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THE ECONOMIC PERISCOPE

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GLOBAL ECONOMIC DEVELOPMENTS:

Pandemic, inflation, and war have taken not only a toll on the global economy, but also the world economic order. The latest conflict between Israel and Hamas has added another uncertainty in the geopolitical tensions. Oil prices remain high and volatile in recent months due to the conflict in the Middle East, OPEC plus supply curbs as well as hazy global demand signals. The Russia's relatively advantageous position appears to be faded to some extent amid the expensive Urals grade of the country.

In spite of the G7 price cap of $60 per barrel, almost all Russian oil is now being sold at higher prices. The share of Russian oil in Indian crude imports has dropped to 34% in Oct'23 from 39% in Sept'23. On the other hand, combined supplies from Iraq and Saudi Arabia exceeded Russian deliveries, for instance, India's crude imports from Saudi Arabia has increased to 871000 barrels/day infort'23 from 484000 barrels/day the previous month.

The impact on oil prices is likely to be restrained, provided the war does not escalate to an extent to involve related countries' interests as Iran's oil supply and exports are of central importance.[1]

An encouraging news is that the Central Bank of the US, namely the Federal Reserve (the Fed) has kept its major federal funds rate (FFR) unchanged at the range of 5.25%-5.50%, though possibility of another rate hike in Dec'23 cannot be ruled out. The US economic activity remains strong in the third quarter. Total nonfarm payroll employment rose by 336,000 in Sept'23, and the unemployment rate was unchanged at 3.8 percent. Job gains occurred in leisure and hospitality; government; health care; professional, scientific, and technical services; and social assistance. According to the Household Survey data, the unemployment rate held at 3.8 percent in September, and the number of unemployed persons was essentially unchanged at 6.4 million. Gross domestic product (GDP) expanded at a strong 4.9% annualized rate in the third quarter. In Sept'23, the Consumer Price Index for All Urban Consumers increased 0.4 percent and rose 3.7 percent over the last 12 months.

Despite the increase in US treasury yields, Fed sticks to its approach to reducing the size of its bond holdings. Nevertheless, the US treasury yields have shown some softening trends after the Fed's stance on pause, though according to Fed the central bank is yet to make decision for its Decemebr'23 policy meeting. The possibility of rate cut is still remote and would depend on the inflationary situations, as the Fed's sole objective is to bring down the inflation rate at 2% level as mandated.

There is a concern regarding the Bank of Japan's (BOJ) yield curve control policy (YCC), as experts fear that disorderly exit may impact the bond market adversely. The BOJ's yield curve control policy (YCC) was designed to maintain the yield on 10-year Japanese government bonds (JGBs) at around 0%. It involved the BOJ purchasing JGBs to uphold this target, thereby ensuring stable and low long-term interest rates in the Japanese economy. However, as highlighted by a research note by Invesco, "The BoJ committed in September 2016 to peg yields on 10-year Japanese Government Bonds (JGBs) around zero percent, with the intention of boosting inflation which had remained persistently low. However, despite negative policy interest rates, quantitative and qualitative easing (QQE), forward guidance, and now YCC, inflation in Japan has remained muted and below the target of 2% per annum.

The fundamental reason for this sub-target rate of inflation is that the rate of money and bank credit growth have remained too low for too long, which is also the ultimate reason for low nominal long-term interest rates. Four years of YCC is plenty of time to judge the efficacy of YCC in Japan: it has not impacted inflation or nominal GDP growth in any meaningful way."[2] Nevertheless, a recent development has shifted the approach, with the BOJ changing this upper cap to more of a reference rate. The Japanese yen faced a downward pressure amid interest differential in favour of US treasury and other EM markets, though yen has gained marginally after BOJ's announcement of possible currency market intervention as well as marginal softening of US 10-yr treasury yield.

As highlighted by the UKBIC, The UK's GDP growth estimate for 2023 was also updated by the IMF, from 0.4% predicted in July 2023, to 0.5%. Even with this upward revision of the growth projection by 10 bps, it will still be substantially slower than the 4.1% growth rate seen in 2022. The key reasons for this

[1] The Middle East is not only home to some of the world's most important oil-producing nations, but also to the Strait of Hormuz, a key transport route. About one fifth of the global oil supply could be affected in case of closure by Iran. However, as of now it seems unlikely that such an escalation will occur, as it seems that the oil-producing countries have less interest in the escalation, for details, see UniCredit monthly outlook report Nov'23.

[2] "Yield curve control – a primer"(Jan'2021) by John Greenwood and Adam Burton, Invesco Research.

slowdown in growth are trade shocks from rising energy prices and tighter monetary policies intended to combat excessive inflation. The manufacturing PMI in the UK increased slightly from August's three-year-low of 43.0 to 44.3 in September 2023 on a M-o-M basis. Companies reduced production because of decreased order intake, largely due to market uncertainty brought on by interest rate increases, the cost-of-living crisis, and unfavourable conditions in foreign markets. The cost of living increased sharply across the UK during 2021 and 2022. The annual rate of inflation reached 11.1% in October 2022, a 41-year high, before subsequently easing. Recent data shows it was 6.7% in September 2023, unchanged from August 2023.

The Bank of England (BOE)'s Monetary Policy Committee (MPC) voted 6-3 to maintain the major rate at 5.25%. Governor Andrew Bailey and team agreed that a "restrictive" policy stance to stay for an extended time to reduce UK's high inflation. The possibility of a rate cut by the second half of the next year seems remote. Some members dissented citing tight labour market conditions and still increasing real household incomes, voted for a 25bps rate hike at BoE's meeting. The rate transmissions remain slow, and it seems tight monetary policy would stay as of now. As reported by Reuters, the Bank of England looks set to hold borrowing costs at a 15-year high and signal that it does not plan to cut them anytime soon as it remains locked in a battle against the most elevated inflation rate among the world's rich economies.[3]

Table 1: The UK's Inflation Rate (%)

Month (2023)	UK inflation rate (%)
30 Sept'23	6.7
31 Aug'23	6.7
31 July'23	6.8
30 June'23	7.9
31 May'23	8.7

Source: Bank of England, Y-Charts.

Indian Economic Developments:

Amid such adverse geopolitical situations and fight with inflation by the central banks of different countries, Indian economy demonstrates resilience. The IMF, in its October 2023 issue of the World Economic Outlook, has highlighted India's position as the global growth leader among major economies with a medium-term growth prospect of 6.3%. In its October 2023 monetary policy review, the RBI has continued to maintain its earlier GDP growth projection of 6.5% for FY24 for India. In the second quarter of FY24, the GDP growth is expected to be somewhere in the range of 6.2%~6.9%, adjusting for the base effect, it will be marginally tilted downwards, on the other hand, the pull-factors are robust construction and related sector/industries growth. The RBI has retained the repo rate at 6.5% and its CPI inflation forecast at 5.4% for FY24. The latest data indicates an easing of CPI inflation to 5.0% in September 2023 from 6.8% in August 2023. Core CPI inflation also eased for the third successive month to 4.6% in September 2023, though food inflation is still a matter of concern.

The Fiscal Trends:

India's fiscal deficit at the end-Sept'23 stood at ₹ 7.02 lakh crore, 39.3% as Budget Estimate (BE), increased from 37.3% of the corresponding period of the last year. It's interesting to observe that while tax revenue remains at ₹ 11.60 lakh crore compared to the BE of 58.4% last year [14.66% increase from (Apr-Sept'22)], the non-tax revenue remains healthy at INR 23.67 lakh crore [50.24% increase from the previous year],

[3] "Bank of England set to keep rates at 15-year high despite slowdown signs"(2 November 2023) Reuters.

notably it increased substantially as a percentage of BE compared to the corresponding period of last year, thanks to the RBI approval of ₹ 87,416 crore transfer to the GoI, whereas in FY22, the transfer amount was only INR 30,307 crore. The capital expenditure (capex) has increased as per cent of BE at 49% compared to last year's 45.7% indicating Central government's continued thrust on infrastructure especially railways and roads & highways. The growth of the capex compared to (Apr-Sept)'22 to (Apr-Sept)'23 is 43.09%. While total receipts remains at ₹ 14.17 lakh crore (17.74% growth compared to last year), total expenditure remains at ₹ 21.19 lakh crore(16.21% growth compared to last year).

Table 2: UNION GOVERNMENT ACCOUNTS AT A GLANCE AS AT THE END OF SEPTEMBER 2023

(₹Crore) @@

		Budget Estimates 2023-2024*	Actuals@ upto September 2023	% of Actuals to Budget Estimates	
		Rs.	Rs.	Current	COPPY**
1	Revenue Receipts	2632281	1397112	53.1%	(53.1%)
2	Tax Revenue (Net)	2330631	1160340	49.8%	(52.3%)
3	Non-Tax Revenue	301650	236772	78.5%	(58.4%)
4	Non-Debt Capital Receipts	84000	20166	24.0%	(43.1%)
5	Recovery of Loans	23000	13216	57.5%	(67.2%)
6	Other Receipts	61000	6950	11.4%	(37.8%)
7	Total Receipts (1+4)	2716281	1417278	52.2%	(52.7%)
8	Revenue Expenditure	3502724	1628511	46.5%	(46.3%)
9	of which Interest Payments	1079971	484329	44.8%	(46.4%)
10	Capital Expenditure	1000373	490628	49.0%	(45.7%)
11	of which Loans disbursed	163834	74807	45.7%	(16.8%)
12	Total Expenditure (8+10)	4503097	2119139	47.1%	(46.2%)
13	Fiscal Deficit (12-7)	1786816	701861	39.3%	(37.3%)
14	Revenue Deficit (8-1)	870443	231399	26.6%	(31.4%)
15	Primary Deficit (13-9)	706845	217532	30.8%	(25.4%)

Note :- Fiscal deficit figure shown in monthly accounts during a financial year is not necessarily an indicator of fiscal deficit for the year as it gets impacted by temporal mismatch between flow of non-debt receipts and expenditure up to that month on account of various transitional factors both on receipt and expenditure side, which may get substantially offset by the end of the financial year.

*Financial Year runs from "April to March"
**COPPY : Corresponding Period of the Previous Year
@ Actuals are unaudited provisional figures.
@@ 1 Crore = 10 Millions

Table 3: Details of Receipts and Expenditure Items (₹Crore)

Sl No.	Items/Data Category	Unit	Period of latest data	Latest data	Previous data@	%Change from Previous to latest data
1	Revenue Receipts (2+3)	Rs. Crore	Apr-Sep 2023	1397112	1169561	19.46
2	Tax Revenue (Net)	Rs. Crore	Apr-Sep 2023	1160340	1011961	14.66
3	Non-Tax Revenue	Rs. Crore	Apr-Sep 2023	236772	157600	50.24
4	Non-Debt Capital Receipts	Rs. Crore	Apr-Sep 2023	20166	34187	-41.01
5	TOTAL RECEIPTS (1+4)	Rs. Crore	Apr-Sep 2023	1417278	1203748	17.74
6	Revenue Expenditure	Rs. Crore	Apr-Sep 2023	1628511	1480708	9.98
7	Capital Expenditure	Rs. Crore	Apr-Sep 2023	490628	342889	43.09
8	TOTAL EXPENDITURE (6+7)	Rs. Crore	Apr-Sep 2023	2119139	1823597	16.21
9	Balance, deficit(+)/surplus (-) Fiscal Deficit (8-5)	Rs. Crore	Apr-Sep 2023	701861	619849	13.23
10	Primary Deficit	Rs. Crore	Apr-Sep 2023	217532	183167	18.76
11	Financing (12+13)	Rs. Crore	Apr-Sep 2023	701861	619849	13.23
12	Domestic	Rs. Crore	Apr-Sep 2023	694676	607738	14.31
13	External	Rs. Crore	Apr-Sep 2023	7185	12111	-40.67

@- Previous data refers to data for corresponding previous period. Source: CGA.

GST Collection Trends:

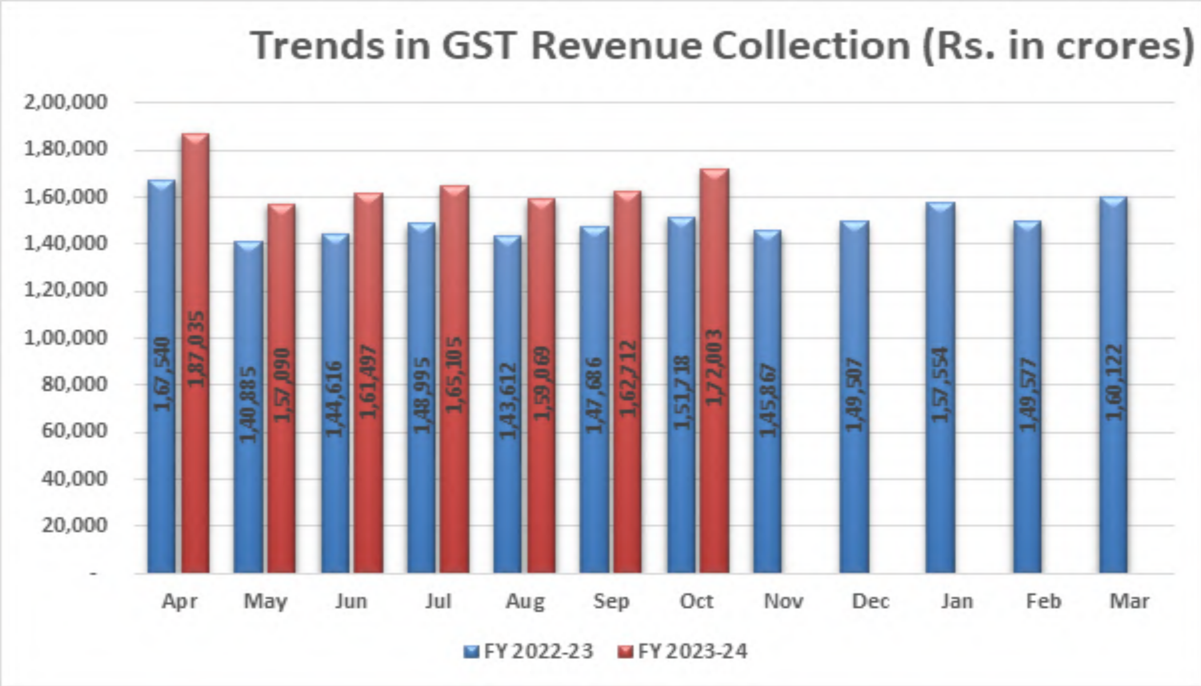
The gross GST revenue collected in the month of October 2023 is ₹ 1,72,003 crore out of which ₹ 30,062 crore is CGST, ₹ 38,171 crore is SGST, ₹ 91,315 crore (including ₹ 42,127 crore collected on import of goods) is IGST and ₹ 12,456 crore (including ₹ 1,294 crore collected on import of goods) is cess.

The government has settled ₹ 42,873 crore to CGST and ₹ 36,614 crore to SGST from IGST. The total revenue of Centre and the States in the month of October 2023 after regular settlement is ₹72,934 crore for CGST and ₹ 74,785 crore for SGST.

The gross GST revenue for the month of October 2023 is 13% higher than that in the same month last year. During the month, revenue from domestic transactions (including import of services) is also 13% higher than the revenues from these sources during the same month last year. The average gross monthly GST collection in the FY 2023-24 now stands at Rs. 1.66 lakh crore and is 11% per cent more than that in the same period in the previous financial year.

The Chart below shows trends in monthly gross GST revenues.

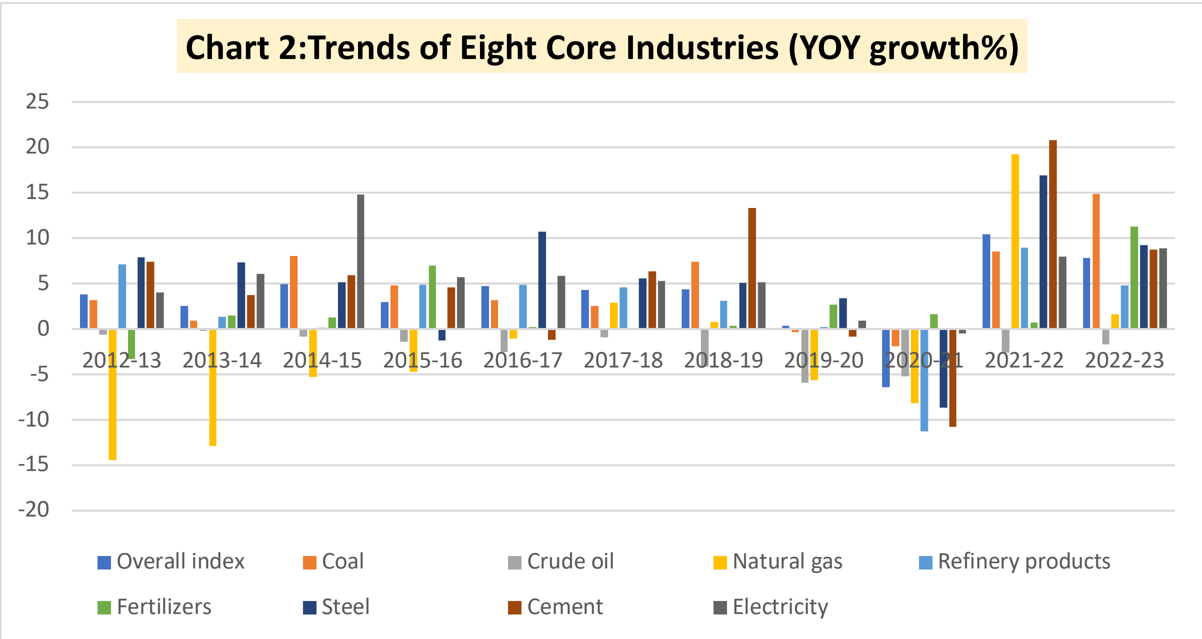
Chart1: Trends in GST Collection (₹ Crore)



Source: https://www.pib.gov.in/PressReleaseIframePage.aspx?PRID=1973731

Trends in Growth rates of the Eight Core Industries:

On a yearly basis (YOY), India's growth rate of eight core industries remains resilient. The combined Index of Eight Core Industries (ICI) increased by 8.1 per cent (provisional) in September 2023 as compared to the Index of September 2022. The production of Coal, Steel, Electricity, Natural Gas, Refinery Products, Cement and Fertilizers recorded positive growth in September 2023 over the corresponding month of last year.



Source: CMIE, MOSPI, Infomerics Research.

In Sept'23, coal, steel, electricity has shown impressive growth at 16.1%,9.6% and 9.3% respectively, though the growth remains subdued compared to the YOY rate of the previous month. However, a month-

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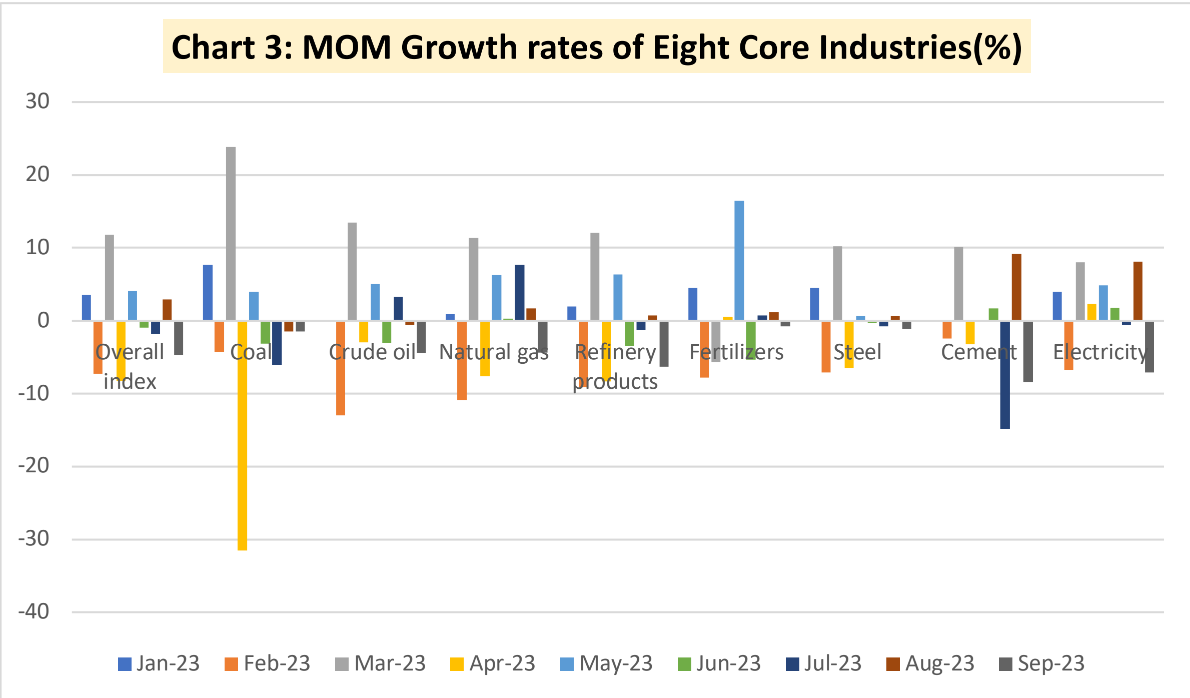
on month (MOM) comparison has shown the growth rates of cement (-8.38%), electricity (-7.12%) and refinery products (-6.35%) remain most subdued during Sept'23.

Table 4: Growth Rates (Y-o-Y basis in per cent)

Sector	Coal	Crude Oil	Natural Gas	Refinery Products	Fertilizers	Steel	Cement	Electricity	Overall Growth
Weight	10.33	8.98	6.88	28.04	2.63	17.92	5.37	19.85	100.00
Sep-22	12.1	-2.3	-1.7	6.6	11.8	7.7	12.4	11.6	8.3
Oct-22	3.8	-2.2	-4.2	-3.1	5.4	5.8	-4.2	1.2	0.7
Nov-22	12.3	-1.1	-0.7	-9.3	6.4	11.5	29.1	12.7	5.7
Dec-22	12.3	-1.2	2.6	3.7	7.3	12.3	9.5	10.4	8.3
Jan-23	13.6	-1.1	5.2	4.5	17.9	14.3	4.7	12.7	9.7
Feb-23	9.0	-4.9	3.1	3.3	22.2	12.4	7.4	8.2	7.4
Mar-23	11.7	-2.8	2.7	1.5	9.7	12.1	-0.2	-1.6	4.2
Apr-23	9.1	-3.5	-2.9	-1.5	23.5	16.6	12.4	-1.1	4.6
May-23	7.2	-1.9	-0.3	2.8	9.7	12.0	15.9	0.8	5.2
Jun-23	9.8	-0.6	3.5	4.6	3.4	21.3	9.9	4.2	8.4
Jul-23*	14.9	2.1	8.9	3.6	3.3	14.2	6.9	8.0	8.4
Aug-23*	17.9	2.1	10.0	9.5	1.8	12.4	19.3	15.3	12.5
Sep-23*	16.1	-0.4	6.5	5.5	4.2	9.6	4.7	9.3	8.1

*Provisional. YoY is calculated over the corresponding month of previous year.

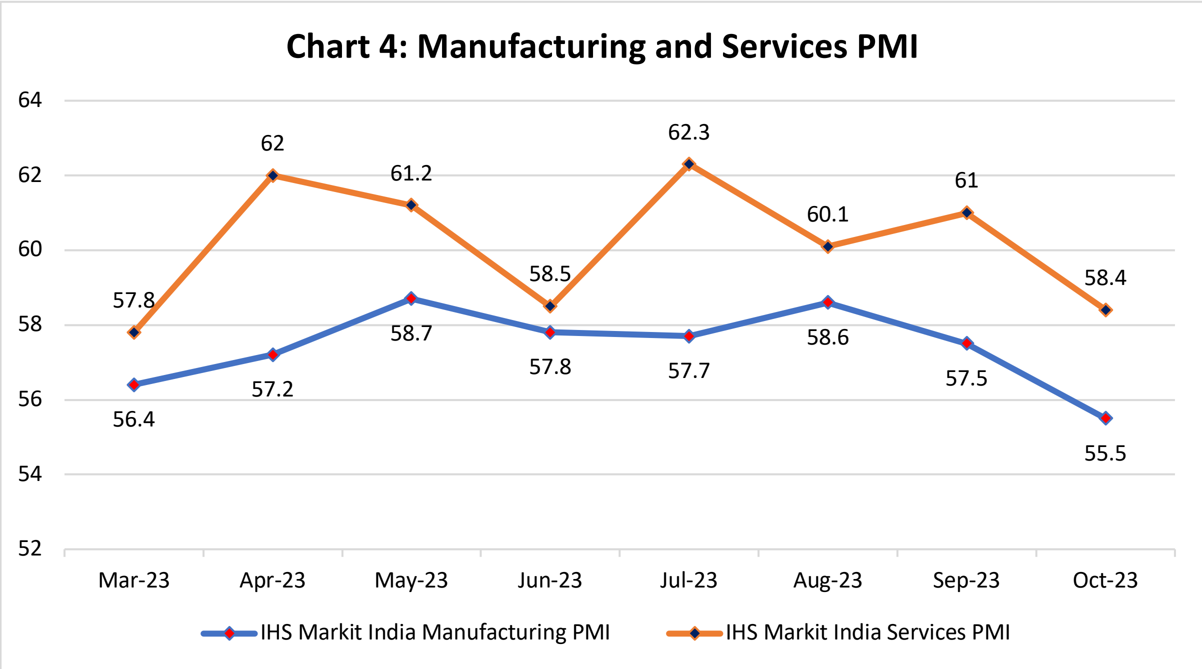


Source: CMIE, MOSPI, Infomerics Research.

Manufacturing and Services PMI:

In October'2023, the seasonally adjusted S&P Global India Services PMI® Business Activity Index stood at 58.4. Despite a decline from 61 in September, this reading marked the slowest expansion rate since March'23. Growth was supported by securing new work, favourable demand trends, and positive market conditions, although competitive pressures and inflationary factors constrained the pace. Additionally, new business for services companies continued to grow for the twenty-seventh consecutive month in Oct'23, albeit at a slower rate since May'23, driven by customer interest and successful advertising, offset by fierce competition and limited demand for some services.

Moreover, October data revealed the second-fastest increase in international orders for Indian services companies since September 2014, with gains from clients in Asia, Europe, and the US. Services companies faced increased expenses in October, attributed to higher food, fuel, and staff costs, resulting in higher selling prices. The rate of change in inflation was significant, surpassing its long-term average and being among the strongest in nearly six and a half years.



Source: CMIE, Infomerics Research.

Infrastructure Projects:

The Ministry of Statistics & Programme Implementation (MoSPI) is in authority for overseeing infrastructure projects valued at or above ₹1.5 billion.[4] Out of the 1,763 such projects, 417 of them have exceeded their budget by more than ₹4.8 trillion as of September 2023. Additionally, 842 projects have experienced delays in their completion. Such delays can be attributed to various factors, including issues such as land acquisition delays, challenges related to obtaining forest or environmental clearances, insufficient infrastructure support and connections, equipment supply problems, financial constraints, unexpected geological issues, changes in project scope, delays in the tendering process, labor shortages, contractual disputes, state-specific lockdowns due to the COVID-19 pandemic, legal cases etc. The total expenditure on these 1,763 projects until September 2023 amounts to approximately ₹15.4 trillion, which is equivalent to 52.1 percent of the initially estimated project costs.[5]

[4] https://www.mospi.gov.in/programme-implementation-pi-wing-0
[5] http://www.cspm.gov.in/english/flr/FR_sept_2023.pdf

Table 5: Status of Infrastructure Projects

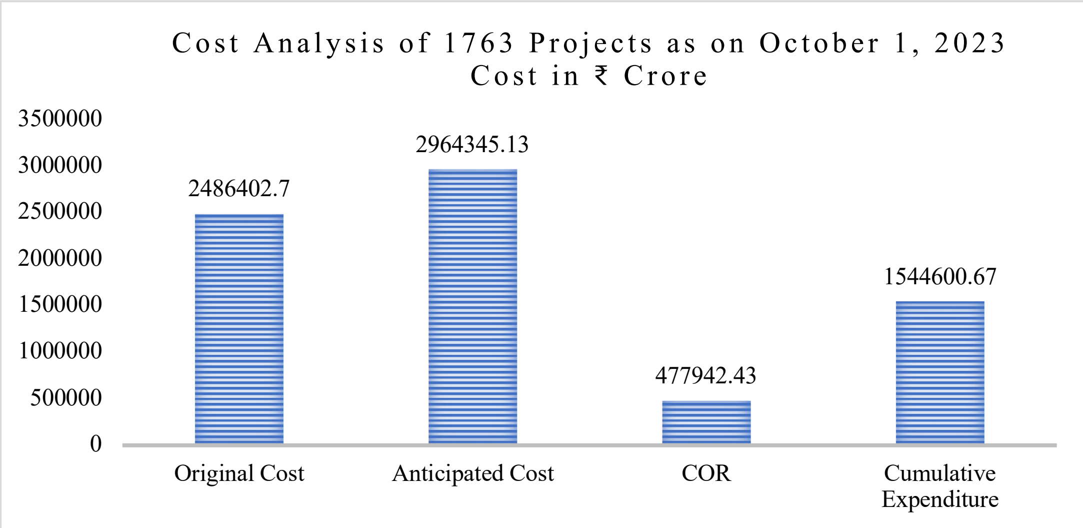
(Figures are in number)

Sector	Projects on Monitor	Delayed Projects w.r.t original schedule	Projects Additionally Delayed
Road Transport and Highways	970	451	106
Railways	259	98	19
Petroleum	151	83	11
Coal	123	51	0
Power	93	56	8
Water Resources	41	23	3
Civil Aviation	28	21	8
Urban Development	26	16	2
Department of Higher Education	22	14	4
Mines	8	7	2
Health and Family Welfare	8	5	2
Steel	7	5	1
Telecommunications	6	3	0
Atomic Energy	5	4	0
Home Affairs	5	4	0
Finance	3	0	0
DPIIT	2	0	0
Shipping and Ports	1	1	0
Social Justice	1	0	0
Defence Production	1	0	0
Commerce	1	0	0
DONER	1	0	0
Renewable Energy	1	0	0
Total	1763	842	166

Source: 454th FLASH REPORT ON CENTRAL SECTOR PROJECTS (Rs.150 crore and above) September 2023, MoSPI, GoI. http://www.cspm.gov.in/english/flr/FR_sept_2023.pdf

Total original cost of implementation of the1763 projects was ₹24,86,402.70 crore and their anticipated completion cost is likely to be ₹29,64,345.13 crore, which reflects overall cost overruns of ₹4,77,942.43 crore (19.22 per cent of original cost). The expenditure incurred on these projects till September 2023 is ₹15,44,600.67 crore, which is 52.11 per cent of the anticipated cost of the projects (see Chart 5).

Chart 5: Cost Analysis of 1763 Projects as on October 1, 2023 (Cost in ₹ Crore)



Source: 454th FLASH REPORT ON CENTRAL SECTOR PROJECTS (Rs.150 crore and above) September 2023, MoSPI, GoI. http://www.cspm.gov.in/english/flr/FR_sept_2023.pdf

Status of Projects under PM GatiShakti:

Since the launch of PM GatiShakti in 2021, the Network Planning Group (NPG) has assessed 115 projects with a combined cost of ₹11.7 trillion. These projects span across multiple sectors with 50 being in roads, 45 in railways, eight in housing and urban affairs and four in petroleum & natural gas. As part of the PM GatiShakti National Master Plan (NMP), the central government has planned approximately 8,890 kilometers of roads, 27,000 kilometers of railway tracks and 920 kilometers of petroleum and natural gas pipelines. According to the Department for Promotion of Industry and Internal Trade (DPIIT), the PM GatiShakti platform has led to a significant reduction in the time taken by the road transport and highways ministry to prepare detailed project reports (DPR). The DPR preparation time has been reduced to about 15 days from six months. Similarly, the petroleum & natural gas ministry's electronic detailed report survey (e-DRS) tool now generates DRS reports digitally in 24 hours, compared to 6-9 months taken earlier when it was done manually without using the NMP.[6]

Impact of Israel-Palestine War on Infrastructure Projects:

The conflict in the Israel-Palestine region is expected to have a negative impact on the initiatives envisaged by the I2U2 alliance[7] (India, Israel, US, and UAE). These initiatives encompass investments of US$ 2 billion in food parks in Gujarat and Maharashtra, as well as collaborations in renewable energy. India, originally scheduled to host a virtual meeting of senior officials from the I2U2 nations in October 2023 to expedite the implementation of these projects, is now seeking to reschedule the meeting because the current circumstances are not conducive. It is likely that progress on these projects will be delayed until the situation.

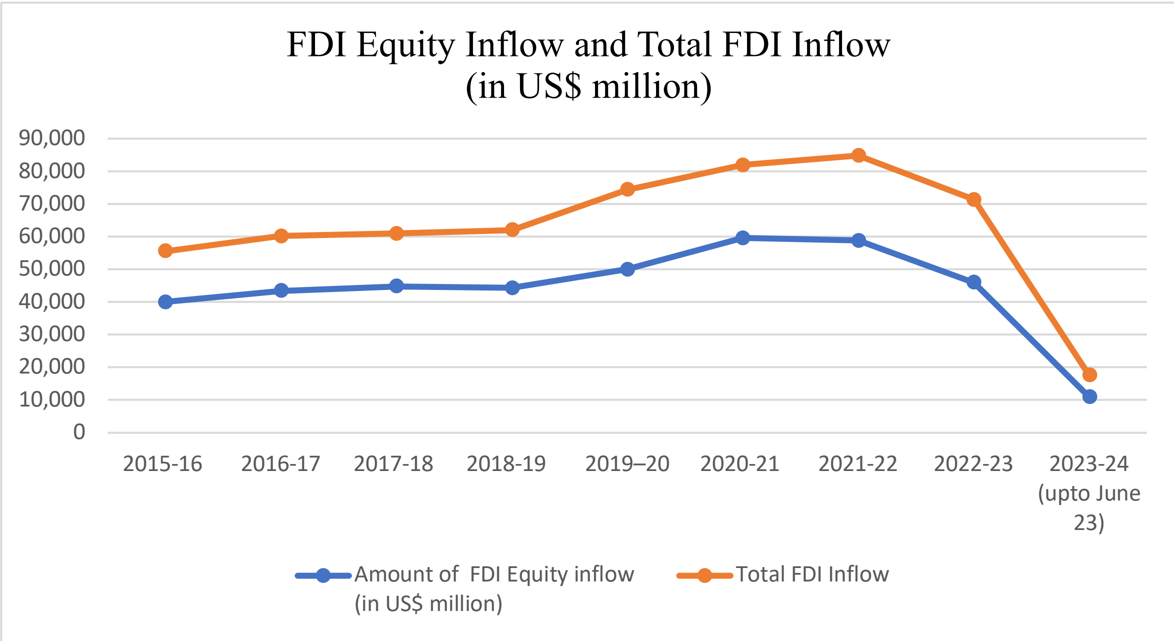
[6] https://economictimes.indiatimes.com/news/economy/infrastructure/pm-gatishakti-aids-in-planning-8890-km-of-roads-27000-km-rail-lines-in-two-years/articleshow/104848966.cms

[7] The I2U2 Group is a grouping of India, Israel, the United Arab Emirates, and the United States. The group's first joint statement, released on July 14, 2022, states that the countries aim to cooperate on "joint investments and new initiatives in water, energy, transportation, space, health, and food security."

Foreign Direct Investment (FDI) Inflow:

The Foreign Direct Investment (FDI) inflow in India has shown a generally upward trend over the years from 2015-16 to June 2023-24. In 2015-16, the FDI equity inflow was US$ 40,001 million, contributing to a total FDI inflow of US$ 55,559 million. The subsequent years witnessed a gradual increase in FDI equity inflow, with the highest being US$ 59,636 million in 2020-21. However, in 2021-22, the FDI equity inflow decreased slightly to US$ 58,773 million, and pandemic was the spoilsport. There was unprecedented decline in net FDI inflows during FY 2022-23 and the FY 2023-24 seems to be a bigger cause for worry. In 2022-23, there was a significant drop in FDI equity inflow to US$ 46,034 million, and the total FDI inflow was US$ 71,355 million. The tightened monetary policies left investors in the developed nations with less access to surplus funds for the investment. Due to uncertain global environment and rising cost of finances, FDI inflow in India is showing a declining trend in the last three years. (see Chart 2).

Chart 6: Total FDI Inflow in India from 2015-16 to June 2023



Note: Total FDI Inflow = Equity Inflow (Government Route/Automatic Route/Acquisition Route) + Equity capital of unincorporated bodies + Re-invested earnings + Other capital

Source: Department for Promotion of Industry and Internal Trade

The data for 2023-24 (Q1) shows an FDI equity inflow of US$ 10,946 million, contributing to a total FDI inflow of US$ 17,567 million. However, the Q1 figures for both total FDI inflow and Equity FDI inflow indicate a declining trend, with a decrease of 21.39 percent and 34 percent, respectively, compared to the previous year's figures of US$ 22,347 million and US$ 16,589 million in Q1 2022-23.[8]

First half of the year 2023 sees a bigger fall with 92 per cent decline in cross-border merger and acquisitions (M&A) deals in India. The Covid inflicted year 2020, survived with biggest deal when Reliance Jio alone attracted US$ 20 billion via acquisition of up to a 33 per cent stake in it by Google and Facebook that dominated the overall FDI flows into India in that particular year. Some big pension funds and

[8] https://www.thehindubusinessline.com/data-stories/data-focus/fdi-inflows-continue-to-decline-in-q1-led-by-karnataka-and-gujarat/article67259898.ece

sovereign wealth funds also invested in Reliance Jio in 2020. Other startups (unicorns) also got equity investments in 2020-2021.[9]

Rupee shows downward trend:

The rupee declined to record all time low at 83.33 before reaching its previous low at 83.29 amid elevated US 10-yr govt. treasury bill. There is also a trend of selling equities by the FIIs, after a six-month buying drift, whereas equities sold stood at $2.95 billion at Oct'23 and $1.7 billion at Sept'23. Though Fed has kept its policy rate unchanged, there is a hawkish tone, and possibility of further hike in Dec'23 cannot be ruled out. Rising tensions on West Asia following Israel-Hamas tussle and uncertainty regarding oil prices trends further weigh on rupee. The fall in forward premium and drying a bit dollar liquidity poses challenges for RBI in managing the current downward pressure on rupee.

Table 6: Exchange Rate Movements of Indian Rupee vis-à-vis major currencies

Date	USD	GBP	EURO	YEN
06-11-2023	83.22	103.05	89.36	55.65
03-11-2023	83.27	101.63	88.53	55.40
02-11-2023	83.26	101.40	88.24	55.36
01-11-2023	83.28	101.12	88.04	55.06
31-10-2023	83.27	101.16	88.32	55.42

Source: RBI.

Trends in Foreign Institutional Investments (FII):

Of late, over the past three months, there has been a trend of FII selling in the Indian equity market. This pattern of increased divestment is evident not only in India but also in other emerging markets (EMs). One of the reasons for this tendency is rising US bond yields, leading towards a risk-off trade. Foreign Institutional Investor's (FII's) are selling across emerging markets (EM) including India amid volatile times and searching for safe haven assets and stronger currencies.

The months of September- October 2023 turned out to be the primary months of FY24 where a broad-based selling is visible in the Indian equity market, having faced numerous challenges influenced primarily by global factors, such as the rising yields on the US 10-year Treasury note and geopolitical tensions; especially, the conflict between Israel and Hamas played a significant role in the market's volatility.

[9] https://thewire.in/economy/precipitous-decline-fdi-last-two-years-modi-tenure

Table 7: Monthly FPI/FII Net Investments (Calendar Year - 2023)

Calendar Year	INR crores				
	Equity	Debt	Debt-VRR	Hybrid	Total
Jan-23	-28852	3530.9	-1076	-146.5	-26544
Feb-23	-5294	2436.5	-1044	-237	-4139
Mar-23	7935.6	-2505	-726.5	1195	5899.2
Apr-23	11631	805.56	1234.6	-126.2	13545
May-23	43838	3276.1	1513.7	-298.4	48330
Jun-23	47148	9178.4	-241.7	172.63	56258
Jul-23	46618	3726	-2227	-140	47977
Aug-23	12262	7732.8	-2933	1275.7	18338
Sep-23	-14768	938.39	54.22	-35.5	-13810
Oct-23	-24548	6381.6	406.06	-115.5	-17875
Nov-23	-3412	1984.2	1227.3	5.54	-195.1
Total-2023	92559	37486	-3812	1549.9	127782

Source: Central Depository Services (India) Limited (CDSL).

While, FIIs have turned into sellers, domestic institutional investors (DIIs) remain net buyers. According to the NSE data, DII's remain net buyer of the amount ₹402.69 crore in November 2023 (up to 3rd Nov'23).

Table 8: DII and FII Investments in Nov'23 (up to 3 Nov'23)

CATEGORY	DATE	BUY VALUE (₹ Crores)	SELL VALUE (₹ Crores)	NET VALUE (₹ Crores)
DII	03-Nov-23	7,932.73	7,530.04	402.69
FII	03-Nov-23	7,739.00	7,751.43	-12.43

Source: NSE.

Concluding Remarks:

Amid many headwinds including pandemic, inflation, and war, major worries remain regarding potential other sources of inflationary pressures from any supply side factor(s), as well as volatility in oil prices. The geopolitical tension is further aggravated due to the ongoing tussle between Israel and Hamas. However, the impact on oil prices could be restricted provided that the tension does not escalate to such extent to involve other countries. For instance, Iran as a source of supply is of paramount importance. On the inflation front, the concerning view is that inflation for all countries is yet to show unambiguous downward trend. For instance, the Reserve Bank of Australia (RBA) raised its policy interest rate again by another quarter point to a 12-year high of 4.35%. Moreover, in US, despite the fall in loan demand in US after banks tightened lending standards for businesses and households over the third quarter,[10] still it is too early to think of a

[10] As reflected in the Fed's quarterly loan officer survey.

rate reduction, especially when the Minneapolis Chief Neel Kashkari insisted it was still too early to take another rate hike off the table.[11]

Further, China is facing a sustained slowdown and the country has recorded its first ever quarterly deficit in foreign direct investment (FDI) underscoring capital outflow pressure. Latest data shows that onshore volume of yuan trading against the dollar slumped to a record low of $254.05 billion in Oct'23, as well as direct investment liabilities were a deficit of $11.8 billion during the July-Sept'23 period.[12] Amid such adverse geopolitical situations and fight with inflation by the central banks of different countries, Indian economy shows resilience. The IMF, in its October 2023 issue of the World Economic Outlook, has highlighted India's position as the global growth leader among major economies with a medium-term growth prospect of 6.3%. In its October 2023 monetary policy review, the RBI has continued to maintain its earlier GDP growth projection of 6.5% for FY24 for India.

The second-quarter GDP growth rate in FY24 is likely to be in the range of 6.2%~6.9%. The capital expenditure (capex) has increased as per cent of BE at 49% compared to last year's 45.7% indicating central government's continued thrust on infrastructure especially railways and roads & highways. The growth of the capex compared to (Apr-Sept)'22 to (Apr-Sept)'23 is 43.09%, which is quite impressive. There are other big positive developments have taken place for India as well, e.g., CLSA (the brokerage owned by China's CITIC securities) has increased its India exposure with a favourable macroeconomic outlook, and the inclusion of government bonds in the JP Morgan's emerging market debt index which is likely to channelise billions of dollars into G-Sec segment thus streamlining the borrowing costs.

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[11] "I'm a little nervous about declaring victory too soon," he said, according to Reuters news.

[12] "China's first deficit in FDI signals West's 'de-risking' pressure"(07Novemver 2023) The Financial Express.