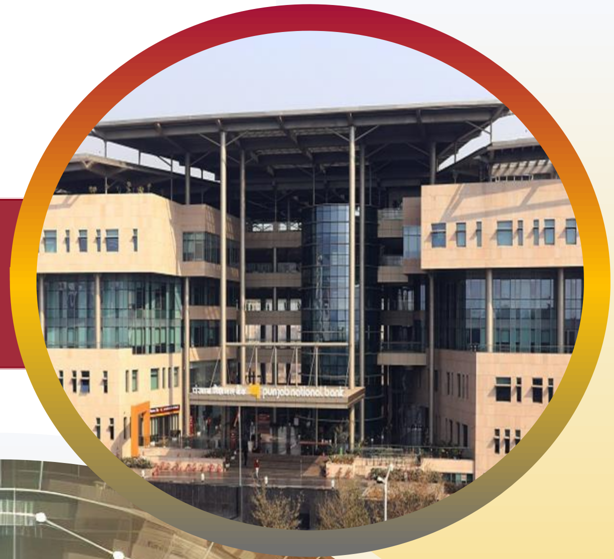
पंजाब नैशनल बैंक
punjab national bank



PNB ECO LENS

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STRATEGIC MANAGEMENT AND ECONOMIC ADVISORY DIVISION

कार्यनीति प्रबंधन एवं आर्थिक परामर्श प्रभाग

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

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Expectations from the Upcoming Union Budget 2024-25

With the formation of new government, all eyes are now set on the upcoming Union Budget for FY 2024-25 set to be announced in July. There are lot of expectations from the government that has come to the center for third time in a row. Let's explore the economy's expectations from the upcoming budget.

Fiscal Math

The higher than expected surplus transfer of Rs.2.11 lakh crores extended by the RBI to government will provide fiscal space to the government to raise the capital expenditure. The government is expected to increase its outlay of capex from Rs.11.11 lakh crores announced in the interim budget. To achieve the long term goal of Viksit Bharat by 2047, government will continue to boost the economy through capital expenditure that will generate more employment resulting an improvement in per capita income and improvement in household savings. The additional capex should be through interest-free capex loans to states as projects across the states would have a better outcome than centralized projects.

The fiscal deficit for FY'25 is estimated to be at 5.1 per cent of GDP, same as the Interim Budget. The government will have to make a fiscal adjustment of 110 bps of GDP in two years, that is FY'25 and FY'26, to reach 4.5 per cent by FY'26 recommended by the 15th Finance Commission.

The government may set an ambitious target for disinvestment and privatization of the public sector enterprises, as it has done in the past few years. The government may also announce some strategic disinvestment sales of the non-profitable PSUs.

Expectations of the Banking Sector from Budget

The budget should encourage innovation and technology adoption in the banking and finance sector, which is essential for enhancing efficiency, customer experience, and competitiveness. The government should provide incentives for digital payments, fintech startups, and cybersecurity initiatives. The government should further push for initiatives that will focus on boosting adoption of digital payments in tier 2 and beyond regions. Policies should incentivize creation of a fertile environment for banks and FinTechs to innovate and build products and solutions that will be more inclusive and adaptable for both consumers and businesses. I also expect the introduction of regulatory frameworks that will help curb digital fraud and build a safer and more secure digital payment environment, reinforcing the trust of users in digital transactions. There is a call for the implementation of a standardized KYC framework across all financial services, aiming to enhance efficiency and promote financial inclusion, in a secure way. To curb cyber frauds that are on a rise, government can set up a dedicated centralized body for curbing cyber frauds in the banking and financial sector.

Further, the budget can revamp the Insolvency and Bankruptcy Code (IBC) by announcing the increase in the number of NCLTs (National Company Law Tribunals) to fasten the resolution process under IBC and maximize the value received by all the stakeholders.

The banking system is currently facing challenges in raising deposits to fund their high credit growth and maintain healthy Credit Deposit ratios. The RBI has time and again flagged the risks of high Credit Deposit ratios of the banks and have asked them to moderate it. The banks are also facing stiff competition from the Mutual Funds industry where the large portion of household savings is flowing. In such a scenario the government can provide some tax incentives on deposits that can aid banks in raising CASA deposits. The limit of tax exemption under 80 TTA (Interest earned on Saving Balance) can be increased from current Rs.10,000 to incentivize the customers to maintain CASA balance and improve Banks deposits.

To accelerate green financing in India the government might introduce green taxonomy – a defined framework for defining what can be called environmentally sustainable investments that will help companies, banks and investors make informed choices. Also, government can provide risk coverage to banks through credit guarantees for extending green finance.

With the expiration of Faster Adoption and Manufacture of (Hybrid and) Electric Vehicles (FAME) II subsidy program in March 2024, the industry is expecting the government to extend it, ensuring the affordability of electric vehicles for consumers. Extending the program would not only solidify support for the Electric Vehicles industry but also align it with the government's ambitious target of achieving 30 per cent electric vehicles on Indian roads by 2030. Complementing this extension, the industry is hopeful for a significant reduction in the GST on lithium-ion battery packs and cells from 18 per cent to 5 per cent. Such a revision would substantially alleviate manufacturing costs, enabling manufacturers to offer EVs at more competitive prices, further encouraging consumer adoption.

Indian households possess up to 25,000 tonnes of gold which lies idle and can be leveraged as an immediate and reliable source of financing to meet immediate personal or business needs. Granting 'priority sector status' to micro gold loans i.e. under Rs.50,000 and allowing a 'Gold linked credit line via UPI' can go a long way to help households/small business owners meet their financing needs and monetize idle gold jewelry.

The government is also expected to take some measures on boosting homeownership through affordable housing. The newly inducted Union cabinet has recently decided to further expand the Pradhan Mantri Awas Yojana and construct 3 crore additional rural and urban houses. Thereby, we expect Government can extend the Pradhan Mantri Awas Yojana (PMAY) subsidy benefit to a wider income bracket, considering the rising cost of living along with some form of tax breaks for developers who construct affordable housing units under PMAY, incentivizing increased supply. The credit linked subsidy scheme has ended in March'2024 and an interest subvention scheme for affordable housing may be announced. Further, Government might raise the price limit for affordable housing and might give relaxation in credit for housing to promote the housing sector. Infrastructure status for affordable housing which will stimulate demand and attract crucial investments.

With numerous investment-boosting reforms and healthier balance sheets, private corporate investment has begun to crowd in. Hence, an enhanced focus on credit guarantee schemes for MSMEs and PLI schemes and, an increment in government subsidies for small businesses can be expected. Overall, the union budget of 2024-25 will further support the high growth trajectory of Indian economy and will ensure that the growth is inclusive.

Deepak Singh
(General Manager)

2. KEY HIGHLIGHTS: GLOBAL ECONOMIC PROSPECTS A WORLD BANK GROUP FLAGSHIP REPORT

The Global Outlook & Regional Outlook

- Global growth is projected to hold steady at 2.6 percent this year, despite flaring geopolitical tensions and high interest rates, before edging up to 2.7 percent in 2025-26 alongside modest expansions of trade and investment.
- Despite improvements in near-term growth prospects, the outlook is subdued. In 2024-25, growth is set to underperform its 2010s average in nearly 60 percent of economies, representing more than 80 percent of global output and population.
- Global inflation is projected to moderate at a slower clip than previously assumed, averaging 3.5 percent this year. Reflecting continued inflationary pressures, central banks are likely to remain cautious in easing policy.
- Emerging Market and Developing Economies (EMDE growth is forecast to moderate to 4 percent in 2024 and hover around that pace over 2025-26. Growth in China is expected to slow this year and ease further in 2025-26, with cyclical headwinds weighing on growth in the near term along with a continuing structural slowdown.
- The shocks of recent years have impeded per capita income catch-up, with almost half of EMDEs losing ground relative to advanced economies over 2020-24. Amid elevated levels of conflict, prospects remain especially lackluster in many vulnerable economies.
- EMDEs will need to mobilize resources to tackle development challenges without damaging the sustainability of their fiscal positions, including through strengthening public investment management.
- Risks have become somewhat more balanced, but downside risks still predominate, including geopolitical tensions, trade fragmentation, higher-for-longer interest rates amid persistent inflation, and climate-change-related natural disasters.
- Global policy efforts are needed to safeguard trade, support green and digital transitions, deliver debt relief, and improve food security.
- High debt and elevated debt-servicing costs will require EMDE policy makers to balance sizable investment needs with fiscal sustainability.
- To meet development goals, policies are needed to raise productivity growth, improve public investment efficiency, build human capital, and close labor market gender gaps.

Harnessing the Benefits of Public Investment

- Public investment can be a powerful policy lever to help ignite growth, including by catalyzing private investment and boosting productivity. The positive effects of public investment are stronger in countries with ample fiscal space and efficient government spending.
- To maximize the impact of public investment, emerging market and developing economies (EMDEs) should undertake wide-ranging policy reforms to improve public investment efficiency and expand fiscal space. The global community can facilitate these reforms through financial and technical assistance—especially critical for low-income countries.
- Public investment has the strongest impact on output when it occurs in countries with ample fiscal space and high government efficiency.
- Public investment can have broader benefits: mobilizing private investment, enhancing productivity, and generating potential output gains.
- Pursuing a **"Three Es"** package of policy priorities can help harness the benefits of public investment in EMDEs.
    - **Expansion of fiscal space.** Limited fiscal space not only impedes the ability of a government to scale up public investment, but also undermines its effectiveness.
    - **Efficiency of public investment**. Public investment efficiency is paramount for reaping the full benefits of public investment
    - **Enhanced global support**. Developing countries with limited fiscal space and deep structural challenges, especially LICs, need external support to undertake comprehensive reforms critical for ensuring the effectiveness of public investment and to embark on large-scale public investment projects addressing vast infrastructure gaps.

Fiscal Challenges in Small States: Weathering Storms, Rebuilding Resilience

- The COVID-19 pandemic and the global shocks that followed have worsened fiscal and debt positions in small states.
- Fiscal deficits in small states have widened since the pandemic, reflecting increased government spending to support households and firms, as well as weaker revenues.
- Comprehensive fiscal reforms are essential to address the fiscal challenges confronting small states
- First, small states' revenues, which are highly volatile, should be drawn from a more stable and secure tax base.
- Second, spending efficiency needs to be improved. These changes should be complemented by reforms to fiscal frameworks, including better utilization of fiscal rules and sovereign wealth funds.
- Finally, the global community can bolster funding for small states to invest in climate change resilience and adaptation, and other priority areas, including technical assistance in fiscal policy and debt management.

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

Policy Rate	Existing	Now	Change	Stance
Policy Repo Rate	6.50%	6.50%	**No Change**	**Withdrawal of Accomodation**
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%		

Economy Outlook

RBI's GDP Projections	Q1 FY'25	Q2 FY'25	Q3 FY'25	Q4 FY'25	FY'25
05.04.2024	**7.1%**	**6.9%**	**7.0%**	**7.0%**	**7.0%**
07.06.2024	**7.3%↑**	**7.2%↑**	**7.3%↑**	**7.2% ↑**	**7.2%↑**

- Global economic activity is rebalancing and is expected to grow at a stable pace in 2024. According to the provisional estimates released by the National Statistical Office, real gross domestic product (GDP) growth in Q4:2023-24 stood at 7.8 per cent as against 8.6 per cent in Q3. Real GDP growth for 2023-24 was placed at 8.2 per cent. On the supply side, real gross value added (GVA) rose by 6.3 per cent in Q4:2023-24. Real GVA recorded a growth of 7.2 per cent in 2023-24.
- ***Going forward, the south-west monsoon is expected to be above normal, which augurs well for agriculture and rural demand. Coupled with sustained momentum in manufacturing and services activity, this should enable revival in private consumption***. Investment activity is likely to remain on track, with high capacity utilisation, healthy balance sheets of banks and corporates, government's continued thrust on infrastructure spending, and optimism in business sentiments.
- Improving world trade prospects could support external demand. Headwinds from geopolitical tensions, volatility in international commodity prices, and geoeconomic fragmentation, however, pose risks to the outlook.

Inflation Outlook

RBI Inflation Projections	Q1 FY'25	Q2 FY'25	Q3 FY'25	Q4 FY'25	FY'25
05.04.2024	**4.9%**	**3.8%**	**4.6%**	**4.5%**	**4.5%**
07.06.2024	**4.9%↔**	**3.8%↔**	**4.6%↔**	**4.5%↔**	**4.5%↔**

- Headline inflation has seen sequential moderation since February 2024, albeit in a narrow range from 5.1 per cent in February to 4.8 per cent in April 2024. Food inflation, however, remains elevated due to persistence of inflation pressures vegetables, pulses, cereals, and spices.
- Deflation in fuel prices deepened during March-April, reflecting the cut in liquified petroleum gas (LPG) prices. Core (CPI excluding food and fuel) inflation eased further to 3.2 per cent in April, the lowest in the current CPI series, with core services inflation also falling to historic lows.
- ***Going ahead, overlapping shocks engendered by rising incidence of adverse climate events impart considerable uncertainty to the food inflation trajectory.*** Market arrivals of key rabi crops, particularly pulses and vegetables, need to be closely monitored in view of the recent sharp upturn in prices. Normal monsoon, however, could lead to softening of food inflation pressures over the course of the year.

Liquidity and Financial Market Conditions

- During the current financial year so far, system liquidity transited from surplus to deficit conditions, and back to surplus in early June. In consonance with the commitment made in the April policy statement of remaining nimble and flexible in liquidity management and in view of the shifting liquidity dynamics, ***the Reserve Bank mopped up surplus liquidity through variable rate reverse repo (VRRR) auctions during the first half of April, while injecting liquidity through variable rate repo (VRR) operations in the later part of April and in May.***
- ***The Central Board of the Reserve Bank decided to transfer ₹2.11 lakh crore as surplus to the Central Government for the accounting year 2023-24.*** As the economy remains robust and resilient, the Board decided to utilize this opportunity to increase the risk provisioning under the contingent reserve buffer (CRB) to 6.5 per cent of the Reserve Bank's balance sheet for 2023-24 from 6.0 per cent in 2022-23. ***This would further strengthen the Reserve Bank's balance sheet.***
- **The annual financial results for 2023-24 indicate that the banking system remained sound and resilient, backed by improvement in asset quality, enhanced provisioning for bad loans, sustained capital adequacy and rise in profitability**

External Sector

- With lower trade deficit, robust services export growth and strong remittances, the current account deficit is expected to have moderated in Q4:2023-24. Services exports were predominantly driven by software exports, other business services and travel exports. The phenomenal rise of global capability centres (GCC) in India has provided a significant boost to India's software and business services exports.
- India– with an expected 15.2 per cent share in world remittances in 2024 – continues to be the largest recipient of remittances globally. Overall, the current account deficit for 2024-25 is expected to remain well within its sustainable level.
- On the external financing side, foreign portfolio investment (FPI) flows surged in 2023-24 with net FPI inflows at US$ 41.6 billion. Since the beginning of 2024-25, however, foreign portfolio investors have turned net sellers in the domestic market with net outflows of US$ 5.0 billion (till June 5).

Additional Measures

- **Review of limit of Bulk Deposits for Scheduled Commercial Banks (excluding RRBs), Small Finance Banks and Local Area Banks:** It is proposed to revise the definition of bulk deposits as 'Single Rupee term deposit of ₹3 crore and above' for SCBs (excluding RRBs) and SFBs. Further, it is also proposed to define the bulk deposit limit for Local Area Banks as 'Single Rupee term deposits of ₹1 crores and above', as applicable in case of RRBs.

- **Rationalisation of Export and Import regulations under Foreign Exchange Management Act (FEMA), 1999:** In view of the changing dynamics of international trade and in line with the progressive liberalisation of foreign exchange regulations, it is proposed to rationalise the extant FEMA guidelines on export and import of goods and services. This will further promote ease of doing business and provide greater operational flexibility to Authorized Dealer banks.

- **Setting up a Digital Payments Intelligence Platform:** Growing instances of digital payment frauds, however, highlight the need for a system-wide approach to prevent and mitigate such frauds. It is, therefore, proposed to establish a Digital Payments Intelligence Platform for network level intelligence and real-time data sharing across the digital payments' ecosystem. To take this initiative forward, the Reserve Bank has constituted a committee to examine various aspects of setting up the Platform.

- **Inclusion of Recurring Payments with Auto-Replenishment Facility under the emandate Framework:** The adoption of e-mandates for recurring payment transactions has been increasing. It is now proposed to include payments, such as replenishment of balances in Fastag, National Common Mobility Card (NCMC), etc. which are recurring in nature but without any fixed periodicity, in the e-mandate framework. This will enable customers to automatically replenish the balances in Fastag, NCMC, etc. if the balance goes below the threshold limit set by them. This will enhance convenience in making travel / mobility related payments.

- **Introduction of Auto-Replenishment of UPI Lite Wallet – Inclusion under the emandate Framework:** UPI Lite was introduced in September 2022 to enable small value payments in a quick and seamless manner through an on-device wallet. To encourage wider adoption of UPI Lite, it is now proposed to bring it under the e-mandate framework by introducing a facility for customers to automatically replenish their UPI Lite wallets if the balance goes below the threshold limit set by them. This will further enhance the ease of making small value digital payments.

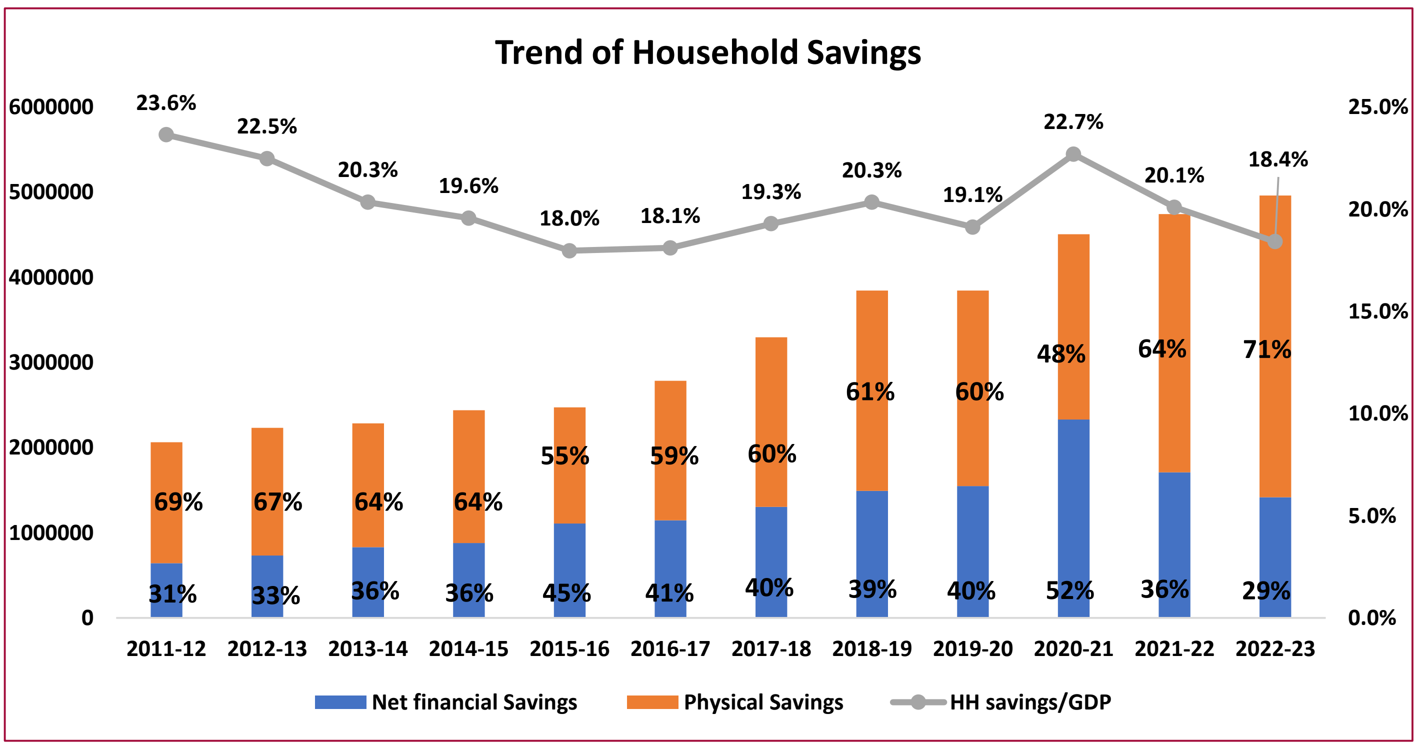
- **HARBINGER 2024 – Innovation for Transformation:** The first two editions of the hackathon were completed in the year 2022 and 2023, respectively. The third edition of the global hackathon, "HaRBInger 2024" with two themes, namely 'Zero Financial Frauds' and 'Being Divyang Friendly' will be launched shortly.

4. SHIFTING HOUSEHOLD SAVINGS PATTERNS

Household savings are the portion of household income that is not spent on consumption but is instead set aside for future use. Historically, they have accounted for almost 60-65 per cent of the gross savings in the economy (barring the Covid era). They provide a significant source of funds for investment in the economy and support financial security for individuals.

Household savings rate, expressed as the ratio of household savings to GDP, stood at 18.4 per cent in 2022-23, compared to 19.1 per cent in 2019-20. Overall, the savings of the household sector can be categorized into financial savings and physical savings. Net financial savings of the households is the difference between gross financial savings and financial liabilities. Gross financial savings include financial assets held by the households in the form of currency, deposits, shares and debentures, investments in government securities and insurance funds etc. Financial liabilities of the households comprise of borrowings undertaken from banks, NBFCs, cooperative societies, insurance corporations etc. Physical savings of the household sector include savings held in the form of physical assets along with savings made in ornaments such as gold and silver.

Post pandemic there has been a shift in the composition of overall savings of the household sector. While the share of financial savings in total savings has declined from 40.3 per cent in 2019-20 to 28.5 per cent in 2022-23, the share of physical savings has risen from 59.7 per cent to 71.5 per cent during the same period.



Source: MOSPI, EIC PNB

Net financial savings of the household sector fell to 5-year low of Rs.14.16 lakh crore in 2022-23, lower than Rs.15.5 lakh crore recorded in the pre-pandemic period (2019-20). On a y-o-y basis, household net financial savings recorded a decline of 17 per cent.

The net financial savings of the household sector rose sharply during the pandemic, i.e. FY2020-21, to Rs.23.30 lakh crore, registering a YoY growth of 50 per cent, driven by income uncertainty and reduced consumption opportunities.

Since the pandemic, there has been a marked shift in households' savings behavior as is visible in successive yearly declines in growth rate of net financial savings. Net financial savings recorded a 26 per cent decline in 2021-22, followed by a 17 per cent decline in 2022-23. This has mainly been on account of rising financial liabilities of the households, which recorded a YoY growth rate of 22 per cent and 74 per cent in the corresponding periods.

Among household liabilities, the lion's share is commanded by loans from the banking sector (~76 per cent of total liabilities). As per sectoral credit data of RBI, growth in retail credit stood at 20.6 per cent as on Mar'23 compared to 12.6 per cent in Mar'22. Households are increasingly turning to leveraged consumption driven by a) push for retail credit by lenders, b) increase in borrowing appetite especially among the youth, and, c) digitization which has improved access and affordability of loan products.

Conclusion

- In light of the current economic environment of declining financial savings and rising financial liabilities, RBI's recent measures aimed at increasing risk weights on unsecured personal loans and credit cards, will aid in maintaining financial stability and protecting both the banking sector and consumers from the risks associated with high levels of unsecured debt.

- The increase in household borrowing and retail credit demand presents opportunities for growth in lending activities, especially housing credit, vehicle loans etc.

- Rising share of physical savings in the form of gold and silver ornaments presents an opportunity for banks to drive growth in gold loans through enhanced product offerings.

- The decline in financial savings and increased financial liabilities pose challenges for the Banking sector in terms of maintaining liquidity and managing credit risk. With deposit growth lagging credit growth in the last two years, Banks will need to actively monitor their liquidity position to avoid any shortfalls.

Smriti Behl
Officer (Economics)
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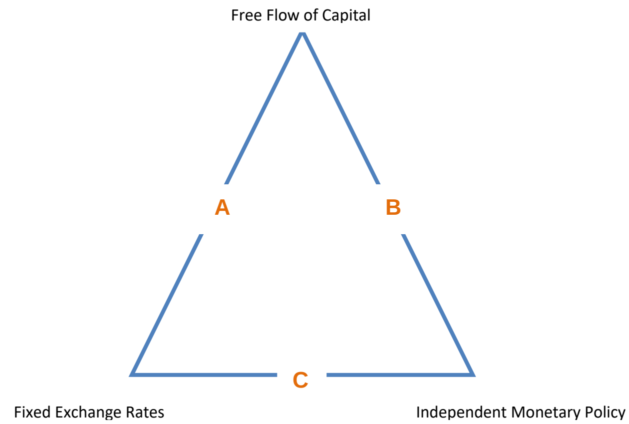
5. CLASSROOM: THE IMPOSSIBLE TRINITY

The Impossible Trinity, also known as the trilemma, refers to a concept in international economics highlighting the inherent trade-offs faced by policymakers while making fundamental decisions pertaining to country's international monetary policy. It suggests that it is impossible to have all three of the following simultaneously:

1. **Fixed Foreign Exchange Rate** – This involves maintaining a stable exchange rate between the domestic currency and a foreign currency or a basket of currencies. Fixed exchange rates provide stability in international transactions, enabling businesses to forecast their costs and revenues more accurately. However, maintaining a fixed exchange rate necessitates significant intervention by the central bank to buy or sell foreign currency to sustain the desired rate.



2. **Free Capital Movement** – Capital account convertibility allows capital to move freely across borders without restrictions on investments or financial flows. While this promotes economic efficiency and facilitates international trade and investment, it also exposes the economy to risks from volatile capital flows, which can lead to disruptions in domestic financial markets.

3. **Independent Monetary Policy** – This allows the central bank to adjust interest rates and the money supply to achieve domestic policy objectives such as controlling inflation or stimulating economic growth.

India has embraced an independent monetary policy, leveraging interest rates to regulate inflation and stimulate economic growth. This policy framework is complemented by a managed float exchange rate system, whereby the regulator intervenes in the foreign exchange market to curb excessive volatility in currency market.

In addition, India has partial capital account convertibility, enabling the regulation of capital flows to a certain extent and safeguarding the economy from external shocks. However, India's foreign exchange reserves are predominantly dependent on foreign institutional investors (FIIs) and corporate borrowing presenting a significant challenge in maintaining currency stability. Fluctuations in foreign investment can lead to volatility in the exchange rate.

To address aforementioned challenge, India may continue to focus on the effective implementation of capital control measures. Such measures may be designed to balance the dual objectives of maintaining a stable currency and fostering an environment conducive to foreign investment. By achieving this balance, India's economic resilience can be enhanced further ensuring balance among all the components of the Impossible Trinity.

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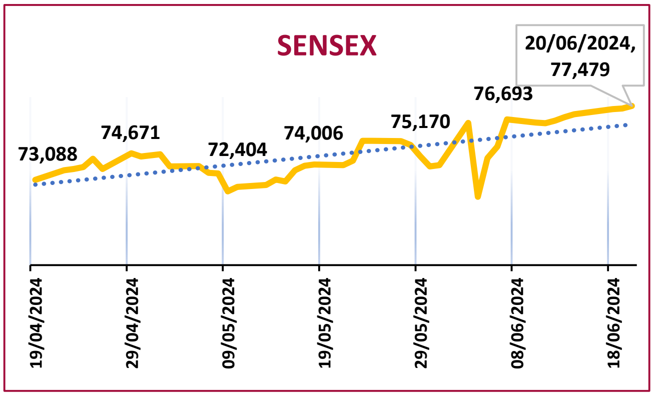
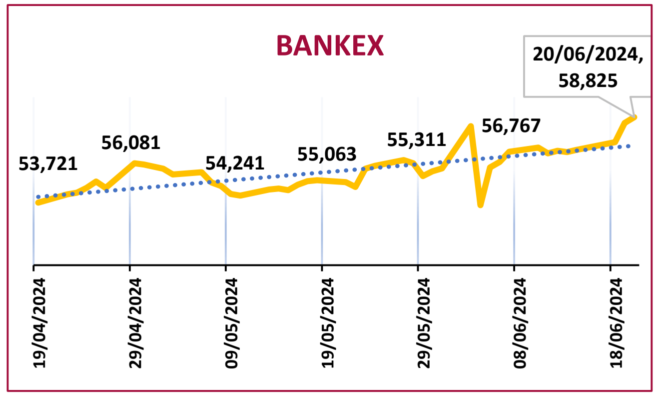
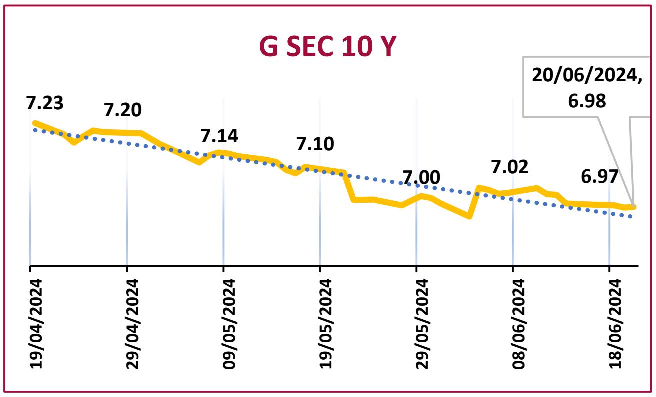
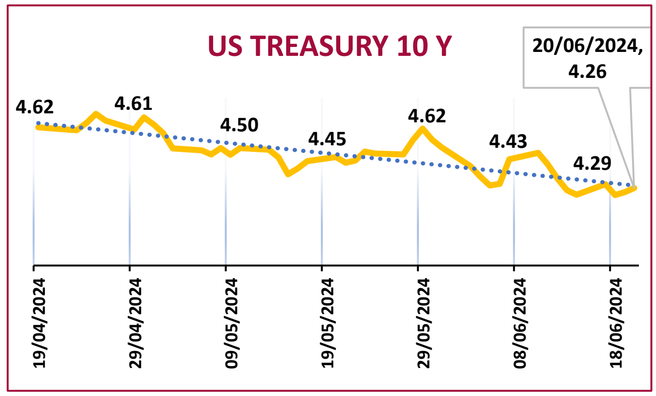
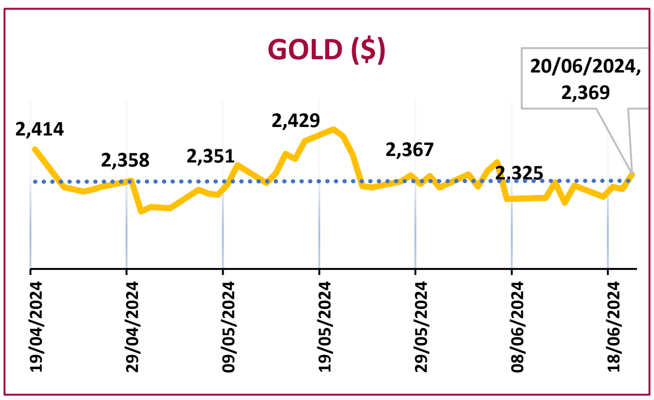
6. DAILY ECONOMIC INDICATORS

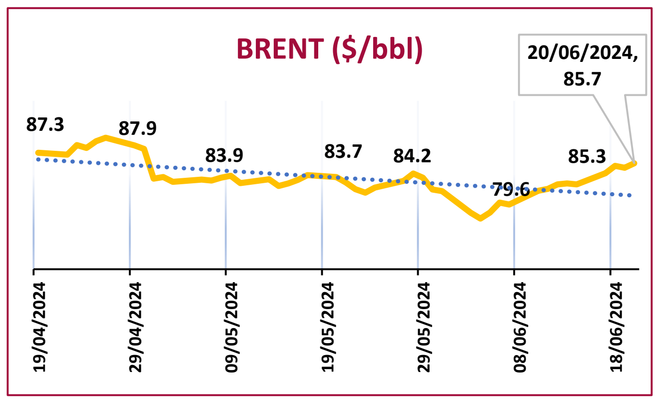


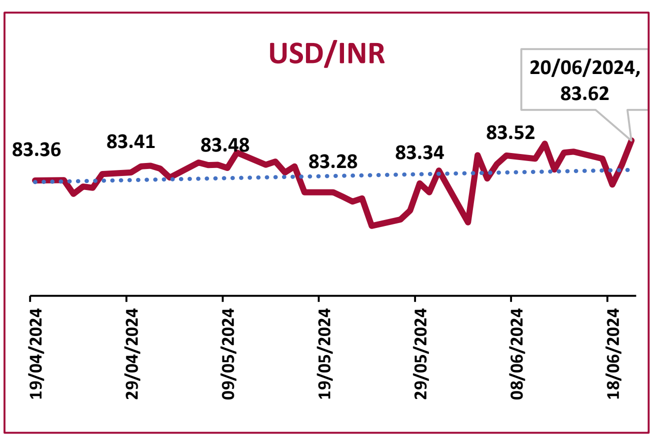


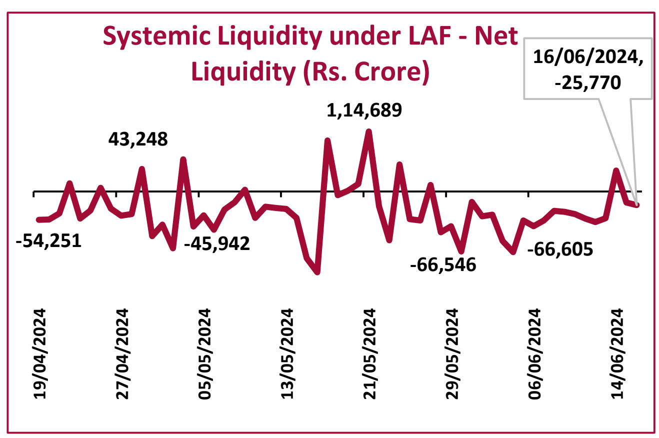








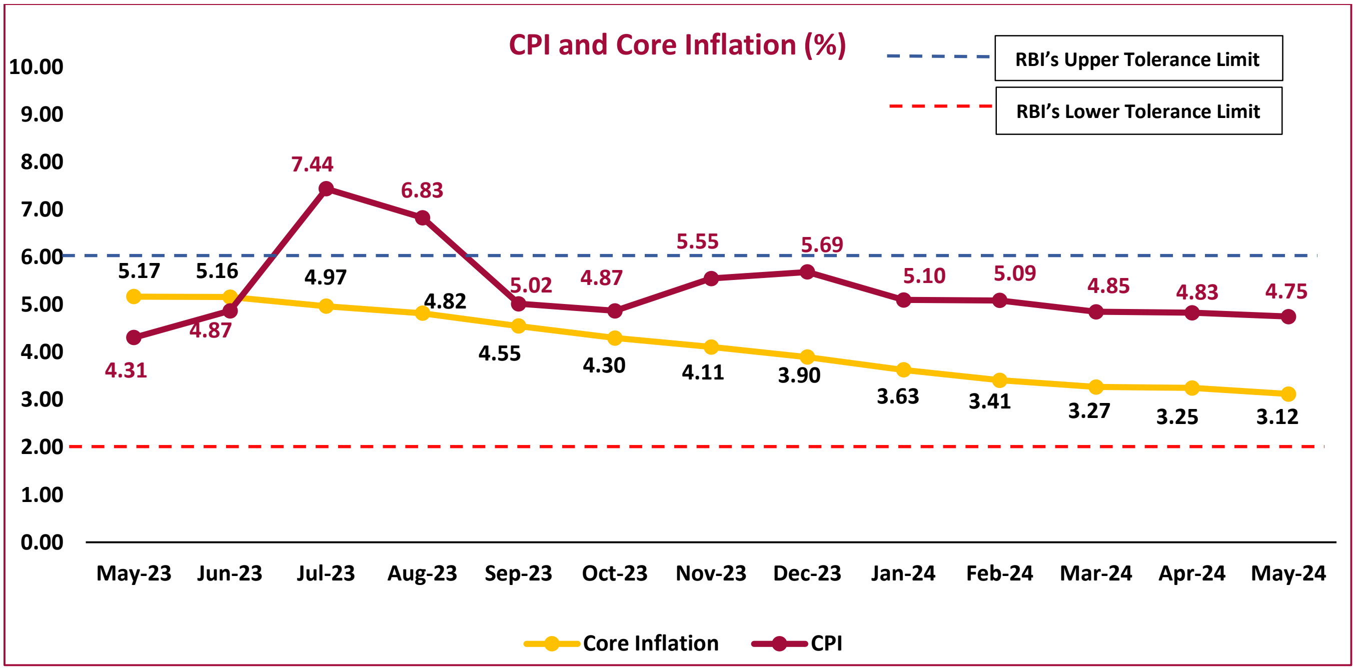


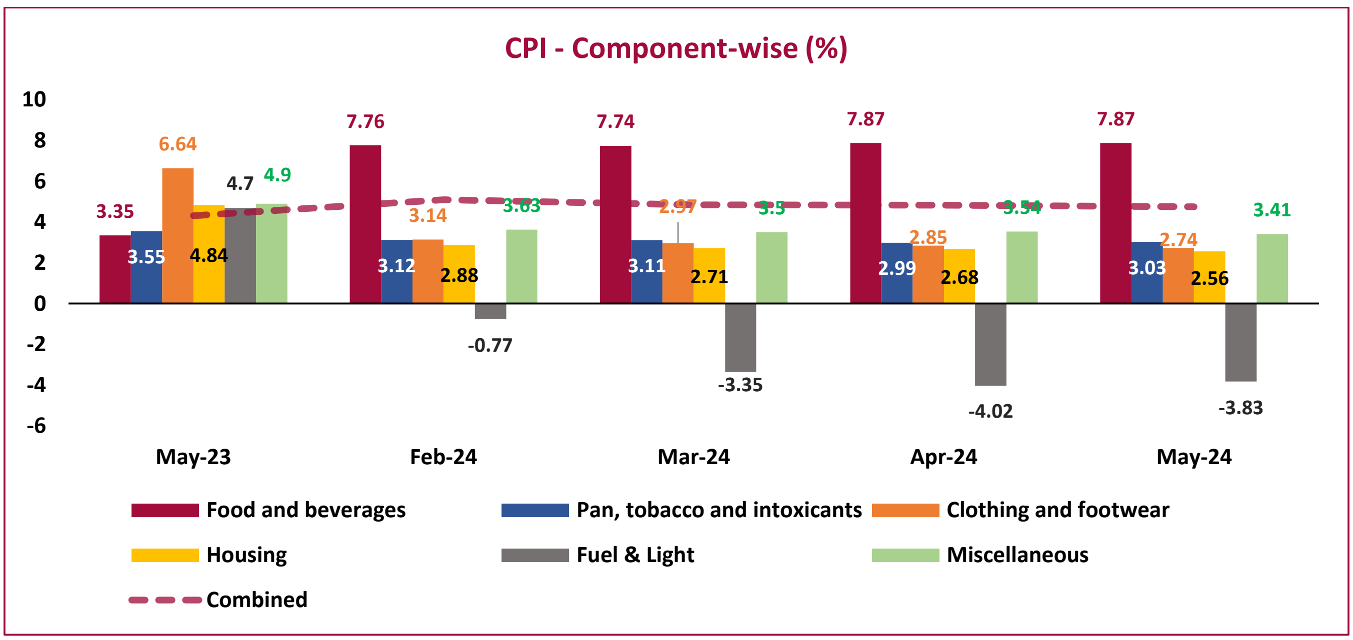


7. MONTHLY & FORTNIGHTLY ECONOMIC INDICATORS

CONSUMER PRICE INDEX (CPI)

Retail Inflation cools down to 4.75% in May 2024

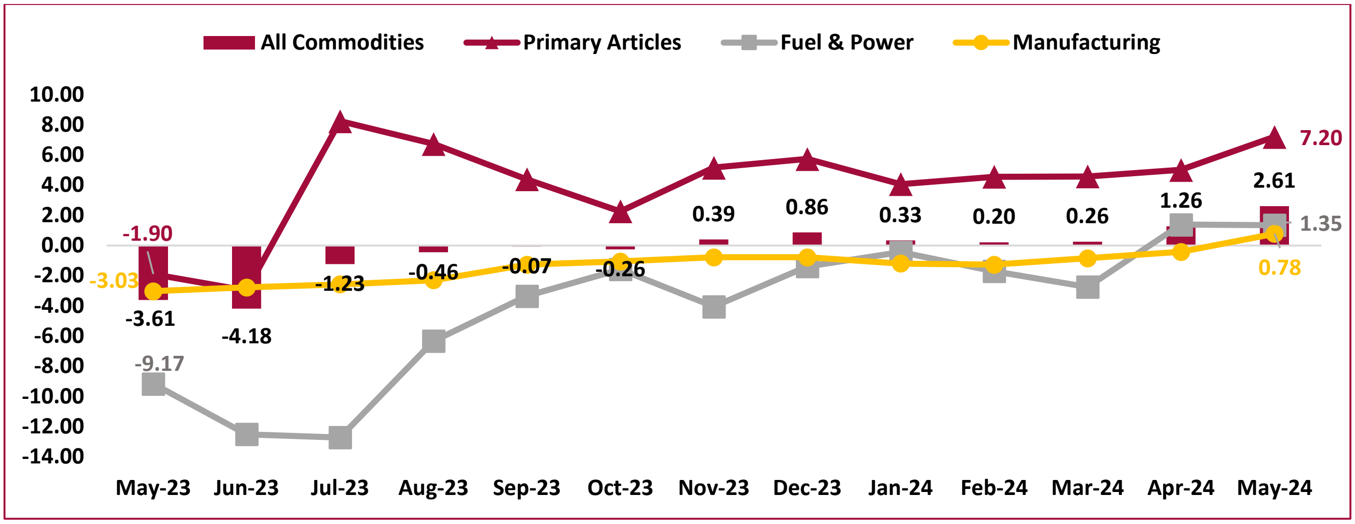




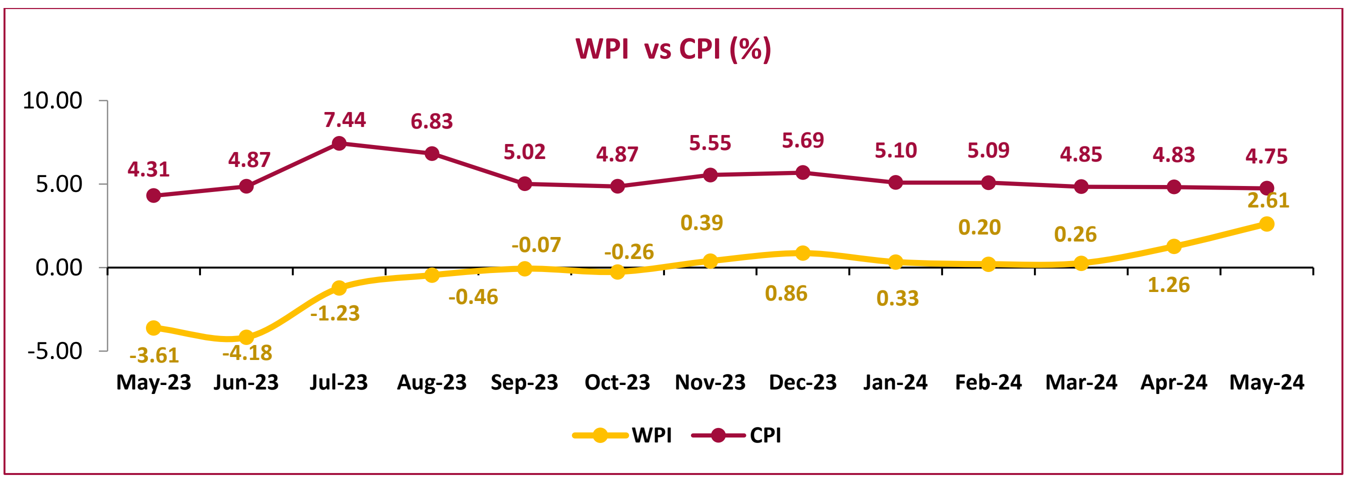
India's Consumer Price Index (CPI) based inflation moderated to an eleven-month low of 4.75 per cent in May 2024 compared to 4.83 per cent in the previous month. Food Price index was largely flat at 8.69 per cent in May 2024 vis-à-vis 8.70 per cent in April 2024. The core inflation moderated to 3.12 per cent in May 2024.

WHOLESALE PRICE INDEX (WPI)

WPI inflation increases to 15-month high of 2.61% in May 2024



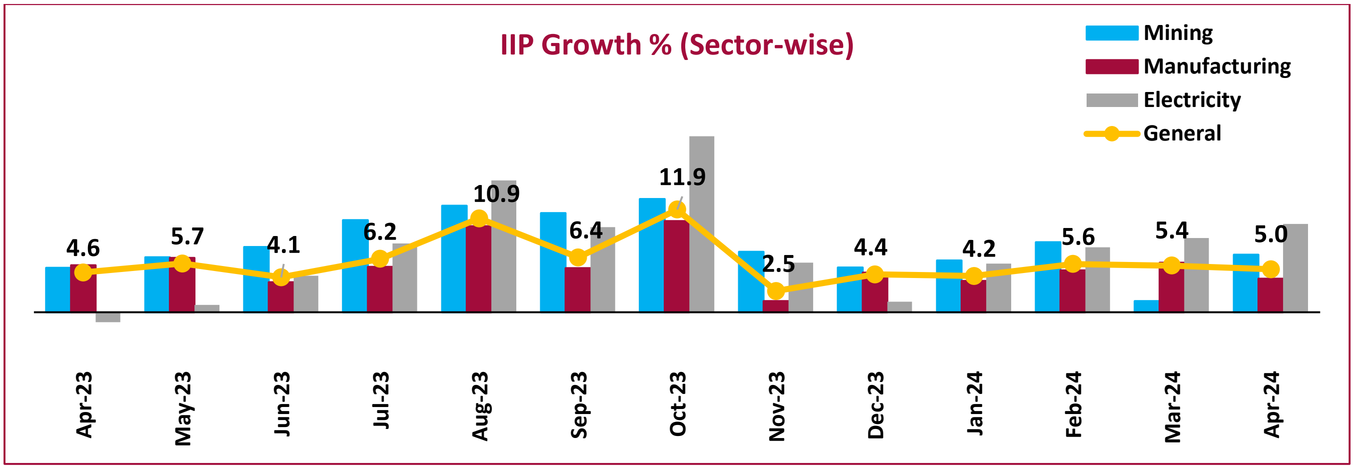
WPI Inflation (%)	Primary Articles		Fuel & Power		Manufactured Products		Food Articles *(Part of Primary Articles)*		All Commodities	
Weights	**22.62%**		**13.15%**		**64.23%**		**15.26%**		**100%**	
	2023	**2024**	**2023**	**2024**	**2023**	**2024**	**2023**	**2024**	**2023**	**2024**
March	2.52	**4.57**	8.69	**-2.75**	-0.70	**-0.85**	5.42	**7.05**	1.41	**0.26**
April	1.89	**5.01**	0.99	**1.38**	-2.28	**-0.42**	3.88	**7.74**	-0.79	**1.26**
May	-1.90	**7.20**	-9.17	**1.35**	-3.03	**0.78**	1.63	**9.82**	-3.61	**2.61**



India's WPI has continued its uptrend for the third consecutive month in May 2024 after it moderated in the Jan & Feb 2024. Positive rate of inflation in May 2024 is primarily due to increase in prices of crude petroleum and natural gas, mineral oils, food articles, other manufacturing among others. In May 2024, fuel & power inflation rose by 1.35 per cent YoY, marking the second consecutive month of increase after being negative from May'23 to Mar'24.

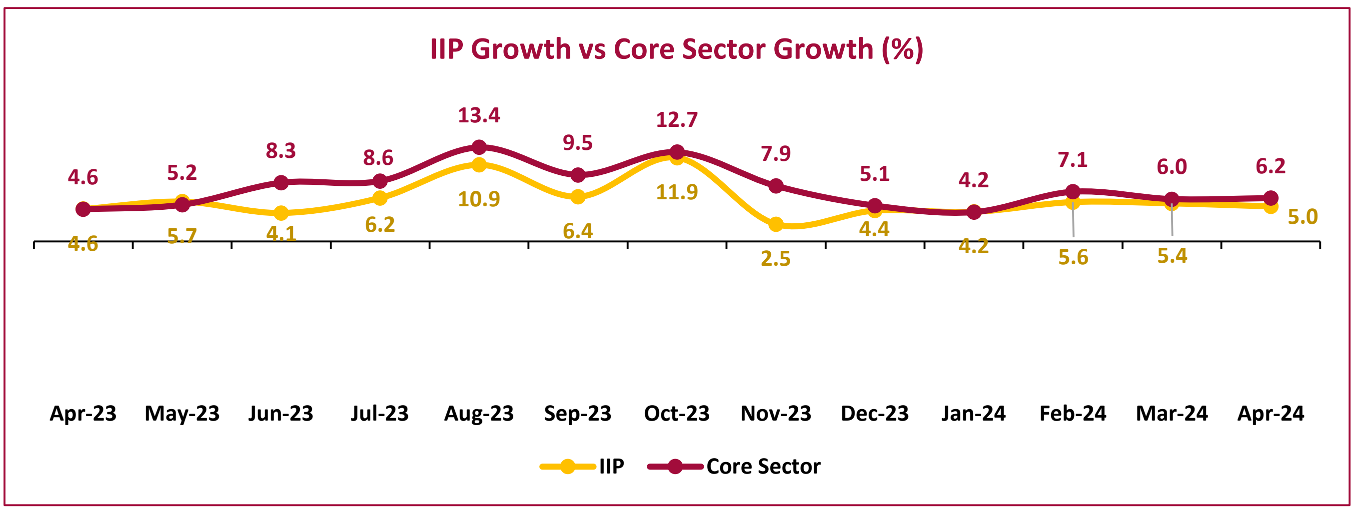
INDEX OF INDUSTRIAL PRODUCTION (IIP) & CORE SECTORS

IIP growth flat at 5.0% in April 2024



IIP Growth % (Usage-wise)

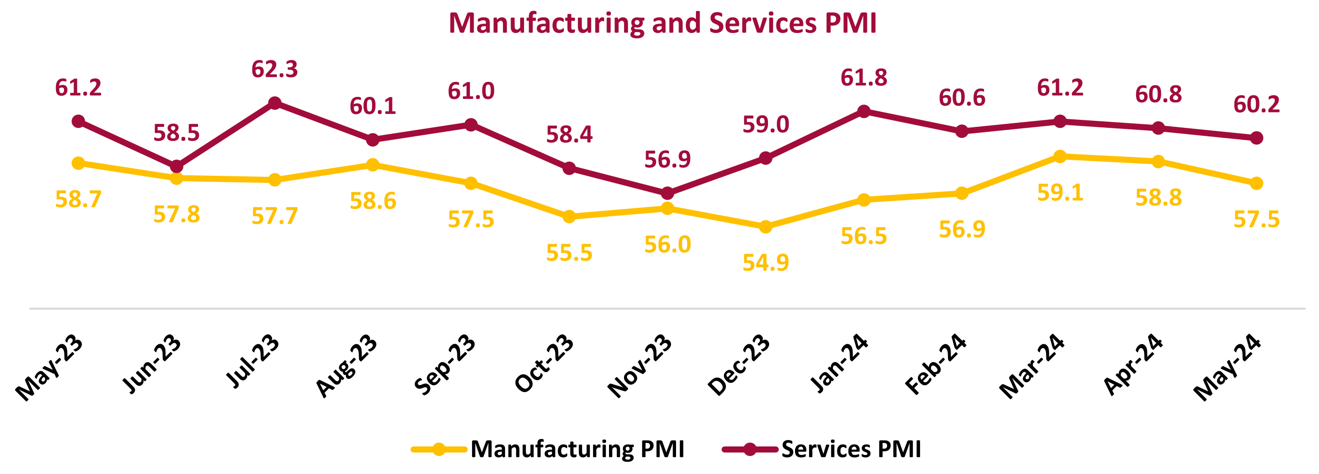
Component	Weight	Apr-23	Jan-24	Feb-24	Mar-24	Apr-24
Primary Goods	34.05%	1.9	2.9	5.9	3.0	**7.0**
Capital Goods	8.22%	4.4	3.2	1.1	6.6	**3.1**
Intermediate Goods	17.22%	1.7	5.3	8.7	5.5	**3.2**
Infra/Construction Goods	12.34%	13.4	5.5	8.5	7.4	**8.0**
Consumer Durables	12.84%	-2.4	11.6	12.4	9.5	**9.8**
Consumer Non- Durables	15.33%	11.4	0.3	-3.5	5.3	**-2.4**



In sector wise performance, electricity sector recorded the highest growth of 10.2 per cent YoY. Lowest growth was observed in manufacturing, where output grew by 3.9 per cent in April 2024-compared to 5.8 per cent in March 2024. Mining sector output witnessed a growth of 6.7 per cent-YoY higher than the growth of 1.3 per cent recorded in the previous month. Heatwave conditions that began from April onwards increased demand for cooling which led to higher electricity generation in the month of April 2024.

PURCHASING MANAGERS' INDEX (PMI)

Manufacturing PMI falls to 57.5 in May 2024



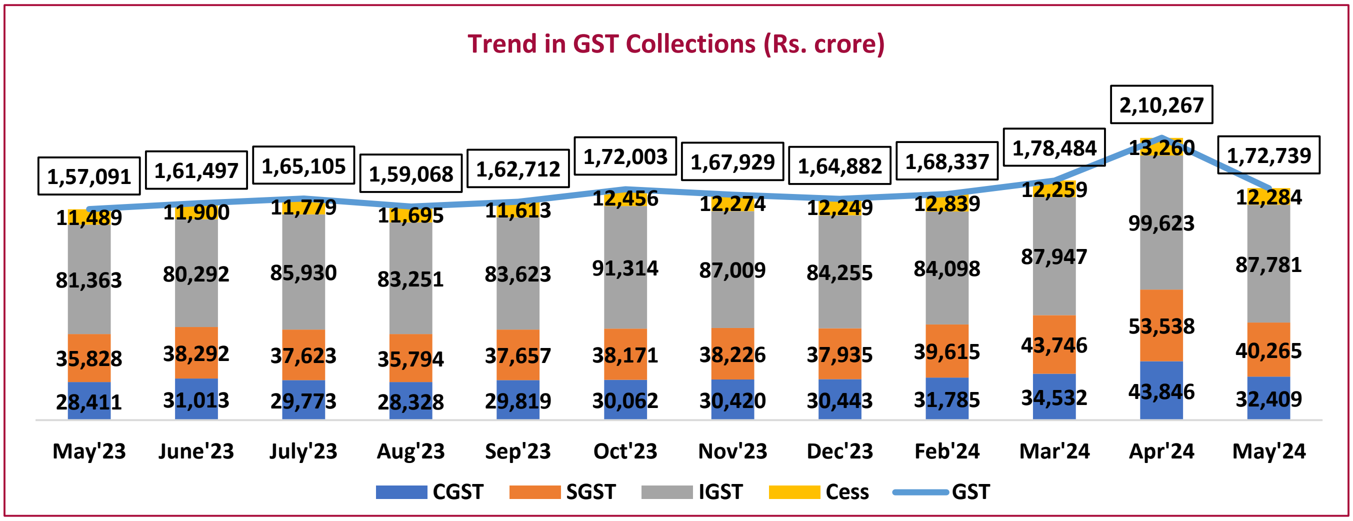
The HSBC India Manufacturing PMI fell to 57.5 in May'24 from 58.8 recorded in April'24. The heatwave across India has an impact on both manufacturing and services, with both PMI manufacturing and services recording a decline. PMI services fell from 60.8 in April to 60.2 in May, its lowest level since Dec'23. Rising export orders across both sectors suggest scope for businesses to explore new export opportunities. **HSBC India Composite PMI fell to 60.5 in May'24 from 61.5 in April'24 and stands lower than 61.6 recorded in May'23.**

PERFORMANCE OF OTHER LEADING INDICATORS

	May -23	Jun -23	Jul -23	Aug -23	Sep -23	Oct -23	Nov -23	Dec -23	Jan -24	Feb -24	Mar -24	Apr -24	May -24
Coal production (YoY%)	7.0	9.7	15.1	17.7	16.0	18.5	11.0	10.8	10.3	11.8	8.2	7.5	10.2
Electricity generation (YoY%)	1.1	2.4	6.2	13.2	8.8	21.9	5.8	0.4	7.9	6.4	8.0	10.0	14.1
Consumption of petroleum products (YoY%)	12.6	5.2	3.1	8.1	7.9	4.8	-2.2	3.7	7.3	8.2	1.7	6.2	-1.0
Railways: freight traffic (YoY%)	1.9	-1.9	1.5	6.4	6.7	8.5	4.3	6.4	6.4	10.1	-	-	-
Cargo handled at major ports (YoY%)	3.2	-2.0	4.2	4.1	0.3	13.8	16.9	0.6	3.2	2.1	2.7	1.3	-
Cement production (million tonnes)	35.9	36.5	31.0	33.9	31.0	33.9	29.1	35.9	35.9	36.8	41.2	36.1	-
Steel consumption (million tonnes)	10.7	10.1	10.6	11.1	11.2	11.6	11.3	12.1	11.6	11.7	12.4	11.3	12.1
Fertiliser sales (YoY%)	2.1	1.7	4.5	2.7	5.7	10.5	-5.5	-3.1	-9.1	-13.5	0.6	-3.7	-
Two-wheelers sales (Nos. in Lakhs)	17.3	16.0	15.8	18.6	20.5	21.9	19.0	15.0	17.6	18.5	18.1	20.7	19.3
Tractors sales (Nos. in Thousand)	91.3	106	67.0	62.1	105	125	79.0	52.1	62.8	51.8	74.5	84.4	91.8

GOODS AND SERVICES TAX (GST)

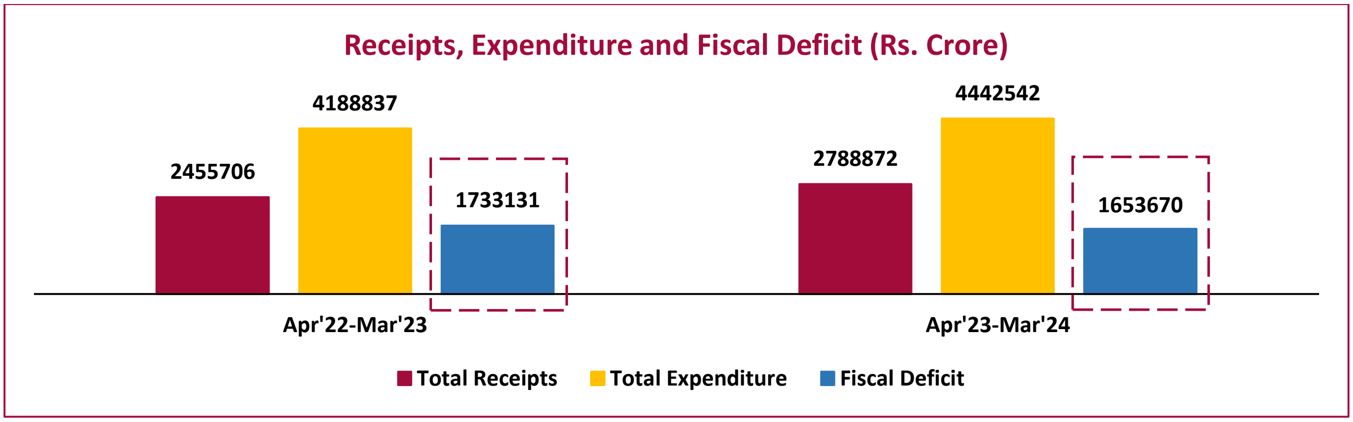
GST Collections rise by 10.0% in May 2024



The impressive growth in GST collections can be attributed to strong increase in domestic transactions (up 14.2 per cent) and marginal increase in imports (up 1.4 per cent). However, GST collections in May 2024 declined as compared to April 2024 mainly due to factors like higher year-end tax payments.

	May -23	Jun -23	Jul -23	Aug -23	Sep -23	Oct -23	Nov -23	Dec -23	Jan -24	Feb -24	Mar -24	Apr -24	May -24
E-way bill Generation (Nos. in Cr.)	8.8	8.6	8.8	9.3	9.2	10.0	8.8	9.5	9.6	9.7	10.4	9.7	10.3

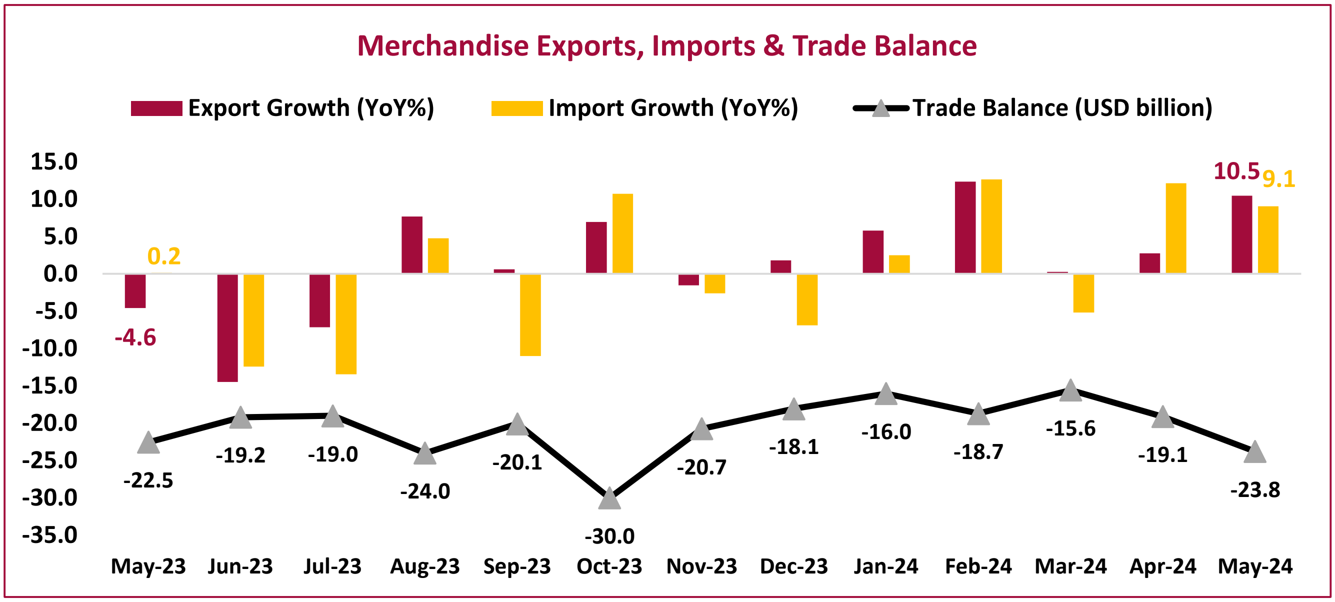
FISCAL DEFICIT

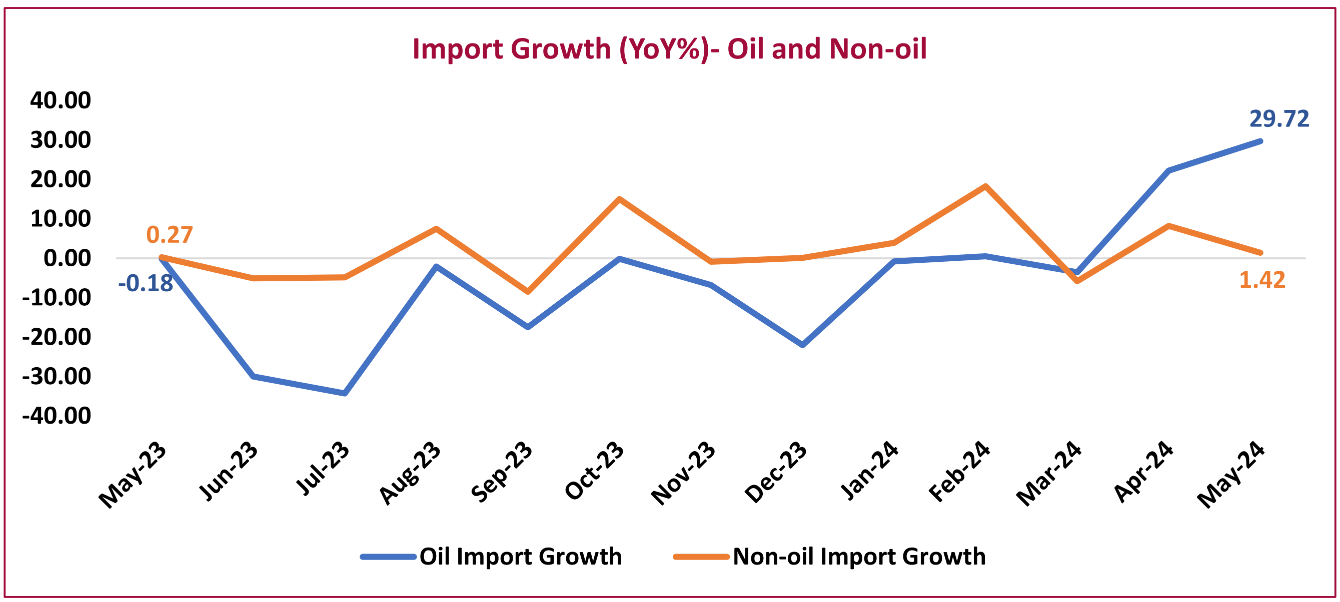


The government's fiscal deficit for the FY 2023-24 was arrested at Rs. 16.5 lakh crore- amounting to 95.3 per cent of the budget estimates for the year. In comparison, last fiscal the deficit had reached 99 per cent of the budgeted target. The Government has been able to limit its fiscal deficit to 5.6 per cent of gross domestic product during FY24 as against an estimate of 5.8 per cent of GDP.

FOREIGN TRADE

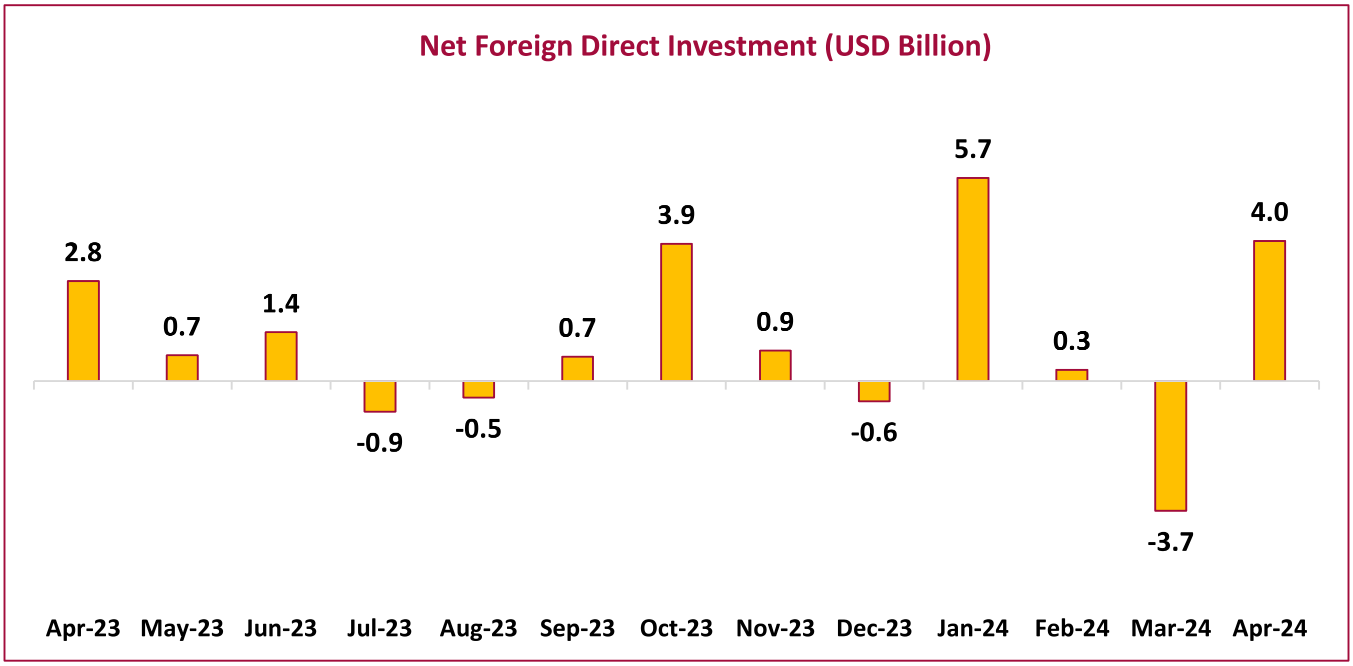
Trade deficit widens to USD 23.8 Billion in May 2024



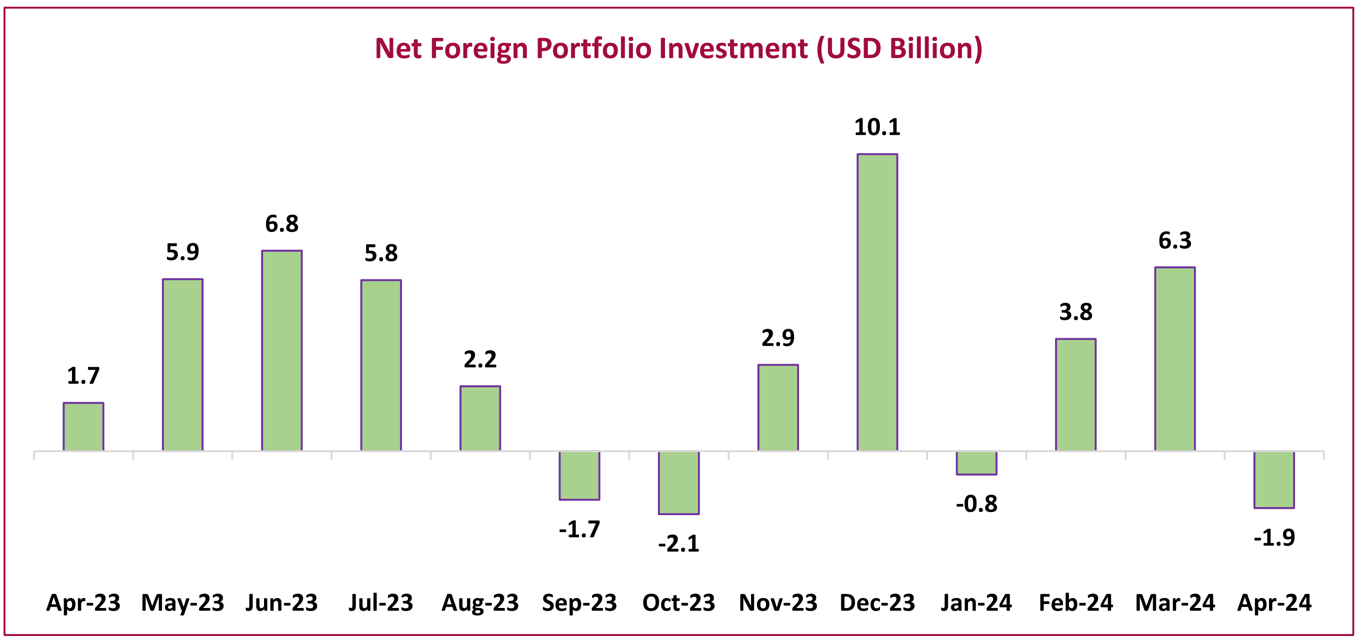


India's merchandise trade deficit hit a seven-month high of $23.78 billion in May’24. Both exports and imports expanded in May’24 for second consecutive month after contracting in March’24. This is the first time in the last twelve months where exports have expanded more than imports. Despite exports growing faster than imports, the merchandise trade deficit surged to a seven-month high of $23.78 billion in May’24. This was 5.5 per cent higher than the deficit recorded in May’23, and 24.5 per cent over April’24 trade gap of $19.1 billion. This growth in Indian exports is notable amid geopolitical tensions and export curbs on foodstuffs such as rice to contain domestic inflation.

FOREIGN INVESTMENTS



Net Foreign Direct Investments into the country improved in April 2024 to USD 4.0 billion- significantly up from a net outflow of USD 3.7 billion in the previous month on the back of India's economic health and better growth prospects.



Net FPI inflows into the country also witnessed a sharp fall in April 2024. April witnessed net outflows amounting to USD 1.9 billion in April 2024 vis-a-vis net inflows of USD 6.3 billion in March and USD 3.8 billion in February 2024. FII selling was on account of weakening growth in sectors such as IT, FMCG, construction, metals & mining, telecom, and automobiles. Election-related concerns also dented foreign investors' sentiments.

BANK DEPOSIT AND CREDIT

Parameter (Rs. Lakh Crore)	02.06.23	22.03.24	17.05.24	31.05.24	*YoY (%)*	*YTD (%)*	*Fortnightly (%)*
Deposits	187.03	204.75	208.15	210.88	***12.75***	***2.99***	***1.31***
Advances	140.10	164.35	166.01	167.81	***19.78***	***2.11***	***1.09***
Business	327.13	369.10	374.16	378.69	***15.76***	***2.60***	***1.21***

SECTORAL DEPLOYMENT OF CREDIT- INDUSTRY WISE

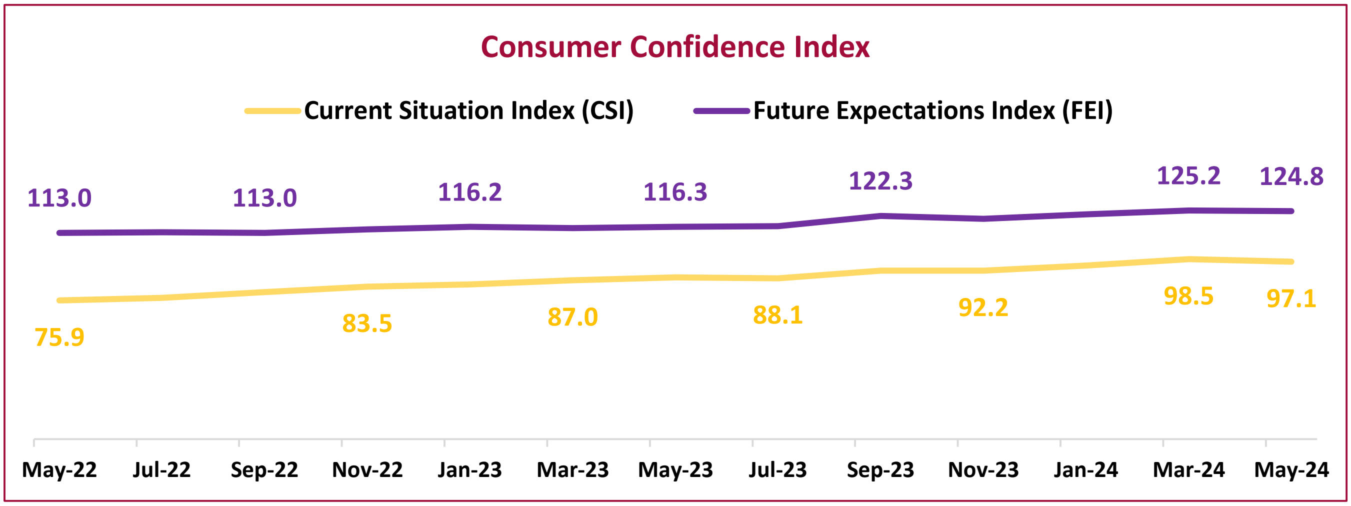
Parameter (Rs. Lakh Crore)	Apr-23	Feb-24	Mar-24	Apr-24
Total Non-food	**138.4**	**161.7**	**164.1**	**164.8**
Agriculture and allied activities	**17.7**	**20.4**	**20.7**	**21.1**
Industry	**34.0**	**36.7**	**36.5**	**36.6**
Of which				
Micro & small	6.3	7.9	7.3	7.3
Medium	2.7	3.1	3.0	3.1
Large	25.0	25.8	26.2	26.1
Personal loans	**42.2**	**52.7**	**53.3**	**53.6**
Of which				
Housing (Including priority sector housing)	20.0	26.8	27.2	27.4
Education	1.0	1.2	1.2	1.2
Vehicle loans	5.1	5.8	5.9	5.9
Services	**37.7**	**44.9**	**45.9**	**45.9**
Of which				
Computer software	0.2	0.3	0.3	0.2
Tourism, hotels & restaurants	0.7	0.8	0.8	0.8
Shipping	0.1	0.1	0.1	0.1
Aviation	0.3	0.4	0.4	0.4
Retail trade	4.3	4.8	4.9	4.9
Commercial real estate	3.3	4.4	4.5	4.5

Non-food bank credit registered a growth of 19.1 per cent YoY in April 2024 as compared with 16.2 per cent a year ago. Credit growth to agriculture and allied activities remained robust at 19.7 per cent (y-o-y) in April 2024 (16.8 per cent a year ago), while credit growth to industry remained almost flat at 7.4 per cent (7.2 per cent a year ago). Credit to food processing, infrastructure, textiles, chemicals, and engineering accelerated in April 2024. Personal loans grew 27.1 per cent (y-o-y) in April 2024 (19.4 per cent a year ago), while credit to services expanded at 21.7 per cent (y-o-y) in April 2024 vis-à-vis 21.3 per cent last year.

8. BI-MONTHLY ECONOMIC INDICATORS

RBI CONSUMER CONFIDENCE INDEX

Consumer Confidence at its highest level since mid-2019

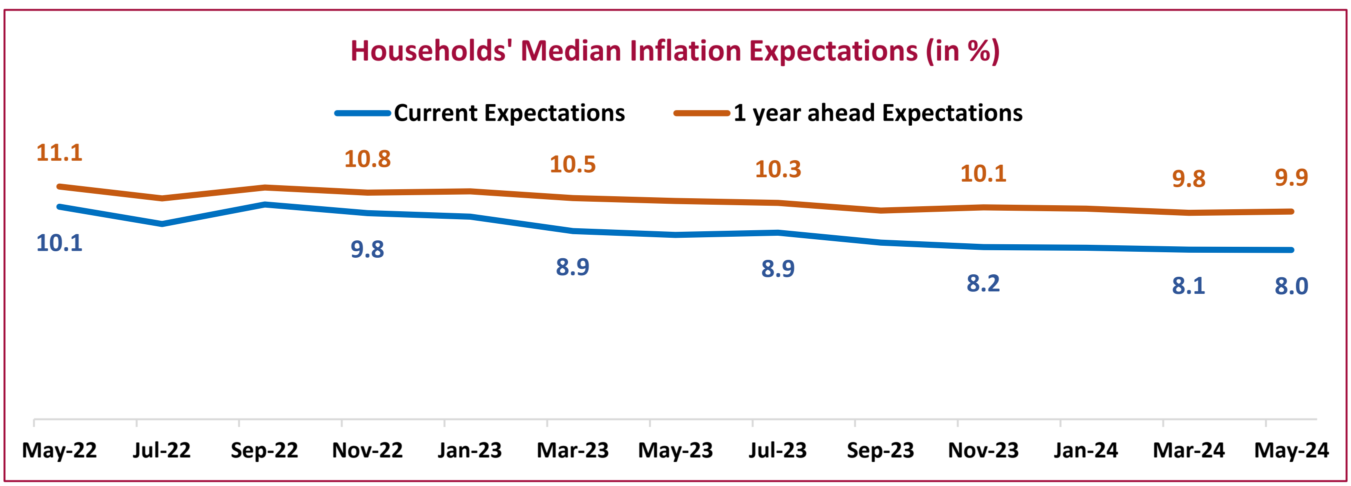


Note: CSI and FEI are compiled on the basis of net responses on the economic situation, income, spending, employment and the price level for the current period (as compared with one year ago) and a year ahead, respectively. CSI and FEI = 100 + Average of Net Responses of the above parameters.

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

RBI INFLATION EXPECTATIONS SURVEY

Inflation expectations remain largely unchanged from the previous survey round

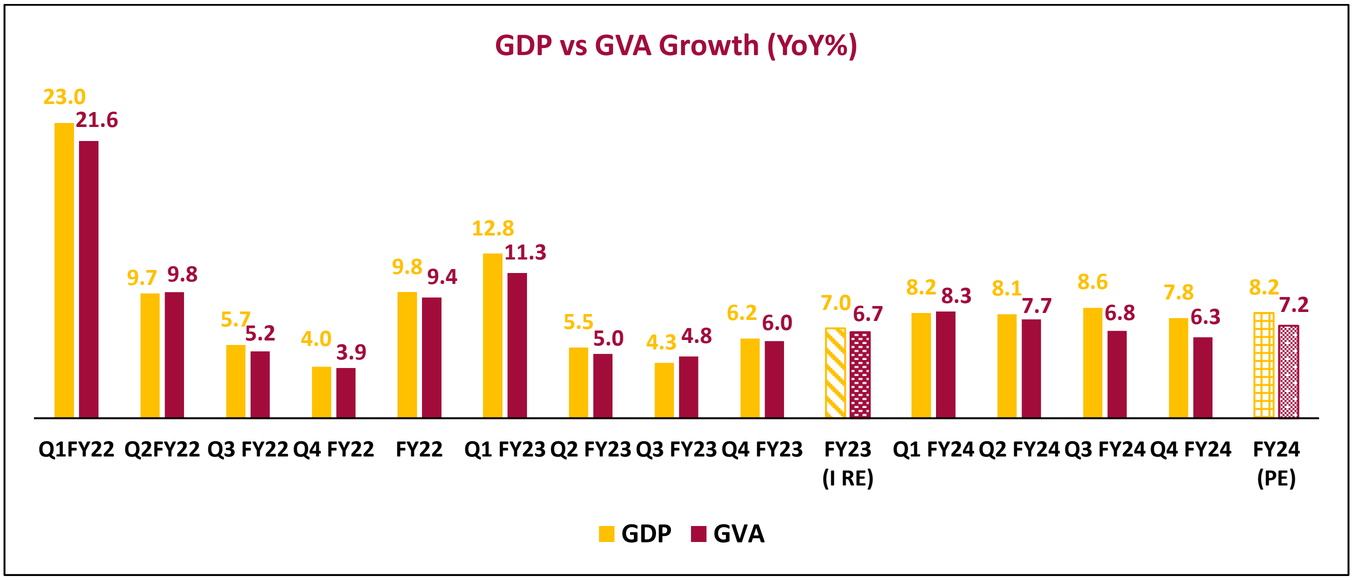


Households' inflation expectations for one year ahead period increased by 10 bps but remained in single digits; however, their perception on current inflation, moderated by 10 bps and stood at 8.0 per cent in the latest survey round.

9. QUARTERLY ECONOMIC INDICATORS

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

India's GDP growth surpasses expectations

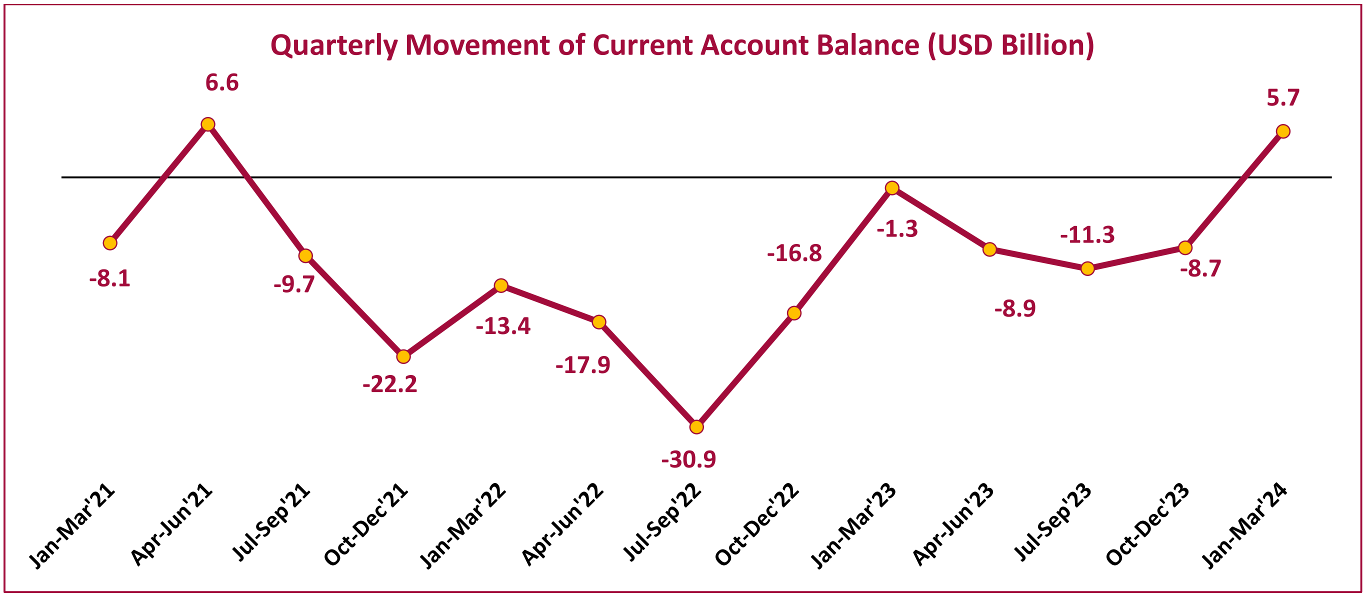


India's economic growth for FY24 was revised up to 8.2 per cent from the 2nd advance estimate of 7.6 per cent - the highest among large economies globally. GVA growth, which excludes indirect tax & includes subsidies, was pegged at 6.3 per cent in Q4 FY24. Manufacturing and construction sector were the primary drivers of the industry sector's robust and consistent growth in Q4 as well as in FY24, reflecting the public capex support push. The services sector also performed well in Q4 FY24, with improvements observed in the public administration, defense services and financial and real estate segments. However, the Agriculture Sector growth has remained low with 0.6 per cent in Q4 FY24, rising slightly from the 0.4 per cent in Q3 FY24. For the overall FY24, it has fallen from 4.7 per cent in FY23 to 1.4 per cent in FY24 owing to monsoon worries.

INDIA'S GDP OUTLOOK BY VARIOUS AGENCIES

Agency	FY25
RBI	7.2%
World Bank	6.6%
IMF	6.8%
ADB	7.0%

CURRENT ACCOUNT BALANCE



India's Current Account recorded a surplus of USD 5.7 billion (0.6 per cent of GDP) in Q4 FY'24 as against a deficit of USD 8.7 billion (1.0 per cent of GDP) in Q3 FY'24. In the same quarter last year, the current account had recorded a deficit of USD 1.3 billion (0.2 per cent of GDP). The surplus recorded was bolstered by growth in services exports, especially software, travel and business services as well as a surge in remittances to India.

10. GLOBAL INTEREST RATES

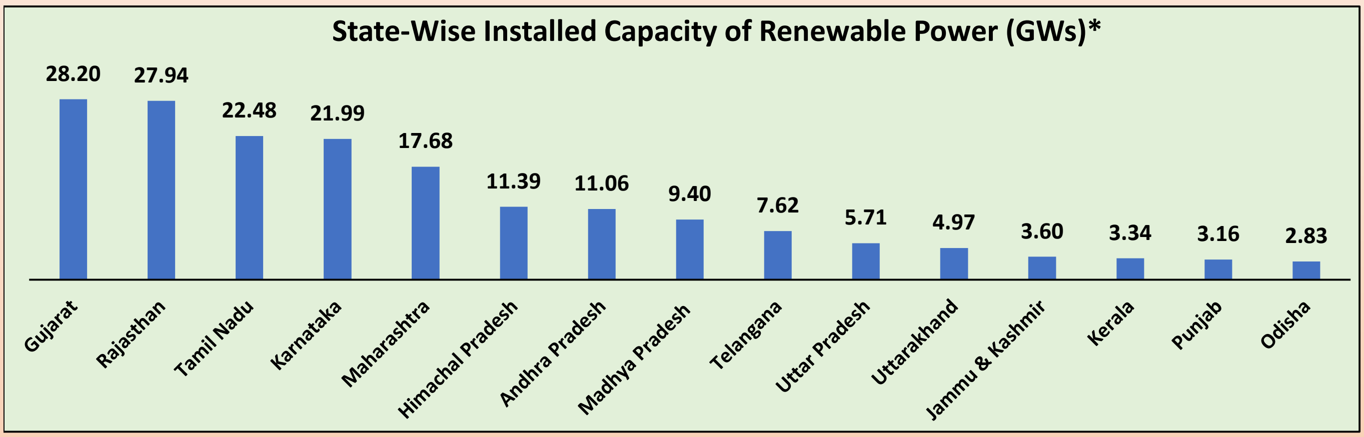
Central Banks	Countries	Latest Interest Rate (%)	Last Change	Next Meeting Date
Bank of Japan	Japan	0.10%	Mar 19, 2024 (20 bps)	Jul 31, 2024
European Central Bank	Europe	4.25%	Jun 06, 2024 (-25 bps)	Jul 18, 2024
Federal Reserve	U.S.A	5.50%	Jul 26, 2023 (25 bps)	Jul 31, 2024
Bank of England	U.K	5.25%	Aug 03, 2023 (25 bps)	Aug 01, 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)	Aug 08, 2024

11. INDUSTRY OUTLOOK

RENEWABLE ENERGY

The renewable energy sector in India is experiencing an unprecedented surge, driven by ambitious government targets, declining technology costs, and a growing urgency to combat climate change. As the nation strives to achieve its goal of 500 GW of renewable energy capacity by 2030, a multitude of opportunities are emerging for investors, particularly banks, in this dynamic landscape. According to the Commerce Ministry (GoI), India offers huge investment opportunities worth over USD 500 billion, particularly in clean energy value chain including renewables, green hydrogen and EV, by 2030.

In the current landscape, India has made significant strides in recent years, with installed renewable energy capacity exceeding 200 GW (4th largest in the world), including large hydro and nuclear. Solar energy, in particular, has witnessed exponential growth, with installations increasing thirtyfold in the last nine years. Four states accounted for over half of the country's renewable energy potential, with Gujarat having the highest share, followed by Rajasthan, Tamil Nadu and Karnataka.



The government's unwavering commitment to renewable energy is evident in its various initiatives, such as the production-linked incentive (PLI) scheme for solar module manufacturing and the Green Hydrogen Mission, aiming to produce 5 million tonnes of green hydrogen with an associated renewable energy capacity of about 125 GW by 2030.

Recently, Government has also approved Viability Gap Funding (VGF) scheme supporting initial development of 37 GW wind energy at an investment of about Rs 4.5 lakh crore. This is expected to reduce the cost of power from offshore wind energy projects, making them viable for purchase by distribution companies. While, attracting investments from private entities in the near term.

In this context, **Banks have a crucial role to play** in financing the growth of the renewable energy sector in India, and thereby they have started seizing various opportunities including **(i)** Project finance for large-scale renewable energy projects **(ii)** Issuance of green bonds to mobilize capital for sustainable projects **(iii)** Retail lending for rooftop solar, electric vehicles & other green technologies **(iv)** Advisory services on project structuring, risk management, and regulatory compliance. These initiatives support India's sustainability goals and the global fight against climate change as well as yield good returns for Banks.

Kartik Khandelwal
Officer (Economics)
Head Office, SMEAD

12. DATA SOURCES

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

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QUOTE OF THE MONTH

"Knowledge is the eye of desire and can become the pilot of the soul."

—Will Durant

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