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THE ECONOMIC PERISCOPE

29 January 2024

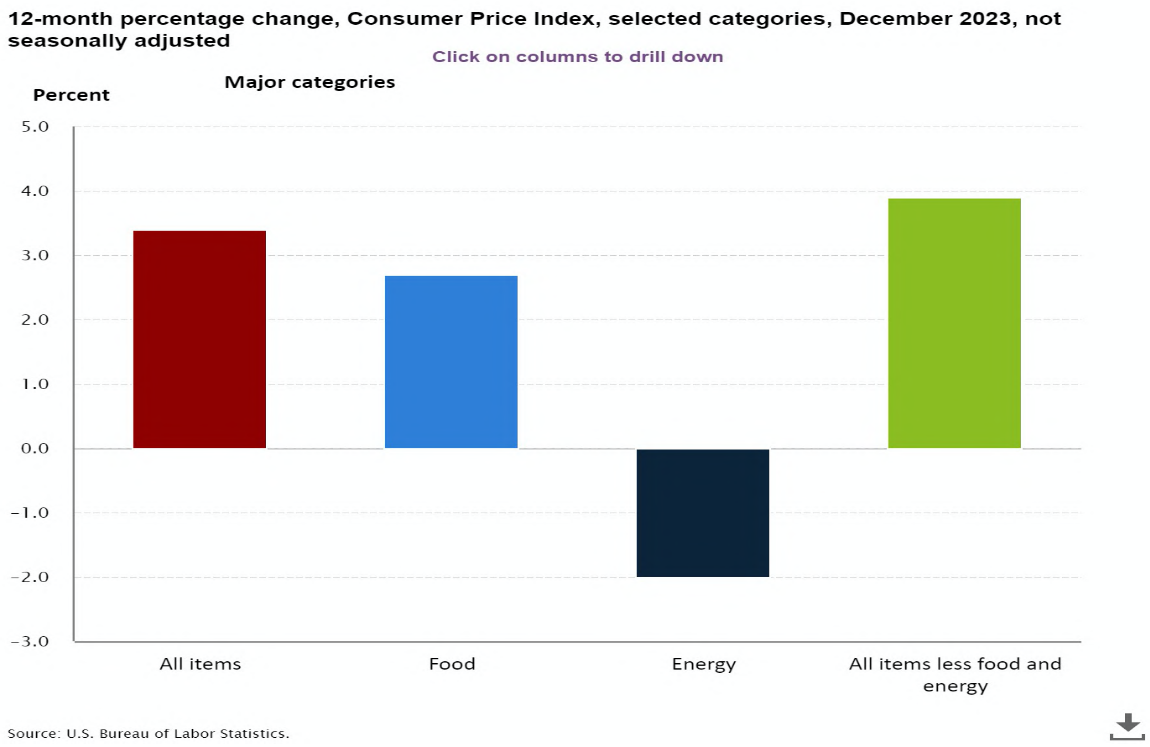
Global Economic Developments

The US inflation rate has increased to 3.4 percent for the 12 months ending December2023, higher than the 3.1- percent increase in November 2023, indicating that easing of US policy rate might take a bit longer than anticipated. The increase is higher than market expectation of 3.2%, due to the slow pace of calming down the energy prices.

The increase is higher than market expectation of 3.2%, due to the slow pace of calming down the energy prices. For instance, Energy costs dropped 2% (vs -5.4% in November), with gasoline declining 1.9% (vs -8.9%), utility (piped) gas service falling 13.8% (vs -10.4%)

and fuel oil sinking 14.7% (vs -24.8%).[1] According to the Bureau of Labour Statistics, US Department of Labour (BLS), Annual core inflation rate eased to 3.9%, below 4% in the previous period but above expectations of 3.8%. Compared to November, consumer prices went up 0.3%, the most in three months and above forecasts of 0.2%. The U.S. Dollar Index (DXY) has slightly moderated at 102.37 (-0.03%) on 15 Jan'24, the USD can be expected to soften in 2024 going forward as softer US policy rate might relatively weaken dollar vis-à-vis other currencies. The Fed minutes have shown there is only a thought of possible rate cut depending on the inflation situation, but still it is too early to expect a rate cut before June'24.

Chart 1: US Inflation Trends



Source: U.S. Bureau of Labour Statistics.

According to the U.S. Bureau of Labour Statistics, in December 2023, 216,000 jobs were created, compared to 173,000 vacancies in November2023. The three-month moving average fell from 180,000 to 165,000. The unemployment rate remained unchanged at 3.7% (the number of unemployed persons was essentially unchanged at 6.3 million). These measures are higher than a year earlier, when the jobless rate was 3.5 percent and the number of unemployed persons was 5.7 million.[2] Another relevant point was the 0.4% increase in wages at the margin, which, on an annual basis, indicates a rise of 4.1% (compared to 4% in October).

Interestingly, Wall Street stocks reached a record pinnacle, pushed by significant gains in major technology companies. The S&P 500 index rose by 1.2%, concluding at 4,839.81, surpassing a previous record set on January 3, 2022. In January, the University of Michigan Consumer Sentiment Index increased to 78.8, surpassing the consensus of 70.0 and marking an increase from December's 69.7.

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[1] U.S. Bureau of Labour Statistics, and Trading Economics.
[2] https://www.bls.gov/news.release/empsit.nr0.htm

The Euro-Area economy contracted slightly in Q3 2023, with varied performance across member countries. The European Central Bank's decision to maintain high-interest rates indicates continued concern over inflation, which saw a moderate increase in December 2023. The forecast of lower interest rates in 2024 and 2025 by Trading Economics could lead to a weaker Euro, as lower interest rates typically reduce the currency's attractiveness to foreign investors. The eurozone's unemployment rate fell to 6.4% in November 2023, down from 6.5% in the previous month and from 6.7% the previous year, according to the latest data from Eurostat, the EU's statistical office. The number of unemployed individuals declined by 99 thousand from the prior month to 10.970 million. Meanwhile, the youth unemployment rate, reflecting those under 25 seeking employment, fell to 14.5% from the previous month's 14.8%.

UK inflation has increased to 4% in Dec'23 backed by a rise in alcohol and tobacco prices. The core inflation remains marginally higher at 5.1% than the consensus forecast at 4.9%. Travel and transport remain the highest contributing components at the core inflation. The UK economy experienced a slight contraction in Q3 2023, with a cautious stance by the Bank of England in maintaining its interest rate. This decision reflects an attempt to balance inflation control with economic growth. The forecast of lower interest rates in the coming years suggests a potential easing of monetary policy. However, this could lead to a softer Pound (GBP), as lower interest rates generally decrease a currency's appeal to foreign investors. The forecasted modest growth in GDP in the upcoming years might not be sufficient to significantly strengthen the Pound.

China's GDP grew 5.2% in the fourth quarter. Interestingly, China's population declined for the second consecutive year since 2023, due to combined Covid lockdown effect and record low birth rate. Chinese central bank left the medium-term policy rate unchanged. However, later, expecting a rapid credit growth in the first quarter, the PBOC declared that the reserve ratio requirements for banks will be reduced by 50 basis points since 5th Feb2024, to facilitate long-term capital. After a decline of the CSI 300, which is a capitalization-weighted stock market index designed to replicate the performance of the top 300 stocks traded on the Shanghai Stock Exchange and the Shenzhen Stock Exchange, it shows mild uptick on 18Jan'24. Nevertheless, Hong Kong's Hang Seng index tumbled 3.68%, led by declines in real estate and consumer stocks.[3] Previously, the CSI 300, a major Chinese stock index, fell to its lowest in nearly five years when China's economic growth for the fourth quarter came in below expectations.

Over the past three years, about $6 trillion has been wiped off the value of Chinese and Hong Kong stocks.[4] China is considering the deployment of some $278 billion to stabilise its stock market, mainly using capital held offshore by state-owned enterprises to buy shares through Hong Kong's Stock Connect link with mainland markets. China continues to face challenges in the form of a property debt crisis, weak consumer spending and mounting local government debt. Meanwhile, chipmakers in China are boosting ties with Japanese companies to navigate export controls imposed by the US and its allies. Despite the ongoing challenges that China is facing including geopolitical tensions, shifting government policies, a slowing economy, and concerns over supply-chain resilience, China's exports and imports grew slightly in December'23. Exports rose by 2.3% to $303.6 billion, while imports rose by 0.2% to $228.2 billion. China's total trade surplus for December'23 was $75.3 billion, up 10.1% from $68.3 billion in November'23. China's consumer prices fell by 0.3% y/y in December 2023, marking the third straight month of decline which was the longest streak of drop since October 2009.

[3] Benzinga – News.
[4] "Chinese stocks have lost $6 trillion in 3 years. Here's what you need to know" (23 January 2024)CNN Business; https://edition.cnn.com/2024/01/23/investing/china-stock-market-losses-explained/index.html

Figures came less than market forecasts of a 0.4% fall while moderating from the steepest decrease in 3 years of 0.5% for November. China's producer price index (PPI), which measures costs for goods at the factory gate, went down 2.7 percent year on year in December'23. The decrease narrowed from a 3-percent decline in November. According to a BCG note published in LinkedIn, even assuming a slower growth rate of around 3%, however, China's GDP in 2030 is projected to be around $5 trillion greater than in 2022. That would surpass the expected economic growth of the EU, the Association of Southeast Asian Nations (ASEAN), South Korea and Japan combined. However, Chinese markets have unique needs and regulations, and domestic competition is fierce. Companies need to carefully consider the role China will play in their portfolios.

The Bank of Japan (BOJ), despite maintaining a negative ultra-loose interest rate, did not withered the end of the easy money era. The yen and Japan's stock markets rebound after the hawkish momentum expressed by the Governor Ueda. Big firms wage negotiations during March are under close watch by market participants.

Indian Economic Developments:

World Bank kept its economic growth projection for India unchanged at 6.4% for FY25 on the back of strong domestic demand, rising public infrastructure spending, and strong private-sector credit growth. The RBI's expectation of India's growth is around 7% and inflation at 4.5% in FY25. Real GDP registered a growth of 7.6 per cent in the second quarter of 2023-24, up from 6.2 per cent in second quarter of the 2022-23 (7.8 per cent in Q1:2023-24). Among the components of real GDP, private final consumption expenditure (PFCE) registered a moderate growth of 3.1 per cent in Q2, primarily due to moderate rural demand conditions following lower kharif production. The growth in government final consumption expenditure (GFCE), have increased to 12.4 per cent, primarily led by the Union government's spending, and subsequently, Gross Fixed Capital Formation (GFCF) has registered a growth rate of 11.0 per cent, with the share of GFCF in real GDP surged to 35.3 per cent. Both two and three-wheeler sales recorded y-o-y growth of 30 per cent in November2023. Tractor sales expanded by 6.4 per cent in Nov'23 after contracting for the past two months. Vehicle registrations also recorded strong y-o-y growth in Nov'23.

Table 1: GDP Growth Projections: Select Advanced Economies (AEs) and Emerging Market Economies (EMEs) (Per Cent)

Country/Region	January 2024
World	2.9
US	1.6
Euro Area	0.7
Japan	0.9
Brazil	1.5
Russia	1.3
India	6.4
China	4.6

Source: RBI Bulletin January 2024.

Notably, the number of e-way bills generated in Dec'23 was 9.52 crore. E-way bills posted a growth of 8.5 per cent in November 2023. The e-way bill collections registered a record high of 10.03 crore in October 2023, but declined to 8.75 crore in November2023. The growth in Dec'23 shows both improved compliance and enhanced economic activity. Automobile sales registered an expansion of 26.5 per cent (y-o-y) in November on the back of festival demand.

After the J. P. Morgan index inclusion**,** Bloomberg proposes a 10% weight for India bonds on its Emerging Market Bond Index. The inclusion of India Fully Accessible Route bonds in the Bloomberg EM Local Currency Indices is to be phased in over five months, starting in September 2024. Moreover, India beat Hong Kong to become the fourth-largest equity market[5] based on consistent selling pressure on Chinese stocks as earnings prospects eroded. Many overseas institutional investors reallocated their shares to other Asian countries given an increasing relative risk of China. On the other hand, India's total market capitalisation have increased to $4.33 trillion after a gain of more than $130 billion in 2024, which is $2 trillion lower than Japan (the third largest equity market with the market value of $6.35 trillion).

Prospects of the Agricultural Sector:

According to the RBI's January 2024 Bulletin, the prospects of the agriculture sector have improved in recent weeks as the rabi sowing deficit narrowed in December'23, supported by a late pickup in northeast monsoon rainfall (NEM) (October 01-December 31, 2023), which ended the season 9 per cent below the long period average (LPA). As of January 11, 2024, the all-India reservoir level was at 57 per cent of total reservoir capacity, lower than the previous year's as well as decadal average levels. As highlighted by the bulletin further that as on January 12, 2024, the total area sown under rabi crops stood at 673.5 lakh hectares (104 per cent of full season normal area), 4.3 per cent higher than the normal acreage but 0.7 per cent lower than that during the same period of the previous year. The area under all major crops except rice and pulses remained higher on a y-o-y basis. Area sown under wheat, which accounts for 47 per cent of the rabi full season normal area, has progressed well despite the initial lag caused due to late harvesting of kharif crops.

The IMD's prediction of normal winter rainfall over north India and below normal maximum temperatures over many parts of the central and northwest India augur well for wheat crop production. As on January 01, 2024 the stock of foodgrains with the Food Corporation of India and other public agencies was at 516.5 lakh tonnes (6.8 times the buffer norm) and 163.5 lakh tonnes (1.2 times the norm) for rice and wheat, respectively. The rice procurement under the kharif marketing season (KMS) 2023-24 stood at 355.3 lakh tonnes, as on January 10, 2024, 8.9 per cent lower than that during last year. Mandi prices of wheat softened significantly during December mainly due to aggressive offloading through e-auctions under the Open Market Sale Scheme (OMSS) and a host of other measures taken by the Government on December 8, 2023. The government has offloaded 58.7 lakh tonnes of wheat in e-auctions conducted since June 28, 2023 (up to January 03, 2024).

PMI Indicators:

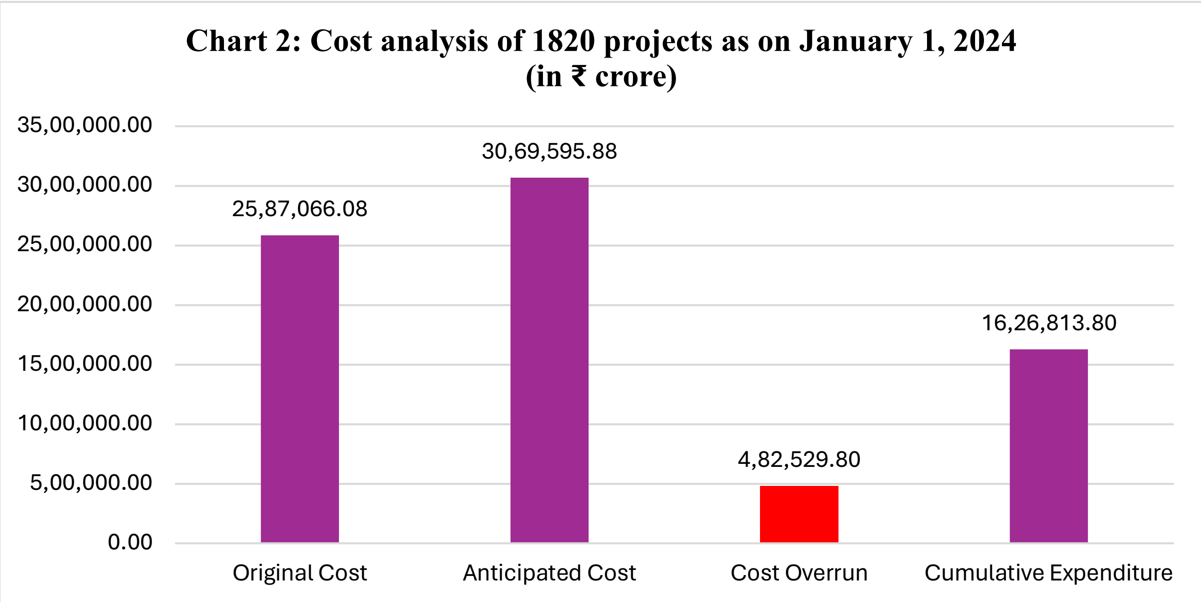
The headline PMI for the manufacturing sector moderated to 54.9 in December 2023 from 56.0 a month ago due to a slowdown in new orders, output, and employment. According to the HSBC India Manufacturing PMI (4 January 2024), overall new orders have consistently been growing faster than new export orders, indicating than domestic demand is stronger than global demand. Even though domestic demand has weakened since mid-2023, likely led by weak rains and below-normal crop sowing, it remains higher than the long-term-average.

The PMI for services, on the other hand, expanded to a three-month high of 59.0 in December, supported by new business and employment. Interestingly, both manufacturers and service providers are seeing input costs fall. But in the December reading, service providers saw higher demand than manufacturers, in terms of rising pace of new orders. Cargo traffic at major ports recorded a marginal

[5] "China Rout: India Tops Hong Kong to Become 4th Largest in Market -Cap"(24 January 2024) Economic Times.

growth at 0.8 per cent, driven by decline in cargo of POL. A pick-up in freight movement of iron ore and coal also resulted in railway freight revenue maintaining the momentum. The construction sector emitted mixed signals, with steel consumption posting a growth in December while cement production growth turning negative on a high base in November 2023. High frequency indicators for the services sector remained robust in November/December 2023.

However, there are cost overruns of certain projects due to a variety of reasons. Total original cost of implementation of the 1820 projects was ₹ 25,87,066.08 crore and their anticipated completion cost is likely to be ₹ 30,69,595.88 crore, which reflects overall cost overruns of 4,82,529.80 crore (18.65% of original cost). The expenditure incurred on these projects till December 2023 is ₹ 16,26,813.80 crore, which is 53% of the anticipated cost of the projects.

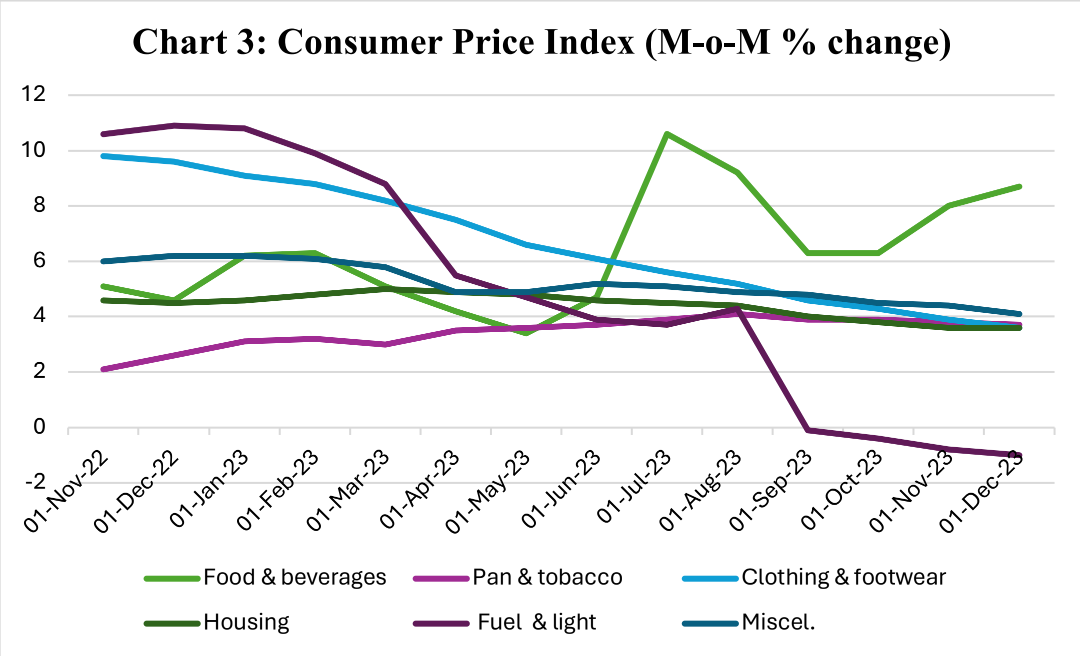


Source: Online Computerised Monitoring System (OCMS) for Projects and Infrastructure Monitoring

CPI Trends:

However, on the flip side, India's retail inflation accelerated to a four-month high of 5.69% in December 2023, from 5.55% a month earlier, led by an uptick in food prices that rose 9.5% nationally and breached the 10% mark for urban consumers, hitting 10.42%. The core inflation eased to 3.9%. Interestingly, the easing of core inflation shows the lag efficacy of the RBI policy rate hikes. Nevertheless, the upward momentum of the vegetable prices remains a matter of concern. Prices of vegetables (27.64%), pulses & products (20.73%), spices (19.69%) remain higher. Rural inflation (5.93%) remains higher than the urban inflation (5.46%). State wise, inflation in Odisha (8.73%), Gujarat (7.07%), Rajasthan (6.95%), Haryana (6.72%) remains high.

Despite a slight uptick, the retail inflation data provides a sense of relief as it came in below both market expectations and the government's upper tolerance band of 6%. Once again, inflation in food and beverages played a significant role in driving overall headline inflation in December. The core inflation, which excludes the more volatile groups of food, fuel, and energy, has been consistently declining for 11 consecutive months, reaching 3.9%—falling below 4% for the first time since March 2020.



Source: MOSPI, GoI.

Due to rise in the prices of vegetable, fruit, and pulses & products, the inflation within the food category reached a four-month high, registering at 9.5% in December. Vegetable inflation surged to 27.6 per cent in December 2023 from 17.7 per cent in November. Inflation in pulses & products surged to 20.7%, while that in fruits remained elevated at 11.1% in December 2023.

In other major categories of the Consumer Price Index (CPI), inflation in pan, tobacco & intoxicants moderated to 3.65% in December, down from 3.81% in November. Similarly, inflation in clothing & footwear decreased to 3.61% from 3.90%, and miscellaneous items experienced a cooling off with inflation dropping to 4.07% from 4.38%. In the housing sector, inflation slightly increased to 3.63% in December from 3.55% in November. Meanwhile, the fuel & light index continued to record deflation in December 2023.

WPI Trends:

The annual rate of inflation based on all India Wholesale Price Index (WPI) number is 0.73% (Provisional) for the month of December 2023 (over December 2022). Positive rate of inflation in December 2023 is primarily due to increase in prices of food articles, machinery & equipment, other manufacturing, other transport equipment and computer, electronics & optical products etc.

Table 2: Index Numbers and Annual Rate of Inflation (Y-o-Y in %)*

All Commodities/Major Groups	Weight (%)	Oct-23		Nov-23 (P)		Dec-23 (P)	
		Index	Inflation	Index	Inflation	Index	Inflation
All Commodities	100.0	152.5	-0.26	152.9	0.26	151.6	0.73
I. Primary Articles	22.62	185.3	2.26	186.9	4.76	182.9	5.78
II. Fuel & Power	13.15	155.5	-1.58	155.3	-4.61	154.2	-2.41
III. Manufactured Products	64.23	140.4	-1.06	140.4	-0.64	140.1	-0.71
Food Index	24.38	180.3	1.46	183.1	4.69	179.9	5.39

*Note: P: Provisional, *Annual rate of WPI inflation calculated over the corresponding month of previous year.*
Source: MINISTRY OF COMMERCE & INDUSTRY DEPARTMENT FOR PROMOTION OF INDUSTRY AND INTERNAL TRADE OFFICE OF THE ECONOMIC ADVISER.

Public Finances

India's net direct tax collection increased 19 per cent on an annual basis to ₹ 14.70 lakh crore till 11th January 2024. Indeed, the direct tax-to-GDP ratio reached an all-time high of 6.11 per cent in FY23. The data also revealed that the tax collection has reached 81 per cent of full-year target. The government has budgeted to collect ₹ 18.23 lakh crore from direct taxes (personal income tax and corporate tax), 9.75 per cent higher than ₹ 16.61 lakh crore mopped up last fiscal. Further, the number of individuals filing income-tax returns more than doubled in the past ten years to 77.8 million in 2022-23. The cost of tax collection has declined 0.51 percent of total collection in 2022-23 from 0.57 per cent in 2013-14.

The major developments according to the CBDT (23 January 2024) Press Release are as follows:[6]

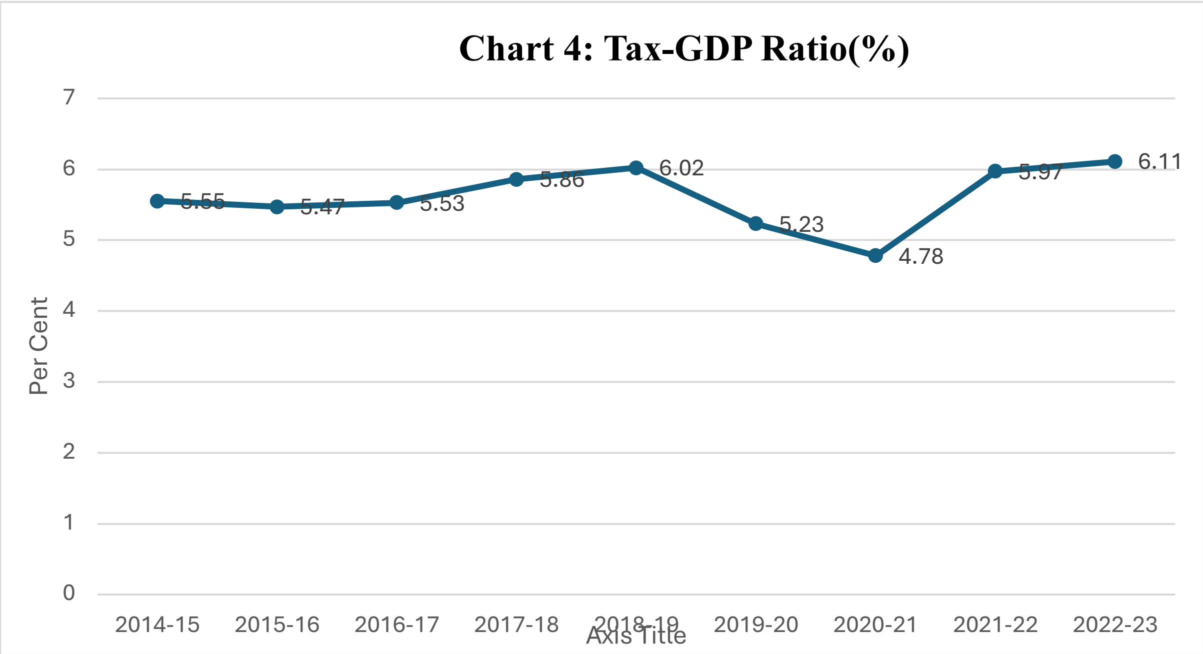
(i) Net Direct Tax Collections have increased by 160.52% from Rs. 6,38,596 crore in F.Y. 2013-14 to Rs. 16,63,686 crore in F.Y. 2022-23.

(ii) Gross Direct Tax Collections of Rs. 19,72,248 crore in F.Y. 2022-23 have registered an increase of over 173.31% compared to Gross Direct Tax Collections of Rs. 7,21,604 crore in F.Y. 2013-14.

(iii) Direct Tax to GDP ratio has increased from 5.62% in F.Y. 2013-14 to 6.11% in F.Y. 2022-23.

(iv) The Cost of collection has decreased from 0.57% of total collection in the F.Y. 2013-14 to 0.51% of total collection in the F.Y. 2022-23.

(v) The total number of ITRs filed in FY 2022-23 stands at 7.78 crore showing an increase of 104.91% as compared to total number of ITRs of 3.80 crore filed in FY 2013-14.



Source: CBDT, Infomerics Research.

[6] CBDT Press Release (23 January) "Release of Direct Tax Statistics" URL: https://incometaxindia.gov.in/Lists/Press%20Releases/Attachments/1176/Release-of-Direct-Tax-Statistics-dated-23-01-2024.pdf, last accessed on 24January 2024.

According to the RBI Bulletin (20 December 2023), in line with the trend witnessed during the first half of 2021-22 and 2022-23, more than 50 per cent of the budgeted total receipts of the Central government was realised during the first half of 2023-24. Non-tax revenue collection recorded a y-o-y growth of 43.4 per cent during April-November 2023, on the back of higher than budgeted surplus transfer from the Reserve Bank (During 2023-24, the Reserve Bank transferred a surplus of ₹87,416.22 crore to the central government which is higher than both the amount transferred last year (₹30,307.45 crore) and the budgeted amount under Dividend/Surplus transfer of Reserve Bank of India, Nationalised Banks and Financial Institutions in the Union Budget 2023-24 (₹48,000 crore)) while non-debt capital receipts contracted by 38.6 per cent.

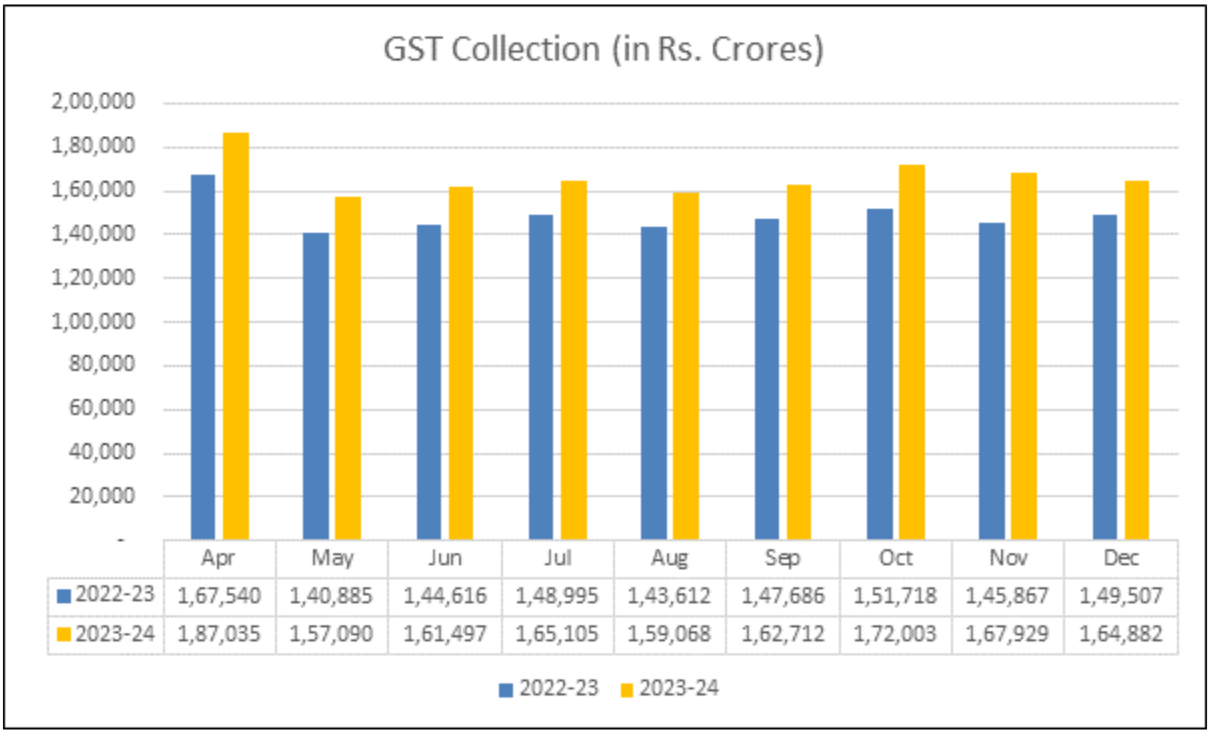
On the other hand, the Centre's total expenditure remained contained below 50 per cent of the Budget Estimate (BE) in the first half of 2023-24, in line with the pattern observed during the past three years. For States, both receipts and expenditure recorded robust growth. However, States' Gross Fiscal Deficit (GFD) stood at 39.8 per cent of the BE in H1:2023-24, higher than in the previous year, attributable to growth in total expenditure outpacing growth in total receipts. Nevertheless, the States' total receipts remained resilient, with the proportion of budgeted receipts in the first half of 2023-24 (39.7 per cent) close towards the same period of 2022-23 (41.2 per cent). On the expenditure side, the States have expended 39.7 per cent of their budgeted total expenditure during H1:2023-24, broadly in line with the past spending patterns.

However, the FY24 Central fiscal deficit target of 5.9 per cent of GDP is constrained by certain factors like- poor performance of the disinvestment, higher subsidy burden etc. Nevertheless, the broader expectation is that the tax and non-tax revenues would help to combat the shortfall in disinvestment and help the government to achieve the target. The FY25 year target could be around 5.3-5.4 per cent of GDP, given the election year, there is certain uncertainty regarding the forthcoming announcements in the Union Budget, though a larger expectation is that the government would try to contain fiscal expenses and budget consolidation.

During the April-December 2023 period, gross GST collection witnessed a robust 12% y-o-y growth, reaching ₹14.97 lakh crore, as against ₹13.40 lakh crore collected in the same period of the previous year (April-December 2022). The average monthly gross GST collection of ₹1.66 lakh crore in the first 9-month period this year represents a 12% increase compared to the ₹1.49 lakh crore average recorded in the corresponding period of FY23. The gross GST revenue collected in the month of December 2023 is ₹1,64,882 crore out of which CGST is ₹30,443 crore, SGST is ₹37,935 crore, IGST is ₹84,255 crore (including ₹41,534 crore collected on import of goods) and cess is ₹12,249 crore (including ₹1,079 crore collected on import of goods). Notably, this marks the seventh month so far this year with collections exceeding ₹1.60 lakh crore.

The government has settled ₹40,057 crore to CGST and ₹33,652 crore to SGST from IGST. The total revenue of Centre and the States in the month of December 2023 after regular settlement is ₹70,501 crore for CGST and ₹71,587 crore for the SGST. The revenues for the month of December 2023 are 10.3% higher than the GST revenues in the same month last year. During the month, the revenues from domestic transactions (including import of services) are 13% higher than the revenues from these sources during the same month last year.

Chart 5: GST Collection (Rs. Crore)



Source: Press Information Bureau (PIB), GoI.

Exchange Rate and Liquidity

The RBI's market intervention is expected to be continued to maintain rupee range-bound due to possibly a reason to maintain/enhance export-competitiveness. India's services trade balance has widened, helped by both a gradual improvement in services exports as the IT services sector picked up, together with weakness in services imports due in part to lower sea freight costs. Another reason might be to build-up buffers of forex reserves in volatile times. The intervention might be softened/twisted once there could be a clear indication of a sustained dollar softening and some clear assurance of a probable Fed rate cut going forward.

The liquidity in the system remains a bit skewed as earlier, banks mostly parked via SDF and borrowed through MSF routes and RBI's VRR was not quite effective in streamlining the liquidity system. An expectation is therefore the stance might change to neutral in the upcoming monetary policy, or it might be delayed until April'24 whereas RBI may hold withdrawal of accommodation until then. The net durable liquidity on December 29, 2023 remains at ₹208,064.00.[7] In order to enable better fund management by the banks, the RBI announced in December'23 to allow reversal of liquidity facilities under both the SDF and the MSF even during weekends and holidays with effect from 30th December 2023, to ease the tautness in liquidity conditions during the weekends, provide banks with flexibility in operations and impart greater efficiency to liquidity management.

The usual quarter end advance tax outflows and the monthly GST payments resulted in a large withdrawal of liquidity from the banking system in mid-December. In response, the Reserve Bank conducted five finetuning variable rate repo (VRR) auctions (in lieu of the main operation) of 2-7 days maturity amounting to ₹5.5 lakh crore and a main operation (13 days) amounting to ₹1.75 lakh crore during December 16, 2023-January 14, 2024. Banks also took recourse to the marginal standing facility

[7] RBI Money Market Operations as on January 17, 2024(18January 2024).

(MSF) and borrowed nearly ₹0.89 lakh crore on an average basis during December 16, 2023-January 14, 2024. A pickup in government spending towards the month-end and early January ameliorated the pressure on liquidity with a commensurate decline in MSF borrowings. Overall, the Reserve Bank injected liquidity averaging on a net basis ₹1.8 lakh crore during December 16, 2023-January 14, 2024. During Jan'24, the yields on commercial papers (CPs) hardened by 10-30 bps across tenures due to tight liquidity.

Table 3: Exchange Rate movements of INR vis-à-vis major currencies

Date	USD	GBP	EURO	YEN
24/01/2024	83.15	105.62	90.33	56.21
23/01/2024	83.10	105.84	90.60	56.11
19/01/2024	83.13	105.56	90.45	55.9
18/01/2024	83.12	105.54	90.64	56.23
17/01/2024	83.13	104.74	90.25	56.23
16/01/2024	82.98	105.24	90.61	56.79
15/01/2024	82.85	105.66	90.84	57.03
12/01/2024	82.99	106.01	91.09	57.18
11/01/2024	82.94	105.93	91.11	57.02
10/01/2024	83.15	105.58	90.90	57.4
09/01/2024	83.13	105.92	91.05	57.75
08/01/2024	83.07	105.58	90.89	57.59
05/01/2024	83.18	105.36	90.88	57.26
04/01/2024	83.30	105.56	90.99	57.99
03/01/2024	83.32	105.28	91.28	58.65
02/01/2024	83.33	106.10	91.92	58.9
01/01/2024	83.20	105.95	91.84	58.99
29/12/2023	83.12	106.11	92.00	58.82
28/12/2023	83.23	106.61	92.45	58.94

Source: RBI, FBIL.

FPI Trends:

From the following Table, it may be observed that the Foreign Portfolio Investors (FPIs) have withdrawn ₹8,089 crore from the debt VRR (voluntary retention route)[8] segment during 2023-24 in the context of constrained faced in structured credit investments and lack of clarity in withholding tax, lack of VRR auctions as well as due to global uncertainties etc. However, the debt segment has seen an inflow of ₹80,848 crore in the same period possibly motivated by India's inclusion in global bond indices by Bloomberg after J.P. Morgan, coupled with India's strong macroprudential policies in maintaining a stable rupee and core inflation easing. This is in sharp contrast in the preceding year 2022-23, where both debt and equity segments have seen net outflows. The equity outflows have been triggered by a recent downturn in HDFC bank's stocks, and emanating challenges for big economies like China, geopolitical uncertainties, hawkish Fed among others.

[8] VRR, or voluntary retention route, was introduced in March 2019 with the aim of attracting long-term overseas money into the debt market. It is a channel brought about by the Reserve Bank of India (RBI) to enable Foreign Portfolio Investments (FPIs) to invest in India's debt markets.

Table 4: Foreign Portfolio Investments (Rs. Crores)

	FPI Net Investments - Financial Year				
Financial Year	Rs. Crores				
	Equity	Debt	Debt-VRR	Hybrid	Total
1992-93	13	0	0	0	13
1993-94	5127	0	0	0	5127
1994-95	4796	0	0	0	4796
1995-96	6942	0	0	0	6942
1996-97	8546	29	0	0	8575
1997-98	5267	691	0	0	5958
1998-99	29973	-147	0	0	29826
1999-00	9669	452	0	0	10121
2000-01	10207	-273	0	0	9934
2001-02	8072	690	0	0	8762
2002-03	2528	162	0	0	2690
2003-04	39959	5805	0	0	45764
2004-05	44121	1759	0	0	45880
2005-06	48800	-7334	0	0	41466
2006-07	25236	5605	0	0	30841
2007-08	53404	12775	0	0	66179
2008-09	-47706	1895	0	0	-45811
2009-10	30877	20047	0	0	50924
2010-11	110121	36317	0	0	146438
2011-12	43738	49988	0	0	93726
2012-13	140031	28334	0	0	168365
2013-14	79709	-28059	0	0	51650
2014-15	111333	166127	0	0	277461
2015-16	-14172	-4004	0	0	-18176
2016-17	55703	-7292	0	0	48411
2017-18	25635	119036	0	11	144682
2018-19	-88	-42357	0	3515	-38930
2019-20	6153	-48710	7331	7698	-27528
2020-21	274032	-50443	33265	10247	267101
2021-22	-140010	1628	12642	3498	-122242
2022-23	-37632	-8937	5814	-181	-40936
2023-24	184271	80848	-8089	4949	261979
Total	**1124655**	**334632**	**50963**	**29737**	**1539988**
** up to 19 Jan 2024					

Source: NSDL.

The assets under management of the Indian mutual fund industry rose above ₹ 50 trillion (₹ 50 lakh crore) in December thanks to the continuous inflows and rally in Indian equity markets, according to data released by the Association of Mutual Funds of India (AMFI), the industry trade body for mutual funds. Data showed that total assets under management (AUM) under the open-ended schemes stood at ₹50.80 trillion in December against ₹48.78 trillion in November 2023.

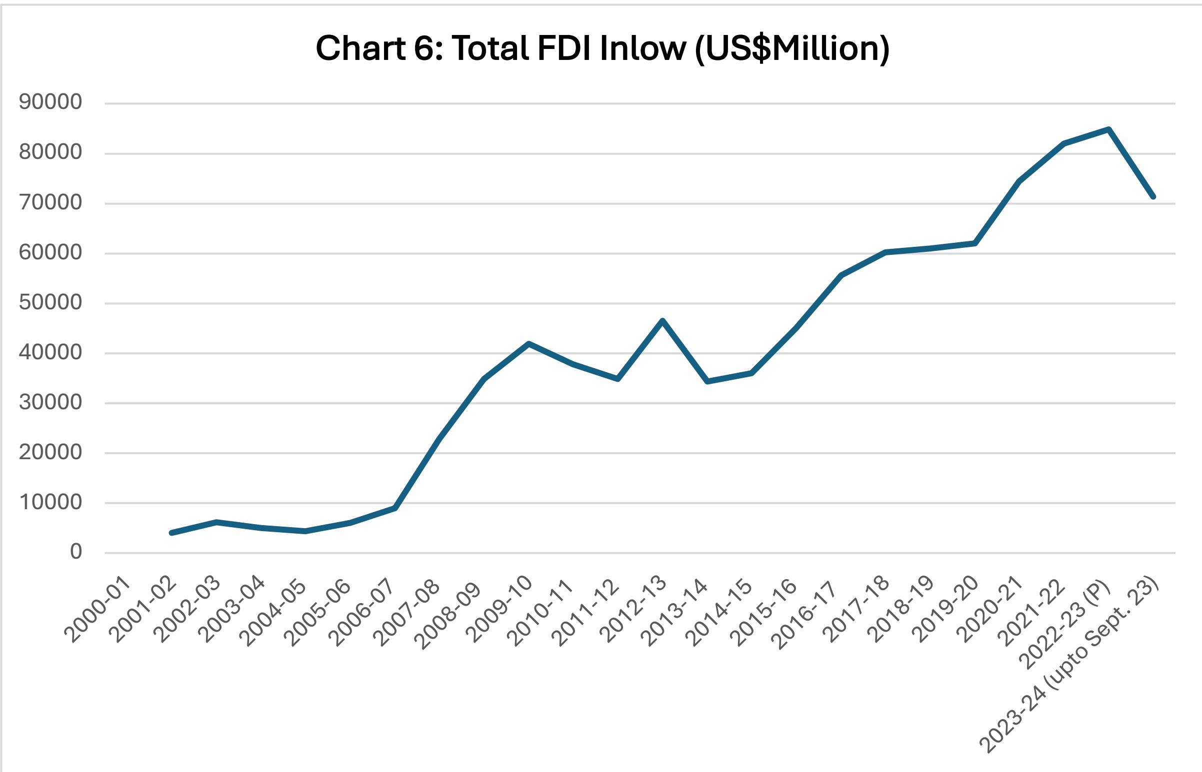
Table 5: Developments in Capital Markets During 2023
(₹crore, except demat accounts, which is in crore)

	2022	2023	%Change
Average Monthly SIP Contribution	12,453	15,312	23.0
Asset Under Management of Mutual Funds (end-period)	39,88,735	50,77,900	27.3
Equity Derivatives Turnover	3,11,53,48,591	7,23,15,81,303	132.1
Cash market turnover	1,52,10,804	1,75,87,721	15.6

Note: Equity derivatives and cash market turnover pertain to both BSE and NSE combined.
Sources: SEBI, NSE, BSE, AMFI and RBI staff calculations.

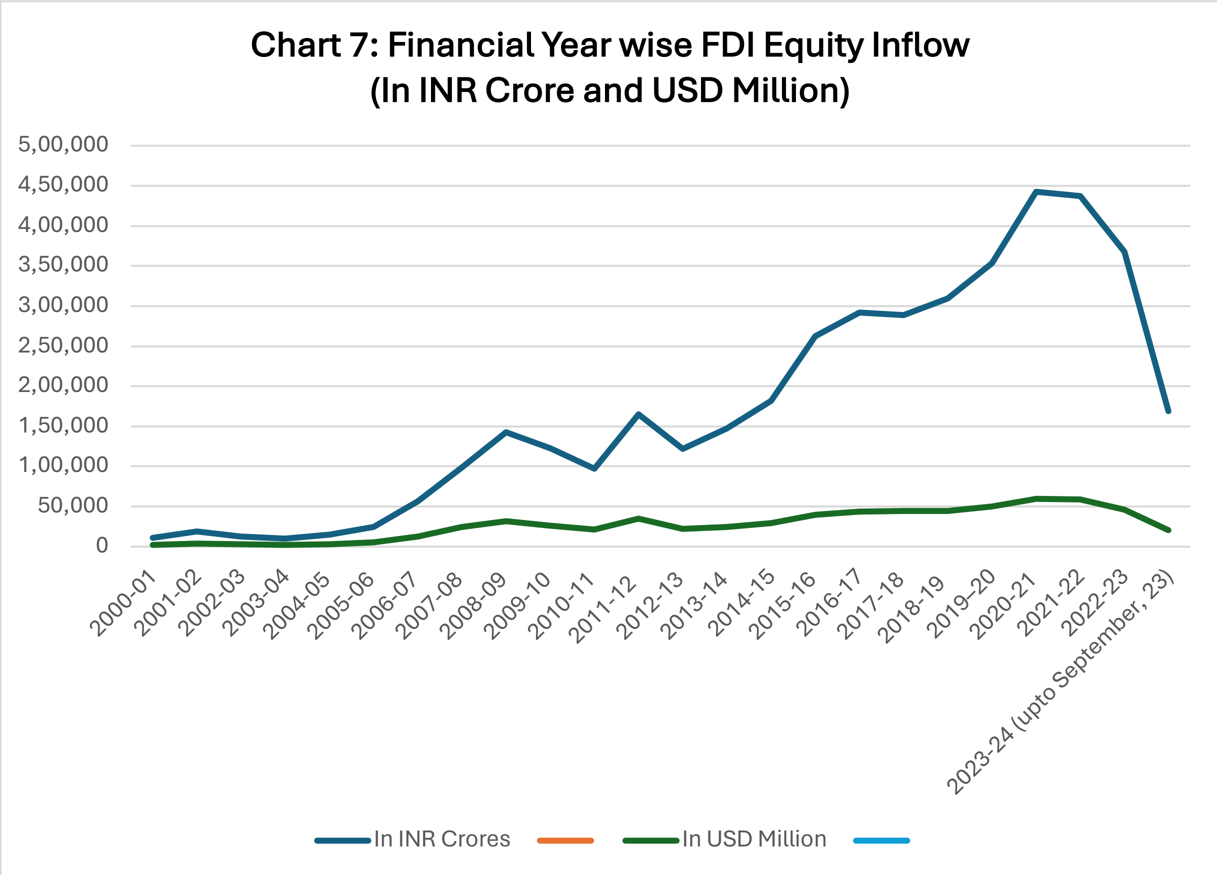
FDI Trends:

From the below table (data sourced from DPIIT), it may be observed that total FDI (GoI route/automatic route+ equity capital of Unincorporated Bodies +Re-Invested Earnings+ Other Capital) have shown some moderation in recent years due to global downturn of markets and cautious investments by overseas investors. For instance, in 2021-22, the total FDI has grown only by 3 per cent, and according to the provisional data of financial year 2022-23, there is a 16 per cent decline in the overall foreign direct investments. In 2023-24, up to September, the total FDI inflows remain only USD 33,125 million compared to USD 71,355 million in the previous year.



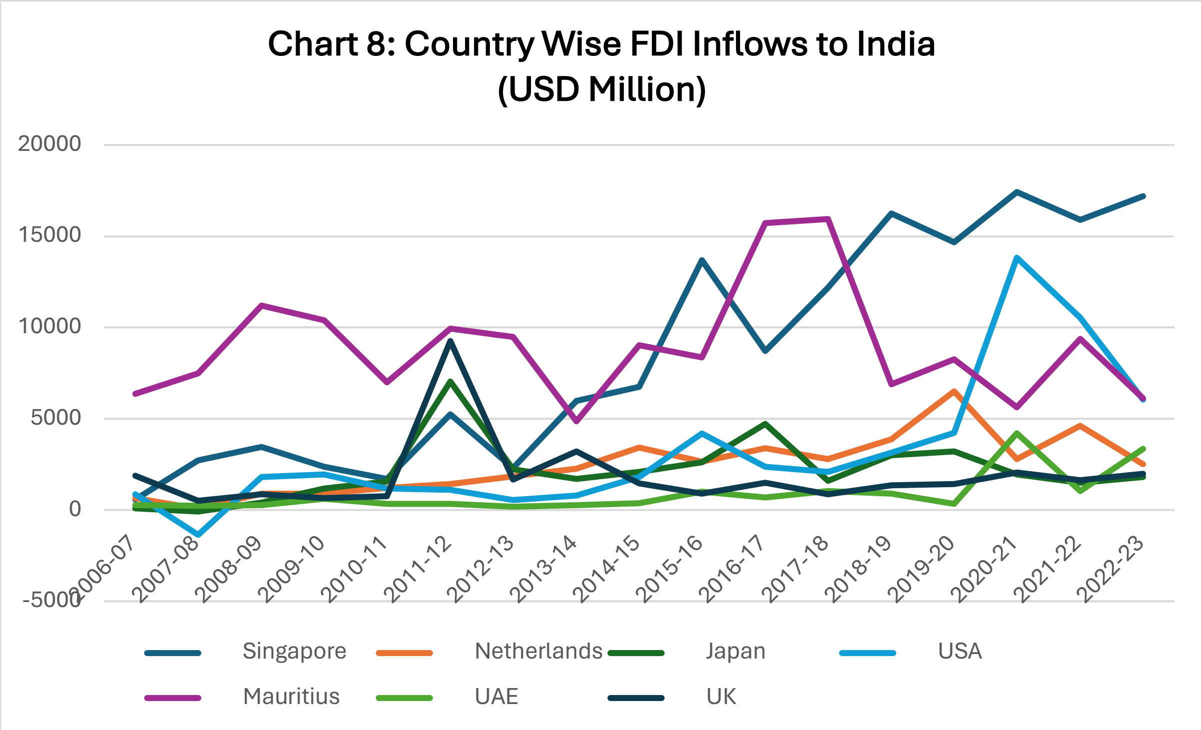
Source: Department for Promotion of Industry and Internal Trade (DPIIT), GoI, Infomerics Research.

If we investigate the FDI equity inflows only, there is a decline in recent years. For instance, whereas there is a decline of FDI equity inflows by one per cent in 2021-22, it has declined by 22 per cent in 2022-23. In 2023-24, up to September the equity inflows remain only USD 20,488 million only compared to USD 46,034 million in the previous year. The downtrend continues since 2021-22.



Source: Department for Promotion of Industry and Internal Trade (DPIIT), GoI, Infomerics Research.

Country wise FDI inflows to India has shown that Singapore remains at the top position before Mauritius and USA. Interestingly, FDI inflows from UAE has increased substantially in 2022-23. However, inflows from both Mauritius and USA have declined in recent years. On the other hand, investments from Singapore have shown an upward trend.



Source: Department for Promotion of Industry and Internal Trade (DPIIT), GoI, CMIE, Infomerics Research.

India's External Sector Trends:

India's current account balance recorded a deficit of US$ 8.3 billion (1.0 per cent of GDP) in the second quarter of 2023-24, lower than US$ 9.2 billion (1.1 per cent of GDP) in the first quarter of 2023-24 and US$ 30.9 billion (3.8 per cent of GDP) a year ago, i.e. second quarter of 2022-23. Lower merchandise trade deficit at US$ 61.0 billion from US$ 78.3 billion in the second quarter of 2022-23 has helped in narrowing the current account deficit. India's merchandise exports in December 2023 registered 0.96% growth at USD 38.45 billion over USD 38.08 billion in December 2022.[9] The merchandise trade deficit narrowed to a 5-month low of US$ 19.8 billion in December 2023 as the sequential increase in exports outstripped imports. With a fall in petroleum exports and a negligible increase in POL imports sequentially, the share of POL in the total merchandise trade balance rose to 40.7 per cent in December 2023 from 36.3 per cent in November. Services exports grew by 4.2 per cent on a y-o-y basis on the back of rising exports of software, business, and travel services. Net services receipts increased both sequentially and, on a year,-on-year basis.

In November 2023, services exports increased by 4.3 per cent on a y-o-y basis to US$ 28.1 billion, led by growth in software services, business services and travel services. On the other hand, services imports declined by 11.1 per cent y-o-y to US$ 13.7 billion, mainly due to a fall in transportation and business services. Major contributors to export growth in December 2023 include Engineering Goods, Iron Ore, Gems & Jewellery, Electronic Goods and Drugs & Pharmaceuticals. Engineering Goods exports in December 2023 record an increase of 10.19 percent at USD 10.04 billion over USD 9.11 billion in December 2022. December 2023 record is the highest monthly export of engineering goods in the current financial year so far. Gems and Jewellery exports in December 2023 improve by 14.07

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[9] Ministry of Commerce & Industry Press Release 15 January 2024; https://commerce.gov.in/wp-content/uploads/2024/01/Press-Release-December-2023.pdf

percent at USD 2.90 billion from USD 2.54 billion in December 2022.[10] Electronic Goods exports registered an increase of 14.41 percent at USD 2.62 billion in December over USD 2.29 billion in December 2022. December 2023 record is the highest monthly export of electronics in the current financial year so far. Drugs and Pharmaceutical Products in December 2023 at USD 2.47 Billion registered an increase of 9.30 percent over USD 2.27 Billion in December 2022. December 2023 record is the highest monthly export of Drugs and Pharmaceuticals Products in the current financial year so far.

Table 6: Balance of Payments (USD Million)

	22-Jun	22-Sep	22-Dec	23-Mar	23-Jun	23-Sep
CAD/GDP (%)	-2.1	-3.8	-2	-0.2	-1.1	-1
Current account	-17945.5	-30885	-16817	-1336	-9183.9	-8299.7
Goods & services	-31985.3	-43887	-32624	-13512	-21500	-21083.6
Goods	-63054	-78313	-71337	-52587	-56624.3	-61034.1
Services	31068.7	34426	38713	39075	35124.2	39950.5
Primary account	-8853.3	-11788	-12675	-12606	-10568.5	-12187.3
Secondary account	22893.2	24791	28483	24782	22884.6	24971.2
Capital account	-85.9	17	-62	12	8.1	-48.4
Financial accounts	17526.6	31806	17864	929	9816.2	7504.2
Direct investments	13392.5	6209	2030	6355	5058.2	-286.8
Portfolio investments	-14630.1	6532	4611	-1664	15730.8	4946.5
Financial derivatives	-2391	145	-446	-2671	-722.8	-1886.6
Other investments	25750.6	-11460	22739	4489	14181.6	7249.6
Reserve assets	-4595.4	30379	-11069	-5579	-24431.6	-2518.6
Net errors & omissions	504.7	-937	-986	395	-640.4	843.9

Source: RBI, CMIE, Infomerics Research.

Interestingly, India's electronics exports have increased at 22.24% driven by smartphone shipments. Mobile phone exports reached $10.5 billion during April-December 2023 comprising 52 per cent of total electronics exports. In FY23, electronics export stood at $23.6 billion of which mobile phones comprised $11.1 billion or 43 per cent. iPhones remains the single largest contributor to the surge in both electronics and mobile exports, whereas iPhone exports constituted 35 per cent of total electronics exports. Mobile exports have increased around seven times from $1.6 billion in Fy19 to $11.1 billion in FY23.[11]

Credit-Deposit Ratio:

The Credit to Deposit ratio has shown some uptrends due to HDFC bank's merger with HDFC, festival seasons and unprecedented growth of unsecured, especially personal loans. According to the RBI data published on 19 January 2024, in 15 December2023, the credit-deposit ratio stood at 77.31 per cent, whereas it appears at 75.12 per cent on 13 January 2023. In Dec'23, it reaches almost around 80 per cent. The personal loans and vehicle category have shown substantial jump in credit off-take among others.

[10] https://pib.gov.in/PressReleseDetail.aspx?PRID=1996342

[11] "Electronics Exports Grow at Record 22% in April-Dec"(22 January 2024) Economic Times.

Table 7: Outstanding Credit and Deposit (Rs. Crore)

	Outstanding Credit (in ₹ crore)	Outstanding Deposit (in ₹ crore)	Credit/Deposit
18-Mar	8625425	11426049	0.75
18-Jun	8672807	11498223	0.75
18-Sep	8981664	11799855	0.76
18-Dec	9319765	11924904	0.78
19-Mar	9771720	12573770	0.78
19-Jun	9700765	12691204	0.76
19-Sep	9768854	12906461	0.76
19-Dec	9967797	13076253	0.76
20-Mar	10370861	13567492	0.76
20-Jun	10240256	13915114	0.74
20-Sep	10271581	14262403	0.72
20-Dec	10587475	14488370	0.73
21-Mar	10949509	15113512	0.72
21-Jun	10859820	15272352	0.71
21-Sep	10956817	15598948	0.70
21-Dec	11582087	16241854	0.71
22-Mar	11891314	16465313	0.72
22-Jun	12190429	16592098	0.73
22-Sep	13032473	17543827	0.74
22-Dec	13306853	17733784	0.75
23-Mar	13675235	18043914	0.76
23-Jun	14383718	19156018	0.75
23-Sep	15323660	19701045	0.78
23-Dec	15970053	20157609	0.79
24-Mar	16544299	20637494	0.80
24-Jun	17029654	21039050	0.81
24-Sep	17494012	21607063	0.81
24-Dec	18146821	22375523	0.81
25-Mar	18828287	23205074	0.81

Source: RBI, CMIE, Infomerics Research.

#Note: Figures are averaged, as there may be different figures reported in different dates, according to the RBI's publications.

**Note: red-marked figures are forecasted figures.*

Concluding Remarks:

The Global Risk Report 2024 of the World Economic Forum has highlighted that a predominantly negative outlook for the world over the next two years that is expected to worsen over the next decade. The outlook is markedly more negative over the 10-year time horizon, with nearly two-thirds of respondents expecting a stormy or turbulent outlook. The climate and geopolitical issues remain a major concern, whereas downturn of some big global economies have posed certain serious concern. The RBI's latest bulletin has highlighted that tighter supplies of food staples are expected amidst El Nino conditions that are forecast to continue in the first half of 2024, putting at risk production of rice, wheat, palm oil and other farm products in some of the world's top agricultural exporters and importers. Globally, US inflation rate has increased to 3.4 percent for the 12 months ending December 2023, higher than the 3.1- percent increase in November2023, indicating that easing of US policy rate might take a bit longer than anticipated.

China is facing some serious challenges, whereas expecting a rapid credit growth in the first quarter, the PBOC declared that the reserve ratio requirements for banks will be reduced by 50 basis points since 5th Feb2024, to facilitate long-term capital. Over the past three years, about $6 trillion has been wiped off the value of Chinese and Hong Kong stocks. China is considering the deployment of some $278 billion to stabilise its stock market, mainly using capital held offshore by state-owned enterprises to buy shares through Hong Kong's Stock Connect link with mainland markets. China continues to face challenges in the form of a property debt crisis, weak consumer spending and mounting local government debt. India is one of the fastest growing economies, and the World Bank kept its economic growth projection for India unchanged at 6.4% for FY25 on the back of strong domestic demand, rising public infrastructure spending, and strong private-sector credit growth. The RBI's expectation of India's growth is around 7% and inflation at 4.5% in FY25. Real GDP registered a growth of 7.6 per cent in the second quarter of 2023-24, up from 6.2 per cent in second quarter of the 2022-23 (7.8 per cent in Q1:2023-24).

Nevertheless, private consumption, which accounts for 57 per cent of GDP, languished in the aftermath of the slow but steady revival of the rural economy. A bigger positive for the Indian economy is after the J. P. Morgan index inclusion**,** Bloomberg proposes a 10% weight for India bonds on its Emerging Market Bond Index. The inclusion of India Fully Accessible Route bonds in the Bloomberg EM Local Currency Indices is to be phased in over five months, starting in September 2024. Moreover, India beat Hong Kong to become the fourth-largest equity market[12] based on consistent selling pressure on Chinese stocks as earnings prospects eroded. Many overseas institutional investors reallocated their shares to other Asian countries given an increasing relative risk of China. On the other hand, India's total market capitalisation have increased to $4.33 trillion after a gain of more than $130 billion in 2024, which is $2 trillion lower than Japan (the third largest equity market with the market value of $6.35 trillion). India is passing through a transition phase with immense growth potential; however, its export market is constrained due to global slowdown. Further, the implications of the global as well as forthcoming domestic elections would be accounted for.

[12] "China Rout: India Tops Hong Kong to Become 4th Largest in Market -Cap"(24 January 2024) Economic Times.