Economic Division

Monthly Economic Review

March 2024

आर्थिक कार्य विभाग
DEPARTMENT OF ECONOMIC AFFAIRS

सत्यमेव जयते

Table of Contents

Abstract

The global economic growth landscape is seeing a gradual resurgence, marked by fading fears of recession and rebounding growth in major economies. However, there are disparities among regions, with some areas also experiencing subdued economic activity. Despite these challenges, leading indicators suggest an overall upturn in economic activity driven by expansion in both manufacturing and service sectors. Geopolitical tensions remain a concern, but notwithstanding recent developments, risk perceptions have softened, offering a potential upside for growth.

Amidst these global trends, India continues to exhibit robust economic performance. Factors such as strong domestic demand, rural demand pickup, robust investment, and sustained manufacturing momentum have contributed to India's resilience. Projections by RBI and IMF forecast high growth rates for India, further reinforcing its positive outlook. In March 2024, India's economy was marked by record-breaking stock market performance, remarkable GST collections, and substantial growth in the manufacturing and services sectors, reflecting a buoyant domestic economic landscape. Consumer and investor confidence, as indicated by notable improvements in sentiment, underpin India's ability to navigate global challenges successfully.

Globally, inflation management continues to remain a key priority. In India, retail inflation in FY2023-24 witnessed a significant decline, reaching its lowest level since the Covid-19 pandemic. Accordingly, as price pressures continue to abate in India, the RBI's Monetary Policy Committee (MPC) held policy rates at their current levels, stating that the last mile of disinflation will involve aligning inflation with its target of 4 per cent on a durable basis. Taking into account factors such as geopolitical conflicts, potential adverse domestic weather shocks and the prediction of an above-normal monsoon this year by the IMD, the RBI has projected CPI inflation for FY2024-25 at 4.5 per cent.

Global trade is estimated to have contracted in 2023, driven by reduced demand in developed nations and trade weaknesses, coupled with a decline in global commodity prices. Global slowdown led to a moderation in India's merchandise exports as well as merchandise imports. The slowing of trade has resulted in the merchandise trade deficit narrowing in FY2023-24, as exports have shown a smaller contraction than imports. However, the non-petroleum and non-gems & jewellery merchandise exports have shown resilience with a sustained uptick in the last few months, growing at 3 per cent in FY2023-24. Services exports expanded at their fastest pace in FY2023-24, supported by rising software exports and business services exports. Owing to these developments, India's current account deficit improved in the first nine months of FY2023-24 compared to the corresponding period of the previous year.

India's capital inflows saw a significant turnaround in FY2023-24. India's foreign exchange reserves reached an all-time high in March 2024, sufficient to cover 11 months of projected imports and more than 100 per cent of total external debt.

Overall, resilient growth, robust economic activity indicators, price stability, and steady external sector performance continue to support India's promising economic performance amidst uncertain global conditions.

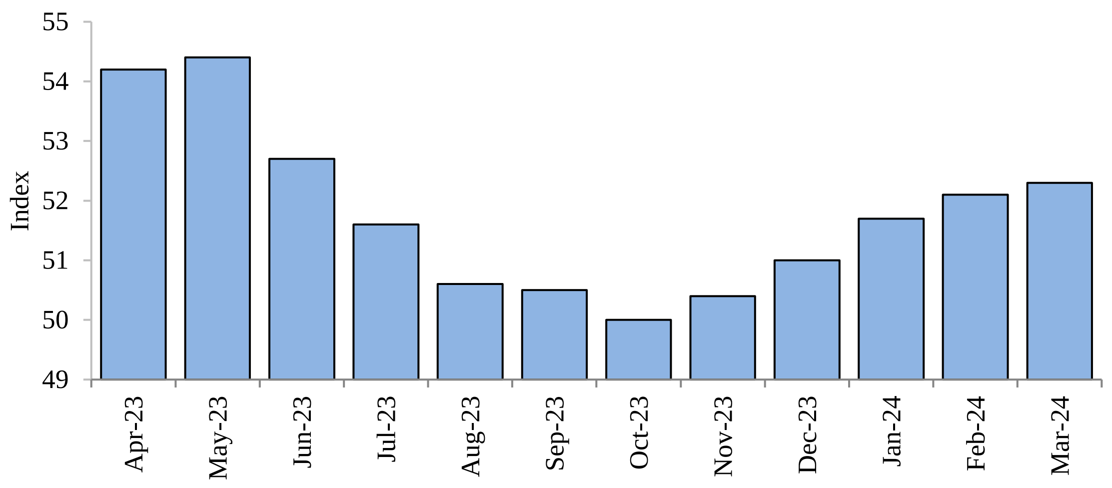
Global economy: Strong rebound, but uncertainties persist

1. Global economic growth appears to be gradually on the ascent as fears of recession fade. Yet even as most of the major economies exhibit resilience and register strong rebound in growth, others lag behind resulting in diverging growth trajectories around the world. Japan has been registering a strong rebound with the US and the UK witnessing continued growth momentum. However, economic activity remains subdued in the Euro area and China although the magnitude of the downturn has eased. Prominent international agencies have now revised upward growth forecasts of major economies.

2. Leading indicators are also suggesting an upturn in global economic activity. The global composite PMI registered an uptick in March 2024 with quicker expansion across both manufacturing and service sectors. The global manufacturing PMI has been improving and stood at a 21-month high in March 2024. The improvement is across major economies reflecting a broad-based growth and building up of confidence across governments and businesses.

The US GDP grew at a 3.4 per cent annualised rate in Q4: 2023, while growth in Japan improved to 1.2 per cent during the same period. Monthly Real GDP in the UK is estimated to have grown by 0.1 per cent in February 2024, following growth of 0.3 per cent in January 2024, driven by expansion in manufacturing. The Global Manufacturing PMI stood at 50.6, accelerating to its fastest since June 2022, as new order inflows strengthened. Various Emerging Market Economies (EMEs), including Indonesia, Russia, and Brazil, registered strong growth. Manufacturing PMI also accelerated to twenty-two and ten-month highs in the US and China, respectively. Global Services PMI has also spiked since last July, with financial service providers seeing a steep upturn. Global composite PMI, a measure of overall economic activity, stood at 52.3, the highest since June 2023. Total new orders and new export orders have increased, while business optimism was at a nine-month high in March 2024.

Strong uptick in Global PMI Composite index



Source: JP Morgan

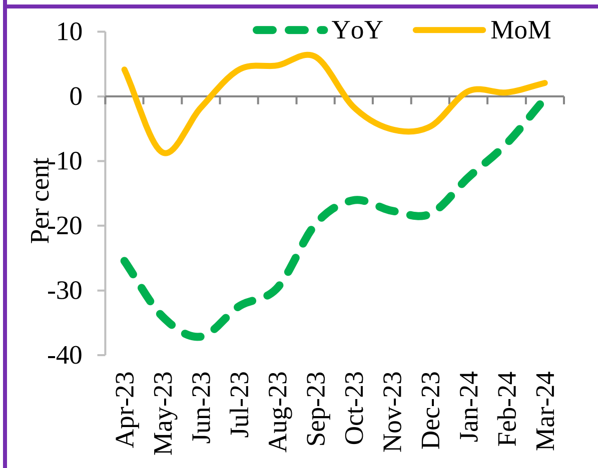
3. But for the recent escalation of the conflict in West Asia, the volatility and uncertainty on account of geopolitical tensions appear to be diminishing. The Geopolitical Risk Indicator, which has been rising since March 2023, dropped in February 2024 signalling a softening in risk perceptions. This poses an upside for growth. The pressure on global supply chains has also eased, thereby reducing logistical challenges. Forward-looking indicators paint a picture of optimism and improving sentiments.

4. Inflationary pressures also seem to have been contained with inflation in recent months being lower than anticipated in many major economies (including Eurozone, China, and Mexico). However, a slight uptick was registered in March 2024, with inflation rising stronger than anticipated in the USA, the UK, Indonesia, and South Africa.

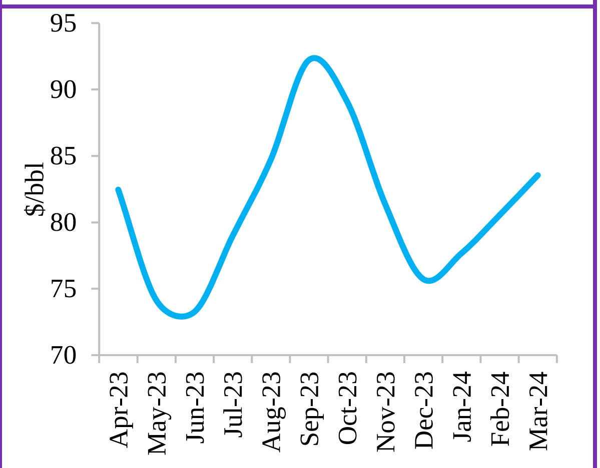
US CPI inflation in March 2024 increased to 3.5 per cent over the corresponding month a year ago and marked a third consecutive 0.4 per cent month-on-month (m-o-m) increase. The increase was primarily boosted by the shelter and energy components, which together drove more than half of the m-o-m headline gain. Similarly, CPI inflation in the UK rose to 3.4 per cent year-on-year (y-o-y) in February 2024 and registered an m-o-m increase of 0.6 per cent driven by upward pressure from housing and household services.

5. Global commodity prices increased in March 2024, driven by both Energy and Non-Energy commodities. Crude oil prices have firmed up since December 2023, partially driven by increasing tension in West Asia and OPEC+ countries deciding to maintain supply constraints until mid-2024. Besides, robust growth prospects in the USA and signs of recovery in China have boosted crude oil prices. At the same time, food prices stiffened in March following a seven-month-long declining trend, driven primarily by rising prices of vegetable oils. Rising palm oil prices are because of seasonal drops in output in leading producing nations, which has coincided with strong demand in Southeast Asia.

Despite declining YoY growth, world commodity prices registered an uptick in momentum



Rise in average crude oil price



Source: World Bank, Pink Sheet Data.
Note: Crude oil price is the average of Brent Crude, WTI Crude and Dubai Crude

The global commodity price index registered a 2.1 per cent m-o-m increase, driven by a 2 per cent increase in energy and a 2.3 per cent increase in non-energy commodities. Crude oil prices reached $83.5/bbl, registering an increase of 3.7 per cent over the previous month. Similarly, the FAO food price index, after registering a consistent decline, rose 1.1 per cent increase in March 2024, owing to an 8 per cent increase in vegetable oil prices.

6. Despite inflation remaining on the higher side, market expectations continue to remain strongly aligned with the Federal Reserve cutting rate later in the year. This is in line with the indications in the recent FOMC meeting in April 2024 and FOMC participants' assessments of appropriate monetary policy as indicated in the dot plot projecting interest rate cuts totalling 75 basis points in 2024. Furthermore, market expectations of a rebalancing labour market, weakening wage growth, and lowering inflation later this year also remain strong. ECB, in its latest April 2024 meeting, has also signalled a rate cut as Eurozone inflation continues to decline.

7. Despite an uptick in growth in major economies, the IMF remains cautious in its outlook on the global economy going forward. In its World Economic Outlook (WEO) April 2024 report, IMF has projected global growth to remain steady at 3.2 per cent in 2024 and 2025, marginally higher than 3.1 per cent in its January 2024 update. The slow pace of expansion is mainly attributed to high borrowing costs, withdrawal of fiscal support, and continued impact of conflict in Europe, weak productivity growth, and increasing geo-economic fragmentation.

India remains a bright spot in the revival of the global economy

8. In contrast to a cautious assessment of the global scenario, the Indian economy continues to exhibit strong economic performance with broad-based growth across sectors. Many international organisations assert India's pivotal role in determining the growth path of Asia in the coming years. RBI also, in its latest MPC meeting, noted the strong growth momentum in the economy and projected real GDP growth for 2024-25 at 7 per cent, driven by a pickup in rural demand and sustained momentum in the manufacturing sector. The WEO has also forecasted India's growth at a high of 6.8 per cent in 2024-25 and 6.5 per cent in 2025-26, based on its assessment of continuing strength in domestic demand and a rising working-age population. The optimism regarding growth prospects is also reflected in consumer and investor perceptions. As per the latest consumer confidence survey, households' sentiments on the general economic situation and employment prospects recorded notable improvements for both the current period as well as the upcoming year. The manufacturing sector is also expected to maintain its momentum on the back of sustained profitability and pick-up in rural demand.

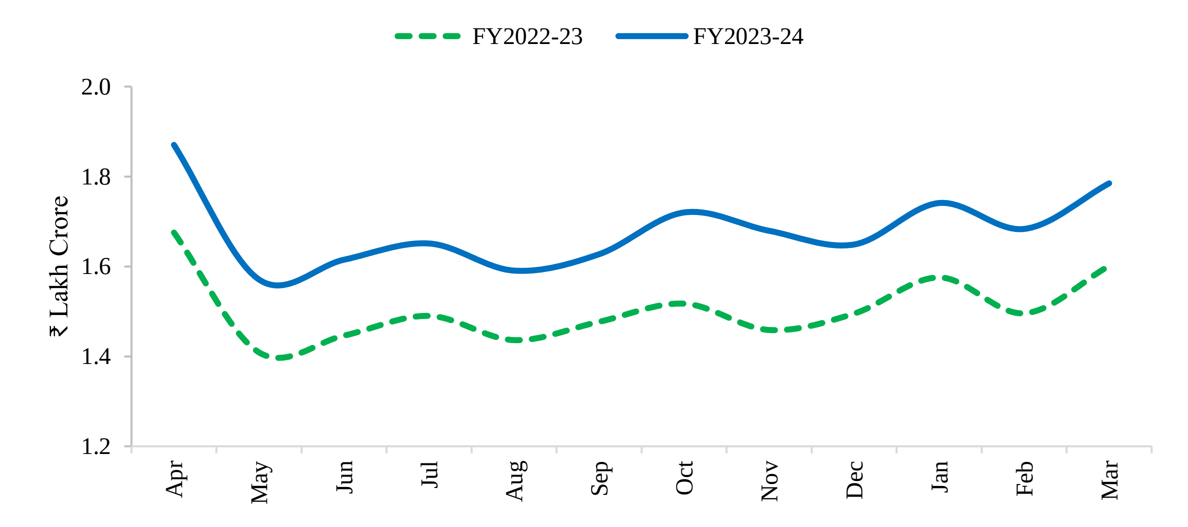
India's Business Renaissance: Sparking Growth and Optimism

9. In March 2024, India witnessed a surge across multiple economic indicators, reflecting robust and resilient business activity. The month marked significant milestones, from record-breaking performances in the stock market to remarkable advancements in tax revenue collection. The buoyancy extended to the manufacturing and services sectors, as evidenced by the soaring HSBC India Manufacturing PMI and Services PMI. Amidst strong demand and positive market conditions, both sectors experienced substantial growth in output, new orders, and employment.

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.

10. Gross GST collection for March 2024 stood at a record high, marking the second-highest collection ever recorded. The increase was primarily driven by domestic transactions that witnessed a huge surge. Collection from domestic transactions signifies a buoyant domestic economic landscape, instilling optimism and bolstering overall revenue accruals. Furthermore, the steady rise in average monthly collections by approximately ₹18,000 crore throughout the year underscores a compelling narrative of robust growth and economic recovery. As March concludes the fiscal year 2024, the uptick in GST collections not only reflects robust compliance but also signifies an expansion in the ambit of GST, covering a broader spectrum of economic activities within its purview.

FY2023-24 GST collections surpasses FY2022-23 in every month



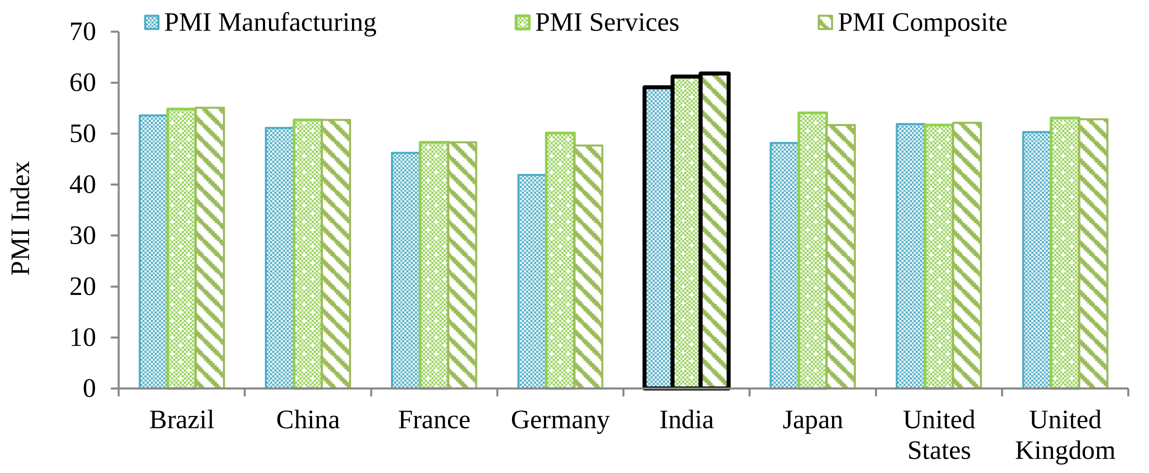
Source: GST Council

March 2024 witnessed a significant milestone in India's tax revenue landscape, particularly in Goods and Services Tax (GST) collections. The Gross GST revenue for the month stood at an impressive ₹1.78

lakh crore. Notably, this figure reflects a substantial 11.5 per cent year-on-year growth, underscoring the robust health of the economy. The surge in GST collection from domestic transactions, registering a remarkable 17.6 per cent increase, played a pivotal role in driving this growth momentum. Moreover, the GST revenue net of refunds for March 2024 amounted to ₹1.65 lakh crore, indicating an 18.4 per cent expansion compared to the same period in the previous year.

11. 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. This upswing was driven by robust demand, marking the fastest growth in factory activity since February 2008. Notably, both output and new orders experienced substantial growth, reaching the highest levels in nearly three-and-a-half years. Moreover, buying levels surged significantly, attaining their strongest position in nine months. This uptick facilitated firms' restocking endeavours, with input inventories expanding at an accelerated pace. Employment also witnessed a moderate increase during this period. Finally, business sentiment improved, reflecting growing optimism among manufacturing firms regarding future prospects.

India tops Global PMI Rankings for March 2024



Source: S&P Global, HSBC

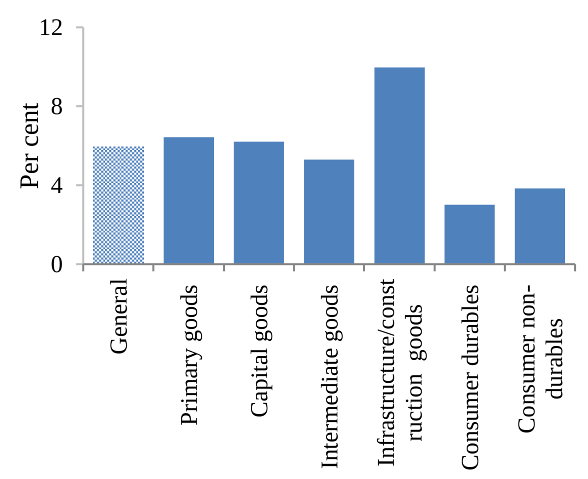
12. In March, India's services sector hit a peak, with exports surging to a fiscal year high. The HSBC India Services PMI soared to 61.2, marking one of the sector's most significant expansions in sales and business activity in nearly 14 years. Employment in the sector continued to grow for the twenty-second consecutive month, driven by strong demand and rising new orders. Service providers capitalised on export opportunities and new business intakes, propelled by positive domestic and international demand trends. Combined with a 16-year high growth in India's manufacturing industry, the HSBC final India Composite PMI Index reached an eight-month high of 61.8, indicating bright growth prospects for the economy.

13. The Index of Industrial Production (IIP) for February 2024 brought forth encouraging insights into India's industrial landscape.

14. Consumer durables emerged as a standout performer, registering an impressive growth rate of 12.3 per cent. This significant increase contrasts sharply with the negative growth observed in the same period last year. However, consumer non-durables experienced a decline of 3.8 per cent in the latest period, explained by fluctuations in consumer demand patterns. Overall, the industrial landscape demonstrates resilience and adaptability, showcasing promising growth trends across various sectors. This reinforces confidence in the underlying strength of the Indian economy, poised for continued growth and development.

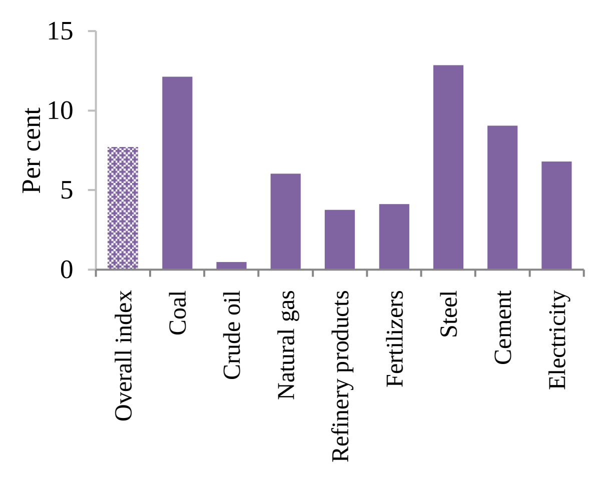
Notably, the IIP for the latest period showcases a robust growth rate of 5.7 per cent, marking an upward trend compared to previous periods. Within this, the mining sector surged by 8 per cent, surpassing its performance from the same period last year. Likewise, manufacturing exhibited resilience with a steady growth rate of 5 per cent, while electricity generation witnessed a significant uptick of 7.5 per cent. In terms of product categories, primary goods, comprising minerals, petroleum products, and electricity, sustained a growth rate of 5.9 per cent. Infrastructure goods, encompassing capital goods and construction materials, displayed moderate growth rates in the latest period. Intermediate goods experienced a notable increase of 9.5 per cent, indicating sustained demand in production processes.

Growth in IIP components in FY2023-24



Source: MoSPI

Performance of 8 core industries in FY2023-24



Source: Office of Economic Adviser, DPIIT

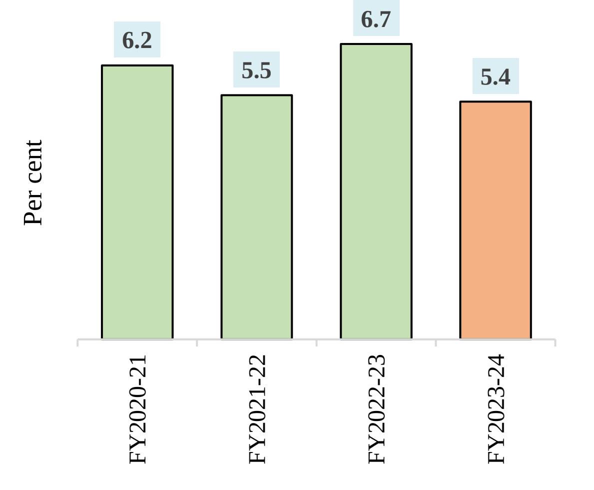
Retail Inflation lowest since the Covid pandemic

15. The government's efforts in managing retail inflation in FY2023-24 have been highly successful. Inflation measured by the Consumer Price Index declined from 6.7 per cent in FY2022-23 to 5.4 per cent in FY2023-24, which is within the upper tolerance level of the inflation-targeting framework. The government's positive action has also contributed to inflation control, such as a reduction in petrol, diesel and LPG prices.

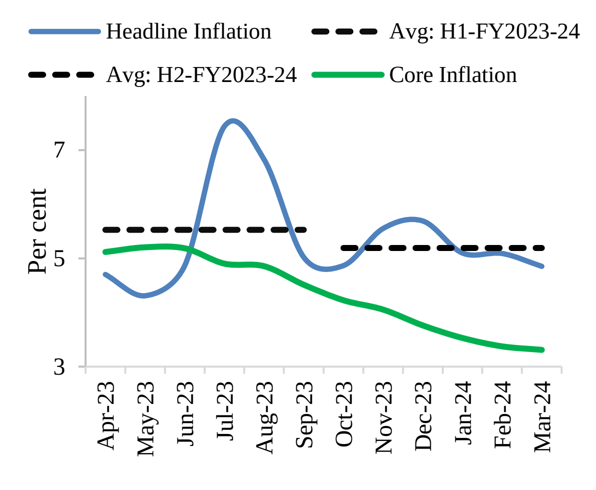
FY2023-24 ended with an inflation rate of 4.85 per cent in March 2024, which is the lowest inflation rate recorded in the last 10 months. Core inflation, which excludes food, fuel & light, declined to 3.3 per cent in March, which is the lowest in this financial year. Miscellaneous group inflation, which broadly indicates price change for services, inched lower to 3.5 per cent in March, the lowest in the last

10 months. Notably, the 'fuel and light' segment is in negative territory, slipped further in March, reflecting the cut in petrol, diesel and LPG prices. The government's positive action has also contributed to inflation control, such as a reduction in petrol, diesel and LPG prices. Recently, prices of non-subsidised LPG were reduced by Rs.100 per 14.2 kg cylinder, effective March 9, 2024. Similarly, effective from March 15, 2024, the Central Government reduced the price of petrol and diesel prices by ₹2 per litre across the country. The full impact of the cut in fuel prices may be reflected in the coming months.

Retail Inflation eased in FY2023-24



Retail Inflation (%) in H2:FY2023-24 lower than H1:FY2023-24

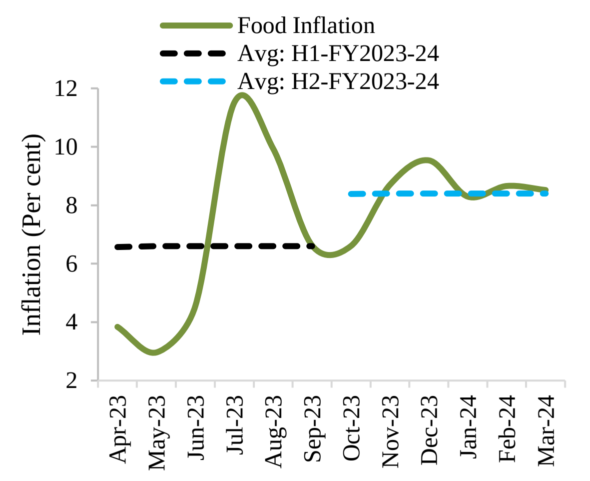
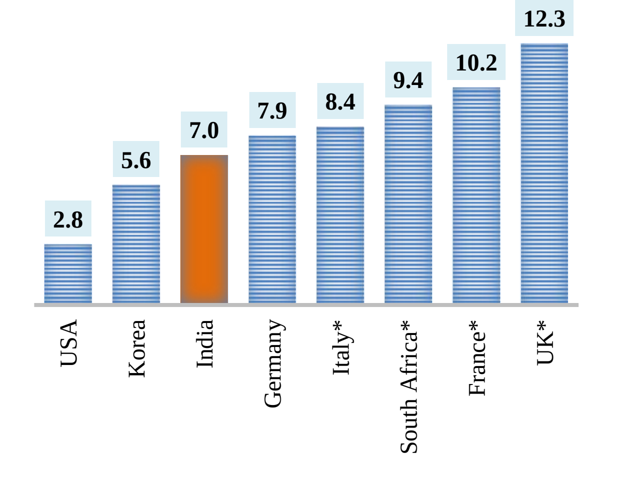


Source: MoSPI

Food Inflation is a global issue

16. High food inflation remains a challenge in several major economies in the world. For instance, countries like Germany, Italy, South Africa, France and the United Kingdom are facing high food prices. Globally the situation calls for continued efforts to address food price pressures.

17. In India, food inflation declined from 8.7 per cent in February to 8.5 per cent in March. Food inflation is caused by certain specific food items like vegetables and pulses. Food prices have been a key challenge for the Governments. Government action on this end has included strengthening of buffers of key food items and making periodic open market releases, easing imports of essential food items through trade policy measures, preventing hoarding through imposition/revision of stock limits, channelling supplies through designated retail outlets etc. Further easing of food prices is on the anvil as IMD has predicted above-normal rainfall during the monsoon season, which is likely to lead to higher production, assuming good spatial and temporal distribution of the rainfall.

Food Inflation (%) in FY2023-24	Globally, 'Food and non-alcoholic beverages' inflation (%) high in FY2023-24
	
Source: MoSPI	Source: OECD Note: * till February 2024

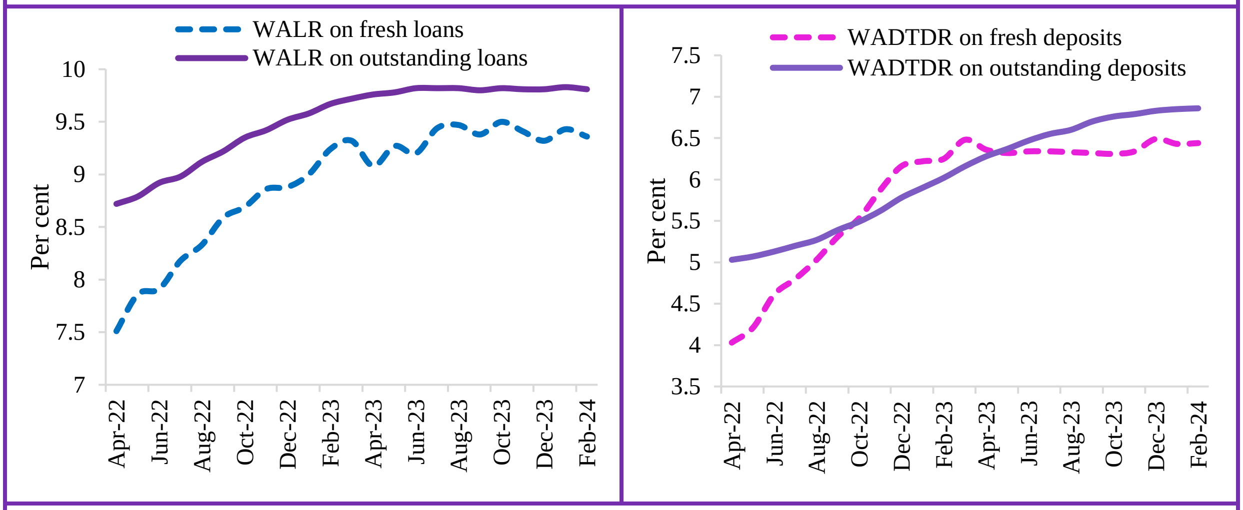
RBI's MPC holds policy rates steady through the last mile of disinflation

18. In its first meeting of FY2024-25, the Reserve Bank of India's Monetary Policy Committee (MPC) held policy rates at their current level and decided to remain focused on the withdrawal of accommodation to ensure that inflation durably aligns with the target, while supporting growth. The MPC stated that monetary policy must remain actively disinflationary in order to ensure inflationary expectations remain anchored and fuller transmission of policy rates is achieved. This price stability would set a strong foundation for high growth in the future.

19. Continued transmission of high policy rates was seen in lending and deposit rates of Scheduled Commercial Banks (SCBs) increasing during FY2023-24. While strong credit demand has aided banks in raising lending rates, tighter liquidity conditions and credit-funding requirements have persuaded banks to raise their deposit rates in order to attract fresh deposits. The MPC states that monetary policy transmission is an ongoing process and has cited it as one of the reasons to hold policy rates steady.

The MPC decided to keep the policy repo rate unchanged at 6.5 per cent. Consequentially, to maintain the Liquidity Adjustment Facility (LAF) corridor, the Standing Deposit Facility (SDF) and the Marginal Standing Facility (MSF) were left unchanged at 6.25 per cent and 6.75 per cent respectively. Thus far into the tightening cycle (May 2022 - February 2023), in comparison to a cumulative policy repo rate increase of 250 basis points (bps), the weighted average lending rate (WALR) on fresh and outstanding rupee loans rose by 185 bps and 111 bps, respectively. On the deposit side, the weighted average domestic term deposit rate (WADTDR) on fresh term deposits and outstanding term deposits increased by 241 bps and 183 bps, respectively.

Lending and deposit rates of SCBs rise along expected lines



Source: RBI Monthly Bulletin

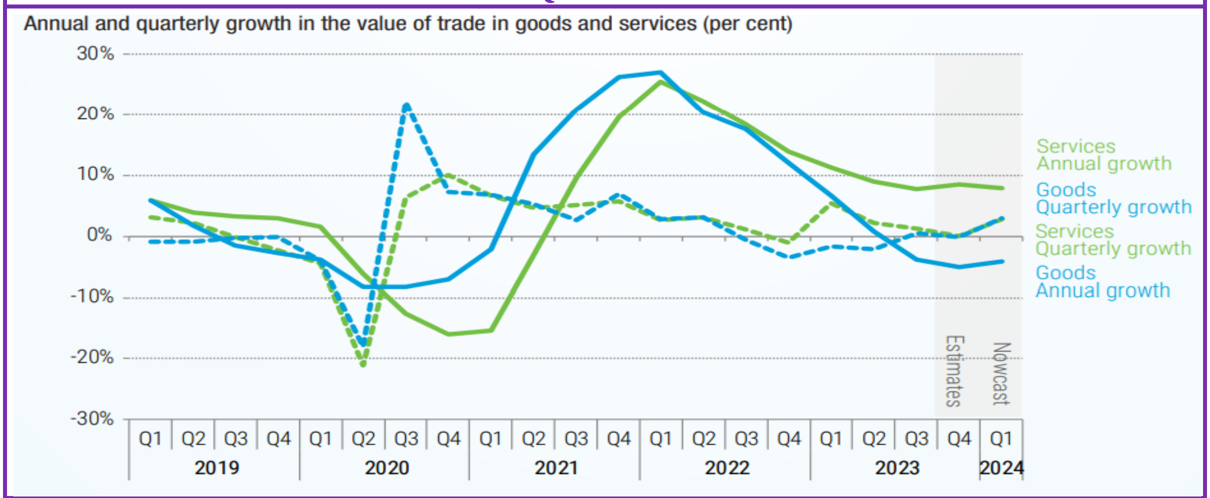
20. Looking ahead, the MPC sees food price uncertainties weighing on the inflation outlook. While a record Rabi crop will help in moderating cereal prices, the increasing occurrence of weather shocks poses an upside risk to food prices. Geopolitical tensions and their effect on oil prices add to this risk. However, Kharif crop prospects look bright at this early stage with the IMD's prediction of an above-normal monsoon this year. Assessing these factors together, the RBI has projected CPI inflation for FY2024-25 at 4.5 per cent, with inflation in Q1, Q2, Q3, and Q4 at 4.9 per cent, 3.8 per cent, 4.6 per cent, and 4.5 per cent.

Global trade continues to decline

21. The United Nations Conference on Trade and Development (UNCTAD's) latest Global Trade update[1] projects global trade in 2023 to be around USD 31 trillion, 3 per cent lower compared to the record high of 2022. Trade in goods is likely to have contracted by 5 per cent, while services trade is expected to have increased by 8 per cent in 2023 over 2022. The decline in the value of global trade throughout 2023 was primarily driven by reduced demand in developed nations and trade weaknesses within East Asia and Latin American regions. Lower commodity prices further contributed to a decline in the value of global trade. Sectoral break-up suggests that during 2023, global trade declined in most sectors, except for pharmaceuticals, transportation equipment, and road vehicles. The surge in services exports was driven by a rebound in tourism and travel-related services, increasing by almost 40 per cent. Despite a decline in the value, the volume of overall trade stayed modestly positive throughout 2023, reflecting a resilient global demand for imported products. Going forward, the outlook for 2024 looks positive, but geopolitical issues and shipping disruptions increase uncertainties.

[1] https://unctad.org/system/files/official-document/ditcinf2024d1.pdf

After a decline through 2023, global trade in goods is expected to increase slightly in Q1 of 2024



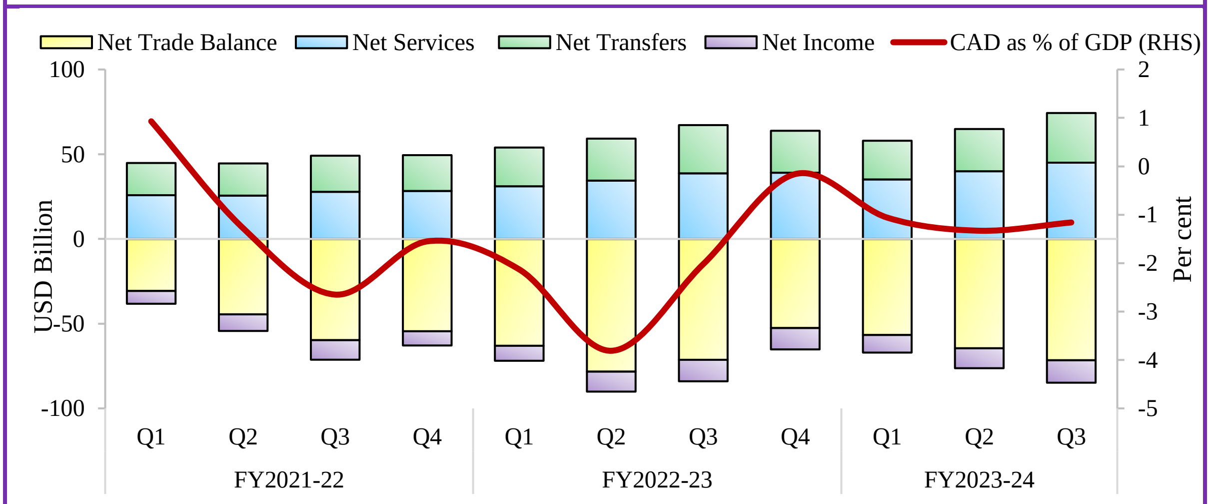
Sources: UNCTADstat, UNCTAD calculations based on national statistics

Note: Quarterly growth is the quarter-over-quarter growth rate of seasonally adjusted values. Annual growth refers to the last four quarters. Figures for Q4 2023 are estimates. Q1 2024 is a nowcast.

Improvement in India's Current Account Deficit

22. Affected by ongoing geopolitical tensions, India's merchandise exports witnessed a contraction for four consequent quarters. However, there is evidence of a trend reversal in Q3 of FY2023-24, with merchandise exports registering growth. Merchandise imports also witnessed marginal growth in Q3. Rising exports and a slight increase in imports led to an improvement in the merchandise trade deficit in Q3 of FY2023-24 compared to the corresponding period of the previous year. Services exports saw further improvement in the third quarter (both sequentially and annually), on the back of rising exports of software, business and travel services. The narrowing of the merchandise trade deficit, coupled with the rising net services receipts and increasing remittances, contributed to an improvement in the current account deficit (CAD) in Q3 of FY2023-24.

Snapshot of Current Account Deficit

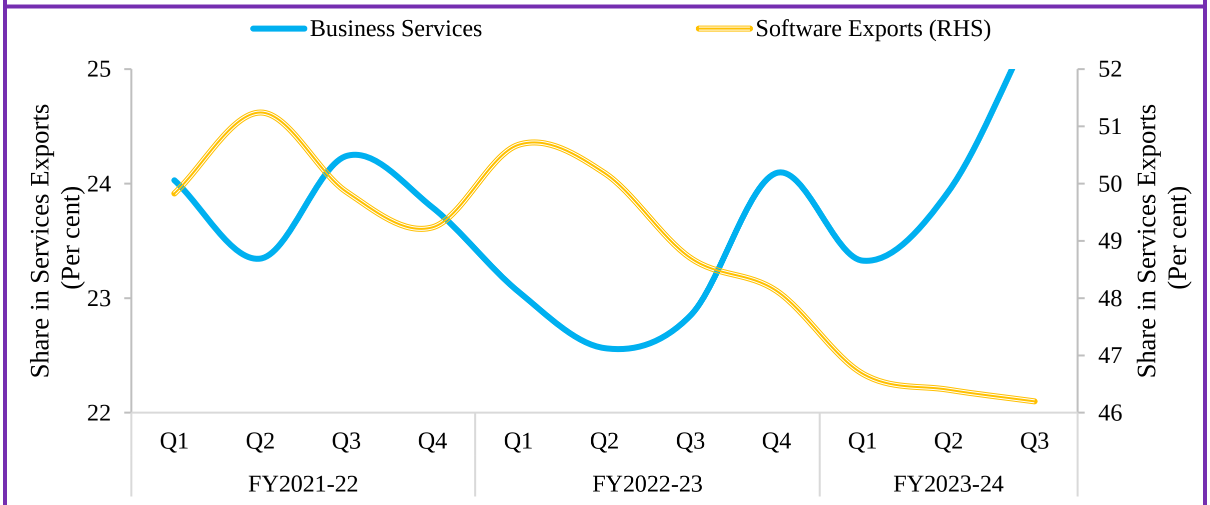


Source: RBI, Developments in India's Balance of Payments during Q3 of FY2023-24

CAD narrowed to 1.2 per cent of the GDP in Q3 of FY2023-24, from 1.3 per cent in the preceding quarter and 2 per cent in the corresponding period of the previous year. Further, the trailing four quarters CAD to GDP ratio stood at 0.93 per cent in Q3 of FY2023-24, compared to 2.4 per cent in the corresponding period of the previous year.

Services exports rose by 5.2 per cent in Q3 of FY2023-24, compared to a growth of 4.2 per cent in the previous quarter. Structural change in the composition of services exports has given a fillip to the external sector, with software exports growing and non-software exports led by business services also rising at the same time. The share of business services in overall services exports rose to 25.4 per cent in Q3 of FY2023-24 from 24.1 per cent in the corresponding period of the previous year. During the same period, the share of software exports in overall services exports declined from 48.1 per cent to 46.2 per cent.

The rising share of business services exports in overall services exports



Source: RBI (Quarterly report on development in India's Balance of Payments)

23. Going forward, India's trade deficit may further decline as the PLI scheme deepens its coverage and extends to other sectors. Further, the recently signed India-European Free Trade Agreement (EFTA) is expected to increase the global market share of the country's exports and reduce India's import dependence **(Box-1).** Various international agencies and RBI expect the CAD to GDP to moderate to below 1 per cent for FY2023-24, driven by growing merchandise & services exports and resilient remittances. The result of the 87th round of RBI's survey of Professional Forecasters on Macroeconomic Indicators projects the CAD to GDP ratio at 1.2 per cent and 1.1 per cent for FY2024-25 and FY2025-26, respectively, driven by rising services exports and remittances and growing merchandise trade.[2] The forecast of narrowing CAD is also supported by rising capital inflows, especially Foreign Portfolio Investments (FPIs), and an assumption of improvement in Foreign Direct Investment (FDI).

[2] https://rbidocs.rbi.org.in/rdocs/Publications/PDFs/SPF8705042425182A580CFE4F51A4247AA97D5EF40B.PDF

Box 1: India's pact with the European Free Trade Association (EFTA)

The India-EFTA Trade and Economic Partnership Agreement (TEPA) is the latest in India's recent Free Trade Agreements (FTAs), signed on 10th March 2024. The thrust of the FTA is deeper economic engagement with the EFTA (European Free Trade Association) countries- Switzerland, Norway, Iceland, and Liechtenstein. It heralds the westward reach of India's FTAs, being the first with any European country and the Western world. The successful conclusion of an FTA with developed countries, including Switzerland and Norway, is a significant positive signal to the world, showcasing India's firm commitment to trade liberalisation at a time of rising protectionism across both developed and developing countries. It is an innovative and well-balanced pact that covers two-way trade in goods and services as well as bilateral investments.

India-EFTA trade dynamics: Since 2017, India has consistently had a trade deficit with EFTA countries, except in 2021. It peaked at EUR 1,266 million in 2022 and then declined to EUR 884 million in 2023. Switzerland is India's largest trade partner among the group's four members. India's imports from Switzerland during 2023 stood at EURO 2408 million vis-à-vis India's exports of EURO 1923 million, resulting in a trade deficit of over EUR 485 million. India's major imports from EFTA countries include Machinery, mechanical appliances (HS 84), pharmaceutical products (HS 30), electrical machinery (HS 85), optical, medical, and surgical instruments (HS 90), and clocks and watches (HS 91). Major Indian exports to EFTA countries include organic chemicals (HS 29), woven apparel or clothing accessories (HS 62), electrical machinery (HS 85), aluminium and articles thereof (HS 76), and knitted apparel or clothing accessories (HS 61).[3]

Key features of the trade agreement

- **Investment-** TEPA has set a target of a USD 100 billion investment into India from EFTA countries and consequent one million jobs over a 15-year period. It also provides India with the ability to withdraw its tariff concessions if such expected investment is not achieved. For the promised investments and jobs to materialise, two conditions need to be met in respect of India's growth rate and the return on EFTA investments. If not, both sides may lower their level of ambitions. If India is not satisfied, the agreement has a provision for it to pull back its tariff concessions in a proportionate manner after 18 years.[4]
- **Trade in goods-** India expects the pact to boost exports of pharmaceuticals, garments, chemicals, and machinery while attracting investments in automobiles, food processing, railways, and the financial sector. India is the EFTA's fifth-largest trading partner after the European Union, the United States, Britain, and China, with total two-way trade touching USD 25 billion in 2023, its trade ministry estimates. Its exports to the EFTA touched USD 2.8 billion, and imports were about USD 22 billion during that period. With

a population of 13 million and a combined GDP of more than USD 1 trillion, the EFTA nations are the world's ninth-largest merchandise trader and fifth-largest in commercial services.

- **India-Swiss relations-** The pact is expected to improve trade ties with Switzerland, the biggest partner in the EFTA. India is Switzerland's fourth-largest trading partner in Asia and the largest in South Asia. More than 300 Swiss companies, such as Nestle, Holcim, Sulzer, and Novartis, apart from banks such as UBS, operate in India, while Indian IT majors TCS, Infosys, and HCL work in Switzerland.

Moderation in merchandise trade in FY2023-24

24. The trend of growth in Q3 of FY2023-24, continued in Q4 also. Coupled with rising exports, imports also witnessed growth in Q4. The positive effect of rising exports outweighed the impact of rising imports, resulting in the narrowing of the merchandise trade deficit in Q4. However, compared to FY2022-23, trade has slowed with the contraction of both exports and imports. This is due to a slowdown in India's major exporting partners, impacted by the lagged impact of monetary tightening undertaken the world over. Yet the slowing of trade has resulted in the merchandise trade deficit narrowing in FY2023-24, as exports have shown a smaller contraction than imports. India's services exports grew at their fastest pace in FY2023-24, largely driven by growth in software exports and business services exports.

India's merchandise trade deficit narrowed to USD 241.5 billion in FY2023-24 from USD 264.9 billion in FY2022-23. Merchandise exports have fallen by 3.1 per cent, and imports are down by 5.2 per cent. Weaker oil prices have affected both imports and exports of oil. Apart from this, exports of gems & jewellery and organic & inorganic chemicals have also dragged the overall export growth down. However, the non-petroleum and non-gems & jewellery merchandise exports have shown resilience with a sustained uptick in the last few months, resulting in exports worth USD 320.2 billion in FY2023-24, 1.5 per cent higher compared to the previous year. On the import side, apart from oil, non-oil-non-gold imports have been weak. Within this, capital goods, chemicals and coal imports have led the way. On the other hand, gold and electronic imports have picked up pace.

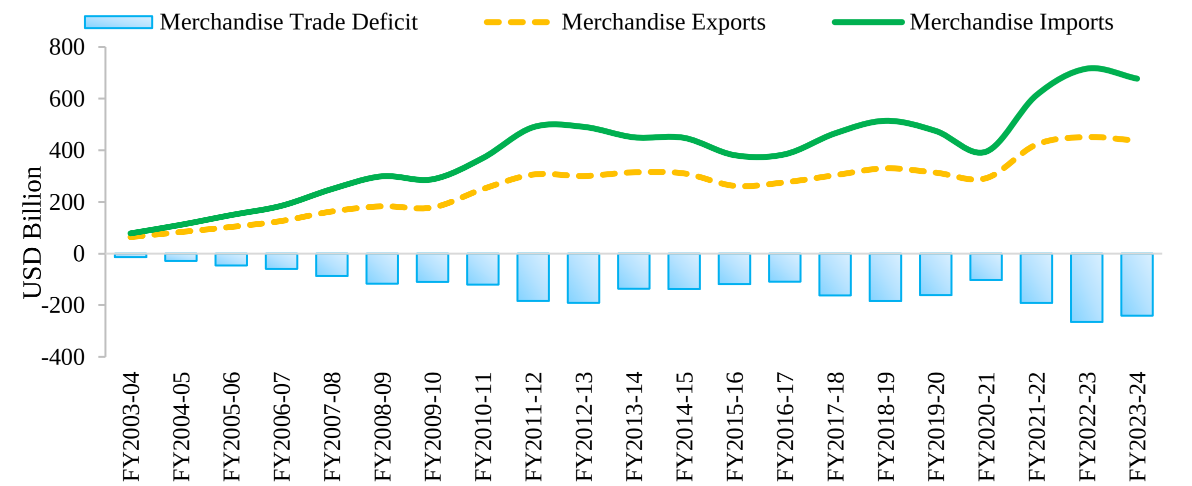
Merchandise exports in FY2023-24 have been largely driven by rising exports of electronic goods and engineering goods. Engineering goods exports witnessed 2.1 per cent growth in FY2023-24, reaching USD 109.3 billion from USD 107 billion in FY2022-23. Consequently, the share of engineering goods exports in total merchandise exports increased to 25 per cent in FY2023-24 from 23.7 per cent in the previous year. Major export destinations for this sector include the UAE, Germany, Saudi Arabia, Italy, the UK, Turkey, and South Korea. Electronic goods have emerged as a standout sector in the country's export basket amid a slowdown in global trade. Electronics goods exports accounted for 6.7 per cent of India's total exports in FY2023-24, increasing from USD 23.6 billion in FY2022-23 to USD 29.1 billion in FY2023-24. According to the India Cellular and Electronics Association (ICEA), mobile phone

---

[3] https://trade.efta.int/#/country-graph/EFTA/IN/2023/HS2
[4] https://www.efta.int/sites/default/files/documents/legal-texts/free-trade-relations/india/1.%20Main%20Agreement.pdf

manufacturing in value terms increased by 21 times to ₹4.1 lakh crore in India in the last 10 years as government policy measures like the PLI scheme played a critical role in attracting global players to boost local production.5 India now produces 97 per cent of its total mobile phone demand locally and 30 per cent of the total production in FY2023-24 is meant for export. In FY2014-15, mobile phone exports from India were a mere ₹1,556 crore. The industry expects to end FY2023-24 with an estimated export of ₹1.2 lakh crore. Net services receipts increased to USD 162.1 billion in FY2023-24 from USD 143.3 billion in FY2022-23, led by an increase in export receipts and a dip in import payments.

Moderation in merchandise exports in FY2023-24



Source: DGCIS, M/o Commerce

Rising Capital Inflows

25. India's FPI flows saw a significant turnaround in FY2023-24. Supported by rising economic growth, a favourable business environment, and strong macroeconomic fundamentals, India witnessed robust FPI inflows in FY2023-24. Net FPI inflows stood at USD 41 billion during FY2023-24, as against net outflows in the preceding two years. This is the second-highest level of FPI inflow after FY2014-15. India received the highest equity inflows among emerging market peers during FY2023-24. The imminent inclusion of India's sovereign bonds in global bond indices is likely to spur demand for exposure to India further.

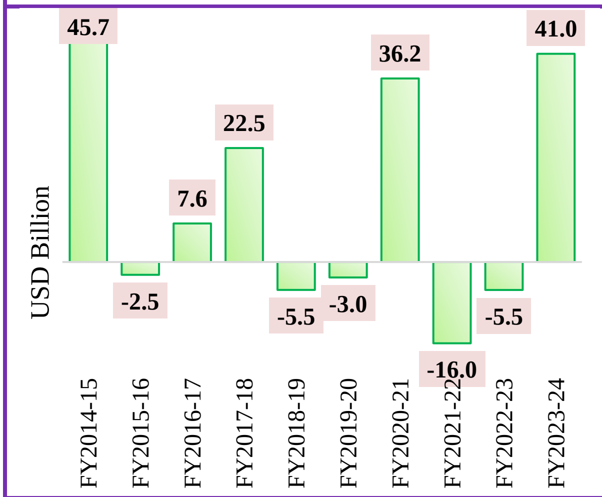
26. Owing to a rise in repatriation/disinvestment, net FDI moderated to USD 25.5 billion in the first ten months of FY2023-24 from USD 36.8 billion a year ago.[6] Despite global FDI flows remaining weak in 2023 with only a modest increase of 3 per cent over 2022, India fared better than its Asian peers did[7]. India's foreign exchange reserves reached an all-time high of USD 645.6 billion as of March 29, 2024, sufficient to cover 11 months of projected imports and more than 100 per cent of total external debt.

[5] https://www.thehindu.com/business/Industry/india-produces-97-of-its-total-mobile-phone-demand-locally-icea/article67935365.ece

[6] Net FDI=Gross Inflows-Repatriation/Disinvestment

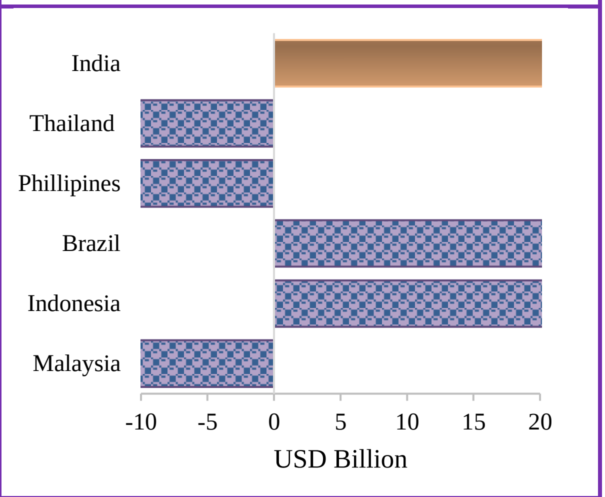
[7] https://rbidocs.rbi.org.in/rdocs/Bulletin/PDFs/01AR19032024876A87F47E424F8787B2C285EA278062.PDF

Second-highest FPI inflows in FY2023-24, after FY2014-15



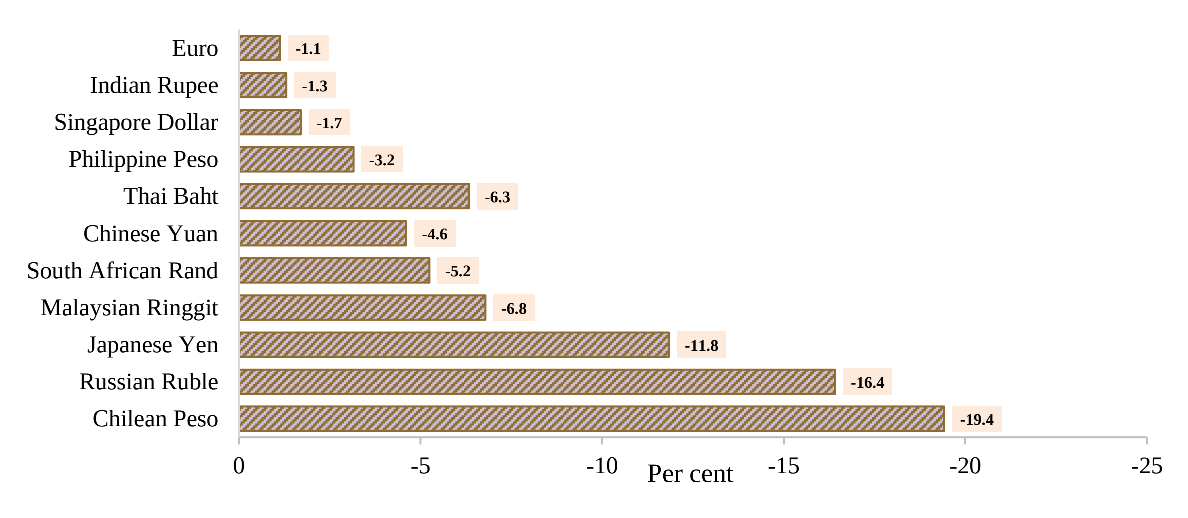
Source: NSDL

Highest FPI Equity Inflows across emerging market economies



Source: Bloomberg

Movement of the Indian Rupee and major currencies against the US Dollar (31st March 2024 over 31st March 2023)



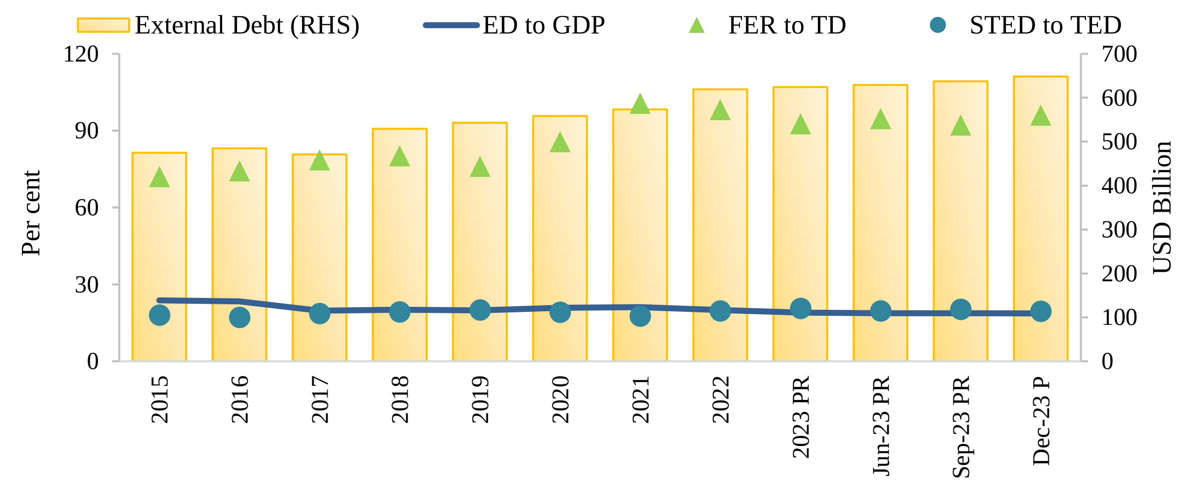
Source: Bloomberg

27. The ₹/USD exchange rate hovered in the range of ₹82-83.5/USD, being one of the least volatile major currencies among its emerging market peers and a few advanced economies in FY2023-24. It also exhibited the lowest volatility in FY2023-24 compared to the previous three years. The relative stability of the rupee, despite a stronger US dollar and elevated US treasury yields, reflects the strength of the Indian economy's sound macroeconomic fundamentals, financial stability, and improvements in external position. Going forward, robust foreign inflows and comfortable trade deficits are expected to keep the rupee within a comfortable range.

A slight moderation in the External Debt-to-GDP ratio

28. The external debt to GDP ratio stood at 18.7 per cent as at end-December 2023, slightly lower from 18.8 per cent as at end-September 2023. While the share of long-term debt (with an original maturity of above one year) in total external debt increased slightly, there has been a decline in the share of short-term debt (with an original maturity of up to one year) in total external debt. The US dollar-denominated debt remained the largest component of India's external debt in end-December 2023, followed by Indian Rupee, Japanese Yen, SDR, and Euro.

India's External Debt Position and Vulnerability Indicators



Source: RBI

Note: PR - Partially Revised, P-Provisional; ED – External Debt, FER-Foreign Exchange Reserves, TED – Total External Debt, STED – Short Term External Debt

India's external debt was placed at USD 648.2 billion at the end of December 2023. The long-term debt accounted for USD 521.9 billion and the short-term debt accounted for USD 126.3 billion. The long-term debt at the end of December 2023 was USD 13.9 billion higher than its level at the end of September 2023. The share of short-term debt in total external debt decreased to 19.5 per cent at the end of December 2023 from 20.3 per cent at the end of September 2023. Similarly, the ratio of short-term debt (original maturity) to foreign exchange reserves decreased to 20.3 per cent at the end of December 2023 from 22 per cent at the end of September 2023. The share of outstanding debt of non-financial corporations in total external debt was 38.8 per cent as of the end of December 2023, followed by deposit-taking corporations (except the central bank) (27.2 per cent), general government (21.9 per cent) and other financial corporations (7.2 per cent).

Conclusion and Outlook

29. Global economic growth recovery is underway in major economies, although disparities persist. While the leading indicators signal increased economic activity and geopolitical tensions have eased slightly, recent conflicts continue to pose risks. Despite the global challenges, India stands out with its strong economic performance, highlighting broad-based growth across sectors and asserting its pivotal role in supporting the global growth trajectory.

30. Global inflation remains contained overall and has declined in most regions, but the recent uptick in inflationary pressures across nations along with persistence in core inflation warrants attention. In India, the government and the RBI's efforts to combat inflation, including calibrated policy rates, strengthening food buffers, and easing imports, have ensured effective inflation management. Consequently, retail inflation in FY2023-24 witnessed a significant decline, reaching its lowest level since the Covid-19 pandemic, with core inflation dropping to 3.3 per cent in March 2024. Further, a predicted above-normal monsoon in 2024 bodes well for a good harvest, easing inflation concerns.

31. Slowing global trade, as indicated by the United Nations Conference on Trade and Development (UNCTAD), presents a challenging landscape for economies worldwide. Despite these headwinds, India's trade deficit is expected to decline in the coming years as the PLI scheme deepens its coverage and extends to other sectors. Driven by strong exports and resilient remittances, various international agencies and RBI expect the CAD to GDP ratio to have moderated below 1 per cent in FY2023-24. Additionally, strategic trade agreements like the India-EFTA Trade and Economic Partnership Agreement (TEPA) signal India's commitment to expanding its global trade footprint and leveraging international partnerships for sustained economic growth.

32. Overall, India continues to be the fastest-growing major economy with positive assessments of the growth outlook for the current financial year, for India by international organisations and RBI. Accordingly, the IMF, in its April 2024 WEO has revised upwards its estimate of India's real GDP growth for FY2023-24 to 7.8 per cent from 6.7 per cent in its January 2024 update and 6.3 per cent in its October 2023 WEO.

For feedback and queries, one may write to: mer-dea@gov.in

This document has been prepared by Bharadwaja Adiraju, Deeksha Supyaal Bisht, Esha Swaroop, Harish Kumar Kallega, Megha Arora, Radhika Goyal, Shreya Bajaj and Sonali Chowdhry.

Performance of High-Frequency Indicators

Data Title	Unit	YTD Period/As at the end of	Year to Date			Year to Date (YoY Growth)		
			2021-22	2022-23	2023-24	2021-22	2022-23	2023-24
Agriculture								
Fertiliser Sales	Mn Tonnes	Apr-Mar	53.8	62.7	62.9	-6.8	16.5	0.3
Domestic Tractor Sales	Lakh	Apr-Mar	8.4	9.5	8.7	-6.4	13.1	-8.4
Rabi Sowing	Mn Hectare	2-Feb	69.8	70.9	70.9	1.1	1.6	0.0
Kharif Production	Mn Tonnes	2nd AE	153.5	153.4	154.2	3.8	-0.1	0.5
Reservoir Level	Bn Cu. Metres	11-Apr	68.6	66.9	58.3	10.8	-2.5	-12.9
Wheat Procurement (RMS)	LMT	NA	433.4	187.9	262	11.2	-56.6	39.4
Rice Procurement (KMS)	LMT	30-Sep-23	575.9	569.5	-	-4.4	-1.1	-
Rainfall	Millimetres	June-Sep	874.5	925	820		5.8	-11.4
Credit to Agriculture	₹ Lakh crore	Feb	14.4	16.6	20.4	10.3	15.3	22.9
Industry								
IIP	Index	Apr-Feb	130	137.3	145.4	12.5	5.6	5.9
8-Core Industries	Index	Apr-Feb	134.1	145	156.2	11.0	8.3	7.7
Domestic Auto sales	Lakh	Apr-Mar	164.4	196.6	228.7	-7.7	19.6	16.3
PMI Manufacturing	Index	Apr-Mar	54	55.6	57.2	7.5	3.0	2.9
Power consumption	Billion kWh	Apr-Mar	1374.4	1504.3	1622.6	8.1	9.5	7.9
Natural gas production	Bn Cu. Metres	Apr-Feb	31.1	31.5	33.3	19.8	1.1	5.7
Cement production	Index	Apr-Feb	153.1	168.1	183.4	22.3	9.8	9.1
Steel consumption	Mn Tonnes	Apr-Mar	105.8	118.5	133.9	11.5	11.9	13.0

Data Title	Unit	YTD Period/As at the end of	Year to Date			Year to Date (YoY Growth)		
			2021-22	2022-23	2023-24	2021-22	2022-23	2023-24
Inflation								
CPI-C	Index	Apr-Mar	163.8	174.7	184.1	5.5	6.7	5.4
WPI	Index	Apr-Mar	139.4	152.5	151.5	13.0	9.4	-0.7
CFPI	Index	Apr-Mar	163.7	174.6	187.6	3.8	6.6	7.5
CPI-Core	Index	Apr-Mar	162.9	172.8	180.3	6.0	6.1	4.3
Services								
Average Daily ETC Collection	₹ Crore	Apr-Mar	104	148.5	176.2	64.2	42.2	18.9
Domestic Air Passenger Traffic	Lakh	Apr-Mar	1669.3	2958.6	3057.9	58.6	77.2	3.7
Port Cargo Traffic	Million tonnes	Apr-Mar	719.4	744.7	712.4	7.3	3.5	-4.3
Rail Freight Traffic	Million tonnes	Apr-Feb	1278.8	1367.5	1434	16.0	6.9	4.9
PMI Services	Index	Apr-Mar	52.3	57.3	60.3	25.5	9.5	5.2
Fuel Consumption	Million tonnes	Apr-Mar	201.7	223.0	233.3	3.8	10.6	4.6
UPI (Volume)	Crore	Apr-Mar	4698.4	8273.4	13116.5	110.4	76.1	58.5
E-Way Bill Volume	Crore	Apr-Mar	77.4	95.8	111.2	25.5	23.8	16.1
Fiscal Indicators								
Gross tax revenue (Central Govt)	₹ Lakh crore	Apr-Feb	22.7	25.5	28.9	35.9	12.3	13.3
Revenue Expenditure	₹ Lakh crore	Apr-Feb	26.6	29.0	29.4	10.4	9.0	1.4
Capital Expenditure	₹ Lakh crore	Apr-Feb	4.8	5.9	8.1	17.1	22.9	37.3
Fiscal Deficit	₹ Lakh crore	Apr-Feb	13.2	14.5	15.0	-5.7	9.8	3.4
Revenue Deficit	₹ Lakh crore	Apr-Feb	8.7	9.2	7.3	-16.6	5.7	-20.7
Primary Deficit	₹ Lakh crore	Apr-Feb	6.4	6.5	6.2	-24.7	1.6	-4.6
GST Collection	₹ Lakh crore	Apr-Mar	14.9	18.1	20.2	30.8	21.7	11.6

Data Title	Unit	YTD Period/As at the end of	Year to Date			Year to Date (YoY Growth)		
			2021-22	2022-23	2023-24	2021-22	2022-23	2023-24
External Sector								
Merchandise exports	USD Billion	Apr-Mar	422.0	451.0	437.1	44.6	6.9	-3.1
Non-oil exports	USD Billion	Apr-Mar	354.5	353.6	352.9	33.3	-0.3	-0.2
Merchandise imports	USD Billion	Apr-Mar	613.0	714.6	677.5	55.4	16.6	-5.2
Non-oil non-gold/silver imports	USD Billion	Apr-Mar	401.8	464.9	446.7	45.4	15.7	-3.9
Net FDI	USD Billion	Apr-Feb	51.1	39.6	27.1	-3.4	-22.5	-31.6
Exchange Rate	INR/USD	Apr-Mar	74.5	80.4	82.8	0.4	7.9	3.0
Foreign Exchange Reserves	USD Billion	12th April	603.7	586.4	643.2	3.7	-2.9	9.7
Import Cover	Months	Mar	12.1	10	11.4			
Monetary and Financial								
Total Bank Credit	₹ Lakh crore	5th Apr	119.7	138.5	166	9.9	15.7	19.9
Non-Food Credit	₹ Lakh crore	5th Apr	119.3	138.3	165.8	10.1	15.9	19.9
10-Year Bond Yields	Per cent	Apr-Mar	6.3	7.3	7.2	0.3	1.0	-0.2
Repo Rate	Per cent	23rd Apr	4	6.5	6.5	0.0	2.5	0.0
Currency in Circulation	₹ Lakh crore	12th Apr	31.8	34.4	35.7	10.3	8.2	3.8
M0	₹ Lakh crore	12th Apr	39.6	44.1	46.9	10.6	11.4	6.3
Employment								
Net payroll additions under EPFO	Lakh	Apr-Feb	107.0	125.1	132.8	62.5	16.9	6.2
Number of person demanded employment under MGNREGA	Crore	Apr-Mar	40.2	33.1	33.2	-10.0	-17.5	0.3
Urban Unemployment Rate	Per cent	Oct-Dec	8.7	7.2	6.5	-1.6	-1.5	-0.7
Subscriber Additions: NPS	Lakh	Apr-Dec	5.7	5.6	6.6	42.6	-1.6	17.1