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THE ECONOMIC PERISCOPE (JULY~AUGUST) 2024

05 August 2024

I. Global Economic Developments:

Market expectations are at hype with a 73 per cent probability of a 50-bps rate cut in September 2024 and an aggregate 115 bps cut by Christmas (Reuters). US stocks crashed at the end of the week as fresh macro data showing signs of possible recessionary fear (the “Sahm rule”, named according to the former Fed Economist Claudia Sahm, indicates that US is likely to enter a recession). According to July’24 jobs report, the US economy added fewer jobs than expected, while the unemployment rate increased to 4.3 per cent nearly 3-year high. Those additional signs of a slowdown in the labor market are likely to feed recession fears and rate-cut expectations. According to media news, markets have priced in another 74 basis points of cuts from the European Central Bank (ECB) and 47 basis points from the Bank of England (BoE).



Earlier, the Fed chair, in his testimony to a Senate banking panel highlighted that while progress has been achieved in softening inflation, more good data would strengthen confidence that inflation is moving sustainably toward 2 per cent target rate. Fed Funds futures were pricing in a nearly 75 per cent chance of a cut in September, according to CME FedWatch.

As highlighted by the ING research “The monetary policy stance is described as “restrictive” and that is helping to bring the economy into better balance and is putting downward pressure on inflation. He states that “reducing policy restraint too soon or too much could stall” progress on inflation, but at the same time he suggests that “elevated inflation is not the only risk we face. Reducing policy restraint too late or too little could unduly weaken economic activity and employment.” As such it appears that they are open to the idea of loosening monetary policy, but it has to be backed up by the data.”¹

What Powell tried to convey is that the Fed is looking for “greater confidence” that inflation will return to its 2 per cent target rate. Hence, the Fed is waiting for their “desired inflation data” to convince them that rate could be softened based on their desired inflation data they expect.

SUMMARY OF FED CHAIR POWELL'S TESTIMONY (7/9/24):

1. Q1 2024 data did not support confidence in inflation and path to rate cuts
2. Rate cuts "not appropriate" until greater confidence inflation is heading to 2%
3. Cutting rates too late could unduly weaken the economy
4. The US economy is "expanding at a solid pace"
5. Labor market conditions have cooled but remain "strong"
6. Elevated inflation is not the only risk we face.

Source: @Fin_Watch

Federal Reserve Bank of New York President John Williams said that inflation data from the past three months is "getting us closer to a disinflationary trend that we're looking for" but that he "would like to see more data to gain further confidence inflation is moving sustainably to our 2% goal." Williams also says that "the stance of policy right now is working well" and that "if we get more data like this, I think that I would find myself finding that greater confidence" that inflation is returning toward 2%.²

In June’24, consumer prices didn’t rise on a monthly basis for the first time since Nov’23, according to the Fed’s favorite inflation gauge, the Personal Consumption Expenditure (PCE) price index. The annual PCE inflation rate registered at 2.6 per cent in June’24, down slightly from 2.7 per cent in May’24.

¹ According to Yahoo Finance “The rate cut conversation won't end when the Fed finally does cut interest rates, as the "will they, won't they" will shift to "when again" and "how much." The Fed's hikes may not have entered the room as quickly as inflation-boosted prices, and they might leave just as slowly. This uncertainty might be nothing new to investors but has created plenty of tense moments for homebuyers and borrowers.”

² <https://www.bloomberg.com/news/articles/2024-07-17/fed-s-williams-says-recent-inflation-data-positive-more-needed>; <https://www.wsj.com/economy/central-banking/top-official-suggests-fed-is-closer-but-not-yet-ready-to-cut-29eacbcc>; SIFMA, Smart brief.

Global Policy Rate Trends:

Some countries like Canada cut its policy rate by 25 bps in June to boost growth as inflation receded, reiterating that monetary policy need not be overly restrictive. The Czech Republic and Sweden also lowered their policy rates by 50 bps and 25 bps, respectively, in their May meetings. European Central Bank ('ECB') cut its rates by twenty-five basis points on June 6th, taking the benchmark rate down to 3.75 percent.

The US Federal Reserve, on the other hand, maintained the federal funds rate steady at 5.25-5.50 per cent in its June'24 meeting. Amongst EME central banks, Chile and Hungary cut their benchmark rates by 50 bps each in their May meetings, while Brazil and Peru reduced the policy rates by 25 bps each in their May meetings. Most other central banks retained their restrictive policy stances in the pending last mile of disinflation.

China's CPI inflation slowed to a 3-month low of 0.2% YoY in June on softer-than-expected non-pork food prices but remained in positive territory for the fifth consecutive month. Soft inflation and weak credit data are presenting a compelling case for further monetary policy easing from the PBOC in the coming months. The central bank decreased the rate of the medium-term lending facility by 20 basis points to 2.3%.

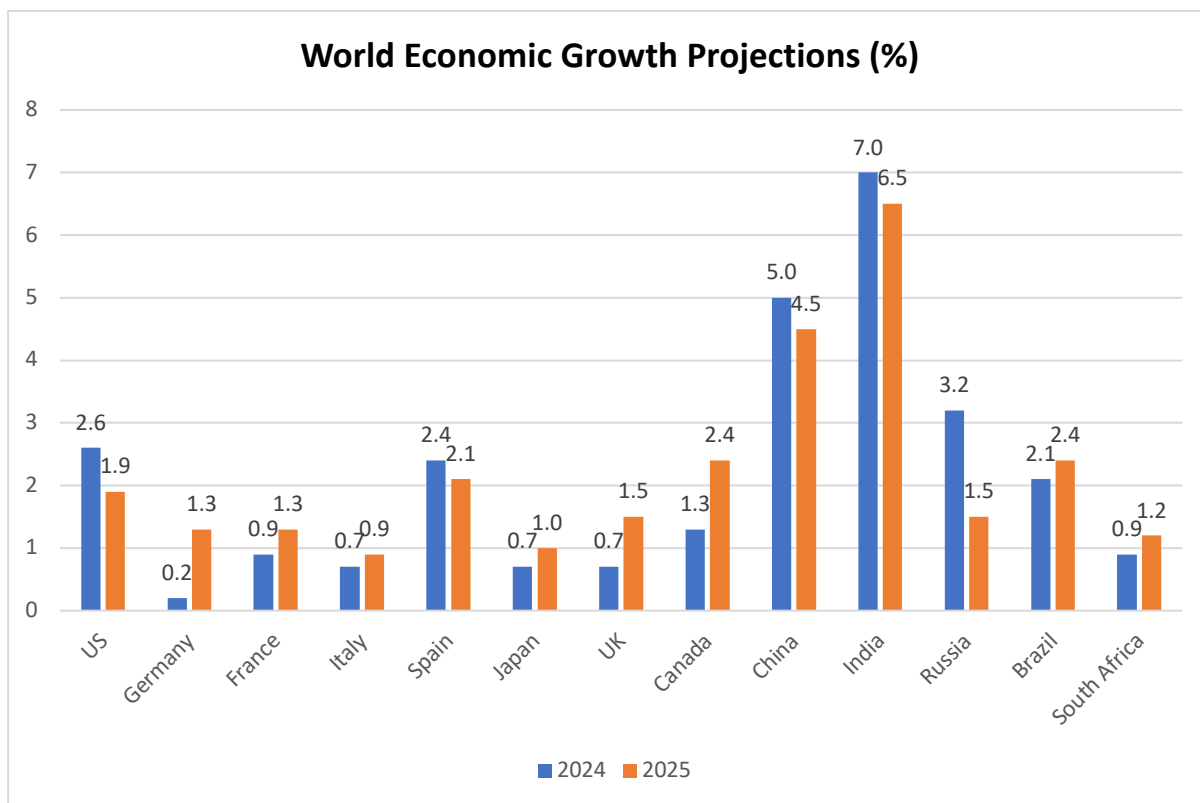
However, China's 2Q24 GDP growth fell to 4.7% YoY softer than forecasts for 5.1% YoY. The growth of the EV segment and hi-tech manufacturing remain buoyant. Private consumption remains subdued and property sector continues to face crisis. China's July official manufacturing PMI slowed slightly to 49.4, down from 49.5 in June.

The Bank of Japan (BOJ) raised interest rates by 0.25% from 0-0.1% by a 7-2 vote and laid out a detailed quantitative tightening plan that will reduce monthly bond buying in several stages to around 3 trillion yen as of January-March 2026.

Following are major takeaways:³

- Raises policy rates to 0.25%.
- Reduce bond buying by 400 billion yen.
- Monthly JGB buying to be 3 trillion yen in Jan-March 2026.
- Reduction of JGB purchase amount in a predictable manner.

³ Media reports, ET etc.



Source: IMF.

Global Politics:

Before the US election, the attack on Donald Trump stirs political upheaval. After the attack, Trump’s instant reaction and cheeky fist pump will likely strengthen his image as a political martyr, which might benefit his campaign in the run-up to the November election. According to an analysis by the Eurasia Group and GZERO President Ian Bremmer, it is essential that everyone across the American political spectrum condemn the violence. Political tensions have been increasing in the United States in recent years. Nearly 25 per cent of Americans agree that “patriots may have to resort to violence in order to save our country,” and 75 per cent trust that American democracy is at risk in the 2024 presidential election.

Incidentally, Historian Allan Lichtman, who has predicted nine out of ten election results perfectly, popularly known as the 'Nostradamus' of presidential election, has put his card on Kamala Harris after Biden withdrew from the forthcoming US election.

According to market news and analysts the “Trump factor” is boosting bitcoin, with the cryptocurrency’s price positively correlated with the probability of another Trump presidency, especially after the former president chose crypto-friendly Ohio Senator JD Vance as his running mate. The analysts highlight Trump’s pro-crypto stance, predicting potential price increases for bitcoin if Trump wins. Prominent venture capitalists Marc Andreessen and Ben Horowitz intend to donate to PACs supporting former President Donald Trump, the latest tech titans to back Trump’s re-election bid.

The founders, who made early investments in firms like Coinbase, Instagram and OpenAI, reportedly anticipate loosened regulation in areas like crypto under a Trump presidency.

Trump's 2017 Tax Cuts and Jobs Act (TCJA) income tax cuts would also likely be gaining importance. As ING research has highlighted, this will involve sizeable tax cuts for corporates paid for by spending cuts/efficiency savings and tariffs placed on imported goods. Party officials are also of the view that tax cuts will more than pay for themselves through boosting the size of the economy and lifting revenues, even though the 2017 TCJA failed to achieve this. Trade policy might also be getting distorted due to likely tariff hike. Removal of undocumented workers would also be on the card due to the immigration policy biased to protect domestic nationals.

In a year of global elections, the UK results are now in. The Conservative Party suffered a dramatic defeat, which was dominated by the Brexit vote and its aftermath, with five different prime ministers running the country during this period. The Conservatives lost 250 seats, a setback of historic proportions, and Keir Starmer's Labour party has a parliamentary majority with 35 per cent vote share.⁴ Key challenges now facing Labour will be to get economic growth back on track, boost business and public investment, all while managing a legacy of close to record high public debt and budget deficits and an external macro environment dominated by global tensions and increasing uncertainty.

II. The Indian Economic Developments:

The IMF has upgraded India's growth projection at 7 per cent for FY25, a 20-bps hike from the previous 6.8 per cent. The International Monetary Fund applauded India for maintaining fiscal discipline in an election year, saying that the Indian economy is doing well and continues to be the world's bright spot.

The Asian Development Bank (ADB) retained India's GDP growth forecast for FY25 at 7 per cent. It maintained the inflation forecast at 4.6 percent. Weather events and geopolitical risks are flagged as downside risks. It has highlighted that robust growth in industry driven by manufacturing and strong demand for construction led by housing could provide Philip for further growth momentum.

The RBI is also quite optimistic that the first quarter (Q1FY25) GDP growth will be in line with its projection at 7.3 per cent. India surprised by recording a GDP growth of 7.8 per cent in Q4FY24 and 8.2 per cent for FY24.

The World Bank projects that the Indian economy will grow at an average annual rate of 6.6 per cent for 2024-25 driven by solid services, strong domestic demand, and a spike in investment.

⁴ "UK election results 2024: Why do some popular parties win so few seats?" (5 July 2024)

<https://www.aljazeera.com/news/2024/7/5/uk-general-election-2024-why-do-some-popular-parties-win-so-few-seats>

Union Budget 2024-25: Trends and Analyses

The post-election Union Budget 2024-25 has tried to balance between the fiscal consolidation path and carrying out the growth momentum of the economy. It is expected that the nominal GDP to increase by 10.5% in FY25. Fiscal deficit has been pegged at 4.9% of GDP or ₹16.13 lakh crore in FY25. India's real GDP grew by 8.2 per cent in FY24, posting growth of over 7 per cent for a third consecutive year, driven by stable consumption demand and steadily improving investment demand.⁵ On the supply side, gross value added (GVA) at 2011-12 prices increased by 7.2% in FY24, with growth remaining broad-based. Net taxes at constant (2011-12) prices grew by 19.1% in FY24, facilitated by relatively strong tax growth, both at the centre and state levels and rationalisation of subsidy outlay.

Given the huge turnover in the capital market, to combat volatility, the short-term capital gains would henceforth attract a tax rate of 20% increased from 15%, whereas the long-term capital gains have been increased to 12.5% from 10%. The overall exemption limit of capital gains on certain financial assets has also been increased to ₹1.25 lakh per year. Furthermore, concerns on growing retail participation in derivatives has prompted the Security Transactions Tax (STT) on futures and options of securities increased to 0.02% and 0.1% respectively.

Nonetheless, a flat imposition of 12.5% tax on long term capital gains including gold and real estate, in certain cases might distort the net tax benefit in the face of the removal of the indexation benefits, despite the reduction of the tax on real estate from 20% to 12.5% (which including surcharge and cess effectively appears as 14.95%).

While one of the core themes of the budget is the simplification of the existing tax structure, the tax and non-tax revenues remain a "golden goose" for the government. For instance, the Centre's Gross Tax Revenue (GTR) for FY24 has been revised upwards to ₹34.4 lakh crore, which is almost ₹1.0 lakh crore higher over the Budget Estimate (BE) for FY24. Further, the GOI has budgeted 11.7% growth to ₹38.4 lakh crore as the FY25 projections. The tax buoyancy for FY25 is estimated at 1.1. GST collection target is budgeted to increase by 11% to ₹10.6 lakh crore over FY24 revised estimates.

On the other hand, the non-tax revenue (NTR) for FY25 has been budgeted at ₹ 5.46 lakh crore which is roughly ₹1.7 lakh crore higher than the RE of FY24, due to higher dividends from RBI and other non-tax receipts. Fiscal deficit has been pegged at 4.9% of GDP or ₹16.13 lakh crore in FY25 (lower than 5.1% of GDP or ₹16.85 lakh crore in interim budget FY25 presented in Feb'24) compared to 5.8% of GDP in FY24 RE (₹17.34 lakh crore).

The total dividend from the RBI, nationalised banks and financial institutions is estimated at ₹2.3 lakh crore for FY25, whereas the RBI is expected to transfer at least ₹1 lakh crore in FY25 to the central government. On 22nd May 2024, the Central Board of the Reserve Bank decided to transfer ₹2.11 lakh crore as surplus to the Central Government for the accounting year 2023-24. To further strengthen the Reserve Bank's balance sheet, the risk provisioning under the contingent reserve buffer (CRB) for 2023-24 was increased to 6.50 per cent of the balance sheet from 6.0 per cent in 2022-23.

For FY25, Government has set a target of ₹50,000 crore of disinvestment as against ₹30,000 crore revised estimate for FY24. The government-initiated divestment of its stake in IDBI Bank in May 2021, awaiting RBI approval to ensure bidders meet regulatory standards. The fit and proper criteria of the shortlisted bidders of the IDBI Bank's disinvestment process is with the RBI. With IDBI Bank's market cap nearing ₹950 billion, the government aims to raise approximately ₹290 billion, despite concerns over transaction terms' attractiveness. According to the media news, the plan envisages the sale of 60.7% in the bank including GOI's 30.5% and LIC's 30.2%.

⁵ As highlighted by the Economic Survey 2023-24.

For FY25, the Gross Government Borrowing is budgeted at ₹14.01 lakh crore (revised downward from the ₹14.13 lakh crore estimated at the interim Budget). and net borrowing requirement is pegged at ₹11.63 lakh crore. The likely inflow in G-sec yields after the inclusion of India's global bond indices is expected to reduce the yields and cost of borrowing. The yield on the 10-year Indian benchmark (7.10 GS 2034) G-sec softened to 7.01 per cent on June 12 from 7.03 per cent on May 15 due to a decline in crude oil prices, larger-than-expected dividend transfer by the Reserve Bank for 2023-24.

This budget provides special attention to MSMEs and manufacturing, particularly labour-intensive manufacturing. This budget has formulated a package covering financing, regulatory changes and technology support for MSMEs to help them grow and compete globally, as mentioned in the interim budget. For facilitating term loans to MSMEs for purchase of machinery and equipment without collateral or third-party guarantee, a credit guarantee scheme will be introduced, which will operate on pooling of credit risks of such MSMEs. A separately constituted self-financing guarantee fund will provide, to each applicant, guarantee cover up to ₹100 crore, while the loan amount may be larger. The GOI has encouraged banks to provide term loans to small businesses and top up loans during stress.

Despite the existence of the scope of critical improvement, the Budget has provided a future path of sustained growth momentum with a clarity with its nine priorities, namely- Productivity and resilience in Agriculture, Employment & Skilling, Inclusive Human Resource Development and Social Justice, manufacturing & services, urban development, energy security, infrastructure, Innovation, Research & Development (R &D) and next generation reforms.

Even with many challenges, India remains a bright spot with continued macroeconomic stability and commendable economic growth achievements. According to media news, India is rapidly closing in on China's position as the largest country in the MSCI emerging markets index, driven by rising share prices, earnings growth and stock sales. An upcoming MSCI index review could elevate India's weighting to more than 20%, placing it just behind China. The inclusion of India's G-sec indices in global bond indices have reflected further growth momentum.

Largely, the Budget with its growth intention has declared certain announcements with thrust on MSMEs, skill development, employment generation, rural focus in line with vision of Viksit Bharat. The measure for energy security, infrastructure and urban development, women participation in labour force, skill development, next generation reforms show warmth. The messages are well constructed statement of intent, established in enhanced growth prospects for India, the nation which is the fastest emerging economy according to global agencies.

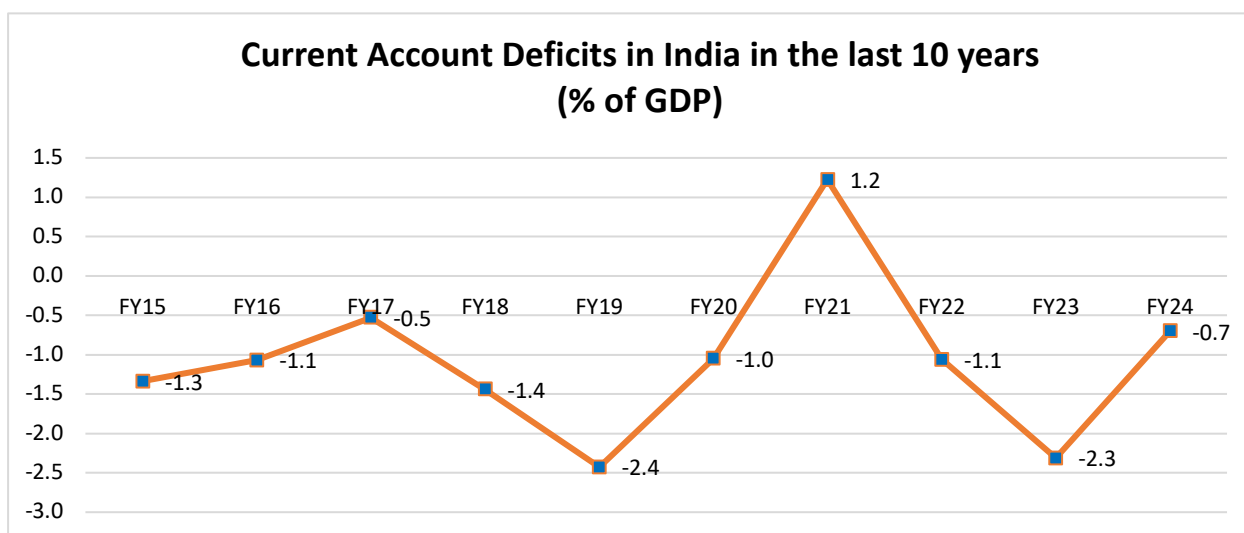
India's current account balance have shown surplus in Q4FY24, albeit June'24 data showed trade deficit of \$20.98 bn (lower than May'24 trade deficit at \$23.8 bn):

In Q4FY24, India's current account balance exhibited a significant improvement, recording a surplus of US\$ 5.7 billion (0.6% of GDP) compared to a deficit of US\$ 8.7 billion (1.0% of GDP) in the previous quarter (Q3:2023-24) and a modest surplus of US\$ 1.3 billion (0.2% of GDP) in the same quarter a year ago (i.e., Q4FY23).

This improvement was driven by a reduction in the merchandise trade deficit, which decreased to US\$ 50.9 billion from US\$ 52.6 billion in Q4FY23. The services exports

grew by 4.1% year-on-year, driven by higher exports in software, travel, and business services, leading to net services receipts rising to US\$ 42.7 billion from US\$ 39.1 billion a year earlier. Private transfer receipts, primarily remittances, also saw a significant increase of 11.9%, totalling US\$ 32.0 billion⁶.

Here is CAD trend in India in the last 10 years:



Source: World Bank (FY15-FY23), <https://data.worldbank.org/indicator/BN.CAB.XOKA.GD.ZS?locations=IN> | RBI,

On the financial account front, India experienced varied movements. Net foreign direct investment (FDI) flows declined to US\$ 2.0 billion from US\$ 6.4 billion in Q4FY23. However, foreign portfolio investment rebounded with a net inflow of US\$ 11.4 billion, reversing a net outflow of US\$ 1.7 billion in the same period the previous year.

The net inflows under external commercial borrowings rose to US\$ 2.6 billion from US\$ 1.7 billion, and non-resident deposits saw higher net inflows, increasing to US\$ 5.4 billion from US\$ 3.6 billion in Q4FY23. The overall balance of payments saw a significant accretion of foreign exchange reserves amounting to US\$ 30.8 billion, compared to an accretion of US\$ 5.6 billion a year ago, reflecting improved external financial conditions.

However, in June'24 the trade deficit remains at \$20.8 billion lower than May'24 print (\$23.8 billion) but higher than last year's June'23 data (\$19.19 billion). India's goods exports have increased with a YOY growth of the 2.6 per cent to \$35.2 billion, driven by sectors – engineering goods, electronics, chemicals and pharmaceuticals. On the other hand, imports have increased at \$56.18 billion (4.9 per cent growth), driven by petroleum products, iron & steel, non-ferrous metals, chemicals and electronic goods.

⁶https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=58147#:~:text=India's%20current%20account%20balance%20recorded,%3A2022%2D23%5D%202.

While the top exports destinations are – US, UAE, Malaysia, Bangladesh, Tanzania; the major countries from whom imports have come are- UAE, China, Russia, Indonesia, US.

India's CPI inflation rises due to volatile vegetable prices and adverse weather conditions:

India's retail inflation rose to 5.08% annually in June'24, moving away from the RBI's 4% target, impacting interest rate cut discussions. The Fed's rate cut expectations contrast with the RBI's stance. High prices for tomatoes, potatoes, and onions in several other cities have been driven by supply disruptions following extreme heat and subsequent heavy rainfall. Vegetable inflation escalated to 29.32% in June from 27.33% in May'24, with onion and potato prices soaring by 58.49% and 57.59% respectively. Extreme summer heat has become a public health hazard. India is particularly vulnerable to losing labour productivity due to heatwaves as a large section of its workforce is engaged in outdoor work at this time of the year, as in agriculture, construction, and mining.

It is estimated that every degree of rise in temperature above 27 degrees Celsius lowers labour productivity by 2-4 per cent. These effects are more pronounced in the northern part of the country than in the coastal peninsula. India loses around a quarter of its physical labour supply on very hot days. Added to output effects, this spills over into inflation and to investments in construction and logistics.

Despite the resumption of rainfall in July'24, the rainfall distribution across regions has not been as propitious. Rainfall deficit has increased from mid-July in North-West and East and North-East region. In comparison, rainfall in the Southern region has been in surplus.

Crop Production Trends:

The third advance estimates (AE) of agricultural crop production placed foodgrains output during 2023-24 at 328.9 million tonnes, marginally lower (-0.3 per cent) than the final estimates of 2022- 23.

As highlighted by the RBI June'24 bulletin, while production of wheat and rice increased, it was offset by a decline in the production of pulses and coarse cereals. The production of pulses was 6 per cent lower than in the previous year, mainly attributable to a decline in area under the crop.

Commercial crops recorded a fall in production across all crops, notably sugarcane, which declined by 9.8 per cent in 2023-24 from a record production in the previous year. Oilseeds production also declined by 4.3 per cent, mainly contributed by a fall in the production of soybean (-12.9 per cent).

Horticulture crops recorded a decline in production in 2023-24 for the first time since 2002- 03. As per the 2nd advance estimate (AE), the production of horticultural crops during 2023-24 is estimated to have declined by 0.9 per cent compared to the final estimates of 2022- 23, led by lower production of onion (-19.8 per cent) and potato (-5.6 per cent).

The Centre has imposed on 24th June'24 stock limits on the foodgrain prescribing the maximum quantity that users can hold. The stock limit order effective from 24 June 2024 will be valid till 31st March 2025.

Production of fruits, on the other hand, increased by 2.2 per cent over 2022-23. The overall yield of the horticulture crops declined by 1.6 per cent in 2023-24 over 2022-23, whereas the overall area is estimated to have increased by 0.7 per cent.

The IMD, has forecasted above normal SWM with 61 per cent probability for the rainfall to be above normal 0 for the first time in the last eight years. The IMD also expects rain-favouring La Niña conditions and positive Indian Ocean Dipole (IOD) conditions to develop during the monsoon season.

The spatial distribution of rainfall suggests that rainfall is most likely to be above normal over central India and the southern peninsula, normal over northwest and below normal over northeast India. The rainfall over the monsoon core zone (MCZ), consisting of most of the rainfed agriculture areas in the country, is expected to be above normal. The reservoir levels continue to be below the decadal average. The water storage level in major reservoirs in the country stood at 22 per cent of total reservoir capacity.

The PMI Indicators Remain Resilient:

In June 2024, the services PMI (HSBC India Services Business Activity Index) has increased to 60.5 from 60.2 in May'24, primarily due to an increase in both domestic and international new orders. New orders received by Indian service providers continued to increase in June, extending the current sequence of expansion to nearly three years. The pace of growth was sharp, faster than in May and well above its long-run average. Supporting the upturn in total new business was a record expansion in international orders. Asia, Australia, Europe, Latin America, the Middle East and the US were all cited as sources of new work from abroad.⁷ The global composite purchasing managers index (PMI) witnessed a sequential uptick for the seventh successive month, increasing to a 12-month high in May 2024.

⁷ "Robust expansions in new business and exports fuel output growth" (3 July 2024) HSBC India Services PMI, <https://www.pmi.spglobal.com/Public/Home/PressRelease/23962e3b8053469db4f8f5233f4dcc87>

The global manufacturing PMI edged up to a 22-month high in May, remaining above the neutral mark for the fourth successive month as output and new orders expanded at a quicker pace.

The services PMI remained above its manufacturing counterpart and accelerated to a 12-month high in May. The overall improvement in business conditions also reflects a decline in the uncertainty tracker faced by corporates to its lowest level since March 2018.

The composite PMI for export orders remained in expansionary territory in May 2024, although both manufacturing and services export orders moderated slightly on a sequential basis. However, the construction sector emitted mixed signals, with steel consumption posting 11.6 per cent growth in May 2024, while cement production growth remained muted at 0.6 per cent in April 2024.

Table 1: Automobile Domestic Sales Trends (In Numbers)

Category	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Passenger Vehicles	33,77,389	27,73,519	27,11,457	30,69,523	38,90,114	42,18,746
Commercial Vehicles	10,07,311	7,17,593	5,68,559	7,16,566	9,62,468	9,67,878
Three Wheelers	7,01,005	6,37,065	2,19,446	2,61,385	4,88,768	6,91,749
Two Wheelers	2,11,79,847	1,74,16,432	1,51,20,783	1,35,70,008	1,58,62,087	1,79,74,365
Quadricycles	627	942	-12	124	725	725
Grand Total	2,62,66,179	2,15,45,551	1,86,20,233	1,76,17,606	2,12,04,162	2,38,53,463

Source: SIAM.

According to the FADA data of June'24, India's automobile retail experienced a modest YoY growth of 0.73%. While the two-wheeler (2W) and three-wheeler (3W) segments registered positive YoY growths of 4.6% and 5.1% respectively, other categories such as passenger vehicles (PV), tractors (Trac) and commercial vehicles (CV) saw declines of 6.7%, 28.3%, and 4.7% YoY, respectively.

To quote the FADA President's insights in June 2024's auto retail performance, "June is traditionally one of the weakest months for India's auto retail. This year, while the monsoon progressed normally up to Maharashtra, it lost momentum, delaying rains in West Bengal, Bihar, Uttar Pradesh, Chhattisgarh, and Madhya Pradesh. This exacerbated the effects of a severe heatwave in northwest India, contributing to a prolonged hiatus that not only intensified the heatwave but also

delayed the sowing operations of kharif (summer sown) crops in northern and north-western regions, thereby impacting rural sales.”⁸

The two-wheeler category faced significant challenges, with a month-on-month (m-o-m) sales decline of 10.36%, despite a 4.66% YoY increase. Factors such as extreme heat which resulted in 13% less walk-in’s, stalled monsoons and election-related market slowdowns particularly affected rural sales, which fell from 59.8% in May to 58.6% in June. Inventory levels have reached an all-time high, ranging from 62 to 67 days. Despite improved product availability and substantial discounts aimed at stimulating demand, market sentiment remains subdued due to extreme heat resulting in 15% less walk-in’s and delayed monsoons.

Table 2: All India Vehicle Retail Data for June 2024 (Units)

CATEGORY	June'24	May'24	June'23	MoM%	YoY%
2W	13,75,889	15,34,856	13,14,628	-10.36%	4.66%
3W	94,321	98,265	89,743	-4.01%	5.10%
E-RICKSHAW(P)	37,963	39,505	39,050	-3.90%	-2.78%
E-RICKSHAW WITH CART (G)	4,612	5,530	2,889	-16.60%	59.64%
THREE-WHEELER (GOODS)	8,959	9,927	8,669	-9.75%	3.35%
THREE-WHEELER (PASSENGER)	42,690	43,224	39,060	-1.24%	9.29%
THREE-WHEELER (PERSONAL)	97	79	75	22.78%	29.33%
PV	2,81,566	3,03,358	3,02,000	-7.18%	-6.77%
TRAC	71,029	70,065	99,148	1.38%	-28.36%
CV	72,747	83,059	76,364	-12.42%	-4.74%
LCV	40,711	45,712	43,523	-10.94%	-6.46%
MCV	6,872	6,871	6,513	0.01%	5.51%
HCV	21,546	26,306	22,904	-18.09%	-5.93%
Others	3,618	4,170	3,424	-13.24%	5.67%
Total	18,95,552	20,89,603	18,81,883	-9.29%	0.73%

Source: FADA June'24 Press Release.

Public Finance Trends:

The central government may consider reducing current year’s gross market borrowings in the upcoming final budget for 2024-25 due to a higher-than-expected central bank surplus transfer and robust revenue collections. Record dividend transfer of ₹2.11 lakh crore from the RBI to the government this year and substantial tax collections have provided certain leeway for the government for strengthening some of the existing schemes and to propel further growth-inducing investments. According to some reports, the GoI is exploring of raising its capex to 8-10 per cent due to such margin.

⁸ <https://fada.in/images/press-release/1668768a35fb67FADA%20releases%20June%202024%20Vehicle%20Retail%20Data.pdf>

Table 3: Trends of the Central Government's Finances (Rs. Billion)**Central Government Finances**

	Rs. Billion		Y-o-Y % change		As % of BE	
	Apr-May 23	Apr-May 24	Apr-May 23	Apr-May 24	Apr-May 23	Apr-May 24
Gross fiscal deficit	2,102.9	506.2	3.1	-75.9	11.8	3.0
Non-debt receipts	4,156.9	5,728.5	8.9	37.8	15.3	18.6
Revenue receipts	4,127.0	5,707.6	15.7	38.3	15.7	19.0
Net tax revenue	2,780.5	3,190.4	-9.6	14.7	11.9	12.3
Non-tax revenue	1,346.6	2,517.2	173.4	86.9	44.6	63.0
Non-debt cap rcpt	29.9	20.9	-88.0	-30.2	3.6	2.6
Recovery of loans	29.4	20.8	204.5	-29.2	12.8	7.2
Disinvestment	0.5	0.0	-99.8	-92.0	0.1	0.0
Expenditure	6,259.8	6,234.6	6.9	-0.4	13.9	13.1
Revenue exp	4,581.9	4,798.4	-4.3	4.7	13.1	13.1
Of which interest	1,106.6	1,238.1	5.0	11.9	10.3	10.4
Capital exp	1,677.9	1,436.3	56.7	-14.4	16.8	12.9

Source: CMIE.

Provisional figures of direct tax collections for the current fiscal year, up to 11 July 2024, show that net tax collections stand at ₹5.7 trillion, compared to ₹4.8 trillion in the same period a year ago, marking a 19.5 per cent rise. The net direct tax collection includes corporate tax of ₹2.1 trillion, personal income tax of ₹3.5 trillion and securities transaction tax (STT) of ₹166.3 billion. For the same period, gross direct tax collection for the current fiscal is 23.2 per cent higher than last year, at ₹6.5 trillion.

Table 4: Tax Collections Trends (₹crore)

	FY24-25 (Up to 11 July'24)	FY23-24 (Up to 11 July'24)	Per cent increase (%)
Corporate tax (net)	210274	186956	12.47
Personal income tax (net)	346036	285023	21.41
Securities transaction tax (STT)	16634	7285	128.33
Other taxes (net)#	1413	1194	18.34
Total	574357	480458	19.54

#including fringe benefit tax (FBT), hotel receipt tax, expenditure tax, estate duty, gift tax, banking cash transaction tax, equalisation levy etc.

Source: Union Budget documents, media news etc.

It is notable that though the public debt to GDP ratio has come down from around 63% during the pandemic years (FY21) at around 58% during FY24, still monitoring the public debt is the prime concern. In this context, it may be mentioned that according to media news, the Finance Ministry may target to bring down the debt-GDP ratio, and

accordingly the fiscal target might be fixed from 2026-27 onwards.⁹ Hence, the focus would be on bring down the public debt as per centage of GDP over the years.

In July'24, the GST collection has increased 10.3 per cent to over ₹1.82 trillion driven by domestic transactions in goods and services. The adjusted net GST after refunds stands at over ₹1.66 trillion, a growth of 14.4 per cent. The Gross GST revenue remains at ₹182075 crore including CGST of ₹32386 crore, SGST at ₹40289 crore and IGST of ₹96447 crore.

Trends in G-Sec Yields and GOI Buyback Schemes:

The yield on the 10-year Indian benchmark (7.10 GS 2034) G-sec softened to 7.01 per cent on June 12 from 7.03 per cent on May 15 due to a decline in crude oil prices, larger-than-expected dividend transfer by the Reserve Bank for 2023-24. As of the latest update on 25 Jun 2024 8:15 GMT+0, the India 10 Years Government Bond has a yield of 6.98%.¹⁰

Table 5: Historical RBI Transfer to Government (₹crore)

Financial Year	RBI Dividend Transfer to the GOI (₹crore)
FY 2012-13	₹ 33,110 crore
FY 2013-14	₹ 52,679 crore
FY 2014-15	₹ 65,896 crore
FY 2015-16	₹ 65,876 crore
FY 2016-17	₹ 30,659 crore
FY 2017-18	₹ 50,000 crore
FY 2018-19	₹ 176,051 crore
FY 2019-20	₹ 57,128 crore
FY 2020-21	₹ 99,122 crore
FY 2021-22	₹ 30,307 crore
FY 2022-23	₹ 87,416 crore
FY 2023-24	₹ 2,11,000 crore

Source: RBI, media news.

⁹ "Somanathan explains shift from fiscal deficit targeting to debt-to-GDP reduction" (28 July 2024) The Hindubusinessline.

¹⁰ World Government Bonds, Historical data.

On May 22, the Central Board of the Reserve Bank decided to transfer ₹2.11 lakh crore as surplus to the Central Government for the accounting year 2023-24. To further strengthen the Reserve Bank's balance sheet, the risk provisioning under the contingent reserve buffer (CRB) for 2023-24 was increased to 6.50 per cent of the balance sheet from 6.0 per cent in 2022-23.

Furthermore, giving additional fiscal space to the government, positive sentiment on the inclusion of Indian G-sec in global bond indices in June and a stable rupee. The benchmark 10-year bond yield eased further on India's sovereign rating outlook upgrade by S&P Global Ratings for to 'positive' from 'stable'.

The Disinvestment Saga:

The Reserve Bank of India (RBI) has granted fit and proper approval to bidders for IDBI Bank ahead of the Union Budget 2024. The government-initiated divestment of its stake in IDBI Bank in May 2021, awaiting RBI approval to ensure bidders meet regulatory standards and are not under scrutiny by other regulators. With IDBI Bank's market cap nearing ₹950 billion, the government aims to raise approximately ₹290 billion, despite concerns over transaction terms' attractiveness. According to the media news, the plan envisages the sale of 60.7% in the bank including GOI's 30.5% and LIC's 30.2%. Though the Centre can expect ₹29,000 crore from the disinvestment, terms of transaction may not be very attractive.¹¹

Table 6: The Disinvestment Target (₹ crore)

Year	Target (₹ crore)	Achieved (₹ crore)	Achievement (as%)
2019-20	90,000	50,294	56.0
2020-21	2,10,000	32,742	15.6
2021-22	1,75,000	15,440	8.8
2022-23	65,000	31,059	47.8
2023-24	51,000	14,564	28.6
2024-25	50,000		

Source: <http://bsepsu.com/>, TOI (18 July 2024).

India's Forex Reserves Remain Robust:

India's foreign exchange reserves rose to an all-time high of \$657.15 billion on 5th July 2024¹² which was around US\$ 655.8 billion on 7th June 2024, equivalent of around 11 months of imports projected for 2024-25. Among major foreign exchange holding countries, India added highest reserves worth US\$ 33.4 billion, marking an increase of 5.4 per cent during the calendar year 2024.

On the sources side (assets), Reserve Money (RM) comprises net domestic assets (NDA) and net foreign assets (NFA) of the Reserve Bank. While the growth in foreign currency assets (accounting for more than 90 per cent of NFA) which had been

¹¹ "IDBI Sell-off: Ball in govt's court after RBI's 'fit and proper' report " (18 July 18, 2024) Times of India.

¹² According to the RBI data published on 12th July 2024,

<https://www.rbi.org.in/Scripts/WSSViewDetail.aspx?TYPE=Section&PARAM1=2>.

declining since March 2024, inched up during May 2024; gold, the other major component of NFA, has registered double digit growth since February 2024.

Table 7: India’s Foreign Exchange Reserves [USD Million]

Item	As on July 5, 2024		Variation over					
			Week		End-March 2024		Year	
	₹ Cr.	US\$ Mn.	₹ Cr.	US\$ Mn.	₹ Cr.	US\$ Mn.	₹ Cr.	US\$ Mn.
Total Reserves	5486788	657155	50213	5158	95532	10736	553130	60875
Foreign Currency Assets #	4818462	577110	41612	4228	56618	6160	441719	48142
Gold	479517	57432	8167	904	40198	4757	114957	13372
SDRs	150585	18036	377	21	-638	-96	-289	-199
Reserve Position in the IMF	38222	4578	57	4	-646	-84	-3256	-439

Source: RBI.

According to media reports, the RBI has bought around six tonnes of gold and sold \$7 billion worth of US treasury securities during Apr’24 in a strategic approach at forex reserves. This is in line with many other banks of different countries, as most of the central banks (CBs) are trying to build up their gold reserves and reducing dollar-denominated assets amid geopolitical tensions.

India’s Retail Digital Payments is on Upward Momentum:

India’s retail digital payments are expected to double to US\$ 7 trillion by 2030, driven by strong online adoption and growth in e-commerce, according to a Kearney and Amazon Pay study. The report highlights that ninety per cent of surveyed consumers prefer digital payments, with significant adoption in both online and offline transactions.

The introduction of Central Bank Digital Currency (CBDC) on a pilot basis in 2022 is the latest innovation which would entail a ‘more efficient and cheaper currency management system’. As highlighted by the RBI’s recent (July’24) report on currency & finance, digital currency is expected to complement cash and current payment systems. “Digital Rupee”, is the digital form of India’s currency, the Rupee, and is a legal tender issued by the Reserve Bank of India. It can be held as a store of value or used to carry out transactions.

In May 2024, India was among the 36 countries where CBDC was in pilot stage.¹³ Based on usage, CBDCs can be classified into wholesale (CBDC-W) and retail (CBDC-R). While wholesale CBDC (CBDC-W) caters to institutional participants of the financial markets, retail CBDC (CBDC-R) is a risk-free digital medium of exchange for the retail consumers. The initial use cases for the pilot of CBDC-R included Person

¹³ RBI Report on Currency & Finance (July 2024).

to Person (P2P) and Person to Merchant (P2M) transactions. The pilot has also introduced additional use cases using programmable and offline functionalities. As of June 2024, 50 lakh users and 4.2 lakh merchants were participating in the CBDC retail pilot.¹⁴

The current wave of innovations in payments system began with the rationalisation of decentralised electronic products like ECS and EFT into centralised pan-India payment solutions like the NACH and NEFT which enabled servicing customers spread throughout the country with settlement at a central location. This phase was assisted by the adoption of Core Banking Solutions (CBS)/centralised liquidity management solutions in banks which facilitated straight-through processing of payments.

In recent years, new dimensions have been added to the payment systems, such as the Immediate Payment Service (IMPS) and the UPI, which provide instant credit to the beneficiary, and are available round the clock for undertaking fund transfers. The Real Time Gross Settlement (RTGS) has been developed as a Financial Market Infrastructure, which processes large payment transactions. Initiatives like Bharat Bill Payment System (BBPS) and Pre-paid Payment Instruments (PPIs) (which facilitate payment of bills and purchase of goods and services), and the National Electronic Toll Collection (NETC) which allows for electronic toll payments have further enhanced convenience. Innovations like the Bharat Interface for Money (BHIM) App, interoperable QR code, and 24×7×365 of NEFT and RTGS enhanced the convenience of these payment systems and ensured their rapid acceptance.

The facilitation of non-bank FinTech firms in the payment ecosystem as PPI issuers offering stored value services to customers, and in payment gateway and aggregation services like Bharat Bill Payment Operating Units (BBPOUs) and TPAPs in the UPI platform have furthered the adoption of digital payments in the country (RBI, 2021a). Leveraging increasing mobile density, PSPs, both banks and non-banks, have started services using mobile as an access device as well as an access channel.

Major Takeaways:

- India is at the forefront of the digital revolution, leveraging on its digital public infrastructure, a vibrant financial technology (FinTech) ecosystem and a conducive policy environment to emerge as the fastest-growing digital economy in the world.
- Digital technologies are unlocking opportunities in financial inclusion, fiscal transfers and cross-border trade and remittances.
- Taking stock of India's digital journey so far, the report explores emerging opportunities and challenges, supported by surveys of key stakeholders and data analytics.
- The Report finds empirical support for a positive role of the regulatory framework in increasing the confidence of consumers in digital financial products, boosting

¹⁴ *ibid.*

operating and technical efficiencies of financial institutions and engendering more liquid and integrated financial markets.

- Digital technologies also present challenges related to cybersecurity, data privacy, vendor and third-party risks, customer protection, upskilling and reskilling of human resources, complex financial products and business models. Balancing financial stability, customer protection, and competition while supporting an environment congenial for innovations is the key policy challenge.

Source: RBI Report on Currency & Finance (29 July 2024).

Credit-Deposit Ratio Shows Upward Trends:

Banks have no alternative option but to resort towards borrowing, due to less deposits. According to media news, banks borrowed ₹1.19 lakh crore in the first fortnight of July'24, more than the ₹1.02 lakh crore they mobilised through deposits.¹⁵ Total bank credit extended by commercial banks as of 12th July'24 was up 14 per cent over the same period last year. Deposits were 11.3 per cent higher compared to the same period last year.

Table 8: Credit-Deposit Ratio of SCBs (%change YOY)

Y-o-Y % change: Mar 2023 to Jun 2024	
Quarter ended	Credit-deposit ratio (%)
Mar-23	4.94
Jun-23	2.20
Sep-23	4.70
Dec-23	5.89
Mar-24	5.88
Jun-24	7.87

Source: RBI, CMIE.

Concluding Remarks:

The assessment of the growth prospects for 2024-25 are conditioned by the momentum that has been set by the performance in 2023-24 and several global and domestic factors. While positive aspects of the emerging macroeconomic conditions affecting economic growth in 2024-25 are significant, there are also the risks from adverse scenarios. The spillover effects of continuing international geopolitical conflicts, trade limiting policies across the world, extreme weather events affecting agricultural output pose these adverse conditions.

¹⁵ "Banks' market Borrowings Soar while Deposit Mobilisation Lags" (5 Aug 2024) The Economic Times.

Nonetheless, Indian growth has outperformed expectations once again, suggesting it has strong roots. Real policy rates near neutral, along with supply-side action, have been important in sustaining growth while bringing inflation towards target. There is expectation of an aggressive rate cut by Fed in September'2024 due to the “Sahm rule” indication about the likely recession in US, while the Bank of Japan (BOJ) has taken hawkish stance. The RBI is likely to maintain the repo rate unchanged at the forthcoming meeting. Going forward, increasing recessionary fears, geopolitical tensions, elevated food inflation (especially vegetable inflation in India) remain major challenges. A calibrated approach is needed henceforth, according to situational developments.