, vegetables and pulses fell in the month of July. It will be interesting to see however if this dip is due to the base effect of a very high base last year or the beginning of a continuing downtrend in the coming months. There was also a decline in clothing and footwear prices in July. Core inflation, which excludes the volatile food and fuel prices, remained ranged at 3.3% y/y in July.

With a similar trend to CPI, the Wholesale Price Index (WPI) spiked to 3.36% y/y in June 2024 as compared to 2.74% in May 2024 and 2.04% in July 2024. WPI of 2.74% y/y in May was also a significant hike from the previous month's 1.26% y/y. The recent uptick in WPI can be attributed to the firming up of prices for food articles and products, primary articles and fluctuating petroleum and power prices.

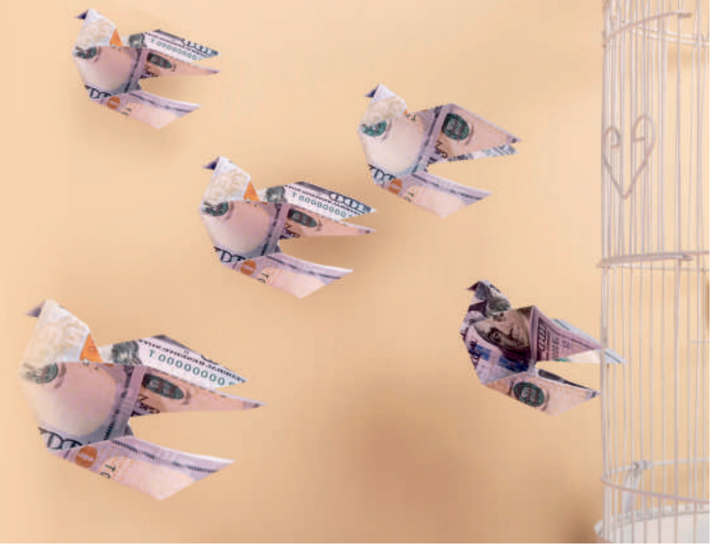
The Monetary Policy Committee in its latest meeting on August 08, 2024, kept the Bank Rate and Policy Repo Rate unchanged at 6.75% and 6.5% respectively. In its press release, the RBI stated that overall food inflation has remained sticky while core and fuel inflation has moderated in recent months. It further stated that although headline inflation is expected to moderate in second quarter due to favourable base effect this trend will reverse in the third quarter. With domestic growth holding strong on account of consumption and investment demand, the MPC decided to stay the course for now and monitor inflationary pressures in the coming months.

Data Sources

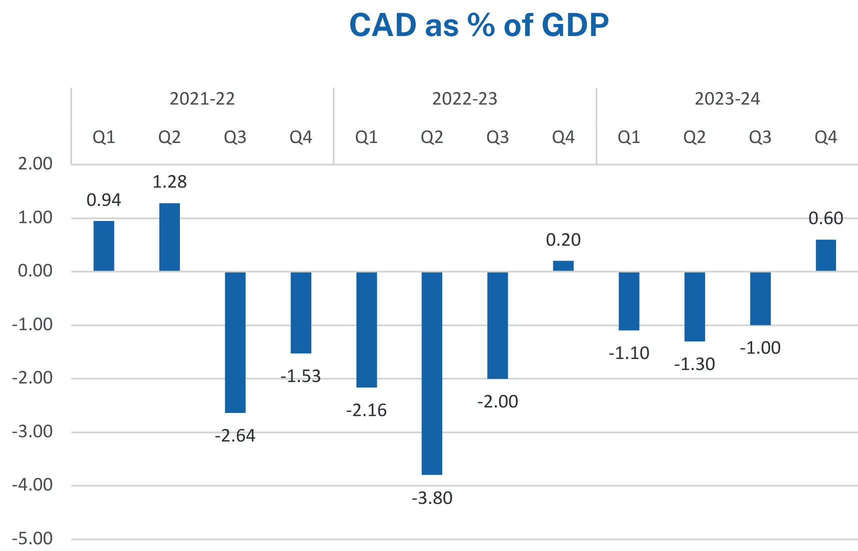
Reserve Bank of India | Office of the Economic Adviser, Ministry of Commerce & Industry

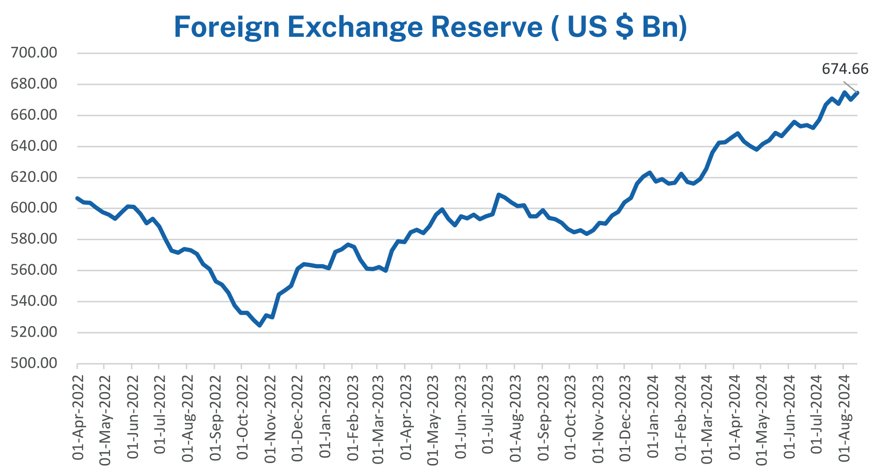
05.

EXTERNAL SECTOR



In the face of a relatively sluggish global economy, India's external sector has shown great resilience and in fact, has strengthened in recent months. One of the key indicators of better current account performance has been the fact that the CAD/GDP ratio depicted a surplus of 0.6% in Q4 of 2023-24. This turnaround after registering deficit in the first three quarters of 2023-24 was mainly a combination of surplus net receipts in services exports as well as the narrowing of merchandise trade deficit in Q4 of 2023-24. Net services receipts were at US$ 42.7 bn. with a growth rate of 9.2% in Q4 of 2023-24, whereas the merchandise trade deficit reduced by 2.2% to US$ 50.9 bn. in Q4 of 2023-24 as compared to US$ 52.6 bn. in Q4 of 2022-23. On an annual basis, India's current account deficit moderated to US$ 23.2 billion (0.7 per cent of GDP) during 2023-24 from US$ 67.0 billion (2.0 per cent of GDP) during the previous year on the back of a lower merchandise trade deficit.

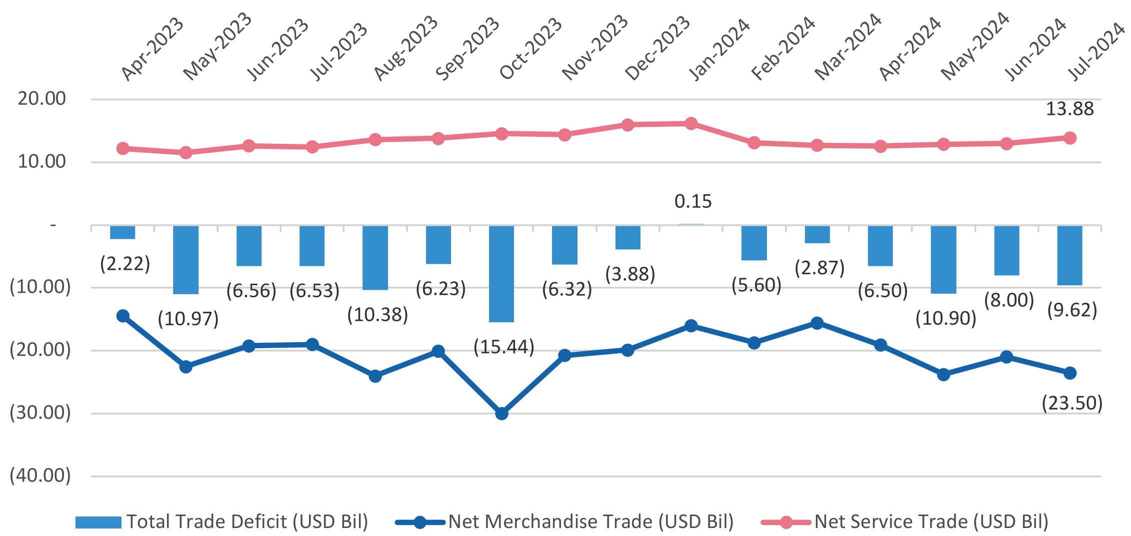




In times of tough global economic scenario, the fairly competitive external sector of India has also resulted in the credible increase of Forex reserves for India. The forex reserves stand at US$ 674.66 bn. as of 16th August 2024. Foreign currency assets which is a major contributing factor to the overall forex reserves increased by US$ 3.61 bn to US$ 591.56bn as of 16th August. Forex reserves had hit an all-time high at US$ 674.92 bn on 2nd of August 2024 staying around the mark of US$ 675 bn thereafter.

As evident from the following graph depicting the difference between the export and imports, since the final quarter of 2023-24, India's trade balance has been declining. The overall trade deficit increased to a nine-month high of (-) US$ 10.9bn in May 2024 as compared to the deficit of (-) US$6.5bn in the previous month. The months of June and July also saw high trade deficits at (-) US$8bn and (-) US$9.62bn. Exports, which saw a steady increase in the first three months of the fiscal year, declined in July to US$ 33.98bn as compared to US$ 35.20bn and US$ in 38.13bn in June 2024 and May 2024 respectively. Exports grew by 9% in May 2024 backed by sectors such as engineering goods, petroleum products, electronics, pharmaceuticals, and textiles, before this trend was reversed in July mainly attributed to a decline in exports of petroleum products down by (-) 22% y/y, chemicals down by (-) 12% y/y and gems and jewellery down by (-) 20.4% y/y.

India's Foreign Trade - Merchandise & Services

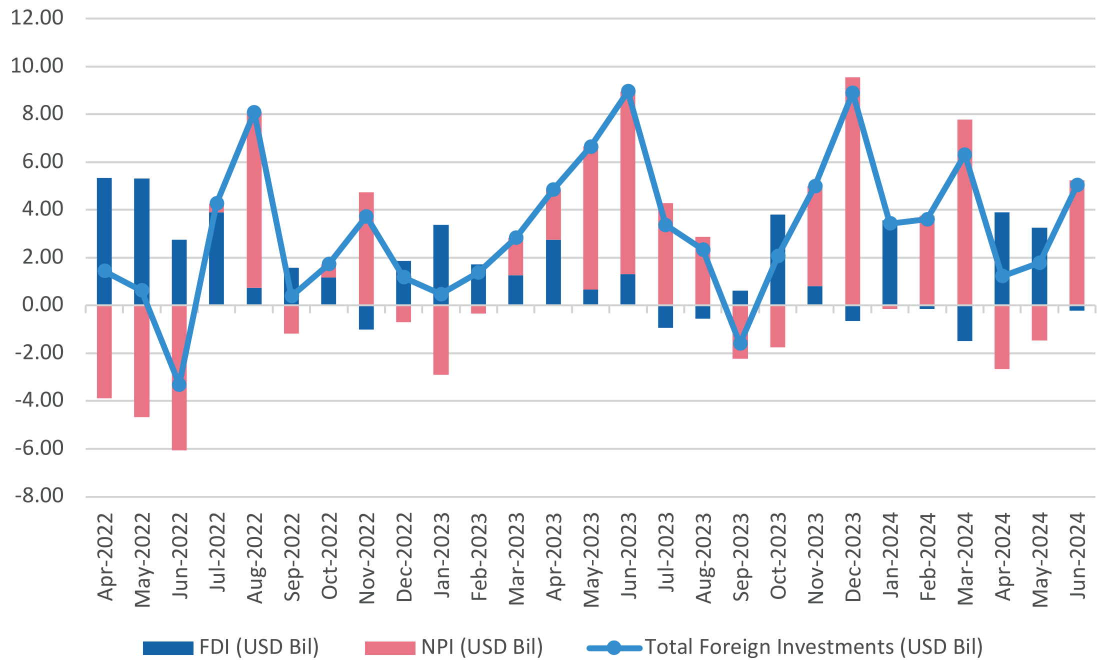


On the other hand, the Imports have been consistently high in recent months, apart from a slight dip in June 2024. The import bill has been predominantly dominated by gold and oil imports. A good sign in recent months has been the rise in non-core imports (non-oil and non-gold), which grew by 7.8% y/y in July 2024 and 7.1%y/y in June 2024. Higher non-core imports generally imply an increase in domestic demand indicating improved economic activity.

Services exports have been performing well in the last three months with net services receipts growing at 12.88% in May, 12.98% in June and 13.88% in July. Exports in services are mainly dominated by the IT and BPO services. Newer and dynamic areas such consultancy services, global capacity centres, legal and audit services and knowledge and innovation centres are expected to further boost exports in services. Although new opportunities arise, headwinds from the current geopolitical crisis, sluggish global demand and restrictive trade and monetary policy are expected create hurdles for services exports.

FDI inflows for the month of April, recovered to US$ 3.89bn after a decline of (-) US$ 1.48bn in the month of March. The improvement in FDI inflow can be attributed to decline in repatriation of capital. Net portfolio investment in April 2024, however, nosedived to (-) US$ 2.66 bn from US$ 7.79bn in the previous month and total foreign inflow declined to US$ 1.23bn as compared to US$ 6.31 bn in preceding month. In the month of May, FDI inflow remained similar to the previous month at US$ 3.25bn with the decline in FPI moderating slightly to -US$ 1.46bn. The total foreign investment came in at US$ 1.79 bn. The month of June, however, saw FDI contracting to (-) US$ 0.21 bn., whereas, NPIs witnessing a significant inflow of US$ 5.25bn.

Foreign Investment in India



The global investor largely remained bearish in recent months possibly due to factors such as the uncertainty around the results of the general elections, hawkish stance by central banks, competition from the Chinses market etc. The second half of the financial year is expected to do better. Also, most experts predict the Fed to cut interest rates in coming months. A decline in the US interest rates by the Fed, a strong domestic economy, stable corporate sector and moderate inflationary levels create a promising environment for the global investor to invest in India. The overall health of the external sector does appear robust as India has quickly transformed itself as a global player in the everchanging dynamics of global order. India stands at the precipice of being an import player in the global landscape

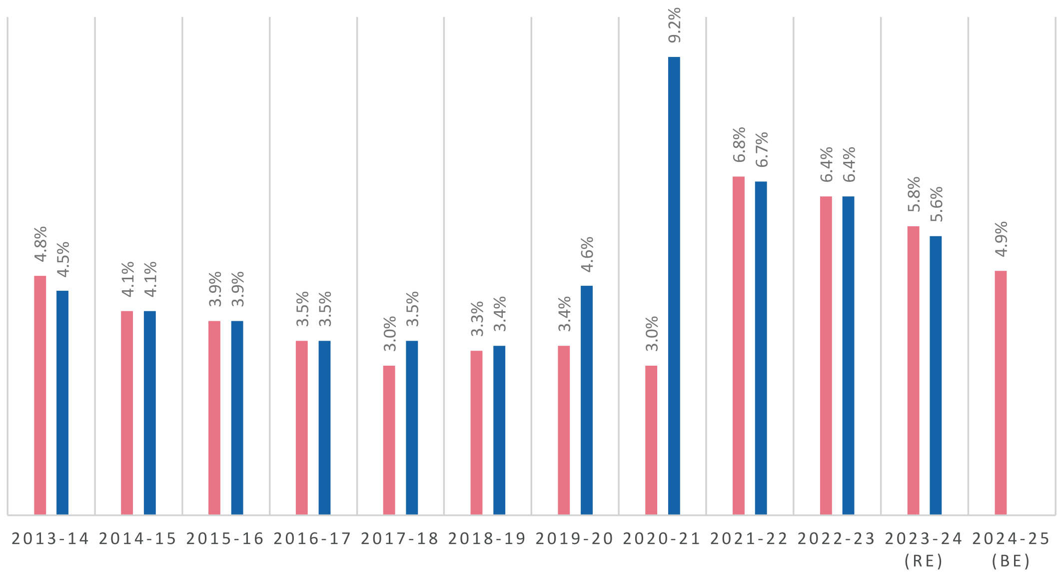
Data Sources

Ministry of Finance | Ministry of Commerce & Industry | Reserve Bank of India

06. FISCAL SCENARIO

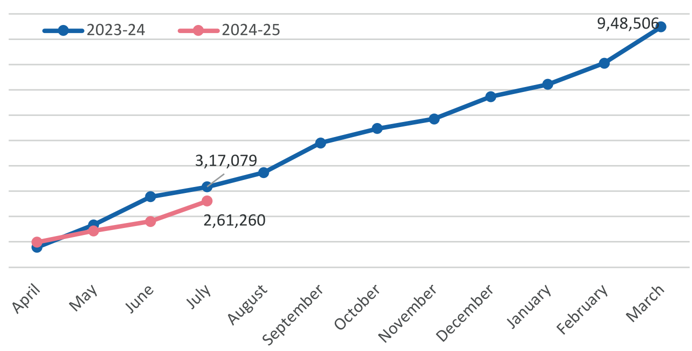
Prior to the pandemic, the Indian government had taken major strides towards fiscal prudence with fiscal deficit as % of GDP ranging around the 3-4% mark from financial years 2015-16 to 2018-19. Even the budget estimates were around the same range depicting the government's confidence towards reigning in fiscal deficit. The pandemic however, changed everything as the government had to step in to address issues facing the country. This ballooned the fiscal deficit to 9.2% y/y in 2020-21. Since then, the government has successfully managed to reduce fiscal deficit every subsequent year with the latest target in 2024-25 budget estimate of 4.9% y/y being closest to the pre pandemic levels since then.

TARGETED FISCAL DEFICIT % VS ACTUAL FISCAL DEFICIT %

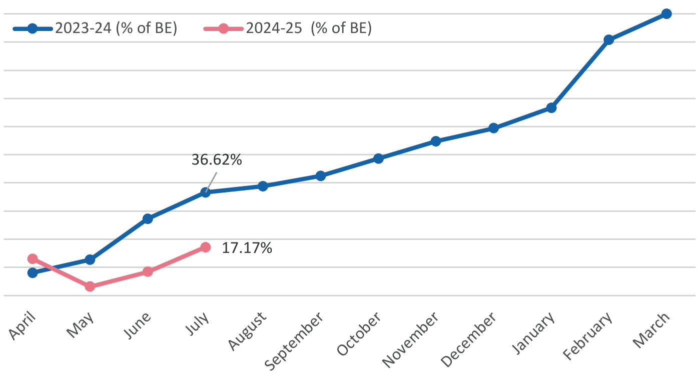


This is a credible achievement when we consider the fact that the global economy was in the doldrums and India's growth was mainly led by the domestic economy. The government has managed to walk the tight rope of inculcating growth in the domestic economy while keeping the fiscal discipline.

Cumulative Trend of Capital Expenditure (Rs. Crs)

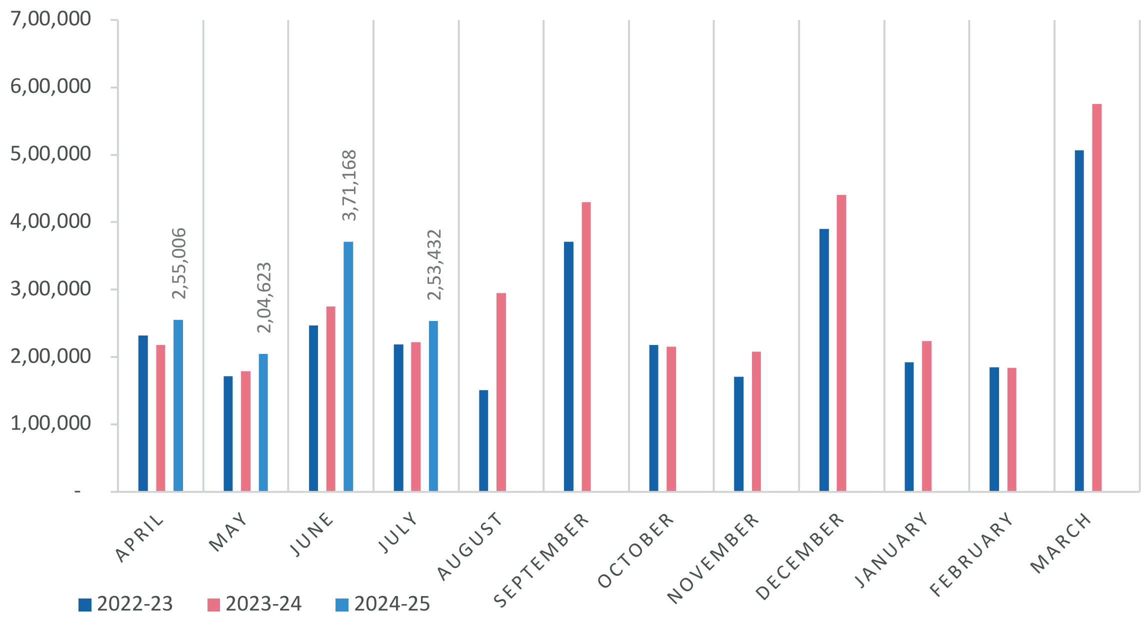


Cumulative Trend of Fiscal Deficit



Data for Q1 of 2024-25 looks promising as the fiscal deficit to GDP ratio for the part of the year is at 8.05% of the total budget estimates, marking a substantial improvement as compared to ratio of 27% in Q1 of 2023-24. Perhaps, this was on account of the elections carried out in first quarter of the financial year. However, looking at data even till 31st July, the trend seems to continue as the said ratio has risen to 17.2% as against almost double i.e. 36.6% in the same period of last year. This was achieved on account of the tax and non-tax receipts in first four months of 2024-25. Tax revenue accounted for Rs 7.15 lakh crore, while non-tax revenue contributed Rs 3.02 lakh crore, totalling to total revenue receipts Rs. 10.20 lakh crore as compared to Rs. 7.61 lakhs crore in the preceding year. Another contributing factor was the total expenditure in this period, which constituted just 27% of the yearly target, thus remaining below level of 30% seen in same period of 2023-24.

Monthly Tax Collection Revenue (in INR Crore)



Speaking of Non-Tax revenues, the amount for first four months of 2024-25 has already reached 55.3% of the annual target – perhaps similar to 59.3% share in the same period of 2023-24. A major chunk of this rise can be attributed to the Rs. 2.11 lakh crore dividend received from the RBI. In respect of the Tax Revenues, despite the apparent growth in the corporate sector, personal income tax collections have shown significant signs of improvement with more than 50% growth over the last year's figures in first fourth months. The improved tax collection can be attributed to the country's strong economic performance as well as a healthy tax compliance environment.

Data Sources

Union Budget 2024-25 | Ministry of Finance

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