FY 2023-24: Year End Macroeconomic Review

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In Conversation with

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Part - I

Global Developments

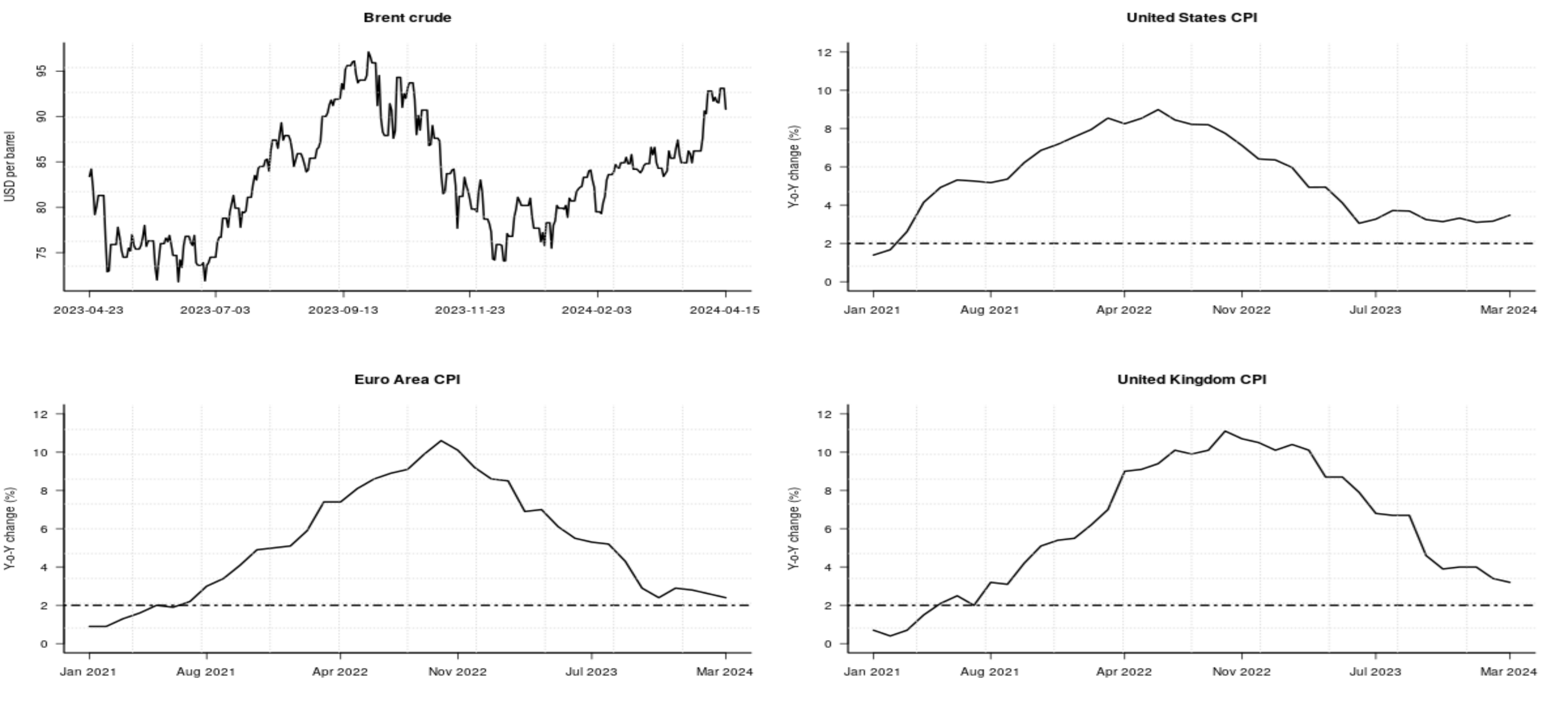
Global growth outlook: Slow recovery

(Real GDP, annual percent change)	2023	2024	2025
		PROJECTIONS	
World Output	3.2	3.2	3.2
Advanced Economies	1.6	1.7	1.8
United States	2.5	2.7	1.9
Euro Area	0.4	0.8	1.5
Germany	-0.3	0.2	1.3
France	0.9	0.7	1.4
Italy	0.9	0.7	0.7
Spain	2.5	1.9	2.1
Japan	1.9	0.9	1.0
United Kingdom	0.1	0.5	1.5
Canada	1.1	1.2	2.3
Other Advanced Economies	1.8	2.0	2.4
Emerging Market and Developing Economies	4.3	4.2	4.2
Emerging and Developing Asia	5.6	5.2	4.9
China	5.2	4.6	4.1
India	7.8	6.8	6.5

Source: IMF - World Economic Outlook, April 2024

- Global growth estimated at 3.2 percent in 2023, is projected to continue at the same pace in 2024 and 2025
- Advanced economies growth likely to be sustained at 1.7 percent in 2024 and 1.8 percent in 2025, compared to 1.6 percent in 2023
- Emerging market and developing economies growth to remain stable at 4.2 percent.

Global inflation moderating but slightly elevated owing to rising oil prices



Surge in crude oil mainly due to geo-political conflicts and production cuts by OPEC.

Part - II

Growth

Growth spurt in FY23-24 driven by capital formation

Demand components	2022-23 H2 YoY (%)	2023-24 H1 YoY (%)	2023-24 Q3 YoY (%)	2023-24 YoY (%)
Aggregate demand (GDP)	5.3	8.1	8.4	7.6
Govt. Final Consumption Exp. (GFCE)	11	**6.1**	**-3.2**	3.0
Private Final Consumption Exp. (PFCE)	1.7	3.8	3.5	3.0
Gross Fixed Capital Formation (GFCF)	4.4	**10.1**	**10.6**	10.2
Exports of Goods & Services (X)	11.7	-0.5	3.4	1.5
Imports of Goods & Services (M)	1.7	13.5	8.3	10.9

Source: CSO, MOSPI

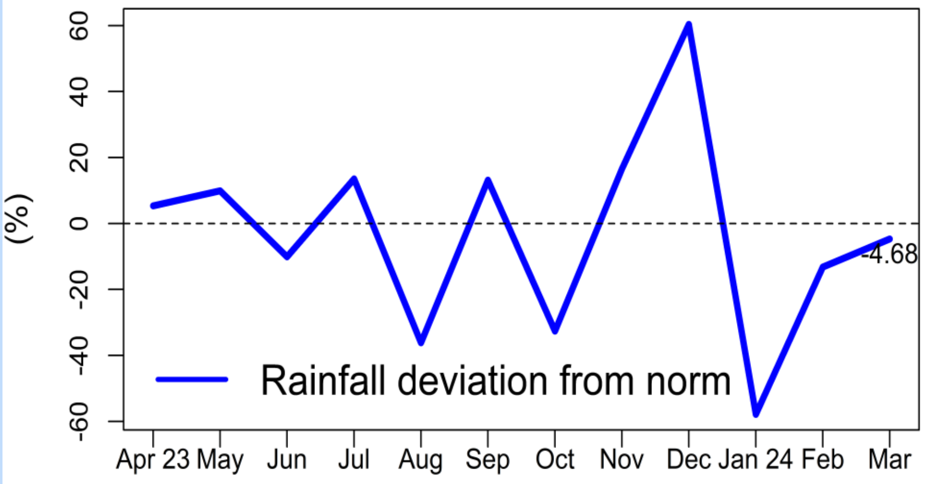
Strong broad-based non-agricultural growth in FY 23-24

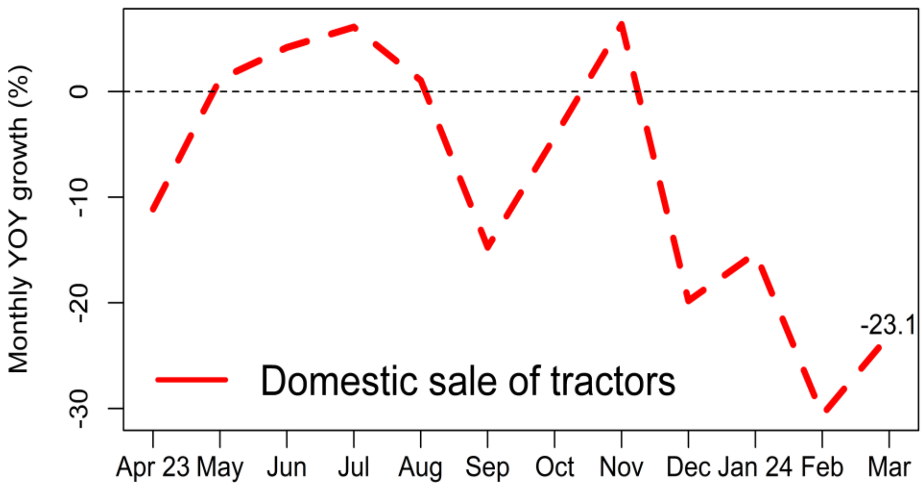
Sector	2022-23 H2	2023-24 H1	2023-24 Q3	2023-24
GDP	5.3	8.1	8.4	7.6
1. Agriculture, forestry & fishing	6.3	2.6	-0.8	0.7
2. Industry	2.1	**9.7**	**10.4**	**9.0**
2.1 Mining & Quarrying	2.2	8.9	7.5	8.1
2.2 Manufacturing	-1.7	9.7	11.6	8.5
2.3 Electricity, gas, water supply and other utility	8.0	6.8	9.0	7.5
2.4 Construction	8.3	10.9	9.4	10.7
3. Services	7.2	8.3	7.0	7.5
3.1 Trade, hotels, transport, communication, broadcasting (TRC)	8.0	6.9	6.7	6.5
3.2 Financial, real estate and professional services (FIN)	8.4	9.3	7.0	8.2
3.3 Public administration, defense and other services (PAD)	4.1	8.0	7.5	7.8

Source: CSO, MOSPI

- FY23-24 services growth led by FIN and PAD, TRC growth moderated due to fading base effects
- Agricultural growth slowed down due to uneven rainfall, 3.7% decline in paddy production
- Also, wheat supply response to moderating global demand, easing of Black Sea supply disruption

Agriculture: Low performance of FY 23-24 expected to continue in H1 FY 24-25 due to uneven rainfall

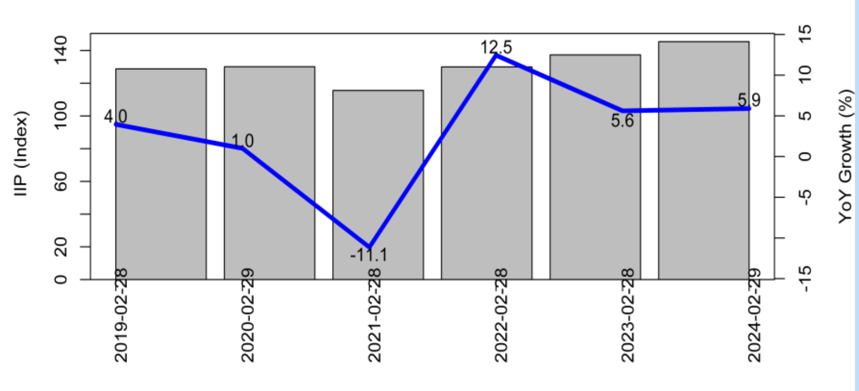


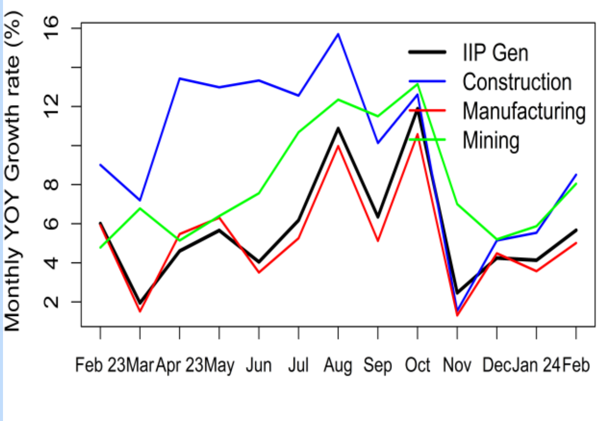


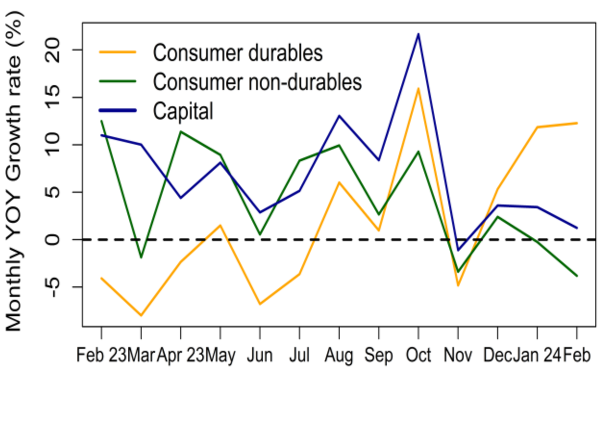
Source: CMIE

- Volatile weather conditions
- Area sown under both Kharif and Rabi crops are almost same in FY 23-24 compared to FY 22-23
- Declining agricultural activity also reflected in contraction in domestic sales of tractors

Moderate & volatile industrial growth in 2023-24

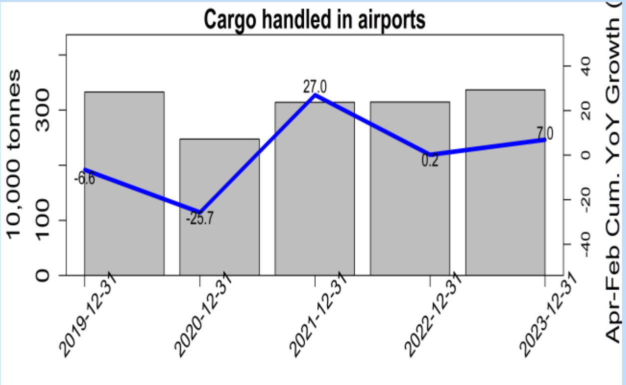


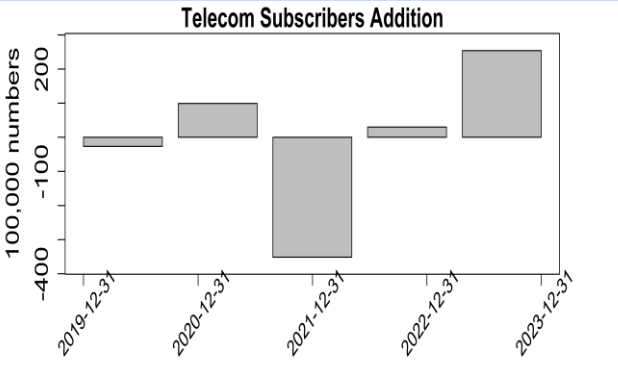


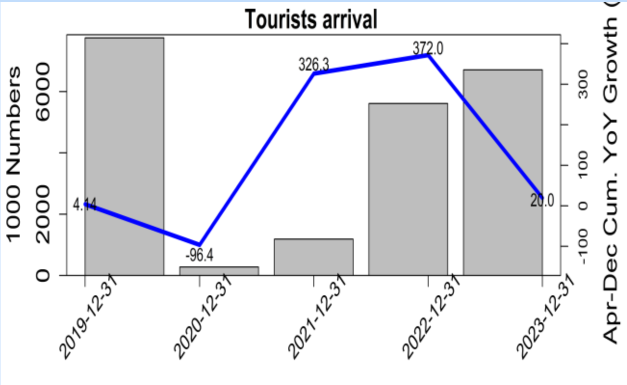


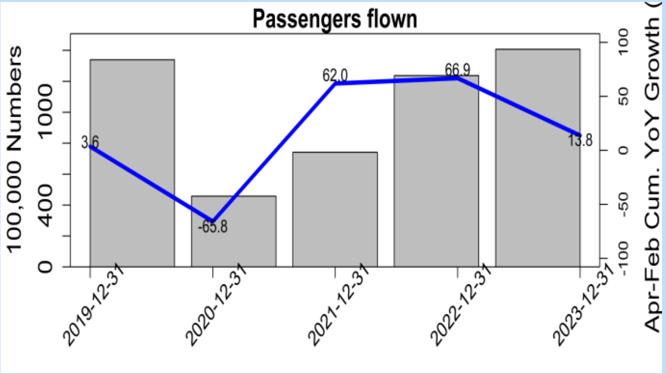
- High growth in construction followed by mining and manufacturing
- Sharp decline in growth in November
- **Capital goods and consumer durables led manufacturing growth**
- **In Q1 2024-25 construction** expected to drive industrial growth
- Automobiles, **mainly two and three wheelers, premium cars** to contribute to industrial growth as well

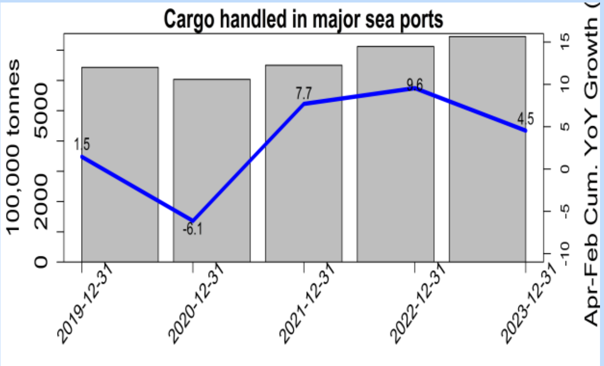
High services growth in 2023-24 broad based, geopolitical uncertainties hit sea trade







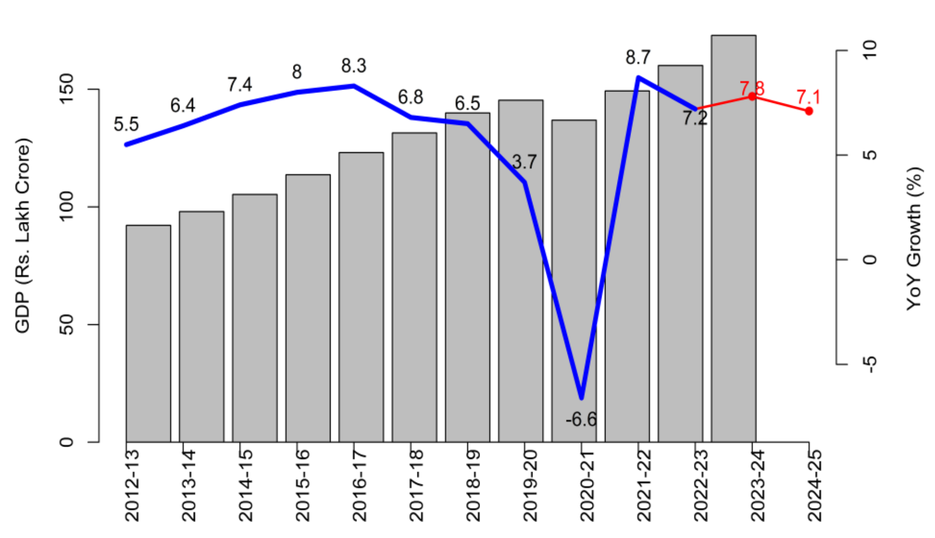




- Travel & Tourism growth show moderation from 2022-23 due to fading base effect

Source: CMIE

GDP growth estimate at 7.8% for FY 23-24 and forecast at 7.1% for FY 2024-25



	FY 23-24	Q1 24-25	Q2 24-25	Q3 24-25	Q4 24-25	FY 24-25
NIPFP	**7.8**	**7.2**	**6.9**	**7.3**	**7.1**	**7.1**
NIPFP	**7.6**					**7.4**
RBI	7.0	7.2	6.8	7.0	6.9	7.0
MOSPI (SAE)	7.6					
IMF	7.8					6.8
World Bank	7.5					6.6

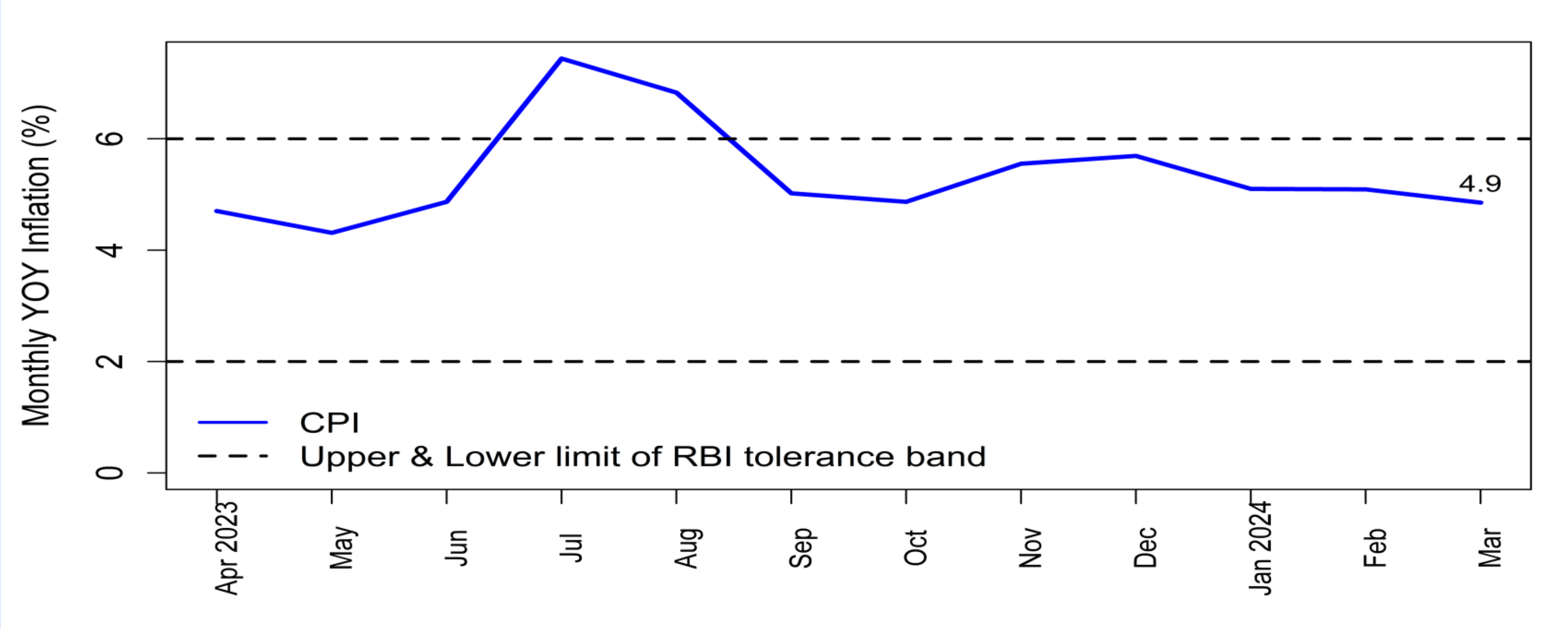
Source: MOSPI; Bhattacharya, Chakravartti and Mundle (2023); Bhattacharya, Bhandari and Mundle (2023)

- Alternative growth forecasts derived from high-frequency and annual data models
- High growth in FY 23-24 and 24-25 attributable to high public investment
- Downside risk: Compression in Govt. consumption expenditure

Part - III

Inflation

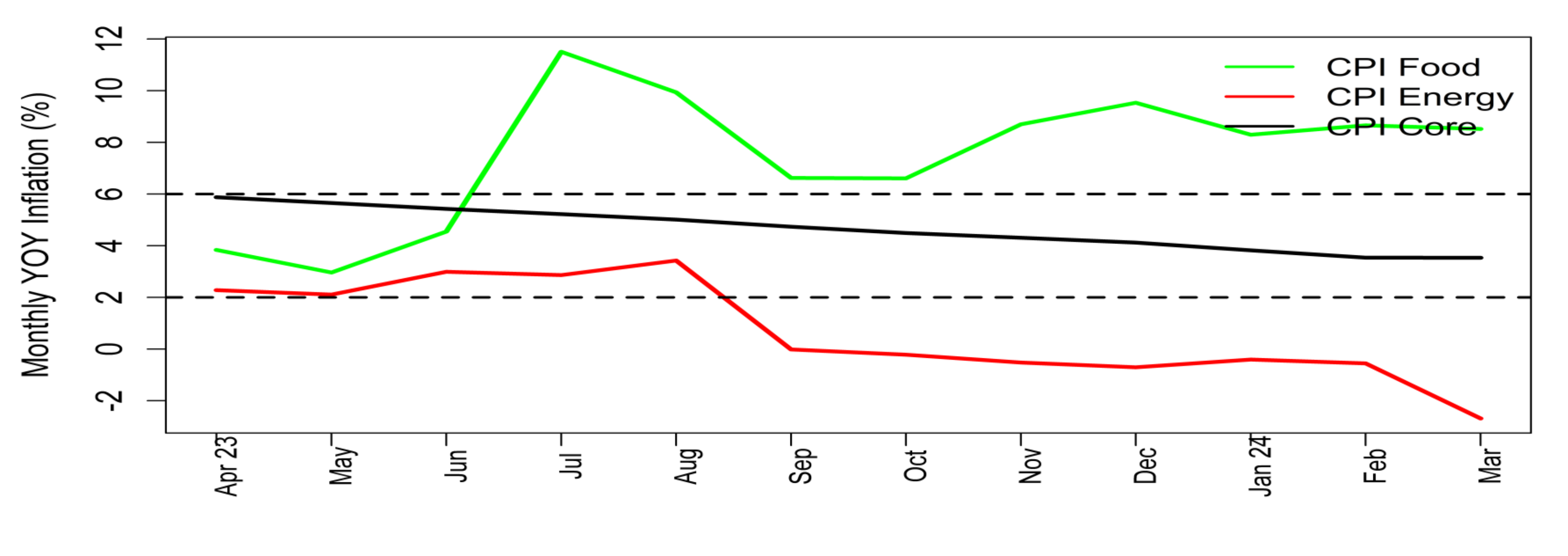
Inflation now within RBI tolerance band upper limit of 6%



Source: CSO, MOSPI

- Headline inflation exceeded the upper limit in Jul-Aug, 2023-24 due to high Vegetable Cereals, Pulses, & Milk & products inflation

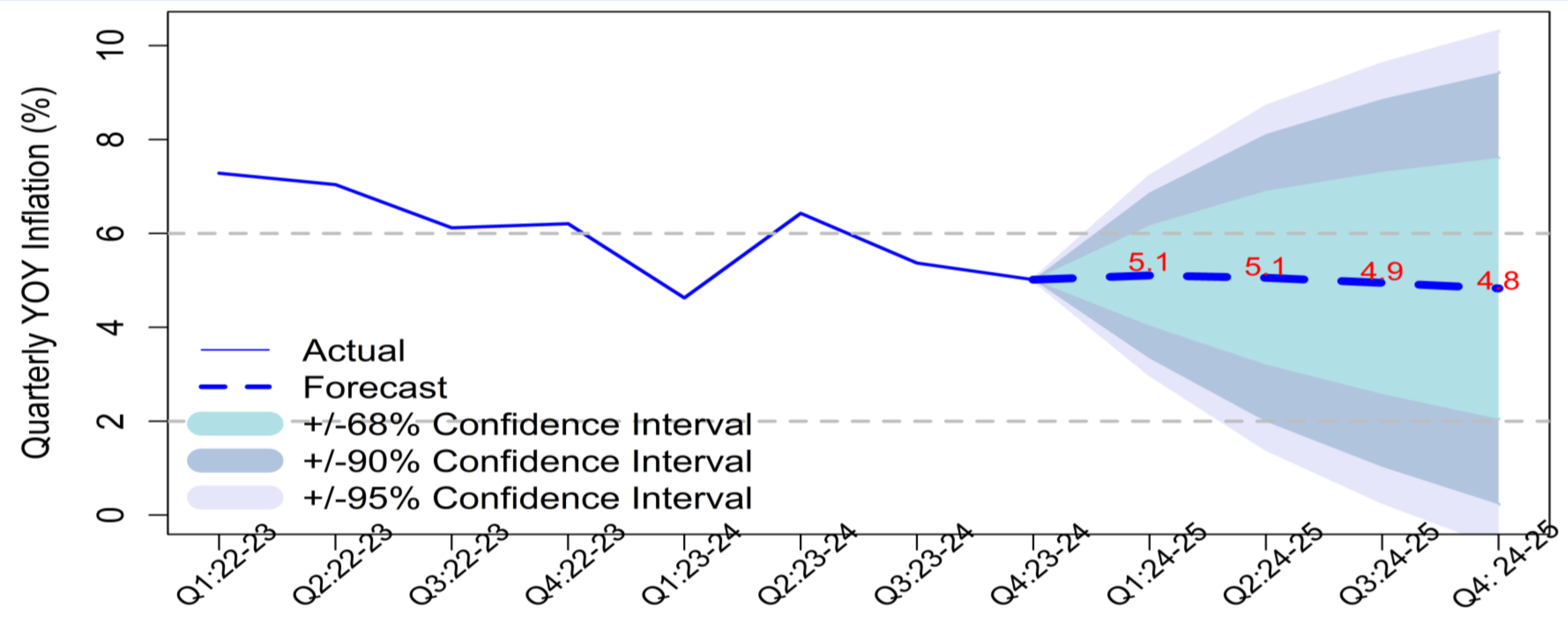
CPI food inflation still elevated, Core and Energy inflation declining



Source: CSO, MOSPI

- *Cereals, Pulses, Vegetable, Egg, Meat & Fish prices driving food inflat*ion
- Core inflation has been declining, but rebounds on account of services component

FY 24-25 inflation forecast by NIPFP at 5%, still above 4% target but within RBI tolerance band



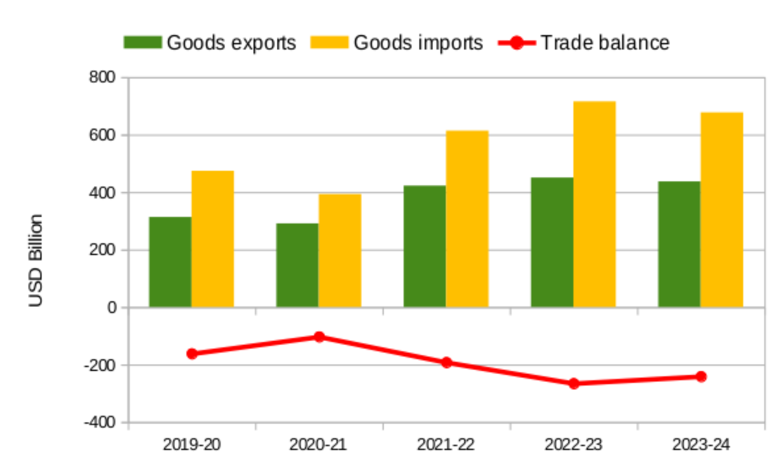
Source: NIPFP

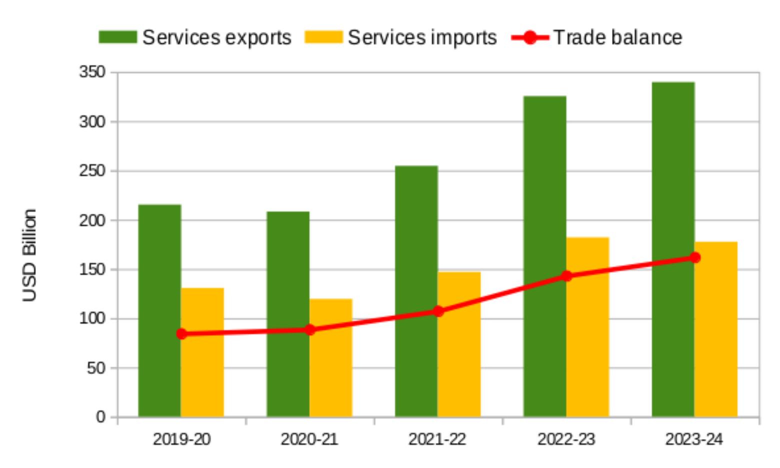
- **Upside risk:** Surge in food inflation, rebound in global crude oil inflation
- Comparable forecasts (RBI): **FY 2024-25: 4.5**; Q1 FY 2024-25: **4.9**; Q2 FY 2024-25: **3.8**; Q3 FY 2024-25: **4.6** and Q4 FY 2024-25: **4.5**

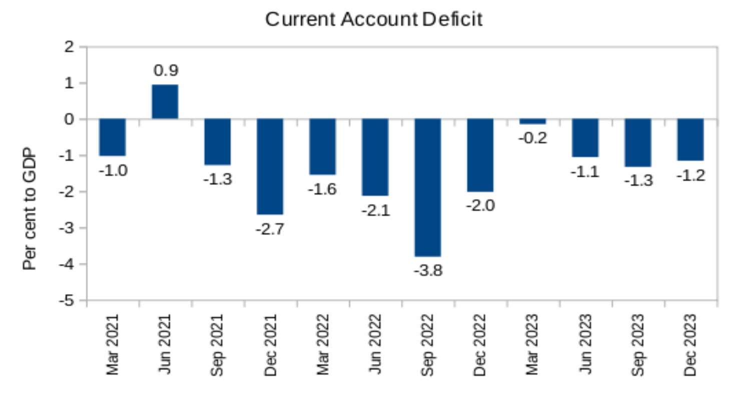
Part - IV

External Sector

Merchandise exports declined in FY 24 but improvement in overall trade deficit



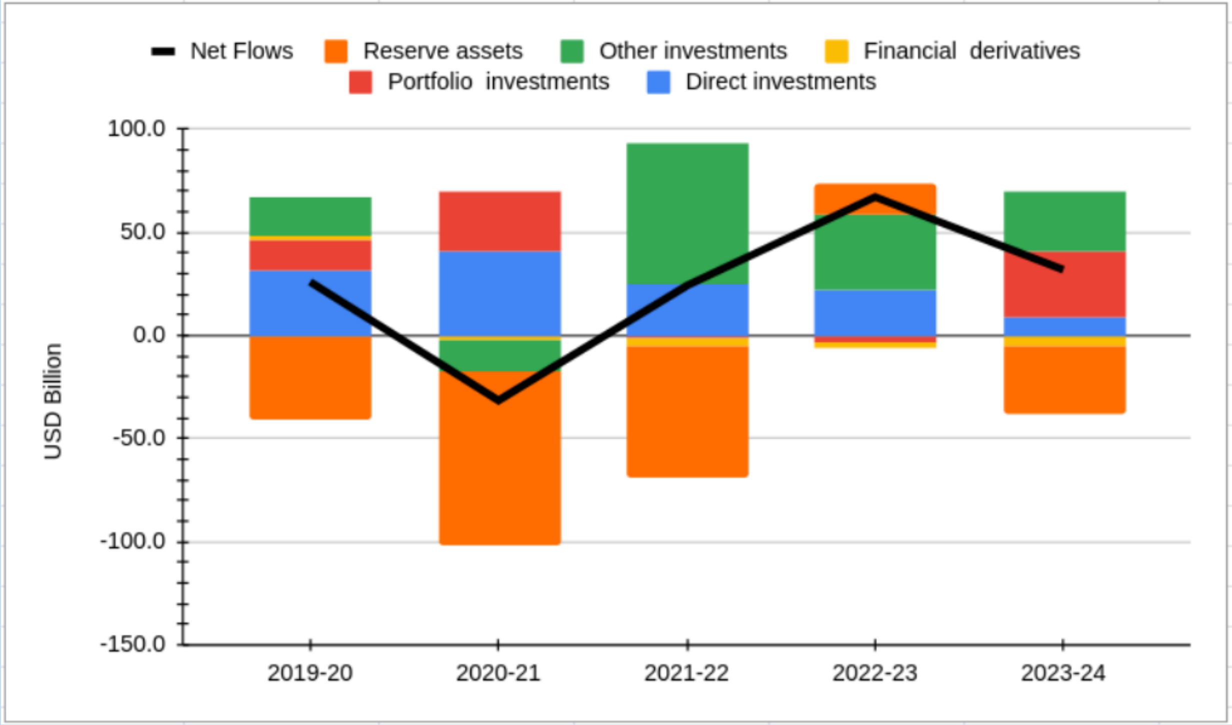




Source: RBI

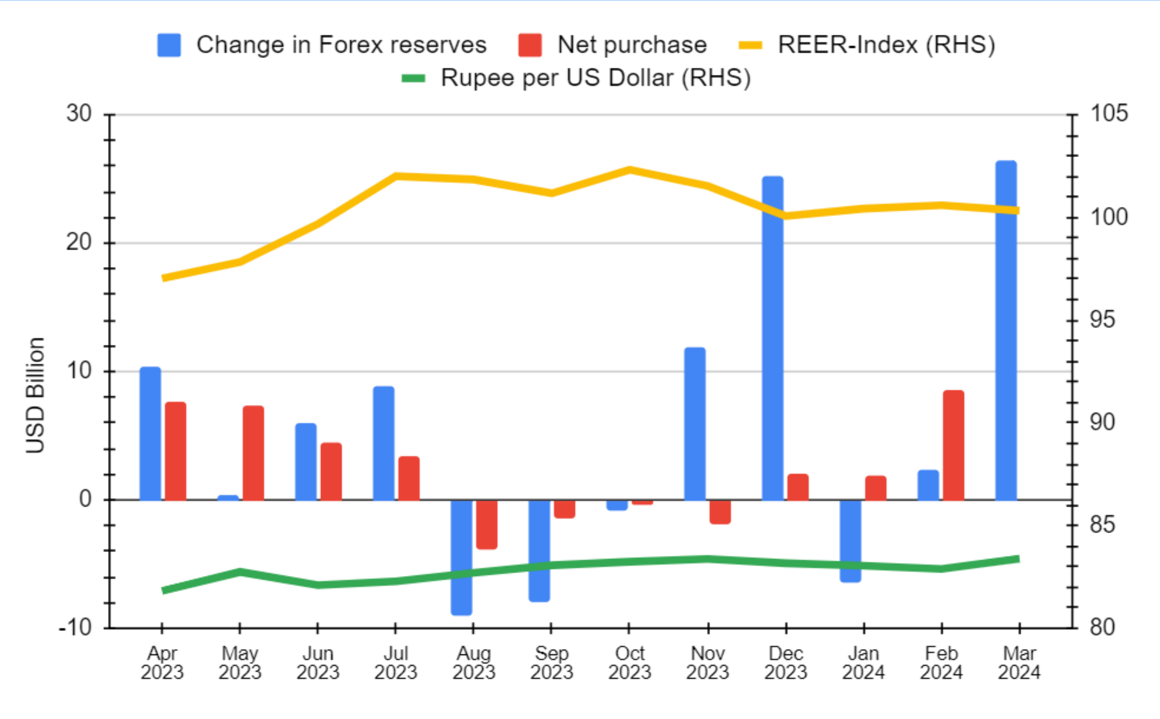
- India's merchandise exports fell for the first time in four years in 2023-24 owing to geo-political tensions and export curbs on food items
- Merchandise exports for FY 2023-24 were USD 437.06 Billion as against USD 451.07 Billion during FY 2022-23 (April-March), a decline of 3 percent while imports fell about 5 percent to USD 677 billion.
- Overall merchandise trade deficit improved to USD 240 billion as compared to USD 264.9 billion in FY 2022-23.
- Overall trade deficit improved by 35 percent due to buoyant services trade.

Financial account: Moderation in net flows and direct investment flows but increase in portfolio flows



- Direct investment in India (Net inflows) moderated to USD 18.8 billion in April-December of FY 2023-24 as compared to USD 32.68 billion in the same period last year.
- Possible to receive a boost from the Trade and Economic Partnership Agreement (TEPA) signed with the European Free Trade Association (EFTA) in March 2024.
- Portfolio flows were higher with FPIs turning net buyers in 9 months of FY 2024.

Two way intervention by the RBI led to lower volatility in the rupee-dollar rate

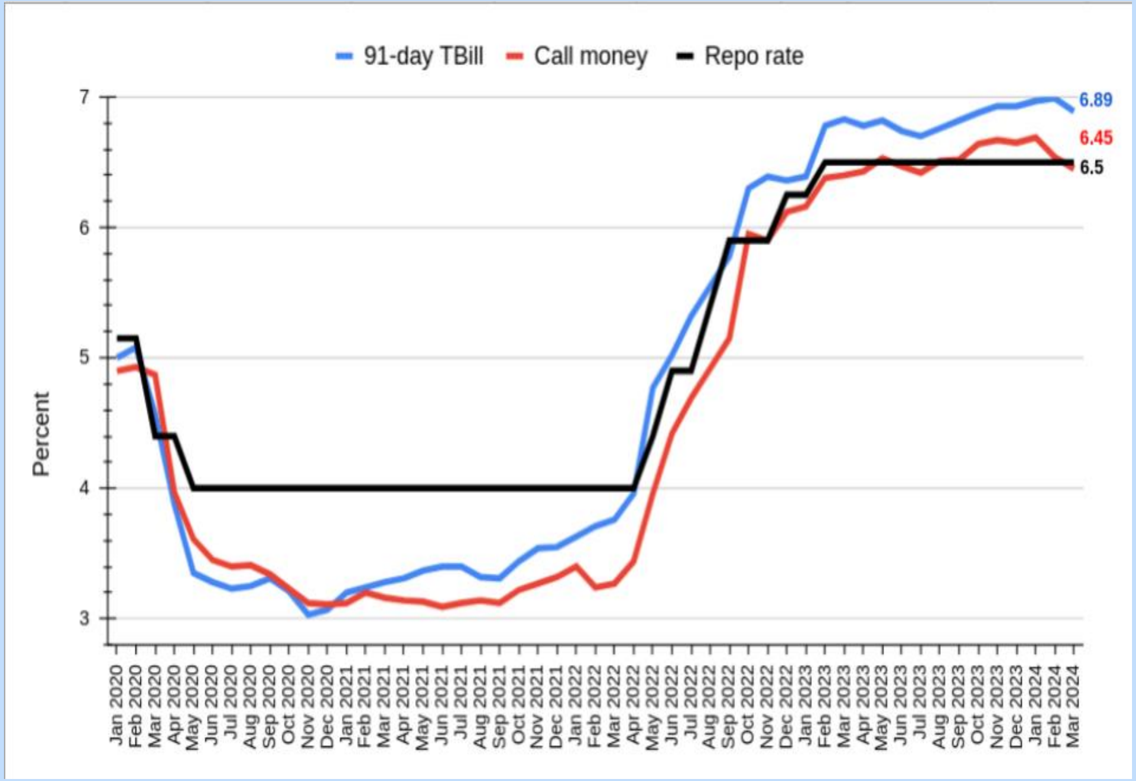


- Despite variations in the US dollar index, the rupee dollar rate was relatively stable.
- This was due to the simultaneous purchase and sale of dollars by the RBI.
- The RBI bought dollars during the heavy FPI inflows and sold dollars to prevent the depreciation of the rupee.

Part - V

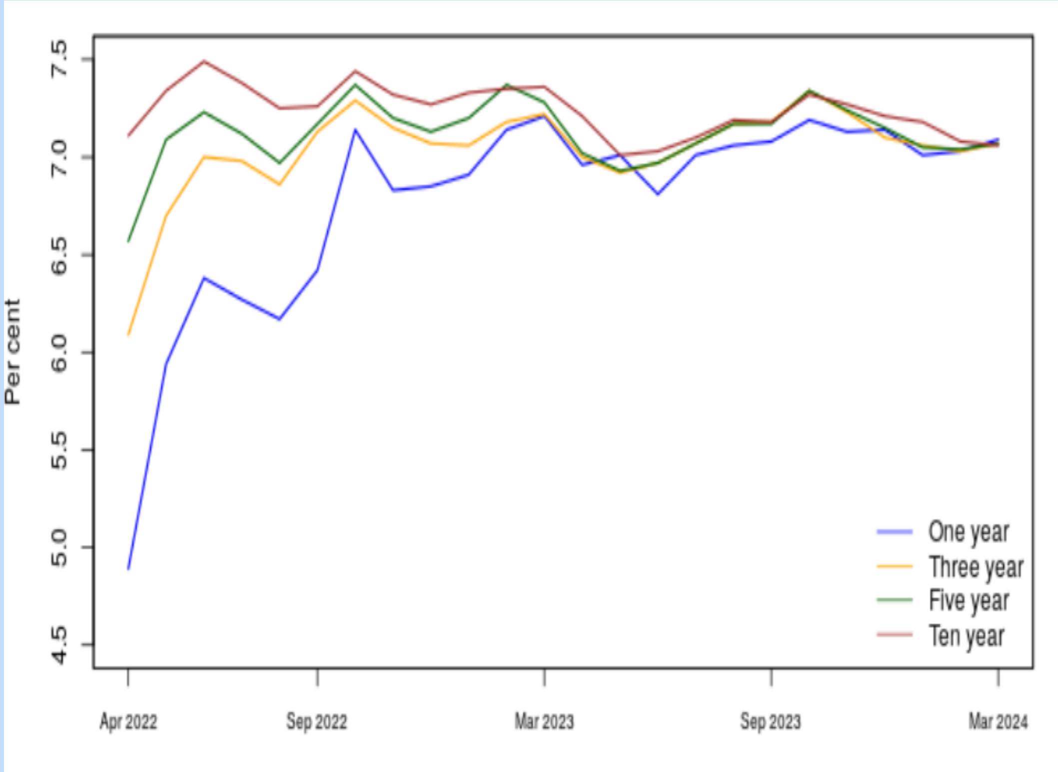
Financial Markets & Monetary Policy

Short-term rates have persisted above the repo rate



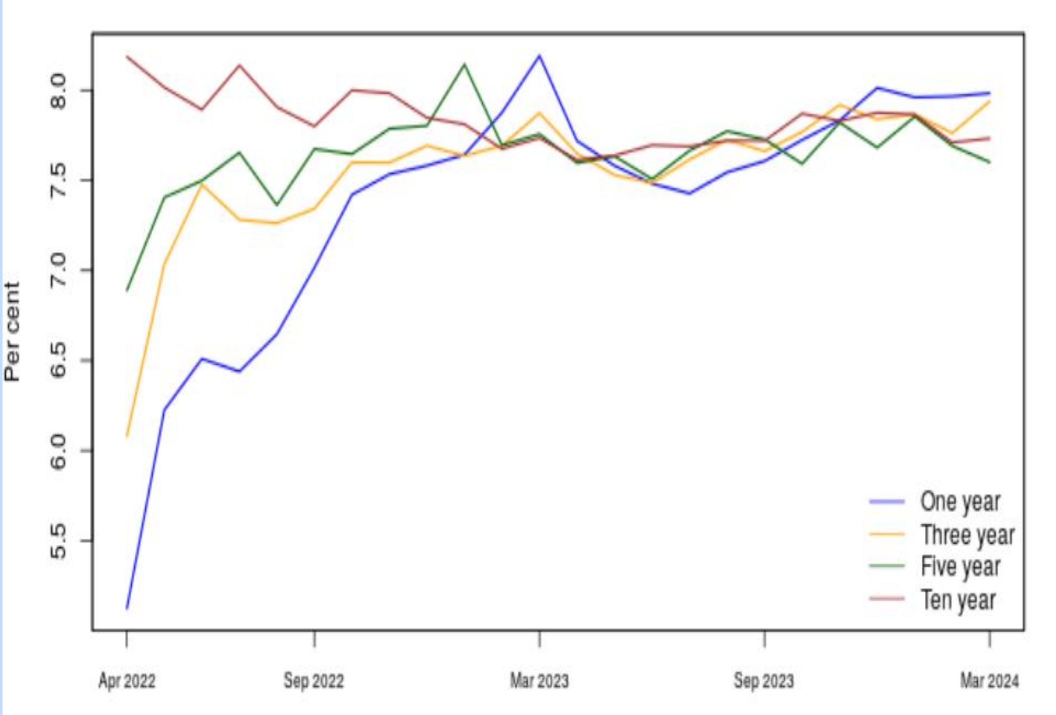
- From May 2022 to February 2023, the RBI raised the repo rate by 250 basis points to 6.5 percent.
- Subsequently, RBI has maintained status quo on both policy rate and on stance at withdrawal of accommodation.
- The call rate persisting above the repo rate reflects withdrawal of accommodation stance and tightness in liquidity.
- During the end of financial year, typically money market liquidity tightens due to outflows on account of Goods and Services tax payments. However RBI conducted Variable Rate Repo auctions to improve liquidity position.

Government bond yields have stabilised after converging



- Short term bond yields rose faster than long-term rates indicating flattening and on some occasions inversion of the yield curve.
- Long term rates have remained steady due to decline in domestic inflation, moderation in government borrowings on account of lower fiscal deficit from Rs. 17.35 lakh crore in FY 2024 (RE) to Rs. 16.85 lakh crore in FY 2025 (or 5.8% of GDP in FY 2024 (RE) to 5.1% of GDP in FY 2025).
- Inclusion of government bonds in the emerging market bond global bond indices also imparted downward pressure on the ten year bond yield.
- Short-term rates have remained elevated due to tightness in liquidity.

Convergence of corporate short-term and long-term bond yields mirroring trends in government bonds



- Convergence of short-term and long-term corporate bond yields: Reflects demand-supply mismatch in the bond market.
- Issuers are more inclined towards short-medium term bonds while investors such as pension and insurance funds are interested in investing in long-term bonds.

Meaning of Banking System Liquidity

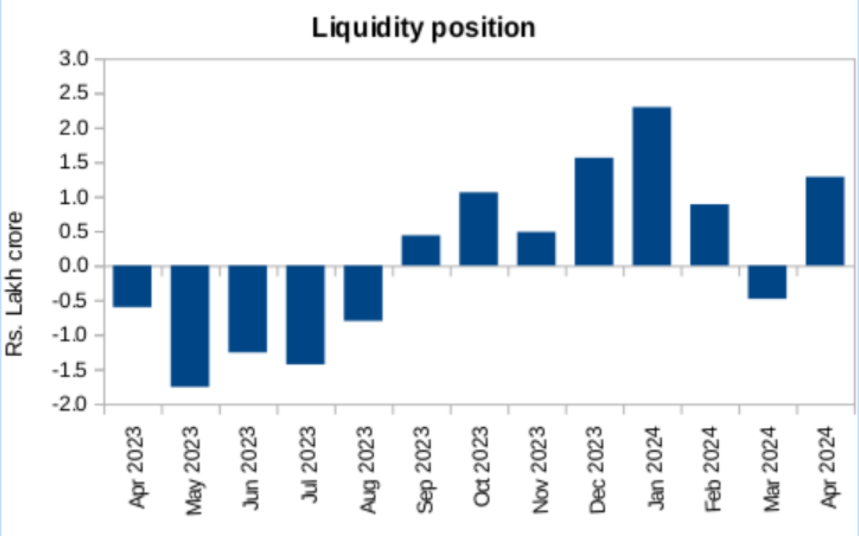
System liquidity = Net borrowing under LAF - Excess reserves maintained by banks

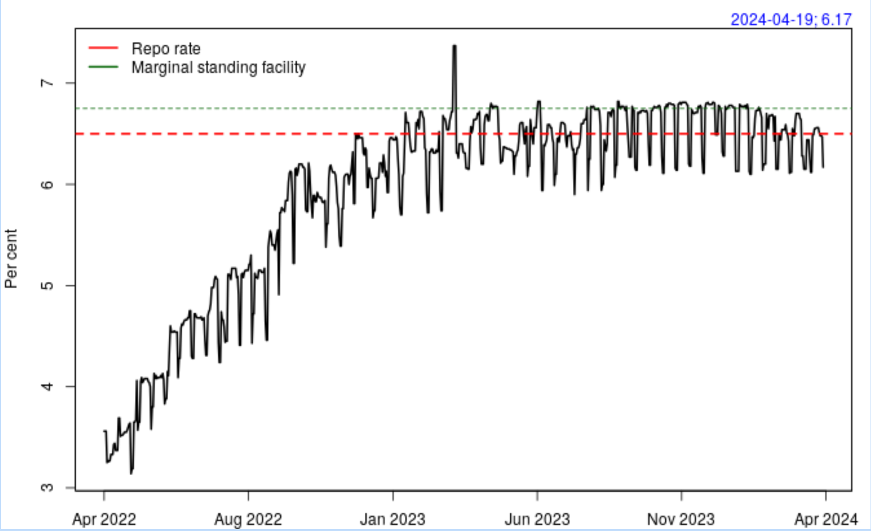
Net borrowing under LAF = Total of all Repo/MSF/SDF borrowings - Total of all Reverse-repo deposits

Excess reserves maintained by banks = Actual reserves maintained by banks - Required reserves

- If the banking system is a net borrower from Reserve Bank under LAF, the system liquidity is in deficit (i.e., system demand for borrowed reserves is positive). RBI conducts VRR auctions.
- If the banking system is a net lender to the Reserve Bank, the system liquidity is in surplus (i.e., system demand for borrowed funds is negative). RBI conducts VRRR auctions.

Call rates seen above the repo rate when liquidity is in deficit

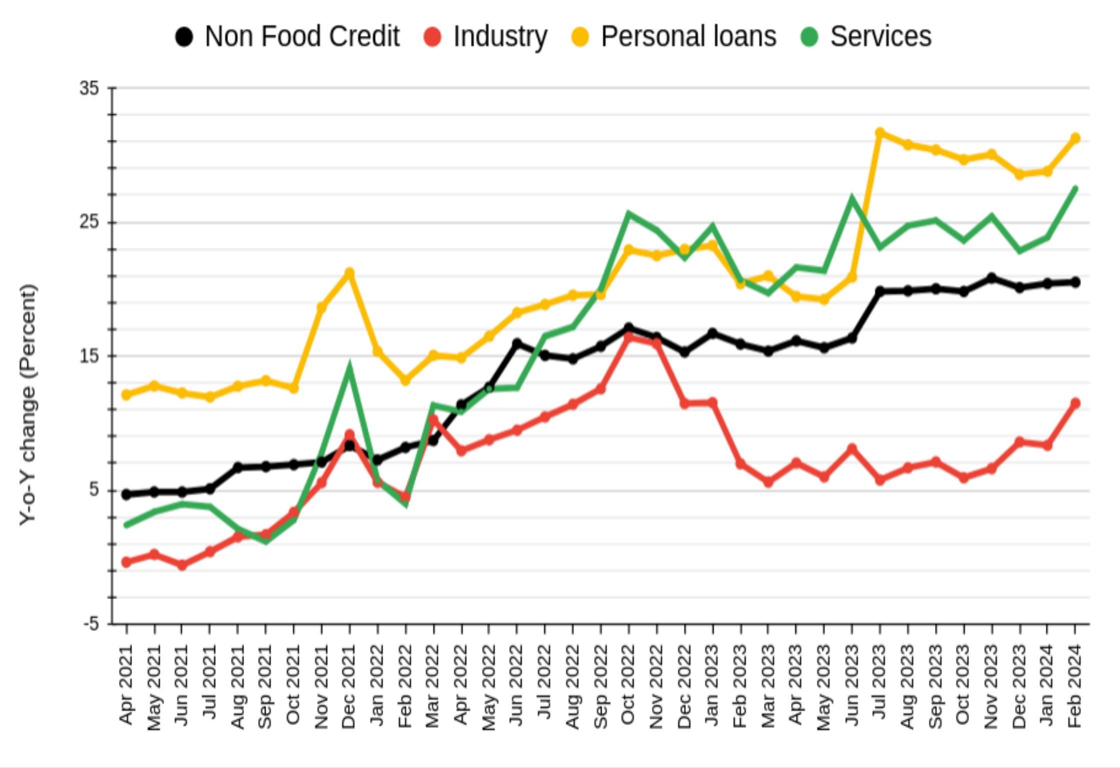




Data till 24th April 2024 for liquidity.

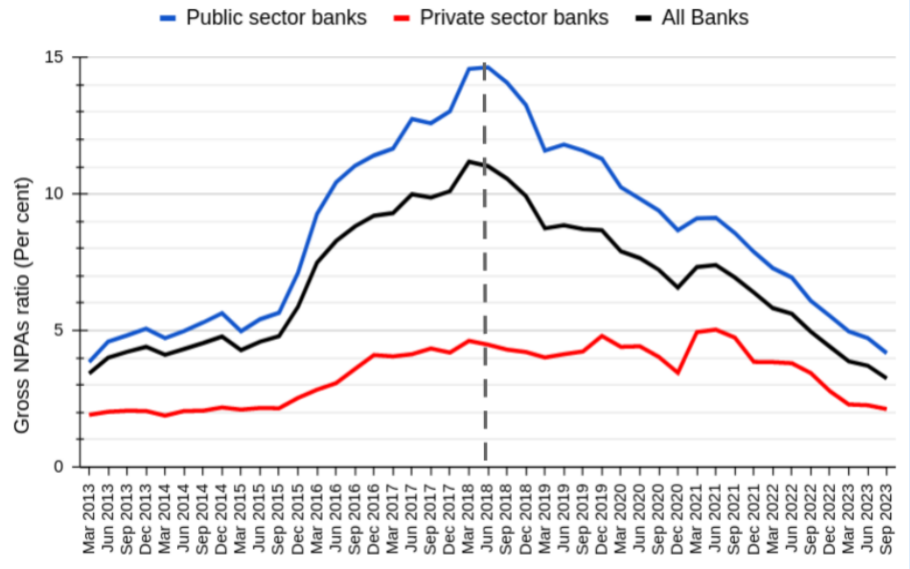
- Liquidity has been in deficit since mid of September despite phasing out of the incremental CRR. Tax outflows and intervention by the RBI to manage the exchange rate led to liquidity deficit.
- Liquidity deficit reached a record high of Rs 3.5 lakh crore on 24th January.
- During March end, the deficit reached Rs 1.3 lakh crore and subsequently eased owing to the conduct of VRR auctions and greater government spending.

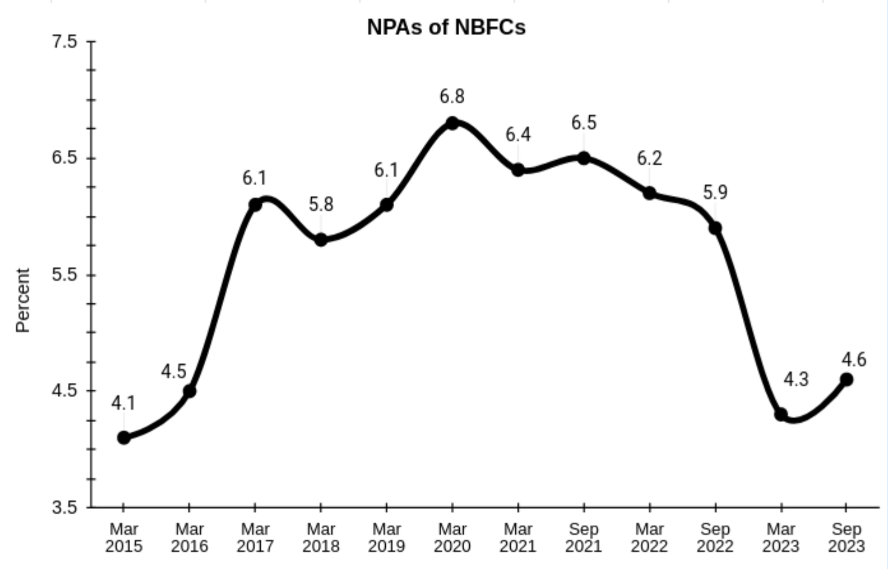
Robust credit growth despite rise in interest rates



- Personal loans (18.1 percent) and loans to services (21.2 percent) have been the major Components of growth in non-food credit as of February 2024.
- High credit growth continues in FY 24: Non-food bank credit registered a growth of 16.5 percent in February, 2024.
- Credit growth continues to surpass deposit growth. As on 22nd March 2024, credit growth stood at 16.5 percent higher than the deposit growth of 13.1 percent (excluding the HDFC merger impact).

Public sector banks and private sector banks NPAs continue declining and converging, NBFC NPAs also declining





- Gross non-performing assets (GNPA) ratio of banks continue to decline, falling to 3.25 per cent in September 2023, lowest since March 2013. This is a sharp decline from 11 percent GNPA ratio in June 2018.
- Public sector banks GNPA ratio declined from 14.64 percent in June 2018 to 4.4 percent in September 2023.
- Private sector banks GNPA ratio declined from 5.0 percent in June 2021 to 2.1 percent in September 2023.
- Norms governing NPA recognition have become tighter since 2015, requiring more capital injection.
- NPAs in the NBFC segment have also declined since September 2022.

Part - VI

Fiscal Outlook:
Central and State Governments

Central tax revenues buoyant except excise & customs duties

- All tax revenues buoyant except Excise & Customs duties
- Gross tax revenue (GTR) grew by 13.5% Y-o-Y till Feb 2023-24 compared to nominal GDP growth of 9%
  - Income tax growth 26%
  - Corporation tax growth 17%
  - Central Goods & Services tax (CGST) growth 14%
- GTR growth set at a modest 11.5% target in 2024-25BE
- Direct tax buoyancy attributed to improved compliance & widening tax base

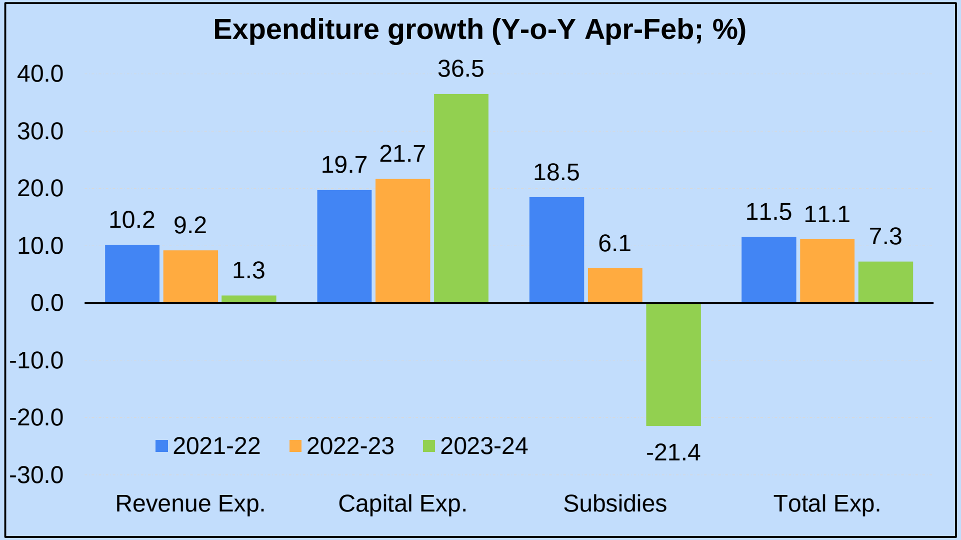
Revenue Collection Apr-Feb

Indicators	Y-o-Y growth (%) 2022-23	Y-o-Y growth (%) 2023-24	2024-25BE over 2023-24RE
Nominal GDP	14.2	9.1	10.5
Centre's Net Revenue*	10.6	11.6	11.2
Gross Tax Revenue (GTR)	12.0	13.5	11.5
Corporation Tax	13.5	17.3	13.0
Income tax	19.1	25.8	13.1
Union Excise duties	-18.6	-5.8	5.00
CGST	24.5	13.7	13.1
Customs duty	14.4	3.9	5.8
Non-Tax Revenue (NTR)	-19.8	44.9	6.4

Note: * net of states' share in central taxes & collections under NCCD.

- Monthly GST collections > Rs.1.45 trillion since Sep-2022 due to high economic activity, high though moderating inflation, improved digitisation & stronger enforcement
- Excise Duties fell due to cut in duties on petrol, diesel and other items
- Customs collections weak due to modest import growth
- Non tax revenue (NTR) volatile but very high in 2023-24
  - sharp increase in 2023-24 due to higher than budgeted surplus transfer from RBI
- Non-tax revenue is budgeted to grow at a modest 6% target in 2024-25

Central Government thrust on capital expenditure (capex) continues



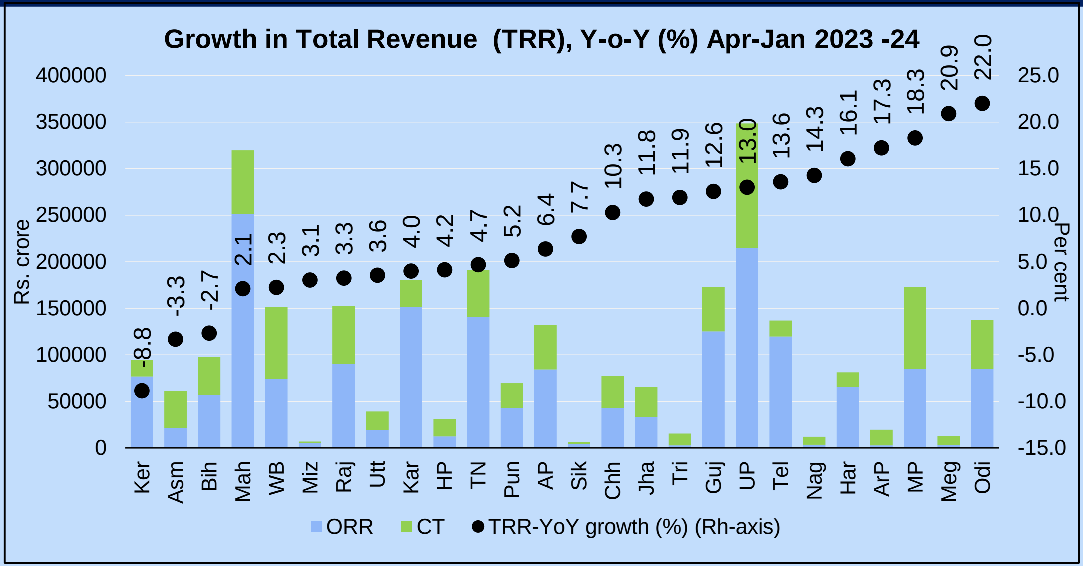
Fiscal Deficit (FD) *(% of GDP)*

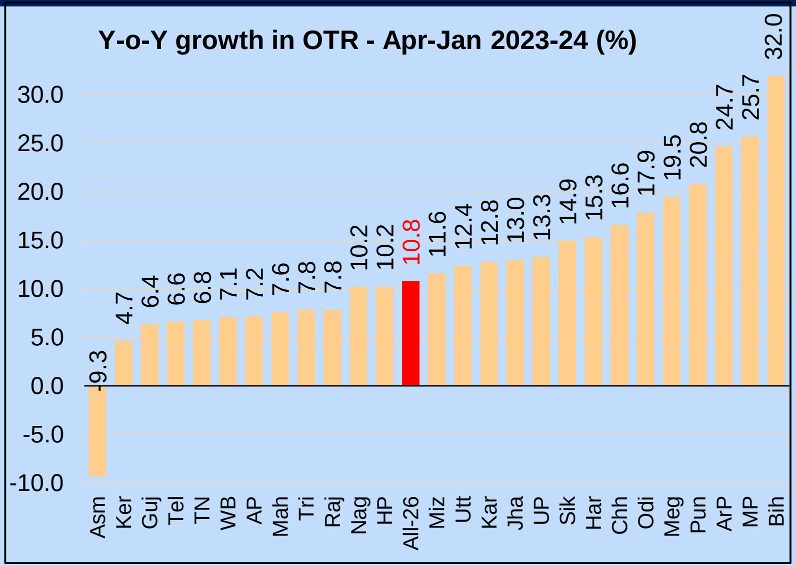
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Target	3.3	3.5	6.8	6.4	5.9	5.1
Actual	4.7	9.2	6.7	6.4	5.8	--

- Total expenditure growth slowing since 2021-22, mainly due to revenue expenditure compression
  - Strong compression of major subsidies (food, fertilizer & petroleum), fell by 21% in 2023-24
- In contrast capex increased by 36% in 2023-24 (Apr-Feb) on top of 21.7% in 2022-23 & 19.7% in 2021-22
- In 2024-25, capex budgeted to increase by 17% compared to only 3% for revenue expenditure
- Major subsidies budgeted to further decline by 7.8%

- FD target of 5.9% in 2023-24 was met due to buoyant revenues and moderation of revenue expenditure growth
- Till Feb 2024 FD amounted to 84% of 2023-24BE
- 2024-25 FD target set at 5.1%, in line with FD reduction goal of 4.5% by 2025-26
- Achievable if revenue buoyancy & expenditure growth moderation is sustained

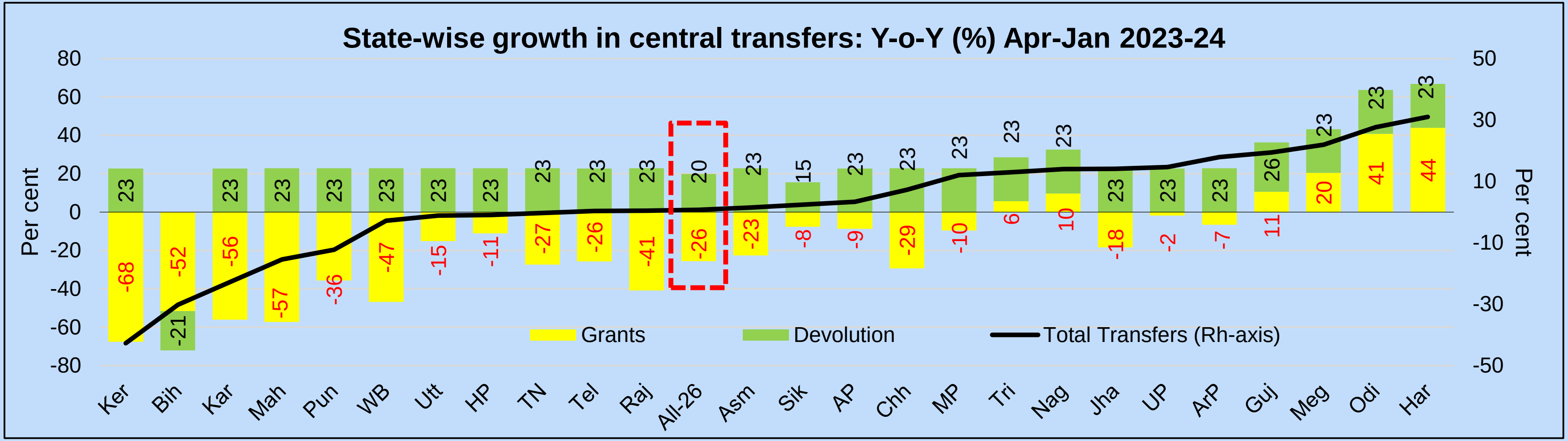
State Finances: Robust growth in revenues, mainly due to own tax revenue





- In 2023-24 own revenues receipts (ORR) account for 69% of total revenue receipts (TRR), share of central transfers only 31%
- For all-states TRR grew by 7% on average mainly due to increase in ORR
- OTR for all-states grew at an even higher rate of 11% during Apr-Feb 2023-24.
  - However, OTR growth was negative in Asm (-9%) & moderate in 9 states - Ker (5%), Guj (6%) Tel (7%), TN (7%), WB (7%), AP (7%), Mah (8%), Tri (8%), and Raj (8%)
- All-states OTR budgeted to grow by 14% in 2024-25, implied buoyancy >1 if nominal GDP grows by 12%

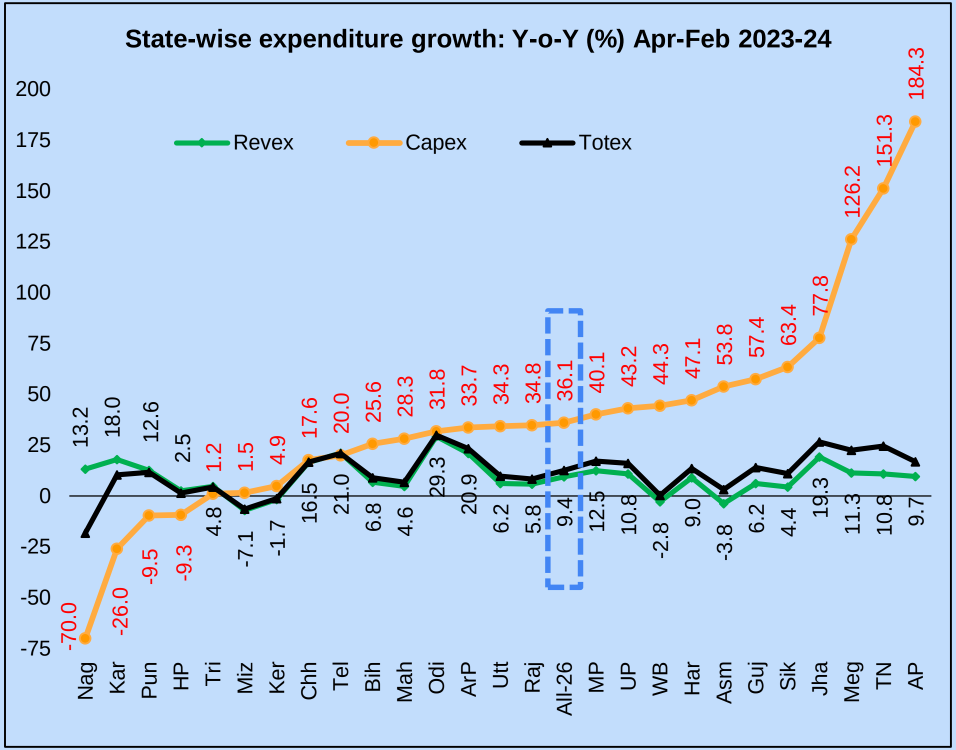
Growth in transfers negligible despite significant growth in devolution



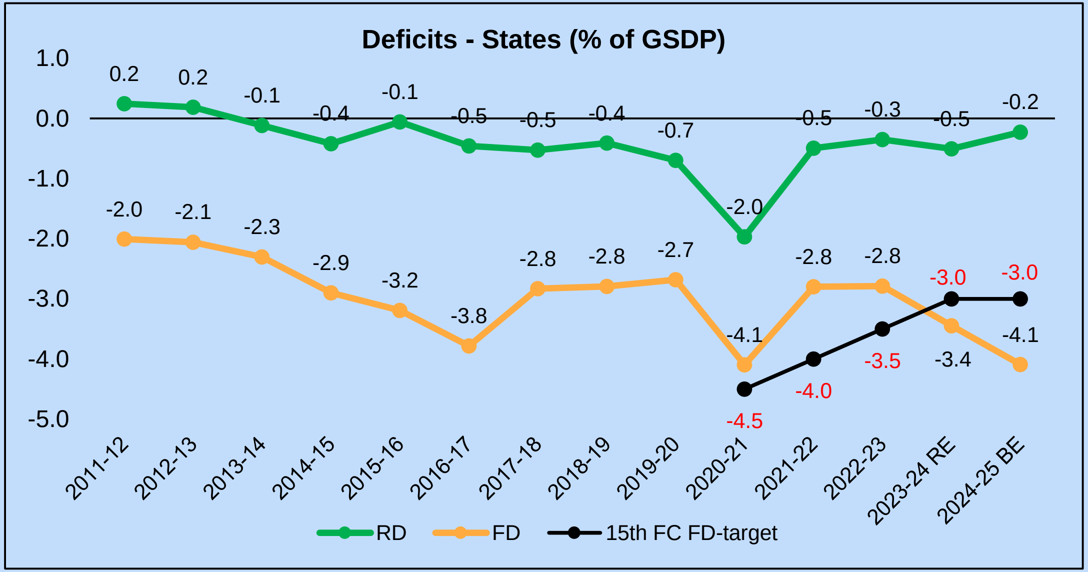
- Central transfers (CT) grow at a negligible rate, only 0.7%
  - It declined in 9 states: Kerala (-43%), Bih (-30%), Kar (-23%), Mah (-15%), Pun (-12%), WB (-3%), Utt (-1%), HP (-1%) & TN (-0.3%)
- Devolution increased by 20% on average; devolution growth negative in Bihar (-20%)
- However, this was mostly off-set by 26% decline in grants
  - Grants increased in only 6 states: Tri (6%), Nag (10%), Guj (11%), Meg (20%), Odi (41%) and Har (44%)
- For 2024-25 all-states' combined budgets indicate a 10% increase in devolution but a 7% decline in grants
  - 16 states budgets have assumed a decline in grants

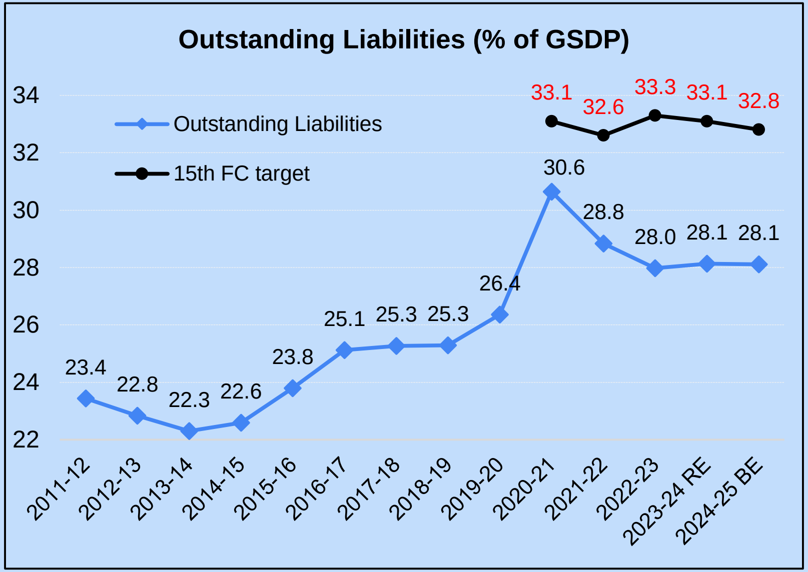
States' capex growth in 2023-24 robust due to strong central support

- In 2023-24 modest growth in total & revenue expenditure but strong growth in capex
- Revenue expenditure account for 85.7% of total expenditure
- States' average Capex growth very high at 36%
  - However, decline in Capex in 4 states
  - Nag (-70%), Kar (-26%), Punjab (-10%) & HP (-9%)
- States' capex in 2023-24 boosted by Rs.1.3 trillion 50-yr interest free capex loan
  - Rs. 95,225.77 crore (i.e., 73% of the budgeted amount) was released till February 2024
- In 2024-25 BE central support for states' Capex continued; quantum maintained at Rs.1.3 trillion
- However, all-states' budgeted Capex increase in 2024-25 only a modest 7%
  - 9 states have budgeted a reduction in capex
- Are states now diverting revenue to revenue expenditure?



States' fiscal consolidation resumed after 2020-21 shock, but latest budget numbers indicate a reversal



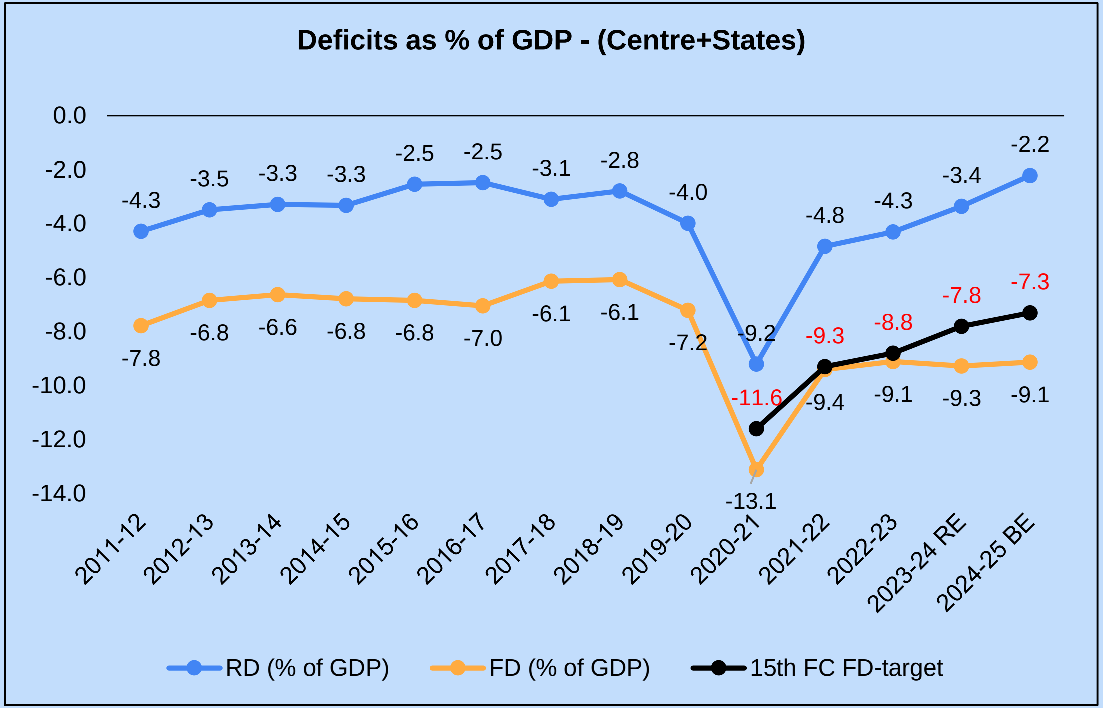


Note: Deficit (-)/Surplus (+)

- All-states' combined fiscal deficit (% of GSDP) was 2.8% in 2022-23, but budgeted to increase to 3.4% in 2023-24RE & further to 4.1% in 2024-25BE. This is a serious cause of concern
- All-states' combined revenue deficit (% of GSDP) increased to 0.5% in 2023-24; budgeted to improve to 0.2% in 2024-25
- Post covid, sharp fall in all-states outstanding liabilities to 28% of GSDP in 2022-23
- Liabilities projected at 28.1% in 2024-25, well below the 15th FC recommended level of 32.8% for 2024-25

Fiscal consolidation by Centre on track; but states' consolidation needs strengthening

- Combined fiscal deficit (centre + states) budgeted at 9.1% for 2024-25
- Combined revenue deficit (centre + states) set at 2.2% for 2024-25
- Centre's fiscal consolidation largely driven by buoyant own tax revenue
- Central government's fiscal consolidation on track for achieving FD <4.5% in 2025-26
- Since 2023-24 states' combined fiscal consolidation path diverging from 15th FC recommendations
- States' (in aggregate) need to make a stronger effort towards fiscal consolidation



Note: Deficit (-)/Surplus (+)

Part - VII

Key Takeaways

Key takeaways
Growth, inflation and external sector

- High growth of over 7 percent in 2023-24 led by public investment driven capital spending
- Agricultural growth subdued due to demand & supply constraints restoration of international grain trade, erratic rainfall
- Non-agricultural growth broad-based in both industry and services
- Growth projected at over 7% for 2024-25, similar to other forecasts
- Inflation moderated, within RBI tolerance band but above 4% target:
  - being driven by food price
  - forecast at 5% for 20024-25
- In external sector goods export declined in 2023-24 but imports declined further, narrowing goods trade deficit
- Mostly offset by surplus in net service exports, reducing CAD to less than 2% GDP
- External financial flows moderated & quality deteriorated in 2023-24:
  - FDI declined, replaced by FPI

Key takeaways
Monetary policy & financial markets

- After raising the REPO rate by 250 basis points between May 2022 and February 2023 RBI has maintained the rate at 6.5%
- Also withdrawn its accommodation stance to contain liquidity,

  - hence short-term rates have closely tracked the Repo rate, even exceeded it at times
- Short maturity issues have dominated corporate bond issues while there is excess demand for long dated issue

  - this maturity mismatch has led to convergence of yields on short term and long dated securities, sometimes even inverting the yield curve

* Non-food credit growth has been buoyant, over 16 % y.o.y

  - mostly flowed to personal loans and services (including NBFCs)

* Non-performing asset ratios have been declining and converging for public and private sector banks since 2018 also for NBFCs since 2020. This marks the success of regulation in recent years.

Key takeaways
FY 2023-24 fiscal performance of centre & states

- Centre's tax revenue growth has been very buoyant in FY 2023-24, 13.5% growth against nominal GDP growth of 9%,
  - direct taxes have been very buoyant
  - CGST also growing at 14%, now a major share of tax revenues
  - but excise collections declined due to cut in in duties on petrol, diesel & other items
  - customs collections also muted due to muted imports

* Non-tax revenue growth of 45% due to huge RBI surplus transfers

- FY2024-25 budget projections quite realistic, NTR growth only 6%
- Massive Capex growth but revenue expenditure compression
- State govt revenues also buoyant, OTR average growth of 11% now nearly 70% of total revenue, central transfers growth negligible
  - devolution growth largely offset by reduction in grants
- Capex growth 36% + revenue expenditure compression to meet FD targets
- Large inter-state variations around the described average pattern of rev. & expd.

Key takeaways
FY2024-25 budgets

- Centre has been meeting FD targets, but 0.7% reduction in FY 2024-25 to reach FY 2025-26 target of 4.5% ambitious
- States overshooting the 15FC path of fiscal consolidation since 2023-24, complacent since outstanding liabilities well below 15FC path?
- States have also cut back capex in FY2024-25, substituting central Capex loan (50 years interest free) for revenues in capex.
- Both central and state governments need to focus on capex and social spending along with fiscal prudence to meet FD goals

Thank You