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Economic Round-up: March 2024

Markit global manufacturing PMI data reveals that headline PMI index rose to 50.6 in Mar'24, from 50.3 in Feb'24. Among the best performing countries, India topped the chart, followed by Greece, Russia, Indonesia, Brazil, Mexico and US. China also performed better than the world average in Mar'24. Eurozone economies however registered further deterioration in conditions last month, led by Germany, Austria and France. The divergence is even more when we take into account other macro-data points. On one hand, US economy is showing signs of resilience with retail sales improving, labour market still strong, and consumer confidence steady. On the other hand, within Eurozone, its major economies (Germany/France) are reporting job losses, slump in retail sales and drop in external demand. In China, while official PMIs (manufacturing and non-manufacturing) registered notable improvement in Mar'24, data till Feb'24 (CYTD) shows that consumer and property sector remain weak, thus signalling uneven recovery path. To support growth and avoid recession, major Central Banks (US/UK/ECB) are expected to begin cutting rates from Jun/Aug'24. RBI this month is expected to maintain status quo and deliver its 1st rate cut in Aug'24.

Global growth: US economic growth continues to hold ground with production, consumption and labour market strengthening further. In China, uneven signs of recovery are emerging with production and external trade performing better than labour market and property sector. However, Eurozone is struggling to stabilize. Continued contraction in manufacturing activity remains a cause of concern. However, with inflation coming down in Germany and Eurozone, some relief from Central Banks is expected. Germany's IFO business sentiment also expects Germany to come out of recession in H2CY24. Domestically, resilience in India's economic growth continues and we expect 7.8% growth in FY25. It is to be seen if RBI also revises its growth numbers in its upcoming policy.

Global Central Banks: In Mar'24, US Fed, ECB, and BoE, kept their respective rates on hold. US Fed revised its growth, core PCE, and long-term rate projections upwards for CY24, and hinted at 3 rate cuts this year. With economy showing signs of resilience there is increased uncertainty around the quantum of rate cuts by Fed. Markets are expecting Fed's 1st rate cut in Jun'24. ECB officials have also signalled that the rate cut cycle will begin soon. With Q1CY24 inflation undershooting ECB's projections, it is expected that the rate cut cycle will begin in Jun'24. In case of BoE, with inflation cooling down, and more members turning neutral (from hawks) a rate cut is expected in Aug'24. BoJ after ending its negative regime in Mar'24, is expected to stand put for the time being.

Key macro data releases: The latest data on **foreign trade** shows that the trade deficit for the first 11 months has come down from $246bn to $225bn. Exports have de-grown by 3.5% from $409bn to $395bn. Imports fell more by 5.3% from $ 655bn to $ 620bn. **In FY25**, with Fed rate cuts expected to begin from Jun'24, dollar strength is likely to wane. This along with robust foreign inflows and comfortable trade deficits will ensure that INR trades with an appreciating bias in FY25. **We expect INR to trade in a narrow range of 82.50-83.50/$.** Additionally, **RBI is expected to maintain status quo in policy tomorrow.** Further, if the RBI does lower the repo rate based on inflation and monsoon conditions possibly from August onwards, it would be of the order of 25-50 bps. This can lower the **10-year yield to 6.75%. CPI inflation** was at 5.1% in Feb'24, on YoY basis, broadly unchanged from last month. **Core inflation** has softened further to 3.3% in Feb'24 from .3.6% in Jan'24.

Global developments

Global growth: Mixed trends appearing

US GDP growth in Q4CY23 has been revised upward to 3.4% from 3.2% estimated earlier, on account of upward revision to non-residential fixed investment, private consumption, and government spending. In Q1CY24 as well, the economy is showing signs of resilience which has led to push back of Fed's rate cut expectations to Jun'24. For instance, US ISM manufacturing index rose to 50.3 in Mar'24 (est.: 48.3) from 47.8 in Feb'24, driven by improvement in new orders, production and employment index. Even price index inched up in Mar'24, which is slightly worrisome. Retail sales rose by 0.6% (MoM) in Feb'24 following (-) 1.1% decline in Jan'24. This was supported sales of motor vehicles and parts, building material, restaurant and bars. In Jan-Feb'24 overall retail sales were up by 3.4% compared with last year (YoY). Initial jobless claims for the week ending 23 Mar 2024 fell to 210k from 212k in the previous week. Continued claims however noted slight increase of 3,500 and settled at 1.80mn. Conference board consumer sentiment index remained virtually unchanged in Mar'24 at 104.7 from 104.8 in Feb'24. Within this, while the present situation index improved (151 in Mar'24 from 147.6 in Feb'24), the expectation index deteriorated (73.8 from 76.3), thus signalling possibility of a recession. However, most analysts believe US economy will avoid a recession and is headed towards a soft landing. Delayed start to Fed's rate cut cycle and fewer cuts may contribute to this.

Eurozone's manufacturing PMI fell again in Mar'24 to a 3-month low of 46.1 from 46.5 in Feb'24. This was mainly driven by 2 components-suppliers' delivery times and stocks of purchases—an improvement in both signals lack of work/less busy suppliers. However in Mar'24, this was due to smaller disruptions in Suez Canal route. On the other hand, more worryingly, purchase of inputs also came down, suggesting weak demand. Employment also declined further. Amongst the major economies, Germany (41.9 from 42.5) and France (46.2 from 47.1) both reported worsening manufacturing activity. In both these economies, new orders and output declined further, but the pace of decline was slower in Germany, while it accelerated in France. Job shedding was also reported in both cases. Germany's Ifo business sentiment index improved in Mar'24 and rose to 87.8 (est.: 86), as expectations index was less negative and current situation index also improved. This corroborates with slower pace of decline in new orders and output reflected in the manufacturing PMI index. Analysts expect recession in Germany to be over by H1CY25.

China's official manufacturing PMI bounced back in Mar'24 as the index jumped to 50.8 from 49.1, as 15 out 21 surveyed sectors reported expansion in activity. The sub-index of new orders also rebounded and moved to 53 from 49 in Feb'24. An improvement in export and imports of businesses was also noted, particularly by companies in auto, communication devices, and chemical fibre sectors. Apart from this, the non-manufacturing PMI also inched further up in Mar'24, to 53 from 51.4 in Feb'24. Both services and construction sub-index went up. Within services, significant gains were visible in postal services, telecom, and financial services. Even other macro data for Jan-Feb'24 period has surpassed market expectations, thus pointing towards signs of recovery in China's economy. For instance, industrial production rose by 7% in Jan-Feb'24 period (est.: 5%), up from 6.8% in Dec'23. Even FAI (proxy for investment growth), rose by 4.2% during this period (est.: 3.2%), following 3% increase in CY23. However, retail sales slowed, as it was up by only 5.5% in Jan-Feb'24 (est.: 5.2%), versus 7.4% growth noted in Dec'23. property sector also continues to remain under pressure as investment in the sector fell by (-) 9% in Jan-Feb'24, compared with (-) 24% decline registered in Dec'23. Jobless rate also inched up to 5.3% in this period, from 5.1% in Dec'23, thus casting doubt on the extent of recovery.

RBI

MPC members this week are expected to keep the policy rates steady by keeping repo rate unchanged at 6.5%, SDF at 6.25% and MSF and bank rate at 6.75%. RBI is also expected to leave the stance of "withdrawal of accommodation" unchanged. We do not expect any major changes to growth or inflation forecasts in the upcoming policy. Further, we have priced in 2 rate cuts in FY25. The earliest possibility of 1st rate cut is expected in Aug'24, provided inflation follows RBI's trajectory.

Global central bank decisions

US Fed kept its policy rates unchanged at 5.25-5.5% for the 5th consecutive time in Mar'24 meeting. The policy statement hinted at 3 policy rate cuts in CY24. Most recently also Fed officials have stated that while there will be rate cuts this year, the quantum might be smaller than what markets are expecting. Unless there is a definitive sign of inflation moving towards the 2% mark, Fed will not be able to deliver substantially large rate cuts. In its Mar'24 policy the long-end rate was forecasted at 2.6% by Fed, higher than 2.5% expected in Dec'23. Further, GDP projections were revised significantly upwards to 2.1% from 1.4% projected in Dec'23. Notably, core PCE estimate was also pushed higher to 2.6% from 2.4% earlier, suggesting that the Central Bank expects prices to remain sticky. Currently, analysts are expecting first rate cut in Jun'24.

Bank of England (BoE) again left its policy rate unchanged at 5.25%—at 16 year high, in its Mar'24 meet. The decision was not unanimous. 8 out of 9 members opted for a pause, while 1 member voted for a 25bps cut. This was the first time since CY20 when no one voted for a rate hike, thus signalling that the Central Bank is confident that rates are at restrictive levels to bring inflation down to targeted path. Supporting this view, UK inflation eased to 3.4% in Feb'24—lowest since Sep'21, and was down from 4% in Jan'24. Investors expect BoE's quantum of rate cuts to be higher than US Fed. The first rate cut by BoE is expected in Aug'24, but there is a 50% chance of a cut in Jun'24 as well.

ECB also decided to pause in its Mar'24 meeting, and signalled that members have started discussing rate cuts, as opposed to the previous meeting when it was pointed out that rate cut talks are "premature". Since the last policy meeting, macro data available has further raised hopes of a rate cut in Jun'24. Eurozone inflation in Q1CY24 has undershot ECB's projections. In addition, faltering growth in Eurozone economy also makes the case for rate cuts. Analysts are hopeful that ECB will begin its rate cutting cycle from Jun'24, but there is also a small possibility that it may start the cycle even earlier from Apr'24.

BoJ in line with market expectation, ended its negative rate regime—a first in 8 years. It hiked the short-term rate target to 0-0.1% from -0.1% earlier. This was the first rate hike in 17 years. BoJ also ended its bond Yield Control Curve (YCC) policy which capped the long-term rates around 0%. It also abandoned its policy of buying risky assets, but re-affirmed that that it will continue buying government bonds at current levels. The Central Bank also reaffirmed that it will continue to maintain ultra-loose policy till inflation doesn't rise to its targeted level on a durable basis. Rising wage pressure has been impacting the headline inflation print. Minutes of the Mar'24 meeting also show that members believe that the bank need not hike rates at a faster pace, as fragile economic growth may not be able to withstand the exit.

Special studies

CC Dynamics-Consumption and Credit picture

An analysis of consumption demand and bank credit offtake has shown that:

- The consumption picture is puzzling. But the funding side of demand has evolved strongly.
- Consumption demand by type of goods such as durables and semi-durables have shown that in FY23 demand elasticities of retail credit has picked up considerably and the same momentum is likely to continue in future.
- Strong housing demand coupled with the push for affordable housing has also resulted in improved elasticity of housing loans as well.
- Overall, formal source of finance is playing a crucial part in driving India's consumption demand. However, for certain segments the focus should be on quality lending and cautious monitoring of the same to prevent overheating.

Background:

The consumption story of Indian economy is still fuzzy. In fact, for private final consumption expenditure (PFCE), the growth rate as per second advance estimates has been projected to be lower at 3% in FY24 (in real terms) compared to first advance estimates estimate of 4.4%. As per recent report of Retailers Association of India, retail sales growth showed an asymmetric picture with FMCG goods gaining momentum and consumer durables and electronics lagging. The guidance of major consumer goods related companies in its recent quarterly results on the other hand spoke of the concentration of demand towards the high-end segment with non-discretionary spending taking a back seat. High frequency indicators of consumption demand also painted a mixed picture. Vehicle sales (Two, three and PV sales), albeit with a high base, has posted a double-digit growth in both Jan'24 and Feb'24. Domestic air passenger traffic has shown some moderation, so has GST and E-way bills. So, it's very difficult to interpret the demand side dynamics.

However, when we look at the funding side of consumption demand, the picture is entirely different. Of late, retail credit offtake has undergone a decisive shift. The 5-Year CAGR ending FY23 for retail credit (personal loans excluding housing and education) has been at 19.4% and the run rate in FYTD24 (till Jan'24) is at 16.5%. There also have been regulatory checks in place as there was much debate surrounding the sudden spur in uncollateralized loan demand to finance consumption. From FY19 onwards (barring FY21 & FY22), growth in retail credit has exceeded 20%; and FY23 growth rate has been more than a decadal high. Much of this may be attributed to the pent-up demand phenomenon and resumption of economic activity post the Covid-19 induced slowdown as during the same time, rebound was also visible in the PFCE component of GDP.

We have tried to juxtapose the PFCE component of GDP with the funding side of it, especially retail credit offtake of banks and tried to map the two.

To get a clearer picture the mapping is done w.r.t type of consumer goods, for example, durable goods are mapped with retail credit and for housing and education, separately bank credit offtake to these two sectors have been used. Next, we have used the concept of elasticity to see how the bank's role in propelling private consumption demand has fared over the years.

How has Consumption demand moved?

We all know overall PFCE growth has shown some trailing in recent past. However, for a better understanding we have looked at two quinquennium's, 1) Ranging from FY12-17 and 2) Ranging from FY18-23. For Period 1. Overall PFCE grew by 10.9% with a solid double-digit growth visible in both durable and non-durable part of consumption demand. To elaborate durable consumption goods as per National Accounts Statistics definition, include furniture, fixtures, carpets, heating and cooking appliances, refrigerator and air conditioners, personal transport equipment, radio, TV, Jewellery ornaments, etc. to name a few. Semi-Durable consumption goods include clothing and footwear, Glassware, tableware, household utensils, miscellaneous personal goods etc. to name a few. Non-durable consumption goods include food, beverages and tobacco, fuel and power, newspaper, books, and magazines etc. to name a few.

Over the years, shares of durable goods have picked up in overall PFCE. A lot of it has occurred post Covid-19 where a lot of correction came into play, and it continued in FY23 as well. On the other hand, a downward correction happened in the shares of non-durable goods. Even shares of durable services which include Rent and water charges, domestic and laundry services, medical services, educational charges, hotels, and restaurants, etc. to name a few, rose to their highest in the current series. The shift is structural, or a one-off event post the pandemic, would only be clear in the coming years. But some transformation is visible in the consumption pattern of the economy.

Next, we look at how the CAGR of two quinquennium have advanced. Notably, what stands out in the graph is that for durable goods, demand has been stable in both the periods. In fact, when the CAGR of overall PFCE went down to 8.4% in Period 2 from 10.9% in Period 1, for durable goods it remained stable at 10.3% outpacing all other subcomponents of PFCE. However, for semi-durables and non-durables, shares have moderated considerably, partly impacted by higher inflationary pressure.

Juxtaposing the credit data with consumption:

In this section, we analyzed whether the funding side of consumption also buttresses the same story as seen on the demand side. Here we have aggregated durable and semi durable goods and tried to look at the trajectory of the same with the trajectory of retail credit. One thing needs to be clarified first before bringing credit and consumption demand into the picture. PFCE is a flow concept. A flow is a quantity measured per unit of time. On the other hand, bank credit is a stock concept. A stock is a quantity measured at a given point in time. So, a better way to look at is using the incremental credit during the year and then comparing it with the PFCE for the year. Durables and semi durables.

For FY16, FY17 and FY18, a credit offtake in the retail sector has translated into a similar pickup in demand for durable and semi durable goods. Also for FY23, a similar trend is observed. However, a vanilla YoY picture doesn't translate to any conclusive picture. Thus, we have used the ratio of incremental retail credit to durables and semi-durables demand.

We also observe, how the role of formal financing is increasing over the years in financing consumption demand. The incremental retail credit to finance durables and semi-durables picked up significantly in FY23 and it is the highest in more than a decade. All of this is a lagged impact of monetary stimulus offered during the Covid-19 period. Next, we see how elasticity has moved over the years. Thus a 1% increase in PFCE of durable and semi

durable segment is leading to a faster pace of increase in retail credit. The elasticity touched 3, last noticed in FY18, when credit growth and economic activity were robust.

Housing demand and housing credit

For housing construction can be a proxy for housing demand, we have taken the households dwelling, building and other structures of Gross Fixed Capital Formation of GDP. We have seen that for years such as FY14, FY15, FY19, FY22 and FY23, an increase in housing demand has led to an increase in housing credit offtake. However, for a better picture we have looked at the elasticity data.

Elasticity of housing loans has improved in FY23 and recovered from the lows seen during pandemic but still lower than the pre-pandemic numbers. It was a period where construction activity was at a standstill due to lockdown restrictions. However, elasticity is expected to undergo further upward correction as seen in years between FY17-19, where there has been considerable pickup in housing demand.

Education and Education loans

In most of the years except FY15 and Covid-19 period, there has been a fair degree of relation between education component in PFCE and education loan. Demand elasticity of education loan has reached its highest since FY12. This is attributable to a favourable demographic dividend in favour of India and aspiration for higher studies among the young population.

Concluding remarks

The analysis done shows that there is a growing relationship between household consumption, housing and education and demand for credit. The elasticity rates were volatile during covid but have recovered since. An elasticity of around 1 has been seen for housing and education loans. In case of retail loans (excluding home and education loans), the growth in durable and semi-durable goods has a stronger relation. These would be the focus points going ahead.

Investment intentions in retrospect

NSO data on gross fixed capital formation at current prices indicate that there has been a marginal improvement from 30.8% in 2022-23 to 31.3% in 2023-24. However, there is still a bit of fuzziness on the spread of this investment. It is true that the central government has been increasing its capex; but that does not always get reflected in the private investment levels.

CMIE data on new investment announcements is an indicator of how corporates are looking at capex. The numbers presented are intentions only which may or may not materialize. But they reflect the mood of companies. The overall picture is encouraging as while the intentions have been lower compared with last year, there is substantial improvement compared with even pre Covid-19 times.

We observed that the level of Rs 27.1 lakh crore is the second highest in the last 10 years. This is indicative of confidence levels being higher which will hopefully fructify. With GDP growth expected to be maintained in the region of 7.8% next year, it is but natural that support will be provided partly by private investment. There are

expectations that both consumption and investment will be better in FY25 relative to FY24. Higher consumption will lead to better utilization of capacity which in turn can trigger higher demand for investment.

We take a look at new investment announcements on a quarterly basis in the last 6 years. Here again the performance in Q4 has been very impressive. It is again lower than the fourth quarter of FY23, but is still very impressive at Rs 11.33 lakh cr. This comes after a lull in Q2 and Q3. There is of course the case of capital plans being expedited in the last quarter of the year which has been witnessed in earlier years too and hence is a seasonal factor. But nonetheless the picture looks positive from the announcements point of view.

Given the higher intentions indicated by companies it is useful to examine which are the industries that have contributed to this increase. We note:

- Three broad segments i.e. manufacturing, electricity and services contributed to the bulk of these intentions.
- But interestingly for FY24, chemicals, electricity and transport (which is mainly airlines) accounted for 72% of total intentions. Their share was lower at 60% in FY19, which is before the pandemic struck.
- The higher share of transport can be attributed to announcements made by airline companies to buy more planes in the coming year.
- Further, the share of construction and real estate was high at 10.4% in FY19 and rose to 13.4% in FY20, but has since then declined continuously to reach 1.4% in FY24.
- The shares of metals and machinery have been higher in FY21 and FY22 but have moderated subsequently though the latter has increase its share once again to 9.7% in FY24.
- There is hence quite a bit of concentration in the sectors which are related to infrastructure, while consumer oriented industries (not shown here) have very low shares.
- The overall connection with government capex is strong as the spending on roads, railways etc. does engender backward linkages with sectors such as metals, machinery and chemicals.

Year End: Equity market performance

In FY24, we observed that Indian equity markets (Sensex for the purpose of our analysis) was one of the best performing markets after Japan's Nikkei and US' S&P 500. For comparison purpose, we assumed Mar'23 to be the base and analysed performance during the year. Sector-wise, Realty, Utilities and Power sector buoyed the growth. Key reason for India's equity market outperforming others lies in the strength of its domestic economy (fastest growing major economy) and resultant net FII inflows in the equity segment. Going forward, as major Central Banks begin to cut rates this year, other global equity markets may also post significant gains. Domestically, we remain confident that GDP growth will settle in the range of 7.8% in FY25, buoyed by consumption and investment demand. This will be positive for equity markets as well.

India versus Global Markets:

In FY24 (Apr'23-Mar'24), India's Sensex was one of the best performing markets amongst other major indices. Compared with Mar'23, Sensex was up by 24.9% during the year (till 28 Mar 2024), only behind Nikkei (+44%) and S&P 500 (+27.9%). Dow Jones was up by 19.6%, while FTSE registered smallest gain of 4.2% during this period. On the other hand, Hang Seng index fell by (-) 18.9% during FY24.

Nikkei and Sensex throughout the year performed equally well, and only toward the end of Dec’23/beginning of Jan’24, Nikkei surged significantly as buoyed by stronger corporate performance, weaker Yen and FII inflows into equity segment. Interestingly, even S&P 500 closely tracked gains in Sensex and only marginally surpassed our domestic index towards the end of Feb’24. Increased expectations of a rate cut by US Fed in Jun’24 has supported gains made in tech-heavy S&P 500. Apart from Hang Seng, FTSE has been a significant under performer as elevated inflation and uncertainty around BoE’s rate cut timing has kept investors on edge. Also since investors were giving preference to tech stocks (S&P) more than financial, energy, and materials stocks (41% weight in FTSE versus 16% weight in S&P) is also another reason why UK’s stock market has seen muted growth. However, energy prices rebounding maybe positive for FTSE in the coming months.

Sectoral growth in Sensex:

Amongst different sectors, following notable trends were observed:

- Out of the 20 sub-indices tracked, 16 registered gains more than the headline index (Sensex).
- Realty, utilities and power sectors gained the most during FY24 (Mar’24/Mar’23), reporting over 80% YoY growth.
- Sectors noting 70-80% growth in FY24 included industrials, capital goods, auto and services.
- Following this, in 60-70% YoY bracket came Telecom, energy, consumer discretionary goods & services, and healthcare.
- Oil & gas and metal stocks also performed well.
- Consumer durables, commodities and IT while performed better than Sensex but gains were not as large.
- Improvement in tech and finance sector stocks was close to Sensex’s overall perforce.
- FMCG and BANKEX while registered gains during the year, but significantly underperformed compared to other sectors.

Drivers of Growth:

In India’s case, sustained improvement in economic growth has helped its stock markets. India remains the fastest growing major economy in the world, and as per NSO’s 2nd advanced estimates it is poised to grow by 7.6%in FY24, up from 7.3% in FY23. In FY25 also, momentum is expected to be maintained supported by government and private investment, and domestic consumption. We expect a growth of ~7.8%. In FY24, high frequency data also supports NSO’s growth estimates. Air passenger traffic growth was up by ~15% (YoY), with absolute numbers of passengers touching 374mn, thus surpassing 345mn during pre Covid-19 period (FY19). Rail freight volume growth in FYTD24 (till Feb’24) at 4.9% is also seen inching back to pre Covid-19 period level (5.2% in FYTD19). Port cargo traffic in FYTD24 (4.7%) has surpassed FYTD19 level of 3% growth. Volume of toll transactions reached 3.8bn in FY24, 12% higher than last year. In value terms, toll transactions climbed up to ~Rs 64k crore (+18.6% YoY) from ~Rs 54k crore last year. Bank credit growth has jumped by 16.5% (as of 8 Mar 2024) from 14.8% last year.

In India, FPIs in general have seen a turnaround in FY24, with net inflows at US$ 41bn, compared with outflow of US$ 5.5bn in FY23. Within this, US$ 25.3bn has been net inflows in equities, which in turn has in turn supported the gains made in Sensex. Compared with other countries, this is the highest amount amongst Asian (ex-Japan) economies. In contrast, other major economies like Germany and China have seen net outflows during the same period

Going forward, movement in global equity indices will closely track the timing and quantum of rate cuts by major Central Banks (Fed, BoE, and ECB). In addition, volatile geo-political tensions in the Middle East, and weather conditions (impact food supply chains) may impact global commodity prices and inflation. While higher prices will be positive for respective stocks in the short-term, in the long-term it may dent demand prospects and Central Bank rate cuts. Domestically, consumption and investment demand will remain propellants of growth. RBI's prospective rate cut in Q2FY25 will further support the ongoing momentum. This may in turn support FII inflows in both equity and debt segment and fuel growth in Indian stock market.

Government's borrowing programme for H1-FY25

RBI has announced that the government will borrow Rs 7.5 lakh crore during the first half of the year as against a target of Rs 14.13 lakh crore. This will be 53% of the target and is one of the lowest shares raised during the first half of the year.

It can be seen in the chart that the share is lowest in the last 6 years if the Covid-19 year is excluded. The lower target can be attributed to three factors. First, with the Elections being held in the first two months there could be some strains in liquidity with banks which is addressed to an extent by a lower programme. Second, banks as such are running in the deficit region in the last few months and the possibility of this trend prevailing in the next few months cannot be ruled out. Third, a larger share has been kept for the second half on the expectations of more FPIs flowing in once the inclusion of Indian bonds in the JP Morgan Bond index gets operationalized from June onwards.

In the calendar drawn up, the RBI has also indicated the likely tenure of paper that is being raised. There has not been much change in the composition of different tenures with roughly half being in the 15 years plus category. The 15 years paper would be specifically introduced this year as per the press release. The table below gives the shares of various maturity buckets that has indicated by the RBI for the first half of the year along with the shares for the last full year.

The share of 15 years and above is 51.2% for H1-FY25, which is marginally higher than the 50.9% share for 14 years and above for FY24. But for less than 15 years, the 10-year bucket has a higher share this half year at 25.6% compared with 21.3% last year. Therefore there is some attempt at elongating the repayment schedules of government debt.

The maturity of debt is important from the point of view of not just the repayment period but also ensuring there is not too much bunching of redemptions in certain years. As of today outstanding debt of the government is Rs 102.65 lkh crore. The graph below gives the redemptions that will be due (if not rolled over) for the next 13 years. This phase involves almost 72% of total outstanding debt which will be maturing. It can be seen that 2024-25 would be one of the more favourable years with redemption of Rs 3.61 lakh crore. Subsequently it would be over Rs 5 lakh crore per annum peaking in 2026-27 and 2030-31 again with over Rs 7.5 lakh crore falling due. Intuitively this will push up the gross borrowing programme of the government substantially. One could expect switches taking place to lower the impact.

The raising of funds will tend to be for longer maturities going forward keeping in mind the redemptions that fall due every year. The table below gives the shares of various quinquennium starting from FY25-FY29 (both years included).

Debt management going forward will have to weigh in several factors. Drawing a calendar will be contingent on state of liquidity in the system, overall growth in the economy, debt appetite of players, tenure of debt, redemption pressures among other factors. As the volume of redemptions increase, the gross borrowing programme would also be rising which will have to be managed by the RBI. The expected flows from FPIs can be a comfort in this context.

How precarious are our reservoir levels?

The outcome of a monsoon is normally linked to the crop prospects for the Kharif season. But rains are also important when it comes to increasing the water levels in the reservoirs in the country. As monsoons are normally received in the June-September period, with limited states being subjected to the North East monsoon which has shorter tenure between October and December, it is imperative that the water which accumulates in the reservoirs are at healthy levels till the next season. This water is used for various purposes such as drinking for people as well as cattle, fodder, cultivation etc. The months starting from March would tend to witness depleting levels as the country awaits the monsoon. Shortages in reservoir levels does create problems across the country which is being witnessed today. This report provides a picture of the reservoir levels as of 14th March.

There are 150 reservoirs that are monitored by the Central Water Commission on a weekly basis. The total live capacity at full reservoir level (FRL) is around 179 billion cubic metres (BCM). The level of live storage as of 14th March was 40% of the live capacity. The ratio last year at this point of time was 47%. While this is significantly lower, the 10-year average was 41%. Hence the situation is still under control when looked at in the historical context at the aggregate level.

We looked at live storage levels ratios as % of live capacity cross various regions as of March 14, 2024. We note that:

- With the exception of the eastern region, all others have lower live storage levels relative to live capacity as of 14th March.
- The sharpest fall is seen in the southern region from 42% to 24%. Here the states which are under pressure are Andhra Pradesh (13% ratio), Tamil Nadu (30%) and Karnataka (26%). Kerala was an outlier as it witnessed an increase over last year.
- The western region is also lower by 9% which is witnessed in both Maharashtra and Gujarat.
- The northern region has seen a dip from 39% to 34% with Punjab (49 to 36%) and Rajasthan (48 to 40%) witnessing the sharpest declines.
- The eastern region has seen an increase of 6% points. Bihar and Tripura were the only states to witness a decline. It increased for Bengal, Odisha, Assam and Jharkhand. Jharkhand had the highest storage to capacity ratio of 65%.
- Among the central states Uttar Pradesh and Chhattisgarh had witnessed decline in levels relative to last year while Uttarakhand saw improvement. Madhya Pradesh remained unchanged at 54%.

As the summer season sets in next month, the higher evaporation rates would be an ongoing concern. The onset of the monsoon and its progress would hence be very critical from the point of view of water resources in the country.

Global central banks actions in retrospect

Ever since the Covid-19 pandemic, the role of monetary policy has gained prominence in both political as well as social debates across the world. In recent times, there have been arguments over the impact of global monetary policy decisions, especially the Fed, on domestic monetary policy. However, the RBI has always maintained that its monetary policy decisions are governed by domestic price and financial stability considerations and not influenced by what other global central banks are doing. In the last few years, global monetary policy underwent a significant set of challenges in the form of Covid-19 and low inflation, and then a complete reversal of the inflation trajectory. This called for a proactive and often synchronized policy response of monetary policy.

With this background, in this study we traced the movement in global monetary policy decisions in the last few years. It must be mentioned here that most countries faced a similar set of challenges during each of these periods, marked by aggressive policy easing during the peak of pandemic followed by aggressive policy tightening as inflation accelerated and then a period of a pause in policy rates. It must be mentioned here that Bank of Japan remained an outlier all throughout each of these phases, standing pat on its ultra-dovish policy stance. However, with inflation in the region creeping up considerably in the last few months, the central bank recently raised its policy rates for the first time in last 17-years. China too remained an outlier as its economy continued to struggle post the Covid-19 pandemic and the property sector crisis. As a result, People's Bank of China (PBOC) has been cutting rates to support domestic growth.

Phase 1: Covid-19 pandemic

When the Covid-19 pandemic broke out, economic activity practically came to a standstill, curtailing growth severely. Global central banks responded by cutting policy rates aggressively, to spur growth and investment. This was a period of synchronized monetary policy easing across the globe, one which the world had not seen since the global financial crisis.

By Mar'20-Apr'20, most major global central banks had already cut their respective policy rates to multi-year lows. The US was the first major central bank to cut rates, to a low of 0.25% in Mar'20. Even in the UK, the Bank of England slashed its policy rate to as low as 0.1% in Mar'20 from 0.75% at the end of 2019. In Europe, the policy rate was already at 0%.

In China, the 1Y loan prime rate or LPR was reduced to 3.85%. In India, RBI reduced the policy rate successively from 5.15% at the end of 2019 to 4% by Mar'20. At this point, India's policy rate differential with UK stood at 390bps and with US at 375bps.

Phase 2: Return of inflation

Towards the middle of 2021, as economic activity started to normalize, global central banks were confronted with the resurgence of inflation. With demand increasing and supply chains still constrained, inflation started to increase at a rate faster than anticipated. By the end of 2021 there was a sharp increase in prices of oil, food, electricity etc.

To bring inflation under control, higher policy rates were warranted. However, monetary policy response differed across countries. EM countries were the first to respond, with central banks in Brazil, Mexico and Russia starting to raise rates between Mar-Jun'21.

On the other hand, central banks in advanced economies (AE) such as US, UK, Europe were slower to respond. The Russia-Ukraine war acted as a catalyst, leading to a sharp pickup in commodity prices, especially oil. This was also fed into prices of other goods and services, which led to a significant pass-through into core inflation. Amongst major central banks, the Fed (Mar'22) and the European Central Bank (Jul'22) were amongst the last to raise rates. In India, the policy tightening commenced from May'22, with the repo rate being increased to 4.4%.

During this phase, India' policy rate differential with US, UK and Europe increased as RBI front loaded its first rate hike and raised repo rate by 40bps.

Phase 3: Peak of interest rates

While inflation in several developed and emerging markets trailed much above the central banks' targets, tightening labor market conditions also impinged on price stability. Worries over the second-round effect of price shocks and inflation becoming increasingly entrenched, elicited a prolonged phase of policy tightening by global central banks. As a result, central banks globally moved quickly to increase rates to a sufficiently restrictive level and keep them there, until policymakers were sure that inflation would return to target. This marked the peak in the interest rate cycle.

For most of the central banks, this point was reached during H2CY2023. For the US, the policy rate peaked in Jul'23 to 5.5%, starting from Mar'22. For the UK, the policy rate took 20 months to reach its peak. On average, it took global central banks about 20 months to achieve the peak policy rate. In comparison, in India policy rate was at its peak within 9 months from the start of the rate cut cycle.

In terms of the magnitude of rate hikes, India has been at the lower end, increasing policy rate by only 250bps (from Covid-19 low). In fact, the increase in case of India has brought the policy rate to the average in the last ten years or so. On the other hand, the policy rate in the US has been increased by 525bps, in the UK by 515bps and Europe by 450bps. Amongst emerging markets, policy rate in Mexico was increased by 725bps, in Brazil by 1,175bps and Russia by 1,575 bps.
As a result, interest rate differential between India and other major economies has narrowed considerably. With the US, the interest rate differential stands at 1%, with the UK at 1.25% and Europe at 2%.

How do real policy rates look?

With these peak rates being achieved, the real policy rate which is the central bank minus CPI inflation merits some discussion. For India it is 1.4%. For the USA it is 2.3%, UK 1.25%, China 2.75%, and Euro 1.9%. Here, India's real repo rate looks well below some of the developed nations. For the emerging economies it was 2.85% for South Africa and over 9% for Brazil.

Where are policy rates headed?

While commodity prices started to ease during 2023, policy rates remained elevated as central banks assessed the pass through to the real economy. Policy rates in major economies are currently at a peak even as inflation is

slowly returning to targeted levels. However, given that economic activity and labor market have so far not shown much deceleration, central banks do not want to rush into policy easing. Some EM countries such as Brazil have already started to cut rates. On the other hand, AEs have adopted a much more cautious approach.

What does this mean?

As has been mentioned above, the policy rate differential between India and the US stands at 100bps which is considerably lower than historical levels. This is because the Fed was much more aggressive than the RBI to raise rates. A lower rate differential inter alia implies a lower premium for foreign investors and hence lesser foreign inflows. However, this does not seem to hold in relation to India. FPI inflows into India have remained buoyant, as India's growth momentum is expected to remain strong. Furthermore, while the Fed has already indicated that policy rates are likely to be reduced in the coming months, the growth and inflation dynamics in India suggests that RBI may just keep rates elevated for longer than that. In any case, the Fed is likely to cut interest rates much more than the RBI which will ensure that the interest rate differential settles somewhere close to the historical trend.

Trends in ownership of government debt

In this note we briefly analysed the trends seen in ownership of debt of general government (centre and states) securities. We looked at 10Y period (starting from FY13) to note changes in patterns that have taken place in this decade. Data indicates that on an aggregate basis, SCBs continue to remain dominant holders of government securities with ~37% share as of Sep'23 and are closely followed by insurance companies with ~26% holdings. Looking at ownership of central and state governments, it emerges that share of SCBs in both has come down significantly in this past decade. In centre's case, share of RBI, Provident Funds (PFs) and FPIs has also come down, while that of insurance companies and pension funds has increased. On the other hand for states, apart from SCBs, insurance companies have trimmed down their holdings of SDLs, while pension funds, PFs, RBI and mutual funds have increased their shares over the past decade. Going forward, we expect net incremental demand for government securities to rise by Rs 16.5-17 lakh crore in FY24 (Rs 16.4 lakh crore in FY23). Of this, holdings have already increased by Rs 9.7 lakh crore in H1FY24, and remaining Rs 6.8-7.3 lakh crore would be achieved in H2FY24.

Supply of bonds: The supply of government paper is driven by central and state borrowings. For the purpose of our study, we look at trends in past one decade and observe that between FY13 and FY23, centre's net borrowings have risen by 8.5% (CAGR), while state borrowings are up by 13.5%. In case of centre, net borrowing went up from Rs 5.07 lakh crore in FY13 to Rs 11.46 lakh crore in FY23, Rs 11.80 lakh crore in FY24 (RE). For states, the jump was from Rs 1.47 lakh crore in FY13 to Rs 5.19 lakh crore in FY23. In FY24, states' net borrowing is expected to be in the range of Rs 6-6.5 lakh crore. Overall supply of general government papers has risen by 9.8% on CAGR basis from Rs 6.5 lakh crore in FY13 to Rs 16.7 lakh crore in FY23. In FY24 the supply is expected to be ~Rs 17.8-18.3 lakh crore

Aggregate demand of bonds: On the demand side, for both centre and states combined, the outstanding ownership of government debt stood at ~Rs 146 lakh crore as of Mar'23, compared with only ~Rs 42 lakh crore at the end of FY13, implying a growth rate of 13.4% (CAGR basis). As of FYTD24 (till Sep'23), the combined outstanding amount has risen to ~Rs 155 lakh crore. Notably, SCBs continue to remain the largest holders of

government securities, but their share has declined considerably from 45.1% in FY13 to 35.7% in FY23. In FYTD24 it is currently at 36.6%. Significant improvement has been seen in share of insurance companies and 'others' (primarily driven by pension funds). Share of insurance companies jumped to 26.3% in FY23 (26.4% as of FYTD24) from 20.7% in FY13, and that of 'others' was up at 14.6% in FY23 (14.2% as of FYTD24) from 9.6% in FY13. Interestingly, share of RBI has declined from 13.3% in FY13 to 9.7% in FY23 (9% as of FYTD24), that of FPI has come down from 1.3% to 0.9% (1.1% in FYTD24).

Demand for central govt bonds: Of the total ownership of ~Rs 146 lakh crore in FY23, ~Rs 96 lakh crore was outstanding in the form of central government securities. In FYTD24, of ~Rs 155 lakh crore, Rs 104 lakh crore is owned in central government securities as of Sep'23. Over the past decade, SCBs have held their position as the biggest holder of these securities, but their share has gradually come down, from 43.7% in FY13 to 36.6% in FY23 (38% as of Sep'23). Notably, share of RBI (from 17% to 14.3%; 13.1% of Sep'23), Provident Funds (7.4% to 4.7%; 4.4%), and FPIs (1.6% to 1.4%; 1.6%) has also come down in the past decade.

The space made by these groups, has been captured by insurance companies (26% in FY23 versus 18.6% in FY13; 26% as of Sep'23), mutual funds (2.8% versus 0.7%; 3%), and 'others', mainly pension funds (14.3% versus 11%; 13.9%). RBI has made pension funds' data available only recently and it shows that share of pension funds in central securities has risen from 3.5% in Mar'22 to 4.2% in Mar'23 and 4.3% in Sep'23. This marks 38.6% YoY jump in FY23 in ownership of securities, from Rs 3 lakh crore as of Mar'22 to Rs 4.1 lakh crore as Mar'23, and now to Rs 4.5 lakh crore as Sep'23.

Demand for state govt bonds: It is interesting to note here that commercial banks have not only trimmed their holdings of central government securities, but also state government securities over this past one decade. SCBs share in state government securities has fallen to 33.9% as of Mar'23 from 49.9% as of Mar'13. Their share as of Sep'23, remains unchanged from Mar'23. Apart from this, insurance companies have also reduced their exposure in SDLs (26.8% from 28.5%). As of Sep'23 also, their share remains at 27%. This is in contrast to central government securities where their share has increased.

On the other hand, the 'others' component here has made significant gains in holdings with their share rising from 4.3% in FY13 to 15.3% in FY23 (14.9% as of Sep'23). This component, for the purpose of our study, encompasses co-operative banks, non-bank PDs, financial institutions, corporates, state governments and pension funds. Amongst these, as of FY23, pension funds and co-operative banks account for 8.45% of the share, compared with 8.36% as of FY22. In here also, share of co-op banks is coming down (3.6% in FY23 versus 4% in FY22), while that of pension funds is going up (4.8% versus 4.3%).

Other notable gains have been made by Provident Funds, with their share rising from 15.8% in FY13 to 21.3% in FY23 and further to 21.7% as of Sep'23. RBI and mutual funds have also increased their holdings of SDLs to 0.7% and 1.9%, respectively in FY23 from 0% and 1.4% respectively in FY13. As of Sep'23 their share remains broadly unchanged compared with Mar'23.

Outlook for FY24: Going ahead, we expect outstanding amount of ownership of general government securities to increase to ~Rs 162-163 lakh crore by the end of Mar'24, up from Rs 155 lakh crore as of Sep'23 and Rs 146 lakh crore as of Mar'23. Of this, ~Rs 108 lakh crore will be held as central government securities and ~Rs 54 lakh crore

as state government securities. On an incremental basis, net demand of general government securities is expected to have increased by Rs 16.5-17 lakh crore in FY24, up from Rs 16.4 lakh crore in FY23. Of this, Rs 6.18 lakh crore will be owned by SCBs (Rs 6.21 lakh crore in FY23), Rs 4.5 lakh crore will be owned by insurance companies (Rs 3.7 lakh crore in FY23), Rs 0.6 lakh crore by Mutual Funds (Rs 0.4 lakh crore in FY23), Rs 0.3 lakh crore by FPIs, Rs 1.91 lakh crore by Provident Funds, Rs 0.41 lakh crore by RBI and Rs 2.8 lakh crore by 'others'.

How has State capex fared in FYTD24

Investment has proved to be a crucial pillar of growth this year, with major contribution coming in from government spending on capital expenditure. This year's Budget has also set an ambitious target for capital spending of Centre to nudge private investment, as a complementary effect. The actual spending on capital expenditure by Centre has been at Rs 7.2 lakh crore in FYTD24 (Apr-Jan'24). As a percentage of Budget estimates, capital expenditure of Centre is running at 75.9%.

However, for States, it is trailing the Centre. Out of an aggregate of 27 States monitored in the current set, States capital expenditure stood at Rs 4.7 lakh crore which as a percentage of Budget estimates is running far behind at 53.1% in FYTD24, compared to Centre. Notably, for these 27 States, data for 21 States are available till Jan'24 while for other States, the information is till Dec'23 (except Manipur, where information is available till Sep'23). What comes out from the data is that States are performing better in terms of utilization rate (capital expenditure as percentage of Budget estimates) when compared to same period of previous year, with a total of 17 States faring better (Table 1). But further comparison reveals that problem areas remain for those like Maharashtra, Gujarat, West Bengal Karnataka, Chhattisgarh and Punjab, which have a long distance to cover in the balance two months (Table 2). A plausible explanation could be to maintain fiscal prudence states are going slow. States such as Telangana, Haryana and Andhra Pradesh, Bihar, Jharkhand and Madhya Pradesh are on track to achieve their target.

State wise capex picture:

- Amongst major States, Telangana, Madhya Pradesh, Bihar, Kerala and Haryana have utilized more than 70% of their Budget estimates. States such as Andhra Pradesh, Himachal Pradesh, Tamil Nadu, Odisha, Jharkhand, Rajasthan and Uttar Pradesh have utilized more than 50% of their Budget estimates. Capex spending of large States such as Maharashtra and Gujarat has been far lower at 37.5% and 46.4% of their Budget estimates, respectively. Even for West Bengal, Punjab and Chhattisgarh, it is far lower at 44.7%, 32.8% and 32.7%, respectively.
- When we compare the current utilization rate with the corresponding period of previous year, one thing which stands out is that States have fared comparatively better with most visible pickup seen for Andhra Pradesh, Haryana, and Jharkhand. The laggards are Chhattisgarh, Gujarat and Karnataka, which are considerably short of target compared to same period of previous year. Thus coming two months remain crucial for these States in terms of achieving the Budget estimates.
- For Maharashtra, the current utilization rate which at 37.5%, is almost in line with last year's utilization rate of 33.74% during the same period. However, in the final two months, there has been considerable increase in capex spending of the State which has led to the utilization rate ending the FY at 72.7%. The

similar trend of capital spending noting an increase in the last two months were also visible for States such as West Bengal and Punjab.

- However, ceteris paribus, based on current numbers, Maharashtra, Gujarat, West Bengal Karnataka, Chhattisgarh and Punjab, may miss the target by a wide margin. It is important to mention that Maharashtra, Gujarat and Karnataka fall within the top 5 States in terms of share in capital expenditure. Thus, their trailing ratio is worrisome.
- The above table shows that 17 States have performed better in terms of utilization rate in FYTD24 compared to FYTD23. States such as Telangana, Andhra Pradesh and Haryana have made considerable catch up compared to same period of last year. Thus for these States achieving their Budget estimates seem feasible. Even for other States such as Bihar, Jharkhand and Madhya Pradesh, similar trend of catch is visible. However, important States with regard to their share in capex such as Gujarat and Karnataka have been a laggard.
- The above table shows a comparison between achievements of utilization rate for FYTD24 against the full year utilization rate of FY23. What emerges from the table is that majority of the States in FY23 have not managed to achieve the budgeted target in terms of capital expenditure. However, for States such as Telangana, Haryana, Andhra Pradesh and Rajasthan, the momentum is far better. For example Telangana has already achieved 90.6% of capex as percentage of Budget estimates which was just 60.6% for the entire FY23. Similarly, Andhra Pradesh has already achieved 67.4% of Budget estimates whereas it was just 24.7% in FY23. Here also common set of States (as mentioned earlier) such as Gujarat, Karnataka, and Maharashtra would have challenges here.

Are States curtailing capex to meet Fiscal deficit (FD) target?

In FY23, States have been seen maintaining fiscal discipline as broadly majority of States have curtailed their fiscal deficit in absolute terms. However, there is no one-to-one relation between curtailing fiscal deficit and capital spending. But what is seen for major States whose share in capital spending is highest such as Maharashtra, Gujarat and Karnataka, there are traces of this relationship.

For example in case of Maharashtra, there has been a capital spending shortfall of Rs 1,287 crore from its Budget estimate and fiscal deficit in absolute terms during the same period has been reduced by Rs 9,086 crore from its Budget estimate. For Uttar Pradesh, capital spending has been cut by Rs 3,101 crore and fiscal deficit has fallen by Rs 4,765 crore. For Madhya Pradesh, the fiscal deficit has been reduced significantly by Rs 29,532 crore while capital spending has been brought down by Rs 5,438 crore. For Punjab, fiscal deficit has been reduced by Rs 8,578 crore, whereas capital spending has been brought down by Rs 5,060 crore. Thus, the quantum differs according to State's priority of allocating their spending profile. The exhibit below also shows the same relationship. Majority of the States are in the negative quadrant as both capital spending and fiscal deficit have fallen short of its Budget estimate. Based on the current context, where focus is on maintaining fiscal prudence by both Centre and States, some shortfall might be visible for larger states in terms of capex.

Conclusion:

- States capex as percentage of Budget estimates are trailing far behind Centre.
- Picture across states varies.
- If we compare FYTD24 utilization rate with FYTD23 number, majority States have shown considerable momentum.

- However, comparing the FYTD24 number with full year target gives conflicting signals, with States having major share in capex trailing behind, namely Maharashtra and Gujarat, amongst others.
- A plausible explanation could be cutting down capex to maintain fiscal prudence.

Data Releases

Currency outlook

INR depreciated by 0.6% in Mar'24, reversing the gains it made in the last 3-months. With this, the INR ended FY24 1.5% lower. This was much better than last year when it had depreciated by 7.8%. A favourable domestic as well as global landscape along with efficient management by the RBI, ensured that the depreciation in INR was much more orderly. With Fed rate cuts expected to begin from Jun'24, dollar strength is likely to wane, which would be a tailwind for INR. This along with robust foreign inflows and comfortable trade deficits will ensure that INR trades with an appreciating bias in FY25. We expect INR to trade in a narrow range of 82.50-83.50/$. At a record US$ 642.6bn, RBI's foreign exchange reserves are more than enough to cushion the rupee against any volatility.

Bond Market Round-up

India's 10Y yield got support in FY24 from considerable frontloading by FPIs. India's buoyant growth condition coupled with fiscal prudence and RBI's effective liquidity management operations; all have remained positive for yields. Going forward, we expect India's 10Y yield to have a further downward bias. We do not rule out the possibility of yields reaching below 6.95% from H2 onwards when favourable growth-inflation dynamics would prompt a rate reduction by RBI. It is possible that in Jun'24, when the Fed rate cut cycle kicks in, some softening bias will prevail for India's domestic yield. Support will come from FPI flows. If the RBI does lower the repo rate based on inflation and monsoon conditions possibly from August onwards, it would be of the order of 25-50 bps. This can lower the 10-year yield to 6.75%.

Core sector growth

India's infrastructure industries posted growth of 6.7% in Feb thus reversing the declining trend seen in December and January. Cumulative growth has been smart at 7.7% and comes over 6.8% last year. There has been all round performance across the 8 sectors barring fertilizers which can be explained by high base effect as well as the fact that this is the period of harvest where there is less demand for the products. The petro sector did well with crude oil turning around with growth of 7.9% though admittedly over a negative base number. Natural gas and refineries grew by 11.3% and 2.6% respectively driven by demand conditions. Crude oil tends to do better when crude prices increase in the market. Steel growth of 8.4% and cement of 10.2% reflect the growth in the construction sector in particular. The auto sector too has contributed to the demand for steel. IIP growth can be expected to good at between 4-5% which is also reflected in growth in electricity by 6.3%. Coal growth of 11.6% has been impressive which has been the trend all through the last 11 months. Growth for the cumulative period was 12.1%. Demand was also supported by the electricity sector which has clocked growth of 6.8%.

Centre's fiscal balance

The government accounts show that the government is still around Rs 7.43 lakh crore of expenditure short of the target which means that this amount would be spent in March. Major shortfalls were in: Agriculture (Rs 20,668 cr); Rural (Rs 48,088 cr); Chemicals and fertilizers (Rs 16,150 cr); Roads (Rs 26,000 cr); Consumer affairs (Rs 35,117 cr). There could be some savings here by Rs 50-60,000 cr if these budgets are not exhausted. On the revenue side there are substantial collections expected in taxes of nearly Rs 4.75 lakh crore which should have

flowed in the advance tax payments as well as GST. An expected shortfall is from disinvestment where the gap is around Rs 17,000 cr. As of Feb'24 any savings combined with a higher than projected GDP growth rate can help reduce the fiscal deficit ratio by 0.1-0.2% of GDP.

Foreign Trade (April-February)

The latest data on foreign trade shows that the trade deficit for the first 11 months has come down from $ 246bn to $ 225bn. Exports have de- grown by 3.5% from $ 409bn to $ 395bn. Imports fell more by 5.3% from $ 655bn to $ 620bn.

On the exports side: Electronics (23.7%), cotton yarn (6.7%) and drugs and pharma (9.3%) have shown an increase in exports. This can be attributed to steady demand for these products even as global growth was just about stable. There was a fall in growth in exports of petro-products which is one of the biggest components of exports from $ 89bn to $ 78bn, which is a decline of 12%. Also engineering goods, which is the largest component registered a decline of 9.3%. The former can be attributed to demand as well as lower value of oil. A sharp fall of 11% was witnessed in readymade garments which has affected the textile industry which going by the IIP has been registering negative growth rates consistently. Decline in growth in exports was also witnessed for rice (due to bans being put periodically), chemicals, and gems and jewellery (due to low global demand). On the whole low demand conditions have affected exports as the global economy showed a differential picture on the growth front.

On imports side: Major gain seen in the largest component of crude oil which fell from $ 191bn to $ 163bn, a decline of 15%.There was also decline in imports of pearls and precious stones (which gets linked to exports of gems and jewellery), transport equipment, vegetable oils (domestic production as higher) and chemicals. With domestic production of coal being impressive imports came down by 23% to $ 36bn. Of concern is the fact that there was a sharp rise of 39% in gold imports to $ 44bn. The bull rally supported this growth. Imports of electronics was also worrisome at 17% to $ 82bn. Clearly the companies have been importing components and exporting the same after value addition. Ideally there should be a shift to domestic production of electronic components due to the PLI. Metals- both nonferrous and iron and steel witnessed an increase in imports. Due to lower domestic output of pulses, imports increased by 80% to $ 32bn from $ 18bn.

Hence the **overall trade position** is mixed. From the point of view of trade deficit and current account deficit, it is positive as there has been an improvement. However, the fact that imports of gold and electronics have gone up and exports of garments come down should raise a red flag. Going forward, FY25 should witness an improvement as global conditions improve to support our exports. Stable oil prices will have a soothing effect on import bill.

WPI inflation slows down

WPI inflation slowed further to 0.2% in Feb'24 from 0.3% in Jan'24. Fuel and manufactured product inflation led the moderation. Food inflation accelerated to 4.1% from 3.8% in Jan'24. Within food, built-up in pressure was on account of cereals, vegetables, spice, milk and eggs. Within cereals, wheat and pulses are a cause of concern. Within vegetables, onion inflation appears to be sticky, while that of tomatoes and potatoes is seen inching up. Only fruit inflation provided some relief. On the other hand, fuel & power inflation fell at a faster pace, owing to steep decline in mineral oil index. Coal index registered some moderation, while electricity price index jumped up.

Manufactured inflation also softened, led by dip in basic metals. International commodity prices also remain subdued. Going ahead, volatility in international crude oil prices will remain a concern.

CPI inflation

CPI inflation was at 5.1% in Feb'24, on YoY basis, broadly unchanged from last month. Food inflation inched up to 8.7% in Feb'24 from 8.3% in Mar'24. Within food, pressure was witnessed in case of meat and fish (5.2% in Feb'24 from 1.2% in Jan'24) and egg inflation (10.7% from 5.6%). This was largely attributable to an unfavourable base. For meat and fish however, some sequential momentum is observed. Apart from this, vegetable inflation also picked up to 30.2% in Feb'24 from 27.1% in Jan'24. Till now, 6 out of 12 broad categories of food inflation have remained above 6%. Among major items only cereals and spices are seeing some moderation in inflation both on a sequential and YoY basis.

Core CPI (excl. food and fuel) has moderated further to 3.3%: Core inflation softened further to 3.3% in Feb'24 from 3.6% in Jan'24, on YoY basis. All components of core inflation showed moderation. Amongst them, health (4.5% in Feb'24 from 4.9% in Jan'24), household goods and services (2.8% from 3.1%, due to favourable base) and clothing and footwear witnessed considerable moderation. The sequential momentum of core inflation has also lost steam, softening to 0.2% in Feb'24 from 0.3% in Jan'24, on MoM basis. Amongst major items, inflation has softened considerably for health, personal care and effects (due to moderation in gold prices), education and recreation and amusement. However, the trajectory of housing needs some monitoring.

Growth in Industrial Production edges lower

IIP growth slowed down from an upwardly revised 4.2% in Dec'23 to 3.8% in Jan'24. This was marginally higher than our estimate of 3.5%. The slowdown was led by manufacturing output which decelerated to 3.2% in Jan'24 from 4.5% in Dec'23. On the other hand, both mining and electricity output witnessed an improvement from Dec'23. Mining output rose by 5.9% compared with 5.2% in Dec'23. Electricity output saw a substantial pick up from 1.2% in Dec'23 to 5.6% in Jan'24. Within manufacturing, a total of 14 subsectors marked an improvement in growth in Jan'24, relative to Dec'23. Sharp improvement was visible in production of wood and wood products (4.2% versus -12.4%), fabricated metals (21.4% versus 8.9%) and motor vehicles (18% versus 9.2%).

Consumer durables outshine: Within use-based, consumer durables output increased sharply by 10.9% in Jan'24, supported by base effect. Capital goods output too improved to 4.1% in Jan'24 versus 3.6% in Dec'23. On the other hand, output of consumer non-durables declined for the first time in 10-months at -0.3% from an increase of 2.4% in Jan'24. Infrastructure goods output was also marginally weaker at 4.6% versus 5.1% in Dec'23. Slowdown was also apparent in case of primary goods as output rose at a slower pace of 2.9% in Jan'24 versus 4.8% in Dec'23.

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