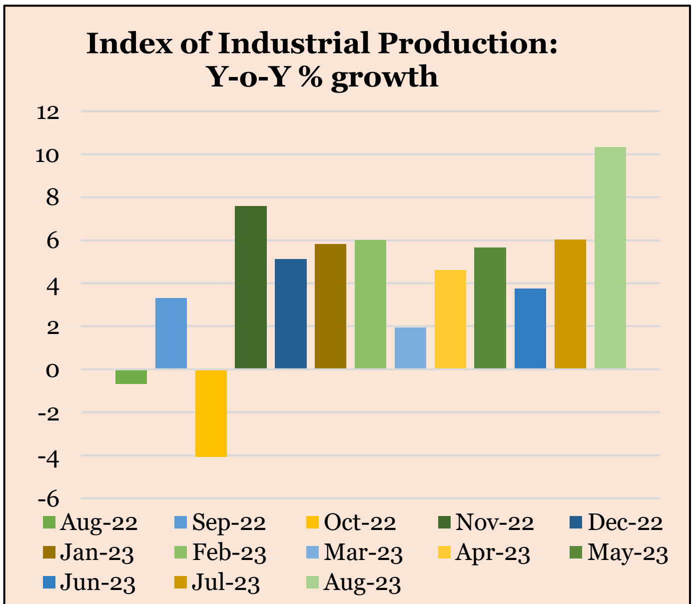
DEAR ECO THINK
Azadi Ka Amrit Mahotsav
Issue No. 74/ November 2023

ECONOMY

State of the Indian Economy

Fitch raise India's medium-term potential growth rate to 6.2%: Fitch Ratings has raised its mid-term potential growth estimate for India by 0.7 percentage points to 6.2% for 2019-2027, citing higher employment, larger working-age population and increased labour productivity expected during the period. According to Fitch, India's projected labour supply growth is also lower, relative to 2019 given the expected negative growth in the participation rate. While the participation rate has recovered from its pandemic slump, it remains significantly below levels recorded in the early 2000s, partly as the employment rate among women remains very low. The rating agency also lowered estimates for Russia and China by 0.8 percentage points (pps) and 0.7 pps, respectively, while increased the estimates for Mexico, Poland, Brazil, Turkiye and Indonesia.

IIP rises by 10% in August: India's industrial production in August rose by 10.3% on an annual basis after growing 5.7% in July, as per the Ministry of Statistics and Programme implementation. Factory output measured in terms of the Index of Industrial Production (IIP) had contracted by 0.7% in August 2022. Mining output rose by 12.3% in August 2023 after contracting 3.9% in the same period a year ago. Manufacturing output posted a growth of 9.3% in August 2023 after contracting 0.5% in August 2022. As per the data, in April-August 2023 the IIP grew by 6.1%, compared to 7.7% in the same period a year ago.



Kharif acreage up, but output estimated lower: As per the first advance estimates of major kharif crops for 2023-24 released by the Ministry of Agriculture & Farmers' Welfare (MoA&W), India's rice production has been pegged at 1,063.13 lakh metric tonnes (LMT), a 3.7% dip from the figure of 1,105.12 LMT recorded during the same season of the last year. Area under rice which is the major kharif crop is estimated to be higher by around 2 lakh hectares (LH) over previous year final estimate and by around 4.5 LH over average Rice Area. Its production is also estimated to be higher by about 1 LMT as compared to average Kharif Rice production. Other cereal crops' area such as Kharif Maize and Jowar is also estimated to be higher as compared to previous year as well as average area under these crops. Kharif Maize production is estimated at 224.82 LMT as compared to average production of 213.51 LMT registering an increase of about 11 LMT. Total Kharif pulses production for 2023-24 is estimated to be lower than previous year due to climatic conditions.

Crops	2023-24 Kharif (First Advance Estimates)*	2022-23 Kharif (Final Estimates)*
Foodgrains	1485.69	1,557.11
Rice	1063.13	1105.12
Nutri/Coarse Cereals	351.37	375.78
Maize	224.82	236.74
Pulses	71.18	76.21
Tur	34.21	33.12
Moong	14.05	17.18
Urad	15.05	17.68
Oilseeds	215.33	261.50
Groundnut	78.29	85.62
Soybean	115.28	149.85
Sugarcane	4347.93	4,905.33
Cotton	316.57 Lakh bales (of 170 kg each)	336.6 Lakh bales (of 170 kg each)
Jute & Mesta	91.91 Lakh bales (of 180 kg each)	93.92 Lakh bales (of 180 kg each)

*All figures in Lakh Metric Tonnes unless specified otherwise.

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Manufacturing and Services PMI slows down: India's manufacturing growth slowed for a second straight month in October as demand eased, alongside bigger increases in the cost of raw materials, which had an impact on business confidence, a private survey showed. The Manufacturing Purchasing Managers' Index, compiled by S&P Global, dropped to an eight-month low of 55.5 in October from 57.5 in September. However, the index has remained over the 50-mark, which separates expansion from contraction, for the 28th consecutive month. Meanwhile, India's services industry expanded at its slowest pace in seven months in October while a slight tapering in demand led to sluggish job creation, but underlying activity remained solid, and exports continued to rise healthily. The S&P Global India Services Purchasing Managers' Index fell to 58.4 last month from September's 61.0

Unemployment increased in October: Unemployment rate among persons aged 15 years and above shot up to 10.1% in October 2023 from 7.1% in September. This is the first time in 29 months that the unemployment rate has gone over 10%. Generally, the metric elevates in October, but the spike this year is exceptionally high. The spike in the unemployment rate is solely driven by rural India. The rural unemployment rate increased from 6.2% to 10.8%. Urban unemployment rate crawled down to 8.4% in October from 8.9 % in September.

The rise in unemployment rate in October came as a result of a combination of an increase in labour participation rate and a fall in employment rate. Labour participation rate (LPR) in India increased from 40.9% in September to 41.7% in October. Employment rate, which is the proportion of employed persons in the working age population, fell by 0.5 percentage points to 37.5%. This suggests that, on the one hand, there was an increase in the number of people who were seeking employment but failed to find jobs. Furthermore, there was a substantial loss of employment i.e., several employed persons lost their jobs in October. This phenomenon was observed largely in rural India, indicating stress in the rural labour market.

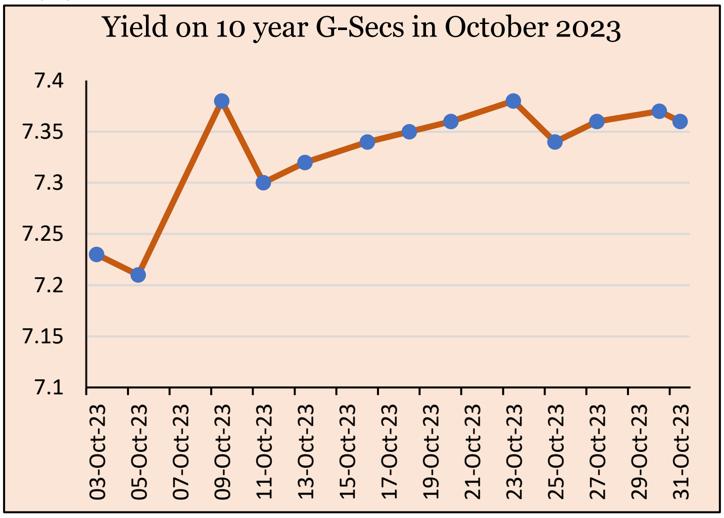
Inflation Outlook

Retail inflation eased: CPI eased to a three-month low of 5.02% in September against 6.83% in August, according to the data released by the NSO in October. The recent drop in inflation to a three-month low is a significant positive development on the macroeconomic front. The sharp dip in vegetable inflation has paved the way for the CPI inflation to come within the RBI's comfort band. The impact of LPG price cut has also impacted the retail inflation to cool down.

India's wholesale prices fall 0.26% in September: India's Wholesale Price Index (WPI) inflation rose in September but remained negative for the sixth consecutive month. WPI inflation was -0.52% in August, -1.36% in July, -4.12% in June, -3.48% in May and -0.92% in April, data released by the Ministry of Commerce and Industry. A year ago, it stood at 10.55%. Though fuel and power prices declined in September, the contraction was slower than in the previous month. It was -3.35% in September, compared with -6.03% in August. In manufactured products, the inflation stood at -1.34% in September, compared with -2.37% in August.

Interest Rate Outlook

Bond Yield Movement:
Weighted average yields on government securities (g-secs) increased across the maturity spectrum. Yields on g-secs of 1-year residual maturity increased by 11 basis points to 7.19% in October and that of 3-year and 5-year g-secs increased by 16 and 17 basis points, respectively, to 7.34% each. Yields on 10-year g-secs closed a bit lower than the 3-year and 5-year maturities. However, yields still increased from September by a hefty 14 basis points to 7.32% in October (CMIE).



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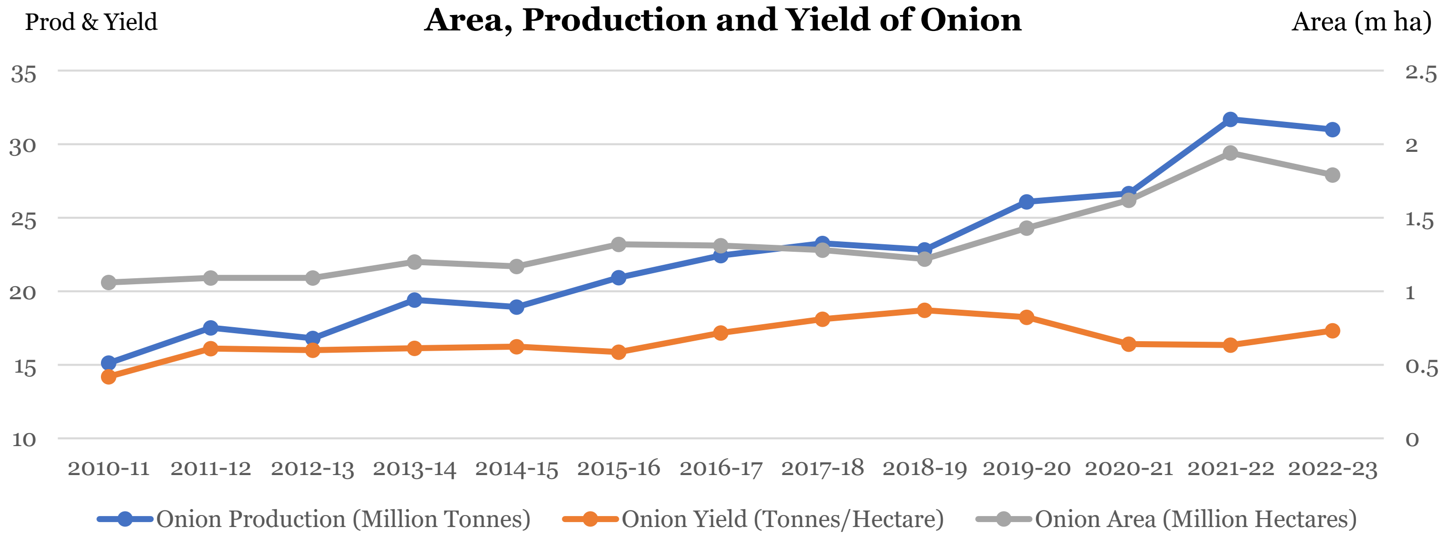
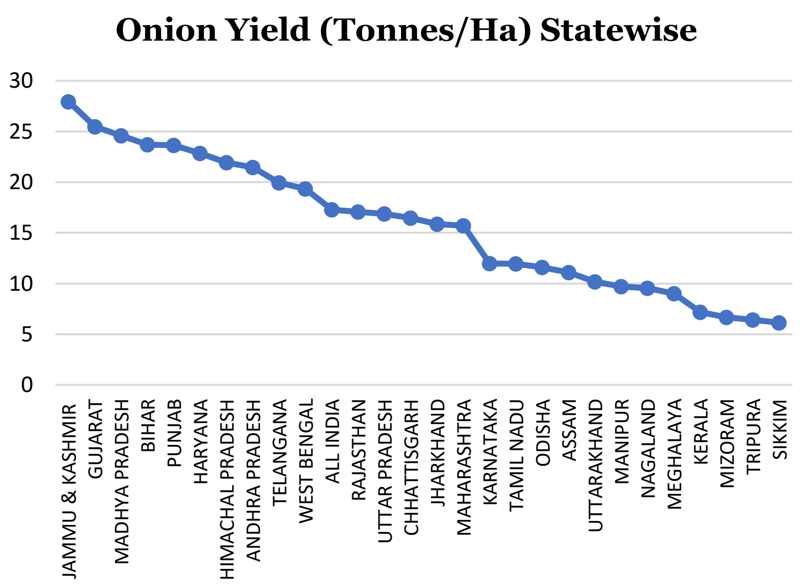
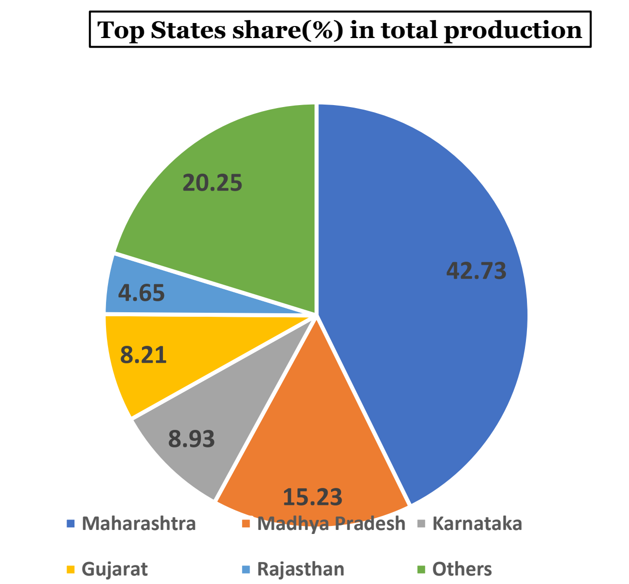
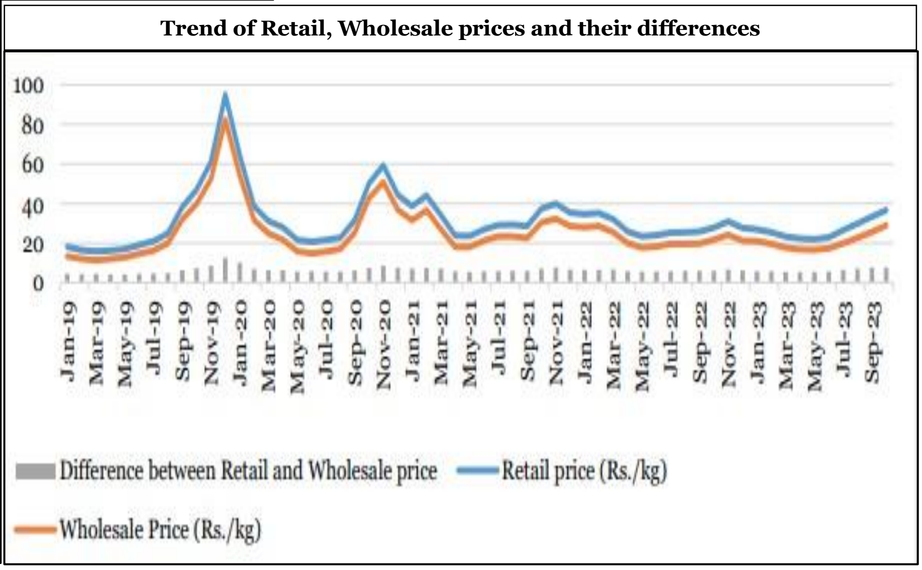
Dashboard on Agricultural Commodity: Onion









Source: National Horticulture Board, APEDA, Agmarknet

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Report THINK

UNEP Adaptation Gap Report (AGR) 2023: AGR, published by UNEP, is an annual science-based assessment of the global progress on adaptation planning, financing, and implementation. It also explores options for enhancing and advancing national and global adaptation efforts and provides in-depth analysis of selected issues of interest. The AGR is co-produced by United Nations Environment Programme (UNEP), the UNEP Copenhagen Climate Centre (UNEP-CCC) and the World Adaptation Science Programme (WASP) and has been published every year since 2014.

The key takeaways from the report are as under:

1.Adaptation finance gap is widening: The updated costs of adaptation for developing countries to be in a plausible central range of USD 215 billion to USD 387 billion per year this decade. The modelled costs of adaptation, assessed at USD 215 billion per year this decade, are projected to rise significantly by 2050. The USD 387 billion per year estimate is based on extrapolation of costed nationally determined contributions (NDCs) and National Adaptation Plans (NAPs) and extends until 2030. These needs are ten to 18 times greater than international public finance flows, the report finds, and over 50% higher than the previous estimated range.

2.One out of six countries does not have a national adaptation planning instrument: Five out of six Parties to the United Nations Framework Convention on Climate Change (UNFCCC) have established at least one national adaptation plan, strategy or policy, and just under half of them have two or more national-level instruments, which serve to replace or update the initial ones. Moreover, 25% of countries have put in place legal instruments that require national governments to plan for adaptation. 15% of parties still do not have a national adaptation planning instrument. While half of the 29 countries without any such instrument are in the process of developing one, most of them are particularly vulnerable to climate impacts, and more must be done to support them to close the remaining gap faster.

3.Progress in adaptation implementation in developing countries is plateauing: There is significant variability in both value and number of new projects, the financial value continues to grow whereas the number of new projects appears to have stagnated for the past decade. This means that the gap between implementing adaptation actions and the accelerating climate risks is widening. The number of adaptation actions supported through four major international climate funds was lower in 2022 than in the previous year.

4.Gender equality and social inclusion are inadequately included: Climate change can exacerbate inequality in multiple dimensions of social identity, including gender, indigeneity, age, ethnicity, migrant status or disability. AGR finds that only 20% of these NAPs and NDCs have a dedicated budget for gender equality and social inclusion related activities, and that the amount allocated is generally low, averaging 2%. Of the international public finance for adaptation that is also tagged with gender equality as a principal objective, only 2% is assessed as gender-responsive, with a further 24% considered gender-specific or integrative.

5.Lack of clarity on assessing NELD: While there are well-established quantitative methods to assess Economic losses and damages (ELD), for Non-economic losses and damages (NELD), the assessment is mainly qualitative as it encompass a wide spectrum of impacts that are not easily assigned a monetary value, such as loss of life, health or mobility; loss of territory, cultural heritage, or indigenous or local knowledge; loss of biodiversity. Though countries capture ELD relatively well, only a handful of NAPs address NELD. Developing a list of measures addressing ELD and NELD, both ahead of and during/after events, will be important in the context of setting up the institutional framework for addressing loss and damage within the UNFCCC and at national levels.

6.Seven ways to bridge the adaptation financing gap: This report identifies seven ways to bridge the adaptation financing gap. The core approaches include:
(i) **international public adaptation finance**,
(ii) **domestic expenditure on adaptation**
(iii) **private-sector finance for adaptation**
Four additional potential approaches to bridge the finance gap are identified:
(iv) **remittances** by migrants to their home countries which often contribute significantly to GDP,
(v) **increasing finance tailored to small and medium-sized enterprises** since they comprise the bulk of the private sector in many developing countries,
(vi) **reform of the global financial architecture**, for instance as proposed by the Bridgetown Initiative, which has enormous potential to support developing countries in boosting their resilience against future climate shocks,
(vii) **implementation of article 2.1(c) of the Paris Agreement** on making finance flows consistent with a pathway towards low-carbon and climate-resilient development.
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