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CREDIT RATING AGENCY

Mr. Vipin Malik,
(Chairman, Infomerics Ratings)

Mr. Sankhanath Bandyopadhyay
(Economist)

Mr. Athar Imam Raza
(Officer - Economic Analysis)

THE ECONOMIC PERISCOPE (APRIL-MAY 2024)

16 May 2024

"Our view is that economic isolationism is the wrong way to go. Vibrant, successful growing economies that advance the interests of their citizens engage the global economy. And, we're committed to engaging the global economy". John W. Snow

Evolving Global Developments

Iran's sudden attack on Israel created certain geopolitical tension, but of late it seems that the possibility of no-holds barred war has greatly receded and the intensity and the spread of the war seem to have been capped.

The geopolitical tension remains one of the major worry, including in the Middle East and Ukraine. While these conflicts have not had the kind of larger debilitating impact initially feared because of adverse oil price implications, they have caused increased growth instability and volatility in commodity prices. Further, uncertainties surrounding the US elections could have global economic implications.

The expanding conflict in West Asia became intense after Iran's first direct attack on Israel after an airstrike by Tel Aviv on the Iranian embassy killed some Iranian officials. According to media reports, the Iranian strikes were retaliation for the bombing of an Iranian diplomatic building in Damascus on 1st April'24 by Israel that marked the first time the Islamic Republic has launched a direct assault on Israel. Yemen's Iran-backed Houthi group has already disrupted global trade with attacks on shipping in the Red Sea.

As reported by CNN, China has voiced "*deep concern*" over escalating tensions in the Middle East. Beijing has vowed to play peacemaker and promote its own security vision. Globally, US and China including India urged for an immediate de-escalation. To quote, "following the Damascus strike, which Iran said killed seven people, including two top Iranian military commanders, US Secretary of State Antony Blinken spoke to China's top diplomat Wang Yi – and other counterparts in Turkey and Saudi Arabia – to "make clear that escalation is not in anyone's interest, and that countries should urge Iran not to escalate," according to a US State Department spokesperson. In the wake of Houthi rebels' assaults on commercial shipping in the Red Sea late last year, American officials repeatedly tried to prod Beijing into pressuring Tehran – which is believed to train, fund and equip the Houthis – to rein in the attacks."[1]

China has been Iran's major trading partner for the past decade and purchases most of the Iran's oil exports, providing a lifeline to Tehran against US sanctions. Chinese companies also provide Iran with security and surveillance equipment. Nevertheless, it is difficult for China to influence Iran's strategy in this regard, due to China's "*chronic underinvestment in Iran*"[2], and earlier endeavours to influence Iranian policy over the Houthi attacks.

Initial Impact on Stock Markets:

There was an initial downslide of the Asia-Pacific markets. Brent crude futures traded 0.14 per cent down at $90.32 per barrel, whereas US West Texas Intermediate Futures was down 0.32 per cent at $85.39. Japan's Nikkei was down by 0.74 per cent, clipping some losses, closed at 39,232.8, while the broad-based TOPIX was down 0.23 per cent at 2,753.2.[3] The Australian market, S&P/ASX 200 experienced a smaller loss compared to the other Asian markets, down 0.46 per cent at 7,752. As reported by CNBC, South Korea's Kospi slid 0.42 per cent to finish at 2,670.43, while the small-cap Korean Securities Dealers Automated Quotations (KOSDAQ) dropped 0.94%, closing at its lowest level since Feb. 13.[4]

Investors sentiments remain subdued in the Indian stock market, the 30-share BSE benchmark Sensex and the NSE Nifty declined by 845 points and 241 points on 15th April 2024, respectively. Except Maruti, Nestle India, Sun pharma, most stocks have realised

[1] CNN (15 April 2024).
[2] "China Leaves Iran Out of Major Investment Projects" (23/10/2023).
[3] "Asia-Pacific markets fall as Israel-Iran tensions spike; spotlight on oil, gold and bitcoin" (15 April 2024) The CNBC.
[4] ibid.

losses. Amid the uncertain geopolitical landscape, the gold prices have skyrocketed as people are resorting to safe haven.

The Oil Price Implications

Iran produces 3.2 million barrels per day (bpd) crude oil with considerable command over the strait of Hormuz, the world's most crucial oil chokepoint that connects the Persian Gulf with the Gulf of Oman and the Arabian Sea. Iran maintains significant military power in the region and can unsettle shipping through the Strait if it chose to. This accounts for thirty per cent of oil transit and seventy per cent of oil shipment to Asia. However, so far, the oil price impact remains benign.

Nevertheless, oil futures saw an increase on 6th May 2024, following Saudi Arabia's decision to raise June crude prices for most regions. Worries developed over the possibility of a ceasefire agreement in Gaza, leading to renewed fears of potential escalation in the oil-rich region due to the Israel-Hamas conflict. Brent crude futures rose by 43 cents, or 0.5 per cent, to $83.39 per barrel at 1300 GMT, while U.S. West Texas Intermediate crude futures climbed to $78.62 per barrel, up by 51 cents, or 0.7 per cent.

According to the World Bank's Commodity Market Outlook (CMO) in April'24, increased tensions in the Middle East have created tension on prices for major commodities, especially oil and gold. Copper prices have also increased, indicating supply worries. In early April'24, the price of Brent oil reached $91 per barrel (bbl), $34/bbl above its 2015-19 average. Gold prices have already skyrocketed, and likely to escalate around $2,350 per ounce in 2024, followed by a significant 40% surge to $2,875 in 2025.[5]According to the World Gold Council (WGC), the LBMA (PM) gold price averaged a record US$2,070/oz in Q1 – 10% higher y/y and 5% higher q/q.[6] Gold scaled new heights in March'24, closing the quarter at US$2,214/oz. The WB CMO(Apr'24) has highlighted that "*The persistence of high commodity prices, relative to pre-pandemic levels, despite subdued global GDP growth indicates several forces at play: geopolitical tensions are pushing up prices, investments related to the clean-energy transition are bolstering demand for metals, and China's rising industrial and infrastructure investment is partly offsetting weakness in its property sector*." [7]

Contextual Global Developments

"*The problems of the global economy are not based in perception, but in the reality of prices, balance sheets and income statements, vast concentrations of wealth and power, precarious systemic imbalances, ruthless exploitation, and command economies mismanaged by Central State/Bank policy and manipulation*". Charles Hugh Smith

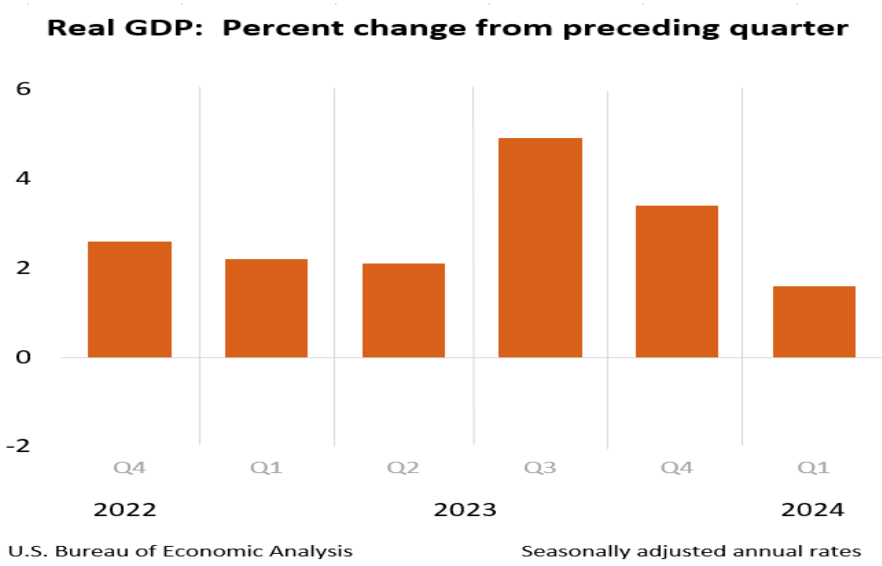
[5] Gold prices extended a three-year surge, reaching all-time highs amid safe-haven flows.
[6] "Gold Demand Trends Q1 2024"(30 April 2024) The World Gold Council.
[7] World Bank's Commodity Market Outlook (CMO) in April'24.

Decelerating US GDP Growth

The major U.S. stock indices, including the S&P 500 (+1.2%), Nasdaq Composite (+1.4%), and Dow Jones Industrial Average (+0.8%), ended at near record high, largely due to the US April'24 Consumer Price Index (CPI) data, which indicated a slight easing in inflation.

According to the US Bureau of Economic Analysis (BEA), US GDP increased at an annual rate of 1.6 per cent in the first quarter of 2024.[8] In the fourth quarter of 2023, real GDP increased 3.4 per cent. The slow pace of GDP growth shows the increasing borrowing costs is taking a toll on the economy. While consumer spending is the driver of the economy, the pace of growth has slowed. Inventory has been reduced by businesses, thus holding back the GDP growth rate. High borrowing costs have moderated spending due to high real cost of home, auto loans and credit card spending, business loans etc.

Chart 1: US Real GDP Trends (Per cent)



Source: US Bureau of Economic Analysis

The Bureau of Labor Statistics reported that nonfarm payroll employment increased by 175,000 in April'24, well below consensus expectations for an increase of 230,000. According to the Fed's FOMC statement "*recent indicators suggest that economic activity has continued to expand at a solid pace. Job gains have remained strong, and the unemployment rate has remained low. Inflation has eased over the past year but remains elevated. In recent months, there has been a lack of further progress toward the Committee's 2 per cent inflation objective.*"[9] The unemployment rate did not change significantly that ticked up to 3.9 per cent in April'24 from 3.8 per cent in March'24. The wage growth remains controlled. According to the Employment Cost Index Summary, US Bureau of labour Statistics (30 April 2024), the compensation costs for civilian workers increased 1.2 per cent, seasonally adjusted, for

[8] According to the "advance" estimate.

[9] The FOMC statement of the Fed, 1 May 2024.

the 3-month period ending in March 2024. Inflation-adjusted (constant dollar) compensation costs for private industry workers increased 0.6 per cent for the 12-month period ending in March 2024. Inflation-adjusted wages and salaries increased 0.8 per cent for the 12 months ending March 2024.[10] According to the CME FedWatch Tool, the highest possibility (around 38%) of the federal funds rate (FFR) being in the range 4.75-5.00 per cent from the current 5.25-5.50 could be by Dec'24.

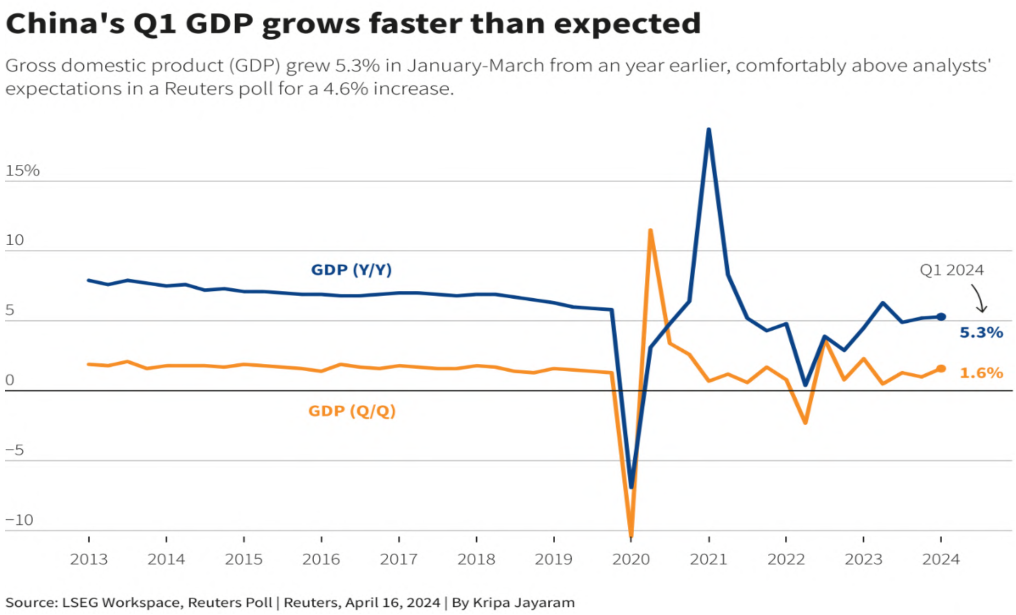
Skyrocketing US net federal debt

A worrisome trend is that the US net federal debt is skyrocketing, and the budget deficit is expected to remain close six per cent of GDP. According to the US fiscal watchdog, the Congressional Budget Office (CBO) the US debt could increase to 166 per cent of GDP by 2054,[11] reaching $141.1 trillion. At present, the United States's $34 trillion debt is around 99 per cent of GDP. The CBO highlighted that this will gradually increase over the next 30 years. Much of this projected deficit is driven by rising interest costs (currently ~3 per cent of GDP), but higher entitlement spending (such as Medicare and social security) account for most of the primary deficit.

China's GDP acceleration

China's GDP growth accelerated to 5.3 per cent in the January-March quarter of 2024, indicating policy support measures are propelling the world's second-largest economy through persistent headwinds. The first-quarter result, announced by the National Bureau of Statistics was slightly above the 5.2 per cent in the last quarter of 2023. It surpassed the average forecast of 4.5 per cent.

<u>Chart 2: Chaina's GDP growth remains resilient.</u>



[10] The Employment Cost Index Summary, US Bureau of labour Statistics (30April 2024).

[11] Fox Business (22 March 2024) Link: https://www.foxbusiness.com/politics/danger-ahead-cbo-says-debt-will-consume-166-percent-gdp-30-years

Table 1: Real GDP Growth Forecast 2024 (%)

Countries	Real GDP Growth Forecast
US	2.7
Canada	1.2
Japan	0.9
France	0.7
Italy	0.7
UK	0.5
Germany	0.2
India	6.8
China	4.6
UAE	3.5
Russia	3.2
Brazil	2.2
South Africa	0.9

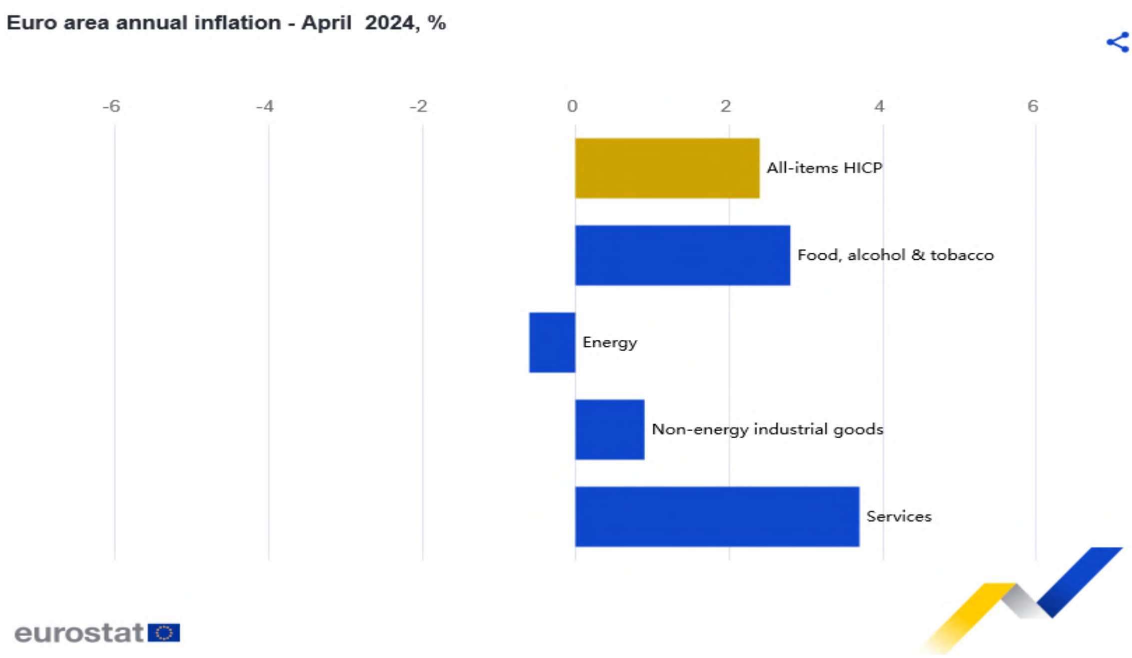
Source: IMF, World Economic Outlook, April 2024.

On 29th April 2024, the Japanese yen has declined to its 34 years lowest at 160 per dollar. After falling back at 155, it sustained at 157, speculated via intervention by the Japanese Monetary authority. The Pound to Yen (GBP/JPY) exchange rate rose to15-year highs close to 160.50 before a skid to below 195.00 and traded around 196.70 in early Europe. Industrial production in Japan improved 3.8 per cent month-on-month (MOM) seasonally adjusted in March'24 (vs 3.3 per cent market expectation). However, this growth rate still failed to entirely equipoise the declines of the previous two months (-0.6 per cent in Feb'24 and 6.7 per cent in Jan'24).[12] Despite the recovering of motor vehicle sales by 2.5 per cent after three months of decline, retail sales declines by -1.2 per cent month on month (MoM) in March'24.

The European economies are facing certain challenges, like low productivity growth, subdued private investment etc. According to the April'24 IMF report[13], property sector stress and rising bankruptcies could lead to larger-than-expected increases in nonperforming loans. Banks will need strong capital buffers to withstand an increase in nonperforming loans while, at the same time, leaving them in a position to support the projected increase in investment. Moreover, caution should be taken to avoid migration of risks to less-regulated nonbank financial institutions. The latest headline inflation remains at consensus expectation of 2.4 per cent, core inflation remains at 2.7 per cent.

[12] "Japanese industrial production strengthens as retail sales disappoint" (30 April 2024)ING Research.
[13] "Regional Economic Outlook-Europe: Soft landing in Crosswinds for a lasting recovery" (April 2024) IMF.

Chart 3: Euro Area Inflationary Trends remains stable.



Source: Eurostat, the Official website the European Union (EU).

Link: https://ec.europa.eu/eurostat/en/web/products-euro-indicators/w/2-30042024-ap

Indian Economy-a relative "*bright spot*" in the world economy

"*The ultimate aim of production is not production of goods but the production of free human beings associated with one another on terms of equality*". John Dewey

GDP growth

The International Monetary Fund (IMF) has revised its forecast for India's real GDP growth in 2024-25 by 30 basis points to 6.8 per cent, attributing it to robust domestic demand and an increasing working-age population. In the following financial year, 2025-26, the IMF anticipates a slight slowdown in economic growth to 6.5 per cent. Further, the IMF has revised its GDP growth estimate for 2023-24 to 7.8 per cent from the previously estimated 6.7 per cent in January 2024. Viewed thereof against the canvas of the global economy and the growth impulses of the Indian economy, International Monetary Fund's (IMF's) Managing Director Kristalina Georgieva justifiably stressed that India continues to remain a relative "*bright spot*" in the world economy, and will alone contribute 15 per cent of the global growth in 2023.

Table 2: FY25 GDP Forecasts (in %)

	Earlier	Revised
IMF	6.5	6.8
World Bank	6.4	6.6
ADB	6.7	7.0

Source: IMF, World Bank, ADB.

The second advance estimates (SAE) of national income released by the NSO on 29th February 2024, placed India's real GDP growth at 7.6 per cent in 2023-24. The revision largely emanates from an upward adjustment of 10 bps in gross fixed capital formation (GFCF) to 10.3 per cent, and the lower drag from net exports of 2.5 per cent of GDP in the second advance estimate (SAE) from 4.8 per cent of GDP in the FAE. During Q3:2023-24, real GDP growth accelerated to 8.4 per cent from 8.1 per cent in the preceding quarter and 4.3 per cent in Q3:2022-23.

The Gross Fixed Capital Formation (GFCF) continued to register double digit growth (10.6 per cent), which was mirrored in its proximate indicators of steel consumption and capital goods production. Export growth remained subdued amidst weak global demand conditions. With import growth surpassing that of exports, the external sector dragged aggregate demand down by 1.2 percentage points in Q3:2023-24. High frequency indicators point towards continued verve in domestic demand conditions in February 2024. E-way bills rose by 14.8 per cent in February 2024. Toll collections increased by 15.1 per cent (y-o-y).

Industry/Sector Outlook

The headline PMI for the manufacturing sector reached a 16-year high of 59.1 in March 2024, backed by new orders and output. The PMI for services rose to 61.2 in March'24 (one of the strongest in thirteen years), driven by solid expansion in new business and employment. However, this dipped to 60.8 in April'24. Despite a dip, April'24 saw one of the strongest growth rates registered in 14 years. Services companies witnessed the second-fastest increase in new export business in near ten-years. However, new orders continued to rise at a stronger rate than exports. In response to increased new orders, firms expanded their staffing levels, though the pace of hiring growth decelerated. Additionally, amidst reports of higher input and labour costs, operating expenses continued to increase in April'24.[14]

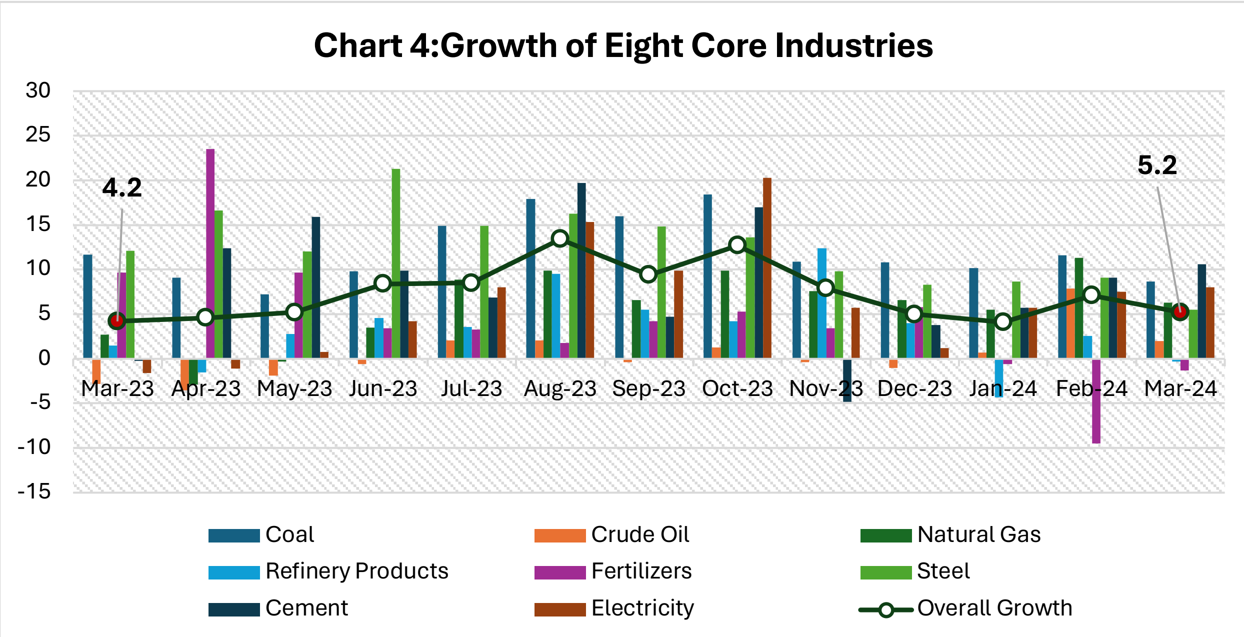
Automobile sales increased by 13.8 per cent (y-o-y) in March 2024, led by two wheelers and passenger vehicle sales. While tractor exports recorded robust growth, domestic sales showed some improvement. Vehicle registrations continued to rise in March 2024, driven by the non-transport vehicles segment.

Average daily petroleum consumption, however, fell by 0.7 per cent (y-o-y) in March'24. As highlighted by a CMS Consumption report, average spending in the FMCG segment increased by 16.76 per cent in FY24. Average spending on consumer durables also increased by 3.74 per cent in FY24, whereas the railways have seen 8.16 per cent average growth in spending in the same period. On the other hand, average spending in the aviation sector witnessed slow annual growth of 6.36 per cent in FY24.

[14] CMIE, 6 May 2024.

Growth of Eight Core Industries

In March 2024, the index of eight core industries increased by 5.2 per cent year-on-year, showing a lower growth rate compared to the 7.1 per cent growth in the previous month. Six of the eight core industries reported a rise in production, while two experienced a decline. Electricity generation increased by eight per cent, and coal output, vital for thermal power generation, grew by 8.7 per cent. Crude oil output rose by two per cent, and natural gas production increased by 6.3 per cent. However, the refinery products industry reported a 0.3 per cent contraction. Steel production saw a growth of 5.5 per cent, and cement production surged by 10.6 per cent. Conversely, fertiliser production, historically the smallest contributor to the eight core industries, fell by 1.3 per cent in March 2024. Over the period of April 2023 to March 2024, the cumulative output of the eight core industries increased by 7.5 per cent, slightly lower than the 7.8 per cent growth recorded during the same period the previous year.



Source: Ministry of Commerce & Industry | Infomerics Economic Research

Monsoon/Climate Trends

The monsoon in 2024 could be subject to heatwave, besides being otherwise normal. One disturbing issue might be that rising heatwave could impact farm output adversely, which may push up inflation by around 30~50 basis points (bps).

Rainfall between 96 per cent and 104 per cent of LPA is considered “normal” while rainfall between 90 per cent and 95 per cent is categorised as “below normal.” A normal rainfall this year may help farmers in deficient States such as Karnataka and Maharashtra facing water shortage in many places to plan sowing of kharif crops, which starts from June with the arrival of monsoon, on time.

According to the IMD, heatwave conditions would likely to prevail in May-June'24 in certain regions in Gujarat, Tamil Nadu, Puducherry, West Rajasthan, Karnataka, Madhya Pradesh with intense intensity especially between 8-10th May'24.

Here lies a cautionary tale. Careful monitoring during the summer is justified as extreme weather events may pose a risk to inflation along with prolonged geo-political tensions that could keep crude oil prices volatile. Overall, the RBI projection indicates further smoothing of headline inflation in the coming months before hostile base effects kick in during the second half of the year which have to be seen off.

Capital Expenditure (Capex) Trends:

The Central government has budgeted ₹11.1 lakh crore for capex in FY25, a 17 per cent increase over the previous year's Revised Estimate (RE), whereas the GOI is likely to have spent ₹9.5 lakh crore in FY24.[15]

The Ministry of Roads Transport and Highways recorded the highest ever capital expenditure of ₹3.01 lakh crore in 2023-24 with both government and private expenditure at an all-time high at ₹ 2.64 lakh crore and ₹34,805 crore respectively. The ministry constructed 12,349 km of national highways in 2023-24, the second highest so far, compared to 10,331 km in 2022-23 while the projects awarded in 2023-24 stood at 8,581 km. The highest construction so far has been 13,327 km done during 2020-21.

India aims to triple its domestic steel production capacity to 500 million tonnes per year by 2047 while reducing emission intensity to 2.25 tonnes of CO2 per tonne of crude steel production by fiscal year 2029, with further reductions targeted by 2047. These targets surpass the goals outlined in India's Nationally Determined Contributions (NDCs) for the steel sector.

RBI conducts quarterly OBICUS survey since 2008, gathering production details, order data, and inventory levels confidentially. This data aids in monetary policy formulation. The next policy meeting is set for June 2024. The information collected in the survey includes quantitative data on new orders received during the reference quarter, backlog of orders at the beginning of the quarter, and pending orders at the end of the quarter.

Resilient but volatile Stock Market

The Indian stock market recovered after previous losses, with Nifty closing above 22,600 (22,643 points on 29 April 2024). At close, the Sensex was up 941.12 points or 1.28 per cent at 74,671.28 (though on 30 April 2024 it was down at 74,482 until 3:30 pm or IST) and the Nifty was up 223.45 points or 1 per cent at 22,643.40. Due to non-escalation of Iran-Israel tension and softer European Union inflation trends, the market started on a

[15] CGA, Economic Times (1 May 2024).

positive note and expanded its gains led by financials. Asian stocks rallied on 29 April 2024, led by Taiwan, Indonesia and South Korea. Crude oil futures dropped amid a diplomatic push in West Asia to secure a cease-fire in Gaza. Positive corporate earnings offset concerns about higher-for longer interest rates ahead of the US Federal Reserve policy meeting outcome set for 1st May 2024.

Buoyant Tax Collections

The provisional figures of Direct Tax collections for the Financial Year (FY) 2023-24 show that Net collections are at ₹19.58 lakh crore, compared to ₹16.64 lakh crore in the preceding Financial Year i.e. FY 2022-23, representing an increase of 17.70%.[16]

The Budget Estimates (BE) for Direct Tax revenue in the Union Budget for FY 2023- 24 were fixed at ₹18.23 lakh crore which were revised, and the Revised Estimates (RE) were fixed at ₹19.45 lakh crore. The provisional Direct Tax collections (net of the refunds) have exceeded the BE by 7.40% and RE by 0.67%.

The Gross collection (provisional) of Direct Taxes (before adjusting for refunds) for the FY 2023-24 stands at ₹23.37 lakh crore showing a growth of 18.48% over the gross collection of ₹19.72 lakh crore in FY 2022-23.

The Gross Corporate Tax collection (provisional) in FY 2023-24 is at ₹11.32 lakh crore and has shown a growth of 13.06% over the gross corporate tax collection of ₹10 lakh crore of the preceding year. The Net Corporate Tax collection (provisional) in FY 2023- 24 is at ₹9.11 lakh crore and has shown a growth of 10.26% over the net corporate tax collection of ₹8.26 lakh crore of the preceding year.

The Gross Personal Income Tax collection (including STT) (provisional) in FY 2023- 24 is at ₹12.01 lakh crore and has shown a growth of 24.26% over the Gross Personal Income Tax (PIT) collection (including STT) of ₹ 9.67 lakh crore of the preceding year. The Net Personal Income Tax collection (including STT) (provisional) in FY 2023-24 is at ₹10.44 lakh crore and has shown a growth of 25.23% over the Net Personal Income Tax collection (including STT) of ₹8.33 lakh crore of the preceding year. Refunds of ₹3.79 lakh crore have been issued in the FY 2023-24 showing an increase of 22.74% over the refunds of ₹3.09 lakh crore issued in FY 2022-23.

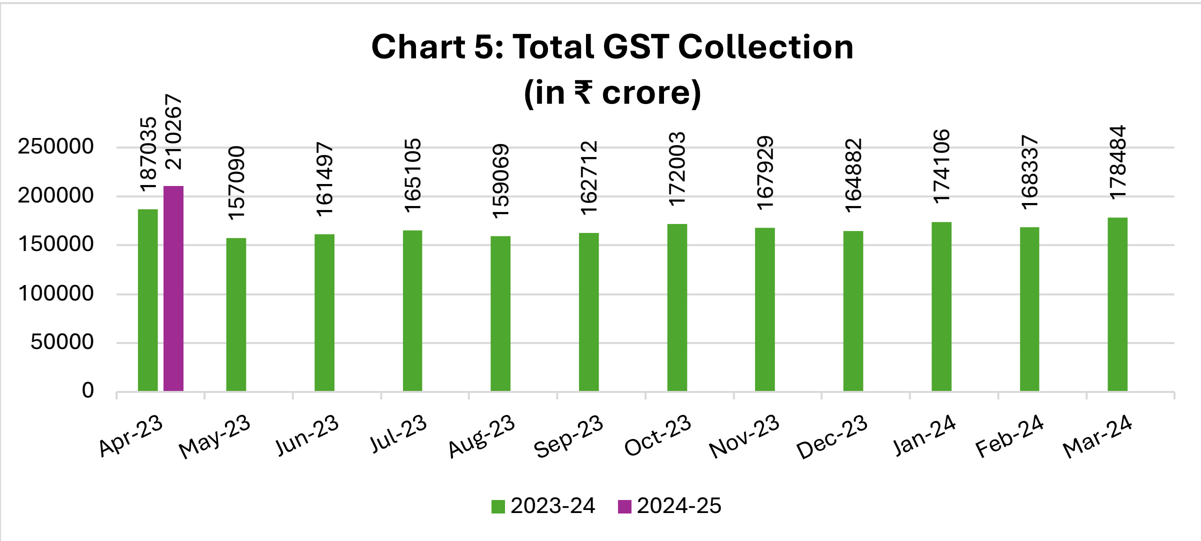
On the receipts side, Direct Tax collections grew by 23.5 per cent (y-o-y) during April-January 2023-24, with Income Tax and Corporate Tax collections growing at 27.3 per cent and 20.1 per cent, respectively, reflecting increased compliance, higher advance tax collections and widening of the tax base. Indirect tax collections grew by 4.7 per cent (y-o-y), with goods and services taxes (GST) and customs revenues growing at 9.0 per cent and 1.0 per cent, respectively. On the other hand, Excise Duties contracted by 6.0 per cent in April-January 2023-24 in relation to the corresponding period of the previous year.

[16] Ministry of Finance, Posted On: 21 APR 2024 1:01PM by PIB Delhi, Link: https://pib.gov.in/PressReleaseIframePage.aspx?PRID=2018373

Overall, Gross Tax Revenue (GTR) grew by 14.5 per cent over the previous year, led by robust growth in direct tax collections.

Non-tax revenue collections grew by 46.4 per cent (y-o-y) during April-January 2023-24, mainly attributable to the higher than budgeted surplus transfer from the Reserve Bank of India. On the other hand, non-debt capital receipts (comprising mainly of disinvestment receipts) contracted by 40.2 per cent Overall, the total receipts of the central government expanded by 13.9 per cent (y-o-y).

Regarding the indirect tax collection, the government collected ₹2.1 trillion goods and services tax (GST) in April 2024. This was higher than the ₹1.8 trillion collections made in March 2024. Compared year-on-year, GST collections were higher by ₹232.3 billion or 12.4 per cent in April 2024. Of the total GST collected during the month, Central Goods and Services Tax (CGST) amounted to ₹438.5 billion, State Goods and Services Tax (SGST) amounted to ₹535.4 billion and integrated goods and services tax (IGST) amounted to ₹996.2 billion. The balance ₹132.6 billion was compensation cess.



Source: GST Council | PIB

Export Import Trends

In March 2024, India experienced a 0.6 per cent decline in merchandise exports compared to the previous year, which was less severe than the 5.9 per cent drop recorded in the same month of the previous year. The exports increased by 0.7 per cent from the previous month. While exports of petroleum, oil, and lubricants (POL) decreased significantly by 35.4 per cent to USD 5.4 billion, non-POL exports saw a notable rise of 8 per cent to USD 36.3 billion.

India's merchandise imports in March 2024 amounted to USD 57.3 billion, marking a 6 per cent decrease from the previous year. Imports also fell by 4.7 per cent compared to the preceding month. POL imports declined by 4.4 per cent to USD 17.2 billion, and non-POL imports decreased by 6.6 per cent to USD 40.1 billion during this period.

Table 3: India's Export-Import Trends and Trade Balance (US$ billion), YOY Per Cent Change

	Jan-24	Feb-24	Mar-24	Apr-Mar 23	Apr-Mar 24
Trade balance (US$ billion)	-16	-18.7	-15.6	-264.8	-240.3
Exports	37.3	41.4	41.7	450.6	437.1
Imports	53.3	60.1	57.3	715.3	677.4
Y-o-Y % change					
Total exports	4.3	11.8	-0.6	6.7	-3
POL	11.8	4.8	-35.4	43.9	-13.5
Non-POL	2.2	13.7	8	-0.4	-0.1
Total imports	1	12.2	-5.9	16.6	-5.3
POL	-2.2	0	-4.4	29.1	-14.2
Non-POL	2.4	17.8	-6.6	12.1	-1.6
Gold & silver	194.7	197.9	-30.3	-18.8	27.1
Gold	173.6	133.8	-53.5	-24.4	30.6
Silver	323.5	13,235.90	1,059.20	60.1	3.8
Non-POL, non-gold & silver	-2	3.8	-4.6	15.9	-4.1

Source: CMIE, RBI, Infomerics Research.

Earlier, the merchandise trade deficit widened to US$ 18.7 billion in February from US$ 16.5 billion in January as annual and sequential growth in imports outpaced export growth. The share of the POL deficit in total merchandise trade deficit reached a 10-month high of 46.2 per cent in February. During April-February 2023-24, India's merchandise exports at US$ 395.0 billion contracted by 3.5 per cent (y-o-y), while merchandise imports at US$ 620.2 billion declined by 5.3 per cent (y-o-y). Consequently, the merchandise trade deficit narrowed to US$ 225.2 billion during this period as compared with US$ 245.9 billion a year ago. Petroleum products were the largest source of the deficit, followed by electronic goods.

India's merchandise exports at US$ 41.4 billion, an eleven-month high, grew by 11.9 per cent (y-o-y) for the third consecutive month in February 2024 as favourable momentum more than offset a negative base effect. Out of 30 major commodities, 22 commodities (accounting for 83.2 per cent of the export basket) registered expansion on a y-o-y basis. Engineering goods, electronic goods, organic and inorganic chemicals, drugs and pharmaceuticals and petroleum products supported export growth, while gems and jewellery, other cereals, mica, coal and other ores, oil meals and marine products dragged down overall exports in February.

Merchandise imports expanded for the second consecutive month and reached US$ 60.1 billion in February. Higher momentum in imports more than offset a negative base effect, leading to y-o-y growth of 12.2 per cent Among the 30 major commodities, 17 commodities (accounting for 77.4 per cent of the import basket) registered growth. Gold, silver, electronic goods, machinery and metalliferous ores and other minerals supported import growth, while vegetable oil, pearls, precious and semi-precious stones, project goods, chemicals and fertilisers were the main drags on growth in February.

India signed a Trade and Economic Partnership Agreement (TEPA) with the European Free Trade Association (EFTA) on March 10, 2024.[17] India runs a trade deficit with EFTA. – goods worth US$ 16.7 billion were imported from this bloc while exports amounted to US$ 1.9 billion in 2022-23.

Switzerland is the largest trading partner in EFTA, accounting for more than 90 per cent of India's total imports (of which gold accounts for 80 per cent). Major imported commodities from EFTA include gold, petroleum. gases, coal, soyabean oil, and pharmaceutical products, while major exports include organic chemicals, precious and semi-precious stones, ships, boats and floating structures, optical instruments, and nuclear reactors.

The TEPA aims at FDI to the tune of US$ 100 billion in India from EFTA over the next 15 years and one million direct employment generation. Services exports at US$ 31.0 billion registered a growth of 10.8 per cent (y-o-y) in January 2024, led by a rise in software services, travel services and business services exports. Services imports rose by 0.2 per cent (y-o-y) to US$ 14.8 billion, driven by an increase in software services and travel services imports.

Consequently, net services exports earnings rose by 22.8 per cent (y-o-y) to US$ 16.2 billion in January. During April-January 2023-24, the gross fiscal deficit (GFD) of the central government stood at 63.6 per cent of the revised estimates (RE), lower than 67.8 per cent of RE during the corresponding period of the previous year, on the back of modest revenue spending and buoyant direct tax revenues.

On the expenditure side, capital spending recorded an increase of 26.5 per cent (y-o-y) while revenue expenditure growth remained contained at 1.4 per cent (y-o-y) Capital outlay (i.e., capital expenditure excluding loans and advances) recorded an increase of 25.8 per cent, resulting in a marked improvement in the quality of spending of the central government.

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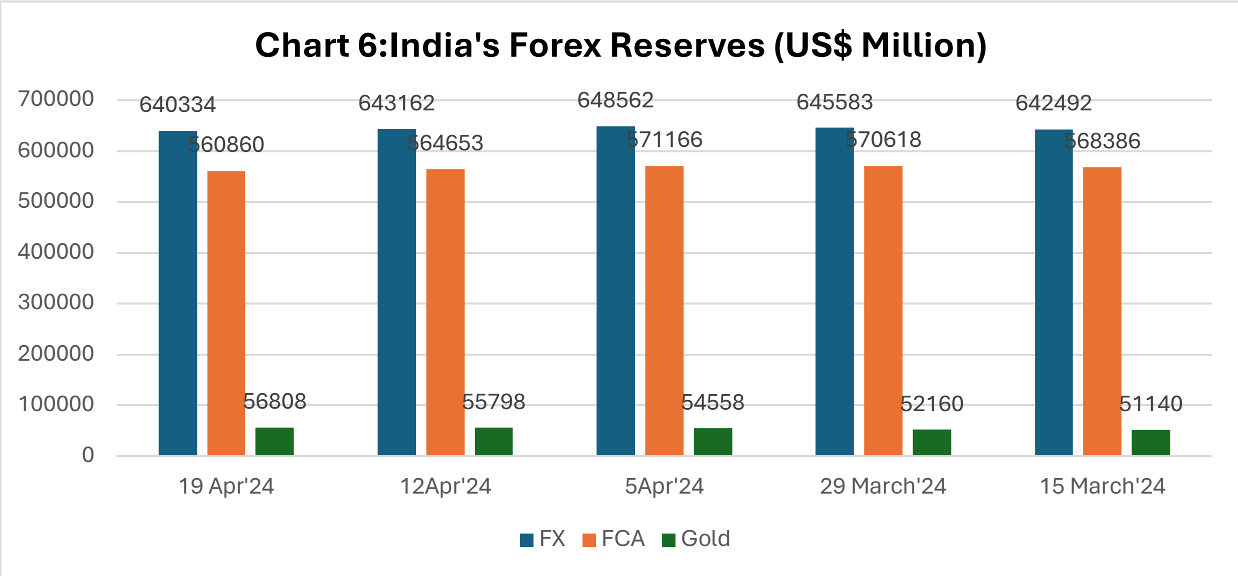
[17] https://pib.gov.in/PressReleaseIframePage.aspx?PRID=2013169

Forex Reserves:

India's forex reserves and foreign currency assets (FCA) remain stable. Interestingly, gold reserves have increased steadily, which has been observed also globally for other Central Banks (CBs) in an era of an uncertain time.



Source: RBI, Weekly Statistical Supplement.

(https://www.rbi.org.in/scripts/WSSViewDetail.aspx?PARAM1=2&TYPE=Section).

According to media reports, "*Central banks continued to buy gold apace, adding 290 tonnes to official global holdings during the quarter. Consistent and substantial purchases by the official sector highlight gold's importance in international reserve portfolios amidst market volatility and increased risk.*"[18] The Bank of China has highlighted that *"The escalation in gold holdings by global central banks, coupled with heightened gold demand in the Chinese market, has emerged as significant drivers propelling recent gold prices beyond market expectations*."[19] China's central bank bought 160,000 ounces of gold bullion in March 2024, marking its 17th consecutive monthly purchase and bringing its total reserves to 2,262 tonnes (72.74 million ounces), as it aims to diversify holdings away from US bonds amid strained bilateral relations.

Interestingly, a RBI Paper has highlighted that "*While FX reserves have remained under pressure across high volatility episodes viz., Global Financial Crisis, Eurozone debt crisis / Taper Tantrum, EME outflows/ US-China trade war and the recent Russia Ukraine conflict/ Fed tightening episode, the degree of variation in FX reserves has varied, depending upon the trend of the underlying factors viz., US Dollar Index, oil prices, foreign portfolio flows, US financial conditions and expected equity market volatility. In the case of the recent RU/FT episode, exchange rate management and FX reserves faced strong headwinds from trends in US Dollar Index, oil prices, FPI outflows and tight US financial conditions*

[18] "World gold demand surges in Q1 2024, hits record high amid central bank buying and OTC investment boom" (30 April 2024) The Economic Times.

[19] "China's consumers seek security in 'the only safe asset' as gold purchases remain strong" (29 April 2024), SCMP News.

and the severity of these factors was the highest relative to previous high volatility episodes. However, the Reserve Bank has managed to contain INR volatility and keep FX markets largely stable in all high volatility episodes. Importantly, INR's implied volatility has remained one of the lowest amongst major Asian peer as well as select AE currencies during RU/FT episode, despite unprecedented headwinds witnessed during this period. Going forward, strength and stability of the Indian economy, its sound macroeconomic fundamentals, financial stability and improvements in India's external position, particularly the significant moderation in the current account deficit, comfortable foreign exchange reserves and return of capital inflows, are expected to contribute to stability in FX market."[20]

Foreign Portfolio Investment Trends

The foreign portfolio investments (FPIs) in equity and debt segment have improved as net outflows have been moderated during May'24. The outflows remain strong in April'24 amid remote Fed rate cut expectations, geopolitical tensions, high US 10-year G-Sec yields among others.[21]

Table 4: Monthly Foreign Portfolio Investment (FPI) Trends (₹Crore)

Month'2024	Monthly FPI Net Investments (Calendar Year - 2024) [₹ Crore]				
	Equity	Debt	Debt-VRR	Hybrid	Total
January	-25744	19837	-710	24	-6593
February	1539	22419	862	6997	31817
March	35098	13602	2478	818	51996
April	-8671	-10949	3267	94	-16260
May *	-982	-908	-536	-23	-2448
Total - 2024	1240	44001	5361	7910	58512

**Up to 6 May 2024.Source: NSDL.*

Interestingly, the assets managed by the domestic mutual fund (MFs) have increased by 34 per cent during FY24 driven by sharp equity inflows. For the three months ended March 2024 (Q4FY24), the average assets under management (AUM) stood at ₹ 54.1 trillion compared to ₹ 40.5 trillion in Q4 of FY23.

Concluding Observations

"*A successful economic development strategy must focus on improving the skills of the area's workforce, reducing the cost of doing business and making available the resources business needs to compete and thrive in today's global economy*". Rod Blagojevich

The geopolitical challenges remain the major global risk nowadays. The market has saddled with certain recent and forthcoming events, e.g. the downward pressure on yen, the probable Japanese twist in their monetary policy further, upcoming elections, and the

[20] "India's Foreign Exchange Reserves in High Volatility Episodes: An Empirical Assessment" (April 2024) RBI Bulletin.

[21] During April'24, the US 10-year G-Sec yield was hovering almost around 4.70 per cent at its top peak, before closing at 4.47 per cent in May'24. If we consider the Indian 10Y G-Sec Yield at 7.20 per cent during April'24, the net difference between US and Indian 10YG-Sec remains at 2.50 per cent.

US Fed policy meetings among others. Interestingly, India's growth prospects remain the brightest globally. The International Monetary Fund (IMF) has revised its forecast for India's real GDP growth in 2024-25 by 30 basis points to 6.8 per cent, attributing it to robust domestic demand and an increasing working-age population. In the following financial year, 2025-26, the IMF anticipates a slight slowdown in economic growth to 6.5 per cent. Further, the IMF has revised its GDP growth estimate for 2023-24 to 7.8 per cent from the previously estimated 6.7 per cent in January 2024.

Interestingly, as highlighted by some leading media houses, India has added more than 1.85 lakh companies during last fiscal year. The surge in company registrations was primarily observed in the services sector that accounted for 71 per cent of new enterprises, followed by the industrial (23 per cent) and 6 per cent in the agricultural sector. Maharashtra emerged as the major hub for new business establishments, with 17.6 per cent of the new companies set up in the state during FY24.[22] Further, International Financial Services Centres Authority (IFSCA), the regulatory body for the IFSC-GIFT City in Gujarat, has allowed non-banking entities like alternate investment funds and other fund managers to issue overseas derivative instruments from IFSC.

Nevertheless, India faces certain challenges, especially emanating from the global slowdown. India's household sector's net financial savings declined to a five-year low of ₹14.16 lakh crore in 2022-23. In terms of a proportion to GDP, this worked out to 5.3 per cent in 2022-23, substantially lower than 7.2 per cent in the previous fiscal year. The decline was largely due to the increase in household's financial liabilities. The more concerning part is that to what extent is has been used for financing conspicuous consumption.

The job creation in the Indian economy remains challenging. According to the CMIE's Consumer Pyramid Household Survey data, the unemployment rate in India, among persons aged 15 years and above, increased to 8.1 per cent in April 2024. It stood at 7.4 per cent in March 2024. Over the past 12 months, the rate ranged between 7.3 per cent and 9.4 per cent, averaging at 8.15 per cent. Out of the 4.7 million people who lost employment in April 2024, about 90 per cent of the folks belonged to rural areas. The size of the rural workforce fell by 4.2 million, to 288.8 million in April. This is the first time in five months that rural employment has fallen to below 290 million. Correspondingly, the employment rate in rural India fell from 39 per cent to 38.4 per cent. Despite some persons entering the urban labour force found jobs, around half a million people lost jobs in urban India. This led to an overall increase in urban unemployment, from 12.4 million to 13.4 million in April 2024.

[22] "India Sees Record Business Growth: Over 1.85 lakh Companies Registered in FY 2023-24" (6 May 2024) BusinessWorld. [https://businessworld.in/article/india-sees-record-business-growth-over-185-lakh-companies-registered-in-fy-2023-24-518847].

Going forward, geopolitical tensions, volatility in international financial markets, geo-economic fragmentation, extreme weather events remain major roadblocks in the growth path of the Indian economy. Nevertheless, India remains the world's fastest growing major economy. Some remarkable developments include JP Morgan's inclusion of India in its Global EM Bond Index and subsequently Bloomberg's inclusion of India in its EM Local Currency Government indices (March 2024). Moreover, in March 2024, most high-frequency economic indicators reflected robust and resilient business activity. As highlighted by the Monthly Economic Report (March 2024), by the Department of Economic Affairs, GOI, "*The Indian stock market witnessed another bullish run as both the Nifty 50 and BSE Sensex 30 indices soared to new heights. In March 2024, the Nifty 50 opened with a record high of 22,048.3, ultimately surging to an all-time peak of 22,526.6. Similarly, the BSE Sensex 30 commenced trading with a historic high of 72,606.3, reaching an unprecedented pinnacle of 74,245.2.*" In March 2024, the HSBC India Manufacturing PMI surged to an impressive 59.2, a notable increase from the final figure of 56.9 recorded in the previous month, driven by robust demand.

This discussion clearly brings out that India is on a high and sustained growth path but the process and pattern of economic growth and structural transformation needs to be carefully monitored and mid-course corrections effected, as and when needed.