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For any feedback or valuable suggestions: *Reach us at eicsmead@pnb.co.in*

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1. FROM THE DESK OF CHIEF ECONOMIST

Trade Scenario for India - 2024

The global export market was worth $32 trillion in 2022, almost ten times India's GDP. India has only 2 per cent share in world exports while its share in world GDP is 3.5 per cent. India must focus on exports to achieve 10 per cent economic growth. India aims to become a third largest economy with a GDP of $5 trillion by 2027 and aspires to become a $7 trillion economy by 2030. To achieve these goals, India will have to accelerate its exports growth. Let's discuss the latest trends and challenges in global trade scenario and how they are expected to shape India's exports and imports this year.

Red Sea Crisis

Global trade had to face many challenges in 2023 due to geopolitical tensions around the globe. It grew at a pace of 0.2 per cent in 2023 that was the slowest expansion outside global recession in the past 50 years. The global trade is projected to grow by 2.3 per cent in CY'2024, as per World Bank.

There are many challenges that still continue to plague global trade scenario in 2024. The biggest one currently is Red Sea shipping crisis — a result of Houthi rebel attacks on cargo ships and tankers, in retaliation to Israel's attack on Gaza strip. The crisis in the Red Sea poses a great challenge on the global trade front as it is creating disruptions in one of the world's most crucial trade routes.

The Red Sea strait, serves as an essential route for 30 per cent of global container traffic and 12 per cent of global trade worth more than $1 trillion, underlying its importance in the interconnected world of commerce. The attacks on cargo ships by Houthi rebels are causing hundreds of vessels to avoid the Suez Canal. Vessels are being forced to re-route around southern Africa — a lengthy detour that adds 4,000 miles to each journey, vastly increasing transport times and freight costs.

The crisis is upending supply chains. The re-routing of ships around Africa's Cape of Good Hope equates to a roughly 30 per cent increase in transit times, and this implies an approximately 9 per cent reduction in effective global container shipping capacity. This is compounded by the ongoing shipping disruptions caused by blockages in the Panama Canal, which is experiencing one of the region's worst droughts since the 1950s.

As global goods disinflation has been the primary driver of lower inflation around the world, the recent reductions in global shipping capacity due to crisis in Suez Canal and Panama Canal, at the very least, risk interrupting the disinflationary trend. As per J.P. Morgan Research, the disruptions could add 0.3 percentage points to overall core inflation, during the first half of 2024 if the recent jump in container shipping costs persists.

India specifically uses the Suez Canal for trading with the Europe, North America, North Africa and parts of Middle East. The tensions have impacted the flow of Indian goods to these countries. Indian exporters so far have remained resilient to the crisis, with outbound shipments registering 3.1 per cent rise in January'24, but traders remain on the edge as rise in cost has added to the worries and expenses.

Sectors that contribute majorly to exports from India are Mineral Fuels, Oils, and Distillation Products (22%), Pearls, Precious Stones and Metals (8.7%), Machinery, Nuclear Reactors & Boliers (6.1%), Electronic Equipment (5.9%), Organic Chemicals (4.8%), Vehicles (4.7%) and Pharmaceutical Products (4.4%) etc.

14 per cent of Indian exports worth $64 billion could be impacted due to the disruption across a range of sectors including plastic, rice, garments, sesame, oil, coffee, pharmaceuticals, leather, footwear and accessories, and plastic items etc. Demand for India's Basmati, the long-grain aromatic rice, from traditional buyers in the Middle East, the United States and Europe has dropped as it has become costly. Despite the challenges, India experienced growth in exports as India has been able to diversify in its export sector with electronic, engineering goods, pharmaceuticals, showing positive growth.

Overall, the Red Sea Crisis presents challenge for Indian trade although there may be not much immediate impact and rest will depend on long term solution by the government and strategic initiatives taken up by the trade bodies and exporters.

Trade Pacts

In an era of global economic uncertainty and increasing protectionist sentiment, governments are relying more and more on specialized trade strategies to grow and diversify trade and secure a competitive advantage in end markets. FTAs can greatly help domestic manufacturing and boost exports as FTAs provide domestic manufacturers access to wide markets in different countries. Increase in manufacturing and exports also leads to job creation. An FTA can also signal a more open and business-friendly environment in India. This could attract foreign investment, which can create jobs and bring in new technologies and expertise.

Countries ranging from large economies like Europe, and the UK to smaller ones, including Oman and Peru, want to have a free trade agreement with India due to the country's large and rapidly growing market and since India imposes high import duty as compared to many developed nations.

Negotiations are at an advanced stage for three Free Trade Agreements (FTA), including the India-Oman Comprehensive Economic Partnership Agreement, the European Free Trade Association with the four-nation bloc of Iceland, Liechtenstein, Norway, and Switzerland as well as the India-UK Free Trade Agreement.

Way Ahead for India

India is the fastest growing economy in the world with the expected growth of 7.6 per cent for the current financial year. Thus, the economy has the potential to realize its ambition of becoming a global export hub. Government has set a target to take country's goods and services exports to $2 trillion by 2030. The government is working on boosting domestic manufacturing and increasing merchandise exports to $500 billion by 2030 from 10-11 sectors, including automobiles, pharma, textiles, aerospace and defence, medical devices, leather and chemicals.

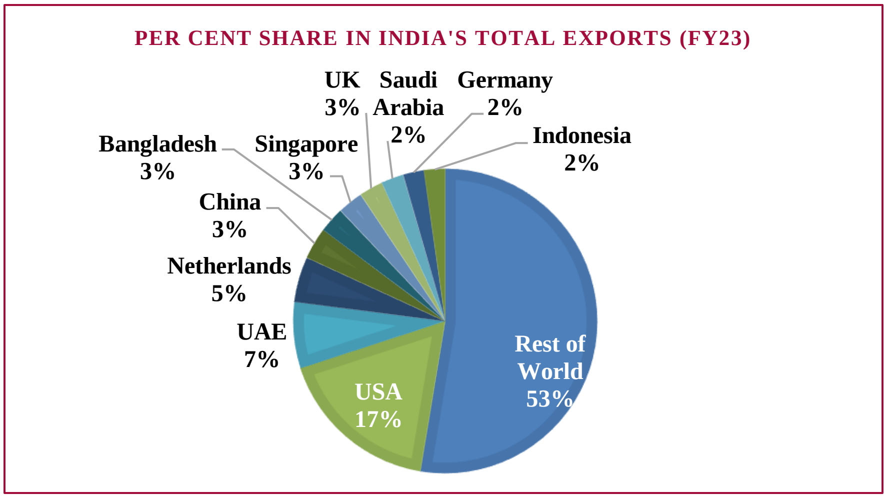
To achieve it, India apart from trade pacts, will also need to focus on other aspects. This would include building resilient infrastructure like affordable power, efficient transport networks and modern industrial parks to lower production costs and improve logistics, streamlining regulations, reducing red tape and simplifying procedures to do business. Government has done commendable work with the Production Linked Incentive scheme. It can extend it to other sectors as well that have high export propensity. India also needs to strategize to move away from just exporting raw materials to exporting finished products with higher profit margins. "Made in India" brand also needs to be promoted with a focus on quality and innovation that can help Indian products stand out in international markets.

By implementing these strategies and addressing existing challenges, India can take significant strides towards becoming a global export hub.

Deepak Singh
(Deputy General Manager)

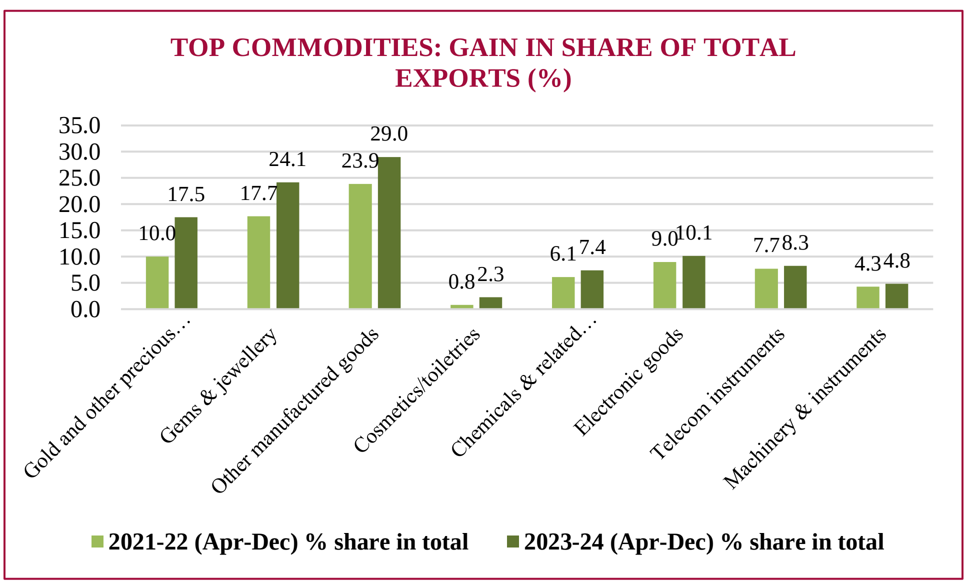
2. INDIA-UAE CEPA: TWO YEARS' JOURNEY

The United Arab Emirates (UAE) is currently India's third- largest trading partner with bilateral trade in 2021-22 valued at USD 84.5 billion. The UAE is also India's second largest export destination with exports valued at approximately USD 32.7 billion for the year 2021-22. Additionally, the UAE is the eighth largest investor in India with an estimated investment of USD 18 billion whereas Indian investments in the UAE are estimated at around USD 85 billion.



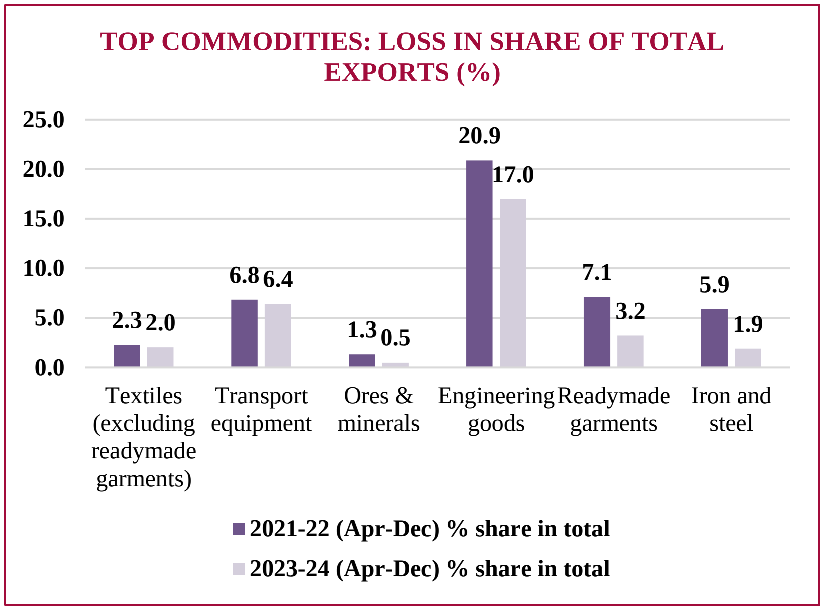
The India-UAE CEPA (Comprehensive Economic Partnership Agreement) was signed between the two nations on 18 February 2022, and officially came into effect on 1 May 2022. The CEPA covers the 11,908 tariff lines dealt in by India and the 7581 tariff lines dealt in by the UAE. The CEPA was envisaged to accelerate cross-border trade; in particular, increase the quantum of bilateral trade in goods to over USD 100 billion within five years of the signing and increase trade in services to more than USD 15 billion. Overall UAE is offering elimination of duties on 97 per cent of its tariff lines corresponding to 99 per cent of imports from India. 90 per cent of our total exports to the UAE in value terms would become duty free immediately upon entry into force of the CEPA.

Since signing of the agreement, India's overall trade with the UAE has increased from USD 72.9 billion (Apr 2021-Mar 2022) to USD 84.5 billion (Apr 2022-Mar 2023) registering a year-on-year increase of 16 per cent During the CEPA implementation period (from May 2022 to Mar 2023), bilateral trade increased from USD 67.5 billion (May 2021-Mar 2022) to USD 76.9 billion (May 2022-Mar 2023) – a YoY increase of 14 per cent.



The UAEs immediate zero-duty market access offer to India covers all labour-intensive sectors such as Gems and Jewellery, Textiles, Leather, Footwear, Sports Goods, Plastics, Furniture, Agricultural and Wood Products, Engineering Products, Pharmaceuticals, Medical Devices, and Automobiles. However, the labour intensive sectors have not fared so well.

India's top gainers from the CEPA have been Gold, Gems & Jewellery, cosmetics, chemicals & related products, electronic goods, telecom instruments, and machinery- that have witnessed a substantial jump in their share in India's total exports to the UAE.



On the other hand, textiles, transport equipment, ores & minerals, engineering goods, readymade garments, iron & steel sectors lost in terms of their share in India's exports to the UAE. Iron and steel, apparel and clothing accessories were among the goods that did not perform as expected during the last one year. In terms of growth as well, majority of the labour-intensive sectors, barring Gems & Jewellery, Medical Instruments, Engineering Goods, and Drugs & Pharmaceuticals, have not fared so well.

Performance of Labour-intensive Sectors (YoY% change)

Sector	2021-22 (Apr-Dec)	2022-23 (Apr-Dec)	2023-24 (Apr-Dec)
	Y-o-Y % change	Y-o-Y % change	Y-o-Y % change
Medical and scientific instruments	34.07	39.05	57.64
Gems & jewellery	137.81	17.73	43.17
Drugs, pharmaceuticals & fine chemicals	6.94	-4.39	41
Engineering goods	78.16	-14.49	17.3
Textiles (excluding readymade garments)	45.39	6.39	3.53
Agricultural & allied products	41.48	19.77	-3.36
Leather & leather manufactures	31.65	24.4	-8.21
Plastic & linoleum products	75.15	-6.96	-10.65
Sports goods	-20.03	-16.57	-10.81
Paper/wood products	95.97	8.17	-26.15

Source: CMIE

On the import front, the maximum gainers were products like mineral fuels, natural or cultured pearls, precious or semi-precious stones, jewellery, plastic items, iron and steel, etc.

There needs to be a renewed focus on promoting exports of the labour-intensive industries. Although there has been good overall performance, there is still potential to grow more and the Government of India has set an export target of USD 50 billion to the UAE for 2026-27.

Harshita Panda
Officer (Economics)
Head Office, SMEAD

3. HIGHLIGHTS: INTERIM BUDGET 2024-25

Hon'ble Finance Minister Ms.Nirmala Sithraman presented the interim budget for the upcoming financial year 2024-25 in the Parliament Session on 1st February 2024. Below are key highlights from the same.

1. Global Economy

- Geopolitically, global affairs are becoming more complex and challenging with wars and conflicts. Globalization is being redefined with reshoring and friend-shoring, disruption and fragmentation of supply chains, and competition for critical minerals and technologies. A new world order is emerging after the COVID pandemic.
- However, India has shown the world the way forward and built consensus on solutions for those global problems. Recently announced India-Middle East-Europe Economic Corridor is a strategic and economic game changer for international trade globally.

2. Indian Economy

- Development philosophy has been based on a) social inclusivity through coverage of all strata of the society, and b) geographical inclusivity through development of all regions of the country.
- All forms of infrastructure, physical, digital or social, are being built in record time. Digital Public Infrastructure, a new 'factor of production' in the 21st century, is instrumental in formalization of the economy.
- GIFT IFSC and the unified regulatory authority, IFSCA are creating a robust gateway for global capital and financial services for the economy.
- Proactive inflation management has helped keep inflation within the policy band.
- Government has assisted 25 crore people to get freedom from multi-dimensional poverty. Average real income of the people has increased by 50%.
- 'Direct Benefit Transfer' of Rs.34 lakh crore from the Government using PM-Jan Dhan accounts has led to savings of Rs.2.7 lakh crore for the govt.
- PM-SVANidhi has provided credit assistance to 78 lakh street vendors. From that total, 2.3 lakh have received credit for the third time.
- Under PM-KISAN SAMMAN Yojana, direct financial assistance is provided to 11.8 crore farmers, including marginal and small farmers. Crop insurance is given to 4 crore farmers under PM Fasal Bima Yojana.
- Electronic National Agriculture Market has integrated 1361 mandis, and is providing services to 1.8 crore farmers with trading volume of Rs.3 lakh crore.
- The sector is poised for inclusive, balanced, higher growth and productivity. These are facilitated from farmer-centric policies, income support, coverage of risks through price and insurance support, promotion of technologies and innovations through start-ups.
- The National Education Policy 2020 is ushering in transformational reforms. PM Schools for Rising India (PM SHRI) are delivering quality teaching, and nurturing holistic and well-rounded individuals.
- The Skill India Mission has trained 1.4 crore youth, upskilled and reskilled 54 lakh youth, and established 3000 new ITIs. A large number of new institutions of higher learning, namely 7 IITs, 16 IIITs, 7 IIMs, 15 AIIMS and 390 universities have been set up.

- PM Mudra Yojana has sanctioned 43 crore loans aggregating to Rs.22.5 lakh crore for entrepreneurial aspirations of youth. Thirty crore Mudra Yojana loans have been given to women entrepreneurs.
- Female enrolment in higher education has gone up by twenty-eight per cent in ten years. In Science, Technology, Engineering and Mathematics (STEM) courses, girls and women constitute forty-three per cent of enrolment - one of the highest in the world.

3. Rural Sector

- Two crore more houses will be taken up under PM Awas Yojana (PMAY)- Grameen in the next five years to meet the requirement arising from increase in the number of families.
- Enhance the target for Lakhpati Didi from 2 crore to 3 crore to transform the Self Help Group (SHG) ecosystem.

4. Social Sector

- Plan to set up more medical colleges by utilizing the existing hospital infrastructure under various departments.
- Government will encourage vaccination for girls in age group of 9 to 14 years for prevention of cervical cancer.
- Upgradation of Anganwadi centres under "Saksham Anganwadi and Poshan 2.0" will be expedited.
- U-WIN platform for managing immunization and intensified efforts of Mission Indradhanush to be rolled out expeditiously.
- Healthcare cover under Ayushman Bharat scheme will be extended to all ASHA workers, Anganwadi Workers and Helpers.

5. Farm Sector

- Pradhan Mantri Kisan Sampada Yojana has benefitted 38 lakh farmers and generated 10 lakh employment.
- Pradhan Mantri Formalisation of Micro Food Processing Enterprises Yojana has assisted 2.4 lakh SHGs and sixty thousand individuals with credit linkages.
- Government will further promote private and public investment in post-harvest activities including aggregation, modern storage, efficient supply chains, primary and secondary processing and marketing and branding.
- Application of Nano DAP on various crops will be expanded in all agro-climatic zones.
- Strategy will be formulated to achieve 'Atmanirbharta' for oil seeds such as mustard, groundnut, sesame, soybean, and sunflower.
- Comprehensive programme for supporting dairy farmers will be formulated.
- Implementation of Pradhan Mantri Matsya Sampada Yojana (PMMSY) will be stepped up to enhance aquaculture productivity from existing 3 to 5 tons per hectare, double exports to Rs.1 lakh crore and generate 55 lakh employment opportunities in near future.
- A corpus of rupees one lakh crore will be established with fifty-year interest free loan for long term financing in scaling up research and innovation activity.

6. Infrastructure

- Three major economic railway corridor programmes will be implemented. These are: (1) energy, mineral and cement corridors, (2) port connectivity corridors, and (3) high traffic density corridors.

- Forty thousand normal rail bogies will be converted to the Vande Bharat standards to enhance safety, convenience and comfort of passengers.
- Expansion of existing airports and development of new airports will continue expeditiously.
- Metro Rail and NaMo Bharat can be the catalyst for the required urban transformation. Expansion of these systems will be supported in large cities focusing on transit-oriented development.
- New scheme will be launched for strengthening deep-tech technologies for defence purposes and expediting 'atmanirbharta'.
- Through rooftop solarization, one crore households will be enabled to obtain up to 300 units free electricity every month.

7. Environment

- Viability gap funding will be provided for harnessing offshore wind energy potential for initial capacity of one giga-watt.
- Coal gasification and liquefaction capacity of 100 MT will be set up by 2030.
- Phased mandatory blending of Compressed Biogas (CBG) in Compressed Natural Gas (CNG) for transport and Piped Natural Gas (PNG) for domestic purposes will be mandated.
- Financial assistance will be provided for procurement of biomass aggregation machinery to support collection.
- Greater adoption of e-buses for public transport networks will be encouraged through payment security mechanism.
- A new scheme of bio-manufacturing and bio-foundry will be launched.

8. Urbanisation

- Government will launch a scheme to help deserving sections of the middle class "living in rented houses, or slums, or chawls and unauthorized colonies" to buy or build their own houses.
- To address the emerging fervour for domestic tourism, projects for port connectivity, tourism infrastructure, and amenities will be taken up on our islands, including Lakshadweep.
- A provision of seventy-five thousand crore rupees as fifty-year interest free loan is proposed this year to support milestone-linked reforms by the State Governments.
- Government will form a high-powered committee for an extensive consideration of the challenges arising from fast population growth and demographic changes.

9. Budget Estimates

- Building on the increase of capital expenditure, the outlay for the next year is being increased by 11.1 per cent to Rs.11.11 lakh crore.
- In FY25, the total receipts other than borrowings and the total expenditure are estimated at Rs.30.80 and 47.66 lakh crore respectively. The tax receipts are estimated at Rs.26.02 lakh crore.
- The scheme of fifty-year interest free loan for capital expenditure to states will be continued this year with total outlay of Rs.1.3 lakh crore.
- RE of the fiscal deficit is 5.8% of GDP, improving on the Budget Estimate, notwithstanding moderation in the nominal growth estimates. The fiscal deficit in 2024-25 is estimated to be 5.1% of GDP, adhering to the path of fiscal consolidation.
- The gross and net market borrowings through dated securities during 2024-25 are estimated at Rs.14.13 and 11.75 lakh crore respectively. Both will be less than that in 2023-24.

4. INTERIM BUDGET: ANALYSIS OF FISCAL MATH

(Amt in crores)

Item	FY23	FY24		FY25	% Change		
	Actuals	BE	RE	BE	25BE v 24RE	24RE v 24BE	24RE v 23A
Net Tax Revenues	**2097786**	**2330631**	**2323918**	**2601574**	**12%**	**0%**	**11%**
Gross Tax revenues	**3054192**	**3360858**	**3437211**	**3830796**	**11%**	**2%**	**13%**
Of which:							
Direct Tax	1659821	1823250	1945000	2198830	13%	7%	17%
Corporation tax	825834	922675	922675	1042830	13%	0%	12%
Income tax	833260	900575	1022325	1156000	13%	14%	23%
Indirect Tax	1394371	1537608	1487711	1614636	9%	-3%	7%
Goods and service tax	849133	956600	956600	1067650	12%	0%	13%
Custom Duties	213372	233100	218680	218680	0%	-6%	2%
Excise Duties	322724	339000	303600	318780	5%	-10%	-6%
Service Tax	431	500	500	100	-80%	0%	16%
Taxes of UTs	8711	8408	8331	9426	13%	-1%	-4%
Transferred to NCCD	8000	8780	8800	9440	7%	0%	10%
States Share	948406	1021448	1104494	1219783	10%	8%	16%
Non-Tax Revenue	**285421**	**301650**	**375795**	**399701**	**6%**	**25%**	**32%**
Dividends and profits	99914	91000	154407	150000	-3%	70%	55%
Central govt. revenue receipts	2383206	2632281	2699713	3001275	11%	3%	13%
Non-Debt Capital Receipts	72196	84000	56000	79000	41%	-33%	-22%
Misc. Receipts (divestment proceeds)	46035	61000	30000	50000	67%	-51%	-35%
Total Receipts	**4194779**	**4514884**	**4517137**	**4762219**	**5%**	**0%**	**8%**
Revenue Expenditure	**3453132**	**3502136**	**3540239**	**3654657**	**3%**	**1%**	**3%**
Interest Payments	928517	1079971	1055427	1190440	13%	-2%	14%
Major subsidies	577916	403084	440536	409723	-7%	9%	-24%
Capital Expenditure	**740025**	**1000961**	**950246**	**1111111**	**17%**	**-5%**	**28%**
Total Expenditure	**4193157**	**4503097**	**4490485**	**4765768**	**6%**	**0%**	**7%**
Fiscal Deficit	1737755	1786816	1734773	1685494	-3%	-3%	0%
Fiscal Deficit/GDP (%)	**6.4**	**5.9**	**5.8**	**5.1**	**-12%**	**-2%**	**-9%**

Source: Budget Documents; BE – Budget Estimates, RE – Revised Estimates, A – Actuals

Analysis

- Gross Tax Revenues of the union government are budgeted to grow at a robust 11%, in line with past year trends. The revised estimates of FY24 showcased a growth of 13% over the budget estimates of the same period.
- Direct Tax continues to make up a large proportion of Gross Tax Revenues (GTR). It has been budgeted at 57% of GTR, an increase of 3% compared to FY23.
- Within direct tax, income tax receipts continue to grow at a fast pace, aided by simplification of tax laws and procedures. The revised estimates of FY24 have grown at 23% over the actual income tax receipts of FY23.
- GST receipts, which constitute the largest proportion within indirect taxes (66%), are budgeted to grow at 12% in FY25 over RE FY24.
- States' share in Centre's gross tax revenue is budgeted to increase from Rs.9,48,406 crore in FY23 to Rs.12,19,783 crore in FY25, a growth of 29%.
- Non-tax revenue is projected to increase, driven by a growth of 70% (RE FY24 vs BE FY24) in dividends and profits transferred from RBI and state owned enterprises.
- The government has set an ambitious disinvestment target of Rs.50,000 crore in the upcoming financial year, 67% higher than the revised estimates of FY24. In the budget for FY24, the government had originally targeted Rs.51,000 crore from the sale of its stakes in various public sector enterprises.
- Total expenditure of the central government is budgeted to grow at 6% in FY25 over the revised estimates of FY24.
- Revenue expenditure is expected to grow at a modest 3% in FY25 over RE FY24.
- Amid expectations of policy easing this year, interest payments are budgeted to grow by 13% in FY25.
- In line with its commitment towards fiscal prudence, the subsidy bill of the central government is likely to be contained at Rs.4,09,723 crore, a drop of 7% over RE FY24. The share of subsidies in total expenditure is expected to fall to 9% in FY25 compared to 14% in FY23.
- The government is going to continue with the push in capital expenditure which is expected to rise to Rs.11,11,111 crore in FY25 (~3.4% of GDP – the highest in 26 years), a rise of 17% over FY24 RE.
- Continuing on the path of fiscal consolidation, whereby the government is committed to down fiscal deficit to 4.5% of GDP by FY26, the government has set a target of 5.1% in the upcoming financial year. Aided by higher than expected tax and non-tax revenues, the government has revised the fiscal deficit target for the current financial year to 5.8% of GDP.

Smriti Behl
Officer (Economics)
Head Office, SMEAD

5. HIGHLIGHTS: THE INDIAN ECONOMY- A REVIEW

The Indian Economic review analyzed the past decade of the Indian economy and its future prospects. Projections indicate sustained growth, possibly exceeding 7% in FY24 and maintaining this trend in FY25, marking four years of strong expansion.

The global economy is struggling to maintain its recovery post-Covid because successive shocks have buffeted it. Some of them, such as supply chain disruptions, have returned in 2024. If they persist will impact trade flows, transportation costs, economic output and inflation worldwide. Despite these challenges, India remains quite confident, having successfully navigated past disruptions like supply chain issues and energy shocks Post-Covid.

Three significant trends— the end of hyper-globalization in manufacturing, the rise of Artificial Intelligence impacting services trade, and the energy transition challenge—are shaping the global economic landscape.

India, however, is strategically managing these challenges by focusing on lowering logistics costs, investing in quality, and aligning with its commitment to steady economic growth while transitioning to greener energy.

The country's proactive policies over the past decade, including substantial infrastructure development, a robust financial sector, and inclusive growth initiatives, have positioned it favourably.

The economy has created jobs, reduced unemployment, and witnessed a positive shift in financial indicators. Inflation is under control, fiscal and current account deficits are improving, and foreign exchange reserves are ample.

The Government's effective management during the Covid crisis and adept handling of crude oil supply contribute to the economy's stability and strength. As longstanding issues like deficient infrastructure are addressed, the aspirations of young Indians are rising, reflecting confidence in a better future.

Overall, India is on a trajectory of positive change, with a belief in its potential and a promising outlook for future generations.

The Indian Growth Story (1950 to 2014)

India's share of global income declined sharply from 22.6% in 1700 to 3.8% in 1952. The 1950s focused on achieving economic self-sufficiency, with substantial investments in state-owned enterprises driving a 3.9% growth rate.

Challenges in the 1960s, including wars and drought, slowed growth to 4.1%. The 1970s saw political instability and a 57% devaluation of the rupee, reducing growth to 2.9%.

Reform measures in the 1980s reversed the slowdown, with GDP growth reaching 5.7% on account of export promotion and a shift towards a more innovative and business-oriented environment, combined with modest liberalization and substantial government spending.

However, external shocks in the early 1990s led to a balance of payment crisis, prompting significant reforms towards Liberalization, Privatization and Globalization (LPG). Despite challenges in the late 1990s, annual real GDP growth averaged 5.8%.

The early 2000s witnessed sustained momentum, driven by reforms, global growth, and initiatives like Sarva Shiksha Abhiyan. The 2008 global financial crisis exposed vulnerabilities, leading to a rise in bad debts.

From 2009-2014, high growth efforts resulted in elevated fiscal deficits and inflation, leading to twin deficits and a crisis in 2013 with sharp rupee depreciation and stalled growth.

Lessons from the Growth Experience Till 2014

1. **Market Economy Shift**: India transitioned from a closed economy to a market economy, adopting pro-business reforms post-1980 after facing unsustainable investments and a fiscal crisis in 1990-91.
2. **Public-Private Investment Dynamics**: Initially reliant on the public sector for investment, India saw a shift as the private sector became the primary driver of growth and employment from the 1990s onwards due to increasing government borrowing and deficits.
3. **Technology as Growth Driver**: India's strategy shifted from restricting foreign technologies to leveraging them for growth, with a focus on self-reliance in strategic sectors. Since the 1980s, technology has played a crucial role in India's economic transformation.

2014-2024: Decade of Transformative Growth

Against this aforementioned context, since 2014, the Indian economy has undergone many structural reforms that have strengthened its macroeconomic fundamentals.

These reforms have led to India emerging as the fastest-growing economy among G20 economies. In 2023-24, as per current estimates, it is estimated to have grown 7.3% on top of the 9.1% (FY22) & 7.2% (FY23) in the previous two years, and the economy is generating jobs.

The government has extended the PM Gharib Kalyan Anna Yojana for 80 crore citizens for 5 more years until Dec’28.

The government has doubled the number of airports in the last 9 years and building an extensive road network and expanding rail. The number of universities has gone up from 723 in 2014 to 1,113 in 2023. More girls are now in higher education than boys. Total enrolment in higher education was 3.4 crore in 2014. It has gone up to 4.1 crore students in 2023.

India's GDP contracted 5.8% in FY21 due to the pandemic, but the government's swift response and ongoing reforms are aiding a recovery to mitigate long-term impacts.

Regardless of Ukraine conflict and supply disruptions, the govt. efficiently managed crude oil purchases, stabilizing retail fuel prices for over eighteen months.

Providing states with a 50-year interest-free loan of ₹1 lakh crore in FY23 and ₹1.3 lakh crore in FY24, the government facilitated substantial infrastructure improvements, resulting in a 47% increase in states' capital expenditure from April to September 2023 compared to the same period in 2022.

Drivers of India's growth in the last decade

The government aimed to revive India's growth potential by revitalizing the financial sector, easing business conditions, and enhancing infrastructure, supporting diverse reforms to create a business-friendly environment and improve living standards.

1. Recapitalisation and merger of Public Sector Banks (PSB) and amendment of the SARFAESI Act 2002 to enacting the Insolvency and Bankruptcy Code 2016 (IBC)
2. Real Estate (Regulation and Development) Act 2016
3. Taxation ecosystem in the country has undergone substantial changes in the post-2014
4. Engagement of the government with the private sector for the development agenda
5. A New Public Sector Enterprise (PSE) Policy for Aatmanirbhar Bharat has been introduced
6. Production Linked incentives (PLI) are being provided to firms to attract domestic and foreign investments
7. Decriminalising minor economic offences under the Companies Act of 2013
8. Progressive reforms introduced by the government for the Micro, Small, and Medium Enterprises (MSME) sector
9. Large-scale public spending since 2014 to address the infrastructure and logistics bottlenecks and enhanced road connectivity (Bharatmala), port infrastructure (Sagarmala), electrification, railways upgradation, and new airports/ air routes (UDAN).
10. Use of technology and digital platforms

Challenges Confronting the Indian Economy

1. Increasingly integrated global economy is likely to result in further friend shoring and onshoring, which are already having repercussions on global trade and, subsequently, on global growth.
2. Trade-off between energy security and economic growth versus energy transition is a multifaceted issue having various dimensions: geopolitical, technological, fiscal, economic and social, and the policy actions being pursued by individual countries impacting other economies.

3. Advent of Artificial Intelligence (AI) poses a big challenge to governments around the world due to the questions it poses to employment particularly in services sectors.
4. Domestically, ensuring the availability of a talented and appropriately skilled workforce to the industry, age-appropriate learning outcomes in schools at all levels and a healthy and fit population.

Track record of overcoming challenges

The aforementioned challenges are not insurmountable. These issues are very much part of the government's policy thrust. For instance, the Pradhan Mantri Kaushal Vikas Yojana (PMKVY) aims to enable Indian youth to take up relevant industry skill training. Similarly, to mitigate the impact of climate change, focused efforts are being taken to promote the manufacturing and use of renewable energy and shift away from coal.

India has delivered on converting some key disadvantages into strengths in the last decade. The harnessing of technology for inclusive growth is an example. India has seen a leapfrogging in the financial inclusion space as well. In sum, India's 'Mission Mode' approach to getting the better of festering challenges stands the country in good stead in meeting the current and emerging challenges.

Looking Ahead

By all estimates, India's growth is expected to remain strong, supported by macroeconomic and financial stability. Presently, the official estimate for growth in FY24 stands at 7.3 per cent and the headline inflation is expected to gradually decline to the target.

Digital revolution, a facilitating regulatory environment supportive of entrepreneurship, measures targeted at economic upliftment of the most vulnerable sections of the society, developing niche and complex manufacturing sectors while building the supporting physical infrastructure, and efforts directed at diversifying its export basket and moving toward higher value–added products.

In conclusion, India has been showing both resilience as well as progress despite all risks and uncertainties in the global economic landscape. Through timely and effective policy actions aimed at achieving macro stability and repairing the balance sheets of financial and non-financial sectors, as well as by investing significantly in building world-class physical and digital public infrastructure, India has been able to withstand the challenges, both domestic and global, and ensure that the economy continues to progress on a steady path.

With the policy reforms that the government has already rolled out and which are on the anvil, there is significant optimism and confidence in the Indian economy and its prospects today. India embarks on her 'Amrit Kaal' with confidence and the attitude that challenges to growth and inclusive development are stepping stones and not obstacles.

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

Policy Rate	Existing	Now	Change
Policy Repo Rate	6.50%	6.50%	**No Change**
Standing Deposit Facility (SDF)	6.25%	6.25%	
MSF Rate	6.75%	6.75%	
Bank Rate	6.75%	6.75%	
Cash Reserve Ratio (CRR)	4.50%	4.50%	
Statutory Liquidity Ratio (SLR)	18.0%	18.0%	

a. **Policy Rates and Stance:** Reserve Bank of India's (RBI) monetary policy commission (MPC) kept the repo rate unchanged at 6.50% for the 6th time in a row. The RBI had already hiked key benchmark lending rate by 250 basis points (bps) since an off-cycle 40 bps increase in repo in May 2022.

b. **Stance: RBI** maintains its ***stance of withdrawal of accommodation***

c. **Rationale:** The rationale behind the same is to ensure that inflation progressively aligns to the target, while supporting growth.

Economy Outlook

- Domestic economic activity is strengthening. As per the first advance estimates (FAE) released by the National Statistical Office (NSO), real gross domestic product (GDP) is expected to grow by 7.3 per cent, year-on-year (y-o-y) in 2023-24, underpinned by strong investment activity.
- Improving outlook for global trade and rising integration in global supply chain will support net external demand. Headwinds from geopolitical tensions, volatility in international financial markets and geo-economic fragmentation, however, pose risks to the outlook. Taking all these factors into consideration, GDP projections are as under with risks are evenly balanced:

GDP Projection	Q1 FY'25	Q2 FY'25	Q3 FY'25	Q4 FY'25	FY'25
08.02.2024	**7.2%**	**6.8%**	**7.0%**	**6.9%**	**7.0%**

Inflation Outlook

- The inflation trajectory going forward would be shaped by the evolving food inflation outlook. Rabi sowing has surpassed last year's level. Effective supply side responses may keep food price pressures under check. The continuing pass-through of monetary policy actions and stance is keeping core inflation muted. Crude oil prices, however, remain volatile. Taking into account these factors, the projections for CPI Inflation is as under:

Inflation Projection	Q4 FY'24	FY'24	Q1 FY'25	Q2 FY'25	Q3 FY'25	Q4 FY'25	FY'25
08.02.2024	**5.0%**	**5.4%**	**5.0%**	**4.0%**	**4.6%**	**4.7%**	**4.5%**

Liquidity and Financial Market Conditions

- During December-January, Reserve Bank pro-actively injected liquidity through both the main and the fine-tuning repo operations to ease liquidity tightness in the system.
- The stance of RBI withdrawal of accommodation should be seen in the context of incomplete transmission and inflation ruling above the target of 4 per cent and efforts to bring it back to the target on a durable basis. So far as liquidity conditions are concerned, these are being driven by exogenous factors, which are likely to correct in the foreseeable future, aided by market operations.
- The reversal of liquidity facilities under both SDF and MSF even during weekends and holidays, announced in our December policy statement, has facilitated better funds management by the banks.
- As of February 7, 2024, the Indian rupee (INR) has remained stable compared to both its emerging market peers and a few advanced economies. In terms of coefficient of variation (CV), the INR exhibited the lowest volatility in 2023-24 (April to January) compared to the corresponding period in the previous three years.

Financial Stability

- The domestic financial system remains resilient with healthy balance sheets of banks and financial institutions. The financial parameters of non-banking financial companies (NBFCs) are also improving in tandem with those of the banking system.
- Good governance, robust risk management, sound compliance culture and protection of customers' interest are of paramount importance for the safety and stability of the financial system and individual institutions. The Reserve Bank lays great emphasis on these aspects. It is expected that all regulated entities to accord the highest priority to these functions.

External Sector

- India's Current Account Deficit (CAD) declined sharply to 1.0 per cent of GDP in Q2:2023-24 from 3.8 per cent in Q2:2022-23. According to the World Bank, with an estimated US$135 billion in inward remittances in 2024, India would remain the largest recipient of remittances globally. Thus, the CAD for 2023-24 and 2024-25 is expected to be eminently manageable
- On the financing side, net foreign direct investment (FDI) stood at US$ 13.5 billion in April-November 2023 as compared with US$ 19.8 billion a year ago.
- Foreign portfolio investment (FPI) witnessed a sharp turnaround during 2023-24 (up to February 6) with net FPI inflows of US$ 32.4 billion as against net outflows of US$ 6.7 billion a year ago.

Additional Measures

Financial Market

a) Review of the Regulatory Framework for Electronic Trading Platforms (ETP)

- In view of increased integration of the onshore forex market with offshore markets, notable developments in the technology landscape and an increase in product diversity these developments, it has been decided to review the regulatory framework for ETPs. The revised regulatory framework will be issued separately for public feedback.

b) Hedging of Gold Price Risk in the Over the Counter (OTC) Market in the International Financial Services Centre (IFSC)

- It has been decided to also allow them to hedge the price of gold in the over the counter (OTC) segment in the International Financial Services Centre (IFSC).. *This will provide resident entities more flexibility and easier access to derivative products in hedging their exposure to gold prices. The related instructions are being issued separately.*

Regulations

a) Key Fact Statement (KFS) for Retail and MSME Loans & Advances

- It has been decided to mandate all REs to provide the 'Key Fact Statement' (KFS) to the borrowers for all retail and MSME loans. Providing critical information about the terms of the loan agreement, including all-inclusive interest cost, ***shall greatly benefit the borrowers in making an informed decision.***

Payment Systems and Fintech

a) Enhancing the Robustness of AePS

- Aadhaar Enabled Payment System (AePS), operated by NPCI, enables customers to perform digital payment transactions in assisted mode. In 2023, more than 37 crore users undertook AePS transactions, which points to the important role played by AePS in financial inclusion.
- To enhance the security of AePS transactions, it is proposed to streamline the onboarding process, including mandatory due diligence, for AePS touchpoint operators, to be followed by banks.

b) Principle-based Framework for Authentication of Digital Payment Transactions

- Over the years, the Reserve Bank has prioritized security of digital payments, in particular the requirement of Additional Factor of Authentication (AFA). Though RBI has not prescribed any particular AFA, the payments ecosystem has largely adopted SMS-based One Time Password (OTP).
- With innovations in technology, alternative authentication mechanisms have emerged in recent years. *To facilitate the use of such mechanisms for digital security, it is proposed to adopt a principle-based "Framework for authentication of digital payment transactions". Instructions in this regard will be issued separately.*

c) Introduction of Programmability and Offline Functionality in Central Bank Digital Currency (CBDC) Pilot

- The CBDC Retail (CBDC-R) pilot currently enables Person to Person (P2P) and Person to Merchant (P2M) transactions using Digital Rupee wallets provided by pilot banks. It is now proposed to enable additional use cases using programmability and offline functionality. *Programmability will permit users like, for instance, government agencies to ensure that payments are made for defined benefits.* ***Similarly, corporates will be able to program specified expenditures like business travel for their employees.***
- Second, it is proposed to introduce an offline functionality in CBDC-R for enabling transactions in areas with poor or limited internet connectivity. Multiple offline solutions (proximity and non-proximity based) across hilly areas, rural and urban locations will be tested for this purpose. These functionalities will be introduced through the pilots in a gradual manner.

7. FOOD VS FUEL TRADE-OFF TO ACHIEVE E20 BY 2025

India took a bold decision to prepone its target of blending 20 per cent of ethanol in petrol from 2030 to 2025. This decision came against the backdrop of achieving the 10 per cent ethanol blending five months before the target, in June 2022. Blending of ethanol serves threefold purposes. Firstly, ethanol blending has saved India Rs. 53,894 crore in foreign exchange outgo in the last eight years as 85 per cent of the domestic demand is met by imports. Secondly, ethanol blending has opened another source of income for farmers. In the last eight years farmers have earned Rs. 49,078 crore. Thirdly, it has led to a reduction of 318 lakh tonnes of carbon-dioxide (CO2) emissions.

Benefits of E20

When compared to E0 (neat gasoline), the use of E20 is anticipated to reduce carbon monoxide emissions by roughly 50 per cent in two-wheelers and 30 per cent in four-wheelers. It is projected that hydrocarbon emissions from passenger automobiles and two-wheelers will drop by 20 per cent. Vehicle engines may run on E-20, or petrol doped with 20 per cent ethanol, with a few simple corrosion-preventive adjustments.

Current State of Ethanol Production in India

Five Indian states accounted for 50 per cent of the total supply of India's ethanol for fuel blending in Ethanol Supply Year (ESY) 21-22. UP's share was the highest (15.5%), followed by Maharashtra (12.4%), Tamil Nadu (8.6%), Karnataka (7.8%) and Gujarat (5.4%). About 84 per cent of the 4.08 billion litres of ethanol supplied for fuel blending in 2021–2022 came from sugarcane juice and molasses; 11 per cent came from using surplus rice from the FCI; the remaining 6 per cent came from damaged grains, which included maize and rice from the open market.

The import of ethanol for fuel blending has been restricted since 2019. However, Finance Minister suggested exempting import of denatured ethanol from basic customs taxes in Union Budget address for 2023–2024.

Future Roadmap

To meet the new blending objective, NITI Aayog's roadmap for ethanol blending, published in 2021, signalled a change in emphasis from utilizing waste biomass (as specified in the National Policy on Biofuels), to food-based feed stocks.

The NITI Roadmap projects that India's petroleum consumption in 2025–2026 to be 50.8 billion litres. By 2025–2026, an E20 mandate corresponds to a demand for roughly 10.16 billion litres of ethanol. Furthermore, the nation's pharmaceutical and potable alcohol industries would require roughly 3.34 billion litres of ethanol per year. This suggests that India would require roughly 13.5 billion litres of ethanol by 2025–2026. According to projections made in the NITI Aayog document, nearly half, or 5.5 billion litres, of the 10.16 billion litres needed for fuel-blending are anticipated to come from the sugar industry, with the remaining forty-five percent, or roughly 4.66 billion litres, coming from grains and other damaged food grains sourced from the FCI or the open market.

Challenges for Achieving the E20 Target

Threats come from two sources. First, the escalating rivalry from other ethanol-consuming industries, such as the alcohol industry exhibiting double-digit growth. Secondly, the feed sector poses competition. The chicken industry has grown significantly, and as a result, more maize will be needed for the industry's consumption. Additionally, weather patterns and climate change have affected crop yields as well, affecting crops including rice, corn, and cotton.

Most of the ethanol production comes from Sugarcane and Rice, both being water-intensive crops. Financial incentives for ethanol blending have encouraged sugarcane and rice cultivation depleting water resources (producing a kilogram of sugar requires 1,500-2,000 litres of water while producing a kilogram of rice requires around 2500 litres of water). There is a renewed shift to obtain ethanol from other food grains such as maize which are sustainable. This might compromise food security as India is a maize deficit country.

Erratic rainfall in FY’24 affected crop yield especially that of sugarcane and rice which are the two main crops for achieving the E20 target. This prompted the government to ban exports of sugar and rice in 2023. In December 2023 Indian government directed sugar mills to cease using cane juice for ethanol production and instead increase sugar output. This shows that the Indian government has chosen food over fuel which is a step in the right direction. Food inflation is driving India’s inflation which needs to be contained for a healthy growth of the economy. So, there is a trade-off between meeting the food demand while keeping food inflation low and achieving the E20 target by 2025.

Policy Recommendations

Millets for ethanol: In addition to being more nutrient-dense than staple cereal crops like wheat and rice, millets are also more resilient to climate change impacts. Ethanol may be made from finger millet, pearl millet, and even sorghum.

Encourage 2G ethanol: Instead of producing ethanol directly from crops, the country would do well to encourage faster technological breakthroughs in the production of ethanol from agricultural waste, straws, stalks, etc. The country can bypass the food vs. fuel debate and still achieve its blending targets.

Investments in yields and improving resilience: Regardless of the crops used, policymakers need to make sure that more money is spent on increasing crop yields and making agriculture more resilient to climate change. For India, investments in crop yields and technologies are essential.

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8. CLASSROOM

TRADITIONAL VS BEHAVIOURAL ECONOMICS

Traditional economic theory is predicted on three fundamentals assumptions: 1) all people are rational, 2) individual choices are consistent with expected utility, and 3) people correctly update their opinion and beliefs based upon new information that is received. However, these assumptions do not always hold in the real world. The key to the problem lies in the deviation of the understanding of human behaviour and the positioning of the simplification, mechanization, and empty shell of human behaviour.

Behavioural economics combines psychology and economics, and plays an important role in understanding how psychological activities affect human economic decisions. The emergence of behavioural economics has challenged the traditional economics based on the hypothesis of the "rational man" and effectively corrected the defects and deficiencies existing in the traditional economic theories and models.

Behavioural economics theory has moved from the edge of the stage of economics to the centre, allowing people to analyse and understand the human factors and their influence on economic activities from more angles.

Behavioural economics largely adopts the methods of psychoanalysis to study people's economic behaviours. Behavioural economics argues that mainstream economics has for half a century based its theories on the dull assumption that people behave by rational, unemotional self-interest. There is another side of human nature, that is, there are emotional, irrational, concept guiding elements in human nature.

A big misconception is that behavioural economics is about controlling people's behaviour, but it is not. Behavioural economics is about understanding common decision-making mistakes why people make them. In particular, a large aspect of behavioural economics is concerned with the gap between intention and action.

Behavioural economics differs from traditional economics by incorporating insights from psychology. By combining concepts from these two different discipline, we can obtain a more realistic picture of what people actually do. Behavioural economics takes into consideration that people make systematic mistakes due to psychological blind spots that most people have. Behavioural economics assumes that the context in which a decision is made has an enormous effect on the decision or preference.

Applying behavioural economics to understand consumer decision-making and behaviour

Traditional economic theory postulates that human decision making and behaviour are based on purely rational choice. Based on these assumptions, traditional economic models predict that people will make decisions that yield the optimal result given budget constraints, and that behavioural choices can be improved by providing people with more information (i.e., by increasing knowledge/awareness) and/or more options (i.e., by increasing choices).

People often act in ways that both fail to align with their knowledge, values, attitudes and intentions, and fall short of maximizing their material interests. A growing body of research indicates that consumer choices and behaviour are, to a large extent, driven by cognitive biases, heuristics and other 'predictably irrational' tendencies—for example, people use mental shortcuts to cut through complexity, dislike losses more than they like gains, prefer lower value certainties over higher-value risks, evaluate things in relative rather than absolute terms, and are heavily influenced by the people around them.

For Example - Traditional economics puts forward that "consumption expenditure is the function of income". Under the same income condition, people will spend the same proportion of income, so once income is determined, the total consumption can be accurately predicted. According to behavioural economics, the problem is not as simple. Consumption expenditure is not only restricted by the amount of income, but also a function of consumption intention, which is influenced by consumption motivation and attitude.

Conclusion

The rise of behavioural economics is no accident .The formation of behavioural economics can be considered the "behavioural revolution" in economics, which is promoting the gradual development of economics towards humanization. Behavioural Economics is the combination of psychology and economics that investigates what happens in market in which some of the agents display human limitations and complications.

Traditional economics constructs mathematical or econometric models by using mathematical tools through theoretical abstraction and hypothesis. Behavioural economics combines traditional research of economics by referring to and introducing research methods of psychology and sociology.

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9. GIST OF LATEST RBI CIRCULARS FOR BANKS

Date of Circular	**31-Jan-2024**
Ref. No.	RBI/2023-2024/117 DoS.CO.CSITEG.SEC.No.9/31-01-015/2023-24
Subject	**Streamlining of Internal Compliance monitoring function – leveraging use of technology**

Gist: RBI had recently carried out an assessment in select REs of the prevailing system in place for internal monitoring of compliance with regulatory instructions and the extent of usage of technological solutions to support this function. The central bank noted that REs has adopted varying levels of automation to support the Internal Compliance monitoring function, ranging from use of macro-enabled spreadsheets to workflow-based software solutions. The review brought out that automation of the compliance monitoring process in REs remains a work in progress with various aspects of this function being carried out with significant manual intervention. There is, thus, a need to implement comprehensive, integrated, enterprise-wide and workflow-based solutions/ tools to enhance the effectiveness of this function.

Date of the Circular	**22-February-2024**
Ref No.	RBI/2023-24/124 DOR.STR.REC.78/04.02.001/2023-24
Subject	**Interest Equalization Scheme (IES) on Pre and Post Shipment Rupee Export Credit**

Gist: Government of India has allowed for extension of the Interest Equalization Scheme for Pre and Post Shipment Rupee Export Credit ('Scheme') up to June 30, 2024. The rate of interest equalization shall be 2% for Manufacturers and Merchant Exporters exporting under specified 410 HS lines and 3% to the MSME manufacturers exporting under any HS line.

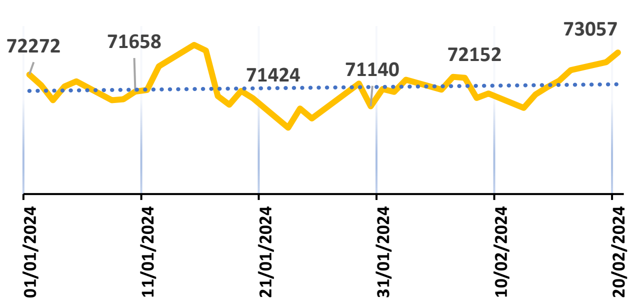
Further, Government has advised the following modifications to the scheme:

- **Average interest rate**: With effect from FY 2023-24, the banks which have priced the loans covered under this scheme at an average interest rate of greater than Repo Rate + 4% prior to subvention would be subjected to certain restrictions under the scheme. Based on an assessment undertaken for FY 2023-24, Director General of Foreign Trade (DGFT) will identify the banks which are in breach of the above provision. Such banks shall be restricted from participating in the scheme till they furnish an undertaking (in the format as enclosed in the Annex) to DGFT. Any further breach as assessed by DGFT thereafter may lead to debarment from the scheme.
- **Cap on subvention amount:** The annual net subvention amount has been already capped at Rs 10 Cr per Importer-Exporter Code (IEC) in a given financial year and the same has been communicated to the trade & industry and banks vide DGFT Trade Notice No.05 dated May 25, 2023. Accordingly, all disbursement from April 1, 2023 shall be reckoned for this purpose.

(Duration: 21st Jan'24 to 22nd Feb'24)

10. DAILY ECONOMIC INDICATORS

SENSEX



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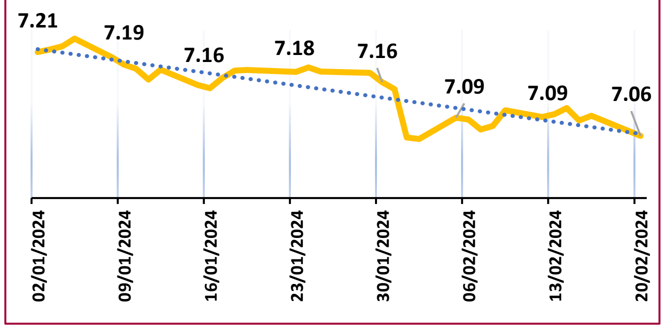
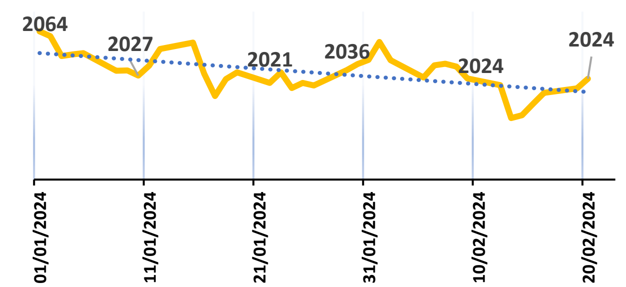
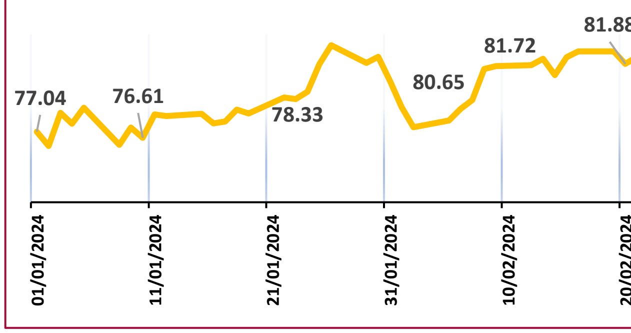


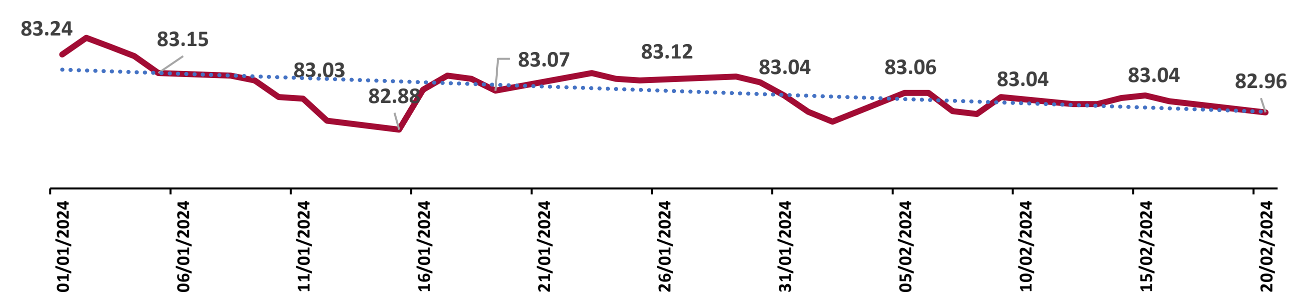
GOLD ($)



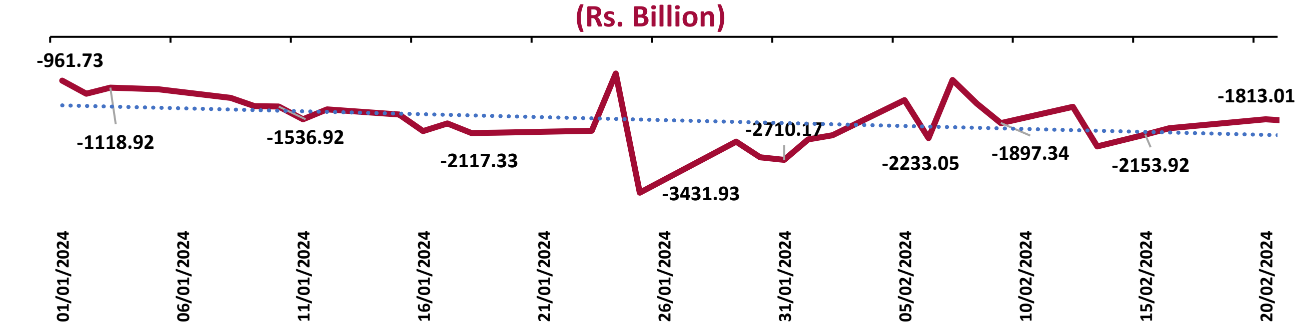
BRENT ($/bbl)



USD/INR



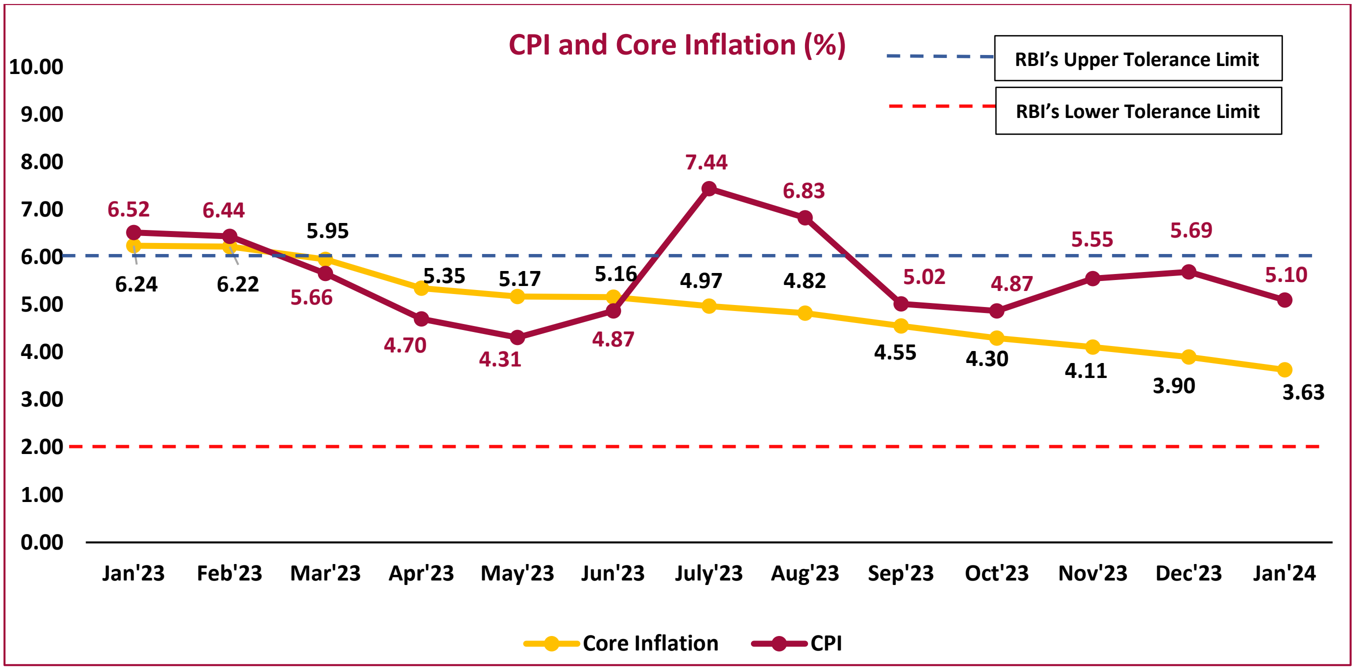
Systemic Liquidity under LAF - Net Liquidity (Rs. Billion)

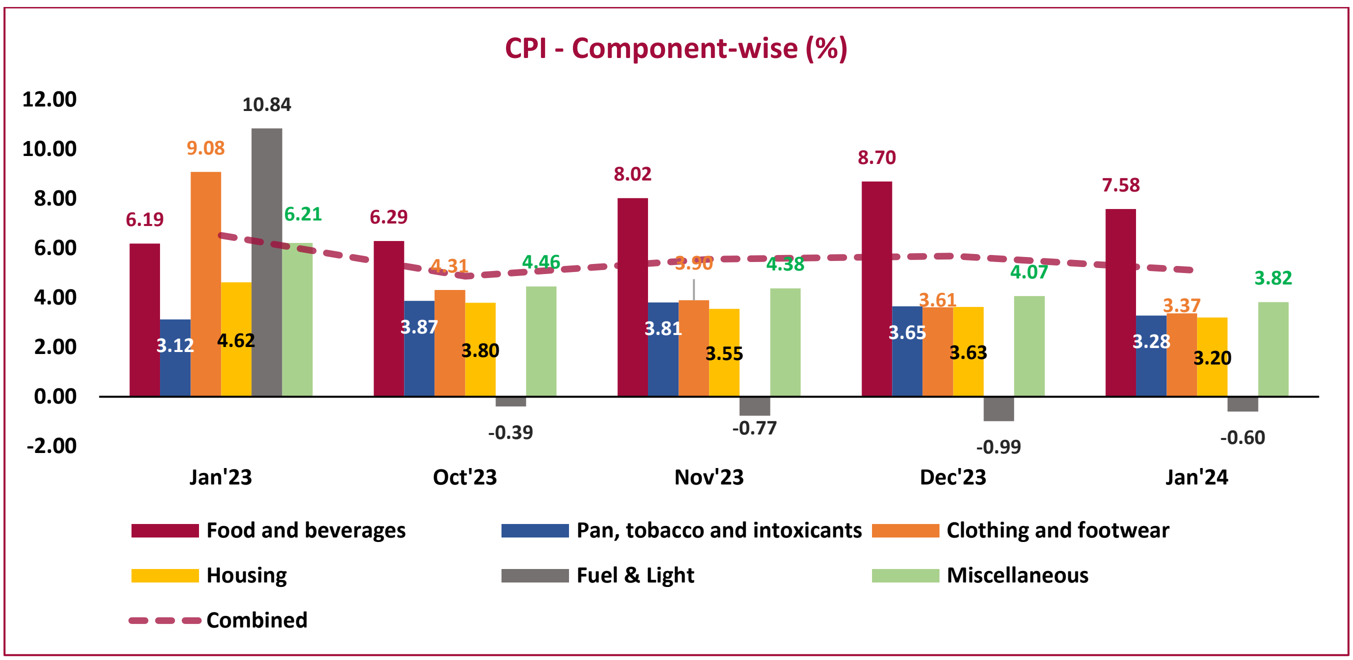


11. MONTHLY & FORTNIGHTLY ECONOMIC INDICATORS

CONSUMER PRICE INDEX (CPI)

Retail Inflation cools slightly to 5.10% in January'24

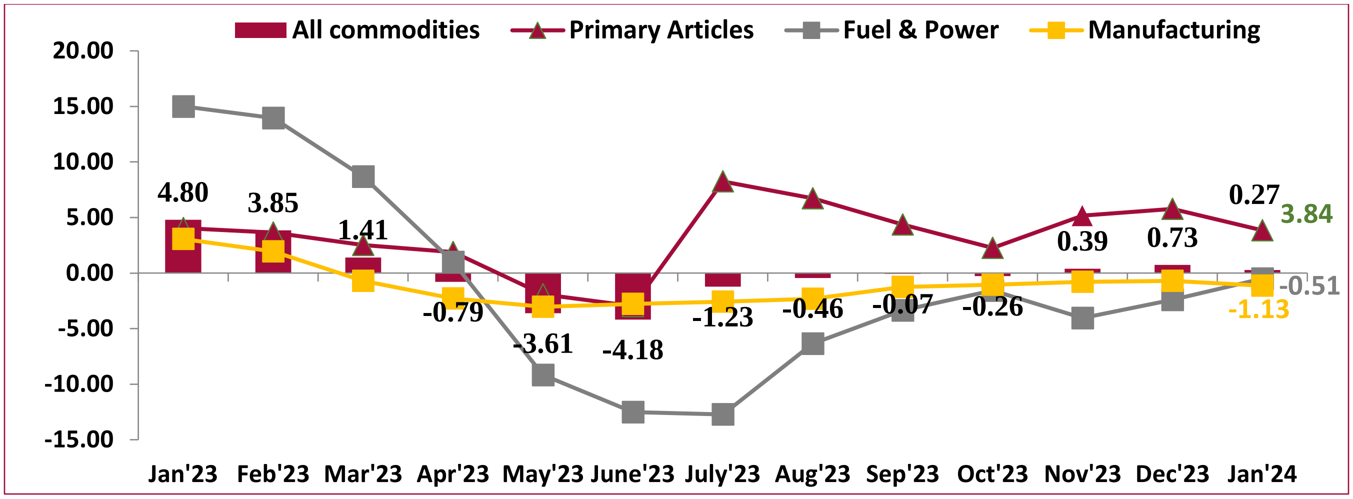




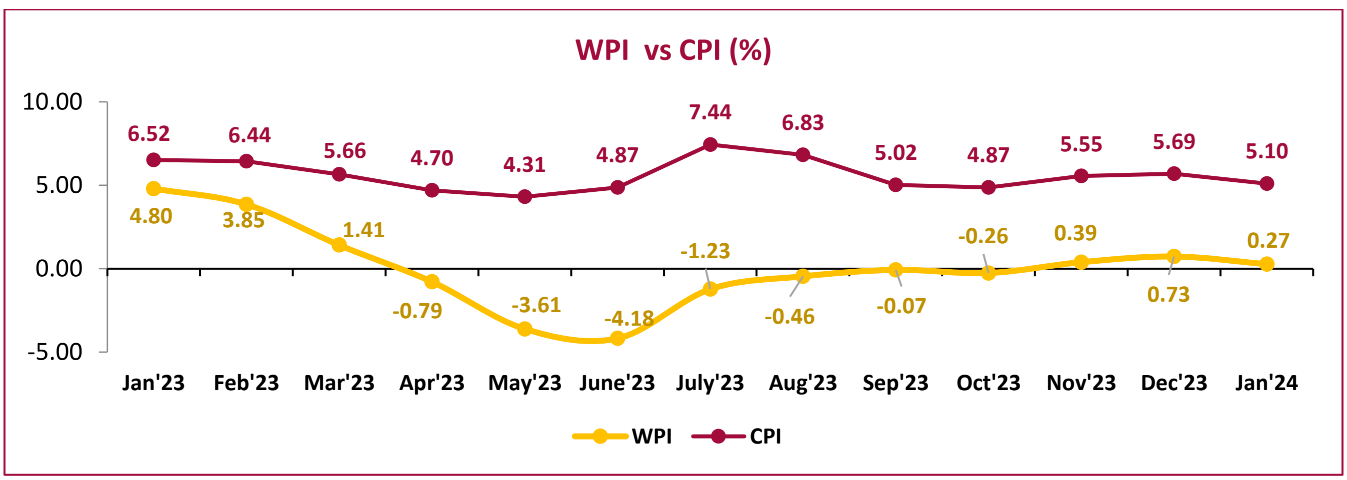
India's consumer price index (CPI) inflation eased to 5.10 per cent in January 2024, with favourable seasonal support from food, disinflation in fuel, and subdued core inflation drivers. Urban inflation reduced to 4.92 per cent from 5.46 per cent in the previous month and rural inflation reduced to 5.34 per cent from 5.93 per cent in the earlier month.

WHOLESALE PRICE INDEX (WPI)

WPI inflation positive for January at 0.27%



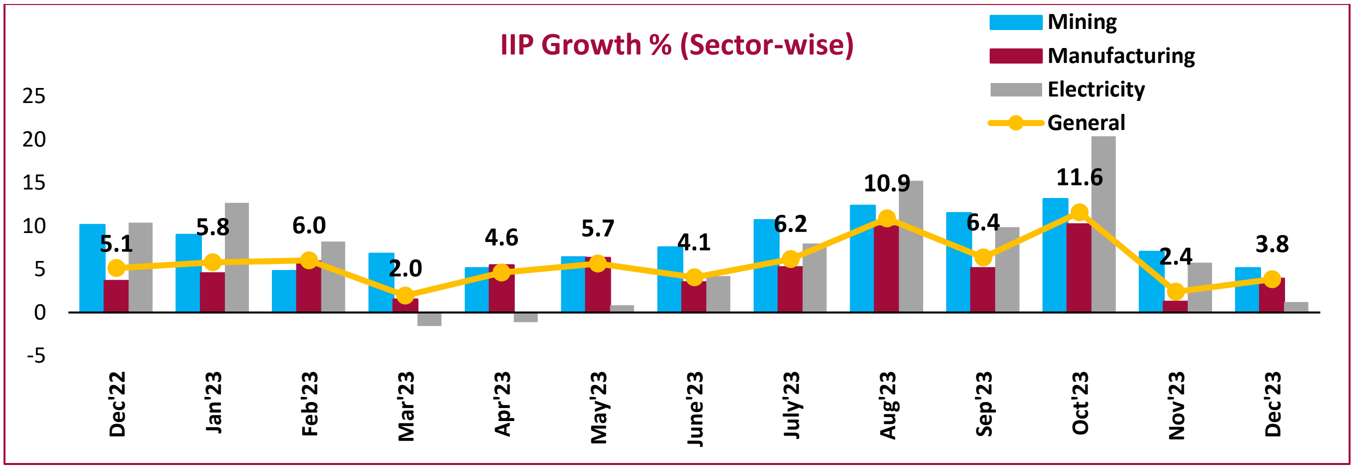
WPI Inflation (%)	Primary Articles		Fuel & Power		Manufactured Products		Food Articles *(Part of Primary Articles)*		All Commodities	
Weights	22.62%		13.15%		64.23%		15.26%		100%	
	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023
November	5.94	**5.16**	19.71	**-4.05**	3.44	**-0.78**	1.51	**8.84**	6.12	**0.39**
December	2.67	**5.78**	18.09	**-2.41**	3.37	**-0.71**	-1.02	**9.38**	5.02	**0.73**
	2023	2024	2023	2024	2023	2024	2023	2024	2023	2024
January	4.06	**3.84**	15.00	**-0.51**	3.06	**-1.13**	2.67	**6.85**	4.80	**0.27**



India witnessed a positive WPI, successively for the third month in January 2024. Positive rate of inflation in January, 2024 is primarily due to increase in prices of food articles, machinery & equipment, other manufacturing, minerals, other transport equipment etc. Fuel and power prices showed continued deflation with 0.51 per cent year-on-year.

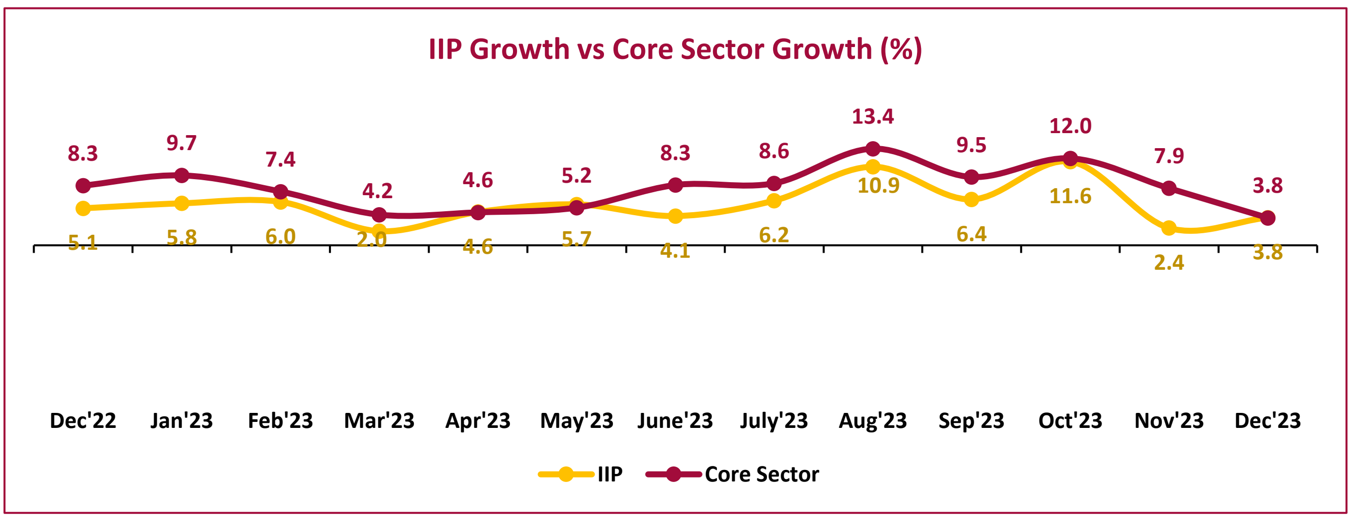
INDEX OF INDUSTRIAL PRODUCTION (IIP) & CORE SECTORS

IIP growth improved to 3.8% in December'23



IIP growth % (Usage-wise)

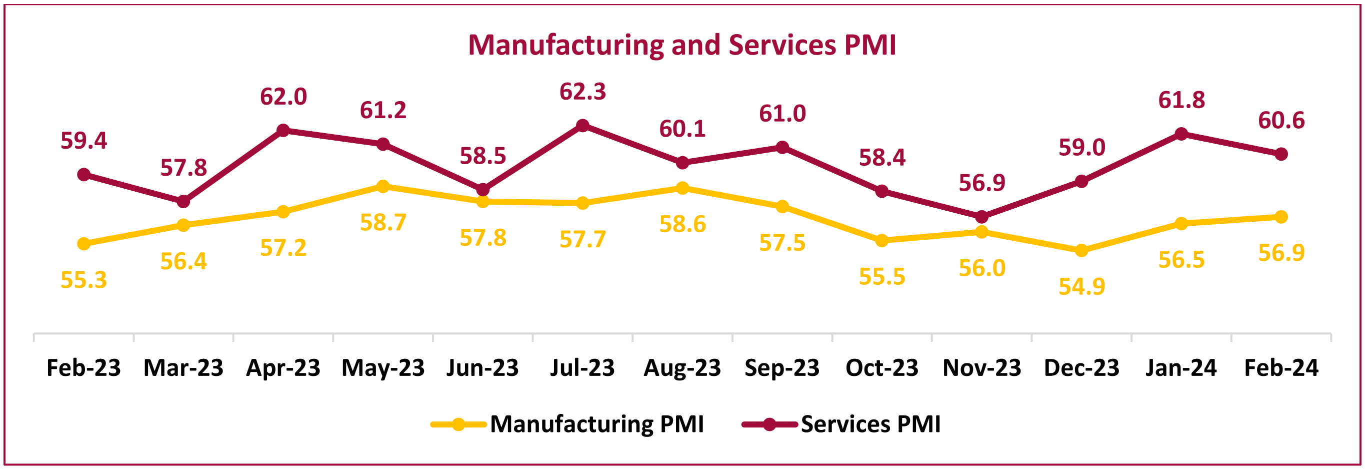
Component	Weight	Dec'22	Nov'23	Dec'23	Apr-Dec'22	Apr-Dec'23
Primary Goods	34.05%	8.5	8.5	4.6	7.9	6.9
Capital Goods	8.22%	7.8	-1.1	3.2	13.9	7.0
Intermediate Goods	17.22%	1.5	3.1	3.4	4.7	4.7
Infra/Construction Goods	12.34%	11.0	1.7	4.1	8.2	10.4
Consumer Durables	12.84%	-11.2	-5.5	4.8	3.2	1.0
Consumer Non- Durables	15.33%	7.9	-3.3	2.1	-1.0	5.2



IIP growth increased to 3.8 % in December 2023- being bolstered by strengthening activity in the eight core industries. Highest growth was observed in the mining sector (5.1 %) while manufacturing sector grew by 3.9 % in December 2023. None of the sectors registered negative growth in December 2023.

PURCHASING MANAGERS' INDEX (PMI)

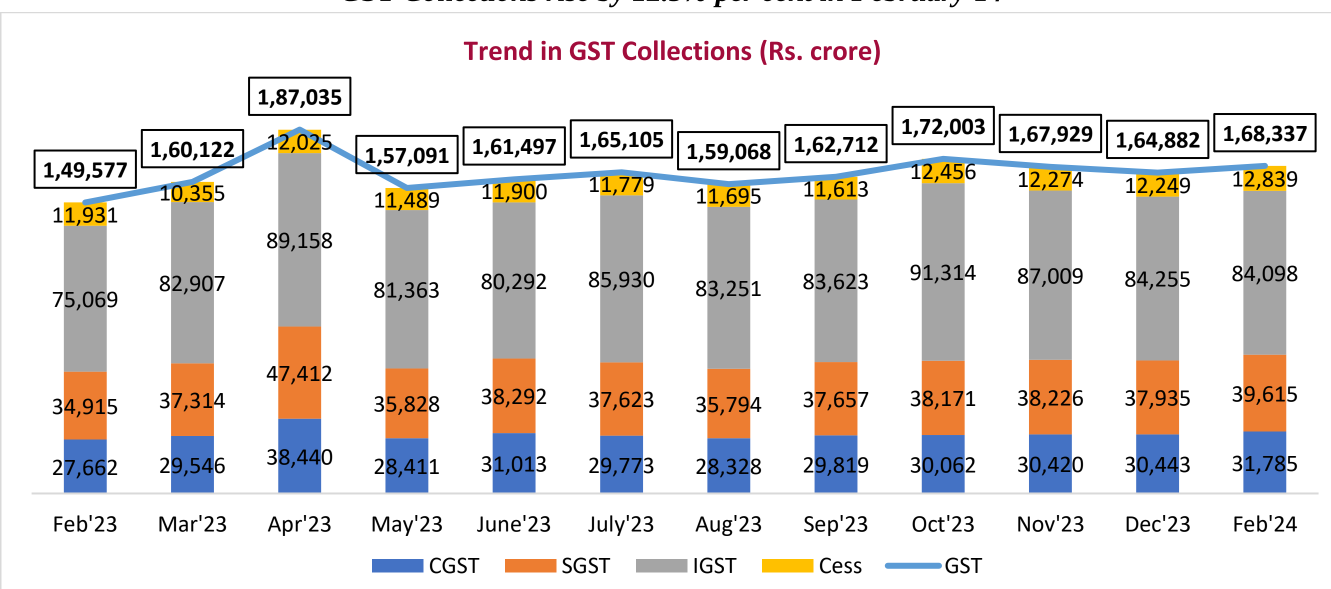
Manufacturing and Services PMI remain robust in February'24



PMI Manufacturing rose to a five-month high as a sharp uptick was noted in production and sales with both domestic and external demand surging. The seasonally adjusted HSBC India Manufacturing Purchasing Managers' Index (PMI) rose from 56.5 in January'24 to 56.9 in February'24, pointing to the strongest improvement in the industrial sector since September 2023. Services PMI, however, fell a tad lower in February'24 to 60.6 compared to 61.8 in the previous month.

GOODS AND SERVICES TAX (GST)

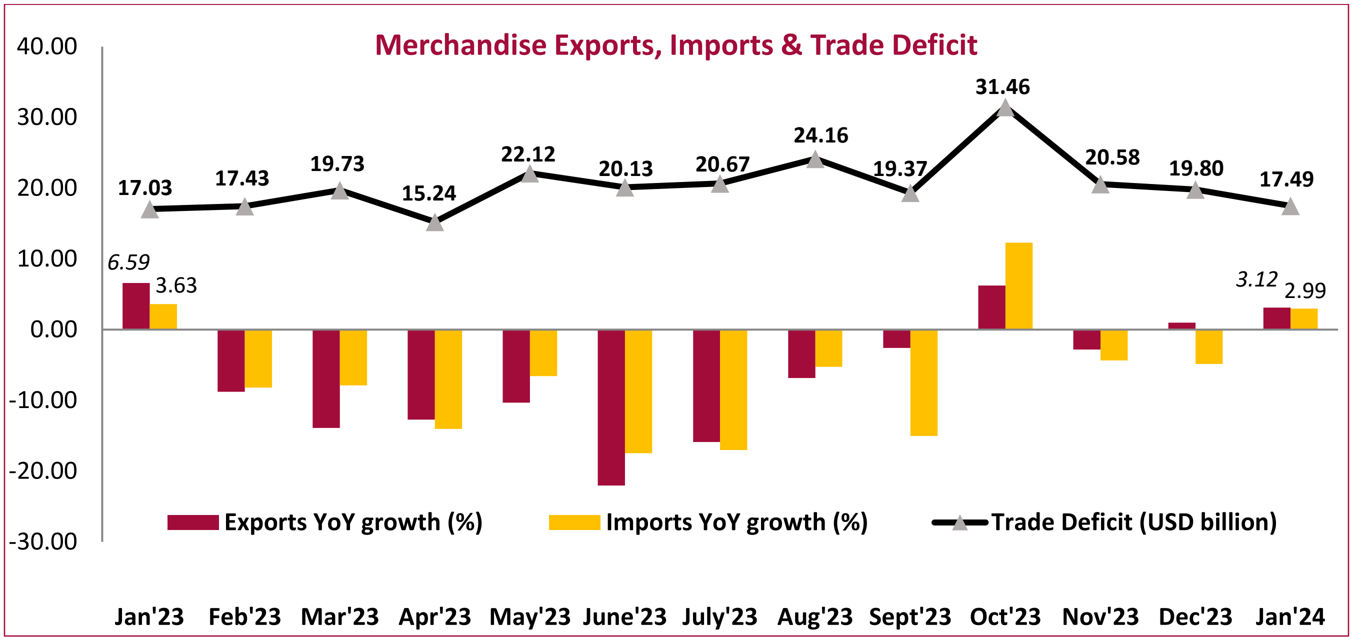
GST Collections rise by 12.5% per cent in February'24

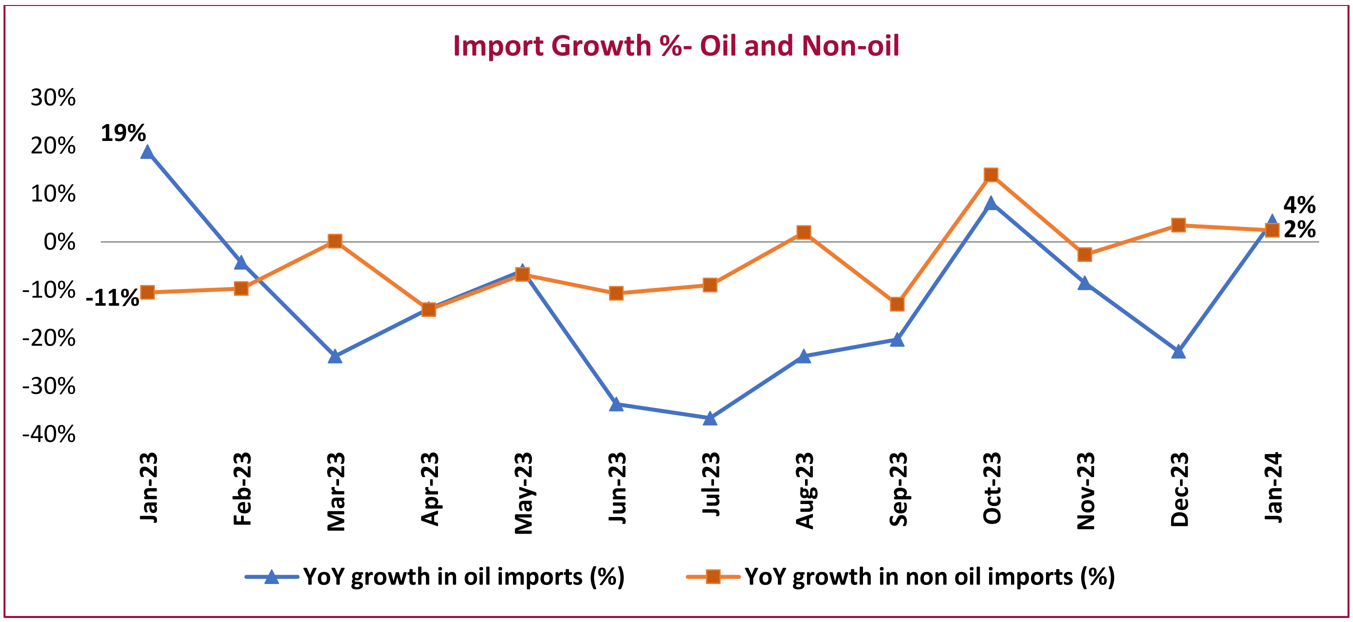


GST Collections for February 2024 stood at Rs.1,68,337 Crore showing a growth of 12.5%. This growth was driven by a 13.9% rise in GST from domestic transactions and 8.5% increase in GST from import of goods. Collections for February'24, however, came a tad lower than January'24 when these were at Rs. 1,72,129 crore.

FOREIGN TRADE

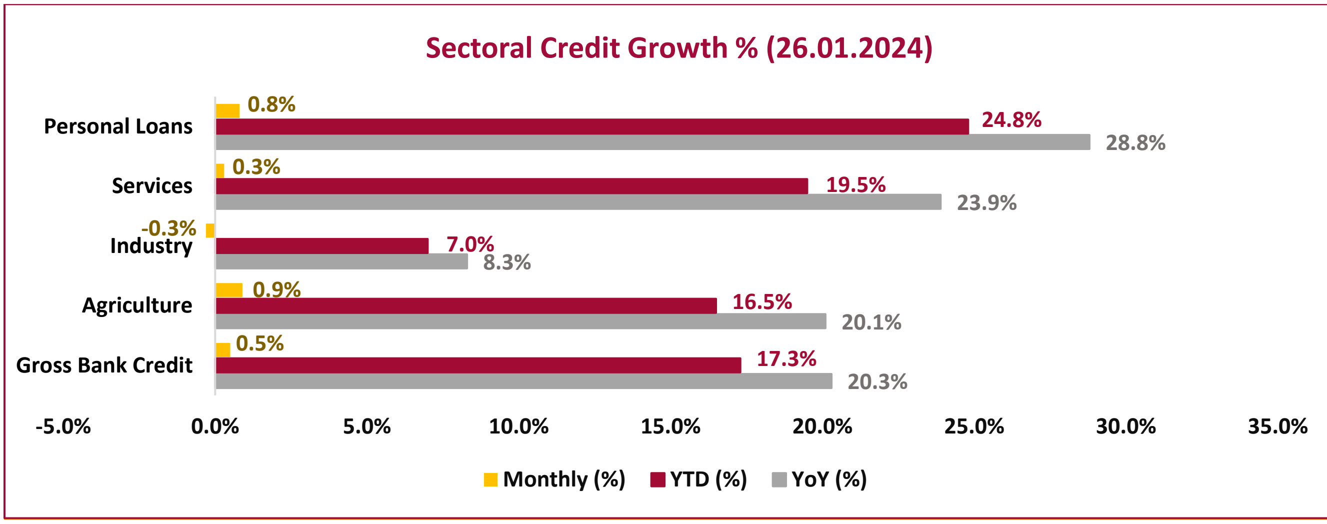
Trade deficit narrows to USD 17.5 Billion in January'24





Merchandise exports rose to $ 36.92 billion from $ 35.80 billion, up 3.12 % YoY in January'24. Agricultural exports continue to grow in Jan'2024- Tobacco (47.32 %), Meat, Dairy & Poultry Products (26.12 %), Spices (20.50 %).Meanwhile Merchandise imports rose to $ 54.41 billion from $ 52.83 billion, up by 2.99 % YoY in January'24. Imports expanded after contracting for two consecutive months. Exports expanded for the second consecutive month. Non-oil imports rose to $ 37.84 billion with 2.41 % YoY rise. Non-Oil exports rose to $ 28.71 billion with 2.17 % YoY rise.

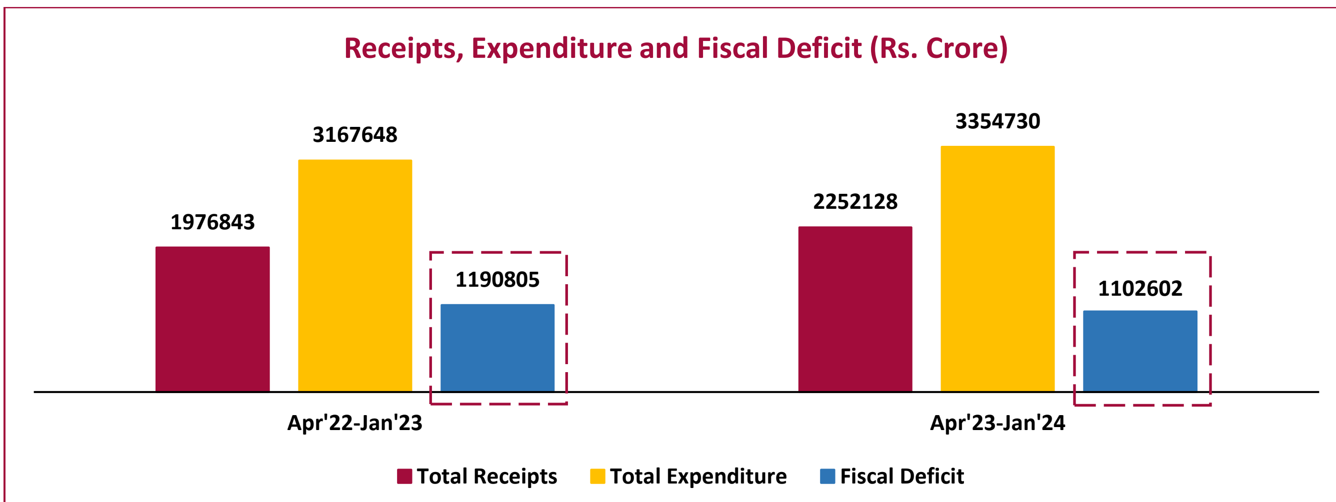
SECTORAL CREDIT



BANK DEPOSIT AND CREDIT

Parameter (Rs. Lakh Crore)	10.02.23	24.03.23	26.01.24	09.02.24	YoY (%)	YTD (%)	Fortnightly (%)
Deposits	177.74	180.44	200.59	201.95	**13.6%**	**11.9%**	**0.7%**
Advances	134.18	136.75	160.44	161.47	**20.3%**	**18.1%**	**0.6%**
Business	311.92	317.19	361.03	363.42	**16.5%**	**14.6%**	**0.7%**

FISCAL DEFICIT

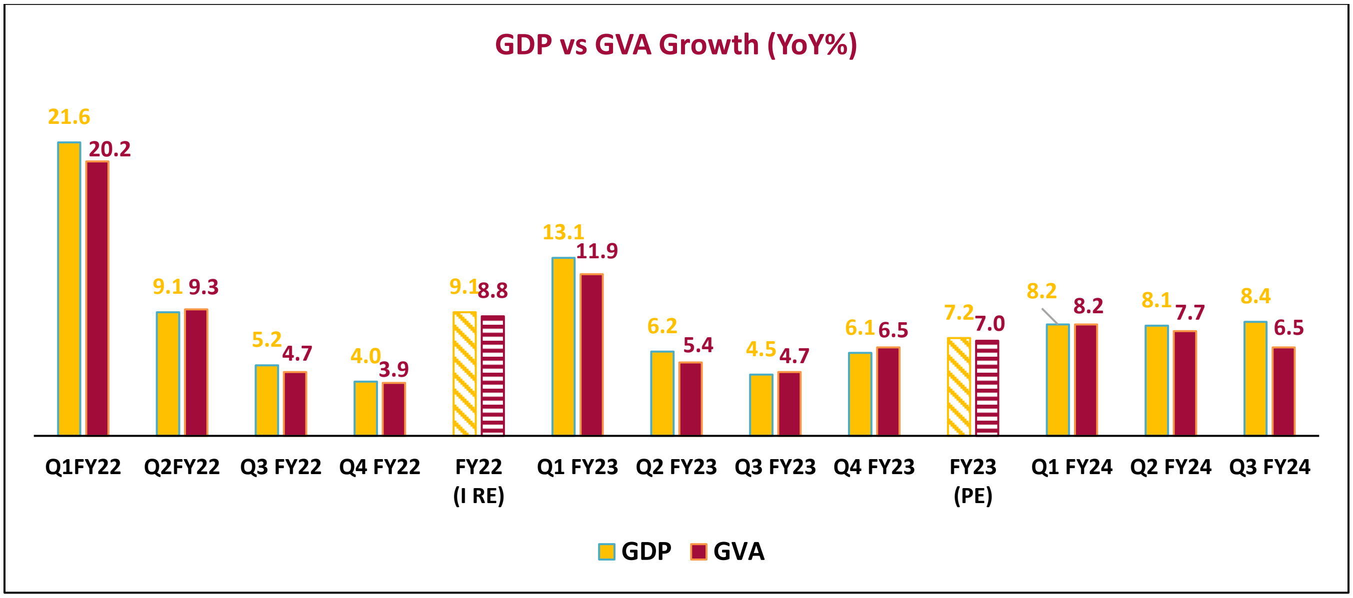


The government's fiscal deficit for the period April 2023-January 2024 was at Rs.11.03 lakh crore- amounting to 63.6% of the Budget Estimates- lower than last year's achievement of 67.8% by this time.

12. QUARTERLY ECONOMIC INDICATORS

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

India's GDP growth surpasses expectations

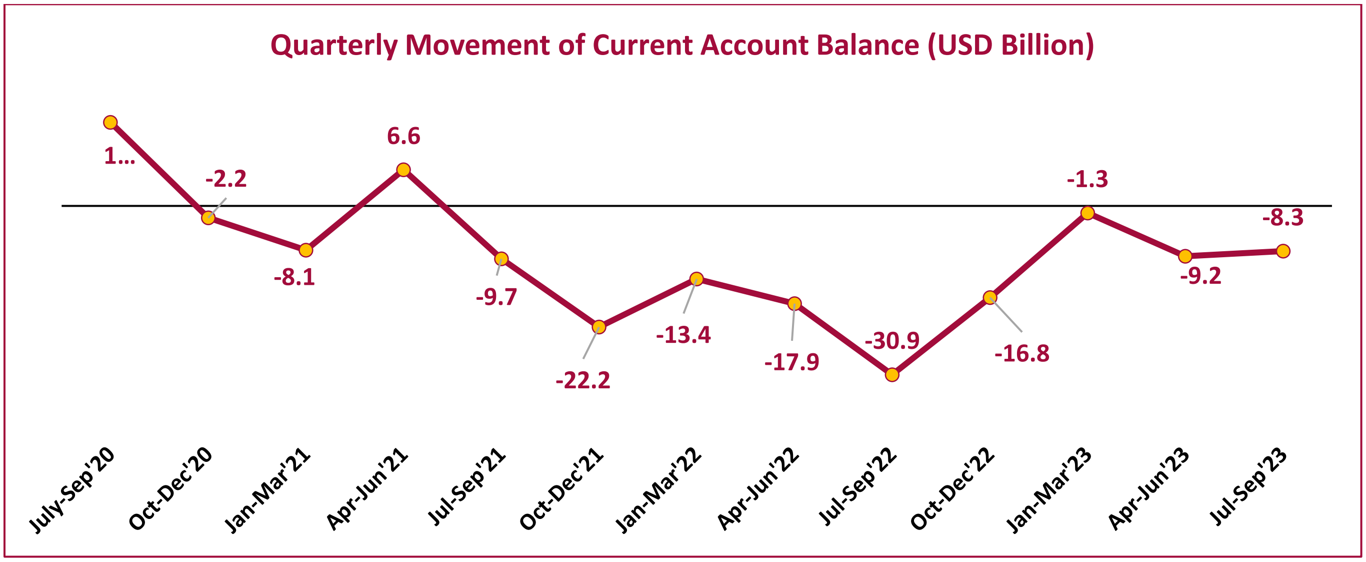


India accounted for the highest GDP growth in the last 6 quarters at 8.4% in Q3 FY'24, marking the third consecutive quarter of 8% plus growth in FY'24. GVA growth, which excludes indirect tax and subsidies, was pegged at 6.5% in Q2 FY'24. The growth was mainly driven by a remarkable double-digit growth rate of 11.6% in the manufacturing sector and a solid performance in the construction sector with a growth rate of 9.5%.

INDIA'S GDP OUTLOOK BY VARIOUS AGENCIES

Agency	FY24	FY'25
RBI	**7.3%**	**7.0%**
World Bank	**6.3%**	**6.4%**
IMF	**6.7%**	**6.5%**
ADB	**6.7%**	**6.7%**

CURRENT ACCOUNT BALANCE



India's Current Account Deficit (CAD) moderated from $9.2 billion (1.1% of GDP) in Q1 FY'24 and remained significantly lower at $8.3 billion (1% of GDP) in Q2 FY'24 compared to $30.9 billion (3.8% of GDP) in Q2 FY'23. A lower CAD was on account of lower merchandise trade deficit. Merchandise trade deficit stood at $61 billion in Q2 FY'24 in comparison to $78.3 billion in Q2 FY'23. Healthy receipts from services exports, good growth in private transfer receipts (mainly remittances) and robust inflows in non-resident deposits also helped narrow the CAD.

13. GLOBAL INTEREST RATES

Central Banks	Countries	Latest Interest Rate (%)	Last Change	Next Meeting Date
Bank of Japan	Japan	-0.10%	Jan 29, 2016 (-20 bps)	Mar 19, 2024
European Central Bank (ECB)	Europe	4.50%	Sep 14, 2023 (25 bps)	Mar 07, 2024
Federal Reserve	U.S.A	5.50%	Jul 26, 2023 (25bps)	Mar 20, 2024
Bank of England	U.K	5.25%	Aug 03, 2023 (25 bps)	Mar 21, 2024
Peoples Bank of China	China	3.45%	Aug 21, 2023 (-10 bps)	-
Reserve Bank of India	India	6.50%	Feb 08, 2023 (25 bps)	Apr 03, 2024

14. INDUSTRY OUTLOOK

Power

Power Sector holds a great significance as it is a critical input for infrastructure, crucial for the economic growth and welfare of nations. India has one of the world's fastest-growing power sectors. It's also among the world's largest producers and consumers of electricity. India’s power sector is one of the diversified sectors and has a diverse generation mix such as thermal (coal-based) which accounts for a significant portion of the generation mix, and renewable energy. Nuclear energy is also a steady but smaller source of power generation in india.

With economic growth and rapid development in India, there has been increased demand for electrification. Rural electrification and government-led programs have brought electricity access to a large percentage of the population. **However, transmission and distribution remains a big challenge in India.** Though India has a substantial network, but improvements are needed to reduce losses and modernize infrastructure.

Key Challenges

Fuel supply shortages: Coal, the primary fuel for thermal power plants, faces supply constraints and logistical challenges.

Financial health of Distribution Companies (DISCOMs): Many DISCOMs are burdened by operational inefficiencies, leading to poor financial health and an inability to invest in the sector.

High Aggregate Technical & Commercial (AT&C) losses: These losses, caused by factors like power theft and poor billing and collection, strain the power sector.

Integration of renewables: Grid stability and the variable nature of renewable energy pose challenges when trying to increase their share of the generation mix.

Environmental concerns: Pollution and greenhouse gas emissions from coal-fired plants are a major environmental challenge.

Industry Outlook

Demand Growth: Electricity demand is expected to rise significantly, driven by economic growth, increasing urbanization, and improving standards of living.

Focus on Renewables: The government has committed to massive renewable energy capacity targets, aiming to reduce India's reliance on fossil fuels and meet climate goals.

T&D Upgrades: Investments in transmission and distribution infrastructure will be critical for reducing losses, integrating renewables, and improving grid reliability.

Reforms: Efforts to privatize DISCOMs and implement market reforms are aimed at improving efficiency, attracting investment, and boosting the financial stability of the sector.

Emerging Technologies: Technologies such as energy storage, smart grids, and electric vehicle infrastructure are likely to play an increasingly important role in shaping the future of the power sector.

The Indian power industry is at a pivotal point. Meeting rising demand while transitioning to a cleaner and more sustainable energy mix will require substantial investments, innovation, and policy support. Despite the challenges, there's immense potential for transformation within the sector.

15. 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*
- *S & P Global*
- *Press Information Bureau*
- *GST Council*
- *Websites of major Central Banks*
- *Controller General of Accounts (CGA)*
- *Petroleum Planning & Analysis Cell (PPAC)*
- *Investing.com*
- *News from Business Standard, Financial Express, Economic Times, The Mint*
- *Cogencis*
- *CMIE*

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QUOTE OF THE MONTH

"A reader lives a thousand lives before he dies."

-George R.R. Martin

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