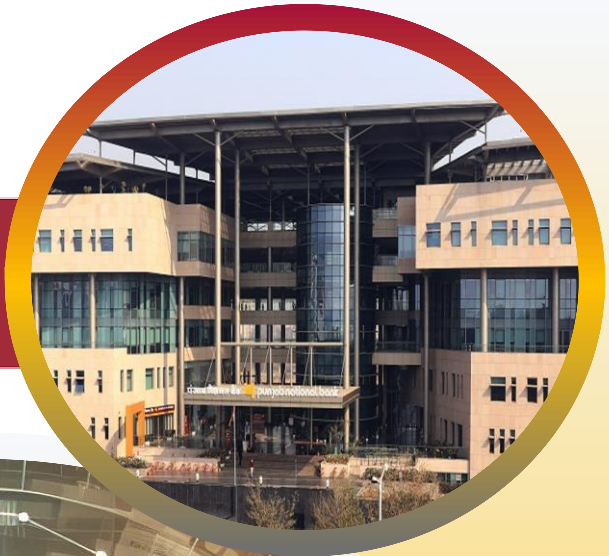
पंजाब नैशनल बैंक
punjab national bank



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STRATEGIC MANAGEMENT AND ECONOMIC ADVISORY DIVISION

कार्यनीति प्रबंधन एवं आर्थिक परामर्श प्रभाग

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Role of Institutions in India's Economic Rise

India stands at a pivotal moment in its journey toward becoming a developed economy by 2047. This is not just a political aspiration but an economic ambition rooted in the idea of inclusive and sustainable growth. Recent global recognition of the critical role institutions play in shaping economic outcomes, evidenced by the Nobel Prize in Economics awarded to scholars working on this very topic, underscores the importance of robust institutions in poverty alleviation, reducing inequality, and fostering prosperity.

India's story is no different. Over the past few decades, the country has undergone significant institutional reforms that have reshaped its economic landscape. While these reforms have varied in scope, one thing is clear: the strengthening of institutions has been essential in driving social progress and economic stability. And among these institutions, banks—especially public sector banks—have played a critical role, not only as financial intermediaries but also as engines of inclusion and empowerment.

Recent institutional reforms have impacted India’s socio-economic structure and, more importantly, banks are spearheading efforts to address poverty, inequality, and ultimately, prosperity through initiatives aimed at improving access for the unserved and underserved regions and marginalized sections of the society.

The evolution of India's institutions has been critical to its socio-economic progress. Reforms in governance, regulatory frameworks, and infrastructure development have created a more conducive environment for economic activity, enabling consistently higher growth rates.

One of the most notable reforms in recent years is the adoption of the Goods and Services Tax (GST), which has helped unify the country’s fragmented tax system. This reform has contributed to improving revenue collection and enhancing transparency in economic transactions, thus reducing tax evasion. Similarly, the implementation of the Insolvency and Bankruptcy Code (IBC) has strengthened the resolution framework for distressed assets.

Digitalization has been another key area of institutional reform. The government's Digital India initiative has revolutionized the way services are delivered, enhancing transparency and efficiency in public service delivery. The introduction of Aadhaar, the world’s largest biometric identification system, has paved the way for direct benefit transfers (DBTs), eliminating middlemen and ensuring subsidies and welfare payments reach the intended beneficiaries, reducing leakages and improving efficiency.

While these reforms have laid the foundation for long-term economic stability, one of the most critical areas where institutions in India have had a direct impact is financial inclusion. Banks have played a crucial role in advancing financial inclusion in India, a task that is central to reducing poverty and fostering equitable growth. The Prime Minister's Jan Dhan Yojana (PMJDY), launched in 2014, is one of the largest financial inclusion initiatives in the world. By providing access to financial services—especially savings and credit facilities—PMJDY has enabled millions of previously unbanked citizens to participate in the formal economy. As of October 2024, over 500 million Jan Dhan accounts have been opened under this scheme, with more than 50 per cent of the accounts belonging to female beneficiaries in rural and urban areas. This scheme has not only empowered individuals to save and access credit but has also provided a platform for delivering social security schemes and insurance products, furthering India's mission of financial inclusion.

While financial inclusion is the first step, ensuring financial literacy is equally important. People need to be aware of the various financial products and services available to them and how to use these tools to improve their financial well-being. This is where the role of banks expands beyond realm of financial intermediation to education and empowerment. The Reserve Bank of India (RBI) has been actively promoting financial literacy through the National Strategy for Financial Education. RBI has set up over 2,400 Financial Literacy Centers across India, primarily targeting rural areas. These centers conduct financial education workshops covering topics like savings, budgeting, and borrowing. Further, the regulator has partnered with several State Educational Boards in 2022 to introduce financial literacy modules in school curricula. Besides this, it conducts short-term campaigns like quizzes for school students, an annual financial literacy week with different themes to raise financial awareness, etc. It also runs a mass media campaign “RBI Kehta Hai” focusing on safe banking practices, reaching millions of Indians through TV, radio, and online platforms, demystifying topics like interest rates, loans, and cybersecurity.

In addition to traditional banking services, microfinance institutions and self-help groups (SHGs) have been pivotal in driving financial inclusion among the underserved. The linkage of SHGs with formal banking institutions has empowered millions of women, particularly in rural areas, providing them with the financial resources to start small businesses and contribute to their household incomes. This, in turn, has led to the gradual reduction of poverty and improvement in living standards in many parts of the country.

Micro, Small, and Medium Enterprises (MSMEs) are the backbone of the Indian economy, employing 15.5 crore individuals and contributing almost 29 per cent to GDP (PIB, December 2023). However, these enterprises often face difficulties in accessing formal credit. Recognizing this challenge, the government and public sector banks have undertaken several initiatives to provide easier access to credit for MSMEs. Schemes like the Pradhan Mantri Mudra Yojana (PMMY) have enabled banks to extend loans to MSMEs without the requirement of collateral, helping them grow their businesses.

As India moves toward realizing its vision of “*Viksit Bharat@2047*”, the role of institutions will be more crucial than ever. Strong, transparent, and accountable institutions are essential for sustained growth, poverty reduction, and equitable distribution of income. Public sector banks, with their focus on inclusion and empowerment, will continue to play an essential role in shaping the country’s future.

Deepak Singh
(General Manager)

2. KEY HIGHLIGHTS: WORLD DEVELOPMENT REPORT 2024

The Middle Income Trap

Insights for India

- Globally, larger and more established firms are infusing new knowledge into their businesses at a higher rate than smaller firms. In middle-income countries, it is the large firms that are employing the majority of highly skilled workers. However, the forces of creation are weak in middle-income countries. In India, Mexico, and Peru, for example, if a firm operates for 40 years, it will roughly double in size. In the United States, the average firm that survives that long will grow sevenfold. For firms in middle-income countries, this implies that firms that fail to grow substantially can still survive for decades. By contrast, for US firms, facing intense competitive pressure, a few entrepreneurs will expand their businesses rapidly, while most others will exit. *Hence, firms in India, Mexico, and Peru tend to remain microenterprises.*
- A high regulatory cost attached to formal business growth may inhibit an efficient firm from gaining market share and driving out inefficient competitors. Such policy-induced distortions in middle-income countries result in misallocated resources, hampering creation and infusion of new technology at scale.
- To undertake infusion at scale, however, countries need both globally competitive firms and specialized talent. Today, graduates from the science, technology, engineering, and mathematics (STEM) fields play a central role in generating and spreading ideas and technologies. Encouragingly, three-quarters of STEM graduates are now in middle-income countries, and *Chinese and Indian STEM graduates make up about half of global STEM graduates.*
- Historically, demographic dividends have fostered economic growth in many countries. However, the world is aging rapidly and fertility rates are declining rapidly which will especially affect middle-income countries projected to face labour crunches in the coming decades. *Today's middle-income countries are aging more rapidly than high-income countries did in the past.*
- The growth rates of firms in India, Mexico, and Peru are far lower than those of firms in the United States, with firms expanding by less than a factor of 3. Conversely, when firms with growth potential lack dynamism, they fall short of displacing unproductive small firms from the market. This absence of creative destruction results in a stark contrast: although the share of small firms with at most four workers declines by 60 percent by the age of 25 in the United States, the decrease is only about 10 percent in India. *Consequently, the Indian economy lacks the mechanism for effective selection among firms, hindering the reallocation of resources to more productive users.*
- In the United States, microenterprises are the dominant form of production in terms of share of firms, but firms are distributed more uniformly across the size spectrum. Start-ups enter small and proceed to grow up or get out, which explains the prominence of medium and large firms. *In India, Mexico, and Peru, this translates into a market in which more than 80 percent of firms employ fewer than five workers each.*
- A considerable share of firms (more than 30 percent in Georgia, Ghana, India, Kenya, and Senegal) view the lack of capabilities—including managers' and workers' skills—as an important barrier to technology adoption, suggesting that *having better-educated managers may be a prerequisite for greater technology adoption.*

- ❖ An inability to trust people and institutions beyond one's own family and social network can limit firm growth and productivity. In developing countries, firm owners generally make major management decisions themselves or through their children because they fear the consequences of delegating to their managers. In India, for example, this factor underlies firms' inability to grow. Its effect is sizable- *poor delegation of managerial responsibilities could account for 11 percent of the difference in income per capita between India and the United States.*
- ❖ In high-income countries and middle-income countries alike, women are less likely than men to enroll in science, technology, engineering, and mathematics (STEM) fields. The share of women among STEM graduates is on average higher in India compared with even developed countries, and yet women's representation in prestigious colleges lags behind. *Removing barriers to entrepreneurship for women in India would double female labour force participation and raise real income by 40 percent.*
- ❖ To support innovation, countries will have to find ways to make existing firms innovative and more productive and to make way for newcomers. Too many markets are stifled by excessive business regulations, government patronage, and limited international competition. In such an environment, powerful owners and unproductive large firms can stifle growth, lobbying to protect their preferential access and monopoly rents when they could instead be investing in productivity enhancing technology. *As policy makers shift their emphasis toward innovation, they should first combine investment with infusion of new technology from the rest of the world.*
- ❖ Digital technologies—such as the internet, mobile phones, social media, and web-based information systems—can promote both social mobility and talent development. Digital capital has increased entrepreneurship and business income in India and has favoured small-scale vendors and economically lagging districts.

INCOME CLASSIFICATION	INVESTMENT	INFUSION	INNOVATION
Low-income	Higher priority	Lower priority	Lower priority
Lower-middle-income	Higher priority	Higher priority	Lower priority
Upper-middle-income	Higher priority	Higher priority	Higher priority

- ❖ Additionally, to bring more women into the labour force, implementing institutional reforms that grant women rights to property ownership, inheritance, and other basic rights to access economic opportunities is imperative. Further, broad-based education and information interventions can help address both personal attitudes and misperceptions about social attitudes.

3. HIGHLIGHTS OF RBI's BI-MONTHLY MONETARY POLICY

A. Policy Rate	Existing	Now	Change	Stance
Policy Repo Rate	6.50%	6.50%	**No Change**	**Change in stance to Neutral**
Standing Deposit Facility (SDF)	6.25%	6.25%		
MSF Rate	6.75%	6.75%		
Bank Rate	6.75%	6.75%		
B. Reserve Ratios				
Cash Reserve Ratio (CRR)	4.50%	4.50%		
Statutory Liquidity Ratio (SLR)	18.0%	18.0%		

Economy Outlook

- **Global economy*:*** Global economic has remained resilient although downside risks from increasingly intense geopolitical conflicts, geoeconomic fragmentation, financial market volatility and elevated public debt continue to play out. Manufacturing is showing signs of slowdown, while services activity is holding up. World trade is exhibiting improvement. Inflation is softening, supported by lower energy prices. Growing divergence in inflation-growth dynamics across countries has resulted in varying monetary policy responses.
- **Domestic Economy:** Real gross domestic product (GDP) grew by 6.7 per cent in Q1:2024-25, led by a revival in private consumption and improvement in investment. The share of investment in GDP reached its highest since 2012-13. Government expenditure, the other hand, contracted during the quarter. On the supply side, gross value added (GVA) expanded by 6.8 per cent surpassing GDP growth, aided by strong industrial and services sector activities.
- High frequency indicators suggest that domestic economic activity continues to be steady. Agricultural growth has been supported by above normal south-west monsoon rainfall and better kharif sowing. . Manufacturing activity is gaining on the back of improving domestic demand, lower input costs and a supportive policy environment.
- On the demand side, rural demand is trending upwards while urban demand continues to hold firm. Government consumption is improving. Investment activity remains buoyant, with government capex rebounding from a contraction observed in the first quarter. Private investment continues to gain steam on the back of expansion in non-food bank credit, higher capacity utilization and rising investment intentions. On the external front, services exports is supporting overall growth.
- India's growth story remains intact as its fundamental drivers – consumption and investment demand – are gaining momentum. Government expenditure of the centre and the states is expected to pick up pace in line with the Budget Estimates. Investment activity would benefit from consumer and business optimism, government's continued thrust on capex and healthy balance sheets of banks and corporates.

Taking all these factors into consideration, GDP projections are as under with risks evenly balanced:

RBI's GDP Projections	Q2 FY'25	Q3 FY'25	Q4 FY'25	FY'25	Q1 FY'26
08.08.2024	7.2%	7.3%	7.2%	7.2%	7.2%
09.10.2024	7.0%↓	7.4%↑	7.4%↑	7.2%↔	7.3%↑

Inflation Outlook

- Headline CPI inflation softened significantly in July and August with base effect playing a major role in July. Food inflation experienced a certain degree of correction during these two months. Considerable divergence, however, was observed within the food sub-groups. Deflation in fuel group deepened on softening electricity and LPG prices. Core inflation, on the other hand, edged up in July and August.
- CPI print for the month of September saw a big jump due to unfavorable base effects and pick up in food price momentum, caused by the lingering effects of a shortfall in the production of onion, potato and chana dal (gram) in 2023-24, among other factors.
- The headline inflation trajectory, however, is projected to sequentially moderate in Q4 of this year due to good kharif harvest, ample buffer stocks of cereals and a likely good crop in the ensuing rabi season.
- Unexpected weather events and worsening of geopolitical conflicts constitute major upside risks to inflation. International crude oil prices have become volatile in October. The recent uptick in food and metal prices, as seen in the Food and Agricultural Organization (FAO) and the World Bank price indices for September, if sustained, can add to the upside risks.

Taking into account these factors, the projections for CPI Inflation are as under:

RBI Inflation Projections	Q2 FY'25	Q3 FY'25	Q4 FY'25	FY'25	Q1 FY26
08.08.2024	4.4%	4.7%	4.3%	4.5%	4.4%
09.10.2024	4.1%↓	4.8%↑	4.2%↓	4.5%↔	4.3%↓

Liquidity and Financial Market Conditions

- System liquidity remained in surplus during August-September and early October, with a pickup in government spending and decline in currency in circulation. Liquidity conditions, however, had turned into deficit for a brief period during the latter half of September with the build-up of government cash balances on account of tax related outflows.
- RBI proactively conducted two-way operations to ensure alignment of inter-bank overnight rate with the policy repo rate.
- Yields on 3-month treasury bills (T-bills) and commercial papers (CPs) issued by non-banking financial companies (NBFCs) eased, while that on certificates of deposit (CDs) firmed up marginally. The 10 year G-Sec yield softened in August-September on global and domestic cues, including policy pivot in the US and in some major economies, improved global investor sentiment, benign domestic inflation and accelerated fiscal consolidation. Transmission to the credit market has been satisfactory.
- ***Going forward, RBI will be nimble and flexible in its liquidity management operations, deploying an appropriate mix of instruments to modulate both frictional and durable liquidity so as to ensure that money market interest rates evolve in an orderly manner.***
- During the current financial year (up to October 8), the exchange rate of the Indian rupee (INR) remained largely range-bound. The INR also continued to be the least volatile among peer EME currencies. This was so even during the high volatility episode, following the unwinding of yen carry trade in early August 2024.

External Sector

- India's current account deficit (CAD) widened to 1.1 per cent of GDP in Q1:2024-25 on account of a higher trade deficit. Buoyancy in services exports and strong remittance receipts are expected to keep CAD within the sustainable level.
- Foreign portfolio investment (FPI) flows have seen a turnaround from net outflows of US$ 4.2 billion in April-May 2024 to net inflows of US$ 19.2 billion during June-October (till October 7, 2024).
- Foreign direct investment (FDI) flows remain strong in 2024-25 as both gross and net FDI inflows improved in April-July 2024.
- While external commercial borrowings moderated, nonresident deposits recorded higher net inflows compared to last year.
- India's foreign exchange reserves have already crossed a new milestone of US$ 700 billion.

- India's external sector remains resilient as key external sector vulnerability indicators continue to improve. ***RBI remains confident of meeting its external financing requirements comfortably.***

Additional Measures

I. Regulations and Payment Systems

- **Responsible Lending Conduct – Levy of Foreclosure Charges/ Pre-payment Penalties on Loans**
- The Reserve Bank has taken several measures over the years to safeguard consumer's interest. As part of these measures, Banks and NBFCs are not permitted to levy foreclosure charges/ pre-payment penalties on any floating rate term loan sanctioned to individual borrowers for purposes, other than business. It is now **proposed to broaden the scope of these guidelines to include loans to Micro and Small Enterprises (MSEs)**. A draft circular in this regard shall be issued for public consultation.
- **Capital Raising Avenues for Primary (Urban) Co-operative Banks**
- The Reserve Bank has undertaken several initiatives in recent years to strengthen the Urban Co-operative Banking (UCB) Sector. Such initiatives include issuance of regulatory guidelines in 2022 for issue and regulation of share capital and securities by UCBs. To provide more flexibility and avenues for UCBs to raise capital, **a Discussion Paper on Capital Raising Avenues for UCBs will be issued for feedback and suggestions from stakeholders**.
- **Creation of Reserve Bank Climate Risk Information System (RB-CRIS)**
- Climate change is emerging as a significant risk to the financial system world over. This makes it necessary for regulated entities to undertake robust climate risk assessment, which is sometimes hindered by gaps in high quality climate related data. To bridge these data gaps, the **Reserve Bank proposes to create a data repository, namely, the Reserve Bank – Climate Risk Information System (RB-CRIS).**
- **UPI - Enhancement of Limits**
- To further encourage wider adoption of UPI and make it more inclusive, **it has been decided to (i) enhance the per-transaction limit in UPI123Pay from ₹5,000 to ₹10,000; and (ii) increase the UPI Lite wallet limit from ₹2,000 to ₹5,000 and per-transaction limit from ₹500 to ₹1,000.**
- **Introduction of Beneficiary Account Name Look-up Facility**

At present, UPI and Immediate Payment Service (IMPS) provide a facility for the remitter of funds to verify the name of the receiver (beneficiary) before executing a payment transaction. It is now **proposed to introduce such a facility for the Real Time Gross Settlement System (RTGS) and the National Electronic Funds Transfer (NEFT) system**. This facility will enable the remitter to verify the name of the account holder before effecting funds transfer to him/her through RTGS or NEFT. This will also reduce the possibility of wrong credits and frauds.

4. Key Highlights: NABARD All India Rural Financial Inclusion Survey (NAFIS) 2021-22

NABARD released the results of its second All India Rural Financial Inclusion Survey (NAFIS) 2021-22, providing primary survey-based information relating to 1 lakh rural households on several economic and financial indicators for the post-COVID period.
The results of NAFIS 2021-22 could help in assessing how different economic and financial indicators of development in rural areas have changed since 2016-17.

Key highlights of NAFIS 2021-22

- Average monthly income of households increased by 57.6% during the five-year period from Rs. 8,059/- in 2016-17 to Rs.12,698/- in 2021-22, suggesting a nominal compound annual growth rate (CAGR) of 9.5 %. Annual average nominal GDP growth during the same period (on financial year basis) was 9%.
- **Average monthly expenditure of households** increased during the five-year period from Rs.6,646/- in 2016-17 to Rs.11,262/- in 2021-22.
- The share of food in the consumption basket of households declined from 51% in 2016-17 to 47% in 2021-22.
- **Annual average financial savings made by households** increased to Rs. 13,209/- in 2021-22 from Rs.9,104/- in 2016-17. 66.0% of households reported to have saved in 2021-22, as against 50.6% in 2016-17.
- The **proportion of households who reported to have outstanding debt** moved up from 47.4% in 2016-17 to 52.0 % in 2021-22.
- The **proportion of agricultural households that took loans from institutional sources** only increased from 60.5% in 2016-17 to 75.5% in 2021-22 (the corresponding increase for non-agri households was from 56.7% in 2016-17 to 72.7% in 2021-22).
- The **proportion of Agri-households that took any loan from non-institutional sources** only decreased from 30.3% in 2016-17 to 23.4% in 2021-22.
- **Kisan Credit Card (KCC)** as a prominent instrument of financial inclusion in the rural farm sector has been found to be very effective. Its coverage has increased significantly during the last five years.
- The **proportion of households with at least one member having any type of insurance** increased from 25.5% in 2016-17 to 80.3% in 2021-22.
- The **proportion of households with at least one member receiving any type of pension (old age, family, retirement, disability, etc.,)** increased from 18.9% in 2016-17 to 23.5% in 2021-22
- The **proportion of respondents indicating good financial literacy** increased by 17 percentage points, i.e., from 33.9% in 2016-17 to 51.3% in 2021-22. The **proportion of respondents with sound financial behaviour** (such as how they manage money, take financial decisions, monitor expenses and maintain timeliness in paying bills) increased from 56.4% in 2016-17 to 72.8% in 2021-22.
- **Average size of landholding** declined from 1.08 hectare in 2016-17 to 0.74 hectare in 2021-22.

5. CLASSROOM: STIMULUS AND ITS ROLE IN ECONOMY

Concept:

A stimulus is an action taken up towards reviving economy and take it out of a recession or depression. The concept is based on Keynesian concept which calls for boosting aggregate demand in the economy by way of increased employment, consumer spending and investment in the economy.

Type of Stimulus

- **Monetary Stimulus**

  Monetary stimulus works by adding new money to an economy or by making it easier to access that capital. This works in one of two ways. The first way is to make lending cheaper and easier by reducing interest rates. The second way is to simply inject additional liquidity into the economy. This makes money cheaper, encouraging businesses to invest more on production activities. It is typically used during times of economic downturn or recession to boost spending, investment and economic activity.

- **Fiscal Stimulus**

  Fiscal stimulus involves altering government expenditure and taxation in order to boost the economy. The government implements fiscal stimulus through direct expenditure, reduction in taxation, increased employment, growth and overall economic activities.

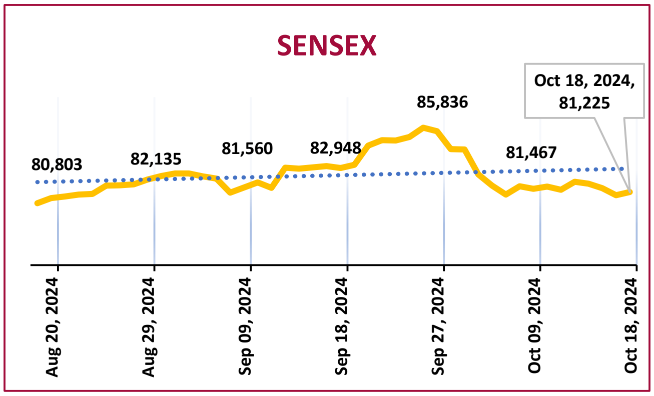
History of Stimulus

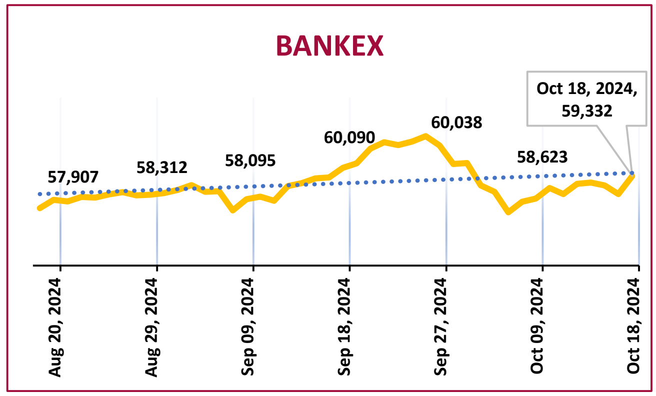
- **Great Recession of 2008:** In 2007, as a result of financial deregulation and banks engaging in hedge fund trading, the U.S. Economy began to falter. Banks stopped lending to each other when the values of the derivatives crumbled, leading to the Financial crisis known as the Great Recession. In response, President of USA signed the Economic Stimulus Act in 2008 to alleviate the effects and stave off the recession. The act consisted of $152 billion that included a $600 tax rebate to low- and middle-class households.
- As the COVID-19 pandemic brought the world economy into a downturn, governments around the world are looking back at the lessons learned from the global experiences from the historical crisis to reduce the severity of the current one. Many countries have used fiscal stimulus programs to attempt to assist the economic state of their countries during crises.

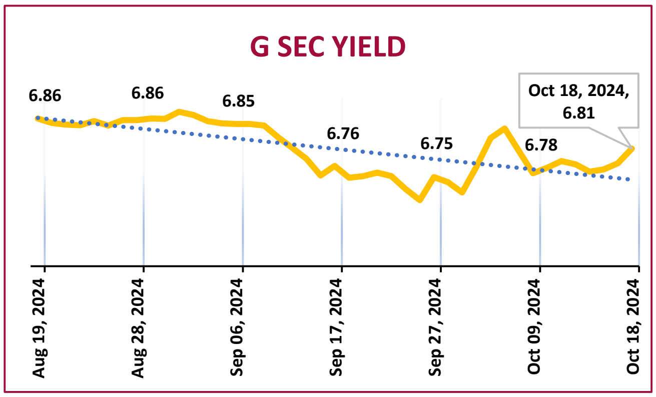
It is believed that stimulus provides boost to economic activity leading to surge the disposable income which will lead consumers to spend more on essential goods and services, thereby stimulating demand. It may also arise inflationary tendencies in the economy as an immediate impact.

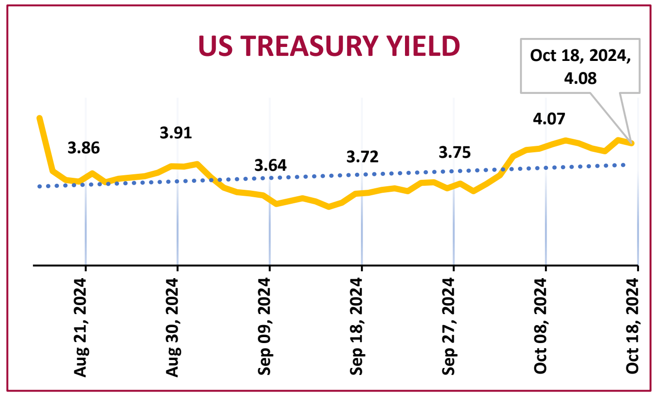
All in all, stimulus checks can be seen as an effective short-term strategy to revive consumer confidence and economic activities overall.

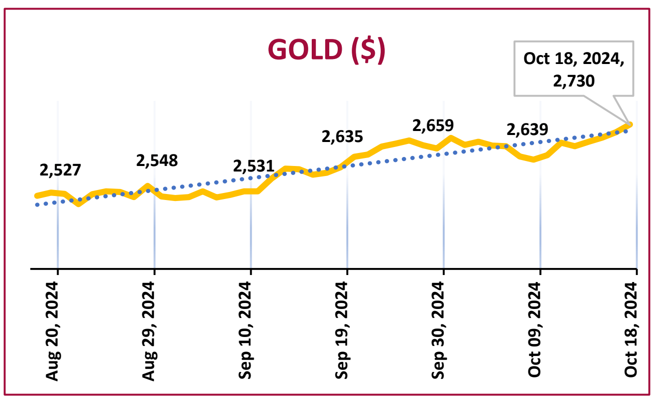
6. DAILY ECONOMIC INDICATORS

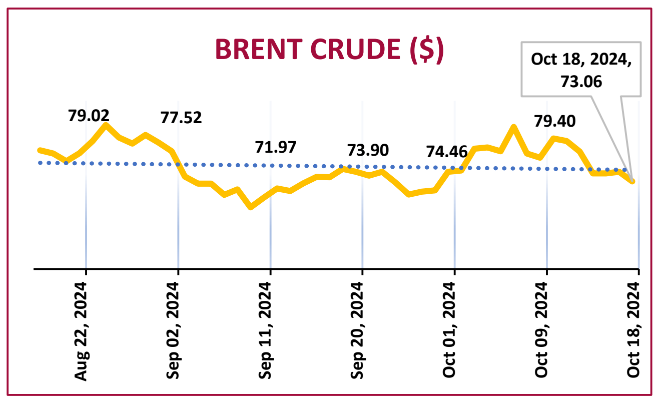


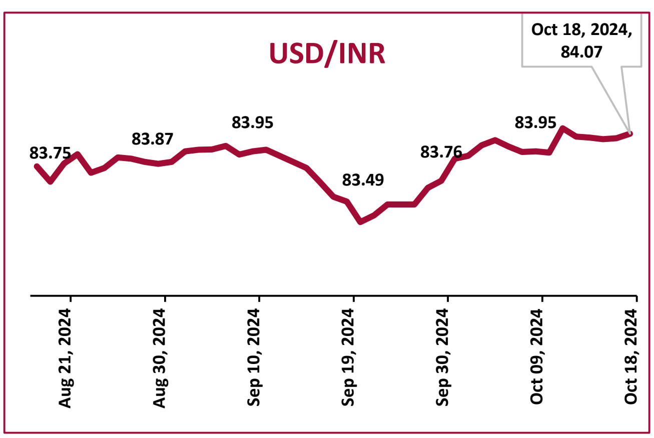


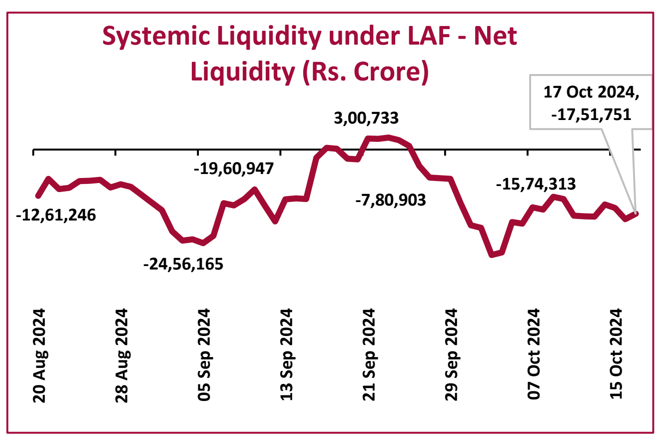








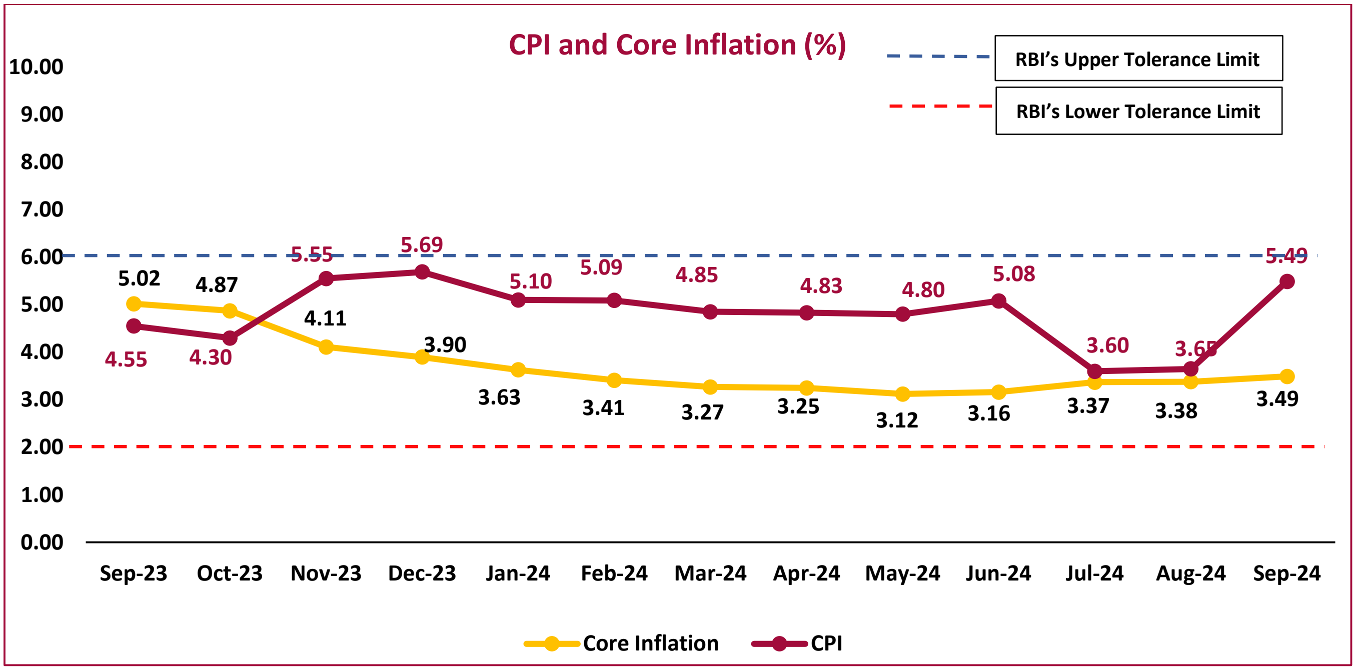


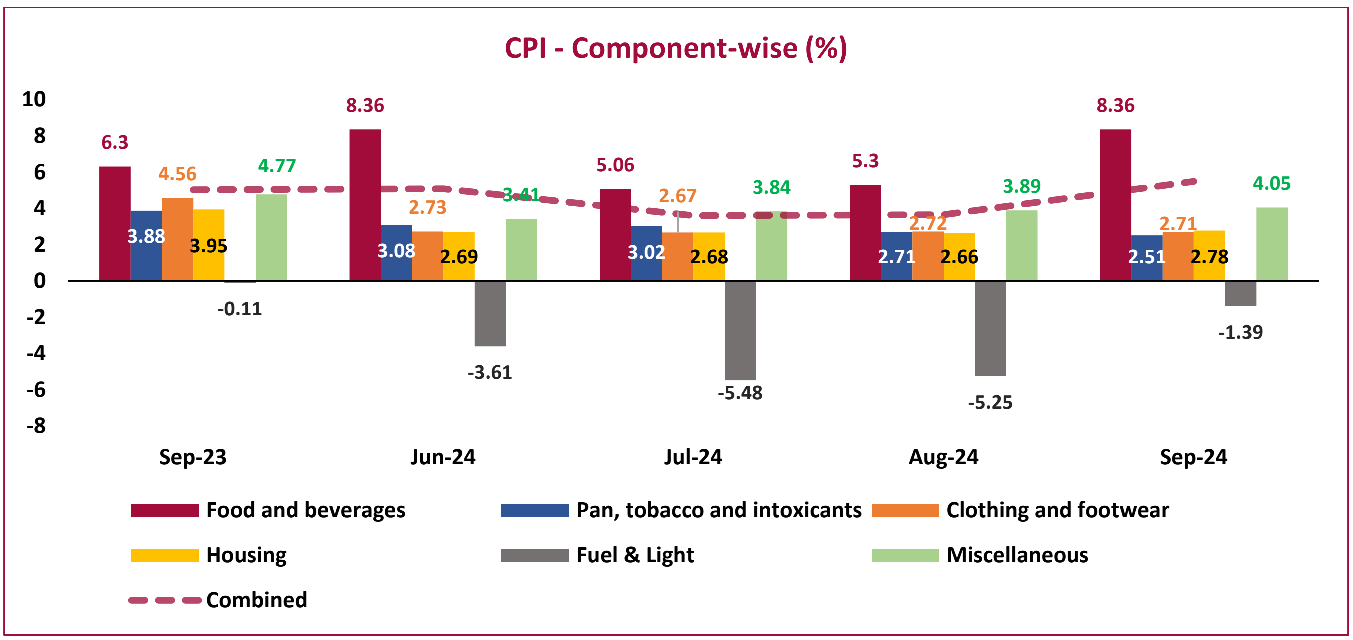


7. MONTHLY & FORTNIGHTLY ECONOMIC INDICATORS

CONSUMER PRICE INDEX (CPI)

Retail Inflation rises to 5.49% in September 2024

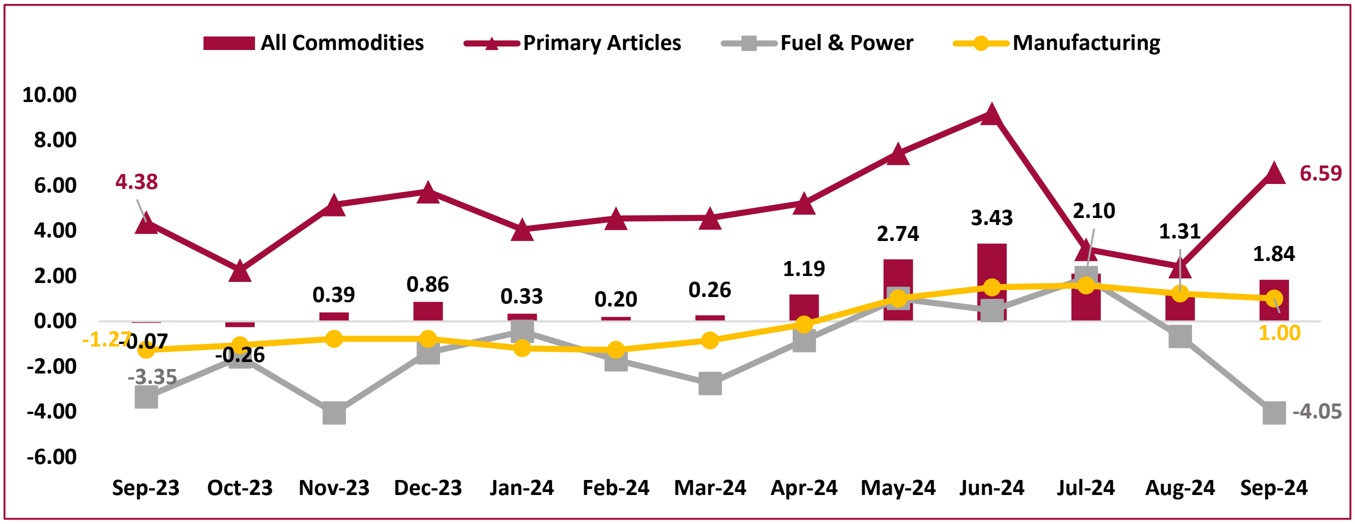




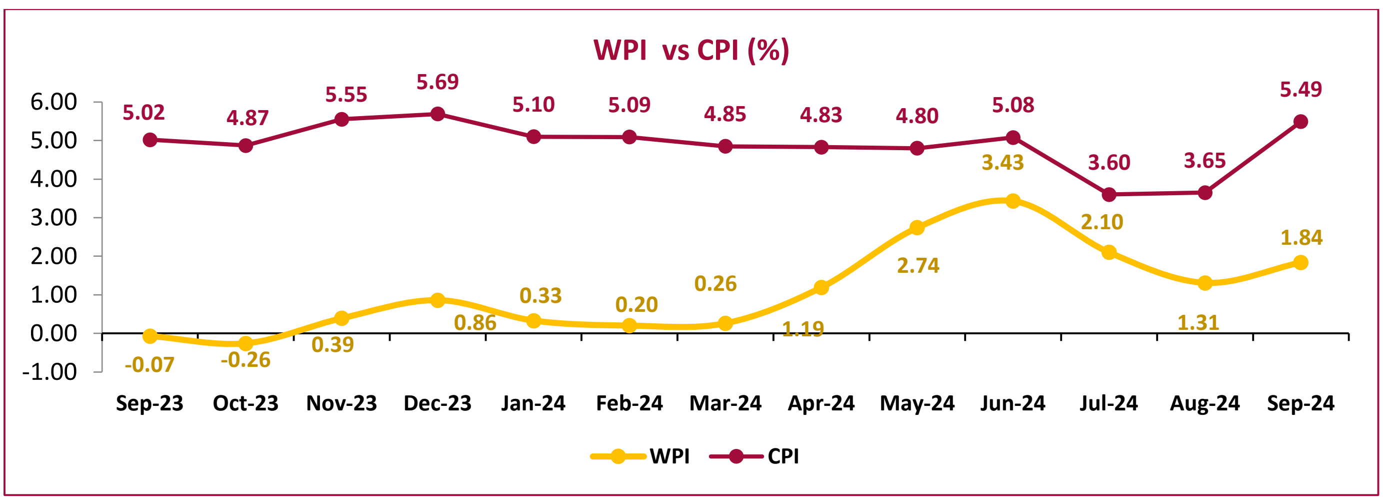
Retail inflation measured by CPI jumped to 5.49% in September 2024, compared to 3.65% in the previous month. Urban inflation increased to 5.05 per cent from 3.14 per cent in the previous month and rural inflation increased from 4.16 per cent to 5.87 per cent. The wide variation in Rural Inflation indicate increased demand in the area.

WHOLESALE PRICE INDEX (WPI)

WPI inflation inches up to 1.84% in September



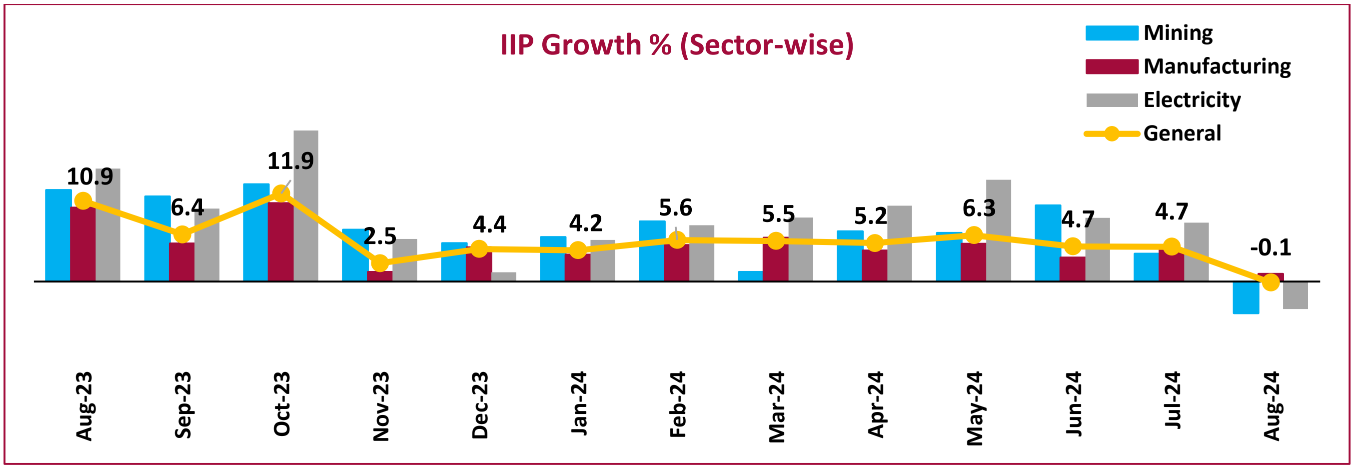
WPI Inflation (%)	Primary Articles		Fuel & Power		Manufactured Products		Food Articles *(Part of Primary Articles)*		All Commodities	
Weights	22.62%		13.15%		64.23%		15.26%		100%	
	2023	**2024**	**2023**	**2024**	**2023**	**2024**	**2023**	**2024**	**2023**	**2024**
July	8.24	**3.18**	-12.73	**1.93**	-2.58	**1.58**	15.09	**3.50**	-1.23	**2.10**
August	6.73	**2.42**	-6.34	**-0.67**	-2.30	**1.22**	11.43	**3.11**	-0.46	**1.31**
September	4.38	**6.59**	-3.35	**-4.05**	-1.27	**1.00**	3.79	**11.53**	-0.07	**1.84**



The wholesale inflation measured by WPI accelerated to 1.84 per cent in September 2024 on a YoY. Inflation rate in food articles (part of primary articles) shot up to 11.53 per cent in September 2024 vis-à-vis 3.79 per cent September 2023 and 3.11 per cent in August 2024. Fuel and power prices declined by 4.05 per cent in September 2024 as against a deflation of 0.67 per cent in August 2024.

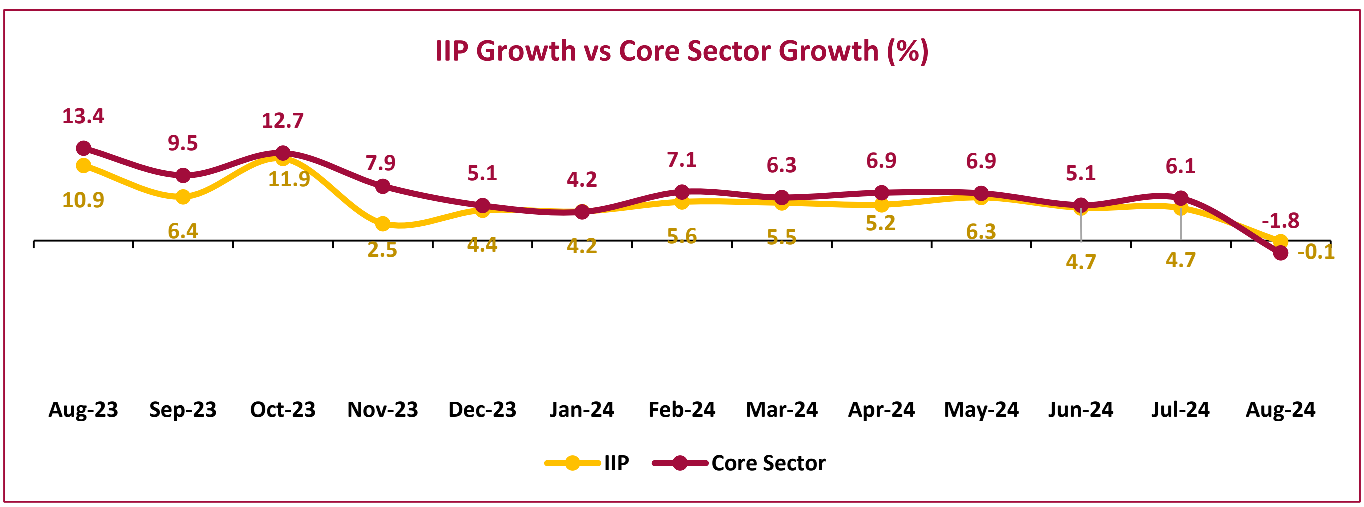
INDEX OF INDUSTRIAL PRODUCTION (IIP) & CORE SECTORS

IIP growth contracted by 0.1% in August 2024



IIP Growth % (Usage-wise)

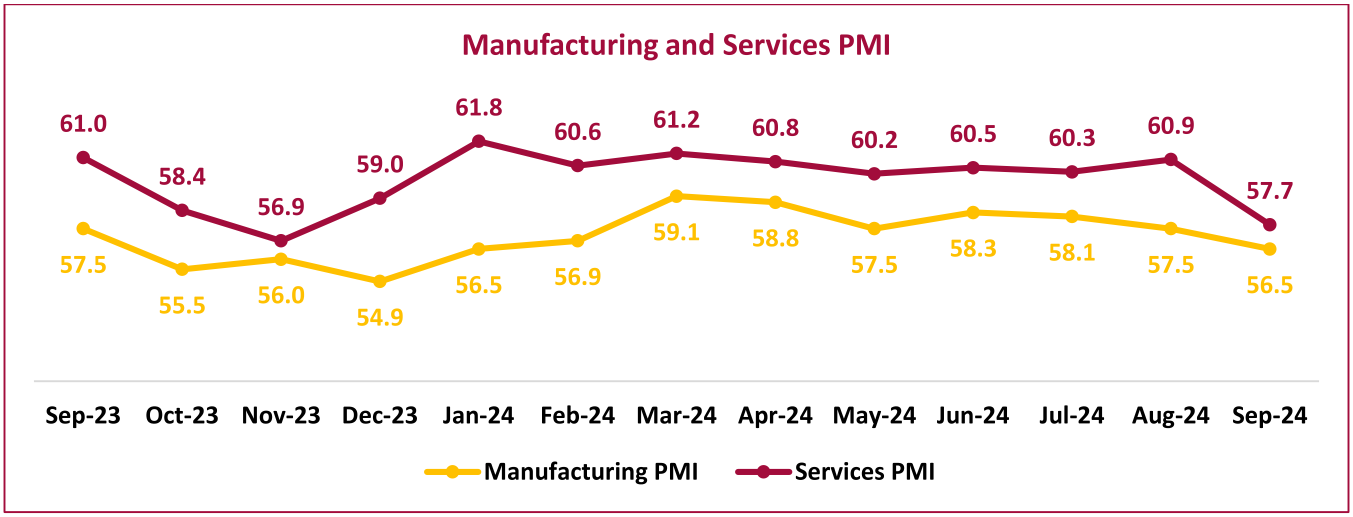
Component	Weight	Aug'23	July'24	Aug'24	Apr-Aug'23	Apr-Aug'24
Primary Goods	34.05%	12.4	5.9	-2.6	6.1	4.8
Capital Goods	8.22%	13.1	11.8	0.7	6.7	4.3
Intermediate Goods	17.22%	7.4	6.4	3.0	4.2	3.9
Infra/Construction Goods	12.34%	15.7	4.6	1.9	13.6	5.9
Consumer Durables	12.84%	6.0	8.3	5.2	-1.2	9.0
Consumer Non- Durables	15.33%	9.9	-4.3	-4.5	7.7	-2.0



IIP falls into negative zone with 0.1% de-growth observed in Aug'24 vis-à-vis 4.7% growth observed in July'24. In Aug'23, India's industrial output had grown by 10.9%. IIP contracted for the first time in August'24 since October'22. In Sector wise performance, only manufacturing sector recorded expansion, expanding by 1%. Mining and electricity sector contracted by 4.3% and 3.7% respectively. Capital goods faced the sharpest decline from 11.8% to 0.7% in August'24.

PURCHASING MANAGERS' INDEX (PMI)

Manufacturing PMI falls to 56.5 in September 2024

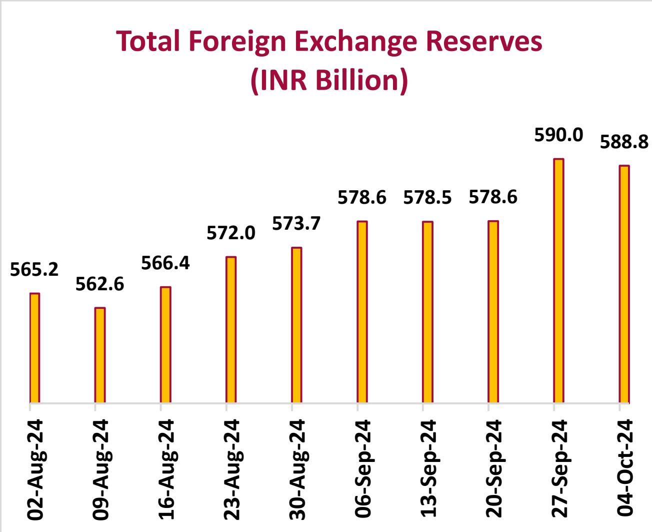


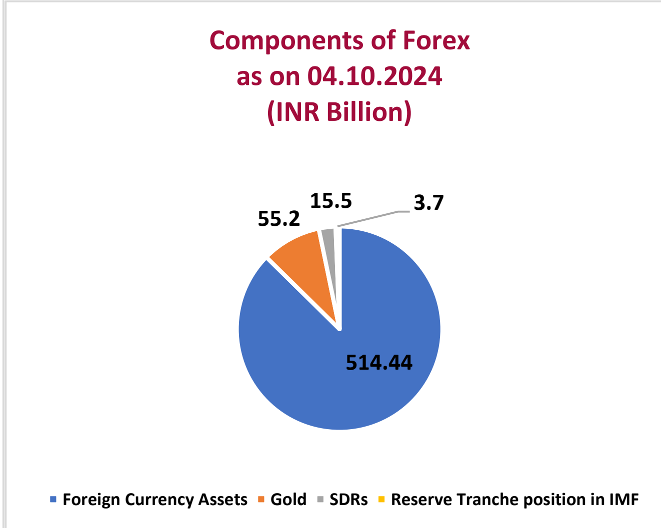
The HSBC India Manufacturing PMI fell to 56.5% in Sep'24 from 57.5 recorded in Aug'24. This marked the softest expansion in factory activity since January as both output and new orders grew at a slower pace. PMI services fell from 60.9 in Aug'24 to 57.7 in Sep'24, its lowest level since Dec'23. India's combined output in the manufacturing and services sector experienced a decline in Sep'24 to 58.3 from 60.7 in Aug'24.

PERFORMANCE OF OTHER LEADING INDICATORS

	Sep-23	Oct-23	Nov-23	Dec-23	Jan-23	Feb-23	Mar-23	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24
Coal production (YoY%)	15.9	18.5	11.0	10.7	10.3	11.9	8.2	7.5	10.2	14.6	6.4	-7.6	2.5
Electricity generation (YoY%)	8.8	21.9	5.8	0.4	7.9	6.4	8.0	10.0	14.6	9.7	6.8	-3.8	-1.4
Consumption of petroleum products (YoY%)	7.9	4.8	-2.2	3.7	7.3	8.2	1.7	7.8	1.9	2.3	10.6	-2.3	-1.6
Railways: freight traffic (YoY%)	6.7	8.5	4.3	6.4	6.4	10.1	8.4	1.5	3.7	10.1	4.6	-5.0	
GST collection (YoY%)	10.2	13.4	15.1	10.3	11.7	12.5	11.5	12.4	10.0	7.6	10.3	10.0	6.5
Cement production (million tonnes)	31.0	33.9	29.1	35.9	35.9	36.4	41.2	36.0	35.7	37.2	31.4	31.9	
Steel consumption (million tonnes)	11.1	11.6	11.3	12.1	11.6	11.7	12.4	11.3	12.0	12.2	12.2	12.6	12.3
Fertiliser sales (YoY%)	5.7	10.5	-5.5	-3.1	-9.1	-13.5	0.6	-3.7	10.5	7.3	-1.4	-9.4	-7.7
Two-wheelers sales (Nos. in Lakhs)	20.5	21.9	19.0	15.0	17.6	18.5	18.1	20.7	19.3	19.0	17.7	20.5	24.0
Tractors sales (Nos. in Thousand)	105.5	125.4	79.0	52.1	62.8	51.8	74.5	84.4	91.8	110.3	68.0	58.7	108.0

FOREIGN EXCHANGE RESERVES



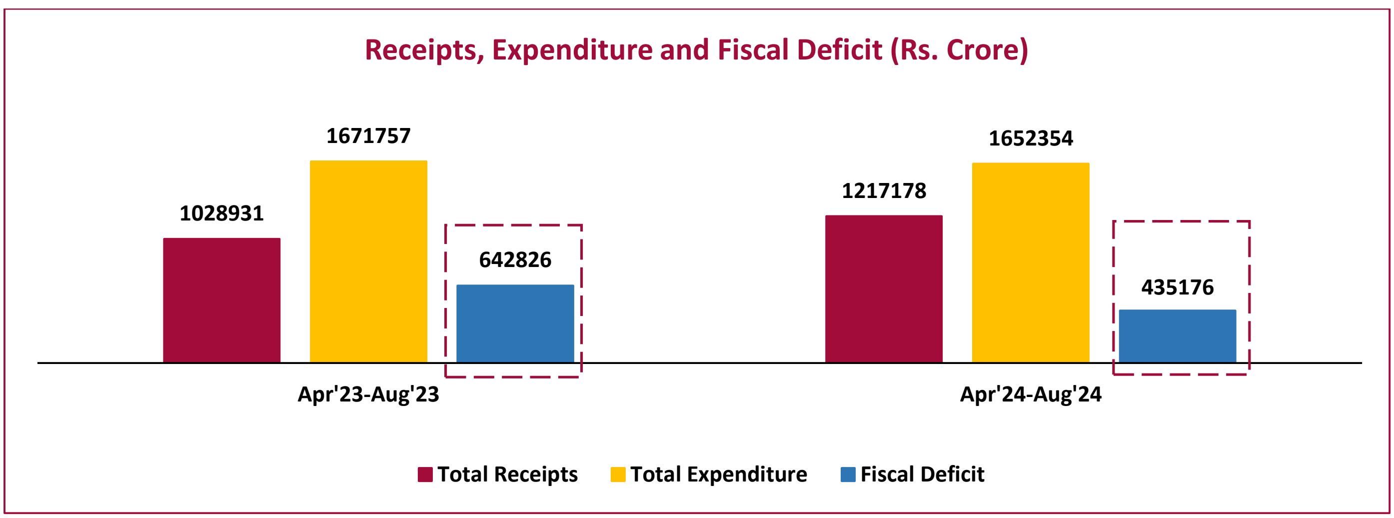


India’s foreign exchange reserves decreased by USD 1.2 billion in the week ended 4th October 2024 to settle at INR 588.8 billion.

E-WAY BILL GENERATION (No. in cr.)

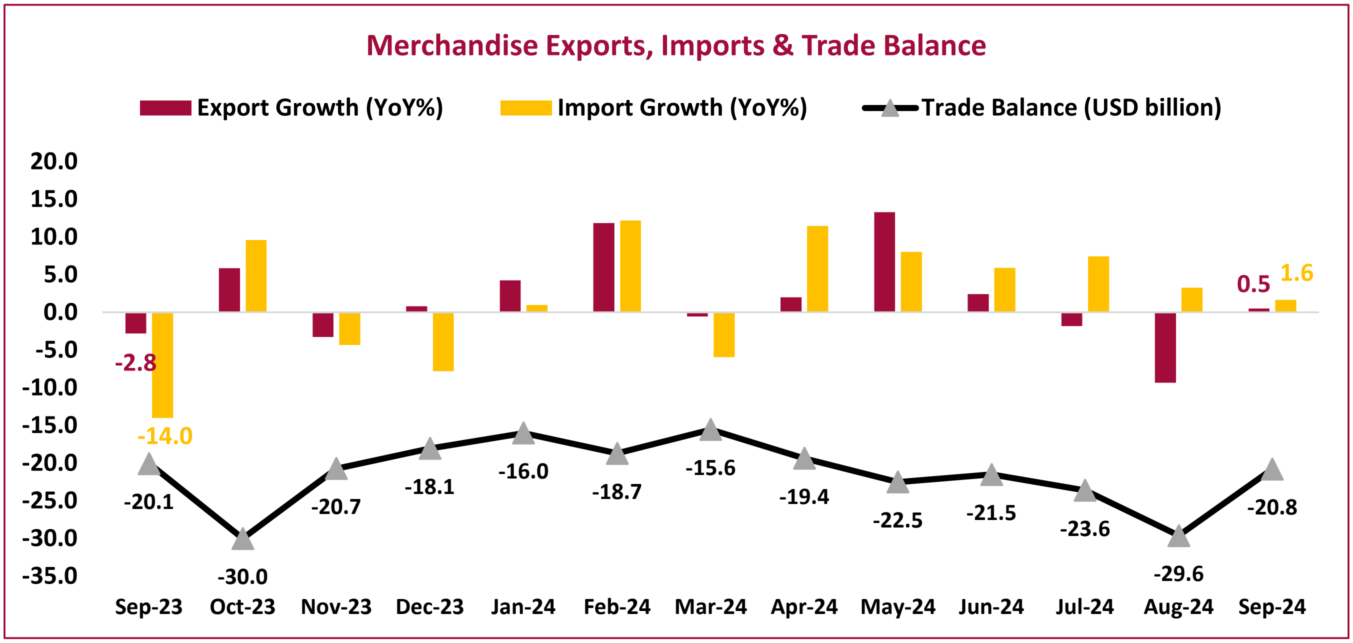
E-way bill Generation (Nos. in Cr.)	Sep-23	Oct -23	Nov -23	Dec-23	Jan -23	Feb-23	Mar -23	Apr-23	May -24	Jun -24	Jul-24	Aug -24	Sep-24
	9.2	10.0	8.8	9.5	9.6	9.7	10.4	9.7	10.3	10.0	10.5	10.5	10.9

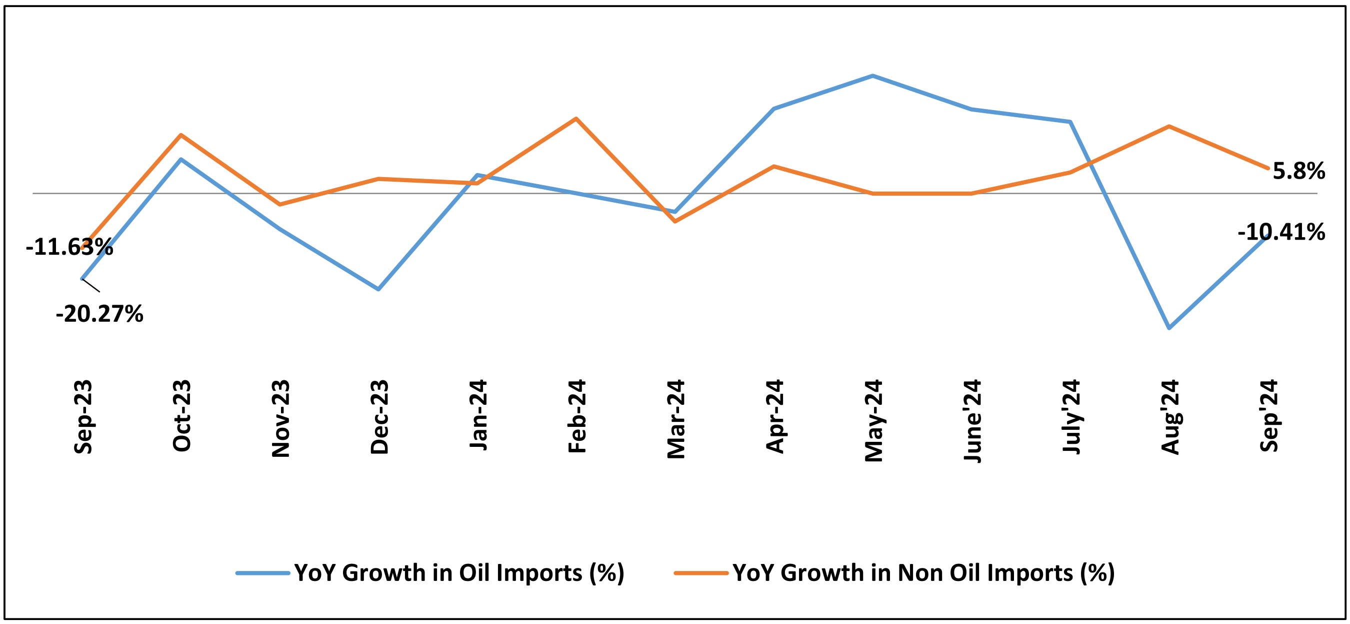
FISCAL DEFICIT



India's fiscal deficit for the first five months of this fiscal year through August stood at 4.35 lakh crore rupees, or 27% of annual estimates, government data showed. The fiscal deficit narrowed from 36% reported in the comparable year-earlier period.

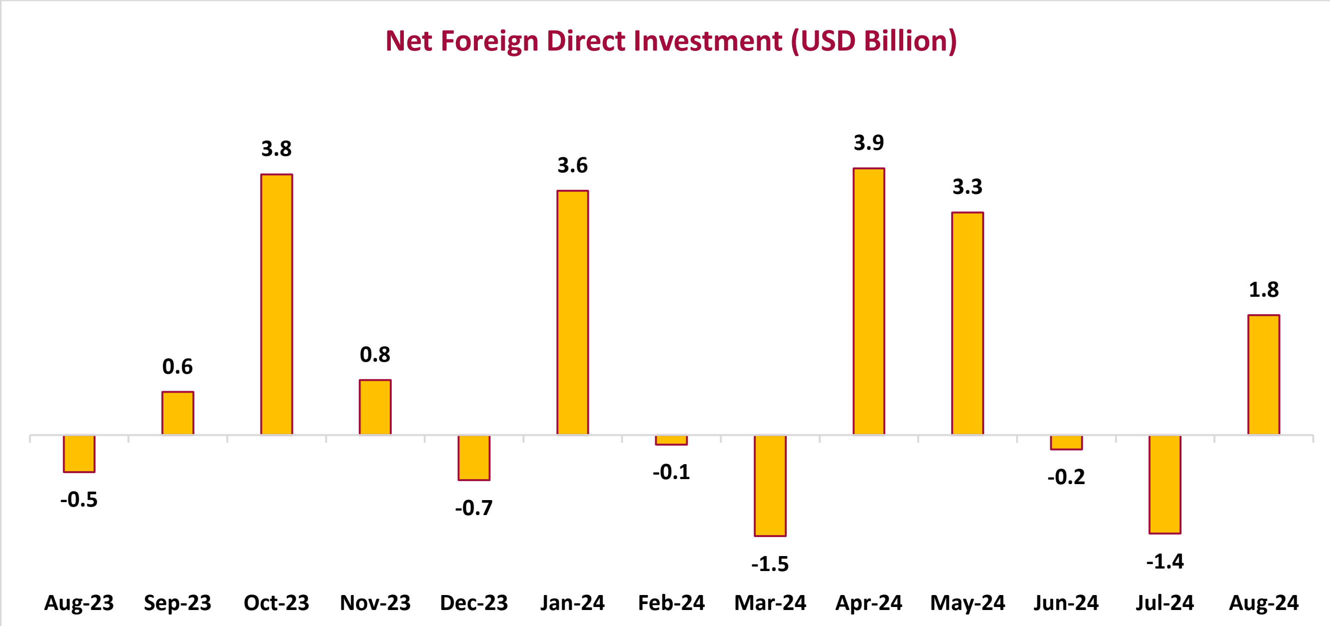
FOREIGN TRADE



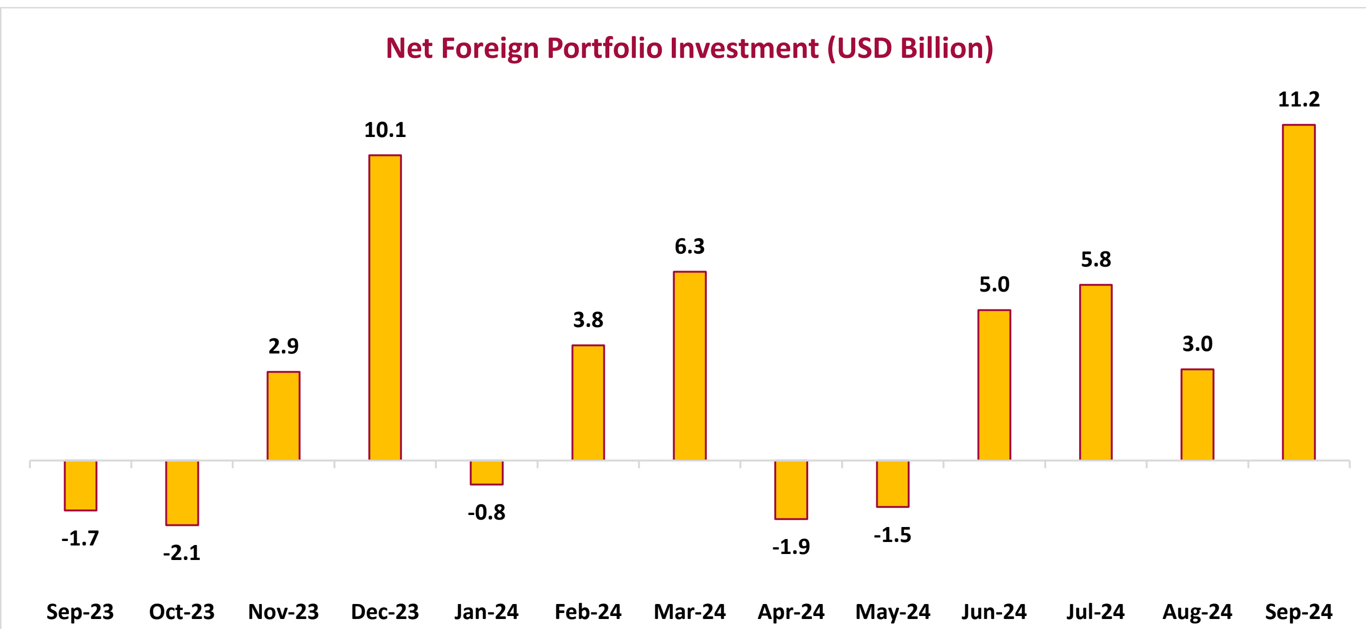


India’s merchandise trade deficit narrowed to $20.78 billion in Sept’24 from to $29.65 billion in Aug’24, however it has increased on annual basis from $20.08 billion in Sept’23. Merchandise exports saw a marginal rise of 0.49% (YoY) to $34.58 billion in Sept’24 from $34.41 billion in Sept’23. Meanwhile merchandise imports rose to $55.36 billion from $54.49 billion, up by 1.60% YoY in Sept’24. Engineering Goods, Organic & Inorganic Chemicals, Plastics & Linoleum, Pharmaceuticals, and Ready-Made Garments (RMG) were the key export drivers in Sep’24. The Cumulative merchandise exports in the first half of FY25 (Apr-Sept’24) stood at $213.22 billion, up 1.02% from $211.08 billion in Apr-Sept’23.

FOREIGN INVESTMENTS



Net foreign direct investment (FDI) in India has shown significant growth, more than doubling from US$ 3.26 billion to US$ 6.62 billion between April and August 2024.



Net FPI inflows into the country also witnessed a sharp rise in Sep 2024. September 2024 was a particularly strong month for FPI inflows, with investments worth ₹57,724 crore—marking the highest monthly inflow since December 2023, when FPIs invested ₹66,135 crore into Indian equities. This surge can be largely attributed to the Fed's aggressive interest rate cut, which made Indian assets more attractive.

BANK DEPOSIT AND CREDIT

Parameter (Rs. Lakh Crore)	*06.10.23*	*22.03.2024*	*20.09.24*	*04.10.24*	*YoY (%)*	*YTD (%)*	*Fortnightly (%)*
Deposits	196.08	204.75	215.06	219.20	11.79%	7.06%	1.93%
Advances	153.38	164.32	171.25	172.97	12.77%	5.26%	1.00%
Business	349.46	369.07	386.31	392.17	12.22%	6.26%	1.52%

SECTORAL DEPLOYMENT OF CREDIT- INDUSTRY WISE

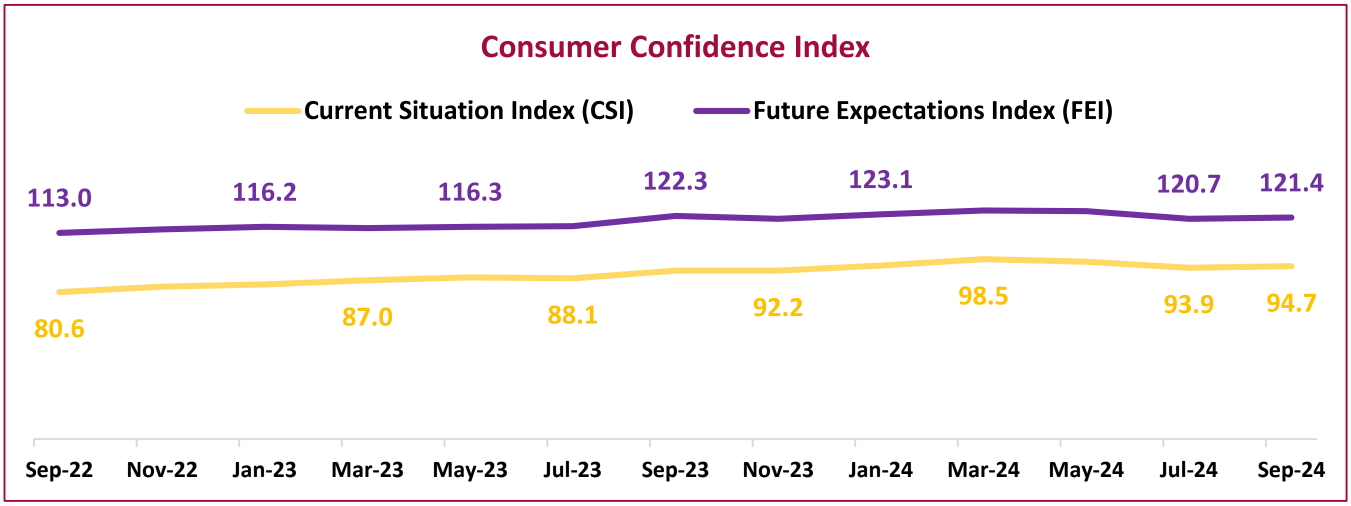
Parameter (Rs. Lakh Crore)	Aug-23	May-24	Jun-24	Jul-24	Aug-24
Total Non-food	**149.0**	**167.4**	**168.5**	**167.9**	**169.2**
Agriculture and allied activities	**18.4**	**21.4**	**21.6**	**21.6**	**21.6**
Industry	**34.2**	**37.0**	**37.3**	**37.2**	**37.6**
Of which					
Micro & small	6.6	7.4	7.3	7.3	7.4
Medium	2.7	3.1	3.2	3.2	3.2
Large	25.0	26.5	26.8	26.7	26.9
Personal loans	**48.8**	**54.6**	**54.9**	**55.3**	**55.6**
Of which					
Housing (Including priority sector housing)	25.1	27.9	28.0	28.1	28.3
Education	1.1	1.2	1.2	1.2	1.3
Vehicle loans	5.4	6.0	6.0	6.2	6.1
Services	**40.8**	**46.8**	**47.1**	**46.0**	**46.4**
Of which					
Computer software	0.2	0.3	0.3	0.3	0.3
Tourism, hotels & restaurants	0.7	0.8	0.8	0.8	0.8
Shipping	0.1	0.1	0.1	0.1	0.1
Aviation	0.4	0.5	0.5	0.4	0.4
Retail trade	4.4	5.0	5.0	5.0	5.0
Commercial real estate	4.4	4.8	4.8	4.8	4.9

The growth in non-food bank credit in August 2024 remained at 15.0 per cent on a year-on-year (y-o-y) basis, the same level as recorded a year ago. Credit to agriculture and allied activities continued to be robust with the growth of 17.7 per cent (y-o-y) in August 2024, compared with 16.5 per cent during August 2023. Credit growth to industry strengthened at 9.8 per cent (y-o-y) in August 2024 compared with 5.3 per cent in August 2023. Among major industries, credit to 'chemicals and chemical products', 'food processing', 'petroleum, coal products and nuclear fuels' and 'infrastructure' recorded a higher growth in August 2024 as compared to their respective growth rates a year ago, while credit growth to 'basic metal and metal product', and 'textiles' moderated.

8. BI-MONTHLY ECONOMIC INDICATORS

RBI CONSUMER CONFIDENCE INDEX

Consumer Confidence rises to 94.7 in September 2024

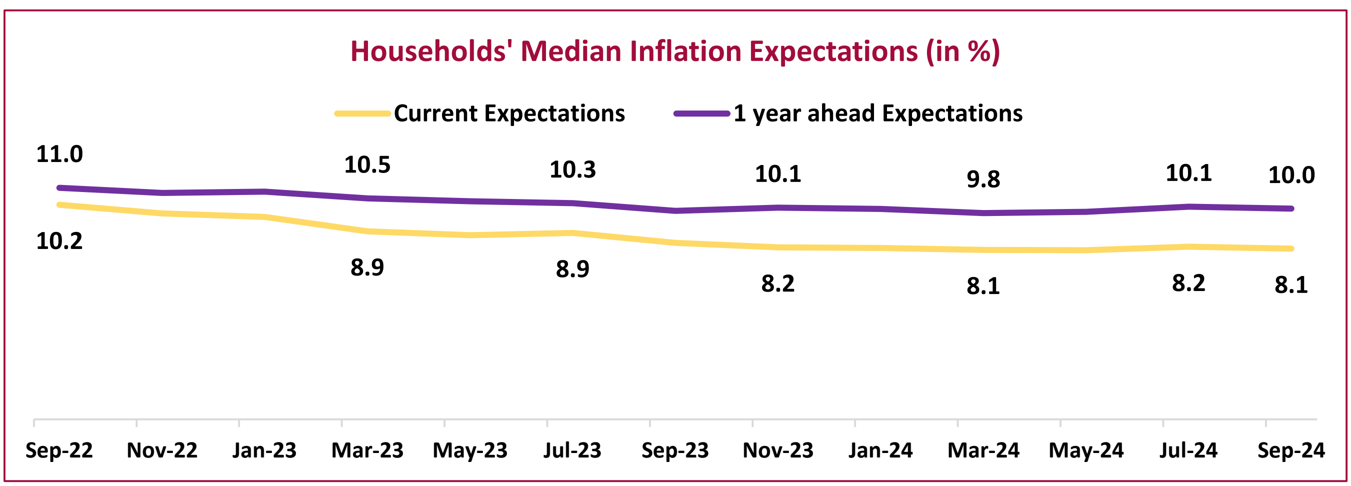


Note: CSI and FEI are compiled on the basis of net responses on the economic situation, income, spending, employment and the price level for the current period (as compared with one year ago) and a year ahead, respectively. CSI and FEI = 100 + Average of Net Responses of the above parameters.

Consumer confidence for the current period paused on its uptrend as sentiments on all parameters, except spending, recorded some moderations in the latest survey round. For the year ahead, consumer confidence remained at elevated level in the optimistic terrain though it declined due to relatively tempered sentiments on the general economic situation and employment prospects.

RBI INFLATION EXPECTATIONS SURVEY

Inflation expectations remain largely unchanged from the previous survey round

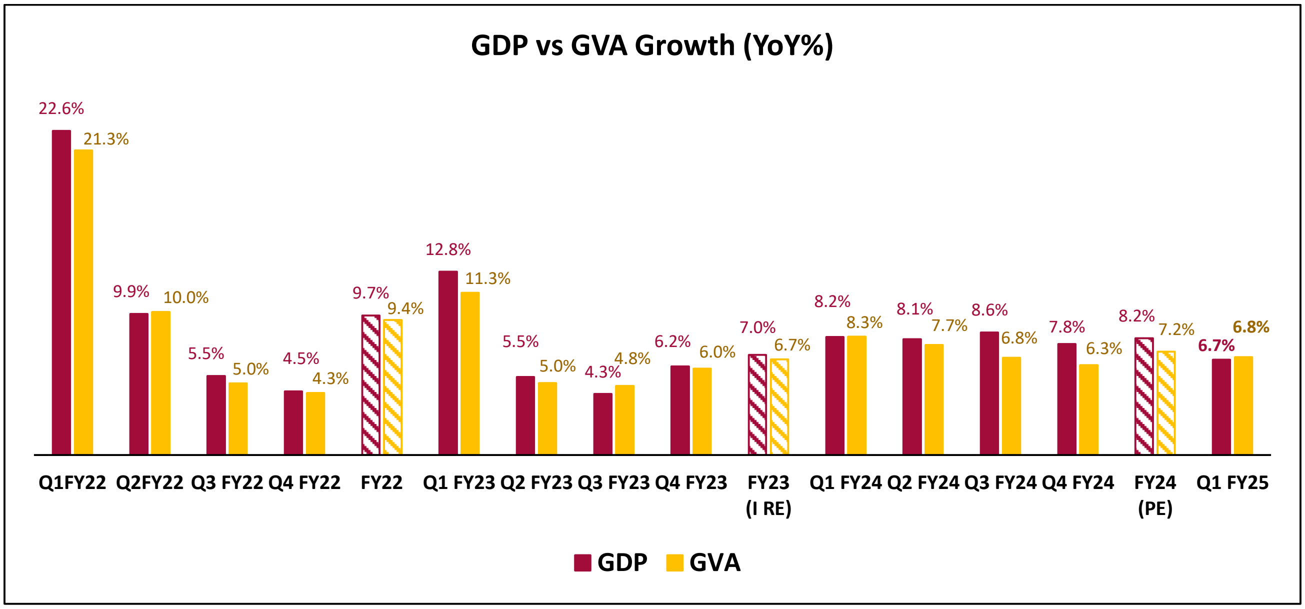


Households' inflation expectations for one year ahead period decreased by 10 bps. However, their perception on current inflation, moderated by 10 bps and stood at 8.1 per cent in the latest survey round.

9. QUARTERLY ECONOMIC INDICATORS

GROSS DOMESTIC PRODUCT (GDP) & GROSS VALUE ADDED (GVA)

India's GDP growth slows down to 6.7% in Q1 FY25

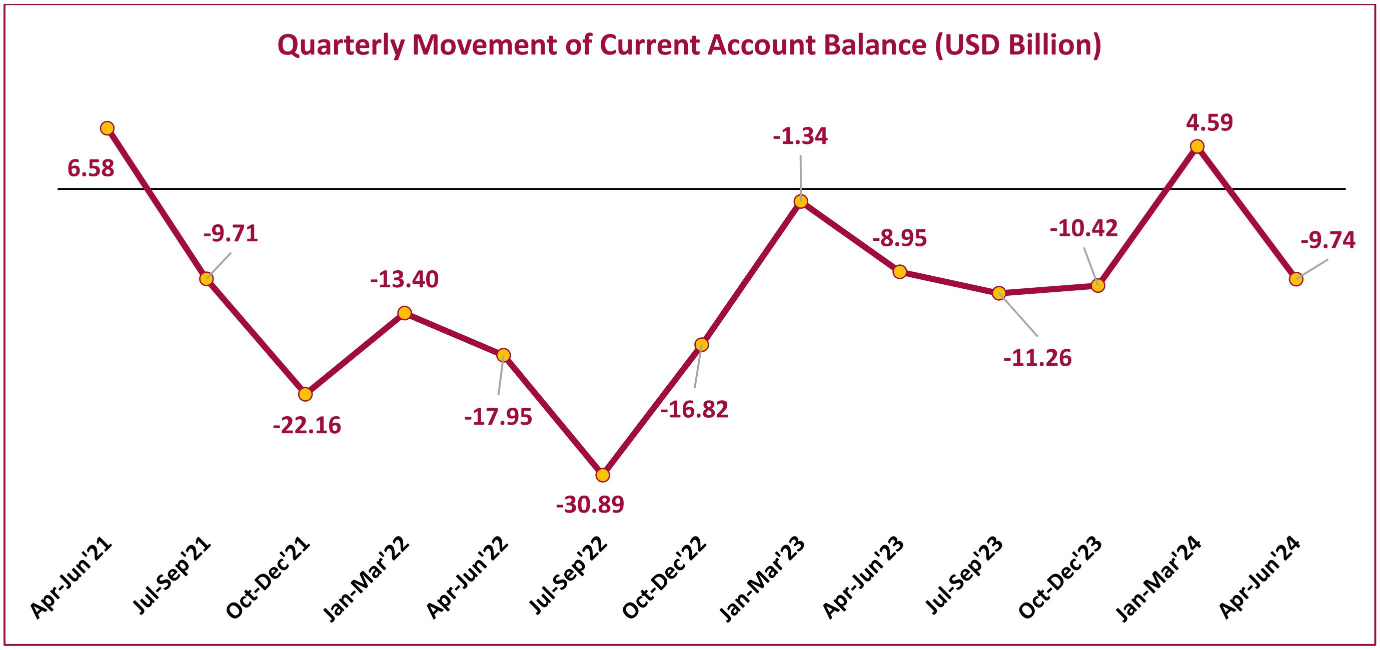


GDP for Q1 FY25 grew by 6.7% as compared to a growth of 7.8% in the previous quarter (Q4 FY24) and a growth of 8.2% in Q1 FY24. Also, GVA in Q1 FY25 grew by 6.8% as compared to a growth of 6.3% in the previous quarter (Q4 FY24) and a growth of 8.3% in Q1 FY24. **The easing of GDP growth in Q1 FY25 was on expected lines, however the magnitude of the moderation was higher** than the expectations and RBI's projection of 7.1 per cent. With the growth of above 6.5 per cent, and remaining the fastest growing major economy, **easing of GDP is not a concern for the economy**. The data also emphasizes the country's **capacity to maintain its economic momentum, despite high base effects** from previous years. The significant **gap between GVA and GDP**, which was witnessed in the last three quarters, **shrank in Q1 FY25.**

INDIA'S GDP OUTLOOK BY VARIOUS AGENCIES

Agency	FY25
RBI	7.2%
World Bank	7.0%
IMF	7.0%
ADB	7.2%

CURRENT ACCOUNT BALANCE



The country's current account deficit widened marginally to $ 9.7 billion or 1.1 per cent of GDP in April-June 2024, as against $ 8.9 billion or 1 per cent in the year-ago period.

10. GLOBAL INTEREST RATES

Central Banks	Countries	Latest Interest Rate (%)	Last Change	Next Meeting Date
Bank of Japan	Japan	0.25%	Jul 31, 2024 (15bp)	Oct 31, 2024
European Central Bank	Europe	3.40%	Oct 17, 2024 (-25bp)	Dec 12, 2024
Federal Reserve	U.S.A	5.00%	Sep 18, 2024 (-50bp)	Nov 07, 2024
Bank of England	U.K	5.00%	Aug 01, 2024 (-25bp)	Nov 07, 2024
Peoples Bank of China	China	3.10%	Oct 21, 2024 (-25bp)	-
Reserve Bank of India	India	6.50%	Feb 08, 2023 (25 bps)	Dec 06, 2024

11. INDUSTRY OUTLOOK

SEMI-CONDUCTOR

The semiconductor industry forms the backbone of modern electronics, powering devices ranging from smartphones to advanced computer systems. Made of silicon and other materials, these tiny chips act as the "brains" of electronic devices, processing and storing data.

India’s semiconductor industry is at a critical juncture, poised for tremendous growth in the changing global environment. By 2023, the country’s semiconductor market reached nearly $24 billion and is estimated to grow to $80 billion by 2028, growing at a CAGR of 27.2%, according to the Indian Electronics and Semiconductor Association (IESA). This growth is mainly driven by increasing demand in sectors such as automotive, power utilities, and industrial appliances.

India currently relies heavily on semiconductor imports to meet its domestic needs. In FY 2022-2023, the country imported electronic products including semiconductors, worth more than $28 billion, as reported by the Ministry of Electronics and Information Technology (MeitY), semiconductors are estimated to be about 40% of these imports suggesting a severe trade deficit and a clear opportunity for import substitution.

Recognizing the strategic importance of semiconductors, the Government of India has launched several initiatives to boost the sector. The cornerstone of these efforts is the $10 billion program of manufacturing incentives (PLI) for semiconductor and exhibition products. The objective of this program is to provide financial incentives to companies setting up semiconductor manufacturing facilities in India. In addition, the India Semiconductor Mission (ISM) was launched in 2021 to set long-term strategies for creating a sustainable semiconductor ecosystem. The mission focuses on areas such as talent development, research and innovation, and supply chain resilience.

Many global and domestic players have shown interest in India’s semiconductor ambitions. In June'23, Micron Technology announced plans to invest $825 million in a new testing facility in Gujarat that began construction in September'23 and is expected to be operational by the end of 2024. In March'24, the Union Cabinet approved the establishment of three semiconductor units. Two units will be established in Gujarat and one in Assam. The global semiconductor landscape is undergoing a major shift, with many countries seeking to reduce their dependence on China. India is positioning itself as an attractive destination with its skilled workforce (making up 20% of the world's design engineers), a growing domestic market, and government incentives to use the right. While the country currently lacks advanced chip manufacturing facilities, it has strengths in chip design, with numerous global semiconductor firms operating design centers in cities like Bangalore and Hyderabad.

As India progresses along its semiconductor journey, the focus will likely be on gaining expertise in specific niches rather than immediately competing across the value chain. Areas such as compound semiconductors, ATMP (assembly, testing, marking, and packaging) facilities, and specialized automotive and electronics manufacturing fabs could be places to start.

In conclusion, while the Indian semiconductor industry is still in its infancy, the combination of global supply chain restructuring, government policies, and growing domestic demand offers unique opportunities. The coming years will be crucial in determining whether India can transform its semiconductor ambitions into a thriving, globally competitive industry.

Shubham Singh
Officer (Economics)
Head Office, SMEAD

12. DATA SOURCES

- *Reserve Bank of India (RBI)*
- *Ministry of Statistics and Programme Implementation (MOSPI)*
- *Office of Economic Adviser*
- *Ministry of Commerce and Industry, Department of Commerce, DGFT*
- *S&P Global*
- *Press Information Bureau*
- *GST Council*
- *Websites of major Central Banks*
- *Controller General of Accounts (CGA)*
- *Investing.com*
- *CMIE*
- *NSDL*
- *Press Articles*

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QUOTE OF THE MONTH

"Books are mirrors: you only see in them what you already have inside you."

— Carlos Ruiz Zafon

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