नाबार्ड

DEAR

ECO THINK

Issue No. 83/ August 2024

ECONOMY

State of the Indian Economy

Highlights of Union Budget 2024-25

◉ **Total receipts other than borrowings**: ₹32.07 lakh crore.

◉ **Total expenditure**: ₹48.21 lakh crore.

◉ **Net tax receipt**: ₹25.83 lakh crore.

◉ **Fiscal deficit**: 4.9% of GDP.

◉ Government aims to reach a deficit below 4.5% next year.

◉ **Nine Budget Priorities in pursuit of 'Viksit Bharat'**: Productivity and resilience in Agriculture, Employment & Skilling, Inclusive Human Resource Development and Social Justice, Manufacturing & Services, Urban Development, Energy Security, Infrastructure, Innovation, Research & Development and, Next Generation Reforms

India's real GDP projected to grow between 6.5-7.0% in FY2025: India's Gross Domestic Product (GDP) is likely to grow at 6.5% to 7% in the current fiscal year amid global challenges which may impact exports, according to Economic Survey 2023-24 tabled in Parliament by Union Finance Minister. The anticipated growth rate for FY2025 is less than the 8.2% economic growth rate estimated for the preceding fiscal year. The RBI has forecasted that GDP growth for the fiscal year ending March 2025 will be 7.2%. "In the medium term, the Indian economy can grow at a rate of 7% plus on a sustained basis if we build on the structural reforms undertaken over the last decade. This requires a tripartite compact between the Union Government, State Governments and the private sector," the Economic Survey noted.

India's fiscal credibility improved in recent years: Fitch Ratings believes the Indian government should be able to achieve its goal of reducing the deficit below 4.5% of GDP in FY26, as the Centre has improved its fiscal credibility in recent years. Sustained fiscal consolidation that helps lower the debt-to-GDP ratio over the medium term could boost India's prospects for a rating upgrade, rating agency Fitch said. India's government debt-to-GDP is higher than that of its BBB-rated peers. "The government's record in recent years of achieving or outperforming on its budget deficit targets has improved its fiscal credibility – the deficit in FY24, at 5.6% of GDP, was well below the original target of 5.9%," the global ratings agency said in its report. Fitch said that the improved target for the current year partly reflects a large dividend (about ₹2.11 trillion) from the RBI, received in May 2024.

Debt-GDP ratio increased: The Centre's debt to GDP ratio rose to 58.2% in FY2024, as against the budget estimate of 57.2% and the revised estimate of 58.1%, according to provisional data released by the finance ministry. In FY2023, the ratio stood at 57.9%. The debt-GDP is estimated to decline to 56.8% in the FY25 budget estimate. While debt is estimated to fall in the current financial year as percentage of GDP, it will rise 7.85% to ₹185.27 trillion. The nominal GDP is estimated to grow 10.5% in FY25.

Kharif sowing keeps pace, area under key crops up: Due to normal monsoon rains in most parts of the country, sowing of kharif crops is progressing at satisfactory pace and is marginally higher than last year. At 90.46 million hectare (MH) or 80% of the normal sown area, the combined sown area of key crops – paddy, pulses, oilseeds and sugarcane — was up 2.3% on year according to latest data by the agriculture ministry. Monsoon is currently in active phase while the overall rainfall this season till 2 August 2024 has been 4.4% above the benchmark long period average or normal range. India Meteorological Department has stated that 65% of the 729 odd districts in the country have received rainfall in the range of surplus to normal range. Till 2 August 2024, the area under paddy at 27.69 MH was up 5% on year. The normal sown area of paddy in the kharif period is 40.15 MH, which means that about 69% of paddy sowing has been completed so far. Sowing of pulses (10.9%) and oilseeds (2.9%) also saw an increase because of normal to above-normal monsoon rains in key growing states of Karnataka, Maharashtra, Madhya Pradesh and Gujarat. In the southern peninsula, monsoon rainfall has been 26.7% more than the benchmark so far.

Core sector growth slows to 20-month low of 4% in June: The expansion in production of key infrastructure sectors fell to a 20-month low of 4% in June 2024, mainly due to a slowdown in growth of five of the eight industries during the month, according to data released by the commerce ministry. The core sector output had grown 6.4% in May 2024, and 8.4%

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in June 2023. In June, the five sectors that showed a decline in growth as against May were: crude oil, natural gas, refinery products, steel and electricity. In fact, the production of crude oil and natural gas contracted by 2.6% over June 2023. On a sequential basis, too, the core sector production declined by 3.2%. Typically, June witnesses a contraction in output compared to May, but the decline in 2024 (between the two months) is much higher compared to 1.7% fall seen on average in the past 13 years.

GST collections up 10.3% on year: The gross GST collections during July rose 10.3% on year to ₹1.82 trillion, as per the data released by the finance ministry. In June 2024, the collections, which stood at ₹1.74 trillion, had grown only 8% on year, at the slowest rate in three years. Refunds issued during July 2024 stood at ₹16,283 crore and thus the net collections for the month came in at ₹1.66 trillion, up 14.4% from the previous year. Further, gross collections from domestic transactions in July rose 8.9% on year to ₹1.34 trillion, while from imports, it soared 14.2% to ₹48,039 crore. For April-July 2024, the gross collections stood at ₹7.39 trillion, up 10.2% on year; and net collections at ₹6.56 trillion, 11% more than the same period of FY2024.

India's IIP records a growth of 5.9% in May 2024: The IIP growth rate for the month of May 2024 over the corresponding period of previous year is 5.9%. The IIP growth rate in May 2023 was 5.7%. The growth rates of the three sectors, Mining, Manufacturing and Electricity for the month of May 2024 over May 2023 are 6.6%, 4.6% and 13.7% respectively. Within the manufacturing sector, the growth rate of the top three positive contributors to the growth of IIP for the month of May 2024 are – "Manufacture of basic metals" (7.8%), "Manufacture of pharmaceuticals, medicinal chemical and botanical products" (7.5%), and "Manufacture of electrical equipment" (14.7%).

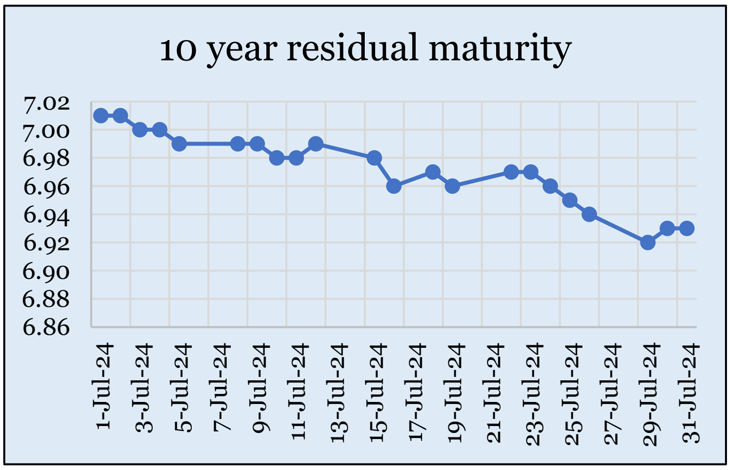
Inflation Outlook

India's wholesale inflation rose to 16-month high of 3.36% in June: India's wholesale price index (WPI)-based inflation for the month of June 2024 accelerated to a 16-month high of 3.36% primarily due to increase in prices of food articles, manufacture of food products, crude petroleum & natural gas, mineral oils, other manufacturing etc, as per the provisional data released by the Ministry of Commerce & Industry. In May 2024, WPI inflation was at 2.61%, driven by costlier food articles. Positive rate of inflation in June 2024 is primarily due to increase in prices of food articles, manufacture of food products, crude petroleum & natural gas, mineral oils, other manufacturing etc. Inflation for food articles stood at 10.87% in June 2024 as compared to 9.82% in May 2024. The inflation rate for the primary articles came in at 8.80% from 7.2% in May 2024. The fuel and power inflation were at 1.03% in June 2024 as against 1.35% in May 2024. And manufactured products inflation stood at 1.43% in June 2024.

CPI, CPI-AL, CPI-RL: India's retail inflation rose to a four-month high of 5.08% in June on higher food costs Food inflation, which accounts for around half the overall CPI basket, rose to 9.4% in June 2024 from 8.69% in May 2024 and 4.55 % in June 2023. Rural inflation spiked to 5.66% from 5.3% a month ago, while urban consumers faced a price rise of 4.4% compared with 4.2% in May 2024. However, urban India faced a higher food inflation of 9.55% while it was 9.2% for their rural peers. The year-on-year inflation rates based on CPI-AL (Agricultural Labourers) and CPI – RL (Rural Labourers) for this month were recorded at 7.02% and 7.04%, compared to 6.31% and 6.16% in June 2023. The corresponding figures for May 2024 were 7.00% for CPI-AL and 7.02% for CPI-RL.

Interest Rate Outlook

Bond Yield Movement: Government security (G-secs) yields continued their falling streak for the second consecutive month, across the maturity spectrum. Yields fell to significantly low levels. 1-year G-sec yields fell seven basis points (bps) to 6.91%, 3-year yields fell 11 bps, settling at 6.91%. G-sec yields of 5-year maturity period saw a steep 15 bps decline, to 6.86%. 10-year G-sec yields dipped four bps, to 6.96% in July 2024.



Source: CMIE

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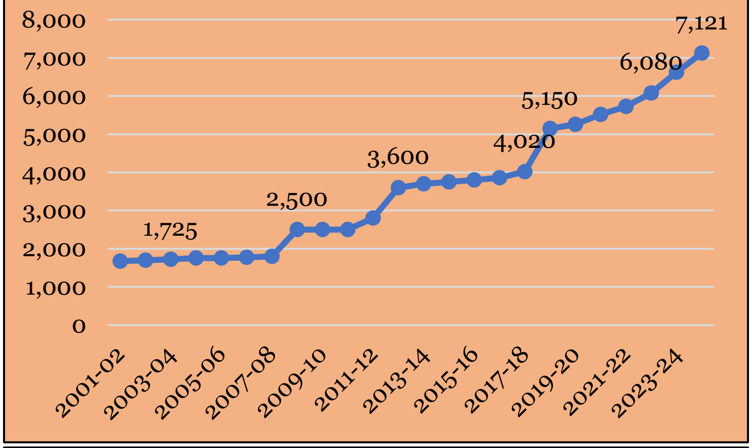
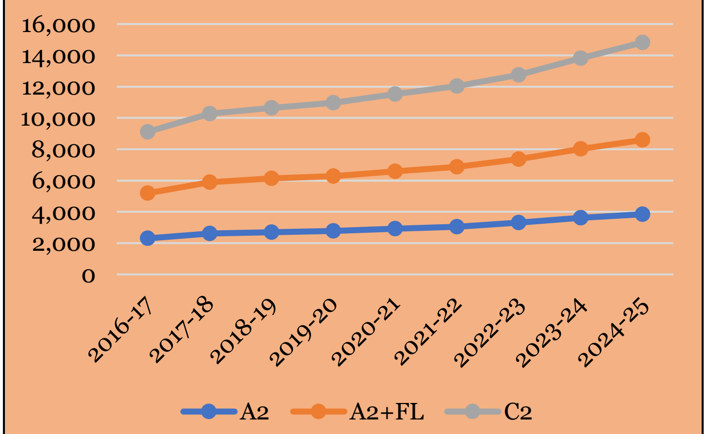
Dashboard on Agricultural Commodity: Cotton

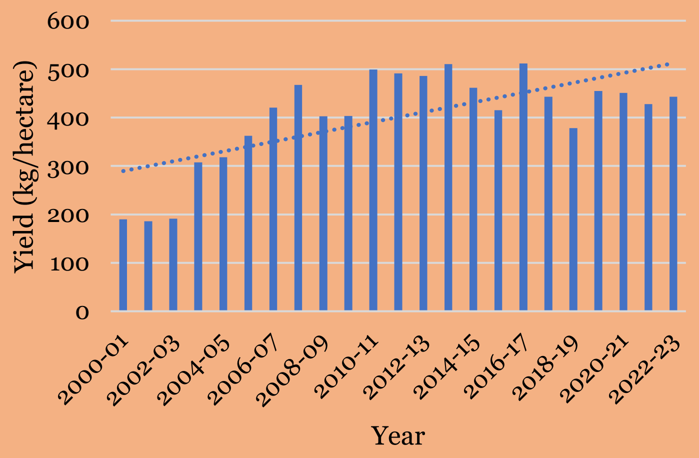
Minimum Support Price (Rs. Per Quintal)



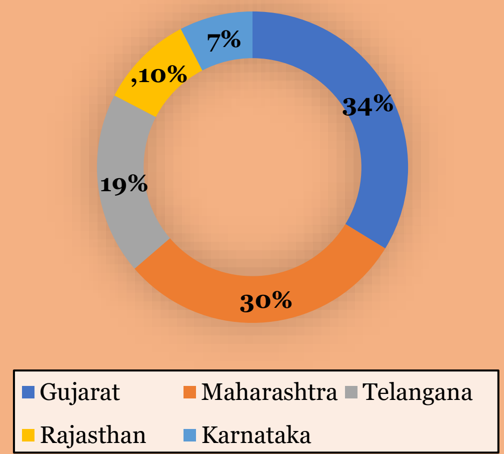
Cost of Production (Rs/Quintal)



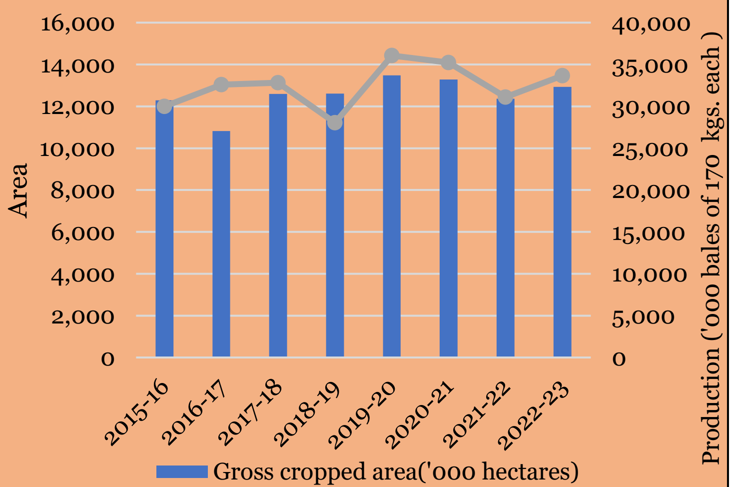
Cotton Yield (kg/hectare)



Top 5 Cotton Producing States



Cotton:Area and Production



Top 5 Cotton producing countries

1.China
2.India
3.Brazil
4.USA
5.Pakistan

Even though India's production ranked second in the last two years, the nation possesses more areas to cultivate cotton than China does.

Sources: CMIE, Unified Portal for Agricultural Satistics-MOAFW

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Report THINK

Global Economic Prospects Report 2024: The World Bank Group released its Global Economic Prospects Report in June 2024. The report offers a cautiously optimistic outlook. While the global economy is showing signs of stabilising in 2024, growth remains subdued compared to pre-pandemic levels. Continued global cooperation and effective policy measures are crucial to navigating the current challenges and achieving sustainable economic growth for all.

Key findings of the report:

Global situation: For the first time in three years, the global economy is showing signs of stabilisation in 2024. Globally, GDP growth is now anticipated to be 2.6% for 2024-25. The report forecasts a slower moderation of global inflation averaging 3.5% this year. The global outlook remains subdued due to factors such as geopolitical tensions, trade fragmentation, higher interest rates, and climate-related disasters, despite some near-term improvements.

India: The country's growth rate for FY24 is estimated at 8.2%, driven by its industrial and services sectors, which have offset a slowdown in agricultural production caused by monsoon disruptions. The report also states that some large EMDEs, such as India, are expected to see continued solid per capita growth. In India, the fiscal deficit relative to GDP is projected to decrease due to increased revenues from a broadened tax base. India is predicted to remain the fastest-growing major economy globally, with a projected GDP growth rate of 6.6% for FY25.

South Asian Region: In the South Asian region, GDP growth is projected to decrease from 6.6% in 2023 to 6.2% in 2024, largely due to a slowdown in India from its high growth rates in recent years. Other economies such as Bangladesh, are expected to maintain growth, though at a slower pace. Pakistan and Sri Lanka are expected to see strengthened economic activities. The report noted that per capita income growth in the South Asian region is expected to decrease from 5.6% in 2023 to 5.1% in 2024-25, then slightly rise to 5.2% in 2026.

Risks associated to the Global Economy:

Higher Interest Rates and Weaker Risk Appetite: Persistently high inflation erodes the purchasing power of consumers and discourages spending. Higher interest rates, while necessary to control inflation, can lead to slower economic growth and job losses.

Proliferation of Armed Conflicts and Geopolitical tensions: The report highlights an increase in the number of armed conflicts and heightened tensions between countries. These can lead to loss of life, destruction of infrastructure, and economic instability. Also, ongoing conflicts in the middle east could disrupt oil supply and push up prices.

Natural disasters: Climate change and global warming is increasing the frequency and intensity of natural disasters like floods, droughts, and hurricanes across the world. These disasters cause widespread damage to infrastructure, homes, and businesses. They also disrupt agricultural production, leading to food shortages and price hikes. Rebuilding after disasters puts a strain on government finances.

Elevated Debt: Many emerging market and developing economy (EMDE) struggle with high debt burdens, weak growth prospects, and downside risks. International cooperation is crucial to address debt crises and prevent economic instability.

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