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ECO THINK
Issue No. 85/ October 2024

ECONOMY

State of the Indian Economy

GDP growth may surpass 7.2% in FY25: As per MoSPI, India's economic growth could touch 7.2% in FY25, or even surpass it. The Reserve Bank of India (RBI) has projected India's GDP to grow 7.2% in the current financial year. But due to slower than projected growth (7.1% in Q1FY25), economists say the full year growth could be around 7% or slightly lower. The International Monetary Fund (IMF) and the World Bank (WB) have projected the country's GDP growth at 7% in FY25.

India's manufacturing PMI drops to eight-month low of 56.5 in September: As per the data released by S&P Global, India's manufacturing activity fell to an eight-month low of 56.5 in September, in comparison to 57.5 in August. The September data revealed a mild setback in manufacturing growth across India with rates of expansion in factory production and sales receding for the third straight month. However, despite this loss of growth momentum, net employment and quantities of purchases rose, while business confidence was broadly aligned with its long-run average.

Government will forgo gold bond borrowing to rein in fiscal deficit: The Centre is unlikely to borrow a planned ₹15,000 crore, on net basis, through sovereign gold bonds (SGBs), in the current financial year, giving a potential 0.05% downside benefit to the fiscal deficit target of 4.94% of GDP. It may also permanently cease to use SGBs for borrowing purpose. The move is prompted by relatively high cost of funds raised via this route. The Centre will formally decide on the discontinuation of borrowings through SGBs in a meeting with the Reserve Bank of India officials.

Government is targeting ₹1 lakh crore in seafood exports by 2029: As per the Ministry of Fisheries, Animal Husbandry and Dairying, the government will take steps to fortify the fishing sector's foundation over the next five years, with a particular focus on raising annual seafood exports to ₹1 lakh crore from roughly ₹60,000 crore in the previous fiscal year. The minister highlighted that the government is providing one lakh transponders to fishermen, which will help them in maintaining contacts with their families and also the local administration when they are in deep sea undertaking fishing.

Retail inflation inches up slightly to 3.65% in August: As per NSO, retail inflation in India edged up to 3.65% in August, a slight increase from 3.6% in July, but remained within the Reserve Bank of India's (RBI) target of 4%. This marked a significant drop from the 6.83% recorded in August 2023. Inflation in the food basket also rose marginally to 5.66% in August from 5.42% in July. ICRA estimates the headline CPI inflation to rise to 4.8% in September 2024 from 3.7% in August 2024, led by a sharp uptick in the food and beverages inflation print amid the fading of the elevated base. It also stated that notwithstanding the anticipated hardening in September 2024, the average CPI inflation will undershoot the MPC's Q2 FY2025 estimate of 4.6%.

Centre removes Minimum Export Price thresholds on onion and basmati rice to boost exports: The Indian government has removed minimum export price (MEP) thresholds for onion and basmati rice to boost exports and increase farmers' income. The move also includes a reduction in the export duty on onion from 40% to 20%, effective September 14. The higher duty had been imposed on May 4. The Agricultural and Processed Food Products Export Development Authority (APEDA) has been instructed to implement this decision immediately and to monitor export contracts to prevent unrealistic pricing.

GST collections grow 6.5% YoY for September at ₹1.73 lakh cr: GST collections for the month of September grew 6.5% year-on-year at ₹1.73 lakh crore while it witnessed a dip compared to ₹1.74 lakh crore in August 2024. Domestic Gross Revenue in September grew by 10.4% at ₹1.27 lakh crore. The CGST collections rose to ₹31,422 crore, while SGST collections increased to ₹39,283 crore. IGST, which includes revenues from imports, surged to ₹90,594 crore, and cess collections amounted to ₹11,941 crore. The gross GST revenue from imports in

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September 2024 stood at ₹45,390 crore, up by 6.8% compared to ₹42,026 crore in September 2023. The IGST collected on imports alone amounted to ₹44,507 crore, indicating an increase in import activities.

Trade deficit surges to 10-month high of $29.7-billion: India's merchandise trade deficit jumped to its highest in 10 months to $29.6 billion in August, as exports shrank by a steep 9.3% on year, even as import growth too slowed to 3.3%. The contraction in export shipments was the sharpest in any month since July 2023, when the slump was 10%. In August last year, goods exports had grown 3.5%. However, exports dropped to $34.71 billion in August this year, from $38.28 billion in the year ago month. The drop of $3.57 billion in overall exports on an annual basis can be entirely attributed to 37% fall in value of petroleum exports to $5.9 billion from $9.5 billion.

Food grains output at 332.2 MT for 2023-24: The country's food grain production rose marginally to 332.2 million tonnne (MT) in the 2023-24 crop year (July-June) from 329.68 MT, because of rise in rice and wheat output, as per the data released by the agriculture ministry. Rice and wheat production rose by 1.52% and 2.47% to 137.82 MT and 113.29 MT respectively in 2023-24 compared to previous year. However, pulses output dropped by 6.94% to 24.24 MT, mainly because of a 10% decline in chana to 11.03 MT on year.

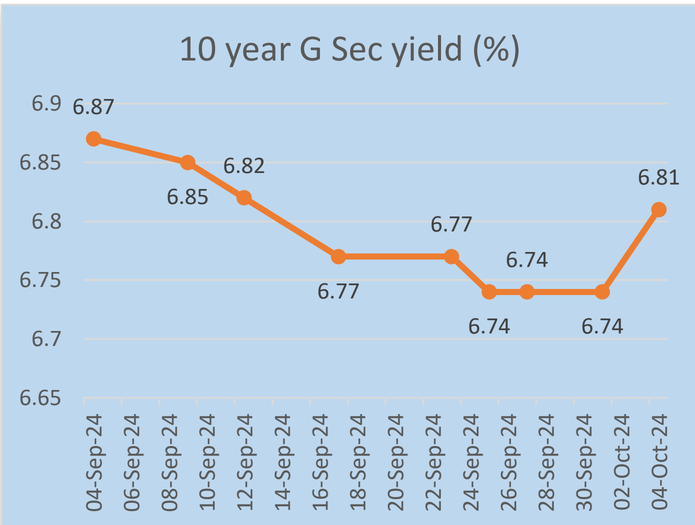
Inflation Outlook

India's WPI fell to 4-month low of 1.31% in August – India's wholesale price index (WPI)-based inflation for the month of August softened to 1.31 per cent on an annual basis in comparison to 2.04 per cent in July, showed the provisional data released by the Ministry of Commerce & Industry. This was primarily due to a reduction in the prices of manufactured products and food items. In June, WPI inflation rose to 3.36 per cent, and it was at 2.61 per cent in May. The month over month change in WPI for the month of August 2024 stood at (-)0.45 per cent as compared to July 2024. The rate of inflation based on WPI Food Index decreased from 3.55 per cent in July 2024 to 3.26 per cent in August 2024.

Interest Rate Outlook

The Federal Reserve lowered interest rates for the first time in four years: The Federal Reserve lowered interest rates by 50 basis points, easing monetary policy for the first time in four years due to progress on the Fed's dual mandate. A Fed rate cut often results in a weakening of the US dollar as investors move their money to higher-yielding economies like India. This may cause the Indian Rupee (INR) to appreciate against the US dollar. Meanwhile, Indian investors are closely watching the decision as it is expected to shape the market trend.

India's 10-year bond yield hits 3-week high: Indian government bond yields rose in early trade tracking a surge in oil prices and U.S. yields. The benchmark 10-year yield peaked to 6.81 % as on 4th October 2024, the highest since 13th Sept. 2024. Local bond yields have been tracking global factors and the sentiment has taken a hit due to geopolitical conflicts. Oil prices were steady after a 5% surge overnight, with all eyes on key producing countries in the Middle East amid mounting concerns that the regional conflict could pose a threat to global crude flows. Oil prices affect domestic retail inflation as India is one of the largest importers of the commodity.



Source: CMIE Economic Outlook

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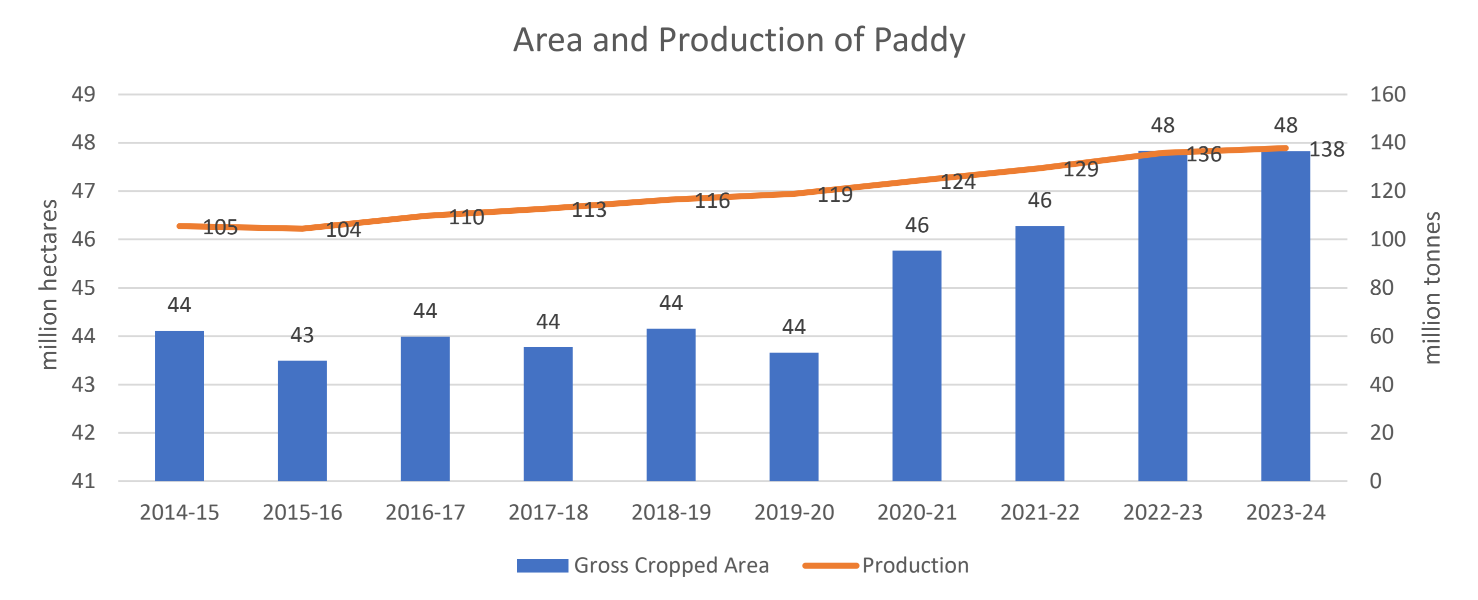
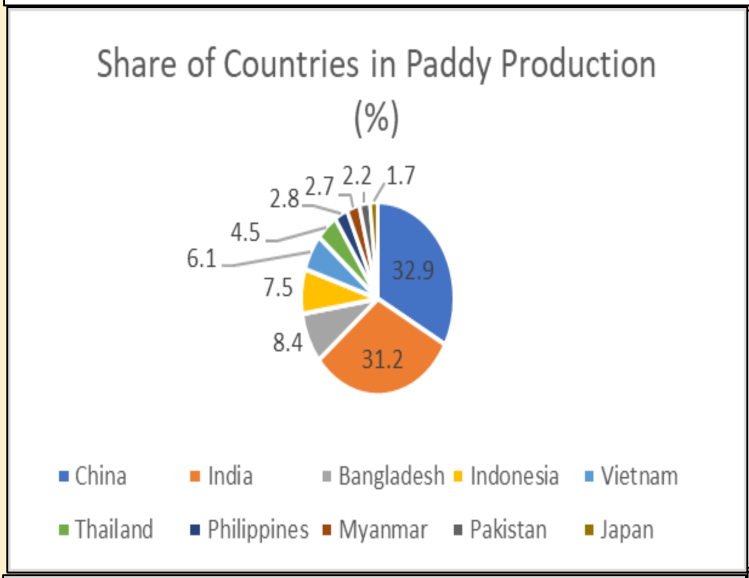
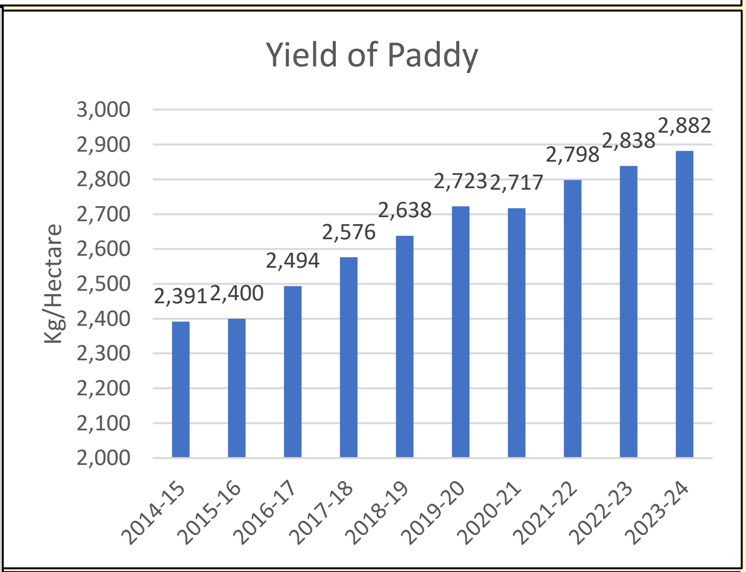
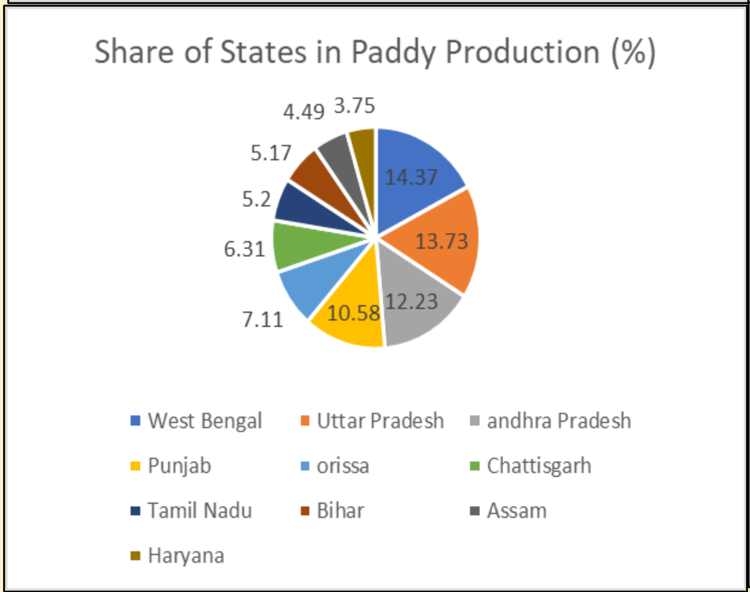
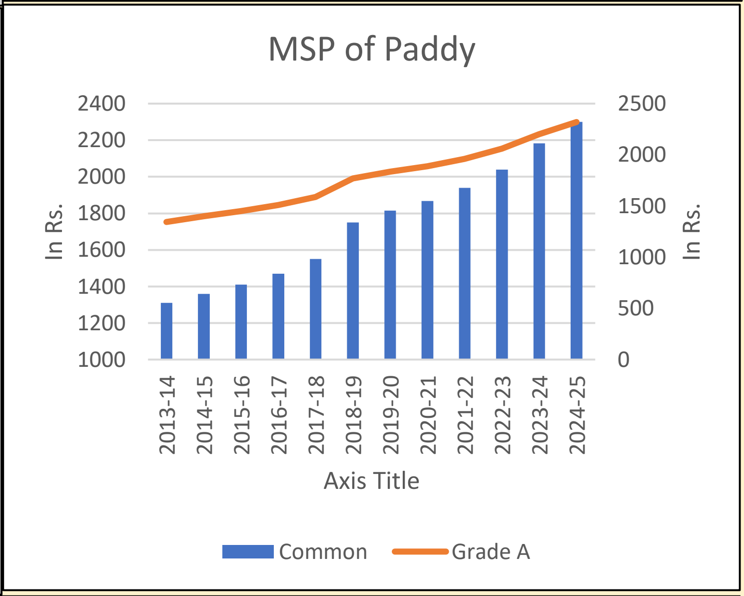
Dashboard on Agricultural Commodity: Paddy











Source: CMIE, DoF & PD, PIB, APEDA

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Report Think

The International Monetary Fund (IMF) released its annual External Sector Report in July 2024. The report aims to analyse and address the possible policy spillover effect of large countries on global stability and macroeconomic conditions.

Highlights of the report are as under:

A. Global Assessment

1. Post Covid-19, most of the advanced economies followed a tight monetary policy to contain the mounting inflationary pressure. This led to continued strengthening of the US dollar. This combined with low-interest rate differentials, subdued growth prospects, and geopolitical uncertainties, led to a decline in net capital inflows to the developing economies till 2023.

2. Although there are risk factors such as global spillovers from a prolonged real estate slowdown in China, and renewed commodity price spikes amid regional conflicts, over the medium term, the global current account balance is projected to continue narrowing, as current account deficit countries embark on fiscal consolidation and commodity prices moderate.

3. In 2023, the largest debtor economy remains the United States, whose net international investment position deteriorated from (–)61 percent of GDP in 2022 to (–)71 percent in 2023. Other large debtor economies include Brazil, France, and India, while the largest creditor economies remain China, Germany, Hong Kong Special Administrative Region, and Japan.

B. India's External Assessment

1. **Current Account (CA)**: Backed by improving terms of trade and fiscal consolidation, India's CA deficit is estimated to have narrowed to about 0.8 percent of GDP in FY24, from 2.0 percent in the previous year. Amid steady oil prices (in part reflecting India's proactive diversification of oil import sources), buoyant services exports increasingly offset the merchandise trade deficit.

2. **Real Effective Exchange Rate (REER)**: The average REER in 2023 depreciated by about 1.6 percent from its 2022 average. As of April 2024, the REER was 1.8 percent above the 2023 average. In early 2023, policy tightening in advanced economies and portfolio investment outflows resulted in depreciation pressures on the rupee. These pressures abated when the CA deficit narrowed, and investor sentiment improved in the second half of 2023 and early 2024.

3. **Capital Flows**: In FY24, net FDI inflows decreased to about 0.3 percent of GDP, mostly reflecting rising repatriations and disinvestment. Net portfolio investment inflows strengthened to about 1.2 percent of GDP in anticipation of India's inclusion in global bond indices.

4. **Forex Reserves:** India's forex reserves stood at $623.2 billion in FY23 and $645.6 billion in FY2024 which is enough for more than eight months of import coverage.

5. **Challenges:** External vulnerabilities stem from weakening demand in some partner countries and potentially volatile global financial conditions and commodity prices.

6. **Policy Suggestions:** Over the medium term, development of export infrastructure and negotiation of liberal free trade agreements with main trading partners shall help in facilitating external rebalances. Exchange rate flexibility should act as the main shock absorber, with intervention limited to addressing disorderly market conditions. Structural reforms should aim at improving the business environment, deepening integration into global value chains and attracting FDI, hence mitigating external vulnerabilities.

Click here for the Full Report.