LETTER

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## NATIONAL

### PLI Schemes Attract Over Rs 1.06 Lakh Investment Till Dec; Pharma Sector Gets Major Chunk

Read more at : PLI schemes attract over Rs 1.06 lakh investment till Dec; pharma sector gets major chunk - Times of India (indiatimes.com)

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### At $445 billion, FY24 goods exports a tad below FY23 level

The last-quarter spurt would see India's merchandise exports to be around $445 billion in the financial year 2023-24, about 1.3% lower than previous year's level of $451 billion. The new year is challenging and growth from hereon will depend on inflation-interest rate dynamics in the key markets of the US and Europe, trade experts said,

"The merchandise exports in March are expected to be around $ 40 billion, as $ 5-6 billion will be added to the monthly shipments number. This should take the overall exports for this year to $440-445 billion," director general and chief executive officer of Federation of Indian Export Organisations (FIEO) Ajay Sahai said.

Before exports started looking up from October 2023 onwards, there was a 9% year-on-year decline in April-September.

Services exports are up 6.7% on year till February to $314.8 billion. They are expected to end the year at around $345 billion. For 2023-24 overall exports are expected to touch $ 790 billion, up from $ 777.6 billion last year.

The decline of 1.3% in merchandise exports compares well with the 5% decline in world trade in goods in 2023 estimated by United Nations Conference on Trade and Development (UNCTAD).

The revival in performance of good exports since December and 12% growth in February coupled with steady growth in services exports would keep the overall exports of the country in the positive zone in the financial year ending March 31.

The next year appears challenging as there has been no let up in geopolitical frictions like the crisis in the Red Sea and Ukraine war that are directly impacting trade flows. The Red Sea crisis that has seen direct attacks on merchant shipping has indeed its sixth month while the Ukraine war has completed two years.

The Red Sea crisis has impacted freight rates and duration of voyages. So far buyers have adjusted to higher costs but still the impact could come on commodities trade, Sahai said.

The freight cost of commodities trade is much higher and margins are not enough to absorb any big fluctuations. The impact of the Red Sea may still come on commodities which may see trade shifting to geographies other than Asia, Northwest Africa and Europe that have been impacted most, he added.

The Indian government is monitoring the situation arising out of the Red Sea and other geopolitical disruptions through a high-level inter-ministerial group of officials. As of now there is nothing much that can be done by the government on the Red Sea situation.

“How inflation in the key market behaves and whether rate cuts would follow. If that (rate cuts) happen it would have a much more positive impact on exports in the coming year,: Sahai said.

In his remarks on Friday US Federal Reserve Chairman Jerome Powell indicated that interest rates would come down in 2024 but not before more confirmation comes on decline in inflation. This means the cuts will be in the later part of the year. Some expect the European Central Bank (ECB) to lead with the cuts, which can come as soon as June.

The US Fed started raising rates in March 2022 and the 11 increases since then have taken the benchmark rates 23-year high of 5.4%. ECB rates are at 4.5%. The increase in rates has led to compression of demand from economies that account for 33% of India’s merchandise exports.

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**Exporters seek exemption from 45-day payment rule for supplies from MSEs**

Read more at : Exporters seek exemption from 45-day payment rule for supplies from MSEs - The Economic Times (indiatimes.com)

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**India's trade reliance on China and EU rising: UN trade body**

India’s trade reliance on China and the European Union is rising as global trade is witnessing a marked shift along geopolitical lines, says a report by the United Nations Conference on Trade and Development (UNCTAD).
This comes in the backdrop of major supply chain reset following the pandemic and the Russia-Ukraine war that had sent food and fuel prices to record highs.
The UNCTAD estimates, based on national statistics, showed that India’s dependence on China and the European Union (EU) grew by 1.2 per cent while its reliance on Saudi Arabia slid by 0.6 per cent.
This came despite India’s efforts to cut reliance on China by implementing its flagship Production-Linked Incentive (PLI) scheme and Quality Control Orders (QCOs) largely to limit entry of cheap Chinese products.

“During the last two years, the geographical proximity of international trade has remained relatively constant, showing minimal nearshoring or far-shoring trends. However, since the latter part of 2022, there has been a noticeable rise in the political proximity of trade,” the UNCTAD report said.

“This indicates that bilateral trade patterns have been favouring trade between countries with similar geopolitical stances. Concurrently, there has been an increasing concentration of global trade to favour major trade relationships, although this trend has softened in the last quarter of 2023,” the report released earlier this month said.
UNCTAD’s estimates showed a major shift in trade due to the ongoing Russia-Ukraine war. While Russia’s trade dependence on China surged by a record 7.1 per cent, its reliance on the EU slid by 5.3 per cent.

This was largely a result of Russian oil shifting from the EU to China and India. Chinese custom data showed that China’s two-way trade with Russia in 2023 had hit a record $240 billion. Russia had also increased purchasing Chinese goods when major US and European Union companies began exiting Russia after the war.
Interestingly, the US managed to cut reliance on China by 1.2 per cent in 2023 and increase its trade dependence on the EU and Mexico.

The dependence of an economy on another is calculated as the ratio of their bilateral trade over the total trade of the dependent economy. Change is computed as a four quarter average of this ratio relative to the same period in the previous year, the report said.
The report showed that global trade declined in most sectors, except for pharmaceuticals, transportation equipment, and road vehicles, particularly, electric cars.

Among the sectors where the value of trade declined by more than 10 per cent during 2023 are apparel, chemicals, energy metals, office equipment, and textiles, UNCTAD said. The report further said that the value of global merchandise trade has experienced continuous decline since mid-2022. Trade in goods expected to contract by about US$ 1.3 trillion or 5 per cent in 2023. But services trade is expected to gain about $500 billion, or 8%.

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**Q4 Growth Set To Push FY24 GDP Up By 8% Or More: FM**

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**India to be fastest growing economy among G-20 nations in 2024, all big rating agencies revised country's growth upwards**

Read more at : India to be fastest growing economy among G-20 nations in 2024, all big rating agencies revised country's growth upwards - The Economic Times (indiatimes.com)

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**India's forex reserves rise by $140 million to hit fresh peak of $642.63 billion**

India's forex reserves increased by $140 million to touch its all-time high of $642.631 billion during the week ended March 22, the Reserve Bank of India said.

This is the fifth consecutive week of a jump in the overall reserves. The kitty had increased by $6.396 billion to $642.492 billion in the previous reporting week.

The previous peak was recorded in September 2021, when the country's foreign exchange reserves reached $642.453 billion. The reserves took a hit as the central bank deployed the kitty to defend the rupee amid pressures caused majorly by global developments since last year.

For the week ended March 22, the foreign currency assets, a major component of the reserves, decreased by $123 million to $568.264 billion, the data released on March 29 showed.

Expressed in dollar terms, the foreign currency assets include the effect of appreciation or depreciation of non-US units like the euro, pound and yen held in the foreign exchange reserves.

Gold reserves increased by $347 million to $51.487 billion during the week, the RBI said.

The Special Drawing Rights (SDRs) were down by $57 million to $18.219 billion, the apex bank said. India's reserve position with the IMF was also down by $27 million to $4.662 billion in the reporting week, the RBI data showed.

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**Economy shows resilience despite external headwinds**

At a time when the global economy is still facing uncertainties, with growth decelerating in some of the most advanced economies, India’s economy has exhibited resilience and has been able to grow at a rate much higher than market expectations. Key macro-indicators such as consumer price index (CPI) inflation, wholesale price index (WPI) inflation, trade and current account deficit (CAD) are benign, and are expected to remain range-bound in the near-term as well.

In the first three quarters of FY24, the country’s gross domestic product (GDP) expanded sharply by 8.2%, with the growth in Q3 coming in at a six-quarter high of 8.4%. This is way higher than the market consensus of 6.7%. Ofcourse, the base effect helped, but largely the push to growth came from investments.

“The breakdown (of Q3 GDP data) revealed a robust manufacturing push compared to farm output, urban spending outpacing rural demand, and investment growth spurred by frontloading of central and state capital spending, along with households’ capital expenditure,” said Radhika Rao, senior economist, DBS Group Research.

Apart from the Centre’s capital expenditure on railways, roads & highways, defence, and transfer to states, which has been ongoing, the current year has also seen a pickup in residential construction, which has been a backstop for non-corporate private capital expenditure, economists say.

Notably, the share of gross-fixed capital formation (GFCF) – a proxy for investments in the economy – is expected to rise to 34.1% in the GDP in FY24, which will be the highest in the past 11 years. In FY23, the GFCF’s share in GDP was 33.3%.

Perhaps, the sharp rise of GFCF’s share in the GDP, is the reason why the latter has been able to grow at around 5 percentage points (pps) higher than the private consumption growth (PFCE), as witnessed during the December quarter of FY24. Many including former chief statistician Pronab Sen have called this gap “unprecedented” and “inexplicable”. Also, it is seen that while a section of Corporate India may be ramping up capacities, the MSME segment and informal economy isn’t keeping pace. This causes concerns about the durability of the growth revival, if not about the quality of the data iself.

DBS’ Rao says that the trend may continue in the next fiscal year as well. “FY25 is expected to mark the fourth consecutive year where the rate of investment growth outpaces consumption, revisiting the streak observed in 2004-2008,” she said.

Inflationary pressures largely have remained contained, with the headline retail inflation print staying below the 6% mark in nine of the first eleven months. So far, in April-February, CPI inflation has averaged 5.4%, much lower than 6.8% average in April-February of FY23.

Core CPI inflation, which excludes food and fuel components, is currently at a 12-year low of 3.3%, but food inflation is high, and is expected to determine the trajectory of headline CPI rate going forward.

“Inflation is on the ebb; the steady decline in core inflation would have taken down headline inflation towards the target of 4% even sooner and faster, but for the repetitive incidence of short amplitude food price pressures,” said RBI staff in a recent paper. “The

CPI readings for January and February 2024 show that the winter easing of vegetable prices turned out to be shallow and short-lived," the staff said.

Food prices in the current fiscal year were heavily impacted by the El Nino phenomenon. According to a report by HDFC Asset Management, the El Niño that we are currently witnessing is one of the strongest on record, which has also resulted in 2023 being the hottest year. "This phenomenon is called 'Super El Nino', and is just the sixth time since measurements began in 1950," the report said.

But forecasts for the coming months suggest that its effects are slowly weakening and are expected to reverse, perhaps before the monsoon onset, leading to improved rainfall conditions for India. "Such reversal in weather patterns could bode well for consumption, as it boosts rural incomes and lowers inflation expectations," the report said.

WPI inflation has also remained starkly low this year, in the backdrop of depressed commodity prices. The manufactured products' group, within WPI, has remained in the deflation zone in all months of the current fiscal and is seen to remain low in the near-term too. Since the group reflects input price pressures, a negative print means that there is no immediate threat of pass-through to retail prices and subsequently to core CPI inflation.

Meanwhile, the country's CAD has shrunk sharply in the first three quarters of FY24, and is expected to shrink even more in the March quarter. So far, in April-December, the CAD has narrowed to 1.2% of GDP from 2.6% in the comparable period of FY23.

The moderation has been primarily aided by the record services trade surplus, which has sharply pulled down the overall trade deficit to merely $2.7 billion in April-February FY24. For comparison, India's overall trade deficit was $114.5 billion in April-February FY23. Economists have projected the full year's CAD to be well below 1% of the GDP.

A lower CAD also helped in controlling the depreciation of the rupee against the dollar. The rupee concluded FY24 with a 1.5% decrease against the US dollar, a significant improvement compared to the nearly 8% decline seen in FY23. Despite challenges such as rising oil prices and a stronger dollar, the local currency performed relatively well when compared to other emerging market currencies. On March 28, the rupee closed at 83.40-a-dollar.

In the next fiscal, rupee will be range bound and based on fundamentals and external forces will range between 82.50-83.50/USD, said Madan Sabnavis, chief economist, Bank of Baroda. “A lower CAD and higher FPI (foreign portfolio investments) will improve fundamentals,” he said.

In FY25, economists expect consumption to pick-up from easing inflation, rate reductions to take place, improvement in sentiments, and growth in real wages. “Overall, strength in domestic demand will be crucial, including a lift in private capital spending as well as early benefits from the manufacturing push, which will help to offset exogenous headwinds,” said DBS’ Rao. Most economists expect FY25 GDP growth to be around 7% or slightly higher.

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## GLOBAL

### UK Set For Economic Recovery And Stability By 2025: S&P Global

The UK is set to experience a gradual improvement in economic conditions, moving from slow growth and high inflation towards a more stable economic environment by 2025, according to the latest Economic Outlook for the second quarter (Q2) of 2024 by S&P Global. The report highlights the ongoing supply-side challenges putting pressure on prices, but with inflation expected to subside slowly, a more robust growth is anticipated in the coming years.

S&P Global forecasts a modest GDP expansion of 0.3 per cent in 2024, with growth rates expected to increase to 1.4 per cent in 2025 and continue at a pace of 1.7 per cent annually through 2026 and 2027. This improvement is largely attributed to the anticipated disinflation, which is expected to enhance household spending, supported by a resilient labour market.

Despite the decline in headline inflation to 3.4 per cent year-on-year in February from 10.4 per cent a year earlier, the report indicates that inflation in the services sector remains high due to robust wage increases. However, the tight labour market is expected to maintain upward pressure on wages, with annual pay rises of 4-5 per cent predicted in 2025 as workers seek compensation for increased living costs, as per S&P Global.

The UK's labour market remains solid, with job vacancies declining but not enough to increase unemployment significantly. This is partly due to the slow expansion of the labour supply and ongoing issues like long-term sickness keeping the employment rate below pre-pandemic levels.

In terms of monetary policy, S&P Global anticipates some easing in 2024 and 2025, which will likely contribute to economic growth in 2026 and 2027 by encouraging investment rebound. This scenario assumes lower interest rates from August, with the market predicting a 57 per cent probability of a rate cut in June and an 82 per cent chance in August.

The report also underscores the positive outlook for consumption and terms of trade, buoyed by a combination of a strong labour market, wage increases, and lower energy costs. This optimism is further supported by expectations of continued demand in key export markets and improvements in the Eurozone.

On the investment front, the UK is seeing signs of recovery, particularly in business investment post-Brexit, aided by government incentives like the full expensing scheme. Labor productivity, especially in key services sectors, is also on the rise, contributing significantly to the overall productivity improvements.

Additionally, the UK's working-age population is expected to grow, contrasting with demographic trends in some other European countries, providing a favourable backdrop for the labour market and economic activity.

However, the report does caution about risks to this optimistic scenario, including potential geopolitical tensions that could lead to further supply-chain disruptions or trade barriers, as well as the possibility of earlier monetary policy loosening if wage pressures decline more rapidly than anticipated.

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