Indian Economy Updates

October 2024

Domestic Indicators

RBI's Monetary Policy Statement, October 2024: On the basis of an assessment of the current and evolving macroeconomic situation, the Monetary Policy Committee (MPC) decided to keep the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 6.50 per cent. Consequently, the standing deposit facility (SDF) rate remains unchanged at 6.25 per cent and the marginal standing facility (MSF) rate and the Bank Rate at 6.75 per cent. The MPC also decided to change the monetary policy stance to 'neutral' and to remain unambiguously focused on a durable alignment of inflation with the target, while supporting growth…

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India's IIP contracts 0.1 percent in August 2024: The IIP growth rate for the month of August 2024 is (-)0.1 percent which was 4.7 percent in the month of July 2024. The growth rates of the three sectors, Mining, Manufacturing and Electricity for the month of August 2024 are (-)4.3 percent, 1.0 percent and (-)3.7 percent respectively. It is likely that the decline in the growth of Mining sector is due to heavy rainfall in the month of August 2024. Within the manufacturing sector, top three positive contributors for the month of August 2024 are – "Manufacture of basic metals" (3.0 percent), "Manufacture of electrical equipment" (17.7 percent), and "Manufacture of chemicals and chemical products" (2.7 percent)...

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India's core sector declines by 1.8 percent in August 2024: The combined Index of Eight Core Industries (ICI) declined by 1.8per cent (provisional) in August, 2024 as compared to the Index in August, 2023. The production of Steel and Fertilizers recorded positive growth in August 2024. The cumulative growth rate of ICI during April to August, 2024-25 is 4.6 percent (provisional) as compared to the corresponding period of last year...

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India's fiscal deficit for April-August at INR 4.35 lakh crore, narrows to 27 percent of FY25 aim: India's fiscal deficit for April to August, or the first five months of this fiscal year, was at 4.35 lakh crore rupees, equivalent to 27 percent of annual estimates, narrowing from the previous year's 36 percent. The government aims to narrow the fiscal gap to 4.9 percent of GDP in this financial year from 5.6 percent a year earlier. Total receipts stood at 12.17 lakh crore rupees, while overall expenditure in April to August was at 16.52 lakh crore rupees. They were 38 percent and 34.3 percent of this fiscal year's budget target…

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GST collections grow 6.5 percent YoY for September at INR 1.73 Lakh Crore: Growth in India's Gross Goods and Services Tax (GST) collections slumped to a 40-month low of 6.5 percent in September, with revenues at INR 1,73,240 crore, about 1 percent lower than the tally in August. Net GST receipts, after adjusting for refunds made to taxpayers, were 3.9 percent higher than a year ago, marking the slowest growth in this financial year. However, net collections were 1.5 percent higher than August's receipts, at INR 1,52,782 crore…

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India's retail inflation rises to 5.49 percent in September 2024: India's year-on-year inflation rate based on All India Consumer Price Index (CPI) for the month of September, 2024 is 5.49 percent. Corresponding inflation rates for rural and urban are 5.87 percent and 5.05 percent, respectively. It is likely that the increase in inflation rate for the month of September, 2024 is due to high base effect and weather conditions. During the month of September, 2024 significant decline in inflation is observed in Pulses and products, Spices, Meat & fish and Sugar & confectionery subgroup...

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India's wholesale inflation rises to 1.84 percent in September 2024: The annual rate of inflation based on all India Wholesale Price Index (WPI) number is 1.84 percent (Provisional) for the month of September, 2024 (over September, 2023). Positive rate of inflation in September, 2024 is primarily due to increase in prices of food articles, food products, other manufacturing, manufacture of motor vehicles, trailers & semi-trailers, manufacture of machinery & equipment, etc. The month over month change in WPI index for the month of September, 2024 stood at 0.06 percent as compared to August, 2024…

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India moves to current account deficit of USD 9.7 billion in Q1FY25 from surplus in previous quarter: India's current account deficit (CAD) widened marginally to USD 9.7 billion (1.1 per cent of GDP) in Q1FY25 from USD 8.9 billion (1.0 per cent of GDP) in Q1FY24 and against a surplus of USD 4.6 billion (0.5 per cent of GDP) in Q4FY24. The widening of CAD on a year-on-year (y-o-y) basis was primarily due to a rise in merchandise trade deficit to USD 65.1 billion in Q1FY25 from USD 56.7 billion in Q1FY24…

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External Indicators

India's total exports estimated at USD 65.19 billion in September 2024: India's total exports (Merchandise and Services combined) for September 2024 is estimated at USD 65.19 Billion, registering a positive growth of 3.76 percent vis-à-vis September 2023. Total imports (Merchandise and Services combined) for September 2024 is estimated at USD 71.68 Billion, registering a positive growth of 3.79 percent vis-à-vis September 2023. India's total exports during April-September2024 is estimated at USD 393.22 Billion registering a positive growth of 4.86 percent. Total imports during April-September 2024 is estimated at USD 448.05 Billion registering a growth of 6.89 percent…

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India's forex reserves dropped by USD 3.71 billion to USD 701.18 billion: India's forex reserves dropped by USD 3.71 billion to USD 701.18 billion for the week ended October 4. In the previous reporting week, the reserves had jumped by USD 12.59 billion to an all-time high of USD 704.89 billion. The foreign currency assets, a major component of the reserves, decreased by USD 3.51 billion to USD 612.64 billion...

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India's Overseas Direct Investment remain rises to USD 3.73 billion in September 2024: India's outward foreign direct investment (FDI) commitments rose to USD 3.73 billion in September 2024, compared to USD 4.63 billion in September 2023. Sequentially, they increased from USD 3.35 billion in August 2024, according to Reserve Bank of India (RBI) data. The equity commitments increased to USD 0.81 billion in September 2024 from USD 0.70 billion in September 2024...

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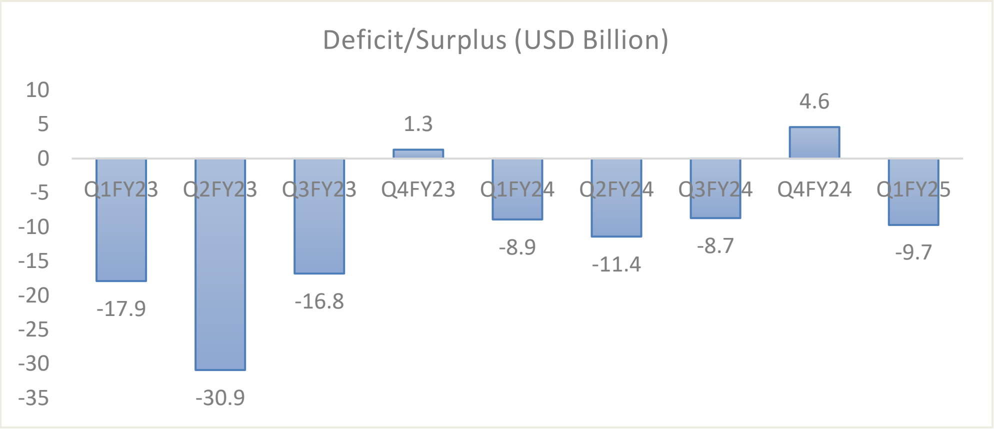
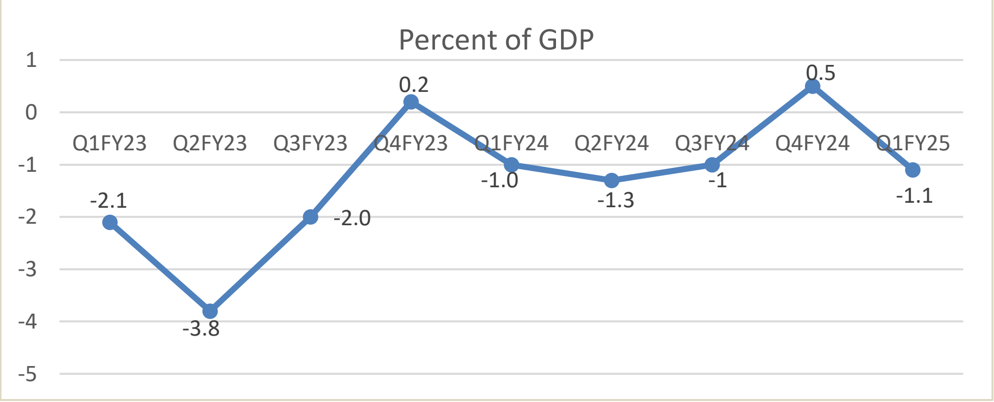
Economic Analysis

- **Developments in India's Balance of Payments**



Source: Reserve Bank of India, RBI.

India's current account deficit (CAD) for Q1FY25 highlights a nuanced economic scenario. The CAD has modestly widened to USD 9.7 billion, representing 1.1% of GDP, a shift from a surplus in the previous quarter and an increase from the same quarter last year. This change is primarily driven by a substantial rise in the merchandise trade deficit, which has grown to USD 65.1 billion. This suggests an escalating imbalance between the country's imports and exports, raising concerns about reliance on foreign goods. Despite these challenges, there are positive developments in other areas such as net services receipts have increased, indicating strong performance in sectors such as IT, travel, and business services. This growth, along with a rise in remittances from the Indian diaspora, underlines the resilience of the service sector and its vital role in supporting the economy.



Source: Reserve Bank of India, RBI.

However, there are also signs of pressure in the primary income account, where net outgo has increased due to rising payments to foreign investors, reflecting ongoing capital repatriation. On the financial front, while foreign direct investment (FDI) inflows have improved, foreign portfolio investment has significantly declined, pointing to potential market volatility or changing investor sentiment. Additionally, a reduction in external commercial borrowings indicates a possible slowdown in corporate borrowing.

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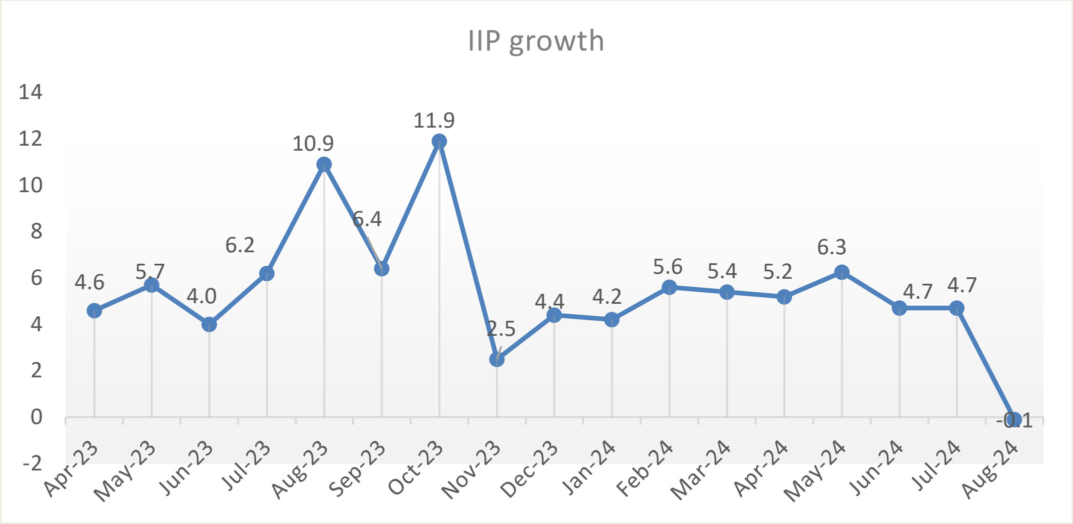
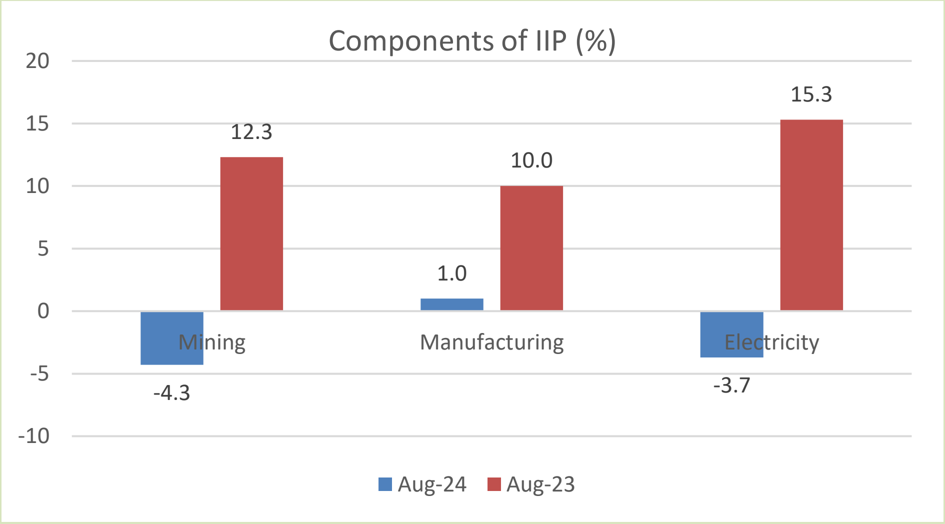
- **Production Scenario** (IIP Growth)



Source: Ministry of Statistics & Programme Implementation (MOSPI), GOI.

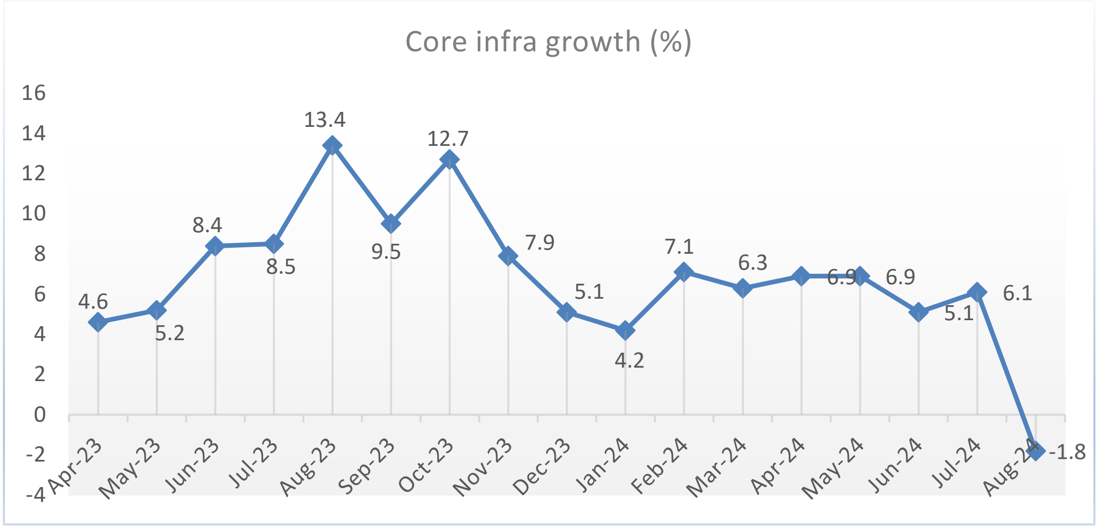
In August 2024, the IIP growth experienced a significant decline, dipping to a negative rate of 0.1%. This marks the first instance of negative IIP growth since April 2023 as shown in the above graph, highlighting a concerning trend in the industrial sector. This downturn reflects broader economic challenges, as corroborated by other high-frequency economic indicators, suggesting that the slowdown is not isolated to industrial production but is part of a wider deceleration in economic activity.



Source: Ministry of Statistics & Programme Implementation (MOSPI), GOI.

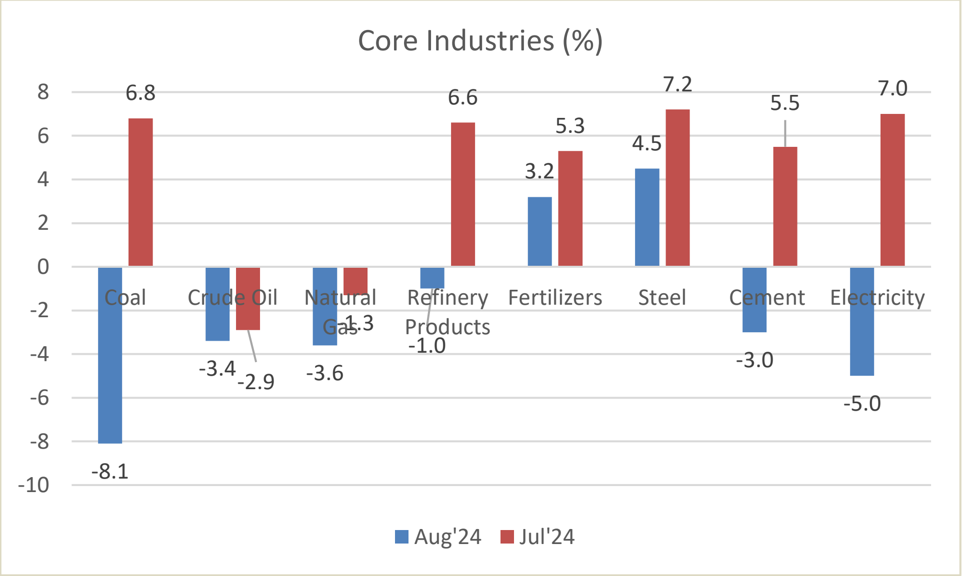
Manufacturing output experienced a modest year-on-year increase of 1%, contrasting sharply with declines in other sectors. Mining output contracted by 4.3%, and electricity generation fell by 3.7%, largely attributed to an uptick in monsoon rainfall. When key components like mining and electricity falter, they can significantly dampen the overall industrial performance.

- **Production Scenario** (Core infra)



Source: Ministry of Commerce and Industry, GOI.

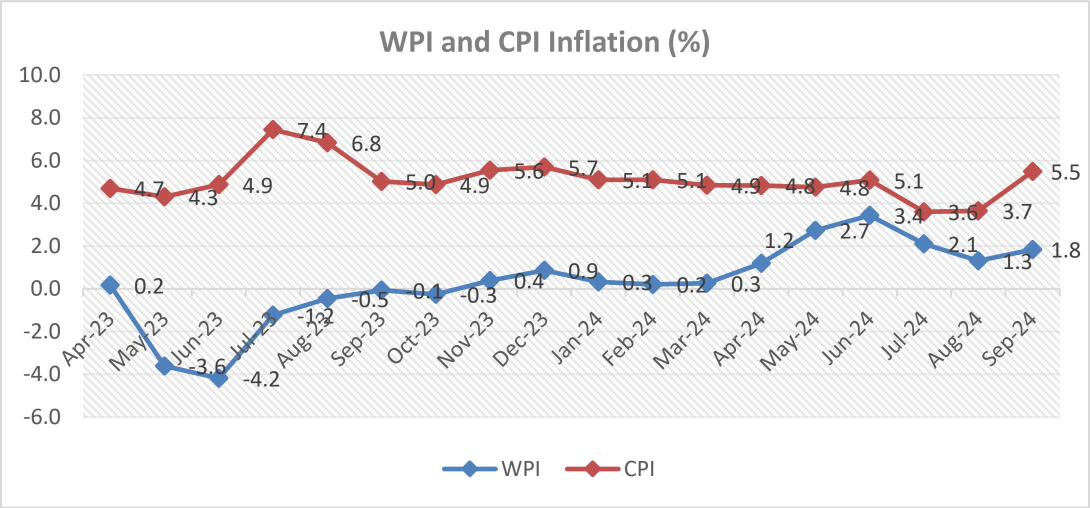
India's core sector growth has unexpectedly dipped into negative zone for the first time in 42 months, marking a significant shift from the robust growth of 6.1% recorded in July. The last instance of negative growth occurred in February 2021, when the core sector contracted by -3.3% due to the resurgence of the COVID pandemic. The recent contraction of -1.8% in August is particularly substandard, highlighting a potential slowdown in economic momentum and raising concerns about the underlying factors contributing to this downturn.



Source: Ministry of Commerce and Industry, GOI.

The performance of India's core sectors revealed a concerning trend, with contracting sectors outnumbering those in growth. Among the few positive contributors to core sector growth, only steel and fertilizers showed promise, posting growth rates of 4.5% and 3.2%, respectively. This imbalance highlights significant challenges within the broader economy, as most sectors struggled to maintain momentum amid prevailing economic uncertainties.

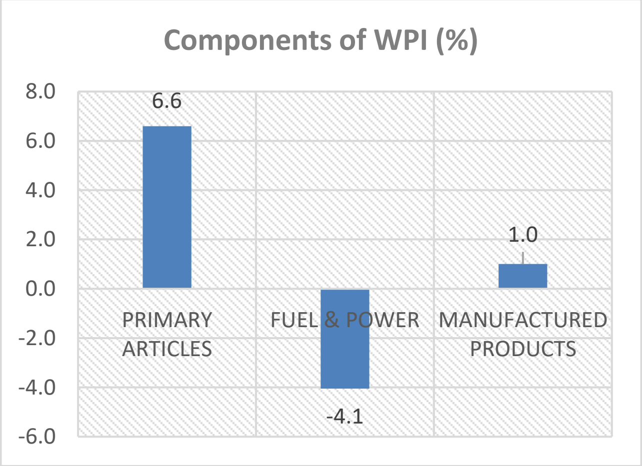
- **Inflation Trends** (WPI and CPI)

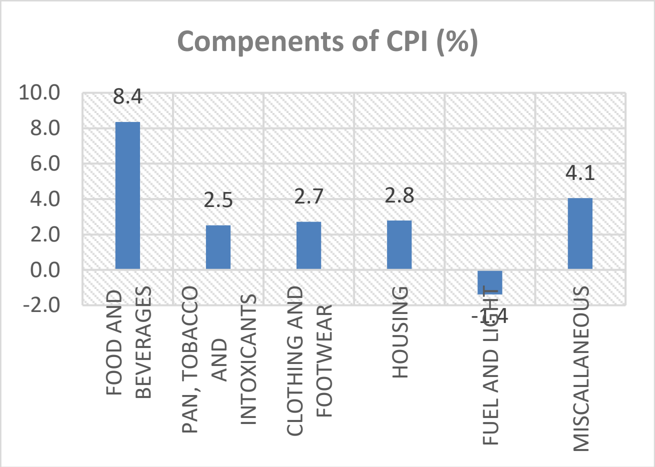


Source: MOSPI and Office of Economic Advisor, GOI.

In September 2024, the WPI inflation surged from 1.31% to 1.84%, effectively erasing much of the progress made over the previous two months. During this period, WPI inflation had decreased significantly from a peak of 3.43% to 1.31%, reflecting a notable drop of 212 basis points. This uptick in inflation raises concerns about potential price pressures in the economy.

On the other hand, annual retail inflation, as measured by the All India Consumer Price Index (CPI), climbed to 5.49% in September, up from 3.65% in August. This marks the highest retail inflation rate since December 2023, when it stood at 5.69%. The unexpected rise in September inflation reinforces the need for the Reserve Bank of India (RBI) to adopt a cautious approach in its monetary policy.





Source: MOSPI and Office of Economic Advisor, GOI.

A significant relief for WPI inflation stemmed from a deflationary trend in the fuel basket. However, this relief was overshadowed by a sharp spike in food inflation, which surged to 9.24%, marking a notable increase of 358 basis points from August 2024. Compared to the average food inflation of 8.05% over the past year, September's figures reflect a 119 basis point rise. The increase in food prices was widespread across various categories, with the most pronounced effects observed in the vegetables segment.

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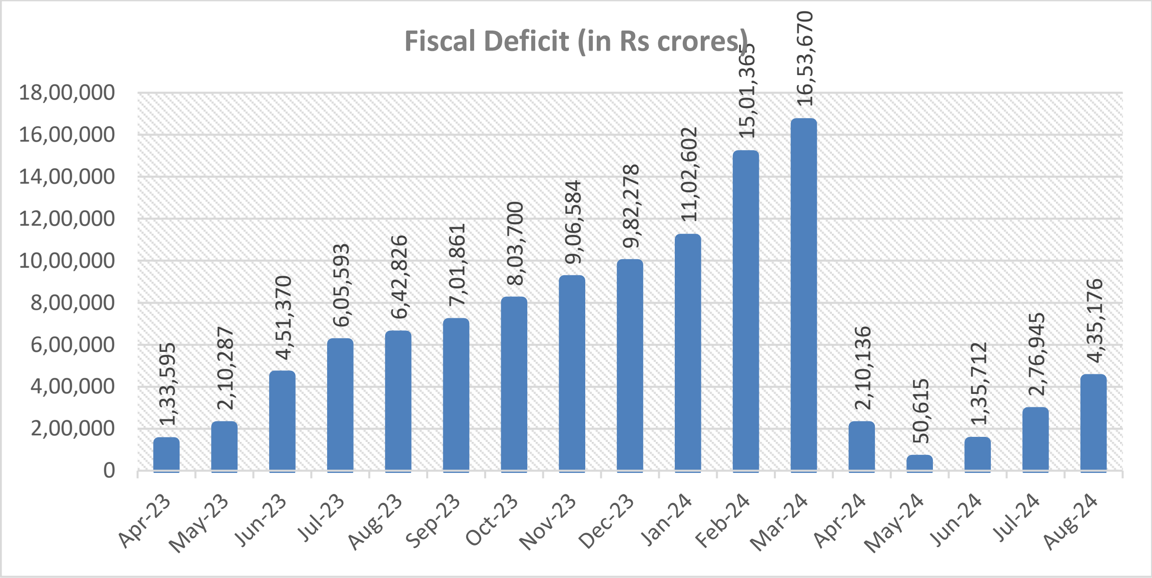
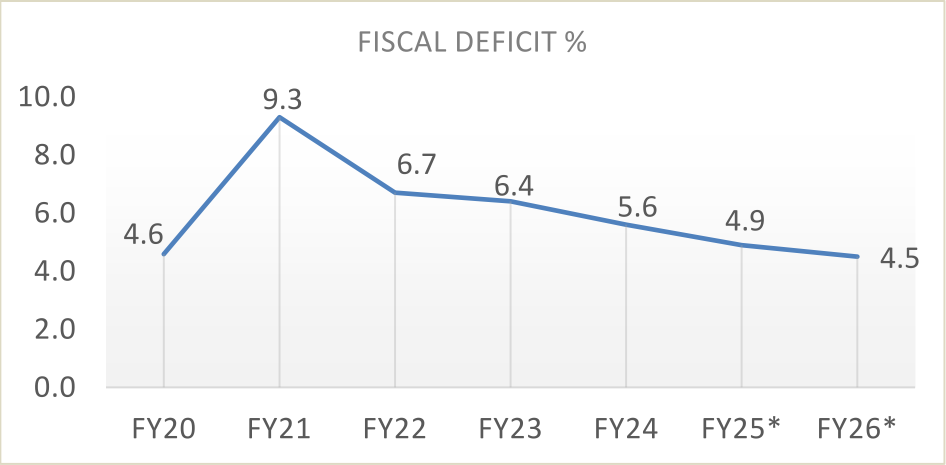
- **Fiscal Deficit**



Source: Controller General of Accounts, Ministry of Finance.

India's fiscal deficit for the first five months of the current fiscal year, from April to August, reached 4.35 lakh crore rupees, representing 27 percent of the annual estimates. This marks a notable improvement from the previous year's figure of 36 percent for the same period. The government aims to reduce the fiscal gap to 4.9 percent of GDP this year, down from 5.6 percent last year, reflecting a commitment to enhancing fiscal discipline amidst economic challenges.



*Source: Controller General of Accounts, Ministry of Finance. *Budget Estimates.*

India's commitment to fiscal consolidation, positioning itself to achieve the fiscal deficit-to-GDP target of 4.5 percent in the next fiscal year. However, maintaining strong revenue growth will be essential to avoid the need for austerity measures, such as reducing expenditures, to meet this threshold. Continued revenue buoyancy will not only support the government's fiscal objectives but also enable investment in crucial development initiatives, ensuring a balanced approach to economic stability and growth.

Economic Outlook by International Organisations

Asian Development Outlook, September 2024: The Asian Development Bank (ADB) forecasts that India's economic growth will remain robust, with gross domestic product (GDP) expected to increase by 7.0% in fiscal year (FY) 2024 (ending 31 March 2025) and 7.2% in FY2025. The report highlights that an above-average monsoon in most parts of the country will lead to strong agricultural growth, enhancing the rural economy in FY2024. It maintains a positive outlook for the industry and services sectors, private investment, and urban consumption for FY2024 and FY2025. Additionally, a new government policy offering employment-linked incentives to workers and firms could increase labor demand and support job creation starting in FY2025…

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OECD Economic Outlook, Interim Report September 2024: The global economy is turning the corner as growth remained resilient through the first half of 2024, with declining inflation, though significant risks remain, according to the OECD's latest Interim Economic Outlook. OECD revised its India's growth forecast to 6.7% for FY25 and 6.8% for FY26. Global output growth has remained resilient, and inflation has continued to moderate. According to OECD report, the growth has been relatively robust in many G20 countries, including the United States, Brazil, India, Indonesia and the United Kingdom…

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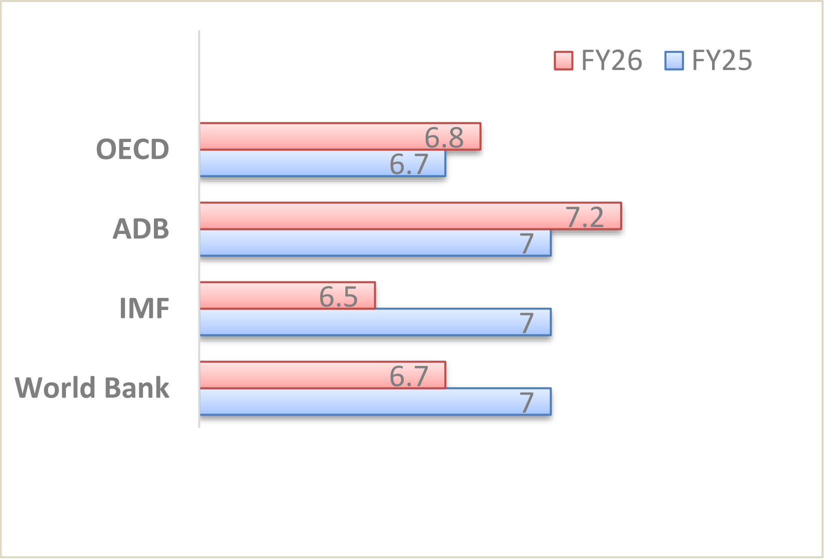
Forecasts by International Organizations for FY25 and FY26:



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