EcoSphere

EXPLORING INDIAN AND GLOBAL ECONOMIES WITH InsPIRE

APRIL 2024

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Institute for Pioneering Insightful Research Pvt. Ltd. (InsPIRE)

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EcoSphere is a monthly review providing insights into the Indian and Global economies, financial markets, and a digest of academic and policy research papers and articles. Designed to share information and ideas with professionals, researchers, and students, it is not intended as financial or investment advice. EcoSphere is compiled based on best efforts, utilizing information from diverse published sources. InsPIRE does not ensure the completeness or accuracy of this publication, nor does it guarantee the precision of future conditions based on its use.

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Chairman's Reflections

Charting a Course for Economic Resilience

As we delve into the economic landscape of April 2024, a complex tapestry of global and Indian growth, inflation, monetary policy manoeuvres, trade dynamics, and financial market fluctuations unfolds before us. The global economy continues its path of gradual recovery. IMF's April 2024 edition of *World Economic Outlook* has estimated global growth at 3.2% in 2023 and has projected this rate to persist in 2024 and 2025, with slight upward revisions from previous forecasts. According to the report India is projected to maintain a strong growth momentum, with forecasts suggesting a growth rate of 6.8% in 2024 and 6.5% in 2025.

Further, IMF's *Global Financial Stability Report* April 2024 highlights a positive outlook in financial markets since October 2023, driven by expectations of global disinflation nearing its end and anticipated monetary policy easing.

Global trade dynamics reflect a landscape shaped by shifting geopolitical realities and evolving supply chain dynamics. Trade tensions persist, accentuated by geopolitical frictions and protectionist sentiments. In this milieu, India seeks to position itself as a key player in the global trade arena, leveraging its comparative advantages and fostering closer economic ties with strategic partners.

Financial markets exhibit a nuanced interplay of optimism and caution, as investors navigate a landscape marked by uncertainty and volatility. Prudent risk management and a long-term investment perspective are essential amid market volatility, ensuring resilience and sustainability in an increasingly interconnected global financial system. Adapting to evolving dynamics and embracing innovative solutions will be paramount in charting a course towards sustainable and inclusive growth.

We look forward to your continued support and feedback as we strive to deliver excellence in every edition.

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INDIAN ECONOMY

NAVIGATING MACROECONOMIC TRENDS

INDIA'S ECONOMIC OUTLOOK FOR FY25

According to IMF's *World Economic Outlook April 2024*, India is projected to maintain strong growth momentum, with forecasts suggesting a growth rate of 6.8% in 2024 and 6.5% in 2025. This resilience is attributed to the sustained strength in domestic demand and the expanding working-age population. Projections are based on available information regarding fiscal plans, with adjustments made for assumptions by IMF staff. Subnational data are incorporated with a delay of up to one year, resulting in finalization of general government data well after central government data. There are discrepancies between IMF and Indian presentations, particularly concerning disinvestment and license-auction proceeds, as well as the net versus gross recording of revenues in certain minor categories and some public sector lending. From FY21 onwards, expenditure also includes the off-budget component of food subsidies, in line with the revised treatment of food subsidies in the budget.

World Bank forecasts moderate growth for India despite structural challenges. The Indian economy is anticipated to expand by 6.6% in the current fiscal year 2024-25, following an estimated growth of 7.5% in the previous fiscal period. This growth projection for the ongoing fiscal year represents a slight increase from the World Bank's previous estimate of 6.4% announced in January as part of the *Global Economic Prospects*. According to the latest *South Asia Development Update* by the World Bank, growth is forecasted to moderate to 6.6% in FY25 before experiencing an upswing in the subsequent years, driven by a decade of strong public investment resulting in growth dividends. The projected slowdown in growth between FY24 and FY25 primarily stems from a decrease in investment compared to the heightened pace observed in the previous year. However, the report highlights that growth in services and industry is expected to remain robust, particularly supported by vigorous construction and real estate activity.

Furthermore, the report emphasizes that South Asia is anticipated to experience strong growth of 6% in 2024, largely propelled by robust economic expansion in India and recoveries in Pakistan and Sri Lanka. Despite this positive outlook, the report cautions that persistent structural challenges pose a threat to sustained growth in the region, impeding its ability to generate employment opportunities and respond effectively to climate-related shocks.

The Asian Development Bank (ADB) has revised India’s GDP forecast upward amidst robust investment and consumer demand. It has aligned its growth projection for India's fiscal year 2024-25 (FY25) with the RBI’s estimates. ADB has revised India's GDP growth forecast for FY25 to 7%, up from the previous estimate of 6.7%. This upward revision is attributed to robust private and public sector investments, as well as strong consumer demand.

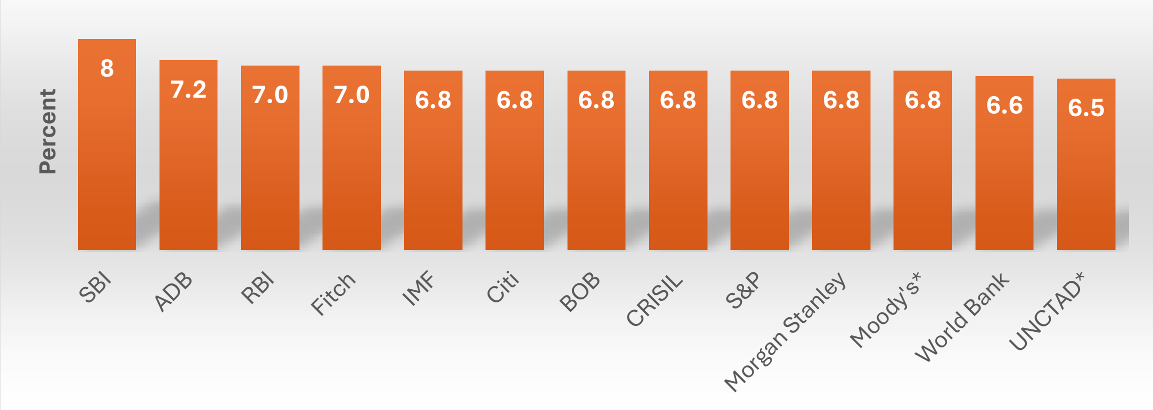
In its April edition of the *Asian Development Outlook* released on April 11, 2024, ADB noted that inflation is expected to continue its downward trajectory in line with global trends. RBI, in its Monetary Policy statement on 05 April 2024, had also projected India's GDP growth for FY25 at 7%. This outlook is based on sustained stimulus in the services and manufacturing sectors, expectations of a normal monsoon, and easing inflationary pressures.

ADB emphasized that exports may remain subdued in the current fiscal year due to a decline in development in major advanced economies but are expected to improve in FY25. ADB stressed the importance of India increasing its integration into global supply chains to boost exports in the medium term. According to the ADB, monetary policy is expected to continue supporting growth as inflation recedes, while fiscal policy aims at consolidation but maintains support for capital investment. Growth is forecasted to stabilize at 7% for the current fiscal year and increase to 7.2% next year.

UNCTAD’s *Trade and Investment Report April 2024* expects India to grow at 6.5% in calendar year 2024. The growth in 2023 was propelled by substantial public investment outlays and the resilience of the services sector, benefiting from robust domestic demand for consumer services and strong external demand for the nation's business services exports. These factors are anticipated to continue bolstering growth in 2024. Moreover, the increasing trend of multinational corporations expanding their manufacturing operations into India to diversify their supply chains is predicted to positively impact Indian exports. Additionally, the moderation of commodity prices is expected to be advantageous for India's import bill. The Reserve Bank of India is projected to maintain interest rates at their current levels in the near term, while restrained public consumption spending will be counterbalanced by robust public investment expenditures.

India is expected to continue experiencing robust economic growth in the FY25, with inflation projected to ease, possibly allowing the RBI to initiate a rate-cut cycle, . However, risks loom from global factors such as slower-than-expected global growth, higher commodity prices, and geopolitical turbulence. Despite a strong economic growth of 7.6% in FY24, forecasts for GDP growth in FY25 range between 6.8% and 7%, with a slowdown expected in the April-June quarter due to general elections. Research agencies anticipate a slowdown in both industry and services sectors, along with consumption, in the initial quarter of FY25. However, agriculture and investment growth are expected to mitigate some downside risks. While restrictive interest rates may dampen demand, regulatory actions to control unsecured lending could affect credit growth. Nonetheless, high-frequency indicators suggest resilience in domestic economic activity. Morgan Stanley expects broad-based growth in FY25, with private consumption likely to recover, supported by moderation in inflation and improvement in rural purchasing power. The government's emphasis on capital spending has led to a recovery in gross fixed capital formation, with both public and private sectors showing signs of increased investment. India's exports have remained resilient, although geopolitical tensions remain a concern.

Figure 1: India's GDP Projections for FY25



*CY 2024

Sources: IMF, UNCTAD, World Bank, RBI, SBI Ecowrap, Fitch, Business Standard

According to the *RBI Bulletin* April 2024[1] :

- India is poised for continued economic growth, building on the momentum that has seen average real GDP growth exceed 8% during 2021-2024. To fulfil its developmental goals over the next three decades, the Indian economy must sustain a growth rate of 8-10% annually, leveraging the demographic dividend projected to last until 2055.
- Capital deepening, driven by both public and private investment, along with productivity improvements, is fuelling this growth trajectory.
- Favourable conditions, including strengthened credit quality of Indian corporates, sustained domestic demand, and public capital expenditure, are contributing to this economic upswing.
- Analysis within India's growth accounting framework reveals a recovery in the contribution of fixed capital stock to gross value added (GVA) growth, although there is still ground to cover compared to pre-pandemic levels. Total factor productivity (TFP) has emerged as a key driver of GVA growth post-pandemic, with significant improvements observed across all sectors, particularly in services.
- To capitalize on its demographic advantage and propel itself beyond the low middle-income threshold, India's developmental strategy should prioritize enhancing the employability of its youth and women, with a focus on formalizing employment opportunities. With a growing working-age population, emphasis on labour quality will be paramount. Although labour quality has historically seen slow growth, recent evidence suggests an improvement, particularly driven by the services sector.
- Global capability centres (GCCs) are increasingly tapping into India's talent pool, seeking to leverage its strengths in delivering innovative solutions and data-driven business models on a global scale, leading to continued positive trends in hiring by GCCs.
- Furthermore, the recent softening of headline inflation since January 2024 provides additional support to India's growth aspirations.

[1] State of the Economy, *RBI Bulletin April 2024* can be accessed at: https://shorturl.at/axO68

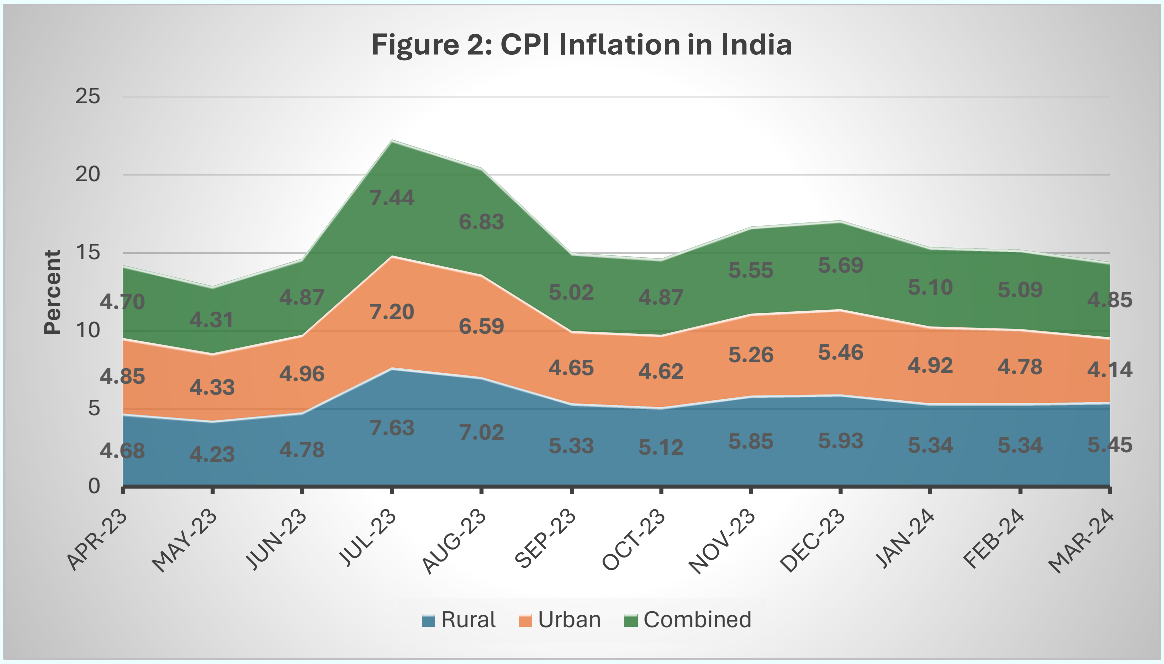
India's economic activity remains robust, with the HSBC Flash India Composite PMI output index reaching a near 14-year high of 62.2 in April. Both manufacturing and services sectors contributed to this expansion, driven by demand from domestic and foreign clients. The manufacturing output index also stayed strong, supported by improved delivery times. This growth has led to increased hiring and job creation, particularly in the manufacturing sector. Despite geopolitical uncertainties and volatile crude oil prices, India's growth prospects seem bright, with the IMF raising its GDP growth projection for FY25 to 6.8%. However, challenges such as export demand headwinds and global risks could moderate growth in the coming year.

INSIGHTS INTO INDIA'S MARCH 2024 INFLATION

Retail Inflation

India's retail inflation rate dipped to its lowest in 10 months in March, yet it remained significantly above the Reserve Bank of India's (RBI) target of 4%. Meanwhile, industrial production surged to a four-month peak in February, indicating the central bank's continued focus on maintaining price stability.

According to data released by the National Statistical Office, the consumer price index (CPI)-based inflation rate softened to 4.85% in March 2024 (Figure 2)from 5.09% in February, driven by a decline in fuel and light prices, particularly cooking gas. Core inflation, excluding volatile food and fuel items, also slowed down to 3.25% in March, marking its lowest point in the current CPI series based on 2012. Although retail inflation in the March quarter hit its lowest point in 12 quarters, the urban-rural divide widened to a 23-month high of 1.31 percentage points in March, with rural inflation exceeding urban inflation.



Source: NSO, MoSPI, GoI

In Q4 of 2023-24, inflation remained in line with expectations at 5.0%, aligning with projections. The softening of core inflation to historic lows in March, driven by moderation across goods and services components, supports the effectiveness of disinflationary monetary policy. With inflation nearing the 4% target, there is growing confidence in its imminent descent to the target level. However, food inflation, though showing signs of moderation, remains elevated and poses a potential risk to the disinflation trajectory. Careful monitoring is needed during the summer months as food price shocks overlap, with an above-normal Southwest monsoon expected to alleviate food price pressures according to the India Meteorological Department (IMD). In the short term, extreme weather events and geopolitical tensions may pose risks to inflation, especially given the volatility in crude oil prices. Despite projections indicating further easing of headline inflation in the coming months, challenges may arise from unfavourable base effects in the second half of the year. While progress towards inflation targets is ongoing, clarity and confidence in the disinflation path will be enhanced with incoming data.

In March, Consumer Food Price Inflation (CFPI) exhibited a marginal decrease to 8.52% (Figure 3) from February's 8.66%, although this occurred amidst a backdrop of rising prices month-on-month. Sequentially, CFPI experienced a slight uptick of 0.2% during the same period. Additionally, the inflation rate for food and beverages saw a minor reduction to 7.7%

in March from February's 7.8%. Notably, rural CFPI surpassed urban inflation by 0.26 percentage points, marking a reversal from the preceding four-month trend where urban inflation had been higher than rural inflation.

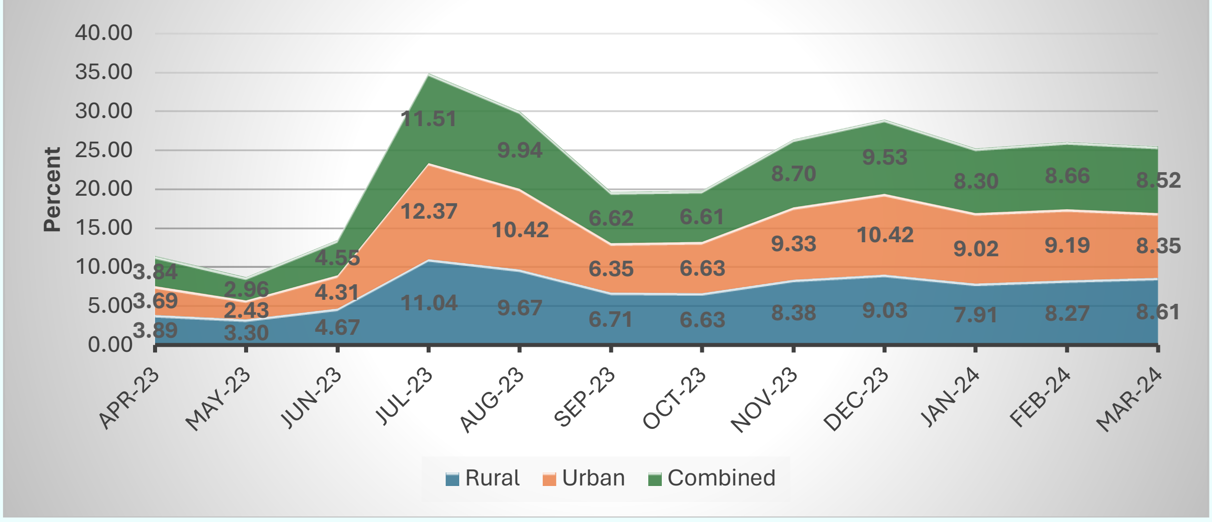


Figure 3: Consumer Food Price Inflation in India

Source: NSO, MoSPI, GoI

Despite the commencement of wheat crop harvesting, the year-on-year inflation in 'cereals and products' increased from 7.60% in February to 8.37% in March (Figure 4). This contrasts with the RBI's expectation of contained cereal prices due to anticipated record rabi wheat production in 2023-24. Rural cereal inflation exceeded urban cereal inflation by 0.7 percentage points, a reversal in trend from the previous four months.

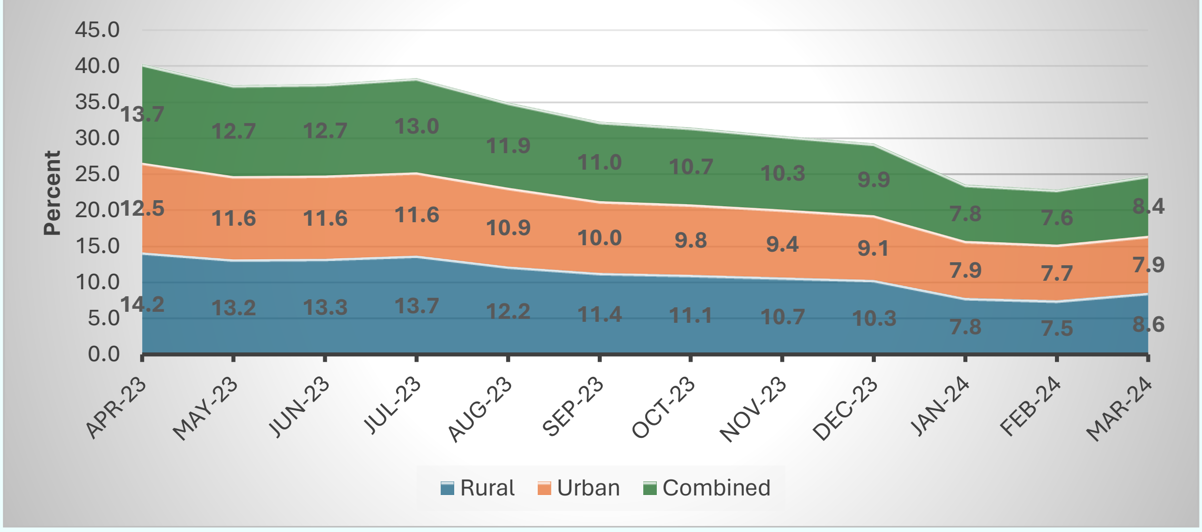
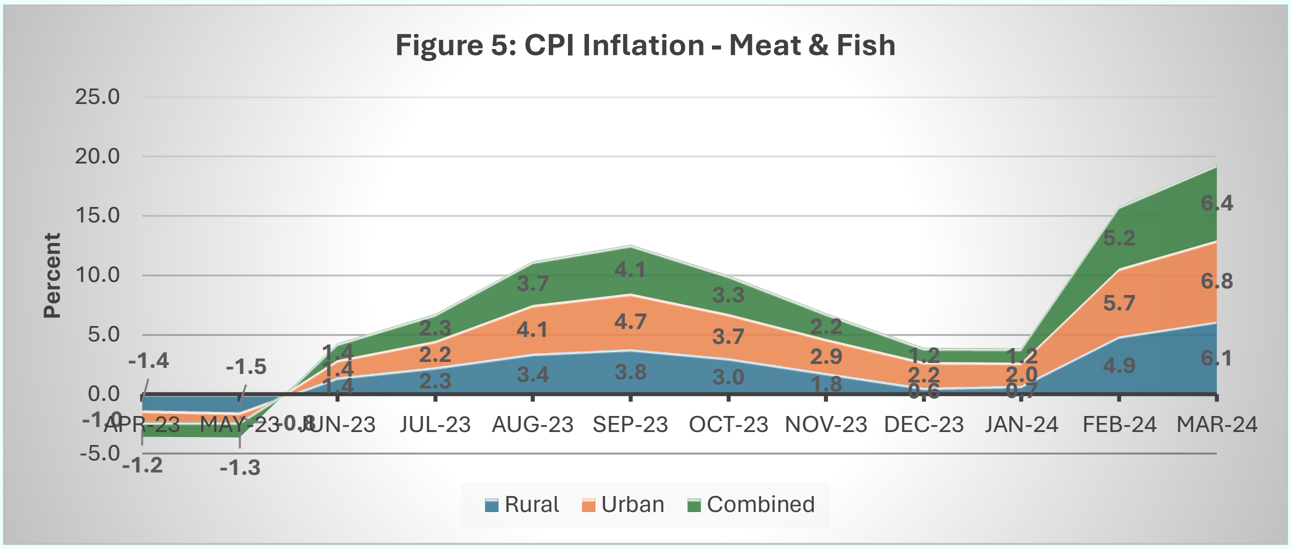


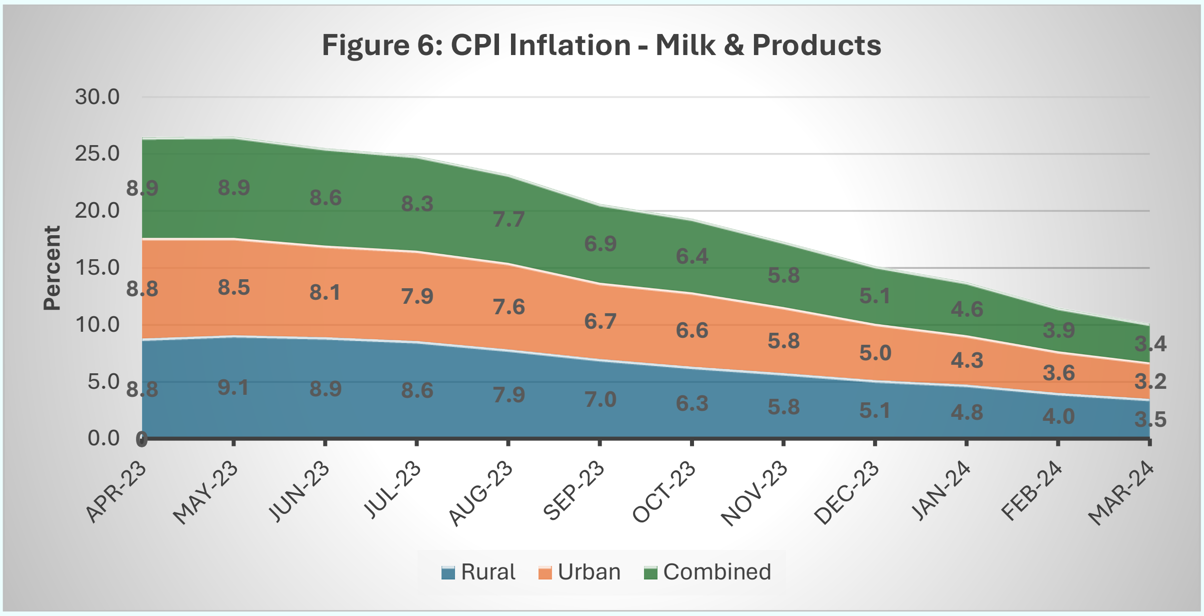
Figure 4: CPI Inflation - Cereals & Products

Source: NSO, MoSPI, GoI

Among other food items, meat and fish (Figure 5), milk (Figure 6), and vegetables (Figure 7) saw sequential price hikes, while eggs, edible oils, pulses, and spices experienced a decline in March .



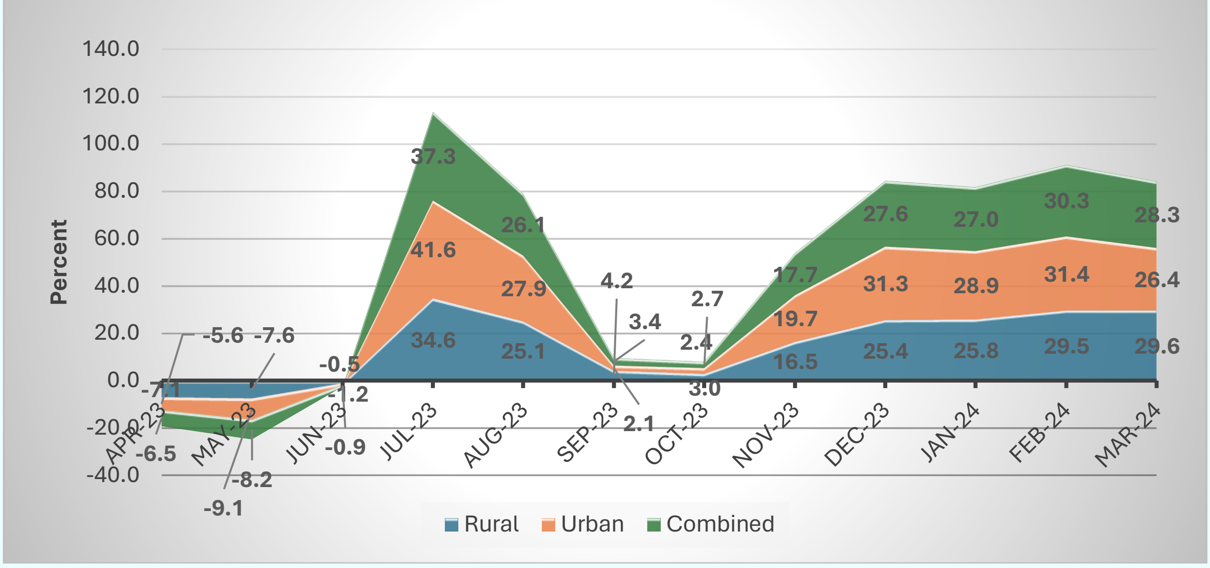
Source: NSO, MoSPI, GoI



Source: NSO, MoSPI, GoI

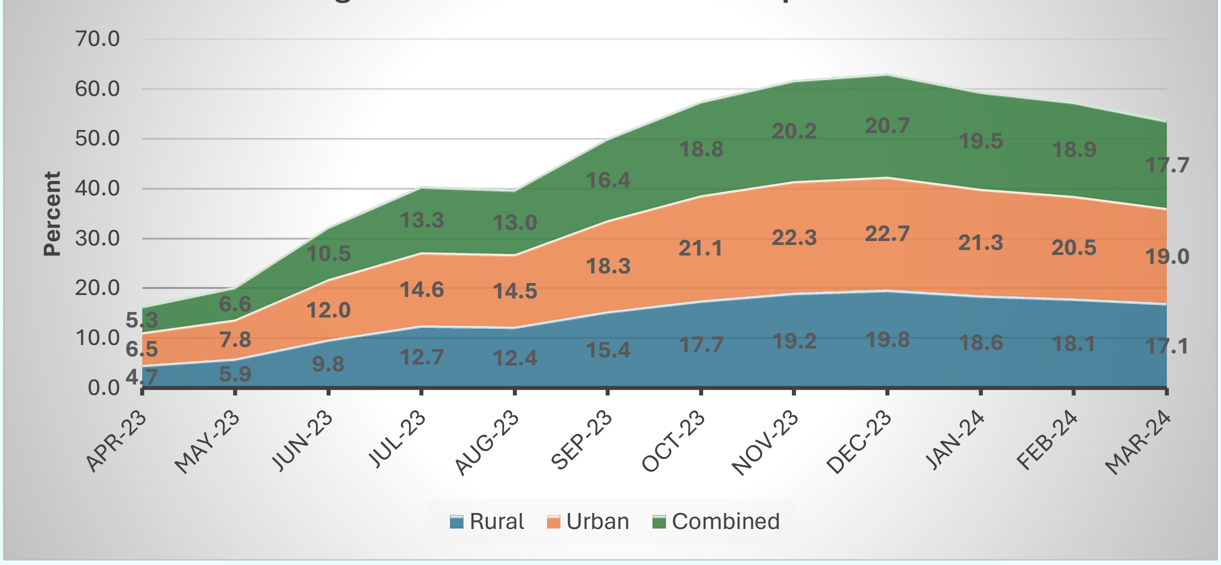
Double-digit inflation in vegetables (Figure 7), pulses (Figure 8), eggs (Figure 9), and spices (Figure 10) contributed to high food inflation despite overall deceleration. Economists anticipate that above-normal temperatures and heat-wave conditions in the upcoming months could keep prices of pulses, milk, and vegetables elevated. Many economists project CPI inflation to average between 5-5.2% in Q1FY25, higher than the RBI's 4.9% projection, primarily due to elevated food inflation.

Figure 7: CPI Inflation - Vegetables

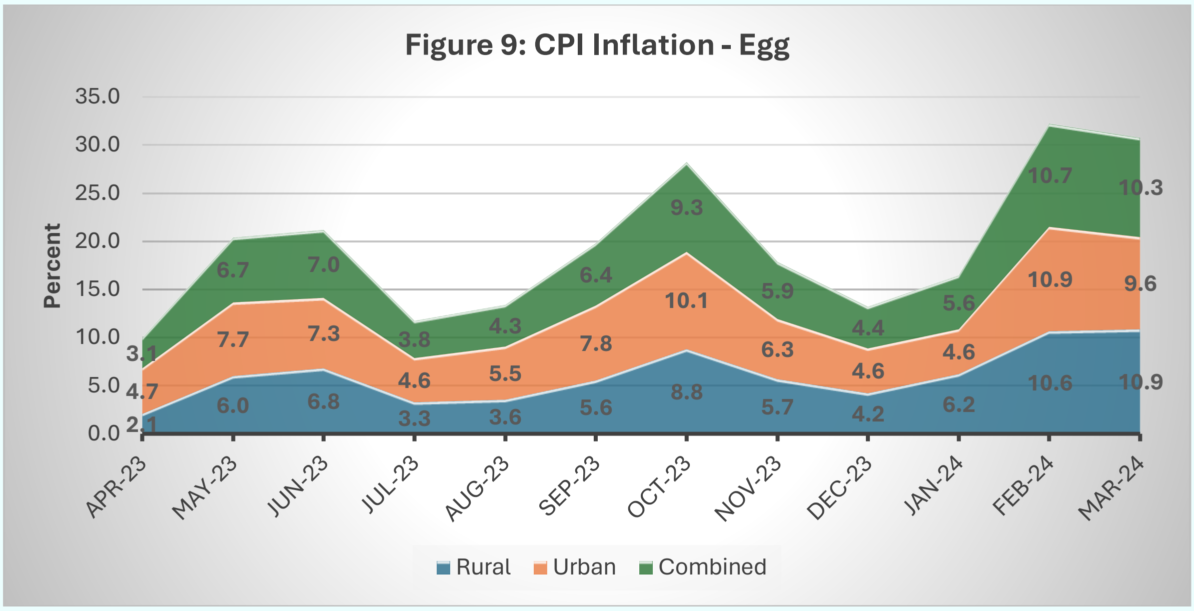


Source: NSO, MoSPI, GoI

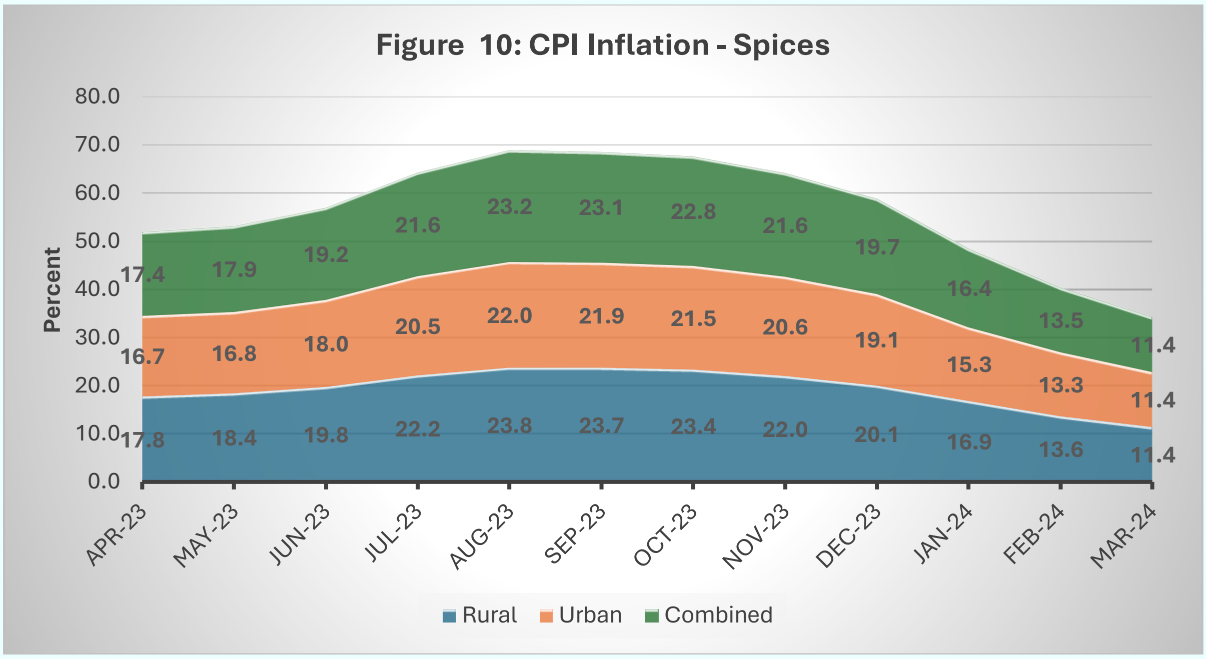
Figure 8 : CPI Inflation - Pulses & products



Source: NSO, MoSPI, GoI

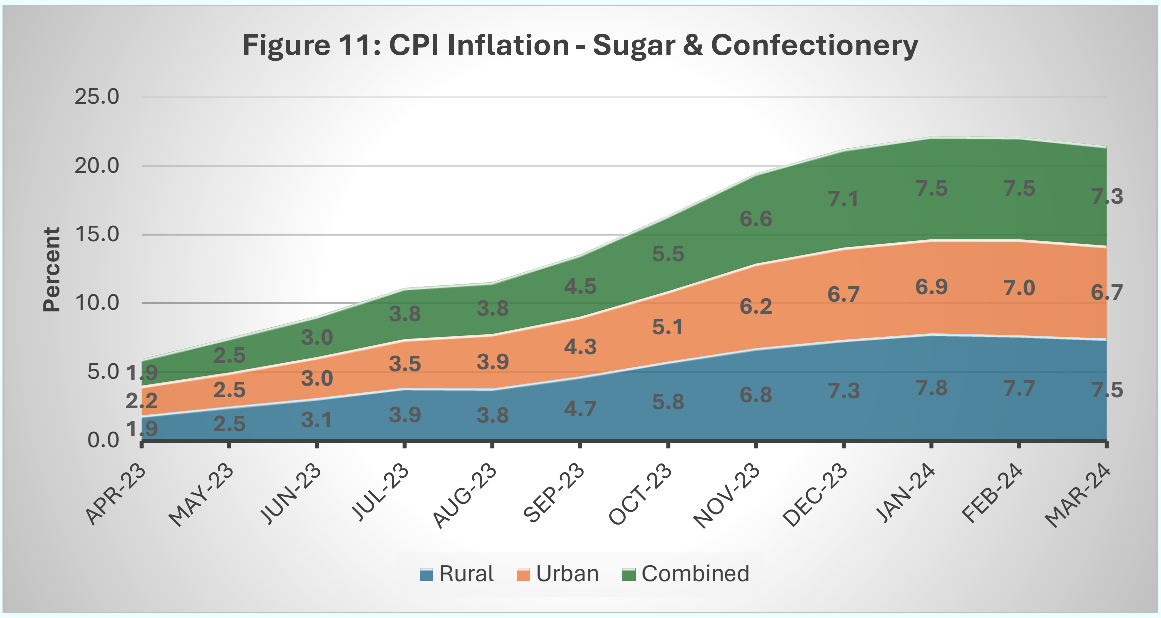


Source: NSO, MoSPI, GoI



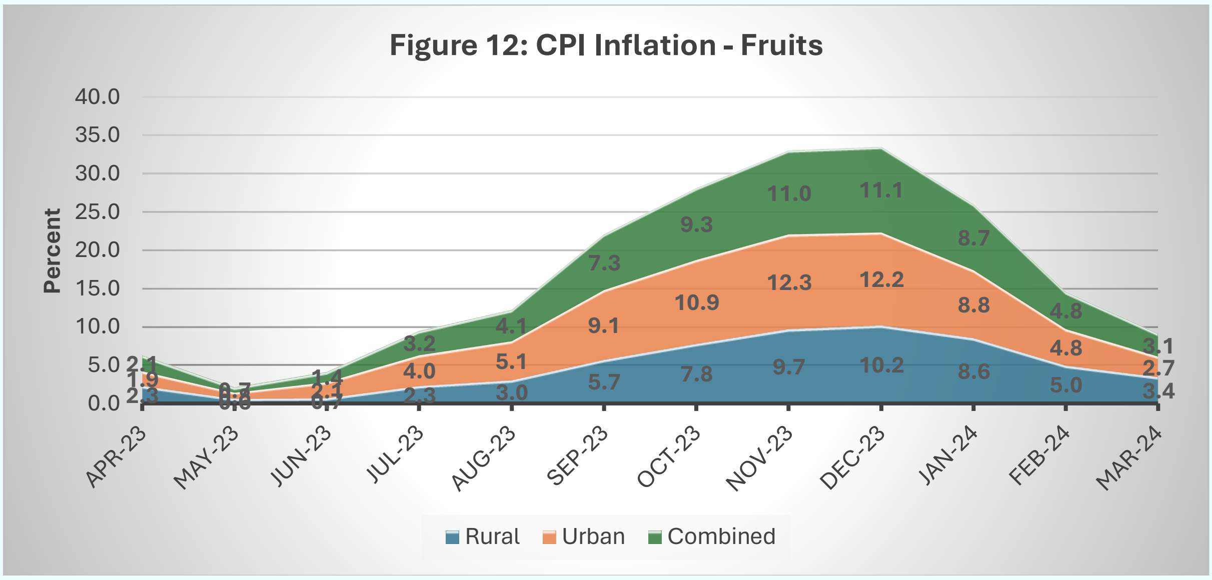
Source: NSO, MoSPI, GoI

Sugar and confectionery inflation declined in March, although it continued to remain elevated for the sixth consecutive month (Figure 11).



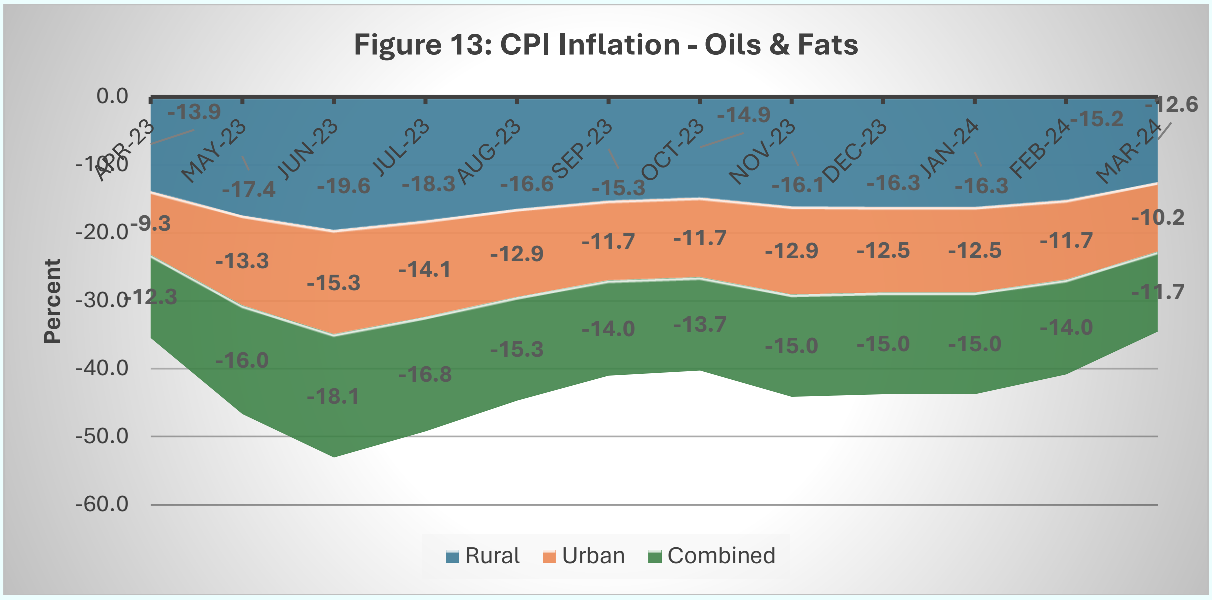
Source: NSO, MoSPI, GoI

Fruits inflation continued its downward trend and touched a nine-month low of 3.1%, with rural and urban inflation at 3.4% and 2.7%, respectively (Figure 12).



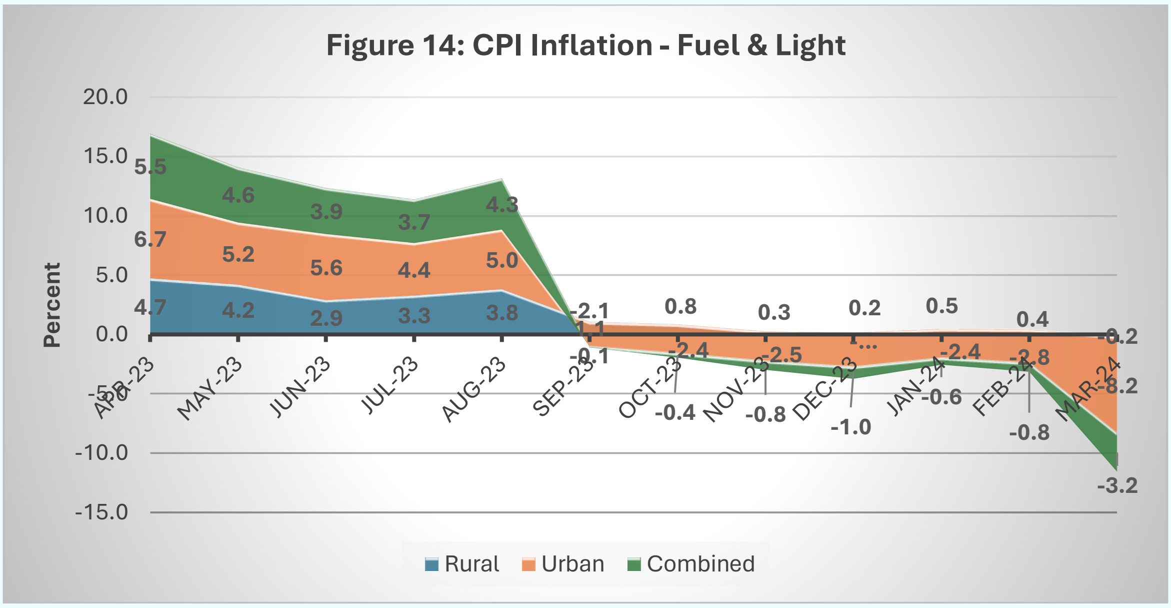
Source: NSO, MoSPI, GoI

Oils and fats continued its deflationary trend and retail inflation touched -12.6% in March, having risen from -15.2% in the previous month (Figure 13). Urban inflation continued to be higher than rural inflation.



Source: NSO, MoSPI, GoI

The deflation in the 'fuel & light' group deepened to -3.24% in March compared to -0.77% in February, driven by reductions in petrol, diesel, and LPG prices (Figure 14). However, economists warn that the ongoing upward trend in international crude oil prices may pose a risk to the CPI inflation outlook in the near term.



Source: NSO, MoSPI, GoI

During FY24, several individual states in India witnessed higher inflation rates compared to the national average. States such as Telangana (5.6%), Haryana (6.06%), and Rajasthan (5.19%), consistently reported inflation figures surpassing the all-India numbers every month. This regional disparity in inflation rates can be attributed to factors such as persistent high food inflation and differences in the rural and urban indices' weights.

Experts highlight that states with high food inflation tend to have slightly lower inflation rates if they are producers of the goods, while importing states face higher inflation due to increased logistics costs and margins. For instance, Telangana experienced volatile inflation driven by spikes in vegetable, cereal, and pulse prices, while Rajasthan's inflation was influenced by high cereal and spice prices, partly due to higher value-added tax (VAT) on petrol and diesel.

Furthermore, Uttar Pradesh (5.49%) faced higher inflation rates due to factors such as civil unrest and consistently high food prices, respectively. On the other hand, Delhi (2.29%), Maharashtra (3.66%) and Uttarakhand (3.68%) experienced lower inflation rates.

The analysis also reveals that in March 2024, states like Madhya Pradesh (5.39%) and Chhattisgarh (5.13%) exceeded the national average inflation rate for the first time. Factors such as being major rice producers and witnessing lower price increases in cereal inflation contributed to this trend.

Looking ahead, predictions for this year's inflation rates depend on factors such as the distribution of monsoon rainfall and potential fluctuations in crude oil prices. Variations in state-level inflation rates are expected, influenced by these factors and the respective states' economic dynamics.

Regarding monetary policy, economists suggest that the recent uptick in commodity prices supports the RBI's cautious stance on the disinflationary trend. Economists caution that the upward trend in international crude oil prices poses a risk to near-term retail inflation, depending on the pass-through to retail fuel prices.

Several of India's key counterparts have experienced a downward trend in recent inflation figures. Retail inflation in Germany and France decreased to 2.3% and 2.4%, respectively, from approximately 3% in the previous month, among advanced economies, while the United States saw a rise in its inflation to 3.5%.

Among India's peers in the BRICS grouping (Brazil, Russia, India, China, and South Africa), four countries have released March inflation data. Brazil (3.93%), China (0.10%), and India (4.85%) have all shown a decline compared to the previous month. Inflation in Russia increased to 7.72%.

The latest high-frequency food price data for April (up to the 19th) reveals that while cereal prices experienced a modest decline, pulse prices continued to rise[2]. After declining since December 2022, edible oil prices saw a widespread increase in April. Among key vegetables, tomato and potato prices rose during April, while onion prices continued to decrease. To manage onion prices, the Government has instructed the National Cooperative Consumers' Federation of India Ltd. (NCCF) and National Agricultural Cooperative Marketing Federation of India Ltd. (NAFED) to procure 5 lakh tonnes of onions directly from farmers as the rabi harvest enters the market.

Domestic edible oil prices had been decreasing since December 2022 in line with international trends. However, a significant increase in international prices in March 2024 led to higher import prices. There are also risks stemming from potential increases in local consumption of edible oils due to biodiesel mandates implemented by major exporters like Indonesia, which could limit their exports and affect global prices.

Retail prices of petrol and diesel were reduced by ₹2 per litre each from March 15, 2024, while kerosene prices saw a slight increase in March. In April (up to the 19th), kerosene prices marginally declined, while prices of other petroleum products remained unchanged.

The Purchasing Managers' Indices (PMIs) for March 2024 indicated a rise in input costs for both manufacturing and service firms. While the rate of selling price increases slowed down for manufacturing firms in March, it accelerated for service firms, reaching its highest pace in six and a half years.

[2] *RBI Bulletin* April 2024

In the latest bi-monthly round of the RBI's inflation survey, households' inflation expectations eased by 20 basis points each for the 3-month and one-year ahead horizons. The highlights of the survey are as follows:

i. Household inflation expectations for both the three-month and one-year periods eased by 20 basis points (bps) each, reaching 9.0% and 9.8%, respectively. However, their perception of current inflation held steady at 8.1%.
ii. The proportion of households anticipating overall price increases and inflation over the next three months and one year decreased, both for general prices and across most product categories, compared to the previous survey.
iii. Among all age groups, respondents under 25 years exhibited relatively lower median inflation expectations, while in terms of occupation, financial sector employees held lower expectations.
iv. Expectations of households regarding general prices over a one-year horizon closely mirrored those concerning food prices and housing-related expenses.

Wholesale Inflation

In March 2024, India's wholesale price inflation surged to its highest level in three months, reaching 0.53% (Figure 15). This increase was primarily driven by rises in the prices of essential commodities such as food, electricity, crude petroleum, natural gas, machinery, and equipment, as reported by the Ministry of Commerce and Industry. The trajectory of wholesale price inflation has seen fluctuations in recent months, rising to 0.86% in December, then declining to 0.33% and 0.20% in January and February respectively, after hitting 0.39% in November. A year ago, inflation stood at 1.41%.

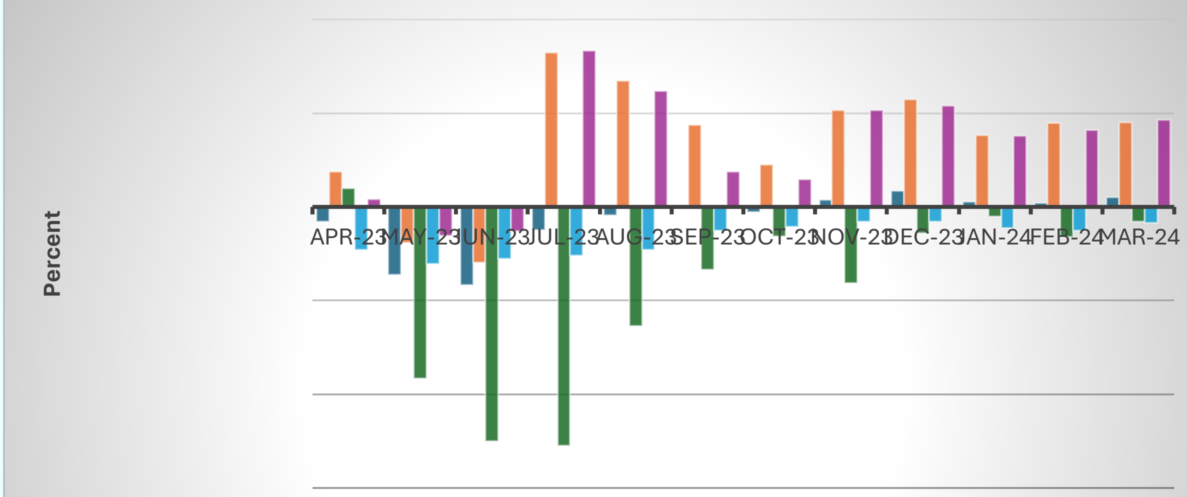


Figure 15: WPI Inflation in India 2023-24

	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24
All Commodities	-0.79	-3.61	-4.18	-1.23	-0.46	-0.07	-0.26	0.39	0.86	0.27	0.20	0.53
Primary articles	1.89	-1.90	-2.98	8.24	6.73	4.38	2.26	5.16	5.73	3.84	4.49	4.51
Fuel & power	0.99	-9.17	-12.51	-12.73	-6.34	-3.35	-1.58	-4.05	-1.39	-0.51	-1.59	-0.77
Manufactured products	-2.28	-3.03	-2.78	-2.58	-2.30	-1.27	-1.06	-0.78	-0.78	-1.13	-1.27	-0.85
Food index	0.40	-1.54	-1.3	8.32	6.19	1.88	1.46	5.15	5.39	3.79	4.09	4.65

All Commodities Primary articles Fuel & power Manufactured products Food index

Source: Office of Economic Adviser, DPIIT,Ministry of Commerce and Industry, GoI

The March wholesale inflation figure exceeded the expectations of economists, who had predicted a 0.51% rise, according to a Reuters poll. The journey of wholesale inflation over the past year has been marked by a shift from negative territory, influenced by a decrease in prices of various commodities including chemicals, electricity, textiles, basic metals, food products, paper, and paper products.

During FY24, fuel prices experienced a decrease of 4.4%, while manufactured products witnessed a contraction of 1.7%, compared to much steeper declines of 29.4% and 5.7% respectively in FY23. The pressure on factory gate prices within food articles primarily stemmed from significant increases in onion prices (56.9%) and potato prices (52.9%), followed by rises in paddy (11.7%), cereals (9.04%), and wheat (7.43%). Conversely, prices of pulses (17.2%), vegetables (19.52%), and milk (4.73%) slowed down during the period.

Meanwhile, fruits saw a decrease of 2.95%, and protein-rich items like eggs, meat, and fish decreased by 1.86% in March compared to the previous month, offering some relief. Manufactured products, comprising 64.2% of the index, continued to experience deflation (-0.85%) for the 13th consecutive month in March. This was primarily driven by ongoing decreases in prices across textiles (-1.68%), paper (-5.71%), chemicals (-4.64%), metals (-5.34%), and finished steel (-7.22%), among others.

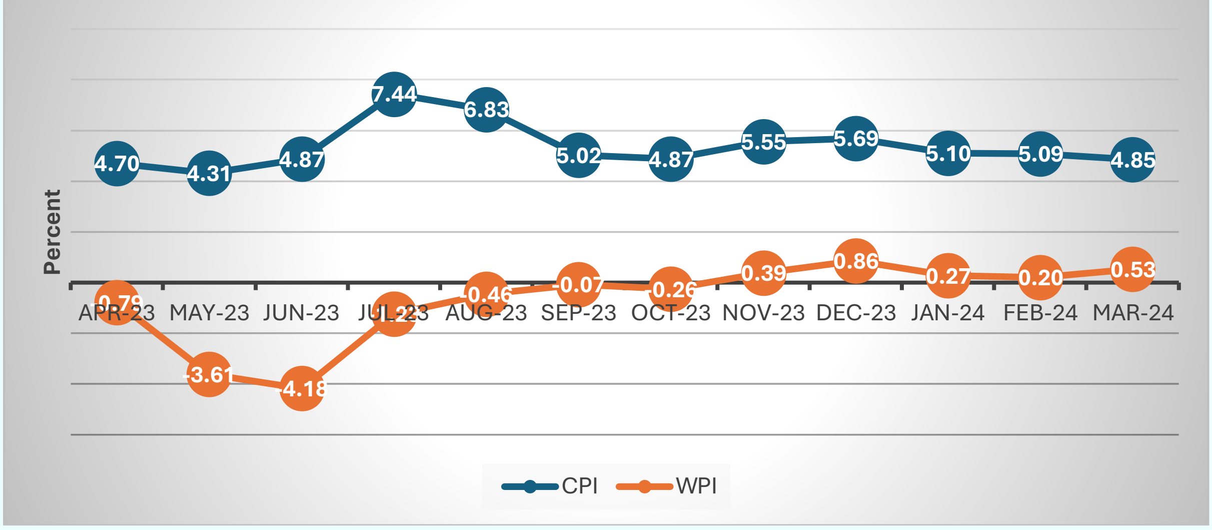
Additionally, fuel prices continued their downward trend (-0.77%) for the 11th straight month in March, with notable contractions observed in the prices of high-speed diesel (-3.51%), cooking gas (-10.19%), and petrol (-0.94%).

November marked the first time wholesale inflation entered positive territory in seven months, a trend that has persisted since then. Despite continued deflation in categories such as fuel and power, a notable increase in food prices contributed to the overall uptick in inflation.

However, optimistic prospects for agricultural production emerge, buoyed by expectations of a normal monsoon and improving conditions for rabi sowing. Notably, food inflation saw a marginal decrease from 6.95% in February to 6.88% in March, while non-food article prices dropped by 4.13%. Fuel and power prices experienced a decline of 0.77%, contrasting with a notable acceleration of 4.87% in crude petroleum and natural gas prices during March.

Although CPI inflation consistently maintained a notable lead over WPI inflation, the gap between the two narrowed steadily from 905 basis points (bps) in June 2023 to 432 bps in March 2024 (Figure 16). While the RBI primarily tracks retail inflation for its monetary policy decisions, the persistent elevation of WPI might exert upward pressure on CPI inflation levels.

Figure 16 : CPI vs WPI Inflation in India



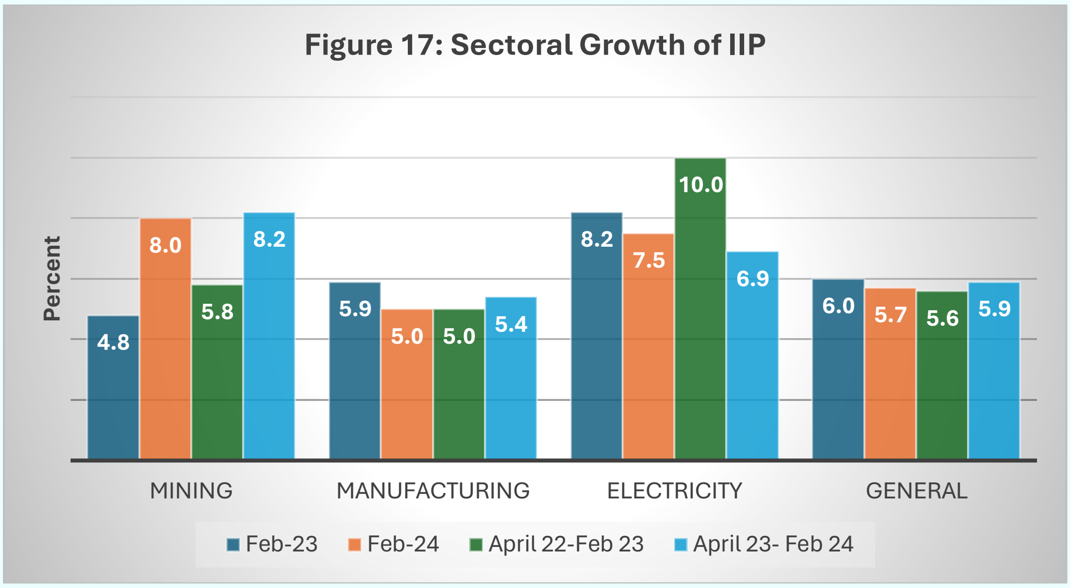
Source: Data accessed from NSO, MoSPI & Office of Chief Economic Adviser, DPIIT, Ministry of Commerce & Industry, GoI

INDIA's INDUSTRIAL OUTPUT GROWTH: FEBRUARY 2024 OVERVIEW

The Index of Industrial Production (IIP) registered a growth of 5.7% in February 2024 (Figure 17), a significant jump from 3.8% in January. This growth was primarily propelled by heightened output in the mining sector (8%) and electricity sector (7.5%), while manufacturing output (5%) exhibited slower growth in comparison. Within manufacturing, 10 out of 23 industries witnessed output contraction, including tobacco, apparel, leather, wood, paper, chemical, electronics, and furniture sectors.

There was a 1.2% increase in capital goods production, serving as an indicator of fixed investments (Table 1). Moreover, consumer durables production, reflecting consumer sentiment, notably rose by 12.5% annually during the month.

During the April-February period of FY24, IIP expanded by 5.9%, slightly surpassing the 5.6% growth recorded in the corresponding period of the previous year.



Source: NSO, MoSPI, GoI

Table 1: IIP Growth – Use-based classification

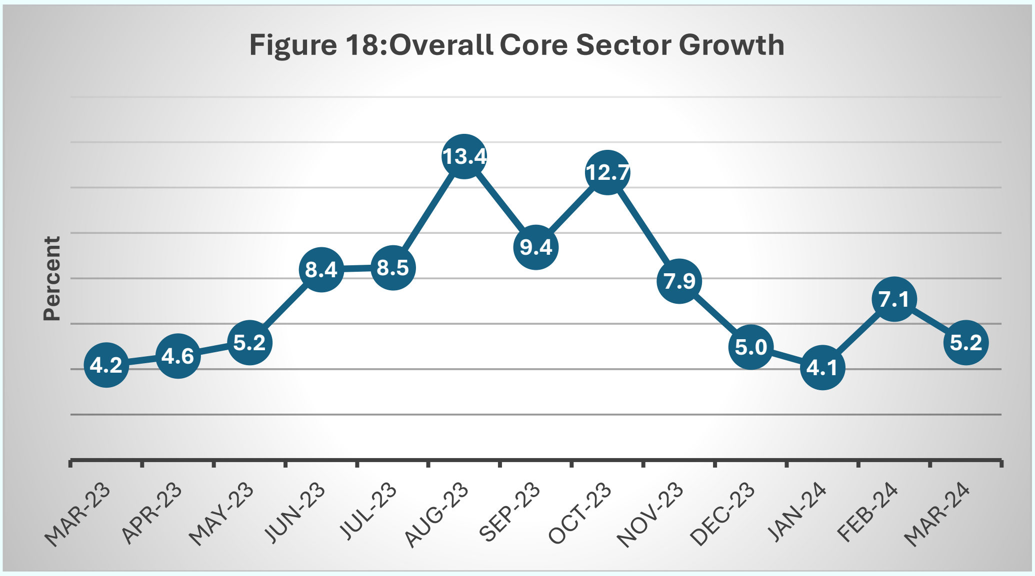
(Percent)

	Feb-23	Feb-24	April 22-Feb 23	April 23-Feb 24
Primary goods	7.0	5.9	7.9	6.5
Capital goods	11.0	1.2	13.4	6.2
Intermediate goods	1.0	9.5	4.1	5.3
Infrastructure/ Construction goods	9.0	8.5	8.5	10.0
Consumer durables	-4.1	12.3	1.5	3.1
Consumer non-durables	12.5	-3.8	0.9	3.8

Source: NSO, MoSPI, GoI

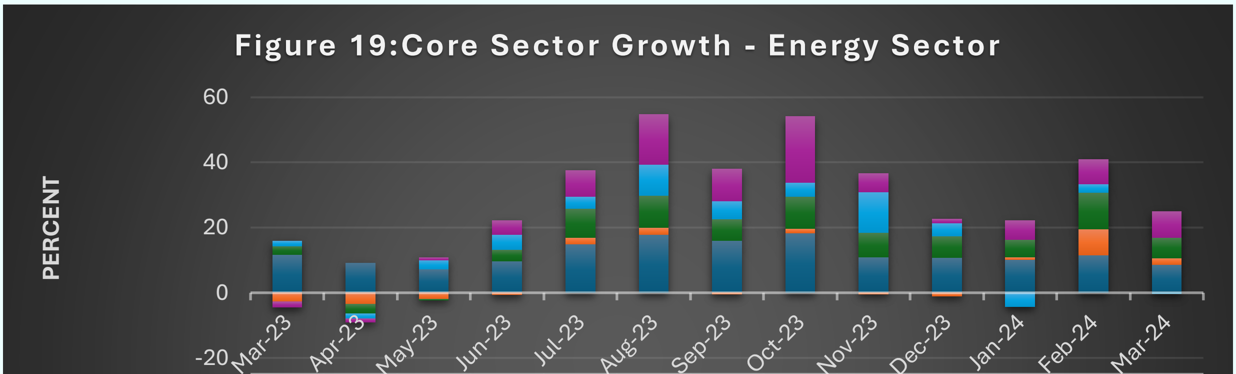
INDIA'S CORE SECTOR GROWTH DIPS IN MARCH 2024

The combined Index of Eight Core Industries (ICI) grew by 5.2% (provisional) in March 2024 as compared to the Index in March 2023 (Figure 18). This was a decline from 7.1% growth achieved in February 2024. The ICI assesses both the collective and individual production performance of eight key industries, namely Cement, Coal, Crude Oil, Electricity, Fertilizers, Natural Gas, Refinery Products, and Steel. These Eight Core Industries collectively represent 40.27% of the items included in the Index of Industrial Production (IIP).



Source: Office of Economic Adviser, DPIIT, Ministry of Commerce & Industry, GoI

In the energy sector, brisk growth was observed in coal (8.7%), electricity (8%) and natural gas (6.3%) (Figure 19). While coal production grew faster in March than the previous month, electricity, and natural gas slowed down. Further, there was a sharp decline in crude oil production and a negative growth in refinery products.



	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24
Electricity	-1.6	-1.1	0.8	4.2	8.0	15.3	9.9	20.3	5.7	1.2	5.7	7.5	8.0
Refinery Products	1.5	-1.5	2.8	4.6	3.6	9.5	5.5	4.2	12.4	4.0	-4.3	2.6	-0.3
Natural gas	2.7	-2.9	-0.3	3.5	8.9	9.9	6.6	9.9	7.6	6.6	5.5	11.3	6.3
Crude oil	-2.8	-3.5	-1.9	-0.6	2.1	2.1	-0.4	1.3	-0.4	-1.0	0.7	7.9	2.0
Coal	11.7	9.1	7.2	9.8	14.9	17.9	16.0	18.4	10.9	10.8	10.2	11.6	8.7

Source: Office of Economic Adviser, DPIIT, Ministry of Commerce & Industry, GoI

In the manufacturing sector, while there was a strong growth of 10.6% in cement output in March, compared to 9.1% in February, the growth in steel output decelerated sharply to 5.5% from 9.1% in the previous month (Figure 20). Fertilizer output contracted (-1.3%) for the third consecutive month.

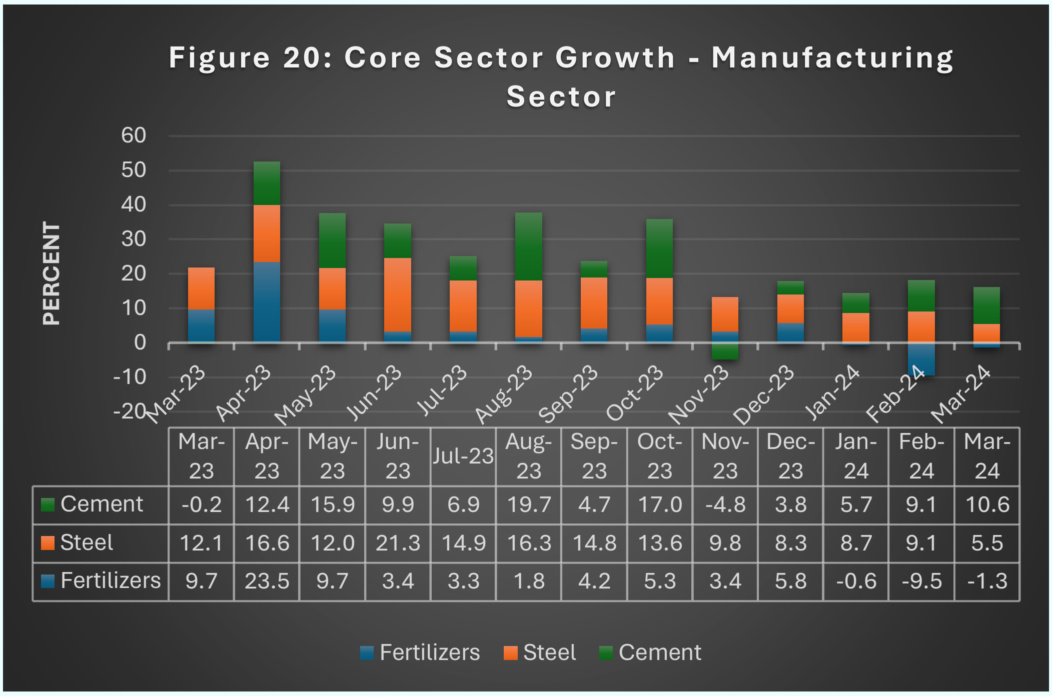


Figure 20: Core Sector Growth - Manufacturing Sector

	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24
Cement	-0.2	12.4	15.9	9.9	6.9	19.7	4.7	17.0	-4.8	3.8	5.7	9.1	10.6
Steel	12.1	16.6	12.0	21.3	14.9	16.3	14.8	13.6	9.8	8.3	8.7	9.1	5.5
Fertilizers	9.7	23.5	9.7	3.4	3.3	1.8	4.2	5.3	3.4	5.8	-0.6	-9.5	-1.3

Source: Office of Economic Adviser, DPIIT, Ministry of Commerce & Industry, GoI

Cumulatively, India's core sector's growth in FY24 stood at 7.5%, compared to 7.8% in the previous financial year (Figure 21).

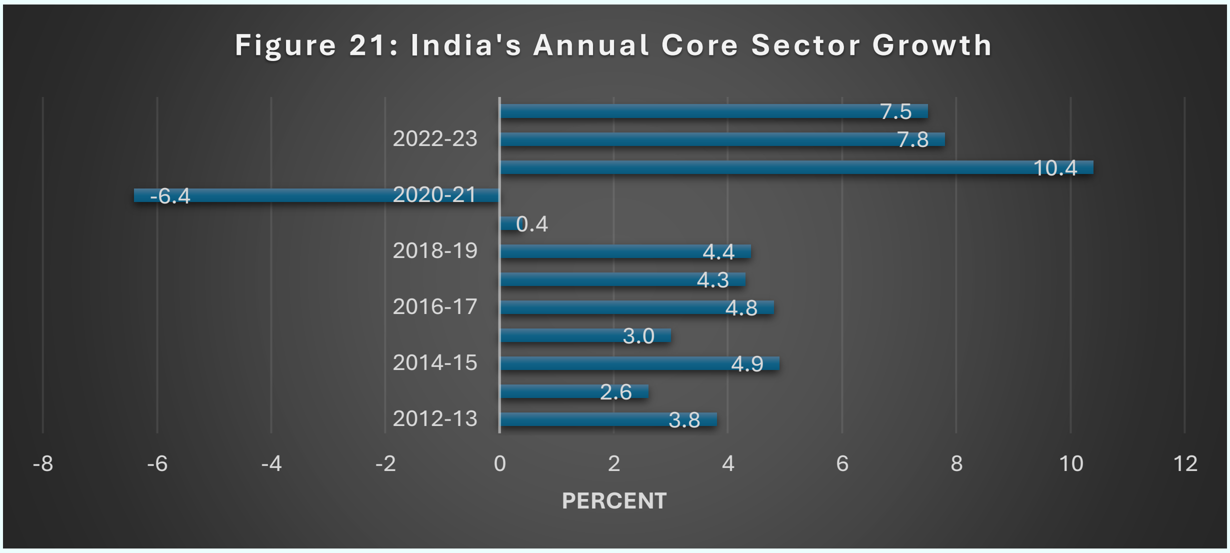


Figure 21: India's Annual Core Sector Growth

Source: Office of Economic Adviser, DPIIT, Ministry of Commerce & Industry, GoI

RECORD-BREAKING GST COLLECTION SIGNALS STRONG ECONOMIC GROWTH

GST collection reached a record ₹2.10 trillion in April, marking the first time it surpassed the ₹2 trillion mark since its implementation seven years ago. This growth, at 12.4% year-on-year, is attributed to increased domestic transactions (up 13.4%) and imports (up 8.3%). After refunds, the net GST revenue for April was ₹1.92 trillion, a 15.5% increase from the previous year. The significant growth in GST collection reflects a robust economy and government efforts to enhance compliance and curb tax evasion.

IN FOCUS

MONETARY POLICY

"Turning to the present, inflation is on a declining trajectory and GDP growth is buoyant. At this juncture, we should not lower our guard but continue to work towards ensuring that inflation aligns durably and sustainably to the target" – Mr. Shaktikanta Das, Governor, RBI

At its first meeting of FY25 on April 5, 2024, the Monetary Policy Committee (MPC) decided to maintain the policy repo rate under the liquidity adjustment facility (LAF) at 6.50%. This decision also keeps the standing deposit facility (SDF) rate unchanged at 6.25%, and the marginal standing facility (MSF) rate and the Bank Rate at 6.75%. The MPC aims to withdraw accommodation gradually to achieve the medium-term target for consumer price index (CPI) inflation of 4% within a band of +/- 2%, while also supporting growth.

Looking ahead, the MPC anticipates a normal south-west monsoon to support agricultural activity, while manufacturing is expected to maintain momentum and services activity is likely to grow above pre-pandemic levels. Private consumption is expected to strengthen, particularly with increased rural activity and steady urban demand. Prospects for fixed investment remain positive due to business optimism, healthy corporate and bank balance sheets, robust government capital expenditure, and signs of an upturn in the private capex cycle. However, risks from geopolitical tensions, volatility in international financial markets, and extreme weather events remain.

For the fiscal year 2024-25, real GDP growth is projected at 7.0%, with evenly balanced risks across quarters. Food price uncertainties continue to affect the inflation outlook, with expectations of record rabi wheat production helping to contain cereal prices. However, climate shocks and low reservoir levels pose risks to food prices, while fuel price deflation is expected to deepen in the near term.

Monetary policy has been adjusted to address changing liquidity conditions, with the Reserve Bank conducting operations to absorb intermittent surplus liquidity. Liquidity conditions have turned surplus again, necessitating further VRRR auctions. Financial conditions remain conducive, with monetary transmission ongoing.

The MPC acknowledges resilient domestic economic activity but notes challenges from food price pressures and unpredictable supply side shocks. As the disinflation process continues, the MPC emphasizes the importance of maintaining price stability and supporting growth. The MPC remains committed to aligning inflation with the target and withdrawing accommodation gradually.

In the words of Governor RBI, Mr. Shaktikanta Das: "Turning to the present, inflation is on a declining trajectory and GDP growth is buoyant. At this juncture, we should not lower our guard but continue to work towards ensuring that inflation aligns durably and sustainably to the target".

Liquidity Management by RBI

The liquidity deficit has decreased since the last policy meeting in February 2024. The net liquidity adjustment facility (LAF) has consistently remained in deficit since mid-September 2023, averaging around ₹0.74 lakh crore after the February 2024 policy.

In March, the liquidity situation improved, with system liquidity occasionally turning surplus in the first half of the month. In response, the Reserve Bank conducted fourteen fine-tuning variable rate reverse repo (VRRR) operations during February and early March to absorb intermittent surplus liquidity.

Government surplus cash balances have decreased to an average of ₹2.5 trillion after the February 2024 policy.

Regarding banking, the review of the liquidity coverage ratio (LCR) norm is a strategic move. With the advent of 24x7 payment systems, banks were holding excess funds or unusable liquidity as a cushion to manage potential large outflows, particularly after business hours or on Saturdays when RTGS/NEFT funds movement in large value could affect funds management capacity. The potential release of this unusable liquidity could now help alleviate frictional liquidity mismatches.

Monetary Policy Transmission

During the second half of the fiscal year 2023-24 (H2:2023-24), banks continued to adjust their lending and deposit rates in response to sustained credit demand. Despite the Reserve

Bank of India (RBI) keeping the policy repo rate unchanged since February 2023, banks have raised both deposit and lending rates in line with the earlier 250 basis points hike.

From October 2023 to February 2024 (H2FY24), although the RBI maintained the repo rate, banks increased the 1-year marginal cost of funds-based lending rate (MCLR) by 15 basis points. Additionally, the weighted average lending rate (WALR) on outstanding loans rose by 1 basis point, while the weighted average domestic term deposit rate (WADTDR) on outstanding deposits increased by 17 basis points. However, there was a marginal decrease of 2 basis points in fresh retail deposit rates and the WALR of fresh rupee loans.

The proportion of external benchmark-linked loans (EBLR) in total outstanding floating rate loans rose to 56.2% by the end of December 2023, up from 49.6% in March 2023. Concurrently, the share of MCLR-linked loans declined to 39.4%. This shift towards EBLR-linked loans, which typically have shorter reset periods, along with the increase in MCLRs, facilitated transmission to WALRs on outstanding loans of scheduled commercial banks (SCBs) during the current period of monetary tightening.

Additional Measures announced by Governor RBI, Mr. Shaktikanta Das are as follows:

Trading of Sovereign Green Bonds in International Financial Services Centre (IFSC)

With a view to facilitating wider non-resident participation in Sovereign Green Bonds, a scheme for investment and trading in these Bonds in the IFSC will be notified shortly.

RBI Retail Direct Scheme - Introduction of Mobile App

The RBI Retail Direct Scheme was launched in November 2021. It is now proposed to launch a mobile app for accessing the Retail Direct portal. This will be of greater convenience to retail investors and deepen the G-sec market.

Review of Liquidity Coverage Ratio (LCR) Framework

Technological developments have enabled bank customers to instantly withdraw or transfer money from their bank accounts. While improving customer convenience, this has also created challenges for banks to deal with potential situations when, due to certain factors, a large number of depositors decide to instantly and simultaneously withdraw their money from banks. The developments in certain jurisdictions last year demonstrated the difficulties it can create for banks to deal with such situations. A need has, therefore, arisen to undertake a comprehensive review of the LCR framework for banks. A draft circular will be issued shortly for stakeholder consultation.

Dealing in Rupee Interest Rate Derivative products – Small Finance Banks

At present, Small Finance Banks (SFBs) are permitted to use only Interest Rate Futures (IRFs) for proprietary hedging. It has now been decided to allow SFBs to use permissible rupee interest derivative products. This will allow further flexibility to SFBs for hedging their interest rate risk and enhance their resilience.

Enabling UPI for Cash Deposit Facility

Deposit of cash through Cash Deposit Machines (CDMs) is primarily being done through the use of debit cards. Given the experience gained from card-less cash withdrawal using UPI at the ATMs, it is now proposed to also facilitate deposit of cash in CDMs using UPI. This measure will further enhance customer convenience and make the currency handling process at banks more efficient.

UPI Access for Prepaid Payment Instruments (PPIs) through Third Party Apps

At present, UPI payments from Prepaid Payment Instruments (PPIs) can be made only by using the web or mobile app provided by the PPI issuer. It is now proposed to permit the use of third-party UPI apps for making UPI payments from PPI wallets. This will further enhance customer convenience and boost adoption of digital payments for small value transactions.

Distribution of Central Bank Digital Currency (CBDC) through Non-bank Payment System Operators

The CBDC pilots are currently in operation with increasing number of use-cases and participating banks. It is proposed to make CBDC-Retail accessible to a broader segment of users by enabling non-bank payment system operators to offer CBDC wallets. This will also facilitate testing of the resiliency of CBDC platform to handle multi-channel transactions.

RBI SHOWS THE DULL BUT VENERABLE ART OF BATTING WITH A STRAIGHT BAT

If ever there was a moment for the MPC of the RBI to maintain a steady course without any dramatic moves, Friday, April 5, 2024, would be it. The economy was performing well, inflation was under control, and with general elections approaching, it seemed prudent not to disrupt the status quo. This decision was reinforced by glowing commendations from Prime Minister Narendra Modi and Finance Minister Nirmala Sitharaman during the 90th anniversary celebrations of RBI's establishment on April 1, 1935.

In the final MPC meeting before the elections and the first of the fiscal year, the committee adhered to expectations by keeping rates unchanged for the seventh consecutive time and reaffirming its focus on liquidity withdrawal. Given the stable growth and inflation conditions, the decision was deemed consistent. With GDP growth estimates for 2023-24 upgraded to 7.6%, higher than previous estimates, there was even less justification for altering policy rates to stimulate growth. However, despite the seemingly successful implementation of the 'higher for longer' policy, questions lingered regarding the MPC's assessment of the economic recovery's strength. The absence of an explanation for this mis-judgment raised eyebrows, particularly since recent economic indicators painted a more optimistic picture. The silence on this matter in the MPC's statement was conspicuous, leaving observers wondering about the rationale behind the decision.

The assessment of the economy's underlying strength is pivotal for future policy directions. Economic principles suggest that a scenario with improving growth, but lingering inflation pressures could necessitate a rate hike. Yet, the RBI's cautious approach persisted despite the evolving economic landscape.

Governor Shaktikanta Das acknowledged the challenges in achieving disinflation, underscoring the ongoing struggle with monetary policy transmission even after 23 months since the first rate hike in May 2022. Despite the initial characterization of the policy pause in April 2023 as tactical, its continuation for a year now raises concerns, especially considering the altered economic conditions.

While current growth appears robust, inflation risks persist due to various factors like rising commodity prices and geopolitical tensions. In such a context, doubts arise about the effectiveness of the claimed "actively disinflationary" monetary policy stance.

The RBI's decision to maintain the status quo during its 90th year possibly reflects an attempt to emulate the stability sought by counterparts like the Bank of England. Yet, amid changing economic dynamics, questions remain about the appropriateness and effectiveness of this cautious approach.

(This is a summary of article by Mythili Bhusnurmath, Mint, 08 April 2024. The full article can be accessed at: https://shorturl.at/aOW15)

MINUTES OF RBI'S MONETARY POLICY

The MPC examined the surveys conducted by the Reserve Bank to assess consumer confidence, households' inflation expectations, corporate sector performance, credit conditions, and the outlook for the industrial, services, and infrastructure sectors. Additionally, the MPC delved into the staff's macroeconomic projections and alternative scenarios regarding various risks to the outlook. The MPC resolved to keep the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 6.50%. Consequently, the standing deposit facility (SDF) rate remains unchanged at 6.25% and the marginal standing facility (MSF) rate and the Bank Rate at 6.75%. The MPC also decided to remain focused on withdrawal of accommodation to ensure that inflation progressively aligns to the target, while supporting growth.

The global economy is expected to sustain steady growth in 2024, with inflation showing a downward trend due to favourable base effects, though services prices remain elevated. The domestic economy is experiencing robust momentum, with real GDP expanding by 7.6% in 2023-24 driven by strong domestic demand and investment activity. Looking ahead, agricultural activity is expected to be supported by a normal monsoon, while manufacturing and services sectors are anticipated to maintain their momentum. However, risks such as geopolitical tensions and climate shocks pose challenges to the outlook. Inflation softened but food price uncertainties persist, influenced by factors such as climate events and fuel prices. Considering these factors, CPI inflation for 2024-25 is projected at 4.5%. The MPC decided to keep the policy repo rate unchanged at 6.50% to sustain disinflation and align inflation to the target. Dr. Shashanka Bhide, Dr. Ashima Goyal, Dr. Rajiv Ranjan, Dr. Michael Debabrata Patra, and Shri Shaktikanta Das voted to maintain the policy repo rate unchanged, while Prof. Jayanth R. Varma voted for a reduction in the policy repo rate by 25 basis points and a change in stance to neutral.

Dr. Shashanka Bhide highlighted the prevailing macroeconomic conditions, noting high growth and moderating inflation rates. He pointed out that real GDP expanded by 7.6% in 2023-24, with industry and services sectors showing significant growth. Investment demand outpaced consumption, indicating strong momentum in economic activity. Dr. Bhide emphasized the importance of food inflation trends in shaping headline inflation and acknowledged the risks posed by global supply and price conditions. He projected GDP growth for 2024-25 at 7%, with inflation expected to moderate gradually. Dr. Bhide advocated for maintaining the policy repo rate at 6.50% and focusing on withdrawal of accommodation to align inflation with the target while supporting growth.

Dr. Ashima Goyal emphasized the global economic landscape, noting mixed growth and ongoing geopolitical risks. While inflation has significantly decreased, further progress is slow. Research suggests that inflation was mainly driven by supply-side bottlenecks, and central bank tightening helped anchor longer-term inflation expectations. In India, recurrent food price shocks led to inflation persistence, but actions such as repo rate hikes helped stabilize expectations. Dr. Goyal highlighted that commodity shocks were transient in 2023, suggesting that it's not necessary to keep rates high due to expected future shocks. She cautioned against squeezing core inflation excessively to compensate for periodic headline shocks, stressing the importance of maintaining policy rates near the neutral rate. Dr. Goyal supported a pause in the repo rate and an unchanged stance, emphasizing the need for stability amidst various uncertainties. She advocated for a forward-looking policy approach that responds to data-based guidance while ensuring market understanding and stability.

Prof. Jayanth R. Varma reiterated his stance from the previous meeting, emphasizing the benign outlook for inflation despite an uptick in crude oil prices. He believes that a real interest rate of 1-1.5% would be sufficient to bring inflation to the target of 4%. However, he considers the current real policy rate of 2% to be excessive, imposing significant costs on the economy. Prof. Varma highlighted that the projected slowdown in economic growth for

2024-25 compared to the previous year underscores the impact of high interest rates on growth. He advocated for reducing this growth sacrifice while ensuring that inflation remains within the target band and moves towards the target. Therefore, he voted to reduce the repo rate by 25 basis points and to change the stance to neutral.

Dr. Rajiv Ranjan highlighted the positive changes observed since the last policy meeting in February 2024. Real GDP growth has shown firmness with stronger momentum, surpassing projections, indicating minimal scarring from the pandemic or monetary tightening. However, he noted the divergence between food and core inflation trajectories, with food inflation remaining hostage to vegetable prices. While core inflation has softened, concerns persist regarding the outlook for food inflation due to potential adverse climatic factors and supply-side shocks. Dr. Ranjan emphasized the need for continued vigilance against inflation, especially considering uncertainties such as the changing crude oil outlook and global developments affecting input prices. He stressed the importance of gaining more confidence in macroeconomic numbers for 2024-25 before considering any easing of monetary policy. Dr. Ranjan pointed out the alignment of market expectations with MPC views, contributing to anchoring long-term expectations. He advocated maintaining the cautious, consistent, and credible approach of the MPC, emphasizing the importance of patience over haste in policy actions. Consequently, he voted for maintaining the status quo on both the policy rate and stance in the current policy meeting.

Dr. Michael Debabrata Patra highlighted the persistent risks of elevated food inflation, fuelled by a shallow and short-lived winter trough transitioning into rising prices as summer approaches. Global food prices are firming up amid increasing input costs and supply chain pressures. Despite steady core disinflation and fuel price deflation, headline inflation is expected to remain in the upper reaches of the tolerance band until favourable base effects come into play in the second quarter of 2024-25. Dr. Patra emphasized the need to maintain downward pressure on inflation until a better balance of risks emerges and uncertainties dissipate. He noted the expansion of domestic demand and the closure of the output gap, with improvements in the investment outlook. However, a stronger revival in private consumption and corporate sales growth may await greater confidence in declining inflation. Dr. Patra also mentioned the recent improvement in export performance, which could alleviate the drag on aggregate demand. Supply responses are improving but remain contingent on factors such as a normal monsoon, an upturn in the private investment cycle, and sustaining the trend growth of services. Despite a strong external balance sheet, financial stability risks to macroeconomic outcomes need continuous monitoring and pre-emptive action. Overall, Dr. Patra advocated for restoring price stability to ensure the sustainability of India's rising growth trajectory. Consequently, he voted for maintaining the status quo on the policy rate and persevering with the stance of withdrawal of accommodation.

Mr. Shaktikanta Das, the Governor of RBI, highlighted the robust pace of the Indian economy, averaging 8% annual growth over the last three years, making it the fastest-growing major economy globally. While headline inflation has moderated to 5.1% in January-February 2024 from 5.7% in December 2023, persistent softening in core inflation by 180 basis points since June 2023 is driving the disinflation process, despite volatile and elevated food inflation. Looking ahead, baseline projections indicate inflation moderating to 4.5% in 2024-25 from 5.4% in 2023-24. However, vulnerabilities persist due to frequent supply-side shocks, especially in food inflation, and geopolitical tensions impacting commodity prices and supply chains. Therefore, cautious monetary policy actions are necessary to navigate the last mile of disinflation carefully. The growth prospects for the Indian economy in 2024-25 appear bright, supported by expectations of a normal southwest monsoon, strengthening rural demand, rising consumer confidence, and optimism in employment and income. Additionally, upbeat business outlook, healthy corporate and bank balance sheets, and an upturn in private capex activity are expected to boost domestic investment, while improving global growth and trade prospects may drive external demand. Mr. Das believes that the current monetary policy setting is well-positioned, with market expectations closely aligned with that of the MPC. Monetary policy transmission is ongoing, and household inflation expectations are becoming further anchored. He advocates for staying the course and remaining vigilant, preserving and advancing the gains in disinflation achieved over the past two years to align headline inflation with the 4% target on a durable basis. Therefore, he voted to keep the policy repo rate unchanged and continue focusing on the withdrawal of accommodation.

(This is a summary of the minutes of the Monetary Policy Committee meeting of the RBI held during 03-05 April 2024. The full text of the minutes can be accessed at: https://shorturl.at/hyS01)

INTEREST RATE OUTLOOK: RBI LIKELY TO HOLD STEADY AMIDST GLOBAL ECONOMIC SHIFT

The delay by the US Federal Reserve in reducing rates is likely to influence the Reserve Bank of India (RBI) in delaying its own policy rate-easing cycle. Economists now expect the RBI to defer its rate easing decision possibly until the last quarter of the calendar year, citing factors such as strong economic growth and escalated tensions in West Asia, which could contribute to inflation risks. The RBI has kept its rate unchanged since February 2023 at 6.5%, and economists were anticipating rate cuts to begin in the second half of FY25. However, with the Fed signalling a prolonged pause on rate cuts and India's robust economic performance, including GDP growth of over 8% for three consecutive quarters, the need for rate cuts diminishes. Rising inflation, fuelled by strong economic growth and increased credit growth, also supports the case for maintaining current interest rates. Furthermore, uncertainty surrounding global factors such as Fed policy and crude oil prices adds to the cautious approach. While some economists still anticipate rate cuts by the RBI in the future, the timeline for such actions remains uncertain, with factors like the progress of the monsoon and its impact on food production and inflation playing a significant role in shaping future rate reduction decisions.

Morgan Stanley analysts predict that the RBI is unlikely to lower interest rates in the current financial year due to India's strong economic growth and changes in the US Federal Reserve's policy direction. They anticipate the RBI to maintain its policy rate steady at 6.5%, implying real rates to average at 200 basis points. The US Federal Reserve's updated policy reflects a delayed easing cycle and a shallower rate cut trajectory. India's robust growth, driven by capital expenditure and productivity, suggests that rates could remain higher for longer. However, the higher terminal Fed funds rate and strength in the US dollar warrant a cautious stance from the RBI. While India's domestic growth is expected to remain robust, external risks could emerge due to higher terminal Fed Funds rates and dollar strength, potentially impacting the rupee and increasing the risks of imported inflation.

IN THE NEWS

AGRICULTURE & RURAL ECONOMY

REIMAGINING AGRICULTURAL EXPORTS: INDIA'S THRUST ON FRESH FRUITS AND VEGETABLES

Amidst export bans on rice and wheat, the Union commerce ministry has redirected its attention towards exporting agricultural goods, particularly fresh fruits and vegetables, to new markets such as the US, the EU, and African nations, according to two sources. The strategy involves initiating trial shipments of various produce, including mangoes, pomegranates, and bananas, to these regions. This initiative, spearheaded by the Agricultural and Processed Food Products Export Development Authority (APEDA), aligns with the government's goal of doubling agricultural exports to $100 billion by 2030. India holds a leading position in fruit production, including mangoes, bananas, papayas, and guavas.

According to news reports, the ministry's focus is on exploring export opportunities in newly identified markets such as Nigeria, Switzerland, Lithuania, and others. This shift aims to address the widening export gap following bans on wheat, non-basmati rice, and broken rice. This move could incentivize farmers to diversify their crops, leading to increased income and foreign exchange generation, thereby mitigating export-import imbalances.

Wheat export was prohibited in May 2022, followed by halting trade of broken rice in September 2022, and enforcing a ban on non-basmati rice since July 20, 2023. APEDA currently exports scheduled products to over 203 countries, including major markets like the Netherlands, Germany, UK, Bangladesh, and China. Despite disruptions, there has been a significant surge in fresh fruit and vegetable exports, particularly in February 2024, indicating strong demand in the newly targeted markets.

India's agricultural and processed food exports experienced a slight dip of 0.55% to $24.02 billion in the fiscal year 2023-24, largely due to a decline in rice shipments caused by restrictions. Despite an overall 3.1% decline in the country's goods exports, meat and dairy products, as well as fruits and vegetables, saw double-digit growth rates.

Rice exports dropped by 6.5% to $10.4 billion due to various restrictions such as bans on certain types of rice and export duties. However, livestock products, fresh fruits and vegetables, and cereal preparations and processed items experienced growth in exports.

Livestock products, including buffalo meat, dairy, and poultry, rose by close to 12% to $4.5 billion, while fresh fruits and vegetables exports increased by 14% to $3.65 billion. Cereal preparations and processed items saw a 9% rise to $2.8 billion, and oil meals shipments increased by 7% to $1.7 billion.

In the previous fiscal year, rice exports had surged by over 15% to a record $11.1 billion, with shipment volume growing by 5% to 22.34 million tonnes. However, in the current fiscal year, rice shipment is expected to decrease to around 17 million tonnes.

Efforts are being made to boost exports of Geographical Indication (GI) tagged rice varieties by allocating separate harmonized system (HS) codes, aiming to ensure unhindered export of unique rice varieties in case of restrictions on other types. Meanwhile, cashew exports declined by 4.8% to $0.33 billion in FY24.

Overall, products under the Agricultural and Processed Food Products Export Development Authority (APEDA) basket grew by 9% to $24.1 billion in FY23 compared to FY22, contributing around 51% to the total agricultural exports.

FROM EL NIÑO TO LA NIÑA: INDIA'S WEATHER OUTLOOK SIGNALS HOPE FOR FARMERS

India is set to receive above-average monsoon rainfall this year, as the *El Niño* weather phenomenon transitions to neutral conditions, and the benign *La Niña* phenomenon is expected to establish by August-September, according to the country's meteorological department. This forecast brings relief to various sectors, especially agriculture, following a challenging year for farmers in 2023, characterized by deficient rainfall due to *El Niño*.

Mrutyunjay Mahapatra, director general of the India Meteorological Department, stated that India is likely to experience above-normal rainfall during the four-month monsoon season (June to September), with cumulative rainfall estimated at 106% of the Long Period Average (LPA) of 87 cm. These conditions are deemed favourable for an upturn in the weather, with historical data showing that *La Niña* typically follows an *El Niño* event, signalling a potential shift towards steady rainfall patterns.

The monsoon season holds immense significance for India, delivering nearly 70% of its annual rainfall. A substantial portion of the country's arable land relies on these rains for cultivation, including crops like rice, corn, cane, cotton, and soybean. Agriculture contributes approximately 14% to the country's GDP, with rain-fed areas accounting for a significant portion of food production.

Devendra Pant, chief economist at India Ratings, highlighted the importance of above-normal rainfall for agricultural production and its potential to stimulate demand growth. However, he cautioned that adverse weather events due to climate change could pose challenges to optimistic agricultural and consumption growth. Despite advancements in irrigation, Indian agriculture remains highly dependent on rainfall, as evidenced by fluctuations in agriculture Gross Value Added (GVA). Pant estimated that assuming normal rainfall and its spread across the country, Indian agricultural GVA is expected to grow around 3% in FY25.

PUNJAB'S WHEAT PROCUREMENT HITS ALL-TIME HIGH DESPITE DELAYED HARVEST

Punjab farmers are currently experiencing favourable conditions, with higher wheat yields and robust procurement at attractive minimum support prices (MSP). The MSP for wheat in Punjab is significantly higher than the cost of production, providing farmers with substantial income. The government's procurement efforts are expected to replenish wheat stocks, aided by a 7% increase in MSP, the steepest in eight years. Improved crop yield, attributed to extended winter weather, has bolstered farmer confidence.

Despite past agitation over agricultural laws, farmers in Punjab are benefitting from strong MSP operations. However, this could hinder crop diversification efforts, as economists advocate for less water-intensive crops. Wheat procurement is underway in Punjab and Haryana, with private traders also participating. Punjab is anticipated to contribute a record amount of wheat to the central pool stock, aiding in replenishing low stocks.

To manage price increases, the government sold a significant amount of wheat from its stock last fiscal year. Private traders have increased wheat purchases following exemptions from certain taxes. Overall, the current wheat crop is robust, with optimistic forecasts for output due to favourable growing conditions and resilient crop varieties.

Following a delayed harvesting period due to cooler weather conditions, government agencies in Punjab, which are major contributors to the central pool stock, achieved a milestone by procuring a record 1.13 million tonnes (MT) of wheat under the minimum support price (MSP) on 24 April 2024.

It is anticipated that total purchases in Punjab will reach a record 13 MT for the season within the next week, further supporting the Centre's goal of achieving 30 MT of wheat procurement in the 2024-25 season.

Meanwhile, the government's wheat procurement drive by the Food Corporation of India (FCI) and state agencies for the current marketing season has surpassed 13.58 MT as of 24 April, since the commencement of MSP purchases on April 1.

However, wheat purchases so far are 20% lower than the same period last year. A food ministry official attributed this to a surge in wheat arrivals in mandis over the past week, as crop harvesting was delayed by about a fortnight due to cooler weather in March.

Apart from Punjab, other major contributors to central pool procurement include Haryana (5.19 MT), Madhya Pradesh (3.1 MT), Uttar Pradesh (0.43 MT), and Rajasthan (0.26 MT) so far. To support purchases in Rajasthan and Madhya Pradesh, where crops were affected by recent rains, the food ministry has relaxed grain purchase norms. Agencies will now buy wheat with "shrivelled and broken" grains up to 15% without a value cut, compared to the normal criterion of up to 6%. Additionally, the limit for lustre loss of wheat has been relaxed up to 70% without any value cut for Madhya Pradesh.

The government aims to purchase 30 MT of wheat this season, compared to 26 MT procured last year, primarily from Punjab, Haryana, Madhya Pradesh, Rajasthan, and Uttar Pradesh, to boost stocks. This is crucial as the stock had dropped to a 16-year low of 7.57 MT at the beginning of the month.

FCI requires approximately 18 MT of wheat annually for distribution under the Pradhan Mantri Garib Kalyana Anna Yojana. Therefore, maintaining sufficient stock is essential for carrying out open market sales to bulk buyers next year.

The government has announced an MSP of ₹2,275/quintal for the 2024-25 season, reflecting an increase of ₹150/quintal compared to the previous season. Additionally, Rajasthan and Madhya Pradesh have announced a bonus of ₹125/quintal over MSP.

CROP DIVERSIFICATION STILL LAST ON PUNJAB FARMERS' MIND

This article discusses the controversy surrounding the absence of legal support for the Minimum Support Price (MSP) in India, highlighting how the skewed nature of these prices impedes crop diversification and negatively impacts farmers. Specifically, it focuses on the situation in Punjab and Haryana, known for the Green Revolution, where MSP purchases of wheat are brisk, but crops like mustard and maize, more suitable for the region, struggle to find buyers at MSP rates.

While MSPs are announced for 23 crops, government procurement at support prices is limited to just four crops—paddy, wheat, sugarcane, and cotton—making up only 6% of the gross value added in agriculture. Consequently, farmers feel compelled to cultivate water-intensive crops like wheat and paddy, despite their ecological drawbacks, due to the assured purchase on MSP.

Experts argue that the current MSP policy encourages monoculture and biodiversity loss, as farmers are discouraged from diversifying into crops like maize, mustard, and pulses, which lack government procurement support. Without price assurance, farmers are reluctant to shift away from wheat and paddy cultivation.

The economic survey of Punjab highlights the need for crop diversification, citing the ecological and economic unsustainability of the current cropping pattern. However, simply expanding MSP purchases to more crops is not seen as a solution. Instead, experts advocate for providing financial incentives to farmers who cultivate less water-intensive crops and suggest leveraging government agencies like NAFED to procure crops whenever market prices fall below MSP.

There is a need for a more holistic approach to agricultural policy in India, one that addresses the skewed nature of MSPs, promotes crop diversification, and ensures sustainability while supporting farmers' livelihoods.

(This is a summary of an article by Sandip Das, Financial Express, 21 April 2024. The full article can be accessed at: https://shorturl.at/fstF1)

DRONES REVOLUTIONIZING AGRICULTURAL PRACTICES

The government's emphasis on using drones for agricultural purposes like crop mapping, analysis, and application of nutrients and pesticides is driving a surge in demand for these unmanned aerial vehicles (UAVs). Industry estimates suggest that the number of drones used in agriculture could rise from 3,000 to over 7,000 by FY25, potentially reaching 10,000 to 15,000 in the next few years. This growth is supported by factors such as improved crop productivity through efficient use of resources and government schemes like 'drone didi' aimed at providing drones to women self-help groups. Additionally, corporations and cooperatives are investing in drones for tasks like spraying nano soil nutrients and promoting the use of advanced technologies like artificial intelligence to enhance agricultural practices. Standard operating procedures for pesticide application using drones have been established, and financial assistance is provided to facilitate the adoption of drones by farmers, research institutes, and agricultural organizations.

LABOUR & EMPLOYMENT

UNEMPLOYMENT RATE DROPS

According to data from the Centre for Monitoring of Indian Economy (CMIE), the nationwide unemployment rate (UR) dropped to 7.6% in March, showing declines in both urban and rural areas. However, the labour force participation rate (LFPR) and employment rate (ER) experienced slight decreases compared to the previous month. In March 2024, the employment outlook in the organized sector, as indicated by the Purchasing Managers' Index (PMIs) for manufacturing and services, showed improvement. Manufacturing employment expanded after two months of contraction, while services job creation reached a seven-month high.

With the onset of the rabi harvest, demand for work under the Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) decreased sequentially, indicating an expansion in job opportunities in the rural agricultural sector. Effective April 1, 2024, daily wages under the MGNREGS have been raised by 3% to 10.6% (₹7 - ₹34/day) across states.

INTERNATIONAL TRADE

MAPPING INDIA'S EXPORT INFRASTRUCTURE: A PATH TO $1 TRILLION TRADE AMBITIONS

The Commerce Ministry, in collaboration with the Asian Development Bank (ADB), is conducting an assessment to identify and estimate the investments needed for India's export infrastructure, aligning with the goal of achieving $1 trillion in merchandise exports by 2030. This initiative aims to enhance capacities in railways, roads, ports, and airports to facilitate goods movement for exports. The target involves creating infrastructure capable of supporting the movement of $2.5 trillion worth of goods, with additional focus on identifying sectors and clusters that could contribute an extra $560 billion in exports over the next six years. Emphasizing the importance of understanding trade clusters and logistics hubs, the government seeks to bridge existing infrastructure gaps to boost export capabilities. Furthermore, there is a concerted effort to integrate India into global supply chains, recognizing that 70% of global trade occurs within these networks. Additionally, there's a significant opportunity for export growth through e-commerce, with plans to tap into this sector to achieve a substantial portion of the export target by 2030.

INDUSTRIAL SECTOR

HYBRIDS GAIN GROUND: TRENDS AND TRANSFORMATIONS IN INDIA'S AUTOMOBILE INDUSTRY

The demand for sport utility vehicles (SUVs) has driven passenger vehicle (PV) sales to a record high in India, with both retail and wholesale segments seeing significant growth in the fiscal year 2023-24 (FY24). All 12 months of FY24 witnessed record sales, indicating strong economic growth. SUV sales surged to an all-time high of 2.12 million units, surpassing even the peak sales of hatchbacks. Entry-level SUVs performed exceptionally well, crossing the 1 million mark in sales. This surge has increased the SUV market share in the overall PV market to 51%, with expectations to reach 53-54% in FY25. Additionally, hybrids have gained traction, catching up with electric vehicles (EVs), especially in the second half of FY24. Despite overall growth in PV sales, sedans and hatchbacks saw declines, while multipurpose vehicles experienced growth. Consumer preferences are shifting towards cleaner fuels, with a rise in demand for compressed natural gas cars and hybrids. However, diesel powertrains saw a slight decrease in market share, while petrol engines also saw a dip. Overall automobile retail sales saw a significant increase, with Uttar Pradesh, Maharashtra, Tamil Nadu, Karnataka, and Gujarat being the top states in terms of registrations and transactions.

APPLE’S MILESTONE: RECORD IPHONE EXPORTS FROM INDIA

Apple achieved a significant milestone by exporting $10 billion worth of iPhones from India in FY24, marking a 100% increase from the previous year under the Production-Linked Incentive (PLI) scheme. This constitutes the largest-ever export of a single branded product by any company from India and accounts for 70% of Apple's total production. The three suppliers, Foxconn, Pegatron, and Wistron (now the Tatas), have exceeded their cumulative export target under the PLI scheme by 39%, with Apple achieving its FY25 export target a year earlier than planned.

The Indian Cellular and Electronics Association highlights the plateauing domestic market for mobiles in India, suggesting that exports are essential to meet the $100 billion mobile production objective by 2026-27. The Apple ecosystem has generated approximately 150,000 new direct jobs and 300,000 additional indirect jobs, contributing to infrastructure development in regions like Hosur and Koothanapalli.

Tamil Nadu has emerged as a significant contributor to India's electronic exports, with Foxconn and Pegatron units playing a crucial role in elevating the state's position in electronic goods exports, surpassing states like Uttar Pradesh and Karnataka. This shift underscores the changing dynamics in India's electronics manufacturing landscape

CEMENT INDUSTRY FLOURISHES AMID POST-COVID HOUSING SURGE

The cement industry has thrived amidst the post-COVID surge in the housing market, a significant contributor to its revenue, comprising approximately 60% of the sector's earnings. Notably, four out of the top seven cement companies listed on stock exchanges have outperformed the BSE Sensex over the past year. With a positive outlook on continued growth in housing demand and infrastructure projects, the industry is embarking on substantial capacity expansion initiatives, potentially leading to excess capacity and price pressure. To mitigate this, larger players are ramping up consolidation efforts to gain better control over pricing dynamics.

During the onset of the pandemic in 2020, housing unit sales in the top seven cities plummeted by 47% to 138,000 units. However, in the subsequent three years, housing sales witnessed significant rebounds, increasing by 70%, 54%, and 30%, respectively, culminating in 476,000 units sold in 2023. This momentum has extended into 2024, with March witnessing a remarkable 41% surge in housing sales compared to the previous year, according to real estate portal PropTiger. Moreover, the demand for larger homes in major cities has surged as individuals adapt to remote work setups.

In contrast to the US, where commercial real estate prices have plummeted due to the remote work trend, India's commercial real estate sector is experiencing a resurgence. Projections by real estate consultant Knight Frank indicate a growth rate of 7-8% this year. During a recent visit to India, Blackstone's Chief Operating Officer, Jonathan Gray, remarked that India stands out globally, witnessing rent increases and declining vacancies over the past 12 months.

The demand for cement primarily stems from three sectors: housing, infrastructure, and industrial/commercial. While housing remains the largest consumer, the infrastructure segment's share has increased from 20% in 2012 to 28% in 2023 due to government-led projects like roads and ports. Projects like high-speed rail and metro rail are expected to generate significant cement demand, with estimates reaching 80 million tonnes and 24 million tonnes respectively.

The cement industry is anticipated to expand its capacity rapidly in the coming years, with an estimated increase of 123 million tonnes per annum between 2023-24 and 2026-27. However, this growth in supply may outpace demand, leading to excess capacity, projected to reach 221 million tonnes by 2026-27.

Managing capacity utilization will be crucial for cement players, with larger companies better positioned to leverage utilization rates. Consolidation in the industry has increased, partly due to rising energy costs, with larger players gaining a larger share of capacity. This trend is expected to continue as companies seek more pricing power. Recent reports indicate a hike in cement prices, with further increases likely after the elections.

RECORD SURGE: E-WAY BILL GENERATION HITS ALL-TIME HIGH IN MARCH

In March, the generation of e-way bills reached a record high of 10.35 crore, driven by the fiscal year-end closing, enhanced compliance, and increased consumption. This surge in e-way bill generation may influence GST collection figures for April, which will be disclosed on May 1. Notably, April typically witnesses substantial collections, with last year recording an all-time high. This is the second instance, since the implementation of e-way bills in 2018, that monthly generation surpassed 10 crore. E-way bills, electronic documents evidencing the movement of goods and indicating tax payment, are mandated for consignments valued over ₹50,000. The recent trend indicates heightened economic activity across sectors, particularly in FMCG and electronics, contributing to increased transportation and logistics requirements. Improved compliance, enforced through technology-driven mechanisms, is also observed, bolstering GST revenues. Experts anticipate sustained growth in GST collections, fuelled by rising consumption and compliance, fostering economic recovery in the upcoming months. Additionally, the emphasis is placed on intrastate e-way bills, crucial for GST revenue, as IGST is predominantly utilized as ITC in B2B transactions.

INDIA INC

RELIANCE INDUSTRIES' Q4 EARNINGS: PROFIT SLIPS, EBITDA SURPASSES ANALYSTS' PROJECTIONS

Reliance Industries Limited (RIL) reported a 1.8% year-on-year decline in its consolidated net profit for the quarter ended March 2024, totalling ₹18,951 crore due to higher tax expenses. However, the net profit was nearly 10% higher sequentially. The company's revenue increased by 11.1% year-on-year to ₹2.37 trillion, with profit after tax remaining almost flat year-on-year at ₹21,243 crore. RIL's other income grew by 57.7%, while tax expenses surged by 139% year-on-year. Although the bottom line missed analysts' estimates, the top line exceeded expectations. Earnings before interest, taxes, depreciation, and amortization (EBITDA) stood at ₹42,516 crore, surpassing analysts' estimates.

For the full year ended March 2024, RIL's reported profit after tax was ₹79,020 crore, up 7% year-on-year. RIL's board recommended a dividend of ₹10 per fully paid-up equity share for FY24.

The company noted significant revenue growth in the oil-to-chemicals (O2C) and consumer businesses, with the oil and gas segment revenue increasing by 42% year-on-year. Revenue from the retail division rose by 9.8% to ₹67,610 crore, attributed to growth in consumer electronics and fashion & lifestyle businesses. Revenue for Jio Platforms increased by 13.4% to ₹28,871 crore.

RIL's consolidated PBIDT for the quarter grew by 14.3% year-on-year to ₹47,150 crore, with strong contributions from all businesses. The O2C division's EBITDA registered a 3% year-over-year growth, supported by advantageous feedstock sourcing and higher domestic product placement.

For the full year, RIL spent ₹1.31 trillion as capital expenditure, focusing on pan-Indian 5G rollout, retail infrastructure expansion, and new energy business. The company aims to maintain net debt-to-EBITDA below 1x and support growth initiatives through internal accruals.

TCS REPORTS IMPRESSIVE Q4 RESULTS: CONSOLIDATED NET PROFIT RISES 9.14%

Tata Consultancy Services (TCS) reported a 9.14% YoY increase in consolidated net profit for the March quarter, reaching Rs 12,434 crore. This surpassed market expectations of a 5-6% YoY rise. Consolidated sales grew by 3.5% YoY to Rs 61,237 crore, exceeding analyst forecasts of 3-4% growth. The Ebit margin rose to 24.6%, up 150 basis points YoY, while deal wins totalled $13.2 billion, surpassing analyst estimates. TCS declared a final dividend of Rs 28 per share for FY24, bringing the total dividend for the year to Rs 73 per share. Growth was led by India, the UK, and manufacturing. Chief Operating Officer N Ganapathy Subramaniam attributed the robust performance to broad-based deal wins and a strong portfolio.

INFOSYS SURPASSES EXPECTATIONS WITH 30% YOY RISE IN Q4 NET PROFIT

Infosys, the second-largest IT exporter, reported a robust 30% year-on-year increase in consolidated net profit for the March quarter, reaching ₹7,969 crore. This exceeded analyst expectations, particularly in light of the company's revised growth guidance for FY24. Despite a challenging landscape, Infosys delivered sales growth of 1.3% year-on-year, slightly below analyst projections. The company's revenue guidance for FY25 stands at 1-3% growth in constant currency terms, maintaining a margin guidance of 20-22%, akin to the previous fiscal year. Infosys also announced a final dividend of ₹ 20 per share and a special dividend of ₹ 28 per share for FY24.

MARUTI SUZUKI'S STRONG PERFORMANCE: Q4 FY24 PROFITS SURGE 47.8% YEAR-ON-YEAR

Maruti Suzuki India Ltd (MSIL) posted robust financial results for Q4 FY24, with a standalone net profit of ₹3,877.8 crore, marking a substantial 47.8% increase year-on-year. Sequentially, the net profit grew by 23.89% from the previous quarter. Total revenue from operations for the quarter stood at ₹38,234.9 crore, reflecting a 19.3% YoY increase. For the entire fiscal year, the automaker recorded a significant 64.1% YoY surge in net profit, amounting to ₹13,209.4 crore. Annual revenue from operations also saw a notable 19.9% YoY increase, reaching ₹1.41 trillion. Maruti Suzuki achieved a milestone by surpassing annual total sales of 2 million units for the first time in FY2023-24, selling a total of 2,135,323 vehicles, marking an 8.6% growth over FY23. Domestic sales volume stood at 1,852,256 units, with exports totalling 283,067 units. Additionally, the company declared its highest-ever dividend of ₹125 per share.

INFRASTRUCTURE

DRIVING GROWTH: INDIAN RAILWAYS' STRATEGIC PUSH FOR DEDICATED FREIGHT CORRIDORS

Indian Railways is contemplating the development of three additional dedicated freight corridors, each tailored to specific commodities, as part of its strategy to expedite freight transportation and alleviate congestion on regular tracks used by passenger trains. These corridors, encompassing routes along the east coast, north-south trajectory, and east-west axis, collectively span 4,300 km, with an estimated project cost of ₹2 lakh crore. The Dedicated Freight Corridor Corporation of India Ltd. is currently in the process of preparing network alignment reports for these corridors, with two reports already submitted and the third anticipated to be completed by the end of the current month. One of the primary objectives is to decongest the Delhi-Howrah and Delhi-Mumbai routes to facilitate swifter freight movement and enhance the operational efficiency of passenger trains. The proposed East Coast corridor, running nearly parallel to the existing coastal passenger rail line, is slated to cover a distance of approximately 1,200 km from Kharagpur in West Bengal to Tenali in Andhra Pradesh. This corridor, initially planned to terminate at Vizag, will cater to sectors such as coal, fertilizer, iron ore transportation, and steel, benefiting from enhanced port connectivity with Chennai if extended to Tenali. The North-South Corridor, spanning from Itarsi in Madhya Pradesh to Tenali, aims to serve various industries including coal, cement, fertilizers, petroleum, and lubricants. Additionally, plans are underway to connect Dadri in Uttar Pradesh with Itarsi to integrate the existing and operational Dedicated Freight Corridor with the upcoming one. Furthermore, a proposal is in progress for an East-West corridor linking Andal in West Bengal with Palgar in Maharashtra, traversing through five states and serving as a vital conduit for transporting coal, iron ore, bauxite, manganese, steel, and other commodities. The Ministry of Railways is deliberating on funding and alignment decisions for these projects, with discussions currently ongoing.

BANKING & FINANCIAL SERVICES

HDFC BANK Q4FY24 PERFORMANCE: STEADY GROWTH AMID MERGER TRANSITION

HDFC Bank unveiled its financial performance for the January-March quarter of fiscal year 2023-24 (Q4FY24), disclosing a standalone net profit of ₹16,512 crore, marking a slight increase from ₹16,373 crore recorded in the preceding December quarter. The bank's amalgamation with its parent company, Housing Development Finance Corporation (HDFC), in July rendered year-over-year comparisons irrelevant.

The bank achieved a 37% year-on-year increase in net profit, attributed to heightened net interest income and the sale of its education finance arm, HDFC Credila. However, sequential net profit growth stood at 0.85%, impacted by elevated provisions and subdued growth in net interest income.

Maintaining its position as India's largest private lender, HDFC Bank sustained its asset quality, with a gross non-performing assets (NPA) ratio of 1.24% by the end of March, a modest improvement from 1.26% three months prior. Likewise, the net NPA rose marginally to 0.33% from 0.31% in the previous quarter, with gross NPA totalling ₹31,173.30 crore and net NPA at ₹8,091.7 crore. The bank's net revenue surged to ₹47,240 crore, bolstered by transaction gains of ₹7,340 crore from the stake sale in subsidiary HDFC Credila Financial Services during the quarter.

Core net interest income, the difference between interest earned and paid, expanded to ₹29,080 crore for the quarter, while other income reached ₹18,170 crore. The bank maintained a core net interest margin (NIM) of 3.44% on total assets. Additionally, the bank's board of directors proposed a dividend of ₹19.5 per equity share of ₹1 for the fiscal year ending March 31, 2024.

HDFC Bank fortified its provisions against potential bad loans, although lending margins remained stable. The bank significantly increased provisions to ₹13,500 crore by March 2024, including floating provisions of ₹10,900 crore to cushion against potential future losses. This elevation in provisions was bolstered by gains from the HDFC Credila sale. The merged entity encountered challenges due to HDFC's increased borrowing costs and lower-yielding loan book, affecting overall margins. Analysts anticipated the bank to prioritize deposit growth over loan expansion until key ratios were reinstated to pre-merger levels.

Additionally, the bank announced a dividend of ₹19.5 per equity share and received board approval to raise ₹60,000 crore of tier 2 capital through bond instruments. Looking ahead, analysts anticipate the bank to gradually recover margins by transitioning towards a retail-focused loan portfolio and substituting high-cost borrowings with deposits over the coming quarters.

HDFC Bank is shifting its focus towards prioritizing profitability over immediate growth in the medium term, confronting the challenge of a higher credit-to-deposit ratio and diminished core income as India's leading private lender. Speaking in an earnings conference call to investors and analysts, CEO Shashidhar Jagdishan emphasized the pivotal importance of sustaining retail deposits for the bank's stability. To achieve this, HDFC Bank plans to persist in investments across distribution channels, human resources, and technological advancements.

In light of a market setback following disappointing third-quarter results, Jagdishan refrained from providing specific guidance this time, underscoring the bank's commitment to enhancing profitability metrics, particularly return on assets (RoA) and earnings per share. Stressing the significance of a robust retail deposit franchise, Jagdishan emphasized the long-term vision over short-term directives, stating that offering guidance could potentially divert focus from overarching objectives.

AXIS BANK SURPASSES EXPECTATIONS WITH STRONG FOURTH-QUARTER PROFITS

Axis Bank announced fourth-quarter profits on Wednesday that surpassed expectations, attributed to robust loan growth and increased lending income. The private lender disclosed a standalone net profit, excluding subsidiaries, of ₹7,130 crore for the quarter ending on March 31, surpassing analysts' estimates of ₹5,540 crore, according to LSEG data. This marks a significant turnaround from the previous year's loss of ₹5,728 crore, largely due to a one-time expense related to its $1.41 billion Citi deal.

The bank's net interest income, the difference between interest earned and paid, grew by 11.5% to ₹13,089 crore. Net loans expanded by 14%, while total deposits increased by 13%. Despite tighter liquidity conditions, Indian banks, including Axis Bank, have prioritized bolstering deposit growth amid rising costs. Axis Bank foresees continued deposit growth despite these challenges, as highlighted in its post-earnings call.

While the net interest margin decreased slightly to 4.06% from the previous year, it showed a marginal improvement from the previous quarter. The bank's provisions for bad loans nearly quadrupled to ₹11.85 billion year-on-year, reflecting prudent risk management practices. The gross non-performing assets ratio decreased to 1.43% by the end of March, down from 1.58% three months earlier.

Axis Bank remains confident in the resilience of its information technology systems, having invested in infrastructure to accommodate higher volumes of digital transactions.

ICICI BANK'S STRONG FINANCIALS AND GROWTH TRAJECTORY

ICICI Bank announced a net profit of ₹10,708 crore for the March quarter, marking a 17.4% increase compared to the ₹9,122 crore recorded in the same period last year. The board proposed a dividend of ₹10 per share. The private sector lender's consolidated net profit surged by 18.5% to ₹11,672 crore, surpassing the ₹9,853 crore reported in the year-ago period. The core net interest income grew by 8.1% to ₹19,093 crore, supported by a 16.8% expansion in loans, despite a slight decline in the net interest margin to 4.40%. Excluding treasury performance, non-interest income reached ₹5,930 crore, up by 15.7% from the previous year.

Provisions for the quarter decreased by more than half to ₹718 crore, as per the lender's exchange filing. Gross NPA dropped to 2.16% from 2.81% in the corresponding quarter of the previous year. Interest income for the quarter amounted to ₹37,948.36 crore, reflecting a 22.33% increase from the year-ago period.

ICICI Bank's domestic loan portfolio expanded by 16.8% year-on-year to ₹11,50,955 crore. As of 31 March 2024, the bank's total capital adequacy ratio stood at 16.33%, with a CET-1 ratio of 15.60% after considering the proposed dividend impact, surpassing the minimum regulatory requirements of 11.70% and 8.20%, respectively.

KOTAK MAHINDRA BANK FACES RBI CLAMPDOWN: DIGITAL ONBOARDING AND CREDIT CARD ISSUANCE CURTAILED

In a significant blow to Kotak Mahindra Bank, the RBI has imposed limitations on the bank's digital customer onboarding and fresh credit card issuance. The RBI cited persistent IT concerns following examinations in 2022 and 2023, along with the bank's failure to address them adequately. Consequently, Kotak Mahindra Bank is instructed to halt new customer acquisitions via digital channels and cease issuing fresh credit cards, although services for existing customers will continue. The RBI's action stems from identified deficiencies in various IT management areas, including inventory, patch, and change management, as well as user access and data security. Despite ongoing engagement, the bank's IT infrastructure has exhibited frequent disruptions, leading to customer inconveniences. While Kotak Mahindra Bank reassures existing customers of uninterrupted services, the RBI emphasizes the need for improved IT resilience to prevent potential system outages and safeguard the financial ecosystem.

The directive was issued under Section 35A of the Banking Regulation Act, 1949, empowering the RBI to intervene when the operations of a bank may harm depositors or the bank itself. The decision followed an IT examination of Kotak Mahindra Bank for 2022 and 2023, which revealed significant concerns regarding IT management and compliance issues. Despite ongoing engagement between the RBI and the bank, recent IT failures and rapid growth in digital transactions prompted the RBI to impose business restrictions to safeguard customer interests and prevent prolonged service disruptions. Existing customers of Kotak Mahindra Bank will not be affected, as the bank will continue to provide services, including credit card facilities. In response, Kotak Mahindra Bank assured customers of uninterrupted services and pledged to enhance its IT systems in collaboration with the RBI.

Kotak Mahindra Bank needs to prioritize addressing its internal issues promptly to mitigate the impact on its expansion plans. In an era of rising online and credit card fraud, ensuring customer safety should be a top priority for banks. While competition in the retail segment often emphasizes convenience, neglecting safety measures is short-sighted. Trust is fundamental in banking, and any lapses in security could undermine customers' trust. Therefore, banks must not compromise on safety measures and should take proactive steps to protect their customers from potential vulnerabilities.

A CASE FOR HIGHER RBI PENALTIES

In the realm of the RBI, penalties imposed on its regulated entities (REs) for breaches are deemed inadequate, serving more as symbolic gestures than effective deterrents. Despite quarterly penalizations, the fines are often nominal, totalling less than `75 crore over a recent 12-month period. This discrepancy becomes apparent when comparing the fines to the exorbitant legal fees incurred by REs for regulatory advice, surpassing the penalty amounts.

The RBI must exhibit stronger resolve, particularly when REs repeatedly flout fundamental requirements such as anti-money laundering and know your customer processes. While the RBI is acknowledged as the most agile and active among Indian financial regulators, its penalties primarily serve to express dissatisfaction rather than induce meaningful change.

A few decades ago, penalties on banks would have provoked moral outrage among their leaders and board members. However, today's fines lack substantial consequences, resembling mere symbolic gestures. Inadequate penalties fail to foster accountability among Financial Institutions (FIs), especially in the current hyper-capitalist environment where moral righteousness can be obscured by PR strategies funded by hefty marketing budgets.

To address this issue, a proposal suggests imposing substantial fines on REs for violations, varying from tens to hundreds of crores depending on the severity of the infraction. These fines would not be directed to the RBI's balance sheet but instead allocated by REs as a special-tier equity capital named "regulatory risk capital".

This designated capital tier would be publicly disclosed each quarter, shedding light on the bank's compliance challenges. It would bolster the institution's capital reserves to rectify regulatory shortcomings and factor in associated risks, thereby holding FIs directly accountable to their shareholders.

Moreover, in cases of significant breaches, the RBI could apply higher risk weights for deficient products exclusively for the offending FI, impacting its competitive advantage and financial performance until the next supervisory inspection, serving as a deterrent against non-compliance.

Currently, FIs readily convene board meetings to acknowledge regulatory correspondence and settle penalties expediently. However, the stock markets' reactions to these transgressions are often short-lived. Many investor relations professionals view such penalties as an unavoidable "cost of doing regulated business in India", a stance considered unjust but reluctantly accepted.

When regulators are compelled to pursue compliance from their REs, it reflects unfavourably on the entities themselves. Without a fundamental shift towards a culture of compliance as a core business value, the outlook for society appears bleak.

Consumer grievances are rarely vocalized due to the complexities of the process, prompting the RBI and other regulators to reconsider adopting a "customer is right" model of grievance redressal. Additionally, regulators could impose significantly higher financial penalties for instances of non-compliance or substantial consumer grievances.

Following fines, FIs typically allocate greater resources towards compliance and monitoring efforts. However, the effectiveness of these actions often falls short due to inadequate enforcement and monitoring, highlighting the need for bolstering supervisory teams to enhance oversight capabilities, a focus that the RBI has been scaling up.

Introducing additional capital requirements as penalties and imposing significant financial consequences on management could effectively incentivize adherence to regulatory standards and foster a culture of compliance within FIs. Such penalties, termed "cost of conduct", could influence management tenure and compensation, signalling a shift towards better behaviour.

(This a summary of the article by Srinath Sridharan, Financial Express, 25 April 2024. The full article can be accessed at: https://shorturl.at/amBF2)

BANDHAN BANK FOUNDER'S EXIT: A REFLECTION ON CHALLENGES AND SUCCESSION

Chandra Shekhar Ghosh, MD and CEO, Bandhan Bank, announced his resignation on 05 April 2024, He disclosed his intention to retire from this position at the end of his current tenure on July 9, 2024, intending to assume a broader strategic role within the Bandhan group. Three years ago, the RBI provided subtle indications by approving Ghosh's re-appointment as MD & CEO for a three-year term, deviating from the bank's board's request for a five-year term. This decision was influenced by ongoing issues within the Kolkata-based bank, including previous restrictions imposed by the RBI on branch expansion and Ghosh's remuneration, which were later reversed by the regulator. As the founder of Bandhan Bank, Ghosh played a pivotal role in establishing the microfinance business 23 years ago, evolving it from an NGO to a non-banking finance company, and eventually transitioning it into a universal bank in August 2015. However, the bank's journey in the risky microfinance business was fraught with challenges, potentially prompting the RBI to limit Ghosh's tenure.

Ghosh's announcement of his retirement from Bandhan Bank surprised the market. Despite the bank's board approving his name for another three-year term to the RBI in November last year, Ghosh's decision to retire raises questions about the RBI's comfort with his continued tenure beyond July this year. Some industry insiders attribute this decision to the bank's performance under Ghosh's leadership. While the bank experienced smooth sailing until 2018-19, subsequent events such as demonetization, GST implementation, natural disasters, and economic crises impacted its profitability and led to an increase in NPAs.

Additionally, challenges like exposure to infrastructure defaults and the COVID-19 pandemic further strained the bank's financial health. The pandemic also disrupted the bank's 5-year plan, focusing on diversification, digitalization, and strengthening capabilities. Furthermore, an audit by the National Credit Guarantee Trustee Company (NCGTC) added to the bank's challenges during Ghosh's tenure. As Ghosh's term nears its end in July, the bank faces the task of succession planning. The frequent changes in the bank's top leadership team may exacerbate the situation, potentially delaying the recovery of the bank's business and earnings, as noted by Motilal Oswal's report.

BALANCING ACT: THE ROLE AND CHALLENGES OF SELF-REGULATORY ORGANIZATIONS IN INDIA'S FINANCIAL SECTOR

The Finance Industry Development Council (FIDC), representing shadow banks, plans to seek recognition as a self-regulatory organization (SRO) from the Reserve Bank of India (RBI). This move coincides with their search for a CEO. Despite the non-banking financial companies’ (NBFCs) credit growth to GDP ratio reaching 12.6% in FY23 and expanding to 18.7% of banking assets from 13% a decade ago, the absence of an SRO establishment initiative from these firms is notable. This lack of action persists even with nudges from the RBI.

Senior NBFC officials attribute this hesitancy to the complex categorization and regulation of NBFCs, with disparate activities often within the same business group. Umesh Revankar, Chairman of FIDC, compares the situation to microfinance, which has multiple SROs. Talks of a separate SRO for NBFCs focusing on priority-sector lending are ongoing, with demands to consider bank exposures to NBFCs as priority-sector loans.

Additionally, there are discussions around SROs in fintech, with two associations already in line. The idea of SROs is supported by RBI officials, who emphasize the need for them to address broader concerns beyond membership interests and maintain neutrality.

However, concerns arise regarding potential inefficiencies and conflicts of interest within SROs. Questions regarding the independence of SRO boards and their ability to effectively regulate without being influenced by member entities remain. Coordination among various SROs under different regulators, including the need for a coordinating body, is also under scrutiny.

As the financial landscape evolves to include entities like small finance banks, payment banks, microfinance institutions, and fintech, the challenges of finding common ground and cooperation between SROs and other regulatory bodies become apparent.

VOLUNTARY TRANSITION OF SMALL FINANCE BANKS TO UNIVERSAL BANKS

The RBI has released guidelines facilitating the voluntary transition of small finance banks (SFBs) into universal banks. These guidelines offer a structured pathway for eligible SFBs to evolve into universal banks. The conversion process mandates adherence to specific criteria, including meeting minimum paid-up capital/net worth requirements, maintaining a satisfactory track record of performance as an SFB for at least five years, and undergoing due diligence exercises conducted by the RBI. To qualify for conversion, only listed SFBs with a minimum net worth of approximately ₹1,000 crore are eligible. Additionally, SFBs must possess scheduled status and demonstrate a satisfactory performance record, including a gross non-performing asset (NPA) ratio of 3% or less and a net NPA ratio of 1% or less in the preceding two financial years. SFBs interested in conversion must furnish a detailed rationale for their transition desire, with those showcasing a diversified loan portfolio receiving preference. The RBI will evaluate transition applications in accordance with existing licensing guidelines for universal banks. Upon successful transition, converted banks will be subject to all applicable regulatory norms, including the NBFC- Non-Operative Financial Holding Company (NOFHC) structure. Several SFBs, including AU SFB, are reportedly considering conversion, driven by the potential benefits such as enhanced acceptability, reduced funding costs, and favourable regulatory treatment. The RBI's outlined norms also address shareholding patterns and promoter requirements for transitioning SFBs, aiming to provide clarity and streamline the conversion process.

FINANCIAL MARKETS

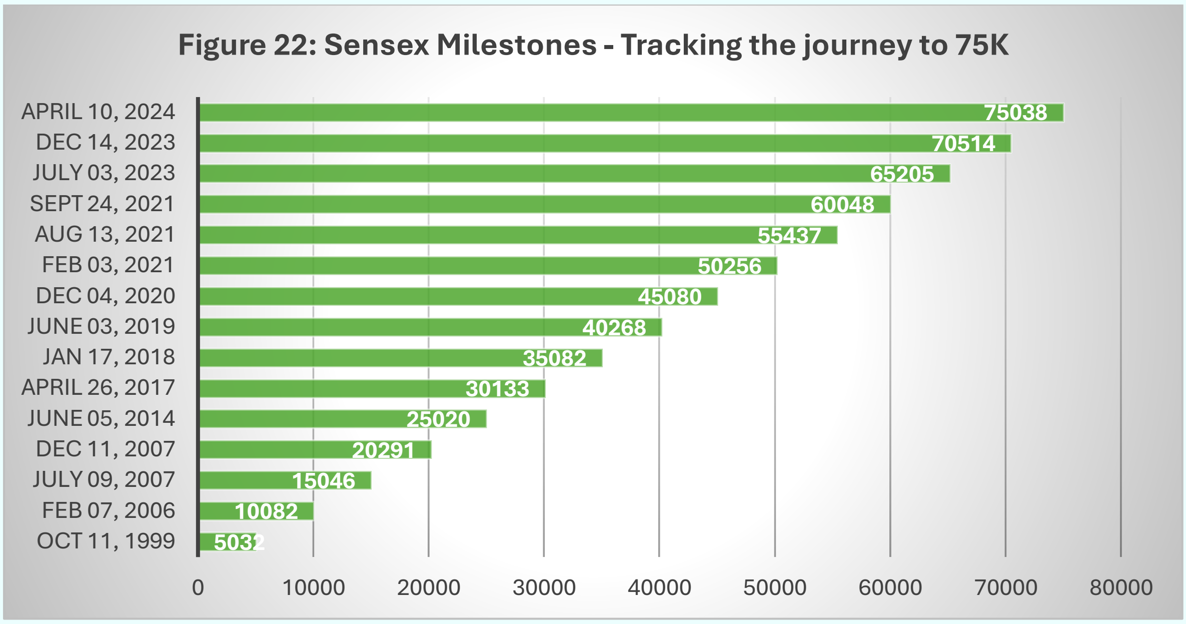
SENSEX @ 75000

Early April 2024 witnessed the breaking of two significant psychological barriers in the stock market, as India's market capitalization soared to ₹400 trillion, closely followed by the Sensex surpassing the 75,000 mark. Three key observations emerge from these record highs: the rapid pace of the rally, its widespread impact, and the driving force behind it.

Remarkably, it took less than a year to add ₹100 trillion to the market value, with domestic investors leading the charge, particularly in small- and mid-cap stocks, prompting regulators to caution against overheating. Notably, these milestones were reached amidst a continuous uptrend in small-cap indices this month, even as foreign portfolio investors turned net sellers in the cash market.

While foreign investors exhibit caution, having injected ₹2.08 trillion into Indian equities in FY24, Indian investors remain bullish, with expectations of continued robustness in the current financial year. Although the share of foreign portfolio investments in Indian equities is on a decline, it still influences market dynamics, suggesting that the milestones may be sustainable once foreign investors resume buying. Moreover, there's little indication that domestic mutual fund inflows will lose momentum.

The Sensex's recent ascent, adding 5,000 points in under four months, albeit slower than the average rate of the past year, reflects a healthy pace. Some profit-taking activities are underway, yet viewed over a longer period, the Sensex's journey from 549.43 on April 1, 1986, to 75,000 on 09 April 2024, and touching the record close of 75,038 on 10 April 2024 (Figure 22), is an impressive testament to India's economic transformation from a crawl to a gallop. As milestones like reaching 10,000 points on the Sensex accelerate, fuelled partly by the power of compounding, Indian households are increasingly shifting their savings from debt to equity, emerging as the new driving force on Dalal Street.



Source: BSE

Give all Indians a stake in capitalism—literally

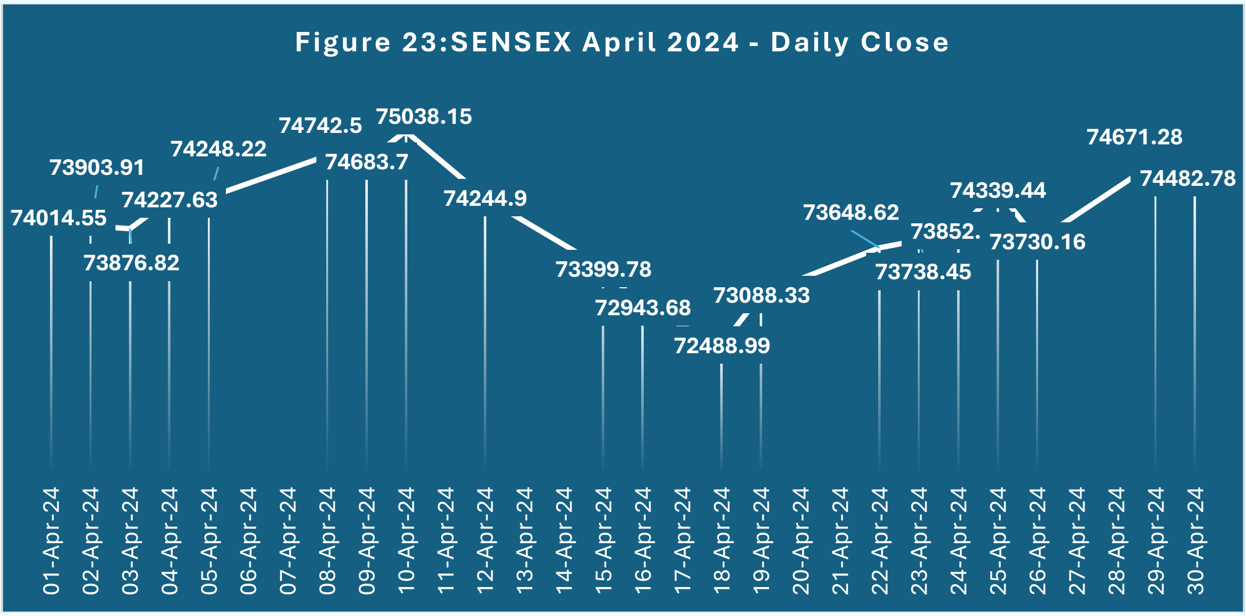
A *Mint* editorial discusses the remarkable growth of wealth in India over the past decade, highlighted by milestones such as the S&P BSE Sensex closing above 75,000 and the BSE reaching ₹400 trillion in market capitalization. The surge in participation, with over 150 million demat accounts and increased investment through mutual funds, indicates a broadening of investor base, especially after the pandemic. However, it acknowledges the persistent wealth disparity and the exclusion of many from the market participation. The absence of reliable data on wealth distribution underscores the challenge. The editorial notes the political implications of wealth inequality, with Congress proposing a wealth survey and redistribution ahead of elections, signalling a leftward shift in policy rhetoric.

The editorial warns against drastic measures like expropriation, emphasizing the potential economic disruption. Instead, it suggests a more benign approach through expanding equity ownership, particularly by transferring selected PSU shares to households without any equity holdings. This could be facilitated through 'Jan Dhan' demat accounts, supported by regulatory measures to bridge the digital divide and ensure inclusivity. Ultimately, the editorial argues that a more inclusive approach to wealth creation will lead to a more sustainable growth trajectory for India.

This is a summary of the editorial, Mint, 11 April 2024. The full editorial can be accessed at: *https://shorturl.at/hqGK0*

SENSEX – APRIL 2024

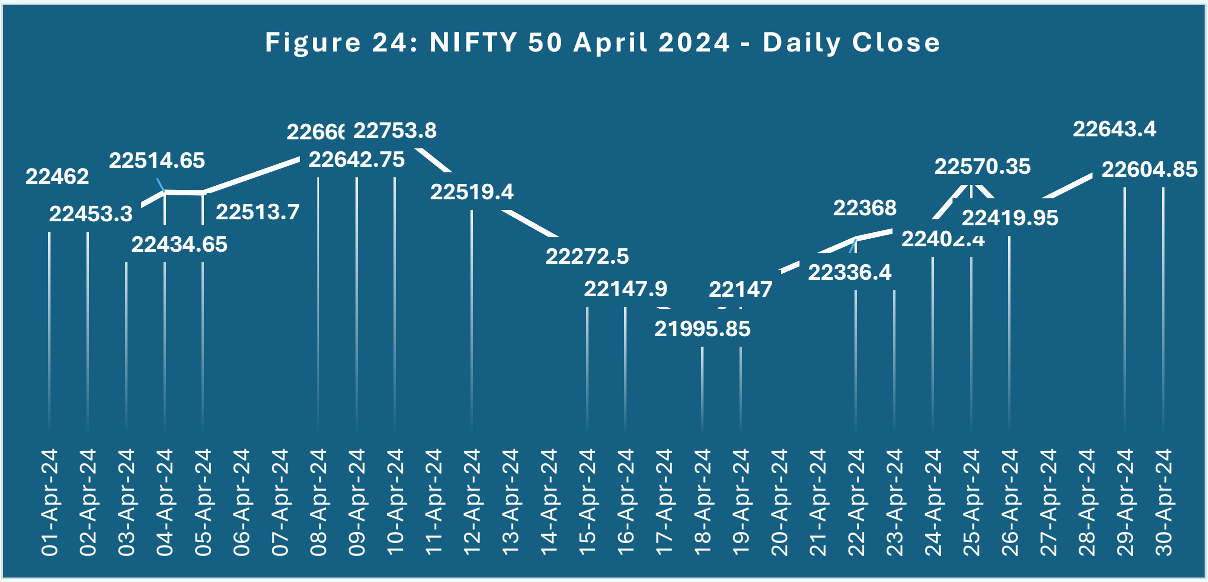
Following the attainment of the 75000 milestone on 10 April 2024, the BSE SENSEX experienced a steady decline, reaching 72489 on 18 April (Figure 23). The primary cause attributed to this downturn in the Indian markets is the escalating tension in the Middle East stemming from the Israel-Iran conflict. Additionally, factors such as the strengthening US dollar and Treasury yields, the selling activities of Foreign Institutional Investors (FIIs), the depreciation of the Indian National Rupee (INR), and the escalation of crude oil prices have further intensified the selling pressure witnessed in the Indian stock market. Subsequently (19 April onwards), SENSEX rallied to reach 74671 on 29 April. The SENSEX closed in the red on 30 April, as a late sell-off erased initial gains. IT and power stocks dampened market sentiment, contributing to the decline, amidst a mixed trend in global markets. The SENSEX, concluded the last day of the month down by 188.50 points or 0.25%, settling at 74,482.78 after a volatile session where it surged to 75,111.39, marking a gain of 440.11 points or 0.58%. Sentiments, however, are upbeat amid India's promising economic growth prospects and robust participation from domestic investors.



Source: BSE https://www.bseindia.com/indices/IndexArchiveData.html

APRIL MARKET MILESTONES: NIFTY INDICES SOAR, REAL ESTATE REBOUNDS

The Nifty 50, representing India's top 50 blue-chip companies, ended April 2024 on a high note, closing at a historic peak of 22,783 points on 30 April, marking a 0.61% increase from its previous record of 22,725 points. This milestone reflects the index's remarkable performance throughout April, hitting new peaks about six times, underscoring sustained momentum and investor confidence. The 30 April rally drove a 1.24% gain, marking the index's third consecutive month of upward movement. The index closed at 22,604.85 points (Figure 24).



Source: NSE https://www.niftyindices.com/reports/historical-data

The banking and auto sectors led the charge, buoyed by strong March quarter earnings. However, the IT sector faced setbacks due to disappointing financial results and lower revenue guidance from major companies, extending its losses for the second consecutive month.

The Nifty Bank index surged by 4.82% in April, hitting a new lifetime high of 49,974 points, inching closer to the 50,000 mark. Similarly, the Nifty Auto index reached a record high of 22,634 points, driven by robust performances from Mahindra & Mahindra, Ashok Leyland, and Exide Industries, ending April with a 4.95% gain.

The real estate sector bounced back after a slight dip in March, encouraged by strong business updates from key players, reflecting Indians' continued interest in real estate investment amid rising disposable incomes.

Conversely, Nifty Metal stole the spotlight with an impressive surge of 11.12%, fuelled by rising base metal prices, positive analyst outlooks, and strong Q4 performances.

Mid-and small-cap stocks rebounded from regulatory concerns and high valuations in March, with the Nifty Midcap 100 index gaining 5.81% and the Nifty Small cap 100 index rallying by 11.40% in April.

Looking ahead, market dynamics in May will depend on the Federal Reserve's interest rate decision, with investors closely watching Chair Powell's statements for clues on potential rate adjustments amidst persistent inflationary pressures and subdued growth in Q1CY24. Powell's recent indication of maintaining elevated borrowing costs for an extended period underscores the cautious approach amid economic uncertainties.

NAVIGATING CHANGE: T+0 SETTLEMENT ARRIVES IN INDIAN MARKETS, IMPACT AND CHALLENGES AHEAD

On 28 March 2024, the much-anticipated T+0 settlement cycle commenced in the Indian capital markets, albeit on an optional basis, following approval from the Securities and Exchange Board of India (SEBI) board for a pilot program. Initially, T+0 settlement will operate alongside the existing T+1 settlement cycle in the equity cash segment. Sebi plans to evaluate the pilot after three and six months before determining future steps. T+0 settlement, which involves settling trades on the same day they are executed, provides investors with their securities or funds within hours, contrasting with the current T+1 cycle where they have to wait a day.

Initially, T+0 settlement will encompass a selection of 25 stocks and a limited number of brokers, with plans for gradual implementation, similar to the T+1 cycle which was fully adopted in January 2023. The designated 25 stocks include Ambuja Cements, Ashok Leyland, Bajaj Auto, and others.

During the initial phase, there will be a single continuous session for T+0 settlement from 9:15 am to 1:30 pm, with client code modifications allowed until 1:45 pm. However, T+0 settlement will not apply to certain trading sessions such as pre-open, special pre-open, and others.

The specifications for T+0 securities will mirror those of corresponding T+1 securities, including ISIN, symbol, tick size, and market lot. The closing price of T+0 settled securities will align with the closing price of the corresponding T+1 settled securities. The introduction of T+0 settlement is expected to significantly improve market efficiency in the long run by boosting liquidity and trading volumes. Nonetheless, it could potentially increase volatility, particularly during periods of heightened trading activity.

While T+0 settlement offers advantages such as reduced counterparty risk and operational costs, its implementation necessitates technological updates from brokers, custodians, depository participants, and clearing corporations. Moreover, brokers reliant on interest income from clients' funds during the settlement period may face challenges due to the shortened period.

Foreign institutional investors, especially large funds, may encounter difficulties with the T+0 system as it requires larger sums to be deposited in advance, exposing them to currency risks. Stock exchanges in Russia, South Korea, Taiwan, and Hong Kong already offer T+0 settlement for certain securities. Notably, the New York Stock Exchange announced plans to transition to a one-day settlement cycle from May 28, 2024.

SECTION 2

GLOBAL ECONOMY

RESILIENT ECONOMIES: INSIGHTS FROM IMF'S WORLD ECONOMIC OUTLOOK APRIL 2024

During the global disinflation period of 2022–23, economic activity demonstrated unexpected resilience. Despite a decline in global inflation from its mid-2022 peak, economic growth remained steady, defying concerns of stagflation and a global recession. Stable growth in employment and incomes reflected favourable demand dynamics, including higher-than-anticipated government spending and household consumption, alongside a supply-side expansion driven notably by an unforeseen increase in labour force participation. This resilience, in the face of significant central bank interest rate hikes aimed at restoring price stability, also underscored the capacity of households in major advanced economies to tap into substantial pandemic-era savings.

Furthermore, changes in mortgage and housing markets over the decade preceding the pandemic, characterized by low interest rates, cushioned the immediate impact of policy rate hikes. As inflation moves towards target levels and central banks shift towards policy easing in many economies, tightening fiscal policies aimed at curbing high government debt through increased taxes and reduced spending are expected to exert downward pressure on growth.

Global growth, estimated at 3.2% in 2023, is projected to persist at this rate in 2024 and 2025, with slight upward revisions from previous forecasts. However, this growth remains subdued compared to historical standards due to factors such as ongoing high borrowing costs, reduced fiscal support, and longer-term effects of the COVID-19 pandemic and geopolitical tensions. The projected trajectory for global headline inflation indicates a decline from an average of 6.8% in 2023 to 5.9% in 2024 and further down to 4.5% in 2025. Advanced economies are anticipated to reach their inflation targets earlier than emerging market and developing economies. Nevertheless, the overall outlook for global growth remains restrained, with slower progress in advancing living standards for middle- and lower-income countries, exacerbating global economic disparities.

Growth Forecast for Advanced Economies

For advanced economies, growth is anticipated to increase from 1.6% in 2023 to 1.7% in 2024 and further to 1.8% in 2025 (Table 2). The projection for 2024 has been revised upward by 0.2 percentage point compared to the January 2024 WEO Update, while remaining unchanged for 2025. The upward revision for 2024 is primarily due to adjustments in the US growth forecast, offsetting a similar downward revision for the euro area in 2025.

United States: Growth is expected to rise to 2.7% in 2024 before moderating to 1.9% in 2025. The upward revision for 2024 is mainly attributed to carryover effects from stronger-than-expected growth in the fourth quarter of 2023, with some momentum expected to persist into 2024. However, gradual fiscal tightening and labour market softening are projected to slow aggregate demand in 2025.

Euro Area*:* Growth is forecasted to recover from a low of 0.4% in 2023 to 0.8% in 2024 and further to 1.5% in 2025. The recovery is driven by stronger household consumption as the effects of energy price shocks diminish and falling inflation supports real income growth. Although Germany's growth outlook for 2024 and 2025 is revised downward due to weak consumer sentiment, this adjustment is largely offset by upgrades for several smaller economies like Belgium and Portugal.

United Kingdom*:* Growth is projected to increase from an estimated 0.1% in 2023 to 0.5 percent in 2024 and 1.5% in 2025. The increase in 2024 is attributed to the diminishing negative effects of high energy prices, while disinflation is expected to ease financial conditions and facilitate real income recovery in 2025.

Japan: Output growth is anticipated to slow from an estimated 1.9% in 2023 to 0.9% in 2024 and 1% in 2025. This slowdown is due to the fading of one-off factors that supported growth in 2023, including a surge in inbound tourism.

Growth Forecast for Emerging Market and Developing Economies

In emerging market and developing economies, growth is expected to remain stable at 4.2% in both 2024 and 2025. This stability is influenced by a moderation in emerging and developing Asia, offset mainly by increased growth in the Middle East and Central Asia, as well as sub-Saharan Africa. Low-income developing countries are projected to experience gradually increasing growth, from 4.0% in 2023 to 4.7% in 2024 and 5.2 % in 2025, as some constraints on near-term growth ease.

Emerging and Developing Asia: Growth is anticipated to decline from 5.6% in 2023 to 5.2% in 2024 and 4.9% in 2025, with a slight upward revision compared to the January 2024 WEO Update. China's growth is expected to slow from 5.2% in 2023 to 4.6% in 2024 and 4.1% in 2025 due to easing post-pandemic consumption boost and persistent weaknesses in the property sector. However, India's growth is projected to remain robust at 6.8% in 2024 and 6.5% in 2025, supported by strong domestic demand and a rising working-age population.

Emerging and Developing Europe: Growth is projected at 3.2% in 2023, 3.1% in 2024, and easing to 2.8% in 2025. This reflects an upward revision since January, with Russia's growth expected to decline from 3.2% in 2024 to 1.8% in 2025, driven by reduced investment and private consumption. Türkiye's growth is forecasted at 3.1% in 2024 and 3.2% in 2025, with economic activity strengthening in the latter half of 2024.

Latin America and the Caribbean: Growth is projected to decrease from 2.3% in 2023 to 2.0% in 2024 before rising to 2.5% in 2025, with an upward revision for 2024 since January. Brazil's growth is expected to moderate to 2.2% in 2024 due to fiscal consolidation and tighter monetary policy, while Mexico's growth is forecasted at 2.4% in 2024 before declining to 1.4% in 2025, reflecting fiscal tightening.

Middle East and Central Asia: Growth is anticipated to rise from 2.0% in 2023 to 2.8% in 2024 and 4.2% in 2025, with a slight downward revision for 2024 from the January 2024 projections, mainly due to lower non-oil activity and oil revenues in Iran and other smaller economies.

Sub-Saharan Africa: Growth is projected to increase from 3.4% in 2023 to 3.8 percent in 2024 and 4.0% in 2025, as the negative effects of earlier weather shocks diminish and supply issues improve, with Nigeria experiencing an upward revision offsetting a downward revision for Angola.

Balanced risks to the global outlook include potential downsides such as new price spikes stemming from geopolitical tensions and persisting core inflation in tight labour markets, which could raise interest rate expectations and dampen asset prices. Conversely, looser fiscal policies could temporarily boost economic activity, although risking more complex policy adjustments later on. Additionally, advancements in artificial intelligence and stronger-than-anticipated structural reforms have the potential to spur productivity.

The global outlook faces balanced risks, with potential downsides including price spikes due to geopolitical tensions, divergence in disinflation speeds among major economies, and high interest rates impacting financial sectors and household debt. China's unresolved property sector issues and high government debt in many countries pose additional risks. Geoeconomic fragmentation could further slow global growth. However, looser fiscal policies could temporarily boost economic activity, and inflation may decline faster than expected with increased labour force participation. Furthermore, advancements in artificial intelligence and stronger-than-anticipated structural reforms could enhance productivity.

As the global economy approaches a soft landing, central banks' near-term priority is to ensure a smooth adjustment of inflation, avoiding premature easing or prolonged delays that could result in target undershoots. Simultaneously, a renewed focus on medium-term fiscal consolidation is necessary to rebuild fiscal flexibility, prioritize investments, and ensure debt sustainability. Tailored policy responses are imperative given cross-country differences, with intensified supply-enhancing reforms crucial for facilitating inflation and debt reduction, increasing growth towards pre-pandemic levels, and hastening convergence towards higher income levels. Multilateral cooperation is essential to mitigate the costs and risks of geoeconomic fragmentation and climate change, expedite the transition to green energy, and facilitate debt restructuring.

World Economic Outlook – Steady but Slow: Resilience and Divergence*, *April 2024 is *available at: https://www.imf.org/en/Publications/WEO/Issues/2024/04/16/world-economic-outlook-april-2024*

Table 2: World Economic Outlook Growth Projections

(Annual Percentage change)

	Projections		
	2023	**2024**	**2024**
World Output	**3.2**	**3.2**	**3.2**
Advanced Economies	**1.6**	**1.7**	**1.8**
United States	2.5	2.7	1.9
Euro Area	0.4	0.8	1.5
Germany	-0.3	0.2	1.3
France	0.9	0.7	1.4
Italy	0.9	0.7	0.7
Spain	2.5	1.9	2.1
Japan	1.9	0.9	1.0
United Kingdom	0.1	0.5	1.5
Canada	1.1	1.2	2.3
Other Advanced Economies	1.8	2.0	2.4
Emerging Market and Developing Economies	**4.3**	**4.2**	**4.2**
Emerging and Developing Asia	5.6	5.2	4.9
China	5.2	4.6	4.1
India	7.8	6.8	6.5
Emerging and Developing Europe	3.2	3.1	2.8
Russia	3.6	3.2	1.8
Latin America and the Caribbean	2.3	2.0	2.5
Brazil	2.9	2.2	2.1
Mexico	3.2	2.4	1.4
Middle East & Central Asia	2.0	2.8	4.2
Saudi Arabia	-0.8	2.6	6.0
Sub Saharan Africa	3.4	3.8	4.0

Nigeria	2.9	3.3	3.0
South Africa	0.6	0.9	1.2
Emerging Market and Middle-Income Economies	4.4	4.1	4.1
Low-Income Developing Countries	4.0	4.7	5.2

Source: World Economic Outlook April 2024, IMF

The global landscape remains turbulent, marked by significant upheavals resulting in substantial fluctuations in capital movements. However, Dr Gita Gopinath the IMF's first deputy managing director, conveyed during an IMF seminar on 19 April 2024 that the disruptive impact of these fluctuations on economies is notably less severe compared to past occurrences. Dr Gopinath, highlighted that the absence of a major crisis in emerging markets can be attributed to the strengthened macroeconomic policy frameworks adopted by emerging and developing countries, enabling them to better manage such shocks.

Despite these improvements, the share of global capital flows directed towards emerging markets has declined, dropping from approximately 25% before the pandemic to 20% presently. Conversely, there has been an increase in the share of capital flows directed towards the United States, rising from 18% to 33%.

Global Economy Remains Resilient Despite Uneven Growth, Challenges Ahead

Pierre-Olivier Gourinchas, Economic Counsellor, IMF, reflects on the IMF's World Economic Outlook, highlighting the unexpected resilience of the global economy amidst challenging circumstances. Despite initial concerns and various crises, including supply chain disruptions and inflation surges triggered by geopolitical events, global growth has remained steady. Projections indicate continued stability in growth and a decline in inflation over the next few years, signalling a soft landing for the economy.

Global growth hit its lowest point at the close of 2022, registering at 2.3%, shortly after median headline inflation reached its peak at 9.4%. Growth for the current year and the following year will remain stable at 3.2%, accompanied by a decrease in median headline inflation from 2.8% at the end of 2024 to 2.4% by the end of 2025. The majority of indicators continue to suggest a smooth transition.

Furthermore, IMF anticipates less long-term damage from the crises of the past four years, although estimates vary among countries. While the US economy has already surpassed its pre-pandemic trajectory, we now anticipate more enduring impacts on low-income developing nations, many of which are still grappling with the aftermath of the pandemic and escalating living cost challenges.

While some countries, like the US, have surpassed pre-pandemic levels, low-income developing countries still face significant challenges. Gourinchas emphasizes the importance of addressing remaining challenges and taking decisive actions to ensure sustained recovery.

Maintaining the focus on returning inflation to its target level is paramount. While there are positive signs regarding inflation trends, reaching the desired target remains a work in progress. There is some cause for concern as progress toward achieving inflation targets has somewhat halted since the start of the year. Although this may be a temporary setback, it warrants continued vigilance. Much of the positive momentum in inflation has stemmed from reductions in energy costs and goods inflation. The latter has benefited from the easing of supply chain bottlenecks and a decrease in Chinese export prices. However, recent increases in oil prices, partly attributable to geopolitical tensions, and persistently high services inflation are areas of concern. Additionally, the imposition of further trade restrictions on Chinese exports could exacerbate goods inflation.

The global economy's resilience is overshadowed by significant disparities among countries. The United States has shown robust performance due to productivity and employment growth but faces challenges from overheating and fiscal concerns. In contrast, the euro area's growth is expected to rebound from low levels, with wage growth and services inflation posing potential obstacles to inflation targets. China continues to grapple with the effects of its property sector downturn, requiring substantial measures to stimulate domestic demand. Meanwhile, other large emerging market economies are experiencing strong performance, partly due to shifts in global supply chains and trade tensions between China and the US. These economies are expanding their influence on the global stage.

Looking ahead, policymakers should prioritize actions aimed at bolstering the resilience of the global economy. Firstly, there is a pressing need to rebuild fiscal buffers. Despite receding inflation, real interest rates remain high, and sovereign debt dynamics have deteriorated. Implementing credible fiscal consolidations can lower funding costs, enhance fiscal headroom, and promote financial stability. However, current fiscal plans are inadequate and face potential disruptions amidst a record number of elections this year. Initiating gradual and credible fiscal consolidations now, akin to the successful 1993 US fiscal consolidation, can pave the way for further monetary policy easing once inflation is under control.

Secondly, addressing the decline in medium-term growth prospects is crucial. This involves tackling increased misallocation of capital and labour, particularly within sectors and countries, to boost growth. Low-income countries should focus on structural reforms to attract domestic and foreign investment, enhance domestic resource mobilization, and bolster the human capital of their youthful populations. While artificial intelligence holds promise for productivity gains, its potential disruptions necessitate investments in digital infrastructure, human capital, and global regulatory coordination.

Furthermore, rising geoeconomic fragmentation and trade restrictive measures are impeding medium-term growth prospects and global cooperation. Reversing these trends is essential to enhance resilience and efficiency in the global economy.

Thirdly, preserving the strengthened monetary, fiscal, and financial policy frameworks, especially in emerging market economies, is imperative for maintaining global financial resilience and curbing inflation resurgence. This includes safeguarding the independence of central banks.

Lastly, addressing the green transition requires substantial investments to cut emissions and promote sustainable growth. While advanced economies and China have made progress in green investment, other emerging market and developing economies must significantly ramp up their efforts, facilitated by technology transfers and increased financing.

In addressing these challenges, multilateral frameworks and cooperation remain indispensable for fostering progress and resilience in the global economy.

(This is a summary of the blog by Pierre-Olivier Gourinchas. The full blog is available at: https://shorturl.at/crS59)

IMF'S GLOBAL FINANCIAL STABILITY REPORT APRIL 2024

IMF's *Global Financial Stability Report April 2024* highlights a positive outlook in financial markets since October 2023, driven by expectations of global disinflation nearing its end and anticipated monetary policy easing. Interest rates have decreased worldwide, stocks have risen approximately 20% globally, and borrowing spreads have narrowed significantly. This has led to eased global financial conditions, fostering increased capital inflows for many emerging markets. Confidence in a smooth economic transition is growing due to better-than-expected economic data, with both investors and central banks anticipating further monetary policy easing in the near future. However, persistent global inflation above central banks' targets could pose challenges and potentially trigger instability. Despite concerns, recent resilience in major emerging markets' financial and external sectors suggests a mitigated risk of financial system ruptures. Near-term financial stability risks have diminished, with less downside risk to global growth projected in the coming year, although potential complications in the final stages of disinflation remain a concern.

Commercial real estate (CRE) prices have globally dropped by 12% over the past year, influenced by rising interest rates and structural shifts post-COVID-19, with US and European office sectors facing significant declines. While banks overall seem equipped to handle CRE losses, some countries may face greater strain due to high CRE loan exposure, particularly if concentrated in struggling segments. Variances in banks' stability and funding could exacerbate losses for certain institutions.

Residential home prices have generally decreased in most countries but remain above pre-pandemic levels. Higher mortgage rates have driven declines, more pronounced in advanced economies (-2.7% year over year) than in emerging markets (-1.6%). Despite this, household debt sustainability globally remains moderate, with potential mortgage defaults considered a tail risk.

Volatility across asset classes has decreased to multiyear lows, reflecting optimism about the nearing end of the global rate hike cycle. However, the high correlation among equities, bonds, credit, and commodities suggests increased responsiveness to economic data releases, particularly inflation. Unexpected inflation could swiftly alter investor sentiment, leading to abrupt shifts in asset price volatility and simultaneous reversals in correlated markets, causing a sharp financial condition tightening.

Medium-term vulnerabilities are accumulating globally, with both public and private debt rising in advanced economies and emerging markets, posing risks to future growth prospects. While major emerging markets have shown resilience due to aggressive early policy tightening, concerns arise regarding potential turning points, particularly as investors focus more on medium-term fiscal sustainability.

The easing of global financial conditions has benefited frontier economies and low-income countries, but risks increase as a substantial number of hard currency bonds mature in many nations, potentially straining sovereign-bank relationships. China's ongoing housing market downturn and equity market pressures could spill over into its asset management industry, impacting bond and funding markets.

Corporate credit spreads have narrowed, but the recent slowdown in corporate earnings growth and eroded cash liquidity buffers for firms in advanced and emerging markets raise concerns. Refinancing challenges loom as sizable amounts of corporate debt mature at higher interest rates. Despite growing corporate borrowing, vulnerabilities in private credit markets persist, with potential risks including fragile borrowers and interconnectedness across financial segments.

Some advanced economies face heavy government bond issuances to fund fiscal deficits, amid quantitative tightening by central banks. This shift in the buyer base for government bonds towards more price-sensitive investors suggests increased bond market volatility in the medium term, potentially exacerbating debt sustainability challenges for some countries.

While most banks have shown resilience, a subset remains vulnerable, particularly Chinese and US banks. Nonbanks, including open-end bond funds, have experienced large inflows, raising concerns about excessive liquidity transformations reminiscent of pre-crisis conditions. Additionally, cyber incidents pose a growing threat to macro-financial stability, particularly in the financial sector, highlighting the need for improved cyber legislation and governance arrangements globally.

The Global Financial Stability Report offers the following policy recommendations:

Monetary Policy: Central banks should avoid premature monetary easing and counter overly optimistic market expectations for policy rate cuts, which could complicate disinflation efforts. Instead, they should gradually transition to a more neutral policy stance as progress is made towards inflation targets.

Debt Vulnerabilities: Authorities need to address debt vulnerabilities, particularly in emerging markets and frontier economies. In China, robust policies to restore confidence in the real estate sector are deemed critical.

Supervisory and Regulatory Measures: Supervisory and regulatory authorities should utilize stress tests and early corrective actions to ensure the resilience of banks and nonbank financial institutions, particularly in response to strains in commercial and residential real estate and the credit cycle downturn. Progress on resolution frameworks is vital to address weak or failing banks without undermining financial stability or risking public funds.

Quantitative Tightening: Central banks should carefully manage quantitative tightening and balance sheet reductions, monitoring market functioning issues and intervening to address potential stresses. Banks should be prepared to access central bank liquidity early to mitigate financial instability.

Private Credit Market Oversight: Given the risks associated with the fast-growing private credit market, authorities should adopt a proactive supervisory and regulatory approach. Closing data gaps, enhancing reporting requirements, and strengthening cross-sectoral and cross-border regulatory cooperation are crucial to comprehensively assess risks.

Cybersecurity Strategy: Implementing a cybersecurity strategy can enhance the cyber resilience of the financial sector, supported by effective regulation, supervisory capacity, and improved reporting of cyber incidents. Financial firms should develop and test response-and-recovery procedures, while cross-border coordination is essential given the global nature and systemic implications of cyberattacks.

Global Financial Stability Report – The Last Mile: Financial Vulnerabilities and Risks, April 2024 *is available at:*

https://www.imf.org/en/Publications/GFSR/Issues/2024/04/16/global-financial-stability-report-april-2024

THE DECLINE OF INFLATION COULD BE STALLING IN SOME ECONOMIES

Tobias Adrian highlights the prevailing optimism in financial markets, driven by the perception that the battle against inflation is nearing its conclusion and central banks will soon ease monetary policy. This optimism is reflected in substantial rises in stock markets worldwide and narrowing borrowing spreads for both corporate and sovereign entities. However, the blog cautions against potential challenges along this "last mile," including geopolitical tensions, strains in commercial real estate, and ongoing issues in China's property sector. Additionally, it discusses the growth of debt vulnerabilities in many countries despite high interest rates and muted economic growth projections. Concerns about stalled disinflation and persistent inflation in certain sectors raise the possibility of financial market repricing and increased volatility.

Sticky inflation

Inflation trends have diverged across countries recently, with core inflation accelerating in several major advanced and emerging economies compared to the previous months. Looking ahead, some investors anticipate that price pressures may persist, as expectations for inflation implied by government bond yields remain above central bank target levels in key economies like France, the United Kingdom, the United States, Brazil, and Mexico. However, other measures of inflation expectations, such as household surveys, appear more stable. Additionally, geopolitical tensions could exacerbate disruptions to shipping and energy production, potentially driving inflation higher once again. Despite these risks, financial markets have generally remained optimistic about the outlook for inflation and other challenges, with low volatility in major asset classes despite elevated economic policy uncertainty.

Repricing risks

A historical pattern suggests that a discrepancy between asset price volatility and uncertainty tends to precede spikes in volatility. Such spikes often occur when investors face unexpected adverse shocks, prompting them to reassess asset values in light of heightened uncertainty.

One potential adverse shock in the current environment could be unexpected increases in inflation. Despite projections of future inflation upticks in various countries, investors anticipate significant policy rate cuts by central banks, including the European Central Bank and the Central Bank of Brazil. Despite recent surprises in US inflation, the Federal Reserve is still expected to cut rates. Investors seem to trust that central banks will adjust monetary policy as needed based on incoming data. However, if inflation remains high, these expectations could falter, leading to a coordinated sell-off across various assets, including bonds, stocks, and cryptocurrencies.

In such a scenario, financial conditions would tighten broadly. Leveraged investors, in particular, would face significant losses, while borrowers globally would struggle to service debt due to higher bond yields.

Emerging market borrowers are especially vulnerable in such situations. Many already face refinancing rates higher than those on outstanding US dollar-denominated sovereign bonds. More vulnerable emerging markets, particularly those with lower credit ratings, would face the most significant increases in rates. An inflation-driven tightening of global financial conditions would exacerbate challenges in refinancing for these countries.

Commitment to disinflation

As disinflation appears to stall, investors who believe that the battle against inflation has been won may be surprised. Central banks should avoid premature easing, especially in economies experiencing persistent inflation above targets. They must also temper overly optimistic expectations for monetary policy easing to prevent excessive exuberance in financial markets. However, where progress on inflation is sustainable, central banks should gradually adjust policy to be less restrictive.

Preserving financial stability during this phase requires a comprehensive approach. Financial regulatory authorities should ensure that banks and institutions can withstand risks by employing stress tests, early corrective actions, and other supervisory tools. Prioritizing the implementation of internationally agreed prudential standards, such as the completion of Basel III, is crucial. Moreover, progress on recovery and resolution frameworks is essential to mitigate the consequences of weak institutions. Central banks should ensure access to liquidity facilities and be ready to intervene early to address funding stress in the financial sector.

This is a summary of the IMF blog by Tobias Adrian, April 16, 2024, based on Chapter 1 of the April 2024 Global Financial Stability Report. The full blog is available at: https://shorturl.at/kDLUV

NAVIGATING FISCAL CHALLENGES: INNOVATING FOR GROWTH AND STABILITY – IMF'S FISCAL MONITOR APRIL 2024

IMF's *Fiscal Monitor April 2024* highlights the ongoing challenges in fiscal policy normalization despite a stabilizing global economic outlook. Fiscal deficits and debts have remained elevated compared to pre-pandemic projections, exacerbated by higher interest rates and increased spending on support measures. Many economies have introduced new fiscal initiatives, leading to risks of fiscal slippages. While inflation has been easing, uncertainties persist regarding its descent to target, and financing conditions are sensitive to inflation outlook and fiscal policy developments. Moreover, slowing growth and financial turbulence in China pose additional challenges. Without decisive fiscal efforts, post-pandemic fiscal policy normalization may remain incomplete, with global public debt projected to approach 99 percent of GDP by 2029. Fiscal consolidation is deemed necessary to strengthen debt sustainability and financial stability, especially in economies with elevated sovereign risks.

Expanding Frontiers: Fiscal Policies for Innovation and Technology Diffusion

The report emphasizes the importance of innovation in driving productivity growth and improving living standards. Despite rapid advancements in digital technologies and artificial intelligence, productivity growth has slowed over the past two decades, and global growth prospects remain weak. Innovation is uneven across sectors and increasingly driven by applied research that lacks widespread knowledge spillovers. Additionally, the diffusion of innovation across countries and firms has decelerated, particularly in adopting low-carbon and digital technologies. Given challenges such as high government debt, population aging, and climate change, promoting long-term growth becomes crucial. The report argues that well-designed fiscal policies aimed at stimulating innovation and technology diffusion can lead to faster productivity and economic growth across countries.

Directing Innovation to Specific Sectors: When and How

The report examines the resurgence of industrial policy, particularly in sectors like green technologies and artificial intelligence (AI), driven by concerns about economic and national security. However, industrial policy historically has been prone to mistakes, often resulting in high fiscal costs and negative spillovers. The chapter introduces a model-based framework to evaluate when and how fiscal support for innovation should be targeted to specific sectors. It argues that industrial policy for innovation yields productivity and welfare gains only under certain conditions, such as when targeted sectors generate measurable social benefits and have strong implementation capacity. Misdirected subsidies or discrimination against foreign firms can lead to negative welfare outcomes. Regarding AI, the case for subsidizing innovation is unclear, given the technology's maturity, and priority should be given to technologies that enhance human capabilities and sectors with greater social benefits.

A Pro-Innovation Fiscal Policy Mix

The report underscores the necessity for advanced and emerging market economies to adopt a policy mix that supports innovation, particularly at the global technology frontier. It highlights the underfunding of fundamental research with broad applications in many countries. It proposes a cost-effective combination of policies to foster innovation, including public funding for fundamental research, R&D grants for start-ups, and R&D tax incentives to encourage applied innovation across firms. Close public-private cooperation is emphasized to leverage positive synergies at a lower cost to public finances. Analyses suggest that a well-designed innovation policy mix can yield significant growth and fiscal dividends, with each dollar of fiscal cost raising long-term GDP by $3 to $4. Careful design and targeting of fiscal incentives across firms and along the innovation lifecycle are crucial to minimize fiscal costs and prevent capture by large established firms. Additionally, fostering innovation requires developing a coherent tax system, implementing complementary structural, competition, trade, and financial policies, and ensuring adequate access to financing for innovative firms.

Facilitating the Diffusion and Adoption of Technology

The report emphasizes the importance for countries below the technology frontier, particularly emerging market and developing economies, to prioritize policies that facilitate the diffusion of technologies developed elsewhere. Strategic public investments in human capital and infrastructure, especially in digital infrastructure and skills, are highlighted as crucial for technology adoption. For instance, increasing education spending can significantly boost GDP, and improving trade and transport infrastructure can also lift economic output. Public investment and financing are particularly beneficial for overcoming barriers to green technology diffusion. Investments in digital skills and infrastructure can accelerate technology diffusion from high-productivity firms to others. Targeted fiscal incentives for technology upgrades, such as investment tax credits, can further enhance technology diffusion and aggregate productivity.

To finance priority spending and leverage its growth dividends, countries need to improve expenditure efficiency and upgrade tax systems. Implementing a broad-based value-added tax with simplified collection mechanisms can facilitate technology diffusion and increase revenue. Additionally, scaling back ineffective corporate tax incentives and addressing international tax avoidance by multinationals can significantly boost tax revenue in developing economies.

Maintaining and deepening international collaboration is crucial for reaching the world's full innovative potential and accelerating technology diffusion. Inward-looking policies could disproportionately harm economies farther from the technological frontier, given their reliance on foreign technology. Coordinating innovation policies is essential to catalyze cross-border knowledge spillovers, harness the potential of green and digital transformations, and expand the frontier for all.

IMF's Fiscal Monitor – Fiscal Policy in a Great Election Year, April 2024 *is available at:* [*https://www.imf.org/en/Publications/FM/Issues/2024/04/17/fiscal-monitor-april-2024*](https://www.imf.org/en/Publications/FM/Issues/2024/04/17/fiscal-monitor-april-2024)

ADB’S ASIAN DEVELOPMENT OUTLOOK, APRIL 2024

Robust Growth amid Uncertain External Prospects

Asian Development Bank’s *Asian Development Outlook April 2024* has stated that the growth momentum in Developing Asia persisted throughout 2023, driven by strong domestic demand (Figure 25). Although growth varied across subregions, East Asia experienced a notable rebound, propelled by the removal of pandemic-related restrictions in China, resulting in growth increasing to 4.7% from 2.9% in 2022. Conversely, economic contractions in Pakistan and Sri Lanka moderated growth in South Asia to 6.4% from 6.6% in 2022, while Southeast Asia saw a slowdown to 4.1% growth. The Pacific region witnessed a significant decline in growth due to the contraction in Papua New Guinea’s resource sector, offsetting the tourism-related recovery in island economies. However, growth in the Caucasus and Central Asia marginally increased to 5.3% from 5.2% in 2022.

External demand remained fragile, with goods exports hitting a low before improving in the fourth quarter of 2023, particularly for high-income technology exporters, which saw a 5.4% increase in export growth. Notably, the Republic of Korea and Hong Kong, China, experienced the strongest gains in export growth, with the People's Republic of China also performing well during this period.

International tourism continued its recovery in 2023, reaching 73% of pre-pandemic levels by the year's end, leading to increased travel receipts and international arrivals. While some economies, such as Armenia, Maldives, Fiji, and Samoa, surpassed pre-pandemic levels, remittances to South Asia, Southeast Asia, and the Pacific saw only marginal increases, and money transfers to the Caucasus and Central Asia were volatile due to uncertainty surrounding the evolving Russian invasion of Ukraine.

Financial markets in developing Asia performed well in 2023, with gradual growth supported by better-than-expected economic performance and the easing of monetary tightening measures. Despite temporary tightening in September due to global risk aversion, conditions eased again after the US Federal Reserve signalled a pause in rate hikes from November. This positive market sentiment was reflected in declining sovereign bond yields, narrower risk premia, stable currencies, and positive net portfolio investment flows throughout 2023, continuing into 2024 despite uncertainties regarding the timing of expected monetary policy easing by the US Federal Reserve.

Inflation in Developing Asia is projected to decrease from 3.3% in 2023 to 3.2% in 2024 and further to 3.0% in 2025 (Figure 26), mainly due to reduced global inflationary pressures and stabilized fuel prices. However, excluding the People's Republic of China (PRC), regional food inflation remained high, significantly contributing to overall inflation in 2023. Growth in developing Asia is expected to remain healthy at 4.9% in 2024 and 2025, despite a slowdown in the PRC, which is attributed to a weak property market and declining domestic consumption growth. Conversely, faster growth in the rest of developing Asia will be driven by domestic demand and improvements in semiconductor and services exports, including tourism.

Stronger growth in South Asia and Southeast Asia will offset lower growth in other subregions. India is poised to maintain its role as a major growth engine in Asia, while Pakistan and Sri Lanka are anticipated to achieve positive growth this year, with acceleration expected in 2025 due to macroeconomic stabilization efforts. Southeast Asia's growth will be supported by domestic demand and the ongoing rebound in tourism following the pandemic. Conversely, growth in the Caucasus and Central Asia is expected to normalize after reaching record-high levels in 2022-2023 due to spillover effects from the Russian invasion of Ukraine. In the Pacific region, gains in Papua New Guinea will be counteracted by more modest tourism growth in Fiji and other Pacific island economies following last year's rebound.

Public debt relative to GDP has stabilized across much of developing Asia, but it remains high compared to pre-pandemic levels and vulnerable to higher-for-longer interest rates. Enhanced growth has contributed to reduced debt ratios in the region. Additionally, stabilization measures and reforms implemented under International Monetary Fund programs have mitigated debt distress risks in crisis-affected economies like Sri Lanka and Pakistan, although sustaining these reforms poses challenges due to substantial debt servicing costs. While conditions are improving in high-risk economies such as Maldives and Mongolia, the situation has worsened in the Lao People’s Democratic Republic due to the significant depreciation of its currency, the kip. High global interest rates continue to be a major concern for regional economies due to their elevated debt levels.

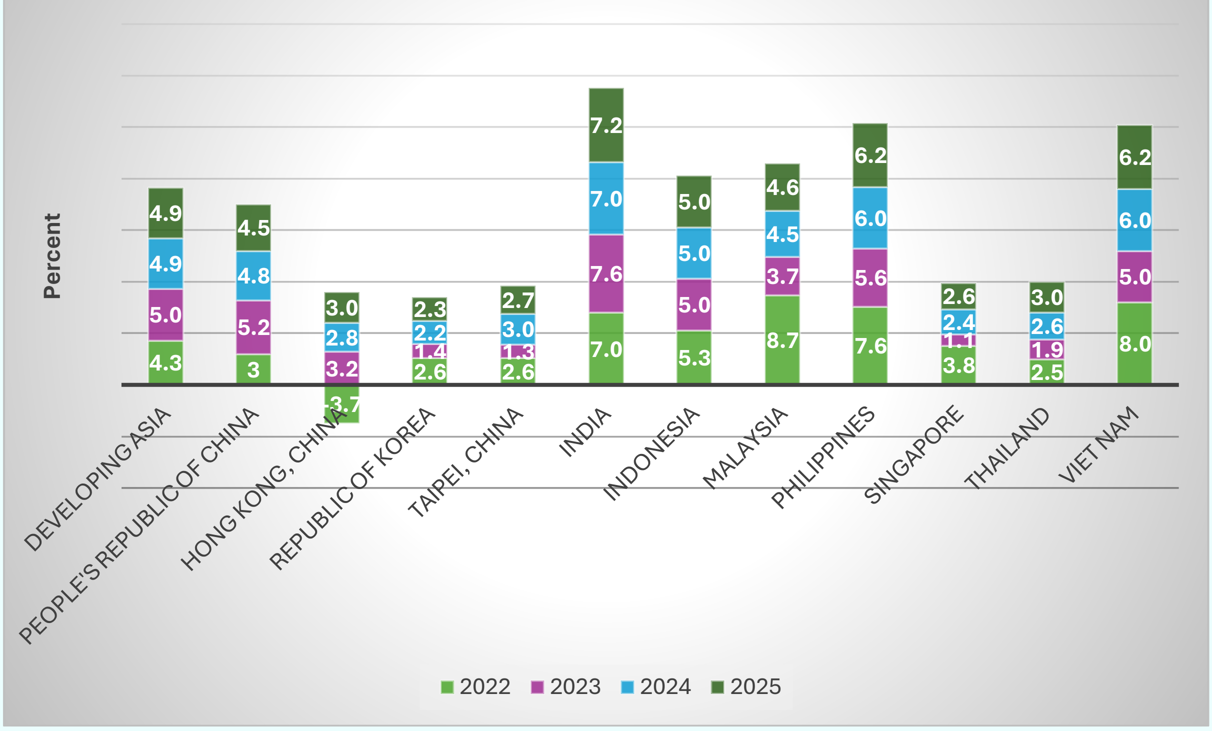
An escalation in conflict and geopolitical tensions, particularly in the Middle East, has caused disruptions to trade and shipping routes since October, resulting in supply chain interruptions and increased shipping costs, impacting trade and contributing to price pressures. The recent surge in shipping costs could potentially raise inflation in developing Asia by half a percentage point this year. Further escalation of these disruptions could reignite inflation and potentially dampen the region's growth prospects through tighter monetary and financial conditions.

The path of US monetary policy poses risks, with the Federal Reserve anticipated to begin easing its stance around mid-2024. Delays in easing could occur if disinflation in the US progresses slower than expected. Conversely, quicker-than-expected disinflation might prompt earlier easing, bolstering the growth outlook. Higher rates and tighter global financial conditions may have a slight effect on prices in developing Asia through imported inflation, while their impact on regional growth is expected to be less pronounced.

Intensified stress in the property market in the People's Republic of China could further dampen consumer sentiment and domestic demand, potentially leading to a prolonged economic downturn with adverse effects on the growth outlook and spillover effects to trading partners.

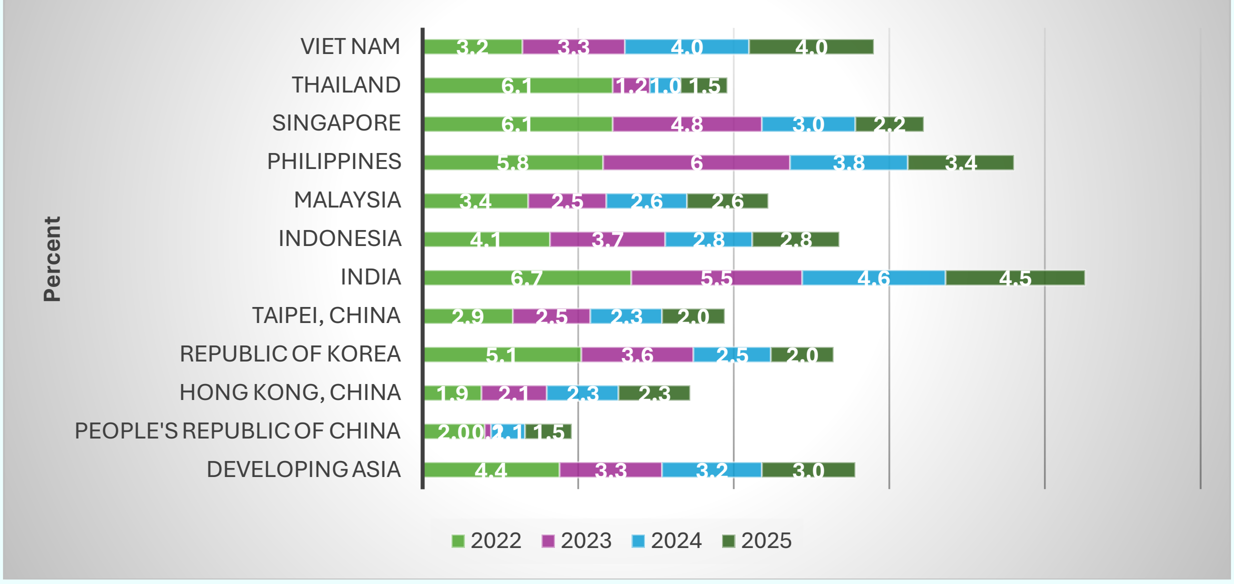
Adverse weather conditions, exacerbated by *El Niño*, pose threats to agriculture and other sectors, particularly in low-income economies heavily reliant on agriculture, where food insecurity is heightened.

Figure 25: GDP Growth - Major Economies of Developing Asia Estimates by AD0, ADB



Source: Asian Development Outlook April 2024, Asian Development Bank

Figure 26 : Inflation - Major Economies of Developing Asia - Estimates by ADO, ADB



Source: Asian Development Outlook April 2024, Asian Development Bank

Revival of Semiconductors Fuelled by Artificial Intelligence in Asia

The surge in artificial intelligence (AI) is propelling the recovery of Asia's semiconductor sector, albeit with varying impacts across different economies based on their areas of expertise. A special section in this report evaluates recent trends. South Korea is experiencing a surge in AI-related demand for memory chips, in which it is a prominent global producer, constituting approximately 50% of its total semiconductor exports in 2023. Taipei, China, another major player in semiconductor manufacturing, has experienced relatively less impact from AI-driven demand shifts due to its specialization in a broader range of semiconductor applications. Meanwhile, other East Asian economies are striving to increase the production of advanced microchips, and Southeast Asia stands to benefit from the AI boom through heightened demand for testing and packaging services.

(The full report is available on the ADB website at www.adb.org/outlook)

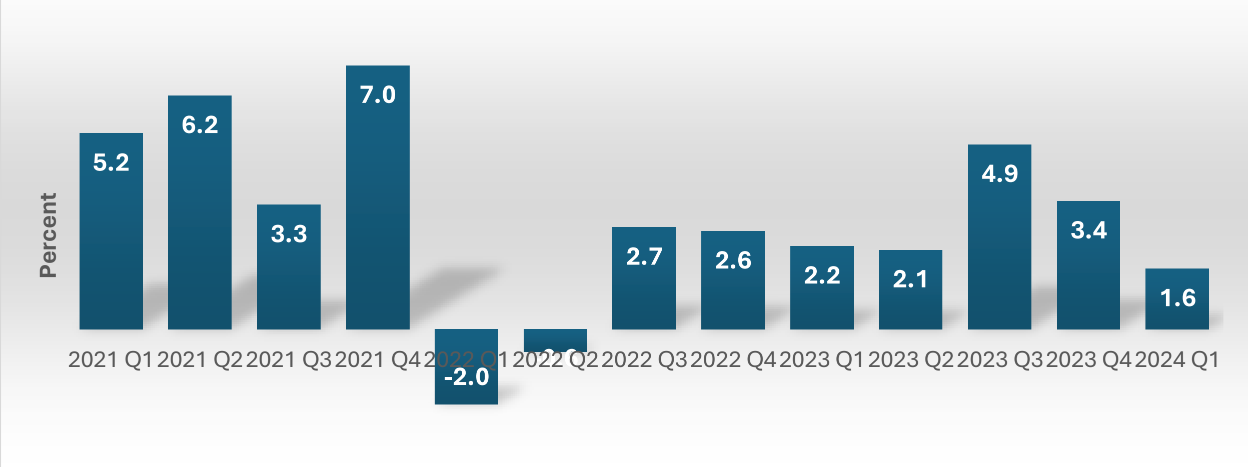
U.S. ECONOMIC GROWTH SLOWS: FIRST QUARTER INSIGHTS

The U.S. economy experienced a slowdown in the first quarter of 2024, falling short of economists' expectations. The Commerce Department reported that Gross Domestic Product (GDP) expanded at a rate of 1.6% (Figure 27), a deceleration from last year's rapid pace. This is lower than the previous quarter's 3.4%. While American consumers continued to spend notably on services like healthcare and insurance, a decrease in spending on goods such as cars and gasoline, along with a decline in exports and businesses' inventory investments, contributed to the overall growth slowdown.

Despite the slowdown, underlying factors suggest ongoing economic strength. Consumer spending was the main driver of growth, contributing 1.7 percentage points, followed by fixed investment. The housing market and non-residential investment also contributed positively. However, inventories and trade had a negative impact, together reducing growth by 1.2 percentage points. These factors are considered volatile and less indicative of the economy's near-term direction.

The US economy is currently at full employment, with unemployment consistently below 4%, and growth remains close to its potential, hovering around 2%. Despite inflation concerns, job growth and consumer spending are robust, contributing to the economy's resilience. However, there are challenges such as high interest rates, modest inventory accumulation, and reduced fiscal support for certain consumer groups. These factors, along with geopolitical tensions, contribute to slowing growth. Despite this, the outlook suggests that slow growth will help bring inflation closer to the Fed's target without causing a recession. While recession fears have eased, risks persist, including energy price spikes, changes in interest rates, and potential financial system issues. Overall, the economy is expected to perform reasonably well this year, with risks remaining tilted to the downside.

Figure 27: US GDP - Change from previous quarter



Source: United States Department of Commerce

INFLATIONARY TRENDS

US INFLATION

The U.S. Bureau of Labor Statistics reported that the Consumer Price Index for All Urban Consumers (CPI-U) rose by 0.4% in March 2024 (Figure 28), consistent with February's increase. Over the last 12 months, the overall index increased by 3.5% before seasonal adjustment. The rise was primarily driven by increases in the indexes for shelter and gasoline, with energy prices rising by 1.1 percent over the month. The food index increased by 0.1%, with food at home remaining unchanged while food away from home rose by 0.3%.

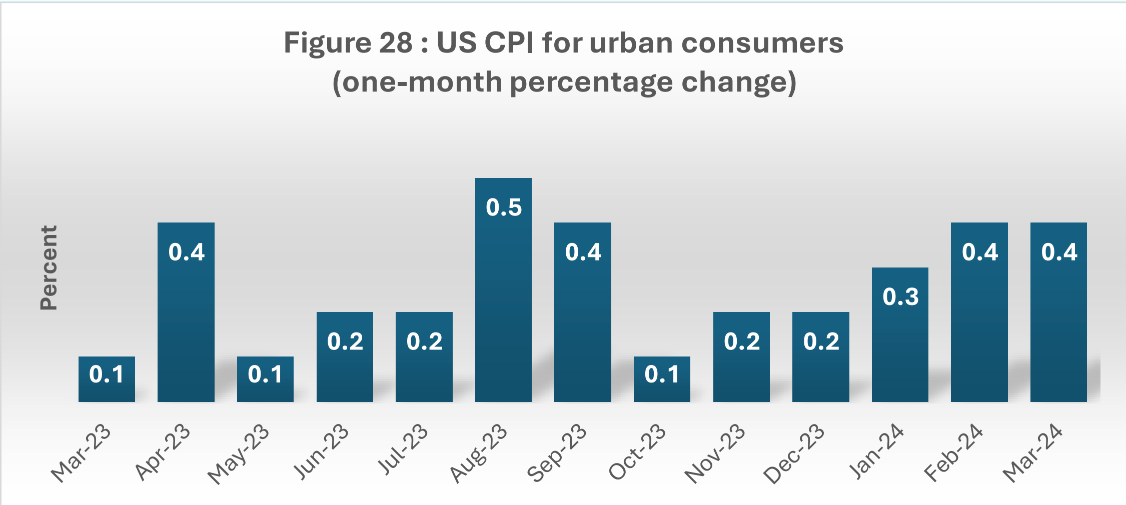
The index for all items less food and energy also rose by 0.4% in March, with notable increases in categories such as shelter, motor vehicle insurance, medical care, apparel, and personal care. However, some indexes, including used cars and trucks, recreation, and new vehicles, decreased over the month.

Over the last 12 months, the ‘all items index’ rose by 3.5%, with the ‘all items’ less food and energy index rising by 3.8% (Figure 29). The energy index increased by 2.1% over the past year, while the food index increased by 2.2%.

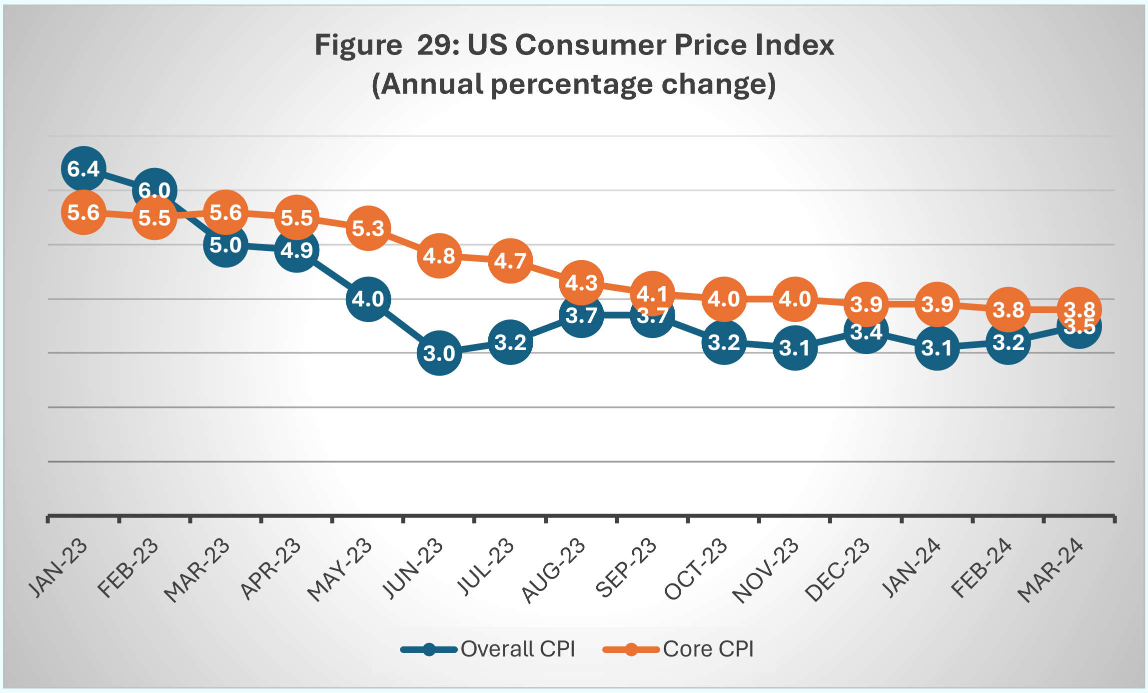
In terms of energy, the energy index rose by 1.1% in March, with the gasoline index increasing by 1.7%. The index for electricity rose by 0.9%, while the index for natural gas remained unchanged.

The index for all items less food and energy rose by 3.8% over the past 12 months, with notable increases in categories such as shelter, motor vehicle insurance, medical care, recreation, and personal care.

Overall, the Consumer Price Index data for March indicates a continuation of inflationary pressures, with increases observed across various categories.



Note: Figures are seasonally adjusted
Source: US Bureau of Labor Statistics, US Department of Labor



Note: Figures are not seasonally adjusted
Source: US Bureau of Labor Statistics, US Department of Labor

The Inflation Thief Rises Again

The *Wall Street Journal* critiques the prevailing narrative of triumph over inflation in the US, pointing out the Consumer Price Index (CPI) rising for the third consecutive month in March. The 0.4% increase, driven by factors like shelter and gasoline costs, contradicts claims of inflation being transitory. The Federal Reserve's favoured inflation measure, "core" personal consumption expenditures, is also noted to be lower than CPI but still significant at 2.8%.

Fed Chairman Jerome Powell's caution against repeating past inflationary mistakes is highlighted, emphasizing the need for vigilance despite strong job markets and consumer spending. The piece suggests that the Fed's monetary policy may not be as tight as claimed, evidenced by loose financial conditions and rising commodity prices.

The editorial stresses the importance of maintaining the Fed's inflation-fighting credibility, suggesting caution regarding future rate cuts. It also points out the political implications of inflation, noting President Biden's claims regarding wage increases versus price rises, which are refuted by data showing stagnant real hourly earnings.

Criticism is directed towards Biden's economic priorities, which the editorial argues do not address inflation effectively. The piece concludes by challenging Biden's assertions regarding inflation's causes and remedies, suggesting a need for more effective policy responses.

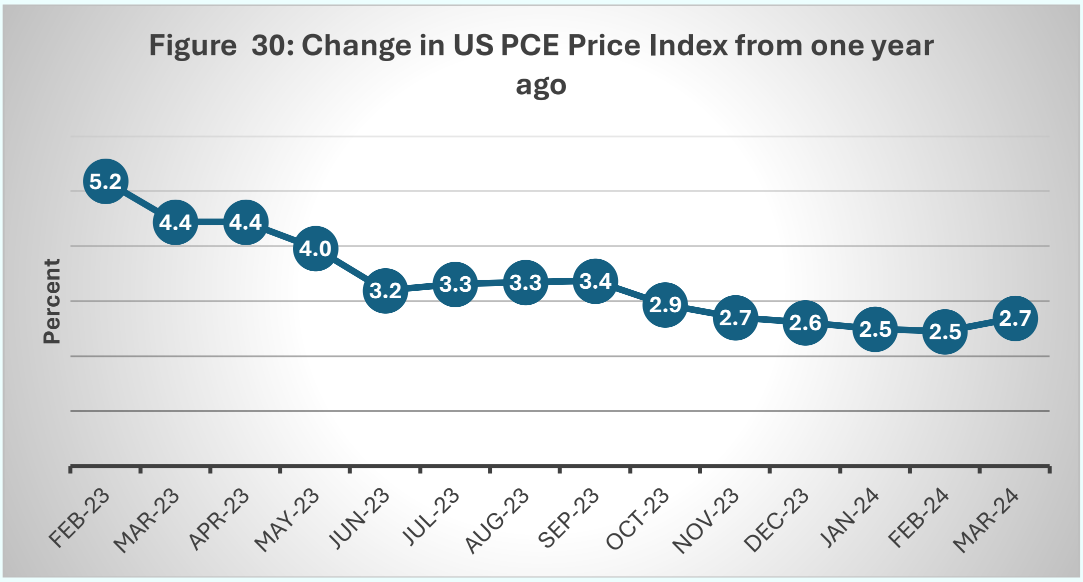
(This is a summary of the opinion piece by The Editorial Board, Wall Street Journal, April 10, 2024. The full article is available at: https://shorturl.at/wzQ68)

US Personal Consumption Expenditure Price Index

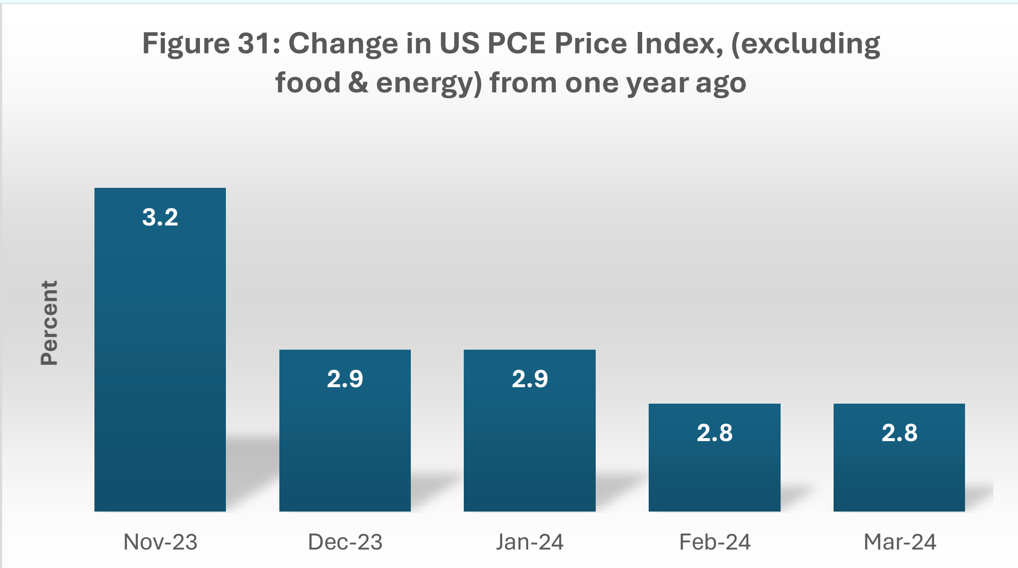
According to the US Bureau of Economic Analysis, the US PCE price index increased 2.7% in March 2024 from a year ago, an uptick from 2.5% in February 2024 (Figure 30). The core PCE price index - the US Federal Reserve's preferred inflation gauge - however, remained constant at 2.8% in March 2024 (Figure 31). From the preceding month, the PCE price index for March increased 0.3% (Figure 32). Prices for services increased 0.4% and prices for goods increased 0.1%. Food prices decreased less than 0.1% and energy prices increased 1.2%. Excluding food and energy, the PCE price index increased 0.3%.

In a Bloomberg article "Keep the faith on Inflation but prepared to be disappointed" (April 26, 2024 https://shorturl.at/grtL4), Jonathan Levin discusses the current state of inflation in the US, and its implications for monetary policy. While there is some relief that the worst of the inflation problem is behind us, unfavourable base effects mean that meeting the Fed's year-end forecast for core PCE inflation of 2.6% would require monthly reports of under 0.2%, which is unlikely. Consequently, the hoped-for three rate cuts this year are unlikely to materialize, with one cut being the most probable outcome, and two being the best-case scenario. Factors contributing to inflation include lagging housing costs, financial services, and healthcare, which have been affected by government negotiations and pandemic-induced wage inflation. However, these drivers are expected to cool off by the end of the year and into 2025, although the timing of this cooling effect was underestimated. Additionally, auto insurance costs have significantly impacted the consumer price index due to surges in car and parts prices in 2021. The author challenges the narrative that inflation is solely driven by excess demand and the wealth effect from a hot stock market, citing GDP expansion at a reasonable pace in the first quarter and relatively modest consumption spending. The parts of the economy contributing most to inflation, such as housing, healthcare, financial services, and insurance, do not necessarily correlate with the strongest sectors of the real economy.

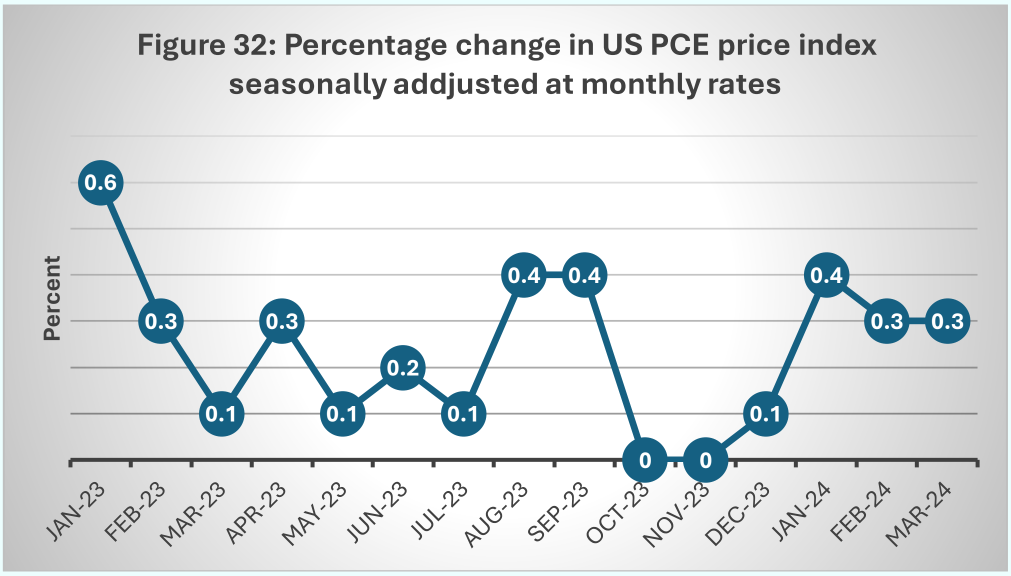
This suggests that the economy may not be overheating as some suggest. Levin highlights the need for caution in interpreting near-term data and the importance of maintaining optimism despite market pessimism.



Source: US Bureau of Economic Analysis



Source: US Bureau of Economic Analysis



Source: US Bureau of Economic Analysis

INFLATION IN OTHER ECONOMIES

Headline inflation significantly receded from levels observed a year earlier across most economies, albeit remaining above targets. Euro area inflation moderated to 2.4% in March from 2.6% in February. In the UK, CPI inflation eased to 3.2% in March. Japan's inflation (CPI excluding fresh food) declined to 2.6% in March from 2.8% in February.

In Emerging Market Economies (EMEs), inflation moderated in Brazil, China, and South Africa in March. In Russia, inflation remained stable for the second consecutive month in March. Core and services inflation also moderated across major Advanced Economies (AEs) but remained higher than headline inflation.

COMMODITY PRICES SURGE IN MARCH

Global commodity prices experienced a surge in March 2024, primarily fuelled by increases in crude oil and metals. Consequently, the Bloomberg commodity price index rose by 2.9% month-on-month (m-o-m). This upward trajectory in commodity prices continued into April, particularly driven by further increases in crude oil and gold prices. In March, Brent crude oil prices climbed by 2.9%, driven by escalating tensions in the Middle East and forecasts of an oil market deficit due to anticipated voluntary cuts by OPEC+ members in 2024. Prices further escalated in April as markets factored in new geopolitical conflicts in Syria and Israel. The Food and Agriculture Organization’s (FAO’s) food price index saw a 1.1% increase m-o-m in March 2024, marking the first rise since July 2023. This was primarily led by a surge in vegetable oil prices (8.0%), partially offset by a decline in sugar prices (-5.4%). Gold prices surged in March, ending 8.6% higher compared to February, and continued their upward trend in April, driven by safe-haven demand.

LATIN AMERICA INFLATION PRESSURES EASE

In Latin America, inflationary pressures have eased overall due to lower global goods prices and restrictive monetary policies. Brazil, Chile, and Peru have seen inflation return to target ranges, although it remains above the midpoint. Inflation in Colombia remains high at 7.4% in March, well above its 3% target. Mexico's inflation is at 4.4%, still above its target range but by a smaller margin. Inflation expectations for the next 24 months are within target ranges but often above the midpoint. Argentina is an outlier due to significant currency devaluation, leading to high inflation, but monthly inflation is beginning to slow down.

Policy rate easing cycles are underway across several Latin American countries in response to lower inflation. Mexico initiated rate cuts in March, following other countries like Brazil, Chile, and Peru. Consensus forecasts suggest that rate easing cycles will conclude this year in Brazil, Chile, and Peru, while Mexico and Colombia are expected to implement rate cuts at a more gradual pace through 2025 due to persistently high inflation. These easing cycles have started before those of the US Federal Reserve, which reflects the opposite direction of monetary policy that began in 2021. Fitch Ratings predicts that the Fed will cut rates by 75 basis points in 2024 and 125 basis points in 2025, according to its March Global Economic Outlook.

In smaller economies across the region, many have achieved their inflation targets earlier and from lower peaks, resulting in broadly stable inflation. In recent months, inflation has decreased below the 4% targets in countries such as the Dominican Republic, Guatemala, and Paraguay, and below the 4.5% target midpoint in Uruguay. Costa Rica has faced significant deflation due to a substantial appreciation of its exchange rate, amounting to 25% since mid-2022.

With rate cuts starting earlier, many countries, especially smaller economies, now have narrower interest rate differentials with the US Federal Reserve compared to recent times.

This could restrict the room for further policy easing as policymakers assess the effects on exchange rates. Chile and the Dominican Republic have experienced currency pressures, with depreciations of 24% and 8% year-on-year respectively, up to March 2024. In contrast, the Colombian and Mexican pesos have appreciated, partly due to larger interest rate differentials. In Guatemala, where the policy rate is below that of the Fed, the transmission of lower rates has been weak, resulting in limited impacts on lending rates.

Geopolitical tensions in Europe and the Middle East carry the risk of influencing global commodity prices, which could hinder the sustained decrease in inflation. Any disruptions to vital trade routes such as those in the Red Sea and the Panama Canal could further exacerbate upward pressure on core goods inflation.

(This is a summary of the article "Sovereigns Dashboard: Latin America Inflation Pressures Ease" by Christopher Dychala and Shelly Shetty, Fitch Ratings, April 15, 2024. The full article is available at: https://shorturl.at/fsNR9)

MONETARY POLICY

MINUTES OF THE FOMC AND THE BOARD OF GOVERNORS MEETING OF THE US FEDERAL RESERVE SYSTEM

The Federal Open Market Committee (FOMC) minutes for the meeting held during March 19–20, 2024, highlight several key points regarding financial markets and open market operations:

- **Financial Conditions**: U.S. financial conditions eased modestly since the last meeting, with higher equity prices offsetting increases in interest rates. Nominal Treasury yields rose, driven by a rise in inflation compensation at shorter maturities and real rates at longer maturities.
- **Policy Rate Expectations**: Expectations for the federal funds rate shifted up significantly, reflecting stronger economic data and slower disinflation. Investors also adjusted expectations for rate cuts, with fewer anticipating substantial cuts.
- **Balance Sheet Policy:** Survey responses suggested the Committee's slowing of balance sheet runoff would start slightly later than expected, around midyear. The majority expected runoff to continue for some time, thereafter, resulting in a slightly smaller balance sheet size at the end of runoff.
- **Equity Prices:** Broad equity prices reached new highs, primarily driven by large-cap technology companies. Bank equity prices reflected renewed market attention on challenges faced by the regional banking sector, particularly in commercial real estate exposures.
- **Global Financial Markets:** Expected policy rate paths in advanced foreign economies (AFEs) shifted up. The Bank of Japan's announcement to discontinue negative short-term interest rates and yield curve control had limited effects on global financial markets.
- **Money Markets:** U.S. money markets were stable, with less upward pressure on repo rates. Usage of the overnight reverse repo agreement (ON RRP) facility continued to decline, with projections suggesting balances might stabilize at zero or a low level.

- **Reserve Conditions:** Despite uncertainty about reserve demand, indicators suggested reserves remained abundant. However, stabilization of ON RRP balances could lead to rapid declines in reserves.
- **Ratification:** The Committee ratified domestic transactions over the intermeeting period, with no intervention operations in foreign currencies.

Overall, the minutes reflect a nuanced view of financial market developments and open market operations, with adjustments in policy rate expectations and balance sheet policies amidst stable money markets and abundant reserves.

The participants discussed the potential slowdown of balance sheet reduction in line with plans outlined in May 2022. Given the significant decline in the Federal Reserve's securities holdings since June 2022 and the prospect of a more rapid decline in reserve balances, future decisions on adjusting the pace of runoff will be informed by these deliberations. While no decisions were made, staff presentations reviewed past balance sheet runoff experiences and explored different scenarios for slowing the pace of runoff.

Participants generally favored a cautious approach to further runoff, emphasizing the need for a smooth transition from abundant to ample reserve balances. Slowing the pace of runoff would provide additional time to assess market conditions and allow for adjustments in short-term funding markets, reducing the risk of undue stress. Most participants preferred reducing the monthly pace of runoff by roughly half while maintaining existing caps on agency mortgage-backed securities and adjusting redemption caps on U.S. Treasury securities.

Discussions also touched on longer-term aspects of balance sheet policy, including uncertainties surrounding the level of reserves consistent with operating in an ample-reserves regime. Participants identified various indicators to monitor market conditions and discussed aiming for a portfolio consisting primarily of Treasury securities in the long run.

Additionally, during the FOMC meeting, participants reviewed the economic situation, noting solid but slightly slower U.S. GDP growth in the first quarter and mixed labor market indicators. The staff's economic outlook for March indicated a stronger projection, primarily due to increased immigration, with forecasts suggesting output growth remaining below potential. Inflation forecasts predicted a slight decline in 2024, with both total and core PCE price inflation expected to end the year around 2.5%.

Participants also discussed current economic conditions and the outlook, noting progress toward the Committee's 2% inflation objective but expressing concerns about persistent harm from elevated inflation. They discussed factors influencing inflation and uncertainties surrounding the economic outlook, including geopolitical risks and energy price increases.

The Committee policy actions reiterated a commitment to carefully assess incoming data and the evolving outlook regarding the federal funds rate. The Committee affirmed its commitment to continue reducing holdings of Treasury securities and agency debt and mortgage-backed securities. It stands ready to adjust monetary policy as necessary to meet its goals, considering various factors including labor market conditions, inflation pressures, and international developments.

(This is a summary of the FOMC minutes. The full document is available at: https://shorturl.at/rzBF4)

BEYOND THE SOFT LANDING: CHALLENGES AND CONTRADICTIONS IN THE US ECONOMY

In late 2023, the US economy seemed on track for a smooth transition, with inflation easing and economic growth stabilizing after Federal Reserve interest rate hikes. However, 2024 has brought surprises: rapid economic expansion, unexpectedly strong job gains, and stalled progress on inflation. This scenario challenges the idea of a "soft landing" where inflation slows as growth calms without recession. Instead, analysts fear the economy may be booming with prices rising faster than usual, leading to concerns for the Federal Reserve.

While high inflation may benefit households with wage increases and job opportunities, it complicates the Fed's goal of maintaining price stability. If inflation remains elevated, the Fed may keep interest rates high to cool the economy. Recent data show inflation persisting near 4%, while job growth remains robust. Economists suggest the economy may be experiencing an "inflationary boom" rather than a soft landing.

Initially, Fed officials projected three rate cuts by the end of 2024, but as inflation and economic momentum persist, investors are revising expectations downward. Market indicators suggest fewer rate cuts than previously anticipated. Fed policymakers have become more cautious about lowering borrowing costs, reflecting uncertainty about the economy's trajectory.

Federal Reserve Chair Jerome Powell recently indicated that policymakers would delay interest rate cuts due to persistent inflationary pressures. Powell highlighted the lack of progress in achieving the Fed's 2% inflation target, suggesting it may take more time for officials to be confident in the trajectory of price growth. He emphasized the need to let current policy measures continue working and to rely on evolving data and outlook to guide future decisions. Powell's remarks mark a departure from previous expectations of imminent rate cuts, with policymakers now potentially considering reductions later in 2024, if at all. Despite earlier forecasts of three rate cuts, market expectations have shifted to anticipate only one or two cuts this year. Powell's statements, signalling a lack of urgency to reduce rates, led to a rise in Treasury yields, reflecting market sentiment. The resilience of the US economy, characterized by robust job growth and strong retail sales, has surprised Fed officials, complicating the inflation outlook. While some anticipate inflation to moderate with current interest rates, persistent price pressures could prolong the maintenance of high borrowing costs. Overall, Powell's remarks underscore the Fed's cautious approach to monetary policy amid evolving economic conditions.

ECB HOLDS STEADY ON INTEREST RATES, EYES INFLATION TARGET

The Governing Council of the European Central Bank opted to maintain the status quo on the three key ECB interest rates on 11 April 2024. Recent data aligns with the Council's prior assessment of the medium-term inflation outlook, indicating a decline in inflation primarily driven by lower food and goods prices. Various indicators of underlying inflation are showing signs of easing, with wage growth gradually moderating and businesses absorbing some of the increased labour costs through their profits. Financing conditions remain tight, and previous interest rate hikes continue to dampen demand, thereby contributing to the downward pressure on inflation. However, robust domestic price pressures persist, particularly in services, sustaining high services price inflation.

The Governing Council is committed to restoring inflation to its medium-term target of 2% in a timely manner. It views the current ECB interest rates as effectively contributing to the ongoing disinflation process. Future decisions by the Council will ensure that policy rates remain sufficiently restrictive for as long as necessary. If the Council's updated assessment of the inflation outlook, underlying inflation dynamics, and the effectiveness of monetary policy transmission further strengthen confidence in inflation convergence to the target, a reduction in the current level of monetary policy restraint may be warranted. Nonetheless, the Council emphasizes a data-dependent and meeting-by-meeting approach to determining the appropriate degree and duration of restraint, refraining from pre-committing to a specific rate trajectory.

Key ECB Interest Rates

The interest rate for the main refinancing operations, as well as the rates for the marginal lending facility and the deposit facility, will stay the same at 4.50%, 4.75%, and 4.00%, respectively.

Economic activity

The first quarter saw continued weakness in the economy, particularly in manufacturing, while services remained resilient. Despite subdued production in energy-intensive sectors, surveys indicate a gradual recovery throughout the year, led by services. This recovery is expected to be supported by rising real incomes due to lower inflation, increased wages, and improved terms of trade. Additionally, euro area exports are projected to increase as the global economy rebounds and spending shifts toward tradables. Over time, monetary policy is expected to have less of a negative impact on demand.

The unemployment rate is currently at its lowest level since the start of the euro, but the tightness in the labour market is gradually easing, with fewer job vacancies being posted by employers.

To sustainably address disinflation, governments are advised to phase out energy-related support measures. Full implementation of the EU’s revised economic governance framework is recommended to reduce budget deficits and debt ratios consistently. National fiscal and structural policies should focus on enhancing productivity and competitiveness to alleviate medium-term price pressures. At the European level, effective implementation of the Next Generation EU program and strengthening the Single Market would encourage innovation and investment in green and digital transitions. Completing the banking union and capital markets union would facilitate significant private investment, as emphasized by the Governing Council in its statement of March 7, 2024.

Inflation

In March, Eurostat's flash estimate showed a decline in inflation from 2.6% in February to 2.4%. Notably, food price inflation decreased to 2.7%, and energy price inflation improved to -1.8%. Goods price inflation also declined to 1.1%, while services price inflation remained high at 4.0%.

Underlying inflation measures decreased further in February, indicating diminishing price pressures. Although domestic inflation remained high, wage and unit profit growth slowed in the last quarter of 2023. However, unit labour costs remained elevated due to weak productivity growth. Recent indicators suggest further moderation in wage growth.

Inflation is expected to hover around current levels in the coming months before declining to the target next year. This decline is attributed to weaker growth in labour costs, the effects of restrictive monetary policy, and diminishing impacts of the energy crisis and the pandemic. Long-term inflation expectations remain stable, with most indicators around 2%.

Risk assessment

The risks to economic growth in the euro area are predominantly tilted to the downside. Factors such as stronger-than-expected effects of monetary policy, a weaker global economy, or a slowdown in global trade could lead to lower growth. Geopolitical tensions, including the war in Ukraine and conflict in the Middle East, pose significant risks by undermining confidence and disrupting global trade.

However, there are also upside risks to growth if inflation decreases rapidly, leading to increased spending driven by rising real incomes. Additionally, stronger-than-expected growth in the world economy could contribute to higher growth in the euro area.

Regarding inflation, heightened geopolitical tensions, particularly in the Middle East, could elevate energy prices and freight costs, potentially leading to higher-than-expected inflation. Other factors such as unexpected increases in wages or resilient profit margins could also contribute to higher inflation. Conversely, inflation may surprise on the downside if monetary policy dampens demand more than anticipated or if there are unexpected deteriorations in the global economic environment.

Financial and monetary conditions

Since the March meeting, market interest rates have generally remained steady, and financing conditions continue to be restrictive. Business loan interest rates slightly decreased to 5.1% in February, while mortgage rates also declined to 3.8% during the same period.

Despite these reductions, borrowing rates remain relatively high, prompting firms to further reduce their loan demand in the first quarter of 2024, as indicated by the latest bank lending survey. Credit standards remained tight, with slight tightening observed for business loans and moderate easing for mortgages.

In this environment, credit dynamics remain subdued. Bank lending to firms showed a slight increase in February, growing at an annual rate of 0.4 percent compared to 0.2 percent in January. Similarly, growth in loans to households remained unchanged at 0.3 percent annually in February. Broad money, measured by M3, grew at a subdued rate of 0.4 percent in February.

Conclusion

The Governing Council decided to maintain the current ECB interest rates, emphasizing their commitment to bringing inflation back to the two percent medium-term target. They believe that the current interest rates are aiding the disinflation process. Future decisions will aim to keep policy rates sufficiently restrictive as needed. However, if the inflation outlook improves and monetary policy transmission strengthens, they may consider reducing the current level of policy restriction. They will continue to adopt a data-dependent approach in determining the appropriate level and duration of policy restriction, without pre-committing to a specific rate path. They also remain prepared to adjust all policy instruments within their mandate to ensure inflation returns to the target and to uphold the smooth functioning of monetary policy transmission.

(This is a summary of the Combined monetary policy decisions and statement, 11 April 2024, European Central Bank. The full document is available at: https://shorturl.at/givHP)

John Authers, in his *Bloomberg* column (*Points of Return* on 12 April 2024) discusses the recent monetary policy decisions of the European Central Bank (ECB) under Christine Lagarde's leadership and the comparison with the Federal Reserve's actions. Despite the European economy's weaker performance compared to the US, Lagarde confirmed the expectation of a rate cut in June, citing the need to address persistent inflationary pressures, particularly in services. Authers notes that while the ECB's move might cause fluctuations in the euro's value against the dollar, it aligns with the global trend of central banks responding to similar economic challenges. He highlights the differences in economic conditions between the US and Europe, emphasizing Europe's greater need for monetary stimulus due to ongoing recessionary indicators and tighter credit standards in the banking sector. Authers concludes that, so far, Lagarde and the ECB have managed the delicate balance of monetary policy adjustments effectively amidst uncertain economic conditions.

INTERNATIONAL TRADE

WTO'S GLOBAL TRADE OUTLOOK & STATISTICS APRIL 2024

WTO's forecast for world merchandise trade volume indicates a 2.6% growth in 2024 and a further increase of 3.3% in 2025, following a contraction in 2023. Despite challenges such as high energy prices and inflation affecting demand for manufactured goods, gradual recovery is expected over the next two years as inflationary pressures ease and household incomes improve.

Although overall merchandise trade declined by 1.2% in 2023, there were significant regional variations. Import demand fell sharply in Europe, declined in North America, remained flat in Asia, and increased in major fuel-exporting economies. These trends affected export volumes in Europe and Asia differently, with Asia expected to contribute more to trade volume growth in 2024 and 2025.

Despite some fluctuations, merchandise trade volume remained above pre-pandemic levels throughout 2023, with a slight decrease in Q4 compared to Q1 2022. The peak in trade volume in Q3 2022 might have been influenced by sharp increases in commodity prices, which could have affected trade statistics. Overall, trade is viewed as plateauing in 2023 rather than experiencing a significant decline.

In 2023, the US dollar value of world merchandise trade decreased by 5% to US$24.01 trillion, with notable declines in exports from countries like Russia, China, Japan, and South Korea. However, some economies experienced smaller declines or even modest increases in exports. Merchandise imports were down in most economies due to falling commodity prices, although some energy-exporting countries saw increases in imports.

In contrast, the US dollar value of world trade in commercial services increased by 9% to US$7.54 trillion in 2023, driven by the recovery in spending on travel and other services post-COVID-19. The increase in services trade partly offset the contraction of goods trade, resulting in a modest 2% decline in world goods and commercial services exports.

Despite slowing growth, world GDP remained relatively stable in 2023, with real GDP growth decreasing to 2.7% from 3.1% in the previous year. GDP growth is expected to remain mostly stable over the next two years, with a slight dip to 2.6% in 2024 before returning to 2.7% in 2025.

However, there is a high degree of uncertainty associated with the current forecast due to various risk factors in the global economy, including regional conflicts, geopolitical tensions, and rising protectionism. The uncertainty is represented by error bars in the forecast, which indicate a potential range of outcomes. If the current forecast is realized, trade volume growth in 2024 could range from a high of 5.8% to a low of -1.6%.

Drivers of trade

In recent years, global trade has faced challenges from a "poly-crisis," including supply and demand shocks from the COVID-19 pandemic, supply chain disruptions, and increased trade policy uncertainty. Despite these challenges, global merchandise trade has shown resilience, with trade volume in Q4 2023 up 6.3% compared to pre-pandemic levels and up 19.1% compared to 2015. Commercial services trade also grew by 21% compared to 2019.

The onset of COVID-19 led to a significant decline in merchandise trade volume in Q2 2020, followed by a rebound in Q1 2021 surpassing pre-pandemic levels. Trade played a vital role in delivering essential goods during the pandemic and the war in Ukraine.

Macroeconomic conditions, including inflationary pressures and the war in Ukraine, constrained real wages and incomes in 2022 and 2023, reducing demand for imports. High energy prices impacted production costs, especially for energy-intensive tradable products. Inflation also affected trade through product composition and geographical distribution, leading to a stronger contraction in trade relative to GDP, particularly in the EU.

Lower inflation in 2024 is expected to boost consumption of manufactured goods and merchandise trade volume growth. Policymakers may cut interest rates, stimulating investment spending and further strengthening consumption and investment in the EU in 2025.

Following the war in Ukraine, primary commodity prices experienced a sharp increase as economies sought to secure essential natural resources and food supplies. This surge in prices contributed to inflation, which was already on the rise in advanced economies due to supply chain disruptions and pandemic-related policy stimulus. Although commodity price indices have moderated from their peaks in late 2022, most remain significantly higher than pre-pandemic levels as of Q1 2024.

In the first two months of 2024, global energy prices decreased by 41% on average from their recent peak but remained 30% higher than in 2019. Crude oil prices also declined by 30% from their peak in 2022 but remained 29% above 2019 levels. However, natural gas prices in Europe and Japan remained substantially elevated compared to 2019, with increases of 84% and 35%, respectively.

Agricultural products and inputs saw significant price increases in 2024 compared to 2019, with food, grains, and fertilizers up by 35%, 45%, and 44%, respectively. High energy prices, particularly for natural gas in Europe, continued to impact EU economies such as Germany, which produce and export energy-intensive manufactured goods.

In response to inflationary pressures, central banks in advanced economies have raised interest rates since the beginning of 2022. Rates in the United States and the euro area have increased significantly, with the U.S. rate reaching 5.4% by August 2023 and the euro area rate at 4.5% by October 2023. Many developing economies have also raised rates to their highest levels in years, including Brazil (currently 11.8%) and South Africa (currently 8.3%).

Europe played a significant role in both the growth and decline of world trade volume in recent years. In 2022, Europe made the largest contribution to global trade volume growth, but in 2023, it was primarily responsible for the decline. This was driven by fluctuations in commodity prices, particularly in natural gas markets, affecting the region disproportionately. The 1.2% contraction in merchandise trade volume in 2023 was mainly due to Europe, which subtracted 1.7 percentage points from global import growth and reduced global export growth by 1.0 percentage points.

Although Asian economies continued to supply the largest share of manufactured goods globally in 2023, their flat trade volume growth resulted in a minimal contribution to overall trade growth. Other regions, including South America, Africa, the Middle East, and the CIS region, made a positive contribution to import growth but continued to weigh on exports.

If the WTO's trade forecast for 2024 is realized, Asia is expected to contribute more significantly to merchandise trade growth than in the past two years. Asia is projected to contribute around 45% to world exports growth and 81% to world imports growth in 2024. Other regions are also expected to make positive contributions to export and import growth, although smaller in comparison.

Discrepancies between export and import volume growth have been unusually large in recent years, possibly due to fluctuations in commodity prices not being fully reflected in import prices. However, these discrepancies are expected to fade once the recent surge in inflation subsides.

Exports from Asia surged during the COVID-19 pandemic but have since plateaued, while exports from the CIS region saw a significant decline. In terms of imports, the CIS region recorded the largest increase, followed by South America and the Middle East. Europe's imports remained relatively unchanged compared to 2019, while Africa saw a decline in imports despite increased export revenue from higher commodity prices.

If the current projections by the WTO hold true, Africa is poised to witness a more rapid expansion in exports compared to any other region in 2024, with an estimated growth rate of 5.3%. This growth is significant considering the continent's exports remained at a low level following the COVID-19 pandemic. Similarly, the CIS region is anticipated to experience export growth slightly below 5.3%, also from a reduced starting point due to a sharp decline in exports following the onset of the war in Ukraine. Moderate export growth of approximately 3.5% is expected for North America, the Middle East, and Asia, while South America is projected to grow at a slower pace of 2.6%. European exports, on the other hand, are once again forecasted to trail behind other regions, with an expected growth rate of just 1.7%.

Relationship between trade and GDP

Over the years, the relationship between global goods trade and income fluctuations has changed. In the 1990s, the volume of merchandise trade grew more than twice as fast as real world GDP, and in the early 2000s, it grew 1.5 times as fast. However, since 2010, trade and GDP have grown at roughly the same rate on average, despite various economic shocks. The ratio of world merchandise trade volume growth to world GDP growth at market exchange rates has declined from 2.3-to-1 in the 1990s to 1.5-to-1 in the 2000s. Since 2010, this ratio has fallen further to an average of 0.9-to-1, with fluctuations becoming more pronounced in later years. Although the trade contraction in 2023 has impacted the five-year average ratio, if the WTO's forecast holds true, it is expected to rebound to 0.94-to-1 in 2024.

Risks to the outlook

The trade environment in 2023 is expected to improve somewhat in 2024 and 2025, potentially boosting goods trade. However, geopolitical tensions and policy uncertainty could limit any rebound. While export growth may improve in many economies as external demand for goods increases, food and energy prices could face spikes due to geopolitical events. Central banks in advanced economies face challenges in deciding the appropriate pace of interest rate cuts, which could lead to financial volatility if miscalculated. Risks are mainly tilted to the downside, though there's potential for upside if trade in the European Union recovers faster than expected. The resilience of global trade is tested by disruptions on key shipping routes, like the Panama and Suez Canals. These disruptions have led to trade rerouting, increasing journey times and fuel costs. There are signs of trade flows reorienting along geopolitical lines, with increased trade policy uncertainty. Foreign direct investment is also shifting toward perceived friendly economies, particularly in strategic sectors.

(WTO's Global Trade Outlook & Statistics April 2024 is available at: https://www.wto.org/english/res_e/booksp_e/trade_outlook24_e.pd)

UNCTAD'S APRIL 2024 TRADE AND DEVELOPMENT REPORT

The UNCTAD's Trade and Development Report for April 2024 highlights that while the global economy grew by 2.7% in 2023, surpassing the threshold often associated with a recession, current trends suggest a slowing down. Despite discussions focusing on inflation and anticipated monetary easing, challenges such as trade disruptions, climate change, low growth, underinvestment, and inequalities are becoming more serious. Projections indicate a global growth rate of 2.6% in 2024, marking the third consecutive year of slower growth compared to pre-pandemic levels. Concerns arise as global growth is largely driven by private consumption, potentially fuelled by borrowing, given the return of savings to pre-pandemic levels. The reliance on debt accumulation introduces tension between financial market stability and other macroeconomic goals, impacting public sector funding and private investment performance.

The report highlights a mixed scenario. While some economies, including major players like China, India, Indonesia, the Russian Federation, and the United States, managed to evade the financial troubles anticipated earlier, global economic growth still hovered around 2.7%, just above the threshold often associated with a recession.

However, this positive momentum is now diminishing. Policy discussions predominantly focus on inflation, with expectations of monetary easing to address economic challenges. Meanwhile, pressing issues such as trade disruptions, climate change, low growth, underinvestment, and inequalities are becoming more severe.

UNCTAD's latest projections suggest a slight slowdown in global growth to 2.6% in 2024, marking the third consecutive year of slower growth compared to pre-pandemic levels. Of particular concern is the reliance on private consumption to drive growth, which is expected to outpace total income growth. This pattern, observed since the early 2000s, often leads to increased borrowing to finance consumption, especially as savings levels return to pre-pandemic norms.

In terms of policy responses, the reliance on debt accumulation, both in the private and public sectors, presents a dual challenge. First, prioritizing financial market stability often comes at the expense of public sector funding, as government deficits face scrutiny from bond markets and international financial institutions. Second, the focus on fast financial market value creation tends to benefit financial asset holders while limiting fixed investment, contributing to sluggish private investment globally.

The report underscores the need for a balanced approach to address economic challenges, emphasizing the importance of tackling pressing issues such as trade disruptions, climate change, and inequalities, while also ensuring sustainable financial market stability and fostering investment.

The report underscores the pressing need for a coordinated effort and increased financial resources to tackle challenges such as climate change and development. Carbon emissions are on the rise due to a lack of coordinated plans for transitioning energy systems to renewables.

Inequality has worsened post-pandemic, with workers receiving a smaller share of income in both developed and developing countries. Moreover, years of underinvestment pose a significant obstacle to achieving sustainable development goals.

While a reduction in interest rates in 2024 may alleviate pressure on private and public budgets globally, relying solely on monetary policy to address key global challenges is unrealistic. Climate change, inequality, and ongoing sovereign debt crises demand a comprehensive approach. This approach should involve supply-side policies aimed at reviving productive investment and demand-side policies focused on ensuring full employment and income growth.

As the global economy recovers from the pandemic, it is crucial to safeguard space for public sector investment policies. These policies should encompass strengthening food systems, expanding renewable energy, and enhancing social and physical infrastructure to accelerate sustainable development, stabilize the climate, and reduce inequalities.

International trade: Challenges ahead for merchandise trade

In 2023, despite the global economy expanding by 2.7%, recent data suggests a contraction of around 1% in real terms for global merchandise trade. If confirmed, this would mark the first time in at least four decades that the direction of world merchandise trade diverges from global economic activity. Such contractions are rare, occurring only twice in the forty years leading up to 2023, during the global financial crisis in 2009 and after the COVID-19 shock in 2020.

The contraction in 2023 was anticipated due to trade tensions among major economies and subdued global demand, exacerbated by a statistical anomaly known as the high base effect resulting from the temporary shift in consumption patterns during the pandemic. Disruptions in maritime routes, particularly in the Panama Canal and the Red Sea, further impacted international merchandise trade, causing freight costs to surge.

Despite some improvements in exports from China and Europe, the growth of merchandise trade is expected to remain subdued in 2024, although it should return to positive territory. Meanwhile, trade in services, particularly travel and transport, has shown more dynamism, expected to grow faster than trade in goods in 2024. However, significant risks and uncertainties persist, primarily due to calls for protectionism, ongoing trade tensions, and rising political uncertainty, which could hinder the trade outlook and impede international collaboration for sustainable development.

(UNCTAD's Trade and Development Report April 2024 is available at: https://unctad.org/system/files/official-document/gdsinf2024d1_en.pdf)

FOOD & AGRICULTURE

FAO FOOD PRICE INDEX SHOWS UPTICK IN MARCH FOLLOWING SEVEN-MONTH DECLINE, PRIMARILY DRIVEN BY INCREASED GLOBAL VEGETABLE OIL PRICES

In March 2024, the FAO Food Price Index (FFPI) rose to 118.3 points (Table 3), marking a 1.1% increase from February's revised level. This uptick was driven by higher prices in vegetable oils, dairy products, and meat, offsetting declines in sugar and cereals. Despite this increase, the index remained 7.7% lower than its value a year ago.

The FAO Cereal Price Index averaged 110.8 points in March, down 2.6% from February and 20.0% lower than March 2023. Wheat export prices decreased for the third consecutive month due to strong competition among the European Union, the Russian Federation, and the United States. Maize export prices slightly increased, supported by higher demand from China, amidst logistical challenges in Ukraine and seasonal pressures in Argentina and Brazil.

The FAO Vegetable Oil Price Index reached 130.6 points in March, up 8.0% from February, hitting a one-year high. This increase was driven by higher prices in palm, soy, sunflower, and rapeseed oils, attributed to various factors including lower outputs in leading producing countries and increased demand.

In March, the FAO Dairy Price Index stood at 124.2 points, marking a 2.9% increase from February. Cheese prices rose due to steady import demand from Asia and increased sales in Western Europe, while butter prices increased due to seasonal demand and tighter European stocks. However, whole milk powder prices decreased as global import demand softened.

The FAO Meat Price Index reached 113.0 points in March, up 1.7% from February. Poultry and pig meat prices increased due to steady import demand and higher internal demand ahead of Easter holidays. Bovine meat prices rose due to increased purchases by leading importing countries, while ovine meat prices fell due to a surge in supplies, especially from Australia.

The FAO Sugar Price Index averaged 133.1 points in March, down 5.4% from February. This decline was driven by increased sugar production forecasts in India and improved sugar harvest in Thailand, along with large exports from Brazil. However, concerns over the Brazilian crop limited the price decline, along with higher international crude oil prices.

Table 3: FAO Food Price Index (2014-2016 = 100)

Month	Food Price Index	Meat	Dairy	Cereals	Oils	Sugar
March 2023	128.2	114.7	135.3	138.6	131.8	127.0
April **2023**	128.7	116.8	129.2	136.1	130.0	149.4
May 2023	124.7	118.1	121.7	129.3	118.7	157.2
June 2023	123.1	119.0	119.9	126.6	115.8	152.2
July 2023	124.6	118.5	119.1	125.9	129.8	146.3
August 2023	122.0	115.2	114.3	125.0	125.8	148.2
September 2023	121.9	114.1	112.0	126.3	120.9	162.7
October 2023	120.9	112.5	114.7	124.8	120.0	159.2
November 2023	120.8	112.0	116.5	121.0	124.1	161.4
December 2023	119.2	111.6	118.8	122.8	122.3	134.2
January 2024	117.7	109.0	118.7	119.9	122.5	136.4
February 2024	117.0	111.1	120.7	113.8	120.9	140.8
March 2024	118.3	113.0	124.2	110.8	130.6	133.1

Source: FAO

GLOBAL REPORT ON FOOD CRISES 2024

"This *Global Report on Food Crises* is a roll call of human failings…Humanity can and must do better. Together, with commitment and concerted action, we can create a world where hunger has no home" - António Guterres, Secretary-General of the United Nations

Key findings of the *Global Report on Food Crises 2024* :

- In 2023, 281.6 million individuals, constituting 21.5% of the surveyed populace, encountered significant levels of acute food insecurity across 59 countries/territories experiencing food crises.
- The proportion of the surveyed population experiencing significant levels of acute food insecurity slightly decreased compared to 2022, yet it remained higher than pre-COVID-19 levels.
- An additional nearly 24 million individuals encountered significant levels of acute food insecurity compared to 2022. This increase can be attributed to broader analysis coverage and worsening acute food insecurity in certain countries/territories, which outweighed improvements observed in others.
- In 12 countries with consistent data from 2022 to 2023, acute food insecurity worsened, resulting in an additional 13.5 million people requiring urgent assistance, primarily concentrated in Sudan.
- Food security improved in 17 countries between 2022 and 2023, leading to 7.2 million fewer individuals experiencing high levels of acute food insecurity.
- In 39 countries/territories, over 36 million individuals experienced Emergency (IPC/CH Phase 4) conditions, with Sudan and Afghanistan collectively hosting over a third of this population.
- Approximately 165.5 million individuals across 41 countries/territories encountered Crisis conditions (IPC/CH Phase 3).
- Around 292M people in 40 countries faced Stressed (IPC/CH Phase 2).
- Food crises escalated significantly in conflict hotspots in 2023, particularly in Palestine (Gaza Strip) and Sudan. The Gaza Strip experienced the most severe food crisis in IPC and GRFC history.

- The number of forcibly displaced people in 59 countries/territories reached 90 million, the highest in eight years of GRFC reporting, highlighting the strong correlation between displacement and acute food insecurity. Sudan emerged as the world's largest internal displacement crisis, while by the end of 2023, nearly 80% of the population of the Gaza Strip was internally displaced.
- Acute malnutrition among children and women worsened, particularly in conflict-affected regions. In 2023, over 36 million children under 5 years old experienced acute malnutrition in 32 food-crisis countries with available data, with nearly 10 million suffering from severe acute malnutrition. Approximately 60% of these children were located in the ten largest food crises.
- Data gaps persist as a concern despite expanded coverage in food security analyses, reaching an additional 177.6 million people, particularly in vulnerable regions. However, challenges remain as populations in 14 food-crisis countries are not accounted for due to insufficient data or data not meeting GRFC technical standards.

Populations projected to face Catastrophe (IPC/CH Phase 5)

- In 2023, approximately 0.7 million people, predominantly in Palestine's Gaza Strip, were forecasted to confront Catastrophe (IPC/CH Phase 5) conditions across five countries/territories.
- The Gaza Strip alone was projected to have over a quarter of its population in this phase from December 2023 to March 2024, with the risk of Famine escalating as conflict persisted and humanitarian access remained restricted.
- By March to July 2024, over half of the Gaza Strip's population (1.1 million individuals) were expected to be in Catastrophe (IPC Phase 5), with the figure rising to 70% in northern governorates where Famine was imminent.
- Burkina Faso, Somalia, South Sudan, and Mali also had populations facing catastrophic levels of acute food insecurity in 2023.

Drivers of acute food insecurity

Various drivers are intertwined and compounded by structural vulnerabilities, complicating the ability to respond to and recover from a shock.

- Conflict and insecurity were the primary drivers in 20 countries/territories, affecting 135 million people who faced high levels of acute food insecurity. These factors predominated as the main drivers in the majority of the ten largest food crises, whether by number or share.
- Weather extremes emerged as the primary driver in 18 countries, impacting over 72 million people who faced significant levels of acute food insecurity. Numerous nations struggled with prolonged recovery from droughts or floods. The *El Niño* event and weather phenomena associated with climate change contributed to 2023 being the hottest year on record.
- Economic shocks drove acute food insecurity in 21 countries, affecting over 75 million people. Despite decreasing global food prices, low-income, import-dependent nations did not benefit. High public debt further constrained governments' ability to mitigate the impact of soaring prices.

Bleak outlook for 2024

- Conflict and insecurity, particularly in Palestine (Gaza Strip), Sudan, and Haiti, are expected to remain the primary drivers of acute food insecurity throughout 2024.
- *El Niño* reached its peak in early 2024, and its repercussions on food security, such as flooding in parts of East Africa and drought in Southern Africa (particularly in Malawi, Zambia, and Zimbabwe), are anticipated to unfold throughout the year. While some effects of El Niño may prove beneficial, such as improved harvests in certain regions of East Africa, Latin America, and the Caribbean, its overall impact is expected to persist.
- Net food-importing, low-income countries, particularly those experiencing currency depreciation, continue to struggle with elevated domestic food prices and diminished household purchasing power.
- Declining humanitarian funding and rising delivery expenses pose an additional threat, leading to decreased beneficiary numbers and reduced food assistance rations among numerous food-insecure populations.

Citation of the report:
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https://www.fsinplatform.org/grfc2024

IN THE NEWS

JAMIE DIMON: GEOPOLITICAL EVENTS POSE GREATEST RISKS SINCE WORLD WAR II, URGES COLLABORATION FOR DEMOCRACY

JPMorgan Chase CEO Jamie Dimon expressed his expectations for the resilience and growth of the US economy in 2024. However, he raised concerns about geopolitical events such as the war in Ukraine and the Israel-Hamas conflict, along with US political polarization, suggesting that these factors could pose significant risks surpassing anything seen since World War II. Dimon emphasized the importance of addressing political differences and collaborating with other Western nations to uphold democracy. He also highlighted worries about ongoing deficit spending by the US and other countries, the need for remilitarization, and the importance of investing in green infrastructure, all of which could contribute to higher inflation rates. Dimon expressed less optimism regarding the possibility of a "soft landing" for the US economy, defined as modest growth accompanied by declining inflation and interest rates, compared to market expectations. Despite this, he noted potential in the use of artificial intelligence (AI), citing numerous applications across various sectors, including marketing, fraud detection, and risk management. Dimon believes that AI's impact could be as transformative as major technological inventions throughout history, such as the printing press, the steam engine, electricity, computing, and the internet.

CHALLENGES AND INTERVENTIONS IN ASIAN CURRENCY MARKETS

Currency intervention has become a focal point in emerging markets, particularly in Asia, as the recent strengthening of the dollar prompts officials to take action. Countries like South Korea, Thailand, and Poland are closely monitoring currency volatility and are prepared to intervene if necessary. Indonesia has already initiated dollar sales, while China is emphasizing the stability of the yuan. Faster-than-expected US inflation data has tempered expectations of Federal Reserve interest rate cuts, prolonging the battle against dollar strength.

Central banks in these regions are increasingly active in verbal intervention to stabilize their currencies amidst the Fed's stance on higher interest rates. Traders have adjusted their expectations for US rate cuts due to persistent consumer price data, indicating that emerging-market policymakers face ongoing challenges. Thailand, for instance, is employing rhetoric to support the baht, while Poland and South Korea are prepared to intervene in their currency markets. Indonesia is taking a proactive approach by purchasing the rupiah to limit depreciation. Overall, central banks are employing various measures to stabilize their currencies amid the changing global economic landscape.

ARTIFICIAL INTELLIGENCE BOOM SPURS DATA CENTER CRUNCH

The soaring demand for artificial intelligence is leading to a shortage of crucial components, real estate, and power needed for data centers. Builders are facing challenges in obtaining custom cooling systems and backup generators, with lead times increasing significantly. Scarcity of affordable real estate with adequate power and data connectivity is pushing developers to explore unconventional locations such as next to volcanoes or inside shipping containers. Despite efforts to meet demand, including investment from tech giants like Amazon and Google, acquiring critical components like AI chips and power generators remains a time-consuming process. The urgency to expand data center capacity is prompting innovative solutions, such as deploying modular nuclear reactors or building facilities inside shipping containers.

GLOBAL FINANCIAL MARKETS

US MARKETS – APRIL 2024

Stocks concluded their most challenging month of the year on a downtrend. On Tuesday, the S&P 500 declined by 1.6%, marking a significant drop. Similarly, the Nasdaq Composite witnessed a 2% decrease, while the Dow Jones Industrial Average saw a loss of 570 points, equivalent to 1.5%.

Across all sectors of the S&P 500, there was a negative finish for the day. In April, the broad index experienced a 4.2% decline, its most substantial decrease since September, following its strongest first-quarter performance since 2019. Both the Nasdaq and Dow recorded declines of 4.4% and 5%, respectively, over the month.

Recent data on worker compensation, released on 30 April 2024 by the Labor Department's employment-cost index, indicated a rise of 1.2% in the first quarter from the previous three months and 4.2% from a year earlier. John Lynch, chief investment officer at Comerica Wealth Management, noted that the market reacted unfavorably to the wage pressure, reigniting discussions about inflation.

This latest data adds to the evidence suggesting that inflation remains higher than preferred by the central bank. Consumer prices have exceeded Wall Street's expectations for three consecutive months, dampening hopes for interest-rate cuts in the near future. Expectations of up to six cuts in 2024 have dwindled, with some investors now doubting the likelihood of any cuts at all. The benchmark 10-year Treasury yield closed at 4.683% on Tuesday, representing a notable increase from 4.612% on Monday and 4.192% on March 28, marking the most substantial monthly yield rise since September 2022. Bond prices typically fall as yields rise.

Despite the prevailing market pessimism, earnings season has provided a glimmer of positivity. S&P 500 companies are reporting first-quarter earnings growth of 3.9%, according to FactSet, combining actual results with analysts' forecasts.

SECTION 3

RESEARCH DIGEST

DEBATING INHERITANCE TAX: EQUITY VS. ECONOMIC GROWTH IN INDIA

Kaushik Basu, Professor of Economics, Professor Cornell University and former Chief Economic Advisor, Government of India, expressed support for inheritance tax, arguing that it is necessary to address inequality in society. He emphasized that disparities in wealth at birth are unjustifiable and unrelated to individuals' efforts. Basu asserted that inheritance tax is essential for any civilized society to tackle inequality effectively.

However, the wealth tax proposal faced opposition from various economists who believed it could harm the Indian economy by driving investors to seek alternatives. Sanjeev Sanyal, Member, Economic Advisory Council to the Prime Minister, criticized the idea, suggesting that the Left supports death duties not for wealth redistribution but to sustain its own ecosystem. He pointed out that in the United States, the wealthy often use tax-protected foundations and trusts to "give away" their wealth, creating a core constituency of individuals reliant on trust funds for non-productive activities. Sanyal argued against the argument that wealth tax would reduce inequality, citing examples like the US, where high death duties coexist with significant wealth disparities. He also highlighted Sweden and Norway, countries without inheritance taxes, as examples of societies perceived as champions of equality. Sanyal criticized "death duties" as a means for the rich to maintain their status and prevent middle-class individuals from accessing wealth accumulated over generations. He likened this to the license-permit era, which hindered upward mobility in business. He cautioned against adopting unproven social experiments and advocated for strategies that promote economic growth, job creation, and entrepreneurship.

India’s G20 Sherpa, Amitabh Kant criticized wealth redistribution and inheritance taxes as "lazy and regressive" policy choices that could impede India's progress. He warned against stifling innovation and entrepreneurship, emphasizing the need for policies that support India's aspirations for growth, dynamism, and progress.

The spin on inheritance tax

The discussion around the introduction of inheritance tax in India has gained traction, particularly with its timing amidst national elections. While some argue it could address income and wealth inequality, others question its suitability for a developing country like India amid robust economic growth. India had an estate duty in the past, but it was abolished due to administrative challenges and high tax rates. Currently, India's tax landscape emphasizes moderation, compliance, and economic growth, with a focus on infrastructure development and fostering entrepreneurship. Internationally, inheritance taxes have shown limited success in achieving their goals, with low revenue contributions and administrative complexities. India's economic priorities, including addressing inequality, are better served through mechanisms like education access, infrastructure development, and job creation. Given the present context, the economic rationale for introducing inheritance tax in India is not convincing.

(This is a summary of the article by Umesh Gala and Dinesh Kanabar, Financial Express, 26 April 2024. The full article is available at: https://shorturl.at/dlCZ2)

What makes wealth and inheritance taxes bad for India's economic progress

In India, there's a strong inclination towards populist measures, aiming to redistribute wealth from the affluent to the impoverished. However, implementing wealth tax and inheritance tax, which are currently under discussion, would be counterproductive. These taxes have been tried before and proven ineffective, leading to diminished economic growth and minimal tax revenue generation. The taxation of wealth and inheritance has historically resurfaced in India approximately once every decade since the 19th century. Despite their prevalence in many countries, including India, these taxes have been gradually phased out worldwide, coinciding with increased economic prosperity.

Estate duty, present in India from 1953 to 1985, was eventually abolished due to its limited revenue collection despite high tax rates. Similarly, wealth tax, introduced in 1957 and generating minimal revenue by 2012-13, was abolished in 2015. The complexity and administrative burden associated with these taxes outweigh their meagre revenue contribution, diverting attention from establishing a robust tax system. India already grapples with high taxation levels across various fronts, including personal income tax, corporate tax, and GST, as well as rising import tariffs and non-tariff barriers. Improving the effectiveness of existing taxes, such as income tax, GST, and property tax, should take precedence over introducing additional taxes.

The inefficacy of wealth and inheritance taxes lies in their distortion of individual behaviour, ultimately impeding economic growth and tax revenue. Higher taxation discourages productivity, prompting individuals to work less diligently to accumulate wealth. Furthermore, people may resort to restructuring their assets to minimize tax liabilities, hindering revenue collection and complicating tax administration. Additionally, businesses may relocate to tax-friendly jurisdictions, further diminishing tax revenues.

Although India's economic landscape presents challenges for cross-border activities, prioritizing the nurturing of domestic businesses' energy and ambition is crucial. Ultimately, wealth and inheritance taxes exacerbate behavioural distortions, leading to a complex tax bureaucracy and insufficient tax revenues. This debate on taxation aligns with broader discussions on redistribution versus growth. Rather than focusing on redistributive measures, efforts should centre on enhancing median income, as emphasized by Lant Pritchett. These redistributive endeavours often yield minimal impact on poverty rates while impeding median income growth. Hence, the emphasis should be on fostering economic growth and developing state capability over the long term, rather than engaging in divisive class warfare.

(This is a summary of the article by Ajay Shah, Business Standard, 28 April 2024. The full article is available at: https://shorturl.at/nABJT)

When inequality shouldn’t be a concern

Bibek Debroy and Aditya Sinha discuss the recent surge in India's stock market, with the Sensex crossing the 75,000 mark for the first time, attributed to a resilient economy, reforms, and policy certainty. It addresses the suggestion of implementing wealth redistribution plans amidst this economic growth, cautioning against such ideas as potentially harmful to social welfare.

Citing arguments from economists like Milton Friedman and Friedrich Hayek, it highlights how redistributive policies can dampen innovation and productivity by disincentivizing investment and effort. Administrative complexities and costs associated with redistribution schemes are also noted.

Drawing from France's experience with wealth taxes, the article illustrates potential negative outcomes such as capital flight, fiscal deficits, and decreased GDP growth. It underscores the challenges in accurately assessing wealth in India due to undervalued or hidden assets and fluctuating values.

Two papers on wealth taxation in Switzerland and Denmark demonstrate how tax rates influence wealth behaviour, leading to strategic asset shifts and altered declarations to minimize tax liabilities.

The article delves into the philosophical debate surrounding wealth redistribution, advocating for the principle that personal endeavour should determine earnings and critiquing the portrayal of wealth generators as adversaries to economic prosperity.

Legal interpretations of India's Constitution, particularly Article 39(b) regarding resource distribution and property rights, are examined through landmark court cases. The tension between state-directed redistribution and individual property rights is explored, citing constitutional debates and judicial rulings.

The living conditions of India's most impoverished citizens have experienced a substantial enhancement, as evidenced by advancements in both the Bare Necessities Index and the Multidimensional Poverty Index (MDPI). According to NITI Aayog, approximately 24.82 crore Indians have risen out of multidimensional poverty over the past nine years, owing to initiatives such as the Jal Jeevan Mission, Swachh Bharat Mission, PMJAY, PMAY, and PM Ujjwala.

In conclusion, the authors assert that inequality is a relative measure. It is not a concern if it coincides with improvement in people's lives.

(This is a summary of the article by Bibek Debroy and Aditya Sinha, Economic Times, 15 April 2024. The full article is available at: https://shorturl.at/gmsWZ)

Why India loves to hate inheritance tax and estate duty—wrongly

Perhaps for the first time in independent India, taxation has become a central issue in Lok Sabha election campaigns. The inheritance tax has gained prominence, overshadowing topics like unemployment, inequality, corruption, and price increases in campaign rhetoric. No tax is particularly popular among taxpayers, but the inheritance tax is widely disliked worldwide and often misunderstood.

In public discourse, the inheritance tax is often labelled as 'left/communist/socialist,' but it is actually grounded in liberal economics and may be considered one of the most equitable and progressive taxes. Critics argue that the inheritance tax constitutes double taxation. However, this is a common feature of many taxes; for instance, the Goods and Services Tax (GST) is paid from already taxed income. The inheritance tax stands out as one of the least distorting taxes.

Unlike income tax, the inheritance tax does not reduce the incentive to work, nor does it discourage savings and investments like capital gains tax. Furthermore, unlike the GST, inheritance tax is designed to target only the ultra-rich, making it progressive. The inheritance tax aims to address inequality from birth, posing the rhetorical question: what have heirs done to deserve the wealth they inherit?

There are various forms of what are commonly referred to as death taxes. Estate tax is paid by the deceased individual's estate before assets are transferred to their heirs. Inheritance tax, on the other hand, is paid by the person inheriting the deceased person's money and assets. This tax is typically imposed above a high threshold level of inheritance, which excludes most of the population except for the extremely wealthy. Thus, the inheritance tax serves as a barrier against a permanent elite based solely on inheritance rather than merit, fostering a more meritocratic society.

Besides material wealth, the wealthy pass on a variety of visible and invisible advantages to their children, giving the next generation an edge over those from non-rich backgrounds, such as elite education and access to influential networks.

However, one challenge with the inheritance tax is its high cost of collection for tax administrators. The wealthy often exploit loopholes with the help of skilled tax lawyers, leading to a decline in revenue from such taxes in OECD nations since the 1960s. This has prompted many countries to abolish it.

(This is a summary of Mint SnapView, Mint, 26 April 2024. The full article is available at: https://shorturl.at/hvOP6)

Amidst political debates regarding the feasibility of reintroducing "inheritance tax" as a means of wealth redistribution, tax experts caution against its implementation, citing potential drawbacks. Despite examples in developed countries, India's current focus on economic growth and wealth generation makes the levy impractical, they argue. Inherited assets are subject to this tax, which was abolished in India in 1985 due to concerns about dual taxation and its effectiveness in reducing inequality. The levy was previously imposed on movable assets and real estate above specified thresholds. Experts highlight potential challenges in reintroducing the tax, including administrative complexities and disincentives for savings and investments. Alternatives such as increasing surcharges on High-Net-Worth Individuals (HNIs) are proposed as more viable options for revenue generation from wealthy individuals. Further, establishing foundations by HNIs and corporations to advance inclusive growth through the empowerment and livelihood enhancement of women and unemployed youth presents a superior option to implementing inheritance tax on the wealthy.

SYNOPSIS OF RESEARCH PAPERS

ECONOMIC MULTILATERALISM: 80 YEARS AFTER BRETTON WOODS

Maurice Obstfeld

Working Paper April 2024

Peterson Institute for International Economics

The full paper is available at: https://www.piie.com/sites/default/files/2024-04/wp24-9.pdf

The global economic institutions stemming from the Bretton Woods conference of 1944 aimed to foster a collaborative policy environment conducive to recovery, development, sustained prosperity, social stability, and democracy. The architects of these institutions were particularly mindful of the macroeconomic and trade policy coordination failures during the 1930s, which coincided with a global economic downturn and the onset of the Second World War. The concept of "embedded" liberalism that underpinned Bretton Woods gradually transitioned to a more market-oriented system by the early 1990s, leading to robust growth in several major emerging markets and a period of intense globalization. However, this shift also contributed to social tensions in advanced economies.

This transformation has reshaped the geopolitical landscape and prompted a backlash against certain aspects of globalization in wealthier nations, notably the United States, a key advocate of postwar international cooperation. Despite the emergence of a wider array of shared global challenges necessitating collective action, global cooperation is under threat. It is imperative for the affluent industrialized nations, which wield considerable influence in existing multilateral institutions, to recognize these institutions as vital for directing superpower competition toward mutually beneficial outcomes that garner broad international support. Nevertheless, effective utilization of these institutions will hinge on securing commitment from middle- and low-income countries, as well as garnering support from domestic political constituencies in advanced economies. The future of multilateralism rests on reconciling these potentially conflicting priorities.

A FRAMEWORK FOR ECONOMIC GROWTH WITH CAPITAL-EMBODIED TECHNICAL CHANGE

Benjamin F. Jones and Xiaojie Liu

American Economic Review 2024, 114(5): 1448–1487, May 2024

American Economic Association

The full paper is available at: https://doi.org/10.1257/aer.20221180

Technological progress often manifests through capital inputs such as computers, airplanes, and robots. This paper introduces a framework that explores how capital inputs progress via (i) enhanced automation and (ii) increased productivity. The interaction between these two dimensions of innovation can lead to balanced growth, aligning with the Uzawa Growth Theorem even in scenarios where technological advancement is closely tied to capital. Moreover, this framework enables the examination of structural transformation, general-purpose technologies, the limited macroeconomic impact of computing, and declining productivity growth and labor shares. In summary, this accessible framework offers insights into resolving perplexing disparities between micro-level observations of innovation and balanced growth, while shedding light on various macroeconomic phenomena.

THE PERFORMANCE OF EMERGING MARKETS DURING THE FED'S EASING AND TIGHTENING CYCLES: A CROSS-COUNTRY RESILIENCE ANALYSIS

Joshua Aizenman, Donghyun Park, Irfan A. Qureshi, Gazi Salah Uddin and Jamel Saadaoui

Working Paper 32303, April 2024

National Bureau of Economic Research

The full paper is available at: http://www.nber.org/papers/w32303

The authors examine the factors influencing the performance of emerging markets across five U.S. Federal Reserve monetary tightening and easing cycles spanning from 2004 to 2023. The analysis focuses on how the macroeconomic and institutional conditions of an Emerging Market (EM) at the onset of each cycle contribute to its resilience. Specifically, the baseline cross-sectional regressions investigate the impact of these conditions on three resilience measures: bilateral exchange rate against the USD, exchange rate market pressure, and the country-specific Morgan Stanley Capital International index (MSCI). Subsequently, the authors consolidate the data from the five cross-sections to create a panel database, allowing them to explore potential differences between tightening and easing cycles. The findings of the paper suggest that macroeconomic and institutional factors are correlated with EM performance, and the determinants of resilience vary between tightening and easing cycles, with institutions playing a more significant role during challenging periods. The specific results align with economic intuition, revealing the importance of factors such as current account balance, international reserves, and inflation in determining EM resilience.

CHANGING CENTRAL BANK PRESSURES AND INFLATION

Hassan Afrouzi, Marina Halac, Kenneth S. Rogoff and Pierre Yared

Working Paper 32308, April 2024

National Bureau of Economic Research

The full paper is available at: http://www.nber.org/papers/w32308

The authors introduce a straightforward model that examines long-term inflation trends by considering both aggregate demand and supply factors. This framework demonstrates how external economic and political elements create pressures on central banks, affecting long-term inflation and shifts between stable economic states. Through this analysis, the authors offer a fresh perspective on the factors driving global inflation downward over the past four decades. They argue that to maintain low and stable inflation in the future, political and economic measures like bolstering central bank independence and adopting more credible public debt policies must counterbalance current global economic pressures that tend to elevate long-term inflation. Recent global inflation trends have sparked debates on its future trajectory. While many anticipate inflation returning to central bank targets in the medium term, others, as articulated by Goodhart and Pradhan (2020), suggest that structural shifts in the global economy may sustain higher average inflation.

This paper aims to explore these contrasting viewpoints and the broader topic of long-term inflation using economic theory and empirical data. Given the significant economic, social, and geopolitical changes, particularly post-pandemic, a framework that incorporates these developments becomes essential for understanding their implications on inflation dynamics. The provided framework offers insights into the economic and political forces influencing long-term inflation, highlighting the potential challenges in maintaining low and stable inflation in the coming years.

The paper emphasizes the necessity of reinforcing central bank independence and establishing more credible public debt policies to counteract the upward pressures on long-term inflation. The authors anticipate that if political and economic pressures lead to higher average inflation, it would likely manifest in intermittent spikes rather than a sustained deviation from target levels.

By leveraging a widely used central banking model, the authors believe their framework serves as a valuable initial approach for analyzing the drivers and outcomes of long-term inflation changes. The paper elucidates how long-term inflation interacts with market dynamics to shape both aggregate and idiosyncratic economic distortions. Extending this understanding beyond the traditional economic models is crucial for comprehending central bank motivations and the lasting effects of monetary policy.

FINANCIAL STABILITY IMPLICATIONS OF CBDC

Francesca Carapella, Jin-Wook Chang, Sebastian Infante, Melissa Leistra, Arazi Lubis, and Alexandros P. Vardoulakis

Finance and Economics Discussion Series 2024-021, April 10, 2024

Federal Reserve Board, Washington, D.C

The full paper is available at:

https://www.federalreserve.gov/econres/feds/files/2024021pap.pdf

A Central Bank Digital Currency (CBDC) represents digital currency denominated in the national unit of account and serves as a direct obligation of the central bank. This study investigates the potential financial stability implications and advantages associated with introducing a CBDC across various design alternatives. The authors' examination draws insights from historical case studies and employs an analytical framework to delineate the mechanisms by which a CBDC might influence financial stability. Additionally, the paper explores a range of policy instruments that could be utilized to address potential risks to financial stability.

The authors explore the implications for financial stability posed by a Central Bank Digital Currency (CBDC) across various design options and suggests policy measures to address potential risks to financial stability. While acknowledging that a CBDC could theoretically be held or transacted by any entity, our analysis primarily aligns with the four broad design principles outlined in the Federal Reserve's 2022 discussion paper: (i) privacy protection, (ii) intermediation, (iii) broad transferability, and (iv) identity verification. This paper does not extensively delve into the broader analysis of trade-offs associated with CBDC policy and design decisions beyond the scope of financial stability considerations.

This paper explores strategies to address financial stability concerns arising from a potential surge in demand for a Central Bank Digital Currency (CBDC) during times of crisis. It focuses on two main categories of tools: price tools, which involve controlling the remuneration on CBDC, and quantity tools, which include limits on CBDC balances. These tools aim to manage the attractiveness of CBDC during crises while ensuring compatibility with design recommendations outlined by the Federal Reserve. By integrating remuneration and programmability into CBDC design, policymakers can implement these tools effectively. Price tools, such as single-tiered or two-tiered remuneration schemes, aim to discourage large CBDC holdings as a store of value during market stress while preserving its role as a medium of exchange. However, implementing these schemes requires careful consideration of threshold selection and understanding the elasticity of CBDC demand. Despite challenges, these tools offer potential benefits for financial stability by mitigating risks associated with CBDC adoption.

FOOD AND FUEL PRICES: SECOND ROUND EFFECTS ON HEADLINE INFLATION IN INDIA

Harendra Kumar Behera and Abhishek Ranjan

Reserve Bank of India Bulletin April 2024

The full article is available at:

https://website.rbi.org.in/documents/87730/108390234/Article2+2304.pdf

This article assesses the changing influence of food and fuel price shocks on core inflation, investigating their potential secondary effects on headline inflation in India. The empirical findings indicate a reduction in both the intensity and duration of food shocks' impact on core inflation following the implementation of flexible inflation targeting (FIT). However, core inflation demonstrates a substantial and noteworthy response to fuel price shocks, particularly amid global uncertainties. Furthermore, there is evidence of decreased volatility and persistence in core inflation shocks, coupled with a diminished pass-through of food shocks to core inflation, suggesting some mitigation in the secondary effects of food inflation fluctuations on headline inflation.

The authors examined the extent and duration of potential secondary effects from food and fuel price shocks on headline inflation. Their analysis indicates that headline inflation tends to revert to core inflation rather than the other way around. While there has been a decrease in fuel inflation's volatility, its impact on core inflation has recently become significant. Using the TVPVAR model, the authors observed a diminishing responsiveness of core inflation to supply shocks over time, accompanied by a decrease in its persistence. Additionally, the findings suggest a diminishing impact of food shocks on core inflation over time. These results collectively suggest a more stable anchoring of inflation expectations, particularly following the *de jure* adoption of FIT in India. Given the current environment of heightened global uncertainties, recurrent significant supply shocks, and evolving climatic patterns, it is crucial to regularly assess the pass-through of food and fuel shocks to core inflation for a more informed policy analysis.

RESERVE REQUIREMENTS AS A FINANCIAL STABILITY INSTRUMENT

Carlos Cantú, Rocio Gondo and Berenice Martinez

BIS Working Papers No 1182 April 2024

Bank for International Settlements

The full paper is available at: https://www.bis.org/publ/work1182.pdf

The authors assess the trade-offs associated with utilizing reserve requirements (RR) as a tool for financial stability. Increasing RR dampens the fluctuations in the credit cycle, leading to fewer and less severe episodes of financial stress. However, this comes at the expense of slower growth in credit and overall economic activity. The analysis indicates that the benefits of reducing the likelihood and severity of financial stress episodes outweigh the costs of the initial decrease in economic output. Moreover, the authors observe that the impact of RR is more pronounced in emerging market economies compared to advanced economies, both in terms of advantages and disadvantages.

Additionally, the authors find that uniform RR have a more significant effect than those that vary based on maturity or currency. The impact of RR on the expense and accessibility of credit will be more pronounced in banking systems characterized by lower levels of financial development and greater monopolistic power among banks. In such contexts, banks can more effectively transfer the cost of the implicit tax to borrowers due to limited alternatives for financing. However, this also implies that RR are less effective in mitigating the likelihood of financial stress in Advanced Economies (AEs).

Furthermore, the authors demonstrate the significance of the RR design. Their analysis reveals that uniform RR and those categorized by maturity yield a favourable net outcome, although the trade-offs are less apparent for countries implementing RR based on currency. In conclusion, the findings underscore the importance of RR as a vital tool for enhancing resilience in the financial sector and mitigating financial stress.

AT THE THRESHOLD: THE INCREASING RELEVANCE OF THE MIDDLE-INCOME TRAP

Patrick A. Imam and Jonathan R. W. Temple

IMF Working Paper WP/24/91 April 2024

International Monetary Fund

The full paper is available at: https://shorturl.at/ewJ16

The authors explore the concept of a middle-income trap through finite state Markov chains, consistent growth thresholds, and mean passage times. In addition to analyzing output per capita, they investigate the trends of its immediate determinants: Total Factor Productivity (TFP), the capital-output ratio, and human capital. The findings indicate an upward trend in the capital-output ratio and human capital, but not in relative TFP. The absence of upward mobility in relative TFP, particularly from an intermediate level, implies that transitioning out of the middle-income category may require considerable time, and the prevalence of such traps could become more apparent in the future.

INNOVATION AND DISTRIBUTION: AN AEQUILIBRIUM MODEL OF MANUFACTURING AND RETAILING

Bart J. Bronnenberg

The Economic Journal , 134 (May), 1379–1400

Royal Economic Society

The full paper is available at: https://doi.org/10.1093/ej/uead113

This paper presents a distribution channel model aimed at analyzing the choices made by manufacturers, retailers, and consumers. The model investigates the impact of retail distribution on both manufacturing and consumer behaviour. With decreasing distribution costs, the retail sector expands its assortment size, facilitating the entry of a broader range of manufacturers and providing consumers with access to a greater variety of products. Entry conditions within manufacturing and retail sectors dictate vertical pricing authority. According to the model's equilibrium, the size of the national retail sector is contingent upon the demand for variety and remains unaffected by factors such as consumer transportation expenses or income levels. Empirical data validate this model prediction.

EQUITY MARKETS AND MONETARY POLICY SURPRISES

Mayank Gupta, Amit Pawar, Satyam Kumar, Abhinandan Borad and Subrat Kumar Seet

RBI Working Paper Series No. 03/2024

Reserve Bank of India

The full paper is available at: https://shorturl.at/AOQU2

The study investigates how monetary policy announcements influence stock returns and volatility in equity prices within India. It breaks down fluctuations in Overnight Indexed Swap (OIS) rates on announcement days into two components: target and path factors. The target factor reflects the unexpected element of central bank policy rate actions, while the path factor captures how central bank communication affects market expectations regarding future monetary policy directions. The empirical examination using daily data reveals that equity returns on announcement days are influenced solely by the path factor, representing the market's anticipation of future monetary policy trends. However, both the target and path factors, which capture unexpected elements of monetary policy, affect the volatility in equity prices. An event study analysis, conducted by creating brief windows around monetary policy announcements using intraday data, further suggests that the path factor plays a role in explaining changes in equity returns.

SUMMARY OF OPINION ARTICLES FROM INDIAN PUBLICATIONS

FOOD SYSTEMS UNDER MODI 3.0

The article discusses suggestions for the agri-food sector in India, particularly in the context of the possibility of a Modi 3.0 government. The key points are as follows:

- **Food Systems Transformation**: Emphasizes the need for a transformation in agriculture to meet the demands of a growing population (projected to reach 1.6 billion by 2047) while utilizing fewer resources. This transformation requires increased investment in agricultural research and development (R&D), innovations, and extension services to enhance productivity.
- **Climate Resilience**: Acknowledges the threat posed by extreme weather events due to global warming and suggests investing in climate-resilient agriculture. This includes developing heat- and flood-resistant seeds, improving water management, and adopting precision agriculture techniques to maximize crop yield per drop of water.
- **Urbanization and Logistics:** Foresees a shift towards urban living by 2047, necessitating significant improvements in logistics for transporting food from rural to urban areas. Advocates for policy reforms to facilitate efficient value chains and attract private sector investments in logistics and organized retailing.
- **Farmers' Collectivization:** Highlights the importance of organizing smallholder farmers into groups like Farmer Producer Organizations (FPOs) or cooperatives to enhance their bargaining power and facilitate access to markets, a strategy successfully implemented in the dairy sector with the AMUL model.
- **Nutritional Security:** Calls for a shift from simple food security to nutritional security, emphasizing the need to address malnutrition, especially among children. Proposes fortifying staple foods with micronutrients, such as zinc-rich rice and wheat, and advocates for the adoption of Golden rice, fortified with Vitamin A.
- **Public-Private Partnership**: Emphasizes the role of public-private partnerships in building efficient value chains, producing climate-resilient seeds, and implementing nutritional interventions, with the government providing a conducive policy framework.
- **Reforming Subsidy Regimes:** Suggests re-purposing subsidy regimes to direct income transfers to beneficiaries instead of price subsidies for fertilizers and food. This could result in significant savings that could be reinvested in food systems for resilience and nutrition.

The article concludes by posing the question of whether the Modi 3.0 government can implement these recommendations effectively, highlighting the importance of improving farmers' incomes and addressing the challenges facing the agri-food sector.

(This is a summary of an article by Ashok Gulati, Ritika Juneja, & Purvi Thangaraj in Financial Express 15 April 2024. The full article is available at: https://shorturl.at/diwLZ)

AGRICULTURE BALANCING TECH AND TRUST: THE IMPORTANCE OF HUMAN GUIDANCE IN INVESTING

The economy is poised for significant growth driven by artificial intelligence (AI), with areas like AI-driven quantitative investing and cryptocurrency derivatives leading the charge. However, maintaining a balance between innovation and human discretion is crucial in navigating these new investment frontiers. While advanced technologies offer undeniable benefits, human expertise remains indispensable, especially in evaluating new asset classes and navigating regulatory uncertainties. Trust is the cornerstone of investment decisions, emphasizing the importance of personalized advice tailored to individual circumstances.

A collaborative approach between human expertise and machine learning capabilities is essential for sustained success in the evolving financial landscape. While AI integration is still in its early stages, investment firms are investing in training professionals on cutting-edge technologies while leveraging AI assistants for data processing. However, human investment experts must remain at the helm, providing critical insights, validating algorithmic recommendations, and cultivating trust through client relationships.

Balancing innovation with trusted human guidance is key for sustainable success in the industry. Policymakers and regulatory bodies must show flexibility towards technological integration, recognizing the advent of a new era in financial investment. Firms that solely rely on automation at the expense of human capital may struggle in the long run. Sustained progress requires harmonizing technological capabilities with human expertise to elevate personalization, innovation, and excellence in the investment landscape.

(This is a summary of the article by Arun Poddar, Mint 25 April 2024. The full article is available at: https://shorturl.at/sxGZ4)

REDISTRIBUTION: A UNIVERSAL BASIC INCOME POLICY CAN'T TURN POVERTY INTO HISTORY

The ongoing election campaigns in India have sparked a debate over the concept of redistribution, with discussions revolving around the Universal Basic Income (UBI). Both the ruling party and the opposition have shown interest in implementing versions of UBI, with the PM-Kisan scheme resembling its principles. The Congress manifesto promises to provide ₹1 lakh annually to every poor family if elected.

The feasibility and effectiveness of such a proposal are under scrutiny, considering its potential as a long-term solution to poverty and a short-term relief for various economic challenges, including rural distress and stagnant wages. While there's fiscal viability in targeting the poorest households, critics emphasize the need for addressing structural deficiencies such as education, healthcare, and infrastructure.

UBI is viewed as a supplementary measure rather than a comprehensive solution to poverty, as it requires accompanying initiatives to empower individuals and communities. While it offers immediate relief, sustained poverty alleviation demands broader systemic reforms and investments in education, healthcare, and livelihood opportunities. Despite its appeal, UBI is not a panacea for poverty eradication and requires a holistic approach to address multifaceted challenges.

(The is a summary of the editorial, Mint 25 April 2024. The full article is available at: https://shorturl.at/kvPRV)

INDIA AND CHINA: PARITY WITHIN SIGHT

China and India, two economic giants, have followed divergent paths since the 1980s, with China focusing on manufacturing-led growth and India on services. India has made strides in manufacturing, but its contribution to GDP has declined. Meanwhile, China remains the world leader in manufacturing output and has seen substantial growth in its services sector. Both countries have distinct trade patterns, with China prioritizing exports and India emphasizing services. However, their future growth trajectories are expected to converge over the next two decades due to changing strategies, a rising middle class, and global geopolitical shifts. Both nations are also addressing environmental concerns and energy security while navigating economic rebalancing efforts. India, with its youthful population and infrastructure investments, presents significant growth potential. Together, China and India are projected to drive over 50% of global economic growth in 2023, emphasizing the Asia-Pacific region's pivotal role in the world economy.

(The is a summary of the article by Ejaz Ghani, Mint 24 April 2024. The full article is available at: https://shorturl.at/aMO07)

HAS THE GROWTH OF OUR ECONOMY TRANSLATED INTO DOMESTIC JOBS?

Two recent reports from international organizations, the International Labour Organization (ILO) in collaboration with the Institute for Human Development (IHD), and the World Bank, have assessed India's labour market and employment scenario. These reports have raised concerns about employment rather than instilling confidence. The growth of India's non-farm employment over the past 42 years has been steady, although there's been a slight decline in growth rates in the new millennium. The World Bank's South Asia Development Update highlights a decline in employment ratios in South Asian economies, including India. However, India's non-farm employment ratio has seen a healthy increase, though overall employment ratio decline is attributed to a decrease in agricultural employment, which is a common trend in developing economies. India's job creation machinery seems robust, with investments in infrastructure and skill development contributing to job growth, particularly in manufacturing. The quality of India's labour market indicators, including the Periodic Labour Force Survey (PLFS), has been acknowledged by the IHD-ILO report. Larger establishments in non-agricultural sectors are associated with higher long-run non-agricultural employment ratios, indicating positive trends in employment creation. Despite setbacks due to bad debts and the COVID-19 pandemic, the Indian labour market is showing signs of recovery, with a focus on extensive skilling and productivity enhancement to ensure the demographic dividend is realized.

(This is a summary of the article by V. Anantha Nageswaran, Chief Economic Adviser to the Government of India, Mint, 09 April 2024. The full article is accessible at: https://shorturl.at/esV12)

THAT TRICKY ISSUE OF JOB CREATION

The article discusses the persistent issue of jobless growth in India despite various governmental efforts and economic reforms. Chief Economic Advisor V Anantha Nageswaran emphasized that the government alone cannot solve unemployment, as it is primarily the commercial sector responsible for job creation. The article reflects on the promises made by successive governments, including Narendra Modi's pledge of 10 million jobs annually, and the challenges in translating these promises into reality.

The piece highlights the complexities of job creation, including the preference for mechanization over human labour in certain industries and the need for skilled workers in various sectors. It critiques the effectiveness of government schemes and initiatives, noting that many have fallen short of their intended impact on job creation.

The article acknowledges recent government efforts to boost infrastructure and economic development, such as the Production-linked Incentives and railway modernization. However, it calls for further action to reduce the cost of doing business, address issues like Chinese dumping, and streamline bureaucratic processes to facilitate job creation.

Ultimately, the article suggests that while governmental initiatives play a role in job creation, true progress requires collaboration with the private sector, systemic reforms, and investment in education and skill development.

(This is a summary of the article by Debashis Basu, Business Standard, 08 April 2024. The full article is available at: https://shorturl.at/cfmoM)

RBI STORY: 90 AND GOING STRONG

Celebrating its 90th anniversary today, the Reserve Bank of India (RBI) joins the ranks of other nonagenarian central banks like the Central Bank of Argentina and the Bank of Canada, both established in 1935. The inception of central banking dates back to the 17th century when the Swedish Riksbank was established in 1668, followed by the Bank of England in 1694, and the Banque de France in 1800 under Napoleon Bonaparte's regime. Over the centuries, central banking has evolved significantly, with the US Federal Reserve making its debut in 1913 and the European Central Bank being formed in 1998.

Since its establishment on April 1, 1935, the RBI has witnessed 25 governors, with Benegal Rama Rau holding the longest tenure and Amitav Ghosh the shortest. Among the post-liberalization governors, Bimal Jalan had the lengthiest term, while S Venkitaramanan's was the briefest. The current Governor, Shaktikanta Das, faces significant challenges, especially amid the COVID-19 pandemic, as he implements unconventional measures to mitigate its impact.

Looking back, various RBI governors navigated through different economic crises, shaping the institution's trajectory. While the context of their assignments varied, each governor contributed uniquely to the RBI's evolution. Under the leadership of Das, the RBI has effectively balanced growth and inflation, maintaining financial stability and resilience in the face of challenges.

Overall, cautious optimism prevails, although a rate cut seems unlikely in the near term.

(This is a summary of the article by Tamal Bandyopadhyay, Business Standard, 01 April 2024. The full article is available at: https://shorturl.at/yALY2)

ALL THE RBI'S MEN

RN Malhotra, who served as the governor of the Reserve Bank of India (RBI) from February 4, 1985, to December 22, 1990, strongly opposed the loan-waiver program initiated by the VP Singh government in 1990. He also implemented policies against religious celebrations in the office, aiming to uphold the central bank's secular character.

Malhotra's wife, Anna, had a keen interest in gardening, and one of the gardeners at the RBI governor's bungalow in Mumbai would provide her with updates on the lime tree's fruit yield every Sunday. Their affectionate relationship is now a part of RBI folklore.

S Venkitaramanan, Malhotra's successor, was the first governor to own a Maruti 800 car. Known for his discreet meetings, Venkitaramanan would occasionally ask his driver to step aside to maintain confidentiality during his appointments.

During the 1991 balance of payments crisis, Venkitaramanan sought assistance from the Bank of England and the Bank of Japan, pledging 46.91 tonnes of gold with the two central banks to raise $400 million between July 4 and 18, 1991.

C Rangarajan, who followed Venkitaramanan, initiated reforms by breaking down barriers between banks and financial institutions. He also introduced measures to deregulate interest rates and implemented the Ways and Means Advances scheme to manage temporary imbalances in government finances.

Bimal Jalan succeeded Rangarajan during a period when the RBI was spending substantial amounts daily to stabilize the local currency. By the time Jalan's tenure ended, the foreign exchange reserves had tripled to $84 billion.

Jalan oversaw significant events such as the issuance of Resurgent India Bonds in 1998 and the India Millennium Deposit scheme in 2001 to boost foreign exchange reserves. Despite challenges like the East Asian crisis and the Gujarat earthquake, Jalan's leadership steered the RBI through turbulent times.

YV Reddy, who served as deputy governor before becoming governor, made headlines with a remark on the rupee during a speech in 1997, causing fluctuations in the currency market. Reddy's tenure as governor is noted for his proactive measures to prevent India from the impacts of the 2008 global economic crisis, including promoting financial inclusion and introducing no-frills zero-balance accounts.

D Subbarao succeeded Reddy shortly before the Lehman Brothers collapse. His term at the RBI was marked by conflicts with the finance ministry over the central bank's independence.

Raghuram Rajan, appointed as governor in 2013, is remembered for his aggressive reforms agenda, including opening up the banking sector and addressing corporate defaults. Rajan's tenure also saw the implementation of the asset quality review, forcing banks to acknowledge bad loans.

Urjit Patel, Rajan's successor, continued the efforts to address bad loans and control inflation despite tensions with the government over the RBI's autonomy. Patel resigned in December 2018 amidst disputes with the government over the central bank's balance sheet and fiscal policies

Shaktikanta Das, appointed as governor after Patel, is noted for his pragmatic approach despite lacking an economics background. His actions have garnered attention despite initial scepticism about his qualifications.

(This is a summary of the article by Tamal Bandyopadhyay, Business Standard, 08 April 2024. The full article is accessible at: https://shorturl.at/eoyJW)

HAS INDIA RECOVERED FROM COVID? LOOK AT THE DATA

Since the onset of the COVID-19 pandemic, economic data has been volatile, complicating the interpretation of growth indicators due to lingering "base effects." Despite India's recovery efforts, questions remain regarding the full healing of the economic wounds inflicted by the pandemic and subsequent lockdowns.

Examining the data over a five-year period, it's evident that while India maintained its status as the world's fastest-growing major economy for three years, the compounded annual growth rate (CAGR) saw a significant decline from 7.4% to 4.3% between 2018-19 and 2019-20 to 2023-24. Similarly, manufacturing value addition experienced a sharp drop in CAGR from 8.3% to 3.1% during the same period, indicating a lack of substantial recovery.

Inflation control has been challenging, with lockdown-induced scarcities and global commodity price surges contributing to spikes in prices. Fiscal deficits have also widened, straining the banking system and resulting in a significant increase in government borrowings.

The debt-to-GDP ratio has risen, indicating a worsening fiscal position, while unemployment rates have also surged since the onset of the pandemic. However, agriculture and exports have shown resilience, with improved growth rates compared to the pre-COVID period.

Overall, while recent economic indicators may appear promising, much of the growth can be attributed to base effects. Fiscal correction remains a challenge, highlighting the need for continued efforts to stabilize and strengthen India's economy.

(The is a summary of the article by Madan Sabnavis, Mint 25 April 2024.mThe full article is available at: https://shorturl.at/nFNR4)

PIVOTING INDIA'S GROWTH STRATEGY

Nirvikar Singh discusses India's current political and economic landscape, highlighting factors that contribute to the country's stability and challenges it faces in sustaining economic growth. Despite the ongoing general election, the author suggests that the political equilibrium is unlikely to change significantly. One contributing factor to this stability is the development of a strong sense of national pride, supported by India's perception as a rising global power and its recent economic growth.

The current government's pro-business stance and industrial policies have aimed to accelerate growth by subsidizing certain industries. However, sustaining growth requires more than subsidies; it requires participation in global production networks and export competitiveness.

The article references a study suggesting that capital controls and foreign exchange reserves accumulation can drive sustained growth by aiding existing firms and attracting business activity from countries not pursuing such policies.

India's potential to attract foreign direct investment (FDI) is noted, but it also brings challenges such as upward pressure on the exchange rate. The author suggests a possible strategy involving allowing the exchange rate to depreciate to enhance the competitiveness of Indian firms, while also addressing inflationary concerns through domestic restructuring, particularly in the agricultural sector.

Overall, the article advocates for a growth strategy that focuses on accelerating industrial dynamics, enhancing export competitiveness, and implementing intelligent agricultural reforms to foster sustained economic growth, despite the political and economic challenges involved.

(This is a summary of the article by Nirvikar Singh, Financial Express, 29 April 2024. The full article is available at: https://shorturl.at/alwP5)

THERE's MUCH ADO ABOUT A DECLINE IN INDIA'S HOUSEHOLD SAVINGS RATE

The author V. Anantha Nageswaran mentions in this article (*Mint*, 29 April 2024), about an opinion piece published in *The Hindu* on April 21 concerning the decrease in household savings in India (bit.ly/3xPFX0R). There are multiple dimensions to consider here. Firstly, we must examine whether households are decreasing their savings in terms of absolute rupee amounts. Secondly, we need to determine if this reduction is also reflected as a lower proportion of gross domestic product (GDP). If households are not depleting their overall savings but are accumulating them at a slower pace than previously, what are they doing with the surplus funds? Does this trend indicate financial strain? Moreover, what are the broader macroeconomic implications of these developments? The article explores various dimensions of this decline, including whether households are reducing savings in absolute terms or as a percentage of GDP. It also examines the macroeconomic implications of this trend and whether it indicates financial distress. The household savings rate in India has dropped from 22.7% of GDP in 2020-21 to 18.4% in 2022-23, although historical averages show fluctuations. Comparisons are drawn with previous periods, such as the economic boom from 2004 to 2008, to contextualize the current scenario. Despite the decline in financial savings, the piece argues that overall household savings have increased due to a shift towards physical savings, including assets like gold and silver. Analysis of household savings in absolute rupee terms reveals fluctuations over the years, influenced by factors like the pandemic. The article also addresses concerns about household distress, citing data on default rates on loans and portfolio-at-risk in microfinance institutions. Macroeconomic consequences are discussed, indicating that the decline in household savings has not significantly impacted India's current account deficit. In conclusion, the article suggests that the concern over the decline in household savings may be exaggerated, especially considering the resilience of private and banking sector balance sheets. It anticipates an increase in household financial saving rates and absolute amounts in the future, driven by growth in household employment and income, alongside private sector capital formation.

(This is a summary of the article by V. Anantha Nageswaran, Mint, 29 April 2024.The full article is available at: https://shorturl.at/jntJ2)

KEEP THE JUGGERNAUT ROLLING

Odisha, India's 11th-largest state by population and 14th-largest by economy, has made significant strides in the past two decades. With an economy nearing $100 billion, it surpasses the economies of Tanzania, Sri Lanka, and Ghana. The state has nearly closed the gap with the national per-capita income, growing faster than the national average. Sectors like agriculture, manufacturing, services, and mining have contributed to its economic growth and robust public finances. Socioeconomic indicators have also seen notable improvements.

Despite these achievements, Odisha still faces challenges. Its urbanization rate and higher education enrolment lag behind national averages. Bank credit-to-GDP ratio is lower than the national average. To further progress, Odisha needs to aim for double-digit growth, refine its growth strategy, and learn from successful states and countries in specific sectors like tourism, technology, and manufacturing.

The article underscores the need for Odisha to aspire to become an upper-middle-income or high-income economy by focusing on urbanization, skill formation, research and development, and greater integration into domestic and international markets. It suggests that unless Odisha adopts a more ambitious approach, its current growth drivers may falter. However, with the right strategy, Odisha has the potential to emerge as the next breakout state.

(This is a summary of the article by Poonam Gupta, Economic Times, 11 April 2024. The full article is available at: https://shorturl.at/pQSUX)

SUMMARY OF BLOGS & OPINION ARTICLES FROM INTERNATIONAL PUBLICATIONS

EMERGING MARKETS ARE EXERCISING GREATER GLOBAL SWAY

Policymakers must be ready to manage greater spillovers to the global economy as emerging markets' influence grows

The IMF blog by Nicolas Fernandez-Arias, Alberto Musso, Carolina Osorio-Buitron, Adina Popescu, dated April 9, 2024 discusses the increasing influence of the Group of Twenty's (G20) large emerging markets on the global economy. It highlights how these economies have become more integrated with global markets over the past two decades, leading to larger economic "spillovers" to the rest of the world. The blog emphasizes the importance of understanding how a slowdown in G20 emerging markets could propagate through the global economy, especially amid weakening growth prospects in countries like China.

Key points include:

- Growth spillovers from domestic shocks in G20 emerging markets have increased and are now comparable to those from advanced economies.
- China plays a significant role in these spillovers, but other G20 emerging markets such as India, Brazil, Russia, and Mexico also have a substantial impact on their neighbour's economic performance.
- A decline in productivity in G20 emerging markets can significantly lower global output, affecting various sectors and countries.
- Spillovers can trigger reallocations of economic activity across countries and sectors, impacting industries connected through global value chains.
- Structural reforms and inclusive policies are essential to mitigate the negative impact of spillovers and facilitate efficient reallocation of labour across sectors.
- Effective multilateral cooperation and international policy coordination are crucial to managing spillovers and minimizing fragmentation risks.
- Positive growth surprises in G20 emerging markets can boost revenue growth for foreign firms in certain sectors, but faster growth can also lead to increased import competition in other sectors.

- Overall, the blog underscores the importance of understanding and managing spillovers from G20 emerging markets to sustain global economic stability and growth.

(This is a summary of the IMF Blog by Nicolas Fernandez-Arias, Alberto Musso, Carolina Osorio-Buitron, Adina Popescu. The blog can be accessed at https://shorturl.at/ekxA2)

WORLD MUST PRIORITIZE PRODUCTIVITY REFORMS TO REVIVE MEDIUM-TERM GROWTH

Without ambitious steps to enhance productivity, global growth is set to fall far below its historical average.

The IMF blog discusses the sobering reality of the global economy, highlighting a steady decline in growth rates since the 2008-09 financial crisis. It forecasts a further slowdown to just above 3 percent by 2029, with potential threats to living standards and global income convergence. The blog identifies persistent low-growth scenarios, high interest rates, and barriers to investment as challenges. However, it also offers hope through policy interventions and leveraging emerging technologies.

Key drivers of growth—labor, capital, and total factor productivity (TFP)—are analyzed, with TFP growth being a major contributor to the decline in growth rates. Rising misallocation of resources across firms, demographic pressures, and weak business investment are identified as additional factors slowing growth.

Looking ahead, demographic pressures are expected to worsen, exacerbating labor shortages in major economies. The blog suggests that while some resource misallocation may correct itself over time, structural and policy barriers persist. Without major technological advances or reforms, global economic growth is projected to reach 2.8 percent by 2030, well below historical averages.

To revive global growth, the IMF proposes ambitious yet achievable policy shifts. These include improving market competition, trade openness, financial access, and labor market flexibility. Additionally, policies aimed at enhancing productivity and fully leveraging artificial intelligence (AI) are deemed crucial. The blog estimates that these measures could potentially lift global growth by about 1.2 percentage points by 2030, with AI adoption potentially contributing an additional 0.8 percentage points.

In the long run, innovation-driven policies are seen as essential for sustaining global growth.

(This is a summary of the IMF Blog by Nan Li, Diaa Noureldin, April 10, 2024. The full blog is available at: https://shorturl.at/tFM16)

INDUSTRIAL POLICY IS NOT A MAGIC CURE FOR SLOW GROWTH

The IMF blog discusses the resurgence of industrial policy worldwide, aiming to stimulate innovation and long-term growth, often driven by security concerns. Major initiatives like the CHIPS Act in the US, the European Union's Green Deal Industrial Plan, and similar policies in Japan, Korea, and China are highlighted.

While industrial policy can foster innovation if implemented correctly, it must strike a delicate balance. The blog warns against history's lessons of policy mistakes, fiscal costs, and negative global repercussions. It advocates for well-designed fiscal policies supporting innovation broadly, emphasizing fundamental research as the basis for applied innovation.

The blog identifies conditions under which targeted fiscal support for innovation sectors can yield productivity and welfare gains. These include generating measurable social benefits, avoiding discrimination against foreign firms, and ensuring strong governmental capacity for implementation.

The blog cautions against overreliance on costly subsidies or tax breaks, which can be detrimental if not effectively targeted. Discriminating against foreign firms can trigger retaliation and hinder innovation, especially considering the interconnected nature of global innovation. However, industrial policy may be justified in sectors with significant knowledge spillovers or for driving green innovation, provided it's transparent and aligned with environmental objectives.

Technologically advanced economies are advised to adopt a policy mix supporting innovation broadly, with increased investment in fundamental research, R&D grants for start-ups, and tax incentives for applied innovation. While supporting innovation can yield long-term benefits, countries with limited fiscal space may need to reprioritize spending and raise revenue in the short term.

Less technologically advanced countries can benefit from policies promoting technology diffusion, but they must invest in human capital and infrastructure. Closer international cooperation and knowledge exchange are crucial for accelerating green and digital transformations and ensuring global prosperity, whereas inward-looking policies hinder innovation and technology diffusion, particularly in countries needing it the most.

(*This is a summary of the IMF Blog by Era Dabla-Norris, Daniel Garcia-Macia, Vitor Gaspar, Li Liu, April 10, 2024. The blog can be accessed at https://shorturl.at/gqJOS)*

AI'S ADVANCES WILL ECHO THE INTERNET, NOT THE STEAM ENGINE

Technologists, including Jamie Dimon of JPMorgan Chase & Co., have often likened the transformative power of artificial intelligence (AI) to historical innovations like the steam engine. However, Parmy Olson argues that this comparison oversimplifies and idealizes the impact of AI. While the steam engine revolutionized physical labor and transportation, AI's influence extends far beyond, affecting decision-making, creativity, and social interactions. Moreover, AI has been adopted at a much faster rate than the steam engine and presents distinct ethical and social implications, such as privacy concerns and erosion of human agency. Olson suggests that a more apt comparison for AI's impact is the internet, given its rapid evolution and complex ethical challenges. Ultimately, while analogies can be helpful, choosing them wisely is crucial to understanding the true implications of emerging technologies.

(*This is a summary of the article by Parmy Olson, Bloomberg, April 09, 2024. The full article is available at: https://shorturl.at/hCFI9)*

WORRIED ABOUT THE LABOR MARKET OVERHEATING? RELAX.

The US added 303,000 nonfarm jobs in March, exceeding all estimates. Take it for what it is: very good news. The article discusses the shifting perceptions regarding the relationship between strong economic indicators, such as job growth and wage increases, and inflation. Federal Reserve Bank of Chicago President Austan Goolsbee challenges traditional views, suggesting that in the current economic context, high GDP growth and wage growth should not necessarily be viewed negatively. He emphasizes that the focus should be on inflation instead.

Goolsbee's stance is echoed by Federal Reserve Chair Jerome Powell, who attributes recent economic strength to factors like improved supply chains and increased immigration. Powell's remarks and recent research suggest that the economy has expanded without becoming tighter, leading to a larger capacity.

The strong US payrolls report, indicating significant job growth and a slight decrease in unemployment, led to market reactions such as rising Treasury yields and a re-evaluation of the likelihood of a Fed rate cut in June. However, Goolsbee's perspective suggests that such reactions may not be fundamentally justified.

Regarding wage growth, although it has increased, there is no immediate threat of an inflationary wage-price spiral. Instead, it may be seen as workers catching up with pre-pandemic levels. Additionally, some argue that higher productivity growth could sustainably support elevated earnings growth in line with the Fed's inflation target.

Industry-wise, while job gains were broad-based in March, certain sectors like education and healthcare continue to face shortages, while others show more moderate growth.

The focus now shifts to the upcoming consumer price index release for March, with expectations of a slowdown in core inflation. If inflation data stabilizes, investors should view the resilient labor market positively as a boon for American workers and the economy overall.

(This is a summary of the article by Jonathan Levin. The full article is available at: https://shorturl.at/rxIOQ)

THE WEST MUST NOT SPARK OFF A TRADE WAR WITH CHINA OVER EVs

In this article, David Fickling discusses the brewing trade conflict between Germany and China over clean-tech products, particularly electric vehicles (EVs), lithium-ion batteries, and solar panels. He highlights US Treasury Secretary Janet Yellen's warning about the negative effects of "artificially cheap" Chinese-made products on global markets and the Biden administration's response to re-arm against China's trade practices. The article emphasizes Germany's pivotal position in this conflict due to its significant exports and trade relationship with China in the automotive industry. Despite pressure from the US to take a tougher stance on China, German companies and politicians advocate for free trade and competition, fearing potential blowback from retaliatory tariffs. Fickling suggests that both China and Germany need to find mutually beneficial solutions to avoid escalating tensions, with China having the opportunity to demonstrate the benefits of a cooperative trading relationship. He also emphasizes the importance of European countries attracting Chinese investment in liberal democracies and cooperating with China on battery materials supply chains. Ultimately, Fickling argues for a more constructive approach to competition rather than resorting to protectionism, with Europe, especially Germany, potentially leading the way in finding solutions to trade disputes.

(This is a summary of the article by David Fickling, Bloomberg, published in Mint, 19 April 2024. The full article is available at: https://shorturl.at/qsDHW)

BOOKSHELF CHRONICLES

REASON TO BE HAPPY: : WHY LOGICAL THINKING IS THE KEY TO A BETTER LIFE

Kaushik Basu

Torva, 2024

Reason to be Happy: Why Logical Thinking is the Key to a Better Life by Kaushik Basu is a refreshing exploration of the role of logical thinking in enhancing our lives. Basu, an esteemed economist and thinker, brings his expertise to bear on this engaging book, offering readers a compelling argument for the importance of rationality in decision-making and problem-solving.

One of the book's strengths lies in its accessibility. Basu skilfully navigates complex concepts of logic and reasoning, making them understandable and relevant to readers from all walks of life. Whether you're a seasoned academic or someone with a casual interest in improving your thinking skills, Basu's writing style ensures that you'll find something valuable within these pages.

Throughout the book, Basu illustrates his points with a rich tapestry of real-world examples, anecdotes, and case studies. From everyday dilemmas to weighty ethical questions, he demonstrates how logical thinking can help us navigate life's myriad challenges more effectively. By grounding his arguments in concrete situations, Basu makes the principles of logical reasoning both relatable and actionable.

Moreover, *Reason to be Happy* doesn't just stop at theory; it also offers practical strategies for honing our logical thinking skills. Basu provides readers with tools and techniques they can apply in their daily lives to make better decisions, solve problems more efficiently, and approach issues with greater clarity and precision.

Beyond its immediate practical benefits, the book also prompts deeper reflection on the nature of human cognition and the societal implications of irrationality. Basu provocatively examines how illogical thinking can lead to systemic problems in areas such as politics, economics, and public policy, underscoring the urgency of promoting rationality in our personal and collective decision-making processes.

Overall, *Reason to be Happy* is a thought-provoking and empowering read that reminds us of the transformative power of logical thinking. Whether you're seeking to improve your problem-solving skills, enhance your decision-making abilities, or simply gain a deeper understanding of the importance of rationality, this book offers invaluable insights that are sure to leave you with a newfound appreciation for the art of logical thinking. Highly recommended for anyone interested in unlocking the keys to a more fulfilling and meaningful life.

THE ROAD TO FREEDOM: ECONOMICS AND THE GOOD SOCIETY

Joseph Stiglitz

Allen Lane, 2024

The Road to Freedom: Economics and the Good Society by Joseph Stiglitz is a compelling journey through the intricacies of economics and its profound impact on society. Published by Allen Lane, this book stands as a beacon of insight, offering a nuanced perspective on the interplay between economic policies and the pursuit of a better society.

Stiglitz, a Nobel laureate and a prominent figure in economics, guides readers through the complexities of economic theory with clarity and depth. He delves into the fundamental principles that underpin our economic systems, dissecting concepts such as market dynamics, inequality, and the role of government intervention. What sets this book apart is Stiglitz's ability to bridge the gap between theory and practice, grounding his analysis in real-world examples and empirical evidence.

One of the book's key strengths is its emphasis on the importance of inclusive growth. Stiglitz argues persuasively that a thriving economy should not only generate wealth but also distribute it equitably among all members of society. Drawing on his extensive research, he highlights the detrimental effects of rising inequality, not only in terms of social cohesion but also economic efficiency. By advocating for policies that promote shared prosperity, Stiglitz offers a compelling vision of a more just and sustainable future.

Moreover, *The Road to Freedom* tackles pressing global challenges such as climate change and technological disruption. Stiglitz examines how these forces reshape our economies and societies, presenting pragmatic solutions to mitigate their adverse effects. His insights are particularly timely in an era marked by rapid technological advancement and growing environmental concerns.

Throughout the book, Stiglitz strikes a balance between optimism and pragmatism. While he acknowledges the formidable obstacles that lie ahead, he remains hopeful about our ability to overcome them through collective action and enlightened policymaking. His optimism is grounded in a deep understanding of both the potential and the limitations of economics as a tool for social progress.

The Road to Freedom is a *tour de force* that deserves a place on the bookshelf of anyone interested in understanding the intersection of economics and society. With its rigorous analysis, accessible prose, and compelling vision, Joseph Stiglitz has crafted a book that not only informs but also inspires. It is a timely reminder that the pursuit of economic freedom must be guided by a commitment to the common good.